Case Number: 2009-0528-F

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. draft	Trade Policy Staff Committee: WTO Working Party on State Trading Enterprises. (12 pages)	02/02/1998	P1/b(1)
002. draft	Duplicate of 001. (12 pages)	02/02/1998	P1/b(1)

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FOLDER TITLE:

Korea, Auto Agreement, 1997 [6]

2009-0528-F
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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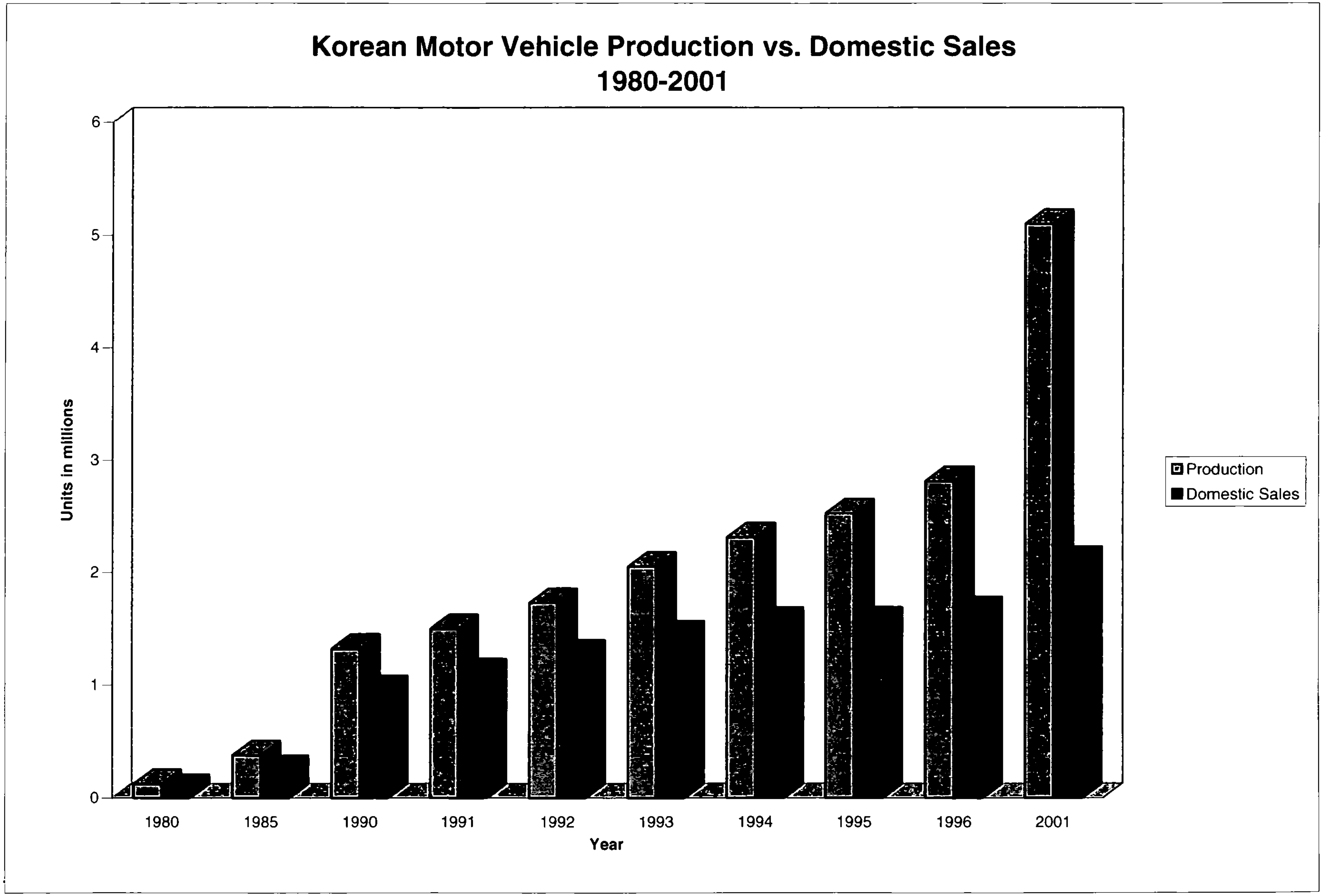
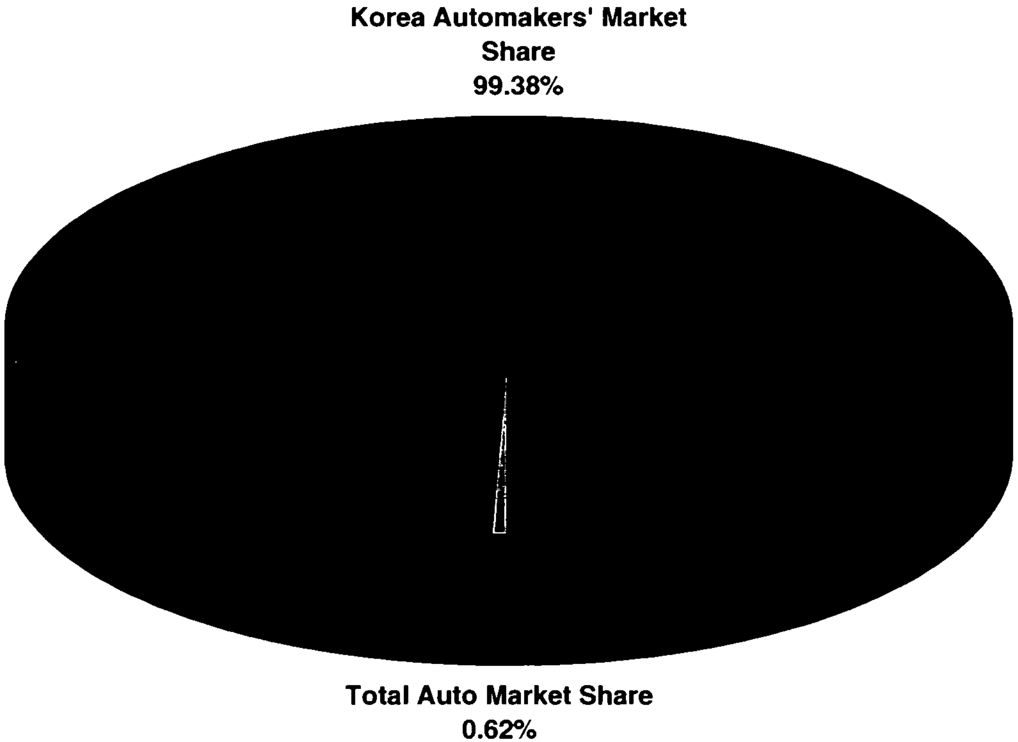
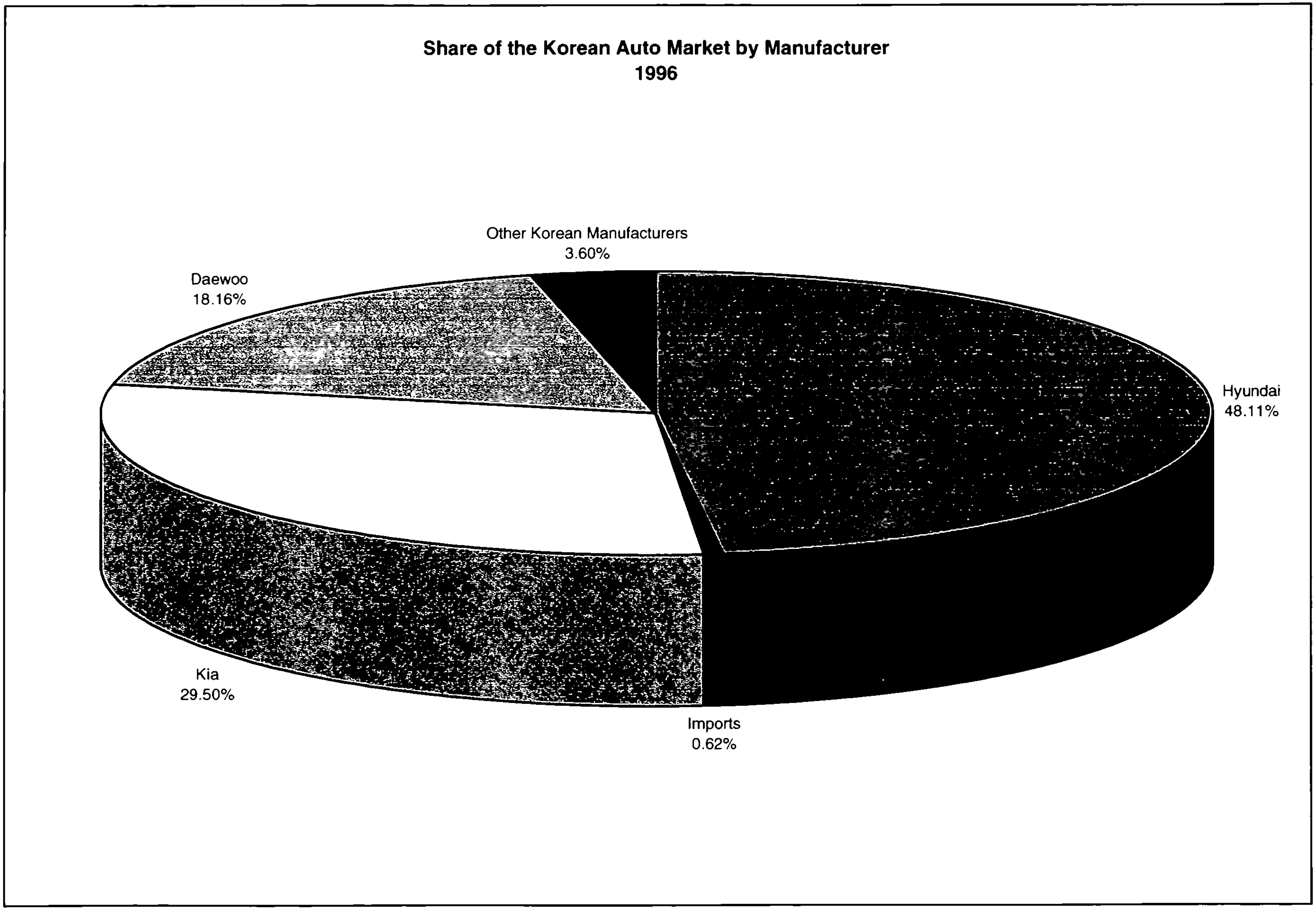
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]



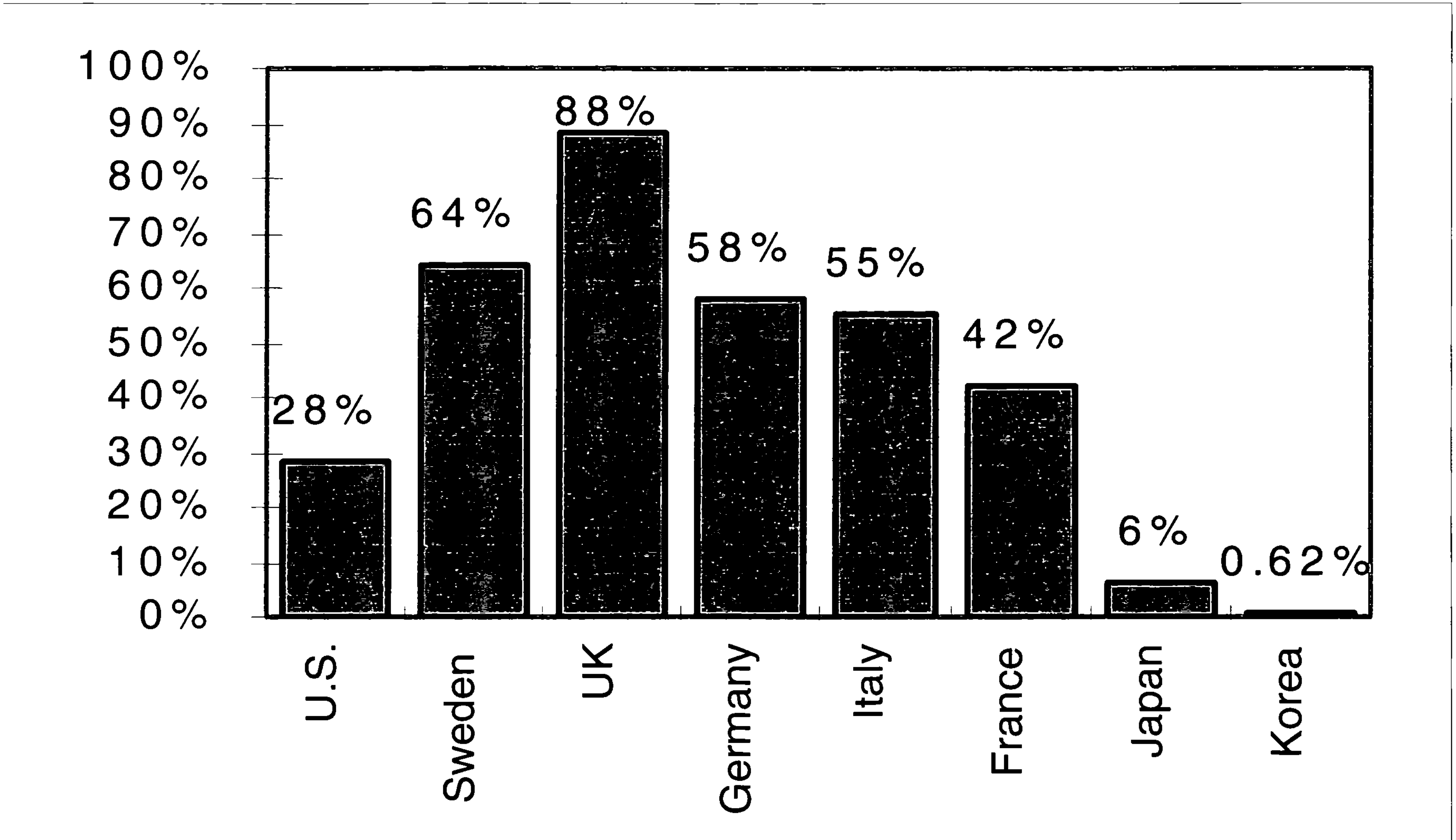
Korean Motor Vehicle Production vs. Domestic Sales
1980-2001
Units in millions
0
1
2
3
4
5
6
1980
1985
1990
1991
1992
1993
1994
1995
1996
2001
Year
Production
Domestic Sales

Vehicle Sales in Korea
Total 1996 Sales - 1,654,447




Share of the Korean Auto Market by Manufacturer
1996
Other Korean Manufacturers
3.60%
Daewoo
18.16%
Hyundai
48.11%
Kia
29.50%
Imports
0.62%

1996 Foreign Manufacturer Share



INTERNATIONAL HERALD
TRIBUNE
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DAILY 191,717
TUESDAY
JUL 15 1997
BURRELLE'S
OK

Many See Protectionism in Seoul's Frugality

tc 618

By Donald Kirk
Special to the Herald Tribune

SEOUL — Buy a foreign car, and you face a tax audit.

That is the fear of potential buyers in South Korea, according to foreign automakers and industry representatives, who put part of the blame on the country's so-called frugality campaign.

While South Korean authorities have distanced themselves from a campaign by local consumer organizations aimed at cutting down on luxury goods, many foreign executives here still suspect that there is official support behind the anti-imports drive.

"The frugality anti-import campaign has really hurt imports," Wayne Chumley, president of Chrysler Korea, said. "Customers have a perception, if they buy our import, they'll get audited."

The Ministry of Trade, sensitive to widespread claims of pressure against imports, has assured foreign chambers of commerce that the frugality campaign is strictly "a voluntary movement by civic groups" and that the government has called on officials not to target "certain groups of people or goods."

The tax administration, for its part, said it had ordered bureaucrats to call off the audits of tax returns of buyers of foreign cars.

Official statements, however, may not change old habits. South Koreans bought just 4,707 foreign cars in the first six months of this year, down from 5,003 in the first half of 1996. Foreign car sales for the year are expected to hover around 10,000, down from 15,787 in all 1996.

Despite "Herculean efforts," auto manufacturers in the United States and the European Union last year were able to capture only 0.6 percent of the South Korean market for all vehicles and 0.8 percent for passenger cars, Andrew Card, president of the American Automobile Manufacturers Association told Reuters on Monday.

Other countries in the Organization for Economic Cooperation and Development have import penetration rates of between 25 percent and 75 percent, Mr. Card said.

"This is a very, very closed market and one that should be opened up," Mr. Card said, "not just because it presents opportunities for manufacturers of automobiles but more significantly because it represents opportunities for consumers."

South Koreans often explain the difficulties facing foreign manufacturers by citing what is viewed here as an economic slump. Not even the latest estimate from the Bank of Korea, predicting a 6.3 percent increase in gross domestic product for the second half of this year and an increase of 5.9 percent for the year, has had much impact.

"The downturn of the economy influences our potential customers," said Yoon Dae Sung, executive director of the Korean Automobile Importers and Distributors Association, which represents foreign dealers and manufacturers.

Paul Barker/Reuters

Andrew Card urges opening South Korea's auto market.

In fact, overall domestic motor vehicle sales have fallen sharply, from 682,169 in the first five months of last year to 595,891 for the same period this year. Exports, however, rose to 590,000 units from 585,921 for the same period, and total sales of South Korean vehicles are likely to match, if not exceed, last year's total of 3,054,071 units.

"Psychologically, people are very negative about buying a foreign car," Mr. Yoon said. "They are convinced they could get some disadvantage. They are thinking there could be a tax audit. The government says no audit, but our customers don't believe it."

Motor-vehicle importers are not the only ones to suspect official support for what they see as an anti-import campaign.

The American chargé d'affaires, Richard Christenson, has warned against "the erection of new barriers, against the common principles of the OECD and the World Trade Organization."

Mr. Christenson's remarks echoed the tone of a letter from Michael Brown, president of the American Chamber of Commerce in Korea, to members in which he remarked that "the frugality campaign is problematic" for importers.

"Importing any kind of consumer goods is not easy," said Kenneth Merron, president of Estee Lauder's South Korean affiliate, ECLA. "Periodic outbreaks of anti-import activities are sort of a knee-jerk reaction."

Government calls for a slowdown in consumer spending persist even though exports are likely to go up by more than 15 percent in the second half of this year, to about $75 billion, according to the Bank of Korea. Imports will probably edge up to about $80 billion for the second half.

Still, South Koreans warn against letting down their guard.

"This is just a developing country," said Park Chan Sung, chairman of the Citizen's Movement Center for Anti-Overconsumption, a grouping financed, he said, by donations from religious organizations. "It's too early for us. Average spending is almost as high as advanced countries."

On a table in Mr. Park's office are advertisements in South Korean magazines for foreign cigarettes, cosmetics, liquor and motor vehicles. "Korea imports a lot of high-priced consumer products from Europe and the States," he said.

John Alsbury, president of BAT PLC's Korean unit, sees government influence in the efforts of the government-owned Korea Tobacco & Ginseng Corp. to hold down the sale of foreign tobacco — not legal at all here until 1988 — to just 10 percent of the market.

"They have a strong campaign against retailers," Mr. Alsbury said. BAT's products cling to a scant 1 percent of the South Korean market. "They tell retailers, if they sell foreign cigarettes, they won't give them Korean cigarettes."

"Not true," counters Park Kang Jae, managing director of Korea Tobacco & Ginseng. "There is no limitation on foreign tobacco."

Automotive News®

JULY 14, 1997

$99/YEAR; $3/COPY

opinion

Korea must face its duties as an economic adult

Nearly 45 years after the end of a bitter fratricidal war with the North that left it in ruins, South Korea has emerged as one of the world's most modern and dynamic economies, a manufacturing powerhouse that floods the world with high-tech goods ranging from computer chips to supertankers.

Korea is no longer a "developing" economy. It's time, then, for it to accept the responsibilities of economic adulthood.

Later this month, a joint mission of U.S. and European carmakers will visit Korea to try to head off what they agree has become a common threat: the Korean auto industry's increasingly aggressive, and disruptive, export ambitions.

Even as new-vehicle sales in their home market appear to have peaked at about 1.5 million to 1.6 million units a year, Korean makers have installed the capacity to build 4 million cars and trucks a year.

Construction already under way will raise that to 6 million units a year shortly after the turn of the century. The difference between 6 million produced and 1.6 million sold at home? Exports.

At the same time, the Koreans have used regulations, fees and outright artifice to keep their own market effectively closed to imports. In stark contrast to Korea's export plans, the Big 3 sold only 3,900 vehicles there last year and the Europeans about 10,000.

The trade mission, headed by Andy Card, president of the American Automobile Manufacturers Association, and Camille Blum, chairman of ACEA, the European carmakers' association, will again try to convince Korea of its responsibilities to fair trade.

The Koreans would do well to listen — and to draw the proper inferences from being approached by a *joint* U.S.-European trade delegation. It's easier, after all, to block a one-way alley than a two-way avenue.

THE KOREA HERALD, THURSDAY, JULY 17, 1997

U.S., EU call for efforts to further open auto mart

By Sohn Tae-soo
Staff reporter

The United States and most European nations commonly believe that Korea's auto-import liberalization efforts are insufficient, and that government steps are needed to further open the local car market, said visiting foreign auto representatives yesterday.

Andrew Card

"It is quite surprising that the Seoul government has failed to keep its promise made in May — to prevent the frugality campaign from adversely affecting auto imports," said Andrew Card, chairman of the American Automobile Manufacturers Association (AAMA).

At a news conference, the U.S. auto industrialist said that American automakers have tried hard to increase their access to the local market since the signing of a memorandum of understanding (MOU) between the two countries in 1995.

"But the market share of imported cars in the first half of this year dropped 5.12 percent, indicating the insufficient level of market opening here," he said.

Noting that their ongoing tour is aimed at promoting market liberalization and expansion of their access to the local auto market, the U.S. businessman said that he and his European counterparts have called for Korean government officials to refrain from promoting the austerity drive; improve heavy and overlapping motor taxes; and to deregulate the nation's safety approval systems.

Card confirmed that the AAMA has requested that the U.S. government launch trade investigations into Korea's auto market.

"I don't know whether our government will apply the U.S. Trade Act Super 301 Clause on the issue, but I think that they will take action one way or another," he said.

Camille Blum, secretary general of the ACEA (Association de Constructeurs Europeen d'Automobiles), said that most participating nations in the latest OECD Auto Workshop hold the common view that Korea's car-market-opening is far from sufficient, and were concerned about it.

"There are too many and burdensome taxes on autos in Korea, in addition to various certificates and approvals, posing big stumbling blocks to market access by foreign carmakers," the European businessman said.

Commenting on Kia Group's de facto bankruptcy, the foreign auto representatives said that a too rapid expansion in capacity appeared to be behind the major automaker's failure, and added that some kind of industrial restructuring is necessary.

The visiting officials also blamed Korea's taxes on autos for their failure to more successfully market small cars here.

On the aggressive foreign direct investments made by Korean carmakers, particularly in Europe, Camille said that most Europeans do not know how the Korean firms could mobilize such huge amounts of financing. "It is true that we have doubts over their capacity to concentrate such massive funds," he said.

Asked whether the ongoing price cutting by some U.S. carmakers could be regarded as dumping, Card replied that supplying cars at low prices will benefit Korean consumers.

American Automobile Manufacturers Association

CHRYSLER CORPORATION Ford General Motors

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

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February 2, 1998

TO : Members of the Trade Policy Staff Committee

FROM : Frederick L. Montgomery
Chairman

SUBJECT: WTO Working Party on State Trading Enterprises: Revised Notification Format

Attached is TPSC Draft Document 1998-14, **WTO Working Party on State Trading Enterprises: Revised Notification Format**. The paper has been approved by the TPSC Subcommittee on State Trading.

Please phone your clearance to Gloria Blue(395-3475) by **COB, Wednesday, February 4, 1998.** Questions or comments should be phoned to Barbara Chattin (395-5097).
Attachment

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