Case Number: 2009-0528-F

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Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. briefing paper	Meeting with President Kim Dae-jung. (2 pages)	06/01/2000	P1/b(1)
002. talking points	Points to be Made with Kim Dae-jung. (1 page)	06/01/2000	P1/b(1)
003. briefing paper	Korea: Overview and Key Points. (4 pages)	06/2000	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Econonomic Council
Malcolm Lee
OA/Box Number: CF 1184

FOLDER TITLE:

Korea, President's Visit, November 1998: Kim- Korea Bilat, Tokyo - June 2000

2009-0528-F
vz1416

RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
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RR. Document will be reviewed upon request.

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

b(1) National security classified information [(b)(1) of the FOIA]
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PRESS BRIEFING QUESTIONS AND ANSWERS

New WTO Round

Q: Ever since the Seattle Ministerial, both U.S. and EU officials have continued to call for the launch of a new trade Round in the WTO. At the Summit, will you try to resolve your bilateral differences and agree upon the content and timing of such a Round?

A: The President has repeatedly expressed the view that it is in the United States' - and the global economy's - interests to launch a new trade Round. We would like to do so at the earliest opportunity, but it will require that all parties review their positions and exercise reasonable flexibility over their differences. We think this should be possible - and is desirable to strive for - but we have to ensure that the consensus exists before going forward.

Q: Are there any signs of progress?

There have been positive developments at the WTO. The mandated negotiations in agriculture and services are now under way; a range of countries have committed to providing more market access for the least-developed countries; there's a renewed focus on better coordination of technical cooperation to help meet WTO obligations; and the WTO has adopted several measures which should help address all WTO Members' concerns about the implementation of existing Agreements and to improve WTO consultation and decision-making procedures.

These are all important improvements in their own right, and they also play a role in rebuilding confidence in the multilateral system that could improve the climate for the launch of a Round.
We and the EU hope that is the case, and we will continue to work together to try to encourage movement in that direction.

Q: Where are you with the EU?

A: We have had certain differences with the EU over the scope, content, and objectives of a Round, but we also share many common perspectives. Issues remain, but we have had productive discussions on these issues. We will continue to confer with one another and our other partners to see if our differences can be resolved. We intend to continue these discussions but certainly don't expect to resolve thee issues at the Summit.

New Economy Discussion

Q: Why a discussion on the New Economy? What does the Administration hope to get out of the New Economy discussion during the Summit?

A: Finding ways to maximize the benefits of the information technology revolution has been a common goal on both sides of the Atlantic. As some of you may know, we held an Economic Summit on April 5th that focused on these issues and the President has been speaking out about the digital divide - the lack of access to computers and the Internet among certain parts of the population. And, the EU held its own New Economy Summit in March to discuss many of these types of issues and recently launched an e-Europe project to promote wiring of schools to the Internet, computer literacy, and broader access to the Internet.

Given these shared interests, and the importance of the topic, the President is looking forward to a conversation with EU leaders about how we can work together. In particular, we may be able to form a consensus that could result in progress on similar issues that are likely to come up at the G-8 Summit in Okinawa this summer. While the President might raise a number of issues - he is well-versed and has a great interest in this area - I would expect him to encourage the EU to continue to liberalize their telecom sector, support a WTO work program on e-commerce (including an extension of the moratorium against imposing customs duties on e-commerce), adopt regulatory approaches that promote rather than stifle innovation, and join him in attempting to close the digital divide.

FSC Dispute

Q: What is the status of the FSC dispute and U.S. plans to implement the WTO dispute settlement finding? Will you be negotiating with the EU to resolve this case?

A: We are obviously disappointed that we lost this case, as we believe that our FSC statute conforms to the relevant WTO rules. Deputy Treasury Secretary Eizenstat has been working with his EU counterparts to find a solution that meets the WTO's concerns, that meets the EU's concerns and, most importantly, does not disadvantage our exporters. We are consulting closely with the Congress and the business community and other interested parties and will continue to do so to find a proper resolution to the case.

Q: When is the deadline? Does the US intend to comply with it?

A: We hope to have a proper resolution to the case prior to the WTO's October 1 deadline.

Q: Will the President raise FSC at the Summit?

I would expect that we would have further contacts at the Summit, and we will continue to work with the EU in a businesslike manner as we proceed. I don't want to prejudge what the President might say at the Summit.

Q: If WTO rules don't require EU approval of U.S. actions to meet the WTO's recommendations, why are we talking to the EU about this?

A: Though this is not something that, strictly speaking, has to be negotiated with the EU, it makes sense that we consult with them as we take steps to fulfill our WTO obligations - just as we have expected them to consult with us on their implementation of other disputes in which we have an interest. That is part of having a close, productive trade relationship.

Q: Are there efforts to settle this in connection with other disputes?

A: There are no efforts under way to achieve a comprehensive settlement of the FSC dispute in conjunction with other outstanding disputes, such as bananas or hormone-fed beef. While we obviously want and are working towards resolving each of these cases, they are each on a separate track and can be resolved only on their own terms.

Airbus

Q. This year's "Super 301" report cited Airbus as a concern. Is the United States going to initiate a WTO case, or take other enforcement action, on this issue?

A. We are extremely concerned with the ongoing subsidization of the Airbus consortium by certain EU member states. Since the inception of Airbus in 1967, the Airbus member governments have provided massive subsidies to their respective member companies to aid in the development, production, and marketing of the Airbus family of large civil aircraft. The British government recently announced a commitment of $830 million to underwrite British Aerospace System's participation in the development of a new Airbus project, the A3XX "superjumbo" aircraft. The French, German, and Spanish governments are considering whether to extend A3XX funding to their producers as well.

The United States believes that government support of Airbus raises serious concerns about member-state compliance with their bilateral and multilateral obligations in this sector. The United States will closely monitor developments and will consider all options to ensure that these obligations are fully met

Bananas

Q. Do you see any prospect of resolving this dispute anytime soon?

A: The EU could resolve this dispute quickly. A proposal made by interested Caribbean countries would provide a balanced, WTO-consistent solution. We support this proposal, despite the fact that it would mean not getting all we think we're entitled to get. We do not see why the EU is unwilling to show commensurate flexibility and accept this proposal. It fulfills the EU's main stated objectives:
It protects the EU's domestic banana producers, which supply about 20% of EU consumption.
It would not require the EU to increase payments under the Common Agricultural Policy to banana producers.
It protects vulnerable Caribbean banana producers.
The EU's rejection of the Caribbean proposal must mean that it values protecting some EU companies over complying with its WTO obligations.
The United States has also made several other WTO-consistent proposals to resolve this dispute, but the EU rejected those too.
Q: EU Trade Commissioner Lamy has said that the EU will implement a "tariff-only" system - i.e., abolish all of its quotas and licenses and use only on a single tariff to protect its market - if there is no agreement soon. What is the U.S. view of a tariff-only?

A: We have repeatedly informed the EU that we have two basic objectives: (1) WTO- consistency; and (2) allowing the vulnerable Caribbean to continue to export bananas. We have long maintained that these objectives can be achieved by a tariff-only system or by a quota regime; either is acceptable if it meets our objectives. We can support a tariff-only system provided the level of the tariff is WTO-consistent. We can also support a WTO-consistent transition period to a tariff-only system.

Beef Hormones

Q: Do you see any prospect of resolving the hormones dispute in the near future?

A: The United States suggested ways to resolve this dispute, including labeling U.S. beef.
Our reasoning was that Europeans enjoy U.S. beef when they come here, so why not give them the same opportunity in Europe - i.e., let the consumers decide. We are not trying to force anyone to buy U.S. beef. We simply believe that European consumers should have the opportunity to choose. The EU, though, rejected this proposal.

We also offered to explore temporary compensation through an expansion of U.S. access of non-hormone beef. Unfortunately, the Commission announced on May 24 that it plans to go forward with regulations that would maintain the EU's ban on U.S. beef from cattle treated with hormones. This is not helpful and will not contribute to a resolution of this dispute.

Q. The EU claims it has evidence that using hormones to promote growth in cattle causes cancer. How do you refute that?

A: U.S. beef is safe. Decades of research, including in international organizations and the EU's own studies, have found no evidence to the contrary. The Commission has found no "new" evidence to justify its ban on U.S. beef. The Commission's announcement is clear that this "new" evidence is the same "opinion" it presented last April. U.S. scientists reviewed the EU's "new" evidence and found it to be the same information the EU presented during the WTO dispute, which the WTO rejected. By the EU's own admission, the "new" evidence has not been publicly released and has not been subject to peer review. The Commission's plan to introduce new regulations to maintain the ban is a continuation of the EU's past efforts to find a scientific justification for its trade policy.

Carousel Retaliation

Q: What is carousel retaliation?

A: Carousel retaliation refers to the process of changing the list of imported goods that are subject to U.S. trade sanctions. The idea behind carousel retaliation is to make trade sanctions more effective by providing U.S. trade officials with the flexibility to modify sanctions to adjust to changing conditions over time.

Q: Does the Administration plan to use it?

A: We intend to implement the carousel retaliation provisions in accordance with their terms and consistent with the expectations of the Congress. For the retaliation lists in both *Bananas* and *Beef*, an interagency committee will re-examine the preliminary lists of products from which we drew our final lists last year. We will seek comments from the public on all of those products by publishing a Federal Register notice this week. [Congress expects us to complete this process by June 18 and that is our objective.]

Q: Are the carousel provisions consistent with WTO rules?

A: The WTO Dispute Settlement Body specifically authorized us to suspend concessions with respect to products to be drawn from these preliminary lists. We are absolutely within our WTO rights to change our product coverage, so long as the total annual trade value is no larger than $191.4 million for bananas and $116.8 for beef. [While WTO rules address the level or amount of retaliation that a country may impose, they do not address whether a country may change the imported items subject to sanctions.]

Q: Why did Congress include carousel provisions in Africa-CBI?

A: As you probably know, the EU's banana import regime and its ban on hormone-treated beef have been found to be inconsistent with the EU's WTO obligations, but the EU has remained steadfast in refusing to bring its laws into compliance with WTO rules. Inclusion of the carousel provisions in the Africa-CBI legislation reflects growing frustration within Congress and within the U.S. Government over the lack of progress over bananas and beef. The fact that Congress felt obligated to enact carousel provisions underscores the urgent need to resolve these disputes once and for all. We continue to hope that we can do so.

Africa/Infectious Diseases

Q: Can you tell us more about what you are doing at the Summit on infectious diseases in Africa?

A: We are exploring ways the United States and the EU can work together to combat HIV/AIDS, malaria, tuberculosis, and other infectious diseases in Africa. The spread of infectious diseases in Africa, especially HIV/AIDS, is one of the greatest health crises in the world today. Over 80 percent of all AIDS deaths have occurred in Africa, and 5,500 people a day are dying from it. We hope that the U.S. and EU can jointly promote public awareness and education about the problem; form international partnerships with governments, international organizations, non-profits and the private sector to improve our ability to contain these illnesses; and promote ongoing international initiatives such as the Global Alliance on Vaccines and Immunizations (GAVI) and "Stop TB."

Biotechnology

Q: Will biotechnology issues come up at the U.S.-EU Summit?

A: At the end of last year, President Clinton and EU President Prodi reached agreement on establishing a dialogue to address our differences over biotechnology. Since then, we have engaged the Europeans on two tracks. The first consists of government-to-government talks on market access for agricultural products derived from biotechnology and the lack of EU approvals of new biotech agricultural products. The EU has not approved a new biotech agricultural product since 1998, and we are trying to persuade them to take a more reasonable, science-based approach.

The second track has been work on a biotechnology consultative forum in which leading experts on both sides of the Atlantic would meet and share their knowledge and ideas. The idea behind the forum is to allow experts to address a wide array of some of the most difficult issues swirling around the biotechnology debate. Hopefully, the work of the forum will help dispel irrational fears many in the EU unfortunately have about biotech.

Q: Is progress being made on market access?

A: We believe slow progress is being made, but this is a difficult area. The EU is under considerable political pressure to resist biotech agricultural products even though there is no sound science to support their position. We are hoping that our continuing dialogue will enable us to find common ground. We are committed to work on this issue until our exporters are given the market access they are entitled to. At the same time, we recognize that we must move the process in a direction that will enable the EU to restore the confidence of European consumers in EU regulatory processes and enhance European public acceptance of biotechnology.

Data Privacy Safe Harbor Agreement

Q: Why is a safe harbor agreement needed?

A: The EU Directive on Data Protection, which went into effect in October 1998, requires the European Commission to determine the adequacy of data protection in other countries and to prohibit data flows to countries with privacy regimes that it deems to be inadequate. This directive can lead to restrictions on the ability of companies to transfer consumer information out of the EU to countries that the EU does not believe have sufficiently stringent consumer data privacy protections in place. The United States does not have a central law on data privacy, relying instead on sectoral approaches and industry self-regulation. Absent the safe harbor agreement, the EU might take steps under its directive to block transfers of data to the United States pursuant to the directive or impose liability on our companies.

Q: What would the agreement do?

A: The agreement establishes data privacy protection principles. U.S. companies certifying to the Department of

Commerce that they meet these principles will be exempted from the EU Data Protection Directive. In this way, the agreement will both ensure the free flow of data and effective protection of personal information.

Q: What benefits would the agreement provide?

A: The safe harbor would provide a number of important benefits to U.S. firms in almost all industries. It would provide predictability and continuity for U.S. companies that voluntarily adhere to it. All 15 Member States will be bound by it. The safe harbor also eliminates the need for prior approval from EU Member States to begin data transfers. It is expected to offer a simpler and lower-cost alternative means of complying with the adequacy requirement of the EU Data Protection Directive, which should benefit small and medium enterprises as well as larger organizations that operate throughout Europe.

Q: What remains to be done to secure final approval?

A: EU Member States will vote on the safe harbor agreement on May 30. The European Parliament must still review the arrangement to determine whether the European Commission acted within its authority, but it does not vote on whether to approve the agreement. The Commission does not anticipate major problems in connection with the Parliament's review. The Parliament's review and remaining formalities are expected to be completed by July 2000.

Q: It was reported in the *Wall Street Journal* at the beginning of April that there was a coalition of major U.S. companies that do not support the safe harbor. What is your reaction?

A: We believe that there is strong public support in the United States for the safe harbor agreement. We have consulted widely with the private sector and other interested parties and found a broad array of interests in favor of the agreement. In fact, the most recent comments the Department of Commerce received on the agreement focused largely on fine-tuning specific aspects of the arrangement. We are confident the safe harbor arrangement is the most effective vehicle for resolving this issue in a way that maintains data flows, spurs e-commerce growth, and bridges different approaches to privacy protection.

Q: EU data privacy experts (the Article 29 Working Party) provided an opinion on the safe harbor after their May 15/16 Meeting. What was their reaction?

A: The experts raised some technical issues about the agreement, but imposed no obstacles to full EU approval in the near future. The experts suggested that they would like to see further improvements in the safe harbor arrangement, but they indicated that the agreement could go forward and the European Commission (and the United States) could continue to monitor the situation to ensure that problems are properly handled. We support this approach. As we have stated throughout these discussions, agreement on the safe harbor arrangement should not be seen as the end point in our efforts to ensure effective data protection. This must and will be an evolutionary process that adapts to lessons learned from real world experience. For that reason, periodic reviews are built into the safe harbor arrangement.

Q: What can you tell us about efforts you might be making with regard to protecting privacy in the financial services sector?

A: Because more time is needed to examine recent developments in U.S. laws governing privacy in the financial services sector, and because the Financial Modernization Act regulations are not yet fully implemented, the EU and U.S. will continue working together with the goal of bringing the benefits of a safe harbor to this sector. Neither side anticipates problems with interruptions in data flows while we continue good faith efforts to resolve these issues.

Q: The FTC is now recommending privacy legislation. How will this affect the safe harbor discussions with the European Union?

A: We do not believe it will affect the safe harbor discussions. The FTC has identified problems of "free riders" and poor quality privacy policies in some instances, but these problems cannot arise under the safe harbor agreement. To take advantage of the safe harbor, a company must individually satisfy the data protection principles established in the agreement.

Patent Registration

Q: What is the status of the Madrid Protocol, which would create an EU-wide patent application process?

A: Its text has been finalized by our negotiators. It now awaits ratification in our respective legislatures.

Richard.Johnston@do.treas.gov
06/06/2000 03:09:28 PM

-> Pritchard

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ML

Record Type: Record

To: Malcolm R. Lee/OPD/EOP

cc: See the distribution list at the bottom of this message
Subject: Press guidance for Clinton's Obuchi funeral trip

Date: 06/06/2000 03:03 pm (Tuesday)
From: Richard Johnston
To: ex.mail."malcolm_r._lee@opd.eop.gov"
CC: HARLOWR, MURDENB, SobelM, GELPERNA, KUHLOWM
Subject: Press guidance for Clinton's Obuchi funeral trip

Malcolm -- We'd suggest the following, as we discussed on the phone.

Question: Is Japan doing enough to support economic recovery?

Answer:
-- The late Prime Minister Obuchi's government took important steps to support recovery and to help stabilize Japan's financial system.

-- We welcome Prime Minister Mori's intention to continue former Prime Minister Obuchi's policies. We are confident that the Japanese authorities will take the steps needed to ensure that Japan's economy remains on a recovery track.

Message Copied To:

Anna.Gelpern@do.treas.gov
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Korea: Key Economic Points to Be Made

- Congratulate President Kim on the remarkable economic recovery that in no small way can be credited to the difficult but necessary measures President Kim supported during the early stage of the crisis.

- Note the importance of completing crucial reforms in the financial and corporate sectors. The Daewoo crisis last summer and the recent liquidity problems of Hyundai highlight the vulnerability of the Korea recovery as a result of unfinished reforms.

Materials on Korea

1. Key economic points to be made
2. Briefing paper for Ted Truman's meeting with Korean Finance and Economy Minister Lee in early May
3. Financial Restructuring Update
4. JP Morgan piece on Korea
5. Goldman Sacks Piece on Korea
6. Consensus Forecasts

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Korea - Financial Restructuring Update

Summary: During 1999 and early 2000, Korea's financial restructuring effort has focused on mergers and recapitalizations of commercial banks, disposition of non-performing loans, the Daewoo Group's liquidity crisis, and the resolution of non-bank financial institutions (i.e., the investment trust companies and the insurance companies). However, the process of financial restructuring remains to be completed in Korea; its success will depend on further progress in corporate restructuring, particularly with respect to the largest conglomerates, and significant improvement in the financial condition of many bank and non-bank institutions, especially the investment trust companies. To date, the Korean government has spent over KRW 64 trillion ($58 billion or about 13 percent of GDP) on the financial restructuring effort; recently, it has estimated that an additional KRW 35 trillion ($32 billion or about 7 percent of GDP) will be needed to complete restructuring.

Bank Privatization/Korea First and Seoul Bank: In December 1998, the Korean government signed an MOU to sell a 51 percent equity interest in Korea First Bank to Newbridge Capital, a U.S.- based investment group. In February 1999, it announced an agreement to sell a 70 percent equity interest in Seoul Bank to HSBC Holdings Plc. Both of these transactions were perceived as significant indicators of the government's commitment to financial restructuring and reform.

The long and difficult negotiations between Newbridge Capital and the Korean authorities broke down repeatedly due to significant differences over a number of issues including asset valuation, indemnification from third-party claims, loan-loss provisioning, and reductions of Korea First's staff and management; a deal was finally concluded in September 1999. In addition, the Korean authorities announced in August 1999 that the negotiations with HSBC on the sale of Seoul Bank had collapsed due to differences over key terms. No further progress has been achieved on this deal and the government is currently seeking an "international CEO and management team" to prepare Seoul Bank for privatization in the first half of this year; in the interim, the authorities have contracted with Deutsche Bank AG to provide management and technical assistance.

Non-Performing Loans: According to the Financial Supervisory Commission (FSC), Korean financial institutions had a total of KRW 58 trillion ($52 billion) in non-performing loans, or about 11 percent of total loans, at the end of September 1999. This figure includes NPLs of the commercial banks and non-bank financial institutions. However, it is difficult to determine the current level of NPLs due, in part, to the ongoing restructuring of the Daewoo Group which has total debt in excess of KRW 80 trillion ($72 billion). Some analysts have estimated that NPLs will reach 25 percent of total loans as a result of the Daewoo restructuring; direct and indirect loan losses could increase by $30 billion to $40 billion. The level of bank NPLs and related loan losses will likely increase significantly in connection with corporate and ITC restructuring. As a result, Korean banks will require additional financial assistance in order to maintain international standards of capital adequacy.

Korea Asset Management Corporation: The debt restructuring of distressed corporations is expected to gain momentum following a 1999 revision of Korea's asset resolution law. The revised law allows the Korea Asset Management Corporation (KAMCO) to convert debt into equity, subsidize interest payments, extend credit to asset purchasers, and provide new working capital to bankrupt companies under certain conditions. KAMCO has purchased a total of KRW 46 trillion ($42 billion) of problem loans from distressed financial institutions at an average price of about 45 percent of book value; however, the total amount of assets sold by KAMCO is only about KRW 6 trillion ($5 billion). In April 1999, the agency announced plans to sell KRW 16 trillion ($14 billion) of problem loans, mostly to foreign investors; and, in September 1999, it announced the formation of 7 new asset management companies as joint ventures with foreign investors. Recently, KAMCO reported that it would purchase and securitize about $5 billion in loans from foreign banks to the distressed Daewoo Group at an average price of 40 percent.

Investment Trust Companies/Non-Bank Institutions: In the past year, the Korean restructuring program has begun to address the non-bank financial sector. In April 1999, the FSC conducted a "special inspection" to determine whether 12 financially-weak merchant banks were to be shut down or subjected to operating restrictions. In June 1999, the FSC suspended the operations of 13 distressed mutual savings banks and finance companies for failing to meet minimum capital requirements. Recently, the FSC announced a package of new measures to encourage merchant banks to transform themselves into brokerage and securities firms.

The FSC started a "comprehensive inspection" of investment trust companies (ITCs) in the third quarter of 1999, prior to their scheduled restructuring in 2000. However, the ITC restructuring schedule has been accelerated due to the July 1999 liquidity crisis of the Daewoo Group and its subsequent impact on financial markets. In September 1999, the Korean authorities facilitated the establishment of a "bond market stabilization fund" by 40 financial institutions to purchase corporate bonds and maintain market stability. The two largest ITCs, Korea and Daehan, were declared insolvent by the FSC in December 1999 and the government has committed to purchase about KRW 18 trillion ($16 billion) in Daewoo-related bonds held by the other ITCs in the first half of this year. The plan is expected to prepare the industry for mark-to-market valuation to be implemented later this year (July 2000), as agreed with the IMF.

Daewoo Group Crisis: In an important development in the second half of 1999, the creditor banks of the troubled Daewoo Group formed two committees (domestic creditors and foreign creditors) to oversee the restructuring of Korea's second-largest industrial conglomerate. In July 1999, Daewoo faced a liquidity crisis and it asked the Korean government to intervene to arrange an emergency, short-term financing package. Following the government's intervention and long negotiations, restructuring plans for Daewoo's major subsidiaries and affiliates have taken shape; they involve a temporary loan repayment "freeze" and additional short-term financing as well as a program of asset sales, debt rescheduling, and debt-for-equity swaps. Although Daewoo's total debt exceeded KRW 80 trillion ($72 billion), the Korean government announced that it would not allow Daewoo's crisis to jeopardize the financial system. In addition to the "bond market stabilization fund," it arranged back-up liquidity support for banks, purchases of Daewoo-related bonds held by ITCs, and an agreement with Daewoo's foreign creditors that provides an average recovery rate of about 40 percent.

IMB: Mistretta 4/26/00

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Data Watch: Korea

- **The pace of growth slowed further in March...**
- **... moving to a more sustainable trend pace**

Industrial production growth slowed to 17.6%oya in March from 25.4% in February, translating into a 1.7% seasonally adjusted drop from the previous month's level. In the first quarter as a whole, output increased only 2.3%q/q, sa, or significantly less than the 99Q4 advance of 7.0%. Producers' shipments also edged downward in March by 1.7% from the previous month, in line with the fatigue evident in the wholesale and retail trade index for the last several months. Still, this should be viewed not as the start of a serious slowdown but rather as a shift to a more balanced and sustainable growth path in the wake of a strong, early-cycle jump. No doubt, head winds from the second stage of structural reform, which will mainly focus on nonbank financial institutions, will exacerbate the current cyclical slowing. However, through any volatility, activity growth will remain healthy in the coming months, being well supported by solid demand conditions at home and abroad.

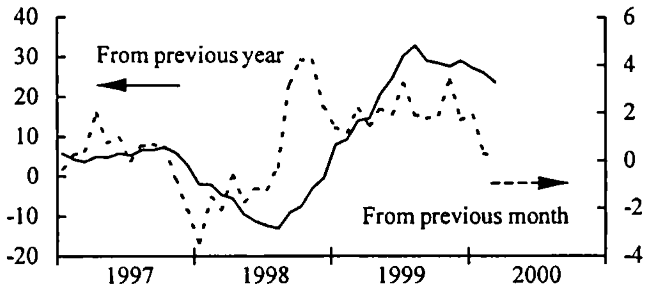
- The inventory ratio to shipments edged up in March, but was still at a low level. This suggests that producers' inventories remain in the early stage of a restocking phase, which will be a powerful impetus for production ahead.

- Wholesale and retail trade volumes sagged 0.4%m/m, sa, in March, after rising for two months. However, there is anecdotal evidence that department store sales rebounded in April. On a trend reckoning, wholesale and retail trade will converge to a slower, but steady and solid pace of growth in the coming months.

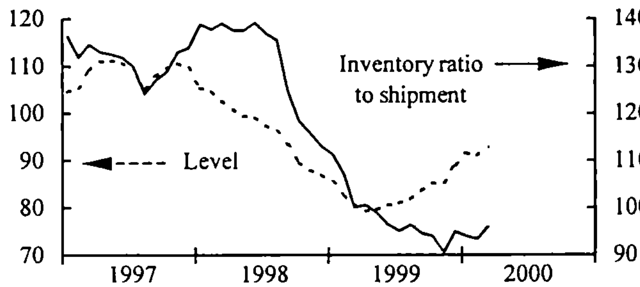
- Domestic machinery orders stayed lackluster in March and facility investment is estimated to have edged down 1.8%, sa, from previous month. Still, on a three-month basis, the pace of growth has yet to take a breather, while on a year-on-year basis, facility investment leapt 45.8% in March, after previously surging 67.4% in February.

- Construction orders fell 6%m/m, sa, in March but their overall trend suggests that the sector is entering a recovery phase. In turn, construction investment will soon pass its trough and then move on into a growth leadership role.

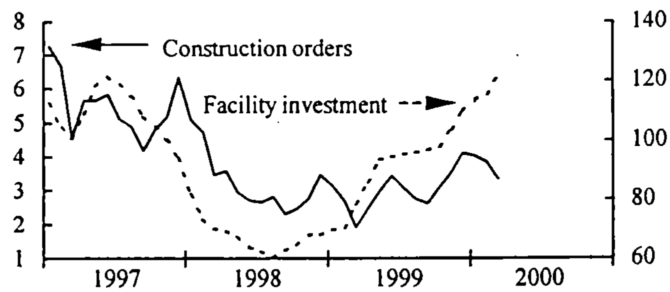
Industrial production
%oya, 3mma for both scales *%m/m*



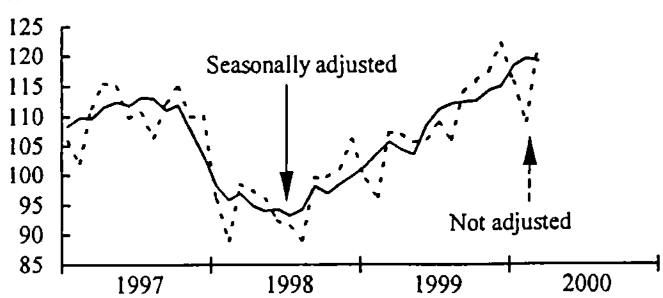
Producers' inventories
1995=100, seasonally adjusted, for both scales



Construction orders and facility investment
won trillion, 3mma *1995=100, 3mma*



Wholesale and retail trade
1995=100



BN 04:50 Hyundai Urged to Help Trust Unit Before Govt Rescue (Update2)

Hyundai Urged to Help Trust Unit Before Govt Rescue (Update2)

(In 2nd section adds S&P's move on Hyundai Semiconductor, Hyundai Group and analyst comment, closes stock price.)

Seoul, May 2 (Bloomberg) -- Korea rejected a rehabilitation plan for Hyundai Investment Trust & Securities Co. and warned the firm will be denied government help unless parent Hyundai Group, Korea's No.1 conglomerate, does more to revive the ailing unit.

The Financial Supervisory Commission views the trust company's existing plans as inadequate, said Park Hyun Sup, a spokesman for the agency, with the FSC having asked for ``stronger and more realistic'' steps to turn the unit around.

``Hyundai should come up with tangible plans the market will accept,'' Park said.

Hyundai Investment, like many other Korean trust firms, is struggling with the legacy of the nation's 1997 and 1998 economic crisis which caused many companies to stop paying out on their corporate bonds, a traditional investment for the trust industry.

To strengthen its capital base, Hyundai Investment has said it plans to raise 1.2 trillion won ($1.1 billion) this year by selling 600 billion won worth of its stock holdings, attracting 200 billion won in foreign capital and earning 400 billion won in its current fiscal year. In the next two years, the company hopes to raise another 2.2 trillion won through similar steps.

Now, Hyundai Investment said it would heed the government's order to come up with a new rehabilitation plan, to replace the one announced last Friday.

``We're now revising the plans. We'll announce stronger measures soon,'' said Kae Young Si, an executive at Hyundai Investment.

Mounting Pressure

Yielding to government pressure, Hyundai Group units and founder Chung Ju Yung may join in the bailout of the troubled trust unit, one of the nation's three biggest trust companies.

Hyundai Electronics Industries Co. and Hyundai Securities Co. -- two major shareholders of Hyundai Investment -- agreed to buy the financial unit's new shares in the coming months, though the amount has yet to be fixed, Yonhap Television News reported, citing an unidentified FSC official.

The electronics unit now holds a 27.6 percent stake in Hyundai Investment after recently selling 8 percent to a foreign investor. Hyundai Securities Co. owns 24.2 percent of the financial unit.

In addition, Hyundai's founder Chung and his family agreed to government requests to contribute to the rescue, the Yonhap report said. The group declined to confirm its plans.

Merchant Marine Co. rose 1.6 percent to 5,690 won and Hyundai
Securities rose 0.2 percent to 8,280 won, while Hyundai
Electronics fell 1.1 percent to 17,400 won.

--Judy Lee at judylee@bloomberg.net in Seoul (822) 3702-1604/ajk

Story illustration: To graph the movement of Hyundai Corp. shares
against the benchmark Kospi, see {1176 KS <Equity> COMP}

1176 KS <Equity> CN
1120 KS <Equity> CN
0345 KS <Equity> CN
0066 KS <Equity> CN
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Focus: More Upside on the Won

■ **Despite a sharp decline in the trade surplus since the beginning of this year, we now see more upside strength for the won (see Table 2).**

■ **The shrinkage in the trade surplus has been driven primarily by higher oil prices, with first-quarter import data taking the most pronounced hit in year-on-year terms. Barring further sustained increases in oil prices, Korea's trade surplus should widen again in the coming months.**

■ **Strong net inflows through the capital account will likely continue as gross outflow through foreign debt repayment by banks slows further.**

■ **The outstanding balance of sterilization debt has now reached levels where servicing it has become important, from a fiscal standpoint**

The oil price increase is making the trend in the trade balance look much worse than it actually is. Customs-cleared data for March shows imports rising 52.8% year on year against export growth of 25.3%, leaving a trade surplus of US$382 million. This brings the cumulative surplus for the first quarter to US$746 million, compared with US$6.9 billion in fourth-quarter 1999, and US$4.7 billion in the same period last year. The rapid shrinkage in the trade surplus has been mainly driven by imports, which rose 51.8% year on year in the first quarter against export growth of 30.8%.

The rapid pick-up in imports has prompted an increasing number of investors to wonder whether Korea is once again embarking on a 'reckless' investment boom that may soon push the trade (and current) account into deficit territory, leaving the economy vulnerable to an adverse external shock. A more careful examination of the trade data concludes that such concerns are much too premature, if not totally unwarranted.

It is well known that higher oil prices and capital goods have been the major drivers for import growth in Korea. However, two important facts have often been overlooked:

1. At the margin, higher oil prices have been the main culprit for sharply accelerating import growth. As shown in Figure 1, contribution to overall import growth from capital goods imports has been relatively constant at around 20 percentage points in the past six to eight months. However, contribution from fuel rose to above 20 percentage points in first two months of 2000 from 7 percentage points in July 1999.

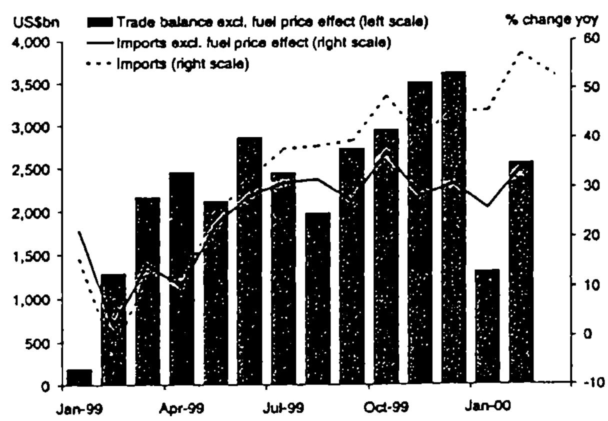
2. If we take out the effect of higher fuel prices on imports, Korea's trade surplus would have remained above US$2 billion in February. In other words, buoyant export growth would have been sufficient to absorb the big increase in capital imports without reducing the trade surplus (see Figure 3).

Table 2: Won Forecast Revision

	Old Forecast	New Forecast	Market Forward
3 month	1,100	1,075	1,113
6 month	1,000	1,025	1,114
12 month	1,025	1,000	1,116

Source: GS estimates.

Figure 3: Without Higher Fuel Prices, Trade Surplus Would Have Stayed Above US$2 billion



Note: Imports excluding fuel price effect is obtained by subtracting fuel contributions from overall import growth.
Source: GS estimates.

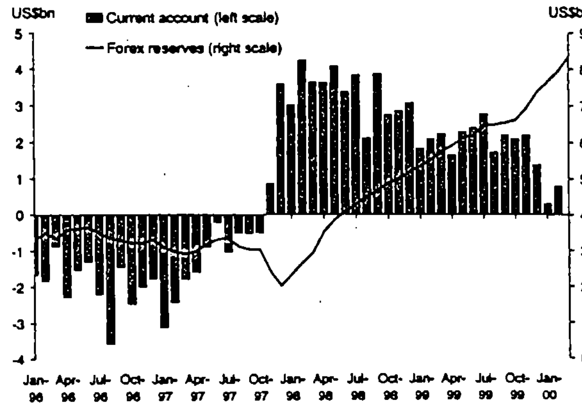
three months of the year (see Figure 7). This implies that inflows through the capital account have more than offset the slower inflows through the current account. Based on March customs-cleared data, we estimate the cumulative current account surplus in the first quarter was about US$1.9 billion against an increase in foreign exchange reserves of US$9.6 billion. This implies a net inflow of US$8 billion in the capital account during the first quarter compared with net inflows of US$3.7 billion in fourth-quarter 1999.

Both portfolio and foreign direct investment inflows remained strong through the first two months of the year (February being the latest period for which a detailed balance of payments breakdown is available). Over 80% of foreign portfolio investment went into the equity market, reflecting the strong economic rebound and liberalization in foreign ownership. However, the most significant shift at the margin has been in the 'other' investment category in the capital account, which captures bank and official borrowing. The balance under this category shifted to a surplus of US$1.5 billion during the first two months of the year from a deficit of US$2.5 billion during fourth-quarter 1999. This suggests that after a rapid repayment in 1999, which saw a net outflow of US$13.5 billion (mainly through repayment of foreign currency debt by banks), foreign banks' appetite to increase exposure to Korean financial institutions may be reviving. The first two months of this year saw a net inflow of US$1.6 billion in loans (see Figure 8).

Sterilization fatigue setting in. An extended period of rapid foreign exchange build-up has left a large outstanding balance of sterilization bonds, whose financing cost is no longer negligible. We estimate that monetary stabilization bonds issued by the Bank of Korea are now close to W55 trillion US$49.6 billion). In addition, outstanding foreign exchange stabilization bonds issued by the Finance Ministry amount to nearly W10 trillion—bringing the total to W65 trillion. Assuming an average carrying cost on these bonds of 9%, this brings the annual cost to W6 trillion (1.2% of 1999 GDP), or 2.0% of M2. In other words, all things being equal, interest payments on sterilization bonds would add 2 percentage points to the annual growth in broad money.

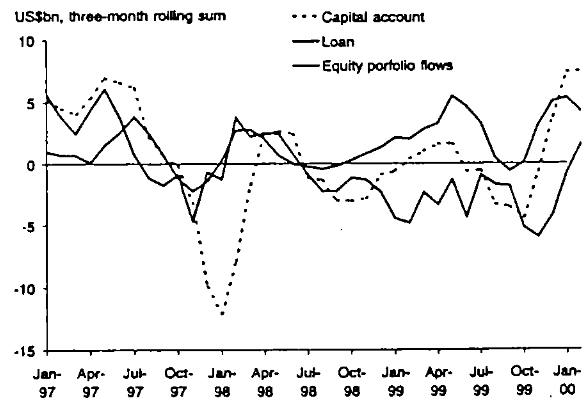
Strictly speaking, not all of the interest payments on these bonds represents a fiscal burden since the foreign exchange reserves they are backed with earn foreign currency interest rates. Assuming the bulk of the reserve is held in US Treasurys at an average yield

Figure 7: Despite Shrinkage in the Current Account Surplus, Growth in Foreign Exchange Reserves Has Picked Up



Source: CEIC.

Figure 8: Capital Inflows Accelerated



Source: CEIC.

of 6%, would leave a 'negative carry' of 3%. This amounts to a 'net' annual cost of W2 trillion (0.4% of 1999 GDP).

Sun-Bae Kim

	Average % Change on Previous Calendar Year												End Year, % change		Year Average		Annual Total			
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Industrial Production		Consumer Prices		Average Monthly Earnings		Money Supply (M2)		Unemployment Rate (%)		Merchandise Exports (fob, US$bn)		Merchandise Imports (fob, US$bn)	
Economic Forecasters	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
SG Securities	8.8	6.3	10.2	10.1	10.0	14.0	na	na	3.0	2.2	na	na	na	na	4.0	3.3	180.8	207.9	172.5	207.0
LG Economic Rsrch Inst	8.6	6.6	8.4	7.0	11.6	8.0	12.2	7.9	2.8	3.3	8.9	6.0	28.0	23.0	4.2	3.9	176.5	196.3	158.2	185.1
Korea Development Inst	8.5	na	7.6	na	15.7	na	na	na	2.8	na	na	na	na	na	4.5	na	171.1	na	158.2	na
Samsung Securities	8.2	6.0	8.3	6.1	4.6	5.3	19.1	11.5	4.0	3.5	10.0	6.0	16.8	15.0	4.0	3.8	172.3	190.0	155.0	175.7
Dresdner Bank	8.0	5.8	7.8	6.8	10.0	8.2	15.0	10.0	2.8	3.8	na	na	18.0	15.0	4.8	5.0	165.0	175.0	158.0	170.0
HSBC Economics	8.0	6.0	10.9	8.6	10.0	9.4	20.5	18.6	3.0	4.5	na	na	18.5	17.0	4.5	5.0	163.9	183.6	153.1	183.0
JP Morgan	8.0	6.0	7.5	7.0	8.8	10.0	14.0	10.0	2.7	3.5	na	na	22.0	19.0	4.0	2.9	160.6	170.0	144.8	161.2
Daishin Econ Rsrch Inst	7.8	5.3	5.8	5.0	9.2	5.1	12.5	10.2	2.8	2.5	na	na	17.2	10.1	4.9	4.0	155.0	164.0	146.0	157.0
ING Barings	7.8	6.0	9.5	7.0	10.4	7.0	8.0	6.1	2.0	3.5	na	na	na	na	4.6	3.8	160.0	169.6	142.5	156.7
Sakura Inst of Rsrch	7.7	6.0	7.2	6.5	8.8	8.3	13.2	10.1	3.2	3.3	10.5	8.5	18.5	16.5	4.5	4.0	167.0	183.7	151.8	174.5
Morgan Stanley Asia	7.1	6.5	7.2	6.5	11.6	13.0	8.8	8.4	3.5	3.0	na	na	na	na	na	na	160.0	176.0	140.7	161.2
Goldman Sachs Asia	7.0	6.1	11.4	10.1	9.5	8.7	12.6	9.1	3.2	3.0	na	na	20.2	11.9	na	na	178.3	203.1	160.0	192.0
Daewoo Economic Rsrch Inst	6.0	5.5	6.2	5.6	8.2	8.0	12.1	11.5	3.0	3.2	14.0	10.9	18.0	15.6	5.1	4.9	161.5	178.5	150.4	175.0
Consensus (Mean)	7.8	6.0	8.3	7.2	9.9	8.8	13.5	10.3	3.0	3.3	10.9	7.9	19.7	15.9	4.5	4.1	167.1	183.1	153.2	174.9
Last Month's Mean	7.7	6.0	7.1	6.7	8.8	8.3	13.1	10.0	3.1	3.3	10.0	8.1	18.4	16.1	4.5	4.0	167.0	183.7	151.8	174.7
3 Months Ago	6.9	5.9	6.8	6.2	8.3	8.5	13.0	10.2	3.2	3.2	9.6	8.9	18.2	16.1	4.7	4.2	162.8	176.4	145.4	165.9
High	8.8	6.6	11.4	10.1	15.7	14.0	20.5	18.6	4.0	4.5	14.0	10.9	28.0	23.0	5.1	5.0	180.8	207.9	172.5	207.0
Low	6.0	5.3	5.8	5.0	4.6	5.1	8.0	6.1	2.0	2.2	8.9	6.0	16.8	10.1	4.0	2.9	155.0	164.0	140.7	156.7
Standard Deviation	0.8	0.4	1.7	1.6	2.5	2.7	3.8	3.2	0.5	0.6	2.2	2.4	3.5	3.8	0.4	0.7	8.1	13.8	8.7	15.2
Comparison Forecasts																				
Asian Devt Bank (Q2 '99)	4.0								1.0											
IMF (Oct. '99)	5.5								2.8						6.0					
OECD (Nov. '99)	6.5	5.7	5.5	4.7	9.5	10.3	8.0	7.0							6.0	5.5				

Government and Background Data

President - Mr. Kim Dae-jung (National Congress). **Government** - A coalition government between the National Congress for New Politics and the United Liberal Democrats holds 120 seats in the National Assembly, the single legislative chamber. **Next Election** - By December 2002 (Presidential). Parliamentary April 2000.
Nominal GDP - Won 449.5tn (1998). **Population** - 46.4mn (mid-year, 1998). **Won/US$ Exchange Rate** - 1401 (average, 1998).

Quarterly Consensus Forecasts

Percentage Change (year-on-year). From Survey: Mar. 13, 2000

	1999		2000				2001			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	12.3	***13.5***	***9.8***	***8.1***	***6.8***	***5.8***	***5.3***	***6.0***	***6.3***	***5.9***
Consumer Prices	0.7	1.3	***1.7***	***2.8***	***3.6***	***3.7***	***4.0***	***3.6***	***3.4***	***3.1***
Trade Balance (US$bn)	6.8	7.1	***2.7***	***3.8***	***3.5***	***5.3***	***3.3***	***2.4***	***1.6***	***1.9***

Consensus Forecasts shown in bold italics

Historical Data

** % change on previous year*	1996	1997	1998	1999
Gross Domestic Product*	6.8	5.0	-6.7	10.7
Household Consumption*	7.1	3.5	-11.6	10.5
Gross Fixed Investment*	7.3	-2.2	-21.2	4.1
Industrial Production*	8.5	4.7	-6.5	24.2
Consumer Prices*	4.9	4.5	7.5	0.8
Average Monthly Earnings*	12.2	5.2	-3.1	14.8
Money Supply (M2), end yr*	15.8	14.1	27.0	27.4
Unemployment Rate, %	2.0	2.6	6.8	6.3
Merch. Exports (fob, US$bn)	130.0	138.6	132.1	145.5
Merch. Imports (fob, US$bn)	144.9	141.8	90.5	116.8
Trade Balance (fob-fob, US$bn)	-15.0	-3.2	41.6	28.7
Current Account Bal. (US$bn)	-23.0	-8.2	40.6	25.0
91-day CD, % (end yr)	13.6	25.0	7.7	7.3
3 Yr Corp. Bond, % (end yr)	12.6	24.6	8.3	10.0

Annual Total				Rates on Survey Date			
				7.0%		10.3%	
Trade Balance (fob-fob, US$bn)		Current Account Balance (US$ bn)		91-day Certificate of Deposit (%)		3 Year Corporate Bond Yield (%)	
2000	2001	2000	2001	End Jul '00	End Apr '01	End Jul '00	End Apr '01
8.3	0.9	7.8	3.9	na	na	9.0	8.3
18.2	11.2	12.9	4.5	7.0	8.0	10.0	10.2
12.9	na	10.0	na	na	na	na	na
17.3	14.2	14.4	8.8	7.5	7.0	10.3	8.5
7.0	5.0	3.0	-2.5	7.8	8.2	10.8	11.2
10.8	0.6	9.3	-2.6	8.0	9.0	10.5	10.0
15.8	8.8	11.6	4.1	na	na	na	na
9.0	7.0	8.2	5.5	7.9	8.5	10.5	9.7
17.6	12.9	8.1	1.3	7.3	7.7	9.3	9.5
15.2	9.2	11.6	4.6	7.5	8.2	10.5	10.5
19.4	14.9	15.8	10.0	na	na	na	na
18.3	11.1	12.1	9.7	7.0	7.3	na	na
11.1	3.5	8.0	-1.0	na	na	10.7	10.5
13.9	8.3	10.2	3.9	7.5	8.0	10.2	9.8
15.1	9.1	11.6	4.6				
17.3	10.5	13.3	6.1				
19.4	14.9	15.8	10.0	8.0	9.0	10.8	11.2
7.0	0.6	3.0	-2.6	7.0	7.0	9.0	8.3
4.3	4.9	3.4	4.4	0.4	0.6	0.6	0.9
		12.0					
		16.1	11.5				

Economy Soars by 10.7% in 1999

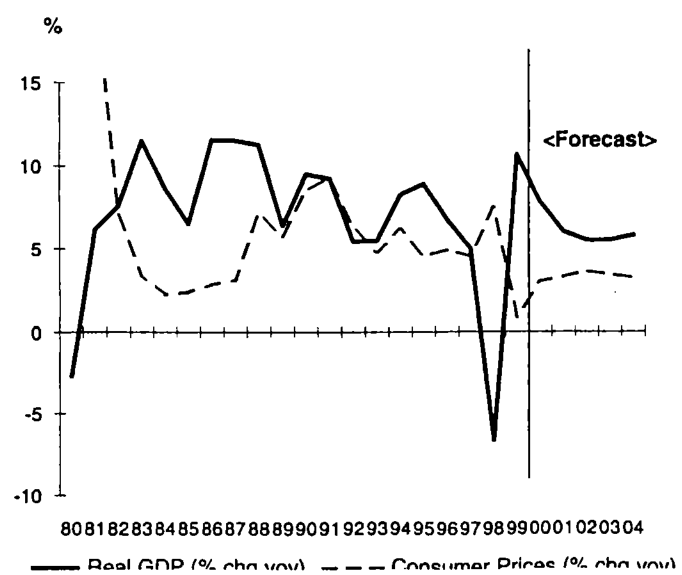
In the final three months of 1999, the economy grew by a hefty 13.0% in year-on-year terms. The strong fourth quarter outturn, along with upward revision of the previous three quarters, pushed the full year growth figure to 10.7%, the highest rate since 1987. Growth was driven by a strong manufacturing sector, while consumer spending and export growth contributed positively to economic activity. Going forward, however, economic growth is expected to moderate. The consensus is forecasting that real GDP will rise by 7.8% in 2000. Although the robust fourth quarter performance has reignited inflation concerns, the government believes that there is still plenty of slack left in the economy and, consequently, expects inflation to remain below 3.0% this year.

Judging by latest output indicators, the economy appears to be taking a breather. In February, growth in industrial production slowed to 25.4% (y-o-y), compared with 28.1% in the previous month. Moreover, survey evidence, along with weaker wholesale and retail trade data in February, points to a moderation of consumer spending over the coming months. Recent softer economic data suggest that the economy is now shifting towards a more balanced and sustainable pace of expansion rather than signalling the beginning of an economic downturn. Encouragingly, construction investment, which lagged last year's sharp rebound, now appears to have bottomed out and is expected to stage a recovery this year. The consensus is now predicting that growth in gross fixed investment will average 9.9% this year as companies begin to wind up their restructuring efforts and focus more on new investment.

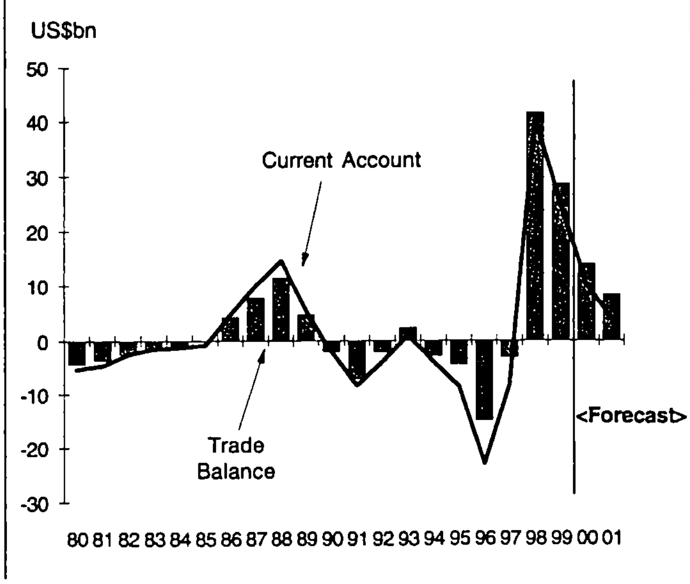
Direction of Trade 1999 (Q1-Q2)

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	20.1	United States	21.5
China	10.1	Japan	21.4
Japan	10.1	China	6.5
Hong Kong	5.7	Saudi Arabia	4.5

Real Growth and Inflation



Trade and Current Account Balances



AMERICAN CHAMBER OF COMMERCE IN KOREA

KOREA: FORGING AHEAD IN 2000

Korea remains one of the United States most important trading partners, both in the Asia-Pacific and Worldwide. The rapid turnaround from the financial crisis of 1997 has been remarkable, and presents American companies with a myriad of opportunities for profitable investment. In November 1999, Korea attracted $3.1 billion in foreign direct investment - almost as much as the figure for the whole of 1996 ($3.2 billion). In all, the country attracted a total of $15.5 billion in FDI last year.

Foreign companies doing business here are stakeholders in Korea's success. Korea has never been more welcoming to foreign investment and the partnership between U.S. business and the Korean administration has never been stronger or more promising. No American company can afford not to consider investing in Korea.

Reform Process

1. D.J. Kim administration remains committed to promote foreign investment, continue reform and deregulation
2. U.S. share of Korean Market continues to expand
3. Financial sector problems essentially resolved
4. Chaebol reform continues - much remains to be done
5. Small businesses and startup firms are booming
6. Reform and deregulation have become a political issue, but no need for concern as yet

Issues of Concern

1. Market Access
   - U.S. made automobiles still not selling
   - Reimbursement of imported pharmaceuticals inadequate
   - Excessive testing on imported animal health products
2. Intellectual Property
   - Concerns on confidentiality of submissions to government
   - Some sectors need increased enforcement (e.g., software)

Our Message to Korea and the U.S.

1. Continued reform and deregulation should be supported and encouraged
2. Potential labor problems are coming to the surface
3. Increased competition will improve productivity, profitability and ultimately benefit consumers
4. Economy would benefit from increased imports supported by increased exports
5. Korea continues to be a strong, important partner

Visa Waiver

1. Support the visa waiver program
   - The current visa rejection rate is too high
   - The U.S. is losing business, tourist dollars and students

North Korea

1. Continued U.S. Troop presence desirable
2. Continued humanitarian aid needed to engage North Korea
3. Recommend continued support for Kim, Dae Jung's "Sunshine Policy"
4. Ease trade sanctions in line with Perry Report as promised by U.S. administration
5. We are losing opportunities for trade
6. U.S. business presence will help to improve relations with North Korea

Overall Bilateral Relationship

1. Total two-way trade for 1999 was almost $50 billion
2. U.S. has invested $15 billion FDI in Korea since 1962. Korea has invested more than $7 billion in the U.S.
3. 4th largest agricultural partner
4. Geopolitical strategic ally
5. Exceptionally good relationship with U.S.

AMCHAM KOREA

Themes for 2000

Good Progress	**Much has been accomplished....** - Recovery from the economic crisis is nearly complete. - With strong, focused leadership, a comprehensive reform program is well underway. **..... But there is still much to do.** - Must extend and deepen reforms to further reduce vulnerability and to raise productivity. - Pay-off is sustained expansion and higher living standards for Koreans.
Global Standards	- Financial and business standards need to adjust to global "best practices", in accounting, transparency, governance and business practices. - This is necessary to secure and maintain access to international capital markets. - The other choice is economic isolation. - Increasingly, "best practices" also means a business culture emphasizing flexibility, dynamic learning. This implies more labor mobility, less hierarchy and changes in human resource management and compensation practices.
Profitability	Profits are necessary to - Finance investment and create jobs. - Attract investment capital by rewarding shareholders. - Maintain financial stability.
AMCHAM Objective	- Main objective is "Improving the Business Climate in Korea" – the title of our annual publication. - Foreign investors are partners with Korea. As "stakeholders" in Korea we have committed significant financial and human resources. - AMCHAM recommendations aim at improving productivity; if Korea succeeds, we succeed.

Office of the United States Trade Representative, Office of Asia and the Pacific

600 17th Street, N.W.
Washington, D.C. 20508

Date: June 2, 2000

Number of Pages including cover: 10

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SUBJECT: Briefer on U.S.-Korean Trade Issues

Attached per our telephone call.

BRIEFER FOR AMBASSADOR FISHER'S BILATERAL WITH KOREAN MINISTER OF TRADE HAN DUCK-SOO
Monday, June 5, 2000
Darwin, Australia

CIRCUMSTANCES OF MEETING

We suggest the following objectives for your bilateral meetings with Minister Han:

- On motor vehicles, you should express opposition to a proposed Ministry of Finance and Economy (MOFE) draft enforcement decree requiring that data on car purchases be registered with the tax office for audit purposes, and press the Koreans to resolve other differences concerning the implementation of the 1998 MOU during upcoming bilateral discussions.

- On IPR, you should urge Han that the Korean delegation be prepared to discuss revisions to the Copyright (CA) and Computer Program Protection Acts (CPPA) and the tightening of regulatory language at talks in Geneva toward the end of this month.

- On pharmaceuticals, you may wish to remind Han that the mid-May video conference revealed potential problems in the application of the new price reimbursement and safety regulations which require remedial action.

- On steel, you may wish to respond to Han's May 13 letter regarding the privatization of POSCO.

Regarding the BIT, you recently made Han our bottom-line offer regarding screen quotas, so the ball is in his court to reply. If Han can accept our screen quota proposal, then you should discuss telecommunications and copyrights per your BIT talking points.

BILATERAL TRADE ISSUES

Motor Vehicles

ISSUE: We are concerned that the ROKG is not fully implementing its commitments under the 1998 MOU on market access for foreign motor vehicles. Specifically, our concerns are on the persistence of low import sales, lack of meaningful restructuring in the Korean motor vehicle sector, recent anti-import activity, and Korean action or inaction on specific tax and standards provisions in the agreement. Recently announced plans by finance officials to require the registration of motor vehicles for tax enforcement purposes have angered the U.S. industry.

Points:

- I am extremely concerned about the Ministry of Finance and Economy's (MOFE) latest proposal to require the registration of buyers of motor vehicles with the National Tax Service.

- The recent draft degree is an unpleasant remainder of past austerity campaigns and the use of tax audits against citizens who leased imported automobiles.

- The recent public announcement of the draft decree caused numerous orders for foreign vehicles to be canceled.
- Both Secretary Daley and Ambassador Barshefsky were informed during their meetings with MOCIE Minister Kim that the draft degree was not going to be implemented.
- Officials of the U.S. Embassy in Seoul expressed these concerns to the MOFE two weeks ago, but that Ministry remained adamant that the decree would go into effect.
- We now understand that an inter-Ministerial consensus may be emerging in your government against the decree, but what is the final disposition of this matter?
- We urge the Korean Government to withdraw this proposal and repair the damage that was done by prematurely releasing the draft legislation to the press by prominently announcing in the media the elimination of motor vehicles from the list of items that would trigger a tax audit.
- Failure to do so would put the promise of a recovery in foreign auto sales this year--which you made to me in your May 13, 2000 letter on the implementation of the 1998 MOU--in grave doubt.
- Regarding the other points of your letter, you said that proposals for discounts on vehicle registration taxes and solutions to our problems on pass-by noise standards and additional bumper tests for minivans remain under review or discussion within your government.
- We need a positive solution to these problems to help dissipate the anger of our industry over its continued low market share in Korea.
- We will pursue these issues at length in upcoming automobile MOU consultations in Washington.

IPR/Special 301

ISSUE: To the ROKG's disappointment, we moved Korea from the Special 301 WL to the PWL this year. We made this move to "motivate" the Koreans to work with us between now and the OCR in December to resolve a series of issues.

POINTS:

- Korea was elevated to the Priority Watch List this year because of longstanding issues, including protection of clinical data; protection of pre-existing copyrighted works; providing for "linkage" between health and intellectual property authorities such that approval is not granted for the launch into the Korean market of drugs that would infringe valid patents; and market access for motion pictures (screen quotas).
- In addition, we have continued concerns about enforcement, and new issues relating to recent amendments to Korean copyright laws, which call into question Korea's compliance with its bilateral and international obligations, including under the WTO TRIPS Agreement and the Berne Convention.

- We believe that the bilateral discussions proposed by your government during the June 26-30 WTO Review of Korea's TRIPS Implementation will provide a good venue to make progress on these issues.

- Please come prepared to discuss revisions to the Copyright (CA) and Computer Program Protection Acts (CPPA), as well as the tightening of regulatory language in Geneva.

- We ask that you carefully consider the comments supplied by U.S. industry regarding these Acts prior to the discussions.

- As you know, we will be conducting an out-of-cycle review on Korea's IPR policies in December.

- We would like to make the progress necessary by that time to be able to make a positive change in Korea's Special 301 status.

Pharmaceuticals

ISSUE: During the May 15-16 video pharmaceutical trade talks, both sides agreed to full implementation of the Actual Transaction Price (ATP) system, and we were close to a resolution of the data protection problem. On the other hand, we expressed concerns about the lack of specificity in the new A-7 reimbursement pricing regulations, and the wide discretionary authority that would be wielded by quasi-governmental pricing committees in which foreign pharmaceutical companies are under represented. We can report no progress in solving the "linkage issue" regarding prospective patent protection–a factor which the U.S. cited in elevating Korea to the PWL under the Special 301 this year. In the regulatory area, the Koreans made encouraging statements that they would adhere to International Conference on Harmonization (ICH) Guidelines that assume that most drugs are not ethnically sensitive and therefore can be approved without county-specific testing. We were somewhat dubious of these statements, however, because the new regulations place so much emphasis on "bridging studies" in Korea.

Points:

- My staff appreciates the attention and perseverance of the Korean delegation during our prolonged, 11-hour, video pharmaceuticals trade talks in mid-May.

- We covered a lot of ground, and reached agreement on full implementation of the Actual Transaction Price (ATP) system, and came close to a solution regarding data protection.

- On the down side, your delegation refused to consider U.S. requests that Korea implement a system that would prevent the approval by health authorities of drugs that infringe existing patents--the so-called linkage issue.

- Moreover, we are concerned that the implementation of the new A-7 reimbursement pricing rules is left largely at the discretion of quasi governmental pricing committees which lack representation by the very foreign companies that produce most innovative drugs.

- We also have questions about Korea's commitment to honor International Conference on Harmonization (ICH) Guidelines regarding the approval of drugs.

- The USTR plans to closely monitor how the new pricing and drug approval regulations are implemented.

Steel Industry Restructuring

ISSUE: According to Minister Han's May 13 letter, the promised privatization of POSCO will proceed this month through stock sales overseas, but it is not clear if the privatization will be complete. Also, it is not clear when the announced sale of Hanbo Steel will be consummated.

Points:

- I must remind you of our continued strong interest in steel issues and in POSCO privatization in particular. Members of Congress remain very interested in this topic.

- In your May 13 letter to me, you cite unfavorable stock market conditions in Korea as a rationale for continued delays in the domestic sale of POSCO.

- You now say that 6 percent out of the 9.84 percent share of POSCO owned by the Korea Development Bank will be sold in overseas markets after a "road show" beginning in June.

- I hope this strategy succeeds. Will you execute the overseas sale without a reservation regarding share price?

- When and to whom will the remaining 3.84 percent be sold? Back to POSCO?

- We would like to be informed of progress in this area, and are taking the new mid-2000 target very seriously.

- We also remain interested in the sale of Hanbo.

- With that in mind, we would appreciate advance notice of any plans to re-start Hanbo's hot-rolled production.

Line Pipe *(To be discussed if Minister Han raises)*

ISSUE: The Koreans have informed us that they intend to file a complaint at the WTO DSU by June 10 regarding President Clinton's decision to provide relief in the Section 201 line pipe safeguards case in which Korea is the principle supplier.

POINTS:

- This case affects only 5 percent of Korea's steel exports to the United States. It is unfortunate that Korea has chosen to generate a WTO dispute.

- You have the right to pursue this matter, but there will be ramifications.
- The remedy adopted by the President in the line pipe case is by no means intended to be punitive.
- In fact, based on our economic effects analysis, it is less restrictive than the remedy recommended by the majority of the International Trade Commissioners.
- Our intention is not to exclude Korean line pipe producers from the U.S. market.
- As you may be aware, we will undertake a mid-term review of the remedy to ensure that the effects are as anticipated, with the possibility of modification at that time.

Shipyard Cranes *(To be discussed if Minister Han raises)*

ISSUE: Minister Han may raise Korea's concern that a rider attached to the FY2000 Defense Appropriations Act might affect a $115 million contract that the Navy awarded to Samsung last year for the production of shipyard cranes. Ambassador Lee has written to suggest that implementation of the rider would violate U.S. commitments under the GPA.

POINTS:

- I'm aware of your concerns on this issue, and my staff have been coordinating with the Department of Defense and the Navy on how to proceed.
- I understand that the Navy has been in close touch with Samsung on this issue, and that Samsung is continuing to perform the work required by the contract.
- I'll continue to follow this closely, and we will let you know if there are any further developments.

Airport Procurement *(To be discussed if Minister Han raises)*

ISSUE: The panel in *Korea - Measures Affecting Government Procurement* ruled in its report that the Korean entities applying discriminatory measures in procurements for the Inchon Airport project are not subject to the disciplines of the GPA. The report was made public on May 1, 2000.

POINTS:

- Obviously we are disappointed with the panel report.
- We are still studying the panel's findings, and are in the process of considering whether to appeal.

DRAMs *(To be discussed if Minister Han raises)*

ISSUE: Acting upon a request by Korea, the WTO DSB has directed a WTO panel to review the adequacy of the U.S. implementation of the DSB's recommendations in the Korea DRAMs dispute.

POINTS:

- It is regrettable that Korea, through its recent action, has sought to prolong the DRAMs dispute.
- In our view, the actions taken by Commerce following the adoption of the DRAMs report conformed to both the letter and the spirit of the panel's recommendations, and we are confident that those actions will be sustained.
- Of course, it is your choice to pursue this matter. However, such an action will not be free of consequences.

BILATERAL INVESTMENT TREATY

Screen Quotas

- When I last spoke to you on May 16, I gave you the U.S. bottom line on screen quotas. Can you tell me whether you can accept the framework that I described?

INTERNAL NOTE: If Han can accept the screen quotas proposal that you made, then you should discuss telecommunications and copyrights.

Telecommunications

- We had two outstanding issues on telecom - scope and legal format.
- Our focus on **legal format** is to ensure that investors are guaranteed as predictable an investment regime in telecom as they are in other sectors. Your suggestion on format does not meet this test.
- You had raised some objections to our proposed **scope** language, *i.e.*, the "negative list" approach.
- Our proposed language was designed to sharpen and fine-tune our original request into the precisely structured language appropriate to a treaty and to address the new issues you introduced, *i.e.*, your "exclusively engaged in" language. That limitation was not part of our original proposal.
- It was also designed to **clearly define** the areas of concern to your government, that is, areas where foreign investments greater than 49 percent would **not** be allowed. In other words, what is carved out as "excepted services" are certain fixed wireline voice services. That was **always** our intent, and our approach clarifies the issue.
- That said, in response to your concerns, we refined our proposal to make clear that for **new** ("greenfield") investments, the exclusion would only apply to public switched wireline voice (which would therefore allow private and fixed wireless for voice).

- That is, our language would permit U.S. investment up to and including 51 percent in integrated services (wireline/wireless) providers only in cases in which our investors want to build such integrated capacity "**from the ground up**" (rather than permitting U.S. investors to maintain 49.1 to 51 percent of exempted services in **existing** integrated services providers).

Copyrights

- With respect to copyrights (retroactive protection), I regret that you are still unable to agree to a limited sell-off period.

- It is not clear why providing full retroactive protection as stipulated in TRIPs is so difficult, in particular for books printed between 1950 and 1957.

- If in practical terms we are only talking about 7 years of protection for books and a 12-month sell off period, why is this so politically difficult for you?

IF HAN QUESTIONS WHY WE CANNOT BE FLEXIBLE ON THE 7 YEARS

- TRIPs provides protection to 1950, not 1957.

- There is already precedent for such protection, *i.e.*, our (U.S.-Korea) 1987 "Record of Understanding on Intellectual Property Rights," in which our governments agreed that there would be no sell-off period for software and printed materials covered by that agreement.

- We continue to believe that retroactive protection is something you could and should include among the copyright amendments currently being considered by your government.

Background

Screen Quotas- This issue was last discussed during your phone conversation with Minister Han. At that time, you proposed the following framework to address the screen quotas issue:

Single Screen Theaters

Korea proposal (6/15/99) Current U.S. Proposal

6/2001	101 days (27.5 %)		1/2001	101 days (27.5%)
1/2003	92 days (25%)		1/2003	92 days (25%)
1/2005	83 days (22.5%)		1/2005	83 days (23%)
1/2007	73 days (20%)		1/2007	73 days (20%)

Multiplex Theaters

Korea proposal (6/15/99)* Current U.S. Proposal**

6/2001	92 days (25%)		1/2001	92 days (25%)
1/2003	82 days (22.5%)		1/2003	82 days (22.5%)
1/2005	72 days (20 %)		1/2005	72 days (20%)
1/2007	64 days (17.5%)		1/2007	64 days (17.5%)

*Daily count with one dedicated screen.

** Quarterly averaging coupled with one screen with a reasonable number of seats dedicated to showing of Korean films (which count toward the total percentage.)

Telecommunications- On telecommunications, we have two outstanding issues: (1) the scope of Korea's 51 percent facilities-based commitment; and (2) the legal format for capturing and enforcing that commitment. Han opposes including the 51 percent commitment in the BIT and would prefer a side letter with no link to BIT protections. That would leave U.S. investors unprotected for any investments beyond those allowed under Korea's 49 percent GATS commitment, in effect nullifying the benefit. We have proposed an MOU/letter exchange with all the BIT protections, including investor/state and state/state dispute settlement. Han didn't like our switch to a "negative list" formulation in our telecom scope language. We did so as a response to Han's insertion of his "exclusively engaged in" language, to which we did not agree as it limits the scope of the 51 percent commitment to an unacceptable degree. Our new language is preferable. It pares our request down to permitting 51 percent ownership in integrated (wireline and wireless) companies, provided that the investor is building such a company from the ground up. However, if we get agreement on format and Han drops his insistence on the exclusivity language, we could consider returning to our original proposal. In that case, we would have to amend it to make explicit the other elements we also want included--"new technologies" (*i.e.*, wireless local loop) and private voice services.

FYI - PROPOSED TELECOM TEXT: By January 1, 2003, an increase in the foreign equity ratio up to and including 51 percent is allowed for facilities-based telecommunications service providers, excluding those providing voice telecommunications services exclusively over fixed service facilities ("excepted services"), for which the allowed foreign equity ratio is 49 percent, effective July 1, 1999. **For "greenfield" investments [*i.e.*, versus investment in an existing carrier], this exclusion would only apply to public switched voice telecommunications services provided exclusively over fixed wireline facilities.** U.S. firms may acquire up to and including 51 percent of a facilities-based telecommunications service provider, including one providing excepted services, provided that the resulting concern is restructured within a reasonable amount of time following the acquisition, in order for the particular entity providing the excepted services to conform to the foreign equity ratio applicable for excepted services.

INTERNAL NOTE: If Han agrees to format but still resists scope, we have another option. If Han would agree to drop his insistence on the exclusivity language, we could consider returning to our original proposal. In that case, we would have to amend it to make explicit the other elements we also want included--"new technologies" (*i.e.*, wireless local loop) and private voice services.

Copyrights- Han has implied that Korea is "only" worried about protection of books for the 7 years between 1957 (when Korean law begins) and 1950 (when the TRIPs agreement 50-year rule dictates the start of protection). You should turn that question back on Han. Korea has not yet agreed to amend its laws to institute a limited 12 month sell-off period. You should seek clarification of what Han is promising.