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COMMISSION STAFF WORKING DOCUMENT

Implementation of Regulation (EU) No 511/2011

Accompanying the document

**Report from the Commission to the European Parliament and the Council
Annual Report on the Implementation of the EU-Korea Free Trade Agreement**

{COM(2016) 268 final}

1. IMPLEMENTATION OF REGULATION (EU) NO 511/2011

Regulation (EU) No 511/2011 ('the Safeguard Regulation') is the EU's internal legislation to implement the bilateral safeguard clause of the EU-Korea FTA.

As provided for in Articles 3 and 11 of the Safeguard Regulation, the Commission has been monitoring the evolution of imports and exports of Korean products in sensitive sectors potentially affected by duty drawback such as cars, car parts, textiles and consumer electronics. Since the provisional application of the FTA started in July 2011, the Commission has been sharing the results of the monitoring with the EU Member States, the European Parliament and the relevant stakeholders every two months.

The Safeguard Regulation also provides for the possibility to initiate a safeguard investigation or to introduce prior surveillance measures, under certain conditions defined in the Regulation. During the fourth year of FTA implementation, the Commission did not receive any such requests.

1.1. Evolution of imports into the EU from Korea in the sectors covered by the monitoring

The results of the monitoring during the fourth year of FTA implementation are summarised below.

For the purpose of the monitoring exercise, data has been compared on the basis of FTA implementation years (July-June). The comparison under the monitoring exercise is based on quantities imported from Korea to the EU, i.e. units in the case of cars and 1000 kg in the case of car parts, textiles and electronics.

It is also worth noting, that for the purpose of monitoring, statistical regime 1 of Eurostat (normal trade) has been used, in contrast to the overall assessment in chapter 2 which is based on statistical regime 4 (total trade, i.e. including trade under inward and outward processing procedures). This explains why the figures are in some cases different.

(i) Car sector

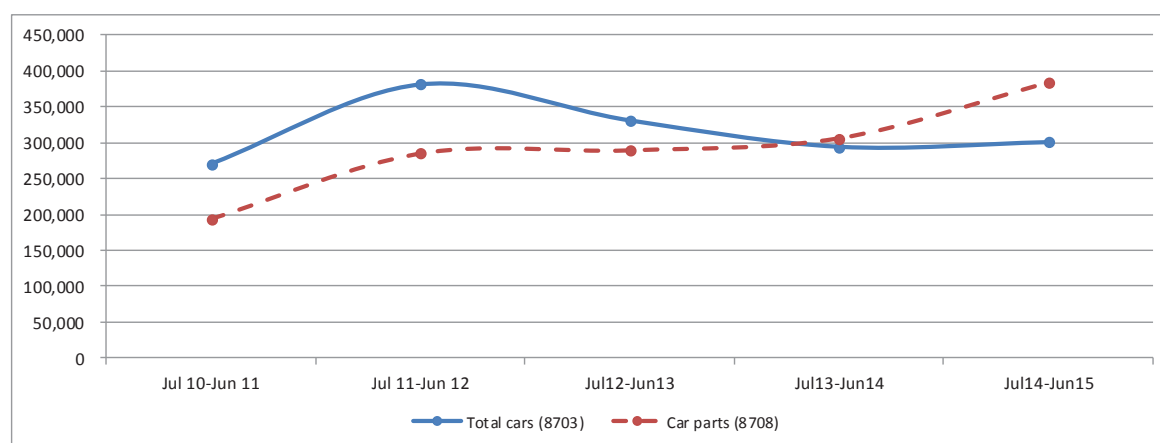
EU imports of cars from Korea increased by 2% in the fourth year of FTA implementation (July 2014 - June 2015) compared to the third FTA implementation year (July 2013 – June 2014). Imports of cars with medium/large engines increased by 3%, while imports of electric cars increased significantly. Imports of electric cars, however, are still negligible in comparison to the total car imports. While imports of Korean cars increased by 11% compared to the 12-month period before the FTA took effect, their current level is still at or below the previous years and in particular the year July 2007 – June 2008 when imports reached around 530,000 units.

As regards EU imports of car parts, an increase of 25% occurred in the fourth year of FTA implementation compared to the previous year. This increase is significant compared to the rather stable level of imports over the first three years of the FTA, and also compared to the reference period.

EU imports from Korea in the monitored car sector (including car parts)

(units)	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Jul14-Jun15	Var prior year
Electric engines	26	17	57	139	1,361	879%
Small engines	118,969	208,574	171,256	143,967	144,498	0%
Medium/Large engines	151,604	172,417	159,658	150,099	154,780	3%
Total cars (8703)	270,599	381,008	330,971	294,205	300,639	2%
<i>Index</i>	<i>100</i>	<i>141</i>	<i>122</i>	<i>109</i>	<i>111</i>	

(1000 kg)	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Jul14-Jun15	Var prior year
Car parts (8708)	193,662	284,750	289,182	305,994	383,548	25%
<i>Index</i>	<i>100</i>	<i>147</i>	<i>149</i>	<i>158</i>	<i>198</i>	

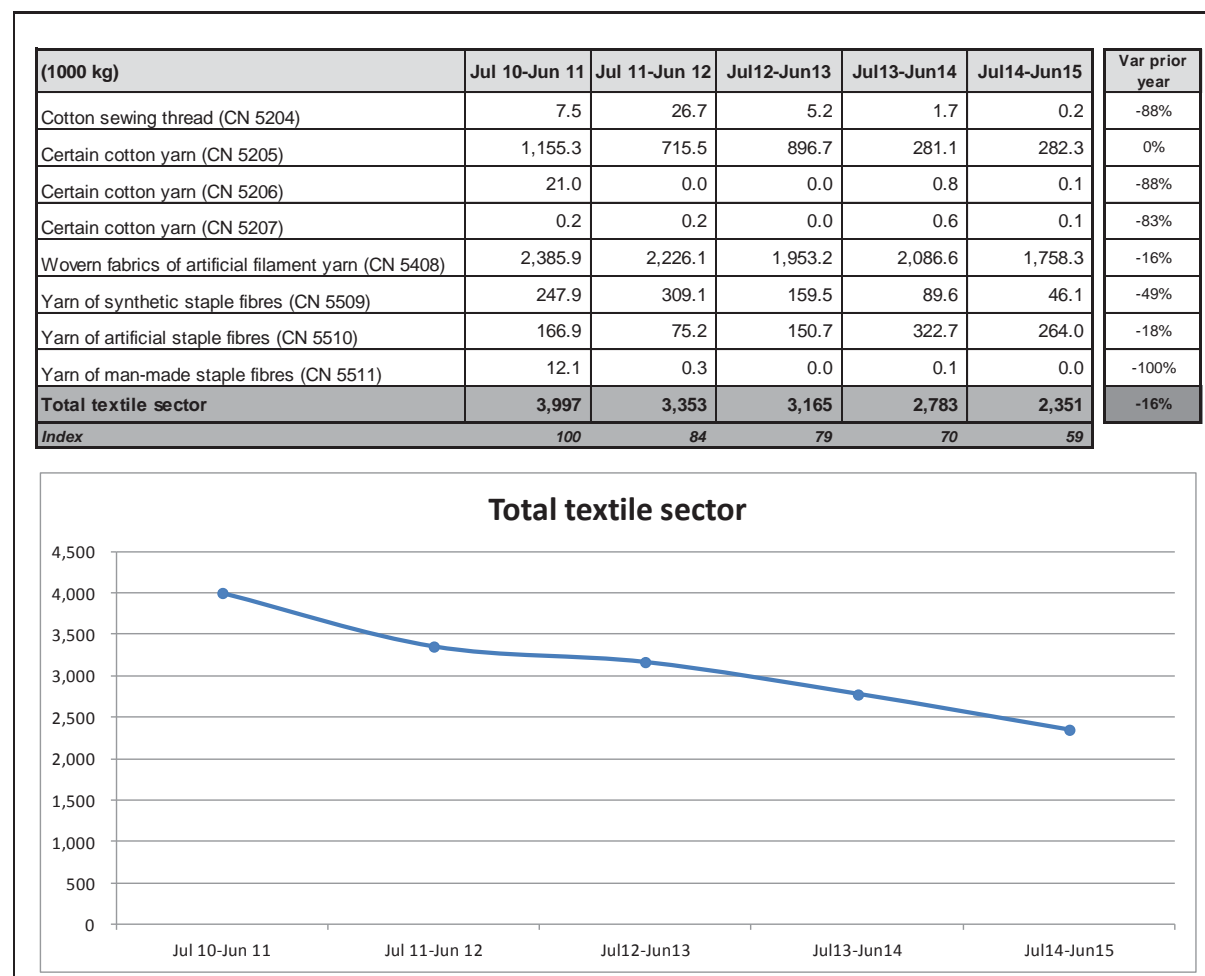


Source: Eurostat – Comext ('regime 1 – normal trade')

(ii) Textile sector

The decreasing trend in textile imports continued in the fourth year of the FTA implementation. EU imports of textiles from Korea decreased by 16% in the fourth year of FTA implementation compared to the previous year. This compares to a 12% decrease between the third and the second year. Imports are also lower than in the reference period.

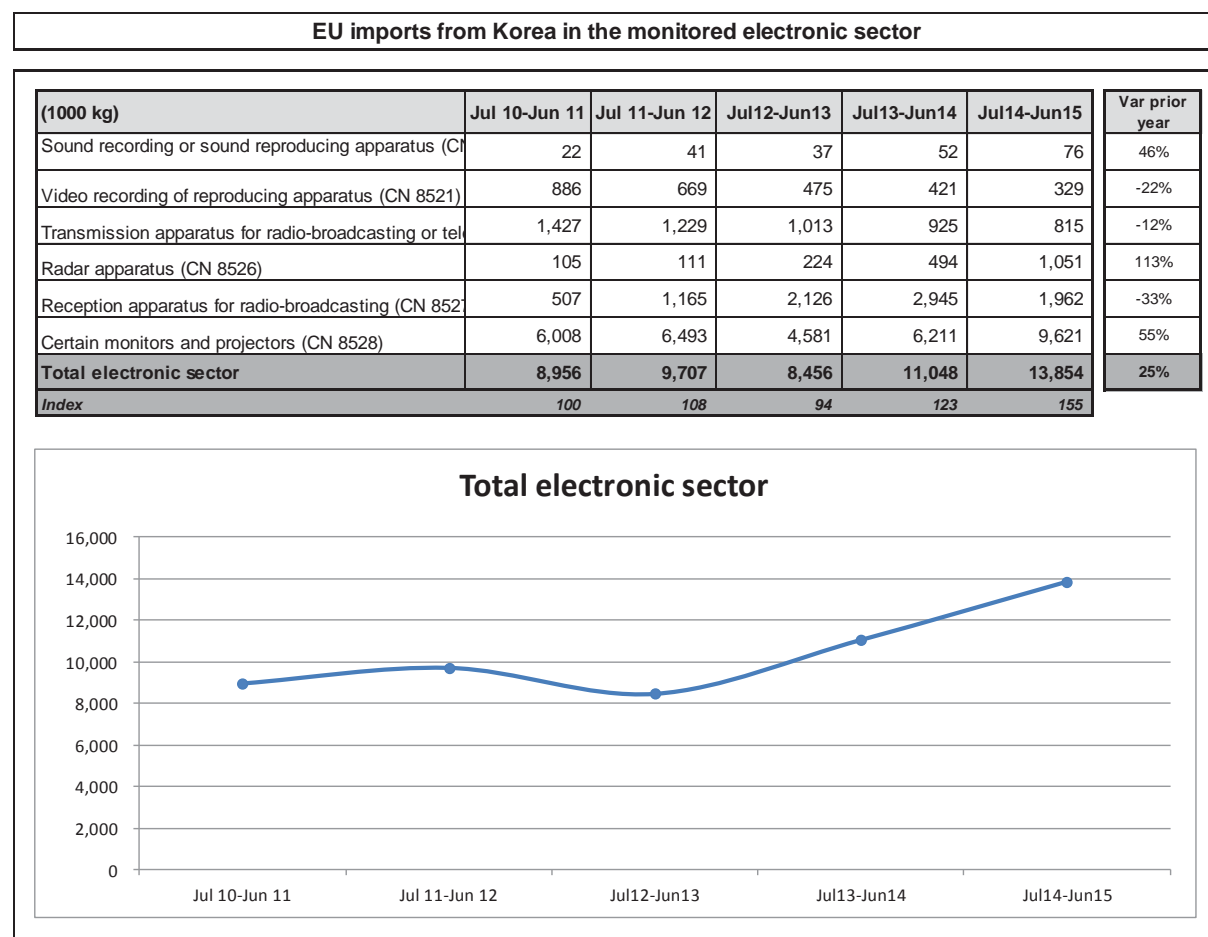
EU imports from Korea in the monitored textile sector



Source: Eurostat – Comext (‘regime 1 – normal trade’)

(iii) Electronics sector

The increasing trend of imports in the electronic sector continued in the fourth year of the FTA implementation. Imports were 25% higher in the fourth year compared to the previous year, and significantly higher than in the reference period.



Source: Eurostat – Comext ('regime 1 – normal trade')

1.2. Duty drawback

Duty drawback is the refunding, remission or non-payment, either partial or complete, of customs duties or equivalent charges on foreign inputs (raw, semi-manufactured materials or components) that are used in the production of a final product which is exported to a third country.

The Commission carries out specific monitoring on duty drawback in relation to the rules of origin as provided for in Article 11(1) of the Safeguard Regulation, to assess the foreign content in the Korean manufacturing process and thus in the exports of final products from Korea to the EU. Article 11(1) provides for a procedure for the application of Article 14 of the Rules of Origin Protocol on drawback or exemption from customs duties.

The analysis focused on the import value of products subject to monitoring during the first ten months (January-October) of 2015, compared to the same period in 2014, as for these periods full data are available.

In the electronics sector, EU imports from Korea increased in the following HS headings: 8519 (+29%), 8526 (+36%), 8527 (+15%) and 8528 (+30%) and decreased in the following headings: 8521 (-22%) and 8525 (-4%).

At the same time, Korea's imports from China of parts of these products (HS 8522, 8527, 8529) decreased by 16%, 18% and 4% respectively. Korea's imports from Japan decreased by 32% for HS 8522 and by 3% for HS 8529, whereas imports of HS 8527 increased by 671%. This increase may be partially explained by an increase of the import price of this commodity by 215%.

As regards textiles (yarns and fabrics), a decrease of EU imports from Korea between 8% and 100% could be observed for all the product lines subject to the monitoring: under HS 5204 (cotton sewing thread), HS 5205 (certain cotton yarn), HS 5206 (cotton yarn not for retail sale) HS 5207 (cotton yarn for retail sale), HS 5408 (woven fabrics of artificial filament yarn), HS 5509 (yarn of synthetic staple fibres), HS 5510 (yarn of artificial staple fibres) and HS 5511 (yarn of man-made staple fibres). In the FTA, yarns benefit from the rule "Manufacture from man-made staple fibres, not carded or combed or otherwise prepared for spinning" safeguarded by annual quotas.

Regarding cars, there was an overall increase in EU imports from Korea by 30% in value and by 25% in the number of cars falling within the HS code 8703. The increase does not apply to all types of cars but depends on the type and the size of the engine.

In the meantime, Korea's imports from China of car engines for the industrial assembly of motor vehicles of HS heading 8703 increased by 143%. The imports of diesel engines increased by 94%. Imports of Chinese car bodies (HS 8707) increased by 519% and decreased by 6% for other parts (HS 8708). Korea's imports from Japan of car engines for the industrial assembly of motor vehicles of HS heading 8703 decreased by 30%. The imports of diesel engines increased by 50%. Imports of Japanese car bodies (HS 8707) increased by 363% and increased by 16% for other car components (HS 8708).

In conclusion, while there was a significant increase in imports of car components from China to Korea in the first ten months of 2015 compared to the same period in 2014, it is not possible to assess based on trade statistics to what extent this explains the 30% increase in EU imports from Korea of cars, and whether the allowance of duty-drawback played a role in this increase.