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From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of
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the Commission to the European Parliament and the Council Annual
Report on the Implementation of the EU-Korea Free Trade Agreement

Delegations will find attached document SWD(2017) 345 final.

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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(2017) 614 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 fifth year of FTA implementation, the Commission did not receive any such requests.

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

The results of the monitoring during the fifth 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 the present monitoring, statistical regime 1 of Eurostat (normal trade) has been used, in contrast to the overall assessment in the annual report 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

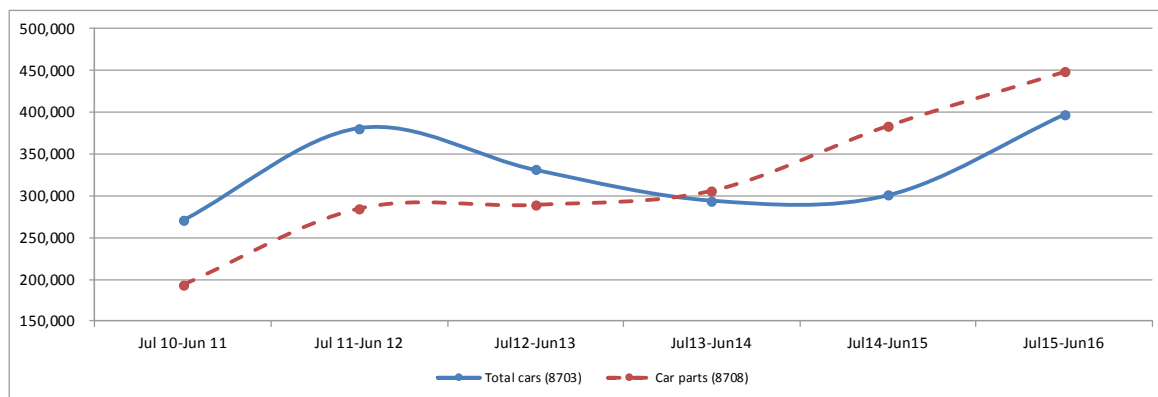
EU imports of cars from Korea increased by 32% in the fifth year of FTA implementation (July 2015 - June 2016) compared to the fourth FTA implementation year (July 2014 - June 2015). Imports of cars with medium/large engines increased by 8%, while imports of electric cars increased significantly. Imports of electric cars, however, are still negligible in comparison to the total car imports. The current level of car imports is still below the year July 2007 - June 2008 (several years before the FTA took effect) when imports reached around 530,000 units.

As regards EU imports of car parts, an increase of 17% occurred in the fifth 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 (July 2010 - June 2011, i.e. the last 12 months before the provisional application of the FTA started).

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	Jul15-Jun16	Var prior year
Electric engines	26	17	57	139	1,361	6,202	356%
Small engines	118,969	208,574	171,256	143,967	144,498	222,974	54%
Medium/Large engines	151,604	172,417	159,658	150,099	154,780	167,842	8%
Total cars (8703)	270,599	381,008	330,971	294,205	300,639	397,018	32%
<i>Index</i>	<i>100</i>	<i>141</i>	<i>122</i>	<i>109</i>	<i>111</i>	<i>147</i>	

(1000 kg)	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Jul14-Jun15	Jul15-Jun16	Var prior year
Car parts (8708)	193,662	284,750	289,182	305,994	383,548	448,071	17%
<i>Index</i>	<i>100</i>	<i>147</i>	<i>149</i>	<i>158</i>	<i>198</i>	<i>231</i>	

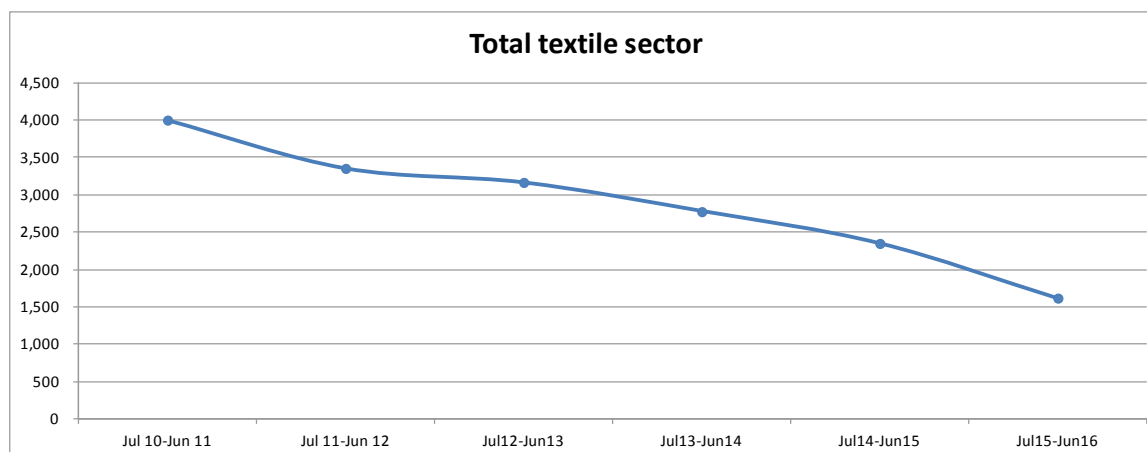


(ii) Textile sector

The decreasing trend in textile imports continued. EU imports of textiles from Korea decreased by 31% in the fifth year of FTA implementation compared to the previous year. Imports are also significantly lower than in the reference period.

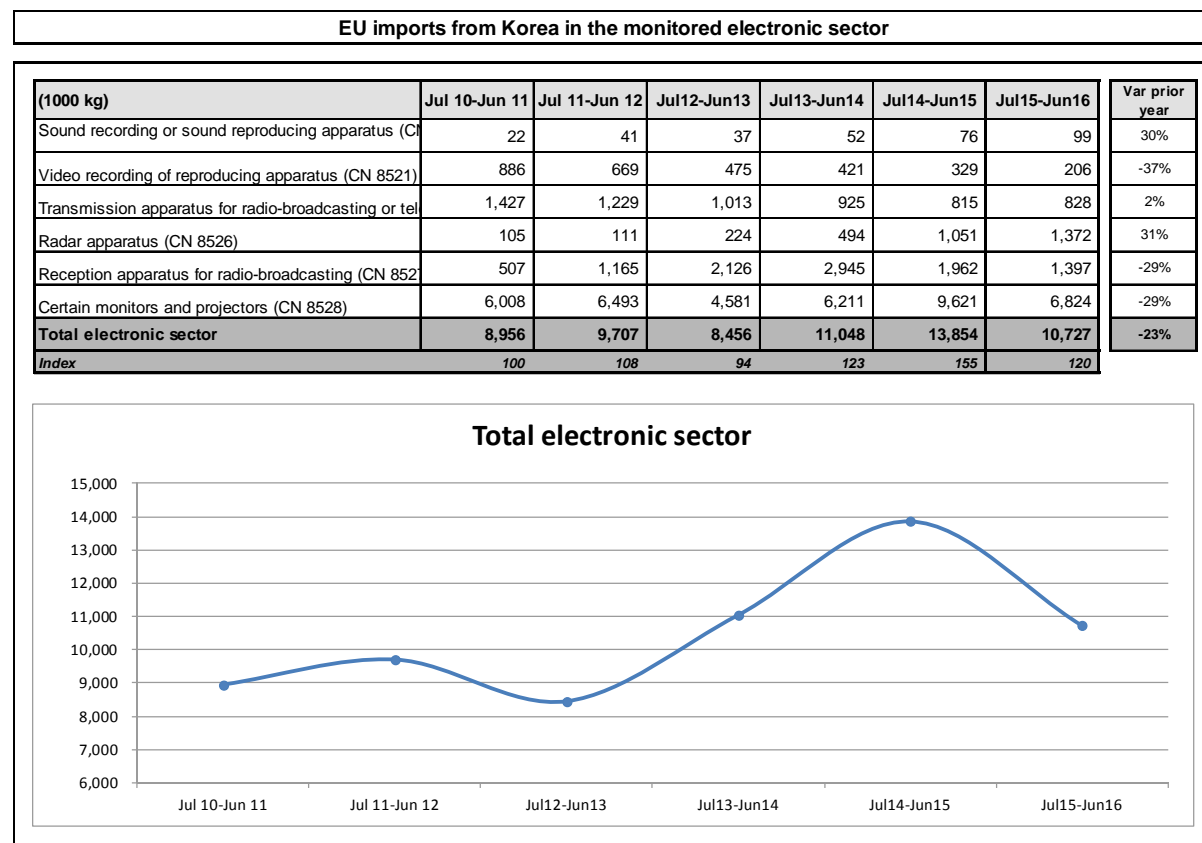
EU imports from Korea in the monitored textile sector

(1000 kg)	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Jul14-Jun15	Jul15-Jun16	Var prior year
Cotton sewing thread (CN 5204)	7.5	26.7	5.2	1.7	0.2	11.4	5600%
Certain cotton yarn (CN 5205)	1,155.3	715.5	896.7	281.1	282.3	119.9	-58%
Certain cotton yarn (CN 5206)	21.0	0.0	0.0	0.8	0.1	0.2	100%
Certain cotton yarn (CN 5207)	0.2	0.2	0.0	0.6	0.1	1.0	900%
Woven fabrics of artificial filament yarn (CN 5408)	2,385.9	2,226.1	1,953.2	2,086.6	1,758.3	1,349.3	-23%
Yarn of synthetic staple fibres (CN 5509)	247.9	309.1	159.5	89.6	46.1	44.9	-3%
Yarn of artificial staple fibres (CN 5510)	166.9	75.2	150.7	322.7	264.0	88.9	-66%
Yarn of man-made staple fibres (CN 5511)	12.1	0.3	0.0	0.1	0.0	0.0	0%
Total textile sector	3,997	3,353	3,165	2,783	2,351	1,616	-31%
Index	100	84	79	70	59	40	



(iii) Electronics sector

The increasing trend of imports in the electronic sector that started in July 2012 stopped in the fifth year of the FTA implementation. Imports were 23% lower in the fifth year compared to the previous year, and slightly higher than in the reference period.



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

3. 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 is based on the import value of products subject to monitoring during 2016, compared to 2015.

In the electronics sector, EU imports from Korea increased in the following HS headings: 8519 (+19%), 8525 (+24%) and 8526 (+39%), and decreased in the following headings: 8521 (-25%), 8525 (-4%), 8527 (-45%) and 8528 (-21%).

At the same time, Korea's imports from China of parts of these products (HS 8522, 8527, 8529) increased by 53%, 43% and 69% respectively. Korea's imports from Japan increased by 177% for HS 8522 and by 141% for HS 8529, whereas imports of HS 8527 increased by 57%. The import prices of the commodities under these chapter both from China and Japan follow the same trend as that of the import values.

As regards textiles (yarns and fabrics), a decrease of EU imports from Korea could be observed for product lines HS 5207 (cotton yarn for retail sale), HS 5408 (woven fabrics of artificial filament yarn) and HS 5510 (yarn of artificial staple fibres) while imports increased under HS 5204 (cotton sewing thread), HS 5205 (certain cotton yarn), HS 5206 (cotton yarn not for retail sale), HS 5509 (yarn of synthetic 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 14% in value and by 9% 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 94% (HS 8407). The imports of diesel engines (HS 8408) increased by 70%. Imports of Chinese car bodies (HS 8707) increased by 892% and by 58% for other parts (HS 8708). Korea's imports from Japan of car engines for the industrial assembly of motor vehicles of HS heading 8703 increased by 190%. The imports of diesel engines increased by 86%. Imports of Japanese car bodies (HS 8707) increased by 632% and increased by 106% for other car components (HS 8708).

In conclusion, while there was a significant increase in imports of car components from China and Japan to Korea in 2016 compared to 2015, it is not possible to assess based on trade statistics to what extent this explains the 14% increase in EU imports from Korea of cars, and whether the allowance of duty-drawback played a role in this increase. Furthermore, it must be noted that this increase rate is significantly lower than what was observed between 2014 and 2015 (30%).