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TRADE POLICY REVIEW

Report by the Secretariat

REPUBLIC OF KOREA

This report, prepared for the sixth Trade Policy Review of the Republic of Korea, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Republic of Korea on its trade policies and practices.

Any technical questions arising from this report may be addressed to Sergios Stamnas (tel: 022 739 5382).

Document WT/TPR/G/268 contains the policy statement submitted by the Republic of Korea.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Republic of Korea.

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SUMMARY

(1) ECONOMIC ENVIRONMENT

1. Korea's export-driven economy has rebounded from the global financial crisis that erupted around the time of its previous Trade Policy Review in 2008. This rebound is the result of the revival of trade world-wide and supportive macroeconomic and financial policies, including the largest fiscal stimulus among OECD countries, as well as accommodative monetary policy and a sharp depreciation of the exchange rate of the won during the latter part of 2008. The rebound was, by and large, achieved without resorting to restrictive trade measures; on the contrary, Korea has instead opened its market further to international trade through major bilateral free-trade agreements. The strong recovery in exports is such that Korea is now the world's seventh largest exporter, up from twelfth in 2008.

2. Policies aimed at enhancing the international competitiveness of exports of manufactures, produced mainly by large business conglomerates, have contributed to a large and widening gap in labour productivity and thus wages, between the manufacturing and services sectors, thereby contributing to income inequality. Although growth in labour productivity recovered quickly from a sharp slowdown in 2008, owing to the recovery of exports and investment, growth in total factor productivity (TFP), a much more accurate measure of economic efficiency and thus international competitiveness, appears to have been virtually zero or even negative in 2008 and 2009, respectively. The unemployment rate rose to a record level of 3.7% in 2010 before dropping to 3.4% in 2011.

3. During the review period, monetary policy, by and large, kept inflation within the target of 3±1%, even in 2011, amid rising food and fuel prices. Korea's prudent fiscal policy, reflected in continuing modest fiscal surpluses during much of the period under review (which have contributed to its current account surpluses), and consequently low central government debt (31.9% of GDP) in 2010, have also served it well.

4. Korea's current account registered a substantial overall surplus, averaging roughly 2.3% of GDP during the review period, reflecting the excess of gross national saving (31.4% of GDP) over gross domestic investment (29.0% of GDP). Foreign exchange reserves increased from some US$200 billion in 2008 to over US$300 billion in 2011 (equivalent to nearly seven months of imports), making Korea's reserve holdings the seventh largest in the world. The economy has continued to be outward oriented, with trade in goods and services rising from 107.2% of GDP in 2008 to 110.3% in 2011. Manufactured goods still account for the bulk of exports (85.3% in 2011). The pattern of trade has continued to shift from the United States, the EU, and Japan to China, especially for merchandise trade.

5. Whereas Korea is a major exporter of capital, inward foreign direct investment is among the lowest in relation to GDP in OECD countries, despite the officially favourable attitude towards inward FDI, generous incentives, and recent improvements in the ease of doing business. Although Korea's share in the global market's total FDI inflows rose between 2008 and 2010, it remains below its 2004 and 2006 levels. This performance seems to be due, *inter alia*, to the cost of doing business in Korea and burdensome regulations, as well as to factors related to the "Korea discount", the amount by which investors undervalue Korean stocks owing to the perceived investment and geopolitical risk in the country. During the review period, Korea has implemented measures to address some of these issues, and, *inter alia,* promote FDI in specialized zones and locations. However, three sectors remain completely closed to foreign investors and 29 are partially restricted.

(2) TRADE POLICY FRAMEWORK

6. Korea is an original Member of the WTO. It grants at least MFN treatment to all its trading partners and, as a developing country, receives the special and differential treatment provided for in the WTO Agreements. The structure of trade policy formulation, implementation, and evaluation in Korea has remained largely unchanged since its previous Trade Policy Review in 2008.

7. Korea has maintained its support for, and commitment to, liberalization and strengthening the multilateral trading system and the successful conclusion of the Doha Round negotiations. Nevertheless, Korea has intensively pursued comprehensive free-trade agreements with major trading partners or regional groups (i.e. ASEAN, India, the EU, Peru, and the United States), and is continuing or planning negotiations to establish FTAs with other large economic blocs and newly emerging economies. These agreements, which have been notified to the WTO and cover, *inter alia*, goods, services, and investment, are seen as a catalyst for reforming the economy and raising competitiveness through further liberalization and deregulation in certain sectors. Nevertheless, agriculture remains only partly covered and sensitive agricultural items (e.g. rice) are excluded from the FTA-driven liberalization. Adjustment measures to compensate domestic producers and companies that seem seriously injured by FTA-induced import competition have been strengthened. Korea, a major donor to the WTO's Trade-Related Technical Assistance and Aid for Trade, has continued to provide duty-free treatment to most imports from least developed countries.

8. Korea attaches high priority to making its laws transparent and readily accessible, including by foreigners; many laws are available in English on Internet sites maintained by relevant ministries and agencies. Regulatory reform has progressed with emphasis on stimulating economic growth, and action taken to, *inter alia*, help overcome the global economic crisis included revising, suspending or mitigating the implementation of some burdensome regulations. Korea has taken steps to fulfil its transparency obligations at the multilateral level by, *inter alia*, meeting its WTO notification requirements, though notifications in certain areas (e.g. state trading, special safeguards, agricultural export subsidies, and government procurement) have been subject to long submission gaps.

(3) TRADE POLICY DEVELOPMENTS

9. The customs tariff is one of Korea's main trade policy instruments as well as a major and increasing source of tax revenue (6% of total tax revenue in 2010). The 2012 customs tariff remains relatively complex, involving a multiplicity of rates (84 *ad valorem*, 46 alternate duties) often with small rate differences and some involving decimal points. No tariff cuts were undertaken during the period under review. As a result of the adoption of the HS 2012 tariff nomenclature, the average applied MFN tariff rate increased from 12.6% in 2011 (virtually the same as in 2008) to 13.3% in 2012. This is high by OECD country standards, thereby requiring tariff concessions or drawbacks (to ensure that tariffs levied on intermediate inputs do not feed through as taxes on exports), adding to the complexity of border taxation. Peak *ad valorem* rates also remained unchanged and concentrated in agricultural items (WTO definition); applied MFN tariff rates range from zero to 887.4% (for manioc); in addition, non-*ad valorem* tariffs tend to conceal tariff "peaks" involving *ad valorem* equivalents (AVEs) of up to 1,506.3% (for cinematographic film) (2010). Some 85% of rates were 10% or below in 2012. Tariff-rate quotas are in place under Korea's multilateral agricultural market-access commitments, with in-quota rates ranging from zero to 50% (2012) compared with out-of-quota rates up to 887.4%, and with a decreasing average fill rate of 66.7% (2011). Other measures (e.g. "autonomous" tariff quotas, usage tariffs, and duty concessions) selectively reduce tariffs on inputs. Korea has bound 89.9% of its tariff lines; that is, 98.4% of agricultural lines (excluding mainly rice) and 88.4% of its non-agricultural lines (WTO definitions). The gap of

4.3 percentage points between the average bound and applied MFN tariff rates imparts a degree of unpredictability to the tariff regime and provides scope for the authorities to raise applied rates within the bindings. Korea has continued to use this gap to apply higher MFN duties (e.g. adjustment duties) termed as "flexible tariffs", which the authorities maintain are within WTO bindings; product coverage under "flexible tariffs" rose from 101 in 2007 to 334 in 2012.

10. During the period under review, Korea pursued wide-ranging trade facilitation by further streamlining and modernizing (and diffusing overseas) its fully computerized, user-friendly customs procedures in line with its World's Best Customs 2012+ plan. Transfer pricing and customs valuation, two areas in which multinational corporations faced difficulties while doing business in Korea, were addressed.

11. Rice remains the only item subject to import quotas (until 2014). Import licensing requirements and prohibitions are maintained mostly for the protection of public morals, human health, hygiene and sanitation, animal and plant life, environmental conservation or essential security interests in compliance with domestic legislation requirements or international commitments. Korea has used anti-dumping provisions against imports involving mainly chemicals, kraft paper, plastics, stainless steel, and particle board; it initiated 8 new cases and has 31 final measures in effect on imports from 13 countries, mostly in Asia.

12. Korea periodically restricts or monitors exports of certain products (e.g. rice and steel) to ensure adequate domestic supplies, and thereby possibly assist downstream processing of these products. Export prohibitions are aimed at protecting animal rights and endangered species, and conserving natural resources. Direct export subsidies are maintained to reduce marketing costs for certain agricultural products (e.g. fruit, vegetables, flowers, kimchi, ginseng, and livestock); they totalled ₩ 32.68 billion in 2008, according to the most recent data available. In addition to the tariff drawback scheme, excises and VAT are rebated at the border, while income tax relief is accorded to enterprises located in free-trade zones. Exporters benefit from export credit insurance, finance, and the promotional activities provided by state-owned institutions.

13. Various measures, involving grants, tax concessions or low-interest loans, continue to support the production and trade of a range of products and to encourage SMEs, R&D, and environmental-protection activities. Although "sunset" clauses were intended to terminate tax incentives automatically, many were extended. SMEs are among the beneficiaries of these measures, which are especially generous for information technology activities; a Fund now supports those who face problems of access to raw materials. Emphasis was placed on financial assistance to new growth engine activities in green technology, high-tech "convergence", and high value-added services.

14. Although attempts have been made during the past five years to ensure that new Korean industrial standards are in harmony with newly adopted international standards, the share of non-harmonized standards has increased considerably. At the same time, the number of mandatory standards increased by about 70%. Efforts have continued to review food labelling standards to better reflect international requirements, including new requirements related to children's favourite food products, nutritional labelling, and irradiated ingredients.

15. Despite the lack of domestic price preferences, government procurement is still seemingly used as an instrument of economic policy to promote SMEs, companies in a "disadvantageous position", regional development, and green purchasing. As a consequence, the government procurement market is more closed than the rest of the domestic market. Korea is a party to the WTO Government Procurement Agreement (GPA); the value of contracts subject to GPA commitments

increased though certain procurement remains uncovered by these undertakings. Most procurement remains decentralized, as more than 63% of the procurement market involves direct purchases by public institutions. The already small share of foreign suppliers has dropped steadily since the previous review, due to the highly sophisticated and increasingly competitive domestic suppliers of manufactures and construction services, as well as the discontinuation of government purchases financed by international public loans, which require international competitive tendering. Consequently, foreign suppliers accounted for 1.6% of the Public Procurement Service's total business operations in 2010.

16. State involvement in the economy persists, as privatization efforts during the period under review yielded little result (only eight firms were privatized), despite the Government's resolve to proceed with divestments. Two government agencies and one producer association are responsible for imports of all rice and some other agricultural items; their operations allow for important price mark-ups, although no mark-ups were imposed on rice during most of the review period.

17. Korea's extensive range of intellectual property rights legislation has been further strengthened with amendments owing partly to the implementation of commitments under FTAs with the EU and the United States. IPR protection was further enhanced with the expansion of international commitments, the reinforcement of border enforcement, and other improvements. Parallel imports of genuine products compliant with certain requirements are allowed, in the interest of competition and thus consumers.

18. During the period under review, Korea removed some anti-competitive provisions in its competition laws and regulations, and monopoly power has decreased steadily. Nonetheless, market concentration remains relatively high. Large business conglomerates are subject to special regulation, and cross-shareholding is banned between subsidiaries under the same holding company; ceilings on the total amount of shareholdings in other domestic companies were removed in 2009. Large corporations and SMEs have been encouraged to voluntarily sign fair-trade and shared-growth agreements; future work is focused on improving competition conditions for SMEs. Liner shipping conferences remain exempt from competition legislation. Consumer protection has also been improved by helping consumers to better protect their rights and interests themselves, as well as ensuring that consumers share adequately in the benefits of FTA-driven liberalization; privacy-related concerns top the e-commerce legislative agenda.

(4) SECTORAL POLICY DEVELOPMENTS

19. During the review period, agriculture was exposed to increased FTA-driven liberalization and was assisted by more market-oriented and environmentally friendly government intervention. Despite domestic support equivalent to 2.2% of GDP (in 2008-10), almost as much as agriculture's declining 2.7% share of GDP (in 2011), labour productivity still remains relatively low, albeit improving, at roughly two fifths of the national average. Although self-sufficiency has been attained for some major products (rice), the average rate has dropped and targets for 2015 and 2020 were increased; at the same time, the volume of agricultural imports has continued to rise. Average applied MFN tariff protection for agricultural goods (WTO definition), at 55%, is more than eight times the average for non-agricultural goods (6.6%). Tariff-rate quotas are utilized, administered or allocated by state-trading entities or industry associations; access was improved temporarily in response to recent domestic supply-side instability. Quantitative import restrictions for rice will remain in force until 2014; quantitative export restrictions have also been in place for rice, but were little utilized. Special safeguard provisions (SSGs) under the WTO Agreement on Agriculture have been used less frequently since 2008. Agriculture receives substantial domestic financial assistance, involving

product-specific support, in line with the relevant WTO provisions. The outcome of such support is that Korean consumers pay much higher prices (on average 1.7 times the world levels). The importance of support in the form of direct payments has increased. Action has been taken to, *inter alia*, foster private investment in agricultural corporations, protect farm household income from natural disasters, support precision farming practices with lower use of fertilizers, expand the traceability information system protecting consumer interests, and assist rural development. The differentiated pricing system to stabilize milk supply and demand has contributed to a further reduction of excess milk supply. Despite retaining fisheries-related subsidies, efforts to reduce over-fishing were continued and action was taken to encourage environment-friendly offshore aquaculture.

20. During the period under review, efforts have continued to reduce oil dependence and cope with rising energy demand, including through increasing the share of renewable sources in total primary energy supply and projects overseas, as well as to reduce energy demand (energy efficiency) and the high energy intensity of production. State involvement in the gas and electricity sectors persists and impedes competition. Some industries have licences to import gas directly for their own use rather than purchasing it from the state monopoly, which regularly adjusts the price of gas to costs. Domestic coal production (mostly anthracite coal), mainly destined for power plants, continues to be assisted by direct production subsidies, a VAT exemption (imported bituminous coal is subject to a 10% VAT), and the compulsory purchase of its expensive output by the loss-making state-run electricity company. The power exchange pool sets power generation prices to manage electricity dispatch; cross-subsidies between consumers distort prices, with agricultural users the main beneficiaries and all tariffs below production cost.

21. Manufacturing's share of GDP increased (to 31.2% in 2011) while its share in employment remained relatively stable (thus, labour productivity improved), as the economy became less services-based. The sector remains heavily outward oriented and a world leader in information and communications technology (ICT), as well as in shipbuilding and cars, activities dominated by large conglomerates. Government policies (including tariffs, tax incentives, and reduced energy prices) have favoured manufacturing over services, which tend to be much less tradeable than manufactures. Border protection, which is almost entirely confined to tariffs and adjustment duties, is virtually unchanged since the previous Review. Several tax and non-tax incentives assist R&D and SME activities. As from 2009, support was focused on activities termed as new growth engines with the objective of increasing exports of "green" goods (e.g. electric cars) by the major industries. Other industry-specific support was made available for improving global competitiveness of the automobile parts, upgrading the steel industry, helping Korea regain the world's leading shipbuilding nation status in 2011, and fostering the pharmaceuticals industry expansion (including in biosimilars).

22. Services, the largest sector of the economy, remain characterized by relatively low labour productivity (now less than half the level in manufacturing) and declining growth in total factor productivity (TFP). This is partly due to the lack of sufficient competition owing to, *inter alia*, state-ownership and excessive regulations, including restrictions on inward FDI. Measures were taken to improve corporate governance, transparency, soundness, and capital adequacy ratios in banking and other financial services; the financial sector restructuring continues to benefit from public funds and its macro-prudential regulations were strengthened. Despite some decline, state-ownership persists in financial and transport services. Maritime and air transport are also subject to cabotage restrictions. In addition, there are foreign-ownership ceilings in several sectors, notably telecommunications, air transport, and coastal maritime services, and a prohibition in radio and television broadcasting. Legislation was passed for the planning and promotion of convergence of broadcasting and communications activities, as well as to create a more competitive broadcasting market. Restrictions on the access of large retailers (super supermarkets) to traditional markets are

about to be implemented. Korea's GATS commitments remain unchanged, but further undertakings beyond its GATS commitments were undertaken in the context of recent FTAs.

(5) OUTLOOK

23. Korea's economic fundamentals remain, by and large, sound. Despite its impressive rebound from the global financial crisis, Korea's economy remains vulnerable to exogenous shocks through international trade, particularly its heavy reliance on exports of manufactures produced mostly by a few large business conglomerates, and financial linkages. Equitable and sustainable growth depends on the Government implementing structural reforms, especially those aimed at improving the investment climate, thereby making Korea more attractive to FDI; addressing labour market rigidities, and the likely decline in the labour force, owing to a rapidly aging population; as well as improving productivity, particularly in energy and services, for example, by further opening them up to domestic and foreign competition through multilateral as well as regional and bilateral liberalization. These and related reforms, including privatization and continued regulatory reforms, would increase the flexibility of the Korean economy and its ability to respond to growing external competition.

I. ECONOMIC ENVIRONMENT

(1) Overview

1. Korea's economy has rebounded from the global financial crisis that erupted around the time of its previous Review in 2008. The crisis caused, among other things, a sharp fall in international trade, including Korea's exports, traditionally one of its principal sources of growth. Korea's exports contracted in 2009, but rebounded by 14.7% in 2010 and steadied at 9.5% in 2011 (Table I.1). As a consequence, Korea is now the world's seventh largest exporter, up from 12th in 2008.[1] Imports showed a similar collapse in growth in 2009 and subsequent rebound.

2. Real GDP growth tracked the same pattern of recovery in 2010 as exports, and steadied at 3.6% in 2011 (Table I.1). This quick recovery was, by and large, achieved without resorting to restrictive trade measures; on the contrary, with the lack of progress in multilateral trade negotiations, Korea has instead opened its market further to international trade. It recently concluded major bilateral free-trade agreements (FTAs), with the United States and the European Union, and remains among the most open economies in the world, except perhaps in the case of inward foreign direct investment (FDI). Recovery was due to the revival of trade world-wide, especially strong demand from China, together with supportive macroeconomic and financial policies. These policies included the largest fiscal stimulus (as a share of GDP) among the 26 OECD countries[2], as well as accommodative monetary policy and a sharp depreciation of the exchange rate of the won during the latter part of 2008. Subsequent measures to moderate the volatility of capital inflows have slowed the appreciation of the won, so that its real effective exchange rate (REER) remains 11% below its 2000-07 average.[3] Despite its impressive rebound from the global financial crisis, Korea's economy remains vulnerable to shocks through international trade, particularly its heavy reliance on exports of manufactures for growth, and financial linkages.

3. Korea's economy is characterized by a number of interrelated imbalances, some of which are policy-induced. First, growth has been driven much more by exports than by domestic demand, which has been restrained recently by very high levels of household debt (163.7% of income and 89.2% of GDP in 2011). Second, government policies (including tariffs, tax incentives, and reduced energy prices[4]) have favoured manufacturing over services, which tend to be much less tradeable than manufactures. Third, policies aimed at enhancing the international competitiveness of exports of manufactures, produced mainly by large business conglomerates[5], many of which are family-controlled (*chaebol*), have contributed to a large and widening gap in labour productivity[6], and thus wages, between the manufacturing and services sectors, thereby exacerbating income inequality.[7] Fourth, policies (or perhaps lack thereof as regards those aimed at combating private anti-competitive

[1] OECD (2010b).

[2] OECD (2010b).

[3] IMF (2011).

[4] See Chapter IV(4)(2) and Jones (2009).

[5] According to the Korea Trade Statistics Service, Korea's ten largest *chaebol* accounted for 35.7% of Korea's exports in 2011. However, another source indicates that Korea's six largest *chaebol* account for more than 70% of Korea's exports ("South Korea's small businesses fight for survival", 17 August 2011. Viewed at: www.bbc.co.uk/news/business-14554015?print=true). The discrepancy may be because conglomerates' exports contain intermediate inputs supplied by small and medium-sized enterprises (SMEs).

[6] The gap is the largest in the OECD area, where productivity in manufacturing and services is roughly the same (Jones, 2009).

[7] In a recent meeting with heads of about a dozen *chaebol*, Korea's President reportedly called for big business to pay attention to social inequalities (http://english.yonhapnews.co.kr/business/2012/01/20/0502000000AEN20120120000200315.HTML).

practices) have also enabled large business conglomerates to dominate the domestic market to the detriment of small and medium-sized enterprises (SMEs), which are potentially an important source of innovation, but lack access to finance and new technology. Fifth, Korea's strong growth has exacerbated environmental problems, notably the emission of greenhouse gases[8], which is arguably associated more with manufacturing than services. Sixth, in the longer term, the emerging demographic imbalance involving a sharp increase in the ratio of retirees relative to employees will not only tend to reduce growth, by reducing the domestic supply of labour, but also put pressure on pensions and the provision of healthcare and other services for the elderly. In order to ensure equitable and sustainable growth, these imbalances need to be redressed by appropriate policies to alleviate these and other structural challenges.[9]

4. During the period under review (2008-12), the Government took policy initiatives to address some of these imbalances. In particular, its strategy to develop services envisages creating a more level playing field between manufacturing and certain services, by increasing tax incentives[10] and other support (including government credit guarantees[11]) for services instead of reducing incentives for manufacturing (Chapters III(4)(i), IV(5) and IV(6)). The authorities also envisage deregulation and improving the investment environment in the services sector so as to foster competition, including from abroad.[12] Furthermore, labour-market policies are being focused on increasing investment in labour-intensive activities, notably services, and thereby raising labour productivity, strengthening the social safety net, and increasing participation of the elderly and females in the labour force. The authorities do not target large business conglomerates' anti-competitive practices *per se*[13]; they do, however, encourage them to support their SME suppliers through preferential loans, joint R&D projects, and sharing profits (Chapter III(4)). Moreover, in 2009, the Government introduced the National Strategy for Green Growth involving incentives to improve energy efficiency and increase the competitiveness of alternative energy sources (Chapter IV(4) and (5)). While plans for the privatization of state-owned enterprises (SOEs) have been drawn up under the auspices of the SOE Privatization Committee, it would appear that little progress has been made in implementing these plans, although the authorities maintain that the privatization process is, by and large, being properly implemented as originally planned, and preparatory work is currently under way (Chapters III(4)(iii)).

(2) RECENT ECONOMIC PERFORMANCE[14]

5. During the period under review (2008-11), Korea's real GDP growth dropped from 5.1% in 2007 to 2.3% in 2008 and to 0.3% in 2009, mainly because of the collapse in export growth from

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[8] Greenhouse gas emissions almost doubled between 1990 and 2005, making Korea one of the fastest-growing sources of emissions in the OECD area. Korea also has one of the highest levels of energy intensity among OECD countries, reflecting its relatively high reliance on energy-intensive industries (OECD, 2010b). This is undoubtedly partly because Korea's electricity rates are the lowest among OECD Member countries, according to a recent report by the International Energy Agency.

[9] Another major challenge is the increased duality of Korea's labour market, where the share of non-regular workers has risen to over one third of employees (OECD, 2010b).

[10] IMF (2011).

[11] OECD (2010b).

[12] IMF (2011).

[13] There is no particular policy that targets large conglomerates, except taxation of unfair insider trading between a parent (holding) company and subsidiaries, a policy common to most OECD countries.

[14] According to the 2012 World Bank's Ease of Doing Business report, Korea ranked 8th among 183 countries in 2012, up from 15th in 2011 and 22nd in 2008 (Chapter II(7)). As regards, international competitiveness, the IMD ranked Korea 22nd among 59 economies in 2011, compared to 23rd in 2010 and 31st in 2008 (IMD, 2012). The Heritage Foundation's Index of Economic Freedom ranked Korea 31st (out of 179 countries) in 2012, the same as in 2008 (out of 157 countries) (Heritage Foundation, 2012 and 2008).

12.6% in 2007 to -1.2% in 2009 (Table I.1). Labour productivity growth, the main determinant of wages and thus living standards, also suffered a sharp slowdown from 6.9% in 2007 to 1.2% in 2008. However, as a result of the rebound in export growth to 14.7% in 2010 and 9.5% in 2011 together with robust domestic demand, real GDP growth quickly recovered to 6.3% in 2010, before falling back to 3.6% in 2011. Labour productivity growth also recovered quickly to 2.9% in 2009 and jumped to 12.1% in 2010 (6.4% in 2011) owing to the rapid recovery in exports and facilities investment, which increased to 14.7% and 25.7%, respectively, in 2010, from 6.6% and -1.0% in 2008. By contrast, growth in total factor productivity (TFP), a more accurate measure of economic efficiency and thus international competitiveness, was 0.03% in 2008 and -1.34% in 2009 (according to data provided by the Korea Productivity Center).[15] Manufacturing recorded TFP growth of 0.08% in 2008 and -0.76% in 2009, while TFP growth of services was -0.03% in 2008 and -2.64% in 2009. In the absence of improved TFP, growth accounting implies that increased labour productivity owing to increased investment is offset by a deterioration in capital productivity.

Table I.1
Selected macroeconomic indicators, 2007-11

	2007	2008	2009	2010	2011
National accounts		*(Percentage change, unless otherwise indicated)*			
Real GDP (at 2005 prices)	5.1	2.3	0.3	6.3	3.6
Consumption	5.1	2.0	1.2	4.1	2.2
Private consumption	5.1	1.3	-0.0	4.4	2.3
Government consumption	5.4	4.3	5.6	2.9	2.1
Gross fixed capital formation	4.2	-1.9	-1.0	5.8	-1.1
Exports of goods and non-factor services	12.6	6.6	-1.2	14.7	9.5
Imports of goods and non-factor services	11.7	4.4	-8.0	17.3	6.5
XGS/GDP (%) (at current market price)	41.9	53.0	49.7	52.3	56.2
MGS/GDP (%) (at current market price)	40.4	54.2	46.0	49.7	54.1
Unemployment rate (%)	3.2	3.2	3.6	3.7	3.4
Productivity			*(Percentage change)*		
Labour productivity	6.9	1.2	2.9	12.1	6.4
Total factor productivity	0.7	0.0	-1.3	..	..
Prices and interest rates			*(Per cent)*		
Inflation (CPI, %age change)	2.5	4.7	2.8	3.0	4.0
Loans and discounts rate	6.55	7.17	5.65	5.51	5.76
Savings deposit rate	5.07	5.71	3.26	3.19	3.69
Exchange rate					
Won/US$ (annual average)	929.2	1,102.6	1,276.8	1,156.3	1,108.0
Real effective exchange rate (%age change)	-1.1	-19.9	-12.4	11.4	..
		(Per cent of GDP, unless otherwise indicated)			
Consolidated fiscal balance	3.8	1.2	-1.7	1.4	..
Consolidated revenue	25.0	24.4	23.5	23.1	..
Tax revenue	19.6	19.5	18.6	..	..
Consolidated expenditure and net lending	21.2	23.3	25.2	21.7	..
Central government total debt	29.7	29.0	32.6	31.9	..

Table I.1 (cont'd)

[15] Total factor productivity (TFP) reflects the efficiency with which factors of production are used and is therefore a key determinant of an economy's performance. It should be distinguished from labour productivity, which is the amount of output per employee (or per hour worked). Among the main determinants of improvements in labour productivity are investment, which raises the amount of capital that labour has to work with, and TFP growth, which reflects scale economies and technological progress. The latter is one of the most important sources of TFP growth in the long run.

	2007	2008	2009	2010	2011
Saving and investment					
Gross national savings	31.5	31.6	30.2	32.0	31.7
Gross domestic investment	29.4	31.2	26.3	29.2	..
Savings-investment gap	2.1	0.4	3.9	2.8	..
External sector					
Current account balance	2.1	0.3	3.9	2.9	2.4
Net merchandise trade	3.5	0.6	4.5	4.0	2.8
Merchandise exports	37.1	46.7	42.9	45.5	49.5
Merchandise imports	33.6	46.1	38.4	41.5	46.7
Services balance	-1.1	-0.6	-0.8	-0.9	-0.4
Capital account	-0.2	0.0	0.0	-0.0	0.0
Financial account	-2.0	-0.1	-4.2	-2.7	-2.9
Direct investment	-1.7	-1.8	-1.8	-2.2	-1.4
Balance of payments	1.4	-6.1	8.2	2.7	1.2
Terms of trade	91.1	78.5	86.3	86.0	78.8
Merchandise exports (%age change in US$)	15.8	11.6	-17.6	28.8	19.7
Merchandise imports (%age change in US$)	15.5	21.9	-25.4	31.5	23.8
Service exports (%age change)	28.4	24.2	-18.8	18.6	8.8
Service imports (%age change)	21.1	13.4	-16.8	19.6	3.6
International reserves (US$ billion, end-period)	262.2	201.2	270.0	291.6	306.4
in months of imports of goods and services	7.2	4.6	8.1	6.8	5.9
Total external debt (US$ billion; end-period)	333.4	317.4	345.7	359.4	398.4
of which short term	160.2	149.9	149.2	139.8	136.1
Debt service ratio[a]	6.9	7.9	7.8	6.8	..

.. Not available.

a Debt service on medium and long-term debt in per cent of exports of goods and services.

Source: Korea National Statistical Office, *Monthly Statistics of Korea* (various issues); Bank of Korea, *Monthly Statistical Bulletin 2012.1*, and online information. Viewed at: http://www.bok.or.kr/contents/total/eng/boardView.action?menuNaviId=634&boardBean.brdid=10742&boardBean.menuid=634&boardBean.rnum=1 [02/04/2012]; IMF Country Report No. 11/246, August; and data provided by the authorities.

6. Between 2008 and 2011, manufacturing's share of GDP increased from 27.9% to 31.2%, while its share of employment remained virtually unchanged at 16.9% (in 2011). Labour productivity in manufacturing is more than double that of services, whose share of GDP fell from 60.8% to 58.1%, but whose share of employment rose from 66.2% to 68.2% (Table I.2). The widening gap in labour productivity between manufacturing and services is due to the latter's relatively lower levels of investment (including in information and communications technology and R&D) and total factor productivity, which reflects scale economies and technological progress. Services' relatively poor productivity performance[16] is due partly to the lack of competition in the sector, owing to, *inter alia*, state-ownership in some subsectors, and excessive regulation, including restrictions on foreign direct investment (Chapters II and IV(6)), which is usually the main mode of cross-border delivery for services[17]; and to the predominance of SMEs, which do not achieve scale economies. Despite annual

[16] In 2009, Korea's service productivity was US$28,001 and ranked 31 out of 32 OECD countries (Ministry of Strategy and Finance, 2011).

[17] Commercial presence (mode 3), which involves FDI, is the dominant mode of supply; estimates suggest that globally it accounts for 55-60% of total trade in services. Cross-border supply (mode 1) and consumption abroad (mode 2), respectively, account for 25-30% and 10-14%. By contrast, movement of natural persons (mode 4) accounts for less than 5% of the total (Magdeleine and Maurer, 2008). No such data were available for Korea.

government support averaging 2.2% of GDP (in 2008-10), almost as much as agriculture's declining 2.7% share of GDP (in 2011), labour productivity in agriculture remains relatively low at roughly two fifths of the national average, although it improved during the period under review (Chapter IV(2)(ii)(b)).

Table I.2
Basic economic and social indicators, 2007-11

	2007	2008	2009	2010	2011
Real GDP at market prices (₩ billion, 2005 prices)	956,514.5	978,498.8	981,625.1	1,043,666.3	1,081,593.9
Real GDP at market price (US$ billion, 2005 prices)	1,029.4	887.4	768.8	902.6	976.2
Current GDP at market price (₩ billion)	975,013.0	1,026,451.8	1,065,036.8	1,173,274.9	1,237,128.2
Current GDP at market price (US$ billion)	1,049.3	930.9	834.1	1,014.7	1,116.5
GDP per capita at current market price (₩ '000)	20,062.8	20,969.8	21,655.0	23,745.7	24,852.4
GDP per capita at current market price (US$)	21,591.5	19,018.5	16,960.4	20,535.9	22,430.0
	(Annual percentage change)				
GDP by economic activity at constant 2005 prices					
Agriculture, forestry and fishing	4.0	5.6	3.2	-4.4	-2.0
Mining and quarrying	-4.1	0.6	-0.8	-8.6	-4.6
Manufacturing	7.2	2.9	-1.5	14.7	7.2
Electricity, gas and water	3.8	6.2	4.1	4.3	2.9
Construction	2.6	-2.5	1.8	-2.7	-4.6
Services	5.1	2.8	1.2	3.5	2.6
Wholesale and retail trade, restaurants and hotels	5.2	1.4	-0.9	7.1	4.6
Transport and storage	5.5	4.8	-5.8	10.3	3.8
Financial intermediation	10.8	4.9	4.4	2.4	1.6
Real estate, renting and leasing	1.4	1.5	-0.2	1.3	2.2
Information and communication	3.7	3.4	2.2	3.9	5.5
Business activities	5.2	2.8	-0.6	3.1	1.0
Public administration and defence, compulsory social security	3.3	1.4	3.8	1.6	1.2
Education	3.0	3.3	1.0	1.2	0.2
Health and social work	8.3	3.9	7.9	6.8	4.6
Culture and entertainment	9.7	3.4	2.5	2.1	1.7
Other	4.6	1.4	1.4	2.6	1.1
	(Per cent)				
Share of gross value added, current prices					
Agriculture, forestry and fishing	2.9	2.7	2.8	2.6	2.7
Mining and quarrying	0.2	0.3	0.2	0.2	0.2
Manufacturing	27.3	27.9	27.8	30.3	31.2
Electricity, gas and water	2.2	1.3	1.8	2.0	2.0
Construction	7.4	7.0	6.9	6.3	5.9
Services	60.0	60.8	60.4	58.5	58.1
Wholesale and retail trade, restaurants and hotels	10.7	10.9	10.8	10.9	11.1
Transport and storage	4.6	4.5	4.2	4.2	3.7
Financial intermediation	7.0	7.1	6.8	6.8	7.0
Real estate, renting and leasing	7.9	7.8	7.8	7.2	7.1
Information and communication	4.5	4.3	4.3	4.0	3.8
Business activities	5.2	5.4	5.3	5.3	5.2
Public administration and defence, compulsory social security	6.3	6.5	6.6	6.2	6.2

Table I.2 (cont'd)

	2007	2008	2009	2010	2011
Education	6.4	6.6	6.6	6.2	6.1
Health and social work	4.1	4.2	4.5	4.5	4.6
Culture and entertainment	1.4	1.4	1.4	1.4	1.4
Other	2.0	2.1	2.1	2.0	1.9
Share of sector in total employment					
Agriculture, forestry and fishery	7.4	7.2	7.0	6.6	6.4
Mining and quarrying	0.1	0.1	0.1	0.1	0.1
Manufacturing	17.1	16.8	16.3	16.9	16.9
Electricity, gas and water	..	..	..	..	..
Construction	7.9	7.7	7.3	7.4	7.2
Services	66.2	66.9	67.9	67.8	68.2
Wholesale and retail trade	..	..	..	..	..
Hotels and restaurants	..	..	..	..	..
Transport, storage and communication	..	..	..	..	..
Financial institution and insurance	..	..	..	..	..
Real estate, renting and leasing	..	..	..	..	..
Business activities	..	..	..	..	..
Public administration and defence, compulsory social security	..	..	..	..	..
Education	..	..	..	..	..
Health and social work	..	..	..	..	..
Other community, social and personal service activity	..	..	..	..	..
Other[a]	..	..	..	..	..

.. Not available.

a Including private households with employed persons, and extra-territorial organizations and bodies.

Source: Korea National Statistical Office, *Monthly Statistics of Korea 2012.1*; and Bank of Korea online information. Viewed at: http://www.bok.or.kr/contents/total/eng/boardView.action?menuNaviId=634&boardBean.brdid=10742&boardBean.menuid=634&boardBean.rnum=1 [02/04/2012].

7. Not surprisingly, as a consequence of the sharp drop in growth, Korea's unemployment rate edged up from 3.2% in 2007 and 2008 to 3.6% in 2009 and 3.7% in 2010, still relatively low by OECD standards, and then fell back to 3.4% in 2011 owing to the economic recovery.[18]

8. After rising steadily between 1997 and 2008, mainly as a consequence of rising poverty among the elderly, income inequality as measured by the Gini coefficient flattened out (at 0.314) in 2009, then fell slightly (to 0.310) in 2010. Income inequality in Korea is closely related to the difference in labour productivity between those employed in the tradeable (mostly manufacturing) sector and those employed in the non-tradeable (mostly services) sector, as well as to labour market practices.[19]

(3) BALANCE OF PAYMENTS

9. In line with its traditional strategy of encouraging export-led growth based on manufactures, Korea continues to run a surplus in merchandise trade and a deficit in services (Table I.3). Except in

[18] According to a report just issued by the Hyundai Economic Research Institute, however, the "perceived unemployment rate" was 11.3% in 2011. The perceived unemployment rate is a measure of real job-market conditions, which takes into account discouraged workers and workers preparing to enter the labour market.

[19] IMF (2011).

2008, the surplus in merchandise considerably exceeded the deficit in services. Consequently, the current account registered a substantial overall surplus, averaging roughly 2.3% of GDP during 2007-11. The overall current account surplus reflects the extent to which gross national saving (31.4% of GDP) exceeds gross domestic investment (29.0% of GDP).

Table I.3
Balance of payments, 2007-11
(US$ million)

	2007	2008	2009	2010	2011
Current account	21,769.7	3,197.5	32,790.5	29,393.5	26,505.3
Goods and services balance	25,161.8	-564.0	31,245.5	31,456.5	26,572.9
Trade balance	37,129.1	5,170.1	37,886.0	40,082.5	30,950.3
Exports	389,568.5	434,651.5	358,189.7	461,444.9	552,564.3
Imports	352,439.4	429,481.4	320,323.7	421,362.4	521,614.0
Services balance	-11,967.3	-5,734.1	-6,640.5	-8,626.0	-4,377.4
Receipts	72,994.8	90,634.8	73,580.4	87,282.4	95,000.4
Transportation	33,556.0	44,767.8	28,693.2	38,981.9	37,056.7
Travel	6,138.4	9,773.5	9,818.7	10,358.8	12,304.3
Communication	547.2	723.9	725.0	833.7	792.4
Construction	9,697.8	13,686.2	14,552.9	11,977.4	15,185.2
Intellectual property	1,735.1	2,381.6	3,199.1	3,144.7	4,320.5
Other business	14,420.6	12,965.4	12,088.3	16,834.2	18,910.5
Government	1,620.1	1,206.4	1,114.6	1,016.8	1,196.8
Other	5,279.6	5,130.0	3,388.6	4,134.9	5,234.0
Payments	84,962.1	96,368.9	80,220.9	95,908.4	99,377.8
Transportation	29,075.5	36,769.8	23,450.9	29,675.4	27,797.0
Travel	21,975.3	19,065.2	15,039.6	18,779.5	19,462.7
Communication	913.1	1,148.9	1,227.2	1,460.4	1,464.2
Construction	1,828.4	2,607.6	2,806.1	2,302.2	3,091.6
Intellectual property	5,133.8	5,655.7	7,187.6	9,031.4	7,301.7
Other business	21,829.1	27,244.8	27,093.5	30,422.2	35,827.4
Government	1,008.6	936.2	695.6	952.5	1,139.7
Other	3,198.3	2,940.7	2,720.4	3,284.8	3,293.5
Income balance	135.0	4,435.4	2,276.7	1,015.9	2,455.8
Credit	18,914.7	21,653.0	14,514.2	16,353.9	17,422.3
Compensation of employees	691.7	744.8	594.4	710.5	686.2
Investment income	18,223.0	20,908.2	13,919.8	15,634.4	16,736.1
Debit	18,779.7	17,217.6	12,237.5	15,338.0	14,966.5
Compensation of employees	186.0	555.7	647.4	1,077.6	1,180.9
Investment income	18,593.7	16,661.9	11,590.1	14,260.4	13,785.6
Current transfers	-3,527.1	-673.9	-711.7	-3,078.9	-2,523.4
Credit	11,158.0	14,069.6	12,700.4	13,424.3	15,345.2
Debit	14,685.1	14,743.5	13,412.1	16,503.2	17,868.6
Capital and financial account	-23,876.6	-1,154.0	-34,651.1	-27,478.5	-31,964.6
Capital account	-2,387.5	109.3	289.6	-217.9	150.0
Financial account	-21,489.1	-1,263.3	-34,940.7	-27,260.6	-32,114.6
Direct investment	-17,935.2	-16,940.6	-14,948.0	-22,184.3	-15,694.0
Korea's direct investment abroad	-19,719.6	-20,251.3	-17,197.0	-23,278.4	-20,354.9
Foreign direct investment in Korea	1,784.4	3,310.7	2,249.0	1,094.1	4,660.9
Portfolio investment	-26,057.8	-2,405.6	49,727.7	42,479.8	10,312.2

Table I.3 (cont'd)

	2007	2008	2009	2010	2011
Assets	-56,436.1	23,484.3	1,435.5	-1,189.5	-5,230.6
Equity securities	-52,550.1	7,124.0	-2,108.9	-2,877.7	-1,078.4
Debt securities	-3,886.0	16,360.3	3,544.4	1,688.2	-4,152.2
Liabilities	30,378.3	-25,889.9	48,292.2	43,669.3	15,542.8
Equity securities	-28,727.9	-33,622.7	24,856.4	23,606.7	-7,479.3
Debt securities	59,106.2	7,732.8	23,435.8	20,062.6	23,022.1
Other investment	32,187.5	-23,593.2	2,038.7	-21,414.4	-11,084.9
Assets	-14,835.9	-13,742.3	1,687.6	-15,980.6	-23,614.9
Trade credits	-926.2	75.5	-2,532.4	-5,837.3	-3,295.3
Loans	-9,191.2	10,158.1	360.7	-5,957.2	-11,842.6
Currency and deposits	-3,477.8	-6,320.3	2,270.0	-1,383.6	-4,936.9
Other assets	-1,240.7	2,660.6	1,589.4	-2,802.5	-3,540.2
Liabilities	47,023.4	-9,850.9	351.1	-5,433.8	12,530.0
Trade credits	-133.3	-24.9	1,293.3	5,447.8	-2,338.1
Loans	41,967.7	-24,139.7	7,848.3	-9,228.6	10,497.8
Currency and deposits	5,105.3	13,508.5	-12,347.1	-610.3	5,774.8
Other liabilities	83.7	805.2	3,556.6	-1,042.7	-1,404.5
Reserve assets	-15,128.4	56,446.0	-68,666.4	-26,970.6	-13,912.6
Net errors and omission	2,106.9	-2,043.5	1,860.7	-1,915.0	5,459.3

Source: The Bank of Korea online information. Viewed at: http://ecos.bok.or.kr/.

10. During the same period, the capital and financial account registered annual deficits of similar magnitudes to the current account surpluses. Korea's direct investment abroad was roughly eight times as much as foreign direct investment (FDI) in Korea during 2007-11 (Table I.3), making its inward FDI (in relation to GDP) among the lowest of all OECD countries.[20] Outflows and inflows of FDI have been fairly stable, unlike net portfolio investment. Whereas Korea experienced substantial net outflows of foreign portfolio investment in 2007 and 2008, very large net inflows occurred in 2009 and 2010, thereby exerting upward pressure on the exchange rate of the won and prompting the BOK to implement macro-prudential measures to alleviate what the authorities consider to be excessive volatility of capital flows into and out of Korea's financial markets.

11. Since 2008, Korea's foreign exchange reserves have increased substantially and now amount to over US$300 billion (equivalent to nearly seven months of imports), the seventh largest holdings of reserves in the world. The authorities maintain that Korea's macro-prudential measures, put in place in the wake of the 2008 financial crisis, have no direct relationship with its accumulation of foreign exchange reserves during 2009-10, which they attribute mainly to the withdrawal of foreign currency liquidity following the collapse of Lehman Brothers and to earnings from the operation of reserve assets.[21]

[20] See OECD (2010b).

[21] Furthermore, the authorities maintain that there is no absolute standard to measure the adequacy of a country's foreign exchange reserves. In their view, the adequacy of reserves needs to reflect the size of the economy and structure of external debt. It also needs to be considered in the light of the major recent crises, particularly the 1997 Asian currency crisis and the 2008 global financial crisis, the demand for foreign payments, and the different cost of carrying reserves over time, as well as Korea's heavy external dependence and geopolitical risk.

(4) KEY POLICY DEVELOPMENTS

(i) Macroeconomic policies

(a) Monetary and exchange rate policies

12. Monetary policy has been conducted by the independent Bank of Korea (BOK) mainly on the basis of an inflation target of 3±1%.[22] During the review period, inflation, by and large, remained within this target, even in 2011, amid rising food a fuel prices. The BOK conducted its monetary policy in such a way to reduce consistently the degree of monetary accommodation. Following on from its two-step increase of the policy rate during the second half of 2010, it raised the policy rate on three occasions by a total of 0.75 percentage points during the first half of 2011.[23]

13. Whereas at the time of the previous Review (and from 1997 to 2008), Korea's exchange rate was classified as "free floating", since 2009 it has been classified as "floating" apparently as a consequence of a change in the IMF's internal classification criteria. The Korean Government maintains that exchange rates should be freely determined by the market so as to reflect economic fundamentals and market supply/demand, and that any deliberate foreign exchange rate policy tailored to exchange rate levels, exports, or price levels is inadvisable. However, in order to alleviate systemic risks to the Korean economy caused by large and volatile inflows of capital through the portfolio channel, and presumably concerns that they could lead to excessive exchange rate volatility and increase the vulnerability of the financial sector (and possibly with an eye on the international competitiveness of large business conglomerates' manufactured exports), in 2010 the authorities implemented three macro-prudential measures.[24] These measures included withholding taxes on interest income and capital gains on non-residents' holdings of Treasury and Monetary Stabilization Bonds.

14. The outcome of monetary policy and other measures is that the real effective exchange rate (REER) is estimated by the IMF staff's Consultative Group on Exchange Rates (CGER) to be undervalued by about 10%[25], to the detriment of Korea's terms of trade. The Korean authorities disagree with the IMF's assessment as they consider that that the CGER methodologies contain a number of inherent flaws.[26]

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[22] IMF (2011).

[23] In addition to monetary policy, in order to mitigate the rise in inflation, the Government has been implementing administrative price stabilization measures, since January 2011, including temporary tariff cuts, tax incentives, freezing of public utility prices, and moral suasion as well as measures to alleviate distribution bottlenecks and address anti-competitive practices. However, while helping to ease inflationary pressures, such administrative measures are not substitutes for appropriate monetary (and exchange rate) policies to relieve demand pressures or dampen inflationary expectations. Moreover, freezing the prices of energy provided by state-owned utilities, for example, would tend to contribute to an inefficient use of energy and greenhouse gas emissions. Furthermore, the freezing of energy prices may have adverse quasi-fiscal consequences insofar as energy is produced by loss-making state-owned utilities (Chapter IV(4)(iii)) (IMF, 2011).

[24] The authorities maintain that the main purpose of these measures was to reduce volatility in capital flows, not exchange rates, and that they are irrelevant to the international competitiveness of large conglomerates' manufactured exports.

[25] IMF (2011).

[26] An undervalued exchange rate is equivalent to a combination of uniform tax on imports and a uniform subsidy for exports at equal rates. A higher exchange rate would not only tend to alleviate inflation, but also help redress the advantage enjoyed by the tradeable (mainly manufacturing) sector over the non-tradeable (mainly services), and raise living standards by improving Korea's terms of trade.

(b) Fiscal policies

15. Korea's prudent fiscal policy, reflected in continuing modest fiscal surpluses (which have contributed to its current account surpluses) during much of the period under review, and consequently low central government debt (amounting to only 31.9% of GDP) in 2010, have served it well. In particular, it enabled the Government to counteract the 2008 crisis with stimulus packages amounting to 6.1% of GDP.[27] Over the medium-term, the Government's National Fiscal Management Plan and National Debt Management Plan provide a medium-term fiscal framework for 2010-14 that sets out fiscal balance and debt targets, and identifies priorities concerning expenditure. Looking beyond the medium-term, however, there are several fiscal challenges, notably: the central Government's contingent liabilities associated with loan guarantees (3% of GDP); the rise in state-owned enterprises' debt (to 23% of GDP), mainly related to real estate; and the expected increase in spending (amounting to 11% of GDP) associated with the expanded range of services covered by the National Health Insurance and pensions, during the next 50 years, owing to Korea's rapidly aging population.[28] Furthermore, tax reform can help redress structural imbalances in the economy.

(ii) Structural policies

(a) Tax reform

16. Import tariffs, whose average applied MFN rate (13.3% in 2012) is among the highest in the OECD area (Chapter III(2)(iii)(f)), as well as tax incentives, have long been among the main instruments of industrial policy used to protect specific domestic industries from competition from foreign products and to assist domestic manufacturers. Such tax measures have thus contributed to the imbalance in Korea's economy in favour of manufacturing (for export) while neglecting services. It follows that this imbalance can be addressed by a more neutral tax structure that would place manufacturing and services on a more equal footing. A more neutral tax structure can be achieved by curtailing incentives in accordance with "sunset clauses" so as to broaden the base and reduce tax rates, especially in the cases of corporate and personal income taxes (rather than increasing incentives for services).

17. Such tax restructuring is under way, with permanent cuts by two and three percentage points, respectively, in corporate and personal income tax rates in 2009-10, in accordance with the principle of "Lowering tax rates and broadening the tax base", and more reliance on indirect taxes for additional revenues (Chapter III(4)(i)(c)).[29] Further reforms are contained in a tax revision bill unveiled in 2011 by the Ministry of Strategy and Finance. These reforms are aimed at facilitating sustainable growth and job creation (including for young adults working in SMEs), promoting fair competition, and improving fiscal conditions.[30]

18. Over the longer-term, meeting the challenge posed by the necessary financing of increased public expenditures associated with a rapidly aging population might require a further shift in the mix of taxes away from direct taxes (notably corporate and personal income taxes) to indirect taxes, such

[27] OECD (2010b).

[28] IMF (2011).

[29] Ministry of Strategy and Finance (2010).

[30] Among the main measures in the bill are: replacement of the tax deduction for facilities investment with a tax deduction for job creation; and the introduction of new taxes on profits earned by companies through contracts with their affiliates; an expanded Earned Income Tax Credit (EITC) and income tax reduction for young adults working in SMEs (Ministry of Strategy and Finance online information. Viewed at: www.mosf.go.kr.).

as a consumption-based VAT, which tend to be less distorting as regards economic decisions and international trade.[31]

(b) Privatization

19. The Government remains committed to privatization of some state-owned enterprises (SOEs), especially in the services sector (electricity, gas, finance, telecommunications, and transportation), in order to improve their productivity, and thus competitiveness. However, little progress has been made in implementing these plans (Chapter III(4)(iii)).

(c) Competition policy

20. Distortions to competition can be the consequence Government interventionist policies, but also possibly weak policies to address anti-competitive practices of large business conglomerates (many of which are family-controlled (*chaebols*)), that may abuse their dominant market position to the detriment of consumers and SMEs, not to mention productivity.[32] Fifty years after the start of Korea's economic "miracle", its economy is still dominated by a few big-name export-based large business conglomerates. While these conglomerates have traditionally formed the backbone of Korea's economy and its export-led growth, there is concern that due to their size is they are stifling the country's small and medium-sized businesses (SMEs), which account for roughly 90% of employment[33], and thereby polarizing the economy, despite the fact that many SMEs are currently assisted by state subsidies and cheap loans. Not only do the large business conglomerates increasingly dominate domestic product markets, with many increasing their market shares during the most recent economic downturn[34], their market power is such that, in order to cut costs, they can also exert downward pressure on the prices they pay to small and medium-sized suppliers.[35] Moreover, it is alleged that once the latter become successful, large business conglomerates often buy them in order to strip out talent and snuff out competition[36], and thus innovation, the main determinant of TFP growth in the long run. In addition, although large business conglomerates have traditionally been involved mainly in manufacturing, they also appear to be encroaching increasingly into the production of services, including the retail sector.

21. The authorities maintain that excessive regulation of large business conglomerates may constrict the business environment, to the detriment of investment, employment, and growth in the economy. Nonetheless, concern over the "polarization" of Korea's economy prompted the President to establish a Commission for the Shared Growth for Large and Small Companies in December 2010. This Commission has reviewed 234 business items, of which it picked 82 as suitable for production by SMEs. As a consequence, large companies will be discouraged from entering or expanding their

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[31] Whereas indirect taxes (such as the VAT) can be rebated on exports, direct taxes cannot (Daly Michael, 2011).

[32] Reportedly, Korea's Fair Trade Commission detected over 3,500 cases of price-fixing in 2010, but only 66 resulted in fines. The average penalty amounted to just 2.3% of unfairly earned revenue. Samsung and LG were fined in January for fixing the price of notebook PCs and flat-screen TVs between June 2008 and September 2009. Samsung was ordered to pay a fine of ₩ 25.8 billion (US$23 million) and LG ₩ 18.8 billion. LG's fine is to be waived, in return for cooperation with the FTC. This is the third time these two large business conglomerates have been caught price-fixing in the past two years (*The Economist*, "Let them eat cake," 4 February 2012).

[33] *Financial Times*, "South Korea: An economy divided", 29 May 2011.

[34] *Financial Times*, "South Korea: An economy divided", 29 May 2011.

[35] *Financial Times*, "Lee warns against curbing conglomerates", 31 January 2012.

[36] *Financial Times*, "South Korea: An economy divided", 29 May 2011; and *Financial Times*, "Lee warns against curbing conglomerates", 31 January 2012.

operations in the market, or obliged to abandon production of these items within three years.[37] The Commission also evaluates and reports on efforts by major business conglomerates to promote shared growth, including their adherence to fair-trade practices and provision of support for SMEs. In addition, it is reportedly trying to persuade conglomerates to share profits with SMEs, thereby possibly helping to address the widening income gap (Chapter III(4)(iv)(a)).

22. In addition to regulating large business conglomerates, the Korea Fair Trade Commission (KFTC) has reportedly started to offer incentives to encourage them to provide financial assistance and technology transfer to their sub-contractors.[38] In order to ensure that conglomerates do not use their monopsony power to depress the prices they pay to SME suppliers for components, the KFTC has monitored, investigated, and cracked down on any unfair attempts to depress prices.[39] Measures to encourage the transfer of technology to subcontractors could help to redress a possible imbalance between the monopoly accorded to conglomerates, in order to protect their intellectual property rights, and the broader social benefits of the dissemination of new technology, a major determinant of growth in total factor productivity (TFP). Korea's recently concluded FTAs with India, Peru, the EU, and the United States contain provisions concerning competition policy (Chapter II(6)(iii)).

(d) Corporate governance and the cost of capital

23. The dominance of large business conglomerates is also reflected in corporate governance in Korea and, according to a recent report[40], contributes to the so-called "Korea discount", the amount by which investors undervalue Korean stocks owing to the perceived higher investment risk in Korea compared with other countries.[41] This discount, ranging from 10% to 40%[42], is thought to be due not only to heavy reliance on large family-run *chaebol*, but also to, *inter alia*, geopolitical risks on the Korean peninsula, investors' concern over the high level of household debt, Korea's reputation for

[37] *Maeil Business*, "Tofu, LED, remicon chosen as SME business items", 4 November 2011. Viewed at: http://news.mk.co.kr/english/newsRead.php?sc=30800001&cm=TopStory&year=2011&no=717090&selFlag=&relatedcode=&wonNo=&sID=308 [27 January 2012].

[38] BBC online news, "South Korea's small businesses fight for survival", 17 August 2011. Viewed at: www.bbc.co.uk/news/business-14554015?print=true.

[39] This is in accordance with the provisions of the Fair Transactions in Subcontracting Act, which prohibits principal contractors from relying on illicit methods to lower their payments to subcontractors to a level that is significantly lower than usual.

[40] This report highlights three practices that have helped Korean large business conglomerates to achieve faster growth: tunnelling, propping, and expropriation. Tunnelling involves artificial channelling of new projects and business deals to key units, which are largely partly-owned by *chaebol* family members, and is thought to be easier in the services sector; propping refers to sharing risk among *chaebol* affiliates under the assumption that even a financially non-viable unit will get support from other affiliates; and expropriation is a broader term that includes both tunnelling and propping, while carrying a connotation of irregular transfer of wealth by higher and bigger conglomerate units (Tongyang Securities Inc., 2011). The World Bank ranks Korea 7th among the 12 biggest Asian economies as regards corporate governance (*Forbes*, "Cutting the Korean Discount", 21 May 2007. Viewed at: http://www.forbes.com/global/2007/0521/034.html [27 January 2012]).

[41] See *The Korea Times*, "Korea Discount", by Stephen G. Heckman. Viewed at: http://www.koreatimes.co.kr./www/news/ include/print.asp?newsIdx=58738. However, the authorities state that not every big conglomerate is the cause of the "Korea discount". There are large business conglomerates that take the lead in various investment ventures, market development and technological innovation, to the benefit of the Korean economy.

[42] As a consequence, Korean stocks trade at the lowest valuation among Asia's major markets – about eleven times expected earnings in 2010, compared with an average across Asia of 15.6 times expected earnings (*The Wall Street Journal Online*, 24 November 2010. Viewed at: http://online.wsj.com/article/SB100014240 52748703572404575633921601247064.html.

labour militancy, and Korea's low ranking (43rd out of 183 countries in 2011[43]) on Transparency International's Corruption Perceptions Index (CPI); the Government has taken steps to address corruption (Chapter II(5)). It follows that sounder corporate governance would reduce the cost of capital in Korea.

(e) Labour market policies

24. Labour market policies are being focused, *inter alia*, on increasing investment in labour-intensive activities, notably services, and thereby raising labour productivity, strengthening the social safety net, and increasing participation of the elderly and females in the labour force. However, the rapid aging of Korea's population will not just raise the dependency ratio of the retired to the working population, it can also be expected to result in a shortage of labour.[44] Such a shortage could be somewhat relieved by inflows of temporary workers or immigration (mode 4 under the GATS), especially into SMEs and service sectors, such as healthcare and nursing homes for the elderly. However, immigration has been restricted to such an extent that foreign workers accounted for only about 2.2% of Korea's labour force in 2008, well below the OECD average of roughly 10%.[45] In October 2008, the Government launched the Contact Korea programme, under the authority of the Korea Trade-Investment Promotion Agency (KOTRA), with the aim of attracting highly specialized foreign professionals to Korea.

(5) COMPOSITION AND PATTERN OF TRADE

25. The openness of Korea's economy is such that its dependence on foreign trade rose markedly during the period under review. Exports and imports of goods and services, respectively, accounted for 56.2% and 54.1% of GDP in 2011, compared with 41.9% and 40.4% in 2007 (Table I.1).

26. Manufactures continue to account for the bulk of Korea's exports, although their share dropped from 88.9% in 2007 to 85.3% in 2011. Manufacturing's share of imports also dropped, while the share of primary products increased (Chart I.1, Tables AI.1 and AI.2).

27. At the same time, the pattern of trade is shifting away from the United States, the EU, and Japan (to China), especially for merchandise trade. Whereas exports to the three trading partners fell between 2007 and 2011, exports to Asia increased, with China's share rising from 22.1% to 24.2% (Chart I.2, Table AI.3).[46] During the same period, China's share of total imports fell, although it remains Korea's major merchandise supplier, followed by Japan, the EU, and the United States (Chart I.2 and Table AI.4). It remains to be seen whether Korea's recently concluded FTAs with the United States and EU do anything to divert or create sufficient trade to slow or reverse this trend (Chapter II(6)(iii)(h)).

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[43] Transparency International (2011). Korea's ranking was 43rd out of 179 in 2007.

[44] See OECD (2010b).

[45] See www.oecd.org/migration/imo; and OECD (2007).

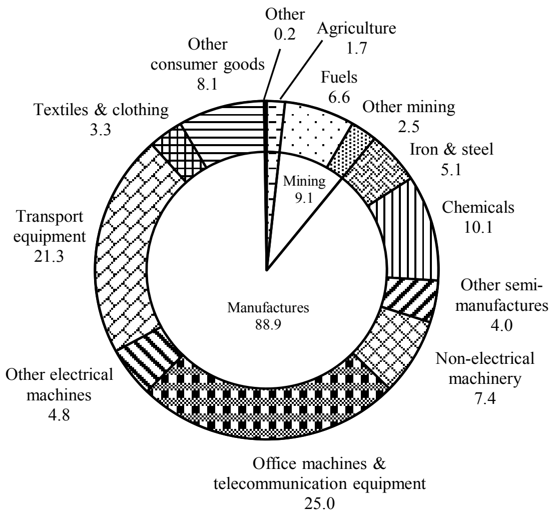
[46] Korea runs large trade surpluses with China, almost US$22 billion in 2010. These surpluses partly reflect outsourcing by Korean companies who have invested in China. To a large extent, those companies' operations involve exporting components for processing and assembly in China, with the finished products subsequently being exported to other parts of the world (see Institute for International Trade, 2010). In this way, Korea has, in effect, exported part of its trade surpluses with other countries, such as the U.S. and EU, through China. By contrast, Korea runs large trade deficits with Japan, almost US$42 billion in 2010, much of it owing to the importation of components (*Yonhap*, "Trade Commission 'Decrease in Trade Deficit with Japan Last Year'", 16 January 2012. Viewed at: http://app.yonhapnews.co.kr/YNA/Basic/article/new_search/YIBW_showSearchArticle_New.aspx?searchpart=article&searchtext=%eb%ac%b4%ed%98%91+%22%ec%a7%80%eb%82%9c%ed%95%b4+%eb%8c%80%ec%9d%bc+%eb%ac%b4%ec%97%ad%ec%a0%81%ec%9e%90+%ea%b0%9c%ec%84%a0%22&contents_id=AKR20120116079500003 [27 January 2012]).

Chart I.1
Product composition of merchandise trade, 2007 and 2011

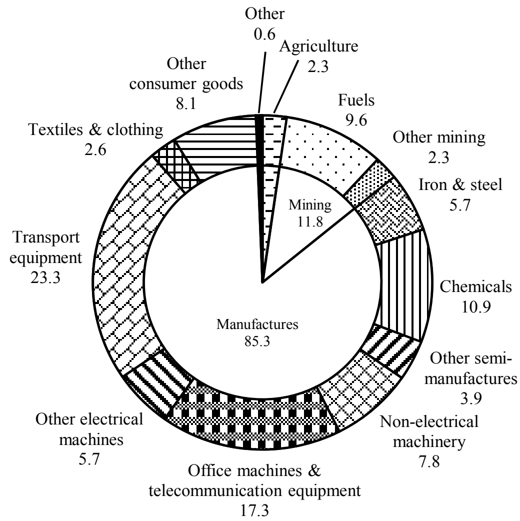
Per cent

2007 **2011**

(a) Exports (f.o.b.)

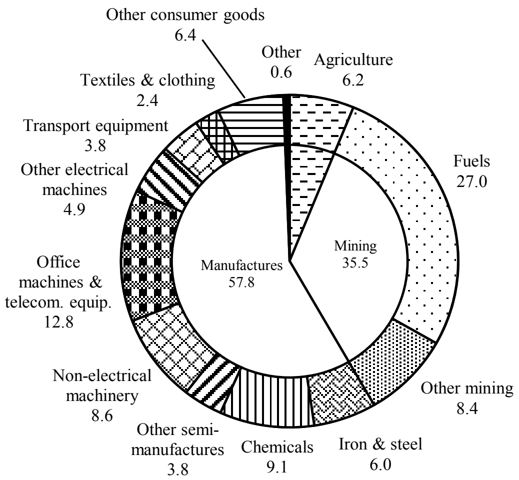


Total: US$371.5 billion

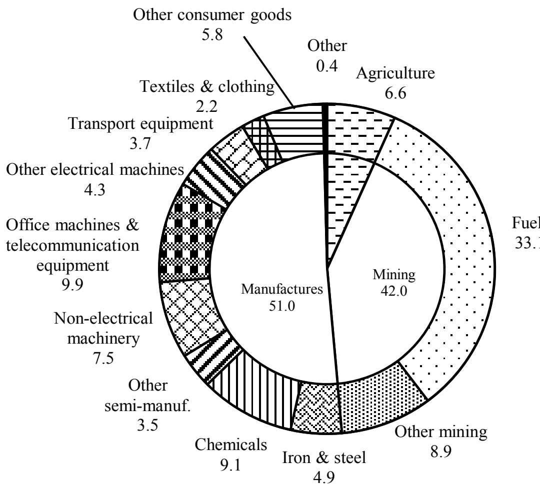


Total: US$555.2 billion

(b) Imports (c.i.f.)



Total: US$356.8 billion



Total: US$524.4 billion

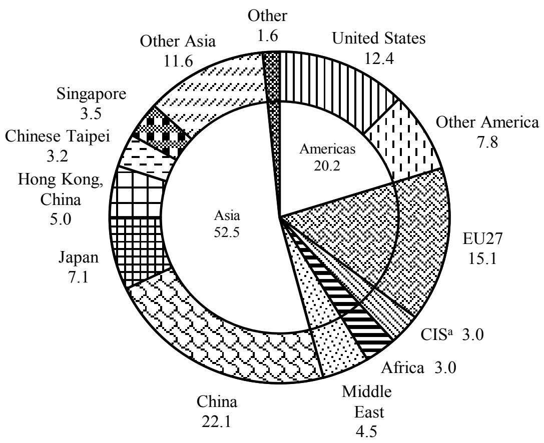
***Source*: UNSD, Comtrade database (SITC Rev.3).**

Chart I.2
Direction of merchandise trade, 2007 and 2011

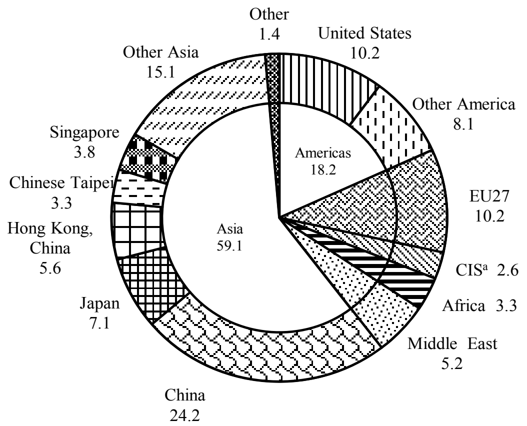
Per cent

2007 **2011**

(a) Exports (f.o.b.)

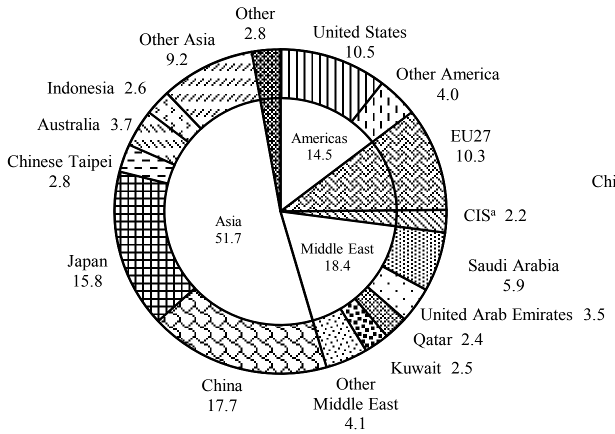


Total: US$371.5 billion

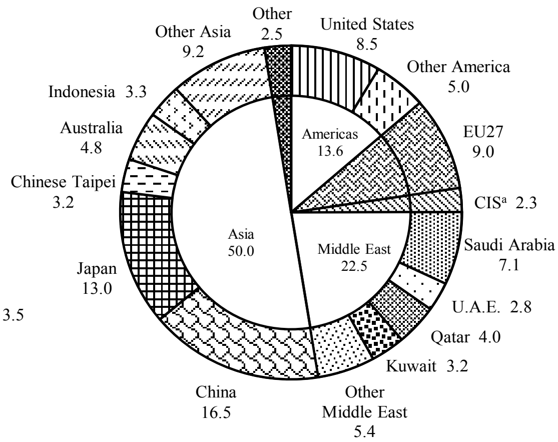


Total: US$555.2 billion

(b) Imports (c.i.f.)



Total: US$356.8 billion



Total: US$524.4 billion

a Commonwealth of Independent States.

***Source*: UNSD, Comtrade database.**

(6) TRENDS AND PATTERNS IN FOREIGN DIRECT INVESTMENT

28. Korea is not only a major exporter of goods, but also of capital, with the main destinations being the EU, the United States, and China (Table I.4). By contrast, the stock of inward foreign direct investment (FDI) in relation to GDP was only 12.6%, the third lowest among OECD countries in 2010.[47] The same applies to the share of services in Korea's inward FDI, which enables foreign companies to establish a commercial presence, usually the main mode for delivering services across borders.[48] Total inward FDI in 2010 amounted to US$6.9 billion, mainly from the EU, Japan, and the United States; 30% of the investments were in services, the main recipients being financial intermediation; real estate, renting, and business activities; trade and repairs; and hotels and restaurants.

Table I.4
Outflows of foreign direct investment, 2007-10
(US$ million and %)

	2007	2008	2009	2010
Total outflows (US$ million)	19,966.5	20,867.4	18,138.9	21,464.4
Per cent of GDP	1.90	2.24	2.17	2.12
		(% of total)		
Outflows by destination				
EU	14.9	7.9	22.7	25.3
United States	14.3	22.8	16.6	14.6
China	24.9	16.4	9.5	13.1
Malaysia	0.7	1.5	0.5	7.0
Hong Kong, China	9.2	11.8	7.9	5.3
Brazil	1.3	3.0	0.7	4.9
Canada	0.7	0.7	13.3	3.9
Indonesia	1.2	2.1	1.7	3.8
Viet Nam	6.3	6.2	2.9	3.5
Australia	0.7	2.7	1.3	2.6
Cayman Islands	..	0.7	2.1	2.3
Japan	2.4	1.9	2.0	1.4
Singapore	2.4	1.2	1.3	1.3
India	1.3	0.9	1.2	0.8
Kazakhstan	1.2	3.9	0.8	0.5
Other	18.5	16.4	15.2	9.8
Outflows by sectors				
Agriculture and fishing	0.5	0.4	0.4	0.5
Mining and quarrying	9.6	17.0	29.5	31.7
Manufacturing	38.6	30.6	21.1	27.1
Electricity, gas and water	2.1	0.4	1.9	1.4
Construction	3.5	3.2	1.8	1.1

Table I.4 (cont'd)

[47] Korea ranked 122nd among 141 economies according to the UNCTAD's Inward FDI Performance Index (UNCTAD, 2011b).

[48] In 2008, Korea was one of four OECD countries where the share of FDI in services is less than one half of the total stock. Consequently, in 2008 the stock of inward FDI in services in Korea was only 4% of GDP compared with an OECD average of 28% (OECD, 2010b). However, more recent data provided by the authorities indicate that the share of the stock of inward FDI in services reached 54%, and 7% of GDP in 2010.

	2007	2008	2009	2010
Services	45.7	48.4	45.3	38.3
Trade and repairs	12.3	17.2	8.5	5.0
Hotels and restaurants	1.7	1.6	0.7	0.6
Transport, storage and communication	2.5	5.6	4.0	4.2
Financial and insurance	5.1	8.0	9.5	14.1
Real estate, renting and business activities	21.8	14.0	21.7	13.2
Other services	2.3	2.1	0.8	1.2

Source: Data provided by the authorities of the Republic of Korea.

29. Inward FDI is not only an additional source of capital. It also brings with it entrepreneurship, management skills, and especially new technology, which contribute to improved TFP. The reasons for the relatively low inflows of FDI into Korea are unclear, although they may be related in part to the factors explaining the "Korea discount", including geopolitical risk.[49] Korea's relatively low level of FDI may also be due partly to informal as well as formal barriers to FDI (in certain services, such as broadcasting, telecommunications, and transportation). However, the Government is taking more concerted action to attract FDI, including to special economic zones (Chapters II(7) and III(2)(ii)(b)); although all manufacturing industries qualify for benefits, including tax breaks, in these zones, the only eligible services are logistics, tourism, education, R&D, and medical services.[50] As a consequence, in 2011, inward FDI jumped by 4.6% (year on year) to US$13.7 billion.[51] The chemical industry saw an 81.5% jump in inward FDI, while the financial services and retailing industries respectively recorded 81.5% and 55.1% gains. The EU was the largest investor, followed by the United States and Japan, with increases of 97.6%, 81.5%, and 55.1%, respectively. FDI from China rose by 21.6%, making it the fourth biggest source of FDI.

30. Further regulatory and other reforms, including relaxation of foreign ownership restrictions in key services, and a more active competition policy, among other things, could help create an environment that would attract more FDI to Korea. Korea's recent FTAs with the United States and the EU may also provide a catalyst for further inward FDI from these two sources.

[49] Gerlach and Yook (2012).
[50] See OECD (2010b).
[51] *Economist Intelligence Unit,* "South Korean Economy: Investors Welcome?", 19 August 2011. Viewed at: http://performance.ey.com/wp-content/uploads/downloads/2011/08/South-Korea-economy-Investors-welcome.pdf.

II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) INTRODUCTION

1. During the period under review (2008-12), no major changes have been made to the structure of trade policy formulation in Korea. The regulatory reform framework was strengthened to help stimulate economic growth, and action was taken to, *inter alia,* revise, suspend or mitigate the implementation of some burdensome regulations.

2. While remaining committed to multilateralism and a successful outcome of the Doha Round negotiations, Korea has intensively pursued comprehensive free-trade agreements (FTAs) with major trading partners or regional groups (ASEAN, India, the EU, Peru, the United States) and continues or is planning negotiations with several others, to establish an FTA network with large economic blocs and newly emerging markets. Nevertheless, agriculture remains only partly covered, and sensitive agricultural items (e.g. rice) are excluded from the FTA-driven liberalization; adjustment measures to compensate domestic producers and companies that seem seriously injured by FTA-created import competition were strengthened while investigations are under way to ensure that FTA-driven liberalization benefits final consumers rather than firms. Korea, a major donor for WTO Trade-Related Technical Assistance and aid for trade, has continued to provide duty-free treatment to most imports from least developed countries (LDCs). To protect its trade interests, it has been involved in dispute settlement cases at the WTO.

3. While inflows of foreign direct investment (FDI) remain considerably lower in Korea than in most other OECD countries[1], the authorities recognize that FDI is of vital importance to economic growth and structural adjustment. Accordingly, several tax and other incentives are reserved for foreign-invested companies. Moreover, action has been taken to improve the business environment for foreign-invested companies although limits were introduced on cumulative tax incentives that may be claimed, as in the case of domestic investment. FDI in a few sectors remains partially or fully restricted (television and radio broadcasting, nuclear power generation).

(2) GENERAL CONSTITUTIONAL AND INSTITUTIONAL FRAMEWORK

4. Since its previous Review, Korea's constitutional, executive, legislative, judicial, and administrative framework has changed little.

5. A democratic unitary republic, Korea has a presidential parliamentary system. The 300-member (as of 2012) National Assembly (Parliament) exercises legislative power by enacting laws and monitoring state administration, including control of the Budget. Executive authority rests with the President and the State Council (Cabinet), which is chaired by the President and comprises the Prime Minister and all ministers.[2] The current President was elected in December 2007 and took office in February 2008; the next presidential election is due in December 2012. The last parliamentary elections were held on 11 April 2012 and are due again in four years, April 2016.

6. Legislation is mainly introduced into the National Assembly by the executive, through relevant ministers.[3] Korea's legislative framework distinguishes between these acts and subordinate

[1] OECD FDI statistics online. Viewed at: http://www.oecd.org/document/8/0,3746,en_2649_33763_40930184_1_1_1_1,00.html [13 February 2012].

[2] The President appoints the Prime Minister (subject to approval by the National Assembly), and ministers on the recommendation of the Prime Minister regardless of whether they belong to his party.

[3] Members of the National Assembly may also introduce bills (Article 52 of the Constitution).

statutes issued under authority delegated by specific legislation. In hierarchical order, these consist of presidential decrees, ordinances, and administrative rules (called directives, regulations or public notices). The State Council endorses presidential decrees. Ordinances are issued by the responsible minister, including the Prime Minister. Administrative rules, published by the relevant ministry, govern public administration. When issued under specific legislation or subordinate statutes, these rules are generally regarded as supplementary laws. The President must promulgate bills passed by the National Assembly within 15 days by publication in the *Official Gazette*, unless vetoed by him/her.[4] Subordinate statutes are also gazetted. Laws and subordinate statutes generally enter into force 20 days after publication.

7. Treaties concluded and promulgated under the Constitution, and generally recognized rules of international law have the same effect as domestic laws. Proposed treaties must be deliberated on by the State Council. The National Assembly has the right to consent to the conclusion and ratification of treaties, including on trade, and the President must ratify them.

8. Korea has an independent judiciary. Judicial power is vested in the Supreme Court, the highest court, 5 high courts, and 20 district courts, which oversee 43 branch courts and 101 municipal courts. The President appoints the Chief Justice of the Supreme Court with the consent of the National Assembly for a single term of six years, as well as other justices (on the recommendation of the Chief Justice). A specialized Patent Court and Administrative Court also exist (Chapter III(4)(v)); a Constitutional Court is responsible for constitutional matters, especially jurisdiction over judgements on the constitutionality of laws, impeachment, dissolution of political parties, competence disputes, and constitutional complaints.

9. Korea has 16 provincial governments and 228 lower-level municipalities; although they are empowered to collect local taxes and fees, local autonomy remains limited in certain areas.[5] Provincial governments (headed by an elected governor) serve mainly as administrative intermediaries between the Central Government and lower-level municipalities. The State has constitutional power to "foster, regulate and coordinate" foreign trade.

(3) STRUCTURE OF TRADE POLICY FORMULATION

(i) Executive branches of government

10. There was an overall restructuring of government ministries and agencies in early 2008. At present there are 15 executive ministries. Two further ministries (Government Legislation, and Patriots and Veterans Affairs) are under the Prime Minister's responsibility. Trade policy formulation and implementation involves several ministries: the Ministry of Foreign Affairs and Trade (MOFAT) has primary responsibility for international trade negotiations, including FTAs, and formulation and implementation of trade policies[6]; other ministries are involved according to their spheres of responsibility, and provide expertise in their respective fields. The Ministry of Knowledge Economy (MKE) incorporates several elements that were previously the responsibility of other ministries (i.e.

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[4] If vetoed, the bill is returned to the National Assembly and re-considered. If passed again by the National Assembly (two-thirds majority of at least half of the members) the bill becomes law within 20 days.

[5] The Special Act on Decentralization Promotion, fully amended in February 2008, provides for greater transfer of authority and financial resources from the Central Government to local governments.

[6] MOFAT has two Ministers; the Minister of Foreign Affairs and Trade and the Minister for Trade. While in principle the Minister of Foreign Affairs and Trade is responsible for trade matters, in practice, such authority is effectively delegated to the Minister for Trade. MOFAT's work has been focused on FTA issues.

Information and Communications, Science and Technology, Finance and Economy) to provide a vast array of expertise in creating synergies, spurring innovation, and upgrading the economy.[7]

11. The National Economic Advisory Council (NEAC), advises the President (its chairman) on development policies, including domestic and international economic issues affecting national welfare; its Sub-committee on Trade and Industry, which also involves private sector representatives (including two foreign representatives) and academics, advises on such policies and may launch related research projects.

(ii) Advisory, planning, and other bodies

12. While no independent statutory body publicly assesses trade or assistance policies from a national welfare perspective, trade-related policy formulation is open, fostering greater public debate and broader community input. Many ministries, including MOFAT and MKE, solicit public views on trade-related policies, including over the Internet. The Government interacts with the private sector, especially through consultations with the business community. MOFAT's Trade Negotiation Advisory Council, a branch of the Policy Advisory Council, consults on general trade policy directions and strategies twice a year and whenever necessary. It also organizes regular "enlarged meetings to promote trade and investment" to consult with the private sector, including foreign firms, on trade and investment policy. Foreign firms are also represented on the Advisory Council for Foreign Investment under Invest Korea (section (7)), which advises government on foreign investment policy.

13. Several public research institutes publish widely on trade-related matters, including on multilateral and bilateral policy issues, such as assessing the impact of bilateral free-trade arrangements on Korea. They include the government-funded think-tank Korea Institute for International Economic Policy (KIEP), the Korean Institute for Industrial Economics and Trade (KIET), the Korea Development Institute (KDI), the Korea Economic Research Institute, and the Korea Rural Economic Institute (KREI). The Institute for International Trade, run by the Korea International Trade Association, works closely with the public sector to develop private sector strategies and to promote public debate on Korea's trade policies.

(4) TRADE POLICY OBJECTIVES

14. Korea's general trade policy objective is to build a free and open economy based on market principles. Since its previous Trade Policy Review, Korea's principal trade policy objective has remained virtually unchanged; this has been to promote international competitiveness of its businesses and economic growth through openness and reforms. To meet the challenges of globalization and unlimited competition, Korea is pursuing economic and trade diplomacy to build an advanced trading country by focusing on the creation of new growth potential, improved access to key markets (through participation in multilateral negotiations and negotiation of more FTAs) and close economic cooperation with its trading partners. To help meet the Government's growth target, a core policy objective of the MKE, has been to increase the trade volume to US$1 trillion, making Korea one of the world's top eight traders; a new goal of US$2 trillion by 2020 is now in place.[8] Korea's trade volume exceeded US$1 trillion for the first time in December 2011.[9]

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[7] MKE online information. Viewed at: http://www.mke.go.kr/language/eng/about/history.jsp and http://www.mke.go.kr/language/eng/about/responsibilities.jsp [6 December 2011].

[8] MKE online information. Viewed at: http://mke.go.kr/policy/core/core0105.jsp [6 December 2011].

[9] *Yonhap* online article "S. Korea's trade tops USD 1 tln mark", 5 December 2011. Viewed at: http://english.yonhapnews.co.kr/business/2011/12/05/0502000000AEN20111205004300320.HTML.

15. During the period under review, trade policy objectives have reflected those pursued at sectoral level. For example, despite a move towards more market-oriented protection in agriculture, disproportionately high levels of border protection have been maintained for a number of sensitive items, mainly in the form of tariffs (Chapter IV(2)(ii)). Concessional entry and autonomous tariff quotas for inputs have been used to reduce production costs in certain industries (Chapter III(2)(iii)), and compensation or adjustment support was provided to farmers and manufacturers adversely affected by bilateral FTAs (section (6)(iii), Chapters III(4)(ii)(b) and IV(2)(ii)). Domestic support with potential trade implications is made available via the revival of the "picking winners" strategy in the context of a green growth and new growth engine industries strategy (section (5), Chapters I, IV(4) and IV(5).

(5) TRADE LAWS AND REGULATIONS

16. Korea has continued to improve its regulatory framework (section (2)).[10] Regulatory reform was aimed at stimulating the economy, job creation measures tailored for people from different income brackets, and a win-win policy for small and medium-sized enterprises and conglomerates (*chaebols*) (Chapters I and III(4)).[11] Action was taken to overhaul old regulations and to implement institutional and system improvements to enhance regulatory quality and performance in several trade-related areas.[12] In 2009, a temporary waiver, the Temporary Regulatory Relief (TRR), was introduced on the implementation of burdensome regulations to help overcome the global economic crisis; the TRR suspends or mitigates the implementation of some burdensome regulations for a certain period (1-2 years).[13] At the same time a Regulatory Reform for New Growth Engine Industries was launched to clear regulatory barriers to the development of future growth industries such as new and renewable energy, and green technology. As of 2009, the scope of the sunset clause legislation[14] governing the termination of a regulation was expanded to cover all existing regulations. In 2009, a Regulatory Information System was introduced to manage the development of regulations (from introduction to termination); the system enables the authorities to examine existing regulations more accurately, and enhanced efficiency of regulatory reform processes.[15] In 2009, the Regulatory Reform Committee (RRC) under the Prime Minister's Office registered 5,487 provisions as

[10] Regulations are sometimes referred to as "hidden taxes", indicating their huge impact on corporate investment, while hardly watched and monitored by the people and the National Assembly compared to tax (PCNC, 2009).

[11] OECD (2011e).

[12] These areas comprise: land utilization and starting a business; environment and labour; tax and financial systems; customs matters (tariff, entry and departure, and logistics); the services sector; competition and copyright protection; foreign direct investment incentives and free economic zones; and the living environment (PCNC, 2009).

[13] The TRR focuses on increasing investment in the creation of new business, reducing business burden, and reducing hardships for SMEs and citizens. As a result of the TRR, existing factories and plants in a so-called 'preservation zone' were allowed to construct additional facilities up to 40% (currently 20%) of their business building coverage without requiring a separate building permit. Various forms of administrative investigations, such as factory inspections, were to be performed far less often. In addition, the rental rate applied to leasing governmental properties for small business was to be reduced from 5% to 3% (APEC, 2010; and Regulatory Reform Committee online information. Viewed at: http://www.rrc.go.kr. [6 December 2011]).

[14] The 1997 sunset mechanism (or sunset for termination) made a newly established or enforced regulations invalid after a certain period. Under the new system, by 2009 about 20% of the existing regulations were to be reviewed on a regular basis (about every 3 to 5 years) and become invalid once found to lack feasibility (Regulatory Reform Committee online information. Viewed at: http://www.rrc.go.kr. [6 December 2011]).

[15] APEC (2010).

regulations (out of 12,486) requiring transparency improvements.[16] Under the Easy-to-Understand Statute Project of the Ministry of Government Legislation (MOLEG, see below), which modifies long and complex sentences in the Statutes to simple and clear sentences, between 2006 and 2011, 776 laws were refined, and a (2006-13) project is under way to improve and revise sub-laws.[17] Under the same Ministry's Customized Legal Information Service Project, which, *inter alia,* provides clear interpretations of complicated laws and regulations, action was taken on 200 consumer-related areas from 2008 to 2011. No details were available from the authorities on the cost of regulatory barriers to the economy and trade.

17. Because treaties constitutionally have the same effect as domestic laws, Korea's multilateral commitments became enforceable domestically when the Government promulgated the WTO Agreement in December 1994.[18] WTO provisions may, in principle, be invoked in domestic courts. There has been no such case during the period under review, although there are still conflicting debates on whether the WTO rules have direct effect on domestic matters.[19]

18. Korea attaches high priority to making laws transparent and readily accessible, including by foreigners. Many Korean laws are available in English, and are obtainable on the Internet from websites maintained by relevant ministries and agencies. The MOLEG makes laws and regulations available on its Internet homepage in English (http://www.moleg.go.kr/English/) and Chinese.[20] It also publishes a monthly periodical, *Legislation,* which contains the list of all laws and regulations enacted or amended during the month, as well as any other important news relating to legislation. An agency's legislative plan, proposed laws and regulations are also disclosed on MOLEG's website; while all the regulations under current law are open to the public through the website of the Regulatory Reform Committee, ordinary citizens may post their opinions. However, accessibility of legislation and "sub-legal" requirements in English remains a significant issue for foreign stakeholders; while MOLEG has provided English translations of many Korean laws online, many "sub-legal" regulations remain available only in Korean. MOLEG is working to increase the number of "sub-legal" regulations available in English. The MKE publishes regulations (mainly certification requirements) affecting foreign trade in the *Consolidated Public Notice on Guidelines of Exports and Imports*, which is revised whenever required (last revision in 29 December 2011[21]).

19. In the period under review, Korea has made many notifications to the WTO (Table II.1). Nevertheless, notifications in certain areas (state trading, special safeguard (SSG), agricultural export subsidies, government procurement) have been subject to long submission gaps and the preparation of this TPR appears to have had the effect of a reminder (Chapter III). Korea submits tariff and trade

[16] Regulatory Reform Committee online information. Viewed at: http://www.rrc.go.kr. [6 December 2011].

[17] MOLEG online information. Viewed at: http://www.moleg.go.kr/english/majorPromotionPolicies [3 February 2012].

[18] The Special Act on the Implementation of the Agreement Establishing the World Trade Organization of 1 January 1995, gazetted on 31 December 1994, was last revised on 14 December 2007 to simplify its original text.

[19] It seems that there has been only one such case, where an ordinance on school lunches requiring the use of local agricultural products for school meals was found to be in violation of WTO law and rendered ineffective by the Supreme Court in 2005 (No-Hyung Park, 2006).

[20] MOLEG is responsible for legislative affairs and reviews all draft acts and subordinate statutes to ensure their necessity, constitutionality, and legal relevance, consistency, and clarity.

[21] MKE online information. Viewed at: http://mke.go.kr/law/order/gosiView.jsp?pCtx=1&seq=59433 [6 December 2011].

data annually to the WTO Integrated Data Base; the latest tariff and trade data submitted were for 2012 and 2010, respectively.[22]

Table II.1
Latest WTO notifications, end-May 2012

Agreement	Requirement/content	Periodicity	WTO document and date (latest document if recurrent)
Agreement on Agriculture			
Articles 10 and 18.2	Tables ES.1 and ES.3 – Export subsidies	Annual	G/AG/N/KOR/42, 04/10/2010
Article 18.2	Table MA.1 – Administration of tariff quotas	Annual	G/AG/N/KOR/21/Corr.1, 02/03/2009
Article 18.2	Table MA.2 – Imports under tariff quotas	Annual	G/AG/N/KOR/41, 31/08/2010
Articles 5.7 and 18.2	Tables MA.3 and MA.5 – Special safeguards	Ad hoc	G/AG/N/KOR/46, 30/03/2012 G/AG/N/KOR/45, 31/01/2012
Article 18.2	Table DS.1 – Domestic Support	Annual	G/AG/N/KOR/43/Corr.1, 25/01/2012
Article 18.3	Table DS.2 – New or modified domestic support measures exempt from reduction		G/AG/N/KOR/44, 16/09/2011
Agreement on Implementation of Article VI of the GATT 1994 (Anti-dumping)			
Article 5.8	Time-period for determination of negligible import volumes	Ad hoc	G/ADP/N/100/KOR, 13/02/2003
Article 16.4	Reports concerning anti-dumping actions	Ad hoc	G/ADP/N/228, 08/05/2012
	Semi-annual reports of anti-dumping actions (taken within the preceding six months)	Semi-annual	G/ADP/N/223/KOR, 22/03/2012
Article 18.5	Laws and regulations	Once by 03/1995, then changes	G/ADP/N/1/KOR/6, 23/03/2011
Articles 16.5	Competent authority to initiate anti-dumping investigations	Once, then changes	G/ADP/N/14/Add.32, 14/10/2011
Agreement on Implementation of Article VII of the GATT 1994 (Customs valuation)			
Article 22.2	Changes in laws, regulations and administration	Ad hoc	G/VAL/N/1/KOR/2, 27/04/2001
GATT 1994 Article XVII:4(a) (State trading)			
Article XVII:4(a) of the GATT 1994 and Paragraph 1 of the Understanding on the Interpretation of Article XVII	Updates or new and full notifications		G/STR/N/3/KOR, 16/12/2010 G/STR/N/5/KOR, G/STR/N/6/KOR, G/STR/N/8/KOR, G/STR/N/9/KOR, 16/12/2010 G/STR/N/11/KOR, G/STR/N/12/KOR, G/STR/N/13/KOR, 02/07/2010 G/STR/N/7/KOR, G/STR/N/10/KOR, 27/08/2009
Agreement Implementation of Article XXIV:7(a) of the GATT 1994 (Free-trade areas)			
Article XXIV of the GATT 1994 and Article V:7(a) of the GATS	Free-trade area for trade in goods and trade in services	Ad hoc	WT/REG311/N/1 – S/C/N/621, 16/03/2012 WT/REG217/N/1/Add.6, 16/01/2012 WT/REG298/N/1 – S/C/N/598, 10/08/2011 WT/REG296/N/1 – S/C/N/594, 08/07/2011 S/C/N/560/Add.1, 03/05/2011 S/C/N/559/Add.1, 03/05/2011 WT/REG287/N/1 – S/C/N/559, 08/07/2010 WT/REG286/N/1 – S/C/N/558, 01/07/2010
General Agreement on Tariffs and Trade (GATT) 1994			
Article XXVIII:5	Reservation of right to modify schedule of concessions for a three year period	Triennial	G/MA/269, 01/12/2011

Table II.1 (cont'd)

[22] WTO document G/MA/IDB/2/Rev.35, 20 April 2012.

Agreement	Requirement/content	Periodicity	WTO document and date (latest document if recurrent)
General Agreement on Trade in Services			
Article III:4 and IV:2	Contact and enquiry points	Within two years from entry into force of WTO, then changes	S/ENQ/78/Rev.9, 01/12/2006
Article XXI:1(b)	Claim of interest in members' proposed modification of schedules	Ad hoc	S/L/226, 27/05/2005
Agreement on Import Licensing Procedures			
Article 7.3	Replies to questionnaire on import licensing procedures	Annual for questionnaire	G/LIC/N/3/KOR/10, 27/09/2011
Agreement on Government Procurement			
Article XIX:5	Government procurement statistics		GPA/108/Add.3, 02/12/2011
Article XXIV:6(a)	Modifications to Appendices I to IV	Ad hoc	GPA/W/284, 13/11/2003
Annex 3	Threshold values in national currencies		GPA/W/309, 28/02/2011
Agreement on Import Licensing Procedures			
Articles 5.1, 5.2, 5.3	Notification of an automatic import licensing programme for certain steel products	Ad hoc	G/LIC/N/2/KOR/1/Rev.1, 27/07/2009
Article 7.3	Replies to questionnaire on important licensing procedures		G/LIC/N/3/KOR/10, 27/09/2011
Agreement on Rules of Origin			
Articles 5.1 and 5.2	Judicial decisions and administrative rulings and modifications of rules of origin	Ad hoc	G/RO/N/63, 18/09/2009
Agreement on Safeguards			
Article 12.1(a) – (c), and Article 9.1, footnote 2	Investigations, findings, and decisions related to safeguard measures	Ad hoc	G/SG/N/11/KOR/2/Suppl.1, 07/08/2000
Article 12.5	Consultations	Ad hoc	G/SG/N/12/KOR/1, 16/05/2002
Article 12.5 and Article 7.4	Mid-term review of safeguard measures	Ad hoc	G/SG/N/13/KOR/2, 23/07/2001
Article 12.6	Laws and regulations	Once by /03/ 1995, then changes	G/SG/N/1/KOR/5, 26/10/2001
Agreement on the Application of Sanitary and Phytosanitary Measures			
Article 7 and Annex B	Laws, regulations and emergency measures Enquiry points	Ad hoc Ad hoc	G/SPS/N/KOR/414, 16/05/2012 G/SPS/ENQ/26, 11/03/2011
Agreement on Subsidies and Countervailing Measures			
Article 25.1 to 25.6	Annual report on subsidies	Annual	G/SCM/N/220/KOR, 23/09/2011
Article 25.11	Semi-annual report on countervailing duty actions	Semi-annual	G/SCM/N/235/Add.1, 24/04/2012
Article 25.12	Competent authority to initiate countervailing investigations	Ad hoc	G/SCM/N/18/Add.32, 14/10/2011
Article 32.6	Laws and regulations	Once by 03/1995, then changes	G/SCM/N/1/KOR/4, 25/04/2001
Agreement on Technical Barriers to Trade			
Articles 10.1 and 10.3	Enquiry points	Once, then changes	G/TBT/ENQ/38/Rev.1, 08/07/2011
Article 10.6	Proposed and adopted technical regulations	Ad hoc	G/TBT/N/KOR/368, 30/05/2012
Annex 3C	Acceptance of code of good practice	Ad hoc	G/TBT/CS/N/139, 30/01/2002
Agreement on Textiles and Clothing			
Articles 2.8(b) and 2.11	Products to be integrated in third stage	At least 12 months before entry into effect	G/TMB/N/390, 01/03/2001

Table II.1 (cont'd)

Agreement	Requirement/content	Periodicity	WTO document and date (latest document if recurrent)
Agreement on Trade-Related Aspects of Intellectual Property Rights			
Article 63.2	Laws and regulations	Once, then changes	IP/N/1/KOR/2, 01/03/2011; IP/N/1/KOR/C/3, IP/N/1/KOR/D/3, IP/N/1/KOR/G/1, IP/N/1/KOR/T/3, IP/N/1/KOR/G/2, IP/N/1/KOR/L/2, IP/N/1/KOR/U/3, 10/10/2011 IP/N/1/KOR/P/4, 03/03/2011
Article 69	Contact points	Once, then changes	IP/N/7/Rev.3, 17/02/2010
Agreement on Trade-Related Investment Measures			
Article 6.2	Publications	Once, then changes	G/TRIMS/N/2/Rev.13, 21/02/2005

Source: WTO Secretariat.

20. With a view to fighting corruption[23], Korea is a signatory to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, whose 39 parties (as of April 2012) are required to make foreign bribery a crime.[24] It is also a signatory to the 2005 UN Convention against Corruption, the first global comprehensive international anti-corruption agreement, whose 160 parties are required to establish criminal and other offences to cover a wide range of acts of corruption; Korea ratified the convention on 27 March 2008. The legislation (Criminal Act, Act on the Aggravated Punishment, Act on the Regulation and Punishment of Concealment of Gains from Crimes) provides criminal penalties for official corruption, and the government generally implemented these laws effectively; public servants above a certain rank must register their assets, including how they were accumulated, thereby making their holdings public. The penalties for bribery of public officials may attain life imprisonment (for bribery of not less than ₩ 100 million), and fines ranging from 2 times to 5 times the amount of the accepted bribery. Penalties for a Korean national who offers a bribe to a foreign government official consist of up to five years imprisonment with prison labour or by a fine not exceeding ₩ 20 million (or the equivalent to double the pecuniary advantage). In the case of "foreign bribery", a maximum fine of ₩ 1 billion is imposed on corporations. The gains from crimes are seized. According to the Korea Anti-Corruption and Civil Rights Commission (ACRC) the overall "integrity level" of public sector organizations for 2011 was 8.43 points out of 10, a slight increase from 2008 (8.2) but a decline compared to 8.51 in 2009.[25] According to the Ministry of Justice, 4,067 government officials were prosecuted for abuse of authority, bribery, embezzlement or misappropriation, and falsification of

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[23] Korea ranked 43rd out of 183 countries in 2011 on Transparency International's Corruption Perceptions Index (CPI), which measures the perceived level of public sector corruption. Korea ranks 22nd (24th in 2007/08) among 48 economies based on the 2009 Opacity Index, which measures the degree to which they lack clear, accurate, easily discernible, and widely accepted practices governing the relationships among governments, businesses, and investors. The Opacity Index consists of five components that may be thought of as "negative social capital": corruption, legal system inadequacies, economic and enforcement policies, accounting standards and corporate governance, and regulation. Korea's score in corruption was particularly high (i.e. worse) compared with those obtained in the other four components/areas (Milken Institute, 2009). According to the Transparency International Global Corruption Barometer 2010, only 2% of Koreans asked said they had paid bribe to at least one of nine different service providers (in customs, education, the judiciary, land related services, medical services, the police, registry & permit services, tax authorities, and utilities) in the past 12 months. Of the 21 economies surveyed in the Asia Pacific, Korea enjoyed the lowest percentage along with Australia (Transparency International, 2011). Korea's ranking was 43rd out of 179 in 2007.

[24] Online information viewed at: http://www.oecd.org/dataoecd/59/13/40272933.pdf and http://www.unodc.org/unodc/en/treaties/CAC/signatories.html.

[25] The 2011 ACRC integrity assessment covers 704 public organizations, 2,700 areas of public service prone to corruption, and replies of about 250,000 public officials, citizens, experts, etc.

official documents.[26] The National Assembly reported that out of the 250 law-makers facing indictment, 15 were prosecuted for corruption and 12 were awaiting trial. The ACRC seeks to enact a bill on the prevention of illegal solicitations and conflicts of interest in 2012.

(6) TRADE AGREEMENTS AND ARRANGEMENTS

(i) Korea and the WTO

21. Korea participates actively in the WTO and is committed to the multilateral trading system. It supports a strong rules-based system that secures market access to promote global economic growth and development. Korea accords at least MFN treatment to trading partners, including 22 non-WTO members, 4 of these under bilateral agreements.[27] Korea regards trade with North Korea as intra-Korean commerce in accordance with the 1992 Agreement on Reconciliation, Non-aggression and Exchange and Cooperation. Such trade is therefore exempt from tariffs. Trade with North Korea requires approval from the Minister of Unification of the kind of products traded, the type of transaction, and the settlement method, but as from 24 May 2010 it has been prohibited except for goods manufactured in the Gaesung Industrial Complex (located in North Korea) (Chapter III(2)(vi)(c)); the Gaesung products qualify for preferential treatment under Korea-EFTA FTA but not under the Korea-United States FTA (sections (iii)(d) and (iii)(e)).[28]

22. Korea is an export-dependent country and one of the biggest beneficiaries of the multilateral trading system. It attaches high priority to the successful conclusion of the Doha Development Agenda (DDA) and views the impasse of the DDA as a crisis of confidence to overcome.[29] It has participated actively in the negotiations and has developed detailed positions in all negotiating areas. Korea is keen to ensure that the DDA achieves a balanced outcome between developed and developing Member interests. The value added created by trade liberalization should be divided equitably at the national and international levels. Korea believes in the benefits of multilateralism and has developed through trade; it considers that the 241.5-fold (2010), and 820-fold (2011) rise in its GDP and foreign trade respectively since 1967 is partly due to its accession to the GATT.[30]

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[26] Online information viewed at: http://www.globalsecurity.org/military/world/rok/corruption.htm.

[27] The non-WTO members are: Afghanistan, Bhutan, Lao PDR, Iran, Iraq, Lebanon, Syrian Arab Republic, Yemen, Nauru, Vanuatu, Union of the Comoros, Liberia, Ethiopia, Somalia, Andorra, Monaco, San Marino, and the Vatican City; the 4 bilaterals are with: Sudan, Kazakhstan, Uzbekistan, and Belarus.

[28] The Agreement on intra-Korean Transaction based on Clearing Settlement System (22 April 2004) has not been implemented, reportedly due to a disagreement over the target items and lack of will on the part of North Korea. Although a relevant agreement was signed between South and North Korean banks, its implementation was delayed. Between 2009 and 2010, "commercial" trade increased from US$1.6 billion (97.8% of total intra-Korean trade) to US$1.9 billion (98.4%), while "non-commercial" trade (i.e. government and non-government assistance, social and cultural cooperation, and light water reactor project) dropped from US$36.96 million to US$23 million. Between 2010 and 2011, "commercial" trade fell from US$1.9 billion (98.4% of total intra-Korean trade) to US$1.7 billion (99.3%), and "non-commercial" trade from US$23 million to US$11.53 million. In 2011, textiles, electrical and electronic goods, agricultural, forestry and fishery products, and machinery accounted for most of intra-Korean trade. It is thought that South Korean businesses maintain indirect transactions through Chinese intermediaries to avoid various business risks (Ministry of Unification, 2010 and 2011; and online data. Viewed at: http://eng.unikorea.go.kr/CmsWeb/viewPage.req?idx=PG0000000541 [3 February 2012]).

[29] WTO document WT/MIN(11)/ST/21, 16 December 2011.

[30] WTO documents WT/MIN(09)/ST/14, 1 December 2009, and WT/MIN(11)/ST/21, 16 December 2011.

23. Korea remains a major donor for WTO Trade-Related Technical Assistance (TRTA) activities. In December 2011, Korea donated US$350,000 (about SwF 321,000) to the Doha Development Agenda Global Trust Fund (DDAGTF); this brought Korea's total contribution to WTO trust funds to SwF 3.3 million; it is to finance technical assistance programmes and training activities for developing and least developed countries as well as economies in transition. Korea considers that the role of aid for trade has become more critical in fostering in the development process.[31] Following a 67% increase in its funds for aid for trade, Korea was among the top ten donors (US$935 million) in 2009.[32] Korea divided its support between Africa and Asia; in Sub-Saharan African LDCs, Korea's aid for trade is targeted toward building the foundation for production and strengthening trade capacity. In 2010, when Korea became a member of the OECD Development Assistance Committee (DAC), its Official Development Aid (ODA) amounted to US$1.17 billion, representing 0.12% of its Gross National Income (GNI), and it is committed to triple this amount to US$3 billion or 0.25% of its GNI by 2015. In 2010, ODA consisted of bilateral (76.7%) and multilateral (23.3%) aid delivered in the form of grants and loans.[33] Korea hosted the Fourth High Level Forum on Aid Effectiveness, held from 29 November to 1 December 2011.

24. Korea has continued to protect its trade interests and prevent allegedly unreasonable import restrictions of other countries through effective use of the multilateral dispute settlement mechanism.[34] Between its last Review in 2008, and end-April 2012 Korea was directly involved in four disputes, three as a complainant[35] and one as a respondent.[36] It also participated as a third party in 19 cases.[37]

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[31] WTO document WT/MIN(11)/ST/21, 16 December 2011.

[32] The World Bank, Korea and the United Kingdom provided almost 60% of total aid for trade in communications in 2009 (OECD/WTO, 2011).

[33] Bilateral aid was delivered in the form of grants (64%) and loans (36%) (MOFAT online information. Viewed at: http://www.mofat.go.kr/ENG/policy/oda/index.jsp?menu=m_20_110 [3 February 2012]; and OECD DAC online information. Viewed at: http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1 [13 February 2012]).

[34] MOFAT online information. Viewed at: http://www.mofat.go.kr/ENG/policy/wto/overview/index.jsp?menu=m_20_90_10 [3 February 2012].

[35] These disputes involved: (i) the establishment of a compliance panel concerning the dispute over countervailing duties imposed by Japan on certain Dynamic Random Access Memories (DRAMs) from Korea; (ii) the use by the United States of zeroing in three anti-dumping cases involving certain products from Korea, namely, stainless steel plate in coils, stainless steel sheet and strip in coils, and diamond saw blades and parts thereof; and (iii) a number of anti-dumping measures imposed by the United States on corrosion-resistant carbon steel flat products from Korea. In the first case, the compliance panel suspended its work at the request of Korea, while in the third case, Korea withdrew its request for the establishment of a panel (WTO online information. Viewed at: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds402_e.htm, and http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds420_e.htm [27 April 2012]).

[36] On 9 April 2009, Canada requested consultations with Korea concerning measures affecting the importation of bovine meat and meat products from Canada and a panel was established on 31 August 2009; on 4 July 2011, upon Canada's request, the panel decided to suspend its work and Canada circulated to the DSB a copy of a communication it had sent to Korea on 25 June 2011, in relation to the suspension of the proceedings. On 20 June 2012, Canada and the Republic of Korea submitted a notification of a mutually agreed solution in their dispute (WTO online information. Viewed at: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds391_e.htm [6 February 2012]).

[37] WTO online information. Viewed at: http://www.wto.org/english/thewto_e/countries_e/korea_republic_e.htm [27 April 2012].

(ii) Regional agreements

(a) Asia-Pacific Economic Cooperation (APEC)

25. Korea has been an APEC member since 1989; it has intended to meet APEC's target of free and open trade, including in services and investment by 2020 as envisaged for developing economies (2010 for developed economies) at the Bogor Goals. APEC member economies agreed to simplify the review process of Individual Action Plan (IAPs) for Bogor Goals, by adopting the Bogor Goals Progress Report Guidelines in 2011. In addition, to better inform the business community and other stakeholders of this work, members agreed to continue to develop a "dashboard" of easy-to-understand figures to summarize advances in areas critical to promoting greater regional economic integration. At their November 2011 meeting in Honolulu, APEC Leaders agreed to promote economic growth and improve the quality of life in the region by: strengthening regional economic integration and expanding trade, including a Free Trade Area of the Asia-Pacific (FTAAP); promoting green growth; and advancing regulatory cooperation and convergence.[38] They also agreed to, *inter alia*: work to develop in 2012 a list of environmental goods on which they will reduce applied tariffs to 5% or less by 2015, taking into account the specific economic circumstances of each Member; eliminate non-tariff barriers to the trade of environmental goods and services, including trade-distorting local-content requirements; phase-out inefficient fossil fuel subsidies; and work to prohibit trade in illegally harvested forest products and combat illegal logging and associated trade.

26. Supporting the multilateral trading system and the conclusion of the Doha Round remains a high priority for APEC economies. APEC has engaged in extensive work on RTAs/FTAs and is developing "model measures" (or chapters). In 2008, the Committee on Trade and Investment (CTI) completed its work on 15 "model measures", which would serve as a reference for member economies seeking to negotiate RTAs/FTAs and assist in promoting consistency in RTAs/FTAs across the region.[39] In 2009, the Convergences/Divergences Study of APEC FTAs was updated by expanding the scope from 30 to 42 intra-APEC FTAs/RTAs. In 2009, in cooperation with China, Australia, and New Zealand, Korea led a study on the economic impact of a possible FTAAP, and identified specific benefits involving economic welfare gains worth US$636 billion, and challenges for APEC economies.[40] At the 23rd APEC Ministers Meeting in 2011, Ministers welcomed Korea's Capacity-Building Needs Initiative (CBNI) aimed at narrowing the gap of FTA-related capabilities among members under an Action Plan Framework for the period 2012-14; Korea is to initiate multi-year projects to strengthen and deepen regional economic integration, including the FTAAP.

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[38] APEC (2012).

[39] These "model measures" include: safeguards, competition policy, environment, temporary entry for business persons, customs administration and trade facilitation, electronic commerce, rules of origin and origin procedures, sanitary and phytosanitary measures, trade in goods, technical barriers to trade, transparency, government procurement, cooperation, dispute settlement, and trade facilitation (APEC, 2008; and APEC online information. Viewed at: http://apec.org/Groups/Other-Groups/ FTA_RTA.aspx [6 December 2011]).

[40] The report recommended the development of detailed action plans and implementation of a tailor-made programme for capacity-building, possibly in cooperation with relevant international organizations, such as OECD, IDB, UNCTAD, ESCAP, WTO, and ADB to facilitate the work process and maximize the effects. The recommendations will be taken up by the CTI (APEC online information. Viewed at: http://apec.org/Groups/Other-Groups/FTA_RTA.aspx [6 December 2011]).

(b) Association of Southeast Asian Nations (ASEAN)

ASEAN+3

27. Korea attaches high priority to closer trade relations and other ties with ASEAN.[41] The ASEAN+3 members (China, Japan, and Korea (Rep. of)) agreed in November 2002 to study and formulate options to gradually establish an East Asia Free Trade Area. (EAFTA). A Joint Expert Group (JEG) for Feasibility Study on EAFTA submitted its 2006 report (*Towards an East Asia FTA: Modality and Roadmap*), to the ASEAN Economic Ministers+3 Meeting in 2007. It recommended mainly that: the EAFTA process should start within the ASEAN+3 framework; the EAFTA should be comprehensive in scope with substantial liberalization in all sectors; and economic development cooperation initiatives with specific action plans must be an integral part of EAFTA. The 14th ASEAN+3 Economic Ministers summit, in August 2011, noted the progress of the four ASEAN Plus Working Groups (APWGs) that were tasked to look into the recommendations of the EAFTA and Comprehensive Economic Partnership in East Asia (CEPEA) Studies, relevant to rules of origin, tariff nomenclature, customs procedures, and economic cooperation.[42] The ASEAN Framework for Regional Comprehensive Economic Partnership, adopted at the 19th ASEAN Summit in November 2011, is to help broaden and deepen the regional economic integration process and maintain the momentum created by the EAFTA and CEPEA. In 2012, new working groups are to be established on goods and services, with the ultimate goal of adopting a template for a region-wide FTA.

ASEAN

28. The ASEAN and Korea (Rep. of) Free Trade Agreement on goods, which entered into force on 1 June 2007 for Korea, Singapore, and Malaysia (goods)[43], and on 1 May 2009 for Korea, Brunei Darussalam, Malaysia, Myanmar, the Philippines, Singapore and Viet Nam (services)[44], was notified to the WTO under GATT Article XXIV, the Enabling Clause, and GATS Article V, and has not been considered by the WTO Committee on Regional Trade Agreements (as at February 2012).[45] Under the agreement, Korea's tariff rates on 90.8% (4,742 items) of all products were reduced gradually to zero in 2010, and the rates on 5.4% (282 items) of items will be reduced to a range from zero to 5% by 2016. Trade in 3.1% (160 items) of tariff items are liberalized in four ways: 50% tariff rate capping; tariff reduction by 20%; tariff reduction by 50%; or tariff quota system. The remaining 0.77% of tariff items (40 items, including rice) are to be exempted from tariff concessions. As a result of the goods agreement, ASEAN became Korea's 2nd largest trading partner after China in 2010, up from 5th in 2006; two-way merchandise trade increased by 102%, and exports grew by 124%, while imports rose by 79% between 2006 and 2011.[46] The level of Korea's commitments under the services

[41] ASEAN members are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

[42] ASEAN online information. Viewed at: http://www.asean.org/26593.htm [6 December 2011].

[43] For the remaining members the goods part of the agreement entered into force as follows: for Viet Nam on 29 June 2007; Indonesia, 1 July 2007; Myanmar, 23 November 2007; the Philippines, 1 January 2008; Brunei Darussalam, 1 July 2008; Lao PDR, 1 October 2008; Cambodia, 1 November 2008; and Thailand, 1 January 2010.

[44] For the remaining members the services part of the agreement entered into force as follows: for Cambodia on 29 November 2009; Thailand, 1 January 2010; Lao PDR, 4 June 2010; and Indonesia, 14 October 2010.

[45] WTO online information. Viewed at: http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=169 [6 February 2012].

[46] Data of the Korea International Trade Association. MOFAT online information. Viewed at: http://www.fta.go.kr/new/ftakorea/broadpsd.asp?country_idx=14 [6 December 2011].

agreement was similar to its offer in the Doha Round, which exceeds its GATS commitments. The number of the sectors or subsectors open to foreign suppliers increased, and limitations on both market access and national treatment in certain sectors or subsectors decreased. A Korea-ASEAN FTA in Trade in Investment was signed on 2 June 2009 and entered into force in September 2009 for Korea and Singapore.[47]

(c) Asia-Pacific Trade Agreement (APTA)

29. Korea is a party to the APTA (previously called the Bangkok Agreement), which is aimed at achieving trade liberalization among the less developed members of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). The APTA, which entered into force on 1 September 2006, was notified to the WTO under the Enabling Clause 2007 and was subject to questions and replies in the WTO Committee on Trade and Development.[48] Following China's accession in 2001, members undertook a revitalization process, including a third and fourth round of negotiations (2009) with the objective of deepening and widening concessions. The APTA contains a consolidated list of tariff concessions (resulting from the rounds of trade negotiations) for members. Under this agreement, China and Korea (Rep. of) grant concessions on 1,697 eight-digit HS items and 1,367 ten-digit HS items, respectively. In December 2009, APTA members committed to expanding their cooperation into investment and trade facilitation by signing formal framework agreements; a framework agreement on trade in services was also finalized and was to be signed in early 2010.[49] No recent information on this agreement was available from the authorities.

(d) Asia-Europe Meeting (ASEM)[50]

30. The ASEM informal process of dialogue and cooperation among 48 members, addresses political, economic, social, and other issues to strengthen regional relationships.[51] A Trade Facilitation Action Plan (TFAP) aims to reduce non-tariff barriers, increase transparency, and promote trade opportunities between the two regions. It specifies bi-annual "concrete goals" in the priority areas of customs, standards and conformity assessment, public procurement, quarantine and SPS, intellectual property, mobility of business people, and other trade activities, such as market access in distribution.

(e) Asia Cooperation Dialogue (ACD)

31. The ACD, launched in June 2002, aims to serve as a "missing link" for all Asian sub-regions to create strategic partnerships and cooperation by drawing upon and combining Asia's diverse

[47] For the remaining members the agreement entered into force as follows: for Thailand on 31 October 2009; Viet Nam, 11 November 2009; Myanmar, 28 November 2009; Brunei Darussalam, 6 February 2010; Malaysia, 24 April 2010; the Philippines, 29 April 2010; Indonesia, 20 May 2010; Cambodia, 17 October 2010; and Lao PDR, 19 November 2010 (MOFAT online information. Viewed at: http://www.mofat.go.kr/ENG/policy/fta/status/effect/asean/index.jsp?menu=m_20_80_10&tabmenu=t_2&submenu=s_4 [6 December 2011]).

[48] WTO online information. Viewed at: http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=140 [6 February 2012].

[49] UNESCAP Press Release No. G/104/2009, "Six Asian Economies Announce Tariff Reductions and Broader Co-operation", 15 December 2009. Viewed at: http://www.unescap.org/unis/press/ 2009/dec/g104.asp [6 December 2011].

[50] Europa online information. Viewed at: http://ec.europa.eu/external_relations/asem/intro/index.htm.

[51] The members are EU States, the EC, the ASEAN Secretariat, 16 Asian countries, the Russian Federation, Australia, and New Zealand (ASEM online information. Viewed at: http://www.aseminfoboard.org/page.phtml?code=About [6 December 2011]).

strengths so as to position it as a viable partner for other regions. The 31-country ACD has rapidly enhanced cooperation on dialogue and projects.[52] ACD ministerial meetings have been held annually to discuss developments, issues of regional cooperation, and ways to enhance and solidify Asian unity. The 10th Ministerial Meeting was held on 10 October 2011 in Kuwait City.[53] Many countries have proposed to be "prime and co-prime movers" in 19 areas of cooperation, including energy, agriculture, biotechnology, tourism, poverty alleviation, information technology development, e-education, and financial cooperation.

(iii) Bilateral agreements

32. Korea continued its vigorous pursuit of FTAs during the period under review. It views these agreements and their negotiation as drivers of reform and deregulation, and as beneficial to all of its trading partners.[54] However, certain Members in the CRTA have raised concerns about protection of agriculture in Korea's FTAs and argued that systematic protection of agriculture excluded the sector from competition and made multilateral liberalization efforts more difficult.[55] In its FTAs Korea also tends to liberalize depending on the extent of reciprocal market access by its FTA partners.[56] There are no areas or agreements where services or other commitments were multilateralized, in order to be applied to all WTO Members, except for copyright protection, which is to be raised to 70 years for WTO Members on a reciprocal basis. Certain competition-related matters, including competition law and anti-competitive business conduct, public enterprises and enterprises entrusted with special or exclusive rights (including designated monopolies), differences in pricing, transparency, confidentiality, and cross-border consumer protection, are also covered to a varying degree in all these agreements. Korea's level of services commitments varies from one agreement to another: the Korea-EU FTA, a positive-list type of FTA, is the most extensive in terms of sectoral coverage, while the Korea-EFTA FTA is the least (Chapter IV(6)(iii)). Studies conducted by Korean academics and research institutions confirm that trade with FTA partners substantially increased and that this increase is due to trade diversion/trade creation effects.

33. Despite the expected benefits from liberalization through FTAs, their negotiation remains contentious, and the authorities have been obliged to maintain and strengthen adjustment measures in support of domestic producers and companies that seem seriously injured by FTA-created import competition (Chapters III(4)(ii)(b) and IV(5)). Since November 2011, beneficiaries of adjustment support have been farmers whose annual revenue from farming falls below their standard gross income (i.e. 90% of the average of gross income over a three-year period) because of import competition[57]; and fishing households, where the product's average price per weight/unit drops below its standard price (i.e. 90% of the average price over three years). Both activities are compensated for

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[52] Members are Bahrain, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, India, Indonesia, Iran, Japan, Kazakhstan, Republic of Korea, Kuwait, Lao PDR, Malaysia, Mongolia, Myanmar, Oman, Pakistan, the Philippines, Qatar, Russian Federation, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, United Arab Emirates, Uzbekistan, and Viet Nam.

[53] ACD online information. Viewed at: http://www.acddialogue.com/news/news.php. [6 December 2011].

[54] See WT/TPR/S/204/Rev.1, 4 December 2008.

[55] WTO documents WT/REG210/M/1, 28 September 2009, and WT/REG217/M/1, 1 May 2009.

[56] For instance, in its FTA with Singapore, by the end of the implementation period Korea will liberalize 68.3% of agricultural tariff lines, but with EFTA the extent of liberalization of agriculture ranges from only 19.6% to 23.3% (WTO documents WT/REG210/3, 30 June 2009, and WT/REG217/2/R.1, 9 July 2009).

[57] MOFAT online information. Viewed at: http://www.ftahub.go.kr/kr/support/damage/01/ [6 December 2011].

90% of their losses.[58] Support is also available to domestic manufacturers and related services providers seriously injured by a substantial increase in imports from FTA partners, whose sales or production are reduced by more than 20% because of import competition. Support measures take the form of loans, consulting and information services, and re-employment assistance.[59] Since 2008, about ₩1.8 billion in trade adjustment assistance has been provided to support domestic manufacturers and related service providers. By April 2012, investigations were under way to ensure that FTA-driven liberalization benefits final consumers as well as firms (Chapter III(4)(iv)).

34. Total trade between Korea and its FTA partners amounted to US$266.2 billion in 2011, of which US$145.7 billion in exports and US$120.4 in imports. FTA signatories accounted for 26.3% of Korea's total exports and 23.0% of total imports.[60] The FTA with Chile is the most utilized, at rates of 90.5% of Korea's imports from this partner, and 96.9% of its exports; the EFTA (42.5% of imports) and ASEAN (27% of imports, 14.4% of exports) are less utilized.

(b) Korea-Chile FTA

35. The agreement entered into force on 1 April 2004. Korea undertook to eliminate tariffs on over 96% of its tariff lines within ten years, under a phased elimination schedule.[61]

36. According to the authorities, the dramatic rise in bilateral trade reported during the agreement's first seven years (by 287% amounting to US$7.17 billion) is due to a substantial increase in Korea's exports to Chile (by 462% amounting to US$2.95 billion), and to the increase in Korea's imports from Chile (by 218% amounting to US$4.22 billion), due mainly to the increase in the prices of copper and other metals over the period.[62]

(c) Korea-Singapore FTA

37. The agreement with Singapore, which entered into force in March 2006, included immediate duty-free entry into Singapore for all of Korea's exports, and liberalization of 59.7% of Korea's goods imports from Singapore. The agreement was considered in the WTO Committee on Regional Trade Agreements (CRTA) based on a factual presentation by the WTO Secretariat on 15 September 2009.[63]

(d) Korea-EFTA FTA

38. Under this agreement, which entered into force on 1 September 2006[64], the parties undertook to eliminate all tariffs on substantially all trade in goods with the exception of agricultural goods,

[58] The average price per unit/weight is calculated by dividing the value of the annual production by the volume of the annual output (MOFAT online information. Viewed at: http://www.ftahub.go.kr/kr/support/damage/02/ [6 December 2011]).

[59] MOFAT online information. Viewed at: http://www.ftahub.go.kr/kr/support/damage/03/ [6 December 2011].

[60] Online data viewed at: http://www.kita.net; and *Maeil Business,* "S. Korea's trade with FTA signatories on rapid rise", 24 January 2012. Viewed at: http://news.mk.co.kr/english/newsRead.php?sc=30800003&cm=Economy&year=2012&no=50287&selFlag=sc&relatedcode=&wonNo=&sID=308 [9 February 2012].

[61] See WT/TPR/S/204/Rev.1, 4 December 2008.

[62] MOFAT online information. Viewed at: http://www.fta.go.kr/new/ftakorea/broadpsd.asp?country_idx=11 [6 December 2011].

[63] WTO document WT/REG210/3/Rev.1, 19 October 2009.

[64] Korea and the EFTA states jointly notified the KEFTA FTA to the WTO under GATT Article XXIV and GATS Article V in August 2006 (WTO documents WT/REG217/N/1 and S/C/N/373, 28 August 2006).

which are subject to separate agreements with each member state. Korean exports will enter EFTA duty free and Korea will eliminate tariffs on 88%-88.5% of its tariff lines (excluding basic agricultural items) by 2016.[65] The agreement covers most services, as well as dispute resolution procedures, government procurement, competition, strengthening intellectual property rights including geographic indications, and detailed rules of origin. Korea's services commitments under this agreement, almost equivalent to its DDA revised offer, are exceeding those under GATS. The agreement was considered by the WTO CRTA on 20 April 2009.[66]

(e) Korea-United States (KORUS) FTA

39. The KORUS FTA signed in June 2007, was followed by a related agreement, effected by an exchange of letters, signed on 10 February 2011; the KORUS FTA was ratified on 22 November 2011, and entered into force on 15 March 2012.[67]

40. Under this agreement (announced early to the WTO), Korea undertook to eliminate tariffs on 96% of its non-agricultural tariff lines within five years, with virtually all remaining tariffs eliminated within ten years.[68] Tariffs and quotas on a broad range of agricultural products will be eliminated immediately or phased out; 40% of Korea's agricultural product tariff lines or almost two thirds (by value) of its agriculture imports from the United States became duty free upon entry into force.[69] The KORUS FTA phases out the 40% Korean customs tariff on beef over a 15-year period; however, sanitary restrictions on U.S. exports of cattle over 30-months old remain in place. Special safeguards are provided for Korea's most sensitive agricultural items, including oranges, soybeans, potatoes, powdered milk, and natural honey.[70] Rice is exempt from any tariff obligation. Concerning automobiles, Korea undertook, *inter alia,* to amend taxes whose rates vary according to engine displacement, such as the individual consumption tax and the annual vehicle tax (Chapter III(4)(i)(a)).

41. According to the 2011 exchange of letters, originating motor vehicles produced by a U.S. manufacturer who sold no more than 25,000 originating motor vehicles in Korea during the previous calendar year will be deemed to comply with Korean safety standards if the manufacturer certifies that the motor vehicle complies with U.S. federal safety standards. The United States is to retain its 2.5% tariff on most Korean car imports until the fifth year after implementation of the agreement; Korea will cut import duty on U.S. cars from 8% to 4% upon implementation of the agreement, and to zero as from the fifth year.[71] The U.S. 25% truck tariff will remain in place for seven years and will be phased out completely after ten years; Korea is to eliminate its 10% duty on U.S. trucks immediately. Other sectoral arrangements involve textiles, pharmaceuticals, and numerous services sectors, including financial, telecommunications, and e-commerce. The two countries agreed to liberalize trade in services by opening up their markets beyond their GATS commitments. The agreement also improves conditions with respect to trade remedies, outward processing, government procurement

[65] According to the authorities, as of April 2012, Korea had eliminated tariffs on imports of EFTA origin on 94% of its tariff lines (WTO document REG217/2/R.1, 9 July 2009, paragraph 24).

[66] WTO document WT/REG217/2/Rev.1, 9 July 2009.

[67] The modifications to the original agreement included changes in phase-out periods for tariffs on autos, a new safeguard provision on autos, and concessions allowing a larger number of U.S. cars into Korea under U.S. safety standards than under the original provisions (Congressional Research Service, 2011).

[68] USTR (2011).

[69] USTR (2011).

[70] MOFAT (2010a).

[71] *EIU Viewswire*, "KORUS of approval", 24 November 2011. Viewed at: http://www.eiu.com/index.asp?layout=VWArticleVW3&article_id=978617482&rf=0. [6 December 2011].

(reduction of minimum procurement value), intellectual property rights (extension of copyright protection to 70 years), competition, regulatory transparency, and labour and environmental standards.

42. According to a joint study by ten research institutions (published in 2011), the KORUS FTA could increase Korea's GDP by 5.66% within ten years of its entry in force, create 351,300 jobs, and improve its trade balance *vis-à-vis* the United States and the world. These institutions estimated that this FTA would increase bilateral trade by an annual average of US$2.4 billion for 15 years after its entry into force, adding up to US$1.3 billion to Korea's exports to the United States and up to US$1.1 billion to its imports from this trading partner.

(f) Korea-India Comprehensive Economic Partnership Agreement (CEPA)

43. This agreement was signed on 7 August 2009 and entered into force on 1 January 2010. Korea eliminated or reduced immediately tariffs on 93% of tariff items and 90% of the trade value of Indian goods, while India will eliminate or reduce tariffs on 85% of Korean goods on the basis of tariff items and trade value.[72] Trade liberalization excludes highly sensitive agriculture, fisheries and forestry.[73] The agreement covers all services except for air services and related services in support of air services[74], and public services. Korea's commitments under the agreement exceed its GATS commitments. Similarly it provides for dispute settlement procedures, detailed rules of origin, competition, intellectual property rights, and bilateral cooperation on various fields such as energy, health care, and government procurement. The agreement, which was notified to the WTO under GATT Article XXIV, the Enabling Clause and GATS V on 23 June 2010, had not been examined by the WTO CRTA by February 2012.[75]

44. Reportedly, there has been substantial increase in bilateral trade volume since the entry into force of the agreement (by 70%, amounting to US$20.6 billion between 2009 and 2011); the rise reflects a 57.8% increase in Korea's exports (amounting to US$12.7 billion) and a 90.6% increase in imports (amounting to US$7.9 billion).

(g) Korea-EU FTA[76]

45. Under this agreement, signed on 6 October 2010, ratified on 4 May 2011 and applied as of 1 July 2011, the parties undertook to eliminate all tariffs on substantially all trade in goods with the exception of most sensitive agricultural goods for Korea.[77] By the end of the implementation period (2031), 11,843 of Korea's tariff lines (99.5%) will be duty free for imports from the EU, representing more than 99.99% of the value of Korea's imports from the EU; 9,251 tariff lines (99.5%) of the EU's tariff lines will be duty free for imports from Korea, representing 99.9% of the value of its imports

[72] MOFAT online information, "Korea-India CEPA To Be Officially Signed In Seoul", 6 August 2009. Viewed at: http://www.mofat.go.kr/ENG/policy/fta/pressreleases/index.jsp?menu=m_20_80_20 [6 December 2011].

[73] MOFAT online information. Viewed at: http://www.mofat.go.kr/english/econtrade/fta/issues/index.jsp and http://www.mofat.go.kr/ENG/press/pressreleases/index.jsp?menu=m_10_20 [6 December 2011].

[74] Related services in support of air services exclude aircraft repair and maintenance services, the selling and marketing of air transport services, and computer reservation system services.

[75] Korea notified the FTAs with India and ASEAN under Article XXIV and GATS V only, while India and ASEAN notified them under the Enabling Clause and GATS V (WTO information online. Viewed at: http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=715 [7 February 2012]).

[76] More information about this agreement is available online at: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/korea/.

[77] MOFAT (2010b).

from Korea.[78] When considering both industrial and agricultural products, Korea and the EU will eliminate 98.7% of duties, in trade value, within five years of entry into force.[79] The majority of customs duties on goods were removed upon its entry into force; practically all customs duties on industrial goods will be fully removed within the first five years of implementation. A limited number of highly sensitive agricultural and fisheries products have transitional periods longer than seven years. Rice and a few other agricultural products (57 tariff lines), of which the EU is not a significant exporter, are excluded from the agreement.

46. The agreement is the first FTA to include specific sectoral disciplines on non-tariff barriers to trade; four sector-specific annexes address regulatory and other barriers affecting consumer electronics, automotive products, pharmaceuticals, and chemicals. The agreement covers diverse services sectors including transport, telecommunications, finance, legal services, environmental services, and construction; audiovisual services are excluded.[80] Korea's commitments under the agreement exceed its GATS commitments and they are seen as an opportunity for improving the latter and its offer in the DDA negotiations. Dispute settlement, government procurement, intellectual property rights (including geographic indications), competition, and rules of origin issues are also covered. Consideration in the WTO CRTA of this agreement, which was notified under GATT Article XXIV and GATS Article V on 7 July 2011, was tentatively scheduled for June 2012.[81]

47. Reportedly, there was an increase in bilateral trade volume during the six months of implementation in the second half of 2011, compared with the same period in 2010 (by 3.9%, amounting to US$49.5 billion); the authorities attribute this to the rise in Korea's imports, as exports grew by only 0.8% from July to September 2011 compared with the same period in 2010.

(h) Korea-Peru FTA

48. Under this agreement, which was signed on 21 March 2011 and entered into force on 1 August 2011, all tariffs on the items currently traded between the two countries will be eliminated within ten years.[82] Both parties agreed to exclude rice from all concessions. Korea limits preferential treatment on several other sensitive agricultural goods with quotas and seasonal tariffs, while Peru agreed to eliminate all other agricultural tariffs in accordance with its schedule.[83] The agreement contains provisions on market access, rules of origin, customs procedures and trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, trade remedies, investment, cross-border trade in services, financial services, telecommunications, electronic commerce, competition, government procurement, intellectual property rights, and dispute settlement.

[78] WTO document WT/REG296/1, 29 March 2012.

[79] More specifically Korea will eliminate or reduce tariffs on 93.6% and 97% of EU goods on the basis of products and trade value respectively in five years, while the EU will eliminate or reduce tariffs on 99.6% and all of Korean goods on the basis of products and trade value respectively in five years (MOFAT, 2010b; and European Commission, 2010).

[80] The authorities indicated that the exclusion of the audiovisual services is without prejudice to the rights and obligations derived from the parts of audiovisual services, such as co-productions, included in the Protocol on Cultural Co-operation, which is an integral part of the Korea-EU FTA (European Commission, 2010).

[81] WTO online information. Viewed at: http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=167 [7 February 2012].

[82] MOFAT online information, "Korea-Peru FTA to enter into force on August 1", 1 August 2011. Viewed at: http://www.mofat.go.kr/ENG/policy/fta/pressreleases/index.jsp?menu=m_20_80_20 [7 February 2012].

[83] MOFAT online information. Viewed at: http://www.fta.go.kr/new/pds/fta_korea/peru/peru1.pdf.

Consideration in the WTO CRTA of this agreement, which was notified to the WTO under GATT Article XXIV and GATS Article V on 9 August 2011, is tentatively scheduled for September 2012.[84]

(i) FTA negotiations and plans

49. Korea continues to pursue negotiations with its major trading partners to establish an FTA network with large economic blocs and newly emerging markets, with a view to becoming an FTA hub (i.e. FTAs with countries that do not have FTAs with each other).[85] It is currently negotiating with Australia, New Zealand, Colombia, Canada, Turkey, and Mexico, as well as the Gulf Co-operation Council (GCC) countries. FTA negotiations with Japan have been in a deadlock since 2004.

50. Prior to launching official negotiations, Korea is conducting preparatory talks or joint research projects with prospective FTA partners including China, Japan, MERCOSUR, Israel, Viet Nam, Central America, Malaysia, and Indonesia, though no decision has been made in respect. Furthermore, FTAs with the Russian Federation, Mongolia, and the South African Customs Union (SACU) were under consideration as a long-run prospect at end 2011. China, Japan, and Korea have been conducting a joint study for a possible trilateral FTA among government officials, business, and academic participants since 2010; this study was concluded as scheduled in December 2011 and Korea was to map out its action plans on this FTA before a meeting of the heads of State from the participating countries in May 2012.[86] According to the Korea Trade-Investment Promotion Agency (KOTRA), an FTA between China and Korea could precede the trilateral agreement.[87]

51. Despite the benefits seen by Korea, negotiation of numerous FTAs is likely to make the Korean trade regime more complex, involving for example different tariffs being applied to the same imports from various sources (Chapter III(2)(iii)(g)). This is likely to reduce economic efficiency by undermining the transparency of Korea's trade protection in unpredictable ways and introducing economic distortions. Economic distortions are likely to be exacerbated by the continued exclusion of certain agricultural products from any tariff liberalization under the various FTAs. Despite the use of adjustment measures in support of domestic producers (section (6)(iii)), the authorities indicate that Korea has not yet witnessed any negative side-effects due to FTAs, and recognize that their administration is the key to their success. They also indicated that both trade diversion and trade creation effects account for changes in trade volume, but their precise respective impact has not yet been calculated.

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[84] WTO online information. Viewed at: http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=645 [7 February 2012].

[85] See BBC Monitoring Asia Pacific Broadcasting Corporation, "South Korea trade minister stresses need for new free trade deal with China", 29 January 2012.

[86] It seems that the damage to Korea's farming industry from an FTA with China might reach US$2.8 billion. Korea and China plan to hold preliminary negotiations to address sensitive issues prior to officially launching free-trade talks (*Yonhap* online articles, "S. Korea to prepare action plans on FTA with Japan, China", 20 December 2012. Viewed at: http://english.yonhapnews.co.kr/business/2011/12/20/0502000000AEN20111220007400320.HTML; "Damage to farming from China FTA could reach US$2.8 bln", 12 January 2012. Viewed at: http://english.yonhapnews.co.kr/business/2012/01/12/0502000000AEN20120112002000320.HTML; "Seoul, Beijing to tackle sensitive issues first in free trade talks", 12 January 2012. Viewed at: http://english.yonhapnews.co.kr/business/2012/01/12/0502000000AEN20120112008800320.HTML; and MOFAT online information. Viewed at: http://www.mofat.go.kr/ENG/policy/fta/status/overview/index.jsp?menu=m_20_80_10 [6 February 2012].

[87] *China Daily,* "China - South Korea pact "first on agenda"", 6 April 2012.

(iv) Unilateral and other trade preferences

52. Korea has unilaterally expanded preferential duty-free access on dutiable imports of 9,071 ten-digit HS2012 tariff items (5,522 ten-digit HS2007 in 2008) from 48 UN-defined least developed countries (Presidential Decree on Preferential Tariff for Least-Developed Countries) (Table III.2).[88] Korea has not invoked provisions enabling these preferences to be suspended in respect of imports causing or threatening to cause injury to domestic industries.

53. Over the years Korea's MFN tariff reductions have eroded its long-standing reciprocal tariff preferences. At present, out of 22 ten-digit HS2012 tariff items subject to tariff preferences for 44 countries under the Global System of Trade Preferences Among Developing Countries (GSTP), only 6 are subject to a rate lower than the MFN applied rate. Similarly, under the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC), out of 30 ten-digit HS2012 tariff items only 9 are subject to a rate lower than the MFN applied rate, for 12 countries. In 2010, annual imports subject to actual preferential rates under these schemes were: US$129.2 million or 0.02% of total imports (GSTP), and US$7.4 million or 0.001% (TNDC). No recent data were available from the authorities.[89]

54. Korea receives developing country status preferences only from Norway and the Russian Federation.[90] The practical effects of retaining this status are limited for Korea. Korea opts to retain developing country status, a highly sensitive economic and political issue, in the WTO and other relevant international fora.[91]

(7) FOREIGN INVESTMENT REGIME

55. Korea remains an important source of FDI for the rest of the world (Chapter I). It views inward FDI as vital to the economy's growth, providing necessary financial and technological resources. FDI is seen as a means of technology and know-how transfer as well as a major contributor to export and employment growth; foreign-capital-invested companies play a vital though somewhat lesser role in the economy, compared with 2005.[92] Despite the officially favourable attitude towards FDI and recent improvements to the ease of doing business, the business environment allegedly remains somewhat difficult by the standards of competitor countries, largely because of the continuing complexities of registration, notification, licensing, and approval requirements[93]; other problems include turf wars between government ministries, which frequently delay approvals.

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[88] In 2012, imports of items under 1,162 ten-digit HS2012 tariff lines (9.5% of total lines) originating in LDCs were dutiable; for the remaining tariff lines, duty-free treatment is either LDC-specific or available on an MFN basis. These estimates are based on the tariff data provided by the Korean authorities.

[89] Estimates based on trade data supplied by the Korean authorities.

[90] In the past the utilization rate under Norway's GSP scheme was 83.7%. No recent utilization data were available from the authorities.

[91] It appears that the main rationale for retaining developing country status is linked to concerns that agriculture remains vulnerable. According to an APEC report, Korea appears to retain this status to benefit from the timeframe for developing countries for fulfilling the APEC Bogor goal (section (6)(ii)(a)).

[92] In 2005, foreign-invested companies accounted for 6.1% of employment in manufacturing and contributed to 12.1% of total domestic sales and 16.9% of total exports. As of 2010, foreign-invested corporations accounted for 11.6% of Korea's exports, and 4.7% of employment in Korea.

[93] According to the World Bank's *Doing Business 2012* report, Korea's rank improved from 15th (2011) to 8th (2012) out of 183 countries in overall terms of the ease of doing business (Chapter I(2). It ranked 24th in terms of the ease of starting a business, up from 59th in the 2011 report, and 133rd in the 2009 report. According to the 2012 report, entrepreneurs have to go through 5 steps to start a business, which takes an average of

56. Korea's 2011 FDI Promotion Policy, developed in cooperation with other concerned ministries/agencies and provincial governments, consists of, *inter alia*: bringing FDI policy into line with industrial development strategies; strengthening activities to attract FDI from emerging economies; and establishing a nationwide system to attract FDI. It aimed for at least US$15 billion in notified investment for 2011, mainly in green and new growth-engine industries and value-added service industries. During the period under review, Korea implemented measures to promote FDI in specialized zones and location support; on the other hand, limits were introduced on the maximum of cumulative tax incentives that may be claimed by foreign investors as in the case of domestic investors (Chapter III(4)(i)(c)).[94] Since 2010, the "earned surplus-reserve" (i.e. retained earnings reinvested in the core business) of foreign-invested companies has been accepted as FDI, whenever these companies apply for incentives granted under the Foreign Investment Promotion Act (FIPA, see below). At that time (April 2010), the FDI threshold (US$10 million) required to benefit from cash grants (since 2009) equivalent to 5% or more (up to 30%) of total investment in Korea was eliminated, enabling small amounts of FDI in advanced technologies to become eligible for cash grant incentives.[95] Korea's share in total global FDI rose from 0.48% in 2008 to 0.65% in 2010, but remains below its 2004 level (1.2%). Between 2008 and 2010, FDI inflows dropped by 18.3%, due to the global investment depression, but inward FDI surged in 2011 (Chapter I(6) and FDI pledges rose by 4.6% (year on year basis) to US$13.67 billion for 2011 (US$11.71 billion in 2008).[96] These developments seem to be, *inter alia,* due to the manufacturing sector's relatively weak record in attracting FDI, and consequent regulatory obstacles to this type of investment. The Korea-EU and Korea-US FTAs are expected to contribute to the growth of FDI in Korea and the revitalization of the Korean mergers and acquisitions market.[97]

57. The Foreign Investment Promotion Act (FIPA) permits all FDI types.[98] Korea abides by OECD Codes of Liberalization of Capital Movements and of Current Invisible Operations, and the National Treatment Instrument.

58. MKE has responsibility for FDI inflows, and MOSF for outflows. The Foreign Investment Committee makes all major policy decisions on FDI.[99] The Korea Trade-Investment Promotion

7 days; in the OECD area, the average is 5 procedures and 12 days (World Bank/IFC, 2011a; EIU, 2011a; and World Bank/IFC, 2012).

[94] EIU (2011a).

[95] Where foreign investment satisfies certain conditions, the central and local governments provide cash grants for the construction of a new factory, etc. These conditions consist of whether the relevant foreign investment accompanies high technology, the effect of technology transfer, the size of job creation, whether the foreign investment overlaps with domestic investment, the "propriety of the location" in which the foreign investment is made, etc. The exact cash grant ratio is determined through negotiations with the investor. To be eligible for cash grants, a foreign investor must own at least 30% of the equity (Invest Korea online information. Viewed at: http://www.investkorea.org/InvestKoreaWar/work/ik/eng/bo/bo_01.jsp?code=102030303, and http://www.investkorea.org/InvestKoreaWar/work/ik/eng/bo/content_print.jsp?code=102010201 [23 March 2012]).

[96] MKE online Press Release, "Foreign Investment Figures for 2011", 20 January 2011. Viewed at: http://www.mke.go.kr/language/eng/news/news_view.jsp?tableNm=E_01_01&seq=1080# [9 February 2012]; UNCTAD (2011b), Annex Table I.1; and WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

[97] Sang Hyuk Park and Gene Oh Kim (undated).

[98] The legislation also recognizes foreign ownership of below 10% as FDI, where the investor enters agreements concerning officer's dispatch or appointment; a technical licence or joint research/development; or the supply and purchase of products /raw materials exceeding one year.

[99] The CFDI consists of representatives of various agencies and ministries, such as MOSF and MKE, and heads of relevant local and city governments.

Agency (KOTRA), which facilitates and promotes FDI, operates 111 Korea Business Centers (KBCs) worldwide. Its main promotional arm, Invest Korea, serves as a "one-stop shop" for foreign investors.

59. Under MKE's 2nd three-year plan for foreign investment (2011-13), the Government intends to undertake investment attraction activities, and to revise and improve the incentive system and other related systems to grant more incentives to foreign-invested companies that bring more benefits to Korea. It will also strengthen private and public sector cooperation, and will expand investment attraction activities to emerging nations (such as China and the Russian Federation) as well as countries of the Middle East. The plan is to attract US$30 billion and create 170,000 jobs by 2015.[100] No data on the estimated cost of implementing this plan (i.e. budgetary outlays, forgone tax revenue) were available from the authorities.

60. Korea's investment regime is applied on an MFN basis despite the inclusion of investment and GATS-related provisions in Korea's FTAs. Foreign investors enjoy more favourable tax treatment and selection of business sites than nationals, and are assured national treatment and freedom in performing FDI activities, except as provided in other laws. No FDI restrictions are allowed, unless they threaten national security, public order, public health, environmental preservation, or social morals, or are restricted by the FIPA or under other legislation, such as the Fisheries Act, Maritime Act, and Telecommunications Business Act. Under the Foreigner's Land Acquisition Act (1998, fully revised), foreigners, including non-residents, are now given national treatment in the acquisition of land, without limits on land use or land size.

61. Korea provide a range of tax incentives for FDI (Table II.2), for limited periods, and on an MFN basis to foster a more favourable business climate for new foreign-invested companies, particularly during the initial stages of their investment in Korea. These generally consist of: full and partial corporate income tax concessions for up to seven years (since 2005); similar concessions on various local taxes (acquisition, property, and property taxes); and full exemptions from customs duties (customs, special excise, and value-added taxes) on imported capital goods for up to three years. Following the 2010 amendment to the Special Tax Treatment Control Law, the cumulative tax incentive is limited to an aggregate of 50%-70% of the investment amount and ₩ 10 million per new employee (up to a maximum of 20% of the investment amount).[101] The incentives apply to "greenfield" FDI (where no previous investment exists)[102], and foreign stock acquisitions in eligible advanced-technology investments and industry-supporting service industries. The number of eligible industries was raised from 578 to 674 in 2010 (FIPA and the Regulations on Tax Reduction or Exemption Concerning Foreign Investment of 2010). Minimum FDI levels for these tax incentives apply to firms established in foreign investment zones (FIZs), free-trade zones (FTZs), free economic zones (FEZs), etc. (Table II.2). The scope of these incentives was expanded as of January 2011, to cover the services sector activities in these special economic zones[103]; furthermore, the MKE aims to extend tax incentives to the services sector by the end 2012 by amending relevant legislation.

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[100] Invest Korea online information, "Government to focus on attracting foreign invested companies with high technology and high job creation potential (MKE)", 8 August 2011. Viewed at: http://www.investkorea.org/InvestKoreaWar/work/ik/eng/bo/bo_01_mcore.jsp?no=009290004&bno=108080024&sort_num=20&code=102050801&mode=bbs&url_info=.%2Fbbs_read.jsp&l_unit=90202&page=1.

[101] Previously, the Special Tax Treatment Control Law waived corporate income tax for certain types of high-tech FDI and investment in certain foreign-investment zones. The waiver was full exemption for the first five years, with a 50% waiver in the sixth and seventh years (EIU, 2011a).

[102] The number of FDI-driven greenfield projects concluded in Korea increased from 88 in 2008 to 112 in 2010 (UNCTAD, 2011b).

[103] The Government has long pushed for the expansion of tax incentives to the services sector, including the medical industry, in order to encourage inward FDI in the sector (MKE information, "Free

Table II.2
Summary of FDI tax incentives, 2012
(a) National tax (corporation tax, income tax) and local tax[a] (acquisition tax, property tax) reduction

Business category	Investment amount	Reduction period and details	Remarks
1. Industry support service & high degree technology business		Seven years in total according to the following ratio (amount multiplied by the foreign investment ratio) - 100% for five years after income creation - 50% for next two years	With more than ten employees with Master's degree or above
2. Businesses in stand-alone-type foreign investment zones (FIZ)[b]			
Manufacturing	Over US$30 million		
Tourism	Over US$20 million		
Logistics	Over US$10 million		
R&D	Over US$2 million		
3. Businesses in complex-type foreign investment zones (FIZ)		Five years in total according to the following ratio (amount multiplied by the foreign investment ratio) - 100% for three years after income creation - 50% for next two years	
Manufacturing	Over US$10 million		
4. Businesses in free-trade zones (FTZ)			
Logistics	Over US$5 million		
5. Businesses in free economic zones			
Manufacturing	Over US$10 million		
Tourism	Over US$10 million		
Logistics	Over US$5 million		
Medical institution	Over US$5 million		
6. Free economic zone (FEZ) developer			
–	Over US$30 million; over 50% of foreign shares and US$500 million on business costs		
7. Businesses in business city development zone			
Manufacturing	Over US$10 million[c]		
Engineering			
Additional communication			
Information processing & other computer operation-related businesses			
Science & technology service			
Tourism			
Culture industry			
Various facilities			
Renewable energy generation			
R&D	Over US$2 million[d]		
Logistics	Over US$5 million[e]		
8. Business city developer			
–	Over US$30 million; over 50% of foreign shares and US$500 million on business costs		
JEJU INTERNATIONAL FREE CITY		Five years in total (unrelated to foreign investment ratio) - 100% for three years after income creation - 50% for next two years	
9. Businesses in Jeju high-tech science and technology complex			On condition of entry by 31 December 2012, reduction only for national tax
Bio engineering			
Information communication			
Culture industry			
High-tech and products			
10. Businesses in Jeju investment promotion district			On condition of entry by 31 December 2012
Tourism			
Culture industry			
Various facilities			
Renewable energy generation			
Electronics, electrical, information, new material, and bio engineering industries	Over US$5 million		
Foreign educational institutions[f]			
Medical institutions			

Table II.2 (cont'd)

Economic Zone Promotion Plan", 1 September 2010, and "Modification of the Enforcement Decree on the FDI Act", 5 October 2010, cited in UNCTAD, 2011b).

Business category	Investment amount	Reduction period and details	Remarks
11. Businesses in free-trade zones			
Manufacture	Over US$10 million with more than 100 full-time employees		On condition of entry by 31 December 2012
Logistics	Over US$5 million		
12. Jeju investment promotion district developers		Five years in total according to the following ratio (amount multiplied by the foreign investment ratio) - 100% for three years after income creation - 50% for the next two years	
–	Over 50% of foreign shares and US$100 million on business costs		
–	Over US$10 million		

(b) Exemption of tariffs, special excise tax, value-added tax, etc.

Business category	Taxes	Items	Remarks
Industry support service & high degree technology business	Tariff; special excise tax; value-added tax	Capital goods imported with invested cash or as investment object	On condition of import within five years from the day of declaring foreign investment
Businesses in stand-alone type foreign invested zones (FIZ)	Tariff; special excise tax; value-added tax		
Businesses in complex-type foreign invested zones (FIZ)	Tariff		
Businesses in free trade zones (FTZ)			
Businesses in free economic zones (FEZ)			
Free economic zone (FEZ) developer			
Jeju International free city Businesses in Jeju high-tech science and technology complex	Tariff	Tariff reduced goods under Item 5, paragraph 1, Article 90 of the Customs Law for use in R&D	On condition of import by 31 December 2012
Businesses in Jeju investment promotion district	Tariff	Goods for which import declarations are made within three years from the day of designation as Jeju investment promotion district, which has been checked by the director of the Jeju International Free City Development Center	

a According to the local government regulations, the period of local tax reduction may be extended up to 15 years, or the reduction ratio may be increased.
b Free-export zones (Iksan, Massan) are considered as stand-alone-type foreign investment zones, with no limitations on investment amount for establishing factory facilities.
c On condition of entry before 31 December 2012, a choice is given between this reduction and the business city development zone related reduction of national and local tax "regardless of foreign investment ratio" upon an investment of over ₩ 10 billion.
d On condition of entry before 31 December 2012, a choice is given between this reduction and the business city development zone related reduction of national and local tax "regardless of foreign investment ratio" upon an investment of over ₩ 2 billion.
e On condition of entry before 31 December 2012, a choice is given between this reduction and the business city development zone related reduction of national and local tax "regardless of foreign investment ratio" upon an investment of over ₩ 5 billion.
f Foreign education institution and international high school.

Source: WTO document WT/TPR/S/204/Rev.1, 4 December 2008; and information provided by the Korean authorities.

62. Considerable assistance is available under the local governments' Foreign Investment Support Policy in the form of location support (rent deduction on exclusive rental estate, rental of public property), subsidy for industrial site (for purchase or rental of land), subsidy for employment (education and training), cash grant, facilities support, etc.[104] Following the July 2009 amendments to the implementing ordinance of FIPA, the Government offers rent-free land to foreign parts manufacturers with US$5 million or more in FDI operating in parts and materials complexes allocated to foreign businesses.

[104] Invest Korea online information. Viewed at: http://www.investkorea.org/InvestKoreaWar/work/ik/eng/bo/bo_01.jsp?code=102010703#article3 [6 December 2011].

63. According to the authorities, tax concessions can be decisive in attracting FDI among similar countries; most beneficiaries in Korea indicate that these incentives have facilitated foreign investment. However, these results do not take into account whether such investment would have been undertaken without the incentives. All investment incentives (whether assisting foreign or domestic investors) risk subsidizing efficient investments, which need no such assistance and would have been undertaken anyway (thereby providing windfall gains to investors at taxpayers' expense), or worse, making some inefficient investments profitable. Tax incentives, therefore, may contribute to inefficient allocation of resources in Korea.[105] The cost effectiveness of tax incentives is also questionable.[106] Care is needed to ensure that the financial and efficiency costs of investment incentives do not exceed their stated benefits. In an effort to prevent excessive tax exemptions and reductions compared with the invested amount, Korea has established the limit on cumulative tax incentives (see above and Chapter III(4)(i)(c)). In order to improve transparency of the tax system, as from 2011, an annual report on tax expenditure for the previous, current, and following years is to be published (Chapter III(4)(i)(c)); the system requires tax expenditure reports to be submitted to a regular session of the National Assembly and related documents to be made public.

64. Government approval of FDI is not required. Prior notification by foreign investors is needed, and may be made at domestic or foreign bank offices in Korea, Invest Korea or at any of KOTRA's overseas trade centres.[107] Foreign-capital-invested companies must also register to be eligible for incentives. MKE approval is still required for investment in 95 designated Korean defence-related companies, when obtaining managerial dominance through acquisition of stock; this requirement applies regardless of the nationality of the investor.

65. As of 31 May 2010, out of a total 1,145 business sectors (based on the Korea Standard Industrial Classification) only three sectors remained fully closed to foreign investment (over-the-air television and radio broadcasting, and nuclear power generation), and a further 29 were partially restricted (including rice and barley growing) (Table II.3).[108] Foreign companies may establish subsidiaries subject to notification and registration as a foreign-investment company, maintained for statistical and procedural purposes. Foreign financial institutions are subject to approval requirements under the Banking Act, Insurance Business Act, and Financial Investment Services and Capital Market Act. Public sector infrastructure projects are open to greater private sector participation, including by foreigners, who, according to authorities, have the same access as domestic investors.

66. To ensure a more transparent foreign investment climate, FIPA provisions require MKE to publish FDI restrictions regularly in English in the *Consolidated Public Notice*.[109] In addition to FIPA restrictions, it contains restrictions on: foreigners' capital transactions, including acquisition of securities, establishment of domestic branches by foreign companies, foreign investment by business sectors; registration of ships and aircraft; "legally monopolistic" businesses; acquisition of domestic qualifications by foreigners (pilots, lawyers, architects, and public performances); and on foreigners' entry and residence in Korea. Restrictions on foreign investment in telecommunications and media,

[105] Even where the market is claimed to have failed to finance enough efficient investment due to "externalities" (social benefits from the investment that are not fully reflected in private costs), such as in R&D, it is unclear whether tax incentives can effectively address such "market failure".

[106] Experience of other OECD economies suggests that tax incentives are seldom cost-effective. Most econometric studies show that forgone tax revenues exceed incremental investment induced from tax incentives. Tax holidays in particular are an ineffective incentive, compared with tax credits.

[107] Post-notification is allowed within 30 days for stock transfers related to mergers and acquisitions.

[108] FDI is allowed in 26 (of the 29) partially restricted sectors when certain permission criteria are met (Invest Korea, 2010).

[109] Also available at Invest Korea online information. Viewed at: http://www.investkorea.org. [6 December 2011].

for example, are subject to annual review and notice under the FIPA requirement.[110] Invest Korea frequently publishes updated information on adjustments in its foreign investment policy.

Table II.3
FDI restricted sectors, 2012

Sector/business	FDI limitation
A. Closed	
Radio broadcasting	Wholly closed
Ground-wave broadcasting	Wholly closed
Nuclear power generation	Wholly closed
B. Partially closed	
Growing of cereal crops and other crops for food	Allowed except for rice and barley growing
Farming of beef cattle	Less than 50% foreign equity
Coastal and inshore fishing	Less than 50% foreign equity
Manufacture of other basic inorganic chemicals	Allowed, excluding the manufacture and supply of fuel for nuclear power generation
Manufacture of smelting, refining, and alloys of non-ferrous metals	The same restrictions that apply to the manufacture of other basic inorganic chemicals also apply to this sector
Publishing of newspapers	Less than 30% foreign equity
Publishing of magazines and periodicals	Less than 50% foreign equity
Hydraulic power generation, thermal power generation, other electric power generation	Foreign nationals may purchase from the KEPCO (Korea Electric Power Corporation) no more than 30% of all domestic power generation facilities
Transmission and distribution of electric power	Allowed provided total foreign equity is less than 50% and the largest shareholder is Korean
Wholesale of meat	Less than 50% foreign equity
Coastal water passenger transport	Allowed between South and North Korea; and less than 50% foreign equity: foreign investors must enter into joint ventures with domestic shipping companies
Coastal water freight transport	Allowed between South and North Korea; and less than 50% foreign equity: foreign investors must enter into joint ventures with domestic shipping companies
Scheduled air transport	Less than 50% foreign equity
Non-scheduled air transport and airplane rental with operator	Less than 50% foreign equity
Satellite telecommunications	(1) Facilities-based: No more than 49% foreign equity (2) Non-facilities-based: Up to 100% foreign equity
Wired telecommunications	(1) Facilities-based: No more than 49% foreign equity (2) Non-facilities-based: Up to 100% foreign equity
Wireless telecommunications	(1) Facilities-based: No more than 49% foreign equity (2) Non-facilities-based: Up to 100% foreign equity
Other telecommunications	(1) Facilities-based: No more than 49% foreign equity (2) Non-facilities-based: Up to 100% foreign equity
Domestic commercial banking	Allowed only for commercial and local banking
Radioactive waste disposal	Permitted except for radioactive waste management under the Electricity Business Act
Broadcasting via satellite and others	No more than 49% foreign equity
Cable networks	No more than 49% foreign equity
Program providing	No more than 49% foreign equity
News agency activities	Less than 25% foreign equity

Source: Information provided by the Korean authorities.

67. Foreigners, regardless of residence status, may purchase land subject to the same restrictions as Korean nationals.[111] Exclusions are limited to land of military, cultural or environmental

[110] EIU (2011a).

[111] Foreign land ownership may be denied to nationals of countries that do not allow Koreans to purchase land. However, such reciprocity conditions have not been used.

significance, and farmland designated for rice and barley.[112] Foreign ownership of Korean land increased 15.7% from 2008 to 2011, due to expanded business ventures and investment as well as a higher number of foreigners residing in the country; in September 2011, foreign-owned land was at 229.29 million square meters (198.16 million square meters in 2007) or 1.2% of the nation's land (0.18% in 2007).[113] Nationals and foreigners receive the same treatment for land expropriated by the State for public works (Act on Acquisition of and Compensation for Lands to be Used for Public Works, which replaced the Land Expropriations Act).

68. The independent Foreign Investment Ombudsman, appointed by the President, located within KOTRA and staffed with personnel from Invest Korea, handles specific grievances encountered by foreign investors established in Korea, and in conjunction with Invest Korea, operates an Investment Home Doctor Service that provides one-to-one service.[114] Korea is a member of the International Center for Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA).

69. Korea's FTAs contain clauses protecting all forms of investment, including enterprises, debt, concessions, contracts, and intellectual property rights (section (6)(iii)). Agreements contain comprehensive rules for all forms of investment: national treatment and MFN treatment; disciplines stronger than the WTO rules on performance requirements (e.g. domestic content) that distort trade and investment; free transfer of funds and safeguard measures; protection from expropriation without prompt, adequate, and effective compensation; a minimum standard of treatment; and freedom in hiring senior managers.[115] Since its previous TPR, Korea's FTAs (except with the EU) have minimized investment performance requirements.

70. As of March 2012, Korea maintained bilateral investment agreements (including FTAs) for the protection of FDI with 98 countries of which four (Colombia, Rwanda, Uruguay, Zimbabwe) were signed in 2009 and 2010; 92 are in force and all of them contain an MFN clause.[116] Foreign investors are not subject to double taxation as long as their home country is a signatory to a double taxation avoidance convention (DTAC) with Korea; 83 countries have signed conventions with Korea, of which 4 (Colombia, Estonia, Panama, Uruguay) were concluded during the review period, 78 are in force, and 32 contain "tax sparing" provisions.[117]

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[112] To acquire other farmland, foreigners, like Koreans, must be directly involved in farming.

[113] *Yonhap* online article, "Foreign ownership of S. Korean land rises 1.2 pct in Q3", 29 November 2011. Viewed at: http://english.yonhapnews.co.kr/business/2011/11/28/0502000000AEN20111128009500320.HTML [6 December 2011].

[114] From 2000 to end 2010, the Ombudsman received more than 4,116 grievance cases from foreign-invested firms in Korea covering issues including customs, construction, financial affairs, labour, taxation, legal matters, and investment procedures (Invest Korea online information. Viewed at: http://www.investkorea.org/InvestKoreaWar/work/ombsman/eng/au/index.jsp?num=3 [6 December 2011]).

[115] The Korea-EU FTA does not contain an investment protection clause. Some investment issues are covered in Chapter Seven (Trade in Services, Establishment and Electronic Commerce) of the agreement.

[116] UNCTAD online information. Viewed at: http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1[6 December 2011].

[117] As of March 2012, DTACs with Bangladesh, Brazil, Bulgaria, China, the Czech Republic, Egypt, Fiji, Greece, India, Indonesia, Ireland, Israel, Italy, Jordan, Kuwait, Malaysia, Mexico, Malta, Pakistan, Papua New Guinea, the Philippines, Portugal, Qatar, Saudi Arabia, Sri Lanka, Slovakia, Slovenia, Singapore, Turkey, Thailand, Tunisia, and Viet Nam contained "tax sparing" provisions whereby a contracting state agrees to grant relief from residence taxation with respect to source taxes that have not actually been paid (i.e. taxes that have been 'spared') (UNCTAD online information. Viewed at: http://www.unctad.org/Templates/Page.asp?intItemID=4505&lang=1 [6 December 2011]).

III. TRADE POLICIES AND PRACTICES BY MEASURE

(1) INTRODUCTION

1. Since its previous Trade Policy Review, the general thrust of Korea's trade policy has remained relatively unchanged. Korea has taken steps to facilitate trade and promote green technology. However, despite FTA-driven liberalization some measures continue to protect domestic producers, especially farmers, from foreign competition.

2. Korea has pursued its broad trade facilitation efforts by further streamlining, and modernizing (and diffusing overseas) its fully computerized customs procedures, in line with its World's Best Customs 2012+ plan. Transfer pricing and customs valuation, two areas in which multinational corporations faced difficulties while doing business in Korea, were addressed.

3. The tariff remains one of the main trade policy instruments and a significant and increasing source of tax revenue (6% of total tax revenue in 2010). Almost all tariff lines are *ad valorem*. Nonetheless, the tariff involves a multiplicity of rates (84 *ad valorem* and 46 alternate duties). As a result of the adoption of the HS 2012 tariff nomenclature the average applied MFN tariff rate increased from 12.6% in 2011 (virtually the same as in 2008) to 13.3%, which is high by OECD-country standards, thereby requiring tariff concessions or drawbacks to ensure that tariffs on intermediate inputs do not feed through to become taxes on exports; these measures add to the complexity of border taxation.

4. Peak *ad valorem* rates apply to agriculture (WTO definition). Tariff rates range from zero to 887.4%; 85.2% of rates were 10% or below in 2012. Under its multilateral agricultural market-access commitments, Korea applies tariff-rate quotas; some of its out-of-quota rates are sufficiently high to, in effect, constitute quantitative restrictions. In-quota tariff rates are much lower, ranging from zero to 50%. Nevertheless, the persistently large proportion of these quotas that are unfilled in some instances suggests that, in addition to the lack of sufficient domestic demand, increase of import price, or sanitary measures related to the outbreak of diseases in exporting countries, the administration and allocation of these quotas may also be restricting imports. Other measures that selectively reduce tariffs on inputs are a potential impediment to efficient resource use and add to tariff complexity and uncertainty. While 89.98% of tariff rates are bound, the average gap of 4.3 percentage points between applied and bound MFN rates (8.4 percentage points for agricultural items (WTO-definition)), allows considerable leeway to raise applied tariffs. Indeed, Korea has used this leeway to apply higher MFN tariff rates, termed "flexible tariffs", which the authorities maintain are within WTO bindings. Korea intends to reduce, or remove gradually, non-*ad valorem* tariffs, which tend to conceal peak rates of up to 1,506.3% (cinematographic film), and "flexible tariffs" in line with the reduction undertakings resulting from FTA, and, eventually DDA negotiations.

5. Rice remains subject to import quota restrictions under Korea's WTO minimum market access (MMA) commitments until 2014; rice imports have increased steadily and are expected to double to cover 8% of domestic consumption. Import licensing requirements and prohibitions are maintained mostly for the protection of public morals, human health, hygiene and sanitation, animal and plant life, environmental conservation or essential security interests in compliance with domestic legislation requirements or international commitments. Automatic licensing procedures were applied to 128 basic steel products from 2007 to 2009.

6. Korea has used anti-dumping provisions, mainly against imports of chemicals, kraft paper, plastics, stainless steel and particle board originating mostly in Asia. Price-based special safeguard

provisions (SSG) under the WTO Agreement on Agriculture have been used less frequently since 2008, while volume-based SSGs were not used at all.

7. Korea restricts or monitors certain exports to ensure adequate domestic supplies, thereby possibly assisting downstream processing of these products. For example, since 2008, rice has been subject to quantitative export restrictions (recommendations) although, in practice, they have not had a trade-restrictive effect. On the other hand, direct export subsidies are maintained to reduce marketing costs for certain agricultural products in accordance with Article 9.4 of the WTO Agreement on Agriculture. A drawback scheme provides refunds of border taxes. Internal indirect taxes are reimbursed on exports, while income tax relief is accorded to enterprises located in free-trade zones (FTZs). Exporters benefit from export credit insurance, finance, and the promotional activities provided by state-owned institutions.

8. Measures involving grants, tax concessions, and low-interest loans support production and trade of various agricultural, forestry, fishing, and manufactured products, and encourage SME, R&D, and environmental-protection activities. Although tax incentives were to terminate automatically in accordance with sunset clauses, many were extended. SMEs are among the beneficiaries of these measures, which are especially generous for information technology activities; those facing problems of access to raw materials are supported by a fund. Financial assistance to "new growth engine" activities in green technology, high-tech "convergence", and high value-added services is emphasized. Agriculture receives substantial domestic financial support in line with the relevant WTO provisions, and benefits from the lowest electricity tariffs among consumer groups. Compensation or adjustment support has been increased for farmers and manufacturers adversely affected by a bilateral free-trade agreement.

9. Korean industrial standards have increased over the last five years in an effort to ensure that new standards are in harmony with new international standards but the share of non-harmonized standards has increased considerably; at the same time, the number of mandatory standards increased by about 70%. New food labelling requirements relate to children's favourite food products, nutritional labelling, and irradiated ingredients. Developments in standards and food regulations are aimed at improving national standards and food safety controls coordination, the supply of scientific information, and quality management.

10. State involvement in the economy persists as privatization efforts, seemingly a priority during the period under review, have accomplished little (eight firms have been privatized) despite the Government's resolve to proceed with divestments. Two government agencies and one producers association are responsible for imports of all rice and some other agricultural items imports; their operations allow for important price mark-ups. The value of contracts subject to Korea's WTO Government Procurement Agreement (GPA) commitments increased, though certain procurement remains uncovered by these undertakings; the foreign supplies' already small share has dropped steadily since the previous Review. Despite the lack of domestic price preferences, government procurement is still seemingly used as an instrument of economic policy for promoting SMEs, companies in a disadvantageous position, regional development, and green purchasing. Most procurement remains decentralized.

11. During the review period, Korea undertook efforts to remove anti-competitive provisions of competition laws and regulations; monopoly power has decreased steadily, but market concentration remains relatively high. Large business conglomerates, many of which are family-controlled (*chaebols*), are subject to special regulation, and cross-shareholding between subsidiaries under the same holding company is banned. Ceilings on the total amount of shareholdings in other domestic companies were removed in 2009. Large corporations and SMEs are encouraged to voluntarily sign

an agreement on fair trade and shared growth; future work is focused on improving competition conditions for SMEs. Consumer protection has been improved by helping consumers to better protect their rights and interests themselves, as well as by ensuring that FTA-driven liberalization benefits final consumers rather than firms only; privacy-related concerns top the e-commerce legislative agenda.

12. Korea's intellectual property rights legislation has been strengthened with amendments owing partly to the implementation of commitments under the FTAs with the EU and the United States. Protection was further enhanced with the expansion of international commitments, the reinforcement of border enforcement, and other improvements.

(2) MEASURES DIRECTLY AFFECTING IMPORTS

(i) Customs procedures

13. Korea has continued to make wide-ranging trade facilitation efforts and remains a world leader in this area.[1] Under its June 2008 vision of World's Best Customs 2012+ for an Advanced Trading Nation and the CLEAR (Creativity, Listening, Energy, Action, Relationship) Conduct Code, which was designed to overcome the global economic crisis and cope with drastic change in the global trade environment, the Korea Customs Service (KCS) aims to achieve a world-class customs by providing prompt customs service and protecting society from illegal transactions.[2] The World's Best Customs 2012+ plan consist of five strategies and 80 mid- and long-term specific reform initiatives. Its main implementation directives are: cooperating with the private sector for governance-based customs administration, emphasizing both self-regulation and participation of every company; expanding the role of customs to secure public health and welfare; re-aligning customs procedures, practices, rules, and regulations with international standards (including the revised Kyoto Convention); and improving the u-Customs level of KCS.[3]

14. The KCS is considered to be at the cutting edge of international best practice. It has attracted international acknowledgement by maintaining an impressive record of technology advancement to: improve efficiency; enhance transparency; slash clearance times; enhance probity and integrity; and employ sophisticated intelligence and risk management systems.

(a) Registration, documentation, and clearance requirements

15. Import declarations must be made by consignors, customs brokers or corporations for customs brokerage/clearance. The commercial invoice, price declaration, and duplicates of the bill of lading must accompany the import declaration. Where applicable, a detailed packing list, import approval document (e.g. licence), sanitary and phytosanitary certificates (most agricultural goods and processed foods), and certificate of origin for goods subject to tariff preferences should be submitted.[4] In addition, an application for duty exemption/abatement, preferential tariff rate, etc. is required

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[1] According to a World Bank report, in 2011 Korea ranked 4th among 183 countries (10th in 2010) in ease of trading across borders (World Bank/IFC, 2011a and b).

[2] Online KCS notice, "World's Best Customs for an Advanced Trading Nation", 17 June 2008. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf; and Korea Customs Service (2009).

[3] The term u-Customs stands for ubiquitous Customs, i.e. a customs authority providing relevant administrative service regardless of time and location and via various channels.

[4] WTO document WT/TPR/S/204/Rev.1, 4 December 2008, and KCS online information. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf?a=common.HtmlApp&c=1501&&page=/english/html/kor/facilitation/facilitation_01_01.html&mc=ENGLISH_FACILITATION_IMPORT.

whenever applicable. Qualified importers (i.e. compliant with import clearance regulations) receive expedited customs clearance and more convenient methods for paying duties.[5]

16. Import clearance, including declaration procedures, and cargo management systems are fully computerized. The KCS operates a seven-fields paperless e-clearance system (UNI-PASS, a KCS brand name)[6] to handle export/import clearance operations, import cargo management, duties collection, duties drawback system, and a single-window system covering requirement-confirmation processes (see below), including quarantine and inspection.[7] The KCS is linked to 34 agencies responsible for approving certain imports subject to requirements that need to be verified electronically. The number of items needing such clearance-related checks under Article 226 of the Customs Act increased from 4,356 in 2008 to 5,527 ten-digit items in January 2012, under 35 laws. The paperless clearance system has expanded: there are 110,000 (42,000 in mid-2007) companies in the trading sector using Electronic Data Exchange (EDI). In 2012, cargo management and import declarations (80% in 2008) were 100% paperless.

17. The KCS web-based import/export requirement confirmation single window system, which operates on behalf of 34 major government agencies handling 97% of total import verification, encompasses the import requirements administered by the Korea Food and Drug Administration, the National Fisheries Products Quality Inspection Service, and the National Veterinary Surgeon and Quarantine Service. Not all relevant government agencies have yet (as of 2012) joined the single window system. Requirement confirmation cases through the single window increased from 24,320 (4.3% of 567,211 cases) in 2006, to 985,509 (97% of 1,019,817 cases) at end 2011.

18. A self-assessment system is in place for customs duties and taxes (since 2004), as well as an e-bidding system in customs auctions of seized items (since 2006). As from 2008, the KCS has operated the latest version of the web-based Customs Knowledge Management Portal system.

19. In response to the changing international trade environment and in line with its World's Best Customs 2012+ plan, as from April 2009, the KCS has implemented the Authorized Economic Operator (AEO) Program to, *inter alia,* support domestic exporters, accommodate the U.S. strengthened trade security measures, and harmonize trade security and facilitation at the level of the World Customs Organization (WCO).[8] At end 2011, the Notification on AEO Certification and

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[5] Benefits include immediate release of goods before submission of the import declaration, payment of customs duties and taxes after the release of the goods or on a monthly basis, and exemption from collateral deposit requirements.

[6] Since 2005, the UNI-PASS e-clearance scheme has been exported to: Kazakhstan in 2005 at US$420,000; Kyrgyzstan in 2008 at US$470,000; the Dominican Republic in 2008 at US$28.5 million; Mongolia in 2009 at US$5.54 million; Guatemala in 2009 at US$3 million; Ecuador in 2010 at US$24.19 million; Nepal in 2011 at US$3.83 million; Tanzania in 2011 at US$2.66 million, and Ecuador in 2011 at US$15.82 million. UNI-PASS is the world's first 100% electronic clearance portal system; it is claimed to have cut import cargo clearance time to an average of 1.5 hours, helping traders slash their logistical costs (online KCS notice, "KCS UNI-PASS to expand overseas UNI-PASS promotional booth at WCO IT Conference", 20 April 2009. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf; and WTO document WT/TPR/S/204/Rev.1, 4 December 2008).

[7] WTO document WT/TPR/S/204/Rev.1, 4 December 2008; and Korea Customs Service online information. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf?a=common.HtmlApp&c=1501&&page=/english/html/kor/facilitation/facilitation_01_01.html&mc=ENGLISH_FACILITATION_IMPORT
[8 October 2007].

[8] The term AEO refers to a party involved in the international movement of goods that has been approved by a national customs administration as complying with WCO or equivalent supply chain security standards. Companies must meet standards of law observance, internal management, financial stability, and

Management provided 199 certified firms with special treatment in customs procedures, including less physical inspection, exemption from customs audit, less administrative fines, etc. By April 2012, 0.3% of Korea's imports entered under the AEO system. Korea has signed mutual recognition arrangements (MRAs) with the United States, Canada, Singapore, Japan, and New Zealand; MRAs with China, India, and Israel are under negotiation.

20. In June 2009, the KCS completed development of the standard e-document management system, a tool for connecting customs networks around the world, to promote trade efficiency and security within the framework of a global single window concept, consisting of an export declaration in one country substituting the import declaration in the country of destination. To expand the application of the global standard of customs administration, the KCS adopted the WCO Data Model (DM) and takes advantage of the standard e-document management system to write e-documents circulated within its internal networks; 17% of XML documents used within KCS's network are based on WCO DM, and the KCS plans to increase this ratio. The 'standard e-document management system', which enables search and comparison of international and domestic standards[9], is expected to play an important role in the conformity of domestic e-documents with international standards, as well as making Korea a leader in international standards. The KCS has exchanged customs data with Belgium and the Philippines, and plans to expand the project to major trading partners and FTA partners. The KCS conducted pilot programmes on export clearance data exchange with Belgium, Malaysia, and the Philippines in 2009. In November 2010, it signed a memorandum on clearance data exchange with the Russian Federation; and bilateral discussions on pilot programmes are under way. The KCS also signed Terms of Reference (TOR) with Australia on guidelines for data exchange after discussing the exchange of data related to strategic materials, and it was agreed to initiate data exchange operations as from 2012.

21. Other improvements brought under World's Best Customs 2012+ plan as from 2009 include: extension of the time limit for claiming refunds for overpaid or erroneously paid duties from three years to five years; extension of the period in which importers can correct declaration mistakes without paying "additional tax" (i.e. penalty) from three months to six months; minimization of the occurrence of "double" tax audits" (section (2)(ii)) of multinational corporations (section (2)(ii)); implementation of a CARE Plan (Customs Assistance for Recovery and Encouragement Plan) helping companies in financial difficulty to pay duties and taxes within an extended timeframe or in monthly instalments (as from 2008)[10]; and development of 20 customized business models for private companies to make effective use of preferential tariff rates and cope efficiently with complicated FTA

safety control under the WCO Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework). Since the United States introduced the programme in 2002, 54 countries including Korea have adopted it (*Korea Herald,* "Korea vows to play leading role in global trade flow", 16 April 2012. Viewed at: http://www.koreaherald.com/national/Detail.jsp?newsMLId=20120416000747 [4 May 2012]; and online KCS notice, "Speedier Customs Clearance for Law-abiding Traders", 15 April 2009. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf).

[9] With efforts for both trade security and facilitation continuing through the WCO SAFE Framework, the US Safe Port Act, etc., major trading countries are trying to get their own e-document standard to be adopted as an international standard as it will directly serve their national interests (online KCS notice, "KCS, a leader in international move for standardization of customs e-document", 5 August 2009. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf).

[10] In 2008, the first year of the global economic crisis, KCS supported companies in financial difficulty with US$569 million of deferred tax payments. It has operated the system continuously, covering 1,124 companies from potential bankruptcy and to "normalize" their business. The support amounted to US$1.9 billion in 2009, US$375 million in 2010, and US$55 million in 2011. Tax deferral constitutes tax relief and therefore financial assistance to the companies involved (Korea Customs Service, 2009).

rules of origin criteria.[11] To turn around the economy's sudden recession caused by the 2008 global financial crisis, comprehensive measures were taken in expedited customs clearance, support for newly emerging businesses, reduction of financial burden for traders, and immediate elimination of field bottlenecks; they comprised 15 specific initiatives to support foreign trade-related business. These measures were expected to involve US$667 million worth of financial aid to the trade community every year.

22. In 2011, customs declarations were processed in 1.75 hours, on average, up from 1.58 hours in 2008; the increase was due to a larger number of declarations being processed by a limited number of staff and increased volume of agricultural imports from China requiring time-consuming food inspection and quarantine. Prior-entry import declarations are allowed (up to five days for sea and one day for air). Most imports (about 95%) are cleared after being taken into a bonded area; the average clearance times from port entry to release from a bonded warehouse was 2.3 days in 2012, down from 3.54 days in 2007. A cargo selectivity system automatically selects high-risk cargo for documentary and possible physical inspection; between 2008 and 2011, an annual average of 3.4% (293,340) of customs clearance cases were subject to physical inspection.[12] The KCS operates, on request, an "on-dock" immediate clearance system at the major ports of Busan, Incheon, and Gwangyang, to allow imports of reputable companies (with a good law compliance record) to be released before submission of import declarations (required within ten days). Some 40% (60% in 2008) of inward cargo uses this system; goods are cleared without being moved to a warehouse outside the port.

23. According to a 2011 World Bank report, Korea's clearance delays are very short; the KCS estimates that predictable cargo processing times and rapid cargo turnover by ports and warehouses benefit the Korean economy by some US$2 billion annually.[13] For Korean-based companies such as Samsung and LG, the rapid and predictable turnaround times are an important part of their competitiveness strategies. The KCS estimates that it spends some US$38 million annually on its information technology infrastructure, US$9 million of which is for the single-window system. But the estimated benefits, US$2 billion-US$3.3 billion a year according to KCS, far outweigh the costs.

24. Since August 2005, the KCS has applied more rigorous customs inspections to agricultural products, including peppers, garlic, sesame seeds, onions, carrots, and seasoning powders, to help protect local farmers and producers against increased imports due to undervalued import declarations. These measures have been implemented not to restrict imports, but to prevent illegal importation and duty evasion from under-invoicing, and to meet the need for increased laboratory analysis under paperless customs clearance.[14]

25. According to the authorities, blended products remain classified on the basis of their intrinsic characteristics as found in the Harmonized System (HS) Convention, HS Explanatory Notes and

[11] The 5 basic models are: export expansion, cost reduction, overseas production, export assistance, and FTA hub and logistics cost saving. Thereafter the KCS developed 20 FTA utilization business models. In 2008, the KCS developed 7 region-specific models to help companies to utilize the FTA more conveniently. In addition, from 2009, the KCS held an annual FTA Utilization Contest in order to share and promote the best practices based on the FTA business models. As of 2008, 144 companies benefited from such models; no recent data were available from the authorities (Korea Customs Service, 2009).

[12] High-risk cargo is screened out for audit and inspection through automatic checks on the degree of risk, based on compliance record, type of item, etc. Audit and inspection by the customs authorities mainly aim at preventing illicit importation and tax evasion.

[13] World Bank/IFC (2011a).

[14] WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

provisions of the General Rules for Interpretation of Nomenclature. To help importers and exporters, the KCS is enforcing an advanced classification ruling under the World Customs Organization's recommendation. When a dispute occurs over classification of a certain product, the KCS Tariff Classification Committee, consisting of experts from the public and private sector, makes the final decision. If the Committee fails to reach agreement, it requests an opinion from the World Customs Organization Secretariat or a decision from its Harmonized System Committee; between 2008 and 2011, 7,010 advance rulings were issued in this area.

26. The KCS provides prompt responses to enquiries made online and maintains a Roadmap for Integrity including a 2005 Customs Business Integrity Pact. A Customs Irregularities Reporting Centre is in place and the Cyber Corruption Report Centre advises Customs staff and other stakeholders to report Customs irregularities to the KCS website; no enquiries have been received at the Centre since 2007. A Customs Ombudsman, appointed from the private sector and assisted by one customs staff member in each Customs house, handles disputes and complaints over clearance and valuation processes. KCS maintains an Audit Bureau and a Differentiated Management System by Companies to target suspected high-risk importers. A Code of Conduct for the Integrity of Customs Officers has been in effect since May 2003.

27. Korea acceded to the revised Kyoto Convention in February 2003, subject to certain reservations[15]; the Convention took effect in February 2006.

28. Korea does not require preshipment inspection of imports.

(b) Free-trade zones (FTZs)

29. FTZs (Chapters I and II) operate under the 2004 Act on Designation and Management of Free Trade Zones; they are exclusive areas outside the national customs boundary, exempt from customs requirements. FTZs facilitate flows of goods and services, including distribution, at busy airports, seaports, and storage complexes/cargo terminals. The Minister of Knowledge Economy (in consultation with related ministers) designates such zones upon request from regional governments. Activities in the zone may be exempt from import procedures and customs duties, and receive relief from direct taxes (notably corporate income tax) as well as indirect taxes (e.g. VAT)). Foreign cargo may enter and leave freely. Simple processing is allowed. Korean goods entering the zone are treated as exports and eligible for tariff drawback. Goods entering or processed in these zones are principally intended for export, but if sold domestically, are subject to import duties and domestic taxes, such as VAT. According to the authorities, this treatment does not constitute a subsidy specifically provided to an enterprise or industry or group of enterprises or industries; therefore, it is not subject to notification to WTO pursuant to Article 25 of the WTO Agreement on Subsidies and Countervailing Measures. In December 2008, the Ministry of Knowledge Economy designated four industrial parks and seaports as FTZs, bringing their number to 13.[16] Between 2008 and 2010, the FTZs located in industrial parks generated US$8.3 billion of imports and US$14.6 billion of exports; the firms in these FTZs employed 13,676 persons. No estimates were available from the authorities of forgone direct and indirect tax revenues relating to the operation of FTZs since 2008.

[15] Korea accepted 14 of the 25 Chapters in Specific Annexes of the Protocol, and maintained reservations on 18 recommended practices, mainly relating to areas unsuitable to Korea's trade environment. It had adopted the core principles of the revised Kyoto Convention in July 1999, and accepted further principles by amending the Customs Act in 2000, 2001, and 2002.

[16] The FTZs are located at the Incheon International Airport; the ports of Busan, Gwangyang, Incheon, Pohang, and Pyongtaek-Dangjin; and the industrial parks of Masan, Gunsan, Daebul, Donghae, Yulchon, Kimje, and Ulsan.

(ii) Customs valuation

30. According to the authorities, Korea's customs valuation legislation (sub-section 2 of the Customs Act 1949) complies with the WTO Agreement on Customs Valuation. Imports are valued at their c.i.f. price. The main method used is transaction value (based on the price actually paid or to be paid by the buyer); about 96% of imports are subject to the transaction value. When this method cannot be used, valuation is determined using, in order, identical goods, similar goods, domestic sale price, or computed value; upon the importer's request, the order of application of value based on domestic sale price and computed value may be reversed.[17]

31. While the KCS may, in principle, set special customs valuation and documentary requirements for second-hand imports (Presidential Decree of the Customs Act), it applies the same customs valuation methods as for new items. However, as a last resort, Customs may determine their valuation using "reasonable standards", whereby prices paid are adjusted based on appraised prices from certified appraisal institutes, domestic wholesale prices or other recognized price lists. To prevent tax evasion, the KCS checks declared values of imported used cars, including comparisons with transaction values of new cars of the same model that have been recognized as customs values, with the deduction of depreciation (depreciated value). According to the authorities, the transaction value is accepted where insignificant differences exist, unless there is reason to suspect the authenticity or accuracy of the declared value, in which case an alternative WTO-consistent valuation method is used. The use of the "depreciated value" would be applied only as a last resort. Documentary requirements include a letter of technical inspection from an automobile performance-testing institute.[18]

32. An MOU signed in January 2009 between Korea Customs Service (KCS) and the National Tax Service (NTS) addressed the issues of transfer pricing and customs valuation, two areas in which multinational corporations faced difficulties while doing business in Korea.[19] These two agencies were expected to minimize the occurrence of "double" tax audits of multinational corporations through joint tax audits, information exchange, and mutual training.[20]

33. Between 2008 and 2011, a total of ₩ 124.3 billion was collected on under-valued imports. The 2007 SIREN, a KCS early warning system to block undervalued imports of agricultural goods, plants, and fisheries, remains in place[21] Based on the result, under-valued products go through audit, while normal products are cleared promptly. At the time of the previous TPR of Korea, SIREN seemed to have increased tax revenue and had an import substitution effect estimated at ₩ 97.5 billion and ₩ 178.6 billion respectively; no recent data in this area were available from the authorities.

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[17] Article 7, Paragraph 2 of the Agreement on Implementation of Article VII of the GATT 1994 stipulates that no customs value shall be determined on the basis of, *inter alia*, the selling price in the country of importation of goods produced in the country, or the price of goods on the domestic market of the country of exportation (http://www.wto.org/english/docs_e/legal_e/20-val_01_e.htm).

[18] KCS News Release, 12 May 2003, "Documentary Requirements for Import of Used Cars to Change".

[19] Action by KCS and NTS may be necessary to address tax avoidance, if not evasion, resulting from "aggressive" transfer pricing by multinationals, although such action should not be excessive and involve high compliance costs (Won-Kee Pae and Sang-Min Ahn, 2009).

[20] Korea Customs Service (2009).

[21] SIREN is designed to screen out undervalued products by calculating the proper import prices of the products and comparing them with the declared prices. The Kalman filter model, a statistical model is used for calculating a proper import price (WTO document WT/TPR/S/204/Rev.1, 4 December 2008).

34. Customs duties (including domestic taxes) must be paid within 15 days of acceptance of the import declaration (where security has been lodged). Late payments are subject to an additional 3% of the amount owed for the first month, and 1.2% for each month thereafter (up to a maximum of 60 months). Criminal penalties (up to three years imprisonment with hard labour or a fine equivalent to five times the evaded customs duties or the cost of the relevant goods, whichever is lower) apply for fraudulent declaration of dutiable value, false tariff rate or incorrect tariff classifications with the intention of affecting the determination of the amount of duty to be paid.

35. Customs decisions may be appealed to the KCS Commissioner, to the National Tax Tribunal or to the Board of Audit and Investigation. The Tariff Examination Committee, comprising five customs officers and six experts, assists the Commissioner on appeals. Its decisions may be filed for a lawsuit. Discretionary tariff (or other tax) "remissions" by the KCS Commissioner or Minister of Strategy and Finance may be revoked if received in an unjustifiable manner or used for an unintended purpose during a period of post-control; such revocation can be appealed to the KCS Commissioner. Between 2008 and 2011, there were 263 administrative litigations and 1,268 administrative appeals.

(iii) Tariffs

36. In January 2012, Korea introduced the 2012 version of the Harmonized System of Tariff Classification (HS) consisting of 12,232 ten-digit lines (503 more lines than the 2008 schedule and 332 more than in 2011). The tariff schedule is set from January to December; most tariff changes at the six-digit level are introduced annually in the form of an Annex to the Customs Act under procedures involving the relevant ministries and interested parties, including the Ministry of Strategy and Finance (MOSF), the Customs and Tariff Deliberation Committee, the State Council, and the National Assembly.[22]

37. The tariff comprises several rates according to the source of imports. These are the MFN tariffs from non-preferential sources (termed general rates), and various preferential tariffs, including for imports from other members of the Asia Pacific Trade Agreement (Bangkok Agreement), FTAs and least developed countries (section (2)(iii)(g), and Chapter II). The WTO bound rates are also contained in the tariff.

(a) Applied MFN rate

38. The tariff structure has changed little since the last Review of Korea. As a result of the expansion of tariff lines under the HS2012 tariff nomenclature, the 2012 simple average (unweighted) MFN tariff increased to 13.3% (12.8% in 2008) (Table III.1 and Chart III.1), mainly as a result of the increase in lines subject to high rates of duty.[23] Tariff protection varies substantially across and within sectors, averaging 55% for agricultural products and 6.6% for industrial goods in 2012 (WTO

[22] For more information about tariff changing procedures and the institutions involved see WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

[23] The tariff analysis follows the Secretariat's practice of including out-of-quota duties for tariff quotas (i.e. excluding the in-quota rate) and the *ad valorem* part of alternate-type duties when official *ad valorem* equivalents are unavailable, as for Korea. As out-of-quota rates are much higher than in-quota rates, this is likely to overstate tariff protection where no out-of-quota imports occur. However, using the *ad valorem* rate of Korea's alternate tariffs, which apply "whichever is the greater" rate, will slightly understate tariff protection when the alternate specific rate is operative. Higher adjustment tariffs are also excluded.

definitions).[24] Average tariffs are highest for vegetable products (HS section 2), at 101.2% (Chart III.1). Manufacturing tariffs are highest for footwear and headgear (HS section 12) at 10.1%, and for textiles and articles (HS section 11) at 9.7%. By according varied and substantial levels of protection to selected industries, especially agriculture, tariffs distort competition by favouring some activities. Reducing high tariffs (mainly out-of-quota agricultural duties) would improve Korea's resource allocation and national welfare.

39. Over 99% of tariffs are *ad valorem* duties. There are some 130 different rate bands (84 *ad valorem*, 46 alternate duties), mainly associated with agricultural tariffs, of which about 46 have decimal duties[25]; alternate duties apply to 0.8% of total tariff lines (95). Tariff rates range from zero to 887.4% (Table AIII.1). More than 85% of rates are 10% or below (86.2% in 2008) (Chart III.2). Rates of over 30% apply to 3.3% of tariff items (2.9% in 2008). The Korean tariff could be rationalized, for example, by reducing the large number of rate bands and removing decimal duties.

Table III.1
Tariff structure, 2008, 2011, and 2012
(%, unless otherwise indicated)

	MFN applied			Final bound[a]
	2008	2011	2012	
Bound tariff lines (% of all tariff lines)	90.8	90.8	89.9	89.9
Simple average rate	12.8	12.6	13.3	17.6
WTO agricultural products	53.6	52.8	55.0	63.4
WTO non-agricultural products	6.5	6.5	6.6	9.2
Duty-free tariff lines (% of all tariff lines)	15.9	16.5	16.2	14.2
Simple average rate of dutiable lines only	15.2	15.1	16.2	20.9
Tariff quotas (% of all tariff lines)[b]	1.6	1.6	1.9	1.9
Non-*ad valorem* tariffs (% of all tariff lines)	0.7	0.7	0.8	1.0
Domestic tariff "peaks" (% of all tariff lines)[c]	2.7	2.6	3.0	2.8
International tariff "peaks" (% of all tariff lines)[d]	9.1	9.0	10.5	18.1
Overall standard deviation of tariff rates	52.2	51.3	53.6	56.6
Coefficient of variation of tariff rates	4.1	4.1	4.0	3.2
Nuisance applied rates (% of all tariff lines)[e]	2.0	1.8	1.7	1.8

a Final bound rates are based on the 2012 tariff schedule in HS12 nomenclature. Implementation of final bound rates was reached in 2009.
b Excluding tariff quotas applicable to rice and rice products.
c Domestic tariff peaks are defined as those exceeding three times the overall average applied rate.
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.

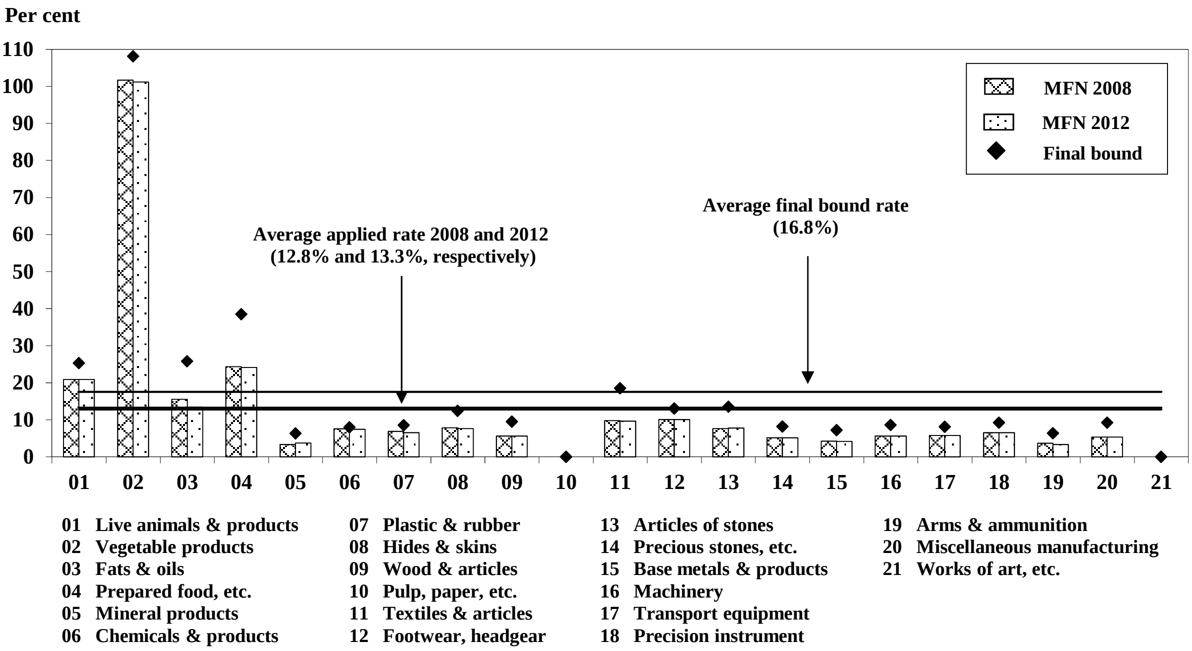
Note: The 2008 and 2011 tariff schedules are based on HS07 nomenclature, consisting respectively of 11,729 and 11,900 tariff lines. The 2012 tariff schedule is based on HS12 nomenclature, consisting of 12,232 tariff lines. Calculations for averages are based on national tariff line level (10-digit), excluding in-quota rates and including the *ad valorem* part of alternate rates. Including AVEs for non-*ad valorem* rates the simple average rate rises to 13.6% in 2012.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

[24] WTO definition of industrial products covers all non-agricultural products, i.e. products not covered by the WTO Agreement on Agriculture. WTO agricultural products include all processed and unprocessed agricultural commodities (HS Chapters 1 to 24, less fish and fish products, plus some additional HS items).

[25] Excluding tariff quotas and alternate tariffs, Korea's tariff rates still range from zero to 72%, and have around 38 bands, often with very small rate differences and decimal rates. For example, there are 16 *ad valorem* rate bands of 10% or below, and 38.1% and 11.2% of tariff lines have the rate of 8% and 6.5%, respectively.

Chart III.1
Average applied MFN and bound tariff rates, by HS section, 2008 and 2012



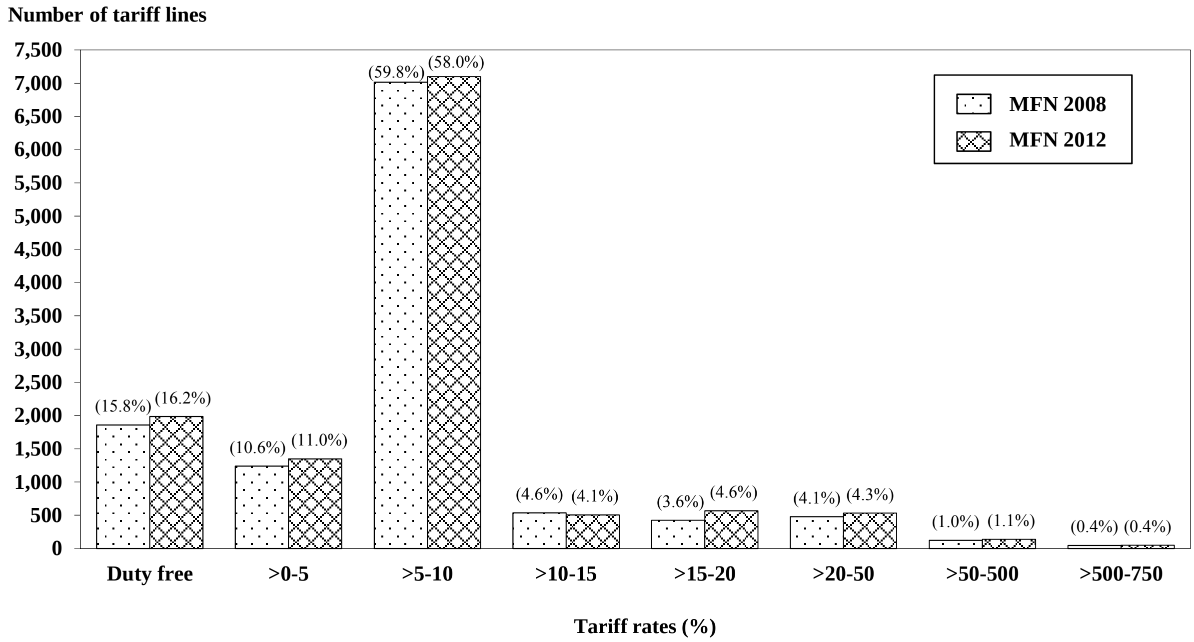
Note: Calculations for averages exclude in-quota tariff rates and include the *ad valorem* part of alternate rates. Only HS sections 03, 12, 14, 19 and 21 are fully bound. Final bound rates are based on the 2012 tariff schedule.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

40. Non-*ad valorem* tariffs consist of alternate duties on several manufacturing tariff items, mainly cinematographic film, diagnostic or laboratory reagents, raw silk, and recorded video tapes (Table AIII.2). These generally apply the greater of an *ad valorem* or a specific duty, whereby the *ad valorem* alternate rate sets a floor on the import duty rate. According to WTO Secretariat calculations, in 2010 the *ad valorem* equivalents (AVEs) of the specific part of alternate duties ranged from 0.005% (cinematographic film HS3706901000) to 1,506.3% (cinematographic film, HS3706903020), and virtually all were lower than the *ad valorem* component of the alternate duty (Table AIII.2)[26]; these alternate duties form part of Korea's WTO tariff binding commitments. Non-*ad valorem* tariffs tend to conceal high tariff protection; 2 out of 3 AVEs in the top 20 peak tariff rates exceed the highest *ad valorem* rate of the customs tariff schedule. Alternate duties also apply to 1.6% of agricultural tariff items as out-of-quota duties; these involve very high minimum *ad valorem* rates and exceed 500% on sesame seeds and oil, jujubes and pine nuts) (section (2)(iv)(a)).

[26] AVEs were calculated on the specific duty components of 69 of 95 ten-digit tariff lines subject to alternate duties. In 8 cases (involving oak mushrooms, fruits of the *genus capsicum*, ginkgo nuts shelled, carrots, cinematograph film) the specific duty component was higher than the *ad valorem* part of the alternate rate. These calculations are based on the 2010 import value and volume supplied by the Korean authorities. When these AVEs are taken into consideration for the tariff analysis presented in Table III.1, the simple average MFN applied rate is 13.6% and those of agricultural and non-agricultural products (WTO definition) 55.9% and 6.7%, respectively.

Chart III.2
Distribution of MFN tariff rates, 2008 and 2012



Note: **Figures in parentheses indicate the share of total lines. Calculations exclude in-quota rates and include the *ad valorem* part of alternate rates. Totals do not add up to 100% as no tariff rates were provided for 16 lines for both years (import restriction, representing 0.1% to total lines).**

***Source*:** **WTO Secretariat calculations, based on data provided by the Korean authorities.**

41. In the DDA negotiations, Korea has supported the elimination of non-*ad valorem* duties to some extent.[27] Non-*ad valorem* duties would be removed to a large extent from Korea's tariff schedule if agreed at the DDA negotiation.

(b) MFN tariff dispersion and escalation

42. Indicators of tariff dispersion and escalation show little change during the period under review (Table III.1 and Chart III.3).

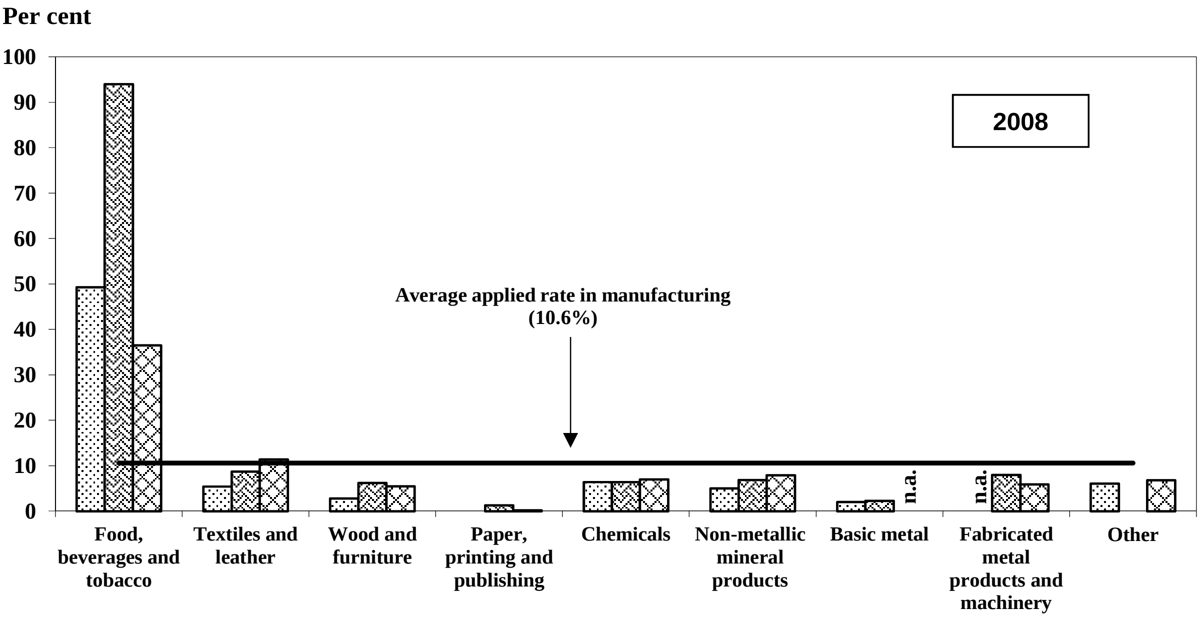
(c) "Flexible" tariffs

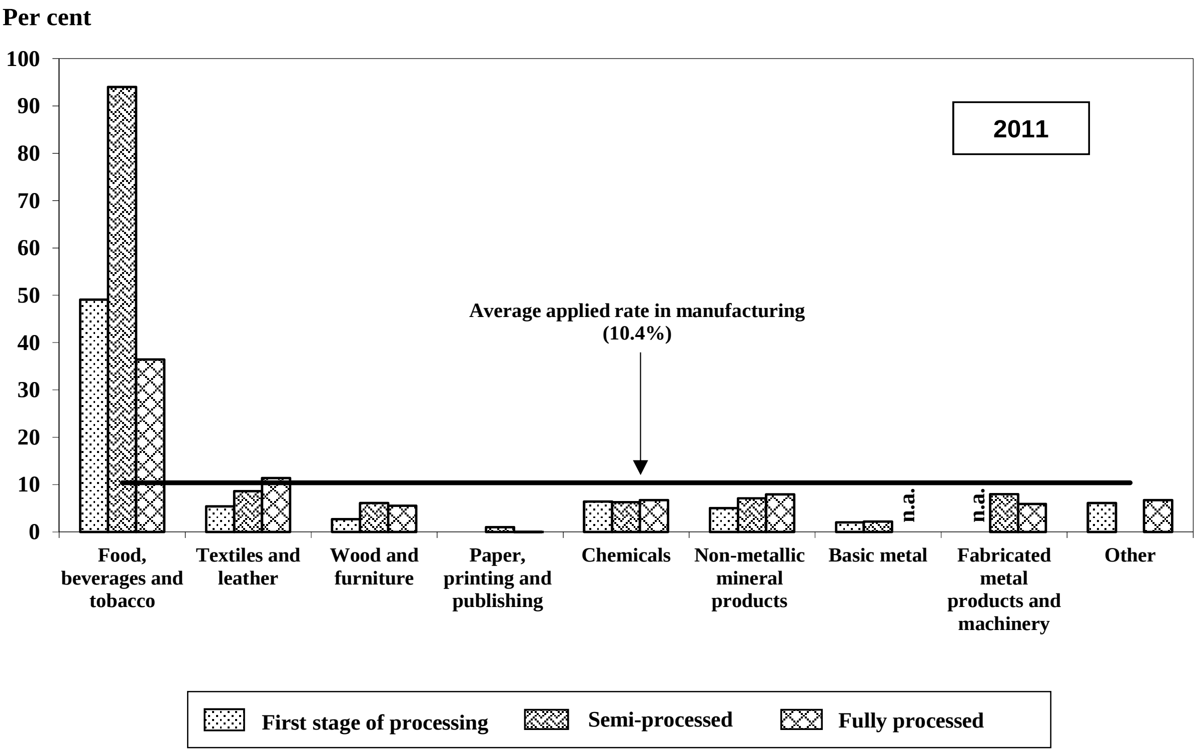
43. Korea applies temporary higher MFN duties (termed as "flexible" tariffs) (section (2)(iii)(a)). The flexible tariffs mechanism includes not just the adjustment and seasonal duties (described below), but also autonomous tariff quotas (section (2)(iv)(b)) as well as safeguard (section (2)(viii)(b)) and special safeguard (section (2)(viii)(b)) duties.[28] The system allows the authorities to increase or decrease certain tariffs at their discretion providing considerable scope to encourage or discourage imports of particular items.

[27] The authorities indicated that Korea has been maintaining the same voice with the G10 group in converting 90% of the non-*ad valorem* duties into *ad valorem* duties when the Tariff Simplification agenda was discussed at the DDA negotiations on agriculture.

[28] Autonomous tariff quotas are also referred to as flexible tariffs, and are discussed in section (iv)(b) (WTO document WT/TPR/S/204/Rev.1, 4 December 2008).

Chart III.3
Tariff escalation by 2-digit ISIC industry, 2008 and 2011





n.a. Not applicable.

Note: Calculations exclude in-quota rates and incdlue the *ad valorem* part of alternate rates.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

44. The number of items covered by flexible tariffs increased from 134 (HS ten digits) in 2007 to 334 in 2012. The authorities intend to reduce or remove gradually these tariffs in line with the reduction of tariff rates resulting from the DDA and FTA negotiations (Chapter II).

Adjustment duties

45. Adjustment duties protect domestic industries from import surges and lighten the shock from trade liberalization. They are set annually by MOSF.

46. In 2011, they applied to 20 six-digit tariff items covering mainly certain fish, rice preparations, sauces, and plywood (Table AIII.3), and following the adoption of HS2012 nomenclature they increased to 22; surface mount machines for electronic parts of gantry type are no longer subject to adjustment duties. Duties currently range from 10% on plywood to 50% on steamed or boiled rice. Alternate duties where duties are the higher of an *ad valorem* or a specific duty, apply to six six-digit tariff lines. Several products subject to adjustment duties, such as certain fish and plywood items, remain unbound; adjustment duties rates for the seven bound items are below their binding level.

Seasonal duties

47. The authorities indicated that no seasonal duties have been applied on an MFN basis during the period under review. Preferential tariff treatment of certain agricultural items under the FTAs with Chile, the EU, Peru, and the United States is applied only during the Korean off-season. In the case of the Korea-Chile FTA, seasonal preferential duties are levied on grapes imported from Chile since 2004; under both the Korea-EU FTA and the Korea-Peru FTA, seasonal preferential duties on grapes and oranges originating in these trading partners have been in place since 2011. Under the Korea-U.S. FTA, seasonal preferential duties have applied to potatoes for chipping, fresh or chilled, in addition to oranges and grapes, since the entry in force of the agreement in March 2012.

(d) Bound tariff

48. Korea bound 89.9% of all tariff lines in the Uruguay Round, covering 98.4% of agricultural tariff lines (excluding mainly rice) and 88.4% of industrial tariff lines (WTO definitions). On a tariff classification basis, 80.4% of agricultural tariff lines (HS Chapters 01-24) and 91.8% of industrial lines (HS Chapters 25-97) are bound.

49. The simple average bound tariff rate rose slightly during the review period (Table III.1); as of 2009, all Uruguay Round commitments were fully implemented. Following "tariffication" of non-tariff measures, except on rice (section (2)(vi)(b)), very high bound (and applied) tariffs apply to many commodities. Korea's average bound rates on agricultural and industrial products (WTO definitions) are 63.4% and 9.2%, respectively (in 2012). The overall gap between the two has remained at 4.3 percentage points. The gap is 8.4 percentage points for rates affecting agricultural items. Korea uses this scope mainly to raise MFN tariffs annually by applying higher adjustment duties (section (iii)(c)) on a number of products to temporarily protect domestic producers.

50. Korea has been included in several collective waivers that suspended the application of the provisions of Article II of GATT 1994 in order to allow it to reflect the changes resulting from the HS (2002) nomenclature in its Schedule of concessions. These modifications and rectifications to Schedule LX became effective as of 1 July 2011, although in April 2012 the authorities indicated that the transposition was "almost completed" (i.e. the provisional Consolidated Tariff Schedules (CTS)

Files were not transferred to the Approved CTS Files).[29] Since 1 January 2007, Korea has also benefited from similar collective waivers for the introduction of Harmonized System 2007 changes in its Schedule of concessions upon completion of transposition work to HS2002 the authorities indicated that they would initiate the transposition process into HS2007.[30] In addition, as from January 2012 Korea has benefited from a collective waiver for the introduction of HS2012 changes in its Schedule of tariff concessions.[31]

(e) Duty concessions/exemptions

51. The application of import duty relief through duty concessions and exemptions has not changed since the last Review of Korea. The revenue forgone from import duty relief was US$693 million in 2010 (equivalent to 7% of total tariff revenue) down from US$727 million (8.4%) in 2007.

52. Tariff concessions also apply under other legislation. The Promotion Act for the Development of Aircraft and Space Industries also allows duty-free imports of parts (revenue forgone of ₩ 33.1 billion in 2010, down from ₩ 50.2 billion in 2008).[32]

(f) "Usage" tariff rates

53. Imported inputs for specified end-uses under "usage" tariff rates may be exempt from tariffs under "usage" tariff rates (Article 83, Customs Act). The Government of Korea treats usage tariff rates, autonomous tariff quotas, and duty concessions on inputs as part of Korea's industrial policy, to encourage certain manufacturing activities. Since 2008 "usage" tariff rates have been used for inputs in activities such as sowing, animal feeding, semiconductor manufacturing, etc.

(g) Tariff preferences and rules of origin

Preferences

54. Korea's efforts to expand its bilateral and regional free-trade agreements during the review period means that its simple average MFN tariff rate at 13.3 % fell considerably for imports from FTA and LDC trading partners (e.g. to 6.3% for imports from ASEAN and Chile). However, it remains unchanged for imports from countries receiving preferences under the Asia-Pacific Trade Agreement (APTA), the Global System of Trade Preferences Among Developing Countries (GSTP) and the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC) (Chapter II(6)(iv), Table III.2). Since its last Review, Korea has gradually increased the number of items eligible for unilateral (non-reciprocal) duty-free and quota-free tariff preferences to LDCs (Chapter II(6)(iv), Table III.2); according to the authorities, the scope was expanded to cover 75% of the dutiable items of the tariff schedule in 2008, 80% in 2009, 85% in 2010, and 90% in 2011, and progress to 95% is planned in 2012.[33] The Minister of Strategy and Finance (MOSF) may withdraw

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[29] WTO document WT/L/808, 16 December 2010, and WT/Let/804, 25 July 2011.

[30] WTO document WT/L/809, 16 December 2010, and WT/L/833, 5 December 2011.

[31] WTO document WT/L/834, 5 December 2011.

[32] WTO documents G/SCM/N/186/KOR, 7 May 2010 and G/SCM/N/220/KOR, 23 September 2011.

[33] In 2011, the 253 additional items included non-sensitive agricultural and fisheries products such as flowers, spice (peppers, etc.), oil and fat (olive oil, etc.) and textiles, garments, instruments, and other industrial products (MOSF Press Release, "The number of items eligible for preferential tariffs for least-developed countries will be increased", 17 November 2010. Viewed at: http://english.mosf.go.kr/eco/econo.do?bcd=E0003 [4 October 2011]).

or modify unilateral trade preferences if considered inappropriate taking into account the country's income level, volume of imports, and international competitiveness of the product and country concerned.

Table III.2
Summary analysis of the Korean preferential tariff, 2012
(%)

	Total			WTO agriculture		WTO non-agriculture	
	Average (%)	Duty-free rates[a] (%)	Coverage[b] (%)	Average (%)	Duty-free rates[a] (%)	Average (%)	Duty-free rates[a] (%)
MFN	13.3	16.2		55.0	5.5	6.6	18.0
Regional agreement							
APTA[c]	13.1	16.2	10.0	54.9	5.6	6.3	18.0
APTA for Lao PDR and Bangladesh	12.9	17.4	11.8	54.8	5.6	6.2	19.3
ASEAN	6.3	91.4	76.2	41.8	68.4	0.5	95.2
Bilateral agreement							
Chile FTA (KCFTA)	6.3	92.5	79.7	45.2	55.9	0.0	98.5
Singapore FTA (KSFTA)	7.3	76.0	73.7	45.2	43.3	1.2	81.4
EFTA FTA							
Iceland	7.6	85.6	76.7	53.2	20.8	0.2	96.1
Norway	7.6	85.3	75.2	53.5	18.7	0.2	96.1
Switzerland	7.5	84.9	73.9	53.1	16.2	0.2	96.1
U.S. FTA (KORUS FTA)	7.4	77.8	82.0	45.8	36.4	1.2	84.6
India CEPA[d]	8.8	58.6	75.1	52.4	9.6	1.8	66.6
EU FTA	7.5	79.6	82.6	46.8	40.7	1.2	86.0
Peru FTA (KPFTA)	7.0	82.8	82.3	46.4	25.9	0.6	92.1
TNDC	13.3	16.2	0.0	55.0	5.5	6.6	18.0
GSTP	13.3	16.2	0.1	55.0	5.5	6.6	18.0
LDC	7.0	90.4	74.2	46.4	59.7	0.6	95.4

a Duty-free lines as a percentage of total tariff lines.
b Per cent of total number of lines. Only rates that are lower than the corresponding MFN rate are taken into account.
c Preferential rates under APTA are applicable to the China, Sri Lanka, Bangladesh, India, and Lao PDR.
d Comprehensive Economic Partnership Agreement.

Note: Calculations are based on national tariff line level (10-digit); excluding in-quota rates and specific rates and including the *ad valorem* part of alternate rates.

Source: WTO Secretariat calculations, based on data provided by the authorities of the Republic of Korea.

Rules of origin

55. Preferential rules of origin apply to imports under preferential trading arrangements and FTAs (see below), which increases the complexity of implementing its preferential tariffs.[34] Korea considers that rules should be transparent and promote trade and investment. Rules of origin covering imports under APTA, GSTP, TNDC, and LDC preferential treatment are based on the provisions of the Korea Customs Act. For LDCs to receive duty-free access on eligible imports, goods must be either "wholly produced or obtained" in the exporting country, or manufactured from originating materials comprising at least 50% of the product's f.o.b. price. Vessels catching fish must be

[34] WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

registered in the exporting country and have at least 60% domestic equity. Under the Asia-Pacific Trade Agreement, eligible imports are subject to APTA preferential rules of origin.

56. All of Korea's FTAs are now based on the common principles such as "goods wholly obtained" and the "substantial transformation" criteria under the FTA Special Customs Act. The value-added rule is also applied to selected agricultural and industrial products in the form of the regional value content (RVC) method or the import content (MC) method. Regarding RVC, some of Korea's FTAs allow exporters to use a "build-up" or a "build-down" method on a selective basis; for example, the Korea-Peru FTA provides for RVC of not less than 45% using the "build-down" method or of not less than 35% under the "build-up" method for automobiles and some electronic devices.[35] A number of clothing items are subject to only specific-process rules.

57. The KCS has undertaken FTA promotion activities to help companies utilize trade preferences subject to diverse and complicated rules of origin. Since 2010, the KCS has operated an FTA Utilization e-alert System that indicates the goods subject to preferential tariff treatment on the e-Customs Clearance system at the time of importation. For SMEs, a self-origin management solution program, which determines the origin status of goods, was developed by the KCS and has been distributed online, free of charge, since September 2010. Efforts to raise public awareness are made through seminars, workshops, contests, and FTA-related courses.

58. Korea applies non-preferential rules of origin to all other imports. Korea's non-preferential rules of origin are also based on the "wholly obtained goods" and "substantial transformation" criteria. The tariff shift rule is applied, except on cameras (value-added rule) and textile articles (specified process rule). The rule of origin for certain live animals is determined by the territory where they were bred for over six (bovine) or two (swine) months.

(iv) Tariff quotas

(a) Agricultural tariff quotas

59. Korea applied tariff quotas, under its multilateral agricultural market-access commitments, on about 187 (excluding rice) ten-digit tariff items in 2011 (Table AIII.4).[36] Many out-of-quota rates are very high and some are at 887.4% *ad valorem*. Many above-quota rates are alternate duties.[37] According to the latest data provided by the authorities, the average fill rate of tariff quotas dropped to around 62.7% in 2010 (68.3% in 2006) but rose to 66.2% in 2011. Fill ratios were low for several product groupings (Table AIII.5). The consistently large unfilled share of tariff quotas on some items, even with relatively low in-quota tariffs, suggests that their administration and allocation may, *inter alia,* be restricting imports; nevertheless, the authorities indicate that low TRQ fill rates resulted, *inter alia,* from lack of sufficient domestic demand, increase of import price or sanitary measures related to the outbreak of diseases in exporting countries, such as BSE.

60. Tariff quotas, and the import quota on rice, are administered or allocated by 24 different organizations (as of 2011) including ministries, state-trading entities (such as the Korea

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[35] Build-down method is based on: Regional Value Content (RVC) = ((Adjusted Value - Value of Non-Originating Materials)/Adjusted Value) X 100. The Build-up method derives from: Regional Value Content (RVC) = (Value of Originating Materials/Adjusted Value) X 100.

[36] Excludes 16 tariff items for rice, which, although grouped by the authorities as tariff quotas, are actually covered by import quota (section (2)(vi)(b)).

[37] WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

Agro-Fisheries and Food Trade Corporation (aT)[38] commissioned by the Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF) for rice and barley), and various producer associations. In some cases, the administering agency is owned or controlled by domestic producers competing with the imported item. With the exception of the National Agricultural Cooperatives Federation, the National Forestry Cooperative Federation, and the Jeju Citrus Growers' Agricultural Cooperative, producers associations include members that process foodstuffs imported under tariff quota. Credible import administration would require that directly interested parties are not directly involved in controlling imports.

61. Mechanisms used for quota allocation (depending on the product), include the auctioning of quotas, allocation to designated agency, real demand allocation[39], and a combination thereof. State-trading enterprises impose additional mark-ups on top of the in-quota tariff on various items (section (2)(vii)). Most state-trading enterprises are engaged directly in marketing imports by selling through wholesale markets or distributing directly to final users. State-trading enterprises and producer associations allocate quotas. As of 2011, 3 items (rice, garlic and sesame seeds) were state-traded, 8 items (orange, citrons, ginseng, condensed milk, whole milk powder, chestnuts, jujube, and pine nuts) were auctioned, 41 items (maize, barley, potatoes, sweet potatoes, starch, etc.) were allocated on a real demand basis, and 11 other items (ginger, onion, sesame seeds, peppers, etc.) were allocated through state-trading and other methods.

(b) Autonomous tariff quotas

62. Korea grants concessional tariffs using autonomous tariff quotas, mainly for raw materials, inputs, semi-processed goods, components, parts, and engines (Table AIII.6); this measure is aimed at helping stabilize prices through increased supply.[40] These quotas covered approximately 235 six-digit tariff items in 2011 (45 in 2007); live animals, meat, fish, cheese, eggs, coffee, vegetable oils, urea, chemicals, agricultural chemicals, tires, wood boards, silk, artificial fibres, aluminium, titanium, and manganese were among the items added to the list. In-quota tariff rates ranged from zero to 24% (groundnuts).[41] Autonomous tariff quotas are revised annually.

(v) Other levies and charges

63. A surcharge levied on petroleum imports (Petroleum Business Act, 1977) provides funds to ensure adequate supply and price stability. The surcharge is currently set at ₩ 16 per litre. The Government promotes oil imports from the Americas, Africa, and Europe, including the Russian Federation (Chapter IV(4)(i)).[42] Surcharges on non-Middle East oil imports are lower to offset their higher transport costs.

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[38] This is the new name of the Agricultural and Fishery Marketing Corporation (AFMC) as from 26 January 2012.

[39] This term refers to quota allocation on a first come first served basis without any qualification requirement or quota allocation to buyers meeting with certain qualification requirements.

[40] MOSF Press Release, "Some tariff quotas to be extended with other items to be added in the second half", 21 June 2011. Viewed at: http://english.mosf.go.kr/eco/econo.do?bcd=E0003 [4 October 2011].

[41] WTO document WT/TPR/S/204/Rev.1, 4 December 2008, Chapter III(2)(iv)(b).

[42] Middle East oil dependency has been lowered from 90% (1980s) to 81% (2010) and 87% (2011).

(vi) Import licensing, quotas, and prohibitions

(a) Licensing

64. Import approval is governed by the Foreign Trade Act and 51 other laws.[43] The Consolidated Public Notice, containing all export and import certification requirements stipulated in the 51 separate laws, is updated by MKE semi-annually. These requirements cover numerous tariff items (1,000 in 2008), including petroleum, LPG, agricultural fertilizers, crop seeds, animals and animal products, nuclear materials, narcotics, foods and food additives, foreign publications, firearms, and explosives. Between 1 January 2007 to 31 December 2009, automatic licensing procedures were applied to 128 basic steel products from all countries; these procedures were not intended to restrict the quantity or value of imports.[44]

65. Implementation of the Certification, permission, and type approval requirements is the responsibility of 14 ministries and/or agencies.[45] According to the authorities, import licence applications are screened or checked in a "fair" manner. Korea belongs to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

66. Korea submits regular Replies to the Questionnaire on Import Licensing Procedures to the WTO Committee on Import Licensing; its latest notification was on 21 September 2011.[46]

(b) Quotas

67. Rice is subject to import quota restrictions under Korea's WTO minimum market access (MMA) commitments under Annex 5 of the WTO Agreement on Agriculture. Under arrangements re-negotiated in 2004, Korea is obliged to import close to 8% of its domestic consumption of rice by 2014; no data on this issue were available with the authorities, but it seems that this target has been met.[47] The volume of rice imports available for table consumption were to increase from 10% of the quota in 2005 to no less than 30% by 2010; no data on this issue were available from the authorities, but quota levels seem to be taking into account this objective.[48] The state agency Korea Agro-Fisheries and Food Trade Corporation (aT), which has been in charge of importing and managing MMA commitments on rice since 2008, accounted for 100% of rice imports in 2011 (76% in 2007)[49]; aT is purchasing imported rice on behalf of the MIFAFF through open bidding; table rice is sold directly by aT, through open bidding, and rice for food processing is sold by local authorities.[50] Rice imports under the MMA commitments have increased steadily, rising from 286,617 tonnes in 2008, to 347,658 tonnes in 2011.

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[43] WTO document G/LIC/N/3/KOR/10, 27 September 2011.

[44] WTO document G/LIC/N/2/KOR/1/Rev.1, 27 July 2009.

[45] More information on the institutional setting and product coverage of the import licensing regime may be found at WTO document G/LIC/N/3/KOR/10, 27 September 2011. See also WT/TPR/S/204/Rev.1, 4 December 2008.

[46] WTO document G/LIC/N/3/KOR/10, 27 September 2011.

[47] USDA Foreign Agricultural Service (2012).

[48] USDA Foreign Agricultural Service (2012).

[49] Online information about the activities of the Korea Agro-Fisheries Trade Corporation is available at: http://www.at.or.kr/contents/apen321000/view.action?2_1.

[50] Imported table rice reaches consumers through trade marketing routes, wholesalers, and dealers. In August 2009, 428 companies were participating in the public auction, including grain wholesale or retail companies (316), grain wholesale brokers (67) and agricultural produce wholesale or retail companies (45). In practice the companies dealing with rice handled imported rice regardless of their size (WTO document G/AG/W/71, 8 September 2009).

68. According to data supplied by the authorities, the cost of this protection in terms of consumer burden, i.e. the ratio of the domestic price compared to the international price, has dropped from 3.7 (2006-07) to 2.0 (2011).

(c) Prohibitions

69. Korea prohibits a few imports, mainly to protect health, safety, security, public morality, the environment, and natural resources, and to prevent deceptive practices. Korea does not maintain any trade embargoes with other countries. Trade with North Korea requires approval from the Ministry of Unification (Chapter II(6)(i)); bilateral trade, which was first legalized in 1988, rose steadily to almost US$1.82 billion in 2008. It declined sharply thereafter until it was prohibited by the Republic of Korea, except for goods manufactured in the Gaesung Industrial Complex (located in North Korea), as of 24 May 2010.[51]

(vii) State trading

70. Despite privatization efforts, the State participates in a wide range of trade and/or trade-related activities (section (4)(iii)). According to Korea's latest WTO notification on state trading (see below), two government agencies and one producers association (the Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF), the Korea Agro-Fisheries & Food Trade Corporation (aT), and the National Forestry Cooperatives Federation (NFCF)) are authorized to allocate and/or operate tariff quotas as well as quotas, in the context of Korea's WTO commitments in agriculture, thus affecting quota utilization and price mark-ups (section (iv)(a) and (vi)(b)).[52] The MIFAFF directly controls the importation of MMA-related rice and has exclusive rights to import rice in order to, *inter alia,* smoothly implement WTO commitments and avoid domestic market disturbances caused by a sudden influx of rice; aT and NFCF operations are, *inter alia,* aimed at stabilizing the domestic market. During 2008-09, MIFAFF (via aT) was the sole importer of rice, while aT and NFCF undertook some imports of other agricultural items; all agricultural items, except for rice subject to state trading, were subject to important mark-ups.[53]

71. After a ten-year period without any notifications in this area, Korea updated entirely its WTO notification on state trading with data from 1998 to 2009, and replied to Members questions at a

[51] In response to concerns that goods from North Korea may illegally enter South Korea via third countries, the KCS has drawn up various measures covering clearance, investigation, and audit fields to cut off illegal entry of goods made in North Korea. The Gaesung Industrial Complex is a large-scale industrial complex which combines capital and technologies of the South with land and workforce of the North. There are 123 South Korean manufacturing companies in the complex. Goods originating in the Gaesung Industrial Complex are exempt from taxes under Article 12 of the Inter-Korean Exchange and Cooperation Act.

[52] Korea's rights to impose mark-ups on WTO-related TRQs are stipulated in Note 4, Section 1: Agricultural Products, Part 1: Most-Favoured-Nation Tariff of Schedule LX of the Republic of Korea on Agricultural products (WTO documents WT/LET/492 of 12 April 2005, and WT/LET/504, 5 December 2005).

[53] The share of aT (previously AFMC) and NFCF to total imports of the items concerned varied, e.g. up to 83.8% for soybeans, 73.2% for small red beans, 35.6% for green beans, 27% for buckwheat, 60.3% for genus capsicum, 79.15 for garlic, 10.8% for ginger, 58.6% for sesamum seeds, and 31.9% for groundnuts. Considerable mark-ups (average import price higher than average representative domestic sales price) affected soybeans (up to 17.5%), small red beans (19%), green beans (158%), buckwheat (up to 253%), genus capsicum (up to 176%), garlic (287%), onions (up to 44%), ginger (up to 130.6%), sesamum seeds (up to 134.3%); and ground nuts (up to 135.5%). The authorities clarified that mark-ups are not imposed on rice, because its selling price is lower than the import price (processing rice as from 2006, table rice as from 2009) due to low consumer preference (WTO document G/STR/N/11/KOR, G/STR/N/12/KOR, G/STR/N/13/KOR, 2 July 2010).

meeting of the Working Party on State Trading Enterprises held on 16 October 2009[54]; its latest notification was in July 2010. In February 2012, the authorities were collecting state-trading data and expected to submit a notification in the course of the year.

(viii) Contingency measures

72. Contingency (trade remedy) measures are authorized under the Customs Act and the Act on the Investigation of Unfair International Trade Practices and Remedy Against Injury to Industry (2001). The Korea Trade Commission (KTC), under the MKE, administers the measures and investigates and determines whether imports are dumped or subsidized and whether they cause or threaten to cause injury to the domestic industry. KTC investigations under emergency safeguard provisions determine whether imports have caused or threatened to cause "serious" injury to domestic industry. The decision on the imposition of anti-dumping and countervailing duties is taken by the Ministry of Strategy and Finance (MOSF).

73. According to Korea's WTO notification, parts of the Customs Act and its sub-regulations on anti-dumping measures were revised and have been in force since March 2011.[55]

(a) Anti-dumping and countervailing measures

74. During the period under review, recourse to anti-dumping action dropped markedly.[56] According to the authorities, this was because Korea overcame the global economic crisis rapidly; therefore, enterprises were satisfied with their business performance. Between 2008 and end 2011, Korea initiated 8 anti-dumping investigations (47 in 2003-07) involving stainless steel plate (Japan), plywood (Malaysia), particle board (Malaysia, Thailand), polyester yarn (China, Chinese Taipei), propylene oxide (Japan), adipic acid (United States), and aluminum bottle can (Japan).[57] As of March 2012, 31 anti-dumping measures were in force on 13 products, mainly kraft paper (5 cases), polyester filament (5 cases), choline chloride (4 cases), stainless steel (4 cases), ethyl acetate (3 cases), PET film (2 cases), and particle board (2 cases); 34 measures were in force on 31 December 2007. Action affected mostly products originating in Asia (26, mainly China (12), Japan, India, and Malaysia (3 each)), but also Canada and the United States (2 each).[58] Virtually all final measures consisted of definitive duties. Between 2008 and 30 June 2011, Korea completed 14 sunset reviews, of which 12 resulted in the extension of measures and 2 in termination; 2 measures were terminated without a review. At 30 June 2011, 12 sunset reviews were under way. Korea has never taken countervailing measures. Since its last Trade Policy Review, Korea has regularly submitted semi-annual reports on anti-dumping and countervailing actions to the relevant WTO Committees.

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[54] The previous review of Korea noted that it had not updated its WTO notification on state trading since 1998 (WTO documents WT/TPR/S/204/Rev.1, 4 December 2008; G/STR/M/19, 25 January 2010; G/STR/N/5/KOR, G/STR/N/6/KOR, G/STR/N/8/KOR, G/STR/N/9/KOR, 16 December 2010; G/STR/N/7/KOR, G/STR/N/10/KOR, 27 August 2009; and G/STR/N/11/KOR, G/STR/N/12/KOR, G/STR/N/13/KOR, 2 July 2010).

[55] WTO document G/ADP/N/1/KOR/6, 23 March 2011.

[56] With 110 cases initiated between 1995 and 2010, Korea was the world's 11th major user of anti-dumping measures (WTO online information. Viewed at: http://www.wto.org/english/tratop_e/adp_e/adp_e.htm [23 April 2010]).

[57] WTO documents G/ADP/N/180/KOR, 3 March 2009; G/ADP/N/188/KOR, 9 October 2009; G/ADP/N/202/KOR, 5 October 2010; G/ADP/N/209/KOR, 4 April 2011; G/ADP/N/216/KOR, 23 September 2011; and G/ADP/N/223/KOR, 22 March 2012.

[58] WTO document G/ADP/N/216/KOR, 23 September 2011.

(b) Safeguards

General

75. Safeguard measures, including provisional, may be applied where increased imports cause or threaten to cause serious injury to domestic producers of a like or directly competitive product. In deciding on the type and duration of measures to be imposed, the KTC takes into account the impact on the industries concerned, on domestic price levels, consumer interests, and international trade relations.[59] Safeguard measures apply for up to four years (200 days if provisional), but may be extended by four years subject to a further review.[60] Since the previous Review in 2008, no safeguard measures have been applied; the last investigation in this area dates back to 1999.

Sector-specific

76. Since its last Review, Korea has had recourse less frequently to the special safeguard (SSG) provisions under Article 5 of the WTO Agreement on Agriculture. Korea reserved the right to take SSG action on crop and related products (e.g. grains, potatoes, ginseng, and soybean) under the WTO Agreement on Agriculture. The decision to implement such measures is made annually by MOSF through a ministerial ordinance, at the request of the MIFAFF. Korea reserved the right to apply SSG provisions to 124 agricultural ten-digit tariff items (as of 2011), but so far they have been applied to a small sub-set of items. The Special Safeguard Tariff Schedule is issued annually to implement these provisions; it covered 33 ten-digit items in 2008, 29 in 2009, 25 in 2010, and 23 in 2011. Korea's first WTO notification in this area since 2007 was submitted in January 2012 and covers SSGs implemented during 2005 to 2010 only.[61] All 13 SSG measures implemented from 2008 to 2011 were price-based; no volume-based SSGs have been used since 2007. At the March 2012 meeting of the WTO Committee on Agriculture, Korea replied to questions from Australia and the EU on issues relating to transparency and trigger calculations, and further clarifications were to be sought by Australia.[62]

(ix) Standards and other technical requirements

(a) Standards, testing, and certification

77. During the review period, the institutional setting in this area remained unchanged.[63] The Korean Agency for Technology and Standards (KATS), under the Ministry of Knowledge Economy (MKE), sets, administers, and disseminates Korean Industrial Standards (KS) on the basis of the National Standardization Act and the Industrial Standardization Act. The National Radio Research Agency (RRA), under the Korea Communications Commission (KCC), sets, administers, and disseminates Korea Communications Standards (KCS) on the basis of the Framework Act on Broadcasting and Communications Development. KATS, the official enquiry point on industrial products under the WTO Agreement on Technical Barriers to Trade, is in charge of planning and

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[59] Article 17 of Law No. 6417 in WTO document G/SG/N/1/KOR/5, 26 October 2001.

[60] Article 19.5 of Law No. 6417 in WTO document G/SG/N/1/KOR/5, 26 October 2001.

[61] WTO documents G/AG/N/KOR/39, 1 March 2007; G/AG/N/KOR/45, 31 January 2012; and G/AG/N/KOR/46, 30 March 2012.

[62] Korea indicated that a price-based SSG becomes applicable once the import price of the product concerned falls below a trigger price; a surge in imports is not required for such a measure to be taken. Data on import prices, number of shipments, and duties applied are considered only when applying SSGs and are not publicly available (WTO document G/AG/W/94, 7 May 2012).

[63] For more information about this issue see WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

coordinating national standards policy. Several private bodies perform standardization-related tasks. Other bodies performing standards-related work include the Korea Research Institute of Standards and Science (responsible for metrology standards and measurement), and the Telecommunications Technology Association (TTA), an agency affiliated with the KCC, is responsible for group standards for telecommunications, information technology, radio communications, and broadcasting.[64]

78. Standard development in Korea remains government led, and is a significant element of Korea's industrial policy. The KATS is implementing its third National Standards Plan (2011-15) with key policy goals including the development of standards for Korea's new growth engine activities (sections (4)(iii) and (4)(iv)), for improving people's daily life, and the eradication of redundant certification systems. The National Standards Council reviews general plans for the introduction of national standards and coordinates the standards-related activities of the different ministries.

79. The Korean standardization system consists of technical regulations (mandatory standards) developed by ministries and government agencies, as well as standards (voluntary) set by KATS (KSs) and the RRA (Korea Communications Standards, KCSs).[65] As of December 2010, about 5,000 (24.6% of all standards) mandatory Korean standards (2,945 or 15% in 2006) were contained in 15,375 technical regulations issued by 18 government ministries. At the end of 2010, 23,622 Korean (industrial) standards had been adopted (22,760 in 2007). The allocation of all KSs by sector was: chemicals, textile, ceramics (21%); machinery (17%); electricity (16%); metal, mining, construction (13%); transportation machines, shipbuilding, aerospace industry (11%); information technology (8%); and food, environment, etc. (14%). At end 2010, 14,177 (around 60%) of Korean standards that had corresponding ISO/IEC standards (international standards) had been harmonized, compared to 13,957 (99.9%) in 2007. Non-harmonized standards, i.e. those that are either unique to Korea (see below), with no corresponding international norm (e.g. for kimchi), or cannot be harmonized because of their link to other domestic regulations, remain in place. Roughly 2.5% of KSs have been established without any reference to international standards. In 2010, approximately 60% (61.4% in 2007) of Korean Standards were subject to international ISO/IEC harmonization. Korean standards are to be harmonized in 2012-13 either by adopting international standards as new KSs or by revising existing relevant KSs. No business area takes priority over any other in the harmonization of existing standards.

80. KATS has developed standards in numerous areas including service and social welfare, e.g. national standards for transportation cards and mobile keypad inputting methods.

81. At end 2011, Korea had concluded bilateral MoUs with 46 agencies from 33 countries for mutual cooperation in global standardization activities, exchange of technical information related to standards and conformity assessment, organization of standardization meetings, operation of joint education programmes, and exchange of experts.

82. According to the authorities there are very few "Korea-specific" standards, and these are maintained only where there are no equivalent international standards and when there is sufficient justification. Moreover, "Korea-specific" standards are not aimed at creating unnecessary obstacles to international trade. Korea has developed standards for Korean traditional food products and related

[64] The TTA sets industry standards and has been instrumental in creating the current Korean Information and Communication Standards. The TTA also collaborates with international and national standards organizations, such as the ITU (U.S. Commercial Service, 2011).

[65] As of December 2011, 587 KCSs (553 in 2008) were in place and allocated as follows: information technology (345), telecommunication (193), and radio communication (49).

items, such as *gwamegi* (dried Pacific saury or mackerel pike), *doenjang* (fermented soybean paste), *gochujang* (thick soy and red pepper paste), and kimchi refrigerators. In 2011, KATS launched a national standards coordinator system for the industrialization of national R&D efforts and to support Korean technologies' advance into the international market.[66] In 2011, eight sectors were subject to standards coordination projects: smart grid, 3D businesses, electric cars, cloud computing, nuclear power, smart media, smart logistics, and smart medical information.

Food and health-related products

83. Legislative responsibility for regulating food safety and quality is diversified and overlaps with several ministries, which often perform similar activities. Food safety, pharmaceuticals, and cosmetics is under the Ministry of Health and Welfare (MOHW) and its agency, the Korea Food and Drug Administration (KFDA).[67] KFDA ensures that domestic and imported food products (except meat, dairy, and egg products, which are handled by the MIFAFF) are sanitarily safe and correctly labelled. The MIFAFF is responsible for agricultural and fishery products, and its Animal, Plant and Fisheries Quarantine and Inspection Agency (QIA) inspects imported and exported agricultural and fish products. The KFDA regulates domestic and imported salts, except for industrial salt and solar salt, which are inspected by the QIA. On 30 April 2009, the KFDA established the National Institute of Food and Drug Safety Evaluation, a think-tank that provides scientific information to KFDA policy makers.

84. Reportedly, Korea's regulatory system, originally modelled on the United States system, seems to be gradually shifting towards a precautionary management system based on that of the EU, Japan, etc. The regulatory system takes into account the opinions of consumers and industry, and reflects them in the decision making process.[68] The main laws affecting food standards and specification are the Food Sanitation Act of 2011, the Food Code and the Food Additive Code. Following the protests in 2008 against beef imports, and in line with the Framework Act on Food Safety, a Food Safety Policy Committee, in which the Prime Minister is the chief commissioner, was set up in June 2008 to comprehensively revise and coordinate food safety management tasks dispersed across the various ministries and agencies. Under the Act each relevant agency was tasked with developing a comprehensive three-year food safety plan.[69]

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[66] According to the KATS administrator, "Korea's portion of R&D relative to total GDP is the third largest in the world, but its technology trade deficit is the fifth highest in the world. This means that Korea needs to enhance the efficient industrialization of R&D achievements. In order to achieve this, Korea should tap into the global market through international standardization of its home-grown technologies" (KATS online information, "KATS Launches National Standards Coordinator", 13 May 2011. Viewed at: http://www.kats.go.kr/en_kats/news/KAEU04_1_2.asp?sub_menu=1&page=2&startPage=&En_Idx=557 [14 October 2011]).

[67] The KFDA's Food Safety Bureau is responsible for overall food safety management including development of food safety control policies and comprehensive plans, establishment and amendment of safety management standards for food, instruction and supervision of food-related business managers, inspection of imports and exports and establishment of labelling standards for foods.

[68] For example, the 2008 campaign to win back consumer confidence in the nation's food safety system introduced some needed science-based improvements; the use of tar colours (Red 102) in children's favourite foods was banned as a preventive measure to secure the health of the children who are especially vulnerable to food safety; this ban was based on the EU's 2007 research (USDA Foreign Agricultural Service, 2011).

[69] The Committee members include: the Minister of Strategy and Finance, the Minister of Education, Science and Technology, the Minister of Justice, the Minister for Food, Agriculture, Forestry and Fisheries, the Minister of Health and Welfare, the Minister of Environment, the Commissioner of the Korea Food and Drug Administration, and the Minister of the Prime Minister's Office (USDA Foreign Agricultural Service, 2011).

85. Under the Framework Act on Administrative Regulations (last amended by Act No. 9965, 25 January 2010), a regulatory impact analysis (RIA) including cost-benefit analysis has been required since 1997, prior to introducing a new regulation or reinforcing existing regulations.[70] During 2007-09, 30 cases of tightening standards or labelling requirements for pesticides, heavy metals, and microorganisms in foods were subject to RIA.[71]

86. Environmental risk assessments (ERAs) are mandatory on biotechnology crops. The KFDA maintains a policy of zero tolerance for the presence of biotechnology products in processed food that is labelled as organic (section (2)(ix)(c)). KFDA has authority to conduct mandatory safety assessments to evaluate genetically modified organisms (GMOs) in products used for human consumption; Korea implements the Advance Informed Agreement Procedure as well as labelling requirements for GMOs and living modified organisms (LMOs) (section (2)(ix)(c)).[72] The KFDA intended to expand the applications of the Hazard Analysis Critical Control Point (HACCP) system to 2,500 firms by 2012[73]; by February 2012, 1,837 companies were HACCP-approved of which 1,590 since 2008.

87. All food additives require prior approval. In November 2011, Korea had a positive list of 601 approved food additives and mixtures of approved additives.[74] Food additives are grouped into four categories: (a) chemical synthetics, 402 items, (b) natural additives, 199 items, (c) mixture substances, seven categories of mixture of approved additives, and (d) sterilizing/disinfecting apparatus, 11 items. Reportedly, even though there may be an established CODEX standard for a given food additive, domestic or imported foods with "reasonable" levels of food additive may not be marketed either because their food additive is not registered in the Korean Food Additive Code, or because it failed to comply with item-specific standards specified in the Food Additive Code or its usage in a certain food product is not specified in the existing Food Additive Code.[75] Getting a new additive added to the approved list usually takes a year or more.

88. Following a 2008 melamine incident[76], as from 2009, a system of managing safety of OEM (Original Equipment Manufacturing) food imports has been in place; the system mandates OEM food importers to take an on-spot and self-quality control for OEM food products, which are food and food additive imports other than agricultural items, forestry items and alcoholic beverages manufactured by overseas contractors and labelled with the contractor's brand.[77] KFDA and cities/provinces authorities conduct regular on-site inspections for domestically produced food products. If imported

[70] The authorities indicated that KATS prepares, adopts and applies standards in line with the provisions of Annex 3 of the WTO TBT Agreement (Code of Good Practice). SPS measures are taken mainly against diseases that are new to Korea and that are subject to strict domestic preventive measures.

[71] Information provided by the Korean authorities and extracted from Kwak, No-Seong (2010).

[72] This procedure refers to the first intentional transboundary movement of living modified organisms (LMOs) for intentional introduction into the environment of Korea (APEC, 2007).

[73] HACCP is a systematic preventive approach to food safety and pharmaceutical safety that addresses physical, chemical, and biological hazards as a means of prevention rather than finished product inspection. HACCP is used in the food industry to identify potential food safety hazards, so that key actions can be taken to reduce or eliminate the risk of the hazards being realized (KFDA, 2009).

[74] USDA Foreign Agricultural Service (2011).

[75] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2010". Viewed at: http://trade.eucck.org/site/2010/en/market06.htm [14 October 2011]; and USDA Foreign Agricultural Service (2011).

[76] In 2008, food products that were thought to be domestically produced turned out to be OEM imported food products.

[77] KFDA online information. Viewed at: http://eng.kfda.go.kr/index.php.

OEM food products prove to be safe, their imports are to increase once consumer confidence is restored.

89. KFDA is responsible for regulating pesticide residues in foodstuffs, in accordance with the maximum residue levels (MRLs) set in the Food Code and applied for both domestic and foreign products. If an MRL is established in the Food Code for a pesticide on a particular agricultural product, it is harmonized to the CODEX tolerance levels; if the standard is different to that of the CODEX, it is reassessed, to promote standards harmonization. The Food Code lists MRLs for 83 pesticides in meat, fish, eggs, and milk products, and 142 veterinary drugs in livestock products, fisheries products, and honey. The KFDA has set up an MRLs database (Pesticide Residue database) for agricultural products, in Korean with English subtitles.[78] Food importers have to provide lists of all food ingredients and additives to the KFDA and the National Plant Quarantine Service (NVRQS, section (2)(iv)(b)) for customs clearance; the ingredient content ratio (mixture ratio of materials) is not required. Under Article 14 of the Imported Food Inspection Instruction, the declared minimum import weight of "food" and "food apparatus, container and package" for sanitary inspection by KFDA is 100 kg.[79] Cheese imports must meet Korea's pasteurization requirements.[80]

90. Imports of pharmaceuticals require a free sale certificate, issued by an authority of the exporting country, showing that the product in question is in free circulation in the country of export.[81] Any person intending to import medical devices or pharmaceuticals must obtain an item-specific approval from or file a notification with the KFDA in accordance with the relevant law.

91. Pharmaceuticals require item-specific pre-approval from the KFDA, involving the submission of extensive clinical trials data and other safety and efficacy-related data as prescribed by the Pharmaceutical Affairs Act Enforcement Decree.[82] Manufacturers must submit detailed data on certain active pharmaceutical ingredients under the KFDA's Drug Master File.

92. Each batch of imported pharmaceutical products requires batch release testing by the healthcare authorities, although they have already been tested and released by the manufacturer and the health authority of the country of origin. The authorities indicated that the same rules and regulations are applied in accordance with the Pharmaceutical Affairs Act to domestically distributed biologics (domestically produced and imported), and results of tests conducted by foreign

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[78] See KFDA online information. Viewed at: http://fse.foodnara.go.kr/residue/pesticides/pesticides_info.jsp; and http://eng.kfda.go.kr/file/Pesiticide MRLs.pdf.

[79] Imports of less than 100 kg may also be imported: they must undergo sanitary inspection by the KFDA upon the first importation; exemption for the same product from the same manufacturer may be applied thereafter. However, the exemption does not apply for subsequent imports over 100 kg, but the fees incurred from the test (inspection fee) is waived. This measure is intended to prevent manufacturers receiving inspection for a small quantity of quality products and benefiting from import clearance for a large quantity that does not comply with the inspection standards.

[80] In Korea, low temperature pasteurization is regarded as 63-65°C for 30 minutes rather than 72-75°C for 15 seconds or equivalent methods (EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_10.htm [19 October 2011]).

[81] U.S. Commercial Service (2011).

[82] Most of KFDA's regulations in this area are harmonized with the International Conference on Harmonization (ICH) guidelines, even though it is not a member of the ICH.

manufacturers or health authorities of the export country must not substitute results of batch or lot release tests conducted by the KFDA.[83] A health technology product (i.e. a medical device) must be on the reimbursement list to be put on the market (so that the company is able to sell it); its health technology assessment and registration may allegedly delay its launch in the Korean market by up to three years, depending on the product.

93. KFDA administers registration requirements on imported and domestically produced "functional" cosmetics. Importers must conduct "self-regulated" quality inspection (see below) for each product type to ensure conformity with the cosmetic standards and test methods according to the 24 February 2012 revision of Enforcement Rule of the Cosmetics Act. Cosmetics importers are required to file a customs report to and obtain prior approval from the Korea Pharmaceutical Traders Association (KPTA) on all products; importers are also verified and managed by KFDA local offices.[84] In a move towards self-regulation, Korea introduced the concept of "marketing authorization holder" (including importers), a cosmetics ingredients management system based on a negative list, and a substantiation system of cosmetics labelling and advertisement (Cosmetics Act Revision, implementation date 5 February 2012). Test results submitted by overseas manufacturers using quality standards that are internationally accepted or certified, or that are more stringent than the Korea Cosmetic Good Manufacturing Practice (KCGMP) standards, are accepted without the need for additional quality testing in Korea. Quality inspection by the importer of cosmetics is required, according to manufacturing serial/batch number. Products classified as cosmetics (e.g. depilatory, hair dye products) overseas are not considered as such in Korea; reportedly, this makes it hard to harmonize regulations with other countries.[85] The authorities indicated that these products are currently under review for future reclassification as cosmetics.

Conformity assessment

94. KATS is responsible for conformity assessment, certification, registration and testing of industrial products for voluntary (KS) standards. It runs the Korea Laboratory Accreditation Scheme (KOLAS), which accredits testing and calibration laboratories and inspection bodies, as well as the Korea Accreditation System (KAS), which accredits product certification bodies. Accreditation accords with internationally recognized standards. In 2011, there were 403 accredited testing laboratories, 193 calibration laboratories, 46 inspection bodies, and 16 product certification bodies. KOLAS is recognized by the International Laboratory Accreditation Cooperation (ILAC).

95. The revised Framework Act on National Standards and its Enforcement Decree introduced a single national integrated certification mark, the Korea Certification (KC) mark on 1 July 2009, fully implemented on 1 January 2011. The KC mark integrated and unified all 13 legally compulsory certification marks[86]; it also reduced the number of standard certification audit systems based on

[83] Furthermore they clarified that the KFDA conducts basic release testing on biologics such as vaccine and plasma-derived products; such release testing is part of the national lot release system that is generally used worldwide (EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_10.htm [19 October 2011]).

[84] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2010". Viewed at: http://trade.eucck.org/site/2010/en/market06.htm [14 October 2010]; and "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_ 10.htm [19 October 2011].

[85] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_10.htm [19 October 2011].

[86] These marks could be used alongside the KC mark until 30 June 2011; as of 1 July 2009, companies were required to attach the KC mark to all new products, which are subject to legally compulsory certification. KATS online information. Viewed at: http://www.kats.go.kr/en_kats/news/KAEU04_6.asp?sub_menu=6 [12 October 2011].

ISO/IEC Guide 67 from 20 to 9. Diverse certification marks have caused confusion among consumers, and have also proven costly and time consuming for businesses.

96. In 2011, KATS established a five-year comprehensive plan on quality management to identify quality-related issues that could be addressed to expand and support a base for sustainable growth amid intensifying global competition; the plan will be strategically pursued to enhance national competitiveness.[87] The plan lays out 15 major actions and strategies to spur Korea's economic growth, and to strengthen and support its quality competitiveness in order to rank 10th in terms of global quality competitiveness by the year 2015.

97. Certification authorities are encouraged to negotiate mutual recognition arrangements (MRAs) with foreign counterparts. KOLAS is a signatory to the ILAC Multilateral Recognition Arrangement (MLA) for testing and for calibration; 72 accreditation bodies from 59 countries participate in the MLA. KAS is a signatory to the International Accreditation Forum (IAF) MLA for bodies operating product certification systems. Korea also maintains an extensive network of MRAs, especially with APEC economies. KAS forms part of the Pacific Accreditation System (PAC). KAB is a signatory of the IAF MLA for Quality Management Systems, and participates in the IAF MLA for Environmental Management Systems. Korea is also a member of the APEC MRA on Conformity Assessment of Telecommunications Equipment (Phase I and II) and of Part I of the APEC Electrical MRA; it does not intend to participate in Part II and III of the latter.

98. Korea maintains an APEC-TEL MRA with Canada (1997), the United States (2005), Viet Nam (2006), and Chile (2007) on recognition of test results for telecommunications equipment; an FTA with the EU with provisions on recognition of conformity assessment for telecommunications equipment; and an MRA with Singapore (2006) on electrical and electronic appliances under the Korea-Singapore FTA. The NEP (New Excellent Product) certification system covers products manufactured with new technologies developed first in Korea or with innovative technologies improved from existing technologies. The certificate is valid for three years. NEP-certified products receive government support to expand sales channels and accelerate technology development. Products certified as NEP receive an additional qualification point in procurement by government and public organizations. The authorities indicated that the NEP system does not affect international trade; no data on the coverage of the system were made available to the Secretariat.

99. KFDA facilitates food imports through the "authorization of foreign official laboratories" system and the "pre-confirmed registration system of imported foods". The first covers inspection agencies established by or officially authorized by the government of the exporting country or "officially authorized foreign inspection agency" established overseas by KFDA-approved local inspection agencies, and includes 53 agencies in 9 countries. Test results issued by these agencies are recognized by the KFDA and therefore relevant imports are exempt from laboratory inspection. Under the "pre-confirmed registration system of imported foods", foodstuffs pre-approved and registered based on site inspection at the exporter's premises and advanced test certification of an officially authorized agency are exempt from laboratory inspection. Korea has not joined the APEC MRA on Conformity Assessment of Foods and Food Products.

100. In the case of organically processed foods, only four overseas certification bodies are recognized by the Ministry for Food, Agriculture, Forestry and Fisheries (as of late 2011) in conformity with the 2009 Guideline on Management of the Certification System for Organically

[87] KATS online information, "KATS Establishes 5-year Comprehensive Plan on Quality Management", 31 May 2011. Viewed at: http://www.kats.go.kr/en_kats/news/KAEU04_1_2.asp?sub_menu=1&page=2&startPage=&En_Idx=559 [14 October 2011].

Processed Foods.[88] The MIFAFF introduced a mandatory organic certification programme for processed food products in June 2008 to efficiently manage organic foods; the new programme, which will require all domestic and imported organic processed products to be certified by an MIFAFF accredited certifying body, will be fully implemented as from 1 January 2013.[89] Imported organic agricultural produce requires certification from an official certification agency recognized by the MIFAFF. In response to consumer demand for a higher standard of environment-friendly agricultural products, Korea stopped issuing new certification for low pesticide organic agricultural produce from 2010 because this category will be discontinued in 2016.[90]

WTO notification and disputes

101. New and/or revised legislation and the implementing guidelines are published in the government gazette for public comments; these changes are also notified regularly to the WTO for Members' comments. Between January 2008 and 2011, Korea made 182 notifications under the WTO Agreement on Technical Barriers to Trade; the majority were under Article 2.9 of the Agreement (176), and in more than half of these cases (141) the timeliness of the submission allowed for a comment period of 60 days or more, while in only 27 cases the period was less than 45 days.[91] To help Korean companies respond to technical barriers to trade, KATS maintains a TBT division, which is exclusively responsible for WTO/TBT-related affairs. KATS maintains an online information service on technical regulations of respective countries, which are notified to the WTO.[92] KATS runs a TBT Notifications Alert Service, which transmits TBT notifications to stakeholders by e-mail and encourages them to submit their comments.

102. Between January 2008 and July 2012, 177 notifications were submitted under the WTO Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). This includes 148 regular notifications, 4 emergency notifications, and 25 addenda/corrigenda.

103. During the review period, Korea provided clarifications on Members' concerns raised in the Committee on Technical Barriers to Trade about several measures (e.g. chemical material, thin-film solar panels, PCV flooring material and wallpaper and paper linoleum, automobile standards, organic food).[93]

(b) Quarantine regulations

104. Korea's main laws on quarantine requirements for imports (and exports) are the Plant Protection Act and the Contagious Animal Disease Prevention Act. Animal, plant, and fisheries

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[88] Ministry for Food, Agriculture, Forestry and Fisheries Notice No. 2009-415, 16 December 2009; and EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2010". Viewed at: http://trade.eucck.org/site/2010/en/market06.htm [14 October 2010].

[89] Products produced according to KFDA's labelling requirements, which clear customs on or before 31 December 2012, will be eligible to be sold in the marketplace until their shelf life expires (USDA Foreign Agricultural Service, 2011).

[90] Sustainable agricultural produce is classified into three categories: organic produce, no-pesticide produce, and low-pesticide produce, and can be labelled accordingly. For livestock products, two categories of certification are available; organic livestock and no antibiotic livestock (USDA Foreign Agricultural Service, 2011).

[91] WTO documents G/TBT/23, 20 February 2008; G/TBT/25, 4 March 2009; G/TBT/28, 5 February 2010; G/TBT/29, 8 March 2011; and G/TBT/31, 2 March 2012.

[92] Viewed at: http://www.knowtbt.kr/eng/index.aspx/.

[93] WTO documents G/TBT/M/46, 23 January 2009; G/TBT/M/47, 5 June 2009; G/TBT/M/48, 29 September 2009; G/TBT/M/49, 22 December 2009; G/TBT/M/50, 28 May 2010; G/TBT/M/52, 10 March 2011; G/TBT/M/54, 20 September 2011.

quarantine and inspection are handled by the Animal, Plant and Fisheries Quarantine and Inspection Agency (QIA), under the MIFAFF.[94]

105. The QIA inspects imported plants and plant products. Imports must have a phytosanitary certificate issued by the competent authority in the exporting country. Imports of soil, plants with soil, and certain plants or vegetable materials are banned. Imports of rice in the husk, chaff, rice straw from all countries, except Japan and Chinese Taipei, are prohibited for pest reasons. Plants from most countries for planting are also prohibited or restricted.[95] Following the disaster at the Fukushima nuclear plant, since March 2011 the KFDA has temporarily prohibited imports of 16 agricultural products from 7 prefectures that Japan put on shipping restriction.[96]

106. Korea's legislation on the marketing of genetically modified agricultural products (GMAPs), such as seeds and grains (Act on Transboundary Movement of Genetically Modified Organisms), apply equally to domestic and imported GMAPs. As from January 2008, the KFDA has been responsible for risk assessment for human health of food-related GMAPs. The Rural Development Administration (Crop Cultivation Environment), the National Institute of Environmental Research (National Ecosystem), and the National Fisheries Research and Development Institute (Marine Ecosystem) are responsible for environmental risk assessment. Since 1 January 2008, Korea has allowed GMAPs production and imports. In February 2012, food safety approval for GMAPs had been given to 22 varieties of soybean, maize (since 2008), and cotton. So far, no GM crops have been grown in Korea and, therefore, the process for crop and food approval has only been applied to imported products.[97]

107. Animal and animal products are subject to inspection and quarantine. Document and organoleptic inspection, and laboratory testing, if necessary, are undertaken to verify that no contagious animal disease is brought into Korea and that no hazard is posed to public health. Korea bans import of animals and their products from countries affected by exotic animal diseases such as foot-and-mouth disease and BSE.[98] Upon request of the exporting country the import ban may be lifted depending on the outcome of import risk analysis. Imports from countries affected by HPAI (Highly Pathogenic Avian Influenza) is banned, but imports of poultry meat that is heat-processed to kill the HPAI virus is allowed. According to the authorities, Korea applies the same animal quarantine and livestock product health requirements to domestic production and imports. Canada's complaint against Korea's measures affecting imports of its bovine meat and meat products led to the

[94] On 15 June 2011, the National Veterinary Research and Quarantine Service, the National Plant Quarantine Service, and the National Fisheries Products Quality Inspection Service were consolidated into a single entity, the Animal, Plant and Fisheries Quarantine and Inspection Agency (QIA).

[95] WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

[96] As of December 2011, the items subject to this prohibition included rice, tea, spinach, mushrooms, chestnuts, kiwi, certain vegetables, and bamboo shoots.

[97] USDA, Foreign Agricultural Service information cited in the Australian Department of Agriculture, Fisheries and Forestry online information, "Appendix A - Regulatory Arrangements for GMOs and GM products in Australia and Australia's Major Export Markets for Canola and Cottonseed". Viewed at: http://www.daff.gov.au/agriculture-food/biotechnology/reports/maintaining_product_integrity_in_the_australian_seed_and_grain_supply_chain/appendixes/appendix_a#Korea.

[98] On 6 March 2006, the Korean beef market was opened to boneless U.S. beef and beef products of cattle under 30 months of age; following further negotiations, on 26 June 2008 beef and beef products including bones were added, but were limited to beef and beef products of cattle under 30 months of age until consumer confidence in Korea recovers.

establishment of a WTO dispute settlement panel in August 2009[99]; the MIFAFF notified its Import Health Requirements for Canadian Beef on 22 January 2012 and imports resumed.

108. Since 1 January 2008, Korea has implemented the Convention on Biological Diversity (CPB). By end 2011, the MIFAFF had completed 72 out of 95 applications for review of environmental risks of LMOs; in February 2012, it was conducting 23 reviews.

109. Korea has signed MoUs on food safety and quality standards with China's General Administration of Quality Supervision, Inspection and Quarantine (signed January 2003, revised November 2007), Chile (May 2009), Viet Nam (May 2009), the Australia/New Zealand Food Standards (FSANZ) (July 2011), and the Philippines (Manila) WHO Western Pacific Regional Office (WPRO) (July 2011).[100]

(c) Marking and labelling

110. KDFA has continued to review food labelling standards in order to update and harmonize them with international requirements. Following a May 2009 revision to the Special Act on Children's Dietary Life Safety Management, a voluntary colour-coded labelling system (traffic-light labelling) for children's preferred food products was introduced and implemented from January 2011.[101] As from December 2009, requirements for a voluntary inner labelling programme and a voluntary guideline for nutritional labelling on the principal display panel of food products have been updated.[102] As of 30 April 2010, the use of photos or pictures of fruit was no longer permitted on the label unless the product contained the corresponding natural flavour or ingredient. On 29 July 2010, labelling requirements for irradiated food products were improved by allowing for the use of a tag as a labelling option, and a description of "contains irradiated ingredients" when it is difficult to verify which ingredients were actually irradiated.[103] As a result of the revision of the labelling standards for food products, labelling requirements for gluten-free food products were established on 6 November 2011; food products that do not contain wheat, rye, and barley, and have less than 20 mg/kg of gluten are allowed to bear a 'Gluten Free' label. Importers are sometimes requested to remove some wording in the language of the exporting country if it does not fit into the Korean labelling standards.[104]

111. According to a major trading partner, Korea's labelling requirements appear to exceed those of the CODEX Alimentarius general standard, in particularly those for alcohol products; an allegedly excessive amount of information is required on the label.[105] The authorities consider that alcohol products are subject to the same labelling requirements as other food products. Frequent changes of labelling requirements make it difficult for importers to satisfy each new requirement that is

[99] WTO document G/SPS/53, 3 May 2010, and online information. Viewed at: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds391_e.htm.

[100] KFDA online information. Viewed at: http://www.kfda.go.kr/eng/eng/index.do?nMenuCode=27&searchKeyCode=65&page=1&mode=view&boardSeq=66524.

[101] The Special Act on Children's Dietary Life Safety Management, *inter alia,* restricts the sale and advertisement of high-calorie low-nutrient food products. Since 7 September 2010, the KFDA Commissioner has been empowered to limit or prohibit TV advertisements of high-calorie low-nutrient food products designated by KFDA (USDA Foreign Agricultural Service, 2011).

[102] USDA Foreign Agricultural Service (2011).

[103] USDA Foreign Agricultural Service (2011).

[104] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_10.htm [19 October 2011].

[105] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_10.htm [19 October 2011].

introduced without a grace period or sufficient time for its implementation. In 2011, seven government agencies were regulating labelling requirements, and it appears that each agency proposes regularly a new requirement.[106] To minimize inconvenience in this area, a grace period of one year is given to conform with the labelling standards for food products that are controlled by the KFDA, and their implementation date is set at 1 January of the relevant year.

112. Origin labelling is mandatory for food and many other imports (664 four-digit tariff lines in 2011). The use of the term "Assembled in Country X" has been allowed since October 2010.[107] The Korea Customs Service (KCS)'s Origin Mark Registration and Retrieval System enables users to check origin markings by trader or item.[108]

113. As of January 2012, genetically modified corn, soybeans, cotton, rape and sugar beet (including sprouts originating from these items) as well as foods suitable for consumption containing these products and notified as such by the KFDA, were subject to mandatory GMO labelling requirements. Korea accepts a notarized self-declaration, instead of requiring full documentation, to certify products that are exempt from biotechnology requirements. Importers or manufacturers must keep records for up to two years to prove that unlabelled foods subject to GMO labelling requirements are GMO free.

(x) Government procurement

114. In 2010, Korea's government procurement market was ₩ 104 trillion or about 8.9% of GDP (10% in 2006).[109] Although government procurement is directed at achieving "value for money", it also focuses on promoting SMEs, companies in a "disadvantageous position"[110], regional development, and green purchasing.[111] Korea operates international tendering and other procurement procedures in accordance with its multilateral commitments under the WTO Plurilateral Agreement on Government Procurement (GPA); its list of public entities subject to GPA provisions was revised on 20 July 2009, 2 November 2009, and 13 October 2010.[112] Korea's international tendering system is based on open competitive tendering; according to the authorities, restricted tendering is rarely used (see below).[113] Since the entry in force of the KORUS FTA (15 March 2012, Chapter II(6)(iii)(d)), the threshold for goods and services from the United States has been lowered to ₩ 100 million (the WTO GPA threshold is ₩ 250 million).[114] No statistical data on the participation

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[106] The government agencies concerned are the National Tax Service (NTS), the KFDA, the KFTC, the Ministry of Environment, the KCS, the MHW, and the Ministry of Gender Equality and Family (MOGEF) (EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_10.htm [19 October 2011]).

[107] U.S. Commercial Service (2011).

[108] Korea Customs Service online information, "KCS launched Origin Mark Registration and Retrieval System", 21 November 2005. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

[109] Public Procurement Service (2011).

[110] The authorities indicated that the term "companies in a disadvantageous position" refers to enterprises owned by women, veterans service organizations, or social welfare organizations.

[111] Public Procurement Service (2011), *PPS Annual Report 2010*, 24 August. Viewed at: http://www.pps.go.kr/english/ [14 October 2011].

[112] The revision of the list aimed to reflect a reshuffle of organizations, and the actual level of Korea's GPA coverage was not changed (WTO document WT/Let/649, 3 August 2009, WT/Let/660, 10 November 2009, and WT/Let/685, 25 October 2010).

[113] Restricted tendering consists of limited (by invitation) or nominated (by nomination) competitive bidding and private contracts where a specific supplier is used.

[114] Furthermore, Korean procuring entities should not require a United States supplier/bidder to have been previously awarded one or more contracts by a procuring entity in Korea or to have had prior work

of WTO GPA-covered entities were made available by the authorities between Korea's last notification in 2006 (2004 data) and December 2011 (2010 data only).[115] Contracts subject to Korea's WTO GPA commitments represented 59.4% of total procurement (above the threshold) of GPA-covered entities in 2010.[116] More than 4.82% (by value) of these contracts were awarded using restricted (limited) tendering. Above threshold procurement by GPA-covered entities represented 36.8% of Korea's total procurement (excluding defence equipment) in 2010 (44.9% in 2004).

115. During the review period, no substantial changes were made to the main government procurement legislation (Act on Contracts to which the State is a Party, 1995). In February and December 2011, its enforcement ordinances and regulations were amended to, *inter alia,* extend the "compulsory joint sub-contracting and single source contracting system" for the Four Major River Restoration Project and the Innovative City Project until end 2013[117]; reduce contract fees and contract deposit for Green companies; expand limited bidding rights to companies caught offering bribes at bids of non-central government agencies or SOEs; and extend the application of the lowest bid award system for construction works exceeding ₩ 10 billion from 2012 to 2014.[118] The legislation covers international and domestic procurement of goods and services, including construction, by all central government agencies. Procurement by local government entities and public entities is regulated by the Act on Contracts to which the Local Government is a Party, and the Act on the Management of Non-Departmental Public Entities. Although purchase of agricultural, fisheries, and livestock products is not subject to international tendering under the GPA, their procurement is covered by the Act on Contracts to which the State is a Party. Procurement from SMEs is covered by the main procurement legislation and the Act on SMEs Products Promotion and Market Access. The 2005 Act on Encouragement of Purchase of Green Products (until 2010 known as Law on the Promotion of Environmentally Friendly Product) requires government agencies and SOEs to purchase environment-friendly products; it applies to 49 central government agencies, 244 local government bodies, and 380 public institutions and SOEs affiliated with central and local government agencies (869 agencies in total). Although the law makes mandatory the purchase of environmentally friendly products it provides exceptions for quality and availability reasons, as well as emergency procurement needs.

116. Contracts are awarded through open competitive tender, unless there are reasons (of "purpose, nature, size, etc. of a contract") for awarding by restricted tender. According to the authorities, restricted tendering is allowed in some rare cases (see below); the authorities indicate that the share of open competitive tendering is constantly increasing, whereas that of restricted and private tendering is decreasing, e.g. their share of total PPS (see below) procurement methods dropped from 13.8% (2008) to 11.1% (2010). Although defence procurement is covered by the main procurement legislation (but not by Korea's WTO GPA obligations) and, in principle, conducted by open

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experience in Korea in order to participate in procurement or be awarded a contract (Notification of trade and trade-related measures by the Republic of Korea, 25 April 2012).

[115] At the time of the previous TPR, the authorities indicated that more recent data were not available due to institutional change of responsibilities for data collection in this area. For the period currently under review, they indicated that data collection was suspended until 2010 (WTO documents GPA/84/Add.1, 12 October 2006, and GPA/108/Add.3, 2 December 2011).

[116] Data supplied by the authorities and covering entities listed in Annexes 1, 2 and 3 of Korea's schedule of commitments.

[117] The compulsory joint-venture system (up to ₩ 9.5 billion as from 2010) requires a bidder to form a joint venture with a company located in the construction region. It applies only to projects whose estimated value does not exceed the WTO GPA threshold.

[118] Ministry of Strategy and Finance online Press Release, "The Promulgation and Enforcement of amendment of Ordinance of State Contract Law and Bylaws", 8 February 2011. Viewed at: http://epic.kdi.re.kr/epic_attach/2011/R1102075-1.pdf.

competition, procurement procedures tend to follow defence acquisition management practices, and private tendering is often used. Although private contracts are occasionally used for purchases of goods and services not exceeding ₩ 50 million (₩ 200 million for construction works) in accordance with relevant laws, competitive contracting is generally used for such purchases from SMEs (see below).

Public Procurement Service (PPS)

117. Some government procurement is conducted by the central procurement agency Public Procurement Service (PPS). Central government agencies must use the PPS to procure goods and services above ₩ 100 million (foreign goods and services over US$200,000).[119] Below that threshold individual government agencies may conduct their own purchasing directly. All other public institutions, including SOEs, may procure goods and services directly or through the PPS. Local governments are authorized to procure goods and services independently and to conduct foreign procurement.[120] Since 2010, local governments have also procured all construction works independently; however, for construction works with an estimated value exceeding ₩ 10 billion, the PPS reviews the cost calculation basis of the construction budget prior to the tendering procedure, so as to prevent possible budget waste. The PPS's main functions are: supplying goods and services for government use[121]; contracting and managing public works; stockpiling 14 types of essential raw and construction materials to secure price stability and supplies[122]; coordinating and auditing government goods and real estate property management; and operating the Korea ON-line E-Procurement System (KONEPS) (previously known as Government's e-procurement system, GePS).

118. All bidders wishing to participate in PPS-conducted tenders must register with PPS. For construction works below ₩ 30 billion it uses an "eligibility screening system". "Abnormally low or dumping" tenders are rejected.[123] For contracts exceeding ₩ 30 billion, it uses the lowest bid award system after conducting a pre-qualification evaluation; the lowest bid award system is to expand to contracts exceeding ₩ 10 billion from 2014 onwards.[124] A pre-qualification system (PQ System) is also used to determine eligible bidders. While the procuring entities may decide to use the PQ system, its utilization is compulsory for construction projects subject to the lowest bid award system. Separate pre-qualification lists are maintained for each construction project, based on objective criteria.[125] Bid results, including tenders, pre-qualification evaluation, and contract awards are released on the KONEPS Internet site (http://www.g2b.go.kr). According to the authorities, there are no special pre-qualification requirements or restrictions imposed on foreign suppliers.

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[119] A higher threshold of ₩ 3 billion applies to construction contracts.

[120] Foreign procurement refers to purchase of goods and services that are not domestically produced or supplied, and therefore procured through international tendering in accordance with international commercial practice.

[121] Defence-related procurement is conducted by the Defence Acquisition Program Administration.

[122] Each year the Minister of Strategy and Finance determines which essential materials are highly dependent on imports. On December 2011, the PPS had been designated 6 base metals including aluminium, copper, and nickel, and 8 rare metals including silicon, cobalt, indium, and lithium. These metals are purchased by the PPS using international competitive tenders, and, upon request, the stocks are made available to the private industry, including SMEs, at the prevailing international market price.

[123] Bids are evaluated based on estimated prices prepared by PPS. Those that exceed these estimates are precluded, as are bids that fall below a certain level.

[124] *Construction News*, "Improvement of Local Contract System Delayed", 28 August 2011. Viewed at: http://www.cnews.co.kr/uhtml/read.jsp?idxno=201108261310508960621.

[125] Bidding is only open to suppliers that receive a certain pass score in a comprehensive evaluation based on experience, technical capacity, financial status, and credibility (record of the supplier's integrity in abiding by relevant laws).

119. The PPS handles procurement from SMEs and other socially weak sectors, such as regional companies and female-owned businesses.[126] The Small and Medium Business Administration provides the list of set-asides products to be procured through competition among SMEs only as an exception under the GPA.[127] The PPS implemented various policies to increase opportunities for SMEs. PPS's "competitive bidding system restricted by region" and "compulsory joint sub-contracting and single source contracting system" expands regional opportunities.[128] On 2 August 2011, the PQ System was amended to broaden participation of SMEs in tendering including a new factor in their evaluation criteria, the ratio of SME participation in a project proposal.[129] Under its 18 August 2010 notice "Competitive Bidding among Joint Venture of SMEs" the PPS designated 20 standard items, including ready-mixed concrete, for which only joint ventures with at least 20% small-sized suppliers may compete.[130] Between 2008 and 2010, the share of PPS's purchases of goods from SMEs rose from 69.5% to 75.2% of total domestic procurement of PPS.[131]

120. In line with the Government's Low Carbon Green Growth policy, the PPS established an Action Plan for Green Purchasing in November 2009 and issued Purchasing Guidelines for the Promotion of Public Purchase of Green Products in December 2010; these Guidelines specified the scope of green purchasing public organizations, and ensured the effectiveness of green purchasing.[132] To expand demand for green products, 50 items highly demanded by public sector entities, such as office machines, recycled products, LED lamps, hybrid vehicles, high efficiency equipment, and synthetic wood were designated by the PPS as Minimum Environmental Standard products for Public Procurement as of December 2011; PPS plans to increase the number of items to 100 by 2013. The PPS expanded incentives for purchasing green products and removed barriers to green products entering the public procurement market. In 2009, the PPS revised the scoring criteria of its eligibility tests, raising the reliability score allocated to those with eco-friendly certificates. It provided preferential treatment for companies with green construction works in pre-qualification eligibility examination, and made it mandatory for newly constructed government buildings to comply with the Energy Efficiency Grade 1 and Eco-friendly Design Standard. Between 2008 and 2010, the PPS purchased green products accounting for about 11% of the total value of domestic procurement of goods; this share increased to 20.4% or ₩ 3 trillion in 2011.

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[126] The precise definition of an SME differs between sectors. In manufacturing it is a company employing fewer than 300 persons or with paid-up capital of less than ₩ 8 billion.

[127] The scope of restricted tendering procurement includes five types of technology development products, and products provided by SMEs in four special support regions. The list is renewed every three years, from 2009. There are 196 SME products for set-asides until 2012.

[128] The competitive bidding system "restricted by region" applies to projects valued up to ₩ 7.6 billion (₩ 5 billion in 2007), and allows companies located in the construction region to participate in the open competitive tender. The compulsory joint-venture system (up to ₩ 9.5 billion as from 2011, previously ₩ 7.4 billion) requires a bidder to form a joint venture with a company located in the construction region. Both methods apply only to projects whose estimated value does not exceed the WTO GPA threshold.

[129] *Financial News*, "PPS Amends PQ Standards", 2 August 2011. Viewed at: http://www.fnnews.com/view?ra=Sent1201m_View&corp=fnnews&arcid=110802133512&cDateYear=2011&cDateMonth=08&cDateDay=02.

[130] In December 2011, the 20 designated items were ready-mixed concrete, asphalt concrete, manhole boxes, concrete flumes, conduit, polyethylene pipes, water meters, iron poles for street lighting, stainless water tanks, stone blocks, PVC pipes (vinyl chloride pipes), reinforced spun concrete pipes, vinyl insulated wire, aluminium cable steel reinforced (ACSR), stranded electrical wire, control cables, iron manhole rims and covers, gabions, welded wire mesh, and reinforced concrete under-drain blocks.

[131] Domestic procurement refers to goods, services, and leases produced or supplied domestically (Public Procurement Service, 2011, Part II).

[132] Public Procurement Service (2011).

121. The PPS handled 36.2% (30% in 2008) of Korea's total domestic and foreign government procurement of goods and services (excluding defence equipment) and construction contracting in 2010. PPS's total annual procurement has grown rapidly, from ₩ 29.7 trillion in 2008 to ₩ 44.1 trillion (2009) but fell slightly to ₩ 38.3 trillion in 2010, of which 52.3% were public works contracts.[133] The share of foreign supplies has dropped steadily, from 3.5% (2008) to 1.6% of PPS's total procurement operations in 2010, a significant decline compared with 1991-95 (immediately prior to Korea's accession to the GPA), when government procurement of foreign sourced goods by the Office of Supply averaged 9.9% of the agency's purchases.[134] Foreign suppliers continue to lose ground due to the highly sophisticated and increasingly competitive domestic suppliers of manufactures and construction services, as well as the discontinuation of government purchases based on international public loans (IBRD, OECF), which required international competitive tendering. As Korea advances in respect of technology, replacement of foreign equipment with domestic items is expected to accelerate; further challenges are expected in light of the environmental-friendly and diversifying needs of purchasing entities. Most foreign procurement is undertaken by central government (43.7% of the total in 2010) and local authorities (21.2%). More than 90% of foreign procurement was subject to competitive tendering during the review period. Foreign commodities procured ranged from books to sophisticated system equipment, including science and research equipment, state-of-the-art medical equipment, and helicopters.[135]

122. The value of transactions conducted through KONEPS, an internationally acclaimed single window for procurement with a digitalized purchasing process, fell slightly, from ₩ 85.8 trillion, or 70.2% of total government procurement in 2009 to ₩ 75.1 trillion or 71.9% of total government procurement in 2010. As of 2011, KONEPS was in use by 42,042 public organizations and 218,719 private businesses.

Other procurement

123. Some 63.3% of Korea's procurement market involves procurement directly by public institutions (i.e. outside the PPS's scope).

(3) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Registration, documentation, and clearance

124. More than 95% of export declarations are submitted electronically to Customs without supporting documents, and accepted automatically by the e-clearance system. Clearance time is under two minutes on average, and export time seven days (lower than the OECD average).[136] As from June 2011, the KCS prohibits third-party goods from falsely claiming Korean origin; measures to control illegal transhipments were reinforced, and punishment for transhipment falsification was strengthened.[137] Cases of third-party goods falsely claiming Korean origin, with the intention of obtaining preferential tariff treatment, are expected to increase once major FTAs (e.g. with the EU and the United States) take effect. In July 2011, the KCS was to establish and operate a new office to control illegal transhipments; it also planned to build a system to manage the whole procedure,

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[133] Public Procurement Service (2011).

[134] PPS's foreign procurement peaked in 2009 (US$1 billion), and subsequently dropped by 48.1% due to the lack of contracts above ₩ 170 billion, and the won's depreciation against the U.S. dollar.

[135] Public Procurement Service (2011).

[136] Korea Customs Service (2009); and World Bank/IFC (2011a and b).

[137] KCS online notice, "KCS, intensively cracking down on trans-shipment fraud", 3 June 2011. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf.

including entry, unloading, transportation, shipping and departure. It planned to considerably increase inspection rates for high-risk companies after assessing the possibilities of unfair trade practices by 178 companies engaging in unloading, transporting and storing merchandise at Busan Port, Inchoen Air Port and other sea- and air-ports in Korea. In addition, KCS was to share information about potential falsified origin with customs authorities from the EU and the United States.

(ii) Export prohibitions, restrictions, and licensing

(a) Export prohibitions

125. The negative list of banned exports has not changed during the period under review. Export prohibitions, affecting 11 six-digit HS items, protect animal rights (dog furskins and their products), endangered species (whale meat and its products), and preserve natural resources (uncut pieces of natural granite stones).

(b) Export licensing and restrictions

126. Sand and gravel-related items are restricted to protect natural resources; in doing so, the authorities assist downstream processing of these resources.[138]

127. Korea may restrict exports of certain products periodically to ensure adequate domestic supplies, again potentially assisting downstream processing of these products. Following the February 2008 revision of the Grain Management Act Enforcement Regulation, rice is the only product requiring export authorization (termed as "recommendation" by the authorities) by the MIFAFF. The authorities indicated that rice is a staple grain whose "tariffication" was delayed and that it requires supply and demand management. Quotas have been set on the basis of an export-need recommendation for rice exports: for 2008 (47,000 tonnes), 2009 (63,000 tonnes), 2010 (79,000 tonnes), 2011 (98,000 tonnes), and 2012 (104,000 tonnes). Quota allocation is on a first-come, first-served basis. There are no qualification requirements for exporters. According to the authorities, export quota levels, which were similar to those of rice import quota levels, remain little utilized, i.e. 566 tonnes in 2007, 358 tonnes in 2008, 4,495 tonnes in 2009, 3,815 tonnes in 2010, and 3,564 tonnes as of November 2011.[139]

(iii) Export subsidies

128. Korea does not have export subsidy commitments; it maintains export subsidies for certain farm products under the provisions of Article 9.4 of the WTO Agreement on Agriculture.[140] In 2008, these subsidies, which were notified to the WTO Committee on Agriculture, totalled ₩ 32.68 billion (₩ 25.59 billion in 2004), and covered fruit (₩ 10.85 billion), flowers (₩ 5.39 billion), vegetables (₩ 11.02 billion), kimchi (₩ 3.03 billion), ginseng (₩ 0.92 billion), livestock (₩ 1.26 billion), grain

[138] Exports of sand and gravel items require approval by the Korean Aggregate Association. Export quotas for sand are allocated based on applicants' production capacity. Only sand and gravel that are a by-product of raw ore processing are approved for export.

[139] These data differ slightly from those available in UNSO Comtrade and the KCS contained in USDA Foreign Agricultural Service (2012).

[140] Korea considers that, in line with the 2005 Hong Kong Ministerial Declaration, which stipulates that "Developing country Members will continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture for five years after the end-date for elimination of all forms of export subsidies" (2016), it would be entitled to maintain exports subsidies listed in paragraphs 9.1 (d) and 9.1 (e) of the Agreement until 2021.

and processed food (₩ 0.08 billion), and traditional liquor (₩ 0.13 billion).[141] The subsidies were used to reduce exporters' marketing costs, and are exempt from WTO reduction commitments. The authorities indicated that data on export subsidies from 2008 onwards will be notified in the course of 2012. Korea does not consider that corporate income tax relief to industries located in FTZs is subject to WTO notification (section (2)(i)(b)).

(iv) Duty and tax concessions

129. Raw materials used in exports are exempt from customs duties (section 2(iii)(e)), and a customs drawback scheme provides refunds. The Korea Customs Service operates an Internet drawback system allowing refund requests to be filed online; a real time electronic treasury transfer system allows the Bank of Korea to make electronic refunds to exporters. Refunds totalled US$3.5 billion in 2010 and US$4.4 billion in 2011 (US$2.6 billion in 2007), equivalent to about 24.8% and 29% of tariff revenue, respectively. No information on the drawback calculation method and data on the value of exports benefiting from drawback since 2008 was available from the authorities.

(v) Export finance, guarantees, and insurance

130. The government-owned Export-Import Bank of Korea (EXIM-Bank) provides export credit and financial guarantees to support Korean enterprises in conducting overseas business. Project-related guarantees are also provided to foreign buyers in the event of exporters' failure to meet contractual arrangements.[142] The Government ensures the Bank's solvency by covering any net losses beyond reserves; government funding of ₩ 150 billion in 2010 and ₩ 1.1 trillion in 2011 helped the Bank accumulate ₩ 5.2 trillion and ₩ 6.3 trillion, respectively, in paid-up capital. Direct loans to foreign buyers and export loans to Korean firms, its primary activities, cover mainly capital goods, such as industrial plant, machinery, and ships. Export loans of up to 100% of the contract value (less any required cash payment) are available provided the "minimum foreign exchange earnings ratio" is no less than 25%. Export credits are subject to the minimum commercial interest reference rate (CIRR) and other terms.[143] Korea EXIM-Bank support for ship exports meets the requirements of OECD's Sector Understanding on Export Credits for Ships. In 2010, it increased its volume of credit facilities by 15%, to ₩ 64 trillion, and expanded the number of supported companies by 18%; this amount was to be further increased to ₩ 66 trillion in 2011.[144] In 2010, ships comprised the largest portion of items supported under export credit, with ₩ 6.1 trillion (US$5.4 billion, 22.6%), followed by industrial plants (₩ 4 trillion), and machinery (₩ 1.99 trillion). Under the Interbank Export Credit (IEC) facility offered to foreign banks in the form of a credit line that can be utilized for loans to their clients importing Korean goods or conducting business transactions with Korean subsidiaries, the amount disbursed increased by 90.0% to ₩ 973 billion (US$855 million) in 2010 from ₩ 512 billion (US$439 million) in 2009; major clients of this programme included banks in emerging countries such as the Russian Federation, Uzbekistan, and India.

[141] WTO documents G/AG/N/KOR/36, 27 February 2007; and G/AG/N/KOR/42, 4 October 2010.

[142] Korea EXIM Bank online information. Viewed at: http://www.koreaexim.go.kr/.

[143] Korea fully implemented the OECD Arrangement as from 31 March 2002 when transitional arrangements expired. Maximum repayment periods are: 12 years for ships, non-nuclear power plants; 18 years for nuclear power plants; and 5-10 years for other products, pursuant to the OECD Arrangement (Korea EXIM Bank online information. Viewed at: http://www.koreaexim.go.kr/en/banking/export/loan_01.jsp [27 October 2010]).

[144] Korea EXIM Bank (2010).

131. The state-owned Korea Trade Insurance Corporation (K-sure, previously KEIC), under MKE, provides export credit insurance against non-payment risks (Trade Insurance Act, 1968).[145] It promotes exports by insuring against risks that are not privately insurable and, according to the authorities, assists exporters to compete on a level playing field with competitors assisted by government-supported foreign export credits. K-sure supplies export insurance against losses due to political and commercial risks, whole-turnover insurance policies at a 50% discount to specific policies. It offers 13 different types of export insurance and 2 types of guarantees, but most underwriting takes the form of short-term insurance. The maximum coverage for medium- and long-term export insurance is 100% of the contract value (less any required cash payment) as per OECD Guidelines on Officially Supported Export Credits. The largest beneficiaries remain exporters of major items (e.g. semiconductors, wireless communication, and IT items) and capital goods (e.g. industrial plant, machinery, and vessels). Total exports underwritten rose by 44.4% from 2008 to 2010, to ₩ 187.4 trillion (22.9% of total exports)[146]; in 2011, they rose by 2.6% to ₩ 192.2 trillion (88.8% of covered short-term insurance).

(vi) Export promotion and marketing

132. Korean exporters benefit from the promotional activities of the state-owned Korea Trade and Investment Promotion Agency (KOTRA). With 111 Korea Business Centers in over 76 countries, the agency operates a "business matchmaking" service introducing foreign importers to Korean businesses. KOTRA also organizes or assists with trade missions and exhibitions domestically and overseas, providing SMEs with export-related information and consulting services. Other than supporting the globalization of SMEs, KOTRA also works as a help centre providing useful information to foreign investors. No recent data on total government promotional expenditure on exports (₩ 34.1 billion in 2007) were available from the authorities.

(4) MEASURES AFFECTING PRODUCTION AND TRADE

(i) Taxation[147]

133. Total taxes as a share of GDP remain relatively low (18.6% in 2009, Table I.1). Korea relies on indirect taxes for 48.1% of tax revenues.[148] VAT remains the main indirect (consumption) tax component, followed by the transportation-energy-environment tax. As a result of a steadily rising trend due to increased imports, customs duties contributed a substantial 6% to total tax revenues in 2010 (Table III.3). Corporate and personal income taxes are also important sources in total tax receipts. Overall, the tax system, in particular its trade-related part, remains complicated by the so-called tax-on-tax (cascading) schemes and various surtaxes.[149] According to the authorities, the Korean tax regime adheres to the globally accepted OECD International Tax Standards on exchange of information. The introduction of "Partnership (2009)" and "Consolidated Tax Return (2010)" contributed to the rationalization of corporate taxation. Korea is pursuing efforts to simplify its tax system and to increase the ease of compliance through, *inter alia,* the adoption of e-government tools such as "HomeTax" (UN award for best practices in 2010).

[145] K-sure online information. Viewed at: http://www.ksure.or.kr/english/index.jsp [28 October 2011].
[146] K-sure (2011).
[147] For more information on taxes see Ministry of Strategy and Finance/National Tax Office (2010).
[148] The authorities indicated that the distinction between direct and indirect taxes is mainly based on the incidence of taxes affecting the same taxpayers. However, this distinction is no longer considered applicable for analysing tax statistics, as the burden of direct and indirect taxes can be shifted to others.
[149] EIU (2011a).

(a) Indirect taxation

134. Korea's relatively complex indirect tax structure comprises a broad-based VAT, individual consumption (special excise) taxes, and other taxes on liquor, property transactions (stamp tax), and securities transactions. There is also a transportation (energy-environment) tax, education tax, and special tax on rural development. Exports are generally exempt from indirect taxes, except mainly for individual consumption and transportation-energy-environment taxes applied to inputs of petroleum products used in their production. Exports are zero-rated for VAT.

Table III.3
Structure of direct and indirect tax revenue, 2004-10

	2004	2005	2006	2007	2008	2009	2010
Total tax revenue (US$ billion)	102.9	124.4	144.5	173.8	151.7	128.9	153.7
				(% of total)			
Direct taxes	42.4	44.2	45.5	47.8	46.8	43.8	43.8
Income tax	19.9	19.3	22.5	24.1	21.7	20.9	21.1
Corporation tax	21.0	23.4	21.3	21.9	23.4	21.4	21.0
Inheritance tax	1.5	1.5	1.7	1.8	1.7	1.5	1.7
Indirect taxes	48.5	46.9	44.8	41.7	42.9	44.2	46.0
Value-added tax	29.3	28.3	27.6	25.4	26.2	28.6	27.6
Transportation tax	7.3	8.1	6.9	7.1	7.1	6.1	7.9
Customs duties	5.8	5.0	5.0	4.6	5.2	5.6	6.0
Special consumption tax	3.9	3.5	3.6	3.2	2.7	2.2	2.9
Liquor tax	2.2	2.0	1.7	1.4	1.7	1.7	1.6
Other[a]	9.1	8.9	9.7	10.5	10.3	12.0	10.2

a Unspecified revenue information.

Source: Data provided by the Ministry of Strategy and Finance.

135. The VAT, at 10%, applies to goods and services. Exemptions cover unprocessed foodstuffs, social welfare services, books, educational services, and financial and insurance services. The VAT is levied on top of other taxes, including import duties, where applicable.[150]

136. The individual consumption (special excise) tax applies to a wide range of goods, including luxury products. Rates vary from 5% on cars of less than 2,000 cc and motor cycles, to 20% (e.g. motorboats, yachts, luxury items). Flexible rates are used to boost or discourage consumption of certain products to allow efficient management of the economy in case of need of business cycle adjustment, price stabilization, etc. Individual consumption tax rates on vehicles were lowered temporarily by 30% via the implementation of flexible rates from 19 December 2008 to 30 June 2009.[151] Hybrid cars (from 2009 to 2012) and electric cars (from 2012 to 2014) are exempt from the individual consumption tax (up to ₩ 1 million and ₩ 2 million, respectively) and high energy consuming home appliances (air conditioner, refrigerator, TV, drum-type laundry machine) are subject to a 5% rate of individual consumption tax (from 2010 to 2012). Individual consumption

[150] The VAT base for imports is the c.i.f. price plus customs duties and other taxes, where applicable.
[151] This measure lowered the 5% individual consumption tax on vehicles with engine of between 1,000 and 2,000 cc to 3.5%; the 10% tax on vehicles with engines larger than 2,000 cc was lowered to 7%.

taxes also apply, in principle, to petroleum products other than petrol and diesel oil that are also subject to a transportation·(energy-environment) tax.[152]

137. Under another three-year extension of its sunset clause, the transportation-energy-environment tax continues to be levied on gasoline (₩ 475 per litre) and diesel oil (₩ 340 per litre) until end 2012 (instead of the individual consumption tax). Flexible transportation-energy-environment tax rates may apply to gasoline and diesel oil within a 30% range of the statutory tax rates, i.e. ₩ 529 per litre and ₩ 375 per litre, respectively from 21 May 2009. Conditional exemptions apply to petrol and diesel used in the manufacture of medical goods, fertilizers and petro-chemicals, vehicles for handicapped persons or rental usage. The liquor tax on alcoholic beverages remains unchanged.[153]

138. The securities transaction tax is levied on transfers of shares or stocks of a business entity. The standard rate of 0.5% applies to the value of securities transferred. A reduced rate of 0.15% (plus 0.15% of special tax for rural development) and 0.3% apply to transactions on the securities market and on the KOSDAQ market, respectively.

139. The education tax, levied on banking and insurance services, and all goods subject to the individual consumption tax, the transportation tax, and the liquor tax (excluding spirits, Takju, and Yakju), is set at: 0.5% of gross receipts for banking and insurance (includes commissions, interest, dividends, and insurance premiums); 30% of the individual consumption tax (15% in the case of kerosene, heavy oil, butane or LPG, and nonanes plus gas (C9+)); 15% of the transportation tax; and 10% of the liquor tax (30% for liquors taxed at over 70%).

140. The special tax for rural development is a surtax levied on income exempted from company and personal tax, on the value of customs duty concessions, and the amount of individual consumption tax and securities transaction tax.[154] The current rates are: 0.15% for the amount of the securities transaction tax, 10% or 30% (golf courses) for the individual consumption tax, and 20% for exemptions of company and income taxes as well as customs duties. The tax was extended for a second ten-year period on 1 July 2004.

141. Korea imposes environmental waste charges on certain items that contain harmful substances and are difficult to recycle (Act on Promotion of Saving and Recycling of Resources). The charge is intended to ensure that manufacturers bear the cost of processing waste. It applies equally to imports and domestic goods.[155]

Local taxes

142. Following the 2010 amendment of local tax laws, as from 2011 the 16 local taxes were integrated into 11 taxes, leading to some rationalization in the unwieldy system of local taxation.[156]

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[152] Other products taxed are heavy fuel oil (₩ 17 per litre), kerosene (₩ 90 per litre), natural gas (₩ 60 per litre), fuel oil (₩ 17 per litre), LPG-butane (₩ 252 per kg, but ₩ 275 per kg is applied under the flexible rates), and LPG-propane (₩ 20 per kg).

[153] See WTO document WT/TPR/S/204/Rev.1, 4 December 2008 for more details.

[154] It includes exemptions specified under the Special Tax Treatment Control Law, the Local Tax Law, and the Customs Law. Exemptions under the Company Tax Law, Income Tax Law, and the Foreign Investment Promotion Law are excluded.

[155] The charges are set at, e.g. ₩ 24.9 per plastic container of insecticide or ₩ 30.7 if it exceeds 500 ml; and ₩ 75 or ₩ 150 per kg of the plastic or synthetic resin used for domestic goods.

[156] EIU (2011a).

Province and city governments apply a range of indirect taxes, including an acquisition tax, to purchases of real estate, motor vehicles, heavy equipment, and boats. A registration tax is levied on property and motor vehicles, boats, aircraft, and construction machines, as well as certain business registrations and intangible assets, such as transfers of mining, fishing, and intellectual property rights. An automobile tax applies to passenger vehicles (depending upon engine size), buses, and trucks (depending upon carrying capacity). A tobacco consumption tax is levied at various specific rates.

(b) Direct taxation

143. Personal income tax and corporation tax remain the second and third largest single sources of revenue after VAT. Progressive personal income tax rates range from 6% (income of ₩ 12 million or less) up to 38% (over ₩ 300 million).[157] Certain foreign workers are exempt from income tax. Corporation tax rates have become increasingly more competitive in an effort to make the business climate more attractive to domestic and foreign companies. The lower income bracket was raised, and the corporation tax rate was reduced in 2010 from 13% to 10% for income up to ₩ 200 million (previously ₩ 100 million), and from 25% to 22% for higher income.[158] The corporation tax rate for middle income (₩ 200 million-₩ 20 billion) was further reduced in 2012 from 22% to 20%. A foreign corporation without a permanent residence in Korea is subject to withholding taxes.

(c) Tax incentives

144. Tax incentives are used extensively as an instrument of industrial policy to encourage investment, especially from overseas, and production of certain goods, including by SMEs (Special Tax Treatment Control Law 1999, STTCL). They cover a range of activities, and include income tax relief (rate reductions, exemptions, credits, special deductions and other concessions), or credits and commodity tax concessions (such as VAT exemptions and zero-rating). Many tax incentives under the STTCL have expiry dates and are extended periodically; in July 2011, the Government was considering various modifications to the STTCL in order to stimulate more job creation. Tax incentives were to terminate at end 2003 but many were extended until end 2009, 2010, 2011 or 2012.[159] According to the authorities, out of 42 "non-taxation" and tax reduction/exemption benefits due to expire in 2011, 30 were extended while the remainder were abolished or scaled back; 3 tax incentives with no expiry date were scaled back or repealed in 2010 and 2011. In determining whether to repeal or scale back a certain tax incentive, factors taken into account included the extent to which the objective had been achieved and whether the benefit was in line with "international standards".

145. Associated with the above income tax incentives, Korea had 141 (143 in 2007) tax expenditures under its income taxes in 2010. The general business incentives category counts for the highest number of tax expenditures followed by specific industry relief.[160] Korea had another 93 tax expenditures under other taxes in 2010; the two largest contributing taxes were the VAT (26 tax

157 Taxation for higher income (i.e. above ₩ 12 million) consists of a fixed amount (from ₩ 0.72 million up to ₩ 90.1 million depending on the income scale) plus a percentage on the amount exceeding the lowest value of the tax base.

158 Taxation for higher income consists of ₩ 20 million plus the percentage of the amount exceeding ₩ 200 million.

159 The sunset clauses on most tax incentives took effect in 2009. In creating a new tax incentive, a sunset clause (i.e. phase-out after 2 to 3 years of implementation) is generally included.

160 Korea's tax expenditures under the income taxes equalled 1.76% of GDP in 2006; those under other taxes were 0.72% of GDP, of which almost two thirds came under the VAT (OECD, 2010c).

expenditures in each year), and the securities transaction tax (17). The effectiveness of tax incentives, both in terms of meeting specific objectives and impact on the economy's overall efficiency, needs to be reviewed regularly. Forgone tax revenues for tax years 2008, 2009, 2010, and 2011 are estimated at ₩ 29 trillion, ₩ 31 trillion, ₩ 30 trillion, and ₩ 30 trillion, respectively. From 2011, an annual report on tax expenditure for the previous, current, and following years was to be published; no information about this report was available from the authorities. SMEs benefit substantially from tax incentives.[161] SMEs in wholesale, retail, medical services, or auto repairs located in non-metropolitan areas receive a 5% rate reduction. SMEs also receive larger tax incentives than those generally available, for example, much larger tax credits for investment in technology and human resource development.

146. Tax credits apply to investment in technology and human resources development (extended until end 2012); as from 2010, the R&D expenses for new growth engine industries and source technologies (section (4)(ii)) have been eligible for tax credits.[162] A concessional income tax rate of 8% (12% in 2008) applies to certain activities to enhance social welfare, including fisheries cooperative associations and the tobacco production association. There is a 50% tax exemption for forestry income. Interest income (up to ₩ 20 million) and partnership dividends (up to ₩ 10 million) are non-taxable for farmers and fishermen. Primary producers also benefit from zero-rating for VAT on machinery, fertilizer, and pesticides, and on fishing gear, including nets; and exemption of taxes on petroleum products used in agriculture and fishing.

147. Under the National Finance Act, limits on the maximum of cumulative tax incentives apply to overall tax reduction or exemption measures, including those claimed under the STTCL. The authorities indicated that the upper limit for cumulative tax incentives for domestic investment is 50% of the accumulated investment amount, and the lesser amount between the value derived by multiplying the number of regular workers at the beneficiary company by ₩ 10 million, and the value equivalent to 20% of the accumulated investment amount.

(ii) Financial assistance

(a) Loans, guarantees, and other financial measures

148. State-owned financial institutions have a major role in assisting Korea's industrial development. State intervention dominates the large venture capital market, which benefits mainly SMEs. Venture capital is invested through venture capital firms (VCFs) and limited partnership funds (LPFs). Since 2005, the Fund of Funds, has invested in LPFs and contributed to the formation of the private venture investment market. In late 2011, the Fund of Funds amounted to ₩ 1.36 trillion (₩ 630.1 billion in 2007), was mostly financed by government funds, and had invested in five areas (SMEs, culture, broadcasting, movies, patents). The number of venture corporations increased from 7,967 in 2004 to 24,645 in 2010.

149. Two major public institutions, the Industrial Bank of Korea (IBK) and the Korean Development Bank (KDB), play a substantial role in industrial development; the latter is to, *inter alia,* support the new growth engine industries for the next decade. They are run commercially,

[161] See WTO document WT/TPR/S/204/Rev.1, 4 December 2008 for more details.

[162] Korea's Five-Year Plan for Green Growth (2009-13) aims to secure new economic growth engines and focus R&D on 27 core technologies (EIU, 2011a).

but by owning over 50% of the KDB Financial Group the Government guarantees KDB's solvency.[163] While the Government has no direct control over their lending programmes, it has injected approximately ₩ 2.4 trillion since 2004 for recapitalization purposes; no replenishment of losses has been made for the IBK since 2004. All commercial banks that grant 45% of their loans to SMEs may provide low-interest-rate loans to SMEs. To alleviate the financial crunch on SMEs triggered by the global financial crisis, between 2008 and 2009, government funding (via KCGF and KOTEC) of support for payment guarantee coverage was increased by 44.7% to a peak of ₩ 64.8 trillion in 2010; in 2011, as a result of the economic recovery there was a slight drop, to ₩ 62.8 trillion.

150. The IBK supports SMEs mainly through low interest loans in line with government policy for working capital for technology development, productivity improvement or automation, constructing facilities, and buying plant and machinery. At end-December 2011, loans extended to SMEs amounted to ₩ 94.5 trillion (₩ 65.7 trillion in 2007), or 76.4% of total IBK loans. No information on the annual interest rates for loans funded by the Korean Government or governmental agencies were available from the authorities. Most SME loans are financed by retail banking or DCM (debt capital market) funding, just like other commercial banks in Korea, while some are funded through government-originated loans. No data on this funding was available. IBK does not maximize profits given its public policy role; its financial performance is directly influenced by government policies.[164]

151. The KDB provides a broad range of industrial capital, including loans to finance tangible and intangible (e.g. R&D) investments, underwrite corporate mergers and acquisitions, and as operating capital. The KDB offers corporate banking services by extending corporate loans generated through the issuance of industrial finance bonds in the market. The KDB lending rate is ostensibly determined by market principles and no loans are extended at a preferential rate to firms of a particular industry. Nevertheless, lower interest rates are seemingly available for SMEs willing to relocate production facilities to rural areas (excluding Seoul, Kyeonggi-do, and Chungchong-do) (around 1.25 percentage points lower rates) or regional development purposes.[165] Even when using government funds, KDB extends loans under the same conditions as commercial banks but focusing on fostering strategic industries. KDB Financial Group's loan extensions originating from government funds and their proportion of total loans were ₩ 1.25 trillion and 3.4% of total loans of KDB in 2011, up from ₩ 1 trillion and 3.1% in 2010, and ₩ 571.2 billion and 2.1% in 2007.

152. The Korea Credit Guarantee Fund (KODIT) and KIBO Technology Fund provide credit guarantees to enable emerging firms, especially SMEs, to gain access to finance. They are commercially run and their operations are conducted according to market principles; however, the Government would cover any losses. The Government's financial assistance for KODIT and KIBO Technology Fund amounted to ₩ 11.2 trillion and ₩ 6.5 trillion respectively until 2009, and as of 2010, KODIT and KIBO became financially self-sufficient). KIBO Technology Fund also administers technology appraisal systems for selecting beneficiaries of various government funds.

[163] As of October 2009, the KDB Financial Group is made up of KDB Bank, Daewoo Securities, KDB Capital, KDB Asset Management and Korea Infrastructure Investments Asset Management (KIAMCO) (Korean Development Bank Financial Group, 2010).

[164] The authorities indicated that IBK is competing with other commercial banks for the same target market with identical funding and operating scheme; SMEs became more dependent to IBK's financing due to the global financial crisis as private banks reduced their exposure to loans with potentially high risks.

[165] Regional development is promoted by providing loans whose interest is partially covered by local authorities or the bank itself.

153. A ₩ 100 billion Urgent Management Stabilisation Fund, to provide low-interest and long-term financing to SMEs facing problems of access to raw materials mainly due to high oil prices was created on 15 June 2011 and was operational as from the second half of the year. In addition, the state-run Korea Trade Insurance Corporation was to extend import insurance coverage for SMEs.

154. In line with Article 32 of the Low-Carbon, Green-Growth Framework Act (effective 14 April 2010), in August 2010 the MKE passed measures to promote green certification. These measures entail: extending loans for the purpose of disseminating new renewable energy; providing linkages to the SME policy fund; intensive support for technology guarantees; support for export financing and insurance. In the context of efforts to promote the green certification by expanding the certification fields as well as improving the certification criteria, a reduction in the cost of quality inspections for green SMEs was set in February 2011: as from May 2011, the MKE has reimbursed 50% of the green technology quality inspection fee (up to ₩ 1 million) for green-certified SMEs. The MKE expected about 300 local SMEs to be certified as green and to benefit from this financial assistance programme in 2011.

(b) Other subsidies

155. Korea has notified several direct support programmes to the WTO Committee on Subsidies and Countervailing Measures. Its latest notification, in September 2011, covered the period 2009-10 and indicated that there were 24 subsidy schemes, of which 22 were also notified in 2009.[166] Grants, tax concessions or concessional loans are used to assist a range of agricultural, forestry, fishing, manufacturing R&D, and environmental protection activities. No expiry date was indicated for the notified schemes except for measures relating to replacement of old coastal and offshore fishing vessels (until 2016), and support for the telemetering system (2009-10).

156. In 2011, sector-specific support measures benefited shipbuilding, automotive, pharmaceutical, and steel-industry activities (Chapter IV). In April 2011, the Government decided to provide ₩ 6.5 trillion financial assistance to new growth engine activities in green technology, high-tech convergence[167], and high value-added services.[168] The assistance includes low interest loans, and is to be allocated as follows: ₩ 1.7 trillion in policy funds; ₩ 100 billion in financing start-ups; ₩ 1.3 trillion in on-lending funds; ₩ 3 trillion on technology appraisals and guarantees; ₩ 300 billion in collateralized bond obligations; and ₩ 100 billion in secondary funds. Policy funds would focus on R&D.

157. Korea heavily subsidizes agriculture, especially rice (Chapter IV). The importance of direct government payments to specific agricultural commodities producers was provisionally estimated by the OECD at ₩ 1.2 trillion in 2010 (up from ₩ 689 billion in 2008).[169] These relate mainly to

[166] WTO documents G/SCM/N/155/KOR, 4 May 2009, and G/SCM/N/220/KOR, 23 September 2011.

[167] National Science and Technology Commission (undated).

[168] The green technology activities comprise renewable energy, low carbon energy, advanced wastewater treatment, LED application, green transportation systems, and state-of-art green city development. The high-tech convergence activities cover broadcasting and telecommunications convergence, IT convergence systems, robot application, new nano convergence, biopharmaceutical and medical equipment, and high value-added food production. The high value-added services involve global healthcare, global education services, green finance, "contents and software", MICE (meeting, incentives, convention, and exhibition) and tourism (MOSF online information, "Gov't Boosts Financial Assistance for New Growth Engines", 26 May 2011. Viewed at: http://english.mosf.go.kr/eco/view.do?bcd=E0009&seq=26&bPage=1 [7 November 2011]).

[169] OECD (2011a), Table III.57.

overall farming income or receipts, and area planted or animal numbers. In 2011, electricity tariffs charged to agricultural activities represented a 32.8% of power production cost recovery, compared with 94.4% for electricity tariffs affecting manufacturing.

158. According to Korea's latest WTO notification of September 2011, as a result of the elimination of the Rice Purchase Programme in 2005 the current total Aggregate Measure of Support, (AMS) dropped to ₩ 33.1 billion in 2008 (much below its final bound level of ₩ 1.49 trillion), in line with WTO provisions and scheduled commitments.[170] It consisted solely of market price support for barley (₩ 33.1 billion). Total domestic agricultural support notified by Korea (including green box, development programmes subject to special and differential treatment, and *de minimis* support not subject to reduction commitments), was ₩ 5.6 trillion in 2008 (₩ 879 billion excluding green box and S&D assistance (Table AIII.7). *De minimis* support included: additional market price support (on barley, maize, and soybean); other product-specific assistance (e.g. milk support ₩ 24.27 billion, rice deficiency payment ₩ 286.32 billion, beef deficiency payment of ₩ 13.18 billion); and non-product-specific support of ₩ 291.04 billion (mainly concessional loans, subsidized inputs, and crop insurance). In 2008, green box support was more than five times the size of Korea's total product and non-product specific AMS.

159. Under the Act on Trade Adjustment Assistance (TAA), since April 2007, Korean manufacturers adversely affected by a bilateral free-trade agreement may seek compensation from MKE and MOL (Ministry of Labour) through loans, investments, and job-placement support for workers (Chapter II(6)(iii)). Measures to facilitate industry adjustment are adopted if sales or production is reduced by more than 25% over an extended period because of import competition. In light of the recent FTAs signed by Korea, in August 2011, the authorities planned to increase the budgeted funds by ₩ 1 trillion to a total of about ₩ 22.1 trillion; this is intended, *inter alia*, to compensate farmers who suffer income losses due to cheaper imports.[171]

160. It seems that few firms are using this support system and only a minimal part of the budget put aside as TAA support has been used; between 2008 and 2009, five firms were designated as recipients of TAA benefits (four in food processing, one in manufacturing).[172]

(iii) State-owned enterprises and privatization

161. State involvement in the economy (Table III.4) persists despite recent privatization efforts, particularly in the services sector (Chapter IV). The number of SOEs operating in the country varies depending on the source. According to a 2011 OECD paper, Korea had 59 SOEs in 2009 with assets valued at US$177.6 billion employing 120,655 persons. This was the highest valuation of SOEs among 27 OECD reporting countries (although, if a valuation of French statutory corporations had been available, France would almost certainly have overtaken Korea).[173] No recent data were available from the authorities on employment by SOEs (88,000 in 2008) or their assets (US$267 billion in 2008) or data relating to their contribution to GDP, their incidence in domestic production and trade (domestic, foreign), losses occurred by their operations, and budget outlays provided to cover them (since 2008).

[170] Schedule LX – Republic of Korea (WT/LET/804, 25 July 2011), Part IV Section I; and WTO documents G/AG/N/KOR/43, 16 September 2011, and G/AG/N/KOR/43/Corr.1, 25 January 2012.

[171] *Chosunilbo*, "Gov't Raises Financial Support Over FTA Effects", 22 August 2011. Viewed at: http://english.chosun.com/site/data/html_dir/2011/08/22/2011082200989.html.

[172] Inkyo Cheong and Jungran Cho (2011).

[173] OECD (2011f).

162. While privatization has been officially a priority, little was accomplished during the period under review. The Government aims to improve efficiency through privatization, reduction of personnel, and the merger and abolition of public institutions by, *inter alia,* revamping compensation methods through a downward adjustment of excessive salaries and a shift to results-based systems.[174]

163. Its 2008/09 six-stage "plan for advancement of SOEs" comprised: privatization of 27 entities, merger of 2 institutions into 1, and restructuring of 12 (by 11 August 2008); privatization of 1, merger of 29 institutions into 13, elimination of 3, and restructuring of 7 (by 26 August 2008); privatization of 10, merger of 7 into 3, elimination of 2, and restructuring of 1 (by 10 October 2008); increase of productivity in 69, staff reduction by 19,383 employees, sale of assets worth ₩ 8.5 trillion (65 cases), and budget savings of more than ₩ 1.7 trillion (by 22 December 2008); sale of shares held in 113 government-funded entities (out of a total of 273 institutions), liquidation of 17, and absorption of 2 by parent company (by 13 January 2009); and targeting improvement of 10% in the efficiency in 60 entities through abolition/reduction of activities, outsourcing and improvements in their operating system (annual salary, "wage peak system", etc.) (by 31 March 2009).[175] The last stage of the plan would lead to a reduction of 2,981 employees, sales of assets worth ₩ 56.5 billion, and budget savings of more than ₩ 130 billion. In 2009, 24 SOEs were selected by the SOE Privatization Committee to be privatized[176]; in 2011, eight had been successfully privatized by selling off all stock or listing shares at the Seoul stock exchange as planned.[177] Efforts have also been made to sell private companies that became partly owned by state-run institutions as a result of public funds transfers in the wake of the 1997 Asian financial crisis; these companies include Daewoo Shipbuilding & Marine Engineering, Hynix Semiconductor, SK telecom, STX Group and KCC Engineering & Construction. Privatization efforts are ongoing for financial-sector SOEs involving, *inter alia,* the Korean Development Bank, and the Woori Finance Holdings Co. Privatization efforts for Korea Airports Corp., New Seoul Country Club, Korea Real Estate Investment & Trust, Kyungbuk Tourism Corp., Korea Construction Management Corp., 88 Country Club, and SSangyong Engineering & Construction have not been successful so far.[178]

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[174] Nevertheless, at the same time the MOSF contributed to the recovery of public institutions from the economic crisis, providing ₩ 46.9 trillion worth of liquidity to public financial institutions in 2009; from 2009 to 2010, these institutions added 11,000 personnel through overseas expansion and growth of public services (Ministry of Strategy and Finance (undated)).

[175] Hyung-Gon Jeong *et al*. (2010), Table 5-7.

[176] These entities were: Korea Development Bank (KDB), KDB Capital Corporation, KDB Asset Management Corporation, Industrial Bank of Korea (IBK), IBK Capital Corporation, IBK Credit Information, and IBK System, Incheon International Airport Corporation, New Seoul Country Club, Korea Asset Investment Trust, Korea Real Estate Investment & Trust, Korea Construction Management Corporation, Kyongbuk Tourism Development, Korea Airport Corporation, Ansan Urban Development Incorporation, Incheon Integrated Energy Network, Korea Housing Guarantee Corporation, 88 Country Club (88 golf course), Grand Korea Leisure, Farmland Improvement, Enterprise Data, Korea District Heating Corporation, Korea Electric Power Company, and Korea Plant Service and Engineering.

[177] Of these SOES three were fully privatized (Korea Asset Investment Trust, Ansan Urban Development Incorporation, Farmland Improvement) and four were partly privatized (Grand Korea Leisure, Korea District Heating Corporation, Korea Electric Power Company, Korea Plant Service and Engineering) (*Chosunilbo,* "SOE Privatization, Was it just Pretence?", 18 August 2011. Viewed at: http://news.chosun.com/site/data/html_dir/2011/08/18/2011081802500.html.

[178] *Chosunilbo,* "Privatization without Consensus and Strategy", 23 August 2011. Viewed at: http://news.chosun.com/site/data/html_dir/2011/08/23/2011082300582.html?Dep0=chosunnews& Dep1=related &Dep2=related_all.

Table III.4
State involvement in the economy, 2012

Entity	Activity	Degree of state ownership (%)/Situation in privatization programme
GOODS		
Agriculture		
Korea Agro-Fisheries Trade Corp.	Manufacture and export of agricultural products, seafood, and beverages	100% / ..
Mining and energy		
Korea Coal Corp.	Price stabilization; stockpiling coal	100% / ..
Daehan Oil Pipeline Corp. (DOPCO)	Construction and management of oil pipelines; delivery and stockpiling of oil products	9.8% / ..
Korea National Oil Corp.	Domestic and overseas oil exploration and development; export, import stockpiling, transportation; lease, and sales of crude oil and its product	100% / ..
Korea Gas Corp. (KOGAS)	Production and distribution of natural gas; exploration and import/export of natural gas	26.9% / ..
Korea Electric Power Corp. (KEPCO)	Power generation; power transmission and distribution; electricity sales	51.1% / generation sector split into GenCo in 2001; distribution sector restructured into Strategic Business Unit (business entity operated independently by region) in 2006
Korea District Heating Corp. (KDHC)	Thermal energy supply for space heating, cooling, tap-water heating, and industrial process heating	34.5% / ..
SERVICES		
Financial services		
Industrial Bank of Korea	Specialized bank	65.1% / ..
Korea Deposit Insurance Corp. (KDIC)		100% / ..
Korea Development Bank	Development institution	100% / ..
Export-Import Bank of Korea	Development institution	60.1% / ..
Korea Asset Management Corporation (KAMCO)	Collect public funds through resolving non-performing loans acquired by financial institutions and to perform public sale of the assets entrusted by the government agencies and others	42.3% / ..
Korea Housing Finance		17.7% / ..
Woori Bank		77.9% / ..
Communications and media		
Korea Broadcasting System	Public broadcasting service	100% / ..
The Seoul Shimmun	Newspaper publishing	30.5% / ..
Transport		
Korea Highway Corp.	Highway construction and management	87.7% / ..
Korean National Railways	Construction and management of railways	100% / ..
Busan Port Authority		100% / ..
Incheon Port Authority		100% / ..
Incheon International Airport Corp.	Incheon International Airport development and operation	100% / ..
Other		
Korea Agricultural and Rural Infrastructure Corp.	Improvement projects	100% / ..

Table III.4 (cont'd)

Entity	Activity	Degree of state ownership (%)/Situation in privatization programme
Korea Appraisal Board	Appraisal; real estate consulting; real estate transaction information network	49.4% / ..
Korea Minting and Security PrintingCorp. (KOMSCO)	Local currency supply	100% / ..
Korea Land & Housing Corp. (LH)	Acquisition, development, and management of land, housing construction/improvement/ sales/rent/ management, production and supply of construction material	86.0% / ..
Korea Housing Guarantee Corp.	Housing guarantee for tenants	55.0% / ..
Korea National Tourism Corp.	Overseas publicity of Korean tourism; managing an overseas marketing network	55.2% / ..
Korea Rural Community and Agriculture Corp.	Contribution to rural economic and social development; development of agricultural land and ground water resources; improvement of rural living environment	100% / ..
Korea Water Resources Corp.	Water supply, and distribution-related works; water quality improvement	90.3% / ..
Korea Labour Welfare Corp.	Implementation of welfare programme for workers; collection of employment insurance premium: collection of industrial accident compensation insurance premium and payment of insurance money	100% / ..
Korea Resources Corp.	Support of domestic mining industry; survey and research of geological structure and mineral deposit; technical and monetary subsidy	100% / ..

Table III.4 (cont'd)

.. Not available.

Source: Information provided by the Korean authorities.

(iv) Competition and consumer policy

(a) Competition policy

Framework

164. Responsibility for competition policy rests primarily with the independent Korea Fair Trade Commission (KFTC) (under the Monopoly Regulation and Fair Trade Act (MRFTA) 1980, last amended in 2010); the KFTC shares regulatory responsibilities with other agencies. Following a 2009 amendment of the MRFTA regulations on large business groups, more emphasis was put on self-regulation of the market. The ceiling on total investment in other companies (cross-shareholding) implemented for 13 years on large business conglomerates' (many of which are family-controlled (*chaebols*)) affiliates, was lifted in March 2009. Instead, large business groups are obliged to disclose information on the general conditions and current status of their stockholding. Cross-shareholding between subsidiaries under a large business group (i.e. not less than ₩ 5 trillion of total assets) is completely banned under the MRFTA; 55 large business conglomerates (see below) were officially designated as large business groups as of May 2011. The obligation to notify a merger involving a large enterprise within 30 days after the contract date was abolished to allow a merger to be notified at any time prior to the date of the completion of the transaction.

165. Competition law covers all sectors. State entities are covered, including public utilities with their own regulatory regime, and the scope of exemptions from competition law is now limited.

Exemptions include liner shipping conferences. Voluntary associations established to aid small-scale enterprises, including agricultural, forestry, and livestock industries, which meet certain conditions may also be exempt, unless engaging in "unfair trade practices or price hikes by unfairly restricting competition".[179]

166. Legislation covers all principal competition areas, including horizontal constraints (cartels and collusion), vertical constraints, abuse of dominant market position, and mergers. It prohibits: unfair collaborative acts and unfair trade practices; resale price maintenance, unless exempt by the KFTC; and abuse of dominant position. An enterprise is presumed to be market-dominating if its total annual sales exceed ₩ 4 billion, and its market share is at least 50% or where the share of the largest three firms is at least 75%, except for enterprises whose market share is less than 10%.[180]

167. Mergers to "practically suppress competition" are prohibited, unless parties can prove to the KFTC that efficiency gains will exceed the anti-competitive effects (or the acquired firm is insolvent and no alternative, less anti-competitive outcome is available to maintain production). The KFTC may approve a merger subject to certain conditional corrective measures to address anti-competitive concerns, such as limiting the scope of the merged firm's operations. Parties must notify proposed mergers to the KFTC, and require its approval if assets or turnover of one party exceed ₩ 200 billion and those of the other exceed ₩ 20 billion. Following the 2009 amendment of the MRFTA, the obligation to notify a merger involving a large-scale enterprise (assets or turnover above ₩ 2 trillion) within 30 days after the date of the transaction was abolished; at present a merger should be notified any time prior to the date of completion of the transaction. KFTC has monitored mergers and acquisitions (M&As) involving foreign enterprises exporting to Korea since July 2003. The number of notifications concerning M&As involving a foreign company decreased steadily from 115 in 2007 to 76 in 2011, as the threshold of notification of assets or turnover in Korea, was increased from ₩ 3 billion to ₩ 20 billion in November 2007.[181] Parties to a merger may appeal a decision within 30 days to the KFTC, which has 60 days (extendable to 90 days) to decide. KFTC decisions may be challenged in the courts; and the KFTC may apply to the courts to nullify unapproved mergers.

168. The Government pledged to lift some of the restrictions on large business conglomerates activities as they are synonymous with economies of scale that are essential for them to compete in the global market.[182] Regulating large business conglomerates is a major KFTC function. There are extensive legislative provisions on corporate and financial structures to control possible anti-competitive effects from concentrated economic power (Chapters I and IV). Large business conglomerates-related policies include bans on cross-shareholding and debt guarantees for affiliated companies.[183] The 2009 amendment to the MRFTA lifted a measure prohibiting a large affiliate with assets of at least ₩ 2 trillion, of a business group with assets of at least ₩ 10 trillion, from investing more than 40% of net assets in other companies. The threshold asset level for regulating cross-shareholdings and debt guarantees is now ₩ 5 trillion. Voting rights for a finance or insurance company belonging to a large business conglomerate are also allowed up to 15% of its shares in a

[179] Conditions include having a goal of mutual cooperation and benefits for small businesses and consumers, and that members are free to enter and exit, and have equal voting rights.

[180] MRFTA Article 4.

[181] Korea Fair Trade Commission (2011).

[182] EIU (2011a).

[183] For more information about corporate governance issues relating to large business conglomerates see Chapter I of this report and WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

domestic affiliated company in certain cases, including alteration of the articles of incorporation, and merger of the affiliated company with another company.[184]

Policy and operational developments

169. Amid the global financial crisis that began in 2008, the KFTC placed its policy focus on achieving a mature market economy and a balanced development of the national economy by increasing the autonomy of market stakeholders including enterprises and consumers.[185] Since 2009, the KFTC has been eliminating or lowering entry barriers that restrict market competition and undermine consumer welfare (section (4)(iv)(c)). A September 2009 agreement between the KFTC and other relevant administrative authorities set areas for improvements in two stages. The first stage included 12 tasks to reduce public monopolies and expand private business areas; 3 tasks to eliminate a monopolistic structure and introduce competition; and 11 tasks to ease unreasonable market entry restrictions and promote new market entrance, such as relaxation of restriction on maritime shipping market entry. In April 2010, a second stage of improvement consisted of 13 tasks to lower entry barriers in service industries that are highly effective in job creation; and 7 tasks to reduce areas of public monopoly and expand private business areas. Since 2011, the KFTC has set up a third stage measure against entry barriers and worked to tackle them in 19 cases, in public health and medication, culture and tourism, and other service sectors closely related to people's daily life.

170. In 2008, the KFTC eased or removed 68 anti-competitive decrees and rules of metropolitan governments, and in 2010, agreed with local governments to improve 976 anti-competitive provisions, including restriction of non-local towing services doing business in the local area, after reviewing 230 decrees and rules. It conducted competition impact assessments on 277 proposed enactments and revisions in 2010, and considered 12.9% of them (36 regulations) to be "anti-competitive", offering market-friendly alternatives, and thus preventing anti-competitive regulations from being enacted or reinforced.

171. Monopoly power has decreased steadily, but market concentration remains relatively high. The market concentration ratio of the top three leading manufacturing companies on a weighted average basis has increased steadily from 2006 to 2009, from 51.2% to 55.4%.[186] On the other hand, 55 large business conglomerates (48 in 2009) and state conglomerates with control on over 1,618 companies (1,137 companies in 2009) were on the KFTC's watch list on 3 November 2011.[187] When necessary for antitrust purposes, the KFTC also classifies as "market dominators" certain enterprises whose annual sales or procurement of related goods or services exceed ₩ 4 billion, have a market share of at least 50%, and group two or three companies that control at least 75% of the market for a particular product.[188]

172. The KFTC operates a permanent monitoring system to detect and prevent bid-rigging in the public sector; bid-rigging is defined as a type of illegal cartel conduct. When a central administrative

[184] *Hankyung*, "Private Equity Fund Voting Rights Limitation Relaxed", 19 November, 2008. Viewed at: http://www.hankyung.com/news/app/newsview.php?aid=2008111929901.

[185] Korea Fair Trade Commission (2011).

[186] KFTC online press release, 21 December 2010. Viewed at: http://ftc.go.kr/news/ftc/reportView.jsp?report_data_no=4139&tribu_type_cd=&report_data_div_cd=&currpage=1&searchKey=1&searchVal=시장집중도&stdate=&enddate= [7 November 2011].

[187] EIU (2010) and (2011a); and *Yonhap,* "Corporate regulator puts 13 more firms on watch list", 3 November 2011. Viewed at: http://english.yonhapnews.co.kr/business/2011/11/02/0502000000AEN20111102005500320.HTML.

[188] EIU (2011a).

agency, a local municipality, or a corporation in which the State has a shareholding of 50% or more makes a bid for a construction work worth ₩ 5 billion or for procurement of goods or services worth ₩ 500 million or more, it is required to submit information on the project bidding to the KFTC. Strict penalties are imposed on bid-riggers, and criminal prosecutions are possible. The maximum surcharge for bid-rigging is 10%. Between 2008 and 2011, the KFTC imposed ₩ 164 billion in surcharges for 45 bid-rigging cases.

173. In 2007, the KFTC and the MKE began to encourage large corporations and SMEs to voluntarily sign agreements on fair trade and shared growth, to promote partnership between the large business conglomerates and their, typically small, suppliers. Since December 2010, a government-set Shared Growth for Large and Small Companies (CSGLSC) Committee, consisting of representatives from industry and academia, has aimed to broker a broad profit-sharing deal among large and small companies.[189] In 2011, the CSGLSC issued a list of business sectors where large companies would be excluded in favour of smaller ones, covering goods ranging from everyday items to high-tech products, including tofu, eyewear, and light-emitting diodes (LEDs). As of end-December 2011, a total of 193 large companies had entered into the arrangement with approximately 64,000 subcontractors. The March 2011 amendment of the Fair Transactions in Subcontracting Act laid the foundation for facilitating the signing of voluntary fair trade agreements. The KFTC assesses the agreement execution status of the firms involved and rewards excellent companies with incentives such as an exemption from its investigation.

174. In 2011, the KFTC planned to focus on improving competition conditions for SMEs by improving the trading relationship between large business groups and SMEs and thereby giving an equal footing to all businesses.[190] It intended to detect and correct cartels and other anti-competitive activities in areas closely related to the life of working class people and put under intensive monitoring unfair trade practices in distribution and IT sectors. Furthermore, it would expand institutional frameworks to enhance consumer welfare in banking, electronic commerce, and other vulnerable areas.

Enforcement

175. The KFTC has several measures to improve enforcement and compliance. It may issue warnings or corrective measures, impose surcharges and fines, and request criminal prosecutions. Between 2008 and 2010, law enforcement was focused on the sectors with a direct or indirect impact on the everyday life of working class Koreans. In 2010, KFTC handled 3,565 cases violating laws under its jurisdiction (12 laws including the MRFTA, consumer protection, subcontracts and franchise transactions), a 16.3% decrease from 2008; the same year it issued warnings or more severe sanctions in 2,125 cases.[191] The number of complaints under the MFRTA provisions dropped from 1,381 to 1,040, and related largely to unfair business practices (691), prohibited acts of trade associations (139), and cartels (103). The number of warnings (1,151) exceeded that of corrective orders, while surcharges were imposed in a considerable number of cases (479). In contrast, no criminal complaints were filed during this period, and corrective recommendations, which had not been used since 1999, were issued in 9 cases in 2009. Cases of unfairly luring customers accounted for the largest share of law enforcement in 2008-10 (1,066 cases)[192]; other anti-competitive practices dealt with were abuse

[189] Reportedly, major companies use their economic weight and purchasing power to force smaller companies supplying them to accept low margins (EIU, 2011a; and Korea Fair Trade Commission, 2011).
[190] Korea Fair Trade Commission (2011).
[191] Korea Fair Trade Commission (2011).
[192] "Unfairly luring consumers" is where an enterprise engages in a fraudulent method or transaction disruption by providing unfair benefits or wrong information on goods or services to lure a rival company's

of dominant position (432 cases), refusal to deal/trade (32 cases)[193], resale price maintenance (28 cases), transactions based on restrictive conditions (24 cases), interference with the business activities of other companies (22 cases), and coercion in commercial dealings (21 cases).

176. In 2009 and 2010, the KFTC issued corrective orders concerning measures against prohibited activities of trade association (cartels), and imposed surcharges on 5 beverage companies and 6 LPG suppliers for price fixing, as well as to 11 soju companies for increasing factory prices. Cartel cases where corrective measures were imposed surged to 65 in 2008, and then dropped to 62 in 2009 and 2010, up from an average of 11.5 cases per year from 1981 to 1997; this seems to be due mainly to the introduction of leniency and reward programmes, in addition to the increase of cartel activities along with the growth of the national economy.[194] Corrective orders and surcharges were also, *inter alia,* imposed on pharmaceutical companies, general hospitals, private educational institutes, as well as on companies such as SK Telecom, SK Energy, Qualcomm, and Hyundai Mobis.

177. Since 2010, the Korea Fair Trade Mediation Agency has, *inter alia,* carried out assessments of companies participating in the Compliance Program (CP), introduced in 2001 to promote voluntary compliance with fair trade principles. A corporation that qualifies for grade A or higher may obtain reductions in surcharges ranging from 10% to 20%, and immunity from investigation for a certain period. By 2011, 475 companies were participating in the CP.

178. Korea has increased its extra-territorial application of competition policy, to pursue international cartels exporting to Korea; action was taken against the copy paper cartel and the marine hose cartel, the first case of international bid-rigging that the KFTC detected and took sanctions against, in 2009.[195] In 2010, the KFTC imposed corrective orders and surcharges of ₩ 119.5 billion on 26 air cargo carriers for fixing air cargo rates for international inbound and outbound shipments; this was the largest international cartel case that the KFTC had handled in terms of the number of cartel participants. Furthermore, the KFTC fined 5 colour display tube producers (₩ 26.2 billion), 10 liquid crystal display producers (₩ 194 billion), and 4 cathode ray tube glass producers (₩ 54.5 billion) for participating in international cartels. The authorities indicated that if a cartel is formed inside the country, Korea applies pertinent laws following international norms, regardless of the origin of participants. Also, irrespective of the jurisdiction of a cartel, if such an attempt could have a negative effect on the domestic market, Korea applies the law extra-territorially.

179. In 2009, Korea signed a cooperation agreement with the EU on the application and enforcement of competition laws to anti-competitive practices. In addition, Korea's FTAs with Chile, Singapore, the EFTA, the United States, India, the EU, and Peru contain provisions on competition (Chapter II). The KFTC maintains memoranda of understanding on competition policy dialogue, establishing the basis for a formal dialogue on competition law enforcement, with the competition authorities of Australia, Canada, the EU, Mexico, Romania, the Russian Federation, the Commonwealth of Independent States, and Turkey. The KFTC continued to provide technical support to developing countries, transition countries, and other countries that are inexperienced in understanding and enforcing competition policies. As of December 2011, 40 workshops, for 962 participants from 35 countries had been held at the OECD-Korea Center for Competition.

customers. The Enforcement Decree defines such behaviour as using unfair benefits, fraudulent methods, and other improper inducements.

[193] The term "refusal to deal" means, *inter alia,* to decline to start a deal, to discontinue a deal, and to limit considerably the quantity or terms and conditions of a deal.

[194] Korea Fair Trade Commission (2011).

[195] Korea Fair Trade Commission (2011).

(b) Price controls and monitoring

180. Price controls remain in place in specific areas.[196] The President can control prices on a range of products through "emergency demand and supply adjustment measure" decrees[197]; no such measures have been adopted since 2008. The Government may, when deemed necessary to stabilize the people's livelihood and the national economy, designate a ceiling price on important commodities, rent for real estate, etc., or charges for services.[198] The Government controls retail prices for four major categories of goods and services: coal products used for home heating (Coal Business Law); diesel fuel, liquefied petroleum gas, and other petrochemical products (Petroleum Business Law); items defined as public services (Monopoly Regulation and Fair Trade Act), including electricity, entrance fees to national museums/monuments, motorway tolls, postal service, railway and metro fares, telecoms, television services, and other public facility fees; and sanitation services, school tuition, taxi and bus fares, and water and sewage rates, all controlled by regional governments. According to the authorities, in principle, retail prices are determined by individual corporations depending on the prevailing market conditions. The Government does not provide any price-setting guidelines or related rules on goods and services except for these items. Exceptionally, charges on public goods and services may be adjusted by central and regional governments, whenever price-raising factors occur. For some of these items (taxi, inner-city bus, subway, liquefied natural gas, sewage and waterwork services, garbage bag, septic tank cleaning, entrance fees of local museums and memorials, and high school tuition), charges are determined by local governments depending on local conditions.

(c) Consumer protection

181. Since 2008, as part of the effort to eliminate institutional and budgetary duplication within the government, the KFTC has been the sole competent authority in consumer policy.[199] It is in charge of setting the consumer policy plan and monitoring the Korea Consumer Agency. Its jurisdiction covers the Framework Act on Consumers, the Product Liability Act and the Consumer's Cooperative Union Act, all previously under MOSF's responsibility.

182. The KFTC pursued policies to help consumers protect their rights and interests, and improve their stakeholder capabilities.[200] It establishes a basic master plan for consumer policies every three years, which serve as a baseline for all the central administrative bodies including the KFTC itself, as well as 16 local metropolitan governments, the Korea Consumer Agency, the Korea Financial Supervisory Service and other consumer groups. The KFTC's first basic Consumer Policy Master Plan, for the period 2009-11 contained ten policy goals focused on: strengthened consumer safety; fair and adequate transactions between business operators and consumers; promotion of consumer training and information provision; facilitation of consumer relief from damages; efficient mechanisms for implementation of consumer policy; and customized consumer policy-making. Its second Plan for 2012-20 was designed with the vision of "realizing a consumer-led market". In April 2012, investigations were under way to ensure that FTA-driven liberalization benefits final consumers rather than only firms, and in this context the role of rigid distribution channels was questioned. Furthermore, a rising trend in parallel imports seems to reflect their acceptance (section (4)(iv)(a)) as a necessary mechanism to ensure consumer protection from unfair product

[196] WTO document WT/TPR/S/204/Rev.1, 4 December 2008; and EIU (2011a).
[197] Article 6 of the Price Stabilization Law.
[198] Article 2 of the Price Stabilization Law.
[199] The KFTC took over the role of operating the Consumer Policy Committee (Korea Fair Trade Commission, 2011).
[200] Korea Fair Trade Commission (2011).

pricing; parallel imports of genuine products may enter Korea legally, in some circumstances, provided they meet certain requirements.[201]

183. Since 28 June 2011, repeated violations by a company of the Corporation Labelling and Advertisement Law may add as much as 50% to the original surcharge, while by voluntarily compensating consumers for damages prior to imposition of the surcharge may reduce it by up to 50%. Since February 2010, a Consumer Counselling Centre, run jointly by the public sector and private consumer groups has enabled quick responses to consumer complaints; the telephone counselling system enabled efficient counselling services by networking 10 consumer agencies, the Korea Consumer Agency, and 16 metropolitan governments' counsellors who worked separately in the past. The KFTC and the Korea Consumer Agency published the results of a joint survey on the gaps between domestic and foreign prices, and proposed actions to the relevant authorities.[202] In 2011, a daily necessities price information system started operating to inform consumers and help them make reasonable choices. The system covers price information on 110 daily necessities, including instant noodles and detergents, on a weekly basis, and price gaps between domestic and foreign prices of 48 products, including milk and shampoo. By publishing these gaps, the KFTC expects to help consumers make a fully-informed decision. A comprehensive online consumer information network, the "Smart Consumer", linking scattered consumer information from 40 web pages of 22 organizations in a single space was launched by the KFTC in January 2012. The 2005 Consumer Complaints Management System (CCMS) was upgraded to the Consumer-Centered Management (CCM) certification system in September 2011 to include leadership and performance management factors; the CCM is run by the Korea Consumer Agency. As of end December 2011, a total of 432 enterprises and 1 enterprises' organization had adopted the CCM (including the CCMS), and 108 entities had been certified. Between 2008 and 2010, consumer complaint cases dealt with by the KFTC increased from 914 to 994; they related mostly to fair labelling and advertising, and e-commerce issues. In 2010, 740 corrective measures were taken, affecting mostly e-commerce (262), and fair labelling and advertising (246) practices; most action was in form of warnings (588) rather than corrective orders (75) or surcharges (5).

184. Privacy-related concerns top Korea's e-commerce legislative agenda, which is, *inter alia*, aimed at increasing personal-data protection in the public and private sector. A 2011 Personal Information Protection Act provides a single set of rules and regulations, replacing many existing privacy requirements scattered under different laws[203]; the Act applies to any entity that uses personal information for business purposes regardless of the sector.

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[201] Parallel imports must meet the following requirements: (i) they must be genuine; (ii) they must be of the same quality as goods sold in Korea; and (iii) the party who placed the trade mark on the parallel imports must be the Korean trade mark holder or closely related (http://www.yulchon.com/ENG/resource/Publications/view.asp?CD=203&page=1&SearchString=&sltPractice=46&keyword=). There are restrictions on the type of goods that can be imported and how they can be advertised (Managing Intellectual Property online information, "Korea's parallel proms", 1 May 2009. Viewed at: http://www.managingip.com/Article/2191472/Koreas-parallel-problems.html; and *Infomag*, "Preventing Brand Erosion", December 2010. Viewed at: http://infomag.eucck.org/site/view/view.htm?num=9350).

[202] The price survey covers items closely related to everyday lives, those with big price gaps compared with foreign products, and those in a monopolistic or oligopolistic market. The items currently subject to survey include: primary grocery products, confectionery, beverages (3), drinks (1), and others (3); and secondary grocery products (3), household goods (1), durables (2), general medical supplies (1), and oil products (4) (Korea Fair Trade Commission, 2011).

[203] Enacted in 29 March 2011 and effective from 30 September 2011, the Personal Information Protection Law establishes informed consent and legal references as mandatory conditions for gathering, using, and sharing personal information. One of the new requirements in the legislation is for businesses and

(v) Intellectual property rights

185. Korea's policy stance remains that consistency in intellectual property rights (IPRs) protection is an important infrastructure for enhancing national and corporate competitiveness in its knowledge-based economy. An April 2011 Framework Act on Intellectual Property (IPFA), in force from 20 July 2011, became the basis for setting laws, systems, and policies governing the creation, protection, and use of IPRs including patents, trade marks and copyrights; once fully implemented, it is to supersede the stand-alone statutes that deal with different IPRs.[204] On 28 June 2011, IPR-related legislation (such as the Act on Free Trade Area Designation and Management, the Trademark Act, the Design Act, and the Unfair Competition Prevention and Trade Secrets Protection Act) was amended in line with commitments under the Korea-EU Free Trade Agreement (Chapter II).[205] Korea participates in 16 out of 24 treaties administered by the World Intellectual Property Organization (WIPO) and is a party to the UPOV Convention. During the review period, it expanded its commitments by becoming a party to the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, and the WIPO Performances and Phonograms Treaty, both in effect as of 18 March 2009; the Locarno Agreement Establishing an International Classification for Industrial Designs, and the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks, both in effect as of 17 April 2011; and the Brussels Convention relating to the Distribution of Programme-carrying Signals Transmitted by Satellite, as of 19 March 2012.[206] Korea is a signatory to the October 2011 Anti-Counterfeiting Trade Agreement (ACTA) establishing international standards on intellectual property rights enforcement.[207] The TRIPS Council reviewed Korea's IPR legislation in 2000.

(a) Industrial property

186. The Korean Intellectual Property Office (KIPO) handles industrial property protection. It examines and registers patents, utility models, industrial designs, trade marks (including service marks) and layout designs of integrated circuits, and develops policies to protect trade secrets. It resolves IPR disputes through "trial decisions" (administrative judgements) of the Intellectual Property Tribunal. Tribunal decisions on patents, utility models and trade marks can be appealed to the Patent Court and subsequently to the Supreme Court. The Patent Court is a court of special jurisdiction that hears appeals from trial decisions of the Intellectual Property Tribunal. Korea restricts parallel imports except where specific legal criteria are met (section (4)(iv)(c)).[208] Despite

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organizations to keep vital personal information such as identification numbers, passwords, and bank account numbers in encrypted form. If a data breach occurs, businesses must inform affected individuals immediately and provide assistance (*Chosun*, "Identification Number No Longer Required for Website Membership", 29 March 2011. Viewed at: http://news.chosun.com/site/data/html_dir/2011/03/ 29/2011032901777.html.

[204] EIU (2011a).

[205] MKE online information. Viewed at: http://mke.go.kr/news/coverage/bodoView.jsp?pCtx=1&seq=68267, and at http://epic.kdi.re.kr/epic/epic_view.jsp?num=114532&menu=1 [11 November 2011].

[206] WIPO online information. Viewed at: http://www.wipo.int/treaties/en/ShowResults.jsp?country_id=95C&start_year=ANY&end_year=ANY&search_what=C&treaty_all=ALL.

[207] Other ACTA signatories are Australia, Canada, Japan, New Zealand, Morocco, Singapore, and the United States.

[208] Korea considers that parallel imports promote competition and lower prices (*Chosun*, "Solutions to price stabilization for the people", 2 September, 2010. Viewed at: http://news.chosun.com/site/data/html_dir/2010/09/02/2010090200829.html). Therefore, it prohibits conduct that unreasonably restricts parallel imports, and treats them as unfair trade practices. Parallel imports infringing trade mark rights are banned (The Types of Unfair Trade Conducts Regarding Parallel Import, enacted on 29 July 1997 by the Fair Trade Commissions Notification No. 1997-27, amended on 31 December 1998 by the Fair Trade Commissions

the lack of official data on parallel imports, according to a major trading partner, for some brands, parallel import sales volumes are estimated at 50% to 80% of authorized sales.[209]

187. Penal provisions for right infringements of patents, utility models, trade marks and industrial designs are: imprisonment of up to seven years or a fine of up to ₩ 100 million; or imprisonment of up to three years or a fine of ₩ 20 million for falsely indicating such a right or fraudulently obtaining one. Civil remedies include injunctions against further infringement and damages. Provisional measures for preventing infringements are provided in each industrial property act and the Civil Execution Act. Legislative amendments in 2011 changed the KIPO Commissioner's role in investigation, inspection, corrective recommendations, and imposition of fines; responsibility is now shared between the KIPO commissioner, the governor of the province, the mayor of the city, and head chief of borough (self-governing township). Specific criteria were introduced for increasing or decreasing fines.

188. After steady improvements over several years, IPR administration is now considered as highly efficient.[210] The rate of electronic application ('e-application') made to KIPO has been highest in the world since 2005; in 2009, 94.3% of all applications were filed online.[211] In 2010, the KIPO's first action pendency period (i.e. the time it takes for a new application to receive an initial response) was an average of 18.5 months for patent and utility model examinations, and 10.6 and 10 months for trade mark and design examinations, respectively.[212] In 2010, 68,843 patents, 4,301 utility models, 33,697 industrial designs, and 53,136 trade marks were registered. According to the KIPO, a total of 362,074 IPRs applications were filed in 2010, 2.4% higher than in 2009; 170,101 were patent applications (an 8.4% increase from 2009), 38,296 (22.5%) of which were from non-residents.

Patent and utility models

189. Patent protection under the Patent Act of 1946 (last amended in 2011) is for 20 years from the date of filing or 15 years from publication, whichever is longer (extendable for up to five years for pharmaceuticals and agricultural chemicals undergoing certain market-approval procedures). Both product and process patents may be granted. A 2009 amendment of the Patent Act simplified the amendment requirements after notification of refusal; and a 2011 amendment required an applicant to describe the technical background of the invention. As from 2012, the grace period for filing is twelve months (extended from six months), and the term of the patent right may be extended when its registration is delayed by more than four years after the filing date, or three years after request for examination when the reason is not attributable to the applicant. Green technology benefiting from government-supported R&D has been allowed speedy screening/examination.[213] The document format for patent applications is now identical to the U.S., Japanese, and the EU model; this change is expected to reduce filing application costs.[214] Reportedly, the rate of patent invalidation seems to be

Notification No. 1998-18; and Korea Customs Service Notification Regarding the Management of Customs Clearance of Export-Imports for the Purpose of Protecting Intellectual Property Rights).

[209] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_16.htm [19 October 2011].

[210] EIU (2011a).

[211] KIPO online news No. 92, "KIPO aims at 100% electronic applications", 12 April 2010. Viewed at: http://www.kipo.go.kr/kpo/user.tdf [11 November 2011].

[212] Korean Intellectual Property Office (2010).

[213] KIPO online news No. 126, "Opportunity to acquire patents expands and examination on green technology accelerates", 13 July 2009. Viewed at: http://www.kipo.go.kr/kpo/user.tdf [11 November 2011].

[214] *Chosun,* "World's first high speed patent inspection", 1 July 2009. Viewed at: http://news.chosun.com/site/data/html_dir/2009/07/01/2009070101298.html.

high compared to other developed countries, particularly for the pharmaceutical and chemical industries.[215] The KIPO may grant a compulsory non-exclusive licence to work a patent if the holder has not worked it for more than three consecutive years.[216] To date, one compulsory licence has been issued. Under the present legislation (including the Patent Act and the Unfair Competition Prevention and Trade Secrets Protection Act), penalties for patent violations can reach ₩ 100 million in fines or seven years in prison.

190. The Utility Model Act (1961, last amended in 2011) protects the shape, structure, or combination of articles/products for ten years from the date of filing the application. The same procedures for establishing patent rights apply to utility models. The May 2011 amendment of the Utility Model Act made it mandatory for utility model applications to disclose information on prior art related to the invention.[217] The 2011 amendment of the administrative rules of the Act extended the application term of the grace period for submitting claims by three months, and allowed submissions of claims in foreign languages.[218] Commercial acts of manufacturing, assigning, leasing or importing a product embodying the utility model are deemed to infringe the exclusive right of the holder or licensee of a registered utility model, and are therefore prohibited.

191. Until end 2012, an SME purchasing patent rights or utility-model rights is eligible for a tax credit of up to 7% of the purchase price.[219]

Trade marks

192. The Trademark Act (1949, last revised in 2011) protects trade marks on goods and services for ten years upon registration, renewable indefinitely for ten-year periods. The 2011 amendment tried to rectify some deficiencies in managing the system by specifying the duration period for newly added marks. In 2010, the procedure for extending duration of a trade mark was simplified by requiring an application only; also, to lessen the burden of the registration, registration fees may now be paid in two instalments rather than one lump-sum.[220] A preferential examination system was introduced on 1 April 2009 to help applicants quickly register their trade marks and service marks rights.[221] In January 2010, *ex officio* correction of obvious and trivial errors reduced the examination period.

193. The Unfair Competition Prevention and Trade Secret Protection Law prohibits unfairly tarnishing a well-known mark or causing confusion by use of a similar or identical mark, including distributing, importing or exporting such goods. Civil remedies include injunctions to stop improper use, compensation for damages, and restoration of reputation. Penal provisions are up to three years' imprisonment or a fine of up to ₩ 30 million.

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[215] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_16.htm [19 October 2011].

[216] Except for semi-conductor technology, this is only possible after four years, and when consultations with the patent holder or exclusive licensee were not impossible or enabled no agreement.

[217] Online article, "Recent changes to the Korean Patent Act", 17 August 2012. Viewed at: http://www.albrightpatents.co.uk/articles/korean-patent-act-update/ [7 May 2012].

[218] KIPO online information. Viewed at: http://www.kipo.go.kr/kpo/user.tdf?seq=10133&c=1003&a=user.ip_info.amend_law.BoardApp&board_id=amend_law&catmenu=m02_02_02 [16 November 2011].

[219] EIU (2011a).

[220] Korean Intellectual Property Office (2010a); and *Chosun*, "Revised Trademark Act to take effect in July", 30 May 2010. Viewed at: http://biz.chosun.com/site/data/ html_dir/2010/05/30/2010053000643.html.

[221] KIPO online news No. 77, "Effective Trademark Preferential Examination", 7 December 2009. Viewed at: http://www.kipo.go.kr/kpo/user.tdf [11 November 2011].

Geographical indications

194. Legislative amendments were made to strengthen protection of geographical indications (GIs) and reflect the provisions of the Korea-EU FTA, an example of WTO+.[222] In 2011, the Trademark Act was amended to deny application for registration of GIs that are the same or similar to GIs protected under multilateral or bilateral agreements[223]; material used in infringement of GIs and trade marks will be confiscated in addition to the equipment and infringing products.[224] Under the 2011 amendment of the Unfair Competition Prevention and Trade Secrets Protection Act, unauthorized use of geographical indications is penalized. The 2011 amendment of the Trademark Act banned registration of labels that violate GIs.[225] The same Act also prevents deceptive labelling and advertising, including any vague or false labelling or advertising that may mislead consumers on the product's origin. The trade marks legislation prevents registration of trade marks consisting of a "conspicuous geographical name". The Trademark Act (1949) allows them to be registered as collective marks. The owner of a GI collective mark has the right to use it exclusively and prevent others from using identical or similar signs for identical goods, where it might result in confusion. Imports or exports with false origin indications or infringing GIs are prohibited (Foreign Trade Act).

195. The Agricultural and Fishery Product Quality Management Act (2011) specifies GIs for agricultural and fish products. These must be registered with the Geographical Indication Registration Council of the National Agricultural Products Quality Management Service or with the QIA. Foreign GIs registered according to the same procedures and criteria as for domestic goods are protected in Korea under various laws, including the Trademarks Act, the Unfair Competition Prevention and Trade Secrets Protection Act, and the Agricultural Product Quality Management Act. Using a false mark of a registered GI on agricultural or fishery products is punishable by imprisonment of up to three years or a maximum fine of ₩ 30 million.

196. A trade mark containing geographical indications for wines or spirits originating in any WTO Member may not be registered (Trademark Act, Article 7(1)(xiv)). The use of GIs to identify wines or spirits that do not originate in the place indicated is prohibited, even if the true origin is given or the GI uses expressions like "kind", "type", "style", or "imitation".

Plant variety protection

197. Protection for plant varieties is administered by the MIFAFF (Seed Industry Law, 1997). Breeders' rights are protected for 20 years from the registration date (25 years for ornamental and fruit trees). Plant invention is protected under the Patent Act. In line with its "2020 Seed Industry

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[222] Korea.kr online information. Viewed at: http://korea.kr/newsWeb/pages/brief/common/downloadFileForDepart.do?idKey=185089180bf979c67002888e1bd4f371.

[223] The Trademark Act, Article 7, Paragraphs 1:16 and 1:17. Viewed at: http://likms.assembly.go.kr/law/jsp/law/Law.jsp?WORK_TYPE=LAW_BON&LAW_ID=A1610&PROM_NO=10885&PROM_DT=20110721&HanChk=Y [16 November 2011].

[224] Global Legal Information Network online information. Viewed at: http://www.glin.gov/view.action?searchDetails.searchAll=true&glinID=252971&searchDetails.queryString=insclass%3A%22Law%22&fromSearch=true&refineQueryType=BOOLEAN&refineQuery=insclass%3A%22Law%22&refine=&searchDetails.sortOrder=rank&searchDetails.queryType=BOOLEAN&searchDetails.showSummary=true&summaryLang=en [11 November 2011]; and MKE online information. Viewed at: http://epic.kdi.re.kr/epic/epic_view.jsp?num=114532&menu=1 [16 November 2011].

[225] MKE online information. Viewed at: http://epic.kdi.re.kr/epic/epic_view.jsp?num=114532&menu=1 [16 November 2011].

Promotion Plan"[226], by August 2011, Korea considered a major amendment to the Seed Industry Act that would, *inter alia,* remove existing sections on the protection of rights of breeders of new varieties of plants and insert them into a separate, new law, the New Varieties of Plants Protection Act.[227] The amendment to the Seed Industry Act, and a proposal to enact the New Varieties of Plants Protection Act, which were submitted to the National Assembly in December 2011, are expected to be passed in the course of 2012 and implemented in 2013.

Industrial designs and layout designs of integrated circuits (topographies)

198. Protection under the Design Law (1961, last amended in 2011) is for 15 years (non-renewable) from registration and extends to partial designs and fonts. The Act prohibits copying the shape of goods produced by another person. The registered owner has the exclusive right to work a registered design, commercially and industrially. The design registration system is based on substantive examination; examinations are accelerated for some articles with short life-cycles, such as textiles and clothing. Under the 2011 amendment of the Law, the number of products not subject to prior examination (non-substantive examination system (NSES)) were increased from 10 categories (2,460 items) to 18 categories (more than 6,200 items) to protect high-fashion goods with a short life-cycle.[228] The authorities revised relevant legislation to reflect provisions of the Hague Agreement Concerning the International Deposit of Industrial Designs, and in February 2012 its amendments were being considered by the National Assembly.[229]

199. Layout-designs of semi-conductor integrated circuits (topographies) are protected (under the Semiconductor Integrated Circuits Layout Design Act, 1992). The registered owner has the exclusive right of commercial use of lay-out design. Protection is for 10 years from the registration date (not exceeding 10 years from initial commercial use or 15 years from creation date). Civil remedies include "cease and desist" orders, destruction of offending circuits, damages, and royalties. Penal provisions also apply: up to three years imprisonment and/or a fine of up to ₩ 50 million, for right infringements; and up to one year or ₩ 3 million for falsely marking a circuit as registered or obtaining registration fraudulently.

Trade secrets

200. Protection under the Unfair Competition Prevention and Trade Secrets Protection Act (1961) (last amended in 2011, see above section on GIs) covers information acquired by an "act of improper acquisition" (e.g. theft, deception or coercion), or subsequently used or disclosed secret information; trade secrets are defined as technical or business information useful to business activities. Injunctions may be obtained against disclosure, and damages awarded for infringement. The infringement of

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[226] The October 2009 "2020 Seed Industry Promotion Plan" is aimed at promoting the seed industry as a high-value adding industry, and increasing seed exports from US$25 million to US$200 million by 2020.

[227] Korea.kr online information. Viewed at: http://korea.kr/newsWeb/pages/brief/partNews2/view.do?dataId=155776264&call_from=extlink&call_from=extlink.

[228] The new product categories include items like personal goods; bags or wallets; hygiene household goods; goods for festivities; small indoor goods for organization; advertisement goods, goods for marking and for product display; and electronics, calculators, etc. (KIPO online information. Viewed at: http://www.kipo.go.kr/kpo/user.tdf?a=user.news.press1.BoardApp&board_id=press&cp=1&pg=1&npp=10&catmenu=m02_01_01_02&sdate=&edate=&searchKey=2&searchVal=□□□□□□&bunryu=&st=&c=1003&seq=10217, and http://www.kipo.go.kr/kpo/user.tdf?seq=1441&c=1003&a=user.english.board.BoardApp&board_id=kiponews&catmenu=ek06_01_01 [16 November 2011]).

[229] KIPO online information. Viewed at: http://www.kipo.go.kr/kpo/user.tdf?a=user.news.press1.BoardApp&board_id=press&cp=1&pg=1&npp=10&catmenu=m02_01_01_02&sdate=&edate=&searchKey=2&searchVal=□□□□□□&bunryu=&st=&c=1003&seq=9408.

trade secrets is a criminal offence, with punitive measures of prison terms and/or fines equivalent to 2-10 times the illegally obtained monetary profit.[230]

201. Confidential data submitted to authorities for marketing approval of pharmaceuticals and agricultural chemicals are prohibited from public disclosure unless the authorities see a public interest need (i.e. health, safety, environmental protection), particularly with respect to pesticides and their ingredients (Agrochemicals Control Act and the Pharmaceuticals Affairs Act). Penalties are up to three years imprisonment or fines of up to ₩ 10 million for pharmaceuticals and ₩ 15 million for agri-chemicals. Unfair commercial use of such data is also prohibited.

202. Officials involved in registering lay-out designs for semi-conductor integrated circuits must maintain confidentiality (Semiconductor Integrated Circuits Layout Design Act). Imprisonment of up to five years or fines of up to ₩ 50 million apply to those infringing the legislation**.**

(b) Copyright and related rights

203. The Ministry of Culture, Sports and Tourism (MCST) and its Korea Copyright Commission are in charge of copyright protection. Although copyrights need not be registered to obtain protection during the author's life plus 50 years (70 years as from July 2013, see below), registration offers advantages. A registered author is the presumed genuine author, and the work is presumed to have been first published on the date reported on the registration.[231] Compulsory/statutory licences (e.g. where the right holder cannot be identified or traced, subject to certain procedural requirements) relating to uses of performances, phonograms, broadcasts and databases may be granted under strict procedural conditions; 24 licences on literary, cinematographic and musical works were granted from 2008 to 2011. Copyright also applies to "interactive transmissions" for authors. Databases, including compilation of data in machine-readable form, may be protected.

204. A major amendment to the Copyright Act was implemented on 23 July 2009, aimed at increasing efficiency in policy-making as well as improving regulatory consistency, and strengthening enforcement against online piracy.[232] The amendment integrated the Copyright Act and the Computer Program Protection Act into a single Act. The same provisions of the Copyright Act apply to the protection of software programs, with a few exceptions carried over from the Computer Program Protection Act, and the Korea Copyright Commission absorbed its smaller counterpart, the Korea Software Copyright Committee. Minimum reproduction is allowed if it does not infringe unreasonably the right holder's economic interests; this test is applied to both foreign and domestic works. On anti-piracy, the expanded law allows telecom companies to restrict service access by websites prone to copyright infringement. Online service providers may close accounts of repeated offenders caught spreading pirated materials.

205. FTA-driven amendments to the Copyright Act brought improvements to copyright protection. The Copyright Amendment Act of 30 June 2011, in force from 1 July 2011, expanded the statutory period of copyright protection (including software programs) from 50 to 70 years, on a reciprocity

[230] EIU (2011a); National Industrial Security Center online information. Viewed at: http://service4.nis.go.kr/page?cmd=intro&cd_code=intro_1&menu=EAA00; and National Assembly online information. Viewed at: http://likms.assembly.go.kr/law/jsp/law/Law.jsp?WORK_TYPE=LAW_BON&LAW_ID=A0280&PROM_NO=10810&PROM_DT=20110630&HanChk=Y.

[231] EIU (2011a).

[232] EIU (2011a); and MCST online information. Viewed at: http://www.mcst.go.kr/web/dataCourt/ordinance/legislation/legislationView.jsp?pSeq=412.

basis for all WTO Members[233], as from 1 July 2013. The amendment also toughened requirements for technical-protection measures by broadening the anti-infringement responsibility of content providers from use control to access control. The Copyright Amendment Act of 2 December 2011, which is to expand protection to copyrighted content stored temporarily in electronic devices, took effect with the implementation of the Korea-US FTA; it requires online service providers to surrender information about suspected copyright violators to the authorities. Neighbouring rights are also to be extended for 70 years for performances, sound recordings, and broadcasts as from 1 August 2013.

206. In June 2010, the Online Digital Contents Industry Development Act, which protected intellectual property rights on online digital material, was changed into a Contents Industry Promotion Act to further enhance development in the "contents industry".[234] The new Act provides for more administrative and financial support for the "contents industry" as well as new policies, including the introduction of a quality certification system and a contents dispute settlement commission. The 2009 amendment to the Copyright Act (see above) set out strict restrictions on illegal use of copyrights online, to discourage illegal webHards[235] and peer-to-peer (P2P) file sharing sites.[236] In line with this amendment, the authorities installed a "three-strikes" programme on illegal file-sharing: users who download illegally are sent a warning letter, and after three such warnings, the Internet service provider suspends the user's Internet account for 6 months; and the same applies to portal sites. Accordingly, the Ministry of Culture, Sports and Tourism issued account-suspension orders against 11 users in 2010 and 17 in 2011. The Copyright Amendment Act of 2 December 2011, which introduced statutory damages for the first time into the Korean legal system for copyright protection, entered into force in March 2012, at the same time as the Korea-US FTA.

207. Copyright cases are handled by ordinary courts. Civil remedies against copyright infringements (including computer programs) include injunctions, destruction of counterfeit products, and damages. Penal provisions of up to five years imprisonment or a fine of up to ₩ 50 million also apply for copyright infringements; a clause providing for a fine up to ₩ 70 million for repeated computer program infringements was abolished under the 2009 amendment of the Copyright Act.

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[233] Paragraph 3 of article 3 of the Copyright Act.

[234] The content industry is an umbrella term that encompasses companies owning and providing mass media and media metadata; this includes music and movies, text publications of any kind, ownership of standards, geographic data, and metadata about all of the above (http://en.wikipedia.org/wiki/Content_industry) (Global Legal Information Network online information. Viewed at: http://www.glin.gov/view.action?searchDetails.searchAll=true&search=&searchDetails.queryString=pubno%3A%2217274%22&searchDetails.sortOrder=reverseChron&searchDetails.queryType=BOOLEAN&searchDetails.showSummary=true&glinID=237394&summaryLang=en&fromSearch=true [23 November 2011]).

[235] WebHard (webhard) is an online storage service started by LG U+ in February 2000; it is now considered as the standard for storage services in Korea (https://market.android.com/details?id=lg.webhard&hl=en). WebHards are web-based cyberlockers that offer high-volume storage space, some up to a terabyte, for sharing pirated material. Most WebHards specialize in stolen movies and television programmes, as well as music. The illegal WebHard business is prospering as most WebHards charge for downloads. The Korean Government has taken strides to address this problem by prosecuting some WebHard operators; 14 WebHard sites were before the criminal appellate court in November 2010 (http://www.p2pnet.net/story/45385). In 2011, 40 WebHard sites (10 in 2010) were investigated and 82 people (98 in 2010) prosecuted.

[236] *Chosunilbo* online article, "Tension in the web, the new Copyright Act", 25 July 2009. Viewed at: http://news.chosun.com/site/data/html_dir/2009/07/25/2009072500202.html.

(c) Enforcement

208. Korea generally provides strong IPR protection and enforcement.[237] In 2008, piracy in Korea was estimated to have dropped to 1% for records and music (7% in 2006), and 40% on business application software (45% in 2006).[238] In 2010, the commercial value of pirated PC software in Korea was estimated at US$722 million or 40% of total sales (45% in 2006), compared with US$9.5 billion in the United States and US$7.8 billion in China, and an average worldwide piracy rate of 42%.[239] According the authorities, the piracy of entertainment software and books seemed to have declined considerably in 2010, and were estimated at ₩ 29.2 trillion (₩ 88.8 trillion in 2009) and ₩ 178.9 trillion (₩ 309.9 trillion in 2009), respectively. No recent estimates were available on piracy of entertainment software and books. Korea's counterfeit market (including domestically produced "super fakes")[240] is estimated to be worth US$14.2 billion; the counterfeit auto parts' industry is estimated to be worth US$200 million and the pirated movies market US$1 billion. Korea's geographical proximity to China greatly affects the amount of counterfeits it is receiving inadvertently. Although IPR enforcement over new forms of online piracy, corporate and public sector end-user software piracy[241], book piracy in universities, and counterfeiting of consumer products, remains a concern for some of Korea's major trading partners, the authorities (e.g. KIPO) have benefited from and actively participated in several international cooperation projects with the WIPO, APEC, and leading IPR protection partners (e.g. the EU, Japan, the United States).[242]

209. Most IPR prosecutions, with the exception of trade marks, require a complaint from the right holder. KIPO can initiate investigations of unfair competition, such as the manufacture, sale, import or export of counterfeit goods (Unfair Competition Prevention and Trade Secrets Protection Act). In September 2010, KIPO launched the Special Judicial Police Squad for trade marks to more effectively crack-down on the production, circulation, and sale of counterfeit goods.[243] Between September and December 2010, the number of arrests increased threefold and the number of confiscated goods rose tenfold, compared with the first part of the year. Since December 2009, KIPO has operated an Online Counterfeit Products Monitoring System to eradicate online transactions and distribution of counterfeit products, and has taken action to suspend the sale by, if not the closure of, illegal selling

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[237] Korea was removed for the first time from the USTR's Special 301 Watch List in 2009 despite contrary recommendations by the International Intellectual Property Alliance the same year (USTR, 2011; and International Intellectual Property Alliance, 2009).

[238] International Intellectual Property Alliance (2009).

[239] Korea ranked 16th (out of 102 countries) in terms of software piracy losses (Business Software Alliance, 2011).

[240] "Super fakes" are so good that even the brand owners cannot spot them and have been known to inadvertently take them in for repairs under non-existent warranties (http://www.notofakes.com/Resources/TravelAdvisory/AsiaAsiaPacific/SouthKorea/tabid/548/Default.aspx).

[241] According to figures from the Korea Copyright Commission, public organizations were cited more than 2,600 times through August 2010 for using pirated software (*Korea Times*, September 2010. Viewed at: http://www.notofakes.com/Resources/TravelAdvisory/AsiaAsiaPacific/SouthKorea/tabid/548/Default.aspx).

[242] For more information on the latest international cooperation activities, see Korean Intellectual Property Office (2010a); and USTR (2011).

[243] Previously, all anti-counterfeiting activities were conducted in collaboration with local municipalities, which were limited to spotting counterfeit products and issuing administrative guidance. Now granted special judicial police authority, the trade mark police can directly track down counterfeit producers and deliver them to prosecutors for criminal procedures (Korean Intellectual Property Office, 2010).

sites.[244] In January 2009, KIPO established the Korea Intellectual Property Protection Association to undertake public campaigns together with Consumers Korea for jointly protecting IPRs.[245]

210. Customs is authorized to investigate, *ex officio,* IPR infringements concerning imports and exports. It can initiate investigations, including of criminal activity, and will suspend release of counterfeit goods that clearly infringe copyright or trade mark rights (Customs Act, Foreign Trade Act, and Customs Clearance Regulation of Counterfeit Goods). The KCS operated a *spider-web system* until the adoption of an advanced risk management system in 2009 as part of a more vigorous approach to tracking down goods violating IPRs; it has also been operating a computerized trade mark system. Recognizing the use of the internet in the entry and trade of items infringing IPRs, the KCS operates a citizen cyber watchdog (2,314 participants as of 25 April 2012) to monitor online transactions of goods violating intellectual property rights. Right holders may request Customs to suspend the release of suspected counterfeit goods, on payment of collateral of 120% of the dutiable value of the goods. Suspension is for ten days, in which time the applicant must initiate legal action.

211. Between April and December 2011, the KCS implemented a Special Enforcement scheme[246]; among its seven key objectives for a fairer society was the crack-down on the importation and distribution of counterfeit goods.[247] In cooperation with Japanese and Chinese customs authorities, the KCS has implemented the Fake Zero Project for exchanging information on counterfeit activities. As a result, Korean counterfeit exports to Japan dropped from 12.4% of all counterfeit exports from Korea in 2008 to 6.8% in 2009 and 2% in 2011.[248] The KCS withholds clearance of goods suspected of violating intellectual property rights: clearance suspensions fell from cases worth US$1.8 million, in 2008 to cases worth US$729,000 in 2011. Super fakes remain a concern, particularly for European luxury brands (e.g. Louis Vuitton or Chanel handbags or accessories), many of which are made by Korean factories relocated to China or Southeast Asia.[249] The KCS has created a webpage to help consumers compare genuine goods with counterfeit items.[250]

212. Special KCS campaigns have been aimed at blocking the trade of fake goods at source, protecting consumer interests, establishing fair business trade, and boosting international confidence in Korea. During the period under review, KCS seizures dropped from 781 cases of fake merchandise worth US$1.1 billion (2009) to 530 cases of fake merchandise worth US$682.5 million (2011); most seizures relate to trade mark infringement (91.5% of cases and 78.8% of total seized value in 2011). In 2011, seizures of fake goods included bags, home appliances, Viagra medicine, and watches, as well as labels and moulds bearing forged world-renowned trade marks[251]; Chinese products accounted for 86.9% of the total value of these seizures. The KCS has held two Counterfeit

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[244] Korea Intellectual Property Office (2010b).

[245] KIPO news No. 87, "Korea's IPR Enforcement System Gains Recognition", 4 May 2010. Viewed at: http://www.kipo.go.kr/kpo/user.tdf [23 November 2011].

[246] KCS online information. Viewed at: http://www.customs.go.kr/kcsweb/user.tdf?a=user.board.BoardApp&c=2002&seq=1860&ctx=&board_id=GPB_NEWSDATA.

[247] The other objectives consisted of a crack-down on illegal capital flows; preventing illegal importation of high-end luxury goods; strict response to chronic tax evasion; crack-down on harmful goods; rooting out the manipulation of the country of origin; and strengthened enforcement on illegal cyber transactions.

[248] Data from the IPR center run by Tokyo Customs; *Hankyung,* "KCS reports counterfeit export to Japan drops", 11 April 2011. Viewed at: http://www.hankyung.com/news/app/newsview.php?aid=201004117211i.

[249] *The Korean Times*, "Online counterfeit sales worry luxury brands", 21 November 2010. Viewed at: http://www.koreatimes.co.kr/www/news/biz/2010/11/123_76713.html [4 June 2012].

[250] Viewed at: http://www.customs.go.kr/cyber/index.htm.

[251] KIPO (2010).

Comparison Exhibitions (2009, 2011) to help consumers to distinguish genuine from infringing products and raise awareness of the importance of protecting intellectual property rights and harmful effects of counterfeit goods.[252] The KCS received a 2011 Global Anti-Counterfeiting Award from the Global Anti-Counterfeiting Group (GACG) for its outstanding achievement as a government agency in preventing counterfeiting.[253]

213. The Standing Inspection Teams (SITs) under the MCST investigate counterfeit computer software, sound recordings, and video movies, including by online activities. However, only the SIT investigating computer program piracy has judicial police authority. MCST may collect, delete or destroy illegally acquired computer programs, and instruct internet service providers to reject, suspend or limit pirated products and services. The MCST plans to double the SIT human resources from 34 officials to 69 by 2013, and increase SIT locations from 5 (Seoul, Daejon, Busan, Gwangju, Daegu) to 7.[254]

214. Under the Printing Industry Culture Promotion Act, the MCST has administrative authority to inspect business establishments, and to seize and order disposal of illegally copied publications. Relatively small fines, of up to ₩ 3 million, may be levied for refusal to obey such orders. Copyright enforcement activities for illegally copied publications are carried out mainly by The Copyright Protection Center under the auspices of the MCST. Cases of seizure of illegally copied publications online increased from 7,049 in 2008 to 22,466 in 2011 while those of publications offline fell from 615 to 489.

215. To improve criminal prosecutions, an IP Right Violation Crimes Investigation Headquarters is in place in the Supreme Public Prosecutor's Office, as well as nationwide crack-down committees. Between 2008 and 2010, trial requests and decisions concerning industrial property issues dropped gradually; most cases involved patents and trade marks.[255] In 2010 and 2011, KIPO prosecuted 184 persons and confiscated 57,218 counterfeit items; as at end-March 2012, another 77 people had been prosecuted and 26,518 seized. No further data on warnings, criminal charges or sentences were made available to the Secretariat. It seems that sentences for IP infringements remain lower than international norms, and in particular compared with other countries in Asia and Europe.[256]

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[252] KCS online Notice, "Counterfeit Comparison Exhibition 2009", 26 May 2011. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf.

[253] KCS online Notice, "The Counterfeit Comparison Exhibition 2011 held in Seoul on 6 July 2011", 2 August 2011. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf.

[254] *Chosunilbo,* "500 billion joint investment in contents industry", 8 April 2010. Viewed at: http://news.chosun.com/site/data/html_dir/2010/04/08/2010040801449.html

[255] KIPO online statistics. Viewed at: http://www.kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=97000&catmenu=ek07_03_01 [23 November 2011].

[256] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_16.htm [19 October 2011].

IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Korea's approach to protection of goods remains dualistic. Relatively low manufacturing protection, contrasts with higher levels of protection in agriculture, which was increasingly subject to FTA-driven trade liberalization during the review period. Emphasis was put on support related to the 2009 National Strategy for Green Growth, the revival of the "picking winners" support strategy now called new growth engine activities involving, *inter alia,* the manufacture of highly innovative and R&D-intensive high-technology products and related services, and on compensation for adjustment to the impact of FTA-driven trade liberalization on certain domestic activities.

2. During the review period, government intervention in agriculture was more market-oriented and environmentally friendly. The sector's share in GDP remained relatively stable, labour productivity was low, and imports increased due, *inter alia,* to FTA-driven liberalization and disappointing domestic harvests. Although self-sufficiency has been attained for some major products (i.e. rice), the average rate has dropped and targets for the years 2015 and 2020 were increased; at the same time the volume of agricultural imports continued to rise. Average applied MFN tariff protection for agricultural goods remains more than eight times the average for non-agricultural goods, with tariff peaks as high as 887.4% (manioc). Tariff-rate quotas are utilized, administered or allocated by state-trading entities or industry associations; access was improved temporarily in response to recent domestic supply-side instability. Quantitative import restrictions for rice will remain in force until 2014; quantitative export restrictions have also been in place for rice since 2007. In 2011, the sector's contribution of GDP (2.7%) was little more than its support (2% in 2010). Most assistance is product-specific support (Chapter III(4)(ii))(b)); non-product-specific support includes fuel tax exemptions, soft loans, and cross-subsidized electricity prices. Domestic support continues to affect agricultural production and trade, and forces Korean consumers to pay much higher prices than the world levels (on average 1.7 times). The importance of direct payments has increased. Action has been taken to, *inter alia,* foster private investment in agricultural corporations, protect farm household income from natural disasters, support precision farming practices with lower use of fertilizers, expand the traceability information system protecting consumer interests, and assist rural development. Policies to stabilize milk supply and demand help to further reduce excess milk supply. Efforts to reduce over-fishing continued despite fisheries-related subsidies, and action was taken to encourage environment-friendly offshore aquaculture.

3. During the period under review, efforts have been made to reduce oil dependence and to cope with rising energy demand in several ways, including through increasing the share of renewable sources in total primary energy supply and projects overseas. State involvement in the gas and electricity sectors persists and impedes competition. Some industries have licences to import gas directly for their own use rather than purchasing it from the state monopoly, which regularly adjusts the price of the commodity to costs. Domestic coal production, mainly destined for power plants, continues to be assisted by direct production subsidies, the compulsory purchase of its expensive output by the loss-making state-run electricity company, and exemption from VAT. The power exchange pool sets power generation prices to manage electricity dispatch; cross-subsidies between consumers distort prices, with agricultural and industrial users the main beneficiaries.

4. The share of manufacturing in GDP increased, while its share in employment remained relatively stable. The sector is heavily outward oriented and remains a world leader in information and communications technology (ICT), as well as in shipbuilding and cars, activities dominated by large conglomerates. Border protection, which is almost totally confined to tariffs and adjustment

duties, is virtually unchanged since the previous Review of Korea. As from 2009, support was focused on activities termed as new growth engines with the objective of, *inter alia,* increasing exports of green goods (e.g. electric cars) by the major industries. Several tax and non-tax incentives assist R&D and SME activities. Other industry-specific support was made available to improve global competitiveness of the automobile parts; upgrade the steel industry; help to regain the status of world's leading shipbuilding nation in 2011; and foster the pharmaceuticals industry (including in biosimilars).

5. Services, the largest sector of the economy, remains characterized by relatively low labour productivity (now less than half the level in manufacturing) reflecting relatively low investment, and declining growth in total factor productivity (TFP). This poor productivity performance is partly due to lack of sufficient competition owing to, *inter alia*, state-ownership and excessive regulations, including restrictions on foreign direct investment. Measures were taken to improve corporate governance, transparency, soundness and capital adequacy ratios in banking and finance services. The financial sector restructuring continues to benefit from public funds, and its macro-prudential regulations were strengthened. Despite some decline, state-ownership persists in financial and transport services. Maritime and air transport are also subject to cabotage restrictions. Several sectors, notably telecommunications, air transport, and coastal maritime services are subject to ceilings on foreign ownership; foreign ownership is prohibited in radio and television broadcasting. Legislation was passed for the planning and promotion of convergence of broadcasting and communications activities, as well as to create a more competitive broadcasting market. Restrictions on the access of large retailers (super supermarkets) to traditional markets are about to be implemented. Korea's GATS commitments remain unchanged, and commitments beyond GATS commitments were undertaken in the context of recent FTAs.

(2) AGRICULTURE AND LIVESTOCK

(i) Features

6. The contribution of agriculture (including forestry and fishing) to GDP and employment continued to fall between 2007 and 2011, from 2.9% to 2.7%, and 7.4% to 6.4%, respectively (Table I.2). According to Korea Productivity Center data, although between 2009 and 2011 the sector's labour productivity improved by 16.6% in value terms (US$), it remained the lowest among almost all economic activities; in 2011, it was 45.6% of the national average (41.4% in 2009). Between 2009 and 2011, farmland declined from 1.74 million ha or 18% of the entire national land mass, to 1.69 million ha and 17.0%.[1] Between 2005 and 2010, the share of rice in the value of the agricultural production dropped progressively from 23.5% to 15.6%. While Korea is virtually self-sufficient in some major products (section (2)(ii)), such as rice, imports of agricultural products has continued to rise strongly. Korea is a significant net food importer. Between 2007 and 2011, agricultural imports grew at an annual average rate of 12%, peaking at US$34.7 billion in 2011.[2] In 2011, Korea's agricultural trade deficit hit US$25.5 billion, fuelled by a rise in the world market price of grains as well as increased imports of vegetables, fruits, and livestock products to compensate for weak domestic production caused by unfavourable weather conditions.

(ii) Policy developments

7. The agriculture sector remains sensitive and subject to self-sufficiency policies aimed at addressing food security, especially for rice, and other "non-trade" concerns through, *inter alia,* the

[1] Statistics Korea (2010).
[2] UNSO Comtrade data.

modernization of agricultural facilities and R&D. The average food self-sufficiency rate (animal feed excluded) increased from 51.8% in 2008 to 54.9% in 2010 as a result of an increase in grain production.[3] Self-sufficiency in rice, the staple food for Koreans, rose from 94.4% to 104.6%.[4] On 11 July 2011, the self-sufficiency targets for 2015 and 2020 were raised; for food they were set at 60% and 65%.[5] Measures for attaining these targets include the diversification of farmland (e.g. rice paddies, utilization of idle farmland in the winter), and the establishment of a national grain procurement system. Korea considers that any multilateral agricultural liberalization must be sufficiently gradual to take account of the sector's "multifunctionality".

8. In 2009, an agricultural policy reform framework was presented by a council for the modernization of Korean agriculture, where policy-makers and stakeholders agreed on more market orientation as well as on promoting more environmentally friendly practices.[6] Recent policy initiatives centre on links between primary agriculture and the development of the food industry[7], support for private investment in agricultural corporations[8], protection of farm household income from natural disasters, and support to precision farming practices with lower use of fertilizers.[9] Other policy priorities include expanding a traceability information system that protects consumer interests (section (2)(iii)(b)), and increasing direct payments for environmentally friendly agriculture, and rural

[3] Statistics Korea (2010), Table 6.2.

[4] In 2010, self-sufficiency rates were 50% for beef, 77.5% for pork, and 84.9% for chicken (MIFAFF online information. Viewed at: http://ebook.mifaff.go.kr/preview/viewer/main.php?site=2&menuno=1&previewno=8&iframe=0&dlbt= [6 January 2012]).

[5] Self-sufficiency targets for 2015 were changed from 25% to 30% for grains, 54% to 70% for staple foods, 90% to 98% for rice, 1% to 10% for wheat, 42% to 36.3% for soy beans, to 99% for root crops, 85% to 86% for vegetables, 66% to 80% for fruits, 71% to 71.4% for meat, and to 65% for dairy; the target for eggs was lowered from 100% to 99%. In 2020, these target rates will be 32% for grains, 72% for staple foods, 98% for rice, 31% for barley, 15% for wheat, 40% for soy beans, 99% for root crops, 44.4% for animal feed, 90% for animal feed with fibres, 83% for vegetables, 78% for fruits, 72.1% for meat, 64% for dairy, and 99% for eggs (MIFAFF online information. Viewed at: http://ebook.mifaff.go.kr/preview/viewer/main.php?site=2&menuno=1&previewno=8&iframe=0&dlbt= [6 January 2012]).

[6] OECD (2010a).

[7] A December 2008 comprehensive plan to develop the food industry was aimed at mutual development of agriculture and the food industry. A January 2009 action plan reduced entry barriers to agriculture for non-agricultural companies. The strategy is to promote the supply of safe agricultural products and to develop the food export industry. Korea puts high priority on enhancing the competitiveness of the food sector including agriculture and food processing industries (OECD, 2011a).

[8] Agricultural corporations are corporate farms created by several individual farmers, which are also financed by off-farm private investment mostly in agriculture-related industries. To attract investment in agricultural corporations, the limit on non-farmer investment was relaxed from 75% to 90%; through reform of the Farmland Law in November 2009, the Government also relaxed restrictions on farmland ownership by agricultural corporations and farmland conversion regulations. The number of agricultural corporations increased by 8.2% in 2009 to 6,824 corporations. Employees in agricultural corporations increased by 6.5%, to 37,700, and the average area of operation increased by 27.3% to 11.1 ha per corporation. In 2010, the Government created a fund of ₩ 60 billion (US$52 million) to attract more investment and external capital into various agricultural activities, including food marketing and farm input industries. The fund participates indirectly in joint private sector investment in cooperatives or companies involved in agri-food management activities (OECD, 2011a).

[9] Precision farming or precision agriculture is a farming management concept based on observing and responding to intra-field variations. It relies on new technologies like satellite imagery, information technology, and geospatial tools. It is also aided by farmers' ability to locate their precise position in a field using a satellite positioning system like GPS.

development.[10] The basic plan for agricultural and rural development for 2008-13 involves: strengthening agricultural competitiveness and stabilizing farm management; improving agri-food safety and nurturing the agri-food industry; and making the rural area a better place to live.

(a) Border protection

9. Korea relies most heavily on border protection through tariffs and tariff-rate quotas (TRQs).[11] Liberalization of agricultural imports through the WTO and various FTA negotiations is one of the most important challenges facing the sector. The key agricultural commodities of rice, apples, and pears are permanently excluded from the Korea–Chile FTA, and tariff reductions were deferred on many other food items (e.g. some types of cabbages) until after the conclusion of the Doha round of multilateral negotiations. In the FTA with ASEAN (Chapter II), 71 sensitive ten-digit HS (or 36 on a six-digit HS basis) agricultural products are exempt from tariff reductions. The FTAs with the United States, EU, Peru, and the CEPA with India are expected to bring significant market opening and introduce competition in the domestic market. Korea took action to compensate farmers affected by its FTA liberalization commitments and to stabilize their income and strengthen their competitiveness (see section below and Chapter III(4)(ii)).

10. High MFN tariffs (peaks of up to 887.4% for manioc), including alternate duties and possibly prohibitive out-of-quota rates, remain in place for many commodities (Chapter III(2)(iii) and III(2)(iv)(a)). At 55% in 2012 (including out-of-quota rates and *ad valorem* components of alternate duties), the average applied MFN tariff on agricultural products (WTO definition, which includes processed food) is much higher than for non-agricultural imports (6.6%) (Table III.1). Moreover, the average fill ratio of TRQs rose from 62.7% (2010) to 66.2% (2011), but remains below its 2006 level (Chapter III(2)(iv)(a)); TRQs are either utilized, administered or allocated by state-trading entities or industry associations, thus raising the risk of potential conflicts between their importing interests and those of their farm constituents.[12] Autonomous tariff-rate quotas (Chapter III(2)(iv)(b), Table AIII.6) were apparently revised seven times in 2011, raising in-quota volumes for more than 110 items. More such revisions are expected in 2012 in order to cope with recent supply-side instability due to surging raw material prices, the foot-and-mouth disease (FMD), and disappointing harvests, which can fuel inflationary pressure.[13] For some agricultural products, subject to tariff-rate quotas under WTO

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[10] Rural development policies are aimed at improving living conditions of rural residents and enhancing economic vitality of the rural regions; they involve many ministries and government agencies, encompassing for example education, medical services, roads, dwellings, drinking water supply, and infrastructure for the internet. Since 2004, an integrated package programme has applied to "hub villages" with a high growth potential (OECD, 2011a).

[11] OECD (2011a).

[12] The authorities indicated that industry associations manage the TRQ volumes for commodities whose domestic demand exceeds supply, and therefore, it is important to coordinate opinions among concerned importers. In addition, they are of the view that it is unlikely that there would be conflict between importers and producers of those commodities.

[13] Korea's food price inflation rate in 2011 was the second highest among OECD countries, at 7.9% from January to November 2011. The OECD's food price index includes costs of food and non-alcoholic beverages (*Yonhap*, "S. Korea's food inflation ranks 2nd among OECD nations last year", 6 January 2012. Viewed at: http://english.yonhapnews.co.kr/business/2012/01/05/0502000000AEN20120105007300320.HTML [10 January 2012]; *Maeil Business,* "We will maintain quota tariffs on select items next year: Finance Minister", 19 December 2011. Viewed at: http://news.mk.co.kr/english/newsRead.php?sc=30800003&cm=Economy&year=2011&no=814959&selFlag=sc&relatedcode=&wonNo=&sID=308 [2 January 2012]; *Yonhap*, "S. Korea to use tariff quota to cope with supply instability: minister", 19 December 2011. Viewed at: http://english.yonhapnews.co.kr/business/2011/12/19/0502000000AEN20111219002100320.HTML [2 January 2012]).

agricultural market-access commitments (Chapter III(2)(iv)(a)), such as corn grits, popcorn, and soy flakes (Table AIII.4), Korea aggregates raw and value-added products under the same quota. It seems that domestic industry groups, which administer the quotas, frequently allocate the more favourable in-quota tariff rate to their larger members that import raw ingredients.[14] Domestic producers of rice, the main staple crop, still benefit from a quantitative import restriction, which is to remain in force until 2014 (section (2)(iii)(a) and Chapter III(2)(vi)(b)). During the period under review, Korea has made regular use of the special safeguard provisions (SSGs) under the WTO Agreement on Agriculture (Chapter III(2)(viii)(b)); SSGs, affecting mainly certain beans, wheat starch, and ginseng products, were imposed on 5 items in 2008, 5 in 2009, 2 in 2010, and 1 item in 2011.[15] Export subsidies to reduce exporters' marketing costs are in place for certain farm products (Chapter III(3)(iii)).

(b) Domestic support

11. According to the authorities, Korea has fully implemented its multilateral commitments on agriculture, and provides assistance consistent with WTO obligations. Although in the longer term, Korea has reduced its support to agriculture and some progress has been made towards more market oriented policies, its assistance level remains relatively high, and, based on OECD calculations (see below), the most production and trade distorting forms of support still represent 90% of total support.[16]

12. In 2012, budgetary outlays for agriculture were ₩ 15.8 trillion, or 4.8% of total spending (₩ 15.1 trillion in 2011).[17] Between 2008 and 2010, producer support (as measured by the OECD percentage Producer Support Estimate (PSE)[18]) increased by 6 percentage points in 2009 (51%) and dropped back to 45% in 2010 (down from 68% in 2002), thus remaining more than twice the OECD average.[19] During the same period, support levels (as defined by the OECD Single Commodity Transfer (SCT))[20] ranged from 15.7% (eggs in 2008) to 88.9% (soybean in 2010) of the commodity gross farm receipts (Table IV.1). Korea's average annual total agricultural support net of specific sectoral budget receipts (Total Support Estimate (TSE)) for 2008-10 was ₩ 23.7 trillion, equivalent to about 2.2% of GDP (2% for 2010), one of the highest rates among OECD members.[21] For the same period, over 88% of PSE-measured assistance involved market price support (peak of ₩ 20.2 trillion

[14] USTR (2011).

[15] WTO document G/AG/N/KOR/45, 31 January 2012.

[16] OECD (2011a).

[17] MOSF online information. Viewed at: http://english.mosf.go.kr/eco/view.do?bcd=E0001&seq=224&bPage=1 [16 January 2012].

[18] The OECD-based support calculations are not directly comparable to domestic support calculations required under the WTO Agreement on Agriculture; the OECD calculations do not correspond with the information on current total AMS *vis-à-vis* final bound total AMS reflected elsewhere in this report (Chapter III(4)(ii)(b)). The Producer Support Estimate (PSE) represents the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture. It includes market price support, budgetary payments and budget revenue forgone.

[19] OECD (2011a), Table III.1a.

[20] Single Commodity Transfers (SCT) are the annual monetary value of gross transfers from policies linked to the production of a single commodity, such that the producer must produce the designated commodity in order to receive the payment.

[21] The average OECD TSE share of GDP was 0.9% (OECD, 2011a, Table III.4a).

in 2009)[22], paid for by consumers subject to higher domestic prices. In the period 2008-10, Korean agricultural commodity prices averaged 1.7 times world levels (consumer nominal assistance coefficient (NAC))[23], compared to 2.5 times in 2004-06, and total transfers from consumers to producers amounted to an average of ₩ 17.9 trillion.[24] Despite some reductions, the high levels of support allowed under Korea's WTO commitments suggest that there is scope for increasing assistance without exceeding these commitments.

Table IV.1
Agricultural support by commodity, 1986-88, 1995-97 and 2008-10
(₩ billion and %)

	1986-88	1995-97	2008-10	2008	2009	2010[a]
Total PSE (₩ billion)	9,645	19,277	20,393	18,541	22,464	20,175
Total producer SCT (₩ billion)	9,551	18,199	18,563	16,527	20,775	18,388
Share of producer SCT in total PSE (%)	99	94	91	89	92	91
Grains						
Producer SCT (₩ billion)	220	208	74	82	91	50
Percentage SCT	72.8	79.4	52.5	41.6	55.9	59.8
Producer NPC	3.69	4.89	2.16	1.71	2.27	2.49
Rice						
Producer SCT (₩ billion)	4,509	6,886	4,521	4,490	5,557	3,517
Percentage SCT	82.0	82.1	48.2	45.3	55.7	43.6
Producer NPC	5.59	5.89	1.83	1.78	2.12	1.60
Soybean						
Producer SCT (₩ billion)	156	235	358	294	324	457
Percentage SCT	78.7	85.2	81.0	77.0	77.1	88.9
Producer NPC	4.75	6.97	5.91	4.35	4.36	9.02
Milk						
Producer SCT (₩ billion)	306	512	758	464	939	871
Percentage SCT	67.8	59.9	44.8	28.9	54.0	51.4
Producer NPC	3.11	2.50	1.88	1.41	2.18	2.06
Beef and veal						
Producer SCT (₩ billion)	496	1,294	1,117	876	1,241	1,234
Percentage SCT	54.0	65.0	30.0	29.0	31.0	31.0
Producer NPC	2.23	2.89	1.43	1.41	1.44	1.44
Pigmeat						
Producer SCT (₩ billion)	307	775	2,145	1,961	2,421	2,052
Percentage SCT	32.0	40.0	63.0	64.0	68.0	58.0
Producer NPC	1.50	1.69	2.75	2.78	3.08	2.38
Poultry						
Producer SCT (₩ billion)	132	385	576	324	628	775
Percentage SCT	49.4	56.5	43.6	34.8	46.4	49.7
Producer NPC	2.09	2.33	1.80	1.53	1.86	1.99

Table IV.1 (cont'd)

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22 For OECD calculations, market price support commodities were: other grains, garlic, red pepper, chinese cabbage, rice, soybean, milk, beef and veal, pigmeat, poultry, and eggs. Market Price Support is net of producer levies and Excess Feed Cost (OECD, 2011a, Table 10.2.).

23 The NAC measures the monetary value of support (transfers) from consumers and taxpayers to producers relative to current production valued at border prices. It is expressed as a ratio between the value of gross farm receipts (including all forms of measured support) and the gross farm receipts valued at border prices (without support).

24 OECD (2011a), Table 10.2.

	1986-88	1995-97	2008-10	2008	2009	2010[a]
Eggs						
Producer SCT (₩ billion)	1	63	140	166	156	98
Percentage SCT	0.5	10.7	12.4	15.7	13.3	8.3
Consumer NPC	0.92	1.12	1.14	1.19	1.15	1.09
Other commodities						
Producer SCT (₩ billion)	3,424	7,841	8,874	7,871	9,416	9,334
Percentage SCT	71.0	61.9	43.7	42.3	47.7	41.0
Producer NPC	4.60	2.73	1.78	1.74	1.91	1.69

a Provisional.

Note: PSE: Producer Support Estimate; NPC: Nominal Protection Coefficient; SCT: Single Commodity Transfer.

Source: OECD (2011), *Agricultural Policy Monitoring and Evaluation 2011: OECD Countries and Emerging Economies*, Table III.17. Viewed at: http://dx.doi.org/10.1787/agr_pol-2011-en [6 January 2012].

13. Market price support is implemented through government purchases and public stockholding schemes, supported by trade barriers (section above). Publicly funded purchase and stockholding schemes support agriculture by stabilizing prices at higher than world market levels. According to the authorities' notifications to the WTO, there are only five market price support commodities: rice, barley, soyabeans, maize (corn), and rapeseeds; in 2008, barley, maize, and soyabeans benefited from market price support, while currently, soyabean is the only commodity subject to such support through government purchase operated by the Korea Agro-Fisheries Trade Corporation.[25] A public stockholding scheme is maintained for rice (section (2)(iii)(a)).

14. Direct payments remain part of Korea's farm income support policy, replacing in part previous market price support or supplementing market price support.[26] The significance of direct product-specific payments relative to consumer-funded producer support (PSE) increased from about 1% of producer support in 1986-88 to 11.7% in 2008-10, and 12.8% in 2010 (Tables IV.1 and IV.2). Total government payments, including provision of general support services rose steadily from 2008 to 2010 (Table IV.2). Five types of direct payment programmes with different objectives remain in place: direct payment for rice income compensation; direct payment for environment-friendly agriculture (see below); direct payment for disadvantaged regions; direct payment for rural landscape conservation; and direct payment for early retirement from farming.[27] Direct payments, if sufficiently de-linked from production, are far less distorting than market price support, which, being output-based, distorts trade and production most by contributing to over-production.[28] Korea has no output-based direct payment schemes *per se*, but makes such payments based on overall farming income, area planted or animal numbers, and input use. Nevertheless, while likely to be less distorting than output-based assistance, such subsidies still stimulate production and input use, thereby affecting agricultural trade. The potentially adverse effects are on the environment, even though these subsidies are accompanied by new, more widely implemented schemes to help reduce the harmful effects of pesticide and agricultural chemicals, whose use dropped by 14% and 38.3% between 2005 and 2010, respectively.

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[25] WTO document G/AG/N/KOR/43, 16 September 2011.

[26] OECD (2011a).

[27] OECD (2011a).

[28] Output-based assistance is also relatively ineffective in transferring income to poor farmers or in achieving environmental objectives.

Table IV.2
Direct payments to agriculture, selected years
(₩ billion)

Type of payment	1986-88	1995-97	2008-10	2008	2009	2010[a]
Specific						
Based on output	0	0	0	0	0	0
Based on input use	70	871	765	861	689	746
Based on current area planted/animal numbers/receipts/income, production required	24	206	936	689	941	1,179
Based on non-current area planted/animal numbers/receipts/income, production not required	0	0	686	743	653	661
Based on non-commodity criteria	0	0	0	0	0	0
Total	94	1,077	2,387	2,293	2,283	2,586
General services						
Research and development	52	275	760	813	700	768
Agriculture schools	5	47	135	116	138	151
Inspection services	21	80	116	118	116	114
Infrastructure	374	2,121	1,814	1,733	1,969	1,740
Marketing and promotion	0	12	64	57	65	69
Public stockholding	394	341	364	374	419	298
Total	846	2,876	3,253	3,211	3,407	3,140
TOTAL	940	3,953	5,640	5,504	5,690	5,726

a Provisional.

Source: OECD (2011), *Agricultural Policy Monitoring and Evaluation 2011: OECD Countries and Emerging Economies*, Table 10.2. Viewed at: http://dx.doi.org/10.1787/agr_pol-2011-en [6 January 2012].

15. Programmes to protect farm household income from natural disasters have been reinforced.[29] The scope of the crop insurance scheme rose from 7 agricultural products in 2006 to 30 in 2011[30]; a further extension to 35 commodities in 2012 and 40 in 2013 is under way. In 2011, the Government paid 41% of insurance premiums (69% in 2006). In 2009, 32,968 farms subscribed to this insurance (7.4% more than in the previous year), and land covered by the insurance increased by 31.4% to 26,388 ha between 2008 and 2009.[31] In 2011, 40% of farmers had subscribed to the insurance scheme and the government budget for the scheme was ₩ 97.2 billion.[32] The scope of the livestock insurance scheme for protecting farmers' income from outbreaks of animal disease and natural disaster, increased from 9 livestock products in 2006 to 15 in 2011, and a further increase to 16 is planned for 2012.[33]

[29] OECD (2011a).

[30] By 2011, the scheme included apples, pears, peaches, grapes, Korean citrus, sweet persimmons, astringent persimmons, kiwi, plums, beans, onions, potatoes, chestnut, watermelon, pepper, rice, potatoes, corn, garlic, plums, dates, rubus coreanus, raspberries, and horticultural facility crops (strawberries, cucumbers, tomatoes, oriental melons, squash, green pepper, rose, chrysanthemum) (MIFAFF online information. Viewed at: http://www.mifaff.go.kr/gonews/content_view.jsp?newsid=155441724&section_id=b_sec_1 [6 January 2012]).

[31] OECD (2011a).

[32] MIFAFF online information. Viewed at: http://www.mifaff.go.kr/gonews/content_view.jsp?newsid=155441724&section_id=b_sec_1 [6 January 2012].

[33] In 2011, the livestock products under the scheme included cattle, pigs, horses, chickens, ducks, pheasants, quail, turkey, deer, geese, ostriches, sheep, bees, rabbits, and aquarium birds (MIFAFF online

16. Policies for promoting environmentally friendly farming have been strengthened[34]; the share of environmentally friendly products in total agriculture output increased to 12% in 2010 (9.7% in 2007). Direct payments for environmentally friendly agriculture with reduced fertilizer and pesticide use has resulted in the rapid increase of areas certified as adopting environmentally friendly farming practice[35], from 0.2% of the total area of farmland in 2001 to 11.6% in 2009. The Government currently provides support for prevention of soil erosion and soil acidification. As from 2001, Environmentally-friendly Agricultural Products Certification has been in place.[36] Following consumer demand for higher food-safety standards, certification has become more restrictive since 2010; no new certificates are being issued for low-pesticide agricultural products, and certification of these products will cease to exist in 2015. As a result, chemical fertilizer use fell from 267 kg/ha in 2009 to 232 kg/ha in 2010. In addition, in 2009, direct payments for environmentally friendly livestock farming were introduced.[37] Payments to operate this programme totalled ₩ 2.72 billion in 2010, and ₩ 3 billion in 2011; the authorities indicated that support for this and other related programmes will be calculated and included in Korea's notifications to the WTO regarding subsidies. An output-related payment is made to Hazard Analysis and Critical Control Points (HACCP)-certified livestock farms that produce organic and antibiotic-free livestock products. Producers of Korean varieties of cattle, dairy cattle, pigs, chickens, and ducks (as from 2011) are eligible for the programme. In 2010, a total of ₩ 748 million (US$647,000) was paid for the operation of the programme in 2009, and nearly ₩ 3 billion (US$2.5 million) was expected to be secured in 2010.[38]

17. Restrictions on farmland ownership by agricultural corporations were relaxed as a result of the Farmland Law in November 2009. Foreigners and Korean nationals must prove that they are capable of cultivating farmland on their own in order to be eligible for ownership, seemingly for reasons of stable food supply (Chapter II). The authorities indicated that foreigners are not barred from investing in growing rice and barley, nor in land where those crops are grown, though their direct involvement in farming of these crops is prohibited for cultural and food-security purposes.

18. The first phase of a 5-Year Plan to Improve the Quality of Life of Farmers and Fishermen and Promote Development in Rural, Mountainous and Fishing Communities was implemented from 2005 to 2009; its second phase began in 2010, and is to be completed in 2014.[39] The Plan is to, *inter alia,* promote balanced and equitable development across Korea by improving the welfare of rural and fishing villages. A comprehensive US$104 billion 10-year plan for agriculture and rural areas for the period 2004-13 was introduced, to finance various programmes; funding is ensured from a special tax, levied primarily on non-food consumer items.

19. Under the Act on Trade Adjustment Assistance, Korea is to expand its support for adjustment in agriculture and fisheries, to ease their losses due to a large influx of products under recently concluded free-trade agreements (FTAs) (Chapters II(6)(iii) and III(4)(ii)(b)); the Government will

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information. Viewed at: http://www.mifaff.go.kr/gonews/content_view.jsp?newsid=155441724&section_id=b_sec_1 [6 January 2012]).

[34] Korea launched the Presidential Committee on Green Growth and set the five-year Green Growth National Strategy in 2009 (section (5)). In addition, the April 2010 Framework Act on Low Carbon and Green Growth included the agriculture sector (OECD, 2011a).

[35] OECD (2011a).

[36] This certification covers organic agricultural products, pesticide-free agricultural products, and low-pesticide agricultural products.

[37] OECD (2011a).

[38] OECD (2011a).

[39] National Archives of Korea online information. Viewed at: http://contents.archives.go.kr/next/content/listSubjectDescription.do?id=004895&pageFlag=A [6 January 2012].

spend ₩ 24.1 trillion (US$20.8 billion) to provide financial and fiscal support for domestic fishing and agricultural households from 2008 to 2017.[40] The financial support is triggered when the annual average product prices fall below 90% of the average annual standard prices of the last five years.[41] Initially US$1 billion was committed for the period 2004-10, primarily to assist horticultural producers after the implementation of the Korea-Chile Free Trade Agreement (FTA) in 2004.

20. Policies to cope with growing consumer concerns about food safety have been intensified: the 2004 Beef Traceability System was expanded (section (2)(iii)(b)); and a country-of-origin labelling scheme was applied to every restaurant serving beef (2007), pork meat (2008), chicken meat (2008), rice (2008), *kimchi* (2008), and duck (as from 2010). With foot-and-mouth disease (FMD) in cows and pigs, in November 2010, the Government culled more than 3 million head, and prohibited all farms within a 20-kilometre radius of the affected livestock from selling or removing any animals from the area, as a pre-emptive measure.[42] Vaccination measures have been taken since January 2011. Disease damage was estimated at about ₩ 3 trillion (US$2.6 billion). As a result, the Domestic Animal Infectious Disease Control Law was amended, and a support package was implemented, including income tax relief, for farmers affected by FMD.

21. Credit concessions for feed purchases were increased in 2008 in response to higher feed import costs.[43] A farm machine leasing programme was expanded to reduce costs of capital for farmers. Korea also exempts farmers, foresters, and fishers from taxes on petroleum products (section (4) and Chapter III(4)(ii)(d)).

(iii) Selected activities[44]

(a) Rice

22. Rice remains by far the most important single product and the dominant grain in Korea, as shown by its contribution to agricultural production and land use, as well as its weight in Koreans' diet. Rice production remains heavily protected and assisted; as a result, in 2010, its domestic price was 1.6 times world levels (consumer NPC[45]), slightly more than half of its 2006 ratio. Despite its reduced share in the total value of agricultural production, rice production increased from 4,408,000 tonnes in 2007 to 4,916,000 tonnes in 2010, reflecting an upward trend of production per cultivated area unit.[46] Nevertheless, in 2011 rice production almost reached its lowest level in more than 30 years; since its peak in the 1970s, rice production has declined as farmers retire without being replaced and consumers' diets change.[47]

23. Imports of rice are subject to a tariff of 5% but in May 2011, the authorities were considering levying higher tariffs on rice imports in 2012, in advance of the scheduled date of 2015. The

[40] *Yonhap,* "Seoul to expand help for fishing, agricultural sectors under free trade deals", 2 January 2012.

[41] Standard prices are calculated as follows: the lowest and highest of the average annual price of each of the preceding five years are excluded; and the average of the remaining three years is then multiplied by 90%.

[42] OECD (2011a).

[43] OECD (2010a) and (2011a).

[44] The authorities did not provide requested data and other information relating to the content of this section.

[45] Consumer Nominal Protection Coefficient (consumer NPC) is the ratio between the average price paid by consumers (at farm gate) and the border price (measured at farm gate) (OECD, 2011a, Table III.38).

[46] Statistics Korea (2010).

[47] USDA (2011c).

MIFFAF believes that the (unspecified) higher tariff will help control the inflow of rice imports and thus protect the already heavily subsidized rice industry. However, with domestic rice consumption in steep decline, stocks of rice are likely to continue to pile up.[48] Following the re-negotiation of the quantitative restriction on rice imports in 2004 (section (2)(ii) and Chapter III(2)(vi)(b)), the special treatment for rice was extended until 2014, and the minimum market access (MMA) volume is being increased from 225,575 tonnes in 2005 to 408,700 tonnes in 2014 in equal annual instalments to cover 8% of domestic consumption. Korea considers that it meets its multilateral quota commitments in this area; the MIFAFF controls all rice imports for use by food processors. Between 2008 and 2011, Korea's total purchases of rice from the United States, China, Thailand, and Pakistan increased by overall 21.3% (in volume terms).[49] Price mark-ups with a tariff-like effect are no longer imposed on imported rice (Chapter III(2)(vii)). Direct involvement in rice (and barley) farming remains closed to foreign direct investment (section (2)(ii)(a)). Quotas are being set on the basis of an export-need recommendation for rice exports; between 2008 and 2012, their volume was increased by 121.2% but remain little utilized (Chapter III(3)(ii)(b)).

24. Under the Rice Income Compensation Act (RICA), rice farmers receive two types of income support payments: an area payment and a deficiency payment.[50] In 2011, combined support payments totalled ₩ 617 billion (US$557 million). The area payment is made on a 'per hectare' basis and is calculated using the average area of rice production during the base period 1998-2000. The 2011 area payment was ₩ 701,169 (US$634) on average per hectare; paddy area covered under this support programme declined to 883,000 hectares, down 0.2% from the previous year. The deficiency payment is 85% of the difference between the national-average market price during the 2011 harvest season (October-January) and the 2011 target price, less the area payment.[51] In 2011, the deficiency payment amounted to zero since the average harvest price of ₩ 2,079 (US$1.88) per kg (milled) was so close to the target price of ₩ 2,126 (US$1.92) per kg (milled). The area payment of ₩ 701,169 per hectare is converted to a kg equivalent (₩ 144/kg) by dividing it by the 1999-2003 "Olympic" average yields (i.e. an average during a five-year period, dropping the highest and lowest values). The Government revised its acreage reduction programme for trimming rice production from 40,000 ha down to 5,000 ha. No recent data on the direct income support mechanism for rice producers were available from the authorities.[52]

25. To ensure food security and price stability, under the Public Rice Stockholding Program (PRSP), a purchase and release mechanism, the Government procures domestic paddy rice during the harvest season (October-December) at the average market price and later sells it during the non-harvest periods at the prevailing domestic market price.[53] Purchases under this scheme ranged between 7% and 15% of domestic production in 2005-10.[54] Between October and December 2011, the Government purchased 261,000 tonnes (milled basis) of paddy rice, or 6% of the 2011 rice production, under PRSP. However, government procurements failed to reach the initial target of

[48] *Oryza,* "South Korea To Advance Higher Tariffs On Imports", 25 May 2011. Viewed at: http://oryza.com/Asia-Pacific/South-Korea-Market/South-Korea-To-Advance-Higher-Tariffs-On-Imports.html [17 January 2012].

[49] USDA (2010a).

[50] USDA Foreign Agricultural Service (2012a).

[51] The deficiency payment calculation is: [(Target Price ₩/kg - Average Harvest Price ₩/kg) x 0.85] - Area Payment per HA /Avg. National Yield per HA [₩ 2,126 - ₩ 2,079] x 0.85] - ₩ 703,163/4,880 MT = minus ₩ 104 per kg.

[52] For information on past practices see WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

[53] USDA Foreign Agricultural Service (2012a).

[54] USDA online information. Viewed at: http://www.ers.usda.gov/briefing/southkorea/policy.htm [6 January 2012].

340,000 tonnes because farmers were reluctant to participate in the programme. In June 2011, the Government decided to increase its sales of rice produced in 2009 from the planned 50,000 tonnes to 150,000 tonnes, and reduce the price for rice produced in 2010 by half, to stabilize inflation.[55] Mid-year 2011/12 stocks (end of October) were forecast at 0.9 million tonnes, equivalent to roughly 18% of domestic consumption. No recent information about PRSP operations (including rice stocks) was available from the authorities.

(b) Beef

26. Beef imports continue to be subject to a tariff of 40%, the same as in 2008. As the price of beef has been high, the number of cattle increased from 2.2 million in 2008 to 3.4 million in December 2010; the volume of beef imports (based on quarantine record) also increased, by almost 29% between 2007 and 2010 from 202,785 tonnes to 261,279.[56] On account of the FMD outbreaks in 2011, 151,000 cattle (4.5% of the total herd) was culled (section (2)(ii)).[57]

27. Although beef assistance has fallen, it remains high (SCT) of 31% in 2010 (Table IV.1 and section (2)(ii)). At the end of 2011, Korea ended an eight-year ban on imports of Canadian beef by passing import health requirements for Canadian beef under 30 months of age; Korea was the last major beef-importing country to agree to relax its restrictions on Canadian beef.

28. Payments under the Calf Breeding Stabilization Scheme, introduced in 2001 to assist beef producers, have been made only once (2008)[58], as the calf price has remained above the base price. No recent data on the coverage and stabilization price under the scheme were provided by the authorities.[59]

29. Foreign direct investment of less than 50% of investment assets is permitted (since March 2001) in cattle-raising and meat wholesale. The 2004 Beef Traceability System led to an increase of market share for domestic beef from 44.2% in 2004 to 50% in 2009.[60] In June 2009, the system was expanded to the distribution stage to cover all stages of beef marketing. The wider review of the traceability system was scheduled for 2010; no information was provided by the authorities on the outcome of this review.

30. Cattle imports are more competitive than the domestic animal, costing ₩ 1.66 million per head (including customs and quarantine costs) in June 2011 compared with ₩ 3.8 million.

(c) Dairy

31. Dairy production remains assisted (SCT of 51.4% in 2010, Table IV.1), and tariff quotas tend to restrict imports. Relatively high in-quota tariff rates of 20% or 40% apply to dairy products, and much higher out-of-quota rates, of 49.5%, 89% or 176% in 2010 (Table AIII.4), result from the

[55] KOCIS online information, "Government Holds Ministerial Meeting on Price Stabilization Measures", 10 June 2011. Viewed at: http://www.korea.net/detail.do?guid=56860 [6 January 2012].

[56] USDA (2011b).

[57] USDA (2011b).

[58] Farmers raising Han-woo cattle received ₩ 170,000 (US$155) per head as the trading price of calves had dropped under the stabilization level of ₩ 1,650,000 (US$1,500) at the third quarter of 2008 (OECD, 2009a).

[59] For data at the time of the previous TPR see WTO document WT/TPR/S/204/Rev.1, 4 December 2008.

[60] OECD (2011a).

"tariffication" exercise in the Uruguay Round. In 2010, the fill ratio ranged from zero (evaporated milk) to 100% (butter) (Table AIII.5). In March and June 2011, temporary duty reductions on limited quantities of dairy products were introduced until end 2011, to ease inflation due to the massive slaughter of livestock relating to the FMD epidemic (sections (2)(ii) and (2)(iii)(b)), and colder than normal winter weather.[61] The Korea-U.S. free-trade agreement eliminated the 36% import tariff on imported cheddar cheese (HS0406.90) over 10 years, and duties on other cheese (0406.10) will be phased out over 15 years.[62]

32. Under a differentiated pricing mechanism for surplus milk for member farms of the Korea Dairy Committee (KDC)[63] milk collected above the contracted volume is classified as surplus milk and pays dairy farmers less than the normal price for the surplus.[64] These lower prices seem to range from 7% (level of international milk powder prices) to 70% below the normal price.[65] Currently, 10% of total raw milk is subject to the differential price mechanism. Domestic production dropped between 2005 and 2009, and the excess supply of raw milk fell from 116,479 tonnes to 54,504 tonnes; imports rose by 6.8%.[66] Furthermore, the self-sufficiency rate for raw milk declined from 72.4% (2005) to 67.8% (2009). No recent data were provided by the authorities.

(3) FISHERIES

33. Korea remains a leading producer of fish products, although fish production was down from 3.36 million in 2008 to 3.11 million tonnes in 2010.[67] The majority of fish production is from capture fisheries (production that excludes shallow sea aquaculture), whose share declined from 58.7% in 2009 to 56.4% in 2010. Korea's capture production is the world's 13th largest.[68] Korea's apparent consumption, of 57.4 kg of fish products per capita in 2010 (56.5 kg in 2007, 54.9 kg in 2008, 49.8 kg in 2009), was more than three times the world average, and higher than that of any developed country except Japan.[69] As a result, in 2010, Korea imported about US$1.7 billion more fisheries products than it exported, making it the world's 11th largest importer of fisheries products by value[70]; imports

[61] From March to end 2011, duties were eliminated temporarily on 30,000 tonnes of powdered skim & whole milk; 3,500 tonnes of butter; 40,000 tonnes of processed butter dairy spreads; and 23,000 tonnes of mozzarella cheese. Zero-duty TRQs on dairy products for the second half of 2011 included 18,500 tonnes of milk and cream; 1,200 tonnes of fresh cheese; and 24,000 tonnes of other cheese (USDA, 2011a).

[62] USDA (2011a).

[63] Since 1999, the KDC has been entrusted with improving the structure of the dairy industry; balancing supply and demand of raw milk and dairy products; stabilizing prices; and enhancing the distribution structure.

[64] The normal (farm gate) milk price is calculated by adding to or subtracting from the basic milk price (not provided by the authorities) other amounts depending on hygiene factors (e.g. bacterial counts, somatic cell counts, milk composition factors).

[65] Korea Dairy Committee online data. Viewed at: http://www.dairy.or.kr/english/2-2-2_bu_Purchase.htm [16 January 2012].

[66] Korea Dairy Committee online data. Viewed at: http://www.dairy.or.kr/english/3-2_ko_Supply.htm [16 January 2012].

[67] This includes 1.23 million tonnes from adjacent waters fisheries, 1.31 million tonnes from shallow sea aquaculture, 612,000 tonnes from deep-sea fishing and 30,000 tonnes from inland water fishing (USDA, 2010b).

[68] FAO online statistics, Table A(0)a. Viewed at: ftp://ftp.fao.org/FI/STAT/summary/a-0a.pdf [18 January 2012].

[69] USDA Foreign Agricultural Service (2012b); and FAO online statistics. Viewed at: ftp://ftp.fao.org/FI/STAT/summary/FBS_bycontinent.pdf [18 January 2012].

[70] FAO online statistics, Table A3. Viewed at: ftp://ftp.fao.org/FI/STAT/summary/a3ybc.pdf [18 January 2012].

are expected to continue to outpace exports. Domestic fish production is not expected to increase significantly due to declining fish stocks in coastal and offshore areas, and the enforcement of exclusive economic zones (EEZs)[71] by neighbouring countries. To cope with this situation, the Government has accelerated the downsizing of the fishing fleet; the number of fishing vessels decreased from 80,766 vessels (621,338 GT) in 2008 to 76,974 vessels (600,622 GT) in 2010.[72] Recognizing the potential economic impact of this step and the reduction in fishery agreements, the Government is undertaking an in-depth study of aquaculture and researching how to secure higher fish-catch quotas in foreign waters. Shallow-sea aquaculture is expected to continue to increase due to tighter restrictions on fresh-water aquaculture and expectations of continuing reductions in wild catches in the future. Since 2008, shallow-sea aquaculture production has been 1.31 million to 1.38 million tonnes; in 2010, output was 1.3 million tonnes, equivalent to 44.4% of total fish production.

34. In 2009, the scope of the total allowable catch (TAC) system run by the MIFAFF, which applies to off-shore and coastal fishing, was expanded to cover 11 species (previously 7)[73]; in 2010, it was 602,300 tonnes, 53% more than in 2008, as a result of the expansion of the species covered, especially squid, and in 2011, it was increased by 330,805 tonnes. A comprehensive monitoring and enforcement programme is in place for the TAC-based management system. The Central Committee on Fisheries Resources Management sets TACs for each species, based on an annual assessment of fish stocks by the National Fisheries Research and Development Institute: 70% of quotas are allocated equally to fishermen, and the rest on a "first-come first-served" basis, as fishermen opposed auctioning of quotas. Quotas are not tradeable.

35. Fisheries resources have also been protected through regulating the mesh size of fishing nets, fishing grounds, fishing seasons, etc. In 2012, 15 (12 in 2009, 10 in 2008) species were included in the Fish Stock Rebuilding Plan (FSRP) designed to rebuild depleted stocks, based upon voluntary participation by fishermen.[74] A key aspect of these plans, which are being implemented pursuant to the Fisheries Resource Management Act of 22 April 2009, is the systematic assessment of fisheries resources. The Community-based Fisheries Management (CBFM) self-regulation of coastal fisheries is designed to enhance the sense of responsibility of fishermen, and to prevent illegal fishing; financial incentives are provided to communities that have shown good performance, based upon an evaluation carried out by an Evaluation Committee whose Secretariat is the Korea Fishers Association.[75] Following the May 2010 revision of the Fishery Resource Management Act, a Fisheries Resource Agency was established in January 2011; it is in charge of fisheries resources management and development.

36. Access to Korean EEZ waters by foreign fishing vessels is controlled by bilateral agreements; vessels must be licensed. Quotas for foreign vessels are renewed annually in consideration of fish stock developments, and the allocation process does not involve the TAC. Currently, China and Japan are the only foreign countries allowed to fish in Korea's waters. In 2011, there were 870 licensed Japanese vessels (1,000 in 2008, 900 in 2010) and 1,700 Chinese vessels (1,859 in 2008,

[71] Korea ratified the United Nations Convention on the Law of the Sea in 1996.

[72] OECD document TAD/FI(2010)9/PART25, "Draft Review of Fisheries", 15 December 2010, Paris.

[73] The species managed under the TAC are: four species of pelagic fish (mackerel, jack mackerel, sardine, mottled skate); three species of shellfish (pen shell, purplish Washington clam, spiny top shell); three species of crab (snow crab, red snow crab, blue crab), and common squid.

[74] OECD document TAD/FI(2010)9/PART25, "Draft Review of Fisheries", 15 December 2010, Paris.

[75] In 2007, financial incentives totalling ₩ 1.18 billion (US$121 million) were provided to fishing communities pursuant to this policy. No data from 2008 onwards were available from the authorities who indicated that they will provide them in their notification to the OECD later in 2012 (OECD, 2011c).

1,750 in 2010); in 2012, the latter were reduced to 1,650 as a result of efforts to preserve fish stocks.[76] Korean vessels operate in foreign waters under similar agreements with the Russian Federation, China, Japan, Tuvalu, Solomon Islands, Kiribati, and Papua New Guinea.

37. Korea provides a wide range of financial support for its fisheries sector. To implement its support measures, according to OECD data, a total of ₩ 720.6 billion was transferred to the fisheries sector in 2009, down from ₩ 968.2 billion in 2008.[77] Most of the transfers were used to improve fisheries infrastructure, such as fishing ports, and to enhance fishery resources. Furthermore, according to its latest notification to the WTO Committee on Subsidies and Countervailing Measures, Korea provides grants and/or concessional loans under a variety of programmes, including for the development of deep-sea fisheries, fish product processing development, for fishing activities, for aquaculture fishery development, for old fishing vessels and equipment replacement, and for vessel decommissioning.[78] In 2010, these programmes gave rise to approximately ₩ 145 billion (US$125 million) in grants and ₩ 1.578 trillion (US$1.36 billion) in loans, of which one-year loans for fishing activities represented the large majority. Exemption of fishing from taxes on petroleum products resulted in a savings to the fishing industry of ₩ 614 billion (US$559 million) in 2008 (section (2)(ii)).[79] Korea has continued to participate in the WTO Negotiating Group on Rules, including through joint submissions for a framework for disciplines in fisheries subsidies.[80]

38. Korea encourages environment-friendly offshore aquaculture as part of the efforts to promote sustainable and responsible fisheries development and ecosystem-based aquaculture management; inland aquaculture accounts for less than 1% of all aquaculture.[81] The Plan to Promote Eco-Friendly and High Valued Added Offshore Fisheries, drawn up in 2009, aims to establish six areas for offshore aqua farms (four bluefin tuna farms, two for other species), and to lay the R&D foundation for 'complete tuna farming', which encompasses the entire life cycle of tuna. The authorities indicated that information on progress in implementing these plans cannot be disclosed. An aquaculture insurance scheme to protect fish farmers from natural disasters such as typhoons and red tides began in 2008 with one species; it was expanded to cover five species in 2011 and will cover ten species in 2012.[82]

39. Fish and fish products are subject to relatively high tariffs of 10% or 20%. To insulate selected domestic seafood producers from imported products (mainly from China), Korea maintains higher adjustment tariffs ranging from 22% to 43% for nine fish species that are not subject to WTO binding commitments (Table AIII.3). Since August 2008, a traceability system has been in place to

[76] Korea and China agreed to cut back on fishing in each other's EEZs for 2012. China's fishing quota in Korea's EEZ will be cut by 2,500 tonnes to 62,500 tonnes in 2012 with the number of Chinese fishing boats allowed to operate in Korean waters also reduced from 1,700 to 1,650. The number of Korean boats to be allowed into China's EEZ remains intact in 2012 at 1,600, but their total catch will be reduced from 64,000 tonnes to 62,000 tonnes. Under the 2010 fishing-quota agreement, 1,600 Korean vessels were allowed to catch 66,000 tonnes, down from 68,000 tonnes in 2009, inside China's EEZ, and in return, 1,750 Chinese vessels could catch 67,500 tonnes in the Korean zone (*Korea Herald*, "Korea, China to cut fishing quotas in exclusive waters", 25 October 2011. Viewed at: http://www.koreaherald.com/business/Detail.jsp?newsMLId=20111025000531 [2 January 2012]; and USDA, 2010b).

[77] OECD document TAD/FI(2010)9/PART25, "Draft Review of Fisheries", 15 December 2010, Paris.

[78] WTO document G/SCM/N/220/KOR, 23 September 2011.

[79] WTO document G/SCM/Q2/KOR/37, 15 October 2010.

[80] WTO documents TN/RL/W/245, 24 November 2009; and TN/RL/W/251, 29 March 2011.

[81] OECD document TAD/FI(2010)9/PART25, *Draft Review of Fisheries*, 15 December 2010, Paris.

[82] The five insured fish products in 2011 were halibut, abalone, jacopever, oysters, and seaweed (MIFAFF online information. Viewed at: http://www.mifaff.go.kr/gonews/content_view.jsp?newsid=155441724&section_id=b_sec_1 [6 January 2012].

provide consumers with the information from the vessel to the table; the system now covers 14 species. Similarly to agriculture and livestock products (section (2)(ii)), a country of origin labelling scheme has applied to some fisheries products since 11 April 2012.

40. Foreign investment in coastal and offshore fishing ventures is generally limited to less than 50%. In coastal fishing, permission is required from the local government. Foreigners wishing to invest more than 50% must obtain permission from the MIFAFF. At present there is no foreign investment in offshore and coastal fishing.

(4) ENERGY

41. Energy security remains of paramount importance to Korea. With limited natural resources, Korea imports around 96.5% (2010) of its energy. Korea's high economic growth has created a substantial increase in energy demand. Between 2008 and 2010, energy consumption increased by 8.3%, considerably faster than the sector's GDP growth rate. In 2008, Korea was the world's 9th largest energy consumer of primary energy consumption, with 2.1% of the worldwide energy consumption, at 11,295 million TOEs (tonnes of oil equivalent).[83] Total energy demand is projected to rise by 1.4% annually until end 2035. In 2010, the main energy sources were oil (40.1%), coal (29.2%), liquid natural gas (LNG) (15.7%), and nuclear energy (12.2%). Industry remains the largest consumer and its share in final consumption rose from 55% in 2009 to 59.3% in 2010 (including non-energy uses), while the share of households and the services sector dropped from 26% to 19.6%. The share of transport has remained relatively stable over time (18.8% in 2010).[84]

42. Korea's Energy Vision 2030, launched in November 2006 and aimed at reducing energy intensity by 46% between 2007 and 2030, determines the direction of the national energy policy until 2030. Its three basic directions (3 Es) are: energy security, energy efficiency, and environment-friendly as recommended by the International Energy Agency.[85] The 4th five-year Basic Rational Energy Utilization Plan 2008-2012 set an energy-intensity reduction target of 11.3% between 2007 and 2012.[86] The National Strategy for Green Growth up to 2050, announced in July 2009 is aimed at, *inter alia,* mitigating climate change, creating new engines for economic growth (section (5)), and improving the quality of life. Its ten policy agendas include: effective mitigation of greenhouse gas emissions; reduction in the use of fossil fuels and the enhancement of energy independence; strengthening the capacity to adapt to climate change; development of green technologies; and advancement of the industrial structure to increase the role of services.[87] Despite the current low electricity tariffs and the energy-intensive manufacturing sector (section(4)(ii)), higher pricing of energy is to be focused on saving energy through demand-suppression and the shift of businesses and households to energy-efficient equipment and technology. However, in order to allow ample time for businesses and households to adjust, energy prices will be the raised gradually. Such conservation measures would also have the effect of curbing greenhouse gases. Korea plans to realize "universal energy services" across the nation by 2016 so that no citizen will be excluded from the systematically expanded energy welfare scheme. It aims to become an advanced energy security nation by reducing

[83] Statistics Korea (2010).
[84] ABB (2011).
[85] In addition, nuclear power plants will account for 41% of total power-generation facilities in 2030 up from 26% in 2007. It will also cut energy consumption by 42 million TOEs. Fossil fuels will account for only 61% of total energy consumption, down from the current 83%, while the use of renewable energy will increase from 2.4% in 2007 to 11% in 2030 (International Energy Agency press online information. Viewed at: http://www.iea.org/papers/roundtable_slt/korea_oct08.pdf).
[86] ABB (2011).
[87] OECD (2010).

the energy poverty rate ("energy poverty households" with energy expenditures of over 10% of income) from 7.8% in 2006 to zero by 2016, and cutting the ratio of fire accidents caused by electricity to 10% by 2030 (from 25.4% in 2006).

43. The Ministry of Knowledge Economy (MKE) sets energy policy. A National Committee on Saving Energy envisages meeting a third of Korea's energy consumption from Korean investment in resources overseas[88], seeks to raise the ratio of renewable energy use (see below) and reduce dependence on petroleum to 33% by 2030. In 2010, Korea's energy self-sufficiency rate for petroleum and gas was 10% (3.2% in 2006) and renewable energy 2.61% (2.24% in 2006); its dependency rate on petroleum was 39.7% of total energy production (43.6% in 2006).

44. Korea remains at an early stage in the use of renewables.[89] At the same time, it is a major player in the global renewable energy products market, accounting for 7.1% (2010) of the world's photovoltaic (PV) market.[90] Its 2008 Third National New and Renewable Energy Plan set a target of increasing the share of renewable sources in total primary energy supply from 2.4% (according to Korea's definition of renewables) to 6% in 2020, and 11% in 2030. These objectives appear to be modest compared with targets in many comparable countries, although the pace of change envisaged is remarkable considering that Korea increased its renewable energy supply by only 0.37 percentage points to 2.43% from 2005 to 2008.[91] Achieving this objective requires an effective and efficient policy framework. An estimated ₩ 111.4 trillion of investment is required by 2030; the public sector will provide ₩ 32 trillion of this amount. Moreover, a Renewable Portfolio Standard (RPS) was introduced in 2012 to support the attainment of large-scale renewable-energy deployment and industrialization goals. In addition, despite the recent Fukushima incident in Japan, there are plans to increase the use of nuclear power, which is the least expensive means to generate electricity and produces almost zero greenhouse gas; its share of electricity generation capacity is targeted to increase from 26% in 2007 to 41% in 2030. Stronger safety measures budgeted at ₩ 1.1 trillion will be implemented and in-depth nuclear power R&D focused on safety will be undertaken.

(i) Hydrocarbons

(a) Oil

45. Diversifying oil imports away from the Middle East remains a policy goal (Chapter III(2)(v)); all oil is imported, of which 87.1% was from the Middle East in 2011 (81.8% in 2010).[92] Korea was the world's ninth largest oil consumer in 2010 (fifth in 2009).[93] It has the second, third, and seventh largest oil refineries in the world, and is now a major exporter of refined products. About half of total refinery output is exported.

46. The oil industry was deregulated in 1998 and retail prices have been liberalized. Imported crude oil is subject to a tariff of 3% and refined products at zero (naphtha, natural liquid gas), 3%, 5%,

[88] The authorities consider overseas resource development by Korean companies as a means of ensuring security of supply to domestic market. At end-December 2011, the Korea National Oil Company (KNOC) was participating in 215 promising overseas oil development projects in 24 countries.

[89] Jones and Yoo (2011).

[90] Korea produces and exports PV and wind energy materials and components, as well as finished products.

[91] United Nations Environment Programme (2010).

[92] In 2010, diversification of oil suppliers was largely the result of increased imports from Indonesia and the Russian Federation (UNSO Comtrade statistics).

[93] CIA (2009).

7%, and 8% (waxes), thereby encouraging domestic refining. Surcharges on imported crude oil and domestically produced refined products finance the Energy Project Special Account (Chapter III(2)(v)).[94] Four private companies account for over two thirds of oil refining market.[95]

47. The state-owned Korea National Oil Company (KNOC) handles oil and gas exploration, development and production, and maintains Korea's emergency oil reserves.[96] KNOC is participating in oil development projects overseas. MKE issues concessions for oil and gas exploration, which also specify future tax treatment in the event of discovery. Most exploration is offshore, where all concessions issued to date (seven blocks) have gone to KNOC and private Korean companies. In 2008, KNOC launched the "GREAT KNOC 3020" initiative, to transform the corporation into one of the world's 50 most productive oil exploration and production companies with daily production of 300,000 barrels and 2 billion barrels of reserves by 2012; it is in the final stages of achieving this goal. In April 2010, a 3-phase 30-year oil stockpiling construction plan was completed, raising Korea's storage capacity far above the level of IEA members.[97]

(a) Natural gas

48. Korea is the world's second largest importer of LNG (liquefied natural gas) and LPG (liquefied petroleum gas). All LNG is imported, although small quantities (less than 2% of annual domestic consumption) of natural gas have been produced from the Sea of Japan gas reserve since July 2004. SK Gas and E1 (formerly LG-Caltex Gas) import just over half of Korea's LPG requirements, while domestic refineries produce the rest; there is no state participation in LPG import companies or domestic refineries. In 2011, LNG was used mainly for generating electricity (45.6%) and cooking and heating (54.4%).

49. The Korean gas industry is shielded from competition. The majority state-owned enterprise, Korea Gas Corporation (KOGAS), the world's largest LNG importer, has a monopoly over the entire wholesale chain. KOGAS' goal is to enhance productivity by 100% (41% in 2011), achieve 25% self-sufficiency (3.6% in 2011) and increase the share of overseas profits up to 60% (42% in 2011).[98] It supplies natural gas to private city gas companies, for retail distribution. Nevertheless, since 2005, some companies (POSCO, K-POWER (joint-venture company between SK & BP)) have been able to obtain licences to import gas directly for their "own use". Wholesale gas tariffs must be approved by MKE, and retail gas prices by local governments. Price regulation is essentially by rate of return on assets.[99] KOGAS has a policy of long-term "take or pay" deals.[100] It adjusts applied prices (supply

[94] The surcharge applies to all refined sales, including imports, at a rate not exceeding ₩ 36 per litre (The Act on Petroleum Businesses).

[95] The top four in terms of market share are SK Corp (27.7%), GS Caltex (22.2%), S-Oil (12.7%), and Hyundai Oilbank (11.4%). GS Caltex is 50% foreign owned by Chevron, S-Oil is 35% owned by Saudi Aramco, and Hyundai Oilbank is entirely owned by Hyundai Heavy Industries, the world's largest shipyard, since 2010.

[96] As a member of the International Energy Agency (IEA), Korea is required to hold reserves of at least 90 days of net oil imports. In December 2011, Korea's stock levels were at 189 days (Korea National Oil Company online information. Viewed at: http://www.knoc.co.kr/ENG/sub03/sub03_3_3.jsp; and Korea National Oil Company, 2010).

[97] Korea National Oil Company (2010).

[98] Self-sufficiency rate refers to the volume of resources developed by domestic companies as a proportion of the annual imported volume (Korea Gas Corporation, 2010).

[99] KOGAS does not earn any profit on sales, only a handling charge; it is allowed to recoup its costs for infrastructure and personnel through a rate of return that gives a reasonable profit.

[100] A "take or pay" is a provision, written into a contract, whereby one party has the obligation of either taking delivery of goods or paying a specified amount.

cost plus fuel cost), every two months for city gas consumers and every month for power plants. According to the authorities, the supply cost, which is adjusted once a year, varies for residential and industrial consumers according to demand patterns.

50. No reforms have been undertaken since 2004. The Government announced the restructuring and further privatization of KOGAS in 1999, when it was partially privatized (Natural Gas Industry Restructuring Plan).[101] The plan provided for an independent regulator to facilitate a competitive gas market by instituting an open access regime, including third-party access to LNG terminals for a fee. However, implementation of the plan slowed in 2000 as the relevant bill was not enacted. Some progress was made by introducing Third Party Access for LNG importers (POSCO, K-Power) in 2007. In 2008, the authorities were working on a deregulation plan by revising the Gas Act to adopt open Access for LNG importers. In October 2008, the MKE also announced a road map to permit other companies to enter the LNG import and wholesale market in Korea starting in 2010. The road map contemplates gradual liberalization, starting with the market for power-generating companies followed by the market for industrial usage. The introduction of the competitive system in the LNG industry is expected to bring about significant changes in KOGAS's business environment and financial performance.[102] Revision of the Gas Act, to introduce a competitive system for power-generating companies has been under review by the National Assembly since September 2009 due to strong opposition by the KOGAS labour union.

(ii) Electricity

51. The Korea Electric Power Corporation (KEPCO) generates 82.6% of power and handles distribution and transmission. KEPCO has six generation subsidiaries and four affiliates, with an installed capacity of 73,869 MW. A few independent (gas-fired) power producers (IPPs), including co-generation facilities, also supply electricity. Korea has no network interconnections with other countries. In 2010, most electricity was generated by coal (40.9%), followed by nuclear (31.3%), gas (20.3%), oil (5.3%), and hydro (1.4%).[103] Thermal electricity is generated mainly from imported bituminous coal, supplemented by domestic anthracite coal, which KEPCO must purchase at nearly twice the price of imported, better quality, coal (section (4)(iii)).

52. The Government imposes fees on electricity consumption to finance the Electric Power Industry Basis Fund. This fund, which amounted to ₩ 2.2 trillion in 2011 (₩ 1,832 billion in 2007), is disbursed on activities aimed at achieving non-commercial objectives (see below); KEPCO is entrusted with some public services covered by the Fund. It made a long-term "take or pay" arrangement with KOGAS in 2006 to stabilize natural gas supply until 2026. LNG is dispatched to power generators according to costs, which are adjusted monthly. A reference-price system subsidizes costs of power generated from alternative renewable energy (e.g. solar and wind).

53. The electricity sector was progressively deregulated and partially privatized to allow greater competition. KEPCO's state-owned equity stands at 51.1% (Table III.4). Plans to privatize KEPCO's five thermal power-generating subsidiaries, announced in April 2002, have not yet been

[101] KOGAS is 38.82% privately owned. The Government owns 26.86% and the Korea Electric Power Corporation 24.46%; 14 provincial/city governments hold the remaining equity, with the largest share held by Seoul City (3.99%). The maximum permitted aggregate foreign ownership of KOGAS is 30%, and individual share ownership (foreign or domestic) is capped at 15% (Korea Gas Corporation, 2010).

[102] Korea Gas Corporation (2010).

[103] Korea Power Exchange (2010).

implemented.[104] Specific action plans detailing the time frame, methods, etc. were under consideration in 2008.

54. The Korea Electricity Commission (KOREC) regulates generation, transmission, distribution, independent power producers (IPPs), generation companies, and the Korea Power Exchange (KPX), in addition to overall industry functions. The electricity market, including KEPCO, is also subject to general competition legislation administered by the Korea Fair Trade Commission. The Ministry of Government Legislation ensures coordination of the regulatory roles and responsibilities between KOREC and the KFTC. KOREC monitors activities that stimulate fair electric-power trading and facilitate competition; it monitors prohibited behaviour specified in the Electricity Business Act and other unfair behaviour in the electricity market, and imposes sanctions.

55. The KPX, a state-owned electricity pool, uses administratively set generation prices to manage dispatch.[105] Operating expenses are covered through electricity trading fees. The pool is mandatory for all generators (above 20 MW) with a few exceptions. KPX is responsible for operation of the grid. IPPs are paid the marginal cost-based price (i.e. the bid price of the most expensive generator) except for nuclear and coal (section (4)(iii)).[106] These resources (nearly 80% of supply) are paid a set base-load price that is lower than the cost-based marginal price. The authorities indicated that currently the marginal price takes partly into account location or transmission constraints (e.g. between mainland and Jeju island); generators are penalized or rewarded for their distance or proximity to demand. The country introduced separate zonal prices in 2010.

56. According to a recent IEA report, Korea had the lowest electricity rates among OECD countries in 2009 despite its state electricity providers' chronic deficits and their struggle to provide enough power for the growing demand.[107] MKE approves electricity tariffs. Retail rates do not reflect directly the hourly cost-based prices derived from the KPX mechanism.[108] Industrial, residential, and commercial consumers pay higher tariffs for power in order to subsidize agricultural consumers; in December 2011, tariffs for the four groups of users represented 94.4%, 86.4%, 87.7%, and 32.8% of power production cost-recovery, respectively. In July 2011, a fuel cost pass-through system (reflecting international fuel cost changes) was integrated into the tariff; the system is expected to reduce KEPCO's financial risk against fuel cost fluctuations and encourage customers to consume energy at an appropriate/reasonable level.[109]

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[104] The sixth subsidiary, the Korea Hydro and Nuclear Power Corporation, remains a subsidiary of KEPCO for security reasons.

[105] The Electricity Pool defines the market trading rules and procedures but does not itself act as market maker buying or selling electricity. The pool facilitates mechanisms to support competition in supply, where customers may choose their supplier (KOGAS online information. Viewed at: http://www.kocoal.or.kr/english/business/domestic01.html [6 January 2012]).

[106] In addition to marginal price payments, generators receive capacity payments. The capacity payment is paid to all generators who submit capacity offers, whether or not they are dispatched. Capacity payments are provided to ensure recovery of capital costs and to underpin further investment.

[107] The state-run KEPCO incurred an estimated net loss of ₩ 2 trillion in 2010. For the first time in three decades, KEPCO was allowed to raise electricity prices in 2011 by 4.9% in July and 4.5% in December (*Korea Herald*, "Korea has OECD's cheapest electricity", 18 January 2012. Viewed at: http://www.koreaherald.com/business/Detail.jsp?newsMLId=20120118001164 [24 January 2012]; and International Energy Agency, 2011).

[108] Although KEPCO does not offer real-time pricing, it has 2,002,047 (300,000 in 2007) one-way digital meters capable of remotely recording consumption every 15 minutes. These meters covered over 75% of total consumption in 2011 (70% in 2005).

[109] KEPCO (2011).

57. Under the 2001 Electric Industry Restructuring Law, most of KEPCO's non-commercial objectives remain set by the Government, which is also in charge of the Electric Power Industry Basis Fund; the Fund is financed with revenue collected through a charge of 3.7% of the consumer's electricity bill, and currently totals ₩ 2.19 trillion (April 2012).

58. There have been no reforms in the distribution network during the review period. KEPCO owns the distribution network and is responsible for retail supply. It purchases power directly from KPX and supplies it to customers. In 2011, the rate of power loss in distribution was reduced to 3.69% (3.99% in 2007) while the observance rate of power voltage requirements remained at 99.9%.[110] The manufacturing sector accounts for just over half of total sales, the public and commercial sectors for about a third, and the residential sector for the rest.[111]

(iii) Coal

59. Coal is dominant in electricity generation (section (4)): five domestic mines produce anthracite coal; three are operated by the state-owned Korea Coal Corporation (KCC) and accounted for 52% of domestic production in 2011. Korea's production, mainly of high-cost low quality anthracite coal, declined from 2.89 million tonnes in 2007 to 2.09 million tonnes in 2011. It is used mainly for power generation (23% in 2011) and briquettes (77%). Imported (bituminous) coal covered about 92.1% of domestic consumption in 2010. Korean investment in overseas coal joint ventures is encouraged, including direct participation by the state-owned Korea Resources Corporation, and provision of loans; there were 77 projects in 11 countries in the first half of 2011. The target is to procure 50% of bituminous coal imports from such projects by 2016; in 2010, it procured about 48.3%.

60. Domestic coal production is supported by direct production subsidies, including insurance benefits, support for production reductions, social benefits, and health premiums; the policy of downsizing the coal industry has brought about a steady decline in production subsidies since 2000 with annual subsidy costs equivalent to ₩ 164 billion in 2008, ₩ 100 billion in 2009, ₩ 66 billion in 2010, and ₩ 62 billion in 2011. Consumption subsidies are also available in the form of social welfare benefits to low-income users of briquettes for residential and commercial purposes, such as heating and cooking. Coal imports are duty free but a 10% VAT is levied on imported bituminous coal while domestic anthracite coal is exempt. KEPCO may buy domestic coal at well-above import prices in line with the Government's non-commercial objectives of supplying electricity to remote areas and supporting the domestic coal industry. As a result of its purchase of the Bylong Mine in Australia and the acquisition of shares of Bayan Resources in Indonesia in 2010, KEPCO has secured an additional 24 million tonnes of coal per annum, raising its coal self-sufficiency rate from 12% to 34%.[112]

(5) MANUFACTURING

61. Manufacturing's share of GDP increased to 31.2% in 2011 from 27.3% in 2007 (Table I.2); its share in employment remained relatively stable, at around 17%, except for a slight decline to 16.3% in 2009. Between 2009 and 2011, labour productivity in manufacturing grew by 32.7 % in value terms (US$); in 2011, it was roughly 88% higher than in the rest of the economy (73.2% in

[110] KEPCO online information. Viewed at: http://www.kepco.co.kr/eng/ [6 January 2012].
[111] KEPCO (2011).
[112] KEPCO (2011); and KEPCO online information. Viewed at: http://cyber.kepco.co.kr/kepco_new/pr/news/press_view.jsp?kwd=&page=10&sch=&sn=3471.

2009).[113] High labour productivity is partly due to substantial capital investment. Manufacturing is heavily export-oriented. About 90.4% of exports in 2010 were heavy industry products, comprising mainly electrical and electronic machine products; cars; machinery, and precision equipment; chemicals; iron and steel; and ships. Korea remains a leader in information and communication technology (ICT), as well as a major player in other areas of manufacturing, such as ships (the world's largest producer) and cars (fifth largest).[114] The electronics sector is considered as the main engine of growth.[115] Korea's competitiveness in manufacturing is underpinned by a high level of investment in R&D and a high share of young adults in tertiary education. Reportedly, large business conglomerates (many of which are family-controlled (*chaebols*)) still dominate Korea's major export industries such as cars, electronics, telecommunications, shipbuilding, steel, and petrochemicals.[116] The authorities were unable to provide data on large business conglomerates, including their exports, because data differentiate only between SMEs and other enterprises. A particular concern is that significant manufacturing industries may relocate offshore, especially to China, where production costs are lower; from 2004 to 2007, 5,965 Korean manufacturers set up operations in China. No recent data on relocations were available from the authorities.

62. The Government, including the Prime Minister's Office, the MKE, the MOSF, and the Small and Medium Business Administration, pursues a wide range of industrial strategies with a particular focus on five objectives: building a favourable investment environment; promoting the growth of local economies; establishing an innovative R&D system; upgrading core industries; and supporting small and medium-sized enterprises (SMEs). In January 2009, a blueprint of 17 new national growth engines, which would drive the economy over the following 3 to 10 years was announced; the authorities planned to inject more than ₩ 6.3 trillion to implement the R&D projects over the following 4 years, while raising the ratio of investment in basic research into original technologies from 17% (₩ 150 billion) in 2007 to 35% (₩ 700 billion) by 2012.[117] However, in order to produce an early outcome, in April 2011, the scope of the project was narrowed to ten "strategic" industries classified as new growth engine activities involving, *inter alia,* the manufacture of highly innovative and R&D-intensive high-technology products and related services.[118] In 2011, the MOSF provided ₩ 6.5 trillion in policy funds, including loans, guarantees, and other financial support for SMEs engaged in the new growth engine sectors (Chapter III(4)(iii)(b)). The July 2009 National Strategy for Green Growth envisages a rise in exports of green goods in the major industries from 10% in 2009 to 22% in 2020, and support for SMEs to "green" their business; the Five-Year Plan for Green Growth (2009-13) includes ₩ 28.6 trillion (2.8% of 2009 GDP) to support new growth engine activities until 2013, of which ₩ 4.6 trillion is allocated for "greening" existing industries and promoting new industries.[119]

[113] Korea Productivity Center data.

[114] Statistics Korea (2010).

[115] Concentration on five mass-produced items (cellular phones, memory semiconductors, non-memory semiconductors, wireless communication components, and LCD monitors) has allowed for economies of scale since 2005 (Statistics Korea, 2010).

[116] EIU (2011a).

[117] KOCIS online information, "Gov't finalizes blueprint for 17 new growth engines", 14 January 2009. Viewed at: http://www.korea.net/detail.do?guid=24761 [6 January 2012].

[118] The ten industries are fourth generation mobile communications, system semiconductors, biotechnology, the cultural contents industry, electric cars and related infrastructure, offshore wind energy power, thin film solar cells, energy efficient buildings, and water treatment technology (KOCIS online information, "Gov't to focus on nurturing ten new growth engine sectors", 20 April 2011. Viewed at: http://www.korea.net/detail.do?guid=54515 [6 January 2012]).

[119] Jones and Yoo (2011).

63. Since 2008, Korea's average applied MFN tariff on imports of industrial products has remained virtually unchanged, at 6.6% (Table III.1). Adjustment duties protect only one industrial item (plywood at 10%) (Table AIII.3) in 2012; autonomous tariff quotas have allowed concessional tariff treatment for imports of inputs (including hides and skins, polymers, and copper foil) and machinery necessary for domestic industry (Table AIII.6). Several tax and non-tax incentives support R&D and SME activities (Chapter III(4)(i)(c) and III(4)(ii)); manufacturers benefit from the lowest average electricity prices among consumer groups, other than agriculture (section (4)(ii)), as well as the possibility to seek support for adjustment (advice, information, loans) whenever adversely affected by a bilateral FTA (Chapter III(4)(ii)(b)).

(i) Automobiles

64. Between 2008 and 2011, total automobile production (passenger and commercial vehicles), rose by 21.7% to 4.7 million units; Korea accounted for 5.8% of global production in 2011.[120] Sales of domestic automobiles increased by 27.7% as a result of, *inter alia,* release of new models; as a result of product quality and brand awareness improvements, exports rose by 17.4% (in units), mostly increasing in emerging markets. In 2011, 67.7% of domestic production was exported (70.1% in 2008).[121] During 2008-11, car imports grew by 46% (117,586 units as of 2011)[122]; in 2011, foreign-made passenger cars originated mainly from the EU (74.1%) and Japan (18%)[123], and their share in the domestic car market increased from 6.04% (2008) to 7.98% (2011), as a result of, *inter alia*, changing consumer perceptions concerning imported cars.[124]

65. The customs tariffs is 8% on passenger vehicles and 10% on commercial vehicles. Used car imports are subject to the same *ad valorem* duty as new vehicles, and special customs valuation procedures are used. The rates of the individual consumption tax (5%, 10%) and the local automobile taxes depend on engine capacity, with the highest rate applied to cars with engines exceeding 2,000 cc (Chapter III(4)(i)(a)); hybrid cars (from 2009 to 2012), and electric cars (from 2012 to 2014) have been exempt from this tax.

66. Since October 2009, the authorities have offered full support for Korean firms to secure about 10% of the global electric car market by 2015.[125] The MKE has targetted mass production of electric cars as from 2011 set earlier at 2013, by allocating ₩ 70 billion (US$62.3 million) between October 2009 and 2014 to support development of high-performance batteries and other related systems. It also plans to invest jointly with the private sector a total of ₩ 0.1 trillion for battery plants for electric cars, to make Korea the world's largest electric car manufacturing country, accounting for 40% of the world's total production in the long term. The Government intends to help local car-makers produce 1.2 million "green" cars (electric cars, hybrid cars, fuel cell electric cars, etc.) and export 0.9 million units by 2015, and produce up to 1.9 million "green" cars by 2020. In June 2011,

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[120] Korea Automobile Manufacturers Association online statistics. Viewed at: http://www.kama.or.kr/; and Statistics Korea (2010).

[121] Korea Automobile Manufacturers Association online statistics. Viewed at: http://www.kama.or.kr/ [6 January 2012].

[122] Korea Automobile Manufacturers Association online statistics. Viewed at: http://www.kama.or.kr/ [6 January 2012].

[123] Korea Automobile Importers and Distributors Association online statistics. Viewed at: http://www.kaida.co.kr/site/kaida_eng/dataroom/yeardata.jsp; and Korea Automobile Manufacturers Association statistics. Viewed at: http://www.kama.or.kr/ [8 March 2012].

[124] Korea Automobile Importers and Distributors Association online statistics. Viewed at: http://www.kaida.co.kr/statistics/home.action?programId=117# [20 January 2012].

[125] Article 3.1(a) of the WTO Agreement on Subsidies and Countervailing Measures prohibits all subsidies contingent upon export performance.

the MKE announced a comprehensive scheme to enhance the global competitiveness of the automobile parts entailing marketing support and the introduction of a new logistics system for the purpose of the "expansion of the global support". In this connection, the MKE planned to select at least one project every year, out of the "industrial sources projects" in support of R&D, and to provide financial support of up to ₩ 1 billion over three years.

(ii) Shipbuilding

67. Despite being edged out temporarily by China in terms of market share in new orders and global share in order books, Korea maintained its top rank in global share of building volume (35.2%) in 2009. It regained its status as the world's leading shipbuilding nation in 2011, and its competitiveness through the development of new technology[126]; each shipbuilding company puts emphasis on R&D, developing eco-friendly and highly efficient ship design.[127] In 2011, Korean shipbuilding companies received new orders totalling 13.55 million compensated gross tonnes (CGT), and representing 48.2% of world shipbuilding orders.[128] Seven of the world's ten largest shipbuilding companies are in Korea. Exports of vessels increased by 15.8% (in volume terms) per year on average during 2008-11.[129]

68. The authorities took action to help overcome difficulties faced in 2009 and 2010. In April 2009, in response to the global financial crisis, a ₩ 9 trillion loan programme was introduced providing temporary financial assistance to shipbuilding companies and their partners. At the same time, creditor banks took the lead in an ongoing market-based restructuring of small and medium shipbuilding companies. Between April 2009 and end 2011, the state-owned Korean Asset Management Corporation (KAMCO) implemented a purchase-and-leaseback scheme of used vessels for Korean shipping companies, based on a shipping fund stipulated in the May 2002 Ship Investment Act.[130] The authorities indicated that this KAMCO fund programme cannot be regarded as a subsidy

[126] Korea became the world's top shipbuilding nation in 2003, overtaking Japan in shipbuilding volume, order backlogs, and new orders. In 2009 and 2010, China outpaced Korea in terms of new orders received and order backlogs focusing on new orders at cheap prices, while Korea continued to focus on high-priced vessels and offshore facilities. Online article, "S. Korea Overtakes China as World's Top Shipbuilder in 2011", 11 January 2012. Viewed at: http://en.eshiptrading.com/news/d/222/1401/ [20 January 2012]; and Korea Shipbuilders' Association (2010).

[127] Online article, "From Our Dock to Yours—The Reason Why Korean Shipbuilding Companies are Ranked Number One", 3 November 2011. Viewed at: http://www.advancedtechnologykorea.com/?p=8454 [19 January 2012].

[128] The CGT was devised to provide a more accurate measure of shipyard activity than could be achieved by the usual gross tonne (gt) and deadweight tonne (dwt) measures. The CGT is intended to provide a common yardstick to reflect the relative output of merchant shipbuilding activity in large aggregates such as "World", "Regions" or "Groups of many yards" (OECD, 2007a; and online article, "South Korea's shipbuilding orders in 2011 over China", 13 January 2012. Viewed at: http://www.f-paper.com/?i1141283-South-Koreas-shipbuilding-orders-in-2011-over-China [20 January 2012]).

[129] UNSD Comtrade data.

[130] Companies participating in this scheme could improve their liquidity by selling and leasing back part of their fleet. In the first round, shipping companies successfully offered 62 ships to KAMCO, and 33 used vessels were purchased by 7 ship investment companies. The companies have the option to buy back sold ships when business improves. Under the 2002 Ship Investment Act, governing a Ship Investment Company (SIC) system: (i) a ship investment company is established with the capital invested by public investors, (ii) a ship is acquired by the SIC with the capital raised by the public investors and the loans made by financial institutions, (iii) the ship is chartered out under the lease/charter agreement to a ship operating company, and (iv) the chartering revenues of the ship operating company are paid out as dividends to public investors and interest/principal repayment to the financial institutions (Korea Ship Finance Co., Ltd. online information. Viewed at: http://koreashipfinance.co.kr/newhome/eng/sic/sic01.htm [16 March 2012]).

because the vessels were acquired at market price regardless of the origin of their shipyard, and a market interest rate was applied. In addition, the Export Import Bank of Korea (EXIM-Bank) provided loans of up to ₩ 4.7 trillion for the purchase of ships constructed by financially stricken local shipping companies. The Korea Export Insurance Crop introduced a package support programme that could reduce the burden on shipping lines and would provide ₩ 2.1 trillion. Up to ₩ 500 billion would be offered as loans to shipyards to build and launch new ships, with efforts made to link direct loans with greater export insurance coverage, which can help shipping companies place orders for new vessels. The authorities indicated that these loan programmes to shipyards were commercial loans, unrelated to governmental policies and financial subsidies.

69. In March 2011, the Ministry of Land, Transport and Maritime Affairs (MLTM) set out its third five-year Long-Term Development Plan for the Shipping Industry, including apparently a policy goal of "making Korea become one of the most powerful marine nations in the world by 2020 as a means of accumulating the nation's wealth", based on 4 strategies and 21 projects (core agendas).[131] The strategies entail: enhancing competitiveness of marine enterprises; expanding businesses through the creation of new markets; fostering the knowledge-based marine industry; and achieving low-carbon and green growth. The MLTM unveiled a wide range of projects, but these did not specify the scale of financial support for the industry. In April 2011, a company-specific payment guarantee was set for local shipbuilders, to ensure the financing needed to cover ship orders.[132] No information on the estimated amount of financial support to be disbursed in implementing these measures was available from the authorities, who indicated that these were policy goals rather than government subsidies.

70. Tariff protection for ships ranges from zero to 8%. A subsidy (Local Tax Reduction for Building and Acquisition of International Line Vessels and Deep Sea Fishing Vessels) aimed at promoting the shipping industry by relieving the tax burden on international line vessels, deep-sea fishing vessels and coastal line vessels is to be eliminated at end 2012. Between 2006 and 2012, Korea was not involved in any WTO dispute settlement case concerning shipbuilding.

(iii) Other manufacturing activities

71. Plans to support the pharmaceutical industry were implemented during the review period. In 2009, the Government identified 'biopharmaceutical and medical equipment' as one of the future engines for economic growth and intended to raise ₩ 2 trillion in funds by 2015 to bolster R&D in these areas. A nine-year ₩ 1.2 trillion New Drug Development Project, in cooperation with the private sector, was announced in June 2010 and in November of the same year, the MKE's Industrialisation Strategy for Global Exports of Biosimilars[133] indicated plans for investment of ₩ 6.5 billion until 2014 in a pilot project for upgrading the data management system for clinical testing. This is expected to enhance the global competitiveness of Korea's biosimilars and thus their exports. The MKE expects Korea's private-sector bio-industry to produce biosimilars worth US$20 billion (22% of the world market) after 2020, with the exports worth US$10 billion and employment for 120,000 people. A Special Act on Pharmaceutical Industry Promotion and Support, which involves a systematic master plan to promote the pharmaceutical industry, became effective on 31 March 2012. The Act serves as the legal basis for national treatment for R&D incentives and tax breaks focused on "innovative pharmaceutical firms" with domestic R&D investment in new drug development above a certain amount of their sales revenue, and capacity for advancing into global

[131] European Commission (2011).
[132] European Commission (2011).
[133] Biosimilars or follow-on biologics are officially approved subsequent versions of innovator biopharmaceutical products made by a different sponsor following patent and exclusivity expiry.

markets.[134] Enactment of implementing regulation containing specific provisions on standards, procedures, and methods for accreditation as "innovative pharmaceutical firm" is under way; under the Act, a foreign pharmaceutical company may be designated as an "innovative pharmaceutical firm" provided it meets the same accreditation requirements and standards applied to domestic firms.

72. Since July 2010, patented drugs have been excluded from the Ministry of Health and Welfare (MOHW) "Rearrangement of Already Listed Drugs" project, under which drugs listed on Korea's National Health Insurance reimbursement list are re-evaluated for pharmaco-economic value and generally receive price reductions, which raised some concern to foreign firms.[135] The authorities indicated that the Rearrangement project targeted pharmaceuticals whose patents expired before 2006, but the price adjustment process involving 20% cuts did not apply in cases where follow-up drugs were introduced.

73. MKE's June 2011 strategy for upgrading the steel industry foresees substantial funding for raising its competitiveness in high-end products; 30 steel products are to be selected over a period of 10 years (3 products per year). Financial support worth ₩ 100 billion is to be provided until 2019, with the aim of manufacturing the world's best eco-friendly smart steel plates under the World Premier Materials project. To achieve a "Green-Steel Industry", the MKE is to provide ₩ 150 billion, representing 54% of the firm's total R&D costs (possibly from 2012) for 8 years, to develop CO_2-free technologies for steels.

(6) SERVICES

(i) Features

74. The services sector makes a major contribution to the Korean economy but, due to faster growth in manufacturing, its GDP share decreased from 60.8% in 2008 to 58.1% in 2011. Its share of total employment (mainly in trade, hotels and restaurants, and real estate) rose from 66.9% to 68.2% during the same period (Table I.2). Despite an improvement by 18.6% in value terms (US$) from 2009 to 2011, shortfalls in labour productivity persist in services (Chapter I).[136] Labour productivity in services remains much higher than in agriculture and fisheries (81.5% more in 2011), but it is still only 44% of the level in manufacturing and 82.8% of the economy-wide level.[137] In November 2011, the authorities were planning to launch a committee of policymakers and experts to coordinate

[134] To qualify as an "innovative pharmaceutical firm", the following criteria apply, depending on the case: a company with annual sales revenue of ₩ 100 billion or more should have an R&D investment ratio of sales revenue of 5% or more; a company with less than ₩ 100 billion, should have a R&D investment ratio of 7% or more or ₩ 5 billion or more; and a company with Good Manufacturing Practice (GMP) facilities in the EU or the United States the R&D investment ratio should be 3% or more.

[135] These concerns refer to the Rearrangement Project not taking properly into account the value of innovation or previous price reductions on the same drug (USTR, 2011).

[136] According to a joint report by the MKE and the Korea Productivity Center, Korea ranked 23rd among the 31 member states of the OECD in labour productivity in 2009, and second-to-last among 19 countries whose service industry labour productivity was surveyed (Korea Business Central online article, "Korea Fares Poorly in Labor Productivity: Ministry of Knowledge and Economy", 28 January 2011. Viewed at: http://www.koreabusinesscentral.com/forum/topics/korea-fares-poorly-in-labor?xg_source=activity [5 December 2011]; and OECD, 2011b).

[137] Korea Productivity Center data. The authorities indicated that the comparison of labour productivity between the services and manufacturing industries is impractical; only chronological analysis is possible.

policies to enhance the competitiveness of the services sector.[138] The largest contributor to gross value added within services remains wholesale and retail trade, followed by real estate, renting and leasing, and financial intermediation.

75. Between 2008 and 2011, exports of non-factor services rose by 4.8% to over US$95 billion (17.2% of merchandise exports), mostly due to increasing travel services (Table I.3). Over the same period, services imports increased at 3.1%, helping to reduce the services trade deficit from US$5.7 billion to US$4.4 billion. Transportation and travel are the main traded services.

(ii) Overall commitments under the GATS

76. Korea's commitments cover 89 of the 155 sectors under the GATS. Foreign equity limitations of 49% on commercial presence are scheduled for basic telecommunications businesses. Korea's GATS schedule contains specific national treatment limitations and additional commitments relating to accounting (auditing and book-keeping services), taxation, and architectural services.[139] To be able to provide professional services, such as legal, accounting, and audit and taxation services, foreign qualifications need to be approved in Korea. Access to other services, such as newspapers and news agency business, is subject to different foreign equity ceilings (Chapter II).

77. Korea is interested in further liberalization of the five key infrastructure services: maritime transportation, construction, telecommunications, distribution, and financial services. In bilateral and multilateral services negotiations, Korea's main objectives in these 5 sectors are: the non *a priori* exclusion of sectors and modes of supply; reduction of commercial presence barriers; and reduction of economic needs tests (ENTs) and establishment of a clear set of criteria for the ENTs.

(iii) Regional and bilateral agreements on services

78. During the period under review, Korea liberalized services trade at the regional and bilateral levels. Its trade agreements include provisions on services (Chapter II) that exclude subsidies from their application and involve a negative list (Korea-Chile, Korea-Singapore, Korea-Peru, Korea-US) or a positive list (Korea-ASEAN FTA, Korea-EFTA FTA, Korea-EU FTA, Korea-India). All the agreements were notified to the WTO Council for Trade in Services.[140] The levels of FTA commitments, which are based on the revised offer of the DDA negotiations in May 2005, vary from one agreement to another, and go beyond Korea's GATS commitments in general. For instance, in the Korea-EU FTA, Korea's commitments cover 115 of 155 sectors much more than under the GATS.

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[138] *Yonhap*, "S. Korea to set up panel on service-sector growth", 2 November 2011. Viewed at: http://english.yonhapnews.co.kr/business/2011/11/02/0502000000AEN20111102006800320.HTML.

[139] In order to practice as a Certified Public Accountant (CPA), a candidate must have field experience of two years in Korea after passing the CPA examination. Temporary movement is allowed for natural persons qualified as CPAs under their home country's laws and employed by international accounting firms. Entry and stay of these persons is limited to one year, extendable if necessary. In order to practice as a Certified Tax Accountant (CTA), a candidate must have field experience of six months in Korea after passing the CTA examination. Supply of services by foreign architects through joint contracts with architects licensed under Korean law is allowed. Foreign architects licensed under their home country's law may acquire a Korean architect licence by passing a simplified examination, which covers only two of the regular test's six subjects: architectural laws and regulations, and architectural design.

[140] The latest notifications are contained in WTO documents WT/REG286/N/1, S/C/N/558, 1 July 2010, WT/REG287/N/1, S/C/N/559, 8 July 2010, WT/COMTD/N/36, S/C/N/570, 29 September 2010, S/C/N/560/Add.1, 3 May 2011, S/C/N/559/Add.1, 3 May 2011, WT/REG296/N/1, S/C/N/594, 8 July 2011, WT/REG298/N/1, S/C/N/598, 10 August 2011, and WT/REG311/N/1, S/C/N/621, 16 March 2012.

All FTAs contain a provision encouraging recognition; some agreements have an annex covering future work on a number of professional services.

(iv) Financial services

79. The contribution of financial and insurance services to GDP dropped slightly between 2008 and 2011, from 7.1% to 7%; in 2011, the sector employed 3.5% of the labour force, making labour productivity in the sector the second highest (half of the level in real estate, renting, and leasing) in the overall services sector (Table I.2).[141] The sector comprises banks and several non-bank financial institutions (NBFI), including insurance companies (Table IV.3).

Table IV.3
Structure of the financial system, 2007-11[a]

Institutions	No. of establishments		Assets (₩ billion)		Loans and discounts (₩ billion)	
	2007	June 2011	2007	June 2011	2007	June 2011
Banks	**54**	**55**	**1,559,288**	**1,978,291**	**1,031,242**	**1,309,269**
Commercial banks	49	50	1,091,695	1,374,640	721,066	871,532
Nationwide	7	7	872,655	1,067,024	636,424	753,163
Regional	6	6	93,195	120,985	62,489	82,170
Foreign bank branches	36	37	125,845	186,632	22,153	36,200
Specialized banks[b]	5	5	467,593	603,651	310,176	437,737
(KDB)	1	1	122,616	122,787	57,029	73,473
(Korea EXIM)	1	1	23,639	47,337	20,099	40,137
Non-bank financial institutions	**1,270**	**1,258**	**560,586**	**937,173**	**154,424**	**203,414**
Mutual savings banks	107	97	57,898	69,965	44,388	45,843
Credit unions	1,007	962	27,439	149,116	17,576	27,553
Credit-specialized financial companies[c]	54	64	89,160	149,116	21,964	35,757
Life insurance companies	22	23	297,339	425,037	56,361	66,578
Non-life insurance companies	28	30	63,828	112,887	11,285	19,073
Asset management companies	51	81	2,499	3,665	24	37
Korea Securities Finance Corporation	1	1	22,423	27,388	2,826	8,574
Total[d]	**1,324**	**1,313**	**2,119,874**	**2,915,464**	**1,185,666**	**1,512,683**

a End of period figures.
b The Korea Development Bank, the Export-Import Bank of Korea, the Industrial Bank of Korea, the National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperatives.
c Credit card companies, leasing companies, installment financing companies, and venture capital finance companies.
d Does not include other quasi-non-bank financial institutions such as securities companies, investment advisory companies, futures companies, postal savings, etc.

Source: Financial Supervisory Commission.

80. Financial sector regulation and supervision remains the responsibility of the Financial Services Commission (FSC), and its executive body, the Financial Supervisory Service (FSS). The Securities and Futures Commission (SFC), located within the FSC, supervises and regulates the securities and futures markets.

[141] Korea Productivity Center data.

(a) Banking and finance

Structure and ownership

81. Korean banking remains dominated by nationwide banks, which held 77.6% of the assets of commercial banks in June 2011[142]; foreign banks were responsible for 13.6%, and regional banks, with lower capital requirements (operating in a specific area or geographical territory) for 8.8% (Tables IV.3 and IV.4).[143] At end-September 2011, there were 134 foreign banks operating in Korea through 55 branches, 37 offices, and 42 local subsidiaries. Foreign holdings in Korean commercial banks have risen overall (Table IV.4); the average foreign holdings rate in the seven largest commercial banks was 68.4% at the end of 2011.

Table IV.4
Government and foreign ownership of commercial banks, June 2011
(%)

Commercial bank	Type of ownership	
	Government	Foreign
A. Nation-wide banks		
Woori (formerly Hanvit Bank)[a]	Woori Financial Group(WFG) - KDIC(100)	-
Korea First	-	100 (Standard chartered)
Korea Exchange	EXIM Bank (6.25), Bank of Korea (6.12)	LSF-KEB Holdings SCA(51.02)
Kookmin	-	KB Financial Group(100)
Shinhan[b]	-	Shinhan Financial Group(100)
Citibank Korea(formerly KorAm)	-	Citigroup Korea (100)
Hana	-	Hana Financial Group(100)
B. Local banks		
Daegu	-	DGB Financial Group (100)
Pusan	-	BS Financial Group (100)
Kwangju[a]	Woori Financial Group(WFG) (99.99)	-
Jeju[b]	-	-
Jeonbuk	-	8.05
Kyongnam[a]	Woori Financial Group(WFG) - KDIC[a] (99.99)	-

\- Nil.

a Woori (100%), Kwangju (99.99%), and Kyongnam (99.99%), are owned by the Woori Financial group. The KDIC owns 77.97% of Woori Financial group.

b Shinhan (100%) and Jeju (68.88%) are owned by the Shinhan Financial group.

Source: Information provided by the Korean authorities.

82. State involvement persists both in commercial banks (see below) and specialized (development) banks (Tables IV.3 and IV.4), including the EXIM Bank (Chapter III(3)(v)), the Industrial Bank of Korea (IBK), the Korean Development Bank Financial Group (former Korea Development Bank, see below and Chapter III(4)(ii)(a), Chapter III(4)(iii), Table III.5). Since the last TPR of Korea, the Government has continued to divest its holdings in banks (Table IV.4,

[142] There were 4,195 domestic branches of nationwide commercial banks in December 2009. Bank branches are authorized to engage in both short- and long-term financing (Financial Supervisory Service, 2010b).

[143] Regional banks aim to better balance regional economic development and provide greater access to financial services to regional and rural areas. The regional banks primarily serve small and medium-sized enterprises (SMEs), households, and individual borrowers in their respective regions. There were 745 domestic branches of regional banks operating in December 2009 (Financial Supervisory Service, 2010a and b).

Chapter III(4))(iii)). The reduction of the state-owned Korea Deposit Insurance Corporation's holding in the Woori Financial group to 57% in April 2010 was significant.[144] In May 2009, legislation was amended to permit the privatization of the state-owned Korea Development Bank; at end-October 2009, KDB and its four affiliates were put under a holding company, which must be privatized before May 2014, by law.[145]

83. According to the authorities there is no state presence in NBFI activities. Foreign participation is restricted to just one mutual savings bank and 13 credit specialized companies (foreign ownership accounting for nearly 11% of the total assets of such companies).

Restructuring

84. Since the 1997 financial crisis, financial sector restructuring has been focused on improving the financial infrastructure. Between November 1997 and June 2010, total government support for financial restructuring was ₩ 168.6 trillion, of which ₩ 63.5 trillion was used for recapitalization, ₩ 38.5 trillion for the purchase of non-performing loans, and ₩ 30.3 trillion for the payment of deposit insurance claims.[146] Important measures taken during the period under review included a reshuffle of financial institutions, the reduction in bad loans, tightening of prudential regulation, the enhanced transparency of financial information, and the reorganization of the corporate governance of financial institutions. To support corporate restructuring, between 2009 and 2011 the Korea Asset Management Corporation purchased ₩ 10.2 trillion of impaired loans from financial institutions. For 2011, the authorities intended to conduct a corporate-restructuring programme but decided to maintain existing financial reform measures focused on reducing bad loans, strengthening relevant regulations, and enhancing transparency in corporate financial governance.

Profitability and non-performing loans

85. According to the IMF, the commercial banking system remains sound, liquid, and well capitalized, but residual risks in the mutual saving banks require immediate attention and action.[147] Capital adequacy ratios improved from 12.8% in 2006 to nearly 13.9% in 2011, considerably higher than the minimum 8% required by the Basle core principles (Table IV.5).[148] Return on assets decreased during the period under review (Table IV.5). Although the interest rate spread widened considerably, profitability decreased, from net income after tax of ₩ 15 trillion in 2007 to ₩ 6.9 trillion in 2009, and subsequently rose to ₩ 9.4 trillion in 2010, and ₩ 14.7 trillion in 2011 (Chart IV.1).[149]

86. "Substandard and below loans" (SBLs) as a proportion of total loans increased overall for all categories of banks during the period under review (Table IV.6); in 2011, their share peaked in

[144] EIU (2011a).
[145] EIU (2011b).
[146] Bank of Korea (2010).
[147] IMF (2011). Furthermore, according to Nout Wellink, the former chairman of the Basel Committee on Banking Supervision (BCBS), it appears that Korean banks need to strengthen their balance sheets through more deleveraging in order to cope with a set of new global capital requirements. "Complex securities and derivatives are proven less profitable for banks ... they need to turn to another direction, deleverage their balance sheets and comply with the Basel requirements" (*Yonhap News Agency*, "Korean banks need more deleveraging in Basel III climate", 21 November 2011. Viewed at: http://english.yonhapnews.co.kr/business/2011/11/21/0502000000AEN20111121006400320.HTML.
[148] Bank of Korea (2010); and IMF (2011).
[149] Financial Supervisory Service (2010).

MSBs, while a decline was estimated for all other banks.[150] The rise was due to corporate restructuring and a surge in bad debt, especially in real estate and at small and medium-sized enterprises, which are not financially backed by large business conglomerates.[151]

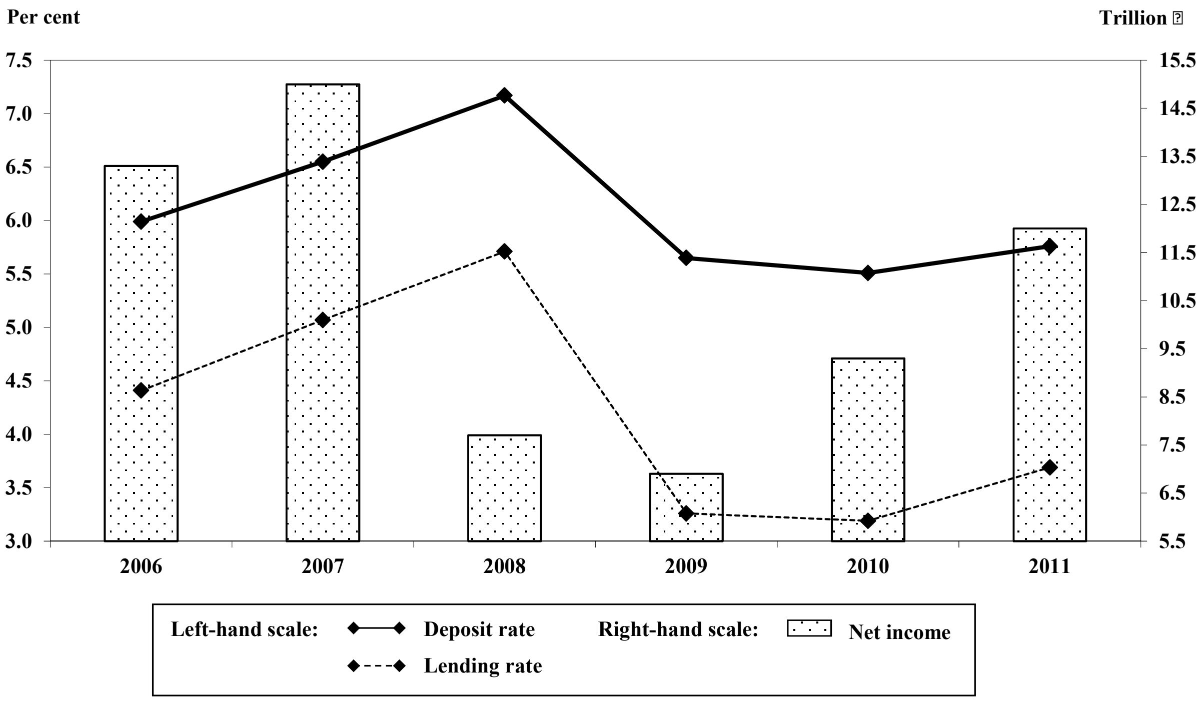
Table IV.5
Banking indicators[a], 2006-11
(%)

	2006	2007	2008	2009	2010	2011
Capital adequacy ratio	12.8	12.3	12.3	14.4	14.6	13.9
Tier 1 capital ratio	9.2	9.0	8.8	10.9	11.6	11.1
Return on assets	1.1	1.1	0.5	0.4	0.5	0.7
Net interest margin	2.6	2.4	2.3	2.0	2.3	2.3

a Includes nationwide commercial banks, regional banks, and specialized banks.

Source: IMF (2011), Republic of Korea: 2011 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion, IMF Country Report No. 11/246, Table 5, August. Viewed at: http://www.imf.org/external/pubs/ft/scr/2011/cr11246.pdf [7 December 2011]; and information provided by the Korean authorities.

Chart IV.1
Interest spreads and profits, 2006-11



Source: Bank of Korea (2011), *Monthly Statistical Bulletin 2011.6;* and Korea Federation of Banks online information. Viewed at: http://www.kfb.or.kr/kfb_eng_09/index.htm.

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[150] An SBL is a bank loan or other interest-earning asset that is protected inadequately by current net worth and paying capacity of the borrower, or the collateral pledged. Loans classified as substandard are characterized by the distinct possibility that the lender will sustain some loss if the deficiencies are not corrected. Some loss of interest is anticipated, or may have already occurred, but loss of principal is considered unlikely.

[151] EIU (2011b); and Financial Supervisory Service (2010).

Table IV.6
Sub-standard and below loans, 2006-11
(% of total loans)

	2006	2007	2008	2009	2010	2011 (tentative)
Commercial banks	0.9	0.7	1.2	1.2	1.9	1.36
Specialized banks	0.7	0.7	1.1	1.4	2.0	1.5
Mutual savings banks	10.5	8.8	9.1	9.3	10.6	16.5
Credit unions	4.5	3.8	3.5	3.7	3.7	3.6

Source: IMF (2011), Republic of Korea: 2011 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion, IMF Country Report No. 11/246, Table 5, August. Viewed at: http://www.imf.org/external/pubs/ft/scr/2011/cr11246.pdf [7 December 2011]; and information provided by the Korean authorities.

Regulatory and supervisory framework

87. Amendments to the Banking Act and Financial Holding Companies Act on 9 June 2009 and 31 July 2009, respectively, relaxed the limits for non-financial business operators' (NFBOs) holdings of shares issued by a bank, and for a bank holding company shares.[152] The amendment of the Banking Act stipulates that a financial institution may not extend credit to its large shareholders for the purpose of investing in another company.[153] The Financial Investment Services and Capital Markets Act (FSCMA) (see below), which in February 2009 replaced the Securities and Exchange Act, prohibits the sharing of restricted information (e.g. on non-public clients and any trading position) between a Korean Financial Investment Company and any of its affiliates (foreign bank branches conducting over-the-counter derivatives business are also subjected to this regulation).[154]

88. The FSC requires banks and other creditors to closely monitor credit risks of corporate borrowers. The FSC maintains generally accepted accounting principles and disclosure requirements that closely reflect internationally accepted accounting standards.[155] Regular on-site examinations and off-site surveillance of banks and other financial institutions are conducted based on risk assessment. Where problems are detected, such as the BIS capital ratio of a bank falling below the minimum criteria, the FSC issues management improvement recommendations and requirements or orders, depending upon the severity of the case. Between 2010 and 2011, it issued 1 improvement recommendation, 2 requirements, and 17 orders. As from January 2008, Korean banks must measure their capital adequacy ratios and assess credit and operational risks in line with the Basel II framework set by the Bank of International Settlements (BIS).[156] Under the Banking Act, the minimum legal capital requirement is ₩ 100 billion for nation-wide commercial banks and ₩ 25 billion for regional banks.

89. A foreign bank branch locating in Korea must: have permission from its own regulatory authority and be conducting banking business at home under appropriate supervision; be from a reputable foreign bank; and have the necessary expertise in international banking business. It must also have proper risk-management procedures, a viable and sound business plan, and be able to supply

[152] Bank of Korea (2010).
[153] EIU (2011b).
[154] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_3.htm [19 October 2011].
[155] Domestic financial holding companies have been required to adopt International Financial Reporting Standards (IFRS) since January 2011 (WTO document WT/TPR/S/204/Rev.1, 4 December 2008).
[156] The BIS capital ratio of domestic banks under Basel II was 14.62% at end-September 2010 (14.21% at end-September 2009, and 14.29% at end-June 2010) (EIU, 2011b).

the FSC with data needed for supervision. In addition, a foreign bank branch is required to have core operational funds of ₩ 3 billion at the time of establishment.

90. Prudential regulations apply equally to domestic and foreign financial institutions, in accordance with internationally accepted standards. Following the recent financial crisis, in 2010 the Korean authorities introduced a series of macro-prudential regulations in line with standards agreed at the G20 and the Financial Stability Board. These included the introduction of new limits on the banks' net open FX derivatives position implemented in January 2010, the re-introduction of withholding tax on non-resident holdings of government bonds beginning 2011, and the announcement of a Macro Prudential Bank Levy on banks' foreign currency liabilities, implemented in July 2011.[157]

91. Korea applies the BIS Core Principles for Banking Supervision, and implemented the information management system to support risk-based supervision, as well as the risk assessment and dynamic analysis rating system. The Advanced Internal Ratings Based (IRB) (A-IRB) approach for credit risk and the Foundation IRB (F-IRB) approach for operational risk under the Basel II capital adequacy rules were implemented in early 2009. At end 2011, eight banks (Kookmin, Shinhan, KDB, Woori, Hana, KEB, Nonghyup, and Gyoungnam) were approved for the F-IRB approach, and two (SC First Korea and IBK) for the A-IRB approach.

Non-bank financial institutions

92. The prudential and supervisory framework of non-bank financial institutions is similar to that for banks. All types of credit-specialized finance companies must be registered with the FSC, and must meet certain minimum capital requirements. Merchant banks must extend 10% to 30% of their loans to SMEs, while mutual savings banks must extend at least 50% of their loans to individuals and SMEs within their authorized geographical territory.

93. Weaknesses in the construction and real estate sector were the predominant cause of the run on deposits in eight MSBs in the first half of the year 2011; the authorities responded swiftly by suspending the operations of these banks while protecting insured deposits.[158] In July 2011, plans to enhance the soundness of mutual saving bank's management included: additional purchase of non-performing project finance (PF) loans from MSBs; extension of a deadline for MSBs to settle their sale of PF debts to KAMCO; five-year grace period for adoption of International Financial Reporting Standards (IFRS) for listed savings banks (i.e. by 1 July 2016). Out of 98 mutual savings banks, 85 were subject to review in 2011; as a result of the review, the authority suspended 8 MSBs in the second half of the year 2011. To enhance consumer and investor protection, action has been taken to change the way MSBs charge penalty interest (May 2009), to reduce fees for the certification of the outstanding debt (December 2009), and to strengthen disclosure rules on subordinated debt issued by MSBs (July 2009).[159]

94. Several measures have been taken to reinforce the soundness of credit unions in the wake of the global financial crisis.[160] The FSS conducted regular supervisory review of the National Credit

[157] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_3.htm [1 December 2011].

[158] At end-March 2011, the assets of 98 mutual savings banks in operation totalled ₩ 74 trillion, down 2% (from ₩ 75.5 trillion) from end 2010 (FSC and FSS joint online press release, "Plans for the Soundness of Mutual Savings Banks' Management", 4 July 2011; and IMF, 2011).

[159] Financial Supervisory Service (2009).

[160] Financial Supervisory Service (2009).

Union Federation of Korea to ensure expeditious implementation of the on-going business turnaround plan and prevent the growth of non-performing assets in 2009. Since December 2009, the FSS has implemented more stringent loan-to-value and debt-to-income regulations. As deposits grew at credit unions, the FSS set new guidelines on deposit and investment management, including investment ceilings on corporate debt issues. At the same time credit unions and cooperatives were encouraged to voluntarily establish internal operational guidelines on securities investment to ensure risk prevention and asset soundness.

95. All financial investment (securities) companies or related businesses must be licensed by the FSC in order to conduct business with Korean residents. Foreign and domestic financial investment companies must have an operating fund of at least ₩ 0.5 billion depending on the type of business.

96. The securities sector comprises mainly securities companies and asset management companies.[161] As of September 2011, the 62 securities companies produced a net profit of ₩ 1.2 trillion, of which 12 were foreign branches (net profit of ₩ 0.2 trillion). In addition, there were 60 domestic and 21 foreign asset management companies with a net profit of ₩ 35.9 billion and ₩ 141.8 billion, respectively.

97. The 2009 Financial Investment Services and Capital Market Act (FSCMA) consolidates several capital-market-related laws, defines financial investment products in broader terms, removes regulatory barriers restricting financial companies from engaging in multiple areas, and promotes the growth of globally competitive local investment banks. Measures to enhance consumer protection are incorporated in the FSCMA, which also introduced the know-your-customer and suitability rules; financial investment companies must disclose to their customers the risks and structures of financial investment products. Companies operating in each functional category may enter another as long as "Chinese walls" are in place to avoid conflicts of interest.[162]

(b) Insurance

Structure

98. Korea has the second-largest insurance sector in Asia, after Japan. The sector's assets amounted to ₩ 537.9 trillion in June 2011, a 48.9% increase over 2007 (Table IV.3). There are 23 firms offering life insurance, including 8 foreign firms. At end-December 2011, the life insurance sector was dominated by the three largest firms, which collectively accounted for 64% of the sector's assets; the largest, Samsung Life, accounted for 35.4%.[163] Although the share of foreign firms has been rising, it remains below 20% (as in 2008). The non-life insurance sector is equally concentrated (4 firms, 67.6% of assets) but smaller, with ₩ 123.4 trillion of assets in 2011; it comprises 30 non-life insurers, including 17 foreign firms. The largest, Samsung Fire and Marine, accounts for 30% of the sector's assets; the share of foreign non-life insurers is less than 3%. There is no vertical integration between banks and insurers in Korea, although it is not prohibited. Life insurers lend

[161] The Act on the Business of Operating Indirect Investment and Assets is now integrated into the Financial Investment Services and Capital Market Act.

[162] "Chinese/Information Wall" restrictions under the FSCMA are limitations on sharing 'restricted information' between a Financial Investment Company (FIC) and any of its affiliates, except in a few limited situations (Positive List system) (EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_4.htm [19 October 2011]; and EIU, 2011b).

[163] EIU (2011b).

heavily to the corporate sector, especially to large companies affiliated with large business conglomerates.

Regulation

99. Life and non-life insurance is strictly divided; life insurers are prohibited from offering non-life products, and vice versa. There are no barriers to foreign entry. Foreign branches must maintain funds of at least ₩ 3 billion to do business with Koreans and foreigners. The June 2010 amendments of the Act, allowed insurers to create and sell insurance products as they wish, and 85% of products require only internal review.[164] The same amendment contains more stringent regulation concerning illegal twisting and churning by agents.[165] In addition, the fiscal year for insurance (1 April to 31 March) was changed to the international standard of calendar year. Life-insurance contracts receive preferential treatment in terms of personal tax.

100. Since April 2009, the FSS has progressively implemented a new risk-based capital (RBC) solvency regime, replacing the solvency margin ratio regime based on the EU's Solvency I Model; both regimes were used until March 2011.[166] Concerning consumer protection, the FSS amended the Best Practice Guidelines for Claims Payout in October 2009, and issued guidelines for insurance companies preparing product disclosure documents in April 2009. The FSS's Insurance Fraud Analysis System, was upgraded in December 2009, and a number of awareness programmes were implemented.[167] Customers may also seek investment advice or asset-management services from their insurers. Regulations on non-bank financial holding companies have been eased, so that insurance companies will not be required to sell shares in non-financial companies when they create holding companies.[168]

(v) Telecommunications

101. The telecommunications market grew more slowly than other sectors in Korea during the review period, accounting for 3.7% of GDP in 2010, compared with 4.2% in 2008.[169] Growth was led by mobile telephony; in December 2010, mobile phone penetration was over 100%, with about 50.8 million subscriptions for Korea's 48.2 million population.[170] On the other hand, fixed line penetration continued to decline[171], from 46.4% in 2008 to 40% in 2010, due to substitution by

[164] Previously, all products had to go through a three-phase review, and authorities had to give prior approval for 90% of insurance products before companies could market them (Financial Supervisory Service, 2009).

[165] Twisting is the act of replacing insurance coverage by one insurer with that of another, based on misrepresentations. Churning is replacing coverage by an existing insurer with 'different' coverage by the same insurer. While replacement of existing coverage is legitimate, inducing changes in coverage based on misrepresentation or deception is unethical and illegal (http://www.wallstreetinstructors.com/ce/continuing_education/ethics2/id40.htm) (EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_15.htm [19 October 2011].

[166] Financial Supervisory Service (2011).

[167] Financial Supervisory Service (2009).

[168] EIU (2011b).

[169] Data by the Korea Association for ICT Promotion and the Korea Bank.

[170] National IT Industry Promotion Agency (2011); and U.S. Commercial Service (2011).

[171] In November 2011, the Korean communications provider, KT, decided to stop investing in its fixed-line telephony services, as mobile and internet communications are growing; the company was to focus instead on smartphones and other mobile internet devices (ITU online information, "KT gives up on fixed-line

broadband and internet protocol telephony and mobile services. Growth in the internet sector has been significant, with penetration at nearly 78% in 2011 (74.1% in 2006), among the highest in the world.[172]

102. Since 2004, there have been three carriers for local service (KT, SKT and LG U+), five operators for national long-distance services (KT, LG U+, Onse, SKbroadband, and SKTelink), and seven for the international market (KT, LG U+, Onse, SKbroadband, SKTelink, Sejong, KCTTEL), as well as other resale companies. KT, which merged with KTF in 18 March 2009, is by far the dominant carrier in non-mobile telephony services, with nearly 94% of the local market, 80% of the long-distance, and 26.5% of the international market; KT, SKbroadband and LG U+ are the only integrated operators providing all three services. As of December 2011, the mobile phone sector had three suppliers, SK Telecom, KT, and LG U+, with market shares of 50.6%, 31.5%, and 17.9%, respectively.[173]

103. Korea's main policy goals are to: achieve convergence between telecommunications services and broadcasting and audio-visual services[174]; guarantee the freedom of broadcasting and its public and public-interest nature; and ensure balanced growth between broadcasting and telecommunications so as to strengthen the international competitiveness of both services.[175] Korea Communications Commission aims to create a unitary legal framework for all communications services, including telecommunications and broadcasting services; various efforts have been undertaken to improve the existing legal and regulatory system in line with the convergence environment.

104. The Telecommunications Basic Act provides the basic telecommunications policy framework, and the Telecommunications Business Act regulates the sector. An amendment to the Telecommunications Business Act of 22 March 2010 advocates a wholesale system, promoting the establishment of new communications service providers and giving consumers a wider range of options.[176] It enables telecommunications businesses to expand and advance their communications networks by using the telephone poles and pipelines of major carriers (the Korea Electric Power Corporation, and the Korea Expressway Corporation) through (colocation) agreements. It also sets a fine of up to 3% of sales for major carriers in violation of accounting regulations. The Telecommunications Business Act Enforcement Decree, enforced on 1 October 2010, provides the standards for wholesale providers and their mandatory services for the implementation of a wholesale system, as well as the requirements for service resellers.

105. The Korea Communications Commission (KCC), an independent single regulatory entity under the President's Office, is responsible for licensing, pricing, promotion of fair market conditions, and consumer protection. It is also responsible for arbitration in disputes between carriers, and between carriers and users. The Korea Fair Trade Commission (KFTC) and KCC are jointly responsible for curbing unfair trade practices in the sector. KFTC and KCC cooperated in preventing

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telephony", 7 November 2011. Viewed at: http://www.itu.int/ITU-D/ict/newslog/KT+Gives+Up+On+Fixedline+Telephony+South+Korea.aspx [7 December 2011].

[172] Korea Internet & Security Agency (2011).

[173] Korea Association for ICT Promotion (2011).

[174] Convergence is difficult to define precisely, but it may be expressed as: the ability of different network platforms to carry essentially similar kinds of services, or the coming together of consumer devices such as the telephone, television and personal computer (European Commission, 1997).

[175] Korea Communications Commission (2011).

[176] Korea Communications Commission (2011).

any possible conflicts.[177] The KCC is responsible for activating Internet Protocol TV (IPTV) and WiBro (Wireless Broadband) service, a separate service that can be offered via smartphones and other computing devices such as laptop computers.[178]

106. Total foreign investment in basic telecoms is subject to a 49% ceiling while value-added telecom services are fully open to foreign investment. Under the Telecommunications Business Act the KCC may prohibit a foreign shareholder from becoming the largest (individual) shareholder (5% or more of shares) in KT.[179] Other operators also have significant foreign investment (Table IV.7). Whereas very few OECD countries maintain barriers to FDI in telecommunication providers, Korea is one of only two OECD members that apply them to basic telecommunications services.

Table IV.7
Ownership structure of major telecom operators, as of June 2011
(%)

Company	State-participation	Foreign participation
	(% of shares)	
Korea Telecom	None	49.0
SK Telecom	None	49.0
LG U+	None	21.78
SK Broadband	None	3.75

Source: Korea Communications Commission.

107. All customers are eligible for handset subsidies provided by the three mobile operators in the form of price discounts on handsets purchased by consumers who enter into a fixed-term contract (usually 2 years) with the operator. In September 2010 and September 2011, corrective action orders were issued to, and fines imposed on all three operators for the issue of differentiated handset subsidies (depending on the duration of the contract and type of service plan purchased), which were seen as undermining users' welfare.[180]

108. Number portability, allowing a subscriber to transfer their number from one network to another after cessation of a contract, applies to fixed-line and mobile services. According to data provided by the authorities, 12 million subscribers changed their mobile phone service in 2011, up from 10.2 million in 2007, indicating increased competition; on the other hand, the number of fixed line subscribers changing service providers dropped by 40% to 415,069.

[177] Although the Telecommunications Business Act and the Fair Trade Act may be applied to the telecoms sector, the duplicate jurisdiction is resolved according to Article 37.3 of the Telecommunications Business Act, which stipulates that once a corrective order or penalty is issued in accordance with the Telecommunications Business Act, the KFTC cannot take action on the same issue.

[178] IPTV, an emerging internet technology standard for use by television broadcasters, is one of the core services in converging broadcasting and telecommunications. It was first launched at the end of 2008 and grew rapidly to occupy 15% of the pay cable market with more than 3 million subscribers. WiBro (Wireless Broadband) is a wireless broadband internet technology developed by the Korean telecoms industry. WiBro service expanded from only Seoul and the metropolitan area in 2008 to other metropolitan cities and towns in 2009, and to main highways in 2010; its population coverage increased from 25% in 2008 to 66% in 2010 (*Hankyung*, "3 yr. old KCC's success and future tasks", 27 February, 2011. Viewed at: http://www.hankyung.com/news/app/newsview.php?aid=2011022757178&intype=1).

[179] However, owing to an exception, in 2008 the largest individual shareholder in KT was foreign. This shareholder sold its shares in January 2009, reducing its ownership from 5.79% to 4.99%. The largest shareholder now is the National Pension Fund, which holds approximately 6% of KT.

[180] Korea Communications Commission (2011).

109. Price discounts are permitted on sales of bundled products, such as local telephone, high-speed internet, and mobile telephony services. The number of bundled service subscribers increased from 4.1 million households in 2008 to 8.8 million in 2010. The pre-screening process for the approval of prices on bundled products was eased in 2009 (maximum discount rate eligible for pre-screening waiver raised from 20% to 30%).[181] Prices of mobile phone communications were lowered considerably following the improvement of the mobile tariff system in September 2009. Tariff approval waiver was extended to more types of bundled services, which resulted in various service bundles offering large discounts, being made available to consumers, helping to reduce telecom expenses for households.[182]

110. Facilities-based businesses may apply for a licence at any time; the screening period for licence applications is one to two months. To obtain a licence, facility-based providers must furnish a business plan, a sales plan, a technology plan, and an R&D plan. Facilities-based providers are required to contribute 0.5% of the previous year's total revenues to the R&D expenditure fund, while dominant providers are required to contribute 0.75%. Telecom operators that pay spectrum fees are exempt, as well as telecom operators that make net losses or whose previous year's revenue does not exceed ₩ 30 billion.[183] The R&D contribution is managed by the Ministry of Knowledge Economy.

(a) Interconnection

111. The KCC formulates the scope of interconnection agreements. Operators must conclude an agreement within 90 days of receiving a request from another operator. The KCC sets interconnection charges based on a long-run incremental cost methodology (LRIC), which is applicable to interconnection of local, long-distance, and mobile services. In November 2010, the KCC adopted guidelines on "Criteria of What Constitutes a Negligible Item Concerning an Interconnection Agreement", and "Criteria for the Interconnection of Telecommunications Facilities".[184] The two guidelines are aimed at reducing the administrative burden on operators who previously required approval from the KCC for all changes to interconnection agreements. Minor changes made to interconnection agreements already approved by or reported to the KCC need only undergo a simple reporting procedure. In 2010 and 2011, the KCC applied the LRIC methodology to change the guidelines on interconnection of local, long-distance, mobile, and internet networks.

(b) Price regulation

112. The KCC approves the dominant operator's (KT) local telephony prices, which include the monthly subscriber charge and local calls. The Telecommunications Business Act provides for the reduction of communications fees imposed on socially disadvantaged people. The KCC undertakes an annual evaluation of market competition in each service segment, and designates the services and service suppliers that require price approval by the KCC; in February 2012, KT in the local fixed-line

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[181] Korea Communications Commission (2010).

[182] Korea Communications Commission (2011).

[183] Under Article 11.3 of the Radio Waves Act, spectrum fees are determined either through administrative pricing or auction. In the case of administrative pricing, the KCC calculates the economic value of the designated spectrum, taking into account indicators such as expected sales and business value of the spectrum. In the case of auction, the KCC sets the minimum competition/auction baseline price. Spectrum fee revenue is placed into the Broadcasting and Communications Development Fund and the Information and Communications Promotion Fund, which are designed to assist public policy goals such as universal service, assistance for low-income and special-needs families, public education/training programmes, research and development.

[184] Korea Communications Commission (2011).

telephone market, and SKT in the mobile telephone market were subject to KCC price approval. Price changes are to be approved within 30 days, with the possibility of a one-time extension. Telecommunications tariffs that do not require KCC approval still need to be notified/reported before becoming effective; long-distance and leased-line prices also need to be filed with the KCC. The broadband market is no longer subject to price approval (since 2010).

113. In 2010, the basket of Korea's rates for mobile, internet, and local, long-distance and international fixed-line services were less than the OECD average.[185]

(c) Universal service obligations

114. Universal service includes provision of local telecommunications services, subsidized services for low-income and disabled customers, provision of services in remote areas, and wireless communications for ships. Providers of universal services tend to incur losses and are thus subsidized through a universal service compensation fund, to which all operators contribute a proportion of their revenue. The KCC takes responsibility for universal service costing. The losses from universal services operations totalled ₩ 89.7 billion in 2008, and ₩ 83.4 billion in 2009. Subsidized prices (discounts) for the disabled and low-income families increased from ₩ 413.6 billion in 2008 to ₩ 563.7 billion in 2011.

(b) Broadcasting

115. Convergence between telecommunications services and broadcasting services remains a major policy objective. The 2010 Framework Act on Broadcasting and Communications Development now regulates the planning and promotion of broadcasting and communications activities.[186] It provides for the establishment of technical standards, disaster management, and the Broadcasting and Communications Development Fund, which consists of funds collected from spectrum auction and pricing, deposit fees for spectrum, special fees from broadcasting operators, and earnings from fund operation. In 2012, the Fund was used to assist the transition from analogue to digital broadcasting (₩ 105.5 billion), to improve broadcasting infrastructures (₩ 61.9 billion), protect viewers' rights (₩ 14.5 billion), and assist special-need families (₩ 6.9 billion).

116. The 2009 Amendments to the Broadcasting Act were aimed at creating a more competitive broadcasting market.[187] Ownership restrictions in the broadcasting industry have been eased across the board, and new regulatory mechanisms are now in place to guarantee the diversity of public opinion. New types of advertising, such as virtual and indirect advertising are now authorized. The pre-screening scheme for TV ads was abolished. Other changes included ensuring transparency of the management of daily newspapers planning to provide multi-genre programming. Several ex-ante regulations were further relaxed, such as improving the certification system for broadcasting and telecommunications equipment, and adoption of sample testing policy for installation of radio stations.

[185] Nevertheless, in August 2008, Korea's charges for international calls were among the highest in OECD countries, at up to 2.7 times the OECD average (residential consumers) in terms of US$ purchasing power parity. The OECD does not compare international call rates (since 2008), since 2011 it has compared a basket of telephone prices, which include local, international, mobile, and fixed-line services for home/business use (OECD, 2011d and 2009b).

[186] Korea Communications Commission (2011).

[187] Korea Communications Commission (2010).

117. Terrestrial radio and television broadcasting are closed to foreign investment, while the ceiling on foreign investment in other areas of broadcasting is 49%.

118. The KCC handles all functions related to the broadcasting subsector. It is responsible for managing broadcasting spectrum, licensing, monitoring transmission and programming, and policy for technical standards.

(vi) Transport

119. Roads continue to dominate domestic transport in Korea, while seaborne transport is used mainly for cargo and freight; international passenger transport is predominantly by air. Both road and air transport are subject to competition laws, while maritime transport is exempt. The authorities indicated that this exemption is aimed at preventing reckless competition and maintaining order in maritime transport. Concerted action involving liner shipping companies is permitted; the authorities believed that it can enhance the competitiveness of national-flagged liner companies (see below), as mega-sized global shipping companies increasingly dominate the industry.

(a) Maritime transport

120. The maritime transport sector continued to grow during the period under review; Korea's merchant fleet capacity rose from 15 million gross tonnes in 2006 to approximately 32 million gross tonnes in 2011. According to UNCTAD data, Korea had the world's fifth largest fleet in deadweight terms (3.79% of total dwt) consisting of 47.4 million tonnes (1,189 vessels), of which 61.8% (453 vessels) were foreign flagged.[188] The sector remains less, albeit highly, concentrated, with the five largest operators controlling 53% of the market (over 70% in 2007).

121. The maritime sector is regulated through the Maritime Transport Act, which covers sea passenger transport, sea freight transport, ship's brokerage, shipping agents, ship rental, and ship management. The Ministry of Land, Transport and Maritime Affairs, which administers the Law, is also responsible for maritime safety and development, port policy, and improving the competitiveness of the shipping industry.

122. There are no restrictions on the access of foreign carriers to the Korean liner market, and they are accorded national treatment at Korean ports and in the registration process.[189] Cabotage is reserved for Korean vessels, but foreigners may participate in goods and passenger transport between North and South Korea, as a minority joint-venture partner with a South Korean firm. The captain (Master) and chief engineer of a Korean-flagged vessel should be of Korean nationality; no other limits are in place on the number of foreigners allowed on board, except for specifically designated vessels (including vessels transporting materials that significantly affect the national economy or national security, e.g. military supplies, petroleum, LNG, coal, etc.) which are limited to eight foreigners. Ten foreign crew members are permitted on a registered international Korean ship.

[188] UNCTAD (2011a).

[189] Following the amendment of the enforcement regulations of the Maritime Transport Act, as from 1 January 2010 carriers need to be registered to benefit from such treatment; registration requirements include capital stock of ₩ 1 billion or more and carrier cargo capacity of 10,000 tonnes or more, or equity of ₩ 1 billion and a cargo capacity of 10,000 tonnes (*Newsis*, "Changes in Maritime and Transport in 2010", 29 December 2009. Viewed at: http://news.naver.com/main/read.nhn?mode=LSD&mid=sec&sid1=101&oid=003&aid=0003018748.

123. The Government does not intervene directly in providing shipping services, but provides various financing and tax schemes to assist shipping companies; no data on budgetary costs of these schemes since 2008 were available from the authorities. A voluntary tonnage tax system (TTS)[190], based on the net tonnage of individual vessels, has been in place since 2005. When operation profits are generated it allows for a lower effective tax rate than the corporate income tax system; 84 carriers were participating in this system in 2008, but dropped to 64 in 2009 due to the global financial crisis, as many shipping companies have faced difficulties in generating operating profits (i.e. earned from normal core business operations), several have gone bankrupt or out of business in the bulk sector.[191] Most maritime auxiliary services, including tug services, freight forwarding, and maintenance and repair services are provided by the private sector; pilots must be Korean.

124. Vessels registered at the Jeju and Seogwipo ports in Jeju island benefit from local tax breaks relating to acquisition and property taxes. In order to be eligible for international shipping registration these vessels need to be of 500 gross tonnes or more, and 20 years old or less; foreign bareboat chartered-in hire purchase vessels (BBCHP) by a Korean charterer for the purpose of hire purchase (HP) are required to convert to the Korean flag to qualify for Jeju island's register. The same terms apply to bulks and liners; no additional fiscal or employment conditions are attached to the registration requirements. Foreign ship-owners are not allowed to register. At end 2011, 912 vessels totalling 31 million tonnes (dwt) were registered at the Jeju and Seogwipo ports.

125. Government policy is directed towards making Korea a logistics and shipping hub for North East Asia, and turning the country into one of world's five largest marine powerhouses by 2020. Base ports are to be built in Incheon, Gwangyang, and Ulsan, and antiquated ports will be renovated.[192] The Ministry of Land, Transport and Maritime Affairs invested ₩ 2.5 billion in 2009 for the installation of an intelligent port automation system at Sinseondae of Busan Port and Dongbu Busan Container Terminal; it is expected to reduce port time and yard tractor movement, and cut oil usage and carbon emissions.[193] On 19 April 2010, Port-MIS 2.0 software was launched to enable electronic port-use reporting.[194]

126. The Ministry of Land, Transport and Maritime Affairs administers ports. They are state-owned and provided free of rent to the Korea Container Terminal Authority, which in turn rents port facilities to private terminal operators. Container throughput grew strongly between 2007 and

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[190] Under the TTS qualified shipping companies may divide their income into shipping income and non-shipping income. The mandatory period for application of the TTS is five years, and companies that opt for it must pay it even when they experience operating losses (*Munhwa,* "5 biggest carriers give up tonnage tax", 5 April 2010. Viewed at: http://www.munhwa.com/news/view.html?no=2010040501031 2243150020.

[191] Between 2009 and 2011, 54 companies went out of business.

[192] Blue House online information. Viewed at: http://m.president.go.kr/news/view.php?uno=1569&cur_page_no=.

[193] Ministry of Land, Transport and Maritime Affairs online information. Viewed at: http://english.mltm.go.kr/USR/BORD0201/m_28286/DTL.jsp?id=eng0301&cate=&key=&search=&search_regdate_s=&search_regdate_e=&order=&desc=asc&srch_prc_stts=&item_num=0&search_dept_id=&search_dept_nm=&srch_usr_nm=N&srch_usr_titl=N&srch_usr_ctnt=N&srch_mng_nm=N&old_dept_nm=&search_gbn=&search_section=&source=&lcmspage=59&mode=view&idx=1347.

[194] Ministry of Land, Transport and Maritime Affairs online information. Viewed at: http://english.mltm.go.kr/USR/BORD0201/m_28286/DTL.jsp?id=eng0301&cate=&key=&search=&search_regdate_s=&search_regdate_e=&order=&desc=asc&srch_prc_stts=&item_num=0&search_dept_id=&search_dept_nm=&srch_usr_nm=N&srch_usr_titl=N&srch_usr_ctnt=N&srch_mng_nm=N&old_dept_nm=&search_gbn=&search_section=&source=&lcmspage=27&mode=view&idx=1750.

2011, from 17.5 million TEU to 21.6 billion TEU.[195] Transhipment cargoes grew by 16.2% in 2011 to 1,079,000 TEU, since more shipping companies use Busan port as a hub spot for transhipment.

127. Port charges in Korea are moderate compared with other ports in the region; total harbour charges at Pusan were lower than those at Singapore, Kaohsiung, and Shanghai in 2008. In line with the global trend to relieve shipping lines from their difficult financial situation by allowing deferral or discounting of port charges due to the recent economic downturn, the Busan Port Authority froze port charges in 2010, and a port charge deferment system was put in place temporarily (rescinded in 2010), in response to the global financial crisis.[196]

(b) Air transport

128. Air passenger traffic and freight have continued to grow since 2003. Air transport policy and licensing arrangements are under the Ministry of Land, Transport and Maritime Affairs (Air Transport Policy Bureau and Civil Aviation Bureau), which administers the Aviation Act. The Ministry announced the 1st Aviation Policy Basic Plan in 2009[197], and the 2010 Aviation Policy Implementation Plan on 6 May 2010[198], to specify strategies for the implementation and management of the Aviation Policy Basic Plan. The 2009 amendment of the Aviation Act included: the reorganization of the air transport licensing system from scheduled and non-scheduled (charter) traffic to domestic, international, and small air transport system; the insertion of light aircraft provisions in the Aviation Act; the introduction of aviation safety duties and a self-reporting system; and setting the legal basis for allocating transportation rights and overflight.[199]

[195] Ministry of Land, Transport and Maritime Affairs online information. Viewed at http://english.mltm.go.kr/USR/BORD0201/m_28286/DTL.jsp?id=eng0301&cate=&key=&search=&search_regdate_s=&search_regdate_e=&order=&desc=asc&srch_prc_stts=&item_num=0&search_dept_id=&search_dept_nm=&srch_usr_nm=N&srch_usr_titl=N&srch_usr_ctnt=N&srch_mng_nm=N&old_dept_nm=&search_gbn=&search_section=&source=&lcmspage=2&mode=view&idx=1976.

[196] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2011". Viewed at: http://trade.eucck.org/site/2011/en/market_17.htm [19 October 2011].

[197] The 1st Aviation Policy Basic Plan covers 5 fields: strengthening global competition, which includes more open-skies agreements and promoting low-cost carriers and general aviation; improving efficiency, which includes organizing a new aviation system; developing pre-emptive safety measures; diversifying the industry, and training professional staff; and promoting environmentally friendly measures while upgrading global status (Ministry of Land, Transport and Maritime Affairs online information. Viewed at: http://www.mltm.go.kr/USR/policyData/m_34681/dtl.jsp?search=&srch_dept_nm=&srch_dept_id=&srch_usr_nm=&srch_usr_titl=Y&srch_usr_ctnt=&search_regdate_s=&search_regdate_e=&psize=10&s_category=p_sec_7&p_category=701&lcmspage=1&id=256).

[198] The 2010 Aviation Policy Implementation Plan analyses the outcome of aviation policy implementation in 2009. Through the plan, air services liberalization and capacity entitlement between Korea-EU, Korea-ASEAN, and Korea-China will be promoted, to enhance competitiveness. The Ministry will develop air transport risk indicators, establish a system for continuous monitoring and preventative risk management, and enforce the autonomous safety management system. An MRO roadmap (maintenance repair & overhaul) will be completed to promote the aviation industry (Ministry of Land, Transport and Maritime Affairs online information. Viewed at: http://english.mltm.go.kr/USR/BORD0201/m_28286/DTL.jsp?id=eng0301&cate=&key=content&search=safety&search_regdate_s=&search_regdate_e=&order=&desc=asc&srch_prc_stts=&item_num=0&search_dept_id=&search_dept_nm=&srch_usr_nm=N&srch_usr_titl=N&srch_usr_ctnt=N&srch_mng_nm=N&old_dept_nm=&search_gbn=&search_section=&source=&lcmspage=5&mode=view&idx=1772.

[199] Ministry of Land, Transport and Maritime Affairs online information. Viewed at: http://www.mltm.go.kr/USR/NEWS/m_71/dtl.jsp?lcmspage=2&id=155353136.

129. At present, Korea's seven privately owned national flag carriers are: Korean Air, Asiana Airlines, Jeju Air, Air Busan, Jin Air, Eastarjet, and t'way. All national air carriers operate international and domestic services. International air services are governed by bilateral air services agreements (ASAs) negotiated primarily by the Ministry of Land, Transport and Maritime Affairs. Korea has signed bilateral ASAs with 92 countries[200], including open-skies agreements with Brazil and the United States. Korea plans to negotiate additional agreements, while progressively liberalizing existing bilateral arrangements. Cabotage is prohibited under the Aviation Act (Article 149).

130. Foreign ownership of Korean airline operators providing scheduled or non-scheduled services is limited to less than 50%, and operators must register their aircraft in Korea. There are no limits on sales of transportation services by foreign airlines in the domestic market exist. There is no monopoly computer reservation system (CRS) provider or an obligation to use a certain CRS supplier.

131. There are eight international and seven domestic airports in Korea.[201] All except Incheon are managed and operated by the Korea Airports Corporation, which is government owned. Incheon Airport is operated and managed by another government-owned entity, the Incheon International Airport Corporation. Efforts to privatize the Incheon International Airport are at a standstill and a plan to sell a 15% stake through public offering in late 2011 or early 2012 was dropped.[202] The operating rights of the Cheongju International Airport were sold to a private consortium in February 2012. Take-off and landing slots are allocated in order of priority, according to slots retained from the previous season for scheduled air services, slots used for scheduled air services in the previous equivalent and non-equivalent season, and new slots requested for scheduled and non-scheduled air services. Landing and take-off charges at Incheon are lower than at airports in Hong Kong/China, Singapore, and Japan, but apparently higher than those in Shanghai and Taipei.

132. Self-handling, mutual handling and/or third-party handling are allowed, and there are no limits to the number of ground-handling suppliers at major airports. No restrictions are in place for national carriers having their aircraft repaired/maintained abroad; however, overseas mechanics should possess Designated Overseas Maintenance Mechanic Certificates.

(c) Land transport

133. Road transport in Korea, accounts for over 85% of national passenger transport and freight needs. The Ministry of Land, Transport and Maritime Affairs is responsible for land transport policy, national road construction and maintenance, and managing toll expressways. Korea has over 105,000 km of road, with 32 expressways and 51 national highways. According to the National Highway Network Plan, 5,953 km of expressways are to be built by 2020; 3,913 km had already been built by the end of 2011. Private investment in roads is encouraged through build-transfer-operate (BTO) contracts. The main barrier to entry to passenger transport is an economic-needs test, while bus and taxi fares are regulated by local governments based on costs. Bus companies receive partial subsidies for losses, in the form of matching central-local government funds (total support provided to buses was ₩ 174 billion in 2011), and, along with taxi operators, receive a portion of the fuel tax revenue back as a subsidy; this amounted to ₩ 940 billion in 2011.

[200] Korea entered into an ASA with Turkmenistan in November 2008, signed an ASA with Lao PDR in April 2010, and entered an open-skies agreement with Brazil and an ASA with Seychelles in July 2010.
[201] Ministry of Land, Transport and Maritime Affairs (2009).
[202] EIU (2011a).

134. In late 2009, railways were responsible for 15% of domestic passenger and 7% of freight transport; the Government expects the share of railways in the domestic transport market to approximately double by 2020.

135. The Korea Railway Network Authority, a state monopoly and the owner of high-speed railways, is responsible for all railway construction activity[203], while the Korea Rail Corporation (Korail), an independent state-owned corporation, runs the railway network operations. Both entities are under the Rail Policy Bureau within the Ministry of Land, Transport and Maritime Affairs. Any changes with respect to train fares, including freight rates, need to be notified to the Ministry.

136. Under the Railroad Enterprise Act, all railway operators need to be licensed. There are no restrictions on foreign enterprises supplying rail transport services for routes built since 1 July 2005, but they must comply with the economic needs test and regulations on licences, as stipulated in the Railroad Enterprise Act. At present, though Korail is responsible for all rail operations, and there are no private or foreign companies in the sector. The Government is preparing to open the market in order to enhance competition among corporations in railway operations.

(vii) Distribution services

137. During the period under review (2008-12), growth in the distribution services (wholesale and retail trade, wholesale and retail trade averaged a modest 7.6% per annum, and its contribution to GDP remained static at 8.2%. On the other hand, the share of distribution services in total employment rose to 8.8%.

138. Liberalization of the subsector has been continuous since 1996; the number of stores of large distributors has increased, and apparently there is little foreign participation in the sector. Between 2008 and 2011, the number of large stores increased by 14.2%. Foreign investment in distribution services varied considerably during 2008-11, ranging from US$938 million to US$1.7 billion. The share of traditional family stores has been declining. Growth in the distribution sector has been fuelled by hypermarkets, as these are also the preferred choice of foreign participants in the sector.

139. The sector is subject to the competition policy and consumer protection legislation (Chapter III). It is also subject to the Distribution Industries Development Act, enacted in April 1997 to facilitate the development of distribution industries. Along with policies to promote fair business practice between SMEs and large enterprises, the amendments in the Distribution Act during the review period focused on achieving fairness in the distribution market and restricting the expansion of Super Supermarkets (SSMs) (1,000 m^2-3,000 m^2), which are smaller than hypermarkets.[204] Under the 2009 amendment of the Act, large stores of floor space of 3,000 m^2 or more must undergo a registration process rather than just reporting to the local authorities prior to starting a business. As a result of a 2010 amendment of the Act, local governments may enact ordinances to limit access by large retailers and SSMs to traditional markets within a 500 m radius. A 2011 amendment to the Act, increased the area of limited SSM access to a maximum radius of 1 km, and the validity of the restrictive rules was extended from 3 to 5 years. There are no restrictions on foreign entry in trading

[203] Nevertheless, under the Act on Public-Private Partnerships in Infrastructure, an independent corporation may carry out railway construction activities.

[204] The Distribution Industries Development Act defines SSMs as supermarkets directly managed by a company that owns large retail businesses such as marts, department stores, etc.

activities other than those explicitly excluded[205], and foreign participants are accorded national treatment. Economic needs test requirements affect wholesale and retail services related to used cars and gaseous fuels.

[205] Foreign entry is excluded in the trade of: pharmaceuticals, medical, and functional goods; firearms, explosives, and swords; works of art and antiques; and operation of and distribution services at public wholesale markets for agricultural, fishery, and livestock products.

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APPENDIX TABLES

Table AI.1
Merchandise exports by product group, 2007-11
(US$ million and %)

	2007	2008	2009	2010	2011
Total exports (US$ million)	371,477.1	422,003.5	363,531.1	466,380.6	555,208.9
			% of total		
Total primary products	10.8	13.1	10.4	11.1	14.1
Agriculture	1.7	1.8	2.0	2.0	2.3
Food	0.9	0.9	1.1	1.1	1.1
Agricultural raw material	0.8	0.9	0.8	0.9	1.2
2321 Synthetic rubber	0.4	0.5	0.4	0.5	0.7
Mining	9.1	11.3	8.4	9.1	11.8
Ores and other minerals	0.3	0.3	0.3	0.3	0.3
Non-ferrous metals	2.1	1.9	1.6	1.8	2.0
Fuels	6.6	9.1	6.5	7.0	9.6
Manufactures	88.9	86.5	88.7	88.2	85.3
Iron and steel	5.1	5.9	4.8	5.2	5.7
6732 Flat, hot-rolled products, iron/steel, not clad/plated/coated	0.4	0.5	0.5	0.5	0.7
Chemicals	10.1	10.1	10.3	10.5	10.9
5112 Cyclic hydrocarbons	1.6	1.3	1.2	1.2	1.4
5138 Polycarboxylic acids, and their anhydrides, derivatives	0.9	0.9	1.0	1.0	1.0
5751 Propylene polymers or of other olefins	0.7	0.8	0.8	0.7	0.7
Other semi-manufactures	4.0	3.8	4.3	3.6	3.9
Machinery and transport equipment	58.3	55.4	56.8	56.6	54.1
Power generating machines	0.5	0.6	0.8	0.7	0.7
Other non-electrical machinery	6.9	6.7	6.1	6.7	7.1
7284 Machinery and appliances for particular industries, n.e.s.	1.0	0.9	0.8	1.0	1.1
7232 Mechanical shovels, etc., self-propelled	0.8	0.7	0.3	0.6	0.8
Agricultural machinery and tractors	0.1	0.1	0.1	0.1	0.1
Office machines & telecommunication equipment	25.0	20.9	21.2	20.7	17.3
7764 Electronic integrated circuits and microassemblies	8.1	6.1	6.7	8.1	7.1
7649 Parts and accessories for apparatus of division 76	4.3	4.2	4.4	3.8	3.2
7643 Radio or television transmission apparatus	5.0	5.2	5.0	3.3	2.7
7599 Parts and accessories of 751.1, 751.2, 751.9 and 752	2.3	1.5	1.4	1.7	0.9
7763 Diodes, transistors, etc.	0.4	0.4	0.5	1.0	0.9
Other electrical machines	4.8	4.8	5.5	5.6	5.7
7781 Batteries and electric accumulators, and parts	0.6	0.7	0.8	0.8	0.9
Automotive products	13.3	11.6	10.2	11.7	12.5
7812 Motor vehicles for the transport of persons, n.e.s.	9.3	7.4	6.2	6.8	7.4
7843 Other motor vehicle parts and accessories of 722, 781 to 783	3.1	3.1	3.0	3.8	3.9
Other transport equipment	7.9	10.7	12.9	11.2	10.8
7932 Ships, boats, etc. (excl. pleasure craft, tugs, etc.)	6.4	8.2	10.2	8.0	6.9
7935 Special purpose vessels; floating docks	0.8	1.5	1.4	2.0	2.9
Textiles	2.8	2.5	2.5	2.4	2.2
6552 Other knitted/crocheted fabrics, not impregnated/coated, etc.	0.8	0.7	0.8	0.7	0.7
Clothing	0.5	0.4	0.4	0.3	0.3
Other consumer goods	8.1	8.3	9.7	9.6	8.1
8719 Liquid crystal devices, n.e.s.; lasers (excl. laser diodes)	5.3	5.5	6.4	6.4	5.0
Other	0.2	0.4	0.9	0.7	0.6
Gold	0.2	0.3	0.8	0.6	0.6

Source: UNSD Comtrade database, SITC Rev.3.

Table AI.2
Merchandise imports by product group, 2007-11
(US$ million and %)

	2007	2008	2009	2010	2011
Total imports (US$ million)	356,841.0	435,271.4	323,081.7	425,208.0	524,405.2
			% of total		
Total primary products	41.6	46.3	42.0	43.2	48.6
Agriculture	6.2	6.1	6.5	6.3	6.6
Food	4.4	4.5	4.9	4.5	4.8
Agricultural raw material	1.8	1.6	1.6	1.7	1.8
Mining	35.5	40.3	35.5	36.9	42.0
Ores and other minerals	4.8	4.7	4.5	5.3	6.1
2815 Iron ores and concentrates, not agglomerated	0.7	1.0	0.9	1.3	1.9
2831 Copper ores and concentrates	0.9	0.8	1.0	1.1	1.1
2823 Other ferrous waste and scrap	0.6	0.9	0.7	0.7	0.8
2882 Other non-ferrous base metal waste and scrap, n.e.s.	0.7	0.6	0.4	0.5	0.6
Non-ferrous metals	3.6	2.8	2.6	2.8	2.7
6821 Copper anodes; alloys; unwrought	1.1	0.8	0.9	0.8	0.7
6841 Aluminium and aluminium alloys, unwrought	0.9	0.7	0.6	0.7	0.6
Fuels	27.0	32.7	28.4	28.8	33.1
3330 Crude oils of petroleum and bituminous minerals	16.9	19.7	15.7	16.1	19.2
3431 Natural gas, liquefied	3.5	4.6	4.3	4.0	4.5
3212 Other coal, whether or pulverized, not agglomerated	1.6	2.6	2.9	2.8	3.1
Manufactures	57.8	53.3	57.6	56.4	51.0
Iron and steel	6.0	7.7	5.4	5.3	4.9
6732 Flat, hot-rolled products, iron/steel, not clad/plated/coated	1.2	2.2	1.3	0.9	0.9
Chemicals	9.1	8.4	9.7	9.6	9.1
5822 Other plastics, flat shapes, non-cellular and not reinforced, etc.	0.5	0.5	0.8	0.9	0.7
5112 Cyclic hydrocarbons	0.7	0.6	0.7	0.6	0.6
Other semi-manufactures	3.8	3.4	4.3	3.9	3.5
Machinery and transport equipment	30.1	26.3	30.0	29.0	25.4
Power generating machines	0.9	0.8	1.2	1.0	0.8
Other non-electrical machinery	7.7	6.6	7.5	8.1	6.7
7284 Machinery and appliances for particular industries, n.e.s.	2.7	2.1	2.0	3.1	2.4
Agricultural machinery and tractors	0.1	0.1	0.1	0.1	0.1
Office machines & telecommunication equipment	12.8	11.0	12.5	11.3	9.9
7764 Electronic integrated circuits and microassemblies	7.1	6.0	6.7	5.6	4.8
7763 Diodes, transistors, etc.	0.7	0.8	0.9	1.0	0.8
7649 Parts and accessories for apparatus of division 76	0.9	1.0	1.1	0.8	0.8
Other electrical machines	4.9	4.3	5.1	4.7	4.3
Automotive products	1.9	1.7	1.7	1.9	1.9
7843 Other motor vehicle parts and accessories of 722, 781 to 783	0.9	0.8	0.8	0.9	0.8
7812 Motor vehicles for the transport of persons, n.e.s.	0.7	0.6	0.6	0.7	0.7
Other transport equipment	2.0	1.9	2.1	2.1	1.8
Textiles	1.2	0.9	1.1	1.1	1.1
Clothing	1.2	1.0	1.0	1.0	1.2
Other consumer goods	6.4	5.5	6.1	6.2	5.8
8719 Liquid crystal devices, n.e.s.; lasers (excl. laser diodes)	0.4	0.4	0.5	0.7	0.6
Other	0.6	0.4	0.4	0.5	0.4
Gold	0.5	0.3	0.3	0.4	0.3

Source: UNSD Comtrade database, SITC Rev.3.

Table AI.3
Merchandise exports by destination, 2007-11
(US$ million and %)

	2007	2008	2009	2010	2011
Total exports (US$ million)	371,477.1	422,003.5	363,531.1	466,380.6	555,208.9
			% of total		
America	20.2	19.8	18.7	19.3	18.2
United States	12.4	11.0	10.4	10.7	10.2
Other America	7.8	8.8	8.3	8.6	8.1
Brazil	0.9	1.4	1.5	1.7	2.1
Mexico	2.0	2.2	2.0	1.9	1.8
Europe	16.6	15.4	14.1	13.1	11.5
EU(27)	15.1	13.9	12.8	11.5	10.2
Germany	3.1	2.5	2.4	2.3	1.7
France	1.0	0.9	0.8	0.7	1.0
EFTA	0.3	0.6	0.5	0.8	0.3
Other Europe	1.2	0.9	0.8	0.8	0.9
Commonwealth of Independent States (CIS)	3.0	3.2	1.8	2.4	2.6
Russian Federation	2.2	2.3	1.2	1.7	1.9
Africa	3.0	3.1	3.6	3.3	3.3
Liberia	0.7	0.7	1.3	1.2	1.3
Middle East	4.5	5.4	5.4	4.8	5.2
United Arab Emirates	1.0	1.4	1.4	1.2	1.3
Kingdom of Saudi Arabia	1.1	1.2	1.1	1.0	1.3
Iran Islamic Rep.	0.9	1.0	1.1	1.0	1.1
Asia	52.5	52.9	56.5	57.1	59.1
China	22.1	21.7	23.9	25.1	24.2
Japan	7.1	6.7	6.0	6.0	7.1
Six East Asian Traders	14.5	14.0	14.2	14.6	15.3
Hong Kong, China	5.0	4.7	5.4	5.4	5.6
Singapore	3.2	3.9	3.7	3.3	3.8
Chinese Taipei	3.5	2.7	2.6	3.2	3.3
Thailand	1.2	1.4	1.2	1.4	1.5
Malaysia	1.5	1.4	1.2	1.3	1.1
Other Asia	8.9	10.6	12.4	11.4	12.5
Indonesia	1.6	1.9	1.7	1.9	2.4
Viet Nam	1.6	1.8	2.0	2.1	2.4
India	1.8	2.1	2.2	2.5	2.3
Australia	1.3	1.2	1.4	1.4	1.5
Philippines	1.2	1.2	1.3	1.3	1.3
Marshall Islands	0.6	1.1	2.7	1.0	1.3
Other	0.1	0.1	0.0	0.0	0.1
Memorandum:					
APEC	67.9	66.1	65.9	68.5	69.9
ASEAN	10.4	11.7	11.3	11.4	12.9

Source: UNSD, Comtrade database.

Table AI.4
Merchandise imports by origin, 2007-11
(US$ million and %)

	2007	2008	2009	2010	2011
Total imports (US$ million)	356,841.0	435,271.4	323,081.7	425,208.0	524,405.2
			% of total		
America	14.5	13.0	13.7	14.0	13.6
United States	10.5	8.9	9.0	9.5	8.5
Other America	4.0	4.1	4.7	4.4	5.0
Canada	0.9	1.0	1.1	1.0	1.3
Brazil	0.8	1.0	1.2	1.1	1.2
Europe	11.4	10.2	11.5	10.6	10.2
EU(27)	10.3	9.2	10.0	9.1	9.0
Germany	3.8	3.4	3.8	3.4	3.2
France	1.1	1.1	1.2	1.0	1.2
EFTA	1.0	1.0	1.4	1.3	1.0
Other Europe	0.1	0.1	0.1	0.1	0.2
Commonwealth of Independent States (CIS)	2.2	2.3	2.1	2.6	2.3
Russian Federation	2.0	1.9	1.8	2.3	2.1
Africa	1.7	1.5	1.4	1.5	1.3
Middle East	18.4	22.8	18.7	18.6	22.5
Kingdom of Saudi Arabia	5.9	7.8	6.1	6.3	7.1
Qatar	2.4	3.3	2.6	2.8	4.0
Kuwait	2.5	2.8	2.5	2.6	3.2
United Arab Emirates	3.5	4.4	2.9	2.9	2.8
Iran Islamic Rep.	1.8	1.9	1.8	1.6	2.2
Iraq	0.9	1.0	1.2	1.0	1.7
Oman	1.1	1.3	1.3	1.0	1.0
Asia	51.7	50.2	52.6	52.7	50.0
China	17.7	17.7	16.8	16.8	16.5
Japan	15.8	14.0	15.3	15.1	13.0
Six East Asian Traders	8.7	8.1	9.3	8.7	8.0
Chinese Taipei	2.8	2.4	3.0	3.2	2.8
Malaysia	2.4	2.3	2.3	2.2	2.0
Singapore	1.9	1.9	2.4	1.8	1.7
Thailand	1.1	1.0	1.0	1.0	1.0
Other Asia	9.5	10.4	11.2	12.0	12.6
Australia	3.7	4.1	4.6	4.8	5.0
Indonesia	2.6	2.6	2.9	3.3	3.3
India	1.3	1.5	1.3	1.3	1.5
Viet Nam	0.4	0.5	0.7	0.8	1.0
Memorandum:					
APEC	65.2	61.6	64.5	65.6	61.8
ASEAN	9.3	9.4	10.5	10.4	10.1

Source: UNSD, Comtrade database.

Table AIII.1
MFN tariff averages by HS chapter, 2008 and 2012

HS 2-digit	Description	No. of lines[a]	2008		2012		Final bound		
			Average (%)	Range (%)	Average (%)	Range (%)	%age bound	Average (%)	Range (%)
	Total	12,232 (11,729)	12.8	0-887.4	13.3	0-887.4	89.9	17.6	0-887.4
01-24	Agriculture	2,083 (1,788)	48.1	0-887.4	47.4	0-887.4	80.4	61.9	0-887.4
25-97	Industry	10,106 (9,941)	6.5	0-754.3	6.4	0-754.3	92.2	9.6	0-754.3
01	Live animals	75 (56)	13.4	0-89.1	20.0	0-89.1	100.0	24.1	0-89.1
02	Meat & edible meat offal	117 (95)	22.6	3-40	22.7	3-40	100.0	22.8	6.6-40
03	Fish & crustaceans, molluscs & other aquatic invertebrates	431 (300)	16.5	5-53	16.9	0-43	21.6	13.7	10-20
04	Dairy produce; birds' eggs; natural honey; edible prod. n.e.s.	69 (65)	57.7	8-243	56.2	8-243	100.0	57.5	19.7-243
05	Products of animal origin, n.e.s.	68	9.0	0-27	9.0	0-27	98.5	13.8	0-36
06	Live trees & other plants; bulbs, roots & the like; cut flowers etc.	77 (76)	11.3	4-25	11.2	4-25	100.0	21.3	13.1-36
07	Edible vegetables, certain roots, tubers	145 (133)	115.4	8-887.4	115.8	0-887.4	100.0	122.3	18-887.4
08	Edible fruit & nuts; peel of citrus fruit/melons	86 (78)	72.5	8-611.5	68.7	8-611.5	100.0	78.5	18-611.5
09	Coffee, tea, maté & spices	52 (39)	77.4	2-513.6	81.4	2-513.6	100.0	93.6	13.1-513.6
10	Cereals	44 (32)	215.3	0-800.3	248.7	0-800.3	86.4	251.6	1.8-800.3
11	Prod. of the milling industry; malt; starches; inulin; wheat gluten	47	313.1	4.2-800.3	313.1	3-800.3	91.5	316.0	4.2-800.3
12	Oil seeds & oleaginous fruits; misc grains, seeds & fruit; etc.	177 (138)	90.8	0-754.3	79.7	0-754.3	98.3	84.2	0-754.3
13	Lac; gums, resins & other vegetable saps & extracts	27	92.6	3-754.3	92.6	3-754.3	100.0	99.3	11-754.3
14	Veg. plaiting materials; vegetable. prod. n.e.s	21	5.0	3-8	5.0	3-8	100.0	9.1	6.6-18
15	Animal/veg. fats & oils, waxes, etc.	108 (100)	15.6	2-630	13.4	2-630	100.0	25.8	4-630
16	Preparations. of meat/fish/molluscs etc.	110 (91)	23.7	18-72	23.0	18-72	56.4	34.3	18-72
17	Sugars & sugar confectionery	34 (33)	18.8	3-243	18.0	3-243	100.0	30.8	9-243
18	Cocoa & cocoa preparations	33	10.9	2-40	10.9	2-40	93.9	27.4	5.4-54
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	52	12.9	5.4-50	11.9	5-50	92.3	34.1	5.4-54
20	Prep. of vegetable./fruit/ nuts/other parts of plants	112 (109)	34.0	5-63.9	34.3	5-63.9	100.0	42.8	15-90
21	Misc. edible preparations	72	35.0	8-754.3	35.0	8-754.3	97.2	61.9	13.1-754.3
22	Beverages, spirits & vinegar	52	21.1	8-270	21.1	8-270	100.0	27.6	8-270
23	Residues & waste from the food industries; prepared animal fodder	48 (46)	11.9	0-71	11.6	0-71	100.0	17.3	0-90
24	Tobacco & manuf. tobacco substitutes	26 (25)	30.9	20-40	31.3	20-40	100.0	58.8	32.8-65.5
25	Salt; sulphur; earths & stone; plastering materials, lime & cement	145	3.3	0-8	3.3	0-8	95.2	5.6	1-13
26	Ores, slag & ash	56	0.6	0-2	0.6	0-2	98.2	1.3	1-2
27	Mineral fuels & oils bituminous substance; mineral waxes	191 (144)	4.7	0-8	5.1	0-8	72.3	9.0	1-13
28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	405 (392)	5.2	0-8	5.2	0-20	99.3	5.3	0-22.5
29	Organic chemicals	914 (921)	5.5	0-8	5.4	0-8	100.0	5.8	0-22.5
30	Pharmaceutical products	159 (154)	5.0	0-8	4.9	0-8	42.8	1.2	0-30

Table AIII.1 (cont'd)

HS 2-digit	Description	No. of lines[a]	2008 Average (%)	2008 Range (%)	2012 Average (%)	2012 Range (%)	Final bound %age bound	Final bound Average (%)	Final bound Range (%)
31	Fertilizers	38	5.8	0-6.5	5.8	0-6.5	100.0	6.5	6.5-6.5
32	Tanning/dyeing extracts; colouring matter, etc.	141 (140)	6.9	4-8	6.6	4-8	100.0	7.1	6.5-13
33	Essential oils; perfumes, cosmetic/toilet articles..	68	20.2	5-754.3	18.5	5-754.3	98.5	22.3	6.5-754.3
34	Soap, organic surface-active agents, washing preparations, etc.	52 (53)	6.6	2-8	6.5	2-8	90.4	6.5	6.5-6.5
35	Albuminoidal substances; modified starches; glues; enzymes	58	63.8	6.5-385.7	63.8	6.5-385.7	100.0	66.2	6.5-385.7
36	Explosives; pyrotechnic products; matches; etc..	22	7.5	6.5-8	6.5	6.5-6.5	100.0	6.5	6.5-6.5
37	Photographic or cinematographic goods	209 (222)	6.6	0-8	6.0	0-6.5	100.0	6.2	0-6.5
38	Miscellaneous chemical products	232 (230)	6.6	0-50	6.5	0-50	99.2	7.3	0-50
39	Plastics & articles thereof	235 (233)	6.7	4-8	6.5	4-8	97.9	6.5	5-13
40	Rubber & articles thereof	146	7.1	0-8	6.7	0-8	100.0	11.6	0-13
41	Raw hides & skins (no furskins) & leather	67	3.2	1-8	2.5	0-8	100.0	7.9	5-13
42	Articles of leather; saddlery & harness; etc.	117	10.0	8-13	10.0	8-13	76.1	15.8	13-16
43	Furskins & artificial fur; manuf. thereof	58	9.1	3-16	9.1	3-16	56.9	12.1	5-36
44	Wood and articles of wood; wood charcoal	287 (285)	5.5	0-11	5.4	0-10	65.2	9.0	2-13
45	Cork and articles of cork	7	8.0	8-8	8.0	8-8	100.0	13.0	13-13
46	Manuf. of straw/esparto, etc.; basketware and wickerwork	20	8.0	8-8	8.0	8-8	100.0	12.7	10-13
47	Pulp of wood/other fibrous cellulosic material; recovered paper and paperboard	29	0.0	0-0	0.0	0-0	96.6	0.0	0-0
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	224 (190)	0.0	0-0	0.0	0-0	100.0	0.0	0-0
49	Printed books, newspapers, pictures & other prod. of the printing industry; etc.	35	0.3	0-2.3	0.0	0-0	100.0	0.0	0-0
50	Silk	37	14.0	2-51.7	13.5	2-51.7	97.3	22.9	9-51.7
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	58	6.4	0-13	6.4	0-13	100.0	13.1	2-30
52	Cotton	181	8.3	0-10	8.3	0-10	100.0	12.4	2-13
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	47	4.6	2-8	4.6	2-8	100.0	7.6	2-13
54	Man-made filaments	146 (127)	7.7	2-8	7.7	1-8	100.0	13.5	13-30
55	Man-made staple fibres	248 (247)	8.9	2-10	8.9	1-10	100.0	12.8	2-13
56	Wadding, felt & nonwovens; special yarns; twine, cordage, etc. and articles thereof	49 (50)	8.5	8-10	8.5	8-10	100.0	19.9	13-30
57	Carpets and other textile floor coverings	21	10.0	10-10	10.0	10-10	100.0	30.0	30-30
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	60	10.3	8-13	10.3	8-13	100.0	17.5	13-30
59	Impregnated/coated/covered/laminated textile fabrics; etc.	30	8.2	8-10	8.2	8-10	100.0	13.0	13-13
60	Knitted or crocheted fabrics	45	10.0	10-10	10.0	10-10	100.0	30.0	30-30
61	Articles of apparel and clothing accessories, knitted or crocheted	152	12.8	8-13	12.6	8-13	100.0	31.0	16-35

Table AIII.1 (cont'd)

HS 2-digit	Description	No. of lines[a]	2008		2012		Final bound		
			Average (%)	Range (%)	Average (%)	Range (%)	%age bound	Average (%)	Range (%)
62	Articles of apparel and clothing accessories, not knitted or crocheted	169	12.6	8-13	12.4	8-13	100.0	25.6	16-35
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	59	11.7	8-13	11.7	8-13	100.0	23.1	13-30
64	Footwear, gaiters etc.; parts of such articles	52	11.4	8-13	11.4	8-13	100.0	13.0	13-13
65	Headgear and parts thereof	16	8.0	8-8	8.0	8-8	100.0	13.0	13-13
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, etc. and parts thereof	11	11.2	8-13	11.2	8-13	100.0	13.0	13-13
67	Prep. feathers & down &; artificial flowers; articles of human hair	21	8.0	8-8	8.0	8-8	100.0	13.0	13-13
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	89	8.0	8-8	8.0	8-8	88.8	13.0	13-13
69	Ceramic products	86	7.9	3-8	7.9	3-8	81.4	14.2	13-16
70	Glass and glassware	168 (137)	7.5	0-8	7.6	0-8	83.9	13.5	0-35
71	Natural /cultured pearls, precious or semi-precious stones, metals, coins, etc.	118	5.2	0-8	5.2	0-8	100.0	8.2	0-13
72	Iron and steel	310 (277)	0.3	0-5	0.3	0-5	100.0	0.6	0-10
73	Articles of iron or steel	210 (209)	4.1	0-8	4.1	0-8	99.0	6.9	0-16
74	Copper and articles thereof	87	6.5	0-8	6.5	0-8	100.0	9.9	0-16
75	Nickel and articles thereof	27 (25)	4.3	0-8	4.5	0-8	100.0	7.8	2-13
76	Aluminium and articles thereof	60	7.4	0-8	7.4	0-8	100.0	11.8	3-16
78	Lead and articles thereof	20	6.0	0-8	6.0	0-8	100.0	10.3	3-13
79	Zinc and articles thereof	19	6.3	0-8	6.3	0-8	100.0	11.1	3-13
80	Tin and articles thereof	14	6.7	0-8	6.6	0-8	100.0	10.4	3-13
81	Other base metals; cermets; articles thereof	88 (78)	4.1	0-8	3.9	0-8	100.0	6.4	3-10
82	Tools, implements, cutlery, spoons & forks, of base metal; parts thereof	147 (146)	8.0	8-8	8.0	5-8	98.0	15.5	13-30
83	Miscellaneous articles of base metal	53	8.0	8-8	8.0	8-8	100.0	13.0	10-16
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,251 (1,231)	5.9	0-14	5.9	0-13	91.8	9.2	0-20
85	Electrical machinery and equipment and parts thereof; etc.	793 (787)	5.3	0-13	5.3	0-13	71.4	7.4	0-20
86	Railway or tramway locomotives, rolling-stock and parts thereof; etc.	48	3.7	0-8	3.7	0-8	100.0	5.7	0-13
87	Vehicles other than railway or tramway rolling-stock, & parts & accessories thereof	192	8.0	0-10	8.0	0-10	71.9	11.8	0-20
88	Aircraft, spacecraft, and parts thereof	49	0.9	0-8	0.9	0-8	100.0	1.0	0-13
89	Ships, boats and floating structures	44	3.6	0-8	3.6	0-8	36.4	4.3	0-5
90	Optical, photographic, cinematographic, measuring, checking, precision, etc.	441 (440)	6.2	0-8	6.1	0-8	93.4	7.7	0-16
91	Clocks and watches and parts thereof	87 (89)	7.8	5-8	7.8	5-8	96.6	13.7	13-16
92	Musical instruments; parts & access. thereof	58	8.0	8-8	8.0	8-8	100.0	13.4	13-16
93	Arms & ammunition; parts thereof	81 (87)	3.7	0-8	3.4	0-8	100.0	5.9	0-16

Table AIII.1 (cont'd)

HS 2-digit	Description	No. of lines[a]	2008		2012		Final bound		
			Average (%)	Range (%)	Average (%)	Range (%)	%age bound	Average (%)	Range (%)
94	Furniture; bedding, mattresses, mattress supports, cushions, etc.	89	3.6	0-8	3.6	0-8	98.9	5.8	0-13
95	Toys, games and sports requisites; parts and accessories thereof	94 (93)	4.7	0-8	4.7	0-8	100.0	8.5	0-16
96	Miscellaneous manufactured articles	94 (88)	7.8	0-8	7.8	0-13	95.7	13.2	0-35
97	Works of art, collectors' pieces and antiques	15	0.0	0-0	0.0	0-0	100.0	0.0	0-0

a Based on 2012 tariff schedule. Numbers in brackets refer to 2008 tariff schedule, if different from 2012.

Note: The 2008 tariff is based on HS07 nomenclature and the 2012 tariff is based on HS12. Calculations include out-of-quota rates for tariff quotas (thereby excluding lower, in-quota rates) and the *ad valorem* part of alternate duties. Calculations for bound rates are based on the 2012 tariff schedule.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

Table AIII.2
Non-*ad valorem* (alternate) MFN applied tariffs and *ad valorem* equivalents of their specific duty component, 2011

HS code[a]	Description	MFN[a]	Import quantity (2010)	Import quantity unit	Import value ₩ million (2010)	AVE
0301929000	Live fish	27% or ₩ 1,879/kg	3,026,079	kg	28,270.78	20.1
0301994090	Live fish	31% or ₩ 2,272/kg	4,464,206	kg	40,333.08	25.1
0306233000	Shrimps and prawns, salted or in brine	42% or ₩ 283/kg	14,560,967	kg	9,898.65	41.6
0409000000	Natural honey	243% or ₩ 1,864/kg	542,687	kg	4,386.61	23.1
0703101000	Onions	135% or ₩ 180/kg	17,667,340	kg	7,447.69	42.7
0703201000	Fresh peeled garlic	360% or ₩ 1,800/kg	1,639,601	kg	3,859.12	76.5
0703209000	Fresh garlic other than peeled	360% or ₩ 1,800/kg	24,467,160	kg	66,608.91	66.1
0706101000	Carrots	30% or ₩ 134/kg	82,658,220	kg	41,096.35	27.0
0709592000	Oak mushrooms	40% or ₩ 1,625/kg	2,619,054	kg	9,235.68	46.1
0709601000	Sweet peppers (bell type)	270% or ₩ 6,210/kg	-	kg	-	-
0709609000	Fruits of the genus capsicum/pimenta	270% or ₩ 6,210/kg	13,816	kg	7.43	1,154.6
0711901000	Garlic	360% or ₩ 1,800/kg	-	kg	-	-
0711905091	Fruits of the genus capsicum/pimenta	270% or ₩ 6,210/kg	422	kg	0.32	821.3
0712200000	Onions	135% or ₩ 180/kg	1,092,918	kg	,748.14	5.2
0712319000	Mushrooms other than cultivated	30% or ₩ 1,218/kg	189	kg	12.67	1.8
0712320000	Wood ears (Auricularia spp.)	30% or ₩ 1,218/kg	390,101	kg	1,825.54	26.0
0712330000	Jelly fungi (Tremella spp.)	30% or ₩ 1,218/kg	1,000	kg	17.09	7.1
0712391020	Oak mushrooms	40% or ₩ 1,625/kg	2,096,913	kg	12,789.14	26.6
0712391030	Ling chiu mushrooms	30% or ₩ 842/kg	252,322	kg	820.61	25.9
0712391090	Other mushrooms	30% or ₩ 1,218/kg	98,464	kg	741.96	16.2
0712901000	Garlic	360% or ₩ 1,800/kg	114,383	kg	137.91	149.3
0712902010	Bracken	30% or ₩ 1,807/kg	3,995,179	kg	30,395.14	23.8
0712902030	Welsh onions	30% or ₩ 1,159/kg	1,810,412	kg	13,581.47	15.4
0712902040	Carrots	30% or ₩ 864/kg	1,466,340	kg	4,133.13	30.7
0712902094	Flowering ferns	30% or ₩ 1,446/kg	158,800	kg	1,221.06	18.8
0714201000	Fresh sweet potatoes	385% or ₩ 338/kg	-	kg	-	-
0802401000	Chestnuts in shell	219.4% or ₩ 1,470/kg	1,311,000	kg	2,085.33	92.4
0802402000	Chestnuts shelled	219.4% or ₩ 1,470/kg	25,725	kg	180.22	21.0
0802901010	Pine-nuts in shell	566.8% or ₩ 2,664/kg	-	kg	-	-
0802901020	Pine-nuts shelled	566.8% or ₩ 2,664/kg	280	kg	18.09	4.1
0802902010	Ging ko-nuts in shell	27.0% or ₩ 803/kg	-	kg	-	-
0802902020	Ging ko-nuts shelled	27.0% or ₩ 803/kg	12,248	kg	31.34	31.4
0810903000	Jujubes, fresh	611.5% or ₩ 5,800/kg	2	kg	0.02	55.7
0813402000	Jujubes, dried	611.5% or ₩ 5,800/kg	10,140	kg	12.77	460.6
0904201000	Fruits of the genus capsicum/pimenta	270% or ₩ 6,210/kg	8,385,130	kg	26,769.34	194.5
0904202000	Fruits of the genus capsicum/pimenta	270% or ₩ 6,210/kg	821,479	kg	3,434.93	148.5
0910101000	Ginger, fresh or chilled	377.3% or ₩ 931/kg	7,932,486	kg	5,680.89	130.0
0910102000	Ginger, dried	377.3% or ₩ 931/kg	54,974	kg	130.66	39.2
0910109000	Ginger other than fresh, chilled or dried	377.3% or ₩ 931/kg	120,960	kg	161.55	69.7
1003009010	Unhulled barley	324% or ₩ 326/kg	27,085,650	kg	8,234.61	107.2

Table AIII.2 (cont'd)

HS code[a]	Description	MFN[a]	Import quantity (2010)	Import quantity unit	Import value ₩ million (2010)	AVE
1003009020	Naked barley	299.7% or ₩ 361/kg	10	kg	0.03	10.4
1201001010	Soya beans for soya bean oil and oil cake	487% or ₩ 956/kg	946,999,872	kg	478,091.21	189.4
1201001020	Soya beans for feeding	487% or ₩ 956/kg	193,522	kg	103.42	178.9
1201009010	Soya beans for bean sprouts	487% or ₩ 956/kg	40,180,194	kg	35,649.97	107.7
1201009090	Other soya beans	487% or ₩ 956/kg	238,516,188	kg	149,584.77	152.4
1207400000	Sesamum seeds	630% or ₩ 6,660/kg	77,747,198	kg	136,062.49	380.6
1207991000	Perilla seeds	40% or ₩ 410/kg	17,516,820	kg	31,506.07	22.8
1515500000	Sesame oil and its fractions	630% or ₩ 12,060/kg	521,886	kg	1,992.40	315.9
1902192000	Chinese vermicelli	30% or ₩ 238/kg	59,832,804	kg	62,443.30	22.8
2103909040	Sauce preparation thereof	13% or ₩ 52/kg	3,114,579	kg	3,602.18	4.5
2306901000	Oil cake of sesamum seeds	63% or ₩ 72/kg	6	kg	0.03	1.3
3706101000	Cinematographic film	6.5% or ₩ 195/m	53,229	metres	1,321.59	0.8
3706102000	Cinematographic film	6.5% or ₩ 4/m	-	metres	-	-
3706103010	Cinematographic film	6.5% or ₩ 26/m	-	metres	-	-
3706103020	Cinematographic film	6.5% or ₩ 468/m	-	metres	-	-
3706103030	Cinematographic film	6.5% or ₩ 78/m	-	metres	-	-
3706104000	Cinematographic film	6.5% or ₩ 26/m	66,202	metres	817.44	0.2
3706105010	Cinematographic film	6.5% or ₩ 1,092/m	70,578	metres	4,064.00	1.9
3706105020	Cinematographic film	6.5% or ₩ 182/m	29,570,516	metres	65,157.27	8.3
3706106010	Cinematographic film	6.5% or ₩ 1,560/m	-	metres	-	-
3706106020	Cinematographic film	6.5% or ₩ 260/m	49,799	metres	227.12	5.7
3706901000	Cinematographic film	6.5% or ₩ 9/m	5	metres	0.91	0.0
3706902000	Cinematographic film	6.5% or ₩ 5/m	-	metres	-	-
3706903010	Cinematographic film	6.5% or ₩ 26/m	-	metres	-	-
3706903020	Cinematographic film	6.5% or ₩ 468/m	3,200	metres	0.10	1,506.3
3706903030	Cinematographic film	6.5% or ₩ 78/m	-	metres	-	-
3706904000	Cinematographic film	6.5% or ₩ 26/m	523	metres	0.93	1.5
3706905010	Cinematographic film	6.5% or ₩ 25/m	-	metres	-	-
3706905020	Cinematographic film	6.5% or ₩ 8/m	601	metres	0.09	5.3
3706906010	Cinematographic film	6.5% or ₩ 1,092/m	-	metres	-	-
3706906020	Cinematographic film	6.5% or ₩ 182/m	2,944	metres	1.18	45.4
3822003058	Diagnostic or laboratory reagents	6.5% or ₩ 182/m	-	metres	-	-
3822003059	Diagnostic or laboratory reagents	6.5% or ₩ 4/m	-	metres	-	-
3822003060	Diagnostic or laboratory reagents	6.5% or ₩ 26/m	-	metres	-	-
3822003061	Diagnostic or laboratory reagents	6.5% or ₩ 468/m	-	metres	-	-
3822003062	Diagnostic or laboratory reagents	6.5% or ₩ 78/m	-	metres	-	-
3822003063	Diagnostic or laboratory reagents	6.5% or ₩ 1,092/m	-	metres	-	-
3822003064	Diagnostic or laboratory reagents	6.5% or ₩ 1,560/m	-	metres	-	-
3822003065	Diagnostic or laboratory reagents	6.5% or ₩ 260/m	-	metres	-	-

Table AIII.2 (cont'd)

HS code[a]	Description	MFN[a]	Import quantity (2010)	Import quantity unit	Import value ₩ million (2010)	AVE
3822003066	Diagnostic or laboratory reagents	6.5% or ₩ 8/m	-	metres	-	-
3822003067	Diagnostic or laboratory reagents	6.5% or ₩ 25/m	-	metres	-	-
5001000000	Silk-worm cocoons suitable for reeling	51% or ₩ 5,276/kg	1	kg	0.01	38.0
5002001020	Raw silk (not thrown)	51.7% or ₩ 17,215/kg	412,375	kg	19,459.78	36.5
5002001030	Raw silk (not thrown)	51.7% or ₩ 17,215/kg	655	kg	28.61	39.4
5002001040	Raw silk (not thrown)	51.7% or ₩ 17,215/kg	17,928	kg	855.99	36.1
5002001050	Raw silk (not thrown)	51.7% or ₩ 17,215/kg	101,255	kg	4,607.24	37.8
8523292231	Recorded video tape	13.0% or ₩ 34/min (at standard speed)	26,729	units	135,389.29	-

a Based on the 2011 tariff schedule in HS07 nomenclature.
b Whichever is the greater.

Source: WTO calculations based on data provided by the Korean authorities.

Table AIII.3
Adjustment tariff, 2011

HS	Description	General	2011
0301.92	Eels (excluding glass eel (for aquaculture))	10%	27% or ₩ 1,879/kg whichever is greater
0301.99	Sea-bream (excluding fry (for aquaculture))	10%	31% or ₩ 2,272/kg whichever is greater
0301.99	Sea bass (excluding fry (for aquaculture))	10%	31%
0301.99	Croakers (excluding redlip croaker and yellow croaker)	10%	28%
0303.79	Alaska pollack	10%	25%
0303.79	Saury (excluding horn fish)	10%	28%
0303.79	Croakers (excluding redlip croaker and yellow croaker)	10%	47%
0306.23	Shrimps and prawns, salted or in brine	20%	42% or ₩ 283/kg whichever is greater
0307.49	Squid (frozen, excluding fish meat)	10%	22%
0709.59 0712.39	Oak mushrooms	30%	40% or ₩ 1,625/kg whichever is greater
1902.19	Chinese vermicelli	8%	30% or ₩ 238/kg whichever is greater
1904.90	Rice, steamed or boiled	8%	50%
2103.20 2103.90	Sauces, preparations therefore, and mixed seasonings of: (1) Capsicum paste, and (2) Containing 20% or above of Capsicum or garlic or onion or ginger, or containing 40% or above of any mixture of these	8%	45%
2103.90	Mae joo	8%	13% or ₩ 52/kg whichever is greater
4412.31 4412.32 4412.39 4412.99	Plywood, veneered panels and similar laminated wood, of a whole thickness not less than 6 mm, with each ply not exceeding 6 mm thickness	8%	10%

Source: Information provided by the Korean authorities.

Table AIII.4
Tariff quotas on agricultural products, 2011

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
0102101000	Live bovine animals: pure-bred breeding animals: milk cows	0	89.1	1,067 head
0102102000	Live bovine animals: pure-bred breeding animals: beef cattle	0	89.1	1,067 head
0102109000	Live bovine animals: pure-bred breeding animals: other	0	89.1	1,067 head
0103100000	Live swine: pure-bred breeding animals	0	18	1,850 head
0105111000	Live poultry: weighing not more than 185 g: fowls of the species Gallus domesticus: pure-bred breeding animals	0	9	461,000 birds
0105941000	Live poultry: weighing not more than 2,000 g: fowls of the species Gallus domesticus turkeys: pure-bred breeding animals	0	9	461,000 birds
0402101010	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes
0402101090	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes
0402109000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes
0402211000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%	40	176	573 tonnes
0402219000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%	40	176	573 tonnes
0402290000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%	40	176	573 tonnes
0402911000	Other milk and cream not containing added sugar or other sweetening matter	40	89	130 tonnes
0402919000	Other milk and cream not containing added sugar or other sweetening matter	40	89	130 tonnes
0402991000	Other milk and cream	40	89	130 tonnes
0402999000	Other milk and cream	40	89	130 tonnes
0403901000	Butter milk	20	89	1,034 tonnes
0404101011	Whey: powder (for feeding)	20	49.5	54,233 tonnes
0404101019	Whey: powder (other)	20	49.5	54,233 tonnes
0404101091	Whey: other (for feeding)	20	49.5	54,233 tonnes
0404101099	Whey: other	20	49.5	54,233 tonnes
0404102111	Modified whey: lactose removed (for feeding)	20	49.5	54,233 tonnes
0404102119	Modified whey: lactose removed (other)	20	49.5	54,233 tonnes
0404102121	Modified whey: demineralized (for feeding)	20	49.5	54,233 tonnes
0404102129	Modified whey: demineralized (other)	20	49.5	54,233 tonnes
0404102131	Modified whey: whey protein concentrates (for feeding)	20	49.5	54,233 tonnes
0404102139	Modified whey: whey protein concentrates (other)	20	49.5	54,233 tonnes
0404102191	Modified whey: other (for feeding)	20	49.5	54,233 tonnes
0404102199	Modified whey: other	20	49.5	54,233 tonnes
0404102910	Other modified whey (for feeding)	20	49.5	54,233 tonnes
0404102990	Other modified whey (other)	20	49.5	54,233 tonnes
0405100000	Butter	40	89	420 tonnes
0405900000	Other fats	40	89	420 tonnes
0408991000	Eggs of fowls of the species gallus domesticus	30	41.6	19,515.8 tonnes
0409000000	Natural honey	20	243% or ₩ 1,864 per kg[b]	420 tonnes

Table AIII.4 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
0506902000	Powder of bones	5	25.6	467.6 tonnes
0511999010	Silkworm eggs	8	18	9,500 boxes
0602201000	Apple trees	8	18	145,200 trees
0602202000	Pear trees	8	18	145,200 trees
0602203000	Peach trees	8	18	145,200 trees
0602206000	Citrus trees	8	18	145,200 trees
0602909030	Mulberry trees	8	18	1,402,700 trees
0701100000	Potatoes: seeds	0	304	1,898 tonnes
0701900000	Potatoes: other than seeds	30	304	18,810 tonnes
0703101000	Onions	50	135% or ₩ 180 per kg[b]	20,645 tonnes
0703201000	Garlic: peeled	50	360% or ₩ 1,800 per kg[b]	14,467 tonnes
0703209000	Garlic: other than peeled	50	360% or ₩ 1,800 per kg[b]	14,467 tonnes
0709601000	Sweet peppers (bell type)	50	270% or ₩ 6,210 per kg[b]	7,185 tonnes
0709609000	Other pepper	50	270% or ₩ 6,210 per kg[b]	7,185 tonnes
0711901000	Garlic - provisional preserved	50	360% or ₩ 1,800 per kg[b]	14,467 tonnes
0711905091	Fruits of the genus capsicum or other genus pimenta - provisionally preserved	50	270% or ₩ 6,210 per kg[b]	7,185 tonnes
0712200000	Onions - dried	50	135% or ₩ 180 per kg[b]	20,645 tonnes
0712901000	Garlic	50	360% or ₩ 1,800 per kg[b]	14,467 tonnes
0712902091	Sweet corn for seeds	0	370	247 tonnes
0712902092	Sweet corn other than those for seeds	3	370	6,102.1 tonnes
0713311000	Beans	30	607.5	14,694 tonnes
0713319000	Beans	30	607.5	14,694 tonnes
0713321000	Small red beans	30	420.8	14,694 tonnes
0713329000	Small red beans	30	420.8	14,694 tonnes
0714101000	Fresh manioc	20	887.4	50 tonnes
0714102010	Dried manioc	20	887.4	50 tonnes
0714102020	Dried manioc	3	887.4	1,000 tonnes
0714102090	Dried manioc	20	887.4	50 tonnes
0714103000	Chilled manioc	20	887.4	50 tonnes
0714201000	Sweet potatoes - fresh	20	385% or ₩ 338 per kg[b]	18,535 tonnes
0714202000	Sweet potatoes - dried	20	385	18,535 tonnes
0714203000	Sweet potatoes - chilled	20	385	18,535 tonnes
0714209000	Sweet potatoes - frozen	20	385	18,535 tonnes
0714909090	Other roots and tubers	20	385	326.7 tonnes
0802401000	Chestnuts in shell	50	219.4% or ₩ 1,470 per kg[b]	2,170 tonnes
0802402000	Chestnuts - shelled	50	219.4% or ₩ 1,470 per kg[b]	2,170 tonnes
0802901010	Pine-nuts in shell	30	566.8% or ₩ 2,664 per kg[b]	52.9 tonnes
0802901020	Pine-nuts shelled	30	566.8% or ₩ 2,664 per kg[b]	52.9 tonnes
0805100000	Oranges	50	50	57,017 tonnes
0805201000	Korean citrus	50	144	2,097 tonnes
0805209000	Other citrus	50	144	2,097 tonnes
0805502020	Citrus latifolia	50	144	2,097 tonnes
0805900000	Other citrus	50	144	2,097 tonnes
0810903000	Jujubes	50	611.5% or ₩ 5,800 per kg[b]	259.5 tonnes
0813402000	Jujubes	50	611.5% or ₩ 5,800 per kg[b]	259.5 tonnes

Table AIII.4 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
0902100000	Green tea	40	513.6	7.8 tonnes
0902200000	Green tea	40	513.6	7.8 tonnes
0904201000	Fruits of the genus capsicum or other genus pimenta - dried	50	270% or ₩ 6,210 per kg[b]	7,185 tonnes
0904202000	Fruits of the genus capsicum or other genus pimenta - crushed or ground	50	270% or ₩ 6,210 per kg[b]	7,185 tonnes
0910101000	Ginger (fresh or chilled)	20	377.3% or ₩ 931 per kg[b]	1,860 tonnes
0910102000	Ginger (dried)	20	377.3% or ₩ 931 per kg[b]	1,860 tonnes
0910109000	Ginger (other)	20	377.3% or ₩ 931 per kg[b]	1,860 tonnes
1002001000	Rye for seed	3	108.7	1,327.3 tonnes
1003001000	Malting barley	30	513	3,000 tonnes
1003009010	Unhulled barley	20	324% or ₩ 326 per kg[b]	23,582 tonnes
1003009020	Naked barley	20	299.7% or ₩ 361 per kg[b]	23,582 tonnes
1003009090	Other barley	20	299.7	23,582 tonnes
1004001000	Oats for seed	3	554.8	597.3 tonnes
1005100000	Maize (corn) for seed	0	328	247 tonnes
1005901000	Maize (corn) for feeding	1.8	328	6,102.1 tonnes
1005902000	Maize (corn) - popcorn	1.8	630	6,102.1 tonnes
1005909000	Maize(corn) - other	3	328	6,102.1 tonnes
1007001000	Grain sorghum	3	779.4	13.7 tonnes
1008100000	Buckwheat	3	256.1	1,328 tonnes
1008201010	Foxtail millet for seed	3	18	0.4 tonnes
1008900000	Other cereals	3	800.3	1,328 tonnes
1102901000	Barley flour	20	260	23,582 tonnes
1102909000	Other flour	5	800.3	14.7 tonnes
1103110000	Groats and meal of wheat	5	288.2	14.7 tonnes
1103130000	Groats and meal of maize (corn)	3	162.9	6,102.1 tonnes
1103191000	Groats and meal of barley	20	260	23,582 tonnes
1103192000	Groats and meal of oats	5	554.8	14.7 tonnes
1103199000	Groats and meal: other	5	800.3	14.7 tonnes
1103201000	Pellets of wheat	5	288.2	14.7 tonnes
1103203000	Pellets of barley	20	260	23,582 tonnes
1103209000	Other pellets	5	800.3	14.7 tonnes
1104120000	Rolled or flaked grains of oats	5	554.8	14.7 tonnes
1104192000	Rolled or flaked grains of barley	20	233	23,582 tonnes
1104199000	Rolled or flaked grains - other	5	800.3	14.7 tonnes
1104220000	Other worked grains: of oats	5	554.8	14.7 tonnes
1104230000	Other worked grains: of maize (corn)	3	167	6,102.1 tonnes
1104291000	Other worked grains: of coicis semen	5	800.3	14.7 tonnes
1104292000	Other worked grains: of barley	20	126	23,582 tonnes
1104299000	Other worked grains: of other	5	800.3	14.7 tonnes
1105100000	Flour, meal and powder of potatoes	5.4	304	10 tonnes
1105200000	Flakes, granules and pellets of powder	5.4	304	10 tonnes
1107100000	Malt, not roasted	30	269	40,000 tonnes
1107201000	Malt, smoked	30	269	40,000 tonnes
1108110000	Wheat starch	8	50.9	227.4 tonnes
1108121000	Maize (corn) starch: for food	1.8	226	6,102.1 tonnes
1108129000	Maize (corn) starch: of other	1.8	226	6,102.1 tonnes

Table AIII.4 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
1108130000	Potato starch	8	455	45,692 tonnes
1108141000	Manioc starch: for food	9	455	2,400 tonnes
1108149000	Manioc starch: of other	9	455	2,400 tonnes
1108191000	Starches of seed potato	11	241.2	4,376 tonnes
1108199000	Other starches	8	800.3	227.4 tonnes
1108200000	Inulin	8	800.3	227.4 tonnes
1201001010	Soya beans: for soya bean oil and oil cake	5	487% or ₩ 956 per kg[b]	846,365 tonnes
1201001020	Soya beans: for feeding	5	487% or ₩ 956 per kg[b]	846,365 tonnes
1201009010	Soya beans: for bean sprouts	5	487% or ₩ 956 per kg[b]	185,787 tonnes
1201009090	Soya beans: of other	5	487% or ₩ 956 per kg[b]	185,787 tonnes
1202100000	Ground nuts in shell	40	230.5	4,907.3 tonnes
1202200000	Ground nuts, shelled	24	230.5	4,907.3 tonnes
1207400000	Sesamum seeds	40	630% or ₩ 6,660 per kg[b]	6,731 tonnes
1211201100	Ginseng root (raw)	20	222.8	56.8 tonnes
1211201210	Ginseng root (white, major roots)	20	222.8	56.8 tonnes
1211201290	Ginseng root (white, other)	20	222.8	56.8 tonnes
1211201310	Ginseng root (red, major roots)	20	754.3	56.8 tonnes
1211201390	Ginseng root (red, other)	20	754.3	56.8 tonnes
1211202210	Ginseng powder	20	754.3	56.8 tonnes
1211202220	Ginseng powder	20	754.3	56.8 tonnes
1211202290	Ginseng powder	20	754.3	56.8 tonnes
1211209100	Other ginseng	20	754.3	56.8 tonnes
1211209200	Other ginseng	20	754.3	56.8 tonnes
1211209900	Other ginseng	20	754.3	56.8 tonnes
1214901000	Fodder roots	5	100.5	32,133.3 tonnes
1214909090	Other forage products	5	100.5	32,133.3 tonnes
1302191210	Saps and extracts of red ginseng	20	754.3	56.8 tonnes
1302191220	Saps and extracts of red ginseng	20	754.3	56.8 tonnes
1302191290	Saps and extracts of red ginseng	20	754.3	56.8 tonnes
1515500000	Sesame oil and its fraction	40	630% or ₩ 12,060 per kg[b]	668 tonnes
1702111000	Lactose	20	49.5	9,400 tonnes
1702191000	Lactose	20	49.5	9,400 tonnes
1702901000	Artificial honey	20	243	6 tonnes
2008119000	Prepared ground-nuts other than peanut butter	40	63.9	4,907.3 tonnes
2106903021	Red ginseng tea	20	754.3	56.8 tonnes
2106903029	Other products of red ginseng	20	754.3	56.8 tonnes
2207109010	Fermented alcohol for manufacture of liquors	30	270	10,333,800 litres
2301101000	Flour, meals and pellets, of meat or meat offal	5	9	3,210 tonnes
2306901000	Oil cake of sesamum seeds	5	63% or ₩ 72 per kg[b]	212 tonnes
2308009000	Other vegetable materials of a kind used in animal feeding	5	46.4	32,133.3 tonnes
2309901091	Preparations of a kind used in animal feeding	4.2	71	627 tonnes
2309902010	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
2309902020	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
2309902099	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
2309909000	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
3301904520	Oleoresin extracts of red ginseng	20	754.3	56.8 tonnes
3505103000	Roasted starches	8	385.7	45,692 tonnes

Table AIII.4 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
3505104010	Pre-gelatinized or swelling starch: for food	8	385.7	45,692 tonnes
3505104090	Pre-gelatinized or swelling starch: of other	8	385.7	45,692 tonnes
3505105010	Etherified or esterified starches: for food	8	385.7	45,692 tonnes
3505105090	Etherified or esterified starches: of other	8	385.7	45,692 tonnes
3505109010	Other modified starches: for food	8	385.7	45,692 tonnes
3505109090	Other modified starches: of other	8	385.7	45,692 tonnes
3505201000	Starch glues	8	201.2	45,692 tonnes
3505202000	Dextrin glues	8	201.2	45,692 tonnes
3505209000	Other glues	8	201.2	45,692 tonnes
5001000000	Silkworm cocoons suitable for reeling	2	51.6% or ₩ 5,276 per kg[b]	1,143 tonnes
5002001020	Raw silk more than 20 decitex	8	51% or ₩ 17,215 per kg[b]	2,254 tonnes
5002001030	Raw silk more than 20 decitex	8	51% or ₩ 17,215 per kg[b]	2,254 tonnes
5002001040	Raw silk more than 20 decitex	8	51% or ₩ 17,215 per kg[b]	2,254 tonnes
5002001050	Raw silk more than 20 decitex	8	51% or ₩ 17,215 per kg[b]	2,254 tonnes

a Quota levels correspond to the total volume/quantity available for items under the same HS six-digit group, e.g. the quota for live bovine animals is 1,067 head rather than 1,067 for each HS ten-digit item. These product groups are found in WTO document G/AG/N/KOR/38, 1 March 2007.

b Whichever is the greater.

Note: Excludes tariff items relating to rice.

Source: Information provided by the Korean authorities.

Table AIII.5
Fill ratios for main agricultural tariff rate quotas, 2010
(%)

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Live bovine animals	0.3	Lack of demand due to BSE
Live swine for pure-bred breeding	74.5	n.a.
Fowls for pure-bred breeding	100	n.a.
Skim milk powder	82.4	..
Whole milk powder	7	Decrease in domestic demand
Evaporated milk	0	Lack of demand for low domestic price
Whey	65.8	Decrease in domestic demand
Butter	100	n.a.
Bird's eggs	0	Lack of demand
Natural honey	100	n.a.
Powder of bones	0	Lack of demand due to BSE
Silkworm eggs	0	Lack of demand
Apple, pear, peach and citrus trees	0	Lack of demand
Mulberry trees	0	Lack of demand
Potatoes for seed	0	Lack of demand
Other potatoes	100	n.a.
Onions	79.2	n.a.
Garlic	100	n.a.
Red peppers	96.8	n.a.
Beans (red and green)	100	n.a.
Manioc	80.5	n.a.
Manioc pellets	25.3	Increased imports of substituting items
Sweet potatoes	1	Lack of demand
Roots and tubers	63.3	Increased cases of falling short of sanitary standards
Chestnuts	60.2	Increase in the import price
Pine nuts	0	Lack of demand
Oranges	100	n.a.
Korean citrus	0	Lack of demand
Jujubes	3.9	Increase in the import price
Green tea	87.2	n.a.
Ginger	100	n.a.
Rye for seed	100	n.a.
Ginseng	37	Increase in the international price
Malting barley	42.5	Lack of demand
Barley	100	n.a.
Oats for seed	100	n.a.
Corn	100	n.a.
Grain sorghum for seed	94.2	n.a
Foxtail millet for seed	0	Lack of demand
Buck wheat	100	n.a.
Other processed cereals	100	n.a.
Flour of potatoes	100	n.a.
Malt	100	n.a.
Wheat starch	100	n.a.
Potato starch	100	n.a.
Manioc starch	100	n.a.
Sweet potato starch	100	n.a.

Table AIII.5 (cont'd)

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Soybeans	100	n.a.
Groundnuts	85.9	n.a.
Maize for seed	100	n.a.
Sesamum seeds	100	n.a.
Forage products	100	n.a.
Sesame oil	74.1	n.a.
Lactose	100	n.a.
Artificial honey	0	Lack of demand
Undenatured ethyl alcohol	80.8	n.a.
Flour of meat	3.3	Lack of demand due to BSE
Oil-cake	0	Lack of demand
Other mixed feeds	40.1	Decrease in domestic demand
Supplementary feeds	100	n.a.
Silk-worm cocoons	0	Lack of demand
White silk	23.5	Lack of demand

.. Not available.

n.a. Not applicable.

Source: Information provided by the Korean authorities.

Table AIII.6
Autonomous tariff quotas, 2011

HS	Item	Description	General (%)	In-quota (%)	Quota
0102	**Live bovine animals**				
0102.90	Other	Milk cows	20	0	10,000 head
0103	**Live swine**				
0103.9	Other				
0103.91	Weighing less than 50 kg		18	0	31,000 head
0103.92	Weighing 50 kg or more		18	0	
0105	**Live poultry, that is to say, fowls of the species Gallus domesticus, ducks, geese, turkeys and guinea fowls**				
0105.1	Weighing not more than 185 g				
0105.11	Fowls of the species Gallus domesticus	Chick breeds for laying eggs	9	0	1.5 million heads
0203	**Meat of swine, fresh, chilled or frozen**				
0203.1	Fresh or chilled				
0203.19	Other	Streaky pork	22.5	0	
0203.2	Frozen				130,000 tonnes
0203.29	Other	Streaky pork	25	0	
0207	**Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen**				
0207.1	Of fowls of the species Gallus domesticus				
0207.12	Not cut in pieces, frozen	Other than those weighing not more than 550 g	20	0	50,000 tonnes
0207.14	Cuts and offal, frozen	Legs, breasts and wings	20	0	
0303	**Fish, frozen, excluding fish fillets and other fish meat of heading 03.04**				
0303.7	Other fish, excluding livers and roes				
0303.74	Mackerel (Scomber scombrus, Scomber australasicus, Scomber japonicus)		10	0	20,000 tonnes
0401	**Milk and cream, not concentrated nor containing added sugar or other sweetening matter**				
0401.30	Of a fat content, by weight, exceeding 6%	Frozen cream	36	0	17,000 tonnes
0401.30	Of a fat content, by weight, exceeding 6%	Milk cream	36	0	1,500 tonnes
0402	**Milk and cream, concentrated or containing added sugar or other sweetening matter**				
0402.10	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%		20	0	26,000 tonnes
0402.2	In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%				
0402.21	Not containing added sugar or other sweetening matter		40	0	4,000 tonnes
0402.29	Other		40	0	
0404	**Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included**				

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
0404.10	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	For feeding	20	4	35,000 tonnes
0405	**Butter and other fats and oils derived from milk; dairy spreads**				
0405.10	Butter		40	0	3,500 tonnes
0405.20	Dairy spreads		8	0	
2106.90	Preparations with a basis of butter	Of a butter content, by weight, exceeding 70%	8	0	40,000 tonnes
0406	**Cheese and curd**				
0406.10	Fresh (unripened or uncured) cheese, including whey cheese, and curd	Cream cheese	36	0	1,200 tonnes
0406.10	Fresh (unripened or uncured) cheese, including whey cheese, and curd	Mozzarella cheese	36	0	23,000 tonnes
0406.90	Cheddar cheese		36	0	
0406.90	Gouda cheese		36	0	1,000 tonnes
0408	**Birds' eggs, not in shell, and egg yolks, fresh, dried, cooked by steaming or by boiling in water, moulded, frozen or otherwise preserved, whether or not containing added sugar or other sweetening matter**				
0408.9	Other				
0408.91	Dried	Egg powder	27		300 tonnes
0504.00	Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof, fresh, chilled, frozen, salted, in brine, dried of smoked	Of a kind processed for sausage casing	27	13	500 tonnes
0703	**Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled**				
0703.20	Garlic		50	10	26,467 tonnes
0714	**Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes and similar roots and tubers with high starch or inulin content, fresh, chilled, frozen or dried, whether or not sliced or in the form of pellets; sago pith**				
0714.10	Manioc(cassava)	Dried chips, for alcoholic beverages.	20	0	100,000 tonnes
0714.10	Manioc(cassava)	Dried pellets, for feeding.	7	0	900,000 tonnes
0806	**Grapes, fresh or dried**				
0806.20	Dried		21	8	Unlimited
0901	**Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion**				
0901.1	Coffee, not roasted				
0901.11	Not decaffeinated		2	0	Unlimited
0901.12	Decaffeinated		2	0	Unlimited
0904	**Pepper of the genus Piper; dried or crushed or ground fruits of the genus Capsicum or of the genus Pimenta**				
0904.20	Fruits of the genus Capsicum or of the genus Pimenta, dried or crushed or ground	Neither crushed nor ground	50	10	8,200 tonnes
1001	**Wheat and meslin**				
1001.90	Other	For milling	1.8	0	2.4 million tonnes

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
1002.00	Rye	For seed	3	1	5,000 tonnes
1003.00	Malting barley		30	0	30,250 tonnes
1003.00	Unhulled barley	For feeding	5	4	100,000 tonnes
1005	**Maize (corn)**				
1005.90	Other	For feeding or for mushroom cultivation	3	0	9.05 million tonnes (for feeding 9 and for mushroom cultivation 0.05)
1005.90	Other	For other process	3	0	2,234,000 tonnes
1101.00	Wheat or meslin flour	Of wheat	4.2	0	Unlimited
1105	**Flour, meal, powder, flakes, granules and pellets of potatoes**				
1105.10	Flour, meal and powder		8	0	1,500 tonnes
1105.20	Flakes, granules and pellets		8	0	
1106	**Flour, meal and powder of the dried leguminous vegetables of heading 07.13, of sago or of roots or tubers of heading 07.14 or of the products of Chapter 8**				
1106.30	Of the products of Chapter 8	Coconut powder	8	0	Unlimited
1107	**Malt, whether or not roasted**				
1107.10	Not roasted	For beer	30	0	207,000 tonnes
1107.20	Roasted	For beer	27	0	
1108	**Starches; inulin**				
1108.14	Manioc (cassava) starch	For paper-making	8	4	30,000 tonnes
1201.00	Soya beans, whether or not broken	For soya bean oil and oil cake	3	0	1,150,000 tonnes
1207	**Other oil seeds and oleaginous fruits, whether or not broken**				
1207.20	Cotton seeds	For feeding	3	2	160,000 tonnes
1214	**Swedes, mangolds, fodder roots, hay, lucerne (alfalfa), clover, sainfoin, forage kale, lupines, vetches and similar forage products, whether or not in the form of pellets**				
1214.90	Fodder roots and other forage vegetable	For feeding	1	0	860,000 tonnes (for feeding 800 and for mushroom cultivation 60)
2308.00	Vegetable materials and vegetable waste, vegetable residues and by-products, whether or not in the form of pellets, of a kind used in animal feeding, not elsewhere specified or included	For feeding or for mushroom cultivation	5	0	
1507	**Soya-bean oil and its fractions, whether or not refined, but not chemically modified**				
1507.10	Crude oil, whether or not degummed	For food	5.4	2.5	Unlimited
1509	**Olive oil and its fractions, whether or not refined, but not chemically modified**				
1509.10	Virgin		8	0	Unlimited
1509.90	Other		8	0	Unlimited
1512	**Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified**				
1512.1	Sunflower-seed or safflower oil and fractions thereof				
1512.11	Crude oil	Sunflower-seed oil	10	0	Unlimited

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
1512.19	Refined oil	Sunflower-seed oil	10	0	Unlimited
1514	**Rape, colza or mustard oil and fractions thereof, whether or not refined, but not chemically modified**				
1514.1	Low erucic acid rape or colza oil and its fractions				
1514.11	Crude oil		8	0	Unlimited
1514.9	Other				
1514.91	Crude oil	Other rape oil or colza oil	8	0	Unlimited
1515	**Other fixed vegetable fats and oils (including jojoba oil) and their fractions, whether or not refined, but not chemically modified**				
1515.2	Maize (corn) oil and its fractions				
1515.21	Crude oil		8	0	Unlimited
1515.29	Other		8	0	Unlimited
1515.90	Other	Rice bran oil	8	0	Unlimited
1515.90	Other	Refined grape seed oil	8	0	Unlimited
1518.00	Animal or vegetable fats and oils and their fractions, boiled, oxidised, dehydrated, sulphurized, blown, polymerised by heat in vacuum or in inert gas or otherwise chemically modified, excluding those of heading 15.16; inedible mixtures or preparations of animal or vegetable fats or oils or of fraction of different fats or oils of this Chapter, not elsewhere specified or included	For feed(excluding dehydrated castor oil and epoxidized soya-bean oil)	8	2	50,000 tonnes
1701	**Cane or beet sugar and chemically pure sucrose, in solid form**				
1701.1	Raw sugar not containing added flavouring or colouring matter				
1701.11	Cane sugar	Of a polarization not exceeding 98.5°	3	0	Unlimited
1701.11	Cane sugar	Of a polarization exceeding 98.5°	3	0	Unlimited
1701.12	Beet sugar	Of a polarization not exceeding 98.5°	3	0	Unlimited
1701.12	Beet sugar	Of a polarization exceeding 98.5°	3	0	Unlimited
1701.9	Other				
1701.91	Containing added flavouring or colouring matter	For food	35	0	100,000 tonnes
1701.99	Other	For food	35	0	
1702	**Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel**				
1702.1	Lactose and lactose syrup				
1702.11	Containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter		20	0	20,000 tonnes
1702.19	Other	Lactose	20	0	
1702.30	Glucose and glucose syrup, not containing fructose or containing in the dry state less than 20% by weight of fructose	Monyhydrate for the manufacture of medicine for animals	8	6	1,000 tonnes

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
1801.00	Cocoa beans, whole or broken, raw		2 or 8	0	Unlimited
1806	**Chocolate and other food preparations containing cocoa**				
1806.20	Other preparations in blocks, slabs or bars weighing more than 2 kg or in liquid, paste, powder, granular or other bulk form in containers or immediate packings, of a content exceeding 2 kg	Chocolate and chocolate confectionery	8	0	Unlimited
1806.20	Other preparations in blocks, slabs or bars weighing more than 2 kg or in liquid, paste, powder, granular or other bulk form in containers or immediate packings, of a content exceeding 2 kg	Cocoa preparation containing 50 % or more by weight of milk powder	8	0	5,000 tonnes
2008	**Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included**				
2008.1	Nuts, ground-nuts and other seeds, whether or not mixed together				
2008.11	Ground-nuts	Excluding peanut butter	50	24	10,000 head
2207	**Undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol or higher; ethyl alcohol and other spirits, denatured, of any strength**				
2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol or higher	Roughly distilled alcohol for beverages	10	5	160,000 kl
2303	**Residues of starch manufacture and similar residues, beetpulp, bagasse and other waste of sugar manufacture, brewing or distilling dregs and waste, whether or not in the form of pellets**				
2303.20	Beet-pulp, bagasse and other waste of sugar manufacture	Beet-pulp for feeding	5	2	170,000 M/T
2303.30	Brewing or distilling dregs and waste	For feeding	5	1	920,000 M/T
2304.00	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soyabean oil	For feeding	1.8	0	2,700,000 M/T
2519	**Natural magnesium carbonate (magnesite); fused magnesia; dead-burned (sintered) magnesia, whether or not containing small quantities of other oxides added before sintering; other magnesium oxide, whether or not pure**				
2519.90	Other	Fused or dead-burned magnesia	3	1	Unlimited
2620	**Slag, ash and residues (other than from the manufacture of iron or steel) containing metals, arsenic or their compounds**				
2620.30	Containing mainly copper		2	0	Unlimited
2620.9	Other				
2620.99	Other		2	0	Unlimited
2709.00	Petroleum oils and oils obtained from bituminous minerals, crude	Crude used for manufacturing naphtha	3	0	160 million bbl (oil barrels)

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
2709.00	Petroleum oils and oils obtained from bituminous minerals, crude	Crude used for manufacturing propane and butanes	3	0	33 million bbl (oil barrels)
2710.1	Petroleum oils and oils obtained from bituminous minerals (other than crude) and preparations not elsewhere specified or included, containing by weight 70% or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations, other than waste oils				
2710.11	Light oils and preparations	Motor spirit	5	3	Unlimited
2710.11	Light oils and preparations	Aviation spirit	5	3	Unlimited
2710.19	Other, petroleum spirits and preparations	Jet fuel	5	3	Unlimited
2710.19	Kerosene and preparations thereof	Kerosene	5	3	Unlimited
2710.19	Kerosene and preparations thereof	Jet fuel	5	3	Unlimited
2710.19	Gas oils		5	3	Unlimited
2710.19	Heavy fuel oils	Light fuel oil (bunker A)	5	3	Unlimited
2710.19	Heavy fuel oils	Fuel oil (bunker B)	5	3	Unlimited
2710.19	Heavy fuel oils	Bunker C	5	3	Unlimited
2710.9	Waste oils				
2710.91	Containing polychlorinated biphenyls (PCBs), polychlorinated terphenyls (PCTs) or polybrominated biphenyls (PBBs)	Of motor spirit, aviation spirit and jet fuel	5	3	Unlimited
2710.91	Containing polychlorinated biphenyls (PCBs), polychlorinated terphenyls (PCTs) or polybrominated biphenyls (PBBs)	Of kerosene and jet fuel	5	3	Unlimited
2710.91	Containing polychlorinated biphenyls (PCBs), polychlorinated terphenyls (PCTs) or polybrominated biphenyls (PBBs)	Of gas oils	5	3	Unlimited
2710.91	Containing polychlorinated biphenyls (PCBs), polychlorinated terphenyls (PCTs) or polybrominated biphenyls (PBBs)	Of light fuel oil (bunker A), fuel oil (bunker B) and bunker C	5	3	Unlimited
2710.99	Other	Of motor spirit, aviation spirit and jet fuel	5	3	Unlimited
2710.99	Other	Of kerosene and jet fuel	5	3	Unlimited
2710.99	Other	Of gas oils	5	3	Unlimited
2710.99	Other	Of light fuel oil (bunker A), fuel oil (bunker B) and bunker C	5	3	Unlimited
2711	**Petroleum gases and other gaseous hydrocarbons**				
2711.11	Natural gas, liquefied		3	2	Unlimited
2711.12	Propane		3	0	Unlimited
2711.13	Butanes		3	0	Unlimited
2711.21	Natural gas in gaseous state		3	2	Unlimited
2713.11	Petroleum coke, not calcined		5	3	Unlimited
2804	**Hydrogen, rare gases and other non-metals**				
2804.6	Silicon				
2804.69	Silicon, other		5	2	13,000 tonnes
2814.10	Anhydrous ammonia		1	0	Unlimited
2825.50	Copper oxides		8	2	3,200 tonnes
2833.11	Disodium sulphate		8	1	Unlimited
2836.20	Disodium carbonate		3	1	Unlimited

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
2849	**Carbides, whether or not chemically defined**			3	Unlimited
2849.20	Of silicon		5	3	Unlimited
2909.1	Acyclic ethers and their halogenated, sulphonated, nitrated or nitrosated derivatives				
2909.19	Other	Methyl tertiary butyl ether	8	3	180,000 tonnes
3102.10	Urea, whether or not in aqueous solution	Agricultural fertilizers or for manufacturing agricultural fertilizers	2	1	900,000 tonnes
3102.10	Urea, whether or not in aqueous solution	For the manufacture of particle board, fibre building board and plywood	8	4	Unlimited
3206.11	Containing 80 % or more by weight of titanium dioxide calculated on the dry matter		8	3	Unlimited
3302.10	Mixtures of odoriferous substances and mixtures (including alcoholic solutions) with a basis of one or more of these substances, of a kind used as raw materials in industry; other preparations based on odoriferous substances, of a kind used for the manufacture of beverages	Of a kind used in the food industries	8	3	Unlimited
3302.10	Mixtures of odoriferous substances and mixtures (including alcoholic solutions) with a basis of one or more of these substances, of a kind used as raw materials in industry; other preparations based on odoriferous substances, of a kind used for the manufacture of beverages	Of a kind used in the drink industries	30 or 8	3	Unlimited
3401.20	Soap in other forms		8	0	Unlimited
3402.20	Organic surface-active agents (other than soap); surface-active preparations, washing preparations (including auxiliary washing preparations) and cleaning preparations, whether or not containing soap, other than those of heading 34.01	Washing preparations put up for retail sale	8	4	Unlimited
3402.90	Organic surface-active agents (other than soap); surface-active preparations, washing preparations (including auxiliary washing preparations) and cleaning preparations, whether or not containing soap, other than those of heading 34.01	Washing preparations	8	4	Unlimited
3701.99	Photographic plates and film in the flat, sensitised, unexposed, of any material other than paper, paperboard or textiles; instant print film in the flat, sensitised, unexposed, whether or not in packs	For making semiconductor	3	2	30,000 pieces
3823	**Industrial monocarboxylic fatty acids; acid oils from refining; industrial fatty alcohols**				
3823.70	Industrial fatty alcohols	Lauryl alcohol	5	0	Unlimited
3901	**Polymers of ethylene, in primary forms**				
3901.10	Polyethylene having a specific gravity of less than 0.94		8	2	28,000 tonnes
3901.20	Polyethylene having a specific gravity of 0.94 or more	Excluding those of pulp	8	2	20,000 tonnes
3901.30	Ethylene-vinyl acetate copolymers		8	3	12,000 tonnes
4011	**New pneumatic tyres, of rubber**				
4011.10	Of a kind used on motor cars (including station wagons and racing cars)		8	4	800,000 units
4105	**Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared**				

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
4105.10	In the wet state (including wet-blue)		5	3	Unlimited
4105.30	In the dry state (crust)		5	3	Unlimited
4106	**Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split, but not further prepared**				
4106.2	Of goats or kids				
4106.21	In the wet state (including wet-blue)		5	3	Unlimited
4106.22	In the dry state (crust)		5	3	Unlimited
4408	**Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm**				
4408.10	Coniferous	For manufacturing plywood	3	2	Unlimited
4408.3	Of tropical wood specified in Subheading Note 1 to this Chapter				
4408.31	Dark Red Meranti, Light Red Meranti and Meranti Bakau	For manufacturing plywood	3	2	Unlimited
4408.39	Other	For manufacturing plywood	3	2	Unlimited
4408.90	Other	For manufacturing plywood	3	2	Unlimited
4411	**Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances**				
4411.1	Medium density fibreboard (MDF)				
4411.12	Of a thickness not exceeding 5 mm		8	4	
4411.13	Of a thickness exceeding 5 mm but not exceeding 9 mm		8	4	80,000 m^3
4411.14	Of a thickness exceeding 9 mm		8	4	
5002.00	Raw silk (not thrown), white silk	Not more than 20 decitex	3	0	
5002.00	Raw silk (not thrown), white silk	More than 20 decitex but not more than 25.56 decitex	3	0	
5002.00	Raw silk (not thrown), white silk	More than 25.56 decitex but not more than 28.89 decitex	3	0	800 tonnes
5002.00	Raw silk (not thrown), white silk	More than 28.89 decitex but not more than 36.67 decitex	3	0	
5002.00	Raw silk (not thrown), white silk	More than 36.67 decitex	3	0	
5002.00	Raw silk (not thrown), white silk	Doupion silk	3	0	
5004.00	Silk yarn (other than yarn spun from silk waste) not put up for retail sale		4	0	150 tonnes
5005.00	Yarn spun from silk waste, not put up for retail sale		4	0	150 tonnes
5205	**Cotton yarn (other than sewing thread), containing 85 % or more by weight of cotton, not put up for retail sale**				
5205.1	Single yarn,of uncombed fibres				
5205.12	Measuring less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number), unbleached or not mercerized	Measuring not more than 370.37 decitex but not less than 232.56 decitex (not less than 27 metric number but not exceeding 43 metric number). excluding open end yarn	2	0	Unlimited

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
5205.3	Multiple (folded) or cabled yarn, of uncombed fibres				
5205.32	Measuring per single yarn less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43, unbleached or not mercerized	Measuring not more than 370.37 decitex but not less than 232.56 decitex(not less than 27 metric number but not exceeding 43 metric number) excluding open end yarn	2	0	Unlimited
5205.33	Measuring per single yarn less than 232.56 decitex but not less than 192.31 decitex (exceeding 43 metric number but not exceeding 52 metric number per single yarn)	Unbleached or not mercerized	8	0	Unlimited
5403	**Artificial filament yarn (other than sewing thread), not put up for retail sale, including artificial monofilament of less than 67 decitex**				
5403.10	High tenacity yarn of viscose rayon		1	0	Unlimited
5403.3	Other yarn, single				
5403.31	Of viscose rayon, untwisted or with a twist not exceeding 120 turns per metre		1	0	Unlimited
5403.32	Of viscose rayon, with a twist exceeding 120 turns per metre		1	0	Unlimited
5403.33	Of cellulose acetate		8	4	Unlimited
5403.4	Other yarn, multiple (folded) or cabled				
5403.41	Of viscose rayon		1	0	Unlimited
5403.42	Of cellulose acetate		8	4	Unlimited
5504	**Artificial staple fibres, not carded, combed or otherwise processed for spinning**				
5504.10	Of viscose rayon		1	0	Unlimited
5504.90	Other	Of lyocell	2	0	Unlimited
7002	**Glass in balls (other than microspheres of heading 70.18), rods or tubes, unworked.**				
7002.20	Rods	For the manufacture of quartz wares for semiconductor	3	1	Unlimited
7002.3	Tubes				
7002.31	Of fused quartz or other fused silica		3 or 8	1	Unlimited
7020.00	Other articles of glass	For the manufacture of quartz wares for semiconductor	3	1	Unlimited
7112	**Waste and scrap of precious metal or of metals clad with precious metal; other waste and scrap containing precious metal or precious metal compounds, of a kind used principally for the recovery of precious metal**				
7112.91	Of gold, including metal clad with gold but excluding sweepings containing other precious metals	Of a kind used for the recovery of precious metals or for metallurgy of bronze as a scrap of crushed waste electronic	3	1	Unlimited
7202	**Ferro-alloys**				
7202.21	Ferro-silicon, Containing by weight more than 55% of silicon		2	0	Unlimited
7202.41	Ferro-chromium, Containing by weight more than 4% of carbon		2	0	Unlimited

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
7202.49	Other		2	0	Unlimited
7202.50	Ferro-silico-chromium		2	0	Unlimited
7410	**Copper foil (whether or not printed or backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0.15 mm**				
7410.1	Not backed				
7410.11	Of refined copper	Of a kind used for manufacturing printed circuit boards having functions of leadframe	8	4	5,000,000 m^2
7504.00	Nickel powders and flakes	Powders	5	3	Unlimited
7601	**Unwrought aluminium**				
7601.10	Aluminium, not alloyed		1	0	Unlimited
8108	**Titanium and articles thereof, including waste and scrap**				
8108.20	Unwrought titanium; powders	Unwrought	3	0	Unlimited
8108.90	Other	Excluding plates and strips, Tubes and pipes	8	3	Unlimited
8111.00	Manganese and articles thereof, including waste and scrap		2	0	Unlimited
8475	**Machines for assembling electric or electronic lamps, tubes or valves or flashbulbs, in glass envelopes; machines for manufacturing or hot working glass or glassware**				
8475.2	Machines for manufacturing or hot working glass or glassware				
8475.29	Other	Of a kind used for manufacturing plate glass for flat panel displays	8	4	Unlimited
8486	**Machines and apparatus of a kind used solely or principally for the manufacture of semiconductor boules or wafers, semiconductor devices, electronic integrated circuits or flat panel displays; machines and apparatus specified in Note 9 (C) to this Chapter; parts and accessories**				
8486.30	Machines and apparatus for the manufacture of flat panel displays	Dry etchers for manufacturing organic light emitting diodes (OLED)	5	4	Unlimited
8486.30	Machines and apparatus for the manufacture of flat panel displays	Deposition machines for manufacturing organic light emitting diodes (OLED), operated by physical method	5	4	Unlimited
8486.30	Machines and apparatus for the manufacture of flat panel displays	Other dry etchers	8	4	Unlimited
8486.30	Machines and apparatus for the manufacture of flat panel displays	Machinery that deposits metal film on glass or synthetic crystal	8	4	Unlimited
8715.00	Baby carriages and parts thereof		8	0	
2903.39	Agricultural chemicals	Registered material under the Agricultural Chemicals Management Act	8	4	5,000 tonnes
3402.90			8	4	
3808.91			2	4	
3808.92			2	4	
3808.93			8	4	
3808.99			8	4	

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
2825.50	Materials for manufacturing agricultural chemicals	Registered material under the Agricultural Chemicals Management Act	2	1	20,000 tonnes
2827.41			2	1	
2833.25			2	1	
2909.30			2	1	
2914.70			2	1	
2916.20			2	1	
2916.31			2	1	
2916.39			2	1	
2918.30			2	1	
2918.99			2	1	
2919.90			2	1	
2920.11			2	1	
2920.19			2	1	
2920.90			2	1	
2921.42			2	1	
2921.43			2	1	
2921.49			2	1	
2922.50			2	1	
2924.12			8	1	
2924.19			2	1	
2924.21			2	1	
2924.29			2	1	
2925.19			2	1	
2925.29			2	1	
2926.90			2	1	
2928.00			2	1	
2930.20			2	1	
2930.30			8	1	
2930.90			2	1	
2931.00			2	1	
2932.19			2	1	
2932.29			2	1	
2932.99			2	1	
2933.11			2	1	
2933.19			2	1	
2933.29			2	1	
2933.39			2	1	
2933.49			2	1	
2933.59			2	1	
2933.69			2	1	
2933.99			2	1	
2934.10			2	1	
2934.20			2	1	
2934.99			2	1	
2935.00			2	1	
2941.20			2	1	
2941.90			2	1	

Table AIII.6 (cont'd)

HS	Item	Description	General (%)	In-quota (%)	Quota
3402.13			2	1	
3804.00			8	1	
3808.50			2	1	
3808.91			2	1	
3808.92			2	1	
3808.93			8	1	
3824.90			2	1	

Source: Information provided by the Korean authorities.

Table AIII.7
Domestic agricultural support notified to the WTO, 2008
(₩ billion)

Commodity	Product-specific AMS		Total AMS	Below de minimis level of 10% (based on 2008 production)
	Market price support	Other		
Barley	33.14	0	33.14	Yes
Maize (corn)	0.08	0	0.08	No
Soybean	7.80	0.62	8.42	No
Red pepper	0	4.41	4.41	No
Garlic	0	7.38	7.38	No
Onions	0	9.07	9.07	Same level
Welsh onions	0	1.00	1.00	Yes
Carrots	0	0.58	0.58	No
Apple	0	6.84	6.84	No
Pear	0	6.25	6.25	No
Korean citrus	0	3.15	3.15	No
Sweet persimmons	0	0.79	0.79	No
Ginseng roots	0	5.90	5.90	No
Other vegetables	0	19.26	19.26	No
Flowering plants	0	0.21	0.21	No
Milk	0	24.27	24.27	No
Rice	0	444.28	444.28	No
Beef	0	13.18	13.18	No
Total product specific	**41.02**	**547.19**	**588.21**	
Non-product specific AMS				
Subsidy for farm facilities			108.59	
Input subsidies			48.90	
Loan interest subsidy			8.31	
Loan programme			43.62	
Crop insurance			49.06	
Other			32.56	
Total non-product specific AMS			**291.04**	
Total AMS			**879.25**	
Green Box measures				
Research			241.3	
Pest and disease control			110.3	
Training services			75.8	
Extension and advisory services			60.3	
Inspection services			98.8	
Marketing and promotion services			24.6	
Infrastructural services			1,497.3	
Public stockholding for food security purposes			137.1	
Domestic food aid			25.2	
Decoupled income support			907.8	
Payments for relief of natural disasters			320.1	
Structural adjustment assistance provided through producer retirement programmes			13.1	
Structural adjustment assistance provided through investment aids			810.7	
Environmental programmes			306.4	
Regional assistance programmes			44.4	

Table AIII.7 (cont'd)

Commodity	Product-specific AMS		Total AMS	Below de minimis level of 10% (based on 2008 production)
	Market price support	Other		
Total green box assistance			**4,673.2**	
Special and differential treatment (S&D) – development programmes exempt from reduction commitments				
Investment subsidies generally available to agriculture			0.49	
Input subsidies to low income/resource-poor producers			4.14	
Total S&D assistance			**4.63**	
Total notified assistance			**5,557.08**	

Source: WTO document G/AG/N/KOR/43, 16 September 2011.

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