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TRADE POLICY REVIEW

Report by the Secretariat

REPUBLIC OF KOREA

This report, prepared for the fifth 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 Mr. Sergios Stamnas (Tel: 022 739 5382).

Document WT/TPR/G/204 contains the policy statement submitted by the Republic of Korea.

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(1) ECONOMIC ENVIRONMENT

1. Since it's previous Trade Policy Review in 2004, Korea's prudent macroeconomic policies together with ongoing structural reforms, including liberalization of its trade and investment regimes, have contributed to stable economic growth. Growth has averaged 4.8% annually, much of it attributable to exports. Consequently, GDP per capita rose from US$14,173 in 2004 to over US$20,000 in 2007. At the same time, the unemployment rate declined to 3.2%, although income inequality rose. However, Korea's growth potential is undermined by relatively low labour productivity and declining total factor productivity growth in the services sector, whose rising share of GDP is now nearly 58%.

2. During most of the period under review, a relatively tight monetary policy contained inflation within the Bank of Korea's target range of 2.5%-3.5%. Inflation reached a nine-year high of 5.5% in June 2008, however, owing to recent rises in energy and food prices. Korea has recorded fiscal surpluses in each of the past four years. Budgetary reform is focused on reducing expenditures and raising tax collection with a view to addressing, *inter alia*, income inequality and a rapidly aging population. Expenditures are also being shifted from infrastructure and public administration to the social safety net, education, and research and development. The main objective of Korea's tax reform is to increase tax revenue, more by broadening the tax base than raising tax rates.

3. Korea's current account surplus declined from 4.1% in 2004 to 0.6% of GDP in 2007, reflecting the narrowing of the gap between gross national savings and gross domestic investment. Additionally, after peaking in 2006, the external capital account surplus declined significantly in 2007 due to the repatriation of foreign investments in Korean stocks and a sharp rise in stock investments abroad by Korean residents. Nonetheless, with both the capital and current accounts in surplus, foreign exchange reserves rose from US$199.1 billion in 2004, to US$258.2 billion at the end of May 2008; the latter is equivalent to more than 170% of both public and private external short-term debt, and over eight months of import coverage.

4. Korea's economy has continued to become more outward oriented, with trade in goods and services rising from 83.7% of GDP in 2004 to approximately 90% in 2007. Manufactured exports account for the bulk of exports (88.9% in 2007), though their share has declined, possibly due to increased competition from China. Korea's main export destinations are China, the EC, the United States, and Japan.

5. Inward foreign direct investment (FDI) has declined from 1.2% of GDP in 2004 to 0.4% of GDP in 2006, which is low by OECD country standards. This was despite incentives available to foreign-invested firms and a more liberal foreign investment regime, although three sectors remain completely closed to foreign investors and 26 are partially restricted. The low level and decline of inward FDI in relation to GDP are thought to be due to, *inter alia*, the increasing cost of doing business in Korea, unduly burdensome regulation, and perhaps the won's appreciation against the U.S. dollar until March 2008, although since then it has depreciated considerably.

(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, it 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 2004.

7. Korea has maintained its support for and commitment to the strengthening and liberalization of the multilateral trading system

and the successful conclusion of the Doha Round negotiations. Nevertheless, Korea has pursued intensively free-trade agreements (FTAs) with its major trading partners (e.g. Singapore and the United States), including regional groups (i.e. ASEAN, EFTA), and is continuing or planning negotiations to establish FTAs with some of its other main trading partners (the EC) as well as with newly emerging economies. These agreements, which have been notified to the WTO and cover, *inter alia*, goods, services, and investment, are seen as a means for reforming the economy and raising competitiveness through further liberalization and deregulation in certain sectors. Korea extended its unilateral preferential duty-free access to more items from least developed countries as of January 2008 and is an active participant in the GSTP.

8. Korea attaches a 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 shifting from reducing of regulations to improving their quality. Korea has taken steps to meet its transparency obligations at the multilateral level by, *inter alia*, meeting most of its WTO notification requirements, though state-trading activities have not been notified since 1998.

(3) TRADE POLICY DEVELOPMENTS

9. The customs tariff is Korea's main trade policy instruments as well as a major, albeit declining, source of tax revenue (4.6% of total tax revenue in 2007). The 2008 customs tariff remains relatively complex, involving a multiplicity of rates (83 *ad valorem*, 41 alternate duties) often having small rate differences and involving decimal points. No tariff cuts were undertaken during the period under review; the applied MFN rate averaged 12.6% in 2008, the same as in 2004. 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 have also remained unchanged and concentrated in agricultural items (WTO definition); applied MFN tariff rates range from zero to 887.4% (manioc); some 86.6% of rates were 10% or below in 2008. Tariff rate quotas apply under Korea's multilateral agricultural market-access commitments, with in-quota rates ranging from zero to 50% (2007) compared with out-of-quota rates up to 800.3%, and with average fill rate of 68.3%. Other measures (e.g. "autonomous" tariff quotas, usage tariffs, and duty concessions) selectively reduce tariffs on inputs. The average applied customs duty on agricultural products (WTO definition), at 53.5%, remains more than eight times higher than the average for non-agricultural goods (6.5%). Korea has bound 90.8% of its tariff lines: 98.7% of agricultural lines (excluding mainly rice) (WTO definition) and 89.5% of its non-agricultural lines. The average gap of 4.3 percentage points between the average bound and applied MFN tariff rates still 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" dropped from 203 (2004) to 101 (2007).

10. During the period under review, Korea streamlined and modernized its customs procedures by moving further towards an "intelligence oriented customs administration". As a result of the expanding network of its preferential arrangements, customs clearance has become more complicated, particularly due to rules of origin requirements of individual agreements. Korea, which is considered to be at the cutting edge of international best practice in customs matters, publishes worldwide its advanced customs techniques. An early warning system for undervalued customs declaration of agricultural, forest, and fisheries products was

introduced in August 2007 to block their under-invoiced importation into Korea.

11. Rice remains the only item subject to import quotas. 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, machinery, wood articles, paper and paperboard; it initiated 47 cases and had final measures on imports from 10 countries.

12. Korea periodically restricts or monitors exports of certain products (e.g. rice) to ensure adequate domestic supplies, and thereby possibly assisting downstream processing of these products; quantitative export restrictions for rice have been in place since 2007. 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 W 25.59 billion in 2004. In addition to the tariff drawback scheme, excises and VAT are rebated at the border. Exporters benefit from export credit insurance, finance, and the promotional activities provided by state-owned institutions.

13. Various measures, involving grants, tax concessions or concessional loans, are used to support production and trade of a range of agricultural, forestry, fishing, and manufactured products as well as to encourage R&D, SMEs, and environmental protection. Although sunset clauses were to terminate tax incentives automatically at the end of 2003, many were extended. SMEs, whose eligibility criteria were streamlined in 2006, are among the beneficiaries of these measures, especially those engaged in information technology activities. Certain agricultural producers and manufacturers that could be adversely affected by a bilateral FTA may receive certain types of support.

14. Korean industrial standards have doubled over the last five years; work is under way to harmonize Korean standards to international standards (including those on new technology products), and for cooperation in global standardization activities. Food labelling standards continue to be reviewed so that they better reflect international requirements.

15. Korea is a party to the WTO Government Procurement Agreement. Some government procurement is still not covered by Korea's multilateral commitments under the GPA; for example, procurement from SMEs, for which private (non-competitive) tendering prevailed until 2007. Government procurement has become more decentralized; 70% of the procurement market involves purchases undertaken directly by public institutions. Despite the lack of domestic price preferences, government procurement is still seemingly used as an instrument of economic policy, including regional and industrial development; new legislation has required priority to be given to environment-friendly products. Foreign suppliers appear to be losing ground in the government procurement market, 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. Foreign suppliers accounted for 3.1% of the Public Procurement Service's total business receipts in 2005.

16. Korea's extensive intellectual property rights (IPRs) legislation has been further strengthened with the amendment of, *inter alia*, the copyright legislation, the reinforcement of border enforcement, and the signing of several FTAs, particularly the Korea–US FTA, which provides for extended terms of copyright protection (i.e. life of the author plus 70 instead of 50 years) on a reciprocal basis.

17. During the period under review, Korea completed the implementation of its three-year Market Reform Roadmap by establishing and revising competition laws and regulations, and strengthening institutions in this area. *Chaebols* (large conglomerates) are subject to special regulation, including ceilings on shareholdings in other domestic firms; cross-shareholdings were banned for the top 62 *chaebol* as of late 2007. Liner shipping conferences remain exempt from competition legislation. New legislation was passed and institutional changes were made to strengthen consumer protection.

(4) SECTORAL POLICY DEVELOPMENTS

18. Despite persisting, though more market-oriented, government intervention, agriculture's GDP share has continued to fall and labour productivity has remained little more than half of the national average. Although self-sufficiency has been attained for some major products (e.g. rice), the volume of imports of agricultural products has risen. Tariff protection for agricultural goods has remained high. Tariff rate quotas (with a fill ratio of more than 68%), are administered or allocated by state-trading entities or industry associations. Quantitative import restrictions for rice were relaxed (i.e. by progressively increasing the quota volume) and are to remain in force until 2014; by that date, rice imports are expected to double to cover 8% of domestic consumption. Korea has made use of the special safeguard provisions under the WTO Agreement on Agriculture. Sensitive agricultural items from FTA liberalization commitments are exempt. Agriculture receives substantial domestic financial assistance, involving product-specific market price support, in line with the relevant WTO provisions; net support for agriculture (3.3% of GDP) exceeds its contribution to GDP (3.2% in 2006). Domestic support distorts agricultural production and trade, and results in Korean consumers paying much higher prices (on average well over double world levels). Support through direct payments has increased significantly, especially since their introduction for paddy fields in 2005. The government purchasing system for rice was replaced by a public stockholding system in 2005. A differentiated pricing system for surplus milk has reduced its volume. Action has been taken to, *inter alia*, facilitate farm enlargement, farmland mobility, land conservation and environmentally friendly farming. Measures are envisaged to cope with rising food prices. Steps have been taken to reduce over-fishing, despite retaining fisheries-related subsidies and increasing total allowable catch in Korean waters; adjustment duties have been raised for nine fish species to protect domestic seafood producers.

19. During the period under review, steps to reduce oil dependence and cope with rising energy demand include recourse to renewable energy and investment projects overseas. State involvement persists in the gas and electricity sectors. Since 2005, some industries have obtained licences to import gas directly for their own use rather than purchasing it from the state monopoly firm, which now adjusts regularly the price of the commodity to world prices. Domestic coal production, mainly destined for power plants, continues to be subsidized. The state-owned power exchange pool sets power generation prices; cross-subsidies between consumers distort prices, with agricultural and industrial users being the main beneficiaries.

20. Despite its declining shares of GDP (27.8%) and employment (17.6%) (and consequent high labour productivity), manufacturing remains heavily outward-oriented; information and communications technology, as well as shipbuilding and cars, activities dominated by large *chaebols*, maintain a leading global position. Border protection, which is almost entirely confined to tariffs and adjustment duties, has remained unchanged since the previous Review. Several tax and non-tax incentives are intended to assist R&D and SME activities. In 2007, investigations on the pricing of imported motor vehicles were initiated. Domestic support to the shipbuilding industry, which was to be phased-out at end 2006 has been extended to the end of 2009.

21. The services sector remains characterized by relatively low labour productivity (little more than half the level in manufacturing) and declining growth in total factor productivity; this is due, *inter alia*, to insufficient competition as a result of unduly burdensome regulation, predominance of state-owned enterprises, and low foreign presence. Despite some decline, state-ownership persists in financial, telecommunications, and transport services. 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. On the other hand, services have benefited from regulatory reforms, including progressive liberalization in line with Korea's existing GATS commitments. Moreover, in all Korea's FTAs its commitments in the services sector exceed those under the GATS. In telecommunications, Korea has unilaterally liberalized foreign ownership beyond its GATS commitments. Increased competition in banking, partly due to FDI, together with consolidation and restructuring have significantly improved banks' balance sheets (and thus reduced their non-performing loans) as well as their productivity and profitability; as a result, labour productivity in the banking sector is much higher than in most other services and is comparable to the national level.

(5) OUTLOOK

22. Korea's economic fundamentals are, by and large, sound. Nonetheless, sustained growth depends on the Government proceeding with structural reforms, especially those aimed at improving the investment climate, thereby making Korea more attractive to foreign direct investment, addressing labour market rigidities, and the likely decline in the labour force owing to a rapidly aging population. These and related reforms, including privatization and continued regulatory reforms, would increase the flexibility of the Korean economy to respond competitively to growing external competition. Sustained growth also depends to a considerable extent on Korea's success in substantially raising productivity in services, by, for example, opening them up to domestic and foreign competition through these structural reforms. In this regard, despite the emphasis placed on FTAs, a successful outcome to the ongoing negotiations at the WTO would improve the outlook for the Korean economy, by helping Korea to further liberalize its trade and investment regimes and, through the resulting increase in competition, improve the productivity and thus the competitiveness of Korean producers, who would then be in a better position to take advantage of greater access to export markets.

I. ECONOMIC ENVIRONMENT

(1) INTRODUCTION

1. Since its previous Trade Policy Review in 2004, Korea's continued restructuring of its economy, including trade liberalization and associated improvement in its international competitiveness[1], has resulted in steady growth in real GDP, which averaged nearly 4.8% annually between 2004 and 2007 (Table I.1), largely due to exports. During the same period, inflation averaged nearly 2.8% and unemployment fell from 3.7% to 3.2%. As a result of strong growth, GDP per capita has risen from US$14,173.4 in 2004 to US$20,015.2 in 2007. Moreover, Korea maintained its position in the high category of the UN human development index, ranking 26th out of 177 in 2006.[2]

Table I.1
Selected macroeconomic indicators, 2003-07

	2003	2004	2005	2006	2007[a]
National accounts			(Percentage change)		
Real GDP (at 2000 prices)	3.1	4.7	4.2	5.1	5.0
Consumption	-0.3	0.4	3.9	4.8	4.7
Private consumption	-1.2	-0.3	3.6	4.5	4.5
Government consumption	3.8	3.7	5.0	6.2	5.8
Gross fixed capital formation	4.0	2.1	2.4	3.6	4.0
Exports of goods and non-factor services	15.6	19.6	8.5	11.8	12.1
Imports of goods and non-factor services	10.1	13.9	7.3	11.3	11.9
XGS/GDP (%) (at current market price)	37.9	44.0	42.3	43.0	45.6
MGS/GDP (%) (at current market price)	35.6	39.7	39.9	42.1	44.8
Unemployment rate (%)	3.6	3.7	3.7	3.5	3.2
Productivity					
Labour productivity	6.2	9.2	8.0	12.3	..
Prices and interest rates			(Per cent)		
Inflation (CPI, %age change)	3.4	3.6	2.8	2.2	2.5
Loans and discounts rate	6.24	5.90	5.59	5.99	6.55
Savings deposit rate	4.15	3.75	3.62	4.41	5.07
Money credit (end period)[b]			(Percentage change)		
Narrow money (M1)	5.4	7.6	3.3	11.7	-14.7
Broad money (M2)	3.0	6.3	7.0	12.5	10.8
Credit to private sector (households)	2.3	0.8	8.5	16.2	14.7
Exchange rate					
Won/US$ (annual average)	1,191.9	1,144.7	1,024.3	955.5	929.2
Real effective exchange rate (%age change)	1.7	1.8	12.1	7.5	1.5

Table I.1 (cont'd)

[1] According to the 2007 edition of the IMD's *World Competitiveness Yearbook*, Korea's ranking rose from 32nd in 2006 to 29th (out of 55) in 2007 (online data viewed at: http://www.imd.ch/research/publications/wcy/upload/PressRelease.pdf and http://www.inosanchez.com/files/ii/2007wcy_scoreboard.pdf [27 March 2008]). Furthermore, according to the *World Economic Forum Growth Competitiveness Index*, Korea moved from 17th (out of 117 countries) in 2005 to 11th (out of 131) in 2007. The Index comprises the technology index, the public institutions index, and the macroeconomic environment index. For further information, see WEF online information. Viewed at: http://www.weforum.org/en/ and http://www.weforum.org/pdf/Gcr/GCR_05_06_Executive_Summary.pdf [27 March 2008].

[2] UNDP (2008).

	2003	2004	2005	2006	2007[a]
	(Per cent of GDP, unless otherwise indicated)				
Consolidated fiscal balance	1.0	0.7	0.4	0.4	3.8
Consolidated revenue	23.7	22.9	23.6	24.7	27.0
Tax revenue	15.8	15.1	15.7	16.3	17.9
Social security contributions	2.9	2.9	3.1	3.2	3.3
Non-tax and capital revenue	5.1	4.9	4.8	5.2	5.6
Consolidated expenditure	22.7	22.3	23.2	24.3	23.3
Government total debt (end-period)	18.4	22.6	24.9	..	..
Saving and investment					
Gross national savings	31.9	34.5	32.0	30.5	29.9
Gross domestic investment	30.0	30.4	30.1	29.8	29.7
Savings-investment gap	1.9	4.1	1.9	0.7	0.2
External sector					
Current account balance	2.0	4.1	1.9	0.6	0.6
Net merchandise trade	3.6	5.5	4.1	3.1	3.0
Merchandise exports	32.4	37.8	36.5	37.4	39.1
Merchandise imports	28.8	32.3	32.4	34.2	36.0
Services balance	-1.2	-1.2	-1.7	-2.1	-2.1
Capital account	-0.2	-0.3	-0.3	-0.4	-0.2
Financial account	2.5	1.4	0.9	2.4	0.9
Direct investment	0.0	0.7	0.3	-0.5	-1.4
Balance of payments	4.3	5.7	2.5	2.5	1.6
Terms of trade	88.5	85.3	79.0	73.2	70.2
Merchandise exports (%age change)	20.7	30.6	12.1	14.8	14.2
Merchandise imports (%age change)	18.0	25.6	16.4	18.6	15.0
Service exports (%age change)	16.1	27.1	7.8	10.6	26.3
Service imports (%age change)	10.4	23.6	17.7	17.1	21.4
Foreign exchange reserves[c] (US$ billion, end-period)	154.5	198.2	210.0	238.4	261.8
Total external debt (US$ billion, end-period)	157.4	172.3	187.9	260.1	380.7
of which short term	50.8	56.3	65.9	113.6	150.0
Debt service ratio[d]	13.1	10.7	7.9	7.4	7.6

.. Not available.

a Provisional.
b M1 consists of currency in circulation, demand deposits and saving deposits with transferability. M2 consists of M1 plus periodical time deposits and instalment savings and marketable instruments, yield-based dividend instruments, financial debentures and other (e.g. securities investment savings at investment trust companies).
c Excluding gold, Special Drawing Rights, and Reserve Position in the IMF.
d 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* 2007-9 and 2008-2; IMF (2007), *IMF Country Report* No. 07/344, October; and data provided by the authorities.

2. Nonetheless, certain long-term and short-term concerns remain. Despite apparent improvements in Korea's global competitiveness due to its strategy of developing high value-added and high technology products, and growing labour productivity in manufacturing, primarily through technological advancement (probably the main source of growth in total factor productivity in the longer term), labour productivity in services is one third lower than in manufacturing.[3] The depletion of Korea's low skilled manufacturing base, coupled with comparatively low productivity in the

[3] OECD (2007g). The authorities' estimate for labour productivity in services is even lower, at only 46% of that in manufacturing in 2005. Also, TFP growth in services declined from 1.7% in the 1980s to 0.4% in the 1990s.

services sector, could threaten Korea's potential long-term growth. In addition, there appears to be a long-term trend of increasing income inequality, with the Gini coefficient[4] having risen from 0.28 to 0.32 since 1997[5], mainly due to the widening wage gap between large and small firms and labour market dualism.[6] Aging population and the associated fiscal burden, also constitute serious concerns.[7]

3. International trade continues to play a pivotal role in Korea's economy, whose openness is such that total trade in goods and non-factor services amounted to 90.2% of GDP in 2007. Moreover, Korea remains a significant source of foreign direct investment (FDI), as Korean manufacturers move operations abroad to take advantage of lower costs. By contrast, inward FDI in Korea remains low by OECD country standards and declined during the period under review[8]; relatively low and declining FDI in relation to GDP is thought to be due to, *inter alia,* the increasing cost of doing business in Korea, excessive regulation, and perhaps the appreciating won. Compared with other Asian economies, Korea's integration into the global economy seems somewhat low[9], although the authorities maintain that this is not the case and, in any event, they are taking steps to enhance its integration by, among other things, increasing market access, expanding overseas operations, as well as participating in multilateral and regional trade agreements.

(2) RECENT ECONOMIC DEVELOPMENTS

4. During the period under review, Korea's real GDP growth peaked at 5.1% in 2006, but came down marginally to 5.0% in 2007 (Table I.1). GDP growth was fuelled by exports, particularly of manufactures, which grew at an annual average of nearly 9%, in spite of weak private consumption, deteriorating terms of trade, and falling investment.[10] However, the share of manufacturing in GDP declined from 28.6% in 2004 to 27.9% in 2007, due to a rise in the share of imported intermediate inputs in the manufacturing process. By contrast the share of services increased from 55.6% to 57.6%, possibly partly due to liberalization in the sector (Table I.2).

5. Overall unemployment dropped from 3.7% in 2004 to 3.2% in 2007 owing to increasing employment in the services sector. This is mainly due to the rise in the number of temporary workers, from 17% of employees in 2001 to 29% in 2005, the second highest in the OECD area.

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[4] The Gini coefficient measures income inequality, where an index of zero represents perfect equality, and 1 perfect inequality.

[5] The share of temporary workers rose from 17% of employees in 2001 to 29% in 2005 (IMF, 2006).

[6] The labour market in Korea consists of temporary workers and permanent workers. The latter tend to be much better paid and covered by worksite-based pension, and health and employment insurance; temporary workers are not (OECD, 2007b).

[7] Under the existing parameters, the aging population could result in an increase in the health and long-term care by 8.5% of GDP by 2050 and deplete the assets of the pension system, requiring an annual budget outlay of approximately 7% of GDP (IMF, 2006).

[8] Korea ranks among the lowest in the OECD as regards the ratio of inward FDI to GDP and 110th in the world with respect to the cost and time involved in starting a new business (OECD, 2008).

[9] Korea ranked 29th (out of 123) in globalization, according to a report by the Swiss Institute for Business Cycle Research (KOF) of the Swiss Federal Institute of Technology in Zurich, Switzerland. Despite receiving a relatively high score in social globalization and political globalization indexes, its economic globalization rank lagged far behind that of its Asian rivals (*The Nation* online information "Korea ranks 29th in globalization", 13 February 2006. Viewed at: http://www.korea.net/news/news/NewsView.asp?serial_no=20060212005&part=102&SearchDay= [27 March 2008]).

[10] Total investment declined from 37.5% of GDP in 1996 to 28.8% in 2007, while spending on machinery and equipment fell from 15.2% to 10.7% of GDP over the same period (OECD, 2007g).

Table I.2
Basic economic and social indicators, 2003-07

	2003	2004	2005	2006	2007
Real GDP at market prices (won billion, 2000 prices)	662,654.8	693,995.5	723,126.8	760,251.2	98,057.0
Real GDP at market price (US$ billion, 2000 prices)	586.1	613.8	639.6	672.4	705.9
Current GDP at market price (won billion)	724,675.0	779,380.5	810,515.9	848,044.6	901,188.6
Current GDP at market price (US$ billion)	608.0	680.9	791.3	887.5	969.9
GDP per capita at current market price (won '000)	15,141.9	16,223.9	16,837.3	17,558.9	18,598.1
GDP per capita at current market price (US$)	12,704.1	14,173.4	16,437.7	18,376.5	20,015.2
GDP by economic activity at constant 2000 prices		(Annual percentage change)			
Agriculture, forestry and fishing	-5.3	9.2	0.7	-1.5	1.1
Mining and quarrying	0.9	2.7	-1.7	1.7	1.6
Manufacturing	5.5	11.1	7.1	8.5	6.5
Electricity, gas and water	4.7	6.6	7.8	3.4	4.0
Construction	8.6	1.8	-0.1	0.3	1.8
Services	1.6	1.9	3.4	4.4	4.8
Wholesale and retail trade, restaurants and hotels	-2.8	-0.2	2.0	3.5	3.5
Transport, storage and communication	4.8	7.0	4.8	4.6	5.4
Financial intermediation	0.5	-1.4	4.7	5.3	10.3
Real estate, renting and business activities	2.2	1.9	3.4	4.6	3.9
Public administration and defence, compulsory social security	2.6	2.1	2.6	3.3	2.5
Education	3.7	2.2	1.2	2.6	1.6
Health and social work	5.1	5.0	5.6	7.2	8.1
Other	1.1	1.1	3.1	5.8	4.1
Share of GDP, current prices			(Per cent)		
Agriculture, forestry and fishing	3.8	3.8	3.4	3.3	3.0
Mining and quarrying	0.3	0.3	0.4	0.3	0.4
Manufacturing	26.4	28.6	28.4	28.0	27.9
Electricity, gas and water	2.7	2.4	2.3	2.3	2.3
Construction	9.6	9.3	9.2	9.0	8.9
Services	57.2	55.6	56.3	57.1	57.6
Wholesale and retail trade, restaurants and hotels	9.9	9.4	9.4	9.4	9.3
Transport, storage and communication	7.5	7.3	7.3	7.1	7.2
Financial intermediation	8.9	8.2	8.4	8.5	8.9
Real estate, renting and business activities	12.8	12.4	12.5	12.7	12.8
Public administration and defence, compulsory social security	6.0	6.1	6.3	6.5	6.4
Education	5.6	5.6	5.8	5.9	5.9
Health and social work	3.0	3.0	3.2	3.4	3.6
Other	3.5	3.4	3.5	3.6	3.6
Share of sector in total employment					
Agriculture, hunting and fishery	8.8	8.1	7.9	7.7	7.4
Mining and quarrying	0.1	0.1	0.1	0.1	0.1
Manufacturing	19.0	19.0	18.5	18.0	17.6
Electricity, gas and water	0.3	0.3	0.3	0.3	..
Construction	8.2	8.1	7.9	7.9	7.9

Table I.2 (cont'd)

	2003	2004	2005	2006	2007
Services	62.6	63.8	64.5	65.3	..
Wholesale and retail trade	17.5	16.9	16.4	16.0	..
Hotels and restaurants	8.9	9.1	9.0	8.9	..
Transport, storage and communication	6.0	6.1	6.3	6.4	..
Financial institution and insurance	3.4	3.3	3.3	3.4	..
Real estate, renting and leasing	1.9	2.0	2.2	2.2	..
Business activities	5.9	6.5	6.7	7.2	..
Public administration and defence, compulsory social security	3.4	3.4	3.5	3.5	..
Education	6.7	6.7	6.9	7.2	..
Health and social work	2.4	2.6	2.8	3.0	..
Other community, social and personal service activity	6.4	7.2	7.6	7.7	..
Other[a]	1.0	0.7	0.7	0.7	..

.. Not available.

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

Source: Korea National Statistical Office, *Monthly Statistics of Korea* 2007-9 and 2008-1; and data provided by the authorities.

6. A key reason for exports remaining competitive is the growth (10%) in labour productivity in manufacturing, which is driven mainly by technological enhancements.[11] On the other hand, productivity in the services sector is low compared with manufacturing, and has been stagnating. The main problem lies in the retail sector, which is dominated by small family-owned stores, but productivity performance in other services has also proved disappointing due mainly to protection of the services sector as a whole.

7. Inflation was modest during the review period. The consumer price index was contained within the Bank of Korea's (BOK) target range of 2.5%-3.5%. However, inflation has been increasing since the beginning of 2008 and reached a nine-year high of 5.5% in June. The increase in prices was due largely to rising fuel and food prices.

(3) MACROECONOMIC POLICIES

(i) Monetary and exchange rate policy

(a) Monetary policy

8. The BOK conducts monetary policy with the aim of maintaining price stability, and thus pursues an inflation-targeting policy. Under Article 3 of the Bank of Korea Act, "The monetary and credit policies of the Bank of Korea shall be formulated neutrally and implemented autonomously and the independence of the Bank of Korea shall be respected". The present medium-term target is 3% ± 0.5%, over 2007-09.[12] The BOK in consultation with the Government changed the target indicator in January 2007 from core inflation to headline CPI, which includes energy and non-grain agricultural prices (core inflation included other food prices), thus representing more closely living costs.[13] The main BOK instrument to control the interest rate, and thus the price level, is open market operations.[14]

[11] Korea's share of world exports has remained stable at 3% (IMF, 2007b).
[12] Bank of Korea online information. Viewed at: http://www.bok.or.kr/index.jsp [20 January 2008].
[13] Bank of Korea online information. Viewed at: http://www.bok.or.kr/index.jsp [20 January 2008].
[14] The BOK changed its policy rate from 'the call rate target' (uncollateralized overnight call rate) to 'the Bank of Korea Base rate', which is the reference rate applied to transactions between BOK and financial

Other instruments used by the BOK to control credit and liquidity in the economy are aggregate credit ceiling and reserve requirements.[15]

9. Following the credit card crisis[16], the BOK adopted an expansionary monetary policy stance during 2003 and 2004 to facilitate economic recovery and address financial market instability. As economic recovery took hold in 2005 and banks re-engaged in household lending, the BOK pursued a contractionary monetary policy to counter the associated inflationary pressure, raising the policy (uncollateralized overnight call rate) interest rate seven times to its current level of 5%.[17] The BOK also raised reserve requirements in 2006 and lowered the aggregate credit ceiling in 2007 in order to subdue liquidity growth resulting from the capital account surplus. The authorities' reason for maintaining a tight monetary policy, other than to pre-empt any inflationary pressures, was to respond to rapid money and credit growth in the economy.[18]

(b) Exchange rate policy

10. Korea has maintained a floating exchange rate[19], which is determined by supply and demand, although the authorities have intervened in the market in modest amounts to smooth volatility and prevent the won from appreciating too rapidly.[20] As a result of surpluses on both the capital and current accounts, the won appreciated significantly against the U.S. dollar, moving from W 1,144.7 per US$ in 2004 to W 935.8/US$ in early 2008, an appreciation of over 18%. However, since March, the won has depreciated against the U.S. dollar and was at US$1,046.8 on 30 June 2008. With inflation being low, compared with Korea's major trading partners, the real effective exchange rate has been appreciating. According to the IMF, the exchange rate seems to be appropriately valued.[21]

(ii) Fiscal policy

11. During the period under review, Korea recorded a fiscal surplus each year; albeit declining from 0.7% of GDP in 2004 to 0.4% in 2006, but rising significantly to 3.8% in 2007. The fiscal stance has been broadly neutral. Revenue as a share of GDP increased from approximately 23% in 2004 to 27% in 2007[22], and tax to GDP rose from 15.1% to 17.9% (for breakdown of taxes see Chapter III). However, both ratios are relatively low in comparison to other OECD countries.

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institutions, such as repurchase agreements and the Bank's standing facilities. However, the call rate maintains its role as 'operational target'.

[15] The Bank of Korea operates its aggregate credit ceiling by setting a ceiling on its refinancing credits to banks and allocating quotas under this to individual banks in accordance with prescribed criteria. Banks may then borrow funds from the Bank of Korea within their quotas (Bank of Korea online information. Viewed at: http://www.bok.or.kr/content/old/attach/00000888/200301161356580.pdf [10 May 2008]).

[16] Between 1999 and 2003, consumer lending and credit was encouraged and grew significantly; furthermore the consumer credit market was lightly regulated. As debts rose, borrowers found it increasingly difficult to repay, resulting in widespread defaults and the near collapse of the credit card companies in 2003, which required a bailout package from the Government.

[17] The rate was raised by 0.25% in October 2005, and has subsequently been raised six times to 5%; however, the BOK has left the rate unchanged since August 2007 (IMF, 2007b); and Bank of Korea online information. Viewed at: http://www.bok.or.kr/index.jsp [20 January 2008].

[18] IMF (2007b).

[19] Korea maintains exchange rate restriction for security purposes in accordance with UN security council resolutions and these have been notified to the IMF.

[20] Since the start of 2006, estimated interventions have averaged approximately US$1 billion per month, which is approximately 0.75% of the onshore foreign exchange market (IMF, 2007b).

[21] IMF (2007b).

[22] Revenue receipts include social security contributions, which amounted to 3.3% of GDP in 2007 (Table I.1).

Revenue during 2007 exceeded the budgeted amount by W 14 trillion, due to temporary carry-over of tax collection, increases in real estate related taxes, and a broadening of the tax base. The increased revenue has been earmarked to repay government debt, which was approximately 33.2% of GDP in 2007.

12. Expenditure grew from 22.3% of GDP to 23.3% during the period (Table I.1). The National Fiscal Management Plan aims to increase the fiscal surplus to 1.8% of GDP by 2010 by reducing expenditure growth to 6.4%.[23] The Plan[24], as well as the National Fiscal Act (2007), also limits the possibility of the Government issuing supplementary budgets.[25] To enhance transparency, the Government plans to implement accrual budget accounting by introducing double bookkeeping in fiscal year 2009, which would supplement the current cash-based accounting system. The level of expenditure in 2007 was expected to remain the same as in 2006, but the focus has changed from infrastructure and public administration to the social safety net, education, and research and development.

13. The Government has significant contingent liabilities, such as off-budget spending on account of build-transfer-lease projects and government guarantees for SME loans.[26]

(4) MAIN STRUCTURAL POLICY DEVELOPMENTS

(i) Tax reform

14. The objectives of Korea's tax reform are to: enhance economic activity and increase growth potential; increase fiscal revenue by broadening the tax base so as to be able to address the issues of aging population and income inequality; stabilize asset markets; and improve transparency. Personal income tax is only 3% of GDP, compared with an OECD average of 10%; this is on account of extensive deductions, tax credits, allowances, and weak enforcement.[27] Only 43% of household income is taxed, compared with over 75% in other OECD countries; furthermore, only about half of eligible people pay tax.[28] The authorities are trying to broaden the tax base by improving enforcement against understatement of income, increasing penalties for tax fraud, and requiring high income self-employed to use business accounts for all business transactions. Additionally, reducing allowances and credits such as deductions and tax credits for salary and wage earners, and wide ranging tax preferences for enterprises, improving the taxation of fringe benefits and collection, would result in a revenue increase of approximately 5% of GDP, which would enable the Government to

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[23] OECD (2007g).

[24] The Plan provides a medium-term perspective on fiscal management and detailed sectoral investment plans. Additionally the Plan has to be revised and updated annually to serve as a guideline to the annual budget process.

[25] Between 2001 and 2006, the Government issued a supplementary budget every year, averaging W 5 trillion annually (OECD, 2007g). Under the National Fiscal Act, a supplementary budget can only be issued under conditions of national emergency, natural disaster, economic downturn, and legal requirements for expenditure. In addition under the Act, when the Government submits a Bill that contains increased expenditure or tax reduction measures, an estimate on expenditures and revenues for the next five years as well as detailed financing plans should be attached.

[26] The Government guarantees 18% of SME loans, which amounts to 5.3% of GDP (IMF, 2007b). According to the authorities, government guaranteed debt amounted to 3.7% of GDP in 2007.

[27] IMF (2007b). Another plausible reason for the low personal income tax to GDP ratio could be the significant difference between the corporate income tax rate (25%) and the highest personal income tax rate (35%), which provides considerable scope for personal tax avoidance.

[28] OECD (2007g).

meet social needs without raising tax rates.[29] With regard to corporate income tax, incentives provided to R&D, SMEs, and agriculture also limit the authorities' ability to increase tax revenue.

(ii) Financial and capital markets reform

15. During the period under review, restructuring and reform continued in the financial sector, resulting in its improved health (Chapter IV). However, banks remain vulnerable due to the variable interest rate based consumer and SME loans[30], growth in mutual savings banks loans (subject to less stringent prudential regulations than commercial banks), and increased un-hedged foreign exchange lending by domestic banks.[31]

16. The Government has been implementing its financial hub policy, for which a roadmap was drawn up in 2003, as an effective apparatus to advance the financial market. The legal and institutional framework has been set up, and concrete policy measures are being implemented, including the establishment of the Korea Investment Corporation in 2005 and the ongoing deregulation of capital markets.[32] Additionally, in December 2007, the Government introduced the Act on the Preparation and Development of Financial Centre, aimed at strengthening the legal foundation in order to carry out the financial hub policy. The Government has taken steps to liberalize the capital account through the Overseas Investment Revitalization Plan, launched in 2005, which promotes corporate expansion overseas, easing of restrictions on foreign exchange transactions, as well as announcing the complete liberalization of the capital account by 2009, two years ahead of schedule.[33] The Financial Investment Services and Capital Market Act, set to become effective in 2009, brings together all capital-market-related laws under a single Act, thereby streamlining some 300 regulations to 190 (Chapter IV). Other initiatives include a planned shift from rules-based to risk-based supervision under Basel II, and the financial supervisors' intention to strengthen the monitoring of SME lending and decrease the quota of preferential loans made to SMEs by banks.[34]

(iii) Privatization

17. State intervention in the economy persists in key service sectors such as financial, telecommunications, and transportation services. There is also state intervention in the gas and electricity sectors (Chapters III and IV). The privatization process, a contentious issue, has been put virtually on hold; the new Government seems committed to resuming divestment activities to streamline the public sector and improve its overall competitiveness, but no concrete plans have yet been formulated.

(iv) Labour

18. In conjunction with management and labour unions, the Government passed new legislation on reforming labour relations in 2006. Under the new law; the compulsory arbitration system was abolished, the minimum service system was introduced, and the reporting requirement for third-party assistance was repealed. With regard to the labour standards; the penal provision punishing unfair dismissal was deleted; non-compliance charges began to be imposed in case of failure to comply with

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[29] OECD (2007g).

[30] IMF (2006).

[31] Such loans increased by US$8.5 billion during the first six months of 2006 (IMF, 2006).

[32] IMF (2006).

[33] Under the Overseas Investment Revitalization Plan, in 2005 the overseas direct investment ceiling was adjusted upwards and regulations on indirect overseas real estate investment were eased. In 2006, the ceiling was abolished on overseas direct investment by individuals for individual purposes.

[34] IMF (2007b).

a remedial order to enhance the effectiveness of a remedy for breach of rights; the requirement to specify working conditions in writing was expanded; and the period of advance notice in case of dismissal for managerial reasons was shortened from 60 to 50 days. The new provisions are expected to, *inter alia*, enhance the balance (and harmony) between labour market flexibility and protection of vulnerable workers.[35] With a view to expanding the social safety net, the coverage of unemployment benefits was widened, and implementation of the Earned Income Tax Credit was planned for 2008.

(v) Corporate governance

19. Recent policy initiatives with respect to corporate governance included measures to protect investor rights. Examples include the introduction of class action law suits and electronic voting systems for shareholders. Audit laws were also amended (in December 2003), requiring firms to change auditors every six years. Firms have also voluntarily improved the accountability of controlling shareholders through enhanced disclosure of information with regard to fundraising and restructuring. Information on sharing of costs between affiliates must also be disclosed. Moreover, under the Government's Three Year Market Reform Roadmap (completed in 2006), shareholders have been further limited as from 2006 from expanding their control through financial affiliates. Disclosure requirements with respect to ownership and control have also been enhanced.[36] Other initiatives by the authorities include the limitation on cross-shareholding, which cannot exceed 15% of the gross number of stocks issued by a groups' affiliates.[37] In order to encourage *chaebols* to convert to holding companies (or to establish one), the Korea Fair Trade Commission (KFTC) has eased requirements for establishing holding companies. Additionally, Korea has taken steps to implement the OECD's convention on foreign bribery. In this regard, there were six convictions during the period under review.[38] Korea's ranking among several countries on measurements of opacity and corruption perception remains relatively satisfactory.[39]

(vi) Pension reform

20. As a result of Korea's rapidly aging population[40], the assets of the national pension fund are expected to peak in 2043, and then start declining. In order to sustain the pension fund, Korea carried out national pension reforms in 2007. The reforms aim to reduce the benefit replacement rate from 60% to 40% by 2028, while keeping the contribution rate at its current level of 9%. The assets of the national pension fund were nearly W 220 trillion in 2007 and were mostly invested in financial assets;

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[35] Non-regular workers (a category that includes temporary workers) earned almost 40% less than regular workers in 2005, with differences in productivity explaining only part of the disparity. Furthermore, two thirds are not covered by worksite-based pension, health or employment insurance (OECD, 2007g).

[36] KFTC (2004).

[37] The ceiling was reduced gradually from 25% in 2006 and 20% in 2007.

[38] OECD (2007e).

[39] Korea ranked 26th (among 48 countries) in the 2004 Opacity Index, which measures the degree to which countries lack clear, accurate, easily discernible, and widely accepted practices governing the relationships among governments, businesses, and investors (Kurtzman Group, 2004). This translates into a risk premium of 3.5%. Opacity may to some degree reflect, among other things, language factors. Further, according to Transparency International's 2007 Corruption Perceptions Index, which measures perceptions of corruption among public officials and politicians, Korea's rank improved to 43 (out of 179) in 2007 from 47 (out of 145) in 2004 (Transparency International's Corruption Perceptions Index. Viewed at: http://www.transparency.org/policy_research/surveys_indices/cpi [10 March 2008]).

[40] With a fertility rate of one, coupled with rising life expectancy, Korea's population is aging quickly; consequently, the old age dependency ratio (people aged 65 or more compared with the working age population) is expected to rise from 13% in 2005 to 65% in 2050. This dramatic demographic change would result in fiscal pressure on account of pensions, heath, and long-term care expenses. It is estimated that public age-related expenditures could rise by as much as 13% of GDP (IMF, 2008).

almost 70% are in domestic bonds, while the rest are invested in domestic stocks, foreign bonds, foreign stocks, and alternative investments such as real estate and venture investment.[41]

21. Furthermore, in 2005, a Retirement Pension System was introduced, in addition to the national pension system. Under the new system, firms with five or more employees are allowed to replace the existing lump-sum retirement allowances with a company pension system based on an agreement between labour and management.[42]

(5) BALANCE OF PAYMENTS

22. Korea's current account surplus declined from 4.1% of GDP in 2004 to 0.6% in 2007. The current account surplus reflects the extent to which gross national saving exceeds gross domestic investment. During the review period, both gross national savings and gross domestic investment as a share of GDP fell. However, the decline in the former was more pronounced. This may be due to the recovery of domestic consumption after the restructuring following the credit card crisis enabling banks to re-engage in household lending. In addition, the rise in government spending as a share of GDP could also result in domestic consumption rising.

23. After peaking in 2006, the capital and financial account surplus has declined significantly (Table I.3); however, the capital account has been quite volatile, with large swings in net direct and portfolio investment. The reason for the latter is the repatriation of foreign investments in Korean stocks and a sharp rise in overseas stock investment by Korean residents. On the other hand, other investments, particularly trade credits and loans, have grown significantly, due to a surge in short-term borrowing by banks to hedge against foreign exchange fluctuations by Korean manufacturers (particularly shipbuilders). These have more than offset the investment outflows.[43] With both the capital and financial and current accounts in surplus, foreign exchange reserves rose from US$199.1 billion in 2004, to US$262.2 billion in 2007 (US$258.2 billion at end-May 2008), which represents more than 170% of short-term debt and over ten months of import coverage.

Table I.3
Balance of payments, 2003-07
(US$ million)

	2003	2004	2005	2006	2007[a]
Current account	11,949.5	28,173.5	14,980.9	5,385.2	5,954.3
Goods and services balance	14,527.8	29,522.7	19,024.9	8,944.4	8,834.5
Trade balance	21,952.0	37,568.8	32,683.1	27,905.1	29,409.4
Exports	197,289.2	257,710.1	288,970.7	331,842.0	378,982.0
Imports	175,337.2	220,141.3	256,287.6	303,936.9	349,572.6
Services balance	-7,424.2	-8,046.1	-13,658.2	-18,960.7	-20,574.9
Receipts	32,956.5	41,881.5	45,129.4	49,890.8	63,033.8
Transportation	17,179.8	22,529.4	23,876.9	25,807.0	33,766.7
Travel	5,358.2	6,069.0	5,805.6	5,787.8	5,796.6
Communication	341.2	445.6	443.0	642.2	573.5
Insurance	34.0	138.7	168.7	273.7	318.6

Table I.3 (cont'd)

[41] Under the Regulation on National Pension Fund Management; the ceiling on investment in domestic bonds is 10% to 100% of the equity capital of the issuer, depending on the credit rating of the issuer. For foreign bonds, the fund can be invested in 20% to 100% of the equity capital of the issuer, depending on the credit rating of the issuer. With regard to direct management of domestic stocks, the fund can be invested in up to 10% of common stocks and preferred stocks issued by the same firms.

[42] OECD (2007g).

[43] In 2006, Banks borrowed US$40.6 billion in short-term loans (OECD, 2007g).

	2003	2004	2005	2006	2007[a]
Royalties	1,311.2	1,861.1	1,908.4	2,045.6	1,920.1
Other business	6,687.3	8,125.1	9,422.3	10,532.1	14,124.0
Government	1,203.2	1,377.0	1,418.2	1,509.3	1,497.4
Other	841.6	1,335.6	2,086.3	3,293.1	5,036.9
Payments	40,380.7	49,927.6	58,787.6	68,851.5	83,608.7
Transportation	13,613.0	17,654.8	20,144.0	23,132.8	29,873.9
Travel	10,102.8	12,350.2	15,405.9	18,850.5	20,889.9
Communication	692.9	635.7	773.1	1,011.7	929.7
Insurance	390.3	461.2	732.7	854.0	1,116.1
Royalties	3,570.0	4,445.9	4,560.8	4,650.4	5,075.1
Other business	11,049.4	13,162.5	15,537.5	17,704.7	22,508.3
Government	452.5	554.3	732.6	828.4	1,085.8
Other	509.8	663.0	901.0	1,819.0	2,129.9
Income balance	326.3	1,082.8	-1,562.5	533.7	768.5
Credit	7,175.8	9,410.3	10,431.8	14,547.4	19,326.9
Compensation of employees	732.1	713.1	745.3	685.0	660.8
Investment income	6,443.7	8,697.2	9,686.5	13,862.4	18,666.1
Debit	6,849.5	8,327.5	11,994.3	14,013.7	18,558.4
Compensation of employees	97.3	125.9	119.4	141.2	185.4
Investment income	6,752.2	8,201.6	11,874.9	13,872.5	18,373.0
Current transfers	-2,904.6	-2,432.0	-2,481.5	-4,092.9	-3,648.7
Credit	7,859.3	9,150.5	10,004.0	9,587.5	10,934.4
Debit	10,763.9	11,582.5	12,485.5	13,680.4	14,583.1
Capital and financial account	13,909.4	7,598.8	4,756.5	17,972.0	6,232.3
Capital account	-1,398.4	-1,752.8	-2,340.4	-3,126.1	-2,389.6
Financial account	15,307.8	9,351.6	7,096.9	21,098.1	8,621.9
Direct investment	100.0	4,588.3	2,010.4	-4,540.4	-13,696.7
Korea's direct investment abroad	-3,425.5	-4,657.9	-4,298.1	-8,126.8	-15,275.5
Foreign direct investment in Korea	3,525.5	9,246.2	6,308.5	3,586.4	1,578.8
Portfolio investment	17,906.5	8,619.3	-1,728.2	-22,745.6	-19,093.3
Assets	-3,590.2	-7,395.5	-10,675.1	-22,353.0	-42,414.0
Equity securities	-1,992.7	-3,621.6	-3,685.6	-15,261.7	-52,435.9
Debt securities	-1,597.5	-3,773.9	-6,989.5	-7,091.3	10,021.9
Liabilities	21,496.7	16,014.8	8,946.9	-392.6	23,320.7
Equity securities	14,418.5	9,468.8	3,282.1	-8,390.9	-28,725.9
Debt securities	7,078.2	6,546.0	5,664.8	7,998.3	52,046.6
Other investment	-2,698.7	-3,856.0	6,814.7	48,384.1	41,411.9
Assets	-5,132.4	-8,138.4	-2,658.1	-7,945.4	-18,423.9
Trade credits	22.5	-986.5	453.6	-1,591.4	-2,022.3
Loans	-4,492.7	-2,386.1	245.8	-1,275.0	-10,325.2
Currency and deposits	-1,325.5	-130.2	-1,247.0	-1,354.3	-4,730.0
Other assets	663.3	-4,635.6	-2,110.5	-3,724.7	-1,346.4
Liabilities	2,433.7	4,282.4	9,472.8	56,329.5	59,835.8
Trade credits	6,301.0	8,088.0	7,780.4	13,090.5	13,546.7
Loans	-5,031.9	-935.0	1,022.2	44,179.5	41,553.8
Currency and deposits	839.8	-2,650.4	-716.5	-2,415.8	5,496.1
Other liabilities	324.8	-220.2	1,386.7	1,475.3	-760.8
Net errors and omission	-9.5	2,938.2	68.4	-1,244.3	2,941.6
Reserve assets	-25,849.4	-38,710.5	-19,805.8	-22,112.9	-15,128.2

a Preliminary figures.

Source: The Bank of Korea, *Monthly Statistical Bulletin* 2007.10 and 2008.1.

(6) DEVELOPMENTS IN TRADE

24. The ratio of Korea's total trade (exports and imports) in goods and non-factor services to GDP increased from 83.7% in 2004 to 90.2% in 2007 (Table I.1), reflecting the increased trade openness of the economy. Korea was the world's sixth largest exporter (counting the EC as one) and seventh largest importer of goods in 2006.[44]

(i) Composition of trade

25. Since 2003, the share of manufactures in exports has declined, due mainly to the drop in the share of office machines and telecommunications equipment (Chart I.1, Table AI.1) and possibly the increasing competitiveness of Chinese products.[45] On the other hand, the share of primary products has risen, due mainly to refined oil exports, which benefited from higher international prices. Imports of primary products, particularly oil, have also risen (Table AI.2).

(ii) Direction of trade

26. The main destinations for Korea's exports in 2007 were China (22.1%), the EC-25 (14.8%), the United States (12.4%), and Japan (7.1%). During the period under review, the shares of the United States and Japan declined, while the shares of China and the EC-25 have risen (Chart I.2, Table AI.3). Korea's major suppliers in 2007 were China (17.7%), Japan (15.8%), the United States (10.5%), and the EC-25 (10.3%). The share of imports from the Middle East rose from 14.8% in 2003 to 18.4% in 2007, presumably due to higher international oil prices (Table AI.4).

(7) TRENDS AND PATTERNS IN FOREIGN DIRECT INVESTMENT

27. Inward FDI (on a notification basis) decreased slightly, from US$12.8 billion in 2004 to US$11.2 billion in 2006; its share to GDP also declined from 1.2% to 0.4%. During the period under review, the EC-25 became the largest investor, followed by Japan and the United States (Table I.4). The services sector, particularly finance and insurance, attracted the most investment, while investment in restaurants and lodgings also increased considerably during the review period; in contrast, investment in wholesale and retail services declined markedly. Within manufacturing, the electronics sectors has been the largest recipient of foreign investment; however, inflows in manufacturing have been quite volatile.

28. Outward FDI rose considerably, from US$6 billion in 2004 to US$9.9 billion in 2006. More than half was invested in other Asian countries, particularly China (Table I.5), due mainly to large Korean firms shifting their manufacturing operations to take advantage of the comparatively lower wages in China and other Asian countries. Other major recipients of Korean investment include the United States, Hong Kong, China, and Viet Nam. Nearly 50% of the investment is in manufacturing especially in radio and TV equipment and motor vehicles. With regard to services, Koreans have mainly invested in trade and repairs and real estate (Table I.5).

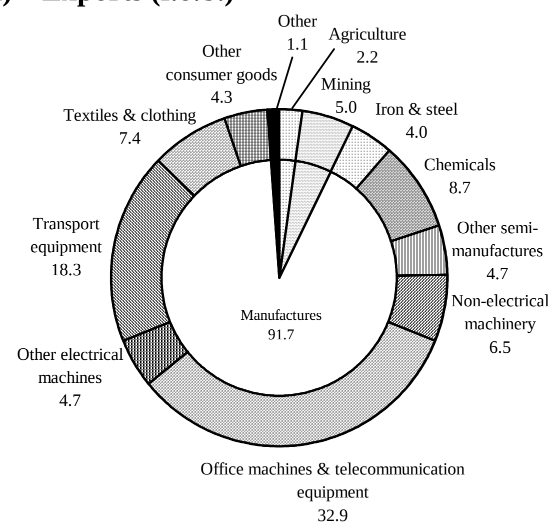
[44] WTO (2007).
[45] IMF (2007b).

Chart I.1
Product composition of merchandise trade, 2003 and 2007

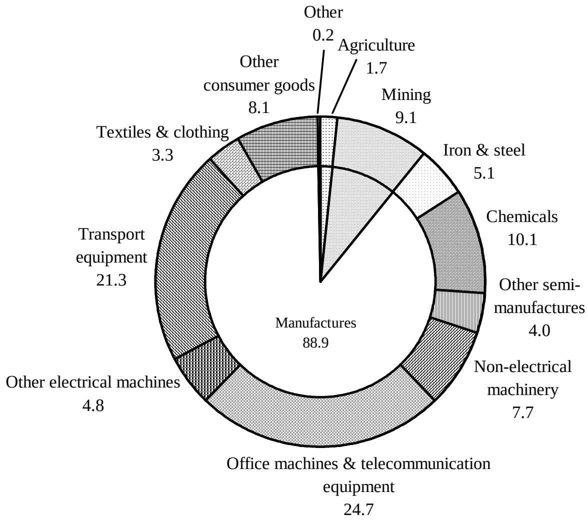
Per cent

2003 **2007**

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

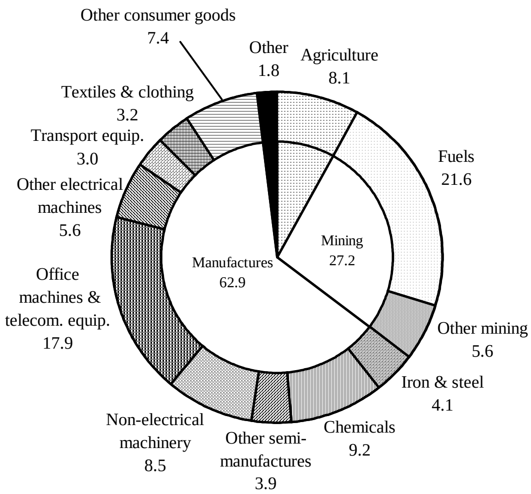


Total: US$193.8 billion

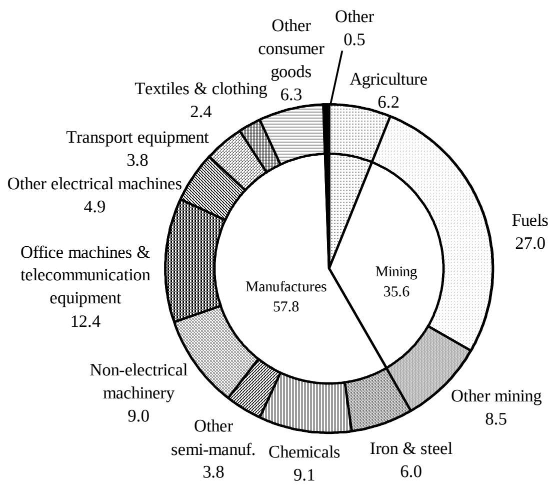


Total: US$371.5 billion

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



Total: US$178.8 billion



Total: US$356.8 billion

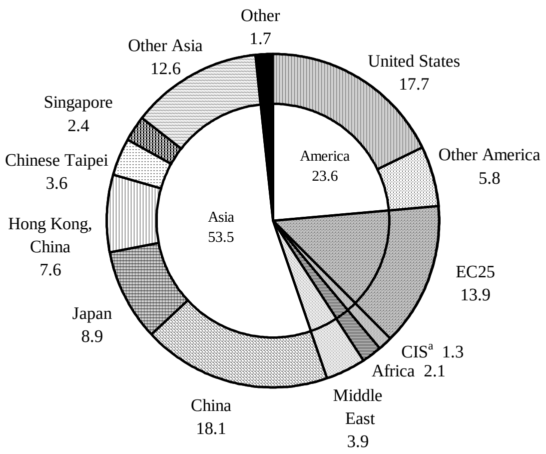
***Source*: UNSD, Comtrade database (SITC Rev.3).**

Chart I.2
Direction of merchandise trade, 2003 and 2007

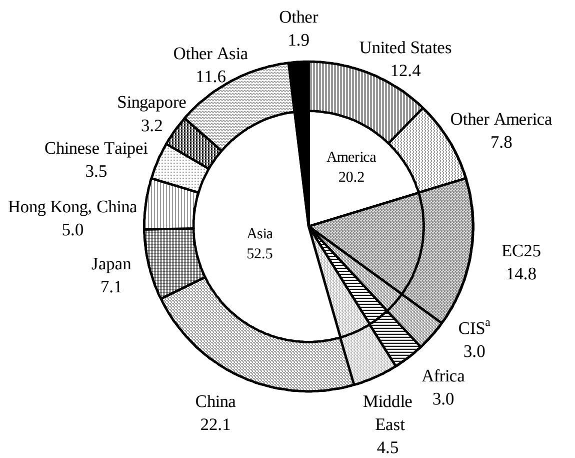
Per cent

2003	2007

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

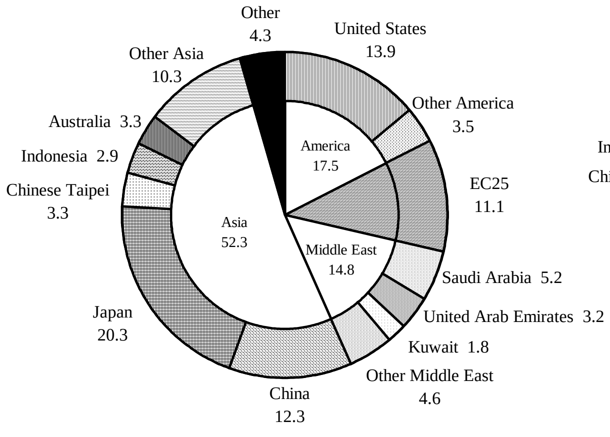


Total: US$193.8 billion

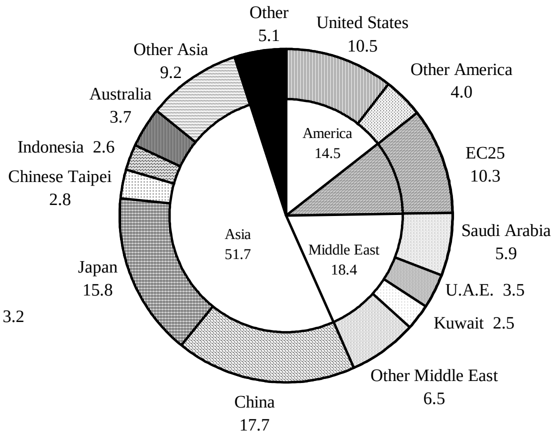


Total: US$371.5 billion

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



Total: US$178.8 billion



Total: US$356.8 billion

a Commonwealth of Independent States (CIS) countries are listed in Tables AI.3 and AI.4.

Source: UNSD, Comtrade database.

Table I.4
Inflows of foreign direct investment, 2003-06
(US$ million and per cent)

	2003	2004	2005	2006
Total inflows[a] (US$ million)	6,470.5	12,792.0	11,563.5	11,240.4
		(Per cent of total)		
Inflows of origin				
EC	47.5	23.5	41.3	44.3
Japan	8.4	17.7	16.2	18.8
United States	19.2	36.9	23.3	15.2
Singapore	3.6	2.9	3.4	5.0
Hong Kong, China	0.8	0.7	7.1	1.5
Cayman Islands	4.7	1.5	1.2	0.8
Canada	1.1	1.8	1.7	0.7
Malaysia	6.4	1.3	1.8	0.6
Virgin Islands	2.6	0.2	0.2	0.4
China	0.8	9.1	0.6	0.4
Chinese Taipei	0.2	0.1	0.1	0.2
Bermuda	0.1	0.3	0.3	0.1
Other	4.5	4.0	2.7	12.2
Inflows by sector				
Primary industries	0.1	0.0	0.0	0.0
Agriculture, fishery and forestry	..	..	..	..
Mining and quarrying	..	..	..	..
Manufacturing	26.3	48.6	26.6	37.8
Electricity, gas, water, and construction	9.8	3.4	1.6	3.3
Electricity, gas and water	..	..	..	..
Construction	..	..	..	..
Services	63.9	48.0	71.8	59.0
Wholesale and retail	14.6	8.8	7.0	4.4
Hotels and restaurants	3.3	0.4	2.7	9.9
Transport, storage and communication	9.6	3.2	8.7	5.5
Financial and insurance	25.5	25.2	33.9	26.9
Real estate and renting	5.2	2.1	8.3	2.9
Business activities	4.3	3.7	8.3	6.4
Culture and entertainment	0.4	3.7	2.7	2.7
Other services	1.0	0.9	0.3	0.2

.. Not available.

a Based on notifications.

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

Table I.5
Outflows of foreign direct investment, 2003-06
(US$ million and per cent)

	2003	2004	2005	2006
Total outflows (US$ million)	3,514.3	5,964.7	5,302.7	9,942.4
		(Per cent of total)		
Outflows by destination				
China	37.1	38.4	46.0	30.9
United States	28.7	22.4	21.4	16.1
EC	4.5	11.2	-0.8	9.4
Hong Kong, China	2.5	3.3	5.0	7.3
Viet Nam	..	2.9	4.8	5.7
Canada	0.4	0.8	0.6	3.9
Bermuda	..	0.0	1.4	3.3
Singapore	6.7	2.8	2.0	3.0
Kazakhstan	..	0.4	0.5	2.2
Japan	1.4	4.8	1.9	1.9
Nigeria	..	0.0	0.0	1.2
Indonesia	2.2	0.9	1.3	1.2
Australia	1.4	0.9	2.0	1.2
Cambodia	.	0.2	0.6	1.1
Brazil	0.2	0.3	2.7	1.1
Other	14.9	10.6	10.8	10.4
Outflows by sectors				
Agriculture and fishing	0.7	0.6	0.5	0.4
Mining and quarrying	7.7	5.1	8.4	14.2
Manufacturing	50.8	56.8	53.4	47.8
Electricity, gas and water	0.0	0.0	1.1	-0.3
Construction	1.2	1.3	2.1	5.8
Services	39.6	36.2	34.5	32.1
Trade and repairs	25.7	19.3	17.0	11.1
Hotels and restaurants	2.1	1.8	3.6	2.0
Transport, storage and communication	2.2	1.7	2.9	3.8
Financial and insurance	0.1	0.1	0.0	0.0
Real estate, renting and business activities	6.8	9.8	7.8	12.3
Other services	2.7	3.4	3.0	2.8

.. Not available.

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

(8) OUTLOOK

29. After the financial (1997) and credit card (2003) crises, economic recovery in Korea remains strong and fundamentals are sound. In the short term, the Government needs to continue to support consumption, which is vulnerable to a downturn in asset markets; proceed with structural reforms; and improve the investment climate, especially for foreign direct investment. The Korea Vision 2030 plan, seeks to make Korea a first-rate economy by 2020. The plan also seeks to improve Korea's national competitiveness and quality of life rankings, while reducing poverty and inequality. Low productivity in the services sector is a serious impediment to Korea's growth; this is addressed by the plan through increased spending on research and development, which is targeted to grow from 2.9%

of GDP in 2004 to 5.3% of GDP by 2030.[46] Recently, the new Government had targeted 7% real annual GDP growth, per capita income of US$40,000, and making Korea the seventh largest economy in the world by 2013.[47] However, under the present economic circumstances, meeting these goals seems unlikely. The BOK has reduced its GDP growth forecast to 4.6% for 2008.[48] To achieve sustainable growth, productivity in the services sector would need to be improved significantly through opening up the sector to domestic and foreign competition. Additional threats to Korea's long-term growth come from a declining and inflexible labour force. On the other hand, the threat to exports due to an appreciating exchange rate would be mitigated by substantial growth in productivity in the manufacturing sector.

[46] Vision 2030. Viewed at: http://world.kbs.co.kr/english/news/news_zoom_detail.htm?No=2014 [30 March 2008].

[47] *Financial Times*, 24 March 2008, "S Korea leader's '747' pledge on economy hits turbulence". Viewed at: http://www.ft.com/cms/s/0/243be74e-f942-11dc-bcf3-000077b07658.html [9 April 2008].

[48] *Financial Times*, 1 July 2008, "S Korea slashes growth forecast". Viewed at: http://www.ft.com [1 July 2008].

II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) INTRODUCTION

1. During the period under review (2004-08), no major changes have been made to the structure of trade policy formulation in Korea. Regulatory reform has progressed with emphasis shifting from a quantitative reduction of regulations to improving regulatory quality.

2. While remaining committed to multilateralism and a successful outcome of the Doha Round negotiations, Korea has pursued free trade agreements (FTAs) with major trading partners or regional groups (ASEAN, Singapore, EFTA, United States) and continues or is planning negotiations with others, to establish an FTA network with large economic blocs and newly emerging markets. Korea has continued to provide duty-free treatment to selected imports from least developed countries (LDCs). It has been involved in dispute settlement cases at the WTO.

3. While inflows of foreign direct investment (FDI) are considerably lower in Korea than in most other OECD countries, the authorities recognize that FDI is of vital importance to economic growth. Accordingly, several tax and other incentives are reserved for foreign-invested companies. Moreover, action has been taken to improve both the business and the living environment for foreign-invested companies and their employees. However, 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 299-member 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.[1] 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 in April 2008 and the next are due in four years.

6. The executive, through relevant ministers, mainly introduces legislation into the National Assembly.[2] Korea's legislative framework distinguishes between these acts and subordinate 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

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[1] 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.

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

him/her.[3] 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 force and 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 18 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); 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 230 lower-level municipalities; although they are empowered to collect local taxes and fees, local autonomy remains limited in certain areas.[4] 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[5]; other ministries are involved according to their spheres of responsibility. In 2008, the Ministry of Commerce, Industry and Energy, which is responsible for export and import measures as well as for policies on industry, energy, and resources, was renamed as Ministry of Knowledge Economy (MKE); it now incorporates certain functions that were previously the responsibility of other ministries (i.e. Information and Communications, Science and Technology, Finance and Economy).[6] Other relevant ministries are also involved in trade policy formulation and implementation.

11. The National Economic Advisory Council (NEAC), advises the President (its chairman) on development policies, including domestic and international economic issues affecting national

[3] 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.

[4] 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.

[5] 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. For example, MOFAT created a new FTA Division in October 2004.

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

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 consults on directions and strategies of general trade policy; as of April 2006, its 16 sectoral advisory groups were replaced by advisory groups for FTA negotiations. 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.[7] To help meet the Government's growth target, trade volume should reach US$1 trillion by 2010, making Korea one of the top eight traders.

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, mainly in the form of tariffs, for a number of sensitive items (Chapter IV). Concessional entry and autonomous tariff quotas for inputs have been used to reduce production costs in certain industries (Chapter III).

(5) TRADE LAWS AND REGULATIONS

16. Korea has made progress toward improving its regulatory framework.[8] Emphasis has shifted from a quantitative reduction of the overall stock of regulations to improving regulatory quality. By

[7] Ministry of Foreign Affairs and Trade (2007).
[8] OECD (2007h); and APEC (2007).

December 2007, the Regulatory Reform Task Force (RRTF) under the Prime Minister's Office had drafted 1,822 detailed improvement plans relating to 68 strategic areas; the RRTF facilitates reform of "bundle regulations" that involve multiple ministries, rather than single regulations.[9] Between 2004 and 2007, the Business Difficulties Resolution Center (BDRC), a one-stop ombudsman under the Prime Minister's Office, received 1,887 complaints from businesses on regulatory issues, of which 1,167 were resolved satisfactorily. The authorities plan, *inter alia,* to re-examine and reorganize 40% of the existing regulations, to upgrade the regulatory system, and to transform regulations with the largest impact on society and the economy.

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.[10] WTO provisions can, in principle, be invoked in domestic courts. This has never happened, however, and there have been no court cases where domestic laws have conflicted with WTO rules.

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 Ministry of Government Legislation (MOLEG) makes laws and regulations available on its Internet homepage (http://www.moleg. go.kr/English/).[11] It also publishes a monthly periodical, *Legislation*, which contains information on 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 can 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 translation of many Korean laws, many sub-legal regulations remain available only in Korean.[12] 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 April 2008). Korea's main trade-related laws have been amended since 2004. In June 2004, Presidential decree "regulation on concluding FTAs" (not an official translation) was introduced to, *inter alia*, ensure transparency for any FTA negotiations.

19. In the period under review, Korea has made many notifications to the WTO (Table II.1). Korea submits tariff and trade data annually to the WTO Integrated Data Base; the latest data submitted were for 2008.[13]

[9] OECD (2007h).

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

[11] 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.

[12] OECD (2007h).

[13] WTO Secretariat information and document G/MA/IDB/2/Rev.27, 11 April 2008.

Table II.1
Latest WTO notifications, as at end-June 2008

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/36, 27/02/2007
Article 18.2	Table MA.2 – Imports under tariff quotas	Annual	G/AG/N/KOR/38, 01/03/2002
Article 18.2	Table DS.1 – Domestic Support	Annual	G/AG/N/KOR/37/Corr.1, 19/03/2007
Articles 5.7 and 18.2	Table MA.5 – Special safeguards	Ad hoc	G/AG/N/KOR/39, 01/03/2007
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/172, 20/06/2008
	Semi-annual reports of anti-dumping actions (taken within the preceding six months)	Semi-annual	G/ADP/N/166/KOR, 16/04/2008
Article 18.5	Laws and regulations	Once by 03/1995, then changes	G/ADP/N/1/KOR/5, 25/04/2001
Articles 16.5	Competent authority to initiate anti-dumping investigations	Once, then changes	G/ADP/N/14/Add.17, 07/10/2003
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
Agreement Implementation of Article XXIV:7(a) of the GATT 1994 (Free-trade areas)			
Article XXIV of the GATT 94 and Article V:7(a) of the GATS	Free-trade area for trade in goods and trade in services	Ad hoc	S/C/N/373 and WT/REG217/N/1, 28/08/2006
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/147, 11/03/2003
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/6, 27/09/2007
Agreement on Government Procurement			
Article XIX:5	Government procurement statistics		GPA/84/Add.1, 12/10/2006
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/251, 18/02/2003
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, 12/01/2007
Article 7.3	Replies to questionnaire on important licensing procedures		G/LIC/N/3/KOR/6, 27/09/2007
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

Table II.1 (cont'd)

Agreement	Requirement/content	Periodicity	WTO document and date (latest document if recurrent)
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	Ad hoc	G/SPS/N/KOR/284, 10/06/2008
	Enquiry points	Ad hoc	G/SPS/ENQ/19, 25/01/2006
Agreement on Subsidies and Countervailing Measures			
Article 25.1 to 25.6	Annual report on subsidies	Annual	G/SCM/N/71/KOR, 02/08/2001
Article 25.11	Semi-annual report on countervailing duty actions	Semi-annual	G/SCM/N/107/Add.1, 24/04/2008
Article 25.12	Competent authority to initiate countervailing investigations	Ad hoc	G/SCM/N/18/Add.19, 20/10/2004
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/32, 07/03/2008
Article 10.6	Proposed and adopted technical regulations	Ad hoc	G/TBT/N/KOR/177, 09/06/2008
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
Agreement on Trade-Related Aspects of Intellectual Property Rights			
Article 63.2	Laws and regulations	Once, then changes	IP/N/1/KOR/T/2/Add.1, 28/11/2005
Article 69	Contact points	Once, then changes	IP/N/3/Rev.9, 08/11/2005
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.

(6) TRADE AGREEMENTS AND ARRANGEMENTS

(i) Korea and the WTO

20. 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 20 non-WTO Members and 4 other countries under bilateral agreements.[14] 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 still requires approval from the Minister of Unification on the kind of products traded, the type of transaction, and the settlement method.[15]

[14] The non-WTO Members are: Afghanistan, Bhutan, Lao PDR, Iran, Iraq, Lebanon, Syrian Arab Republic, Yemen, Nauru, Vanuatu, Independent State of Samoa, Union of the Comoros, Liberia, Ethiopia, Somalia, Andorra, Monaco, San Marino, Vatican City, and the Russian Federation. The 4 others are: Sudan, Kazakhstan, Uzbekistan, and Belarus.

[15] The Agreement on intra-Korean Transaction based on Clearing Settlement System (22 April 2004) has not been implemented due to a disagreement over the target items and the lack of will on the part of

21. Korea is an export-dependant country and one of the biggest beneficiaries of the multilateral trading system; it is an original Member of the WTO. Korea is also a signatory and observer, respectively, of the plurilateral Agreements on Government Procurement and on Trade in Civil Aircraft. It ratified the Fourth and Fifth protocols to the General Agreement on Trade in Services on Basic Telecommunications and Financial Services on 27 November 1997 and 27 January 1999, respectively. It was also an original Member of the Information Technology Agreement.

22. Korea attaches high priority to the successful conclusion of the Doha Development Agenda (DDA). 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. Korea believes in the benefits of multilateralism and has developed through trade; it considers that more than 70% of its development is due to trade and that special consideration should be given to developing countries to ease their development process.[16] Korea believes that trade liberalization in the agricultural sector should take place at a pace that takes into account Members' sensitivities in order to raise the overall level of ambition of the ongoing multilateral trade negotiations.

23. Korea has made use of the multilateral dispute settlement mechanism to resolve trade disputes. Since its last Review, Korea has been directly involved in four cases (Table II.2), three as a complainant and one as a respondent. It has also participated as a third party in 14 cases.

Table II.2
Involvement in the WTO dispute settlement mechanism, 2004-08

Dispute	Complainant/ respondent (WTO document)	Request for consultation	Panel report circulated	Appellate Body report circulated/ adopted
As a complainant				
European Communities - Aid for Commercial Vessels	Korea/EC (WT/DS307)	13.02.04		
Japan – Import Quotas on Dried Laver and Seasoned Laver	Korea/Japan (WT/DS323)	01.12.04	01.02.06 Mutually agreed solution notified: 23.01.06	
Japan – Countervailing Duties on Dynamic Random Access Memories from Korea	Korea/Japan (WT/DS336)	14.03.06	13.07.07	28.11.07/17.12.07
As respondent				
Korea – Anti-Dumping Duties on Imports of Certain Paper from Indonesia	Indonesia/Korea (WT/DS312)	04.06.04	28.10.05 Adoption: 28.11.05 Request for implementation panel: 22.12.06 Circulation: 28.09.07 Adoption: 22.10.07	

Table II.2 (cont'd)

North Korea. Although a relevant agreement was signed between South and the North Korean banks, its implementation was delayed. According to a survey conducted in January 2008 by the Ministry of Unification and the Korea International Trade Association, indirect transactions between North and South Korea account for 19% of their total trade while direct exchanges represents 52%. It is thought that South Korean businesses maintain indirect transactions through Chinese intermediaries to avoid various business risks.

[16] WTO document WT/MIN(05)/ST/19, 14 December 2005.

Dispute	Complainant/ respondent (WTO document)	Request for consultation	Panel report circulated	Appellate Body report circulated/ adopted
As a third party	**Complainant**			
European Communities – Selected customs matters	United States (WT/DS315/1)	21.09.2004	16.06.2006	13.11.2006/ 11.12.2006
European Communities and certain member States – Measures affecting trade in large civil aircraft	United States (WT/DS316/1)	06.10.2004		
United States – Measures affecting trade in large civil aircraft	European Communities (WT/DS317/1)	06.10.2004		
United States – Measures relating to zeroing and sunset reviews	Japan (WT/DS322/1)	24.11.2004	20.09.2006	09.01.2007/ 23.01.2007
Brazil – Measures affecting imports of retreaded tyres	European Communities (WT/DS332/1)	20.06.2005	12.06.2007	–/17.12.2007
United States – Measures affecting trade in large civil aircraft (second complaint)	European Communities (WT/DS353/1)	27.06.2005		
Turkey – Measures affecting the importation of rice	United States (WT/DS334/1)	02.11.2005	21.09.2007	–/22.10.2007
United States – Anti-dumping measure on shrimp from Ecuador	Ecuador (WT/DS335/1)	17.11.2005	30.01.2007	–/20.02.2007
European Communities and certain member States – Measures affecting trade in large civil aircraft (second complaint)	United States (WT/DS347/1)	31.01.2006		
European Communities – Anti-dumping measure on farmed salmon from Norway	Norway (WT/DS337/1)	17.03.2006	16.11.2007	–/15.01.2008
United States – Measures relating to shrimp from Thailand	Thailand (WT/DS343/1)	24.04.2006	29.02.2008	
United States – Continued existence and application of zeroing methodology	European Communities (WT/DS350/1)	02.10.2006		
China – Measures affecting the protection and enforcement of intellectual property rights	United States (WT/DS362/1)	10.04.2007		
China – Measures affecting trading rights and distribution services for certain publications and audiovisual entertainment products	United States (WT/DS363/1)	10.04.2007		

Source: WTO Secretariat.

(ii) Regional agreements

(a) Asia-Pacific Economic Cooperation (APEC)

24. Korea has traditionally given APEC high importance and intends 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). This is to be achieved on a voluntary and non-binding basis (concerted unilateral liberalization) using Individual Action Plans (IAPs) containing intended action in 15 policy areas. The IAPs are updated annually.

25. APEC has engaged in extensive work on RTAs/FTAs and is developing "model measures" chapters that could be used by members in their negotiations in order to achieve high-quality, comprehensive RTAs/FTAs. In November 2006, APEC leaders approved measures on: cooperation;

trade in goods; technical barriers to trade; transparency; government procurement; and dispute settlement. Eleven model measures remain under discussion. At their March 2008 meeting held in Lima, APEC Senior Officials discussed, *inter alia*, the status of the ongoing WTO negotiations and regional economic integration.[17] Supporting the multilateral trading system remains the highest priority for APEC economies. It was agreed to implement the recommendations of a report on regional economic integration, endorsed by APEC Economic Leaders in 2007, including practical and incremental steps to explore a Free Trade Area of the Asia-Pacific (FTAAP).

26. Korea hosted the 2005 APEC Summit in Busan and has played a leading role in establishing mid-term directions for trade and investment liberalization and adopting the Busan Road-map, which has revitalized the APEC process. Furthermore, Korea pledged to contribute US$2 million to the APEC Support Fund in support of capacity building projects for developing member economies in the budget years 2007 to 2009. It has also initiated a study on ways to confront the challenges and impediments related to socio-economic disparity issues and hosted an international APEC symposium on these issues in Seoul in 2006.

27. APEC's strengthened peer review process is aimed at examining more rigorously the progress of member economies in achieving the Bogor targets. Korea was reviewed in July 2007. The independent study prepared as part of that review concluded that "in many respects progress has been continuous and impressive" but "there has been little change in the main tariff and non tariff measures as applied on an MFN basis. Agriculture is still the area where the highest levels of protection apply and represents the toughest hurdle to meeting the Bogor goals".[18]

(b) Association of Southeast Asian Nations (ASEAN)

ASEAN+3

28. Korea attaches high priority to closer trade relations and other ties with ASEAN. The ASEAN+3 members (China, Japan, and Republic of Korea) 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, established in 2004, submitted its 2006 report ("Towards an East Asia FTA: Modality and Roadmap"), to the ASEAN Economic Ministers+3 Meeting in 2007. It recommends 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. Korea proposed the Phase II study, involving an in-depth, sector-by-sector analysis, to examine concrete elements of EAFTA, such as market access for goods, services, and investment, and rules of origin. The first meeting was in June 2007; a final report will be submitted in 2009.

ASEAN

29. An ASEAN and Korea (Rep. of) Free Trade Agreement on goods was signed in August 2006 and entered into force on 1 June 2007 for Korea, Singapore, and Malaysia. Korea and ASEAN members except for Cambodia, Myanmar, Brunei Darussalam, and Thailand have implemented the agreement. Under the agreement, the tariff rates on 90.8% (4,742 items) of all products will be reduced gradually to zero by 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 will be liberalized in

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[17] APEC online information. Viewed at: http://www.apec.org/apec/news___media/media_releases/030308_pe_som1workplan.html.

[18] APEC (2007).

four ways: 50% tariff rate capping; tariff reduction by 20%; tariff reduction by 50%; or tariff quota system. The remaining 0.77% (40 items, including rice) of tariff items are to be exempted from tariff concessions. In December 2007, Thailand (the only ASEAN member that had not signed the agreement) and Korea completed their bilateral negotiations for Thailand's accession to the agreement. The Korea-ASEAN FTA in Trade in Services was signed in November 2007 and is expected to enter into force in 2008. The level of Korea's commitments was similar to its offer for the Doha Round, which exceeds its GATS commitments. The number of the sectors or sub-sectors open to foreign suppliers increased, and limitations on both market access and national treatment in certain sectors or sub-sectors decreased.

(c) Asia-Pacific Trade Agreement (APTA)

30. 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).[19] Following China's accession in 2001, members initiated a revitalization process, including a third round of negotiations from October 2001 to mid 2005 with the objective of deepening and widening concessions. Furthermore, APTA launched the fourth round of trade negotiations to deepen the tariff cuts and widen its coverage in October 2007. The APTA contains a consolidated list of tariff concessions (resulting from the three rounds of trade negotiations) for members. Under this agreement, China and Korea (Rep. of) grant concessions on 1,697 (eight-digit HS) and 1,367 (ten-digit HS) items, respectively.

31. UNESCAP, which functions as the Secretariat for the agreement, has, *inter alia*, provided WTO training programmes to build up regional expertise on these issues, research, and undertake analytical studies on DDA issues and participation of LDCs and land-locked countries in the global economy through WTO-consistent regional trade arrangements.[20]

(d) Asia-Europe Meeting (ASEM)[21]

32. The informal process of dialogue and cooperation among 45 members, (EC States, the EC, the ASEAN Secretariat, and 16 Asian countries) addresses political, economic, social, and other issues to strengthen regional relationships. The 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. Concrete goals adopted for 2005-06 are in the priority areas of customs procedures, standards and conformity assessment, intellectual property rights, and e-commerce, and the related working groups have made progress; Korea has contributed to the cooperation in e-commerce as co-facilitator, keeping the ASEM eCOMMERCE website up-to-date. The Investment Promotion Action Plan (IPAP) continues to promote two-way investment by focusing on investment promotion and policy issues. ASEM members negotiating regional and bilateral free-trade arrangements are to ensure that these complement multilateral rules and are WTO-consistent.[22] The Asia-Europe Business Forum (AEBF) fosters regional cooperation among the private sector. The ASEM Trust Fund also financed technical assistance on financial sector restructuring and addressing poverty.

[19] The Bangkok Agreement (signed in 1975) was revised recently and renamed the Asia Pacific Trade Agreement (APTA); it entered into force on 1 September 2006 (see WTO document WT/COMTD/N/22, 27 July 2007).

[20] See UNESCAP (2006).

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

[22] Chair's Statement, 8th ASEM Senior Officials Meeting on Trade and Investment, 17 July 2002, Bali.

(e) Asia Cooperation Dialogue (ACD)

33. 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 strengths so as to position it as a viable partner for other regions.[23] The 30-country ACD has rapidly enhanced cooperation on dialogue and projects. ACD Ministerial Meetings have been held annually to discuss developments, issues of regional cooperation, and ways to enhance and solidify Asian unity.[24] 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

34. During the period under review, while remaining committed to multilateralism Korea has pursued intensively the negotiation and conclusion of FTAs with major trading partners. Although Korea views FTAs as complementary to the multilateral system and to promoting global trade liberalization, it has also at times questioned the impact that the proliferation of regional FTAs could have on the "validity" of the WTO.[25] According to the authorities, FTAs are one of the key ways to upgrade the economic system, since trade liberalization through FTAs would bring about greater competition and higher global standards, pushing towards a higher level of efficiency, an advanced economic structure and strengthened competitiveness.[26] Reportedly, these trade agreements and negotiations are expected to contribute to driving reforms and deregulation in some sectors that are still lagging and could benefit from further liberalization.[27] The authorities consider that such reforms and deregulation would be beneficial for all Korea's trading partners. Korea will be considering multilateralizing certain commitments undertaken in services under FTAs.

35. The negotiation of FTAs has been contentious. It has aroused public interest and debate and politicized Korea's international economic policy and given rise to strong opposition by domestic interest groups[28], thus obliging the authorities to adopt adjustment measures in support of companies that seem seriously injured by FTA-created import competition.[29] Following the entry into force of the Korea-Chile FTA (see below), as from 1 April 2004 a structural adjustment scheme was put in place for Korean farmers affected by FTAs (Chapters III and IV). Some W 1.2 trillion were set aside for a compensation scheme until 2010; by 2007, W 201 billion had been paid to 14,964 farming households who stopped production of grapes, kiwi fruit, and peaches.[30] From April 2007, support for structural adjustment may also be requested by manufacturers and related service providers adversely affected by FTA liberalization (Chapters III and IV). Beneficiaries are companies seriously injured by substantial increase of imports from FTA partners, whose sales or production is reduced by more than 25% because of import competition. Support measures take the form of loans, consulting and information services, and reemployment assistance.

[23] 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.

[24] ACD online information. Viewed at: http://www.acddialogue.com/web/2.php.

[25] Statement by Minister of Trade, Ministerial Conference, Cancun, 10-14 September 2003 (WTO document WT/MIN/903)/ST/15, 10 September 2003).

[26] APEC (2006).

[27] OECD (2007h).

[28] APEC (2007).

[29] APEC (2007).

[30] APEC (2007).

(a) Korea-Chile FTA[31]

36. Under the agreement, which entered in force on 1 April 2004 (notified to the WTO the same month)[32], Korea undertook to eliminate tariffs on 96.3% of its tariff lines (HS96), equivalent to 99% of its imports from Chile in 2003, within ten years. Korea's tariff elimination schedule saw the immediate liberalization of virtually all industrial products.[33] The agreement will ultimately liberalize bilateral trade in all Korea's manufactures, fisheries and forestry products. Liberalization of farm products is partial and protracted: 15.6% of agricultural items became immediately duty-free, 38% are to be liberalized after five years, and 16.7% are to be liberalized over seven, nine, and ten years; a few are subject to a 16-year timetable for duty elimination. Still others are liberalized within a tariff-rate quota or are subject to tariff-rate quotas. The outcome on some 391 agricultural items (including 18 items subject to tariff quotas) was left to the Doha Development Agenda negotiations; 21 items, including rice, apples, and pears, were permanently excluded from liberalization. Other provisions of the agreement cover investment promotion (and liberalization), the expansion of trade in services[34], a safeguard provision for surges in agricultural imports, dispute resolution procedures, government procurement, strengthening intellectual property rights including geographic indicators, and detailed rules of origin. Korea's commitments under the Agreement exceed its GATS commitments.

37. Reportedly, there has been substantial increase in bilateral trade since the entry in force of the agreement; the authorities attribute this to the dramatic rise (by 526%) of Korea's exports to Chile and in part, to the increase (by 220%) of Korea's imports from Chile, due mainly to the surge of copper and other metal prices over the past four years.

(b) Korea-Singapore FTA[35]

38. Under the agreement with Singapore, which entered into force on 2 March 2006 (notified to the WTO the same month)[36], all Korean exports received immediate duty-free entry into Singapore and Korea's immediate liberalization for goods from Singapore covered 59.7% of its tariff lines; further liberalization of 17.8% and 14.1% of its tariff lines is expected within five years and ten years, respectively. The agreement covers all services except air traffic services and public services and, as in Korea's other FTAs, it provides for national treatment, prohibiting each party from requiring a local presence, with a few reservations, based on a negative list approach. Korea's commitments under the agreement exceed its GATS commitments. Similarly it provides for dispute resolution procedures, government procurement, strengthening intellectual property rights including geographic indicators, and detailed rules of origin. The agreement is scheduled to be considered in the WTO Committee on Regional Trade Agreements (CRTA) in November 2008.

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[31] Based on information in APEC (2007).

[32] Korea and Chile jointly notified the KCFTA to the WTO under GATT Article XXIV and GATS Article V in April 2004 (WTO documents WT/REG169/N/1 and S/C/N/302 of 19 April 2004, and WT/REG169/1 of 30 April 2004). The agreement was considered by the Committee on Regional Trade Agreements (CRTA) based on a factual presentation by the WTO Secretariat on 26 July 2005 (WTO document WT/REG169/3, 1 July 2005).

[33] APEC (2006).

[34] The agreement covers all services except for the financial services sector, air traffic services, and public services. It provides for national treatment and prohibits each Party from requiring a local presence, with limited exceptions on a negative list approach.

[35] Based on information in APEC (2007).

[36] Korea and Singapore jointly notified the KSFTA to the WTO under GATT Article XXIV and GATS Article V in February 2006 (WTO documents WT/REG210/N/1 and S/C/N/363 of 24 February 2006).

(c) Korea-EFTA FTA

39. Under this agreement with EFTA States (Iceland, Lichtenstein, Norway, and Switzerland), which entered into force on 1 September 2006 (notified to the WTO the same month)[37], the parties undertook to eliminate all tariffs on substantially all trade in goods with the exception of agricultural goods, which are subject to separate agreements with each respective member state of EFTA. All Korean exports will enter EFTA duty-free and Korea will eliminate tariffs on 95.4% of its tariff lines (excluding basic agricultural items) within seven years.[38] The agreement covers all services except for air traffic services and public services, as well as dispute resolution procedures, government procurement, strengthening intellectual property rights including geographic indicators, and detailed rules of origin. Korea's services commitments under this agreement, almost equivalent to its DDA revised offer, exceeding those under GATS. The agreement is scheduled to be considered in the CRTA in November 2008.

(d) Korea-United States (KORUS) FTA

40. Under this wide-ranging agreement, which was signed in June 2007 and is to be ratified by the National Assembly in 2008, Korea undertook to eliminate tariffs on 94% of its non-agricultural tariff lines within three years of its entry in force, with virtually all remaining tariffs eliminated within ten years. More than half (US$1.6 billion) of current U.S. farm exports to Korea will become duty-free immediately; most remaining tariffs and quotas will be phased out over the first ten years.[39] Special safeguards are provided for Korea's most sensitive items, including oranges, soyabeans, potatoes, powdered milk, and natural honey.[40] 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 Special Consumption Tax and the Annual Vehicle Tax (Chapter III). Other sectoral arrangements involve textiles, pharmaceuticals, and numerous services sectors, including financial, telecommunications, and e-commerce services. The agreement also improves conditions with respect to trade remedies, outward processing, government procurement (reduction of minimum procurement value), intellectual property rights (extension of copyright protection to 70 years), regulatory transparency, and labour and environmental standards.

41. According to a joint study by 11 research institutions (published in 2007), the KORUS FTA could increase Korea's GDP by 6% within ten years of its entry in force, raise consumer welfare by 2.9%, create 336,000 jobs, and improve its trade balance *vis-à-vis* the United States and the world.[41]

(e) FTA negotiations

42. Korea is pursuing negotiations with other major trading partners on a "multi-track" basis to establish an FTA network with large economic blocs and newly emerging markets.[42] It is currently negotiating with ASEAN, the EC, Canada, Mexico, and India. FTA negotiations with Japan have

[37] Korea and 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 of 28 August 2006).

[38] APEC (2006).

[39] Office of the United States Trade Representative, "Trade Facts Free Trade with Korea Brief Summary of the Agreement", June 2007. Viewed at: http://www.amchamkorea.org/publications/information_detail.jsp?id=127 [19 March 2008]; and USTR Press release "United States and the Republic of Korea Sign Landmark Free Trade Agreement", 30 June 2007. Viewed at: http://www.ustr.gov/Document_Library/Press_Releases/2007/June/United_States_the_Republic_of_Korea_Sign_Lmark_Free_Trade_Agreement.html [19 March 2008].

[40] Ministry of Foreign Affairs and Trade (2007).

[41] Ministry of Foreign Affairs and Trade (2007).

[42] Ministry of Finance and Economy (2007a).

been in a deadlock since 2004. A first round of negotiations with the Gulf Cooperation Council (GCC) countries was planned for July 2008.

43. A joint study for a prospective Korea-China-Japan FTA is under way by Korean research institutions. A Korea-China FTA Joint Study is due to be finalized in 2008. Joint feasibility studies, at private level, were completed for FTAs with MERCOSUR countries (December 2006), New Zealand (November 2007), and Australia (April 2008); a study on FTA prospects with Peru is under way (May 2008).

44. 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 and the administration of several rules of origin (Chapter III). This is likely to reduce economic efficiency by undermining the transparency of Korea's trade protection in unpredictable ways and introducing economic distortions. 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.

(iv) Unilateral and other trade preferences

45. In January 2008, Korea unilaterally expanded preferential duty-free access on selected imports of 3,790 (six-digit HS2007) tariff items from 50 UN-defined least developed countries (Presidential Decree on Preferential Tariff for Least-Developed Countries) (Table III.2).[43] Korea has not invoked provisions enabling such preferences to be suspended in respect of imports causing or threatening to cause injury to domestic industries.

46. Korea grants reciprocal tariff preferences on 9 six-digit tariff items to 43 countries under the Global System of Trade Preferences Among Developing Countries (GSTP). In addition, it participates in the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC), and grants concessional tariffs on 6 six-digit tariff lines for 12 countries (Table III.2). Recently, annual imports under these schemes were: US$3 million or 0.001% of total imports (GSTP) and US$8 million or 0.002% (TNDC).

47. Only Norway and the Russian Federation accord Korea developing country preferences.[44] In this respect, the practical effects of developing country status retention for Korea are limited. Korea opts to retain developing country status, a highly sensitive economic and political issue, in the WTO and other relevant international fora.[45]

(7) FOREIGN INVESTMENT REGIME

48. Korea remains an important source of FDI for the rest of the world (Chapter I), and welcomes inward FDI as vital to the economy's growth and providing the necessary financial and technological resources for economic restructuring and enhancing international competitiveness. 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 an increasingly vital role in the economy.[46]

[43] WTO document WT/COMTD/N/12/Rev.1, 28 April 2000.

[44] The utilization rate under Norway's GSP scheme is 83.7%.

[45] It appears that the main rationale for retention of 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)) (APEC, 2007).

[46] 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.

During the period under review, Korea has implemented measures to help improve both the business environment and living conditions; labour unions support efforts to attract FDI.[47] Nevertheless, Korea's share of global inward FDI has reportedly been declining steadily since 2004, when the country accounted for 1.2% of the global market's total FDI, sliding to 0.6% in 2006.[48] This seems to be, *inter alia*, due to the manufacturing sector's relatively weak record in attracting FDI; Korea's negative perception of mergers and acquisitions, and consequent regulatory obstacles to this type of investment; a fall in large-scale investment opportunities; and a decrease in investment by existing multinational corporations. The authorities indicate, *inter alia*, that these developments are widely observed in other parts of the world and that during the first quarter of 2008, investment by existing foreign-invested companies increased by 75.7% compared with the same period last year. Korea is committed to improving its system of incentives offered to foreign investors, and continues to revise laws and regulations designed to promote FDI and to offer tax and other benefits.

49. The Foreign Investment Promotion Act (FIPA) permits all FDI types, which include: establishment of new businesses, purchase of shares in existing businesses, mergers and acquisitions, with at least 10% foreign ownership; and loans of five years or longer from foreign parent or affiliated companies.[49] Korea abides by OECD Codes of Liberalization of Capital Movements and of Current Invisible Operations, and the National Treatment Instrument.

50. MKE has responsibility for FDI inflows, and MOSF for outflows. The Commission on Foreign Direct Investment (CFDI) makes all major policy decisions on FDI.[50] Korea has continued to promote and facilitate FDI through the Korea Trade Investment Promotion Agency (KOTRA), the official investment promotion agency, which operates over 100 trade centres worldwide. Its main promotional arm, Invest Korea, serves as a "one-stop shop" to help foreign investors complete necessary administrative procedures, and with investment planning, legal, and tax matters. The Invest Korea portal site provides foreign investors with information and replies on investment procedures and grievance resolution.

51. Korea's investment regime is applied on an MFN basis. 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 (1999, fully revised), foreigners, including non-residents, are now given national treatment in the acquisition of land, without limits on land use or land size.

52. Korea continues to provide a range of tax incentives for FDI (Table II.3). 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, registration, 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. They apply to "greenfield" FDI (where no previous investment

[47] APEC (2006).

[48] *Korea Herald*, "A need to improve FDI policies", 2 January 2008. Viewed at: http://www.investkorea.org/InvestKoreaWar/work/ik/eng/nr/nr_01_read.jsp?no=608300001&l_unit=90202&bno=801020012&page=7&sort_num=3713 [25 March 2008].

[49] 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.

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

exists) and foreign stock acquisitions in eligible advanced technology investments and industry-supporting service industries. The number of eligible industries was raised from 578 to 634 in July 2003 (FIPA and the Special Tax Treatment Control Law of 1999). 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.3) Considerable assistance 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. is also available under the local governments' Foreign Investment Support Policy.[51]

53. 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.[52] The cost effectiveness of tax incentives is also questionable.[53] They can undermine public accountability and fiscal transparency, especially where, as in Korea, there is no detailed information on revenue forgone from various tax incentives or any systematic evaluation of the effectiveness of such incentives. Care is therefore needed to ensure that the financial and efficiency costs of investment incentives do not exceed their stated benefits. The authorities indicate, *inter alia,* that tax incentives are provided for a maximum of seven years, and that efforts are made to ensure the transparency of the incentive system, to reassess the criteria for granting incentives and their duration.

54. Government approval of FDI is not required. Prior notification by foreign investors is needed, and this can be made at domestic or foreign bank offices in Korea, Invest Korea or at any one of KOTRA's overseas trade centres.[54] Foreign-capital invested companies must also register to be eligible for incentives. MKE approval is still required, however, to invest in 90 designated Korean defence-related companies; these include many major electronic and industrial conglomerates that are also major producers of non-defence products.

55. As of 2008, out of a total 1,083 business sectors (based on the Korea Standard Industrial Classification) only three sectors (television and radio broadcasting, and nuclear power generation) are fully closed to foreign investment, and a further 26 are partially restricted (including rice and barley growing) (Table II.4).[55] Foreign companies can establish local branches 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 Securities and Exchanges 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.

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

[52] 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".

[53] 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.

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

[55] The number of partially closed sectors increased from 14 to 27 because of the partial opening of closed sectors and the disagregation of some partially closed sectors.

Table II.3
Summary of FDI tax incentives, 2008

(a) National tax (corporation tax, income tax) and local tax[a] (acquisition tax, registration 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 (apply the following ratio to the amount multiplied by the foreign investment ratio) - 100% for five years after income creation - 50% for next two years	
Manufacturing	Over US$30 million		
Tourism	Over US$20 million		
Logistics	Over US$10 million		
2. Businesses in stand-alone type foreign investment zones (FIZ)[b]			Hiring more than ten employees with Master's degree or above; Limited to the above four businesses
R&D	Over US$5 million		
More than two foreign-invested companies	Over US$30 million		
3. Businesses in complex type foreign investment zones (FIZ)		Total of five years (apply the following ratio to the 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 Engineering Additional communication Information processing & other computer operation-related businesses Science & technology service Tourism Culture industry Various facilities Renewable energy generation	Over US$10 million[c]		
R&D Logistics	Over US$5 million[d]		
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	On condition of entry by 31 December 2009, reduction only for national tax
9. Businesses in Jeju high-tech science and technology complex			
Bio engineering Information communication Culture industry High-tech and products			

Business category	Investment amount	Reduction period and details	Remarks
10. Businesses in Jeju investment promotion district			On condition of entry by 31 December 2009
Tourism			
Culture industry			
Various facilities			
Renewable energy generation			
Electronics, electrical, information, new material, and bio engineering industries	Over US$5 million		
Foreign educational institutions[e]			
Medical institutions			
11. Businesses in free trade zones			On condition of entry by 31 December 2009
Manufacture	Over US$10 million with more than 100 full-time employees		
Logistics	Over US$5 million		
12. Jeju investment promotion district developers		Five years in total (apply the following ratio to the 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 no 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 three 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 2009
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 can 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 within.
c On the condition to enter before 31 December 2009, a choice is given between the above reduction and the corporate city reduction of national and local tax "regardless of foreign investment ratio" upon an investment of over W 10 billion.
d On the condition to enter before 31 December 2009, a choice is given between the above reduction and the corporate city reduction of national and local tax "regardless of foreign investment ratio" upon an investment of over W 5 billion.
e Foreign education institution, international high school, educational institution.

Source: Invest Korea online information. Viewed at: http://www.investkorea.org/InvestKoreaWar/data/bbs/20080507/tax_reduction_20080507.pdf.

56. MKE regularly publishes FDI restrictions in English in the *Consolidated Public Notice*.[56] 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. Invest Korea also frequently publishes updated information on adjustments in its foreign investment policy.

Table II.4
FDI restricted sectors, 2008

Sector/business	FDI limitation
A. Closed	
Radio broadcasting	Wholly closed
Television broadcasting	Wholly closed
B. Partially closed	
Growing of cereal crops and other crops	Allowed except for rice and barley growing
Beef cattle farming	Less than 50% foreign equity
Inshore fishing	Less than 50% foreign equity
Coastal fishing	Less than 50% foreign equity
Publishing of newspapers	Less than 30% foreign equity
Publishing of magazines and periodicals	Less than 50% foreign equity
Processing of nuclear fuel	Allowed except for the manufacture and supply of nuclear fuel for nuclear power plants
Electric power generation	Nuclear power generation businesses are excluded and the ratio of power generation facilities purchased by foreigners from KEPCO (Korea Electric Power Corporation) must not exceed 30% of total domestic power generation facilities
Electric power transmission	Allowed provided total foreign equity is less than 50% and the largest shareholder is Korean
Electric power distribution and ales	Allowed provided total foreign equity is less than 50% and the largest shareholder is Korean
Meat wholesaling	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	Less than 50% foreign equity
Leased line service	No more than 49% foreign equity
Wired telephone and other communications	No more than 49% foreign equity
Wireless telephone	No more than 49% foreign equity
Other electric communications	No more than 49% foreign equity
Domestic 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	No more than 33% 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: Korean authorities.

[56] Also available at Invest Korea online information. Viewed at: http://www.investkorea.org.

57. Foreigners, regardless of residence status, can purchase land subject to the same restrictions as Korean nationals.[57] Exclusions are limited to land of military, cultural or environmental significance, and farmland designated for rice and barley.[58] Foreign ownership of Korean land grew 9.9% in 2007 to 198.16 million square meters or 1.85% of the nation's land. 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).

58. 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.[59] Korea is a member of the International Center for Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA).

59. 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. Korea will minimize investment performance requirements in signing FTAs.[60]

60. Korea has signed bilateral investment agreements (including FTAs) for the protection of FDI with 95 countries; 82 are in force. 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; 76 countries have signed conventions with Korea, of which 70 are in force. Korea plans to extend the bilateral DTAC network to countries in the Commonwealth of Independent States, Latin America, and Africa to promote the cross-border capital flows.

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[57] 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.

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

[59] From 2000 to end 2005, the Ombudsman had received more than 2,400 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.i-ombudsman.or.kr/InvestKoreaWar/work/ombsman/eng/au/index.jsp?num=3).

[60] APEC (2006).

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. Steps have been taken to facilitate trade and increase transparency. However, some protection measures continue to shield domestic producers, especially farmers, from foreign competition.

2. The tariff remains one of the main trade policy instruments and a significant source of tax revenue (4.6% of total tax revenue in 2007). The introduction of the 2007 version of the Harmonized System of Tariff Classification (HS), in January 2007, increased slightly the number of tariff lines (468 more lines in 2008 than in 2004). Almost all tariff lines are *ad valorem*, contributing significantly to tariff transparency. Nonetheless, the tariff remains relatively complex, involving a multiplicity of rates (83 *ad valorem*, 41 alternate duties) often involving small rate differences and decimal points. No tariff cuts occurred during the period under review. The applied MFN rate averages 12.8% in 2008 (same as 2004), 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. Peak *ad valorem* rates have remained unchanged and apply to agriculture (WTO definition); tariff rates range from zero to 887.4%; 86.6% of rates were 10% or below in 2008. Korea applies tariff rate quotas under its multilateral agricultural market-access commitments; in-quota tariff rates range from zero to 50%. Other measures (e.g. "autonomous" tariff quotas, "usage" tariffs, and duty concessions) that selectively reduce tariffs on inputs, often according to end-use, may constitute a potential impediment to efficient resource use and add to tariff complexity and uncertainty.[1] Although 90.8% of tariff rates are bound, the predictability of the tariff is eroded by the leeway to raise applied tariffs provided by the average gap of 4.3 percentage points (9 percentage points for agricultural items) between applied and bound MFN rates. 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. Korea intends to reduce or remove gradually the non-*ad valorem* duties and the "flexible tariffs" in line with the reduction undertakings resulting from the DDA and FTA negotiations.

3. Korea has streamlined and modernized its customs procedures by moving further towards an "intelligence oriented customs administration"; in light of the expanding network of its preferential arrangements, customs clearance has become more complicated, particularly rules of origin requirements of individual agreements. As regards customs valuation, an early warning system was established to block undervalued imports of agricultural goods, plants, and fisheries.

4. Rice remains subject to import quota restrictions under Korea's WTO minimum market access (MMA) commitments until 2014; by that date, rice imports are expected to double and 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. Korea has used anti-dumping provisions, mainly against imports of chemicals, machinery, paper and paperboard, and wood articles. It has also made use of the special safeguard provisions (SSG) under of the WTO Agreement on Agriculture.

[1] The authorities maintain that their tariff rate quota system is designed to facilitate imports by reducing tariffs on certain products in order to promote smooth supply and demand, strengthen the related industry's competitiveness, and stabilize domestic prices while aiming to correct imbalances in tariff rates among similar products and maximize the efficiency of resource distribution.

5. Korea periodically restricts or monitors exports of certain products (e.g. rice) to ensure adequate domestic supplies, and thereby possibly assisting downstream processing of these products; rice has been subject to quantitative export restrictions since 2007. Direct export subsidies are maintained to reduce marketing costs for certain agricultural products (e.g. fruit, vegetables, flowers, kimchi, ginseng, and livestock) in accordance with Article 9.4 of the WTO Agreement on Agriculture. A drawback scheme provides refunds of border taxes; internal taxes are also reimbursed. Exporters benefit from export credit insurance, finance, and the promotional activities provided by state-owned institutions.

6. A range of measures involving grants, tax concessions or low-interest loans are used to support production and trade of a range of agricultural, forestry, fishing, and manufactured products as well as to encourage SME, R&D, and environmental-protection activities. Although tax incentives were to terminate automatically at end 2003 in accordance with sunset clauses, many were extended. SMEs, whose eligibility criteria were streamlined in 2006, are among the beneficiaries of these measures, which are especially generous for information technology activities. Agriculture receives substantial domestic financial support in line with the relevant WTO provisions. Agriculture and manufacturing benefit from the lowest electricity tariffs among different consumer groups. Farmers and manufacturers adversely affected by a bilateral free-trade agreement may seek compensation or adjustment support.

7. Korean industrial standards have doubled over the last five years and seem to be used increasingly as a basis for international norms. Efforts to review food labelling standards to better reflect international requirements have continued. State involvement in the economy persists as privatization efforts during the period under review have been put virtually on hold; the new Government seems committed to resuming divestment activities. Certain government procurement is still not covered by Korea's multilateral commitments under the WTO Government Procurement Agreement (GPA); in procurement from SMEs, private (non-competitive) tendering prevailed until 2007. Despite the lack of domestic price preferences, government procurement is still seemingly used as an instrument of economic policy, including regional and industrial development; new legislation has required priority to be given to environment-friendly products. Procurement has become more decentralized.

8. During the period under review Korea completed the implementation of its three-year Market Reform Roadmap, by establishing and revising competition laws and regulations and strengthening institutions in this area. *Chaebols* are subject to special regulation, including ceilings on the total amount of shareholdings in other domestic companies. Certain "collective actions with specific requirements" undertaken by SMEs remain exempt from competition legislation. Consumer protection has also been improved.

9. Korea's extensive range of intellectual property rights (IPRs) legislation has been further strengthened with the amendment of the copyright legislation, the reinforcement of border enforcement, and conclusion of the Korea–US Free Trade Agreement (KORUS FTA).

(2) MEASURES DIRECTLY AFFECTING IMPORTS

(i) Customs procedures

10. Korea has pursued the streamlining and modernization of its customs procedures, and reinforced border protection for intellectual property rights and origin marking falsifications (sections (ix)(c) below and (4)(vii)(e)). The Korea Customs Service (KCS) is considered to be at the

cutting edge of international best practice.[2] 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

11. Only consignors, customs brokers, associations or corporations for customs clearance can make import declarations. Required documentation includes the commercial invoice, price declaration, and duplicates of the bill of lading. Where applicable, a detailed packing list, import approval document, sanitary and phytosanitary certificates (most agricultural goods and processed foods), and certificate of origin for goods subject to tariff preferences should be submitted. Qualified importers (approved by Customs based on their import record) receive expedited customs clearance and more convenient methods for paying duties.[3]

12. Import clearance, including declaration procedures, and cargo management systems are fully computerized. In an effort to further streamline the clearance procedure and reduce the cost burden, the KCS has operated a web-based clearance system since October 2005.[4] This handles export/import clearance operations, while the single window system (see below) covers requirement-confirmation processes, including quarantine and inspection as well as customs clearance at a single point. The KCS is linked to all 32 agencies responsible for approving certain imports (e.g. Ministry for Health, Welfare and Family Affairs and Ministry for Food, Agriculture, Forestry and Fisheries) to enable import requirements to be electronically verified. The number of tariff items needing such checks has decreased from 4,810 items in 2004 to 4,356 items in 2008, under 49 laws including the Pharmaceutical Act and Food Sanitation Act, and is to fall below 4,000 under the 2003 trade-related regulatory reform process (Chapter II). The paperless clearance system has expanded; by mid 2007 there were 42,000 companies in the trading sector using Electronic Data Exchange (EDI).[5] In 2008, cargo management was 100% paperless and import declarations 80%. In 2008, KCS processed an average of 12 million e-customs transactions (10 million in June 2003).

13. As from February 2007, the KCS has operated a web-based import/export requirement-confirmation through a single window system on behalf of 12 major government agencies handling 93% of total import verification.[6] The system 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 mid 2007) joined the single window system: their doing so would further improve the efficacy of the border clearance system. Between March 2006 and December 2007, the system dealt with 74,435 cases; the number of users also increased substantially, from 827 companies to 1,255 companies. This rapid increase is due to time

[2] APEC (2007).

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

[4] 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].

[5] APEC (2007).

[6] APEC (2007).

and cost requirements (compared with the EDI-based system discussed above) as well as its improved user convenience.[7]

14. In 2008, declarations were processed in 1.2 hours on average (1.3 hours in 2003). Prior-entry import declarations (up to five days for sea and one day for air) are allowed. Most imports (about 80%) are cleared after being taken into a bonded area; the average clearance times from port entry to release from a bonded warehouse was 3.54 days in 2007 (1.78 days for air and 5.85 days for sea cargo), down from 9.6 days (4.6 days for air and 16.2 days for sea cargo) in early 2003. A cargo selectivity system automatically selects high-risk cargo for documentary and possible physical inspection.[8] 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 to be released before submission of import declarations (required within ten days). Some 60% of inward cargo uses this system; goods are cleared without being moved to a warehouse outside the port.

15. Amongst other developments, a self-assessment system for customs duties and taxes was introduced in 2004, and an e-bidding system in customs auctions since 2006.[9] As of 2008, the KCS plans to establish the web 2.0-based new generation knowledge management portal system.

16. Since August 2005, the KCS has applied more rigorous customs inspections on agricultural products, including especially peppers, garlic, sesame seeds, onions, carrots, and seasoning powders, to help protect local farmers and producers against increased imports due to undervalued import declarations.[10] The import sample inspected to check prices was also raised to 20%. The authorities indicate that these measures were 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. The sample size used for analysis was lowered for qualified importers with good compliance records (including "Faithful Partner of Customs")[11] as from March 2004.

17. According to the authorities, blended products are classified based on their intrinsic characteristics as found in the Harmonized System (HS) Convention, HS Explanatory Notes and provisions of the General Rules for Interpretation of Nomenclature. 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.

18. The KCS has also expanded the scope of administrative information made public and enlarged its workforce to provide more prompt responses to enquiries made online. It has developed a Roadmap for Integrity including the signing of the Customs Business Integrity Pact in March 2005. As from 2004, the KCS has run a Customs Irregularities Reporting Centre and the Cyber Corruption Report Center, which advises Customs staff as well as other stakeholders to make a report on Customs

[7] Korea Customs Service online information, "Rushing to Single Window - 278% year-on-year increase in use", 13 July 2007. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

[8] 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.

[9] APEC (2007).

[10] KCS News Release, 11 August 2003, "Agency Tightens Customs Inspection over Agricultural Products".

[11] "Faithful Partner of Customs" is a system in which the customs authorities provide taxpayers with a high degree of compliance with advantages in clearance and audit processes.

irregularities to the KCS web site.[12] 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. The number of disputes has been decreasing since 2005 after reaching a peak of 150, to 108 in 2006. 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.

19. Korea acceded to the revised Kyoto Convention in February 2003, subject to certain reservations[13]; the Convention took effect in February 2006.

20. Following the signature of MoUs between the KCS and the Export-Import Bank of Korea (February 2006), the Korea Trade and Investment Promotion Agency (KOTRA) (September 2006) and the Asian Development Bank (ADB) (November 2006) and the establishment of the Korea Customs UNI-PASS Information Association (CUPIA) (September 2006)[14], efforts have been made to disseminate KCS advanced customs techniques worldwide.

21. Korea does not require preshipment inspection of imports.

(b) Free-trade zones (FTZs)

22. The Customs free zones, which provided simplified customs procedures for certain activities were incorporated into FTZs (Chapter II) in 2004 (Act on Designation and Management of Free Trade Zones, 2004). They are exclusive areas outside the national customs boundary, exempt from customs requirements. They 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 the Free Trade Zone Committee) designates such zones upon request from regional governments. Activities in the zone may be exempt from import procedures and customs duties, and receive tax relief (e.g. VAT and reduced corporate tax). Foreign cargo may enter and leave freely. Simple processing is allowed. Korean goods entering the zone are treated as exports and entitled to 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. The FTZs are located at the Incheon International Airport, and the ports of Busan, Gwangyang, Incheon, Masan, Iksan, Gunsan, Daebul, Donghae, and Yulchon.

[12] Korea Customs Service information available online. Viewed at: http://english.customs.go.kr/ [5 October 2007].

[13] 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.

[14] UNI-PASS is the world's first 100% electronic clearance portal system, uniting in a customs declaration all clearance procedures from ex/import clearance to drawback, in/outbound passenger control and tracking of bonded cargoes. Korea Customs Service online information titled "KCS, signing an MOU with KOTRA to speed up exportation of UNI-PASS", 18 September 2006. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

(ii) Customs valuation

23. 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). When this cannot be used, valuation is determined using, in order, identical goods, similar goods, domestic sales price, or computed value.

24. 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. 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 tightened checks on 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 significant differences exist, unless there is reason to suspect the authenticity or accuracy of the declared value, when an alternative WTO-consistent valuation method is used. The use of the "depreciated value" would be applied only as a last resort. Documentary requirements were also changed to include a letter of technical inspection from an automobile performance-testing institute.[15]

25. Following the launch of the process of "standardization of item names" of imported agricultural, forest, and fisheries products in cooperation with the Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF) and the Korea Forest Service (KFS), in August 2007 the KCS established SIREN, an early warning system to block undervalued imports of agricultural goods, plants, and fisheries.[16] SIREN is designed to screen out undervalued products by calculating the proper import prices of the products and comparing the prices with the declared prices.[17] Based on the result, under-valued products go through audit, while normal products are cleared promptly. The authorities seem to consider the "standardization" process and the SIREN as tools against fraud and for speedy clearance of normal imports and fair competition in the domestic market; these tools seem to have had a tax revenue increase and an import substitution effect estimated at W 97.5 billion and W 178.6 billion respectively.[18] The operation of SIREN has resulted in considerable decrease in under-valuation and subsequent reduction in the time required for clearance of normal goods and audit workload.

26. 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 12% for each month thereafter (up to a maximum period

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

[16] The "standardization" efforts, initiated in October 2006, involved experts from the public and private sectors and relevant agencies, distributors, research institutes, etc. By mid 2008, 122 item names of agricultural, forest and fisheries products including garlic, hot pepper, cuttlefish, chestnut, etc. had been "standardized". Korea Customs Service online information, "KCS, Launching Early Warning System for Undervalued Declaration", 22 August 2007. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

[17] Using the Kalman filter model, a statistic model for calculating a proper import price.

[18] Korea Customs Service online information, "KCS, Launching Early Warning System for Undervalued Declaration", 22 August 2007. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

of 60 months). Criminal penalties (up to three years imprisonment or a fine of five times the evaded duty) apply for fraudulent declaration of dutiable value or incorrect tariff classifications.

27. Customs decisions can be appealed to the KCS Commissioner or to the National Tax Tribunal. The Tariff Review Commission, comprisng five customs officers and seven experts, assists the Commissioner on appeals. Decisions can be appealed to the courts.

(iii) Tariffs

28. Korea adopted the 2007 version of the Harmonized System of Tariff Classification (HS) from 1 January 2007; this added 442 ten-digit lines to the previous customs tariff. The 2008 tariff consists of 11,729 ten-digit lines; 26 more lines than the 2007 schedule. The tariff schedule is set from January to December; most tariff changes at the six-digit level are introduced annually. Requests to modify tariff rates are submitted by the relevant ministries and interested parties to the Ministry of Strategy and Finance (MOSF), which presents the case to the Customs and Tariff Deliberation Committee.[19] If accepted by the Committee, any modification is submitted to the State Council. After approval by the State Council, the modification is enacted as part of the Customs Act, by the National Assembly, in the form of an Annex to the Act.

29. The tariff comprises several different rates according to the source of imports. These are the MFN tariffs from non-preferential sources, and several preferential tariffs, including for imports from other members of the Asia Pacific Trade Agreement (Bangkok Agreement), least developed countries (LDCs), Chile, Singapore, and ASEAN (Chapter II). The WTO concession (i.e. bound) rates are also contained in the tariff.

(a) Applied MFN rate

30. The tariff structure has changed little since the last Review of Korea. The 2008 simple average (unweighted) MFN tariff is 12.8% (as in 2004) (Table III.1 and Chart III.1).[20] Tariff protection varies substantially across and within sectors, averaging 53.5% for agricultural products) and 6.5% for industrial goods in 2007 (WTO definitions).[21] Average tariffs are highest for vegetable products (HS section 2), at 101.6%. Manufacturing tariffs are highest for footwear and headgear (HS section 12) at 10.1%, and for textiles and articles (HS section 11) at 9.8%. 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 therefore improve Korea's resource allocation and national welfare.

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[19] This consists of academics, customs officials, journalists, and representatives from non-governmental groups, including consumer and business organizations, and from relevant ministries.

[20] 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 *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 understate tariff protection when the alternate specific rate is operative. Higher adjustment tariffs are also excluded. In 2007, the simple average MFN tariff rate was 12.7%; the 2008 increase is due to the additional tariff lines that were created by splitting tariff lines bearing relatively high rates of duty.

[21] 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).

Table III.1
Structure of Korean MFN tariffs, 2004 and 2008
(Per cent)

		2004	2008	Final bound[a]
	Bound tariff			
1.	Bound tariff lines (% of all tariff lines)	91.5	90.8	90.8
2.	Simple average bound rate	17.2	17.1	17.1
	Agricultural products (HS01-24)	61.1	61.7	61.7
	Industrial products (HS25-97)	10.0	9.8	9.7
	WTO agricultural products	61.1	62.5	62.5
	WTO non-agricultural products	9.7	9.4	9.3
	Textiles and clothing	18.5	18.4	18.4
3.	Duty-free tariff lines (% of lines)	14.2	15.4	15.5
4.	Non-*ad valorem* tariffs (% of lines)	1.0	1.0	1.0
5.	Non-*ad valorem* tariffs with no AVEs (% of lines)	1.0	1.0	1.0
6.	Nuisance bound rates (% of lines)[b]	2.1	2.0	2.0
	Applied tariff			
7.	Simple average applied rate	12.8	12.8	..
	Agricultural products (HS01-24)	47.9	47.8	..
	Industrial products (HS25-97)	6.6	6.5	..
	WTO agricultural products	52.2	53.5	..
	WTO non-agricultural products	6.7	6.5	..
	Textiles and clothing	9.8	9.7	..
8.	Tariff quotas (% of all lines)	1.7	1.7	..
9.	Domestic tariff "peaks" (% of all lines)[c]	2.5	2.6	..
10.	International tariff "peaks" (% of all lines)[d]	8.9	8.9	..
11.	Overall standard deviation of tariff rates	52.0	52.1	..
12.	Coefficient of variation	4.1	4.1	
13.	Duty-free tariff lines (% of all lines)	13.3	15.9	..
14.	Non-*ad valorem* tariffs (% of all lines)	0.6	0.7	..
15.	Non-*ad valorem* tariffs with no AVEs (% of all lines)	0.6	0.7	..
16.	Nuisance applied rates (% of all lines)[b]	2.7	1.9	..

.. Not available.

a Based on 2008 tariff schedule. Implementation of final bound rates to be reached in 2009. Currently all but 266 tariff lines have reached the U.R. implementation rates.
b Nuisance rates are those greater than zero, but less than or equal to 2%.
c Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 7).
d International tariff peaks are defined as those exceeding 15%.

Note: The 2004 tariff, based on HS02 nomenclature, consisted of 11,261 tariff lines; the 2008 tariff is based on HS07 nomenclature and consists of 11,729 tariff lines. Calculations include out-of-quota rates (thereby excluding lower in-quota rates) and the *ad valorem* part of alternate rates.

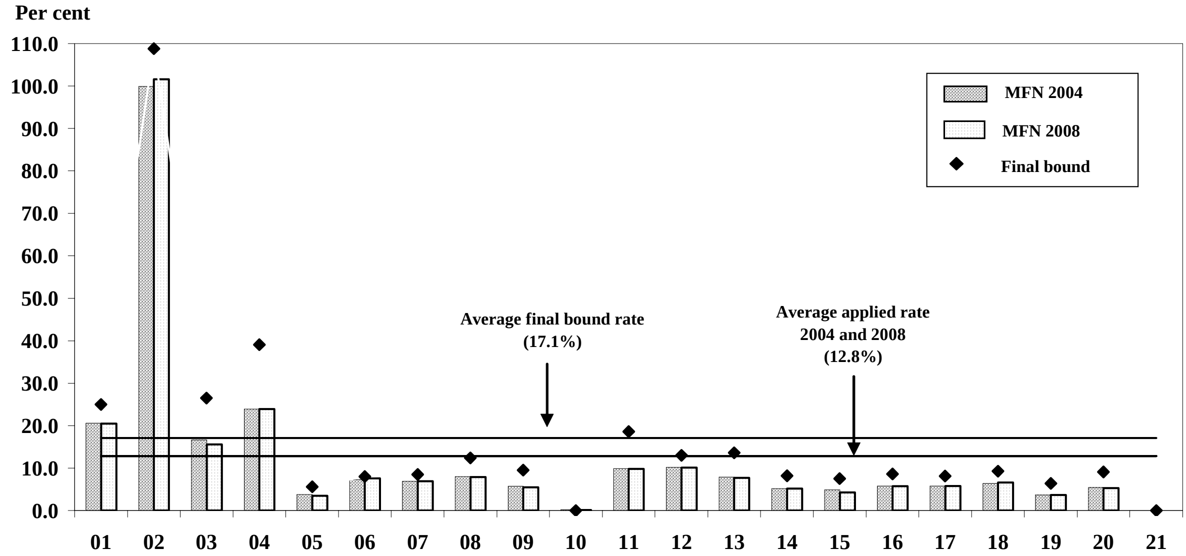
Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

31. Over 99% of tariffs are *ad valorem* duties. This simplifies the tariff structure and improves transparency. However, there are some 124 different rate bands (83 *ad valorem*, 41 alternate duties), mainly associated with agricultural tariffs, of which about 44 have decimal duties[22]; alternate duties

[22] Excluding tariff quotas and alternate tariffs, Korea's tariff rates still range from zero to 72%, and have many different (over 30) bands, often with very small rate differences and decimal rates. For example, there are over 15 *ad valorem* rate bands of 10% or below, and 9.8% of tariff lines have the rate of 6.5%.

apply to 0.7% of total tariff lines (about 81). Tariff rates range from free to 887.4% (Table AIII.1). Some 87% of rates are 10% or below (in 2008); 60.1% of rates are between 5% and 10%; the modal rate is 8% (Chart III.2). Rates of over 30% apply to 2.9% of tariff items (2.8% in 2004); "nuisance" applied MFN rates (2% or less) apply to 1.9% of tariff lines, and 2.6% of lines have domestic tariff "peaks" (rates over 38.3%). Although the share of duty-free tariff lines increased between 2004 and 2007, from 13.3% to 15.9%, scope remains to rationalize the Korean tariff, for example, by reducing the large number of rate bands and removing decimal duties to, *inter alia*, obtain some gains in economic efficiency.

Chart III.1
Average applied MFN and bound tariff rates, by HS section, 2004 and 2008



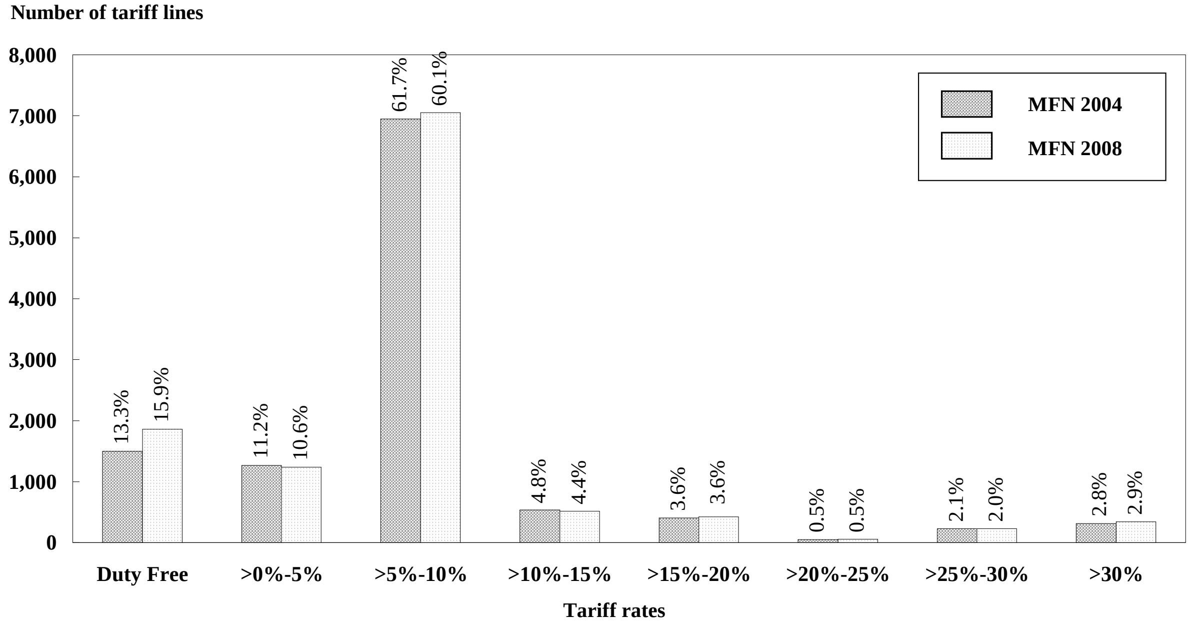
01 Live animals & products
02 Vegetable products
03 Fats & oils
04 Prepared food, etc.
05 Mineral products
06 Chemicals & products
07 Plastic & rubber
08 Hides & skins
09 Wood & articles
10 Pulp, paper, etc.
11 Textiles & articles
12 Footwear, headgear
13 Articles of stones
14 Precious stones, etc.
15 Base metals and products
16 Machinery
17 Transport equipment
18 Precision instrument
19 Arms & ammunition
20 Miscellaneous manuf.
21 Works of art, etc.

Note: Calculations include out-of-quota rates (thereby excluding lower in-quota rates) and the *ad valorem* part of alternate rates. Averages for 2004 are based on HS02 nomenclature, and for 2008 on HS07. Only HS sections 03, 12, 14, 19 and 21 are fully bound. Final bound rates are based on the 2008 tariff schedule.

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

32. 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. Alternate duties also apply to a number of agricultural tariff items as out-of-quota duties, which also provide very high minimum *ad valorem* rates, generally of well over 100% (exceeding 500% on sesame seeds and oil, jujubes and pine nuts). Tariff quotas on agricultural tariff lines (1.5% of total items) have out-of-quota rates expressed in form of alternate duties (section (2)(iv)(a)).

Chart III.2
Distribution of MFN tariff rates, 2004 and 2008



Note: Includes out-of-quota rates for tariff quotas (excludes lower in-quota rates) and the *ad valorem* part of alternate duties. Percentages denote the share of total lines. Totals do not add to 100% as no tariff rates were provided for 16 lines (import restriction, representing 0.1% of total lines). The 2004 estimates are based on HS02 nomenclature and 2008 on HS07.

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

33. Korea has expressed its support in the DDA negotiations for the elimination of non-*ad valorem* duties in order to enhance transparency, tariff predictability, and comparison of tariff rates among countries. Non-*ad valorem* duties would be removed from Korea's tariff schedule if so agreed at the DDA negotiation.[23]

(b) MFN tariff dispersion and escalation

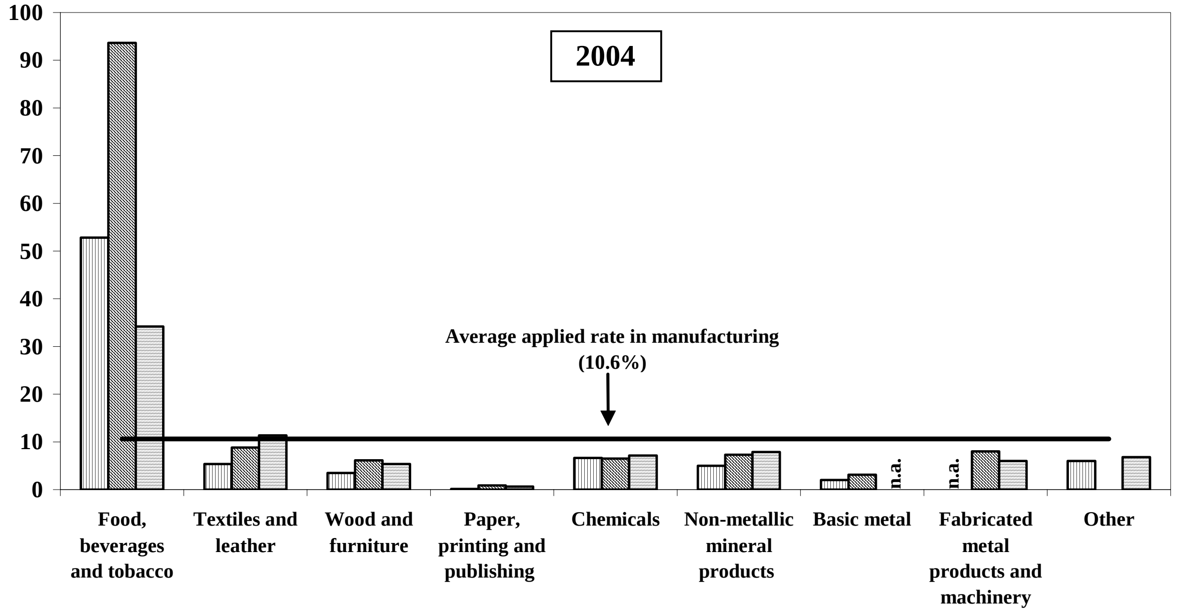
34. Summary indicators of overall tariff dispersion show relatively wide dispersion in applied MFN tariff rates (ranging from zero to 887.4%), with little narrowing of disparities between 2004 and 2008. While the standard deviation rose slightly from 52 to 52.1, the coefficient of variation remained unchanged at 4.1 (Table III.1).

35. The pattern of tariff escalation has changed little since 2004 (Table AIII.3). Escalation remains most pronounced in semi-processed food, beverages and tobacco and throughout all production stages of textiles and leather, basic metal products, and non-metallic mineral products (Chart III.3). However, de-escalation has persisted for semi-manufactures compared with finished items mainly for food, beverages and tobacco, and fabricated metal products and machinery.

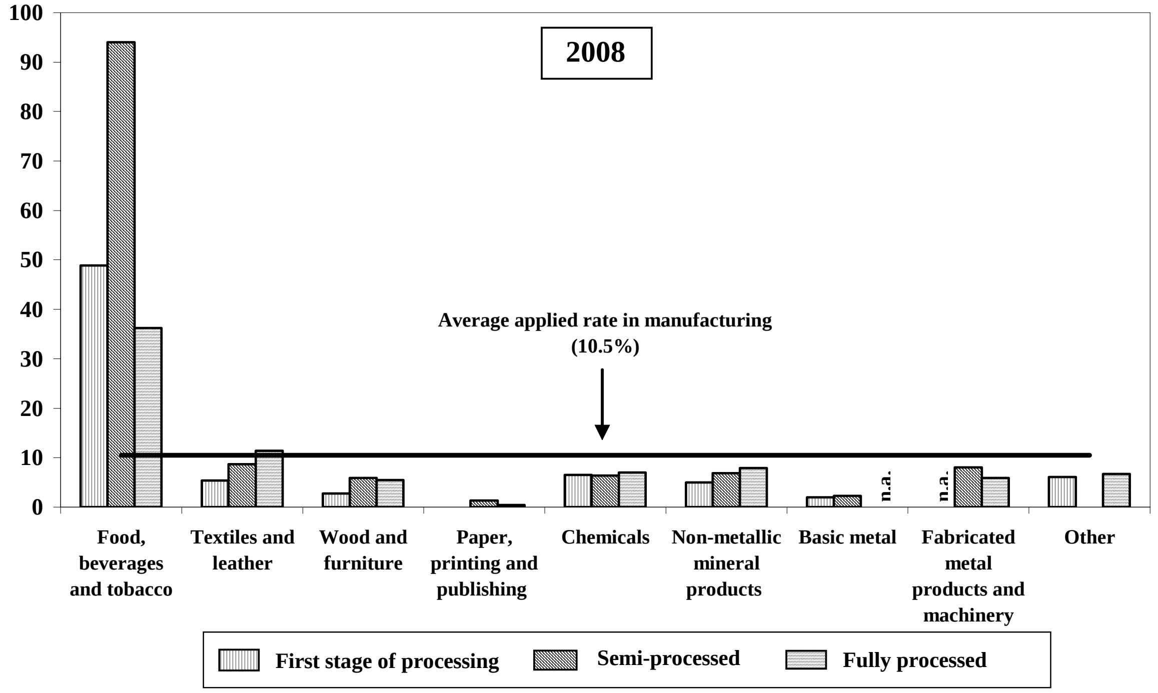
[23] APEC (2007).

Chart III.3
MFN tariff escalation by 2-digit ISIC industry, 2004 and 2008

Per cent



Per cent



n.a. Not applicable.

Note: Includes out-of-quota rates for tariff quotas (excludes lower in-quota rates) and the *ad valorem* part of alternate duties. 2004 averages are based on HS02 nomenclature and 2007 on HS07.

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

(c) "Flexible" tariffs

36. Korea applies temporary higher MFN duties (termed as flexible tariffs) than those set at the customs tariff schedule (section (a) above); the flexible tariffs mechanism includes adjustment, safeguard, special safeguard, and seasonal duties.[24] Through a number of different mechanisms and rationales, the system allows the authorities to increase or decrease certain tariffs at their discretion, with differentials of as much as 40% above or below a fixed tariff rate.[25] This provides considerable scope to encourage or discourage imports of particular items, for inflation-control and industrial policy purposes.[26] Flexible tariffs are claimed to observe WTO bindings. Reportedly, in certain cases, the flexible tariff rate regime reflects the significant gap between bound and applied rates.[27]

37. The number of items covered by the broad "flexible tariff" description has been cut in recent years from 203 (HS ten digits) in 2004 to 101 in 2007.[28] 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

38. Adjustment duties protect domestic industries from import surges and lighten the shock from trade liberalization. They are set annually by MOSF. The Customs and Tariff Deliberation Committee considers MOSF's proposals, and if approved by the State Council, adjustment duties are implemented by Presidential decree.

39. Use of adjustment duties has remained virtually unchanged. In 2007, they applied to 21 six-digit tariff items covering mainly certain fish, rice preparations, sauces, and plywood (Table AIII.4). Goods no longer subject to adjustment duties since the last Review include bananas. Duties currently range from 11% on plywood to 57% on croakers. Alternate duties where duties are the higher of an *ad valorem* or a specific duty, are applied to six of the six-digit tariff lines. Several products that were subject to adjustment duties in 2007, such as several fish and plywood items, remained unbound.

Special safeguard and safeguard tariffs

40. Korea reserved the right to take special safeguard action (SSG) on crop and related products (e.g. grains, potatoes, ginseng, and soybean) under the WTO Agreement on Agriculture (section (viii)(b)).

41. Safeguard, including provisional, tariffs may also apply to imports that have surged and caused or threaten to cause material injury to domestic producers, where deemed necessary to protect domestic industries (Customs Act). Safeguard tariffs apply for up to four years (200 days if provisional), but can be extended by four years subject to a further review. Since the previous Review in 2004, no safeguard tariffs have been applied.

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[24] Autonomous tariff quotas are also referred to as flexible tariffs, and are discussed in section (iv)(b).

[25] EIU (2007).

[26] Reportedly, some items are selected to align tariff rates between similar lines of products and to protect certain industry sectors from imports. But the arbitrary application of import tariffs often draws criticism from foreign companies operating in Korea, and the customs service plans to standardize these flexible rates (EIU, 2007).

[27] APEC (2007).

[28] APEC (2007).

Seasonal duties

42. Seasonal duties may be levied on goods with fluctuating seasonal prices, to protect domestic industries against competing imports that threaten to "disrupt" production. Seasonal duties were put in place in 2004 on grapes imported from Chile under the KCFTA: preferential duties are applied only to grapes imported during the Korean off-season (Chapter II). No other seasonal duties have been applied during the period under review.

(d) Bound tariff

43. Korea bound 90.8% of all tariff lines in the Uruguay Round. Some 98.7% of agricultural tariff lines (excluding mainly rice) and 89.5% of industrial tariff lines (WTO definitions) are bound. On a tariff classification basis, 84.4% of agricultural tariff lines (HS Chapters 01-24) and 91.9% of industrial lines (HS Chapters 25-97) are bound.[29]

44. The simple average bound tariff rate fell slightly from 17.2% in 2004 to 17.1% in 2008 (Table III.1); a further decrease should take place in 2009 when all Uruguay Round commitments are to be fully implemented.[30] Following "tariffication" of non-tariff measures, except on rice, very high bound (and applied) tariffs, often seemingly prohibitive, apply to many commodities, such as cereals and dairy products. Korea's average bound rates on agricultural and industrial products (WTO definitions) are 62.5% and 9.4%, respectively (in 2008). Since no major changes were brought to bound and applied MFN tariff rates during the period under review, the overall gap between the two has remained unchanged, i.e. at 4.3 percentage points. The gap remains wider for rates affecting agricultural items (9 percentage points). 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.

45. Korea has been included in several collective waivers that suspend 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. The current waiver is valid until end 2008.[31] The transposition procedures envisage the possibility of having Article XXVIII negotiations under certain circumstances; at the time of completion of this report, these negotiations were ongoing.[32] 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; this is also valid until end 2008.[33] The authorities indicate that they will initiate the transition process into HS 2007 as soon as the transition process to HS 2002 has been completed.

(e) Duty concessions/exemptions

46. The application of import duty relief through duty concessions and exemptions has not changed since the last Review of Korea. The Minister of Strategy and Finance (MOSF) may grant reductions or exemptions of import duties for various purposes, such as industrial development (Articles 88-109, Customs Act).[34] MOSF determines tariff concessions in consultation with relevant ministries. The authorities indicate that revenue forgone from import duty relief was US$915 million

[29] WTO (2004).
[30] When all commitments are fully implemented, the average bound tariff on industrial products will fall only marginally to 9.3% (WTO definition).
[31] WTO document WT/L/712, 21 December 2007.
[32] Decision of 15 February 2005, WTO document WT/L/605.
[33] WTO document WT/L/713, 21 December 2007.
[34] WTO (2004).

(equivalent to 7.5% of total tariff revenue) in 2007 (US$424 million or about 5% of tariff revenue in 2003).

47. Tariff concessions also apply under other legislation. For example, capital goods imported for foreign investment projects located in special zones (e.g. foreign investment zones), are exempt from customs duties, generally for up to three years (Chapter II). Customs duties on certain imported goods and for certain importers can be paid in instalments over five years. The Promotion Act for the Development of Aircraft and Space Industries also allows duty-free imports of parts (revenue forgone of W 44.6 billion in 2007, up from W 25.9 billion in 2004).[35]

(f) "Usage" tariff rates

48. Imported inputs for specified end-uses under "usage" tariff rates may be exempt from tariffs under "usage" tariff rates (Article 83, Customs Act). Autonomous tariff quotas also provide lower in-quota duties for certain imported inputs, including those used in specified end-uses (section (iv)(b)). Korea Customs Service is responsible for post-audit monitoring to ensure that the inputs meet the end-use criteria; full duty is collected on inputs used for other purposes. Usage tariff rates, autonomous tariff quotas and, to a lesser extent, duty concessions on inputs seem to be an important component of Korea's industrial policy, whereby the Government encourages certain manufacturing activities.

(g) Tariff preferences and rules of origin

Preferences

49. Korea grants limited reciprocal tariff preferences to developing countries under the Global System of Trade Preferences Among Developing Countries (GSTP) and the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC) (Chapter II, Table III.2). It also provides unilateral (non-reciprocal) duty-free and quota-free tariff preferences to LDCs; as of January 2008, their scope was expanded to cover 75% of the national tariff schedule. The Minister of Strategy and Finance (MOSF) may withdraw 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.

50. At present, Korea's reciprocal concessions under the Asia-Pacific Trade Agreement (APTA) are mostly at either 50% or 30% of the MFN tariff rate. Special concessions apply to Bangladesh and to Lao PDR, at mainly 100%, 50% or 30% of the MFN duty (on 300 tariff items).

51. Korea's simple average tariff rate remains at the MFN average of 12.8% (the same as in 2004) for imports from countries receiving preferences under the GSTP, and TNDC; it falls slightly to 12.3% (12.5% in 2004) and 9.2% (according to the authorities) for imports from APTA countries and LDCs, respectively. However, this is changing rapidly in line with Korea's move to expand its bilateral and regional free-trade agreements, concluded with ASEAN (in effect as from 2007), Chile[36], Singapore, and EFTA, and the United States. It is in the process of talks with Japan, Canada, Mexico, and India (Chapter II), and is looking to open discussions with China, GCC, MERCOSUR, and possibly Israel.[37]

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[35] WTO documents G/SCM/N/71/KOR, 2 August 2001 and G/SCM/N/123/KOR, 24 January 2006.

[36] The average tariff rate for imports covered by the Korea-Chile FTA is 6.3% (in 2008).

[37] Online information viewed at: http://www.bilaterals.org/rubrique.php3?id_rubrique=89 [10 December 2007].

Table III.2
Preferential trading arrangements, 2008

Agreement	Participants	Coverage[a] (no. of lines)	Preferential margin
Asia Pacific Trade Agreement			
APTA I	China, India, Sri Lanka	1,282	5% to 98% of MFN rate
APTA II	Bangladesh, Laos	1,505	5% to 100% of MFN rate
Global System of Trade Preferences (GSTP)	43 countries	12	10% to 73% of MFN rate
Least Developed Countries (LDCs)	50 countries	5,522	100% of MFN rate
TNDC	12 countries	6	10% of MFN rate
Korea-Chile FTA (KCFTA)	Chile	9,407	8% to 100% of MFN rate
Korea-Singapore FTA (KSFTA)	Singapore	..	..
Korea-EFTA FTA	Iceland, Liechtenstein, Norway, Switzerland,	..	..
Korea-United States (KORUS FTA) (ratification pending)	United States	..	..
Korea-ASEAN FTA	ASEAN countries	..	..

.. Not available.

a Based on 10-digit tariff lines. Only rates that are lower than the corresponding MFN rate are taken into account.

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

Rules of origin

52. Korea continues to operate both preferential and non-preferential rules of origin.

53. Preferential rules apply to imports under preferential trading arrangements; Korea has no common rules in this area. Korea considers that rules should be transparent and promote trade and investment. 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 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 (since the entry into force of the agreement in September 2006).

54. Each of Korea's FTAs has separate and non-identical rules of origin, which increase the complexity of its tariff. For example, rules of origin under the Korea-Chile FTA, are based on the "goods wholly obtained" and the "substantial transformation" criterion. Substantial transformation requires goods to be sufficiently processed in either Korea or Chile to change tariff classification (chapter, heading, or subheading). Agricultural products require mainly a change in tariff chapter (CC); a change in tariff heading (CTH) is required for certain foodstuffs, such as cocoa paste and cocoa butter. Changes in tariff heading or subheading (CTSH) are used for industrial products, often combined with a value-added rule or for textiles and clothing a specific-process rule. The value-added rule is also applied to selected agricultural and industrial products. It usually stipulates a regional value content of not less than 45% using the build-down method, and of 30% under the build-up method.[38] A number of clothing items are subject to only specific-process rules.

[38] Several tariff items specify a higher value added of 80% using the build-down method. Under the build-up method, regional value added is calculated as the value of originating materials used in production as a percentage of the imported goods' f.o.b. value. The build-down method deducts non-originating materials used

55. Divergent and complex rules of origin, which differ in concept, detail, and administrative process, add to the trading costs, thus complicating the trade facilitation process.[39] Due to the expanding network of preferential arrangements, customs clearance has become complicated as the procedures are needed to assess whether products meet the rules of origin of individual agreements. According to KCS, it has also been necessary to employ more staff.

56. Korea applies non-preferential rules of origin equally to all other imports. Origin is determined on request by the MKE (former MOCIE). Korea's non-preferential rules of origin are based on the wholly obtained goods and substantial transformation criterion. The tariff shift rule (change in six-digit HS classification) is applied, except on cameras (value-added rule) and textile articles (specified process rule); for certain live animals, the rule of origin is determined by the territory where they were bred for over six (bovine) or two (swine) months. There have been no significant changes in non-preferential rules of origin since the last Review of Korea.

57. Since 2005, the KCS has intensified action against false origin marking (sections (ix)(c) and (4)(vi)(a)).

(iv) Tariff quotas

(a) Agricultural tariff quotas

58. Korea applied tariff quotas, under its multilateral agricultural market-access commitments, on about 179 (excluding rice) ten-digit tariff items in 2007 (Table AIII.5)[40]; in 2008, there were ten more tariff items under this regime due to the splitting of tariff lines (section (iii)(a)). In-quota tariff rates range from zero to 50%. Out-of-quota rates are generally very high; many are well over 100% and in certain cases 800.3% *ad valorem*. Many above-quota rates are alternate duties. Quota levels are often small as their volume is based on consumption levels in 1986-88, in accordance with the UR modality.[41] Some tariff quotas operate, in effect, as quantitative restrictions, whereby seemingly prohibitively high out-of-quota tariffs prevent out-of-quota imports; the authorities indicate that the high out-of-quota tariff rates resulted from the "tariffication" exercise and reflect a gap between domestic and foreign market prices at the time of the Uruguay Round. According to the latest data provided by the authorities, in 2006 the average fill rate of tariff quotas was around 68.3%. Fill ratios were low for several product groupings (Table AIII.6). 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 or sanitary measures related to the outbreak of diseases in exporting countries, such as the BSE, foot and mouth disease, and avian influenza.

59. Tariff quotas, and the import quota on rice, are allocated or operated by some 22 different organizations including ministries, state-trading entities, such as the Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF) for rice and barley, and various producer associations, including the

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in production from the import's value and expresses this amount as a percentage of its value. This method implicitly includes the product's non-material costs, such as labour, as originating materials. Accumulation of originating materials is allowed. De minimis provisions allow goods not undergoing a tariff shift to be considered as originating if non-originating materials do not exceed 8% of their f.o.b. value.

[39] APEC (2007).

[40] Excludes 16 tariff items for rice, which, although grouped by the authorities as tariff quotas, are actually covered by import quota.

[41] WTO document MTN.GNG/MA/W/24, 20 December 1993.

National Agricultural Cooperatives Federation and the Korea Feed Ingredients Association.[42] In some cases, the administering authority 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 were not directly involved in controlling imports.[43] The authorities indicate that, given the allocation methods in place, there is no concern over the influence members might exercise with regard to reallocation. The Korean Government can monitor the performance of state-trading enterprises and producer associations entrusted with the administration of tariff quotas, and demand the submission of necessary materials and, if necessary, take punitive measures.

60. Different mechanisms are used for quota allocation and administration depending on the product; they include the auctioning of quotas, allocation to designated agency, real demand allocation, and a combination thereof. Korea argues that the different administration methods and the diverse range of entities reflect different characteristics, and the distribution system of different imported items, and that they efficiently manage market access volumes.[44] State-trading enterprises impose additional mark-ups on top of the in-quota tariff on items such as rice, garlic, onions, pine nuts, sesame, ground-nuts, buckwheat, peppers, mung beans/red beans, and soybeans. 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 usually on a real demand basis taking into account import performance, facilities, and capacity, or by auctioning import entitlements for certain commodities. Reflecting the outcomes from the ongoing DDA negotiations, the authorities intend to improve the current quota administration system whenever necessary.[45]

(b) Autonomous tariff quotas

61. Korea grants concessional tariffs using autonomous tariff quotas, mainly for raw materials, inputs, semi-processed goods, components, parts, and engines (Table AIII.7). These quotas covered approximately 45 six-digit tariff items in 2007 (about 180 in 2004); wool- and cotton-related materials were among the items removed from the list. In-quota tariff rates ranged from zero (maize, petroleum) to 35% (sugar).

62. Since 2001, autonomous tariff quotas have been revised annually; they are administered by the Ministry of Strategy and Finance (MOSF). Coverage is based on government agency requests and recommendations from designated industry associations. MOSF submits proposals for review by the Customs and Tariff Deliberation Committee, which are sent for approval by the State Council. Autonomous tariff quotas are implemented by Presidential decree, and are often administered through supervised industry associations. Quotas are allocated on a first-come first-served basis.

(v) Other levies and charges

63. A surcharge is levied on petroleum imports (Petroleum Business Act, 1977) to provide funds to ensure adequate supply and price stability. The surcharge paid by petroleum refiners and oil importers is currently set at W 16 per litre. Since 1982, the Government also has promoted diversification of oil imports away from the Middle East towards other regions, especially the

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[42] Korea notified the WTO of the methods and agencies of administrating TRQ goods in May 1995, and will notify any changes at a later date.
[43] APEC (2007).
[44] APEC (2007).
[45] APEC (2007).

Americas, Africa, and Europe, including the Russian Federation.[46] To this end, surcharges on non-Middle East oil imports are lower to offset their higher transport costs.

64. There are no other additional levies or surcharges applied to imports, apart from domestic indirect taxes, which apply equally to domestically produced goods.

(vi) Import licensing, quotas, and prohibitions

(a) Licensing

65. In addition to the Foreign Trade Act, 48 separate laws stipulate requirements for approval or authorization of certain items, which can be imported by obtaining certification, permission, and type approval.[47] These requirements 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. To enhance transparency and for the convenience of trading companies, the Consolidated Public Notice, containing all export and import certification requirements stipulated in the 48 separate laws, is updated by MKE semi-annually. These requirements cover about 1,000 tariff items, including petroleum, LPG, agricultural fertilizers, crop seeds, animals and animal products, nuclear materials, narcotics, foods and food additives, foreign publications, firearms, and explosives.

66. Fourteen ministries and/or agencies oversee the implementation of the certification, permission, and type approval requirements.[48] According to the authorities, import licence applications are screened or checked in a "fair" manner by the relevant government agency or producer association commissioned by that agency to ensure that the product meets import requirements. Since the agency responsible for checking conformity with these requirements must produce a confirmation paper, granting this authority to producer associations does not, according to the authorities, disadvantage imports through potential conflict of interest. Health- or safety-related products, such as pharmaceuticals, require additional testing or certification by designated organizations before clearing customs. Imports that do not comply with standards and/or testing requirements may be banned. MKE also approves special items defined in its Annual Trade Plan (firearms, illicit drugs). The Ministry of Environment is responsible for import and export permits of endangered species. Korea belongs to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

67. Since 2004, Korea has submitted regular Replies to the Questionnaire on Import Licensing Procedures to the WTO Committee on Import Licensing; its latest notification was on 24 September 2007.[49]

(b) Quotas

68. Only rice remains subject to import quota restrictions under Korea's WTO minimum market access (MMA) commitments under Annex 5 of the WTO Agreement on Agriculture (so-called "special treatment"), which permitted the continuation of quota restrictions with a growing MMA undertaking over a ten-year period (i.e. until 2004).[50] In 2004, Korea negotiated a ten-year extension of the MMA arrangement. Under the re-negotiated arrangements, Korea is obliged to import close to

[46] Middle East oil dependency has been lowered from 90% (1980s) to 80%.

[47] WTO document G/LIC/N/3/KOR/6, 27 September 2007.

[48] 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/6, 27 September 2007.

[49] WTO document G/LIC/N/3/KOR/6, 27 September 2007.

[50] APEC (2007); and USTR (2007).

8% of its domestic consumption of rice by 2014. The extension called for Korea to double its total rice imports over the ten years from 2004, increasing the MMA quota from 205,228 tonnes (on a milled basis) to 408,700 tonnes in 2014.[51] Under the revised arrangements rice imports available for table consumption should increase from 10% of the quota in 2005 to no less than 30% by 2010. Due to the delayed ratification process in the National Assembly (23 November 2005) after the conclusion of the rice negotiation, the MMA commitments are contracted at the end of the year and imported and sold the next year (Chapter IV). The Korea Agro-Fisheries Trade Corporation, which has been in charge of importing and managing MMA commitments on rice since 1999, accounted for 76% of rice imports in 2007. Imported rice is purchased through open bidding and on-sold to the MIFAFF at import price.[52] It is used for food processing or is sold directly to consumers (since April 2006).

69. The cost of this type of protection to the Korean consumer is reflected by the differential between the average price on the international market for rice and Korea's farm gate price for rice. According to data supplied by the authorities, this price ratio, i.e. domestic price compared to international price, has dropped from 5.2 (2001-02) to 3.7 (2006-07).

(c) Prohibitions

70. Korea prohibits a few imports, mainly to protect health, safety, security, public morality, the environment, and natural resources, and to prevent deceptive practices, in accordance with multilateral trade and other agreements, according to the authorities. Prohibited products include: certain pornographic and other unacceptable material; goods that reveal confidential government information or intelligence activities; and counterfeit currency or financial instruments. Korea does not maintain any trade embargoes with other countries. Trade with North Korea requires approval from the Ministry of Unification; it grew steadily between 2004 and 2007.

(vii) State trading

71. Korea has not updated its WTO notification on state trading since 1998[53]; the authorities indicate their intention to submit a notification in 2009. Despite privatization efforts, the State participates in a wide-range of trade and/or trade-related activities (section (4)(iv)). In addition to enterprises owned and controlled by the Central Government, there are public enterprises with multiple and strong managerial and operational ties to the Government, and enterprises owned and controlled by local authorities. Government agencies (e.g. MIFAFF and the Korea Agro-Fisheries Trade Corporation) 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)). A number of products (potatoes, ginger, sesame, etc.) are no longer imported exclusively by the designated agency, but are also imported by private importers buying quotas at agency auctions.

(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

[51] Korea's minimum market access commitments are based on fiscal year while imports are based on crop year (1 November to 30 October of the following year). The modifications and rectifications to Schedule LX – Republic of Korea, relating to the rice import tariff quota, were certified in April 2005 and became effective on 23 November 2005 (WTO documents WT/LET/492 of 12 April 2005, and WT/LET/504, 5 December 2005).

[52] Imported table rice is sold through open bidding and reaches consumers through trade marketing routes, wholesalers, and dealers.

[53] WTO document G/STR/N/4/KOR, 10 December 1998.

(2001). The Korea Trade Commission (KTC) 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. Korean legislation on contingent protection and KTC's practices has not changed substantially during the period under review. An early 2008 amendment stipulated that the review process of anti-dumping duties is to be conducted identically to the original investigation process; the calculation method of the dumping margin was changed.

(a) Anti-dumping and countervailing measures

74. Between 2003 and end 2007, Korea initiated 47 anti-dumping investigations involving mainly chemicals, paper and paperboard, wood articles, and machinery from mainly China, Japan, the EC, and the United States (Chart III.4). In June 2007, Korea had final measures consisting mostly of definitive duties on imports from ten countries (Table III.3). Korea has taken no countervailing measures since its last Review.

75. Since its last Trade Policy Review, Korea has regularly submitted semi-annual reports on actions in this area to the relevant WTO Committees.

(b) Safeguards

General

76. Safeguard measures include tariff adjustments, import quotas or other measures to remedy injury to a domestic industry or to facilitate structural adjustment. Financial assistance, such as relocation and re-training assistance for workers, may be provided.[54]

77. During the period under review, Korea has not used safeguards to protect domestic industries.

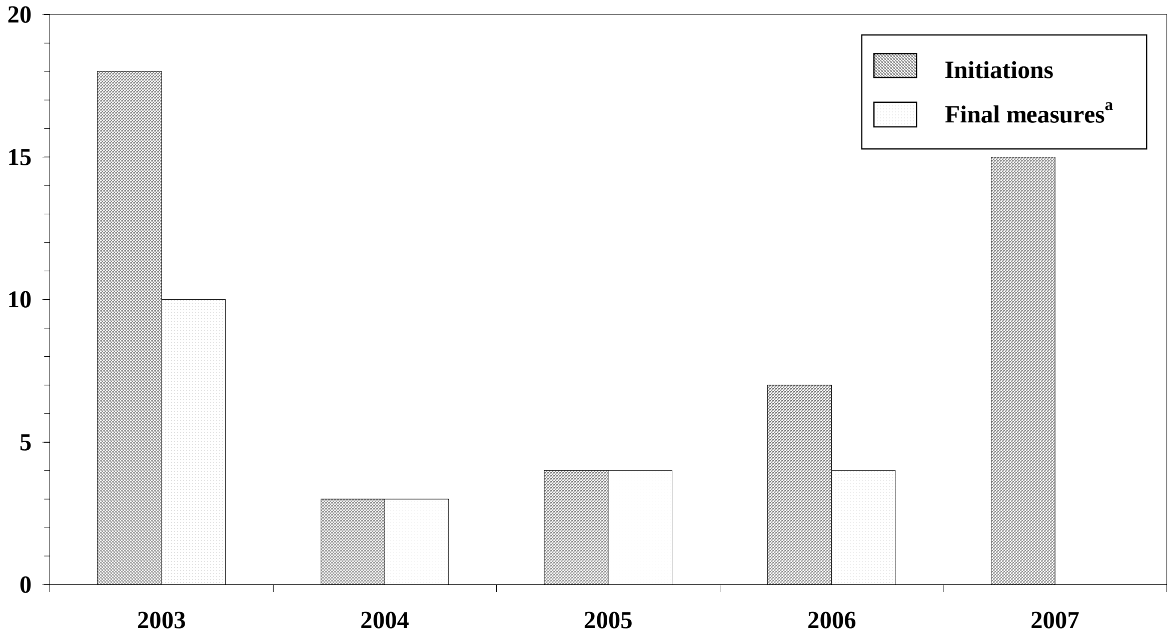
Sector-specific

78. Since its last Review, Korea has used the special safeguard provisions (SSG) under Article 5 of the WTO Agreement on Agriculture, allowing for an additional duty of up to a third of the level of the applied tariff on agricultural imports if their prices (or quantities) fall below (or rise above) specified trigger levels. The decision to implement such measures is made annually by MOSF through a ministerial ordinance, at the request of the MIFAFF. Where both volume-based and price-based SSGs could be triggered, they are to be invoked selectively in order to avoid concurrent invocation. While Korea reserved the right to apply SSG provisions to 125 agricultural ten-digit tariff items in 2007, they are in practice applied to a small sub-set of items. To implement these provisions, a Special Safeguard Tariff Schedule is issued annually: it covered 61 items in 1998, 45 in 2004, and 33 in 2008.[55] The 33 SSGs currently in place, comprise 8 volume-based (e.g. buckwheat and wheat groats), 20 price-based (e.g. wheat starch, raw ginseng, red ginseng) and 5 both price- and volume-based (e.g. green and red beans).

[54] WTO (2004).
[55] WTO document G/AG/N/KOR/39, 1 March 2007.

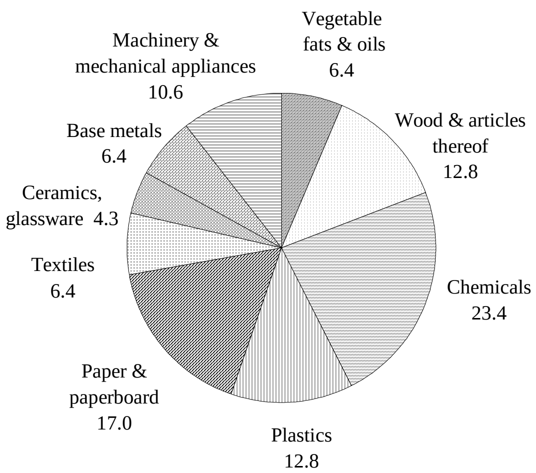
Chart III.4
Anti-dumping cases, 2003-07

(a) By number of initiations and final measures

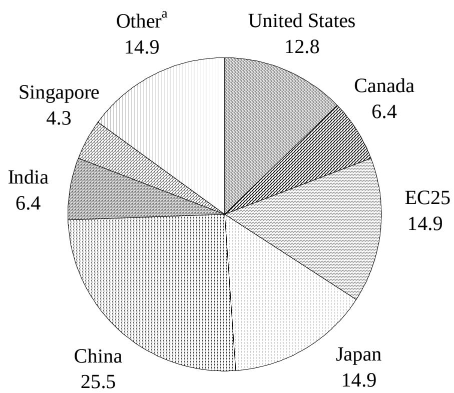


a Final measures for the reported initiations.

(b) Initiations by product
Per cent



(c) Initiations by origin
Per cent



a Argentina, Brazil, Chinese Taipei, Indonesia, Malaysia, New Zealand, and the Russian Federation with one case each.

Source : Notifications to the WTO.

Table III.3
Anti-dumping measures, 31 December 2007

Country	Product	Date of definitive measure
Definitive duties in force		
Canada	Choline chloride	20/10/04
China	Ferro-silico manganese[a]	03/12/03
	Uncoated woodfree paper[a]	07/11/03
	Sodium dithionite	23/06/04
	Choline chloride	20/10/04
	Titanium oxides	02/03/05
	Ceramic tile	30/12/05
	Polyester filament draw textured yarn	20/10/06
	Polyvinyl alcohol	12/12/06
India	Choline chloride	20/10/04
	Stainless steel bar	30/07/04
Indonesia	Uncoated woodfree paper[a]	07/11/03
Japan	Aluminum hydroxide[a]	18/07/03
	Stainless steel bar[a]	30/07/04
	PVC plate[a]	20/12/04
	Industrial robot with 6-axis vertical multi-articulation structure	18/04/05
	Guide hole puncher	23/11/06
Malaysia	Polyester filament draw textured yarn	20/10/06
Spain	Stainless steel bar	30/07/04
Singapore	Polyvinyl alcohol	12/12/06
Chinese Taipei	Polyester filament draw textured yarn	20/10/06
United States	Choline chloride	20/10/04
	Polyvinyl alcohol	12/12/06
Price undertakings in force		
China	Ferro-silico manganese[b]	03/12/03
	Uncoated woodfree paper	01/06/07
Indonesia	Uncoated woodfree paper[b]	01/06/07
Japan	Aluminium hydroxide[b]	18/07/03
	Stainless steel bar[b]	30/07/04
	PVC plate[b]	20/04/05

a Price undertakings also apply.
b Anti-dumping measures also apply.

Source: WTO notifications (document G/ADP/N/166/KOR, 16 April 2008).

(ix) Standards and other technical requirements

(a) Standards, testing, and certification

79. 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. In October 2007, administrative responsibility for the Industrial Standardization Act was transferred from MKE to KATS, extending the role of KATS to include planning and coordinating of national standards policy. KATS represents Korea at international bodies, such as the International

Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). It is the official enquiry point on industrial products under the WTO Agreement on Technical Barriers to Trade, and has accepted the Code of Good Practice for the Preparation, Adoption and Application of Standards (Annex 3, WTO Agreement). Several private bodies perform standardization-related tasks. Other bodies designated by KATS to perform standards-related work include the private Korea Research Institute of Standards and Science (responsible for metrology standards and measurement).

80. The process of standard development in Korea is government led, and is a significant element of Korea's industry policy. The National Standards Council (chaired by the Prime Minister), which has been in charge of standards development and the approval process since 2007, approved the second National Standards Plan (2006-2010) in May 2006. Under the Plan key policy goals are, *inter alia*, to continue promoting the alignment of Korea's national standards with international standards, remove technical barriers to trade by improving the national conformity assessment system and ensure active participation in international standardization activities and mutual recognition agreements.[56] Regulatory authorities are to adopt, where possible, international standards when setting up or modifying technical or voluntary standards. The National Standards Council reviews all standards and coordinates domestic and international standards.

81. The Korean standardization system consisting of technical regulations (mandatory standards) developed by ministries and government agencies, and standards (voluntary) (KSs) set by KATS. In 2006, 2,945 Korean standards were contained in technical regulations by 22 government ministries under 65 regulations.[57] At end 2006, mandatory standards represented 15% of total KSs. At the end of 2007, 22,760 Korean (industrial) standards had been adopted, an increase of 702 over the previous year; the number of Korean industrial standards has doubled over the last five years. By 2007, the allocation of all KSs on a sectoral basis, was: chemicals, clothing, ceramics (24%); machinery (18%); electricity (15%); steel, mining, construction (13%); transportation, shipbuilding, aircraft (10%); information industry (8%); and health, food, etc. (12%). At end 2007, 13,957 of 13,969 Korean standards that had corresponding ISO/IEC standards (international standards) had been harmonized. About 30% of Korean standards had been established by reference to other international standards excluding ISO or IEC. Non-harmonized standards are those that are either unique to Korea, with no corresponding international norm, such as for kimchi, or cannot be harmonized because of their link to other domestic regulations; roughly 9% of KSs have been established without any reference to international standards. In 2007, approximately 61.4% of Korean Standards were subject to international ISO/IEC harmonization. Another 150 Korean standards are to be harmonized in 2008-09 either by adopting international standards as new KSs or by revising existing relevant KSs.

82. Reportedly, Korean standards are being adopted with increasing frequency as international norms, not least in the semiconductor and electronics fields.[58] Four digital signature technologies proposed by Korea have been published as ISO/IEC standards, and five electronics technologies have been published as IEC standards. The IEC is currently assessing 16 Korean technologies in the semiconductor and display device fields for possible adoption.

83. KATS reviews standards every five years, or earlier if required. New or revised standards are published in the *Official Gazette*. KATS has operated a web-based KS Development System to support establishment, revision, and withdrawal of KSs since 2003; in 2006, KATS improved,

[56] APEC (2007).
[57] APEC (2007).
[58] APEC (2007).

inter alia, the functions of the system to achieve faster and more accurate processing of work along with an e-payment settlement system, and reinforced the historical management function.[59]

84. Priorities for standards harmonization are new technology products, including IT, and services (since December 2001). In 2007, KATS selected five priority areas from which to develop about 916 new KSs: next-generation growth engines; service industries; public safety and convenience sector; energy development sector; and national infrastructure sector.[60]

85. At end 2007, Korea had concluded bilateral MoUs with 30 agencies from 24 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.[61] To help Korean companies duly and swiftly respond to technical barriers to trade, KATS established a TBT division to address related issues; the division is exclusively responsible for WTO/TBT-related affairs.[62] Starting on 1 February 2007, KATS launched an information service on technological regulations of respective countries, which are notified to the WTO. In February 2007, KATS also launched a TBT Notifications Alert Service, which transmits TBT notifications to stakeholders by e-mail and encourages them to submit their comments.

86. The authorities indicate that there are very few "Korea-specific" standards and that these are only maintained where there are no equivalent international standards and when there is sufficient justification to maintain them. Moreover, "Korea-specific" standards are not prepared, adopted or applied with a view to creating unnecessary obstacles to international trade. Transparency and the opportunity for interested-parties to participate in the development or review process of KSs are ensured. KATS is in charge of efforts to adopt uniform standards among ministries, which is the goal of the Second National Standards Plan 2006-10.

Food and other non-industrial products

87. Legislative responsibility for regulating food safety and quality is diversified and overlaps with several ministries, which often perform similar activities. Responsibility for food safety, pharmaceuticals, and cosmetics rests with the Ministry of Health, Welfare and Family Affairs (MIHWFA) and its agency, the Korean Food and Drug Administration (KFDA).[63] 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 fish products, and its National Fisheries Products Quality Inspection Service inspects fish imports (and exports). The KFDA regulates domestic and imported salts, except for industrial salt, which is inspected by MKE. The KFDA also inspects imported alcoholic beverages. The Ministry of Environment is responsible for the safety of bottled water.

88. The main laws affecting food standards and specification are the Food Sanitation Act of 1986 (amended in 2008), the Food Code and the Food Additive Code. To facilitate harmonization, the Food Code and the Food Additives Code have been modified significantly (twice in 2006), and further changes are expected. All food additives require pre-approval.

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[59] MOCIE/KATS (2007).

[60] MOCIE/KATS (2007). See also APEC (2007).

[61] MOCIE/KATS (2007).

[62] MOCIE/KATS (2007).

[63] The Food Safety Bureau develops general policies on food safety management and provides guidance to food-related businesses. It supervises overall food hygiene according to Codex provisions, and manages import and export inspection and certification systems.

89. Environmental risk assessments on biotechnology crops, became mandatory when Korea ratified the Cartagena Bio-safety Protocol on 3 October 2007 and entered in force on 1 January 2008. The KFDA maintains a policy of zero tolerance for the presence of biotechnology products in processed food that is labelled as organic.[64] KFDA has authority to conduct mandatory safety assessments to evaluate genetically modified organisms (GMOs) in products used for human consumption; Korea implements the Advanced Informed Agreement Procedure and Labelling.[65]

90. Pharmaceuticals require pre-approval from the KFDA, often involving extensive clinical testing and other requirements. Manufacturers must submit detailed data on certain active pharmaceutical ingredients under the KFDA's Drug Master File. KFDA may require foreign drug companies to duplicate overseas clinical tests in Korea to obtain local test data.[66] In addition, claims persist that KFDA's requirements for a Bridging Study to register a new product are inconsistent with international practices. The authorities indicate that the submission of a Bridging Study is based on ICH E5 (ethnic factors in the acceptability of foreign clinical data), and if the product proves its ethnic insensitivity, it is exempt from such requirement in accordance with the Regulation on Review Study and Efficacy of Pharmaceutical Products. No change has been made to the Pharmaceutical Equivalence Testing (PET) requirements since 2004.

91. KFDA administers registration requirements on imported and domestically produced "functional" cosmetics; all cosmetics must pass quality tests set for each product type by KFDA. Regulations on "functional" cosmetics (e.g. sunscreen lotion) have been applied since 2000 (Korean Cosmetic Products Act). Korea is moving to a system of self-regulation; in December 2007, the Enforcement Rule of the Cosmetic Act provided for exemptions of functional cosmetics from screening requirements. Quality testing results submitted by overseas manufacturers with internationally accepted quality standards are accepted without the need for additional quality testing in Korea. Quality inspection by the importer of cosmetics is required, according to batch numbers.

Conformity assessment

92. 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 provides accreditation for product certification bodies. Accreditation accords with internationally recognized standards. There are currently 280 accredited testing laboratories (182 in 2004), 194 calibration laboratories (164 in 2004), 89 inspection bodies (22 in 2004), and 9 product certification bodies. KOLAS is recognized by the International Laboratory Accreditation Cooperation (ILAC). The relevant regulatory authority processes certification for technical regulations using test reports from government-designated laboratories.[67] The Korean Accreditation Board (KAB), a non-profit, private organization, is one of the accreditation bodies dealing with certification of quality (ISO 9000) and environmental management systems (ISO 14000). It has accredited 34 certification bodies (same as in 2004) for Quality Management Systems (QMS) and 30 for Environmental Management Systems (25).

[64] USTR (2007).

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

[66] EU Chamber of Commerce in Korea online information, "Trade Issues and recommendations 2007". Viewed at: http://trade.eucck.org/site/2007/en/trade16.htm [20 December 2007].

[67] Seven ministries, one agency and one commission operate government-designated testing laboratories under 29 regulations as per the mandatory certification system.

93. In 2007, KATS planned to establish a module scheme of conformity assessment for the legal mandatory certification system.[68] It also planned to use a National Mark, integrating the different legal mandatory certification marks of several ministries. KATS plans to promote private certification to create environments for self-regulatory growth and development with the goal of minimizing market intervention.

94. Certification authorities are encouraged to negotiate mutual recognition arrangements (MRAs) with foreign counterparts. KOLAS signed the ILAC Multilateral Recognition Arrangement (MLA) in 2000 for testing and in 2001 for calibration; 58 accreditation bodies from 46 countries participate in ILAC MLA. KAS became a signatory to the International Accreditation Forum (IAF) MLA for bodies operating product certification systems in 2007. Korea also has an extensive network of MRAs, especially with APEC economies. KAS joined the Pacific Accreditation System (PAC) in 2001. KAB signed the IAF MLA for Quality Management Systems in 1999, and joined the IAF MLA for Environmental Management Systems in 2004. Korea is also a member of the APEC MRA on Conformity Assessment of Telecommunications Equipment (Phase I) and of Part I of the APEC Electrical MRA. It is considering whether to participate in Parts II and III.

95. Korea maintains an APEC-TEL MRA with Canada (1997), the United States (2005), and Viet Nam (2006) on recognition of test results for telecommunications equipment, and an MRA with Singapore (2006) on telecommunications equipment and electrical and electronic appliances under the Korea-Singapore FTA.[69] Over recent years, according to the OECD, substantial improvement has been made in Korea's automobile standards and certification procedures. In the area of automobile certification, under a self-certification system, in place since 2003, vehicles must be labelled as such and manufacturers or importers are liable for product defects. All new standards on safety were based on international standards (i.e. ISO/IEC standards, UN/EEC regulations and FMVSS).

96. A NEP (New Excellent Product) certification system has been in place since January 2006. NEP certification is provided for products manufactured with new technologies developed first in Korea or with innovative technologies improved from existing technologies. The certificate is valid for three years.[70] NEP-certified products receive government support for expansion of sales channels and for acceleration of technology development. Products certified as NEP receive an additional point in procurement by government and public organizations.

97. KFDA has facilitated food imports through two systems: the "officially authorized inspection agencies in foreign countries" (since 1996) includes 45 agencies in 9 countries. Certified imports from these agencies are not inspected in Korea; under the "pre-confirmed registration system of imported foods" (since August 2002), foodstuffs pre-approved and registered based on advanced test certification and pre-inspection at the exporter's premises are exempt from import inspections. Such approval is provided on a product-by-product basis; non-processed products are excluded. Overseas test results submitted by foreign inspection agencies are accepted by KFDA for imported food, which is therefore exempt from KFDA testing. Korea has not joined the APEC MRA on Conformity Assessment of Foods and Food Products.

98. To further facilitate expeditious entry of imported food, the KFDA has reformed its inspection system. It abolished the periodic laboratory test for agricultural products (every year) or processed food/food additives (every three years) for the same food from the same company. According to its Information Strategy Plan 2004-2006, the KFDA established the electronic civil

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[68] MOCIE/KATS (2007).
[69] APEC (2007).
[70] MOCIE/KATS (2007).

service system to provide the public and industry with integrated administrative service including registering and licensing of business, reporting of food imports, etc.

WTO enquiry points, notification, and disputes

99. Between April 2004 and December 2007, some 140 notifications were submitted under the WTO Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). This includes 125 regular notifications of new or changed SPS regulations and two emergency notifications; the rest are updates. During the same period, Korea made 96 notifications under the WTO Agreement on Technical Barriers to Trade.

100. Although national standards or technical regulations in any country are sometimes perceived as barriers to foreign competition, in recent years no country has found sufficient grounds or reason to challenge Korea's industrial standards in the WTO.[71] One dispute related to the shelf life of food products (see below) was resolved without recourse to a dispute settlement panel. Since April 2004, three Members have raised specific concerns in the SPS Committee about measures maintained by Korea.[72]

(b) Quarantine regulations

101. Korea is a member of the FAO/WHO Codex Alimentarius Commission (Codex), World Organisation for Animal Health (OIE), and FAO International Plant Convention (IPPC); it applies animal and plant quarantine requirements based on these international standards. Its main laws on quarantine requirements for imports (and exports) are the Plant Protection Act and the Act for Prevention of Livestock Epidemics. Plant quarantine and phytosanitary controls are handled by the National Plant Quarantine Service (NPQS); the National Veterinary Research and Quarantine Service (NVRQS) conducts animal quarantine and sanitary regulations. Both agencies are under MIFAFF.

102. NPQS inspects imported plants or plant products. Imports must have a phytosanitary certificate issued by the competent authority in the exporting country. Imports of soil, plants with soil, and import prohibited plants or vegetable materials are banned. Imports of rice in the husk, chaff, rice straw are prohibited from all countries, except Japan and Chinese Taipei, for pest reasons. Plants for planting are also prohibited or restricted from most countries.[73]

103. Korea's guidelines on the marketing of genetically modified agricultural products (GMAPs), such as seeds and grains (Consolidated Notice on the Transboundary Movement of Genetically Modified Organisms), apply equally to domestic and imported GMAPs. The Administrator of Rural Development Administration must approve importation/production based on the applicant's environment risk assessment, which must provide supporting scientific and risk-assessment data. The Government also conducts its own environment risk assessment, and confined field trials in Korea may be also required. As from 1 January 2008, Korea has allowed GMAP production and imports. Quarantine funding has been increased substantially to detect GMAPs.

[71] APEC (2007).

[72] The United States raised a concern related to citrus exports from California, which Korea has banned since April 2004 due to concerns related to the presence of certain fungi. This concern was subsequently reported as resolved. In 2007, Canada, supported by the European Communities, raised a concern regarding Korea's BSE-related measures. Canada had formally requested a justification of this measure, which went beyond international standards. Also in 2007, Brazil expressed concerns about Korea's lack of recognition of regionalization (Article 6 of the SPS Agreement) with respect to foot-and-mouth disease. These concerns have apparently not yet been resolved.

[73] WTO (2004).

104. Animal and animal products are subject to laboratory (microbiological, seriological, and pathological) testing and epidemiological investigations to verify they are not from disease-infected import-prohibited regions. Korea bans imports, for example, of live cattle, sheep, and goats, and certain products from countries where BSE and foot and mouth diseases are known to occur.[74] It also extended bans on imports of poultry and related products to China and Thailand following the outbreak of bird flu in January 2004. According to the authorities, Korea applies the same quarantine measures to domestic and imported products.

105. Korea ratified the Convention on Biological Diversity (CPB) in 2007 and has implemented it since 1 January 2008. In order to implement the CPB domestically, Korea notified the revised LMO Act (2007) to the WTO[75]; since then opinions of exporting countries have been collected and are considered. The MIFAFF has completed 44 out of 52 applications for review of environmental risks of LMOs.

(c) Marking and labelling

106. KDFA has continued to review food labelling standards to update them to better reflect international requirements, especially the Codex general standard, the Codex general standard for food additives, the Codex general guidelines on claims, and the Codex guidelines on nutrition labelling.[76] In August 2007, the requirements for end-use labelling of alcoholic beverages other than soju, beer, whisky and brandy, were changed; this may result in a reduction of the inventory burden for importers. In March 2007, new labelling rules requiring the name of the domestic manufacturers or the importer to figure on some form of label or hangtag on every garment were put in place.

107. Origin labelling requirements are applied equally to imported and domestic goods. Origin labelling is mandatory for food and many other imports (674 four-digit tariffs). Since November 2005, the Korea Customs Service (KCS) has operated an Origin Mark Registration and Retrieval System, which records digital images of origin marks on import goods and enables users to check the markings by trader or item.[77] The system protects consumers' interests by matching origin marks of goods at the importation point and the post-clearance stage; the KCS has cracked down on manipulation and destruction of markings (section (4)(vii)(e)). At end-December 2007, 923,166 origin marks were registered in the system's database.

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[74] According to the United States, despite this ban on beef products, Korea continued to permit the imports of certain products containing ruminant ingredients, such as pharmaceuticals and cosmetics. Furthermore, exporters of those products have noted that since the imposition of the ban, Korea's requirements for BSE-free certification have become increasingly burdensome and have begun to impede the flow of U.S. exports of these products to Korea. In response to this criticism, the authorities indicated that beef imports from the United States where the BSE cases are reported, are carried out in accordance with the Import Sanitary Requirements agreed upon with the United States based on the international standards. At high-level negotiations with the United States on 18 April 2008, Korea agreed to expand imports of U.S. beef in stages by amending the Health Requirements. At a first stage, Korea planned to allow imports of U.S. beef with bones from cattle under 30 months of age. At a second stage, it planned to permit imports of beef from cattle aged 30 months or older if the United States promulgates the enhanced feed ban (21 CFR 589 2001) recommended by the OIE. To ease mass health concerns over mad-cow-disease risks, in June 2008 Korea and the United States agreed on a set of measures expected to guarantee that U.S. beef older than 30 months will not enter Korea (USTR, 2007).

[75] WTO documents G/SPS/N/KOR/198, 10 January 2006, and G/SPS/N/KOR/256, 27 August 2007.

[76] APEC (2007).

[77] 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].

108. Mandatory biotechnology labelling requirements apply for genetically modified corn and soybeans as well as for processed foods containing these products, including soybean sprouts and fresh biotechnology potatoes. Since September 2002, Korea has accepted 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

109. In 2006, Korea's government procurement market was about 10% of GDP (12% in 2004). Korea operates international tendering and other procurement procedures in accordance with its multilateral commitments under the WTO Plurilateral Agreement on Government Procurement (GPA). Although government procurement is directed at achieving "value for money", it also focuses on promoting SMEs and regional development.[78] Korea's international tendering system is based on open competitive tendering. According to authorities, restricted tendering is rarely used.[79] For GPA-covered entities, contracts subject to Korea's commitments represented about 38.4% of total GPA-covered procurement in 2004.[80] More than 3% (by value) of these contracts were awarded using restricted (limited) tendering. Procurement by GPA-covered entities represented 44.9% of Korea's total procurement (excluding defence equipment) in 2004. More recent data were not available from the authorities due to institutional change of responsibilities for data collection in this area as of 2006.

110. The main government procurement legislation (Act on Contracts to which the State is a Party, 1995) has not changed substantially during the review period; the Local Government Procurement Law (2006) and the Public Enterprises' Contracting Affair Rules (2007) were passed. The legislation covers international and domestic procurement of goods and services (including construction) by all central government agencies. Procurement by sub-central government entities and public entities are regulated by the Act on Contracts to which the State 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 procurement legislation and the Promotion of SMEs and Encouragement of Purchase of Their Products Act. The comprehensive 2004 Law on the Promotion of Environmentally Friendly Product (implemented in July 2005) requires government agencies and SOEs to give top priority to environment-friendly products; it applies to 55 central government agencies, 444 local government bodies, and 220 enterprises affiliated with central and local government agencies.[81] The law makes mandatory the purchase of environmentally friendly products but provides exceptions for quality and availability reasons as well as emergency procurement needs.

111. Some government procurement is conducted by the central procurement agency Public Procurement Service (PPS). The role of the PPS is changing progressively and, by implication, responsibility for purchasing will be further decentralized to agencies. As of 2008, local governments are fully authorized to procure goods and services independently. Construction works by local governments will be contracted as from 2010. Central government agencies must use the PPS to procure goods and services above W 100 million (foreign goods and services over US$200,000, previously US$100,000); below that threshold individual government agencies can conduct their own

[78] APEC (2007).

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

[80] WTO document GPA/84/Add.1, 12 October 2006.

[81] EIU (2007).

purchasing directly.[82] All other public institutions, including SOEs, can procure goods and services directly, but may choose to use the PPS. Except for defence-related procurement, which is conducted by the Defense Acquisition Program Administration, the PPS has the following five main functions: supply goods and services for government use; contract and manage public works; stockpile 13 items of raw materials, such as aluminium and construction materials, to secure price stability and supplies[83]; coordinate and audit government goods and real estate property management; and manage and operate the Korea ON-line E-Procurement System (KONEPS) (previously called Government's e-procurement system, GePS). This system, which is a single window for procurement, has digitalized the purchasing process, including registration, public notice, bidding, contracts, and payment. PPS's total annual procurement has grown steadily, from W 19.6 trillion in 2002 to W 28.3.7 trillion (2007), of which W 14.4 trillion was on public works construction.[84]

112. The PPS was in charge of about 30% of Korea's total government procurement of goods and services (excluding defence equipment) in 2005. Some 70% of Korea's procurement market therefore involves procurement directly by public institutions. Foreign supplies accounted for about 3.1% of PPS's total business receipts in 2005, a significant drop compared with the period 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. Reportedly, foreign suppliers appear to be losing ground in the Korean government procurement market 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.[85]

113. Reportedly, the KONEPS, *inter alia,* minimized the risk of untoward influence on purchasing decisions.[86] It is highly-regarded and acclaimed internationally. KONEPS has ensured that transparency and openness of decision-making have greatly improved. Transactions conducted through KONEPS were approximately W 43.8 trillion, or 52% of total government procurement (W 83.8 trillion) in 2006. KONEPS is estimated to save US$4.5 billion in costs per year when both the private and public sector benefits are taken into account, although in a recent review of regulatory reform in Korea, the OECD argues that there is room for improvement in utilizing KONEPS.

114. All bidders wishing to participate in PPS-conducted tenders must register with PPS. For construction works, it evaluates bids of less than W 30 billion using an "eligibility screening system" based on factors such as past performance, including record in meeting previous contracts, technical capability, financial status, adequacy of management plans, and price. "Abnormally low or dumping" tenders are rejected.[87] For contracts exceeding W 30 billion, PPS uses the lowest bid award system after conducting a pre-qualification evaluation. A pre-qualification system is also used to determine eligible bidders for large-scale and complex construction projects, if the estimated value exceeds

[82] A higher threshold of W 3 billion applies to construction activity on behalf of central government. Local governments are required to use PPS for construction projects to be contracted through design-build tendering or alternative tendering. For other types of construction, local governments are allowed to conclude contracts independently

[83] The Minister of Strategy and Finance specifies annually essential materials that are highly dependent on imports. As of 2007, PPS stockpiled 13 items consisting of 5 items of non-ferrous metals including aluminium and copper, 7 items of rare metals such as nickel and ferro silicon, and chemical pulp. They are purchased by the PPS using international competitive tenders. On request, these stocks are made available to the private industry including SMEs at the prevailing international market price.

[84] PPS (2007).

[85] APEC (2007).

[86] APEC (2007).

[87] 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.

W 20 billion and the construction involves one or more of the 18 trades specified in the relevant law (e.g. bridges, tunnels, and subways). Separate pre-qualification lists are maintained for each construction project, based on objective criteria.[88] Bid results, including scoring criteria, tenders, pre-qualification evaluation, and contract awards are released on the KONEPS Internet site (http://www.g2b.go.kr). Entities procuring directly also conduct pre-qualification reviews to determine tender eligibility based on similar criteria used by PPS. According to the authorities, there are no special pre-qualification requirements or restrictions imposed on foreign suppliers.

115. 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, private contract is allowed in some rare cases; while no data were made available, the authorities indicate that the share of open competitive tendering is constantly increasing, whereas that of restricted and private tendering is decreasing. Although defence procurement is covered by the procurement legislation (but not by Korea's WTO procurement obligations) and, in principle, conducted by open competition, procurement procedures tend to follow defence acquisition management practices, whereby restricted and private tendering is often used. With the abrogation of collective private tendering system for SMEs in 2006, goods manufactured by SMEs are in principle procured under competitive tendering as from 2007. Although private contracts are occasionally used for purchases of goods and services not exceeding W 50 million in value (W 200 million for construction works) in accordance with relevant laws, competitive contracting is generally used for such purchases from SMEs. The PPS handles procurement from SMEs and other socially weak sectors, such as regional companies and female-owned businesses.[89] Procurement of goods manufactured by SMEs accounts for about 70% of PPS's total domestic procurement of supplies (excluding construction).[90] The Small and Medium Business Administration provides the criteria of SME products for single tendering procurement and the list of set-asides products, which are allowed as an exception under the GPA.[91] PPS's "competitive bidding system restricted by region" and "compulsory joint sub-contracting and single source contracting system" has expanded regional opportunities.[92]

(3) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Registration, documentation, and clearance

116. Most (95% of cases) export declarations that are submitted electronically without supporting documents are accepted automatically without examination; for goods subject to documentary and physical inspection, exporters are required to submit export declarations and supporting documents in paper to the Customs. Electronic applications have expanded and paperless export clearances cover 94% of export shipments: clearance time is under two minutes on average.

[88] 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).

[89] 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 W 8 billion.

[90] Domestic procurement refers to goods, services and leases produced or supplied domestically. Page 41 of Part III of PPS (2007).

[91] The scope of single tendering procurement includes five types of technology development products and products provided by SMEs in four special support regions. There are 226 SME products for set-asides in 2007.

[92] The competitive bidding system "restricted by region" applies to projects valued up to W 5 billion, and allows companies located in the construction region to participate in the open competitive tender. The compulsory joint venture system (up to W 7.4 billion as from 2007) 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.

(ii) Export prohibitions, restrictions, and licensing

117. All commodities may be exported from Korea unless included on the negative list (see below). Export prohibitions or restrictions are imposed to enforce quality and sanitary controls or to meet international commitments under multilateral export control regimes with respect to security, e.g. on nuclear products, arms, missile technology (Wassenaar Arrangement), chemical weapons (Chemical Weapons Convention), conservation of wildlife (CITES), and environmental protection.

(a) Export prohibitions

118. 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

119. Sand and gravel-related items are restricted, to protect natural resources.[93] The export quota on silk waste to Japan, due to Japanese import restrictions, was abolished as scheduled in 2005. Exports of certain passenger motor vehicles to Chinese Taipei have been subject to a tariff-rate quota since 1977; this quota with utilization rates ranging from 5.3% (2007) to 61.7% (2005), is to be eliminated as of 2011.[94]

120. Korea periodically restricts exports of certain products to ensure adequate domestic supplies. Certain agricultural commodities require export authorization by MIFAFF. Korea "eased" the restrictions on exports of rice and non-beer barley in 2007; it abolished those on non-beer barley in April 2008. Quotas have been set on the basis of an export-need recommendation for rice exports for 2007 (34,000 tonnes) and 2008 (47,000 tonnes); quota allocation takes place on a 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, were poorly utilized (500 to 1,000 tonnes expected in 2008). In light of the high domestic price and self-sufficiency in rice, it is difficult to understand the rationale for this measure.

(iii) Export subsidies

121. 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 (though these provisions expired at the end of the Uruguay Round implementation period). In 2004, these subsidies, which were notified to the WTO Committee on Agriculture, totalled W 25.59 billion, and covered fruit (W 11.6 billion), flowers (W 4.2 billion), vegetables (W 6.56 billion), kimchi (W 2.05 billion), ginseng (W 1.04 billion), and livestock (W 0.14 billion).[95] The subsidies were used to reduce exporters' marketing costs, and are exempt from WTO reduction commitments. Korea does not consider that income tax relief to industries located in FTZs is subject to WTO notification (section (2)(i)(b)).

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[93] Exports of sand and gravel items have to be approved 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.

[94] The quota is maintained for nine years (i.e. 2002-10) under the terms of Chinese Taipei's WTO accession.

[95] WTO document G/AG/N/KOR/36, 27 February 2007.

(iv) Duty and tax concessions

122. Imported raw materials used in exports are exempt from customs duties. A customs drawback scheme provides refunds, including of internal taxes (Act on Special Cases Concerning the Drawback of Customs Duties and Other Taxes Levied on Raw materials for Export). The scheme also covers supplies to vessels and aircraft operating internationally and to pelagic fishing vessels. Since October 2005, the Korea Customs Service has been operating an Internet drawback system allowing refund requests to be filed online. As from 2003, a real time electronic treasury transfer system has allowed the Bank of Korea to make electronic refunds to exporters. The seemingly complex method used to calculate the amount of drawback has not changed since the last Review of Korea. Refunds totalled US$2.6 billion in 2007 (US$1.8 billion in 2003), equivalent to about one quarter of tariff revenue.

(v) Export finance, guarantees, and insurance

123. The government-owned Export-Import Bank of Korea (EXIM-Bank) provides export and trade finance to Korean firms and foreign buyers. Guarantees are also provided to foreign buyers against exporters' failure to meet contractual arrangements.[96] The Government ensures the Bank's solvency by covering any net losses beyond reserves. 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) is 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, such as maximum repayment periods, specified in the OECD Arrangement on Officially Supported Export Credits.[97] EXIM-Bank support for ship exports meets the requirements of OECD's revised Sector Understanding on Export Credits for Ships. In 2007, ships comprised the largest portion among items supported under export credit with W 2,476 billion (18.1% of the total), followed by industrial plant with W 1,759 billion (12.9%), and machinery with W 725 billion (5.3%).[98]

124. The state-owned Korea Export Insurance Corporation (KEIC), under MKE, provides export credit insurance against non-payment risks (Export Insurance Act, 1968). 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. KEIC supplies export insurance against losses due to political and commercial risks. 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. Most beneficiaries are exporters of capital goods (e.g. industrial plant, machinery, and vessels). Total exports underwritten rose by 13% to W 82.66 trillion (almost one fifth of total exports) in 2006 (73% covered short-term insurance) compared with 2005.[99]

(vi) Export promotion and marketing

125. Korean exporters benefit from the promotional activities of the state-owned Korea Trade and Investment Promotion Agency (KOTRA). It operates a "business matchmaking" service introducing

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

[97] Korea fully implemented the OECD Arrangement as from 31 March 2002 when transitional arrangements expired. Maximum repayment periods are: 12 years (ships, non-nuclear power plants; 15 years (nuclear power plants); and 5-10 years for other products, pursuant to the OECD Arrangement.

[98] EXIM Bank online information. Viewed at: http://www.koreaexim.go.kr/en/about/m01/s08_01.jsp [16 January 2008].

[99] KEIC (2007).

foreign importers to Korean businesses. KOTRA also organizes or assists with trade missions and exhibitions domestically and overseas. MKE also operates 11 export centres to provide SMEs with export-related information and consulting services. In 2007, total government promotional expenditure on exports was W 34.1 billion; most of which financed participation in overseas trade missions and exhibitions.

126. Since 2001, the Government has helped companies develop "world class products", mainly by funding participation in international trade fairs. World class products receive an additional point in the appraisal process for R&D grants; 583 items were classified as world class products in 2007.

(4) MEASURES AFFECTING PRODUCTION AND TRADE

(i) Taxation[100]

127. Total taxes as a share of Korean GDP remain relatively low (19.5% in 2006, Table I.2). Korea relies on indirect taxes for 48.1% of tax revenues. VAT remains the main indirect tax component followed by the transportation (energy-environment) tax; despite a steadily declining trend, customs duties contributed a substantial 4.6% to total tax revenues in 2007 (Table III.4). The corporation tax and the income tax are also important sources, accounting for 21.9% and 24.1%, respectively, of total tax receipts.

Table III.4
Structure of direct and indirect tax revenue, 2001-07

	2001	2002	2003	2004	2005	2006	2007
Total tax revenue (US$ billion)	74.2	83.1	96.2	102.9	124.4	144.5	173.8
				(Per cent of total)			
Direct taxes	40.6	40.0	43.6	44.6	46.9	49.0	51.9
Income tax	19.5	18.4	18.1	19.9	19.3	22.5	24.1
Corporation tax	17.7	18.5	22.4	21.0	23.4	21.3	21.9
Inheritance tax	1.0	0.8	1.1	1.5	1.5	1.7	1.8
Other	2.4	2.3	2.0	2.2	2.7	3.5	4.1
Indirect taxes	59.4	60.0	56.4	55.4	53.1	51.0	48.1
Customs duties	6.2	6.3	6.0	5.8	5.0	5.0	4.6
Value-added tax	27.0	30.4	29.2	29.3	28.3	27.6	25.4
Special consumption tax	3.8	4.1	4.1	3.9	3.5	3.6	3.2
Liquor tax	2.6	2.6	2.4	2.2	2.0	1.7	1.4
Securities transaction tax	1.9	2.0	1.4	1.1	1.9	1.8	2.1
Transportation tax	10.7	7.8	7.5	7.3	8.1	6.9	7.1
Other	7.2	6.8	5.8	5.8	4.3	4.4	4.3

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

(a) Indirect taxation

128. Korea's relatively complex indirect tax structure comprises a broad-based VAT, special excise (individual consumption) 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. The VAT is levied on top of other taxes, including import duties, where applicable. Exports are generally exempt from indirect taxes, except mainly for special excise

[100] For more information on taxes see Ministry of Strategy and Finance (2007).

and transportation taxes applied to inputs of petroleum products used in their production. For example, exports are zero-rated for VAT so that VAT paid on inputs by exporters and other users is fully rebated. According to the authorities, all indirect taxes levied by national and sub-governments apply equally to imported and domestically produced goods.[101]

129. The value-added tax of 10% applies to most goods and services; exemptions cover unprocessed foodstuffs, social welfare services, books, educational services, and financial and insurance services.

130. The special excise (individual consumption) tax applies to a wide range of goods, including luxury products.[102] Rates vary from 20% (e.g. motorboats, yachts, video cameras) to 5% on cars of less than 2,000 cc and motor cycles. Special excise duties also apply, in principle, to petroleum products, such as petrol (W 630 per litre) and diesel oil (W 454 per litre).[103] Under a three-year extension of its sunset clause, the transportation (energy-environment) tax is to be levied on gasoline and diesel oil until 2009 (instead of the special excise tax). Flexible transportation tax rates may apply to gasoline and diesel oil within a 30% range of the legal tax rates: currently, W 472 (25%) and W 335 (26%), respectively. Excise (individual consumption) tax also applies to certain entertainment services, such as casinos (W 3,500 per person), and taverns or saloons (10%).

131. A special liquor tax on alcoholic beverages is set at *ad valorem* rates of: 5% on Takju; 30% on Yakju, Cheongju, and fruit wine; 72% on distilled and diluted soju, whisky, brandy, general distilled spirits, liquors and beer. Spirits (alcohol content 95% or more) are dutiable at a specific rate of W 57,000 per kl (plus W 600 for every additional 1% of alcohol).

132. The securities transaction tax is levied on transfers of shares or 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.

133. Conditional exemptions apply to petrol and diesel used in the manufacture of medical goods, fertilizers and petro-chemicals. The education tax, levied on banking and insurance services, and all goods subject to the special excise (individual consumption) tax, the transportation (energy-environment) 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 special excise (individual consumption) tax (15% in the case of kerosene, heavy oil, butane or LPG, and nonanes plus gas (C9+)); 15% of the transportation (energy-environment) tax; and 10% of the liquor tax (30% for liquors taxed at over 70%).

134. The special tax for rural development funds various programmes to support rural communities and the agriculture and fisheries sector. It is a surtax levied on the amount of income exempted from company and personal tax, on the value of customs duty concessions, and on the amount of special excise (individual consumption) tax and securities transaction tax.[104] The current rates are: 0.15% for the amount of the securities transaction tax, 5% or 20% for the special excise

[101] The VAT base for imports is the c.i.f. price plus customs duties and other taxes, where applicable.

[102] See WTO (2004), Chapter III(4)(i).

[103] Other products taxed are kerosene (W 181 per litre), natural gas (W 60 per litre), fuel oil (W 17 per litre), LPG-butane (W 360 per kg) and LPG-propane (W 40 per kg).

[104] It includes exemptions specified under the Special 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.

(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.

135. Some 53 items (35 in 2004) (including red peppers, garlic, ginger, natural honey, crude oil, gasoline, kerosene, cigarettes, spring water, insecticide, chewing gum, diapers, tyres, lubricant, and fluorescent lamps) are subject to levies according to 16 relevant laws. These levies affect domestic and imported products and their rates seem to vary depending on the "circumstances" (projects, regulation).

136. Korea imposes environmental waste charges on certain products, materials, and containers that contain harmful substances and are difficult to recycle (Act on Promotion of Saving and Recycling of Resources). Product categories cover: containers of insecticides and poisonous goods; anti-freeze solutions; chewing gum; disposable nappies; cigarettes; and products made of plastic and plastic used in packaging for goods distributed in the market. The charge is intended to ensure that manufacturers bear the cost of processing waste. It applies equally to imports and domestic goods.[105]

Local taxes

137. Province and city governments apply a range of indirect taxes (16 in 2007), 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

138. Personal income tax and corporation tax are the second and third largest single sources of revenue after VAT. Progressive personal income tax rates range from 8% (income of W 10 million or less) up to 35% (over W 80 million).[106] Certain types of foreign workers employed in Korea are exempt from income tax. The corporation tax rate was further reduced in 2005 from 15% to 13% for income under W 100 million, and from 27% to 25% for higher income.[107]

(c) Tax incentives

139. 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). They cover a range of activities, and include income tax relief (rate reductions, exemptions, concessions, special income tax deductions), or credits and commodity tax concessions (such as VAT exemptions and zero-rating). Although tax incentives were to terminate at end 2003, many were extended twice, until end 2008 or 2009.[108] According to the

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

[106] Taxation for higher income (i.e. W 10 million and above) consists of a fixed amount plus a percentage of the amount exceeding the tax base.

[107] Taxation for higher income consists of W 13 million plus 25% of the amount exceeding W 100 million.

[108] Currently, the sunset clauses on most tax incentives take 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.

authorities, out of 55 "non-taxation" and tax reduction/exemption benefits due to expire in 2006, 32 were extended while the remainder were abolished or scaled back; 15 tax incentives with no expiry date were scaled back or repealed in 2006 and 2007. In determining whether to repeal or scale back a certain tax incentive, factors taken into account included whether the objective had been fully achieved and whether the benefit was in line with international standards.

140. 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 2004, 2005, and 2006 are estimated at W 18.3 trillion, W 20.2 trillion, and W 21.3 trillion, respectively. With regard to tax expenditure estimates, under the National Finance Act 2007, the annual increment in tax expenditure is maintained at a certain level (i.e. 0.5% of three-year average increment). From 2010 onwards an annual report on tax expenditure for the previous, current and following years will be published, thereby improving fiscal transparency.

141. SMEs still benefit substantially from tax incentives including: tax credits (3% of investments in machinery and equipment, until end 2009); and an income tax holiday (half the rate for six years) for new SMEs located outside the Seoul metropolitan area (property tax on business assets is also reduced by half for five years, and the acquisition and registration taxes abolished for two years) (until end 2009)). Special income or corporation tax incentives of a 10% or 20% rate reduction (5% or 30% respectively if located in metropolitan areas) also apply (until end 2008) to SMEs in many activities, including manufacturing, fishing, tourism, stock raising, and telecommunications. 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. The 2006 tax reform streamlined eligibility requirements for tax incentives available to SMEs by excluding unlisted companies with assets of W 500 billion or more from that category.[109]

142. Tax incentives also apply to R&D and human resources development. Tax credits apply to investment in technology and human resources development, and 50% of income from technology transfers is exempt (until end 2009). Income tax holidays also promote balanced development by encouraging firms to re-locate outside metropolitan areas, such as Seoul (until end 2009). A concessional income tax rate of 12% 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 W 20 million) and partnership dividends (up to W 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.

(ii) Financial assistance

(a) Loans, guarantees, and other financial measures

143. 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). The venture investment system has changed greatly since 2005. The Fund of Funds, created in 2005, invests in LPFs and contributes to the formation of the private venture investment market. The Government moved from direct support for LPFs to indirect support for the Fund. Since 2005, investment in information and communications technology has decreased, while there has been diversified investment in future-growth industries such as biotechnology. As of late 2007, the Fund of

[109] EIU (2007).

Funds amounted to W 630.1 billion, and is to be expanded further. In 2007, the volume of new venture investment registered a record high of W 1.2 trillion, after the venture boom in 2000. The Fund of Funds is expected to play an important role as a source of venture capital investment.

144. Two major public institutions, the Industrial Bank of Korea (IBK) and the Korean Development Bank (KDB), play a substantial role in industrial development. They are run commercially, and while the Government has no direct control over their lending programmes, it tends to use them as an arm of industry and regional development policy.[110] Government guarantees any losses.[111] No capital injection or replenishment of losses have been made since 2004. All commercial banks granting 50% of their loans to SMEs can provide low-interest-rate loans to SMEs.

145. The IBK supports SMEs mainly through loans for working capital, constructing facilities or buying plant and machinery. It also provides low interest loans to SMEs in line with government policy, such as to support technology development, productivity improvements or automation. At end-December 2007, loans extended to SMEs amounted to W 65.7 trillion, or 81% of total IBK loans in won. Annual interest rates for loans funded by the Korean Government or governmental agencies may vary from 2.0% to 5.9%, while the commercial rates averaged 7.31% at end-December 2007.[112] 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 or borrowings (9.6% of IBK's liabilities in 2007). They are, *inter alia*, financed from the Government's SME Promotion and Industrial Development Fund (W 6.6 trillion in 2007). IBK does not maximize profits given its public policy role; its financial performance is directly influenced by government policies.[113]

146. 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. 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 determined by market principles and no KDB 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 (1.25 percentage points lower rates) or regional development purposes.[114] Even when using government funds, KDB extends loans under the same conditions as commercial banks. The volume of KDB's loan extension originating from government funds and its proportion of total funding were minimal at W 732.9 billion and 3% of total funds in 2006; and W 571.2 billion and 2.1% in 2007.

147. Other state-owned entities providing credit facilities include the Korea Credit Guarantee Fund (KODIT) and KIBO Technology Fund. Both 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. Operations are funded by financial institutions and government contributions; the Government's

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[110] For example, they receive government approval each fiscal year for their financing and lending programmes.

[111] Following the Asian financial crisis, both banks received substantial government capital injections to boost their capital adequacy ratios (IBK: W 1.7 trillion in October 1998 and W 100 billion in January 1999; and KDB: W 3.050 trillion in 2001).

[112] Industrial Bank of Korea (2007).

[113] The authorities indicate that IBK is competing with other commercial banks for the same target market with identical funding and operating scheme. The Government is also considering deregulating IBK to a similar level to that of commercial banks.

[114] Regional development is promoted by providing loans whose interest is partially covered by local authorities or the bank itself (KDB, 2006, p. 20; and KDB, 2005, p. 15).

financial assistance for KODIT and KIBO Technology Fund amounted to US$140 million and US$210 million, respectively, in 2007. KIBO Technology Fund also administers technology appraisal systems for selecting beneficiaries of various government funds.[115]

(b) Subsidies

148. Korea has no laws specifically limiting subsidy programmes that may be anti-competitive. No government agency comprehensively controls subsidies, and they have received little attention from the Korea Fair Trade Commission.

149. Korea has notified several direct support programmes to the WTO (Committee on Subsidies and Countervailing Measures). Its latest notification, in January 2006, covered the period 2003-04 and indicated that there were 22 subsidy schemes (19 in 2001), of which 17 were also notified in 2001.[116] 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 purchase of rice (until 2004), replacement of old coastal and offshore fishing vessels (decommissioning until 2010, replacement until 2011), replacement of old deep-sea fishing vessels (until 2012), emission reduction for diesel vehicles (until 2014), supply of natural gas busses (until 2010), and building and acquisition of international line and deep-sea fishing vessels (until 2012); some of these expiry dates, indicated by the authorities, exceed those in the notification.

150. R&D spending accounted for 3.23% of GDP in 2007 and is expected to reach 5% by 2012 in order to ensure sustainable growth.[117] Projects are supported by public research and development funds. Plans are in place for further tax benefits and other incentives as well as channelling unused private sector funds into corporate R&D financing projects. The need to fuel private sector R&D is crucial since this accounted for over 70% of all outlays in 2006, as opposed to 30% from state-run laboratories and the Government. In 2006, Korea ranked sixth among the world's top R&D spending countries.

151. Korea heavily subsidizes agriculture, especially rice (Chapter IV). The importance of direct government payments to specific agricultural commodities was provisionally estimated by the OECD at almost W 1 trillion in 2006 (down from W 1.5 trillion in 2005).[118] These relate mainly to overall farming income, area planted or animal numbers, and input use.

152. According to Korea's latest WTO notification of November 2006, the total Aggregate Measure of Support, (AMS) dropped to W 1.46 trillion in 2004 (below its final bound level of W 1.49 trillion), in line with WTO provisions and scheduled commitments.[119] It consisted mainly of market price support for rice (W 1.371 trillion), soyabean (W 47.3 billion) and barley (W 39.6 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 W 6.9 trillion in 2004 (W 2 trillion excluding green box and

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[115] WTO (2004).

[116] WTO documents G/SCM/N/71/KOR, 2 August 2001, and G/SCM/N/123/KOR, 24 January 2006.

[117] KOIS online information: "Incoming gov't to push for robust growth in R&D to fuel economy", 22 January 2008. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20080122005 [23 January 2008]; and "Korea's R&D spending to rise 11% this year", 6 January 2008. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20080106002 [23 January 2008].

[118] OECD (2007c), Table III.25.

[119] Schedule LX – Republic of Korea, Part IV Section I; and WTO document G/AG/N/KOR/37, 28 February 2007.

S&D assistance (Table AIII.8). De minimis support included: additional market price support (e.g. on maize and rapeseed); other product-specific assistance (e.g. milk support W 30.5 billion, beef subsidy of W 13.7 billion); and non-product specific support of W 437.17 billion (mainly concessional loans, subsidized inputs and irrigation facilities). In 2004, green box assistance more than doubled Korea's total product and non-product specific AMS.

153. Manufacturing activities benefit from lower electricity tariffs than other consumer groups (Chapter IV). The authorities indicate that this was not due to subsidies but to the adjustment of tariffs for non-industrial users at higher levels; in addition, the gap between different tariffs has been on the decline since 2003.

154. Under the Act on Trade Adjustment Assistance, implemented in 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.[120] Compensation is granted if sales or production is reduced by more than 25% over an extended period because of import competition. For 2008, W 32 billion was budgeted for this type of compensation.

(iii) Price controls and monitoring

155. According to the authorities, in principle, retail prices are determined by individual corporations depending on the prevailing market conditions. Exceptionally, charges on public goods and services can be adjusted by central and regional governments, which have the authority to increase prices of 19 items, including rail and mail services, whenever price-rising factors occur. For some of these items (taxi, inner-city bus, subway, liquified 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. The Government does not provide any formal or informal price-setting guidelines or related rules on goods and services except for these 19 items. The authorities indicate that such controls have been used in one instance.

(iv) State-owned enterprises and privatization

156. State involvement in the economy (Table III.5) persists; privatization, particularly in the services sector (Chapter IV), was put virtually on hold during the review period. Currently 24 SOEs employ 88,000 persons and represent assets of US$267 billion. The new Government is to consider the restructuring and privatization of SOEs to streamline the public sector and improve its overall competitiveness, by examining all 298 state-run firms, institutions, and those that received public bailout funds.[121] In late 2007, the authorities considered plans to allow local SOEs, Korea District Heating Corp. and Korea Plant Service & Engineering Co., to list their shares on the Seoul stock exchange, as well as privatizing part of the operations of the KDB[122], and selling 50% of the State's

[120] EIU (2007).

[121] KOIS online information: "Korea set to review public-sector overhaul", 4 January 2008. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20080104013; "Korea plans for listing of three state-run firms on local bourse", 30 July 2007. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20070730020; "New gov't pushing to privatize state-run development bank", 7 January 2008. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20080108001; and "Korea to sell 50% Woori stake to strategic investor", 10 September 2007. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20070910026 [24 January 2008].

[122] KDB is to be transformed into a financial holding company during 2008, and be privatized through disposal of its shares from 2009 onwards.

stake in Woori Finance Holdings Co. to a strategic investor. No recent data relating to the incidence of SOEs in domestic production and trade were available from the authorities.

Table III.5
State involvement in the economy, 2008

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% / ..
Manufacturing		
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	46.1% / ..
SERVICES		
Financial services		
Industrial Bank of Korea	Specialized bank	51.0% / ..
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 fund 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% / ..

Table III.5 (cont'd)

Entity	**Activity**	**Degree of state ownership(%)/Situation in privatization programme**
Other		
Korea Agricultural and Rural Infrastructure Corp.	Improvement projects	100% / ..
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 Corp. (KoLand)	Acquisition, development and management of land	73.3% / ..
Korea National Housing Corp. (KNHC)	Land development, housing construction/improvement/sales/rent/ management, production and supply of construction material	88.0% / ..
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% / ..

.. Not available (no final comments were received by the authorities on the content of this table).

Source: Ministry of Planning and Budget (2007); EIU (2007), *Country Commerce South Korea*. Viewed at: www.eiu.com [20 November 2007]; and information provided by the Korean authorities.

(v) Competition and consumer policy

(a) Competition policy

Framework

157. Responsibility for competition policy rests primarily with the independent Korea Fair Trade Commission (KFTC) (the Monopoly Regulation and Fair Trade Act (MRFTA) 1980, last amended in 2007). During the period under review, the KFTC completed the implementation of the three-year Market Reform Roadmap, launched in 2003.[123] In this context, it established and revised competition laws and regulations, in response to globalization and digitization developments, and has made efforts to secure effectiveness of competition policy. KFTC started implementing its "Business Review" in December 2004: from December 2004 to December 2007, it reviewed 70 cases, and notified the

[123] Its major goals were to: make business more accountable and transparent; improve corporate ownership and governance structure of large business conglomerates (such as greater disclosure requirements on corporate ownership and improved regulations on total equity investments); enhance market competition (streamlining anti-competitive regulations, including abolishing certain cartels; and strengthen notification and examination of mergers and acquisitions.

companies of the results. Between 2004 and 2005, it agreed (with the relevant ministries) to eliminate or reform 107 anti-competitive regulations under laws and notifications, such as those on price controls and entry barriers; 74 of these regulations have been eliminated or reformed.

158. 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, such as agricultural, forestry, and livestock industries, that meet certain conditions may also be exempt, unless engaging in "unfair trade practices or price hikes by unfairly restricting competition".[124]

159. 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 W 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%.[125]

160. 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).[126] 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 if assets or turnover of any party exceeds W 100 billion. Mergers of a "large-scale enterprise" (assets or turnover above W 2 trillion) must be notified within 30 days from the date a merger contract or a contract for takeover of business is concluded or at other dates set by a Presidential Decree, and wait a further 30 days for the KFTC to decide on approval.[127] Other mergers need only be notified within 30 days of completion. As from November 2007 the reporting requirements for a small domestic deal (assets and sales of less than W 20 billion) were waived; the exemption privilege was to cover some 25% of the market for business combinations. KFTC has monitored mergers (and acquisitions) between foreign enterprises exporting to Korea since July 2003. They are notified if total assets or turnover of at least one of the merging parties exceeds W 100 billion and where each party has Korean sales exceeding W 20 billion. The number of notifications concerning M&As between foreign enterprises rose from 58 in 2004 to 114 in 2007. 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 can be challenged in the courts; and the KFTC may apply to the courts to nullify unapproved mergers.

161. Regulating *chaebols* 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). *Chaebol*-related policies include a ceiling on total shareholding in other domestic companies outside the conglomerate, and bans on cross-shareholding and debt guarantees for affiliated companies.[128] As the ceiling on total shareholding in other domestic companies is deemed to restrict free business activities, the KFTC planned to abolish this in the

[124] 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.

[125] See also WTO (2004).

[126] WTO (2004).

[127] The KFTC may extend this period by 90 days.

[128] Corporate governance issues relating to *chaebols* are discussed in previous TPR reports as well as Chapters I and IV of the present report.

first half of 2008. Companies with assets of W 2 trillion or more affiliated with *chaebol* with total asset worth W 10 trillion or more are prohibited from acquiring or owning stocks worth more than 40% of their net assets in other domestic companies, including subsidiaries.[129] Twenty-five companies affiliated with 7 *chaebols* were subject to the ceiling, and cross-shareholdings were banned for the top 62 *chaebols* as of late 2007.[130] The threshold asset level for regulating cross-shareholdings and debt guarantees is set at W 2 trillion. Voting rights for a finance or insurance company belonging to a *chaebol* are also allowed up to 15% of its shares in a domestic affiliated company in certain cases, including alteration of the articles of incorporation, and merger of the affiliated company with another company.

Policy and operational developments

162. Monopoly power has decreased steadily, but market concentration remains relatively high. The market concentration ratio of the top three leading manufacturing companies fell from 64.6% in 2002 to 59% in 2005. A total of 62 *chaebols* controlled 1,196 companies in mid 2007.[131]

163. Under the Clean Market Project, the KFTC has followed a "pro-active", comprehensive approach since 2001, initiating investigations in targeted sectors. Between 2004 and 2005, the KFTC implemented the project in ten sectors, covering: broadcasting, private education, finance, energy, information technology, medicine and pharmaceuticals, construction, real estate, harbours, and textiles. Since 2006, the KFTC has focused on strengthening monitoring of activities such as PC operating systems, subscription-based TV, Internet portals, and movies, where there are increasing signals of monopoly and oligopoly cases.

164. KFTC operates a permanent monitoring system to detect and prevent bid-rigging in the public sector. When a central administrative 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 W 5 billion or for procurement of goods or services worth W 500 million or more, it is required to submit information on the project bidding to the KFTC. Strict penalties and criminal prosecutions are imposed on bid-riggers. In 2004, the KFTC revised upwards the maximum surcharge for bid-rigging from 5% of the relevant turnover to 10%. Accordingly, the total surcharges imposed for bid-rigging rose from W 1.483 billion in 2004 to W 42.337 billion in 2007.

Enforcement

165. The KFTC has several measures to improve enforcement and compliance. It can issue warnings or corrective measures, impose surcharges and fines, and request criminal prosecutions. To encourage companies to police themselves, the KFTC may reduce surcharges up to 30% if a firm has a compliance programme in place (and up to 50% if they also correct the violation themselves). In 2006, KFTC handled 4,437 cases violating laws under its jurisdiction (4,299 in 2005); it issued warnings or more severe sanctions in 3,348 cases (up from 3,318 cases in 2005).[132] There were 1,036 violations of the Monopoly Regulation and Fair Trade Act, a 2.7% decrease from 2005, and a

[129] Certain exemptions apply, such as for subsidiaries in which foreign investors have at least a 10% stake or where foreign investors have a say in management, such as the right to name some executives. Subsidiary investments in certain private investment companies, a public company to be privatized, a company in the same or similar industry, and a company more than 30% government owned, are also exempt from controls.

[130] Reportedly, companies in a group avoided this regulation by owning shares in other companies in the group, which in turn owned shares of other companies in the same group (EIU, 2007).

[131] EIU (2007).

[132] KFTC (2007).

total of W 155.9 billion was imposed in surcharge, down from W 259 billion. This drop is due to various unexpected events, such as the record level of surcharges on a cartel in the telecommunications sector in 2005. The KFTC put emphasis on detecting and correcting cartels, which remain prevalent across Korea's economic sectors. In 2006, 31 cartels were corrected, with total surcharges of W 110.5 billion on 27. In 2007, the KFTC reviewed 857 merger notification-related cases, imposing corrective measures in three. Increased use of criminal sanctions in hard-core cartel cases, to make the threat of individual liability more realistic, depends on cooperation with prosecutors; eliminating constraints in professions remains a challenge.[133]

166. Korea is strengthening institutions to ensure fair business competition, and is aware of its importance as a trade facilitation measure.[134] The KFTC staff structure was reorganized to reflect the three-year Market Reform Roadmap, notably by reducing the staff administering the regulation of cross-holdings among affiliates. However, it seems that the KFTC still lacks a "dawn raid" power to enter premises and take possession of evidence.[135] The KFTC shares regulatory responsibilities with other agencies. Generally cooperation has been smooth, but there have been occasional tensions in sectors such as insurance and cable television, which have exposed businesses to some uncertainty.

167. Extra-territorial application of competition policy to pursue international cartels exporting to Korea has been maintained. The KFTC has investigated alleged international cartels in marine transportation and DRAM chips, and currently, is investigating several international cartels including one on air fares. KFTC has signed memoranda of understanding on competition policy dialogue, establishing the basis for a formal dialogue on competition law enforcement, with Australia, Canada, the EC, Mexico, Romania, the Russian Federation, and Turkey; at present Korea is negotiating bilateral cooperation agreements with the United States and the EC.

(b) Consumer protection

168. Korea has four policy areas in securing consumer benefits: the reinforcement of consumer sovereignty, creation of competitive market environment, development of mechanisms for prevention and remedy of consumer damage, and enhancement of efficiency in consumer policy enforcement.[136] The Framework Act on Consumers, which sets the basic direction and implementation mechanism for consumer policy, was overhauled in 2006 and became effective in March 2007.[137] The consumer policy function of the KFTC was expanded to cover establishment and implementation of sectoral consumer policies including consumer safety, information provision, education and damage redress, and the focus of consumer policy shifted from consumer protection to "consumer (rights) empowerment". The KFTC's assumption of jurisdiction over consumer policy has enabled an institutional linkage between competition policy and consumer policy; as from February 2008, the KFTC has been the only institution dealing with consumer policy enforcement. It now has the authority to support and monitor the Korea Consumer Protection Agency. Since 2004, consumer protection cases have dealt with: false and exaggerating labelling (duck down jackets) and advertisement (silver nano baby bottles); and unfair advertising and market position abuse (ten school uniform makers and sellers).

[133] OECD (2007h).
[134] APEC (2007).
[135] OECD (2007h).
[136] APEC (2007).
[137] KFTC (2007).

(vi) Intellectual property rights

169. Korea's policy stance is that consistency in intellectual property rights (IPRs) protection is an important infrastructure for enhancing national and corporate competitiveness in the knowledge-based economy. Korea's extensive intellectual property legislation has been strengthened, since its last Review, with the amendment of the copyright legislation (section (b) below) and the strengthening of border enforcement. Korea agreed to undertake strong and far-reaching IPR commitments under the U.S.–Korea Free Trade Agreement (KORUS FTA) concluded in April 2007 (Chapter II).[138] Korea participates in 12 out of 24 treaties administered by the World Intellectual Property Organization (WIPO).[139] The authorities believe that the Korean IPR legislation complies fully with the WTO TRIPS Agreement[140]; and according to APEC, Korea's IPR protection policy is on the right track towards achieving the Bogor Goals overall.[141] The TRIPS Council reviewed Korea's IPR legislation in 2000.

(a) Industrial property

170. The Korea 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.[142] 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 bans parallel imports except where specific legal criteria are met.[143] No data are available with respect to action taken against parallel imports at the border; there have been no court decisions on cases pertaining to parallel imports since 2004.

171. 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 W 100 million; or up to three years or W 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.

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[138] USTR online information. Viewed at: http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_Special_301_Review/asset_upload_file60_11126.pdf [23 November 2007].

[139] Korea's accession to the WIPO Copyright Treaty took effect on 24 June 2004. WIPO online information. Viewed at: http://www.wipo.int/treaties/en/ShowResults.jsp?search_what=C&country_id=95C [30 January 2008].

[140] APEC (2007).

[141] APEC (2007).

[142] To reduce the examination period and improve the examination quality, KIPO recruited 170 additional patent examiners in 2005 (APEC, 2007).

[143] Korea considers that parallel imports promote competition. So it prohibits conduct that unreasonably restricts parallel imports, and treats them as unfair trade practices. Parallel imports infringing trade mark rights are banned, pursuant to relevant laws (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 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).

Patent and utility models

172. The Patent Act of 1947 was totally revised in 2001 and last amended in 2008. The 2006 amendment, *inter alia*, abolished limitations relating to patentable plants. The 2007 amendment implemented a grace period for submitting claims and the claim-by-claim examination system. KIPO may grant on request a compulsory non-exclusive licence to work a patent if the holder has not worked it for more than three consecutive years.[144] To date, no compulsory licences have been issued. Patent protection is for 20 years from the date of filing (extendable for up to five years for pharmaceuticals and agricultural chemicals undergoing certain market-approval procedures). Both product and process patents may be granted.

173. The Utility Model Act (1961, last amended in 2001 to expand the scope of utility models) was fully revised in 2006 and protects utility models for ten years from the date of filing the application. The latest amendment provides for a grace period for submitting claims and introduced the claim-by-claim examination system. 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.

Trade marks

174. The Trademark Act (1949) protects trade marks on goods and services initially for ten years upon registration (renewable indefinitely for further ten-year periods). Legislation was last revised in 2008. In 2004, the Trademark Act was amended to protect geographical indications (GIs) by introducing the GI collective mark system. In 2007, the scope of trade mark protection was extended to all types of mark that can be visually recognized including colour marks, hologram marks, and motion marks. The latest amendments to the Trademark Act and the Design Law were intended only to reflect the revision of the Government Organization Act in 2008.

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

Geographical indications

176. The Unfair Competition Prevention and Trade Secrets Protection Act prohibits, as unfair competition, use of marks identical or similar to another person's name, trade name, emblem or any other well known mark, including selling, distributing, importing or exporting goods so marked, that would mislead the public on the place of production. The Fair Labelling and Advertising Act also prevents deceptive labelling and advertising, including any vague or false labelling or advertising that may mislead consumers on the product's origin. 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).

[144] 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.

177. The Agricultural Product Quality Management Act (1999) and Fishery Product Management Act (2001) specify 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 of the National Fishery Products Quality Inspection Service. Foreign GIs registered according to the same procedures and criteria as for domestic goods are protected in Korea under various laws, such as 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 subject to imprisonment of up to three years or a maximum fine of W 30 million.

178. Any trade mark containing geographical indications for wines or spirits originating in any WTO Member cannot 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

179. Protection for plant varieties is administered by the MIFAFF (Seed Industry Law, 1997). Korea joined the International Convention for the Protection of New Varieties of Plants (UPOV) in 2002. 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, which was amended in 2006 to allow patent to be granted regardless of whether the plant is sexually or asexually reproducible.

Industrial designs and lay-out designs of integrated circuits (topographies)

180. The Design Law (1961) was last amended in 2008. Protection is for 15 years from registration. The scope of protected designs was extended to cover partial designs in 2001 and fonts in 2005. 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.

181. 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 W 50 million, for right infringements; and up to one year or W 3 million for falsely marking a circuit as registered or obtaining registration fraudulently.

Trade secrets

182. Protection under the Unfair Competition Prevention and Trade Secrets Protection Act (1961) covers information acquired by an "act of improper acquisition" (e.g. theft, deception or coercion), or subsequently used or disclosed. Injunctions may be obtained against disclosure, and damages awarded for infringement. Criminal penalties of up to five years imprisonment or fines of up to W 50 million (ten years or W 100 million if disclosed information is used overseas) apply to employees disclosing trade secrets. Legislative amendments in 2004 introduced criminal penalties for disclosing trade secrets to third parties; broadened the scope of trade secrets to include operational secrets (e.g. business strategies); and extended the coverage to include not only individuals but also relevant organizations and businesses that infringe trade secrets.

183. 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 W 10 million for pharmaceuticals and W 15 million for agri-chemicals. Unfair commercial use of such data is also prohibited.

184. 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 three years or fines of up to W 5 million apply to those infringing the legislation**.**

(b) Copyright and related rights

185. The Ministry of Culture, Sports and Tourism (MOCT) handles copyright protection (Copyright Act, 1957). The 2005 amendment of the Copyright Act incorporated interactive transmission rights to performers and producers of phonograms as well as copyright holders in accordance with the WIPO Performances and Phonogram Producers Treaty.[145] They also provided for enhanced protection of neighbouring rights and introduced public transmission rights and digital audio transmission rights so as to protect new types of works. Matters were clarified in relation to the liabilities of online service providers in the case of copyright infringements. The production or provision of devices or services for circumventing copy control technology is prohibited, and a "notice and takedown system" provides legal incentives for online service providers to promptly take down infringing materials at the right-holders' request. Non-original databases are protected *sui generis*. In 2007, the Enforcement Decree of the Copyright Act was amended to facilitate the use of copyrighted works in the digital environment.

186. Copyright protection for authors is for life plus 50 years; the bilateral KORUS FTA (Chapter II) provides extended terms of copyright protection (i.e. life of the author plus 70 years) and upon amendment of the domestic law it will benefit copyrights of all origins on a reciprocal basis.[146] Neighbouring rights are also extended for 70 years for performances, sound recordings, and broadcasts. Databases, including compilation of data in machine-readable form, can be protected by copyright. Compulsory licences may be granted under strict procedural conditions: eight (one on foreign works) were granted until 2007. Copyright also applies to "interactive transmissions" for authors. The Online Digital Contents Industry Development Act, passed in 2002, protects intellectual property rights on online digital material.

187. According to a major trading partner, the Copyright Act amendments still leave unclear the scope of the underlying liability of service providers and the limitations on, and exceptions from, liability.[147] The new law does not address previous shortcomings in sound recording protection and private copying exceptions. The authorities state that because digital sound transmission has similar aspects to broadcasting the Copyright Act provides "reasonable" remuneration rights to digital sound transmission to phonogram producers as to those provided for broadcasting. In addition, regarding copying exceptions at the university level, the amended Copyright Act further limits the purpose of use to 'class purposes' (formerly, 'education purposes') and the scope of use to 'parts of a work' (formerly, 'parts of or whole work'). It also requires payment of royalties upon use. The authorities state that the copyright limitation for universities is very limited and reasonable.

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[145] APEC (2007).

[146] While copyright protection will be extended to 70 years through amendment of the domestic copyright law, a work created by an author whose country provides shorter protection may be protected for the term provided in their country, in accordance with Article 7(8) of the Bern Convention (APEC, 2007).

[147] USTR (2007).

188. Computer programs are protected under separate legislation (the Computer Program Protection Act of 1986, administered by the Ministry of Culture, Sports and Tourism). The Act was most recently amended in October 2006; it increased the power of the Korea Software Copyright Protection Committee (SOCOP), and penalties for assorted violations of Korean IPR-related laws.[148] Transmission rights were introduced in December 1998. Revisions from 1 July 2003 tightened liability of internet service providers for copyright infringements. The right holder has the exclusive right to copy computer programs, excluding temporary copies. Protection of programs is for 50 years from the year following their publication. 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. The Computer Program Protection Act explicitly stipulates statutory licensing (e.g. where the right holder cannot be identified or traced, subject to certain procedural requirements). No such licences have been granted.

189. Ordinary courts handle copyright cases. 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 W 50 million also apply for copyright infringements (up to five years or W 70 million for repeated computer program infringements).

190. Amendments to the Sound Records, Video Products and Game Software Act in January 2004 eliminated loopholes concerning illegal importation and distribution of videos by requiring applicants for rate classification to present documentary evidence of the due right to produce or distribute videos. The Act was separated into three individual Acts on 29 October 2006 and, currently, the Act on Films and Video Products provides the same protection.

(c) Enforcement

191. The level of piracy in Korea was estimated to have dropped to 7% in 2006 on video movies, records, and music (20% in 2002), and 45% on business application software (50% in 2002).[149] Piracy of entertainment software, however, was estimated to have risen substantially, to 68% in 2006 (36% in 2002). Piracy of books is thought to be significant (estimated losses of US$45 million in 2006). Although IPR enforcement 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 protects with the WIPO, APEC and major individual IPR protection leaders (e.g. the EC, Japan, the United States).[150]

192. 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). KIPO introduced an anti-counterfeiting reward system in 2006 to inspire vigilance for anti-counterfeiting activities; in 2006, KIPO granted a total of 107 rewards worth W 323 million (US$340,000).[151] KIPO and related agencies identify websites selling counterfeit goods and refer to the police for criminal investigation or to the Broadcasting Communication Committee for website-closedown.

[148] USTR (2007).
[149] International Intellectual Property Alliance (2007).
[150] Korea was moved from the USTR's Special 301 Priority Watch List to the Watch List in 2005 where it remains. USTR online information. Viewed at: http://www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_Special_301_Report/asset_upload_file193_14872.pdf [23 June 2008]. For more information on the latest international cooperation activities, see KIPO (2007).
[151] KIPO (2007).

193. 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). Since February 2006 the KCS has operated a *Spider-web system* as part of a more vigorous approach to tracking down goods violating IPRs; it has also been operating a computerized trade mark system since 2001.[152] 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.

194. In March 2006, the KCS established Special IPR Enforcement Headquarters consisting of 98 special investigative teams (446 officers) dedicated to information, investigation, and customs clearance.[153] At a first stage, the special investigative teams were to carry out intensive investigations on exports and imports of fake goods as from April 2006; after crackdown campaigns in 2006, the KCS conducted special investigations into infringement. In 2008, it is to carry out extensive investigations into automobile parts, medicines and tools, which are directly related to the health and safety of the citizens. The KCS has also created a webpage to help consumers compare genuine goods and counterfeits easily (http://www.customs.go.kr/cyber/ index.htm). The 'Public-Private Council for the Protection of the Intellectual Property rights' was established in February 2006.

195. Special KCS campaigns were 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, the KCS confiscated IPR goods worth W 159 billion (2005), W 2.7 trillion (2006) and W 680 billion (2007) through continuous crackdown campaigns.[154] Most cases (99.7% in value terms) involved trade mark violations. Cases of fake goods for export or import rose and cases of products with false country of origin marking soared. In 2007, seizures of fake goods included clocks and watches (67%), clothes (16%) and leather articles (10%) bearing forged world-renowned trade marks; Chinese products represented 87.9% of total values of these seizures. In a number of cases importers or exporters tried to exploit simplified customs clearance procedures, such as the extra opening out of office hours, or declaration prior to arrival at the bonded area; the KCS has been determined to block these improper practices.

196. Standing Inspection Teams (SITs) by the Ministry of Culture, Sports and Tourism (MCST) investigate counterfeit of computer software, sound recordings and video movies, including by on-line activities. However, only the MCST's SIT investigating computer program piracy has judicial police authority, following legislative revisions in October 2003 (Act on a Person with Judicial Police Authority and the Scope of the Right). MCST may collect, delete or destroy illegally acquired computer programs, and can instruct internet service providers to reject, suspend or limit pirated products and services. A Copyright Protection Center was created in April 2005 to conduct systemized and effective anti-piracy activities both online and offline.

197. The Publication and Printing Business Promotion Act, effective February 2003, provides MCST administrative authority to inspect business establishments and to seize and order disposal of illegally copied publications. Relatively small fines, of up to W 3 million, may be levied for refusal to obey such orders. It is enforced mainly by the private entity Korea Reprographic and Transmission

[152] APEC (2007).

[153] Korea Customs Service online information, "Launch Special IPR Enforcement", 15 March 2006. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

[154] Data provided by the authorities; and Korea Customs Service online information, "Special Crackdown Campaigns Confiscated KRW 19.2 Billion Worth of Counterfeits", 16 March 2006. Viewed at: http://english.customs.go.kr/kcsweb/user.tdf [5 October 2007].

Rights Centre (KRTRC) (under the auspices of MCST). Some important steps were taken in 2005 to recognize and start to address serious book-piracy issues by, *inter alia,* separating the licensing functions of the KRTRC from enforcement.[155] The publishing industry, with some government cooperation, tracked down massive underground printing operations in 2006, leading to significant seizures.

198. To improve criminal prosecutions, an IP Right Violation Crimes Investigation Headquarters in the Supreme Public Prosecutor's Office, and nationwide crackdown committees are in place. In 2007, over 38,919 IPR cases (33,000 in 2002), involving over 48,544 persons (40,000 in 2002), were prosecuted, with almost 498 arrests (1,000 in 2002). In 2007, KIPO uncovered 1,182 (549 in 2003) cases of counterfeiting; warnings were issued in 1,066 of those cases and criminal charges were filed in the other 116 cases (332 in 2003).[156]

[155] International Intellectual Property Alliance (2007).
[156] KIPO (2007).

IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Korea's approach to protection of goods remains dualistic. Relatively low manufacturing protection, contrasts with high levels of protection and low market orientation in agriculture, the most distorted sector.

2. Despite persisting, but more market-oriented government intervention, agriculture's GDP share has continued to fall and labour productivity has remained low. Although self-sufficiency has been attained for some major products (i.e. rice), the volume of agricultural imports has risen. Average applied MFN tariff protection for agricultural goods is still more than eight times the average for non-agricultural goods, with tariff peaks as high as 887.4% (manioc). Tariff quotas are either utilized, administered or allocated by state-trading entities or industry associations. Action has been taken to compensate farmers affected by recent FTA liberalization commitments through a fund aimed at strengthening competitiveness. Quantitative import restrictions for rice were relaxed (i.e. increased quota), but are to remain in force until 2014; quantitative export restrictions have also been in place for rice since 2007. Korea's net agricultural support exceeds the sector's GDP contribution (3.3% versus 3.2% in 2006). Most assistance involves product-specific market price support; non-product-specific support includes soft loans and cross-subsidized electricity prices. These substantially distort agricultural trade and production, and force Korean consumers to pay much higher prices (on average well over double world levels). Support through direct payments has increased significantly, especially after the introduction of the direct payments system for paddy fields in 2005. The government purchasing system for rice was replaced by a public stockholding system in 2005. A differentiated pricing system for surplus milk has reduced the surplus milk volume. Action has been taken to, *inter alia*, facilitate farm enlargement, farmland mobility, and land conservation, as well as to cope with the recent rise in world food prices by, *inter alia*, reducing import duties and tax rates on certain grains. Efforts have been made to reduce over-fishing, despite retaining fisheries-related subsidies; adjustment duties were raised for nine fish species.

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 recourse to renewable energy and projects overseas. Lack of progress in privatization means that state involvement persists in the gas and electricity sectors. As from 2005, some industries have obtained licences to import gas directly for their own use rather than purchasing it from the state monopoly, which now adjusts regularly the price of the commodity to costs. Domestic coal production, mainly destined for power plants, continues to be assisted by direct production subsidies. The state-owned power exchange pool sets power generation prices to manage electricity dispatch; cross-subsidies between alternative consumers distort prices, with agricultural and industrial users the main beneficiaries.

4. Manufacturing as a share of GDP and employment declined slightly, as the economy became more services-based. 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 *chaebols*. Border protection, which is almost totally 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. Compensation may be requested by manufacturers affected by FTA liberalization (Chapter III). In 2007, investigations were initiated on the pricing of imported motor vehicles. Domestic support to the shipbuilding industry has apparently been extended to 2009.

5. Services are characterized by relatively low labour productivity (little more than half the level in manufacturing, for example) and declining growth in total factor productivity. This poor productivity performance is partly due to the lack of competition owing to, *inter alia*, state-ownership and excessive regulations, including restrictions on foreign direct investment. Despite some decline, state-ownership persists in financial, telecommunications, 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. On the other hand, services have benefited from regulatory reforms, including progressive liberalization in line with Korea's GATS commitments. However, Korea has unilaterally liberalized its foreign ownership regime in telecommunications beyond its GATS commitments. Increased competition in banking, partly due to FDI, together with consolidation and restructuring have significantly improved banks' balance sheets (and thus reduced their non-performing loans) as well as their productivity and profitability; banks are also migrating to the more stringent Basel II capital adequacy rules in 2008.

(2) AGRICULTURE

(i) Features

6. Despite receiving relatively high protection, agriculture's GDP share has continued to fall. The share (including forestry and fishing) declined from 3.8% in 2003 to 3.3% in 2006 (Table I.2); it also accounted for a declining share of total employment (7.7% in 2006). The sector's labour productivity is little more than half of the national average.[1] Agriculture's low labour productivity reflects several factors, including Korea's high proportion of older farmers, small-scale farming, and lack of capital investment, which hampers its overall efficiency, and thus competitiveness. Despite intensive efforts to increase the cultivated area through drainage, irrigation, and reclamation, the cultivated area has tended to decline due to industrial and urban development.[2] In 2005, a quarter of the value of the agricultural production consisted of rice. While self-sufficiency has been attained for some major products, such as rice, the volume of Korean imports of agricultural products has increased strongly, *inter alia*, as a result of rapid income growth, changes in dietary patterns, and agricultural trade liberalization. Korea is a significant net food importer. In 2007, its agricultural trade deficit could hit a record US$13.65 billion fuelled by a rise in international grain prices and high domestic demand.[3]

(ii) Policy developments

7. The agriculture sector remains sensitive and seemingly complicates Korea's position in international trade negotiations.[4] Protection remains centred on self-sufficiency policies aimed at addressing food security concerns, especially for rice, and other "non-trade" objectives.[5] Korea believes that any multilateral agricultural liberalization must be sufficiently gradual to take account of the sector's "multifunctionality". Recent policy announcements and new policy designs have been developed with an eye to WTO consistency by, for example, replacing the pre-2005 support

[1] The authorities indicate that in 2005 average labour productivity was US$42,251 and agriculture's labour productivity was US$18,720 (OECD, 2007f).

[2] OECD (2007d).

[3] MIFAFF online news. Viewed at: http://english.maf.go.kr/index.jsp.

[4] APEC (2007).

[5] Self-sufficiency ratios on crops averaged 27% in 2006, the same as in 2003. They varied widely between commodities, ranging from 99.4% for rice, 98.5% for potatoes, and 52.8% for barley, to 11.3% for pulses, 0.8% for corn, 0.2% for wheat, and 10.4% for other crops. Self-sufficiency in meat (including beef, pork and chicken meat) was 72.2%.

arrangements, involving annual direct purchase and stock of rice, with a two-tier income support system (section (iii)(a)).[6] Policy priorities have been widened to include agri-environment, consumer interests, and rural development.

8. In their efforts to restructure the agriculture sector in an accelerated and efficient manner, the authorities have shifted policy orientation, focusing more on the stabilization of farm income and farming management, while reducing investment in infrastructure, such as land and water-resource development. Direct payments continue to be expanded and farm income support strengthened.[7] The authorities indicate that their strategic goals in agriculture in 2007 were to, *inter alia,* ensure the supply of safe and good quality food to the population, strengthen fundamentals of agriculture, enhance competitiveness, increase farmers' income, and create a society where people from rural and urban areas can live and prosper together.

9. According to the authorities, Korea's action for coping with the recent rise in world food prices will be focused on: promoting the supply of crops; relieving the agri-food industry of the burden of price surges in cereals; and generating substitution crops for imported wheat by creating new demand (e.g. developing processed rice products). The authorities adopted several short-term measures including setting up a task force consisting of public and private sector representatives, establishing an early warning system on international grain supply and price, quantitative export restrictions on rice (Chapter III), suspending the autonomous tariff for grains such as wheat, corn etc. (from 1 April to 31 December 2008), and extending the VAT exemption period for the sales volume of feed (which expires in 2008) from late 2008 to late 2011. Mid- and long-term measures include: increasing efficiency in land use and self-sufficiency through expanding domestic production by utilizing idle farmland in winter; expanding the cultivation area for wheat, feed crop, and other winter crops from 34,000 to 66,000 hectares by 2012; plans to extend the volume of tariff-rate quota items (soybean, corn, etc.), operated by the Korean Agro-fisheries Trade Corporation (Chapter III); and promoting Korean investment in agriculture overseas.

Border protection

10. Liberalization of agricultural imports through the WTO and various FTA negotiations is one of the most important challenges facing the sector.[8] The key agricultural commodities of rice, apples, and pears were permanently excluded from the Korea–Chile FTA, and tariff reductions were deferred on many food items until after the current multilateral negotiations. In the FTA with ASEAN (Chapter II), 71 sensitive agricultural products were exempt from tariff reductions. The FTA with the United States is expected to bring significant market opening and introduce competition in the domestic market. Korea took action to compensate farmers affected by its recent FTA liberalization commitments (see below).

11. High MFN tariffs (peaks up to 887.4% for manioc), including alternate duties and possibly prohibitive out-of-quota rates, remain in place for many commodities (Chapter III). At 53.5% (including out-of-quota rates and *ad valorem* components of alternate duties) in 2008, the average applied MFN tariff on agricultural products (WTO definition, which includes processed food) is much higher than for non-agricultural imports (6.5%) (Table III.1). Moreover, the average fill ratio of tariff quotas is about 69%; tariff quotas, are either utilized, administered or allocated by state-trading entities or industry associations (Chapter III); this raises potential conflicts between their importing

[6] APEC (2007).
[7] The Government's long-term plan is to raise the share of direct payments to 35% of the agricultural budget by 2013. The share is projected to decrease from 24.6% in 2008 to 22%.
[8] OECD (2007d).

interests and those of their farm constituents.[9] Domestic producers of rice, the main staple crop, still benefit mainly from a quantitative import restriction, which is to remain in force until 2014 (section (3)(iii)(a) and Chapter III); quantitative export restrictions have also been in place since 2007 (barley until 2008, Chapter III). During the period under review, Korea has made regular use of the special safeguard provisions (SSG) under of the WTO Agreement on Agriculture (Chapter III). Export subsidies to reduce exporters' marketing costs are in place for certain farm products (Chapter III).

Domestic support

12. According to the authorities, Korea has fully implemented its multilateral commitments on agriculture, and provides assistance consistent with WTO obligations. Nonetheless, overall, there has been limited progress in market orientation, with the level of producer support remaining high.[10] Between 2004 and 2006 producer support (as measured by the OECD's[11] percentage Producer Support Estimate (PSE)[12]) remained stable at 63% (down from 68% in 2002), but still double the OECD average.[13] Support levels (as defined by the OECD's Single Commodity Transfer (SCT)[14]) varied substantially: in 2004-06, they were more than 70% for rice, barley, and soybeans, and around 60% for milk and beef, and less than 40% for poultry and eggs (Table IV.1). Korea's total agricultural support (net of specific sectoral budget receipts) of W 27.7 trillion in 2006 as a share of GDP (3.3%) was among the highest of OECD members. Over 90% of assistance involves market price support (W 21.8 trillion in 2006), paid for by consumers paying higher prices. In the period 2004-06, Korean agricultural commodity prices averaged two and a half times world levels (consumer nominal assistance coefficient, NAC (Nominal Assistance Coefficient)[15], of 2.58 in 2006), and total transfers from consumers (including on imports) amounted to W 28.5 trillion (2006). Producers' gross farm receipts, on average, remained relatively stable (equivalent to W 24.2 trillion additional income in 2006) (producer NAC of 2.72) during the period 2004-06. Such high levels of support within its WTO commitments suggests that scope exists to increase assistance without exceeding these commitments.

[9] Nevertheless, the authorities indicated that industry associations manage the TRQ volumes for commodities whose domestic demand exceeds supply, 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.

[10] Most support continues to be provided through market price support that was supplemented by direct payments which accounted for an increasing share of farm household income in recent years (OECD, 2007c).

[11] The OECD-based support calculations may not be comparable to domestic support calculations required under the WTO Agreement on Agriculture; the OECD calculations may not correspond with the information on current total AMS *vis-à-vis* final bound total AMS reflected in Chapter III of this report.

[12] 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.

[13] OECD (2007d), Table 9.1.

[14] 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.

[15] 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).

Table IV.1
Agricultural support by commodity, 1986-88 and 2004-06

	1986-88	2004-06	2004	2005	2006[a]
Total PSE (W billion)	9,635	24,109	23,644	24,483	24,199
Total producer SCT (W billion)	9,541	22,367	22,099	22,682	22,319
Share of producer SCT in total PSE (%)	99	93	93	93	92
Other grains					
Producer SCT (W billion)	220	159	168	183	127
Percentage SCT	72.8	76.7	77.0	76.2	77.1
Producer NPC	3.69	4.30	4.34	4.20	4.36
Consumer SCT (W billion)	-210	-160	-170	-184	-128
Consumer NPC	3.42	2.94	2.89	3.17	2.74
Rice					
Producer SCT (W billion)	4,509	6,720	7,620	6,783	5,759
Percentage SCT	82.0	72.2	75.0	72.2	69.3
Producer NPC	5.59	3.45	4.00	3.26	3.08
Consumer SCT (W billion)	-4,452	-6,487	-7,190	-6,533	-5,737
Consumer NPC	5.59	3.45	4.00	3.26	3.08
Soybean					
Producer SCT (W billion)	156	393	379	437	362
Percentage SCT	78.7	88.3	86.6	88.8	89.5
Producer NPC	4.75	8.63	7.47	8.91	9.52
Consumer SCT (W billion)	-175	-441	-412	-486	-423
Consumer NPC	1.72	1.97	1.57	2.13	2.21
Milk					
Producer SCT (W billion)	299	913	912	898	929
Percentage SCT	66.7	59.8	60.2	57.9	61.2
Producer NPC	3.04	2.49	2.51	2.37	2.58
Consumer SCT (W billion)	-295	-1,240	-1,229	-1,201	-1,290
Consumer NPC	3.04	2.49	2.51	2.37	2.58
Beef and veal					
Producer SCT (W billion)	496	1,536	1,004	1,784	1,819
Percentage SCT	53.8	61.2	53.2	63.8	66.6
Producer NPC	2.23	2.63	2.14	2.76	2.99
Consumer SCT (W billion)	-495	-3,265	-2,275	-3,382	-4,138
Consumer NPC	2.23	2.63	2.14	2.76	2.99
Pigmeat					
Producer SCT (W billion)	307	1,461	1,141	1,567	1,675
Percentage SCT	32.2	47.1	36.5	49.8	54.9
Producer NPC	1.50	1.93	1.58	1.99	2.22
Consumer SCT (W billion)	-303	-1,733	-1,307	-1,898	-1,994
Consumer NPC	1.50	1.93	1.58	1.99	2.22
Poultry					
Producer SCT (W billion)	132	325	303	333	339
Percentage SCT	49.4	37.3	32.3	39.4	40.0
Producer NPC	2.09	1.60	1.48	1.65	1.67
Consumer SCT (W billion)	-132	-366	-337	-422	-339
Consumer NPC	2.09	1.60	1.48	1.65	1.67
Eggs					
Producer SCT (W billion)	1	241	289	253	180
Percentage SCT	0.5	25.8	29.4	24.5	23.3
Producer NPC	0.92	1.35	1.42	1.33	1.30
Consumer SCT (W billion)	28	-241	-289	-253	-180
Consumer NPC	0.92	1.35	1.42	1.33	1.30

Table IV.1 (cont'd)

	1986-88	2004-06	2004	2005	2006[a]
Other commodities					
Producer SCT (W billion)	3,421	10,618	10,281	10,444	11,129
Percentage SCT	70.9	60.2	60.9	59.7	59.9
Producer NPC	4.56	2.53	2.61	2.48	2.50
Consumer SCT (W billion)	-3,436	-12,866	-11,462	-12,879	-14,257
Consumer NPC	2.73	2.45	2.34	2.46	2.56
Total GCT (W billion)	24	543	862	431	334
Share of GCT in total PSE (%)	0.2	2	4	2	1
Total ACT (W billion)	70	728	657	751	777
Share of ACT in total PSE	1	3	3	3	3
Total OTP (W billion)	0	471	26	619	769
Share of OTP in Total PSE (%)	0	2	0	3	3

a Provisional.

Note: PSE: Producer Support Estimate; CSE: Consumer Support Estimate; NPC: Nominal Protection Coefficient; NAC: Nominal Assistance Coefficient; SCT: Single Commodity Transfer; GCT: Group Commodity Transfer; ACT: All Commodity Transfer; OTP: Other Transfers to Producers.

Source: OECD (2007), *Agricultural Policies in OECD Countries – Monitoring and Evaluation 2007*, Paris.

13. Market price support is implemented through domestic price stabilization schemes, including government purchases and public stockholding, supported by trade barriers. Following the 2004 rice quota re-negotiation, government purchasing of rice was abolished and a direct income support mechanism for paddy fields was introduced as from 2005 (section (iii))(a)).

14. Publicly funded purchase and stockholding schemes support agriculture by stabilizing prices at higher than world market levels. Such schemes are now operated either directly by the state-run Korea Agro-Fisheries Trade Corporation, mainly on red peppers, garlic, onions, and soybeans, or by industry associations, especially for crops such as maize and barley. The purchase prices of barley and maize have been held constant since 2001; however, the price and quantity of government purchase of soybeans have increased.[16] Government purchases of barley decreased from 180,000 tonnes in 2004 to 124,000 tonnes in 2006. Also, government purchases of maize have dropped sharply, from 2,500 tonnes in 2004 to 600 tonnes in 2006, reflecting the sharp fall in domestic production. Rice stocks were estimated to be 13.7% of the demand (695,000 tonnes) at the end of 2007, much lower than in 2003 (21.7%, 1.1 million tonnes).[17]

15. The significance of direct product-specific payments relative to consumer-funded market price support increased from about 1% of producer support in 1986-88 to 9% in 2004-06, and 9.6% in 2006. These payments amounted to W 2.3 trillion in 2006 (W 1.5 trillion in 2004); total government payments, including provision of general support services, amounted to W 5.7 trillion in 2006 (up from W 4.7 trillion in 2004) (Table IV.2). Direct payments, if sufficiently de-linked from production, are far less distorting than market price support, which, being output-based, distort trade and production most by contributing to over-production.[18] 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 distorting agricultural trade with

[16] OECD (2007c).

[17] Rice consumption per capita has been declining sharply and is likely to continue to do so, although rice still dominates the Korean diet; per capita annual consumption declined from 107 kg in 1995 to 85.6 kg in 2003 and around 80 kg in 2005.

[18] Output-based assistance is also relatively ineffective in transferring income to poor farmers or in achieving environmental objectives.

potentially adverse effects on the environment, even though accompanied by new schemes to help reduce these harmful effects. Direct payments based on area, input use, and overall farm income each accounted for 7.4% of Korea's PSE in 2006 (4.4% in 2004), an increase seemingly related to higher direct payments for rice; almost all area payments are contingent on environmentally friendly farming practices. Such schemes include Direct Payments for Environmentally Friendly Farming for reduced fertilizer and pesticide use.[19] Government-provided general farm services include mainly infrastructure, public stockholding, and research and development.

Table IV.2
Direct payments to agriculture, 1986-88 and 2004-06
(W billion)

Type of payment	1986-88	2004-06	2004	2005	2006[a]
Specific					
Based on output	0	0	0	0	0
Based on input use	66	518	481	535	539
Based on current area planted/animal numbers/receipts/income production required	28	1,199	1,038	1,548	1,009
Based on non-current area planted/animal numbers/receipts/income production not required	0	464	10	614	769
Based on non-commodity criteria	0	7	16	5	0
Total	94	2,188	1,545	2,702	2,317
General services					
Research and development	52	531	450	499	645
Agriculture schools	5	88	83	83	97
Inspection services	21	148	137	150	157
Infrastructure	374	1,809	1,878	1,839	1,709
Marketing and promotion	0	40	36	42	42
Public stockholding	394	641	573	599	752
Total	845	3,257	3,157	3,212	3,402
TOTAL	939	5,445	4,702	5,914	5,719

a Provisional.

Source: OECD (2007), *Agricultural Policies in OECD Countries – Monitoring and Evaluation 2007*, Paris.

16. The Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF) budget was increased by 2.1% in 2007 to W 12.1 trillion (5.1% of the Government's total budget).[20] It plans to raise total agricultural investment to W 119 trillion to boost rural farm and non-farm incomes, and to compensate farmers for reduced protection.[21]

17. Programmes to protect farm household income from natural disasters were reinforced.[22] A crop insurance scheme, introduced for apples and pears in 2001, was implemented for seven agricultural products in 2006. The farmers' share of insurance premiums for the scheme decreased from 41% in 2002 to 31% in 2006, with the remainder paid by the Government. Also, the product coverage of the livestock insurance scheme to protect farmers' income from outbreaks of animal

[19] The Government planned to support a rise in environmentally friendly production to 9.7% of total output in 2007 (5% in 2005, 2.7% in 2001).

[20] Based on total expenditures, the MIFAFF budget was W 10.7 trillion (5.9% of the total government budget) in 2004, W 11.1 trillion (5.8%) in 2005 and W 11.9 trillion (5.3%) in 2006.

[21] Ministry of Planning and Budget (2007).

[22] OECD (2007c).

disease and natural disaster increased from four livestock products (cattle, pork, chicken, and horses) in 2002 to nine livestock products, including deer, duck, pheasant, quail, and turkey, in 2006.

18. Policies for promoting environmentally friendly farming have been continued.[23] In 2007, payment per hectare was increased to W 524,000-794,000 (US$548-831) for dry fields and W 217,000-392,000 (US$227-410) for paddy fields. About 60,090 farm households who participate in the production of low-chemical, chemical-free, and organic products received total payments of W 17.5 billion (US$17.7 million) in 2006. The pilot programme of direct payments for environmentally friendly livestock practices, introduced in 2004, was completed for 599 livestock producing farm households with a budget of W 5 billion (US$6 million). Through increased promotional efforts, the share of environmentally friendly products in total agriculture increased to 9.7% in 2007. The complete withdrawal of subsidies on chemical fertilizers in 2005 has increased the price of fertilizer by 17.7% leading to a decline in the use of fertilizer and pesticides.

19. Farmland ownership was deregulated in 2003 (Farmland Act, 2002), including removal of the five-hectare limit outside of the Farming Promotion Area (which accounts for almost half of all arable land). It also allows agricultural corporations to own farmland. Both foreigners and Korean nationals must prove that they are capable of cultivating farmland on their own in order to be eligible for ownership; foreign investment in rice and barley growing land is prohibited, seemingly for the sake of stable food supply (Chapter II). The Act was amended in 2006 to relax the maximum limit of farmland ownership and inheritance by non-farmers, and in 2007 to expand the use of farmlands.

20. To further facilitate farm enlargement and farmland mobility, a new farmland banking system, run by the Korean Rural Community and Agricultural Corporation (KRC), was introduced in 2005.[24] The KRC provides information to farmers and farmland owners through its website. If farmland owners consign their lands to the KRC for lease or sales, the KRC looks for tenants or buyers and serves as an agent for contracts. Although non-farmers are prohibited from holding (including owning and leasing) farmland in principle, they may hold farmland as long as they lease it through the KRC farmland banking system for more than five years.[25] This change has operated since 2005. Its aim is to minimize the fragmentation of farmland and encourage young full-time farmers to increase the scale of their farms more easily through a farmland banking system. In 2006, a new programme was introduced whereby the KRC would buy farmland from farmers who hold a significant amount of debt. If viable, the KRC would then lease the farmland back to them. The programme is aimed at stabilizing the farmland market and supporting farmers in temporary financial difficulty.

21. In 2005, a new pilot project of direct payments was introduced for landscape conservation, with a budget of W 600 million (US$586,000).[26] It involves a payment per hectare to farmers who cultivate plants for aesthetic purposes to preserve traditional landscape in selected villages. About 470 hectares from 1,000 farm households participated in this pilot payments programme in 2006. A programme of direct payments for less-favoured areas, introduced on a pilot basis in 2004, became a national programme in 2006. Its budget increased from W 10 billion (US$8.7 million) to W 52.3 billion (US$54.4 million) and the participating areas increased from 31,000 hectares to 109,266 hectares in the same period. In 2007, 165,000 farm households whose arable land was below 22%, with land gradient of over 14% of total surface, applied for less favoured area direct payment.

[23] OECD (2007c).

[24] OECD (2007c).

[25] In accordance with the Farmland Act, after more than eight years of farming, those out-migrated from farming can own up to 1 hectare of farmland without leasing their land through the farmland banking system. In order to own inherited farmland from 1 hectare to 3 hectares or to own farmland of more than 1 hectare after out-migration, owners must have a lease contract with an agency of the farmland banking system.

[26] OECD (2007c).

After reviewing the applicants' implementation of obligations, such as farmland management, the authorities disbursed W 200,000 per hectare for pasture and W 400,000 for dry fields.

22. During the ratification process of the Korea-Chile FTA in 2004, a Law for Implementing Free Trade Agreement established a W 2.1 trillion fund to compensate some retiring fruit producers (of grapes, kiwis, peaches) who affected by the Korea-Chile FTA, had to close their farms, as well as to enhance competitiveness so as to enable the fruit industry to respond rapidly to the changes in consumption patterns.[27] Between 2004 and 2007, W 698.8 billion was disbursed, of which W 642.2 billion (53.5% of total fund) was used. Up to 2007, W 427.2 billion was spent on enhancing competitiveness (e.g. modernization of orchard facility, cultivation of premium seedings, scale-up of orchard) and W 201 billion on compensating retiring fruit farmers.

23. Policies to cope with growing consumer concerns on food safety have been intensified.[28] The traceability scheme for agricultural and livestock products, launched on a pilot basis for beef in 2004, has begun to be applied throughout the market. In 2006, the Government established a traceability information system for agricultural products (www.agros.go.kr) and about 8,800 farm households and 800 distributors are participating in this programme. In 2006, the Government launched the Good Agricultural Practices (GAP) regulation and designated 21 institutions as GAP inspection agencies. About 3,700 farm households participated in this programme. The number of safety tests for agricultural products rose from 56,000 items in 2002 to 66,000 items in 2006.

24. Upon the implementation of the 2004 Special Act for Improving the Quality of Life of Farmers and Fishermen and Promoting Development in Rural, Mountainous and Fishing Communities, (involving 15 ministries and 1 government agency), in 2005, health insurance premiums for farmers were lowered by 50% (the other 50% being paid by the Government) and expanded government support for pension payments.[29] Support programmes were implemented to improve living conditions, such as education, medical services, roads, dwellings, drinking water supply, and infrastructure for the Internet. Several policy measures to increase off-farm income by promoting agri-tourism were put in place with a budget of W 10.6 billion (US$11.1 million) in 2006. To establish regional networks among the academic community, research institutes, the industrial sector, and local governments, to provide technical or marketing assistance to farmers, the Government implemented the regional agriculture cluster programme with a budget of W 12 billion (US$12.6 million) in 2005 and W 20 billion (US$20.9 million) in 2006.

(iii) Selected activities

(a) Rice

25. 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 is heavily assisted; as a result, its domestic price was well over three times world levels in 2006 (consumer NPC of 3.08[30], Table IV.2). Rice production fell from 4,768,000 tonnes in 2005 to 4,408,000 tonnes in 2007 reflecting a decrease in cultivated area.

26. The current rice policy aims, *inter alia*, to respond to increased market openness, improve rice quality, facilitate farm enlargement, expand and improve the facilities of rice processing complexes, and stabilize farmers' income. Rice policy reforms during the review period involved both border and

[27] OECD (2007c); and APEC (2007).
[28] OECD (2007c).
[29] OECD (2007c).
[30] 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).

domestic support measures. Following the re-negotiation of the quantitative restriction on rice imports (section (2)(ii) and Chapter III), the special treatment for rice was extended until 2014, and the minimum market access (MMA) volume was to increase from 225,575 tonnes in 2005 to 408,700 tonnes in 2014 in equal annual instalments to cover 8% of domestic consumption. Since ratification by the national assembly was delayed in November 2005, the MMA volume for 2005 was imported in 2006; the authorities indicate that had the two years' volume (i.e. 2005 and 2006) been introduced simultaneously, it could have caused an excess of supply. Imports are subject to a 5% tariff. Korea seems to meet its multilateral quota commitments in this area; MIFAFF exclusively controls rice imports for use by food processors. In 2006, 21,564 tonnes of imported rice were sold on the domestic market for table use; a further 34,429 tonnes were imported in 2007. Mark-ups with a tariff-like effect were imposed on imported table rice; they were at W 9.1 billion in 2006 and W 20.9 billion in 2007. Rice (and barley) farming is closed to foreign direct investment.

27. Under the Rice Production Control Scheme, when rice or other commercial crops are not grown in a paddy field, W 3 million per hectare is provided for the field annually. Between 2003 and 2005, the scheme covered 74,400 hectares and disbursed W 229.6 billion. After three years of implementation the scheme was suspended in 2005; its resumption is under consideration in light of the situation in rice supply and demand and its farming trend.

28. Support through direct payments has increased significantly in recent years, especially after the elimination of government purchasing and the introduction of the direct payments system for paddy fields in 2005 following the rice negotiation. The share of direct payments in the national agricultural budget has increased to 24%, and the share of direct payments in farm household income has increased to 5.3% in 2006. A new direct income support mechanism for rice producers consisting of a fixed and a variable payments system has applied since the 2005/06 crop year.[31] To be eligible for the fixed payment, paddy fields had to be in production during 1998-2000. The fixed payment per hectare for registered paddy fields was W 600,000 (US$586) in 2005 and increased to W 700,000 (US$732) in 2006. Expenditure for the 1,017,000 hectares eligible for the fixed payment in 2006 was W 712 billion (US$750 million). The variable payment is given only to farmers currently producing rice on registered farmland. The payment is determined according to the difference between a target price and each year's post-harvest price. The target price for 2005-07 was W 170,083 (US$178) per 80 kg sack of rice. In January 2008, Korea was moving to implement a price stability measure that would set minimum rice prices for the next five years by freezing the so-called target price for an 80 kg sack at around W 170,000 (US$179).[32] If the post-harvest price is lower than the target price, farmers receive 85% of the difference, after deduction of the fixed payment, which is multiplied by a fixed national reference yield to calculate the payment per hectare. The variable payment per hectare fell from W 958,310 (US$936) in 2005 to W 459,757 (US$481) in 2006 and W 299,327 in 2007.

29. The new system is more market-oriented and less expensive than the previous one.[33] According to the OECD, although the introduction of fixed and variable payments on paddy fields is an improvement over continued use of market price support[34], these policies are not without problems. While the fixed payment is more decoupled from production, it has the potential to cause land prices to rise. The variable payments remain connected to rice production, and offer a form of price support that reduces farmer's risks, but can magnify the distorting effect of the policy. The incentive to rice

[31] OECD (2007c).

[32] KOIS online information, "Seoul to support rice price stability policy", 30 January 2008. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20080130004 [15 February 2008].

[33] OECD (2007c).

[34] The authorities indicate that the direct payment system is a post-income support for farm households rather than a price support measure.

production created by this policy occurs in a situation where, until 2007[35], Korea had a surplus of rice production over domestic needs, and self-sufficiency in other commodities remains low. While paddy fields were once exclusively used for growing rice, about 10% are currently used for cultivating other agricultural products, including strawberries, melons, and paprika, and this share is growing every year. The variable payment for rice may retard this development.

30. The abolition of government purchasing and the introduction of a public stockholding system for rice in 2005 has been a significant step towards an alternative way to achieve food security.[36] A Public Stockholding Scheme for rice, which is a purchase and release mechanism based on the current market price, has been operated since then. The target volume of public stockholding for rice is 864,000 tonnes for 2007 and 2008; in 2007, 417,000 tonnes were purchased.

(b) Beef

31. Beef imports attract a tariff of 40% in 2008.[37] As the price of beef has been high, the number of cattle increased from 1.6 million in 2004 to 2.2 million in 2008.[38] The volume of beef imports (based on quarantine record) also increased by 53% from 132,874 in 2004 to 202,785 tonnes in 2007; between 2003 and 2004 the volume dropped considerably as a result of the suspension of imports of U.S. beef, whose share of imports was progressively and partially replaced by Australian beef. The Calf Breeding Stabilization Scheme, introduced in 2001, assists beef producers. In 2007, 136,000 cattle farms participated in the scheme representing 90% of total farms and covering 894,000 head (some 600,000 in 2004). The same year the scheme operated a stabilization price of W 1.55 million/calf (W 1.2 million/calf in 2003) and deficiency payments of up to W 300,000 per calf (W 250,000 in 2003). No payments have been made since the establishment of the scheme as the calf price has remained above the base price. Despite the removal of tariff quotas, beef assistance remains high (Single Commodity Transfer (SCT) of 66.6% in 2006, Table IV.1). Foreign direct investment of less than 50% is permitted (since March 2001) in cattle raising and meat wholesale.

32. Cattle imports are more competitive, costing W 1.66 million per head (including customs and quarantine costs) compared with W 2.6 million for a domestic animal.

(c) Dairy

33. Dairy production remains assisted (SCT of 61.2% in 2006, Table IV.1). Tariff quotas could restrict imports; relatively high in-quota tariff rates of 20% or 40% apply to dairy products, with much higher out-of-quota rates, of 49.5%, 89% or 176% (Table AIII.5) resulting from the "tariffication" exercise in the Uruguay Round. In 2004, their fill ratio ranged from zero (evaporated milk)[39] to 100% (butter) (Table AIII.6).

34. Past policies in the dairy sector have lead to high domestic prices and a national surplus of milk production over domestic demand.[40] Recently, policies to stabilize milk supply and demand

[35] As of 2007, rice production has not exceeded domestic consumption (i.e. domestic production of 4,408,000 tonnes against domestic consumption of 4,636,000 tonnes).

[36] OECD (2007c).

[37] The beef tariff quotas were replaced with a tariff-only regime from 2001.

[38] OECD (2007c).

[39] The authorities indicate that since domestic market prices for evaporated milk were lower than import prices, importers did not participate in the public auction, leaving the entire TRQ unsold.

[40] Reportedly, the problem with the milk supply and demand policy in Korea is that the system for flexible milk price and production volume adjustment is deficient. The milk price increased when production costs increased, but not *vice versa*, and the market situation was not taken into account in determining the price. The current two-tier milk collection structure, composed of the indirect milk collection by KDC and the direct

have been implemented; as a result, the national milk surplus declined from 335,000 tonnes (2004) to 313,000 tonnes (2007) though the surplus rate (surplus/production) has remained stable at above 14% except for 2006. Under a differentiated pricing mechanism for surplus milk (as from November 2002) for member farms of the Korea Dairy Committee (KDC)[41], which accounts for about 27% of the entire milk production, the KDC, a non-profit organization, has classified the milk collected above the contracted volume as surplus milk and pays dairy farmers less than the normal price for the surplus[42]; these lower prices seem to range between 7% and 70% below the normal price.[43] Since it was introduced, the differentiated pricing system for surplus milk has reduced the surplus milk volume purchased by the KDC from 120,835 tonnes in 2004 to 94,109 tonnes at the end of 2007, thus reducing the budgetary outlays (i.e. subsidies) required to address the milk surplus from W 31.9 billion to W 28 billion.[44] According to the OECD, the current quota-based system of milk pricing encourages overproduction and provides high levels of support to producers with already high levels of farm income.[45] However, the authorities consider that the current quota system helps suppress excessive production of milk by cutting the individual quota volume by 20% in case of quota transfer. Furthermore, they indicate that 31.7% of dairy farms are small-scale farms with less than 40 head of milk cows and annual income ranging from W 17 million to W 68 million; as such, they have a vulnerable income base, and the recent surge in feed prices is posing greater challenges to them. Reducing support levels and deregulating the marketing of milk would improve efficiency and equity, and lead to considerable budget savings.

(3) FISHING

35. In 2007, the total value of fish caught was W 5.7 trillion. About 51% is caught in adjacent waters and 17% in distant waters. Korea's large fishing fleet includes many distant-water vessels that operate overseas. While the sector's GDP contribution remained stable at 0.3%, between 2004 and 2007 the fishing population has fallen. Most fishermen are employed in traditional small-scale fisheries based in coastal communities. Declining catches have been largely offset by increased aquaculture production, which accounted for one third of fish production in 2007.

36. Depletion of Korea's fishery resource, is due partly to over-fishing and climate change and the consequent increase in water temperature. It is implementing a coastal and offshore fishery restructuring project aimed at establishing a sustainable fishery (Fishery Act, 2007). The scheme provides for reducing the number of fishing vessels, re-adjusting fishing zones, and developing environment-friendly fishing methods. Some 8,451 fishing vessels (mainly coastal) have been de-commissioned since 1994. The authorities have planned to spend W 512 billion from 2007 to 2010 in a buy-out programme for 1,280 fishing boats (about 35% of the local fleet operating offshore), in order to curb over-fishing and keep the number of boats at a manageable level.[46] All fishing vessels must be licensed, including coastal vessels below 10 metres in length, and the number of licences has been reduced.

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collection by dairy product manufacturers, makes flexible response to demand and supply changes more difficult (Korea Rural Economy Institute, 2005).

[41] 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.

[42] The basic milk price for 2007 was W 584 per litre. The normal (farm gate) milk price is calculated by adding to or subtracting from the basic other amounts depending on hygiene factors (e.g. bacterial counts, somatic cell counts, milk composition factors).

[43] Korea Rural Economy Institute (2005).

[44] The authorities indicate that subsidies for the implementation of the differential pricing system were W 28.5 billion in 2006, which accounted for only 1.87% of the total dairy production, valued at W 1.5 trillion.

[45] OECD (2007d).

[46] USDA (2007).

37. A total allowable catch (TAC) has been set for Korean waters by MIFAFF; in 2007, it was 381,930 tonnes (about 65% more than in 2002) as a result of expansion of the species covered, especially squid.[47] A comprehensive monitoring and enforcement programme is in place for the TAC-based management system. The TAC Committee and the Central Committee for Fisheries Coordination 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. Quotas are not tradeable. Community-based self-regulation of coastal fisheries has also been encouraged since 2000, and is reducing illegal fisheries, and improving resource management and resolution of fishery disputes and conflicts. At end 2007, there were 579 fishermen-oriented co-management communities with 44,000 fishermen working in community fisheries, capture fisheries, and aquaculture.

38. Access to Korean waters by foreign fishing vessels is controlled by bilateral agreements; vessels must be licensed. Quotas for foreign vessels are approximately equal to the TAC, which applies only to domestic fishermen. In 2008, there were 1,000 (1,232 in 2003) licensed Japanese vessels and 1,859 (2,531 in 2003) Chinese vessels. Korean vessels also operate in foreign waters under similar agreements, including with the Russian Federation, China[48], Japan, Tuvalu, Solomon Islands, Kiribati, and Papua New Guinea.

39. According to Korea's latest statistics, fisheries-related subsidies were W 101.2 in 2006 (W 68.7 billion in 2004).[49] These financed mainly: aquaculture, deep-sea fishery, fish products processing and development; and support for fishing activities, old fishing vessel and equipment replacement, and vessel decommissioning. Korea has continued to participate, including through joint submissions for a framework for disciplines in fisheries subsidies, in the WTO Negotiating Group on Rules.[50] In a joint communication with Japan and Chinese Taipei at the WTO Negotiating Group on Rules, Korea favoured the prohibition of certain subsidies, such as for the acquisition and construction of fishing vessels, and for vessel modification, etc., which contribute to overcapacity and over-fishing.[51]

40. Korea is laying a foundation for environmentally friendly aquaculture, and is working to prevent contamination of the ocean environment through mandatory management of fishing grounds by fishers, as well as a programme for the improvement of the fishing ground environment. The recent Marine Environment Management Act, and the Act for Conservation and Management of the Marine Ecosystem, are aimed at implementing systematic and efficient ecosystem approaches to fisheries as well as oceans. Under the Farming Ground Management Act of 2000, mariculture grounds are left idle for certain periods to facilitate sustainable production, sanitary inspection, and cleaning.

[47] Ten species are actively managed under the Korean TAC-based fisheries management system: three species of pelagic fish (mackerel, jack mackerel, sardine); 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.

[48] An agreement with China on the fishing quota for 2007, allows Korean vessels to catch 68,000 tonnes (the same as in 2006), inside China's EEZ, and Chinese vessels to catch 71,930 tonnes in the Korean zone.

[49] WTO document G/SCM/N/123/KOR, 24 January 2006.

[50] WTO documents TN/RL/W/160, 8 June 2004; TN/RL/W/172, 22 February 2005; TN/RL/GEN/114, 21 April 2006; TN/RL/GEN/92, 18 November 2005; TN/RL/GEN/114/Rev.1, 2 June 2006; and TN/RL/GEN/114/Rev.2, 5 June 2007.

[51] WTO document TN/RL/GEN/114/Rev.2, 5 June 2007.

41. 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.

42. Fish and fish products are subject to relatively high tariffs of 10% or 20%. To better protect domestic seafood producers from imports (mainly from China), as from 1 January 1992 the authorities have set higher "adjustment tariffs"(Table AIII.4) ranging from 22% to 57% for nine fish species, which are not subject to WTO tariff binding commitments.[52]

(4) ENERGY

43. Energy security is of paramount importance in Korea's energy and overall economic policy. With limited natural resources, Korea imports around 96.5% (2006) of its energy requirements. Korea's high economic growth has induced a substantial increase in energy demand; total final consumption has been growing at an average annual rate of around 6.5% for the last two decades. Total energy demand is projected to rise by 3.1% annually until end 2010. In 2006, the main energy sources were oil (43.6%), coal (24.3%), nuclear (15.9%), and liquid natural gas (LNG) (13.7%). Industry is the main user (56%, 2006); the transport sector accounts for 21% of final energy consumption, followed by the residential sector (12.3%) and commercial and other sectors (10.5%). As a result of the switch from oil to gas in industry and residential/commercial use, and energy conservation in the transport sector, the share of oil in total energy consumption registered a 0.7% decline in 2006.

44. Korea's "Energy Vision 2030", launched in November 2006, has three basic directions (3 Es): energy security, energy efficiency and environment-friendly as recommended by the International Energy Agency.[53] Nine tasks are set for implementation, including expanded potential for overseas energy development, establishment of the infrastructure of a hydrogen-based economy, improvement in energy consumption efficiency, and a strengthened effort for investment in the energy industry overseas. Korea plans to realize "universal energy services" across the nation by 2016 so that no citizen will be excluded from the systematic expanded energy welfare scheme.

45. The Ministry of Knowledge Economy (MKE, former MOCIE) sets energy policy. A National Energy Committee, launched under the Basic Act on Energy in November 2006, envisages meeting a third of Korea's energy consumption from Korean investment in resources overseas[54], seeks to raise the ratio of renewable energy use to 9% and reduce dependence on petroleum to 35%.[55] It plans to help the county emerge as an exporter of energy facilities and technology, and convert it into a society of low energy consumption by the target year 2030. As of 2006, Korea's energy self-sufficiency rate for petroleum and gas was 3.2%, renewable energy rate 2.24%, and dependency rate on petroleum 43.6% of total energy production.

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[52] USDA (2007).

[53] KOIS online information, "'Vision 2030' calls for active overseas energy development", 1 December 2006. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20061130033 [26 February 2008].

[54] The Government considers overseas resource development by Korean companies as a means of ensuring security of supply to domestic market; at end 2007, 123 oil exploration and/or production projects were under way in 32 countries, including Indonesia, Peru, and Viet Nam.

[55] KOIS online information, "'Vision 2030' calls for active overseas energy development", 1 December 2006. Viewed at: http://www.korea.net/News/News/NewsView.asp?serial_no=20061130033 [26 February 2008].

(i) Petroleum and petroleum products

46. All oil is imported, mainly from the Middle East (about 82%). Diversifying oil imports is a policy goal. Korea was the world's seventh largest oil consumer in 2006. It has the second-, third- and seventh-largest oil refineries in the world and is now a major exporter of refined products.[56] About a third of total refinery output is exported.

47. The oil industry was deregulated in 1998; a major change in oil policy since 2004 has been the liberalization of retail prices. Imported crude oil is dutiable at a tariff of 3% and refined products at 5%, 7%, and 8% (greases), thus encouraging domestic refining. Surcharges applied to imported crude oil and domestically produced refined products finance the Energy Project Special Account.[57] Four private companies dominate the oil refining industry, accounting for over two thirds of the market.[58]

48. The state-owned Korea National Oil Company (KNOC) handles oil and gas exploration, development and production, and maintains Korea's emergency oil reserves.[59] Most exploration is offshore, where 12 concession blocks have been established. MKE issues concessions for oil and gas exploration, which also specify future tax treatment in the event of discovery. All concessions issued to date (seven blocks) have gone to KNOC.

(ii) Other energy

(a) Natural gas

49. Korea is the world's second and fourth largest importer of LNG (liquefied natural gas) and LPG (liquefied petroleum gas), respectively. All LNG is imported, although small quantities (less than 2% of annual domestic consumption) of natural gas have been produced from the East Sea 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. In 2007, LNG was used mainly for generating electricity (43%) and cooking and heating (31%).

50. In the absence of a market-based system in this sector, the Korean gas industry lacks competition. The majority state-owned enterprise, Korea Gas Corporation (KOGAS), which is the largest LNG importer in the world, has a monopoly over the wholesale trade, including imports, storage, transmission, and wholesale distribution of LNG by pipeline. It supplies natural gas to private city gas companies, which have territorial monopolies and supply retail users through their distribution pipelines. 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 the company's "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.[60] KOGAS maintains its

[56] OECD/International Energy Agency (2006).

[57] The surcharge applies to all refined sales, including imports, at a specified rate not to exceed W 36 per litre (The Act on Petroleum Businesses).

[58] The top four in terms of market share are SK Corp (32.9%), GS Caltex (24.0%), S-Oil (10.6%), and Hyundai Oilbank (10.8%). GS Caltex is 50% foreign owned by Chevron, S-Oil 35% owned by Saudi Aramco, and Hyundai Oilbank 70% owned by International Petroleum Investment Corporation (IPIC).

[59] Since Korea became a member of the International Energy Agency (IEA) in March 2002, it is required to hold reserves of at least 90 days of net oil imports. In February 2008, Korea's stock levels were at 139 days, with 70 days held by government-owned stocks and the remainder by industry (OECD/International Energy Agency, 2006).

[60] KOGAS does not earn any profit on sale of the commodity, 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.

policy of long-term take or pay deals, despite temporarily high spot purchases for coping with an unexpected significant rise in demand for natural gas in 2006. KOGAS adjusts the price of the commodity every two months for domestic consumers and every month for power plants.

51. No reforms have been undertaken since 2004. The Government had announced the restructuring and further privatization of KOGAS in 1999, when it was partially privatized (Natural Gas Industry Restructuring Plan).[61] The plan provided for an independent regulator, the Gas Committee, to facilitate a competitive gas market by instituting an open access regime, including third-party access to LNG terminals for a fee. The implementation of the plan slowed since 2000 due to failure to legislate the relevant act, the opposition of the labour union and concerns from the Assembly about its side-effects. Some progress has been made by introducing Third Party Access for LNG importers (POSCO, K-Power) in 2007. The authorities are currently working on a deregulation plan by revising the current Gas Act to adopt open Access for LNG importers.

(b) Electricity[62]

52. The majority state-owned Korea Electric Power Corporation (KEPCO) generates 95.1% of power and handles distribution and transmission. A few independent (gas-fired) power producers (IPPs), including co-generation facilities, also supply electricity. Korea has no network interconnections with other countries. Most electricity was nuclear generated (39%) in 2006, followed by coal (35%), gas (18%), oil (4.4%), and hydro (1.4%). Thermal electricity is mainly generated from imported bituminous coal, supplemented by domestic anthracite coal, which KEPCO must purchase at nearly twice the price of imported, better quality, coal. The Government imposes fees on electricity consumption to finance the Electric Power Industry Basis Fund. This fund, which amounted to W 1,832 billion in 2007, is disbursed on activities aimed at achieving non-commercial objectives (discussed below); KEPCO remains entrusted with some public services covered by the Fund. It made a "take or pay" long-term arrangement with KOGAS in 2006 to stabilize natural gas supply until 2026. Power generators have been dispatched LNG according to costs, which are adjusted monthly.[63] A reference price system subsidises costs of power generated from alternative renewable energy (e.g. solar and wind). The annual budget was W 6.3 billion in 2004, W 20.8 billion in 2005, and W 26.6 billion in 2006.

53. The electricity sector was progressively deregulated and privatized to allow greater competition, according to the ten-year Basic Plan for Restructuring the Electricity Industry announced in 1999. KEPCO's monopoly on non-nuclear power generation was abolished in 1999, and competition was introduced to power generation in 2001 when its power generating operations were spun off into six wholly owned subsidiaries (Act on Promotion of Restructuring of the Electric Power Industry, 2000). KEPCO's state-owned equity had fallen from over 70% to 51.1% (Table III.5). Plans to privatize KEPCO's five thermal power generating subsidiaries, announced in April 2002, have not yet been implemented.[64] In order to implement the plans more efficiently, specific action plans detailing the time frame, methods, etc. are currently under consideration.

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[61] KOGAS is 38.82% privately owned. The Government owns 26.86% and the Korea Electric Power Corporation 24.46%. Fourteen 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%.

[62] This section is based on OECD/International Energy Agency (2006).

[63] OECD/International Energy Agency (2006).

[64] The sixth subsidiary, the Korea Hydro and Nuclear Power Corporation, remains a subsidiary of KEPCO for security reasons.

54. The Korea Electricity Commission (KOREC), an independent unit within MKE, 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 division of regulatory roles and responsibilities between KOREC and the KFTC remain to be determined.

55. The KPX, a state-owned electricity pool in operation since 2001, has used administratively set generation prices to manage dispatch.[65] Operating expenses are covered through electricity trading fees. The pool is mandatory for all generators (above 20MW) with a few exceptions, such as generators in island areas. KPX, administers the hourly market; handles trading, metering, and settlements; and is responsible for operation of the grid. Unlike a standard electricity pool, generators participating in the KPX pool bid on an hourly basis according to their availability. Generators' costs are fixed administratively each month by the KPX's Cost Assessment Committee on the basis of fuel and other operating costs. KPX dispatches power for each hour according to the available bid stack in the pool, starting with the cheapest generation until all demand is met. IPPs are paid the cost-based marginal price (i.e. the bid price of the most expensive generator) except for nuclear and coal.[66] These resources (nearly 80% of supply) are paid a set base-load price that is lower than the cost-based marginal price. Given that the marginal price does not take into account location or transmission constraints, generators are not penalized or rewarded for their distance or proximity to demand. The country is considered as one zone, with no separate zonal prices. Korea is not currently considering replacing the cost-based, regulated dispatch mechanism with a competitive price pool or other trading arrangements.

56. MKE approves electricity tariffs. Retail rates do not reflect directly the hourly cost-based prices derived from the KPX mechanism.[67] Since 2002, the MKE has been implementing an electricity tariff reform to reduce the cross-subsidies between residential and industrial users and construct a cost-based tariff system; between 2002 and 2007 industrial rates were cut by 11% and residential rates by 2.6%. In addition to residential and industrial rates, separate rates for a number of customer classes are in place according to type of energy use. Cross-subsidies between alternative users distort prices, with agricultural and industrial users the main beneficiaries. Prices for the agriculture sector pays are very low: its fixed prices represent only 8-23% of those for small industrial customers, and rates for electricity per kilowatt-hour delivered represent 39-68%.[68] Reportedly, these rates are very low, as the standard industrial rates are already below actual cost. Plans are under way to introduce a voltage- and cost-based rate system in the medium and long term. But according to the authorities, cross-subsidies need to be substantially reduced prior to this reorganization so as to prevent a steep rise in industrial and agricultural rates; this process is expected to take a few years.

57. Upon implementation of the Electric Industry Restructuring Law in 2001, most of KEPCO's non-commercial objectives were transferred to the Government, along with the establishment of Electric Power Industry Basis Fund. Since then, the Government has been responsible for meeting

[65] OECD/International Energy Agency (2006).

[66] 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.

[67] Although KEPCO does not offer real-time pricing, it has 300,000 one-way digital meters capable of remotely recording consumption every 15 minutes. These meters covered over 70% of total consumption in 2005.

[68] Korea's industrial and residential retail electricity rates are relatively low compared with other IEA countries, despite the reliance on high-priced LNG.

non-commercial objectives, such as: supplying electricity to remote areas; supporting the domestic coal industry; supporting areas adjacent to power plants; and supporting the co-generation industry. Non-commercial objectives are implemented through four programmes comprising seven projects, budgeted at about W 213 billion in 2007; most of this spending is for subsidies on power plant operations in remote islands (41.7%), peak load operations (35.4%), and efficiency enhancement (14.2%) projects.

58. There have been no reforms in the distribution network during the review period, but plans are under consideration. KEPCO owns the distribution network and is responsible for retail supply. It purchases power directly from KPX and supplies it to customers. The manufacturing sector accounts for just over half of total sales, public and commercial sectors account for over a quarter, and the residential sector accounts for the rest.

(c) Coal

59. Coal plays a dominant role in electricity generation (section (4)). Seven domestic coal mines produce anthracite coal; three are operated by the state-owned Korea Coal Corporation (KCC) and account for 47% of domestic production. Korea's production, mainly of high-cost low quality anthracite coal, rose from 1.387 million tonnes in 2004 (2.4% of total coal supply) to 2.89 million tonnes in 2007 (3.3%).[69] It is used mainly for power generation (51%) and briquettes (49%). Imported (bituminous) coal covers over 90% of domestic consumption. Korean investment in overseas coal joint ventures is encouraged, including through direct participation by the state-owned Korea Resources Corporation, and provision of loans; there are currently 42 projects in 8 countries. The government target remains to procure 45% of bituminous coal imports from such projects by 2012; in 2007, it procured 31%.

60. Domestic coal production is supported by direct production subsidies (W 75 billion annually), including insurance benefits, support for production reductions, social benefits, and health premiums; implementation of the policy to downsize the coal industry has brought about a steady decline in production subsidies since 2000. 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. The Government is planning to decrease the subsidies by raising the price of briquette and anthracite coal. Coal imports are duty free but a 10% discriminatory VAT is levied on imported coal.[70] KEPCO may buy domestic coal at well-above import prices.

(5) MANUFACTURING

61. Manufacturing as a share of GDP declined slightly to 27.9% in 2007 (28.6% in 2004, Table I.2); its share in employment also fell, to 17.6%. Labour productivity in manufacturing is, therefore, roughly 80% higher than in the rest of the economy. High labour productivity is partly due to substantial capital investment. Manufacturing is heavily export oriented. More than 89% of exports in 2006 were heavy industry products, comprising mainly electrical and electronic machine products; cars; machinery, and precision equipment; chemicals; iron and steel; and ships.[71] Korea remains a leader in information and communication technology (ICT), as well as a major player in

[69] 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 the mechanisms to support competition in supply, where customers can choose their supplier (OECD/International Energy Agency, 2006).

[70] A 10% VAT is levied on imported bituminous coal while domestic anthracite coal is exempt (Ministry of Finance and Economy, 2007).

[71] UNSO Comtrade data.

other areas of manufacturing, such as ships (the world's largest producer) and cars (fifth largest).[72] The electronics sector is considered as the main engine of growth.[73] 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, *chaebols* still dominate Korea's major export industries such as cars, electronics, telecommunications, shipbuilding, steel, and petrochemicals.[74] The authorities were unable to provide data on *chaebols,* including *chaebol* companies' exports, because the term "*chaebol*" is not defined in their official statistics and data differentiate only between SMEs and other enterprises.

62. Korea's industrial vision for 2010 is to become one of the world's top four "industrial superpowers", based on strengthening its global position in the traditional basic industries of semi-conductors, cars, petrochemicals, steel, machinery, and shipbuilding, but also further expanding exports of digital electronics and other "strategic" industries.[75] Policies are directed at improving competitiveness and developing high-value-added advanced technology products based on innovative strategies. The policy objective is to achieve average annual growth in manufacturing of 6.1% until 2010, when the sector's GDP share is projected to fall to 27.4%; in 2007, average annual growth in manufacturing fell to 6.5% from 11.1% in 2004, and the sector's GDP share fell to 27.9% from 28.6% in 2004. 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 firms in the manufacturing sector established in China.

63. As of August 2003, ten strategic industries were classified as growth engines[76]; these essentially involved the manufacture of highly innovative, R&D-intensive high-technology products and related services. More than W 1 trillion was invested in R&D in the ten strategic industries in 2004-07. The authorities also plan to make the economy more services-oriented. The new Government is currently mapping new strategies for development of the growth engines including action plans to be released during 2008.

64. Since 2004, Korea's average applied MFN tariff on imports of industrial products has remained virtually unchanged at 6.5% (Table III.1). Adjustment duties protected two industrial items only (plywood at 11%, and surface mount machines at 16%) (Table AIII.4) in 2007; 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.7). Several tax and non-tax incentives support R&D and SME activities (Chapter III); manufacturers benefit from the lowest average electricity prices among different consumer groups as well as of the possibility to seek support for adjustment (advice, information, loans) whenever adversely affected by a bilateral free-trade agreement.

(i) Automobiles

65. Between 2004 and 2007, total automobile production, including passenger and commercial vehicles, rose by 17.8% to 4.1 million units; Korea accounted for 5.8% of global production in

[72] OECD (2007a).
[73] 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 (Korea National Statistical Office, 2007).
[74] EIU (2007).
[75] MKE online information. Viewed at: http://www.mke.go.kr/language/eng/toward/industry01.jsp [2 March 2008].
[76] See WTO (2004).

2006.[77] Sales of domestic automobiles increased by 11.5% as a result of, *inter alia*, release of new models; exports rose by 19.6% (in units), mostly increasing in emerging markets. In 2007, almost 70% of domestic production was exported; imported vehicles grew by 111.7% to 73,227 units, originating mainly from the EC (55.3%) and Japan (33%)[78]; they account for about 5% of the domestic automobile market.

66. Customs tariffs remain unchanged at 8% (passenger vehicles) and 10% (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 special excise 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); reportedly, the effect of the customs tariff, compounded by the effect of multiple automotive taxes, raises the effective rate of protection to above 12%.[79]

67. Euro 4 standards were introduced for light duty diesel vehicles in January 2006 and are being phased in for gas fuelled vehicles from 2006 to 2009.[80] Auto-makers are also required to install on-board diagnostic (OBD) systems gradually, as from 2005, for gasoline-powered vehicles. For diesel vehicles, the system applied primarily to newly manufactured mini and small vehicles in 2006, medium-duty vehicles as from 2007, and heavy-duty vehicles by 2009.

68. In 2007, the Korea Fair Trade Commission (KFTC), which has been investigating importers of foreign-made cars for setting prices excessively high, expanded the probe into allegations of price-fixing and other unfair business activities. Official car importers have long been criticized for profiteering through high prices (for example, as much as twice the price for the same model in the United States.[81] SK Networks, an affiliate of SK Group (Korea's third largest *chaebol*), was to sell five foreign auto brands below the prevailing market prices at its new (parallel or grey) imports-only stores. Reportedly, parallel or "grey" importers, such as the SK conglomerate, do not have to meet the same costly standards imposed on official dealers; foreign carmakers consider this to be reverse discrimination.[82] The authorities indicate that the KFTC investigation does not discriminate between foreign and domestic companies in enforcing competition law; also officially imported cars and parallel imports are subject to the same environmental and safety standards, reverse discrimination does not take place.

(ii) Shipbuilding

69. Since 2003, Korea has maintained its position as the world's shipbuilding leader, in terms of new orders, completion, and order book.[83] It is home to seven of the world's ten largest shipbuilding companies, and is benefiting greatly from a surge in global trade, oil prices, energy demand, and the

[77] Korea Automobile Manufacturers Association online statistics. Viewed at: http://www.kama.or.kr/; and Korea National Statistical Office (2007).

[78] Korea Automobile Importers and Distributors Association online statistics. Viewed at: http://www.kaida.co.kr/site/kaida_eng/dataroom/yeardata.jsp.

[79] USTR (2007).

[80] OECD (2007h).

[81] *The Korea Times*, "Car Importers Probed for Price-Fixing", 13 December 2007. Viewed at: http://www.koreatimes.co.kr/www/news/biz/biz_view.asp?newsIdx=15484&categoryCode=123 [7 March 2008].

[82] *Financial Times*, "Seoul car probe puts pressure on trade agreements", 14 December 2007. Viewed at: http://search.ft.com/ftArticle?sortBy=gadatearticle&queryText=Korea+automobile&page=2&y=5&aje=false&x=16&id=071214000071&ct=0 [10 March 2008].

[83] OECD (2006).

need to meet tougher environmental requirements set by the International Maritime Organization.[84] Exports of vessels have increased by 25% per year on average since 2004. Shipbuilders' order books are full until 2010, with orders at the top three shipbuilders expected to reach US$50 billion for 2007. However, Korean shipbuilders face challenges, such as the need to address spiralling costs and material shortages, as well as exchange rate developments, problems with steel plates, and the shortage of skilled labour. To cut costs, Korea's second- and third-largest shipbuilders have both opened yards in China where they produce entirely ships, but also blocks used as the base for building ships in Korea.[85]

70. Tariff protection for ships ranges from zero to 8%. Between 2002 and 2005, Korea was a respondent in a WTO dispute settlement case concerning certain measures affecting trade in commercial vessels.[86] 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, which was to be eliminated at end 2006, will now be extended to end 2009.[87] Korea is playing an increasingly active role as a rule-maker for regulations in the international shipbuilding industry by engaging in various conferences and rule-making sessions.

(6) SERVICES

(i) Features

71. The services sector makes a significant contribution to the Korean economy; its GDP share increased from 55.6% in 2004 to 57.6% in 2007, and its share of total employment (mainly in trade, hotels and restaurants, and real estate) rose from 63.8% in 2004 to 65.3% in 2006 (2007 figure not available (Table I.2). Labour productivity in services is just over half the level in manufacturing. The largest contributor to gross value added within services is real estate, renting, and business activities, followed by wholesale and retail trade, and financial intermediation.

72. Between 2004 and 2007, exports of non-factor services grew at an average annual rate of 12.6% to over US$63 billion (approximately 17% of merchandise exports (Table I.3)). However, over the same period, services imports grew at an average annual rate of nearly 17%, resulting in the services deficit increasing from US$8.1 billion to US$20.6 billion. Transportation and travel are the main traded services.

(ii) Overall commitments under the GATS

73. Korea has made commitments in 98 of the 155 sectors under the GATS. Foreign equity limitations of 49% on commercial presence are scheduled for basic telecommunications businesses. To be able to provide professional services, such as legal, accounting, and audit and taxation services,

[84] IMF (2007); and *BusinessWeek*, "Korea's Shipbuilding Industry Sails Ahead", 12 May 2006. Viewed at: http://www.businessweek.com/globalbiz/content/may2006/gb20060512_131557.htm [5 March 2008].

[85] *Financial Times*, "Strategy of cheap labour", 27 July 2007. Viewed at: http://search.ft.com/ftArticle?sortBy=gadatearticle&queryText=Korea+shipbuilding&y=8&aje=true&x=9&id=070727000551&ct=0&page=6 [10 March 2008].

[86] In March 2005, the Panel found that certain (but not all) preshipment loans and advance payment refund guarantees were prohibited export subsidies, and thus that Korea was in violation of relevant WTO provisions. In April 2005, Korea assured Members that, since all loans and guarantees had been repaid or had already expired, it was in compliance with relevant WTO obligations (WTO Secretariat online information. Viewed at: nhttp://www.wto.org/english/tratop_e/dispu_e/cases_e/ds273_e.htm [6 March 2008]).

[87] WTO document G/SCM/N/123/KOR, 24 January 2006.

foreign qualifications need to be approved in Korea. Access to other services, such as daily newspapers and non-daily newspapers and news agency business, is subject to different foreign equity ceilings (Chapter II). Additionally, according to its 2006 IAP report, Korea's keen areas of interest in services are the liberalization of infrastructure services, such as maritime transport, construction, telecommunications, distribution, and financial services.

74. In the ongoing negotiations, Korea submitted a revised offer in May 2005[88], under which it improved its sector-specific section in: business services, distribution, education, telecommunications, transport, and financial services. It also offered to widen the scope of specific commitments by addressing intra-corporate transferees and contractual service suppliers in its horizontal mode 4 section.

(iii) Banking and finance

75. The financial sector accounted for 8.9% of GDP in 2007 and 3.4% of employment in the economy in 2006 (2007 figure not available) (Table I.2), making labour productivity in the sector much higher than in the overall services sector. The sector has undergone reforms and restructuring, which have resulted in a fundamental change in the behaviour of banks, which now focus more on profitability and competitiveness than they did in the past.[89]

(a) Structure and ownership

76. The financial sector comprises banks and non-bank financial institutions (NBFI). Subsectors within the former include commercial banks, which comprise nation-wide banks, regional banks, and branches of foreign banks, and specialized banks, such as the EXIM Bank and the Development Bank. Commercial banking is dominated by nation-wide banks, which controlled over 80% of the sector's assets in 2007; foreign bank branches were responsible for approximately 12% and local banks for 8%.[90] The NBFIs include, *inter alia*, credit unions, mutual savings banks, asset management companies, credit specialized companies, securities companies, and insurance firms. As a result of the restructuring, the sector has been consolidated; both the number of banks and NBFIs declined during the period under review (Table IV.3).[91]

77. Since the last TPR of Korea, the Government has continued to divest its holdings in banks (Table IV.4). Significant among the divestment were the reduction in the Korea Deposit Insurance Corporation's (KDIC) holding in Woori Financial group, the sale of Korea First Bank (in which the Government previously had a controlling stake) to Standard Chartered Bank, and divestment of the Government's share in Hana Bank.[92] On the other hand, foreign holdings in Korean banks have risen significantly, with Citigroup and Standard Chartered particularly upping their stakes. The authorities indicate that there is no state presence in the NBFI sector. Foreign participation is limited to just

[88] WTO document TN/S/O/KOR/Rev.1, 14 June 2005.
[89] Soo-Myung Kim, Ji-Young Kim and Hoon-Tae Ryoo (2006).
[90] Bank of Korea online information. Viewed at: http://www.bok.or.kr/index.jsp [20 January 2008].
[91] In 2003, the Government sold its controlling stakes in Chohung Bank and Korea Exchange Bank to Shinhan Financial Group and to Lone Star Fund, respectively. In 2004, Hyundai Investment & Securities Co. was sold to Prudential Financial Inc. In 2005, Korea Investment & Securities Co. was sold to Dongwon Financial Holdings, Daehan Investment & Securities Co. was sold to Hana Bank, and Korea First Bank was sold to the U.K.-based Standard Chartered Bank. In 2006, Shinhan Bank and Chohung Bank merged as 'Shinhan Bank'.
[92] The Government is expected to divest 49% of its stake in KDBH, as well as its shares in Woori Financial Group and IBK by 2010. Furthermore, it will sell its management stake in KDBH by 2012.

one mutual savings bank and 13 credit specialized companies (accounting for nearly 11% of the total assets of such companies).

Table IV.3
Structure of the financial system, 2003-07

Institutions	No. of establishments (end of)		Assets (end of, won billion)		Loans and discounts (end of, won billion)	
	2003	June 2007	2003	June 2007	2003	June 2007
Banks	**59**	**54**	**1,221,179**	**1,645,659**	**609,443**	**848,583**
Commercial banks	54	49	890,208	1,188,057	448,108	606,974
Nationwide	8	7	739,091	948,690	403,977	533,409
Regional	6	6	61,756	94,779	33,704	55,232
Foreign bank branches	40	36	89,361	144,589	10,427	18,333
Specialized banks[a]	5	5	330,971	457,602	161,335	241,610
(KDB)	1	1	102,903	133,038	34,828	34,949
(Korea EXIM)	1	1	11,282	19,832	6,960	15,576
Non-bank financial institutions	**4,596**	**4,263**	**565,025**	**797,956**	**271,385**	**330,522**
Merchant banking corporations	2	2	820	1,416	75	376
Mutual savings banks	114	108	32,787	53,265	26,230	43,699
Credit unions	1,086	1,015	19,556	27,123	11,060	16,117
Mutual credit facilities[b]	1,577	1,423	148,292	197,710	87,162	121,592
Community credit cooperatives	1,671	1,560	43,940	59,534	23,978	26,738
Credit-specialized financial companies[c]	50	54	65,976	75,840	63,416	49,363
Life insurance companies	23	22	183,238	282,719	47,805	55,885
Non-life insurance companies	26	27	37,933	59,588	6,557	10,481
Postal life insurance[d]	1	1	21,296	20,793	1,131	1,011
Asset management companies	45	50	1,546	2,184	74	330
Korea Securities Finance Corporation	1	1	9,641	17,784	3,897	4,930
Total[e]	**4,655**	**4,317**	**1,786,204**	**2,443,615**	**880,828**	**1,179,105**

a 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.
b Facilities for the agriculture, forestry and fishery sector.
c Credit card companies, leasing companies, installment financing companies, and venture capital finance companies.
d As of the end of 2003 and 2006.
e 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.

(b) Restructuring

78. Following the financial crisis in 1997, the financial sector in Korea underwent significant reform and restructuring, which was completed in 2006.[93] Reforms focused on restructuring banks' balance sheets through, *inter alia*, recapitalization and purchase of sub-standard or below loans (SBLs), by Korea Asset Management Corporation (KAMC), improving corporate governance and management, and encouraging diversification of bank assets through changes in prudential regulations. Consequently, the banks have focused less on industrial conglomerates, and more on other more profitable lending opportunities.

[93] OECD (2007g).

Table IV.4
Government and foreign ownership of commercial banks, end 2006
(Per cent)

Commercial bank	Type of ownership	
	Government	Foreign
A. Nation-wide banks		
Woori (formerly Hanvit Bank)[a]	Woori Financial Group(WFG) - KDIC (77.97)	9.53
Korea First	-	100 (Standard chartered)
Korea Exchange	EXIM Bank (6.25), Bank of Korea (6.12)	76.0 (Lone Star 64.62)
Kookmin	-	82.88 (Citibank. N.A. 14.71, Euro-Pacific Growth fund 5.46)
Shinhan[b]	-	58.90
Citibank Korea (formerly KorAm)	-	99.95 (Citigroup 99.94)
Hana	-	80.21
B. Local banks		
Daegu	-	66.56 (Small cap 7.99)
Pusan	-	56.06 (CRGI 11.90)
Kwangju[a]	Woori Financial Group(WFG) - KDIC[a] (77.97)	9.53
Jeju	KDIC (31.96)	0.11
Jeonbuk	-	28.12
Kyongnam[a]	Woori Financial Group(WFG) - KDIC[a] (77.97)	9.53

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 (62.42%) are owned by the Shinhan Financial group.

Source: Information provided by the Korean authorities.

79. In June 2007, a total of W 168.3 trillion had been allocated to financial sector restructuring, of which W 63.5 trillion was used to recapitalize stricken institutions, W 38.7 trillion to purchase non-performing loans from the banks (to enable them to restructure their balance sheets), and W 30.3 trillion to pay claims on account of deposit insurance. Funding came from various sources (Table IV.5).[94]

Table IV.5
Use of public funds for financial sector restructuring, June 2007
(W trillion)

	Recapitalization	Purchase of assets	Compensation for losses	Repayment of deposits	Purchase of NPLs	Purchase of subordinated debentures	Total
Korea Deposit Insurance Corporation	50.8	11.0	18.5	30.3	..	..	110.6
Korea Asset Management Corporation	..	..	..	..	38.7	..	38.7
Fiscal resources	11.8	..	..	..	..	6.3	18.1
Bank of Korea	0.9	..	..	..	..	..	0.9
Total	63.5	11.0	18.5	30.3	38.7	6.3	168.3

.. Not available.

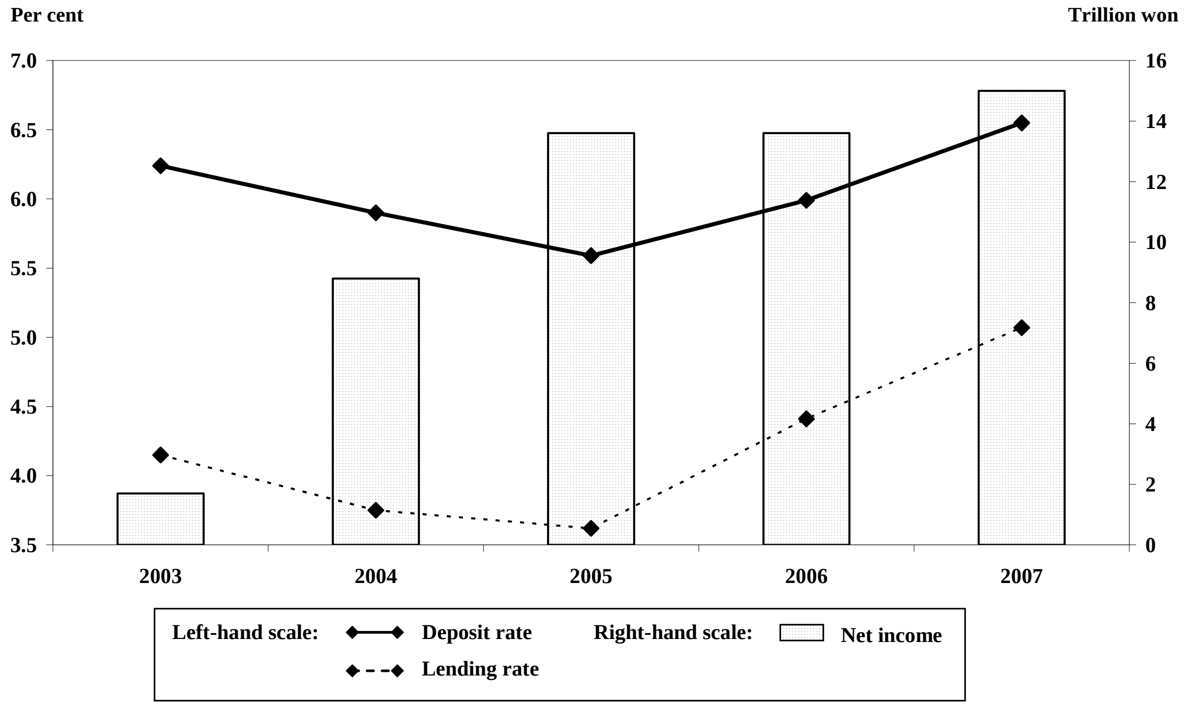
Source: Bank of Korea (2007), *Financial System in Korea*, December.

[94] Bank of Korea (2007).

(c) Profitability and non-performing loans

80. As a result of the reform process, the banking sector has shown significant improvement with respect to profitability and balance sheet strength. Capital adequacy ratios improved from 11.2% in 2003 to nearly 13% in 2006, considerably higher than the minimum 8% required by the Basle core principles.[95] Despite provisioning being over 100% and the interest rate spread declining (Chart IV.1), profits have been rising, with net income in excess of W 13.5 trillion in 2006. The increased profits are mainly due to growth in total loans, which increased from approximately 98% of GDP in 2003 to nearly 110% of GDP in 2006.[96] Returns on assets and equity have also risen during the period under review (Table IV.6). Consequently, productivity gains are also evident, with GDP per worker in the financial intermediation sector nearly doubling by 2004 compared with 1992.[97]

Chart IV.1
Interest spreads and profits, 2003-07



Source: Bank of Korea (2008), *Monthly Statistical Bulletin 2008.2;* and Financial Supervisory Service online information. Viewed at http://www.fss.or.kr/kr/main.html.

81. SBLs as a proportion of total loans has been declining for all categories of banks during the period under review (Table IV.7). The improvement is on account of greater market-based lending and enhanced supervision. However, SBL ratios for mutual savings banks and credit unions remain high; the ratio for the former actually increased between 2003 and 2005 before declining in 2006.[98] A possible reason for the high incidence of SBLs in mutual savings banks could be that they are subject

[95] At present all banks meet the minimum capital requirements.
[96] IMF (2007b).
[97] IMF (2007a).
[98] IMF (2007b).

to less stringent prudential regulations, such as minimum loan loss provision requirements and loan classification criteria, than commercial banks.[99]

Table IV.6
Financial sector indicators, 2003-06
(Per cent)

	2003	2004	2005	2006
Capital adequacy ratio	11.16	12.08	12.95	12.75
Net income	1.7	8.8	13.6	13.6
Income before provisioning	16.2	19.2	20.9	22.3
Return on assets	0.17	0.85	1.27	1.13
Return on equity	3.41	15.16	18.42	14.89
Net interest margin	2.6	2.6	2.8	2.6

Source: Financial Supervisory Service (2007), *2006 Annual Report,* June.

Table IV.7
Sub-standard and below loans, 2003-06
(Per cent of total loans)

	2003	2004	2005	2006
Commercial banks	2.8	2	1.3	0.9
Specialized banks	2.4	1.7	1.1	0.7
Mutual savings banks	11.8	13	13.8	10.5
Credit unions	6.3	6	5.4	4.5

Source: IMF (2007), *Republic of Korea Staff Report for the 2007 Article IV Consultation*, October, Washington DC. Viewed at: http://www.imf.org/external/pubs/ft/scr/2007/cr07344.pdf [5 January 2008].

(d) Regulatory and supervisory framework

82. Financial sector regulation and supervision is 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. The FSC requires banks and other creditors to closely monitor credit risks of corporate borrowers. Corporate transparency, including more rigorous accounting and corporate governance, has been improved, through increased focus on external, independent auditors, and insisting on higher standards of professional conduct. The FSC has established generally accepted accounting principles and disclosure requirements that closely reflect internationally accepted accounting standards.[100] 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. Under the Banking Act, the minimum legal capital requirement is W 100 billion for a nation-wide commercial bank and W 25 billion for a regional bank.

83. 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

[99] IMF (2006). Mutual savings banks' borrowers tend to be less credit worthy than those who patronize commercial banks.

[100] The FSC has announced a roadmap to adopt IFRS (International Financial Reporting Standards) in March 2007 and will start to apply IFRS to listed companies from 2011.

also have proper risk-management procedures, a viable and sound business plan, and be able to supply the FSC with data needed for supervision. In addition, a foreign bank branch is required to have core operational funds of W 3 billion at the time of establishment.

84. Prudential regulations apply equally to domestic and foreign financial institutions, in accordance with internationally accepted standards. Korea applies the BIS Core Principles for Banking Supervision, and successfully implemented the information management system to support risk based supervision, as well as the risk assessment and dynamic analysis rating system in 2006. Implementation of the Basel II Accord began in 2008 for domestic banks as scheduled, and at present pillar I has been implemented in 18 banks. In this regard the FSS issued supervisory guidelines in 2006; these included experience requirements for the use of advanced measurement approaches, risk measurement methods for operational and credit risks, and internal capital adequacy assessments. Additionally, the FSS has held training sessions and published guidelines for smaller regional banks, so that they can better understand the new system.

85. To better protect against SBLs, the FSS increased minimum provisioning requirements in 2006, and expanded the types of loans subject to provisioning requirements; in addition, in response to mortgage growth and real estate speculation, the authorities made loan-to-value and debt-to-income conditions on mortgages more stringent. A number of measures were also taken in 2006 to strengthen consumer protection, including encouraging banks to transfer funds from dormant accounts to their rightful owners, and a registration requirement for loan solicitors used by banks.

Non-bank financial institution

86. The prudential and supervisory framework of non-bank institutions is similar to that for banks. Merchant banks and mutual savings banks must be approved and licensed by the FSC, and credit unions require approval. All types of credit-specialized finance companies must be registered with the FSC (except for credit card companies, which must obtain a business licence from the FSC). They must meet certain minimum capital requirements. Furthermore, merchant banks are required to extend at least 25% 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.

87. During the period under review, certain regulations were eased for well funded mutual savings banks, such as the limit on lending to an individual borrower and a single business borrower. In addition, a proposal was made by the FSC, which would allow mutual savings banks to expand geographically. The FSC also released regulatory guidelines pertaining to real estate project financing used for overseas construction projects. Furthermore, to protect against the growth in SBLs, mutual savings banks were directed to increase provisioning for project financing loans, limit their exposure to 30% of total assets to a single industry, and if their assets were in excess of W 300 billion then an external independent auditor would be required to view their BIS capital ratios.[101]

Credit unions and credit cooperatives

88. To improve the overall soundness of the sector, merger requirements between credit unions were eased in 2006 to facilitate restructuring of credit unions. To improve their profitability and asset management, credit unions were permitted to invest in subordinated bonds, and were granted several exemptions from the common bond requirements. The FSC also authorized the creation of two new credit unions in 2006.[102]

[101] Financial Supervisory Service (2007).
[102] Financial Supervisory Service (2007); and information provided by the authorities.

Consumer credit

89. The FSC has continued its efforts to strengthen the financial soundness of credit card companies and increase customer protection. Recent reforms have included the issuance of best-practice guidelines for risk management of credit card companies, as well as an associated workshop to encourage sharing of risk management expertise; reclassification of delinquent loans; and stricter monitoring of marketing activities. Additionally, in 2006, the FSC introduced measures to strengthen lending standards and risk management, as well as raising the asset soundness standards for credit card companies.[103]

Securities sector

90. Securities and securities-related businesses, such as dealing, brokerage, and underwriting, must be licensed by the FSC. Foreign branches or other business offices must be approved by the FSC according to the type of business. Without such a licence, the foreign branch cannot conduct business with Korean residents. Foreign branches or other business offices must have an operating fund of at least W 3 billion. To be licensed, foreign securities companies must also have adequate experience and facilities, and have a high international credit rating.

91. The securities sector comprises mainly securities companies and asset management companies.[104] At end 2007, there were 54 securities companies managing W 76 trillion, of which 14 were foreign branches (W 6.6 trillion). In addition, there were 36 domestic and 15 foreign asset management companies with W 246.9 trillion and W 74.5 trillion, respectively.[105]

92. In order to promote competition and innovation in the capital markets, the authorities announced the Financial Investment Services and Capital Market Act, which is expected to enter into force in 2009. The Act will consolidate several capital-market-related laws and thus streamline regulation. It defines financial investment products in broader terms, enabling increased flexibility for financial companies to design new products and services. Under the new legislation, regulatory barriers that restrict financial companies from engaging in multiple areas are to be removed. Thus, the new Act will promote the growth of globally competitive local investment banks. A wide range of measures to enhance consumer protection are also incorporated, and it introduces the know-your-customer rule and the suitability rule, as well as requiring financial investment companies to disclose to their customers the risks and structures of financial investment products.

(iv) Insurance

(a) Structure

93. Korea has the second largest insurance sector in Asia, after Japan. The sector's assets amounted to approximately 39% of GDP in 2007. There are 22 firms offering life insurance, including 8 foreign firms. Total assets of firms in the subsector as of March 2007 were W 273 trillion. The life insurance sector is dominated by the three largest firms, which collectively account for 72% of the sector's assets; the largest, Samsung Life, is responsible for 40%. Although the share of foreign firms has been rising, it is still less than 20% (17.5% in 2005). On the other hand,

[103] These measures include elevating the risk weight of ABS (asset-backed securities) from 20% to 30% to calculate adjusted capital ratio of credit card companies and introducing 'best practice' for risk management of those companies.

[104] The Act on the Business of Operating Indirect Investment and Assets, enacted in 2004, allowed for securities investment trust companies and asset management companies, which had previously been regulated under separate Acts, to be regulated together as asset management companies.

[105] Information provided by authorities.

the non-life insurance sector is less concentrated and much smaller, with W 57 trillion of assets. There are 29 non-life insurers, including 13 foreign firms. The largest, Samsung Fire and Marine, accounts for 32% of the sector's assets; the share of foreign non-life insurers is less than 2%.

(b) Performance

94. Assets of life insurance firms rose from W 211.6 trillion in fiscal year 2004 (April 2004-March 2005) to W 273 trillion in fiscal year 2006, while assets of non-life insurance firms increased from W 44 trillion to over W 57 trillion over the same period.[106] The rise in assets is due to a rise in premiums from variable insurance policies. Despite rising premiums and assets, net income of insurance companies declined slightly, due to increased operating expenses and higher mandatory reserve ratios for incurred but unreported claims.

(c) Regulation

95. Under Korea's Insurance Business Act, the life and non-life sectors are strictly divided; life insurers are banned from offering non-life products, and vice versa. There are no barriers to foreign entry. Foreign branches must maintain funds of at least W 3 billion, if wanting to do business with both Koreans and foreigners. The FSC has adopted the EU-based solvency margin ratio; insurance premiums (both life and non-life) are set by the market.

96. Bancassurance (life and non-life insurance policies provided by banks and other financial institutions) was introduced in August 2003, initially limited to designated branches; the proportion of insurance policies sold from a single insurer has also been restricted. To ease the impact on existing insurers, the scope of products open to bancassurance is to expand in three phases. The first phase, from August 2003 to March 2005, opened the way for sales of long-term savings policies and personal pension insurance policies. The second phase, from April 2005 to March 2008, opens the offering of casualty insurance, long-term care insurance, and illness insurance. The rest of the insurance industry was to be liberalized completely from April 2008, but this was suspended with the National Assembly's concurrence. Under the amended law, bancassurance providers are required to make in-house sales, outbound sales are prohibited, as are tie-in sales of bancassurance products by banks offering loans.

(v) Telecommunications

97. The legislative framework governing telecommunications services (fixed-line, mobile and internet) has essentially remained unaltered during the period under review. The size of the telecommunications market has continued to grow, accounting for 6.6% of GDP (W 50.6 trillion) in 2006, compared with 6.2% of GDP (W 41.6 trillion) in 2003. Korea's main policy goal is to achieve convergence between telecommunications services and broadcasting and audio-visual services.[107]

Overview and market structure

98. Growth has been led by the mobile sector, where the subscriber base grew from 33.6 million in 2003 to over 40.5 million in 2006, with penetration in excess of 80%.[108] On the other hand, the number of fixed subscriber lines per inhabitant is declining[109], due to substitution on account of

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[106] Financial Supervisory Service (2007b).
[107] Ministry of Information and Communication (2007).
[108] Ministry of Information and Communication (2007).
[109] OECD (2007h).

broadband and internet protocol telephony and mobile services. Growth in the internet sector has also been significant, with penetration at nearly 75% in 2006, one of the highest in the world.

99. Since 2005, local service has been supplied by two carriers (KT and Hanaro Telecom); there are five operators of national long-distance services (KT, Dacom, Onse, Hanaro, and SKTelink), and five in the international market (KT, Dacom, Onse, Hanaro, and SKTelink), as well as other resale companies. KT is by far the dominant carrier in non-mobile services, with nearly 94% of the local market, 80% of the long-distance, and 26.5% of the international market; it is the only integrated operator providing all three services. The mobile sector is operated by three suppliers, SK Telecom, KTF (the fixed line incumbent has a share of 48.7% of KTF), and LG Telecom, with market shares of 50.7%, 32.2%, and 17%, respectively.[110]

100. The Telecommunications Basic Act, administered by the Korea Communications Commission (KCC), provides for basic telecommunications policy.[111] The Telecommunications Business Act, which regulates the sector, is also administered by the KCC.

101. In 2008, the Ministry of Information and Communications (MIC) and the Korea Broadcasting Commission (KBC) were merged into the KCC to form a completely independent single regulatory entity, under the President's Office. The KCC 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.

102. KFTC and KCC are jointly responsible for curbing unfair trade practices in the sector. Under mutual agreements, the KCC regulates unfair activities as stipulated in the Telecommunications Business Act.[112]

103. Foreign investment in the sector is subject to a 49% ceiling, and under the Telecommunications Business Act, the KCC can prohibit a foreign shareholder from becoming the largest shareholder in KT. However, owing to an exception, the largest shareholder in KT is presently foreign.[113] Other operators also have significant foreign investment (Table IV.8).

Table IV.8
Ownership structure of major telecom operators, as of December 2006

Company	State-participation	Foreign participation
	(Per cent of shares)	
Korea Telecom	None	47.6
LG Dacom	None	19.0
SK Telecom	None	47.5
KT Freetel	None	22.36
LG Telecom	None	30.25
Hanaro Telecom	None	46.2

Source: Ministry of Information and Communication.

110 OECD (2007h).

111 As a result of the Korea-US FTA, Korea is preparing to amend the Telecommunications Business Act, which would introduce a resale clause, under which the Government would ensure that the major supplier does not impose unreasonable or discriminatory conditions on the resale of its public communications service.

112 Although both the Telecommunications Business Act and the Fair Trade Act can be applied to the telecommunications sector, the duplicate jurisdiction is resolved according to the 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

113 OECD (2007h).

104. In 2006, the Government allowed handset subsidies for customers who had been with the same operator for over 18 months and for subscribers to new services, such as wireless broadband (WiBro) and high speed downlink packet access (HSDPA). However, other new subscribers are not entitled to the subsidy. The Government terminated the subsidies regulation in March 2008**,** thus enabling all customers to be eligible for handset subsidies.

105. Number portability, which allows a subscriber to transfer their number from one network to another after cessation of contract, was implemented in 2004 for fixed-line services and between 2004 and 2005 for mobile services; in January 2004, SKT, the dominant mobile carrier, was required to implement portability, followed by KTF in July 2004 and LGT in January 2005. According to data provided by the authorities, the number of subscribers changing service providers increased from approximately 3 million in 2004 to nearly 9 million in 2007, depicting increased competition.

106. Since July 2007, price discounts are permissible on sales of bundled products, such as local telephone, high-speed internet, and mobile services. Previously, bundling was permitted, but without price discounts. The change in policy should result in increased competition and lower prices.

107. Changes to the licensing process were made in 2005: facilities-based businesses can now apply for a licence at any time (previously only during two periods in the year). Furthermore, the screening period for licence applications has been reduced by 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. Once licensed, facilities-based providers are required to contribute 0.5% of the previous year's total revenues for 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 made net losses or whose previous year's revenue does not exceed W 30 billion. The R&D contribution is managed by the Ministry of Knowledge Economy.

Interconnection

108. The KCC is responsible for formulating the scope of interconnection agreements, including the conditions and procedures, and the pricing methodology. Operators are required to conclude agreements within 90 days of receiving a request from another operator. The KCC changed the interconnection pricing methodology in 2004 by implementing interconnection charges based on a long-run incremental cost methodology (LRIC), the new methodology is applicable to interconnection of local, long-distance, and mobile services.[114]

Price regulation

109. The KCC in consultation with the Ministry of Finance and Economy approves the dominant operator's (KT) local telephony prices, which include the monthly subscriber charge and local calls. Since 2005, when the KCC reclassified the broadband market as a facilities-based service, broadband prices of the operator with the largest market share are also subject to KCC 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. Thus, it would appear that only the operator with the largest market share is subject to price controls and price regulation.[115] Korea has one of the highest rates for international calls among OECD countries.[116] On the other

[114] OECD (2007h).
[115] OECD (2007h).
[116] Based on the OECD basket of international calling charges per call, Korea's rates for business (excluding VAT) and residential (including VAT) were US$2.14 and US$2.88 respectively in 2006. These are

hand, the rates for mobile, internet, and local and long-distance fixed-line services are less than the OECD average.

Universal service obligations

110. 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. Provision of universal services tends to incur losses and are thus subsidized through a universal service fund, to which all operators contribute a proportion of their revenue.[117] From 2004 to 2007, contributions to the fund were based on an operator's financial strength; for example, an operator that had incurred a loss for three consecutive years was entitled to a 50% discount on its contribution; in contrast an operator that required government approval for a user agreement could be liable for an extra 10%, implying that the system discriminated against efficient operators.[118] This system was abolished in January 2007. The KCC migrated to an LRIC system for the determination of costs associated with universal service provision in 2004. Responsibility for universal service costing was given to the KCC in May 2006.

Broadcasting

111. The KCC handles all the functions related to the broadcasting subsector previously undertaken by the KBC and MIC, including policy related to content. The KCC is responsible for managing broadcasting spectrum, licensing, monitoring the transmission and programming of broadcasting programmes, and broadcast technical standards policy. Terrestrial radio and television broadcasting are closed to foreign investment, while the ceiling on foreign investment in other areas of broadcasting is 49%.

112. Convergence between telecommunications services and broadcasting services seems to be the main thrust of policy.[119] In this regard the Government designated broadband access providers and CATV providers as facilities-based operators in 2004 and 2007, respectively.[120] Moreover, WiBro services were commercialized in 2006 and terrestrial digital broadcasts began in 2007.[121]

113. In 2005, the Government amended the Radio Waves Act by placing an initial five-year limit on spectrum allocation, which could be renewed for a maximum period of 20 years. The amendment also allowed for a legal basis to charge for spectrum as well as allowing operators that have paid their fees to rent their allocated spectrum.

(vi) Transport

114. Roads 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.

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much higher than in the United States (US$0.56 and US$0.5), United Kingdom (US$1.13 and US$1.08), Germany (US$0.27 and US$0.41), and the OECD average, which was US$0.97 for business and US$1.29 for residential calls.

[117] The universal service compensation fund amounted to W 71.5 billion in 2006. Facilities-based service providers with revenue of W 30 billion or more make contributions based on their revenue (SKT 33.4%, KT 32.4%, KTF 15.6%, LGT 8.9%, Hanaro Telecom 2.5%, LG Dacom 2.5%, and eight other companies including SK Telink 4.7%) (information provided by the authorities).

[118] OECD (2007h).

[119] Ministry of Information and Communication (2007).

[120] As a facilities based operator the providers can be subject to ex ante regulation and price controls.

[121] Wibro services allow mobile internet terminals high-speed wireless access.

(a) Maritime transport

115. The maritime sector is regulated through the Korean Maritime Law, which covers sea passenger transportation, sea freight transportation, 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.

116. During the review period, the maritime sector has continued to grow; Korea's merchant fleet capacity rose from 11 million gross tonnes in 2003 to approximately 15 million gross tonnes in 2006.[122] However, the sector is highly concentrated with the five largest operators controlling over 70% of the market.[123] There are no restrictions on foreign carriers from accessing the Korean liner market, and they are accorded national treatment at Korean ports and in the registration process.[124] Cabotage continues to be reserved for Korean vessels; however, foreigners are allowed to participate in transport of goods and passengers between North and South Korea as a minority joint-venture partner with a South Korean firm. In 2008, the number of foreign crew members permitted on a Korean ship was increased from six to ten.

117. The Government does not intervene directly in providing shipping services, but provides various financing and tax schemes to assist shipping companies. It plans to introduce a tonnage tax system, and a ship investment company system designed to provide tax incentives to private investors in ships for lease to shipping companies. Most maritime auxiliary services, including tug services, freight forwarding, and maintenance and repair services are provided by the private sector; pilots must be Korean.

118. Government policy is directed towards making Korea a logistics and shipping hub of North East Asia. In this regard, the Government has built large container terminals in Pusan and Gwangyang, which have the ability to accommodate the largest and most modern ships. With a view to attracting more foreign shipping lines, the Government announced plans in 2006 to modernize port facilities and streamline operations. In addition, the Government announced plans to revamp port infrastructure by introducing automated operation systems, improving securities standards, and allowing night-time operations.[125]

119. The Ministry of Land, Transport and Maritime Affairs administers ports. They are state-owned and rented free of charge to the Korea Container Terminal Authority, which in turn rents port facilities to private terminal operators. Container throughput continued to grow strongly between 2000 and 2007, rising from 9.0 million to 17.5 million TEU (an average growth rate of 9.9% per year).[126] Development of a significant transshipment business at Pusan has contributed significantly to this growth. The Government is increasingly turning to the private sector to develop port infrastructure and provide services under various concession agreements, such as build-operate-transfer (BOT) or build-transfer-operate (BTO) contracts.

120. For example, phase one of Pusan New Port (PNP), opened in January 2006, it is owned by a consortium consisting of Samsung Corporation; Hanjin Group and Hyundai Engineering and Construction; and DP World, the latter also manages the operation of the port. Phases two, three, and

[122] Information provided by the authorities.

[123] Lee et al. (2007).

[124] Carriers need to be incorporated and have equity of W 500 million and a cargo capacity of 5,000 tonnes.

[125] Information provided by the authorities.

[126] UNESCAP (2007).

four, consisting of three berths are still to be constructed.[127] The capacity of Incheon Container Terminal is also to be increased by 400,000 TEUs annually, by adding a second berth to its existing container facility by June 2008. Concurrently, the local terminal operator E1 is investing US$70.34 million in the construction of a new berth with an annual capacity of 185,000 TEUs, to be completed in 2009.[128] Port charges in Korea are moderate compared with other ports in the region; for example, total harbour charges at Pusan are less than those at Kobe, Osaka, Hong Kong, Singapore, and Kaohsiung.

(b) Air transport

121. 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. Since 2003, both air passenger traffic and freight have continued to grow. Korea has four privately owned national flag carriers, Korean Air, Asiana Airlines, Jeju Air, and Hansung Airlines. Korean Air and Asiana Airlines operate international and domestic services, while Jeju Air and Hansung Airlines operate domestic services only. Cabotage is prohibited under the Aviation Act (Article 149). 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 87 countries, including an "open skies" agreement with the United States. Korea plans to negotiate additional agreements, while progressively liberalizing existing bilateral arrangements.

122. 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.

123. Aviation Safety Strengthening Measures, focusing on the safety management system (SMS) are being implemented, airport and aviation safety facilities are being updated. Furthermore, the Safety AtoZ Programme was implemented in 2007, to provide public with safety information for airlines in service in Korea, and enhance transparency in the safety of airlines.

124. There are nine international and six domestic airports in Korea. All except Incheon are managed and operated by the Korea Airports Corporation, which is government owned. Incheon Airport is operated and managed by the Incheon International Airport Corporation, which is also government owned. The Government envisages Incheon International Airport as a mega regional hub, and phase two of construction of the airport is to be completed in June 2008. Takeoff and landing spots 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 takeoff charges at Incheon are higher than other airports in region, such as Hong Kong, Shanghai, and Taipei.

(c) Land transport

125. Road transport in Korea, accounts for over 90% 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 a 100,000 kilometres of road, with 25 expressways and 56 national highways. According to the

[127] Three consortiums, led by Ssangyong Construction, Posco Construction, and Hyundai Development respectively, have submitted proposals to the Republic of Korea's Ministry of Maritime Affairs and Fisheries for their construction.

[128] UNCTAD (2007).

National Highway Network Plan, 6,000 km of expressways are to be built by 2020; 3,368 had been built at end 2007. 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 W 569 billion in 2006), and along with taxi operators, receive a portion of the fuel tax revenue back as a subsidy; this amounted to W 973 billion in 2006.

126. The railway sector comprises national railways, including high-speed railways and subways in major urban centres. There are 97 railroad routes, covering over 3,800 kilometres; approximately 50% are multi-tracked and nearly 60% are electrified.[129] The Government plans to increase track coverage to almost 5,000 kilometres, with over 80% multi-tracked and electrified. At end 2006, railways were responsible for less than 10% of domestic passenger and freight transport; the Government expects to more than double the share of railways in the domestic market by 2019.

127. The Korea Railway Network Authority, established in January 2004, is responsible for all railway construction activity, while the Korea Rail Corporation (Korail) looks after railway operations. The latter is a state-owned monopoly. Both entities come under the Rail Policy Bureau, which was established within the Ministry of Construction and Transportation in March 2004. Any changes with respect to train fares, including freight rates, need to be notified to the Ministry. However as of June 2008, Korail has greater autonomy in setting fares based on a price cap system. In the longer term, the plan is for passenger and freight services to be separated and supplied by independent corporations; the initial target for this was 2006.

128. Under the Railroad Enterprise Act, all railway operators need to be licensed. There are no restriction on foreign enterprises supplying rail transport services for routes built after 1 July 2005, but they must comply with the economic needs test and regulations on licences of the Railroad Enterprise Act. At present, there are no private of foreign companies in the railway sector.

(vii) Distribution services

129. During the period under review (2004-07), growth in the distribution services subsector (wholesale and retail trade, restaurants, and hotels) averaged a modest 3.7% per annum, and its contribution to GDP remained static at 6.0%. On the other hand, the share of distribution services in total employment declined.

130. Liberalization of the subsector has been continuous since 1996; the number of stores of large distributors has increased, and foreign participation in the sector is rising. Between 2004 and 2006, retail outlets declined by 3.8%; on the other hand, between 2004 and 2007 foreign investment in the distribution sector rose by 20.6%. The share of traditional family stores has been on a declining trend.[130] Growth in the distribution sector has been fuelled by hypermarkets, as these are also the preferred choice of foreign participants in the sector.[131]

131. 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. Legislative changes in 2005 and 2006 have

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[129] Ministry of Transportation and Construction online information. Viewed at: http://www.mltm.go.kr/EngHome/policies/pol0101.jsp [26 March 2008].

[130] Between 2001 and 2006, the total number of family stores decreased by 2.8% per annum and total employment decreased by 1.6% per annum.

[131] Kim et al. (2000).

made opening and modifying the registration of a large store (floor space of 3,000 m^2) easier, by increasing the number of streamlined services, such as authorization and licensing, from 13 to 20, as well as reducing the processing time and documentation required.[132] There are no restrictions on foreign entry in sectors where it is not excluded, and foreign participants are accorded national treatment. Foreign entry is excluded in: trade in 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; in addition, there are economic needs test requirements in wholesale and retail services related to used cars and gaseous fuels.[133]

[132] Distribution Industry Development Act, revised as of 23 December 2005, and Enforcement Decree of the Distribution Industry Development Act, revised as of 23 February 2006.

[133] APEC (2007).

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APPENDIX TABLES

Table AI.1
Merchandise exports by product group, 2003-07
(US$ million and per cent)

	2003	2004	2005	2006	2007
Total exports (US$ million)	193,817.3	253,844.6	284,418.2	325,457.2	371,477.1
			(Per cent of total)		
Total primary products	7.3	7.8	9.1	10.5	10.8
Agriculture	2.2	1.9	1.9	1.6	1.7
Food	1.4	1.2	1.1	0.9	0.9
Agricultural raw material	0.9	0.8	0.8	0.7	0.8
Mining	5.0	5.8	7.2	8.9	9.1
Ores and other minerals	0.2	0.2	0.2	0.3	0.3
Non-ferrous metals	1.3	1.5	1.5	2.2	2.1
Fuels	3.6	4.1	5.5	6.4	6.6
Manufactures	91.7	91.0	90.8	89.1	88.9
Iron and steel	4.0	4.6	5.0	4.9	5.1
6731 Flat-rolled iron/steel products not clad, in coils	0.6	0.6	0.7	0.7	0.7
Chemicals	8.7	9.1	9.8	9.8	10.1
5112 Cyclic hydrocarbons	1.1	1.3	1.3	1.5	1.6
5138 Polycarboxylic acids, and their anhydrides, derivatives	0.7	0.8	1.0	1.0	0.9
5729 Other styrene polymers	0.6	0.7	0.7	0.7	0.8
Other semi-manufactures	4.7	4.2	4.2	4.2	4.0
Machinery and transport equipment	62.5	63.0	61.0	59.1	58.4
Power generating machines	0.6	0.5	0.6	0.5	0.5
Other non-electrical machinery	6.0	6.0	6.1	6.4	7.2
7284 Machinery and appliances for particular industries, n.e.s.	0.7	0.9	0.8	0.9	1.0
7232 Mechanical shovels, etc., self-propelled	0.6	0.6	0.6	0.7	0.8
Agricultural machinery and tractors	0.1	0.1	0.1	0.1	0.1
Office machines & telecommunication equipment	32.9	32.5	29.2	25.7	24.7
7764 Electronic integrated circuits and micro assemblies	7.9	8.0	8.5	7.8	8.1
7643 Radio or television transmission apparatus	7.2	7.6	6.9	5.3	5.0
7649 Parts and accessories for apparatus of division 76	3.3	4.0	4.3	4.5	4.3
7599 Parts and accessories of 751.1, 751.2, 751.9 and 752	4.3	4.3	2.8	2.7	2.3
7526 Input/output units for automatic data processing machines	3.2	2.9	2.3	1.8	1.7
7527 Storage units for data processing	0.8	0.8	0.7	0.7	0.7
Other electrical machines	4.7	4.7	5.3	6.0	4.8
7731 Insulated wire, cable etc.; optical fibre cables	0.4	0.4	0.5	0.6	0.7
Automotive products	11.9	12.7	13.3	13.2	13.3
7812 Motor vehicles for the transport of persons, n.e.s.	9.0	9.7	9.6	9.4	9.3
7843 Other motor vehicle parts and accessories of 722, 781 to 783	1.9	2.1	2.7	2.9	3.1
Other transport equipment	6.4	6.6	6.6	7.3	7.9
7932 Ships, boats, etc. (excl. pleasure craft, tugs, etc.)	5.4	4.8	5.3	6.1	6.4
7935 Special purpose vessels; floating docks	0.4	1.2	0.8	0.5	0.8
Textiles	5.5	0.2	3.6	3.1	2.8
6552 Other knitted/crocheted fabrics, not impregnated/ coated, etc.	1.2	1.0	0.8	0.8	0.8
Clothing	1.9	1.3	0.9	0.7	0.5
Other consumer goods	4.3	4.4	6.2	7.5	8.1
8719 Liquid crystal devices, n.e.s.; lasers (excl. laser diodes)	0.6	1.2	3.0	4.5	5.3
Other	1.1	1.2	0.1	0.3	0.2
Gold	1.0	1.2	0.1	0.3	0.2

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

Table AI.2
Merchandise imports by product group, 2003-07
(US$ million and per cent)

	2003	2004	2005	2006	2007
Total imports (US$ million)	178,825.8	224,460.9	261,235.6	309,379.5	356,841.0
			(Per cent of total)		
Total primary products	35.2	36.2	39.0	42.2	41.6
Agriculture	8.1	7.1	6.4	6.0	6.2
Food	5.5	4.9	4.4	4.2	4.4
Agricultural raw material	2.5	2.2	2.0	1.8	1.8
Mining	27.2	29.1	32.6	36.2	35.6
Ores and other minerals	2.9	3.5	3.8	4.5	4.9
2831 Copper ores and concentrates	0.5	0.5	0.7	1.1	0.9
2815 Iron ores and concentrates, not agglomerated	0.5	0.5	0.6	0.6	0.7
2882 Other non-ferrous base metal waste and scrap, n.e.s.	0.3	0.4	0.4	0.6	0.7
Non-ferrous metals	2.7	3.2	3.0	3.7	3.6
6821 Copper anodes; alloys; unwrought	0.5	0.7	0.7	1.0	1.1
6841 Aluminium and aluminium alloys, unwrought	0.9	0.9	0.9	1.0	0.9
Fuels	21.6	22.4	25.8	28.0	27.0
3330 Crude oils of petroleum and bituminous minerals	12.9	13.3	16.3	18.1	16.9
3431 Natural gas, liquefied	2.8	2.9	3.3	3.9	3.5
3212 Other coal, whether or pulverized, not agglomerated	1.3	1.8	1.9	1.6	1.6
Manufactures	62.9	62.0	60.5	57.4	57.8
Iron and steel	4.1	5.4	5.8	5.1	6.0
6731 Flat-rolled iron/steel products not clad, in coils	1.1	1.7	1.9	1.8	2.0
6726 Semi-finished iron/steel products <0.25% carbon	0.5	0.7	0.7	0.6	0.8
Chemicals	9.2	9.2	9.4	8.9	9.1
5112 Cyclic hydrocarbons	0.6	0.7	0.8	0.7	0.7
Other semi-manufactures	3.9	3.6	3.6	3.6	3.8
Machinery and transport equipment	35.0	33.6	31.6	30.0	30.2
Power generating machines	1.0	1.1	1.0	1.0	0.9
Other non-electrical machinery	7.4	7.7	7.3	7.1	8.1
7284 Machinery and appliances for particular industries, n.e.s.	1.7	1.9	1.6	1.6	2.7
Agricultural machinery and tractors	0.1	0.1	0.1	0.1	0.1
Office machines & telecommunication equipment	17.9	15.7	14.4	13.0	12.4
7764 Electronic integrated circuits and microassemblies	10.3	8.9	8.0	7.0	7.1
7649 Parts and accessories of apparatus of division 76	1.4	1.4	1.1	1.0	0.9
7599 Parts and accessories of 751.1, 751.2, 751.9 and 752	1.1	1.0	1.1	1.0	0.8
7763 Diodes, transistors, etc.	0.8	0.8	0.8	0.7	0.7
Other electrical machines	5.6	6.0	5.8	5.5	4.9
7788 Electrical machinery and equipment n.e.s.	1.3	1.2	0.9	0.8	0.7
Automotive products	1.7	1.5	1.6	1.7	1.9
7843 Other motor vehicle parts and accessories of 722, 781 to 783	1.0	0.9	0.8	0.8	0.9
7812 Motor vehicles for the transport of persons, n.e.s.	0.4	0.4	0.5	0.6	0.7
Other transport equipment	1.3	1.5	1.5	1.8	2.0
Textiles	1.7	1.5	1.4	1.3	1.2
Clothing	1.4	1.2	1.1	1.2	1.2
Other consumer goods	7.4	7.4	7.7	7.3	6.3
Other	1.8	1.8	0.4	0.4	0.5
Gold	1.6	1.6	0.3	0.3	0.4

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

Table AI.3
Merchandise exports by destination, 2003-07

	2003	2004	2005	2006	2007
Total exports (US$ million)	193,817.3	253,844.6	284,418.2	325,457.2	371,477.1
			(Per cent of total)		
America	23.6	22.8	21.0	20.7	20.2
United States	17.7	16.9	14.6	13.3	12.4
Other America	5.8	5.8	6.4	7.4	7.8
Mexico	1.3	1.2	1.3	1.9	2.0
Europe	15.4	16.5	17.0	16.7	16.6
EC(25)	13.9	14.9	15.4	14.9	14.8
Germany	2.9	3.3	3.6	3.1	3.1
United Kingdom	2.1	2.2	1.9	1.7	1.8
The Netherlands	1.3	1.2	1.3	1.1	1.2
Italy	1.3	1.3	1.5	1.3	1.1
Spain	1.0	1.1	1.0	1.1	1.1
EFTA	0.6	0.3	0.4	0.5	0.3
Other Europe	0.9	1.2	1.2	1.2	1.4
Turkey	0.7	0.9	1.0	0.9	1.1
Commonwealth of Independent States[a]	1.3	1.4	1.9	2.2	3.0
Russian Federation	0.9	0.9	1.4	1.6	2.2
Africa	2.1	2.9	2.8	3.1	3.0
Middle East	3.9	3.7	3.6	3.8	4.5
Saudi Arabia	0.7	0.7	0.7	0.9	1.1
United Arab Emirates	1.1	1.0	1.0	0.9	1.0
Asia	53.5	52.7	53.5	53.5	52.5
China	18.1	19.6	21.8	21.3	22.1
Japan	8.9	8.5	8.4	8.2	7.1
Six East Asian Traders	16.9	16.3	14.7	15.7	14.5
Hong Kong, China	7.6	7.1	5.5	5.8	5.0
Chinese Taipei	3.6	3.9	3.8	4.0	3.5
Singapore	2.4	2.2	2.6	2.9	3.2
Malaysia	2.0	1.8	1.6	1.6	1.5
Thailand	1.3	1.3	1.2	1.3	1.2
Other Asia	9.6	8.2	8.6	8.3	8.9
India	1.5	1.4	1.6	1.7	1.8
Indonesia	1.7	1.4	1.8	1.5	1.6
Viet Nam	1.3	1.3	1.2	1.2	1.6
Australia	1.7	1.3	1.3	1.4	1.3
Philippines	1.5	1.3	1.1	1.2	1.2
Other	0.1	0.1	0.1	0.1	0.1
Memorandum:					
APEC	72.0	70.9	69.6	69.3	67.9
ASEAN	10.4	9.5	9.6	9.9	10.4
EC(15)	12.9	13.3	13.7	12.5	11.7

a Commonwealth of Independent States includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Source: UNSD, Comtrade database.

Table AI.4
Merchandise imports by origin, 2003-07
(US$ million and per cent)

	2003	2004	2005	2006	2007
Total imports (US$ million)	178,825.8	224,460.9	261,235.6	309,379.5	356,841.0
			(Per cent of total)		
America	17.5	16.8	15.4	15.0	14.5
United States	13.9	12.9	11.8	10.9	10.5
Other America	3.5	3.9	3.6	4.1	4.0
Chile	0.6	0.9	0.9	1.2	1.2
Europe	12.3	11.7	11.2	10.5	11.4
EC(25)	11.1	10.8	10.5	9.7	10.3
Germany	3.8	3.8	3.7	3.7	3.8
France	1.2	1.1	1.1	1.0	1.1
The Netherlands	0.8	0.8	1.1	1.0	1.0
Italy	1.3	1.1	1.1	0.9	1.0
United Kingdom	1.5	1.7	1.2	1.0	1.0
EFTA	1.1	0.8	0.7	0.7	1.0
Other Europe	0.1	0.1	0.1	0.1	0.1
Commonwealth of Independent States (CIS)[a]	1.7	2.0	1.7	1.7	2.2
Russian Federation	1.4	1.6	1.5	1.5	2.0
Africa	1.4	1.6	1.3	1.9	1.7
Middle East	14.8	14.6	17.9	19.8	18.4
Saudi Arabia	5.2	5.3	6.2	6.6	5.9
United Arab Emirates	3.2	3.2	3.8	4.2	3.5
Kuwait	1.8	1.7	2.3	2.6	2.5
Qatar	1.8	1.6	2.1	2.3	2.4
Iran Islamic Rep.	1.0	1.1	1.4	1.6	1.8
Oman	1.3	1.1	1.4	1.7	1.1
Asia	52.3	53.2	52.4	51.1	51.7
China	12.3	13.2	14.8	15.7	17.7
Japan	20.3	20.6	18.5	16.8	15.8
Six East Asian Traders	10.5	10.3	9.2	9.0	8.7
Chinese Taipei	3.3	3.3	3.1	3.0	2.8
Malaysia	2.4	2.5	2.3	2.3	2.4
Singapore	2.3	2.0	2.0	1.9	1.9
Thailand	1.1	1.0	1.0	1.1	1.1
Other Asia	9.2	9.2	9.8	9.6	9.5
Australia	3.3	3.3	3.8	3.7	3.7
Indonesia	2.9	2.8	3.1	2.9	2.6
India	0.7	0.8	0.8	1.2	1.3
Memorandum:					
APEC	68.7	68.8	66.7	64.8	65.2
ASEAN	10.3	10.0	10.0	9.6	9.3
EC(15)	10.8	10.5	10.2	9.4	9.9

a Commonwealth of Independent States includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Source: UNSD, Comtrade database.

Table AIII.1
MFN tariff averages by HS chapter, 2004 and 2008

HS 2-digit	Description	No. of lines[a]	2004 Average (%)	2004 Range (%)	2008 Average (%)	2008 Range (%)	Final bound %age bound	Final bound Average[b] (%)	Final bound Range[b] (%)
	Total	11,729 (11,261)	12.8	0-887.4	12.8	0-887.4	90.8	17.1	0-887.4
01-24	Agriculture	1,787 (1,709)	47.9	0-887.4	47.8	0-887.4	84.4	61.7	0-887.4
25-97	Industry	9,942 (9,552)	6.6	0-754.3	6.5	0-754.3	91.9	9.7 (9.8)	0-754.3
01	Live animals	56 (50)	15.2	0-89.1	13.4	0-89.1	100.0	18.3	0-89.1
02	Meat & edible meat offal	95 (96)	22.5	3-40	22.6	3-40	100.0	22.7	6.6-40
03	Fish & crustaceans, molluscs & other aquatic invertebrates	300 (265)	16.1	5-20	15.7	0-20	24.0	12.9	10-20
04	Dairy produce; birds' eggs; natural honey; edible prod. n.e.s.	68 (51)	61.8	8-243	57.7	8-243	100.0	59.1	19.7-243
05	Products of animal origin, n.e.s.	68 (69)	8.9	0-27	9.0	0-27	98.5	13.8	0-36
06	Live trees & other plants; bulbs, roots & the like; cut flowers etc.	76 (74)	11.0	8-25	11.3	4-25	100.0	21.3	13.1-36
07	Edible vegetables, certain roots, tubers	133 (131)	116.7	8-887.4	115.2	0-887.4	100.0	122.3	18-887.4
08	Edible fruit & nuts; peel of citrus fruit/melons	78	72.7	8-611.5	72.5	8-611.5	100.0	81.8	18-611.5
09	Coffee, tea, maté & spices	39 (36)	62.7	2-513.6	77.4	2-513.6	100.0	90.9	13.1-513.6
10	Cereals	32	215.3	1.8-800.3	215.3	0-800.3	81.3	218.0	1.8-800.3
11	Prod. of the milling industry; malt; starches; inulin; wheat gluten	47 (45)	311.8	4.2-800.3	313.1	4.2-800.3	91.5	316.0	4.2-800.3
12	Oil seeds & oleaginous fruits; misc grains, seeds & fruit; etc.	138 (131)	88.1	0-754.3	90.8	0-754.3	97.8	96.1	0-754.3
13	Lac; gums, resins & other vegetable saps & extracts	27 (28)	89.6	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.	100 (98)	16.6	2-630	15.6	2-630	100.0	26.5	4-630
16	Preparations. of meat/fish/molluscs, etc.	91 (90)	23.7	18-72	23.7	18-72	69.2	34.0	18-72
17	Sugars & sugar confectionery	33	19.7	3-243	19.1	3-243	100.0	31.2	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 (50)	10.9	5.4-45	11.4	5-45	92.3	34.1	5.4-54
20	Prep. of vegetable./fruit/ nuts/other parts of plants	109 (108)	33.9	5-63.9	34.0	5-63.9	100.0	42.7	15-90
21	Misc. edible preparations	71 (67)	32.7	8-754.3	32.2	8-754.3	97.2	62.3	13.1-754.3
22	Beverages, spirits & vinegar	52	21.1	8-270	21.1	8-270	100.0	32.8	8-270
23	Residues & waste from the food industries; prepared animal fodder	46	12.2	0-71	11.9	0-71	100.0	17.5	0-90
24	Tobacco & manuf. tobacco substitutes	25	30.9	20-40	30.9	20-40	100.0	59.1	32.8-65.5
25	Salt; sulphur; earths & stone; plastering materials, lime & cement	145	3.3	1-8	3.3	0-8	95.2	5.6	1-13
26	Ores, slag & ash	56	1.3	1-2	0.6	0-2	98.2	1.3	1-2
27	Mineral fuels & oils bituminous substance; mineral waxes	144	5.3	1-8	5.0	0-8	72.9	7.9	1-13
28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	392 (412)	5.2	0-8	5.2	0-8	99.2	5.3	0-13
29	Organic chemicals	921 (882)	5.7	0-8	5.5	0-8	100.0	5.8	0-22.5
30	Pharmaceutical products	154 (148)	5.0	0-8	5.0	0-8	41.6	1.1	0-30

Table AIII.1 (cont'd)

HS 2-digit	Description	No. of lines[a]	2004 Average (%)	2004 Range (%)	2008 Average (%)	2008 Range (%)	Final bound %age bound	Final bound Average[b] (%)	Final bound Range[b] (%)
31	Fertilizers	38 (40)	5.8	1-6.5	5.8	0-6.5	100.0	6.5	6.5-6.5
32	Tanning/dyeing extracts; colouring matter, etc.	140 (141)	6.9	6.5-8	6.9	4-8	100.0	7.4 (7.7)	6.5-13
33	Essential oils; perfumes, cosmetic/toilet articles	68 (73)	18.5	5-754.3	20.2	5-754.3	98.5	22.3 (24.7)	6.5-754.3
34	Soap, organic surface-active agents, washing preparations, etc.	53 (52)	6.7	6.5-8	6.6	2-8	90.6	6.6 (6.7)	6.5-9.6
35	Albuminoidal substances; modified starches; glues; enzymes	58 (52)	48.2	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	7.5	6.5-8	100.0	6.6 (8.5)	6.5-9.6
37	Photographic or cinematographic goods	222 (221)	7.1	0-8	6.6	0-8	100.0	6.2 (8.4)	0-6.5 (0-11)
38	Miscellaneous chemical products	230 (213)	6.4	0-50	6.6	0-50	99.1	7.3	0-50
39	Plastics & articles thereof	233 (228)	6.8	5-8	6.7	4-8	97.9	6.5 (7.0)	6.5-13
40	Rubber & articles thereof	146	7.1	0-8	7.1	0-8	100.0	11.6	0-13
41	Raw hides & skins (no furskins) & leather	67	3.8	2-8	3.3	1-8	100.0	7.9	5-13
42	Articles of leather; saddlery & harness; etc.	117 (118)	10.0	8-13	10.0	8-13	76.1	15.8	13-16
43	Furskins & artificial fur; manuf. thereof	58 (59)	9.0	3-16	9.1	3-16	56.9	12.1	5-36
44	Wood and articles of wood; wood charcoal	285 (209)	5.5	1-8	5.3	0-8	64.9	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 (14)	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 (26)	0.1	0-2	0.0	0-0	96.6	0.0	0-0
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	190 (186)	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	1.4	0-8	0.7	0-4.7	100.0	0.0 (0.7)	0-0 (0-4.7)
50	Silk	37	14.1	2-51.7	13.9	2-51.7	97.3	22.9	9-51.7
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	58	6.8	1-13	6.4	0-13	100.0	13.1	2-30
52	Cotton	181 (182)	8.5	1-10	8.3	0-10	100.0	12.4	2-13
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	47 (51)	4.8	2-8	4.6	2-8	100.0	7.6	2-13
54	Man-made filaments	127 (124)	8.0	8-8	7.7	2-8	100.0	13.6	13-30
55	Man-made staple fibres	247 (256)	9.0	2-10	8.9	2-10	100.0	12.8	2-13
56	Wadding, felt & non-wovens; special yarns; twine, cordage, etc. and articles thereof	50	8.5	8-10	8.5	8-10	100.0	19.8	13-30
57	Carpets and other textile floor coverings	21 (23)	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 (62)	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 (46)	10.0	10-10	10.0	10-10	100.0	30.0	30-30

Table AIII.1 (cont'd)

HS 2-digit	Description	No. of lines[a]	2004 Average (%)	2004 Range (%)	2008 Average (%)	2008 Range (%)	Final bound %age bound	Final bound Average[b] (%)	Final bound Range[b] (%)
61	Articles of apparel and clothing accessories, knitted or crocheted	152 (162)	12.8	8-13	12.8	8-13	100.0	31.0	16-35
62	Articles of apparel and clothing accessories, not knitted or crocheted	169 (171)	12.6	8-13	12.6	8-13	100.0	25.6	16-35
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	59 (66)	11.8	8-13	11.7	8-13	100.0	23.1	13-30
64	Footwear, gaiters etc.; parts of such articles	52 (55)	11.5	8-13	11.4	8-13	100.0	13.0	13-13
65	Headgear and parts thereof	16 (18)	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 (12)	11.3	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 (72)	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	137 (124)	7.8	0-8	7.5	0-8	80.3	13.6	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	277 (211)	0.6	0-8	0.3	0-5	100.0	0.7	0-10
73	Articles of iron or steel	209 (196)	4.3	0-8	4.1	0-8	99.0	6.8	0-16
74	Copper and articles thereof	87 (90)	6.6	0-8	6.5	0-8	100.0	9.9	0-16
75	Nickel and articles thereof	25	4.6	1-8	4.4	0-8	100.0	7.4	2-13
76	Aluminium and articles thereof	60	7.5	1-8	7.4	0-8	100.0	11.8	3-16
78	Lead and articles thereof	20	6.6	1-8	6.0	0-8	100.0	10.3	3-13
79	Zinc and articles thereof	19	6.8	1-8	6.3	0-8	100.0	11.1	3-13
80	Tin and articles thereof	14	6.8	1-8	6.7	0-8	100.0	10.4	3-13
81	Other base metals; cermets; articles thereof	78 (76)	5.1	0-8	4.1	0-8	100.0	6.6	3-10
82	Tools, implements, cutlery, spoons & forks, of base metal; parts thereof	146	8.0	8-8	8.0	8-8	97.9	15.5	13-30
83	Miscellaneous articles of base metal	53 (52)	8.0	8-8	8.0	8-8	100.0	13.0	10-16
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,231 (1,158)	6.0	0-13	5.9	0-13	92.4	9.2	0-20
85	Electrical machinery and equipment and parts thereof; etc.	787 (721)	5.5	0-13	5.3	0-13	71.3	7.3	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 (207)	7.9	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	3.7	0-8	3.6	0-8	36.4	4.3	0-5
90	Optical, photographic, cinematographic, measuring, checking, precision, etc.	440 (443)	5.9	0-8	6.2	0-8	93.4	7.7	0-16
91	Clocks and watches and parts thereof	89	7.8	5-8	7.8	5-8	96.6	13.7	13-16
92	Musical instruments; parts & access. thereof	58 (59)	8.0	8-8	8.0	8-8	100.0	13.4	13-16

Table AIII.1 (cont'd)

HS 2-digit	Description	No. of lines[a]	2004 Average (%)	2004 Range (%)	2008 Average (%)	2008 Range (%)	Final bound %age bound	Final bound Average[b] (%)	Final bound Range[b] (%)
93	Arms & ammunition; parts thereof	87 (26)	3.7	0-8	3.7	0-8	100.0	6.4	0-16
94	Furniture; bedding, mattresses, mattress supports, cushions, etc.	88 (86)	3.7	0-8	3.6	0-8	98.9	5.8	0-13
95	Toys, games and sports requisites; parts and accessories thereof	94	4.7	0-8	4.7	0-8	100.0	8.5	0-16
96	Miscellaneous manufactured articles	88 (86)	8.0	8-8	7.8	0-8	95.5	13.1	13-16
97	Works of art, collectors' pieces and antiques	15 (13)	0.0	0-0	0.0	0-0	100.0	0.0	0-0

a Numbers in brackets refer to 2004 tariff schedule.
b Numbers in brackets refer to the 2008 bound rate. Final implementation to be reached in 2009.

Note: The 2004 tariff is based on HS02 nomenclature and the 2008 tariff is based on HS07. 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 2008 tariff schedule.

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

Table AIII.2
Non-*ad valorem* (alternate) MFN applied tariffs, 2008

HS Code	Description	Non-*ad valorem* rate
0409000000	Natural honey	243% or W 1,864/kg[a]
0703101000	Onions	135% or W 180/kg[a]
0703201000	Fresh peeled garlic	360% or W 1,800/kg[a]
0703209000	Fresh garlic other than peeled	360% or W 1,800/kg[a]
0706101000	Carrots	30% or W 134/kg[a]
0709601000	Sweet peppers (bell type)	270% or W 6,210/kg[a]
0709609000	Fruit of the genus capsicum/pimenta other than sweet peppers	270% or W 6,210/kg[a]
0711901000	Garlic	360% or W 1,800/kg[a]
0711905091	Fruits of the genus capsicum or of the genus pimenta	270% or W 6,210/kg[a]
0712200000	Onions	135% or W 180/kg[a]
0712319000	Mushrooms other than cultivated	30% or W 1,218/kg[a]
0712320000	Wood ears (Auricularia spp.)	30% or W 1,218/kg[a]
0712330000	Jelly fungi (Tremella spp.)	30% or W 1,218/kg[a]
0712391020	Oak mushrooms	30% or W 1,625/kg[a]
0712391030	Ling chiu mushrooms	30% or W 842/kg[a]
0712391090	Other mushrooms	30% or W 1,218/kg[a]
0712901000	Garlic	360% or W 1,800/kg[a]
0712902010	Bracken	30% or W 1,807/kg[a]
0712902030	Welsh onions	30% or W 1,159/kg[a]
0712902040	Carrots	30% or W 864/kg[a]
0712902094	Flowering ferns	30% or W 1,446/kg[a]
0714201000	Fresh sweet potatoes	385% or W 338/kg[a]
0802401000	Chestnuts in shell	219.4% or W 1,470/kg[a]
0802402000	Chestnuts shelled	219.4% or W 1,470/kg[a]
0802901010	Pine-nuts in shell	566.8% or W 2,664/kg[a]
0802901020	Pine-nuts shelled	566.8% or W 2,664/kg[a]
0802902010	Ging ko-nuts in shell	27.0% or W 803/kg[a]
0802902020	Ging ko-nuts shelled	27.0% or W 803/kg[a]
0810903000	Jujubes, fresh	611.5% or W 5,800/kg[a]
0813402000	Jujubes, dried	611.5% or W 5,800/kg[a]
0904201000	Fruit of the genus capsicum/pimenta, neither crushed not ground	270% or W 6,210/kg[a]
0904202000	Fruit of the genus cappsicum/pimenta, crushed or ground	270% or W 6,210/kg[a]
0910101000	Ginger: fresh or chilled	377.3% or W 931/kg[a]
0910102000	Ginger: dried	377.3% or W 931/kg[a]
0910103000	Ginger: other than fresh, chilled or dried	377.3% or W 931/kg[a]
1003009010	Unhulled barley	324% or W 326/kg[a]
1003009020	Naked barley	299.7% or W 361/kg[a]
1201001010	Soya beans for soya bean oil and oil cake	487% or W 956/kg[a]
1201001020	Soya beans for feeding	487% or W 956/kg[a]
1201009010	Soya beans for bean sprouts	487% or W 956/kg[a]
1201009090	Other soya beans	487% or W 956/kg[a]
1207400000	Sesamum seeds	630% or W 6,660/kg[a]
1207991000	Perilla seeds	40% or W 410/kg[a]
1515500000	Sesame oil and its fractions	630% or W 12,060/kg[a]

Table AIII.2 (cont'd)

HS Code	Description	Non-*ad valorem* rate
2306901000	Of sesamum seeds	63% or W 72/kg[a]
3706101000	Cinematographic film	6.5% or W 195/metre
3706102000	Cinematographic film	6.5% or W 4/metre
3706103010	Cinematographic film	6.5% or W 26/metre
3706103020	Cinematographic film	6.5% or W 468/metre
3706103030	Cinematographic film	6.5% or W 78/metre
3706104000	Cinematographic film	6.5% or W 26/metre
3706105010	Cinematographic film	6.5% or W 1,092/metre
3706105020	Cinematographic film	6.5% or W 182/metre
3706106010	Cinematographic film	6.5% or W 1,560/metre
3706106020	Cinematographic film	6.5% or W 260/metre
3706901000	Cinematographic film	6.5% or W 9/metre
3706902000	Cinematographic film	6.5% or W 5/metre
3706903010	Cinematographic film	6.5% or W 26/metre
3706903020	Cinematographic film	6.5% or W 468/metre
3706903030	Cinematographic film	6.5% or W 78/metre
3706904000	Cinematographic film	6.5% or W 26/metre
3706905010	Cinematographic film	6.5% or W 25/metre
3706905020	Cinematographic film	6.5% or W 8/metre
3706906010	Cinematographic film	6.5% or W 1,092/metre
3706906020	Cinematographic film	6.5% or W 182/metre
3822003058	Diagnostic or laboratory reagents	6.5% or W 182/metre
3822003059	Diagnostic or laboratory reagents	6.5% or W 4/metre
3822003060	Diagnostic or laboratory reagents	6.5% or W 26
3822003061	Diagnostic or laboratory reagents	6.5% or W 468/metre
3822003062	Diagnostic or laboratory reagents	6.5% or W 78/metre
3822003063	Diagnostic or laboratory reagents	6.5% or W 1,092/metre
3822003064	Diagnostic or laboratory reagents	6.5% or W 1,560/metre
3822003065	Diagnostic or laboratory reagents	6.5% or W 260/metre
3822003066	Diagnostic or laboratory reagents	6.5% or W 8/metre
3822003067	Diagnostic or laboratory reagents	6.5% or W 25/metre
5001000000	Silk-worm cocoons suitable for reeling	51% or W 5,276/kg[a]
5002001020	Raw silk (not thrown)	51.7% or W 17,215/kg[a]
5002001030	Raw silk (not thrown)	51.7% or W 17,215/kg[a]
5002001040	Raw silk (not thrown)	51.7% or W 17,215/kg[a]
5002001050	Raw silk (not thrown)	51.7% or W 17,215/kg[a]
8523292231	Recorded video tape	13% or W 20/min

a Whichever is the greater.

Source: Data provided by the Korean authorities.

Table AIII.3
MFN applied tariff escalation, 2004 and 2008

ISIC	Product and processing	Tariff 2004				Tariff 2008			
		Number of lines	Average	Range	S.D.[a]	Number of lines	Average	Range	S.D.[a]
	Total	11,261	12.8	0-887.4	52.0	11,729	12.8	0-887.4	52.1
	-1st stage of processing	1,403	34.4	0-887.4	114.9	1,460	34.4	0-887.4	114.7
	-semi-processed	3,488	9.2	0-800.3	41.5	3,654	8.8	0-800.3	40.6
	-fully processed	6,370	10.1	0-800.3	28.7	6,615	10.2	0-800.3	30.0
1	Agriculture								
	-raw materials	706	48.1	0-800.3	132.1	743	48.1	0-800.3	132.2
2	Mining and quarrying								
	-raw materials	199	2.7	1-8	1.5	199	2.4	0-8	1.6
311	Food products								
	-1st stage of processing	202	55.6	2-887.4	163.0	223	51.7	0-887.4	155.4
	-semi-processed	111	101.9	3-800.3	203.7	110	102.4	3-800.3	204.6
	-fully processed	586	27.9	0-630	44.6	607	28.0	0-630	44.0
312	Food manufacturing								
	-1st stage of processing	34	36.2	0-513.6	93.0	38	32.8	0-513.6	88.4
	-semi-processed	13	26.1	8-243	65.2	13	26.1	8-243	65.2
	-fully processed	97	73.0	0-800.3	178.2	106	85.0	0-800.3	182.8
313	Beverages								
	-fully processed	54	30.6	5-270	58.8	54	30.6	5-270	58.8
314	Tobacco manufactures								
	-fully processed	14	39.5	32.8-40	1.9	14	39.5	32.8-40	1.9
321	Textiles								
	-1st stage of processing	64	5.4	0-51.7	12.2	53	5.5	0-51.7	13.5
	-semi-processed	673	9.1	8-13	1.4	660	9.0	2-13	1.7
	-fully processed	357	11.2	0-13	2.6	339	11.1	0-13	2.6
322	Clothing								
	-fully processed	257	12.7	8-16	1.9	253	12.7	8-16	1.8
323	Leather products								
	-1st stage of processing	1	3.0	3	0.0	1	3.0	3	0.0
	-semi-processed	51	5.1	5-8	0.4	51	5.1	5-8	0.4
	-fully processed	72	8.1	8-16	0.9	71	8.1	8-16	0.9
324	Footwear								
	-fully processed	32	11.9	8-13	2.1	31	11.9	8-13	2.1
331	Wood products								
	-1st stage of processing	4	3.5	2-8	3.0	5	2.8	0-8	3.0
	-semi-processed	116	6.1	5-8	1.4	175	5.9	3-8	1.9
	-fully processed	53	8.0	8-8	0.0	65	8.0	8-8	0.0
332	Furniture except metal								
	-fully processed	44	2.2	0-8	3.6	47	2.0	0-8	3.5
341	Paper products								
	-1st stage of processing	25	0.1	0-2	0.4	28	0.0	0-0	0.0
	-semi-processed	129	0.9	0-8	2.5	142	1.3	0-8	2.9
	-fully processed	46	0.2	0-8	1.2	46	0.2	0-8	1.2
342	Printing								
	-fully processed	42	1.1	0-8	2.8	42	0.6	0-4.7	1.4
351	Industrial chemicals								
	-1st stage of processing	86	7.0	1-8	1.5	89	6.9	1-8	1.8
	-semi-processed	1,527	5.9	0-50	2.2	1,549	5.8	0-54	2.8
	-fully processed	32	6.6	5-8	1.0	37	6.1	2-8	1.7
352	Other chemicals								
	-1st stage of processing	6	8.0	8-8	0.0	6	8.0	8-8	0.0
	-semi-processed	177	10.9	5-754.3	56.2	183	10.6	2-754.3	55.3
	-fully processed	648	7.1	0-201.2	13.6	651	7.0	0-201.2	13.5

Table AIII.3 (cont'd)

ISIC	Product and processing	Tariff 2004				Tariff 2008			
		Number of lines	Average	Range	S.D.[a]	Number of lines	Average	Range	S.D.[a]
353	Petroleum refineries								
	-1st stage of processing	3	5.0	5-5	0.0	3	4.3	3-5	1.2
	-semi-processed	6	5.5	5-6.5	0.8	6	5.5	5-6.5	0.8
	-fully processed	87	6.2	1-8	1.6	87	6.2	0-8	1.8
354	Petroleum and coal products								
	-1st stage of processing	12	3.7	1-5	2.0	12	3.0	1-5	1.7
	-semi-processed	12	4.2	0-5	1.9	12	4.2	0-5	1.9
	-fully processed	8	6.9	6.5-8	0.7	8	6.9	6.5-8	0.7
355	Rubber products								
	-1st stage of processing	2	5.5	3-8	3.5	2	5.5	3-8	3.5
	-semi-processed	34	8.0	8-8	0.0	34	8.0	8-8	0.0
	-fully processed	97	8.1	0-13	1.9	95	8.0	0-13	1.8
356	Plastic products								
	-semi-processed	4	6.5	6.5-6.5	0.0	4	6.5	6.5-6.5	0.0
	-fully processed	36	8.0	6.5-8	0.3	37	8.0	6.5-8	0.2
361	Pottery and china								
	-fully processed	38	8.0	8-8	0.0	42	7.8	0-8	1.2
362	Glass and products								
	-semi-processed	61	7.9	3-8	0.7	72	7.2	3-8	1.7
	-fully processed	64	7.8	0-8	1.2	66	7.7	0-8	1.3
369	Non-metallic mineral products								
	-1st stage of processing	7	5.0	5-5	0.0	7	5.0	5-5	0.0
	-semi-processed	18	5.6	3-8	1.4	19	5.5	3-8	1.4
	-fully processed	126	8.0	3-8	0.4	143	8.0	3-8	0.4
371	Iron and steel products								
	-1st stage of processing	6	2.0	2-2	0.0	6	2.0	2-2	0.0
	-semi-processed	268	0.6	0-8	1.7	347	0.3	0-8	1.3
372	Non-ferrous metal								
	-1st stage of processing	9	2.0	2-2	0.0	9	2.0	2-2	0.0
	-semi-processed	275	5.4	0-8	2.5	266	4.9	0-8	2.7
381	Metal products								
	-semi-processed	5	8.0	8-8	0.0	4	8.0	8-8	0.0
	-fully processed	381	7.0	0-8	2.6	391	7.1	0-8	2.5
382	Non-electrical machinery								
	-fully processed	1,152	5.9	0-13	3.5	1,286	5.7	0-13	3.5
383	Electrical machinery								
	-fully processed	735	5.7	0-13	3.6	799	5.4	0-13	3.7
384	Transport equipment								
	-fully processed	387	6.1	0-10	3.2	371	6.1	0-10	3.3
385	Professional and scientific equipment								
	-fully processed	538	5.8	0-8	3.5	538	6.0	0-8	3.4
390	Other manufactured products								
	-1st stage of processing	37	6.0	3-25.6	4.9	36	6.1	3-25.6	5.0
	-semi-processed	8	0.0	0-0	0.0	7	0.0	0-0	0.0
	-fully processed	386	6.8	0-13	3.2	388	6.7	0-13	3.2
410	Electrical energy								
	-fully processed	1	5.0	5	0.0	1	5.0	5	0.0

a Standard deviation.

Note: The 2004 tariff is based on HS02 nomenclature and the 2008 tariff on HS07. Calculations exclude in-quota rates and include the *ad valorem* part of alternate rates.

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

Table AIII.4
Adjustment tariff, 2007

HS	Description	General (%)	2007 (%)
0301.92	Eels (excluding glass eel (for aquaculture))	10	30% or W 1,908/kg whichever is greater
0301.99	Sea-bream (excluding fry (for aquaculture))	10	40% or W 2,781/kg whichever is greater
0301.99	Sea bass (excluding fry (for aquaculture))	10	38
0301.99	Croakers (excluding redlip croaker and yellow croaker)	10	36
0303.79	Alaska pollack	10	30
0303.79	Saury (excluding horn fish)	10	34
0303.79	Croakers (excluding redlip croaker and yellow croaker)	10	57
0306.23	Shrimps and prawns, salted or in brine	20	50% or W 363/kg whichever is greater
0307.49	Squid (frozen, excluding fish meat)	10	22
0709.59 0712.39	Oak mushrooms	30	45% or W 1,625/kg whichever is greater
1902.19	Chinese vermicelli	8	45% or W 355/kg whichever is greater
1904.90	Rice, steamed or boiled	8	50
2103.20 2103.90	Sauces, preparations therefore and mixed seasonings of the following: 1. Capsicum paste 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	16% or W 64/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	11
8479.89	Surface mount machines for electronic parts of gantry type, having equal capacity to or less than the maximum placement speed of 55,000 cph, excluding machines whose placement accuracy is higher than +/- 5 micrometers (3 sigma) or machines whose placement capacity is equal to or less than a ball pitch of 50 micrometers.	8	16

Source: The Korean authorities.

Table AIII.5
Tariff quotas on agricultural products, 2007

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 2000 g: fowls of the species Gallus domesticus turkeys: pure-bred breeding animals	0	9	461,000 birds
0105949000	Live poultry: weighing more than 2000 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
0404101010	Whey: powder	20	49.5	54,233 tonnes
0404101090	Whey: other	20	49.5	54,233 tonnes
0404102110	Modified whey: lactose removed	20	49.5	54,233 tonnes
0404102120	Modified whey: demineralized	20	49.5	54,233 tonnes
0404102130	Modified whey: whey protein concentrates	20	49.5	54,233 tonnes
0404102190	Modified whey: other	20	49.5	54,233 tonnes
0404102900	Other modified whey	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 W 1,885 per kg[b]	420 tonnes
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

Table AIII.5 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of quota rate (%)	Quota levels[a]
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 W 180 per kg[b]	20,645 tonnes
0703201000	Garlic: peeled	50	360% or W 1,800 per kg[b]	14,467 tonnes
0703209000	Garlic: other than peeled	50	360% or W 1,800 per kg[b]	14,467 tonnes
0709601000	Sweet peppers (bell type)	50	270% or W 6,210 per kg[b]	7,185 tonnes
0709609000	Other pepper	50	270% or W 6,210 per kg[b]	7,185 tonnes
0711901000	Garlic - provisional preserved	50	360% or W 1,800 per kg[b]	14,467 tonnes
0711905091	Fruits of the genus capsicum or other genus pimenta - provisionally preserved	50	270% or W 6,210 per kg[b]	7,185 tonnes
0712200000	Onions - dried	50	135% or W 180 per kg[b]	20,645 tonnes
0712901000	Garlic	50	360% or W 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 W 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 W 1,470 per kg[b]	2,170 tonnes
0802402000	Chestnuts - shelled	50	219.4% or W 1,470 per kg[b]	2,170 tonnes
0802901010	Pine-nuts in shell	30	566.8% or W 2,664 per kg[b]	52.9 tonnes
0802901020	Pine-nuts shelled	30	566.8% or W 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 W 5,800 per kg[b]	259.5 tonnes
0813402000	Jujubes	50	611.5% or W 5,800 per kg[b]	259.5 tonnes
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 W 6,210 per kg[b]	7,185 tonnes
0904202000	Fruits of the genus capsicum or other genus pimenta - crushed or ground	50	270% or W 6,210 per kg[b]	7,185 tonnes
0910100000	Ginger	20	377.3% or W 931 per kg[b]	1,860 tonnes

Table AIII.5 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of quota rate (%)	Quota levels[a]
1002001000	Rye for seed	3	108.7	1,327.3 tonnes
1003001000	Malting barley	30	513	30 tonnes
1003009010	Unhulled barley	20	324% or W 326 per kg[b]	23,582 tonnes
1003009020	Naked barley	20	299.7% or W 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	60 tonnes
1105200000	Flakes, granules and pellets of powder	5.4	304	60 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
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
1201001000	Soya beans: for soya bean oil and oil cake	5	487% or W 956 per kg[b]	846,365 tonnes
1201009010	Soya beans: for bean sprouts	5	487% or W 956 per kg[b]	185,787 tonnes
1201009090	Soya beans: of other	5	487% or W 956 per kg[b]	185,787 tonnes
1202100000	Ground nuts in shell	40	230.5	4,907.3 tonnes

Table AIII.5 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of quota rate (%)	Quota levels[a]
1202200000	Ground nuts, shelled	24	230.5	4,907.3 tonnes
1207400000	Sesamum seeds	40	630% or W 6,660 per kg[b]	6,731 tonnes
1211201100	Ginseng root	20	222.8	56.8 tonnes
1211201210	Ginseng root	20	222.8	56.8 tonnes
1211201220	Ginseng root	20	222.8	56.8 tonnes
1211201240	Ginseng root	20	222.8	56.8 tonnes
1211201310	Ginseng root	20	754.3	56.8 tonnes
1211201320	Ginseng root	20	754.3	56.8 tonnes
1211201330	Ginseng root	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 W 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	3	63% or W 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	685.7	45,692 tonnes
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 W 5,276 per kg[b]	1,143 tonnes

Table AIII.5 (cont'd)

HS Code	Description	In-quota rate (%)	Out-of quota rate (%)	Quota levels[a]
5002001020	Raw silk more than 20 decitex	8	51% or W 17,215 per kg[b]	2,254 tonnes
5002001030	Raw silk more than 20 decitex	8	51% or W 17,215 per kg[b]	2,254 tonnes
5002001040	Raw silk more than 20 decitex	8	51% or W 17,215 per kg[b]	2,254 tonnes
5002001050	Raw silk more than 20 decitex	8	51% or W 17,215 per kg[b]	2,254 tonnes

a Quota levels correspond to the total volume/quantity available to items under the same HS six-digit group, e.g. the quota for live bovine animals is 1,067 head rather than 1,067 per each HS ten-digit item. These product groups are found at WTO document G/AG/N/KOR/38, 1 March 2007.

b Whichever is the greater.

Note: Excludes tariff items relating to rice.

Source: The Korean authorities.

Table AIII.6
Fill ratios for main agricultural tariff rate quotas, 2006
(Per cent)

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Live bovine animals	0	Lack of demand due to BSE
Live swine for pure-bred breeding	100	..
Fowls for pure-bred breeding	100	..
Skim milk powder	72	Decrease in domestic demand and international price increase
Whole milk powder	17.3	Increase in stock
Evaporated milk	70	Reduced demand for imports and low domestic price
Whey	96	..
Butter	100	..
Bird's eggs	0	Lack of demand
Natural honey	97	..
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	95	..
Onions	100	..
Garlic	100	..
Red peppers	91	..
Beans (red and green)	100	..
Manioc	100	..
Manioc pellets	16	Increased imports of substitution items
Sweet potatoes	0	Lack of demand
Roots and tubers	91	..
Chestnuts	100	..
Pine nuts	0	Lack of demand and over-production
Oranges	100	..
Korean citrus	0	Over-production
Jujubes	100	..
Green tea	89	..
Ginger	100	..
Rye for seed	100	..
Ginseng	100	..
Malting barley	69	Lack of demand
Barley	23	Lack of demand and international price increase
Oats for seed	97	..
Corn	100	..
Grain sorghum for seed	70	Lack of demand
Foxtail millet for seed	0	Lack of demand
Buck wheat	99	..
Other processed cereals	100	..
Flour of potatoes	100	..
Malt	100	..
Wheat starch	100	..
Potato starch	100	..
Manioc starch	100	..
Sweet potato starch	100	..
Soybeans	100	..

Table AIII.6 (cont'd)

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Groundnuts	100	..
Maize for seed	83	..
Sesamum seeds	100	..
Forage products	100	..
Sesame oil	100	..
Lactose	100	..
Artificial honey	17	Lack of demand
Undenatured ethyl alcohol	99	..
Flour of meat	5	Lack of demand due to BSE
Oil-cake	0	Lack of demand
Other mixed feeds	98	..
Supplementary feeds	100	..
Silk-worm cocoons	0	Lack of demand
White silk	40	Lack of demand

.. Not available.

Source: The Korean authorities.

Table AIII.7
Autonomous tariff quotas, first half of 2007

HSK	Item	Description	General (%)	In-quota (%)	Quota (thousand metric tonnes)
0404.10	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	For feeding	20	4	49
0511.91	Products of fish or crustaceans, molluscs or other aquatic invertebrates; dead animals of Chapter 3	Brine shrimp eggs, for fry feed	8	4	Unlimited
0714.10	Manioc (cassava)	Dried chips, for alcoholic beverages	20	10	96
0714.10	Manioc (cassava)	Dried pellets, for feeding	7	1	450
0802.12	Almonds, shelled		8	5	5.3
1001.90	Wheat	For milling	1.8	1	2,400
1003.00	Malting barley		30	20	37
1003.00	Unhulled barley	For feeding	5	2	50
1005.90	Maize (corn)	For feeding	3	0	8,000
1005.90	Maize (corn)	For other process	3	2	2,150
1107.10	Malt, not roasted	For beer	30	10	146.5
1107.20	Malt, roasted	For beer	30	10	
1201.00	Soya beans, whether or not broken	For soya bean oil and oil cake	3	1	1,200
1214.90	Fodder roots and other forage vegetable	For feeding	20	2	
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	Of HS 2308.00.9000, for feeding or for mushroom cultivation	5	2	690 (for feeding 640 and for mushroom cultivation 50)
1701.91	Cane or beet sugar and chemically pure sucrose, in solid form	Excluding raw sugar not containing added flavouring or colouring matter	40	35	Unlimited
1701.99	Cane or beet sugar and chemically pure sucrose, in solid form	Excluding raw sugar not containing added flavouring or colouring matter	40	35	Unlimited
1702.11	Lactose, containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter		20	10	94
2304.00	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya bean oil	For feeding	1.8	1	1,700
2709.00	Petroleum oils and oils obtained from bituminous minerals, crude	Crude used for manufacturing naphtha	3	0	160 million bbl
2709.00	Petroleum oils and oils obtained from bituminous minerals, crude	Other than crude used for manufacturing naphtha	3	1	Unlimited
2711.11	Natural gas, liquefied		3	1	Unlimited
2711.21	Natural gas in gaseous state		3	1	Unlimited
2711.12	Propane and butanes		3	1.5	Unlimited
2711.13	Propane and butanes		3	1.5	Unlimited
2926.10	Acrylonitrile		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	Of a kind used in the food or drink industries, excluding preparations of a kind used for the manufacture of beverages	8	5	2.4
3901.10	Polymers of ethylene, in primary forms, having a specific gravity of less than 0.94		8	4	906
3901.20	Polymers of ethylene, in primary forms, having a specific gravity of 0.94 or more		8	4	836
3907.70	Poly(lactic acid)		8	4	18

Table AIII.7 (cont'd)

HSK	Item	Description	General (%)	In-quota (%)	Quota (thousand metric tonnes)
4104.11	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared	In the wet state (including wet-blue): full grains, unsplit; grain splits	5	3	Unlimited
4104.19	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared	In the wet state (including wet-blue): other	5	3	Unlimited
4104.41	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared	In the dry state (crust): full grains, unsplit; grain splits	5	3	Unlimited
4104.49	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared	In the dry state (crust): other	5	3	Unlimited
7112.30	Ash containing precious metal or precious metal compounds		2	1	Unlimited
7410.11	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, not backed: of refined copper	For use in manufacturing printed circuit board with the function of lead frame, the following provisions shall apply: 1. Copper foil, of a thickness not exceeding 0.15 mm. 2. Copper foil, clad or laminated with polyamides film or glass fibres, of a thickness (excluding any backing) not exceeding 0.15mm	8	4	30,000 km
7410.12	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, not backed: of copper alloys		8	4	
7410.21	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, backed : of refined copper		8	4	
7410.22	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, backed: of copper alloys		8	4	
8486.30	Machines and apparatus for the manufacture of flat panel displays	Dry etcher	8	2.5	Unlimited
8486.30	Machines and apparatus for the manufacture of flat panel displays	Sputter, machine for sputting metal on glass or synthetic quartz	8	2.5	Unlimited

Source: The Korean authorities.

Table AIII.8
Domestic agricultural support notified to the WTO, 2004
(W billion)

Commodity	Product-specific AMS		Total AMS	Below de minimis level of 10% (based on 2004 production)
	Market price support	Other		
Rice	1,370.84	0	1,370.84	No
Barley	39.57	0	39.57	No
Maize	1.3	0	1.3	Yes
Rapeseed	0.72	0	0.72	No
Soybean	46.71	0.58	47.29	No
Malting barley	0	0.5	0.5	Yes
Red pepper	0	4.5	4.5	Yes
Garlic	0	8.7	8.7	Yes
Sweet potatoes	0	0.03	0.03	Yes
Onions	0	6.5	6.5	Yes
Welsh onions	0	1.63	1.63	Yes
Carrots	0	5.28	5.28	Yes
Apple	0	6.03	6.03	Yes
Pear	0	6.8	6.8	Yes
Korean citrus	0	3.45	3.45	Yes
Sweet persimmons	0	1.39	1.39	Yes
Ginseng roots	0	1.4	1.4	Yes
Beef	0	13.67	13.67	Yes
Milk	0	30.52	30.52	Yes
Other cereal	0	0.23	0.23	Yes
Other vegetables	0	12.79	12.79	Yes
Other fruits	0	0.75	0.75	Yes
Medicinal crops	0	0.01	0.01	Yes
Forest products	0	0.79	0.79	Yes
Flowering plants	0	0.06	0.06	Yes
Total product specific	**1,459.14**	**105.61**	**1,564.75**	**Yes**
Non-product specific AMS				
Interest rate subsidy on loans to farming and livestock farming			58.85	
Subsidy for irrigation facilities			141.30	
Input subsidies			85.94	
Integrated agricultural policy loan system			18.93	
Loan interest subsidy for revitalizing marketing activity of cooperative			1.44	
Loan programme for agricultural marketing			130.71	
Total non-product specific AMS			**437.17**	
Total AMS			**2,001.92**	
Green Box measures				
Research			278.7	
Pest and disease control			119.3	
Training services			49.1	
Extension and advisory services			59.5	
Inspection services			116.0	
Marketing and promotion services			17.1	
Infrastructural services			2,144.2	
Public stockholding for food security purposes			162.0	
Domestic food aid			14.7	
Decoupled income support			989.6	
Payments for relief of natural disasters			201.1	

Table AIII.8 (cont'd)

Commodity	Product-specific AMS		Total AMS	Below de minimis level of 10% (based on 2004 production)
	Market price support	Other		
Structural adjustment assistance provided through resource retirement programmes			95.6	
Structural adjustment assistance provided through investment aids			501.0	
Environmental programmes			85.3	
Other			33.6	
Total green box assistance			**4,866.8**	
Special and differential treatment (S&D) – development programmes exempt from reduction commitments				
Investment subsidies generally available to agriculture			2.56	
Input subsidies to low income/resource-poor producers			51.58	
Total S&D assistance			**54.14**	
Total notified assistance			**6,922.86**	

Source: WTO document G/AG/N/KOR/37, 28 February 2007.