STATEMENT BY

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on the subject of

THE IMBALANCE IN U.S.-KOREA AUTOMOBILE TRADE

before the

SUBCOMMITTEE ON INTERSTATE COMMERCE, TRADE AND TOURISM

COMMITTEE ON COMMERCE, SCIENCE & TRANSPORTATION

UNITED STATES SENATE

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Mr. Chairman. My name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW represents one million active and retired members, many of whom work or receive retirement benefits from auto manufacturers and parts suppliers throughout the United States. We appreciate the opportunity to testify before this Subcommittee on the subject of the imbalance in U.S.-Korea automobile trade.

Korea is the fifth largest producer and fourth largest exporter of motor vehicles in the world. In 2007 Korea produced 4.1 million motor vehicles. The top three Korean producers were Hyundai, GM-Daewoo, and Kia. Korea exported 2.8 million motor vehicles to the rest of the world.

In 2007, imports of Korean automotive products into the U.S. were valued at $11.3 billion, while U.S. exports of similar products to Korea amounted to just $1.0 billion. The net result was a $10.3 billion U.S. automotive trade deficit with Korea.

Primarily due to the decline in the value of the U.S. dollar, our overall trade deficit with Korea decreased 18% (to $5.97 billion) though the first six months of 2008. However, over the same period, the U.S. deficit with Korea in automotive products **increased** 2.4% (to $5.86 billion). Thus, the deficit in automotive products now accounts for 98% of our overall trade deficit with Korea.

The statistics on auto exports and imports in 2007 vividly demonstrate how lopsided and unfair the auto trade situation is between the United States and Korea. In 2007 Korea exported 668,000 vehicles to the United States. But U.S. producers were only allowed to export 6,500 vehicles to Korea.

Historically, Korea has kept its market almost completely closed to U.S. built automotive products, as well as products from other nations. This has been accomplished through a combination of tariff and non-tariff barriers. Indeed, Korea's market has the lowest level of import penetration of any major automotive producing economy in the world. Imported cars made up just 4.3 percent of the overall Korean auto market in 2007. A total of only 27,985 cars were imported into Korea from all other countries.

At the same time, the U.S. market has been largely open to imports of Korean vehicles and auto parts. As a result, Korean imports have grown, and the U.S. auto trade deficit with Korea has risen dramatically.

In 1995 and 1998 the U.S. negotiated Memoranda of Understanding (MOUs) with Korea that were intended to eliminate Korea's barriers to competitive automotive imports. Despite these agreements, Korea continued to maintain a variety of non-tariff barriers that kept its market closed to U.S. built automotive products.

As a result, the U.S. automotive trade deficit with Korea soared from $1.3 billion in 1994 to $10.3 billion in 2007. The deficit grew particularly quickly after the 1998 MOU, during a period of regular consultations with the Korean government designed to make progress in opening the Korean market.

Over the past decade, U.S. exports of automotive products to Korea increased by just $330 million, while imports of Korean automotive products increased by $8.7 billion. As previously indicated, the U.S. deficit in automotive trade now accounts for 98% of the total bilateral trade deficit with Korea, compared with less than one-third in 1998.

Unfortunately, the auto provisions in the proposed U.S.-Korea Free Trade Agreement (KORUS FTA) negotiated by the Bush administration are deeply flawed, and would exacerbate the imbalance in auto trade between the U.S. and Korea. They would immediately eliminate the 2.5% U.S. tariff on the vast majority of auto and auto parts imports from Korea. In addition, they would phase out our 25% tariff on imports of pickup trucks. These provisions would trigger a surge in automotive imports from Korea, as it would be relatively easy for Korean manufacturers to ramp up production for export to the United States.

Although this trade deal would require Korea to drop its tariffs on U.S. automotive products, it would allow Korea to maintain a series of non-tariff barriers that have effectively kept its market closed to imports of U.S.-built vehicles and parts. The United States would not have any effective remedies to challenge a continuation of these Korean trade barriers. As a result, the KORUS FTA would inevitably lead to an increase in the enormous, unfair automotive trade imbalance between the U.S. and Korea. This would threaten the jobs of tens of thousands of American workers, exacerbating the already serious difficulties facing the U.S. auto industry and its workers and retirees. For these reasons, the UAW strongly opposes the KORUS FTA.

The UAW submits the KORUS FTA would move us in precisely the wrong direction. Instead of providing guarantees that Korea will have to dismantle its auto trade barriers and give U.S. auto and parts producers access to its market, the KORUS FTA would make our auto trade imbalance with Korea even worse. This is not just the UAW's perspective.

In September, 2007 the International Trade Commission (ITC) released a report on the impact of the KORUS FTA. Significantly, the ITC concluded that this trade deal would **increase** the annual U.S. auto trade deficit with Korea by $1-1.3 billion. It found that the KORUS FTA would trigger a surge in automotive imports from Korea, with little offsetting increase in U.S. auto exports.

For a number of reasons, the UAW believes the ITC report actually underestimates the negative economic impact of the KORUS FTA on the U.S.

automotive industry. First, the ITC's analysis did not adequately take into account the tremendous negative impact of the phase out of the 25% U.S. light truck tariff. The Bush administration has tried to minimize this impact by arguing that Korean companies will be increasing production of pickups at their facilities in the United States. But it is precisely the existence of the 25% U.S. pickup truck tariff that has provided the incentive for Korean producers to locate production in the U.S. and employ American workers. After the announcement that the KORUS FTA would phase out this tariff, the Korean companies have already indicated that they are examining plans to export pickup trucks to the U.S. to take advantage of this tariff phase out. This past May, Hyundai announced that it was canceling plans to build a pickup for both the Hyundai and Kia brands at its West Point, Georgia plant. In addition, other Asian companies are likely to use Korea as a platform to export pickups to the U.S. Because of these factors, in future years the U.S. auto trade deficit with Korea would balloon even further.

Second, the ITC report asserts that the surge in auto imports from Korea will be partially offset by the "diversion from other import sources." However, the report did not provide sufficient evidence to support this assertion. The UAW believes it is extremely unlikely that non-Korean producers - such as Toyota, Nissan and Honda - would passively accept such a large reduction in their exports to the U.S. Indeed, the history of NAFTA's implementation suggests otherwise. The drastic increase in automotive imports from Mexico after 1995 did not displace Japanese or European imports of similar products.

Third, the ITC report did not take into account the adverse impact of Korea's non-tariff barriers on auto trade with the United States. This is because the ITC's method of analysis, a computable general equilibrium (CGE) simulation model, is unable to quantify the impact of non-tariff barriers on automotive trade and investment flows. But, it is the Korean government's effective and continuous use of non-tariff barriers that has kept its market closed to U.S. built automotive products.

The conclusion by the ITC that the KORUS FTA would increase the U.S. auto trade deficit with Korea is buttressed by statements from the Korean government. Shortly after the proposed trade agreement was announced, the Korean government stated that it expected the trade deal to boost Korea's auto trade surplus by roughly $1 billion annually. It expected Korean exports of finished cars and auto parts to increase substantially, whereas there would only be a minimal rise in imports of U.S. built automotive products. In addition, the chief negotiator for Korea, Kim Jong Hoon, stated that Korean manufacturers would probably be shipping pickups to the United States in five years to take advantage of the phase out of the 25% tariff on imported light trucks. This would further exacerbate our auto trade deficit with Korea.

In response to these dismal analyses, the Bush administration has continued to extol the virtues of the auto provisions in the KORUS FTA. It has repeatedly claimed that this trade deal makes great strides in eliminating the non-tariff barriers that have historically kept the Korea market closed to U.S. built automotive products.

However, the truth is the KORUS FTA does <u>not</u> guarantee that Korea will have to eliminate all of its non-tariff barriers. Indeed, it still allows Korea to continue an array of taxes that discriminate against U.S. built vehicles with larger engine sizes. It also allows Korea to continue the practice of arbitrarily placing imported vehicles in "high-risk" insurance classifications. And it allows Korea to continue to use safety, emission and other technical standards as a tool to discriminate against imported automotive products, instead of having to accept U.S. or international standards. Most importantly, there is absolutely nothing in this trade deal to prevent Korea, as it has in the past, from developing new non-tariff barriers to keep its market closed to U.S. built automotive products.

The Bush administration also has touted the dispute resolution provisions in the KORUS FTA as containing "an innovative process for settling disputes on auto-related measures." For several reasons, however, these provisions cannot be expected to provide any effective relief. The Automotive Working Group, which would be established under the KORUS FTA, has no enforcement powers to address any non-tariff barriers.

Furthermore, it would be extremely difficult for the United States to prevail in any case under this new dispute resolution procedure. It would not be sufficient for the U.S. to show the existence of non-tariff barriers that are still keeping our automotive products out of the Korean market. Instead, we would have to prove "non-conformity" with Korea's obligations under the trade agreement, which is unlikely given its vague and weak provisions. The U.S. would also be required to demonstrate that our automotive producers have suffered "injury" as a result of Korea's non-tariff barriers. This would be a difficult hurdle to overcome because Korea can always allege that other factors are keeping down sales of U.S. built automotive products.

Most importantly, even if an arbitration panel were to rule in favor of the U.S. under this dispute resolution procedure, the only relief that is provided is that the U.S. would be allowed to reinstate (i.e., "snap back") our former 2.5% tariff on autos and auto parts. **However, this snap back provision does <u>not</u> apply to the 25% pickup truck tariff.** Thus, the remedy provided by the tariff "snap back" is largely toothless, since it does not apply to the most important U.S. tariff concession.

The UAW wishes to underscore that we are not opposed to any trade agreement with Korea. In March, 2007, a bipartisan group of Members of Congress sent a proposal to the Bush administration for addressing the automotive trade imbalance between the U.S. and Korea. This proposal provided incentives for Korea to open its market to U.S. built automotive products <u>before</u> it granted additional access to the U.S. market. This proposal also contained a mechanism for dismantling Korea's non-tariff barriers, and protections against a surge in imports from Korea. Significantly, it stipulated that the U.S. tariff on imported pickup trucks should be left for resolution through multilateral WTO negotiations, in order to address the likelihood that any tariff reduction for one country would lead to a shift in pickup production from Japan and Thailand.

The UAW publicly endorsed this bipartisan proposal. We believe it could serve as the basis for a fair trade agreement between the United States and Korea. Unfortunately, the Bush administration totally ignored this proposal, and instead negotiated a one-sided trade deal that would give Korea further access to our automotive market, without first receiving any guarantees that the U.S. will get greater access to the Korea market. This represents a huge step backwards, and will only serve to exacerbate our huge and growing auto trade deficit with Korea.

In conclusion, the UAW appreciates the opportunity to testify before this Subcommittee on the imbalance in U.S.-Korea automobile trade. For many years auto trade between the U.S. and Korea has been totally one-sided. Korea has used a variety of tariff and non-tariff barriers to keep its market closed to U.S. built automotive products, while steadily expanding automotive exports to the U.S. Unfortunately, the KORUS FTA would make this bad situation even worse. It would trigger a surge of Korea automotive imports into the U.S., without getting any guarantees that Korea will dismantle its non-tariff barriers and give U.S. auto and auto parts companies greater access to its market. For this reason, the UAW calls on Congress to reject the KORUS FTA until these auto provisions are renegotiated and replaced with measures that will require Korea to dismantle its non-tariff barriers to U.S. built automotive products, <u>before</u> it is granted any additional access to our market. Thank you.

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