



A FREE TRADE AGREEMENT WITH KOREA: AUTOMOTIVE OPPORTUNITIES

The automotive industry is Canada's largest manufacturing sector, with annual output totalling 2.6 million vehicles and direct employment of 168,732 workers in 2005. A free trade agreement (FTA) with Korea would provide an opportunity to address tariff and non-tariff barriers facing Canadian automotive exporters.

An important industry ...

- Between 1995 and 2005, employment in Canada's automotive sector increased by over 16%.
- Canada continues to be a major auto producing country, accounting for 16.7% of North American production of light-vehicles in 2005. Over the past decade, Canada's share of North American production has remained relatively constant.
- All vehicle assemblers, including those who have announced plant closures, continue to make substantial capital investments in Canadian automotive facilities. Such expenditures have averaged over \$3.4 billion per year over the past decade.

... that has benefited from free trade

- Currently 85% of Canadian-produced vehicles are exported, the vast majority to the United States with the benefit of tariff-free treatment under the NAFTA.
- Canada exported \$84.5 billion worth of automobiles and auto parts in 2006 - nearly one-fifth of Canada's total exports.

Benefits of a Canada-Korea FTA

- Compared to other OECD countries, Korea has the lowest level of foreign automotive import penetration.
- The removal of Korea's 8% tariff on vehicles and parts would provide preferential access for Canadian suppliers to Korea's market over their international competitors.
- FTA negotiations provide an opportunity to address non-tariff measures in Korea's automotive market that prevent Canadian companies from realizing their full export potential.
- Several Canadian parts manufacturers already have or are currently pursuing investments in Korea. The investment provisions of the agreement will provide greater certainty for these investors.
- Consumers may benefit from an FTA with Korea due to lower prices resulting from reduced barriers to trade.



Impact of a Canada-Korea FTA on the automotive sector

The elimination of Canada's 6.1% auto tariff on imports of Korean made vehicles is expected to have a very limited impact on Canadian production due to various factors. These include the following:

- The vast majority of Canadian-made vehicles are exported to the United States;
- The significant number of vehicles (30%) produced in Canada that have no comparable Korean competition;
- Three in four vehicles sold in Canada are imported. Korea supplies roughly 8% of the Canadian market; all other foreign manufacturers combined supply roughly 67%;
- New production facilities in North America for Hyundai, the largest Korea automaker, will also mitigate potential increases in imports from Korea.

The Government has released two studies which examine the potential impact of a Canada-Korea FTA on the automotive industry. This includes a study on the impact of changes in Canada's trade policy on the automotive sector, which the Government commissioned to an independent expert. Industry Canada has also prepared a study which examines the impact of the elimination of Canada's current automotive tariff under a Canada-Korea FTA. Both studies find that an FTA with Korea would have a very limited impact on the Canadian automotive sector. These studies are available on DFAIT website at: <http://www.international.gc.ca/tna-nac/RB/korea-en.asp#reports>.