Title: Impact assessment of a Free Trade Agreement between the European Union and South Korea	Impact Assessment (IA)
Lead department or agency: **BIS**	**IA No:** BIS0105
Other departments or agencies: **UKTI, DfID, FCO**	**Date:** 06/05/2010
	Stage: Final
	Source of intervention: EU
	Type of measure: Other
	Contact for enquiries: Ben Kerry 0207 215 2270

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

The European Union on behalf of its members has been negotiating a Free Trade Agreement in accordance with WTO law with South Korea. South Korea is a rapidly growing industrialised nation and an important EU trading partner. There are barriers to trade between the two regions in the form of tariffs and deeper behind the border barriers which distorts the market price resulting in lower competition and less choice for consumers. The FTA will help to reduce these barriers.

The agreement will also help to improve imperfect information by increasing transparency as the terms of trade will all be set out in one document making it easier for EU firms to find and understand.

What are the policy objectives and the intended effects?

The objective of the agreement is to liberalise the markets between the EU and Korea, breaking down the barriers which restrict free and efficient trade. This aims to increase the available export opportunities of EU business, create greater competition and thus lower prices, more innovation, investment in R&D and a greater variety of goods and services. The agreement also intends to lock in binding agreements on sustainable development, IPR, sanitary and photo-sanitary and human rights into WTO law.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

- Adopt the Free Trade Agreement. This is the governments prefered option and the one being taken forward.
- Don't agree the bilateral deal. As the FTA has extensive benefits to both UK industry and the consumer this is not discussed as a viable option

This measure is a regulation of the European Parliament and of the Council.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will/will not be reviewed 01/2010
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	No

SELECT SIGNATORY Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible SELECT SIGNATORY: Edward Davey..................... Date:27/05/2010 ....

URN 10/899 Ver. 1.0 04/10

Summary: Analysis and Evidence

Policy Option 1

Description:

Adopt the Free Trade Agreement. This is the governments prefered option and the one being taken forward.

Price Base Year 2008	PV Base Year **2010**	Time Period Years **10**	Net Benefit (Present Value (PV)) (£m)		
			Low: **Optional**	High: **Optional**	Best Estimate:

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	N/Q		N/Q	**N/Q**

Description and scale of key monetised costs by 'main affected groups'

There are no montised costs

Other key non-monetised costs by 'main affected groups'

Cost to the UK of lower tariff revenues from Korean imports. Costs relating to negative aspects of competition. Minimal costs to firms, enforcers, customs and government officials of reading and understanding the text

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	N/Q		£500m	**£3,300m**

Description and scale of key monetised benefits by 'main affected groups'

A welfare gain to the UK economy from tariff and non-tariff barriers liberalisation. Benefits to businesses in increase export opportunities and benefits to businesses and consumers through positive externalities from an increase in competition

Other key non-monetised benefits by 'main affected groups'

Productivity and efficiency gains as a result of the increased competition, lower prices and higher nominal wages overall.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5%

The benefits are a rough estimate of the total potential welfare effects of full liberalisation in the FTA. Full liberalisation is likely to accrue after 5 years so the benefits have been staggered at 20% each year up until year 5 then the full amount of benefit is discounted for a further 5 years. The benefits are based on a general equilibrium model by Copenhagan Economics. The assumptions and sensitivities with this model are outlined in the evidence base section.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: **minimal**	AB savings: **minimal**	Net: **minimal**	Policy cost savings: **0**	**No**

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			United Kingdom		
From what date will the policy be implemented?			10/2010		
Which organisation(s) will enforce the policy?			EU and Korea		
What is the annual change in enforcement cost (£m)?			N/Q		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A		**Non-traded:** N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** N/Q		**Benefits:** N/Q
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro** N/Q	**< 20** N/Q	**Small** N/Q	**Medium** N/Q	**Large** N/Q
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	21
Small firms Small Firms Impact Test guidance	Yes	22
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	Yes	23
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	Yes	23

[1] Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
	http://www.ialibrary.berr.gov.uk/ImpactAssessment/?IAID=a46ffef320894db39d3f4ebcdc8085f9
	http://trade.ec.europa.eu/doclib/docs/2007/march/tradoc_134017.pdf

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs	N/Q	--	--	--	--	--	--	--	--	--
Annual recurring cost	N/Q	--	--	--	--	--	--	--	--	--
Total annual costs	N/Q	--	--	--	--	--	--	--	--	--
Transition benefits	N/Q	--	--	--	--	--	--	--	--	--
Annual recurring benefits	£100m	£193m	£280m	£361m	£436m	£421m	£407m	£393m	£380m	£367m
Total annual benefits	£100m	£193m	£280m	£361m	£436m	£421m	£407m	£393m	£380m	£367m

* For non-monetised benefits please see summary pages and main evidence base section

Microsoft Office
Excel Worksheet

Evidence Base (for summary sheets)

Following impact assessment guidance, this assessment considers the economic impact of the proposed package of measures on all sectors of the UK economy - including business, consumers and taxpayers

Strategic Overview

The UK Government is committed to implement a bilateral Free Trade Agreement (FTA) between the EU and South Korea (forthwith known as Korea) designed to open markets to business, services and investment according to World Trade Organisation (WTO) law.

Korea was identified as a priority FTA partner for the EU through the Global Europe trade policy strategy 2006. It was assessed that a comprehensive and ambitious FTA would be of considerable benefit to both parties. Negotiations were launched in May 2007 and after eight rounds of talks an agreement has been reached and has been initialled by both chief negotiators on 15 October 2009. The agreement is currently being translated into all community languages and it is hoped that the agreement can be formally ratified by the end of 2010.

Free Trade Agreements and the World Trade Organisation

The WTO was formed in 1995 and is based upon the General Agreement for Tariffs and Trade (GATT) which was initiated by 23 countries in 1947. As of January 2008, the WTO had 153 members. The WTO's main aim is to provide a system of rules and procedures to ensure the orderly and transparent conduct of international trade and trade policies. It also provides a forum for trade negotiations currently known as the Doha Development Agenda (DDA) which began in 2001.

A key principle of the WTO is non-discrimination which is encapsulated in Most-Favoured Nation treatment (MFN) which states that members should accord similar treatment for all other members. For example if the EU were to lower tariffs on goods coming from India then it would need to offer the same reduction to all other members.

Free Trade Agreements (FTAs) (also known as Regional Trade Agreements and Preferential Trade Agreements) are allowed as an exception to this provision, under Article VI of WTO law, if they cover 'significantly all trade' which in practice normally means around 90% or more of the value of trade between countries. FTAs can be bilateral or between a large number of countries, usually regionally. Larger trading blocs include the European Union (EU), the North American Free Trade Area (NAFTA) and the Association of South East Asian Nations (ASEAN).

FTA's can complement the WTOs multilateral trade agreements. FTAs between a small number of countries are generally considered to be easier to negotiate than multilateral agreements between 150 countries. Consequently they may achieve results quicker and could potentially achieve deeper integration between the economies concerned.

The Issue

We engage in trade because it is mutually beneficial. Trade can lead to numerous benefits such as an increase in the variety and quality of goods and services, lower prices through increased competition and efficiency, higher productivity and higher real wages for the countries engaged.

Below is outlined how important Korea and the UK/EU are to each other as trading partners; however as it stands there are many barriers to free and efficient trade.

Barriers to trade can occur through a number of channels and is often referred to as trade protection or protectionism. Trade protection occurs when governments attempt to guard their domestic firms from the increased competition that comes with trade or foreign investment. The most common forms of protection include tariffs, subsidies and quantitative restrictions, but can include more obscure forms such as unnecessary burdensome and complex regulation or customs procedures and health, safety or environmental requirements.

On the whole although trade protection may provide some nations/sectors with short term gains it is considered harmful and a negative externality in the sense the actions of one trading partner, to protect their industry, may have adverse effect on others.

There are several channels in which trade can affect growth. An open trade policy contributes to greater competition which has numerous spillovers including an increase in innovation, lower prices, giving the effect of higher real wages. There may be first order effects in industries with lower prices of lower real wages however overall productivity and efficiency gains are expected to yield higher nominal wages which in turn contributes to higher living standards. It also creates larger markets, providing opportunities for firms to benefit from economies of scale and encouraging innovation.

Trade also encourages countries to specialise in the areas they are most efficient and have a 'comparative advantage' (see analysis section for more info on comparative advantage), and therefore deploy their resources in the most productive manner.

Numerous studies have investigated the effects of trade liberalisation on growth. An OECD[2] study found that a 10% increase in trade openness could lead to a 4% increase in per capita income. Similarly in Europe it has been estimated that a 5% reduction in the barriers to trade is associated with a 2% productivity increase[3].

Economic Background

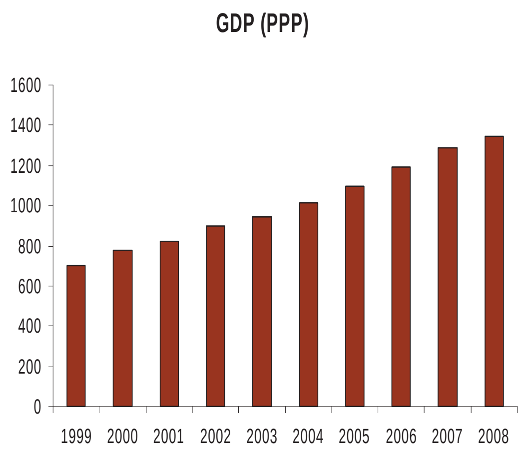
Korea has grown substantially in the last 40 years transforming itself in the process from a very poor agricultural economy into a rich industrial one. Korea is one of the original Four Asian Tigers, as the newly industrialised nations of Asia who experienced very high growth rates in 1980s and 1990s were known.

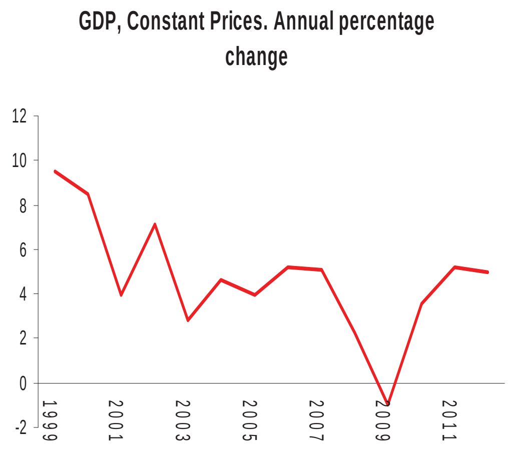
Even now that it is an advanced economy, Korea has continued to grow rapidly. Korea's average growth rate (5.2%) has been higher than that of Chile (4.4%), Mexico (2.7%) or South Africa (3.8%) over the period 2000-05[4] and apart from the inevitable 2008/9 slump, growth of over 5% is expected to resume in 2011[5].

In 2004 Korea joined the trillion dollar club of world economies according to gross domestic product based on purchasing-power-parity (PPP) which puts it 14th in the world and its GDP per capita (PPP) at $28,000 is up there with countries such as Italy and Spain[6].

Korea is a dynamic growth economy with a large workforce and a skilled pool of labour, comparable to that of some EU economies.

Korean GDP (PPP) and average annual growth





(Source IMF World Economic Outlook)

[2] Bassanini, A. and S. Scarpetta (2001), "The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries", OECD Economic Studies, No. 33, OECD, Paris.
[3] http://www.cepr.org/Pubs/new-dps/dplist.asp?dpno=5730
[4] http://trade.ec.europa.eu/doclib/docs/2007/december/tradoc_136964.pdf
[5] Source: IMF – World Economic Outlook.
[6] Source: IMF – World Economic Outlook

EU – Korea Bilateral Trade

In 2004 Korea signed its first bilateral agreement with Chile. Since then Korea has concluded FTAs with EFTA (Iceland, Lichtenstein, Norway and Switzerland), Singapore and nine of the ten member states in ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines and Vietnam, Thailand has not signed). Korea is also negotiating or considering FTAs with the US, Canada, India, Mexico and Japan.

The EU and Korea are important trading partners. Korea was designated a priority FTA partner in the Global Europe trade policy strategy of 2006 and negotiations started in May 2007. After eight rounds of talks, the negotiations have been completed and the agreement has been initialed on 15 October 2009.

Korea is the EU's eighth largest trade partner and the EU has become Korea's second largest export destination. EU trade with Korea exceeded €65 billion in 2008 and has been growing at an annual average rate of 7.5% between 2004 and 2008.

EU goods exports to Korea totalled €25.6 billion in 2008 making it the EU's 12th largest trading partner with 2% of its total. EU goods imports from Korea totalled €39.4 billion in 2008 making it the EU's 8th largest import source with 2.5% of the total.

EU services exports to Korea is €7.2 billion (2007) and imports of services as €3.9 billion.

Value of EU trade with Korea €[7]

	Goods	Services
Exports	**25.6 bn**	**7.2 bn**
Imports	**39.4 bn**	**3.9 bn**
Total	**65 bn**	**11.1 bn**

The EU has been the single largest foreign investor in South Korea since 1962, and accounted for almost 45% of all FDI inflows into Korea in 2006. EU investment flows into Korea in 2007 was €1.7 billion and at the end of that year EU outward investment stock in Korea totalled €30.8 billion.

Korea is an important and strategic trading partner with the EU. It is based in a competitive region of Asia with close ties to other strategic partners who have expressed an interest of closer trade ties with the EU (e.g. Singapore and Japan). Korea is also signing bilateral agreements with a number of EU competitors and we need to be careful that EU businesses are not left behind in receiving preferential access to this market.

UK trade with Korea

Commercial relations between Korea and the UK are strong and growing. The UK is the 2nd most important import source to Korea in the EU and 8th in the world with the value of total trade reaching £7.2 Billion. The UK is the 25th largest destination of Korean exports in the world and 2nd in the EU. Germany is the most important partner at 25.5% of total trade (imports + exports), followed by the UK at 10.9%, and then followed by Italy, France and the Netherlands at 8.7%, 8.5% and 8.3% respectively.

Korea investment flows into the UK were €0.7 billion or 1.7% and their outward investment stock[8] was €7.9 billion in 2007. South Korea accounted for 0.4% of UK outward FDI.

[7] http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/korea/

Value of UK trade with Korea £[9]

	Goods	Services	Total Goods and services
Exports	**2.4 bn**	**1.1 bn**	**3.5 bn**
Imports	**3.3 bn**	**0.4 bn**	**3.7 bn**
Total	**5.7 bn**	**1.5 bn**	**7.2 bn**

Korea and the EU both aim to achieve a 'deep' FTA which successfully eliminates not only tariffs but non-tariff barriers, as well securing investment and services liberalisation.

Scope of the FTA

The EU-Korea FTA is the most comprehensive free trade agreement ever negotiated by the EU.

- Import duties are eliminated on nearly all products and there is far-reaching liberalisation of trade in services covering all modes of supply.
- The FTA includes chapters on Trade in Goods; Trade Remedies; Technical Barriers to Trade; Sanitary and Phytosanitary Measures; Customs and Trade facilitation; Trade in Services; Establishment and E-Commerce; Payments and Capital Movements; Government Procurement; Intellectual Property; Competition; Transparency; Trade and Sustainable Development and Dispute Settlement.
- It includes provisions on investments both in services and industrial sectors, strong disciplines in important areas such as the protection of intellectual property (including geographical indications), public procurement, competition rules, transparency of regulation and sustainable development.
- Specific commitments to eliminate and to prevent non tariff obstacles to trade have been agreed on sectors such as automobiles, pharmaceuticals or electronics.

FTA Objectives

The Objectives of the agreement as set out in Chapter One of the text are to:

(a) to liberalise and facilitate trade in goods between the Parties, in conformity with Article XXIV of the *General Agreement on Tariffs and Trade 1994* (GATT);

(b) to liberalise trade in services and investment between the Parties, in conformity with Article V of the *General Agreement on Trade in Services* (GATS);

(c) to promote competition in their economies, particularly as it relates to economic relations between the Parties;

[8] Outward stock refers to the value of capital and reserves in another economy attributable to a parent enterprise resident in the home economy.
[9] BIS analysis from HMRC UK Trade Info

(d) to further liberalise, on a mutual basis, the government procurement markets of the Parties;

(e) to adequately and effectively protect intellectual property rights;

(f) to contribute, by removing barriers to trade and by developing an environment conducive to increased investment flows, to the harmonious development and expansion of world trade[10];

(g) to commit, in the recognition that sustainable development is an overarching objective, to the development of international trade in such a way as to contribute to the objective of sustainable development and strive to ensure that this objective is integrated and reflected at every level of the trade relationship; and

(h) to promote foreign direct investment without lowering or reducing environmental, labour or occupational health and safety standards in the application and enforcement of environmental and labour laws of the Parties.

Options

As noted above the EU-Korea FTA has been agreed and initialled by chief negotiators on both sides. It is now being translated into 22 languages before the proposals, drafted by the commission, and the final texts are sent to the council. This is expected to take until spring 2010.

Discussions in the relevant council bodies will then take place and a council decision on signature will be made. A representative from the EU and Korea need to sign the agreement before ratification by each individual member state. This will follow and will go according to each individual states ratification procedures.

If Parliament gives its consent and the Member States have ratified, the council will adopt the decision concluding the agreement and there will be full entry into force of the FTA.

There is therefore no scope to change the FTA and our options are:

Option 1: Support a full implementation of the EU-Korea FTA.

The agreement has been negotiated by the European commission and will become part of EU law. This is the governments preferred option

Option 2: Do Nothing (Do not implement the FTA and keep the status quo)

As the FTA has extensive benefits to both EU consumers and business this is not an attractive option.

[10] See Multilateralising Regionalism box

The Doha Development Agenda

In 2001 the World Trade Organisation launched an ambitious programme of multilateral liberalisation called the Doha Development Agenda (DDA). The UK is committed to full liberalisation at the multilateral level and wholly endorses the completion of the DDA. However, after eight years of negotiations concluding an agreement remains uncertain. This slow progress on the DDA gives further incentive for concluding FTAs in the interim. Many commentators also believe that FTAs provide 'deeper' integration than the DDA would and go further to liberalise trade.

Costs

Both the costs and the benefits are discussed in more detail in the analysis section. The headline impacts are outlined below.

One off/transition costs

There will be one off transitional or adjustment costs as a result of the influx of competition coming from Korea. These could include a loss of jobs or businesses, driven out by more efficient firms from Korea. Analysis done by Copenhagen Economics[11] for instance has the electrical machinery sector output in the UK dropping by roughly 9%. This is because Korea has strong Revealed Comparative advantages (see below) in this sector and will provide strong competition to UK firms.

The electrical machinery sector holds 3,290 enterprises with a gross value add (GVA) to the UK economy of £4,278m and employs 96,000. If GVA and employment were both to fall by 9% then this would have a cost to the UK in the region of £380m over 10 years and 8600 jobs. The full impact here however is likely to be significantly less as Korean groups such as LG and Samsung currently have a significant presence in the electrical appliance sector. The sector is highly competitive in which overseas suppliers are prominent; therefore the impact of further competition will more likely be felt by overseas companies than UK manufacturers. The impact from any potential loss of jobs to the UK economy is also ambiguous as individuals may be able to find other employment, possibly at a higher GVA to the economy.

A bigger potential impact will be on industrial machinery (automation equipment, power generation equipment and machine tools) where the UK has more strength. The Koreans are especially strong in these areas and punch way above their weight in the global markets. Cheaper imports into Europe are likely to provide a new level of competitive pressure. Much of the UK's manufacturing of machinery is exported, mainly around Europe, and is mainly in competition with German built machinery, which is the largest manufacturer of machines globally. Western European machines are considered high value (precision tolerances etc), but Korean machinery is broadly competitive with the majority of European machines, except for the very highest precision levels (where Korean produces still struggle to gain acceptance from customers in need of the highest possible quality - especially aerospace and nuclear). The higher quality machines are less price sensitive and therefore any impact will be capped to some point, but in an era of austerity, cheaper prices may swing the decision for a small, but significant percentage of European sales.

Automotive sector companies within the EU believe that they will also be adversely affected by the agreement as they are currently over capacity, struggling to deal with the recession and nervous about the withdrawal of generous scrappage schemes. In the UK the automotive

[11] Economic Impact of a Potential Free Trade Agreement (FTA) Between the European Union and South Korea. Copenhagen Economics, March 2007

sector has 3,400 enterprises, £52bn sales amounting to £11bn GVA and employs 180,000 people. UK is particularly strong in more upmarket products, whilst Korea has concentrated on budget models. Main Korean imports into Europe are the budget Chevrolet models sold by GM, and some Hyundai and Kia cars, though many Hyundai and Kia models are made either in EU or India, so not covered by this agreement. Auto parts are globally competitive, and there is unlikely to be anything that Korea would want to supply that cannot already be sourced from low cost locations such as China and India. Thus the most likely impact is on 'low cost' suppliers to UK rather than UK companies themselves.

There will be minimal costs to businesses who export/are thinking of exporting to Korea, enforcers, customs and government officials of reading and understanding the terms of the agreement.

Recurring/annual costs

There will be an initial cost of forgone revenue to the UK from lower tariffs on our imports from Korea. Looking at the top 20 imports from Korea which amount to around 70% of total imports amounts to around £61m. This adjustment cost will have been included in the general equilibrium modelling by Copenhagen Economics. This figure would have been included in the overall benefit analysis.

Benefits

The net benefits to the UK from the deal are discussed in more detail in the analysis section below. Copenhagen Economics assessed the economic impact from the FTA between the EU and Korea using a general equilibrium model. They were able to run a simulation for the UK economy which exactly matches the scenarios defined in earlier analysis of theirs of the ex-ante impact of a potential EU-Korea FTA on the entire EU economy. The summary of the results show that the FTA will result in a net annual welfare gain to the UK economy of **around £0.5 billion per year** which corresponds to a 0.05% increase per year in UK real income. This net gain is a result of an expansion of exports of services, efficiency gains from an effective re-allocation of production factors away from manufacturing of electrical machinery and lower prices from increased imports of manufacturing, particularly electrical machinery.

As liberalisation of more sensitive products will occur in stages, the full impact of the benefits will only be realised after year 5 at which point the large majority of tariffs and non-tariff barriers will be fully liberalised. The benefits have therefore been staggered by 20% each year for the first five years and then continue at the full rate for an additional five years. If discounted at the Greenbook recommended risk free rate of 3.5% this results in a Net Present Value of **£3.3 Billion** after ten years**.**

The table below shows a summary of what the costs and benefits will be each year discounted at 3.5% to reflect their value in the present day. The full benefits in the FTA are of full liberalisation and will only be realised after year five. The benefits have therefore been staggered in equal amounts up until year 5 to reflect the gradual liberalisation and the speed with which UK and Korean trade will change to reflect the FTA.

Year	0	1	2	3	4	5	6	7	8	9
Cost	N/Q	N/Q	N/Q	N/Q	N/Q	N/Q	N/Q	N/Q	N/Q	N/Q
Net Benefit	£100m	£193m	£280m	£361m	£436m	£421m	£407m	£393m	£380m	£367m

Analysis

This section of the Impact assessment considers the potential effects of liberalisation through the FTA.

Preferential trade liberalisation in the form of an FTA such as this will involve, what trade policy officials call, both shallow integration and deep integration. Shallow integration can be defined as the removal of border barriers to trade i.e. tariffs or quotas. The potential net benefits arising from shallow integration are inherently ambiguous and are a product of both trade creation (welfare enhancing) and trade diversion (welfare reducing). Trade creation is where, as a result of the removal of barriers, imports are now sourced from more efficient international producers rather than less efficient domestic producers. Trade is therefore 'created' and leads to welfare gains. On the other hand FTAs can lead to trade diversion, which results when the importer switches to goods from less efficient producers which are only cheaper as a result of the preferential access they will receive under the FTA. The net effect will depend on the relative size of these two effects.

In addition to this there may be welfare enhancing growth effects stimulated by productivity growth, increased competition, positive externalities between firms or across sectors and increased specialisation. Whilst shallow integration can generate some of these effects, they are typically more likely to arise through 'deeper' integration.

As opposed to shallow integration 'deep' integration involves the removal of behind the border barriers such as regulatory impediments or policy and institutions designed to facilitate trade which may or may not be intentional. These include issues such as custom procedures, regulation of domestic production which discriminates against foreigners, product standards which differ from international norms or where testing of products is complex and often exclusionary, regulation of inward investments, competition policy, intellectual property protection and rules surrounding access to government procurement.

Copenhagen Economics has estimated through general equilibrium modelling that the total annual net economic benefit to the UK is around £0.5 billion which corresponds to a 0.05% increase in UK real income. This is comparable to average EU gain of 0.05% increase in EU real income and amounts to 12% of total EU gain (€4.7 billion).

These results come from a full FTA scenario (including trade facilitation). This assumes a deep and broad free trade agreement, whereby all tariffs on agriculture and food products and on manufacturing are removed. Furthermore, the study also assumes that significant barriers to cross border service trade are removed through addressing the discriminatory aspects of the service sector regulation of the two economies.

This therefore accounts for both deep and shallow liberalisation effects. This scenario was designed prior to the completion of the actual negotiations and can be seen as providing an estimate of the potential effects rather than an estimate of the benefits of the actual agreement. However, as the agreement covers 97% of all trade in goods and has achieved the most ambitious level of services liberalisation ever in an EU FTA, the Copenhagen study therefore can be seen as a fairly accurate, if slight overestimate, of the likely outcome of the actual agreement.

UK Exports to Korea

The FTA will fully eliminate duties on almost 97% of trade in all goods over a 5-year time frame. This is the most ambitious level of duty elimination ever achieved by the EU on any bilateral FTA.

Non-agricultural tariffs in Korea will have shorter duty elimination (at years 0 or 4) for almost 92% of its industrial trade with the EU. The Korean average MFN tariffs are much higher than those of the EU: the average weighted tariff rate on non-agricultural imports from EU is 5.6% while imports from Korea only face 3.2% duty. EU exporters can therefore expect to achieve highly significant duty savings for their exports to Korea in a short period. Table one in the annex indicates the percentage of frontloading of duty elimination by Korea and compares Korea and EU MFN rates on a sectoral basis.

For agricultural tariffs overall duty paid would be reduced by 50% after 3 years (to a weighted average of 18%) and by 75% after 7 years (to a weighted average of 9%). A limited number of highly sensitive agricultural and fisheries products have transitional periods longer than 7 years. And rice and a few other agricultural products, for all of which the UK is not a significant exporter, are excluded from the agreement. As agriculture only accounts for 7% of the UK's exports of goods to Korea (of which 6% is Whisky where duty elimination will occur on year three), this slower liberalisation of agricultural trade will not significantly limit the UKs gains.

The gains for UK exporters from duty elimination are significant. If we take current (2008) trade volumes, each year, UK exporters of industrial goods to Korea would save in the region of **£75 million** from Korean duties currently paid on exports. This should, over time, allow UK exporters to substantially increase their share of the Korean market. This figure should be seen as a slight overestimate as although 97.3% of EU exports to Korea will have an immediate tariff reduction, the remaining 2.7% will be staggered between 3 to 10 years. See Table two in the Annex on the top 20 Korean imports from the UK, their export value and associated tariff. The figure for tariff saving on UK exports will be included in the £0.5 Billion figure from Copenhagen Economics.

Korean Exports to the UK

The majority of bilateral trade between Korea and the UK is machinery and transport equipment, around 80%, of which around 70% are intermediate goods. Table three in the annex shows the top 20 products the UK imports from Korea. The FTA is, for the most part, symmetrical meaning that the liberalisation of tariffs will be the same for both parties. The EU's trade weighted average tariff is 5.6% and 2.9% for machinery and transport equipment. The impact of a reduction of these tariffs to zero after a maximum of 5 years is ambiguous. If Korean producers keep the price of their goods constant then they will increase the profitability of their firms with out passing anything onto the UK consumer. This will raise the average wage in Korea, which will lead to higher Korean consumption which could increase the amount it imports from the UK. Alternatively Korean producers could lower the cost of their products, passing the benefit onto the EU consumer, to gain a larger share of the market. UK consumers will therefore benefit from lower prices and, as 70% of Korean exports to the UK are in intermediate goods, UK producers will also benefit from cheaper imports to be used as inputs for production. This effect will depend on competitive pressures in the market i.e. if there are a lot of firms in a market then a business will do anything it can in order to gain a larger share of the market and therefore reduce prices and costs to expend their output and increase sales.

As imports from Korea increase, this will also mean greater competition for UK business which should have overall benefits for efficiency and consumer gains but will involve some restructuring of the UK economy. This is discussed in more detail in the Specific Impact Tests.

Sector specific analysis

As described earlier the majority of UK-Korea goods trade is in intermediate goods (around 70%), with high levels of trade within particular industries (especially automotive and electronics). **Whisky** is the single largest product (7.4% of UK goods exports to Korea). Other important areas are **cars and car parts** (5.4%), **machinery** (17%), **pharmaceuticals** (7.6%) and **electronics** (12%)[12].

There are various trade indicators used to assess bilateral flows between countries which shed light on the type of trade which is happening between countries and approximate some of the shallow and deep integration implications of the proposed agreement. The most common indicator in the Revealed Comparative Advantage (RCA) measure:

$$RCA = \left(\frac{X_{i,j}}{\sum_i X_{i,j}} \right) \div \left(\frac{\sum_j X_{i,j}}{\sum_i \sum_j X_{i,j}} \right)$$

This is one way of looking at the relative competitiveness of goods and services in a given country. If the UK = i, the above equation shows how much the UK is exporting of a given good, j, relative to how much the world is exporting of that same good and then compares this to the UKs share of world exports of all goods. An RCA above 1 therefore shows that the UK exports relatively more of a good. Put simply more people are buying the UK's product than anyone else's on average.

If one wants to analyse trade flows on a regional basis, between two countries (i.e. Korea and the UK) the Regional or Bilateral RCA (RRCA) is calculated using the following equation:

$$RCA_{REG} = \left(\frac{X_{i,j}}{\sum_i X_{i,j}} \right) \div \left(\frac{\sum_j M_{i,j}}{\sum_i \sum_j M_{i,j}} \right)$$

This equation will tell us how much of a particular good the UK (i) is exporting to Korea (j) relative to how much of that good the rest of the world is exporting to Korea. An RRCA above one show's that Korea prefers the UK good compared to the rest of the world on average.

Tables four and five in the annex show the top 15 UK exports to both the world and Korea with both the UK world revealed comparative advantage and the UK regional comparative advantage with Korea. A rough comparison of these two tables should allow a rough analysis of what the UK should be exporting to Korea. From table four we can see that the main UK exports to the world are 'petroleum products', 'finished automobiles', 'parts of turbojets', 'diamonds and jewellery' and 'paintings'. With regards to automobiles, we see that, despite Korean tariffs of 8%, the UK seems to enjoy reasonable market access to Korea. The removal of these tariffs will increase the UK's presence in these markets even further and allow for greater profitability for these exporters. Overall the top 15 tables follow comparative advantage (with only natural gas having an RCA below one), some studies have been done on price differences with respect to world price and the UK seems to affirm itself as a low cost producer of high value added goods.

The ambitious nature of the agreement will allow numerous opportunities for trade creation on the Korean market as a result of important complimentaries (proxied by intra-industry trade) in some sectors such as car parts and turbojet parts.

A study by the Centre for the Analysis of Regional Integration at Sussex (CARIS) investigated the correlation coefficient between UK export shares to the world and UK export shares to

[12] Note: These categories are of different sizes, whisky is an individual product (HS 220830), cars and car parts are several small categories (HS 8708, 8408, 8409 and 8703) while machinery, pharmaceuticals and electronics are broad product categories (HS 84, 34 and 85).

Korea, designed to give us an idea of current market access restrictions. In the absence of trade restrictions, assuming similar demand structures between the UK and Korea and underlying comparative advantage we would expect UK exports to the world to be broadly similar to UK exports to Korea. The correlation coefficient stands at a relatively low 0.34% indicating that there are possible market access restrictions for UK goods in the Korean market.

The top 15 UK exports to Korea make up 44% of the total UK exports to Korea, (the top 15 UK exports to the world make up 29%). The most striking product there is Whisky which enjoys nearly 7% of the UK share of Korean imports even with a high Korean tariff at 20%. The UK whisky RRCA is 102.84 which means that relative to whisky imports elsewhere Koreans are overwhelmingly choosing to import UK products. Whisky enjoys significant market access in Korea even with significant barriers. If these relatively high tariffs were removed then this will boost UK exports. The automotive sector underperforms in the Korean market compared to the UK exports to the world. Road vehicles only appear in the bottom half of table five compared to the top of table four. This could be indicative of some form of restriction to entry of these goods in the Korean market however we will explore this in more detail later. Other considerable export products for the UK to Korea are primary materials such as ‘aluminium’, ‘steel’, ‘silicone’ and ‘platinum’. Overall table five shows some significant tariff barriers in the top 15 exports to Korea which indicates that the shallow liberalisation effects could be significant.

Motor Vehicles

Both parties agreed to a staggered elimination of tariffs on medium and large sized vehicles with engine’s exceeding 1,500cc in four years and small vehicles of less than 1,500cc in five years from the entry into force of the agreement.

Vehicles account for around 9.6% of total Korean exports of goods to the UK 2009 (£260m) and medium and large vehicles which are subject to tariff elimination in 4 years account for two thirds of Korea’s vehicle exports to the UK. The parties agreed to eliminate tariffs on key auto parts immediately.

The agreement also contains far reaching provisions to address non-tariff barriers in this sector, which have been perceived by EU industry as being the most significant barriers to export to Korea.

There will be recognition of international safety standards and United Nations Economic Commission for Europe (UN-ECE) standards will be considered as equivalent to Korean domestic standards. The parties will harmonize their safety regulations over a 5 year transition period.

Korea will give EU car makers flexibility to comply with the Korean emission standards, by providing for a year after the agreement comes into force for specific emission standards to cars with sales in Korea below a certain threshold. Any new standards will have to be based on UN-ECE standards.

A number of mechanisms have been foreseen to ensure that there will be no new artificial barriers erected in the future, including a commitment not to introduce measures that could negatively affect the benefits of the FTA.

Electronics

Electronics is an important sector in UK trade with Korea. Electronics make up 9.5% of UK exports to Korea and over 50% of UK imports. Within this sector Korea has large RCAs on many products compared to the UK which has relatively few. The Common External Tariff

(CET) is around 3% and the Korean tariff is 5.5% which shows that there are small tariff barriers to trade. The real barriers to trade are NTBs.

Currently exporters of consumer electronics and household appliances are obliged to duplicate cumbersome and expensive testing and certification procedures in order to sell in Korea. Electronics NTBs are comprehensively addressed in the agreement and real and tangible solutions are provided in an annex.

Firstly the role of international standardisation is highlighted and the relevant international standard setting bodies. Provisions of conformity assessment are now the responsibility of the supplier. This change should bring about a significant reduction in costs, complexities and bureaucratic hassle to both Korean and EU firms.

Pharmaceutical products and medical devices

This is a key sector for the UK with medicine accounting for 5% of our world exports and 3.5% of our exports to Korea. The Korean tariff on these products is 8% and the RRCA is lower (although still above one) than the RCA meaning that there may be other barriers to entry in the Korean market.

There is a concern over the lack of transparency over which prices are set in Korea. The FTA will address this by introducing detailed binding rules on reimbursement and stipulating the possibility to have such pricing decisions reviewed by a court. Pharmaceutical exporters and exporters of medical devices will benefit from strengthened transparency in pricing decisions.

Finally a working group is set up to install and structure regulatory cooperation.

Chemicals

Korea will adopt the EUs REACH system (Registration, Evaluation, Authorization and Restriction of Chemicals) of chemicals regulation. This imposes responsibility on chemicals manufacturers and importers to prove that there is no risk.

The FTA also lays the foundation for enhancing cooperation in the chemicals sector addressing trade issues.

The parties will cooperate in the area of Good Laboratory Practice in order to seek a more harmonized approach to chemical assessment and management.

Retail

The retail sector is highly competitive with sales of £286bn, employment of 2.9 million and a high proportion of overseas retailers active in the market. The annual global retail report by CB Richard Ellis (CBRE) recently confirmed the UK's position as an attractive market for overseas retailers. The report revealed that Britain is the most attractive market for international retailers because of the strength of London's shopping demand. The UK has attracted 58 per cent of international retail brands, more than any other location, and almost all of these are present in London. This comes in spite of a difficult year for retailers across the world, as well as the growing interest among retailers in exploiting the increasing wealth in emerging markets such as the Middle East and China. The second most popular country was the United Arab Emirates, where 54% of international retailers are present.

Telecoms

In the UK the sector is dominated by large inward investors, such as Motorola, RIM (Research in Motion), Samsung, Nokia, Alcatel Lucent, Sony Ericsson, HTC and LG. Research and

Development (R&D) (as well as sales/marketing) rather than manufacturing represents the significant activity of these inward investors, all attracted to the UK because of our open and competitive telecoms market and the leading edge role we have played in technology development with a well renowned university research base. The telecoms sector has sales of £29bn and employment of 215,000.

Trade in Services and Investment

Korea is now a services dependent economy in terms of output and employment. However 41% of all UK exports are services compared with 13% for Korea in 2009 which suggests that there is long term scope for increased trade in services.

In 2009 the UK is the 2nd largest exporter of services in the world behind the US at 7.2% of the world total and the 3rd largest importer behind US and Germany with 5.1% of world total. While Korea ranked 19th exporter at 1.7% and 13th importer at 2.4%. Although between 1990-2006 Koreas services exports grew faster than the UK. Financial and Other business services make up over 50% of UK exports.

CARIS[13] have done some research on UK bilateral services trade with Korea based on 2006 data. They concluded that the UK has a revealed comparative advantage in Financial, IT, communication, construction and other business services yet does not penetrate the Korean market as much as expected. This highlights significant barriers to trade in Korea and liberalisation is likely to lead to pro competitive gains for the UK. From a Korean market access perspective removing barriers to trade and investment in banking and finance, insurance, legal, accounting, telecoms and construction services in the UK is the priority.

The agreement will be by far the most ambitious services FTA ever concluded by the EU. The FTA will significantly improve on Korea's current WTO-GATS commitments and its offer in the ongoing DDA negotiations. The agreement additionally covers the liberalisation of investment, both in most of the services and most of the non-service sectors.

Each party will accord to services and service suppliers of the other party the MFN treatment that it accords to those of any third country in the FTAs signed after the entry into force of this agreement, meaning that if Korea ever negotiates a better deal with a third party this must also be offered to the EU. Important improvements include:

- On telecommunications, Korea would relax foreign ownership requirements, allowing after 2 years after the entry into force of the FTA 100% indirect ownership. In addition EU satellite broadcasters (telephone and TV) will be able to operate directly into Korea, thus avoiding having to liaise with a Korean operator.
- Korea will abolish existing subcontracting requirement for construction services.
- All financial firms will gain substantial market access in Korea and will in particular be able to freely transfer data from their branches and affiliates to their headquarters. Government-sponsored institutions that carry out public services such as providing assistance to ordinary citizens, farmers and SMEs will be exempted from the application of the agreement.
- European law firms will be allowed to open offices in Korea to advise foreign investors of Korean clients on non-Korean law. Law firms will also be able to form partnerships with Korean firms and recruit Korean lawyers to provide "multijurisdictional" services. Similar measure will be applied to accountants.

Government Procurement

[13] CARIS " The importance of services sector liberalisation for the UK in a potential EU-Korea free trade agreement" 2008

The agreement will offer the opportunity to expend procurement opportunities to public works concessions and "Built-Operate-Transfer" (BOT) contracts not yet covered by the Government Procurement Agreement (GPA) commitments.

Such contracts are of significant commercial interest to UK suppliers. Guaranteeing the practical and legal accessibility of such tenders to UK suppliers would thus secure substantial new tendering opportunities.

Intellectual Property

The protection and enforcement of IPR is crucial to UK and European competitiveness, it is therefore reassuring that the EU and Korea have been able to agree on an ambitious IP chapter.

This chapter in particular includes developed provisions, in particular on copyright designs and geographical indicators which compliment and update the TRIPS[14] agreement. The chapter also contains a section on enforcement of IPRs based on the EU's internal rules in the enforcement directive.

Geographical Indicators are to be protected for a number of products in agriculture, foodstuff, wines and spirits agreed between the parties only. EU wines, spirits, cheese or hams have a very good quality reputation in Korea and the FTA will offer a high level of protection for these commercially important European GI's. The FTA will also protect Korean GIs which will provide UK customers with clarity that they are buying an authentic Korean product.

Copyright provisions are in line with recent international developments, including a provision to facilitate rights holders to get adequate renumeration for the use of their music or other artistic works.

Designs have lately become an economically important IP right. The chapter therefore includes provisions, which fills the gap in TRIPS as regards designs including provisions on unregistered designs.

Trade and sustainable development

Both countries, in the agreement, have signed up to shared commitments in a framework for cooperation on trade and sustainable development. The agreement breaks new ground in this field and enables close dialogue and continued engagement between the EU and Korea in environmental and labour issues.

Both parties have shared commitments to ILO core labour standards and to the ILO decent work agenda in their declaration.

There is a commitment to implement all multilateral environment agreements to which they are party.

Both parties will set up a civil society advisory group as a strong monitoring mechanism, including a balanced representation of environment labour and business organisations. Cooperation activities and monitoring of the implementation of commitments will be undertaken in a high level Committee on Trade and Sustainable Development.

Rules of Origin

---

[14] The TRIPS Agreement (Trade Related Aspects of Intellectual Property), which came into effect on 1 January 1995, is to date the most comprehensive multilateral agreement on intellectual property.

Rules of origin (ROOs) play an important role in all preferential trade agreements. They define the 'economic nationality' of the product which is then used to determine the appropriate duty at customs.

In all FTAs or other international trade agreements, the EU ROOs comprise a protocol with some annexes. This contains definitions of 'originating products', on the territorial requirements, on 'Duty Drawback', on the 'proofs of origin' and on arrangements for administrative cooperation.

Negotiators have been in close cooperation with EU and Korean industry and have made rational changes to the rules resulting in a simplification of ROOs. This is good news for business and trade because complex ROOs are often a significant barrier to trade, especially for small business who don't have the capacity to interpret and comply. For more details about the change in ROOs please read annex ii of the agreement.

Enforcement

The agreement in many chapters' commit to setting up various committees to monitor and enforce the agreements and have good monitoring intensions and proposals.

The EU-Korea dispute mechanism and safeguard clause allows businesses and member states to raise concerns and disputes of the terms of the agreement and how they are being carried out to the commission (or the Korean parliament). Any action taken on these grounds is thus a matter for the appropriate body and will be assessed on a case by case basis.

Sensitivity Analysis

There are two key economic concepts which have been used in this IA to calculate the impact of the FTA; RCA's and general equilibrium modelling.

Although they are widely used techniques there are limitations to both for instance with GEM the results of the analysis very much depend on the data that has been used and the assumptions that have been made. With vast amounts of tricky data, although it would have been carefully screened and checked there will inevitably be an accumulation effect of slight anomalies for instance when calculating elasticities it is very hard to get an accurate number.

Further to this the impact is likely to be an underestimate as no dynamic effects would have been estimated in the model, such as an increase in productivity (inevitable on such a large scale as EU and Korea) which would increase GDP by a significant amount over the long term. Finally models are structured to return to an equilibrium position which may result in some counter-intuitive results.

Revealed comparative advantage is backward looking i.e. based on historical data so therefore does not reflect future trends. This isn't so much of a problem as changes are slow to occur. An RCA is relative to the rest of a countries exports therefore it is possible to get a positive RCA on a product which has a negative trade balance and it is harder to calculate an RCA for sectors with higher volumes of trade. These effects are less of an issue the more detailed your analysis gets and the data used for this IA is at 6 digit HS i.e. very detailed. Where there is little world trade it is easier to get an RCA.

Specific Impact Tests

Competition assessment

Competition is an integral part of the agreement .There is a chapter in the agreement dedicated to effective enforcement and transparency and there is a safeguard mechanism when there is sufficient harm or threat of harm to industry[15].

The nature of the agreement is likely to have consequences for competition for both parties. Liberalising trade will allow each side to access the other's market and thus increase the amount of firms operating in an industry.

The overall benefits of competition are straight forward. An increase of firms will drive down prices and thus increase real wages resulting in higher living standards. There are also numerous spillovers in the form of increased innovation, greater efficiency, production and more variety in goods and services.

In the competition chapter of the agreement the parties agreed to prohibit and sanction certain practices and transactions involving goods or services which distort competition or trade between them. This implies that anti-competitive practices such as, cartels or companies abusing their dominant market position and anti-competitive mergers will not be tolerated and subject to effective enforcement action.

In order to achieve this, parties agreed to maintain effective competition laws and appoint a competent competition authority responsible for addressing these practices.

Public enterprises are also subject to the competition laws of respective parties in so far as the application of these laws does not obstruct the performance of the particular tasks assigned to them. This all ensures that both parties have equal access to each other's markets.

There is a section on subsidies where Parties agreed to remedy or remove distortions of competition caused by subsidies in so far as they affect international trade.

This includes transparency provisions where Parties have to report annually the total amount, types and the sectoral distribution of subsidies. Moreover, parties are obliged to provide further information on subsidy schemes or individual subsidies on request.

As a result of the influx of competition there may be some adverse affects in some areas. For instance exclusive rights or licensing issues etc may restrict some suppliers from entering the market. The costs of entry into market for some may also have been raised.

Through a harmonization of standards and regulatory procedures firms from the EU and Korea are now competing on a more level playing field which may reduce the incentive of some firms to enter the market as they will be competing with a larger number of firms who are already established in a wider market.

Small Firms Impact Test

Under the agreement SMEs and micro businesses are not exempt from any of the chapters. As discussed in the competition assessment the impact will be both positive and negative but there is strongly expected to be a net benefit.

It is expected that a liberalisation of the markets will have the greatest benefit to small firms as they have less capacity to deal with different standards and regulatory procedures or other barriers into the Korean market.

The agreement will have particular benefits to those SMEs who export and those who use imports in their production. There will be greater competitive pressure on small firms as a result

[15] See IA on the EU-Korea Bilateral safeguard Clause

of reduced barriers to imports which will have both positive and negative effects as discussed earlier.

Gender Impact Test

The Human Development Index measures average achievement in a country. The Gender Development Index (GDI) captures the achievement inequalities between men and women. GDI as a proportion of HDI shows the gender disparity in basic human development. According to the UN Human Development Report[16] Korea's GDI as % of HDI is 98.8% and is 98th out of 155 countries. The UK has a GDI to HDI ratio of 99.5% and is 45th out of 155 countries.

The gender empowerment measure (GEM) reveals whether women take an active part in economic and political life. It tracks the share of seats in parliament held by women; of female legislators, senior officials and managers; and of female professional and technical workers- and the gender disparity in earned income, reflecting economic independence. Differing from the GDI, the GEM exposes inequality in opportunities in selected areas.

Korea ranks 61st out of 109 countries in the GEM, with a value of 0.554 and the UK 15th out of 109 countries, with a value of 0.790.

Although there are differences it is not clear in the agreement, as highlighted in the sustainable impact assessment[17], that there will be any significant implications for gender aspects of labour integration or economic activity. This should be monitored closely.

Sustainable Development Impact Test

For a more detailed analysis please see the commissions Sustainability Impact Assessment[18] (SIA) and the section in the agreement on sustainable development. The SIA noted that due a broad similarity in development levels and in the distribution of income between the two parties there is unlikely to be a significant impact.

Human Rights Impact Test

The agreement contains legally binding clauses on human rights issues and WMD which follows on from the Korea US agreement. These are very positive considering Korea's status as a democracy.

The Kaesong Industrial Complex (KIC) is an industrial park and duty-free trade facility established as a joint venture between the North and South Korean governments to allow South Korean companies to manufacture goods in the North. Human Rights Watch produced a report criticising workers' rights at the KIC in 2006 and the US President's special advisor on North Korean human rights has been highly critical of conditions at KIC.

Because of the political sensitivity, products originating in the KIC are not covered by the FTA. The Agreement envisages only the establishment of a working group on outward processing zones, which will decide by consensus in the future whether and which products from KIC should be added.

Race Impact Test

According to the OECD there are 12,300 Koreans taking residence in the UK in 2001. As the agreement is likely to result in an increase of Korean goods coming into the UK, due to market

---

[16] http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_KOR.html
[17] http://trade.ec.europa.eu/doclib/docs/2008/december/tradoc_141660.pdf
[18] http://trade.ec.europa.eu/doclib/docs/2008/december/tradoc_141660.pdf

liberalisation, this Korean Diaspora will benefit from association and the familiarity of these imports.

Other Impact Tests

After screening Legal Aid, disabilities, carbon assessment, other environment, health impact and rural proofing impact tests, there is no significant impact.

Annexes

Table One

Subsector	Accumulated liberalisation year 4	Korea average tariff rate	EU average tariff rate
Pharmaceuticals	100%	4.3%	0.2%
Med. Equipment	71%	5.7%	0.0%
Chemicals	88%	6.2%	4.8%
Rubber	75%	7.1%	2.6%
Wood	5%	5.5%	2.2%
Textiles	93%	9.9%	8.2%
Footwear	98%	11.4%	9.8%
Leather, Fur	100%	9.4%	3.6%
Ceramics	46%	7.9%	4.8%
Glass	87%	7.5%	5.1%
Iron and Steel	100%	7.0%	3.1%
Non Ferrous Metals	88%	5.8%	3.8%
Other Machinery	87%	7.3%	3.0%
Vehicles and Parts	97%	8.1%	6.6%
Other optical	97%	7.1%	2.8%
Misc. products	92%	5.7%	2.1%

Table Two:
Top 20 Korean imports from the UK excluding tariffs < 2% (2007)[19]

Product HS code and description	Av. Tariff	Import Value	% of imports
220830 Whisky's	20%	£133mn	7.4
300490 Medicines (therapeutic and preventative)	8%	£86mn	4.7
391000 Plastics in primary forms (silicones)	6.5%	£46mn	2.5
841490 Parts for vacuum pumps/compressors	8%	£33mn	1.8
300440 Medicines (containing alkaloids)	8%	£24mn	1.3
853710 Boards/panels to control electricity distribution	8%	£21mn	1.2
840999 Parts for car engines	7.57%	£20mn	1.1
848180 Taps, cocks, valves etc.	8%	£18mn	1.0
870324 Cars with engines exceeding 3000cc	8%	£18mn	1.0
903180 Measuring/checking instruments	7.33%	£17mn	0.9
870840 Gear boxes and other parts for cars	8%	£17mn	0.9
711021 Palladium, unwrought/in powder form	3%	£16mn	0.9
711031 Rhodium, unwrought/in powder form	3%	£16mn	0.9
903289 Automatic regulating/controlling instruments	6.5%	£16mn	0.9
847989 Other machines and mechanical appliances	8%	£15mn	0.8
711019 Platinum, in semi-manufactured forms	3%	£15mn	0.8
732690 Articles of iron/steel not specified elsewhere	8%	£14mn	0.8
382490 Chemical products	6.4%	£13mn	0.7
330499 Beauty/make-up and skin care products	8%	£13mn	0.7
870333 Cars with diesel engines exceeding 2500cc	8%	£12mn	0.7

[19] Figures from COMTRADE converted to £ using Bank of England exchange rate statistics

Table Three: Top 20 UK imports from Korea excluding tariffs <2%[20]

HS code and description	Av. Tariff	Import Value	% of imports
870332 Cars with engine between 1500 and 2500cc	10%	£205mn	6.0
901380 LCD devices not specified elsewhere	2.82%	£137mn	4.0
870322 Cars with engines between 1000 and 1500cc	10%	£135mn	2.5
870323 Cars with engines between 1500 and 3000cc	10%	£73mn	2.1
401110 Car tyres	4.5%	£43mn	1.3
851632 Electric hairdressing equipment(exc. dryers)	2.7%	£35mn	1.0
852580 Television and digital cameras	5%	£34mn	1.0
401120 Bus/lorry tyres	4.5%	£25mn	0.7
870333 Cars with engines exceeding 2500cc	10%	£24mn	0.7
870830 Vehicle brakes	4%	£22mn	0.6
870899 Car parts and accessories	3.6%	£22mn	0.6
550320 Polyester	4%	£17mn	0.5
845811 Lathes for removing metal	2.7%	£16mn	0.5
870321 Cars with engines not exceeding 1000cc	10%	£15mn	0.4
293359 Organic chemicals	4.73%	£14mn	0.4
870870 Car wheels	3.75%	£13mn	0.4
854420 Electrical wires/cables	3.7%	£12mn	0.4
842720 Fork lift trucks	4.5%	£11mn	0.3
600410 Fabrics	8%	£11mn	0.3
850423 Electrical transformers	3.75%	£10mn	0.3

Table Four: Top 15 UK Goods Exports to the World

Rank	HS Code/Product		Exports Share	UK RCA	UK RRCA	Korea Tariff
1	270900	Petroleum oils	7.01%	1.55	3.25	3%
2	300490	Medicaments	4.74%	2.50	1.84	8%
3	870323	Road Vehicles 1500-3000 cc	2.43%	1.41	0.45	8%
4	271011	Light petroleum oils & preparations	2.35%	1.61	0.00	5%
5	841191	Parts of turbo-jets	1.59%	5.56	1.61	3-8%
6	870324	Road Vehicles > 3000 cc	1.59%	1.55	0.93	8%
7	710231	Diamonds	1.48%	7.59	0.00	1%
8	220830	Whiskies	1.33%	20.10	102.84	20%
9	870332	Road Vehicles diesel engine of 1500-2500cc	1.21%	1.20	0.35	8%
10	841112	Turbo-jets	1.05%	7.66	16.1	3-8%
11	847330	Parts and accessories of data processing equipment	0.96%	1.22	0.22	0%
12	711319	Jewellery	0.91%	3.55	0.58	3%
13	970110	Paintings, drawings & pastels	0.78%	8.39	17.91	0%
14	271121	Natural gas	0.67%	0.53	0.00	3%
15	840734	Spark ignition piston engines	0.67%	3.08	0.01	8%

Table Five: Top 15 UK Goods Exports to Korea

[20] Figures from COMTRADE converted to £ using Bank of England exchange rate statistics

Rank	HS Code/Product	Exports Share	UK RCA	UK RRCA	Korea Tariff
1	270900 Petroleum oils	14.73%	1.55	3.25	3%
2	220830 Whiskies	6.78%	20.10	102.84	20%
3	720712 Semi-finished products of iron/non-alloy steel	4.59%	2.09	35.21	0%
4	300490 Medicaments	3.50%	2.50	1.84	8%
5	841112 Turbo-jets	2.20%	7.66	16.10	3-8%
6	841490 Parts of pumps, compressors & fans	1.92%	1.89	19.19	8%
7	293100 Organo-inorganic compounds	1.82%	1.57	31.01	2-6.5%
8	760200 Aluminium waste & scrap	1.77%	2.76	19.94	0%
9	391000 Silicones	1.77%	4.39	53.90	6.5%
10	970110 Paintings, drawings & pastels	1.66%	8.39	17.91	0%
11	721891 Stainless steel	1.10%	20.61	109.48	0%
12	711011 Platinum	1.08%	4.04	11.28	3%
13	870324 Road Vehicles of 1500-3000 cc	0.96%	1.55	0.93	8%
14	902190 Orthopaedic appliances	0.93%	2.32	13.16	0%
15	870333 Road Vehicles diesel engine of >2500 cc	0.92%	1.47	2.88	8%

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added to provide further information about non-monetary costs and benefits from Specific Impact Tests, if relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]
Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]
Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]
Reasons for not planning a PIR: There are various committee's set up by the agreement designed to continually monitor various aspects of the bilateral trade and investment relationship between the EU and Korea. BIS has committed to reviewing the outcomes of these committees and informing ministers and businesses of outcomes.

Add annexes here.