Congress of the United States
Washington, DC 20515

March 1, 2007

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We are writing in advance of the eighth round of U.S.-Korea Free Trade Agreement negotiations, to present the enclosed *Congressional Proposal to Open Korea's Automotive Market.* This proposal reflects a pragmatic, trade-expanding, WTO-consistent approach that provides concrete, achievable positive incentives for Korea to open its automotive market and ensure the elimination of current and future non-tariff barriers in all industries. This proposal represents what we believe the United States needs to negotiate to achieve a satisfactory resolution to Korea's closed automotive market. In addition, it is a proposal that should be welcomed by Korean consumers and by the Bush Administration because it will lead to a more competitive market in Korea with greater choice of products and more competitive prices.

We have developed this proposal out of our growing concern that these negotiations will fail to effectively tear down Korea's non-tariff barriers, prevent Korea from using future non-tariff barriers to maintain its closed market indefinitely, and ensure access for imports to Korea's automotive market. For decades, Korea has enjoyed open access to the U.S. auto market. At the same time, it has kept its own market virtually shut to foreign competition through the use of an import ban, followed by high tariffs, coupled with a complex and discriminatory tax regime, coupled with systemic, comprehensive and long-standing regulatory barriers, coupled with periodic anti-import campaigns by the Government of Korea.

The issue of our inability to break down long-standing and discriminatory barriers in a bicameral negotiation would seriously undermine our ability to address non-tariff barriers in the more comprehensive multilateral negotiations underway at the World Trade Organization. Given the importance of this issue, we have made consistent and repeated calls for the United States to undertake a new approach with Korea that addresses in a

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complete, comprehensive, and systemic way the long-standing policies by which Korea created and maintains a fundamentally closed automotive market. The U.S. automotive industry and union leadership also have called upon the Administration to take a new approach. To date, however, no new approach has been put forth that would lead to genuine market opening in Korea. Instead, we understand that the proposals which have been exchanged have been similar to the same ones that were tried repeatedly in the past and that have failed to achieve any meaningful access for U.S. products.

Our proposal moves beyond previous negotiating strategies and embarks on such a new approach that addresses the United States' legitimate concerns that Korea will not obtain additional access to the U.S. market unless there is reciprocal opening of the Korean auto market. There are two key components to the Congressional proposal. The first part addresses the phase-out of the 2.5% U.S. passenger vehicle tariff and creates a positive incentive for Korea to open its market to U.S. autos. The second part addresses Korea's current non-tariff barriers and creates a mechanism – available to all industries – for the United States to take action against future non-tariff barriers. A copy of the proposal is enclosed, as well as a briefing paper that summarizes its key elements.

The Korean automotive market presents a significant potential market for U.S. exports of cars and automotive products and would greatly benefit the U.S. automotive industry and the hundreds of thousands of workers it employs and supports. U.S. automotive manufacturers can compete effectively in an open and fair Korean auto market. We look forward to discussing how our proposal achieves a truly open market and more balanced automotive trade with Korea.

Sincerely,

The Honorable Charles B. Rangel
Chairman
Committee on Ways and Means

The Honorable Carl Levin
Co-Chair, Senate Auto Caucus

The Honorable Sander M. Levin
Chairman, Subcommittee on Trade
House Committee on Ways and Means

The Honorable George V. Voinovich
Co-Chair, Senate Auto Caucus

The Honorable John Dingell
Chairman, House Committee on
Energy and Commerce

The Honorable Evan Bayh
Chairman, Senate Banking
Subcommittee on International
Trade, Finance, and Security

The Honorable Dale E. Kildee
Co-Chair, House Auto Caucus

The Honorable Debbie Stabenow
Member, Senate Committee on
Finance

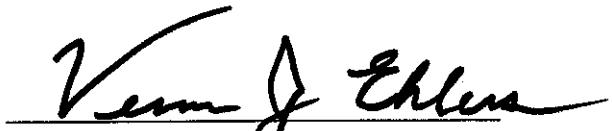
The Honorable Ron Kind
Member, House Committee on
Education and the Workforce

The Honorable Fred Upton
Co-Chair, House Auto Caucus

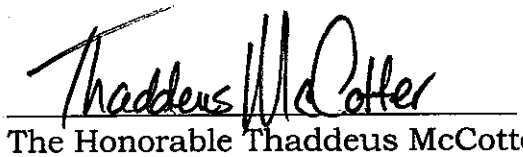
The Honorable Ellen O. Tauscher
Chair
New Democrat Coalition

The Honorable Joe Knollenberg
Member, House Committee
on Appropriations

The Honorable Candice S. Miller
Member, House Committee on
Armed Services



The Honorable Vernon J. Ehlers
Member, House Committee on
Transportation and Infrastructure



The Honorable Thaddeus McCotter
Member, House Committee on
Budget and Foreign Affairs

CONGRESSIONAL PROPOSAL TO OPEN KOREA'S AUTOMOTIVE MARKET

There are two key components to the Congressional proposal. The first part addresses the phase-out of the U.S. passenger vehicle tariff and creates a positive incentive for Korea to open its market to U.S. autos. The second part addresses Korea's current non-tariff barriers and creates a "self-help" mechanism – available to all industries – for the United States to take action against future non-tariff barriers. The key elements of this proposal are described further below:

Part I – U.S. Tariff Reduction Tied to Opening Korea's Auto Market

- **Tariff Reduction** – Korea's 8% auto tariff will go to zero immediately. The U.S. 2.5% passenger vehicle tariff will go to zero at the conclusion of the longest phase-out period provided for in the agreement, or 15 years, whichever is longer. The U.S. 25% pick-up truck tariff will continue to be negotiated with Korea, Japan and other countries at the World Trade Organization.

- **Positive Incentive to Open Korea's Auto Market** – As a positive incentive for Korea to open its auto market to U.S. autos during the tariff phase-out period, Korea will get a benefit in the form of duty free entry for a specified number of autos every year that U.S. auto sales in the Korean market increase from a designated baseline. The benefit will be measured on a car-for-car basis, and apply in the next calendar year. The baseline, and any subsequent increase, will be determined by an FTA Committee comprised of the respective U.S. and Korean commerce ministries. The positive incentive is structured so that the more open Korea allows its market to become, the greater will be Korea's benefits.

    - *Example – The agreement comes into force on January 1, 2008, and the baseline is established at 3,000 (a hypothetical figure representing the number of U.S. autos sold in Korea in 2007). If 4,000 U.S. cars are sold in Korea in 2008, then Korea may receive duty free entry to the U.S. for 1,000 cars in 2009.*

- **Auto Safeguard with Incentive to Increase U.S. Market Share in Korea** – An automotive safeguard will come into effect immediately upon the full phase-out of the U.S. auto tariff. The safeguard will apply automatically in the event that the United States determines that imports of Korean autos are increasing significantly. The penalty will be a predetermined "snap-back" of the 2.5% auto tariff. The penalty will remain in place until the United States determines that imports are no longer increasing significantly. As an incentive for Korea to increase access to its auto market and promote full competition in that market to benefit Korean consumers, the safeguard will be suspended for each year that the market share of U.S. auto sales in Korea equals or exceeds Korea's auto market share in the U.S.

Part II – Non-Tariff Barriers. This provision will apply to all sectors, not just automotive.

- **Elimination of Current Barriers** – Korea agrees to eliminate current specified measures prior to the agreement coming into effect. The proposal will contain a list of specific current barriers identified by the automotive industry, as well as other industries.

- **Addresses Future Barriers Through Dispute Settlement by Providing Self-Help for U.S. and Creating A "Reverse Burden of Proof" for Korea** – The proposal enables the U.S. to take immediate, unilateral compensatory action to counter any future barrier (or any current barrier not specifically identified in the agreement) based on a standard of "reasonable evidence" relative to the existence of a Korean measure that discriminates against imports. The compensatory action (such as a tariff snap-back or tariff increase on other products) would remain in effect until Korea established conclusively that the measure does not exist, or does not operate to afford protection to a domestic industry in Korea.