

United States Senate

WASHINGTON, DC 20510

February 2, 2006

Ambassador Rob Portman
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Portman:

As co-chairmen of the Senate Auto Caucus, we raise a note of caution about the United States Trade Representative's announcement that the U.S. will begin to negotiate a United States-Republic of Korea (Korea) Free Trade Agreement (KFTA). We remain troubled by the pervasive automotive trade imbalance between the U.S. and Korea. Korea has taken full advantage of free trade by becoming one of the world's major auto exporting countries, exporting a full 70 percent of the vehicles it produced in 2005. While Korea relies on exports to support its domestic auto makers, Korea remains the most closed auto market in the developed world.

The U.S. and Korea have had a troubled trade relationship in autos for a long time. Until 1990, Korea did not allow imported autos into its market. Beginning in the early 1990s the U.S. notified Korea that its automotive trade barriers were unacceptable and attempted to address these issues. Despite two separate automotive trade agreements between the U.S. and Korea, which were negotiated in 1995 and 1998 and were intended to open Korea's auto market, sales of imported vehicles in Korea from every country in the world totaled approximately 31,000 autos in 2005, or 2.72 percent of Korea's total domestic auto market. Approximately 4,000 of these autos were from the U.S., about the same number sold by U.S. manufacturers into Korea in 1996.

While Korea has remained closed to U.S. automakers, Korea's auto sales into the U.S. have increased exponentially over the years. Korean auto sales into the U.S. increased from approximately 132,000 sold in 1996 to approximately 731,000 sold in 2005. Korean passenger cars now make up almost 6 percent of the U.S. market for passenger cars. In the meantime, U.S. automakers continue to face significant barriers to entry in their attempts to sell into Korea's auto market. Even Japan, with its notoriously protected automotive market, imports a greater percentage of vehicles, with 5 percent of its total vehicle market comprised of foreign-made vehicles.

Prior negotiations have failed to remove Korea's auto trade barriers. The U.S. must ensure that a KFTA addresses all existing tariff and non-tariff auto barriers. The U.S. must also ensure that future non-tariff barriers are not introduced to restrict access to the Korean auto market. A KFTA that fails to address all of Korea's auto trade barriers will constitute a significantly flawed agreement.

Based on Korea's track record, we are concerned that if not done right, a KFTA will significantly benefit Korean automakers without giving U.S. automakers any meaningful access to Korea's historically closed market. The U.S. auto industry is facing dire circumstances that put the jobs of millions of hard-working Americans at risk. It is imperative that a KFTA not aggravate the already difficult position of an important U.S. industry. We are confident that U.S. auto manufacturers can compete effectively in an open and fair Korean auto market, and we look forward to working with you during this process.

Sincerely,



George V. Voinovich
Co-Chairman
Senate Auto Caucus



Carl Levin
Co-Chairman
Senate Auto Caucus