

# United States Senate

WASHINGTON, DC 20510

June 16, 2006

Ambassador Susan C. Schwab  
United States Trade Representative  
600 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20508

Dear Ambassador Schwab:

We are writing to you to raise issues relating to the recent announcement that the United States is starting negotiations with the Republic of Korea (Korea) regarding a Free Trade Agreement (KFTA). As you know, there is a long-standing and pervasive auto and auto parts trade imbalance between the United States and Korea. Korea has taken full advantage of open access to the U.S. auto and auto parts market, which has led it to become one of the world's major auto exporting countries. In fact, Korea exported a full 70 percent of the vehicles it produced in 2005. Nevertheless, while Korea relies on exports to support its domestic auto and auto parts industry, Korea remains the most closed auto market in the developed world.

The United States and Korea have had a troubled trade relationship in autos for a long time. Until 1987, Korea did not allow imported autos into its market. Once Korea "opened" its auto market, U.S. auto makers attempted to gain access; however, U.S. auto producers were met with a host of trade barriers. For example, we understand that Korea used tax audits and similar governmental actions to penalize individuals who purchased imported automobiles.

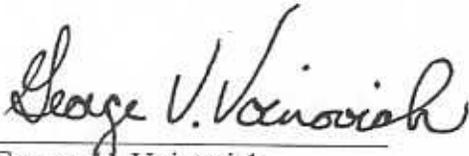
Beginning in the early 1990s, the United States notified Korea that its automotive market trade barriers were unacceptable and attempted to address these issues. Despite two separate agreements intended to open Korea's closed auto market, sales of imported vehicles into Korea remain less than three percent of Korea's total domestic auto market. Since this time, Korea also began to run a significant trade surplus in auto parts.

Korean auto sales into the United States increased from approximately 132,000 vehicles sold in 1996 to approximately 731,000 vehicles sold in 2005. In stark contrast, in 2005, U.S. auto makers sold roughly 4,000 vehicles from the United States into Korea, roughly the same number as 1996. In 2005, the United States shipped only \$562 million worth of auto parts to Korea, slightly less than we shipped in 1999. This compares to Korea's auto parts exports to the United States of \$2.7 billion in 2005, up from \$919 million in 1999. That is, during this period, the U.S. auto parts trade deficit with Korea climbed from \$322 million in 1999 to \$2.1 billion. Korean passenger cars now make up almost six percent of the U.S. market for cars. In the meantime, U.S. automakers continue to face significant barriers to entry in their attempts to sell into Korea's auto market and have a fraction of a percent of the Korean market for cars.

The United States must ensure that a KFTA addresses all existing and future tariff and non-tariff barriers to the Korean auto and auto parts market. A KFTA that fails to address current and potential non-tariff barriers will constitute a significantly flawed agreement. Based on Korea's track record, we are concerned that there is a great risk that a KFTA will significantly benefit Korean auto and auto parts makers without giving U.S. auto and auto parts manufacturers any meaningful access to Korea's historically closed market. U.S. trade history supports this concern.

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 tenuous position of an important U.S. industry. We are confident that U.S. auto and auto parts manufacturers can compete effectively in an open and fair Korean auto market, and we look forward to working with you to ensure they gain meaningful and sustained auto market access during this negotiating process.

Sincerely,

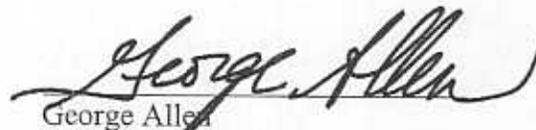
  
George V. Voinovich

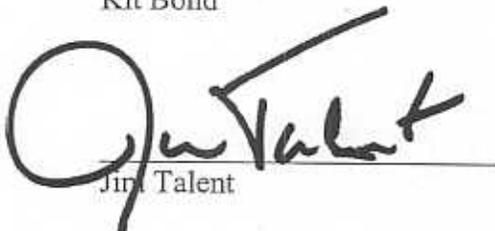
  
Carl Levin

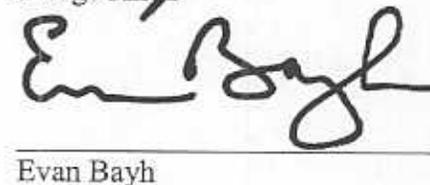
  
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