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Delegations will find attached the partially declassified version of the above-mentioned document.

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COMMISSION OF THE EUROPEAN COMMUNITIES

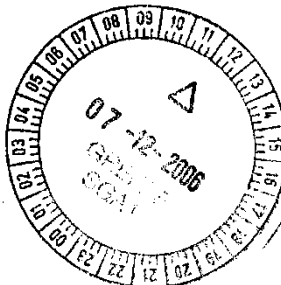
Brussels, 6.12.2006
SEC(2006) 1561 final

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RECOMMENDATION FROM THE COMMISSION TO THE COUNCIL

authorising the Commission to negotiate a free trade agreement with the Republic of Korea on behalf of the European Community and its Member States

{SEC(2006) 1562}
{SEC(2006) 1563}



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EXPLANATORY MEMORANDUM

1. BACKGROUND

1.1. EU policy on Free Trade Agreements

The Commission's Communication "Global Europe: competing in the world"¹ reviewed the contribution of EU trade policy to the European growth and jobs strategy. It confirmed the EU's commitment to the World Trade Organisation (WTO) as the single most effective means of expanding and managing trade for the benefit of all. It stressed that the Doha Development Agenda (DDA) remains the EU's first priority and that we will work hard to resume negotiations. The Communication also argued that the EU should build on the platform created by the WTO to generate new opportunities for growth by opening markets further to trade and investment. The Communication set out a series of linked trade policy initiatives complementing efforts to resume negotiations in the WTO. As part of these initiatives, it proposed to negotiate carefully chosen comprehensive Free Trade Agreements (FTA).

FTAs, if approached with care, can go further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion. The Communication stressed that we should continue to factor in other issues and the wider role of trade policy in EU external relations into bilateral trade developments. But in order for trade policy to help create jobs and drive growth, economic factors must play a primary role in the choice of future FTAs. The key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers), while taking account of our potential partners' negotiations with EU competitors.

In terms of content, new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. Future FTAs would also need new ways of addressing non-tariff barriers and incorporating provisions on trade-related aspects of sustainable development.

The Communication stresses the need to ensure that we share similar ambitions with our prospective partners at the outset in order to avoid negotiations later stalling due to a mismatch of expectations.

On 13 November 2006, the Council of the European Union concluded that it supports the early launch of negotiations with countries of ASEAN², India, and the Republic of Korea (hereafter "South Korea"), and invited the Commission to submit proposals for the negotiating directives without delay.

1.2. EU-South Korea Relations

Over the past decade, South Korea has steadily established itself as a valuable partner for the EU, both economically and politically. On the back of its rapid, export-led economic growth

¹ "Global Europe: competing in the world" - COM(2006) 567, 4.10.2006.
² The Association of South East Asian Nations.

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in recent decades, the country has been transformed from one of the world's poorest developing countries, devastated by the 1950-3 Korean war, to being one of the world's foremost trading powers and largest national economies (GDP larger than Brazil or India). In political terms, with the consolidation of civilian government and multi-party democracy since the first half of the 1990s, South Korea shares important core values with the EU. Moreover, the continued division of the Korean Peninsula and proliferation concerns surrounding the North's nuclear and missile programmes mean that South Korea finds itself in the middle of one of the world's tensest geopolitical stand-offs, in which not only South Korea itself but also key strategic partners of the EU - the US, China and Japan - all have vital security interests at stake.

Although it is already the EU fourth largest trading partner outside Europe, there is still a large potential to be exploited to facilitate and expand bilateral trade. It is one of the countries where the gap between the actual position of EU producers and their usual position in comparable countries is the most important. Indeed, it accounts for only 2.4% of EU exports, while it accounts for 3.3% of the external demand.

Current EU-South Korea trade relations are governed by Framework Agreement on Trade and Co-operation signed in October 1996 and entered into force on 1 April 2001 (hereafter "Framework Agreement"). Being non-preferential in nature, the Framework agreement in itself offers modest scope for applying pressure or offering positive incentives to address market access barriers and specific trade irritants. There has therefore been limited progress in dealing with a wide range of long-standing issues, many of which are regulatory in nature. Negotiation of an FTA with South Korea would provide considerable scope for making progress in resolving many such issues.

South Korea fully meets the criteria for negotiating an FTA set out in the "Global Europe: Competing in the World" communication. It is one of the few countries combining a sizeable market, high economic growth and substantial tariff and non-tariff barriers to trade against EU interests. It is also rapidly opening its markets to EU competitors, which puts EU positions at risk. As demonstrated by its negotiations with third countries and by the exploratory talks held with the EU, South Korea aims at deep and wide FTAs and shares EU level of ambition as regards potential negotiations. A comprehensive FTA with South Korea would secure our positions and bring significant market opportunities for the EU.

2. NATURE AND SCOPE OF THE AGREEMENT

A comprehensive FTA with South Korea should aim to improve market access for goods and services, covering substantially all trade. It should provide for enhanced provisions on trade in goods and services, including binding provisions on regulatory transparency in areas relevant for mutual trade and investment, standards and conformity assessment, sanitary and phytosanitary rules, intellectual property rights including enforcement, trade facilitation and customs, public procurement, and trade and competition including state aid. It should also provide for co-operation on trade and sustainable development, including both its environmental and social dimensions. In going above and beyond the existing commitments in the WTO, the FTA should be fully WTO-compliant, in particular, with Article XXIV of the General Agreement on Tariffs and Trade (GATT) and Article V of the General Agreement on Trade in Services (GATS). The comprehensive FTA will complement the Framework Agreement to which it would be legally and institutionally linked.

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This approach is in line with the "Global Europe" strategy, which underlines that new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation, including far-reaching liberalisation of services and investment.

3. PREPARATION OF THE DRAFT NEGOTIATING DIRECTIVES

Consultations with Member States, EU institutions, civil society (including European business) have taken place for the preparation of the draft negotiating directives, as well as for the accompanying impact assessment for an FTA with South Korea. These consultations were undertaken in the context of the future orientations for EU trade policy, the related adaptation of its FTAs strategy and the specific prospects for an FTA with South Korea.

The Commission has drafted an impact assessment which analyses the possible impact of an FTA with South Korea. A more detailed Sustainability Impact Assessment (SIA) examining the Agreement's potential economic, social and environmental effects will be conducted in parallel with the negotiations.

4. PROCEDURES

The objective is to complete these negotiations no later than two years after their effective start. In line with normal practice, the Commission will report regularly to Member States in the appropriate committees of the Council on progress in the negotiations.

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RECOMMENDATION

In light of the above, the Commission recommends that:

- the Council authorises the Commission to negotiate a Free Trade Agreement with South Korea;
- the Council appoints a special Committee (133) to assist it in this task;
- the Council issues the attached negotiating directives.

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ANNEX

**DIRECTIVES FOR THE NEGOTIATION OF A FREE TRADE AGREEMENT
BETWEEN THE EUROPEAN COMMUNITY AND ITS MEMBER STATES AND
THE REPUBLIC OF KOREA**

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