KOREA

TRADE SUMMARY

The U.S. goods trade deficit with Korea was $10.0 billion in 2010, down $588 million from 2009. U.S. goods exports in 2010 were $38.8 billion, up 35.8 percent from the previous year. Corresponding U.S. imports from Korea were $48.9 billion, up 24.6 percent. Korea is currently the 7th largest export market for U.S. goods.

U.S. exports of private commercial services (i.e., excluding military and government) to Korea were $12.6 billion in 2009 (latest data available), and U.S. imports were $6.4 billion. Sales of services in Korea by majority U.S.-owned affiliates were $11.0 billion in 2008 (latest data available), while sales of services in the United States by majority Korea-owned firms were $5.7 billion.

The stock of U.S. foreign direct investment (FDI) in Korea was $27.0 billion in 2009 (latest data available), up from $22.4 billion in 2008. U.S. FDI in Korea is led by the manufacturing, finance/ insurance, and wholesale trade sectors.

UNITED STATES-KOREA TRADE AGREEMENT (KORUS)

On December 3, 2010, the United States and the Republic of Korea reached agreement on a landmark trade deal that resolved outstanding issues related to the KORUS. After approval and implementation of this trade agreement, Korea will provide preferential access for U.S. businesses, farmers, ranchers, services providers, and workers to what is currently our seventh largest export market. The KORUS will also help solidify the two countries' long-standing alliance and underscore the U.S. commitment to, and engagement in, the Asia-Pacific region. The new agreements comprising the December 3, 2010 deal (which were signed on February 10, 2011) will level the playing field and enhance market access for U.S. automobile companies and workers by addressing, among other issues, current market access barriers created by Korea's system of automotive safety standards and potential new barriers that may have resulted from proposed Korean fuel economy and greenhouse gas emissions standards. The agreements followed months of close consultations with the U.S. Congress and U.S. stakeholders to identify the most effective approaches for dealing with the outstanding concerns. The Administration believes this trade agreement will bring significant economic and strategic benefits for the United States.

Within five years of the date the KORUS enters into force, 95 percent of bilateral trade in consumer and industrial products would become duty free, and most remaining tariffs would be eliminated within 10 years. The U.S. International Trade Commission estimates that the reduction of Korean tariffs and tariff-rate quotas on goods alone would add $10 billion to $12 billion to annual U.S. Gross Domestic Product and up to $11 billion to annual merchandise exports to Korea. For agricultural products, the trade agreement would immediately eliminate or phase out tariffs and quotas on a broad range of products, with almost two-thirds (by value) of Korea's agriculture imports from the United States becoming duty free upon entry into force. For services, the trade agreement would provide meaningful market access commitments that extend across virtually all major service sectors, including improved access for international delivery services, while creating a path toward future reform of domestic delivery services, and the opening up of the Korean market for foreign legal consulting services. In the area of financial services, the trade agreement would increase access to the Korean market and ensure greater transparency and fair treatment for U.S. suppliers of financial services.

The trade agreement would address non-tariff barriers in a wide range of sectors and includes strong provisions on competition policy, labor, environment, and transparency and regulatory due process.

IMPORT POLICIES

Tariffs and Taxes

Korea's average MFN applied tariff rate in 2009 was 12.1 percent for all products (48.6 percent for agricultural products and 6.2 percent for non-agricultural products) and Korea has bound 94.6 percent of its tariff lines.

Korea maintains particularly high tariffs on a number of high value agricultural and fishery products. Korea imposes tariff rates of up to 30 percent on nuts and 35 percent and higher on most dairy products. Pears, table grapes, juices, starches and peanut butter are subject to tariffs ranging from 45 percent to 54 percent. Tea and peanuts, with some exceptions, are subject to some of the highest tariffs ranging, from 754 percent and 513 percent, respectively, for red ginseng tea and green tea to 230 percent for peanuts. Korea also imposes high tariffs on other products of interest to U.S. industry despite having little or no domestic production, including cherries, certain distilled spirits, frozen corn, frozen french fries, pepperoni, and prepared or mashed potatoes.

Korea has established tariff-rate quotas (TRQs) intended to provide at least a minimum level of access to previously closed markets or to maintain pre-Uruguay Round access. In-quota tariff rates may be very low or zero, but the over-quota tariff rates are often prohibitive. For example, natural and artificial honey are subject to an over-quota tariff rate of 243 percent; skim and whole milk powder - 176 percent; barley - 324 percent; malting barley - 513 percent; potatoes and potato preparations - more than 304 percent; and popcorn - 630 percent. In addition, for some agricultural products, such as corn grits, popcorn, and soy flakes, Korea aggregates raw and value added products under the same quota. Korean domestic industry groups, which administer the quotas, frequently allocate the more favorable in-quota tariff rate to their larger members that import raw ingredients.

Korea uses "adjustment tariffs" on some agricultural, fishery, and plywood products, which increase the applied tariff rates. Most of the adjustment tariffs are imposed on agricultural and seafood products, including frozen croaker, which are products of interest to U.S. exporters. Korea has eliminated tariffs on most or all products in the following sectors: paper; toys; steel; furniture; agricultural equipment; construction equipment; and information technology products (those included in the WTO Information Technology Agreement). Korea has harmonized its chemical tariffs to rates of zero percent, 5.5 percent, or 6.5 percent, depending on the product. Bound tariffs, *i.e.*, the level that generally cannot be exceeded under WTO rules, on textile and apparel products remain relatively high: 30 percent on several man-made fibers and yarns; 30 percent on many fabrics and most made-up and miscellaneous goods (*e.g.*, pillow cases and floor coverings); and 35 percent on most apparel items.

Beef

In April 2008, the United States and Korea signed an agreement to fully re-open Korea's market to U.S. beef and beef products in a manner consistent with international standards and science. In June 2008, following massive public protests in Seoul, Korean beef importers and U.S. exporters reached a voluntary, commercial understanding that temporarily limits U.S. exports to beef and beef products from cattle less than 30 months of age, as a transitional measure, until Korean consumer confidence improves. U.S. beef sales resumed in June 2008. In 2010, U.S. exports of beef and beef products to Korea reached 113,000 metric tons, valued at $518 million, making Korea the fourth largest U.S. beef export market. This represents a 140 percent increase by value over 2009 sales.

Achieving full market access for U.S. beef and beef product exports to Korea remains a top priority. The U.S. Government will continue to attach importance to the beef issue and will continue to urge Korea to open its market fully, consistent with science and international standards. This issue is discussed in greater detail in USTR's annual Report on Sanitary and Phytosanitary Measures.

Rice

In the Uruguay Round, Korea negotiated a 10 year exception to "tariffication" of rice imports in return for establishing a Minimum Market Access (MMA) quota that was set to expire at the end of 2004. Korea subsequently negotiated a 10-year extension of the MMA arrangement that was approved by its trading partners in April 2005. The extension called for Korea to increase its total rice imports over the succeeding 10 years, from 225,575 metric tons in 2005 to 408,700 metric tons in 2014. Along with the country specific quota commitments to purchase minimum amounts of imports from China, Thailand, and Australia, Korea also agreed to purchase at least 50,076 metric tons annually from the United States until 2014. In addition, the quality of access has improved as rice marketed to consumers as table rice was for the first time included as a portion of the MMA quota. The table rice portion increased from 10 percent of the quota in 2005 to 30 percent in 2010.

Access to the Korean rice market for U.S. exports has improved significantly under this agreement. Under the 2010 MMA, the U.S. rice industry obtained nearly 29 percent of Korea's total MMA imports by winning tenders for 93,720 metric tons of (milled) rice, valued at $83 million. This amount is 187 percent of the United States' baseline of 50,076 metric tons for the country specific quota. In addition, nearly 30,537 of the 93,720 metric tons were sold as table rice in 2010.

GOVERNMENT PROCUREMENT

Korea is a signatory to the WTO Agreement on Government Procurement (GPA). For procurement of construction services by subcentral and government enterprises covered under the GPA, Korea applies a threshold of over $23 million, which is three times the threshold applied by the United States. Under the KORUS, U.S. suppliers will have rights to bid on the procurements of more than 50 Korean central government entities, nine more than are covered under the GPA. The agreement also expands procurements to which U.S. suppliers will have access by reducing by nearly one-half the threshold applied under the GPA, from $203,000 to $100,000.

Encryption Technology for Public Procurement of VoIP Equipment

In May 2009, the Korean government mandated the use of a Korean encryption standard called "ARIA" in Internet protocol based telephone systems (Voice over Internet Protocol, or VoIP) for ten Korean government agencies responsible for foreign and national security affairs. After the May 2009 announcement, U.S. equipment suppliers faced difficulties in selling VoIP equipment to other Korean public sector entities because many or their requests for proposals (RFPs) also required ARIA, due in part to a widespread perception among procuring offices that ARIA was required for purchases by all government agencies. However, since bilateral trade consultations took place in May 2010, there have been no reports of RFPs requiring ARIA. We will continue to work with Korea to ensure this trend continues.

In July 2009, Korea also implemented a new regulation stipulating that encrypted network equipment must be certified by Korea's National Intelligence Service (NIS) in order to be procured by public sector agencies and that NIS will only certify encryption modules based on ARIA and SEED encryption algorithms, not the AES algorithm that is in widespread use worldwide. Some U.S. suppliers have been unable to sell virtual private network and firewall systems to public sector agencies due to this restriction. We will continue to urge Korea to ensure that equipment based on widely used international standards has full access to Korea's public sector market.

Another issue relates to the requirement that all public sector VoIP telephone systems receive certification from Korea's Telecommunications Technology Association (TTA) that there is interoperability between telephone sets and the private branch exchanges (PBX—a small scale digital switch or server) that service them. U.S. companies sell telephones together with the PBX systems, which allow the companies to incorporate advanced features such as voice conferencing and messaging. TTA will not certify this type of equipment, arguing that any telephone should function within any PBX. This requirement limits the functionality that can be offered through integrated systems and hampers the ability of foreign firms to access the VoIP market in government procurement contracts. We will continue to press the Korean government to find a way to certify U.S.-designed systems.

INDUSTRIAL SUBSIDY POLICY

Korea's past promotion and support for its semiconductor industry, which eventually resulted in the imposition of countervailing duties by the United States, the European Union, and Japan, is emblematic of concerns in this area.

Historically, the Korea Development Bank (KDB), which as a government-owned entity is not necessarily bound by the same constraints as commercial institutions, has been one of the government's main sources of policy-directed lending to favored industries. The Lee Myung-bak Administration plans to privatize a wide range of state-owned enterprises, including the KDB. As a first step, Korea adopted a holding company system in October 2009 and divided the Korean Development Bank (KDB) into two new companies: (1) KDB; and (2) the Korea Finance Corporation (KFC). While still government-owned, the KDB is to operate as a commercial bank under this restructuring plan, and the KFC will operate as a policy lending bank. The Korean government plans to list the KDB on the Seoul stock exchange in 2011 and on overseas stock markets in 2012. The U.S. Government will continue to monitor the lending policies of the KDB and other government-owned or affiliated financial institutions.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Korea generally provides strong intellectual property rights protection and enforcement. Korea's progress on IPR protection and enforcement led to its removal from the Special 301 Watch List in 2009. The United States recognizes the importance the Korean government places on IPR protection, a development that has accompanied Korea's shift to becoming a significant creator of intellectual property. The 2009 amendments to Korea's Copyright Law include measures to deter copyright infringement via file-sharing platforms on the internet. Korea has also demonstrated a renewed commitment to investigating and prosecuting "topsites" (password-protected sites that store copyright infringing data files which are made available to other internet users). An investigation this past year concluded with the seizure of a topsite and the prosecution of its operator. However, concerns remain over new forms of online piracy, corporate end-user software piracy, book piracy in universities, and counterfeiting of consumer products.

Korea was also an active participant in the Anti-Counterfeiting Trade Agreement (ACTA) negotiations, which were concluded in November 2010. The ACTA establishes an international framework that will assist Parties in their efforts to effectively combat the infringement of intellectual property rights, in particular the proliferation of counterfeiting and piracy, which undermines legitimate trade and the sustainable development of the world economy.

SERVICES BARRIERS

Screen and Broadcast Quotas

Korea maintains a screen quota for films requiring that any movie screen show domestic films at least 73 days per year. Korea also maintains a variety of foreign content quotas for terrestrial, cable and satellite television, radio broadcasting, and Internet Protocol television. Overall, foreign programs may not exceed 20 percent of terrestrial television or radio broadcast time or 50 percent of cable or satellite broadcast time on a quarterly basis. Within those overall quotas, Korea maintains annual quotas that further limit broadcast time for foreign films to 75 percent of all films for terrestrial, cable, and satellite broadcasts; foreign animation to 55 percent of all animation content for terrestrial broadcast and 65 percent of all animation content for cable and satellite broadcasts; and popular music to 40 percent of all music content. Another quota, on a quarterly basis, limits content from any one country to 60 percent of the quota available to foreign films, animation, or music. The KORUS would protect against quota increases and ensure that new platforms, such as online video, are not subject to these legacy restrictions.

Restrictions on Voiceovers and Local Advertisements

The Korean Broadcasting Commission's guidelines for implementation of the Broadcasting Act contain restrictions on voiceovers (dubbing) and local advertising for foreign retransmission channels. These prohibitions continue to be of concern to U.S. industry, as they limit the profitability of such channels in the Korean market.

Legal Services

On February 27, 2009, the Korea National Assembly passed the Foreign Legal Consultant Act (FLCA), creating a partial opening of domestic legal services. Under the new law, law firms from countries that have a free trade agreement with South Korea will be able to start consultancy businesses in Korea. The laws allow foreign attorneys with a minimum of three years of work experience to provide consulting services on the law of the jurisdiction in which they are licensed. Before the FLCA, only Korean-licensed lawyers could provide any form of legal advice in Korea, including advice on foreign law.

The Korean government plans to open its legal services market in several stages. The first step created a legal status for foreign legal consultants and allowed foreign law firms to open offices in Korea. Subsequent liberalization stages would address the ability of foreign-licensed lawyers and firms to associate with, partner with, and hire Korean-licensed lawyers.

Insurance and Banking

Korea is the second largest insurance market in Asia and the seventh largest in the world. Korea's laws and regulations permit foreign financial service providers to establish subsidiaries or branches in Korea. Insurance suppliers remain concerned that Korea Post, the National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperative are regulated by an entity other than the Korean Financial Services Commission and therefore are under different rules that advantage these entities. Lack of transparency in the adoption of financial regulations continues to adversely affect financial services suppliers. Effective implementation of improvements, such as those required under the KORUS, in notice and comment periods and in vague "administrative guidance" should enable financial services suppliers to play a greater role in the regulatory process. The National Assembly adopted the Investment Services and Capital Markets Act in June 2007, and most provisions of the Act entered into force on February 4, 2009. The Act allows financial services companies to introduce new products unless explicitly prohibited by law and establishes a clear legal basis for newcomers to apply for commercial licenses. In the amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act, the government relaxed its requirements regarding private equity funds and introduced a special purpose Acquisition Company in September 2009.

Korea's strict data privacy rules require financial services providers to locate their servers physically in Korea, thus hampering foreign suppliers' ability to take advantage of economies of scale in the region to perform data processing in their daily business activity. Korea's implementation of commitments in the KORUS would help address this concern.

Telecommunications

Korea currently prohibits foreign satellite service providers from selling services (*e.g.*, transmission capacity) directly to end users without going through a company established in Korea. Given the investment restrictions in place (see below) and the fact that establishing a local presence may not make economic sense, this prohibition significantly restricts the ability of foreign satellite service suppliers to compete in the Korean market.

The National Assembly passed legislation in December 2007 to regulate the convergence technology Internet Protocol television (IPTV). In 2008, the newly formed Korea Communications Commission (KCC) began issuing implementing regulations. The U.S. Government is closely monitoring this process with regard to transparency and due process. U.S. companies view some of the licensing requirements under discussion as market restricting, (*e.g.*, applying content quotas to real time IPTV).

INVESTMENT BARRIERS

During his fall 2007 presidential election campaign, one of the key planks of President Lee Myung-bak's economic platform was to take steps to attract more foreign investment to Korea. Since President Lee assumed office in February 2008, foreign investors have noted a greater interest on the part of the government in addressing issues of concern and in removing barriers or disincentives to investment in Korea. The Korean government has maintained this policy despite the increasing global financial and economic turmoil that began in the second half of 2008 and continued into 2009.

Capital market reforms have eliminated or raised ceilings on aggregate foreign equity ownership, individual foreign ownership, and foreign investment in the government, corporate, and special bond markets. These reforms have also liberalized foreign purchases of short-term financial instruments issued by corporate and financial institutions. Some U.S. investors have raised concerns, however, about a lack of transparency in investment-related regulatory decisions, including by tax authorities, highlighting concerns about possible discrimination.

Korea maintains a 49 percent limit on foreign shareholdings of facilities-based telecommunications operators. Foreign investment is not permitted in terrestrial broadcast television operations and the Korean government also restricts foreign ownership of cable television-related system operators, network operators, and program providers to 49 percent. For satellite broadcasts, foreign participation is limited to 33 percent. Foreign satellite retransmission channels are limited to 20 percent of the total number of operating channels. Under the KORUS, Korea would permit U.S. companies within two years to own up to 100 percent of a telecommunications operator in Korea.

In addition to the numerous investment restrictions in key services sectors described above, as well as in the telecommunications sector, Korea maintains other important restrictions on foreign investment. Specifically, Korea prohibits foreign investment in rice and barley farming and imposes a 50 percent foreign equity limitation on meat wholesaling. Moreover, Korea limits foreign investment in electric power generation, distribution, and sales to 50 percent. It also restricts foreign investment in the areas of news agency services and publishing and printing, where it has foreign equity limitations of 30 percent for enterprises publishing newspapers and 50 percent for enterprises publishing other types of periodicals.

On July 31, 2009, the Finance Ministry announced plans to sell a number of state-owned companies, including Korea Real Estate (KOREIT), Grand Korea Leisure Corporation, Farmland Improvement & Modernization, Korea Asset Investment Trust Co. Ltd., Korea District Heating Corp., and Korea Power Engineering Co. (*See the Industrial Subsidies section for detail on developments related to the Korea Development Bank.)*

The Korean government also operates several Free Economic Zones (FEZs) and has provided a range of investment incentives including tax breaks, tariff free importation, relaxed labor rules (primarily exemptions from workforce quotas for disabled and older workers, and mandatory paid leave), and improved living conditions for expatriates in areas such as housing, education, and medical services. The Korean government has promoted these zones as an important step in making Korea's business environment more open, liberal, and responsive to economic needs.

ANTICOMPETITIVE PRACTICES

The Korea Fair Trade Commission (KFTC) has played an increasingly active role in enforcing Korea's competition law and in advocating for regulatory reform and corporate restructuring. In addition to its authority to conduct investigations and to impose penalties, including broad authority over corporate and financial restructuring, the KFTC can levy heavy administrative fines for violations or for failure to cooperate with investigations.

A number of U.S. companies have expressed concerns that respondents in KFTC investigations have not been afforded a sufficient opportunity to review and respond to the evidence against them, including an opportunity to cross examine those who testify in KFTC investigatory hearings. Concerns have also been raised that procedural rules for KFTC hearings have not been sufficiently transparent and that the KFTC lacks authority to enter into settlement agreements with respondents by mutual agreement.

The KFTC has taken some steps to address these concerns. In March 2009, the KFTC amended its regulations to expand the rights of respondents by allowing respondents to request a resumption of hearings to submit new evidentiary material or if the complexity of the case warrants additional hearings. Furthermore, the examiner's recommended sanction (including details of the surcharge calculation) is now provided in most cases to the respondent along with the examiner's report. The KFTC also amended regulations to increase its operational transparency, requiring examiners to inform claimants promptly of its conclusions and the grounds for those conclusions. To increase transparency for respondents, the KFTC began implementing new procedures in February 2007, requiring the KFTC to provide a respondent with an official notice of investigation in writing, to provide the respondent with detailed information on the purpose, scope, and length of the investigation, and to entitle the respondent to refuse aspects of the investigation it believes goes beyond the notified scope and report any misconduct on the part of examiners.

OTHER BARRIERS

Regulatory Reform and Transparency

Korea has made some improvements to its rulemaking and regulatory system over the past few years.

However, there remains a lack of transparency that cuts across various issues affecting U.S. firms in many different sectors. This continues to be one of the principal problems cited by U.S. businesses seeking to compete in the Korean market.

Korea's Administrative Procedures Act (APA) stipulates that the public comment period for draft regulations subject to the APA shall be no less than 20 days. However, in many cases, the 20-day minimum is insufficient. In addition, in many instances the final versions of regulations do not reflect the comments provided and often offer no explanation for why they were rejected. Under the KORUS, Korea would expand the minimum comment period to 40 days and adhere to a range of other transparency-related obligations, including the obligation to address significant, substantive comments received and to explain substantive revisions made in any final regulation.

Motor Vehicles

Increased access to Korea's automotive market for U.S. suppliers remains a key priority for the U.S. Government. Korea maintains an eight-percent tariff and a range of nontariff barriers, such as discriminatory taxes based on engine size, unique standards, inadequate regulatory transparency, and an inadequate ability of stakeholders to provide input at an early stage into the development of regulations and standards. The United States-Korea trade agreement and the agreements reached on December 3, 2010, contain provisions designed to address many of these nontariff barriers and will contribute greatly to leveling the playing field for U.S. automobiles in the Korean market. *(For more information on nontariff barriers in the motor vehicles sector, see the U.S. Trade Representative's Report on Technical Barriers to Trade.)*

Motorcycles

Although progress has been made over the past several years to resolve U.S. concerns over Korea's noise standard on motorcycles, several market access issues remain including a highway ban on motorcycles, high tariff and tax levels, and the inability of motorcycle owners to obtain ownership titles and obtain financing for a motorcycle purchase that uses the motorcycle as collateral. The Korean National Police commissioned a study on the safety of motorcycles on highways that was concluded in 2010. The study highlights inadequacies in Korea's regulatory and safety practices surrounding the licensing of motorcycle drivers and the proliferation of young, untrained motorcycle riders driving dangerously on city streets. The U.S. Government maintains that heavy motorcycles riding on highways do not pose the same safety concerns as do riders of smaller, lighter motorcycles, and continues to urge Korea to eliminate the ban on riding large motorcycles on highways.

Pharmaceuticals

Cost containment measures under the Drug Expenditure Rationalization Plan (DERP), enacted in December 2006, continue to subject pharmaceutical products to downward price revisions. This affects not only drugs that have entered the market since DERP was adopted, but also products that were approved for reimbursement prior to DERP's adoption. The U.S. Government continues to urge Korea to refrain from implementing reimbursement policies that discourage companies from efficiently introducing advanced medical products to the Korean market and that serve as a disincentive to investment in research and development.

In July 2010, Korea's Ministry of Health and Welfare (MOHW) made a decision to exclude patented and patent-expired drugs from its "Rearrangement of Already Listed Drugs" project. Previously, under the Rearrangement Project, drugs that are listed on Korea's National Health Insurance reimbursement list were re-evaluated for pharmacoeconomic value and generally received price reductions, and concerns had been raised by U.S. industry that the Rearrangement Project did not properly take into account the value of innovation or previous price reductions on the same drug. MOHW's decision to exclude innovative drugs from this process signaled the Korean government's willingness to accord proper value to innovation and to encourage greater research and development for its pharmaceutical industry.

Medical Devices

U.S. companies have continued to express concern that the lack of adequate transparency in pricing and reimbursement decision making and regulatory processes has been an impediment to efficiently bringing medical devices to the Korean market.

In January 2010, MOHW adopted regulations establishing a new reimbursement system for medical devices, linking a reimbursement price of a medical device to a set single price for each "functional category" of products. MOHW also announced that the new system would reward innovation and improvement in new products by allowing premium pricing above the single set price for each functional category. Since the adoption of the new system in January 2010, however, MOHW has not granted premium pricing to a single product. Because of a general lack of transparency in how decisions regarding premium pricing are made, it is unclear why this is the case when, according to industry, a number of innovative and functionally approved products have been introduced. U.S. industry has raised concerns regarding MOHW's price re-evaluation methodologies, including the use of manufacturing cost and import price for setting the final reimbursement price. The U.S. Government has urged MOHW to engage directly with concerned stakeholders to address their concerns regarding how the new system can be implemented in a way that rewards innovation as originally intended.

The United States-Korea trade agreement includes, among other things, provisions to ensure that Korea's pricing and reimbursement decisions for pharmaceutical products and medical devices appropriately recognize the value of innovation. The Agreement's provisions also ensure that the processes for making these decisions are conducted in a transparent manner and include sufficient notice and comment periods for legal and regulatory changes.

Distilled Spirits

On July 1, 2008, Korea's Liquor Tax Law was revised to provide a 50 percent tax reduction for certain "traditional liquors" including some forms of distilled and diluted spirits. This amendment raised concerns in U.S. industry because of its potential impact on trade by disadvantaging imported, competing liquors that do not fall under the narrow category of "traditional liquors." The Korean government provided assurances that the tax reductions apply only to small volume producers of designated traditional liquors, that the total of potentially qualifying liquors amounts to less than two percent of Korea's beverage alcohol market, and that there are no plans to expand the categories of beverage alcohol that would qualify for such tax reductions. The U.S. Government will continue to monitor Korean actions in this area.