

CHAPTER 7

KOREA

TARIFFS

* This particular case was included in light of the following concerns despite it being a trade or investment policy or measure that does not expressly violate the WTO Agreements or other international rules. For definitions of tariffs, tariff rates, binding ratio, and bound tariff rates, see Chapter 5.1.

The Customs Act and related legislation provide for basic tariff rates, provisional tariff rates, and elastic tariff rates (e.g., anti-dumping duties, countervailing duties, retaliatory duties, emergency duties, seasonal duties, and international cooperation duties). MFN or the Regional Comprehensive Economic Partnership (RCEP) Agreement tariff rates, etc. are applied to products imported from Japan. In addition, tariff preferences (reduction, exemption, and refund) are applied to imports of goods, and raw materials, etc., intended for re-export.

In 2021, the simple average bound tariff rate for non-agricultural products in Korea is 9.9%, and there are some high bound tariff products, including textiles (maximum 51.7%), clothing (maximum 35%) and electric appliances (maximum 20%). In addition, the binding ratio for non-agricultural products as of 2021 was 92.5%. Unbound items include motor trucks (maximum applied tariff rate of 10%) and pharmaceuticals (maximum applied tariff rate of 8%), and the simple average applied tariff rate of non-agricultural products as of 2021 was 6.6%.

As long as the high tariff itself does not exceed the bound rate, there is no problem in terms of the WTO Agreements, but in light of the spirit of the WTO Agreements that promotes free trade and enhances economic welfare, it is desirable to reduce tariffs as much as possible.

With regard to the ITA expansion negotiations concluded in December 2015 to promote greater market access for IT products (see 2. (2) “Information Technology Agreement (ITA) Negotiation” in Chapter 5 of Part II for details), the Republic of Korea began eliminating tariffs on 201 subject items in December 2016. For example, high tariff items include polishing pads (30%), wireless operation controllers (20%), microphones (16%), etc. Tariffs on all the subject items including these will be eliminated by 2023.

In response to the consumer prices inflation rate of June 2022 being 6.0% higher than the rate in the same month in the previous year, the Republic of Korea government announced life-supporting measures and applied tariff quotas to certain foodstuffs including meat.

ANTI-DUMPING MEASURES

SUNSET REVIEW OF JAPANESE STAINLESS STEEL BARS (DS553)

In June 2016, the Republic of Korea government initiated the third AD sunset review on stainless steel bars from Japan. Based on the review, in June 2017, the Republic of Korea government decided to extend the taxation measure for three more years.

Article 11.3 of the AD Agreement sets out that in principle, any AD duty shall be eliminated within five years of the date of imposition of the duty or the date of the latest revision to the duty, and that AD measures may be continued as an exception only if the elimination of the AD duty would be likely to lead to continuation or recurrence of dumping and injury. In this case, many products imported from Japan are used for special purposes while domestic products and those imported from India, which is another subject country of the investigation, are used for general purposes. Japanese imports are not in a competitive relationship that would cause serious injury to Korean products, and there is a large volume of low-priced imports from China and other countries in the domestic market. Therefore, the finding that there is a possibility of recurrence of damage to the Korean domestic industry due to the removal of the AD tax on Japanese imports has a defect and is in violation of Article 11.3 of the AD Agreement.

In October 2016, and April and October in 2017, at the WTO AD Committee, Japan pointed out the problems under international rules mentioned above and expressed its serious concern about the prolongation of the measure. The Japanese government expressed the same concerns at a public hearing held by the Republic of Korea’s investigating authority in November 2016 with regard to the AD measure and in a written statement submitted in May 2017. Regardless, the Republic of Korea government decided to extend the tax measures for three years in June 2017. Therefore, in June 2018, Japan made a request for bilateral consultations based on the WTO agreement, and those bilateral consultations were held in August 2018. As the Republic of Korea did not indicate its intentions to abolish the measures, in September 2018, Japan requested a panel be established based on the WTO Agreement, and the panel was established in October 2018.

The panel report issued in November 2020 stated that there is a defect in the finding that the removal of the AD tax on Japanese imports may result in recurrence of injury to the domestic industry in the Republic of Korea, as it did not properly take into account the fact that Japanese imports are considerably more expensive than domestic products and that there is a large volume of low-priced imports from China and other countries, and found a violation of Article 11.3 of the AD Agreement. In addition, the report states that the above finding by the Republic of Korea lacks reasonable grounds and also has a defect in terms of the failure to indicate the necessary parameters or to use the data submitted by the Japanese producers themselves when determining the production capacity of the Japanese producers as a precondition for the

finding that the Japanese producers have excess capacity for export. Therefore, the report found a violation of Article 11.3 of the AD Agreement. The report also found other violations of the AD agreement with regard to the treatment of confidential information (Article 6.5 of the AD Agreement) and the treatment of secondary information (Article 6.8 of the AD Agreement), and in conclusion recommended that the Republic of Korea rectify this measure.

In January 2021, the Republic of Korea appealed to the WTO Appellate Body. In addition, the Republic of Korea government initiated the fourth sunset review in January 2020 and decided to extend the taxation measure for three years in January 2021.

Japan has strongly urged the Republic of Korea to accept the panel's report and to eliminate the measures identified as violating the WTO Agreement sincerely and promptly. Japan will continue to strongly urge the Republic of Korea to discontinue its unfair taxation on Japanese companies.

STANDARDS AND CONFORMITY ASSESSMENT SYSTEMS

IMPORT RESTRICTIONS ON JAPANESE FISHERY PRODUCTS, ETC.

After the accident at the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company (TEPCO) in March 2011, the Republic of Korea gradually introduced import restrictions on Japanese fishery products, etc. Thus, the Republic of Korea strengthened its import restrictions, such as (i) prohibiting imports of all fishery products produced in the eight prefectures of Aomori, Iwate, Miyagi, Fukushima, Ibaraki, Tochigi, Gunma, and Chiba, and (ii) requiring additional inspections for food for which importation is not prohibited (if the slightest amount of cesium or iodine is detected in an inspection conducted by the Korean side, additionally requiring inspection certificates concerning substances including strontium and plutonium).

The import restrictions imposed by the Republic of Korea are inconsistent with Articles 2.3, 5.5, and 5.6 of the SPS Agreement in that they are measures that arbitrarily or unjustifiably discriminate against Japanese fishery products, etc. and are more trade-restrictive than necessary, among other respects. In addition, they are inconsistent with Articles 4, 5.8, and 7 of the SPS Agreement because the Republic of Korea has provided insufficient information concerning the import restrictions in response to Japan's request.

To date, Japan has urged the Republic of Korea to relax or abolish the import restrictions by holding bilateral talks, raising specific trade concerns at the WTO Committee on Sanitary and Phytosanitary Measures, and accepting field investigations by members of an expert committee established in the Republic of Korea. Japan requested consultations based on the WTO Agreements in May 2015, and a bilateral consultation between Japan and the Republic of Korea was held in June of the same year. However, because the Korean side did not present an outlook proposal for abolishing the import restrictions, Japan requested the establishment of a dispute settlement panel under the WTO Agreements in August 2015. After a two-and-a-half-year examination since the establishment of the panel in

September 2015, the panel report was released in February 2018. In the report, the panel has recognized that the import restriction measures against fishery products produced in 8 prefectures in Japan and additional inspection request for all Japanese food violate the Articles 2.3 and 5.6 of the SPS Agreement because they arbitrarily or unjustifiably discriminate against Japanese fishery products, and are more trade-restrictive than necessary. The panel has also found that the Republic of Korea is in violation of Article 7 of the SPS Agreement because it does not release the information immediately so that member nations with a valid interest can know due to failure in publication and provision of insufficient information concerning the measures.

On April 9, 2018, the Republic of Korea claimed that there was a problem with the panel's judgment and notified DSB of an appeal to the Appellate Body. On April 16, Japan notified DSB of its counterclaim that Japan's claims were not recognized in the panel report. After that, the Appellate Body report was circulated in April 2019. In the report, the Appellate Body concluded that the panel's consideration was insufficient and thus reversed the panel's finding that the Republic of Korea's measures were inconsistent with Articles 2.3 and 5.6 of the SPS Agreement. However, the dispute remains unsolved, as the Appellate Body did not make its own judgment on whether the Republic of Korea's measures violate these provisions.

The Appellate Body report has brought up an apparent issue of the WTO dispute settlement system, which is that the dispute may go unresolved. Taking this into account, in April 2019, Japan submitted to DSB a statement requesting for the discussion on the proper functioning of the WTO dispute settlement mechanism. At the regular DSB meeting held in May 2019, Japan also pointed out that "(1) as this dispute (the Republic of Korea's ban on Japanese fishery products) has extremely technical and scientific aspects, the panel thoroughly and carefully analyzed the issues by seeking the authoritative views of five independent experts, etc. The Appellate Body should have reviewed the panel's legal findings and conclusions, taking into consideration the panel's good judgments; (2) the role of the Appellate Body that WTO Members expect it to fulfill is dispute resolution. However, the Appellate Body left the dispute unresolved without judgment on the WTO-consistency of the challenged measures, failing to fulfill its function. This is a serious problem facing Member States and needs to be corrected."

SUBSIDIES

SHIPBUILDING SUBSIDIES

The Republic of Korea has implemented a large-scale public aid for its own shipbuilding industry since October 2015. Specific measures include among others, (i) Financial aid to domestic shipbuilding yards (Daewoo Shipbuilding & Marine Engineering Co., Ltd) by public financial institutions, (ii) Advance payment return guarantee to support the sales of the shipbuilding yard (iii) Purchase support for maritime companies through a new shipbuilding support program (public and private funds), and (iv) Subsidies for building eco-ships for replacement (aid for part of new shipbuilding costs). These measures distort the market and may retard addressing the overcapacity issue in the shipbuilding industry.

The Republic of Korea's excessive corporate aid, that guarantees contingent to ship exports, building support, etc., has resulted in repeated bids from Korean corporations at low prices, significantly depressing the ship prices in the international market. Furthermore, the lost orders/loss of competition with the drop of market prices has also significantly depressed Japan's share in the market. This sort of domestic public aid imposed by the Republic of Korea falls under the export subsidies prohibited under the WTO Subsidies Agreement and there is strong suspicion of violation of Article 3 of this agreement.

<RECENT DEVELOPMENTS>

Ever since the Republic of Korea decided to provide financial support to Daewoo Shipbuilding & Marine Engineering through public financial institutions in 2015, the issue has been raised on multiple occasions through opportunities such as the OECD Council Working Party on Shipbuilding. Furthermore, in a director-general-level talk between the Maritime Bureau of Japan's Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of Trade, Industry and Energy of the Republic of Korea in October 2018, Japan requested to withdraw the measures without delay. However, the measures still remain.

In response to this, in November 2018 and January 2020, Japan made requests for consultations, regarding the Republic of Korea's excessive public support for its shipbuilding industry inconsistent with the WTO Agreement, and is in consultations with the Republic of Korea.

At the 135th OECD Council Working Party on Shipbuilding in November 2022, Japan requested Korea to explain its public aid and to ensure transparency of its measures. Japan will continue to request Korea to bring its public supports to its shipbuilding industry to be WTO-consistent.

