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**TENTH JOINT MEETING
OF THE
CANADA-KOREA BUSINESS COUNCIL
AND THE
KOREA-CANADA BUSINESS COUNCIL
OCTOBER 20-22, 1991
MONTRÉAL, CANADA**

**DIXIÈME RENCONTRE ANNUELLE
DU**

**CONSEIL DES GENS D'AFFAIRES CANADA-CORÉE
ET DU
CONSEIL DES GENS D'AFFAIRES CORÉE-CANADA
OCTOBRE 20-22, 1991
MONTRÉAL, CANADA**

Affaires extérieures et
Commerce extérieur Canada
External Affairs and
International Trade Canada



Canada

**TENTH JOINT MEETING OF THE CANADA-KOREA/KOREA-CANADA
BUSINESS COUNCILS**

MONTREAL, CANADA, OCTOBER 20-22, 1991

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FACT SHEET - KOREA

AREA:	99,117 square kilometres
POPULATION:	42.8 million (1990)
CAPITAL:	Seoul; population: estimated 11,000,000 (1990)
LANGUAGE:	Korean
G.N.P.	US\$ 237 billion (1990) estimated growth: 8.9% (1991) per capita GNP US\$ 5569 (1990)
CURRENCY:	Korean won (W) exchange: CDN\$ 1=571 won (Sept. 1991)
INFLATION RATE:	estimated 9.7% (1991)
UNEMPLOYMENT RATE:	2.4% (1990)

TRADE

A. Value of Canadian Trade with Korea (Cdn \$ million)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Imports	1749	1844	2272	2441	2251
Exports	958	1167	1200	1592	1549
Balance	(791)	(676)	(1072)	(849)	(701)
Total Trade	2702	3011	-3472	4033	3801

B. Major Canadian Exports

Coal, wheat, copper, wood pulp, aluminum, potash, telecommunications equipment, sulphur

Major Canadian Imports

Electronic Equipment (televisions, VCRs) clothing, vehicles and parts, textiles and accessories, footwear, iron and steel

C. Value of World Trade - Korea (US\$ billion)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Exports	34.7	47.3	61.2	62.4	65.0
Imports	31.7	41.0	51.4	61.4	69.8
Balance	3.0	6.3	9.8	1.0	(4.8)

D. Major World Trade Partners (1990 US\$ billion)

Exports

1. USA	19.36
2. Japan	12.64
3. Hong Kong	3.78
4. FRG	2.85
5. UK	1.75
6. Canada	1.73
7. China	1.25

Imports

1. Japan	18.57
2. USA	16.94
3. FRG	3.28
4. Australia	2.59
5. Malaysia	1.59
6. Canada	1.47
7. China	1.45

System of Government:

Constitutional republic with elected National Assembly and power centralized in a strong executive president.

President:

Roh Tae Woo

Prime Minister:

Chong Won Shik

Minister for Foreign Affairs:

Lee Sang Ock

**Canadian Representation
in Korea:**

Canadian Ambassador to ROK is Leonard Edwards. The Embassy is located at the Kolon Building, 45 Mugyo-Dong, Jung-Ku, Seoul, 100-170 Telephone 753-2605
06/07/08

**Korean Representation
in Canada:**

The ROK Ambassador to Canada is Park Kun-Woo. The Embassy is located at 151 Slater St., 5th Floor, Ottawa, Ontario. Telephone (613) 232-1715

CABINET OF THE GOVERNMENT OF
THE REPUBLIC OF KOREA

President	<u>ROH</u> Tae Woo
Prime Minister	<u>CHONG</u> Won Shik
Deputy Prime Minister and Minister of Economic Planning	<u>CHOI</u> Gak Kyu
Deputy Prime Minister and Minister of National Unification	<u>CHOI</u> Ho Joong
Minister of Foreign Affairs	<u>LEE</u> Sang Ock
Minister of Home Affairs	<u>LEE</u> Sahng Yeon
Minister of Finance	<u>RHEE</u> Young Man
Minister of Justice	<u>KIM</u> Ki Choon
Minister of National Defence	<u>LEE</u> Jong Ku
Minister of Education	<u>YOON</u> Hyung Sup
Minister of Culture	<u>LEE</u> O Young
Minister of Sports/Youth	<u>PARK</u> Chul Un
Minister of Agriculture, Forestry and Fisheries	<u>CHO</u> Kyung Shik
Minister of Trade and Industry	<u>LEE</u> Bong Suh
Minister of Energy and Resources	<u>JIN</u> Nyum
Minister of Construction	<u>LEE</u> Jin Seol
Minister of Health and Social Affairs	<u>AHN</u> Pil Joon

Minister of Labour

CHOI Byung Yul

Minister of Transportation

LIM In Taik

Minister of Communication

SONG Eon Jong

Minister of Information

CHOI Chang Yoon

Minister of Environment

KWON Ee Hyock

Minister of Government Administration

LEE Yun Taek

Minister of Science and Technology

KIM Chin Hyon

**The First State Minister of Political
Affairs**

KIM Dong Young

**The Second State Minister of Political
Affairs**

LEE Kye Soon

Minister of Legislation

CHOI Sang Yup

**Minister of Patriots and Veterans
Affairs**

MIN Kyung Bae

**Director of the Agency for National
Security Planning**

SUH Dong-Kwon

OTHER IMPORTANT POSITIONS

Mayor of Seoul

RHEE Hai-Won

DOMESTIC SITUATION IN THE REPUBLIC OF KOREA (ROK)

ISSUE

Stability on the Korean peninsula.

BACKGROUND

Almost 40 years after the armistice which ended the Korean war, the demilitarized zone continues to symbolize the painful reality of a divided people in a tense part of the world. This division dominates all aspects of life in the ROK. Over the past four decades, the unpredictable North Korean regime has engaged in persistent efforts to undermine ROK stability, through acts ranging from overt terrorism to attempts to destabilize the ROK government through their support for dissident student groups.

In addition to its traditional concern with security, the Korean government has recently been faced with a new challenge; managing the transition from a rural underdeveloped society to a modern urban industrial state. This transition has profound economic, social and political implications for the future.

Democracy in Korea is a recent phenomenon and has shallow roots. For most of the period since the Korean War, the country has been ruled by a succession of authoritarian regimes, based ultimately on military power. During most of the 1980s, when the Korean economic miracle became a reality, most Koreans seemed content to work hard for low wages to achieve economic development. The benefits of growth were not widely distributed and political institutions remained immature. There was little popular participation in political life.

All this changed in the spring of 1987, in the run-up to the staging of the Seoul Olympics which many agree was the catalyst for major changes in the political scene. As a result of mass demonstrations, which if not brought to an end could have led to Korea losing the Olympics, the Government of then-President Chun (who had taken power in 1980 in a military coup) agreed to hold direct Presidential elections. The candidate of the ruling Democratic Justice Party (DJP), Roh Tae-Woo, himself a retired General, won the election in December 1987 with a plurality of 36.6%.

The inauguration of President Roh in February 1988 was the first peaceful transfer of power in recent Korean history. National Assembly elections were held shortly after and the ruling DJP obtained 125 seats, 25 short of a majority.

In early 1990, the DJP and two opposition parties were merged into the Democratic Liberal Party (DLP). The party, however, remains divided between those who support former opposition leader Kim Young-Sam (now Executive Chairman of the DLP) and those who are aligned with the former DJP. These divisions, combined with various procedural tactics of the opposition, have limited the President's ability to implement his agenda in the National Assembly.

In March 1991, local elections were held for the first time in 30 years with virtually no violence or voting irregularities. Candidates identified with the ruling DLP captured almost 75% of the seats. On June 21, 1991, Roh's ruling DLP won a landslide victory in the second set of nationwide local elections. The DLP won 65% of the available seats. More importantly, the elections are an important step towards a more stable and broad-based democratic structure in Korea.

The taste for democracy has been fuelled by the remarkable growth of the economy and increasing demands of Korean workers and consumers for a greater share of the benefits of this growth. There has also been a resurgence of nationalism, one result of which has been demands to re-assess the basis of Korea's relationship with the U.S.A. The Government's inability to revise outdated labour legislation has led to considerable industrial unrest and spiralling wage demands.

Korean economic performance and growing consumer demand have led to a program of market liberalization which Canada and other exporting countries, have been actively seeking to exploit. While recognizing the demands of urban dwellers for a greater range of consumer goods, both domestic and imported, the government is sensitive to pressures from its very conservative rural constituency which is opposed to market opening, particularly in agricultural products. Balancing the needs and reducing the disparity between these two groups is a challenge fraught with political sensitivities.

Student activism continues to be of concern, especially in the spring, but not to the extent that it threatens to destabilize the political situation. In May and June, widespread student demonstrations severely tested the three-year old Roh government and resulted in a partial Cabinet shuffle, including the replacement of the Prime Minister.

Traditionally, Korean students have played an agitational role as the so-called "conscience" of Korean society and their motives, if not their tactics, are widely accepted. The issue of the reunification of the two Koreas is one of their longstanding causes although political naivete on the part of many students has allowed the North to exploit the issue for political gain. Student demonstrations, while irritating, and of interest to the media for their visual impact, seldom result in serious injury or serious disruption to everyday life. Indeed, many Koreans now feel that the students are somewhat out-of-touch with the increasingly conservative values of the burgeoning middle-class.

Korea is undergoing rapid political, social and economic change. This transition is presenting major challenges for the Government in accommodating rising political and economic expectations and in coping with wealth disparities between an aging rural population and a growing urban elite. Strong yet flexible leadership is required to guide the country through the transition from an underdeveloped society to a major industrial power.

Thus far, President Roh has proven equal to the task and despite pressures from opposition politicians, student dissidents and an ongoing preoccupation with reunification issues, the current Korean political scene is one of basic stability with the promise of continued evolution to a more firmly-rooted democratic system.

THE KOREAN ECONOMY: UPDATE

SUMMARY

In the past decade, Korea has been one of the world's fastest growing economies. Following three consecutive years (1986-1988) of double-digit GNP growth, the economy has experienced a number of recent difficulties. These problems stem primarily from weakened export competitiveness caused by intensive labour-management disputes, labour shortages and a dramatic growth in wage levels. Nonetheless, most of the ground lost in exports has been recouped via a dynamic increase in domestic demand. In fact, it appears that the Korean economy is going through a necessary period of adjustment to place more of the burden for economic growth on domestic consumption as is normal in any industrialized society. Although inflation is a continuing concern (9.4% in 1990), the GNP is expected to grow by a robust 8.9% in 1991 to approximately US\$258 billion.

The underlying elements of the Korean economy continue to remain very strong. Korean workers are among the most highly-educated, disciplined and hardest working in the world, working an average of 51 hours per week. Most indications are that the economy is beginning to make the difficult transition from labour-intensive, low-tech products (Korea is the world's third largest textile exporter) to an increasingly sophisticated high-tech oriented economy (it is estimated that by the year 2000, over 30% of industrial output will be in the high tech sector).

In spite of the less spectacular economic figures for 1991, the Korean economy is forecast to grow at an average rate of 7% through the 1990s. At this rate, by the year 2000, Korean trade volume would exceed \$400 billion and per capita Korean GNP would be in the range of \$15,000 (in current US dollars). This would put Korea on a par with the current level of many OECD countries, including the UK.

CURRENT ECONOMIC ISSUES

Despite the talk of economic "doom and gloom" by the Korean government, the economy performed strongly in the first half of 1991, with first quarter GNP growth of 8.9%.

Domestic demand for both goods and services, particularly in the construction sector, is providing the engine for the economy. Rising wage and land costs, combined with the forced lowering of interest rates and the accompanying monetary expansion, have led to over-heating and a growing problem with inflation. The trade account also remains a concern as both the trade and current accounts have been in deficit since the beginning of 1990. GNP growth is expected to be 8.9% this year while the trade balance could exceed a deficit of \$4.8 billion. The inflation rate could top 9.5% (original forecast 11-12%).

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Economic planners continue to preside over a substantial shift to domestic-led growth. Industrial production has moved ahead briskly and in some sectors production is racing to keep ahead of domestic demand. The labour-management situation is improving from year to year and the time taken to settle is being reduced. The incidence of labour-management disputes has decreased from last year as has the number of person-hours lost to strikes.

This relative peace on the labour front has instilled a renewed confidence in Korea's export industries which have shown steady but less spectacular growth in 1991. At the same time, exports continue a gradual process of falling into a more diverse pattern, with exports to North America declining relative to the EC, Japan and ASEAN.

Korea's ministers and trade officials have managed to hold off US protectionist actions, avoiding being named as an unfair trade partner. This also provides temporary stability for ROK exporters although there are renewed concerns about successive EC trade actions. An increase in imports coupled with lessened export activity could result in a trade deficit of \$4.8 billion in 1991.

The Korean government believes that the numbers speak for themselves and that the Korean economy is showing a far more open import regime at this stage of its economic development than Japan did. The problem is, as they admit, that no one will ever allow Korea or other Newly Industrialized Economies (NIE) to get away with the same export waves as the Japanese showed in the 1970's. The response to the nationalists is that imports are creating a price competition that is keeping inflation under control. In addition, continued imports of capital goods allow the retooling of Korean factories with the latest EC and Japanese equipment needed to enhance productivity and stay ahead of other NIE.

CANADA-KOREA RELATIONS: OVERVIEW

ISSUE

Canadian interest in the Republic of Korea (ROK) stems from the Canadian desire to ensure continued stability on the Korean peninsula and to develop and protect our growing commercial and other interests.

BACKGROUND

Canada's involvement in the Korean peninsula and with its people began in the late 19th century when Canadian missionaries played an important role in serving Koreans in the fields of education and health care. Official involvement commenced in 1947 when Canada was a member of the United Nations Commission supervising free elections in Korea. Formal recognition followed in 1949. Canada contributed 26,791 troops, the fourth largest contingent, to the UN Forces in the 1950-1953 Korean War and suffered 516 fatalities.

The most fundamental element in the relationship rests in Canadian support for the political and territorial integrity of the ROK against the claims of North Korea (the Democratic People's Republic of Korea-DPRK) to be the sole legitimate government on the peninsula.

The bilateral relationship has been strengthened over the last ten years by numerous high-level visits. President Roh visited Canada from July 3-6, 1991 accompanied by Korean Foreign Minister Lee Sang Ock and Minister of Trade and Industry Lee Bong Suh (who also visited Canada last April). The Secretary of State for External Affairs (Joe Clark) visited Seoul in September 1990. There have been previous head of government visits by Prime Minister Mulroney in 1985, former Prime Minister Trudeau (1981) and President Chun (1982). In 1986, President Chun made a technical stopover in Vancouver en route to European visits.

These high-level exchanges are reinforced by the presence in Canada of over 80,000 residents of Korean origin, a constant influx of Korean immigrants particularly in the entrepreneurial class and travel by businessmen, families and increasingly, tourists (approximately 30-35,000 in 1990).

Political consultations at senior officials level, usually held annually, provide a useful opportunity to ascertain Korean views on current international and regional questions and also serve to demonstrate that Canada considers the ROK to be a valued interlocutor. Annual Trade Ministerial consultations have

also become an important part of our bilateral relationship. In 1989, the Trade Ministers of each country agreed that consultations should occur regularly, at the ministerial level if possible, and to that end a Joint Economic and Commercial MOU was signed during the visit of President Roh.

The annual meetings of the Canada-Korea Business Council also provide a forum in which business contacts can be strengthened and commercial opportunities identified and pursued.

Trade relations between Canada and the ROK are governed by a bilateral Trade Agreement (1966) and by mutual membership in the GATT. As a result, Canada and the ROK extend to each other benefits of Most-Favoured-Nation (MFN) treatment. In addition, Korea is accorded General Preferential Tariff (GPT) treatment.

Trade relations have grown remarkably since Canada opened its Embassy in Seoul in 1973. Canadian exports to the end of July are up 35% over last year, while imports have fallen by 8%. Korea and Canada are now each others 6th largest trading partners, and Canada is now the 3rd most important destination for Korean investment. This growth has been especially dramatic in recent years. Korea is now Canada's second largest trading partner and second largest market (after Japan) in the Asia and Pacific region accepting more of our exports than France. Coal remains Canada's single largest export to the ROK, while the primary items imported are cars, textiles, clothing, footwear, iron and steel products and consumer electronic products.

While progress has been made in resolving bilateral irritants or advancing Canadian commercial interests, there remain a number of areas where Canadian concerns continue to be raised, i.e. Korean fishing in the North Atlantic and driftnet fishing in the North Pacific, fair access to the Korean market for Canadian agricultural and other products, and human rights.

In December 1990, negotiations were completed on the sale of a second CANDU nuclear reactor to Korea. An Air-Services Agreement was signed in September, 1989. Cooperation in sports and cultural fields between Canada and Korea can be expected to grow substantially in coming years. There are existing bilateral MOUs on cooperation in sport and cultural relations.

CANADA - KOREA TRADE OVERVIEW

ISSUE

Canada and Korea remain important trading partners for each other. While substantial gains have been made in high tech, value added sectors, Canadian exports remain skewed towards agricultural, raw materials and semi-finished products. Korea continues to enjoy an export trade to Canada comprised primarily of fully manufactured products.

BACKGROUND

Trade figures for 1990 indicate that next to Japan, Korea is our largest trade partner in the Pacific, both as an export market and as a source of imports. In fact, as an export market, Korea surpassed France, all of Eastern Europe and all of Latin America. In 1990, Canadian exports amounted to \$1.54 billion with two-way trade exceeding \$3.8 billion.

Like many developed countries, Canada's trade with Korea has been characterized in recent years by large and growing deficits, evidence to many of the inequities in the trade relationship. To deal with this imbalance, Canada's overall strategy is designed to achieve greater access for Canadian goods and services through bilateral and multilateral negotiations while promoting the superior merits of Canadian products with the Korean private and public sectors.

This strategy has begun to bear fruit, as the figures for the first six months of 1991 show that exports are up by 21% compared to the first six months of 1990, resulting in a slight trade surplus of \$38 million. In 1990, Canadian exports amounted to \$1.54 billion, a decrease of 6% from 1989, while imports of Korean goods amounted to \$2.25 billion, a decrease of 8%, resulting in a trade deficit of \$701 million, a decrease of 11 percent.

Exports of Canadian resource-based products are led by sales of coal, aluminum, sulphur, uranium, potash, copper and iron ore. In 1990, Canadian mineral exports alone totalled over \$600 million and represented more than half of all Canadian exports to Korea.

Agricultural issues of interest to Canada include the removal of the prohibition on feed barley, competitive tariffs on canola and alfalfa and equal access to concessional financing for Canadian wheat.

Canadian banks would like to be able to open branch offices, offer full branch services, own property and have access to local currency. Current restrictions prohibit Canadian banks from competing fully in this market. Korean banks operating in Canada enjoy full privileges.

As fully manufactured products comprise less than 8 percent of Canadian exports to Korea, the Canadian government is committed to rectifying this imbalance in the composition of our trade. In addition, specific trade objectives are designed to improve the market share for our resource-based products; gain access for products of the Canadian agro-fish industry; increase export opportunities for Canadian manufactured products in such areas as defence, aerospace, and biotechnology; improve access conditions for Canadian companies in the services sector, increase direct investment and tourism from Korea.

In support of these objectives, EAITC organized a "Canada Week" in Seoul in March 1988, a similar event in March, 1990 and a "Canada Business and Technology Week" in November, 1990 to highlight Canadian capabilities in the high technology sectors of telecommunications, electronics and aerospace. A fifteen-day promotional event, "Experience Canada", will be held in February, 1992. Other initiatives include incoming and outgoing missions, supported by government programs, in the aerospace, defence products, autoparts, energy, telecommunications, instrumentation and processed food sectors.

The Honourable Michael H. Wilson, Minister for International Trade, will lead a ministerial mission to Korea in November. Companies on the mission will be drawn largely from the communications and automotive products sectors, in recognition of the significant sales prospects for these products in the Korean market.

Recent notable breakthroughs include the sale of a second CANDU nuclear reactor and the first corporate jet sale in Korea by Canadair. Cooperative ventures into third markets, such as the recent sale by Champion of \$3 million worth of road graders to a Korean construction company for use in the Middle East indicates that our two countries can cooperate in penetrating other markets. In terms of investment, Sammi Steel's recent announcement of the expansion of their facilities at Tracy, Quebec valued at \$350 million will make it the largest specialty steel manufacturer in the world. This investment expresses the confidence that Korean companies have in the stability of Canada.

Korean exports to Canada consist principally of fully manufactured products including computers, automobiles, household appliances, footwear and textiles. Korea continues to raise concerns over the number of anti-dumping complaints registered against their imports, although Canadian anti-dumping regulations are transparent and free from political involvement. A prime example is the dismissal of the complaint against Hyundai.

The Korean economy is expanding at a rapid rate. As Korea joins the industrialized world and takes its place at the MTN table, the Korean government is responding to increasing pressure to liberalize its domestic market. Many opportunities now exist in Korea for enterprising Canadian companies that can respond quickly to fast-breaking opportunities. Many more will appear in the near future.

CANADA-KOREA TRADE

January-June (1990-1991)
(000s \$Cdn)

<u>Commodity</u>	<u>1991</u>	<u>1990</u>	<u>% change</u>
1. Coal, Mineral fuels	233 770	189 788	+ 23
2. Ores, Slag, Ash	40 759	104 732	- 61
3. Organic Chemicals	74 984	79 050	- 5
4. Wood Pulp	85 699	74 084	+ 15
5. Special Transactions	83 492	51 623	+ 62
6. Raw Hides, Leather	18 784	46 447	- 60
7. Aluminum	49 066	45 642	+ 8
8. Fertilizers	35 957	23 425	+ 53
9. Iron and Steel	149 721	18 160	+ 88
10. Sulphur	15 617	17 178	- 9
All Categories (HS- 1-99)	787 849	650,129	+ 21

<u>Commodity</u>	<u>1991</u>	<u>1990</u>	<u>% change</u>
1. Electrical Equipment	213 632	198 746	+ 7
2. Mechanical Equipment	130 916	139 013	- 6
3. Vehicles and Parts	132 009	121 105	+ 9
4. Clothing, not knitted	13 083	104 421	- 87
5. Footwear	82 834	97 046	- 15
6. Leather Goods	55 721	77 297	- 28
7. Clothing, knitted	34 701	69 205	- 50
8. Textiles	31 780	40 264	- 21
9. Rubber	30 895	36 550	- 15
10. Iron and Steel Goods	24 287	31 620	- 23
All Categories (HS- 1-99)	749 408	915,267	- 18
Bilateral Trade:	1 537 257	1 565 396	- 2
Bilateral Trade Balance for Canada:	+ 38 441	- 337 467	+ 89

CANADA-KOREA TRADE

January-December (1989-1990)
(000 \$Cdn)

Exports

<u>HS#</u>	<u>Description</u>	<u>1990</u>	<u>1989</u>	<u>% change</u>
27	Coal, Mineral Fuels	333 886	290 908	+15%
47	Wood Pulp	133 415	180 406	-26%
26	Ores, Slag and Ash	170 560	171 897	- 1%
29	Organic Chemicals	140 570	157 377	-11%
76	Aluminium	104 188	121 227	-14%
72	Iron and Steel	58 998	115 266	-49%
41	Raw Hides, Leather	67 356	54 697	+23%
31	Fertilizers	51 379	50 045	+ 3%
25	Sulphur	15 387	49 649	-69%
All categories (HS 1-99)		1 549 931	1 592 343	- 3%

Imports

<u>HS#</u>	<u>Description</u>	<u>1990</u>	<u>1989</u>	<u>% change</u>
85	Electrical Equipment	443 799	588 322	- 25%
84	Mechanical Equipment	253 995	261 613	- 3%
87	Vehicles and Parts	269 784	211 077	+ 28%
62	Clothing, not knitted	16 231	185 933	- 91%
42	Leather Goods	149 249	145 518	+ 3%
64	Footware	164 734	140 717	+ 17%
61	Clothing, knitted	119 740	128 476	- 7%
55	Fibres, man-made (textiles)	76 634	83 550	- 8%
73	Iron and Steel Goods	58 287	82 251	- 29%
40	Rubber	65 956	57 896	+ 23%
All categories (HS 1-99)		2 251 565	2 440 953	- 8%
Bilateral Trade:		3 801 496	4 092 562	- 7%
Trade Balance for Canada:		- 701 634	- 848 610	-17%

THE KOREAN IMPORT REGIME

ISSUE

In an effort to increase the competitiveness of domestic industries and to ease friction with its major partners, the Korean government took steps over 1988-89 to abolish some restrictive import policies. While these measures should be acknowledged, the Korean government should be encouraged to proceed with further import liberalization, which slowed in pace over 1990. The Korean trade deficit and concerns over a fall in economic growth has prompted some anti-import actions such as the government's anti-consumption crusade and a one year delay in scheduled delays in tariff cuts.

BACKGROUND

The Korean Foreign Trade Act is the major operative piece of legislation which gives the Minister of Trade and Industry (MTI) power to, inter alia, take action to increase or to restrict the export and import of goods. The Act requires anyone wishing to operate a trade business to obtain a licence under conditions or qualifications established by MTI. Such conditions are determined separately for foreigners.

In order to obtain a licence to operate a trade business (i.e. to import under its own name) a firm must register with the Korean Foreign Traders Association (KFTA). MTI also determines and publishes the classification of an item for import and export as "automatic approval" or "restricted approval". All items require an import licence. Control of this is established through the banking system. For an item subject to automatic approval, the registered importer applies to a bank (which must be licensed to deal in foreign exchange) for approval and issuance of a letter of credit.

The criteria for choosing restricted items are imprecise. However, it is clear that one criterion is the protection of local producers, and another is the balance of international payments. An importer wishing to import a restricted item must apply to the Ministry, or other agency (usually an industry cooperative) identified in the notice, to obtain an import licence. The licence may or may not be issued, depending on criteria which is determined for each case. What is clear is that an application must be made for each import, since licensing authorities can and do change their responses depending on prevailing conditions (i.e. would this harm local producers even though the last application was allowed).

In all cases involving restricted items, a specific instruction must be obtained from the designated agency. Since, in most cases this is a local industry association, protection of the local industry is a leading consideration in the granting of an instruction.

With more products coming off the restricted list, as a result of foreign and domestic pressures, Korean trade officials are resorting to other methods to protect Korean industry from foreign competition. A new tactic is the threat of detailed tax audits against Korean distributors carrying high profile foreign products (i.e. cars, cameras, fashion wear, etc). This has proved successful in limiting access to the automobile market. In addition, threatened industries have begun to resort to anti-dumping measures allowed under Korean law as well as safeguard measures under the provisions of the Korean Fair Trade Commission.

CANADIAN TRADE OBJECTIVES

ISSUE

Despite a rapid increase in bilateral trade, Canadian exports to Korea continue to lag behind Korean exports to Canada. Canadian exports remain skewed towards agricultural, raw materials and semi-finished products. Korea continues to enjoy an export trade to Canada comprised primarily of fully manufactured products. The ROK has also had a distressing tendency to favour the U.S. in market opening initiatives

BACKGROUND

Canada and Korea remain important trading partners for each other. Trade figures for 1990 indicate that, next to Japan, Korea is our largest trade partner in the Pacific, both as an export market and as a source of imports. In fact, as an export market, Korea surpassed France, Eastern Europe, and all of Latin America.

In 1990, Canadian exports amounted to \$1.54 billion, an decrease of 3% over 1989 while imports of Korean goods amounted to \$2.25 billion, an decrease of 8%, resulting in a trade deficit of \$701 million, a decrease of 17%.

Like many developed countries, Canada's trade with Korea has been characterized in recent years by large and growing deficits, evidence to many of the inequities in the trade relationship. To deal with this imbalance, Canada's overall strategy is to achieve greater access for Canadian goods and services through bilateral and multilateral negotiations while promoting the superior merits of Canadian products with the Korean private and public sectors.

OBJECTIVES

Canadian trade objectives in Korea are designed to improve the market share for our resource-based products; gain access for products of the Canadian agro-fish industry; to increase export opportunities for Canadian manufactured products in such areas as defence, aerospace, and biotechnology; to improve access conditions for Canadian companies in the services sector and to increase direct investment from Korea.

SECTORS

Resource Products

Exports of Canadian resource based products are led by sales of coal, aluminum, sulphur, uranium, potash, copper and iron ore. In 1990, Canadian mineral exports alone totalled over \$600 million.

Coal remained Canada's single largest export to Korea in 1990, totalling almost 5.2 million tonnes, and valued at over \$300 million. Canadian coal producers are pleased with this increase but continue to seek greater market share and stress to their Korean purchasers (KEPCO and POSCO) that world price levels must rise if producers are to remain viable.

Agricultural Products

Opportunities for sales of Canadian agricultural products in Korea are still limited by restrictive import policies and regulations, although the Koreans have recently announced several liberalization measures. In 1990, Canadian exports of agricultural products were \$76 million, but this is still well below the \$173 million in 1987. Sales of feed wheat doubled to \$8.0 million in 1989 but is still far from the \$141 million in sales in 1987. Opportunities for sales of other products such as milling wheat, canola, beef tallow and whisky have also been hampered by protective policies. U.S. exports of similar products exceeded \$2.5 billion during the same period.

The Canadian government continues to work to ensure that export opportunities continue to expand and remain open to international competition.

Services

The Korean service sector, particularly in the banking and insurance fields, has been tightly controlled and regulated by the Korean government. The past few years have witnessed a series of reforms in the banking sector which are being monitored closely by the foreign banking community to ensure that liberalization of the financial markets takes into consideration the recommendations proposed by the foreign banks. These recommendations would provide the foreign banks with greater access to local currency, less restrictive branching requirements and eliminate the restrictions on asset-based financing.

Similarly, a recent agreement reached between the Korean and U.S. governments to liberalize the Korean insurance market offers considerable scope for foreign insurance companies if these concessions are applied equally to all foreign insurance companies operating in Korea. The Canadian government is working to ensure that such liberalization policies are applied in a non-discriminatory manner. Manufacturers Life Insurance Company recently received approval for their joint venture with Korea Zinc, and began offering insurance services.

Tourism

Korea has, since 1983, been steadily relaxing restrictions related to age, frequency of travel and spending limits on Korean citizens who wish to travel abroad. As of January 1, 1989 all such restrictions were abolished.

The Canadian government is actively pursuing this market and is providing support and assistance to private Canadian companies interested in providing this service.

An Air Services Agreement, signed in September, 1989 provides for a Canadian carrier to operate direct flights between Canada and Korea. Air Canada announced however, that they were postponing the inauguration of this service for the foreseeable future. Singapore Airlines and KAL already offer direct flights between Seoul and Vancouver.

Investment

Canada has taken a number of steps to create a new and positive environment to encourage foreign investment. The Canadian government is of the view that both direct and indirect foreign investment can significantly enhance domestic economic development.

The \$350 million Hyundai automobile assembly plant now in operation in Bromont, Quebec, and their \$125 million stamping facility, under construction, makes Korea a new but increasingly important foreign investor in Canada. The recent \$250 million acquisition of the Atlas Steel Division of Rio Algom by the Sammi Group and their plans to double their investment to expand production is another sign of the coming of age of Korea as an international business partner. Several Korean companies have invested smaller amounts outside central Canada, including the Han Yang Chemical Corporation which has invested \$16.5 million in a joint venture to operate a PVC window frame operation in St. John's Newfoundland.

Manufacturing

Fully manufactured products comprise less than 8 percent of Canadian exports to Korea. The Canadian government is committed to rectifying this imbalance in the composition of our trade. To this end the government sponsored "Canada Week" in Seoul in March 1988, a smaller event in March, 1990, and a "Canada Business and Technology Week" in November, 1990. A similar event is scheduled for November, 1991. These events highlight Canadian capabilities in the high tech, electronics and aerospace sectors. Incoming and outgoing missions, supported by government programs, are occurring in the aerospace, defence products, biotechnology, autoparts, energy, telecommunications, instrumentation and processed food sectors. The Korean response to these initiatives appear to be positive.

While details of purchasing programmes and budgets are considered confidential, we estimate defence products valued at \$700 million are imported annually. These are concentrated in products which Korea cannot yet manufacture such as communication, command and control systems, reconnaissance and data acquisition systems, and aerospace (including new helicopter, fighter aircraft and transport aircraft procurement programmes). Military contracts usually require a minimum 50 percent offset arrangement with a further preference for local content and the transfer of technology.

The biotechnology industry in Korea is relatively young but experiencing rapid growth. Currently, approximately 60 Korean companies are engaged in developing and/or utilizing biotechnology, with the emphasis on health care, food and agriculture. This industry is expected to grow by 20 to 25 percent per year over the next decade.

The Korean automotive parts and components market totalled over \$6 billion in 1989. Of this, \$600 million were imported. Canadian exports of autoparts amounted to less than \$10 million. The opportunities to supply automotive parts to Korea are good at this point in time, however, only a few Canadian companies have made the investment in time and money. Korean government policy is encouraging domestic automakers to source components from countries other than Japan. Canadian suppliers have the opportunity to capitalize on this shift. To further expose Korean industry to Canadian capabilities, an automotive parts mission will visit Korea in early November.

On the nuclear energy side, the Korean authorities and Atomic Energy of Canada Limited (AECL) have reached an agreement to build a second nuclear reactor at Wolsung using CANDU technology, dry spent fuel storage facilities, the Korea Multi-Purpose Research Reactor (KMPPR) and the Slowpoke reactor.

Petrochemicals

Korea is deregulating (or re-regulating) their petrochemical industry. Many of the major corporations are taking steps to guarantee the supply of chemical raw materials by purchasing "upstream" chemical processing companies. This vertical integration into primary production will impact on the Canadian petrochemical industry. Initially, we will find that the demand for Canadian product will fall off as more capacity comes on-stream in Korea. Subsequently, we may find ourselves competing with Korean product in third country markets. Canadian industry needs to prepare for this by identifying market/product niches and by supplying the Koreans with the specialty products they need for their industry.

OUTLOOK

The Korean economy is expanding at a rapid rate. Many opportunities exist in Korea for Canadian companies that wish to meet the challenge. As Korea joins the industrialized world and takes its place at the MTN table, they will feel the pressures to liberalize their domestic market. To take advantage of these opportunities, Canadian companies must be prepared to respond quickly to these fast-breaking opportunities.

CANADA KOREA TRADE ISSUES

ISSUE

Despite highly publicized market liberalization measures and a rapid increase in bilateral trade, Canada remains concerned over the composition of our trade with Korea and the lack of access for Canadian agricultural products, the latter a result of a policies specifically favouring the USA.

BACKGROUND

In 1989, Canada/Korea two-way trade reached \$3.801 billion making Korea Canada's sixth largest trading partner and export market in the world, (fourth if we consider the EC as one entity). Although Korean exports to Canada increased by only 8% in 1990, (after years of double digit growth), Canadian exports decreased by 3%, reducing our sizable deficit to \$701 million from \$849 million the year before. Figures for the first six months of 1991 show that imports are down and exports are up from the same period in 1990.

While encouraged by the long-term trend in export sales, and a respectable increase in Korean investment in Canada, Canadian exporters remain concerned about two main issues: (a) the composition of our trade (still heavily skewed toward basic commodities) and (b) our continuing inability to penetrate the Korean agricultural market in any meaningful way.

The first problem is largely one of lack of Korean familiarity with Canadian expertise in selected high tech and other advanced manufacturing sectors. The Department of External Affairs and International Trade is assisting Canadian exporters to address this problem through a series of high-profile, targeted, trade promotional "Canada Weeks", (November 1990 and November 1991).

A favourable decision on the building of a second CANDU nuclear reactor at Wolsung should give a boost to our exports of high tech products. However, we would also like to see this contract, not as a "one-off" sale, but as a building block in a broader, mutually beneficial partnership.

On the agricultural side, opportunities for Canadian agricultural exports to Korea are still hampered, (despite the introduction of some new liberalization measures), by restrictive import policies and regulations: (e.g. prohibitions on the import of feed barley; the preference given to the US agricultural credit program (GSM-102) which affects the competitiveness of Canadian milling wheat; and high tariffs on canola and alfalfa, to name the most important). Although a major world exporter of agricultural products, Canada exported only \$Cdn 76 million of agricultural products to Korea in 1990, while U.S. exports of similar products exceeded \$US 1.8 billion over the same period.

The new Korean Chairman of the Canada/Korea Business Council recently predicted a doubling or tripling of Canada/Korea trade by the year 2000. If Canada is to realize an equitable portion of this objective we will have to see a breakthrough in access for agricultural products, and be given a fair chance to compete with American suppliers in the already large Korean agricultural market.

KOREAN POSITION

Overall, Canadian exports have enjoyed tremendous growth over the past several years. Despite strong opposition from its agricultural constituency, the Korean government has announced several tariff reductions and other liberalization measures in the agricultural sector which will be phased-in over the next three years, with further measures likely to come as a result of the current MTN negotiations.

CANADIAN POSITION

Despite the new liberalization policies, several measures (the ban on barley, the lack of recognition of Canada's long-term agricultural credit program) will remain in place. These measures will effectively prevent some of Canada's most important and competitive agricultural products (barley and wheat) from competing for a share of the large, existing agricultural import market in Korea, leaving the field open to US suppliers. Korea must respect its GATT obligations to provide access to its markets on an MFN basis.

THE MULTILATERAL TRADE NEGOTIATIONS (URUGUAY ROUND)

BACKGROUND

The Uruguay Round is the largest, most complex set of international trade negotiations in history. They began in Punta del Este, Uruguay, in September 1986, with an agenda covering market access issues (tariffs and non-tariff barriers), agriculture, textiles and clothing, trade rules (subsidies/countervail, anti-dumping and safeguards), so-called new issues (services, intellectual property and investment) and institutional issues (dispute settlement and a World Trade Organization).

Completing the MTN is Canada's highest international economic priority this year. There is a political window of opportunity to reach the broad elements of a political deal on the MTN this autumn. We have a strong commitment and direction from our G-7 leaders to build on in order that we reach a "global, ambitious and balanced" MTN deal around the end of this year. A successful MTN outcome will help provide the environment for improved competitiveness and renewed growth for both developed and developing countries in the years ahead.

From a Canadian perspective, a good, balanced outcome to these negotiations must include agriculture. Better access to overseas markets, including to the European community, for Canadian agricultural products, as well as sharply reduced agriculture export subsidies, must be part of the final outcome. A comprehensive overall MTN outcome must also include improved access for goods and services generally, stronger trade rules and better institutional arrangements.

The Uruguay Round of multilateral trade negotiations has entered its critical final phase, with only a few weeks left before the concluding ministerial conference in Brussels.

The MTN stakes are high, both for individual participants and for the global trading system. The gaps between the positions of major participants remain important on many politically sensitive and key issues. Even at this late date, success is by no means assured. Yet, the basic elements for achieving a substantial and comprehensive outcome on time are in place. Most participants understand that the consequences of an unsuccessful MTN are immense in terms of increased unilateralism and protectionism and slower economic growth.

At the Trade Negotiations Committee (TNC) meeting in Geneva in July, progress reports from the 15 different negotiating groups were approved as a basis for intensifying and completing the negotiations through the fall. Progress made in individual issues and the substantive gaps to be bridged inevitably varied considerably from group to group. It was decided by the TNC that each of the negotiating groups would continue to meet intensively until mid-October. At that time, the management of the negotiating process becomes more centralized, with GATT Director General Arthur Dunkel beginning intensive deal-crunching meetings with senior capital-based officials in order to narrow down the outstanding items for decisions by ministers at their December meeting in Brussels.

At the Houston Economic Summit in July, the Heads of State and government made a successful MTN outcome a major element of their economic growth strategy and the most important task on their international economic agenda this year. They directed their negotiators to seek a substantial and progressive reduction of protection and of trade-distorting support to agriculture; to bring about a substantial and balanced liberalization of tariffs and non-tariff barriers; to introduce a major reform of existing GATT rules (including subsidies/countervail, anti-dumping, technical barriers to trade and the GATT's balance-of-payments provisions); to respond positively to the interests of developing countries in an endeavour to integrate them successfully into the trading system and to strengthen the dispute settlement system and the multilateral institutional trading framework. They also committed themselves to follow progress in the MTN closely and to become personally involved if necessary.

The twelve countries comprising the Asia Pacific Economic Cooperation (APEC) group concluded, in mid-September in Vancouver, a helpful meeting on the Uruguay Round. APEC ministers (from Canada, Korea, the U.S.A., Japan, Australia, New Zealand and the six ASEAN countries) expressed their determination to play a leadership role in accelerating the pace of negotiations in Geneva. APEC ministers registered progress on a number of key issues, including market access, textiles and clothing, trade in services and trade-related investment issues. Japanese and Korean concerns over food security prevented full agreement on agricultural reform, but even in this sensitive area, APEC ministers concurred that agriculture is a pivotal element of a successful MTN overall. Moreover, APEC ministers agreed to examine, in the concluding Brussels ministerial meeting, the elements of a possible world trade organization.

If the Brussels meeting is successful in resolving the remaining substantive issues that can make or break the Uruguay Round, some technical work may still need to be completed in early 1991, but there will be no room for carrying on substantive negotiations into the new year. Several weeks, if not months, will be required to complete the legal drafting of the various agreements. The legislative timeframe under the USA's "fast track" congressional process (which, as a practical matter, is setting the MTN timetable), calls for notification by the President of the United States of his intention to enter into new trade agreements by March 1, 1991 and for the submission of the definitive treaty agreements by June 1, 1991. The new trade agreements would be submitted for legislative approval and ratification by different MTN participants in the second half of 1991, with subsequent implementation likely sometime in 1992.

Their proposed approach over the transitional period (i.e. based on existing bilateral quotas) differs from our own (i.e. introduction of new global quotas). They are also seeking a strengthened dispute settlement system, a framework for trade in services (although they are not pushing for actual liberalization during this Round), and are prepared to accept some strengthening of intellectual property standards entailing general rather than detailed obligations.

The most recent Korean tariff proposal offers, for the first time, to bind a significant proportion of that country's tariff schedule. However, it entails little actual liberalization.

At the APEC meeting in Vancouver in September 1990, discussions were held to develop further consensus in the region on the steps necessary over the crucial two months remaining to achieve a substantive and comprehensive result. Mr. Crosbie, as Minister of International Trade, also had an opportunity at that time to meet separately with Korea's Minister of Trade and Industry, Dr. Park, to discuss the difficulties which confront successful completion of the Round, as well as the progress to date.

CANADIAN POSITION

Canada has been one of the most active MTN participants. It has tabled detailed proposals on a wide range of issues, including a number which are either of specific interest to the rapidly developing Pacific nations or which touch on problem areas (dispute settlement, subsidies/countervail, safeguards, intellectual property, market access and agriculture).

Canada's overall objectives vis-a-vis the Pacific include: obtaining substantial reductions in tariffs and non-tariff barriers (NTBs), especially for agricultural and processed resource products, and a range of high-technology items such as telecommunications; bringing all economies of the region under stronger and more equitable GATT rules and disciplines; extending the scope of existing GATT rules to services and to trade-related intellectual property and investment measures, as the contractual framework for managing Canada's future trade relations in these areas; and facilitating gradual and orderly structural adjustment of Canadian production facilities to global competition under more open and fairier trade conditions.

MULTILATERAL TRADE NEGOTIATIONS (MTN)
CANADA-KOREA PERSPECTIVE

ISSUE

The Uruguay Round of multilateral trade negotiations is scheduled to conclude around the end of this year. The results will have a significant bearing on the environment for international trade in the decade ahead, particularly in terms of the continued liberalization of trade and growth of investment in the Pacific region. A key objective of the Round from the outset has been that of more fully incorporating the newly industrialized countries like Korea into the GATT.

BACKGROUND

The negotiations are now entering their final phase. The industrialized countries continue to articulate their commitments to substantial results across a broad range of issues, while key Less Developed Countries (LDCs) have indicated a greater appreciation of the importance of a successful result to their own long-term interests. However, at this point, progress has been mixed, with substantial differences in a number of key areas, including agriculture, reform of certain international "trade rules", (anti-dumping to protect domestic industries from unfair pricing, as well as subsidies and countervail), and the "new issues" of trade in services and improved protection for intellectual property.

Nevertheless, a considerable amount of work has been done and a substantial result is still feasible. At the London Summit, leaders reaffirmed that a successful conclusion of the Round is the highest priority on the international economic agenda and called for a "global, ambitious and balanced" result.

Negotiations have now entered the intensive phase (deal-making), in which it has become necessary to examine trade-offs across a broader range of issues in order to achieve progress in the most difficult areas.

A comprehensive final package will need to address the interests of developing countries in a number of areas. This would include improved access to developed country markets for, among other things, textiles and clothing. LDCs will also be looking to improved disciplines over the application of safeguards and countervail measures. In turn, the industrialized nations are looking for concessions from the LDCs in such areas as improved market access, strengthened protection for intellectual property rights, support for a multilateral agreement on trade in services and improved disciplines over LDC restrictions on imports for balance-of-payments purposes.

Also critical is the issue of special and differential treatment for developing countries. This has been so vaguely articulated in previous Rounds that LDCs have largely enjoyed exemption from resulting obligations. Developed countries appear determined to enforce greater adherence to the results of the current negotiations, particularly in the case of relatively advanced Newly Industrialized Countries (NICs) such as Korea.

Ministers responsible for the Uruguay Round met in Vancouver in September 1990 at a meeting of APEC, hosted by Canada. The meeting was aimed at encouraging the fullest possible contribution from the Pacific nations to a successful Uruguay Round outcome and highlighted the importance of a substantive outcome as a central element of improved trade and investment within the region. The Uruguay Round will be discussed by Ministers at the third APEC meeting in Seoul, Korea, November 12-14, 1991.

KOREAN POSITION

Korea has been a relatively active participant in the Round. The Koreans almost certainly view a strengthened multilateral system as fundamental to long-term economic growth and consequently seem prepared to make a number of contributions. Their most sensitive item continues to be the need to protect a relatively inefficient agricultural sector. Key objectives have included improved market access, particularly for industrial products, and improved disciplines over safeguards, anti-dumping and countervailing duties. The Koreans have also emphasized re-integration of textiles and clothing into the GATT, since this comprises one of their largest exports.

CANADIAN POSITION

The Asia-Pacific represents the second largest (after the U.S.A.) and fastest growing regional market for Canada's merchandise exports. In 1981, Asia-Pacific countries purchased 31% of Canada's non-U.S.A. exports; by 1988, this proportion had increased to 47%. Canada's broadest MTN goal with respect to Asia-Pacific is to promote the greater integration of regional economies into the GATT system through the Uruguay Round. This will open new opportunities for Canadian exporters and help to ensure that market opening is done on a non-discriminatory basis, which does not exclude Canadian products and suppliers.

Canada is seeking significantly enhanced and more secure market access for its exports. In particular, Canada is seeking global free trade in resource products such as forest products, fisheries, certain chemicals, and in the high-tech areas of telecommunications and computer equipment and parts. With respect to market access into the Asia-Pacific region (including Korea), Canada's objectives include:

- a substantial reduction of tariff and non-tariff barriers on resource products such as agricultural, fish, wood and paper products, minerals and non-ferrous metals and certain chemicals; and
- diversification toward exports of more highly processed resource products, as well as manufactured products such as machinery and telecommunications equipment.

For Canada and a number of other MTN participants, trade reform in agriculture is central to a successful outcome to the Uruguay Round. Korea, Japan and the European communities, on the other hand, seek a more modest result in agriculture, reflecting their desire to protect inefficient domestic producers. Canada seeks the substantial reduction of trade distorting internal support measures, the elimination of export subsidies, substantially improved market access and the development of agricultural trade rules that are effective and apply equitably to all GATT members.

Canada also seeks the strengthening of GATT rules (e.g. subsidies/countervail, anti-dumping, emergency safeguard measures, access to balance-of-payments provisions), more effective multilateral dispute settlement procedures and more liberal and secure conditions for trade in services (Canada's priority access interests in the Asia-Pacific region lie primarily in the fields of financial and telecommunications services, where barriers are numerous.

In the context of a comprehensive and substantial MTN result overall, Canada has also proposed that ministers decide in Brussels in December to agree, in principle, to the establishment of a world trade organization. This strengthened institutional framework is required to house effectively the many agreements emerging from the Round, including an improved GATT proper, revised MTN Codes (e.g. on anti-dumping, product standards, subsidies/countervail), the new General Agreement on Trade in Services (GATS), and an agreement on trade-related intellectual property matters. The WTO would also enable stronger cooperation on equal terms with the International Monetary Fund and the World Bank to ensure greater coherence in global economic policy-making.

CANADA-KOREA AGRICULTURAL ISSUES: A SUMMARY

DEHYDRATED ALFALFA

Canadian dehydrated alfalfa products, pellets in particular, are used as a component in feed concentrate, replacing grain and other imported protein meals, not primarily as a source of roughage. Pellets have also been known to dramatically improve the palatability of native grasses and forages. Dehydrated alfalfa can be used to complement locally grown forages, not replace them.

As a result of continued pressure by Canada, the Korean government recently announced, effective July 1, 1991, the reduction of the alfalfa tariff from 15% to 10% and an expansion of its import quota from about 60,000 tonnes to 100,000 tonnes. This is a welcome move, although it still leaves alfalfa with a higher tariff than competing feedstuffs, which are subject to tariffs in the 3-5% range.

BEEF

As a result of the GATT finding that Korean import quotas on beef were inconsistent with its international obligations, Korea undertook to eliminate its beef quotas by 1997. The Canadian Beef Exporters Federation and the Government of Alberta have targeted Korea as a market of opportunity. While Canada's beef exports rose to over 2000 tonnes in 1989, they declined in 1990, due to a shortage of beef in Canada. Procedures now in place have dramatically improved access for Canadian beef.

BARLEY

Korea effectively prohibits the importation of Canadian barley for animal feed. Barley is a traditional food grain in Korea and the government is concerned that animal feed-grain barley could be diverted to human use at great profit for the importer and at great expense to Korean farmers. Repeated assurances that Canadian barley could be rendered unfit for human consumption go unheeded. Korea does not discriminate against corn from the USA in a similar fashion even though they have domestic corn production and the purpose for which corn is imported (feed) is the same as barley.

The resolution of this issue appears to be long-term, requiring an educational/marketing approach by the Canadian Wheat Board, supported by representations by Canadian government officials at both the technical and political level.

CANOLA

Until recently, Canada was at a serious competitive disadvantage in the Korean market for canola and canola products, mainly as a result of Korean tariffs and quantitative restrictions, which discriminated in favour of soybeans and soybean products. Korea produces both canola and soybeans, but is also a major importer of oilseeds, with the USA being the dominant supplier.

As a result of liberalization measures taken this year by the Korean government, the tariff on canola was reduced to 10% and the import quota was lifted (soybeans are subject to only 3% duty) and the tariffs applied to both canola oil and soybean oil were set at 25% and an import quota established of 10,000 tonnes each. These liberalization announcements are welcome. However, Canada would like to see the tariff on canola reduced to 3%, in line with that applied to soybeans.

WHEAT - GSM 102 PROGRAM

The Korean government's policy to permit importers to use only the USA long-term credit program (GSM 102) for the importation of agricultural products will continue to give U.S. wheat suppliers a competitive advantage. The ROK had agreed to terminate the use of this program in October 1989, but in August 1989, after consultations with the USA, decided to reinstate it. Canada has a similar financing program available through the EDC and could, if permitted, be competitive in the Korean market.

Canada has raised this issue on several occasions, most notably during the visits of Ministers Crosbie (September, 1989) and Mayer (November, 1989), but failed to obtain clear cut assurances that this program would be phased out. In July 1990, Canada delivered a formal aide-memoire requesting the Korean authorities to end this discriminatory measure.

FISH

Korea restricts most fish imports to preserve foreign exchange and protect its domestic industry. Notwithstanding recent Korean liberalization measures, import impediments remain in place. Import licences for restricted species must be obtained, and tariffs on most fish products remain in the restrictive range of 10-20 percent.

Canada has raised, in particular, the need to liberalize a species which we market as freshwater mullet (suckerfish). To date, the Koreans have not responded to this request. Additional underutilized species that would benefit from liberalization include capelin.

FEED BARLEY

ISSUE

The Republic of Korea (ROK) is one of Canada's high priority markets for feed barley exports. However, the ROK government's support of domestic barley production for food use results in a virtual ban on the import of lower cost Canadian barley for feed.

BACKGROUND

Despite considerable effort on the part of the Canadian Wheat Board (CWB), no success has been realized in penetrating the huge Korean feed grain market with Canadian feed barley. Although the Korean government has steadfastly refused to allow feed barley imports, a few "test" shipments have been recorded.

Korean feed millers are very familiar with the nutritive feeding value of barley and have advised that they would like to import barley if the government would allow it, as they see barley as a competitive alternative to U.S. corn and sorghum.

The reason the Korean government does not allow barley imports is that Korean farmers receive a very high support price (ten times the world price) for their production, which goes into food use. The government maintains that imported barley for animal feed could be diverted to human food, thus undercutting their support program.

The current fragile political climate in Korea suggests that the government is unlikely to change its attitude on barley imports in the near future unless considerable external pressure is applied.

KOREAN POSITION

The Korean Ministry of Agriculture, Forestry and Fisheries maintains that imported barley cannot be effectively separated from domestic barley for human consumption. The ROK government is continuing its efforts to guide farmers out of barley production, cushioning the adjustment by maintaining a high price support scheme. Korean officials continue to contend that imported barley for animal feed would be diverted into human food use in spite of repeated assurances that Canadian barley could be denatured to make it unfit for human consumption. The Korean government has, however, stated that they would provide minimum market access as part of a successful Uruguay Round.

CANADIAN POSITION

The feed grain demand in Korea continues to increase. This year, Korea will import over five million tonnes of feed grain. As barley is the dominant export feed grain produced in Canada, the Korean ban on barley imports in fact discriminates against Canada vis-a-vis U.S.A. corn as a competitive supplier to the Korean market.

Canada has requested the Ministry of Agriculture, Forestry and Fisheries (MOAFF) and the Korean Feed Association to review their policies on the import of barley in light of Korean livestock industry requests for liberalization of feed imports, stressing the suitability of Canadian barley for import.

OILSEEDS - CANOLA

ISSUE

Until recently, Canada was at a serious competitive disadvantage in the Korean market for canola and canola products, mainly as a result of the Korean tariffs which discriminated in favour of soybeans and soybean products.

BACKGROUND

Korea is a major importer of oilseeds. In 1989, Korea imported 1.12 million tonnes of oilseeds valued at U.S. \$354 million. The U.S.A. is Korea's dominant supplier, providing 880,000 tonnes of oilseeds in 1989, 78.6 percent of Korea's total oilseeds imports, for a value of U.S. \$280.1 million. Canada's oilseed exports to Korea, on the other hand, totalled 8,889 tonnes of flaxseed and 1,025 tonnes of mustard seed. Canada has sold no rapeseed (canola) to Korea since a small (11,000 tonnes) quantity was shipped on a trial basis in 1986.

At the present time, canola seed is subject to an applied tariff rate of 10 percent and oil is subject to an applied rate of 25 percent. Soybeans enjoy a seven percent tariff advantage over canola seed, but the rate on soybean oil was raised to 25 percent effective July 1, 1991. Both canola oil and soybean oil are limited to an import quota of 10,000 tonnes each.

KOREAN POSITION

Despite strong and vocal opposition by the farming lobby, the Korean government has introduced a significant number of liberalization measures affecting the agricultural sector. The liberalization of canola and reduced tariff on canola oil should lead to Canadian sales to Korea.

CANADIAN POSITION

For twenty years, Canada has been seeking access for canola and canola products on the same basis as that accorded to soybeans and soybean products. Recent announcements to liberalize canola and equalize the tariffs on oils from 1991 are welcome. However, Canada would still like to see the temporary tariff on canola reduced from 10 percent to three percent, in line with that applied to soybeans. Canada is seeking to have these tariffs bound in the GATT at the reduced level.

KOREAN PREFERENTIAL CREDIT POLICY (GSM 102)

ISSUE

The Republic of Korea (ROK) continues to allow the U.S.A. the exclusive right to provide long-term credit on agricultural products, under regulations pursuant to the Foreign Exchange Control Act. There is a specific exemption for products imported with credits provided by the Commodity Credit Corporation (CCC) of the United States under its General Sales Manager (GSM) 102 Credit Program.

BACKGROUND

The ROK restricts the use of credit on the importation of agricultural commodities. Credit is limited to 120 days (not longer than 60 days if the exporter is located less than 10 days sailing time from Korea). An exception to extend the time limit to 360 days is granted in the case of imports under the GSM 102. This credit is available exclusively to U.S. exports.

Korea has utilized the GSM Credit Program since 1979. In 1988, the ROK declared its intention to discontinue the use of the GSM credit, but following its annual agricultural consultations with the U.S., the policy was extended. For the fiscal year ending September 1991, the Korean government is utilizing the GSM 102 program to the amount of U.S. \$512 million (U.S. \$160 million for wheat).

The Export Development Corporation's (EDC) Bulk Agricultural Programs can provide identical support to Canadian exporters. Wheat sold by the Canadian Wheat Board is also eligible for the Credit Grain Sales Program under similar terms, but Korean importers are not allowed to use the Canadian programs.

KOREAN POSITION

The ROK Ministry of Finance officials are reluctant to allow additional credit programs to qualify under the legislative exemption, since they claim it is the government's intention to phase out the use of the GSM program over the next 3-4 years.

CANADIAN POSITION

The Canadian Wheat Board can compete in the Korean market on the basis of:

- (i) supply and delivery
- (ii) quality and quality assurance, and
- (iii) price and credit terms

The decision by Korea to continue the acceptance of the U.S.A. GSM 102 program is disappointing and gives U.S. suppliers a clear advantage. The ROK government should provide equal access to its domestic market and either revoke its recent agreement with the U.S. or accept the Canadian equivalent program provided by our Export Development Corporation.

BEEF

ISSUE

Korea currently maintains import restrictions on beef which have been recently determined to be inconsistent with its GATT obligations.

BACKGROUND

In 1976, Korea introduced restrictions on beef imports which were justified as being consistent with the balance-of-payments (BOPS) provisions of the General Agreement on Tariffs and Trade (GATT). In 1984, Korea suspended virtually all beef imports, but after considerable pressure by major exporters, Korea established a flexible quota which allowed for the import of 50,000 tonnes in 1989.

In response to the imposition of a quota, Korea's major suppliers (Australia, New Zealand and the U.S.A.), pursued their GATT rights through separate panels. Canada entered third party submissions to the three panels, supporting the view that Korea's measures were not consistent with its GATT obligations. All the panels reached this conclusion, finding that the restrictions were contrary to Article XI:1 and that they could not be justified under BOP's provisions. In 1990, Korea finally concluded negotiations with the U.S.A., New Zealand and Australia and has introduced a long-term commitment to eliminate beef quotas by 1997. Korea also proposed sitting down with its suppliers, including Canada, to study the Korean livestock system. The Canadian representative on this joint study committee is Mr. Len Vogelaar, President of the Canadian Beef Exporters Federation.

The Canadian Beef Exporters Federation and the Government of Alberta have targeted Korea as a market of opportunity. While Canada's beef exports increased from 300 tonnes to over 2000 tonnes in 1989, it has dropped in 1990 due to a shortage of supply in Canada.

PORK

MARKET SITUATION

The Republic of Korea has announced the increase of its import quotas from 8 000 to 20 000 tonnes. These quotas are managed by the Livestock Promotion Marketing Organization (LPMO) and are filled through tenders, as for beef. All the recent tenders went to Taiwan.

TRADE IMPEDIMENTS/CONSTRAINTS

The Korean tendering process constitutes a major trade barrier to the Canadian pork imports into that country. LPMO basically purchases imported pork to lower domestic pork prices. The domestic pork production is generally of poor quality and is not able to fulfill the quality requirements of some market segments like major hotels and Western-style restaurants.

GOALS AND OBJECTIVES

With the overall objective of further expanding Canadian pork exports to Korea, Canada Pork international is:

- seeking the elimination of the current Korean import regime, or at least significant changes that would allow the Canadian exporters to have a fair chance to compete
- gaining a good understanding of the potential of these markets to devise the appropriate activities to fully exploit the Korean market.

CANADA-KOREA FISHERIES RELATIONS (DRIFTNET FISHING)

ISSUE

The squid driftnet fishery in the North Pacific, in which Korea participates, may be damaging the ecosystem and intercepting North American salmon.

BACKGROUND

There is continuing concern in Canada over Asian driftnet operations in international waters of the North Pacific. For several years, Canadian scientists have conducted research cruises in the North Pacific to obtain data on driftnet fishing and in June 1991 Canada hosted an international meeting (in which Korea participated) which reviewed the best available scientific data on the impact of driftnet fishing. In 1989, a pilot observer program was started involving Canadian, American and Japanese observers on Japanese squid driftnet vessels. The results of the 1989 and 1990 observer program indicate that substantial numbers of mammals and birds (including several endangered species) and fish other than squid were caught in the driftnet fishery. Salmon catches were not significant, but concerns about interceptions of North America salmon remain. While estimates are imprecise, it is likely that the North Pacific squid driftnet fishery destroys 40,000 to 80,000 marine mammals, about 750,000 seabirds, large quantities of pomfret, tuna and other fish species annually.

Canada-Korea driftnet consultations were held April 25-26, 1990 in Seoul. Korea confirmed that it will not expand its driftnet fishing effort in the North Pacific beyond that of last year. The Koreans rejected the Canadian request that two Canadian scientific observers be placed on Korean commercial squid driftnet vessels. A Korean offer to accept a Canadian observer on board a Korean simulating driftnet vessel was not pursued by Canada given its limited benefits. The Korean side did not respond positively to Canadian requests to establish salmon export/import controls in an effort to halt the international commerce in illegally harvested Pacific salmon.

A program of scientific exchanges on driftnets was worked out. Both countries agreed to exchange one scientist aboard their respective driftnet research vessels beginning in 1991. As well, information and personnel from their respective fisheries research and scientific institutes will be exchanged.

CANADIAN POSITION

Canada is seriously concerned about impact of high seas driftnet fishing on salmon, marine mammals, seabirds, and other sealife in the North Pacific Ocean. As a sponsor of UN resolutions on driftnet fishing adopted in 1989 and 1990, Canada is seeking an end to all highseas driftnet fishing by mid-1992 (unless effective conservation measures can be developed). Canada also strongly supports the development of alternative fishing gear that would minimize the bycatch problem. The results of the 1989 and 1990 Japanese driftnet observer program demonstrates the need to maintain pressure on the Asian driftnetting countries to curtail this method of fishing in accordance with the UN resolutions.

Canada has encouraged Korea to develop more selective and environmentally sound fishing methods as alternatives to driftnets. While Canada is pleased with the agreed program of scientific exchanges with Korea to begin in 1991, Canada continues to seek Korea's acceptance of at least two Canadian scientific observers to be placed on Korean commercial squid driftnet vessels to assist in the gathering of data on the impact of driftnet fisheries.

KOREAN POSITION

Korea is not prepared to accede to Canada's requests for cooperation regarding acceptance of Canadian driftnet observers in the absence of an umbrella fisheries agreement to encompass overall bilateral fisheries cooperation.

CANADA-KOREA FISHERIES RELATIONS (NAFO)

ISSUE

Korean fishing in the Regulatory Area of the Northwest Atlantic Fisheries Organization (NAFO).

BACKGROUND

Northwest Atlantic fish stocks, notably stocks straddling our 200-mile limit which are of major importance to Canada's Atlantic fishing industry, are being depleted by foreign overfishing contrary to the NAFO conservation regime. While EC vessels are mainly responsible, unregulated fishing by non-members of NAFO is extensive, notably by Korea and Panama which have no internationally recognized quotas for the NAFO stocks.

Korean vessels have been fishing in the NAFO Regulatory Area since the early 1980s, but activity increased substantially in 1987. While the focus has been on redfish stocks, there appears to be a new interest in cod. For the five vessels licensed by the Korean government to fish in the Regulatory Area, catches were reported of approximately 35,000t in 1989 and 25,000t in 1990. Five other vessels of various registries owned or crewed by Koreans were observed fishing in the NAFO Regulatory Area in 1990.

Within NAFO the problem of non-NAFO fishing has received increasing attention. At the 1990 annual meeting, Canada and the EC jointly sponsored establishment of a Standing Committee to consider measures aimed at eliminating fishing activity by non-Contracting parties. This summer, as result of the Committee's work, joint NAFO member demarches were undertaken on non-members whose vessels have fished in the Regulatory Area. At the 1991 annual meeting in September, it was agreed, inter alia, that the Committee would have to pursue other measures, including a landing declaration system to collect data on non-NAFO catches as well as options to address the problem of reflagged vessels.

CANADIAN POSITION

Since 1986, Canadian ports have been closed to vessels which do not respect conservation rules of international fisheries organizations, in particular NAFO, and access to fish, including over-the-side sales, in Canadian waters is denied to them. Canada is concerned about Korea's disregard of the NAFO conservation regime and its duty to cooperate with the coastal state in the conservation of straddling stocks. We have requested that the necessary

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steps be taken to prevent further fishing by Korean-flagged or operated vessels in the NAFO area. With respect to membership in NAFO (which is open to other countries), Canada has expressed the view that no quotas would be made available to Korea as all quotas are fully allocated and as current members have received quota reductions due to overfishing. We have also indicated that surplus stocks in Canadian waters are fully allocated to countries whose vessels have traditionally fished in our waters, but that if Korea complied with NAFO decisions, Korean vessels would be eligible to resume over-the-side purchases of Pacific hake and to enter Canadian ports.

The Prime Minister, the Secretary of State for External Affairs and the Minister of Fisheries and Oceans have brought our various concerns to the attention of the Korean Ministers of Trade and Foreign Affairs on three separate occasions since September, 1990, most recently during the visit to Canada of President Roh Tai Woo last July. In September, Japan (as part of a Canadian initiative on non-NAFO fishing within the Regulatory Area), on behalf of all NAFO members, made a demarche on Korea requesting it to take steps to prevent fishing by Korean vessels in the NAFO area.

KOREAN POSITION

Korea has expressed an interest in NAFO membership but expects to be given quotas. In response to Canadian concerns, Korean officials have referred to Korea's "traditional fishing practice" in the NAFO area and indicated that the number of vessels it licensed to fish in the Regulatory area was reduced to five in 1989 in an effort to cooperate in the conservation of fish stocks. During President Roh Tae Woo's visit to Canada in July, Korea's Foreign Minister Lee Sang Ock indicated that Korea had reduced the number of vessels it licensed to three, and that it planned a further reduction of one or two vessels in 1992. Fewer vessels have not reduced the size of the Korean catch, however. The Foreign Minister also indicated that Korea would no longer license Korean citizens to serve as crew members on third country vessels fishing in the Regulatory Area.

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KOREAN INDUSTRY AND THE ENVIRONMENT IMPLICATIONS FOR CANADA

BACKGROUND

Both domestic and international pressures are causing Korean government and business to give greater weight to the environment in their decision making. Domestic pressures are arising from the advanced state of environmental degradation in major industrial centres, attendant with recent rapid industrialization and ever-increasing democratization, allowing the public to register its growing concern. Internationally, binding conventions on the reduction of greenhouse and ozone depleting gases, handling of toxic waste and a myriad of other issues have unavoidable implications for Korean industry. These pressures have caused Korean business and government leaders to reconsider the growth-first policies that paced the recent economic boom.

HISTORY OF DEVELOPMENT

The first stirrings of environmental awareness date back to 1978, when an environmental preservation law was passed. This was followed two years later by the formation of the Environment Administration, which carried out largely ineffective environmental impact assessments on specified projects. A full-fledged Ministry of the Environment (MOE) was formed in January of 1990, headed by a highly competent minister, complete with six regional offices and a national research institute.

RECENT LEGISLATION

Much progress has been made by the MOE since its inception, despite considerable opposition from other economic ministries and industry. First, the 1978 legislation was strengthened and subdivided to address the three domestic policy priorities for pollution control: air, water and toxic waste. These priorities are also reflected in the spending allocations set out in the five year "Clean Plan", finalized in early 1991:

<u>Program</u>	<u>\$Cdn (millions)</u>
Air Pollution	7,670
Drinking Water Pollution	7,120
Waste Management	3,980
Maritime Conservation	120
Environmental R&D	61
Conservation of Nature	6

Internationally, legislation was passed (December 1990) regulating the production and use of ozone depleting CFCs, which will enable Korea to ratify the Montreal Protocol (probably in 1992). Korea is also taking part in the negotiations of a Framework Convention on Climate Change (FCCC), expected to be signed next June at the UN Conference on Environment and Development (UNCED) in Rio.

Ongoing democratization will certainly increase grassroots pressure on business and government to address environmental issues. Already, the nuclear industry has had to tread carefully in dealing with local environmental concerns.

ACTION PLAN FOR INDUSTRY RESPONSE

The government has recently established an Inter-Agency Task Force (IATF) to develop policy and an action plan to enable Korean industry to cope with these new domestic and international pressures. Headed by the Economic Planning Board, the IATF encompasses the Ministries of Foreign Affairs (MFA), Energy and Resources, Trade and Industry, Transport and Agriculture and Fisheries. The task force will also consult with industry and academics and will seek to raise public understanding of the issue in order to avoid being unnecessarily encumbered by misinformed interest groups, as was the case over the negotiations of the Uruguay Round.

A variety of measures are being considered to enable industry to meet the tighter environmental requirements: tax incentives and preferential financing for development of new technologies and "polluter pays" taxes on dirty industries and means of transport.

KOREA-CANADA BILATERAL RELATIONS AND THE ENVIRONMENT

Korea is Canada's fifth largest trading partner. Korea is also a major market for Canadian nuclear technology, coal and other energy products which have significant environmental dimensions. Responding to new government regulations and sensing commercial opportunities, large Korean multinationals have made environmental industries one of their priorities for the 1990s. Although Canada does not have any formal bilateral relationship on the environment with Korea, high level contacts between environment ministries are being maintained. Increased cooperation between all levels of government and between institutes is facilitating access to the Korean market for environment related goods and services, as well as technology transfers. The Koreans have learned much from recent Canadian experience, having studied our "Green Plan" as a model for their "Clean Plan". The latter is providing us with a clearer picture of Korea's environmental needs and how Canadian government and companies can best help to provide solutions.

CANADA - KOREA ENERGY RELATIONS

ISSUE

Since 1979, Korea has been Canada's second (to Japan) largest export market for coal. It is a growing market for both metallurgical and thermal coal. Our main competition in the Korean coal markets comes from Australia and the United States.

BACKGROUND

The Korea Electric Power Corporation (KEPCO) has forecast that the oil share of total imported energy for Korea will remain at 47% until 2001, then decrease to 43% in 2010, with LNG and nuclear energy being increasingly used as oil substitutes. Coal will also be substituted for oil for industrial and electrical generating purposes, whereas LNG will be favoured in residential, commercial and clean (light) industrial sectors.

The recent hostilities in the Gulf have served to underline to Korea that a 55% dependency on imported oil to meet its aggregate energy requirements leaves its aggressive economy vulnerable to factors beyond its control. With a projected increase in energy demand of 30% annually, coupled with the fact that Korea sources 75% of its petroleum from the Middle East, Korean authorities seek to reduce this high degree of dependence.

The Korean Economic Planning Board (EPB) has estimated that every one dollar increase in international oil prices translates into a 5.0% increase in Korean oil prices which in turn translates into a 3.7% increase in wholesale prices which will swell Korea's annual import bill by some US \$330.0 million.

Korea's energy vulnerability presents opportunities for alternative sources such as nuclear and coal, energy conservation, and efficiency technologies. Canada is well placed in the Korean market should coal requirements expand and the nuclear program accelerate. There are however, some constraining factors such as the time lag between the construction of new energy facilities and the present pressing energy demand, the negative economic impact of higher priced oil with its ripple effect throughout the Korean and international economies, and the growing Korean trade deficit. The Korean trade deficit has grown from \$4.8 billion in 1990 to over \$8 billion in the first half of 1991.

Canada is a reliable and competitive uranium supplier to the Korean market providing approximately 33% of Korea's uranium requirements. KEPCO has a 2% interest in the Cigar Lake Joint Venture, the world's richest uranium deposit, located in Saskatchewan.

KEPCO anticipates an increasingly prominent role for nuclear power in assuring Korea can meet its future energy requirements and predicts as a consequence that Korea will become a leader in nuclear technology in the next century.

Canada-Korea nuclear relations are carried out under the Canada-Korea Nuclear Co-operation Agreement which came into force on January 26, 1976. As well, the Canada-Korea Joint Coordinating Committee (JCC) on Nuclear Energy was established in 1982 and is responsible for monitoring the implementation of the Canada-Korea Agreement as well as focusing on a broad range of co-operative activities undertaken under the Agreement. Canada's extensive co-operation with Korea in the peaceful uses of nuclear energy is one of our most important and successful nuclear relationships.

ENERGY PROSPECTS IN KOREA

ISSUE

The Korea Electric Power Corporation (KEPCO) has forecast a growth in primary energy demand which will result in an effective doubling of demand by the year 2001 and a 270 percent increase, by 2010, over 1985 figures.

BACKGROUND

KEPCO anticipates that the oil share of total imported energy will remain at 47 percent until 2001 then decrease to 43 percent in 2010 with increasing substitution of liquid natural gas (LNG) and nuclear energy. Coal will also substitute for oil in industrial and generating purposes while LNG will be favoured in residential, commercial and clean industrial sectors.

Nuclear energy is seen as a major power source in Korea in the future as part of an attempt to increase energy self-reliance and to reduce import expenditures. As imported nuclear fuel costs correspond to only 15 percent of total generation costs, increased use of nuclear power will reduce the total import bill. In a best case scenario, KEPCO anticipates that it would be possible to cut the energy import bill by 15 percent while reducing the dependency on imported energy sources from 94 percent to 78 percent.

Korea has eleven nuclear units: nine units in operation producing 5,700 MWe and another two units, to produce 3,900 MWe, are under construction. Existing nuclear power plants represent 30 percent of Korea's total electrical generating capacity and produced 53 percent of total electrical generation in 1987. KEPCO anticipates a requirement for 21,000 MWe of nuclear power by 2010, representing 40 percent of total current generating facilities. Construction of an additional 11,000 MWe of nuclear generating facilities will therefore be required.

In order for this scenario to be brought to fruition, KEPCO considers that the cost of nuclear generation must be brought down through (a) standardization of nuclear plant design; (b) shortening of the construction period; (c) enhancing project management capability (i.e. localization); and (d) improving plant availability.

Of interest to the Canadian nuclear industry is the provision in KEPCO's energy plan for up to four new CANDU reactors at Wolsung, joining the existing Wolsung 1. In December 1990, AECL was awarded the contract for a second CANDU at Wolsung and hopes to furnish Wolsung 3-6 should Korean plans come to fruition.

CANADA-KOREA NUCLEAR RELATIONS

ISSUE

Korea has a recent, but dynamic and rapidly expanding nuclear power programme, which is its main tool to promote energy self-reliance in the context of continuing increases in electricity demand of 7% or higher annually.

BACKGROUND

Currently, Korea has nine nuclear reactors in operation and two under construction. The Korean nuclear power programme, which in addition to the CANDU unit includes eight U.S. pressurized light water reactors (PWRs) and two French supplied PWRs, will present installed capacity of 9,616 MWe, or over 30% of Korea's electrical generating capacity. Korea's nuclear power programme currently accounts for over 40% of normal electricity output. Korea intends to become one of the world's primary users and developers of nuclear power.

Canada-Korea nuclear relations are carried out under the Canada-Korea Nuclear Cooperation Agreement which came into force on January 26, 1976 and provides all the appropriate non-proliferation and safeguards guarantees for nuclear transfers. The motivation for concluding this agreement was provided by AECL's successful efforts in the mid-1970's to secure a contract for the construction of a CANDU reactor in Korea at Wolsung on the southwest coast of the country. AECL has subsequently pursued the sale of additional CANDU reactors to Korea and has provided considerable assistance to Korea in the areas of reactor safety and operations. AECL successfully negotiated a contract for Wolsung- II.

AECL also works closely with the Korea Advanced Energy Research Institute (KAERI). AECL and KAERI signed a master agreement for cooperation in research and development in 1982. Since then, eight subsidiary agreements have been concluded on a variety of topics from nuclear fuel technology transfer to waste management. The Canada-Korea nuclear relationship has been very extensive as a result of AECL/KAERI cooperation, underlining the Canadian commitment to technology transfer.

In 1988, a decision by Korea to engage AECL as the principal contractor/consultant for a 30 MWe multi-purpose research reactor (KMRR) gave further impetus to Canada-Korea nuclear relations. Based on the Canadian MAPLE concept, the KMRR can be utilized for isotope production, material research, neutron radiography and fuel examination.

The Canada-Korea Joint Coordinating Committee (JCC) on Nuclear Energy was established in 1982 pursuant to the Canada-Korea nuclear co-operation agreement. The JCC held its ninth meeting in July of 1991. The JCC is responsible for monitoring the implementation of the Canada-Korea Agreement and has also focused on the broad range of cooperative activities under the Agreement. These have included cooperation in research and development taking place between AECL and KAERI, regulatory aspects of nuclear power which involve the AECB and the Korean Ministry of Science and Technology, and bilateral and multilateral issues of mutual interest in the nuclear area. An agreement to allow the programmatic retransfer by Korea of Canadian nuclear items has been concluded. Canada and Korea, in deference to USA reprocessing concerns, narrowed the advanced fuel cycles options to a single category: the direct-use cycle, aimed at utilizing directly spent light water reactor fuel in CANDU reactors. This would more solidly lock CANDU into Korea's nuclear future. A joint Canada-Korea-USA direct use study is currently under consideration.

KOREAN POSITION

By all accounts, Korea values highly its nuclear relationship with Canada, particularly the extensive cooperation and technology transfer that has developed. In part, the Canadian relationship offsets Korea's broader dependence on the USA from which it has purchased most of its power reactors and enrichment services.

CANADIAN POSITION

Canada's extensive cooperation with Korea in the peaceful uses of nuclear energy is one of our most important and successful nuclear relationships. Canada values Korea highly as a nuclear partner. Korea has successfully absorbed and utilized Canadian nuclear technology on a commercial basis. The Canada-Korea Nuclear Cooperation Agreement is working well and the yearly meeting of the JCC has been a very constructive framework for the conduct of bilateral nuclear cooperation. Korea continues to satisfy fully all of Canada's non-proliferation policy requirements. Because of the geo-political situation in the Korean peninsula, the USA continues to be resistant to any independent reprocessing capacity in Korea.

THE POSSIBILITY OF ADDITIONAL CANDU SALES

ISSUE

In December 1990, Atomic Energy of Canada Limited (AECL) successfully concluded a contract for the sale to the Korea Electric Power Corporation (KEPCO) of a second CANDU unit at Wolsung. Korea's revised energy plan, announced in January of 1989 and covering the period to 2001, calls for the construction of 4 new CANDU units at Wolsung. AECL is currently engaged in the necessary preparatory studies that will eventually be the basis of their proposal.

BACKGROUND

Wolsung-1 achieved full power on March 26, 1983, setting what was then a world construction record of 61 months from first concrete to first electrical power. Wolsung-1 was the top-rated reactor in the world for the period ending March 31, 1986. During 1987, Wolsung obtained a load factor of 92.3%, ranking it number 15 in the world. Wolsung-1 continues to operate at high efficiency, a matter of great pride to Korea, and has provided proof of the excellence of the CANDU design.

The decision to construct Wolsung-II was justified on the basis of Wolsung-1's high capacity, the benefit of existing facilities, an already approved site and the continued economic advantage of nuclear energy over coal and oil.

The technical factors influencing the Korean decision to include CANDU in their energy plan included a desire to standardize their reactor program, to shorten construction time and to maximize internal value-added technology. Politically, there are increased environmental concerns in Korea about nuclear power and the Koreans remain sensitive to any costs associated with the sole-source nature of the contract. They are also well aware of the importance of future CANDU sales to their overall political and economic relations with Canada.

AECL is committed to completing Wolsung-II on time and without cost overruns. The arrangement is on a sole-source basis with AECL acting as the principal contractor to KEPCO and sub-contractor for the supply of nuclear steam systems equipment and heavy water, under the supervision of the Korea Heavy Industries Company. The Korea Advanced Energy Research Institute (KAERI) will supply the fuel while buildings and infrastructure will be contracted to various Korean construction companies.

CANADA-KOREA URANIUM TRADE

ISSUE

Canada is a major supplier of uranium to Korea and, as a reliable and competitive uranium producer, wishes to expand its sales to Korea.

BACKGROUND

Korea relies on nuclear generation for more than 40% of its electricity. Next to Japan, Korea is the largest market for uranium in East Asia and its expanding nuclear programme offers prospects for further sales. Korea's annual demand for uranium is expected to increase to 1400 tonnes U annually in the early 1990's, but they may start to consider new contracts soon. Currently, the Korean market is supplied by Canadian, Australian and French uranium with a very small amount from the USA.

Korea is acquiring over one-third of its uranium supplies from Canada. The Korea Electric Power Company (KEPCO) has placed long-term contracts with Canadian uranium producers for about 5,000 tonnes U through to the early 1990's. At a rate of about 470 tonnes U per year over the next six years, Canadian uranium exports to Korea are currently valued at about \$40 million per year. While the current contract terminates in 1993, a contract signed in 1987 calls for deliveries of 200 tonnes U per year from 1993 through 2002, with provision for extension to 2012. Virtually all Canadian uranium exports to Korea come from Saskatchewan.

Korea has turned to acquiring a significant portion of domestic uranium requirements through equity production offshore. While Korea had been active in uranium exploration in Canada (\$800,000 was spent on exploration in 1985), exploration activity has dropped off in the last couple of years as emphasis was transferred to equity participation in development properties. The Korea Electric Power Company (KEPCO) has acquired a 2% non-voting interest in the Cigar Lake joint venture in northern Saskatchewan. The Cigar Lake property contains the world's richest known concentration of uranium; start-up of production is targeted for the mid-1990's. KEPCO also has minority interests in other uranium properties in Saskatchewan, but development of these properties is unlikely before 2000.

KOREAN POSITION

Korea regards Canada as a secure and stable supplier of uranium. Like all purchasers of uranium, Korea will continue to seek to diversify supplies. The Koreans have told us that the USA has not put political pressure on them to favour U.S. uranium and that market and commercial factors will govern their uranium supply and conversion contracts.

CANADIAN POSITION

Canada is a reliable and competitive uranium supplier to the Korean market and looks forward to receiving additional Korean contracts for the period beyond 1993. Canadian producers have made initial contacts with the Koreans but, in the current context of depressed uranium prices, may not conclude new contracts soon.

Canada continues to be the largest producer and exporter of uranium in the western world. Canadian production was about 11,400 tonnes U in 1989, accounting for over one-third of the western world production. The merger of Eldorado Nuclear with Saskatchewan Mining and Development Corporation to create CAMECO (a Canadian Mining and Energy Corporation), which is the largest uranium producing company in the world, will enhance Canada's capacity as a reliable and competitive supplier of uranium. CAMECO is to be privatized in stages and there will be opportunities for foreign participation in single amounts of five percent up to a total of 20%.

Canada's uranium foreign ownership policy was revised in 1988 to increase the permissible non-resident ownership limit in individual uranium mining properties from 33% to 49%. In cases where it can be clearly established that a project is Canadian controlled, greater than 49% non-resident ownership may be permitted. In addition, exemptions to the policy may be granted, subject to Cabinet approval, where it can be demonstrated that Canadian partners cannot be found. The objective of this policy change is to encourage more foreign investment in Canada's uranium industry. The sale of a 2% interest in the Cigar Lake Joint Venture to KEPCO was approved under the umbrella of this revised policy.

CANADA-KOREA TRADE IN COAL

ISSUE

The Republic of Korea is one of the largest and fastest growing markets for coal in the Pacific Rim and, after Japan, is Canada's second most important customer.

BACKGROUND

Canada supplied 20 percent of Korean coal imports in 1990, second only to Australia (with 35 percent), but ahead of the United States (with 14 percent). In volume terms, these imports consisted of 3.9 tonnes of metallurgical coal and 1.2 tonnes of thermal coal. Total Korean imports were 24 tonnes in 1990, but this will grow as 10 new coal fired power stations (requiring 8 million tonnes of coal) and at least one new steel mill expansion, the 4th phase of the Kwangyang steel complex, come on stream in 1992. This will require another three tonnes of metallurgical coal imports.

KEPCO, the Korea utility, has been a long time importer of Canadian thermal coal. Korea is Canada's second largest market for steam coal, but we supply only 12 percent of Korean thermal coal requirements. Canadian market share has declined since 1985.

The Korean steel industry has been a growing market for Canadian metallurgical coals in volume terms, but market share has increased only marginally. Korea is expected to see growth in steel production in the 1990s and could take up any reduced tonnage Canadian coal exporters lose as Japanese metallurgical markets contract.

Korea is a major producer and consumer of anthracite. Consumption is currently in the 20 to 25 tonnes per year range, with production in the range of 20 tonnes per year. Both domestic demand and production of anthracite are decreasing, but a requirement for some imports is likely to continue.

While Canada has no anthracite-producing coal mines, at least two companies have had discussions and shipped test samples to Korea. Long term contracts would be required to develop anthracite deposits in Canada.

KOREAN POSITION

The Koreans will note that imports of Canadian coal have generally been increasing and are likely to increase further in the 1990s. However, they will suggest that increasing Canada's market share will depend on the competitiveness of Canadian coal, including factors such as price and quality.

KEPCO officials note that our coal is traditionally more expensive than Australian coal. The other often quoted complaint about Canadian thermal coal has been an excess of fines, although this may be more of a "red herring" than a real problem, since most Canadian companies say this issue has been resolved.

CANADIAN POSITION

There should be opportunities to increase Canadian exports of metallurgical and steam coal in terms of both absolute volumes and market share. The growing concern over environmental issues may be an advantage for Canadian exporters, given the low sulphur content of our coals.

One avenue for expanding Canadian thermal coal exports may be to encourage Korean investment in Canadian mines as a means of obtaining increased market share. The Overseas Resources Division of the Bureau of Resource Development of the Korean Ministry of Energy and Resources is responsible for approving industry investment in foreign countries. Several coal projects have been undertaken or are under consideration in Australia, the U.S.A., Canada and Indonesia.

MINERALS AND METALS TRADE WITH KOREA

Korea is Canada's fourth largest export market for minerals and metals. Sales in 1990 reached \$ 813 million, slightly less than the 1989 total of \$840 million and can be accounted for by the slowdown of the Korean economy.

Korea, which took over 3% of Canada's total exports of minerals and metals, represents Canada's fourth largest market after the USA, Japan and the U.K.

Mineral commodities exported from Canada to Korea in 1990 included: fuel minerals, coal (\$297 million) and uranium (\$35 million); agricultural chemical minerals, potash (\$51 million) and sulphur (\$19 million); nonferrous metals, aluminium (\$104 million); zinc (\$67 million) and copper (\$83 million); iron ore (\$11 million); and asbestos (\$12 million). Canadian market penetration in Korea is particularly strong in agricultural chemicals, minerals and sulphur. Exports of zinc and copper are mostly in the form of concentrates.

Korea is deficient in the domestic mineral resources needed to supply a rapidly growing industry and must rely on imports for most of its essential raw materials. Canada is viewed as a stable and reliable supplier for many key mineral commodities. Some Korean companies have begun to investigate mining opportunities overseas, including in Canada, to secure future raw material supplies.

The Korean economy is growing at a rate much greater than the western industrialized countries. Accordingly, Korea's demand for minerals and metals, particularly for the energy commodities of coal and uranium, is expected to dramatically increase through the next decade. This offers a continuing major market potential for the Canadian mineral industry. There are indications, however, of increasing competition from other suppliers in the region, such as China and Indonesia. It will take consistent and continued trade support efforts by Canadian companies and government officials to maintain and expand Canada's market share in Korea.

KOREAN STEEL INDUSTRY

BACKGROUND

As expected in a rapidly industrializing country, Korea has a strong and growing steel industry. Steel production from basic oxygen furnaces, i.e. coal intensive production, increased from 13.08 Mt in 1988 to 14.94 Mt in 1990. In the first three quarters of 1991, production increased an additional 12.7 % to 13.31 Mt, compared to the same period in 1990. Korea also has considerable electric furnace capacity, with total 1990 steel production of over 23 Mt. At the end of 1990, POSCO was the third largest western world producer, with a capacity of 17.2 Mt/y. and Han Bo Steel Industry, which is electric furnace based, had announced plans for an expansion that will add 2.3 Mt/y to its capacity by 1995.

The industry is at the end of a major expansion, much of it the result of increased demand for domestic construction and shipbuilding. The rate of increase in capacity is expected to slow for the next 5 years.

Korea is an important market for Canadian coal and iron ore. In 1990, Canada exported 665,000 t of iron ore and 5,153,000 t of coal to Korea. There is also trade in steel mill products, with almost all of it as imports to Canada. In 1990, Canadian imports of iron and steel products from Korea were valued at \$28 million.

ASBESTOS

ISSUE

Canada's exports of asbestos to Korea are significant (in 1990, 28,918 tonnes valued at approximately \$11 million were exported). There are, however, health and safety concerns in asbestos products manufacturing plants, given the rapid industrialization which frequently occurs at the expense of good housekeeping practices. Canada, through the Asbestos Institute, has helped by conducting dust control and health and safety workshops in Korea. A visit of a Korean government delegation took place in 1990.

BACKGROUND

Korea is an important Canadian asbestos customer although exports in 1990 dropped by 45%. This drop is explained by a return to a normal situation following a boost related to the Olympics. The asbestos fibre is used for asbestos cement products (90%), friction materials (5%) and asbestos textiles (5%).

In February 1990, the Korean Ministry of Environment (MOE) announced its intention to phase out asbestos friction materials by 1992 and asbestos cement construction products at a later date. The Ministry of Labour (MOL), in conjunction with the Korean Industrial Safety Corporation (KISCO), sponsored the technical dust control and health and safety seminar put on by the asbestos Institute, also in February 1990. The MOL said that they endeavour to follow the International Labour Organization's regulations (on asbestos and other substances) and stated its intention to join the ILO.

In May 1990, representatives of the Ministries of Environment and Labour, KISCO, the National Institute of Environmental Research and the Chief Journalist from the Environment Industry News visited Canada. Their trip included a visit to an asbestos mine/mill and meetings with the Asbestos Institute and Canadian officials from External Affairs, Health and Welfare, EMR, Environment and the Quebec government

During their visit, the Koreans informed us that, although both MOE and MOL have depended heavily on U.S. policies and references in the past for the development of their own policies, in the future they "...intend to broaden their sources of information and influence so as not to mimic U.S. models". We also understand that the MOE official recommended to his superiors a re-examination of their intended policies on asbestos to ensure they adopted an appropriate policy for Korea. Under Occupational Health Bylaw 7 of the Industrial Safety Act, the Koreans have adopted a concentration of 2 f/cm³ for all asbestos fibres.

KOREAN POSITION

Korea seems to value Canada not only for its exports, but for its willingness to share its experience, expertise and technical know-how. Korean asbestos plants, especially the smaller ones, need to clean up the dust levels in their working environment. This is easy to implement and not costly. Further, establishment and enforcement of good occupational regulations, as opposed to a ban on asbestos, ultimately benefit workers.

CANADIAN POSITION

Canada's "controlled-use" approach towards asbestos regulation essentially means that asbestos can be used today, with no undue risk to workers or the general public, when occupational regulations setting low exposure limits are properly enforced. Canada remains willing to share its expertise on asbestos as required.

HIGH TECHNOLOGY

ISSUE

Canadian high technology companies have enjoyed limited success in marketing products in the informatics, data communications and telecommunications sector of the Korean market.

BACKGROUND

The Republic of Korea (ROK) has transformed itself in a few decades from a country of poverty, heavily dependent on United States support, into a nation with one of the world's fastest growing economies, with a projected GDP growth rate of 7 to 8 percent annually over the next five years. Korea has focused its economic energy towards developing an economy based upon large scale manufacturing. This has required resource inputs rather than sophisticated components. The Koreans have reasoned that they would not (could not) open their economy to large scale foreign competition until their per capita income had reached US\$ 5000. The exception to this has been with the USA (a quid pro quo of the USA military effort) and the Japanese (as a result of technology transfers and component acquisition for further manufacture).

The Korean economy is now one of the strongest in Asia with a per capita income of \$5569. This should result in a relaxation of the regulation applied to the economy. The emphasis on manufacturing will probably lessen and the financial community, long tightly controlled, should begin to expand and offer new services to both the domestic consumer and offshore.

The Korean Telecommunications Authority (KTA) has progressed to the fourth year of the current 5-year plan to invest US\$ 8 billion in capital expenditures, placing Korea second only to Japan in the Far East Region. Current telephone penetration is 18 phones per 100 population, with an increase of 25% expected if the current rate of infrastructure growth is maintained.

Korean conglomerates such as Samsung, Daewoo and Goldstar are now heavily involved in joint venture agreements with several western companies, including AT&T, Ericsson and (shortly) Siemens.

When one considers the massive industrial electronics capacity behind these conglomerates, it is obvious that these massive corporations will have the financial clout to penetrate any telecom market in the world. This further supports our previous position that Korea represents, at best, a niche market for telecommunications companies, primarily in the data communications and satellite equipment/services market segments.

CANADIAN POSITION

The Korean market is not being recommended to Canadian high technology manufacturers with the exception of those companies which either manufacture a product suitable for incorporation by a Korean OEM into further products, or manufacture a product which is not defined in the National Priority Plan (NPP). Products defined in the NPP are usually destined for large scale manufacture for domestic consumption or export. This results in a limited domestic market and competition for Canadian products in other world markets. Telecommunications switching products and private branch exchanges (PBX) are good examples of this practice.

If the de-regulation of the financial sector takes place as expected, it should open a market for Canadian exporters of data communications equipment, networks, and applications software designed for the needs of the financial sector, i.e. the TIL software used by the Bourse in France. There is a distinct possibility of large private networks which would open windows of opportunity for Canadian companies such as Newbridge, Gandalf, etc.

The regulation of the financial sector, and the rise in disposable income, has resulted in high savings rates and presumably, pent up demand for consumer products. As this regulation is lessened, it could fuel a demand for personal applications software, but the more likely result will be the development of markets for additional Western products in general. Canadian products have traditionally been viewed favourably by Koreans, perhaps more so than any other Asian country.

DEFENCE PRODUCTS/AEROSPACE

ISSUES

Although Korea has historically looked toward the United States as its traditional supplier in these fields, growing and very real possibilities exist for Canadian manufacturers.

BACKGROUND

Because of the close links forged during the Korean conflict (1950-53) with the United States, Korea, whose entire armed forces at one time were totally furnished by the U.S., has continued to favour the United States in military procurement. Korea is a favoured client enjoying Military Assistance Groups (MAG) and receives excellent financial terms under Foreign Military Sales (FMS) assistance. The presence of over 30,000 U.S. troops stationed in Korea cements the relationship.

However, Korea has made impressive strides in producing lower technology military items such as Main Battle Tanks (MBT) and the F-5 aircraft which was produced under license from Northrop in the United States. While details of purchasing programs and budgets are considered confidential information, the Canadian embassy in Korea estimates that defence products valued at \$700 million are imported annually. These are concentrated in products which Korea cannot manufacture such as Communication, Command, Control and Information (CI) systems, reconnaissance and data acquisition systems, as well as various aerospace products, including helicopters, fighter/attack aircraft and transport aircraft.

Korea is purposely embarking on a policy of self-sufficiency with regard to its defence industry. This is true of land, sea and air elements, but is sparked particularly by the modernization programs of the Navy and the Air Force.

Korean industry is dominated by relatively few, very large companies such as Samsung, Daewoo, Ssangyong, Lucky Goldstar and Hanjin, which control a large share of the total Korean economy. These firms are fierce rivals amongst themselves, but are tightly controlled by government. Each is an entrant in the defence sector.

The Korean Navy's build and update program is ambitious and includes the acquisition of 12-17 destroyers, 7 frigates, 19 small corvettes, 12 minehunters and an undisclosed number of submarines. In addition, the Korean Navy plans a major update of several older destroyers.

The modernization program for the Korean Air Force is no less impressive. Known as ROKAF 2000, the plan calls for the initial acquisition of 120 modern fighter aircraft at a cost of between U.S.\$3-4 billion. This fleet could grow to 200 aircraft. The Koreans are also interested in having an Airborne Early Warning System (AEW), airborne battlefield command and control and tactical reconnaissance aircraft.

Other projects viewed as necessary are an update program for its fleet of F-5 aircraft and additional helicopters.

The impetus for these modernization programs is not only the potential threat from the north, but the country's growing awareness of its increased responsibilities with regard to security that arise from the nation's growing economic and commercial power. The drive for an indigenous arms industry stems from a stronger industrial base and a new generation of military leaders who favour greater independence in determining national security interests and objectives. Additionally, there is a general feeling that with greater self-sufficiency comes greater autonomy from the U.S. This last point assumes greater importance in light of continuous murmurings about decreased U.S. troop presence in Korea.

To proceed with modernization, Korea will need to import considerable amounts of technological know-how. The Korean government commissioned a report on the country's capabilities, together with those other countries that are considered aerospace leaders, including Canada, and which offer the potential for technological cooperation. The report includes a master plan for the development of the aerospace industry, in particular an advocacy of technological

cooperation with advanced industrial countries. The rationale underlying the report is that investment in basic research is economically inefficient, given Korea's current technology gap, and that advancement can be better achieved through offset arrangements with partner countries, coupled with Korea's relatively low cost labour.

CANADIAN POSITION

Canada is seen by Korea as being one of the world leaders in the aerospace sector and early interest by Canada at this stage can provide long term opportunities to Canadian manufacturers. Some Canadian companies are already positioned to compete for major aerospace contracts in Korea, and Korean companies could also serve as effective partners to gain wider markets for Canadian products. However, Canadian firms should also be aware that, as a result of modernization programs, Korea will emerge as a competing supplier of product, at a cost and quality advantage that could disrupt some of these same Canadian companies in the future.

Korea is determined to move ahead rapidly with its plans for self sufficiency in the aerospace sector and will acquire the needed technology transfer. The risk is that Canadian firms will not win the opportunity to work with the Koreans and be subject to increased competition when Korea increases her technology base in a traditionally strong Canadian field.

To demonstrate the importance with which Canada views the Korean market, two missions, one marine, one aerospace, comprising about ten companies each, visited Korea led by EAITC in 1989. An active follow up is underway. In addition, several Canadian defence and aerospace companies participated in the Canadian Products Show, Seoul, March 1990. Several companies have indicated their intention to participate in the Defence Seoul '91 show, November 20-24, 1991.

CANADA/KOREA AUTOMOBILE TRADE AND INVESTMENT

ISSUE

Korean officials have expressed concerns regarding the phasing-out of duty drawback and remission programs under the Canada/U.S. Free Trade Agreement.

BACKGROUND

The Government of Canada has processed Orders in Council (both production and export based), on behalf of Hyundai, providing remission of duties until 1998. The Duty Remission Programs are expected to provide substantial benefits to eligible companies such as Hyundai. Until these programs begin to phase out in 1996, it is expected that they will have generated very significant duty rebates to all Asian assemblers in return for increasingly higher levels of Canadian content. Although the amount may vary depending on production volumes, markets and economic considerations, the expected value of the total duty remitted to Hyundai by the end of 1995 is estimated to be \$53 million, which is roughly equivalent to benefits the company would have acquired under the Auto Pact.

KOREAN POSITION

With respect to the Canada/U.S. FTA, the Korean Government is concerned that changes to the automotive rules of origin, the termination of duty drawbacks (by 1994) and production-based duty remissions (by 1996) will adversely affect the future production costs of the Hyundai Bromont project. In this regard, the ROK Government has been pushing for Canada to unilaterally reduce its MFN automotive tariffs.

CANADIAN POSITION

From the perspective of two-way trade, the Canadian market remains open to Korean automotive exports. From a Canada-U.S. perspective, Canada's view is that the FTA reconfirms access for Canadian automotive exports to the U.S. market and has lessened the danger of successful U.S. trade actions against these products. With respect to the phase-out of duty drawbacks and duty remissions, it is our view that the effect of the phasing-out will be substantially offset as a result of the benefits to which Hyundai will be entitled through the achievement of progressively higher levels of Canadian content.

With respect to tariffs, Canada has indicated in the current Uruguay Round that it is prepared to reduce substantially the MFN and GPT rates on both vehicles and parts from their current levels. It is expected that automotive tariffs will be appropriately reduced in these MTN negotiations. Canada's major purpose in this regard is to reduce the spread between the Canadian and U.S. tariff rates so as to eliminate any cost disadvantages which Asian assemblers would face after 1996 for processing in Canada.

THE KOREAN BANKING SYSTEM

ISSUE

In April 1984, the Korean banking system underwent the first of a series of reforms. The drive towards greater liberalization of the marketplace continues today, with the most significant changes still to come. Foreign banks, four Canadian banks among them, are determined to see the continuance and enhancement of their Korean operations.

BACKGROUND

Foreign banks began operating in Korea in 1967, prompted largely by Korea's need for foreign capital. Since then, their presence has grown to 57 branch offices, including four Canadian banks, the Bank of Montreal, the Bank of Nova Scotia, the Royal Bank and the National Bank of Canada.

Besides providing much of the financing for Korea's industrial drive over the past twenty years, foreign banks have played a key role in the introduction of modern banking technology and in pushing for new financial instruments and services in the Korean market. At the same time however, they have benefited from a degree of preferential treatment (swap facilities) and have, over the years, realized greater profits than the domestic banks.

Thanks to phenomenal economic growth, Korea is now in the process of becoming a net creditor nation and has less need for the capital provided by foreign banks. The profit margins of foreign banks have been slowing considerably. Earnings rose only 3.8% in 1989, compared to 24% in 1988 and about 30% in 1987. Bankers experienced further declines in 1990. The old era of foreign banking in Korea has clearly come to a close.

The Korean banking system has always been highly regulated by the government. Ministry of Finance policies, as formally enacted through the Monetary Board and implemented by the Bank of Korea, have dictated interest rates, where and to whom loans should be made and the availability of foreign exchange and local (Won) currency. Since 1984, however, tight control has gradually been loosening as the Korean government committed itself to "liberalizing" the banking system.

In response to this liberalization, Canadian banks are beginning to plan what type of operations they wish to have in Korea five years from now. A few, for example, have been looking at the possibility of entering the retail banking market, which could include opening branch offices in Seoul, Pusan and Taegu. (In 1988/89, four U.S.A. banks were granted approval to operate a retail banking network).

Canadian banks continue to study the Korean guidelines governing the establishment of retail networks but, so far, none has indicated an interest in pursuing this option. Should one decide to do so, however, it will expect its application to be considered by the Korean authorities in a manner consistent with the treatment accorded the applications of Korean banks in Canada.

KOREAN POSITION

The Korean government believes it has taken significant steps to liberalize its banking system. Continuing reforms, they will argue, can only be introduced according to a timetable set by the government and at a pace that the economy can handle.

CANADIAN POSITION

The Government of Canada has made reciprocity a basic principle of its financial relations and would expect the Government of Korea to provide access to its financial markets on a basis similar to that extended by Canada to Korean banks.

THE KOREAN INSURANCE MARKET

ISSUE

Until recently, the Korean insurance industry has been tightly regulated by the government. It is only in the last few years that continued foreign pressure, primarily from the U.S.A., has begun to open up the market to foreign competition. During this formative period, Canadian insurance companies and the Canadian government have been working to ensure that a suitable operating environment is established and that interested Canadian firms are given full access to what is potentially a lucrative market.

BACKGROUND

The history of Korea's insurance industry dates from the 1950s, when domestic firms first began operations. Although rapid growth has occurred in the past decade, the industry remains dominated by large Korean firms with limited operations and management expertise. This state of development offers enormous opportunities for foreign firms.

In 1968, foreign firms were first granted licenses to operate in Korea on a very limited basis. It took the threat of a "Section 301 action by the U.S. Trade Representative (USTR) in 1979, and again in 1985, before the Korean life insurance market was further opened to certain "qualified" U.S. firms. By early 1988, however, there were still only two life and two non-life U.S. insurance companies operating (at a deficit) in Korea.

In March 1988, another round of negotiations by the USTR, again with the threat of s.301 retaliation, led to the most recent USA/Korea agreement. Under the terms of this agreement, the Korean Ministry of Finance agreed to open the insurance field to all forms of establishment: branch offices, joint ventures and wholly-owned subsidiaries. (A number of limitations were placed on the joint venture agreements, mainly in a bid to prevent any further concentration of assets and power among Korea's largest companies).

In November 1988, then Finance Minister Wilson wrote to the ROK Finance Minister in support of Canadian insurance companies seeking access to the Korean market.

Subsequently, the ROK Minister of Finance assured Canada's Deputy Minister of International Trade, at a meeting in Seoul in March 1989, that Canadian insurance companies would encounter "no problem" gaining access. Several more months of discussion ensued between an interested Canadian company and the ROK Ministry of Finance before the company's final application to establish a joint venture operation was submitted in July 1989. The application was finally approved in early 1990.

At the time of the March 1988 USA/Korea agreement, it was assumed that the concessions included in that agreement would apply equally to all foreign insurance companies seeking access to the Korean market. However, in October 1988, the Korean Ministry of Finance made it known to Canadian Embassy officials that consideration would only be given to applications of foreign insurance companies from countries with which Korea had an exchange of letters or bilateral agreement similar to that between the U.S. and Korea.

KOREAN POSITION

The Korean government has recognized the need to gradually liberalize the insurance industry. This will be done, however, according to the Korean government's timetable and will probably mean limiting the number of foreign participants to a small, manageable number.

CANADIAN POSITION

The Korean life insurance market offers considerable opportunity for foreign firms. The lack of new and innovative products, an underdeveloped yet sizeable market and the need for modern sales techniques, target marketing and efficient management, point to commercial opportunities that Canadian companies are well able to meet.

TOURISM

ISSUE

Korea lifted all barriers and regulations on outbound travel effective January 1, 1989. This created a boom in Korea's overseas travel which is expected to continue at an accelerated pace. Korea has recently been designated by Tourism Canada as a "New Emerging Market".

BACKGROUND

Until 1987, Koreans had been limited in overseas travel by strict government regulations. However, these restrictions gradually became more flexible and were altered according to Korea's financial state and balance of international payments. In 1988, a favourable balance of payment in trade enabled the Korean government to lift some of the restrictions and allow an increased opportunity for overseas trips.

With the removal of the last of the travel restrictions on January 1, 1989, the outbound tourist market has seen a tremendous increase. The total number of outbound travellers for 1989 registered 1,213,112, up 67.3 percent from the previous year. During the year, pleasure tourism showed a huge 235.2 percent growth from 1988, making up a 37 percent share of the total market.

According to the Korean National Tourism Corporation, a total of 1,560,923 Koreans went overseas in 1990, showing an increase of 28.7 percent from the previous year. Travel expenditures amounted to approximately US\$3.8 billion for 1990.

The majority of Korean overseas travellers choose other Asian countries as preferred destinations, but travel further afield is growing. Figures for the first six months of 1991 show a total of 15,400 Korean visitors to Canada, up 6.6 percent from the same period last year. Expectations for all of 1991 remain at 50,000 visitors and upwards of 150,000 annually by 1995. This could represent an inflow into Canada of \$300 million over the next few years.

Several factors conspire to keep Canada from being a "first choice" pleasure travel destination for Koreans: a lack of awareness of Canada as a tourism destination; competition from the United States, Europe and Asia/Pacific destinations; distance and cost; the language barrier (few Korean-speaking tour leaders in Canada); and a lack of suitable tour packages.

The Canadian government is actively pursuing this market and Korea has been designated by Tourism Canada as a territory with potential for Canadian tourism program activities.

An air services agreement, signed in September 1989, provides for a Canadian carrier to operate direct flights between Canada and Korea. Air Canada announced, however, that they were postponing the inauguration of this service for the foreseeable future. Singapore Airlines and KAL already offer direct flights between Seoul and Vancouver.

The Korean travel market, while having potential, is not yet the focus of any retail marketing strategy. Instead, links with operators are being formed and research into the most effective types of package holidays is being conducted. The aim of this low-key approach is to provide the infrastructure necessary to support a retail marketing push, as soon as the numbers of outbound travellers from Korea warrant.

In the Canadian market, package tours offer the greatest opportunities, not only because of the language barrier, but because Koreans prefer to travel with family and friends. At present, there are 32 Canada/United States tour packages and eight Canada-only packages; the most popular destinations in Canada are Vancouver, Toronto, Banff, Calgary and Montreal.

CANADA-KOREA INVESTMENT RELATIONS

ISSUE

Canada has taken several steps to create a new and positive environment to encourage foreign investment. Korean investors have begun to discover the opportunities that Canada offers and our performance in attracting Korean investment has had notable success.

While Korea has liberalized to some extent its policies and regulations governing foreign investment, investment flow into Korea remains stifled by lack of transparency in Korean investment laws and rigid administrative guidelines. As a result, foreign investment in Korea since 1962, totals US\$ 7.3 billion, considerably less than the amount Canada received in 1989 alone.

BACKGROUND

The Canadian government is of the view that both direct and indirect foreign investment can significantly enhance domestic economic development. Joint ventures between existing Canadian firms and Korean companies with unique product or production technologies, fresh capital and expanded distribution networks are viewed as especially attractive in improving Canada's competitive position in North American and offshore markets. Similarly, we hope Korea will follow similar policies and open its investment regime to Canadian companies.

KOREAN INVESTMENT ABROAD

Over 1988-89, growing trade surpluses, mounting trade friction with the USA, Won appreciation and rising domestic labour costs generated considerable pressure on the Korean government to liberalize domestic markets and encourage offshore investment. Several market and financial liberalization measures were undertaken, which permitted greater overseas investment and increased access to Korean markets for foreign suppliers. A program announced in April 1987 was aimed at shifting Korean investment abroad away from export-oriented industries toward those catering to local markets.

In April 1988, the Korean government set up an overseas investment information office in the Export-Import Bank of Korea (EXIMBANK) to provide overseas investment information and counselling services to Korean firms. Korean trading companies were given access to \$2.5 billion in foreign exchange funds to finance imports. The threshold for automatic approval of all Korean foreign investment proposals was raised from US\$ 200,000 to US\$ 500,000; in February 1989, this was raised to US\$ 2 million, and authorizations for investments over that amount are usually received within a week. In addition, there are no restrictions on business type or countries open to direct investment (formerly investment was restricted to natural resource projects). In 1989, US\$ 150 million was made available through EXIMBANK to provide financial assistance for overseas investment projects, an increase of 300% over the funds available in 1988.

However, with a shrinking current account surplus in 1990, the main economic rationale to increase the outward investment flow has diminished. There are announcements that the Bank of Korea and the Ministry of Finance will place each outward investment application under greater screening. In an announcement on April 26, the Bank of Korea noted it would tighten foreign currency holdings by banks, limit individual's investment abroad and tightly control corporate investments.

The Bank of Korea places total committed investment to Canada at US\$ 167 million, with an additional US\$ 83 million approved over 1988-89, but not yet invested. Canada is host to 10% of total Korean foreign direct investment and approximately one quarter of total Korean investment in North America (US\$ 1,013 million - approved basis). This is a favourable trend which we would hope to maintain as Korean investors generally have been positive on their investment experience in Canada. Canadian visa requirements however, have been the subject of complaint as they are seen as slowing personnel transfer.

The Korean Ministry of Finance reports that from 1968 to April 1, 1989 there were 899 cases of overseas investment, valued at US\$ 1.44 billion, and there are an additional US\$ 922 million approved by the Bank of Korea in 217 new projects. Forty-two percent of total approved investment is in North America and 25% in Southeast Asia. Over 25% of the total is in mining, with 38% in manufacturing.

Three major investments in Canada come from Hyundai Automotive, Sammi Steel and the Shinho Group. Hyundai Automotive has built an \$18 million head office, distribution centre and aluminum wheel plant in Markham, Ontario, a \$350 million automobile assembly plant in Bromont, Quebec, and recently announced plans to build a \$120 million automotive stamping facility adjacent to their assembly plant in Bromont.

Sammi Steel purchased Atlas Steel in 1989 for \$250 million to become one of the world's largest producers of specialty steels and are developing an investment and marketing program designed to double production in their Welland, Ontario and Tracy, Quebec facilities.

The Shinho Group has announced their intention to invest up to \$120 million in a new pulp mill in the Thunder Bay area, to be completed in 1990. It will supply 120,000 tons of pulp to the Korean market.

Other notable investments include: the Pohang Steel Company (POSCO) and Westar, which have a longstanding joint venture to develop coal sources in Canada; Korea Electric Power Company (KEPCO), which has a partial investment in uranium mines in Saskatchewan; the Han Yang Chemical Corporation, which invested \$16.5 million in a PVC window framing operation in St. John's Newfoundland; and Hyundai Engineering and Construction Co. which owns a majority interest in a joint venture with Kerchoff Bridge Ltd, of B.C., for construction related to the Vancouver Advanced Light Rapid Transit "skytrain" and the construction of diversion tunnels for the Old Man River Dam project in Alberta.

INVESTMENT IN KOREA

Canadian, and indeed all foreign investment in ROK, has been limited by a highly restrictive inward investment regime which seeks to ensure Korean control over operations (localization) and to enhance technology transfer. Korea's ratio of foreign investment to external debt is a mere 5% compared to 44% in Hong Kong, 92% in Singapore and 29% in Malaysia. At the end of 1989, total Foreign Direct Investment (FDI) in Korea totalled US\$ 7.3 billion, of which \$3.6 billion was from Japan and

\$2.3 billion from the USA. Nonetheless, liberalization measures are accelerating Korean FDI inflows (approvals for each of the last three years exceeded US\$ 1 billion versus an annual coverage of \$200 million during the early 80's.

Total direct investment by Canadian companies in Korea at the end of 1989 was a mere US\$ 7.5 million, according to official Korean figures. However, there will be a substantial increase in 1990 due to the start-up of an insurance joint venture by Manufacturers Life. In addition, Canadian companies have signed a variety of technology licensing agreements. Recent USA pressure on Korea to ease its localization requirements could help in opening the doors for all foreign investors. Canadian direct investments and joint ventures totalled 21 at the end of 1989 and included:

**Bank of Montreal
Royal Bank of Canada
Bank of Nova Scotia
National Bank of Canada
International Nickel Company
Seagrams
Velan Engineering
Hammond Manufacturing
Kenhar Ltd.**

Significant technology transfer agreements with Korean firms have been signed by Northern Telecom, Dupont of Canada, Alcan, AECL and Canadian Marconi.

ANTI-DUMPING DUTIES ON IMPORTS FROM KOREA

ISSUE

Canada's Special Import Measures Act (SIMA) is designed to protect Canadian producers from injurious unfair trade competition (i.e., subsidized and/or dumped imports causing injury). The SIMA provisions reflect our international rights and obligations under the General Agreement on Tariff and Trade.

BACKGROUND

Canadian producers who suspect that they are being injured by dumped or subsidized imports are entitled to register complaints with the Department of National Revenue, Customs and Excise. In the event a complaint is deemed to be valid and if it can be established, through investigation, that dumped or subsidized imports are injuring or threatening to injure Canadian production of the like goods, Canadian producers are entitled to protection by means of anti-dumping or countervailing duties.

The SIMA allows Canada to take full advantage of its GATT rights. At the same time, it is transparent and equitable. It sets out explicit time limits regarding various stages of provisions, it provides for public interest inquiries whereby the Canadian International Trade Tribunal (CITT) may report that the dumping or countervail duty in a particular case would not be in the public interest, and it allows exporters (or their governments) to avoid the imposition of duties by undertaking to eliminate the dumping or the subsidizing that is injurious to Canadian production. Finally, the SIMA contains sunset provisions that, subject to extension, limit the duration of undertakings to three years and Tribunal findings of injury to five years.

Pursuant to the procedures under the SIMA, Revenue Canada has 21 days from the receipt of a complaint to determine if it is properly documented (i.e., that it adequately addresses the questions of dumping/subsidization and consequent injury). If a complaint is deemed properly documented, Revenue Canada then has 30 days to decide whether or not to initiate an investigation. Within 90 days of initiation, a preliminary determination must normally be made where Revenue Canada

determines that there is adequate evidence of dumping or subsidization and consequent injury. (This can be extended by 45 days in complicated cases.) If this evidence is lacking, Revenue Canada is obliged to terminate the investigation.

The undertakings referred to above can only be accepted before a preliminary determination. This provides a means by which relief may be obtained more quickly for domestic producers than would be the case if the regular procedures were followed and provisional duties imposed. This provision also reduces the costs associated with a full scale investigation and inquiry.

Where a preliminary determination is made, provisional duties are applicable and the case is referred to the CITT for a formal inquiry to determine whether or not the dumped or subsidized imports are causing or threatening material injury to Canadian producers. After a preliminary determination, Revenue Canada has 90 days to make a final determination regarding dumping or subsidization. The CITT must make its injury finding no later than 120 days after the preliminary determination.

KOREA

In relation to imports from Korea, there are currently 16 anti-dumping measures in place, i.e., eight of these involving imports of steel products (see attached list).

The most prominent recent dumping investigation involving Korea concerned allegations by GM and Ford Canada of injurious dumping of cars by the Hyundai Motor Company. The case terminated on March 23, 1988 when the Canadian Import Tribunal found no injury as a result of these imports.

ANTI-DUMPING MEASURES IN FORCE AGAINST KOREA

Commodity

Date of Finding

Steel Products

- Carbon Steel Welded Pipe 28.06.83 (05.06.90)
- Drywall Screws 20.02.87 (A/D Duties removed 20.01.90)
- Stainless Steel Bars and Wire 07.04.83 (A/D Duties removed 20.07.90)
- Stainless Steel Pipe 16.04.84 (18.04.86)

Other Products

- ABS Resin 15.10.86
- Oil and Gas Well Casing 17.04.84 (06.11.86)
- Photo Albums with Self-Adhesive Leaves 24.01.75 (04.09.90)
- Leaves for Photo Albums 26.04.85 (04.09.90)
- Waterproof Rubber Footwear 25.05.79 (22.10.87)
- Twisted Polypropylene and Nylon Rope 07.10.82 (17.02.87)
- Pocket Albums with Pocket Sheets 26.02.88

* Dates in brackets mean that the finding was reviewed and reaffirmed.

Form 675 G (S)
PROCÉDÉ **Plasdex**® PROCESS
MONTREAL - TORONTO

CANADIAN TEXTILE AND CLOTHING POLICY - KOREA

ISSUE

Canada, like most other industrialized countries, maintains special measures of protection for its textile and clothing industry, usually in the form of bilateral export restraint agreements with major low-cost suppliers. These were due to expire on December 31, 1991, but, for many countries, including Korea, agreement was reached to extend them to the end of 1992. Canada has been taking steps to have items under restraint in its agreements described according to the Harmonized System (HS) of nomenclature, effective January 1, 1993.

BACKGROUND

Canada's restraint agreements have been negotiated under rules established by the Multi-Fibre Arrangement (MFA). In late 1986, a restraint agreement was concluded with Korea for the five year period beginning January 1, 1987. Agreement was reached in the summer of 1991 to extend this arrangement to the end of 1992, corresponding with the end of the further extension of the MFA, and in order to provide some certainty to the trade for the forthcoming year. In addition to Korea, Canada has negotiated bilateral restraint agreements with 27 low-cost suppliers and has imposed restraints unilaterally on two other suppliers.

The MFA is expected to be replaced by a multilateral transitional regime leading to normal GATT rules and disciplines as a result of the Uruguay Round negotiations. Canada's bilateral arrangements would be governed accordingly.

As of the beginning of 1993, it is planned that items covered by Canada's bilateral arrangements will be described in terms of the Harmonized System (HS) of nomenclature. The HS is already used by many countries for tariff classification purposes. In preparation for this conversion, Canada conducted a first round of consultations earlier this year with its bilateral partners, including Korea, to ensure an understanding of the changes entailed.

Administratively, Canada's bilateral agreement with Korea is operating smoothly. The case of the transshipment of polyester fabric from Korea through Japan to Canada has been resolved.

KOREAN POSITION

Korea has agreed to a one-year extension of our bilateral agreement. With respect to the transshipment case, Korea agreed to compensation through adjustments to its 1991 polyester fabric quota with Canada.

CANADIAN POSITION

In dealing with Korea on the matter of the extension of the bilateral agreement, Canadian officials made it clear that the extension would consist of a simple roll-over rather than a renegotiation in terms and conditions. Respecting the conversion to the HS, Canada has explained in bilateral consultations that it is intended to be neutral in its effects on restraint levels. A further round of HS consultations to clarify outstanding questions is anticipated over the coming months.

BUSINESS IMMIGRATION FROM KOREA

ISSUE

Canada's Business Immigration Program aims to promote the admission of experienced and successful business persons who will apply their capital and know-how to Canadian business ventures which will create jobs for Canadians. Koreans are very interested in settling abroad and many see Canada's Business Immigration program as a route for establishing in Canada.

BACKGROUND

Korea is the third largest source of business immigrants to Canada from the Asia Pacific Region (Hong Kong and Taiwan being first and second respectively). Slightly more than 800 Koreans were admitted to Canada in 1990 under business immigrant categories. Most entered under the entrepreneurial regulations.

At present, Koreans have only limited access to the investor immigrant program. The Korean government has consistently expressed its concern that venture capital syndicates, which represent the major vehicle for capital importation under the investor regulations, do not provide adequate guarantees for the safety of the applicant's capital. Accordingly, they have been quite conservative in approving the marketing of such funds in Korea.

The export of funds for investors and entrepreneurs has also been a source of difficulty, as exchange controls limit the amount of money that Korean emigrants may take abroad. At present a Korean businessman may transfer up to US\$500,000.

The statistics compiled at the Canadian Embassy in Seoul show that business immigrants approved in 1990 brought in more than \$300,000,000 and created or maintained employment for about 1500 Canadian residents. Korean immigrants tend to settle mainly in Ontario (about 45%), Quebec (about 25%), B.C. (about 20%), with the remainder scattered primarily in the Prairies.

CANADIAN POSITION

Canada is pleased with the interest displayed by Korean business persons in settling in Canada, and values the economic and cultural contributions made by those who have taken up residence here. We also appreciate the measures taken by the Government of Korea in facilitating the movement of such persons, particularly through the easing of exchange controls and by changes to travel regulations which now allow emigrants to obtain passports and visas without registering with an approved "emigration corporation". We look forward to continued growth in our entrepreneurial and investor immigrant programs in Korea.

CANADIAN GENERAL PREFERENTIAL TARIFF POLICY

ISSUE

There are no outstanding issues with South Korea on the Canadian General Preferential Tariff (GPT). Along with other preference receiving countries, Korea has asked for improvements to the GPT. Korea continues to rank first among beneficiary countries in terms of benefits received under the GPT.

BACKGROUND

The Canadian General Preferential Tariff was brought into effect as part of a concerted international effort by industrialized countries to assist developing nations in expanding their export capability and increase their foreign exchange earnings. The Canadian scheme applies to all Less Developed Countries eligible for Most-Favoured-National (MFN) treatment, as well as to a number of Eastern European countries. Under the GPT, rates of duty on most eligible products are set at two-thirds of the MFN rate or lower. The GPT applies to manufactured and semi-manufactured goods with the exception of most textile, apparel and footwear products. Since its inception in 1974, there has been a number of improvements to the GPT scheme in terms of product coverage and margins of preference. Like the preferential schemes of other countries, the Canadian GPT is non-contractual and non-reciprocal in nature and Canada is under no legal obligation to maintain preferences.

As is the case of other preference-giving countries, Canada has safeguard procedures which allow for the withdrawal of GPT rates, in whole or in part, when imports at preferential rates cause or threaten to cause injury to domestic producers. Safeguard petitions are considered by the Canadian International Trade Tribunal (CITT), to which interested parties, including beneficiary countries, may present their views. The GPT was withdrawn, for safeguard reasons, from a few products of interest to Korea, more particularly rubber footwear (withdrawal to be reviewed by December 1991) and rubber inner tubes (withdrawal extended until 30 June 1994). A safeguard action measure on spandex yarn was removed on October 31, 1991, after the CITT concluded that there was no imminent threat of injury to the Canadian spandex industry. The existing withdrawals affect only a small portion of Korea's exports to Canada.

In terms of value, the Republic of Korea is the major beneficiary of the Canadian scheme. In 1989, over 35 percent of all imports eligible under the Canadian GPT came from Korea. Total Canadian imports from Korea have more than quadrupled in the period 1982 to 1989, from \$568 million to \$2.441 billion

Imports covered by the GPT have kept pace with this growth, rising from \$308 million in 1982 to 1.325 billion in 1988.* These eligible imports represented 63 percent of imports dutiable on an MFN basis. More than 80 percent of these eligible imports actually entered at the preferential rates, which indicates that Korea has no difficulty in meeting the eligibility criteria under the current Canadian scheme.

*1990 figures are not available

KOREAN POSITION

The Koreans recognize their advantageous position under Canada's GPT and have not generally reacted adversely to Canadian safeguard measures, preferring to make representations to the CITT. The Koreans appreciate the transparency of the Canadian scheme.

CANADIAN POSITION

Consideration has been given for several years to devising a system for graduating countries from the Canadian GPT, in part in response to competitive pressures from beneficiaries such as Korea and also to keep pace with actions taken by other countries, such as the U.S.A., New Zealand and Australia. Development of concrete proposals has been delayed pending the conclusion of the Uruguay Round, but requests from industry groups such as the Rubber Association of Canada and the Automobile Parts Manufacturing Association make continued delay more difficult. It is expected that a revised GPT scheme, once the current one has expired in June 1994, will contain a graduation mechanism.

In the context of trade liberalization, Korea will be expected to progressively assume a wider range of obligations under the GATT, commensurate with its level of economic development and its importance in the international trading system.

**MEMORANDUM OF UNDERSTANDING (MOU)
ON ECONOMIC COOPERATION**

During the visit to Canada in July 1991 of President ROH, Tae Woo, the Korean Minister for Foreign Affairs and the Canadian Secretary of State for External Affairs signed an MOU on Economic Cooperation. This MOU is viewed as an "umbrella" understanding between the governments of Korea and Canada, under which a number of more specific sector-oriented MOUs may be established.

The MOU on Economic Cooperation came into effect in late September 1991, with an exchange of "Notes Verbale" and provides a framework under which the two governments may establish a Joint Committee on Economic Cooperation, and working groups in a variety of sectors.

Subsidiary MOUs are currently being developed in such sectors as:

- Agri-Food
- Industrial Cooperation
- Residential Housing Construction
- Science and Technology
- Metals and Minerals
- Energy

**MEMORANDUM OF UNDERSTANDING
BETWEEN
THE GOVERNMENT OF CANADA
AND
THE GOVERNMENT OF THE REPUBLIC OF KOREA
ON
ECONOMIC COOPERATION**

**MÉMOIRE D'ENTENTE
ENTRE
LE GOUVERNEMENT DU CANADA
ET
LE GOUVERNEMENT DE LA RÉPUBLIQUE DE CORÉE
CONCERNANT
LA COOPÉRATION ÉCONOMIQUE**

**MEMORANDUM OF UNDERSTANDING
BETWEEN
THE GOVERNMENT OF CANADA
AND
THE GOVERNMENT OF THE REPUBLIC OF KOREA
ON
ECONOMIC COOPERATION**

The Government of Canada and the Government of the Republic of Korea (hereinafter referred to as the "Parties");

CONSCIOUS of the substantial growth of economic and trade relations between Canada and the Republic of Korea;

MINDFUL that the more dynamic relationship desired by both Canada and the Republic of Korea requires close cooperation across the range of trade and economic endeavour;

RECALLING the Trade Agreement between Canada and the Republic of Korea to strengthen and develop trade relations between the two countries, in force on 20 December 1966;

RECALLING the Exchange of Notes on Industrial Property to protect the rights on patents of invention, utility models, industrial designs and trademarks held by the nationals of each of the Parties, in force on 13 February, 1979; and

RECOGNIZING the common interest and mutual benefit to be derived from further promoting economic cooperation in such fields as industry, science, technology, energy and natural resources;

HAVE reached the following understanding:

Article 1

The Parties will take all appropriate measures within the framework of their respective laws and regulations to encourage and develop cooperative activities in such fields as trade, industry, science and technology on the basis of equality and mutual benefit.

Article 2

1. Cooperative activities under this Memorandum of Understanding may include:

- a) meetings of various forms, such as those of experts, to discuss and exchange information on economic cooperation and to identify projects and programs which may be usefully undertaken on a cooperative basis;
- b) exchange of information on activities, policies, practices, legislation and regulations concerning economic cooperation;
- c) visits and exchanges of governmental officials, business representatives or other interested individuals and groups on general or specific subjects;
- d) implementation of agreed cooperative projects and programs; and
- e) other forms of cooperative activities as may be mutually agreed.

2. Costs for the cooperative activities under this Memorandum of Understanding will be borne as may be mutually agreed.

Article 3

Implementing arrangements setting forth the details and procedures of the specific cooperative activities under this Memorandum of Understanding may be made between the Parties or their agencies, whichever is appropriate.

Article 4

1. For the purpose of effective implementation of this Memorandum of Understanding the Parties hereto will establish a Joint Committee on Economic Cooperation, the functions of which will be:

- a) to exchange information and views on economic and industrial policy issues;

- b) to review the cooperative activities and accomplishments under this Memorandum of Understanding; and
- c) to provide advice to the Parties with regard to the implementation of this Memorandum of Understanding and the orientation of the cooperative activities thereunder.

Article 5

1. The Joint Committee will be composed of a senior representative and other representatives, as appropriate, designated by each Party.
2. Each Party will designate a secretary to prepare for the Joint Committee's work.
3. The Joint Committee will meet in principle each year, alternately in Korea and Canada on the dates mutually agreed upon through diplomatic channels.
4. The Joint Committee may, where necessary, establish working groups in areas including, but not limited to, industrial, scientific and technological, energy and natural resources cooperation as warranted by increased levels of activity, to carry out specific tasks within the framework of this Memorandum of Understanding. Each Party will bear the cost of participation of its own representatives in such working group meetings.

Article 6

Each of the Parties will, on a reciprocal basis, accord to persons carrying out the cooperative activities under this Memorandum of Understanding all possible facilities in accordance with the laws and regulations in force in each country.

Article 7

1. Unless otherwise agreed, information of a non-proprietary nature arising from the cooperative activities under this Memorandum of Understanding may be made available to the public in accordance with the normal procedures.
2. The Parties will give due consideration to the protection of intellectual property rights or other rights of a proprietary nature resulting from the cooperative activities under this Memorandum of Understanding and will consult with each other for this purpose as necessary.

Article 8

Nothing in this Memorandum of Understanding will be construed to prejudice other agreements for cooperation between the Parties existing at the date of signature of this Memorandum of Understanding or concluded thereafter.

Article 9

1. This Memorandum of Understanding will become effective when the Parties notify each other that all legal requirements for its entry into effect have been fulfilled.
2. This Memorandum of Understanding may be revised by mutual consent. Any revision or termination of this Memorandum of Understanding will be effected without prejudice to any right or obligation accruing or incurred under this Memorandum of Understanding prior to the effective date of such revision or termination.
3. This Memorandum of Understanding will remain in effect for a period of five years and continue in effect thereafter unless either Party notifies in writing six months in advance of its intention to terminate this Memorandum of Understanding.

**MÉMOIRE D'ENTENTE
ENTRE
LE GOUVERNEMENT DU CANADA
ET
LE GOUVERNEMENT DE LA RÉPUBLIQUE DE CORÉE
CONCERNANT
LA COOPÉRATION ÉCONOMIQUE**

Le gouvernement du Canada et le gouvernement de la République de Corée (ci-après dénommés les "Parties");

CONSCIENTS de l'intensification substantielle des relations économiques et commerciales entre le Canada et la République de Corée;

AYANT PRÉSENT A L'ESPRIT que les relations plus dynamiques auxquelles aspirent le Canada et la République de Corée exigent une coopération étroite au niveau de toute la gamme des activités commerciales et économiques;

RAPPELANT l'Accord de commerce passé entre le Canada et la République de Corée dans le but de renforcer et de développer les relations commerciales entre les deux pays, entré en vigueur le 20 décembre 1966;

RAPPELANT l'Échange de Notes relatif à la propriété industrielle, visant à protéger les droits sur les brevets d'invention, modèles d'utilité, dessins industriels et marques de commerce détenus par les ressortissants de chacune des Parties, entré en vigueur le 13 février 1979;

RECONNAISSANT qu'il est dans leur intérêt mutuel et à leur avantage réciproque d'intensifier la coopération économique et commerciale dans des domaines comme l'industrie, les sciences, la technologie, l'énergie et les ressources naturelles;

SONT CONVENUS des dispositions suivantes :

Article Premier

Les Parties prendront toutes les mesures appropriées, dans le respect de leurs lois et règlements respectifs, pour encourager et développer les activités de coopération dans des domaines comme le commerce, l'industrie, les sciences et la technologie, sur une base d'égalité et à leur avantage mutuel.

Article 2

1. Les activités de coopération visées dans le présent Mémoire d'entente peuvent inclure :

- a) des réunions de formes diverses, comme des réunions d'experts, pour examiner et échanger des informations relatives à la coopération économique, et pour identifier des projets et des programmes qu'il pourrait être utile de mener en coopération;
- b) l'échange d'informations sur les activités, politiques, pratiques, lois et règlements concernant la coopération économique;
- c) des visites et des échanges de fonctionnaires, de représentants d'entreprises ou d'autres personnes ou groupes intéressés, portant sur des questions particulières;
- d) la mise en oeuvre de projets et de programmes de coopération convenus; et
- e) d'autres types d'activités de coopération dont il pourra être convenu.

2. Les coûts relatifs aux activités de coopération entreprises dans le cadre du présent Mémoire d'entente seront assumés conformément à ce qui aura été mutuellement convenu.

Article 3

Les arrangements exposant les détails et les procédures à suivre pour la mise en oeuvre des activités de coopération entreprises dans le cadre du présent Mémoire d'entente pourront être conclus entre les Parties ou leurs agences, selon qu'il sera approprié.

Article 4

1. Aux fins de l'application effective du présent Mémoire d'entente, les Parties établissent un Comité mixte de coopération économique, qui aura pour mandat :

- a) d'échanger des informations et des vues sur des questions de politique économique et industrielle;

- b) de passer en revue les activités de coopération et les réalisations intervenues dans le cadre du présent Mémoire d'entente; et
- c) de conseiller les Parties en ce qui concerne l'application du présent Mémoire d'entente et l'orientation des activités de coopération menées en vertu de ses dispositions.

Article 5

1. Le Comité mixte sera constitué d'un haut représentant désigné par chacune des Parties et pourra, si nécessaire, comporter d'autres représentants de part et d'autre.
2. Chaque Partie désignera un secrétaire pour préparer les travaux du Comité mixte.
3. Le Comité mixte se réunira en principe chaque année, en Corée et au Canada, alternativement, à des dates mutuellement convenues par voie diplomatique.
4. Le Comité mixte pourra, si nécessaire, constituer des groupes de travail pour les questions de coopération se rapportant notamment, mais non exclusivement, aux domaines de l'industrie, des sciences, de la technologie, de l'énergie et des ressources naturelles, selon que le justifiera l'accroissement des niveaux d'activités, pour s'acquitter de certaines tâches dans le cadre du présent Mémoire d'entente. Chaque Partie assumera les frais de participation de ses propres représentants aux réunions de tels groupes de travail.

Article 6

Chaque Partie accordera aux personnes chargées des activités de coopération menées en vertu du présent Mémoire d'entente toutes les facilités voulues, conformément aux lois et règlements en vigueur dans chaque pays.

Article 7

1. Sauf entente contraire, les informations de nature non exclusive découlant des activités de coopération menées dans le cadre du présent Mémoire d'entente pourront être rendues publiques conformément aux procédures normales.
2. Les Parties accorderont l'attention voulue à la protection des droits de propriété intellectuelle ou autres droits de nature exclusive découlant des activités de coopération menées dans le cadre du présent Mémoire d'entente, et au besoin se consulteront à cette fin.

Article 8

Rien dans le présent Mémoire d'entente ne sera interprété comme portant préjudice à d'autres accords de coopération existant entre les Parties à la date de sa signature, ou conclus à une date ultérieure.

Article 9

1. Le présent Mémoire d'entente entrera en vigueur lorsque les Parties se seront notifiées l'accomplissement de toutes les prescriptions juridiques voulues à cette fin.
2. Le présent Mémoire d'entente pourra être révisé par consentement mutuel. Toute révision ou dénonciation sera sans préjudice des droits ou obligations dérivés du présent Mémoire d'entente avant la date de prise d'effet de telle révision ou dénonciation.
3. Le présent Mémoire d'entente sera en vigueur pour une période initiale de cinq ans. Il restera en vigueur par la suite, à moins que l'une des Parties ne notifie, par préavis écrit de six mois, son intention de le dénoncer.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed this Memorandum of Understanding.

DONE in duplicate, at Ottawa this 4th day of July 1991, in the English, French and Korean languages, each language version being equally authentic.

EN FOI DE QUOI les soussignés, dûment autorisés par leurs gouvernements respectifs, ont signé le présent Mémoire d'entente.

FAIT en deux exemplaires, à Ottawa le 4^e jour de juillet 1991, en langues anglaise, française, et coréenne, toutes les versions faisant également foi.

FOR THE
GOVERNMENT OF CANADA

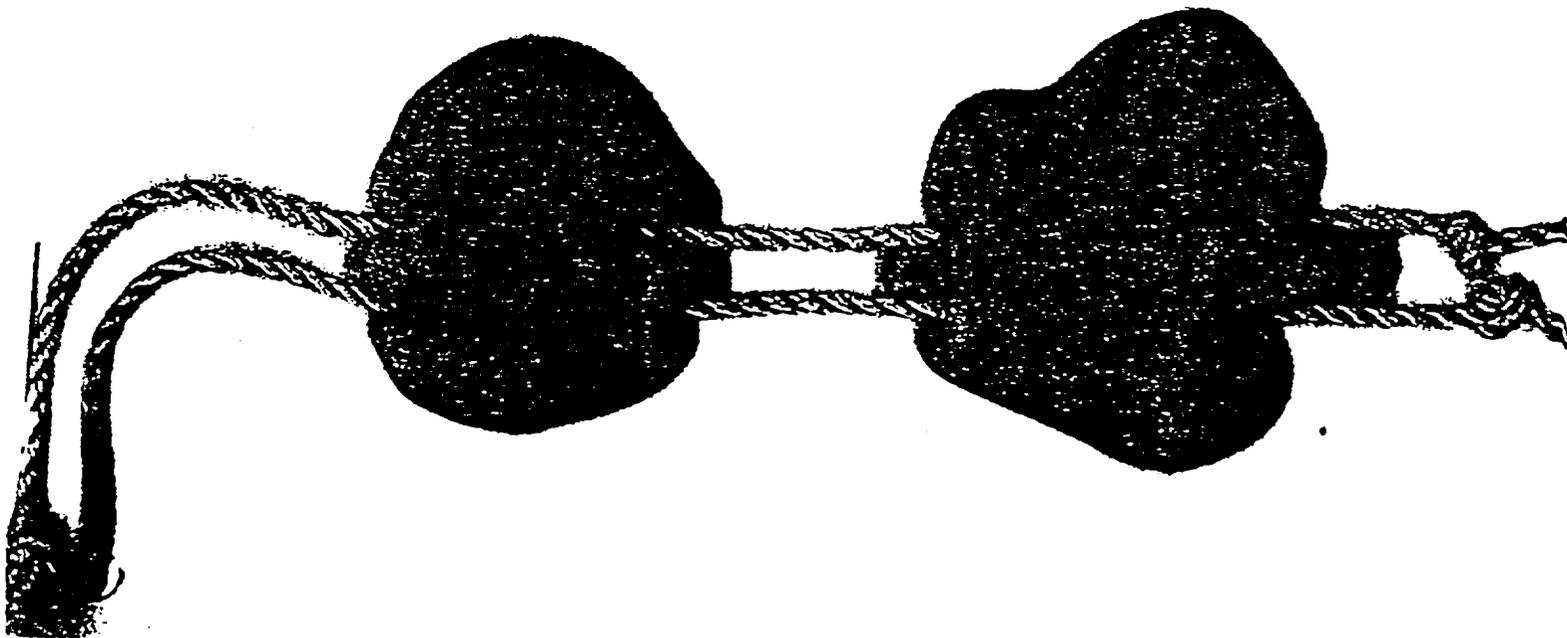
FOR THE
GOVERNMENT OF THE REPUBLIC
OF KOREA

POUR LE
GOUVERNEMENT DU CANADA

POUR LE
GOUVERNEMENT DE LA RÉPUBLIQUE
DE CORÉE

Barbara McDougall

Kim Dae-jung



카나다 정부와 대한민국 정부간의
경제협력에 관한 양해각서

캐나다 정부와 대한민국 정부(이하 "당사국"이라 함)는,

캐나다와 대한민국간 경제 및 무역관계의 실질적인 성장을 인식하고,

캐나다와 대한민국이 공히 달성하고자 하는 더욱 활발한 관계증진을 위하여 무역 및 경제전반에 걸쳐 긴밀한 협력이 필요함을 유념하여,

양국간 무역관계를 강화. 발전시키기 위하여 1966년 12월 20일에 발효된 캐나다와 대한민국간의 무역협정을 상기하고,

각 당사국 국민과 발명특허, 실용신안, 산업디자인 및 상표에 대한 권리를 보호하기 위하여 1979년 2월 13일 발효된 산업재산에 대한 각서교판을 상기하며,

산업, 과학, 기술, 에너지 및 자연자원과 같은 분야에서 경제협력 증진으로 얻게될 공동이익과 호혜를 인식하여,

다음과 같이 합의하였다.

제 1 조

당사국은 평등과 호혜의 기초위에서 무역, 산업, 과학 및 기술분야에서 협력활동을 장려. 발전시키기 위하여 각국의 법령의 범위안에서 모든 적절한 조치를 취한다.

제 2 조

(1) 이 양해각서의 협력활동은 다음 사항을 포함할 수 있다.

가. 경제협력에 관한 토론 및 정보교환 그리고 협력의 기초위에서 유용하게 수행되어질 수 있는 사업 및 제직의 발굴을 위한 전문가 회합과 같은 각종형태의 회합

- 나. 경제협력에 관한 활동, 정책, 관행 및 법령에 관한 정보교환
- 다. 일반 또는 특정주제에 관한 정부관리, 업체대표 또는 기타 관심있는 개인 및 집단의 방문 및 교환
- 라. 합의된 협력사업 및 계획의 이행
- 마. 상호 합의에 따른 기타 형태의 협력활동

(2) 이 양해각서의 협력활동을 위한 비용은 상호 합의에 따라 부담한다.

제 3 조

이 양해각서에 따른 특정협력활동의 세부내용 및 절차를 규정하는 시행약정은 양국 정부 또는 그 기관중 적절한 당사자간에 체결할 수 있다.

제 4 조

이 양해각서의 효과적인 이행을 위하여 당사국은 경제협력에 관한 공동위원회를 설치하며, 공동위원회의 기능은 다음과 같다.

- 가. 경제, 산업정책에 관한 정보 및 의견의 교환
- 나. 이 양해각서의 협력활동 및 실적의 검토
- 다. 이 양해각서의 이행 및 양해각서하의 협력활동의 추진방향에 관한 당사국에의 조언

제 5 조

(1) 공동위원회는 각 당사국에 의하여 임명된 일명의 고위대표와, 적절할 경우, 기타 대표들로 구성한다.

(2) 각 당사국은 공동위원회의 업무준비를 위하여 일명의 간사를 임명한다.

(3) 공동위원회는 원칙적으로 외교경로를 통하여 상호 합의한 날짜에 캐나다와 한국에서 교대로 매년 개최한다.

(4) 공동위원회는 필요한 경우에 이 양해각서의 범위안에서 특정한 업무를 수행하기 위하여, 활동수준의 증가에 맞추어 산업, 과학, 기술, 에너지 및 자연자원협력을 포함하되 이에 국한되지 아니하는 분야에 실무그룹을 설치할 수 있다. 각 당사국은 동 실무그룹 회합에서 자국 대표의 참여 비용을 부담한다.

제 6 조

각 당사국은 상호주의 원칙에 입각하여 이 양해각서의 협력활동을 수행하는 인원에 대하여 각국에서 시행중인 법령에 따라 가능한 한 모든 편의를 제공한다.

제 7 조

(1) 달리 합의하지 아니하는 한, 이 양해각서의 협력활동으로부터 생겨난 비재산적 성질의 정보는 통상적인 절차에 따라 일반에 공개한다.

(2) 당사국은 이 양해각서의 협력활동으로부터 발생하는 지적소유권 기타 재산적 성질의 권리를 보호하기 위하여 적절히 배려하며, 필요한 경우 이 목적을 위하여 상호 협의한다.

제 8 조

이 양해각서의 어떠한 규정도 이 양해각서의 서명일에 존재하거나 그 후에 체결될 양 당사자간의 협력을 위한 다른협정에 영향을 미치는 것으로 해석되지 아니한다.

(1) 이 양해각서는 양 당사국이 발효를 위한 모든 국내적 절차의 완료를 상호 통고하는 때에 발효한다.

(2) 이 양해각서는 상호 합의에 의하여 개정할 수 있다. 이 양해각서의 개정 또는 종료는 그러한 개정 또는 종료의 유효일 전에 이 양해각서에 의하여 발생된 어떠한 권리나 의무에도 영향을 미치지 아니하고 유효하다.

(3) 이 양해각서는 5년간 유효하며 일방당사국이 이 양해각서를 종료시키고자 하는 의사를 6월 전에 서면으로 통고하지 아니하는 한 그후에도 계속 유효하다.

이상의 증거로서, 하기 서명자들은 그들 각자의 정부로부터 정당하게 권한을 위임받아 이 양해각서에 서명하였다.

1991년 7월 4일 **오라와** 에서 동등하게 정본인 영어,
불어 및 한국어로 각 2부씩 작성하였다.

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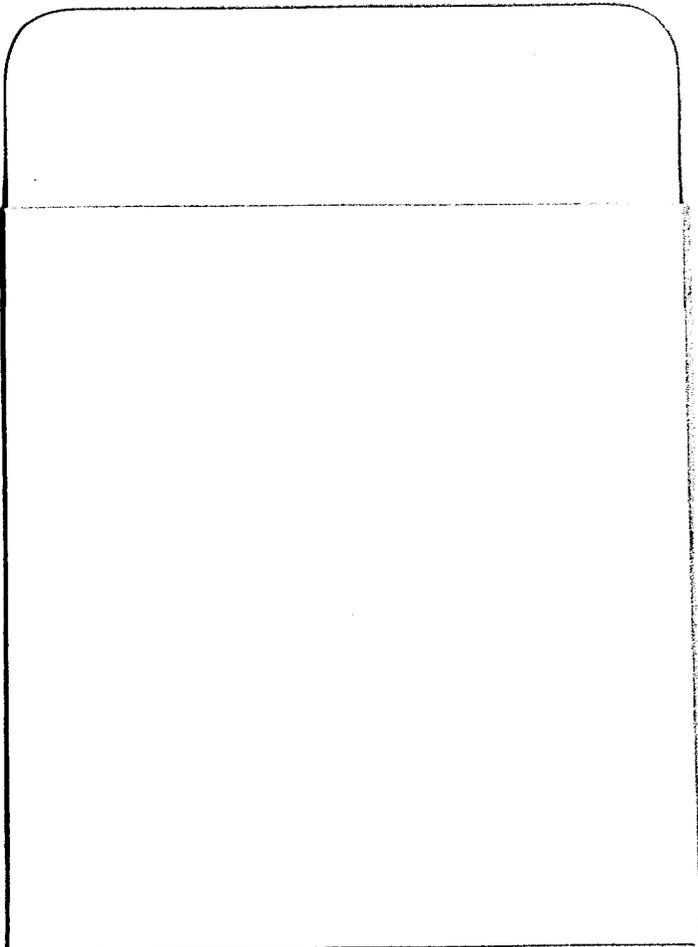
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