
ECCK QUARTERLY REPORT Q3/2018

INTRODUCTION

Moon Jae-in met with Kim Jong Un from September 18 to 20, 2018. The two leaders agreed starting construction work to reconnect railways and roads in the cross-border region. There are also some hopes on the South Korean side, that the Kaesong Industrial Complex might be re-open. Overall, it remains to be seen if such activities are in line with the decision of the UN Security Council. It also remains to be seen if any tangible progress can be made up to December 2018 when Kim Jung Un is expected to visit Seoul. Moon Jae achievements towards North Korea definitely earns respect. In Q2/2018 Moon Jae in's approval ratings were high but decreased considerable In Q3/2018 to 53.1 according to Realmeter. It seems that the general public recently weighs domestic economic and employment issues higher than the remarkable results in the relationship with North Korea. At the end of August, Moon Jae-in announced that five ministers will be replaced in due course; among those also was Ministry of Trade, Industry and Energy (MOTIE) Minister Baik Un-gyu who was replaced by the end of September by Sung Yun-mo.

The Korean cabinet approved its budget bill for 2019; it calls for KRW 470 trillion in expenses representing an increase of almost 10% and KRW 481 trillion in income. The budget still needs to be approved by the National Assembly what we expect to be done either in November or December this year. It needs to be seen how the income side will develop as GDP growth in 2019 is expected to remain below 3%.

Lastly, the ECCK has high hopes that the **EU-Korea Summit on October 18, 2018** will bring some meaningful results. In November, there will be governmental working group meetings in Brussels focusing on some industry segments.

GENERAL OVERVIEW

The Korean government reduced its macro-economic forecast expecting the economy to grow by 2.9% instead of 3.0%. Think tanks rather predict a GDP growth in the range from 2.6% to 2.9%. Exports are

expected to surpass USD 600 billion in 2018 with about 20% contributed by Semiconductors. The very positive growth in Semiconductors was considerably contributing to the growth in export but it needs to be seen how long this demand level can be maintained as this will have an immediate impact on the GDP as export contributes 50% to the Korean GDP. The most alarming domestic area seems to be the job market – this is unchanged to previous quarter except that situation seems to have even worsened when considering the unemployment rate. The ECCK and other business associations keep their view that an evolutionary approach is preferable over a sudden increase of the minimum wage. The determination of the minimum wage for 2019 to now KRW 8,350 representing an increase of 10.9% might be one of the reasons why employment in certain service sectors have been on decline.

Overall trade between Europe and Korea in Q2 amounted to EUR 27.2 billion, which represents a **decrease of EUR 1 billion** compared to the same quarter one year earlier. Total trade for H1 2018 amounted to EUR 53.7 billion, which is down 0.4 billion compared to H1 2017. This is caused by an increase in exports (from EUR 26.5 billion in H1 2017 to EUR 26.8 billion in H1 2018) and a decrease in imports (from EUR 27.7 billion in H1 2017 to EUR 26.9 billion in H1 2018).

Trade between Korea and the EU during this period totalled EUR 25.4 billion. This amounts to a **decrease of 0.4 billion** compared to the same period in 2017, caused by a EUR 0.5 billion decrease in exports to Korea and slightly mitigated by an increase in imports from Korea. Compared to H1 2017 overall trade has decreased by 0.2 billion (from EUR 50.1 billion to EUR 49.9 billion), following a 0.2 billion increase in EU exports to Korea (reaching EUR 24.7 billion) and a 0.4 billion decrease in EU imports from Korea (down to EUR 25.2 billion).

Trade between Korea and EFTA made up EUR 1.8 billion, with EUR 0.8 billion in imports and EUR 1.05 billion in exports (**down EUR 0.6 billion** compared to Q2 2017). EFTA imports from Korea decreased by 47% (EUR 1.5 billion in Q2 2017), whereas exports to Korea increased by 10% (EUR 0.8 billion in Q2 2017). Compared to H1 2017 overall trade has decreased by 0.2 billion (from EUR 4 billion to EUR 3.8 billion), following a 0.1 billion increase in EFTA exports to Korea (reaching 2.1 billion) and a 0.3 billion decrease in EFTA imports from Korea (down to EUR 1.8 billion).

Over the first half of 2018 the total pledged Foreign Direct Investment (FDI) into Korea reached USD 15.8 billion (a 64% increase compared to the first half of 2017). While the increase is mostly attributed to an increase in Chinese pledges (up 360% to USD 2.2 billion), European (EU + EFTA) industry took up the largest share, being responsible for USD 4.6 billion (nearly 30% of these pledges). Pledges made by US's industry amounted to USD 3.0 billion, placing it after European and ahead of Chinese pledges. Actual investment by European industry amounted to USD 3.3 billion, which is nearly double the amount in the first half of 2017 (USD 1.8 billion). Investment primarily came from Spain (USD 1.4 billion), Malta (USD 623.0 million) and France (USD 577.0 million)¹.

ECCK MARKET OVERVIEW

Passenger Vehicles Committee and **Heavy-Duty Commercial Vehicles Committee**: The Motor Vehicle Exchange/Refund System so called 'Lemon Law' will be implemented in 2019, and the details were preannounced in Enforcement Decree and Rule of Motor Vehicle Management Act. Research for the improvement of the current parts self-certification system is being conducted by Korea Automobile Testing & Research Institute (KATRI), and the ECCK delivered its opinion requesting a proper definition of safety standard recognition as well as Korea Certification (KC) marking flexibility.

¹ While MOTIE does neither disclose the company nor the country of origin behind the FDI, it is understood that not all FDI is actually provided by European companies. This is especially true for Malta and Luxemburg.

Tires Committee: the ECCK submitted an opinion letter to Korean Agency for Technology and Standards (KATS) requesting the current Safety Assurance Exemption System to be simplified. The amendment of Noise and Vibration Control Act was passed in the National Assembly, and it is requested that the details for the implementation of Tire Noise Labelling is discussed between the Ministry of Environment (ME) and industry representatives.

Chemical Committee: In September, the ECCK Chemical Committee supported the “International Seminar on Management of Chemicals and Biocides in OECD member countries” hosted by the ME. Representatives from the OECD, the European Chemical Agency (ECHA), the Environmental Protection Agency (EPA) and from ministry of other countries were participating in this event to share and exchange information on better management of chemical substances. Additionally, the ECCK has requested the ME and the Ministry of Employment and Labor (MOEL) to implement the Chemicals Control Act (CCA) and Occupational Safety and Health Act (OSHA), respectively, in an adequate and reasonable manner taking into account change management procedures on industry side.

Cosmetics Committee: At a MOTIE roundtable meeting with foreign chambers held on July 6, the ECCK raised the issue of the excessive safety regulation on cosmetic products in the Dangerous Substances Control Act. The ECCK received feedback from the ministry that the Blue House agreed with the issue raised, that the regulatory requirement is excessive. Consequently, the Blue House ordered to postpone the implementation of the law for cosmetics until December 2019. Also, it is ordered to amend relative laws until then.

On August 27, the National Fire Agency proposed a revision to exclude “Cosmetics” from the Dangerous Substances Control Act at last. The ECCK submitted an opinion letter to National Fire Agency to ensure the exclusion of cosmetic products from the classification of flammable fluids occurs. Also, the ECCK delivered the industry’s positions on the issues regarding the designation of human test agency to the Ministry of Health & Welfare (MOHW) committee and Ministry of Food and Drug Safety (MFDS), that the regulatory requirements are discriminatory against importers. ECCK discussed with the EU Delegation the meeting agenda of EU-KOREA Trade in Goods Committee on cosmetic sectors coming November 2018.

Food & Beverages Committee: there have been a heated debate on liquor tax in Korea, specifically whether to adopt a volume specific tax on beer or not. In the end, the decision was made not to include the said tax in the proposed tax amendments for year 2019. However, as local producers including the craft beer manufacturers, continues to strongly call for a revision, it seems very likely that this amendment will be included in the tax amendment package for 2020. The Ministry of Economy & Finance (MOEF) commented that they will consider covering not only beer, but the whole range of alcoholic beverage product; additionally, the review of the taxation scheme shall not only include volume but also a combination of volume and strength.

IPR Committee: In light of the necessity to have all entities involved in anti-counterfeiting work together closely, ECCK IPR Committee members met with representatives of Naver Smartstore on August 16 to discuss pro-active online counterfeit enforcement methods on their platform. On September 18, the Korean Customs Service (KCS) released its report on counterfeit seizures in 2017. KCS published its first report on counterfeit seizures in 2016, following a recommendation to that effect by ECCK. In doing so, KCS follows other countries (including the EU, the US, as well as Japan), which have all published reports on their customs seizures for a variety of years.

The ECCK together with the Korea Herald organized a **Healthcare roundtable** on July 9 in which

executives of major multinational pharma firms operating in Korea were participating. At the roundtable it was stated that Korea has the potential to become a major part of the global biopharma business ecosystem with its openness for collaboration and swift clinical trial process. The EU-KOREA Market Access Working Group meeting on pharma & medical devices will be held in Brussels in November 2018, and the ECCK delivered industry issues to be included in the meeting agenda such as – among others – fair-value, patient accessor regulatory & UDI. The Korean premium pricing policy for global innovative new drugs will be revised by the end of 2018 considering the KorUS FTA amendments. The ECCK will follow-up on that issue but expects that new proposal will be fair, reasonable and non-discriminatory.

ECCK REPRESENTATION

- July 26: Meeting with MOTIE Vice Minister Inho Lee
- August 28: Meeting with DGFEZ Commissioner Inseon Lee
- September 9: Meeting with Invest Korea Head Shawn Chang
- September 17: Meeting with SMG Director-General for IT Tae-kyoon Kim

ECCK OTHER ISSUES

 **National Tax Services (NTS)** requires Korean residents (Individual and corporations) to report their overseas financial accounts to Korean authorities. The ECCK would like to stress the importance of this requirement as non-compliance might lead to penalties of 20% of the non-reported amount or even to criminal charges. The threshold was lowered for 2018 to KRW 500.0 million (KRW 1.0 billion in 2017) and refers in general to financial accounts related to one household.

The deadline for the reporting of overseas financial accounts of KRW 1.0 billion or more to Korean authorities was June 30. If in scope but not yet reported, we recommend you doing this quickly as penalties are increasing over time. The threshold of KRW 500.0 million is valid for 2018 to be reported in 2019.

 The ECCK in cooperation with all other European country chambers has launched in previous years the **Business Confidence Survey** in November. However, acting on the industry's request, the launch of Business Confidence Survey 2018 will be moved to the end of January, the beginning of February 2019.

Continuation of Providing Advocacy Service to British Companies: On September 10, 2018, the EU Chief Negotiator, Michel Barnier, said "if both sides are realistic there could be an agreement on the terms of the UK's exit by early November [2018]". This agreement would only define certain procedures between the European Union and the United Kingdom following the Brexit which is due on March 29, 2019. The ECCK is an organization providing advocacy services to European companies. A European company in this respect is defined broadly as any company founded and headquartered in a member state of the European Union (EU) or the European Free Trade Association (EFTA). However, after the UK's scheduled departure from the EU next year, British companies would not be subject to ECCK's advocacy services anymore. This cannot be of any interest – neither for British companies nor for the ECCK. Our British members are important and valuable contributors to the Chamber's advocacy work. Thus, the ECCK will continue serving those companies even after the Brexit in 2019. The ECCK and the British Chamber of Commerce in Korea (BCCK) have confirmed that advocacy activities of both chambers are complementary and that cooperation between the ECCK and BCCK will increase to better serve the needs of the British companies' interests. In order to do so, the ECCK will propose an amendment of its Articles of Association at the Annual General Meeting to include the UK as an area of the ECCK advocacy coverage.



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ECCK

About ECCK:

The European Chamber of Commerce in Korea (ECCK) is the pre-eminent association of European companies conducting business in or related to Korea. Representing the common voice of the European business community in Korea, the ECCK aims to function as the platform for information exchange, effective communication channel to the Korean authorities and convener of networking opportunities for European businesses. The ECCK is a non-profit and non-political organization. (www.ecck.eu)

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