
ECCK QUARTERLY REPORT Q2/2018

INTRODUCTION

The most outstanding events were most probably the meeting of both Korean leaders Moon Jae In and Kim Jung Un in Panmunjom on May 26 followed by the summit on Sentosa on June 12, which brought Donald Trump and Kim Jung Un together. It is definitely too early to draw any scenario, but fact is that we have experienced two symbolic occasions. Many task force teams have been set up to explore business opportunities in North Korea. In this respect the ECCK shares the opinion of KCCI's chairman Park Yong-Maan who stated that expectations on inter-Korea cooperation are currently 'overheated'. Even if sanctions are partly lifted, the lack of administrative processes and related systems, such as taxation, administrative approvals, possession of real property or investment protection makes it rather unrealistic that we will see substantial business investment in the foreseeable future.

The local election on June 13 brought substantial gains for the governing party – therewith further endorsing the policy of President Moon Jae In. His approval ratings are still very high, and we can currently foresee no change in that positive evaluation.

Further significant was the release of Korean Confederation of Trade Unions (KCTU) Leader Han Sang-gyun on May 21 and KCTU Secretary General of Lee Young-joo on June 15. Those releases also have a symbolic character and we hope that we will see soon some positive moves concerning the not yet implemented four ILO Core Conventions as regulated in the Trade & Sustainability Chapter (TSD) Chapter of the Korea-EU FTA.

GENERAL OVERVIEW

The Korean government keeps its macro-economic forecast expecting the economy to grow by 3.0% while think tanks predict a GDP growth in the range from 2.6% to 2.9%. It seems that in those predictions an escalating trade conflict between the USA and China is not yet taken into account.

Korea's exports in the first half of the year reached an all-time high mainly due to semiconductors and petrochemicals; exports in June exceeded KRW 50.0 billion for the fourth consecutive month but failed to grow versus June 2017. Korean media claim that the recent weakening of the KRW poses new risks to the Korean economy, although we rather believe that risk and opportunities will balance out. The most alarming domestic area seems to be the job market. The Moon Jae In administration has focused so far on the income led growth, but has not yet advanced in its innovation led growth initiative. It seems that necessary regulatory reforms are somehow in a deadlock, despite the fact that reform is highly needed – which includes a potential decrease of Korean specific regulation and the alignment with international standards. The overall unemployment rate has dropped in June to 3.7% (4.5% in March) and to 9.0% for employees aged 15 to 29 years (compared to 11.6% in March). 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 – originally foreseen for end of June – is delayed due to the Federation of Korean Trade Unions (FKTU) and the KCTU leaving the dialogue mainly because of the revision of the minimum wage act's inclusion of bonuses and benefits into its calculation; FKTU agreed to return but the KCTU still keeps its position. The ECCK hopes that a meaningful decision will be made balancing employees' income and operating costs.

We have observed an increase in trade between Korea and Europe (EU + EFTA); total trade in the first quarter amounted to EUR 26.5 billion compared to EUR 26 billion in the same period one year earlier. Exports from Europe to Korea amounted to EUR 13.3 billion (Q1 2017: EUR 12.6 billion) and exports from Korea to Europe EUR 13.2 billion (Q1 2017: 12.4 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 United States' 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

European imported **Passenger Vehicles** reached a 77% market share of total imported passenger vehicles in Korea for the first half of the year. The Ministry of Land, Infrastructure and Transport (MOLIT) announced to partially amend some motor vehicle safety standards, including with regards to vehicles' ground clearance and crash safety. ECCK emphasized to MOLIT the necessity of harmonization of the implementation date with EU for the crash safety standard amendment. The European **Heavy Duty Commercial Vehicles** manufactures feel a strong need for constructive development with regards to "HS Code Amendment of Truck Tractor in EU-Korea FTA" and the "Vehicle Width" standard issues. The Ministry of Trade, Industry and Energy (MOTIE) is planning to introduce a new standard for Tires' "Energy Efficiency Grade" and a standard for tires applied to trucks and buses. ECCK lead discussions on the relevant issues (such as grace period and introduction time) between Korean authorities and the tire manufacturing industry.

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 Luxembourg.

In June, the ECCK's **Chemical Committee** co-hosted together with its member company ERM a seminar on BPR (Biocidal Products Regulation) in which experts from ERM and the Ministry of Environment (ME) provided up-dates and discussed recent amendments. The ECCK has requested to the ME respectively the Ministry of Employment and Labour to implement the Chemicals Control Act (CCA) and Occupational Safety and Health Act (OSHA) in an adequate and reasonable manner taking account of change management in business.

For **Cosmetics**, the Seoul Metropolitan Fire & Disaster Headquarters requested to have certain cosmetic products covered by the "Dangerous Goods Control Act". The ECCK instead issued a comment that the storage and related safety procedures are well handled under the Cosmetic Act, which is in line with EU regulations. The French Cosmetic Association (FEBEA) visited Seoul in June to participate in the Ministry of Food and Drug Safety (MFDS) Cosmetics Forum. The ECCK and FEBEA both supports a procedure in line with EU regulation – and therewith internationally accepted standards – in respect to the coverage of the Dangerous Goods Control Act.

ECCK's **Cosmetics Committee**, **Fashion & Retail Committee** and **Kitchen & Home Appliances Committee** submitted opinions in reply to a number of amendments of the Safety Control Act. To further detail the submissions, the Committees met with officials of the Korean Agency for Technology and Standards (KATS) over the course of two months. As a result, a number of suggestions which facilitate business have been reflected in the amended Safety Control Act.

In the area of **Food & Beverages** some improvements could be seen on labelling and advertisement. Previously award records were not allowed to be indicated on products nor to be used for advertisement; as of June 28, the prohibition was released as long as the importer can proof evidence. On the other hand, NTS submitted suggestion to MoSF regarding implementation of the new taxation system (ad valorem) on beer only. ECCK plans to request MoSF on revising the category not only beer but also whole alcoholic beverages.

On May 29, the annual IP Dialogue was held between the European Commission and the Korean government. ECCK has been in close contact with the European Commission in describing the Korean IP environment and issues pertinent to European businesses; a myriad of topics we raised has been discussed between both parties. In an effort to allow for more focused enforcement against counterfeiting, the European Commission has initiated a consultation on marketplaces that are known for the sale of counterfeit products. The ECCK has submitted a detailed report on troublesome online and offline marketplaces in Korea. ECCK further published its fourth "Report on Busan Consumers' Perception of Counterfeit Products". This report follows a public survey among 500 consumers and assesses consumers' counterfeit purchasing patterns and motivations.

On May 9, the ECCK met KOTRA to support a position that the scope of the Patent Term Extension (PTE) shall be consistent with the international harmonization of patent laws. The ECCK is of the position that innovations in the field of **Pharmaceuticals and Medical Devices** are not adequately honored. The Healthcare Committee attended the Market Access Working Group Meeting on Pharma on June 27 at EUD and addressed that the Ministry of Health & Welfare's 'Premium pricing policy for Global Innovative Drugs' shall improve not to discriminate international companies. Proper recognition of value of innovation is critical to ensure patient access.

ECCK REPRESENTATION

- April 24: Lunch meeting with ACRC Standing Commissioner Geun-ho Shin: Discussion on cooperation and best practice exchange between ACRC and European industry.
- April 25: ECCK Breakfast Meeting with Monetary Policy Board Member Koh Seung Beom: Discussion on general economic and monetary policy.
- May 15: Seoul Foreign Investment Advisory Council: General up-date on start-up policies by Seoul Metropolitan Government.
- May 16: Meeting with Korean Confederation of Trade Unions: Exchange of opinions on ILO Core Conventions, minimum wage and labor relations.
- May 24: Meeting with Sang-Min Lee, Member of National Assembly, Science, ICT, Broadcasting and Communications Committee: Discussion about structured exchange procedures in the area of ICT.
- May 28: Meeting with MOTIE Director General for Investment Policy Ho Joon Lee: Relationship building and definition of communication procedures.
- June 18 to 20: EBO WWN (Brussels): Discussions with the European Commission and European chambers globally about European Economic Diplomacy.
- June 19: WS Future of Sustainable Development Chapter hosted by the European Parliament's INTA Committee (Brussels): Discussion on how to ensure the compliance of FTA articles related to sustainability.
- June 21: European Centre for International Political Economy (Brussels): Seminar co-organized with ECCK: "A Conversation on the Koreas After the Summit with ECCK President Christoph Heider, Theresa Fallon (Centre for Russia, Europe, Asia Studies (CREAS)), Ramon Pacheco Pardo (KF-VUB Korea Chair at Institute for European Studies).
- June 22: Luncheon meeting with KFTC Chairperson Kim Sang-jo: Exchange with member company representatives on fair trade issues.

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 cases. 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.

MOTIE and **KOTRA** as initiator, has launched a study, organized by ECCK with global consulting group Roland Berger, which aims at gaining thoughts and opinions on the expats living conditions in Korea. The ECCK will distribute an online survey in the first week of August. The ECCK explicitly would like to encourage participation and input from foreigners residing and having resided in Korea, to ensure a meaningful number of suggestions related to our living conditions here in Korea.



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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