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25. 09. 2009

Cher José Manuel

I would like to draw your attention to an issue of major concern to us. It concerns the ongoing negotiations of a free-trade agreement (FTA) with South Korea, and in particular the latest developments on the issue of duty drawback.

Baroness Ashton and DG TRADE services have been exploring with Korea, the Member States and other Commission services a solution with respect to duty drawback based on a safeguard clause. According to this Korea would be exempted from the long-standing rule in our trade policy of prohibiting duty drawback unless the drawback granted causes severe trade distortion in the Community market.

By allowing duty drawback to continue the safeguard clause as currently explored would grant a form of export subsidy to Korea which would be detrimental to the interests of EU industry. It could have an extremely negative impact on employment and competitiveness in the European Union, at a moment when the Commission is putting all its efforts into addressing the negative effects of the economic crisis on the labour market and ensuring a level playing field in international trade.

I have been receiving letters both from the industry as well as from the Trade Unions side stating their serious concerns on the results of this agreement. I share their fear that the negative effects of the proposed safeguard clause would cancel any benefits the EU might get from this FTA, including on services and on the mutual recognition of standards. Two sectors that would be particularly affected if duty drawback were to be allowed are the car and car parts industry and the consumer electronics industry. These concerned associations have already expressed their firm opposition to any concession on duty drawback (and rules of origin) to Korea.

And I don't believe that the solution being currently explored is one as such but that it gives rise to even more concerns when taking into account the concessions we have already made through the acceptance of relaxed rules of origin in the negotiation of the FTA with Korea.

Further, allowing duty drawback to Korea would create a precedent that would put at stake the whole EU system of trade preferences. If we follow this path with Korea other trade partners that have bilateral trade agreements with the EU or which are seeking them are likely to ask for similar treatment.

*M. José Manuel BARROSO
President of the European Commission*

I believe we should discuss all alternatives to the safeguard clause, which could offer a more balanced way of dealing with our own and Korea's interests and which could ensure a more level playing field in these negotiations. We need to ensure that all European companies can benefit from the business opportunities provided for by the free trade agreement with Korea and not give some sectors up to promote some others.

Finally, I believe on the state of the crisis and the increase of the unemployment rate is not the right time for signing such an agreement and at least we cannot risk going ahead with its signature without having a clear and on depth discussion at the College on all possible solutions.

Under the Lisbon Treaty the ratification of trade agreements will require European Parliament approval and the FTA with Korea with a concession on duty drawback as currently being negotiated is likely to raise a lively debate and strong criticism not only in the new EP but also more generally in the public opinion.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Y. Smith', written in a cursive style.

CC: Rest of commissioners.

Annexes: Correspondence received from social partners.