

# CANADA-KOREA FREE TRADE AGREEMENT (CKFTA)

## BENEFITS

---

Seoul, Korea  
11 March 2014

The Government of Canada is focused on creating jobs and opportunities for Canadians in every region of the country.

Our Government has therefore launched the most ambitious trade agenda in Canadian history. In less than seven years, Canada has concluded free trade agreements with nine countries and is negotiating with 30 more. The biggest of these deals will open markets in the 28-nation European Union and give Canadian businesses access to half a billion affluent customers and create thousands of jobs for Canadians.

In these uncertain times, our prosperity depends on our ability to take advantage of economic opportunities in emerging markets. The most recent Speech from the Throne committed to expanding trade in Asia to benefit Canadian workers, businesses and industries across the country. The Canada-Korea Free Trade Agreement (CKFTA) delivers on that commitment.

On March 11, 2014, Prime Minister Stephen Harper and Park Geun-hye, President of the Republic of Korea, announced that Canada and Korea have concluded negotiations on a new free trade agreement.

### GENERAL BENEFITS

The CKFTA will provide Canadian businesses and workers with unprecedented access to Korea, which has an annual GDP of \$1.1 trillion and a population of 50 million people. Expected benefits include:

- thousands of new jobs in Canada in a wide range of sectors, including industrial goods (e.g. chemicals and plastics, information and communications technology, aerospace, metals and minerals, etc.), agricultural and agri-food products, wine and spirits, fish and seafood, and wood and forestry products;
- a substantial increase in Canadian exports to Korea. The Agreement is projected to increase exports by 32 per cent and boost the Canadian economy by \$1.7 billion annually;

- the reduction of tariffs and non-tariff measures for Canadian companies. When the Agreement is fully implemented, Korea will remove duties on 98.2 per cent of its tariff lines covering virtually all of Canada's imports. Given that the average of Korea's tariffs are currently three times higher than Canada's (13.3 per cent vs. 4.3 per cent), tariff elimination will be particularly advantageous for Canadian businesses exporting to the Korean market;
- improved access for professional, environmental and business services;
- enhanced temporary entry commitments that will facilitate the movement of business people between Canada and Korea and give preferential access to business visitors, traders, investors and professionals such as architects and engineers;
- improved access to Korea's government procurement market;
- a strategic gateway for Canadian businesses to the wider Asia-Pacific region, enhancing their global competitiveness; and,
- a greater variety of goods for Canadian consumers at lower prices.

## **BENEFITS BY SECTOR**

Canadian workers in sectors across every region of the country stand to benefit from increased access, covering virtually all aspects, including goods and services, investment, government procurement, non-tariff barriers, environment and labour cooperation.

### **Industrial goods**

Canada's industrial goods capacity comprises a wide range of sectors, including metals and minerals, aerospace, automobiles, chemicals and plastics, life sciences, information and communications technology, textiles and apparel, fertilizer and natural gas. If something can be manufactured, chances are a Canadian is producing it or working on ways to improve it. In 2012, roughly 1.8 million Canadians were employed in this sector.

In 2012, Canada's exports of industrial goods to Korea were worth \$2.6 billion, representing 70 per cent of Canada's total exports to Korea. In 2012, Korea imported approximately \$491.4 billion worth of industrial goods.

The Canada-Korea Free Trade Agreement will significantly improve market access opportunities for Canada's industrial sector by eliminating tariffs on all Canadian exports of industrial goods. Upon the Agreement's entry into force, more than 95 per cent of tariff lines for industrial goods will be duty free. A further 4.2 per cent of tariff lines will become duty free within five years, while the remaining 0.1 per cent will be duty free within 10 years.

The Canadian market is already largely open to global imports, including those from Korea. Mutual tariff elimination will help make Canadian exports more price competitive with Korean domestic production. The CKFTA will also help Canadian exporters maintain a competitive footing with major competitors who have already implemented an FTA with Korea, such as the United States and the EU.

From aerospace and auto parts in Ontario and Quebec, agriculture machinery and equipment in Saskatchewan, to extractive machinery in Newfoundland, manufacturing industry workers across Canada will reap the benefits of new market access achieved under the Canada-Korea Free Trade Agreement.

### **Automotive products**

The automotive sector is a key driver of Canada's economy and employs more than 115,000 highly skilled Canadians across the country. The automotive products sector is comprised of vehicle manufacturers and the various automotive parts suppliers that make up the value chain. In 2012, Korea imported \$48.5 million worth of motor vehicles with engine sizes over 1.0 L (2,023 vehicles) and \$35.9 million worth of automotive parts from Canada.

Given its importance to Canada-Korea trade, the automotive industry was a central area of the Canada-Korea Free Trade Agreement negotiations. The Canada-Korea Free Trade Agreement's automotive provisions feature robust outcomes across many areas of the Agreement, including tariffs, rules of origins, non-tariff issues, standards-related measures, specialized dispute settlement procedures, and unique safeguard provisions to protect against import surges. Upon the Agreement's entry into force, Korean tariffs will be eliminated on all light vehicles (8 per cent tariff) and all automotive parts (tariffs ranging from 3 to 8 per cent).

Canadian producers and exporters of automotive products already have the capacity to export to Asian markets. The Canada-Korea Free Trade

Agreement will provide a significant advantage for Canadian automotive stakeholders looking to further expand market opportunities in Korea.

The Canada-Korea Free Trade Agreement also secures Canada's position in the Korean automotive products market, where competitors such as the United States and the European Union are already benefiting from preferential access as a result of their respective FTAs.

### **Wood and forestry products**

By value, Canada is the world's leading exporter of softwood lumber, newsprint and wood pulp. In 2012, the sector contributed \$20.2 billion to Canada's GDP and employed some 235,000 Canadians, most of them in jobs that tend to be highly skilled.

Canada exported \$503.8 million worth of wood and forestry products to Korea in 2012, representing 13.7 per cent of Canada's total exports to that country. Canadian wood exports to Korea alone were worth \$166.7 million in 2012, representing 33 per cent of Canada's overall wood and forestry exports to Korea. In 2012, Korea ranked fourth as an export destination for Canadian wood products. Globally, Korea imported approximately \$6.3 billion in wood and forestry products in 2012.

While Korean pulp and paper tariff lines and the majority of other forestry product tariff lines are duty-free on a most-favoured-nation (MFN) basis, Korean wood tariff lines have significant tariffs, as high as 10 per cent, which presents a competitive disadvantage for Canadian exporters. Wood and forestry products of key export interest to Canada, including spruce, pine and fir lumber, oriented strand board, Western hemlock lumber, wood beams and arches, and red cedar lumber, currently face tariffs ranging from 5 to 8 per cent.

Under the Canada-Korea Free Trade Agreement, all Korean tariffs on forestry and wood products will be eliminated. Upon the Agreement's entry into force, over 57 per cent of tariff lines for wood and forest products will

be duty-free, while a further 13.1 per cent will become duty-free within three years. Duties on the remaining tariff lines will be eliminated within 10 years.

These benefits from the Canada-Korea Free Trade Agreement in the wood and forest products sector will be of greatest benefit to workers in British Columbia, Ontario, Quebec and Alberta.

### Fish and seafood products

Canada has one of the world's most valuable commercial fishing industries, which contributed more than \$2.2 billion to Canada's GDP in 2012 and provided some 41,000 jobs to Canadians in everything from fishing to aquaculture.

In 2012, Korea ranked ninth as an export destination for Canadian fish and seafood products. While Canada's fish and seafood exports to Korea were worth only \$44.7 million in 2012, Canada has significant export capacity in this sector, with global exports worth \$4.2 billion in 2012. In 2012, Korea imported approximately \$1.5 billion worth of fish and seafood.

Under the Canada-Korea Free Trade Agreement, all Korean tariffs on fish and seafood products will be eliminated. Nearly 70 per cent of fish and seafood tariff lines will be duty-free within five years of the Agreement's entry into force and all remaining duties will be eliminated within 12 years.

The Agreement will eliminate Korea's average tariff of 16.5 per cent in this sector, which includes tariff peaks as high as 47 per cent. Eliminating Korea's high tariffs in this sector will level the playing field with the U.S., the EU and other countries for Canada's fish and seafood exporters, and facilitate the expansion of Canadian exports to Korea's growing market.

These benefits from the Canada-Korea Free Trade Agreement in the fish and seafood sector will be of greatest benefit to workers in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, British Columbia and the Northwest Territories.

## **Agricultural and agri-food products**

The agricultural and agri-food sector employed more than 585,000 people in 2012, accounting for close to 3 per cent of Canada's GDP. In the same year, Canada was the world's fifth-largest exporter of agricultural and agri-food products.

Canada's annual agricultural exports to Korea were worth an average of \$708 million from 2010 to 2012, led by wheat, pork and pork offal, hides, skins and furs, refined and crude canola oil, malt and prepared foods. Canada will benefit from expanding exports of these and a wide variety of other products, including meats, grains, oilseeds and pulses. Canadian agricultural exports to Korea currently face high tariff rates, which averaged 52.7 per cent in 2012.

The Agreement will result in the elimination of tariffs on 86.8 per cent of agricultural tariff lines. This duty-free access will give Canadian agricultural products, including beef, pork, canola and grains, preferential access to the Korean market and will put Canada on a level playing field with Korea's current FTA partners.

The Canada-Korea Free Trade Agreement will not affect Canada's supply management system, which will remain as robust as ever. The supply management system and its three key pillars - production control, import controls and price controls - will remain intact. The Canada-Korea Free Trade Agreement provides no additional market access (i.e. no quota expansion and no reduction or elimination of over-access tariffs) for Korea's dairy, poultry and eggs.

These benefits from the Canada-Korea Free Trade Agreement in the agriculture and agri-food sector will be of great benefit to all of Canada's provinces.

## **Services**

Service industries are vital to Canada's economy, accounting for more than 70 per cent of Canada's GDP and employing three out of four working Canadians - more than 13.6 million people. Canadians excel at providing knowledge-intensive, advanced services in areas such as engineering, architecture, information management, environmental protection and monitoring, mining and energy development.

Today, Canada's services exports to Korea - which include transportation, financial, travel and commercial services such as financial, management, engineering and other professional services - total over \$750 million, and there is much potential for growth.

The Canada-Korea Free Trade Agreement will establish greater transparency and disciplines, resulting in better, more secure and predictable market access in areas of interest to Canada, such as professional services (e.g. foreign legal consultancy services, commercial education and training, research and development), environmental services, and business services.

Korea's temporary entry commitments under the Agreement are more ambitious than they are in any of Korea's other FTAs. The Agreement's temporary entry provisions will provide new, preferential access to the Korean market as well as increased transparency and predictability, facilitating movement between Canada and Korea for business visitors, traders and investors, intra-company transferees, professionals (contract service suppliers and independent professionals) and spouses.

Under the Agreement, Canadian firms can send their employees to Korea to fulfill service contracts, for instance, in science, engineering and IT fields. Canadian independent professionals (i.e. self-employed professionals contracted directly by a Korean or Korean company) such as architects, engineers, management consultants and veterinarians may enter the Korean market with a pre-arranged contract.

## **Investment**

While Canada and Korea enjoy a well-established investment relationship, ample scope remains for further expanding bilateral cross-border investment. As of 2012, Koreans had invested more than \$327 billion abroad. The same year, the stock of foreign direct investment by Korean companies in Canada reached \$5.8 billion while Canadian direct investment in Korea reached \$569 million.

The Canada-Korea Free Trade Agreement's investment chapter sets out transparent and predictable rules contributing to a more secure and stable investment environment, facilitating increased bilateral investment flows into Canada and Korea. The Agreement will ensure that Canadian investors can compete on an equal footing with other investors in Korea.

Key sectors that stand to benefit from the Agreement include automotive parts, transportation, telecommunications and financial services.

## **Government Procurement**

Government procurement is a major source of economic activity in Korea. In 2012, Korea's overall government procurement market was estimated to be worth approximately \$105 billion, with the infrastructure/construction procurement market estimated to be worth \$47 billion alone.

The Canada-Korea Free Trade Agreement will provide Canadian suppliers of products and services with preferential access to the procurement activities of Korean central government entities. The Agreement will place Canadian firms on an equal or better footing relative to their competitors in terms of access to Korea's central government procurement market. Opening procurement processes also increases competition; ensuring procurement processes covered under the Agreement are conducted with transparency and openness in order to realize the market access benefits.

- See more at: <http://www.pm.gc.ca/eng/news/2014/03/11/canada-korea-free-trade-agreement-ckfta-benefits#sthash.uWffOxSR.dpuf>