

KOREA- AUSTRALIA

FREE TRADE AGREEMENT



Factsheet: Trade in Goods

The Korea-Australia Free Trade Agreement (KAFTA) is a comprehensive agreement that, since its entry into force in December 2014, is substantially liberalising trade with Korea and creating significant new commercial opportunities for Australian businesses.

KAFTA achieves high levels of tariff elimination

- On entry into force, Korea provided duty-free access on 83 per cent of Australia's exports (by value in 2015) to Korea.
 - This will increase to 99.7 per cent of exports duty-free (or covered by preferential quotas) on full implementation (1 January 2033) of the agreement.
- A small number of products are subject to other phasing arrangements (including seasonal tariff elimination).
- Korea insisted that some of its most sensitive products, such as rice, be excluded from any tariff concessions under KAFTA (Australia's exports of these products to Korea are negligible).
- On entry into force of the Agreement, Australia provided duty-free access on 86 per cent of our current imports from Korea.
 - This will increase to 100 per cent by 1 January 2021.
- For certain import sensitive products, Australia's tariff elimination is being undertaken progressively over transitional periods.
 - Products covered by transitional arrangements include some motor vehicles and parts, steel, chemical, plastics and textile, clothing and footwear products.
 - A bilateral safeguard mechanism is in place to address any sudden surge in imports over the transitional periods.

KAFTA helps to address non-tariff barriers

- KAFTA created a review mechanism to address non-tariff measures on a case-by-case basis, providing scope to address existing and future non-tariff measures.

KAFTA seeks to minimise red tape

- A claim for preferential tariff treatment for Australian goods exported to Korea can be made on the basis of either: a certificate of origin completed by the exporter or the producer, or a certificate of origin issued by an authorised body. This approach provides flexibility for traders, particularly small and medium-sized enterprises.
- A retrospective claim for preferential tariff treatment will be able to be made post-importation provided certain conditions are met.
- To provide increased transparency and legal certainty, KAFTA provides for:
 - advance rulings from customs authorities on the importation of products;



- procedures to appeal the decisions of customs authorities;
- the publication on the Internet of customs and trade related legislation; and
- designation of enquiry points so members of the public can access further information on the customs issues covered by the Agreement.
- To simplify and streamline border procedures, KAFTA includes provisions on:
 - risk management, with resources focused on high-risk shipments and facilitating the release of low-risk goods;
 - advance electronic submission and processing of documentation to enable prompt release of goods on arrival;
 - simplified customs procedures; and
 - harmonising customs documentation and data requirements to minimise the administrative burden on importers and exporters.
- A step-by-step guide helps Australian importers and exporters to take advantage of preferential tariff treatment under KAFTA.
- The Agreement also establishes mechanisms to facilitate future cooperation between Australia and Korea in the area of geographical indications and common names.

KAFTA Market Access Outcomes – Agriculture

Beef

Beef is Australia's biggest agricultural export to Korea, worth \$1.1 billion in 2014-15. Korea is Australia's third-biggest export market for Australian beef. Key KAFTA outcomes include:

- Elimination of Korea's 40 per cent tariff on beef by 1 January 2028.
- Korea has the right to apply an agricultural safeguard on some beef products until 31 December 2027.
 - This discretionary safeguard can apply only on volumes above the safeguard trigger level, set at 160,829 tonnes in 2016. This trigger level increases by a further two per cent (compound) on 1 January every year.
 - Volumes above the trigger level can attract a tariff that falls from 40 per cent to 30 per cent to 24 per cent in three stages (every five years).
- Korea will eliminate its 18 per cent tariff on bovine offal and its 72 per cent tariff on processed beef products by 1 January 2028 (with no safeguards).
 - Australia's exports of bovine offal to Korea were worth \$123 million in 2014-15.

Sugar

Korea is Australia's largest export market for sugar, receiving over one third of our sugar exports, worth an estimated \$517 million in 2014-15. Key KAFTA outcomes include:

- Elimination of Korea's three per cent tariff on Australian raw sugar on entry into force.
- Elimination of Korea's three per cent tariff on molasses by 1 January 2018.
- Elimination of Korea's 35 per cent tariff on refined sugar by 1 January 2031. Before the tariff is fully eliminated, Korea can apply a discretionary safeguard.
 - The trigger for the safeguard is set at 984 tonnes in 2016. The trigger will grow by a further two per cent (compound) on 1 January every year

Wheat

Australia's exports of wheat to Korea were worth \$352 million in 2014-15.

- Under KAFTA, Korea eliminated its 1.8 per cent tariff on wheat from Australia on entry in force of the Agreement.
- Tariffs of 8 per cent on wheat gluten were also eliminated on entry into force.

Dairy

Australian dairy exports to Korea were worth \$91 million in 2014-15 despite very high tariffs. The industry benefits from immediate duty-free quotas for key exports and the elimination of tariffs up to 89 per cent on most other dairy products. Key KAFTA outcomes are:

- Cheese, one of Australia's main dairy exports to Korea, enjoys liberalised trade including:
 - A duty-free quota set at 4,912 tonnes in 2016, growing by a further three per cent (compound) on 1 January every year. This quota covers most of our cheese exports to Korea.
 - Progressive elimination of the 36 per cent tariff by 1 January 2026 for cheddar cheese and by 1 January 2031 for cream and processed cheese, with all cheese tariffs eliminated by 1 January 2033.
- Butter, dairy spreads and preparations comprising more than 70 per cent butter, another lucrative group of products, benefit from a range of measures.
 - A duty-free quota for butter, set at 118 tonnes in 2016, growing by two per cent on 1 January every year, with tariffs of up to 89 per cent eliminated by 1 January 2028.
 - Progressive elimination of the eight per cent tariff on key preparations of butter by 1 January 2023.
 - KAFTA eliminated the eight per cent tariff on dairy spreads on entry into force.
- Infant formula received a duty-free quota set at 499 tonnes in 2016, growing by a further three per cent (compound) on 1 January every year.
 - Tariffs of 36 per cent and 40 per cent will be eliminated by 1 January 2026 and 2028, respectively.
- Tariffs on a range of other dairy products, such as milk, cream, ice-cream, yoghurt and whey are being eliminated from 1 January 2016 to 1 January 2033.

Malt and Malting Barley

- Korea provides Australia with a duty-free quota on malt and malting barley, set at 10,404 tonnes in 2016, growing by a further two per cent (compound) every 1 January until 2028. (This is in addition to Korea's WTO tariff rate quota on malt and malting barley of 40,000 tonnes and 30,000 tonnes, respectively, with an in-quota tariff of 30 per cent on both products.)
 - Korea will also eliminate its out-of-quota tariffs of 269 per cent for malt and 513 per cent for malting barley by 1 January 2028. Korea can apply a safeguard before that date. After 1 January 2028, trade will be completely liberalised.
- Tariffs on Australian corn exports to Korea of up to 328 per cent are being eliminated progressively by 1 January 2023.
 - Australian corn exporters also continue to have access to Korea's WTO tariff rate quota of 6,102,100 tonnes at a three per cent tariff.

Oilseeds

- Tariffs of between 8 and 30 per cent on rapeseed (canola) oil will be eliminated progressively by 1 January 2018 to 2028). Exports from Australia were worth \$18 million in 2014-15.
- Korea eliminated on entry into force its three per cent tariff on cotton seeds. Australia's exports were worth \$15 million in 2014-15.

Lamb/goat/pork

Korea will progressively eliminate its 22.5 per cent tariff on all sheep and goat meat by 1 January 2023. Tariffs on key pork exports of 22.5 to 25 per cent will be progressively eliminated by 1 January 2018 and 2028.

Seafood

Key products, such as frozen southern bluefin tuna (current tariff 10 per cent) and rock lobsters (20 per cent) entered duty free from 1 January 2016.

Wine

Australia's wine trade with Korea is significant, with over \$10 million worth of wine exported to Korea in 2014-15. Wine exports currently face a 15 per cent tariff.

- As of entry into force, Australian wine – including sparkling wine, red wine and white wine – can now enter Korea duty free.

Horticulture

KAFTA provides quick tariff elimination on most of our horticulture exports to Korea. Key KAFTA outcomes include:

- Tariffs on cherries (24 per cent), shelled almonds (eight per cent) and dried grapes (21 per cent) were eliminated on entry into force.
- Tariffs on asparagus (27 per cent) were eliminated on 1 January 2016.
- Tariffs on macadamia nuts (30 per cent), carrots (30 per cent) and most fruit juices (orange, lemon, lime, pineapple, grape and tomato – which face tariffs of 45-54 per cent) will be progressively eliminated by 1 January 2018.
- Tariffs on tomatoes (45 per cent) and apricots (45 per cent) will be progressively eliminated by 1 January 2020.
- Tariffs on mangoes (30 per cent), peaches (45 per cent), plums (45 per cent) and peanuts (63.9 per cent) will be progressively eliminated by 1 January 2023.

For some of Korea's more sensitive horticulture products, there will be seasonal tariff elimination during Australia's exporting months.

- Potatoes – tariffs of up to 304 per cent on potatoes (for chipping) were eliminated on entry into force for the period of December to April each year. For other months, the 304 per cent tariff will be progressively eliminated by 1 January 2028. Australia is Korea's second major supplier of potatoes for chipping, with exports worth \$7 million in 2014-15.
- Table grapes – the tariff of 45 per cent almost halved to 24 per cent on entry into force and will be progressively eliminated by 1 January 2018 for the months December to April each year.
- Oranges – the tariff of 50 per cent fell to 30 per cent on entry into force and will be progressively eliminated by 1 January 2020 for the period April to September each year. Oranges also have an immediate 20 tonne duty free quota.
- Mandarins – the high tariff of 144 per cent will be progressively eliminated by 1 January 2031 for the months April to September each year.
- Kiwi fruit – the tariff of 45 per cent will be progressively eliminated by 1 January 2028 for the months May to October each year.

Exclusions

Despite sustained effort by Australia to have all products included, some products were too sensitive for Korea to include in the FTA. These products include: rice, unhulled barley, milk powders, condensed milk, some abalone, ginger, apples, pears, watermelon, walnuts, onions, capsicums, garlic, honey, oak mushrooms, chestnuts, shallots, some berries, green tea, ginseng, sesame oil and frozen pork belly. Korea is not a significant market for these products.

KAFTA Market Access Outcomes – Resources, Energy and Manufacturing

Resource commodities (energy and mineral products) and simply-transformed manufactures (comprising mainly unwrought metals such as aluminium and copper) accounted for nearly three-quarters of the value of Australia's exports to Korea in 2014-15. While many Australian mineral and energy exports to Korea already entered duty free, Korea applies tariffs of up to 8 per cent on a range of priority resource products, and tariffs of up to 13 per cent on manufactured products. Under KAFTA, Korea will progressively eliminate tariffs on Australian manufactures, resources and energy products by 1 January 2023.

Crude petroleum

- Korea imported \$1.9 billion of crude petroleum from Australia in 2014-15.
- Korea's 3 per cent tariff on crude petroleum imports from Australia will be eliminated by 1 January 2018.

Natural gas

- Korea is Australia's third largest market for liquefied natural gas after Japan and China, with estimated exports worth \$1.0 billion in 2014-15.
- Korea's 3 per cent tariff on natural gas imports from Australia was eliminated on entry into force of the Agreement.

Titanium dioxide

- Australia's titanium dioxide exports to Korea, were worth \$62 million in 2014-15.
- Korea's 6.5 per cent tariff on titanium dioxide imports from Australia was eliminated immediately on entry into force of the agreement.

Unwrought aluminium

- Korea is Australia's second largest market for unwrought aluminium after Japan, with exports worth \$767 million in 2014-15.
- Korea's 1-3 per cent tariffs on unwrought aluminium imports from Australia were eliminated immediately on entry into force of the agreement.

Pharmaceuticals (including vitamins)

- Australia exported \$343 million worth of pharmaceutical products to Korea in 2014-15, making it our largest market for pharmaceuticals.
- Korea's tariffs on pharmaceutical products range from 0-8 per cent
 - Under KAFTA, tariffs on Australian pharmaceutical products have been eliminated..

Automotive Parts and Accessories

- Australian automotive manufacturers exported \$25 million of gear boxes (for which Korea is Australia's largest market) and \$12 million of engines and engine parts to Korea in 2014-15.
- Korea's 8 per cent tariffs on automotive part imports from Australia were eliminated immediately on entry into force of the Agreement.

Sea Salt

- Although Korea's tariff on sea salt of 1 per cent is low, imports from Australia in 2014-15 were worth \$87 million.
- Korea's 1 per cent tariff on sea salt imports from Australia was eliminated immediately on entry into force of the agreement.