

Client Advisory

April 3, 2007

President Signs Notice of Intention to Enter Into Free Trade Agreement with South Korea and U.S. Department of Commerce Imposes New Sanctions Against Imports of Chinese Products

The U.S. and South Korea, which is the world's 10th largest economy, reached a free trade agreement that is stated to be the largest for the U.S. since NAFTA which was signed in 1993. The accord will be South Korea's largest to date. In 2006, the total trade between the two nations was close to \$77 billion. The agreement will eliminate and lower duties and other trade barriers in industrial goods and services, automobiles, agricultural products, apparel and financial services.

South Korea's automobile companies, Hyundai Motor Co. and Kia Motors Corp., have sold more than 700,000 vehicles a year in the U.S., while the U.S. makers have only been able to sell about 5,000 in South Korea. Washington intends to eliminate tariffs on some Korean automobiles and phase out duties on other cars and parts within a determined time period.

Estimates vary, but a study by the U.S. International Trade Commission concluded the agreement could boost bilateral trade and economic growth as much as \$29 billion.

The President had to notify Congress his intent to sign a trade agreement 90 days before his special Trade Promotion Authority expires on July 1st. On Sunday, April 1st, 2007, exactly 90 days before the expiration date, The President notified Congress of his intent to sign a trade agreement with South Korea.

The day before President Bush notified Congress of his intention to enter into a Free Trade Agreement with Korea, the U.S. Department of Commerce preliminarily imposed "countervailing duties" ("CVD") against imports of certain paper products from China. Such duties were imposed to offset alleged Chinese government subsidies inuring to the benefit of Chinese exporters of these products. The additional duties, which will be imposed upon importation of the products and are the responsibility of the U.S. importer, range from approximately 10 to 20 percent of the invoice values of the imported products. These duties will be imposed in addition to the normal duties assessed under the tariff schedule rate for the paper products. Commerce's action is a complete "about face" from its previous stance regarding the imposition of CVD on Chinese products in that, for the last 20 years, Commerce's position was that it did not impose CVD on imports of items from "non-market economies," such as China.

Commerce's action, should it be upheld in an almost certain court challenge, is likely to open a floodgate of similar actions against imports of numerous other Chinese goods, the bulk of which are said to benefit from similar export subsidies.

Clients who are interested in how the Korean Free Trade Agreement or the CVD sanctions against China may impact their businesses, please contact one of the Katten Muchin Rosenman LLP Customs and International Trade attorneys or professionals listed below.

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