The U.S.-Korea Trade Agreement: Opportunities for the U.S. Aerospace Sector

The U.S.-Korea Trade Agreement would provide significant commercial opportunities for U.S. exporters:

• Korea is the 9th largest market for U.S. aerospace exports; failure to pass the U.S.-Korea Trade Agreement could enable exporters from the EU and other countries to gain key advantages over U.S. exporters to Korea.

• Estimated duties paid on exports of U.S. aerospace products to Korea were over $99 million from 2008 to 2010. Tariff elimination could allow U.S. firms to reinvest in technology and production improvements.

• All U.S. aerospace exports to Korea would receive duty-free treatment within three years of implementation of the U.S.-Korea Trade Agreement; Korean aerospace tariffs currently average 3.5 percent, ranging up to 8 percent.

Aerospace Sector Overview

• The aerospace sector accounted for $2.5 billion in U.S. exports to Korea over 2008-10 (average) or over 8 percent of total U.S. industrial exports to Korea.¹

• Top U.S. aerospace exports to Korea include civilian aircraft engines, equipment and parts, parts of military airplanes and helicopters, and parts of civilian turbojet and turbo propeller engines.

• In 2009, U.S. production of aerospace products was over $172 billion.²

• The U.S. aerospace sector employed approximately 492,800 workers in 2009.³

Improved Market Access for U.S. Aerospace Exporters to Korea

• Korean aerospace tariffs average 3.5 percent, ranging from zero to 8 percent.

• Over 92 percent of U.S. aerospace exports⁴ to Korea would receive duty-free treatment immediately upon implementation of the trade agreement.

• Tariffs on the remaining 8 percent of U.S. aerospace exports to Korea would be eliminated in three years.

¹ Global Trade Atlas. Calculations by the U.S. Department of Commerce based on import data as reported by Korea. The definition for aerospace in this report, unless otherwise cited, is based on the product coverage under the WTO Civil Aircraft Agreement and includes products within HS 84, 85, 88, and 90.
² U.S. Department of Commerce, U.S. Census Bureau, NAICS 33641. Shipments used as a best available proxy for production.
⁴ Data based on three-year average for 2008-2010.
Foreign Competition in the Korean Market

- Korea signed a trade agreement with the EU in 2009, which is scheduled to enter into force in July 2011. It also recently signed an FTA with Peru, which is also scheduled to enter into force this year. Korea presently has FTAs in force with ASEAN, Chile, India, Singapore, and EFTA. In addition, Korea is negotiating new agreements with Australia, Canada, Colombia, New Zealand, and Turkey; is considering launching FTA negotiations with China; and is exploring re-launching its stalled negotiations with Japan.

- EU aerospace exporters will immediately enjoy an average tariff of 0.3 percent upon entry into force of the EU-Korea FTA, while U.S. exporters will face an average most favored nation (MFN) tariff of 3.5 percent until entry into force of the U.S.-Korea Trade Agreement.5

Key States Exporting to Korea

- Top U.S. states exporting aerospace products to Korea include: Missouri, California, New York, Massachusetts, Texas, Connecticut, Georgia, Florida, Ohio, New Jersey, and Washington.

Other Key U.S.-Korea Trade Agreement Commitments for the Aerospace Sector

- **Investment:**
  The U.S.-Korea Trade Agreement establishes a stable legal framework for U.S. investors and investments in Korea, backed by a transparent, binding international arbitration mechanism. All forms of investment are protected under the Agreement. With few exceptions, U.S. investors would be treated as well as Korean investors (or investors of any other country) in the establishment, acquisition, and operation of investments in Korea.

- **Intellectual Property Rights:**
  The U.S.-Korea Trade Agreement provides for robust protection and enforcement of intellectual property rights, including the extension of patent terms to compensate for unreasonable delays in granting an original patent. The trade agreement also has specific provisions for the protection of copyrighted works including measures designed to prevent piracy and unauthorized distribution over the Internet. Provisions to combat trademark counterfeiting include customs enforcement against goods-in-transit and streamlined customs procedures to increase efficiency of enforcement.

- **Government Procurement:**
  Korea and the United States are members of the WTO Agreement on Government Procurement and already enjoy open and transparent access to each other’s government procurement markets. The U.S.-Korea Trade Agreement enhances this relationship by increasing the procurements to which U.S. suppliers would be ensured non-discriminatory access by reducing the goods and services threshold to $100,000 from $203,000 for central government entities. The Agreement also incorporates important improvements that reflect the emerging practices in procurement, such as reducing the tendering period for “off-the-shelf” goods and services and encouraging the use of electronic tendering.

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5 U.S. Department of Commerce calculations based on EU-Korea FTA and U.S.-Korea Trade Agreement tariff commitments.
KORUS Opportunity Stories

Examples of Specific Companies in the Aerospace Sector that will Benefit from KORUS

**Aero Precision Industries (California):** Aero Precision Industries (Livermore, CA) is a worldwide stocking distributor of military and commercial aftermarket Original Equipment Manufacturers (OEM) parts for the aerospace industry. Aero Precision was founded in 1993 and employs over 100 people. South Korea is an important market for the company’s products, accounting for 20 percent of annual sales. Aero Precision has been exporting to South Korea for over ten years. In 2000, Aero Precision exported $500 thousand in products to South Korea and today exports $15 million. Some of Aero Precision’s exports, such as parts of aircraft navigational instruments, face tariffs of up to eight percent (this tariff will be eliminated when the trade agreement enters into force). Although the company does not directly bear the increased cost from the tariff, it competes against European exporters of that product, and a zero tariff rate will help Aero Precision to be more competitive relative to these European exporters.

According to Mr. Ertugrul Turhal, Vice President of Technical Sales & Business Development, who supports the U.S.-Korea Trade Agreement, “the tariff savings from the agreement would enable us to provide more affordable solutions to our Korean customers and provide us with a competitive advantage over our foreign competitors”.

**Air Tractor (Texas):** Air Tractor (Olney, TX) is a leading designer and manufacturer of agricultural aircraft and aerial firefighting tanker aircraft. The company was founded in 1972 by Leland Snow and employs 223 people. Air Tractor began doing business in Korea fifteen years ago and has sold aircraft to Hyundai Group and Korea Business Air Services. Although exports to Korea make up a small part of its business, Air Tractor’s success relies on exporting: in 2010, the company exported 56 percent of its aircraft to fourteen different countries.

Air Tractor strongly supports the U.S.-Korea Trade Agreement and believes that lower tariffs on U.S. agricultural products will produce a favorable climate for sales of the company’s agricultural aircraft. The trade agreement would immediately eliminate or phase out tariffs and quotas on a broad range of agricultural products, with almost two-thirds (by value) of Korea’s agriculture imports from the United States becoming duty free upon entry into force. According to David Ickert, Air Tractor’s Vice President of Finance, “over half our employees owe their jobs to Air Tractor’s ability to export, and the KORUS Agreement provides an advantage to Air Tractor relative to our foreign competitors and expands the size of our potential market in Korea”.

**Infinity Air (California):** Infinity Air, Inc. is a manufacturer and distributor of new and overhauled aircraft parts for the commercial aerospace industry. Founded in 1997, Infinity Air has 112 employees and is headquartered in Los Angeles, CA, with additional U.S. offices in Seattle and Miami.

Infinity Air has been doing business in Korea for over thirteen years and the country is its largest export market, with over $10 million in annual sales. Its main exports to Korea are flight service controls, interior equipment and cockpit windows for customers such as Korean Air and Asiana Airlines. Korean aerospace tariffs currently average 3.5 percent but will be eliminated within three years of the agreement’s implementation.

Infinity Air President and CEO Jimmy Wu strongly supports passage of the KORUS Trade Agreement and believes the agreement provides a great opportunity for the company to increase its exports to Korea. KORUS provides improved market access that will enhance the competitiveness of Infinity Air’s products relative to its European competitors and allow the company to grow its presence in the Korean market.