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

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

- Korea is the 8th largest market for U.S. construction equipment 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.
- Passage of the trade agreement would improve the U.S. competitive position in Korea, and could allow U.S. firms to reinvest in technology and production improvements.
- The trade agreement would benefit the U.S. construction equipment sector in a number of key aspects, including by increasing non-discriminatory access to procurements by Korean central government entities.

Construction Equipment Sector Overview

- The construction equipment sector accounted for $263 million in U.S. exports to Korea over 2008-10 (average).\(^1\)
- Top U.S. construction equipment exports to Korea include construction equipment parts and attachments, boring and sinking machinery, conveyors, loaders, bulldozers, mechanical shovels, and dumpers.
- In 2009, U.S. production of construction equipment products was about $40 billion.\(^2\)
- The U.S. construction equipment sector employed over 130,000 workers in the United States in 2009.\(^3\)
- Since the 1990s, Korea has become one of the major construction equipment manufacturing countries for excavators, loaders and forklifts. However, the Korean market continues to offer areas of opportunity for U.S. exporters, including in concrete forming systems, tunnel boring machines, road repairing equipment, and mobile concrete plants.\(^4\)

Market Access for U.S. Construction Equipment Exporters to Korea

- As a signatory of the Uruguay Round sector agreement on construction equipment, Korean tariffs in the sector are zero and would remain at that level under the trade agreement.

\(^1\) Global Trade Atlas. Calculations by the U.S. Department of Commerce based on import data as reported by Korea. The definition for construction equipment used in this report, unless otherwise cited, includes selected products within Harmonized System (HS) Chapters 84 and 87.
\(^2\) U.S. Department of Commerce, U.S. Census Bureau, NAICS 333120, 333131, 333923, and 333924. Shipments used as a best available proxy for production.
\(^3\) U.S. Department of Labor, Bureau of Labor Statistics, NAICS 33312 and 33392 (non-seasonally adjusted data).
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.

- Top countries that compete with U.S. construction equipment exporters in the Korean market include Japan, the EU (Germany), and China.

Key States Exporting to Korea

- Top U.S. states exporting construction equipment to Korea include: Texas, California, Illinois, Louisiana, Massachusetts, Wisconsin, North Dakota, Pennsylvania, Alabama, and Minnesota.

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

- **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 incorporated 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.

- **Rules of Origin:**
  The U.S.-Korea Trade Agreement rules of origin allow only products that are produced in the United States and Korea to receive preferences under the Agreement. The trade agreement rules of origin provide clear requirements for a good to be considered originating, including that a good must be wholly obtained or produced entirely in the territory of the United States or Korea as well as requirements on materials that are used in the production of the good. Importers may claim preferences under the trade agreement based on a certification by the importer, exporter, or producer or based on the importer’s knowledge that the good is originating, but certifications need not be in a prescribed format.

- **Investment:**
  The U.S.-Korea Trade Agreement establishes a stable legal framework for U.S. investors and investments operating 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.

- **Remanufactured Goods:**
  Korea would eliminate its prohibition on the importation of remanufactured goods as defined in the initial provisions and definitions chapter, including remanufactured construction equipment, upon entry into force of the agreement.
KORUS Opportunity Stories

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

Polyguard Products (Texas): Polyguard Products is a manufacturer of bituminous laminates. Founded in 1950, Polyguard Products now employs over 80 people. Operations are headquartered in Ennis, Texas, with additional locations in Excelsior, Missouri, Menomonie, Wisconsin, and Houston, Texas. Polyguard Products focuses on innovative, unique construction equipment technologies that enjoy applications across multiple sectors including the oil & gas, refining, food & beverage, residential, and highway & commercial construction industries.

Polyguard Products has been exporting to Korea since 2006. Sales peaked in 2008 and 2009, but export prospects remain strong for the region. Nate Muncaster of Polyguard Products explains that, “We still have yet to introduce our best technologies. Sales to date have been on low margin construction materials. Potential growth opportunities reside in enhancing the sales of our high margin unique technologies.”

Polyguard Products currently faces an 8 percent tariff on its exports to Korea. While demand for the company's products is not particularly sensitive to price fluctuations, under the U.S.-Korea Trade Agreement tariffs on Polyguard Product exports would immediately drop to zero.

Given that Korea just signed an agreement with the European Union and is in the process of negotiating trade agreements with Japan, Australia, Canada, and Mexico, the U.S.-Korea Trade Agreement should help to maintain the competitiveness of U.S. companies in the Korean market. In particular, top counties that compete with U.S. construction equipment exporters in the Korean market include Japan, the EU, and China. Should sales of Polyguard Product's higher margin technologies increase in the future, the agreement offers stronger intellectual property rights protection and enforcement. The agreement would extend national treatment to U.S. entities, meaning that U.S businesses would be placed on equal footing with Korean firms with respect to the development of standards, technical regulations, and conformity assessment procedures; and to accreditation, licensing or approval of U.S. conformity assessment bodies.