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**EUROPEAN UNION POLICY TOWARDS THE**  
**REPUBLIC OF KOREA**

# EUROPEAN UNION POLICY TOWARDS THE REPUBLIC OF KOREA

## 1 Introduction

*Why does the European Union need to reassess its Korea policy now?*

The Union has a considerable strategic and longterm interest in the security, political stability and prosperity of the Republic of Korea<sup>1</sup>. Economically, in just a few years South Korea has established itself as one of the Union's leading trade and investment partners. Politically, we have an interest in the development of this still young and – in some ways – fragile democracy. Also, the divided Peninsula is a security flashpoint of global concern. North Korea is perhaps the most unpredictable and impenetrable state in the world. A crisis on the peninsula would have far-reaching consequences in the region and beyond.

There are more immediate reasons to review policy towards South Korea at this moment. The country is now in a phase of economic transformation. The financial crisis of 1997 exposed an urgent need for wholesale reform of the economy. After his election at the height of the crisis, President Kim Dae-jung has initiated this process, in coordination with the IMF. South Korea has made perhaps the most impressive start to reform of any of the affected Asian economies.

After the Presidential election, there is also the prospect of political reform through strengthening of democracy and human rights in South Korea. In addition, if they successfully replace the country's former model of *dirigisme* and "crony capitalism" with a more market-based system, reforms in the economic sphere will also ultimately have a profound political impact. By changing the way the financial and corporate sectors, the public sector and the labour market operate, the new Government's reform agenda has the potential to reshape South Korean society.

President Kim has adopted a radically new "sunshine" policy aimed at defusing tensions with Pyongyang. The threat of damaging instability on the Peninsula would be greatly reduced if these efforts succeeded.

For these reasons, South Korea itself– and the wider situation on the Peninsula – are at a critical turning point. The EU has a strong interest in the success of economic and political reform in South Korea – leading to a true market economy and a vibrant democracy in stabler regional conditions.

These outcomes all depend to a greater or lesser extent on whether the new leadership is able to steer its project to a successful conclusion. It is therefore in the Union's interest to give critical but firm support to its campaign for economic and political change in South Korea and in inter-Korean relations. This argues for a thorough and critical

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<sup>1</sup> The official name of the country is "the Republic of Korea". However, for ease of comprehension, the term "South Korea" is used throughout this Communication, which also refers to North Korea (the Democratic People's Republic of Korea).

assessment of Union policy towards South Korea and the Korean Peninsula generally, and for more active engagement.

## **2 A major economic partner, despite the crisis**

### **2.1 An overview of the Union's economic relations with South Korea**

In 1995<sup>2</sup> South Korean accumulated foreign direct investment (FDI) in the Union amounted to ECU 2.3 billion against ECU 1.5 billion by the Union in South Korea. South Korean investment flows increased rapidly in 1996 and 1997 until the financial crisis caused delay and cancellation of a series of projects. From a low base, Union FDI flows into South Korea have been rising and in 1998 so far the Union has overtaken the USA and Japan as the largest investor in South Korea.

In 1996 South Korea was the Union's 4<sup>th</sup> largest trade partner outside the European continent (after the USA, Japan and China) and its 9<sup>th</sup> largest overall. Last year, bilateral trade was worth ECU 27.5 billion. The trade of the Union's fifteen Member States with South Korea has doubled in ten years. In 1997, the Union was South Korea's 3<sup>rd</sup> largest trading partner after the USA and Japan and well ahead of China in 4<sup>th</sup> place.

Overall the trade relationship has been beneficial for both parties. Although bilateral trade balances are not especially meaningful when looked at in isolation, it should be recalled that every year from 1994 to 1997 saw a Union surplus, peaking at ECU 3.3 billion in 1996. Despite this, serious market-access concerns remained in South Korea:

- Periodic displays of popular hostility towards imports. Despite South Korea's dependence on trade for its prosperity, past Governments hesitated to condemn such behaviour until prompted by international partners.
- Lack of transparency and predictability in the business environment which increased the costs of entering the South Korean market and operating there.
- In some areas, laws discriminating against imports or foreign companies.
- Distortions in the financial system which allowed South Korean companies to make huge investments in sectors such as shipbuilding, semi-conductors, cars, without apparent regard for world demand, or for profitability.

South Korea's progress in liberalising its economy had, until this year, proceeded far more slowly than the Union and other partners had been urging. It had been moving in the right direction for some years and to a degree had picked up pace thanks to the Uruguay Round and to OECD accession in late 1996. However, frustration remained high about bureaucratic inertia and resistance to reform.

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<sup>2</sup> The most recent year for which figures on FDI stocks are available.

## **2.2 Causes and consequences of South Korea's financial crisis**

The economic policies of the 1960s and 1970s were geared to export-oriented growth. Before the mid-1990s, South Korea's economy grew at an average annual rate of 8.6% for 30 years. Although the policies successfully initiated rapid industrialisation, failure to abandon them subsequently stored up structural shortcomings in the economy.

Direct Government control of commercial banks until the early 1980s left South Korea with a financial sector ill-suited for allocating resources efficiently within a modern market economy. The equity market was under-developed. Capital flows were heavily restricted. As a result, lending and investment decisions were distorted over a prolonged period. These systemic weaknesses lurked beneath the surface (even while headline GDP growth rates remained spectacular) until the financial crisis of late 1997, which they precipitated.

The chronology of the crisis has been amply documented by commentators elsewhere. The focus in this Communication is rather on the policy implications for the Union, in its dealings with South Korea. In these terms, the crisis was significant because for the first time South Korean politicians, officials and public opinion began to understand that a clean break with the former *dirigiste* model was urgently needed. The Government therefore committed to far-reaching structural reform as part of the Stand-by Arrangement concluded with the International Monetary Fund (IMF) in December 1997.

## **2.3 Updating economic relations with South Korea after the crisis**

### **2.3.1 Supporting the reform and recovery process in South Korea**

#### *Premises*

As the Commission pointed out in 1994<sup>3</sup>, sustainable growth in Asia is in the Union's interests politically, because it maintains stability, and economically, since prosperous consumers and successful companies are potential customers for the Union's companies. The Union therefore welcomes the positive start of South Korean restructuring. This process needs to continue, be far-reaching, and take the pursuit of sustainability into account.

#### *Progress to date in South Korea's restructuring process*

Since late 1997, the new Government has set out an impressive reform agenda. The initial measures taken so far to implement this agenda have also been clear steps in the right direction. But there are areas (bankruptcy law, corporate restructuring, etc) where so far progress has been insufficient to remove the underlying causes of South Korea's economic problems.

However, the further restructuring measures which remain necessary are certain to test social cohesion (unemployment, which has risen dramatically from around 2.5% in 1997 to almost 8% by mid-1998, has not yet peaked). They also face opposition from vested interests, especially industrial conglomerates. These "*chaebol*" are powerful but unaccountable forces in South Korea: their economic hegemony is threatened by

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<sup>3</sup> In "Towards a New Asia Strategy" COM (94) 314 final

attempts to inject greater transparency and competition into the economy and they are therefore campaigning, both openly and behind the scenes, to dilute President Kim's reforms.

There is therefore deep-rooted resistance to full implementation of the Government's restructuring agenda. Accordingly, its overall success is by no means assured. But these obstacles need to be overcome in the long-term interests of South Korea and its economic partners. The Union should therefore continue to monitor the restructuring process and ensure that IMF commitments are scrupulously respected.

There has been progress in the regulatory framework for financial-sector supervision. A new "super-regulator", the Financial Supervisory Commission (FSC), will enforce stricter standards of transparency, thereby improving market discipline over banks. Rules on ownership of financial institutions are being relaxed, in principle allowing 100% foreign ownership<sup>4</sup>. Public funds to take over bad loans from banks which commit themselves to restructuring are being significantly increased. Five insolvent banks deemed incapable of rehabilitation were identified for forced takeover in June 1998. This is a start, but cannot be the end of the story given the accumulation of bad debt in the South Korean banking sector.

An efficient market-based banking sector is necessary to help prevent some of the past excesses of the corporate sector. In pursuit of greater market discipline over the *chaebol*, the Government is pressing them to publish consolidated accounts and eliminate debt guarantees between group subsidiaries. Measures have been taken to strengthen corporate governance. Market discipline should also be improved by the opening of bond and equity markets to foreign participation, and lifting restrictions on hostile takeovers.

#### *European Union actions in support of the restructuring process*

In the crisis, the Union contributed substantially to stabilisation, through its Member States' significant role in the international financial rescue package co-ordinated by the IMF. Although the overall package is widely perceived as having been led by the USA, in fact the Union's financial contribution is larger. Union Member States contributed over \$5.9 billion bilaterally to the "second line of defence", against \$5.0 billion for the USA.

The Union is supporting the reform efforts itself in several ways. The ASEM Trust Fund at the World Bank – in which the EU is playing a leading role – is supporting both financial-sector restructuring and to tackling the social fall-out of the crisis in the affected countries. The Union is also creating the European Financial Expertise Network ("EFEX"), which will be made available to South Korea and the other countries of the region, in support of their restructuring efforts. At the second Asia-Europe Meeting (ASEM II - London, April 1998) European Union leaders and Asian leaders jointly signalled their resolve to alleviate the crisis by maintaining an open trading system in the face of new protectionist pressures. This "ASEM Trade and Investment Pledge" set the tone for the response of other world leaders to the crisis – for example, in the G7 and the

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<sup>4</sup> Takeovers remain subject to an important discretionary element from the authorities. The justification advanced for this is at least partly the need to prevent direct *chaebol* takeovers of commercial banks.

WTO. Also flowing from ASEM II, a number of EU Member States and the European Commission have led high-profile business missions to South Korea, to explore investment opportunities and to signal support for the country's restructuring.

The Union should continue to give strong political support to the reform process. It should give due and proper credit to President Kim and his Government for their efforts to date. However, it should not be uncritical: on the contrary, it should remain vigilant. There are areas where reform has clearly not been sufficient. For example, the introduction of effective and transparent bankruptcy arrangements is long overdue. Restructuring by the *chaebol* themselves has mostly been timid, and the Government needs to maintain proper pressure on them to change.

Concerns continue to be raised by European industry about international financial assistance allegedly used to subsidise unviable capacity which companies would otherwise have to close. There is as yet no evidence of this, but the Commission has made clear to the Korean authorities that we will continue to monitor this area very closely. Any such behaviour would be contrary to the spirit of the international rescue package. It would also be unacceptable to the Union, given the job losses which have occurred here in the past as sectors such as shipbuilding have restructured. Transparency from the South Korean authorities and respect for both the IMF Stand-By Agreement and for the non-interventionist economic policy set out by President Kim are essential minimum requirements to avoid suspicions that international assistance is contributing, directly or indirectly, to unfair competition. It is equally necessary that in the future the financial sector will grant loans exclusively on the basis of market principles (interest rates based on risk and cost of refinancing, prudential rules, risk analysis taking into account supply and demand). This is particularly important with regard to the *chaebol*.

### 2.3.2 Improving market access, in the interest of both partners

#### *Premises*

Despite piecemeal progress since the early 1980s, market access in South Korea has remained deeply problematic because of sectoral and systemic barriers to imports and investment. As a result, competition on South Korea's domestic market is reduced, with adverse effects for consumers and for the international competitiveness of South Korean companies. Trade liberalisation is therefore included as an integral part of the Government's Stand-by Arrangement with the IMF, because both sides clearly recognised that a more open market was in South Korea's own economic interest.

Action to remove these serious market-access barriers which remain would also be in the interests of the Union. Notwithstanding its current setbacks, the Korean market retains considerable potential beyond the short term. It has a population of over 46 million and is widely expected to return to a trend growth-rate of 5-6% per annum from 2000-1. In 1996, *per capita* GNP was over \$10,000, ahead of most of Asia.

### *Liberalisation measures since the financial crisis*

The Government's reforms in the trading sphere have been timid. There have been limited improvements in some areas: certain WTO-incompatible practices<sup>5</sup> are apparently being eliminated ahead of the previously agreed schedule. The number of goods subject to special adjustment tariffs has been reduced.

The investment climate has seen greater changes, with attraction of foreign investment a top Government priority. The list of sectors reserved exclusively for South Korean companies has been cut; purchase of real-estate by foreigners has been liberalised; legislation allowing 100% foreign ownership of companies has been introduced.

### *Next steps*

The Union should advocate continued market-opening, underlining that this will support South Korea's recovery. It should assist by sharing its experience of simplifying and removing burdensome regulation, as applied in creating its Internal Market. Over-burdensome and sometimes discriminatory regulations applying to goods (e.g. pharmaceuticals, cosmetics, automobiles, agricultural produce) and services (e.g. legal services) continue to hamper economic activity in South Korea. This is not acceptable to the Union, and needs to be rectified.

Current economic difficulties in South Korea should not be an excuse for delaying necessary improvements. On the contrary, further trade liberalisation would directly contribute to overcoming the crisis. The Union will therefore continue to pursue its long-standing market-access requests. We should make clear that we will view progress in meeting them as an important indicator of the credibility of the Government's wider commitment to reform, which will have a major impact on political perceptions in Europe of South Korea's restructuring efforts.

There is still a long way to go before South Korean public opinion becomes as open to imports and foreign investment as public opinion in other OECD countries. The Union should now work closely with the Government in support of its declared aim of combating ill-informed prejudice towards imports and foreign companies, which the authorities recognise could undermine the drive to attract foreign investment, and maintain pressure in this respect.

In areas where the two sides disagree on trade policy matters, they will discuss them bilaterally in a co-operative manner. In addition, the Dispute Settlement machinery of the World Trade Organisation remains available if either party considers that international trade rules are being violated. The Union has shown in the past in such cases that it is willing to refer matters to the WTO. This remains the case.

As a responsible participant in the world trading system, the Union recognises that trade is a "two-way street". It is clearly living up to the ASEM Trade and Investment Pledge by resisting protectionism. It is thus contributing to South Korean efforts to overcome the effects of the crisis. Union exports to South Korea fell by 33% year-on-year in the first quarter of 1998 while imports rose 36%. These figures are dramatic, but they are not

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<sup>5</sup> Export subsidies on industrial products; "import diversification programme" banning certain Japanese imports

surprising given the magnitude of the economic shock which produced them. Of course, vigilance is warranted to guard against unfair trade practices. These will continue to be dealt with under the Union's anti-dumping and anti-subsidy legislation, and the Trade Barriers Regulation. These legal instruments are fully in compliance with WTO rules.

The negative trade effects of the crisis will be overcome sooner if the two sides take trade-promotion measures. On the Union side, the Commission will at the earliest opportunity start negotiating a balanced Mutual Recognition Agreement on conformity assessment with Korea, in line with the existing mandate from the EU Council of Ministers. The Union should to this end also positively consider other economic co-operation activities at Union level, as outlined in section 2.3.4

### 2.3.3 A potential ally in the pursuit of global trade liberalisation

South Korea's economy is highly dependent on external trade. It therefore stands to gain from further strengthening of the multilateral trading system. This remains true after the Asian crisis. Further liberalisation of trade and investment, supported by predictable and transparent multilateral rules would help underpin future economic recovery.

As the members of the World Trade Organisation (WTO) move towards a decision on the scope of future trade talks, South Korea therefore has a strong interest in working alongside the Union to rally support for a balanced and comprehensive trade round. South Korea's formal support for a Millennium Round is therefore welcome. Its advocacy in Asia will be valuable in building regional support for a broad-based trade agenda. The lead-up to the third ASEM summit, which South Korea is hosting in 2000, should serve as a key platform from which the Union and South Korea can promote the benefits of comprehensive negotiations, particularly for Asia. Dialogue and co-operation on WTO issues should be strengthened and should over the next year be a central plank in the bilateral relationship.

Successive multilateral trade negotiations have shown that the overall benefits outweigh the specific concessions individual participants have made. In order to benefit from a further round of trade liberalisation, South Korea will thus need to move in several areas. One example is industrial tariffs, another is services. In other circumstances, concessions of this kind might prove difficult. But South Korea is well placed to play a leadership role with the Union in any new WTO round because domestic economic imperatives seem anyway to require further liberalisation of the economy. Moreover, many of the issues which may be addressed in the framework of a Millennium Round – investment, competition, trade facilitation, other areas of rule-making – are of benefit to all WTO members, and do not involve any notion of trading gains for concessions.

Even before new negotiations, the scope of WTO activity has been growing. In many of the newer fields – trade facilitation, electronic commerce, transparency in public procurement – the Union and South Korea have considerable interests in common, and these should be pursued through intensified co-operation. The same applies in the context of the Information Technology Agreement (ITA), where a recent survey on application by the parties of international standards and conformity assessment-practices in the IT sector should now be followed up.



South Korea and the Union (together with Japan and Norway) have ratified the OECD Shipbuilding Agreement. However, its entry into force is prevented by the US's non-ratification. Nevertheless, the sector needs international disciplines to restore normal competitive conditions, set a level playing field and avoid escalation of injurious pricing and subsidies. In order to achieve this, the Union and South Korea should cooperate (with other major shipbuilding countries) and try to find mutually beneficial solutions. In its document "Shipbuilding Policy – Option for the Future"<sup>6</sup> of April 1997 the Commission took the view that the implementation of the Shipbuilding Agreement without the United States "could bear examination since the USA do not have significant merchant shipbuilding capacities." The Commission will study this approach in the near future taking into account all recent developments and particularly the effects of the crisis in Asia. We should also continue to encourage the United States (and other shipbuilding nations) to join the Agreement. The Commission will also examine to what extent this approach should be complemented by other actions to promote fair competition in shipbuilding.

#### 2.3.4 Stepping up bilateral economic co-operation

##### *Premise*

As the Commission pointed out in its 1994 Communication on Asia, the Union's economic co-operation with non-member countries is based on the concept of mutual benefit for the two sides. In the case of South Korea co-operation has so far taken place e. g. in science and technology, in standards and certification and in the customs area. There have also been sectoral projects in areas such as automotive and, more recently, environmental technology. For the economic and political reasons set out at the start of this document, there is now a strong case for more active pursuit of bilateral economic co-operation with South Korea. The Union has a clear interest in reviewing the present situation.

The Union has in recent years committed non-negligible financial resources to its bilateral relationships in Asia, with South Korea a notable exception. This is an anomalous situation, and it is not in the Union's best interests for it to continue – especially now. The cooperation envisaged by the Framework Agreement is of the type usually undertaken in relations with developed countries (based on mutual interest, small amounts involved, public money used as catalyst for cooperation among interested parties rather than financing projects in their totality etc). Projects of this nature will be undertaken by the Commission once the proposal of a Council decision concerning the conclusion of the Framework Agreement is adopted by the Council. The priorities of economic co-operation with South Korea would be:

- fostering expertise of Korean language and business culture among Union enterprises (executive training programme, business internships programme)
- increasing the transparency of the regulatory environment in South Korea (standards, testing and certification procedures)

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<sup>6</sup> SEC(97) 567 final

- improving the business environment in South Korea (investment rules, bankruptcy law, establishment of European Business Information Centre)
- supporting restructuring of the financial sector along market-based lines (legal framework including prudential regulation and supervisory practice; technical assistance in credit analysis, risk management)
- promoting co-operation between Union and South Korean companies (extension to South Korea of instruments such as Asia-Invest, ECIP, Euro-partenariat)
- providing information to South Korean consumers on the social and economic benefits which their country derives from two-way trade and investment, thus combating hostility towards foreign products and companies

#### *Financing of proposed economic co-operation with South Korea*

Any expenditure on economic co-operation with South Korea should initially be financed within existing overall budgetary allocations earmarked for implementation of co-operation agreements with non-member countries. Clearly such an allocation would not be sufficient to pursue all of the abovementioned potential areas of co-operation, but in the short term it would allow tangible progress in one or two priority areas.

#### *Other areas of co-operation*

Given South Korea's role as a major emitter of greenhouse gases, the Union should study the possibility of including it under existing international energy co-operation programmes. This would also serve the mutual interests of both parties. As a party to the UN Framework Convention on Climate Change, South Korea's attention to mitigating greenhouse gas emission are important. In particular, co-operation on energy efficiency measures, on the development of non- or low-polluting alternative energy sources, on the reductions of emissions from vehicles and similar topics should form part of a flexible environmental co-operation agenda. In addition, as parties to the Climate Change Convention, the EU and South Korea have a common interest in devising co-operative policies in support of global objectives in that context.

In the customs field, a bilateral Agreement on Customs Co-operation and Mutual Administrative Assistance entered into force on 1 May 1997. This agreement contributes to trade facilitation and to the fight against fraud.

Despite the current crisis, South Korea remains a world-class player in many areas of Information and Communication Technology (ICT). Furthermore, the country's ongoing transformation into an information-oriented society has accelerated the introduction of ambitious programmes of technology development in ICT. The Union should consider strengthening dialogue with South Korea on various policy issues related to the information society.

### **3 Engaging an emerging political player in Asia**

#### **3.1 *Political relations between the Union and South Korea: an overview***

During 1998, the new South Korean Government has paid considerable attention to its bilateral relationships with important players in the East Asian region and with the US.

Since April, there have been Presidential visits to Washington, Tokyo and Beijing. Relations with Japan in particular have noticeably warmed, with agreement on a far-reaching joint action plan between the two governments and resolution of a long-standing fisheries dispute. This active diplomacy indicates that South Korea under its new leadership is being seen as an increasingly significant regional and international actor. .

In addition, tensions with North Korea and concerns over North Korea's nuclear intentions have served as a stark reminder that the situation on the Peninsula is of concern for the world as a whole, not only for neighbouring countries and for those with a long-standing security involvement like the USA.

These developments have raised the relative weight of political affairs within the Union's bilateral relationship with South Korea. It is therefore not surprising that its bilateral relations with the Union are no longer solely dominated by trade. Signature of the Framework Agreement on Trade and Co-operation in October 1996 was accompanied by a Joint Declaration on Political Dialogue which put existing arrangements on a more formal footing.

Bilateral dialogue has been complemented by ASEM, in which South Korea has played a leading part on the Asian side. This has become a substantive process boosting economic, political and cultural ties between Europe and Asia.

### **3.2 *Recent political developments in South Korea and on the Peninsula***

Little more than a decade ago, South Korea succeeded in establishing democracy, despite a traumatic history in the second half of the twentieth century, which has comprised fratricidal war and prolonged military rule. There has been a gradual strengthening of the free institutions of civil society. Further progress since initial democratisation was illustrated by the Presidential election of December 1997 and ensuing peaceful transfer of power to the opposition for the first time since the early 1960s.

The South's relations with North Korea deteriorated in the middle part of this decade, after a false dawn in the early 1990s. Tensions have been high in recent years, underlining that the 1953 Armistice cannot be taken for granted indefinitely. Whilst peaceful reunification remains a distant prospect, Kim Dae-jung is seeking to engage North Korea in dialogue and trade, both bilaterally and internationally. His belief is that engagement of North Korea is the best means to avoid unpredictable external actions or an internal political or economic collapse – either scenario would have dramatic negative consequences.

### **3.3 *Updating political relations with South Korea***

#### **3.3.1 Working together to reduce tensions on the Peninsula**

##### *Premise*

There are no short-term prospects of instability on the Korean Peninsula abating. The Union should continue to exchange views closely with Seoul regarding the security situation. This is because of South Korea's direct stake, and because its policies are a key variable determining the behaviour of the North. In developing its policies towards

North Korea, the Union should seek to support and promote the constructive policies being pursued by Seoul since the start of 1998.

#### *Increased risks of instability*

A formal state of war has persisted since the 1950s, and North Korea's armed forces are among the world's largest (1.1 million standing troops). In the early 1990s, North Korea's externally-subsidised command economy began to collapse as preferential non-market trade with the Soviet Union and China dried up. GDP is estimated to have fallen by over 50% since 1992 (source: UNDP). North Korea also triggered an international crisis in 1993-4 when it threatened withdrawal from the international nuclear non-proliferation regime, amid evidence that it had been pursuing a nuclear-weapons programme.

For four years since the death of Kim Il-sung, there was formally a political vacuum, but in September 1998 leadership finally passed firmly into the hands of his son, Kim Jong-il. The implications of this change are as yet unclear.

#### *The response of the international community*

The USA and South Korea have countered increased instability with firm deterrence against a possible military threat. At the same time, they have stepped up efforts to find a lasting peace settlement to replace the 1953 Armistice. Four-Party Talks<sup>7</sup> formally opened in December 1997 but have reconvened only intermittently and made very slow progress. After breaking off in 1994, Inter-Korean Dialogue briefly resumed in April 1998 but has since faltered.

The nuclear crisis was addressed in October 1994 by an Agreed Framework between the US and North Korea. The Korean peninsula Energy Development Organisation (KEDO) was established subsequently to replace North Korea's reactors (from which weapons-grade plutonium can be easily extracted) with two more proliferation-resistant reactors which will come under the supervision of the International Atomic Energy Agency. Until the first reactor is built, KEDO is to supply 500,000 tonnes of heavy fuel oil annually as an interim energy alternative. KEDO's activities contribute to – and are conditional on – respect by North Korea for the vital nuclear non-proliferation commitments it made in 1994.

The international community has also granted considerable quantities of food aid<sup>8</sup> and other humanitarian assistance to North Korea. Natural disasters have aggravated food shortages but the underlying cause is structural.

#### *The Union's role maintaining peace and stability on the Peninsula*

The Union has demonstrated its commitment to security in East Asia by its substantial role to date in helping to maintain peace and stability on the Korean Peninsula.

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<sup>7</sup> The Four Parties are the two Koreas, the US and China – *de facto* the main combatants in the 1950-3 Korean War

<sup>8</sup> Between 1995 and 1997, the UN's World Food Programme delivered 637,000 tonnes of food grain, worth \$ 207 million, to North Korea. In January 1998, it appealed for 658,000 tonnes of food aid products worth \$378 million, for the period April 1998-March 1999.

Solid political backing was given to international efforts to resolve the nuclear crisis. In 1997 the Union (through EURATOM) formally joined KEDO. 75 MECU<sup>9</sup> have been pledged to KEDO for the period up to 2000. Though smaller than the long-term overall pledges made by South Korea, Japan and the US, this is still a substantial and sustained financial contribution to a project of vital importance for international peace and security. The EU is also consistently supportive of the activities and obligations of the International Atomic Energy Agency (IAEA) in North Korea.

Recent events have underlined the vital importance of proliferation issues and of the Union's continuing participation in efforts to find solutions. EU participation in KEDO to date has been well received by the US, Japan and South Korea at the highest political level. There are strong hopes and wishes from these partners that the EU continue supporting KEDO after the end of the current agreement. Provided North Korea respects its nuclear non-proliferation commitments, it would clearly be in the Union's interests to continue supporting KEDO after 2000, and it should soon consider on what terms and at what level it would wish to do so.

The Union has provided medical assistance to North Korea, on strictly humanitarian grounds. Although the regime prevents an objective assessment of the full extent of humanitarian needs, there clearly are such problems in North Korea. Delivering medical aid on humanitarian grounds in a principled and efficient way has however been hampered by, for example, difficulty of direct access to beneficiaries. A number of medical non-governmental organisations have recently withdrawn from the country, referring to these problems.

In addition, the Union is a leading contributor of food aid but unlike other major donors it is specifically seeking to address the underlying causes of food shortages. With technical assistance, pilot projects and conditionality related to the agricultural sector – as well as traditional food aid - its 30 MECU package for 1998 recognises that food aid alone is at best only a short-term solution to North Korea's problems.

These problems are severe. In 1995, 1996 and 1997, natural disasters aggravated underlying structural shortages. In contrast, climactic conditions do not appear to have negatively affected the present 1998 harvest to any significant extent. However, non-sustainable agricultural practices and, in particular, failed economic policies mean that North Korea will not be capable of feeding itself in the medium term. Any future support by the Union should therefore seek to encourage policy adjustments in North Korea. As long as the need for such steps is acknowledged and acted on by the authorities, targeted food aid and food-security measures by the Union would in principle be justified to accompany such measures. Another key issue would be proper respect for standard, internationally-accepted practices for the delivery of aid (monitoring conditions, access to beneficiaries, etc).

In parallel with these actions to defuse tensions, the Union remains a firm supporter of the Four-Party Talks and of Inter-Korean Dialogue. In line with this basic policy and the

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<sup>9</sup> Of which 5 MECU under a Joint Action of the EU's

Common Foreign and Security Policy.

“sunshine policy” which South Korea has begun to pursue under President Kim Dae-jung since his election, the Union should look favourably on efforts to promote North Korean engagement with the international community, both politically and economically, through involvement in regional security bodies (such as the ASEAN Regional Forum) and in international financial institutions.

Beyond this, the Union could in principle consider other practical action to promote North Korean engagement internationally. This could for example take the form of bilateral measures by the Union to underpin greater economic integration of North Korea into the international community. Such measures would also be likely to improve the climate for co-operation on the Peninsula. If there were to be progress in certain areas, the Union should not exclude measures such as granting autonomous trade concessions to North Korea or extending development assistance. Through such a response, the Union would help signal to North Korea that there are greater mutual benefits in genuine constructive co-operation with the international community than in continued confrontation.

However, this would be premature in present circumstances. There remain concerns about North Korea’s missile exports to unstable regions and disturbing reports of grave human rights violations, which independent monitors are prevented from verifying. A willingness to co-operate more constructively with the IAEA would go a long way towards proving that North Korea can be considered a responsible member of the international community. The nature of a suspect underground facility at Kumchangni must also be clarified. Finally, a new more flexible attitude in inter-Korean relations and in Four-Party Talks is also important.

The Union has recently decided to initiate a cautious political dialogue with Pyongyang at the level of officials. This supports efforts to engage North Korea internationally, and will be used to press for progress in Four-Party Talks and Inter-Korean Dialogue. Other Union concerns *vis-à-vis* North Korea (e.g. human rights, proliferation, etc) will also be part of any dialogue.

### 3.3.2 One of the leaders of EU-Asia rapprochement

Recent Presidential statements underline the potential degree of common thinking that now exists between the Union and South Korea. This is a major development. During his first visits abroad as President, Kim has referred to the close links between political freedom and lasting economic prosperity, stressing that a successful market economy and a liberal democracy are mutually inter-dependent. The Government’s campaign to render the economy more open and transparent should be seen in the context of statements such as these: economic reform in South Korea appears to be part of a wider political project to strengthen the country’s democracy.

Such attitudes on the part of the South Korean Government are in line with the objectives pursued by the Union in its Common Foreign and Security Policy<sup>10</sup> and there is now a

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<sup>10</sup> The objectives of the Union’s Common Foreign and Security Policy include safeguarding the common values, fundamental interests and independence of the Union; developing and consolidating democracy and the rule of law, and respect for human rights and fundamental freedoms; preserving peace and strengthening international security.

constructive political dialogue between the two sides. Annual Ministerial meetings and briefings between senior officials should be maintained. There would however be scope for intensifying political dialogue through a first summit meeting at Presidential level, in the margins of the third Asia-Europe Meeting (ASEM) which will take place in Seoul, in October 2000. This would be a strong and highly visible indication of Union support for the policy of President Kim and his allies.

The Korean Peninsula will remain at the heart of bilateral political dialogue. Beyond this, the two sides would have a clear interest in reviewing other regional issues in Asia and in Europe, as well as horizontal security matters, such as proliferation and arms control. Human rights would also be an important area of political dialogue and co-operation, where there could potentially be common ground. The Commission notes that although South Korea's own record has in many respects improved considerably since military rule ended, there are still areas of concern:

- The country's National Security Law is vague and therefore potentially open to abuse by the authorities: for example, "benefiting" or "praising" the North Korean Government may lead to imprisonment.
- Despite an extensive amnesty on 15 August 1998, there are still at least 17 long-term prisoners who have been held for 28 years or more for more serious violations of the National Security Law, despite now posing little apparent threat to national security.
- Despite recent substantive improvements, South Korean labour law still falls short of core conventions of the International Labour Organisation.
- Although the death penalty has not been applied since Kim Dae-jung took office, it remains on the statute books and 23 prisoners were executed in 1997.

President Kim was formerly a political prisoner and courageously defended human rights during military rule. It is therefore reasonable for the international community to have high expectations that he will deliver further improvements in this area now that he is in power.

Beyond political dialogue, bilateral ties are defined by the Framework Agreement on Trade and Co-operation, signed in October 1996. The Agreement is a landmark in bilateral relations which should improve the climate for business and investment and boost wide-ranging co-operation with South Korea. It commits the two sides to working towards improved conditions for access to each other's markets (including services). There are specific provisions on a wide range of areas, including maritime transport, shipbuilding, intellectual property rights, technical regulations, drugs, money laundering etc.. Further efforts are now needed on the European side in order to complete the ratification process. This would formalise the relationship and establish institutional machinery, comprising the Commission and the Member States along with the South Korean authorities, in order to oversee all aspects.

The Union and South Korea are co-operating closely and effectively within the burgeoning ASEM process. South Korea has played a leading role on the Asian side

since the outset, for example helping achieve consensus in favour of including meaningful political dialogue within the ASEM framework.

This role is set to continue, as South Korea will host the third Asia-Europe Meeting in Seoul in 2000, and is already one of the co-ordinators on the Asian side. It therefore has the potential to be a key player as the participants in ASEM face up to various challenges ahead. These include implementation of the work programme agreed at the second summit in London in April 1998, in particular the Trade Facilitation Action Plan and the Investment Promotion Action Plan. Further development of political dialogue within ASEM will also be a priority.

Since December 1995, South Korea has had the status of "Partner for Co-operation" within the Organisation for Security and Co-operation in Europe (OSCE), helping familiarise South Korea with the OSCE's values and commitments. Current work on the Charter on European Security strongly emphasises the regional dimension, possibly opening the way for closer co-operation between the OSCE and the ASEAN Regional Forum. South Korea and Japan – the other Asian "Partner for Co-operation" - could be expected to play a leading role in that context. This would constitute an additional – multilateral – dimension in the political dialogue between the EU and South Korea.

#### **4 Conclusions and summary of recommendations**

The economic and political importance of the Union's relationship with South Korea is clear. It is also clear that there are particular reasons for seeking to strengthen this relationship at this time. The Commission therefore makes the following recommendations:

##### **ECONOMIC**

##### **Supporting the reform and recovery process in South Korea**

The Union has made a substantial contribution to stabilisation after the financial crisis started. It should continue with firm political support to restructuring.

In the best interests of Europe and of South Korea, the Union should continue to make firm but constructive criticism where the pace or scope of reform is inadequate. It is particularly necessary to ensure that the banking system will apply market principles and avoid non-profitable investments.

The Union should remain vigilant to ensure that South Korea is respecting the conditions attached to international financial assistance. These funds must not result, directly or indirectly, in industrial subsidies which delay necessary restructuring and capacity cuts. Any such interventionism would not be politically or economically acceptable to the Union.

##### **Improving market access in the interests of both partners**

The Union should continue to push forcefully for lifting of trade barriers. They impede efforts to reinvigorate the South Korean economy and deny business opportunities to



Union companies. It should be made clear that progress in this field will be an essential element of any improvement of relations.

There should be particular emphasis on removing and simplifying over-burdensome regulations which continue to hamper economic activity in South Korea.

There is a long way to go before Korean public opinion becomes as open to imports and foreign investment as public opinion in the Union. Pressure should be maintained for continuing Government efforts to combat ill-informed prejudice towards imports and foreign companies. Such efforts should be supported.

Unfair trade practices will continue to be dealt with under the Union's anti-dumping and anti-subsidy legislation and the Trade Barriers Regulation, which are fully in compliance with WTO rules.

Other actions are needed to promote two-way trade. In particular, the Commission will at the earliest opportunity start negotiating a Mutual Recognition Agreement with South Korea, in line with the existing mandate from the EU Council of Ministers.

### **A potential ally in pursuit of global trade liberalisation**

The Union should work with South Korea to maintain its commitment towards and to enlist further worldwide support for a new round of comprehensive trade negotiations.

In this context, the Union should consult fully with South Korea on areas where it will need to make progress in future negotiations e.g. industrial tariffs, services, etc.

The two sides should co-operate on new areas being studied in the WTO – trade facilitation, investment, competition, electronic commerce, etc

In the absence of US ratification of the OECD Shipbuilding Agreement, the two sides - along with other major shipbuilding nations - should seek how to restore normal competitive conditions in the sector, on the basis of the Agreement's main provisions.

### **Stepping up bilateral economic co-operation**

The Union should step up bilateral economic co-operation, extending to South Korea existing EU economic co-operation initiatives covering other Asian countries. An Executive Training Programme for South Korea should be a cornerstone of co-operation activity.

The cooperation envisaged by the Framework Agreement is of the type usually undertaken in relations with developed countries (based on mutual interest, small amounts involved, public money used as catalyst for cooperation among interested parties rather than financing projects in their totality etc). Projects of this nature will be undertaken by the Commission once the proposal of a Council decision concerning the conclusion of the Framework Agreement is adopted by the Council.

Given the expressed mutual interest, South Korea should be further involved in developments regarding the Global Information Society, including those in electronic commerce.

Since South Korea's is a major emitter of greenhouse gases, the Union should consider including it in its existing international energy co-operation programmes.

## **POLITICAL**

### **Working together to reduce tensions on the Peninsula**

The Union should maintain its long-standing support for the Four-Party Talks and Inter-Korean Dialogue, in order to promote peace and reconciliation on the Peninsula.

The Union should continue to assist in addressing the underlying causes of the food shortages in North Korea.

It should also maintain its active involvement in the work of KEDO, provided North Korea respects its nuclear non-proliferation pledges. The basis for continuing Union participation in KEDO after the year 2000 should be considered.

The Union should promote North Korean engagement with the international community and progressive opening and adjustment in North Korea.

The Union should embark upon a judicious programme to develop political contacts with North Korea in support of the Four-Party Talks and inter-Korean Dialogue. Such contacts should also be actively used to register other Union concerns *vis-à-vis* North Korea (proliferation, human rights, etc)

### **One of the leaders of EU-Asian rapprochement**

All those involved in the ratification process should step up efforts for an early entry into force of the important Framework Agreement on Trade and Co-operation.

Existing close co-operation within ASEM should be stepped up in the run-up to the third ASEM summit which South Korea will host in 2000.

Bilateral political dialogue between the Union and South Korea should be reinforced, notably by holding a summit meeting, in the margins of ASEM III in Seoul (October, 2000).

This political dialogue should focus in particular on the Korean peninsula where mutual interests are strongest but also on regional situations in Europe and Asia and horizontal security issues (arms control, proliferation).

It should also cover human rights, where South Korea has made significant progress in many areas but where certain concerns still remain (National Security Law, death penalty, non-ratification of core conventions of the International Labour Organisation).

# FINANCIAL STATEMENT

## 1 TITLE OF OPERATION

Communication: European Union policy towards the Republic of Korea

## 2 BUDGET HEADING INVOLVED

B7-6601 – Co-operation agreements with third countries

## 3 LEGAL BASIS

The cooperation envisaged by the Framework Agreement is of the type usually undertaken in relations with developed countries (based on mutual interest, small amounts involved, public money used as catalyst for cooperation among interested parties rather than financing projects in their totality etc). Projects of this nature will be undertaken by the Commission once the proposal of a Council decision concerning the conclusion of the Framework Agreement is adopted by the Council.

## 4 DESCRIPTION OF OPERATION

### 4.1 General objective

The Communication proposes updating the European Union's economic and political relations with the Republic of Korea (South Korea) to take account of changed circumstances after the financial crisis and the recent Presidential election.

In this framework, it is proposed to step up the Community's economic co-operation with the Republic of Korea in order to pursue the mutual interests of both parties.

Subject to the availability of resources and after due consultation with interested parties, the economic co-operation objectives of the Communication would be pursued through a variety of projects aimed at some or all of the following:

- fostering expertise of Korean language and business culture among Union enterprises (executive training programme, business internships programme)
- increasing the transparency of the regulatory environment in South Korea (standards, testing and certification procedures)

- improving the business environment in South Korea (investment rules, bankruptcy law, establishment of European Business Information Centre)
- supporting restructuring of the financial sector along market-based lines (legal framework; technical assistance in credit analysis, risk management)
- promoting co-operation between Union and South Korean companies (extension to South Korea of Asia-Invest, ECIP, Euro-partenariat)
- providing information to South Korean consumers on the social and economic benefits which their country derives from two-way trade and investment, thus combating hostility towards foreign products and companies

#### **4.2 Period covered and arrangements for renewal**

Indeterminate.

### **5 CLASSIFICATION OF EXPENDITURE OR REVENUE**

#### **5.1 Compulsory/Non-compulsory expenditure**

Non-compulsory expenditure.

#### **5.2 Differentiated/Non-differentiated appropriations**

Differentiated appropriations.

#### **5.3 Type of revenue involved**

Not applicable

### **6 TYPE OF EXPENDITURE OR REVENUE**

The economic co-operation objectives of the Communication would be primarily pursued through service contracts assigned by the appropriate tendering procedures, in line with Community law and the internal procedures of the Commission. Subsidies may also be granted in support of specific operations, with appropriate co-financing from other sources.

### **7 FINANCIAL IMPACT**

#### **7.1 Method of calculating total cost of operation (relation between individual and total costs)**

The estimated cost of the flagship project proposed for bilateral economic cooperation, the Executive Training Programme for Korea, derives from a feasibility study conducted by Deloitte and Touche and submitted to the Commission services in June 1997. The figure of 1.0-1.5 MECU *per annum* is at the lower end of the range recommended by the consultant (minimum 1.5 MECU *per annum*). The initial figure is lower (1.0 MECU) because the Commission services have identified some cost-reductions for an initial phase. If the programme is successful, the number of participants should be expanded beyond the initial low level (2 x 8 participants per year) in due course, thus raising the cost to around 1.5 MECU per year.

The costs of the other proposed projects are estimates deriving the Commission's experience in sectoral technical-assistance programmes and business co-operation activities with other Asian countries.

Some of these programmes (financial-sector restructuring, business environment) are expected to be time-limited – or at least degressive in cost - if the programmes are successful. The launching of some programmes is deferred until year 2001 or year 2002.

## 7.2 Itemised breakdown of cost

Commitment appropriations ECU million  
(at current prices)

Breakdown	Year 2000	2001	2002	2003	2004	2005 and subs. Yrs	Total
Fostering expertise of Korean language and business culture	1.0	1.0	1.0	1.5	1.5	1.5	7.5
Increasing transparency of regulatory environment in Korea	0	0.5	0.5	0.5	0.5	0.5	2.5
Improving the business environment in Korea	0	0	0.2	0.2	0.2	0.2	0.8
Supporting restructuring of the financial sector along market-based lines	0	0.5	0.5	0	0	0	1.0
Promoting co-operation between EU and Korean companies	0	0	0.5	0.5	0.5	0.5	2.0
Providing information to Korean consumers on the benefits of two-way trade	0	0	0.3	0.3	0.3	0.3	1.2
<b>Total</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>15.0</b>

### 7.3 Operational expenditure for studies, experts etc. included in Part B of the budget

Commitment appropriations ECU million (at current prices)

	Year 2000	2001	2002	2003	2004	2005 and subs. Yrs	Total
- Studies	0	0.1	0.1	0	0	0	0.2
- Meetings of experts	0	0	0	0	0	0	0
- Conferences and congresses	0	0.2	0.2	0	0	0	0.6
- Information and publications	0.2	0	0	0.3	0.3	0.3	1.1
<b>Total</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>1.7</b>

### 7.4 Schedule of commitment and payment appropriations

ECU million

	2000	2001	2002	2003	2004	2005 and subs. yrs	Total
<b>Commitment appropriations</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>15.0</b>
<b>Payment appropriations</b>							
year 2000	0.5	0	0	0	0	0	0.5
2001	0.5	0.5	0	0	0	0	1.0
2002	0	1.0	1.0	0	0	0	2.0
2003	0	0.5	1.5	1.0	0	0	3.0
2004	0	0	0.5	1.5	1.0	0	3.0
2005 and subs. yrs	0	0	0	0.5	2.0	3.0	5.5
<b>Total</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>15</b>

## 8 FRAUD PREVENTION MEASURES

The activities carried out will be carefully monitored by the Commission services before any payment is made. This control takes full account of contractual obligations and principles of economy and good financial management. Certain agreements may also require submission of financial accounts certified by the auditors appointed by the managing body of the professional association to which a subsidy has been granted.

## 9 ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

### 9.1 Specific and quantified objectives; target population

- In order to foster expertise of Korean language and business culture among Union enterprises, an Executive training programme for Korea would be established. Consideration should also be given to extending to Korea the EU business internships programme currently covering some other Asian countries. The target population of these measures is the EU-based companies interested in exporting to or investing in Korea.
- In order to increase the transparency of the regulatory environment in Korea, technical assistance could be provided to Korean bodies responsible for standards, testing and certification procedures. They would be the target population of this measure.
- In order to improve the business environment in South Korea technical assistance could be provided on investment rules and bankruptcy law. The Korean administration would be the target population of such measures. In addition, a European Business Information Centre could be established. EU companies operating in Korea would be the target population of this particular measure.
- In order to support restructuring of the financial sector along market-based lines, technical assistance could be provided on the legal framework for banking regulation (target population: financial regulatory body) and on credit analysis, risk management, etc (target population: Korean financial institutions).
- In order to promote co-operation between Union and Korean companies, Asia-Invest, ECIP, Euro-partenariat could be extended to Korea (target population: EU companies interested in doing business in Korea – their Korean partner companies).
- In order to combat hostility towards foreign products and companies, information campaigns could be run providing information to consumers



on the social and economic benefits which Korea derives from two-way trade and investment. Korean consumers would be the target population.

## **9.2 Grounds for the operation**

The European Union's economic presence in Korea (trade flows; investment stocks) is lagging behind that of the United States and Japan. In view of the medium- and long-term growth potential of this market and its likely future importance as a hub in the East Asian region this state of affairs threatens to adversely affect the European Union's future prosperity.

Economic co-operation activities which serve the best interests of the two sides appear the best way to ensure a more adequate economic presence of the European Union in Korea. Whilst economic co-operation at the level of the Member States should certainly be encouraged, there are certain actions identified above which, by reason of the economies of scale expected or because of the synergies which would flow from action at EU-level, should be pursued through Community instruments.

Successful implementation of the economic co-operation actions identified should lead to a consolidation of economic ties between the EU and Korea, in particular through increased trade and investment flows. Although the development of these flows will be a useful indicator of the success or otherwise of economic co-operation activities proposed in the Communication, they will also be affected by other variables (such as macroeconomic developments in Korea, the EU and in other main trading partners).

## **9.3 Monitoring and evaluation of the operation**

Methods of control (submission of reports, etc.) will be included in all agreements or contracts between the Commission and beneficiaries of subsidies, contractors and the like. Close collaboration with the associations responsible will be maintained during the implementation of projects. The norm is that a Commission representative attends important events financed under such co-operation projects to ensure that activities are carried out in accordance with the signed agreement.

Specific performance indicators will be developed for individual projects and would include, for example:

- Number of EU business people developing knowledge of Korean language and business practice through participation in ETP Korea and/or business internship programmes;

- In connection with technical assistance activities (regulatory and business environment, financial sector), the indicators would be specific improvements in Korea's administrative infrastructure, leading to improvements in the regulatory framework;
- In connection with business promotion activities, indicators could include number of EU and Korean companies participating and, as appropriate, number of co-operation agreements ensuing.

Monitoring provisions based on such indicators will be systematically incorporated as an integral part of project design. Multi-annual operations will as necessary be adapted to take account of the results of these monitoring activities.

#### 10 ADMINISTRATIVE EXPENDITURE (SECTION III, PART A OF THE BUDGET)

Actual mobilization of the necessary administrative resources will depend on the Commission's annual decision on the allocation of resources, taking into account the number of staff and additional amounts authorized by the budgetary authority.

##### 10.1 Effect on the number of posts

Type of post		Staff to be assigned to managing the operation		Source		Duration
		<u>Permanent posts</u>	<u>Temporary posts</u>	Existing resources in the DG or department concerned	Additional resources	
Officials or temporary staff	A	1		1		Indefinite
	B	0.25		0.25		
	C	1		1		
Other resources (DNE: budgetary item A7-003)			1	1		
Total		2.25	1	3.25		

**10.2 Overall financial impact of [additional] human resources\***

	Amounts	Method of calculation
Officials	243.000	2.25 x 108.000 x 1
Temporary staff		
Other resources (budget heading A7-003)	37.000	
Total	280.000	

\* Existing resources required to manage the operation (calculation based on titles A1, A2, A4, A5 and A7) – no additional human resources are entailed.

**10.3 Increase in other administrative expenditure as a result of the operation\*\***

Budget heading	DG concerned	Amounts	Method of calculation
A-02410-11-09	IX	12392	If possible, part of the necessary contacts with the Korean authorities will take the form of video-conferencing. For countries in East Asia, this costs approximately 8400 BF per hour per line. Three lines are necessary for a good quality link. Around 20 hours of talks annually in this format might be envisaged, giving a total BF cost of 504000 BF. This was converted using the official BF/ECU exchange rate of 40.6725 BF=1 ECU.
A7010	DG I	24880 ECU	<p>Number of additional missions (14) multiplied for the average cost of mission to Seoul, Korea (111507 BF for transport and 7500 BF <i>per diem</i>, for a total of 126507 BF for a two-day mission. Applying the official BF/ECU exchange rate of 40.6725 BF/1 ECU the above amount is equal to 3110 ECU per mission).</p> <p>The total number of missions (14) includes missions by DGI (8), DGIII (4), DGVI (2).</p>
	DG III	12440 ECU	
	DG VI	6220 ECU	
Total		55932 ECU	

\*\* The credits will be found within the existing envelopes of the services concerned.