



United States  
International Trade Commission

# U.S.-Korea FTA: Advice on Modifications to Duty Rates for Certain Motor Vehicles

June 2018

Publication Number: 4791

Investigation Number: FTA 103-031

# United States International Trade Commission

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# Preface

This report provides advice from the U.S. International Trade Commission (Commission or USITC) to the President on the probable economic effect of proposed modifications to the duty treatment of certain motor vehicles under the United States-Korea Free Trade Agreement (KORUS).<sup>1</sup> The advice was requested by the U.S. Trade Representative (USTR) in a letter received by the Commission on April 6, 2018.<sup>2</sup> The USTR noted in the request letter that U.S. negotiators have recently reached agreement in principle with representatives of the government of Korea on modifications to KORUS regarding the staging of duty treatment for certain motor vehicles. He also noted that section 201(b) of the United States– Korea Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to consultation and layover requirements of section 104 of the Act, to proclaim such tariff modifications as the President determines to be necessary or appropriate to maintain the general level of reciprocal and mutually advantageous concessions with respect to Korea provided by KORUS. One of the requirements set out in section 104 is that the President obtain advice from the Commission.

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<sup>1</sup> “Korea” in this report refers to the Republic of Korea (South Korea).

<sup>2</sup> A copy of the request letter is attached in Appendix A. A copy of the accompanying *Federal Register* notice of investigation is in Appendix B.



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# Abbreviations and Acronyms

<b>Acronym</b>	<b>Term</b>
CAGR	compound annual growth rate
FCA	Fiat Chrysler Automobiles
GM	General Motors
GTIS	Global Trade Information Services (IHS Markit)
GVW	gross vehicle weight
HTS	Harmonized Tariff Schedule of the United States
KORUS	U.S.-Korea Free Trade Agreement
LCV	light commercial vehicle
MFN	most-favored-nation
mt	metric tons
NAFTA	North American Free Trade Agreement
OICA	Organisation Internationale des Constructeurs d'Automobiles (International Organization of Motor Vehicle Manufacturers)
SUV	sport utility vehicle
USDOC	U.S. Department of Commerce
USITC	U.S. International Trade Commission
USTR	U.S. Trade Representative



# Executive Summary

## Background and Scope

In a letter dated April 6, 2018, U.S. Trade Representative (USTR) Robert Lighthizer requested, pursuant to section 104 of the United States – Korea Free Trade Agreement Implementation Act (the Act), that the U.S. International Trade Commission (Commission or USITC) provide advice on the probable economic effect of modifications to the staging of duty treatment (“proposed modifications”) on imports of certain motor vehicles under the U.S.-Korea Free Trade Agreement (KORUS) and on domestic producers of the affected motor vehicles.<sup>3</sup> The proposed modifications were part of a larger agreement in principle that included other amendments and modifications to the KORUS, reached on March 27, 2018, by Ambassador Lighthizer and Korea’s Minister for Trade, Hyun Chong Kim.<sup>4</sup>

In his letter, the USTR notes that: (1) section 201(b) of the Act authorizes the President, subject to the consultation and layover requirements of section 104 of the Act, to proclaim such tariff modifications as the President determines to be necessary or appropriate to maintain the general level of reciprocal and mutually advantageous concessions with respect to Korea provided by KORUS, (2) one of the requirements set out in section 104 is that the President obtain advice regarding the proposed action from the Commission, and (3) U.S. negotiators have recently reached an agreement in principle with representatives of the government of Korea on modifications to KORUS regarding the staging of duty treatment for certain motor vehicles.

This report is in response to the above-mentioned request of the USTR. In the report, the Commission examines the U.S. light and medium/heavy truck markets as well as the affected producers in the United States and Korea. The Commission’s probable economic effect analysis estimates the changes to U.S. trade under KORUS and to U.S.-based producers of the affected articles that would result from the proposed modifications, under various scenarios. The report addresses the changes resulting from not phasing out the tariffs on certain motor vehicles in 2021 as originally provided for under KORUS.

Table ES.1 describes the affected motor vehicles and identifies the six subheadings of the Harmonized Tariff Schedule of the United States (HTS) under which they enter the United

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<sup>3</sup> This report will focus on U.S. imports. The Commission does not expect that the proposed modifications to duty rates on imports into the United States would have a significant impact on U.S. exports. “Korea” in this report refers to the Republic of Korea (South Korea).

<sup>4</sup> USTR, “Joint Statement by the United States Trade Representative Robert E. Lighthizer and Republic of Korea Minister for Trade Hyun Chong Kim,” March 28, 2018.

States. Vehicles for the transport of goods with a gross vehicle weight (GVW) less than or equal to 5 metric tons (mt) are characterized as light trucks—essentially pickup trucks and work vans. Vehicles for the transport of goods with a GVW greater than 5 mt are characterized as medium/heavy trucks. Under the proposed modifications, the elimination of duties on the affected motor vehicles, which is currently scheduled to begin in phases on January 1, 2019, and to be completed by January 1, 2021, would be deferred until 2041. Under the modified text, the duties would remain at base rates (25 percent ad valorem) during years 1 through 29 (2012 through 2040) and such goods would become free of duty in year 30, effective January 1, 2041 (table ES.2).<sup>5</sup>

**Table ES.1** Motor vehicles covered by proposed modifications

Truck designation	HTS subheadings	HTS description
Light	8704.21.00	Motor vehicles for transport of goods, with compression-ignition internal combustion piston engine, with a GVW not exceeding 5 mt.
Light	8704.31.00	Motor vehicles for transport of goods, with spark-ignition internal combustion piston engine, with a GVW not exceeding 5 mt.
Medium/heavy	8704.22.50	Motor vehicles for transport of goods (other than those with a cab chassis), with compression-ignition internal combustion piston engine, with a GVW exceeding 5 mt but not exceeding 20 mt.
Medium/heavy	8704.23.00	Motor vehicles for transport of goods, with compression-ignition internal combustion piston engine, with a GVW exceeding 20 mt.
Medium/heavy	8704.32.00	Motor vehicles for transport of goods, with spark-ignition internal combustion piston engine, with a GVW exceeding 5 mt.
Medium/heavy	8704.90.00	Motor vehicles for transport of goods, other than with compression-ignition or spark-ignition internal combustion piston engine, not elsewhere specified or indicated.

Source: USITC, *Harmonized Tariff Schedule of the United States*, 2018, section XVII, chap. 87-12, 13.

Note: Compression-ignition engines are typically fueled by diesel, and spark-ignition engines are typically fueled by gasoline. For the purposes of this report, “light trucks” are typically work vans and pickup trucks, and “medium/heavy trucks” are other larger trucks.

<sup>5</sup> The 25 percent ad valorem base rate is also the most-favored-nation (MFN) rate. An “ad valorem” duty means a rate of duty expressed as a percentage of the appraised customs value of the imported good. MFN tariffs (known as “normal trade relations” tariffs in the United States) are what countries promise to impose on imports from other members of the World Trade Organization unless the country supplying the import is part of a preferential trade agreement.

**Table ES.2** Tariff schedules for imports of certain motor vehicles under KORUS

Year number <sup>a</sup>	Year	Current staging (%)	Proposed modified staging (%)
1	2012	25.0	25.0
...	...	...	...
7	2018	25.0	25.0
8	2019	16.7	25.0
9	2020	8.3	25.0
10	2021	Free	25.0
...	...	...	...
27	2038	Free	25.0
28	2039	Free	25.0
29	2040	Free	25.0
30	2041	Free	Free

Source: USITC, *Modifications to the Harmonized Tariff Schedule of the United States to Implement the United-States Korea Free Trade Agreement*, USITC Publication 4308, February 2012, annex II, 128.

<sup>a</sup> KORUS entered into force on March 15, 2012.

## Analysis and Advice

The U.S. market for light and medium/heavy trucks is primarily supplied by U.S. domestic producers,<sup>6</sup> and by producers in Mexico and Canada. The latter producers benefit from duty-free entrance into the U.S. market under the North American Free Trade Agreement (NAFTA), along with low transportation costs. Korea-based companies supply passenger vehicles to the U.S. market, but currently sell few to no light or medium/heavy trucks in the United States.<sup>7</sup> Korean truck exports are primarily restricted to diesel trucks sold to developing countries. Two Korean producers (Hyundai Motor Group and SsangYong) reportedly have been considering entering the U.S. light truck market.<sup>8</sup>

In this report the Commission examines the light and medium/heavy truck markets as well as the affected producers in the United States and Korea. The Commission's probable economic effect analysis estimates the changes that would result from the proposed modifications in two areas: changes to U.S. trade under KORUS, and changes to U.S. domestic producers of the affected articles.

Quantifying the probable economic effect of the proposed modifications over a 20-year period is difficult, because the United States currently imports few to none of the motor vehicles in

<sup>6</sup> Domestic production is defined as production in the United States by both U.S. originating firms and transplant production. Transplant production here refers to a firm setting up or a firm's operation of production facilities in a country other than the one where the firm is headquartered.

<sup>7</sup> Korean trade data report limited exports of light trucks to the United States even though official U.S. import data report no such imports from Korea. To the best of the Commission's knowledge, the United States does not import from Korea any products under the 6 HTS subheadings covered in this report. See chapter 2 for Korean-reported export data.

<sup>8</sup> Lienert and Jin, "Hyundai Will Launch Pickup, More SUVs," August 22, 2017; Reuters, "Ssangyong Motor Targets U.S. Entry," March 6, 2016.

question from Korea and because the two current producers of such vehicles in Korea do not produce them in the United States, Mexico, or Canada. Thus, if the modifications in the staging of duty treatment for light and medium/heavy trucks take effect, the Commission is unable to predict at this time whether Korean producers would most likely (1) continue not to supply the U.S. market, (2) supply the U.S. market exclusively through transplant production, (3) supply the U.S. market through a combination of Korean exports and transplant production at a market share similar to that of other foreign truck producers, (4) supply the U.S. market through a combination of Korean exports and transplant production at a market share similar to that of Korean producers in the U.S. non-truck vehicle market, or (5) supply the U.S. market exclusively through Korean exports.

If Korean producers were to continue not to supply the U.S. market or were to locate production in the United States (or Mexico or Canada) and source all U.S. sales from North American production instead of from Korea under the current staging, the proposed modifications would likely have little or no effect on U.S. imports from Korea or total domestic production. However, if the current staging were to remain in place, Korean-based producers interested in entering the U.S. market would likely have less incentive to produce in the United States and would be more likely to produce in Korea and ship to the United States. If Korean producers were to supply the U.S. market via exports from Korea or by a combination of exports and transplant production, U.S. imports from Korea and total domestic production would likely be affected.

Using current data for trade, production, market sizes, and assumptions regarding shares for market capture from foreign and domestic production, the Commission has estimated the probable economic effect of the proposed modifications under each of the five scenarios described above.<sup>9</sup> The Commission provides separate estimates for the change in U.S. imports and the change in domestic production for light and medium/heavy trucks under the proposed modifications.

A summary of the Commission's estimates of the probable economic effect of the proposed modifications, using the five scenarios described above, is presented in table ES.3. The Commission believes that scenario 3 is the most likely of the probable economic effect scenarios under the proposed modifications. Using assumptions under scenario 3, the Commission estimates that the proposed modifications could avoid an increase of 59,000 units (7.1 percent of total U.S. imports in 2017) in light truck imports from Korea and a decline of

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<sup>9</sup> See chapter 2 for a more detailed discussion on the methodology the Commission used to calculate the probable economic effect, and the assumptions the Commission makes in estimating the effects.

45,000 units (1.6 percent) in U.S. light truck production.<sup>10</sup> Further, the proposed modifications could avoid an increase of 7,600 units (10.5 percent of total U.S. imports in 2017) in medium/heavy truck imports from Korea and a decline of 3,700 units (1.4 percent) in U.S. medium/heavy truck production.

**Table ES.3** Probable economic effect of modifications to the staging of duty treatment: five scenarios

Result	Actual 2017 data (units)	Estimated change (units)	Estimated percentage change
<b>Scenario 1: Korean firms do not enter U.S. market</b>			
Avoided U.S. imports of light trucks	832,555	No effect	No effect
Avoided U.S. production of light trucks	2,844,292	No effect	No effect
Avoided U.S. imports of medium/heavy trucks	72,134	No effect	No effect
Avoided U.S. production of medium/heavy trucks	266,200	No effect	No effect
<b>Scenario 2: Korean firms enter U.S. market exclusively by transplant U.S. production<sup>a</sup></b>			
Avoided U.S. imports of light trucks	832,555	No effect	No effect
Avoided U.S. production of light trucks	2,844,292	Little or no effect <sup>b</sup>	Little or no effect <sup>b</sup>
Avoided U.S. imports of medium/heavy trucks	72,134	No effect	No effect
Avoided U.S. production of medium/heavy trucks	266,200	Little or no effect <sup>b</sup>	Little or no effect <sup>b</sup>
<b>Scenario 3: Korean firms enter U.S. market by exporting from Korea and transplant U.S. production<sup>a</sup></b>			
Avoided U.S. imports of light trucks	832,555	59,000	7.1
Avoided U.S. production of light trucks	2,844,292	- 45,000	- 1.6
Avoided U.S. imports of medium/heavy trucks	72,134	7,600	10.5
Avoided U.S. production of medium/heavy trucks	266,200	- 3,700	- 1.4
<b>Scenario 4: Same as scenario 3 but assuming Korean firms gain higher market share<sup>c</sup></b>			
Avoided U.S. imports of light trucks	832,555	131,000	15.7
Avoided U.S. production of light trucks	2,844,292	- 99,000	- 3.5
Avoided U.S. imports of medium/heavy trucks	72,134	17,000	23.6
Avoided U.S. production of medium/heavy trucks	266,200	- 8,200	- 3.1
<b>Scenario 5: Korean firms enter the U.S. market by exporting exclusively from Korea<sup>a</sup></b>			
Avoided U.S. imports of light trucks	832,555	129,000	15.5
Avoided U.S. production of light trucks	2,844,292	- 98,000	- 3.4
Avoided U.S. imports of medium/heavy trucks	72,134	16,700	23.2
Avoided U.S. production of medium/heavy trucks	266,200	- 8,100	- 3.0

Source: USITC DataWeb/USDOC (accessed on April 19, 2018); IHS Markit, World Trade Atlas database (accessed April 26, 2018); USITC calculations.

<sup>a</sup> The Korean share of the U.S. market for scenarios 2, 3, and 5 is 4.0 percent, which is the average market share of comparable foreign firms that operate in the U.S. truck market.

<sup>b</sup> The Commission believes that the effects of Korean firms entering the U.S. market exclusively via transplant production would have little to no effect on total domestic production, unless Korean vehicles produced in the United States were to primarily displace imports from Mexico instead of other domestically produced vehicles.

<sup>c</sup> The Korean share of the U.S. market for scenario 4 is 9.0 percent, which is equal to Hyundai and Kia's combined market share of the U.S. passenger vehicle market, excluding trucks.

<sup>10</sup> See chapter 2 for more information about the different assumptions and the results of the Commission's analysis.

These estimates should be seen as reasonable annual estimates for the first few years after the modification would occur, but not necessarily a prediction of what production or trade would have looked like over the 20-year post-phaseout period (2021–41) absent the modification.



# Chapter 1

## Introduction

### Purpose and Scope

In a letter dated and received on April 6, 2018, the U.S. Trade Representative (USTR) Robert Lighthizer requested that the U.S. International Trade Commission (Commission or USITC) provide advice on the probable economic effect of proposed modifications to the United States-Korea Free Trade Agreement (KORUS) regarding the staging of duty treatment for certain motor vehicles on U.S. trade under KORUS and on domestic producers of the affected products.<sup>11</sup> These products are motor vehicles for the transport of goods classified under six subheadings of the Harmonized Tariff Schedule of the United States (HTS). Under the proposed modifications, the effective date for eliminating duties on eligible goods would be delayed until 2041 and would no longer be phased out over three years. Under the proposed modifications, the duties would remain at base rates (25 percent ad valorem) during years 1 through 29 (2012 through 2040) and such goods would be reduced to “free” in year 30, effective January 1, 2041.<sup>12</sup>

Table 1.1 below describes the types of motor vehicles covered by the proposed modifications and the HTS subheadings under which they fall; table 1.2 describes the current and modified tariff schedules. Light trucks are defined as vehicles intended for the transport of goods weighing 5 metric tons (mt) or less—essentially pickup trucks and work vans. These vehicles tend to be produced by the same companies that produce cars and sport utility vehicles (SUVs) and are purchased as both business and personal vehicles. Medium/heavy trucks are designed for the transport of goods and weigh more than 5 mt. These vehicles tend to be purchased for work purposes only.

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<sup>11</sup> “Korea” in this report refers to the Republic of Korea (South Korea).

<sup>12</sup> The base rate of 25 percent ad valorem is also the most-favored-nation (MFN) rate. An “ad valorem” duty means a rate of duty expressed as a percentage of the appraised customs value of the imported good. MFN tariffs (known as “normal trade relations” tariffs in the United States) are what countries promise to impose on imports from other members of the World Trade Organization unless the country is part of a preferential trade agreement.

**Table 1.1** Motor vehicles covered by proposed modifications

Truck designation	HTSUS subheadings	HTSUS description
Light	8704.21.00	Motor vehicles for transport of goods, with compression-ignition internal combustion piston engine, with a gross vehicle weight (GVW) not exceeding 5 mt.
Light	8704.31.00	Motor vehicles for transport of goods, with spark-ignition internal combustion piston engine, with a GVW not exceeding 5 mt.
Medium/heavy	8704.22.50	Motor vehicles for transport of goods (other than those with a cab chassis), with compression-ignition internal combustion piston engine, with a GVW exceeding 5 mt but not exceeding 20 mt.
Medium/heavy	8704.23.00	Motor vehicles for transport of goods, with compression-ignition internal combustion piston engine, with a GVW exceeding 20 mt.
Medium/heavy	8704.32.00	Motor vehicles for transport of goods, with spark-ignition internal combustion piston engine, with a GVW exceeding 5 mt.
Medium/heavy	8704.90.00	Motor vehicles for transport of goods, other than with compression-ignition or spark-ignition internal combustion piston engine, not elsewhere specified or indicated.

Source: USITC, *Harmonized Tariff Schedule of the United States*, 2018, section XVII, chap. 87-12, 87-13.

Note: Compression-ignition engines are typically fueled by diesel, and spark-ignition engines are typically fueled by gasoline. For the purposes of this report, “light trucks” are typically work vans and pickup trucks, and “medium/heavy trucks” are other larger trucks.

**Table 1.2** Tariff schedules for imports of certain motor vehicles under KORUS

Year number <sup>a</sup>	Year	Current staging (%)	Proposed modified staging (%)
1	2012	25.0	25.0
...	...	...	...
7	2018	25.0	25.0
8	2019	16.7	25.0
9	2020	8.3	25.0
10	2021	Free	25.0
...	...	...	...
27	2038	Free	25.0
28	2039	Free	25.0
29	2040	Free	25.0
30	2041	Free	Free

Sources: USITC, *Modifications to the Harmonized Tariff Schedule of the United States to Implement the United-States Korea Free Trade Agreement*, USITC Publication 4308, February 2012, annex II, 128.

<sup>a</sup> KORUS entered into force on March 15, 2012.

The U.S. market for light and medium/heavy trucks is primarily supplied by U.S. domestic producers, including transplant producers, as well as by companies operating in Canada and Mexico who benefit from duty-free entry to the U.S. market under the North American Free Trade Agreement (NAFTA) and low transportation costs.<sup>13</sup> In 2017, while subject to the 25 percent tariff, there were almost no U.S. imports of light or medium/heavy trucks from Korea or transplant production of Korean trucks in North America. Korean producers supply passenger vehicles to the U.S. market and accounted for 7.4 percent of the total U.S. light

<sup>13</sup> Transplant production refers to a firm setting up or a firm’s operation of production facilities in a country other than the one where the firm is headquartered.

vehicle market in 2017,<sup>14</sup> but currently supply few to no light or medium/heavy trucks to the United States. Korea exports primarily diesel pickup trucks to developing countries. Two Korean producers (Hyundai Motor Group and SsangYong) reportedly have been considering entering the U.S. light truck market.<sup>15</sup> Hyundai Motor Group specifically has vehicle production capacity in both the United States and Mexico and might decide to produce light trucks in one of these locations, although it continues to export certain automobiles from Korea despite having excess U.S. and Mexican capacity.<sup>16</sup>

## Market Considerations

In a pair of recent Commission reports assessing the probable effect of modifications under two FTAs—U.S.-Chile<sup>17</sup> and U.S.-Morocco<sup>18</sup>—on U.S. domestic producers, the assessment relied on industry-specific partial equilibrium models to generate quantitative estimates. However, this methodology cannot be used in this case. Because the United States imports few to no light or medium/heavy trucks from Korea, and because no transplant production of Korean trucks takes place in the United States, Korea’s market share for this industry is essentially zero. Consequently, a partial equilibrium model will always forecast that the probable economic effect of the proposed modifications on U.S. imports will be zero. Therefore, this assessment tool is not applicable to this study.

It is possible, however, to provide some calculations using data for the truck industry and proxy values. The proxy values are for related motor vehicles—such as passenger cars—that enter the United States duty free, or nearly duty free, from Korea and for which there is Korean transplant production in the United States. Using these values assumes that the status quo of the truck and motor vehicle markets will remain the same in the future with regard to aspects such as product mix and production locations. Therefore, these estimates should be seen as reasonable annual estimates for the first few years after the modification would occur, but not necessarily a prediction of what production or trade would have looked like over the 20-year post-phaseout period (2021–41) absent the modification.

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<sup>14</sup> WardsAuto, “Lt.-Vehicle Sales Segmentation,” January 15, 2018, 4. The U.S. light vehicle market includes cars, SUVs, pickup trucks, and vans, but not buses and medium/heavy trucks.

<sup>15</sup> Lienert and Jin, “Hyundai Will Launch Pickup, More SUVs,” August 22, 2017; Reuters, “Ssangyong Motor Targets U.S. Entry,” March 6, 2016. “Hyundai Motor Group” is used to encompass both Hyundai and Kia, since Hyundai and Kia are owned by the same Korean conglomerate, share platforms and parts, and sometimes produce their goods in the same assembly plants, though they largely operate as separate entities in the United States.

<sup>16</sup> Binder, *Ward’s Automotive Yearbook 2017*, “North American Production,” 2017, 88–89; Priddle, “2019 Hyundai Santa Cruz Almost Ready,” August 18, 2016.

<sup>17</sup> USITC, *Probable Economic Effect of Certain Modifications to the U.S.-Chile FTA Rules of Origin*, USITC Publication 4632, August 2016.

<sup>18</sup> USITC, *Effect of Modifications to the U.S.-Morocco Free Trade Agreement*, USITC Publication 3774, April 2005.

## Information Sources

The Commission used multiple data and information sources in preparing its advice. The modifications used were provided in the USTR's request letter of April 6, 2018.<sup>19</sup> In addition, the Commission sought information and views from interested parties through a notice published in the *Federal Register* announcing this investigation and by contacting industry representatives.<sup>20</sup>

Trade data for 2017 are used in the analysis unless otherwise specified. U.S. import and export data are U.S. Department of Commerce data from the Commission's Interactive Tariff and Trade DataWeb database unless otherwise specified. Data from Ward's,<sup>21</sup> from the Organisation Internationale des Constructeurs d'Automobiles (International Organization of Motor Vehicle Manufacturers, or OICA), and from IHS Markit's Global Trade Atlas database, as well as information obtained from industry representatives, were also used for preparing this report.<sup>22</sup>

## Organization of the Report

Chapter 2 gives separate summaries of the U.S. industry and market and of the Korean industry for light and medium/heavy trucks, as well as the Commission's economic effect analysis. Chapter 2 also presents an explanation of the Commission's method for assessing the probable economic effect of the proposed modifications on U.S. trade under KORUS and on domestic producers of the affected articles. Appendix A includes the USTR request letter for the investigation. Appendix B includes the *Federal Register* notice.

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<sup>19</sup> A copy of the USTR request letter appears in Appendix A.

<sup>20</sup> A copy of the *Federal Register* notice appears in Appendix B.

<sup>21</sup> Ward's Automotive is an authoritative U.S. automotive industry publisher.

<sup>22</sup> The Commission received a public submission from the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW). See EDIS doc 645068, <https://edis.usitc.gov>.

# Chapter 2

## Market Overview and Economic Analysis

### Overview and Approach

The proposed modifications to KORUS cover six HTS subheadings for certain motor vehicles from Korea for the transport of goods of varying weights, generally referred to as light trucks and medium/heavy trucks. Table 2.1 shows U.S. trade in the types of motor vehicles covered by the proposed modifications, revealing that both imports and exports have increased. Between 2015 and 2017, the value of U.S. imports of light and medium/heavy trucks that had been entered under the six HTS subheadings<sup>23</sup> grew from \$18.7 billion to \$21.7 billion. In 2017, the largest sources of imports were Mexico and Canada. Between 2015 and 2017, U.S. exports of these vehicles grew from \$11.0 billion to \$14.1 billion.<sup>24</sup> In 2017, the largest export destinations for U.S. light and medium/heavy trucks were Canada (\$11.9 billion) and Mexico (\$709 million).

**Table 2.1** Value of U.S. trade in motor vehicles covered by proposed modifications (million \$)

Rank	U.S. general imports	2015	2016	2017	CAGR (%)
1	Mexico	17,388	20,148	20,625	8.9
2	Canada	654	569	667	1.0
24	Korea	( <sup>a</sup> )	0	( <sup>a</sup> )	( <sup>b</sup> )
	Rest of world	663	489	454	-17.3
	Total	18,706	21,206	21,746	7.8
	<b>U.S. total exports</b>				
1	Canada	9,039	10,147	11,905	14.8
2	Mexico	635	824	709	5.7
59	Korea	2	2	1	-27.5
	Rest of world	1,364	1,101	1,529	5.8
	Total	11,041	12,074	14,144	13.2

Source: USITC DataWeb/USDOC (HTS subheadings 8704.21, 8704.31, 8704.22.50, 8704.23, 8704.32, and 8704.90; accessed April 19, 2018).

Note: U.S. export statistics do not include 8704.22.50 because that code was not available in the Schedule B export schedule. 8704.22 has been included instead. For 2017, U.S. imports of 8704.22.50 comprised 31.7 percent of total imports under 8704.22.

Note: Because of rounding, figures may not add up to totals shown.

<sup>a</sup> Denotes a value of less than \$500,000.

<sup>b</sup> CAGR not provided because the 2016 value was zero.

This report assesses the probable economic effect on U.S. imports and on U.S. domestic production of the proposed modifications that extend the base rate tariffs through 2041 for

<sup>23</sup> For U.S. general imports, the HTS subheadings involved are 8704.21 and 8704.31 (light trucks) and 8704.22.50, 8704.23, 8704.32, and 8704.90 (medium/heavy trucks).

<sup>24</sup> For U.S. total exports, the HTS subheadings involved are 8704.21 and 8704.31 (light trucks) and 8704.22, 8704.23, 8704.32, and 8704.90 (medium/heavy trucks). Note: U.S. export statistics do not include 8704.22.50 because the code was not available in the Schedule B export schedule; 8704.22 has been included instead.

light and medium/heavy trucks.<sup>25</sup> This analysis compares two staging schedules for the market in 2021: (1) the schedule where staging is set to begin on January 1, 2019, under KORUS as currently in effect, and (2) the schedule where the tariff reductions are delayed until January 1, 2041, under the proposed modifications.<sup>26</sup> Under KORUS as currently in effect, U.S. tariffs on light and medium/heavy trucks from Korea phase out to zero in 2021. Under the proposed modifications, however, these tariffs would remain in place for an additional 20 years.

KORUS, as currently in effect, calls for the current U.S. duty rate of 25 percent ad valorem on imports of certain light and medium/heavy trucks from Korea to be eliminated in three stages between January 1, 2019 and January 1, 2021, provided that the imported trucks meet certain rules-of-origin requirements.<sup>27</sup> The near-term elimination of these tariffs would make it more likely that Korean producers seeking to supply the U.S. truck market would do so through production in Korea rather than through transplant production in the United States. The Commission's estimate of probable economic effect assumes that Korea's share of the U.S. truck market, after tariff elimination, either would be zero; would be in line with the market shares for other foreign truck suppliers; or would be in line with Korea's share of the U.S. non-truck passenger vehicle market.

The probable economic effect of the proposed modifications on U.S. imports (or on U.S. production) of certain trucks from Korea is the difference between the imports (or U.S. production levels) in the two staging schedules. The proposed modifications would likely prevent imports from Korea that could likely occur under KORUS as currently in effect by avoiding the increase in imports that would likely occur with tariff elimination and would likely keep the imports of the trucks at current levels, i.e., near zero. Additionally, the proposed modification would likely increase domestic production relative to expected production levels under the current staging of KORUS by avoiding the reduction in domestic production that could occur if tariffs were reduced to zero in 2021. However, because the proposed modifications would keep existing tariffs in place through 2040 (in effect maintaining the current tariffs for 20 additional years), there would likely be no net change in the current quantity of domestic production.

The rest of this chapter is divided into three sections. The first presents the methodology the Commission used in estimating the modifications' probable economic effect on total U.S.

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<sup>25</sup> Because the proposed modifications affect only U.S. imports from Korea, the Commission believes there are minimal likely effects on U.S. exports.

<sup>26</sup> For a complete schedule of the current duty treatments and proposed modifications, see table 1.2.

<sup>27</sup> See table 1.2 in chapter 1 for the complete tariff schedules. Under KORUS, for a vehicle to qualify as "originating" under the automotive rules of origin, it must have 35 percent regional value content using the build-up method, 55 percent regional value content using the build-down method, or 35 percent regional value content using the net cost method. USTR, "KORUS FTA Final Text," Annex 6-A, "Specific Rules of Origin," 6-64.

imports and on domestic producers, under the five scenarios discussed below; the second discusses the light truck market and industry and the Commission's estimations of the probable economic effect for that sector; and the final section does the same for medium/heavy trucks.

## Estimating Probable Economic Effect on U.S. Imports and Domestic Production

This report uses a form of ordered approximation to estimate the probable economic effect of the proposed modifications on U.S. imports and on U.S. domestic production, under five scenarios where Korean producers: (1) continue not to supply the U.S. market, (2) supply the U.S. market exclusively through transplant production, (3) supply the U.S. market through a combination of Korean exports and transplant production at a market share similar to that of other foreign truck producers, (4) supply the U.S. market through a combination of Korean exports and transplant production at a market share similar to that of Korean producers in the U.S. non-truck vehicle market, or (5) supply the U.S. market exclusively through Korean exports.

These calculations produce an estimate of the probable economic effect of the proposed modifications on U.S. imports and on domestic production in each scenario. The Commission does not expect that the proposed modifications to duty rates on imports into the United States would have a significant impact on U.S. exports. This analytic method uses two resources—available data about the industry and assumptions about the ability of Korean firms to capture shares of the U.S. light and medium/heavy truck markets after tariffs are eliminated as well as the share of Korean products that would be exported versus produced in the United States—to generate numerical estimates of potential changes in U.S. imports of light and medium/heavy trucks from Korea and in U.S. production of the same.

The method is a simple approximation of a reasonable estimate. The estimate is accurate only insofar as the assumptions used closely reflect future market conditions.<sup>28</sup> Specifically, the estimate makes no attempt at accounting for any significant changes in motor vehicle supply or demand. For example, it does not include changes such as new vehicle types (hybrid, electric, or autonomous) replacing more traditional ones or suppliers investing in new countries to produce vehicles. This method is useful in that it avoids the zero market share problem mentioned earlier. Additionally, the assumptions regarding potential market shares and potential export shares are transparently incorporated into the calculations. While the Commission believes the assumptions for scenario 3 provide the most likely of the probable economic effect scenarios, the Commission has also provided estimates based on four alternative sets of assumptions to

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<sup>28</sup> Note that the method does not have a theoretical framework that explains why changes in the market happen. Rather, it is akin to a static model, and it does not say how long the market will take to reach this final equilibrium.

account for any inaccuracies due to the underlying assumptions in the calculations. The report also includes a qualitative assessment of the likely change.

The first input in the calculations is the total size, in volume, of the particular U.S. motor vehicle market in question. In equation (1), the total market quantity is  $M$ . The analysis assumes that the total number of each type of vehicle sold in the United States is fixed and does not change in response to the small price changes associated with the policy change.

$$(1) \text{ Change in U.S. Imports of Trucks from Korea} = \left[ \frac{\text{U.S. Truck Market Size } (M)}{\text{Market Size } (M)} \right] * \left[ \frac{\text{Share of U.S. Market Captured by Korean Firms } (S)}{\text{Market Captured by Korean Firms } (S)} \right] * \left[ \frac{\text{Share of Korean Sales to U.S. Supplied as Exports from Korea } (E)}{\text{Sales to U.S. Supplied as Exports from Korea } (E)} \right]$$

The second input in the calculation is an estimate of the share of this market that would be captured by Korean producers. This share is designated  $S$  in equation (1). Presently, Korean companies sell few to no trucks in the United States. If Korean firms continue to have no market share, the proposed modifications would likely have little or no additional effect on U.S. imports from Korea or total domestic production. For this reason, it is difficult to predict what Korean firms' market share would be if they entered the light or medium/heavy truck markets. Therefore, the Commission considers two different market shares, should Korean firms enter the U.S. truck market. The lower market share is equivalent to the average market share that other foreign truck producers hold. In 2017, comparable foreign firms held, on average per firm, 4.0 percent of the U.S. truck market.<sup>29</sup> This analysis assumes that Korean firms would be as successful in entering the U.S. truck market as the average incumbent foreign firm has been. The higher market share is equivalent to the combined Korean share of the U.S. non-truck vehicle market. In 2017, this was 9.0 percent.

The third input is an estimate of the share of the Korean brands' sales that would be supplied to the U.S. market from Korean exports rather than transplanted production. This is designated  $E$  in equation (1). The methodology uses the share of these companies' passenger vehicle sales as a proxy, since there are few to no Korean trucks currently supplied to the U.S. market.

The probable effect of the proposed modifications is to avoid an increase in U.S. imports of approximately  $(M * S * E)$  vehicles from Korea each year. In other words, the effect is to reduce imports under the proposed modifications by  $(M * S * E)$  vehicles relative to imports under KORUS as currently in effect.

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<sup>29</sup> WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4. The foreign companies included in the average are Toyota, Nissan, Honda, and Isuzu, which each held between approximately 1 percent and 8 percent of the truck market in 2017. Note that these firms did not have an option of exporting from their production outside of North America without being subject to a 25 percent tariff.



The fourth input is an estimate of the share of the U.S. truck market that is supplied from domestic production, defined as production in the United States either from U.S. companies or from U.S.-based foreign transplants. In equation (2), the share of the U.S. truck market supplied by domestic production (which includes both U.S. firms and transplant firms) is  $D$ :

$$(2) \text{ Displacement in U.S. Production of Trucks} = \left[ \begin{array}{c} \text{Change in U.S.} \\ \text{Imports of Trucks} \\ \text{from Korea} \end{array} \right] * \left[ \begin{array}{c} \text{Share of U.S. Trucks} \\ \text{Market Supplied} \\ \text{Domestically (D)} \end{array} \right]$$

The second probable effect of the proposed modifications is to avoid a displacement or reduction in U.S. production of approximately  $(M * S * E * D)$  vehicles each year. In other words, the effect is to increase domestic production under the proposed modifications by  $(M * S * E * D)$  relative to domestic production under KORUS as currently in effect.

The reasoning behind equation (2) is as follows. If, for example, 100 percent of the trucks sold in the United States were produced domestically, because of the assumption that overall U.S. market size is unaffected, an increase of 100,000 vehicles imported from Korea would result in a one-for-one decrease of 100,000 vehicles produced domestically. If 25 percent of trucks sold were produced domestically, an increase of 100,000 vehicles imported from Korea would reduce domestic production by 25,000 and reduce U.S. imports from countries other than Korea by 75,000.

In these calculations, the report assumes that all Korean transplant production of trucks would occur in the United States, rather than in Mexico or Canada, even though trucks produced in either country could be shipped to the United States duty free under NAFTA. The fact that most of Hyundai and Kia's North American transplant production of passenger vehicles is located in the United States supports this assumption. If this were not the case, then the avoided displacement in domestic production due to KORUS modifications would be smaller.

## The Light Truck Market and Industry<sup>30</sup>

Light trucks are vehicles weighing 5 mt or less that are designed for the transport of goods—essentially, pickup trucks and work vans. These vehicles tend to be produced by the same companies that produce cars and SUVs and are purchased as both business and personal vehicles.

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<sup>30</sup> The HTS subheadings involved are 8704.21 and 8704.31. These two subheadings cover vehicles for the transport of goods with a GVW less than or equal to 5 mt.

## The U.S. Light Truck Market and Industry

The U.S. market and industry for light trucks is predominantly made up of domestic production and products supplied by trade with Canada and Mexico due to the integration of the North American motor vehicle industry and supply chains since the signing of NAFTA. Top U.S. producers of light trucks include Fiat Chrysler Automobiles (FCA), Ford, and General Motors (GM). Top foreign producers operating in the U.S. light truck market include Honda, Nissan, and Toyota.<sup>31</sup> The total U.S. light truck market, measured in unit sales, increased from 2.9 million vehicles in 2015 to 3.2 million vehicles in 2017,<sup>32</sup> while domestic production increased from 2.5 million vehicles to 2.8 million vehicles over the same span (table 2.2). Light trucks make up 18.6 percent of the total vehicle market and have a higher profit margin than passenger cars.<sup>33</sup> U.S. companies supply the majority of U.S. production (83.0 percent), and U.S. production by Korean firms in the United States is zero. In the case of light trucks, the large increase in production by other foreign companies from 2015 to 2016 is due to Honda restarting production of its Ridgeline vehicle in Lincoln, Alabama, as well as increased production of the Nissan Frontier truck at Nissan's plant in Canton, Mississippi.<sup>34</sup> Driven by consistently low oil and gasoline prices,<sup>35</sup> high consumer confidence,<sup>36</sup> favorable economic conditions (both decreasing unemployment and increasing wage growth), and a growing luxury market,<sup>37</sup> U.S. light vehicle sales have risen for seven consecutive years, the longest such trend since 1917.<sup>38</sup> Foreign-brand light truck sales in the U.S. totaled 547,896 units in 2017, representing 17.2 percent of all light truck sales.<sup>39</sup>

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<sup>31</sup> WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4; Binder, *Ward's Automotive Yearbook 2017*, 2017, 10.

<sup>32</sup> Binder, *Ward's Automotive Yearbook 2017*, 2017, 189; WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4.

<sup>33</sup> Binder, *Ward's Automotive Yearbook 2017*, 2017, 205; WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4; industry representative, confidential submission to USITC, May 4, 2018; Carey, "GM, Rivals Chase Luxury Pickups' Fat Margins," March 1, 2018.

<sup>34</sup> Honda temporarily stopped production of the Ridgeline for 2014 and 2015. Sturgis, "Honda Ridgeline," October 21, 2016; WardsAuto, "North America Vehicle Production by State and Plant," 2018.

<sup>35</sup> USEIA, "Petroleum and Other Liquids" (accessed April 5, 2018).

<sup>36</sup> The OECD consumer confidence index measures households' plans for major purchases given their economic situation. For more information, see <https://data.oecd.org/leadind/consumer-confidence-index-cci.htm>.

<sup>37</sup> Boudette, "More Luxury Buyers Ditch the Imports," February 15, 2018.

<sup>38</sup> U.S. light vehicles are all motor vehicles excluding medium/heavy trucks. Chen and Dziczek, "Auto's Unprecedented Times," June 12, 2017.

<sup>39</sup> Binder, *Ward's Automotive Yearbook 2017*, 2017, 189.

**Table 2.2** U.S. light truck market, production, and trade, 2015–17, number of vehicles

Light truck market flows	2015	2016	2017	CAGR (%)
U.S. light truck market <sup>a</sup>	2,894,735	3,083,024	3,190,529	4.9
U.S. light truck production	2,510,115	2,784,862	2,844,292	6.4
U.S.-headquartered firms	2,179,766	2,322,753	2,358,903	4.0
Transplant firms (non-Korean)	330,349	462,109	485,389	21.2
Korean transplant firms	0	0	0	( <sup>b</sup> )
U.S. light truck imports	754,409	843,578	832,555	5.1
U.S. light truck exports	347,433	389,081	420,926	10.1

Source: WardsAuto, “North American Vehicle Production by State and Plant,” 2018; Binder, *Ward’s Automotive Yearbook 2017*, 88–89; WardsAuto, “U.S. Light Vehicle Sales by Segment,” 2016–18; USITC DataWeb/USDOC (HTS subheadings 8704.21 and 8704.31; accessed May 11, 2018).

<sup>a</sup> Total light truck market numbers are not derived from the subsequent production, export, and import rows; differences are due to changes in inventories.

<sup>b</sup> CAGR not provided because the 2015, 2016, and 2017 values were zero.

The other major component of the U.S. light truck market is U.S. imports. U.S. light truck imports grew from \$15.8 billion in 2015 to \$18.3 billion in 2017 (table 2.3). Shipments from Mexico accounted for nearly all U.S. light truck imports in 2017, followed by shipments from Spain and Canada. U.S. light truck exports also grew during 2015–17, from \$8.7 billion in 2015 to \$11.2 billion in 2017. The majority of 2017 exports were to Canada (\$9.5 billion) and Mexico (\$568 million).<sup>40</sup>

**Table 2.3** Value of U.S. general imports of light trucks (million \$)

Country	2015	2016	2017	CAGR (%)
Mexico	15,059	17,797	17,872	8.9
Spain	613	436	407	- 18.5
Canada	83	51	33	- 37.3
Korea	0	0	( <sup>a</sup> )	( <sup>b</sup> )
Rest of world	18	16	34	37.1
Total	15,774	18,300	18,346	7.8

Source: USITC DataWeb/USDOC (HTS subheadings 8704.21 and 8704.31; accessed April 19, 2018).

Note: Because of rounding, figures may not add up to totals shown.

<sup>a</sup> Denotes a value of less than \$500,000.

<sup>b</sup> CAGR not provided because the 2016 and 2017 values were zero.

## The Korean Light Truck Industry and Production

Korea was the world’s sixth-largest manufacturer of vehicles (buses, light trucks, medium/heavy trucks, passenger cars, SUVs, and vans) in 2017, with over 4.1 million vehicles produced in 2017 (table 2.4).<sup>41</sup> The leading vehicle producer was Hyundai Motor Group, whose two companies (Hyundai and Kia) produced over 3.1 million vehicles in 2016.<sup>42</sup> Hyundai Motor Group was

<sup>40</sup> USITC DataWeb/USDOC (HTS subheadings 8704.21 and 8704.31; accessed April 19, 2018).

<sup>41</sup> OICA, “2017 Production Statistics: By Country” (accessed April 20, 2018).

<sup>42</sup> Refer to footnote 15 for a description of Hyundai Motor Group.

followed by GM Daewoo, with over 570,000 units, and by Korea’s two other manufacturers, Samsung and SsangYong, with less than 250,000 units each.<sup>43</sup>

**Table 2.4** Korean vehicle production and trade, 2013–17, number of vehicles

	2013	2014	2015	2016	2017
Vehicle production	4,521,429	4,524,932	4,555,957	4,228,509	4,114,913
LCV production	360,796	287,952	308,872	272,515	279,421
Light truck exports	188,322	167,328	152,173	146,331	162,264
Exports to U.S.	9	3	0	25	23

Sources: OICA, “2017 Production Statistics: By Country,” (accessed April 20, 2018); IHS Markit, Global Trade Atlas database (accessed April 26, 2018).

Note: LCV = light commercial vehicle.

Korea has limited light truck production, ranking 12th globally as a producer of light commercial vehicles (LCVs)—essentially pickup trucks and work vans—in 2017.<sup>44</sup> Korean production of LCVs decreased from over 360,796 to 279,421 vehicles between 2013 and 2017 with exports falling commensurately from 188,322 to 162,264 units.<sup>45</sup> Korean light truck exports were primarily diesel pickup trucks that were exported to developing markets in Asia and South America.<sup>46</sup> No Korean companies currently export light trucks to the United States. Two companies have expressed interest in selling light trucks in the United States: Hyundai Motor Group and SsangYong. Hyundai Motor Group has shown a concept pickup truck at automotive shows, and Hyundai’s U.S. vice president of corporate and product planning stated that a pickup truck for the U.S. market has been approved for 2020 or 2021.<sup>47</sup> Hyundai Motor Group has not yet announced where it plans to produce such a vehicle. In 2016, SsangYong’s chief executive stated that SsangYong plans to sell vehicles in the United States as early as 2019.<sup>48</sup> Since that statement however, no information shows movement toward SsangYong’s entry into the U.S. market. Information on these potential light truck exporters is presented in table 2.5.

<sup>43</sup> Light vehicle manufacturers are likely capable of producing pickup trucks, which is why their total light vehicle production is listed. Binder, *Ward’s Automotive Yearbook 2017*, 2017, 42.

<sup>44</sup> OICA, “2017 Production Statistics: By Country,” (accessed April 20, 2018). Light commercial vehicles (LCVs) are defined by OICA as motor vehicles that have at least four wheels and are used for the carriage of goods. They are roughly comparable to the pickup trucks and work vans discussed in this section of the report. Mass, given in mt, is used as a limit defining the difference between LCVs and heavy trucks. This limit depends on national and professional definitions and varies between 3.5 and 7 mt.

<sup>45</sup> IHS Markit, World Trade Atlas database (accessed April 26, 2018), HS 8704.21 and HS 8704.31.

<sup>46</sup> Ibid.

<sup>47</sup> Lienert and Jin, “Hyundai Will Launch Pickup, More SUVs,” August 22, 2017.

<sup>48</sup> Reuters, “Ssangyong Motor Targets U.S. Entry,” March 6, 2016.

**Table 2.5** Korean light truck exporters<sup>a</sup>

Company	2017 revenues (billion \$)	No. of vehicles produced in Korea, 2017	No. of light trucks produced in Korea, 2016 <sup>b</sup>
Hyundai Motor Group	96.4 <sup>c</sup>	3,171,177	78,960
SsangYong	3.5 <sup>c</sup>	155,600	34,211

Sources: Automotive World, Global Vehicle Assembly Plant Database, 2017; Automotive World, Light Vehicle Production by Group, Region, Brand, Model 2015–16, 2017; Morningstar, Hyundai Motor Company and Its Subsidiaries, March 2, 2018; SsangYong Motor Company, *SsangYong Motor Company: The 56th Annual Report*, December 31, 2017.

<sup>a</sup> The two companies listed are the only two that have expressed interest in exporting a light truck to the United States.

<sup>b</sup> Used most recent year available (2016).

<sup>c</sup> Used currency conversion rate offered by Federal Reserve from Korean won to dollars on December 29, 2017, the last rate of the fiscal year.

Hyundai Motor Group already sells millions of vehicles per year in the United States, but does not currently produce a light truck of a type likely to be purchased in the United States.<sup>49</sup> Rather, Hyundai Motor Group produces a cabover pickup truck (i.e., one in which the cab is positioned over the engine), which is not a popular configuration in the United States.<sup>50</sup> If the tariff on light trucks from Korea is extended until 2041 before being eliminated, and given that companies often prefer to build in close proximity to the market where their vehicles are sold, the Commission considers it likely that Hyundai would produce such a vehicle at one of its existing plants in Mexico or the United States, as is the case with most other light truck production for the U.S. market.<sup>51</sup>

SsangYong produces vehicles in Korea and Russia.<sup>52</sup> This firm produced over 34,000 small pickup trucks in Korea in 2016.<sup>53</sup> SsangYong produces a small diesel light truck, the Korando Sport, and exports it, but does not currently sell any vehicles in the United States.<sup>54</sup> The Korando Sport has a smaller engine than any pickup truck currently sold in the United States and is about a foot shorter.<sup>55</sup> Due to its use of a diesel engine and size, this truck would be classified under HS 8704.21, one of the six tariff subheadings covered by the proposed modifications. SsangYong released a new pickup truck in 2018 for sale in Korea and global markets, the Musso, which has a slightly larger engine but is roughly the same size as the

<sup>49</sup> Binder, *Ward's Automotive Yearbook 2017*, 2017, 205; Automotive World, Global Vehicle Assembly Plant Database, 2017.

<sup>50</sup> While cabovers are more maneuverable than other trucks, they tend to be noisier less safe, and less comfortable. For more information see Smart-Trucking, "The Ups and Downs of Cabover Trucks," December 18, 2017.

<sup>51</sup> Some work vans are produced in Europe, but all of the pickup trucks sold in the U.S. market are produced in the United States or Mexico. WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4; Binder, *Ward's Automotive Yearbook 2017*, 2017, 10.

<sup>52</sup> Vorotnikov, "Sollers Plans to Relaunch Assembly of SsangYong Vehicles in Russia," September 26, 2017.

<sup>53</sup> Automotive World, *Global Vehicle Assembly Plant Database*, 2017.

<sup>54</sup> Industry representative, telephone interview by USITC staff, April 13, 2018.

<sup>55</sup> Honda Motor Company, "Honda 2019 Ridgeline" (accessed April 19, 2018); Toyota, "2018 Tacoma Full Specs" (accessed April 19, 2018); Chevrolet, "Chevrolet Colorado 2018: Compare Trims" (accessed April 19, 2018).

Korando Sport.<sup>56</sup> Diesel vehicles are less popular in the United States, making up only 3.3 percent of U.S. light vehicle sales for model year 2016.<sup>57</sup>

## Data for Calculations

The Commission used 2017 data for the U.S. light truck market in making its estimations of the effect of the proposed modifications (table 2.6). In the case of light trucks, the market size (*M*) was 3,190,529 vehicles.<sup>58</sup> For estimates of potential market share (*S*), this report uses three possible shares: zero; the average share of four other foreign companies that operate in the U.S. market, which was 4.0 percent in 2017; and Korean firms' share of the U.S. non-truck vehicle market, which was 9.0 percent in 2017.<sup>59</sup> Based on Hyundai and Kia's combined share of U.S. passenger vehicles supplied from Korean production, Korean firms supplied 45.7 percent (*E*) of their passenger vehicle sales in the United States via exports from Korea in 2017.<sup>60</sup> The share of the U.S. light truck market supplied by U.S. domestic production (*D*) was 76.0 percent.<sup>61</sup>

**Table 2.6** 2017 light truck data used in Commission analysis

Data Inputs	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
U.S. light truck market (vehicles, <i>M</i> )	3,190,529	3,190,529	3,190,529	3,190,529	3,190,529
Share of the U.S. truck market captured by Korean firms ( <i>S</i> ) <sup>a</sup>	0.0%	4.0%	4.0%	9.0%	4.0%
Share of Korean passenger vehicle sales to U.S. via exports ( <i>E</i> ) <sup>b</sup>	0.0%	0.0%	45.7%	45.7%	100.0%
Share of U.S. truck market supplied by domestic firms ( <i>D</i> )	76.0%	76.0%	76.0%	76.0%	76.0%

Sources: Binder, *Ward's Automotive Yearbook 2017*, 2017, 189; USITC DataWeb/USDOC (HTS subheadings 8704.21 and 8704.31; accessed April 19, 2018).

<sup>a</sup> The Korean share of the U.S. market for scenarios 2, 3, and 5 is 4.0 percent, which is the average market share of comparable foreign firms that operate in the U.S. truck market. The Korean share of the U.S. market for scenario 4 is 9.0 percent, which is equal to Hyundai and Kia's combined market share of the U.S. passenger vehicle market, excluding trucks.

<sup>b</sup> The share of Korean trucks provided to the U.S. market from Korean exports (versus transplant production) for scenarios 3 and 4 is 45.7 percent, which is the share of Korean passenger vehicle sales currently provided to the U.S. market from Korean exports, since there are few to no Korean trucks currently supplied to the U.S. market.

## Probable Economic Effect Estimates

Table 2.7 summarizes the Commission's estimates of the probable economic effect on U.S. imports and on U.S. domestic producers of the proposed modifications to the U.S. light truck

<sup>56</sup> Hubbard, "New SsangYong Musso Pickup for 2018," March 6, 2018.

<sup>57</sup> Binder, *Ward's Automotive Yearbook 2017*, 2017, 183.

<sup>58</sup> WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4.

<sup>59</sup> Ibid. The foreign companies included in the average are Toyota, Nissan, Honda, and Isuzu.

<sup>60</sup> USITC DataWeb/USDOC; IHS Markit, World Trade Atlas database (accessed April 26, 2018).

<sup>61</sup> USITC calculation based on available trade data and WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4.

market based on five potential scenarios. The table has three columns of data. The first column presents the baseline (2017) data. The second column gives the estimated level of change, and the third column lists the percent changes. The results data are rounded to the nearest thousand units.

**Table 2.7** Avoided changes to U.S. imports and production of light trucks under proposed modifications

Result	Actual 2017 data (units)	Estimated change (units)	Estimated percentage change
<b>Scenario 1: Korean firms do not enter U.S. market</b>			
Avoided U.S. imports of light trucks	832,555	No effect	No effect
Avoided U.S. production of light trucks	2,844,292	No effect	No effect
<b>Scenario 2: Korean firms enter U.S. market exclusively by transplant U.S. production<sup>a</sup></b>			
Avoided U.S. imports of light trucks	832,555	No effect	No effect
Avoided U.S. production of light trucks	2,844,292	Little or no effect <sup>b</sup>	Little or no effect <sup>b</sup>
<b>Scenario 3: Korean firms enter U.S. market by exporting from Korea and transplant U.S. production<sup>a</sup></b>			
Avoided U.S. imports of light trucks	832,555	59,000	7.1
Avoided U.S. production of light trucks	2,844,292	- 45,000	- 1.6
<b>Scenario 4: Same as scenario 3 but assuming Korean firms gain higher market share<sup>c</sup></b>			
Avoided U.S. imports of light trucks	832,555	131,000	15.7
Avoided U.S. production of light trucks	2,844,292	- 99,000	- 3.5
<b>Scenario 5: Korean firms enter the U.S. market by exporting exclusively from Korea<sup>a</sup></b>			
Avoided U.S. imports of light trucks	832,555	129,000	15.5
Avoided U.S. production of light trucks	2,844,292	- 98,000	- 3.4

Source: USITC DataWeb/USDOC (accessed on April 19, 2018); IHS Markit, World Trade Atlas database (accessed April 26, 2018); USITC calculations.

<sup>a</sup> The Korean share of the U.S. market for scenarios 2, 3, and 5 is 4.0 percent, which is the average market share of comparable foreign firms that operate in the U.S. truck market.

<sup>b</sup> The Commission believes that the effects of Korean firms entering the U.S. market by exclusively transplant production would have little to no effect on total domestic production, unless Korean vehicles produced in the United States were to primarily displace imports from Mexico instead of other domestically produced vehicles.

<sup>c</sup> The Korean share of the U.S. market for scenario 4 is 9.0 percent, which is equal to Hyundai and Kia's combined market share of the U.S. passenger vehicle market, excluding trucks.

The Commission believes that scenario 3 is the most likely probable economic effect scenario under the proposed modifications. In scenario 3,  $S = 4.0$  percent and  $E = 45.7$  percent, i.e., Korean firms enter U.S. market by exporting from Korea and transplant production. In this scenario, Korean producers immediately gain a share of the U.S. light truck market equal to the average share of comparable foreign firms operating in the U.S. truck market as discussed previously. The analysis calculates an estimated annual avoided increase in imports of approximately 59,000 light trucks. In other words, 59,000 fewer light trucks would be imported each year under the proposed modifications than after tariff elimination under KORUS as currently in effect. This result is in line with discussions with some industry representatives, who generally believed that a Korean light truck would compete only in the smaller pickup

portion of the light truck market.<sup>62</sup> The Detroit Three (FCA, Ford, and GM) dominate the larger pickup portion of the light truck market, supplying 93 percent of large pickup truck sales: their consumers tend to have strong brand loyalty and would be unlikely to switch to a smaller, less familiar brand in large quantities.<sup>63</sup>

Korean production and export of vehicles can be used to examine the feasibility of the estimated change in imported trucks from Korea. In 2017, Korea's total LCV production was 279,421 vehicles,<sup>64</sup> and total Korean exports of light trucks were 162,264 vehicles.<sup>65</sup> In this case, Korea's existing production and exports of these vehicles leave room for their diversion to the U.S. market to supply an import expansion as large as the estimates. Finally, the Commission estimates that under scenario 3 there would be an avoided displacement of domestically produced vehicles under the proposed modifications. The estimated annual displacement under the proposed modifications is roughly 45,000 domestically produced light trucks. In other words, there would be 45,000 more light trucks produced each year in the United States under the proposed modifications than under KORUS as currently in effect.<sup>66</sup>

It is possible for a Korean light truck manufacturer to supply light trucks from an existing plant in Korea or from transplant production in the United States, Canada, or Mexico. Based on published reports of the capacity of Hyundai and Kia's three North American plants (one Hyundai plant in Alabama, a Kia plant in Georgia, and a Kia plant in Mexico), Hyundai would appear to be able to supply the U.S. light truck market with unused capacity from North America.<sup>67</sup> If a different Korean company that did not have an assembly plant in North America were to enter the U.S. light truck market (e.g., SsangYong), then it would likely initially supply the U.S. market with light trucks from an existing plant in Korea, instead of investing in a new plant in the United States or Mexico.

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<sup>62</sup> Industry representative, telephone interview by USITC staff, April 13, 2018; industry representative, telephone interview by USITC staff, April 27, 2018. Large pickup trucks make up nearly 72 percent of the U.S. light truck market (2.3 million units), while small pickup trucks make up only 14 percent (450,000 units). Hyundai, "Manufacturing Alabama Reaches Production Milestone In Celebration of the 3 Millionth Alabama-Built Hyundai," June 30, 2015; Kia, "Kia Motors Manufacturing Georgia Produces One Millionth Sorento in the U.S.," May 2, 2017; Kia, "Kia Officially Opens Mexico Production Facility," September 8, 2016; WardsAuto, "North American Vehicle Production Summary," January 22, 2018, 8.

<sup>63</sup> WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4; industry representative, telephone interview by USITC staff, April 13, 2018.

<sup>64</sup> OICA, "2017 Production Statistics: By Country," (accessed April 20, 2018).

<sup>65</sup> IHS Markit, World Trade Atlas database (accessed April 26, 2018).

<sup>66</sup> Hyundai and Kia's three plants in North America have a combined capacity of 1.16 million units, and produced roughly 840,000 units in 2017. Binder, *Ward's Automotive Yearbook 2017*, 2017, 90–91, 96–97; WardsAuto, "North American Vehicle Production Summary," January 22, 2018, 8.

<sup>67</sup> Binder, *Ward's Automotive Yearbook 2017*, "North American Production," 2017, 88–89; Priddle, "2019 Hyundai Santa Cruz Almost Ready," August 18, 2016.



The Commission also estimated the potential effect of the proposed modifications under various other scenarios that it believes are less likely. In scenario 1,  $S = 0$  and  $E = 0$ , i.e., no Korean producers sell light trucks in the U.S. market. In this scenario, Korean producers choose not to enter the U.S. light truck market. Although both SsangYong and Hyundai have announced their intent to sell a light truck in the United States, they could choose not to do so (even with tariffs removed) because of the competitive nature of the U.S. light truck market and the differences between the light trucks they currently produce and those sold in the United States. The U.S. light truck market is the largest such market in the world, but over 80 percent of the market is accounted for by the Detroit Three.<sup>68</sup> Also, U.S. light trucks tend to be larger and more expensive than those sold in other markets.<sup>69</sup> Further, U.S. consumers have a greater tendency to use light trucks as personal vehicles, paying for more features than are typically offered in light trucks in other parts of the world.<sup>70</sup>

Hyundai would appear more likely to enter the market than SsangYong, because they have already completed a concept light truck, have shown it at automotive shows, and have a successful U.S. dealer network in the United States for selling cars, SUVs, and minivans.<sup>71</sup> SsangYong has a small diesel light truck that is similar in body style to those in the United States, but lacks a dealer network for selling light trucks in the United States. Further, SsangYong chose to invest in production in China and Russia in 2016 and 2017, which may be part of a plan to focus on the Asian market instead of the United States.<sup>72</sup>

In scenario 2,  $S = 4.0$  percent and  $E = 0$ , i.e., Korean firms enter U.S. market exclusively by U.S. transplant production. In this scenario, Korean producers only supply the U.S. light truck market using production capacity in North America. The vast majority of light trucks sold in the U.S. light truck market in 2017 were produced in North America.<sup>73</sup> The 25 percent tariff on imports of vehicles for the transport of goods likely plays a significant role in reducing the competitiveness of light trucks produced outside of North America. However, the relative uniqueness of the U.S. light truck market (as described in scenario 1), could play a significant role in reducing the competitiveness of light trucks designed for other markets from competing in the U.S. light truck market. Those foreign manufacturers producing light trucks for the U.S. market tend to design a unique truck for that market and build it in North America.<sup>74</sup>

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<sup>68</sup> WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4.

<sup>69</sup> Carey, "GM, Rivals Chase Luxury Pickups' Fat Margins," March 1, 2018.

<sup>70</sup> Ibid.

<sup>71</sup> Priddle, "2019 Hyundai Santa Cruz Almost Ready," August 18, 2016.

<sup>72</sup> Vorotnikov, "Sollers Plans to Relaunch Assembly of SsangYong Vehicles," September 26, 2017.

<sup>73</sup> WardsAuto, "Lt.-Vehicle Sales Segmentation—4th Quarter 2017," January 15, 2018, 4.

<sup>74</sup> This is particularly true of pickup trucks. For example, Toyota used to produce a "global" pickup truck (the Toyota Truck), but since the introduction of the Tacoma has produced Tacomas (and later Tundras) for the U.S. light truck market and Toyota Hiluxes in Thailand for other markets.

While SsangYong does not have any assembly plants in North America, Hyundai and Kia have a total of three plants—two in the Southeastern United States, and one in Mexico.<sup>75</sup> The plant in Mexico only produces small cars, but the plants in the Southeastern United States produce larger cars and SUVs. It appears that these plants would have the ability to produce up to 276,000 units of light trucks without the need to increase capacity (assuming these light trucks could be produced on the same line as the vehicles produced in those plants).<sup>76</sup>

In scenario 4,  $S = 9.0$  percent and  $E = 45.7$  percent, i.e., Korean firms enter U.S. market by exporting from Korea and transplant production and obtain a higher market share. In this scenario, Korean producers immediately gain the share of the light truck market equal to their combined passenger car and SUV market share. This assumes that Korean producers (specifically Hyundai and Kia) would be as competitive in the light truck market as they are in the passenger car and SUV market. Any light truck sold by Hyundai or Kia in the United States would have name recognition based on Hyundai or Kia's reputation in the United States and would be sold through Hyundai or Kia's existing dealer network. Some industry analysts and representatives note that U.S. consumers tend to be relatively loyal to a specific light truck brand and could be less likely to switch to a new entrant than U.S. consumers who purchase cars or SUVs.<sup>77</sup>

In scenario 5,  $S = 4.0$  percent and  $E = 100$  percent, i.e., Korean firms enter the U.S. market by exclusively exporting from Korea. In this scenario, Korean producers supply the U.S. light truck market with vehicles only produced in Korea. As stated elsewhere in the report, Hyundai and SsangYong appear to have the capacity to produce such trucks in Korea to supply the U.S. light truck market. In this scenario, Korean producers may choose to continue to use their North American production capacity to produce other vehicles for the United States, or may choose to consolidate global Korean production of light trucks for efficiency reasons or to also supply other markets from Korea. It is also possible that Korean producers would rather produce all of their trucks in Korea (even though the models for the United States would be distinct from those produced for other markets) instead of producing them on the same lines used to produce cars and SUVs in the United States.

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<sup>75</sup> Binder, *Ward's Automotive Yearbook 2017*, 2017, 13–14.

<sup>76</sup> Hyundai and Kia's three plants in North America have a combined capacity of 1.16 million units, and produced roughly 840,000 units in 2017. Hyundai, "Manufacturing Alabama Reaches Production Milestone In Celebration of the 3 Millionth Alabama-Built Hyundai," June 30, 2015; Kia, "Kia Motors Manufacturing Georgia Produces One Millionth Sorento in the U.S.," May 2, 2017; Kia, "Kia Officially Opens Mexico Production Facility," September 8, 2016; WardsAuto, "North American Vehicle Production Summary," January 22, 2018, 8.

<sup>77</sup> Hsu, "U.S. Loves Big Pickup Trucks," August 5, 2016; industry representative, telephone interview by USITC staff, April 24, 2018; Bomey and Woodyard. "Ford, Chevy and Ram Unveil New Pickups," January 18, 2018.

## The Medium and Heavy Truck Market and Industry<sup>78</sup>

Medium/heavy trucks are vehicles weighing over 5 mt that are designed for the transport of goods. These vehicles tend to be purchased for work purposes only.

### The U.S. Medium and Heavy Truck Market and Industry

The U.S. market and industry for medium/heavy trucks is also predominantly made up of domestic production and trade with Canada and Mexico. Canada and Mexico are the top import and export partners by value and number of vehicles. The total U.S. medium/heavy truck market, measured in sales, decreased from 449,333 vehicles in 2015 to 415,042 vehicles in 2017, and domestic production decreased from 306,865 in 2015 to 266,200 in 2017, for a compound annual growth rate (CAGR) of negative 6.7 percent.<sup>79</sup> Medium/heavy trucks make up 2.4 percent of the total vehicle market in the United States.<sup>80</sup> U.S.-headquartered companies supply the majority of U.S. production (55.1 percent), and U.S. production by Korean firms in the United States is zero (table 2.8).<sup>81</sup> Foreign-brand sales of these vehicles in the United States totaled 195,488 units in 2017, representing 47.1 percent of medium/heavy truck sales.<sup>82</sup> Following the 2015–16 period, in which demand for freight services was flat and medium and heavy truck manufacturers reduced their workforce, 2017 U.S. sales of class 8 trucks<sup>83</sup> increased 59 percent, driven by demand from the construction, housing, and infrastructure markets for freight services.<sup>84</sup>

<sup>78</sup> HTS subheadings 8704.22.50, 8704.23, 8704.32, and 8704.90. The vehicles in these four subheadings are vehicles for the transport of goods with a GWV of more than 5 mt.

<sup>79</sup> Production numbers have been adjusted to remove chassis production because the tariffs applicable to trade in chassis are not included in the modification to the tariff schedule. Binder, *Ward's Automotive Yearbook 2017*, 2017, 89, 206; WardsAuto, "North American Vehicle Production by State and Plant," 2018; WardsAuto, "U.S. Truck Sales by GVW Class by Month," 2017–18.

<sup>80</sup> WardsAuto, "U.S. Truck Sales by Weight Class," January 15, 2018, 2.

<sup>81</sup> The top three U.S.-headquartered manufacturers are Ford, PACCAR, and Navistar. WardsAuto, "North American Vehicle Production by State and Plant," 2018.

<sup>82</sup> The top three foreign-headquartered manufacturers are Daimler, Volvo, and Isuzu. WardsAuto, "North American Vehicle Production by State and Plant," 2018.

<sup>83</sup> Defined by the Federal Highway Administration as any truck exceeding 33,001 lbs. A common example of a class 8 truck would be a semitrailer truck. For more information see USDOE, Alternative Fuels Data Center, "Vehicle Weight Classes and Categories."

<sup>84</sup> Hawes, "Heavy Duty Truck Orders Surge in 2017," January 10, 2018.

**Table 2.8** U.S. medium/heavy truck market, production, and trade, 2015–17, number of vehicles

Medium/heavy truck market flows	2015	2016	2017	CAGR (%)
U.S. medium/heavy truck market <sup>a</sup>	449,333	400,996	415,042	- 3.9
U.S. medium/heavy truck production	305,865	245,450	266,200	- 6.7
U.S.-headquartered firms	147,782	136,236	146,547	- 0.4
Transplant firms (non-Korean)	158,053	109,214	119,653	- 13.0
Korean transplant firms	0	0	0	( <sup>c</sup> )
U.S. medium/heavy truck imports	62,985	64,584	72,134	7.0
U.S. medium/heavy truck exports <sup>b</sup>	59,217	60,474	66,114	5.7

Source: WardsAuto, “North American Vehicle Production by State and Plant,” 2018; Binder, *Ward’s Automotive Yearbook 2017*, 2017, 167–170; WardsAuto, “U.S. Truck Sales by GVW Class by Month,” 2015–18; USITC DataWeb/USDOC (HTS subheadings 8704.22.50; 8704.23; 8704.32; 8704.90; accessed May 11, 2018).

<sup>a</sup> Total medium/heavy truck market numbers are not derived from the subsequent production, export, and import rows; differences are due to changes in inventories and the inclusion of 8704.22.10 in the export numbers.

<sup>b</sup> U.S. export statistics do not include 8704.22.50 because that code was not available in the Schedule B export schedule; 8704.22 has been included instead. For 2017, U.S. imports of 8704.22.50 comprised 31.7 percent of total imports under 8704.22.

<sup>c</sup> CAGR not provided because the 2015, 2016, and 2017 values were zero.

The other major component of the medium/heavy truck market is U.S. imports. U.S. imports of medium/heavy trucks grew from \$2.9 billion in 2015 to \$3.4 billion in 2017 (table 2.9). The majority of U.S. imports of medium/heavy trucks were shipped from Mexico (81.0 percent), distantly followed by shipments from Canada (18.7 percent). U.S. exports of medium/heavy trucks also increased substantially between 2015 and 2017, from \$2.3 billion in 2015 to \$3.0 billion in 2017. The majority of exports were to Canada (\$2.4 billion) and Mexico (\$141 million).<sup>85</sup>

**Table 2.9** Value of U.S. general imports of medium/heavy trucks (million \$)

Country	2015	2016	2017	CAGR (%)
Mexico	2,329	2,352	2,754	8.7
Canada	571	518	634	5.4
Korea	( <sup>a</sup> )	0	0	( <sup>b</sup> )
Rest of world	32	36	12	- 38.8
Total	2,932	2,906	3,400	7.7

Source: USITC DataWeb/USDOC (HTS subheadings 8704.22.50; 8704.23; 8704.32; 8704.90; accessed April 19, 2018).

Note: Because of rounding, figures may not add up to totals shown.

<sup>a</sup> Denotes a value of less than \$500,000.

<sup>b</sup> CAGR not provided because the value was zero in various years.

## The Korean Medium/Heavy Truck Industry and Production

Korea also has limited medium/heavy truck production and such vehicles are not typically traded in significant volumes. Korean production of heavy trucks<sup>86</sup> decreased from 88,136 in 2013 to 85,331 vehicles in 2017, though exports of medium/heavy trucks decreased slightly

<sup>85</sup> USITC DataWeb/USDOC (HTS subheadings 8704.22.50; 8704.23; 8704.32; 8704.90; accessed April 19, 2018).

<sup>86</sup> OICA, “2017 Production Statistics: By Country” (accessed April 20, 2018). Heavy trucks are vehicles intended for the carriage of goods. Maximum authorized mass is over the limit (ranging from 3.5 to 7 mt.) set for LCVs. They include tractor vehicles designed for towing semitrailers. Production data for medium trucks is not available.

from 20,993 to 19,788 units over the same period of time (table 2.10).<sup>87</sup> Most of the exports were diesel trucks weighing between 5 and 20 mt.

**Table 2.10** Korean vehicle production and trade, 2013–17, number of vehicles

	2013	2014	2015	2016	2017
Heavy truck production	88,136	95,560	94,029	79,235	85,331
Medium/heavy truck exports	20,993	27,737	21,820	22,093	19,788
Exports to U.S.	16	11	5	14	3

Sources: OICA, “2017 Production Statistics: By Country,” (accessed April 20, 2018); IHS Markit, Global Trade Atlas database (accessed April 26, 2018).

Two companies, Hyundai Motor Group and Tata Daewoo Commercial Vehicle Company (Tata Daewoo), produce medium/heavy trucks in Korea (table 2.11).<sup>88</sup> Like the Korean light trucks mentioned in the previous section, Tata Daewoo and Hyundai’s medium/heavy trucks tend to be of the cabover variety (with the vehicle’s cab positioned over the engine), which are not as popular in the United States. Developing countries in Asia were the primary export destinations for Korean medium/heavy trucks.<sup>89</sup> Tata Daewoo produces buses in addition to medium/heavy trucks. Medium/heavy trucks made up less than half of Tata Daewoo’s vehicle production in 2016.<sup>90</sup> Hyundai Motor Group is primarily known for producing passenger vehicles, but also produces some larger vehicles. While Hyundai Motor Group produced more vehicles than Tata Daewoo, medium/heavy trucks only made up a small share of Hyundai Motor Group’s total vehicle production output (table 2.11).<sup>91</sup>

**Table 2.11** Korean medium/heavy truck exporters

Company	2017 revenues (billion \$)	No. of vehicles produced in Korea, 2017	No. of medium/heavy trucks produced in Korea, 2016 <sup>a</sup>
Hyundai Motor Group	96.4 <sup>b</sup>	3,171,177	8,796
Tata Daewoo <sup>c</sup>	0.9	14,411	5,615

Sources: Binder, *Ward’s Automotive Yearbook 2017*, 2017, 42; Morningstar, Hyundai Motor Company and Its Subsidiaries, March 2, 2018; Tata Daewoo Commercial Vehicle Co. Tata Daewoo Commercial Vehicle Co., Ltd., Financial Statements, April 26, 2017.

<sup>a</sup> Used most recent year available (2016).

<sup>b</sup> Used currency Federal Reserve conversion rate from Korean won to dollars on December 29, 2017, the last rate of the fiscal year.

<sup>c</sup> Only Tata Daewoo data included. Data for Tata Motors total revenue and medium/heavy truck production would be much higher, but is not included because it does not occur in Korea.

## Data for Calculations

The Commission used 2017 data for the U.S. medium/heavy truck market in making its estimations of the effect of the proposed modifications (table 2.12). In the case of

<sup>87</sup> Due to inconsistencies in data for Korean exports of medium/heavy trucks to Vietnam in 2017, 2016 Korean exports to Vietnam are used. IHS Markit, World Trade Atlas database (accessed April 5, 2018).

<sup>88</sup> Daewoo was acquired by Tata Motors in 2004.

<sup>89</sup> IHS Markit, World Trade Atlas database (accessed April 26, 2018).

<sup>90</sup> Binder, *Ward’s Automotive Yearbook 2017*, 2017, 42.

<sup>91</sup> Ibid.

medium/heavy trucks, the market size ( $M$ ) was 415,042 vehicles.<sup>92</sup> The values for  $E$  (exports) and  $S$  (market share), used as proxies for the share of Korean firms' sales to the U.S. market that would come as exports if they produced such vehicles, and their combined market share of total production, are the same as in the light truck calculation above. The share of U.S. medium/heavy truck market supplied by U.S. domestic production ( $D$ ) was 48.2 percent.<sup>93</sup>

**Table 2.12** 2017 medium/heavy truck data used in Commission analysis

Data	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
U.S. medium/heavy truck market (vehicles, $M$ )	415,042	415,042	415,042	415,042	415,042
Share of the U.S. truck market captured by Korean firms ( $S$ ) <sup>a</sup>	0.0%	4.0%	4.0%	9.0%	4.0%
Share of Korean passenger vehicle sales to U.S. via exports ( $E$ ) <sup>b</sup>	0.0%	0.0%	45.7%	45.7%	100.0%
Share of U.S. truck market supplied by domestic firms ( $D$ )	48.2%	48.2%	48.2%	48.2%	48.2%

Sources: WardsAuto, "Lt.-Vehicle Sales Segmentation," January 15, 2018, 4; USITC DataWeb/USDOC (HTS subheadings 8704.22.50; 8704.23; 8704.32; 8704.90; accessed April 19, 2018).

<sup>a</sup> The Korean share of the U.S. market for scenarios 2, 3, and 5 is 4.0 percent, which is the average market share of comparable foreign firms that operate in the U.S. truck market. The Korean share of the U.S. market for scenario 4 is 9.0 percent, which is equal to Hyundai and Kia's combined market share of the U.S. passenger vehicle market, excluding trucks.

<sup>b</sup> The share of Korean trucks provided to the U.S. market from Korean exports (versus transplant production) for scenarios 3 and 4 is 45.7 percent, which is the share of Korean passenger vehicle sales currently provided to the U.S. market from Korean exports, since there are few to no Korean trucks currently supplied to the U.S. market.

## Probable Economic Effect Estimates

Table 2.13 summarizes the Commission's estimates of the probable economic effect on U.S. imports and on U.S. domestic producers of the proposed modifications to the U.S. medium/heavy truck market based on five potential scenarios. The table has three columns of data. The first column presents the baseline (2017) data. The second column gives the estimated level of change, and the third column lists the percentage changes. The results data are rounded to the second significant digit.

The Commission believes that scenario 3 is the most likely probable economic effect of the proposed modifications. In scenario 3,  $S = 4.0$  percent and  $E = 45.7$  percent, i.e., Korean firms enter U.S. market by exporting from Korea and transplant production. In this scenario, Korean producers immediately gain a share of the U.S. medium/heavy truck market equal to the average share of comparable foreign firms operating in the U.S. truck market as discussed previously. The analysis calculates an estimated annual avoided increase in imports of approximately 7,600 medium/heavy trucks. In other words, 7,600 fewer medium/heavy trucks

<sup>92</sup> WardsAuto, "U.S. Truck Sales by GVW Class by Month," 2017–18.

<sup>93</sup> WardsAuto, "North American Vehicle Production by State and Plant," 2018; WardsAuto, "U.S. Truck Sales by GVW Class by Month," 2017–18.

would be imported each year under the proposed modifications than after tariff elimination under KORUS as currently in effect.

**Table 2.13** Avoided changes to U.S. imports and production of medium/heavy trucks under proposed modifications

Result	Actual 2017 data (units)	Estimated change (units)	Estimated percentage change
<b>Scenario 1: Korean firms do not enter U.S. market</b>			
Avoided U.S. imports of medium/heavy trucks	72,134	No effect	No effect
Avoided U.S. production of medium/heavy trucks	266,200	No effect	No effect
<b>Scenario 2: Korean firms enter U.S. market exclusively by transplant U.S. production<sup>a</sup></b>			
Avoided U.S. imports of medium/heavy trucks	72,134	No effect	No effect
Avoided U.S. production of medium/heavy trucks	266,200	Little or no effect <sup>b</sup>	Little or no effect <sup>b</sup>
<b>Scenario 3: Korean firms enter U.S. market by exporting from Korea and transplant U.S. production<sup>a</sup></b>			
Avoided U.S. imports of medium/heavy trucks	72,134	7,600	10.5
Avoided U.S. production of medium/heavy trucks	266,200	- 3,700	- 1.4
<b>Scenario 4: Same as scenario 3 but assuming Korean firms gain higher market share<sup>c</sup></b>			
Avoided U.S. imports of medium/heavy trucks	72,134	17,000	23.6
Avoided U.S. production of medium/heavy trucks	266,200	- 8,200	- 3.1
<b>Scenario 5: Korean firms enter the U.S. market by exporting exclusively from Korea<sup>a</sup></b>			
Avoided U.S. imports of medium/heavy trucks	72,134	16,700	23.2
Avoided U.S. production of medium/heavy trucks	266,200	- 8,100	- 3.0

Source: USITC DataWeb/USDOC (accessed on April 19, 2018); IHS Markit, World Trade Atlas database (accessed April 26, 2018); USITC calculations.

<sup>a</sup> The Korean share of the U.S. market for scenarios 2, 3, and 5 is 4.0 percent, which is the average market share of comparable foreign firms that operate in the U.S. truck market.

<sup>b</sup> The Commission believes that the effects of Korean firms entering the U.S. market exclusively by transplant production would have little to no effect on total domestic production, unless Korean vehicles produced in the United States were to primarily displace imports from Mexico instead of other domestically produced vehicles.

<sup>c</sup> The Korean share of the U.S. market for scenario 4 is 9.0 percent, which is equal to Hyundai and Kia's combined market share of the U.S. passenger vehicle market, excluding trucks.

Next, the Commission assesses the feasibility of the projected 7,600-vehicle expansion of imports from Korea under KORUS as currently in effect. Total Korean production of heavy trucks was 85,331 vehicles in 2017,<sup>94</sup> and total Korean exports were 19,788 medium/heavy trucks.<sup>95</sup> Consequently, Korea has enough export capacity to divert production to meet the estimated increase in U.S. imports of Korean medium/heavy trucks.

Finally, the Commission estimates an annual avoided displacement of 3,700 domestically produced medium/heavy trucks under the proposed modifications. In other words, 3,700 more medium/heavy trucks would be produced each year in the United States under the proposed modifications than under KORUS as currently in effect. One reason this figure is not higher is

<sup>94</sup> OICA, "2017 Production Statistics: By Country," (accessed April 20, 2018).

<sup>95</sup> IHS, World Trade Atlas database (accessed April 26, 2018).

that Korean trucks tend to be of the cabover variety, which, as noted earlier, are less popular in the United States. Moreover, transportation costs for medium/heavy trucks are much higher than for light trucks, further reducing the likelihood of such exports.

The Commission also estimated the potential effects of the proposed modifications under various other scenarios that the Commission believes are less likely. In scenario 1 (in which  $S = 0$  and  $E = 0$ , i.e., no Korean producers sell medium/heavy trucks in the U.S. market), Korean producers choose not to enter the U.S. medium/heavy truck market. While there are Korean producers of medium and heavy trucks, no Korean manufacturer has stated an intention to sell medium or heavy trucks in the United States.

In scenario 2,  $S = 4.0$  percent and  $E = 0$ , i.e., Korean firms enter U.S. market exclusively by transplant U.S. production. In this scenario, Korean producers only supply the U.S. medium/heavy truck market using production capacity in North America. The 25 percent tariff on imports of vehicles for the transport of goods likely plays a significant role in reducing the competitiveness of medium/heavy trucks produced outside of North America. However, no Korean firm has medium/heavy truck production capacity in the United States.<sup>96</sup>

In scenario 4,  $S = 9.0$  percent and  $E = 45.7$  percent, i.e., Korean firms enter U.S. market by exporting from Korea and transplant production and obtain a higher market share. In this scenario, Korean producers immediately gain the share of the medium/heavy truck market equal to their combined passenger car and SUV market share. This assumes that Korean producers would be as competitive in the medium/heavy truck market as they are in the passenger car and SUV markets. Any medium/heavy truck sold by Hyundai or Kia in the United States would have name recognition based on Hyundai or Kia's reputation in the United States, and could be sold through Hyundai or Kia's existing dealer networks. However, medium/heavy trucks are often sold by dealers that specialize in those vehicles, and not at dealerships that specialize in light vehicles.

In scenario 5,  $S = 4.0$  percent and  $E = 100$  percent, i.e., Korean firms enter the U.S. market by exclusively exporting from Korea. In this scenario, Korean producers supply the U.S. medium/heavy truck market with vehicles only produced in Korea. Korean manufacturers likely have capacity to produce such vehicles in Korea. However, without production capacity in the United States, they would have to be willing to incur the transportation costs necessary to export medium/heavy trucks from Korea to compete in the U.S. medium/heavy truck market.

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<sup>96</sup> WardsAuto, "U.S. Truck Sales by Weight Class – Dec. 2017," January 15, 2018, 2.



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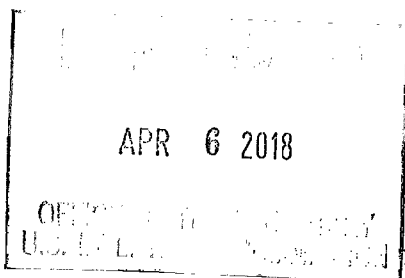
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# Appendix A

## Request Letter

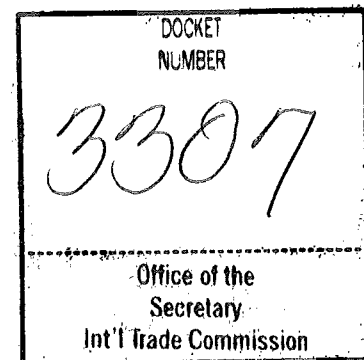




THE UNITED STATES TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON

April 6, 2018

The Honorable Rhonda Schmittlein  
Chairman  
United States International Trade Commission  
500 E St. SW  
Washington, DC 20436



Dear Chairman Schmittlein:

Chapter 2 and Annex 2-B of the United States – Korea Free Trade Agreement (FTA) set out the schedule for the elimination of customs duties on certain goods. The February 10, 2011, exchange of letters between the United States and Korea further specified duty rates on certain motor vehicles. Proclamation 8783 of March 6, 2012, modified the Harmonized Tariff Schedule to provide preferential tariff treatment to originating goods of Korea, including for certain motor vehicles.

Section 201(b) of the United States – Korea Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to the consultation and layover requirements of section 104 of the Act, to proclaim such tariff modifications as the President determines to be necessary or appropriate to maintain the general level of reciprocal and mutually advantageous concessions with respect to Korea provided for by the FTA. One of the requirements set out in section 104 is that the President obtain advice regarding the proposed action from the U.S. International Trade Commission.

Our negotiators have recently reached an agreement in principle with representatives of the government of Korea on modifications to the FTA regarding the staging of duty treatment for certain motor vehicles. These modifications are reflected in the enclosure.

Under authority delegated by the President, and pursuant to section 104 of the Act, I request that the Commission provide advice on the probable economic effect of the modifications reflected in the enclosed proposal on U.S. trade under the FTA and on domestic producers of the affected articles. I request that the Commission provide this advice at the earliest possible date, but no later than eight weeks from the date of delivery of this request. The Commission should issue, as soon as possible thereafter, a public version of its report with any business confidential information deleted.

The Commission's assistance in this matter is greatly appreciated.

Sincerely yours,

A handwritten signature in black ink that reads "Robert E. Lighthizer". The signature is written in a cursive style with a large, prominent "R" at the beginning.

Ambassador Robert E. Lighthizer  
United States Trade Representative

Enclosure



**List of Proposed Subheadings for which the United States May Maintain the Duties for Qualifying Goods<sup>1</sup> from Korea**

<b>HTSUS Number</b>	<b>Product Description</b>
8704.21.00	Motor vehicles for transport of goods, with compression-ignition internal combustion piston engine, with a G.V.W. not exceeding 5 metric tons
8704.22.50	Motor vehicles for transport of goods (other than cab chassis), with compression-ignition internal combustion piston engine, with a G.V.W. exceeding 5 metric tons but not exceeding 20 metric tons
8704.23.00	Motor vehicles for transport of goods, with compression-ignition internal combustion piston engine, with a G.V.W. exceeding 20 metric tons
8704.31.00	Motor vehicles for transport of goods, with spark-ignition internal combustion piston engine, with G.V.W. not exceeding 5 metric tons
8704.32.00	Motor vehicles for transport of goods, with spark-ignition internal combustion piston engine, with G.V.W. exceeding 5 metric tons
8704.90.00	Motor vehicles for transport of goods, other than with compression-ignition or spark-ignition internal combustion piston engine, not elsewhere specified or indicated

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<sup>1</sup> The duties shall remain at base rates during years one through 29, and such goods shall be duty-free, effective January 1 of year 30 (January 1, 2041).



# **Appendix B**

## **Federal Register Notice**



information from public review, we cannot guarantee that we will be able to do so.

**Abstract:** The regulations at 30 CFR part 250, subpart O, concern well control and production safety training and are the subject of this collection. This request also covers any related Notices to Lessees and Operators (NTLs) that BSEE issues to clarify, supplement, or provide additional guidance on some aspects of our regulations.

The BSEE will use the information collected under subpart O regulations to ensure that workers in the OCS are properly trained with the necessary skills to perform their jobs in a safe and pollution-free manner.

In some instances, we may conduct oral interviews of offshore employees to evaluate the effectiveness of a company's training program. The oral interviews are used to gauge how effectively the companies are implementing their own training program.

**Title of Collection:** 30 CFR 250, Subpart O, *Well Control and Production Safety Training*.

**OMB Control Number:** 1014-0008.

**Form Number:** None.

**Type of Review:** Extension of a currently approved collection.

**Respondents/Affected Public:** Potential respondents comprise Federal OCS oil, gas, and sulfur lessees/operators and holders of pipeline rights-of-way.

**Total Estimated Number of Annual Respondents:** Varies, not all of the potential respondents will submit information in any given year and some may submit multiple times.

**Total Estimated Number of Annual Responses:** 6.

**Estimated Completion Time per Response:** Varies from 1 hour to 105 hours, depending on activity.

**Total Estimated Number of Annual Burden Hours:** 202.

**Respondent's Obligation:** Most responses are mandatory, while others are required to obtain or retain benefits.

**Frequency of Collection:** On occasion.

**Total Estimated Annual Nonhour Burden Cost:** We have not identified any non-hour cost burdens associated with this collection of information.

An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

The authority for this action is the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*)

Dated: March 5, 2018.

**Doug Morris,**

*Chief, Office of Offshore Regulatory Programs.*

[FR Doc. 2018-07976 Filed 4-16-18; 8:45 am]

**BILLING CODE 4310-VH-P**

## INTERNATIONAL TRADE COMMISSION

[Investigation No. U.S.-Korea FTA-103-031]

### U.S.-Korea FTA: Advice on Modifications to Duty Rates for Certain Motor Vehicles

**AGENCY:** United States International Trade Commission.

**ACTION:** Institution of investigation and notice of opportunity to provide written comments.

**SUMMARY:** Following receipt on April 6, 2018, of a request from the U.S. Trade Representative (USTR), the Commission instituted investigation No. U.S.-Korea FTA-103-031, *U.S.-Korea FTA: Advice on Modifications to Duty Rates for Certain Motor Vehicles*, for the purpose of providing advice on the probable economic effect of modifications to the United States-Korea Free Trade Agreement regarding the staging of duty treatment for certain motor vehicles.

**DATES:** May 1, 2018: Deadline for filing written submissions.

June 1, 2018: Transmittal of Commission report to USTR.

**ADDRESSES:** All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street SW, Washington, DC. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street SW, Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://www.usitc.gov/secretary/edis.htm>.

#### FOR FURTHER INFORMATION CONTACT:

Project Leader Jeff Horowitz (202-205-2750 or [jeffrey.horowitz@usitc.gov](mailto:jeffrey.horowitz@usitc.gov)) or Deputy Project Leader Mitch Semanik (202-205-2034 or [mitchell.semanik@usitc.gov](mailto:mitchell.semanik@usitc.gov)) for information specific to this investigation. For information on the legal aspects of this investigation, contact William Gearhart of the Commission's Office of the General Counsel (202-205-3091 or [william.gearhart@usitc.gov](mailto:william.gearhart@usitc.gov)). The media should contact Margaret O'Laughlin, Office of External Relations (202-205-1819 or [margaret.olaughlin@usitc.gov](mailto:margaret.olaughlin@usitc.gov)). Hearing-impaired individuals may

obtain information on this matter by contacting the Commission's TDD terminal at 202-205-1810. General information concerning the Commission may also be obtained by accessing its internet server (<http://www.usitc.gov>). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

**Background:** In his request letter (received April 6, 2018), the USTR stated that U.S. negotiators have recently reached an agreement in principle with representatives of the government of Korea on modifications to the FTA regarding the staging of duty treatment for certain motor vehicles. The USTR noted that section 201(b)(2) of the United States-Korea Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to the consultation and layover requirements of section 104 of the Act, to proclaim such tariff modifications as the President determines to be necessary or appropriate to maintain the general level of reciprocal and mutually advantageous concessions with respect to Korea provided for by the FTA. He noted that one of the requirements set out in section 104 of the Act is that the President obtain advice regarding the proposed action from the U.S. International Trade Commission.

In the request letter, the USTR asked that the Commission provide advice on the probable economic effect of the modifications on U.S. trade under the FTA and on domestic producers of the affected articles. He asked that the Commission provide its advice at the earliest possible date but no later than eight weeks from receipt of the request. He also asked that the Commission issue, as soon as possible thereafter, a public version of its report with any confidential business information deleted.

The products identified in the proposal are motor vehicles for the transport of goods provided for in subheadings 8704.21.00, 8704.22.50, 8704.23.00, 8704.31.00, 8704.32.00, and 8704.90.00 of the U.S. Harmonized Tariff Schedule. The request letter and the proposed modification are available on the Commission's website at [http://www.usitc.gov/research\\_and\\_analysis/what\\_we\\_are\\_working\\_on.htm](http://www.usitc.gov/research_and_analysis/what_we_are_working_on.htm). As requested, the Commission will provide its advice to USTR by June 1, 2018.

**Written Submissions:** No public hearing is planned. However, interested parties are invited to file written submissions. All written submissions should be addressed to the Secretary, and should be received no later than

5:15 p.m., May 1, 2018. All written submissions must conform with the provisions of section 201.8 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.8). Section 201.8 and the Commission's Handbook on Filing Procedures require that interested parties file documents electronically on or before the filing deadline and submit eight (8) true paper copies by 12:00 p.m. eastern time on the next business day. In the event that confidential treatment of a document is requested, interested parties must file, at the same time as the eight paper copies, at least four (4) additional true paper copies in which the confidential information must be deleted (see the following paragraph for further information regarding confidential business information). Persons with questions regarding electronic filing should contact the Office of the Secretary, Docket Services Division (202-205-1802).

**Confidential Business Information:** Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "non-confidential" version, and that the confidential business information is clearly identified by means of brackets. All written submissions, except for those containing CBI, will be made available for inspection by interested parties.

The Commission may include some or all of the confidential business information submitted in the course of this investigation in the report it sends to the USTR. Additionally, all information, including CBI, submitted in this investigation may be disclosed to and used: (i) By the Commission, its employees and Offices, and contract personnel (a) for developing or maintaining the records of this or a related proceeding, or (b) in internal investigations, audits, reviews, and evaluations relating to the programs, personnel, and operations of the

Commission including under 5 U.S.C. Appendix 3; or (ii) by U.S. government employees and contract personnel for cybersecurity purposes. The Commission will not otherwise disclose any confidential business information in a manner that would reveal the operations of the firm supplying the information.

**Summaries Of Written Submissions:** The Commission intends to publish summaries of the positions of interested persons in an appendix to its report. Persons wishing to have a summary of their position included in the appendix should include a summary with their written submission. The summary may not exceed 500 words, should be in MSWord format or a format that can be easily converted to MSWord, and should not include any CBI. The summary will be included in the report as provided if it meets these requirements and is germane to the subject matter of the investigation. In the appendix, the Commission will identify the name of the organization furnishing the summary and will include a link to the Commission's Electronic Document Information System (EDIS) where the full written submission can be found.

By order of the Commission.

Issued: April 12, 2018.

**Lisa Barton,**

*Secretary to the Commission.*

[FR Doc. 2018-08015 Filed 4-16-18; 8:45 am]

**BILLING CODE 7020-02-P**

**DEPARTMENT OF JUSTICE**

**Drug Enforcement Administration**

[Docket No. DEA-392]

**Importer of Controlled Substances Application: Clinical Supplies Management Holdings, Inc.**

**ACTION:** Notice of application.

**DATES:** Registered bulk importers of the affected basic classes, and applicants therefore, may file written comments on or objections to the issuance of the

proposed registration on or before May 17, 2018. Such persons may also file a written request for a hearing on the application on or before May 17, 2018.

**ADDRESSES:** Written comments should be sent to: Drug Enforcement Administration, Attention: DEA Federal Register Representative/DRW, 8701 Morrisette Drive, Springfield, Virginia 22152. All requests for hearing must be sent to: Drug Enforcement Administration, Attn: Administrator, 8701 Morrisette Drive, Springfield, Virginia 22152. All request for hearing should also be sent to: (1) Drug Enforcement Administration, Attn: Hearing Clerk/LJ, 8701 Morrisette Drive, Springfield, Virginia 22152; and (2) Drug Enforcement Administration, Attn: DEA Federal Register Representative/DRW, 8701 Morrisette Drive, Springfield, Virginia 22152. Comments and requests for hearings on applications to import narcotic raw material are not appropriate. 72 FR 3417, (January 25, 2007)

**SUPPLEMENTARY INFORMATION:** The Attorney General has delegated his authority under the Controlled Substances Act to the Administrator of the Drug Enforcement Administration (DEA), 28 CFR 0.100(b). Authority to exercise all necessary functions with respect to the promulgation and implementation of 21 CFR part 1301, incident to the registration of manufacturers, distributors, dispensers, importers, and exporters of controlled substances (other than final orders in connection with suspension, denial, or revocation of registration) has been redelegated to the Assistant Administrator of the DEA Diversion Control Division ("Assistant Administrator") pursuant to section 7 of 28 CFR part 0, appendix to subpart R.

In accordance with 21 CFR 1301.34(a), this is notice that on March 14, 2018, Clinical Supplies Management Holdings, Inc., 342 42nd Street South, Fargo, ND 58103 applied to be registered as an importer of the following basic classes of controlled substances:

Controlled substance	Drug code	Schedule
Marihuana .....	7360	I
Tetrahydrocannabinols .....	7370	I

The company plans to import analytical reference standards for distribution to its customers for research and analytical purposes. Placement of these drug codes onto the company's registration does not translate into

automatic approval of subsequent permit applications to import controlled substances. Approval of permit applications will occur only when the registrant's business activity is consistent with what is authorized

under 21 U.S.C. 952(a)(2). Authorization will not extend to the import of FDA approved or non-approved finished dosage forms for commercial sale.