

AGREED MINUTES

between the European Community and the Government of the Republic of Korea relating to the world shipbuilding market

1. The Commission of the European Communities and the Government of the Republic of Korea held talks on 15 March 2000 to address current problems relating to the world shipbuilding market and with a view to promoting stability and fair competition. Both sides recognised that the world shipbuilding market is characterised by significant overcapacity and steadily decreasing prices, not allowing a sustainable development of the industry.
2. The European Community and Korea being the main players in the shipbuilding market, their respective authorities have a special obligation to work together and with other shipbuilding nations to ensure that fair competition prevails on all markets.
3. Both sides expect that the achievement of the following objectives will contribute in a major way to restoring normal competitive conditions on the market, and to providing for an effective means of protection against sales of ships at price below cost.
4. Both sides will work together with a view to reducing the unsustainable prevailing imbalance between supply and demand. They will invite the other shipbuilding countries to support these efforts. By firmly committing themselves to fair competition, both parties will avoid financially non-viable over-investments and ruinous price undercutting. Both sides should make all efforts, either on an individual basis or jointly, to help improve and stabilise the market situation.
5. The aim of both sides is to promote fair and competitive market conditions in the world market and to work together to stabilise the market and thereby help raise the level of ship prices to ones that are commercially sustainable.

(1) Action by public authorities in respect of shipyards in financial difficulties

Both sides agree that all financial institutions shall conduct their business with shipbuilders in a commercially sound manner.

In that respect, the Korean Government will continue to supervise strictly the asset soundness of the financial institutions.

In line with the Korean Government's policy of non-intervention, and conscious of the imbalance in world shipbuilding markets, the Korean authorities will ensure, in the context of bank supervision, that banks in which the Korean Government has a shareholding or private banks acting on its behalf will only extend new loans, write off or roll over existing loans or provide any type of support on a commercial basis. The Korean Government confirms that it will not provide these financial institutions with public support for the purpose of covering losses resulting from their business relations with any specific enterprise or industry.

The Korean Government agrees that KAMCO should purchase bad loans related to shipyards at prices that reflect actual and expected recovery rates as well as funding costs, and at minimal prices for unsecured loans.

The Korean Government confirms that:

- It will not extend support to its shipbuilders which is inconsistent with Korea's international obligations,
- The management takeover of Samho by Hyundai will not be accompanied by publicly supported debt restructuring and/or moratoria operations.

While under government ownership Korean banks will, when dealing with shipbuilding companies, be operated on a fully commercial basis. The Korean Government will not be involved in the day-to-day management. Public banks will grant no favourable repayment guarantees for shipbuilding contracts entered into by shipyards in financial difficulties or under court receivership. Further to that, the conditions for repayment guarantees shall reflect the substantial commercial risk stemming from the shipyards' precarious situation.

(2) Transparency

Both sides consider that the application of internationally accepted accounting principles will ensure that sound financial management governs shipbuilding companies and their creditors.

Strict risk assessment and provisioning rules are to be enforced even if these transparency rules unveil further burdens to the corporate and the banking sectors.

In accordance with its transparency commitments to the IMF and the World Bank, the Korean Government revised its accounting standards in December 1998, which took effect beginning 1 January 1999. The Korean Government will make sure that internationally accepted accounting principles are and will continue to be fully applied to the shipbuilding companies.

(3) The pursuit of commercially viable pricing practices

Both sides recognise that injurious pricing of ships should be remedied or prevented to ensure normal competitive conditions in the world shipbuilding market.

In this regard, the Korean Government agrees that the level of ship prices shall reflect all the factors of costs according to the definition of a normal value under the WTO anti-dumping Agreement.

(4) Cooperation between the two shipbuilding industries

Both sides encourage their shipbuilding industries to cooperate closely with each other to ensure normal competitive conditions in the world shipbuilding market. Both sides will support their shipbuilders to strengthen their ties with each other in the field of technology, procurement and business activity as well as multilateral activities on shipbuilding.

(5) Consultations

Both sides agree to meet every six months at least to review the operation of these Agreed Minutes to discuss policies and measures relating to shipbuilding during this period. Such matters may include, but are not limited to supply

and demand, capacity, price levels, government support and ways and means to improve the current situation in the shipbuilding market. Both sides agree that, in order to review the operation of these Agreed Minutes, the first meeting shall be held no later than September 2000.

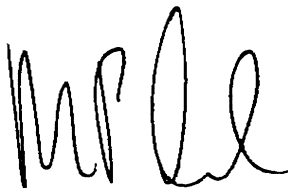
Both sides agree to have ad hoc consultations at the request of any party to discuss general and specific questions relating to the matters covered by the present Agreed Minutes, with a view to reaching a mutually acceptable solution to any issue. These ad hoc consultations will take place within four weeks of request of either party. The parties will, in general, aim to conclude these ad hoc consultations within 60 days.

Both sides agree on the necessity to have as complete as possible a view of the facts, both to reduce the risk of problems arising in the future and to increase the possibility of resolving problems through consultations. If proposed by either side, technical experts will be invited to seek all relevant information and provide an objective analysis thereof. The parties will appoint their respective experts within two weeks of a request to hold ad hoc consultations. The parties will, from the outset of such consultations, inform their respective industries and all interested parties of both sides, including, if relevant, financial institutions, of the problems identified by either party.

- (6) These Agreed Minutes are without prejudice to existing rights and obligations under the WTO Agreement.

These Agreed Minutes will enter into force on the date of signature.

On behalf of the Council of the European Union



For the Government of the Republic of Korea

