Chapter 2
Trade in Goods

Section 1
General Rules

Article 2.1
Definitions

For the purposes of this Chapter:

(a) the term "Agreement on Agriculture" means the Agreement on Agriculture in Annex 1A to the WTO Agreement;

(b) the term "Agreement on Anti-Dumping" means the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 in Annex 1A to the WTO Agreement;

(c) the term "Agreement on Safeguards" means the Agreement on Safeguards in Annex 1A to the WTO Agreement;

(d) the term "Agreement on Subsidies and Countervailing Measures" means the Agreement on Subsidies and Countervailing Measures in Annex 1A to the WTO Agreement;

(e) the term "bilateral safeguard measure" means a bilateral safeguard measure provided for in paragraph 2 of Article 2.8;

(f) the term "customs duty" means any customs or import duty imposed in connection with the importation of a good, but does not include any:

(i) charge equivalent to an internal tax imposed consistently with the provisions of paragraph 2 of Article II and paragraph 2 of Article III of the GATT 1994;

(ii) anti-dumping or countervailing duty applied pursuant to a Party’s law and applied consistently with the provisions of Article VI of the GATT 1994, the Agreement on Anti-Dumping and the Agreement on Subsidies and Countervailing Measures; or

(iii) fees or other charges commensurate with the cost of services rendered;

(g) the term “customs value of goods” means the value of goods for the purposes of levying *ad valorem* customs duties on imported goods;

(h) the term “domestic industry” means the producers as a whole of the like or directly competitive goods operating in a Party, or those whose collective output of the like or directly competitive goods constitutes a major proportion of the total domestic production of those goods;

(i) the term “provisional bilateral safeguard measure” means a provisional bilateral safeguard measure provided for in paragraph 1 of Article 2.13;

(j) the term “serious injury” means a significant overall impairment in the position of a domestic industry; and

(k) the term “threat of serious injury” means serious injury that, on the basis of facts and not merely on allegation, conjecture or remote possibility, is clearly imminent.

Article 2.2
Classification of Goods

The classification of goods in trade between the Parties shall be in conformity with the Harmonized System.

Article 2.3
National Treatment

Each Party shall accord national treatment to the goods of the other Party in accordance with Article III of the GATT 1994, and to this end Article III of the GATT 1994 is incorporated into and forms part of this Agreement, *mutatis mutandis*.

Article 2.4
Elimination or Reduction of Customs Duties

1. Unless otherwise provided for in this Agreement, each Party shall eliminate or reduce its customs duties on originating goods of the other Party in accordance with its Schedule in Annex 1.

2. Upon request of either Party, the Parties shall negotiate on issues such as improving market access for originating goods designated for negotiation in the Schedules in Annex 1, in accordance with the terms and conditions set out in such Schedules.

3. In accordance with subparagraph 1(b) of Article II of the GATT 1994, the goods traded between the Parties shall be exempt from other duties or charges of any kind imposed on or in connection with the importation.

4. Nothing in this Article shall prevent a Party from imposing, at any time, a charge equivalent to an internal tax, any anti-dumping or countervailing duty, or fees or other charges referred to in subparagraphs (f)(i) through (iii) of Article 2.1, respectively, on the importation of any good of the other Party.

5. If, as a result of the elimination or reduction of its customs duty on a particular good on a most-favored-nation basis, the most-favored-nation applied rate for the good becomes equal to, or lower than, the rate of customs duty to be applied in accordance with paragraph 1 on the originating good which is classified under the same tariff line as that particular good, each Party shall notify the other Party of such elimination or reduction without delay.

6. In cases where its most-favored-nation applied rate of customs duty on a particular good becomes lower than the rate of customs duty to be applied in accordance with paragraph 1 on the originating good which is classified under the same tariff line as that particular good, each Party shall apply the lower rate with respect to that originating good.

Article 2.5
Customs Valuation

For the purposes of determining the customs value of goods traded between the Parties, the provisions of Part I of the Agreement on Customs Valuation shall apply *mutatis mutandis*.

Article 2.6
Export Subsidies

Neither Party shall introduce or maintain any export subsidies, which are inconsistent with its obligations under the WTO Agreement, on any agricultural good, which is listed in Annex 1 to the Agreement on Agriculture.

Article 2.7
Import and Export Restrictions

1. Neither Party shall introduce or maintain any prohibition or restriction other than customs duties on the importation of any good of the other Party or on the exportation or sale for export of any good destined to the other Party, which is inconsistent with its obligations under the relevant provisions of the WTO Agreement.

2. In the case that a Party introduces a prohibition or restriction other than customs duties taken consistently with the provisions of the WTO Agreement with respect to the importation from, or the exportation to, the other Party of a good upon which the Parties agree, the former Party shall make available, and endeavor to notify, relevant information to the other Party, prior to the introduction of such prohibition or restriction, or as soon as possible thereafter, in a manner consistent with the laws and regulations of the former Party. This paragraph shall apply unless the sharing of such information is considered by the former Party as prejudicial to public interest.

Note: A Party may comply with this paragraph by providing the relevant information to the other Party through the relevant procedures under the WTO Agreement.

Section 2
Safeguard Measures

Article 2.8
Application of Bilateral Safeguard Measures

1. Subject to the provisions of this Section, a Party may apply a bilateral safeguard measure, to the minimum extent necessary to prevent or remedy the serious injury to its domestic industry and to facilitate adjustment thereof, if an originating good of the other Party, as a result of the elimination or reduction of a customs duty in accordance with Article 2.4, is being imported into the former Party in such increased quantities, in absolute terms or relative to domestic production, and under such conditions that the imports of that originating good constitute cause of serious injury, or threat of serious injury, to a domestic industry of the former Party.

2. A Party may, as a bilateral safeguard measure:

(a) suspend the further reduction of any rate of customs duty on the originating good provided for in this Chapter; or

(b) increase the rate of customs duty on the originating good to a level not to exceed the lesser of:

(i) the most-favored-nation applied rate of customs duty in effect on the day when the bilateral safeguard measure is applied; and

(ii) the most-favored-nation applied rate of customs duty in effect on the day immediately preceding the date of entry into force of this Agreement.

Article 2.9
Conditions and Limitations

1. No bilateral safeguard measure shall be maintained except to the extent and for such period of time as may be necessary to prevent or remedy serious injury and to facilitate adjustment, provided that such period of time shall not exceed a period of three years. However, in highly exceptional circumstances, a bilateral safeguard measure may be extended, provided that the total duration of the bilateral safeguard measure, including such extensions, shall not exceed six years. In order to facilitate adjustment in a situation where the expected duration of a bilateral safeguard measure is over one year, the Party maintaining the bilateral safeguard measure shall progressively liberalize the bilateral safeguard measure at regular intervals during the period of application.

2. No bilateral safeguard measure shall be applied again to the import of a particular originating good which has been subject to such a bilateral safeguard measure, for a period of time equal to the duration of the previous bilateral safeguard measure or one year, whichever is longer.

3. Upon the termination of a bilateral safeguard measure, the rate of customs duty for the originating good subject to the measure shall be the rate which would have been in effect if the bilateral safeguard measure had never been applied.

4. A bilateral safeguard measure shall not be applied against an originating good of the exporting Party as long as its share of imports of the good concerned in the importing Party does not exceed three percent.

5. Each Party shall adopt or maintain equitable, timely, transparent and effective procedures relating to bilateral safeguard measures.

Article 2.10
Investigation

1. A Party may apply a bilateral safeguard measure only after an investigation has been carried out by the competent authorities of that Party in accordance with the same procedures as those provided for in Article 3 and paragraph 2 of Article 4 of the Agreement on Safeguards.

2. The investigation referred to in paragraph 1 shall, except in special circumstances, be completed within one year, and in no case more than 18 months, following its date of initiation.

Article 2.11
Notification and Consultations

1. A Party shall immediately make a written notice to the other Party upon:

(a) initiating an investigation referred to in paragraph 1 of Article 2.10 related to serious injury, or threat of serious injury, and the reasons therefor; and

(b) taking a decision to apply or extend a bilateral safeguard measure.

2. The Party making the written notice referred to in paragraph 1 shall provide the other Party with all pertinent information, which shall include:

(a) in the written notice referred to in subparagraph 1(a), the reason for the initiation of the investigation, a precise description of the originating good subject to the investigation and its subheading under the Harmonized System, the period subject to the investigation and the date of initiation of the investigation; and

(b) in the written notice referred to in subparagraph 1(b), evidence of serious injury or threat of serious injury caused by the increased imports of the originating good, a precise description of the originating good subject to the proposed bilateral safeguard measure and its subheading under the Harmonized System, a precise description of the proposed bilateral safeguard measure, and the proposed date of the introduction and expected duration of the bilateral safeguard measure.

3. A Party proposing to apply or extend a bilateral safeguard measure shall provide adequate opportunity for prior consultations with the other Party with a view to reviewing the information arising from the investigation referred to in paragraph 1 of Article 2.10, exchanging views on the bilateral safeguard measure and reaching an agreement on compensation set out in Article 2.12.

Article 2.12
Compensation

1. A Party proposing to apply or extend a bilateral safeguard measure may agree on adequate means of trade compensation in the form of concessions of customs duties whose value is substantially equivalent to that of the additional customs duties expected to result from the bilateral safeguard measure.

2. If the Parties are unable to agree on the compensation within 30 days after the commencement of the consultations in accordance with paragraph 3 of Article 2.11, the Party to whose originating good the bilateral safeguard measure is applied shall be free to suspend the application of concessions of customs duties under this Agreement, which are substantially equivalent to the bilateral safeguard measure. The Party exercising the right of suspension may suspend the application of concessions of customs duties only for the minimum period necessary to achieve the substantially equivalent effects and only while the bilateral safeguard measure is maintained.

Article 2.13
Provisional Bilateral Safeguard Measures

1. In critical circumstances, where delay would cause damage which it would be difficult to repair, a Party may apply a provisional bilateral safeguard measure, which shall take the form of the measure set out in subparagraph 2(a) or 2(b) of Article 2.8, pursuant to a preliminary determination that there is clear evidence that increased imports of an originating good of the other Party have caused or are threatening to cause serious injury to a domestic industry of the former Party.

2. A Party shall make a written notice to the other Party prior to applying a provisional bilateral safeguard measure. Consultations between the Parties on the application of the provisional bilateral safeguard measure shall be initiated immediately after the provisional bilateral safeguard measure is applied.

3. The duration of a provisional bilateral safeguard measure shall not exceed 200 days. During that period, the pertinent requirements of Article 2.10 shall be met. The duration of the provisional bilateral safeguard measure shall be counted as a part of the period referred to in paragraph 1 of Article 2.9.

4. Paragraphs 3 through 5 of Article 2.9 shall apply, *mutatis mutandis*, to a provisional bilateral safeguard measure. The customs duty imposed as a result of the provisional bilateral safeguard measure shall be refunded if the subsequent investigation referred to in paragraph 1 of Article 2.10 does not determine that increased imports of an originating good of the other Party have caused or threatened to cause serious injury to a domestic industry.

Article 2.14
Relation to Safeguard Measures under the WTO Agreement

1. Nothing in this Section shall prevent a Party from applying a safeguard measure to an originating good of the other Party in accordance with:

   (a) Article XIX of the GATT 1994 and the Agreement on Safeguards; or

   (b) Article 5 of the Agreement on Agriculture.

2. A Party applying a safeguard measure to the importation of an originating good of the other Party in accordance with Article XIX of the GATT 1994 and the Agreement on Safeguards, or Article 5 of the Agreement on Agriculture, shall not apply at the same time a bilateral safeguard measure under this Section to that importation.

3. In the case that a Party has applied a bilateral safeguard measure under this Section to the importation of an originating good of the other Party prior to the application of a safeguard measure in accordance with Article XIX of the GATT 1994 and the Agreement on Safeguards, or Article 5 of the Agreement on Agriculture, the duration of the latter safeguard measure shall be counted as a part of the total duration of the bilateral safeguard measure. The Party may resume the application of the bilateral safeguard measure to that importation upon the termination of the latter safeguard measure up to the remaining period of the bilateral safeguard measure.

Article 2.15
Communications

A written notice referred to in paragraph 1 of Article 2.11 and paragraph 2 of Article 2.13 and any other communication between the Parties in accordance with this Section shall be made in the English language.

Article 2.16
Review

The Parties shall review the provisions of this Section, if necessary, 10 years after the date of entry into force of this Agreement.

Section 3
Other Provisions

Article 2.17
Anti-Dumping and Countervailing Measures

Nothing in this Chapter shall be construed to prevent a Party from taking any measure in accordance with the provisions of Article VI of the GATT 1994, the Agreement on Anti-Dumping and the Agreement on Subsidies and Countervailing Measures.

Article 2.18
Measures to Safeguard the Balance of Payments

1. Nothing in this Chapter shall be construed to prevent a Party from taking any measure for balance-of-payments purposes. A Party taking such measure shall do so in accordance with the conditions established under Article XII of the GATT 1994 and the Understanding on the Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade 1994 in Annex 1A to the WTO Agreement.

2. Nothing in this Chapter shall preclude the use by a Party of exchange controls or exchange restrictions in accordance with the Articles of Agreement of the International Monetary Fund.

Article 2.19
Sub-Committee on Trade in Goods

1. For the purposes of the effective implementation and operation of this Chapter, the Parties hereby establish a Sub-Committee on Trade in Goods (hereinafter referred to in this Article as "the Sub-Committee").

2. The functions of the Sub-Committee shall be:

(a) reviewing and monitoring the implementation and operation of this Chapter;

(b) considering any other matter related to this Chapter as the Parties may agree;

(c) reviewing and making appropriate recommendations, as necessary, to the Joint Committee on the Operational Procedures for Trade in Goods referred to in Article 2.20;

(d) reporting the findings of the Sub-Committee to the Joint Committee; and

(e) carrying out other functions as may be delegated by the Joint Committee.

3. The Sub-Committee shall be composed of representatives of the Governments of the Parties.

4. The Sub-Committee shall hold meetings at such times and venues or by means, as may be agreed by the Parties.

Article 2.20
Operational Procedures for Trade in Goods

Upon the date of entry into force of this Agreement, the Joint Committee shall adopt the Operational Procedures for Trade in Goods that provide detailed regulations pursuant to which the relevant authorities of the Parties shall implement their functions under this Chapter.

Article 2.21
Cooperation with respect to Exports

The Parties shall, in accordance with the provisions of Chapter 15, cooperate with each other in the field of used four-wheeled motor vehicles exported from the exporting Party.