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U.S.–KOREA FREE TRADE AGREEMENT BENEFITS FOR AGRICULTURE

The U.S.-Korea Free Trade Agreement (KORUS FTA), now awaiting Congressional approval, will provide America's farmers, ranchers, food processors, and the businesses they support with improved access to the Republic of Korea's 49 million consumers. If approved, this would be the most economically significant trade agreement for the U.S. agricultural sector since the North American Free Trade Agreement.

The United States is already Korea's top supplier of a broad variety of agricultural exports at \$2.85 billion (\$3.4 billion including fish and forest products) in 2006, making Korea the sixth largest export market for U.S. farm products. The new agreement is expected to expand those sales even further. The United States is the No. 1 supplier to Korea of many farm products including almonds, beef, fresh cherries, hides and skins, poultry, soybeans, corn, and wheat. With the agreement, the average agricultural tariff for U.S. goods will fall from the current 52 percent to 4 percent in 15 years. The tariff reductions will help the United States compete against China and Australia, which have increased their presence in Korea's \$12-billion agriculture market. The tariff reductions will help the United States compete against Korea's other major agriculture suppliers and help keep the United States on a level playing field with Korea's current free trade partners such as Chile and any future trade partners.

Almost two-thirds of Korean imports of U.S. farm products will become duty free immediately.¹ These include wheat, corn, soybeans for crushing, whey for feed use, hides and skins, cotton, cherries, pistachios, almonds, orange juice, grape juice, and wine. Other farm products that will benefit from immediate duty-free access within new tariff-rate quotas (TRQs) and safeguards include skim and whole milk powder, whey for food use, cheese, dextrins and modified starches, barley, popcorn, soybeans for food use, dehydrated and table potatoes, honey, oranges, and hay.

U.S. farm products benefiting from expanded market opportunities with 5-year tariff phaseouts include grapefruit, a broad range of processed food products, chocolate and chocolate confectionery, sweet corn, sauces and preparations, alfalfa, breads and pastry, orange juice, dried mushrooms, sausage, and cucumbers. These products represented 12 percent of Korean imports of U.S. farm products. Market access for beef and pork will be improved with tariffs for the

¹ These amounts and all others following are an average of U.S. exports to Korea from 2004-2006.

most important pork products phased out by 2014, and those for beef products, by year 15 of the agreement.

KEY MARKET ACCESS ELEMENTS OF THE AGREEMENT

Liberalization of Korea's market will occur through a combination of tariff phaseouts, TRQs, and safeguards applied immediately or for a period of up to 23 years. There is no additional market access for rice in the KORUS FTA; however, rice exporters currently benefit from the World Trade Organization (WTO) rice agreement that the United States and other WTO members negotiated with Korea in 2004.

Korea currently applies a complex hierarchy of tariffs on agricultural products. These include most-favored nation (MFN) tariffs, WTO TRQs agreed to during the Uruguay Round, and autonomous TRQs (annual adjustment tariffs and TRQ rates that are less than the WTO-bound rates). After implementation, a fourth tariff type, KORUS FTA TRQs, will be applied to U.S. products.

Tariff Elimination Under KORUS, nearly all tariffs for U.S. agricultural products will be eliminated. About \$1.91 billion, or 64 percent, of Korea's imports from the United States will be immediately duty free. Virtually all other tariffs will be reduced in equal annual increments over a phaseout period, with the first tariff cut made upon entry-into-force of the agreement.

Tariff-Rate Quotas (TRQs) For some products with tariff phaseouts, immediate duty-free market access will be provided through the creation and annual expansion of TRQs (providing duty-free access for a specified quantity of imports). Annual TRQ growth is on a compound basis. Products subject to TRQs are skim, whole, evaporated, and prepared dry milk; whey for food use; butter; cheese; honey; feed supplements and hay; table potatoes; soybeans for food use; and ginseng. Oranges are subject to a seasonal TRQ.

Safeguards The KORUS FTA safeguards have an annual trigger based on import volume of U.S. products. When the import quantity from the United States reaches the trigger level, the over-safeguard tariff comes into effect. KORUS safeguards for several products include duty-free quantities under the trigger level. Those products are barley, malt and malting barley, corn starch, dextrans, beans, sweet potatoes, dehydrated potatoes, popcorn, buckwheat, corn for industrial use, cereal and groats, and miscellaneous starches. Generally, the duty-free volumes and the safeguard trigger levels increase over time. The over-safeguard duty decreases over time.

Sanitary and Phytosanitary (SPS) Measures The United States and Korea affirmed their rights and obligations under the WTO SPS Agreement and also agreed to establish an SPS Committee under the FTA to enhance cooperation and consultation on sanitary and phytosanitary matters. The objectives of the committee are to enhance implementation of the SPS agreement. A cornerstone of the WTO SPS agreement is its encouragement of regulatory harmonization through the use of international standards and guidelines, including those of the World Organization for Animal Health (OIE), as a basis for members import requirements to address animal health, plant health, and food-safety concerns.

LIVESTOCK PRODUCTS

Chilled and Frozen Beef and Beef Offal Korean tariffs on imports of beef muscle cuts will decline from the current 40 percent to zero in 15 equal annual reductions. The agreement includes a quantity safeguard of 270,000 metric tons for beef muscle cuts, growing at a

compound 2-percent annual rate to a final safeguard level of 354,000 tons in 15 years. In year 16 and beyond, tariffs will be zero and the safeguard will no longer apply. Korean tariffs on beef offal also decline in 15 equal annual reductions from their current 18- and 27-percent levels. Offal trade faces no safeguards.

Pork Korean tariffs on imports of more than 90 percent of U.S. pork products will become duty-free by January 1, 2014. This is a reduction from current applied rates of 22.5 and 25 percent and applies to all frozen and processed pork products. Duties on fresh pork bellies and other miscellaneous fresh cuts will be phased down over 10 years leading to unlimited duty-free access in year 11. A transparent first-come first-serve safeguard quota for fresh pork bellies and other miscellaneous fresh cuts starting at 8,250 tons, nearly twice current trade volume, will increase at 6 percent compounded annually. The over-safeguard duty rate will be phased out at the end of year 10.

Poultry Meat and Egg Products Korean tariffs on imports of chicken cuts, including the dominant U.S. frozen leg import category, will decline from the current 20 percent to zero in 10 equal annual reductions with the exception of frozen breast and wings, which will decline in 12 equal reductions. Korean tariffs on frozen turkey cuts will decline from the current 18 percent in seven equal annual reductions. Korean tariffs on egg products (egg yolks are the key import item) will decline from the current 27 percent in 12 equal annual reductions.

Dairy The KORUS FTA creates TRQs for dairy products that double the amount of current access. The TRQ established for cheese, with an initial duty-free quantity of 7,000 tons, grows 3 percent annually. Over-quota tariffs on cheddar cheese are eliminated over 10 years, and over-quota tariffs on all other cheeses are eliminated over 15 years. The TRQ for skim milk powder, whole milk powder, and evaporated milk has an initial duty-free quantity of 5,000 tons, growing 3 percent annually in perpetuity. The over-quota tariffs on these milk products remain at the current MFN rates, ranging from 89 to 176 percent. The TRQ for food-grade whey has an initial duty-free quantity of 3,000 tons, growing 3 percent annually. The over-quota tariff for food-grade whey is reduced from the current 49.5 percent to 20 percent upon implementation of the agreement and is phased out over 10 annual reductions. The agreement establishes a TRQ of 200 tons for butter and a TRQ of 700 tons for infant foods, with both of these quotas growing at 3 percent, and becoming duty free in 10 years. The 36-percent tariff on whey blends is phased out through 10 annual reductions. Feed-grade whey becomes duty free immediately.

HORTICULTURE

Citrus Fruit and Orange Juice Korean tariffs on oranges imported during the out-of-season period (March 1 – August 31) will be reduced from the current 50 percent to 30 percent immediately and then will be eliminated in six equal annual reductions. The out-of-season tariff reduction benefits an estimated 70 percent of current U.S. orange exports to Korea. In addition, during the in-season period (September 1 – end of February), a duty-free quota shall be established with an initial quantity of 2,500 tons, with 3-percent annual compound growth in perpetuity. The over-quota tariff will remain at the current MFN rate of 50 percent. Korea's current 30-percent tariff on lemons and grapefruit will be eliminated in 2 years for lemons and 5 years for grapefruit in equal annual installments. Korean import tariffs of 54 percent on U.S. frozen orange juice become duty-free immediately.

Grapes, Raisins, Grape Juice, and Wine Korean tariffs on U.S. table grapes during the out-of-season period (October 16 - April 30) will be reduced from 45 to 24 percent immediately and will be eliminated in four equal annual reductions. The out-of-season tariff reduction benefits an estimated 70 percent of current U.S. table grape exports to Korea. In addition, the in-season (May 1 – October 15) tariff covering the remaining 30 percent of U.S. fresh table grape exports will be phased out in 17 years in equal annual installments. Korean import tariffs on raisins, grape juice, and wine will be eliminated immediately from their current 21, 45, and 15 percent levels, respectively.

Cherries, Apples, and Pears Korean tariffs of 24 percent on U.S. fresh cherries will be eliminated immediately. Import tariffs of 45 percent on U.S. apples, other than the Fuji variety, will have a 10-year phaseout and tariffs on Fuji apples will have a 20-year phaseout. The agreement also includes an initial quantity safeguard of 9,000 tons that increases in year 5 to 12,000 tons, growing 3 percent annually thereafter to 20,429 tons in year 23 after which the safeguard no longer applies. Beginning in year 11, the safeguard only applies to Fuji apples. Korean tariffs on non-Asian pear varieties will be eliminated in 10 years, and in 20 years for Asian pear varieties. (Note: neither apples nor pears currently have access due to SPS issues.)

Vegetables and Pulses The U.S. share of Korea's growing import market for these products can be expected to expand with the KORUS FTA tariff cuts. Tariffs on vegetables are eliminated in a range from immediately duty-free to 18 years. In some cases access is enhanced through the use of duty-free, TRQs, and safeguards that allow varying levels of duty-free access. These tariff cuts should make the United States more competitive in this market. For example, fresh asparagus will be duty free upon implementation of the agreement. Another example, the current 30-percent tariff on frozen sweet corn, carrots, and dried mushrooms, will be eliminated within 5 years. The current 27-percent tariff on most pulses (peas, beans, and other legumes) will be eliminated within 5 years while the tariff for lentils will be removed within 10 years.

Potatoes and Potato Products Frozen potatoes (French fries) will enter duty free immediately, eliminating the current 18-percent tariff on \$22.8 million worth of U.S. frozen potatoes. Dehydrated potatoes (flakes and powder) will enter under a 10-year safeguard with an initial duty-free quantity of 5,000 tons that grows 3 percent compounded annually. Korea has imported very little pure dehydrated product in the past. This significant access will allow U.S. exporters to expand the market and uses of this product. Potatoes for chipping will receive seasonal treatment that will be phased out over 15 years. All quantities will enter duty free during the out-of-season period (December 1- April 30), currently the period when the majority of U.S. chipping potatoes enter Korea, eliminating the 30-percent applied tariff. During the in-season period (May 1 - November 30), the tariff will be phased out over 15 years. Fresh potatoes for table use will enter under a new TRQ starting with a duty-free quantity of 3,000 tons that will grow 3 percent compounded annually in perpetuity. The over-quota tariff will remain at the current MFN rate of 304 percent. This represents access that U.S. fresh potatoes currently do not enjoy.

Tree Nuts (Walnuts, Almonds, and Pistachios) Both shelled and in-shell almonds (current tariffs of 8 percent) will become duty free upon implementation of the agreement. Pistachios (current tariff 30 percent) also will enter duty free immediately. Shelled walnuts (current tariff 30 percent) will be duty free within 6 years. In-shell walnuts (current tariff 45 percent) will be duty free within 15 years.

GRAINS, OILSEEDS, AND PRODUCTS

Corn Korea's imports of U.S. corn for feed are guaranteed to enter at zero duty immediately. Although Korea currently imports large quantities of feed corn at zero tariff under its autonomous quota, Korea can legally discontinue this zero autonomous tariff at any time and revert back to the WTO tariff of 5 percent for the first 6.1 million tons and 328 percent for any imports above this quantity. Under the KORUS FTA, the tariff for U.S. corn will be fixed at zero.

Wheat U.S. wheat for milling will enter Korea duty free immediately. Korea's imports of U.S. wheat will no longer be subject to the 1.8-percent WTO tariff or the autonomous TRQ of 1 percent. Although this tariff differential may be small, it could provide some additional advantage when competing against Canada and Australia.

Rice Under the KORUS FTA, the United States did not gain additional access for rice. However, access for U.S. rice was significantly enhanced in 2004 as a result of Korea's WTO Minimum Market Access Agreement (MMA) negotiation to extend special treatment for rice. With

the extended WTO MMA, Korea agreed to purchase at least 50,076 tons of U.S. rice each year until 2014 under a country-specific quota. In addition, U.S. rice exporters can compete for a portion of the global quota that is part of the agreement. The United States will continue to push for additional market access through the WTO Doha negotiations.

Soybeans and Products The greatest potential benefit for the soybean sector is likely to come from improved access to Korea's 300,000-ton market for food quality soybeans. Korea has agreed to immediately eliminate its 5-percent tariff on food-use soybeans. In addition, Korea will also establish a TRQ for identity-preserved soybeans for food use (the production of soybean curd). This quota will operate outside the current state trading entity, which has charged a reported \$250 per ton markup on soybean imports supplied to soybean curd processors. (For comparison, Korea's average 2006 import price for soybeans used for food was \$330 per ton.) The TRQ will be operated by an association of food-grade soybean processors. Korean tariffs on soybeans for crushing will decline from the current 1-percent autonomous tariff to zero upon implementation of the KORUS FTA. Korean tariffs on imports of crude soybean oil (the majority of Korea's soybean oil imports) will decline from the current 5.4-percent WTO tariff in 10 equal annual reductions. Refined oil tariff rates will decline from the current 5.4 percent in five equal annual reductions. Korea's 3-percent tariff on soybean flour and meal will immediately go to zero.

Barley KORUS will give U.S. barley a tariff advantage over its competitors. The agreement creates a 2,500-ton duty-free quota for U.S. unhulled and naked barley (excludes malting barley), which increases 2 percent per year while the tariffs are phased out over 15 years. Outside the KORUS FTA, Korea has an unhulled barley autonomous TRQ of 50,000 tons at a 2-percent tariff and a WTO 23,582-ton TRQ that covers both unhulled and naked barley at 5 percent with over-quota tariffs of 324 and 300 percent, respectively.

Malt and Malting Barley In the first year of the agreement, the United States will be able to export 9,000 tons of unroasted malt and malting barley, combined, into Korea duty free. This 9,000 tons duty-free quota grows 2 percent each year through year 15, at which time all U.S. shipments of malt and malting barley will enter duty free. This provides the United States a 10-percent tariff advantage over our competitors for malt and 20 percent for malting barley. (At a minimum, this will keep the United States on a level tariff playing field if Korea concludes similar FTA agreements with Canada, the European Union, and Australia.)

LIVESTOCK FEEDS

Fodder With this agreement, 200,000 tons of U.S. hay (excluding alfalfa) can enter Korea duty free annually through year 15, while the current tariff of 100.5 percent phases out. In recent years, Korea imported about \$80 million (423,000 tons) of this product from the United States. Although Korea has an autonomous quota for 600,000 tons at 2-percent tariff covering this and another fodder tariff line, the WTO tariff is 20 percent for 32,133 tons, and the over-quota tariff is 100.5 percent. Korea can discontinue its autonomous TRQ at any time. The KORUS FTA locks in the zero tariff rate for a substantial amount of U.S. historical shipments for 15 years, and after that, for an unlimited amount of exports.

Alfalfa hay and cubes The KORUS FTA phases out the tariff for U.S. alfalfa hay, cubes, and pellets within 5 years. Korea is currently importing about \$29 million of alfalfa hay from the United States under an autonomous TRQ at 1-percent duty.

Feed Supplements With this agreement, the United States could increase its current 20-percent share of Korea's supplementary animal feed imports. Korea imports about \$7 million (5,300 tons) of supplementary feeds from the United States annually. The agreement creates a 5,500-ton KORUS duty-free quota for U.S. supplementary animal feeds, which increases 3 percent each year, while the over-quota duty is phased out in 12 years. This provides the United States with a relative tariff advantage over its competitors. Korea's WTO TRQ for supplementary animal feeds is 4,171 tons at a 5-percent tariff. The over-quota rate is 50.6 percent.

OTHER PRODUCTS

Dextrins During the first year of the agreement, 14,000 tons of U.S. dextrin exports can enter Korea duty free. This is about 14 times higher than Korea's present imports of U.S. dextrins. The TRQ will grow 3 percent annually through year 12, when all U.S. dextrin exports will enter duty free. Korea charges an 8-percent tariff under its WTO 46,000-ton dextrin TRQ and a 386-percent tariff on dextrin imports above the WTO quota level.

Corn Starch With this agreement, the United States will have an opportunity to establish a foothold in Korea's corn starch market. During the first year of the agreement, 10,000 tons of U.S. corn starch will enter Korea duty free. This 10,000-ton quota will grow 3 percent each year through the beginning of year 15, when all U.S. corn starch will enter duty free. Currently Korea imports practically no corn starch from the United States as almost all of its 6.1-million tons WTO 1.8-percent TRQ is used to import feed corn and corn for starch manufacturing. Korea's over-quota tariff on corn starch is 226 percent.

Honey Access for U.S. honey will be enhanced through a TRQ that begins with a duty-free quantity of 200 tons growing 3 percent annually in perpetuity. The over-quota tariff remains at the current MFN rate of 243 percent. U.S. suppliers will also continue to have access to the WTO TRQ of 420 tons with an in-quota tariff of 20 percent.

Cotton Duty-free access being enjoyed by U.S. cotton exports will become permanent upon implementation. This permanent access will continue to allow U.S. cotton exports to compete on a level playing field with Korea's other trading partners. Korea is the eighth largest market for U.S. cotton exports.

Animal Hides and Skins U.S. exports of nearly all animal hides and skins, including furskins, will receive immediate duty-free access upon implementation. This is a reduction from current applied rates of 5 percent or less. Korea is the United States' second largest market for cattle hides and third largest market for mink furskins.

Processed Products and Beverages Tariffs on sauces and condiments including soy and pepper sauces, bean paste, ketchup and other tomato sauces (including salsas), mayonnaise, mixed condiments (including salad dressing), curry, and other mixed seasonings will be eliminated within 5 to 10 years. While the average current tariff for these products is 8 percent, they have also been subject to arbitrary annual adjustment tariffs as high as 45 percent. These items were among the high priority items for the U.S. processed food industry. Tariffs on distilled spirits currently set at 15, 20, and 30 percent will be eliminated within 5 to 10 years. In addition, Korea agreed to permit stickers to designate end-use instead of original labels resulting in a cost savings for the industry. The current 5-percent tariff on U.S. pet foods will be immediately eliminated. This tariff elimination will help the United States maintain its current 50-percent share of the Korean pet food market.

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