

U.S. – South Korea Trade Agreement (KORUS) Analysis



Before discussing the economic impact analysis of the KORUS FTA, an understanding of the agreement's content is important. Some important aspects of the agricultural sections of the KORUS FTA are summarized below.

Major KORUS FTA Provisions

Under the KORUS FTA, almost two-thirds of current U.S. agricultural exports to South Korea will become duty-free immediately. Items that receive immediate duty-free treatment include wheat, corn, soybeans for crushing, hides and skins, cotton and a broad range of high-value and processed products including almonds, pistachios, bourbon whisky, wine, raisins, grape juice, fresh cherries, frozen French fries and frozen orange juice concentrate. In addition, the United States and South Korea are working to resolve sanitary and phytosanitary barriers to agricultural trade, including food safety inspection procedures for beef, pork and poultry. Some of the other specific provisions of the agreement are discussed further below.

Rice in the Agreement

Rice and rice products were not included in the KORUS FTA. Products including rice in the husk, husked rice, semi-milled or wholly milled rice, broken rice, rice flour, rice meal and rice pellets were excluded from any tariff reductions. The agreement states that for these products, "No obligations regarding tariffs in this Agreement shall apply..." While the United States does not get any additional access to the South Korean rice market, the agreement does require that South Korea continue to abide by its WTO commitments to increase rice imports, as previously discussed.

Tariff Rate Quotas in the Agreement

In the KORUS FTA, both parties utilized tariff rate quotas (TRQ) as a transition vehicle to open markets for a variety of agricultural products. A TRQ is a two-leveled tariff, where the tariff rate charged on imports depends on the volume or quantity of imports. A lower tariff, called an in-quota tariff, is charged on imports that fall within the quota volume. These tariffs are generally low and minimally trade distorting. A higher tariff, called an over-quota tariff, is imposed on imports in excess of the quota volume.

The United States will utilize TRQs to open its markets for certain sensitive processed dairy products. The U.S. TRQ will be eliminated and the market will be fully opened within 10 years. South Korea will also utilize TRQs as a means of transition to open markets. Most South Korean TRQs will be eliminated and markets will be fully opened within 18 years. However, for some TRQs (processed dairy products, honey, potatoes, oranges and soybeans for human consumption), the TRQ will grow by 3 percent per year, into perpetuity, with the over-quota tariff never eliminated. The table below shows the commodities for which South Korea will utilize a TRQ and the TRQ values for year one and year ten of the agreement's implementation.

It is important to note that the TRQs are for duty-free access into the South Korean market. In many cases, the United States has been exporting product into the South Korean market and paying the tariffs. The United States will still be able to do this with the KORUS FTA in place, but will also have access to a growing quantity of the duty-free quota via these TRQs.

To ensure that these TRQs are administered in a manner that facilitates opening these protected markets, the agreement provides specific guidelines on how the TRQs will be administered. The agreement states, "Each Party shall make every effort to administer its TRQs in a manner that allows importers to fully



utilize import quotas.” Specifically, the agreement requires that TRQ administration be transparent, that administration will be done by government authorities and that TRQ quantities are made in commercially viable amounts.

Safeguard Mechanisms in the Agreement

Safeguard mechanisms are generally established in free trade agreements for selected agricultural commodities in the event that the domestic market for the commodity would be disrupted and producers would be harmed by a surge in imports due to the agreement. In the KORUS FTA, only South Korea is utilizing safeguards. (South Korean agricultural production and exports are so small that the United States should not see any domestic commodity market disruptions from South Korean agricultural imports.) South Korea has safeguard measures for 30 agricultural and food products. A trigger level was set for each commodity in the text of the agreement and an additional duty (that varies by commodity, but may never exceed WTO-allowed tariff levels) may be charged *temporarily* if this trigger is reached. The agreement also requires that safeguards be implemented in a “transparent” manner and are subject to review.

South Korea's Safeguard Commitments

(Values in Metric Tons)

Commodity	Year 1 Trigger	Year 10 Trigger	Eliminated In
Beef	270,000	324,000	16 years
Pork	8,250	13,938	11 years
Onions	2,904	4,771	19 years
Garlic	1,148	1,887	19 years
Peppers	827	1,359	19 years
Other Beans	238	595	16 years
Sweet Potatoes	212	530	11 years
Roots and Tubers	30	30	11 years
Apples	9,000	13,911	24 years
Green Tea	8	14	19 years
Ginger	573	942	19 years
Malt & Malting Barley	9,000	10,756	16 years
Barley	2,500	2,988	16 years
Popcorn	5,112	None	8 years
Other Corn	187,547	None	8 years
Buckwheat	250	625	16 years
Cereal & Groats	128	221	16 years
Potato Flour & Meal	5,000	6,524	11 years
Corn Starch	10,000	13,048	16 years
Potato Starch	239	598	16 years
Manioc Starch	433	1,083	16 years
Sweet Potato Starch	202	505	16 years
Other Starch	53	133	16 years
Ground Nuts	140	231	19 years
Sesame Seeds	3,561	5,850	19 years
Ginseng	62	84	21 years
Sesame Seed Oil	30	50	19 years
Sugar	833	1,086	21 years
Alcohol	236	590	16 years
Dextrins	14,000	18,267	13 years

¹ 2002-2006 averages from FAS, based on Korean Customs Service data



Analysis Methodology

On Tuesday, April 12, 2011, USDA-ERS released new trade numbers that estimated the overall impact that the pending FTAs would have on U.S. agricultural exports. Upon close review, it was determined that the USDA-ERS economic model and AFBF economic model share similar assumptions regarding trade margins of preference, population growth, GDP growth, per capita GDP growth, and base years with the ERS model. Given the similarity of our models, AFBF believes the figures projected by ERS to accurately project the gains U.S. agriculture would realize from the free trade agreements in the current economic climate. AFBF Economic Analysis staff further refined the commodity categories to more fully reflect the U.S. agricultural industry on both a national- and state- level.

Agriculture Shares in General Gains

The farm-sector impact indicates that U.S. agriculture would be a net gainer with the KORUS FTA in place. South Korea is already a major food-importing country. KORUS FTA-related expansion in United States farm exports to South Korea is likely to significantly outpace expansion in United States imports of farm products from South Korea.

The KORUS FTA will provide an opportunity for the United States to expand exports of grains, oilseeds, fiber, fruits and vegetables and livestock products. Unlike previous free trade agreements where trade gains have been focused in bulk agricultural commodities, the largest gains from the KORUS FTA are focused in the processed and semi-processed products. In addition to the usual products, livestock products, fish, fruits, vegetables and nuts all benefit substantially from the agreement. However, due to the proximity of alternative suppliers (namely Australia and New Zealand), this FTA does not offer the same potential for dairy products. Still, the increased U.S. agricultural exports likely with a KORUS FTA in place could exceed **\$1.9 billion**. The table below shows the value of these increased exports.

Summary of KORUS Benefits to U.S. Agriculture

Agricultural Product	Current Imports from U.S.		Estimated Gains
	2006-2008 Avg	2009-2010 Avg	
	<i>(Values in U.S. Dollars)</i>		
Rice	44,056,800	78,818,200	-1,000,000
Wheat	433,854,000	343,148,400	30,000,000
Corn	1,493,024,100	1,501,800,300	-11,880,000
Other Grains	8,811,800	8,503,800	-120,000
Fruits, Vegetables and Nuts	372,601,800	429,645,000	133,000,000
Soybeans & Products	292,431,500	439,650,100	71,064,000
Other Oilseeds & Products	97,639,800	102,223,200	12,936,000
Cotton	123,756,800	122,167,100	14,000,000
Beef	97,042,000	353,556,200	563,000,000
Poultry	57,544,900	76,493,800	52,440,000
Pork	239,426,500	207,482,700	223,560,000
Other Livestock Products	457,839,200	430,943,000	49,000,000
Dairy	97,716,800	114,372,100	93,000,000
Processed Food and Fish Products	320,656,100	416,961,500	404,000,000
Other Agriculture	378,847,300	436,685,300	301,000,000
Total	4,515,249,400	5,062,450,700	1,934,000,000



Looking at some of the specific commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on the following commodity opportunities in what will be a fast-growing market:

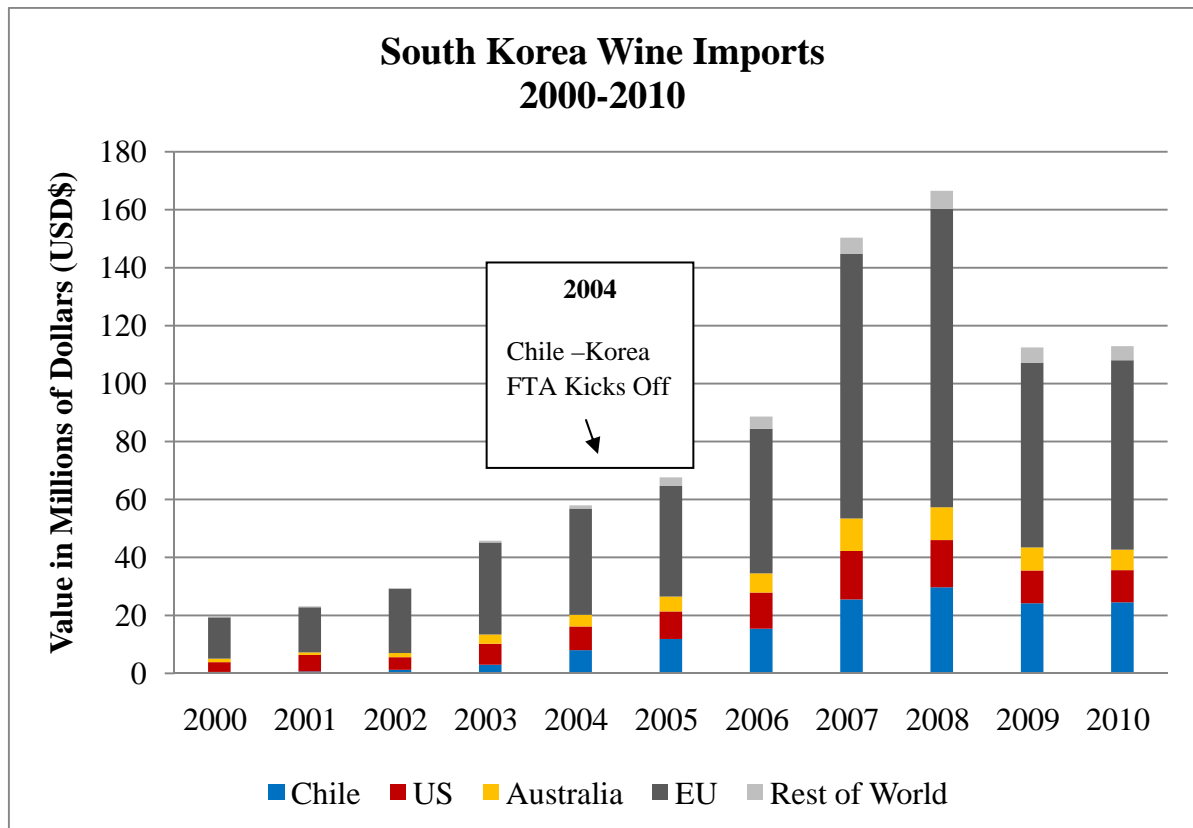
- Growing import demand for **livestock products** related to growth in population and per capita incomes, combined with limited domestic production potential, and a 2011 outbreak of foot-and-mouth disease will drive considerable expansion of U.S. exports. KORUS would allow the United States to use its cost advantages and its wide variety of beef, pork and poultry products to fill a growing share of this market. Prior to the agreement, all U.S. beef had been shut out of the Korean market. U.S. exports of beef to South Korea are rebounding dramatically since the market was reopened in 2006. In 2010 alone, U.S. beef exports to Korea increased more than 140 percent from the previous year to total \$518 million in sales. Reduction of import tariffs will further boost the United States' efforts to re-gain supplier of choice status in this important market. The U.S. and Korean beef industries have agreed that the United States will export to the Korean market only beef less than 30 months of age. This is a worthy first step in allowing U.S. beef into the market and achieving consistency with the World Organization for Animal Health standards. While we urge the U.S. and Korean governments to continue to discuss further opening of the market, Congress should move ahead and pass the trade agreement.
- Related to growing import demand for livestock products, indirect exports of **grains and oilseed products** are likely to be substantial. For U.S. corn and soybean producers, exports of meat products will have a large and important impact. The livestock products produced for export will be grown domestically utilizing domestic feed, thereby indirectly increasing exports of corn and soybeans. Indirect exports of corn as a result of KORUS are estimated to exceed \$212 million per year. Indirect exports of soybeans are estimated to exceed \$66 million per year. With no wheat and oilseed production capacity, South Korea's dependence on imports is likely to grow steadily. South Korea has already made a transition to fed livestock (producing some livestock and importing the feedstuffs). The trade agreement puts the United States in a strong supplier position to compete on a level playing field with other trade partners.
- Gains in **fruit and vegetable** import demand are expected to be substantial. South Korea imports a wide variety of fruits, processed fruits and vegetables, and tree nuts. Exporters of oranges, cherries, grapes, processed potatoes, sweet corn, shelled walnuts and shelled almonds will benefit greatly. KORUS will put the United States in a position to capture the remaining market share.
- Gains in **other agricultural products and processed food and fish products** will also be substantial. The United States exports a broad range of farm products to South Korea. Other commodities or commodity groupings of importance include dairy products, snack foods, horticultural products, food ingredients and other animal products, such as hides. KORUS will allow the United States to capture a larger share of these expanding markets as well.



Lost opportunities

Korea has completed an agreement with the European Union (EU), which is expected to be implemented by July 2011. The Korea-EU FTA will immediately eliminate 82 percent of Korea's tariffs; in five years, the agreement will eliminate 94 percent of Korea's tariffs. In contrast, KORUS will eliminate 94.5 percent of Korea's tariffs within three years of implementation; virtually all tariffs will be eliminated in 10 years. If the Korea-EU FTA agreement enters into effect before KORUS, European exporters will gain a significant competitive advantage over the United States in the Korean market.

Loss of market share in Korea because of U.S. competitors' preferential access has become a reality for some segments of U.S. agriculture. Korean wine imports were increasing sharply and peaked at about \$167 million in 2008. During the 2000-2009 period, Chile's Korean market share (by value) rose from 2.4 percent to 21.7 percent, while the U.S. share fell from 17.1 percent to 9.8 percent. This is believed to be the direct result of the 15 percent import duty which was eliminated on Chilean wine under the Korea-Chile trade agreement implemented in April 2004. There is a real potential for the U.S. position to be further eroded if South Korea's FTA with the EU, which currently enjoys a market share in excess of 50 percent, enters into force before KORUS. In addition to the EU, other U.S. competitors – Australia, Canada and the members of MERCOSUR – are currently negotiating deals with Korea, any of which could further erode the U.S. competitive position.



Source: American Farm Bureau Federation Economic Analysis