

## **The U.S.-Korea FTA: Lost Opportunities**

The United States and the Republic of Korea signed a free trade agreement on June 30, 2007 – nearly three years ago.

At that time, the Office of the U.S. Trade Representative (USTR) issued a fact sheet stating that the agreement would result in nearly 95 percent of bilateral trade in consumer and industrial products becoming duty free within three years of the date of implementation. USTR also said that the reduction of Korean tariffs and tariff-rate quotas would expand U.S. merchandise exports to Korea by around \$10 billion annually and contribute \$10 billion to \$12 billion to U.S. GDP.

In the three years the agreement has languished in the congressional approval process, the benefits the agreement would have offered our nation during this period have been lost. While we have debated ways to stimulate the economy and create jobs, one sure-fire way to have achieved economic gains has been ignored.

But the economic implications of the delay go far beyond the losses suffered so far. In the past three years, Korea has continued its far-sighted effort to expand and strengthen trade relationships with other countries. Korea has already concluded, is negotiating or is planning FTAs with Chile, Australia, New Zealand, Canada, China, the European Union (27 nations), India, Japan, Mexico, Mercosur (Argentina, Brazil, Paraguay and Uruguay), Peru, ASEAN (Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Viet Nam, Lao PDR, Myanmar and Cambodia), Pakistan and Russia. If Korean tariffs are eliminated on products from these countries but left in place on American goods, we will certainly lose exports and we will lose jobs.

### **Implications for U.S. Agriculture**

Korea is now the fifth largest market for U.S. agricultural exports, valued at \$3.9 billion in 2009. According to economic analysis by the American Farm Bureau Federation, the Korea FTA would expand those exports in a wide range of commodities and result in \$1.8 billion in additional sales – a 46 percent increase over 2009 exports. But our share of the Korean import market is less than one-third of the total, and we continue to face considerable pressure from other suppliers. Farmers and ranchers have been counting on the FTA to improve our competitive position in that market.

Commodities that will gain immediate duty-free access to the Korean market if the FTA is approved include wheat, feed corn, soybeans for crushing, hides and skins, cotton and a broad range of high-value agricultural products. These include almonds, pistachios, wine, bourbon and Tennessee whiskey, raisins, grape juice, orange juice, fresh cherries, frozen French fries, frozen orange juice concentrate, corn gluten feed and meal and pet food.

A number of commodities will gain duty-free access in two years (including avocados, lemons, dried prunes and sunflower seeds), or in five years (including food preparations,

chocolate and chocolate confectionary, sweet corn, sauces and preparations, corn sweeteners, corn oil, other fodder and forage (alfalfa), breads and pastry, grapefruit and dried mushrooms).

Other U.S. farm products will benefit from expanded market access opportunities through new or expanded tariff rate quotas. These include skim and whole milk powder, whey for food use, cheese, starches (including high-value modified corn starches), barley, popcorn and soybeans for food use. Market access improvements also would be achieved for beef and pork products, pears, apples, grapes and oranges.

A recent study of selected U.S. commodities by agricultural economists at Iowa State University determined that the Korea FTA would result in greater exports and higher producer prices for beef, pork, poultry, butter, cheese and soybean oil and meal. They also concluded that, while exports of wheat and feed grains would not change significantly because their import duties in Korea are already low, prices received by farmers would increase as a result of higher demand for processed products and meats to satisfy export demand for the Korean market.

### **The Pork Predicament**

Of all U.S. commodity sectors, the pork industry may have the most to gain from an FTA with Korea. According to Iowa State economist Dermot Hayes, by the end of the phase-in period, total U.S. pork exports to Korea will be almost 600,000 metric tons. This represents nearly twice the current U.S. export level to Japan – now the top value market for the U.S. pork industry. The FTA will lift live hog prices by a staggering \$10 per animal when fully implemented and will generate an additional \$825 million in U.S. pork exports. Korea alone will absorb 5 percent of total U.S. pork production. When fully implemented, the FTA will create more than 11,000 new jobs due to increased pork exports alone.

Conversely, Hayes concludes that the failure to implement the FTA, coupled with the implementation of the recently signed EU-Korea FTA, puts U.S. pork at a severe disadvantage with respect to competition from the European Union in the Korean market. Under a scenario in which the U.S. dollar returns to a price of 1.25 to the Euro, reflecting the long-run equilibrium between these two currencies, U.S. market share in Korea would fall by 3 percentage points per year for the entire projection period, and the U.S. would be eliminated from this market over a 10-year period. This, he calculates, would cost the U.S. 3,628 full-time positions in the pork industry and 18,000 total full-time positions after allowing for indirect employment impacts.

### **Beef: With the FTA, a Winner, Not a Loser**

While pork might be the agricultural industry with the most to gain by implementation of an FTA with Korea and the most to lose by a failure to implement it, other commodities face similar outcomes. American ranchers have much to gain from an FTA, particularly in light of the agreement on BSE. Korea is once again a very lucrative market for U.S. beef, and it could grow under the FTA from about \$200 million last year to more than \$1 billion in value.

Indeed, it has the potential to become the top export market for U.S. beef with an FTA in place. But not if the market is abrogated to Australia and other countries with which Korea is negotiating free trade deals.

### **Potatoes: Close to getting fried**

Korea is a very large market for U.S potatoes, with more than \$25 million in annual sales, and we have the largest share of the import market. However, both the U.S. and the EU obtained commitments to immediately eliminate the 18 percent duty on French fries. But while our FTA has been stymied, the EU is agreement moving forward. If EU fries begin to enter at zero and the U.S. is still at 18 percent, we will lose substantial market share. New Zealand is also targeting an FTA with Korea, with the fourth and fifth rounds of negotiations coming up this summer.

### **Conclusion**

These are just a few of the issues that are facing agricultural producers and exporters as the Korea FTA is put at risk by delays in its implementation. The Korea FTA is the most important free trade agreement for U.S. agriculture since the NAFTA. Nearly all sectors of the agriculture economy support this agreement. The reason is simple: This deal can open a market to U.S. food and agricultural products while requiring U.S. producers to face no new competition from Korea; it can create thousands of new jobs in rural America and throughout the economy; and it can expand our share of trade in a growing market with the 15<sup>th</sup> highest GDP in the world.

All of these will be lost opportunities, however, if we fail to implement the FTA and, thereby, hand this lucrative market to our competitors.