

GF&O REPORT ON KORUS Free Trade Agreement

April 25, 2007

Honorable Susan Schwab
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Honorable Mike Johanns
Secretary of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Ambassador Schwab and Secretary Johanns:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the final report of the Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds on the Free Trade Agreement with Korea, reflecting a consensus advisory opinion on the proposed Agreement.

Sincerely,

A handwritten signature in black ink that reads "Donald E. Latham". The signature is written in a cursive, flowing style.

Donald E. Latham
Chair
Grains, Feed, and Oilseeds ATAC

APRIL 25, 2007

The Korea - U.S. Free Trade Agreement (KORUS FTA)

Report of the
Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

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Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the Korea - U.S. Free Trade Agreement

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

Pursuant to these requirements, the Grain, Feed and Oilseeds ATAC hereby submits the following report.

II. Executive Summary of Committee Report

The Grains, Feed & Oilseeds ATAC commends the Administration for its conclusion of a Free Trade Agreement (FTA) with the Republic of Korea. It is not a perfect agreement, as reflected in the lack of any improved access for U.S. rice, plus other limitations identified in this report. In fact, a few ATAC members do not support the FTA because of the exclusion of rice. Nonetheless, Korea is one of the United States' larger markets for grains, feed and oilseeds, and it will be an even larger market for these products under the concluded agreement. Thus, the majority of Committee members welcome and endorse the FTA for the benefits expected to be realized by most U.S. producers of grains, feed and oilseeds.

III. Brief Description of the Mandate of the Grains, Feed and Oilseeds ATAC

The advisory committee is authorized by Sections 135(c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. They provide a formal mechanism through which the U.S. Government may seek advice and information. The continuance

of the committee is in the public interest in connection with the work of the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. There are no other agencies or existing advisory committees that could supply this private sector input.

IV. Negotiating Objectives and Priorities of the Grains, Feed and Oilseeds ATAC

The principal objective of the Grains, Feed and Oilseeds ATAC is to advise the Administration on issues of importance in negotiating competitive opportunities for United States exports of agricultural commodities in foreign markets and achieving fairer and more open conditions of trade for grains, feed and oilseeds.

V. Advisory Committee Opinion on Agreement

South Korea is a valuable trading partner for U.S. agriculture. At least five of its top 14 agricultural import commodities are of direct interest to this Committee (see table below), and several others are of indirect interest. It is the number three market for U.S. feed grain exporters, the fifth largest market for our soybean oil, the eighth largest market for U.S. wheat and soybeans, and number 19 for overall demand of American sourced vegetable oils.

Republic of Korea's Major Agricultural Imports (FAO 2004)					
	Commodity	Quantity		Value (000 US\$)	Unit value (US\$)
1	Maize	Mt	8371012	1431563	171
2	Wheat	Mt	3368629	660409	196
3	Soybeans	Mt	1283491	480300	374
4	Cotton Lint	Mt	268794	429538	1598
5	Food Prepared nes	Mt	152012	428828	2821
6	Hides Dry-Salted Cattle	Mt	182403	421305	2310
7	Cake of Soya Beans	Mt	1350885	419197	310
8	Rubber Natural Dry	Mt	328117	417594	1273
9	Beef and Veal, Boneless	Mt	102748	377740	3676
10	Pork	Mt	173231	329986	1905
11	Sugar (Centrifugal, Raw)	Mt	1597246	308946	193
12	Beverages Dist Alcoholic	Mt	29075	236816	8145
13	Beef and Veal	Mt	57378	166530	2902
14	Oil of Soya Beans	Mt	223327	146429	656

As noted in the following table, Korea's bound MFN tariffs on many of the commodities of interest to this ATAC will be eliminated immediately, or staged down to zero over a period of years.

<u>HTS</u>	<u>Description</u>	Current MFN Rate	Length of Phase Out (in equal annual installments unless otherwise indicated)
1001902030	Wheat	1.8	0
1001100000	Durum	3	0
1003001000	Barley Malt	513	15+TRQ+SG
1003009010	Unhulled Barley	324	15+TRQ+SG
1003009020	Naked Barley	299.7	15+TRQ+SG
1004001000	Oats	554.8	5
1005100000	Corn for Seed	328	5
1005901000	Corn for Feed	328	0
10061000	Rice	5	No Change
1007001000	Sorghum for Seed	779.4	10
1007009000	Sorghum for Other	3	0
1201001000	Soybeans	487	0
1201009090	Soybeans for Food Use (IP)	487	ZZ5+TRQ
1208100000	Flour and meals of soybeans	3	0
1209210000	alfalfa seed	0	0
1507100000	Crude soybean oil	5.4	10
1507900000	Refined soybean oil	5.4	5
2304000000	Soybean Oil Cake	1.8	0

Feedgrains

Corn: The elimination of tariffs on U.S. corn will not significantly impact U.S. corn exports to South Korea in the immediate or mid-term given that South Korea is already an open market to corn imports. South Korea typically imports about 8.5 million tons of corn annually, with the majority going to the feed sector. In marketing year 2005/06, the United States supplied about 63 percent of those imports with the balance coming from China and South America. Because of its limited production and need to supply the feed and corn processing industries, Korea already provides zero to two percent duty access for corn through an autonomous tariff rate quota (TRQ) system. The volume levels typically are beyond yearly import requirements, and well in excess of South Korea's World Trade Organization (WTO) commitments.

Feed Corn: The agreement will bind feed corn at the already applied MFN rate of zero and open a U.S. specific zero-duty TRQ for processing corn. In the first years of the agreement, the processing TRQ will not likely result in additional U.S. exports as current trade volumes are well in excess of the TRQ volumes, and the already low applied MFN

tariff of one to two percent. However, after the seven-year phase out of the TRQ, U.S. corn exports may benefit slightly given the tariff differential.

Processing Corn: The tariff for processing corn will be phased out over seven years under a zero duty TRQ system. The initial TRQ of 93,000 metric tons will grow yearly to 412,000 metric tons in the seventh year before all duties and quotas are eliminated. Applied tariffs on processing corn run from one percent to two percent with yearly autonomous TRQ volumes in excess of South Korea's requirements. South Korea's WTO bound in-quota tariff rate is 3 percent for industrial corn, with over-quota volumes bound at 328 percent.

DDGS: DDGS will receive immediate tariff elimination. Korea currently applies a rate of five percent while its WTO bound rate is 6.6 percent. U.S. exports of DDGS should benefit as the five percent tariff (applied) is immediately eliminated. With a significant potential for increased use in feed rations and expanding supplies of DDGS in the United States, eliminating the tariff will enhance future U.S. export opportunities.

Sorghum: Milo will receive immediate tariff elimination. South Korea's WTO bound rate for sorghum is 9 percent, but it currently applies a 3 percent tariff. Although South Korea has imported only minor amounts of sorghum in the past, equalizing the sorghum duty to that of feed corn could provide for potential export opportunities for sorghum in the future depending on the price relationship between U.S. corn and sorghum.

Barley and Malt: Food grade barley will have an initial zero duty TRQ for 2,500 metric tons, and malt/malting barley will have a 9,000 ton TRQ. The TRQ volume will grow at two percent per year over the 15-year tariff phase-out. While South Korea has imported about 65,000 metric tons of barley in each of the last three years to cover needs in excess of its production, almost none has been sourced from the United States. Under its WTO commitments, South Korea has TRQs of 30,000 metric tons for malting barley (bound at 30 percent tariff in-quota and a 513 percent tariff over-quota), and 23,582 metric tons for feed barley (bound at 20 percent tariff in-quota and a 324 percent tariff over-quota). However, South Korea autonomously applies TRQs of 36,000 metric tons for malting barley (subject to a 15 percent tariff in-quota and a 30 percent tariff over-quota), and 50,000 metric tons for feed barley (subject to a 2 percent tariff in-quota and a 5 percent tariff over-quota).

Alfalfa: U.S. exporters already have a good relationship with Korea in terms of marketing their alfalfa hay and grass hay/grass straw and the FTA should only improve upon it.

Oilseeds and Products

The KORUS FTA would result in the immediate elimination of Korean tariffs on soybeans for crushing and the 1.8 percent tariff on soymeal. The current 5.4 percent tariff on refined soyoil would be phased out over five years while the 5.4 percent tariff on U.S. crude soyoil would be eliminated over 10 years. The early phase-out of the tariff on

refined oil is a clear advantage, though it would have been good to achieve a similar phase-out of the tariff on crude oil.

Identity-preserved food grade soybeans will have a 10,000 MT duty-free TRQ in year one. The quota expands to 25,000 MT in year three, and expands thereafter at 3 percent per annum in perpetuity. In-quota soybeans may be sold directly to the Korean private sector instead of to the government, which has been re-selling them at a huge profit. The over-quota duty remains at a prohibitive 487 percent. This would effectively assure that food grade soybean imports over the quota would continue to be imported by the government, which earns significant revenue from reselling the soybeans in the domestic market.

In summary, Korea is a large and important market for soybeans, soybean meal, and soybean oil. The tariff reductions included in this agreement will help the U.S. achieve market share versus tough competitors such as Argentina and Brazil. In fact, elimination of the tariff on refined soyoil could give U.S. soyoil exporters as much as a \$32 to \$35 per ton advantage over South American suppliers. Allowing the private sector to import food-grade soybeans could also open the door for sizable exports of higher value U.S. food-grade soybeans to Korea.

Wheat

The U.S. market share of Korea's wheat imports is 50 percent, down from 100 percent prior to the 1980s. The zero bound duty under this FTA, coupled with Korea's strong economic growth should enable American growers to capture a larger share of wheat sales. However, we note that there are other complications including competition from state trading monopolies in Canada and Australia, plus Korea's inclination to use SPS standards that are not reflective of those set by international bodies such as Codex. The FTA establishes a Committee on Agriculture, a Committee on Sanitary and Phytosanitary Matters, plus a bilateral dispute settlement process and the Administration is urged to make full and effective use of these vehicles in order to remove standards-related barriers to U.S. exports.

Rice

There is no change in access to the Korean market for U.S. rice under this agreement. This Committee warned of the dangers of exclusions in such agreements and U.S. rice producers, millers and exporters are now the victims of this approach. In the Committee's March 12, 2004 report on the U.S.-Australia FTA we explicitly opined:

“...the ATAC is very troubled by the fact that this free trade agreement with Australia is not comprehensive in product coverage. Comprehensive product coverage had heretofore been the hallmark of agreements negotiated by the U.S. and an important distinction that could be drawn from those negotiated by competitors such as the EU. The ATAC favors a stricter interpretation of GATT Article 24 and its requirement that regional

trade agreements should cover “substantially all the trade” in goods between its members. We fear that sugar’s exclusion from the agreement with Australia could serve as an adverse precedent that encourages trading partners in future trade negotiations to seek exclusion of products or commodities that are of interest to U.S. exporters.”

The industry had hoped for at least some level of improved trading conditions.

Miscellaneous

Preference Clause: Past FTA’s have included a “Preference clause” that ensured that U.S. exporters would receive treatment no less favorable than that provided to any other supplier to a trading partner’s market. The absence of such a clause in this agreement is of concern, particularly since Korea is potentially in negotiation on a FTA with Canada, which competes with the U.S. in supplying wheat, barley, barley malt and other products.

Export Subsidies: The agreement lacks language included in other FTA’s that expresses a mutual commitment to discourage imports of agricultural products benefiting from export subsidies supplied by third country exporters. Although such subsidies are in decline and are tentatively agreed in the WTO for elimination, the inclusion of language in the FTA would have served as an important and continuing reminder of the importance placed in eliminating them altogether.

Tariff Rate Quotas: The Committee has not had the benefit of reviewing the specific language related to TRQ’s and may submit alternative comments in the future but the general impression is that progress has been made in market access, though with some less impressive aspects. For example, some TRQ’s such as those for barley and malt are relatively small, provide for low growth rates and have long phase out periods of 15 years. The Committee wants to continue to be involved in providing guidance on TRQ administration with the goal of maximizing the benefits to U.S. exporters.

Agricultural Services: The U.S. is not just a preeminent supplier of agricultural commodities, but also of the related products and services that ensure their consumption around the world. Korea’s Annex II, Section 29 of the FTA contains what could be interpreted as restrictive language related to the provision of such services. The Committee seeks greater clarity from the U.S. government as to the possible restrictions that are intended by Korea, and specifically with its references to certain polishing and processing activities. The Committee expects the U.S. government to ensure that this reservation is narrowly limited to incidental services as intended and does not allow this reservation to be applied to broader distribution or value-added processing activities that are not properly categorized as incidental services.

Beef: The beef industry is a major customer for U.S. feed and oilseeds. We are aware that this agreement will not come to fruition unless Korea first accepts commercially viable beef imports based on the internationally recognized guidelines established by the World Organization for Animal Health (OIE). We encourage U.S. negotiators to

continue their efforts at ensuring that Korea removes any barriers to American beef that are not supported by internationally recognized SPS standards.

Caveat: The Committee reserves the right to submit further comments on areas of the KORUS FTA that remain in flux, or where future explanations fail to satisfactorily rectify any of its concerns.

VI. Grain, Feed and Oilseed ATAC Membership

NAME	ORGANIZATION	CITY/STATE
Donald E. Latham, Chairman	Latham Seed Company	Alexander, IA
Dan L. Anderson	Anderson Wheat Farms, Inc.	Haxtun, CO
Mark T. Anderson	Anderson Hay and Grain Co., Inc.	Ellensburg, WA
Gary R. Blumenthal	World Perspectives, Inc.	Washington, DC
Devry S. Boughner	Cargill, Incorporated	Washington, DC
James E. Bowman	Monsanto Company	St. Louis, MO
Kyd D. Brenner	DTB Associates, LLP	Washington, DC
Fred J. Clark	Cornerstone Government Affairs	Washington, DC
Robert E. Cummings, Jr.	USA Rice Federation	Arlington, VA
Steven J. Daugherty	Pioneer Hi Bred International, Inc.	Des Moines, IA
Neal H. Fisher	North Dakota Wheat Commission	Bismarck, ND
John D. Gordley	Gordley Associates, Inc.	Washington, DC
Paul B. Green	Paul B. Green International Marketing	Washington, DC
John K. Hansen	Nebraska Farmers Union	Lincoln, NE
R. Rusty Harder	Competitive Strategic Intelligence, Inc.	Story City, IA
Kenneth L. Hobbie	U.S. Grains Council	Washington, DC
Lurlin L. Hoelscher	Hoelscher Ag Dist., Inc.	Alden, IA
Christopher D. Holdgreve	National Grain and Feed Association	Washington, DC
Daniel T. Kidd	Kidd Brothers Farms	Big Sandy, MT
Ronald J. Litterer	Pro-Net Farms and Four Seasons Pork, LLC	Greene, IA

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David C. Lyons	Louis Dreyfus Corporation	Washington, DC
Timothy D. McGreevy	USA Dry Pea and Lentil Council	Moscow, ID
Robert J. Metz	Metz Farms, Inc.	Browns Valley, MN
Joel G. Newman	American Feed Industry Association	Arlington, VA
John G. Reed, Jr.	Archer Daniels Midland Company	Washington, DC
Robert M. Reeves	Institute of Shortening and Edible Oils	Washington, DC
Mark A. Rokala	Cornerstone Government Affairs	Washington, DC
Candace A. Roper	CoBank, ACB	Englewood, CO
Claude P. Rosson, III	Texas A&M University	College Station, TX
Michael E. Rue	Catlett Warehouse	Marysville, CA
Ladd M. Seaberg	MGP Ingredients, Inc.	Atchison, KS
Deborah J. Silverberg	National Corn Growers Association	Washington, DC
Robert H. Sindt	US Dry Bean Council	Washington, DC
Barbara R. Spangler	Wheat Export Trade Education Committee	Washington, DC
Alan T. Tracy	U. S. Wheat Associates, Inc.	Washington, DC
Margaret A. Tutwiler	International Food & Agricultural Trade Policy Council	Washington, DC
David M. Winkles, Jr.	South Carolina Farm Bureau	Columbia, SC