US-Korea FTA update April 2007

Key points

- The US/Korean Free Trade Agreement (FTA), if approved by both the Korea and US parliaments, would give US beef an unfair competitive advantage in Korea and damage Australia's beef trade.

- The pursuit of closer economic relations between Australia and Korea is now even more critical, and the Australian beef industry therefore urges the Government to expedite the current joint study on a possible FTA between Australia and Korea.

- The industry, through MLA, has boosted its marketing campaign in Korea in anticipation of the US return, with an emphasis on our clean and safe image.

Background

Following lengthy negotiations, the US and Korea announced a proposed and broad-ranging Free Trade Agreement on 2 April 2007. This agreement (expected to commence in 2008) includes the elimination of the 40% tariff on US beef imports to Korea over 15 years.

A safeguard provision is to apply if imports from the US exceed 270,000 tonnes in year one (20% above the US shipments in 2003, prior to the BSE-related ban), rising by 6,000 tonnes per year, to a maximum of 360,000 tonnes, to apply from year 15 onwards. The safeguard tariff to be applied is not yet known.

Reportedly, the Korean government has also given the US a verbal undertaking to accept the OIE trade rules if US is granted 'controlled BSE' status in the OIE meeting in May. This could allow for bone-in US beef to enter by mid-year, solving the current trade impasse over the rejection of any shipments containing bone-chips, which has effectively prevented any commercial trade in beef.

The US President has notified the Congress of his intention to sign the deal under the 'fast track' trade promotion authority. Hence the Congress is to undertake a 90-day congressional review of the deal before voting for or against it, without amendment. A US Senate Finance Committee Chairman, Max Baucus, and the National Cattlemen's and Beef Association have already warned that they will not support this FTA until commercial trade in beef has resumed (the bone-chip issue resolved).

Approval from the Korean parliament is expected to be more straight-forward, though producer protests are expected over the beef trade liberalisation.

Korea is Australia's third largest beef export market, taking 150,000 tonnes of beef in 2006 (16% of total exports), valued at $832 million (17% of total export value).

This unfair tariff advantage could accentuate the erosion of Australia's 80% share of the Korean beef import market, expected as US beef returns over the next few years. Prior to the ban on US beef in December 2003, the US had a 70% share of this market and Australia a 21% share.

However, the impact on Australia's beef exports will depend on a host of factors – notably the final protocols applied to US imports (bone-in particularly), the nature of Korean inspection arrangements for US product, the availability and price of US beef (which has risen since 2003) and Korean beef consumption (which is currently 16% below pre-US BSE levels).

If a major impact on Australian trade to Korea is to be avoided, it is essential that Korean tariff arrangements for Australian beef mirror those to be granted to the US under this FTA. The only realistic avenue for this is the negotiation of closer economic relations between Australian and Korea, probably through an FTA. MLA has supported the current feasibility study into such an FTA with Korea.

Action taken

The beef industry (and NFF) will continue to lobby the Australian government, seeking to expedite the FTA Feasibility Study process and quickly move to commence bilateral trade negotiations - emphasising the importance of a beef deal with Korea equivalent to that contained in the US/Korea FTA, should it be implemented.

MLA has also boosted its marketing campaign in Korea in anticipation of the US return, with an emphasis on our clean and safe image, maintaining relationships built over the past three years and ensuring that Australian beef remains on the menus and shelves of Korean foodservice and retail sectors.

MLA contacts

Peter Weeks, Manager, Market Information & Analysis
Phone 02 9463 9167, Fax 02 9463 9220
Email pweeks@mla.com.au

Dr Peter Barnard, General Manager, International Marketing & Economic Services
Phone 02 9463 9161, Fax 02 9463 9220
Email pbarnard@mla.com.au

Summary Australia and Korea beef trade data

Appendix

	Australian Exports to Korea		Korean Imports (tonnes)									Korean beef consumption
	volume (tonnes swt)	**value (A$ millions)**	***Total***	***Australia Beef***	*% share*	***NZ Beef***	*% share*	***US Beef***	*% share*	***Other***	*% share*	
1996	57,602	140	163,179	57,097	35%	25,117	15%	76,898	47%	4,067	2%	322,870
1997	60,921	143	166,095	61,626	37%	15,547	9%	83,359	50%	5,563	3%	361,953
1998	33,523	95	92,027	31,620	34%	3,922	4%	52,661	57%	3,824	4%	345,486
1999	77,897	209	177,089	73,385	41%	7,688	4%	87,067	49%	8,949	5%	392,714
2000	73,347	244	237,494	69,998	29%	11,022	5%	133,254	56%	23,220	10%	402,381
2001	56,778	258	180,676	57,526	32%	10,248	6%	103,257	57%	9,644	5%	384,057
2002	80,153	339	315,837	83,164	26%	17,459	6%	201,136	64%	14,076	4%	402,697
2003	62,289	272	325,890	69,009	21%	26,112	8%	224,036	69%	6,732	2%	327,776
2004	93,309	487	160,145	88,700	55%	44,895	28%	25,409	16%	1,063	1%	327,776
2005	106,444	614	177,735	126,306	71%	47,409	27%	722	0%	3,298	2%	316,760
2006	149,662	827	212,699	162,795	77%	44,374	21%	8	0%	5,522	3%	333,000