
**BEFORE THE
OFFICE OF THE U.S. TRADE REPRESENTATIVE
TRADE POLICY STAFF COMMITTEE**

PROPOSED FREE TRADE AGREEMENT WITH THE REPUBLIC OF KOREA

**WRITTEN TESTIMONY OF
WELCH FOODS INC., A COOPERATIVE
Relating to Grape Juice Concentrate Classified Under H.S. 2009.61.00 and 2009.69.00**

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The following comments are submitted by Welch Foods Inc., A Cooperative (hereinafter Welch's) in response to the February 9, 2006 *Federal Register* notice (71 *Fed. Reg.* 6820), requesting comments on negotiating objectives for a U.S. free trade agreement with the Republic of Korea, including advice on how specific goods should be treated under the proposed FTA. Welch's exports 100% U.S. grape juice concentrate to Korea, which is manufactured in Korea into finished grape juice and sold under the Welch's brand. The U.S. grape juice concentrate is subject to a 45% Korean tariff. That tariff substantially increases the price of Welch's finished grape juice product. As discussed below, Welch's is seeking the immediate elimination of Korea's 45% grape juice concentrate tariff under the FTA. The elimination of the tariff would benefit Welch's and other U.S. grape juice exporters, Korea's juice processing industry, and Korean consumers. Welch's fully supports a U.S.-Korea FTA that achieves this result.

Welch's is the processing and marketing subsidiary of the National Grape Cooperative Inc. (National). National's approximately 1,350 members grow Concord and Niagara grapes in the states of New York, Pennsylvania, Ohio, Michigan, and Washington. National has processing plants in New York, Michigan, Pennsylvania, and Washington state. Welch's signature product is Concord grape juice. It also produces other fruit juices, juice cocktails, jellies, jams, preserves, juice bars, and fruit-flavored carbonated beverages. Welch's products are sold in the United States and some thirty countries throughout the world. Korea is an important export market for Welch's grape juice products. Welch's exports primarily Concord grape juice concentrate to Korea, but also sells its white grape/peach 100% juice in that market made from U.S.-origin Thompson grape juice concentrate and U.S.-origin peach concentrate. The principal barrier to growing Welch's exports to Korea and its retail sales in that market is Korea's 45% tariff on grape juice concentrate. Removal of that tariff in favor of U.S. exports is a priority for Welch's.

I. Korea Offers a Growing Market for Welch's Grape Juice Exports

Welch's has exported U.S.-origin Concord grape juice products to Korea for 10 years with its Korean partner Nong Shim. From 1995 to 2002, Welch's exported only finished grape juice products made from U.S.-origin concentrate and manufactured into finished juice products

in Welch's processing plant in Washington state. Beginning in May 2003, Welch's began exporting its Concord grape concentrate to Korea under a licensing arrangement with Nong Shim. Nong Shim is one of the largest food companies in Asia. The licensing agreement allows Nong Shim to manufacture, bottle, market, sell and distribute U.S.-origin Welch's grape juice products in Korea under the Welch's trademark.¹ Today, all Welch's products sold in Korea are locally manufactured in Korea by Nong Shim.

In 2002 and 2003, total U.S. exports of grape juice to Korea were valued at over \$9 million.² In the most recent two years, 2004 and 2005, the value of U.S. grape juice exports to Korea dropped to approximately \$6 million. Argentina reportedly increased its exports of grape juice to Korea during that period.

Between 2002 and 2005, retail sales in Korea of Welch's finished Concord grape juice have increased 4-fold, but from a relatively small base. This increase is largely attributed to the in-country manufacturing of Welch's concentrate in Korea, the wide distribution offered by Nong Shim, and active promotional efforts. Welch's promotional campaign in Korea has focused on promoting the unique taste, quality, and cardiovascular health benefits of Concord purple grape juice to Korean consumers.

Further growth in the market is limited by the high cost of Welch's premium grape juice product relative to lower-cost foreign supplies. As discussed below, because Korea has no domestic-origin grape juice industry, U.S. grape juice competes exclusively with other foreign-sourced product in the Korean market. Korea's 45% ad valorem tariff adds substantially to the retail price of Welch's grape juice and disproportionately impacts Welch's higher-priced juice compared to lower-priced grape juice from other foreign suppliers. At the retail level, the 45% duty results in a 30% to 50% price premium for Welch's grape juice compared to the price of other foreign-sourced grape juice.

II. Welch's Grape Juice Concentrate Does Not Compete with Korea's Grape Production, Which is Sold Almost Exclusively to the Fresh Market

U.S. grape juice concentrate exports to Korea do not compete with Korea's domestic table grape industry, which sells nearly all its grape production to the fresh grape market. Nevertheless, Korea's 45% tariff on grape juice imports is one of the highest tariffs on U.S. grape juice exports among the major Asian markets.³

Korean grape growers reportedly harvested approximately 453,578 tons of grapes in 2001 of which only 3.3% was used in processed foods, and less than 1% used in juice production. Approximately 97% of Korea's grape production goes to fresh market sales, where prices are the

¹ Because Welch's products are sold under the Welch's trademark in Korea, Welch's is also interested in ensuring that the FTA agreement includes transparent, enforceable trademark rules to protect U.S.-trademarked products.

² Department of Commerce, U.S. Census Data, Foreign Trade Statistics, Export data by dollar value for H.S. 2009.61.00 and 2009.69.00.

³ Tariffs on U.S. grape juice imports in Japan, Taiwan, and China range between 19% and 29% depending on the specific category of grape juice.

highest. There is no indication that these market share percentages have changed. Because the Korean grower gets the smallest return for sales to the juice market there is little incentive within the Korean grape industry to grow the juice market segment.

Korea's grape juice market is almost exclusively supplied by imported product. U.S. grape juice products compete with lower-cost foreign grape juice from Spain, Chile, Brazil, and Argentina. Chilean grape juice benefits from preferential tariff access to the Korean market under the Korea-Chile FTA.⁴ Under that FTA agreement, in 2006 Chilean grape juice enters with a preferential tariff of 28%, which will be duty-free on January 1, 2011. Importers in Korea have indicated that this preference puts higher-priced U.S. grape juice, which is subject to the higher 45% duty, at a significant disadvantage compared to grape juice sourced from Chile.

III. The Immediate Elimination of Korea's 45% Grape Juice Tariff Under the FTA Would Make U.S. Grape Juice Concentrate More Competitive with Lower-Priced Third Country Imports, Benefit Korea's Processing Sector by Expanding Value-Added Processing Activities in Korea, and Benefit Korean Consumers, Who Would Have Access to Lower-Priced Premium Quality Grape Juice

A. Duty-free access would expand opportunities for Welch's and other U.S. producers and exporters

Welch's priority for the FTA agreement is the immediate elimination of Korea's 45% tariff on U.S. grape juice that enters under the following two H.S. classifications:

H.S. Number	Product	Korea's Tariff
H.S. 2009.61.00	Grape juice of a brix value not exceeding 30	45%
H.S. 2009.69.00	Grape juice, other	45%

The majority of U.S. grape juice concentrate exports to Korea fall under the "other" grape juice category of H.S. 2009.69.00, covering juice concentrate containing a higher sugar content level than juice covered by H.S. 2009.61.00. Since both tariff lines cover concentrated grape juice, achieving duty-free access for both categories is important.

Immediate duty-free access for U.S. exports under both tariff lines would substantially reduce Welch's 30% to 50% price premium, allowing U.S.-origin grape juice to be price-competitive with other lower-cost imports. Lower-priced imports from Chile, Argentina, Spain, and Brazil are Welch's principal competition in the Korean market, since substantially all of Korea's table grape production is sold as fresh fruit.

⁴ Under Korea's FTA agreement with Chile that went into effect on January 1, 2004, Korea's grape juice tariff is being eliminated over 7 years. As of January 1, 2006, Korea's 45% grape juice tariff has been reduced by 37.5%, to 28%, for Chilean grape juice.

B. Korea's juice processing sector would benefit from additional value-added production in-country

Because Welch's exports primarily grape juice concentrate, which is manufactured into finished grape juice in Korea, Korea's processing sector has a direct interest in encouraging increased U.S. exports of grape juice concentrate. Welch's Korean partner Nong Shim employs several hundred Korean workers, who are engaged directly in the manufacture, bottling, sale, and distribution of Welch's juice in the Korean market. This value-added component means that Korea's processing sector and the several hundred Korean workers it employs stand to benefit too, if immediate duty-free access is granted to U.S. grape juice concentrate under the proposed FTA.

C. Duty-free access would give Korean consumers access to high-quality, healthy Concord grape juice products at lower retail prices

With duty-free access for U.S. grape juice concentrate, Korean consumers would benefit from the availability of lower-priced premium product at the retail level. Welch's research confirms that Korean consumers enjoy the unique taste of U.S.-origin Concord grape juice. Our consumer research has also shown that Korean consumers are increasingly health conscious and interested in Welch's 100% Concord grape juice for its proven cardiovascular health benefits. Providing a healthy product to Korean consumers at an affordable price would be another benefit of granting U.S. exports duty-free access.

IV. Conclusion

Welch's fully supports U.S. efforts to quickly conclude a U.S.-Korea FTA that would immediately eliminate Korea's 45% tariff on U.S. grape juice concentrate. The U.S.-Korea FTA offers a unique opportunity to benefit both U.S. producers and exporters of grape juice, Korea's juice processing industry, and Korean consumers. Welch's asks that the U.S. Administration make the above goals a priority for the FTA negotiations with Korea.