

## **U.S.-Korea Free Trade Agreement**

**Testimony by John Keeling  
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**on behalf of**

**The National Potato Council (NPC) and the American Potato Trade Alliance  
(APTA)**

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Thank you. My name is John Keeling, and I am CEO and Executive Vice President of the National Potato Council (NPC). I am here to testify on behalf of the NPC, which represents U.S. potato growers and the American Potato Trade Alliance (APTA), which is a coalition of quick service restaurants, potato processors, and grower groups united to eliminate trade barriers facing processed potato exports.

The U.S. potato industry strongly supports the initiation and completion of a U.S.-Korea Free Trade Agreement as long as the final agreement results in significant additional access for U.S. potatoes and potato products into the South Korean market. South Korea is currently our fifth largest export market for frozen fries, with more than \$16 million exported in 2005. It is also an important and growing market for both dehydrated and fresh potato exports. We believe that a successful Korean FTA should result in significant increases in exports of all U.S. potato products.

—The U.S. potato industry has four priorities for the U.S.-Korean Free Trade Agreement.

**Frozen Fries (H.S. 2004.1).** Korea currently applies an 18% ad valorem MFN tariff on U.S. fry exports. Although Korea is our fifth largest fry export market, this 18% tariff stifles our ability to significantly expand this market. The U.S. potato industry seeks the immediate elimination of this tariff as a result of the U.S.-Korean FTA.

Korea has no fry processing facilities. Moreover, given that Australia and Canada, major fry producing competitors, have expressed an interest in their own Korean FTAs, it is vital for U.S. fry producers that this tariff be eliminated. A zero fry duty would ensure that the U.S. remains the major fry supplier to Korea and yield significant increases in fry exports.

**Dehy:** Korea has the potential to be a significant export market for U.S. dehy exports. Unfortunately, that potential is limited by Korea's quota system. Traditionally, dehy flakes, pellets, and granules are exported under Chapter 11 of the Harmonized Tariff System code (H.S. 1105.2). Korea currently has an overly restrictive tariff rate quota for this tariff line. Exports of 60 metric tons (the equivalent of two ocean-going containers) can enter under the quota and face a 5.4% tariff. Once that quota is filled, the tariff increases to a prohibitive 304%. Furthermore, this quota volume covers imports from the entire world, so essentially Korea applies a 304% tariff on all dehy products.

In order to avoid this 304% duty, U.S. dehy shippers export under Chapter 20 (H.S. 2005.2) with an applied 20% ad valorem tariff (below the 54% bound rate). While there is no quota here, in order to qualify for this tariff line as a processed good, Korea requires that the dehy products be blended with at least 10% other components. U.S. shippers have been forced to create dehy blend formulas to meet the Korean requirements to export under this tariff line and avoid the quota. Such blending limits the end use of the product in Korea.

The U.S. potato industry is seeking the elimination or significant expansion of the Chapter 11 quota on dehydrated potatoes, and the immediate elimination of the Chapter 20 processed dehy tariff.

**Fresh Potato Quota:** Like the dehy quota, Korea has established a restrictive TRQ for fresh potatoes. Korea allows the importation of 18,810 metric tons of fresh potatoes every year. The in-quota duty is 30% and the over-quota duty is again a prohibitive 304%. U.S. fresh potato growers must share this quota with other countries, especially Australia. The Korean government also divides the quota into two categories, one for potatoes destined for chip processing and one for fresh potatoes sold at retail. It is unclear whether these distinctions are allowable under the WTO.

Korea is a promising market for U.S. fresh potato exports. As recently as two years ago, it was the third largest and fastest growing export market with over \$1.7 million in sales. The industry believes that the Korean market has enormous potential for fresh potato sales.

A Korean FTA provides an excellent opportunity to address the restrictive TRQ. The U.S. potato industry seeks the elimination of significant expansion of the fresh potato TRQ. It also seeks the elimination of any regulations that determine what type of fresh potatoes enters Korea.

**Fresh Potato SPS Issues:** Although U.S. potato producers have recently had some difficulties with Korean quarantine standards, Korea's National Plant Quarantine Service has been working with USDA and the U.S. industry to address these issues. In the interim, it is hoped that a "destruction-through-processing" protocol can be developed for potatoes to address any quarantine issues in the future for those potatoes destined for processing.

The U.S. government can assist with fresh potato quarantine issues prior to the completion of the FTA by facilitating the approval of states allowed to export to Korea. Although major potato producing states such as Idaho, Washington, and Oregon are approved for export to Korea, other potato producing states such as North Dakota, Colorado, California, New Mexico, Arizona, and Pennsylvania are prohibited from exporting to Korea due to concerns over five pests<sup>1</sup>. The U.S. industry believes these pests either do not exist in the states in question or can be addressed through simple mitigation measures. In the North Dakota case, the restriction is unjustified. North Dakota and Minnesota are considered one growing region. Korea allows exports from Minnesota, but not from North Dakota. The U.S. potato industry would like to see the states listed above approved for export to Korea prior to the final approval of the Korean FTA.

Thank you for your time. I'd be happy to answer any questions.

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<sup>1</sup> *Peronospora tabacina* (tobacco blue mold), *Synchytrium endobioticum* (potato wart), *Globodera rostochiensis* (golden nematode), potato yellow dwarf virus, and potato spindle tuber viroid.