



**Testimony on the Proposed U.S. – Korea Free Trade Agreement
Submitted by R-CALF USA
To the Trade Policy Staff Committee**

March 14, 2006

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) appreciates this opportunity to submit testimony on the proposed U.S. – Korea Free Trade Agreement (Korea FTA). R-CALF USA is a non-profit association that represents over 18,000 U.S. cattle producers in 47 states across the nation. R-CALF USA's mission is to represent the U.S. cattle industry in trade and marketing issues to ensure the continued profitability and viability of independent U.S. cattle producers. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Various main street businesses are associate members of R-CALF USA.

R-CALF USA believes that United States cattle producers can compete and thrive in global markets if the rules that regulate those markets are fair. Today, U.S. exports of cattle and beef are thwarted by high import tariffs abroad, large subsidies to cattle and beef producers in other countries, and a failure to harmonize health and safety standards to allow for increased trade while protecting animal health and consumer safety. In addition, the highly perishable nature of our product demands the creation of special rules for cattle and beef trade that reflect the special needs of our producers and protect them from import surges and excess price volatility. While many of these issues may be most comprehensively addressed at a global level, progress can also be made through a strategic program of bilateral and regional negotiations.

The Korea FTA presents an important opportunity to address some of these distortions with a country that has been a key export market for U.S. cattle and beef producers. Before Korea closed its border to imports of U.S. beef after the discovery of a Canadian animal infected with BSE in Washington State in late 2003, Korea was the third largest market for U.S. beef products. In 2003, for example, Korea accounted for a full 20 percent of all U.S. beef exports, worth more than \$806 million.² In 2003, imports of U.S. beef accounted for more than 75 percent of all of Korea's beef imports.³

² U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics.

³ U.S. Department of Agriculture, "Korea: Livestock and Products Semi-Annual 2005," GAIN Report No. KS5007, February 11, 2005.

Though U.S. exports have dropped sharply since Korea closed its border, R-CALF USA is hopeful that they will resume substantially when Korea re-opens its market this year. In January of this year, Korea agreed to a procedure to open its market to a portion of U.S. beef exports. Specifically, Korea agreed to allow imports of boneless beef from animals of 30 months or less in age. Imports of bone-in ribs, offal, and processed meat products continue to be banned.⁴ The market-opening process is expected to take until late March, and R-CALF USA expects the first round of FTA negotiations will not occur until the agreement to open to U.S. beef exports is fully implemented.

While Korea is a significant consumer of imported beef, it is not a large global exporter. Korea has a herd size of 2.3 million head, and exports roughly \$3 million worth of beef products to the world annually.⁵ The U.S. currently imports no beef from Korea, and USDA's Food Safety and Inspection Service has not certified any Korean establishments as eligible to export to the U.S. due to health and safety concerns.⁶

While Korea has traditionally been an important market for U.S. beef exports, it is also a highly protected market. It is essential that any FTA with Korea prioritize the reduction in these market distortions. Korea imposes a 40 percent tariff on fresh, chilled and frozen beef imports, an 18 percent tariff on imports of offal, a 27 percent tariff on imports of salted, dried and smoked beef, and a 72 percent tariff on prepared bovine meats.⁷ These tariffs are significantly higher than U.S. import tariffs, which range from zero percent on offal, 2 to 4.5 percent on prepared bovine meat, and 26 percent on fresh, chilled and frozen beef entering above the U.S. quota level.⁸

In addition to high tariffs, Korea has a long history of using non-tariff measures to erect barriers to foreign meat products. In 1999, the U.S. and Australia successfully challenged many of these measures at the WTO, including a dual retail system for beef sales and other discriminatory barriers. In addition, Korea employs various subsidy programs to support its domestic beef industry. In January of this year, the Korean government announced a plan to spend \$77.5 million to improve the quality of Hanwoo beef in order to help it compete with the U.S. beef expected to enter once the BSE ban is lifted.⁹ Other government support programs include a government-funded Hanwoo beef check-off promotion program and subsidized loans to improve beef packing plants.¹⁰ While R-CALF USA understands that commodity subsidies are not traditionally addressed through bilateral FTA negotiations, other distortions to cattle and

⁴ U.S. Department of Agriculture, "Korea Livestock and Products: U.S. – Korea Agree to Resume Beef Imports, 2006," GAIN Report No. KS6001, January 17, 2006.

⁵ FAOSTAT Agricultural Production Database, Live Animals, Livestock Primary, and Agriculture & Food Trade, United Nations Food and Agriculture Organization, available on-line at <http://faostat.fao.org/>.

⁶ FSIS, "Eligible Foreign Establishments," available on-line at http://www.fsis.usda.gov/Regulations_&Policies/Eligible_Foreign_Establishments/index.asp.

⁷ U.S. Department of Agriculture, "Korea: Livestock and Products Semi-Annual 2005," GAIN Report No. KS5007, February 11, 2005.

⁸ U.S. Harmonized Tariff Schedule.

⁹ *Id.*

¹⁰ *Id.*

beef trade between the two countries, particularly Korea's high tariffs on beef imports, should be a top priority for U.S. negotiators.

In addition to addressing market distortions in Korea, any FTA providing preferential access to the U.S. cattle and beef market should include a born, raised and slaughtered (BRS) rule of origin for beef. Currently, the U.S. only requires beef to be slaughtered in a country in order to be considered an originating good from that country, and the U.S. continues to apply this inadequate rule of origin in its FTAs. The U.S. should impose a stricter rule of origin on beef entering under the FTA.

A BRS rule of origin has significant advantages for the U.S. cattle industry. Without a BRS rule of origin, FTAs can create a large incentive for third-country beef exporters to send their cattle to an FTA country for slaughter and shipment to the U.S. on preferential terms. Yet these third countries need not provide any reciprocal access to U.S. producers in order to benefit from an FTA's preferential access – in fact, they can keep their markets completely closed to U.S. beef and export freely through manipulation of a weak rule of origin. Meanwhile, benefits for cattle producers in the FTA partner country are diluted as third-country producers take advantage of the access to the U.S. market that was negotiated for their benefit. Inclusion of a BRS rule of origin will avoid these outcomes and ensure that the benefits of the agreement accrue to its participants.

In addition, and consistent with R-CALF USA's efforts both in WTO and other bilateral trade negotiations to achieve a genuinely level global playing field, R-CALF USA believes FTAs providing preferential access for cattle and beef should include special rules for perishable and cyclical products. The inclusion of special rules will give effect to principal negotiating objectives for trade agreements covering perishable and cyclical agricultural products that Congress articulated in the Trade Act of 2002.¹¹ Cattle and beef are highly perishable products and have very limited marketing periods. Thus cattle producers have an acute need for effective and speedy relief mechanisms when they are faced with import surges and price volatility. In the U.S. – Australia FTA, for example, the U.S. sought to address these special needs of the cattle and beef industry through the inclusion of product-specific safeguard. Ideally, such a safeguard should be designed to protect domestic producers from sudden spurts in volumes of imports and from excessive price volatility, both of which pose a particularly severe risk for producers of perishable products like cattle and beef. Safeguards should be triggered automatically, without the need for producers to engage in either a formal petition process or an informal process to convince agencies with enforcement discretion to take action. An automatic mechanism will ensure that safeguards take effect as soon as possible to assist domestic producers in need of immediate relief. Finally, the safeguard should recognize cattle and beef as like products, so that declining prices or rising imports in either product automatically triggers the safeguard for both

¹¹ The Act directs U.S. negotiators to, "eliminat[e] practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture," and "ensur[e] that import relief mechanisms for perishable and cyclical agriculture are as accessible and timely to growers in the United States as those mechanisms that are used by other countries." 19 U.S.C. §3802(b)(10)(A)(ix) and (x), respectively.

products. The inclusion of such special rules will facilitate competition in the global marketplace while simultaneously allowing the U.S. and other nations to maintain viable cattle industries. R-CALF USA views the inclusion of such special rules as a fundamental prerequisite to market liberalization.

R-CALF USA is hopeful the Korea FTA can be structured to provide substantial benefits for U.S. cattle producers. As trade in cattle and beef is liberalized through such agreements, it is important that, overall, the agreements achieve a balance between the size of new export markets opened for U.S. producers and the volume of potential foreign production given preferential access to the U.S. The Korea FTA provides an opportunity to move towards such a balance by addressing harmful market distortions in a vitally important export market.

R-CALF USA appreciates this opportunity to present its views, and looks forward to working with the Administration to ensure that the Korea FTA works for U.S. cattle producers.