



# U.S. GRAINS COUNCIL

## USGC Priorities for the U.S.-Korea FTA Negotiations

The Republic of Korea is the world's second largest feed grain importer, importing 10.5 million metric tons of feed grains and grain products – including 8.5 million tons of corn – in 2005. It is also one of the top five markets for U.S. corn, importing 2.5 million metric tons of U.S. corn in marketing year 2004/05. The U.S. feed grain industry looks to benefit from further trade liberalism for corn, sorghum, barley and malt, as well as other related products. The Council strongly believes that a free trade agreement (FTA) with Korea should be comprehensive and there should be no exclusions for any commodity or sector upon full implementation of the agreement.

Through the free trade negotiations with South Korea, the U.S. feed grain industry seeks to gain greater market access through the elimination of tariffs and other policies that restrict market access. However, for the U.S. feed grain industry to realize the benefits of elimination of duties and quotas under an FTA, the U.S. government needs to ensure that any regulations South Korea imposes on the import of biotech products will have minimal impact on future U.S. corn exports to that country. In addition, it is critical South Korea agrees not to import agricultural products from third countries that benefit from the use of export subsidies.

The commodities discussed in these comments are described in the World Trade Organization harmonized tariff schedule under:

Feed Corn	(1005.90.1000)	Residues of starch manufacturing:
Industrial Corn	(1005.90.9000)	corn gluten feed (2303.10.10);
Sorghum	(1007)	corn gluten meal (2303.10.20)
Malting barley	(1003.00.1000)	
Unhulled barley feed	(1003.00.9010)	Brewing or distilling dregs and waste:
Naked barley	(1003.00.9020)	distillers grains (2303.30.00)
Other Barley	(1003.00.9090)	
Malt	(1107)	

## Corn

**Tariffs and Quotas:** South Korea typically imports about 8.5 million tons of corn annually, with the majority going to the feed sector (see table below). In marketing year 2004/05, the United States supplied about 29 percent of those imports with the balance coming from China and South America. Because of its limited production (63,000 metric tons in 2005) and need to supply the feed and corn processing industries, Korea provides low duty access for corn through an autonomous tariff rate quota (TRQ) system with volume levels well in excess of its WTO commitments. For 2006, South Korea set its annual TRQ for feed corn at 8.08 million metric tons and 2.132 million metric tons for industrial corn; compared to the 6.1 million metric ton TRQ for corn that it committed to in the Uruguay Round. While the applied tariff on in-quota feed corn is zero, the applied in-quota tariff on processing corn runs from 1 percent to 2 percent. This compares to South Korea's WTO obligations of in-quota tariff rates bound at 1.8 percent for feed corn and 3 percent for industrial corn. Over-quota corn is bound at 328 percent. **Because South Korea autonomously maintains a TRQ well in excess of actual imports, immediate tariff and quota elimination should be sought for U.S. corn.**

**Competition:** China has represented major competition in this feed grain import market since the mid-1980s. As seen in the table below of South Korea's yearly corn imports, U.S. market share dropped off considerably from 2001 to 2003, and then again in 2004/05. This loss in market share is attributed to record large Chinese exports during those years – attained through the use of significant export subsidies by the Chinese government. In its 2001 Protocol of Accession to the WTO, China made a commitment to not use any form of agricultural export subsidy. In spite of that commitment, there is strong evidence to indicate that China continued to make use of agricultural export subsidies for corn. Those subsidized exports have displaced U.S. corn in a number of key markets, most notably in South Korea.

In January 2005, Reuters reported that the head of the international trading arm of Jilin Grain Group expected to sell more corn to South Korea in 2005 as Beijing unloads a domestic surplus. "Whenever we have more corn, we place it in South Korea because the market there is big enough to absorb it," the Jilin Grain Group official was quoted as saying. Given the trade and consumption statistics for South Korea, we can conclude that China's additional corn exports to South Korea are not simply absorbed, but rather displace U.S. corn. While China is not subsidizing corn exports at the present time, it may feel pressure in the future to again export corn with the assistance of export subsidies. Any such move would greatly overshadow the market access gains made through this FTA. **Therefore, as part of this FTA, it is imperative to gain a commitment from Korea to refrain from importing agricultural products from third countries that have been given the unfair assistance of export subsidies.**

**Biotechnology:** Consumer concerns and negative press have resulted in strict biotechnology labeling laws and testing of U.S. corn for the presence of biotechnology upon arrival in South Korea. In addition, biotech labeling is required for all food products from corn that exceeds the 3 percent maximum level of biotech presence. This strict regulatory environment has had a direct negative impact on U.S. corn sales into food and industrial corn markets. As a result, while U.S.

corn accounted for 31 percent of all corn imports for feed uses in 2005, U.S. corn recorded a relatively minor 4.5 percent of the nearly 2 million metric tons imported for food/industrial uses.

Most recently, however, South Korea has proposed additional regulations that could have significant negative impacts on all U.S. corn shipments to that country. Under a successful U.S.-Korea FTA, we anticipate that U.S. market share will increase. However, given the fact that the United States is the largest producer of biotech corn, the imposition of detrimental import regulations on biotech products would negate potential gains in market access negotiated under an FTA. **It is extremely important to our industry for the United States to resolve issues pertaining to South Korea's recently proposed Living Modified Organism (LMO) Act Guidelines (KOR 198) as a part of this FTA. And, as a result, any future regulations imposed by South Korea on the import of biotech products should have minimal effect on future U.S. corn exports to that country.**

Korea: Corn Imports (1,000 MT, Customs Cleared Basis)							
Marketing Year	From World			From the U.S.			U.S. Share %
	Feed	Ind.	Total	Feed	Ind.	Total	
93/94	4,049	1,647	5,696	199	181	380	7
94/95	6,463	1,760	8,223	6,192	1,420	7,612	93
95/96	7,166	1,797	8,963	6,855	1,699	8,554	95
96/97	6,455	1,881	8,336	3,869	1,629	5,498	66
97/98	5,755	1,773	7,528	1,610	1,699	3,309	44
98/99	5,593	1,921	7,514	4,543	1,891	6,434	86
99/00	6,618	2,060	8,678	1,610	1,620	3,230	37
00/01	6,568	2,155	8,723	2,169	1,120	3,289	38
01/02	6,474	2,128	8,602	1,487	111	1,598	19
02/03	6,657	2,137	8,794	306	24	330	4
03/04	6,659	2,117	8,776	2,921	336	3,257	37
04/05	6,739	1,895	8,634	2,303	190	2,493	29
05/06 a/	6,500	1,900	8,400	3,000	300	3,300	39

a/ FAS/Seoul forecast.

Source: FAS Seoul

## Corn Co-products

South Korea imported about 39,000 metric tons of distiller's dried grains with solubles (DDGS) in 2005 (47 percent from the United States). While relatively small in volume, imports are growing and represent more than 60 percent of the total DDGS use by the local feed manufacturing industry. Although the South Korean dairy industry uses a significant amount of domestically produced wet brewer's grains in total mixed rations for milking cows, inclusion in

swine and poultry rations has been low. With a significant potential for increased use in feed rations and expanding supplies of DDGS in the United States as a result of increasing ethanol production, this could provide for a significant export opportunity in future. While South Korea's WTO bound rate for DDGS is 6.6 percent, it applies a rate of 5 percent. **DDGS should not be a sensitive product to South Korea and is a good candidate for immediate tariff elimination.** Corn gluten meal (CGM) and corn gluten feed (CGF) already have a WTO bound tariff of zero.

## Barley and Malt

High import barriers to barley and malt are intended to protect South Korea's approximately 250,000 metric tons of barley production. 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). Tariffs on barley for food and other uses are subject to a tariff of 299.7 percent (with no TRQ) which acts as a complete barrier to imports.

South Korea Barley Imports, 2003-2005 (1,000 MT)							
Feed (A)						Malting (B)	TOTAL (A+B)
	(U.S.)	(Canada)	(Australia)	(China)	(Total)	(Australia)	
2003		24.7		1.7	26.4	54.5	80.9
2004			24.7	1.7	26.4	35.7	62.1
2005	0.1		23.9	3.1	27.2	36.0	63.2

The minimum market access for malt is 40,000 metric tons bound at a tariff of 15 percent in-quota and 269 percent over-quota. However, South Korea applies tariffs of 15 percent in-quota and 30 percent over-quota. In 2005, South Korea imported nearly 148,000 metric tons of malt.

South Korea Malt Imports by Origin, 2005 (MT)	
USA	5
U.K.	7,896
Australia	84,928
Canada	36,754
China	12,259
France	5,494
Germany	561
Czech	16
Total	147,913

In addition to tariffs and quotas for barley and malt, South Korea manages imports through absorption requirements. Essentially, the level of imports allowed each year is calculated from total demand less domestic production. This is controlled by requiring the brewers to purchase the high priced domestic malting barley crop before importing malting barley or malt. In addition, to keep feed barley imports out of the brewing channels, it must be dyed at loading port. The required use of domestic content by South Korea runs counter to its WTO commitments and should be eliminated under the FTA. **Eliminating the domestic content requirement coupled with initial zero duty TRQ's – as tariffs are phased out – would provide new opportunities for U.S. barley and malt exports to South Korea.**

## Sorghum

South Korea's WTO bound rate for sorghum is 9 percent, but it applies a 3 percent tariff. Although South Korea has imported only minor amounts of sorghum in the past, we strongly encourage that sorghum be granted immediate tariff elimination. Given zero duty, potential export opportunities for sorghum will depend on the pricing relationship between U.S. corn and sorghum.

## Overview of the South Korean Feed Grain Sector

The Republic of Korea, with a population of 48.6 million, is the world 10th largest economy. South Korea is the United States' seventh largest trade partner and fifth largest agricultural market. South Korea's agricultural imports from the United States were registered at \$2.2 billion in 2005, including \$235.0 million worth of U.S. feed grains, mostly corn.

Producing negligible amount of feed grains, with a total of 300,000 metric tons of barley, corn and sorghum per year, South Korea is the world's second largest feed grain import market. To keep the livestock and corn milling industries in operation, South Korea must import large quantities of feed grains. Importation of grains and substitutes for feed, food and industrial use peaked at 11.76 million metric tons in 1996. These imports have leveled off recently largely due to increased imports of finished livestock products, reaching 10.56 million thousand metric tons in 2005. Broken down by commodity: 8.53 million metric tons (81 percent) was corn; 218,000 metric tons (2 percent) was barley – mostly malt and malting barley; 1.29 million metric tons (12 percent) was feed wheat; and the balance of 525,000 metric tons (5 percent) was minor grains and substitutes including tapioca and lupine seed.

**Feed Sector:** South Korea produced 15.1 million metric tons of mixed feed in 2005, a 2.2 percent increase over 14.8 million metric tons in 2004, compared with the record set in 1997 of 15.8 million metric tons. Feed use and distribution is 34 percent hogs, 28 percent poultry, 22 percent beef, 11 percent dairy and 5 percent other meat animals including ducks, dogs, rabbits and deer. The South Korean feed manufacturing industry used 8.4 million metric tons of grains in 2005, of which 98 percent was imported. The local feed industry used another 1.5 million metric tons of energy ingredients, mostly co-products such as bran, of which 28 percent was

imported. Of the total grains used in mixed feeds, 79 percent (6.6 million metric tons) was corn, 15 percent (1.2 million metric tons) was feed wheat, 3 percent (209,000 metric tons) was lupine seed and the remaining 3 percent (305,000 metric tons) were tapioca and minor grains.

**Livestock Sector (Swine and Poultry):** The animal industry is the primary driver of feed grain demand in Korea, representing about three quarters of the nation's total feed grains consumption, followed by corn processing industry and edible alcohol industry. Among animal sectors, the swine industry is the most important consumer of feed grains, accounting for 3 million metric tons or 36 percent of the total grain and substitutes for feed in 2005 and poultry the second, recording 2.5 million metric tons or 30 percent of the total. Feed grain use by the swine and poultry sectors started to decline recently mainly due to increasing imports of finished products.

**Industrial Corn Processing Sector:** South Korea's food and industrial sector used 1.96 million metric tons of corn in 2005, compared with 2.02 million metric tons in 2004 and the record 2.10 million metric tons in 2003. Broken down by use, 1.84 million metric tons was utilized by wet milling industry and 120,000 metric tons by dry milling sector. Of 1.84 million metric tons for wet milling operation, 71 percent was used for sweetener production including high fructose corn syrup, 16 percent for food starches and 13 percent for industrial applications, mainly in the paper industry. Dry milling products consisted of 7 percent large flaking grits, 55 percent grits and 38 percent of corn flour. Historically, almost all corn imported for food and industrial use originated in the United States, because South Korean corn processors preferred the consistent quality and reliable supply of U.S. corn. However, South Korean corn processors have been pressured to look for alternative supply sources because of consumer concerns over biotechnology, started by the StarLink issues and coupled with the mandatory labeling requirements for biotech foods. As a result, the U.S. market share in this sector has fallen drastically to 4.5 percent in 2005.