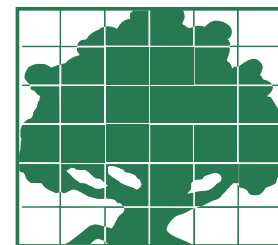


# Agricultural and Resource Economics UPDATE



GIANNINI FOUNDATION OF AGRICULTURAL ECONOMICS •

UNIVERSITY OF CALIFORNIA

V. 15 no. 2 • Nov/Dec 2011

## New Free Trade Agreements Will Improve California Farm Export Prospects

by *Hyunok Lee and Daniel A. Sumner*

The Korea free trade agreement, along with smaller agreements with Colombia and Panama, was negotiated several years ago. However, legislation approving of these agreements finally passed the U.S. Congress and was signed by President Obama only on Oct. 21, 2011. By removing tariffs and other barriers, free trade agreements create larger market opportunities for U.S. farm exports. The potential benefits of the agreement with Korea will be sizable for the United States and California agriculture.

Given the size of the Korean economy and the high trade barriers now being erased, the agreement with Korea is considered the most important U.S. trade agreement since the North American Free Trade Agreement (NAFTA). Throughout this article, we refer to the Republic of Korea simply as Korea; isolationist and communist North Korea is a separate country for which no free trade agreements could be applicable. After a brief overview of U.S. agricultural trade agreements with Panama and Colombia, this article focuses on the Korea-U.S. free trade agreement (KORUS FTA) which is by far the more important agreement for California agriculture.

### U.S. Trade Promotion Agreements with Panama and Colombia

In 2010, the U.S. imported \$53 million worth of agricultural goods from Panama, with three products (cane sugar, bananas and pineapples) accounting for 70% of all imports. The United States exported more than \$450 million in farm goods to Panama—48% of Panamanian agricultural imports. Top U.S. exports were corn, soybean cake and meal, wheat, rice, and horticultural products.

Under the Caribbean Basin Initiative, more than 99% of agricultural imports from Panama enter the U.S. market duty free, but U.S. exports face an average tariff of 15%. Under the agreement, over half of current trade will receive immediate duty-free treatment, and most

remaining tariffs will be eliminated within 15 years.

U.S. agricultural imports from Colombia were almost \$2 billion in 2010. The top U.S. imports include coffee (\$909 million), cut flowers (\$545 million), and fresh fruits. U.S. exports were \$832 million, with grain products leading the list. Currently, agricultural products from Colombia enter the United States under no or minimal tariffs, while U.S. producers face 5% to 20% of tariffs. Under the agreement, 70% of current U.S. farm exports to Colombia will become duty free immediately and the remaining tariffs will be eliminated within 15 years.

### U.S. Farm Exports to Korea

The Korean economy is comprised of about 50 million consumers, with the average per-capita income (about \$25,000) already above that of many European countries and continuing to grow rapidly. Food prices are high, and Koreans pay premiums for perceived safety and quality. Agriculture was central to the KORUS FTA negotiations, and potential gains for the United States center on agricultural exports. The United States is already Korea's top supplier of agricultural products, worth \$3.5 billion in 2007. Despite high tariffs, the U.S. had a 26% share of the Korean agricultural imports in 2007.

Grain products (including soybeans) represented 40% of U.S. farm exports to Korea, followed by fruits, nuts and vegetables (12%), and meat (11%). More

### Also in this issue

#### Immigration Reform: What's Next for Agriculture?

Philip Martin.....5

#### OPEC and the Environmental Impact of Biofuels

Gal Hochman, Deepak Rajagopal, and David Zilberman.....9

recently, the value of grain and meat exports has increased due to higher prices and relaxation of beef barriers that followed finding cases of BSE (mad cow disease) in the United States. The overall U.S. market share has declined, mainly due to the growth of competitors including China, Australia, and Chile.

## California Farm Exports and Korean Markets

Korea ranks among the top six export destinations for California agricultural exports. In 2007, the total value of all California agricultural exports to Korea was almost \$400 million (4% of total California agricultural exports) (Table 1). Among all commodities shipped to Korea, fresh oranges top the list, followed by rice, beef and beef products, almonds, and walnuts.

With their FTA in 2004, Korea's

Table 1. Value of California Agricultural Exports to Korea by Commodity, 2007

Commodity	To Korea	To World	Korea Share
	---\$millions---		%
Total	386.4	10,912	4
Oranges	55.0	260	21
Rice	43.3	313	14
Beef & products	40.5	199	20
Almonds	35.6	1,879	2
Walnuts	35.2	444	8
Dairy products	28.9	963	3
Hay	18.1	134	14
Wine	15.8	816	2
Cotton	13.5	505	3
Tomatoes, proc.	11.3	300	4
Table grapes	10.0	553	2
Cherries	8.5	97	9
Lemons	8.4	169	5
Grape juice	6.7	32	21
Raisins	5.9	213	3
Grapefruit	5.8	79	7
Kiwifruit	2.5	14	18
Plums, dried	2.3	175	1
Pistachios	2.2	364	1
Lettuce	1.8	274	1

Source: Matthews and Sumner, 2008.  
<http://aic.ucdavis.edu/>

No formal trade data available at state level; estimates by UC Agricultural Issues Center.

imports from Chile grew substantially for kiwifruit, grape juice, lemons, processed tomatoes, wine, and whey, which are all major California export products. California's other major international competitors for trade with Korea are France for wine, Spain for grape juice, New Zealand for kiwifruit, beef and dairy, Australia for beef and dairy, Iran for pistachios, and China for strawberries, lettuce, and processed tomatoes (Table 2). Most processed fruit products are imported and little vegetables enter the country.

The potential for increasing California exports to Korea also crucially depends on the competitiveness of Korean producers and the size of the market. Table 2 shows that imports to Korea represent a small share of the domestic consumption of many major food products. Tariffs for most fresh fruits and vegetables are high—above 30% in most cases.

## Opening the Korean Market

The KORUS FTA defines three mechanisms for improving access for farm products: (1) the immediate unrestricted opening, (2) the phase-out of tariffs over a period, and (3) the expansion of tariff-rate quotas (TRQs), with the phase-out of over-quota tariffs. Under a TRQ, a lower tariff is applied to imports within the quota volume, and a higher, often prohibitive (over-quota), tariff is applied to imports in excess of the quota volume. To assure slower import access for politically sensitive products, the agreement allows the imposition of safeguard measures (Tables 3 and 4).

**Citrus.** Korea is a major market for fresh oranges and other citrus from California, despite a current duty of 50%. While the agreement lowers trade barriers considerably during the off-season, in-season imports (Sep. 1 to Feb. 29) will still be subject to tight TRQs. The initial duty-free TRQ of 2,500 tons is equivalent to only 0.4% of Korean citrus produced in Korea in 2007. While not

currently large, Korean demand for fresh grapefruit, lemons, and limes is growing.

**Other fruits and products.** A simple tariff phase-out applies for most fruits, but schedules to open the markets for apples, Asian pears and table grapes, which are consumed widely in Korea, are more restrictive. The initial safeguard quantity for apples is 9,000 metric tons, less than 2.5% of domestic production. Fuji apples, a variety favored by Koreans, have the safeguard duty lasting 23 years. Along with the immediate table grape tariff reduction from 45% to 24%, the tariff for off-season imports (Oct. 16 to Apr. 30) phases out in four years, and the tariff for in-season imports phases out over 17 years. Tariffs for grape juice (45%), raisins (21%), and wine (30%) will be eliminated immediately.

The immediate elimination of the 24% tariff for cherries will expand the fresh cherry market even further. Among other fruits, strawberries and kiwifruit are promising. Currently no fresh strawberries enter the country, and over 70% of strawberry imports are frozen and mainly from China. Kiwifruit is relatively new to Korean consumers, but imports have grown rapidly (mainly from New Zealand).

**Tree nuts.** California tree nuts have a strong presence in the Korean market. Almond and walnut exports are already substantial. Korea has no domestic tree nut industry and the United States (exclusively California) is the only or dominant supplier for tree nuts. The current 8% almond tariff will be eliminated, and in-shell and shelled walnut tariffs, as high as 45%, will be phased out over 6 to 15 years. The immediate elimination of the 30% tariff on pistachios will expand the market.

**Vegetables.** Korean tariffs on vegetables will be eliminated either immediately or phased out over time, except for a few sensitive products for which safeguard restrictions apply. Vegetable exports to Korea are dominated by China, except for

a few commodities such as pickled cucumbers and fresh lettuce.

With a 45% tariff for lettuce, imports constitute a small share of the domestic Korean market valued at \$200 million. California lettuce competes mostly with off-season, high-cost greenhouse lettuce and has substantial potential for export growth under the 10-year tariff phase-out. Other fresh, leafy vegetables also have potential for export growth. Garlic, onions, and red peppers are major crops in Korea and face gradual 18-year phase-outs, with safeguard restrictions.

**Beef and related products.** Beef products are the number-one agricultural import into Korea by value, exceeding \$1 billion in 2007. Korea became an important market for U.S. beef after its beef market was opened in 2001. However, a ban on U.S. beef was imposed in December 2003 (following the BSE incident) and Australia and New Zealand exports expanded rapidly. The U.S. market share has been improving gradually since the U.S. resumed export to Korea in 2007.

Under the KORUS FTA, with the sizable initial safeguard quantity, the within-quota tariff is scheduled to fall by 2.7% each year, providing a price advantage to U.S. producers over their competitors.

**Dairy products.** Korea currently has high trade barriers for dairy products. Under the KORUS FTA, TRQs increase gradually with the phase-out of over-quota tariffs. Among dairy products exported to Korea, the U.S. has a strong presence in cheese, lactose, and whey.

Under the agreement, the first year duty-free TRQ for cheese is sizable (close to the total U.S. cheese exports to Korea in 2007). For feed whey, immediate duty-free access is granted and for non-feed whey, the over-quota tariff (over 3,000 metric tons) will be reduced immediately from 49.5% to 20%—phased out over ten years. U.S. exports of lactose to Korea are also sizable, worth \$30 million, about half of

Table 2. Value of Korean Imports and Major Competitors for Selected Commodities, 2007

	Korean Imports (\$mil)	U.S. % of Korean Imports	Import % of Korean Consumption*	Major Competitors' % of Korean Imports
<b>FRUIT</b>	852	27	n/a†	Philippines(30), China(9), Chile(7), NZ(7)
Bananas	171	0	100	Philippines (100)
Oranges, fresh	108	93‡	9.9	—§
Oranges, juice	71	24	100	Brazil (60)
Kiwifruit, fresh	70	8	100	NZ (77), Chile (14)
Pineapples	68	0	100	Philippines (98)
Table grapes	58	18	8.3	Chile (82)
Cherries, all	36	91	100	—
Grape juice	25	47	100	Spain (26)
Lemons	11	77	100	Chile (5), Italy (10)
Apples, proc.	10	0	100	China (50), Chile (2)
Strawberries, froz. & proc.	10	26	3.7	China (57), Mexico (5)
Peaches, proc.	9	0	100	China (44), S. Africa (20), Greece (14)
Grapefruit, juice	9	74	100	Japan (12)
Raisins	6	98	100	—
Olives	3	1	1	Spain (75), Italy (18)
Prunes, dried	2	98	n/a	—
Peaches, juice	1	83	100	China (8)
Pears, proc.	0.3	1	100	China (48), Spain (18), S. Africa (12)
Pears, fresh	0.1	83	0	—
<b>VEGETABLES</b>	466	14	11	China (69), Japan (4), NZ (3)
Red peppers	85	0	15	China (95)
Carrots	37	0	n/a	China (98)
Tomatoes, proc.	36	32	100	China (42), Chile (10), Italy (9)
Garlic	32	0	12.8	China (100)
Pumpkins	15	0	n/a	NZ (88)
Onions	13	6	3	China (94)
Broccoli	11	0	n/a	China (100)
Cucumbers	9	47	n/a	China (41)
Lettuce	4	48	n/a	China (52)
<b>TREE NUTS</b>	76	94	93	—
Walnuts	38	91	100	Vietnam (9)
Almonds	35	100	100	—
Pistachios	3	59	100	Iran (37)
<b>BEEF, DAIRY</b>	1,856	28	n/a	Australia (45), NZ (15)
Beef	1,037	9	59	Australia (73), NZ (16)
Dairy, all	438	19	n/a	NZ (24), Australia (15)
Hides, skins	381	89	n/a	—
<b>OTHER</b>				
Cotton	305	40	100	Australia (13)
Hay	237	82	n/a	—
Wine	150	11	n/a	France (45), Chile (15)
Rice	137	31	5.4	China (61), Thailand (8)
Flowers	68	1	n/a	China(31), Taiwan(30), Netherlands(18)

Sources: Korea Agricultural Trade Information 2009; Korean Ministry of Agr., Forestry, Fishery and Food, 2008.

\*Some shares are based on quantity when values are unavailable.

†No domestic production statistics available or commodity aggregation is not meaningful (e.g., dairy products).

‡Discrepancy between Korean and U.S. sources; U.S. figure was \$85.4 million.

§No major competitors.

**Table 3. Access Improvement for Important Agricultural Products by General Market Access Category upon Implementation of KORUS FTA, 2007**

<b>1. Immediate Unrestricted Opening:</b> asparagus, cabbage, celery, cucumbers, eggplants, shallots, spinach (fresh and frozen), tomato paste, cherries, olives, raisins, frozen orange concentrate, grape juice, wine, almonds, pistachios, coffee, cattle hides and skin, live livestock, feed whey	
<b>2. Tariff Phase-Out:</b>	
<b>Years to Complete</b>	<b>Product</b>
2	Avocados, lemons, dried plums
5	Chinese cabbage, carrots (fresh and frozen), cauliflower, broccoli, peas, beans*, dried mushrooms*, tomato juice, grapefruit, strawberries (frozen), orange juice, various fruit juices
4	Off-season table grapes
6	Walnuts (shelled), off-season fresh oranges
7	Tomatoes, ice cream, apricots
9	Strawberries
10	Artichokes, Brussels sprouts, preserved cucumbers, lettuce, fresh mushrooms*, peaches, pears (excluding Asian pears), dates, persimmons, tangerine juice
12	Chicken meat, frozen onions, watermelon, various berries
15	Korean citrus, kiwifruit, walnuts (in shell), chestnuts, pinenuts, oak mushrooms (fresh and dried), beef offal
17	In-season table grapes
20	Asian pears

**3. Duty-Free Tariff Rate Quota Expansion with or without Over-Quota Tariff Phase-Out:** in-season fresh oranges, many dairy products

**4. Safeguard Quantity and Duty:** garlic, onions, peppers, beans, sweet potatoes, ginger, apples, beef, pork

**Excluded from Agreement:** Rice (remained at the quota set by 1994 WTO agreement)

Source: Office of United States Trade Representative (USTR), 2008. \*Some varieties excluded.

**Table 4. Base Tariffs on Exports to Korea for Selected Products**

Base Tariff %	Product
1	Cattle hides and skin
8	Almonds (shelled and in shell) Tomatoes (paste)
18–20	Plums (dried), olive, casein
21–24	Raisins, cherries (fresh)
27–30	Artichokes, Chinese cabbage, broccoli, cauliflower, brussels sprouts, garlic (frozen & pickled), peppers (frozen), onions (frozen), cucumbers (pickled), carrots (fresh, frozen, preserved & dried), beef offal, lemons and limes, grapefruit (fresh & juice), wine, avocados, dates, pistachios, walnuts (shelled)
36–40	Cheese Beef (muscle cuts)
45–50	Apricots, cherries (canned), peaches, strawberries, other berries, oranges, peaches (preserved), juices (grape, apple, lemon, lime, peach, strawberry), walnuts (in shell), lettuce, tomatoes, lactose, whey
54	Orange juice (frozen concentrate)
89	Butter
135*	Onions (fresh and dried)
144	Korean citrus and mandarins
176	Skim and whole milk powder
270	Peppers (fresh and dried)
360*	Garlic (fresh and dried)

Source: USTR 2008.  
\*Over-quota tariffs; base tariffs are 50%, but quotas are so tiny that higher tariffs are listed.

Korean lactose imports, and the current tariff of 49.5% will be phased out in five years under the agreement.

## Opportunities Ahead

Although Korea already has an almost open border for many field crops—with the important exception of rice—it has high trade barriers for many vegetables, fruits, and animal products that are important in California agriculture. Under the KORUS FTA, California has substantial potential to expand its exports of agricultural commodities to Korea. Lower trade barriers will allow California agriculture to compete in a large, growing, and lucrative market.

Commodity prices are high in Korea, and consumers are willing to pay premiums for the high-quality products produced in California. When the KORUS FTA is implemented, California agriculture should be in an excellent position to compete on both price and quality.

Suggested Citation:

Lee, H. and D.A. Sumner. 2011. "New Free Trade Agreements Will Improve California Farm Export Prospects." *ARE Update* 15(2):1-4. University of California Giannini Foundation of Agricultural Economics.

Hyunok Lee is a research economist and Daniel Sumner is the Frank H. Buck, Jr. Chair in Agricultural Economics, both in the ARE department at UC Davis. They can be reached by e-mail at [hyunok@primal.ucdavis.edu](mailto:hyunok@primal.ucdavis.edu) and [dasumner@ucdavis.edu](mailto:dasumner@ucdavis.edu), respectively.

### For additional information, the authors recommend:

Lee, H. and D.A. Sumner *The Prospective Free Trade Agreement with Korea: Background, Analysis, and Perspectives for California Agriculture*. June 2009. UC Giannini Foundation of Agricultural Economics Information Series 09-2. [http://giannini.ucop.edu/InfoSeries/092\\_KORUS\\_FTA.pdf](http://giannini.ucop.edu/InfoSeries/092_KORUS_FTA.pdf).

For information on free-trade agreements, visit the USDA website: [www.fas.usda.gov/info/](http://www.fas.usda.gov/info/)