

Market Comments

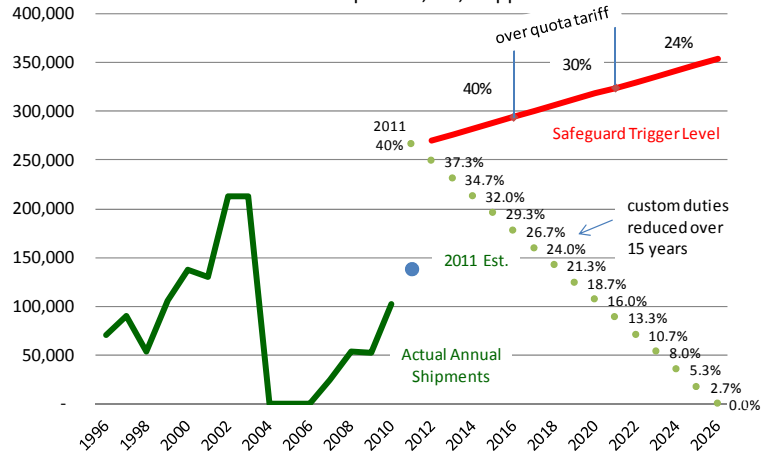
Please note that this issue of the DLR has been corrected to reflect the fact that under the FTA, customs duties in Korea for beef will be phased out over 15 years (category H) and most pork over 10 years (category . . . Apologies for any confusion from our earlier report:

The US Congress ratified on October 12, 2011, three free trade agreements: with S. Korea, Panama and Colombia. In the context of US beef and pork trade, the FTA with S. Korea is the most significant since it represents a market which through the first eight months of 2011 has accounted for 10% of all US pork exports and 16% of all beef exports. On a volume basis, Korea through August had purchased 115,917MT of US pork and 98,171 MT of US beef. US beef shipments to S. Korea have surged in the last two years as both countries worked through the difficulties of restarting trade following the outbreak of BSE in North America in 2003. This year, Korea is expected to double the amount of pork imported from the US due to the devastating impact of the FMD outbreak last spring followed by significant reductions in the domestic hog breeding herd. At this time the ball is in the court of Korean authorities as they have to push the law through the South Korean National Assembly. If the bill is ratified in South Korea as well, then it could go into effect as early as January 2012.

The US-Korea FTA prescribes that for beef products, regular customs duties will be removed in 15 equal annual stages beginning at the date when the agreement goes into effect. Today, all US beef entering South Korea has to pay a 40% tariff. Once the agreement goes into effect, the duty will be reduced each year by about 2.67%. The removal of this tariff will make US beef cheaper and thus more competitive. Other countries are also trying to ratify FTA agreements with Korea but should the US be able to get ahead of Australia in putting this agreement into effect, it will provide US exporters with an advantage for the next 15 years (i.e. the difference in customs tariffs as they are scaled back). It is reasonable to expect that the lower price will allow consumers to purchase more US beef in the years as beef prices effectively decline. The agreement also specifies an amount above which product will be charged a safeguard duty of 40%. The safeguard trigger level will be increased by 6000MT in each of the next 15 years. After year five, the safeguard duty will be reduced from 40% to 30% and in year ten it will be reduced to 24%. After year 15, all US beef shipments to S. Korea will enter duty free.

In the case of pork the agreement includes a safeguard

US Beef Exports to S. Korea and FTA Safeguard Trigger
Annual Shipments, MT, Shipped Wt.



trigger for fresh bellies and other fresh pork cuts. This category will constitute less than 10% of US pork shipments and the safeguard effectively is in place to protect domestic sales of fresh pork. US pork shipments to Korea currently pay between 22.5 - 25.0% customs duties. In the case of pork bellies and pork cuts other than hams and carcasses, the agreement specifies that the tariff will be reduced in equal amount for the next 10 years. For other pork products, the duties will be eliminated on year 2016. Korea is actively negotiating with the EU, the top competitor in the Korean pork market and it remains to be seen how that FTA agreement handles pork

This agreement opens the door to a significant increase in US beef and pork exports to the Korean market. But, keep in mind that Australia (our top competitor in the beef market) and the EU (our top competitor for pork) are both working on their own FTA agreements with Korea. It is expected that both will be finalized in 2012. The winners in this deal are US producers, that will see more advantageous access and who will be no be disadvantaged when other countries sign FTA agreements with Korea. Korean consumers are also winners as they will likely see lower meat protein prices. For US consumers, the agreement will likely mean higher prices, particularly when US beef supplies are expected to decline in 2012 and 2013.

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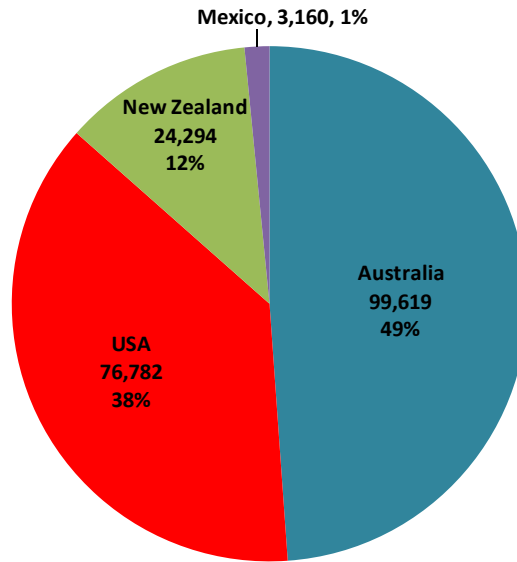
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S. Korea Beef Imports in 2011, Jan - Aug

Imports by Weight, MT, Shipped Wt.



S. Korea Pork Imports in 2011 by Market

Imports by Weight, MT, Shipped Wt.

