



United States
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FACT SHEET

U.S.–Korea Free Trade Agreement What's At Stake for Dairy Products?

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The U.S.-Korea Free Trade Agreement (KORUS FTA) will provide America's farmers, ranchers, food processors, and the businesses they support with improved access to the Republic of Korea's 49 million consumers. If approved by Congress, this would be the most economically significant trade agreement for the U.S. agricultural sector in 15 years.

Under this agreement, more than 60 percent of U.S. agricultural exports will become duty free immediately. Lower tariffs benefit both U.S. suppliers and Korea's consumers. The KORUS FTA will help the United States compete against Korea's other major agriculture suppliers and help keep the United States on a level playing field with Korea's current free trade partners, such as Chile, and any future FTA partners.

This FTA will provide immediate duty-free access for double the current export volume of total dairy products. Duty-free quotas will be established for cheese, skim/whole milk powder, food whey, and butter. Current annual U.S. feed whey exports of \$8 million will gain duty-free access to the Korean market immediately upon implementation.

Skim and Whole Milk Powder, Condensed and Evaporated Milk

With the Agreement...

U.S. exporters will benefit immediately from an initial duty-free tariff-rate quota (TRQ) of 5,000 metric tons on Korean imports of U.S. milk powder and condensed and evaporated milk. With this new duty-free access, the industry will not be subject to Korea's current small global WTO quotas for the same products with 20- and 40- percent tariffs and its over-quota tariffs of 176 and 89 percent. From year 2, the KORUS TRQ will grow at a compound 3-percent annual rate in perpetuity. At current trading levels, the tariff savings for these products over the first 5 years of the agreement are estimated at \$600,000. However, if U.S. exports increase to the level afforded by the TRQ, tariff savings over 5 years could reach \$14 million. Some of this savings will likely be offset by the auctioning of import quota rights.

The Trade Situation...

From 2004 through 2006, U.S. suppliers shipped a combined annual average of 1,300 tons of milk powder and condensed and evaporated milk, valued at \$2.2 million. The U.S. share of Korea's import market is 3 percent. The KORUS FTA will help these U.S. milk products to compete with similar products from Australia, New Zealand, and the European Union.

The Current Market Access Situation...

U.S. milk powder and condensed and evaporated milk products face Korean global WTO TRQs ranging from 130 tons for evaporated milk to 1,034 tons for skim milk powder. In-quota tariff rates range from 20 percent to 40 percent, while out-of-quota or WTO bound rates range from 89 percent to 176 percent.

Cheese

With the Agreement...

U.S. cheese exports will benefit from a new duty-free TRQ of 7,000 tons. This compares to Korea's present cheese import tariff of 36 percent. From year 2 through year 14, this TRQ will grow at a compound 3-percent annual rate. Beginning in year 10, an unlimited quantity of cheddar cheese will be able to enter Korea duty free. Beginning in year 15, an unlimited quantity of all U.S. cheeses will be able to enter the Korean market duty free.

Assuming current trade levels, the value of the duty-free TRQ and duty reductions in year 1 of the agreement will be over \$8 million. At current trading levels, the cumulative value of tariff savings for U.S. cheese exports over the first 5 years of this agreement is estimated at \$43 million. If trading levels increase to the maximum allowed to enter duty free under the TRQ, tariff savings are estimated at \$10 million in year 1 and \$53 million over the first 5 years.

The Trade Situation...

Korea is the fourth largest market for U.S. cheese. From 2004 through 2006, U.S. suppliers shipped an annual average of 5,657 tons of cheese valued at \$20 million. The U.S. share of Korea's import market is 14 percent and has grown slightly over the past 5 years. The KORUS agreement will help U.S. cheese producers compete against New Zealand, Australia, and Uruguay in Korea's market.

The Current Market Access Situation...

U.S. cheese products face Korea's WTO-bound import tariff of 36 percent.

Whey (Feed and Food)

With the Agreement...

U.S. feed whey exports will gain duty-free access to the Korean market immediately upon implementation of the agreement. This is a significant improvement over current duties ranging from 4 to 49.5 percent. For feed whey, the savings from duty reductions in year 1 of the agreement are estimated to be \$2 million. By the end of year 5, the cumulative tariff savings will have increased to approximately \$10 million.

U.S. food whey exports will benefit from a new duty-free TRQ of 3,000 tons. From year 2 through year 9, the TRQ will grow at a compound 3-percent annual rate, with the out-of-quota

tariff rate being reduced each year until year 10 of the agreement, when an unlimited quantity of U.S. food whey will be able to enter the Korean market duty free.

This increased market access compares to Korea's present global WTO TRQ, which allows 54,223 tons to enter the market at a 20-percent tariff. Within the global WTO TRQ, Korea allowed up to 45,000 tons to be imported at a 4-percent tariff as part of its 2006 autonomous TRQ. Korea adjusts its autonomous TRQs annually.

At current trading levels, the value of the TRQ and duty reductions for food whey in year 1 of the agreement will be approximately \$100,000. The cumulative value of tariff savings over the first 5 years of the agreement is estimated at \$450,000. As current U.S. food whey exports to Korea are at levels that will fully utilize the TRQ, U.S. exporters are expected to benefit from maximum tariff savings as a result of the KORUS FTA upon implementation of the agreement.

The Trade Situation...

For U.S. food whey, it is estimated that from 2004 to 2006 Korea imported on average 1,100 tons a year valued at \$900,000. For U.S. feed whey, it is estimated that from 2004 to 2006 Korea imported on average 26,500 tons a year valued at \$19 million.

When considering whey imported for both food and feed uses, the U.S. share of Korea's market is 64 percent and has been increasing. The KORUS agreement should help U.S. whey producers in the face of competition from the European Union and Australia.

The Current Market Access Situation...

U.S. whey enters the Korean market under tariff rates of 4, 20, or 49.5 percent, depending upon the type of product and how much has already been imported in a particular year. Korea's present global WTO TRQ allows 54,223 tons to enter the market at a 20-percent tariff. Within the global WTO TRQ, Korea allowed up to 45,000 tons to be imported at a 4-percent tariff as part of its 2006 autonomous TRQ. Korea adjusts its autonomous TRQs annually. The out-of-quota tariff rate is 49.5 percent. Most other types of whey for feed use face a 49.5-percent tariff rate and do not enter the Korean market under TRQs.

U.S. food whey is subject to autonomous and global WTO TRQs and tariff treatments of the same quantity and duty rates as whey for feed use, but Korea often gives priority to the lower-value feed-use whey.

Butter

With the Agreement...

An initial duty-free TRQ of 200 tons will apply for imports of butter from the United States. From year 2 through year 9, this TRQ will grow at a compound 3-percent annual rate. Beginning in year 10 of the agreement, an unlimited quantity of U.S. butter will be able to enter the Korean market duty free. This compares to Korea's current global WTO TRQ of 420 tons of butter that can be imported at a 40-percent tariff, with any additional butter levied at an 89-percent duty. At current trading levels, the cumulative tariff savings for these products over the first 5 years for the agreement are estimated at more than \$100,000. However, if U.S. exports

increase to the level afforded by the TRQ, tariff savings over 5 years could exceed \$1 million. Some of this savings will likely be offset by the auctioning of import quota rights.

The Trade Situation...

The United States does not currently export a large amount of butter to Korea and the U.S. share of Korea's import market is less than 1 percent and has been decreasing. U.S. butter faces strong competition from Australia, New Zealand, and the European Union.

The Current Market Access Situation...

Butter faces Korea's global WTO TRQ of 420 tons with an in-quota tariff rate of 40 percent. The out-of-quota rate is 89 percent. Butter spreads face a tariff of 8 percent.

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