



## EU Wastes Little Time Reminding the U.S. that Trade Matters

Well that was quick. The Wall Street Journal has reported that “trade volume between South Korea and the EU nations rose 17.4% from July 1 to July 13, the Korea Customs Service reported over the weekend” (Ramstad, 2011). Why the large jump? On July 1, 2011, the South Korea-EU FTA went into effect.

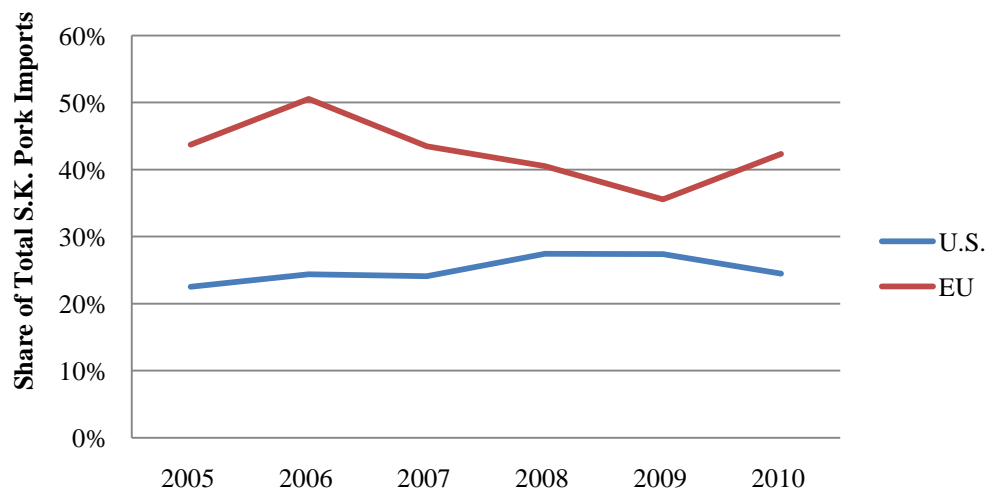
While it is certainly possible, and more than a bit plausible, that some firms may have delayed shipments by a few weeks in order to take advantage of the new tariff reductions, there is plenty of evidence that the bulk of the increase is new. The EU-South Korea FTA going into effect before KORUS is bad for U.S. exporters in general, but what does it mean for agriculture specifically?

U.S. and EU agriculture exporters compete primarily in processed, consumer-oriented products, like pork, whey, food preparations and pet food. In 2010, U.S. exports of consumer oriented agricultural products to South Korea exceeded \$1.8 billion, a 45% increase over 2009 (USDA Foreign Agricultural Service, 2011). This made consumer oriented goods the fastest growing segment of U.S. agricultural exports to South Korea. U.S. exporters have maintained or grown market share versus the EU in many important products in recent years as the two exporters faced the same tariffs. However, as tariff levels decline for EU exporters, while U.S. tariff levels stay the same, it is likely the U.S. competitive advantage will decline.

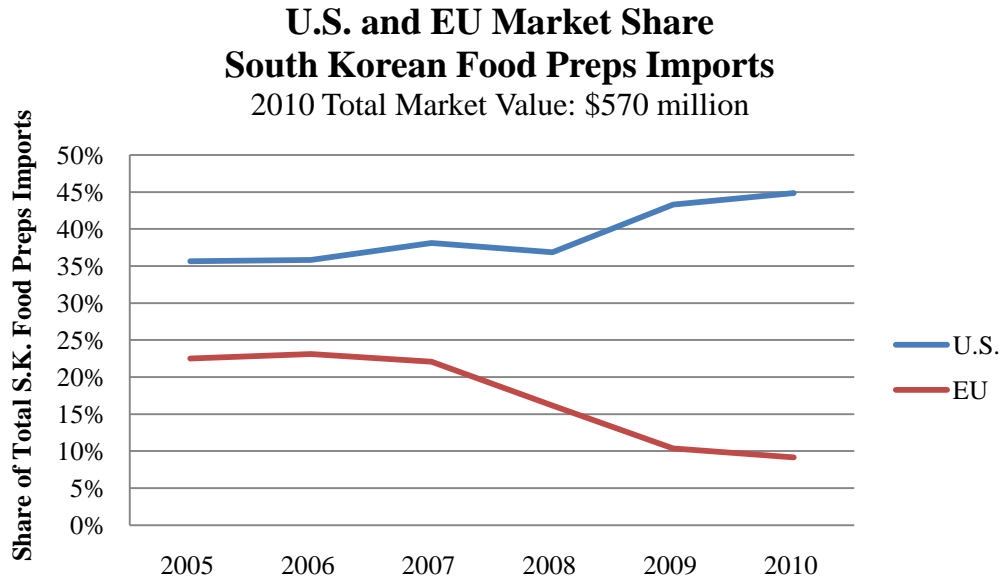
While U.S. exporters continue to pay tariffs on pork of 22.5-25%, the tariffs paid by E.U. exporters will be phased out in 5-10 years.

### U.S. and EU Market Share South Korean Pork Imports

2010 Total Market Value: \$664 million

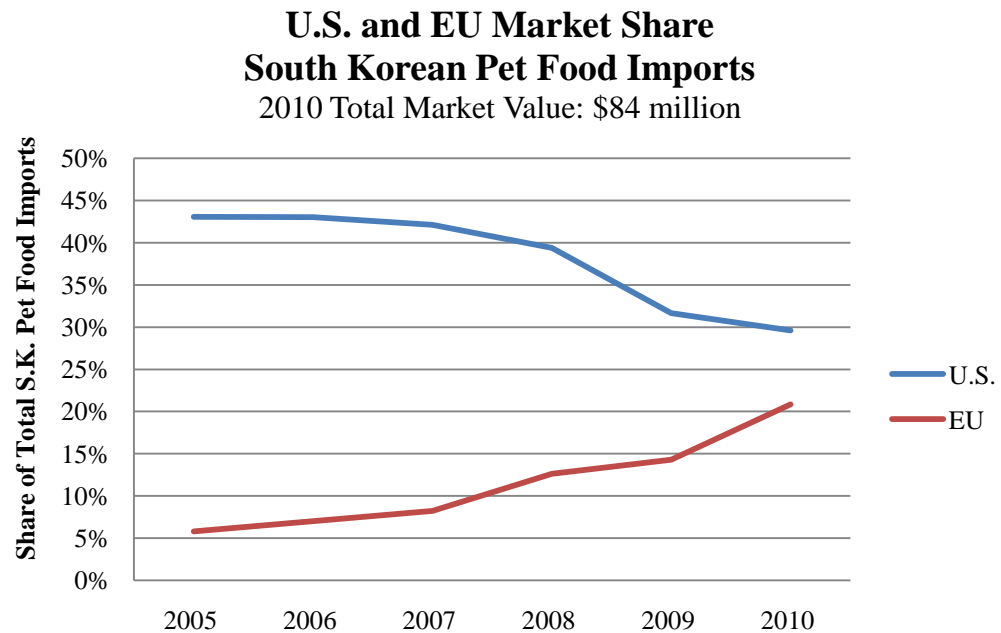


U.S. exporters will continue to pay average tariffs of 8% of food preparations, while some tariffs paid by E.U. exporters were eliminated immediately and the remaining phased out in 5-10 years.



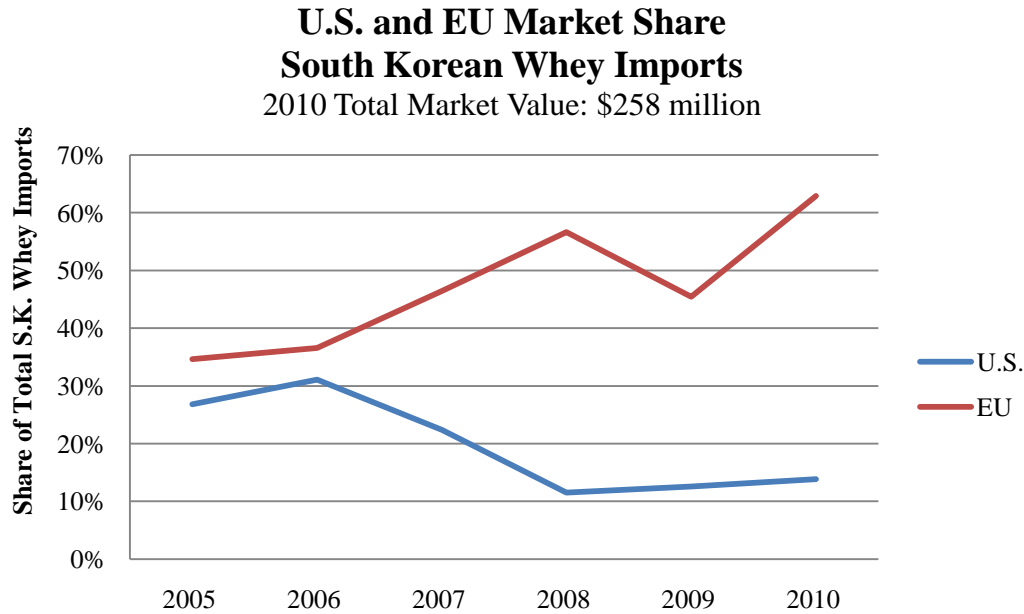
Data Source: Global Trade Atlas

U.S. exporters will continue to pay a 5% tariff on pet food, while the tariffs paid by E.U. exporters were eliminated on July 1.



Data Source: Global Trade Atlas

U.S. exporters of food quality whey will continue to pay a 49.5% tariff, while the tariffs paid by E.U. exporters on were eliminated on July 1 for 3,350 tons under a negotiated TRQ. The EU TRQ duty free quantity expands over time and is unlimited by the 11<sup>th</sup> year if implementation.



Data Source: Global Trade Atlas

Let us be reminded of the timelines of the EU-South Korea and the US-South Korea (KORUS) FTAs. The EU and South Korea FTA: negotiations launched in May 2007, initialed by both sides in October 2009, officially signed in October 2010, and went into effect on July 1, 2011. By comparison, the US-South Korea FTA: negotiations began in February 2006, officially signed in June 2007, and is currently awaiting further action.

Meanwhile, U.S. agriculture exporters wait for KORUS to be passed and implemented, hoping that when it does they will be able to regain South Korean customers that EU exporters are quickly taking away.