California and U.S. Agricultural Trade Prospects with a KORUS Trade Agreement

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Main points

- **Korea has been a large and diversified export destination for US and California agriculture**
- **With more open markets the potential is for much more exports**
- **Three main drivers of growth**
  - **Korea has a large, prosperous population with substantial income growth and a documented market demand for high quality goods**
  - **Korean trade barriers for food and related imports have come down some but remain high, and despite these barriers US exports have been successful**
  - **The KORUS trade agreement will eliminate many barriers and reduce others substantially**

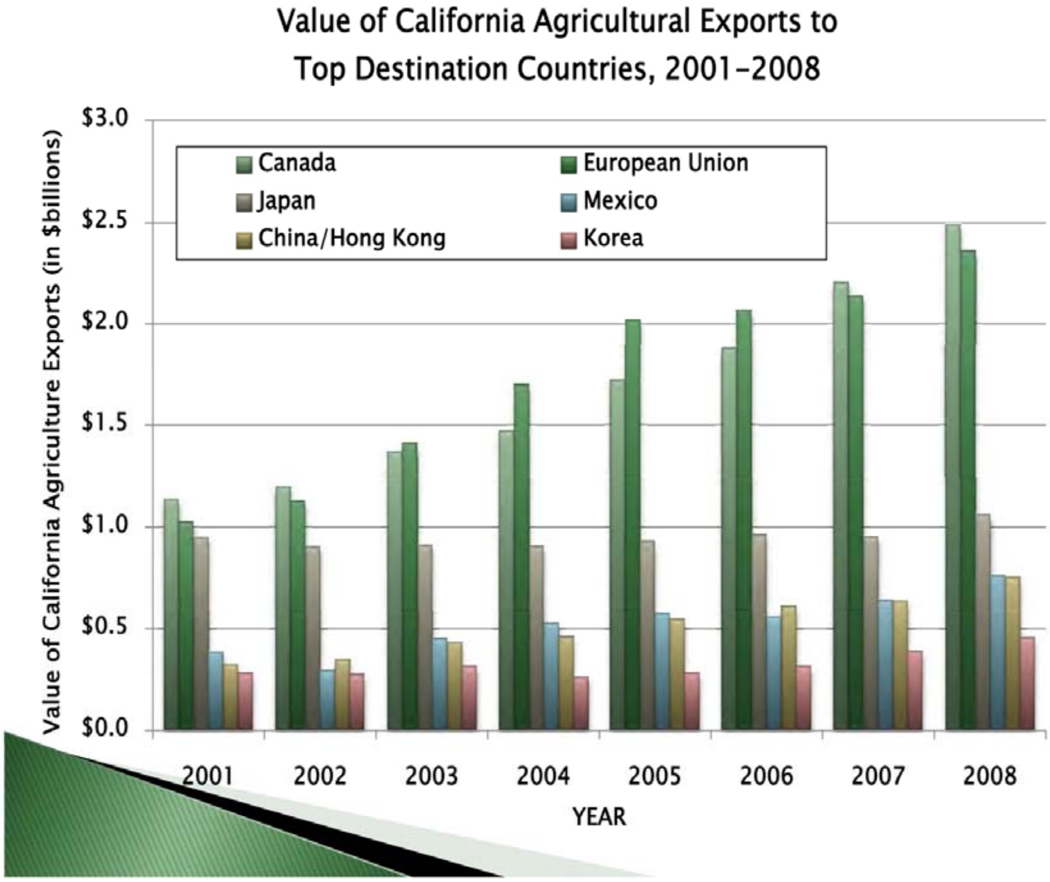
What this presentation covers

- This presentation provides a context for to all US exports to Korea, but focuses especially on products of particular interest in California
- This presentation develops industry wide data to provide a context, but cannot go into detail on specific products or companies
- This presentation provides no advice about specific opportunities or the process of exporting
- Agricultural markets vary year to year and month to month, an overview is provided to where the future may lead

Agricultural trade for the United States and Korea and bilateral agricultural trade between the United States and Korea

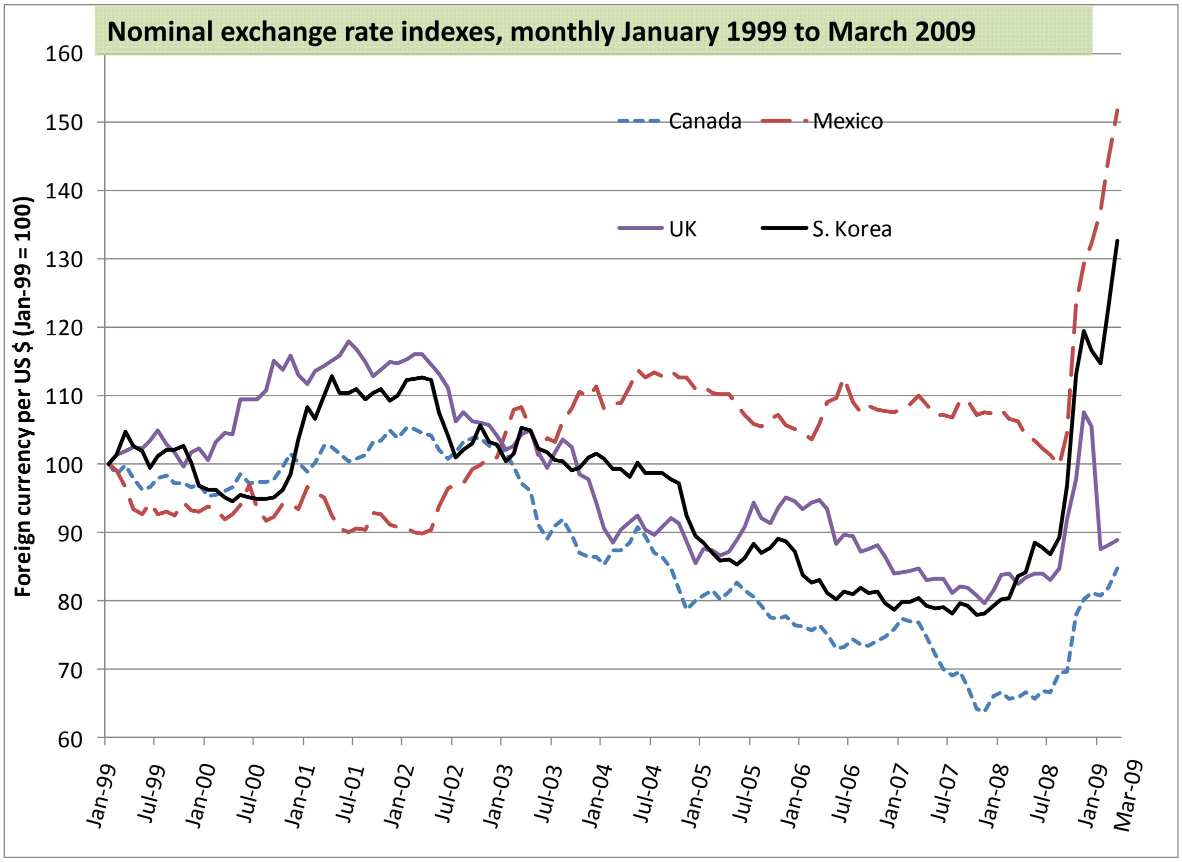
	Agricultural trade†	
	2000	2007
WORLD TRADE		
U.S		
Exports	$51.3 bil	$89.9 bil
Imports	$39 bil	$71.9 bil
Korea		
Exports	$1.3 bil	$2.4 bil
Imports	$6.8 bil	$13.3 bil
BILATERAL TRADE		
US exports to Korea		
(Korean imports from US)	$2.5 bil	$ 3.5 bil
Share in US exports	5%	4%
Share in Korean imports	37%	26%

† Data sources: FAS and KATI



Current data

- **Farm exports jumped in 2008**
- **Prices were strong and exports to Korea jumped**
- **Better access to beef market helped**
- **California agricultural exports reached more than 13 billion**
- **Price and export values were down some in 2009 and this includes California export to Korea**
- **But, now 2010 has been a very strong price and export year**
- **Exchange rates also vary and exporters must know that predicting timing of exchange rate changes is just impossible**



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The Prospective Free Trade Agreement with Korea:
Background, Analysis, and Perspectives
for California Agriculture

Hyunok Lee and Daniel A. Sumner

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California agricultural exports to Korea by commodity in 2007

	CA exports in 2007 ($Mil)†			
	To South Korea (A)	To all destinations (B)	Share of Korean market, (percent)	A/B (rank among all destinations)*
TOTAL	386.4	10,912	4	6
Oranges	55	260	21	2
Rice	43.3	313	14	2
Beef &Products	40.5	199	20	2
Almonds	35.6	1,879	2	
Walnuts	35.2	444	8	4
Dairy and products	28.9	963	3	
Hay	18.1	134	14	3
Wine	15.8	816	2	
Cotton	13.5	505	3	
Tomatoes, Processed	11.3	300	4	
Table Grapes	10	553	2	
Cherries	8.5	97	9	3
Lemons	8.4	169	5	4
Grape juice	6.7	32	21	2
Raisins	5.9	213	3	

Base tariffs in Korea for selected products

Base Tariff (percent)†	Commodity
1	Cattle hides and skins
8	Almonds (shelled and in-shell) Tomatoes (paste)
18-20	Plums (dried), olives, casein
21-24	Raisins, cherries (fr)
27-30	Artichokes, Chinese cabbage, broccoli, cauliflower, brussels sprouts, garlic (froz), garlic (pickled), pepper (froz), onions (froz), cucumbers (pickled), carrots (fr, froz, pres &dried)* Beef offal Lemons & limes, grapefruit (fr & Juice), wine, avocados, dates, pistachios, walnuts (shelled)
36-40	Cheese Beef (muscle cuts)
45-50	Apricots, cherries (canned), peaches, strawberries, other berries, peach (pres), grape juice, apple juice, lemon juice, lime juice, peach juice, strawberry juice, walnuts (in-shell) Lettuce, tomatoes Lactose, whey
54	Orange juice (froz. concentrate)
89	Butter
135**	Onions (fr & dried)
144	Korean citrus & mandarins
176	Skim & whole milk power
270	Peppers(fr & dried)
360**	Garlic (fr & dried)

Access improvement by general market access category

Immediate unrestricted opening: asparagus, cabbages, celery, cucumbers, eggplants, shallots spinach (fr&froz)*, tomato paste, cherries, olives, raisins, frozen orange concentrate, grape juice, wine almonds, pistachios, coffee, wine, cattle hides and skins, live livestock, feed whey

Tariff phase-out *(numbers indicate the years to complete the phase-out)*

2	Avocadoes, lemons, dried plums
5	Chinese cabbages, carrots(fr&froz), cauliflower, broccoli, peas, beans**, dried mushrooms**, tomato juice, Grapefruit, strawberries (froz), 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, watermelons, various berries,
15	Korean citrus, kiwifruit, walnuts (in-shell), chestnuts, pine nuts, oak mushrooms (fr&dried), Beef offal
17	In-season table grapes
20	Asian pears

Beef exports are likely to expand rapidly

- Beef exports were restricted by the BSE events, but a solution has been found to let trade flow
- The US is trying regain market from Australia

Competition with other exporters in crucial

- **The best opportunities are to expand in the Korean market for products where Korean production is small or potential for Korean supply expansion is limited**

- **One emphasis is to use lower barriers to compete with others who already have trade deals (Chile), or may develop deals (Australia and the EU)**

Value of Korean imports and major competitors, 2007

	Total imports ($mil)†	Share of US origin in total imports (%)	Import share in domestic consumption (%)*	Major competitors and their percentage share of Korean imports
Fruits	852	27	n/a**	Philippines(30),China(9),Chile(7),NZ(7),Brazil(5)
Oranges, fresh	108	93‡	9.9	--#
Oranges, juice	71	24	100	Brazil(60)
Kiwifruit	70	4	100	NZ(77), Chile(14)
Table grapes	58	18	8.3	Chile(82)
Cherries, all	36	91	100	--
Grapes, juice	22	47	100	Spain(26)
Lemons	11	77	100	Chile(5), Italy(10)
Apple, processed	10	0	100	China(50), Chile(2)
Strawberries	10	26	3.7	China(57), Italy(3)
Peaches, processed	9	0	100	China(44), South Africa(20), Greece(14)
Grapefruits (incl.juice)	9	74	100	Japan(12)
Raisins	6	94	100	--

Value of Korean imports and major competitors, 2007

	Total imports ($mil)†	Share of US origin in total imports (%)	Import share in domestic consumption (%)*	Major competitors and their percentage share of Korean imports
Tree Nuts	76	94	93	--
Walnuts	38	91	100	Vietnam(9)
Almonds	35	100	100	--
Dairy, beef and products	1856	28	n/a	Australia(45), NZ(15)
All dairy products	438	19	n/a	NZ(24), Australia(15)
Beef	1,037	9	59	Australia(73), NZ(16)
Hides and skins	381	89	n/a	--
Others				
Cotton	305	40	100	Australia(13)
Hay	237	82	n/a	--
Wine	167	10	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)

Wine and tree nuts have significant potential

- **Wine must build stronger Korean demand to compete with Chile, EU and Australia**
- **Korean consumption of tree nuts is low and has a huge upside for taste and health reasons**

Conclusions

- The challenge for agricultural exports to Korea is to find those markets with strong potential growth
- For example, dairy products now face high barriers, have large growth potential and Korean supply expansion is difficult, so the KORUS trade agreement will help the US compete with New Zealand in the bulk market
- But, also, top quality branded and unique products are of much interest to Korea consumers
- Bottom line – the potential market is there but competition is never easy

Thank you.

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