

# **Free Trade Agreements of Korea in Agricultural Sector**

**Nov. 25. 2011**

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## **1. Introduction**

Korea is the world's 11<sup>th</sup> largest economy. Korea's international trade in goods and services represent 85% of her economy. Therefore, export is one of the most important national growth strategies.

From late 90s, Korean government has set up a national policy of having simultaneous and multilateral negotiations of FTA with trade partners.

The government had selected Chile as its first free-trade partner. After evaluating possible free-trade partners, the government considered Chile as the country that would have the least impacts on Korean agriculture. But there was strong opposition by farmers group, especially fruits farmers.

After concluding the FTA successfully with Chile, the government pushed for consecutive negotiations with Singapore, EFTA(4), ASEAN(10) and India. And then, the government expanded FTA negotiations to major trading partners like US and the EU(27).

Recently, the government concluded an FTA with Peru and entered into effect.

Now active negotiations are ongoing with Columbia, Australia, Canada, New Zealand, Turkey, Mexico and GCC(Gulf Cooperation Council, 6).

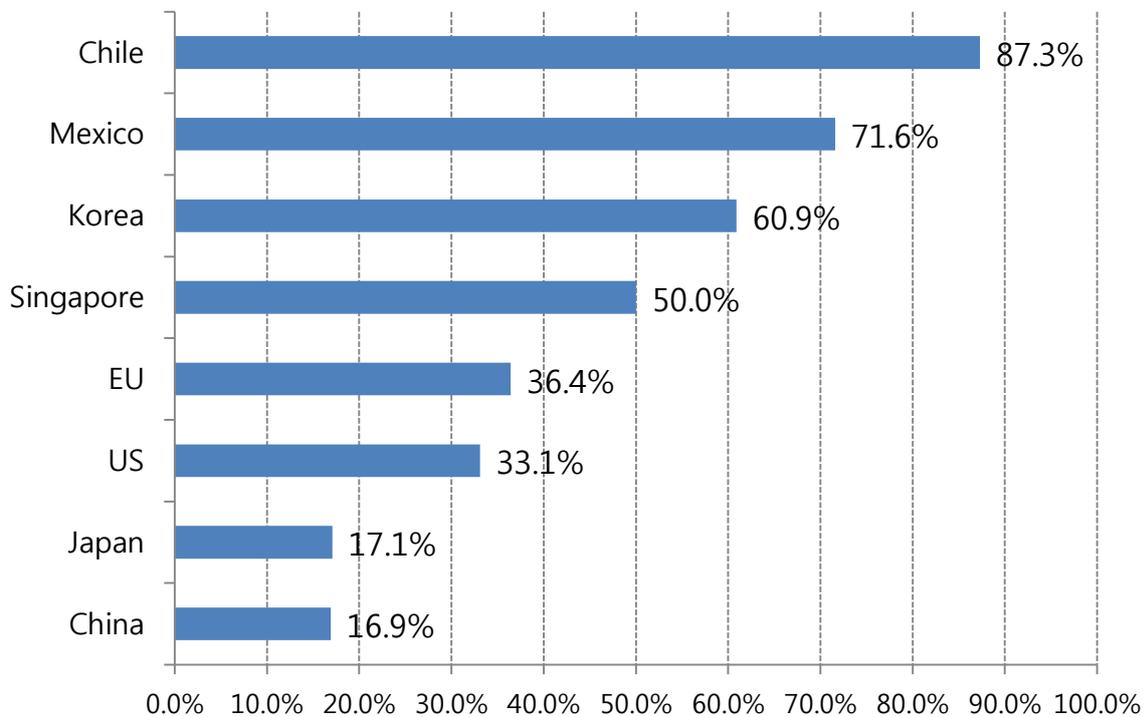
The Korean government is also engaged in the pre-stage process of FTA with China, the SACU(Southern Africa Custom Union, 5), MECOSUR(4) and Russia.

## **2. General outlook of Korea's FTA**

### **(1) Economic territory**

With the completion of the FTA with 45 countries (8 cases), Korea became 3<sup>rd</sup> largest country in the world in terms of economic territory as shown in chart 1.

**Chart 1 Economic territory※ of major countries**



Source : Min. of Planning & Finance, Korea

※ Economic territory : Ratio of sum GDP of concluded FTA countries to the world GDP

(2) Concluded FTA(8 cases 45 countries)

(Phase 1 of FTA)

- From Chile to India -

1) Chile

Korea started FTA negotiation with Chile in Dec. 1999, concluded in Oct. 2002 and put the agreement into effect on April 1<sup>st</sup> 2004.

2% of agricultural products -- rice, apples (fresh), pear(fresh) -- were complete exception and 27% put off until the conclusion of DDA/WTO negotiation. Therefore, 29% of agricultural products were excluded from tariff elimination.

## 2) Singapore

Negotiation started from April 1<sup>st</sup> 2004, concluded on Nov. 2004 and entered into effect on March 1<sup>st</sup>, 2006 with the exception of 33.3% of agricultural products.

## 3) EFTA(European Free Trade Association, Switzerland, Norway, Iceland and Liechtenstein)

Negotiation started in Jan. 2005, concluded in July 2005 and went into effect Sep. 1<sup>st</sup> 2006 with the exception of 65.8% of agricultural product.

- They are members of the G10 at the DDA/WTO negotiation along with Korea and Japan.

## 4) ASEAN(10 Countries)

Negotiation started from Feb. 2005, concluded in April 2006 and entered into effect on goods in June 2007 with the exception of 30.9% of agricultural products.

Free-trade articles concerning the service sectors and investment sectors went into effect on May 2009 and Sept. 2009 respectively.

## 5) India(CEPA, Comprehensive Economic Partnership Agreement)

Negotiation started from March 2006, concluded in Sept. 2008 and entered into effect on Jan. 1<sup>st</sup> 2010 with the exception of 44.8% of agricultural products.

(Phase 2 of FTA)

- From US to Peru -

6) U.S

Negotiation started from June 2006, concluded in April 2007, but renegotiation started from Nov. 2010, concluded on Dec. 2010, upon the request of new U.S. Government. Through negotiations, only 2% of agricultural products were excluded from the agreement.

7) E U(27 members)

Negotiation started from May 2007, concluded in July 2009, and went into effect on July 1<sup>st</sup> 2011 with the exception of 3.7% of agricultural products.

8) Peru

Negotiation started from March 2009, concluded in August 2010 and went into effect on August 1<sup>st</sup> 2011 with the exception of 7.1% of agricultural products.

**Table 1. Degree of tariff elimination in concluded FTA**

(Unit : %)

	Phase 1 <sup>※1</sup>					Phase 2 <sup>※2</sup>		
	Chile	Singapore	EFTA	ASEAN	India	US	EU	Peru
Exception <sup>※3</sup>	29.0	33.3	65.8	30.9	44.8	2.0	3.7	7.1
Immediate tariff elimination	15.6	16.0	14.1	36.8	7.7	37.9	41.8	25.2

Source : Ministry of Agriculture, Forestry, Fisheries and Food.

※1 : phase 1: High level of exception and restriction and low level of immediate tariff removal.

※2 : phase 2: Low level of exception and restriction and high level of immediate tariff removal.

※1, ※2 : Author's classification.

※3 : complete exclusion, negotiation after WTO/DDA, maintaining current tariff.

(3) FTA under negotiation (7 cases 12 countries)

1) Australia

Negotiation started from May 2009. 10<sup>th</sup> meeting was held from 26<sup>th</sup> Oct. 2011 to 28<sup>th</sup> Oct. 2011 in Canberra.

2) Columbia

Negotiation started from Dec. 2009. 5<sup>th</sup> meeting was held from 10<sup>th</sup> Oct. 2011 to 14<sup>th</sup> Oct. 2011 in Seoul.

Both parties agreed to conclude the negotiation within 2011.

3) Turkey

The first meeting was held from April 26<sup>th</sup> to 30<sup>th</sup>, 2010 in Ankara, and third meeting was held from March 7<sup>th</sup> to 11<sup>th</sup>, 2011 in Ankara.

4) GCC(Saudi Arabia, United Arab Emirates, Qatar, Oman, Kuwait, Barain)

Negotiations started from July 2008 in Seoul. The third meeting was held in July 2009 in Seoul.

5) New Zealand

The first meeting was held in June 2009 in Seoul. The fourth meeting was held in May 2010 in Wellington.

6) Canada

Negotiations started in July 2005, 13<sup>th</sup> meeting was held in June 2008 in Ottawa.

7) Mexico

The first meeting was held in Dec. 2007 in Mexico City, and the second one was held in June 2008 in Seoul.

#### (4) Suspended FTA

##### 1) Japan

Negotiation started in Oct. 2003. It followed by six more meetings until the exchange of tariff concession schedule. There were big differences of understanding in terms of liberalizing the trade of agricultural products, non-tariff barriers, and industrial cooperation. The negotiation stopped at the end of 2004. From July 2008 to May 2011, there were 7 informal working level meetings.

#### (5) Under preparation or joint research projects (11 cases 24 countries)

##### 1) China

Joint private research project was completed (2005~2006).

Joint industry, public, and scholars research project was carried out from March 2007 to May 2010.

China has strong will to start negotiation.

##### 2) Korea • Japan • China FTA

Private joint research project was carried out from 2003 to 2009.

Joint industry, public, and scholars research project started from May(6<sup>th</sup>-7) 2010 in Seoul.

6<sup>th</sup> meeting was held (August 31<sup>st</sup>~sept.2<sup>nd</sup> 2011) in Jangchun, China and the 7<sup>th</sup> meeting is scheduled on Dec.(14<sup>th</sup>-15<sup>th</sup>) 2011.

3) Other countries in the process of joint research project are Russia, MERCOSUR (Brazil, Argentina, Uruguay, Para guay), Israel, Vietnam and Indonesia.

4) Agreed countries to start joint research project are SACU(South African Republic, Lesotho, Namibia, Swaziland, Botswana), Mongolia, Central American Countries(Panama, Costa Rica, Dominican Republic, Honduras, El Salvador, Gate Mara) and Malaysia

**Table 2. Trade Volume of Korea by FTA Countries(2010)**

(Unit : million dollars)

	Country	Exp Port	Agr.product (Ratio)	Import	Agr.product import (Ratio)	Ratio to total agr. pro.import
In-effect	Chile	2,947	5(0.15)	4,221	668(15.80)	
	Singapore	15,244	91(0.60)	7,850	86(1.08)	
	EFTA	3,522	8(0.22)	5,699	150(2.61)	
	ASEAN	53,195	720(1.35)	44,099	3,422(7.76)	
	India	11,435	17(0.15)	5,674	394(6.93)	
	EU	53,507	333(0.62)	38,721	1,955(5.05)	
	Peru	944	0.9(0.09)	1,039	77(7.31)	
	Sub total	140,794	1,174.9(0.83)	107,303	6,752(6.29)	26.18
Concluded	US	49,816	519(1.04)	40,403	5,960(14.75)	23.11
Under negotiation	GCC	12,503	247(1.97)	66,440	28(0.04)	
	Australia	6,642	82(1.23)	20,456	2,213(10.81)	
	New Zealand	918	94(10.23)	1,176	846(71.13)	
	Columbia	1,389	0.5(0.03)	432	74(10.47)	
	Turkey	3,753	7(0.19)	516	54(10.47)	
	Canada	4,102	53(1.28)	4,351	1,063(24.41)	
	Mexico	8,846	10(0.11)	1,521	104(6.77)	
	sub total	38,153	493.5(1.29)	94,892	4,382(4.62)	15.97
In Process	China	116,838	787(0.67)	71,574	4,323(6.04)	
	Japan	28,176	1,883(6.68)	64,296	659(1.02)	
	Russia	7,760	236(3.04)	9,899	738(7.46)	
	MERCOSUR	8,952	15(0.17)	5,543	2,019(36.41)	
	Israel	1,059	15(1.42)	769	13(1.56)	
	Vietnam	9,652	153(1.59)	3,331	624(18.70)	(ASEAN)
	SACU	1,865	9(0.54)	2,298	136(5.77)	

	Mongolia	192	29(15.10)	39	0.5(1.28)	
	Central America	4,885	8(0.16)	988	174(17.61)	
	Malaysia	6,115	66(1.06)	9,531	781(8.19)	(ASEAN)
	Indonesia	8,897	94(1.06)	13,986	880(6.29)	(ASEAN)
	sub total	194,391	3,295(1.70)	182,254	10,347.5(5.68)	40.13(31.27)
	Total	466,384	58,804(1.30)	425,212	25,787(6.46)	

Source : Ministry of Agriculture, Forestry, Fisheries and Food.

### 3. Important FTAs

#### (1) FTA with Chile

Before entering into FTA negotiation, the Korean government was very careful to select a country and to persuade farmers. There were hot discussions among the related Ministries. Finally, Chile was selected as the first country to negotiate with for an FTA, because Chile was considered as the country which would have the least impact on Korean agriculture.

At the first stage of negotiations, the negotiating team faced serious problem in harmonizing the different tariff systems between the two countries. Chile has a simple and single tariff line without any restrictions. However, Korea's tariff system is very complicated with TRQ, exceptions, specific tariff, etc. To keep Korea's tariff systems as much as possible, Korea tried to make use of other cases like the EU/Mexico model. It stated that some tariff lines would not be negotiated until the conclusion of DDA/WTO negotiation.

The final result of the negotiation was close to Korea's tariff system. It had influenced all Korean FTAs until the FTA with India (see phase 1 of table 1, page 6).

On the one hand, Ministry of Agriculture tried to persuade farmers in many ways. It used frequent discussions, hearings, etc. On the other hand, the government promised farmers compensate for any possible damage caused by FTA and full financial assistance to enhance structural improvement. For that purpose, government had established "The Special FTA Law" with 1 trillion and 200 billion won fund.

According to the concession made by Korea to Chile as shown in table 3, rice, apple (fresh) and pear (fresh) are completely exempted from tariff elimination. 373(26%) products such as red pepper, garlic, honey, eggs, watermelon will be discussed after completion of the DDA/WTO negotiations.

18 products providing Tariff Rate Quotas (TRQs) like beef (400M/T), chicken (2,000M/T) will also be discussed after DDA negotiation. Therefore, actually 413 products (29%) were exempted from tariff elimination.

The tariffs on 224 (15.6%) products were eliminated immediately.

Other 637 products (44.5%) had a schedule for the gradual elimination of tariffs (16, 10, 9, 7, 5 years).

**Table 3. Korea's Concession to Chile**

Type/Removal Period		Commodities	Numbers in HS lodigit
Exception		rice, apple(fresh), pear(fresh)	21(2%)
seasonal tariff		grape(fresh)	1
Discussion after DDA	Without TRQ	Milk, milk powder, butter, cheese, potatoes, onion, garlic, red pepper, tangerine, barley bean, ginseng, red ginseng, persimmon watermelon, green tea, eggs, honey, chestnut	373(26%)
	With TRQ	Beef(400M/T), chicken(2,000M/T) mandarin(100M/T)	18(1%)

16 years	Other fruits(dried), modified milk powder	12(0.2%)
10 years	pork, mutton, cut-flower, tomatoes, lemon, dried grape	197(13.8%)
9 years	Other fruits juice	1
7 years	walnut, canned peach, jam, potatoe	40 (6 with TRQ)
5 years	almond, coffee, wine	545(38%)
0 tariff	wheat, rye, beet, wool	224(15.6%)
<b>Total</b>		<b>1,432(100%)</b>

Source : Ministry of Agriculture, Forestry, Fisheries and Food.

## (2) FTA with U.S

### 1) Developments of the Korea-US FTA

Although informal discussions about the Korea-US FTA started in the mid-1980s, given that the U.S. government considered Korea to be the most appropriate country for an FTA, the anti-American sentiment in Korea in the late 1980s delayed the start of negotiation. In the 1990s, FTA discussions were suspended due to the Uruguay Round negotiations.

Following the Korea-Chile FTA negotiations in 2000s, the U.S. showed renewed interest in an FTA with Korea.

After the successful completion of the FTA with Chile, Korea also considered it's the most important trading partner, the U.S., as an FTA negotiating partner. After several informal meetings, pre-negotiation working level meetings were held in 2005. The official announcement of FTA followed in Feb. 2006. The negotiations started in June 2006 and concluded in April 2007.

With strong opposition from Korean farmers, the negotiation took only 11 months, a relatively short period of time compare with other FTA negotiations.

The Korea-US FTA was signed in June 2007. Ratification procedures, however, were delayed in both countries. The new U.S. government was reluctant to proceed due to strong opposition from the automobile industry and asked Korea to have additional negotiation. A ministerial meeting was held from Nov. 30 to Dec. 3<sup>rd</sup> 2010 in Washington, D.C. and concluded with concessions on automobiles from Korea and pork from the U.S.

The U.S. congress ratified the Korea-US FTA on Oct. 12<sup>th</sup>, 2011. However, the Korean National Assembly is still on the ratification process.

## 2) Result

The Korea-US FTA was completed with Korea making a higher level of concession in the agricultural sector compare with its previous FTAs.

As shown in table 1, it is the beginning of phase 2(low level of exceptions and restrictions). In other words, the tariff system moved closer to U.S. system, with a low level of exceptions and restrictions and a higher rate of tariff elimination.

In FTA negotiations following the Korea-US FTA, many partners strongly requested Korea make the same level of concessions to them that Korea made to the U.S.

As shown in Table 4, rice (16 in HS 10 digit) is an exception from tariff elimination and 15 other items such as oranges, soybeans for food, natural honey and some dairy products can maintain their current tariff given the TRQ.

578 products (37.9%) like grape juice, coffee, etc. should immediately have tariffs eliminated..

The rest have to eliminate tariffs gradually from 20 to 2 years. Some of them have to provide TRQ.

**Table 4. Korea's Concession to US**

Concessions type/ Tariff removal Periods	Commodities	Numbers in HS 10 digit
Exception	rice	16(1.0%)
Current Level & TRQ	Soy bean for food, orange(Sept.-Feb.), honey, milk powder.	15(1.0%)
17 years, seasonal Tariff	grape(May-Oct.)	1(0.1%)
15 years, seasonal Tariff	potato for chips(May-Nov.)	1(0.1%)
18 years & TRQ	ginseng	4(0.3%)
15 years & TRQ	cheese, barley, malt, corn starch.	10(0.6%)
12 years & TRQ	sub-feed, modified starch.	6(0.4%)
10 years & TRQ	butter, modified milk powder, cheda cheese.	11(0.8%)
20 years	apple(Fuji), pear(Asian)	2(0.1%)
18 years	red ginseng	3(0.2%)
16 years	Sugar	2(0.1%)
15 years	beef, eggs, garlic, onion, red pepper, mandarin, kiwi, sesame, chest nut, starch.	98(6.5%)
12 years	milk cow, frozen onion, melon.	34(2.2%)
10 years	pork(belly & neck), sweet potato, peach, persimmon, mushroom.	332(24.1%)
9 years	fresh strawberry	1(0.1%)
7 years	tobacco, beer, ice cream.	41(2.6%)
Until 2016.1.1	pork.	21(1.4%)
6 years	corn oil, walnut.	2(0.1%)
5 years	orange juice(fresh), whisky, instant coffee, potato(frozen).	317(20.6%)
3 years	Seaweeds	33(2.1%)
2 years	avocado, lemon, etc.	6(0.4%)
0 years	orange juice(frozen), coffee, almond, ramen, kimchi, wine, flowers.	578(37.9%)
Total		1,531(100%)

Source : Ministry of Agriculture, Forestry, Fisheries and Food.

### (3) FTA with EU

The Korea · EU FTA started in May 2007 and concluded in July 2009 right after the Korea · Sweden summit meeting.

It took two years with 8 rounds of bilateral meetings. The Korea · EU FTA went into effect on July 1<sup>st</sup>, 2011 earlier than the Korea · US FTA.

From the very beginning of negotiations, the EU strongly insisted that Korea make the same level of concessions as it did for the KOREA · US FTA.

Korea insisted, however, a differentiation of concessions. Korea considered that the impact on Korean agriculture by the Korea · EU FTA would be bigger than that of the Korea · US FTA, especially in the livestock sector. Finally, Korea got a longer period of tariff elimination in pork and dairy products. According to the Korea · EU FTA, pork (belly and neck) will have its tariffs eliminated by June 30th 2021. On the other hand, the Korea-US FTA prescribes Korea eliminate tariffs on pork by Jan.1<sup>st</sup> 2016.

As shown in table 5, rice (16 items in HS 10 digit) is an exception from tariff elimination. 26 items like soybean, wheat, etc. can maintain their current tariffs. 12 items like honey and powder milk, etc. can maintain their current tariffs providing certain TRQs. Orange (with TRQ) and grapes will have seasonal tariffs. 25 products will have long term (15-10 years) and gradual elimination of tariffs with providing TRQs such as cheese, malt (15 years), modified starch (12 years) and butter (10 years).

407 products(28%) will have long term (20-10 years) gradual elimination without TRQ such as apples, pear (20 years), green tea, ginger (18 years), mandarins (15 years), chicken (13-12 years), pork, tangerine juice (10 years), etc. 613 products (41.8%) have to eliminate tariffs immediately.

**Table 5. Korea's Concession to EU**

Concessions type/ Tariff removal Periods	Commodities	Numbers of Items (%)
Exception	rice, rice related goods	16(1.0%)
Current Tariffs	Soy bean, barley, garlic, onion, mandarin, ginseng.	26(1.77%)
Current Tariffs & TRQ	honey, powder milk, evaporated milk.	12(0.82%)
Seasonal Tariff & TRQ	orange(September-February : current tariff +TRQ, March-October : 7 years)	1(0.07%)
Seasonal Tariff	grapes(May 1st-October 15th : 17 years, October 16 <sup>th</sup> -April 30 <sup>th</sup> : 5 years)	1(0.07%)
15 years & TRQ	cheese, malt, malt barley.	6(0.41%)
12 years & TRQ	sub-feed, modified starch.	8(0.55%)
10 years & TRQ	butter, modified milk powder.	11(0.75%)
20 years	apple, pear	2(0.14%)
18 years	green tea, ginger, sesame, peanut.	7(0.48%)
16 years	white sugar	1(0.07%)
15 years	mandarin, jujube, kiwi, milk & cream	92(6.28%)
13 years	chicken meat(frozen breast and drumstick), sweet potato, duck meat.	27(1.84%)
12 years	chicken meat(cold-storage), mixed juice (grape), watermelon.	16(1.09%)
10 years	pork(pork belly, cold-storage neck), tangerine juice, strawberry, peach, frozen chicken leg	274(18.69%)
7 years	pork(cold-storage innards), tomato, ice cream.	47(3.21%)
6 years	pork(frozen trotter, sealed one), walnut.	3(0.20%)
5 years	pork(others), olive oil, carrot, instant coffee.	287(19.58%)
3 years	orange juice, margarine, scotch whisky.	13(0.88%)
2 years	avocado(fresh), lemon, prune(dried)	3(0.20%)
immediate removal (0 years)	black tea, flower, feed, wool, wine, coffee.	613(41.81%)
Total		1,466(100%)

Source : Ministry of Agriculture, Forestry, Fisheries and Food.

#### (4) FTA with Peru

The Korea · Peru FTA negotiations started in March 2009, concluded on July 2010, was signed on March 21<sup>st</sup> 2011, and went into effect on August 1<sup>st</sup>, 2011.

The Korea · Peru FTA is a recent one. As shown in table 6, rice (16 products in HS 10 digit) is exempted from tariff elimination like all other concluded FTAs.

89 products such as beef, red pepper, garlic, onion, mandarin, apples, pear, cheese, ginseng, etc. can maintain their current tariffs.

Grape (May-October) and oranges (November-April) can maintain, their current tariffs during harvest.

14 products like chicken, duck, honey, mandarins, red beans, etc. are introduced to invoke a safe-guard measure. Therefore, actually 152 products (7.1%) were exempted from tariff removal. And 568(37.8%) products had long-term (16-10 years) gradual elimination of tariff and 427(28.5%) items had mid and short-term (7-3 years) removal of tariff. 377 products (25.2%) had to eliminate tariff immediately.

**Table 6. Korea's Concession to Peru**

Concessions type/ Tariff removal Periods	Commodities	Numbers in HS 10 digit
Exception	Rice	16(1.1%)
Current Tariff	Beef, garlic, red pepper onion, apple, pear, cheese ginseng,	89(5.9%)
Seasonal Tariff	Grape, orange	2
16 years, seasonal Tariff	Mushroom, sweet, potato, sesame, peanut, pork, starch, green tea	197(13.1%)
10 years	Chinese cabbage, other mushrooms, mango, tea,	371(24.7%)
7 years	Tomato, juice, processed fruits and nuts	28(1.9%)

5 years	Banana, other fruits(frozen), nuts, pepper, olive oil, turkey meat, ice cream	352(23.5%)
3 years	Asparagus, wheat flour,	47(3.1%)
0 years	Coffee, wheat, olive, parm oil, sugar, ramen, leather, wool	377(25.6%)
Total		1,496(100%)

Source : Ministry of Agriculture, Forestry, Fisheries and Food.

#### 4. Economic Effects on Agricultural Sector

(1) Korea · US FTA (by the Korea Rural Economics Institute)

##### 1) Import

The import of agricultural products from the U.S. is estimated to increase annually 424million US dollars, and the import of agricultural products from all over the world is estimated to increase by 264 million US dollars for the next 15 years.

**Table 7. Estimated increase of import from US**

unit : million dollars

Estimated increase of import	Annual average	Period		
		1-5 years	6-10 years	11-15 years
from US(A)	424	233	449	591
from other countries(B)	△161	△88	△170	△224
from all over the world(A+B)	264	145	279	367

Source : KREI(revised on Aug. 5<sup>th</sup> 2011)

## 2) Production

Domestic production of agricultural products will shrink annually by 815 billion Korean won for 15 years. The reduction of production will increase through the implementation period. In the 5<sup>th</sup> year, reduction of production will be 678.5 billion won. In the 10<sup>th</sup> year, it will be 991.2 billion won, in the 15<sup>th</sup> year, it will be 1 trillion and 235.4 billion won.

Therefore, the total reduction of farm production will reach to 12 trillion won and 225 billion won at the end of 15<sup>th</sup> year.

According to KREI estimation by sector, the annual reduction of livestock production will be 819.3 billion won (66.3% of total)

- beef : 443.8 bil.won
- pork : 206.5 bil.won
- chicken : 108.5 bil.won
- dairy : 43.0 bil.won

Secondly, annual reduction of fruits production is estimated to be 301.2 billion won (24.4% of the total)

- apple : 76.0 bil.won
- pear : 49.8 bil.won
- grape : 73.1 bil.won
- mandarin : 37.0 bil.won
- peach : 22.1 bil.won

Finally, the annual reduction of vegetable and special crops (ginseng etc.) will be 85.3 billion won. Therefore, 90% of losses will come from the livestock and fruit sector.

**Table 8. Annual Reduction of Agricultural Production by Sector for 15 years**

unit : billion won

	Total	livestock	fruits	vegetable, special crop	grain
Reduction of production	815	486.6	241.1	65.5	21.8

Source : KREI

## (2) Korea-EU FTA

### 1) Reduction of Production

Domestic production in the agricultural sector will decrease annually 175.5 billion won for 15 years. It will reach 2 trillion won and 263.0 billion at the end of 15th year.

The reduction of production at the end of the implementation period is estimated to be 306.0 billion won.

- pork : 121.4 billion won.
- dairy : 80.5 billion won.
- chicken : 33.1 billion won.
- beef : 52.6 billion won.

Therefore, most of losses (94%) from the Korea-EU FTA come from the livestock industry.

## 5. Domestic Measures

Counter measures first were introduced through the establishment of "Special FTA Law" in 2004 right after the conclusion of the Korea · Chile FTA.

It has two policies such as a short-term compensation policy and a long-term policy to strengthen the competitiveness.

The government already announced a long-term investment program of 119 trillion won for 10 years (2004-2013) on agriculture.

After the consecutive conclusions of FTAs with Chile, U.S. and the E.U., the government specially reallocated 10 trillion won out of the 119 trillion won program and added increases of 10.3 trillion won for the next 10 years for the Korea · US FTA and an additional 2 trillion won for the next 10 years for the Korea · EU FTA.

It means 20.4 trillion won was newly introduced as compensation to counteract damage from the FTA.

For the short-term direct compensation program, 1.4 trillion won was allocated. However, for the long-term program, 7 trillion won was allocated for strengthening competitiveness by products. 12.1 trillion won was allocated to improve agricultural structures. All those measures were concentrated mostly on the livestock industry and partly on the fruits industry.

### (1) Short-term damage compensation policies

Short-term policies have two programs such as direct payment for damage compensation from excessive imports and subsidies for farming closures.

1) Direct payments for damage compensation from excessive imports was designed to support 80% of price decrease if a product's price drops more than 20% to compare with its base price (Olympic average of 3 years out of 5 years). The government allocated 720 billion won for that purpose. After the Korea · US FTA, the government changed the compensation from 80% to 90% of price decrease.

2) Subsidies for farming closures were designed to pay 3 years income for farmers (green-house grape, kiwi and peach) who wanted to stop farming due to the FTA with Chile. 500 billion won was allocated for that purpose. In the case of FTA with Chile, the government paid 175.9 billion won as a subsidy for farming closure for 5 years (2004-2008). About 16,860 farm households (green-house grape : 1,560, kiwi : 397, peach : 14,903) had applied for compensation. The majority was peach farmers. However, no peach has been imported from Chile since 2004. The government was blamed severely for a waste of money. Farmers were also blamed for enabling the moral hazard.

## (2) Long and medium term measures for competitiveness

In addition to previous long and medium term measures for strengthening the competitiveness, the government announced new long-term projects recently (August 2011) for the Korea · US FTA and the Korea · EU FTA. The measures were focused mainly on the livestock and fruits industries. A budget of 22.1 trillion won was allocated to various projects. (This was a 2 trillion won increase from the previous project) For modernizing facilities on livestock, 4 trillion won was allocated. For fruits and horticulture industries, 1.1 trillion won was allocated.

Other long-term measures are as follows.

- Expanding production base for diversifying crops

- Easy access to loans for farmers through improvement of credit guarantee.
- Intensifying taxation system for reducing production cost
- Expanding period of tax free oil for farm machinery
- Expanding period of value-added tax exemption for agricultural materials
- Inducing private investment to agriculture and food cooperatives.

### (3) Persuading farmers

The most difficult thing to accomplish when negotiating FTAs was persuading farmers.

Farmers strongly opposed the FTA with Chile from the very beginning, especially fruit farmers.

Negotiators (agricultural sector) went many times to rural areas to meet fruit farmers. A lot of discussions, meetings, and hearings were held. On the other hand, the government firmly promised to minimize financial damages and to compensate for all possible damages from the FTA. Then farmers had become softer than before.

Before entering into effect on the Agreement, Government kept her promise with establishment of "Special FTA Law" and 1 trillion and 200 billion won of fund raising.

But in the case of the FTA with the U.S., farmers were quite different from the FTA with Chile. The sector expecting to be hurt by a Korea-U.S. FTA – the livestock industry -- fiercely opposed the agreement and was joined by voices expressing anti-American sentiment at that time.

Facing with radical opposition from farmers, government tried, on the one hand, to persuade them sincerely. During the 8 rounds of bilateral meeting with US, negotiators met farmers group to explain the result in every meeting.

Basically, every Korean knows that the Korean economy depends heavily on exports.

Therefore, farmers groups like the National Agricultural Cooperative Federation (same as Japan's Gen-Zu), the biggest farmers group in Korea, insisted on full compensation for damages and expanded support for improving competitiveness.

## **6. Remaining Issues**

### (1) FTA with China

An FTA with China will be the most difficult negotiation for Korea. If Korea agrees to something like a phase 2 type FTA with China, Korean agriculture will surely collapse. And also it will cost a lot of money to compensate all the damage, since damage will cover all areas. The vegetable sector will be especially affected.

China is now strongly pushing Korea to start the FTA negotiation.

However, Korea is reluctant to start formal negotiations and insists on the prior exchange of views on sensitive products like agricultural ones.

### (2) FTA with Japan

Korea · Japan FTA is now in suspension. Even though, there were some informal meetings, both sides are not active at all.

If we think a Korea · Japan · China FTA is inevitable, prior Korea · Japan FTA is still necessary. If Korea · Japan FTA negotiation concludes with something like a phase 1 type on agriculture, then it will be a good negotiating tool to use on China.

## **7. Implications and Challenges**

Korea's FTA have not completed yet. If Korea concludes an FTA with Japan and China, then Korea is going to have world's largest economic territories. In that case, multilateral trade negotiation like DDA/WTO will be less meaningful for Korea.

For farmers, government should make continuous persuasion and firm promise to compensate all possible damages from FTA. Government also has to establish the compensation program with strict standards and carefully designed short-term and long-term policy measurements.

Through implementing the FTAs, we found many new farmers with competitiveness not only in areas of livestock (Korean cow, pig, chicken) and fruits but also in other areas. It gave us some bright signals for future Korean agriculture.

The future tariff system of Korea's FTAs will be a phase 2 type.

From our experiences, it is better first to negotiate with countries of having similar tariff system than countries of having different tariff system. Once you enter into a phase 2 type in agriculture, it will be extremely difficult to go back to a phase 1 type.

Nevertheless, choosing either a phase 1 type or a phase 2 type completely depends on the countries' national strategy.

Steady negotiations based on the well-designed roadmap of the countries' FTA are essential. The important thing in FTA negotiation is contents not timing. Since the impact not only on agricultural sector but also on other sectors will come in 10 to 15 years later.

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