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Korea, Republic of

Livestock and Products

MAF Press Release on Findings by the WTO Beef

Dispute Settlement Panel

2000

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Report Highlights:

The Ministry of Agriculture & Forestry (MAF) released elements of the unpublished WTO Beef Dispute Panel report that found the Korean beef regime to be GATT inconsistent in several areas. The MAF internet announcement notes Korea intends to appeal the unpopular decision made by the WTO dispute settlement panel.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Seoul [KS1], KS

REFERENCE MATERIAL

Date: June 15, 2000

Provided by: International Cooperation Div.,
Ministry of Agriculture & Forestry

Director: Jong Ha Bae

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As a general rule, the content of the panel report is confidential until it has been distributed to all member nations.

SUBJECT: TO APPEAL IMMEDIATELY AGAINST THE RESULT OF THE WTO BEEF PANEL

- # The Korean government has decided to appeal in the near future against the WTO beef panel report that was distributed at 11:30 p.m. on June 15, 2000 (Korea Standard Time) to the countries that are under dispute. It will do so under the WTO dispute settlement procedures.
- # The panel reported the following about our separate retail system for beef that has protected the consumers against misrepresentation since its introduction in 1990, beef import system and the subsidy related to the cattle procurement.
 - " It concluded that the separate retail system is a discriminatory system that limits the consumers' access to imported beef.
 - " As for the beef import system, it recognized an extensive amount of our argument that the current beef import system is necessary for maintaining the quota system up to the end of 2000.
 - " As for the domestic subsidy related to the cattle procurement project in 1997 and 1998, it pointed out that there was a problem with our method used in calculating the subsidy.
- # The Korean government looks upon the content of the panel report as having been written up centering around the petitioner (exporting nations). It also lacks sufficient consideration of the need for the separate retail system and Korea market situation, such as the actual marketing practice, etc. We also think that there are some problems in interpretation of the laws. The separate retail system is a type of a labeling system in a broader sense. It is a method that protects the consumers right to know and is the most sure method for preventing mislabeling. It is our judgement that we cannot say that there is discrimination, as we are handling the domestic beef sales outlet the same way that we are handling the imported beef sales outlet. The current import/marketing system for beef is a system that was developed under the consensus with the petitioner (exporting country) during the earlier part of 1990's. However, to raise this as an issue after almost 10 years seems

like it is against the principle of faithfulness and honesty.

- # The beef dispute began when Korea failed to meet its import quota, due to the acute drop in beef imports caused by our economic crisis in 1998. When Korea failed to meet the quota, the exporting countries demanded that Korea fulfill its import quota, total elimination of the separate retail system, huge drop in tariff rates, improvement of the import system, etc.
- # During the economic crisis, a lot of farmers slaughtered a large number of animals simultaneously, as feed prices soared, due to the depreciation of the Korean currency. Due to such massive slaughtering, cattle prices plunged from 2,200,000 won to 1,400,000 won, resulting in a lot of livestock farmers going bankrupt. The fundament for livestock industry was at the merge of collapsing. Under such situations, we judged that it would be beneficial to resolve the dispute through the WTO dispute settlement procedure, rather than accepting the demands of the exporting nations. As we could not reach a smooth agreement during the several bilateral meetings that took place afterwards, the United States and Australia filed a petition with the WTO.
- # If we had been afraid of being petitioned and had chosen to fulfil the full amount of quota or dropped the duty rate or abolished the separate retail system that the exporting countries had been asking for, we would have ended up with much bigger damage. If we had fulfilled the import quota for 1998 and 1999, as the petitioning nations had requested, the amount of imports would have increased by around US\$150,000,000. We also estimate that the increased imports would have resulted in a drop of 300 billion won (Approximately \$273 million, using the current exchange rate of around US\$1=1,100 won) in total hanwoo production value and an income drop of 16.3 percent of hanwoo farm households. If we had significantly dropped the duty rate from the rate agreed under the Uruguay round, the negative effect is so big that it would be difficult to even estimate the impact. Due to the above counteraction that our government took and as a result of the cattle procurement project, the cattle price that had plunged to 1,400,000 won due to the economic crisis recovered to the appropriate level of 2,400,000 won within ten (10) month. This is comparable to the time it took for the cattle prices to recover from the cattle price crisis in 1983 which did not get back to the normal level until 1989.
- # The Korean government plans to actively react during the appeal process by maintaining a systematic cooperation among the relevant ministries, such as the Ministry of Agriculture & Forestry, Ministry of Foreign Affairs and Trade, etc, as well as consulting with legal counsel for trade and specialists, etc. It will also utilize the discrimination technology between hanwoo and imported beef, using the DNA identification technology that has already been developed to abolish the deceptive marketing practices, such as false labeling, etc. It will also enhance the crackdown on false labeling and strengthen the penalties. On top of this, the government will aggressively endeavor in protecting the consumers right by introducing country of origin labeling at restaurants, etc.

<Additional Materials>

THE BACKGROUND AND MEANING OF THE BEEF PANEL

1. Demand and import of beef increased rapidly since the 1990's.

- " Due to the continued increase in beef consumption since coming into the 1990's, imports continued to increase every year and we did not have any problem in importing the quota amount up to 1997.

Annual Quota and Imported Amount

Year	1993	1994	1995	1996	1997	1998
Quota (MT)	99,000	106,000	123,000	147,000	167,000	187,000
Actual Import (MT)	99,031	120,109	148,059	147,162	161,522	87,323

- " Korea has become the second major market for beef exporting nations, next to Japan and the market share of U.S. beef has gradually increased.

Market Share of U.S. Beef Among Total Imports

Year	1993	1994	1995	1996	1997	1998
U.S. Market Share	43.7%	50.7%	51.6%	51.9%	51.5%	60.1%

- " Especially because the beef consumption in United States and other western nations have recently been stagnant, the United States concentrated on exporting and the importance of the Korean market increased.

2. Crisis in the livestock industry due to the 1997 economic crisis

- " As the Korean currency depreciated during the economic crisis at the end of 1997 and as feed prices soared, lot of farmers slaughtered large number of animals as they were at the verge of going bankrupt.
- " Imports in 1998 fell way short of the quota amount due to reduced consumption and increased import prices coming from depreciation of the Korean currency.
- " As imports dropped, exporting countries requested Korean government to take active measures to increase imports.
 - Reduction of duty for beef, abolishment of the separate retail system, full liberalization of the import window, etc.

- " However, we could not accommodate the request of exporting countries, under the difficult situation that the domestic cattle industry was facing. When we could not reach a satisfactory agreement through several consultations, the United States and Australia turned the case over to the WTO Dispute Settlement Process.

3. The Falseness of the Petitioning Nations' Argument

- " Although the essence of the problem lied with the fact that we failed to meet the import quota, petitioning nations raised an issue with other areas, such as the separate retail system, etc.
 - Unfulfil of the quota is not a violation of the GATT agreement.
- " The issues that the petitioning nations raised are not something that happened in 1997 and 1998. It was in existence prior to this period.
 - They did not make an issue out of this when the imports were coming in smoothly but chose to raise the issue when imports began to stagger by only pointing out the areas where there was a legal problem.
- " The separate retail system is a system that is needed to prevent the mislabeling of imported beef as domestic beef. It is absolutely necessary to have a measure in place to prevent deceptive practices against consumers.

4. The economical effect of the panel.

- " It is common to end up in a dispute settlement procedure due to conflict of interest under the current situation where trade is increasing every day and where trade related issues are complicatedly developing. Rather than being afraid of being petitioned against a panel, it is necessary to actively pursue the best strategy using every means and measure that is available to protect the nation's interest and obtain practical gain.
- " We would have ended up with a much bigger loss, if we had been afraid of being petitioned against a panel and had fulfilled the quota or abolished the separate retail system, as the exporting countries had demanded.
 - If we had imported the full quota amount in 1998 and 1999, the total amount of imports would have increased by US\$150 million.
 - If we assume that the domestic beef had been substituted with imported beef, total hanwoo production value would have dropped by 300 billion won and we estimate that the hanwoo farm household income would have been reduced by 16.3 percent.
 - We were also able to earn more than two years by changing a bilateral issue into a multilateral issue, using the WTO dispute settlement process.

5. Future schedule of the panel

- " Appeal: July

- '' Proceed with the appeal process: August - October
- '' Adoption of the Report of the Appellate Body: October