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GAIN Report

Global Agricultural Information Network

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Report Highlights:

The Korea- Australia Free Trade Agreement (KAFTA) was officially signed by both parties on April 8th, approximately two years after the KORUS FTA went into effect in March 2012. As a direct competitor in lucrative products such as beef and wine, KAFTA will pose a greater challenge for US exporters to Korea. Details of the agreement are contained in the following report.

General Information:

The Korea- Australia Free Trade Agreement (KAFTA) was officially signed by both parties on April 8th, 2014, approximately 5 years after negotiations began in May 2009. KAFTA is expected to formally enter into force the end of 2014 or the latest early 2015, following ratification by the respective countries' legislative bodies.

Based on Harmonized System for Korea (HSK) product lines, 90.8% of Australia's imports from Korea and 75.2% of Korea's imports from Australia will become duty free upon implementation of the agreement. Australia will eliminate tariffs on 99.5% of the products from Korea within 5 years, while Korea will eliminate tariffs on 94.3% of the products from Australia within 10 years.

Among all industries, KAFTA will have a huge impact on Australia's agricultural exports to Korea. Australia is already a big agricultural exporter to Korea. In calendar year 2013, Australia was the fifth largest agricultural exporter to Korea with a monetary value of US\$2.4 billion and a market share of 7.7%, according to Korea Trade Information Service.

Table 1: Top 7 Countries that Export to South Korea in CY 2013 ¹

(Unit: Million U.S. dollars)

Rank	Country	Value	Market Share
1	The United States of America	6,168	19.7%
2	People's Republic of China	4,617	14.8%
3	European Union	3,112	10.0%
4	Brazil	2,783	8.9%
5	Australia	2,400	7.7%
6	Argentina	1,115	3.6%
7	India	1,081	3.5%

Even though the United States has a bigger market share in Korean imported agricultural market than Australia, the two countries are competitors in certain products, such as beef and wheat. Therefore it is worthwhile to look into the contents of KAFTA.

For agricultural products, 61.5% of Korea's imports from Australia based on HSK product lines will become duty free within 10 years. Exceptional clauses, such as longer tariff removal schedule, tariff rate quota (TRQ), agricultural safeguard (ASG), and exclusion, are applied to the other 38.5% of HSK product lines. This is a more conservative FTA compared to Korea-United States Free Trade Agreement (KORUS FTA) or Korea-EU FTA in terms of agricultural trade.

¹ Source: Korea Trade Information Service, compiled by Agricultural Trade Office Seoul

Table 2: Brief Summary of KAFTA Duty Concession on Agricultural Products

(Unit: Thousand U.S. Dollars and Percent)

Tariff Removal Schedule	Korea				Australia			
	Number of products	Ratio	Amount in value ²	Ratio	Number of products	Ratio	Amount in value ³	Ratio
Immediately	254	16.9	807,964	46.5	756	100	65,343	100
3 years	106	7.0	8,881	0.5				
5 years	181	12.0	34,796	2.0				
7 years	122	8.1	2,708	0.2				
7 years (ASG)	1	0.1	6,579	0.4				
10 years	262	17.4	55,106	3.2				
(Within 10 years) ⁴	926	61.5	916,034	52.8	756	100	65,343	100
12 years	7	0.5	3,134	0.2				
13 years	2	0.1	4,978	0.3				
13 years (TRQ)	2	0.1	15,323	0.9				
15 years	291	19.3	88,776	5.1				
15 years (TRQ)	4	0.3	24,654	1.4				
15 years (ASG)	8	0.5	577,879	33.3				
15 years (TRQ, ASG)	2	0.1	52,477	3.0				
5, 15 years ⁵	1	0.1	1,184	0.1				
17 years	3	0.2	0	0.0				
18 years	70	4.7	240	0.0				
18 years (TRQ)	4	0.3	19,635	1.1				
18 years (ASG)	1	0.1	107	0.0				
20 years	2	0.1	5	0.5				
20 years (TRQ)	5	0.3	4,058	0.2				
Partial tariff reduction	12	0.8	12	0.0				
Seasonal tariff	5	0.3	3,341	0.2				
TRQ	2	0.1	323	0.0				
Excluded	158	10.5	23,820	1.4				
Total	1,505	100.0	1,735,980	100.0	756	100	65,343	100

² Average of import value from 2007 to 2009³ Average of import value from 2007 to 2009⁴ Includes all products that will be duty free within 10 years upon implementation, with or without exceptional clauses⁵ Not included in the 'within 10 years' category

KAFTA is expected to benefit Australian agriculture exports to Korea with improved market access. Almost 17% of Australia's exports will become duty free upon entry into force of the KAFTA. KAFTA is expected to benefit Australian agriculture exports to Korea with improved market access. Almost 17% of Australia's exports will become duty free upon entry into force of the agreement. When KAFTA is fully implemented, 90% of Australia's agricultural exports to Korea will enter duty free. The Australian government predicts that under KAFTA, exports of agricultural goods to Korea will be 73% higher, compared to an increase of 25% for overall exports to Korea. This will contribute to a 5% increase in total Australian agricultural exports worldwide.

As indicated above, Korea employed exceptional clauses due to concerns over sensitivities in the agricultural market, of which 38.5% (579 products) of agricultural products are handled exceptionally. For example, 158 very sensitive agricultural products, such as rice, powdered milk, and frozen pork belly, are excluded from concession. In addition, tariffs on 421 other sensitive products will be eliminated over 10 years. Moreover, Korea sought to protect its agricultural industry by employing tariff rate quota, agricultural safeguard, seasonal tariff, and partial tariff reduction.

Major export products from Australia to Korea are beef, wheat, malt and malting barley, rice, cheese, and wine. Australia currently has the largest market share for beef in Korea. The size of Australian beef imports increased rapidly since December 2003 when US beef imports were stopped due to bovine spongiform encephalopathy (BSE) case in the United States. The report on "Changes in Supply and Challenges of Agriculture due to the Implementation of FTA" by the Korea Rural Economic Institute (KREI) revealed that in 2013, Australia had 55.1% share (in terms of volume) in the imported beef market, while the United States was the second with 33.7%.

Once KAFTA enters into force, it is expected to influence not only Australian agricultural exports to Korea, but US agricultural exports to Korea as well. Comparison results of KAFTA and the KORUS FTA concerning major products are as shown below (Table 5).

Table 3: Korea's Concession of Agricultural Products

Level		Major products	Number of products ⁶
Immediately		Live animals, hides and skins, cherries (fresh), wheat, meslin, wine	254
3yrs		Chicories, chrysanthemums, oatmeal, mayonnaise, dairy spreads	106
5yrs		Carrots (fresh), Chinese cabbages, corn powder, sausages	181
7yrs		Tomatoes (fresh/chilled), cabbages, apricots, soya-bean oil, cotton seed oil, beer, ice cream	122
10yrs		Lamb (fresh/chilled/frozen), lentil beans, mangoes, wheat starch, olive oil, pork (chilled)	262
12yrs		Casein glues	7
13yrs		Frozen cream	2
15yrs		Offal (cow), pork (frozen), avocados, pumpkins, pine-nuts	291
5, 15yrs		Mixed seasonings	1
17yrs		Frozen cream (other), milk powder (other)	3
18yrs		Chicken (frozen/chilled), lemons, popcorn	70
20yrs		Milk and cream	2
ASG	7yrs	Maize (other)	1
	15yrs	Beef (fresh/chilled/frozen)	8
	18yrs	Sugar (refined)	1
TRQ	13yrs	Milk powder (modified), Cheese (cheddar)	2
	15yrs	Butter and other fats and oils derived from milk	4
	18yrs	Cheese (mozzarella/cream/processed)	4
	20yrs	Cheese (gouda/camembert/emmental)	5
ASG+TRQ	15yrs	Malt and malting barley	2
Tariff reduction		Starch (maize, potato, sweet potato)	12
Seasonal tariff		Oranges, grapes, potatoes, kiwis, mandarins	5
Ongoing tariff (TRQ)		Soybeans (bean sprout, others)	2
Excluded		Rice, Milk powder (whole/skimmed), pork (frozen belly), natural honey, red peppers, garlic, apples, mandarins, ginseng	158
Total			1,505

⁶ Based on HSK classification

Table 4: Comparison of Agricultural Exports to Korea between Australia and the United States (in terms of value) ⁷

(Unit: Thousand US dollars and Percent)

Commodity	2012				2013			
	Australia	Market Share	United States	Market Share	Australia	Market Share	United States	Market Share
Beef ⁸	675,646	53.6	471,734	37.4	757,961	54.3	528,965	37.9
Wheat ⁹	698,894	39.4	763,614	43.1	371,091	23.0	428,373	26.5
Malt ¹⁰ and Malting Barley	203,758	71.3	2,099	0.7	167,281	69.1	6,013	2.5
Cheese	33,320	9.3	140,596	39.1	26,817	6.7	188,381	46.7
Rice	0	0.0	47,703	28.3	22,435	4.6	145,430	29.9
Wine	8,269	5.6	17,174	11.6	7,325	4.3	19,692	11.5

The United States has been benefitting from KORUS FTA since 2012. In the case of beef, the United States currently has an 8% tariff advantage. However, when KAFTA is implemented, Australia will also benefit from a lower tariff in the Korean market. The advantage will lessen to 5.4% if KAFTA is implemented during 2014. By 2028, beef from both countries will enter duty free. A tough competition is expected in the imported beef market, as Australia gains price competitiveness with KAFTA. The implementation of KAFTA will not only increase competition among imported products in Korea, but it is expected to help increase the market size through lower prices, which at the end of day should not only benefit the Korean consumers but also increase Korea's total import volume.

⁷ Source: Data compiled by Agricultural Trade Office Seoul, except for malt and malting barley which was from Global Trade Atlas

⁸ Fresh/chilled/frozen beef

⁹ Wheat and meslin

¹⁰ Unroasted malt

Table 5: Comparison of Results between KAFTA and KORUS FTA

Commodity			KAFTA ¹¹	KORUS FTA ¹²
Beef ¹³	Result		15yrs + ASG	15yrs + ASG
	Base duty		40%	40%
	Tariff		37.4%	32%
Wheat ¹⁴	Result		Immediate elimination	Immediate elimination
	Base duty		3%	3%
	Tariff		0%	0%
Malt ¹⁵ and Malting Barley	Result		15yrs + ASG + TRQ	15yrs + ASG + TRQ
	Base duty		269% for malt, 513% for malting barley	269% for malt, 513% for malting barley
	TRQ	In-quota amount	10,000 MT	9,364 MT
		In-quota duty	0%	0%
	ASG		263% for malt, 502% for malting barley	252% for malt, 480% for malting barley
Rice	Result		Excluded, MMA ¹⁶	Excluded, MMA
Cheese	Result		13yrs to 20yrs + TRQ, depending on the category	10yrs to 15yrs + TRQ, depending on the category
	Base duty		36%	36%
	TRQ	In-quota amount	4,630 MT	7,426 MT
		In-quota duty	33.2% to 34.2%, depending on the category	25.2% to 28.8%, depending on the category
Wine	Result		Immediate elimination	Immediate elimination
	Base duty		15%	15%
	Tariff		0%	0%

¹¹ Australia: Tariff, agricultural safeguard, and duty free amount if implemented in 2014 (first year)

¹² The United States: Tariff, agricultural safeguard, and duty free amount of the year 2014 (third year)

¹³ Fresh/chilled/frozen beef

¹⁴ Wheat and meslin including durum wheat

¹⁵ Unroasted malt

¹⁶ All imported rice enters the Korean market through a minimum market access (MMA) agreement under terms of the WTO Uruguay Round Agreement on Agriculture.

