July 2015

U.S. Beef Faces Challenges in Korea Before Reaching Full Potential

Roxanne L. B. Clemens
Iowa State University, rclemens@iastate.edu

Follow this and additional works at: http://lib.dr.iastate.edu/iowaagreview

Part of the Agricultural and Resource Economics Commons, Agricultural Economics Commons, Economic Policy Commons, and the International Economics Commons

Recommended Citation
Available at: http://lib.dr.iastate.edu/iowaagreview/vol15/iss1/2

This Article is brought to you for free and open access by the Center for Agricultural and Rural Development at Iowa State University Digital Repository. It has been accepted for inclusion in Iowa Ag Review by an authorized editor of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.
U.S. Beef Faces Challenges in Korea Before Reaching Full Potential

Roxanne Clemens
rclemens@iastate.edu
515-294-8842

Negotiations to reach an agreement on import health requirements to reopen the Korean market to U.S. beef took place over the past few years amid enormous political and public resistance in Korea. The expected benefits, however, will make the negotiations well worth the effort for both sides. In 2003, Korean imports of U.S. beef reached $749.3 million before imports were banned when a case of bovine spongiform encephalopathy (BSE) was diagnosed in the United States. U.S. beef began flowing back into Korea in July 2008, and the value of these exports reached $270 million by the end of November. Despite this success, rebuilding exports to reach the full potential of this market will take time. The following is a brief overview of several market conditions that are dampening sales in the early months of renewed trade and longer-term expectations for conditions that would greatly increase demand and market access.

Short-Term Challenges

Exports of U.S. beef were strong when the market opened in 2008, but demand was lower than had been anticipated by many Korean traders. USDA data indicate that beef exports to Korea reached 16,640 metric tons in September but then fell to 5,940 metric tons in November. A number of events have combined to create a challenging market environment that is suppressing demand for U.S. beef over the short term.

As U.S. and Korean negotiators worked toward an agreement to reopen the Korean market in 2008, worsening global and domestic economic conditions became an important factor in the Korean government’s decision to lift the ban on U.S. beef. The value of the won was falling dramatically against world currencies such as the U.S. dollar, Japanese yen, and Chinese yuan, making it increasingly difficult for the Korean government to justify banning a lower-cost alternative to domestic beef and pork. An agreement was reached on April 21, and U.S. beef officially re-entered the market on June 26.

The won continued to weaken and by November 24 had reached its lowest level against the U.S. dollar during 2008, with a value of 1,520 won per U.S. dollar compared to about 935 won per U.S. dollar in mid-January 2008. This low value coincided with the reintroduction of U.S. beef by Korea’s three major discount retail chains on November 25. All three chains put U.S. beef in all their outlets, a combined total of 295 stores. Initial sales figures were strong, but Korean consumers were much less able to afford beef than they had been the year before.

Another major factor affecting sales of U.S. beef has been public resistance in the form of boycotts and protests. Before and after the market reopened in 2008, protesters organized massive demonstrations against U.S. beef, and the issue brought an early end to the terms of several government officials. For many Koreans, the protests had at least as much to do with nationalism, negative attitudes toward the current government, social conflict, and anti-U.S. sentiment as they had to do with concerns about U.S. beef and food safety. U.S. beef became a focal point for the discontent created by many unrelated issues. The protests made restaurants and retailers reluctant to carry or advertise U.S. beef for fear of becoming targets. And although the number and size of these protests have subsided, they continue to take place in smaller cities and to affect U.S. beef sales. Retailers generally choose to remove U.S. beef from the shelves rather than incite the protestors and inconvenience customers more than absolutely necessary, and many restaurant owners still have not returned U.S. beef to their menus.

Although the reasons for protests were not limited to food safety, genuine concern about food safety has certainly been a factor in consumer decisions about purchasing U.S. beef. In addition to the BSE issue, unrelated food safety problems often raise the level of concern, especially about imported products, which are considered less safe than domestic products. News of problems such as dioxin in Chilean pork and concerns about food imports from China tend to create a ripple effect on sales of imported products.

Although the agreement to reopen the market is consistent with recommendations of the World Organization for Animal Health (OIE) regarding beef animal age, U.S. beef exporters and Korean importers have agreed to a commercial understanding that only beef from cattle less than 30 months of age will be...
imported into Korea to help build consumer confidence in U.S. beef. Some differences remain between the United States and South Korea concerning specified risk materials, and Korean importers are choosing not to import some variety meats until those differences are resolved.

Finally, many Korean traders greatly overestimated the demand for U.S. beef when the market opened and were forced to place beef into frozen storage as they waited for orders. Storing the beef allowed the importers to delay clearing product through customs and paying import tariffs, but the storage fees, the need to pay letters of credit on stored product, and difficulty in obtaining bank credit created great financial difficulties for many importers, forcing many out of business. Others will stop purchasing U.S. beef until it is profitable to do so.

Long-Term Potential
Despite the many challenges currently facing U.S. beef, longer-term expectations for the Korean market are for strong demand and a major U.S. market share. Global and domestic economic recovery will be a major factor in normalizing the market. Despite the attention the protests against U.S. beef received, many consumers either want to make their own decisions about whether to buy U.S. beef or are undecided. The presence of U.S. beef in the market and programs to educate consumers about the safety, quality, and nutritional attributes of U.S. beef will help to encourage many of these consumers to purchase it as their economic situation improves.

Consumer preference for grain-fed beef and its suitability for use in Korean dishes will also help drive demand for U.S. beef over the long term. Prior to the 2003 ban, U.S. beef accounted for nearly 50 percent of total beef consumption in Korea. After the ban, Australia filled much of the import void created by the absence of U.S. beef but was unable to supply all the cuts U.S. exporters had been supplying, leaving this demand unfulfilled. As protests continue to subside, more restaurants and retailers will carry U.S. beef. As this happens, mandatory country-of-origin labeling of imported beef should benefit U.S. beef as consumers gain confidence in U.S. product and buyers replace Australian beef with U.S. beef.

Total beef consumption and demand for U.S. beef are also expected to increase as consumers switch from other protein sources back to beef. Following the 2003 ban on U.S. beef, many consumers switched to pork and chicken because of BSE concerns and high beef prices. Many of these consumers are expected to begin replacing some pork and chicken with beef. For example, the return of U.S. beef to barbeque restaurants is expected to replace large volumes of pork, including U.S. pork.

Finally, as demand increases, ratification of the Korea-U.S. Free Trade Agreement (KORUS FTA) would increase market access. Ratification by both countries is still pending, and many industry experts expect ratification in Korea. Because beef is a sensitive product in Korea, tariff reductions on U.S. beef are scheduled to occur during a 15-year phase-in period. Tariffs on muscle cuts will decline from 40 percent (the current level) to zero in 15 equal annual increments. An initial safeguard of 270,000 metric tons will increase at a compound 2 percent annual rate to 354,000 metric tons over the phase-in period. In year 16 and beyond, tariffs will be zero and the safeguard will no longer apply. Tariffs on U.S. beef offal also will decline from current levels of 18 percent and 27 percent to zero in 15 equal annual reductions, with no safeguards.

Because economic recovery is such an important factor in increasing imports of U.S. beef and the pace at which recovery will occur is unknown, it is difficult to determine exactly when the market for U.S. beef will fully recover. However, the combination of eventual strong demand and ratification of the KORUS FTA will position U.S. beef exporters to more than recover the export volume lost to the 2003 beef ban.◆