Korea Free Trade Agreement:
More NAFTA-style Damage for America's Farmers

Trade expansion under the right rules can deliver real benefits. Time and again, American farmers have been promised that they are just one trade pact away from a wonderful new world of export-based riches. But, America's farmers unfortunately know firsthand just how damaging unfair trade agreements can be. Now, President Obama is pushing a so-called "free trade agreement" (FTA) with South Korea that former President Bush signed in 2007. The agreement is modeled on the damaging North American Free Trade Agreement (NAFTA).

Korea FTA Continues Flawed NAFTA Model

The NAFTA model has been a failure for rural communities. Since NAFTA and similar deals with 17 other countries were implemented, America has lost hundreds of thousands of family farms. Large agribusiness companies have been able to use these trade deals to drive down the prices that farmers receive – playing producers in trade partner countries off of each other, while concentrating ownership of trading, seed and other agribusiness firms.

And despite claims by these corporate interests that FTAs are a mechanism to expand exports, U.S. exports to FTA countries have grown at less than half the rate to non-FTA countries. This means that U.S. farmers missed out on nearly $3 billion in export opportunities over the last decade – the amount we would have seen had agricultural exports to Mexico and other FTA countries simply grown at the average rate of export growth over the period.

In its 2010 "Trade Reform" policy, the National Farmers Union called for President Obama to negotiate trade agreements based on the Trade Reform, Accountability, Development and Employment (TRADE) Act. That legislation would have stripped the outrageous terms that ban Buy America and Buy Local policies and allow foreign investors and corporations greater rights than our own investors and firms under the U.S. Constitution. This includes the right to skirt our courts and sue the U.S. government in UN and World Bank tribunals to demand taxpayer compensation for our policies that they claim undermine their new trade pact rights.

The TRADE Act also would have inserted into future pacts critical missing terms, such as disciplines against currency manipulation. The Korea FTA implements none of the TRADE Act principles. It literally replicates word-for-word much of NAFTA and the Central America Free Trade Agreement (CAFTA). And, it creates new privileges for the Wall Street banks that have wrecked our economy.

How the Korea FTA Measures Up Against NFU's 2010 "Trade Reform" Policy

NFU has reviewed the outcomes of the NAFTA-CAFTA trade agreement model. NFU's 2010 "Trade Reform" policy sums up these pacts' outcomes well: ***"WHEREAS, past unfair trade policies have failed to live up to their proponents' promises, placing an undue burden on America's family farmers and ranchers;… and WHEREAS, since the passage of NAFTA over 38,000 U.S. small farms have gone under, overall U.S. farm income has continued to decline and the U.S. trade deficit has grown to over $400 billion under this agreement."*** The NFU policy lays out what provisions must and must not be in trade agreements to obtain NFU support.

Disciplines on currency manipulation:

NFU policy: "*WHEREAS, past free trade agreements and pending agreements do nothing to address currency manipulation which puts U.S. producers at an economic disadvantage…*"

The Korea FTA does nothing to address currency manipulation. Korea, a country with a history of significant currency manipulation, could again devalue its currency in a manner that effectively cancels the FTA's tariff cuts while increasing the price of our imports. During NAFTA, farmers were also given lists of *tariff cuts* for the commodities they produce as *evidence* of new market access they would get from NAFTA. Yet, those tariff cuts were eliminated when Mexico devalued the peso 50 percent shortly after NAFTA went into effect. Due to the peso devaluation, U.S. products became much more expensive for Mexican consumers, and U.S. agricultural exports suffered. For example, U.S. exports of beef and pork to Mexico in the first three years of NAFTA were 13 and 20 percent lower, respectively, than beef and pork exports in the three years before NAFTA was enacted.

Korea is one of only three countries (China and Taiwan being the others) that have ever been placed on the Treasury Department's list of currency manipulators. In its February 2011 statutorily required semi-annual "Report to Congress on International Economic and Exchange Rate Policies," the Treasury Department expressed concern that Korea had again begun intervening in global currency markets to keep the *won* at a deflated exchange rate. Korea deflated the *won* between 50 and 60 percent in the late 1980s and again in the late 1990s. If this ten year cycle repeats itself now, it could result in an outcome where additional market access on paper (tariff cuts) leads to little-to-no actual increase in for U.S. sales in Korea.

Fast forward: Korea could eliminate a 30 percent tariff on U.S. agricultural goods, but devalue its currency 50 percent, and this would be the same as a 20 percent tariff increase. Given Korea's repeated past currency devaluations, such a scenario in the context of this FTA is entirely foreseeable. That is why organizations such as the National Farmers Union called for all U.S. trade agreements to include provisions that would automatically adjust tariffs to maintain the market access bargained for in an agreement if FTA partners were to manipulate their currency. Unfortunately, President Obama ignored these demands.

Undermining our sovereignty and democracy:

NFU policy: "*WHEREAS, the CAFTA agreement allows foreign investors to completely bypass domestic courts to challenge state, local and national environmental protections…*"

The Korea FTA has identical foreign investor privileges including empowering foreign firms to challenge U.S. laws in UN and World Bank tribunals to demand taxpayer compensation for domestic policies they claim undermine their expected future profits.

There are 270 Korea corporate entities now in the U.S. that would be empowered to use these tribunals against U.S. laws.

Undermining food safety:

NFU policy: "*WHEREAS, the NAFTA/CAFTA trade agreement structure does nothing to guarantee the safety of the food imported from these countries is equivalent to that of the United States…*"

Farmers and ranchers have long called for imported foods to be required to meet U.S. safety and inspection standards. But, under the NAFTA-style deal with Korea, imported food will be allowed into American homes without meeting our health-protecting U.S. standards.

American job loss:

NFU policy: "*WHEREAS, the passage of NAFTA caused approximately 880,000 lost jobs in the United States and the passage of CAFTA caused approximately 1 million lost jobs in the United States…*"

Even government estimates show the U.S. economy will be hurt by the Korea FTA. The U.S. International Trade Commission (USITC) is required to do a comprehensive economic analysis of every trade pact that will be sent to Congress for consideration. The USITC study of the Korea FTA concluded that its implementation would lead to an increase in the overall U.S. trade deficit in goods, and damage the trade balances for seven U.S. manufacturing sectors.

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American job loss:

-continued Because Korea is a highly competitive industrial country, this includes autos, high end electronics like computers, other transportation equipment, steel and more. The USITC's findings are especially notable, as this agency consistently employs a computable general equilibrium model that includes assumptions that tend to produce overly optimistic results. (Their NAFTA study concluded it would *decrease* our trade deficit. The study of China's WTO entry predicted an increase of less than one billion. The reality was hundreds of billions in increased deficits.) The USITC studies are based on full implementation of an agreement. Thus, the changes made to the deal by the Obama administration in December 2010 – which changed timelines for some tariffs' elimination but not the final outcomes – do not alter the findings. The Korea FTA would be the most economically significant FTA since NAFTA. The Economic Policy Institute projected that it would cost 159,000 U.S. jobs in its first seven years. This after the loss of almost six million U.S. manufacturing jobs – one out of every five – in the 15 years that that NAFTA and the World Trade Organization have been in effect.

NFU's 2010 'TRADE REFORM' POLICY vs. KOREA FTA

THEREFORE BE IT RESOLVED, NFU shall support fair trade and advocate that the structure of future and pending trade language and other acts allows U.S. agriculture to be a net exporter as a result of the agreement;	**Korea FTA is projected by the USITC to increase U.S. trade deficit**
controls currency manipulation;	**no currency provisions**
elevates labor standards in countries with lower standards;	**Korea FTA contains Bush's BAN on use of Int'l Labor Organization Conventions in implementing labor chapter**
equalizes food safety standards to those of the U.S.;	**Korea FTA has same NAFTA-CAFTA SPS rules**
increases global competitiveness;	**USITC projects 7 *losing* U.S. industrial sectors**
and decreases the loss of jobs in the United States; and	**AFL-CIO, Teamsters, Steelworkers, Machinists, Communications Workers, IBEW and other building trades, other unions oppose Korea FTA because of job loss threat**
THEREFORE BE IT RESOLVED, National Farmers Union will continue to advocate for the TRADE Act to determine if past agreements signed by previous administrations are being honored and to verify that market access promised to United States farmers is being granted.	**The fight against the Korea FTA is being led by the TRADE Act's sponsors in Congress. Korea FTA opponents include House Agriculture Committee Ranking Member Rep. Collin Peterson. The union, environmental, consumer group and other TRADE Act supporters are working for its defeat. The TRADE Act set forth an alternative model for U.S. trade pacts that could deliver benefits to workers, farmers, ranchers and consumers, not only big multinational corporations.**

But…what about the claims that the Korea FTA Will Improve Market Access for U.S. Agricultural Products?

The USITC study of the Korea FTA – which did not consider currency devaluation despite Korea's past record – projects that 50 percent of prospective U.S. agricultural gains would be in beef, 25 percent in other meat products, and the rest in fruits, vegetables, nuts, dairy and "other food products." Losing sectors include soybean, wheat, canola, alfalfa, hay, flaxseed and other oilseeds, rice, cotton, peanuts, tobacco, nursery products and more.

The USITC projects that our overall global trade balance in wheat, oilseeds, and forage will worsen, as will output and the number of workers in these sectors. (There's also a worsening balance in the cereal gains sector, which primarily consists of corn.) The USITC also projects that our trade balance in cattle will worsen even as we export more bovine meat to Korea.

A close read of the actual Korea FTA text suggest the major "winning" sector – beef – may not results in benefits for U.S. *producers*, but rather for beef *packers*. As R-CALF noted in its July 2010 letter to President Obama opposing the Korea FTA:

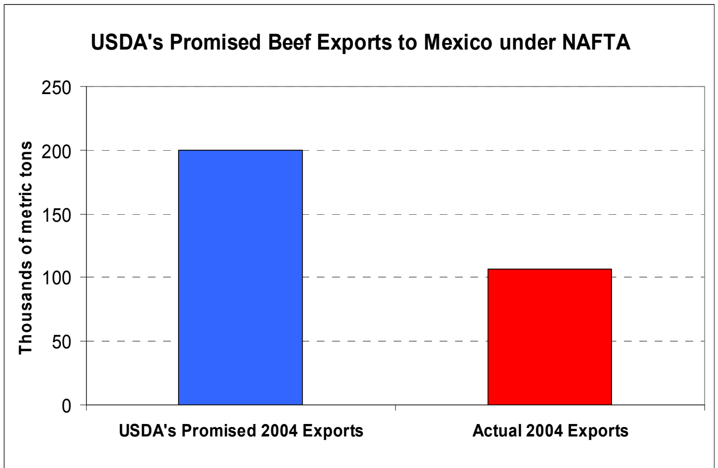
"The U.S.-South Korea FTA is touted by agribusiness interests as being particularly beneficial to U.S. cattle producers… But, as currently written, it is designed to benefit U.S. beef packers at the exclusion of U.S. cattle producers… Like all previous FTAs, it incorporates an inappropriate rule of origin that, e.g., would allow cattle imported from neighboring China, which controls the third largest cattle herd in the world, to be slaughtered in South Korea and the resulting beef would then be eligible for duty-free export to the United States because the standard for determining a product's origin remains the country where the product was last substantially transformed. Given the perpetual nature of FTAs, this deficiency presents a compelling threat to the economic well-being of independent U.S. cattle producers."

The Korea FTA also allows a U.S. packer to import live cattle for immediate slaughter from Canada and Mexico and export the resulting beef duty-free to Korea as if the beef was of U.S. origin - with a USDA grade stamp. Under this scenario, U.S. cattle *producers* would not realize benefits from increased export sales.

The benefits flow exclusively to U.S. beef packers. Moreover, the cattle and other products entering the U.S. are no longer required to meet identical U.S. safety requirements, thus jeopardizing the reputation of the U.S. as a supplier of safe food products.

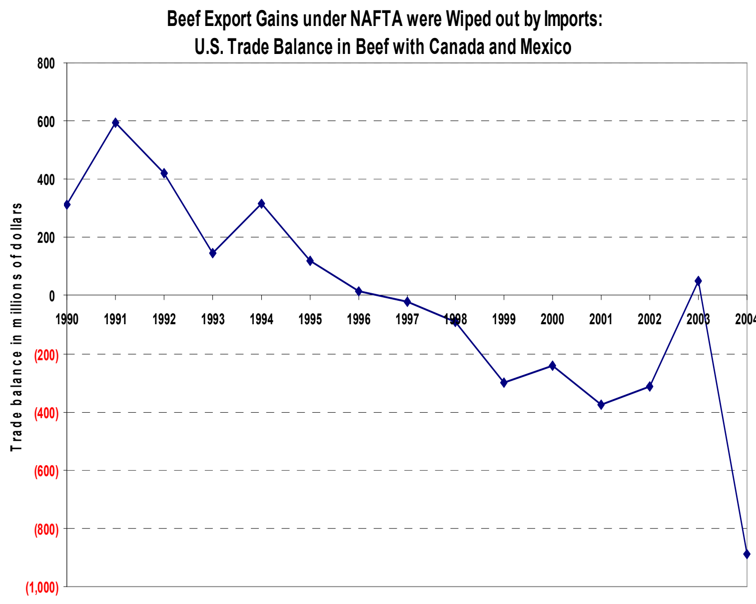
The "leakage" of the Korea FTA's "benefits" to countries such as China and Canada doesn't end there. Many developing nations who are U.S. competitors in the Korea market have very low farm-gate prices, often because they don't have to comply with the same labor and environmental standards as U.S. farmers. But the so-called "rules of origin" of the Korea FTA will allow cheap Canadian, Chinese, Vietnamese, Peruvian or even North Korean food commodities to be merely processed in the U.S. or South Korea and receive the special treatment of the deal. NAFTA-style trade deals are bad enough: we shouldn't be allowing Canada or China to free-ride on them.

Here we go again – NAFTA promises, Korea FTA promises



"U.S. beef exports to Mexico are expected to expand to more than 200,000 metric tons by the end of the 10-year transition period" of NAFTA promised the USDA in 1993.

Now it's the same old promises again, but about the Korea FTA: **"U.S. beef exports to South Korea could increase by $600 million to $1.8 billion under the FTA," touted the USDA in 2008.**



Source: USDA Foreign Agricultural Service's Global Agricultural Trade System, inflation-adjusted to 2011 dollars with CPI-U-RS

For NAFTA, the reality did not meet the promises, as shown in the box (right). U.S. exports to Mexico of "NAFTA winners" beef and pork in the first three years of NAFTA were 13% and 20% lower, respectively, than beef and pork exports in the three years before NAFTA.

But even those export gains in beef that did occur under NAFTA were wiped out by greater imports. The U.S. deficit in the trade of cattle and beef with the existing 17 FTA countries increased from $1.3 billion in 1989 to over $2.1 billion in 2008, and the cumulative U.S. trade deficit generated over this period with the 17 FTA countries was $37.6 billion. Non-FTA countries can export their live cattle to a participating FTA country, with the resulting beef shipped to the U.S. duty free under the FTA due to FTA "substantial transformation" rules of origin that facilitate transshipment of cattle.

Proponents of Korea Deal Tout Deeply Flawed Farm Bureau Study

The Farm Bureau released a study that estimates that the Korea FTA would result in $1.65 billion in additional agricultural sales to Korea. But the methodology of the Farm Bureau study is wildly manipulated to result in a rosy outcome. The study assumes no increase in imports! The study only focuses on gross exports, not the net result of the pact. Given that many U.S. agricultural sectors will face a declining trade balance were the FTA implemented, this is a very serious manipulation. The study also arbitrarily assumes a 10 percent increase in U.S. market share in Korea – for EVERY U.S. farm commodity regardless of whether there is demand in Korea for such products or there are lower prices competitors. The 10 percent figure appears to be pulled out of the air. This 10 percent assumption is carried out across every sector – including rice (but Korean rice tariffs do not change under FTA and rice trade balance is predicted to decline by ITC), and wheat, and soy, which we know to be net losers from the Korea FTA.

Helping to defeat the NAFTA-style deal with Korea is the first step in realizing the TRADE Act-based alternative U.S. trade agreement model NFU supported in Its 2010 Trade Reform" Policy. Tell Congress to reject the flawed NAFTA-style deal with Korea. Contact 202-454-5140 or www.tradewatch.org to find out more.