



# **U.S.-South Korea Beef Dispute: Agreement and Status**

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## Summary

On April 18, 2008, U.S. and South Korean negotiators reached agreement on the sanitary rules that Korea will apply to beef imports from the United States. It allows for imports of all cuts of U.S. boneless and bone-in beef and other beef products from cattle, irrespective of age, as long as specified risk materials known to transmit mad cow disease are removed and other conditions are met. However, both sides revised this deal in June to limit sales of U.S. beef only to cattle less than 30 months old.

South Korea published rules to put this agreement into effect on June 26, and quickly began to inspect U.S. beef sitting in cold storage. The U.S. Department of Agriculture similarly has begun to implement a new program to verify that the beef sold is processed from cattle under 30 months old. U.S. beef exporters are now working to recapture a key overseas market. In 2003, South Korea was the third-largest market for U.S. beef exports, prior to the ban imposed after the first U.S. cow infected with mad cow disease, or BSE (*bovine spongiform encephalopathy*), was discovered. Korea's commercial significance is reflected in the position taken by several Members of Congress, who state that congressional consideration of, and support for, the Korea-U.S. Free Trade Agreement (KORUS FTA), depends upon South Korea fully opening its market to U.S. beef.

While the U.S. beef industry and U.S. policymakers welcomed the April deal, Korean TV coverage of the issue and Internet-spread rumors that questioned the safety of U.S. beef resulted in escalating protests and calls for the beef agreement to be renegotiated or scrapped. U.S. officials countered that measures already in place to prevent the introduction of BSE in U.S. cattle herds meet international scientific standards. To address rising public pressure, the Korean government twice pursued talks with the United States to find ways to defuse these concerns without "renegotiating" the beef agreement. On June 21, both governments confirmed a "voluntary private sector" arrangement that allows Korean firms to import U.S. beef produced only from cattle less than 30 months old. Both governments view this as a transitional step until Korean consumer confidence in the safety of U.S. beef improves.

Since mid-July 2008, new exports of U.S. beef (including bone-in cuts) have resumed and gained market share against other competitors. Until recently, Korean importers were only selling U.S. beef to regional markets and small neighborhood butcher shops. However, the November 25 announcement that three large Korean discount department stores will shortly stock U.S. beef on their shelves is expected to draw down imported inventories, and open the door for a possible significant market expansion for U.S. beef in coming months.

The anti-beef agreement protests in South Korea have subsided. However, they could have lingering effects on U.S.-South Korean relations, because of the erosion of the Korean President's political standing, and their possible impact on his government's ability to secure ratification of the KORUS FTA. This report will be updated to reflect developments.

## **Contents**

Background .....	1
U.S. Beef Exports to South Korea.....	2
U.S. and South Korean Negotiating Objectives .....	4
April 2008 Beef Agreement and Subsequent Change .....	4
Reaction to April 2008 Agreement .....	5
Impact of Beef Protests on Bilateral Relations and the KORUS FTA .....	6
Implementation.....	7
Outlook.....	9

## **Figures**

Figure 1. U.S. Beef Exports to South Korea, by Type.....	3
Figure 2. South Korean Beef Imports, by Leading Suppliers .....	3
Figure 3. Weekly Exports of U.S. Beef to South Korea Since 2008 Beef Agreement Took Effect .....	8

## **Contacts**

Author Contact Information .....	10
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Many U.S. policy makers view the resumption of all U.S. beef exports to South Korea—the third-largest U.S. beef export market in 2003—as essential, but not necessarily all that is required, before the U.S. Congress would consider legislation to implement the Korean-U.S. Free Trade Agreement (KORUS FTA).<sup>1</sup> To facilitate this, the U.S. and Korean governments agreed in mid-April 2008 on the rules that Korea will apply to U.S. beef imports to ensure that shipments meet Korean human health standards. South Korea’s rationale was to improve prospects for the Bush Administration deciding to send the KORUS FTA to Congress before year-end 2008. The White House had for some time signaled that Korea had to reopen its market to U.S. beef—a step necessary to secure the votes of Members of Congress who represent cattle production and beef processing states and whose support for the KORUS FTA is viewed as critical.

## Background

After the first U.S. case of *bovine spongiform encephalopathy* (BSE), or mad cow disease, was discovered in a Canadian-born cow in Washington state in December 2003,<sup>2</sup> South Korea and many other countries banned imports of U.S. beef. BSE is a fatal, neurodegenerative disease of cattle thought to arise from the consumption of animal-derived protein supplements added to feed. Scientists believe that this disease can be transmitted to humans who eat the brain, spinal cord, or other high-risk tissues of BSE-infected cattle, which causes a variant form of Creutzfeldt-Jakob disease (CJD). This is a very rare and incurable degenerative neurological disorder (brain disease) that is ultimately fatal.

U.S. government efforts to regain partial access to the key Korean market took two years to negotiate. In January 2006, South Korea agreed to a protocol that allowed imports of U.S. *boneless* beef only from cattle *less than 30 months old*. U.S. negotiators had signaled that some opening on the beef issue was necessary before negotiations with South Korea on a comprehensive FTA could begin. Difficulties experienced in exporting beef later that year to Korea under this first agreement, however, began to affect the negotiating dynamics of the overall FTA, even though this issue was not on the formal agenda. Separate bilateral discussions on this sensitive issue moved from the technical level to high-level meetings as both sides raced to conclude the KORUS FTA by the end of the March 2007 deadline set by then-in-effect trade promotion authority. However, the beef issue was not resolved by the time both countries concluded this trade agreement.

Then-South Korean President Roh, in a national address on April 1, 2007, stated he had personally promised President Bush that his government would “uphold the [yet to-be-released] recommendations” of the World Organization for Animal Health (OIE) on the BSE risk status of the United States and “open the Korean [beef] market at a reasonable level.” The OIE is the

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<sup>1</sup> For more information, see CRS Report RL34330, *The Proposed U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper.

<sup>2</sup> There have been only two other discoveries of BSE in cattle in the United States—in June 2005, in a U.S.-born cow on a Texas farm, and in March 2006, in another U.S.-born cow in Alabama. For more information on U.S. safeguards to protect cattle herds from BSE, third-party assessments made of U.S. import safeguards against the introduction of BSE, debate and developments on the livestock “feed ban” issue, U.S. surveillance and testing programs for BSE in cattle, and BSE prevention in cattle slaughter and beef processing, see CRS Report RL32199, *Bovine Spongiform Encephalopathy (BSE, or “Mad Cow Disease”): Current and Proposed Safeguards*, by Sarah A. Lister and Geoffrey S. Becker.

international scientific body recognized by the World Trade Organization as the international reference for matters of animal disease and health. On May 22, 2007, the OIE formally found that the United States is a “controlled risk” country for the spread of mad cow disease. The U.S. Department of Agriculture’s (USDA’s) top official on this matter commented that this “risk classification recognizes that OIE-recommended, science-based measures are in place to effectively manage any possible risk of BSE in the [U.S.] cattle population” and “provides strong support that U.S. regulatory controls are effective and that U.S. cattle and products from cattle of all ages can be safely traded in accordance with international guidelines, due to our interlocking safeguards.”<sup>3</sup>

USDA immediately requested that South Korea amend its import requirements for U.S. beef within a specified time frame to reflect this risk determination and to reopen its market to all U.S. cattle and beef products. In response, South Korea’s animal health regulatory agency began an eight-step process to assess the BSE risks of the U.S. beef sector in light of the OIE finding, with the intent to negotiate a revised bilateral agreement that would lay out import rules applicable to U.S. beef. Against this backdrop, U.S. beef exports resumed in late April 2007, with occasional breaks when Korean inspectors refused entry to some shipments that contained bones or did not meet other requirements laid out in the January 2006 agreement. With the third discovery of prohibited bones on October 5, 2007, South Korean authorities announced they would not conduct any more inspections of U.S. beef until both sides conclude formal negotiations to revise the 2006 protocol.

## U.S. Beef Exports to South Korea

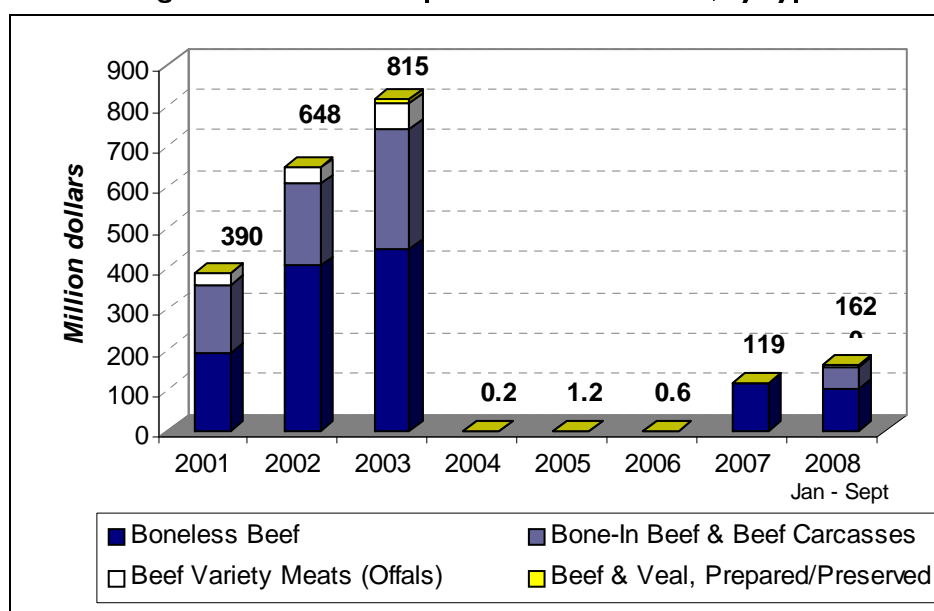
Since the late 1990s, South Korea has become a growing and important market for major beef exporters, particularly the United States. In 2003, beef imports accounted for nearly 75% of South Korean beef consumption. U.S. shipments alone supplied half of all of the beef consumed by Korean consumers.

By 2003, South Korea had become the third-largest export market for U.S. beef. That year, U.S. beef exports to South Korea totaled \$815 million, or 246,595 metric tons (MT) (**Figure 1**), and accounted for 21% of the \$3.9 billion in U.S. beef products shipped worldwide. Beef exports represented 28% of all U.S. agricultural exports to Korea that year. Boneless beef products accounted for \$449 million (55% of the total), while bone-in beef totaled \$292 million (36%). Sales of beef offals (tongue, liver, heart, and other edible cattle parts) reached \$65 million (8%).

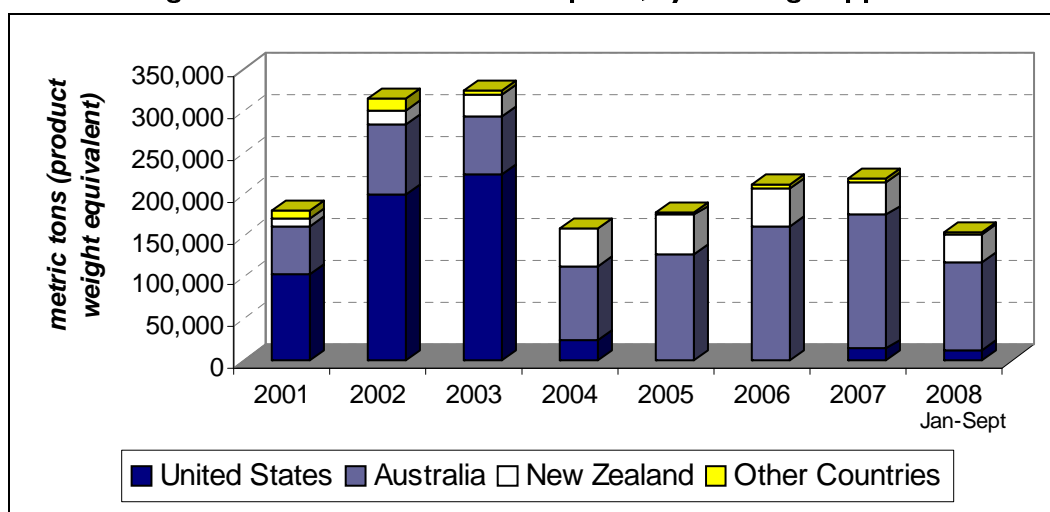
Minimal U.S. beef offal exports occurred in 2004, 2005, and 2006, due to South Korea’s ban on imports after the first U.S. BSE-infected cow was discovered. Though some U.S. boneless beef sales occurred in the last few months of 2006 after South Korea agreed to implement the January 2006 agreement, Korean inspectors rejected these shipments after discovering small bone fragments in a few boxes (**Figure 1**). During the 2004-2006 period, beef shipments to South Korea from Australia and New Zealand increased substantially to cover demand that had previously been met by U.S. beef exporters (**Figure 2**). In 2007, both countries accounted for 92% of South Korea’s beef imports, compared to 29% in 2003.

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<sup>3</sup> USDA, Animal and Plant Inspection Service, “Statement by Dr. Ron DeHaven Regarding OIE Risk Recommendation,” March 9, 2007, available at [http://www.aphis.usda.gov/newsroom/content/2007/03/OIE\\_statement3-9-07.shtml](http://www.aphis.usda.gov/newsroom/content/2007/03/OIE_statement3-9-07.shtml)

**Figure 1. U.S. Beef Exports to South Korea, by Type**

**Source:** Derived by CRS from Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics.

**Figure 2. South Korean Beef Imports, by Leading Suppliers**

**Source:** USDA, Foreign Agricultural Service; Korea International Trade Association

U.S. boneless beef exports to South Korea resumed in late April 2007. Through early October 2007, Korea's quarantine regulatory agency inspected and cleared for retail sale most U.S. boneless beef shipments, applying its interpretation of the January 2006 agreement. Even with partial-year exports, South Korea ranked as the fourth-largest market for U.S. beef in 2007, with sales of \$119 million, or 25,165 MT. Under the April 2008 revised beef agreement, 2008 exports (reflecting activity only in July, August, and September) totaled \$162 million, or 31,387 MT. Sales included \$54 million of bone-in beef products (**Figure 1**). (See "Implementation" for more recent information.)

## U.S. and South Korean Negotiating Objectives

The longstanding U.S. negotiating position has been to press for full access in one step for all U.S. beef into South Korea's market. This meant expanding the scope of the 2006 agreement to include exports of *bone-in* beef and coverage of all U.S. beef from cattle, *regardless of age*, as long as BSE-risk materials are removed during processing. U.S. trade officials have maintained that U.S. beef is safe, pointing out that it is consumed by millions of Americans. They have frequently noted that the U.S. measures in place to prevent the introduction of BSE in U.S. cattle herds already meet international scientific standards as spelled out by the OIE.

South Korea argued for a "two-phased" approach to a full opening. The first step would allow imports of both boneless and bone-in beef cuts from U.S. cattle less than 30 months old. Cattle parts identified by the OIE as agents that can transmit BSE to cattle and in turn, potentially harm humans, would have to be removed from imported beef. Korea's trade minister argued this first step would give the United States about 80% of its market share before the ban on U.S. beef took effect in late 2003. The second step to take effect later would permit imports of beef from older cattle, as long as risk materials are removed according to OIE's standards.<sup>4</sup>

## April 2008 Beef Agreement and Subsequent Change

Just hours before newly elected Korean President Lee met President Bush at Camp David on April 18, 2008, U.S. and South Korean negotiators reached agreement on the sanitary rules that Korea will apply to beef imports from the United States. It allows for imports of all cuts of U.S. *boneless* and *bone-in* beef and other beef products from the edible parts of cattle, *irrespective of age*, as long as specified risk materials (SRMs) known to transmit mad cow disease are removed and other conditions are met. However, both sides revised this deal in a late-June private-sector arrangement that will for an unspecified time period limit sales of U.S. beef (boneless and bone-in) only to cattle less than 30 months old when slaughtered. Combined, the new rules significantly expand upon the products covered by the January 2006 protocol, which only permitted imports of boneless beef from cattle under 30 months old.

The April 2008 agreement requires the removal of specified risk materials (SRMs) during meat processing, and prohibits the entry of (1) all mechanically recovered and mechanically separated meat and (2) advanced meat recovery (AMR) product from the skull and vertebral column of cattle 30 months of age and over at the time of slaughter. These prohibitions reflect scientific conclusions that these materials can harbor the BSE agent in cattle and in turn infect humans if product from such cattle are consumed.<sup>5</sup> Other provisions detail which other beef products can enter, or are prohibited from entering, South Korea.<sup>6</sup> The agreement also prescribes the steps that

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<sup>4</sup> *Inside U.S. Trade*, "Korean Minister Sees Open Beef Market In Two Steps, Delay In FTA Approval," November 16, 2007, p. 5.

<sup>5</sup> Specified SRMs are "tonsils and distal ileum from cattle of all ages; and [the] brain, eyes, spinal cord, skull, dorsal root ganglia and vertebral column (excluding vertebrae of the tail, transverse processes and spinous processes of the cervical, thoracic and lumbar vertebrae, median crest and wings of the sacrum) from cattle 30 months of age and over at the time of slaughter." For more information, see "BSE Prevention in Slaughter and Processing: the 'Fourth Firewall'" in CRS Report RL32199, *Bovine Spongiform Encephalopathy (BSE, or "Mad Cow Disease"): Current and Proposed Safeguards*, by Sarah A. Lister and Geoffrey S. Becker.

<sup>6</sup> AMR product that is free of SRMs and central nervous system tissues is allowed. Ground meat, processed products (continued...)

South Korea's quarantine inspection agency can take if banned cattle parts or other problems are found in a shipment from a U.S. meat firm, and specifies what its counterpart U.S. agency (USDA's Food Safety and Inspection Service, or FSIS) must do to address the matter. These are intended to serve as a map for handling specific problems in a way that does not stop altogether the flow of all U.S. beef exports to South Korea. Other rules spell out the requirements that U.S. beef processing plants and the FSIS must meet, in order for beef and beef products to be sold to South Korea.<sup>7</sup>

The private-sector deal reflects a "commercial understanding" reached between Korean beef importers and U.S. exporters, that as "a transitional measure," only U.S. beef from cattle under 30 months of age will be sold to Korea. The U.S. Trade Representative, in acknowledging the request made by the U.S. meat industry for Korea's beef importers, stated that the U.S. government will meet this request under a Quality System Assessment (QSA) program that will verify that beef destined for Korea will be from cattle less than 30 months old. This program will be voluntary—operating only at those beef processing plants that seek to sell beef and beef products to that market.<sup>8</sup> (See "Implementation" for status of this QSA program.)

## Reaction to April 2008 Agreement

While the U.S. beef industry and U.S. policymakers welcomed the April deal, Korean TV coverage of the issue and Internet-spread rumors that questioned the safety of U.S. beef sparked large candlelight vigils in South Korea to protest the beef agreement. Opposition political parties soon joined these protests, advocating that the government renegotiate or scrap the agreement. Farmers also called for the National Assembly (Korea's parliament) to reject the KORUS FTA when considered during a special session later in May 2008. Opponents argued that the Korean government moved too quickly to strike a deal, and did not secure enough safeguards against the dangers of mad cow disease.

These developments, in turn, adversely affected the political standing of Korea's new President and his government's inability to pursue his ruling political party's policy agenda—one item being the approval by the National Assembly of the KORUS FTA. To respond to mounting public pressure, the Korean government twice pursued talks with the United States to find ways to defuse public concerns without "renegotiating" the beef agreement. A May 19 exchange of letters affirms that South Korea has the right under international agreements to take steps to protect its citizens from health and safety risks (i.e., suspend U.S. beef imports if a BSE-infected cow is discovered in the United States). On June 21, both governments confirmed a "voluntary private sector" arrangement that allows Korean firms to import U.S. beef produced only from cattle less than 30 months old, and announced some changes to the April agreement.

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(...continued)

and beef extracts may contain AMR but must be free of SRMs and all mechanically recovered or separated meat.

<sup>7</sup> These detail the scope of U.S. plants operating under USDA inspection that are eligible to sell to South Korea, the origin of foreign cattle imported into the United States from which beef can be exported to Korea, the steps that FSIS will take to handle cases of the discovery of a food-safety hazard in a U.S. firm's shipped beef product or inspection audit, the requirement that certain U.S. steak products be temporarily labeled, the on-site audits that Korea's inspectors can conduct of U.S. facilities exporting beef to Korea, and the scope of measures that the United States implements to meet or exceed OIE guidelines for controlled-risk BSE status.

<sup>8</sup> USTR, "USTR Confirms Korea's Announcement on U.S. Beef," June 21, 2008.



South Korea sought the under-30-months-old criterion based on the widely held view that cattle younger than 30 months are less susceptible to mad cow disease. By contrast, the OIE makes no age distinction in assessing the risk level of cattle slaughtered for beef. Instead, its recommendation is that importing countries, to prevent the introduction of BSE, ensure that beef of any age meet certain conditions, such as the removal of those cattle tissues suspected of transmitting BSE and the implementation of effective safety controls for cattle feed. Though the United States for some time has argued that it is in full compliance with OIE guidelines, U.S. negotiators appear to have had little choice but to compromise in a way that would allow some sales to resume. Publicly, both countries presented this arrangement as a transitional step to improve Korean consumer confidence in U.S. beef, and did not commit to any timetable for revisiting this matter.

Some Members of Congress responded cautiously or skeptically to the “voluntary commercial agreement,” noting that it changes the April protocol by allowing Korea to reject U.S. beef from cattle over 30 months of age, disregards international standards that affirm the safety of all U.S. beef regardless of age, and sets an “unfortunate” or “dangerous” precedent in negotiating the terms of beef access into other countries.<sup>9</sup>

South Korean government officials portrayed the June-negotiated arrangement as going far to allay public concerns about the safety of U.S. beef. However, the political fallout of the controversy continued through the summer. Three high ranking Korean officials (including the Agriculture Minister and his deputy) resigned because of their involvement in the agreement’s negotiations. The Korean National Assembly completed an inconclusive parliamentary inquiry on the strategy and process followed by two successive governments on negotiating this agreement. It also debated a controversial livestock sector bill that includes a ban on beef imports from any country whenever a new case of a BSE-infected cattle is discovered. As adopted, the measure reportedly exempts the bilateral beef agreement reached with the United States from being subject to its coverage.

## Impact of Beef Protests on Bilateral Relations and the KORUS FTA

Although the protests against the beef agreement have subsided, they have had lingering effects on U.S.-South Korean relations because of their erosion of President Lee’s standing and because of their possible effects on the ratification of the KORUS FTA. The protests damaged the President’s political strength and boosted the position of opposition groups that had been demoralized before the candlelight vigils. In the late summer of 2008, Lee’s approval ratings recovered from the trough they entered at the height of the protests, but still remain at a low level (in the mid-20% to 30% range).<sup>10</sup> Moreover, the uproar over Lee’s decisions on beef ruined his “honeymoon” period to push many of his policy goals.

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<sup>9</sup> For example, see press releases issued on June 21, 2008 by Senator Baucus, “Baucus Comments on U.S.-Korea Beef Changes”; Senator Chambliss, “Sen. Chambliss Statement on South Korea’s Announcement Regarding U.S. Beef”; Senator Nelson, “Nelson Responds to Beef Agreement with South Korea.”

<sup>10</sup> See, for instance, *JoongAng Ilbo* (Internet Version in English), “President Lee’s Approval Rating Starts to Pick Up,” August 25, 2008; Martin Fackler, “South Korea Losing Faith in ‘Ceo’ Leader and Ally,” *The New York Times*, November 1, 2008.

Perhaps most significantly for the United States, the weakening of Lee has meant that he has less political capital—let alone political will—to spend on measures designed to achieve his goal of upgrading the U.S.-South Korean alliance, including overcoming opposition to relocating U.S. bases in South Korea.<sup>11</sup> Lee has made securing passage of the KORUS FTA a priority, both for South Korea's economic competitiveness and for revitalizing the U.S.-South Korean alliance. However, the domestic uproar in Korea following the April 2008 beef deal has made passage of the KORUS FTA more difficult. Although most analysts and news reports state that a majority of the delegates in the National Assembly support the agreement, the Lee government did not submit the KORUS FTA bill for consideration until early October 2008, in part because of lingering political sensitivities over the beef issue. Additionally, the beef agreement has increased the perception among many South Koreans that Lee is overly solicitous toward the United States, a vulnerability that many argue has made him reluctant to take the controversial step of forcing a vote on the KORUS FTA. Despite public statements made by both countries' leaders, President Lee's view acknowledges the likelihood that President Bush will not submit this trade agreement to Congress for consideration in the last few months of 2008.<sup>12</sup>

## Implementation

On June 26, 2008, South Korea published rules to put the beef agreement into effect, and began to inspect U.S. beef shipments held in cold storage in Korea since last fall. As of the end of September, 19,986 metric tons (MT) of U.S. beef had been inspected by Korea's quarantine inspection agency, cleared customs, and entered regional wholesale markets and such retail sales outlets as local traditional butcher shops and online stores.<sup>13</sup> More recent imports of U.S. beef have ended up in storage, and will be inspected and released only when the more significant marketing outlets (e.g., large department stores) place orders. The import share met by U.S. beef, negligible in June 2008, rose to 25% in July and August, and increased in September to account for 45% of beef imported from all countries.<sup>14</sup> The composition of U.S. beef exports since August has also begun to include bone-in beef and some fresh "refrigerated" beef—the first such sales in almost five years since Korea's ban on U.S. beef took effect. On August 11, 2008, U.S. beef ribs and other bone-in beef cuts became available for sale in seven meat markets in Seoul and Pusan and in outlets in neighboring provinces. The number of short rib or "kalbi" shops selling ribs has increased, according to the U.S. Meat Export Federation (USMEF), despite new rules that require

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<sup>11</sup> For additional information, see CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Niksch.

<sup>12</sup> During a meeting on the sidelines of the June 2008 G-8 summit in Japan, Lee and Bush reportedly agreed to work to pass the agreement through their respective legislatures by the end of 2008. *Yonhap*, "South Korean, US presidents discuss trade, North nuclear issue," July 10, 2008. During a summit the following month in Seoul, the two presidents agreed to push for the KORUS FTA's ratification "as soon as possible." White House Press Office, "Statement of the ROK-US Summit," August 6, 2008. However, Korea's lead negotiator on the KORUS FTA has since acknowledged that Washington will not approve the agreement before the presidential elections. *Korea Times*, "Seoul Shelves KORUS FTA," September 1, 2008.

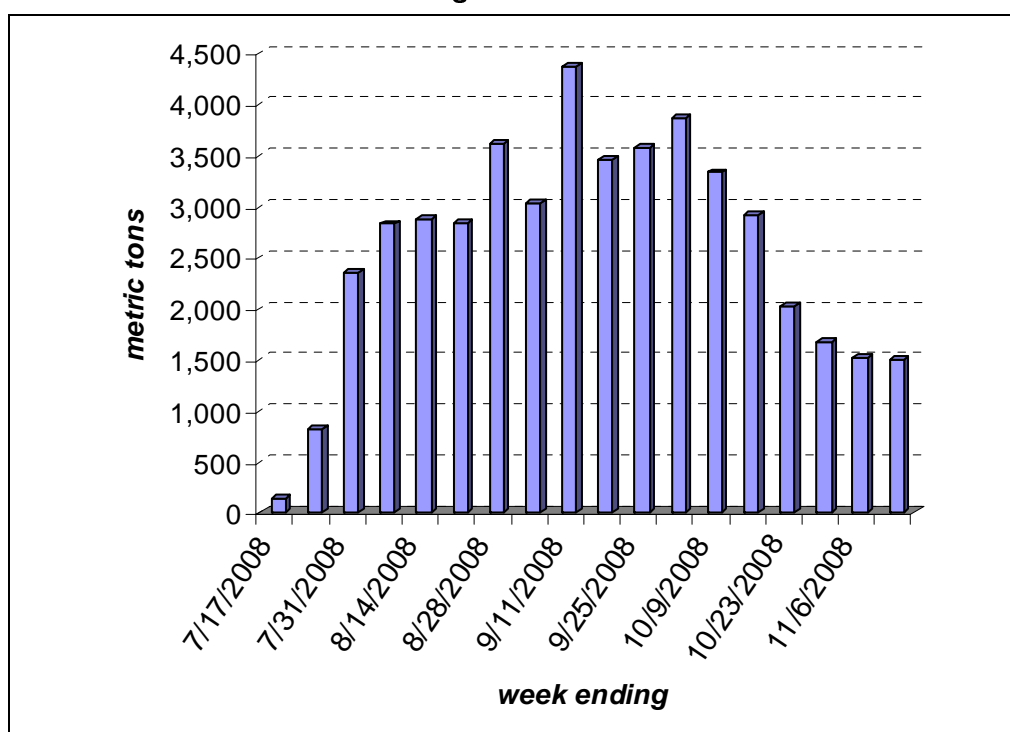
<sup>13</sup> Cleared shipments included "pipeline" stocks of U.S. boneless beef exported in 2007 and 2008 and stored, but not inspected until the new beef agreement took effect on June 26, and exports of boneless and bone-in beef shipped after that date.

<sup>14</sup> Derived by CRS from South Korean import data, accessed at Korea International Trade Association's website <http://global.kita.net/>.

the country of origin to be identified. The small quantity of premium-priced U.S. fresh beef destined primarily for high-end restaurants and gourmet stores reportedly sold quickly.<sup>15</sup>

Taking a broader perspective, the pace of U.S. beef exports to South Korea accelerated from mid-July through late September to meet initial consumer demand. Average weekly exports more than doubled from the four-week period ending August 7 (1,530 MT) to the four weeks ending October 2 (3,813 MT). Exports have since declined, as Korean importers that accumulated large unsold inventories responded by reducing additional purchases (**Figure 3**). U.S. beef exports in the four weeks ending November 13 fell to a weekly average of 1,674 MT.

**Figure 3. Weekly Exports of U.S. Beef to South Korea Since 2008 Beef Agreement Took Effect**



**Source:** USDA, Foreign Agricultural Service, "Export Sales Reporting" database.

**Note:** Data shown for the last several weeks reflect more recent export activity (in quantity terms only) than is captured by the U.S. export statistics shown in Figure 1. The latter are released with a considerable time lag.

Cumulative U.S. beef exports during the 18 weeks since sales resumed in mid-July 2008 have totaled 46,624 MT. For comparison, over the longer 25-week period in 2007 when the Korean market was open to U.S. beef, U.S. firms under the terms of the first bilateral agreement only exported 18,353 MT of beef to South Korea.

<sup>15</sup> *Yonhap*, "S. Korea Begins U.S. Beef Rib Sales After 5-Year Ban," August 11, 2008; Meat and Livestock Australia, "Slow Return of US Beef to Korea," August 22, 2008; *Chosun Ilbo*, "Sales of U.S. Beef Soaring," September 23, 2008; *The Korea Herald*, "Premium U.S. Beef Sales Growing Fast," September 23, 2008; USMEF, "Senior Leadership Assess Strategic Direction in South Korean Meetings," October 10, 2008..

Reflecting the beef agreement as modified by the late-June private-sector arrangement, USDA agencies are implementing the procedures adopted to ensure that U.S. beef meets Korea's import requirements. Most important, each U.S. beef shipment to Korea must be accompanied by an export certificate issued by the Food Safety and Inspection Service (FSIS) that confirms the U.S. beef establishment participates in two programs administered by the Agricultural Marketing Service (AMS). The first is that beef and products destined for South Korea must be produced under an approved Export Verification (EV) program. This details the specific product requirements that a supplier must meet in order for an export shipment to be eligible to enter Korea. As of November 18, 2008, AMS listed 48 suppliers as covered by the EV program for Korea. The second is the voluntary Quality System Assessment (QSA) Program that verifies that beef from a participating plant is from cattle under 30 months of age. As of October 28, AMS has approved 48 exporting establishments as eligible to ship beef product that can be certified as meeting this requirement.<sup>16</sup>

## Outlook

Concluding the 2008 bilateral beef agreement was the last step in the U.S. government's 4½-year effort to regain access to South Korea's lucrative beef market for the U.S. cattle and beef processing sectors. The agreement's added requirement that beef be processed from cattle under 30 months of age is not expected to reduce potential sales volume, since the age of most U.S. cattle currently being slaughtered is younger. Since the agreement took effect, attention has focused on its implementation by Korea's quarantine inspection agency and the pace at which U.S. beef is reaching Korean consumers.

U.S. beef companies have geared up to process beef under the AMS programs established to facilitate sales to South Korea. USDA's weekly export numbers together with pending sales commitments indicate that Korean meat importers placed orders to meet initial demand and build up inventories. The USMEF reported that U.S. beef sold out where available, and had been "very hot" in Korea's restaurant market. To cultivate consumer demand, the federation conducted some market promotion activities to emphasize the lower price of U.S. beef and the quality of the beef cuts that the U.S. beef industry previously sold in Korea. Most recent were a second set of promotions featuring U.S. beef at several prominent butcher shops. Korean imports of U.S. beef to date have far exceeded actual sales, resulting in importers holding larger inventories. This has occurred against the backdrop of growing economic uncertainty brought about by Korea's own financial crisis; households have tightened spending and cut back on eating out at restaurants, where U.S. beef would frequently be consumed. More important, however, was the reluctance of the large department stores, supermarkets, and restaurant chains (i.e., the primary South Korean outlets for marketing beef) to purchase U.S. beef, largely due to lingering lack of confidence in the product as expressed by some groups of Korean consumers.<sup>17</sup>

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<sup>16</sup> See USDA, FSIS, "Export Requirements for the Republic of Korea," as updated September 25, 2008, at [http://www.fsis.usda.gov/regulations\\_and\\_policies/Republic\\_of\\_Korea\\_Requirements/index.asp](http://www.fsis.usda.gov/regulations_and_policies/Republic_of_Korea_Requirements/index.asp). Following an early September 2008 visit by Korean inspectors to check the quality and sanitation practices at 22 slaughterhouses and meat packing plants that expressed an interest in exporting beef, Korea's quarantine inspection agency approved an additional 18 U.S. facilities to export beef to its market under the AMS's EV program.

<sup>17</sup> Phil Seng, USMEF President, in a radio interview on AgriTalk, September 19, 2008; USMEF, "Senior Leadership Assess Strategic Direction in South Korean Meetings," October 10, 2008.

However, this outlook could very well change with the decision by three large major discount retailers to resume sales of U.S. beef on November 27. These firms stated that the availability of “U.S. beef will provide value and convenience, as well as help stabilize consumer prices” for Koreans facing financial difficulties. They also noted that “there is no longer any reason for them not to carry price-competitive U.S. beef.”<sup>18</sup> Even though the U.S. dollar has strengthened against the Korean *won* in recent months, making U.S. beef more expensive than before, the price of U.S. beef reportedly is about half the cost of Korean *hanwoo* beef and even lower than Australian beef.<sup>19</sup> The USMEF views the decision by these large retailers as “critical to jump-starting larger volume sales across all market sectors” and leading other retail outlets and restaurants chains to add U.S. beef before the lunar New Year in late January 2009—a period of peak consumption. Though the USMEF views this development positively, it notes that challenges remain. These include consumer reaction to the broader availability of U.S. beef and the extent to which households, with reduced purchasing power, respond to lower-priced U.S. beef.<sup>20</sup>

The 2008 bilateral beef agreement was intended to resolve an issue that some Members of Congress said stood in the way of congressional consideration of legislation to implement the KORUS FTA. Now that South Korea has put the agreement into effect, these Members are monitoring the pace of actual sales and how Korea’s quarantine inspection agency implements the revised rules. However, while Korea’s lifting of the beef ban was widely regarded as a politically necessary condition for the Bush Administration to send this trade agreement to Congress, it has become a less and less sufficient condition, because of other opposition to the KORUS FTA (e.g., over its auto trade provisions) and increased opposition to FTAs in general. Even with the resumption of U.S. beef exports, the Bush Administration is not expected to submit the agreement to Congress this year. As a result, the decision on if, and when, to submit this FTA to Congress will be left to the Obama Administration.

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<sup>18</sup> USMEF, “Major Korean Retailers to Resume U.S. Beef Sales,” November 25, 2008.

<sup>19</sup> Reuters, “FACTBOX-A look at the South Korean beef market,” November 24, 2008; Agence France Press, “SKorea’s big retailers to resume US beef sales,” November 25, 2008.

<sup>20</sup> USMEF, November 25, 2008.