



Fourth of July BBQ or More Fireworks in Seoul?

by Troy Stangarone

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As protests in Korea over U.S. beef imports began to stretch into their third month, what had largely been peaceful demonstrations began to break down into violence. With Korea set to resume inspecting imports of U.S. beef after reaching a new understanding on imports with the United States, angry protesters attacked police with steel pipes and stones. Some attempted to use ropes to remove buses set up by the police to block the path of protestors. The violence left several hundred protestors and police injured.

The protests peaked June 10, the anniversary of democracy demonstrations, with estimates of nearly 200,000 protestors nationwide, but have since dwindled to numbers in the low thousands, and on some days only in the hundreds. After taking a lenient approach to the protests over the last two months, President Lee Myung-bak ordered a crackdown on illegal protests June 24. Local police, who had refrained from using water cannons to disperse the crowds after earlier criticism, have begun using them and are considering using tear gas to disperse the increasingly violent protestors.

New understanding on U.S. beef

With conclusion of additional negotiations and a new understanding on the protocol for the importation of U.S. beef, Korea published the import protocol for U.S. beef at the end of June, thus putting it into effect. U.S. beef was expected to be on the market during the first week in July.

Industry representatives in both countries reached a commercial agreement to exclude exports of U.S. beef to Korea from cattle over 30 months of age until the public has regained trust in those products and there is a commercial demand for them. To facilitate this agreement, the U.S. has agreed to set up a Quality System Assessment Program to guarantee that beef being shipped to Korea is less than 30 months in age. The two governments also agreed to refrain from shipping four additional cattle parts – cranial bones, brains, eyes, and spinal cords – until there is a market demand for these products.

The new understanding was criticized by some members of Congress. Sen. Max Baucus said that the new understanding effectively changes the April 18 agreement and that he had “been very clear that Korea should accept imports of all U.S. beef, whether it’s bone-in or boneless, regardless of the age of the cattle...,” while Sen. Saxby Chambliss expressed regret over the continuation of “managed trade.” In

addition, in meetings with Congress of a group of National Assembly members, it was stressed that any grace period before beef from cattle over the age of 30 months is shipped to Korea be very short, in contrast to the one to two years that the members from the National Assembly delegation suggested.

The commercial agreement will provide the United States with access to 97 percent of the market, as defined by sales prior to Korea’s banning U.S. beef. The protocol will ensure that, upon the development of commercial demand for all remaining U.S. beef products, all cuts of all ages will be allowed on the Korean market.

Other countries in the region that previously banned U.S. beef have yet to provide the same level of access. China has offered to open its market to boneless beef under 30 months of age, but still has not negotiated a protocol to restore trade in U.S. beef and is seeking to impose 22 additional conditions for entry. Hong Kong allows imports of boneless beef from cattle less than 30 months of age, but its additional restrictions have discouraged most qualified U.S. beef exporters from shipping to Hong Kong. Japan allows only boneless beef less than 20 months of age, which has limited exports to a small portion of their historical level and placed U.S. producers at risk of triggering Japan’s beef safeguard once it fully opens its market. The safeguard will raise the tariff on U.S. beef from 38.5 percent to 50 percent if there is an increase in U.S. beef of more than 17 percent over the prior fiscal year. Taiwan limits U.S. beef imports to boneless beef less than 30 months of age, but requires that OIE designated specified risk materials be removed as well.

Potential delay of resumption of U.S. beef imports

Despite the publication of the import protocol for U.S. beef, there are still obstacles to its return to Korean shelves. While there have been protests to block the facilities where U.S. beef is being stored, a greater obstacle could be the suit filed by opposition parties in the Constitutional Court. Opposition parties are claiming that the government violated the Administrative Procedures Act, which requires 60 days of public comment before publishing the new sanitary guidelines. The Constitutional Court agreed to hear the case June 27 and has 180 days to reach a verdict. The court can also suspend the resumption of beef imports as a precautionary measure, but has not yet done so.

In an effort to smooth the transition of U.S. beef to the Korean market, the Korea Import Beef Association is seeking to band around 80 of its members together for a massive sale of U.S. beef that will feature discounts on U.S. beef up to 30 percent throughout the month of July. Once the initial quarantine process is concluded, it is expected that 85 tons of 5,300 tons of U.S. beef in frozen storage will be immediately available for sale.

Fallout from the protests

With the protests still going on, the impact in Korea has touched on a wide range of both domestic and international issues. On the domestic front, the political fallout of the protests is still filtering through Korea's political system. The National Assembly, which was scheduled to begin its new term on May 30, is being blocked from organizing by the United Democratic Party (UDP). However, there are signs that this impasse might break. The GNP has agreed to allow a free vote on legislation to monitor and control infectious diseases in cattle, possibly opening the door to normalizing the Assembly.

The National Assembly and the UDP are not the only institutions being impacted by the protests. Having publically apologized for a second time and promised to reform his administration accordingly, President Lee replaced all but one of his presidential secretaries. Once the National Assembly convenes, it is expected that he will conduct at least a partial Cabinet reshuffle.

Beyond the political sphere, the long-term prospects for the Korean economy could be impacted as well. According to a recent *Reuters* interview with Tom Byrne, Senior VP at Moody's, the protests could delay or dilute the partial privatization of state-owned financial institutions, with the current "nationalistic mood" complicating or curtailing foreign participation in the domestic financial system, thus making it more difficult to take the reforms necessary to make Seoul a competitive, regional financial center.

There is also a growing concern in Korea that the additional negotiations with the United States on beef have harmed Korea's credibility in international trade negotiations. One of the direct impacts of this could be growing pressure from the U.S. Congress to have additional discussions on the auto provisions of the KORUS FTA. However, at an event held at the Korean Chamber of Commerce and Industry in New York, Charles Rangel, chairman of the House Ways & Means Committee, expressed doubt that the FTA would be renegotiated, even if Sen. Barack Obama were to be elected president. He also suggested that the FTA would not be voted on until after the U.S. elections.

One of the final impacts from the protests is on the timing of President Bush's next visit to Korea. It had had been expected that he would visit Korea after the G-8 summit in Japan this July. However, with concerns that his presence could further agitate the situation in Korea, it is now anticipated that he will visit Seoul when he travels to China for the Olympics in August.

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