

## Chapter 9

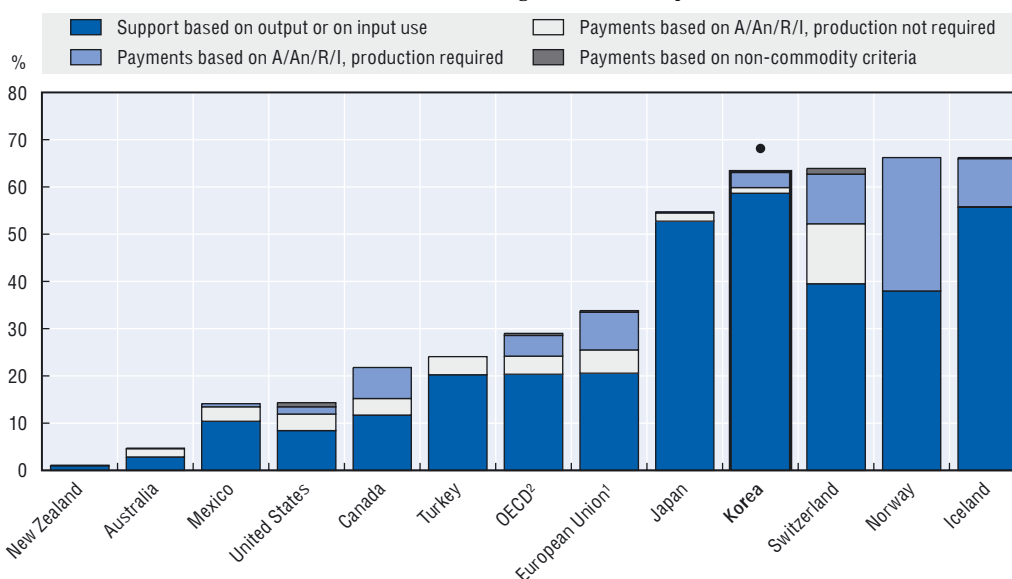
# Korea

### Evaluation of policy developments

- Overall, there has been limited progress in market orientation, with the level of producer support remaining very high. Most support continues to be provided through market price support although the gap between domestic and border prices has fallen significantly for rice, milk and chicken. Market price support was supplemented by direct payments which accounted for an increasing share of farm household income in recent years.
- Following the 2004 rice negotiation, government purchasing of rice was abolished and a direct income support mechanism for paddy fields was introduced. These area-based payments have the effects of raising and stabilising farm income following the sharp decrease in the price of rice resulting from the abolition of government purchasing, thereby smoothing the transition to the new policy framework. This policy shift reduced market distortion although the MPS is still a dominating factor, as long as import barriers are binding.
- The launching of a traceability information system and the increase of direct payments for environmentally friendly farming are responses to increasing consumer interest in food safety and organic products. The recent policy focus on rural development could lead to more effective policy measures that are less trade distorting and improve the quality of life of rural residents.
- Further efforts are needed to reduce the very high levels of support, reduce market protection and implement measures that are less costly, while continuing to move towards policies that pursue targeted environmental, rural development and income objectives in ways that are less production and trade distorting.

Figure 9.1. **Korea: Producer Support Estimate by country, 2004-06**

Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD PSE/CSE database, 2007.

## Summary of policy developments

The major policy developments in 2005 and 2006 were the abolition of government purchasing of rice and the introduction of a direct, area-based, income support mechanism for paddy fields. To facilitate farm consolidation, a new farmland banking system was introduced. Programmes for protecting farm household income from natural disaster and outbreaks of animal disease were reinforced. A traceability information system and Good Agricultural Practices (GAP) regulation were introduced.

- Support to producers (%PSE) declined from 70% in 1986-88 to 63% in 2004-06, but it is still double the OECD average.
- The share of market price support fell from 99% of producer support in 1986-88 to 91% in 2004-06. Prices received by farmers in 1986-88 were 3.3 times higher than those in the world market. By 2004-06 this gap had decreased to 2.6 times.
- Support based on non-current factors and not requiring production made up 2% of the PSE in 2004-06. This reflects the recently introduced fixed payment for paddy fields. Payments based on input use and current factors (production required) accounted respectively for 2% and 5% of PSE, in 2004-06.
- Producer SCT by commodity was more than 70% for rice, barley and soybeans in 2004-06. It was around 60% for milk and beef, and less than 40% for poultry and eggs.
- The cost imposed on consumers as measured by the %CSE fell from 66% in 1986-88 to 59% in 2004-06. Consumers still paid on average two and a half times the world price for agricultural commodities in 2004-06.
- Support provided to general services for agriculture increased between 1986-88 and 2004-06, from 8% to 12% of the TSE. Total support to agriculture was 3.4% of GDP in 2004-06, less than half of the share in 1986-88.

Figure 9.2. Korea: PSE level and composition by support categories, 1986-2006

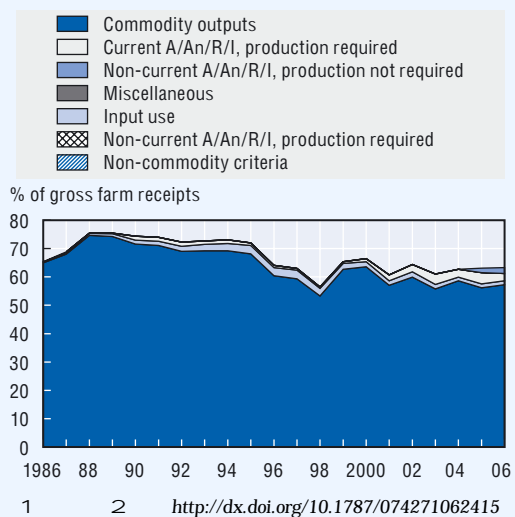


Figure 9.3. Korea: Producer SCT by commodity, 2004-06

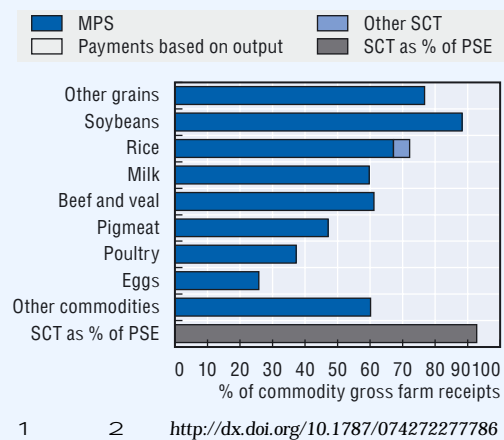


Table 9.1. Korea: Estimates of support to agriculture

KRW billion

	1986-88	2004-06	2004	2005	2006p
<b>Total value of production (at farm gate)</b>	<b>13 624</b>	<b>36 059</b>	<b>36 156</b>	<b>36 092</b>	<b>35 931</b>
<i>Of which share of MPS commodities (%)</i>	<i>72</i>	<i>57</i>	<i>59</i>	<i>57</i>	<i>54</i>
<b>Total value of consumption (at farm gate)</b>	<b>14 367</b>	<b>45 008</b>	<b>42 926</b>	<b>45 643</b>	<b>46 455</b>
<b>Producer Support Estimate (PSE)</b>	<b>9 635</b>	<b>24 109</b>	<b>23 644</b>	<b>24 483</b>	<b>24 199</b>
Support based on commodity output	9 541	21 921	22 099	21 781	21 882
<i>Market Price Support</i>	9 541	21 921	22 099	21 781	21 882
<i>Payments based on output</i>	0	0	0	0	0
Payments based on input use	66	518	481	535	539
<i>Variable input use</i>	21	287	268	309	283
<i>Fixed capital formation</i>	42	195	184	189	212
<i>On-farm services</i>	3	36	29	37	44
Payments based on current A/An/R/I <sup>1</sup> production required	28	1 199	1 038	1 548	1 009
<i>Of a single commodity</i>	0	446	0	901	437
<i>Of a group of commodities</i>	0	233	574	97	27
<i>Of all commodities</i>	28	520	463	550	545
Payments based on non-current A/An/R/I <sup>1</sup> production required	0	0	0	0	0
Payments based on non-current A/An/R/I <sup>1</sup> production not required	0	464	10	614	769
<i>Variable rates</i>	0	0	0	0	0
<i>Fixed rates</i>	0	464	10	614	769
Payments based on non-commodity criteria:	0	7	16	5	0
<i>Long-term resource retirement</i>	0	7	16	5	0
<i>Specific non-commodity output</i>	0	0	0	0	0
<i>Other non-commodity criteria</i>	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
<b>Percentage PSE</b>	<b>70</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>63</b>
<b>Producer NPC</b>	<b>3.34</b>	<b>2.55</b>	<b>2.57</b>	<b>2.52</b>	<b>2.56</b>
<b>Producer NAC</b>	<b>3.39</b>	<b>2.71</b>	<b>2.68</b>	<b>2.71</b>	<b>2.72</b>
<b>General Services Support Estimate (GSSE)</b>	<b>845</b>	<b>3 257</b>	<b>3 157</b>	<b>3 212</b>	<b>3 402</b>
Research and development	52	531	450	499	645
Agricultural schools	5	88	83	83	97
Inspection services	21	148	137	150	157
Infrastructure	374	1 809	1 878	1 839	1 709
Marketing and promotion	0	40	36	42	42
Public stockholding	394	641	573	599	752
Miscellaneous	0	0	0	0	0
<b>GSSE as a share of TSE (%)</b>	<b>8.0</b>	<b>11.9</b>	<b>11.7</b>	<b>11.6</b>	<b>12.3</b>
<b>Consumer Support Estimate (CSE)</b>	<b>-9 415</b>	<b>-26 725</b>	<b>-24 589</b>	<b>-27 177</b>	<b>-28 409</b>
Transfers to producers from consumers	-9 294	-21 677	-21 368	-21 781	-21 882
Other transfers from consumers	-180	-5 138	-3 317	-5 475	-6 621
Transfers to consumers from taxpayers	59	90	97	79	94
Excess feed cost	0	0	0	0	0
<b>Percentage CSE</b>	<b>-66</b>	<b>-59</b>	<b>-57</b>	<b>-60</b>	<b>-61</b>
<b>Consumer NPC</b>	<b>2.93</b>	<b>2.47</b>	<b>2.35</b>	<b>2.48</b>	<b>2.59</b>
<b>Consumer NAC</b>	<b>2.92</b>	<b>2.47</b>	<b>2.35</b>	<b>2.48</b>	<b>2.58</b>
<b>Total Support Estimate (TSE)</b>	<b>10 539</b>	<b>27 456</b>	<b>26 898</b>	<b>27 773</b>	<b>27 696</b>
Transfers from consumers	9 475	26 815	24 685	27 256	28 503
Transfers from taxpayers	1 245	5 779	5 530	5 992	5 814
Budget revenues	-180	-5 138	-3 317	-5 475	-6 621
<b>Percentage TSE (expressed as share of GDP)</b>	<b>9.01</b>	<b>3.39</b>	<b>3.45</b>	<b>3.44</b>	<b>3.29</b>
<b>GDP deflator 1986-88 = 100</b>	<b>100</b>	<b>240</b>	<b>241</b>	<b>240</b>	<b>239</b>

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted), An (animal numbers), R (receipts) or I (income).

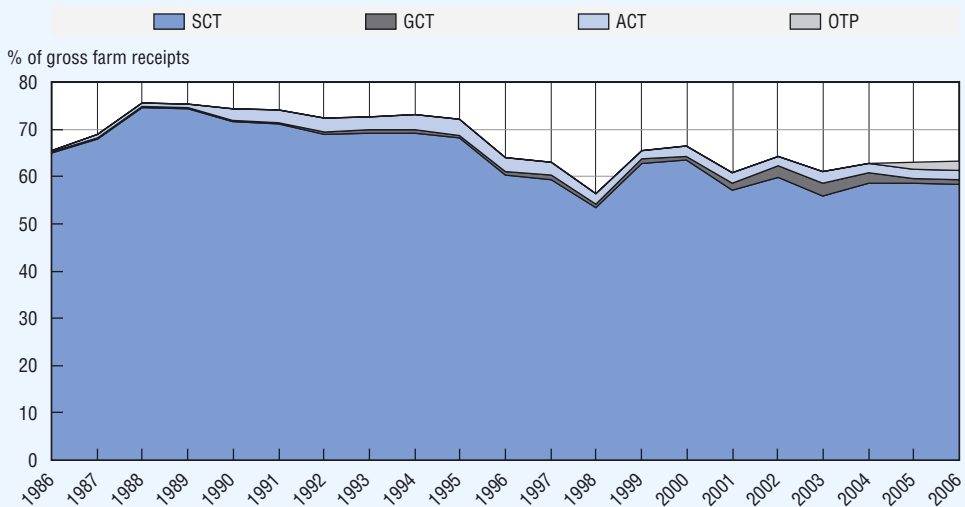
MPS commodities for Korea are: other grains, garlic, red pepper, chinese cabbage, rice, oilseeds, milk, beef and veal, pigmeat, poultry and eggs. Market price support is net of producer levies and excess feed costs.

Source: OECD, PSE/CSE database, 2007.

### Box 9.1. Korea: Commodity-Specificity of Support

In Korea, Single Commodity Transfers (SCT) in 2004-06 made up 93% of the PSE, a reduction from 99% in 1986-88. Group Commodity Transfers (GCT), where producers have the option to produce any one of a specified group of commodities as part of programme eligibility, made up 2% of the PSE in 2004-06, compared to 0.2% in 1986-88. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on commodities that farmers choose to produce or do not require any commodity production at all.<sup>1</sup> Together these made up 5% of the PSE in 2004-06, up from 1% in 1986-88.

Figure 9.4. Korea: PSE level and commodity specificity, 1986-2006



Source: OECD PSE/CSE database, 2007.

1 2 <http://dx.doi.org/10.1787/074286853777>

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

## Description of policy developments

### Main policy instruments

Agricultural policies consist mainly of market price support implemented through trade measures and domestic price stabilization mechanisms, including government purchase and public stockholding. Market price support is supplemented by direct payments. Direct payments account for an increasing share of farm household income in recent years, especially after the introduction of fixed and variable direct payment schemes for paddy fields in 2005. The government has implemented programmes to enhance agriculture's competitiveness by developing the agricultural infrastructure, including farm consolidation through a farmland banking system. A mechanism to stabilise farm household income in the case of natural disasters and animal diseases has been reinforced. Policy priorities have been widened to include agri-environment, consumers' interests and rural development. Environmental improvement is supported through payments for reduction of input use. Also, payments are being provided for environmentally friendly farming. The HACCP (Hazard Analysis Critical Control Point) system is being applied widely in the livestock industry. A traceability scheme for agricultural and livestock products has been launched. From 2006, a GAP (Good Agricultural Practices) system was introduced for 96 agricultural products. The government is also seeking to enhance the quality of life of rural communities through the promotion of rural development. The diversification of off-farm income sources is being encouraged through agro-tourism.

### Domestic policy

Following the 2004 rice negotiation, government purchasing was abolished and a **direct income support mechanism for paddy field** was introduced. The direct income support mechanism comprises a fixed payments system and a variable payments system from the 2005/06 crop year. To be eligible for the **fixed payment**, paddy fields had to be in production during the period 1998-2000. The fixed payment per hectare for registered paddy fields was KRW 600 000 (USD 586) in 2005 and increased to KRW 700 000 (USD 732) in 2006. Expenditure was KRW 716.8 billion (USD 750 million) for 951 000 hectares, eligible for the fixed payment in 2006. The **variable payment** is given only to farmers who are currently producing rice on registered farmland. The amount of the variable payment is determined according to the difference between a target price and each year's post-harvest price. For the years 2005-07, the target price is KRW 170 083 (USD 178) per 80 kilograms of rice, determined by adding the income effect of past government purchasing and paddy-field environmental conservation payments to the 3 year average of the harvest price from 2001 to 2003. If the post-harvest price is lower than the target price, farmers receive 85% of the difference, after deduction of the fixed payment, which is multiplied by a fixed national reference yield to calculate the payment per hectare. The variable payment per hectare was KRW 958 310 (USD 936) in 2005 and fell to KRW 459 757 (USD 481) in 2006. Rice production fell from 4 768 000 tonnes in 2005 to 4 680 000 tonnes in 2007 reflecting a decrease in cultivated area.

From 2005, the Korean government implemented a **Public Stockholding Scheme** for rice, which is a purchase and release mechanism based on the current market price. The target amount of public stockholding for rice is 864 000 tonnes. In 2006, 22 000 tonnes of imported

rice were sold in the domestic market for table use, following the result of the 2004 rice negotiation. The purchase programmes for **barley**, **maize** and **soybeans** are managed by the National Agricultural Cooperative Federation (NACF). The purchase prices of barley and maize have been held constant since 2001. Government purchases of barley have decreased from 180 000 tonnes from 2004 to 124 000 tonnes in 2006. Also, government purchases of maize have decreased sharply from 2 500 tonnes in 2004 to 600 tonnes in 2006, reflecting the sharp fall in domestic production. However, the price and quantity of government purchase of soybeans have increased in the same period.

**Table 9.2. Korea: Government purchase prices and quantities of major cereals**

Units	2002 <sup>1</sup>	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>1</sup>	2006p <sup>1</sup>	Percentage change		
						2003 to 2004	2004 to 2005	2005 to 2006p
<b>Barley<sup>2</sup></b>								
Purchase price '000 KRW/t	1 109	1 109	1 109	1 109	1 109	0.0	0.0	0.0
USD/t	886	931	968	1 083	1 160			
Purchase quantity '000 t	247	162	180	181	124	11.1	0.6	-31.5
<b>Maize<sup>3</sup></b>								
Purchase price '000 KRW/t	580	580	580	580	580	0.0	0.0	0.0
USD/t	464	487	506	566	606			
Purchase quantity '000 t	3	4	2.5	1.7	0.6	-37.5	-32.0	-64.7
<b>Soybeans<sup>3</sup></b>								
Purchase price '000 KRW/t	2 296	2 296	2 296	2 877	2 877	0.0	25.3	0.0
USD/t	1 835	1 928	2 005	2 809	3 009			
Purchase quantity '000 t	4.8	5.4	10.5	12.6	14.1	94.4	20.0	11.9

1. Calendar year basis.

2. Polished-grain equivalent in the case of price, and unhulled-grain equivalent in the case of quantity.

3. Polished-grain equivalent.

Source: Ministry of Agriculture and Forestry.

As the price of beef has been high, the number of cattle increased from 1.6 million in 2004 to 2.0 million in 2006. Beef imports increased by 33% since 2004 to 212 780 tonnes in 2006. As the market price of calves has also been high, no payments have been made from the **calf breeding stabilisation scheme** since 2000.

To facilitate farm enlargement and farmland mobility, a new **farmland banking system**, which is run by the Korean Rural Community and Agricultural Corporation (KRC), was introduced in 2005. It provides financial assistance and information to farmers who wish to own or rent farmland from the KRC or others through the acquisition, temporary holding, resale and lease of farmland. Although non-farmers are prohibited from holding farmland in principle, they may hold more than 1 hectare of farmland acquired by inheritance or out-migration as long as they lease it to KRC for more than 5 years. This change has operated from October 2005 as a result of the revision of the Farmland Act. Its aim is to minimize the fragmentation of farmland and encourage young full-time farmers to increase the scale of their farms more easily through a farmland banking system. In 2006, a new programme is being introduced whereby the KRC will buy farmland from farmers who hold a significant amount of debt. If viable, the KRC will then lease back the farmland to them. This programme aims to stabilize the farmland market and support farmers who are in temporary financial difficulty.

The government introduced a new pilot project of **direct payments for landscape conservation** in 2005 with a budget of KRW 600 million (USD 586 thousand). It involves a payment per hectare to farmers who cultivate plants for aesthetic purposes to preserve traditional landscape in selected villages. About 470 hectares from 1 000 farm households participated in this pilot payments programme in 2006. A **direct payments for less-favoured areas** programme, which was introduced on a pilot basis in 2004, became a national programme in 2006. Its budget increased from KRW 10 billion (USD 8.7 million) in 2004 to KRW 52 billion (USD 54.4 million) and the participating areas increased from 31 000 hectares to 119 000 hectares in the same period. In 2006, 2 779 villages, where the share of arable land is below 22% and the land gradient is over 14%, were eligible to receive KRW 400 000 (USD 418) per hectare for dry fields and KRW 200 000 (USD 209) per hectare for pasture.

Programmes for protecting farm household income from natural disasters were reinforced. A **crop insurance scheme**, which was introduced for apples and pears in 2001, was implemented for seven agricultural products in 2006. The farmers' share of the premium decreased from 41% in 2002 to 31% in 2006 with the remainder paid by the government. Also, the product coverage of the **livestock insurance scheme** to protect farmers' income from outbreaks of animal disease and natural disaster increased from four livestock products (cattle, pork, chicken and horses) in 2002 to nine livestock products, including deer, duck, pheasant, quail and turkey, in 2006.

Policies for promoting environmentally friendly farming have been continued. In 2006, the payment per hectare for **environmentally friendly farming** was increased to KRW 524-794 000 (USD 548-831) for dry fields and KRW 217-392 000 (USD 227-410) for paddy fields. About 27 000 farm households who participate in the production of low-chemical, chemical-free and organic products received total payments of KRW 11.4 billion (USD 11.9 million) in 2006. The pilot programme of **direct payments for environmentally friendly livestock practices**, which was introduced in 2004, was continued for nine hundred livestock producing farm households with a budget of KRW 5.8 billion (USD 6 million) in 2006.

Policies to cope with growing consumer concerns on food safety are being intensified. The **traceability scheme** for agricultural and livestock products, which was launched in 2004 on a pilot basis for beef, has begun to be applied throughout the market. In 2006, the government established a traceability information system for agricultural products ([www.agros.go.kr](http://www.agros.go.kr)) and about 8 800 farm households and 800 distributors are participating in this programme. In 2006, the government launched the **Good Agricultural Practices (GAP)** regulation and designated 21 institutions as GAP inspection agencies. About 3 700 farm households participated in this programme. The number of safety tests for agricultural products rose from 56 000 items in 2002 to 66 000 items in 2006.

To promote rural development and to improve the quality of life of rural residents, the government established a comprehensive law in 2004: the Special Act for Improving the Quality of Life of Farmers and Fishermen and Promoting Development in Rural, Mountainous and Fishing Communities. The implementation of the Special Act, which involves 15 ministries and 1 government agency, started in 2005. The government lowered health insurance premiums for farmers by 50% (the other 50% is paid by the government) and expanded government support of pension payments. The government also implemented support programmes for the purpose of improving living conditions such as education, medical services, roads, dwellings, drinking water supply, and infrastructure for

the Internet. The government also implemented several policy measures to increase off-farm income by promoting **agro-tourism** with a budget of KRW 10.6 billion (USD 11.1 million) in 2006. To establish regional networks among the academic community, research institutes, the industrial sector, and local governments for providing technical or marketing assistance to farmers, the government implemented the **regional agriculture cluster programme** with a budget of KRW 12 billion (USD 12.6 million) in 2005 and KRW 20 billion (USD 20.9 million) in 2006.

## Trade policy

The result of Korea's 2004 rice negotiation was ratified in the national assembly in November 2005. The key result was to extend special treatment for rice until 2014 and to increase minimum market access (MMA) amounts from 225 575 tonnes in 2005 to 408 700 tonnes in 2014 in equal annual instalments. Since the ratification by the national assembly was delayed, the minimum market access for 2005 was imported in 2006.

The **Free Trade Agreements** (FTA) with Singapore and the European Free Trade Association (EFTA) went into effect in March 2006 and September 2006 respectively. Agreement on the commodity sector was reached in the FTA negotiations with ASEAN countries in August 2006. In the FTA with ASEAN, 71 sensitive agricultural products of Korea are exempt from tariff reductions. FTA negotiations were under way with the United States, Canada, India, Japan, and Mexico in 2006.

The fill rate of tariff-rate quota (TRQs) was around 67% in 2006. Out of 63 agricultural products subject to TRQ, 26 were completely filled, 24 were partially filled and there were no imports of 13 products.