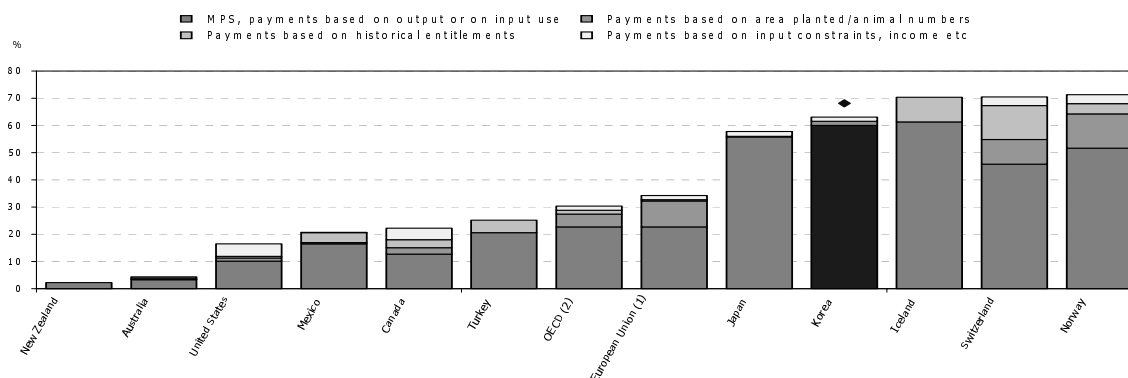


KOREA

Evaluation of policy developments

- Overall, little progress in market orientation has occurred since 1986-88, with the level of producer support remaining very high. Most support continues to be provided through market price support, largely for rice, although the gap between domestic and border prices has fallen. There has been a limited shift towards the use of payments but these are generally linked to production.
- Recent efforts to reform rice policies, including a set-aside payment, are small steps in the right direction. The proposal to eliminate target prices would continue the adjustment process, required by the increasing level of imports.
- The introduction of an agri-environmental payment for livestock producers increases the sectoral coverage of such measures although their economic efficiency may be limited by the high level of output-linked support.
- The launching of a traceability scheme for agricultural products is a clear response to consumers' concerns about food safety.
- The recent focus on rural development initiatives could lead to policy measures that are more effective and less trade distorting.
- On-going efforts to pursue bilateral and regional trade agreements offer the possibility to open the market for some agricultural products, leading to some sector adjustment.
- Further efforts are needed to reduce the very high levels of support, increase market access and implement measures that are less costly, while continuing to pursue targeted environmental, rural development and income objectives in ways that are less production and trade distorting.

Producer Support Estimate by country, 2002-04
(Percent of gross farm receipts)



Notes: 1. EU15 for 2002-03; EU25 for 2004.

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

Source: OECD, PSE/CSE database, 2005.

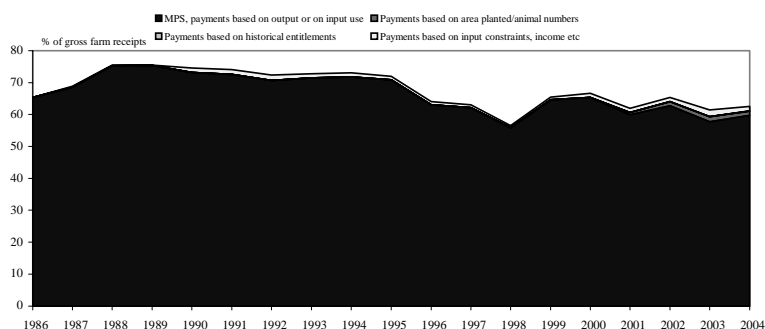
Summary of policy developments

Policy is increasingly focused on rural development, and new legislation and payments were introduced. A new livestock agri-environmental payment began and regulations for livestock facilities tightened. The crop insurance scheme became nationally available and a pilot traceability scheme introduced in the beef sector. Negotiations concluded with major rice exporting countries that further delayed rice tariffication but increased the annual level of rice imports out to 2014.

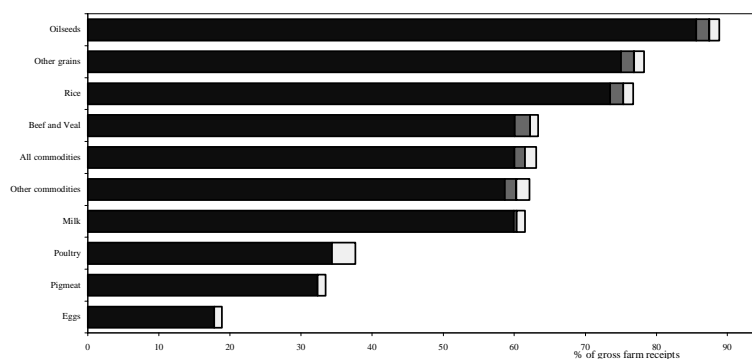
- Support to producers (%PSE) has decreased from 70% in 1986-88 to 63% in 2002-04, but it is still double the OECD average. The support level varies widely across commodities, from 33% for eggs to 76% for rice and 89% for oilseeds.
- The share of market price support has fallen from 99% of producer support in 1986-88 to 93% in 2002-04. Prices received by farmers in 1986-88 were 233% higher than those received in the world market. By 2002-04 the gap had decreased to 159%.
- Payments based on area, on input use or on overall farm income now each account for 2% of the PSE. Almost all area payments are contingent on the respect of environmentally friendly farming practices.
- The cost imposed on consumers, as measured by the %CSE, has fallen from 66% in 1986-88 to 60% in 2002-04. Consumers still paid on average two and a half times the world price for agricultural commodities in 2002-04.
- Support provided to general services for agriculture has increased between 1986-88 and 2002-04, from 8% to 13% of the TSE. Total support to agriculture is 3.5% of GDP, less than half of the share in 1986-88.

Producer Support Estimate (PSE)

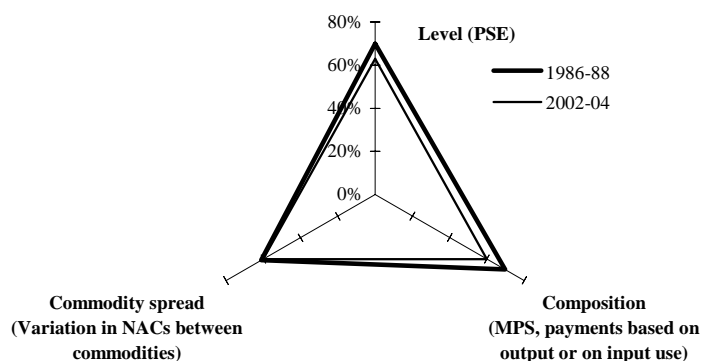
Level and composition over time...



... by commodity, 2002-04 average



... and reform progress



Agriculture accounts for 3.6% of GDP but 8.8% of employment in the economy. This reflects the labour intensive nature of the predominantly small-scale farming system. The real net value of agricultural production has fallen since 2001. Agricultural imports and exports represent about 2% and 0.5% of GDP respectively.

Table 2.7. Korea: Estimates of support to agriculture

(KRW billion)	1986-88	2002-04	2002	2003	2004p
Total value of production (at farm gate)	13 624	32 978	32 147	31 809	34 977
<i>of which share of MPS commodities (%)</i>	<i>72</i>	<i>60</i>	<i>61</i>	<i>57</i>	<i>60</i>
Total value of consumption (at farm gate)	14 367	42 570	41 571	44 543	41 598
Producer Support Estimate (PSE)	9 638	21 826	21 987	20 620	22 872
Market Price Support (MPS)	9 541	20 206	20 479	18 855	21 283
<i>of which MPS commodities</i>	<i>6 854</i>	<i>12 047</i>	<i>12 493</i>	<i>10 830</i>	<i>12 817</i>
Payments based on output	0	0	0	0	0
Payments based on area planted/animal numbers	0	502	458	555	494
Payments based on historical entitlements	0	3	0	0	10
Payments based on input use	69	560	621	506	553
Payments based on input constraints	0	79	21	103	113
Payments based on overall farming income	28	475	407	600	419
Miscellaneous payments	0	0	0	0	0
Percentage PSE	70	63	65	61	63
Producer NPC	3.33	2.59	2.76	2.46	2.55
Producer NAC	3.39	2.72	2.88	2.59	2.67
General Services Support Estimate (GSSE)	845	3 411	3 498	3 784	2 951
Research and development	52	386	420	383	355
Agricultural schools	5	53	51	54	55
Inspection services	21	131	120	131	143
Infrastructure	374	2 088	2 192	2 450	1 622
Marketing and promotion	0	38	40	36	40
Public stockholding	394	714	676	730	735
Miscellaneous	0	0	0	0	0
GSSE as a share of TSE (%)	8.0	13.4	13.7	15.3	11.4
Consumer Support Estimate (CSE)	-9 415	-25 444	-26 587	-25 772	-23 973
Transfers to producers from consumers	-9 294	-19 981	-20 479	-18 855	-20 609
Other transfers from consumers	-180	-5 640	-6 220	-7 200	-3 501
Transfers to consumers from taxpayers	59	177	112	283	136
Excess feed cost	0	0	0	0	0
Percentage CSE	-66	-60	-64	-58	-58
Consumer NPC	2.93	2.53	2.80	2.41	2.38
Consumer NAC	2.92	2.52	2.79	2.39	2.37
Total Support Estimate (TSE)	10 542	25 414	25 596	24 687	25 959
Transfers from consumers	9 474	25 621	26 699	26 056	24 109
Transfers from taxpayers	1 248	5 433	5 117	5 832	5 351
Budget revenues	-180	-5 640	-6 220	-7 200	-3 501
Percentage TSE (expressed as share of GDP)	9.26	3.51	3.74	3.42	3.39
GDP deflator 1986-88 = 100	100	234	230	235	237

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

Market price support is net of producer levies and excess feed costs.

MPS commodities for Korea are: other grains, garlic, chinese cabbage, rice, oilseeds, milk, beef and veal, pigmeat, poultry and eggs.

Source: OECD, PSE/CSE database 2005.