Chapter 15

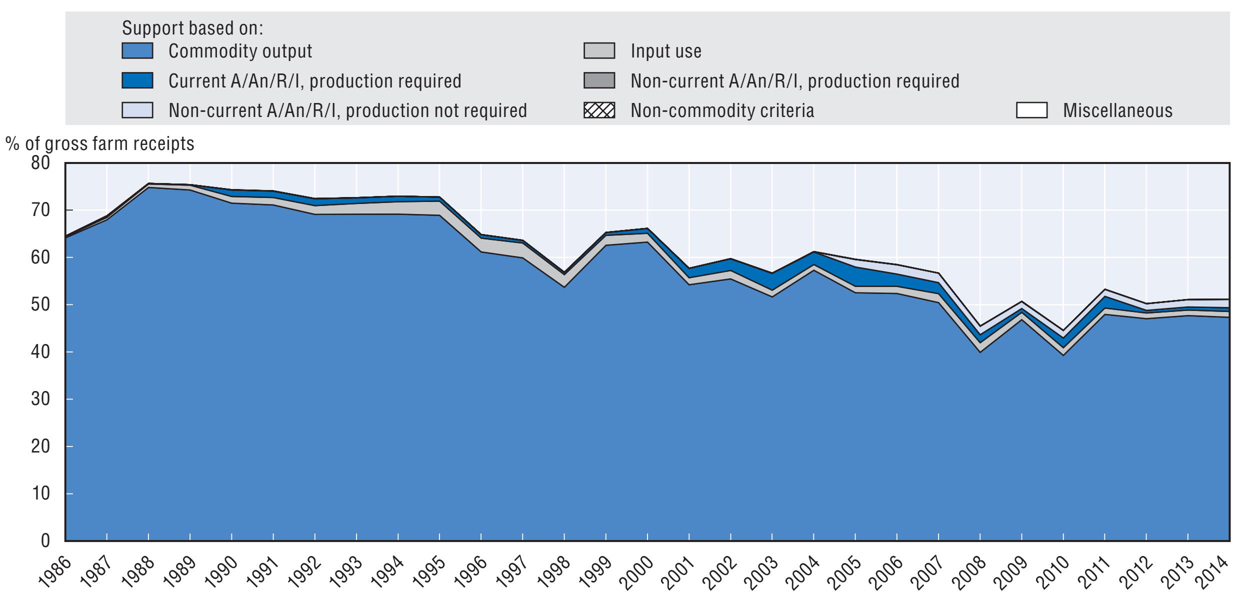
Korea

The Korea country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Overall, very modest progress has been made towards more market oriented policies. Although reduced from its level in 1986-88, producer support, as measured by the %PSE, is still 2.5 times higher than the OECD average. It is overwhelmingly dominated by the potentially most distorting forms of support.
- After a reduction in 2010, support in 2012-14 increased back to previous levels, due to a rebound in domestic rice prices and decreasing world rice prices. Although the share of support through budgetary payment schemes has gradually increased in most recent years, market price support still dominates. More than 90% of producer support is commodity specific, and concentrates on a small number of products. Further efforts are needed to shift from market price support to less distorting and better targeted forms of support.
- The Development Plan for Agriculture, Rural Area and Food Industry for the period of 2013-17 sets a quantity-based self-sufficiency ratio of grains at 30%. Achieving these targets will put a heavy burden on Korea. This could result in higher market price support if achievement of the target is sought through continued intervention in markets through target prices in combination with border measures.
- The tariffication of rice as of 2015, postponed for the last 20 years under the special treatment based on the WTO Agreement on Agriculture, is a step towards market orientation of the agricultural policy and will contribute to more efficient resource allocation. However, more attention should be paid to domestic rice policies to avoid an increase in market price support, such as raising the target price.

Figure 15.1. **Korea: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en.*

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Contextual information

Korea is a country with relatively high GDP per capita, dynamic growth and low levels of unemployment. It is a land-scarce country with high population density, where only 17% of the area is being used for farming. Most farms are small family farms with less than 2 hectares of agricultural land. The importance of agriculture in the economy has been decreasing with its share in domestic GDP declining to 2.3% in 2013, while its share of employment is 5.9%. Korea is one of the largest net agro-food importers in the world. The share of agro-food imports in total imports is around 4.8%, while that of exports is less than 1%.

Table 15.1. **Korea: Contextual indicators, 1995, 2013**[1]

	1995	2013[1]
Economic context		
GDP (billion USD)	531	1 304
Population (million)	45	50
Land area (thousand km^2)	99	97
Population density (inhabitants/km^2)	449	495
GDP per capita, PPP (USD)	12 832	33 062
Trade as % of GDP	24.5	41.2
Agriculture in the economy		
Agriculture in GDP (%)	6.2	2.3
Agriculture share in employment (%)	11.2	5.9
Agro-food exports (% of total exports)	1.3	0.9
Agro-food imports (% of total imports)	7.0	4.8
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-7 837	-19 368
Crop in total agricultural production (%)	77	63
Livestock in total agricultural production (%)	23	37
Agricultural area (AA) (thousand ha)	2 048	1 788
Share of arable land in AA (%)	87	85
Share of irrigated land in AA (%)	44	45
Share of agriculture in water consumption (%)	48	48
Nitrogen balance, kg/ha	258	215

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

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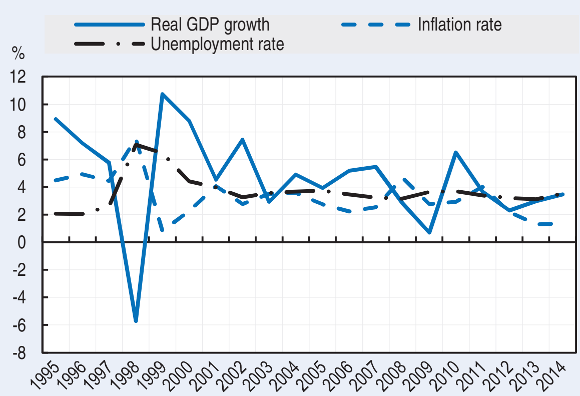
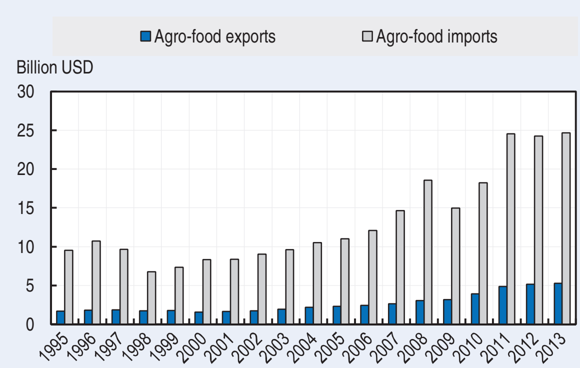
Figure 15.2. **Korea: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234836

Figure 15.3. **Korea: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234844

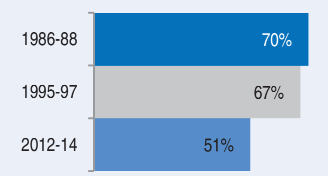
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Since 1986-88, Korea has gradually reduced its support to agriculture especially in the last decade. However, support still remains high and mostly financed by transfers from consumers. The share of potentially most production and trade distorting forms is still around 90% of the support. The level and developments of market price support reflect border protection on a number of commodities, of which rice is the major contributor. The ratio of total support to GDP at 1.9% is much above the OECD average (0.7%).

PSE as % of receipts (%PSE)

Korea has gradually reduced its support to agriculture since 1986-88. Despite this reduction the overall support remains relatively high (2.5 times the OECD average). After a sharp drop in the %PSE to 40% in 2010, the %PSE increased to 51% in 2012-14, back to the levels before 2010.

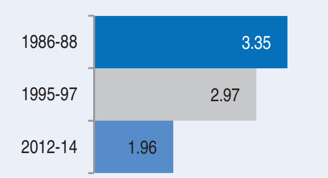


Potentially most distorting support as % of PSE

The potentially most distorting support (based on output and variable input use – without input constraints) still dominates at around 95% of total support to farmers in 2012-14.

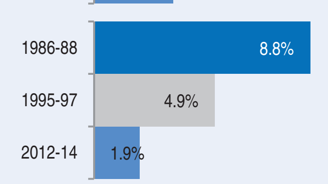
Ratio of producer price to border price (NPC)

The ratio of producer prices to border prices has been gradually reduced. Overall the prices paid to farmers were 2 times higher than world market prices as measured by the NPC in 2012-14. The highest NPC are for soybeans and red pepper.

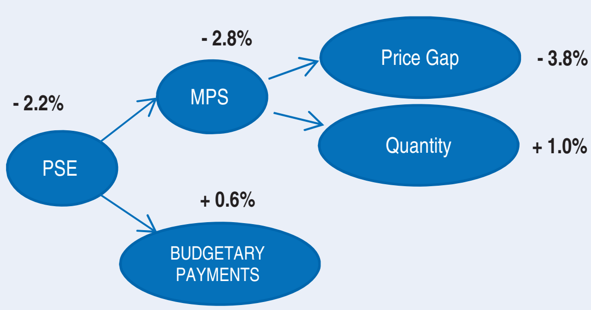


TSE as % of GDP

Total support as % of GDP was substantially reduced, mainly due to fast growth outside the agricultural sector, and was 1.9% in 2012-14. The expenditure on general services represented 13.7% of the TSE in the same period.

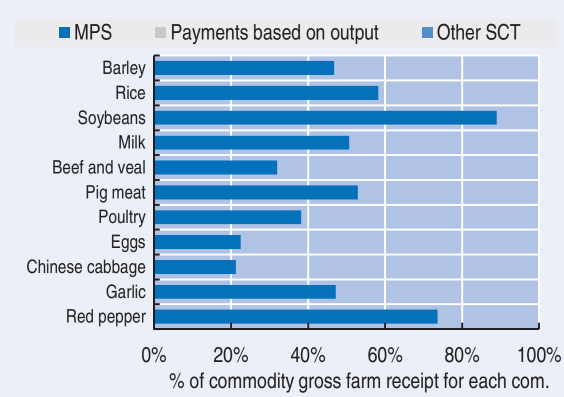


Decomposition of change in PSE, 2013 to 2014



The level of support decreased in 2014 mainly due to a decline of market price support in spite of a slight rise of budgetary payments.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers (SCT) represented 92% of the PSE. The share of the SCT in commodity gross farm receipts is lowest for Chinese cabbage, around 20%, and highest for soybeans at above 80%.

Table 15.2. **Korea: Estimates of support to agriculture**

Billion KRW

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**13 624**	**27 747**	**44 110**	**44 300**	**44 609**	**43 422**
***of which:** share of MPS commodities (%)*	72.0	64.3	61.9	57.6	61.2	67.0
Total value of consumption (at farm gate)	**14 367**	**30 693**	**53 920**	**57 719**	**52 498**	**51 543**
Producer Support Estimate (PSE)	**9 605**	**19 277**	**23 222**	**22 985**	**23 596**	**23 084**
Support based on commodity output	9 511	18 199	21 639	21 527	22 024	21 367
Market Price Support[1]	9 511	18 199	21 639	21 527	22 024	21 367
Payments based on output	0	0	0	0	0	0
Payments based on input use	70	871	553	552	547	559
Based on variable input use	23	136	241	255	233	235
with input constraints	3	11	72	76	76	64
Based on fixed capital formation	44	725	216	210	221	216
with input constraints	0	70	44	43	44	46
Based on on-farm services	3	10	96	87	92	108
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	24	206	305	254	300	360
Based on Receipts / Income	24	196	254	210	251	302
Based on Area planted / Animal numbers	0	11	50	44	49	58
with input constraints	0	0	50	44	49	58
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	725	652	726	798
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	725	652	726	798
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**69.7**	**67.1**	**50.8**	**50.2**	**51.1**	**51.1**
Producer NPC (coeff.)	**3.35**	**2.97**	**1.96**	**1.95**	**1.98**	**1.97**
Producer NAC (coeff.)	**3.38**	**3.09**	**2.03**	**2.01**	**2.04**	**2.05**
General Services Support Estimate (GSSE)[2]	**842**	**2 852**	**3 405**	**3 229**	**3 314**	**3 672**
Agricultural knowledge and innovation system	54	315	842	756	865	907
Inspection and control	21	63	195	195	196	195
Development and maintenance of infrastructure	374	2 121	1 669	1 617	1 682	1 708
Marketing and promotion	0	12	71	72	65	76
Cost of public stockholding	394	341	627	589	505	786
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**7.9**	**12.7**	**12.8**	**12.3**	**12.3**	**13.7**
Consumer Support Estimate (CSE)	**-9 425**	**-19 748**	**-25 687**	**-27 680**	**-25 063**	**-24 319**
Transfers to producers from consumers	-9 304	-17 861	-21 187	-21 527	-21 301	-20 732
Other transfers from consumers	-181	-2 148	-4 546	-6 202	-3 810	-3 627
Transfers to consumers from taxpayers	59	260	45	49	48	39
Excess feed cost	0	0	0	0	0	0
Percentage CSE (%)	**-65.7**	**-64.8**	**-47.7**	**-48.0**	**-47.8**	**-47.2**
Consumer NPC (coeff.)	**2.94**	**2.91**	**1.91**	**1.92**	**1.92**	**1.90**
Consumer NAC (coeff.)	**2.93**	**2.89**	**1.91**	**1.92**	**1.92**	**1.89**
Total Support Estimate (TSE)	**10 507**	**22 390**	**26 672**	**26 262**	**26 958**	**26 796**
Transfers from consumers	9 484	20 009	25 733	27 729	25 111	24 359
Transfers from taxpayers	1 203	4 529	5 485	4 735	5 657	6 064
Budget revenues	-181	-2 148	-4 546	-6 202	-3 810	-3 627
Percentage TSE (% of GDP)	**8.8**	**4.9**	**1.9**	**1.9**	**1.9**	**1.8**
GDP deflator (1986-88=100)	**100**	**190**	**277**	**275**	**277**	**278**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Korea are: barley, garlic, red pepper, chinese cabbage, rice, soybean, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink *http://dx.doi.org/10.1787/888933235392*

Description of policy developments

Main policy instruments

Tariffs and a wide range of tariff rate quotas (TRQs) continue to be the main instruments to support domestic prices. Rice has been one of the sensitive products. In compliance with the special treatment provision in the WTO Agreement on Agriculture, Korea did not convert non-tariff measures on rice to ordinary customs duty until 2014, but has established a minimum market access (MMA) quota at a 5% tariff rate. The MMA volume increased from 51 307 tonnes in 1995 to 408 700 tonnes in 2014. A public stockholding scheme for rice is maintained, which is a purchase and release mechanism and supports the price level and reduces fluctuations in the domestic market.

Direct payment programmes have been implemented from 1997 with different objectives; including early retirement payment, rice income compensation, promotion of environmentally-friendly agriculture, maintaining agriculture in less-favoured areas, and rural landscape conservation.

The most important direct payment is the rice income compensation scheme. This scheme includes both fixed and variable payment, and was introduced in 2005. While the fixed payment is decoupled income support, the variable payment is determined according to the difference between a target price and each year's post-harvest price. If the post-harvest price is lower than the target price, farmers receive 85% of the difference, after deduction of the fixed payment. The target price will be changed every 5 years based on the five-year price change and it is KRW 188 000 (USD 171) per 80 kilograms of rice for the crop year 2013-17, which was KRW 170 083 (USD 155) for the crop year 2005-12.

The *Framework Act on Agriculture, Fisheries, Rural Community and Food Industry* was established in 2007 and lays out the basic policy principles in agriculture. Based on the Framework Act, a five-year (2013-17) implementation plan, *Agriculture and Rural Community and Food Industry Development Plan*, was announced in 2013. Under the plan, Korea set out a target for food self-sufficiency. The volume-based target for the self-sufficiency ratio of grains (including animal feed) is 30% in 2017. In comparison, the actual level in 2013 was 23.1%. The plan emphasises adding value to agricultural products in an innovative way and creating jobs by converging agriculture with other industries such as manufacturing, processing, or information and communication technology.

Domestic policy developments in 2014-15

The rate of the fixed payment for paddy fields increased from KRW 800 000 (USD 727) in 2013 to KRW 900 000 (USD 818) per hectare in 2014. The government has announced that the rate will increase by KRW 1 000 000 (USD 909) in 2015. The variable payment, which had not been triggered since 2011, was paid in 2014 due to the decrease of the post-harvest price of rice and the increase of the target price in 2013. The rate of the variable payment was KRW 4 226 (USD 4) per 80 kilograms, which amounts to KRW 266 238 (USD 242) per hectare.

Product coverage of the agricultural insurance scheme, introduced for apples and pears in 2001, has been increased to 59 items including 43 crops and 16 livestock. A pilot multi-peril crop insurance (MPCI) programme for pears and sweet persimmons was launched in 2013 and 2014 respectively, which were previously covered only by specified-peril such as typhoon and hail. The MPCI programme covers unavoidable yield losses caused by natural disasters, wildlife damage and fire until fruit thinning is completed. A pilot project of the agricultural revenue insurance scheme will be introduced for onions, soybeans and grapes in 2015. The system is expected to offer the additional option to cover price risks under the crop yield insurance schemes.

The Farm Registration Programme, implemented nation-wide in 2009 with a view to customise services for farmers and to improve the effectiveness of agricultural policies, began to serve as an integrated database system in 2014. Comprehensive data on each farm such as area of farmland, sales earnings and support payments are stored in the database. The government can monitor the status and performance of farmers through the database in order to avoid fraud with direct payments, and to verify that payments were made to eligible landowners.

As of 28 December 2014, the traceability of pork throughout the entire process from breeding to butchering, packaging and sales was implemented with an amendment of the previous law on the Traceability of Cattle and Beef. Cattle and beef have been covered by the traceability system since 2009. The traceability of pork will enable authorities to trace the pork trade and to provide consumers with information about location of pork breeders, dates of slaughter, and slaughter inspection results.

Trade policy developments in 2014-15

In July 2014, Korea announced that it would terminate the special treatment of rice and convert non-tariff measures into ordinary customs duty as of 1 January 2015, pursuant to Annex 5 of the WTO Agreement on Agriculture. The government calculated a tariff of 513% and formally notified to the WTO secretariat of its modified schedules on 30 September 2014. The government also clarified that a special safeguard tariff would be added in case imports increase sharply or the price fluctuates sharply. However, the MMA volume already in effect (408 700 tonnes) is still maintained at 5% tariff rate even after the tariffication, which is one of the conditions for the special treatment in the previous schedule.

A Free Trade Agreement (FTA) with ***Australia*** became effective on 12 December 2014 and a FTA with ***Canada*** became effective on 1 January 2015. Korea currently has nine other bilateral and regional FTAs with ***Chile***, ***Singapore***, ***EFTA (European Free Trade Association)***, ***ASEAN (Association of South East Asian Nations)***, ***India***, ***the European Union***, ***Peru***, ***the United States***, and ***Turkey***. The FTA with ***Colombia***, which was concluded in June 2012, is not effective yet pending the domestic approval process of Colombia.

There has been a significant advance in the FTA negotiations with other countries which had been delayed for years. After announcing a *de facto* agreement in November 2014, ***China*** and ***Korea*** initialled their FTA on 25 February 2015. The FTA agreement with ***Viet Nam*** was also reached *de facto* on 10 December 2014.

Korea concluded FTA negotiations with ***New Zealand*** and initialled in December 2014. Negotiations started in 2012 with ***Indonesia***, the negotiations of the ***Korea-China-Japan FTA*** and the Regional Comprehensive Economic Partnership in East Asia are proceeding actively. Korea is examining the possibility of participating through bilateral talks with each country. Korea is exploring ways to resume the FTA negotiations with ***Japan, Mexico*** and the ***Gulf Co-operation Council*** (Saudi Arabia, UAE, Oman, Qatar, Bahrain, and Kuwait).

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