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Korean Governments Press Release of Rice Tariffication

Report Categories:

Grain and Feed

Approved By:

Kevin N. Smith

Prepared By:

Sunchul Choi//Mark A. Myers

Report Highlights:

On September 18, 2014 the Korean Ministry of Agriculture, Food and Rural Affairs (MAFRA) issued a press release announcing the liberalization of its rice market through tariffication. Korea will impose a tariff of 513 percent on imports of rice above a set quota of 408,700 MT beginning January 1, 2015. The announcement was in connection with Korea's decision earlier this year to move away from a system of rigid import quotas under a WTO-imposed Minimum Market Access agreement (MMA) to a tariff-based system. The press release, translated in entirety from its original Korean into English, follows.

General Information:

 <p>희망찬 농업, 활기찬 농촌, 행복한 국민 농림축산식품부 Ministry of Agriculture, Food and Rural Affairs</p>	 <p>http://www.mafra.go.kr http://www.motie.go.kr http://www.mosf.go.kr</p> <p>Press Release</p>
 <p>산업통상자원부 MINISTRY OF TRADE, INDUSTRY & ENERGY</p>	 <p>http://www.mafra.go.kr http://www.motie.go.kr http://www.mosf.go.kr</p> <p>Press Release</p>
 <p>기획재정부 MINISTRY OF STRATEGY AND FINANCE</p>	 <p>http://www.mafra.go.kr http://www.motie.go.kr http://www.mosf.go.kr</p> <p>Press Release</p>
<p>Media coverage to begin at press release distribution on Sep. 18, 2014.</p>	
<p>Director Park, Su-jin, Deputy Directors Kim, Dong-hyun, Kim, Bo-ram, Food Policy Division, MAFRA (044-201-1822, 1815) / Date of release : Sep. 18 (19 pages in total) Director Kim, Ho-cheol, Assistant Director Koh, Sang-mi, WTO Division, MOTIE (044-203-5631) Director Lee, Jong-hwa, Deputy Director Cheong, Min-hyeong, Agriculture & Maritime Affairs Budget Division, MSAF(044-215-7352) Director Cheong-Byeong-shik, Deputy Director Kim, Dong-jin, Trade Policy Division, MSAF (044-215-7676) Director Park, Seong-hun, Deputy Director Cho, Seong-ah, Multilateral Tariff Division, MSAF (044-215-4455)</p>	

<p>Government Sets Tariff on Rice Imports at 513%</p> <p>- Proposed measures to stabilize farmers' income and promote rice industry development</p>
<p>« Highlights »</p>
<p>◇ (Notice to WTO) The tariff on rice imports is set at 513% according to the WTO Agreement and expressly provides grounds for enforcing SSG (Special Agricultural Safeguard) in a bid to protect the domestic market if the volume of rice imports surge.</p> <p>* Imposes 5% tariff on the existing mandatory import quota of 409,000 tons after tariffication. ○ The tariff rate is to be finalized via verification by WTO member countries.</p>

○ Rice is to be excluded from the scope of concessions in all FTAs promulgated in the future (including the TPP if a decision to join is made) as was the same in the other FTAs concluded to date.

◇ **(Prevent Unlawful Distribution and Expedient Import) Prepare Measures Intended to Prevent Unlawful Distribution of Imported Rice, Import Declaration at Fictitious Low Price in Customs Clearance Phase, and the like.**

○ Plan to **ban mixing of domestic and imported rice for sales/distribution** starting in 2015.

○ Include rice in the scope of **advance tariff assessment*** by the Korea Customs Service to prevent expedient import of rice via low-price declaration and subsequent disturbance of the domestic market.

* Advance tariff assessment: a system to assess taxable tariff prior to acceptance of import declaration on goods likely to be characterized by significant price fluctuation or declared at a low price such as agricultural/fisheries products.

◇ **(Draw up Measures to Promote Rice Industry Development) Place focus on bolstering arrangements to stabilize farmers' income and improve the structure of the rice industry following tariffication by drawing upon the successes of investment made in the rice industry for the past 20 years.**

○ **(Boost Income Stability) Raise the unit cost of fixed direct payments early on to 1 million won (US\$ 943.40 at 1,060 Korea Won/dollar) in 2015**, boost incentives to **encourage double-cropping in rice paddies during winter season**, maintain/supplement variable direct payment to be made in response to rice price decline, and **expand security net for small-scale/aged farmers** by subsidizing farmers' contribution to the National Pension Fund, supporting the Farmland Annuity, and the like.

○ **(Increase Competitiveness by Promoting the Economy of Scale /Organization, etc. in Farming) Nurture Tu'llyo'k farming enterprises** in which large and small farmers join hands in farming management as one of the key actors in the rice industry, improve the efficiency and distribution in partnership with RPCs, **continue to promote the economy of scale among pro-rice farmers, reduce interests rates on agricultural policy funds, and consolidate Rice Processing Complexes (RPCs).**

○ **(Encourage Rice Consumption and Export) Encourage rice consumption** to prevent the rice industry from shrinking with the rice-farming area and rice consumption continuously declining, **nurture rice-processing industries, build up demand for rice by expanding export, etc., and foster conditions conducive to the introduction of rice check-off funds** to enable rice producer groups to take initiative in developing the industry.

○ **(2015 Budget) Increase the 2015 budget by 156.8 billion won (US\$ 148 million) from that of 2014** to fund major initiatives aimed at increasing farmers' income, improving the competitiveness of the rice industry, and the like.

- Increase 212.8 billion won (US\$ 200.8 million) in total, including more investment in the **expansion of production infrastructure (51.9 billion won (US\$49 million) increase)** and new material/new technology **R&D (4.1 billion won (US\$ 3.87 million) increase).**

◇ **(Subsequent Milestones) Plan to inform the WTO of the tariff rate, etc. by the end of September, respond to the WTO verification procedure from October, and enforce tariffication starting in 2015** after amending relevant domestic legislation.

○ **Complementary measures for the rice industry** together with the Rice Industry Development Council in consideration of discussion in the National Assembly.



The Government announced on September 18 **the Notice of Tariff Rate, etc. to the WTO** and the post-tariffication **Measures for Farmer's Income Stability and Rice Industry Development** to tariffy rice starting in 2015.

○ In preparation for the expiration of tariffication delay, the Government collected inputs from stakeholders including the farming sector, and arranged for expert reviews from last year in a bid to draw up a notice to the WTO and measures for rice industry development.

* Key requirements of the farming sector: Secure high tariff rate, exclude concession for rice In FTAs including TPP, bolster up arrangements for farmers' income stability including a hike in the unit cost of direct payments, extend continuous support for improving economy of scale, maintain stable production base, encourage rice consumption, lower interests rates on policy funds, establish measures to prevent unlawful distribution of imported rice, and the like.



1. Notice to WTO

The rice tariff rate is set at 513% based on the WTO Agreement.

○ Price surveyed by the Korea Agro-Fisheries Trade Corporation (aT) which is the representative wholesale price in Korea was used for the domestic price, the average import price of China which is one of Korea's neighboring countries for the international price, and the period between 1986~1988 for the benchmark year.

○ As the international rice price has risen much higher than it was between 1986~1988 which is the base year for the tariff rate calculation, **ad valorem tariff** that has relatively **stronger protection effect** is applied.

* As ad valorem tariff is levied on import price (international price) at certain rates per centum (ex.: 400%), it has a stronger effective protection when import price is high, whereas specific duty is imposed per unit of weight (ex.: 341 yen per 1kg of Japanese rice), implying stronger effective protection if the import price is low.

* Comparison of international rice prices:

(‘86~’88 Average) 182\$/ton (China's import price, FAO)

(‘13) Average US export price 683\$/ton; Average Chinese export price 919\$/ton (aT)



The **Special Agricultural Safeguard (SSG)** is allowed to be applied to rice in a bid to **protect the domestic market by raising the tariff rate if the volume of rice imports surge or its import price falls to or below a certain level.**



Tariff will be levied at 5% as it is now, on the 2014 mandatory import quota of **408,700 tons even after tariffication** and the existing country-specific quota (205,228 tons) will be converted to a global quota.

○ In addition, **the regulation governing the use of tariff rate quotas** which as applied during the period of tariffication delay in the form of **ratio of rice for table use (30%), guarantee of access to domestic market** and the like, will be **deleted** and general WTO principles will be applied.

Thoroughly Prepare for WTO Verification and Maintain Rice Tariff Rate

As the tariff rate has to undergo verification by WTO member countries, the Government plans to **respond to the WTO verification** thoroughly based on logic and data prepared until now in order to ensure that the tariff rate will be finalized as notified this time.

As it is also important to **maintain the rice tariff rate** in the future, the Government intends to continue to protect rice by **excluding it from the scope of concession in all FTAs to be negotiated in the future (including the TPP if Korea decides to join)** as it has done in the FTAs concluded to date.

○ The Government already made such intention clear during the tariffication announcement on July 18, which was a decision made via formal consultation among relevant government ministries (MAFRA, MSAF, MOTIE, etc.).

○ In addition, given that an FTA (including the TPP) is required to be ratified by the National Assembly to go into effect, a checking mechanism of the National Assembly is in place as to whether or not for the Government to exclude rice from the scope of concession.

2. Prevent Unlawful Distribution of Imported Rice and Expedient Import of Rice

To prevent imported rice from being sold disguised as domestic rice and establish wholesome commercial practices in the distribution sector after the tariffication, the Government plans to **ban mixing domestic rice with imported rice for sale/distribution starting from 2015**.

○ 4 amendment bills to the Grain Management Act designed to ban mixing domestic rice with imported rice for sale/distribution are now pending before the National Assembly and the Government plans to exert efforts to ensure that the bills will pass the regular session of the National Assembly this year.

In addition, it is planned to **curb unlawful distribution of imported rice more thoroughly** by ensuring **cooperation among relevant government agencies** including the National Agricultural Products Quality Management Service (NAQS), the National Police Agency, and the like in terms of **information sharing, etc.**

It is planned to **include rice in the scope of advance tariff assessment** by the Korea Customs Service in a bid to **prevent expedient import of rice using declaration of false low price and ensuring disruption of domestic market** after tariffication and ensure thorough control from the customs clearance stage onward.

* Advance tariff assessment system: Tax amount is assessed after import declaration in principle, but this system allows items associated with significant gap between their domestic prices and international processes, subject to high tariff rates, and likely to be declared at low price to be assessed for tariff obligation prior to the acceptance of import declaration. As for agricultural/fishery products, advance tariff assessment is applied to 25 items including onion, garlic, bean, etc.

○ To this end, the Government plans to **stipulate specifications applicable to all specific rice varieties likely to be imported, implement a database holding price data surveyed at each point of origin** per such specification, etc. in a bid to prepare for application of advance tariff assessment to rice starting next year.

3. Draw up Measures to Promote Rice Industry Development

Successes and Limits of Rice Policies to Date

□ Continuous investment has been made in a bid to boost the competitiveness of the rice industry by **bolstering up the scale of economy in the farming sector, overhauling production infrastructure, improving distribution practices**, etc. for the past 20 years during which tariffication was delayed after the conclusion of the Uruguay Round negotiation in 1994, which has contributed to upgrading the **quality** of rice and **improving the competitiveness in terms of production and distribution**.

○ In addition, **the direct payment program to compensate rice farming income** designed to **compensate farmers for income loss resulting from a decline in market price** was established in 2005 in preparation for the expansion of market opening and the program has been in place to date.

* Rice price was at 138,231 won/80kg in the harvest season of 2010, but farmers received 165,305 won on average in the direct payment program which was equal to 97% of the target price (170,083 won/80kg) then.

* The target price for rice harvested in 2013~2017 was raised to 188,000 won/80kg.

<Successes of Investment in Rice Industry for the Past 20 Years >

Category	Key Metrics	Year			Remark
		'95	'05	'13	
Scale of Economy in Rice Farming	Cultivation area per pro farmer household (ha)	2.5	4.2	5.9	Rice farming income per pro farmer household: (‘95)14 million won → (‘13)38 million won
	Share in total rice cultivation area (%)	3	30	50	
Overhaul of Production Infrastructure	Drainage improvement ratio (%)	22% (66K ha)	43% (129K ha)	53% (161K ha)	Ratio of drainage-improved area to the total flood-prone area of 303K ha
	Irrigation-secured rice paddy ratio (%)	33% (403K)	44% (484K)	59% (573K)	Ratio of rice paddy area resistant to once-in-10-year

		ha)	ha)	ha)	drought to the total rice paddy area
	Irrigation and drainage canal overhaul (cumulative, km)	115	4,243	7,634	
Mechanization of Farming	Rice farming mechanization ratio (%)	82.9	89.9	94.1	('86) 41.5%, ('90) 68.3
	Work hour per unit area (1hour/10a)	34.70	20.81	12.68	
Improvement of Distribution	Share of RPC distribution volume (%)	22	47	64	
	Number of RPCs (ea.)	32('92)	302	234	324 RPCs built since '91 and consolidated to 234 now
	Ratio of head rice in rice brand (%)	57('00)	89	93('11)	
Direct Payment for Rice Farmers	Amount paid to farmer(1,000 won/80kg)	155	166	187	
	Ratio to target price	-	97.3	99.7	

☐ On the other hand, **rice consumption continues to be reduced** in the aftermath of diet diversification, **putting a damper on the rice industry and also posing a threat to farmers' income.**

○ In spite of the drive to promote pro-farmers, the **ratio of small-scale/aged farmers remains high** as farmers cultivating less than 1ha still account for 55% of the total farmers and farmers aged 65 or older amount to 56%, which leads to limitations in cutting product costs and proactively responding to changes in market circumstances.

○ Furthermore, farmer's income rises at a relatively slower pace than the national average household income and **rice farming income accounts for an increasingly lesser portion of the entire farming income** due to shrinkage of rice industry volume, slump in rice price, etc.

* Farmer's income (compared to national average household income): ('05) 31M won (87.7%) → ('10) 32(73.7) → ('13) 35(69.1)

* Share of rice farming income in total farmer's income: ('00) 24.6% → ('05) 14.8 → ('10) 8.8 → ('13) 10.1

Directions for Rice Industry Development Initiatives
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☐ **Applicable policies and programs implemented to date are complemented by drawing on the successes of investment made in the rice industry for the past 20 years and considering changes in circumstances at home and abroad such as decrease in rice consumption, tariffication, etc., with the following key directions:**

1) **Enhance programs to stabilize farmers' income** by raising fixed direct payment, fostering double-cropping practices, bolstering up social security net for small-scale/aged farmers, and the like.

2) **Improve the structure of the domestic rice industry and boost competitiveness** by bolstering up the economy of scale/systemization of production/distribution, cutting costs, improving quality, etc. to prepare for long-term competition against imported rice.

3) **Expand demand base and maintain production infrastructure** with focus on quality farmland by encouraging rice consumption/export and fostering rice-processing industry in a bid to prevent the rice industry from shrinking with rice cultivation area and consumption continuously declining.

- In particular, if rice consumption continues to decline at the current rate, per capita table rice consumption in 2024 is expected to fall to 51kg; however, decrease in consumption will be alleviated to 57kg by expanding demand base with adequate rice cultivation area defined at 757K ha to that end.

* Per capita table rice consumption (kg): ('13) 67.2 → ('24 forecast) 51 → ('24 target) 57

* Rice cultivation area (1K ha): ('13) 849 → ('24 forecast) 673 → ('24 target) 757

Highlights of Rice Industry Development Initiatives

【Stabilize Rice Farmers' Income】

□ Plan to compensate farmers' income by **raising direct payment** and **encourage double-cropping practices** in a bid to improve farmers' income and increase food self-sufficiency ratio while **fortifying social security network for small-scale/aged farmers**.

- Raise the **unit cost of the fixed direct payment** initially planned to be hiked by 2017 to **1 million won (US\$ 943.40) per ha in 2015**.

② **Maintain the variable direct payment as is** since it is highly effective in stabilizing income when rice price falls, but,

- Plan to entitle crops than rice to the variable direct payment if rice oversupply persists, subject to consultation with the farming sector in a bid to strike a balance between demand and supply of rice while maintaining the area of rice paddies.

③ **Review potential introduction of a revenue insurance plan** to stabilize the operations of farmers not covered by the variable direct payment program, large-scale farmers, and the like and conduct **tabletop exercises and studies in 2014** to that end.

* Revenue insurance plan: An insurance plan designed to prevent farmer's revenue per item from falling below a certain level (benchmark revenue*guaranteed level) in the face of decline in the yield of farm produce or price fall.

* Farmers not covered by the variable direct payment program (farmers making 37 million or more in non-farming income, farmers in newly reclaimed area, etc.) large-scale farmers (individual farmer cultivating 30ha or more, corporate farmer cultivating 50ha or more).

④ Plan to give precedence to double-cropping enterprises when selecting candidates for the Tu'llyo'k farming enterprise program and **make incentives available** to farmers, permitting short-term farmland lease for double-cropping purpose (the Farmland Act to be amended in 2014) all in a bid to **promote double-cropping practices**.

* As double-cropping is not included in the reasons required for permission of farmland lease, it is not possible to claim and receive direct payment for double-cropping (400,000 won/ha, introduced in 2014) at the moment, rice self-sufficiency rate and farmers' income are expected to be improved as double-cropping farmers increase in number upon the proposed amendment.

⑤ To secure the livelihood of small-scale/aged farmers, **raise the benchmark income amount which is the reference for subsidizing farmers for the National Pension contribution** (850,000 won/month in 2014 → 910,000 won/month in 2015), **ease the eligibility requirements for the Farmland Annuity** (both couple to be aged 65 years or older → annuity holder to be aged 65 years or older), and,

- Expand the range of eligible age for the direct payment for management transfer from the current range of 65~70 years to 65~74 years.

【Continue to Boost Competitiveness】

[1] Proactively promote the scale of economy/systemization in the farming sector, continuously nurturing pro-farmers attaining the scale of economy and fostering Tu'llyo'k farming enterprises combining large/small-scale farmers as primary actors of the rice industry.

① Plan to increase the number of **Tu'llyo'k farming enterprises** cultivating 200ha on average from 158 in 2014 to **600 by 2024**.

* **Tu'llyo'k farming enterprise**: A farming enterprise for joint production and management of collective farming fields covering 50ha or more

* Farmer's average rice cultivation area in '13: 1.2ha, Pro farmer's average rice cultivation area: 5.9ha, and Tu'llyo'k farming enterprise's average cultivation area: 200ha

- Farmers joining Tu'llyo'k farming enterprises can save production cost by about 11% via by joining hands in growing rice seedlings, controlling pests, etc. and as they are enabled to grow a single variety in extensive fields and ship rice jointly from RPC, quality improvement is also expected.

- To that end, the Government plans to **expand the scope of financial/institutional support**, expanding the scale and scope of equipment and consulting support and raising the ceiling of entitlement to rice-direct payment for corporate Tu'llyo'k farming enterprises (50ha → 400ha) while making a variety of supports pertaining to rice available preferably to Tu'llyo'k farming enterprises achieving high level of joint management in the future (2014: 2.5 billion won → 2015: 4 billion won).

② Plan to **increase the number of pro rice farmers cultivating 6ha or more to 30,000 by 2024** and the share of their cultivation area to 40% of the total rice cultivation area by then.

- To that end, the interest rate applicable to the farmland scale-up program supporting transaction, long-term lease, exchange/amalgamation of farmlands was lowered (2%→1) this year.

- Plan to ease the agricultural inheritance deduction requirements for inheritors to prevent large-

scale farmlands from being subdivided during succession and increase the agricultural inheritance deduction limit set at 500 million won now, subject to consultation with relevant ministries.

* Inheritor requirements: (As-is) An inheritor is entitled to inheritance deduction only if he/she has engaged in farming for 2 years before applicable inheritance date and resided at the location of applicable farmland or an adjacent location → (To-be) An inheritor is entitled as long as he/she has engaged in farming prior to applicable filing period, irrespective of his/her locale of residence.

** The above proposal is included in the proposed Tax Code amendment this year that is to be presented to the National Assembly by the end of September, and enforced starting in 2015.

[2] Develop cost-cutting technologies and lower interest rates on agricultural policy funds to reduce farmers' burden of operating costs.

① Conduct on-site proof-of-concept programs in partnership with farmers and proactively develop/distribute technologies conducive to cost reduction such as **direct seeding on flooded paddy surface, seeding elution control-type coated fertilizer**, and the like.

* Direct seeding on flooded paddy surface: A technique designed to sow rice seeds directly using seeders in rice paddies filled with water and drained without transplanting rice seedlings. It is expected to save production costs and workload required for raising and transplanting seedlings.

** Seeding elution control-type coated fertilizer: A fertilizer designed to be sprayed just once at the same time as rice seedlings are sown in seed beds and expected to save the amount of required fertilizer and labor when compared to conventional fertilizers (to be sprayed three times).

② Lower **interest rate on agricultural machinery purchase fund from 3% to 2.5%** and interest rate on **agricultural management rehabilitation fund from 3% to 1%** starting next year and reduce interest rates on six policy funds including the 6th business startup fund, back-to-earth/urban-to-rural migration promotion funds, and the like, too.

* Interest costs on agricultural machinery purchase fund and agricultural management rehabilitation fund expected to be reduced by 11.4 billion won and 3.2 billion won respectively.

[3] Expand supports to improve and differentiate the quality of domestic rice in preparation for competition with imported rice.

① Plan to **modernize seed-conditioning facilities** and maintain/repair decrepit facilities by seven per year in a bid to **supply registered seeds of high quality with stability**. Also, plan to raise the penetration ratio of special rice seeds from 30% in 2013 to 75% by 2022 to produce high-value-added rice.

② Plan to encourage farmers to **grow uniform rice varieties per field (Tu'llyo'k)** and **jointly ship rice to RPCs** in production and distribution stages.

③ **Introduce the Organic and Sustainable Farming Direct Payment program** starting from 2015 to differentiate domestic rice with imported rice by fostering organic rice farming (5.9 billion won to be included in 2015 budget proposal, new addition).

- Extend direct payment for three additional years if farmers continue organic farming practices even after the expiration of the current 5-year term of environment-friendly farming direct payment.

* Applicable unit cost: 50% of the environment-friendly farming direct payment (paddy: 600,000 won/ha, field: 1.2 million won/ha).

[4] Continue to support consolidation/facility modernization of RPCs, expansion of rice-drying and storage facilities, and the like in a bid to bolster up distribution capabilities.

① **Consolidate RPCs** that ran up to 234 in 2013 **to 120 by 2024** and make incentives such as

preferential amount/interest rate on rice purchase funds available to surviving RPCs.

* 234 RPCs (National Agricultural Cooperative Federation (NACF): 151, Private: 83) cover about 64% of the total distribution volume, but there are many small-scale RPCs, 33% of the entire RPCs operate at or below 50% of their operating capacity (2012).

② Expand facility modernization support to decrepit RPCs (3 in 2014 → 6 in 2015).

* RPCs that received facility modernization support: (2007~2013) 45 → ('20 and beyond) 75

③ **Build up rice-drying and storage facilities** to increase the drying and storage capacity **to 60% of the total distribution volume by 2020** (45.7% in 2013).

* Drying/storage facilities (cumulative): (2013) 1,301 → (2014) 1,334 → (2015) 1,361

[5] Maintain stable production infrastructure by preserving quality farmlands, continuously building up agricultural production infrastructure, etc.

① To maintain/manage quality farmlands efficiently, **lead real estate development demands off farming promotion zones as much as possible** during consultation over farmland conversion, and,

- To **fortify ex post facto management following farmland conversion**, implement a system next year to monitor utilization status of applicable lands for five years following farmland conversion.

② **Build up irrigation facilities** to prepare for potential drought/local downpour in the aftermath of climate change and **fortify safety control of existing irrigation facilities/embankments** (increase applicable budget by 51.9 billion won from 1 trillion 661.8 billion won in 2014 to 1 trillion 713.7 billion in 2015).

- Expand irrigation-secured paddies resistant to once-in-10-year drought in water-scarce areas

* Ratio/area of irrigation-secured paddies: (2012) 59% (573K ha) → (2024) 75% (652K ha).

- Build up drainage facilities in flood-prone farmlands covering 303K ha (80% to be completed by 2024)

* Drainage improvement ratio/area: (2012) 52% (158K ha) → (2024) 80% (243K ha).

- Repair/reinforce irrigation facilities that are decrepit or incapable of controlling flood, vulnerable to disasters.

* Repair/reinforcement (cumulative): (2013~2018) 1,256 ea. → (2024) 2,989 ea.

- Modernize earth waterway and decrepit irrigation channels limited in irrigation efficiency to improve farming efficiency.

* Modernize 97,000km of such irrigation channels by 2024 (900km on annual average).

【Encourage Rice Consumption and Export】

[1] As rice consumption continues to drop due to westernization of diet, rise in double-income families and 1-person households, and the like, create new demands by encouraging rice consumption, nurturing rice-processing industry, fostering rice export, etc.

① **Fortify promotion** by developing rice cuisine recipe catering for the needs of consumers, educating the future generation on dietary habits, etc. and **retain/expand applicable budget** in a bid to **encourage rice consumption**.

* Rice consumption promotion budget: (2013) 3.5 billion won → (2014) 4 billion won → (2015) 5.5 billion won

* Per capita table rice consumption (kg): (2013) 67.2 → (2024 forecast) 51 → (2024 target) 57.

② **To nurture rice-processing industry as a high-value-added strategic industry**, develop rice-processed products such as premium alcoholic beverage using rice, instant rice pack product, etc.

③ **Expand support to foster the export** of rice and rice-processed products.

- In particular, the Government plans to provide systematic support to exporters through the rice-

processed product export support council* organized in this August, conducting R&D programs, extending export consulting service, compiling basic statistics, etc.

* The MAFRA, the Rural Development Administration (RDA), the Korea Institute of Planning and Evaluation for Technology in Food, Agriculture, Forestry and Fisheries (iPET), the Korea Food Research Institute (KFRI), aT, export businesses, the Korea Rice Foodstuffs Association, NH Trading, etc. are represented in the council.

[2] Promote conditions conducive to introducing rice check-off funds to lead producers to take initiative in promoting rice consumption and improving production/distribution, etc.

① Plan to create conditions conducive to program introduction by **easing the requirements for check-off fund setup**, etc. in reflection of distinct characteristics of rice*, subject to consultation with rice producer groups and discussion by experts.

* Distinct characteristics of rice: many farmers spread nationwide (700K households, 2013) and high self-consumption ratio (about 16%).

* Check-off funds in place now: 9 in livestock farming sector (Korean Beef Cattle, Korean Pork, dairy farming, etc.) 25 in horticultural sector (paprika, Chinese gooseberry, etc.).

② Plan to create new education/training courses for farming enterprises to lead the rice industry in the future and provide such courses to about 5,000 farmers per year starting in 2015 prior to the introduction of check-off funds (1.1 billion won included in 2015 budget proposal, new addition).

* Education/training program contents: training programs on such topics as domestic/global outlook of rice industry, leading technologies, operational management, on-site discussion and domestic/global tour programs, producer-consumer discussion, and the like.

2015 Budget

□ Budget for key initiatives to increase farmers' income, boost the competitiveness of the rice industry, and the like has been **increased by 156.8 billion won in the 2015 budget proposal when compared with the 2014 budget**.

○ 71 billion won for fixed direct payment for rice; 14.6 billion won for reduction of interest rates on agricultural funds; 1.5 billion won for promoting Tu'llyo'k farming enterprise program; 1.1 billion won for education/training program for farming enterprises to lead the rice industry; 1.5 billion won for encouraging rice consumption; 2.7 billion won for fostering distribution of quality rice (RPC facility modernization, etc.); and 5.9 billion won to fund the organic and sustainable direct payment, etc. were added.

○ On a separate track, it has been decided that **investment will be fortified in expanding production infrastructure underpinning the rice industry (increase by 51.9 billion won) and promoting R&D programs for new material/technology development (increase by 4.1 billion won)**.

□ The Government announced that as the 2015 budget proposal was expanded in support of continuous development of the rice industry, **efforts would be exerted to ensure effective implementation of the announced measures** through continued supports in the future.

Expected Benefits

It is believed that if the announced measures are implemented as planned, they will provide momentum to **stop the rice industry from shrinking further and ensure its stable development by blunting a fall in rice consumption, building up stable production infrastructure, and stabilizing farming operations**, etc.

If production is carried out on a greater scale and further systemized by the Tu'llyo'k farming enterprise program, it is expected:

- **Production cost will be cut** by organizing joint farm work and joint material purchase per field (Tu'llyo'k); and
- Rice varieties, cultivation methods, etc. will be determined and systematically managed per field (Tu'llyo'k) and harvested rice will be jointly shipped to RPCs, which will be conducive to **producing rice of uniformly high quality**.

Quality Rice Production		Production Cost Reduction
<ul style="list-style-type: none"> ○ Unify rice varieties/cultivation methods ○ Reduce use of nitrogenous fertilizer ○ Standardize rice cultivation management practices 	Organization at production site Tu'llyo'k Farming Enterprises (cultivating 50ha or more)	<ul style="list-style-type: none"> ○ Joint rice seedling cultivation/pest control ○ Timely/proper use of seeds, fertilizers, agricultural chemicals ○ Efficient use of agricultural machinery

Producers will be allowed to take **initiative in encourage demands, controlling balance between supply/demand, improving production/distribution, etc.** in support of the development of the rice industry by **scaling up pro farmers, introducing rice check-off funds, etc.**

If double-cropping in rice paddies during winter is expanded (2013: 220K ha → 2024: 402K ha),

- **Farmers' income will be increased** by utilizing non-operating farmland, manpower, and equipment during winter;
- **Grain self-sufficiency rate** is also expected to be improved with increase in barley/wheat yield and substitution of bulky feed with feed grains.

* At grain demands in 2013 (19.8 million tons), grain self-sufficiency rate is estimated to rise from 23.1% to 26.5%.

As PRCs are consolidated and thereby scaled up, their operational efficiency will be improved and transaction volume per RPC will be increased, which will **boost their bargaining leverage** against distributors at consumption sites and thereby contribute to the **stability of rice price**.

* A study of the management of RPCs surviving consolidation in 2013 found that their sales jumped by 8.3 billion won (54% up) and profits by 470 billion won (88% up) on average when compared with the pre-consolidation period.

4. Subsequent Milestones

The proposed revision of the schedule of concessions will be **informed to the WTO by the end**

of **September** and verification procedure by WTO member countries will follow, starting in October.

Applicable statutes required for enforcing tariffication will be overhauled at home and **tariffication will be enforced starting on January 1 next year.**

Along with this, **countermeasures will be subsequently complemented/developed with the ‘Rice Industry Development Council’ in consideration of discussion in the National Assembly** and,

* The Rice Industry Development Council where farmers, experts, and the Government are represented has been in operation since August 14 this year.

○ Thorough preparations will be made to ensure that systematic improvement initiatives including new programs, legal amendment, and the like are implemented as planned.

Attachment 1	Estimated Domestic Distribution Price of Imported Rice at Tariff Rate of 513%
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Comparison with 2013 Average Price

Classification	'13 Price (CIF)* (\$/ton, aT)	Won/\$ EX. Rate (Bank of Korea)	Rice Import Price (Won/80kg) (A)	Tariff (Won/80kg) (B)	Domestic Distribution Price (Won/80kg) (A+B)
US (Medium Grain)	683	1,095.04	63,303	324,746	388,049
Chinese (Short Grain)	919	1,095.04	85,177	436,957	522,134
Thai (Long Grain)	488	1,095.04	45,230	232,029	277,259

* Export prices of major countries (fob) surveyed by aT are converted to import price including insurance premium and shipping charge (cif).

** Domestic average rice price in 2013 at point of origin 174,871 won/80kg, Rice price as of Sep. 15, 2014 at point of origin 166,764 won/80kg

Attachment 2	Rice Industry Changes for the Past 20 Years & Current State
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Production

Classification	'95	'05	'13
Gross rice production volume (1K tons)	4,695	4,768	4,230
Rice cultivation area (1K ha)	1,056	980	833
Crop yield (kg/10a, Olympic average of previous 5 years)	455	492	496

Quality (percentage of head rice, %)	57.4('01)	87	93('10)
Share in the national economy (in GDP terms, %)	0.99	0.59	0.38('12)
Farming scale of pro rice farmers (ha/household)	2.5	4.2	5.9
Rice income of pro rice farmers (1K won/household)	14,224	22,430	37,958
Irrigation development area (irrigation-secured paddies) (cumulative, ha)	403,353	484,293	572,909
Ratio of irrigation-secured paddies (%)	33%	44%	59%
Drainage improvement program area (cumulative, ha)	65,921	129,286	160,844
Drainage improvement ratio (%)	22%	43%	53%
Irrigation/drainage channel overhaul (cumulative, km)	115	4,243	7,634
Paddy farming mechanization ratio (%)	82.9	89.9	94.1
Work hour per 10a of paddy	34.70	20.81	12.68
Income per work hour (won)	15,531	26,239	50,738

■ Consumption

Classification	'95	'05	'13
Per capita table rice consumption (kg/year)	106.5	80.7	67.2
Per capita consumption of rice for processing (kg/year, excluding rice for spirits)	5.0	4.1	9.2
Gross rice consumption (1K ton/year)	5,536	5,210	4,491

■ Distribution & Export/Import

Classification	'95	'05	'13
RPC (ea.)	187	302	234
- Share of RPC in distribution (%)	22.0	46.5	64.3
RPC drying capacity compared to rice yield (%)	-	41.0	64.6
RPC storage capacity compared to rice yield (%)	-	22.4	32.8
Unit of distribution (kg)	80kg	40kg	20kg
Share of rice distribution cost (%)	19.3('97)	23.2	20.8
Rice import volume (1K ton, MMA)	51	226	388
Rice export volume (1K ton)	0.5	0.02	1.8
Rice-processed foodstuff export volume (1K ton)	-	8	30

■ Income

Classification	'95	'05	'13
Rice income (1K won/10a)	539	546	643

- Income ratio (%)	73	62	60
Share of rice in farmer's income (%)	18.3	14.8	11.8('12)
Amount received by farmers including direct payment for rice (1K won/80kg) *Income compensation direct payment program, paddy farming direct payment program in '01~'04	155	166	187



International Rice Price

(In: Won/kg, CIF terms)

Year	'05	'06	'07	'08	'09	'10	'11	'12	'13
Domestic	1,933	1,799	1,875	1,989	1,921	1,698	1,931	2,081	2,186
US (Medium Grain)	404	504	546	1,148	1,388	920	977	868	791
Chinese (Short Grain)	475	479	481	647	880	937	985	1,072	1,065