

GENERAL AGREEMENT ON

RESTRICTED

SCM/W/274
12 May 1992

TARIFFS AND TRADE

Special Distribution

Committee on Subsidies and
Countervailing Measures

Original: English

REPLIES BY THE REPUBLIC OF KOREA TO THE QUESTIONS
RAISED BY AUSTRALIA¹ ON KOREA'S NOTIFICATIONS OF
SUBSIDIES UNDER ARTICLE XVI:1 OF THE GENERAL AGREEMENT

(L/6630/Add.15)

I. AGRICULTURAL PRICE STABILIZATION PROGRAMME

Question 1:

Could the Republic of Korea provide recent statistics of average government purchase prices and average market prices for each of the commodities in the Programme?

Answer:

Recent statistics on prices are as follows:

(Unit: Won/kg.)

	Average government purchase price			Average market price ^{2/}		
	1989	1990	1991	1989	1990	1991
Red pepper	-	4,166	-	1,672	3,218	4,690
Garlic	1,450 ^{1/} 1,950 ^{2/}	1,309 ^{1/} 1,454 ^{2/}	995	1,569	2,007	1,573
Onions	120-140 ^{1/}	236	120	173	235	228

¹Garlic purchases from 1989 to 1990, and onion purchases from 1989 are not the government purchases. These were purchased for its own business by the Agricultural & Fishery Marketing Co-operation.

²Market price is considered by the National Agricultural Co-operative Federation as producers price.

¹SCM/W/241

Question 2:

Do the amounts listed under (c) represent the total costs of the Programme? If not, could the Republic of Korea please provide details of total costs to the Government.

Answer:

The amounts listed under (c) do not represent the total costs nor the total losses of the programme. It merely represents the total amounts of fund needed to purchase the listed products.

The aforementioned programme allows the purchase of vegetables (such as red pepper, garlic and onion) when production surplus is expected to make the producer price fall deeply. These purchases are then stored until a production deficiency occurs, causing a sudden rise in consumer price. At this time, the stored products are resold to stabilize the rising price.

So far, there is no target price and thus, its purchases are influenced by supply and demand of the product and price trend, leading to an irregular government intervention.

Furthermore, since there is no organized record of government purchases and since there are expenses and losses by business transactions during the lengthy period from purchase to resale, the Korean Government hopes you would understand the requested details cannot be provided.

Question 3:

Could the Republic of Korea please provide details of the subsidy per unit for each of the three commodities, and an estimate of the total subsidy relative to the value of production for each of the commodities?

Answer:

As in answer (2), we are not able to provide the requested details, but we are able to provide the total production amount for the following products.

(Unit: Million Won)

Item	1987	1988	1989	1990
Red pepper	542,271	689,263	248,548	427,227
Garlic	283,754	451,316	560,180	836,327
Onions	62,776	71,440	96,353	95,524

Note: Total production amount is calculated on the current price basis.

II. FOODGRAIN PROCUREMENT PROGRAMME

Question 1:

Could the Republic of Korea please provide recent statistics on average purchase prices and sale prices per unit of rice and barley?

Answer:

Recent data on government purchases and resales of rice and barley are as follows:

(Unit: Won)

	Purchase price ^{1/}		Resale price ^{2/}	
	1989	1990	1989	1990
Rice	96,720/80 kg.	106,390	82,000	87,000
Barley	49,630/76.5 kg.	54,590	35,640	39,930

¹Purchase price is based on the price of 2nd grade grains (milled rice and barley).

²Resale price is set at the current government release price of rice a year ago.

Question 2:

The notification indicates that part of the process of construction of the purchase price is a market price indicator. Could the Republic of Korea provide some indication of how this market price indicator is derived, and what percentage of the purchase price it represents?

Answer:

The Market Price Indicator means the total price index which takes into account the price trend of each product. This price index reflects the consumer price index compiled by the Office of Statistics, the wholesale price index by the Bank of Korea, and the index number of prices, wages and charges in rural areas calculated by the National Agricultural Co-operative Federation.

Although we cannot measure the influence these indexes have on the calculation of purchase price, we can say it plays an important rôle.

Question 3:

Does the Government provide any consumer subsidies to offset high purchase prices for rice and barley?

Answer:

We do not offer direct consumer subsidies. The government purchases about 20 per cent of the agricultural products at the reasonable price considering the market price stabilization and releases at the lower price that reflects the consumer price and the price index. The loss or profit from this programme is either compensated by or contributed to the Foodgrain Management Fund.

Question 4:

One stated aim of the programme is to protect consumers through price stabilization. Does the Government of Korea consider that allowing consumers to purchase rice and barley at low world prices rather than artificially high domestic prices would provide for greater protection and economic welfare?

Answer:

Because our country relies heavily on basic raw materials such as oil, iron, timber, rubber, natural fibres and agricultural products, we will have a difficult situation if world prices of raw materials are to rise suddenly or if supply of raw materials is used for hostile purposes just as in the 1970's.

Additionally, the consumer protection stressed by our Government is not on the level of pure economic aspect but rather on the need of the consumer to always be assured the minimum level of rice and barley, which are basic foodstuffs in our diet. Thus, by producing the minimum amount of basic foodstuffs for ourselves, we are protecting the consumers from the standpoint of the survival of our country and our culture.

As a reminder, we would like to point out that the importation of other grains which can be substitute foodstuffs for rice and barley (such as wheat, rye, oats, African and Italian millet, etc.) has already been liberalized. Also, we are doing our best to increase the import of principle grains such as corn, soybeans, lupin seed and so on to the trade level of the world agricultural market.

The trends of importation for other grains

(Unit: 1,000 tons)

Total:	(1975) 3,012	----->	(1980) 5,051	----->	(1990) 11,229
Wheat:	(1975) 1,584	----->	(1980) 1,810	----->	(1990) 2,283
Corn:	(1975) 532	----->	(1980) 2,234	----->	(1990) 6,198
Soybean:	(1975) 61	----->	(1980) 417	----->	(1990) 1,092
Others:	(1975) 835	----->	(1980) 590	----->	(1990) 1,656

* Others: lupin seed, rye, African millet, oats, etc.

Foodgrain procurement programme is operated not to maintain high price, but to protect consumers and producers by stabilizing the fluctuating market prices of those products.

Question 5:

Could the Republic of Korea please explain why the deficit under the programme increased from W 239.7 to W 414.5 billion for rice and W 13.6 and W 21.1 billion for barley between 1988 and 1989, despite there being no significant change in production or consumption levels?

Answer:

The increase in deficit under the Programme is not only attributed to production or consumption level but to the following figures:

The increase in deficit under this Programme is just a little attributed to production or consumption level. Major factors of deficit are a burdensome financial expense caused by deepening dependency on external capital, increase of maintenance cost and government sales aimed to stabilize the market price of basic foodstuff for the consumers. The amount of deficit caused by government procurement is, if ever, utmost infinitesimal.

The deepening dependency of the Foodgrain Management Fund on external capital has caused a burdensome financial expense, causing a deficit.

- Increase of issuance of Foodgrain Management Bond:
(1988) W 1,450 billion -----> (1989) W 2,200 billion
- Percentage of external capital dependence:
(1988) 73.8 per cent -----> (1989) 83.9 per cent
- Reduction of the government sales price (10.0 per cent)

Question 6:

What proportion of the total value of the production of rice and barley does the deficit under the Programme represent?

Answer:

The deficit ratio for the year 1990 is as follows:

(Unit: billion Won)

	Production total (A)	Deficit (B)	Ration (B/A)
Rice & barley	6,753.1	748.1	11.08%

Note: The deficit amount represents the amount from the cumulative deficit that was incurred in 1990 and does not represent the amount caused by the current year's production and consumption.

Question 7:

Has the Korean Government done any subsidies on producer subsidy equivalents (PSE's) for the rice and barley sectors that result from the Foodgrain Procurement Programme, import controls, and other production subsidies?

Answer:

Research on PSE's has been conducted by the government and agricultural research institutes. The needed details such as the amount of subsidy for each product can be obtained from the country list, which was submitted to the GATT in October of 1990 by Korea in the context of the Uruguay Round agricultural negotiations.

Question 8:

Have there been significant changes in the importance of barley as a basic foodstuff in the Republic of Korea? What proportion of barley production is used for livestock feeds?

Answer:

Although the dietary change has caused a decline in consumption of barley, our people, in large part, still consider barley to be the staple food. Therefore, Korea does not use barley for livestock feeds.

Question 9:

Could the Republic of Korea please provide details of any other production subsidies (fertilizers, seeds, marketing, credit, etc.), provided for rice, barley, corn and soybean production?

Answer:

Since our agricultural industry has not yet become specialized commercially we use border protection method to maintain the domestic price at an appropriate level, rather than direct subsidy. Therefore, it is very difficult to weigh the influence of subsidies on grain production and marketing system.

The total amount of subsidies allocated to each item by border protection was submitted to the GATT in October of 1990 by Korea in the country list in the context of the Uruguay Round agricultural negotiations.

III. LIVESTOCK PRICE SUPPORT PROGRAMME

Question 1:

The Livestock Price Support Programme is operated by the NLCF purchasing cattle, swine and chickens if prices fall substantially. Does the Programme specify what magnitude of price fall constitutes a substantial fall that would justify intervention in the market?

Answer:

NLCF intervenes in the livestock market when the market price falls below the designated minimum price level, in which case there is a purchase, and when the price rises above the designated maximum price level, in which case there is a resale. The maximum and minimum prices are determined by the following methods:

Maximum price: average producer price during the past 7 years x percentage increase of production cost x (1 + average fluctuation rate of market price during the past 7 years) ÷ 2.

Minimum price: average producer price during the past 7 years x percentage increase of production cost x (1 - average fluctuation rate of market price during the past 7 years) ÷ 2.

Question 2:

Does the Programme have any target price below which intervention would occur?

Answer:

As stated in the previous answer, this method of calculating the maximum and minimum price has been implemented since 1988. For 1991, the calculated prices are as follows:

(Unit: Won)

		Minimum price	Maximum price
Beef	livestock (400 kg.)	1,500,000	1,900,000
	meat (1 kg.)	(6,350)	(7,980)
Pork	livestock (90 kg.)	100,000	145,000
	meat (1 kg.)	(1,740)	(2,510)

Question 3:

Does the Programme take into account the cause of the price fall when determining whether or not to intervene? (For example, are price falls due to import liberalization, or improved efficiency treated the same way as price falls due to temporary oversupply?)

Answer:

We will stabilize the livestock income by reducing many problems that are caused by the cyclical rise and fall of the major livestock prices (beef and pork). Moreover, to ensure the purchase of livestock at a stable price, market intervention is used to stabilize the supply of livestock to the consumers as well as the livestock processing industry. Factors considered in the market intervention are as follows:

Total number of livestock and their feeders, trend of producer price in rural area and wholesale price in urban area, level of farm household income.

IV. TRADE FINANCING PROGRAMME

Question 1:

Could the Republic of Korea indicate whether there are trade financing programmes or concessionary credit arrangements that apply to large business groups or their subsidiaries?

Answer:

Trade financing programme does not apply to fifty large business groups and their subsidiaries. No concessionary credit arrangements that apply to large business groups or their subsidiaries exist.

V. DAIRY SUPPORT PROGRAMME

Question 1:

Australia would be interested in knowing whether the Republic of Korea provides any subsidies for the dairy sector, and the nature of these subsidies. In particular we would appreciate information on price controls on milk and other dairy products and on production subsidies for processed dairy products?

Answer:

The government gives no direct support to the dairy production sector-dairy farm and dairy processing industry. However, there is a programme that finances the needed fund for the structural adjustments of the dairy industry.

Because the prices of dairy products are decided independently in the market, the government cannot implement price regulations. Rather, after the several procedures required by domestic law, the price of raw milk is determined through the deliberation of the Dairy Commission.