

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SUBSIDIES

Notifications Pursuant to Article XVI:1

REPUBLIC OF KOREA

1. Export Financing Programme

I. Nature and extent of the subsidy

(a) Background and authority

The Bank of Korea is authorized by the Bank of Korea Law of 1950 to provide credits to promote exports of goods and services. Under this Law, the Monetary Board of the Bank of Korea promulgated "Regulation for Export Financing" in February 1972. This export financing programme is operated by the individual foreign exchange banks at their own discretion with their own money that has nothing to do with governmental budget.

The purpose of this loan is to minimize the disadvantageous standing of Korean exporters in their competition with other foreign exporters who benefit from similar financing and whose exports compete with Korean exports. With our efforts towards improvement of productivity and technical innovation, the general trend has been towards a phasing out of present financial supports.

(b) Incidence

Under the programme, there have been three financial supports.

(1) Domestic currency (won) export loans

Exporters can borrow money for up to ninety days on an annual interest rate of 12 per cent at the end of 1981 (afterwards 11 per cent in 1982) lower than the generally available commercial interest rate of 15.5 per cent (prime) at the end of 1981 (afterwards 13.5 per cent in 1982), with the former having provision for an interest rate of 27 per cent in case of late payment.

To obtain such loans exporters must provide the supporting documents of export transaction in the form of a letter of credit or other export documents (D/P or D/A contracts, etc.).

A loan ceiling for export loans is established, based upon the value of a company's total net foreign exchange earning in a previous year or the twelve-month period previous to application, by converting the dollar value of those exports into Korean won at a loan ceiling conversion rate. The resulting figure establishes the maximum eligibility of a company under this programme. This conversion rate has nothing to do with the official foreign exchange rate and is used only to determine the upper limit of export financing available to a company under this programme.

(2) Foreign currency supply loans for construction or services

Loan terms are the same as for domestic currency export loans. The eligible borrowers are those who have concluded supply contracts for construction or services with foreign government, foreign agencies or international organizations.

(3) Domestic currency loans for preparing exports of agricultural and marine products

Loan terms are the same as for domestic currency export loans, except that the difference of maturity lies in the case of certain products. Besides the above-mentioned statement, the purpose of this loan is to finance the collection or stockpiling of certain designated agricultural and marine products destined for export.

Beneficiaries are collectors of eligible items from farmers and fishermen, and also exporters who purchase the eligible items from collectors or farmers and fishermen to stockpile or use them as raw materials for export.

(c) Amount of the subsidy

There are no estimated figures of the subsidies. The benefits from this programme are very insignificant because they have negligible figures and sometimes beneficiaries have been extended at an interest rate of 27 per cent in case of late payment.

The following figures show only the total amounts of export loans themselves for the three most recent years:

<u>Year</u>	<u>Loans (outstanding basis)</u>
1979	W 1,227 billion
1980	W 1,721 billion
1981	W 2,197 billion

Furthermore the Government of the Republic of Korea does not act as guarantor of any export loans.

II. Effect of subsidy

There are no estimated quantitative trade effects of the measures.

2. Agricultural Price Stabilization Programme

I. Nature and extent of the subsidy

(a) Background and authority

Under the Law concerning Marketing and Price Stabilization of Agricultural and Fishery Products of 1976, the Government administers the supply and demand operation of some agricultural products as well as the price stabilization programme in order to protect both producers and consumers and thus to ensure stabilization in the national economy. The following major products are subject to this programme: red pepper, garlic and onion.

(b) Incidence

The Government purchases the products from the producers at the Government purchasing prices which are established on the basis of the production cost and the market price in order to prevent the prices from falling at the time of harvest. On the other hand, the Government releases the product during periods of shortage at a price which is 30 per cent less than the prevailing price in order to prevent the market prices from rising sharply. When supply is well below the demand, the Government encourages importers to supplement the shortage.

(c) Amount of subsidy

The following amounts were used to finance the supply and demand operations in order to ensure price stabilization:

(Unit: W million)

Year	Red pepper	Garlic	Onion
1979	1,809	1,552	124
1980	5,759	68	6
1981	13,626	-	-

II. Effect of subsidy

This programme is designed to protect both producers and consumers through avoiding sharp fluctuations in price, and under it the Government regulates the supply and demand situation. It assures not only the producer of a stable income but also the consumer of a satisfactory supply of the product, by the means of a proper price support mechanism. These measures are not considered to have effects on international trade.

The following are the relevant statistics:

(Unit: 1,000 metric tons)

Commodity	Year	Production	Consumption	Imports	Exports
<u>Red pepper</u>	1979	112	117	5	-
	1980	125	125	-	-
	1981	138	138	-	-
<u>Garlic</u>	1979	350	341	1	10
	1980	253	253	-	-
	1981	154	164	10	-
<u>Onion</u>	1979	393	380	-	13
	1980	275	275	-	-
	1981	281	280	-	1

3. Foodgrain Procurement Programme

I. Nature and extent of the subsidy

(a) Background and authority

Under the Foodgrain Management Law of 1963, the Government regulates the supply and demand operation as well as price stabilization programme for foodgrains (rice, barley and wheat) in order to secure the required supply of foodgrains and to ensure stability in the national economy. The Government is authorized by Law to control the importation and exportation of foodgrains.

(b) Incidence

The Government purchases foodgrains from the producers at the Government purchasing prices which are established for a given standard quality for each type of foodgrains on the basis of the production cost, parity price, market price indicator and other relevant economic circumstances.

The Government releases foodgrains at the Government selling prices which are established on the basis of living costs, the prevailing market prices of other products, and which are less than the selling cost.

(c) Amount of subsidy

The Government expenditure on the foodgrains procurement programme was as follows:

(Unit: W billion)

Year	Rice	Barley	Wheat
1979	523.8	168.8	3.7
1980	620.4	151.7	17.6
1981	320.3	165.5	12.1

II. Effect of subsidy

This programme provides the means of price stabilization and supply and demand adjustment, with a view to ensuring the stability of prices of basic foodgrains as well as protecting the producers and the consumers. The major goal of this programme is to ensure national economic security. These measures are not considered to have effects on international trade.

The following are the relevant statistics:

(Unit: 1,000 metric tons)

Commodity	Year*	Production	Consumption	Imports	Exports
<u>Rice</u>	1979	5,797	6,764	501	-
	1980	5,136	5,402	580	-
	1981	3,550	5,366	2,245	-
<u>Barley</u>	1979	1,508	1,286	-	-
	1980	811	1,407	-	-
	1981	859	1,182	-	-
<u>Wheat</u>	1979	42	1,741	1,652	-
	1980	92	1,924	1,810	-
	1981	57	2,098	2,095	-

* Period of year: from 1 November to 31 October

4. Sericultural Promotion Programme

I. Nature and extent of the subsidy

(a) Background and authority

Under the Sericulture Law of 1961, the Korea Sericultural Association (KSA) is authorized to govern the Korean sericultural market. The sericultural market depends largely upon the international sericultural business situation. The demand and supply for raw silk fluctuates very violently, which causes high instability in the sericultural industry. In such circumstances, the price stabilization programme for fresh cocoon and raw silk was established.

(b) Incidence

KSA administers the standard sale prices for fresh cocoon and raw silk which are established on the basis of production cost, prices of other agricultural products, international transaction prices and other economic

factors. When the international transactions price of the raw silk exceeds the established domestic standard sales price, the exporting spinning manufacturer deposits half of the export surplus in the Sericultural Promotion Fund which is solely governed by KSA. The Fund is operated for the afforestation of the mulberry field and the development of the major producing district for the sericultural industry.

(c) Amount of subsidy

There was neither subsidy paid nor financial support given in connection with the price adjustment mechanism and the supply and demand operation.

II. Effect of subsidy

This price stabilization programme is to ensure the national stability of the supply and demand situation from international violent fluctuation of prices of fresh cocoon and raw silk. This programme is not considered to have effects on international trade.

The following are the relevant statistics:

(Unit: metric tons)

Commodity	Year	Production*	Consumption	Imports	Exports
<u>Fresh cocoon</u>	1979	26,232	25,420	-	-
	1980	20,035	20,490	-	-
	1981	13,339	15,750	242	108
<u>Raw silk</u>	1979	4,067	2,626	18	1,605
	1980	3,279	2,251	44	1,352
	1981	2,520	3,145	349	481

* Production does not include the carried-over quantity

5. Livestock Price Support ProgrammeI. Nature and extent of the subsidy(a) Background and authority

Under the Livestock Law of 1963, as revised in 1977, and the National Livestock Co-operative Federation Law of 1980, the National Livestock Co-operative Federation (NLCF) is authorized to administer supply and demand operations to prevent violent fluctuations of market prices of bone-in beef, pork and chicken. NLCF is also provided to regulate the importation of such livestock products.

The major goals of this programme are to secure the stability of the supply and demand situation of livestock products, and to encourage the producers to breed livestock, thereby ensuring the sound growth of the national livestock industry. This programme also provides improvement to the marketing structure and price adjustment mechanism of livestock products in order to protect the consumers.

(b) Incidence

NLCF purchases and stockpiles the bone-in beef, pork and chicken, in case the prices of the live animals fall below the production cost and in case the supply of the products exceeds the effective demand. On the other hand, NLCF releases the reserve stock of the products, where the prices of them soar very sharply such as at the time of the traditional public holidays and during periods of shortage. From the same point of view, NLCF administers the importation of these products.

NLCF also exercises the price regulation of these products in order to protect the consumers from violent fluctuation in prices and to ensure the fair trade of these products. From 1980 a sliding scale price system had operated in the case of beef and pork, but in 1981 the price display system, by which the butchers themselves fix the selling price of beef was established.

(c) Amount of subsidy

The following amounts were used by NLCF to finance supply and demand operations and stockpiling of the products:

(Unit: W million)

Year	Beef	Pork	Chicken
1979	-	7,349	516
1980	846	1,780	537
1981	1,008	-	497

II. Effect of subsidy

The main goal of this programme is to stabilize the prices of beef, pork and chicken through supply and demand operations. These measures are not considered to have effects on international trade.

The following are the relevant statistics:

(Unit: metric tons)

Commodity	Year	Production	Consumption	Imports	Exports
<u>Beef</u>	1979	86.5	113.8	27.3	-
	1980	93.1	100.0	6.9	-
	1981	69.0	93.0	24.0	-
<u>Pork</u>	1979	218.7	225.3	6.6	-
	1980	239.1	241.8	2.7	-
	1981	209.0	209.0	-	-
<u>Chicken</u>	1979	89.7	89.7	-	-
	1980	90.9	90.9	-	-
	1981	91.0	91.0	-	-

