

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 2/23/2012

GAIN Report Number: KS1212

Korea - Republic of

Post: Seoul

KREI Outlook Forum - Ag Policy Response to Free Trade Agreements

Report Categories:

Agricultural Situation

Approved By:

M. Kathryn Ting

Prepared By:

Yong Keun Ban and Michael Francom

Report Highlights:

Free trade agreements (FTA) and their impacts on Korean agriculture was one of several topics highlighted at the annual Agricultural Outlook Forum in Seoul February 2, 2012 ([KS 1208](#)). Since 2002, Korea has signed eight free trade agreements encompassing 45 trading partners and covering slightly more than half of current agricultural imports. In tandem with this significant market opening, the government of Korea has implemented a ten-year KRW 23.4 trillion (\$20.8 billion) program to enhance the competitiveness of Korea's agricultural sector, improve market fundamentals, and provide compensation for short-term damages.

General Information:

Free trade agreements and their impacts on Korean agriculture was one of several topics highlighted at the annual Agricultural Outlook Forum in Seoul February 2, 2012 ([KS 1208](#)). Since 2002, Korea has signed eight free trade agreements encompassing 45 trading partners. As a result of implementation of these agreements (including the U.S.-Korean (KORUS) FTA, about 53 percent of Korean agricultural imports [1] will be covered by FTA provisions. In tandem with this significant market opening, the government of Korea has implemented a ten-year KRW 23.4 trillion (\$20.8 billion [2]) program to enhance the competitiveness of Korea’s agricultural sector, improve market fundamentals, and provide compensation for short-term damage due to increased imports. This report includes more detailed information on these program based on information provided in the conference proceedings.

[1] Harmonized System Chapters 1-24 but excluding fishery products in Chapter 3

[2] USD/Korean won exchange rate used is USD 1 = KRW 1,125

Funding

The total KRW 23.4 trillion (\$20.8 billion) will support programs and projects over the ten-year period from 2008-2017. The Korean government approved an initial KRW 20.4 trillion (\$18.1 billion) in domestic spending following negotiation of the KORUS FTA in 2007. This was earmarked to cover 61 projects. The initial KRW 20.4 trillion (\$18.1 billion) was increased by KRW 1 trillion (\$888 million) in August 2011 and by KRW 2 trillion (\$1,777 million) in January 2012. It should be noted that FTA-related expenditures track closely with the current farm policy framework for the ten-year period 2004-2013. That framework referred to as the Comprehensive Plan for Agricultural and Rural Communities was allocated a total budget of KRW 119 trillion (\$105.8 billion) over ten years and focused on supporting farm income, creating a sustainable environment for agriculture, and rural development. Under the initial KRW 20.4 trillion earmarked for FTA-related funding, the Korean government will spend a total of KRW 12.1 trillion (\$10.7 billion) for the period 2012 – 2013. Of this KRW 12.1 trillion (\$10.7 billion), KRW 10.1 trillion will come out of the KRW 119 trillion Comprehensive Plan - KRW 7 trillion (\$6.2 billion) will be sourced from the Comprehensive Plan’s investment and loan program and KRW 3.1 trillion (\$2.7 billion) from underutilized funding out of the Comprehensive Plan’s budget for current agricultural projects. KRW 10.3 trillion will be new funding: KRW 2 trillion (\$1.7 billion) over 2012-2013 and KRW 8.3 trillion (\$7.4 billion) will be secured from new funding over 2014-2017.

Allocation of Spending

The following table provides details on expenditure by each of the major spending categories: I. Enhancing the Competitiveness of Agricultural Production, II. Improving Fundamentals, and III. Providing Compensation for Short-Term Damages:

Category/Sector	Budget (KRW trillion) 1 USD = 1,125 KRW	Number of projects
I. Enhancing the Competitiveness of Agricultural Production	6.997	33
Livestock	4.694	17
• Modernization of barns	1.470	
• Expanding production of roughage	0.803	

•	Manure treatment facility	0.642	
•	Other livestock projects	1.779	
Horticultural		2.282	14
•	Integration of ginseng production	0.680	
•	Development of horticultural brands	0.420	
•	Modernization of production facility	0.386	
•	Other horticultural projects	0.796	
Grain		0.020	2
•	Development of upland crop brands	0.017	
•	Upland potato production	0.003	
II. Improving Fundamentals		12.146	26
Customized Agricultural Policies		8.875	8
•	Registration of farms	0.069	
•	Direct payment for transfer of farm ownership	1.790	
•	Education and training	0.298	
•	Renting out farm machinery	0.298	
•	Fostering farm successors	2.632	
•	Direct payment for stabilizing farm income	1.720	
•	Natural disaster relief, etc.	2.072	
Finding new markets		3.271	18
•	Food cluster	0.100	
•	Marketing center for environment friendly products	0.050	
•	Development of agricultural technology	0.893	
•	Commercialization of biotech products	0.132	
•	Development of foreign markets	0.405	
•	Globalization of Korean cuisine	0.048	
•	Other projects	1.643	
III. Providing Compensation for Short-Term Damages		1.220	2
•	Direct payment for compensation 1/	0.720	
•	Supporting farmers going out of business 2/	0.500	

1/ The compensation will be provided for 10 years following implementation of the KORUS and applies to any crop for which a price drop is due to imports from an FTA partner. Compensation is equal to 90 percent of the difference between current market price and an average market price (calculated as the average price over the past five years – minus highest and lowest values.) Compensation will be provided if the current market price falls under 90 percent of the aforementioned average market price. 2/ This program will operate for five years and compensation is equal to 3 years of net profit. Eligible farms are those for which commodities are eligible to receive direct compensation payment and where an investment has been made in the enterprise.

Additional Measures

Additional measures to stabilize farm income, which do not require a direct budget outlay, include:

- Tax exemption for income from livestock farming
- Enlarging duty-free feed ingredients
- Enlarging the supply of duty-free gasoline.
- Exempting compound feed, fertilizer and agricultural chemicals from the value-added tax (VAT) of 10 percent

Other Reports:

Agricultural Policy Initiatives in Response to the KORUS FTA [KS 8004](#)