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The Changing Structure of the Korean Rice Market

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Approved by:

Susan Phillips
U.S. Embassy

Prepared by:

Betty Yim / FAS Intern

Report Highlights:

The Korean rice market has been characterized by protectionist policies dating back to the period of time following the Korean War. The policies have resulted in creating a situation today in which the domestic rice market is completely dependent on government support and unable to compete in the world market. Despite the pattern of government practices in the past, both international and domestic pressures are currently pushing the rice market to liberalize. The inevitable liberalization of Korea's rice market will result in increased opportunities for U.S. rice exporters.

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I. Executive Summary

Between 1970 and 1990, export-led industrialization transformed South Korea into what is today the tenth largest economy in the world.¹ The economic transformation of Korea is clearly depicted in the declining importance of the country's agricultural sector. Agriculture as a share of GDP fell from 40 percent in the 1960s to less than 5 percent in the early 2000s.² In the late 1960s, 70 percent of the Korean population was engaged in rural farming. By 2004, this number had decreased to only 7.1 percent.³

While Korea liberalized many of its markets in the process of industrialization, the domestic rice market has been characterized by protectionist policies dating back to the period of time following the Korean War. While the government's intent was to support rice farmers as the country rapidly moved towards becoming a modern, industrialized nation, the resulting protectionism has created a situation today in which the domestic rice market is completely dependent on government support and unable to compete in the world market.

Throughout three regimes from 1950 to 1986, the Korean government sought to enhance farm incomes and ensure food self-sufficiency for the country.⁴ The government aggressively pursued this goal by subsidizing the rural sector with high procurement prices for grains such as rice.⁵ The government also placed limitations on the household and industrial uses of rice. As a result, rice production rose sharply during this period, and the average rural household income approached that of the average urban household's⁶.

Today, Korea produces close to five million tons of milled rice for consumption annually. Farmers produce more than 170 varieties of short grain rice, and over 1,900 different rice brands exist in the domestic rice market. Rice consumption per person rose sharply throughout the 1960s and 1970s, but has fallen in recent years due to changes in eating habits. Faced with the current problem of declining rice consumption among its population, the Korean government has tried to revise its domestic rice policies to support farm incomes while simultaneously encouraging farmers to reduce the areas where rice is planted.⁷

Despite the pattern of government practices in the past, both international and domestic pressures are currently pushing the rice market to liberalize. In 1994, the WTO set Korea on a 10-year path in which Korea was scheduled to gradually increase the level of rice imports. In turn, the Korean government began changing domestic policies to prepare the rice market for liberalization by encouraging farmers to reduce production and plant higher quality varieties. In 2004, Korea received a 10-year extension to continue the Minimum Market Access Import Quota for imported rice.

The inevitable liberalization of Korea's rice market will result in increased opportunities for U.S. rice exporters. In order to successfully market U.S. rice to Korean consumers, a thorough understanding of the history, policies, production, distribution, and consumption trends of Korean rice is necessary in a market that is still largely unfamiliar with imported rice.

II. Rice Policies

A. WTO Market Access Agreements

Until the 1989 GATT meeting when countries challenged Korea's rice import restrictions, Korea had claimed developing country status, and had argued for the necessity of restrictions on rice imports to protect the uniqueness of rice and rice farming in Korea's economy as well

as culture.⁸ During the 1994 Uruguay Round (UR) of WTO negotiations, this notion was successfully challenged and Korea agreed to establish a Minimum Market Access (MMA) quota for rice for a 10-year period.⁹ In addition, Korea agreed to remove all non-tariff barriers, including import quotas, by January 1, 2005. At a minimum, Korea promised to increase rice imports from zero to four percent of domestic consumption to prepare the rice market for liberalization. Under the agreement, no rice would be sold directly to consumers; rather, imported rice would only be used for processed foods.¹⁰

In December 2004, Korea was granted a 10-year extension for the tariffication of rice imports. The extension called for Korea to double its total rice imports over the next 10 years (from 4 percent to about 8 percent of total consumption), increasing the MMA quota from 225,575 tons in 2005 to 408,698 tons by 2014. Along with Country-Specific Quota (CSQ) commitments to purchase minimum amounts of imports from China, Thailand, and Australia, Korea also agreed to purchase at least 50,076 tons of U.S. rice each year for the next 10 years (See Table 1). A separate Most Favored Nation (MFN) quota was established to which all countries had access, including the CSQ countries. Under the extension agreement, imported rice would be available for retail sales to Korean consumers for the first time. The extension was approved by WTO in April 2005 and ratified by the Korean National Assembly in November 2005.

Although the MMA import quota will almost double in size by 2014, there is no provision for imports above the quota. Tariffs within the quota will remain at five percent. Korea has the right to terminate the minimum-access quota and move to the tariff-rate quota at the beginning of any year between 2005 and 2014.¹¹ If the MMA is terminated, the CSQ volumes will be converted to the global quota on an MFN basis.

Table 1: Allocation of the MMA for 2005-2014 (unit: tons, milled rice)

Calendar Year	Total	MFN Quota	Country Specific Quota (CSQs)				
			Total	USA	China	Thailand	Australia
2005	225,575	20,347	205,228	50,076	116,159	29,963	9,030
2006	245,922	40,694	205,228	50,076	116,159	29,963	9,030
2007	266,269	61,041	205,228	50,076	116,159	29,963	9,030
2008	286,616	81,388	205,228	50,076	116,159	29,963	9,030
2009	306,963	101,735	205,228	50,076	116,159	29,963	9,030
2010	327,310	122,082	205,228	50,076	116,159	29,963	9,030
2011	347,657	142,429	205,228	50,076	116,159	29,963	9,030
2012	368,004	162,776	205,228	50,076	116,159	29,963	9,030
2013	388,351	183,123	205,228	50,076	116,159	29,963	9,030
2014	408,698	203,470	205,228	50,076	116,159	29,963	9,030

Source: Ministry of Agriculture and Forestry

B. Domestic Policies: Revisions of the Rice Income Compensation Act and the Food Grain Management Act

Prior to 2005, the government purchased rice from farmers at favorable prices, which subsidized farmers and raised rice production levels across the country.¹² Mounting external pressures to liberalize the rice market, coupled with decreases in domestic rice consumption, pushed the Korean government to revise its rice policies to facilitate the changes in the rice market. In March 2005, the Korean National Assembly revised the Rice Income Compensation Act and the Food Grain Management Act. The revisions were aimed to reduce

government price supports under the WTO domestic support limits while continuing to provide support for rice farmers.

Revisions to the Rice Income Compensation Act (RICA) in March 2005 established two kinds of payments for rice farmers. Rice farmers became eligible to receive both types of payments simultaneously.

1. A fixed payment of 600,000 won/hectare (about 625.33USD)¹³ annually for rice farmers as compensation for maintaining rice paddies to benefit the public.
2. A flexible price for rice that is paid to farmers. If the price falls below the target price (based on the average price for the past three years) fixed by the government, the government will pay farmers 85 percent of the difference between the target and market price for rice purchases made by the government. This payment excludes the amount of the fixed direct payment for rice income compensation. The target price was 2,126 won per kilogram (2.08USD) in 2005, and is applicable for crop years 2005 to 2007.¹⁴ The government will revise the target price every three years through a review process by the National Assembly.

The revised RICA also set guidelines for the registration of land area and beneficiaries, and established a fund for rice income compensation.

Revisions to the Grain Management Act (GMA) in March 2005 replaced the GMA with the Public Storage System for Emergency (PSSE), which eliminated the government procurement system that had supported rice farmers since 1948. The revised plan stated that the government could purchase rice for the purposes of food security stocks at the market price during harvest time, and sell older stocks after harvest at market prices.¹⁵

III. Production

Korea produces close to five million tons of milled rice annually. Rice consumption in Korea has dramatically decreased by 3.7 percent per year on average since 1990, and in recent years, rice production has progressively declined following the decrease in domestic rice consumption. Korean per capita consumption of rice is likely to continue decreasing as patterns in consumers' diets change.

Farmers who once reduced rice planting as participants in the government's rice area reduction program from 2003 to 2005 are now indicating an intent to return to original levels of rice cultivation in 2006 in response to the government's decision to discontinue the Direct Payment for Adjustment of Rice Production in 2006. This program had offered 3 million won (approximately 3,127USD)¹⁶ to farmers who refrained from cultivating commercial crops on previously existing rice acreage from 2003 to 2005.

Table 2: Area, Yield and Production of Rice in Korea

Crop Year	Area (1,00HA)	Yield (KG/10A)	Production (Milled, 1,000 MT)
1965	1,228	289	3,501
1970	1,203	330	3,939
1975	1,218	386	4,669
1980	1,233	298	3,550
1985	1,237	456	5,626
1990	1,244	451	5,606
1995	1,056	445	4,694
2000	1,072	497	5,291
2001	1,083	516	5,515
2002	1,053	471	4,927
2003	1,016	441	4,451
2004	1,001	504	5,000
2005	980	490	4,768
2006e	975	487	4713

Note: e = estimate

Table 3: Major Rice Varieties Harvested (2003)

Varieties	Area (ha)	Rate (%)	Harvest Season
Nam-Pyung	170,263	16.76	Oct.-Early Nov.
Chu-Chung	113,169	11.14	Oct.-Early Nov.
Il-Mee	111,126	10.94	Oct.-Early Nov.
Ju-Nam	89,642	8.82	Oct.-Early Nov.
Il-Poom	81,696	8.04	Oct.-Early Nov.
Dong-Jin 1	75,494	7.43	Oct.-Early Nov.
Dona-An	49,522	4.87	Oct.-Early Nov.
O-Dae	46,566	4.58	Sep.
New Chu-Chung	40,953	4.03	Oct.-Early Nov.
Hwa-Young	32,511	3.20	Early Oct.
Soo-Ra	30,179	2.97	Early Oct.
Hwa-Sung	22,195	2.18	Early Oct.
Dae-An	20,793	2.04	Oct.-Early Nov.
New Dong-Jin	15,791	1.55	Oct.-Early Nov.
Hwa-Bong	12,238	1.20	Early Oct.
Joong-Hwa	10,421	1.03	Sep.
Others ¹	93,471	9.22	Sep.-Early Nov.
Total	1,016,030		

Note: 1/Composed of 56 cultivars harvested in September, 50 cultivars harvested in early October and 48 cultivars harvested in October – early November, respectively.

Source: Ministry of Agriculture and Forestry (MAF)

Table 4: Rice Utilization Pattern (1,000 tons)

Rice Year (Nov.- Oct.)	MY 2002/03	MY 2003/04	MY 2004/05 ¹	MY 2005/06 ²
Beginning Stocks	1,447	1,099	1,037	1,001
Production	4,927	4,451	5,000	4,768
Import	180	205	226	246
Total Supply	6,554	5,755	6,263	6,015
Table Rice	3,987	3,952	3,897	3,850
Processing	313	335	456	494
Seed	44	43	42	42
Others included loss	711	283	467	467
Total Demand	5,055	4,613	4,862	4,853
Export ³	400	105	400	NA
Ending Stock	1,099	1,037	1,001	1,162
Total Distribution	6,554	5,755	6,263	6,015
Per Capita Consumption (Kg) ⁴	84.3	82.2	80.7	79.4
Population (1,000)	47,926	48,082	48,294	48,500
Self-Sufficient Rate (%) ⁵	97.5	96.5	102.8	98.2
Ending Stocks Rate (%) ⁶	21.7	22.5	20.6	24.0

Note: 1/ MAF's Preliminary. 2/ MAF's forecast. 3/ Food aid to the DPRK on the long-term credit. 4/ Based on table rice. 5/ Production-Total Demand rate. 6/ Ending stock-Total Demand rate.
Source: Ministry of Agriculture and Forestry

IV. Distribution

A. Distribution Through RPCs and DSCs

From 2001 to 2002, the Korea Rural Economic Institute found that Korean rice farmers consumed 28 percent of total rice production and sold the remaining rice to the market through various distribution channels. They also preferred selling paddy rice to rice processing complexes (RPCs) rather than dealing with rice distribution agents, traditional milling companies, or regional rice collectors.

Since 1991, the Korean government began increasing the functions and roles of RPCs as centers for rice distribution and in response to increased competition arising from rice imports. From 1991 to 2001, a total of 328 RPCs were established across the nation. The Korean government also created a budget to establish drying and storage centers (DSCs) for the storage of paddy rice. To date, a total of 639 DSCs have been established since 1995 with plans to establish an additional 619 DSCs by 2010.

Each individual RPC has created multiple brand names under which they sell rice to consumers. As a result, the retail market for domestic rice presently consists of more than 1,900 different rice brands.

Table 5: Rice Processing Complexes by Province and Governance

Location/Province	NACF ¹	Private	Total
Suburbs of City	8	6	14
Kangwon	10	6	16
Kyunggi	29	9	38
Kyungnam	15	12	27
Kyungbuk	17	18	35
Chunnam	38	31	69
Chunbuk	30	20	50
Chungnam	36	15	51
Chungbuk	17	11	28
Total	200	128	328

Note: 1/National Agricultural Cooperative Federation, a quasi-governmental agency
Source: Ministry of Agriculture and Forestry

Relationship Between RPCs, Farmers and Middlemen

RPCs are either managed by members of a quasi-governmental organization called the National Agricultural Cooperative Federation (NACF) or by private owners. In both instances, RPCs sign contracts with rice farmers between February and April of every year. Both parties agree on the quality and variety of paddy rice that will be provided to the RPC for milling purposes. RPCs pay farmers a 2,000 KRW (approximately 2.07USD)¹⁷ premium per 40 kg of rice based on the stipulations of the signed contract.

Business is conducted with rice middlemen based on trust. At the time that middlemen purchase milled rice from RPCs, they offer collateral to the RPC. The actual payment for the milled rice is made one month after the initial purchase of the rice.

Chart 1: NACF's RPC Rice Distribution Channel:

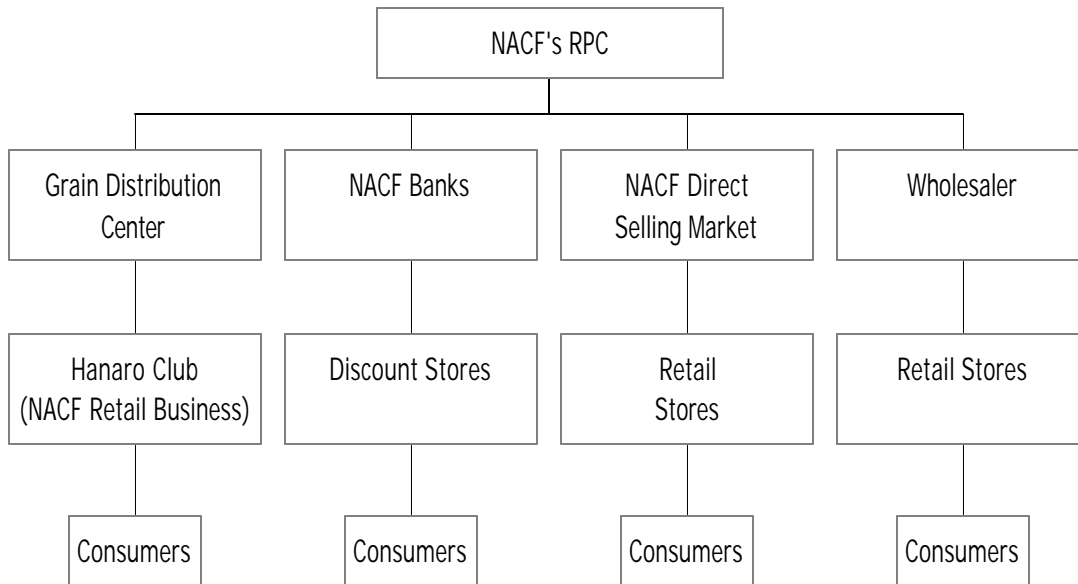
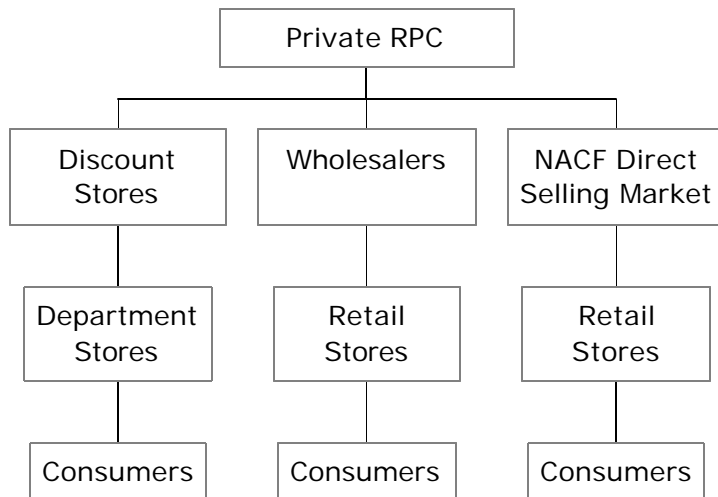


Chart 2: Private RPC Rice Distribution Channel



B. Distribution of Imported Rice

1. Eligibility

The official sales of imported rice began in April 2006 through a system of online rice auctions managed by the Korea Agro-Fishery Trade Corporation. At that time, there were only 90 eligible bidders and out of that amount, only 45 actually registered to bid. Due to the initially low sales of U.S. and Thai rice, the government changed the original rules to allow all grain sellers and specialists to become eligible to bid, thereby removing the cap that was originally set on total sales required for eligible bidders. As a result, by July 2006, there was an estimated 2,700 eligible bidders with 283 actually registered to bid.

Announcements for the auction are placed on the Korea Agro-Fishery Trade Corporation's website and text messages are sent to bidders one day prior to the auction. Bidders who plan to bid must submit their bid bonds one day prior to the auction. Bid bonds must be five percent of the total amount that the bidder wishes to purchase. Because bidders are not certain about how much rice they will purchase, they will usually deposit an amount higher than five percent for the bid bond. The number of eligible bidders is determined by how many deposits have been made for bid bonds.

2. The Reference Price

The reference price (or auction floor price) exists to prevent collusion among buyers, and is solely determined by the Korea Agro-Fishery Trade Corporation on the date of the auction. The reference price is usually close to the domestic price of rice (75 to 80 percent of the domestic price)¹⁸ and is based on the following factors:

1. Estimated price determination: This is derived by conducting a nation-wide survey by showing samples of rice to various grain specialists. In determining the estimated price, specialists consider the taste and quality (compared to Korean rice) of the imported rice. The specialists may or may not be bidders in the auction. The estimated price is determined only when necessary and does not change with every auction.
2. Previous tender results
3. The observed market response from previous sales

The actual bidding process is conducted three times a week through the Internet from 9 a.m. to 11 a.m. Winners are determined at the end of the auction or tendering period. Any bidder that bids over the floor price is considered a winner.

V. Consumption

A. Domestic Rice

1. Trends

Due to changes in consumers' dietary habits, rice consumption in Korea has continued to decrease at an average rate of 0.3 percent in the 1970s, 1 percent in the 1980s, and 3.7 percent in the 1990s. The decrease in rice consumption is associated with a variety of factors including: increases in income and the accompanying alternatives to rice such as meat; increasing adoption of Western foods; and a greater number of people eating outside of the home¹⁹. In 2005 and 2006, per capita table rice consumption is expected to continue to decrease by 1.6 percent from the 80.7 kg of rice consumed in 2004 and 2005.

In 2006 and 2007, per capita table rice consumption is projected to decrease by less than 1 percent to 78.7 kg²⁰. The projection is based on recent government efforts to encourage consumers to consume more rice as opposed to other products.

Income strongly influences Korean consumers' rice consumption patterns. A recent study revealed that 45 percent of Korean consumers considered taste, 27 percent considered price, and 21 percent considered safety as the most important factor when purchasing rice; but consumers tended to place greater importance on taste and food safety concerns over price with increases in incomes²¹.

Greater numbers of Koreans are consuming rice outside of the home than ever before. According to a survey conducted by the Korea Rural Economic Institute, consumption of rice at home accounted for 69 percent of total rice consumption, while consumption of rice outside of the home accounted for 31 percent in 2001. Of the 31 percent of rice consumed outside of the home, 19 percent was consumed in restaurants and 12 percent in food institutions such as schools and cafeterias in corporations.

A different survey found that 62 percent of the households surveyed in Seoul purchased rice from retail stores while the remainder purchased rice directly from farms. About 76 percent of households that purchased rice from retail stores visited the stores directly, while 21 percent purchased rice by telephone order and one percent purchased rice through the Internet²².

Eighty percent of those surveyed purchased 20 kg packages for 1-1.5 month cycles, followed by 12 percent who regularly purchased 10 kg bags, and 4 percent who regularly purchased 40 kg bags of rice. Those surveyed placed more weight on the labeling information found on the packages above crop location (39.3 percent), variety (19 percent), the appearance of the rice (9.9 percent), and the crop year (8.1 percent).

2. Rice Brands

With the recent spread of RPCs, the number of domestic rice brands has significantly increased to approximately 1,900 brands as each RPC may have up to three to four of their own brands that they sell to retail markets. Each time an RPC introduces a new variety of rice or a new technology for rice milling, the resulting rice is usually sold under a new brand name. The decision to keep a certain brand name is based on its degree of popularity among consumers. If brand awareness does not develop for a certain brand, the RPC develops a new rice brand.

Rice brands are chosen by RPCs based on characteristics of the variety, new technology employed for processing, or regional characteristics of the rice farm from which the rice originated. RPCs work with design companies to prepare both the wording and design of the rice brands.

The numerous rice brands in Korea's domestic rice market have caused inefficiencies in terms of increased costs associated with brand development and the loss of competitiveness due to the lack of brand awareness. Because the existence of so many domestic rice brands places Korean rice at a disadvantage in the face of increased rice imports, the Korean government has recently encouraged RPCs to develop unified rice brands on the basis of county or province. RPCs have been regionally relocating for this purpose.

Regarding existing research on Korean rice brands, the Korea National Council of Consumer Organizations conducts a yearly Rice Brand Evaluation²³. The evaluation produces a "Top 12" list of rice brands based on both expert and consumer tests and surveys. The inconsistency of rice brands in the Top 12 lists from year to year indicates that little can be concluded about rice brands other than the fact that vast numbers of brands exist. Loyalty to a certain rice brand may arise more out of purchasing convenience (or constraints of distribution) rather than from personal preference for a particular brand of rice²⁴.

To gain a better understanding of the characteristics of today's retail sales of domestic rice, telephone interviews were conducted with three hypermarkets that cover more than 70

percent of the market share in Korea. The following is a compilation of the rice brands sold in each hypermarket, their brand origination, and prices:

Table 6: Top Three Hypermarket Rice Brands and Sales

Hyper-Market	Rice Brands Sold And Prices	Brand Origination	Price per 20kg unit=KRW/USD ¹
Lotte-Mart	Hatssal Hangonggi	Regional Brand	35,000 = 36.54
	Rice from Nature	Regional Brand	35,500 = 37.06
	HamYeol NACF Clean Rice	Regional Brand	39,800 = 41.55
	Beolgyo Nonsan Long Life Clean Rice	Regional Brand	39,800 = 41.55
	Saman Dasarang Rice	Regional Brand	39,800 = 41.55
	Nongso NACF Chambit Gowun Rice	Regional Brand	39,800 = 41.55
	Hamyel NACF Lotte Ilpoom Clean Rice	Private Brand	49,800 = 51.99
	Haejae NACF Chilsan Sea Reclamation Land Rice	Regional Brand	39,800 = 41.55
	Galmal NACF Cheolwon Odae Rice	Regional Brand	54,800 = 57.21
	Saman Geumssaragi Rice	Regional Brand	48,800 = 50.95
	Icheon King Rice	Regional Brand	54,000 = 56.38
	Chuchung Rice	Regional Brand	45,000 = 46.98
	Sagaejulee Sanun Jip rice	Regional Brand	55,000 = 57.42
	Pung Gwang Sutoe Rice	Regional Brand	43,000 = 44.89
E-Mart	Icheon King Rice	Regional Brand	52,500 = 54.81
	Yeosu Rice	Regional Brand	51,400 = 53.66
	Han Nuna Banhan Rice	Regional Brand	33,800 = 35.29
	Cheolwon Rice	Regional Brand	42,800 = 44.68
	Oori Rice	Regional Brand	49,800 = 51.99
	Chulweon Ohdae Rice	Regional Brand	49,800 = 51.99
	Chut Sarang Rice	Regional Brand	41,500 = 43.33
	Kyunggi Rice	Regional Brand	41,800 = 43.64
	E-plus Woori Rice (10 kg)	Private Brand	19,800 = 20.67
Premium E-Plus Woori Gold Rice	Private Brand	49,800 = 51.99	
Home-plus	Homeplus Altul Rice	Private Brand	37,900 = 39.57
	Homeplus Cheolwon Rice	Private Brand	47,900 = 50.01
	Homeplus Icheon Rice	Private Brand	52,500 = 54.81
	Wellbeing Plus Chemical Duck Rice	N/A	65,000 = 67.83
	New Gimpo Rice	Regional Brand	45,500 = 47.50
	Anseong Rice	Regional Brand	46,500 = 48.55
	Yeosu Rice	Regional Brand	49,500 = 51.68
	Boyak Rice	N/A	56,500 = 58.99
	Stavia Rice	N/A	69,000 = 72.83
	5dosi Ion Rice	N/A	56,500 = 58.99

Note: 1/ Based on exchange rate for 8/9/2006 of 1USD = 957.83KRW

Source: Foreign Agricultural Service, Seoul

All of the hypermarkets surveyed stated that the 20 kg packages of rice were the best selling size of rice because of the best price per kilogram of rice offered. Both Lotte-Mart and E-Mart sell packages of rice ranging from 1 kg to 20 kg to cater to smaller households and people who travel often. Both Lotte-Mart and E-Mart stated that sales of 10 kg packages of rice were gradually increasing with the growing trend towards reduced rice consumption and smaller family size.

Similar to the evaluations conducted by the Korea National Council of Consumer Organizations, little can be concluded from these hypermarkets about the power of rice brands and rice brand recognition in the Korean rice market other than the fact that there are a vast number of domestic rice brands and consumers do not have an obvious reason to maintain loyalty to any one particular brand of rice.

B. Imported Rice

Table Rice

The Korean government defines table rice as rice that has not undergone any processing. Rice sold in the retail and HRI sectors would be labeled as table rice. After the extension of the MMA import quota in 2005, Korea agreed to the sale of imported rice in table rice form for the first time. In 2005, 10 percent of imported rice was made available for table rice sales to consumers. This amount will increase by 4 percent annually through the year 2009. In 2010, the amount available for table rice sales will be set at 30 percent until the MMA expires in 2014.

Rice for Processing

Under the rice procurement program established in 1948, the government provided domestic rice to the food processing industry at subsidized prices. When rice imports began after the Uruguay Round negotiations in 1995, the government made both Korean and foreign rice available for the food processing industry at below market prices. The portion of foreign rice provided through this mechanism has steadily increased each year under the provisions of the 1994 Minimum Market Access (MMA) agreement with the WTO.

All rice imports are purchased through tenders held by The Korea Agro-Fisheries Trade Corporation. Imported rice is sold to the food processing industry at prices set by the government for use in the manufacturing of rice cakes, noodles, liquor and confectionery products. In recent years, the food processing industry has come to depend on imported rice for half of its needs. The remainder is supplied by domestic Korean rice through private market channels.

Table 7: 2005 Rice Supply for Processing Purposes

Item	Quantity (mt)	Ratio (%)
Cake/Noodle	53,729	56.0
Confectionary	7,591	7.9
Flour	9,455	9.8
Alcohol	22,165	23.0
Sticky Sweet	2,997	3.0
Traditional Food	215	0.2
Others	83	0.1
Total	96,235	100

Source: Korea Rice Foodstuffs Association (KRFA)

In 2005, Korea processed 456,000 metric tons of milled rice, of which 233,000 tons were imported rice supplied by the government and 223,000 metric tons were Korean rice supplied through private rice marketing channels. The Korean government supplied members of the Korea Rice Foodstuffs Association (KRFA) and the Korea Alcohol & Liquor Industry Association (KALIA) with 233,000 metric tons of imported, milled rice at a set price based on the imported price plus handling charges (includes storage, milling, transportation, and other charges). Annually, KRFA members have used approximately 100,000 metric tons of milled rice to produce rice products such as cakes, beverages, flour, snacks, syrup, and other products. In 2005, KALIA members, who mainly use raw tapioca to produce spirits, received 135,000 metric tons of imported milled rice from the government at the set price.

Table 8: KRFA Imported Rice Supply for Processing Purposes (unit: tons)

Calendar Year	Local Rice	Imported Rice	Total
1995	200,160	0	200,160
1996	130,632	3,000	133,632
1997	30,171	57,957	88,128
1998	933	77,259	78,192
1999	0	74,214	74,214
2000	0	67,112	67,112
2001	0	66,850	66,850
2002	79	73,884	73,963
2003	306	84,851	85,157
2004	249	91,624	91,873
2005	215	96,020	96,235

Note: Data from KALIA is currently unavailable as the government began supplying rice to KALIA only recently.

Source: Korea Rice Foodstuffs Association (KRFA)

Market Response

A survey conducted in 2003 documented consumers' perceptions regarding imported rice. 54 percent of those surveyed stated that they were willing to purchase imported rice. Only nine percent were willing to purchase rice without regard to price if they knew the imported rice was of high quality. In contrast to individual consumers, meal service institutions' intentions to buy imported rice were over 60 percent. Overall, the more income a household had, the more likely that they would not purchase imported rice²⁵.

These findings were recorded before the implementation of the 2005 MMA import quota for U.S. rice. The actual market reaction of Korean consumers regarding U.S. rice was more negative than what these survey results indicated. According to press reports following the implementation of imported rice sales under the 2005 MMA quota, retailers had difficulty selling U.S. rice because of both the sensitive political and cultural nature of the rice market as well as complaints from consumers regarding rice quality.

MAF has stated that it will consider the market response to the 2005 MMA quota when planning for the 2006 MMA quota for U.S. rice. The requests that the U.S. has made to MAF regarding potential changes for the 2006 MMA include: permission to import short-grain rice instead of medium-grain to better compete with Korea's short grain domestic rice; and permission to include cooking instructions for consumers on U.S. rice packages.

While the first year of imported U.S. rice sales in Korea met difficulties, external pressures will most likely push the Korean government to continue its efforts to both encourage the sales of imported rice and reduce domestic rice production. The Samsung Economic Research Institute has predicted that rice imports will reduce domestic production of rice by 2 million tons, or 41 percent.²⁶ Presently, the production of rice in Korea nearly approaches domestic demand, the only grain of its kind in Korea that does so. Upon complete liberalization of the rice market, Korea will be dependent on imports to meet its food needs. Gaining a comprehensive understanding of Korea's domestic rice market will aid rice exporters in successfully tapping into the future growth of Korea's market for rice imports.

VI. Further Information

For further information about the Korean agricultural market, please contact:

Agricultural Affairs Office
U.S. Embassy
82, Sejong-ro, Chongro-ku
Seoul, 110-710, Korea
Tel: 82-2 397-4297
Fax: 82-2 738-7147
E-mail: agseoul@usda.gov

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