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Comprehensive Plan on the Rice Industry

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Report Highlights:

The Ministry of Agriculture and Forestry released a " Comprehensive Plan on the Rice Industry" in April, 2002. The plan is a strategy to restructure the rice support systems in view of the expiration of the current TRQ arrangement under the WTO at the end of 2004. The plan includes a program to decrease planted area by 12 percent, in an effort to reduce production.

While the original intention was to implement the direct payment system (DPS) for income compensation after 2004, the MAF has now moved payments to farmers forward under this program to begin with the current crop year.

Includes PSD changes: No
Includes Trade Matrix: No
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Executive Summary

The Ministry of Agriculture and Forestry (MAF) released "A Comprehensive Plan on the Rice Industry" in April 2002 based on the previous draft "A Comprehensive Plan for the Development of the Rice Industry" released in late September 2001 (KS1082). The plan focuses on Korea's rice strategy to cope with the structural problem of oversupply and prepare for the restructure of rice production through 2004 when the current Uruguay Round agreement expires.

Korea plans to reduce total rice acreage to 953,000 HA by 2005 from 1,083,000 HA in 2001 or down 12 percent to stabilize rice supply and demand through various reduction programs; bring down rice price via market mechanism instead of government intervention; encourage farmers to plant other crops in rice paddy fields by compensating the financial loss caused by the crop conversion; and focus on the production of high-quality rice accompanying lower yield than the historical number yield due to the favorable measures to farmers who apply the lower use of nitrogenous fertilizer.

The Korean government will use the Direct Payment System (DPS) as a compensation tool to farmers who reduce rice acreage, and undergo income loss caused by the policy shift in production. Rice reduction is critical for Korea to settle down the problem of rice surplus and to narrow down the great variation between local and international prices for the upcoming rice re-negotiation in 2004.

Declining rice consumption coupled with rising MMA imports have exacerbated the oversupply problem. Continued promotion of consumption is designed to control the declining rate of per capita consumption at the targeted rate of 2 percent from last year's 5 percent rate by increasing rice demand for processing purposes. The annual consumption per capita is projected at 85.6 Kg in 2003, 83.9 Kg in 2004, and 82.2 Kg in 2005. Therefore, government will continue to implement measures to create new demand by providing consumers with the supply of government-held rice at lower than market price and public advertisement promoting rice consumption, and developing the technology for rice processing and new rice products.

Although various policy options in the plan are designed to prepare Korean rice for competition in a liberalized environment, political intervention may cause the plan difficulty in implementing effectively. Rice farmers are vocal to take an advantage of government support in front of the Presidential election. MAF reportedly plans to dole out Korean Won 408 billion to compensate rice farmers for losses incurred from rice cultivation this year, doubled the amount of Korean Won 191 billion under the government subsidy program last year.

In spite of implementing the Direct Payment System (DPS) for the compensation of rice farmer's income after 2004 in this plan, government has recently announced to invite the DPS for income compensation this year.

Sok is equivalent to 144 Kg in the metric system of measurement.

Comprehensive Plan on the Rice Industry

2002. 4. 18

Ministry of Agriculture and Forestry

"Agriculture for the people and of the people"

<Table of Contents>

I. Conditions in the Rice Industry

1. Supply and Demand

a). An imbalance in the supply and demand of rice due to a steady decline in consumption and continued growth in the harvest and import of rice.

While '99 levels of rice supply were less than adequate, recent stock levels have increased dramatically since the good harvest year of 2001.

- Per capita consumption : ('90)119.6kg ÷ ('00)93.6 ÷ ('01)88.9
- Production : ('95)32.60 million sok ÷ ('99)3,655 ÷ ('01)3,830
- Stock : ('96)1.69 million sok ÷ ('99)502 ÷ ('01)989 ÷ ('02) 1,380

b). The current structural oversupply may cause lower prices in the harvest season and farmers' income to deteriorate.

In the 2001 harvest season, farm price was for the first time declined by 4.3 percent from the previous year.

2. Distribution

a). The government's role to control the supply and demand of rice has weakened due to the gradual reduction of government procurement.

- Government procurement of rice continued decreasing to 15% of total rice production in 2001.
- Quantity of government procurement: ('96)8.62 million sok (23.2%) ÷ ('00)629(17) ÷ ('01)575(15)

b). Large ending stocks caused by oversupply in recent years have contracted private distribution channels.

-The Rice Processing Complex (RPC) has faced deficit problems due to unfavorable interest rates and seasonal fluctuations of rice prices. One hundred fifty-eight of the 199 RPCs (79%) held by the National Agricultural Cooperative Federation (NACF) underwent operational losses in 2001.

Seasonal disparity of rice prices : ('95)11.2% ÷ ('99)7.9 ÷ ('00)3.0 ÷ ('01)1.6

c) While demand for high-quality rice is growing, however, quality differentiation is not very sharp.

Brand names are becoming more common, but consumer confidence is still lacking in quality.

3. Structure of the Rice Industry

a). The number of full-time rice farmers has increased. However, the existing high portion of rice farming operated by elderly and small-sized farmers hinders the project of large scale operations.

- Rice farmers owning more than 3 HA : ('95)34,000 households(2.8%) ÷ ('00)41,000 (3.8%)
- Rice farmers owning less than 0.5 HA : ('95)496,000 households(41.2%) ÷ ('00)456,000 (42.3%)
- Farmers more than 60 years old: ('95)634,000 households (42.3%) ÷ ('00)706,000 (51.0%)

b). The structure of production cost is inelastic due to the small-scale production structure and high land price.

The reduction of production cost is limited because of the higher proportion of inelastic factors such as land service

(43.7%) and labor (22.1%).

c). The rice income ratio of agricultural income has continued increasing, because rice crops provide farmers with greater and more stable earnings than other crops.

- Rice income ratio of agricultural income: ('95) 38.1% ÷ ('00) 52

4. International Conditions

a). The expanded price difference between Korean rice and foreign rice has weakened Korea's global competitiveness in the rice market.

-Since 1994, Japan has lowered its government purchase price by 10.3%, Korea has raised it by 26.4%, and Taiwan has remained unchanged.

Chinese rice has been declined by 21% since 1997.

- Consequently, the purchase price of rice for the 2001 crop was 4.8 times higher than that of U.S. rice, 5.8 times higher than Chinese rice, and 8.1 times higher than Thai rice.

b). Korea needs to prepare the rice industry for the impact that may result from rice re-negotiation scheduled in 2004 under the WTO regime and guide a soft-landing of the rice industry.

-With Japan having liberalized their rice markets under a tariffication regime in April of 1999, and China in January of 2002, Korea's position has worsened for the re-negotiation of rice.

-Therefore, the alternative is for Korea to reduce price difference between domestic and foreign rice to boost market competitiveness of Korean rice when expanding rice market liberalization.

II. Major Objectives of the Comprehensive Action Plan for the Rice Industry

a). Disposing surplus stock and coordinating supply-demand through market mechanisms:

-With decreased governmental intervention in rice policy, rice supply and demand is required to be controlled by the commercial function of the rice market.
-Surplus stock will be disposed of in a special manner to eliminate factors that maintain instability in the rice market.

b). Adopting an income stabilizing apparatus to cope with the reduction of income caused by a declining rice price.

-Expanding and improving the current Direct Payment System of Rice Paddy Fields.

-Introducing an income compensation system as a function of insurance to reduce the impact of price fluctuation.

c). Converting the rice production system into a high-quality rice supply to increase rice consumption.

-Set up a rice production system for high-quality rice to meet consumer centered demand.

-Build up the foundation of rice consumption through boosting the consumption of table rice and creating greater demand for processed rice.

d). Innovating the structure of distribution networks and fostering distribution channels in the private sector.

-Reducing distribution costs and encouraging quality differentiation by promoting rice integration and advertising the brand names of high-quality rice.

- Diversifying rice distribution channels by strengthening the distribution system in the private sector.

e). Strengthening competitiveness of the rice industry by the reduction of production costs via an economic scale of rice operation.

-Encouraging full-time rice farmers through government support programs to expand their rice acreage and become key players in the rice industry.

-Improving the structure of production costs by focusing on operational costs such as labor and equipment.

III. Supply-Demand Stabilization Plan for 2002 Crop

1. Supply-Demand Prospects and Pending Tasks

a). While rice consumption has continued declining, consecutive good harvests in recent years as well as a projected good harvest in the current year will push the level of ending stock in October 2002, to 13.80 million sok, twice the adequate level.

-Assuming that 2002 rice production reaches 37 million sok, an average normal production, half of the total production is expected to be released into the market during the harvest season. As the government and the Rice Processing Complex(RPC) are able to purchase approximately 11 million sok, the same amount as the previous year, the absolute surplus of 7.5 million sok will cause farmers' income to decrease.

-The reduction of seasonal price variation discourages the RPC to secure paddy rice for milling and makes it difficult for farmers to sell their products at harvest.

-The anticipated surplus of 3.5 million sok resulting from the 2002 crop is expected to increase the ending stock in October 2003 to 17 million sok.

b). The following measures shall be implemented to stabilize the status of rice supply-demand and farmers' income by getting through possible difficulties caused by the mentioned challenges:

-to encourage rice farmers to produce adequate quantity, approx. 36 million sok, to avoid additional increase to the level of ending stock.

-to provide rice farmers with a measure to make up for the income loss caused by the decrease of rice price due to harvest pressure in the rice market. Government will make its best effort to minimize a sharp decrease in the rice price by the impact of harvest pressure under the government purchase program.

-to make a special disposal for the excessive level of ending stock in order to secure storage space for new crops as well as get rid of factors causing instability in the rice market.

-to establish measures to promote rice consumption to slow the pace of its decline.

2. Stabilization Plan of Rice Supply-Demand

A. Production policy for adequate quantity focused on high-quality rice:

a). Reduction of rice acreage by encouraging farmers to cultivate other crops in rice paddy fields.

-Pilot programs to plant soybeans and forage are projected for a targeted acreage of 2,000 HA. The two crops are experimental items due to a short supply of local production. Close of application for this program will be the end of June.

Rice farmers who participate in this project will be paid by the government for the deficiency of income between rice and other crops;

The deficiency rate payment of income is set at 3.6 million won per HA for soybeans and 3.8 million won per HA for forage corn. Government also continues a buying program for soybean at 4,300 Won per Kg.

- Lifting the compulsory duty to maintain water in rice paddy fields in order to receive benefits of direct payment programs, government plans to extend the direct payment for rice paddy fields cultivated with other crops to include horticultural and green manure crops.

The Production Adjustment System (PAS) such as fallow and crop conversion programs was expected to decrease rice production this year. However, government decided to put off the implementation of the PAS in consideration of the negative impacts on the rental market of land, the emotion of rice farmers, and the less than expected effect of rice reduction. Government plans to take a comprehensive study on the PAS before its implementation.

b). Land reform restrictions on land ownership and land utilization to diversify the use of land:

-to permit urbanites to own limited farmland for gardening.

-to make lands such as idle land, rental land and land operated by a farming corporation disposable, while idle lands for rearrangement or production adjustment purposes non disposable.

-to greater decentralize authorities converting farmland into other purposes:
allow small city mayors and county administrators to permit the conversion of farmland less than 10,000 square meters, increased from the previous 6,000 square meters, and to allow big city mayors and provincial governors to permit the conversion of farmland less than 100,000 square meters, increased from the previous 60,000 square meters.

Expand the allowed area to set up livestock facilities to less than 30,000 square meters without government permit from the previous less than 7,000 square meters.

c). A shift of rice production policy from quantitative growth to qualitative growth to eliminate the factors of over-production:

-Encourage farmers to expand the rice acreage for high-quality varieties by more than 50% of total acreage and encourage RPCs, the center of rice distribution, to expand the contract cultivation of high-quality paddy rice to 200,000 HA, increased from 100,000 HA in 2001.

-Tighten the soil inspection of paddy rice fields and stiffen penalty to farmers who excessively use nitrogenous fertilizers.
Reduce the use of nitrogenous fertilizers from the current 18 - 20 Kg per 10 HA to 11 Kg per 10 HA as standard fertilizer usage.
Increase soil inspection frequency from the current 8,250 cases to 61,500.

-Suspend the government purchase of low-quality rice grown in the up-land, which was recorded at 27,000 HA in 2001, and strengthen the standard of government purchasing programs to buy quality rice by establishing a new standard for high quality rice.

If the measures encouraging adequate production are actively enforced to reduce the planting acreage to 1.043 million HA in 2002, rice production is forecast at about 36 million sok with an average yield of 4.9 MT per HA.

B. Price Stability in the Harvest Season and Compensation for Farmhouse Income

a). Pursue stability of rice prices during the harvest season by increasing the quantity of rice purchased through government programs and RPC's buying program as private distributors.

-The government is to allocate rice farmers the contractual quantity in April and purchase 5.48 million sok during the harvest season (waiting for legislative approval from the National Assembly).

-Financial support to RPCs purchase of 5.50 million sok;

Provide incentives for farmers who want to participate in the Trust Sale System (TSS) to promote purchasing programs in the private sector.

Stabilize the rice market to the optimal level of last year through the support program of rice purchase to absorb harvest pressure in the harvest season.

b). Minimize adverse effects caused by the Direct Payment System for Rice Cultivation, which could increase rice production and hinder the restructuring efforts of rice farms. Government plans to raise the rate of the Direct Payment for Rice Cultivation for next year's crop to stabilize farm income.

-Raise the rate of direct payment in the Agricultural Promotion Zone but continue the current rate in the Non-Agricultural Promotion Zone.

-Raise the qualifying cap for direct payments to 5 HA from the current 2 HA in order to achieve economies of scale in the rice industry and enhance international competitiveness.

-Eliminate the duty to maintain water in rice fields and tighten environmental requirements on farm management in order to prevent rice production from increasing.

C. Special measures to dispose the large ending stock before harvesting new crop

a). Substitute imported materials such as tapioca and corn for the manufacture of liquor.

Financial loss of about Korean Won 279 billion per one million sok of rice should occur when rice replaces the imported tapioca at 13,000 won/80 kg.

b). Donation to the DPRK or support to overseas countries.

In case of supplying rice, imported at the average price of Korean Won 31,000/80 Kg, to other countries, financial loss should occur of Korean Won 246.0 billion per one million sok of rice.

These special measures will lead the ending stock to 9.8 million sok at the end of October 2002.

D. Active Campaign for Rice Consumption

a). Continue to promote various means of rice consumption to dampen the pace of its decline.

-Encourage children, teenagers, and young adults to eat daily rice-based diets by providing schools and military/public institutions with new crop supply:

Annual demand of milled rice for school lunch: 470,000 sok at Korean Won 38,030/40 kg.

Annual demand of milled rice for military/public institutions: 740,000 sok at Korean Won 76,050/40 kg.

-Joined with the Ministry of Health and Welfare (MHW) and various civic groups, the MAF should establish food stamp programs to supply rice at lower prices to malnourished children and the elderly living alone.

-Expand the use of rice as a raw material for processing to 800,000 sok in 2002 from 460,000 sok in 2001 by lowering the price of rice to the cost price level.

b). Promote research and development in processing technology and rice products.

-Extend support to the Korea Food Research Institute (KFRI), universities, and the Rural Development Administration (RDA) to encourage R&D for the processing technology of rice products.

Form a “Rice Research Center” in the KFRI to further research the processing technology of rice products.

-Extend financial support of capital investment for facilities and modernization of processing facilities to rice processing industries so they can produce quality rice products to meet consumers’ taste.

c). Campaign across the nation to promote rice consumption in continuous and various ways.

“Rice for breakfast” campaign: extend public advertisements to promote rice consumption.

IV. Comprehensive Plan on the Rice Industry for the Year 2003 and After

1. Prospects and Tasks of the Rice Industry

a). While local production has continued adding a structural surplus to the current large ending stocks, Korea is about to face international pressure to open the rice market further through the Doha Development Agenda and WTO New Round.

-The structural surplus caused by overproduction, increasing imports, and declining consumption is expected to continue: Assuming the declining trend of consumption, per capita consumption is expected to be less than 80 kg in 2005.

-Large ending stocks increased by oversupply have caused the rice price to fall and farm income to decrease.

- Unless distribution systems in the private sector make up for the lessened role of the government, disorder in the rice market could occur.

Government purchase of rice is scheduled to be less than 5 million sok in 2004.

-Narrowing the price difference between domestic and foreign rice prices is critical for Korean rice to remain competitive under re-negotiation of the WTO regime.

b). The following measures are required in order to stabilize the rice industry under the structural surplus and to strengthen competitiveness to cope with the further liberalization of the rice market:

-a long-term plan for the balanced supply-demand through the production of high quality rice and the promotion of consumption;

-a safety apparatus to stabilize rice farmers' income under the deflated rice market;

-the active functions of a private distribution network that could replace the role of the government; and

- greater competitiveness through restructuring the rice industry.

2. Plans for the Year 2003 and After

A. Long-term Plan to Balance Supply & Demand

Basic Policy Direction:

-To minimize the possible impact of the policy shift from promotion of quantity to the reduction of production.

-To minimize social and economic costs incurred by the shift in policy.

A-1. Policy Alternatives

a). Utilizing the function of the rice market: reduce annual rice production via the rice market and implement measures to dispose of cumulative ending stocks.

b). Adjusting production: guide rice production to adequate levels by implementing a greater adjustment in rice production through fallow and crop conversion.

A-2. Implementation of Policy Measures

a). To prevent the rice industry from a sharp decline in price via both the application of market principles for the balanced rice supply and demand, and the food aid to North Korea for the solution of cumulative ending stocks.

	2003	2004	2005
Area (thousand HA)	1,013	983	953
Production (million sok)	34.3	33.1	32.0
Stock (million sok)	9.75	9.17	7.87

b). To encourage farmers to plant other crops in rice paddy fields for the adequate production of rice:

- to implement a model project to make up for the financial loss caused by the crop conversion in 2003 based on the result of the pilot project in 2002. The applied acreage is 10,000 HA in 2003 and 20,000 HA in 2004.

Expand the targeted crops to include decorative plants and soil enhancing crops in addition to soybean and forage crops.

Encourage farmers to participate by offering the payment rate compensation of Korean Won 3.8 – 3.9 million per HA, equivalent to the income level earned by rice cultivation.

-Full-scale implementation of production adjustments shall be carried out in view of the situation of supply-demand and the level of ending stocks.

c). Production system for high-quality rice:

-Cultivated acreage of high-quality rice varieties is projected to reach 80% of total rice acreage by 2005 following the government plan of 60% in 2003 and 70% in 2004.

However, rice yield will be reduced to 4.8 MT per HA in 2005 due to the expansion of acreage for high-quality rice accompanied by the lower use of nitrogenous fertilizers.

-Best efforts to develop high-quality varieties by researching genetic resources that can improve rice taste.

-Develop rice varieties with environmental friendly cultivation methods accompanying the traits of disease, insect and weather disaster resistance.

d). Continued campaign to promote consumption:

-Control the declining rate of per capita consumption of 2% by increasing rice demand for processing purposes; the annual consumption per capita is projected at 85.6 Kg in 2003, 83.9 Kg in 2004, and 82.2 Kg in 2005.

-Continue to implement measures to create new demand by providing consumers with the supply of government-held rice at lower than market prices, increase public advertisement promoting rice consumption, and develop the technology for rice processing and new rice products.

A-3 Alternatives: Production Adjustment System

a). The adjustment of production across the board is required to balance rice supply and demand from year 2002 on.

	2002	2003	2004	2005
Acreage for Adjustment (thousand HA)	166	173	191	212
Required financial resources (100 mil. won)	8,217	8,564	9,455	10,494

b). Details of Production Adjustment Plan:

Targeted farmland: Rice fields eligible for the Direct Payment System for Rice Cultivation (abolish cap).

Compensation rate is calculated on the basis of net income from rice cultivation; compensation for fallow land is Korean Won 4.95 million per HA, Korean won 3.9 million for rice field planting of soybeans, and 3.8 million for rice field planting of forage.

c). Problems of the Production Adjustment System (PAS)

-Disorder in the established lease market of farmland is expected by the collection of leased farmland from tenants who cultivate rice on about 47% of the total rice fields in Korea while 12% in Japan.

-PAS will be less effective by including land of natural disappearance and farmland classified as marginal land.

-The acreage under PAS is likely to increase due to increasing yield and decreasing consumption.

-PAS enables rice imports to increase unless an effective mechanism for the national border protection is prepared.

-Great demand of financial resources for PAS may distort the balance of the government budget.

d). The compensation program of crop conversion needs further analysis and evaluation by observing the results of a model project on small acreage.

-Full-scale implementation of production adjustments shall be carried out in view of the situation of supply-demand, the Doha Development Agenda, and outcome of the rice re-negotiation in 2004 under the WTO.

B. Policy for Stabilizing the Income of Rice Farmers

Basic Policy Direction:

-Minimize the impact of a sharp reduction of income earned from rice cultivation, which comprises 50% of total agricultural income.

-Set an adequate level that would induce a natural reduction in rice acreage.

1. Policy Alternatives

a). Direct Payment System (DPS) for Rice Cultivation: makes up for the weak points of the current DPS.

b). DPS for the compensation of rice farmers' income: compensates rice farmers for their loss of income caused by the drop in rice price.

c). Direct Payment System for Income Insurance: compensates rice farmers for their loss of agricultural income by way of insurance.

2. Implementation of Policy Measures

a). The payment rate to farmers who are under the DPS, shall be increased to make up for income loss until the results of rice re-negotiation in 2004 and the Doha Development Agenda become more concrete.

-Raise the rate of direct payment in the Agricultural Promotion Zone, leaving the rate unchanged in the Non-Agricultural Promotion Zone.

-Raise the qualifying cap for direct payment to 5 HA from the current 2 HA in order to expedite the restructuring of the rice industry.

3. Alternatives under Study: Direct Payment System for the Compensation of Income

a). The compensation system is designed to make up for the loss of agricultural income incurred by the drop in the rice price.

-When rice price falls below the standard price, the average price for the past three years, 70% of the difference between market price and the standard price should be compensated.

Farm price in the harvest season is applied to set up the standard price and market price.

The standard price will be applied to the national average price in the beginning of this system. However, the standard price is scheduled to be diversified into various price regimes reflected differently among regions and varieties.

-The farmers and the government shall jointly make contributions to create a fund for this purpose.

-Payment rate is based on the fixed acreage and rice yield to prevent production from increasing.

b). The Direct Payment System for Income belongs to the category of subsidy reduction program under the WTO Agricultural Agreement because the system is related with price. The implementation of this program could lead government to reduce its purchasing quantities.

-The contraction of government purchases may cause difficulty to cope with harvest pressure in the harvest season. Assuming a 3% fall in price, the equivalent of Korean Won 196.9 billion, Korea should decrease the quantity of government purchases by 715,000 sok or 102,960 MT.

c). The system shall be implemented upon comprehensive and meticulous review under the Doha Development Agenda and the rice re-negotiation in 2004 by the WTO regime.

-Public consensus on implementing the system is required through the Special Committee on Agriculture and Fishery, consensus of farmers' opinion, and the case study of other countries.

C. Activation of Private Distribution Channel

a). As the quantity of government purchases contract, the rice distribution system in the private sector is required to provide rice farmers with the extended function to absorb harvest pressure in the harvest season.

-In addition to the purchasing program of rice at market price, the methodology of rice purchasing programs shall be diversified to maintain a 'trust sale system' as farmers would prefer.

b). Nurture RPCs as the key players of the rice distribution channel in the private sector through improving management and achieving economies of scale.

-Expand investment to facilities for storage and dehydration to deal with the sharp increase in bulk rice.

As facilities of storage and dehydration obtain a low level of profit, a greater rate of government assistance is required to set up facilities.

-Expand investment to the facilities which could increase the milling rate of high-quality rice.

-Encourage RPCs to enhance vertical integration and foster business cooperation for their economies of scale.

c). Find a rice exchange market that could contribute to fair pricing and boost rice transaction.

-In 2003, the National Agricultural Cooperative Federation (NACF) shall set up a grain exchange market dealing with the established auction system for paddy rice and expand its function toward various items and participants.

The grain exchange market will deal with paddy rice and barley in the initial stages and then include rice soon after the normal operation of the initial market.

The listed items on the rice exchange market manifest harvest year, origin, variety and grade.

-The rice market exchange is scheduled to be an independent corporation for active and fair transaction in 2004.

d). Strengthen the system of labeling and certification on rice to secure consumer confidence.

-Strengthen the requirements of labeling on packages to provide consumers with accurate quality information identifying the differentiation of high-quality rice.

Labeling shall include the variety name, milling date, and origin (city and province).

Content of ingredients and the rate of sound kernels are recommended to stipulate in the labeling.

- Secure consumer confidence in high-quality and safety agricultural products by promoting the system of quality and environmental friendly certification.

D. Introduction of Public Storage System (PSS) to Ensure Food Security and Absorb the Surplus of Production in the Harvest Season

a). Determine the target of rice storage taking into account the current crop situation.

-The optimum target of rice storage to cope with two consecutive bad crop years is 8 million sok ± 2 million sok.

Japan sets it at 23% of domestic production or 1.5 million MT ± 0.5 million MT and Taiwan at 25% of annual consumption.

b). The quantity under the PSS is controlled by purchasing rice at farm price from farmers and selling it at market price in view of the target of rice storage and the situation of supply and demand in the market.

-Annual released quantity is one-third of total storage under the PSS for management of inventory turnover.

- Enhance predictability of annual plans for purchase and sale according to prior notification.

c). Take necessary legislative action to include the public storage system and use it when ending stock reaches an adequate level.

-Establish new regulations on how to operate PSS and set up the target level of storage by revising the existing Grain Management Act.

E. Improvement of Rice Industry Structure

a). Provide greater support to foster full-time rice farmers who hold more than 3 HA.

-Foster full-time rice farmers who hold more than 3 HA so they can produce more than 70% of total rice output by 2011.

Provide greater financial assistance for farmhouses who hold 2-3 HA for their economies of scale.
Enlarge the Farmland Management Fund to continue the project on developing Economies of Scale for rice cultivation.

-Restructure the direct payment system of rice management transfer to enable the senior rice farmers and the small-sized rice farmers to hand over their rice farms to others.

Extend the range of eligible farmers, currently qualified with the age of more than 65 years old, to farmers who are less than 65 years old.

Raise the payment rate of rice farm management transfer to more than Korean Won 2.81 million per HA, the currently applied rate, and allow payment by lump sum or installments.

-Offer various tax breaks to full-time farmers when they purchase land.

b). Reduce production costs by saving the following operational costs.

-Reduce labor cost by introducing new technology centered on the high productivity of rice cultivation.

-Reduce cost of farming machinery and equipment by raising the efficiency of production such as the joint utility of farming machinery and equipment and the development of machine technology to improve the labor productivity of combined agriculture.

-Increase focus of rice production on the concept of high quality and environmental friendly practices that refrain from using fertilizers and chemicals.