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GAIN Report

Global Agricultural Information Network

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POLICY

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Revision of Rice Target Price

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Grain and Feed

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Report Highlights:

The Agriculture, Food, Rural Affairs, Oceans & Fisheries Committee of the National Assembly has recommended the government raise the target price for local rice (2019 crop). The National Assembly will make its final decision about this policy during its March 2019 provisional session. If target prices are raised, it will have the effect of increasing the subsidy for rice, stimulating farmers to cultivate more rice. The effect of this policy would conflict with the goal of the government's rice reduction program.

General Information:

The Agriculture, Food, Rural Affairs, Oceans & Fisheries Committee of the National Assembly has recommended the government raise the target price for local rice (2019 crop) to the level of about 210,000 won (USD 186) per 80 kilogram bag (milled) or higher, up 11.7 percent from the previous target price of Korean Won 188,000 (USD 167) per 80 Kg from 2013-2017. The target price is directly linked to the subsidy or deficiency payment given to rice farmers. Rice farmers are paid 85 percent of the difference between the target price and farm gate price averaged in harvesting season from October to January. The Korean government has already set a subsidy budget amount at around 253 billion Korean Won (USD 224 million) this year just in case the deficiency payment is required. The National Assembly is expected to make a final decision about the target price in the provisional session, which is being held now, March 2019. However, the agreement to raise the rice target price is likely to encourage rice farmers to cultivate more rice, despite the continuing government rice reduction program, resulting in increasing rice stocks in the future.

Table 1

| Korea: Rice Target Price (Korean Won/80 Kg) | |
|--|-----------------------|
| Period | Target Price |
| 2005-2007 (3 years) | 170,083 |
| 2008-2012 (5 years) | 170,083 |
| 2013-2017 (5 years) | 188,000 |
| 2018-2022 (5 years) | Approximately 210,000 |

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA)

*National Assembly is expected to make a final decision of a new target price in the provisional session being held in March 2019.

In March 2005, the Rice Income Compensation Act introduced a new system of subsidies for rice farmers, the Direct Payment Program for Rice Income Compensation. The Direct Payment Program has two elements. One, the area payment is paid according to acreage on which a farm produced rice during the 1998-2001 base period. This payment, given regardless of current production, is classified by the Korean Government as a decoupled payment, and not as part of the WTO's "amber box." The other payment is a deficiency payment that covers most of the difference between the average rice price offered to farmers at harvest time and a target price (table 2). Please refer to Pages 10 – 13 of ERS Report of [The Rice Market in South Korea](#) for more details.

An explanation of how these payments are calculated is hereby provided:

Area Payment: This payment is made on a per hectare basis and is calculated using the average area of rice production during the base period 1998-2000. The average 2017 area payment was 1,003,027 won (USD 888) per hectare. Paddy area covered under this support program decreased to 829,000 hectares in 2017, down one percent from the previous year (Table 2).

Deficiency Payment: The deficiency payment is 85 percent of the difference between the national-average market price during the 2017 harvest season (2017 Oct.-2018 Jan.) and the 2017 target price set by the government, less the area payment.

In CY 2017, the total deficiency payment amounted to Korean Won 539.3 billion (USD 478 million). This payment was the difference between the average harvest price of 1,933 Won (USD 1.71) per kilogram (milled) and the target price of 2,350 Won (USD 2.08) per kilogram (milled). The weighted average area payment of Korean Won 1,000,000 per hectare is converted to a kilogram equivalent (198.4 Won/kg) by dividing it by the 1999-2003 Olympic average yields, which increased to 5,040 kg per hectare from the previous 4,880 kg in 2012.

Due to increasing farm gate prices during the harvest season, farmers received deficiency payments at Korean Won 156.4 per kg in 2017. The deficiency payment calculation is shown as below.

$[(\text{Target Price W/kg} - \text{Average Harvest Price W/kg}) \times .85] - \text{Area Payment per ha/Avg. National Yield per ha.}$

$$[W 2,350 - W 1,933] \times .85 - W 1,000,000/5,040 \text{ kg} = W 156.4 \text{ per kilogram}$$

Table 2

| Korea: Direct Payment Program for Rice Income Compensation | | | | | | | |
|--|----------------------|---------------------|------------------------|-----------------------------|---------------------|------------------------|-----------------------------------|
| Year | Area Payment (A) | | | Deficiency Payment (B) | | | Total (Billion Won) (A)+(B) |
| | Area (1,000 ha)1/ | Payment (Won/ha) | Total (Billion Won) | Production (1,000 MT) 2/ | Payment (Won/kg) | Total (Billion Won) | |
| 2005 | 1,007 | 600,000 | 603.8 | 4,587 | 196.4 | 900.7 | 1,504.5 |
| 2006 | 1,024 | 700,000 | 716.8 | 4,641 | 94.2 | 437.1 | 1,153.9 |
| 2007 | 1,018 | 700,000 | 712.0 | 4,548 | 61.3 | 279.1 | 991.1 |
| 2008 | 1,013 | 700,000 | 711.8 | 4,490 | none | 0 | 711.8 |
| 2009 | 893 | 703,684 | 632.8 | 3,948 | 150.4 | 594.5 | 1,227.3 |
| 2010 | 883 | 700,704 | 622.3 | 3,850 | 194.9 | 750.1 | 1,372.4 |
| 2011 | 875 | 700,169 | 617.4 | na | none | 0 | 617.4 |
| 2012 | 866 | 702,071 | 610.1 | na | none | 0 | 610.1 |
| 2013 | 855 | 800,926 | 686.6 | na | none | 0 | 686.6 |
| 2014 | 835 | 901,304 | 756.0 | 3,632 | 52.8 | 194.1 | 950.1 |
| 2015 | 844 | 998,892 | 843.1 | 3,624 | 198.6 | 718.7 | 1,561.8 |
| 2016 | 837 | 1,001,010 | 838.3 | 3,557 | 418.7 | 1,490.0 | 2,328.3 |
| 2017 | 829 | 1,003,027 | 831.5 | 3,447 | 156.6 | 539.3 | 1,370.8 |

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA)

1/ Those eligible for payment include farmers, farming union corporations, agricultural corporations, or anyone producing rice on a minimum of 0.1 HA of farmland between Jan 1, 1998 and Dec 31, 2000.

2/ based on the Olympic average rice yield of 4,880 kg per hectare from 1999-2003 and actual cultivated area registered under the program. The applicable rice yield has been revised up to 5,040kg per hectare since 2012.

Table 3

| Korea: Calculation of Rice Direct Payment Unit: Korean Won/80 kg, milled rice | | | | | | |
|--|---------|---------|---------|---------|---------|------|
| Item | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Target Price | 188,000 | 188,000 | 188,000 | 188,000 | 188,000 | na |
| Farm Receive Price | 187,405 | 184,730 | 182,399 | 179,257 | 182,990 | na |

| | | | | | | |
|----------------------------|---------|---------|---------|---------|---------|--------------------|
| Avg. Farm Price 1/ | 174,707 | 166,198 | 150,659 | 129,711 | 154,603 | 193,448 |
| DP for Income Compensation | 12,698 | 18,532 | 31,740 | 49,546 | 28,387 | na |
| Area Payment | 12,698 | 14,306 | 15,855 | 15,889 | 15,873 | 14,909 |
| Deficiency Payment | none | 4,226 | 15,885 | 33,657 | 12,514 | na |

1/ average farm gate price in harvesting season from October to January.

Table 4

| Korea: Calculation of Rice Direct Payment Unit: Korean Won/kg, milled rice | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Item | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Target Price | 2,350 | 2,350 | 2,350 | 2,350 | 2,350 | na |
| Farm Receive Price | 2,343 | 2,309 | 2,280 | 2,241 | 2,287 | na |
| Avg. Farm Price 1/ | 2,184 | 2,077 | 1,883 | 1,621 | 1,933 | 2,418 |
| DP for Income Compensation | 159 | 232 | 397 | 619 | 355 | na |
| Area Payment | 159 | 179 | 198 | 199 | 198 | 186 |
| Deficiency Payment | none | 53 | 199 | 421 | 156 | na |

1/ average farm gate price in harvesting season from October to January.