



## **Plan for Agricultural Product Distribution Structure Improvement**

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### **INTRODUCTION**

The Ministry of Agriculture, Food and Rural Affairs (MAFRA) has announced the 2013 performance and 2014 implementation plan for agricultural product distribution structure improvement. This is the major government project of the Park Geun-hye administration in the area of agriculture. The key points of the Comprehensive Plan for Distribution Structure Improvement established jointly by relevant ministries on May 27 last year. These are: 1) expansion of direct trade between producer and consumer; 2) distribution systematization through producer organizations; 3) systematization of supply and demand controls; and 4) efficiency establishment in wholesale market.

#### **Performance for 2013**

MAFRA has announced that it is getting some visible outcomes as a result of faithful implementation of the plan, and the increasing public interest in the distribution of agricultural products is becoming the engine to continue to drive the policy. The outcomes of 2013 performance are as follows:

First, it is in the reduction of distribution costs through expansion of direct trade and B2B for agricultural products that a new type of direct trade with low distribution costs has been expanded. MAFRA promoted the best practice at the local food farmers' market run by Nonghyup in Yongjin, Wanju-gun, raising interest in local food nationwide. The number of applicants for local food farmers' market project has been increased from 30 in 2013 to 50 in 2014. Consumer interest and participation for packaging of products in season and direct trade markets and agricultural products cyber shopping have also increased. Direct trade record between producers and consumers has been increased from 1364.7 billion won in 2012 to 1608.1 billion won in 2013. It shows the increase rate of 17.8%. In addition to direct trade, agricultural product B2B has also been vitalized. The B2B trade in agricultural products has been increased from 0.85 trillion won in 2012 to 1.2 trillion won in 2013 according to **aT** cyber trade center.

Second, it is in the expansion of distribution systematization through producer organizations. MAFRA has fostered 1,804 joint selection and shipping associations

comprising of multiple farms for joint selection, packaging and calculation, an organization of systematized shipping producers, joining shipping agricultural products worth a total of 1.4 trillion won (1.1 trillion won for 2012), expanding the foundation for distribution systematization. After a reshuffle of the Nonghyup business structure, it gathered strength in the distribution area, posting sales of retail distribution (Hanaro Mart) of approximately 2 trillion won, up to 6.9% from a year earlier. For the wholesale business, the foundation for raising the capabilities of selling agricultural products has been laid through the Nonghyup Anseong Agricultural Food Distribution Center which opened last September. Since the opening of the Anseong distribution center, costs of approximately 50 billion won have been saved through efficiency establishment of distribution. For livestock products, MAFRA has fostered leading farms for expansion of the foundation of systematized shipping (3,650 farms for 2013) and dramatically reinforced the role of co-op packers (Nonghyup Anshim Chuksan, etc.) that conduct the entire process of slaughtering, processing and sales. The result of the direct trade through butcher shops and butcher restaurants and livestock mobile seller vehicles (79 vehicles) systematized to improve the link of the prices between the producing and consuming areas was found to be a great success as well. Meanwhile, deregulation has been made allowing butcher shops to make and sell processed meat products (Enforcement Decree of the Livestock Products Sanitary Control Act (Oct. 2013)), inducing the promotion of the consumption of less preferred parts of meat and the reduction in the price of pork belly and Boston butt.

Third, it is in the systematization of supply and demand control. MAFRA introduced and conducted a new agricultural product supply and demand adjustment policy in which private and public stakeholders participate in place of the past policy that stabilizes prices by increasing the volume of TRQ and import. As a result, the supply and demand has been controlled stably. It has established a Supply and Demand Adjustment Manual (five items) that includes the expansion of provision of observation information and the setting of price stabilization range, in an effort to implement a more systematic and predictable supply and demand policy. In case of price instability, it also conducted the joint private-public Supply and Demand Adjustment Committee (convened a total of seven times) based on the participation and agreement of stakeholders. To proactively respond to price instability, it has also pursued means to adjust supply and demand such as expansion of domestic stock, stabilizing prices in early stages. In the case of onion price soaring, it stabilized the price through agreement of the committee (restraint from increasing price and expansion of shipping) without importation. In anticipation of an oversupply of Napa cabbage, it applied isolation from market (60,000 tons) and conducted a consumption promotion campaign through the committee, and as a result, the price began to recover the average price level beginning in November. Meanwhile, Nonghyup pursued reducing consumer prices and supporting producer income by introducing a win-win marketing strategy that combines agricultural product promotion and corporate promotion. (2013: 20 companies / advertisement cost 1.1 billion won). The stabilization of prices of five main vegetables closely related to the lives of the Korean Public such as Napa cabbage and radish has been attained. Price volatility for five main vegetables for 2013 was 12.9% which was lower than 19.0% in the average during 2010-2012.

Fourth, it is in the efficiency establishment in wholesale market. To supplement the shortcomings of the auction system with large price amplitude, it has expanded the fixed price private sales and conducted deregulation to improve the efficiency of the wholesale market. It amended the Act on Agricultural Wholesale Market to allow wholesale market

corporations to buy and gather goods and expand the scope of cross-ownership (Nov. 2013) and allow transactions among brokerage/wholesale providers and unify the evaluation of wholesale market corporations (Feb. 2014), and also conducted government financing (70 billion won) and education for fixed price private trade. Accordingly, the competitiveness of the main agents of the wholesale market has been raised, creating an environment that can promote competition with other distribution agents and improve the efficiency of the wholesale market. With the establishment of the distribution structure improvement plan, the long-desired price settlement organization was finally established (Dec. 2013), reinforcing the transparency of trade and the function of producer protection.

Fifth, it is in the expansion of the provision of information to consumers. It provided weekly price forecasts and real-time selling price information by utilizing a variety of media such as TV, Internet and mobile devices, and expanded the scope of the unit price labeling program to super supermarkets (SSM) (Sept. 2013), supporting consumers to save money in shopping. It developed a Kimchi Index that shows the indication of the costs of kimchi ingredients such as Napa cabbage and pepper for the first time (Nov. 18, 2013) and announces it once a month to induce reasonable consumption.

### **Implementation plan for 2014**

Based on the foundation laid last year, MAFRA will maximize the results obtained in the course of implementing the plan, and actively improve anything that requires improvement, and through this, it will implement the plan in earnest beginning this year to produce tangible results.

MAFRA will expand direct trade and the systematization of distribution of Nonghyup. It will establish an additional 30 local food farmer's markets (total 60), and build the IT-based direct trade platform (Aug.) and Pos-Mall for direct trade from producing areas for small businesses (Sept.), improving the accessibility between producers and consumers. Direct trade platform is similar to existing open markets, but the biggest difference is that the shopping mall owners who participate in the platform but own no agricultural products can also select products they want to sell from the products registered by farms to the platform and sell them (making it possible to launch a start-up without capital). In addition, it will establish the Act on the Vitalization of Agricultural Product Direct Transactions that includes the introduction of the certification system for protection and vitalization of superior direct traders. It will also expand supply contracts with large food material providers, small and mid-sized supermarkets, and restaurant-related providers by utilizing the Nonghyup Anseong Distribution Center, and also increase online direct sales (Nonghyup a Market, Jan. 1, 2014). It will also expand the number of butcher shops and butcher restaurants to 700 (from 537 in 2013) and 440 (from 364 in 2013), respectively, in an effort to expand sales through co-op type livestock packers. Moreover, for expansion of fixed price private trade in the wholesale market, it will build the reservation trade and shipping information system (Sept.), execute deregulation to expand logistics infrastructure (reduction of facility usage fees and revision of enforcement regulations) and carry out visiting education programs and incentive programs (government financing interest rate cut).

To ensure that supply and demand can be stabilized this year, it will also push ahead to improve the accuracy of observation, expand the provision of information through, for example, mobile application and support incentives for farms to induce autonomous

adjustment of supply and demand. MAFRA has announced that it will continue to implement intensive measures to improve chronic problems such as high distribution costs and price instability, despite the fact that the distribution of agricultural products is very close and very tangible to the lives of the people.

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