

Rice Market Opening with Tariffication in Korea

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On September 18, 2014, the Korean government announced that the government decided to open its rice import market through tariffication and that it will set a tariff rate on rice imports at 513 % starting January 1 2015.

Rice as a main staple food in Korea has been exempted from the tariffication as a result of the Uruguay Round Agreement of Agriculture (UR AoA). In other words, Korea was able to postpone the rice tariffication for the last 20 years from 1995 to 2014. Instead, Korea has annually provided mandatory Minimum Market Access (MMA) quantity to rice exporting countries at a low tariff rate (5%) for this grace period. The import of mandatory MMA increased from 51,000 metric tons in 1995 to 408,000 metric tons in 2014. The volume of the mandatory MMA was determined by the percentage of average rice consumption between 1988 and 1990.

Rice import by the mandatory Minimum Market Access (MMA) has been extended for the last 20 years from 2005 to 2014 with this special treatment. Meanwhile, the rice import by the mandatory Minimum Market Access (MMA) allocated by global quota was from 1995 to 2004. However the mandatory Minimum Market Access (MMA) allocated for both country-specific and global quotas for 2005 to 2014 was a result of re-negotiation with rice exporting countries in 2005. The mandatory MMA volume of 205,228 metric tons, milled basis, has been allocated to the major four exporting countries. These are China, the U.S., Thailand and Australia. Country-specific quotas (CSQ) based on the historical import flows from 2001 to 2003 are 116,159 metric tons from China, 50,076 metric tons from United States, 29,963 metric tons from Thailand and 9,030 metric tons from Australia. However, the remaining MMA volume has been allocated to all rice exporting countries on an MFN basis under the global quota.

The decision on rice tariffication by Korean government is based on the cessation of special treatment in the form of exception of tariffication as of the end of 2014. After the cessation of special treatment, Korea should maintain the MMA volume for rice exporting countries at a low tariff. However Korea has a right to set tariff rate established on the basis of a tariff equivalent, to be calculated in accordance with the guidelines prescribed in the Agreement on Agriculture after the completion of the grace period. Also the entire volume of the CSQs shall be subject to global quota on an MFN basis as the result of 2005 rice negotiation with rice exporting countries.

The core issue in the process of rice tariffication is in the setting of import tariff rate. With its decision to open the rice market through tariffication, the Korean government decided to impose a 513 % tariff on imported rice from next year as indicated in an annex to the WTO Agriculture Agreement for calculating tariff equivalency. Rice tariff rate calculations follow a simple formula of dividing the difference between domestic and international prices by international prices. In other words, the percentage is determined by subtracting international import prices from domestic rates, then dividing by the import price and multiplying by one

hundred. The Ministry of Agriculture, Food and Rural Affairs (MAFRA) explained that representative wholesale prices from a Korean Agro-Fisheries and Food Trade Corporation (aT) survey were used for domestic prices, while the average import price for neighboring China was used for an international rate, with reference years of 1986 to 1988.

Another issue in the process of rice tariffication is in the selection of the type of tariffs to be applied. Each member country has the authority to choose an *ad valorem* tariff, a specific tariff, an alternative tariff or a compound tariff according to the WTO Agriculture Agreement for calculating tariff equivalency. The Ministry of Agriculture, Food and Rural Affairs (MAFRA) explained that an *ad valorem* tariff, which has a relatively strong protection effect is selected because the international rice price is now much higher than in the reference year for the tariff rate calculation,

The Ministry of Agriculture, Food and Rural Affairs (MAFRA) said that the proposed tariff rate will be notified to the World Trade Organization (WTO) before the end of September, 2014. Members of the WTO will review whether the tariff rate is adequate over the next three months. The duration, however, may be extended, as it took 23 months and 57 months for Japan and Taiwan, respectively. Korea will still be allowed to impose the 513 % rate regardless of a possible delay in the review process by the WTO.

As mentioned before, Korea has been allowed to delay its rice market liberalization through tariffication under the agreement with the WTO in exchange for expanding the mandatory rice import quota, which reached 408,000 tons this year. The quota will be maintained even after the rice market opening through tariffication in the name of MMA with imposing a preferential 5 % tariff rate.

The Ministry of Agriculture, Food and Rural Affairs (MAFRA) explained that the 513 % tariff for non-mandatory import will effectively keep the foreign rice more expensive compared with the locally produced rice. Japan, for instance, opened its rice market through tariffication in 1999, but it only imported an average 350 tons of rice under high tariffs from 2000 to 2013.. Taiwan, which also liberalized its rice market in 2003, imports only about 500 tons of rice per year, in addition to 144,720 tons in mandatory import quota.

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