The Role of Agricultural Cooperatives in Improving Place of Production and Distribution in Korea

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ABSTRACT

The environment which surrounds agricultural marketing such as various emerging hypermarkets and accelerating free trade have changed rapidly. Korean government has prepared countermeasures against these challenges through nurturing the organizations of place of production and distribution etc. That is why the role of agricultural cooperatives in the production district is crucial. Leaders of agricultural cooperatives should consider several aspects to enhance their role as follows: fostering agricultural marketing specialists in agricultural cooperatives, developing the system of voluntary and active participation of farmers, efficient role-sharing between agricultural cooperatives and NACF and strengthening inter-departmental cooperation relations especially between the agricultural production distribution area and the wholesale market in NACF.

Keywords: place of production and distribution, secondary marketing organization (corporation for joint venture partnership among agricultural cooperatives), agricultural marketing systematization, role of the cooperatives, NACF, regional agricultural cooperatives

INTRODUCTION

There are very rapid changes in the internal and external agricultural marketing environment. In the internal aspect, the needs of consumers are diversified due to changing food consumption patterns, the life cycle of consumers and the larger market share by the big food companies. In the external aspect, the opening of markets for agricultural products has been accelerated due to UR agreement, WTO, FTA, etc. The Korean government has adopted some countermeasures since 2000. For example, it has selected and supported marketing organizations in the production district like professional marketing organizations, joint marketing organizations, secondary marketing organizations (corporation for joint venture partnership among agricultural cooperatives), agricultural corporations, etc. But despite the government's support for organizing business, the progress of the agricultural marketing systematization is slow than expected. The main reason is because the change in retail market has become very fast than those in the production area. Although there are some problems regarding the need and importance of agricultural marketing systematization, the new policy of agricultural marketing systemization is very urgently needed.

The objectives of this study are to find a way to arrange the places of production and establish a new direction for the policy of places of production and distribution. This study also aims to find the roles and the targets which agricultural cooperatives should undertake in order to revitalize organizing the production places.

CHANGES IN DISTRIBUTION CONDITIONS AND ORGANIZING THE PLACES OF PRODUCTION

Changes in agricultural marketing environment

There are three changes. First is the change in demand and consumption structure. The pattern of food consumption has changed quickly. This includes characteristics like high quality, diversification, handiness, health and safety-oriented. Second is change in the supply and production structure. The production of fruit and vegetables is bigger compared to consumption. So the competition among the places of production has become severe for searching stable market. Accordingly, the systematization and making brand in producing area have moved forward. Third, they are the change in the retail distribution structure and the transition to consumers-oriented distribution system. Due to the expansion of the various large-scaled retail stores, agricultural marketing system is rapidly changing from producer-based distribution system to consumer-oriented distribution system.

Change in agricultural Marketing System by increasing major distributors

The amount of sales of agricultural products in hypermarkets and super-super markets (SSM) and department stores is, 10 trillion KRW while that of the agricultural cooperatives is 1.4 trillion KRW even though the percentage of the ratio of agricultural product sales in agricultural cooperatives is relatively high like 46.6%.

Table 1. Amount of sales of farm products in the major retail chains

Type of store	sales (in trillion KRW)		
	Total including agri. product (A)	agricultural product (B)	(B)/(A)%
Hypermarket	23.5	4.5	19.2
department store	17.2	1.1	6.6
Super-super market(SSM)	11.0	4.4	40.3
Total	51.7	10.0	19.3
Agricultural Cooperative	3.0	1.4	46.6

Source : The Ministry of Agriculture, Food and Rural Affairs, 『Hand book』, 2008. 10.

The major characteristics of the retail markets in Korea has been described as large scale, diversified and specialized because the food service industry whose sale amount is 80 trillion KRW, that of the agri.-food industry is 101 trillion KRW and that of the food manufacturer is 77 trillion KRW while the total production amount of agriculture of Korea is just 45 trillion KRW in 2013. Additionally the average increasing rate during the recent 13 years confirms the characteristics because the sales amount of the food manufacturers, food service industry and agri-food distribution industry has increased continuously with high percentage such as 6-8%.

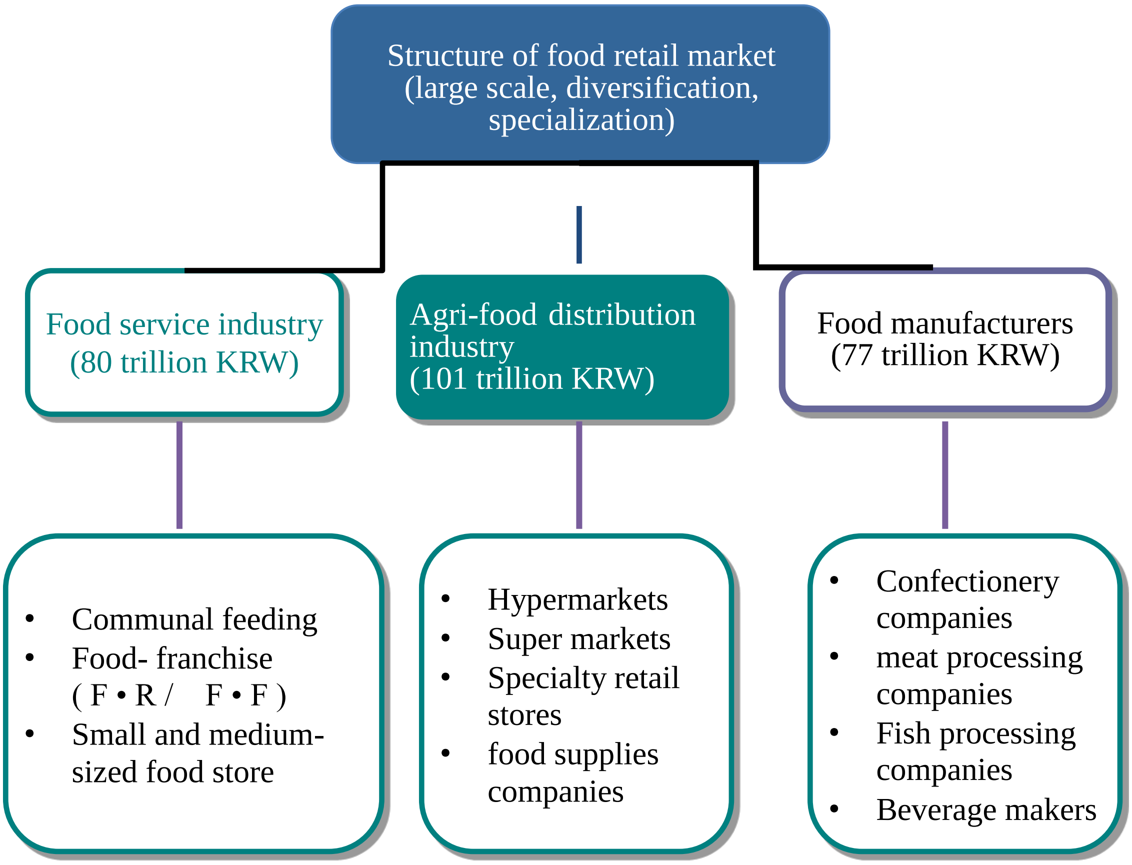


Fig. 1. Structure of the food retail market

Note: the number in parenthesis means amount of sales in 2013.
Source: The Ministry of Agriculture, Food and Rural Affairs

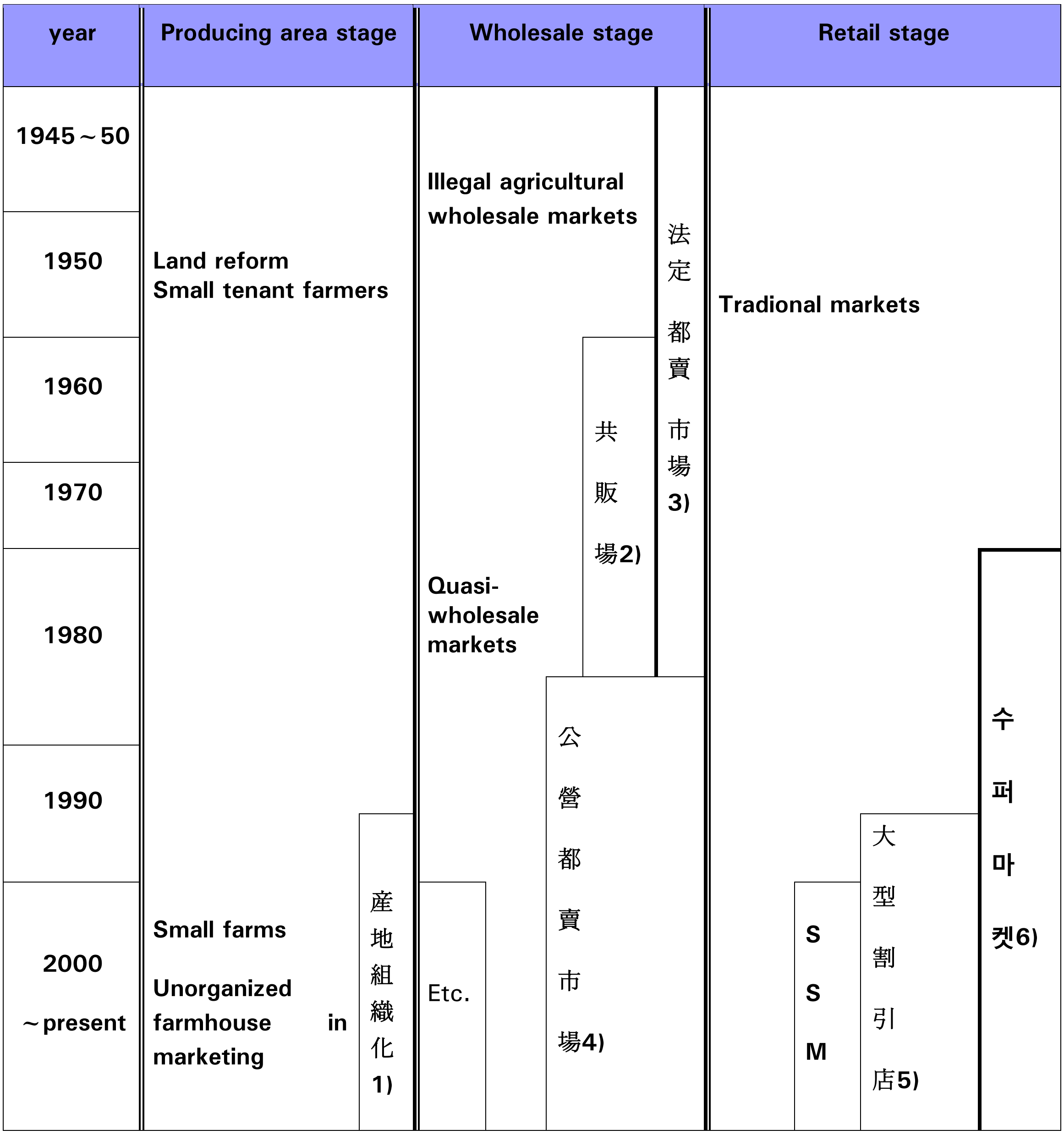
Table 2. Changes in food retail market

(Unit: trillion KRW)

Year	Food manufacturers (sales amount)	Food service industry (sales amount)	Agri-food distribution industry (sales amount)	Agriculture (amount of production)
2000	34.1	35.5	36.4	31.8
2005	43.7	46.3	50.5	35.1
2009	63.7	67.6	88.5	41.7
2013	77.3	79.5	100.6	44.6
Increasing rate*	6.5%	6.4%	8.1%	2.6%

Note *: Average increasing rate, 2000-2013
Source:

There have been drastic changes in retail, wholesale and producing- area stage. In the retail stage, big scale capital and companies hold the market recently. In the wholesale stage, the government-supervised wholesale market has about 50 % market share. But in the producing-area stage, most production is done mainly by smallholders. The production market ratio by organized farmers is only about 15% even though the ratio has recently increased by the activity of agricultural cooperatives.



Notes : 1) organized farmers in marketing 2) the joint sales of agricultural cooperatives
3) Legal wholesale market 4) Government-supervised wholesale markets
5) Hypermarkets 6) Super markets

Fig. 2. Changes in the agri-food market by time period

The changes of agricultural products marketing environment in terms of market power are as follows. During the period of 1945-1985, the main power as in illegal agricultural wholesale market. During the period of 1985-1995, the influence of the government-supervised wholesale market was absolute. But after 2000, agricultural distribution market has been ruled by big-scaled capital and companies.

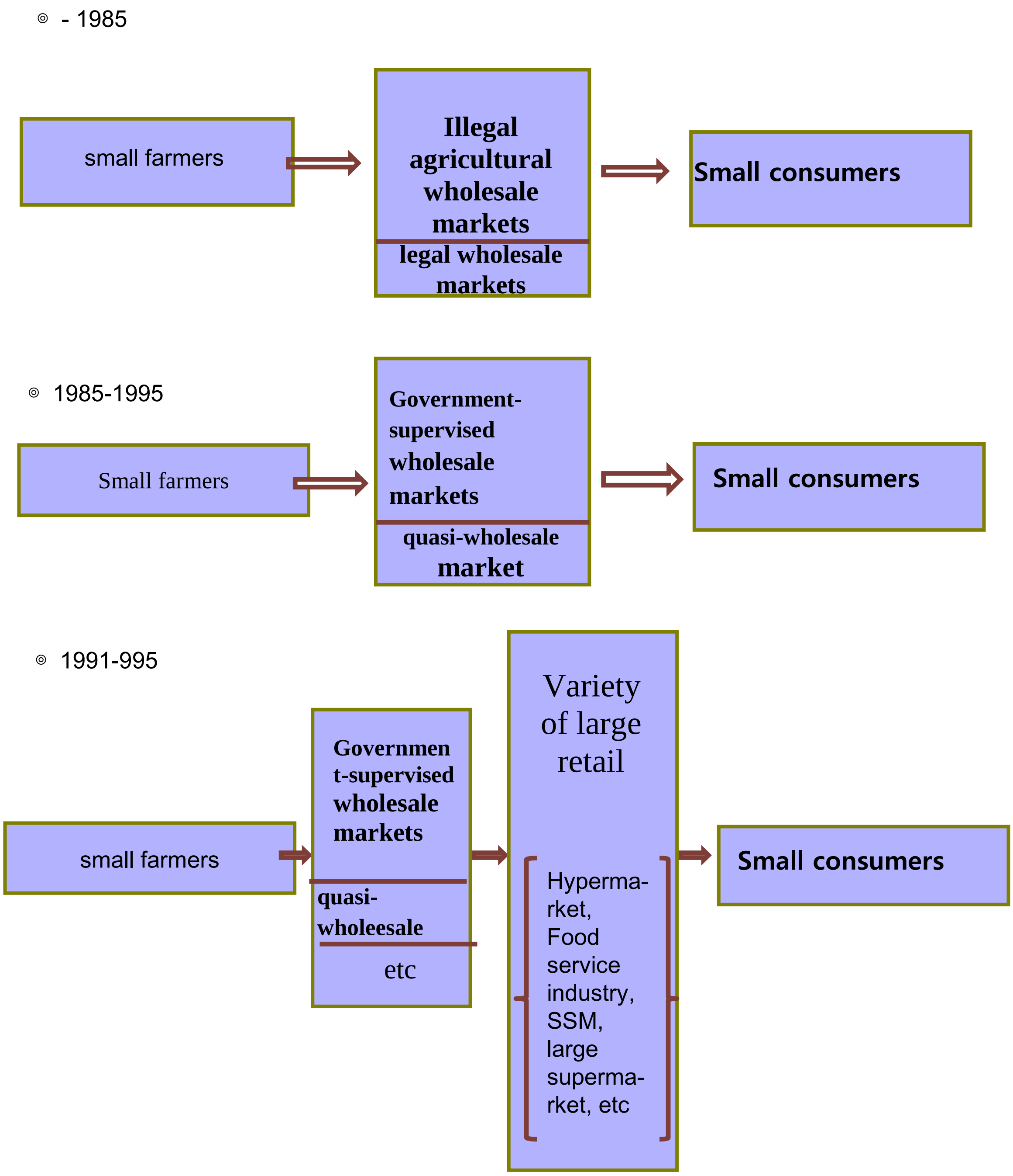


Fig. 3. Changes of marketing power in the agri-food market by time period

There are impacts from outside such as Free Trade Agreement (FTA). There have been more than 50 FTAs in a short period since 2004 and this free trade mood is being accelerated. But response from agricultural side is still very much limited.

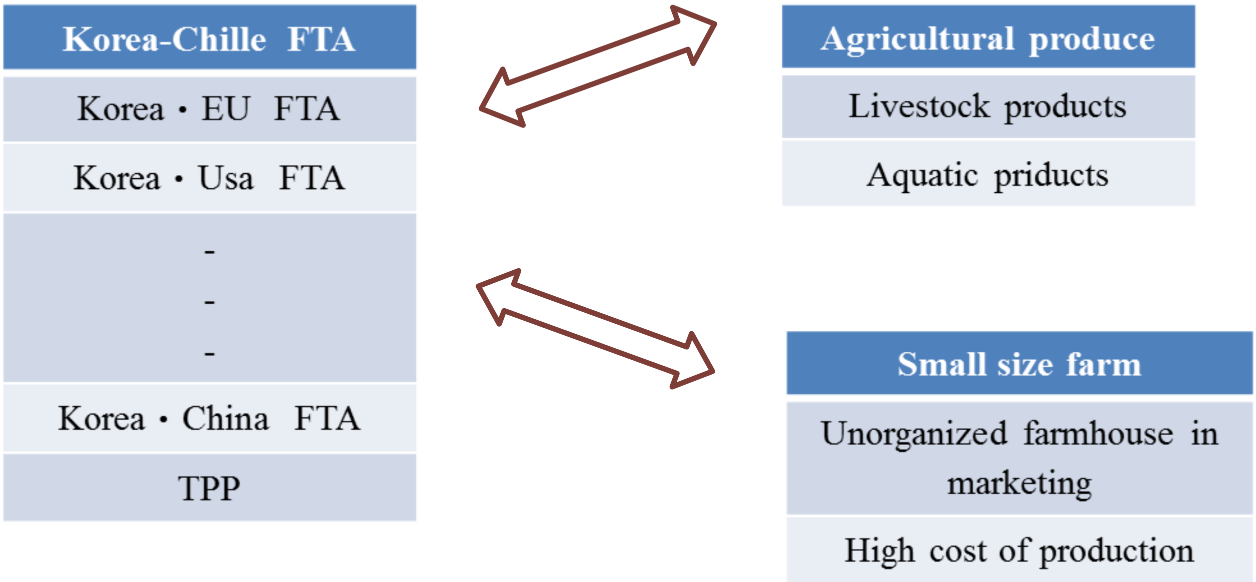


Fig. 4. Signed FTAs and the realities of agriculture

THE PRESENT STATUS OF NURTURING THE ORGANIZATION OF PLACE OF PRODUCTION AND DISTRIBUTION

Farmer’s organization: production organization and, cooperative grading & shipping organization

Since 2008 NACF has begun to develop a cooperative grading & shipping organization instead of product organization[1], combined sales business and cooperative shipping organization in order to cope with the foresaid changes in agricultural marketing environment. The cooperative grading & shipping organization began with 1,006 organizations, 31,554 farm households, 548 agricultural cooperatives with a joint calculated amount of 542.2 billion KRW in 2009. As of the end of 2013, the number of cooperative grading & shipping

[1] The total number of production organization was 19,287 in 2008. The organization was consisted with categories for vegetables (42.7%), fruits (26.9%), crop (14.6) and flower etc. (9.5%), livestock (6.3%).

organizations is 1,804 organizations, the number of the participated farm households are 60,853 households, and the amount of business (joint calculation) is one trillion four hundred billion KRW. The number of the related statistics shows the rapid increase of this business as shown in Table 2.

Table 3. The status to foster cooperative grading and shipping organization

(unit: place, hunred million KRW, person)

Year	Result of joint calculation	Number of org.	Participation of agricultural cooperatives	Participation of rural households
2009	5,422	1,006	548	31,554
2010	7,812	1,327	664	38,243
2011	9,202	1,528	663	40,762
2012	11,002	1,644	678	45,744
2013	14,234	1,804	680	60,853

Source: National Agricultural Cooperative Federation (NACF), marketing division in producing area

By category, it appears in the following order: fruits and vegetables (30.0%); fruits (26.2%); edible herbs (13.4%); and condiment vegetables such as red pepper, garlic and onion (12.9%) in 2013. The ratio of fruits and vegetables is higher than other crops in terms of the number of organizations and the size of businesses.

Table 4. The status of cooperative grading and shipping organization by agricultural commodities in 2013

(unit: place, million KRW, %)

	Fruits	Fruits and vegetables[1)]	Edible herbs	Condiment vegetables	Root vegetables	Etc.[2)]	Total
Number of org.	472 (26.2)	541 (30.0)	242 (13.4)	232 (12.9)	32 (1.8)	285 (15.8)	1,804 (100.0)
Result of business	424,131	501,292	117,560	214,444	12,091	153,879	1,423,397

Notes: 1) Fruit-vegetables : tomato(cherry tomato), strawberry, melon, watermelon, orientakmelon, Cucumber, pumpkin, eggplant etc.

2) etc: flowers, mushrooms, (sweet) potatoes etc.

Source: NACF, marketing division in producing area

Combined sales business by agricultural cooperatives including NACF

Combined sales business means a business that is comprised of at least two regional agricultural cooperatives and the Federation (NACF) offices on the basis of mutual agreements for selling agricultural products of their member farmers. But some of them are comprised of only regional agricultural cooperatives and supervised by NACF. This business began in 2001. Main agent of the combined sales business are cooperative grading & shipping organization, participating local cooperatives, and combined sales business group.

The cooperative grading and shipping organization is responsible for shipping contracts, cultivation methods, producing good agricultural products, information sharing, etc. Participating local cooperatives are responsible for fostering the cooperative grading and shipping organizations, production guidance, grading and merchandising, etc. Combined sales business group is responsible for integrated marketing, brand development, public relations, integrated ordering, consultation, etc. The business is mainly done in the area of fruits and vegetables and the number of combined sales business is 104 places. Fifty-five places are operated by the combined sales business group of NACF and 36 places are operated by only regional agricultural cooperatives such as Hessare fruit secondary marketing organization but with NACF supervising. The business amount has been increasing as shown in Table 4.

Table 5. The result of combined sales business

(unit: hundred million KRW)

Year	2006	2007	2008	2009	2010	2011	2012
Result of business	3,343	4,332	4,908	6,301	7,955	9,458	12,557

Source: Division of Marketing of producing area, NACF

Cooperative shipping organization

There were two organizations in cooperative shipping. These are professional distribution organization business and the co-marketing organization business. In 2010, the government integrated them into one, the marketing activity business in producing district.

The number of marketing activity business in producing district had a total of 173 places in 2012. About 70% (122 places) of the business is operated by regional agricultural cooperatives (122 places). The percentage of joint accounting rates increases continuously.

Table 6. The result of business to vitalize distribution in production area

(Unit: place, %)

<table>
<tr><th></th><th>2005</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th colspan="2">2011</th><th>2012</th></tr>
<tr><td>Joint marketing Organization</td><td>9</td><td>19</td><td>22</td><td>26</td><td>31</td><td>35</td><td rowspan="2">180
(114)</td><td rowspan="2">173
(122)</td></tr>
<tr><td>Professional distribution organization in production area</td><td>259</td><td>278</td><td>292</td><td>288(250)</td><td>282(235)</td><td>145</td></tr>
<tr><td>Joint account rates</td><td>18.3</td><td>21.8</td><td>21.5</td><td>25.9</td><td>26.3</td><td colspan="2">38.3</td><td>-</td></tr>
</table>

Footnote: The number in the parenthesis is the number of the organization which is operated by the regional agricultural cooperatives.

Sources : 1. MAFRA·aT, The performance analysis of business to vitalize distribution in production area, 2013.
2. NACF, 2013

Looking at the agricultural distribution organization by type which receives funds for the marketing activity business in producing district, in 2013, organizations, agricultural cooperative organizations account for 63.7% among the 204 agricultural products

Table 7. The status of distribution organization by types(2013)

(unit : place, %)

types	Agricultural cooperatives	Agricultural corporation	total
Secondary marketing organizations[1]	28	-	28 (13.7)
Combined sales business of NACF	21	-	21 (10.3)
Regional farmers ’ cooperatives	63	-	63 (30.9)
Agricultural commodities cooperatives	18	-	18 (8.8)
Agricultural corporations	-	73	73(35.8)
Municipal corporation	-	1	1(0.5)
Total	130(63.7)	74(36.3)	204(100.0)

Footnote: 1. Secondary marketing organization means corporation for joint venture partnership among agricultural cooperatives or agricultural corporation

2. This table shows only the integrated marketing organization which is supported by the marketing business fund.

ACHIEVEMENTS AND TASKS OF THE POLICIES OF ORGANIZING PRODUCTION AREA

Achievements of the policies of organizing production area

There are several meaningful achievements. First, the awareness of the necessity and importance of organizing the production area has been widespread among leading farmers. Second, various types of producer organizations have been founded and spread nationwide. Third, hardware facilities for agricultural marketing APC (Agricultural product Processing Center) have been rapidly developed.

Tasks of the policies of organizing production area

But there are many challenges which should be resolved in the short and long run. First, policy measure and support for software is not sufficient enough compared to the hardware. Second, grading and joint calculating are not enough in the production area. Third, the infrastructure for distribution organization is not enough. Fourth, privatization of agricultural corporation which has been supported by government is increasing. Fifth, the role and ability of cooperatives as the core of distribution in producing districts should be strengthened. Sixth, there is a lack of linkages between production area and agricultural wholesale markets. Seventh, the responsiveness of the producing distribution organization to the consumer market is not enough. Lastly, the efforts of farmers in terms of voluntary and proactive actions are not enough.

CONCLUSION

The government should systemize the way it operates the organization of production area from top-down way to bottom-up way using its experiences over the last 10 years. The details of the policies are as follows:

First, fostering agricultural marketing specialists in agricultural cooperatives is very important. Because they can support and lead farmers in the field.

Second, developing the system of voluntary and active participation of farmers is very much necessary because passive participation cannot be continued for a long time. Third, the efficient role sharing between agricultural cooperatives and NACF should be emphasized. Lastly, Strengthening inter-departmental cooperation relations especially between the department of agricultural production distribution area and wholesale market in NACF is needed.

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