

# **Improvement Plan of Agricultural Distribution System**

Jeongbin Im

Professor, Seoul National University, Korea

The Ministry of Agriculture, Food and Rural Affairs (MAFRA) announced a Distribution System Improvement Plan for Agricultural Products' on May 27 2013. The main strategies of agricultural distribution system improvement project are as follows: (1) Wholesale market efficiency improvement; (2) Expansion of direct transactions for agricultural products; (3) Systemization of distribution structure for agricultural and livestock products by producer association; (4) Supply-demand management systemization for agricultural products in accordance with the agreement. This project has been planned as part of a policy paradigm shift based on a performance analysis of past distribution policies, with the goal of ensuring healthy and sustainable distribution system establishment, as follows: (1) Wholesale market orientation which have been focused on producer profit protection and impartial transactions will be demanded and required for a high level of efficiency; (2) Distribution channel competition will be promoted with distribution process simplification; (3) Consumer participation will be encouraged for producer-oriented distribution policies; (4) Government-oriented policies will be changed to public-private cooperative policies for political fairness and impartiality.

In particular, this project has been established to resolve three distribution issues: high distribution costs; large price fluctuations; and discrepancies in producer-consumer pricing. These main issues are derived by Government Distribution Policy Evaluation Results during the last 20 years. As resolution measures for the above three agricultural product distribution issues, the following goals are suggested: (1) Improvement of distribution structure effectiveness by increasing wholesale market efficiency and establishing new distribution channels; (2) Reducing price fluctuations by strengthening supply-demand management through agricultural outlook, stocking and contract cultivation expansion; (3) Establishing a sustainable distribution structure where producers sell products at a balanced price and consumers purchase at affordable prices.

Implementation Plans to achieve these goals are as follows: (1) Expansion of negotiated or net price transactions, relaxation of regulations, logistics efficiency improvement, and market specialization; (2) Changing the wholesale market transaction method from auction to negotiated or net price transactions; (3) Increase in sales units and reductions in price fluctuations through expansion of negotiated or net price transactions (8.9% in 2012 to 20% in 2016); (4) Reserved transaction and delivery information system establishment and support for policy funding (KRW 70 billion) for negotiated or net price transaction promotion; (5) Relaxation of regulations that interrupt a market economy; (6) Distribution efficiency improvement through phased transaction permission between commission agents or wholesalers; (7) Setting a pallet as the minimum sales unit for increased freight volume in a wholesale market (fruits by 2015, vegetables by 2016); (8) Base-oriented, producer-oriented, and consumption-oriented market specialization according to geographic conditions and environments; (9) Legislating the (tentatively named) 'Act on Direct Agricultural Product Transaction Promotion' by 2014, and the development and diffusion of a creative direct transaction model; (10) Establishment of a wholesale-based distribution system for agricultural products and a consistent distribution system for butchery, processing, and distribution through cooperative packers (safe animal breeding organization) for livestock

products by linking to the agricultural business promotion plan (established September 2012); (11) Establishment of a supply-demand management system based on the agreement and accurate observation; (12) Sharing information with the Rural Development Administration (RDA), Statistics Korea, and other product associations, and developing the demand prediction model (budget in 2013: KRW 8 billion); (13) Increase in the domestic stockpile of necessary agricultural products (napa cabbage, radish, chili, garlic, onion) and expansion of contract cultivation (15% in 2013 to 30% in 2017); (14) Establishment of a price stabilization range and systemization of phased measures in accordance with the agreement of supply-demand control commission with financial support reinforcement for minimum price support and market isolation in preparation for price collapse (Emergency price stabilization project budget: increased from KRW 3 billion to KRW 10 billion); (15) Policy improvement for agricultural product fair trade and information sharing with consumers through a kimchi price index, unit price system, and other means.

Once distribution improvement measures are successfully promoted as planned, it will lead to the resolution of a significant proportion of the problems in agricultural distribution. An expansion of the distribution percentage through direct trading and by producer groups (16% in 2012 to 30% in 2016) will lower distribution costs by approximately 10 to 15%. At the same time, it is expected to accelerate competition, and thus ensure efficiency in other distribution routes. In addition, a link between prices in the producing districts and consumer prices will be possible. The government plans to continuously monitor the status of price links through consumer groups. Expansion of fixed price and free contract trading activities in wholesale markets are anticipated to decrease price fluctuations for agricultural products. The implementation of a supply-demand stabilization system based on accurate observation data and the supply-demand policy established through agreement among stakeholders, producers, and consumers, are expected to result in a reduction of the price fluctuation rates for napa cabbage, radish, chili pepper, garlic, and onions, items commonly consumed in Korea, by approximately 10%.

The government will continuously implement inspection, assessment, and feedback regarding policy implementation through private-public cooperation so that all of Korea can benefit from the policy implementation outcome.

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