Policy on Farmers’ Income and Farm Management Safety Nets in Korea

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ABSTRACT

This article is a translated excerpt of Expanding Farmers’ Income and Farm Management Safety Nets which is the first chapter of Action Plan of Agricultural Policy Task of 2018-2022 Development Plan for Agriculture, Rural Community and Food Industry prepared by Ministry of Agriculture, Food and Rural Affairs (MAFRA) of Korea. This Development Plan is an every-five-year plan which is prescribed in the Framework Act on Agriculture and Fisheries, Rural Community and Food Industry. The 2018-2022 Development Plan is the fourth one since 2003. The Korean government will promote the action plan of Expanding Farmers’ Income and Farm Management Safety Nets as follows during 2018-2022: First, the Korean government will expand and reorganize direct payments. For this, it will strengthen the public function of direct payments, promote the introduction of the agricultural environment conservation program, and reorganize Rice Direct Payment System. Second, the Korean government will strengthen farm household management stabilizer. For this, it will expand support for farm household’s recovery from natural disaster and expand agricultural revenue guarantee insurance program. It will also support farm households to reduce production cost by expanding the joint use of farm machinery by opening more farm machinery rental offices. Third, it will try to stabilize agricultural product prices and reform marketing. For this, it will reorganize rice industry and strengthen supply and demand stabilization such as expanding Vegetable Price Stabilization System, etc.

Keywords: Public Function of Direct Payment System, Agricultural Environment Conservation Program, Rice Variable Direct Payment System, Farm Household Management Stabilizer, Agricultural Revenue Guarantee Insurance Program, Agricultural Product Prices Stabilization, Vegetable Price Stabilization System

1 This 2018 - 2022 Development Plan was prepared before 2018, so the mention about the plan for 2018 is described as a future one rather than past one. Let readers know that this translation follows the original text.
INTRODUCTION

This article is a translated excerpt of Expanding Farmers’ Income and Farm Management Safety Nets of Action Plan of Agricultural Policy Task\(^2\) of 2018-2022 Development Plan for Agriculture, Rural Community and Food Industry\(^3\) which was prepared by Ministry of Agriculture, Food and Rural Affairs (MAFRA) of Korea. This 2018 -2022 Development Plan is an every-five-year plan which is prescribed in Article 14 of Framework Act on Agriculture and Fisheries, Rural Community and Food Industry. This 2018-2022 Development Plan is the fourth one since 2003, like the first one for 2003-2007, the second one for 2008-2012 and the third one for 2013-2017. This plan is the government’s mid- to the long-term comprehensive development plan for proposing future development of agriculture, rural community and food industry, and for promoting the related policies effectively. The Expanding Farmers’ Income and Farm Management Safety Nets consists of three parts as follows: ① Expansion and reorganization of direct payments, ② Strengthening farm household management stabilizer, and ③ Agricultural product prices stabilization and marketing reform.

Expansion and reorganization of direct payment

1. Strengthening the public function of direct payment

Rice Fixed Direct Payment (RFDP), Upland Fixed Direct Payment (UFDP) and Less Favored Farming Areas Direct Payment (LFFADP) will be integrated, and strengthening the level of farmers’ cross compliance will be reviewed as follows (See Table 1). First, the circumstance for introducing Farmland Management Direct Payment will be created through easing the unit price gap between RFDP and UFDP & LFFADP by raising the unit price of UFDP & LFFADP gradually. The roadmap for reorganizing direct payment will be prepared by 2018, and the reform plan such as fixing the target farmland to be subsidized, deciding the unit price of direct payment and setting the appropriate extent of farmers’ cross-compliance duty will be embodied by 2020. Here reforming the appropriate extent of farmers’ cross-compliance means that the extent of it will be expanded from just maintaining the shape & function of farmland to observing usage standards of pesticides and fertilizers additionally. The new program will be fully implemented in 2022 via amending Act on Preserving Agricultural Income.

\(^2\) The ‘Action Plan of Agricultural Policy Task’ consists of five chapters as follows: ① Expanding Farmers’ Income and Management Safety Nets, ② Strengthening Sustainable Agro-Food Industry Base, ③ Establishing Safe Food Supply System, ④ Creating a Rural Area Where Everyone Wants to Live, ⑤ Agricultural Policy of Participation and Cooperation. Here the chapter ① Expanding Farmers’ Income and Management Safety Nets is translated.

\(^3\) The original document of 2018-2022 Development Plan for Agriculture, Rural Community and Food Industry is written in Korean and the website address of it is as follows: http://www.mafra.go.kr/mafра/366/subview.do?enc=Zm5jdDF8QEB8JTJGYmJzJTJGbWFmcmElMkY3MSUyRjMxNjk0MCUyRmFydGItYmYldy5kbyUzRmJic0NsU2VxJTNICEiXZmV3TWluZSUzRGZhbHNJIT2cmdzRW5kZGVtYmIhM0QlMjZwYWdlJTNESUxSUmIic09waXVzcmRTZXEiM0QlMjZyZ3NCZ25kZVNoicUxRCUyNnNyYo2hXcmQlM0QlMjZwYXNzd29yZCUzRCUyNnNyY2hDb2x1bW4lM0QlMjZyZ3ICM0QxMCUyNg%3D%3D
Table 1. Plan to reform the Direct Payment System (Plan)

<table>
<thead>
<tr>
<th>Present</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice Fixed Direct Payment (RFDP)</td>
<td>+ Agricultural Environment Conservation Program</td>
</tr>
<tr>
<td>Upland Fixed Direct Payment (UFDP)</td>
<td>+ Environmentally-Friendly Farming Direct Payment</td>
</tr>
<tr>
<td>Less Favored Farming Areas Direct Payment (LFFADP)</td>
<td>Integrated operations of RFDP, UFDP, and LFFADP (Strengthening the duty of farmers’ cross compliance)</td>
</tr>
<tr>
<td>Landscape Conservation Direct Payment (LCDP)</td>
<td></td>
</tr>
<tr>
<td>Environmentally-Friendly Direct Payment (EFFDP)</td>
<td></td>
</tr>
</tbody>
</table>

Second, the unit price of EFFDP (Environmentally-Friendly Farming Direct Payment) will be increased through subdividing payment criteria as following (Table 2).

Table 2. Comparison of the unit price of EFFDP

<table>
<thead>
<tr>
<th></th>
<th>Organic farming</th>
<th>Non-pesticide farming</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Paddy field</td>
<td>560</td>
<td>653</td>
</tr>
<tr>
<td>Upland</td>
<td>1,120</td>
<td>vegetable, oilseeds crop, etc.</td>
</tr>
<tr>
<td>Fruit</td>
<td>1,307</td>
<td></td>
</tr>
</tbody>
</table>

◊ 1 US$= 1,071.40 KRW. The basic exchange rate of Korean Won for US dollar of 2017. Bank of Korea.

Third, the system of Landscape Conservation Direct Payment (LCDP) program will be improved through strengthening review to the implementation of the LCDP’s agreement with the local government. Only the district or village whose ratio of sowing area to agreement area is over a certain level (2018: 50% -> 2022: 70%) will be able to join the LCDP program.

2. Promoting the introduction of agricultural environment conservation program

Environment conservation program by district for strengthening the public function of agriculture and rural area such as conserving landscape and ecology will be developed and promoted as follows. First, farmers’ and residents’ activities which try to improve the environment of agriculture and rural area in a certain district will be supported. Incentives will be paid to the farmers’ and residents’ activities which can improve the environment of agriculture and rural area through concluding environment conservation agreement between local government and district every five years.

**Case of Chungchongnam-do province’s agricultural ecological environment program**

- Project period: 2016-2017
- Project scale: 1.12 million US dollars (1 US$ = 1,071.40 KRW), 126 farm households of two villages, 58 ha.
- Promotion way of the project: Educating and consulting, monitoring implementation of farmer’s activities, and paying incentives (56-2,352 US$ per 10ares) by concluding environment conservation agreement between villages and local government
- Contents of the project: 16 activities such as not-using compound fertilizer and herbicide, returning rice straw to paddy field, digging and managing ecological puddle in the paddy field, growing flowering plants for alluring pollen-mediated insects, etc.
Second, the introduction of the agricultural ecological environment program will be promoted via empirical study, pilot project, etc. The program will be embodied through case study such as establishing a management plan, carrying out and monitoring activities by selecting a district which consists of 3-5 villages. Also the linkage with other direct payment programs such as Environmentally-Friendly Farming Direct Payment, Landscape Conservation Direct Payment, and Farmland Management Direct Payment, etc. will be reviewed. The farmers’ and residents’ activities which try to improve the environment of agriculture and rural area in a certain district will be adjusted so that they won’t overlap the duty of cross-compliance of Farmland Management Direct Payment which is going to be introduced.

3. Reorganization of rice variable direct payment system

Rice variable direct payment system will be reorganized and implemented in the direction of inducing proper production quantity of rice. Set-aside program for rice is being implemented only for a limited time in 2018-2019, and then variable direct payment system will be reorganized in 2020 as follows. First, reorganizing variable direct payment system will be promoted for stabilizing supply-demand of rice in the short run, and for balancing rice supply-demand and securing the sustainability of the system in the long run. Second, a set-aside program for a limited time will be promoted for stabilizing the supply-demand of rice, and reorganization plan of rice variable direct payment system will be prepared by analyzing the situation of supply-demand of rice. The appropriate production quantity of rice will be induced through weakening the connection between rice production and rice variable direct payment system as follows: 1). the way to lead farmers to change crops from rice to other crops in paddy fields through paying variable direct payment also to the farmer who plants other crops rather than rice in the paddy field, 2). the way to directly reduce rice planting by imposing obligation of attending set-aside program to the subsidized rice farmer, and 3). the way to introduce agricultural revenue guarantee insurance program centered on large-scale rice farmer.

<table>
<thead>
<tr>
<th>Case of Japan in operation of direct payment system</th>
</tr>
</thead>
<tbody>
<tr>
<td>• &lt;Rice direct payment&gt; Rice direct payment system was introduced in 2011 for the farm households who attend the set-aside program, but variable direct payment was abolished in 2014, and fixed payment was abolished in 2018 by the reform in 2013.</td>
</tr>
<tr>
<td>• &lt;Paddy field utilization direct payment&gt; Paying direct payment to strategic crops planted in paddy fields such as barley, soybean, forage crops, rice for powder for inducing curbing rice production and increasing strategic crops production.</td>
</tr>
</tbody>
</table>

Third, reorganization direction of rice variable direct payment system will be prepared in 2018, Act on Preserving Agricultural Income will be revised in 2019 and then reorganized system will be implemented from 2020.

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4 About the details on rice variable payment system refer to Jeongbin Im, *Overview of Agricultural Situation and Policy in Korea*. The article is on the FFTC Agricultural Policy Platform (FFTC-AP). http://ap.fftc.agnet.org/ap_db.php?id=49
Strengthening farm household management stabilizer

1. Expansion of business risk management system

(1) Support for agricultural disaster

<Natural disaster agricultural insurance>
Target items and coverage will be expanded, and the way of operation will be improved as follows. First, the number of target items will be expanded from 53 crops in 2017 to 67 crops in 2022 centering on crops vulnerable to natural disaster. And quality degradation in size and weight, as well as damage by pest will also be added to coverage. Second, the gap in premium rates between cities and counties will be reduced by setting an upper limit of premium rates (=premium/insurance amount × 100) through reflecting the statistics of adjacent city or county from the crops whose insurance coverage ratio is high such as apple and pear. Last, a discount to premium to the farmers who have not had disasters will be expanded. For this, a discount to premium to no disaster farmers will be expanded such as providing 5% discount to premium to the farmers who didn’t have disasters in the previous year and introducing consecutive no disaster scoring system that gives more discounts to high-score farmers.

<Support for recovery>
Step-by-step increase in unit price of natural disaster relief expenditure will become a reality by 2022 through following ways. First, the unit price of natural disaster relief expenditure to the items which are not covered by natural disaster insurance such as the cost of pesticide, cost of substitution planting and cost of subsidiary materials of facilities will be raised to reflect inflation, etc. Second, agricultural product damages will also be included when the government calculates the standard amount of damage for being able to be declared as a special disaster area.

(2) Support for agricultural management normalization

Supporting management normalization for farmers in crisis due to natural disaster, debt, etc. will be strengthened as follows. First, affiliated facilities other than farmland such as greenhouse and mushroom cultivation facility will also be purchased by the government. For this, two hundred and forty-three million US dollars will be supported for one thousand farm households a year. Second, long-term low-interest rate funds such as 7-year repayment fund with a three-year grace period and 1% interest rate will be provided (56 million US dollars a year). The funding limit also will be expanded to 0.9 million US dollars for individual farmers and 1.4 million US dollars for agricultural corporations, and selection process for the fund will be simplified from 2018.

(3) Expanding agricultural revenue guarantee insurance program

Agricultural revenue guarantee insurance program will be improved through expanding target crops and simplifying evaluation process of damages as follows. First, target crops will be expanded from 6 crops in 2017 to 12 crops in 2022 through comprehensive analyzing about farmers’ demand for insurance, possibilities for the introduction of insurance, price volatility, etc. Second, the way of simplification of the damage evaluation process by the farm household will be prepared for expanding agricultural revenue guarantee insurance program.
Third, the institutionalization of agricultural revenue guarantee insurance program which is being promoted as a pilot project will be considered.

2. Reducing agricultural management costs

Joint use of farm machinery, pesticide price marking system and self-sufficiency rate of roughage will be expanded for reducing agricultural management costs as follows.

<Farm machinery>
The number of farm machinery rental office operated by local government will be expanded from 443 offices in 2017 to 590 offices by 2022. The farm machinery of integrated mechanization system for upland crops will be supplied to 290 rental offices by 2022 from 40 ones in 2017. The rate of farm households which are involved in the joint use of farm machinery will be increased to 30% in 2022 from 24% in 2018 and 22% in 2016 through expanding farm machinery rental office.

<Pesticide and fertilizer>
Strengthening the price marking system and reducing distribution structure of pesticide and fertilizer will be promoted for enhancing transparency and credibility to their prices. Establishing farm input distribution center of Nonghyup (agricultural cooperative) by region will be continued for reducing the complex distribution stages of pesticide and fertilizer.

<Feed>
Stabilizing price and quality of feed and increasing self-sufficiency rate of roughage will be promoted as follows. First, there will be financial support such as providing feed grain purchase fund for feed manufacturer and providing feed purchase fund for farmers, tax support such as offering 0% tariff quota to 19 crops including corn and providing an additional extension of VAT-free coverage period from 2017 to 2020. Second, feed quality control system will be constructed in 2018 throughout manufacturing, distribution and sales stages.

Third, production and utilization of domestic roughage will be expanded through producing roughage linked with rice set-aside program and additional designating roughage-specialized production district from 21,000ha in 2017 to 30,000ha in 2022.

3. Establishing a countermeasure system against climate change

Scientific and systematic countermeasure system against climate change will be established for improving the adaptability of the farm household as follows. First, Preemptive disaster countermeasure system based on disaster map by region, by disaster and by the crop will be established. Second, field adaptation model for enhancing farmer’s adaptability to climate change will be developed and diffused through establishing a new planting system and developing new varieties resistant to climate change. Also introduction of subtropical crops will be expanded from 13 crops such as mango, papaya, fashion fruit, etc. in 2016 to 18 crops in 2021. Third, integrated service providing system such as providing weather information, risk information and agricultural technology information, etc. will be established through installing 2 to 3 weather countermeasure centers by province.
4. Expanding agricultural infrastructure for coping with disaster

Safe farming foundation against drought, flood, earthquake and tsunami will be constructed, and inflow of foreign pest will be blocked by strengthening border quarantine measures as follows. First, well-irrigated paddy rate and drainage improvement rate will be raised, and expansion of earthquake-resistant reinforcement target (e.g., reservoir) and early reinforcement will be promoted. Second, quarantine and forecast to plant disease and insect will be strengthened for blocking foreign pest infestation. In the border quarantine, differentiated quarantine system according to risk degree of plant disease and the insect will be applied. And integrated forecast network will be built, and operating forecast pest control center will be expanded for rapid discovering foreign pest and coping with them.

Agricultural product prices stabilization and marketing reform

1. Stabilizing supply and demand of rice and reorganizing rice industry

Balancing the supply and demand of rice will be tried through appropriate production and consumption promotion, and competitiveness of rice will be enhanced by trying to make rice quality improved as follows.

<Appropriate production>
Cultivated area for rice will be reduced through a set-aside program, from 755,000ha in 2017 to 705,000ha in 2018 and 655,000ha in 2019. Income difference in case changing crops from rice in the paddy will be preserved (3,173 US$ per ha in average) by a set-aside program.

<Diversification of paddy field utilization>
Mechanization and production base building for expanding production of other crops but rice will be promoted, and demand for the crops and sales channels such as the government’s procurement for the crops, etc. will be expanded as follows. First, circumstances for planting other crops than rice will be established through fostering ‘upland crops joint management body’ supported by the government from 35 bodies in 2017 to 170 bodies in 2022, developing varieties suitable for mechanization and accelerating joint use of farm machinery, etc. Second, introducing compensation for changing crops system will be reviewed for preserving income of farmers who change their crops from rice to upland ones and preventing a return to rice.

<Quality-centered rice production>
Rice production system will be reorganized to quality-centered one through excluding high-yield variety spread, expanding environmentally-friendly rice cultivation and reducing nitrogen fertilizer application. Quality-centered rice variety such as taste-oriented or function-oriented will be bred and spread so that the supply ratio of high-quality rice variety can reach at 70% by 2022.

<Improving marketing>
The capacity of the distributors in production area such as RPC (Rice Processing Complex) will be strengthened through expanding the size of the distributor, and marketing structure will be improved through emphasizing quality like the taste of rice as follows. First, a new integration model for accelerating RPC integration will be developed, and facility support
will be expanded to enhance the ability to purchase and processing paddy. Second, expanding marketing of small packed rice less than 5kg and instant-milled rice will be induced considering changes in dietary life, household demographic trend and consumption pattern, etc. Third, for consumers to choose tasty rice, improvement of rice grading standard system and the introduction of ‘best before date’ indication system will be reviewed in 2019.

**<Promoting consumption>**
Demand base for rice will be expanded through spreading positive recognition about rice, and value-added of rice will be enhanced by activating rice processing industry as follows. First, education about rice-based dietary habits for elementary school students and the efforts of easing the rate of skipping breakfast of college students and adults will be promoted. Second, supplying rice for processing with low price will be continuously promoted, and utilization of rice will be enhanced by developing varieties for rice flour and milling technology.

**<Procured rice management>**
Maintaining an adequate level of rice stock after 2019 will be tried through special stock management, and the efficiency of the management system will be improved from the procurement stage of government rice as follows. First, demand for rice will be promoted through assigning the usage by production year such as more than 3-year old rice should be used for feed and through improving quality of rice for processing, economically vulnerable people, etc. Second, procurement method (direct procurement vs. auction), payment procedure and quantity allocation criteria to the public reserve rice will be reviewed in the direction of recommending high-quality rice production.

**<Target price of rice income stabilization direct payment system>**
Next target price of Rice Income Stabilization Direct Payment (RISDP) system for the rice produced in 2018-2022 will be decided in 2018 by reflecting rice price, inflation rate, etc. Target price will be settled via getting approval of the National Assembly and revising related law.

2. Strengthening price stabilizer of major agricultural products

Stabilizing supply and demand will be tried through expanding Vegetable Price Stabilization System (VPSS)\(^5\), nurturing production organization, etc. as follows. First, price stabilizer by crops such as VPSS and agricultural revenue guarantee insurance program will be strengthened. In vegetables, grown outdoors, the number of items covered by VPSS will be increased from 4 crops of radish, Chinese cabbage, garlic and onion in 2017 to 6 crops of radish, Chinese cabbage, garlic, onion, red pepper and green onion in 2018, and the target of quantity coverage by VPSS among total vegetable production will be increased from 10% in 2018 to 20% in 2020 and 30% in 2022. In fruit, management burden due to price fall will be mitigated by expanding self-help fund and agricultural revenue guarantee insurance program.

Second, autonomous supply-demand adjustment function will be strengthened by constructing supply-demand adjustment governance by item. For this, the target amount of production of major vegetables such as radish, Chinese cabbage, garlic, onion, red pepper, etc.

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\(^5\) Vegetable Price Stabilization System (VPSS): This system (started in 2017) guarantees vegetable price at 80% of normal price by using the fund which was raised by central and local government, NACF (National Agricultural Cooperative Federation) and farmers. The crops supported by this system are radish, Chinese cabbage and onion in 2017, and red pepper and green onion was added in 2018. Nongminshinmun-sa. Dec. 12, 2018.\(^5\)The Farmers’ Newspaper.\(^5\)
will be decided by a central council of production, and supply-demand adjustment will be done by the local council. Third, support to decision-making on shipping timing and shipping quantity will be done through providing information on time such as advancing supply-demand prediction model by using big data.

Last, the role of agricultural cooperative such as adjusting supply-demand and marketing will be strengthened through nurturing nation-wide joint venture by crops of agricultural cooperatives. The target crops of the joint-venture will be increased from 2 crops of garlic and tomato in 2018 to 4 crops of garlic, tomato, onion and green pepper in 2019.

3. Marketing system reform through nurturing agricultural cooperatives

Marketing system reform such as organizing producers, improving wholesale market operating system, spreading new marketing channel, etc. will be done as follows.

<Production area>
The competitiveness and bargaining power of the production side will be enhanced by continuous nurturing integrated marketing organization as follows. First, basic producers’ organization such as co-selection and co-shipping organization by a joint investment of agricultural cooperatives and producer council, etc. will be nurtured. Second, the portion of the distribution of integrated marketing organization units of agricultural cooperatives such as a united business group and co-selection and co-shipping organization will be continuously expanded.

<Wholesale market>
Price fluctuations will be alleviated by introducing image auction\(^6\) and expanding ‘transactions at a fixed price ∙ free transactions’\(^7\) rather than auction as follows. First, image auction, sample auction, etc. will be introduced by way of showing an example in 2018 and will be promoted in earnest from 2020. Second, advance reservation-type ‘transactions at a fixed price ∙ free transactions’ will be activated by utilizing reservation trading system of wholesale market, so that the portion of advance reservation-type transaction among total transaction of a wholesale market will be increased by 15% in 2022 from 7% in 2017.

<New marketing>
Diversification of marketing channels such as expanding direct transaction and expanding sales channels in consumption area etc. will be achieved as follows. First, establishing big city-type direct transaction market will be supported and direct transaction establishment certification system for excellent establishments will be expanded. Second, joint investment to Hanaro-Mart\(^8\) by agricultural and livestock cooperatives will be expanded to 63 places by 2020. Logistics centers (5 sites) for essential necessaries by districts and specialty stores (1,767 places) of agricultural and livestock products will be newly established by 2020.

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\(^6\) Image auction: the auction which uses smart phone or virtual reality rather than real farm products.

\(^7\) Transactions at a fixed price ∙ free transactions: a trading under a fixed price and/or free trading rather than auction. Nongminshinmun-sa. Aug. 29, 2018. The Farmers’ Newspaper (in Korean).

\(^8\) Hanaro-Mart is a supermarket which is operated by the agricultural cooperative or livestock cooperative.
CONCLUSION

The reasons why there is an action plan of Expanding Farmers’ Income and Farm Management Safety Nets are as follows. First, farmers themselves cannot cope with the stagnation of agricultural income due to deepening market-opening, rising production costs, etc. which farmers cannot adapt to quickly. Second, demand for expanding management safety nets of farm household is increasing according to frequent natural disasters such as hail, heat, etc. as well as repeated instability in supply and demand of farm products. Korean government expects that these safety nets will create the circumstances for farmers to be able to farm without anxiety.

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