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Trend of and Supporting Agri-food Exporters

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- “KREI Agricultural Policy Focus” relates to analysis and description of the trend of and policy for agriculture and rural districts.
- This is also provided at the KREI website (www.krei.re.kr).

◇ **Abstract** ◇

The volume of exported agricultural, forestry and livestock food was \$5.6 billion (other than fishery food products) in 2012, the greatest in history, showing the tendency of continued increase. While free trade agreement with other countries continues to be made to shrink the agricultural sector, the significantly growing volume of export is owed mainly to government's operation of the export support system together with the effort of related institutions as well as farmers. The Korean government supports finding new markets, promoting sales of agricultural and livestock products, and supporting purchase of quality agri-food, in order to increase farmer's income and to develop the food industry by encouraging export of agri-food. The increased volume of exported agri-food contributes to the export industry of the agricultural sector, creating new demands and stabilizing prices of Korea's agricultural products.

Nevertheless, there are some issues involved in export and operation of the export system. The first issue is the increasing export logistics cost in the process of export, and too much competition between export companies. This results in dropping the unit export cost over time.

Because many farmers switch the volume of exported agricultural products to the volume for domestic sale when the Korea's agricultural product prices rise due to weather conditions or peak seasons, it is hard to constantly ensure the volume of exported agricultural products. There are ongoing problems of no substitute policy prepared for abolishing the government support system in the form of direct subsidy, for example, supporting export logistics cost to operate the export system, a limit to effective operation of the government support system, for example, supporting export logistics cost or supporting leading export organizations, no encouragement of farmers for exporting agricultural products, and insufficient support for strategic overseas marketing.

First, there is a need of maximizing the outcome by improving the efficiency of operating major export support programs in order to establish an export industry for agri-food by encouraging export of agri-food. That is, it is necessary to guide poor export companies to be ruled out by differential support for peak export seasons and non-peak export seasons. It is necessary to specify the leading export organization support program centered at unions or export associations, not individual companies. Second, it is necessary to put more support budget for finding new markets, and to establish a compulsory foreign exchange risk insurance and a short-term export insurance on the condition of export logistics cost support to cope with fluctuating foreign exchange rate. Third, it is necessary to promote export of specialized local products in connection of the government with local bodies. It is urgent to develop a system to replace support programs that are more likely to be discarded, and to switch direct aid to indirect support. Fourth, it is necessary to adopt a stabilized price insurance for exported agri-food to absorb a part of sale prices by farmers if the prices of products sold in Korea sharply rise after export contract to ensure the constant volume of exported agri-food.

1. Current trend and policy of exported agri-food

1.1. Major agri-foods and countries for export

☐ Trading loss but fast and sharply increasing export for agricultural, forestry and livestock food

○ While recording \$1.5 billion in 2000 and \$5.6 billion in 2012, the greatest in history, the volume of exported agricultural, forestry and livestock food has increased 3.7 times in comparison with the volume in 2000.

- Nevertheless, the amount of import has also increased from \$8.4 billion in 2000 to \$29.4 billion in 2012 to result in the trading loss of \$23.8 billion in 2012 increased from \$6.9 billion in 2000.

Table 1. Changes of exported and imported agricultural, forestry and livestock food

Unit: \$ million

		2000	2005	2010	2011	2012
Export (A)	Agri-food	1,133	1,899	3,722	4,941	4,785
	Livestock product	121	173	146	176	395
	Forestry product	255	150	214	266	465
	Total	1,509	2,222	4,082	5,383	5,645
Import (B)	Agri-food	5,104	7,397	13,988	18,362	18,717
	Livestock product	1,676	2,360	3,123	5,071	4,720
	Forestry product	1,653	2,131	5,219	5,561	6,010
	Total	8,433	11,888	22,330	28,994	29,447
Balance of trade (A-B)	Agri-food	-3,971	-5,499	-10,266	-13,421	-13,932
	Livestock product	-1,555	-2,188	-2,977	-4,895	-4,325
	Forestry product	-1,398	-1,981	-5,005	-5,294	-5,545
	Total	-6,924	-9,668	-18,248	-23,610	23,802

Note: Fishery food products are not included.

Source: Trade information from Korea Agro-Fisheries Trade Corporation (KATC)

□ The major exported agri-food switches from fresh vegetable to processed food.

- Proportions of exported agri-food in 2012 are as follows. The processed products account for 37.3%, relatively high, in which tobacco does 13.2%, liquors 8.7%, confectionaries 8.4%, and sugars 7.0%. Fresh agricultural products including vegetables and fruits have been decreased to account for 6.9% and 4.6%, respectively.
 - Vegetables accounted for the highest portion 16.4% in 2000, followed by confectionaries (13.5%), liquors (12.9%), and noodles (10.4%).

□ Significantly increased export by support focusing on strategically selected and exported agri-food items

- Among 25 strategically exported items supported by the Korean government¹⁾, the volume of 14 exported agri-foods was \$385.77 million in 2000, but \$1.7793 billion in 2012, increased by 2.8 times.
 - In particular, the volume of exported paprika, tomatoes and sweet persimmons increased by 34.8%, 33.7%, and 36.1%, respectively, in 2012 in comparison with the volumes in 2011, since government's concentrated support.

1) Ministry for Food, Agriculture, Forestry and Fisheries (MFAFF) announced a scheme for supporting 25 strategically exported items late 2011 in order to support best agri-foods for export.

Table 2. Changes of exported volume of strategically selected and exported items by government

Unit: \$ thousands

	2000	2005	2010	2011	2012
Kimchi	78,847	92,965	98,360	104,577	106,608
Paprika	-	53,145	58,302	65,866	88,807
Strawberry	9,531	4,406	26,125	20,606	24,270
Tomato	22,949	8,828	6,642	9,652	12,904
Apple	2,339	7,798	17,945	8,874	5,906
Pear	17,104	56,087	54,117	47,268	49,918
Sweet persimmon	3,922	5,590	8,353	9,363	12,739
Rose	10,324	10,570	34,235	25,676	27,142
Mushroom	5,562	2,819	38,885	38,231	33,501
Ginseng	78,986	82,475	124,204	189,305	150,828
Sauce	37,591	81,426	129,705	155,383	171,969
Noodle	117,716	191,857	240,149	290,256	315,628
Rice wine	895	2,166	19,095	52,735	36,893
Yooja tea	-	-	32,607	40,442	40,815
Total	385,766	600,132	888,724	1,058,234	1,077,928

Note: 14 items excluding livestock (infant milk formula), and fishery food product (flounder, tuna, abalone, seaweed, oyster, sea slug, eel, blue grouper, aquarim fish) out of 25 strategically exported items selected by the Korean government.

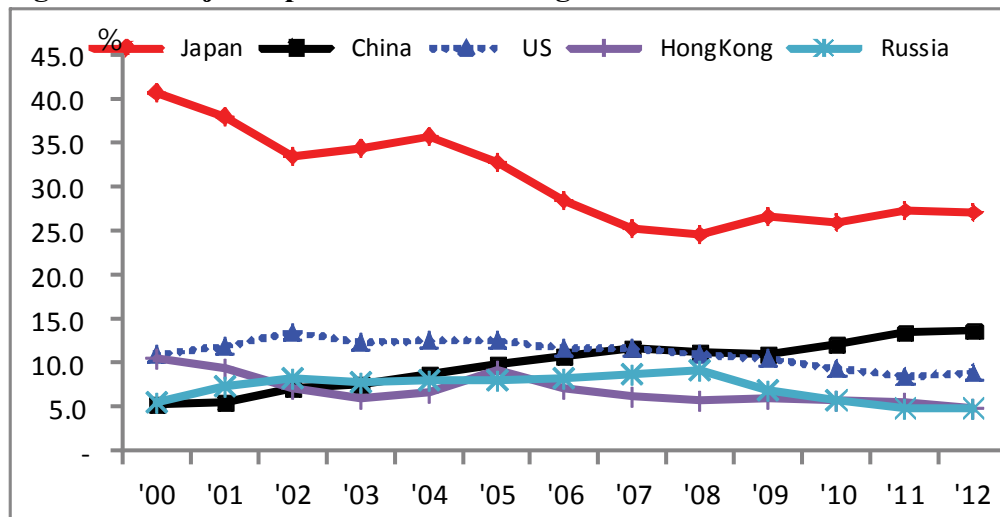
Source: KATC Trading Information

☐ Gradually diversified agri-food export market while dependence on Japan is diminished

- The major export countries for agri-food is as follows: Japan accounted for 40.7%, the US 10.9%, and Hong Kong 10.4% in 2000, but Japan 27.1%, China 13.7%, and the US 9.0% in 2012.
 - While the proportion of export to Japan is dropped from the 40% band to the 20% band, China overtook the US and has been the second export country of Korea since 2007.
 - In particular, the proportion of higher 5 export countries is significantly lowered from 72.7% in 2000 to 59.4% in 2012 to be diversified in terms of export countries.
 - Eased concentration on major export countries as described above is mainly contributed by the export support policy by the government

for diversifying export countries, for example, the project for finding overseas markets.

Figure 1. Major export countries for agri-food



Source: KATC Trading Information

□ Still high dependence on specific countries for major items despite the diversified export countries

- As to the major export markets for strategically exported agri-food items selected by the government, most items of Kimchi, paprika, fresh tomatoes, roses and rice wine are exported to Japan and highly depend on the Japanese market.
 - Although Kimchi exported to Japan dropped from 97.0% in 2000 to 79.3% in 2012, Japan is still at the center the biggest market, and most items of paprika, fresh tomatoes, roses and rice wine are exported to Japan.
 - While overall export dependence on Japan for the agri-food is greatly eased, some of strategic export items to Japan account for high proportions and it is thus necessary to diversify the market.

Table 3. Proportion of export to Japan for some agri-food items among strategic export items selected by Korean government

Unit: %

	2000	2005	2010	2011	2012
Kimchi	97.0	93.0	84.2	83.0	79.3
Paprika	-	100.0	100.0	99.7	99.7
Fresh tomato	99.2	95.0	95.8	96.7	95.9
Rose	99.7	99.7	99.1	97.6	97.9
Rice wine	84.1	91.8	81.6	91.8	86.7

Source: KATC Trading Information

1.2. Current export support policy for agri-food

☐ Current enforcement of various policies for exporting more agri-food

- The current agri-food export support system by the government is classified into 3 categories of Support finding overseas markets, Promote agricultural and livestock product sales, and Support purchase of quality agri-food²⁾.
- The program of supporting finding overseas markets aims to improve competitiveness of agri-food export companies, to increase farmer's income by exporting more agri-food through the support program for finding overseas markets, and to further develop the food industry.
 - This program includes expansion of the growth engine for export by constructing export information infrastructure, supporting popular export items, and supporting export brands, and discovery of overseas export networks by participation in international exhibitions, supporting sales promotion events, and buyer invitation.

2) The project for supporting discovery of overseas markets and the project for promoting agricultural and livestock product sales are 100%-aided by the government, and the project for supporting quality agri-food purchase is supported with loans.

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- The project for promoting agricultural and livestock product sales aims to export more agri-food and to increase farmer's income through the export infrastructure consolidation project for export logistics cost, safety and quarantine. This project is classified into supporting export logistics cost and consolidating export infrastructure.
 - The project for supporting quality agri-food purchase aims to purchase raw materials required for exporting agri-food, and to support operation capital to enhance competitiveness of exported Korean agri-food. This project is classified into supporting collective production areas for exported items and supporting agri-food export companies.
 - Most agri-food export support projects by the government are enforced by KATC³⁾, and divided into production organizations, safety control, finding markets, supporting logistics costs, and banking insurance for enforcement thereof.

3) KAFTC is the subject of all projects other than supporting collective production areas for exported items (the enforcement subject is NH) among the export support project by the government.

Table 4. Details of agri-food export support project by KAFTC

	Details
▪ Production organization	Support collective production areas specialized in horticulture, support popular export items, support workforce specialized in export, support leading export organizations, and vitalize the export association.
▪ Safety control	Support GAP certification for exported agricultural products, support the cost for examining agricultural chemical residues, manage Japanese vegetable ID, manage Taiwanese apple safety, and manage export companies to Russia.
▪ Finding new market	Support overseas PR marketing, sales promotion in connection with overseas distributors, support the expenses to participate in international exhibitions, sort transactions with buyers, localize overseas aT centers, support the cost for providing high quality samples, register trademarks of exported brands to other countries, support registration with overseas certification systems, and manage the joint brand Whimori.
▪ Supporting logistics	Support export logistics, use the ever-fresh agent, use overseas joint logistics centers, vitalize joint logistics and provide consulting for efficient agri-food logistics.
▪ Banking insurance	Support foreign exchange fluctuating insurance, agricultural and fishery food product export insurance, support quality agri-food purchase, and support quality aquatic food product.

Source: KATC

2. Current issues in agri-food export and support system

2.1. Issues in export process

☐ Too much export logistics cost and too much competition between export companies

- Increasing burden of export logistics costs due to rising international oil prices contributes to dropping prices for export farmers, and to gradually weakening the spirit of expanding agri-food export.
- The investigation of export companies reveals that the greatest difficulty in agri-food export is increasing export logistics costs (20.3%) resulting from increasing oil prices and material prices. Therefore, there is needed an action to cope with the situation.

Table 5. Difficulty in export by agri-food exporters

Unit: %

	Farmer's nonfulfillment	Insufficient specialized export farmers (manufacturer)	Difficulty in securing high quality products	Non-conformity between cultivation season and consumption period	Strict export procedure	Rising export logistics cost	Too much competition between companies	Little information about exported countries	Lack of stable buyers	Lack of government support	Total
Weight	13.1	6.9	3.7	3.7	6.6	20.3	15.4	5.4	9.7	15.1	100.0

Note: Result of multiple response.

Source: Investigation of exporters in 2012.

- Although the government supports export logistics costs, the amount of support continues to be reduced while the material costs and the like are increasing.
 - The government is reducing the amount of supported basic logistics cost to cope with diminished or abolished export logistics cost support which is predicted from the result of WTO negotiation.

Table 6. Changes of supported export logistics cost

Unit: %

	2008	2009	2010	2011	2012	2013
Amount of basic logistics cost (in comparison with standard logistics cost)	25	20	15	10	10	10

Source: KATC, Guide to Project for Promoting Agricultural, Forestry and Fishery Food Export, 2011.

- Because most agri-food exporters are small companies and the number thereof is quite great, the exporters trade with their own buyers to result in a problem that high trade negotiation capability is not likely.
 - It is necessary to improve the related system to guide exporters of poor quality control capability and small scale by upgrading qualification.

☐ Continued dropping of unit export cost and difficulty in ensuring export volume

- The unit cost of imported paprika from Korea, exemplary fresh vegetable, has dropped in Japan since 2007 because of too much competition while the number of exporters increases. Roses and lilies also experience dropping prices.

Table 7. Changes of unit cost of major export items from Korea to Japan

Unit: won/kg, won/bunch

	2000	2005	2006	2007	2008	2009	2010	2011
Paprika	385	335	372	402	337	291	328	332
Rose	33	35	26	24	20	25	29	20
Lily	137	116	76	67	63	56	71	-

Note: The unit cost of imported paprika is calculated by dividing the imported amount by the volume of import, and the unit cost of imported lilies is calculated by dividing the imported amount by the number of quarantine bunches.

Source: Trade Statistics of Ministry of Finance of Japan, Plant Quarantine Center of Ministry of Agriculture, Forestry and Fisheries of Japan.

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- In many cases, export farmers switch export items to domestic sale when the agricultural product prices in Korea rise due to weather conditions or peak seasons. Exporters have difficulty in securing the volume of exported products ⁴⁾.
 - In particular, an investigation reveals that 62.5% and 79.5% of vegetable and fruit exporters, respectively, have experienced export farmers' nonfulfilment. By the way, vegetables and fruits are affected the most by weather conditions, and the percentages are considered very high (result of investigation for exporters in 2012).
 - Those farmers contribute to lowered reliability and thus to the dropping unit cost of export by switching their products to domestic sales products when the market quotations in Korea are higher than the export prices, not to fulfil the export agreement.
 - Therefore, it is necessary to develop a scheme to compensate for some of the export sale prices by farmers if the prices in Korea sharply rise.

2.2. Issues of export support system

☐ No substitute policy for abolished government support system for direct support

- The export logistics cost support is an exemplary support policy for agri-food export, and plays a very important role for encouraging agri-food export. However, because the policy is likely to be abolished depending on the result of DDA negotiation, the government is reducing the amount of support every year.

4) The investigation for exporters reveals that a bottleneck in export is nonfulfillment of export which accounts for 13.1% (see Table 5).

- While this contributes to the dropping unit cost of export logistics support every year, the burden of logistics cost shows the tendency of increase due to rising oil prices.
- Therefore, there is a need of developing a substitute system together with government's effort to hold the export logistics cost support system.

☐ **Efficient operation of exemplary government support system**

- Because it is currently not feasible to increase the amount of supported export logistics costs, there is a need of developing a scheme for efficient operation within the budget.
 - The same logistics cost is currently supported for both non-peak seasons and peak seasons to result in no effort by exporters for increasing the unit cost of export. This also contributes to too many exporters, and a supplement method is thus needed.
- The program for supporting leading agri-food export organizations has been enforced, but the selected organizations do not fully understand the fundamental purpose of the program to take advantage of the leading organization incentives as a means to get more government support in many cases.
 - Some companies leave the program because of poor reliability between members and participating farmers, and it is thus needed to overhaul the program operation method.

☐ **Encouraging export farmer and enhancing strategic overseas marketing**

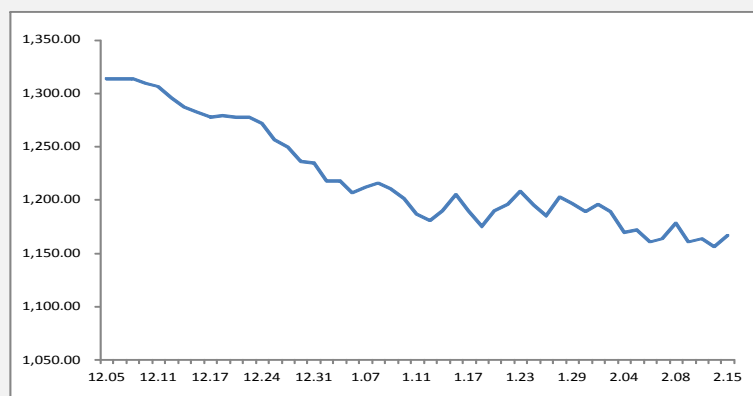
- The government currently supports just specialized collective horticulture areas for export farmers. Many export farmers think

domestic sales is more profitable than export, and it is thus needed to establish a program for farmers' high spirit for export.

- Although the agri-food export market is significantly diversified by the positive effort of the government, some items depends on export to Japan too much to result in difficulty in export if Japanese currency yen fluctuates.
 - An example is the recent dropping yen exchange rate contributing to significant difficulty in agri-food export to Japan.

**< Recent dropping yen exchange rate and reduced
agri-food export to Japan >**

- Japanese currency yen exchange rate sharply dropped from 1,300 won per 100 yens in early December, 2012, to 1,167 won as of February 15, 2013.
- Sharply dropping yen exchange rate results in dropping export of 47.8% for roses, 19.8% for yuja tea, 7.1% for Kimchi, and 63.1% for rice wine exported to Japan in January, 2013, respectively, in comparison with the amount in January last year.



Source: Korea Exchange Bank (basic exchange rate)

- Because the budget is not appropriated enough for the overseas market finding support program, it is not easy to aggressively find overseas

markets. It is thus needed to increase the budget and to continue support to get its effect until settlement.

- There is a need for a scheme of related budget increase to enable systematic and continued markets to be investigated for countries emerging as a new market.

3. Efficient scheme for boosting agri-food export

☐ **More efficient operation of major export support programs to maximize outcome**

- It is needed to have a given export result (companies with \$250,000 on the basis of a single item) to get the export logistics cost support. Therefore, this results in too much competition between companies to secure the necessary volume, and exporting low quality products.
 - Therefore, there is a need of a scheme for efficient operation by differentiated support of export logistics cost by seasons.
- That is, it is to divide the export logistics cost support into peak seasons and non-peak seasons to provide more support if high quality agri-food is exported, and to reduce the support in non-peak seasons.
 - This aims to minimize the number of companies supported with the logistics costs for low quality agricultural product export to lead them to leave. This also contributes to enhancing the impression on products of Korea in the export market.
- Although the program for supporting leading agri-food export organizations by the government has a significant achievement for organization, many companies think this program as an additional aid in a different format. Companies not selected lay complaints and speak of equality issues.
 - Therefore, it is preferred to improve the method of appointing mainly unified organizations or export associations, not individuals, and to pursue solidness of the leading organizations currently appointed rather than addition or expansion of appointment.

< Successful leading export organization case >

- The KOPA Union Corporation was established in 2012 through joint donation by 18 companies who account for 83% of paprika export.
 - Reduces costs and create their own financial resources through joint logistics and joint raw material purchase. Ensures export negotiation capability through enhanced quality and safety control and shared buyer information.
- K-Flower was established by 3 local Nonghyup and one agriculture corporation in 2010.
 - March 2012: appointed as a company for roses in the leading export organization program.
 - May 2012: started rose export, and other items than rose as well.

□ Providing more budget in order to support finding new market, and to support more to cope with fluctuating foreign exchange rate

- Although the program for the government continuously to support people to find overseas markets has contributed to the diversified export market, the budget for relevant programs is of a small scale except some programs. It is thus needed to increase program budgets to implement substantial diversification.
 - In particular, the program for supporting exporters to find overseas market does not exhibit its outcome instantly, but is a long-term program through continuous support. Therefore, continuity of the program is more important than anything else.
- Recent sharply dropping yen exchange rate results in reduced agri-food export to Japan. It is thought that low yen will continue for the time being to hinder export expansion.
 - Therefore, it is necessary to establish a scheme to use the foreign exchange risk insurance and the short-term export insurance provided by the Korea Trade Insurance Corporation⁵⁾.

5) The foreign exchange risk insurance was introduced in February, 2000, to compensate

- The government supports the portion paid by the insured when a company who is supported for the export logistics cost insures the foreign exchange risk insurance and the short-term export insurance.

Table 8. Details of foreign exchange risk insurance and short-term export insurance supported by the government

	Premium of foreign exchange risk insurance	Short-term export insurance
Insured for support	Future exchange and fee for joining the range-limited future exchange.	General export transactions after shipping, fee for joining the agriculture and fisheries package.
Support rate	Future exchange 100%, range-limited future exchange 90%.	
Support limit	10 million won.	
Method of support	Support at the time of insuring (the portion paid by the insured is paid at the time of insuring).	
Exception	If the insurance fee is supported by the Korea Trade Association or local bodies.	
Post-management	Recovery of supported amount equivalent to the rate of un-reached export target in comparison with the insured amount after insuring (amount for recovery $= [1 - (\text{export outcome} / \text{amount insured})] \times \text{amount of supported premium}$).	

Source: KATC

- The investigation for exporters (in 2012) reveals that the level of awareness of the foreign exchange risk insurance and the short-term export insurance is approximately 60%, but 30% of the insured have just use the insurances.
- It is necessary that the government positively sets up public relations plan so that exporters can join the insurances to lower the risk involved in agri-food export resulting from fluctuating foreign

exporters for the loss due to fluctuating foreign exchange rate and to recover profits. This insurance allows small and medium exporters vulnerable to foreign exchange management risks to easily terminate the insurance in the case of foreign exchange risk. The short-term export insurance (agriculture and fishery food product package) is customized to agriculture and fishery food product exporters to compensate them for the loss due to exported agricultural and fishery food products (risk of non-recovered payment, risk of quarantine in the imported countries, risk of expenses for claims) at one time.

exchange rate, and compulsory insuring can be considered on the basis of conditional supported export logistics costs.

□ Encouraging special localized product export by government support in connection with local body's support

- It is essential that expanded agri-food export contributes to creating farmer's added value as well as finding new demands. To this end, it is important to build an organic support system with relevant local bodies as well as the government to export special localized products.
 - That is, farmers who produce special localized products continue to provide agricultural products required for export, and the relevant local bodies support facilities to implement product export.
 - Exporters need to use the program for export product support by the government while making their special localized products concentrate on export-centered products ideal for the export market customers.

**< Successful case of connection between government
and local bodies >**

- JEKISS is a Jeju-based company who produces and sells confectionaries including Jeju mandarine chocolate, baeknyuncho chocolate, and green tea chocolate in Korea and other countries. Its annual sales amount is 7.7 billion won in which approximately 700 million won is from export.
- JEKISS developed white chocolate-coated mandarines which are dried at low temperature to remove moisture and sells it in Korea and exports it to Japan.



- Pure mandarine white-chocolate is made with mandarine just produced in Jeju to contribute to increased mandarine farmers' income.
- In particular, because low quality mandarine is purchased and used, farmers have additional income.
- The Jeju Island council supports the processing facilities of JEKISS to raise mandarine farmers' income in Jeju and to grow local processing companies. The company was selected for the program for supporting exported products by the government, and have a plan to continue to expand its export.

☐ **Establishing substitute system for support programs highly likely to be abolished**

- Most exporters evaluate that direct aid of export logistics cost support contributes significantly to export. Therefore, the export logistics cost support should survive the agreement of DDA negotiation⁶⁾.
- However, because the export logistics cost support is highly likely not to survive the agreement, there is a urgent need of developing a substitute program.
 - But, the substitute program should be indirect support, not direct support like logistics cost support.
 - Possible schemes can be to guide reduced logistics costs by building joint export logistics facilities in Korea through government's support, and to set up joint agri-food logistics facilities for Korean products in major export markets. It is also to establish a program for transportation fee discount for exported agri-food through negotiation between the government, airlines and marine transportation business operators.

☐ **New system for ensuring the stable volume of export**

- One of exporters' difficulties involved in export is hard to continue to ensure the volume of export. Therefore, it is necessary to introduce the exported agri-food price insurance to compensate for some of farmer's sales price when the price in Korea sharply increases after export agreement.

6) For the contribution of export logistics cost support to export, 92.2% of exporters agreed it (investigation in 2012 for exporters).

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- Because the number of insured companies is likely not to be great, loss may occur and it is thus necessary to develop a scheme for raising insuring by fund operation (subsidy for compensation) or compulsory insuring of exporters.
 - Fundraising is desirable with the support of the government to introduce the fund operation method, and outsourcing to the insurer (NH). For compulsory insuring, provide the export logistics cost subsidy just for exporters or producers who have been insured.
 - However, a given amount of government subsidy is needed because producers may not be able to pay 100% of their premium.
- Although fresh agricultural products have peak export periods in each export market, the conditions in Korea at those times may not be favorable to cultivate them due to heating costs for winter cultivation.
- Export farmers have burdens because it is sometimes necessary to use agricultural chemicals or natural enemies in conformity with the standard of plant quarantine in the export countries.
 - It is important to establish a scheme for supporting production materials for export by export farmers to comply with the standard of plant quarantine or the peak seasons in the export countries in order to boost farmers' spirit for export.

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