

WORLD TRADE ORGANIZATION

RESTRICTED

G/STR/Q1/KOR/6

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**Working Party on
State Trading Enterprises**

Original: English

STATE TRADING

Replies to Questions Posed by the UNITED STATES¹
concerning the New and Full Article XVII Notification of KOREA²

The following communication, dated 27 May 1999, has been received from the Permanent Mission of Korea.

Question 1

In its notification, Korea does not include certain Trade Associations, or fails to include certain products that we understand are under the purview of a notified Association. It is our understanding that these associations, listed below, maintain significant influence or even absolute control over the allocation of specified tariff-rate quotas for the products indicated.

Trade Association	Commodities	Tariff Quota
Agricultural Fishery Marketing Corp. (AFMC)		Green tea, processed cereal grains
Korea Animal Improvement Assoc. (KAIA)		Breeding livestock (cattle, swine)
Korea Corn Processors Assoc. (KOCPIA)		Corn (processed)
Korea Dairy Industries Organization (KDIO)		Whey, butter, lactose
Korea Feed Ingredient Assoc. (KFIA)		Bone meal, supplementary feed
Korea Feed Milk Replacer Assoc. (KFMRA)		Mixed feed, supplementary feed, whey
Korea Feed Millers Assoc. (KFA)		Corn
Korea Paper Manufacturers' Assoc. (KPMA)		Manioc starch
Korea Poultry Assoc. (KPA)		Purebred breeding chicks
National Agricultural Cooperative Fed. (NACF)		Malting barley, malt, manioc starch, other starches, sweet potato
National Livestock Cooperatives Federation (NLCF)		Corn

Could Korea please elaborate in greater detail the type and level of control that these associations have on the noted markets by completing the state trading questionnaire for each of the associations listed above?

¹ G/STR/Q1/KOR/4

² G/STR/N/4/KOR

Reply

According to the working definition, STEs are enterprises which have been granted exclusive or special rights or privileges in the exercise of which they influence through their purchases or sales the level or direction of imports or exports.

The roles of the associations mentioned in the US questions are confined only to the mechanical allocation of the tariff quotas to import demanders who meet the pre-determined criteria, including the first-come first-served or historical performance.

It is true that the associations have been granted exclusive rights in the allocation of TRQs but they have not been directly involved in purchases or sales activities of the listed products and have no independent control over the level or direction of imports.

It is our understanding, therefore, that the associations are not relevant to the notification or completing the state trading questionnaire.

For your reference, the TRQ allocation criteria for the listed products are as follows:

- (1) First-come first-served
 - Green tea, bone meal, supplementary feed, mixed (concentrated) feed, whey, sweet potatoes;
- (2) Historical performance or production capacities
 - Processed cereal grains, corn, manioc starch, malting barley
 - Breeding livestock (numbers of livestock registered)

Question 2

In its most recent notification, Korea indicates that MAF has the exclusive right to import tariff quotas on rice and barley. On the other hand, in the same notification, Korea asserts that barley is imported directly by the feed companies. It is our understanding that barley is only imported by MAF, not the private sector. Would Korea please clarify whether or not barley can be imported directly by private feed companies? If so, do these private companies conduct import operations independently, or are they simply acting as import agents for the government? Could the Republic of Korea please clarify how import prices for barley imported by the Ministry of Agriculture and Forestry are determined?

Reply

As stated in Korea's notification regarding the Tariff Quota Administration (G/AG/N/KOR/1), allocation of TRQ for barley is made by the Ministry of Agriculture and Forestry (MAF), and Korea Feed Association (KFA).

For human consumption, it is true that barley is only imported by MAF. But traditional food demand for barley has been very limited recently and the import demand has been almost nil since 1995.

For feed use, Korea Feed Association allocates the tariff quotas to its member companies on a first-come first-served basis, and the feed companies independently conduct import operations of the allocated quantities.

Question 3

We note that in its notification to the Working Party, Korea did not include beef (HS 0201 and 0202) in the description of products affected by the National Livestock Cooperatives Federation (NLCF). Accordingly, we would appreciate additional information on the NLCF and a description of its operations affecting the importation, sale, and domestic distribution of imported beef. This would include a summary of the legal basis for granting the exclusive or special rights or privileges with respect to the importation of beef, including legal provisions and by-laws and a summary of statutory or constitutional powers, how import levels and resale prices of imported beef are established by the NLCF, and how the NLCF sets and announces standards by which it will purchase beef on behalf of its customers.

Reply

The beef TRQ has been administered by the Livestock Products Marketing Organization (LPMO) as indicated in the notification. The quota is allocated in two ways: first, to the LPMO itself as a designated agency; second, to the SBS super groups which are private importers.

NLCF is one of the SBS super groups and the rights and obligations with respect to its import of beef are the same as those of the other SBS super groups. NLCF has been granted no additional rights or privileges with respect to the importation of beef.

The SBS import quantity of NLCF is determined taking into account the import demands and the previous year's sales performance of outlets of imported beef which are NLCF's customers.

While domestic sales prices of LPMO-imported beef are determined by auctions in wholesale markets, those of NLCF-imported beef as one of SBS super groups are determined considering the relevant costs and fees.

NLCF establishes the standards in due consideration of its customers' requests and informs its customers of them by way of forwarding written notifications or of convening explanatory meetings.

Apart from its import of the SBS quotas, NLCF is engaged in domestic processing, marketing and sales of LPMO-imported beef in accordance with mutual contracts between the two organizations.

Question 4

We also note that the Government of the Republic of Korea did not include in its notification the following enterprises: Korea Cold Storage Co. (KCSC), the Korea Tourist Hotel Supply Centre (KTHSC), the Korea Restaurant Supply Centre (KRSC), the Korea Meat Industries Association (KMIA), the Korea Super Chain Association (KOSCA), the Korea Federation of Meat Purveyors (KFMO), the Korea Livestock Marketing Corporation (KLMC), and the Korea Meat Packers Association (KMPA). Similar to our requests pertaining to the NLCF, we would appreciate additional information on these organizations and a description of their operations as they affect the importation, sale, and domestic distribution of imported beef. This would include a summary of the legal basis for granting exclusive or special rights or privileges with respect to the importation of beef, including legal provisions and by-laws and a summary of statutory or constitutional powers, how import levels and resale prices of imported beef are established by each enterprise, and how each enterprise sets and announces standards by which it will purchase beef on behalf of its customers.

Reply

As explained in Question 3, the beef TRQ is allocated by LPMO in two ways. One way is the allocation to the SBS super groups which are organizations representing their members (end-users and private marketing enterprises).

To prepare for the import liberalization of beef by the year 2001, Korea has gradually expanded the SBS share as agreed with the major trading partners during the Uruguay Round negotiations, and the number of SBS super groups has increased continuously reflecting the increasing share of SBS.

Annual SBS share: 15 per cent (1993) → 20 per cent (1994) → 30 per cent (1995) → 40 per cent (1996) → 50 per cent (1997) → 60 per cent (1998) → 70 per cent (1999-2000).

Currently, there are 12 SBS super groups including the associations mentioned in the question. Considering each super group's performance in the previous year, LPMO makes allocation of the quotas.

The super groups, simple recipients of TRQs, import and distribute the allocated amount of beef on their own responsibilities.

Question 5

In its responses to section III.A of the new notification format, Korea does not provide adequate information about the operations of its state trading enterprises. Could Korea please supply a basic summary of these operations for each STE that is notified? This could include additional information on whether the STE in question issues credit guarantees, engages in the domestic marketing or distribution of imported products, either directly or through subsidiaries or joint ventures, or determines the domestic sales price of imports.

Reply

Korea's STEs do not provide credit guarantees.

Most of them are engaged in importation and domestic marketing of imported products in ways of selling through wholesale markets or of distributing them directly to end-users.

In the case of imported natural honey, however, NLCF is directly involved in its wholesale to retail marketing.

Question 6

In section III.B, we would appreciate it if Korea would provide additional information on its exclusive right to import tariff quotas on rice and barley. Specifically, do Korea's STEs have the exclusive right to raise or lower quota ceilings on imported agricultural products? Do these STEs have the right to arbitrarily dictate which companies have quota access rights? How are these allocation decisions announced publicly so that the quota allocation process is fully transparent?

Reply

The fundamental roles of Korea's STEs are conducting the importation and distribution of relevant products in an orderly manner within the tariff quotas as set out in Korea's Schedule.

Reflecting the increasing market demand, however, there have been such occasions that some STEs imported, in cooperation with the Government, more than the originally scheduled level of TRQs.

Regardless of the domestic demand situation, even in the case of lack of import demand, Korea's STEs have always guaranteed the multilaterally committed level of market access opportunities for the relevant products. Therefore it is not true that Korea's STEs have the exclusive rights to raise or lower quota ceilings on imports.

The tariff quotas are allocated in a transparent manner according to the criteria specified in the notification regarding the tariff quota administration (G/AG/N/KOR/1).

These pre-set criteria and the results of each allocation decision have been announced by way of written notifications or public notices.

Question 7

Concerning Korea's response to question III.E, we understand that the NLCF plays a role in determining the price for pork exports. Could Korea please describe in detail the way in which pork export support prices are determined by the NLCF?

Reply

Currently Korea has more than eighty exporters of pork and the NLCF itself, as one of the largest exporters, has been directly involved in the pork export activities. Of course, NLCF determines its own export price of pork.

Because NLCF's contribution accounted for about 13 per cent of total pork exports in 1998, it might influence the level of export price that much through the market mechanism.

But export prices cannot be determined by a single player such as NLCF. They are determined in the international market through a collective interaction between exporters and importers of the product.

Question 8

Concerning Korea's response to question III.F, we would appreciate additional details on how resale prices of imported products are determined. For example, we understand that beef resale prices are determined by adding a mark-up which is based on a 3-month rolling average of prices for imports and domestic cuts. Is there a set methodology for determining resale price that carries across commodity lines? If not, could Korea please describe the methodology for calculating the mark-up or for otherwise determining the resale price for each imported product?

Reply

There has not been a uniform methodology for determining domestic resale prices that carried across imported products. In most cases, they have been determined by auctions in the wholesale markets. In the other cases which are raw materials, domestic processors and manufacturers have been directly or indirectly involved in the import activities.

The United States' understanding of the way in which beef resale prices are determined applies only to beef imported by the SBS super groups, and resale prices of beef imported by the STE (LPMO) have been determined by auction in the wholesale market.
