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Agricultural Cooperatives in Korea

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Abstract

Being created by and for farmers agricultural cooperatives, present all over Korea, have played an important role and contributed largely to the development of the agricultural sector in the country. There are substantial cooperatives undertaking marketing and processing functions in the rice, fruits, vegetables, meat and horticulture industries. Agricultural cooperatives are also important in the farm supply and financial services in rural areas.

Korean agricultural cooperatives were established in large numbers in the early 1960s by farmers seeking to increase their bargaining power relative to businesses that supplied their inputs or marketed their products. The maintenance of bargaining power remains an important reason for the existence of cooperatives in agriculture; however cooperatives owe their continuing prominence also to the privileges provided by governments.

The trends of globalization and deregulation of business have increased the competitiveness of the business environment, and this has widely impacted on cooperatives as it is on other types of businesses. Since its establishment in 1961, Korean agricultural cooperatives have made an every effort to have a well defined growth strategy as well as organizational adjustments to the rapidly changing environments. The history of Korean agricultural cooperatives can be described as a series of footprints to maintain a sustainable development.

Korean agricultural cooperatives, being active in both the agricultural marketing and financial service spheres, are trying to provide a real opportunity for Korean farmers to answer arising questions for their future with the collective dynamism.

Key words: agricultural cooperative, membership, governance system, organizational structure, New rural community & new Nonghyup movement, NACF

Contents

I. Role of Agricultural Cooperatives in the National Economy

- Agricultural Structure and Its Development
- History of Agricultural Cooperatives
- Legal Framework for Agricultural Cooperatives

II. Current Situation of Agricultural Cooperatives

- Membership
- Organizational Structure
- Governance System
- Business Scope & Performances
- Taxation & Government Supporting System

III. Challenges and Recent Performances

- Challenges for Agricultural Cooperatives
- Recent steps of Agricultural Cooperatives

IV. Conclusion

I. Role of Agricultural Cooperatives in the National Economy

1.1 Agricultural Structure and Its Development

1.1.1 The place of agriculture in the Korean Economy

The Korean economy has experienced a rapid growth over the past three decades, showing an average annual growth rate of more than 8 percent. In line with the national economic development, the agricultural industry also has grown at a steady rate but relatively lagged behind in its growth compared to the other industry sectors. As a result, its importance to the national economy has decreased along the way in this period. For instance, the contribution of agriculture to GDP (gross domestic product) fell down from 14.8 percent in 1980 to 3.2 percent in 2004 and the labor force employed in the agricultural sector also declined from 32.4 percent in 1980 to 7.4 percent in 2004.

Korean agriculture is inherently under various unfavorable conditions. Korea is a mountainous country with only 22 percent arable land and less rainfall than most other neighboring rice-growing countries. Moreover, the land under cultivation is continuously decreasing due to the land development for buildings or housing areas and industrial complexes. With unfavorable agriculture environments and small agricultural scale, the international competitiveness of Korean agriculture is relatively low, and its portion of the national economy is continually decreasing. However, there is an increasing need to maintain and develop farms and agriculture since agriculture itself has diverse functions beyond its role as an industry, such as ensuring food security, preserving the natural environment and maintaining rural communities and so forth.

1.1.2 Agricultural Structure

• Farm Scale

Agriculture in Korea can be characterized by a small family farm structure cultivating rice as a basic crop. The average farm size was as small as 1.48 hectares in 2004. Almost two-thirds of total farms have less than 1ha of arable land. Approximately one-third of total farms have less than 0.5ha of farmland. Although the cultivated land area per farmhouse has increased from 0.93ha in 1980 to 1.48ha in 2004 while the percentage of large farms cultivating more than 2.0 hectares was only 14 of the total number of farms

As the number of small farms increases, the proportion of agricultural production by large scale farms has increased. In other words, production factors such as farmland and livestock have gradually concentrated on the large scale farms. On the other hand, many farm households have become smaller with 0.5 hectares or less, accounting for 42 percent of total farm households.

• ***Labor Structure***

The farming population among the national population constituted 7.4% in 2004 and has been decreasing due to urbanization and the lowering living standards in agricultural areas. However, the Korean farming population still takes up a higher proportion in the national population than in major advanced countries. Currently, over 50% of total farm managers are 60 years old and over since young and high-qualified labors tend to have non-farm jobs on part or full time basis. This has given rise to the overflow of aged farm labor in both countries. It is predicted that in 10 to 20 years, Korea will have the same farm population aging structure as other developed countries. It is estimated that 65 percent of total aging farm households (above 60 years old) will retire and large-scale farms will absorb their farmland by 2010. With farmers aged over 60 taking up 59.2% of the total number of farmers, Korea is witnessing a continuous reduction in farming activity and a lack of young farmers who can lead the development of Korean agriculture.

• ***Production***

Rice is the most important agricultural product in Korea, accounting for about 27.5% of the gross agricultural output followed by livestock products such as pork, beef and milk. Although its production has been slightly mitigated since 1980s, rice still occupies a high ratio in many indices such as cultivated land size, production amount and the number of rice farming households. However, due to an increase in imports and reduction in consumption, the rice industry is expected to be faced with many difficulties. Annual per capita rice consumption is continually decreasing due to an increase in national income, diversification of diets and the rising consumption of meats and fruits.

The major fruits produced in Korea are apples, pears, grapes, mandarin, tangerine and strawberries. The fruit industry, after steady growth in the 1990s' has been experiencing stagnation in growth due to excessive production as well as an increase in imports.

As there is high consumption of Kimchi in Korea, there is high production of the major ingredients of Kimchi including cabbages, radishes, garlic and chilli peppers. After the 1980s there has been a huge increase in vegetable cultivation using greenhouse.

Due to the increase of meat consumption, the number of cattle being raised in Korea is increasing. On the other hand, the number of cattle raising households is decreasing. It means that the scale of each livestock farm is increasing, and so is the share of the livestock industry in Korean agriculture.

1.2 History of Agricultural Cooperatives

The cooperative movement has a long history in Korea. Since 30 B.C., many of the groups-Dure, Pumasi, Kye, and Hangyack were formed by farmers who needed either finance or labors in order for them to carry out farm activities. Many similar organizations in rural communities can be still found today.

A local financial association, set up in Kwang-ju in 1907, is regarded as the first modern cooperative organization in Korea. The Association tried to help small farmers and had some of the principles of a cooperative as it was patterned upon the model of rural credit unions in Germany. The Associations were, however, still far from being voluntary self-help cooperatives in that they had very little equity capital and received too much interference from the government.

• *Organization of Agricultural Cooperatives (1961~1968)*

The Agriculture Bank, in charge of agricultural credit and banking had been established as a joint-stock company in 1956. Following the passing of the Agricultural Cooperative Law in 1957, the Agricultural Cooperative was founded in 1958 to engage in the supply and marketing businesses of farmers. These two entities, which would afterwards unite and form current Korean agricultural cooperatives started thus as an independent organization.

In early days, the Agriculture Bank remained conservative, was reluctant to take risks, and aimed at making a profit while the Agricultural Cooperative had no financial means to carry out economic business and extensions, and thus was compelled to limit its activities to handling a certain portion of fertilizer in competition with merchants.

To activate operations of the agricultural cooperatives, the Korean government united the Agricultural Cooperative and the Agricultural Bank together and newly established the National Agricultural Cooperative Federation (NACF) in 1961. Thus Nonghyup, the Korean agricultural cooperatives, completed three-tiered federal system with village-level cooperatives, city and country-level cooperatives and NACF at the national level.

• ***Cooperatives restructuring (1969-1974)***

As of 1968, the number of cooperatives reached about 16,000 but most of them were small with 139 farmer members in average, subsequently lacking funds available and competent managers. So, the village-level primary cooperatives failed to take a prominent role in the economic activities of farmers.

In 1969, priority was placed on making the village cooperatives more self-sufficient and on merging numerous small village cooperatives into fewer, larger cooperatives of the township level. The merger of village cooperatives into primary cooperatives was completed over the five-year period between 1969 and 1973. In 1973, there were about 1,500 primary cooperatives; the average number of farmer members of each cooperative rose from 139 in 1968 to 1,400 in 1973.

• ***Expansion of cooperative business (1975-1980)***

The period was marked with improvements in the cooperative ability to serve farmers, owing to the remarkable growth of the cooperative enterprises of primary cooperatives.

NACF transferred the responsibility of the life insurance policy sales, medium and long-term loans and sales of large-scale farming machinery to primary cooperatives, which had previously been handled by city/county cooperatives. The transfer of businesses to primary cooperatives led to the tangible growth in their total revenue.

Efforts were also made to promote joint marketing groups and to expand product distribution facilities, including collection points, warehouses as well as processing facilities. Retailers were also strengthened to expand marketing outlets, such as grain retail stores, supermarkets, etc. To help farmers cope with changes in market conditions, the farm product marketing information center was established, and the marketing standards were adopted for 30 farm products to improve their marketability.

• ***Strengthening the cooperative management (1981-1987)***

The government recognized the need to restructure the agricultural cooperatives, and therefore completed guide lines for the improvement of their organizational structure in 1980. It then revised the Agricultural Cooperative Law to provide the legal ground for the present two-tier system and for the transfer of the livestock-related services to the National Livestock Cooperative Federation.

Beginning from January 1, 1981, Nonghyup streamlined their three-tier organization (primary cooperatives, city/county cooperatives, and the federation) into a two-tier system, by placing the city/county cooperatives under the federation. Subsequently, the former city/county cooperatives became the branch offices of NACF.

The organizational rearrangements have made it possible for the agricultural cooperatives to reduce the operational costs and increase the efficiencies in cooperative enterprises. NACF, in particular, was able to channel the funds and personnel to the development of the primary cooperatives. The primary cooperatives expanded by taking over warehouses, branch offices and other services from the county branch offices of NACF.

• ***Democratization and autonomy (1988-1993)***

Since its establishment by the government, Nonghyup was working as an actual government-running agency. The Chairman of Nonghyup had been appointed by the Minister of Agriculture, and Nonghyup had to get approval from the government for the yearly business plan and budget. To meet the increasing demand for the democracy and autonomy within the agricultural cooperatives, the Agricultural Cooperative Law was revised in 1988, allowing farmer members to elect the presidents of their local cooperatives who, in turn, would elect the Chairman directly. Instead of getting advance approval for the business plan and budget from the Minister of Agriculture, Nonghyup just reported their activities to the minister. Only subsidized businesses or credit projects of the government needed the Minister's prior approval. Since 1989, all agricultural cooperative members had elected their presidents. The presidents then elected the Chairman in April 1990.

The revised law greatly expanded the business scope of the agricultural cooperatives to include the brokerage business related to the sales of farm land, the transportation business utilizing trucks owned by the cooperatives, the banking business of the special cooperatives, the direct investment in related corporations, the diversification of the investment of NACF's surplus funds and the abolition of the limit on credit guarantee as well as bill discounting.

• ***Expansion and growth (1995-1999)***

The agricultural cooperatives devoted most of their efforts to reform the cooperative organization and its operations. For instance, they introduced the farm-gate pickup service of farm products and the farm delivery service for farm inputs on a regular basis. They also tried to raise their incomes by attracting new deposits by introducing new accounts named Farmers' Assets Formation Savings.

One of the most remarkable changes in this period was the establishment of RPC (rice processing complex) which would greatly change the rice industry in Korea. Instead of packaging rice in the traditional straw bag, RPCs supplied farmers with small brand name bags and create a direct link between the farmer and the consumer, reducing the gap between the farm gate price and the market price.

In the 1990's, the environment surrounding agricultural marketing began to change dramatically. Market liberalization and an increase in foreign imports, emerging big discount supermarkets, and changing consumer demands became the dominant trends in the food industry today.

To cope with some of these changes, Nonghyup opened the "Hanaro Club," a large discount supermarket. The Club introduced a direct sale system between producers and customers, leading to sharp reductions in retail prices while keeping fair prices for farmers. The success of this warehouse discount supermarket, whose main sales are Korean farm products, was remarkable. The positive outcomes were a result of the Centers shortening the distribution channels from 5~6 steps to 2~3 steps, reducing costs substantially.

Nonghyup also increased the amount of low interest loans to the member cooperatives from 179 billion won in 1999 to 227 billion in 2003. The capital was used by the member cooperatives to establish or improve businesses and services that were beneficial for member farmers such as processing facilities, marketing, etc.

1.3 Legal Framework for Agricultural Cooperatives

Agricultural cooperatives in Korea are composed of bi-structured member cooperatives in local areas, and their national federation, NACF.

- Regional multipurpose cooperatives which consist of:
 - a. Regional Agricultural Cooperatives - formed by agricultural producers
 - b. Regional Livestock Cooperatives - formed by livestock producers

- Commodity or specialized cooperatives are formed by fruit, vegetable or flower growers, ginseng producers and other farmers involved in livestock production.

All are regulated by the Agricultural Cooperative Law that sets the general rules applicable to all agricultural cooperatives, whatever their specific production sector.

II. Current Situation of Agricultural Cooperatives

2.1 Membership

- *Dual membership*

In 1994, the dual membership system was introduced, so two persons per household could join a regional cooperative. In 1997, the law was again revised so that any farmer who lives and has a workplace within the territory of the regional cooperative could be a member of the regional cooperative. Since then, the total number of member farmers has increased and tops now 2.4 million. The average number of member farmers of a cooperative tops 1,770.

- *Associate membership*

Since 1989, NACF allowed non-farmers living within the range of the regional cooperatives to join as associate members of the regional cooperative. The number of associate members increased gradually every year and reached over 10 million as of the end of 2004.

- *Membership of women farmers*

NACF opened the membership of cooperatives to women farmers in 1988. The portion of women members in the regional cooperatives is still low, taking up only 17.5 percent of the total 356 thousand members. However, the number of women members is increasing every year in contrast to the decrease in that of men.

2.2 Organizational Structure

NACF has a two-tier system. The member cooperatives operate at the regional or county level while the federation operates at the national level. NACF is the national umbrella organization for member cooperatives across the country.

2.2.1 Member cooperatives

The member cooperatives are categorized into two groups: regional cooperatives and commodity cooperatives. As of the end of 2004, there have been 1,237 regional cooperatives and 88 commodity cooperatives. Almost all of the farmers are affiliated with these cooperatives.

- *The regional cooperatives*

The regional cooperatives consist of agricultural regional cooperatives and livestock regional

cooperatives. The regional cooperatives organized by agricultural producers mainly engaged themselves in growing crops such as rice and by farmers who raise Korean cattle. The regional cooperatives conduct business such as the marketing of agricultural products, the supply of farm inputs and consumer goods, agricultural extension, banking and credit, and insurance.

• ***The commodity cooperatives***

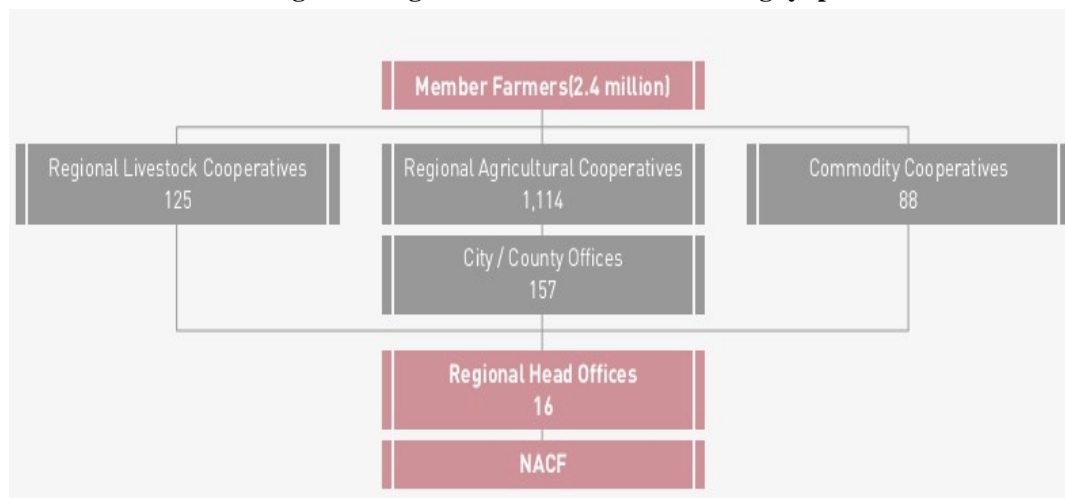
Commodity cooperatives are formed by farmers who specialize their production such as fruit, vegetable, flower, ginseng and livestock. Since 1989, the commodity cooperatives, which had previously handled only the marketing and supply business, have also been providing banking and credit service to their member farmers.

2.2.2 NACF

NACF has 1,239 regional cooperatives and 88 commodity cooperatives as member cooperatives. Member cooperatives have a combined total membership of 2.4 million member farmers.

The core businesses of NACF - Planning & Extension Marketing & Supply, Banking and Insurance, and Livestock -operate independently, each with its own CEO. Together NACF and member cooperatives have 5,041 offices and branches in the banking sector and operate nearly 2,197 retail stores across the country. NACF has 16 regional head offices, 157 city/county offices, 779 bank branches, 18 subsidiaries and 4 overseas offices. NACF employed 11,723 staff members as of the end of 2005.

<Figure > Organizational Structure of Nonghyup



2.3 Governance System

The functioning of a cooperative must always be consistent with the laws and regulations of the sector. The Ministry of Agriculture establishes standard statutes and agricultural cooperatives must imperatively respect them.

The basic structure of a cooperative is the following:

- ***The general assembly***

This is where members deliberate and vote. All members have the right to be present or represented at the general assembly and have one vote each regardless of the number of shares they own. This principle-‘one man, one vote’- departs from the law on limited-liability companies where the number of votes is generally proportional to the amount of shares owned.

- ***The Board of Directors of member cooperatives***

The Board of Directors of member cooperatives consist of seven to fifteen members, each including the cooperative's president as its chairman, and two auditors. The presidents and auditors of member cooperatives are elected directly by members; their terms of service are four and three years, respectively.

- ***The President***

The members elect the president. Her/his role is essential as s/he normally chair the general assemblies and Board of Directors, and represents the cooperative in legal proceedings.

- ***The managing director***

The managing director applies the policies defined by the board of directors, suggests innovations and manages the cooperative, including the collection, transformation and marketing of the members’ production. It is essential that the president and the managing director work closely together as they are the supervisory and the management elements of a cooperative.

- ***The Auditing system***

Legal requirements stipulate that agricultural cooperatives must be members of the federation of cooperatives (NACF). Legally authorized by the Minister of Agriculture, NACF is in charge of proceeding to an analytical and periodical inspection of the accounts and of the management of the cooperatives. This special auditing system aims to produce a critical assessment to be used by the audited cooperative.

2.4 Business Scope and Performances

2.4.1 Agricultural Marketing & Supply

• *Production and distribution of high-quality agricultural products*

Nonghyup is helping increase farmers' profits by converting agricultural and livestock products produced by farmers into products that are in demand, and by rationalizing the distribution system. For greater convenience in buying agricultural products, Nonghyup has expanded sales networks in consumption areas and operates cyber shopping malls. The Food Safety Center was established to assure quality and safety.

To raise the competitiveness of the Korean agricultural products for their survival in an open market situation and to provide ensure food safety, Nonghyup supports production of organically grown agricultural products, inspects agricultural products, and certifies Nonghyup premium products.

• *Production and distribution of high-quality livestock products*

Nonghyup is building a system that can satisfy both producers and consumers through supply and branding of clean and safe livestock products, and improving the distribution of livestock products. It also provides livestock raisers with various services such as introducing new technology, consulting in the field, and more effectively disinfecting livestock, among other activities.

• *Processing and export of agricultural and livestock products*

To help farmers earn stable income, Nonghyup is taking the lead in globalizing the taste of Korean foods and in increasing domestic consumption by developing new processed foods such as Kimchi, drinks, sauce and tea products, and processed livestock foods in 120 processing facilities.

• *Supply of agricultural equipment and commodities*

Through efforts to stabilize prices of various agricultural materials and equipment that farmers require and for timely delivery, Nonghyup helps reduce the burden of agricultural costs and improve productivity. Moreover, by supplying commodities at an optimal price, it is providing practical benefits to farmers.

2.4.2 Banking & Insurance

• *Mutual Credit Business*

Primary agricultural cooperatives are operating banking business, named as mutual credit, to provide financial services for member farmers. It is noted that the mutual credit business is run under the Credit Cooperative Law, while NACF under the general Banking Act. Mutual credit is intended to provide self-help between farmers with surplus money and those in financial need. Originally it launched to prevent private moneylenders from exploiting poor farmers with high interest. In this sense, the mutual business has been quite successful in that net surplus has been shown in mutual credit business in the nation.

Primary cooperatives are allowed to operate within the scope of financial services that can be delivered by credit cooperatives. However, NACF and its member cooperatives maintain nationwide financial services distribution channels. All the channels are connected on-line with the computer system run by NACF. Customer can make banking transactions at any of NACF channel or its primary cooperative channels nationwide. This system provides a source for competitiveness of mutual credit business in their local market.

Rapid growth of multi-purpose cooperatives had not been possible without the contribution of mutual credit business. The marketing business has made use of the fund raised by mutual credit. Profits from mutual credit business have been a major financial source for providing extension and guidance services to member farmers.

• *Commercial Banking Business*

Being a leading commercial bank in Korea, NACF has successfully mobilized funds for agricultural development and provided comprehensive financial services to its customers including non-member citizens and corporations, agro-industries, local governments, member cooperatives, and individual farmers as well. The role and contribution of banking business has been essential and comprehensive in agricultural cooperative system in Korea.

Financial transaction between NACF and member cooperatives is of importance in several aspects. Mutual credit business has highly been dependent on NACF as their central bank and main channels to financial market. The nationwide on-line bank by NACF provides channels for local cooperatives to connect most banking services and transactions among financial institutions. Non-banking businesses of primary cooperatives are also major beneficiaries of NACF banking business that provides financial resources and credits for the government.

Though the Korean financial market is now completely open to foreign competition, 100% Korean-owned NACF has stood up well, providing comprehensive financial services including banking, insurance, credit cards, and digital banking.

2.4.3 Education & Supports

Agricultural cooperatives and NACF provide extension services to improve farmers' managerial skills and thus enhance international competitiveness of Korean agriculture. Focus on extension services is directed to maintain at least one professional staff for each primary cooperative that can provide leading farm guidance and promoting cooperative value.

• *“New farmer” campaign*

Nonghyup has initiated the campaign of “New Farmer” stressing self-guidance, self-support, and cooperation since 1966 in order to spread a sense of pride and duty among farmers. The prize of “New Farmers of the Month” is awarded to ten farm couples that are chosen throughout the country every month. The total recipients since 1966 have reached 2500 couples. In addition to this, Nonghyup also supports and encourages the development of autonomous cooperative clubs and groups organized by age or farm products. Nationwide there are more than 63,000 cooperatives clubs and associations that include Farmers Club, the Rural Women's Club, and Crop Club.

• *Education and Practical supports*

Globalization is forcing farmers to become more competitive which in turn requires farmers to seek education and training. Hence, Nonghyup is operating the Agricultural Leader Training Institute, the New Farmers Technology College. In addition, Agricultural Cooperative College of the Federation educates future leaders who will be the key to lead the national agricultural cooperative movement.

A subsidiary of NACF publishes the Farmers Newspaper every other day with a circulation of 350 thousand to provide farmer with new information on agricultural and rural issues, agricultural marketing, farming technology, cooperative movement, and so on.

Legal services are provided by NACF to protect farmers' right in law cases. This free-of-charge service has been provided to member farmers since 1995 that are often at a disadvantage in disputes owing to lack of legal knowledge and information. Agricultural cooperatives also provide medical care service to insurance subscribers and their families in rural areas including

regular medical checkups. A number of local cooperatives offer funeral services to member farmers and their families to reduce much of the burden and cost of traditional funerals.

2.5 Taxation & Government Supporting System

• Taxation

Agricultural cooperatives are exempt of business tax for the transactions they carry out with their members. This is for two reasons:

Farmers who are members of a cooperative shouldn't pay twice the business tax: once for their own production and a second time through the collective tool. The results of cooperatives are indeed taken into account in the revenue of their members. Members cannot make any profit on the registered capital they subscribed to when they join the cooperative.

Some criticize this aspect of the cooperative legal status and argue that, this specific tax regime is a factor of unfair competition to the disadvantage of the rest of the private sector. However, this criticism must be tempered given the importance of cooperatives for the development of the entire Korean agricultural sector. Moreover, cooperative' specific status grants them some advantages but also significant constraints, which shouldn't be underestimated.

First of all, cooperatives are subjected to a process of legal approval, which grants them the authorization to operate only in the economic sectors applied for and only on a specific and restricted territory. This constitutes in itself a restrictive framework to their activities. In addition, they only operate transactions with their members with this restrictive framework.

The rule of exclusionism is equally a limiting factor since cooperatives can only carry out transactions with their members. It is true that the cooperatives can specify in their statutes the possibility of 'transactions with non members' as long as they don't exceed 20% of the turnover, but those activities are then submitted to the normal business tax regime like any other limited-liability company.

• Relations with the Government

The government is obliged to promote agricultural cooperatives through appropriate measures. And the government is also responsible to guide and inspect the business and management of agricultural cooperatives. The commitments are well articulated in the Agricultural Cooperative Law.

Close cooperation between the government and agricultural cooperatives has long been continued to implement a wide range of farm programs. There would be a rationale for the government to deliver public services to grass root farmers through cooperatives with low transaction costs to little. Meanwhile, agricultural cooperatives have also benefited from conducting government programs to obtain good reputation on their social commitment that surely has been competitive advantage to make business successful in the marketplace.

Agricultural cooperatives have made regular petitions to the government and the Congress for legislation and public recommendation in favor of farmers and rural community. Those include the issues on WTO negotiations, tax exemption on farm inputs, favorable interest rates of policy loans, and various payment programs and so on.

III. Challenges and Recent Performances

3.1 Challenges for Agricultural cooperatives

• *Agricultural Trade Liberalization*

The Uruguay Round Agreement on Agriculture has severely affected agricultural sector in terms of reduction of border measure and domestic support. Under the regime of WTO, Korean farmers have to compete with farm products imported from abroad. Global competition requires structural adjustment of agricultural sector improve quality competitiveness and to reduce production and marketing costs.

Agricultural cooperatives are committed to encounter competition from foreign farmers through appropriate measures. One is to make petitions to the government of legitimate border measures such as safeguard. Another is to encourage and support the production and marketing of quality farm products. Environmentally friendly farming is also one of promising opportunity for farmers to overcome market competition.

• *Market Competition and Changes in consumers' preferences*

Recently, issues relating to environmental degradation and food safety are becoming important as consumers' tastes change. Along with increasing per capita gross national product (GNP), consumers, as well as farmers, are beginning to realize the importance of a clean environment and safe food. In this regard, organic agriculture is viewed as one of the many alternatives to solve this problem in the agricultural sector.

Changes in market structure and consumers' preference are also critical challenge to agricultural cooperatives. Increasing market share of modernized large-scale discount stores is threatening traditional market channels through local cooperatives and wholesale market. Since these new marketing agents in urban areas are suspected to exercise market power over shippers and cooperatives, NACF are expected to play as 'competitive yardstick' at market place to promote competition and ensure fair practices.

• *Policy Reform*

Government support on agriculture has been constrained in terms of policy instruments and total amount. For rice sector, agricultural cooperatives are expected to expand business for rice marketing, while the government has to reduce its procurement in harvest season. In other words, market orientation implies more involvement of cooperative sector in place of the

government.

As mentioned above, the changes in market conditions and farm policy bring about big and tough challenges to agricultural cooperatives. There is increasing demand for cooperatives business reengineering toward market orientation. Another way to make it more competitive would be to strengthen synergy effects of agricultural cooperative system as a whole.

- ***Concern for Rural Community***

Issues on rural community are also concern of agricultural cooperatives. Aging problem is most important since more than half of farm operators are of age over 60. Government programs for farm retirement are not well prepared yet, and rural population continues to decrease. Depopulating and aging community makes it difficult for the market to provide educational, medical, and cultural services in rural areas. This is obviously a problem of missing market, and public policy should be introduced to remedy and reduce the market failure.

Agricultural cooperatives are suggesting and asking appropriate programs for improving social welfare of rural residents including farmers and their families. Meanwhile, agricultural cooperatives themselves are to work for developing non-farm businesses in rural community such as green tourism, weekend farming for urban residents, and others for attracting private investment to rural community.

National campaign for agricultural and rural issues is also of importance for agricultural cooperatives to make people understand well the value of multi-functionality or positive externalities of farming and rural community. Social benefits from paddy farming are quite well known thanks to various efforts such as academic studies and public communications. As a result, direct payment program for paddy farming has been implemented since 2001 as public compensation for its social contribution.

3.2 Recent steps of Agricultural Cooperatives

3.2.1 Reform of organizational structure

- ***The creation of New Nonghyup***

At the start of the new millennium, the government encouraged the merger of the three major cooperative organizations: the National Livestock Cooperative Federation, the Ginseng Cooperative Federation, and NACF. On July 1st 2000, the three cooperative federations were

merged creating the New Nonghyup.

A new management system was also introduced. The New Nonghyup has CEO's in all three business sectors: agricultural marketing, livestock marketing, and banking. The three sectors are run independently of each other.

• ***The Revision of the Agricultural Cooperatives Law***

The Revision of the Agricultural Cooperatives Law was approved by parliament on 9th December 2004, and was enacted in July 2005.

The most important revisions include:

- The Chairman of Nonghyup is to be non-standing.
- The introduction of professional CEO's

With these revisions, Nonghyup can increase management efficiency and restructure the organization. And the chairman is freer from management responsibilities, and can work closer with member farmers.

To improve transparency and management, member cooperatives must have a standing executive responsible for managing the cooperative and an independent auditor must do the auditing.

Nonghyup is positive about these changes and is preparing follow up measures to ensure the revisions are successful.

3.2.2 Revitalization of Rural Community and Economy

• ***Launching of 'New Rural Community, New Nonghyup Movement'***

'The New Rural Community, New Nonghyup Movement' was initiated in 2004 to revitalize the agricultural industry and rural communities, and to develop innovations within agricultural cooperatives around the country.

Over the past 30 years, major changes within Nonghyup have been the establishment of bigger cooperatives through merges and the creation of a two-tier system, the introduction of mutual credit and the establishment of chain stores throughout the country.

However, there have been calls for Nonghyup to make more substantive changes in light of the very different environment of today's rural communities and the agricultural industry.

The objective of the "New Rural Community, New Nonghyup Movement" is being open to change. Nonghyup is willing, if need be, to change everything but our name. The management, the business strategy, the organizational structure are being evaluated and redesigned to better meet the needs of our farmers and to reflect the realities of the new agriculture. We hope in the end to hear farmers and Korean citizens say, "Thanks Nonghyup" and "We need Nonghyup" recognizing the valuable and important role Nonghyup plays in the development of the entire nation.

• ***"Love Rural Communities Campaign"***

As consumers are increasingly interested in organically grown agricultural and livestock products, Nonghyup is supporting production of high-quality and safe agricultural and livestock products to maintain the health and quality of life of all Koreans.

It is also taking the lead to provide guidance and training on agricultural management to raise the competitiveness of Korean agriculture and to make our farming villages happier places through sound agricultural administration.

Nonghyup has launched a campaign, 'Love Our Farming Villages', for mutual prosperity of cities and farming villages to improve the quality of life of urbanites and farmers alike, and to make farming villages more vibrant places to live in through interests and support for our agriculture and farming villages across the nation.

We believe that rural development cannot proceed these days only by farmers working together but the entire country needs to be involved. We are encouraging both rural and urban communities to come together and work as one. We introduced the "Love Rural Communities Campaign" in November 2004. The campaign looks to rejuvenate the agricultural industry and rural communities and involves the government, businesses, consumer groups, academia, religious groups and NGO's.

We are working to encourage every citizen to support rural communities and to raise awareness of the importance of having a thriving agricultural industry. To make the relationship more meaningful and to develop strong lasting relations between urban and rural people, Nonghyup

has played bridging role in establishing sisterhoods between urban companies and rural communities. The sisterhood urban people help farmers to revitalize their rural communities by buying farm products from sisterhood farmers, using farm-stay facilities, participating in various agricultural activities like weekend farming, and many other interactions. The sisterhood farmers also return back an economic benefit to their urban partners, providing high quality, lower priced, and safe farm products.

“Sisterhood of urban companies and rural communities” and “Second hometown for urban children” are two examples of Nonghyup’s projects to link cities and rural communities and help the urban community better understand agriculture and rural communities.

With the campaign, not only corporations but also government ministries joined the promotion. It has gained considerable interest across the country and had 8,664 villages in partnership with urban groups at the end of March this year. We expect to reach a target of 15,000 partnerships in 35,000 villages in Korea by the end of this year.

• *Lowering interest rates for mutual credit*

Member cooperatives were criticized for keeping interest rates too high even though member farmers were experiencing economic difficulties. Nonghyup and its member cooperatives in 2004 lowered interest rates on non-collateral loans below 8.5%. The average rate dropped from 10.84% to 7.60%.

Farmers saved 190 billion won per year in interest rates. Other financial institutions in the rural communities were forced to lower their interest rates as well. Nonghyup continues to keep interest rates for mutual credit as low as other commercial banks in order to help member farmers.

To cover the difference resulting from lower interest rates, Nonghyup loaned 2 trillion won to member cooperatives at no interest and member cooperatives made up the other half by reducing operational costs.

IV. Conclusion

Korean agricultural cooperatives, which have two-tiered federal system with multipurpose function, have certainly evolved a lot in the last century and become today genuine enterprises able to perform the game of the marketplace while respecting the great principles of agricultural cooperation, encouraging economic growth and defending economic interests of farmer members constantly threatened by recurring crisis.

In the past, agricultural cooperatives could play a substantial role in collecting and selling its members' production through a simple valorisation on protected markets. But, the changed environment with new economic, social and political rules urges them to develop strategies similar to those of the private sector facing open markets.

The great challenges of today and tomorrow are those of the internationalization of markets, of innovation, of environmental conservation and of food security. In the context of trade liberalization and globalization, the cooperative approach is regarded as one of the best instrument of self-protection for small farmers mainly due to its self-help concept and member's participation. Therefore the future of farmers and of the agricultural sector depends above all on their ability to cooperate and to set up systems of collective actions and appropriate mechanisms of solidarity.

Korean cooperatives' experience shows that the success of the cooperatives is achieved not only by the skills and determination of its managers but also by its capacity to bring members together and promote their interest. It is essential for agricultural cooperatives to remember that they should be attentive in inspiring, motivating and supporting its members as well in ensuring the sustainability of the production of their members.