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Korea to Encourage Companies to Farm Abroad to Ensure Supplies

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Bloomberg | April 2, 2009

By Sungwoo Park and Sangim Han

April 3 (Bloomberg) -- South Korea, Asia's second-biggest grain importer, will lend money and give technology to companies to develop farms overseas to ensure the nation's food security after prices surged last year.

"It will yield good profitability in the long-term, so we will support private companies doing the business," Chang Tae Pyong, Minister for Food, Agriculture, Forestry and Fisheries, said in an interview yesterday at his office in Gwacheon city.

The cost of grain imports surged last year as prices of wheat, rice and corn rose to records, squeezing South Korea, which imports 95 percent of its non-rice grain needs. The mountainous Asian nation, most of whose farmland is taken up with rice, said last year it aims to almost double its grain self-sufficiency ratio to 50 percent by 2030.

President Lee Myung Bak last year said the country may seek to produce rice and other grains overseas, possibly signing 50-year leases for agricultural land in Russia's Far East.

"Such efforts are necessary," Chang said. "Companies will take the initiative under the market principle, while the government will aid them indirectly."

Daewoo Logistics Corp., a resource development company, said in November it agreed to lease 1.3 million hectares (3.2 million acres) in Madagascar for 99 years to produce food and biofuel for export. Nonghyup Feed Inc., South

Korea's biggest individual buyer of feed grains, said in July it plans to farm corn in Indonesia.

The government isn't considering offering those companies incentives such as below-market level interest rates on loans, Chang said.

Imports Surge

The value of South Korea's 9 million metric tons of corn imports surged 94 percent last year to \$2.8 billion while the volume rose just 5 percent, according to government data. The nation is the world's third-largest corn importer. The import cost for wheat jumped 54 percent in 2008.

In an effort to cut costs, the nation may buy about 1.5 million tons of feed wheat this year, up 25 percent from a previous estimate as increased supplies from Ukraine made the grain a cheaper substitute to U.S. corn, Hong Sung Soo, deputy general manager at the Korea Feed Association, the country's top buyer, said March 31.

Grain prices, which have retreated from last year's highs, are likely to increase in the medium-to-long term as global population increases and more people eat meat, stoking demand for crops used in animal feed and biofuels, Chang said.

"Prices will remain on the upward trend because corn and other crops are being used in ethanol," he said.

Price Retreat

Corn has fallen by half from its record \$7.9925 a bushel on June 27 and wheat is down 61 percent from an all-time high of \$13.495 reached on Feb. 27, 2008, as the global recession eroded demand for all commodities. The Reuters/Jefferies CRB Index of 19 prices fell 4 percent in the quarter ended March, adding to a 50 percent drop in the second half of 2008.

Feed-grain imports may decline "marginally" this year amid the global economic slowdown, while purchases for food-processing will stay unchanged, Chang said, without providing a forecast.

South Korea aims to more than double exports of products including vegetables, pork and poultry to \$10 billion by 2012 from \$4.4 billion last year, Chang said. Imports were about \$20 billion in 2008.

"We'd like to grow the food industry as the next-generation business because it has a great potential to produce value-added products," he said. "Hopefully, we can turn the trade deficit into a surplus once after we reach the \$10 billion export target."

The government seeks to meet the goal by easing rules to attract investments from large companies and foreign investors, develop technology and reform the industry dominated by aged farmers engaged in small-scale rice farming, Chang said.

Seeking to boost local production, the government plans to lease some reclaimed land along the shore under long-term contracts to investors, he said.

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