



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

~~25184~~  
121490

INTERNATIONAL DIVISION

MAY 18, 1983

B-211734

**RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.**

The Honorable Vic Fazio  
The Honorable Eugene Chappie  
The Honorable Tony Coelho  
House of Representatives

RELEASED



121490

Subject: U.S. Government Actions Affecting  
Rice Sales to Korea (GAO/ID-83-48)

At your request, we reviewed the actions of U.S. Government agencies concerning certain Japanese and commercial U.S. sales of rice to Korea. We specifically looked at the 1980 U.S.-Japan Rice Understanding, the 1980 emergency exceptions granted for Japanese sales to the Republic of Korea, and the implementation of Korean commitments to buy U.S. 1980 and 1981 crop rice.

Our objectives were to determine the facts concerning these matters and the roles of U.S. agencies, principally the Departments of Agriculture and State. We reviewed the February 1981 and March 1982 hearings of the Subcommittee on Cotton, Rice, and Sugar, House Committee on Agriculture, and available files at Agriculture and State for 1980 through March 14, 1983 and interviewed cognizant officials of these departments and former officials of Agriculture. In your request, you suggested that the rice matter may prove useful as a case study in the U.S. Government's involvement with the export of commodities. On the basis of our review, we concluded that this issue does not provide a case study from which generalizations may be drawn about other commodities and export markets, because the history of U.S. rice sales to Korea, the producer-exporter relationships, and the U.S.-Japan Rice Understanding are unique. We did not directly review the role of U.S. private sector entities in Korean rice sales because some of these private parties are involved in litigation and, as a matter of policy, we do not investigate areas under active litigation. Information about this litigation is contained in the March 11 and 16, 1982, hearings before the Subcommittee on Cotton, Rice, and Sugar.

We performed our review in accordance with generally accepted Government audit standards.

(483365)

525624

U.S.-JAPAN RICE UNDERSTANDING

To deal with the adverse effects of Japan's exports of heavily subsidized rice, the U.S. Department of Agriculture negotiated a Rice Understanding under which Japan agreed to limit rice export sales to an average of 350,000 tons a year over the 4 Japanese fiscal years beginning April 1, 1980. In making sales, the Japanese Government would distinguish between sensitive "first market" commercial sales countries, such as Korea and Indonesia, and "second market" food-aid type countries. Export levels were set for the first and second market country categories. The Understanding also anticipated Japanese grant aid exports of 50,000 tons per year but did not establish a ceiling on the amount Japan could ship as grant aid. Provisions also covered annual, technical, and emergency consultations to carry out the Understanding.

The Understanding was confirmed in an exchange of letters between the U.S. Department of Agriculture and Japan's Ministry of Agriculture, Forestry and Fisheries. (See encl. II.)

U.S. Government officials felt that the Understanding with Japan achieved the U.S. purpose of limiting Japanese subsidized exports which were detrimental to U.S. rice producers and exporters. However, U.S. rice industry representatives and members of Congress expressed dissatisfaction with the Understanding at a February 26, 1981, hearing before the Subcommittee on Cotton, Rice, and Sugar. They felt that the vague and ambiguous exchange of letters which constituted the Understanding would give rise to repeated disagreements; they expressed dissatisfaction with the provision that permitted unlimited food aid and opposition to the express consent by the U.S. Government to the annual 350,000 tons of subsidized Japanese sales. They also felt that the "emergency" clause was not adequately defined, Japan was not required to stop its subsidy practices, and the principle of additionality<sup>1</sup> was not expressly stated.

"EMERGENCY" CLAUSE OF RICE  
UNDERSTANDING AND 1980  
EXCEPTIONS FOR KOREA

The U.S.-Japan Rice Understanding contains an emergency clause under which either the United States or Japan can request consultations to consider exceptions to the Understanding for the purpose of meeting food shortages resulting from unusual

---

<sup>1</sup> Additionality means that Japanese subsidized rice sold in world commerce should be an addition to commercial rice sales that would otherwise be made.

circumstances, such as natural disasters and crop failures. Through February 1983, the U.S. Government approved three emergency exceptions--all of them in 1980, the first year of the Understanding. They included two 1980 exceptions for Korea. The first emergency request to allow Japan to sell Korea an additional 88,000 tons of rice was approved in June 1980 after the Department of Agriculture was satisfied that all exportable California 1979 crop rice had been sold.

The second and most important exception for Korea which authorized Japan to sell Korea up to 1 million tons of rice was approved in December 1980. The Korean Government suffered a major shortfall in its 1980 rice crop and, to deal with the problem, purchased a record amount--more than 2.2 million tons from September 1980 through March 1981. This included 1.2 million tons of rice from the United States and 675,000 tons from Japan. The approval of the exception for emergency sales from Japan was made after the Department of Agriculture and the State Department reached a consensus that Korea needed up to 1 million tons of rice beyond what could be met by commercial rice suppliers. State Department officials said the exception was carefully reviewed by Agriculture and State. However, we found no documentation evidencing who approved the exception or what kinds of deliberations and decisionmaking factors were considered. Furthermore, we found no written agreement for the exception identifying the understandings, terms, and conditions to be carried out by the United States, Japan, and Korea as part of the exception approval. In this regard, State Department officials testified before the Subcommittee on Cotton, Rice, and Sugar on February 26, 1981, that the exception was processed and approved on the basis of conversations between interested parties.

KOREAN COMMITMENTS TO PURCHASE U.S. RICE  
IN EXCHANGE FOR THE 1980 EXCEPTION

From the outset of Korea's 1980 rice shortage, the Korean Government orally promised to buy the remainder of the 1980 California rice crop of the varieties it was accustomed to purchasing. Later in the discussions of the 1 million ton exception, it also agreed orally to buy some rice from the U.S. southern crop and some 1981 California crop rice. These oral promises were put into writing in a January 8, 1981 letter from the Korean Ambassador to the Department of Agriculture's Under Secretary for International Affairs and Commodity Programs. (See encl. II.) In connection with the 1 million ton exception, the Korean Government expressed its intention to import more U.S. rice as follows.

--200,000 tons of U.S. 1980 crop southern medium rice for a reasonable price in the near future.

--Any available 1980 crop California rice, at a reasonable price, in addition to the 644,000 tons of California rice already purchased.

--500,000 tons of California rice produced in 1981.

This letter was the only written diplomatic exchange relating to the Korean 1 million ton exception. In the absence of other documentation identifying the terms and conditions of the Korean exception, the Departments of State and Agriculture and the Rice Millers Association had differing views on what Korea was committed to do in exchange for receiving the Japanese subsidized rice. For details on these views see enclosure I, p. 6.

The Korean Government fulfilled its commitments for U.S. 1980 crop rice by purchasing about 1.2 million tons valued at about \$510 million. The Korean purchases included 940,000 tons of California rice and 220,000 tons of southern rice.

Difficulties in meeting the 1981  
rice purchase commitment

Considerable difficulties arose in connection with the Korean Government's 1981 rice commitment. The U.S. Government and the U.S. rice industry wanted the Koreans to buy the rice early in the marketing year and ship it before the 1982 U.S. crop was harvested.<sup>2</sup> However, there was no documentation defining how and when the Koreans were to purchase and ship the 1981 U.S. crop rice; as the 1981 U.S. rice harvest period drew near, the Koreans had ample supplies of rice on hand from the large 1980 imports and were expecting a good 1981 crop. In addition, a large U.S. 1981 crop was expected, which would lower U.S. rice prices.

Other difficulties are discussed below.

--In administering the Korean exception, the U.S. and Japanese Governments had differing interpretations of the pricing and offset clauses of the U.S.-Japan Rice Understanding. The two governments could not reach mutual understandings on

---

<sup>2</sup> Agriculture officially considers that the marketing year for rice is Aug. 1 through July 31. The rice crop in California is harvested in Sept. and Oct. The U.S. Government wanted the 1981 rice crop to be shipped by Aug. 31, 1982, and before any of the 1982 crop was harvested in Sept. 1982.

offsets<sup>3</sup> and had difficulty with pricing decisions.<sup>4</sup> For details on these problems see enclosure I, p. 9.

--The Departments of State and Agriculture wanted Korea to complete shipments of rice before August 31, 1982, but there were no written agreements to require this. The Koreans initially projected shipments for the July-November 1982 period. This was later revised to the May-September 1982 period. See enclosure I, p. 13 for a discussion of U.S. Government actions to try to arrange early shipment of 1981 rice.

--The Korean Government contracted for the 500,000 ton 1981 rice commitment by negotiating a 70,000 ton purchase with Pacific International Rice Mills, Inc., a 60,000 ton purchase from Agriprom S.A., and a 370,000 ton purchase from Comet Rice Mills, Inc. On January 22, 1982, the Korean Office of Supply issued a bid tender for the purchase of the 370,000 tons of 1981 crop California brown rice. Bids were to be submitted before February 12, but there were delays and it was not until May 12, 1982, that the Korean Government contracted to purchase the 370,000 tons of rice from Comet Rice. In part, the delay was caused by the domestic political issue that arose from allegations that Korean Government officials were involved in bribery and kickbacks in purchasing U.S. rice. For additional details see enclosure I, p. 13.

Delays in completing  
1981 rice commitment

As of March 16, 1983, only about 250,000 of the 500,000 tons of 1981 California rice had been shipped to Korea--the 70,000 tons

---

<sup>3</sup> The offset provision of the Understanding states that the amount exported in excess or short of the totals of the first and second markets in any given year should be subtracted from or added to the totals of the two markets in some subsequent year or years within the period through Japanese fiscal year 1983.

<sup>4</sup> The Understanding states that experts from the United States and Japan would meet with a view to exchanging information on the basis for pricing Japanese rice for export.

from Pacific International, 60,000 tons from Agriprom, and about 120,000 tons from Comet Rice. About 250,000 tons of rice was undelivered under the Comet Rice contract because Comet did not own or control the amount of California rice it contracted for and was unable to reach agreement with the California rice cooperatives that did own the rice. In addition, Comet could not arrange a purchase of 1981 crop rice from the U.S. Government's Commodity Credit Corporation rice inventory.

With 250,000 tons of 1981 rice still to be delivered, the Korean rice situation reached a stalemate. A Rice Millers Association team visiting in Korea in October 1982 reported the situation as follows.

1. Under no conditions would Korea purchase rice from California cooperatives so long as they are represented by a particular agent and U.S. lawsuits referencing Korean officials are outstanding.
2. On the other hand, Korea was prepared immediately to make direct purchases from the California cooperatives.
3. If necessary, Korea was prepared to extend the Comet Rice contract for about 7 or 8 months and allow the commitment to be fulfilled with 1982 crop rice.
4. No matter what course of action Korea takes, the Government "will be subjected to political heat" either from Korean rice farmers and the National Assembly for importing rice or from certain U.S. congressional representatives for not importing.

The Team believed that given these choices, the Koreans were prepared to fulfill their commitment only on their terms. Since Korea had offered to buy the rice directly, the Team felt all sides (The Korean Government, the California rice cooperatives and Comet Rice) had "painted themselves into their respective corners," which made it difficult for any action to occur soon.

The question has become how and when the Korean Government would take delivery on the remaining 250,000 tons of 1981 crop California rice. The position of the U.S. Government in this matter has been to maintain neutrality regarding U.S. suppliers while encouraging the Korean Government to resolve the rice question promptly.

In December 1982 the Korean Government extended the Comet Rice contract to June 30, 1983. Subsequently, the Korean Government agreed to contract with other U.S. rice suppliers if Comet Rice cannot perform on its contract by the June 30, 1983, extension date.

On March 29, 1983, an Agriculture official advised us that Comet Rice had resumed shipments to Korea by shipping 20,000 tons of brown rice on March 27. Two more ships were scheduled to carry rice to Korea. The official did not know whether Comet was shipping 1981 or 1982 crop rice or whether these shipments would comply with the Korean Government's commitment.<sup>5</sup>

Improving interagency administration  
of U.S.-Japan Understanding

The February 26, 1981, hearings on rice before the Subcommittee on Cotton, Rice, and Sugar, explored the problems raised by the Korean exception and focused on the need for improving implementation of the Rice Understanding. On March 4 and 6, 1981, the Chairman of the Subcommittee sent letters to the Agriculture and State Departments and the U.S. Trade Representative noting that a positive result of the hearing was the emergence of a consensus that improvements were needed in administering the Understanding. The Chairman outlined certain principles and asked these agencies to negotiate an interagency agreement outlining the functions of each agency in administering the Understanding. By letter of April 17, 1981, the Acting Administrator of Agriculture's Foreign Agricultural Service responded to the chairman's request and advised him that State, Agriculture and the U.S. Trade Representative had reached a general agreement on the future operation of the Rice Understanding. Agriculture would be the lead agency for negotiating and implementing the Understanding and would keep the other concerned agencies fully informed and see that they participated in decisions concerning the Understanding. Whenever problems arose, Agriculture would obtain the views and concurrence of all those agencies involved in reaching a decision. The letter goes on to specify the roles of the interested agencies and notes that the U.S. rice industry should be consulted on significant decisions regarding implementation of the Understanding, including exception decisions. The Subcommittee would also be consulted. Finally, Agriculture advised the Chairman that a coordinating office had been established at Agriculture to oversee the operation of the Understanding.

We believe the above actions taken by responsible U.S. officials represent general agreement on their respective roles in administering the U.S.-Japan Rice Understanding. Although it is

---

<sup>5</sup> We deleted a sentence in our draft report that stated our understanding that Agriculture was reviewing this matter. In its comments on our draft report, Agriculture advised us that this matter was not under current review.

not a formal structure, it appears adequate for managing the Understanding, which will expire on March 31, 1984.

CONCLUSIONS

The major problems with the U.S.-Japan Rice Understanding occurred during 1980, its first year of operation. No further exceptions have been approved, and the last year of the Rice Understanding began on April 1, 1983. Because of the confusion that arose due to ambiguities in and lack of documentation with respect to the Understanding, we believe any future agreements that might be negotiated should have greater specificity.

Coordination of U.S. agencies' activities, we believe, has significantly improved with the establishment of the coordinating office for U.S.-Japan Rice Understanding activities within the Department of Agriculture and with the general agreement reached among the Departments of Agriculture and State and the U.S. Trade Representative about their respective roles. We, therefore, do not believe that there is a demonstrated need at this time for a more formal interagency framework.

A draft of this letter was reviewed by officials of the Departments of State and Agriculture and their comments were considered in preparing the final letter. (See encl. III.)

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date it is issued. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Frank C. Conahan  
Director

Enclosures - 3



U.S. GOVERNMENT ACTIONS AFFECTING U.S.  
COMMERCIAL RICE SALES TO KOREA

BACKGROUND

In 1979, the Japanese Government started a large rice export disposal program to reduce its huge inventories of more than 6 million tons of rice. Japan sharply stepped up rice exports in 1979 by exporting more than 800,000 tons--far above the target of 200,000 tons announced for its disposal program. These exports were heavily subsidized; the government's domestic support price for rice was over \$1400 per ton as compared with world market prices of between \$250 and \$400 per ton.

In December 1979, the U.S. Government expressed concern about Japan's highly subsidized exports because these exports significantly reduced U.S. commercial markets for rice and caused extreme concern in the U.S. rice industry and among members of the Congress.

The U.S. and Japanese Governments consulted on the rice disposal problem from late 1979 through March 1980, but the U.S. Government could not get the Japanese to agree to an annual ceiling on their rice exports.

On April 4, 1980, the Rice Millers Association, acting on behalf of the U.S. rice industry, filed a section 301 complaint under the Trade Act of 1974 (19 U.S.C. 2101) asking the President to take retaliatory action against Japan for disrupting and displacing U.S. exports by selling rice at highly subsidized prices.

U.S.-JAPAN RICE UNDERSTANDING

The next U.S.-Japan consultations on surplus rice disposal took place in Tokyo from April 10 to 12, 1980, and the inter-agency Trade Policy Review Group instructed the Department of Agriculture to seek an agreement with Japan which would minimize the adverse effects of the Japanese surplus disposal program. These Tokyo talks resulted in a U.S.-Japan Rice Understanding under which Japan agreed to limit rice export sales to an average of 350,000 tons a year over the 4 Japanese fiscal years beginning April 1, 1980. In making sales, the Japanese Government would distinguish between sensitive "first market" commercial sales countries, such as Korea and Indonesia, and "second market" non-commercial food aid type countries. Export levels were set for the first and second market country categories. The Understanding also anticipated Japanese grant aid exports of 50,000 tons per year but did not establish a ceiling on the amount Japan could ship as grant aid. Provisions also covered annual technical and emergency consultations to carry out the Understanding.

The Understanding was confirmed in an exchange of letters between a U.S. Under Secretary of Agriculture for International Affairs and Commodity Programs and the Vice Minister of Japan's Ministry of Agriculture, Forestry and Fisheries. (See encl. II.)

On May 19, 1980, the Rice Millers Association withdrew its section 301 rice complaint.

Understanding criticized at congressional hearings

U.S. officials felt that the Rice Understanding achieved the U.S. purpose of limiting Japanese subsidized exports which were detrimental to U.S. producers and exporters. However, the U.S. rice industry and members of Congress expressed dissatisfaction with the Understanding at the February 26, 1981, hearings before the Subcommittee on Cotton, Rice, and Sugar, House Committee on Agriculture. They felt that the exchange of letters which constituted the Understanding were vague and ambiguous and would give rise to repeated disagreements. They also opposed the provision that permitted unlimited food aid and the express consent by the U.S. Government to subsidized Japanese sales. They believed that the "emergency" provision was not adequately defined, Japan was not required to stop its illegal subsidy practices, and the principle of additionality<sup>1</sup> was not expressly stated.

"EMERGENCY" CLAUSE OF RICE UNDERSTANDING AND 1980 EXCEPTIONS FOR KOREA

The U.S.-Japan Rice Understanding contains an emergency clause under which either Japan or the United States could request consultations to consider increased requirements for food assistance resulting from unusual circumstances such as natural disasters, crop failures, or other events. From the inception of the Understanding through February 1983, the United States approved the following emergency exceptions to the agreed Japanese export levels.

<u>Exception date</u>	<u>Country</u>	<u>Exception amount</u> (tons)
June 1980	Korea	88,000
December 1980	Korea	1 million
December 1980	Tanzania	25,000

---

<sup>1</sup> Additionality means that Japanese subsidized rice sold in world commerce should be an addition to commercial rice sales that would otherwise be made.

In response to the first Korean exception request, the Department of Agriculture (USDA) took the position that an exception was not justified while there was available U.S. rice of the type Korea normally purchased. As a result, only after it appeared that all exportable California 1979 crop medium and short-grain supplies were exhausted was an exception approved to permit the Japanese sale of 88,000 tons to Korea.

The Korean Government first raised the question of a major exception in September 1980, when it advised the U.S. Government that bad weather had seriously reduced the size of the 1980 rice harvest. In late September, Korea purchased 600,000 tons of 1980 California rice. On September 29, the Korean Government informed the U.S. Embassy in Korea that its rice crop would be no more than 4.7 million tons, far below a normal harvest. As a result, at least 1.7 million tons of rice would have to be imported to meet basic food requirements. Korean officials stated that they would purchase all the exportable Calrose and Pearl type rice available in the United States and hoped that the United States would not block Korean purchases of the balance of its needs from other countries. The U.S. Embassy in Korea asked the Koreans to explore ways to use other varieties of rice available from the U.S. southern crop.

On September 30, 1980, USDA officials told Korean Government officials that pressures from the U.S. rice industry would make it difficult for the U.S. Government to approve additional large scale sales of Japanese rice at subsidized prices as long as substantial quantities of rice were available in the United States and in the commercial world market.

The Koreans became progressively more concerned about their rice harvest during October 1980. On October 7, Korean Embassy officials met with USDA and State Department officials and said they would purchase an additional 200,000 to 300,000 tons of California rice if available and asked for favorable consideration of Korean purchases of 500,000 to 700,000 tons of rice from Japan. U.S. officials pointed out that better Korean and U.S. crop data was needed and there could be no assurances on future exceptions until Korea's needs, based on its 1980 harvest, were known.

On October 10 and 14 the Korean Government approached the U.S. Embassy in Korea to emphasize the gravity of its rice problem. The Korean Embassy in Washington made a similar approach to USDA on October 14 and repeated its request in Korea on October 16.

On October 22 the Korean Prime Minister told the U.S. Ambassador to Korea that a study of the 1980 harvest showed that the rice situation was far worse than feared. He emphasized the gravity of the situation for Korean political and economic stability and warned about the political effects if the United

States was seen as completely insensitive on this issue. He said Korea would have to import 300,000 tons of rice immediately in addition to U.S. supplies and a total of 2.4 million tons of rice from all sources before the end of the crop year. He said there was the possibility of a rice panic if adequate foreign supplies were not secured. In reporting this conversation, the U.S. Ambassador told the State Department that he saw the U.S. position on the rice problem as untenable and the United States must do something quickly. He asked that the rice issue be urgently brought to the attention of the Secretaries of State and Agriculture.

The Korean Agriculture Vice Minister visited Washington from October 23 to 27 to present Korea's request for assistance at USDA and the State Department. He again stated Korea's intention to buy all available Japonica type rice and also promised to buy 100,000 tons of U.S. southern medium rice. The State Department said that, in view of the gravity of Korea's problems, the United States would respond quickly and sympathetically to a Japanese request for an exception to the Rice Understanding.

On October 27, 1980, USDA officials completed their own assessment in Korea of the rice crop and concluded that Korea suffered a very serious crop shortfall. A USDA official recommended that the U.S. Government agree to Korean access to 300,000 tons of Japanese rice and agree in principle to allow Korean access to an additional 700,000 tons of Japanese rice subject to Korean Government agreement to (1) buy all of the remaining California rice, (2) buy up to 100,000 to 150,000 tons of U.S. southern rice, and (3) maximize commercial purchases of third-country rice.

On November 11, 1980, the Japanese Government requested U.S. Government concurrence for an additional 1 million tons of rice for Korea under the emergency clause of the U.S.-Japan Rice Understanding. In reporting the request, the U.S. Embassy in Japan told the State Department that due to other rice export commitments, limited port capacity, and other technical factors, the Japanese apparently had no intention of exporting more than 750,000 tons of rice to Korea between December 1980 and October 1981.

The State Department said the Japanese request for the Korean exception was carefully reviewed by USDA and State. USDA and State Department officials also advised us that there was a consensus decision to approve the exception for Korea. However, we found no documentation evidencing who approved the exception and what kinds of deliberations and decisionmaking factors were taken into account. Furthermore, we found no written agreement for the exception identifying the understandings, terms, and

conditions to be carried out by the United States, Japan, and Korea as part of the exception approval. In this regard, State Department officials testified before the Subcommittee on Cotton, Rice, and Sugar on February 26, 1981, that the exception was processed and approved on the basis of conversations between interested parties.

On December 2 and 3, the United States informed the Japanese and Korean Governments of its agreement to the exception for Korea as follows: taking into account the exceptional and urgent current Korean import needs and Korea's program for purchasing rice from other suppliers, the U.S. Government agreed to an exception for 300,000 tons of additional Japanese rice exports to Korea for shipment no later than March 31, 1981. In recognition of the exceptional import situation covering the entire 1980-1981 season, the United States also said it was prepared to approve an exception for additional Japanese rice of up to 700,000 tons subject to formal discussions and a final decision being reached in consultations with Japanese officials on December 10, 1980, in Washington. This second portion of the exception would be for shipment no later than September 1, 1981.

At the December 10 consultations, USDA advised the Japanese that the 700,000 ton approval should be based on three points: (1) that Japan agree not to ship rice to Korea in Japanese fiscal year 1981<sup>2</sup> until the Koreans had completed purchase of U.S. southern rice, (2) that Japan should recognize there is great sensitivity in the United States about the price for sales to Korea, and (3) that the United States and Japan agree on what offsetting changes should be made in export levels in future years under the agreement.

On December 23, 1980, the State Department told the U.S. Embassies in Korea and Japan about misconceptions by the Korean Embassy about the current U.S. position on the Korean exception. State told the Embassies to tell the host governments that the United States had agreed to the Japanese request for an exception of up to 1 million tons of rice to be shipped to Korea by August 31, 1981. The U.S. Government was pleased that the Koreans decided to buy all remaining exportable 1980 California crop rice, 200,000 tons of U.S. southern rice, and 500,000 tons of the 1981 California crop.

Under the 1 million ton exception authorization the Japanese sold Korea 675,000 tons of rice during Japanese fiscal years 1980 and 1981.

---

<sup>2</sup> The Japanese fiscal year runs from April 1 to March 31.

Differing views on Korea's  
obligations under the exception

In the absence of a written document identifying the terms and conditions of the Korean exception, views differed on what Korea was committed to do in exchange for receiving the subsidized Japanese rice. On December 8, 1980, the U.S. Embassy in Korea advised the State Department that the Rice Millers Association was apparently under the impression that the U.S. agreement for Japanese rice sales was contingent on prior Korean purchase of the remaining 1980 California rice crop plus 200,000 tons of U.S. southern rice. The Embassy's understanding was that Korea was committed to buy 200,000 tons of U.S. southern rice if varieties acceptable to it were available. Furthermore, such sales were not a condition precedent to the U.S. exception for Japan.

The State Department held December 8 and 9, 1980, discussions with a Rice Millers Association representative. This official objected to any Japanese rice sale to Korea before all rice available in U.S. markets was sold. The State Department official explained that the U.S. Government agreed to the exception because the Korean emergency was serious, the United States and other suppliers could not provide the amount of rice Korea needed, and Japan was the only source that could fill Korea's residual need in a timely manner. The State official also said that the U.S. Government imposed no timing requirement for Korean purchases, as that would constitute unwarranted interference in the market process.

On January 8, 1981, the State Department advised the U.S. Embassy in Korea that, at about the time of the original U.S. concurrence in the Korean 300,000-ton exception, Korean officials said they would provide a letter to USDA confirming their intent to buy 200,000 tons of U.S. southern rice, any remaining California rice, and a specified quantity of 1981 crop California rice. This letter was expected before the import of Japanese rice would begin for the January-March 1981 period but was now considerably overdue. State asked the U.S. Embassy to inquire about the letter. The Korean commitment letter dated January 8, 1981, was sent to USDA. (See encl. II.)

On January 10, 1981, the U.S. Embassy in Japan reported to the State Department on a meeting between a visiting U.S. congressman and a Rice Millers Association representative and the Director General of the Japanese Food Agency. The congressman advised that he and other congressmen were concerned about the failure of Korea to purchase available U.S. rice. The congressman believed that according to the Rice Understanding, concessional sales by Japan should not displace U.S. commercial sales. The Japanese official replied that he hoped the Koreans would soon purchase U.S. rice but pointed out that the United States

did not condition its approval for Japanese sale on prior action by Korea to purchase U.S. rice. He also felt that the United States would not seek to revise the terms of its approval.

A USDA draft cable dated January 22, 1981, noted that the U.S. Embassy in Tokyo was incorrect in indicating that the U.S. approval for the second 700,000 ton exception for Korea was not subject to any preconditions. At the December 9 and 10 U.S.-Japan consultations, the U.S. approval of the 700,000-ton exception was explicitly preconditioned on the prior purchase of up to 200,000 tons of U.S. southern rice and the remaining California 1980 crop rice; the United States and Japan reaching agreement for offsetting changes, if any, that should be made in export levels in future years under the Understanding; and the Japanese fiscal year 1981 sales being preceded by up-to-date exchanges on prices. This cable was not sent out due to non-approval by the Foreign Agricultural Service Administrator.

On January 28, 1981, USDA drafted another cable which stated that it was agreed during the December 9 and 10 U.S.-Japan consultations that before Japan made a definite commitment and final arrangements to ship its fiscal year 1981 rice to Korea, Korea's progress in fulfilling its commitments to purchase U.S. rice should be reviewed and consideration given to offsetting agreed export levels for future years under the Rice Understanding. Also, current market price information would be reviewed. The U.S. Embassy was requested to reaffirm with Japanese officials that there would be opportunity for further bilateral meetings prior to the opening of Korea-Japan discussions for shipments beginning April 1, 1981. A USDA memorandum dated January 30, 1981, noted that the State Department declined to send this cable to Japan because the State Department's position was that there were no preconditions that Korea must fulfill for access to Japanese fiscal year 1981 Japanese rice shipments. The only action needed was an up-to-date exchange on rice market prices. The memorandum notes that State's position was that the Koreans made a pledge to buy and should be taken at their word, the timing of the Korean purchase is at Korea's discretion, and rice exports to Korea had climbed so there was no cause for concern.

Congressional and U.S. rice industry criticisms of Korean exception

At February 26, 1981, hearings of the Subcommittee on Cotton, Rice and Sugar, several U.S. congressmen and U.S. rice industry representatives expressed dissatisfaction with the Korean 1-million ton exception, stating that:

1. There was no written record of the exception agreement that identified the terms and conditions of the exception. A substantial exception of 1 million tons of rice was approved on the basis of conversations among the interested parties.

2. No one, particularly at State and USDA, had adequately explained the procedural steps associated with granting the emergency exception. The exception was processed on an ad hoc, informal basis.
3. Unlike the June 1980 exception, the U.S. Government allowed Korea to depress U.S. rice prices by permitting Korea to buy subsidized rice from Japan while available U.S. rice stocks were still unsold.
4. U.S. rice farmers incurred additional costs when Korea delayed U.S. rice purchases until after it purchased rice from Japan.
5. USDA did not have good data on rice market prices and allowed Japan to sell the first 150,000 tons of rice to Korea at below U.S. rice market prices.
6. The U.S. Government authorized Japan to sell 1 million tons of rice when it knew the Japanese could only ship about 700,000 tons within the specified delivery time frames.

Improving interagency administration  
of U.S.-Japan Understanding

The February 26, 1981, hearings focused on the need for improvements in the implementation of the Rice Understanding. Subsequently, on March 4 and 6, 1981, the Chairman of the Subcommittee on Cotton, Rice and Sugar sent letters to State, USDA, and the U.S. Trade Representative (USTR) noting that a positive result of the hearing was the emergence of a consensus that a jurisdictional blueprint for administering the Understanding was needed. The Chairman outlined certain principles and asked these agencies to negotiate an interagency understanding outlining the functions of each agency in administering the Understanding. By letter of April 17, 1981, the Acting Administrator of USDA's Foreign Agricultural Service responded to the Chairman's request and advised him that State, USTR, and USDA had reached a general agreement on the future operations of the Understanding. USDA would be the lead agency for negotiating and implementing the Understanding and would keep the other concerned agencies fully informed and see that they participated in decisions concerning the Understanding. Whenever problems arose, USDA would obtain the views and concurrence of all those agencies involved in reaching a decision. The letter goes on to specify the roles of the interested agencies and notes that the U.S. rice industry should be consulted on significant decisions regarding implementation of the Understanding, including exception decisions. The Subcommittee on Cotton, Rice and Sugar would also be consulted. Finally, USDA advised the Chairman that a coordinating office had been established at USDA to oversee the operation of the Understanding.



We believe that these actions by responsible U.S. officials represent general agreement on their respective roles in administering the U.S.-Japan Rice Understanding. Although it is not a formal structure it appears adequate for managing the Understanding which will expire on March 31, 1984.

#### Pricing and offset controversies

In administering the Korean exceptions, the U.S. and Japanese Governments had differing interpretations of the pricing and offset provisions of the U.S.-Japan Rice Understanding. The two Governments could not reach mutual understandings on offsets and had difficulty with pricing decisions, as explained below.

The pricing of Japanese subsidized rice sales--particularly to a U.S. cash customer like Korea--has been of concern to the U.S. rice industry and the U.S. Government. The U.S.-Japan Rice Understanding states that experts from the United States and Japan would meet with a view to exchanging information on the basis for pricing Japanese rice for export. In May 1980, the Japanese negotiated a 70,000-ton sale to Korea without holding technical price discussions with the United States. The Japanese explained that they thought the basis for establishing export prices had already been agreed on and that technical meetings were not necessary unless the United States wanted to add other factors.

In preparation for U.S.-Japan technical pricing talks on June 16 and 17, 1980, a USDA paper made the point that the U.S. Government believed that Japanese procedures for pricing rice into export markets were not responsive to U.S. complaints that Japan would be undercutting world market prices. At these technical meetings, the United States and Japan agreed on what factors were relevant in establishing prices for export. They included reference prices, quality factors, the yen/dollar exchange rate, and handling and processing costs.

In the December 9-10, 1980, U.S.-Japan consultations, USDA told Japanese officials that they should recognize there is great sensitivity in the United States about the price for rice sales to Korea. They discussed the pricing of the 150,000-ton exception sale. The sales price of \$448 a ton was based on a September 1980 quotation for California rice. USDA told the Japanese that because prices had increased significantly since September, such a price would create problems with the U.S. rice industry. On January 17, the State Department told the U.S. Embassy in Japan that it believed the \$448 per ton price for the 150,000-ton contract substantially understated the market price. The Japanese did not take into account up-to-date price information as agreed at the June 1980 technical talks. State asked the Embassy to convey U.S. Government concern about the Japanese approach to pricing decisions and ask for closer consultation on subsequent sales.

At U.S.-Japan consultations held March 31, 1981, the United States argued that Japanese rice exports to first market category countries (Korea and Indonesia) should be priced on a landed-cost basis equal to comparable qualities of U.S. rice. The United States also asked Japan to discontinue the practice of discounting the export price by 4 percent to reflect the age of the rice and to modify its pricing formula when using recent U.S. brown rice sales as the initial reference price. The Japanese responded that questions concerning landed costs and age discounts were discussed in the June 1980 technical discussions and that then and now they found the U.S. position unacceptable. The Japanese were willing to consider changes for other pricing items which would not modify the essential elements of the agreed formula.

The Japanese Government increased its rice prices in negotiating the second tranche sale to Korea of 425,000 tons of brown rice. Japan-Korea contract negotiations, which concluded on March 2, 1981, used a reference price of \$459 per ton, which was a recent February 1981 U.S. sale to Korea. The final negotiated price for the 425,000 ton sale was \$481 per ton. Japan also sold 100,000 tons of milled bagged rice at \$544 per ton.

#### Offset controversies

The U.S. Government made an unsuccessful effort to get the Japanese Government to offset the Korean exceptions against future-year sales levels of the Rice Understanding.

The offset provision of the Understanding states that the amount exported in excess or short of the totals of the first and second markets in any given year should be subtracted from or added to the totals of the two markets in some subsequent year or years within the period through Japanese fiscal year 1983.

An internal USDA paper prepared for the December 9 and 10, 1980, U.S.-Japan Grain Consultations explored concessions the United States should seek from Japan in return for additional rice exceptions. One option was to link the Korean and other exceptions to subsequent-year reductions in the volume of first and second market categories. The paper noted that, although the Japanese had previously rejected the notion of offsets during the June 1980 talks, the Understanding seems to provide for such a linkage. Offsets would serve to maintain the overall level of Japanese rice sales and would make any exceptions more palatable to the U.S. rice industry. However, such a linkage based on pending exceptions would largely deplete export quotas for the remaining years of the Understanding.

At the December meetings, the United States raised the offset question and advised Japan that agreement should be reached on the offsetting changes that should be made in export levels in future years under the agreement before Japan made a final

decision in the quantity and timing of its fiscal year 1981 exceptional rice exports to Korea. The Japanese made no response to this point.

In preparation for March 31, 1981, consultations, a USDA strategy paper noted that this would be the first serious discussion with the Japanese regarding the offset provision and the U.S. objective should be to obtain a full measure of adjustments in future Japanese rice export levels so that it could be demonstrated to the Congress and the U.S. rice industry that the U.S.-Japan Rice Understanding was working and that U.S. commercial rice exporting interests were being protected. The U.S. position should be that the total allowable level of Japan's rice exports, apart from grant aid, should be reduced to 200,000 tons per year for each of the remaining years of the Understanding. At the consultations, the Japanese responded that they had a different interpretation of the offset provision but agreed to further consider the U.S. proposal.

In a May 11, 1981, meeting of USDA and Japanese officials, the Japanese said they did not believe that rice sales under the emergency clause were subject to offsets and that it would be difficult to agree to an offset. Then in a May 20, 1981, meeting in Tokyo with U.S. officials the Japanese rejected U.S. proposals for offsets because they viewed the emergency clause as covering unexpected demands over and above the levels in the agreement.

KOREAN COMMITMENTS TO PURCHASE U.S. RICE  
IN EXCHANGE FOR 1980 EXCEPTION

From the outset of Korea's 1980 rice shortage, the Korean Government orally promised to buy the remainder of the California rice crop of the varieties they were accustomed to purchasing. Later in the discussions of the 1-million ton exception they also agreed orally to buy some rice from the U.S. southern crop and some 1981 California crop rice. These oral promises were put into writing in a January 8, 1981, letter from the Korean Ambassador to USDA's Under Secretary for International Affairs and Commodity Programs. In connection with the 1-million ton exception, the Korean Government expressed its intention to import more U.S. rice, as follows.

- 200,000 tons of U.S. 1980 crop southern medium rice for a reasonable price in the near future,
- Any available 1980 crop California rice at a reasonable price, in addition to the 644,000 tons of California rice already purchased.
- 500,000 tons of California rice produced in 1981.

The Korean Government fulfilled its commitments for 1980 crop U.S. rice by purchasing about 1.2 million tons valued at about \$510 million. The Korean purchases included 940,000 tons of California rice and 220,000 tons of southern rice. In total, the Korean Government purchased more than 2.2 million tons of rice on world markets from September 1980 to March 1981.

Problems in Meeting 1981  
Rice Purchase Commitment

Considerable difficulties arose in connection with the Korean Government's 1981 rice commitment. The U.S. Government wanted the Koreans to buy the rice early in the marketing year and ship it before the new U.S. crop was harvested.<sup>3</sup> However, except for the Korean Ambassador's letter of January 8, 1981, outlining Korea's commitment in general terms, there was no other documentation defining how and when the Koreans were to purchase and ship the 1981 U.S. crop rice. And as the 1981 California rice harvest period drew near, the Koreans had ample supplies of rice on hand from the large 1980 imports and were expecting a good 1981 crop. On August 28, 1981, the U.S. Embassy in Korea reported to the State Department that Korea's rice stocks had been steadily rising from 766,000 tons at the end of November 1980 to 1.6 million tons at the end of July 1981. Adding private stocks, a total of 2.5 million tons was estimated to be in storage, for a near-maximum storage capacity of 2.8 million tons at the same time that a bumper 1981 Korean rice harvest was predicted. Factors contributing to Korea's high level of stocks included much lower demand than predicted, reluctance of rice brokers to buy in anticipation of a bumper crop, a Korean underestimate of commercial rice stocks which were higher because of overbuying after the 1980 harvest, and a Korean underestimate of the size of the 1980 crop by 400,000 to 500,000 tons.

A September 10, 1981, State Department memorandum noted that USDA and the Rice Millers Association wanted Korea to make all or part of its buys before December 31, 1981. This was unlikely, because Korea had adequate stocks and was expecting a bumper 1981 crop, so it would not want to import rice before the summer of 1982. Korea also knew that prices would likely decline because of an expected U.S. bumper crop and expected bumper crops of most other rice producing countries.

In its May 3, 1983, response to our draft report, the State Department said that Korea responded to U.S. requests by purchasing 40,000 tons of southern rice in October 1981. It

<sup>3</sup> USDA officially considers that the marketing year for rice is Aug. 1 through July 31. The rice crop in California is harvested in Sept. and Oct. The U.S. Government wanted the 1981 rice crop to be shipped by Aug. 31, 1982 and before the 1982 crop was harvested in Sept. 1982.

should be noted that this sale was not related to Korea's 1981 commitment to purchase 500,000 tons of California rice. This 40,000 ton sale was a renegotiation of an earlier purchase of 1980 crop southern rice.

Delays in contracting  
for 1981 rice purchases

The Korean Government contracted for the 500,000-ton 1981 rice commitment by negotiating a 70,000 ton purchase with Pacific International Rice Mills, Inc., a 60,000-ton purchase from Agriprom Co., and a 370,000-ton purchase from Comet Rice, Inc. On January 22, 1982, the Korean Office of Supply issued a bid tender for the purchase of the 370,000 tons of 1981 crop California brown rice. Bids were to be submitted before February 12, 1982. But on February 9, the U.S. Embassy in Korea advised the State Department that the February 12 date for submitting bids under the tender had been postponed and the Koreans could not give a new submission date. The Embassy guessed that the Koreans were restudying the shipping dates for the rice.

On February 25, 1982, the Koreans reopened their rice tender and the new deadline for submitting bids was March 10, 1982. On March 11, the U.S. Embassy told the State Department that the Korean press reported that Korea had accepted offers under the 370,000-ton tender from 10 U.S. firms. Contracts would be awarded after review of prices and other terms and conditions.

After a delay of 2 more months, the U.S. Embassy in Korea told the State Department that the Korean Office of Supply confirmed a May 12, 1982, contract to purchase 370,000 tons of 1981 California crop rice from Comet Rice, Inc. The Korean Government attributed the delay in awarding the rice contract to the serious domestic political issue that arose when allegations were made that Korean Government officials were involved in bribery and kickbacks in purchasing U.S. rice. The Koreans established a National Assembly panel to investigate the allegations and the Korean Government would not purchase U.S. rice until the panel submitted its investigative report. The report was issued in April 1982. The U.S. Embassy in Korea also reported to the State Department that it believed the dilemma that haunted the Government and slowed down the purchase decision was whether to accept the lowest price bid on the 370,000 tons, whether to go the multiple supplier route with its longer term advantages, or whether to go with another single supplier who was not a low bidder.

Controversy over 1981  
crop shipping dates

The State Department and USDA wanted Korea to complete shipments of rice before August 31, 1982, but there were no

written agreements to confirm this. The Koreans initially projected shipments for the July-November 1982 period. This was later revised to the May-September 1982 period.

At a February 2, 1981, meeting between visiting high-level Korean officials and the U.S. Under Secretary of State for Economic Affairs designate, the Koreans were advised that the key concern for the 1981 rice commitment was that the rice be shipped by the end of August 1982. It was hoped that the Koreans would buy and ship early.

On January 25, 1982, 4 days after the Korean Office of Supply issued a bid tender calling for July to November 1982 shipments, USDA asked the Agriculture Counselor in Korea to notify the Korean Office of Supply that it was USDA's understanding, as contained in congressional hearings, that Korea would buy and ship the rice commitment by July 31, 1982. Shipments after that would not count against the pledged purchase level.

On January 28, 1982, the State Department advised the U.S. Embassy in Korea that although no timing of the Korean 500,000-ton purchase had been agreed to, it was the U.S. Government view that all of the rice should be shipped by August 31, 1982. As milling and shipping capacity in California totals about 100,000 tons per month, the Korean shipment would have to begin soon to meet the August 31 cutoff date. Since Korea might soon be tendering for rice, the Embassy should bring these matters to Korea's attention.

On February 25, 1982, when the Korean Office of Supply reopened its call for bids on the 370,000 tons of California rice, the major change from the previous tender was in shipping dates of May-September instead of July-November. The Koreans said the new dates were a compromise between the U.S. preferred August 31 date and the Korean preferred October 31, the end of their marketing year.

On March 11, 1982, a USDA memorandum from the Under Secretary for International Affairs and Commodity Programs to the Deputy Secretary explained USDA's efforts to work out a face-saving compromise for the Koreans over the August 31 shipping date question. He noted that USDA had consulted members of Congress and the U.S. rice industry and that the compromise effort failed because the State Department did not agree to the proposals. Apparently State felt that the USDA proposals involving detailed shipping schedules and financial guarantees were new conditions and inappropriate Government intervention because these were commercial matters normally worked out between buyer and seller.

Korean proposal to buy and  
store 1981 rice in California

On February 3, 1982, the U.S. Embassy in Korea told the State Department that it met with a Korean official who noted there was an ample supply of rice in Korea and told of criticism by farmers and politicians over buying U.S. rice. Korea realized it was committed to buy, and it wanted to look into the possibility of buying and storing the rice in the United States at Korean expense until needed. U.S. officials' immediate reaction was negative because the rice would hang over the market for 1982 rice.

The storage proposal was further considered in Washington, and on February 8, 1982, the State Department told the U.S. Embassy in Korea that long-term storage in the United States was not feasible and would not enable Korea to fulfill its purchase commitment.

Delays in shipping U.S.  
rice to Korea

As of March 16, 1983, only about 250,000 of the 500,000 tons of California rice had been shipped to Korea, including the 70,000 tons purchased from Pacific International, 60,000 tons from Agriprom, and about 120,000 tons from Comet Rice. About 250,000 tons of rice was undelivered under the Comet contract because Comet did not own or control the amount of 1981 crop California rice it contracted for and was unable to reach agreement with the California rice cooperatives that did own the rice. Comet Rice also tried to obtain 1981 crop rice from the Commodity Credit Corporation (CCC) to meet its Korean contract. The CCC has 1981 crop rice inventories of more than 340,000 tons. This rice was under CCC loans and California farmers turned the rice over to the CCC when they could not sell it at a price above the loans. Under CCC pricing policies, this rice is available at a price considerably higher than the Comet contract price with the Korean Government.

With 250,000 tons of 1981 rice still to be delivered, the Korean rice situation reached a stalemate. A Rice Millers Association team visiting in Korea in October 1982 reported the situation as follows.

1. Under no conditions would Korea purchase rice from the California cooperatives so long as they are represented by a particular agent and U.S. lawsuits referencing Korean officials are outstanding.
2. On the other hand, Korea was prepared immediately to make direct purchases from the cooperatives.

3. If necessary, Korea was prepared to extend the Comet contract for about 7 or 8 months and allow the commitment to be fulfilled with 1982 crop rice.
4. No matter what course of action Korea takes, it will be subjected to political heat either from Korean rice farmers and the National Assembly for importing rice or from certain U.S. congressional representatives for not importing.

The Team believed that given these choices, the Koreans were prepared to take heat from Washington and will fulfill their commitment only on their terms. It appeared to the Team that the U.S. Government will not force Korea to take any action detrimental to its interests. Since Korea has offered to buy the rice directly, the team felt all sides (The Korean Government, the California rice cooperatives and Comet Rice) "have painted themselves into their respective corners," which makes it difficult for any action to occur soon. It seems the ball is in the U.S. rice industry's court.

So the question became how and when the Korean Government would take delivery on the remaining 250,000 tons of 1981 crop California rice. The position of the U.S. Government in this matter has been to maintain neutrality regarding U.S. suppliers while encouraging the Korean Government to resolve the rice question promptly.

In December 1982 the Korean Government extended the Comet contract to June 30, 1983. Subsequently, the Korean Government agreed to contract with other U.S. rice suppliers if Comet Rice cannot perform on its contract by the June 30, 1983 extension date.

On March 29, 1983, a USDA official advised us that Comet Rice had resumed shipments to Korea by shipping 20,000 tons of brown rice on March 27. Two more ships were scheduled to carry rice to Korea. The official did not know whether Comet was shipping 1981 or 1982 crop rice or whether these shipments would comply with the Korean Government's commitment.<sup>4</sup>

---

<sup>4</sup> We deleted a sentence in our draft report that stated our understanding that USDA was reviewing this matter. USDA, in its comments on our draft report, advised us that this matter was not under review.





DEPARTMENT OF AGRICULTURE  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20250

JUL 5 1980

His Excellency  
Masaru Sawabe  
Vice Minister of Agriculture, Forestry and Fisheries  
Tokyo, Japan

Dear Mr. Vice Minister:

With respect to the recent talks on the export of rice between the delegations of the Government of Japan and the Government of the United States held in Tokyo on April 10-12, 1980, I would like to reconfirm the results as follows:

1. During the course of the talks, the Japanese side expressed the following intention and targets for exports of rice shown in the table below except as otherwise indicated in this paper:

	1980	1981	1982	1983	Total 1981-83
	1,000 MT				
1st Market	220	140	140	140	440
2nd Market	150	210	200	200	560
Annual Totals	370	350	340	340	1,400
Grant Aid	50	50	50	50	

For JFY 1980, the first market will consist of Indonesia and Korea. For JFY 1981-1983, it will consist of countries on the list mentioned in paragraph 2(3)(A) below.

For JFY 1980-1983, the second market will consist of countries which are not regular commercial markets and which have received food aid of some kind in recent years, i.e., countries on the list called for in paragraph 2(3)(B) below.

Grant aid may be more or less than 50,000 MT at the discretion of the Government of Japan.

There should be no variation from the above target figures in JFY 1980 as far as the first and second markets are concerned except for the case as mentioned in paragraph 2(5) below when emergency consultations are held and increases in exports of rice are agreed upon. With regard to the export for each fiscal year from JFY 1981 through JFY 1983, variation of up to 10 percent in the first and second markets is permissible, subject to condition (1) below.

Mr. Vice Minister Mamoru Sawabe

2

## 2. Conditions:

(1) The amount exported in excess or short of the totals of the first and second markets in any given year should be subtracted from or added to the totals of the two markets in some subsequent year or years within the period through 1983.

(2) Both sides, when exporting rice, should act in compliance with international rules concerning, inter alia, the principles set forth in the general agreement on tariffs and trade, and the FAO principles of surplus disposal.

(3) The economic and agricultural counselors of the U.S. Embassy in Tokyo intend to meet soon with officials of the Ministry of Foreign Affairs and the Ministry of Agriculture, Forestry and Fisheries to develop understood definitions and illustrative lists of the following three categories of markets:

(a) Sensitive markets like Indonesia and Korea where there are some commercial sales and commercial market potential. (For JFY 1980, these are Korea and Indonesia only.)

(b) Markets in countries which are not actual or potential commercial markets or which have received food aid of some kind in 1980 or in recent years.


(c) Countries which are current and regular cash markets.

(4) Experts of both sides intend to meet with a view to exchanging information on the basis for pricing rice for export.

(5) Annual U.S./Japan consultations are to be held to review the world supply and demand situation for rice, and emergency consultations may be requested by either party to consider what actions should be taken if there are unusual circumstances such as natural disasters, crop failures or other events which increase requirements for food assistance.

Please confirm the above record of the talks by letter at your earliest convenience.

Sincerely,

  
Dale E. Hathaway  
Under Secretary for  
International Affairs and  
Commodity Programs

## Ministry of Agriculture, Forestry and Fisheries

Japanese Government

D/JN  
FMI  
June 19, 1980 J

EG/D3

The Honorable  
Dale E. Hathaway  
Under Secretary for International  
Affairs and Commodity Programs  
United States Department of Agriculture  
Washington, D.C.


Dear Dr. Hathaway:

Thank you for your letter of June 5, 1980, concerning the talks on the export of rice between the delegations of the Government of Japan and the Government of the United States held in Tokyo on April 10-12, 1980.

I would like to confirm that the record of the talks contained in your letter was correct and that the Government of Japan intends to live up to the intention and targets for exports of rice as recorded in your letter.

I would like to take this opportunity to reiterate the position of the Government of Japan with respect to the emergency consultations in 2.(5) of the above-mentioned record of the talks in your letter, that both sides should address such unusual circumstances with swiftness and therefore, flexible attitudes to each other by both sides are called for.

Sincerely,

  
Mamoru Sawabe  
Vice-Minister of Agriculture,  
Forestry and Fisheries

EMBASSY OF THE REPUBLIC OF KOREA  
WASHINGTON, D. C.

January 8, 1981

The Honorable  
Dale E. Hathaway  
Under Secretary  
Department of Agriculture  
Washington, D.C.

Dear Mr. Hathaway:

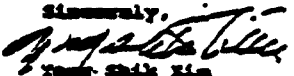
With regard to the import of rice from abroad to meet Korea's shortage of supply during the 1981 rice year, I appreciate the U.S. Government's action which allowed Japan to export up to one million tons of Japanese rice to Korea as an exception to the U.S.-Japan Bilateral Agreement.

In this connection, I am pleased to inform you of the intention of the Korean Government to import more U.S. rice as follows:

- The Korean Government will purchase 280,000 tons of U.S. southern medium rice from 1980 crop such as Marx, Brazos, Secura and Netai, for a reasonable price in the near future.
- In addition to the 644,000 tons of California rice purchased, the Korean Government is prepared to proceed with the purchase of additional California rice produced in 1980, which may be available at a reasonable price.
- The Korean Government also intends to purchase 500,000 tons of Calrose rice of California produced in 1981.

Having thus informed you of the Korean Government's intention with respect to rice importation, I ask you now to extend any further assistance which may be necessary to facilitate the importation of one million tons of rice from Japan to Korea.

With best regards,

Sincerely,  
  
Yung Shik Kim  
Ambassador

DEPARTMENT OF STATE  
*Comptroller*  
Washington, D.C. 20520

3 MAY 1983

Dear Frank:

I am replying to your letter of April 4, 1983, which forwarded copies of the draft report: "U.S. Government Actions Affecting Rice Sales to Korea."

The enclosed comments on this report were prepared by the Assistant Secretary in the Bureau of East Asian and Pacific Affairs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

  
Roger B. Feldman

Enclosure:  
As stated.

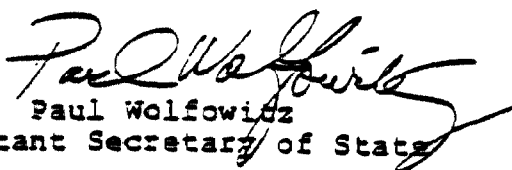
Mr. Frank C. Conahan,  
Director,  
International Division,  
U.S. General Accounting Office,  
Washington, D.C.

GAO DRAFT REPORT: "U.S. Government Actions Affecting Rice Sales to Korea."

The GAO draft report about "U.S. Government Actions Affecting Rice Sales to Korea" contains no major errors. We would suggest that a sentence be added to the first paragraph of page 23 of Appendix 1 as follows: Nevertheless, Korea responded to the U.S. requests by purchasing 40,000 tons of medium grain Gulf rice in October - early in the crop year and additional to the 500,000 tons of Calrose which it was committed to buy. The heading of the next paragraph on that page is a bit misleading as the delays resulted to a large extent from U.S. action and Korean efforts to respond to a series of specific U.S. demarches. We are uncertain as to the meaning of the second sentence of page 29 of Appendix 1 and suggest at a minimum that it be altered to read as follows to reflect what we believe is intended: "It appeared to the team that the U.S. Government would not force Korea to take any action detrimental to its interests."

The report does not review the roles played by the Congress or the U.S. private sector in rice sales to Korea and, therefore is not a complete review of the controversy. Nevertheless, the report is a useful review of the efforts to resolve the problems associated with rice exports to Korea by the Departments of Agriculture and State.

The report makes no recommendations and correctly states that "...this issue does not provide a case study from which generalizations may be drawn about other commodities and export markets because the history of U.S. rice sales to Korea, the producer-exporter relationships, and the U.S.-Japan Rice Understanding are unique."

  
Paul Wolfowitz  
Assistant Secretary of State



United States  
Department of  
Agriculture

Foreign  
Agricultural  
Service

Washington, D. C.  
20250

Mr. J. Dexter Peach  
Director  
Resources, Community, and Economic  
Development Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Peach:

We have reviewed the draft of the GAO report entitled "U.S. Government Actions Affecting Rice Sales to Korea." We suggest that the last sentence of the report (and its reference in the summary letter) be deleted as no review is currently in process. We have no substantive objections to the report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard A. Smith".

Richard A. Smith  
Administrator