Korea

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Argentina, Brazil, the People’s Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Korea has negligible fossil-fuel resources and imports all but 1% of its coal supplies, 1% of its oil, and 1% of its natural gas. Just 17% of the country’s energy needs are met from indigenous sources (nuclear power included). Korea is the sixth net importer of natural gas in the world, and is the fifth-largest net importer of oil. Korea, however, has some of the largest crude oil refineries in the world, making it one of Asia’s largest exporters of petroleum products. It ranks sixth in the world for its refining capacity.

There is significant state ownership in Korea’s energy industry. The natural-gas, electricity and district-heating sectors remain primarily under public ownership. The state-owned Korea National Oil Corporation (KNOC) is responsible for Korea’s strategic oil reserves, as well as for the exploration, development, and production of oil and natural gas within and outside of the country. The downstream oil industry and coal mining have been largely privatised.

The Korea Gas Corporation (KOGAS), a state-owned and operated company, holds a monopoly on natural-gas imports, transmission, and wholesale supply, though some companies are allowed to import gas directly for their own use. The retail market is made up of more than 30 city gas companies. Moves to privatise and deregulate the sector and open up the wholesale and retail markets to competition are currently under consideration. In June 2016, the government revealed it plans to allow third parties to import LNG independently starting in 2025. Korea produces very small amounts of coal. As most of the country’s coal is imported, the government encourages Korean companies to develop overseas energy projects. As such, the Korea Resources Corporation (KORES) and private Korean companies are currently involved in more than 50 overseas bituminous-coal projects in 2015.

Korea’s electricity industry is dominated by the Korea Electric Power Corporation (KEPCO). In 2001, the state-owned Korea Power Exchange (KPX) was established. Currently KEPCO’s six power-generation subsidiaries, which control about four-fifths of capacity, and independent producers, sell their output into a power pool, where KEPCO is the sole buyer. After plans to privatize the company in the early 2000s for the five thermal-generation companies to be privatised were shelved, the government announced in mid-June 2016 that it intends to list the subsidiaries on the stock market, albeit with a cap of 20% to 30% to private ownership to retain public control.

Energy prices and taxes

In Korea, natural-gas and heat prices are controlled directly by the Ministry of Trade, Industry and Energy (MOTIE). In the electricity sector, the Electricity Commission (KOREC) is responsible for regulating the KPX and final electricity tariffs. The wholesale and retail prices of oil are completely deregulated.
While the price of bituminous coal is unregulated, the wholesale prices for domestically-produced anthracite coal and briquettes are set by the government as part of a subsidy to support uneconomic mining.

**Total support by for fossil fuels in Korea by support indicator (left) and fuel type (right)**

Korea has a wide range of taxes levied on fuels. In addition to the 10% flat VAT rate applicable on all sales of fuels and energy services, excise taxes are levied on oil products and gas sales to both households and businesses. There is also an education tax and various other types of transport taxes (so-called traffic, energy, and environmental taxes) included in the final retail price for transport fuel.

**Recent developments and trends in support**

The bulk of support for the consumption of fossil fuels in Korea can be attributed to the tax exemptions for fuels used in the agriculture and fisheries sectors, although their value has decreased substantially from a combined revenue forgone of KRW 1.76 trillion in 2013 to KRW 1.35 trillion in 2017. Due to uneconomic mining, the Korean Government has been supporting domestic coal production for decades. Support for anthracite mining has been provided in various ways, including through market price support, subsidies for acquiring capital equipment, subsidies for the exploration of coal resources, and support of a more general nature. It has undergone reductions in the last decade, with programmes providing capital injections closing in the early 2000. Similarly, coal-briquette production is supported through the direct subsidisation of unit costs for manufacturing and supporting the freight costs of producers. This support is expected to decrease until its removal in 2020 in line with Korea’s 2009 G-20 Pittsburgh commitments. In July 2018, the energy minister issued regulation to limit the use of coal-fired and oil-fired power plants.

**Examples of measures**

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<th>Measure</th>
<th>Description</th>
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<td>VAT Exemption for Briquettes (1976-)</td>
<td>Introduced in 1976 to benefit low-income households, this measure exempts the sale of briquettes in Korea from the 10% value-added tax. This measure was worth KRW 16 billion in 2016.</td>
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<td>Coal-Mining Capital and Facilities (1989-)</td>
<td>This measure provides support to domestic producers of anthracite coal through market price support, subsidies for acquiring capital investment, financial support for the exploration of coal resources, and support of a more general nature. Figures in 2011 estimate that KRW 7.5 trillion worth of grants were disbursed for this measure, the latest year in which budgetary estimates are available. This measure was worth KRW 5.6 billion in 2016.</td>
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