

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Korea - Republic of

DAIRY AND PRODUCTS ANNUAL

Dairy Report - ATO Seoul

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Report Highlights:

In 2008, Korea consumed 61.5 Kilograms of dairy products per capita (raw milk equivalent). Korea's per capita consumption of dairy products is expected to grow about 20 percent over the next decade reflecting the growing economy, Koreans' exposure to a western diet, a rise in fast food outlets, and a growing appetite for pizza and pasta. Continued new product launches from major players and aggressive marketing activities are expected to diversify and increase consumption of dairy products.

Executive Summary:

Ratification of the Korea-U.S. Free Trade Agreement will secure a larger share of the market for U.S. suppliers. In 2008, Korea imported 43,700 MT of unprocessed cheese and 3,700 MT of processed cheese, totaling 47,400MT. New Zealand was the largest exporter, accounting for 18,200 MT followed by U.S.A with 11,300 MT to Korea. Cheese sales are expected to continue to record strong growth, partly due to the ongoing diversification of product assortments. With the continued popularity of the health and wellness trend and Western-style food and dining, the demand for cheese will increase in the short- to medium-term.

Data included in this report is not official USDA data. Official USDA data is available at:

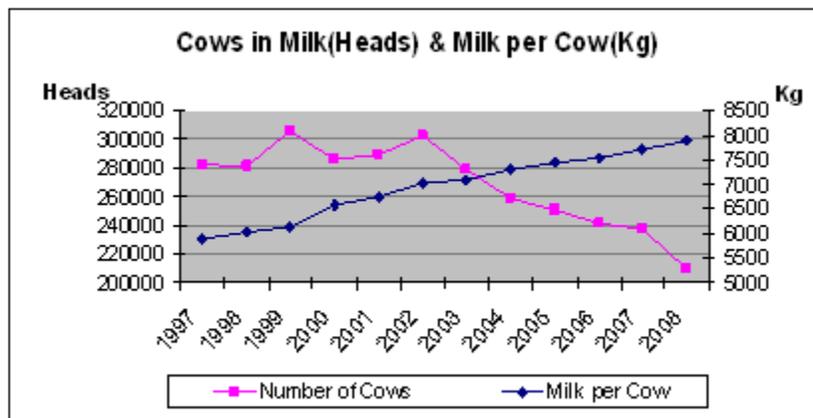
<http://www.fas.usda.gov/psd>

Commodities:

Dairy, Milk, Fluid

Production:

In 2008, Korean raw milk production was 2.14 million metric tons (MMT). In conjunction with the continuing decline in dairy cattle numbers, raw milk production is expected to decrease slightly to 2.08 MMT in 2009 and 2.05 MMT in 2010. Consolidation of dairy herds is expected to continue to improve milk yields as the table below shows. While the implementation of a two-tier pricing system for Korea’s major dairy companies is expected to dampen “overproduction”, overall price structures in the dairy industry still appear likely to encourage production increases in coming years. Currently, seventy five percent of total raw milk production is marketed for drinking use. Only twenty five percent is marketed for processing.



Consumption:

Sales of all drinking milk products were valued at nearly \$3 billion in 2008. Plain pasteurized milk accounted for nearly two-thirds of sales value. Retail prices for fluid milk products increased by 20 percent since August 2008 due to higher feed and energy costs. Although sales volume decreased marginally in 2008, price increases led to higher sales values.

Sales of milk-based beverages with soy content grew 2 percent to a level of \$282 million in 2008. Sales volume is expected to increase for low-fat milk, soy beverages and flavored powder milk. In Korea, reduced fat milk is still at an early stage of development although the demand is growing substantially due to consumers’ growing concerns about health and obesity. In fluid milk, adult consumers accounted for an increasingly dominant share, over 80

percent of retail value sales in 2008. This trend reflected the growing share held by semi skimmed (2% fat milk) and fat-free fresh/pasteurized milk. Because most reduced fat milk is consumed by adult consumers, the faster growth of this product type is increasing the share of adult consumption in milk overall. Companies are expected to introduce more health and wellness products with added health claims, using natural ingredients which contain various vegetable seeds and buds. These products are expected to drive the sales value growth.

Sales of Drinking Milk Products by Subsector: Value 2003-2008

Unit: \$ Million

	2003	2004	2005	2006	2007	2008
Milk	1,716	1,713	1,762	1,898	1,908	1,895
-Fresh/Pasteurized milk	1,685	1,682	1,730	1,866	1,877	1,864
-Long life/UHT milk	31	31	32	32	32	31
Flavored milk	663	796	825	778	762	764
Dairy only flavored milk drinks	619	734	761	715	699	700
Flavored milk drinks with fruit juice	44	62	64	62	63	64
Soy beverages	260	263	267	272	277	282
Powder Milk	13	13	14	14	14	14
Flavored powder milk drinks	19	18	18	18	19	20
Chocolate based flavored powder drinks	16	14	15	15	15	16
Non Chocolate based flavored powder drinks	3	4	3	3	4	4
Drinking milk products	2,672	2,803	2,886	2,980	2,980	2,974

Source: Official statistics, Euromonitor International estimates

Exchange Rate: One US\$ equivalents to 1,000 Korean Won in August 2008

Trade:

Korea does not import or export raw milk.

See detailed current (base) tariffs and tariff reductions that will occur under implementation of the KORUS FTA are available at: http://www.ustr.gov/Trade_Agreements/Bilateral/Republic_of_Korea_FTA/Final_Text/Section_Index.html

A sector report on the implications of the Korea-U.S. Free Trade Agreement is available at: <http://www.fas.usda.gov/info/factsheets/Korea/commodity-dairy.asp>

Policy:

Dairy industry associations including the Dairy Farmers Association, Korea Dairy Committee, Korea Dairy & Beef Farmers Association and others attempt to control milk production through a marketing quota system. Raw milk supplied up to the quota limit receives a basic price of KW772 per liter at farmer's production cost of KW585 per liter in 2008. Milk supplied above the quota receives prices reduced by half. The intent of the two-tier pricing system is to reduce "overproduction". Consequently, we foresee incremental decrease in milk production in 2009 and 2010.

Dairy farmers' cooperatives established an Association of Self-Dependence Fund for Dairy (ASDFD) in early 2006. The purpose of the fund is to promote milk consumption via television, radio and other advertising media. The fund is generated through a mandatory check-off program. Under the check-off program, each producer pays Korean Won 2 per Liter. The fund is expected to collect approximately \$4.27 million annually from dairy farmers, which will be matched by the Korean government, for a total usable fund of \$8.54 million.

Raw Milk Price per Kilogram and GNI by Country in 2006

Unit: US\$, KW/Kg

Country	GNI	Raw Milk Price per Kg	Competitiveness
Korea	\$14,162	KW710(\$0.71)	100
Japan	34,294	863(\$0.86)	121.5
Switzerland	37,381	663(\$0.66)	93.3
Australia	19,599	186(\$0.20)	26.2
U.S.	36,704	329(\$0.33)	46.3
U.K.	26,911	303(\$0.30)	42.6
Canada	22,894	472(\$0.47)	66.5

Source: Food Distribution Yearbook 2008

Exchange rate: One U.S. dollar equals to 1,000 Korean Won (KW), August 2008

GNI: Gross national Income per Capita

Marketing:

Due to the rising cost of raw milk, companies had to increase the retail prices of their milk products in 2008. Thus, the unit price increased in all drinking milk products and the value of sales declined marginally. In conjunction with a maturing population and low birth rate, the demand for milk has decreased, although companies have worked hard to boost sales through frequent promotions.

Many milk companies offered buy-one-get-one free type sales promotions to market their products. In April 2008, Korea Dairy & Beef Farmers Association formally requested that the major milk manufacturers ceased this type of promotion, because profitability had been seriously affected. Three major companies, Seoul Dairy, Maeil Dairy and Namyang Dairy accepted and stopped one plus one promotions of milk in the markets. These companies experienced substantial declines of retail volume sales. Instead, sales of low-priced private label milk grew in major chained supermarkets in 2008.

One of the largest milk companies, Seoul Dairy, has begun labeling the date of packaging as well as the date of expiration on milk packages since July 2009. Labeling both dates for packaging and expiration is the company's campaign as a media advertisement to emphasize differentiation with competitors. Thanks to marketing campaign highlighting, sales of Seoul Dairy's milk sharply grew 15 percent over two months.

October 2009, one of the fourth largest companies, Dongwon Dairy, launched the smallest milk package, 100 milliliters (ml) in the Korean market. Before, the common sizes of milk package were 200 ml, 500 ml, 1 liter and 1.8 liters in the market.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid of Korea, Republic	2008			2009			2010		
	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan
		Data			Data			Data	
Cows In Milk	232	0	209	227	0	203			201 (1000 HEAD)
Cows Milk Production	2,200	0	2,139	2,222	0	2,075			2,054 (1000 MT)

Other Milk Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Production	2,200	0	2,139	2,222	0	2,075			2,054	(1000 MT)
Other Imports	0	0	0	0	0	0			0	(1000 MT)
Total Imports	0	0	0	0	0	0			0	(1000 MT)
Total Supply	2,200	0	2,139	2,222	0	2,075			2,054	(1000 MT)
Other Exports	0	0	0	0	0	0			0	(1000 MT)
Total Exports	0	0	0	0	0	0			0	(1000 MT)
Fluid Use Dom. Consum.	1,672	0	1,702	1,689	0	1,556			1,540	(1000 MT)
Factory Use Consum.	528	0	437	533	0	519			514	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0			0	(1000 MT)
Total Dom. Consumption	2,200	0	2,139	2,222	0	2,075			2,054	(1000 MT)
Total Distribution	2,200	0	2,139	2,222	0	2,075			2,054	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0			0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0			0	(1000 MT)
TS=TD			0			0			0	
Comments										
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While volume sales of drinking milk products are expected to decrease, soy beverages will continue to register positive volume growth due to their healthy product image and rising demand. However, unit price increases are expected to lead to positive value growth for milk products. Value sales of drinking milk products are expected to grow positively but volume sales will continue to decline mainly due to decreasing demand.

Companies are expected to work on developing healthier premium products to improve profitability and to satisfy consumer demands for health-oriented drinking milk products. The growth of private labels will be most noticeable in milk. Because many Korean consumers regard milk as a daily staple, low-priced private label milk from reliable retailers will gain popularity in the foreseeable future. The average unit price is expected to rise and manufacturer-led incremental price increases as well as growing sales of premium products will raise unit prices.

Commodities:

Dairy, Cheese

Production:

South Korea produced 25,000 MT of cheese in 2008, an increase of 3 percent from 2007. Unprocessed cheese composed 9,700 MT of the total. Processed cheese accounted for the remaining 15,300 MT of total production. Domestic production is expected to increase marginally in 2009 to 26,000 MT and to 27,000 MT in 2010. Seoul Dairy Cooperative accounted for 52 percent, Maeil Dairy for 22 percent and Dongwon Dairy for 14 percent of retail cheese sales in 2007.

Consumption:

In 2008, value sales of cheese increased by 5 percent to reach about \$232 million. With a growing interest by Korean consumers in Western food and dining patterns, the demand for a wider variety of cheese has increased. The range of available products has been diversified considerably in the retail channel. To satisfy the growing demand, manufacturers have extended their assortments by introducing new cheese products, including imported varieties. In addition, the growing popularity of wine has contributed to the increasing demand for cheese among consumers. This trend was continued in 2008 and sales grew in all cheese products.

Cheese for pizza (i.e. Mozzarella) still accounts for the major share of retail soft cheese sales in Korea. Sales of other premium soft cheeses such as Brie and Camembert are growing, as more imported and domestic products are introduced. The average unit price of unprocessed cheese is going up faster than for processed cheese. Premium soft cheese products are increasingly imported and delivering higher unit prices.

In Korea, processed cheese dominates cheese sales which accounted for a 98 percent share of sales in conjunction with the introduction of more diversified products than unprocessed cheese. Sales of unprocessed cheese recorded faster growth than processed cheese, however.

Recently, companies have begun to launch cheese snack items targeting children or wine drinkers. Sliced cheese accounts for most sales of health-minded cheese. There was no string or other cheese snack products available in Korea. Most products targeted at children are positioned as health-minded cheese. They are organic or health and wellness products fortified with functional ingredients including calcium and vitamins.

Sales of Cheese by Subsector: Value 2003-2008

Unit: \$ Million

	2003	2004	2005	2006	2007	2008
Processed cheese	170	186	196	206	217	228
• Unspreadable Processed Cheese	170	186	196	206	217	228
Unprocessed cheese	2	3	4	4	4	4
• Soft cheese	2	3	4	4	4	4
Total cheese	172	190	200	210	221	232

Source: Official statistics, Euromonitor International estimates

Exchange Rate: One US\$ equivalents to 1,000 Korean Won

Trade:

Increased unprocessed cheese consumption in 2008 was driven largely by increased imports. Nearly three-quarters of unprocessed cheese consumption is composed of imported cheese. In contrast, slightly more than half of processed cheese is imported.

In 2008, Korea imported 43,700 MT of unprocessed cheese and 3,700 MT of processed cheese, totaling 47,400MT. New Zealand was the largest exporter, accounting for 18,200 MT followed by U.S.A with 11,300 MT to Korea. Cheese sales are expected to continue to record strong growth, partly due to the ongoing diversification of product assortments. With the continued popularity of the health and wellness trend and Western-style food and dining, the demand for cheese will increase in the short- to medium-term. Post projects 2009 and 2010 cheese imports at 50,000 MT and 52,000 MT, respectively.

See detailed current (base) tariffs and tariff reductions that will occur under implementation of the KORUS FTA are available at: http://www.ustr.gov/Trade_Agreements/Bilateral/Republic_of_Korea_FTA/Final_Text/Section_Index.html

A sector report on the implications of the Korea-U.S. Free Trade Agreement is available at: <http://www.fas.usda.gov/info/factsheets/Korea/commodity-dairy.asp>

Marketing:

Cheese products are expected to be diversified substantially, and companies are expected to launch various new products. Most dairy product manufacturers are expected to invest more in the cheese business, as cheese is posting the highest retail value increase in dairy products.

The diversification of soft cheese was accelerated recently and more snack cheese and premium soft cheeses are expected to be launched. Companies are expected to introduce more premium cheese products to satisfy the growing demand. Unit price increases will be more significant in unprocessed cheese, as more premium products and imported products are introduced into the market due to the popularity of wine.

Manufactures will develop more processed cheese because Korean consumers are familiar with these products. Processed cheese is expected to register higher retail value and volume sales increases than unprocessed cheese due to the introduction of more diversified products. As a result, processed cheese will continue to dominate retail volume and value sales in the foreseeable future.

Retail sales of spreadable cheeses are negligible, though sales increased in line with the growing demand for cream cheese. Although the range of available products is very limited, with Kraft's Philadelphia as the most visible brand in the retail shops, companies are expected to launch more spreadable processed cheese products.

Production, Supply and Demand Data Statistics:

Dairy, Cheese Korea, Republic of	2008			2009			2010		
	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan
			Data			Data			Data
Beginning Stocks	1	1	1	1	1	1		1	(1000 MT)
Production	26	26	25	27	27	26		27	(1000 MT)
Other Imports	52	52	47	55	55	50		52	(1000 MT)
Total Imports	52	52	47	55	55	50		52	(1000 MT)
Total Supply	79	79	73	83	82	77		80	(1000 MT)
Other Exports	0	0	0	0	0	0		0	(1000 MT)
Total Exports	0	0	0	0	0	0		0	(1000 MT)
Human Dom. Consumption	78	78	72	82	82	76		79	(1000 MT)
Other Use, Losses	0	0	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	78	78	72	82	82	76		79	(1000 MT)
Total Use	78	78	72	82	82	76		79	(1000 MT)
Ending Stocks	1	1	1	1	1	1		1	(1000 MT)
Total Distribution	79	79	73	83	82	77		80	(1000 MT)
CY Imp. from U.S.	11	11	11	12	12	12		13	(1000 MT)
CY. Exp. to U.S.	0	0		0	0				(1000 MT)
TS=TD			0			0		0	
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Commodities:

Dairy, Milk, Nonfat Dry

Production:

In 2008, local NFDM production amounted to 20,000 MT; a 10% decrease from the previous year. The intent of the current two-tier pricing system and marketing quotas is to reduce “overproduction” (FAS: Not sure what you mean) . NFDM is produced from over-quota raw milk purchased at lower prices. In 2009, the domestic manufacturing cost of NFDM was about \$8.50 per kilogram. Current market retail prices of NFDM range from \$7.00 to \$7.50 per kilogram. Quota control of raw milk production and a decreasing number of dairy farms reduced the “over production” in 2009. Due to a shortage of supply, the market retail price of NFDM jumped up to \$7.50 from \$4.50 compared to a year before.

Consumption:

In 2008, NFDM consumption amounted to 25,300 MT. NFDM is used primarily for bakeries, infant formula and as an ingredient in other dairy products. Since NFDM production is largely a result of marketing quota policies, consumption is expected to continue to track closely with production. Consequently, Post predicts consumption of 17,000 MT in 2009 and 15,000 MT in 2010.

NFDM Production, Imports, Consumption by Year

Unit: Metric Ton

	2004	2005	2006	2007	2008
Production	24,770	23,677	18,318	22,158	20,000
Import	4,389	6,147	6,709	4,928	5,025
Export	1	69	114	140	270
Consumption	30,985	25,784	29,894	22,674	25,614

Source: Korea Dairy Industry Association 2009

Trade:

There is a tariff rate quota for NFDM. The quota quantity for 2008 was 1,034MT with an in-quota tariff rate of 20%. The out of quota tariff is 176%. From January to August 2009, imports of NFDM were 5,600MT; increased by 130 percent compared to the same period of 2008. In 2009, Korean NFDM exports were increased by 120 percent from 118 MT to 260 MT compared to same period of 2008. All exports were to China in 2009 because the Chinese melamine outbreak demanded a quality, trusted infant formula.

Korea's Key Dairy Product Imports

Unit: Metric Tons

Products (HS Code)	2008 Tariff	2007		2008		% Change	
		U.S.	Total	U.S.	Total	U.S.	Total

Cheese (0406)	36%	7,900	49,470	11322	47,385	43%	-4%
NFDM (0402.10)	(20%-176%) ¹	119	5,000	41	4,915	-65%	-2%
Whole Fat DM (0402.21)	(40%-176%) ²	0	1,130	0	1,259	0	11%
Mixed Milk (0404.90 & 1901.90.2000)	36%	960	31,700	1,468	25,868	53%	-18%
Butter (0405.10)	(40%-89%) ³	6	4,100	56	1,894	833%	-54%
Whey Powder (0404.10)	(20%-49.5%) ⁴	23,300	46,800	14,009	32,007	-37%	-32%
Ice Cream (2105)	8%	430	3,673	356	1,984	-17%	-46%

Source: 2007 Korea Customs & Trade Institute

Notes:

- 1: 20% tariff within the quota of 1,034 metric tons, 176% tariff out of the quota
- 2: 40% tariff within the quota of 573 metric tons, 176% tariff out of the quota
- 3: 40% tariff within the quota of 420 metric tons, 89% tariff out of the quota
- 4: 20% tariff within the quota of 54,233 metric tons, 49.5% tariff out of the quota

See detailed current (base) tariffs and tariff reductions that will occur under implementation of the KORUS FTA are available at: http://www.ustr.gov/Trade_Agreements/Bilateral/Republic_of_Korea_FTA/Final_Text/Section_Index.html

A sector report on the implications of the Korea-U.S. Free Trade Agreement is available at: <http://www.fas.usda.gov/info/factsheets/Korea/commodity-dairy.asp>

Marketing:

Local food processors import NFDM for the purpose of processing into infant formula and re-exporting to other countries, including China. The Korea Customs Service reimburses the high out-of-quota tariff of 176% to importers when they have re-exported processed dairy-based products made from the imported NFDM. Korean dairy manufacturing companies are looking forward to expanding the market opportunities for exporting to China.

NFDM Imports by Origin in 2008

Unit: MT

	U.S.	Australia	New Zealand	E.U.	Other	Total
Import Volume (MT)	41MT	3,096	729	998	61	4,925
Import Value (\$1,000)	\$112	\$12,170	\$2,839	\$4,332	\$176	\$19,629
Unit Price per Kilogram	\$2.77	\$3.93	\$3.90	\$4.34	\$2.89	\$3.99

Source: Korea Trade Information Service 2009

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry Korea, Republic of	2008		2009		2010	
	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	Old Post	USDA Official Data	Old Post	USDA Official Data	Jan

			Data			Data		Data	
Beginning Stocks	6	7	9	7	8	8		8	(1000 MT)
Production	23	23	20	22	22	17		15	(1000 MT)
Other Imports	4	4	5	5	5	8		9	(1000 MT)
Total Imports	4	4	5	5	5	8		9	(1000 MT)
Total Supply	33	34	34	34	35	33		32	(1000 MT)
Other Exports	0	0	0	0	0	0		0	(1000 MT)
Total Exports	0	0	0	0	0	0		0	(1000 MT)
Human Dom. Consumption	26	26	26	26	26	25		24	(1000 MT)
Other Use, Losses	0	0	0	0	0	25		0	(1000 MT)
Total Dom. Consumption	26	26	26	26	26	50		24	(1000 MT)
Total Use	26	26	26	26	26	50		24	(1000 MT)
Ending Stocks	7	8	8	8	9	8		8	(1000 MT)
Total Distribution	33	34	34	34	35	58		32	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0		0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0		0	(1000 MT)
TS=TD			0			25		0	
Comments									
AGR Number									

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