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Gov't Looks to Boost Exports of Korean Agricultural Products

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Agricultural Situation

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Report Highlights:

In February 2012, the Korean Ministry of Food, Agriculture, Forestry, and Fisheries (MIFAFF) announced its plan to increase Korean exports of food and agriculture products to \$10 billion by 2012. China, Japan and the ASEAN countries currently account for about 60 percent of Korean agricultural exports. However, the Korean government sees additional opportunities opening for agricultural exports as a result of the growing number of free trade agreements, including FTAs with the European Union and the United States. MIFAFF is pushing ahead with tailored strategies to implement the export of 25 priority products.

General Information:
2012 Korean Food Industry Situation and Outlook

In 2011, South Korean exports of agricultural and fishery products jumped 3.8 percent to a record US\$7.69 billion. Of the total value, processed products totaled \$4.37 billion, with fresh produce exports reaching just over \$1billion and fishery products totaled slightly over \$2billion. Over 60 percent of Korean agricultural products go to China, Japan and the ASEAN countries. In 2012, continuing Asian growth will likely produce a growth in Korean agricultural exports. Exports in the first quarter of 2012 were reportedly up 11.2 percent over the same period in 2011, with exports to the United States, Japan and China up 17.3, 15, and 13.6 percent, respectively. Growth in emerging markets and the popularity of Korean food products (Hallyu) are seen as opportunities for increasing exports this year.

Economic Growth Projections for Major Economies (Unit: Percent)

	World		Advanced nations			Emerging nations			
			U.S.	Japan	E.U.	China	India	ASEAN*	
2011	4	1.6	1.5	-0.5	1.6	6.4	9.5	7.8	5.3
2012	4	1.9	1.8	2.3	1.1	6.1	9	7.5	5.6

*ASEAN-5: Malaysia, Singapore, Indonesia, Thailand and the Philippines

Source: The Ministry for Food, Agriculture, Forestry and Fisheries – Press Release on January 19, 2012

The government-led campaign to promote food export is making inroads in major markets including the United States and Japan. The expanding popularity of Hallyu and Korean popular music (K-pop) in Asia reflects the government’s efforts to promote Korean food and traditional alcoholic beverages. Furthermore, Korea’s food export is increasing due to a surge in export prices. From 2010 to 2011, the following agricultural products have increased respectively: citron tea USD\$2.7/kg → USD\$3.1/kg, Kimchi: USD\$3.31/kg → USD\$3.81/kg, paprika: USD\$3.6/kg → USD\$4.0kg.

Increasing export prices are encouraging agro-processed food exporters to seek new foreign markets. In addition, Korean conglomerates have contributed to the increase in food exports by establishing global brands.

Objectives

Korea will focus on exporting 25 strategic products in 2012. The export promotion project is being supported by the Korean Ministry for Food, Agriculture, Forestry, and Fisheries (MIFAFF). The ministry is developing and expanding foreign markets to increase exports. The ministry is also expanding support for export-oriented research and development (R&D) in food processing to increase Korea’s competitiveness.

The growth in the domestic food production and processing sector is also allowing companies to develop export driven opportunities. For example, Korea has concluded 8 FTAs and currently

negotiating FTAs with 12 nations ensuring access to new markets. The FTAs are allowing Korean companies be more competitive globally. The Asian agricultural markets including Japan, Singapore, and China are expanding due to increasing consumer demand for high-quality agricultural products. Moreover, as consumers' awareness of quality and safety rises, quality differentiation and marketing strategy has become important.

Additionally, the Korean government has been actively promoting environmentally friendly agriculture to improve the competitiveness of local agricultural products. MIFAFF is stepping up efforts to promote eco-friendly agricultural practices controlling pesticide residues and increasing production of export-oriented agricultural products.

In 2012, the government plans to provide a total of 576 billion won (US\$513 million) in loans and subsidies to private companies to increase exports of food and agricultural products.

Budget for major projects

Project	Budget	
	(billion won)	(million\$)
Foreign market development program	31.4	27.9
Foreign market development and promotion for fishery products	4.4	4.0
<u>Agro and livestock products promotion</u>	41.0	36.5
Improvement of the agri-food management	365.2	324.9
Support for fishery products	134.0	119.2
TOTAL	576.0	512.5

Exchange rate: US\$1= 1,124 won (Feb. 13. '2012)

Exports by country

(Unit: 000MT, million dollars)

Description	2010		2011		2012 (goal)		
	Value	Percentage change	Value	Percentage change	Value	Percentage change	weight
Total	5,880.0	22.3	7,691.4	30.8	10,000	30.0	100.0
*Japan	1,882.6	19.1	2,373.9	26.1	3,000	26.4	30.0
*China	787.4	39.3	1,381.0	75.4	2,000	44.8	20.0
U.S.	518.8	11.0	600.3	15.7	700	16.6	7.0
Russia	235.7	4.2	242.7	3.0	270	11.2	2.7
Hong Kong	243.7	24.2	305.5	25.3	400	30.9	4.0
Taiwan	211.3	36.4	261.2	23.6	350	34.0	3.5
*ASEAN	719.8	38.1	1,032.4	43.4	1,500	45.3	15.0
EU	332.7	28.4	360.9	8.5	420	16.4	4.2
Others	948.0	13.1	1,135.5	19.6	1,360	20.0	13.6

*Exports to contiguous countries (Japan, China and ASEAN) accounted for 62.2 percent of the total exports in 2011.

Characteristics of major export markets for Korean agricultural products

Japan

Despite extensive damage from the earthquake in 2011, agricultural exports to Japan in 2011 exceeded US\$2 billion. In 2012, Korea is aiming to increase food and agricultural exports to Japan by riding the Hallyu wave (popularity of Korean artists and dramas) and the popularity of K-pop. Also, the high value of the Yen relative to the Won is enhancing Korea's export price competitiveness. According to Japan's Nikkei Trendy "Top 30 Hit Products of 2011" makgeolli (Korean rice wine) ranked 7th among the top 30 hit products of the year, Chung Jung Won's vinegar drink, Hong Cho ranked 18th, riding on the back of the Korean singing group Kara's popularity, and the K-pop boom ranked 21st. Furthermore, in Japan food products from Korea have been proven to be safe. Consequently, Japanese consumers are relying even more on food imports from Korea due to the fears over radiation contamination of Japanese products. Korean processed foods and fresh agricultural food product such as seaweed and oysters are benefiting from the current food safety concerns in Japan

China

Korea is focusing on the Chinese market, which is slowly easing stringent food safety regulations for market entry. In China, thanks to the Hallyu wave, the popularity of Korean food and agricultural products is on the rise. As income increases in China, food safety issues are increasingly becoming a concern for Chinese consumers. Furthermore, a product's country of origin is also becoming important for Chinese consumers. For this reason, Korea expects to increase its exports to China \$1.4 billion to \$2.0 billion, a growth of 44.8 percent over 2011.

ASEAN

The Association of South East Asian Nations is rapidly becoming Korea's largest export market for food and agricultural products. The members' strong prospects for growth and consistent increase of food imports are largely responsible for increasing Korean exports of processed foods such as coffee, sugar, and ramen noodles. Korea's exports are likely to reach \$1.5 billion this year.

United States

Under the U.S.-Korea Free Trade Agreement (FTA), Korea's food exports to the United States are projected to reach \$700 million in 2012. Korea has launched a globalization initiative (Hansik) for Korean food targeting Korean immigrants in the United States.

EU

Under the Korea-EU FTA, Korea's food and agricultural exports are projected to increase from \$360 million in 2011 to \$420 million in 2012. Korea exports mostly fish and fishery products to the EU. Under the FTA, exports are expected to include processed foods. Korean Embassies throughout Europe are promoting the export of Korean products. The recent K-Pop craze that is spreading throughout Europe is increasing the interest in Korean cuisine.

2012 Export Goals

In 2011, South Korean exports of agricultural and fishery products jumped 3.8 percent to a record US\$7.69 billion due to increasing demand for Korean product. Of the total value, processed products totaled \$4.37 billion, with fresh produce exports reaching just over \$1 billion and fishery products totaled slightly over \$2 billion.

(Unit: 000MT, million dollars)

Description	2010		2011			2012 (Goal)		
	Value	Percentage change	Value	Percentage change	Weight	Value	Percentage change	Weight
[Total]	5,880.00	22.3	7,691.40	30.8	100	10,000	30	100
Agri-product	4,081.80	23.8	5,383.00	31.9	70	7,000	30	70
[Fresh]	873.9	18.2	1,015.50	16.2	13.2	1,300	28	13
Vegetable	178.4	10.4	178.3	Δ 0.0	2.3	220	23.4	2.2
Kimchi	98.4	10	104.6	6.3	1.4	130	24.3	1.3
Ginseng	124.2	14	189.4	52.5	2.5	245	29.4	2.5
Horticulture	103.1	33.5	90.6	Δ 12.1	1.2	120	32.5	1.2
Fruits	195.4	13.2	199.4	2	2.6	250	25.4	2.5
Forestry products	102.9	54.2	172.7	67.8	2.2	230	33.2	2.3
[processed product]	3,208.00	25.4	4,367.50	36.1	56.8	5,700	30.5	57
Processed food	3,096.80	26	4,273.20	38	55.6	5,580	30.6	55.8
Noodles	240.1	15.8	290.5	21	3.8	400	37.7	4
Sauces	129.7	18.5	155.4	19.8	2	220	41.5	2.2
Liquor	313.3	29.4	403.6	28.8	5.2	570	43.7	5.8
Cookies	290.5	16.4	375.8	29.4	4.9	500	33	5
Tobacco	542.1	13.4	572.1	5.5	7.4	600	22.4	7
Dairy	58	7	66.8	15.2	0.9	90	34.7	0.9
[Fishery product]	1,798.20	19	2,308.40	28.4	30	3,000	30	30
Fish	1,096.90	18	1,312.70	19.7	17.1	1,700	29.5	17
Mollusca	332.1	16.7	454.3	36.8	5.9	580	27.7	5.8
Seaweed	171.9	23.3	258	50.1	3.4	350	35.7	3.5
Shell fish	77.2	8.8	122.9	29.1	1.6	170	38.3	1.7
Other	120.1	38	160.6	33.8	2.1	200	24.5	2

Fresh Agri-products

In 2012, Korea's export of fresh agricultural products is expected to reach \$1.3 billion, which is 28 percent higher than in 2011. Korea is aiming to increase vegetable and plants to China and Southeast Asia by modernizing controlled environments for horticultural production.

Best market prospects for Korean agricultural exports include:

Paprika

Currently, the export of Korean paprika is mostly to Japan (99%), but exports to Canada and Australia are beginning to grow indicating an aggressive overseas marketing strategy. Seventeen (17) paprika exporters have established the Korea Paprika Export Association, a single export distribution channel focusing on strengthening the expansion of overseas markets.

Strawberries

Notwithstanding high domestic prices, fresh strawberries are emerging as a leading Korea export product. Korean strawberries have long been traditionally exported to Hong Kong, Singapore, and Malaysia including other South East Asia countries. The region now imports over 90 percent of the total volume of Korean fresh strawberry exports. The increase in consumer demand for Korean strawberries is due to their high sugar content and the hard flesh of the fruit. MIFAFF is supporting exports by conducting sales promotions and tasting events targeting newly emerging markets such as United Arab Emirates, the United States and the Netherlands.

Mushroom

As China toughens restrictions on imports of winter mushrooms, Korea is diversifying its export markets and expanding exports to Vietnam. Market expansion is being done through various export marketing strategies, including participating in overseas fairs and exhibitions. Also, the “Buy Korea Food” (BKF) campaign is developing export linkages in mainland China and Hong Kong.

Tomato

Tomatoes are increasingly becoming popular as a health food and they are one of the main cultivating fruits in Korea. Japan, with its high reputation for food safety, imports Korean tomatoes without any pre-export residue testing if they are from registered farms. Thus, Korean registered farms can export their produce rapidly to Japan. Although Japan is the main export market, large amounts of tomatoes are also being sold in other markets such as Hong Kong, Singapore and Russia.

Apple

The total production area for apple has decreased by 12 percent from 2000 to 2010. In 2011, heavy rain disrupted production and Korea exported \$8.9 million worth of apples. The government is attempting to increase apple production by introducing new foods made of apples to new markets in Southeast Asia and the United States.

Pear

Korean pears are attracting considerable attention because of their high-quality. Pear exports to the two main exporting markets, namely, Taiwan and the United States, declined because the production of Taiwanese pear increased and U.S. household consumption declined. Korea is aggressively participating in international fresh food shows to enlarge its exports to the United States. Also, Korea is continuing promotional activities for its high-quality pears in the Southeast Asian markets such as Singapore and Hong Kong.

Korean Sweet Persimmon

Korea is a major producer of persimmon and sweet persimmons export accounts for more than 16 percent of the world’s export. In particular, high quality Korean sweet persimmons continue expanding into the Malaysian market without any major competitors.

Roses

South Korea is seeking new overseas markets for roses after shipments to Japan plunged following the massive earthquake and nuclear crisis. Flower industry experts are predicting that demand from Japan will remain weak for the near future. Thus, efforts are being made by growers to seek alternative export markets. The government is working with local growers to expand exports to untapped markets in China, Russia and Europe.

Kimchi

The popularity of Kimchi, the traditional Korean dish made with cabbage and hot spices is increasing worldwide. South Korea's exports of Kimchi surged to a record high of US\$104 million last year due to higher prices. Korea International Trade Association (KITA) and the National Agricultural Cooperative Federation (NACF) are ensuring stable supply of cabbage and seasoning to help Kimchi producers maintain a competitive edge in the global market.

Processed foods

In 2012, Korea aims to expand its processed food exports to over \$5.7 billion, up 30.5 percent from 2011. The government envisions that Hallyu (the booming interest in Korean culture and products abroad) and increasing exports to the Chinese market can meet its ambitious export target.

Ginseng

In 2011, Korean Ginseng exports reached USD\$ 189 million, an increase of 52.5 percent compared to 2010. In spite of the worldwide economic depression, ginseng exports increased significantly as the government's aggressive marketing strategies seem have been well-received in major export markets. The flourishing of fake Korean ginseng products made in China is the biggest obstacle facing the export of genuine Korean ginseng. The Korea Agro-Fisheries Trade Corporation (aT) and MIFAFF are developing labeling to protect the geographical indication (GI) of Korean ginseng products. The Korea Ginseng Corporation (KGC) is concentrating its efforts in improving the quality of Korean ginseng products and developing top class ginseng brand in the global market. Additionally, KGC is opening markets in Southeast Asia through various promotional activities.

Korean citron tea (Yujacha)

Last year, about \$40 million worth of Korean citron tea was exported. New markets for Korean citron tea and its high value-added products are expected to increase exports by 36.6 percent in 2012. However, high production costs and low yields are reducing Korean citron tea price competitiveness. The government expects that a systematic management of citron tea production will greatly help the production of safe and high quality citron tea. Also, the government believes coordinating advertising and joint marketing activities will help enhance citron tea's competitiveness.

Noodles

Korean ramen (instant noodle) is attracting a lot of attention from overseas consumers. Additionally, noodle processors are targeting Jap chae and Kalguksu (both Korean traditional noodle dishes) at Koreans living overseas. Last year's earthquake in Japan generated a high demand for Korean noodles as a substitute for Japanese noodles. Also, Korea is now looking into expanding noodle exports to

Brazil and Middle East.

Sauces

Korean foods contain highly fermented ingredients including doenjang (fermented soybean paste), gochujang (red pepper paste), and other sauces like BBQ sauce. Accordingly, the popular chili paste - gochujang - will be exported using product traceability and labeling to differentiate it from other competing products. Furthermore, the government is focusing on restoring traditional Korean cuisine, promoting the Korean food industry and globalizing Korean food products. As a result, mixed seasoning powder exports to diverse markets have increased. Korean companies are now focusing on expanding exports of various traditional Korean sauces, after conducting thorough consumer surveys targeted countries.

Makgeolli

In 2012, the export of makgeolli, a traditional Korean rice wine, is expected to increase by 51.6 percent from \$53 million in 2011. Makgeolli exports are being boosted largely due to the increasing popularity of Korean dramas featuring the beverage. Korea first introduced makgeolli to Japan and the Southeast Asian region. The beverage is establishing a strong presence at supermarkets and convenience stores in Japan. The government is supporting research and development (R&D) that will extend the shelf life of makgeolli. Furthermore, the government envisions that establishing “makgeolli Nouveau day” and launching canned makgeolli will build sales momentum for the traditional drink.

Modified milk powder

The discovery of melamine in milk in China and traces of radioactive materials found in powdered milk products in Japan caused concern among consumers in both countries. Consequently, importers in both countries are turning to Korean milk powder products. Korea’s milk powder producers lack the experience exporting foreign markets. However, the price competitiveness of Korean milk powder products should help increase exports. Korean modified milk powder producers will also increase promotion in Vietnam, Saudi Arabia and China.

Fishery products

In 2011, Korea exported fishery products worth \$2.31 billion and exports are projected to increase by 30 percent in 2012, reaching \$3 billion. Korea plans to carry out its 2012 target by introducing unique Korea fishery products to Japanese consumers.

Seaweed

Exports of Korean seaweed surpassed the \$100 million for the first time in 2010 and reached USD\$161.5 million in 2011 due to Japan-related radiation fears. The United States is the main market for Korean seaweed, accounting for 24 percent of the exports. Korean seaweed makes a very low-calorie snack choice and its popularity is on the rise.

Flatfish

Flatfish is very popular in Japan where Korea exports capture about 74 percent of the market share. In 2011, Korea produced a record amount of halibut totaling 36,557 tons, 159 percent increase since 2000. Currently, Korea is moving forward with plans to diversify the export of flatfish to Japan, United States, and Singapore. Korean producers are complying with numerous food safety and antibiotic

regulations required by Korea Food & Drug Administration. As a result, Korea's halibut is seen as a high quality and safe product internationally.

Abalone

Korean abalone is highly regarded abroad, and exports are rapidly increasing. Food safety concerns raised by the 2011 Japanese nuclear crisis are increasing demand for large volumes of abalone. The government envisions that expanding to other foreign markets will depend on the development of advanced freezing, drying and preserving methods.

Oyster

The aquaculture production of pacific oyster (*crassostrea gigas*) in Korea has increased significantly. The price for pacific oyster is 10 times more expensive than regular oysters. The United States is importing large amount of Korean oysters due to the increasing popularity of Asian cuisine.

Sea-cucumbers

Korea plans to advance sea cucumber aquaculture and management by culturing artificial seedling of sea cucumber. Sea cucumbers are harvested, dried, and exported for use in Chinese cuisine. In 2010, China imported \$11 million worth of sea cucumbers from multiple countries worldwide. Korea is specializing in the development of innovative hatchery technologies to commercially produce sea cucumbers.

Tuna

In 2011, Korea's tuna exports hit a record of \$394 million and exports are expected to further increase to \$450 million this year. Deep sea tuna is a great export product but reduction in resources and increased international regulations are limiting production. Korea plans to build four additional blue-fin tuna farms covering 80 hectares to overcome the challenges of catching tuna in open sea. Korean tuna fisheries depend on overseas markets and a large portion of catches are exported to Japan. Additionally, processed tuna products (tuna fillet and canned tuna) are exported to the United States and China.

True bass

The production of Sea bass in Korean coastal areas is not commercially viable because of the limited quantity of frys available.

Eel

Eel is the most important freshwater fish produced in Korea. Domestic demand for eel has grown as production has increased. In 2011, Korea's eel production was worth about \$1.2 million and it is expected to rise by 25 percent to \$1.5 million this year.

Shrimp

In Korea, shrimps are currently being farmed using cycle filtration method. However, the area suitable for production is limited. Korea is developing a high-quality and environmental friendly shrimp aquaculture system. As part of this effort, Korea through its Overseas Development Assistance (ODA) program is developing shrimp aquaculture systems in Algeria. Korea will provide 7 billion won in assistance by 2015, developing a shrimp farm in the middle of the Sahara desert in Algeria. Korea hopes that such assistance will enlarge its export market in the long-run.

Ornamental fish

The ornamental fish industry is worth hundreds of millions of dollars a year worldwide and is growing rapidly. Scarce aquarium fish such as Neon Damselfish can cost up to 1 million won a piece. Korea plans to set up a research and development, and export center for aquarium fish to make inroads into the lucrative market.