

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Growth in U.S. Ag. Exports to Korea Outpaces the Rest of East Asia**

**Report Categories:**

Country/Regional FTA's

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**Report Highlights:**

Several categories of U.S. food and agricultural exports to South Korea saw significant growth in fiscal year 2017 (Oct/Sept). Local economic growth, U.S production conditions, local consumer preferences, and KORUS-related access benefits all played varying roles in this growth. The analysis in this report highlights the major drivers in export growth in several key commodities.

## General Information:

Food and agricultural exports from the United States to South Korea (officially the Republic of Korea, or ROK) grew more than 20 percent in the fiscal year ending in September 2017. South Korea is already U.S. agriculture's fifth largest export market. Macro forces drove much of this growth, as demonstrated by the fact that U.S. exports to East Asia were up around 16 percent over the same time period. Still, the unique market dynamics between South Korean consumption and economic expansion, U.S. production cycles, and the history of our bilateral relationship, demonstrate the special value of the ROK market for American agriculture. The Korea-U.S. Free Trade Agreement (KORUS) is in its sixth year of implementation and consequently, many important tariff lines continued to fall and TRQ volumes expanded in the last year. Given the increasing number of Korea's FTAs with other trading partners, even marginal real or future assumed tariff advantages can have an important impact on Korean buyers, especially those processing inputs into finished products for local consumption.

Below is a chart pulled from official U.S. trade data, highlighting the growth of major U.S. exports to Korea from 2016 to 2017 (FY basis). Several items are examined in more detail to tease out the macro and micro causes of this growth.

Product	2017 (\$000)	FY 2017 Increase (\$000)	% increase
Agricultural Products	6,867,504	1,174,186	21%
Beef & Beef Products	1,207,122	289,356	32%
Corn	848,614	160,751	23%
Fresh Fruit	485,629	100,168	26%
Pork & Pork Products	443,973	96,461	28%
Soybean Oil	159,713	85,784	116%
Cotton	235,513	85,254	57%
Dairy Products	287,322	72,943	34%
Hides & Skins	310,128	47,029	18%
Feeds & Fodders NESOI	171,173	39,317	30%
Hay	206,819	37,256	22%
Oilseeds (ex. soybean)	36,032	29,213	428%
Wheat	291,466	26,984	10%
Wine & Beer	52,760	20,768	65%
Tree Nuts	291,615	18,834	7%
Rice	120,766	15,720	15%
Eggs & Products	16,395	14,428	734%

Table 1: Top export growth

## The Korean Economy:

After a difficult 2016 that ended with heightened tensions and uncertainty that came with the impending impeachment of conservative former President Park, most of 2017 saw increasing confidence and increasing exports (see table 2 below). The current growth forecast hovers around three percent.



Source: Korea National Statistics Office (<http://kosis.kr>)

Table 2: Korean Economic Indicators

Economic growth and the resulting increased dynamism in both the retail and processing industries has led to a surge in demand for agricultural inputs, with the U.S. scooping up the bulk of the business—total ag imports into Korea are forecast 10 percent higher in CY17 while imports from the United States are forecast 25 percent higher. This growth in processing demand can be seen in table 1 above with commodities like pork (increasingly used in high-end sausages and convenience food), soybean oil, cotton, dairy products (fresh cheese as a food ingredient), hides and skins (high end consumer products and growing exports of vehicles), and eggs and products (increasingly popular western desserts as well as a switch from local production due to Highly Pathogenic Avian Influenza [HPAI]-related production losses in the ROK).

This growth in retail demand translated into higher table 1 sales of luxury/consumer oriented items like beef, fresh fruit (primarily cherries, a new type of high brix orange, and table grapes), wine and beer, and tree nuts (mostly almonds and walnuts, which have capitalized on their growing local image as beauty and brain foods). Some of the above referenced items, in addition to the feed items in table 1, are explained in more detail below.

**Beef:** Long considered a luxury item in Korea, beef consumption has grown tremendously from the days of its status as a “twice a year” food to something consumed nearly every day. That said, beef continues to have a special place in the hearts of local consumers. Despite strong growth in per capita consumption over the past several years, Koreans still eat only a third as much beef as Americans, implying plenty of room for significant future growth. Much of this hinges on continued Korean economic prosperity. The local preference for high quality and well marbled beef means that the United States competes only with Australia for import market share. Imports supply about two-thirds of Korea’s beef demand. Private research conducted on behalf of USMEF demonstrates that Korean consumer confidence in U.S. beef has risen from the low single digits in 2008 to well over 50 percent through the first half of 2017. Much of this increase has taken place over the last 18 months and would not have been possible without the significant resources dedicated to building confidence in U.S. beef carried out by the local USMEF office. Shortage-related price increases in Australian beef, continued

KORUS-related tariff reductions, the USMEF-supported decision of a major retailer to swap Aussie beef for U.S. origin, and the significant growth and optimism in the Korean economy since mid-2017, have led to the 32 percent year-on-year growth in U.S. beef exports, making Korea the 2<sup>nd</sup> largest market (in value) for U.S. beef and beef products.

**Corn:** Korea has long been a top market for imported corn, especially from the United States. Its significant animal feeding industries (cattle, swine, and poultry) combined with the relatively low local returns for corn production (rice is the government-supported crop of choice for producers) means that Korea imports about 10 million metric tons of corn per year. Non-feed use is a smaller source of import demand—starch, fructose, oil etc., and like the other processing industries, has seen macro-economic growth spur demand. Still, the majority of the increase in U.S. exports (23%) over the last year can be attributed to U.S. corn's relative price competitiveness with other origins over the same time period.

**Fresh Fruit:** Growth in this category (26%) over the last year is largely due to the continued popularity of sweet cherries, consumer infatuation with a new type of high brix orange, and the grape industry's foresight to promote several different varieties in the Korean market over the last several years. U.S. cherry exports, especially to high-end markets like Korea, can vary significantly depending on weather and harvest related quality issues. After a disappointing 2016 season, at the insistence of FAS and local representatives, the cherry industry redoubled their efforts to ensure only top quality fruit of the varieties and ripeness/brix level demanded by Korean consumers made it into the market. As a result, cherry exports to Korea, already the industry's largest market, grew nearly 40 percent in value and over 60 percent in volume. U.S. fresh sweet oranges (primarily from California) are also popular in Korea and 2017's 20 percent decline in traditional oranges was more than made up for in both dollar and volume growth in the high brix temple orange, which saw growth of over 200 percent. Finally, the Korean consumer turned against traditional varieties of imported grapes in 2017. The switch had a significant impact on other origins, which have typically focused on just one or two varieties of sweet seedless grapes. But U.S. grape exports were up over 50 percent, thanks to the industry's long term investment in promoting several different varieties of grapes in Korea. These non-traditional varieties were the ones to which Korean consumers were increasingly attracted in 2017, to the detriment of other origins. Peak season tariffs also continued their KORUS-driven decline, further enhancing cost competitiveness.

**Pork:** Several factors combined in the last year to spur the 28 percent growth in imports of U.S. pork in FY2017. With the exception of pork bellies (a currently noncompetitively priced product, due to the ongoing craze for this product in the U.S., driving up U.S. domestic prices), tariff phase outs were not a factor, as all pork tariffs have already been phased out under KORUS. Instead, overall pork demand is growing significantly in Korea. About two-thirds of U.S. pork is destined for Korean BBQ-type retail or institutional use but consumption of high-end sausages as part of the growing popularity of the western diet is on the rise and is one factor. Another is the growth of convenience food sales (spurred by the demographic and cultural dynamics resulting in more women in the workplace and a growing share of single person households) that feature value-priced pork and pork sausages (as opposed to more expensive beef—chicken is also value priced but not considered a main meal item). In addition, a local scare over the safety of European pork and pork sausages in the last year drove Korean pork processors to use more local product. With this change, however, came the (USMEF supported) technical marketing campaign underscoring the higher product consistency of U.S. pork. The result is increased demand for one of the most internationally price-competitive components of U.S. pork production—the picnic/butt cut (or shoulder).

**Soybean oil:** Although not clear to Post which came first (South American quality issues or the industry decision), USSEC's efforts to grow U.S. soy oil exports around the world in 2017, aligned perfectly with the quality concerns about South American oil over the last year. In this quality-conscious market, USSEC efforts to promote U.S. soy oil met with welcome buyers here, and these exports more than doubled, making Korea U.S. soy's largest oil market.

**Cotton:** Cotton spinning in Korea continues its march to off-shore destinations, typically Chinese and southeast Asian mills owned by their Korean investors. Exports to Korea vary from year to year but significant investment by the Cotton Council among Korean consumers, touting the sustainable nature of U.S. cotton and the idea that each cotton bale can be traced back to a real American farmer, placed our cotton in a good position to take advantage of the recent general economic growth in Korea. U.S. exports were up nearly 60 percent in 2017.

**Feed stuffs:** In addition to corn, other high-growth feed items referenced in table 1 include feeds and fodders, hay, non-soy oilseeds (cotton seed in this case), and wheat. Growth (23%) in these products is generally attributable to the growing livestock industry in Korea, especially pork and dairy, which is being driven by the broader expansion of the economy. Cotton seed is imported for meal production or fed to dairy cattle and U.S. availability was good over the last year. Korea's savvy feed millers, as is their custom, were quick to switch out other non-U.S. origin protein meal inputs for U.S.-origin cotton seed. It was a similar story on wheat (10% growth), with most of the marginal increase due to feed millers bringing in a few shipments of U.S. feed wheat. This on again-off again pattern is typical in both cotton seed and feed wheat, depending on relative international prices.

**Dairy, wine and beer, and tree nuts:** Growth in consumption of these or their end products has been growing in Korea, thanks to the westernizing diet (cheese) and the desire to try new or health-functional foods (new craft beer and healthy tree nuts). Dairy products, especially cheese, continue growing in popularity. Previous booms have been associated with growth in pizza consumption but over the last year, the ever increasing availability of cheese flavored/infused/topped food and snack phenomenon became further entrenched. KORUS-driven tariff reductions also helped ensure that although Korea's cheese imports from all origins grew by more than 20 percent, U.S. exports of fresh cheese (responsible for about a third of our total dairy exports to this market) were up nearly 50 percent. Craft beer is relatively new in Korea and FAS Seoul has dedicated many resources to growing the segment in Korea. Significantly, changes in local laws over the last year are freeing distribution regulations, exposing many more shoppers to craft beer, spiking demand. Lastly in this category, tree nuts are continuing their recent growth trend, driven by relatively low per capita consumption and the local culture's appreciation for health functional foods. Market representatives have invested heavily in promoting almonds as a beauty food (Korean beauty products are in worldwide ascendancy) while walnuts are being very successfully promoted as brain food (intelligence is another cultural touchstone in Korea).

**Eggs and products:** An outbreak of Highly Pathogenic Avian Influenza (HPAI) in Korea beginning in late 2016 resulted in a significant decline in egg production. FAS secured first-ever market access for table eggs and additional egg products in early 2017. The loss of local eggs also forced food processors to look to new sources of egg products (liquid/frozen/dried whole eggs, whites, or yolks). This search was aided and significantly supported by USAPEEC in conjunction with the American Egg Board, which made Korea a priority market for 2017. The United States was one of the few countries to

achieve expanded market access for eggs and egg products and as a result, these exports grew by more than 700 percent. As noted above, economic growth and changing diets are also driving overall demand growth for eggs and products, and the U.S. industry is capitalizing on this trend.