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HPAI Impact on Korea's Broiler Meat Industry

Report Categories:
Poultry and Products

Approved By:
M. Kathryn Ting, Minister Counselor
Prepared By:
SunYoung Choi / Michael G. Francom

Report Highlights:

Korea's poultry industry has weathered a series of highly pathogenic avian influenza outbreaks over the last several months with no noticeable impact on the country's broiler meat production. Meanwhile, consumption has actually increased due to a shortage of local pork, high red meat prices, and fears about radiation-contaminated seafood from Japan. As a result, this year's import estimate was raised 22 percent to 110,000 tons. In response to high prices, the government has announced its intent to open a zero duty tariff-rate quota (TRQ) for chicken, but exact details have not yet been revealed.

General Information:

On December 12, 2010, the Ministry of Food, Agriculture, Forestry and Fisheries (MIFAFF) notified the World Animal Health Organization, also known by its French acronym as OIE, of a case of H5N1 highly pathogenic avian influenza (HPAI) in wild birds located in the southern part of the country. The virus quickly spread, affecting commercial duck and chicken operations in 52 farms in 6 provinces. The last case was reported on April 18. Poultry on the affected farms has been culled and those premises within a 500 meter radius were also depopulated as a pre-emptive measure. There are no reported human cases.

As of April 25, 2011, the number of culled poultry has reached a record of 6.4 million birds. Nonetheless, local broiler meat (chicken) production and consumption is expected to remain relatively unchanged from earlier estimates since the scope of the outbreak is relatively small in terms of total inventories. In addition, the affected broiler growers are expected to quickly re-populate their flocks. The largest HPAI outbreak before this latest string of cases was in spring 2008 when 3.45 millions of poultry were culled.

Production:

As of April 25, there had been less than 1 million broilers culled, or about 1 percent of total broiler inventories. The impact of these outbreaks on the country's broiler meat production is expected to be very minor. The local industry anticipates that inventories will gradually stabilize as affected farms re-stock after cleaning and disinfection procedures, which generally take about 30 days. While HPAI was spreading, colder than usual winter weather resulted in marginally lower productivity gains, though this is not expected to have any lasting effect on this year's total production.

The slight drop in production resulting from HPAI outbreaks and cold weather along with increased demand for chicken due to local pork meat shortages stemming from the country's FMD crisis, have put upward pressure on live broiler farm gate prices as can be seen in the price series at the end of the report. For example, in early December just before the HPAI outbreaks really took off, the average farm gate price for live broilers was 1,780w/kg (~$1.65/kg), but has since climbed 51 percent to nearly 2,680w/kg (~$2.50/kg). Higher live bird prices have translated into stronger retail chicken prices, which will be covered in the consumption section of the report. It's still too early to tell whether higher farm gate prices might spur increased local broiler meat production next year.

Meanwhile, close to 3 percent, or about 1.9 million table egg layers have been culled. The table at the end of the report contains details on the number of birds culled by species.

Consumption:

Korean consumers are not cutting back on chicken consumption because of the recent spate of HPAI cases in large part because they have already lived through past outbreaks and are well aware that proper handling and cooking eliminate the already low risk of contamination.

Average monthly retail chicken prices, as shown in the table below, have increased compared to the previous year due to several factors including: increased demand for chicken because of the shortage of pork resulting from the earlier FMD crisis; culling of poultry to stem the spread of the HPAI outbreaks; and lower productivity during the unusually cold winter. Prices in April are up nearly 12 percent compared to the same month last year while the cost of chicken from Jan-Apr has climbed 25 percent.

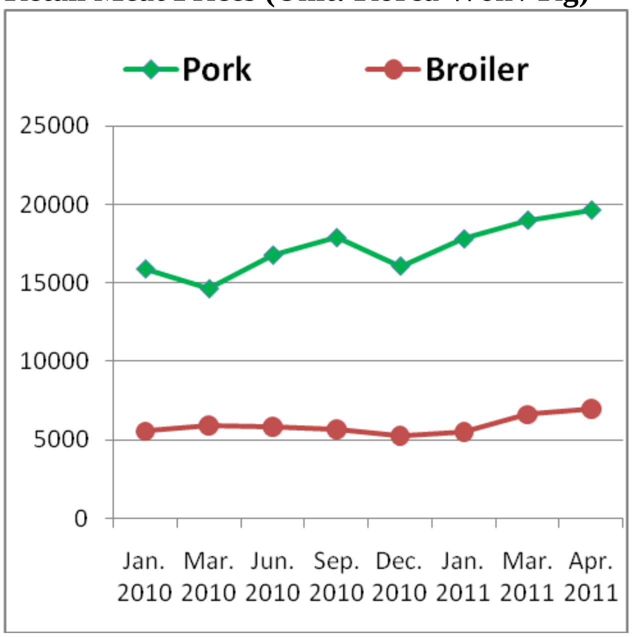
Retail Chicken Price Change (Unit: Korean Won / Kg)

Year	January	February	March	April
2011	5,518	6,612	6,983	6,964
2010	5,550	5,594	5,976	6,246
Change (%)	-0.6	18	16.9	11.5

Source: aT (Korea Agro-Fisheries Trade Corporation)

The switch from pork to chicken is a break from past consumption trends where beef and pork were considered as closer substitutes. However, this paradigm has partly been turned on its head in large part because of high red meat prices and fears over eating fishery products because of radiation fears stemming from the nuclear crisis in Japan. The following graph shows the price trends and differentials between domestically produced chicken and pork.

Retail Meat Prices (Unit: Korea Won / Kg)



Source: aT (Korea Agro-Fisheries Trade Corporation)
Note: Hanwoo: 3rd grade Tenderloin / Pork: medium grade pork belly / Broiler: medium grade
Exchange Rate: 1072 w=$1 as of Apr 29.

Trade:

The Korean government announced its decision to open a 50,000 ton duty free TRQ for broiler meat to stabilize surging retail chicken prices. The details, however, are not yet available. This decision follows earlier announcements for duty free quotas for certain pork cuts and dairy products, which are intended to help minimize rising food inflation.

Korea's official import estimate for U.S. broiler meat, which USDA released in April, was raised roughly 20 percent to 110,000 tons to reflect the strong demand. See official estimates below. According to local trade statistics from Jan-Mar, chicken imports are up 38 percent compared with the same period the previous year. Most of the increase is attributed to U.S. chicken sales, which climbed to nearly 20,000 tons during this period, an increase of 118 percent. Meanwhile, imports of Brazilian chicken fell 33 percent to 6,700 tons from Jan-Mar reportedly because of stronger demand from Japan.

Korea Broiler Meat PS&D Estimates					
Commodity	Attribute		2009	2010	2011
Poultry, Meat, Broiler	Beginning Stocks (1000 MT)		11	5	0
	Production (1000 MT)		613	647	660
	Total Imports (1000 MT)		71	106	110
	Total Supply (1000 MT)		695	758	770
	Total Exports (1000 MT)		11	16	15
	Total Dom. Consumption (1000 MT)		679	742	755
	Total Use (1000 MT)		690	758	770
	Ending Stocks (1000 MT)		5	0	0
	Total Distribution (1000 MT)		695	758	770
	Per Capita Consumption (KG)		14	15.30	15.50

Source: Source: Foreign Agricultural Service, Official USDA Estimates as of Apr 2011

Birds Culled by Species as of April 25, 2011					
Category (Species)		Number of HPAI Confirmed Farms	Number of Animal Culled (Heads)	Total number of Animals as of Dec. 1, 2010 (Heads)	Percentage of total bird (Percent)
Duck	Breeding stock	10	546,526	N/A	N/A
	Duck	23	2,241,853	N/A	N/A
	Sub total	**33**	**2,788,379**	**N/A**	**N/A**
Chicken	Layer	9	1,873,711	61,691,000	3.0
	Breeding stock	4	366,295	N/A	N/A
	Broiler	2	935,373	77,871,000	1.2
	Native	2	114,889	N/A	N/A
	Sub total	**17**	**3,290,268**	**N/A**	**N/A**
Other		2	319,627	N/A	N/A
Total		**52**	**6,398,274**	**N/A**	**N/A**

Source: Ministry for Food, Agriculture, Forestry & Fisheries (MIFAFF), Korea Statistics Administration

Farm Price of Live Broiler per Kilogram (Medium size) since December 2010

Date	Broiler Price (Won / Kg)	Number of HPAI confirmed farms
12/29/2010	1,780	
12/30/2010	1,880	
12/31/2010	1,980	2 cases (one for broiler PS & one for duck PS)
1/3/2011	1,980	
1/4/2011	1,980	
1/5/2011	2,080	
1/6/2011	2,180	
1/7/2011	2,180	1 case (duck farm)
1/8/2011	2,180	1 case (layer farm) 4 cases (duck farm) on 1/9/2011
1/10/2011	2,180	2 cases (duck farm)
1/11/2011	2,180	6 cases (duck farm)
1/12/2011	2,180	
1/13/2011	2,180	6 cases (duck farm) / 1 case (broiler farm)
1/14/2011	2,180	1 case (native chicken farm)
1/15/2011	2,180	1 case (duck farm) / 1 case (broiler PS farm)
1/17/2011	2,180	
1/18/2011	2,180	1 case (duck farm)
1/19/2011	2,180	2 cases (duck farm)
1/20/2011	2,180	1 case (layer farm)
1/21/2011	2,180	
1/22/2011	2,180	1 case (duck farm) / 2 cases (layer farm)
1/24/2011	2,280	1 case (duck farm) on 1/23/2011 2 cases (duck farm) 1 case (layer farm)
1/25/2011	2,280	1 case (pheasant farm)
1/26/2011	2,380	
1/27/2011	2,380	1 case (broiler PS farm) / 1 case (quail farm)
1/28/2011	2,380	
2/8/2011	2,380	
2/9/2011	2,380	1 case (broiler farm)
2/10/2011	2,480	
2/13/2011	2,480	2 cases (one duck PS farm & one duck farm)
2/17/2011	2,480	1 case (broiler PS farm)
2/25/2011	2,580	1 case (layer farm)
2/26/2011	2,580	2 cases (one duck farm & one native farm)
3/3/2011	2,580	1 case (duck farm)
3/4/2011	2,680	1 case (duck PS farm)
3/8/2011	2,680	1 case (layer farm)
3/22/2011	2,680	1 case (layer farm)
4/18/2011	2,680	1 case (layer farm)
Total		52 cases

Source: MIFAFF & Korea Chicken Council (KCC)