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Korea Announces Measures to Increase Chilled Pork Belly Imports

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Livestock and Products

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Report Highlights:

On July 19, 2011, Korea introduced compensation measures designed to increase imports of fresh/chilled pork bellies in hopes of dampening rising prices due to ongoing shortages as a result of the November-April foot and mouth disease outbreaks. These incentives are effective through August 20, 2011. However, these measures are expected to have a limited impact on increasing imports of fresh/chilled belly meat due to tight international supplies.

General Information:

The price of pork belly meat –the most popular pork cut in Korea – has gone through the roof in recent months due to local shortages resulting from the country’s devastating outbreak of foot and mouth disease (FMD) when more than 3 million pigs, equal to one-third of total inventory, were culled. For example, the average retail price for domestic fresh bellies in July 2011 is 23,730 won/kg, up 43 percent from November of last year just before the FMD outbreak.

In response, the Ministry of Strategy & Finance, which is leading the interagency charge to curb rising consumer inflation, has cut the duties on 260,000 MT of imported bellies and other pork cuts on several occasions to help stem the pain at the register. With the current duty reduction, imported belly meat is currently selling at less than half the price of domestic bellies at 11,500 won/kg for fresh and 8,500 won/kg for frozen. Nevertheless, retail belly prices remain at historic highs.

Duty Free Quota Announcements on Imported Pork					
Date	Product	HS Number	Quota		Must be imported by
			Quota allocated	Accumulative quota	
Jan. 28	Frozen pork bellies	0203.29.1000	10,000	10,000	Jun. 30, 2011
	Frozen pork for processing	0203.29.9000	50,000	60,000	
Mar. 7	Frozen pork bellies	0203.29.1000	50,000 a/	110,000	
May 11	Other chilled pork	0203.19.0000	20,000	130,000	
Jun. 27	Pork	0203	130,000	260,000	Dec. 31, 2011

a/ The combined quota for frozen pork bellies was 60,000 MT from January to June.

Average Monthly Retail Price for Domestic Pork Bellies (won/kg)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2008	13,730	13,626	13,282	14,736	16,916	19,500	18,966	19,398	19,028	17,792	17,298	17,324	16,822
2009	17,066	17,006	18,082	20,128	17,982	18,292	18,922	19,662	19,130	17,888	16,888	17,408	18,236
2010	15,894	15,218	14,634	16,414	17,132	16,770	17,588	18,264	17,886	17,198	16,622	16,076	16,630
2011	17,804	21,316	18,998	19,588	21,382	24,600	23,730	-	-	-	-	-	21,016

Source: aT

In addition to the above-mentioned tariff cuts, the Ministry for Food, Agriculture, Forestry & Fisheries (MIFAFF) announced on July 19, 2011 support measures to jump start imports of fresh and chilled belly meat in hopes of lowering domestic prices. A translation of this announcement follows below. The MIFAFF measure is focused on fresh/chilled belly meat for two main reasons. First, Korean consumers prefer fresh bellies over frozen, especially during the summer grilling season. Second, importers are reportedly having a tough time securing bellies on the international market.

The measure contains five main pillars to help lower fresh/chilled belly meat prices: (1) price support incentives; (2) incentives for contracting under the emergency government purchase of 10,000 MT; (3) the domestic selling price on the government-purchased meat would be cut by about 10 percent; (4) support payment to offset air freight expenses for imports outside the emergency government purchase; and (5) request to consumers to eat other pork cuts and local beef. These incentives are effective through August 20, 2011.

With respect to price support incentives, the Korea Agro-Fisheries Trading Corporation (aT), which is the government-run state trading entity, will temporarily act as middleman in the transaction between the importer and customer. In particular, aT will pay the importer the contracted price and will then sell the meat at a discount to the customer depending on prevailing domestic prices and when the product arrives in Korea.

On July 21, aT opened an emergency tender for 10,000 MT of chilled belly meat, which will more or less be a consolidated purchase on behalf of the local importers. The tender closed on July 26. The product will be sold at about a 10 percent discount to local buyers, depending on the prevailing market price when the product is released into the market. There are a couple reasons for making the purchase in this fashion. First, the government wants to publicly demonstrate its deep-seated resolve to fight inflation by making such a large purchase. Second, some importers were reportedly worried about customers, who knowing that the product had a limited shelf life, were holding out for a discount.

According to local trade sources, only a portion of the 10,000 MT tender will likely be filled because of the limited exportable supplies of fresh belly meat in the United States, Canada and Chile. Producers in these countries make more money by producing bacon and spare ribs from the belly. Please refer to pork import statistics at the end of this report for more details.

The measure urges Korean consumers to eat other pork cuts, like Boston Butt and tenderloins. It also calls for consumers to eat more beef to help prop up sagging cattle prices due to the record cattle inventories. However, changing dietary patterns even when prices are high takes time.

Major Points of the Measure to Lower Price on Chilled Pork Imports

◇	The government will provide an incentive in the government procurement prices for imported chilled pork bellies for shipments that arrive up to August 20 th . This measure is being implemented in order to enhance the import of chilled pork bellies prior to the peak consumption season. <i>(Embassy Comment: The procurement price will be based on CIF cost + Cost occurred in the container yard + inland transportation costs after arrival in Korea + Storage costs prior to being handled over to aT + loading and unloading costs + incentive)</i>
○	A different procurement price will be applied for products that arrive early, depending on the arrival period.
◇	An emergency bidding for purchase of 10,000 MT of imported chilled pork belly will be conducted. <i>(Embassy Comment: Up until now, aT has been tendering for small amounts, such as 1,000 MT. By enlarging the tender amount to 10,000 MT, Korea hopes to send out the signal that it is willing to purchase chilled pork bellies as much as the suppliers can offer. aT is reluctant to publicize the amount of incentive that has been provided to the importers that contracted under this tender.)</i>
○	The date for arrival in Korea: Shipments must arrive in Korea by August 20 th (A different price will be applied, depending on the arrival period). <i>(Embassy Comment: Please note that this arrival date is the cut-off date for providing incentives. The zero duty TRQ for 130,000 MT of pork imports for the second half of 2011 is valid until December 31, 2011.)</i>
◇	Support will be provided for air freight expenses when private importers import the products via air up to August 20 th .
*	Incentive: Products arriving before the end of July will receive an additional 20% incentive on top of the basic support price. Products arriving up to August 10 th will receive an additional 10% incentive on top of the basic support price.
◇	aT will lower the domestic selling price for imported chilled pork bellies. <i>(Embassy Comment: aT will sell the imported chilled pork bellies at a discount of about 10 percent lower than the procurement prices.)</i>
◇	The government will ask the consumers to adopt a balanced consumption pattern by increasing the consumption of low-fat cuts, such as Boston butts, tenderloins and <i>bulgogi</i> cuts that are relatively cheaper than pork bellies, and enhance health while reducing expenditures.
○	Recommend increased beef consumption to help farmers that are suffering from drop in cattle prices.

Detailed Measure

The Ministry for Food, Agriculture, Forestry & Fisheries announced that it was implementing measures to largely increase the procurement and sales of imported chilled pork bellies to stabilize the domestic prices during the peak pork belly consumption period.

- First, the government will procure imported chilled pork bellies that arrive in Korea prior to August 20th. An incentive will be provided during the procurement process.
 - The incentive will be differentiated depending upon the arrival time of the products. Different incentives will be provided for products arriving before the end of July, products arriving up to August 10th and those arriving up to August 20th.
- Second, Korea will open an emergency procurement tender for 10,000 MT of imported chilled pork bellies.
 - The procurement tender will be for those that arrive in Korea up to August 20th. The different incentives, depending on the arrival period, will also be applicable for these products.
 - Third, support will be provided to private importers that bring in chilled pork bellies via air up to August 20th.
 - There will be an additional incentive of 20% of the basic incentive amount for products that arrive before the end of July. As for the products that arrive up to August 10th shall receive an additional incentive of 10% on top of the basic incentive amount.
- Fourth, aT shall drop its release price of imported chilled pork bellies to domestic companies.

The Ministry for Food, Agriculture, Forestry & Fisheries (MIFAFF) announced that the cause for the sudden increase in pork belly prices were due to the Korean consumers' preference for fatty pork bellies.

- The Government asked the general public to reduce the consumption of pork bellies for the sake of achieving a healthy dietary pattern. It emphasized that increased consumption of low-fat cuts such as cheap tenderloins and *Bulgogi* cuts, etc., will not only be healthy but also will contribute to reducing the household expenditures. It asked the people to seek a balanced consumption.
- In addition, in order to reduce the burden of cattle farmers that are facing difficulty due to the drop in cattle prices, it stated that increased consumption of beef could be a recommendable choice.
- It asked the consumers to aggressively use the discounted sale for Hanwoo beef that producer organizations, such as the National Agricultural Cooperative Federation were conducting.

According to an official from the Ministry, the government hoped that this measure to increase the purchase and supply of imported chilled pork bellies will contribute to the stabilization of the product prices for the lower income families by stabilizing the high pork belly prices at an early date.

- It won't be good for the domestic swine industry either if the domestic pork prices remain at

a high level. Therefore an immediate stabilization of the prices is needed to seek a sound development of the swine industry.

<Reference>

Comparison of Retail Prices of Major Livestock Products
(As of July 18, 2011)

(Unit: Won / kg.)

Product	Cut	Country of Origin	Price	Percentage of domestic pork belly prices
Pork	Pork bellies	Domestic ¹	23,714	100.0
		Imported chilled ²	11,500	48.5
		Imported frozen ²	8,500	35.8
	<i>Bulgogi</i> (Picnic)	Domestic ²	21,000	88.6
	Tenderloin	Domestic ²	19,500	82.2
Beef	Rib eye	Hanwoo (Grade #1) ₁	54,776	231.0
		Imported (Australia) ₁	32,800	138.3
	<i>Bulgogi</i> (Chuck roll)	Hanwoo (Grade #1) ₁	28,384	119.7
		Imported (Australia) ₁	17,878	75.4
Chicken		Domestic ¹	5,954	25.1
Duck		Domestic ²	20,834	87.9

1. Price from aT survey
2. Price from Lotte Mart

Korea: Pork Imports

Product	HS Number	Country	2010 Total		Jan-Jun, 2011	
			Value	Volume	Value	Volume
			\$000	MT	\$000	MT
Chilled pork belly	0203.19.1000	U.S.A.	12,941	2,768	12,219	2,234
		Canada	17,228	3,835	17,348	3,145
		Chile	3,196	742	3,637	750
		Austria	-	-	-	-
		France	-	-	-	-
		Netherland	-	-	180	28
		Spain	-	-	3	1
		Belgium	-	-	-	-
		Germany	-	-	-	-
		Denmark	-	-	-	-
		Hungary	-	-	-	-
		Poland	-	-	-	-
		Mexico	711	173	2,676	539
		Others	-	-	-	-
Total	34,076	7,518	36,063	6,697		
Frozen pork belly	0203.29.1000	U.S.A.	5,687	1,851	4,385	1,218
		Canada	1,145	280	1,756	374
		Chile	66,904	19,198	28,600	7,817
		Austria	42,442	12,233	39,438	10,694
		France	26,719	8,851	22,131	7,015
		Netherland	42,257	12,189	32,426	9,140
		Spain	10,030	3,417	10,163	2,961
		Belgium	40,747	12,804	27,867	8,167
		Germany	12,411	3,735	25,028	7,171
		Denmark	3,701	874	10,628	3,008
		Hungary	5,566	1,684	6,300	1,682
		Poland	5,184	1,862	8,880	2,795
		Mexico	7,984	2,737	4,097	1,218
		Others	11,757	3,588	8,099	2,629
Total	282,534	85,303	229,798	65,889		
Other pork cuts	N/A	U.S.A.	143,866	70,743	241,437	82,820
		Canada	75,729	50,600	92,501	40,448
		Chile	41,377	23,503	23,278	11,836
		Austria	3,519	2,161	5,178	2,241
		France	19,799	5,156	13,387	3,510
		Netherland	2,406	1,193	2,731	1,696
		Spain	22,103	15,128	24,574	12,224
		Belgium	1,483	1,009	2,258	1,134
Germany	877	844	2,393	1,116		

		Denmark	8,639	8,501	16,401	8,036
		Hungary	7,833	3,857	10,738	4,149
		Poland	5,241	3,979	6,796	4,154
		Mexico	10,252	5,235	8,045	2,975
		Others	4,580	4,480	9,364	5,712
		Total	347,704	196,389	459,081	182,051
Total Pork	0203	U.S.A.	162,494	75,362	258,041	86,272
		Canada	94,102	54,715	111,605	43,967
		Chile	111,477	43,443	55,515	20,403
		Austria	45,961	14,394	44,616	12,935
		France	46,518	14,007	35,518	10,525
		Netherland	44,663	13,382	35,337	10,864
		Spain	32,133	18,545	34,740	15,186
		Belgium	42,230	13,813	30,125	9,301
		Germany	13,288	4,579	27,421	8,287
		Denmark	12,340	9,375	27,029	11,044
		Hungary	13,399	5,541	17,038	5,831
		Poland	10,425	5,841	15,676	6,949
		Mexico	18,947	8,145	14,818	4,732
		Others	16,337	8,068	17,463	8,341
		Total	664,314	289,210	724,942	254,637

Source: KITA