

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

**Date:** 2/26/2010

**GAIN Report Number:** KS1003

## **Korea - Republic of**

### **Livestock and Products Semi-annual**

#### **Semi-annual**

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**Report Highlights:**

Although cattle inventories are up in 2010, beef production has been lowered since farmers continue to delay marketing their animals. This tightening in domestic production is expected to drive-up demand for imported beef. The U.S. beef import estimate is raised to 110,000 MT. Meanwhile, the larger than expected increase in pork production has pushed the pork imports down more than 100,000 MT to 343,000 MT. The U.S. pork import estimate is lowered to 100,000 MT.

## **Commodities:**

### **Production:**

#### **Animal Numbers, Cattle**

The Korean government has started providing data on the number of beef and dairy cows that are old enough to become pregnant. Post previously had to extrapolate these figures using the number of one-year old heifers. The dairy and beef cow beginning stocks for 2009 and 2010 have been revised to reflect this change. This revision, however, does not impact production since the calf crop is a residual number.

Strong demand for domestic beef and smaller than expected calf production put upward pressure on cattle prices in 2009. As prices soared during the second half of last year, farmers held off marketing their animals since they were gambling that prices would climb even higher. In addition, farmers were in no hurry to sell since animals on feed 30+ months generally grade out higher, which means higher profits when they go to market. Their bet paid off. The price of a fully grown steer for slaughter jumped from 3.8 million won (about \$3,300) in June 2009 to 5.8 million won (about \$5,000) by the end of the year (table below).

Longer feeding periods pushed the 2009 average slaughter weight from 619 to 630 kilograms. These heavier animals tended to receive higher grades. In fact, this trend is evident in the grade trend data for 2009 (table below), where the percentage of animals receiving the three highest grades (1++, 1+ and 1) grew from the previous year.

Cattle prices are expected to remain strong during 2010 in large part due to continued robust demand for domestic beef. In response to higher prices, farmers are expected to slightly raise calf production to 1.03 million head, but at a marginally slower pace than was previously forecast.

Production is expected to gradually level off in the near future as farmers become more cautious about any possible price drop due to over-supply. In fact, the Korea Rural Economic Institute (KREI), a government think-tank, is warning that the cattle inventory will peak in 2011 and then begin contracting. This is one reason the Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF) has begun exploring measures, such as revising the grading standards, to encourage farmers to reduce their herd size. The plans to revise the grading system will be discussed later in the report.

Slaughter in 2009 was lower than expected at 815,000 head since farmers held-off marketing their animals because they expected prices to continue to climb. The slaughter numbers for 2010 are revised downward to 876,000 head because the inventory of cattle over 1-year old started leveling-off last September.

Ending inventories in 2010 are forecast higher at 3.2 million head since the slight increase in calf production will more than offset the projected increase in the number of animals slaughtered.

The Korean government has established a working level committee to revise the existing beef grading system, which is overly focused on maximizing marbling. The committee's goal is to develop a more balanced grading system that provides incentives to farmers to slaughter their animals earlier at around 27 months, instead of the traditional 30+ months. This type of system would be more environmentally friendly as it would help curb cattle methane emissions and reduce livestock production costs since less feed would be used.

In the meantime, though, Korean cattle producers will continue to feed their animals as long as possible in order to maximize marbling, which means higher profits when they send the animal to slaughter. In fact, as can be seen from the following table, the average price of the highest grade animal (1++) was 47 percent higher than the average price of the lowest grade animal (3).

#### Quality Grade Trends

Quality Grade	2007 Average	2008 Average	2009 Average		
			Average grade	Dec. 2009 price (won/kg)	Price difference (percent)
1++	7.5	7.5	10.8	20,456	100.0
1+	18.4	19.5	22.4	18,765	91.7
1	25.0	27.0	28.7	17,716	86.6
2	24.5	25.2	24.4	16,268	79.5
3	23.5	19.9	12.9	13,936	68.1

Exchange rate: US\$1=1,150 won

#### Korea: Live Beef Cattle Prices (000 won/head)

Month	Hanwoo calf		Hanwoo cow	Hanwoo steer
	Female	Male		
2008.1	1,968	2,064	4,976	4,788
2008.2	1,970	2,128	4,952	4,678
2008.3	1,941	2,064	4,916	4,313
2008.4	1,815	1,897	4,682	3,913
2008.5	1,659	1,738	4,445	3,666
2008.6	1,670	1,743	4,301	3,569
2008.7	1,538	1,615	4,076	3,457
2008.8	1,341	1,458	4,055	3,442
2008.9	1,391	1,513	4,170	3,562
2008.10	1,402	1,537	4,440	3,721
2008.11	1,394	1,532	4,638	3,772
2008.12	1,350	1,463	4,569	3,649
2009.1	1,370	1,514	4,602	3,659
2009.2	1,482	1,618	4,584	3,694
2009.3	1,509	1,669	4,597	3,699
2009.4	1,629	1,852	4,670	3,688
2009.5	1,718	1,989	4,698	3,702
2009.6	1,869	2,121	4,751	3,808
2009.7	1,930	2,176	4,831	3,949

2009.8	2,032	2,312	5,089	4,870
2009.9	2,125	2,411	5,405	5,167
2009.10	2,054	2,324	5,510	5,405
2009.11	2,048	2,302	5,754	5,729
2009.12	2,081	2,292	5,904	5,789
2010.1	2,080	2,344	5,911	5,846

## Meat, Beef

Beef production has grown for the six consecutive years and finished at 267,000 metric tons in 2009. Production last year was expected to grow even higher, but slipped slightly because farmers held onto their animals longer in hopes of higher profits. Although the domestic beef production will continue to grow in 2010, it will be at a slower rate than initially projected as farmers are expected to continue feeding their cattle as long as possible.

The smaller than expected increase in production in 2009 kept domestic beef prices high throughout the year. Although imported beef prices also climbed during this period, imported beef was still more affordable than domestic beef. In fact, a Hanwoo loin cut, which is one of the more popular cuts, was on average 1.8 times more than the same cut of imported beef in 2009.

This price difference combined with improved macroeconomic conditions has spurred increased demand for imported beef. More on the economic situation follows. Beef imports finished out the year higher than expected at 314,000 metric tons, with U.S. beef accounting for 83,000 metric tons, 26 percent of the total.

Meanwhile, the Korean press is reporting that beef imports were down by 12 percent in 2009. However, this press report is based on quarantine inspection numbers, which are lower because they do not account for the sizeable volume of U.S. product that passed quarantine inspection in late 2008, but was not presented for customs clearance until 2009.

Total consumption last year was 545,000 metric tons, of which about half was imported beef. The overall economic recovery during the last quarter of 2009 pushed both domestic and imported beef consumption higher than expected. Contrary to the conventional wisdom, Korea's annual GDP growth rate reached 0.2 percent. In the fourth quarter, though, GDP grew by a whopping 6 percent compared to the same quarter in 2008. The growth in this final quarter shows that the economy was on a solid track towards recovery.

Consumption of domestic beef continues its upward trend due to a variety of factors, including beef traceability, country-of-origin labeling in restaurants and butcher-shop style restaurants. According to the results of a KREI survey, which was released in January of this year, 70 percent of the respondents replied that they had eaten at a butcher shop style restaurant.

In December 2009, the US Meat Export Federation (USMEF) kicked-off a "Trust Campaign" to rebuild consumer confidence in U.S. beef. The campaign includes television and newspaper ads, and other promotional activities. This campaign combined with the aggressive marketing efforts of major hypermarkets has shown promising results. In fact, during a one week promotional event in January at

E-mart, the largest hypermarket in Korea, the share of U.S. beef sold jumped to 59 percent of all imported beef that was sold, compared to an average of 30 percent during 2009.

These continued promotional efforts will help push the demand for U.S. beef higher than previously expected in 2010. The import estimate for U.S. beef in 2010 has been raised to 110,000 metric tons. There is one factor, however, that could hinder potential growth in U.S. beef imports this year and that is the shortage of certain popular cuts, such as short ribs and loin meat, due to strong demand from other countries.

**Korea: Beef Imports** (\$000 and Metric Tons)

Country	Annual 2008		Annual 2009	
	Value	Volume	Value	Volume
Australia	611,381	136,265	437,869	129,940
New Zealand	140,978	38,099	80,172	32,681
United States	193,615	31,989	270,976	59,195
Mexico	14,467	4,320	4,243	2,145
Others	258	103	129	40
<b>Total</b>	<b>960,699</b>	<b>210,776</b>	<b>793,389</b>	<b>224,001</b>

Source: KOTIS

Product Weight Equivalent basis

Includes HS 0201 (fresh/chilled), HS 0202 (frozen), HS 021020 and 160250 (processed beef products)

**Beef Retail prices (2008 – 2009)**

Unit: Won per 500 gram

Month	Hanwoo beef Loin (Top grade)	Australian Beef Loin (Chilled)	Australian Beef Loin (Frozen)	Domestic Pork
Jan., 2008	32,407	18,150	6,600	6,868
Feb., 2008	31,881	19,532	6,649	6,813
Mar., 2008	31,897	18,776	6,258	6,641
Apr., 2008	31,737	18,702	5,885	7,368
May, 2008	29,968	18,776	6,100	8,458
Jun., 2008	29,482	18,989	6,152	9,747
Jul., 2008	29,669	20,152	6,267	9,483
Aug., 2008	31,716	20,887	6,267	9,699
Sep., 2008	32,007	21,745	6,267	9,514
Oct., 2008	32,184	22,897	6,267	8,896
Nov., 2008	31,822	23,884	6,295	8,644
Dec., 2008	31,871	23,972	6,300	8,651
Jan., 2009	32,614	22,106	6,300	8,533
Feb., 2009	32,109	20,484	6,263	8,503
Mar., 2009	32,434	20,345	6,167	9,041
Apr., 2009	31,732	20,233	6,167	10,064
May, 2009	33,354	19,735	6,167	8,991
Jun., 2009	33,754	14,960	6,167	9,146
Jul., 2009	34,497	17,781	6,167	9,461
Aug., 2009	35,620	18,389	6,167	9,831
Sept., 2009	36,685	18,836	6,250	9,565
Oct., 2009	38,181	21,386	6,333	8,944

Nov., 2009	38,393	20,967	6,333	8,444
Dec., 2009	37,902	18,511	6,333	8,704

Source: National Agricultural Cooperative Federation (Exchange rate: US\$1 = 1,150 won)

## Trade:

### Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle 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
Total Cattle Beg. Stks	2654	2654	2654	2876	2876	2876	3049	3079
Dairy Cows Beg. Stocks	258	258	310	251	251	303	250	304
Beef Cows Beg. Stocks	821	821	941	882	882	1023	890	1085
Production (Calf Crop)	996	996	996	1058	920	1023	1065	1031
Intra-EU Imports	0	0	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0
Total Supply	3650	3650	3650	3934	3796	3899	4114	4110
Intra EU Exports	0	0	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0
Cow Slaughter	353	353	353	400	400	381	420	416
Calf Slaughter	0	0	0	0	0	0	0	0
Other Slaughter	416	416	416	480	465	434	500	460
Total Slaughter	769	769	769	880	865	815	920	876
Loss	5	5	5	5	5	5	5	5
Ending Inventories	2876	2876	2876	3049	2926	3079	3189	3229
Total Distribution	3650	3650	3650	3934	3796	3899	4114	4110
CY Imp. from U.S.	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0

Meat, Beef and Veal 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
Slaughter (Reference)	769	769	769	880	865	815	920	876
Beginning Stocks	10	10	10	15	15	15	40	47
Production	246	246	246	288	283	267	298	287
Intra-EU Imports	0	0	0	0	0	0	0	0
Other Imports	295	295	295	290	260	314	295	310
Total Imports	295	295	295	290	260	314	295	310
Total Supply	551	551	551	593	558	596	633	644
Intra EU Exports	0	0	0	0	0	0	0	0
Other Exports	0	0	0	0	0	4	0	4
Total Exports	0	0	0	0	0	4	0	4
Human Dom. Consumption	536	536	536	553	523	545	598	600
Other Use, Losses	0	0	0	0	0	0	0	0
Total Dom. Consumption	536	536	536	553	523	545	598	600
Ending Stocks	15	15	15	40	35	47	35	40
Total Distribution	551	551	551	593	558	596	633	644

CY Imp. from U.S.	45	45	45	110	110	83	0	110
CY. Exp. to U.S.	0	0	0	0	0	0	0	0

## Commodities:

Select

## Production:

### Animal Numbers, Swine

Swine inventories were falling through most of 2009 because of high compound feed prices. In some cases, smaller sized operations temporarily stopped raising pigs. However, this trend reversed course as feed prices started to soften during the latter half of the year. In September, inventories started to expand as these growers returned to business. In fact, the number of swine farmers increased by 300 from June to December and finished the year at 8,000.

As these farmers returned, the total herd size increased more than half a million head from 8.18 million in June to 8.72 million at the end of 2009. This increase in inventory put some downward pressure on carcass prices during the last quarter. However, farmers kept expanding inventories since the drop in feed prices more than offset the decrease in the carcass price (chart below).

### Comparison of swine carcass and feed prices

Month	Carcass price			Swine feed price		
	2008	2009	Change	2008	2009	Change
	Won per Kilogram		Percent	Won per Kilogram		Percent
January	2841	4470	157%	427	630	148%
February	2824	4210	149%	438	625	143%
March	3239	5031	155%	454	624	137%
April	4109	4955	121%	477	611	128%
May	4512	4245	94%	506	588	116%
June	5004	4531	91%	506	574	113%
July	4558	4826	106%	535	578	108%
August	4929	4967	101%	550	574	104%
September	4444	4475	101%	571	553	97%
October	3629	3672	101%	579	543	94%
November	4529	4021	89%	594	538	91%
December	4472	4128	92%	608	545	90%
Total Average	4009	4449	111%	520	582	112%

The 2010 production estimate was raised to 15.1 million head in large part due to the higher than expected carry-over stocks. However, as the implementation of the Korea-EU FTA draws closer,

farmers will become more cautious about increasing production in the future. In addition, the prospects of higher feed prices and manure disposal costs will keep 2010 production and inventories in check.

In response to the H1N1 outbreaks in North America in April 2009, Korea banned live swine imports, including breeding stock, from North America. The ban was finally lifted after 6-months in October 2009. Several shipments of U.S. live swine have cleared inspection since the market was re-opened. Live swine imports are expected to double to 2,000 head in 2010 as farmers replenish their breeding stocks. The majority of these swine will be imported from the United States and Canada.

## Meat, Swine

Expanded swine inventories will push domestic pork production above the previous estimate to 1.1 million metric tons in 2010. But, as was mentioned earlier, pork production is projected to level-off as we get to closer to the implementation of the Korea-EU FTA.

Higher production was the main factor behind lower than expected imports last year to 383,000 metric tons. Detections of H1N1 and country of origin labeling requirements were also minor factors pushing imports down. Pork imports during 2010 have been lowered to 343,000 metric tons, down 100,000 tons from the previous estimate because of strong domestic production. The U.S. pork import estimate for 2010 was revised down to 100,000 metric tons.

The findings of H1N1 briefly caused pork consumption to decline in April 2009. According to a survey conducted by the Korea Rural Economic Institute (KREI) shortly after H1N1 was reported in Korea, roughly 43 percent of respondents indicated that they would reduce their pork consumption or stop eating pork.

In contrast, several cases of Foot and Mouth Disease (FMD) in January 2010 had very little impact on total pork sales. According to a survey done at Hanaro Mart, a local hypermarket chain, pork sales actually picked-up after the most recent FMD cases because consumers were informed about the safety of eating pork after the previous outbreaks in 2000 and 2002. The survey results follow.

**Changes in pork sale surrounding the FMD outbreak dates (Hanaro Mart)**

	December 15, 2009	January 7, 2010	January 15, 2010
	Prior to the outbreak of FMD	Date of the FMD outbreak	After the outbreak of FMD
Total Sales (Million won)	4,118.5	4,221.8	5,876.7

Source: Nonghyup Economic Research Institute

With that said, the 2010 pork consumption estimate is expected to remain largely unchanged at 1.5 million metric tons as the fear over H1N1 dissipates and the Korean economy continues to pick-up steam.



