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Report Highlights:

Korean milk consumption and production are forecast to slowly decline due to falling birthrates. Cheese is growing in popularity and 2020 cheese imports are forecast to reach a record 135,000 tons. Nonfat dry milk production and demand have stabilized following successful government efforts to reduce excess milk production and inventories.

Executive Summary:

Milk consumption and production are forecast to slowly decline due to falling birthrates. Demand for fresh milk is shrinking, while demand for milk-based beverages remains robust. Low-fat milk, organic milk and fortified milk have also performed well in the market.

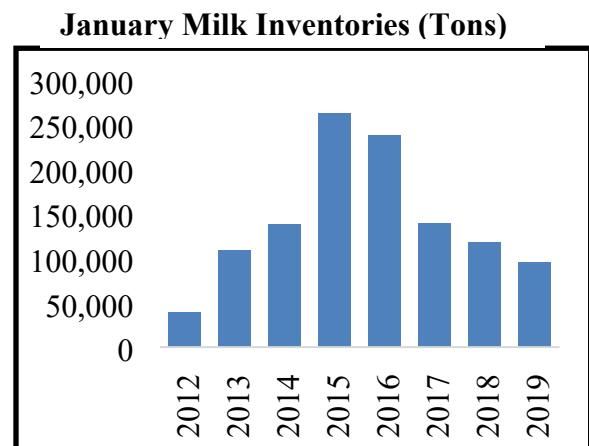
2020 cheese imports are forecast to reach a record 135,000 tons as cheese grows in popularity. Per capita cheese consumption has more than doubled over the past ten years. Cheese is a popular snack for both kids and adults. Mozzarella accounts for the majority of fresh cheese imports due to the continued popularity of pizza; it is used widely in the foodservice and food processing industries.

Nonfat dry milk (NFDM) production and demand have stabilized following successful government efforts to reduce excess milk production and inventories. Dairy processors, facing weak demand for fluid milk and infant formula, are introducing new milk powder products targeted at adults and seniors. This market segment is expected to gradually shrink over time.

Commodities: Dairy, Milk, Fluid

Production:

Domestic milk production is forecast to decrease 5,000 tons in 2020 to 2.03 million tons based on slowing demand and increased import competition from processed dairy products. 2019 fluid milk production was raised 5,000 MT to 2.035 million tons and 2018 fluid milk production was lowered 4,000 tons to 2.041 million tons based on statistics from Korea's Ministry of Agriculture, Food and Rural Affairs (MAFRA). The government has been working to address oversupply of raw milk in the market since 2014 with some success. Milk inventories fell below 100,000 tons in January 2019, down more than half from January 2015 when inventories peaked at 261,862 tons.



Source: MAFRA, Korea Dairy Industries Association

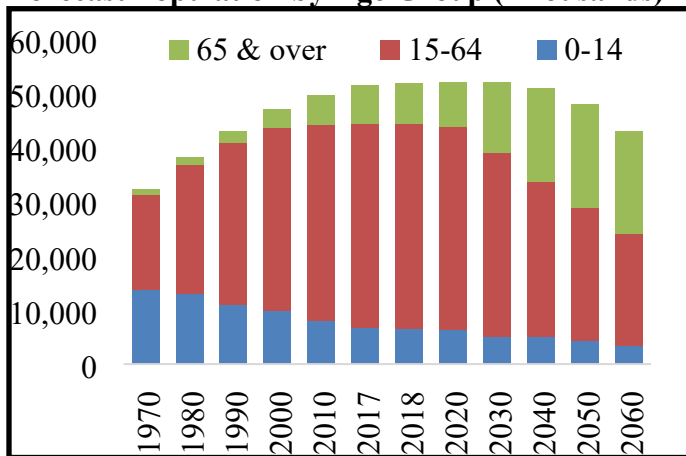
Consumption:

Domestic milk consumption is forecast to decline 5,000 tons to 2.03 million tons, continuing a multi-year downward trend. Estimated 2019 fluid milk consumption is raised 10,000 tons to 2.035 million tons as consumption continues to decline, but slowly. Fluid milk use is expected to recover slightly in coming years as domestic dairy companies are introducing more milk based beverages to the market. However, milk used for manufacturing is expected to continue to decline. Fresh domestic milk remains popular for direct consumption, but it is not price competitive for use in further processing. Only 23 percent of domestic milk went for factory use in 2018, a seven year low.

Low fertility rates are the primary force driving down milk consumption in Korea. In 2018 the fertility rate fell below one child per woman. The number of children (age 0 to 14) dropped from 9.91 million in 2000 to 6.54 million in 2018. Statistics Korea forecasts that the population of children of age 0 to 14 will drop to 3.45 million by 2060. Demand for fresh milk is expected to fall along with the drop in the number of children. Demand for processed milk in beverages targeting adults is expected to stay robust. As a result, sales of processed milk could exceed the sales of fresh milk in coming years.

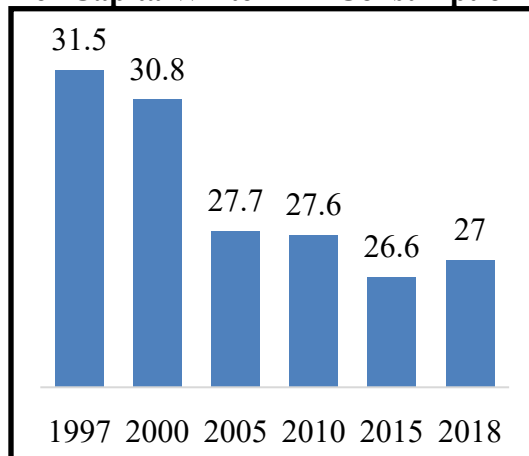
Consumers continue to seek out organic, antibiotic-free, and animal welfare approved milk products. The organic milk market is estimated to have reached 100 billion Korean Won (\$91 million) in 2018, up from only 5 billion Korean Won a decade before. Korean consumers are anxious about food safety issues and parents want to provide their children with the best products available.

Forecast Population by Age Group (Thousands)



Source: Statistics Korea

Per Capita White Milk Consumption (KG)



Source: MAFRA

Marketing:

Hypermarkets and supermarkets are the main distribution channels for fresh milk products. Fresh milk and flavored milk drinks are mainly sold in multipacks at hypermarkets and supermarkets, targeting families. Primary schools provide fresh milk at lower prices than retail channels. However, sales have dropped along with the falling birth rate. The share of fresh milk products sold through direct selling (home delivery) also declined, as fewer consumers drink milk on a daily basis. The share of fresh milk products sold at convenience stores and mixed retailers has increased.

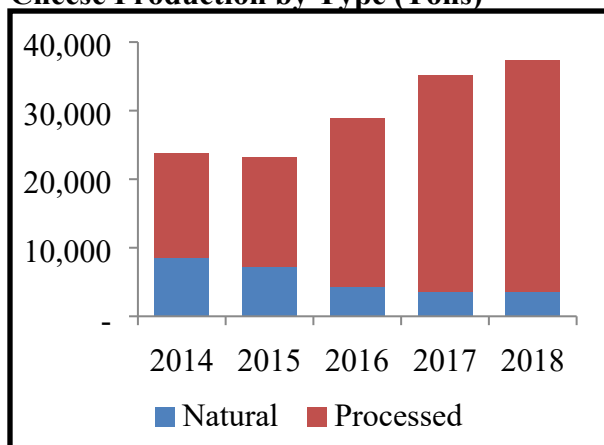
Commodities: Cheese

Production:

Domestic cheese production is forecast to increase to 43,000 tons in 2020 as processed cheese production continues to grow. Estimated 2019 cheese production is lowered to 40,000 tons and 2018 cheese production is lowered to 37,322 tons based on dairy statistics from MAFRA. Very little cheese is made with domestic milk due to its cost. The local raw milk price is 1,044 won/liter, more than three times the price of imported raw milk.

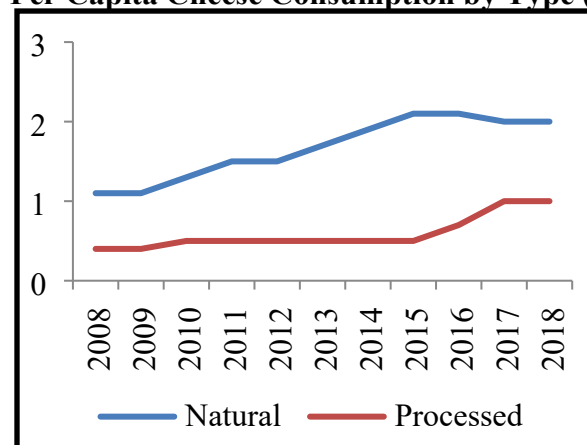
In contrast to fresh cheese production, processed cheese production has grown rapidly in recent years. Between 2014 and 2018 fresh cheese production dropped 59 percent while processed cheese production increased 122 percent. Domestic cheese manufacturers have been launching new products to boost sales. The Korean dairy sector is dominated by large companies due to high initial investment costs. Major dairy companies include Seoul Dairy Cooperative, Maeil Dairies, Namyang Dairy Products, and Dongwon F&B.

Cheese Production by Type (Tons)



Source: MAFRA

Per Capita Cheese Consumption by Type (kg)



Source: Korea Dairy Industries Association

Consumption:

Cheese consumption is forecast to increase 6.6 percent in 2020 to 178,000 tons. Per capita cheese consumption has doubled over the last ten years. Consumer tastes are becoming more westernized and more product using cheese are being introduced to the market. As a result, cheese consumption is expected to continue to increase both for direct consumption and in the food processing industry. Estimated 2019 cheese consumption is lowered 2,000 tons to 167,000 tons and 2018 cheese consumption is lowered 11,000 tons to 155,000 tons based on dairy statistics from MAFRA.

Cheese has become a popular snack for both kids and adults. Cheese is considered a nutritious snack for kids in Korea, and per capita cheese consumption is the highest among toddlers (age 1-2). Manufacturers are launching products targeted at kids. Cubed and portion cheese products are also a popular snack amongst adults to consume with alcohol. Soft cheese, ricotta, brie and cheese that can be

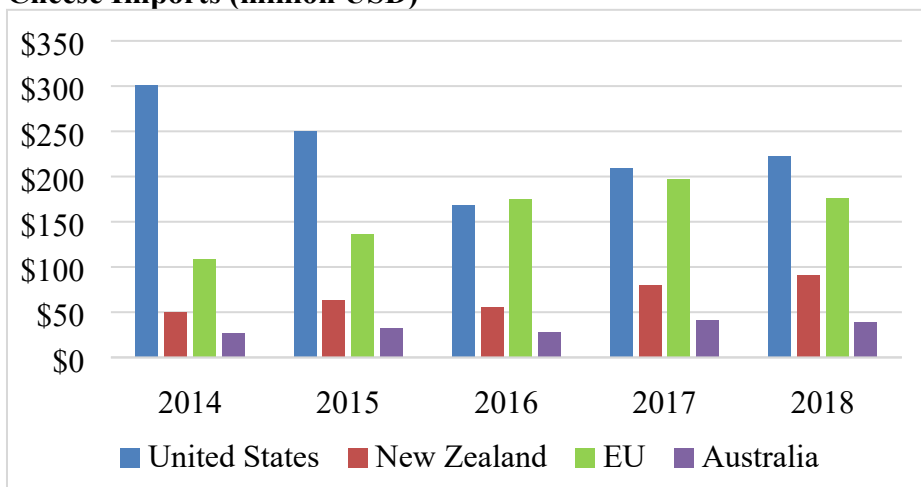
grilled have also increased in popularity. Mozzarella cheese is widely consumed due to the continued popularity of pizzas.

Cheese is also commonly used in the food processing industry and in prepared foods. Packaged prepared meals are increasingly being sold in convenience stores, bakery stores, hypermarkets and coffee shops, either for take out or eat in. Food processors are launching hot and spicy packaged convenience food products with cheese ingredients.

Trade:

Cheese imports are forecast to grow 3,000 tons in 2020 to reach 135,000 tons based on continued consumption growth and limited domestic production. Estimated 2019 cheese imports are raised 2,000 tons to 132,000 tons on import trends. In 2018 the top cheese exporters to Korea by value were the United States (42%), European Union (33%), New Zealand (17%), and Australia (7%). Korea has free trade agreements with all of these countries, causing the price of imported cheese to drop in the market.

Cheese Imports (million USD)



Source: Korea Customs Office, HS 0406, Cheese and Curd

Tariff reductions and tariff rate quota (TRQ) increases under the U.S.-Korea Free Trade Agreement (KORUS FTA) have helped boost U.S. cheese exports. Korea imported 53,359 tons (\$222.8 million) of cheese from the United States in 2018. However, the market is highly competitive. The European Union signed a free trade Agreement with Korea in 2011 before the KORUS FTA was implemented in 2012, giving it an advantage in the market. In addition, Korea became a target export market for the European Union after Russia put restrictions on European agricultural imports. Korea implemented FTAs with New Zealand and Australia in 2016, resulting in more cheese imports from these countries as well.

The KORUS FTA created a zero-duty tariff-rate quota for cheeses covered under tariff lines 0406101000, 0406200000, 0406300000 and 0406900000. The in-quota amount was 8,609 tons in

2019. All U.S. cheese will enter duty-free by 2026. The Korea Dairy Industries Association administers the TRQs and allocates the in-quota quantity to historical and new importers through a licensing system.

Cheese Tariff Phase-Out Schedule under KORUS FTA

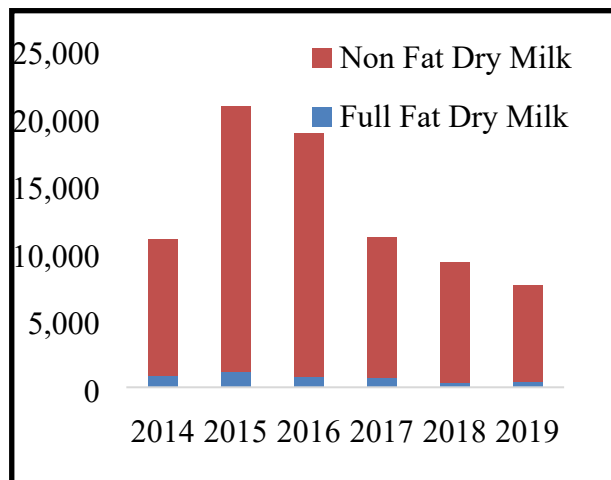
HS Code	Description	Base Rate	2012	2013	2014	2015	2016	2017	2018	2019
0406101000	Fresh Cheese	36%	33.6%	31.2%	28.8%	26.4%	24.0%	21.6%	19.2%	16.8%
0406102000	Curd	36%	32.4%	28.8%	25.2%	21.6%	22.8%	19.2%	15.6%	7.2%
0406200000	Grated or powdered cheese of all kinds	36%	33.6%	31.2%	28.8%	26.4%	24.0%	21.6%	19.2%	16.8%
0406300000	Processed cheese, not grated or powdered	36%	33.6%	31.2%	28.8%	26.4%	24.0%	21.6%	19.2%	16.8%
0406400000	Blue-veined cheese	36%	32.4%	29.0%	25.4%	21.8%	18.2%	19.2%	15.6%	7.2%
0406900000	Cheese, NES, including cheddar**	36%	33.6%	31.2%	28.8%	26.4%	24.0%	21.6%	19.2%	16.8%
	TRQ Volume (MT)		7,000	7,210	7,426	7,649	7,878	8,115	8,358	8,609

Commodities: Milk, Nonfat Dry

Production:

Local nonfat dry milk (NFDM) production is forecast to remain flat at 8,000 tons in 2020. The government implemented a policy to increase milk production in 2010 after 30,000 milk cows were slaughtered due to the outbreak of foot and mouth disease. The policy resulted in excess milk production in 2014 and 2015. The excess milk was turned into NFDM, and NFDM stocks increased from 7,053 tons in 2013 to 17,532 tons in 2014. The government has sought to manage milk production and decrease NFDM stocks since 2014. As a result, NFDM production is expected to gradually decrease over the next several years. The industry is targeting 5,000 to 6,000 tons as a normal range for inventories.

January Dry Powder Milk Inventories (Tons)



Source: Korea Dairy Industries Association

Consumption:

Domestic consumption is forecast to stay flat at 31,000 tons in 2020. Estimated 2019 NFDM consumption is lowered 5,000 tons to 31,000 tons based on Dairy Statistics published by MAFRA. Lower demand for infant formula is driving down demand for NFDM. NFDM is primarily used in baked goods, infant formula, and as an ingredient in other dairy products.

Dairy product manufacturers, facing weak fluid milk demand, are working to diversify their business portfolio. Processors are looking to target the adult and senior powdered milk market. Maeil Dairies recently launched a brand for nutritional meals for adults called ‘Selects,’ and launched a powdered milk product for adults called ‘Core Protein.’ Namyang is planning to launch a powdered milk product for adults in a near future, and Lotte Food and Ildong Food also have plans to launch such products.

Trade:

NFDM imports are forecast to remain flat in 2020 at 23,000 tons. 2019 imports are lowered to 23,000 tons based on Korea Customs Office trade data. 2019 NFDM exports are raised to 1,000 tons based on year-to-date trade statistics. Korea is forecast to export a similar amount in 2020.

NFDM Tariff and TRQ Schedule on Korea-USFTA Implementation

HS Code	Description	Base Rate	2012	2013	2014	2015	2016	2017	2018	2019
040210	In powder, fat content not exceeding 1.5%	176%	176%	176%	176%	176%	176%	176%	176%	176%
	Duty free quota (MT)*		5,000	5,150	5,304	5,463	5,628	5,797	5,971	6,150

* Additional compound increase of 3% every year

The TRQ is allocated through a Imports Rights Auction (IRA). The quasi-government Korea Agro Fisheries & Food Trade Corporation (also known as the “aT Center”) manages these auctions. The Korea Customs Service reimburses the 176 percent out-of-quota tariff to importers when they have re-exported processed dairy-based products made from imported NFDM. Korean dairy manufacturing companies are looking forward to expanding market opportunities for exporting to China. Local food processors import NFDM for processing into infant formula, bakery use, and re-export.

Dairy, Milk, Fluid	2018	2019	2020
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Market Begin Year Korea, Republic of	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	205	205	200	204	0	203
Cows Milk Production	2045	2041	2030	2035	0	2030
Other Milk Production	0	0	0	0	0	0
Total Production	2045	2041	2030	2035	0	2030
Other Imports	4	4	4	10	0	11
Total Imports	4	4	4	10	0	11
Total Supply	2049	2045	2034	2045	0	2041
Other Exports	8	9	9	10	0	11
Total Exports	8	9	9	10	0	11
Fluid Use Dom. Consum.	1575	1571	1580	1575	0	1580
Factory Use Consum.	466	470	445	460	0	450
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	2041	2041	2025	2035	0	2030
Total Distribution	2049	2050	2034	2045	0	2041
(1000 HEAD) ,(1000 MT)						

Dairy, Cheese Market Begin Year Korea, Republic of	2018 Jan 2018		2019 Jan 2019		2020 Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2	2	3	8	0	13
Production	43	37	45	40	0	43
Other Imports	124	124	130	132	0	135
Total Imports	124	124	130	132	0	135
Total Supply	169	163	178	180	0	191
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	166	155	169	167	0	178
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	166	155	169	167	0	178
Total Use	166	155	169	167	0	178
Ending Stocks	3	8	9	13	0	13
Total Distribution	169	163	178	180	0	191
(1000 MT)						

Dairy, Milk, Nonfat Dry Market Begin Year Korea, Republic of	2018 Jan 2018		2019 Jan 2019		2020 Jan 2020	
	USDA	New Post	USDA	New Post	USDA	New Post

	Official		Official		Official	
Beginning Stocks	10	10	7	8	0	7
Production	8	8	8	8	0	8
Other Imports	25	25	27	23	0	23
Total Imports	25	25	27	23	0	23
Total Supply	43	43	42	39	0	38
Other Exports	0	0	0	1	0	1
Total Exports	0	0	0	1	0	1
Human Dom. Consumption	36	35	36	31	0	31
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	36	35	36	31	0	31
Total Use	36	35	36	32	0	32
Ending Stocks	7	8	6	7	0	6
Total Distribution	43	43	42	39	0	39
(1000 MT)						

Korea's Key Dairy Product Import (Metric Ton)

	2014		2015		2016		2017		2018	
	U.S.	Total	U.S.	Total	U.S.	Total	U.S.	Total	U.S.	Total
Cheese HS 0406	63,800	97,200	54,821	111,522	39,966	109,621	49,012	125,002	53,359	123,850
NFDM HS 0402.10	7,700	21,100	5,660	21,260	5,882	20,610	7,473	23,187	8,061	24,775
WFDM HS 0402.21	300	2,100	39	2,035	235	3,498	292	4,625	157	5,282
Mixed Milk HS 0404.90	1,741	38,093	1,059	31,127	660	38,394	781	46,957	833	61,227
HS 1901.90.20	495	28,370	5	22,649	43	28,429	737	34,917	4	
	1,246	9,723	1,054	8,476	617	9,965	44	12,040	829	
Butter HS 0405.10	1,187	3,523	1,135	3,412	537	5,189	624	5,119	976	6,807
Whey Powder HS 0404.10	12,700	31,400	15,073	34,419	12,271	35,444	11,658	33,728	15,102	34,633
Ice Cream HS 2105	1,200	5,400	1,104	5,661	1,146	6,308	1,332	7,409	1,477	7,917
Total	88,628 (45%)	198,816	78,913 (38%)	209,413	60,697 (28%)	215,981	71,172 (29%)	246,027	79,965 (30%)	264,492

Attachments:

No Attachments