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GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 10/31/2013

GAIN Report Number: KS1347

Korea - Republic of

Dairy and Products Annual

Dairy Update - ATO Seoul

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Report Highlights:

In 2012, retail sales of cheese reached a recorded to \$404.7 million, which was an 11 percent increase from 2011. The United States was the largest dairy exporting country with 31 percent market share, followed by New Zealand with 18 percent, the EU with 14 percent and Australia with 10 percent. In milk, consumers tend to purchase premium products like organic milk for their children more than they do for themselves. With concerns over foot-and-mouth disease, local consumers tended to purchase premium drinking milk products for their babies and children. Adult milk continues to contribute bigger sales with 87% value share posted in 2012 as the majority of milk is for general consumption. Whey protein demands are supported by body builder, extreme athletes, everyday active consumers and weight watchers. Whey/dairy proteins are considered as a key ingredient for satiety-promoting products. In 2012, current value sales of fluid, spoonable yoghurt and sour milk product increased by 9% to reach \$2.3 Billion. There should be more opportunities for imported products due to price competitiveness between local produced and imported NFDM. Free Trade Agreements are expected to expand market share for cheese and non fat dry milk for the US and EU.

Executive Summary:

- In milk, adult milk continues to contribute bigger sales with 87% value share posted in 2012 as the majority of milk is for general consumption. Also, value-added products for pregnant women were also growing quickly. Consumers tend to purchase premium products like organic milk for their children more than they do for themselves. With concerns over foot-and-mouth disease, local consumers tended to purchase premium fluid milk products for their babies and children. As a result, the value share of children's fluid milk has been growing in Korea. Due to higher unit prices of such products, children's fluid milk portion of value sales is expected to increase by one percentage point to 13% in 2012.
- The product driving the cheese category is mozzarella, which is frequently used in European full-service restaurants and pizza fast food outlets. Unprocessed cheese will drive the market with 17% current value growth in 2012, although unprocessed cheese accounts for only 32% of total cheese value sales. Current value sales of cheese are estimated to grow by 11% in to reach \$404.7 million in 2012. Local consumers became familiar with various types of cheeses as more people experienced foreign foods. Unprocessed soft cheese including mozzarella showed strong appeal for adult consumers as a snack or dessert in South Korea. Especially the foodservice volume of unprocessed soft cheese again, showed good performance, up by 10% in 2012 after 12% current value growth in 2010 and 11% growth in 2011.
- Whey is a co-product of cheese and contains lactose, protein, vitamins and minerals which are 50% of the nutrient of the original milk. Diverse whey protein usage across categories such as sports & energy bar, cereals, desserts & ice cream, baby food, bakery, and soft drinks are being introduced to the market. Whey/dairy proteins are considered as a key ingredient for satiety-promoting products and aid to reduce risk for many adult diseases such as bone health, obesity, diabetes and heart diseases as the health benefits. Demands for whey protein are prompted by body builders, extreme athletes, everyday active consumers and weight watchers.
- NFDM is used primarily for bakeries, infant formula and as an ingredient in other dairy products. There should be more opportunities for imported products due to the price competitiveness between local produced and imported NFDM. In 2012, NFDM consumption amounted to 27,120 MT decreased by 28 percent compared to year 2011. Inventory of NFDM and amount of duty free NFDM imports did not cause concern in the local markets. Since NFDM production is largely a result of marketing quota policies, consumption is expected to continue to track closely with production.
- In 2012, the current sales value of yoghurt and sour milk product increased by 9% to reach \$2.3 billion as both drinking yoghurt and spoonable yoghurt as healthy desserts in Korea. Drinking yoghurt accounts for 70% of total drinking yoghurt sales due to a long-held local belief it is good for digestive health. Drinking yoghurt is set to drive this market segment with 11% growth in value for 2012. With its popular brands, Yakult Korea is expected to maintain its lead in the market with a 49% value share in 2012.

Table 1: Raw Milk Supply & Demand Prospects for 2013-2022

Unit: 1,000 MT

		2012	PROSPECTS		
			2013	2017	2022
Supply	Inventory from Previous Year	18	109	171	198
	Production	2,110	1939	1903	1846
	Import	1,414	1,679	1757	1,852
	Total	3,616	3726	3832	3,895
Demand	Consumption	3,452	3,582	3652	3,398
	Inventory	92	144	180	201

	Total	3,544	3,726	3832	3,895
Precipitate Consumption(Kg)		67.2	(+2.7%)71.1	(+1.5%)72.2	(+1.4%)73.2

Source: Agriculture Outlook 2012 / Korea Rural Economy Institute & Korea Dairy Committee 2013

Table 2: Dairy Products Import by Year and by Product

		2008	2009	2010	2011	2012
Total Imports	Import Volume(MT)	165,000	176,000	207,000	281,000	247,000
	Value (\$1,000)	673,000	501,000	682,000	1,120,000	924,000
	Unit Price(\$/Kg)	4.1	2.8	3.3	4.0	3.7
Cheese	Import Volume(MT)	47,400	49,000	61,000	76,000	77,500
	Value (\$1,000)	239,000	190,000	259,000	357,000	360,000
	Unit Price(\$/Kg)	5.0	3.9	4.2	4.7	4.65
Mixed Milk	Import Volume(MT)	26,000	26,000	31,600	36,000	27,500
	Value (\$1,000)	107,000	70,000	91,000	123,000	91,000
	Unit Price(\$/Kg)	4.1	2.7	2.9	3.4	3.3
Whey	Import Volume(MT)	32,000	32,200	37,600	30,000	18,000
	Value (\$1,000)	38,000	29,000	41,000	43,000	35,000
	Unit Price(\$/Kg)	1.2	0.9	1.1	1.4	1.94
Butter	Import Volume(MT)	3,100	5,100	6,400	8,600	7,400
	Value (\$1,000)	13,300	13,300	24,400	41,700	31,000
	Unit Price(\$/Kg)	4.0	2.5	3.5	4.6	4.2
NFDM	Import Volume(MT)	5,000	9,700	7,900	33,500	18,800
	Value (\$1,000)	20,000	23,200	24,500	123,600	61,600
	Unit Price(\$/Kg)	4.0	2.4	3.1	3.7	3.28

Source: Korea Customs Office 2013

In 2012, most of dairy product imports into Korea decreased compared to 2011. Due to a Foot-and-Mouth Disease (FMD) outbreak in November 2011, the Korean government expanded importation of dairy products to supply the demand for milk. Zero-duty TRQ's were opened from January 1- June 30 for dried milk – 10,050MT, dairy spread – 13,900MT, and fresh cheese (mozzarella and other fresh cheese among others) – 7,000MT by Korean government issue. As a result, of the year 2011 not being an ordinary year, dairy product imports jumped 36 percent over 2010.

Table 3: Dairy Product Import by Country

Unit: 1,000 MT

	U.S.		New Zealand		Netherlands		Australia		Germany		Total	
	Import Volume (1,000)	Share	Import Volume	Share	Import Volume	Share	Import Volume	Share	Import Volume	Share	Import Volume	Share
2007	42,100	(23%)	28,600	(16%)	21,500	(12%)	25,900	(14%)	5,600	(3%)	184,000	(100%)
2008	40,000	(24%)	31,100	(19%)	23,100	(14%)	21,600	(13%)	5,700	(3.4%)	165,000	(100%)
2009	36,300	(21%)	34,500	(20%)	20,100	(11%)	31,300	(18%)	6,900	(4%)	176,200	(100%)
2010	55,000	(26%)	39,400	(19%)	28,600	(14%)	28,600	(14%)	5,800	(3%)	207,000	(100%)
2011	72,800	(26%)	53,300	(19%)	34,500	(12%)	32,400	(12%)	20,500	(7%)	280,500	(100%)
2012	55,700 (Value \$145 Mil)	(31%)	31,800 (Value \$128 Mil)	(18%)	16,800 (Value \$57 Mil)	(9%)	17,800 (Value \$68 Mil)	(10%)	12,200 (Value \$145 Mil)	(7%)	181,300 (Value \$627Mil)	(100%)

Source: Korea Customs Office 2013

Commodities:

Dairy, Milk, Fluid

Production:

- In 2012, Korean raw milk production was 2.11 million metric tons (MMT), increased by 11.7 percent compared to a previous year. Also, the number of milking cows increased by 12 percent. Since November 2010 however, dairy products in Korea, including fluid milk products, have suffered as a result of FMD that occurred amongst cows, pigs, and ox. Milk produced within 3km of farms where evidence of the disease appeared was disposed of. In 2012, even though the milk production was increased, manufacturers of fluid milk products had still had to increase their unit prices. This occurred due to production costs increasing during a slow economy along with an increase in labor and feed costs combined with a decrease in raw materials. As a result, value sales of fluid milk products increased by 8 percent in 2011. As manufacturers are increasing their unit prices again, sales values have risen again in 2012.
- Fluid milk consumption was 75 percent of total raw milk production while the remaining 25 percent was marketed for processing.

Table 4: Domestic Milk Production & Number of Cows in Milk

	2007	2008	2009	2010	2011	2012
Milking Cows (1,000 Heads)	216	209	208	204	191	209
Milk Production (1,000 MT)	2,188	2,139	2,110	2,073	1,889	2,111

Source: Korea Dairy Committee 2013

Table 5: Raising Cost of Dairy Cow per Head (Unit: US\$)

	2007	2008	2009	2010	2011	2012
Total Raising Cost	4,500	5,200	5,500	5,600	6,200	6,900
Feed Cost	2,500	3,100	3,400	3,300	3,700	3,900

Source: Korea Dairy Committee 2013

Consumption:

- Fluid milk products posted a 5% increase in current value sales to reach over \$3.8 billion in 2012 despite a scare from foot-and-mouth disease in 2011. Since November 2010, dairy products have suffered as a result of foot-and-mouth disease. The Korean government expanded importation of powder milk from foreign countries to supply the demand for milk. As manufacturers are increasing their unit price again, value sales have risen again in 2012. Cow's milk products also recorded 4% current value growth due to unit price increases, and mainly led by premium products such as organic milk for their babies and children. In milk, adult milk continues to contribute bigger sales with 87% value share set to be posted in 2012 as the majority of milk is for general consumption. Local consumers have a more positive view of domestic farm products in Korea. Thus, market players also frequently emphasize the origin of their raw milk to show they got it from domestic cows and used domestic beans for soy milk products.
- In a situation in which the milk supply was insufficient, manufacturers tended to promote more flavoured milk drinks that require less quality and quantity of milk than white milk. Coffee-flavoured milk drinks highly led the flavoured milk market in 2011, based on industry sources. In Korea, consumers enjoy drinking coffee and coffee

flavours of food and beverages have shown fast growth in recent years. When comparing flavoured milk drinks and milk, the former is showing higher current value growth than milk products and is recorded a growth of 6% in 2012.

- In milk, adult milk continues to contribute bigger sales with 87% value share set to be posted in 2012 as the majority of milk is for general consumption. Also, value-added products for pregnant women were also growing quickly. Consumers tend to purchase premium products like organic milk for their children more than they do for themselves. With concerns over foot-and-mouth disease, local consumers tended to purchase premium fluid milk products for their babies and children. Nonetheless, the value share of children's fluid milk grew in the coming years in Korea. Due to higher unit prices of such products, children's fluid milk portion of value sales is expected to increase by one percentage point to 13% in 2012.
- The chilled flavoured is set to account for 97% of volume sales in 2012, with a slight increase in volume share compared to 2011. Chilled flavoured milk drinks still have higher volume share than ambient flavoured milk drinks in Korea.
- Drinking yoghurt attracts consumers looking for an alternative to fluid milk products due to highly increased unit prices seen during the foot-and-mouth disease period. To cater to the demand, manufacturers also introduced new drinking yoghurt in 2011. As such, fluid milk products is expected to face higher competition with other dairy products between 2012 and 2017. Fluid milk products is likely to compete with drinking yoghurt in local market over the coming years. Moreover, benefits of drinking yoghurt – including promoting health of the digestive system – also make consumers consider switching from fluid milk products..
- Soy milk products achieved high growth as one of alternatives to cow's milk products and recorded the fastest growth in 2012. Although the supply of cow's milk later returned to normal, demand for soy milk products is following the wellbeing trend and resulting in double-digit growth of 10% in 2012. The main reason was shifting consumption from cow's milk products since foot-and-mouth disease occurred at the end of 2010.
- Due to that trend, long-life/UHT milk products are mostly consumed in the foodservice sector and by relatively few more consumers in retail. Although market players tried to promote the long-lasting benefit of such products, local consumers still preferred fresh/pasteurized milk. They were very familiar with chilled milk products and did not value the longevity of what they viewed as a product used daily. In milk, long-life/UHT milk declined by 3% in 2012.

Table 6: Korea Raw Milk Supply & Demand

Unit: 1,000 Metric Ton

		2007	2008	2009	2010	2011	2012
Supply	Beginning Inventory	53	107	96	55	13	18
	Production	2,188	2,139	2,110	2,073	1,888	2,110
	Import	968	885	959	1,135	1,620	1,414
	Total	3,209	3,131	3,166	3,263	3,521	3,616
Demand	Consumption	3,101	3,035	3,111	3,249	3,485	3,452
	Ending Inventory	107	96	55	13	36	92
	Total	3,209	3,131	3,166	3,263	3,521	3,544
Per Capita Consumption (Kilo Gram)		63.0	61.3	62.3	62.8	69.4	67.2

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA) / 2012 Dairy Statistics Yearbook by Korea Dairy Committee (KDC)

Table 7: Domestic Raw Milk Usage Unit: 1,000 MT

Milk	2006	2007	2008	2009	2010	2011	2012
Drinking Use	1,555	1,582	1,583	1,569	1,541	1,483	1,578(75%)
Processed Use	621	606	556	540	532	406	533(25%)
Total	2,176	2,188	2,139	2,110	2,073	1,889	2,111(100%)

Source: Ministry of Food & Agriculture Fisher Forestry (MIFAFF) /
2012 Agriculture Outlook by Korea Rural Economy Institute (KREI)

Table 8: Korea's Key Dairy Product Imports Unit: Metric Tons

Products(HS Code)	2009		2010		2011		2012	
	U.S.	Total	U.S.	Total	U.S.	Total	U.S.	Total
Cheese(0406)	9,100	49,000	18,500	61,000	32,400	76,200	31,900	77,500
NFDM (0402.10)	100	9,600	650	7,900	900	33,500	1900	18,800
Whole Fat DM (0402.21)	0	1,200	0	1,400	0	5,300	0	1,600
Mixed Milk (0404.90 & 1901.90.2000)	910	26,000	440	31,600	1,300	36,000	961	26,669
Butter (0405.10)	80	2,100	66	3,000	900	4,800	1,200	4,260
Whey Powder (0404.10)	15,800	32,200	16,000	37,600	12,900	30,400	20,200	42,450
Ice Cream (2105)	520	2,010	632	2,600	840	3,600	920	4,100
TOTAL	36,300 (21%)	176,200	54,700 (26%)	207,000	72,800 (26%)	280,500	57,081 (33%)	175,379

Source: 2013 Korea Customs Office

Marketing:

- In the coming years overall, categories in fluid milk products will show positive growth, largely led by premium products. However, long-life/UHT milk is expected to see decline, posting a 6% decline in sales due to limited demand for this type of fluid milk in Korea. The sales value of fluid milk products are expected to increase at about 3% over the coming years.
- Binggrae's Banana Flavored Milk has been loved by consumers due to its unique flavor and packaging. In flavored milk drinks, Binggrae still showed the greatest performance with a 29% value share in 2012. Seoul Dairy Cooperative ranked first with a 37% value share in 2011 and recorded a slightly lower sales value share of 36% in 2012. The company will especially show a strong presence in milk sales with a 47% value share in 2012. Maeil Dairies ranks third in fluid milk products, having increased its sales value share to 16% in 2011 and expected to slightly increase its value share again in 2012. The company focuses on premium milk products, especially on organic milk.
- The unit price of organic milk by Maeil Dairies ranges from \$5.50 to \$7.20 (Won5,867 to Won7,467) per litre. Although the sales of premium brands is increasing, standard brands still have the highest share in the market. Economy brands including private label brands, however, did not have significant shares in Korea, as consumers are still hesitant to purchase economy brands for products that should be fresh. The unit price in the market for cow's milk is less than \$3 (Won3,000)per litre based on industry surveyed data in 2012.

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 9: Production, Supply and Demand Data Statistics:

PSD TABLE for Fluid Milk

Dairy, Milk, Fluid Korea, Republic of	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows Milk Inventory	194	209	196	213		217
Cows Milk Production	1,915	2,111	1,934	2,153		2,196
Other Milk Production	0	0	0	0		0
Total Production	1,915	2,111	1,934	2,153		2,196
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	1,915	2,111	1,934	2,153		2,196
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	1,532	1,578	1,547	1,615		1,647
Factory Use Consum.	383	533	387	538		549
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	1,915	2,111	1,934	2,153		2,196
Total Distribution	1,915	2,111	1,934	2,153		2,196

1000 HEAD, 1000 MT

Source: Korea Dairy Committee 2013

Commodities:

Dairy, Cheese

Select

Production:

- In 2012, Korea produced 22,420 MT of cheese, decrease of 9 percent from 2011. Fresh cheese was produced 4,420 increase of 23 percent and processed cheese accounted for the remaining 18,000 MT, decrease of 15 percent. Import was increased to 71,500 MT by 2 percent and made 17 percent lower consumption than a previous year. U.S. market share was 41 percent for 31,877 MT out of total imports. In 2012, the production cost of dairy products jumped up by the increase of raw milk price, slow economy, increase the labor cost which led to decrease the production of domestic raw cheese products and domestic consumption. Most major cheese manufacturers produce several unprocessed soft cheeses to have as a dessert along with wine. Manufacturers are trying to introduce new format soft cheese slice format that is convenient for children and which has a squeezable format to use in cooking or as a salad dressing.

Table 10: Cheese Production, Import & Consumption

Unit: Metric Ton

		2008	2009	2010	2011	2012
Production	Fresh Cheese	9,700	7,700	7,900	3,600	4,420
	Processed Cheese	15,300	15,500	19,500	21,100	18,000
	Import (Fresh Cheese)	43,700	44,800	56,100	70,400	71,500
	Import(Processed)	3,700	4,300	4,900	5,800	6,000
	Total	72,400	72,200	88,400	100,900	99,920
Consumption	Fresh Cheese	53,000	51,800	64,300	64,000	64,400
	Processed Cheese	19,000	20,000	24,300	24,900	18,400
	Export (Fresh Cheese)	91	57	35	61	95
	Export(Processed)	19	74	47	16	5
	Total	72,060	71,600	88,700	99,600	82,900

Source: MAFRA, Korea Dairy Committee 2013

Consumption:

- Local consumers became familiar with various types of cheeses as more people experienced foreign foods. The driving cheese product is mozzarella, which is frequently used in European full-service restaurants and pizza fast food outlets. Unprocessed cheese will drive the market with 17% current value growth in 2012, although unprocessed cheese accounts for only 32% of total cheese value sales. Especially the foodservice volume of unprocessed soft cheese again showed good performance, up by 10% in 2012 after 12% current value growth in 2010 and 11% growth in 2011. Current value sales of cheese increased by 11% to reach \$404.7 million in 2012. Unprocessed soft cheese including mozzarella as a representative showed strong appeal for adult consumers as a snack or dessert in Korea.
- Korean processed cheese mainly targets children as a healthy snack. Manufacturers emphasize their fortified ingredients when advertising processed cheese for children. It still has potential to grow due to premiumisation in cheese products for children, the market is recorded to see positive growth of 8% in 2012. Mozzarella will continue to be the most popular type in unprocessed cheese with a 60% value share in 2012, followed by Cheddar with a 23% value share in Korea. Mozzarella is considered easy to try, even for beginners who do not much enjoy cheese due to not liking a strong taste. Meanwhile, the popularity of other cheese including Cheddar and Camembert continues increasing in Korea. Also, mozzarella is more easily used for cooking dishes than other cheese. The slices cheese is the most common type of processed in Korea.
- Premiumisation has been more highlighted in cheese products for children. With additional calcium and DHA, such products are sold at a much higher price than other cheese products. The average unit price is also seeing positive growth. It rose by 6% in 2011 and is posted a 4% increase in 2012. Major players have tried to boost their value sales by introducing new products at higher unit prices. Even in adult cheese, the unit price is increasing, driven by organic cheese and imported cheese.

Marketing:

- The leading players, Seoul Dairy Cooperative, Maeil Dairies, Namyang Dairy Products, and Dongwon Dairy Food, dominate the market and will account for an 88% value share in 2012. Seoul Dairy Cooperative maintained its first position in cheese market with a 41% value share in 2012. Maeil Dairies will rank second with a 22% value share in cheese, and its brand Sangha is expected to record the highest value share gain, increasing to 21% in 2012. The international company Kraft has a presence in the market, but its value share at 3% is much smaller than that of the domestic players. The top four companies in cheese are domestic players in Korea.
- Constant value sales of cheese are expected to grow at an average annual growth of 5% in near coming years. Cheese consumption is increasing due to changes in food consumption with more Koreans having experienced foreign culture and wanting to enjoy different kinds of international cuisine. Expected growth of wine consumption will also support a positive prospect for cheese consumption in the near future.

- Though processed cheese is considered to be stagnated, market players are likely to boost its value sales by promoting premium products. While constant value sales of unprocessed cheese will see the fastest growth at about 10% in the near future, processed cheese is also expected to do perform well with a constant value of 3% during the same period. Processed cheese products for children are predicted to continually become premium as local consumers are willing to pay more for children's snacks. Thus, the average constant unit price is projected to be increasing over the coming years. New product development is expected to be active in cheese products for cooking. To cater to the demand, manufacturers are predicted to expand the product positioning of cheese from being a snack to being a cooking ingredient in the coming years. As Western dishes become familiar in Korea, consumers will start to get interested in using cheese for dishes.

Table 11: Korean Imports of Cheese:

Country	2010		2011		2012	
	\$1,000	MT	\$1,000	MT	\$1,000	MT
World	258,749	60,971	357,918	76,222	359,718	77,500
United States	75,935	18,518	140,233	32,473	140,596	31,877
New Zealand	77,755	19,306	93,833	20,583	100,858	23,908
EU	38,525	6,056	65,980	10,619	65,704	10,618
Australia	34,829	8,636	33,285	7,446	33,320	7,483
Switzerland	5,920	1,227	7,174	1,244	0	0
Uruguay	14,616	4,185	6,258	1,400	0	0
Chile	700	174	5,937	1,270	4,597	969
Others	10,470	2,869	5,217	1,187	14,643	2,645

Source: Korea Customs Office 2013, HS 0406, Cheese and Curd

Table 12: Cheese Tariff Phase-Out Schedule under KORUS FTA:

The KOR-US FTA creates a zero-duty tariff-rate quota for cheeses covered under tariff lines 0406101000, 0406200000, 0406300000 and 0406900000. In the first year the in-quota amount is 7,000 MT and rises to 10,280 MT in year 2014. All U.S. cheeses will enter duty free by 2026.

SK	Description	Base Rate	2012	2013	2014
0406101000**	Fresh Cheese**	36%	33.6%	31.2%	28.8%
0406102000	Curd	36%	32.4%	28.8%	25.2%
0406200000**	Grated or powdered cheese of all kinds**	36%	33.6%	31.2%	28.8%
0406300000**	Processed cheese, not grated or powdered**	36%	33.6%	31.2%	28.8%
0406400000	Blue-veined cheese	36%	32.4%	29%	25.4%
0406900000**	Cheese, NES, including cheddar**	36%	33.6%	31.2%	28.8%
	TRQ Volume (MT)		7,000	7,210	7,426

** included in TRQ.

The Korea Dairy Industries Association (KDIA) will administer the TRQs and allocate the in-quota quantity to historical and new importers through a licensing system.

Table 13: Cheese Tariff Schedule on Korea-US FTA implementation

HS Code Products	Rate (%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
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0406.10.1000 Fresh Cheese	36%	32.4	28.8	25.2	21.6	18	14.4	10.8	7.2	3.6	0					
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0406.10.2000 Curd	36	32.4	28.8	25.2	21.6	18	14.4	10.8	7.2	3.6	0					
Annual duty-free quota in MT for HS			7,210	7,426	7,649	7,879	8,115	8,358	8,609	8,867	9,133	9,407	9,690	9,980	10,280	unlimited
0406.10.10, 0406.20.00, 0406.30.00 & 0406.90.00	NA	7,000 MT														
0406.20.0000 Grated/ powdered cheese	36	33.6	31.2	28.8	26.4	24	21.6	19.2	16.8	14.4	12	9.6	7.2	4.8	2.4	0
0406.30.0000 Processed cheese, not grated or powdered	36	33.6	31.2	28.8	26.4	24	21.6	19.2	16.8	14.4	12	9.6	7.2	4.8	2.4	0
0406.40.0000 Blue-veined cheese	36	33.6	31.2	28.8	26.4	24	21.6	19.2	16.8	14.4	12	9.6	7.2	4.8	2.4	0
0406.90.0000 Other cheese	36	33.6	31.2	28.8	26.4	24	21.6	19.2	16.8	14.4	12	9.6	7.2	4.8	2.4	0
0406.90.0000 Cheese, Cheddar	36	be free of customs duty and no longer be subject to TRQs. Before year 10, cheddar follows the above schedule.														

The Korea Dairy Industries Association (KDIA) shall administer these TRQs and allocate the in-quota quantity to historical and new importers through a licensing system.

See detailed current (base) tariffs and tariff reductions that will occur under implementation of the KORUS FTA are available at: http://www.ustr.gov/Trade_Agreements/Bilateral/Republic_of_Korea_FTA/Final_Text/Section_Index.html

A sector report on the implications of the Korea-U.S. Free Trade Agreement is available at: <http://www.fas.usda.gov/info/factsheets/Korea/commodity-dairy.asp>

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 14: Production, Supply and Demand Data Statistics: PSD Table for Cheese

Dairy, Cheese Korea, Republic of	2012	2013	2014
	Market Year Begin: Jan 2012	Market Year Begin: Jan 2013	Market Year Begin: Jan 2014

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1	1	1	1		1
Production	25	23	26	27		27
Other Imports	75	78	78	85		86
Total Imports	75	78	78	85		86
Total Supply	101	102	105	113		114
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	100	101	104	112		113
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	100	101	104	112		113
Total Use	100	101	104	112		113
Ending Stocks	1	1	1	1		1
Total Distribution	101	102	105	113		114

1000 MT

Source: Korea Dairy Committee 2013

Author Defined:

Table 15: Whey Tariff Schedule on Korea-US FTA implementation

HS Code Products	Rate (%)	Yr 1 (2012)	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10
0406.10.10, 040410.21, 0404.10.29 Whey & Modified whey, Whether or not Concentrated or sweetened for Human consumption - up to 80% protein	49.5 %	20%	17.8	15.6	13.3	11.1	8.9	6.7	4.4	2.2	0
3502.20 Milk albumin, including concentrates of	8%	6.4	4.8	3.2	1.6	0					
Two or more whey protein for Human consumption - more than 80% protein											
0406.10.10, 040410.21, 0404.10.29 Whey & modified whey, whether or not Concentrated or sweetened for Animal Feed - up to 80% protein	49.5 %	0%									
Annual duty-free quota in MT for HS0404.10 for food - up to 80% protein	NA	3,000 MT	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	Unlimited

The Korea Dairy Industries Association shall administer these TRQs and allocate the in-quota quantity to historical and new importers through a licensing system.

**Table 16: Whey Import by Year
(0404.10 & 3502.2.)**

Import Volume		2009	2010	2011	2012
HS: 0404.10	Volume (1,000 MT)	32,200MT	37,600	30,400	42,450 (from US 20,200MT - 48% market share)
	Value (\$1,000)	\$29,000	41,000	43,000	66,700 (from US \$23,300 - 35% market share)
Hs: 3502.20*	Volume (1,000 MT)	1,400MT	1,740	1,875	2,000 (from US1,100MT - 55% market share)
	Value (\$1,000)	\$12,200	15,600	19,200	24,700 (US \$12,000 - 49% market share)

*: HS 3502.20 is milk albumin, including concentrates of two or more whey proteins which are a high protein and high value whey product on behalf of infant formula ingredient.

Whey is co-product of cheese and contains lactose, protein, vitamins and minerals which are 50% of the nutrient of the original milk. Diverse whey protein usage across categories such as sports & energy bar, cereals, desserts & ice cream, baby food, bakery, and soft drinks continue to be introduced to the market. Whey protein demands are supported by body builders, extreme athletes, everyday active consumers and weight watchers. Whey/dairy proteins are considered as a key ingredient for satiety promoting products and aid to reduce risk for many adult diseases such as bone health, obesity, diabetes and heart diseases as the health benefits.

Other Dairy Products

1. Yoghurt Products

- Drinking yoghurt accounts for 70% of total yoghurt sales value, primarily because of traditional belief in Korea for digestive health properties. In 2012, the sales of yoghurt and sour milk products are expected to rise by 9% to reach \$2.3 billion as both drinking yoghurt and spoonable yoghurt are seen as healthy desserts in Korea. With its popular brands, Yakult Korea is expected to maintain lead with a 49% value share in 2012.
- Both fruit-added spoonable yoghurt and plain spoonable yoghurt will see value growth of 5%. Drinking yoghurt is set to drive the market with 11% current value growth in 2012. Spoonable yoghurt also will see solid, 4% current value growth in 2012. Local consumers tend to prefer fruit-added spoonable yoghurt with pieces of fruits that they have enjoyed for a long time. Meanwhile, flavored spoonable yoghurt continues seeing a decline and is expected to post nearly a 2% drop in sales in 2011 with the trend that consumers are shifting to fruit added or plain spoonable yoghurt.
- Red Mango is a yoghurt foodservice chain, in Korea since 2002 has subsequently gained more of a presence in the country, increasing its number of outlets and several new yoghurt bar concepts have been launched such as the opening of the first Yo Café in 2008. Yo Café offers a wide variety of food and drinks made from yoghurt, including ice cream, cakes and smoothies. Both drinking yoghurt and spoonable yoghurt are expected to see unit price increases in 2012, with drinking yoghurt prices rising by 5% and spoonable yoghurt rising by 3%. While fluid milk suffered from foot-and-mouth disease concerns in 2011, manufacturers focused on developing new products in yoghurt. New product development also focused on value-added products.

2. Coffee whiteners and Condensed/Evaporated milk

- Controversy continued to surround coffee whiteners (creamers) after Namyang Dairy Products released an advertisement that implied that existing coffee whiteners were harmful to consumers. Current value sales of other dairy coffee whiteners and condensed/evaporated milk continue declining with limited demand by 5% to \$22 million in 2011.
- While coffee whiteners are predicted to have the biggest drop in current value in 2012, only cream has positive current value growth, set to rise by 3% in 2012. The demand of cream is for pasta and also successfully its increasing penetration rate in espresso machines for whipped. In condensed/evaporated milk, Seoul Dairy Cooperative continues dominating the market with a 78% value share expected in 2012. As demand for condensed/evaporated milk is limited and the market size shows signs of stagnation, there has been no news of new product launches in the retail market.
- As local consumers do not often use cream for cooking, long-life/UHT whipped cream is preferred over chilled creams. In Korea, long-life/UHT whipped cream is the most popular cream type and expected to hold a 54% value share, followed by chilled/fresh half/single cream with a 24% value share in 2012. Manufacturers increase the unit price of other dairy products to recoup sales revenue in the face of decreasing volume. Seoul Dairy Cooperative set to hold the highest value share of 48% in other dairy products in 2012.

Commodities:

Dairy, Milk, Nonfat Dry

Production:

In 2012, local NFDM production amounted to 14,200 MT; a 256% increase from the previous year. Due to an outbreak of FMD in 2011, milk production was up and down until the middle of 2012. In March of 2012, there was surplus of raw milk which made resulted in an increase of NFDM production in 2012.

Consumption:

In 2012, Inventory of NFDM and amount of duty free NFDM imports did not impact the markets in 2012. There should be more opportunities for imported products due to price competitiveness of imported NFDM versus between locally produced NFDM. In 2012, NFDM consumption amounted to 27,120 MT, a decrease of 28 percent compared to the year 2011. NFDM is used primarily for bakeries, infant formula and as an ingredient in other dairy products. Since NFDM production is largely a result of marketing quota policies, consumption is expected to continue to track closely with production.

Table 17: NFDM Production, Imports, Consumption by Year

Unit: Metric Ton

	2007	2008	2009	2010	2011	2012
Production	22,158	20,000	15,200	9,500	4,000	14,200
Import	4,928	5,025	9,600	7,900	34,000	18,840
Export	140	270	470	1,000	5	41
Consumption	22,674	25,614	27,800	19,600	37,900	27,120

Source: Korea Dairy Committee 2013

Trade:

In 2012, NFDM import decreased by 45 percent to 18,840 MT compared to 2011. Due to the FMD outbreak in November 2010, imports increased to 34,000 MT, jumping by 320 percent over 2010. On March 2011, the Ministry of Strategy and Finance (MOSF) announced temporary a zero duty on 30,000 MT of powdered skim & whole milk powder through the end of 2011 in order to stabilize food prices amid growing inflationary pressures.

From January to September in 2013, Korea imported 13,850 MT, about same amount as the same period during 2012. Australia has 33 percent market share at 4,500 MT, followed by U.S. with 31 percent at 4,230 MT, Germany with 14 percent share at 1,950 MT and, France with 9 percent share at 1,290 MT. The U.S. exports to Korea increased from 1,940 MT in 2012 to 4,230 MT as second largest supplier to Korea during January – September 2013. It is estimated that total imports will be 18,500 MT during 2013.

Policy:

Table 18: NFDM Tariff and TRQ Schedule on Korea-US FTA implementation

HSK	Description	Base Rate	2012	2013	2014
0402.10	NFDM –In powder, fat content not exceeding 1.5%	176%	176%	176%	176%
	Duty free quota 5,000 MT every year with an additional 3% compound increase				

Source: MAFRA

Marketing:

The Korea Customs Service reimburses the high out-of-quota tariff of 176% to importers when they have re-exported processed dairy-based products made from the imported NFDM. Korean dairy manufacturing companies are looking forward to expanding the market opportunities for exporting to China. Local food processors import NFDM for the purpose of processing into infant formula, bakery use and re-exporting to other countries, including China. However, in 2012, most imported NFDM was used for bakery ingredients and infant formula.

Table 19: NFDM Imports by Country of Origin in 2012

Unit: Metric Tons

	U.S.	Australia	NewZealand	E.U.	Total
Import Volume (MT)	1,940MT	6,057	259	10,164	18,781
Import Value (\$Million)	\$6.86M	\$20M	\$0.87M	\$32.3M	\$61.2M
Unit Price per MT	\$3,536	\$3,302	\$3,359	\$3,178	\$3,259

Source: Korea Trade Information Service 2013

Production, Supply and Demand Data Statistics:

Table 20: NFDM Production, Supply and Demand Data Statistics: PSD TABLE for NFDM

Dairy, Milk, Nonfat Dry Korea, Republic of	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1	1	1	7		7
Production	4	14	5	12		12
Other Imports	20	19	25	18		18
Total Imports	20	19	25	18		18

Total Supply	25	34	31	37		37
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	24	27	30	30		31
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	24	27	30	30		31
Total Use	24	27	30	30		31
Ending Stocks	1	7	1	7		6
Total Distribution	25	34	31	37		37

1000 MT

Source: Korea Dairy Committee 2013

EXPORT REQUIREMENT:

See APHIS' website (<http://www.aphis.usda.gov/regulations/vs/iregs/products/>) for any sanitary requirements for shipping cheese to Korea.

For more information, please contact the U.S. Agricultural Trade Office, U.S. Embassy Seoul, Korea, at atoseoul@fas.usda.gov, Tel: 82-2-397-4188, Fax: 82-2-720-7921, or visit www.atoseoul.com