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GAIN Report

Global Agricultural Information Network

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Korea - Republic of

Dairy and Products Annual

Dairy Update - ATO Seoul

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Report Highlights:

In 2013, \$55 billion in local dairy product sales was two-percent higher than 2012. Domestic raw milk production was 0.8 percent less however, total raw milk consumption increased by 6.6 percent, which was satisfied by a 12.2 percent increase in imports. Drinking milk products by value grew 6% in 2013 to reach \$4 billion. New government price controls edged average drinking milk prices higher in 2013. The value of drinking milk products are expected to increase at a rate of 3% between 2013 and 2018, at constant 2013 prices. The local raw milk price jumped 13 percent to \$1.1 per liter since August, 2013, recording the highest raw milk price in the world. Cheese sales increased by 11% in current value terms to reach \$449 million in 2013. Unprocessed cheese sales increased by 15% in 2013, contributing 33% of overall value sales of cheese in the year.

Executive Summary:

- Drinking milk products achieved growth of 6% in 2013; to reach \$4 billion in 2013. The average unit price of drinking milk products increased marginally in 2013, due to the new government's price-control initiative. The value sales of drinking milk products are expected to increase at 3% in the coming five years, at constant 2013 prices. Becoming more familiar with healthy foods and western breakfasts, local consumers are increasing their consumption of drinking milk products. Chocolate-flavored powder drinks is set to see the highest value growth, at 6%, due to increases in price. Seoul Dairy Cooperative is still the industry leader, with 36% of value sales, followed by Maeil Dairies with 17% of sales.
- In 2013, sales of local dairy products reached to \$55 billion which increased by 2 percent over 2012. Domestic raw milk production was 0.8 percent lower however, total raw milk consumption increased by 6.6 percent, reached to 3.67 million metric tons which was more than satisfied by an increase in imports of 12.2 percent, including non-fat dry milk, whole fat dry milk and others. The local raw milk price jumped up about 13 percent to \$1.1 per liter from \$0.98 per liter since August, 2013 which recorded the highest raw milk price in the world.
- Sales of cheese increased by 11% to reach \$449 Million in 2013. Unprocessed cheese continues to grow at the fastest rate, with sales increasing by 15% in 2013 and, sales contributed 33% of the overall sales value of cheese in the year. Unprocessed cheese is expected to grow at a 9% rate over the next 5 years, in constant 2013 prices, while processed cheese is anticipated to achieve a 3% growth. Seoul Dairy Cooperative still leads the cheese market, with 41% market share in 2013, keeping competitors from cutting into its share by entering the adult cheese market with its premium brand 'Wellzak' in April 2013. Cheese producers have turned their interest to adults from children due to saturation in the children's market.

Table 1: Korea Raw Milk Supply & Demand, Per Capita Consumption

Unit: 1,000 Metric Ton

		2009	2010	2011	2012	2013
Beginning Inventory		96	55	13	18	92
Supply	Production	2,110	2,073	1,889	2,111	2,093(-0.8%)
	Import	959	1,135	1,713	1,414	1,586(12.2%)
	Total	3,069	3,208	3,601	3,525	3,679(4.4%)
Demand	Local Consumption	3,036	3,171	3,518	3,359	3,582(6.6%)
	Export	74	78	78	93	96(3.7%)
	Total	3,110	3,249	3,596	3,452	3,678(6.6%)
Ending Inventory		55	13	18	92	93(1%)
Per Capita Consumption(KiloGram)		62.3	64.2	70.7	67.2	71.5(6%)

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA)/
2013 Dairy Statistics Yearbook by Korea Dairy Committee (KDC)

Table 2: Korea's Key Dairy Product Imports

Unit: Metric Ton

	2010		2011		2012		2013	
	US	Total	US	Total	US	Total	US	Total
Cheese (HS:0406)	18,500	61,000	32,400	31,900	31,900	77,500	42,530	85,069
NFDM (HS:0402.10)	650	7,900	900	1,900	1,900	18,800	5,907	19,710
WFDM (HS:0402.21)	0	1,400	0	0	0	1,600	357	1,990
Mixed Milk (HS:0404.90 & 1901.90.2000)	440	31,600	1,300	961	0 961+	19,517 8,031+ 27,548=	180+ 987 1,167=	25,577+ 8281 33,858=
Butter (HS:0405.10)	66	3,000	900	1,200	1,200	4,260	1,218	3,355
Whey Powder (HS:0404.10)	16,000	37,600	12,900	20,200	20,200	42,451	18,201	35,091
Ice Cream (HS:2105)	632	2,600	840	920	920	4,100	1,264	4,744
Total	54,700 (26%)	207,000	72,800 (26%)	57,081	57,081 (33%)	176,259	70,644 (38%)	184,817

Source: 2013 Korea Customs Office

Commodities:

Dairy, Milk, Fluid

Production:**Table 3: Domestic Milking Cows, Farms, and Production**

	2009	2010	2011	2012	2013
Number of Raising Milking Cows (1,000 Heads)	445	430	404	420	424
Number of Practical Milking Cows (1,000 Heads)	208	204	191	209	206
Number of Farms	6,767	6,347	6,068	6,007	5,830
Average number of cows per Farm	65.7	68.3	65.7	69.9	72.8
Production per Farm(Kilo Gram/Day)	854.2	894.7	853.0	960.0	983.6
Production per Head (Kilo Gram/Head)	27.8	27.8	27.1	27.6	27.9

Source: Korea National Statistics 2014

Table 4: Rising Cost of Dairy Cow per Head (Unit: US\$)

	2008	2009	2010	2011	2012	2013
Total Raising Cost	5,200	5,500	5,600	6,200	6,900	7,139
Feed Cost	3,100	3,400	3,300	3,700	3,900	4,012

Source:Korea Dairy Committee 2013

Table 5: Raw Milk Production Cost per 100 Liter

Unit : US\$

	2008	2009	2010	2011	2012	2013
Total Production Cost	58.5	61.4	64.1	71.8	78.4	80.7
Feed Cost	60.7	63.4	67.1	74.5	80.4	82.6
Income from By Product by Product	2.2	2.0	3.0	2.7	2.0	2.0

Source: Korea Dairy Committee 2013

In 2013, Korean raw milk production was 2.093 million metric tons (MMT), decreased by 0.8 percent compared to the previous year. Also the number of cows for milking decreased by one percent. Since November 2010 however, dairy products in Korea, including fluid milk products, have suffered as a result of Foot-and-Mouth Disease (FMD) that occurred amongst cows, pigs, and oxen. In 2012, even though the milk production was increased, manufacturers of fluid milk products 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. In the beginning of 2013, severe cold weather influenced to decrease the production but recovered soon by government’s price control initiative. As a result, value sales of fluid milk products increased by 5 percent in 2013. As manufacturers are increasing their unit prices again, sales values have risen again in 2013. Fluid milk consumption was 76 percent of total raw milk production while the remaining 24 percent was marketed for processing.

Consumption:
Table 6: Domestic Raw Milk Usage
 Unit: 1,000MT

	2007	2008	2009	2010	2011	2012	2013
DrinkingUse	1,582	1,583	1,569	1,541	1,483	1,578(75%)	1,587 (76%)
ProcessedUse	606	556	540	532	406	533(25%)	506(24%)
Total	2,188	2,139	2,110	2,073	1,889	2,111(100%)	2,093(100%)

Source: 2013 Korea Dairy Committee

In 2013, drinking milk products’ sales grew by 6% to \$4 billion. The market suffered from an imbalance between demand and supply of raw milk in the first half of 2012. However, price promotion efforts by dairy producers gave support to sales in the second half of the year and 2013. Aggressive promotion was an attempt by the main manufacturers to gain market share. Sales in the chocolate-based flavored powder drinks and fresh/pasteurized milk categories grew at the fastest rate, both at 6% in 2013. Long-life/UHT milk suffered a four-percent decline in sales in 2013, as its long shelf life has put consumers off due to a lack of perceived freshness. Consumers in Korea tend to be highly health conscious and thus the strong relationship between healthy foods and freshness is high.

- The average unit price of drinking milk products increased slightly in 2013, due to the government’s new price-control initiative to limit the price increase of daily necessities including dairy products. Private label brands created by convenience stores in partnership with major manufacturers are well-received in the market. Chilled flavored milk drinks still account for most of flavored milk drink sales, with a 97% volume market share in 2013. In non-dairy milk alternatives, soy milk sales value is set to post 5% growth in 2013, increased from 3% in 2012. Soy milk has however enjoyed robust growth over the review period; as more consumers favor soy milk due to its high protein, lower fat content and sweeter taste.
- Market saturation has developed since the recovery of drinking milk products from the foot-and-mouth crisis in 2010 and will likely maintain 2-3% year-on-year value growth thereafter. Only long-life/UHT milk is expected to suffer negative growth, approximately -9% a year over the forecast period. Local consumers are less satisfied with shelf-stable products and turn attention

toward fresh/pasteurized milk and flavored milk drinks that are more appealing to them.

Drinking milk products value sales are expected to achieve a 3% increase in the coming five years, at constant 2013 prices.

- Flavored milk drinks with fruit juice are expected to see the highest growth rate of 4% at both constant 2013 prices and in volume terms. Growth will accelerate, driven by the varying strategies and marketing schemes of major manufacturers. Government policy to control unit price is expected to be eased in the coming years. Also, small pack sizes and new product launches will boost unit prices. For instance, cow's milk will have unit prices increase by 8% between 2013 and 2018. Flavored milk drinks include a large range of possible flavors depending on which fruit juices or flavors are used, therefore the opportunity for expansion is large.

Marketing:

In 2013, Seoul Dairy Cooperative continues to dominate sales, which reached \$1.4 billion in 2013, representing 36% of sales. Seoul Dairy Cooperative has a strong relationship as it is built as a cooperative organization and maintains its home delivery and foodservice business. Sales from hypermarkets and supermarkets account for 50%, food service for 30% and home delivery for 15% in sales value terms in 2013. The profit margin for sales through food service is on average less than retailing. In the dairy business, most of major market players are domestic firms. Since efficient logistics are important to keep drinking milk products fresh, international brands have high barriers to entry.

Table 7: Distribution of Drinking Milk Products by Retail Format : % Value

	2011	2012	2013
A. Store-based Retailing	93%	92%	90%
1. Grocery Retailers	90.50%	89.40%	87.30%
1.1. Modern Grocery Retailers	57.90%	58.30	57.94%
1.1.1. Convenience Stores	10.00%	10.20	10.20%
1.1.2. Hypermarkets	33.87%	34.60	34.60%
1.1.3. Supermarkets	14.03%	13.50	13.14%
1.2. Traditional Grocery Retailers	32.60%	31.10	29.36%
1.2.1. Independent Small Grocers	13.70%	15.70	14.46%

1.2.2.Other Grocery Retailers	18.90%	15.40	14.90%
2.Non-Grocery Retailers	2.50%	2.60	2.70%
B. Non Store Retailers	7%	8%	10%
1.Non-Store Retailing			
1.1.Internet Retailing	7%	8%	10%
TOTAL	100%	100%	100%

Source: Euronmonitor International 2014

Table 8: Sales of Drinking Milk Products by Category: Value (\$Million)

	2011	2012	2013
1.Flavored Milk Drinks	\$899.76 Mil.	\$962.08 Mil.	\$1,017.85 Mil.
-Dairy Only Flavored Milk Drinks	\$375.05	\$407.58	\$430.15
-Flavor red Milk Drinks with Fruit Juice	\$524.71	\$554.50	\$587.70
2.Flavored Powder Drinks	\$21.14	\$22.54	\$23.85
-Chocolate based	\$17.36	\$18.61	\$19.75
-Non Chocolate based	\$3.78	\$3.93	\$4.10
3.Milk	\$2,313.84	\$2,406.63	\$2,539.13
-Cow's Milk	\$2,313.84	\$2,406.63	\$2,539.13
4.Powder Milk	\$14.90	\$15.11	\$15.56
5.Non-Dairy Milk Alternatives	\$371.65	\$383.54	4400.80
-Soy Milk	\$371.65	\$383.54	\$400.80
Total Drinking Milk Products (1+2+3+4+5)	\$3,621.29 Mil.	\$3,789.90 Mil.	\$3,997.19 Mil.

Source: Euromonitor 2014

Table 9: Raw Milk Production by Country

Unit: 1,000 Metric Ton

Country	2009	2010	2011	2012	2013	2014(P)
Korea	2,110	2,073	1,890	2,111	2,093	2073
Canada	8,280	8,350	8,400	8,614	8,535	8,450
Mexico	10,866	11,033	11,046	11,274	11,270	11,350
U.S.A	85,880	87,474	89,768	90,824	91,444	93,123
Argentina	10,350	10,600	11,470	11,679	11,796	12,209
Brazil	28,795	29,948	30,715	31,490	32,380	33,375
EU	133,700	135,472	138,220	139,000	139,100	140,000
Russia	32,600	31,847	31,646	31,917	31,400	31,400
Ukraine	11,370	10,977	10,804	11,080	11,160	11,220
India	48,160	50,300	53,500	55,500	57,500	60,125
China	28,445	29,300	30,700	32,600	34,500	37,000
Japan	7,910	7,721	7,474	7,631	7,560	7,580
Australia	9,326	9,327	9,568	9,811	9,570	9,880

New Zealand	16,983	17,173	18,965	205,676	19,678	29,569
Total	434,775	441,595	453,376	464,098	467,987	476,281

Source:2013 Korea Dairy Committee

Production, Supply and Demand Data Statistics:
Table 10:Production, Supply and Demand Data Statistics:
PSD TABLE for Fluid Milk

Dairy, Milk, Fluid Korea, Republic of	2013		2014		2015	
	Market Year Begin:Jan 2013		Market Year Begin:Jan 2014		MarketYearBegin:Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows Milk Inventory	213	206	217	204		203
Cows Milk Production	2153	2,093	2,196	2,073		2,065
Other Milk Production	0	0	0	0		0
Total Production	2,153	2,093	2,196	2,073		2,065
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	2,153	2,093	2,196	2,073		2,065
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consume.	1,615	1,587	1,647	1,575		1,569
Factory Use Consum.	538	506	549	498		496
Feed Use Dom. Consume.	0	0	0	0		0
Total Dom. Consumption	2,153	2,093	2,196	2,073		2,065
Total Distribution	2,153	2,093	2,196	2,073		2,065

1000 HEAD,1000 MT

Source: Korea DairyCommittee2014

Commodities:

Dairy, Cheese

Production:

In 2013, Korea produced 22,389 MT of cheese, a decrease of one percent from 2012. Fresh cheese production of 5,673 MT was an increase of 28 percent and processed cheese accounted for the remaining 16,716 MT, a decrease of 8 percent. Cheese imports increased by 10 percent to 85,069 MT and, consumption was 8 percent higher than the previous year. U.S. market share was 50 percent with shipments of 42,530 MT out of total imports by Korea. In 2013, the production cost of dairy products including cheese, jumped due to the increase of the raw milk price, slow economy and, the increase in labor cost which led to lower the production of domestic raw cheese products but the higher domestic dairy products consumption still had to be satisfied by increased imports. Most major cheese manufacturers produce several unprocessed soft cheeses to have as a dessert along with wine. Manufacturers are trying to introduce a new soft cheese slice that is convenient for children. Also plans are for a squeezable format to use in cooking or as a salad dressing.

Table 11: Cheese Production, Import & Consumption

Unit: Metric Ton

		2009	2010	2011	2012	2013
Production	Fresh Cheese	7,700	7,900	3,600	4,420	5,700
	Processed Cheese	15,500	19,500	21,100	18,000	16,700
	Import (Fresh Cheese)	44,800	56,100	70,400	71,500	76,900
	Import (Processed)	4,300	4,900	5,800	6,000	8,200
	Total	72,200	88,400	100,900	99,920	107,500
Consumption	Fresh Cheese	51,800	64,300	64,000	64,400	69,400
	Processed Cheese	20,000	24,300	24,900	18,400	18,500
	Export (Fresh Cheese)	57	35	61	95	124
	Export (Processed)	74	47	16	5	28
	Total	71,600	88,700	99,600	82,900	88,052

Source: MAFRA, Korea Dairy Committee 2013

Table 12: Korean Imports of Cheese

	2010		2011		2012		2013	
	\$1,000	MT	\$1,000	MT	\$1,000	MT	\$1,000	MT
World	258,749	60,971	357,918	76,222	359,718	77,506	403,041	85,069
United States	75,935	18,518	140,233	32,473	140,596	31,877	188,384	42,530
New Zealand	77,755	19,306	93,833	20,583	100,858	23,908	102,242	23,883
EU	38,525	6,056	65,980	10,619	65,704	9,648	69,698	10,217
Australia	34,829	8,636	33,285	7,446	33,320	7,483	26,817	5,749
Switzerland	5,920	1,227	7,174	1,244	0	0	0	0
Uruguay	14,616	4,185	6,258	1,400	0	0	0	0
Chile	700	174	5,937	1,270	4,597	969	5,275	1,144

Others	10,470	2,869	5,217	1,187	14,643	3,621	10,625	1,546
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Source: Korea Customs Office 2013, HS 0406, Cheese and Curd

Consumption:

Sales of cheese increased by 11% in current value terms to reach \$449 million in 2013. Unprocessed cheese is expected to grow at 9% over the coming five years, in constant 2013 prices, while processed cheese is anticipated to achieve 3% growth. Unprocessed cheese continues to grow at the fastest rate, with sales increasing by 15% in 2013. Sales contributed 33% of overall sales value for cheese in the year. Seoul Dairy Cooperative still leads the cheese category, with 41 percent market share in 2013. To maintain command of its market share, Seoul Dairy Cooperative is entering the adult cheese market with its premium brand 'Wellzak' since April 2013. Cheese producers have turned their interest to adults from children due to saturation in the children's market.

In terms of volume sales, cheese recorded robust growth of 6% in 2013. Volume sales of processed cheese grew by 4%; while unprocessed cheese volume sales grew to 10%. Mozzarella represented 59% of value sales of unprocessed cheese, shrinking from 62% in 2011 and 60% in 2012 due to changing consumer tastes and new products. Mozzarella is sold mainly as a pizza topping, but more recipes are calling for other types of cheese have impacted the market share of mozzarella. As a result, cheddar and camembert will see a one percentage point increase in market share to 23% and 11% respectively in 2013. Among the other 7% of unprocessed cheese, Gouda is becoming more popular, thanks to its low level of salt.

Table 15: Sales of Cheese by Category, Value (Unit: \$Million)

	2011	2012	2013
Processed Cheese	255	275	300
-Unspreadable processed Cheese	255	275	300
Unprocessed Cheese			
-Soft Cheese	110	129	149
Cheese Total	365	404	449

Source: Euromonitor International 2014

- Owing to the Korea-US and Korea-EU free trade agreement (FTA), the average price of cheese will increase slowly in 2013 as the cost of raw materials remains stagnant. For unprocessed cheese, the average unit price reached \$23 per kg in 2013, from \$22 per kg in 2012. The average unit price of processed cheese was \$19 per kg, up from \$18 per kg in 2012. FTAs have

influenced both categories, but the price gap between two categories is increasing gradually as unprocessed cheese is increasingly made with natural cheese.

Marketing:

- The growing demand for high-quality, natural cheese supports robust sales values for the coming years. As processed cheese products become more available with natural flavor, sales will increase. Unprocessed cheese is expected to grow at a 9%, in constant 2013 prices, whereas processed cheese is anticipated to achieve a 3% increase over the coming five years. Cheese producers have turned their interest to adults after saturating the children's market. More Korean consumers like to have cheese together with alcohol. There is an increasing popularity of French style dining and to drink wine with cheese, which has market potential for adults.
- Sales of cheese grew by 11%, to reach \$4.5 million in 2013. There was a trade-off between unspreadable processed cheese and soft cheese in sales growth. Unspreadable processed cheese is set to see growth increase to 9% in 2013, while soft cheese is anticipated to see a decline in growth to 15% in the year. New products will be introduced in processed cheese from local brands, supporting sales. However, unprocessed cheese continues to grow at a rapid rate due to market penetration of the major imported brands. Local consumers are likely to become more familiar with imported brands and soft cheese, as demand for western-style dining rises.
- Demand for natural cheese is growing, however, due to higher demand for convenience; local consumers prefer processed cheese that contains natural cheese in Korea. Amongst unspreadable processed cheese, more consumers are looking for string cheese as an accompaniment to alcohol. In 2013, Seoul Dairy Cooperative maintained 42% of value sales. The market share of Namyang Dairy Products declined to 22%, a fall of one percentage point due to the impact of unfair business scandal of the company. Consumers boycotted the company's products after a group of wholesalers for Namyang reported to the public that the company is forcing its sales agents to buy more products than they needed and the products were closed to their expiry date.

♣ Table13:CheeseTariffPhase-OutSchedule underKORUSFTA:

The KOR-USFTA 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.

HS	Description	BaseRate	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 14: CheeseTariff Schedule on Korea-US FTA implementation

HS Code Product s	R at e %	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
0406.10 .1000 Fresh Cheese	36%	32.4	28.8	25.2	21.6	18	14.4	10.8	7.2	3.6	0					
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 inMT for HS 0406.10 .10, 0406.20 .00, 0406.30 .00& 0406.90 .00	NA	7,000 MT	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	Un- lim- ite- d
0406.20 .0000 Grated/ powder	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

ed cheese																
0406.30 . 0000 Process ed cheese, not grated or powder ed	3 6	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	3 6	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 ch eese	3 6	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	3 6	ll 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:

Table 16: Production, Supply and Demand Data Statistics :PSD Table for Cheese

Dairy, Cheese Korea, Republic of	2013	2014	2015
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	Market Year Begin: Jan 2013	Market Year Begin: Jan 2014	Market Year Begin:Jan2015
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	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1	1	1	1		1
Production	27	22	26	22		23
Other Imports	85	85	78	94		100
Total Imports	85	85	78	94		100
Total Supply	113	108	105	117		124
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	112	107	104	116		123
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	112	107	104	116		123
Total Use	112	107	104	116		123
Ending Stocks	1	1	1	1		1
Total Distribution	113	108	105	117		124

1000 MT

Source: KoreaDairyCommittee2014

Commodities:

Dairy, Milk, Nonfat Dry

Production:

In 2013, local NFDM production amounted to 11,670 MT; an 18% decrease from the previous year.

Due to an outbreak of FMD in 2011, milk production was 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.

The local raw milk price jumped up about 13 percent to \$1.1 per liter from \$0.98 per liter since August, 2013 which recorded the highest raw milk price in the world. Due to a severe cold weather in the beginning of 2013, milk production started less production, however, production picked up to increase by the government's price control initiative to encourage the farmers.

Consumption:

In 2013, inventory of NFDM and amount of duty-free NFDM imports impacted the markets in 2013.

There were more opportunities for imported products due to price competitiveness of imported NFDM versus between locally produced NFDM. In 2013, NFDM consumption amounted to 31,445 MT, an increase of 16 percent compared to the year of 2012. 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

	2008	2009	2010	2011	2012	2013
Production	20,000	15,200	9,500	4,000	14,200	11,670
Import	5,025	9,600	7,900	34,000	18,840	19,749
Export	270	470	1,000	5	41	23
Consumption	25,614	27,800	19,600	37,900	27,120	31,445

Source: Korea Dairy Committee 2013

Trade:

In 2013, NFDM import increased by 5 percent to 19,749 MT compared to 2012. 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.

Policy:

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

HS Code	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 2013, most imported NFDM was used for bakery ingredients and infant formula.

Table 19: NFDM Imports by Country of Origin in 2013

Unit: Metric Tons

	U.S.	Australia	New Zealand	E.U.	Total
Import Volume (MT)	5,908	5,884	1,326	6,552	19,710
Import Value	\$22.3M	\$22.2M	\$5.4M	\$26.4M	\$76.4M

(\$Million)					
Unit Priceper MT	\$3,775	\$3,773	\$4,072	\$4,029	\$3,876

Source: Korea Trade Information Service 2014

Production, Supply and Demand Data Statistics:

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	2013		2014		2015	
	Market Year Begin:Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	7	8	7	8		8
Production	12	12	12	15		16
Other Imports	18	20	18	21		21
Total Imports	18	20	18	21		21
Total Supply	37	40	37	44		45
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	30	32	31	36		37
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	30	32	31	36		37
Total Use	30	32	31	36		37
Ending Stocks	7	8	6	8		8
Total Distribution	37		37			37

1000 MT

Source: Korea Dairy Committee 2013

Author Defined:

Other Dairy Products

Whey Products

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.

Feed– up to 80% protein											
Annual duty-free quota in MT for HS0404.10f or food– up to 80% protein	N A	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 22:Whey Import by Year(0404.10 &3502.2.)

Import Volume		2010	2011	2012	2013
HS: 0404.10	Volume (1,000MT)	37,600	30,400	42,450 (from US 20,200MT-48% market share)	35,091 (from US 18,201MT, 51% market share)
	Value (\$1,000)	41,000	43,000	66,700 (from US \$23,300 – 35% market share)	60,835 (from US \$22,514, 37% market share)
HS: 3502.20*	Volume (1,000MT)	1,740	1,875	2,000 (from US 1,100MT– 55% market share)	2,400 (from US 1,300MT, 54% market share)
	Value (\$1,000)	15,600	19,200	24,700 (US\$12,000– 49% market share)	32,000 (from US 14,000MT, 43% 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.

Yoghurt Products

Yoghurt and sour milk drinks value sales increased by 7%, to reach \$2 billion in 2013. The average unit price of drinking yoghurt and spoonable yoghurt increased by 2% in retail value terms in 2013. The

unfair business practice of Namyang Dairy Products will affect yoghurt sales in 2013. The retailer boycott campaign against the company's products is expected to marginally decrease its share of the market. Convenient packaging helps drinking yoghurt to continue grow over spoonable yoghurt, drinking yoghurt will see higher value growth of 9% than spoonable yoghurt with 4% in 2013. Yoghurt and sour milk drinks is expected to grow by a value of 5% over the coming five years, at constant 2013 prices.

- Yoghurt and sour milk drinks sales are growing, with a 7% increase in value sales expected in 2013. Strawberry is still the most popular flavor of flavoured spoonable yoghurt, followed by apple and grape. Blueberry has become more popular due to the growing popularity and abundance of the fruit among South Korean retailers. In 2013, fruited spoonable yoghurt will lead in value sales in spoonable yoghurt. Fruited spoonable yoghurt is preferred to flavoured spoonable yoghurt consumers due to the natural, realer taste. ♣
- Since sour milk products are a negligible market, yoghurt drives the market. Among spoonable yoghurt, plain spoonable yoghurt is expected to achieve the fastest growth in 2013, with 6% value growth, followed by fruited spoonable yoghurt. Regular dinking yoghurt volume growth will almost double compared to 4% in 2012. As to drinking yoghurt, both regular and functional drinking yoghurt is expected to show volume growth of 7% in 2013. Premiumisation will however cause current value growth of functional drinking yoghurt to increase by 9% in 2013. The average unit price of both drinking and spoonable yoghurt will increase by 2% in retail value terms in 2013. Due to sluggish growth of overall spoonable yoghurt, dairy companies are selling them at discounts, slowing price growth.
- Mokjang freshness from Seoul Dairy Cooperative will show the fastest growth in spoonable yoghurt, with new products featuring coatings on their lids to stop yoghurt from sticking to them, making them more convenient and less wasteful. In 2013, Korea Yakult Corp will lead yoghurt with 46% value share. The company owns the top four brands, WiLL, Kupffer's, R&B and Yakult in drinking yoghurt and the first leading brand, Super 100 in spoonable yoghurt. ♣
- Other major yoghurt companies like Seoul Dairy Cooperative, Maeil Dairies, and Binggrae will try to push their products through marketing and packaging innovation. Yoghurt with Mokjang freshness from Seoul Dairy. The premiumisation trend in yoghurt will continue thanks to the popularity of pro/pre biotic products. Due to the convenience and price differences, market sales will be led by drinking yoghurt, rather than spoonable yoghurt. ♣ As the importance of pro/pre biotic lactic acid bacteria increases, competition based on the quality and volume of the bacteria included in yoghurts will increase. ♣

Ice Cream

Ice cream sees recovery from negative trend with 1% growth in retail value sales, to reach \$1.78 million in 2013. All categories in ice cream show increase in average unit prices due to premiumisation trend. Lotte Confectionery Co Ltd is ranked as the first company in ice cream with 36% retail value share in 2013. Warmer and longer summer season in South Korea turns value sales of ice cream positive in 2013. Ice cream is expected to decrease by 1% in constant value terms over the coming five years. Frozen yoghurt posts the highest retail value growth of 4% in 2013, driven by increasing preference of yoghurt.

- Ice cream recovered from negative growth with 1% retail value growth, to reach sales of \$1.78 million in 2013. The retail volume sales of ice cream still showed negative growth, as it had since 2011, but with a decreasing rate. Ice cream sales tend to be highly influenced by weather conditions. The early summer was warmer and longer in 2013, which had positive influence on ice cream sales.
- All categories in ice cream showed increase in average unit prices due to the premiumisation trend. Due to increasing numbers of foodservice outlets including cafés and artisanal ice cream franchises, consumers prefer to buy premium products even in general grocery stores, stimulating manufacturers to develop new products with higher quality and price.
- In 2013, single portion dairy ice cream grew by 2% whereas single portion water ice cream declined by 1% in retail value terms. Vanilla is the most preferred flavor in Korea, followed by strawberry and chocolate as in 2012. This tendency is in line with local consumers' strong preference for the soft and creamy taste of ice cream.
- Ice cream desserts will continue positive growth in the coming years, as new dessert concepts were developed recently. This is because more and more consumers are willing to pay premium price for artisanal ice cream brands such as Häagen-Dazs, Natuur and Palazzo del Freddo. Overall ice cream is expected to decrease by 1% in constant value terms over the coming five years, mainly due to the expected decline of single portion dairy ice cream, from solid positive growth in the review period. Large retailers will try to attract those brands in the form of packaged retail products. However, Baskin-Robbins and Coldstone's, popular made-to-order ice cream shops in Korea, have not provided packaged products of each brand yet, but will take more shares from retail brands with competitive marketing. Basically ice cream is known to have no expiry date since it is retailed as frozen.

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

Commodities:

Select

Select

Select