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Pet Food Market Update 2016

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Product Brief

Approved By:

Lynne Larrabee

Prepared By:

Youngsook, Oh

Report Highlights:

Income growth and popularity in pet ownership, especially dogs, have increased demand for pet food in South Korea. Korea imported a total of \$148 million worth of pet food in 2015, an 11% increase from \$133 million in 2014. Respectively, Korea imported \$40 million worth from the United States, up 17% from \$34 million. This trend is expected to continue as per capita income continues to grow. Per capita income reached \$27,340 in 2015 compared to \$24,696 in 2012.

General Information:

SECTION I. MARKET OVERVIEW

In 2015, Korea imported a total of \$148 million worth of pet food, an 11% increase from \$133 million in 2014. China held the largest market share of Korean pet food imports (29% at \$43.3 million), followed by the United States (27% at \$39.9 million), France (13% at \$19.4 million), and Thailand (11% at \$15.7 million). The remaining 20% was divided among other countries.

Dog food posted value growth of 3% and volume growth of 1% in 2015 compared to 2014. Wet dog food is regarded rather as a treat than as food. Dog treats was the highest-growing category in value terms in 2015, showing 5% growth in both value and volume sales terms.

Cat food posted 21% value growth and 13% volume growth in 2015 compared to 2014 due to the growing cat population. Cat food is expected to rise at a value of 14% at constant 2015 prices and an 8% volume in coming years. Cat treats recorded the fastest growth, showing 31% value sales growth in 2015 mainly due to increased prices.

Other pet food in 2015 recorded sharp value growth of 10% and volume growth of 8% due to increased sales of mammal/reptile food.

International brands have built distribution power and have maintained high shares with a premium brand image. Dog food was nearly monopolized by imported brands but lately, consumers' preference has shifted to domestic brands, whose quality has improved significantly.

SECTION II. MARKET SECTOR OPPORTUNITIES AND CONSTRAINTS

A. Opportunities

As per capita income continues to increase, sales of pet foods are expected to grow. While the faster growing treat segment and premiumization trend are expected to continue, sales of mid-priced and economy pet products are also expected to grow. E-Mart Co. Ltd., the most noticeable player in dog food private label products, is showing potential not only in mid-priced but also economy level products.

As pets eat more healthily and have access to adequate medical care, they are living longer and the senior pet population is growing. However, the products offered for the senior pet segment (e.g. Cesar Senior and MM Dogs) are insufficient and there is high potential for senior-specific pet food, including potential for wet dog food. Concerted efforts to save abandoned animals and high demand from cat moms and cat dads will increase the number of cat- and/or dog-owning households, thereby boosting demand and potential for both dry and wet pet food.

Demand for other pet foods has also been increasing, as small mammals/reptiles continue to gain popularity as pets in households with children.

B. Constraints

U.S. pet food exports to South Korea are currently limited to pet food without any ruminant including beef and sheep ingredient packaged for retail sale.

The dog population showed rapid growth in the early 2000s. However, the dog population growth has stabilized at less than 1% each year for the three consecutive years from 2013 to 2015. Dog food, especially dry dog food, faces slow growth due to market saturation and stagnation in dog

population growth in recent years.

The benefits of including wet dog food in a pet's diet are not well known and the product is perceived as a treat because of its high price. Wet dog food value growth is expected to be at a slower rate than dry dog food in the coming years.

Other pet food's average unit price also showed a slight increase in 2015, mostly due to the increase in small mammal/reptile food's unit price. Other pet food is expected to rise at a value of 6% at constant 2015 prices in near future.

SECTION III. TRENDS IN CONSUMPTION

A. Market Trend

Table 1: Value Sales of Dog Food by Category (Unit: US\$ Million)

| | 2012 | 2013 | 2014 | 2015 |
|------------------------|-------|-------|-------|-------|
| 1) Dog Treats & Mixers | 61.4 | 66.1 | 70.0 | 73.5 |
| 2) Dry Dog Food | 191.5 | 198.2 | 205.0 | 211.2 |
| 3) Wet Dog Food | 25.0 | 25.3 | 25.1 | 25.5 |
| Dog Food (1+2+3) | 278.0 | 289.6 | 300.1 | 310.3 |

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 2: Value Sales of Premium Dog Food by Category (Unit: US\$ Million)

| | 2012 | 2013 | 2014 | 2015 |
|-------------------------|-------|-------|-------|-------|
| Premium Dry Dog Food | 145.1 | 151.6 | 158.2 | 163.7 |
| Premium Wet Dog Food | 21.7 | 22.1 | 22.5 | 23.0 |
| Premium Dog Food | 166.8 | 173.7 | 180.6 | 186.7 |

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 3: Value Sales of Cat Food by Category (Unit: US\$ Million)

| | 2012 | 2013 | 2014 | 2015 |
|---------------------------|------|------|------|------|
| (1) Cat Treats and Mixers | 2.5 | 3.6 | 4.2 | 5.5 |
| (2) Dry Cat Food | 36.7 | 44.1 | 52.8 | 63.2 |
| (3) Wet Cat Food | 7.2 | 9.1 | 11.8 | 14.7 |
| Cat Food (1+2+3) | 46.4 | 56.8 | 68.8 | 83.4 |

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 4: Value Sales of Premium Cat Food by Category (Unit: US\$ Million)

| | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|------|------|------|------|
| (1) Premium (2) Dry Cat Food | 24.7 | 31.0 | 38.7 | 47.8 |

| | | | | |
|-------------------------|------|------|------|------|
| (2)Premium Wet Cat Food | 4.9 | 6.5 | 8.9 | 11.3 |
| (3)Premium Cat Food | 29.6 | 37.5 | 47.6 | 59.0 |

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

1. Korean dry pet food makes up 95% of the market while wet canned pet food makes up 5%. Most of the pet food bought by the Korean consumer is dry food, although canned wet food is considered a premium product and is available. It is recommended that dogs eat 30-40% of wet food to help digestion. But, because of the higher price of wet food and the fact that not many owners are aware of this recommendation. Pet owners are concerned mainly with the quality of the pet food, so effective information at the point of sale favorably affects purchase decisions.
2. Premiumization and humanization are the key trends, exerting upward pressure on unit prices - average current unit price rose by 5% in 2016 and 4% in 2015. Wet pet food as well as the organic pet food business accounts for a small portion of the market, however both organic and wet pet food are considered to be a premium type of food versus dry pet food.

Table 5: Dog Population

| | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|-------|-------|-------|-------|
| 1,000 of animals Dog Population | 2,644 | 2,669 | 2,689 | 2,703 |

Source: Euromonitor International from official statistics

Table 6: Dog Owning Households: % Analysis

| | 2012 | 2013 | 2014 | 2015 |
|------------|-------|-------|-------|-------|
| % Analysis | 12.5% | 13.5% | 14.5% | 15.3% |

Source: Euromonitor International from official statistics

3. Dogs accounted for a 90% of the pet population in 2015 and continue to increase. According to Korean Pet Industry Association, more pets live in apartments than outdoors. Since indoor dogs are more prone to allergies, products that help to ease allergic reactions, such as organic and herbal food, are in higher demand. Many hotels and resort places in Korea offer upscale services for pets including beauty salons among other services. Some dog cafes are running in the middle of busy commercial areas.

Table 7: Cat Population

| | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|-------|-------|-------|-------|
| 1,000 of animals Cat Population | 326.1 | 357.2 | 386.7 | 413.0 |

Source: Euromonitor International from official statistics

Table 8: Cat Owning Households: % Analysis

| | 2012 | 2013 | 2014 | 2015 |
|------------|------|------|------|------|
| % Analysis | 1.3% | 1.5% | 1.9% | 2.1% |

Source: Euromonitor International from official statistics

4. Royal Canin Korea led cat food with 30% value share in 2015. Cat food has very little presence of domestic brands. E-Mart Co. Ltd., has private label products for cat food under the name Molly's Pro Balance. Since the company has enormous retail power, Molly's Pro Balance will be able to see stronger market presence. Cat food is expected to continue the healthy growth to reach US\$100 million by 2017. Premium wet cat food is expected to perform as the highest-growing category in terms of constant value with

value of 20% at constant 2015 prices, contributing to cat food's overall growth. Cat treats and mixers also are expected to account for healthy value sales of 15% at constant 2015 prices. Royal Canin Korea also led dog food in 2015 with a value share of 13%. CJ O'Nature was launched as the company's representative premium-level brand. Pulmuone is one of the leading companies in fresh packaged food for humans in South Korea. Using the image of health and freshness, the company launched dog food brand Amio in 2014. Amio is made of fresh ingredients without any synthetic or chemical additives.

B. Imports Trend & KOR-US FTA

Table 9: Korea's Imports of Pet Food

(HS2309.10: Dog or Cat Food, based on Retail Sale) Unit: \$1,000 USD, Metric Ton (MT)

| Country | 2012 | | 2013 | | 2014 | | 2015 | |
|-------------------|---------|--------|---------|--------|---------|--------|---------|--------|
| | Value | Weight | Value | Weight | Value | Weight | Value | Weight |
| Total Sum | 112,691 | 37,561 | 124,419 | 39,478 | 132,866 | 41,954 | 147,945 | 47,865 |
| China | 30,188 | 4,673 | 34,435 | 5,331 | 37,255 | 5,588 | 43,271 | 6,762 |
| U.S.A | 29,716 | 13,369 | 32,246 | 13,246 | 34,009 | 14,499 | 39,862 | 16,510 |
| France | 18,879 | 7,325 | 19,369 | 7,641 | 22,802 | 8,383 | 19,352 | 8,496 |
| Thailand | 11,997 | 4,744 | 13,595 | 5,220 | 14,617 | 5,565 | 15,744 | 5,996 |
| Australia | 10,808 | 4,718 | 12,061 | 4,914 | 9,735 | 4,167 | 9,188 | 4,702 |
| Japan | 2,493 | 212 | 1,710 | 211 | 1,193 | 175 | 1,889 | 236 |
| Canada | 2,396 | 752 | 3,757 | 1,136 | 5,515 | 1,674 | 8,120 | 2,533 |
| Netherland | 1,936 | 680 | 2,189 | 655 | 1,839 | 541 | 2,094 | 832 |
| Germany | 1,103 | 287 | 1,026 | 218 | 911 | 173 | 1,561 | 218 |
| Other | 3,175 | 803 | 4,031 | 906 | 4,990 | 1,189 | 6,864 | 1,580 |

Source: Korea Trade Information Service (KOTIS) Database (www.kita.net)

Most of the products imported from China, Thailand and Japan are treats and snacks. Imports from the United States, France, Australia and Canada are primarily dry pet food products. The HS2309.10 covers pets' dry, wet, treats and snacks products.

1. The Korean Pet Product Manufacturers Association estimates there are 2.7 million pet dogs in Korea. Korea imported \$148 million value with 47,865 MT of pet food from the world in 2015 including \$40 million value with 16,510 MT from the United States. In 2015, the U.S. market share was 27% with value and 34% with volume in Korean market. Dog food accounted for a 75% of overall pet food imports. It is estimated that Korea imports 60% of all pet food consumed, 40% is domestically produced.
2. France is competing with the United States for the largest market share for pet food in Korea on a volume basis. On a value basis, China surpassed the United States and is now the biggest exporter to Korea. Many Japanese companies, who were the leading suppliers of pet treats to Korea, moved their plants to China in early 2007.

C. Distribution Channel

1. Hypermarkets, internet retailing, pet shops and veterinary clinic outlets are estimated to make up over 95% in value sales in 2015. Most consumers purchase dog treats and

mixers in hypermarkets and internet retailers for lower unit prices. Premium products are mostly distributed through specialized retailers such as pet shops and veterinary clinics. Veterinary clinics show a low ratio, especially in dog treats and mixers, with only 8% value share as of 2015.

- Hypermarkets and internet retailing are the most favored channels in pet care due to their convenience. Hypermarkets, represented by E-Mart Co. Ltd., hold a wide range of pet care products available and also have private label products with satisfying quality and reasonable retail prices. The retail side of the pet food market can be difficult to enter due to many small shops, which make it hard to price competitively and establish a customer base. Korea currently has no large convenient pet food store such as PetSmart.
- Importers and manufacturers distribute pet foods to discount stores including grocery stores (35%), general supermarkets (15%) and internet market (30%), small pet shops/vet clinics (15%) and others (5%). The internet based pet food sales make up 30%. Many individuals are designing websites and offering delivery service for a small fee. Internet shopping for pet food can be inexpensive and a convenient way to shop for pet food.

SECTION IV. COSTS AND PRICES

- Wet pet food continues to be popular among owners who are not sensitive to price and who are relatively brand conscious. Discount stores carry only a few brands at bulk quantities, but at much lower prices, and medium and small sized grocery stores carry a larger variety at slightly higher prices. The internet offers very competitive prices, however, there is some skepticism of this popular method. Veterinarian clinics and pet shops carry a variety of brands and sizes at higher prices.

Table 10: Dog Food by Price Band 2016

| | Wet dog food | Dry dog food |
|------------------------------|---------------------------------------|----------------------------------|
| Premium (Price Range per Kg) | Above \$15.5 (Won17,000) | Above \$10 (Won11,000) |
| Standard | \$5.5 - \$7.2 (Won6,000-Won9,000) | \$3 - \$7 (Won3,000-Won7,000) |
| Economy | - | Below \$2 (Won2,200) |

Source: Local Market Survey (Lotte Mart)

Note: The price bands were determined on the basis of 1) hypermarket sales and 2) pack sizes below 2kg, which is the standard and most sold size

Exchange Rate: One US dollar equivalents 1,100 Korean Won

Table 11: Cat Food by Price Band 2016

| | Wet cat food | Dry cat food |
|------------------------------|-------------------------------------|--------------------------------------|
| Premium (Price Range per Kg) | Above \$9.1 (Won10,000) | Above \$10 (Won11,000) |
| Standard | \$6.4-\$9.1 (Won7,000-Won10,000) | \$6.4 - \$8.2 (Won7,000-Won9,000) |
| Economy | - | Below \$6 (Won6,700) |

Source: Local Market Survey (Lotte Mart)

Note: The price bands were determined on the basis of 1) hypermarket sales and 2) pack sizes below 2kg, which is the standard and most sold size

Exchange Rate: One US dollar equivalents 1,100 Korean Won

SECTION V. MARKET ACCESS

A. Documents & Certificates Requirement:

1. According to the Korea Feed Management Act (www.law.go.kr) governed by the Ministry of Agriculture, Food and Rural Affairs (MAFRA), importers of feed (including pet food) should submit required documents for 'feed ingredient registration' to the governor of provincial government (there are eight provincial governments in Korea) or the city mayor to be able to sell the product in Korea. Korean importers should submit required documents (ingredient list, Korean language label information, and added veterinary medicine contents list) to Provincial government (or City government) to sell the products in Korea. In addition, importers should submit required documents for 'import registration' to inspection agencies accredited by the MAFRA. These are separate registration processes required to have your product enter the Korean market.
2. Imported pet food shipment must be accompanied by an export certificate(s) issued by USDA/APHIS (www.aphis.usda.gov) to enter Korea as agreed between the U.S. and the Korean government. [APHIS](#) website details the type of certificate required by ingredient for shipments to Korea as well as general guidelines. Please contact APHIS office in your [region](#) for further assistance.

B. Tariff and Labeling

1. The 5% base import tariff previously charged to American pet food was eliminated immediately upon implementation of the Korea-U.S. Free Trade Agreement (KORUS FTA) on March 15, 2012. Among the top three suppliers, products from China are still charged a 4.3% import tariff in 2016 under the Korea-China FTA implemented in 2015.
2. Korean language labeling for pet food shall be made in accordance with Appendix 4 of the Feed Management Act. You may find the Appendix 4 for Korea Feed Management Act via www.law.go.kr (available in Korean only). Pet food can be classified as compound feed or feed ingredient/feed supplements depending on the product characteristic. Appendix 4 provides two labeling requirements' one for compound feed and the other for feed ingredient/feed supplement. Due to regulation changes, dog food packaging cannot state any expressions or catchphrases that are not officially verified starting from 2015.

SECTION VI. KEY CONTACTS AND FURTHER INFORMATION

A. Key Contacts for more Information:

You may want to visit ATO Seoul website (www.atoseoul.com) for various information about the Korean market, including: 1) [APHIS](#) website details the type of certificate required by ingredient for shipments to Korea as well as general guidelines. Please contact APHIS office in your [region](#) for further assistance. Imported pet food shipment must be accompanied by an export certificate(s) issued by USDA/APHIS (www.aphis.usda.gov) to enter Korea as agreed between the U.S. and the Korean government.

B. Other Relevant Reports:

You may also want to visit ATO Seoul website (www.atoseoul.com) for various information about the Korean market, including:

1. Market Reports: we offer various reports on products and industries published by FAS Seoul. Particularly Exporter Guide, FAIRS Country Report, Export Certificate Report, Retail Food Sector Report, and HRI Food Service Sector Report are recommended to new-to-market suppliers.
2. KORUS FTA Product Briefs: we have short briefs on over 45 "best prospect" products.
3. Korea's Agricultural Import Statistics: This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports by four digit HS product code.
4. Korea's Agricultural Import Trends Presentation: this presentation updated quarterly provides an overview of Korea's agricultural imports and the competition between the U.S. and other players for key products.
5. What's Hot in South Korean Food Market: this monthly food news clipping summarizes new trends and developments in the Korean food market.

C. Suggested Marketing Tools:

1. ATO Seoul Buyer Matching Service (BMS) is a tool to generate a list of Korean buyers who are interested in your product offers. For registration, please fill out the application form attached and send it back to ATO Seoul.
2. ATO Seoul, offers your product featured in the 'New American Supplier/Product' section in our quarterly e-newsletter, which is sent out to our 3,000 industry contacts. It is free of charge, and all we need from you is a brief article about the company/product, contact info, and a couple of graphic images (logos or product photos).
3. Seoul Food & Hotel (www.seoulfoodnhotel.co.kr), the leading food & agriculture trade show in Korea that provides a venue for new-to-market American suppliers to develop contacts with a large number of local distributors and buyers. This is the only show in Korea that is officially endorsed and supported by USDA/FAS. The show schedule for next year is May 10-13, 2017. There will be a sizable U.S. pavilion in the show put together by various U.S. agricultural organizations including USDA cooperators, state regional trade groups and state departments of agriculture. For registration information, please contact the U.S. pavilion manager, Oak Overseas (Russell Hood, Rhood@oakoverseas.com).
4. State Regional Trade Groups (SRTG) offer various export market development programs to American suppliers, including outbound delegations of suppliers to Korea for match-making meetings. Please contact the SRTG of your target region for more information about upcoming programs:

Western United States Agricultural Trade Association (WUSATA)
 2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA
 Telephone: 360-693-3373 Fax: 360-693-3464
 E-mail: export@wusata.org
 Website: www.wusata.org

Food Export Association of the Midwest USA
 309 W. Washington St., Suite 600
 Chicago, Illinois 60606
 Telephone: 312-334-9200 Fax: 312 334-9230
 E-mail: thamilton@foodexport.org
 Website: www.foodexport.org

Food Export USA - Northeast Region of the United States
150 S. Independence Mall West, 1036 Public Ledger Building
Philadelphia, PA 19106, USA
Telephone: 215-829-9111 Fax: 215-829-9777
E-mail: jcanono@foodexportusa.org
Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)
2 Canal Street Suite 2515, New Orleans, LA 70130, USA
Telephone: 504-568-5986 Fax: 504-568-6010
E-mail: susta@susta.org
Website: www.susta.org

D. Local Show Participation:

1. Seoul Food & Hotel (www.seoulfoodnhotel.co.kr), the leading food & agriculture trade show in Korea that provides a venue for new-to-market American suppliers to develop contacts with a large number of local distributors and buyers. This is the only show in Korea that is officially endorsed and supported by USDA/FAS. The show schedule for next year is May 16-19, 2017. There will be a sizable U.S. pavilion in the show put together by various U.S. agricultural organizations including USDA cooperators, state regional trade groups and state departments of agriculture. For registration information, please contact the U.S. pavilion manager, Oak Overseas (Russell Hood, Rhood@oakoverseas.com).
2. Information on Pet Shows in Korea, Korea Pet Expo 2017 (KOPET 2017) will be held April, 2017 (KOPET Spring) & November 25-27, 2016 (KOPET Winter) at aT Center in Seoul, organized by The Fairs Company and supported by Korea Pet Association, Korea Aquarium Fish Association, Korea Animal Companion Association and others. This show attests to the growing affluence of Korean consumers as their interest in owning pets continues to grow. Detailed information on KOPET can be found on the web site: www.kopet.com

SECTION VII: KEY CONTACTS AND FURTHER INFORMATION

1. USDA/FAS OFFICES IN KOREA
U.S. Agricultural Trade Office Seoul (ATO)
Korean Address: Room 303, Leema Building, 146-1,
Susong-dong, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul,
Unit 15550-ATO, APO, AP 96205-5550
Telephone: +82-2 6951-6848 Fax: +82-2 720-7921
E-mail: atoseoul@fas.usda.gov
Internet homepage: www.atoseoul.com

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)
Korean Address: U.S. Embassy,
82, Sejong-ro, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul,
Unit 15550-AgAff, APO, AP 96205-5550
Telephone: +82-2 397-4297 Fax: +82-2 738-7147
E-mail: agseoul@fas.usda.gov

2. For further information about sanitary/export certificate requirements,

please contact:

U.S. Animal Plant and Health Inspection Service Seoul (APHIS)

Korean Address: Room 303, Leema Building,
146-1, Susong-dong, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul,
Unit 15550-APHIS, APO, AP 96205-5550

Telephone: +82-2 725-5495 Fax: +82-2 725-5496

E-mail: yunhee.kim@aphis.usda.gov

Internet Homepage: www.aphis.usda.gov