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Korea, Republic of

Dairy Annual Report

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Report Highlights: The Korean economy is recovering rapidly after the economic crisis of 1998. Imports of cheese, ice cream, and whey powder are again expected to reach record levels in the Year 2000, with continued strong growth thereafter.

Younger Koreans have developed a taste for dairy based products, and this will drive future market demand. Meanwhile, domestic milk production is forecast to remain relatively stable over the next 5 years.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK - SOUTH KOREA

The Korean economy is recovering very fast and is forecast to grow by 7 - 8 percent in 1999 and 6 percent in 2000. Imports of consumer-ready food products from the United States into Korea have already increased by 43 percent during the first half of this year compared to the same period for the previous year. Imports of several dairy products have jumped compared to the same period a year ago. For example, whey is up 20%, ice cream 35% and cheese 6% (CIF value.) With the Korean economic recovery, demand for dairy products is expected to recapture pre-financial crisis levels.

The growing popularity of western style food products has increased demand for a wide variety of dairy products. Young people in Korea today are more likely to go to a pizza place than to a traditional Korean restaurant like a kimchee stew house. Except for the economic crisis period, per capita consumption of dairy products has increased steadily and is expected to continue increasing now that the economic recovery is underway. Opportunities for U.S. ice cream, cheese and whey powder look especially good.

While demand for U.S. cheese is strong, there are some factors which U.S. exporters need to overcome. Cheese prices are higher than those of our competitors, especially Australia and New Zealand which in essence are subsidized. Further, Korean trade sources indicate U.S. exporters are not responsive to potential Korean importers' specific inquiries and are often reluctant to provide sample shipments. Korean importers find U.S. exporters only responsive when large orders are involved. In addition, Korean consumers are very sensitive to food safety issues. The market for a product can be killed quickly if a safety issue surfaces regarding any product.

Our major dairy product competitors are Australia, Canada, Denmark and New Zealand. These competitors promote dairy products including whey, lactose, cheese, ice cream, yogurt, and milk powder by participating in trade shows, hosting solo food shows, inviting Korean buyers to competitors' countries, holding tastings, and providing trade services. One competing country funded the renovation of a five star hotels' restaurant upon the restaurant's giving a two year exclusive to feature only that country's products including dairy items.

1. FLUID MILK

Domestic raw milk production is expected to increase by about 2 percent in 1999 . In 1998, about 70 percent of locally-produced milk was consumed as fluid milk while the remainder was further processed. Due to long transportation times and a short shelf life, no fluid milk is imported by Korea.

2. CHEESE

The Korean cheese market has expanded significantly since 1988 when the Olympic games were held in Seoul. Sales have increased by an average of 20 percent per year over the past 10 years and sales are anticipated to grow. Much of this growth is attributed to the rapid growth in fast food and other types of western restaurants. Domestic cheese production of 10,000 MT a year accounts for about 40% of the total consumption. Locally manufactured cheese costs \$7.50 per kilogram but in 1999, the average price of imported cheese was only \$4.17 (CIF value + 38% Tariff + 8%

other expenses). In 1998, Australia held 46 percent of the imported cheese market (by volume), New Zealand, 29 percent and the United States, 13 percent.

Bulk cheese is imported by local cheese manufacturers, re-packed and distributed directly to retailers and restaurants. Local cheese manufacturers combine locally produced cheese ingredients with imported ingredients in their production process. Ready to eat, small packaged cheeses for example, cream cheeses are purchased by importers and distributed to retailers.

3. NON FAT DRY MILK POWDER (NFDM)

NFDM is imported by local food processors and used largely as an ingredient in confectionery and bakery products for reexport to Japan. To comply with Japanese standards for these products most NFDM is imported from the E.U. Consequently, Korea has not imported any NFDM from the U.S. to date. Production of NFDM in Korea occurs only when there is a surplus of locally produced raw milk. However, manufacturing NFDM locally costs \$5.42 per kilogram but sells at retail for only \$3.75 per kilogram. The major supplier of NFDM to Korea is the E.U. To date, Korea has not imported any NFDM from the U.S. The average imported NFDM costs \$1.52 per kilogram (based on CIF).

4. OTHER DAIRY PRODUCTS

Yogurt and Ice Cream - More than 20% of locally-produced milk is used for yogurt. Almost 100 percent of yogurt in Korea is locally produced.

During January - August 1999, ice cream imports increased 33% to \$3.2 million compared to the same period a year ago. The premium ice cream market is dominated by U.S. products. The local ice cream market including imported ice cream has been growing 8-9% annually during the last 10 years. Continued growth of sales is expected in this market, with import levels reaching 10,000 MT again by 2,000.

Whey Powder - Imports of whey powder have increased by an average of 16 percent annually since 1990, a substantial rise over the past 10 years. In 1998, the E.U. made up 66 percent of the imported whey powder market, the U.S., 22 percent and Australia and New Zealand combined, 5 percent (by CIF value). Typically, U.S. whey powder prices are lower than our competitors. For example, in 1998, imported U.S. whey powder costs only one third of E.U. imported costs (U.S., \$0.58 and E.U., \$1.57 based on CIF). Imported whey powder is mainly used as a feed ingredient. The remaining amount is used for infant formula, ice cream and confectionery and bakery products. Whey powder imports are expected to rise in conjunction with increasing dairy herd numbers.

Lactose - Imports of lactose are growing gradually. The U.S. market share took up more than 50 percent of imports over the last 4 years. U.S. lactose is extremely competitive in price. For example, in 1998, the U.S. cost of imported lactose was \$0.64 compared to the E.U. price of \$0.96 (CIF value). Imported lactose is used for infant formula, bakery goods, pharmaceutical products, ginseng tea granules, and as a milk replacement in feeds. The expanding bakery market and the growth of dairy herd numbers are expected to increase the imports of lactose.

SECTION II. STATISTICAL TABLES**Dairy Product Consumption in Korea**

Description	1994	1995	1996	1997 a/	1998 a/
Milk					
Total Milk Consumption (Percent Change) b/	2,078 MT	2,144 MT (3%)	2,465 MT (15%)	2,440 MT (-1%)	2,300 MT (-5%)
Consumption per Capita (Percent Change)	46.8 kg	47.8 kg (2.1%)	54.5 kg (14%)	52.1 kg (-4.4%)	48.8 kg (-5.6%)
Cheese					
Cheese Consumption (Percent Change)	9,767 MT	13,881 MT (42%)	20,556 MT (48%)	25,078 MT (22%)	24,904 MT (-1%)
Yogurt					
Consumption per Capita (Kg)	11.6Kg	13.2 Kg	12 Kg	14.2 Kg	10.9Kg

a/ The decline in 1997/1998 was attributed to Korea's economic crisis.

b/ Milk consumption includes fluid milk as well as all processed dairy products like cheese and yogurt.

Note: Data for 1999 unavailable

Source: Ministry of Agriculture & Forestry and Industry Contacts

Dairy Product Imports to Korea

Description	Imports from the World (Million US\$)			Imports from the U.S.(Million US\$)			U.S. Market Share (Percent)		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
Dairy Products (Excl. Cheese)	135	115	71	19	18	12	14	15	16
Cheese	50	60	36	18	19	7	36	31	19

Source: FAS Global Agricultural Trade System using data from the United Nations Statistical Office

Price Comparison of Imported Cheeses to Korea

Description	Fresh Cheese		Processed Cheese	
	1998	1999 a/	1998	1999 a/
U.S. Cheese/Kg (CIF)	\$3.71	\$4.17	\$4.01	\$4.56
Australia Cheese/Kg (CIF)	\$2.38	\$2.39	\$3.28	\$3.14
New Zealand Cheese/Kg (CIF)	\$2.39	\$2.29	\$2.65	\$2.80

a/ The 1999 prices reflect foreign currency exchange rate changes.

Source: Korea Customs Service

Imports of Ice Cream/Whey Powder/Lactose to Korea and U.S. Market Share

Description	1995	1996	1997	1998 a/	1999(Jan-Aug.) a/
Ice cream					
Total Imports(Million\$)	3,984	8,631	10,824	3,841	3,227
U.S. Market Share	93%	79%	80%	93%	93%
Whey Powder					
Total Imports(Million\$)	55	77	57	36	29
U.S. Market Share	13%	10%	13%	22%	20%
Lactose					
Total Imports(Million\$)	0	8.7	9.2	7.4	4.5
U.S. Market Share	0	51%	52%	57%	63%

a/ The decline in 1997/1998 was attributed to Korea's economic crisis.

Source: Korea Trade Information Service (KOTIS)

PS&D Table: Fluid Milk

Unit: 1,000 Metric Ton

PSD Table						
Country:	Korea, Republic of					
Commodity:	Dairy, Milk, Fluid					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Cows In Milk	0	247	0	248	0	248
Cows Milk Production	0	2,027	0	2,063	0	2100
Other Milk Production	0	0	0	0	0	0
TOTAL Production	0	2027	0	2063	0	2100
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	0	2027	0	2063	0	2100
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	0	1,401	0	1420	0	1440
Factory Use Consum.	0	626	0	637	0	648
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	0	2027	0	2057	0	2088
TOTAL DISTRIBUTION	0	2027	0	2057	0	2088
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Cows in Milk: 1,000 heads

Source: Ministry of Agriculture & Forestry

PS&D Table: Cheese

Unit: Metric Ton

PSD Table						
Country:	Korea, Republic of					
Commodity:	Dairy, Cheese					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	1862	0	369	0	570
Production	0	10148	0	11670	0	12830
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	13263	0	15916	0	17500
TOTAL Imports	0	13263	0	15916	0	17500
TOTAL SUPPLY	0	25273	0	27955	0	30900
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	0	24904	0	27394	0	30450
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	24904	0	27394	0	30450
TOTAL Use	0	24904	0	27394	0	30450
Ending Stocks	0	369	0	570	0	447
TOTAL DISTRIBUTION	0	25273	0	27964	0	30897
Calendar Yr. Imp. from U.S.	0	1760	0	1936	0	2130
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Source: Ministry of Agriculture & Forestry

Import Trade Matrix: Cheese

Unit: Metric Ton

Import Trade Matrix				
Country:		Units:	MT	
Commodity:				
Time period:	1998		Jan-July 1999	
Imports for	1998		1999	
U.S.	1760	U.S.	970	
Others		Others		
Australia	6,140		5,856	
New Zealand	3800		3307	
EU	928		327	
Canada	607		920	
Total for Others	11475		10410	
Others not listed	28		15	
Grand Total	13263		11395	

Source: Ministry of Agriculture & Forestry

PS&D Table: Non Fat Dry Milk (NFDM)

Unit: Metric Ton

PSD Table						
Country:	Korea, Republic of					
Commodity:	Dairy, Milk, Nonfat Dry					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	5701	0	6189	0	6680
Production	0	17522	0	17837	0	18518
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	2648	0	2700	0	2750
TOTAL Imports	0	2648	0	2700	0	2750
TOTAL SUPPLY	0	25871	0	26726	0	27948
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	204	0	208	0	211
TOTAL Exports	0	204	0	208	0	211
Human Dom. Consumption	0	19478	0	19830	0	20186
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	19478	0	19830	0	20186
TOTAL Use	0	19682	0	20038	0	20397
Ending Stocks	0	6189	0	6680	0	7545
TOTAL DISTRIBUTION	0	25871	0	26718	0	27942
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Source: Ministry of Agriculture & Forestry

Import Trade Matrix: Non Fat Dry Milk (NFDM)

Unit: Metric Ton

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	1998		Jan-July 1999
Imports for	1998		1999

U.S.	0	U.S.	0
Others		Others	
Australia	950		616
New Zealand	883		207
EU	782		357
Total for Others	2615		1180
Others not listed	34		
Grand Total	2649		1180

Source: Ministry of Agriculture & Forestry