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Korea - Republic of

Dairy and Products Annual

Dairy and Products Annual Update

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Report Highlights:

Since the FMD outbreak in 2010, local raw milk production has rebounded, but has outpaced slower growing demand. As a result, higher ending stock levels in 2014 carried over into 2015. Overall local raw milk products recorded 2 percent negative volume, but per capita volume consumption continued to increase in 2015. Drinking milk products recorded negative volume and value growth in 2015 as per capita volume consumption continued to decrease. Consumers who continue to drink milk will shift to reduced fat milk from full fat fresh milk. The share of reduced fat fresh milk is projected to be 19% in 2020, up from 16% in 2015. Flavored milk drinks contain sugar, so it is unlikely to post strong growth given health and wellness trends. All cheese categories recorded positive value growth in 2015. The introduction of different types of processed cheese led to growth. Cheddar sliced processed cheese dominated processed cheese but the range expanded to include Mozzarella, Gorgonzola, Gouda and Camembert sliced processed cheeses. The potential uses on product packaging promoted use of cheese on hamburgers, sandwiches, instant noodles and Gimbap. A new type called snack cheese or portion cheese also helped processed cheese to continue positive value growth. Local NFDM production

decreased 20 percent in 2015 from the previous year while consumption remained relatively flat. However, year end inventory remained high mostly due to less expensive imports.

Executive Summary:

Korean raw fluid milk production posted 2 percent negative volume, however, per capita volume consumption for dairy products overall continued to increase in 2015. Drinking milk products recorded negative volume and value growth in 2015 as per capita volume consumption continued to decrease. In South Korea, raw milk production rebounded since 2011 after recovering from foot-and-mouth disease (FMD) outbreak in 2010, but consumer consumption was lower. Consumers who continue to drink milk will shift to reduced fat milk from full fat fresh milk. The share of reduced fat fresh milk is projected to be 19% in 2020, up from 16% in 2015.

Domestic cheese manufacturers distribute imported cheese brands, but with the exception of Philadelphia spreadable processed cheese, value share of global brands remained small. Korean consumers are not yet familiar with natural unprocessed cheese, but the number of imported brands in unprocessed cheese continues to increase. All cheese categories recorded positive value growth in 2015. The introduction of different types of processed cheese led to growth. Cheddar sliced processed cheese dominated processed cheese but the range increased to include Mozzarella, Gorgonzola, Gouda and Camembert sliced processed cheeses.

Over production of fresh milk and less expensive NFDM imports have resulted in higher inventories in 2015. In 2015, local NFDM production amounted to 17,000 MT; a 20% decrease from the previous year. Yoghurt is expected to be stagnant with 1% at constant 2016 prices. Drinking yoghurt and plain yoghurt products are expected to increase, but fruited yoghurt is predicted to decrease 2% at constant 2016 prices. Flavored yoghurt, which was mainly targeted at children, showed positive value and volume growth in 2015 thanks to active marketing campaigns using famous animated characters. Fruited yoghurt contains sugar or fruit concentrate, so consumers shifted to plain yoghurt in order to consume more natural food. Ice cream manufacturers are set to introduce premium single portion ice cream desserts, such as ice cream waffles or macaroon ice cream. Manufacturers are predicted to develop ice cream by targeting adult consumers rather than children. Coffee-flavored ice cream and real cheese cake with ice cream are likely to remain popular with adults.

Commodities:

Dairy, Milk, Fluid

Production:

As Table 1 shows, local raw milk products recorded 2 percent negative volume but per capita volume consumption continued to increase in 2015. Drinking milk products recorded negative volume and value growth in 2015 as per capita volume consumption continued to decrease. In South Korea, raw milk production increased since 2011 after recovering from foot-and-mouth disease (FMD), but has outpaced consumer consumption growth.

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

Unit: 1,000 Metric Ton

		2012	2013	2014	2015
Beginning Inventory		18	92	93	233
Supply	Production	2,111	2,093	2,214	2,168
	Import	1,414	1,586	1,683	1,788
	Total	3,525	3,679	3,897	3,956
Demand	Local Consumption	3,359	3,582	3,646	3,834
	Export	93	96	111	102
	Total	3,452	3,678	3,757	3,936
Ending Inventory		92	93	233	253
Per Capita Consumption for Dairy Products (Kilogram)		67.2	71.3	72.4	75.7
Per Capita Consumption for Drinking Milk (Kilogram)		33.6	33.5	32.5	32.6

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA/
2015 Dairy Statistics Yearbook by Korea Dairy Committee (KDC)

Table 2: Korea's Key Dairy Product Imports Unit: Metric Ton

	2013		2014		2015	
	U.S.	Total	U.S.	Total	U.S.	Total
Cheese (HS:0406)	42,530	85,069	63,800	97,200	54,821	111,522
NFDM (HS:0402.10)	5,907	19,710	7,700	21,100	5,660	21,259
WFDM (HS:0402.21)	357	1,990	300	2,100	38	2,034
Mixed Milk (HS:0404.90 & 1901.90.2000)	180 +987 =1,167	25,577 +8281 =33,858	495 +1,246 =1,741	28370 +9,723 = 38,093	5 +1,054 =1,059	22,651 +8476 =31,127
Butter (HS:0405.10)	1,218	3,355	1,187	3,523	1,135	3,411
Whey Powder (HS:0404.10)	18,201	35,091	12,700	31,400	15,100	34,400
Ice Cream (HS:2105)	1,264	4,744	1,200	5,400	1,100	5,660
Total	70,644 (38%)	184,817	88,628 (45%)	198,816	78,913 (38%)	209,413

Source: 2015 Korea Customs Office

Table 3: Domestic Milking Cows, Farms, and Production

	2012	2013	2014	2015
Number of Raising Milking Cows (1,000 Heads)	420	424	431	411
Number of Practical Milking Cows (1,000 Heads)	209	206	208	197
Number of Farms	6,007	5,830	5693	5,498
Average number of cows per Farm	69.9	72.8	75.7	74.8

Source: Korea National Statistics 2015

Table 4: Raising Cost of Dairy Cow per Head Unit: U.S. $

	2011	2012	2013	2014	2015
Total Raising Cost	6,200	6,900	7,139	7,307	7,248
Feed Cost	3,700	3,900	4,012	4018	4,049

Source: Korea Dairy Committee 2015

Table 5: Raw fluid milk Production Cost per 100 Liter Unit: U.S. $

	2011	2012	2013	2014	2015
Total Production Cost	71.8	78.4	80.7	79.6	76.3
Feed Cost	74.5	80.4	82.6	81.6	78.8
Income from By Product	2.7	2.0	2.0	2.0	2.5

Source: Korea Dairy Committee 2015

Consumption:

Fresh milk decreased by 2% in both retail value and volume terms in 2015. In particular, full fat fresh milk posted value decline of 3% due to the increase in value share of 3% in semi skimmed fresh milk. According to the research, drinking more than 680ml per day is not beneficial to bone health for adults so drinking only one cup of milk per day is enough. There were several articles explaining the disadvantages of drinking cow's milk for health which quoted research from Uppsala

University in Sweden. The articles also recommend reduced fat milk for adults to help prevent a number of adult health problems. The volume sales of fresh milk therefore decreased since 2011, but reduced fat milk has been recorded to continue increase despite overall slowdown in milk since 2012.

Manufacturers focused on launching premium positioned milk products to attract consumers such as fat free milk (FFM) but the marketing strategy did not result in positive volume or value growth. Due to frequent promotional sales through major distribution channels to boost drinking milk because of oversupply in volume, current unit price of flavored milk drinks and cow's milk both declined, although there was more premiumisation in drinking milk products. Organic milk and fat free milk (FFM) also declined in both volume and value terms during 2015 which are normally distributed so they can be targeted at children, but they were affected by the overall weak performance of children's food market. Flavored milk drinks declined by 3% in both value and volume in 2015. Dairy only flavored milk drinks declined more rapidly than flavored milk drinks with fruit juice, with banana flavor continuing to lead. Among dairy only flavored milk drinks, chocolate flavor had the largest share followed by coffee flavor. Meanwhile, banana flavor's value sales continued to have the largest share of 30%.

Soy milk declined by 3% in value terms in 2015. To boost the stagnant market, players introduced different flavored soy milk drinks such as green tea soy latte, soy milk with real fruit juice and coffee flavored soy milk to attract drinkers of RTD products, targeted at the younger consumer group.

Table 6: Domestic Raw fluid milk Usage Unit: 1,000 MT

	2010	2011	2012	2013	2014	2015
Drinking Use	1,541	1,483	1,578(75%)	1,587 (76%)	1,540(70%)	1,529(70.5%)
Processed Use	532	406	533(25%)	506(24%)	674(30%)	639(29.5%)
Total	2,073	1,889	2,111(100%)	2,093(100%)	2,214(100%)	2,168(100%)

Source: 2015 Korea Dairy Committee

Table 7: Sales of Drinking Milk Products by Category: Value ($Million)

	2013	2014	2015
1.Flavored Milk Drinks	$948.75 Mil.	$902.49	$875.87
-Dairy Only Flavored Milk Drinks	$395.35	$351.87	$330.75
-Flavored Milk Drinks with Fruit Juice	$553.39	$550.63	$545.12
2.Flavored Powder Drinks	$15.56	$15.61	$15.56
-Chocolate based	$19.75	$20.80	
-Non Chocolate based	$4.10	$4.27	
3.Milk	$1,826.33	$1,826.83	$1,794.52
-Cow's Milk	$1,826.33	$1,826.83	$1,794.52
4.Powder Milk	$15.56	$15.61	$15.56
5.Non-Dairy Milk Alternatives	$380.56	$361.53	$350.68
-Soy Milk	$380.56	$361.53	$350.68
Total Drinking Milk Products (1+2+3+4+5)	$3,171.20 Mil.	$3,106.45	$3,036.64

Source: Euromonitor 2015

Marketing

Seoul Dairy Cooperative maintained the leading position with a 31% value share of drinking milk products. The company introduced reduced fat fresh milk in March 2015, which helped it gain more value share. The company attracted consumer interest in fresh milk with new products. The second and third players in drinking milk, Maeil Dairies Co. and Namyang Dairy Products Co., had respective value shares of 19% and 16% in 2015. Maeil Dairies Co. expanded fresh milk products' line by adding more reduced fat fresh milk in 2014 to boost stagnating milk category.

Consumers who continue to drink milk will shift to reduced fat milk from full fat fresh milk. Market share of reduced fat fresh milk is expected to be 19% in 2020, up from 16% in 2015. The value share of reduced fat fresh milk increased to 38% from 30% in 2015. Flavored milk drinks contain sugar, so it is unlikely to post strong growth given the health and wellness trend. Manufacturers replaced sugar with fructose to reduce calories in skimmed milk.

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 8: Production, Supply and Demand Data Statistics: PSD TABLE for Fluid Milk

Dairy, Milk, Fluid	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	207	197	206	194	0	190
Cows Milk Production	2200	2169	2193	2126	0	2083
Other Milk Production	0	0	0	0	0	0
Total Production	2200	2169	2193	2126	0	2083
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	2200	2169	2193	2126	0	2083
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1530	1529	1529	1488	0	1458
Factory Use Consum.	670	640	664	638	0	625
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	2200	2169	2193	2126	0	2083
Total Distribution	2200	2169	2193	2126	0	2083
(1000 HEAD) ,(1000 MT)						

Policy:

Commodities:

Dairy, Cheese

Production:

Domestic manufacturers distribute imported cheese brands, but with the exception of Philadelphia spreadable processed cheese, value share of global brands remained small. Korean consumers are not yet familiar with natural unprocessed cheese, but the number of imported brands in unprocessed cheese continues to increase especially by Seoul Dairy Cooperative and mixed retailers.

Seoul Dairy Cooperative maintained a solid leading position with a 32% value share in 2015. The company strengthened the new brand by targeting adults; it contained 83% natural cheese and lower sodium. Through active marketing strategy for the representative new brand of Seoul Dairy Cooperative, the company retained the largest value share in cheese.

Sangha cheese brand by Maeil Dairies Co. posted value growth of 2% in 2015, although value share remained the same. The company had a strong performance in both processed cheese and unprocessed cheese. It maintained the leading position within soft cheese excluding grated cheese. Within soft cheese, grated cheese for pizza had a 40% share with the highest number of natural soft cheese products in South Korea.

Within soft cheese, private label grated cheese had a strong performance. Most hypermarkets distribute their own grated soft cheese for pizza at a cheaper price than leading brands, so they have competitive advantage in price.
In 2015, private label had a 3% value share of processed cheese and 16% value share of unprocessed cheese despite the value decline or stagnation of most leading grated soft cheese brands

Table 9: Cheese Production, Import & Consumption Unit: Metric Ton

		2012	2013	2014	2015
Production	Fresh Cheese	4,420	5,700	8,600	7,200
	Processed Cheese	18,000	16,700	15,200	15,900
	Import (Fresh Cheese)	71,500	76,900	87,200	101,500
	Import (Processed)	6,000	8,200	10,000	10,000
	Total	99,920	107,500	121,000	134,600
Consumption	Fresh Cheese	64,400	69,400	76,000	89,000
	Processed Cheese	18,400	18,500	14,500	14,500
	Export (Fresh Cheese)	95	124	200	400
	Export (Processed)	5	28	32	55
	Total	82,900	88,052	90,732	103,955

Source: Korea Dairy Committee 2015

Consumption:

All cheese categories recorded positive value growth in 2015. The types of processed cheese became diverse, which led to growth. For example, Cheddar sliced processed cheese dominated processed cheese but the range expanded to include Mozzarella, Gorgonzola, Gouda and Camembert sliced processed cheeses. The potential uses on product packaging promoted the use of cheese on hamburgers, sandwiches, instant noodles and Gimbap. In addition, a new type called snack cheese or portion cheese also helped processed cheese to continue positive value growth. As the number of consumers who enjoy cheese when drinking wine is increasing, changing the shape of processed cheese made it easier to eat.

Soft cheese showed 4% value growth thanks to the popularity of string cheese. Manufacturers focused on making simple shapes of unprocessed cheese for convenience. String cheese therefore grew strongly since 2011, which led sales reaching $50 million in 2015. The original natural soft cheese still had a lower share of unprocessed cheese. Camembert showed stagnation in value share and other cheese increased by 8% while Mozzarella and Cheddar cheese lost marginal value share in 2015.

As the number of brands and shapes was diverse, current unit price of cheese increased slightly in 2015. Full fat cheese and organic cheese continued to grow even if at a slower rate. Previously, organic cheeses were targeted at babies and children, but in 2015 this cheese type was targeted at adults who are concerned about health and weight management with reduced fat cheese including vitamins and dietary fiber.

In South Korea, only cream cheese was available within spreadable processed cheese. Philadelphia, distributed by Dongsuh Foods Co., dominated with a 78% value share in 2015. Cheese is still distributed mainly through hypermarkets with a 68% value share.

Table 10: Korean Imports of Cheese

	2012		2013		2014		2015	
	$1,000	MT	$1,000	MT	$1,000	MT	$1,000	MT
World	359,718	77,506	403,041	85,069	497,416	97,215	501,741	111,522

United States	140,596	31,877	188,384	42,530	301,316	63,848	250,749	54,821
New Zealand	100,858	23,908	102,242	23,883	50,522	10,139	63,614	15,643
EU	65,704	9,648	69,698	10,217	108,865	16,212	136,507	26,833
Australia	33,320	7,483	26,817	5,749	27,043	5,374	32,703	8,047
Other Countries	19,240	4,590	15,900	2,690	9,670	1,642	18,168	6,178

Source: Korea Customs Office 2015, HS 0406,CheeseandCurd

Trade:

Table11: Cheese Tariff Phase-Out Schedule under KORUS FTA:

The KOR-USFTA creates a zero-duty tariff-rate quo ta for cheeses covered under tariff lines 0406101000, 0406200000, 0406300000and0406900000.Inthefirstyearthein-quota amount is7,000 MT and rises to10,280 MT in year 2014. All U.S. cheeses will enter duty-free by 2026.

HS	Description	Base Rate	2012	2013	2014	2015	2016
0406101000**	Fresh Cheese**	36%	33.6%	31.2%	28.8%	26.4%	24%
0406102000	Curd	36%	32.4%	28.8%	25.2%	21.6%	22.8%
0406200000**	Grated or powdered cheese of all kinds**	36%	33.6%	31.2%	28.8%	26.4%	24%
0406300000**	Processed cheese, not grated or powdered**	36%	33.6%	31.2%	28.8%	26.4%	24%
0406400000	Blue-veined cheese	36%	32.4%	29%	25.4%	21.8%	18.2%
0406900000**	Cheese, NES, including cheddar**	36%	33.6%	31.2%	28.8%	26.4%	24%
	TRQ Volume (MT)		7,000	7,210	7,426	7,649	7,878

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 12: Cheese Tariff Schedule on Korea-US FTA implementation

HS Code Product	Rate %	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr10	Yr11	Yr12	Yr13	Yr14	Yr15
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 in MT 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	Unlimited
0406.20.0000 Grated/ Powdere	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

d cheese																

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	Will 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 13: Production, Supply and Demand Data Statistics :PSD Table for Cheese

Dairy, Cheese	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	4	4	8	2	0	2
Production	24	23	24	24	0	24
Other Imports	110	112	120	120	0	130
Total Imports	110	112	120	120	0	130
Total Supply	138	139	152	146	0	156
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	130	137	137	144	0	154
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	130	137	137	144	0	154
Total Use	130	137	137	144	0	154
Ending Stocks	8	2	15	2	0	2
Total Distribution	138	139	152	146	0	156
(1000 MT)						

Marketing:

Processed sliced cheese is already mature and special cheese such as organic or full fat cheese targeted at babies and children will also decrease in volume terms due to continuing lower birth rate.

In unprocessed soft cheese, grated cheese and string cheese types will continue to have a strong performance. Instead of use with pizza, grated cheese for other Korean-style food is expected to increase due to manufacturers' efforts to introduce new packaging for existing grated cheese products. Even if the growth rate is slower, string cheese will be popular with consumer groups of all ages as a snack.

With continuing popularity of grated soft cheese, hypermarkets will still be considered the most popular distribution channel thanks to strong performance of private label's grated cheese products. Even if processed cheese must be kept refrigerated, non-store retailers which deliver products to the home will continue to deliver the products.

In 2015, Pulmuone Co. Ltd entered the unprocessed cheese category with four different types of soft cheese. The company already has strong brand reputation in health and wellness food products in South Korea, so it is expected to have the same performance in soft cheese. As new products, especially those positioned as premium, are actively introduced constant unit price of both processed cheese and unprocessed cheese are predicted to increase slightly.

Commodities:

Dairy, Milk, Nonfat Dry

Production: Local NFDM production decreased 20% in 2015 from the previous year while consumption remained relatively flat. However, year end inventory remained high mostly due to less expensive imports. Local raw fluid milk price reached $1.1 per liter since August 2013, the highest raw fluid milk price in the world. As a result, local NFDM production costs roughly $11 per liter. However, practical retail value of market price can be only $3 per liter due to an inexpensive imported NFDM

Consumption:

In 2015, inventory of NFDM and amount of duty-free NFDM imports impacted the markets. The oversupply of fresh milk led to the significant amount of NFDM production at 17,076 metric tons. In 2015, NFDM consumption amounted to 36,648 MT, an increase of 14 percent compared to the year of 2014. 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 14: NFDM Production, Imports, Consumption by Year Unit: Metric Ton

	2011	2012	2013	2014	2015
Production	4,000	14,200	11,670	21,395	17,076
Import	34,000	18,840	19,749	21,130	21,260
Export	5	41	23	17	3
Year End Inventory	1,136	7,079	7,053	17,532	19,220
Consumption	37,284	27,120	31,445	32,045	36,648

Source: Korea Dairy Committee 2015

In 2015, NFDM import increased by 1 percent to 21,260 MT compared to 2014. 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. There was over production of fresh milk which resulted turned in the over production of NFDM in 2015.

Trade:

Table15 : NFDM Tariff and TRQ Schedule on Korea-USFTA implementation

HS Code	Description	Base Rate & quota volume	2012	2013	2014	2015	2016
0402.10	NFDM–In powder, fat content not exceeding 1.5%	176%	176%	176%	176%	176%	176%
	Duty free quota 5,000MT every Year with an additional 3% compound increase	5,000MT	5,000MT	5,150MT	5,304MT	5,463MT	5,628MT

The method of TRQ allocation is Imports Rights Auction (IRA). Korea Agro Fisheries & Food Trade Corporation (be called aT Center) is quasi government agency, processes the auction.

Table 16: NFDM Imports by Country of Origin in 2015 Unit: Metric Tons

	U.S.	Australia	New Zealand	E.U.	Total
Import Volume (MT)	5,660	6,364	695	8,520	21,259
Import Value ($1,000)	$12,665	$17,665	$1,739	$22,932	$55,059
Unit Price per MT	$2,238	$2,778	$2,502	$2,692	$2,590

Source: Korea Trade Information Service 2015

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 2015, most imported NFDM was used for bakery ingredients and infant formula.

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Data Statistics: Production, Supply, Demand

Table 17: NFDM PSD Table

Dairy, Milk, Nonfat Dry	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	18	18	25	20	0	20
Production	20	17	20	17	0	16
Other Imports	20	21	20	21	0	20
Total Imports	20	21	20	21	0	20
Total Supply	58	56	65	58	0	56
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	33	36	35	38	0	36
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	33	36	35	38	0	36
Total Use	33	36	35	38	0	36

Ending Stocks	25	20	30	20	0	20
Total Distribution	58	56	65	58	0	56
(1000 MT)						

Author Defined:
IV Other Dairy Products

1. 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 and ice cream, baby food, bakery goods, 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.

Table 18 : Whey Tariff Schedule on Korea-USFTA implementation

HS Code Products	Rate %	Yr 1 (2012)	Yr2	Yr3	Yr4	Yr5	Yr 6	Yr 7	Yr 8	Yr 9	Yr10
406.10.10, 040410.21, 0404.10.29 Whey & Modified whey, Whether or not Concentrated or sweetened for Human consumption – up to80%protein	49.5%	20%	17.8	15.6	13.3	11.1	8.9	6.7	4.4	2.2	0
3502.20Milk albumin, including concentrates of	8%	6.4	4.8	3.2	1.6	0					
Two or more whey protein for Human consumption – morethan80% protein											
0406.10.10, 040410.21,0404.10.29 Whey & modified whey, whether or	49.5%	0%									

not Concentrated or sweetened for Animal Feed-up to 80% protein			

Annual duty-free quota in MT for HS0404.10for food– up to 80% protein	NA	3,000MT	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 19: Whey Import by Year (0404.10 & 3502.20)

Import Volume		2011	2012	2013	2014	2015
HS: 0404.10	Volume (1,000MT)	30,400	42,450 (fromU.S.20,200MT-48%marketshare)	35,091 (from U.S. 18,201MT, 51% market share)	31,402 (from U.S. 12,651MT – 40% market share)	34,419 (from U.S. 15,073 - 44% market share)
	Value ($1,000)	43,000	$66,700 (fromU.S.$23,300 – 35%market share)	$60,835 (from U.S. $22,514, 37% market share)	$57,833 (from U.S. - $15,891 – 27% market share)	$46,444 (from U.S. $14,518 -31% market share)
HS: 3502.20*	Volume (MT)	1,875	2,000 (fromU.S.1,100MT–55%market share)	2,400 (from U.S. 1,300MT, 54% market share)	2,007 MT(from U.S. 1,183 MT 59% market share)	2,698 MT (from U.S. 1,5,06 MT 56% market share)
	Value ($1,000)	19,200	24,700 (U.S.$12,000–49%market share)	32,000 (from U.S. 14,000MT, 43% market share)	$25,157 (from U.S. $12,388 – 49% market share)	$27,212 (from U.S. $13,391 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.
Source: Korea Trade Information Service (KITA)

2. Yoghurt Products

Production / Consumption / Marketing

In 2015, yoghurt and sour milk products decreased in both value and volume terms, the value posted 1% decrease to reach $2.0 billion value sales in 2015. Drinking yoghurt, which had the largest value share, declined by 4% in value terms due to absence of new products. Most categories of spoonable yoghurt (excluding fruited yoghurt) had healthy value growth due to the craze of Greek yoghurt. The Greek yoghurt will continue the popularity of plain yoghurt. In foodservice, Greek yoghurt will also be diverse and it is expected that the number of Greek yoghurt specialist cafés will increase, targeting younger consumers who are especially concerned about health.

Drinking yoghurt and plain yoghurt is expected to increase, but fruited yoghurt is predicted to decrease 2% at constant 2016 prices. Flavored yoghurt, which was mainly targeted at children, posted positive value and volume growth in 2015 thanks to active marketing campaigns using famous animated characters. Plain yoghurt had 32% current value growth in 2015. Consumers tend to purchase plain yoghurt for not only spoonable yoghurt, but also as a dressing for fruit and salad given the health and wellness trend. Fruited yoghurt contains sugar or fruit concentrate, so consumers shifted to plain yoghurt in order to consume more natural food.

Maeil Dairies Co. introduced Maeil Bio large pack size in 2014, which had a 20% value share within a year of its introduction. Namyang Dairy Products Co. also posted a strong performance of Milk 100 nothing-added concept of plain yoghurt with both large cup and small cup pack size. Current unit price of plain yoghurt therefore declined slightly in 2015. Korea Yakult maintained the largest value share of 45% within yoghurt and sour milk products. Although the company lost value share in 2015 due to the decline in value share of drinking yoghurt, it still had a solid leading position. The company had a 51% value share within drinking yoghurt. Binggrae Co. maintained a strong position with a 34% value share in plain yoghurt. The company posted 20% value growth within plain yoghurt.

3. Ice Cream

Production / Consumption / Marketing

Ice cream was the only packaged food category where hypermarkets held a very small retail value share (only 4%) in 2015. Supermarkets and independent small grocers regarded ice cream as an important product to attract consumers.

The rising current unit prices of ice cream as a result of the government retail selling price system limited the fall in retail current value sales to 1% and sales reached $1.9 billion in 2015, however, retail volume sales decreased by 2%. In addition, the MERS Corona Virus spread nationally during summer 2015. Thus, ice cream sales decreased as consumers put off visiting retailers to avoid being infected with the virus. In terms of format, sticks continued to lose retail value share in impulse ice cream and fell to 29% in 2015. On the other hand, cones share continued to rise gradually to reach 20%. The share of “others”, such as pouches, cups and tubes, increased between 2012 and 2015 to reach one half of retail value sales. In particular, pouch ice cream benefited by being targeted at adults. In South Korea, vanilla, strawberry and chocolate remained the top ice cream flavors in retail value sales terms in 2015. The popularity of coffee-flavored ice cream steadily grew, especially among adult consumers. On the other hand, fruit-flavored ice cream remained limited in terms of product variety and existing brands lost retail value sales.

Lotte Confectionery leads ice cream in 2015, with a 30% share of retail value sales, followed by Binggrae, with a 27% share. As retail value sales of ice cream decreased, Lotte Confectionery focused on super premium ice cream and premium desserts. Binggrae Co. expanded the flavors of its famous Melona (melon flavor) brand. Since 1992, the company has extended its flavors to include strawberry, banana, and mango.

V. EXPORT REQUIREMENT TO KOREA:

See APHIS’website(http://www.aphis.usda.gov/regulations/vs/iregs/products/ for any sanitary requirements for shipping dairy products to Korea.

For more information, please contact the U.S.AgriculturalTradeOffice, U.S.Embassy Seoul,Korea,at atoseoul@fas.usda.gov,Tel:82-2-6951-6845,Fax:82-2-720-7921,or visitwww.atoseoul.com

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 8: Production, Supply and Demand Data Statistics: PSD TABLE for Fluid Milk

Dairy, Milk, Fluid	2015	2016	2017

Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	207	197	206	194	0	190
Cows Milk Production	2200	2169	2193	2126	0	2083
Other Milk Production	0	0	0	0	0	0
Total Production	2200	2169	2193	2126	0	2083
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	2200	2169	2193	2126	0	2083
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1530	1529	1529	1488	0	1458
Factory Use Consum.	670	640	664	638	0	625
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	2200	2169	2193	2126	0	2083
Total Distribution	2200	2169	2193	2126	0	2083
(1000 HEAD) ,(1000 MT)						

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 13: Production, Supply and Demand Data Statistics :PSD Table for Cheese

Dairy, Cheese	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	4	4	8	2	0	2
Production	24	23	24	24	0	24
Other Imports	110	112	120	120	0	130
Total Imports	110	112	120	120	0	130
Total Supply	138	139	152	146	0	156
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	130	137	137	144	0	154
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	130	137	137	144	0	154
Total Use	130	137	137	144	0	154
Ending Stocks	8	2	15	2	0	2
Total Distribution	138	139	152	146	0	156
(1000 MT)						

Production, Supply and Demand Data Statistics:

Data Statistics: Production, Supply, Demand

Table 17: NFDM PSD Table

Dairy, Milk, Nonfat Dry	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	18	18	25	20	0	20
Production	20	17	20	17	0	16
Other Imports	20	21	20	21	0	20
Total Imports	20	21	20	21	0	20

Total Supply	58	56	65	58	0	56
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	33	36	35	38	0	36
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	33	36	35	38	0	36
Total Use	33	36	35	38	0	36
Ending Stocks	25	20	30	20	0	20
Total Distribution	58	56	65	58	0	56
(1000 MT)						

Commodities:

Select