Required Report: Required - Public Distribution **Date:** April 08, 2022

Report Number: KS2022-0007

Report Name: Food Processing Ingredients

Country: Korea - Republic of

Post: Seoul ATO

Report Category: Food Processing Ingredients

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Report Highlights:

Korea has a strong food processing industry that manufactures a wide variety of food and beverage products. It also relies heavily on imports to fulfill its food and agricultural needs. As a result, the Korean food processing industry offers an outstanding opportunity for imported agricultural products for processing use, including basic commodities such as wheat and soybean, intermediate ingredients such as vegetable oils and fruit juice concentrates, and food additives such as flavors and coloring agents. The food processing industry generated 77.4 trillion Korean Won ($65.6 billion) in sales in 2020, up two percent from 2019.

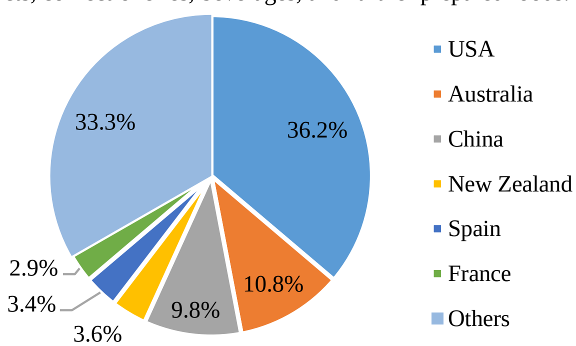
Market Fact Sheet: Korea- Republic of

Executive Summary

South Korea has the 10th largest economy in the world with a GDP of $1.7 trillion and a per capita GNI of $35,000 in 2021. It is about the size of Indiana and has a population of 51.7 million. Over 80 percent of Koreans live in urban areas. Domestic production meets only 46 percent of food demand. The United States exported $10.2 billion in agricultural products to Korea in 2021, making it our fifth largest export market. The U.S. supplies a quarter of Korea's agricultural imports.

Imports of Consumer-Oriented Products

Korea imported $17.3 billion in consumer-oriented products in 2021, accounting for 40 percent of agricultural imports. There are still many opportunities for U.S. export growth in this segment, including for beef, pork, fruits, tree nuts, dairy products, confectioneries, beverages, and further prepared foods.



Food Processing Industry

Korea had over 30,000 food processing companies as of 2020, generating $56.0 billion in sales. Korean food processing companies rely heavily on imported commodities and ingredients. Imports of basic and intermediate agricultural products totaled $17 billion in 2021. Twenty one percent ($3.5 billion) of these imports came from the United States.

Food Retail Industry

Korean retail food sales totaled $106 billion in 2021, accounting for 28 percent of total retail sales (excluding automobiles.) Grocery supermarkets are the leading food retail channel, followed by hypermarket discount stores, convenience stores, on-line retailers, and department stores. On-line retailers and convenience store food sales are expected to grow faster than other channels over the next 5-10 years. The fast expansion of on-line retailers is forcing conventional retail channels to restructure space and devise new strategies to attract consumer traffic.

Quick Facts CY 2021

Imports of Ag. Products from the World

- Basic Products US$6.8 billion
- Intermediate Products US$10.2 billion
- Consumer-Oriented Products US$17.3 billion
- Forest Products US$3.5 billion
- Seafood Products US$5.7 billion
- Total US$43.5 billion

Top 10 Consumer-Oriented Ag. Imports from the World

1)Beef ($3.5B)	6) Cheese and Curd ($685M)
2)Food Preparations ($2.2B)	7) Preserved Fruits, Nuts ($412M)
3)Pork ($1.7B)	8) Bakeries ($390M)
4)Alcoholic Bev ($1.3B)	9) Chocolates ($357M)
5)Coffee ($916M)	10) Preserved Vegetables ($354M)

Top 10 Growth Consumer-Oriented Ag. Imports

Eggs, buttermilk & yogurt, vegetables under HS0703, wine, butter, cider, beef, vinegar, coconuts, mineral water

Food Industry by Channels

- Retail Food Industry US$106.0 billion (2021)
- HRI Foodservice Industry US$121.3 billion (2019)
- Food Processing Industry US$65.6 billion (2020)
- Food & Agricultural Exports US$7.6 billion (2020)

Top Korean Retailers

EMART, LOTTE Mart, HOME PLUS, COSTCO, GS Retail (GS Super, GS25), BGF Retail (CU), Korea Seven, E Land Retail, Lotte Department Store, Shinsegae Department Store, Hyundai Department Store, Hanwha Galleria, CJ O Shopping, GS Home Shopping, SK Planet, Ebay Korea, Coupang

GDP/Population (2020)

Population: 51.8 million
GDP: US$ 1.6 trillion
GDP per capita: US$ 31,631

Strengths/Weaknesses/Opportunities/Challenges

Strengths	***Weaknesses***
- Well established market with modern distribution channels - Consumer income level continues to increase	- High logistics cost to ship American products - Consumers have limited understanding of American products
Opportunities	***Challenges***
- Strong consumer demand for value, quality, and diversity - KORUS FTA reduces tariff barriers for American products.	- Elevated competition from export-oriented competitors - Discrepancies in food safety and labeling regulations

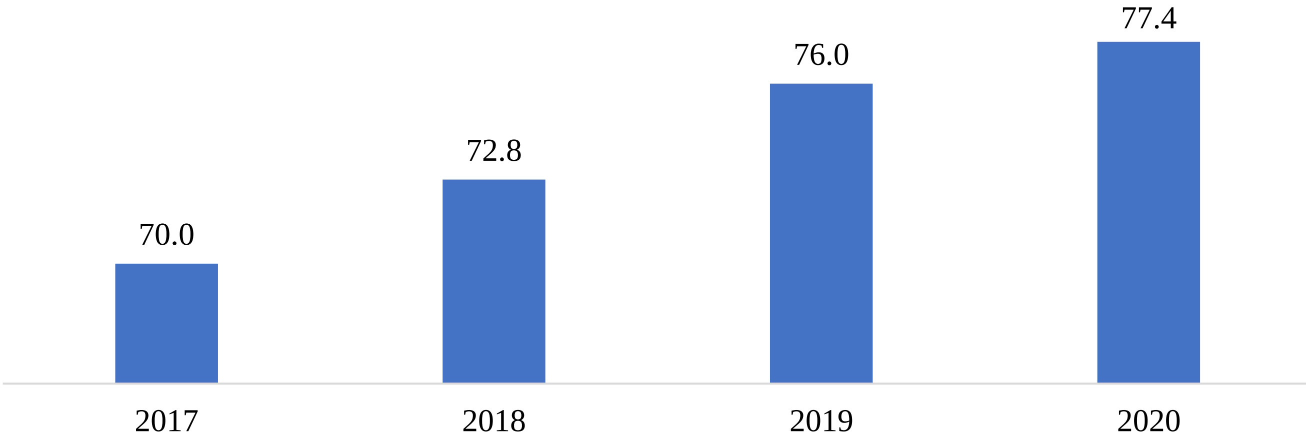
Data and Information Sources: Korea Ministry of Food & Drug Safety, Korea National Statistics Office, Korea Int'l Trade Association, Global Trade Atlas, CIA Factbook. To the greatest extent possible, the latest available statistics are used in this publication.

Contact: U.S. Agricultural Trade Office (ATO) Seoul
E-mail: atoseoul@fas.usda.gov

SECTION I. MARKET SUMMARY

Korea relies heavily on imports to fulfill its food and agricultural needs. The Korean food processing sector is the major user of imported agricultural products for processing use, including soybeans, wheat, vegetable oils, fruit juice concentrate, and food additives such as flavors, coloring agents, and preservatives. The Korean food processing industry generated 77.4 trillion Korean Won (KRW), approximately $65.6 billion, in sales in 2020.[1] The industry grew at a compound annual growth rate (CAGR) of 3.4 percent from 2017-20.

Figure 1. Annual Sales of Korean Food Processing Industry (2017-20, Trillion KRW)



Source: Korea Ministry of Food & Drug Safety (MFDS)

Despite challenges from competitors, the United States is expected to remain the leading supplier of food and agricultural products to Korea for years to come, not only for commodities and intermediate products, but also for consumer-oriented products. The United States accounted for 23.4 percent of total Korean imports of food and agricultural products in 2021.

Table 1. Advantages and Challenges for U.S. Food Products

Advantages	Challenges
▪ Continued tariff reductions under KORUS FTA will make U.S. products more competitive with other foreign suppliers.	▪ Imports of many products still face restrictive trade barriers. Some food additives that are approved in the United States are not approved in Korea.
▪ Korean consumers are becoming more affluent and health conscious, causing more consumers to focus on quality over price.	▪ Consumers are still concerned about issues such as biotechnology and BSE. Outbreaks of animal diseases such as Avian influenza restrict trade.
▪ U.S. food is perceived as equal or superior quality relative to competitors.	▪ Imported products are subject to complicated labeling and food safety standards in Korea. Rules change frequently with limited lead time.
▪ Local supply of agricultural products is limited.	▪ Korea has complicated inspection/customs clearance procedures.

[1] The report uses an average exchange rate of 1 USD = KRW 1,179.90 for the year 2020.

SECTION II. ROAD MAP FOR MARKET ENTRY

1. Entry Strategy and Import Procedure

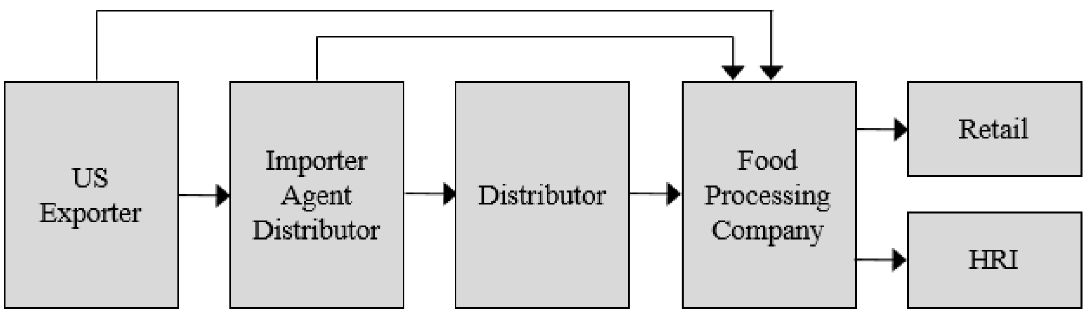
The following provide guidance on how to export to Korea:

- Korea FAIRS Report provides Korean government regulations and standards on imported food and agricultural products.
- Korea Exporter Guide provides market entry guidance for U.S. suppliers.
- ATO Seoul Website provides information about the Korean market, including product briefs, food news clippings, KORUS FTA, and links to other resources and organizations.
- Korea Country Commercial Guide published by the U.S. Commercial Service is another good source of information about exporting to Korea.

2. Distribution Channels and Market Structure

Figure 2 gives an overview of the typical distribution channel for imported food ingredients from U.S. exporters to Korean food processors. Large food processing companies prefer to source directly from overseas suppliers as they can reduce costs. However, they tend to purchase from local importers, agents or distributors when the quantities they require are small.

Figure 2. Imported Food Ingredients Distribution Channel



Source: ATO Seoul Analysis

3. Share of Major Segments in the Food Processing Industry

Table 2. Breakdown of Food Processing Industry by Product Category (2017-20)

	Product Category	Annual Sales[2] (Billion USD)[3]				CAGR (2017-20)
		2017	2018	2019	2020	
1	Livestock products	12.1	12.5	16.7	20.6	22.3%
2	Confectionaries, breads, rice cakes	6.5	5.8	5.8	6.0	-0.8%
3	Alcoholic Beverages	5.1	5.0	4.9	4.7	-0.8%
4	Seasonings, Sauces, Spices	4.1	4.9	4.8	5.0	8.2%
5	Beverages	4.2	4.8	4.5	4.4	3.6%
6	Coffee & Tea	3.2	3.5	3.4	3.4	3.7%
7	Noodles	2.9	3.0	2.9	2.8	0.6%
8	Health Functional Foods	2.0	2.3	2.5	2.8	14.1%
9	Food Additives	1.7	2.1	2.0	1.7	3.8%

[2] Annual sales = shipment amount (domestic sales) + export amount

[3] Values have been converted to U.S. dollars using average exchange rates for each year (2017-20)

10	Kimchi & Pickles	1.8	1.9	1.9	2.0	4.8%
11	Fat & Oil	1.6	1.9	1.9	1.8	5.2%
12	Seafood products	1.6	1.7	1.7	1.7	2.5%
13	Sugars, Syrups, Jams	1.7	1.7	1.6	1.5	-4.2%
14	Chocolates and Cacao products	0.9	0.9	0.9	0.8	-3.8%
15	Tofu & Acorn Jelly	0.6	0.6	0.6	0.7	3.9%
16	Special Dietary Foods	0.3	0.5	0.5	0.5	14.7%
17	Other Processed Foods	11.4	13.2	8.5	5.1	-19.5%

Source: MFDS

4. Company Profiles & Products

Annual sales of Korea's top 20 food processing companies totaled more than $17.6 billion in 2020. The list of top 10 companies can be found below. Some Korean food processing companies such as CJ Cheil Jedang have invested in food processing plants in the United States.

Table 3. 2020 Top 10 Food Processing Companies (Billion USD)

	Company	Main Products	Annual Sales
1	CJ Cheil Jedang Corporation	Flour, noodles, ready-to-serve food, snacks	2.35
2	Lotte Chilsung Beverage Co., Ltd.	Beverages	1.93
3	Hite Jinro Co., Ltd	Alcoholic beverage	1.87
4	Nongshim Co., Ltd.	Instant noodles, snacks, beverages	1.41
5	Oriental Brewery Co., Ltd.	Beer	1.11
6	Dong Suh Food Co., Ltd.	Coffee, creamer, cereal	0.93
7	Daesang Corporation	Sauces, instant noodles, ready-to-serve foods	0.87
8	The Coca-Cola Company	Beverages	0.75
9	Lotte Confectionery Co., Ltd.	Snacks, confectioneries	0.70
10	Samyang Foods Co., Ltd.	Instant noodles, snacks, dairy	0.64

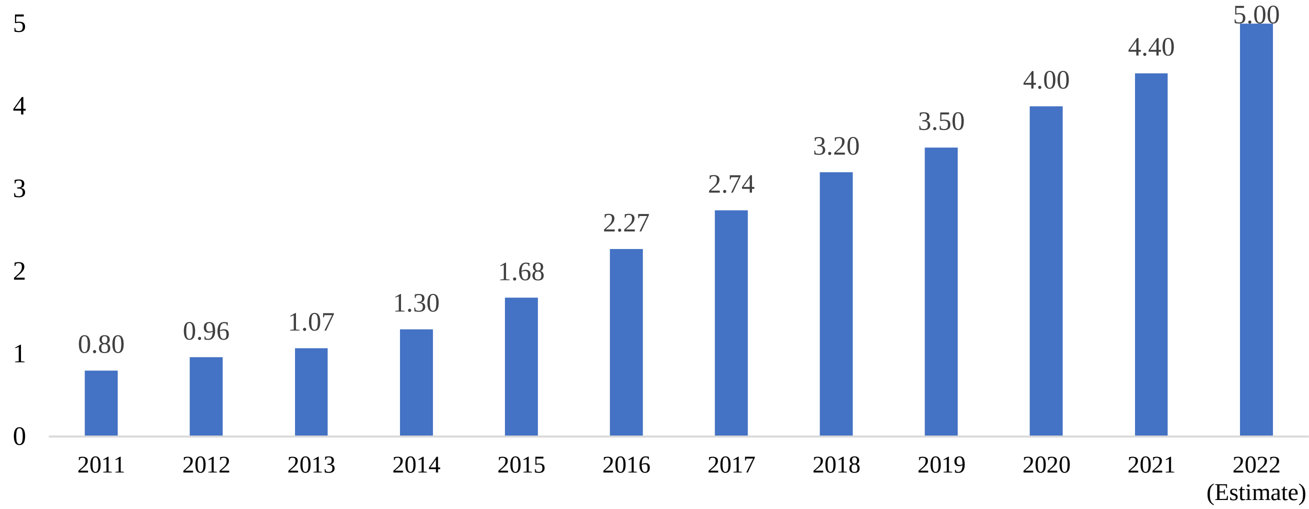
Source: MFDS

5. Sector Trends

The Korean market reflects global food trends. The rise in single-person households and the increase in women's participation in the workforce are influencing food purchasing patterns. Consumers want convenient and good value food products that suit their lifestyle. At the same time, consumers continue to seek healthier and higher quality food options.

The home meal replacement (HMR) market has been growing since 2010. The HMR market is estimated to have reached 4.4 trillion KRW in 2021, more than doubled the size of the market in 2015. The HMR market is forecast to expand to up to 5 trillion KRW in 2022. Until recently HMRs were viewed as simple packaged products consumed by single-person households with busy lifestyles. Single-person households accounted for 31.7 percent of total households in 2020 and are expected to account for 33.2 percent of households by 2030. Small portion HMR products have seen rapid growth due to this trend. Over the past few years, food processors have also introduced HMR products that provide complete meals for larger households. Moreover, as eating at home became a major trend during COVID-19, demand for HMRs, meal kits, sauces and seasonings have increased.

Figure 3 Annual Sales of HMR (Trillion KRW)



Source: Korea Agro-Fisheries & Food Trade Corporation

Air fryers have become commonplace in Korean households in the last few years. This trend led food processors to manufacture more frozen HMRs. Many of these products are air-fryer-only products or have instructions on how to cook with an air fryer. Consumers view air fryers as a healthier and more convenient way to prepare food. They can also be used to cook food that is crispy outside and moist inside, resulting in a better texture than HMRs cooked using a microwave.

Although Korean consumers prefer price competitive products, health considerations are equally if not more important. In 2020, Korea had 8.13 million people aged 65 and over, 15 percent of the total population. The elderly population is expected to increase to 20 percent of the total population in 2025. With the increase in life expectancy, demand for nutritious products is increasing. Demand for healthy foods has continued to increase during the COVID-19 pandemic. As more people have started working out at home, demand for healthier HMR products has risen. As a result, consumers can find more health oriented HMR options, such as high-protein, low fat, low carbs, and gluten-free products.

The trend can be also found in the beverage market. Sales of fruit juice with high sugar content have been decreasing while low sugar content products such as mineral water, sparkling water and tea are increasing in popularity. The drinking water market reached $800 million in 2020, more than doubled from 2020. The sparkling water market has been growing rapidly as well. Manufacturers entered the market with new flavors such as lemon, lime and grapefruit, and retailers launched more affordable private brand products. This trend can be seen in the packaged soup market as well. While the product varieties were limited to common home-style soup menus in the past, manufacturers are now focusing more on healthy soups that were traditionally consumed on special occasions.

Another notable trend since the pandemic is the spread of restaurant meal replacements (RMR). RMRs, a type of HMR, are packaged product made from recipes from famous restaurant. Customers can enjoy the menus from their favorite restaurants through RMRs at home. According to a survey conducted by the Korea Food Industry Research Institute, 92.5 percent of restaurants experienced an average 65.8 percent decrease in daily visitors. As a result, the hotel and restaurant industry actively developed RMR products and distributed them mostly through online retailers. One of the largest retailers Lotte Mart reported that in 2021 RMR sales have increased 5.8 times compared to 2020 sales. Twenty-six percent of its RMR products are private label products. Market Kurly, a premium online retailer, has more than 1,000 different RMR products in its store. Its RMR sales in 2020 increased 144 percent compared to 2019.

Recently, the vegan sector has been growing as well. In 2021, the Korean vegan and vegetarian population reached 2.5 million, up 66% since 2008. In contrast to the past when there were only soy protein products available, now there are many new vegetable protein products available. Major food processing companies have launched their own vegetarian product brands, are investing more on R&D, and are opening vegetarian restaurants.

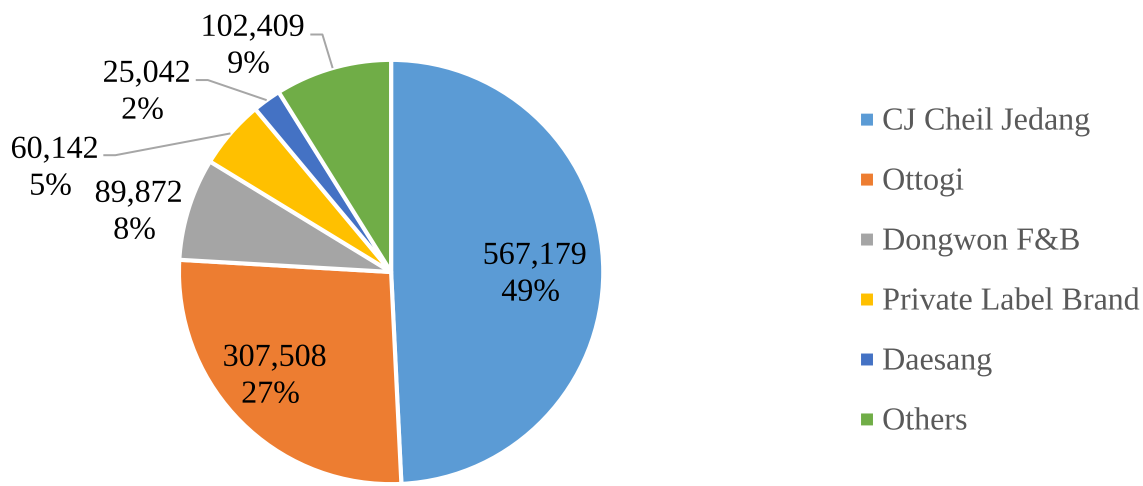
SECTION III. COMPETITION

Food processors are investing heavily in HMR products. Competition in the sector is fierce and intensifying as new players enter and existing players expand.

The quality of HMR products has been improving as food processors invest in developing new products and cooking appliances in Korean households became more advanced. As noted above, air fryers have recently become a popular cooking method in Korea. Major manufacturers are investing in research and development in frozen HMRs suitable for air frying and are launching products accordingly. The largest player in this market is CJ Cheil Jedang with its sub-brand “Gourmet” dedicated to frozen HMR frying snacks. Donkatsu, chicken and hotdogs are the best sellers. Pulmuone’s thin skinned dumpling product was a hit in 2019. The success of this product caused Pulmuone to become the second largest seller of frozen HMR products, up from its previous position in fifth place.

CJ Cheil Jedang is the number one food processor in the HMR market. In November 2018, CJ Cheil Jedang acquired the U.S. frozen food company Schwan’s Co., one of the largest global food companies in the pizza, pie, and Asian appetizer market, for $1.84 billion. CJ plans to use the acquisition to expand its market share in the North America processed food market. CJ has invested 200 billion KRW ($176 million) in researching and developing HMR products, and 540 billion KRW ($476 million) to build a manufacturing plant in Jincheon to produce consumer oriented HMR products. In September 2020, CJ Cheil Jedang also acquired CJ Foodville’s plant located near its new plant to diversify its product line. Other food processing companies are also investing aggressively in their own HMR brands. Dongwon F&B is investing 200 billion KRW to develop a land-based salmon farm. Daesang is investing 102 billion KRW to launch an R&D center to promote its food and ingredients business, and Ottogi plans to invest 40 billion KRW to expand its R&D center to launch new products.

Figure 4 Market Share of Food Processors in the HMR Market (2020 sales, Million KRW)



Source: Company sales data

The retail sector has also entered the fray. In November 2017, Hyundai Department Store launched its premium HMR brand "One Table" targeting higher income consumers. Compared to CJ, it is still in the initial stages, but is expanding rapidly by leveraging its distribution network across the country. Hypermarkets such as Emart, Lotte Mart and Home Plus have their own private labels as well. Among them, Emart is the most aggressive player in the market. Sales of Emart's premium HMR brand "Peacock" reached 250 billion KRW ($214 million) in 2017, a more than seven-fold increase since its launch in 2013. Convenience stores are launching lower priced HMR products. While their products were limited to ready-made lunch boxes or side dishes in the past, they are now launching 'meal kits' that allow customers to prepare a meal at home with included pre-prepared ingredients.

RMR was one of the hottest food trends since the pandemic when majority of the population had to eat at home. Food processors, restaurants, and retail sector launched RMR products. Most of the restaurants tend to collaborate with food processors or retailers. For example, CJ Foodville launched a new business group dedicated for RMR products in 2021 and its RMR sales increased 200% compared to 2020 sales. CJ developed RMR products under its restaurant brands such as VIPS and Seasons Table. The largest retailer, EMART, launched 70 RMR products through its private label brand Peacock in 2021. Its 2021 RMR sales increased by 106.4% compared to 2020 sales.

While 2020 was a tough year for the café industry, the Korean café industry had been growing and has strong potential. Korean consumers go to cafes not only for coffee but also for food and desserts. Although Korean consumers generally prefer value-for-money products, they are willing to pay more for small products like desserts that make them happy. Sales of dessert items account for over 20 percent of total sales in Starbucks and 30 percent in Twosome Place.[4]

SPC Group, one of the leading food conglomerates and also the bakery industry leader, is the leading player in the café industry. Paris Croissant Co., under SPC Group, started its business in 1986 with a

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[4] Twosome Place is one of the largest café franchise in Korea. It is owned by the CJ Group.

business model that combined a bakery and café. It has 3,420 window bakery stores throughout Korea and 350 stores in foreign markets. SPC uses many quality products from the United States, including wheat, dairy, meat, produce, and value-added processed products.

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

1. Products present in the market which have good sales potential

U.S. products in general have a good image among Korean consumers and U.S. products have a high market share. Some of the products that are present in the market and still have good sales potential are beef, pork, dairy, soybeans, and snacks. U.S. beef, which went through some difficult years due to BSE, is now popular among consumers. In 2021 Korea imported $2.09 billion of U.S. beef, up 20.9 percent from 2020. The U.S. is now the top supplier of beef to Korea. For more detailed data with HS code, please refer to the Appendix.

2. Products with low presence in market but which have good sales potential

The Korean food market is saturated, making it difficult to find products with low presence but that have good sales potential. A U.S. exporter may target some niche markets related to new emerging trends in Korea such as the sustainable food movement, veganism, or animal welfare. However, trends come and go quickly in Korea so exporters should do careful research before entering the market.

3. Products not present because they face significant barriers

Imports of some U.S. products are restricted due to regulatory and phytosanitary issues. For example, several types of fresh fruits and vegetables are still awaiting approval by Korean authorities. Also, outbreaks of animal diseases and outdated concerns related to BSE can restrict imports of related livestock products. Finally, despite the KORUS free trade agreement, some products continue to face high tariff barriers in the Korean market. Please refer to Section IV (Part C) of 2017 Korea Retail Foods Report for details.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Agricultural Trade Office Seoul (ATO)	atoseoul@fas.usda.gov
Agricultural Affairs Office Seoul (AAO)	agseoul@fas.usda.gov
Plant and Health Inspection Service Seoul (APHIS)	yunhee.kim@aphis.usda.gov

Please refer to the Korea Exporter Guide for contact information for USDA cooperators, state offices, and industry organizations that offer export assistance. ATO Seoul's website (www.atoseoul.com) provides up-to-date information about Korea's food and agricultural imports, including:

- Korea's Agricultural Import Statistics: This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports at the four-digit HS product code level.
- Korea's Agricultural Import Trends Presentation: This presentation, published quarterly, provides a summary of competition between the U.S. and competitors for key products.

Appendix

Products present in the market which have good sales potential (by HS Code)

HS Code	Description	Import from world (2020)	Import from U.S. (2020)	U.S. Products Market Share
0201	Beef, Fresh or Chilled	978,941	622,269	63.57%
0202	Beef, Frozen	1,917,103	1,109,565	57.88%
0203	Pork, Fresh, Chilled or Frozen	1,382,381	427,968	30.96%
0206	Edible Offals	245,299	93,332	38.05%
0406	Cheese and Curd	629,224	259,466	41.24%
0802	Other Nuts	295,028	270,151	91.57%
1001	Wheat & Meslin	970,454	379,554	39.11%
1201	Soybeans	604,157	304,232	50.36%
1507	Soybean Oil	312,347	278,265	89.09%
1806	Chocolate & Food Preparations	326,727	80,896	24.76%
1901	Malt	218,449	26,887	12.31%
2009	Fruit Juices (including concentrates)	242,984	53,495	22.02%
2101	Extracts and Essences	141,065	27,439	19.45%
2207	Alcohols greater than 80%	331,913	147,712	44.50%

Attachments:

No Attachments