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Product Brief

Fresh Produce Update

2007

Approved by:

Stan Phillips
Agriculture Trade Office, Seoul

Prepared by:

Youngsook OH. Ag. Marketing Assistant

Report Highlights:

In 2006, Korea imported \$133 million of fresh vegetables, a 47 percent increase from the previous year and \$454 million of fresh fruit, a 16 percent increase from the previous year. The United States has a 33 percent market share in fresh fruit and a 3 percent market share in the fresh vegetable market. However, the United States has a 94 percent market share in oranges and a 90 percent market share in fresh cherries.

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In 2005, Korea produced 9.1 million metric tons (mmt) of vegetables and fruit-vegetables, which include 6.6 mmt of vegetables (such as cabbage, spinach, lettuce, radish, carrot, pepper, onion, ginger and garlic) and 2.5 mmt of fruits-vegetables (such as water melon, melon, strawberry, cucumber, zucchini, pumpkin and tomato). Production increased by 4 percent compared to the previous year.

Local fruit production was 2.6 mmt in 2005, which increased by 7 percent compared to the previous year. Korean local fresh produce production is not sufficient to meet the demand. In 2006, Korea imported \$133 million of fresh vegetables, a 47 percent increase from the previous year and \$454 million of fresh fruit, a 16 percent increase from the previous year. The United States has a 33 percent market share in fresh fruit and a 3 percent market share in the fresh vegetable market. However, the United States has a 94 percent market share in oranges and a 90 percent market share in fresh cherries.

The well-being or healthy food trend is growing as incomes increase and consumers demand larger quantities and greater varieties of fresh produce. The government has also supported the growth of the well-being trend by encouraging environmentally friendly farming. Currently, three percent of total agricultural production is either produced organically, with lower pesticide, or lower fertilizer use.

Eating out has also become a major trend and fast food and family style restaurants are increasingly preparing dishes with a variety of fresh vegetables. Vegetable consumption per capita increased by 4 percent from 160.8 Kilogram in 2004 to 167 Kilogram in 2004. Fruit consumption also increased by 6 percent from 58.8 Kg in 2004 to 62.6 Kg in 2005.

Table 1: Advantages and Challenges for U.S. Produce

Advantages	Challenges
Consumers consider U.S. product to be of good to superior quality	High tariffs for some products
Few import barriers to entry for fruits	Mandatory fumigation requirements for oranges and cherry. No SPS protocol for pomegranate and blueberry
U.S. prices are competitive with imports and local production of comparable quality	Cumbersome barriers to entry for vegetables and new product entry is a time consuming process
For some products, little or no competition exists such as oranges, cherries and lemons	U.S. fresh products have less shelf life remaining after arriving in Korea relative to local or Chinese products.

Section II. MARKET SECTOR OPPORTUNITIES AND THREATS

Most of the major retail companies in Korea are horizontally integrated and operate a variety of different retail formats, encompassing department stores, hypermarkets, supermarkets,

convenience stores, and on-line shopping. Most fresh produce (about 70 percent) is sold through the retail sector. For example, Lotte Shopping Co. Ltd. has under its umbrella "Lotte" Department Stores, "Lotte Mart" hypermarkets, "Lotte Lemon" supermarkets, "Seven Eleven" convenience stores, and "Lotte.com" Internet shopping mall. This integration is aimed at achieving better economy of scale and market coverage. Entry into one section of an integrated retailer can easily lead to an access to the whole system.

1. Entry Strategy

Currently the best strategy for entering the retail market is to contact and work with an established importer as few retailers import directly. This may change in the future, as mass retailers are increasingly interested in seeking ways to increase direct imports.

? The type of contract between the importer and exporter varies from joint investment partnership to exclusive agent-ship to non-binding broker-ship mainly depending on how the exporter sees the role of the importer in market development. The most common practice is maintaining a non-binding seller-buyer relationship during the test-market period and then upgrading to a more binding option if the market shows bigger potential.

? Established importers should be able to provide market intelligence, up-to-date information, guidance on business practices and trade-related regulations, sales contacts with existing and potential buyers, and market development expertise.

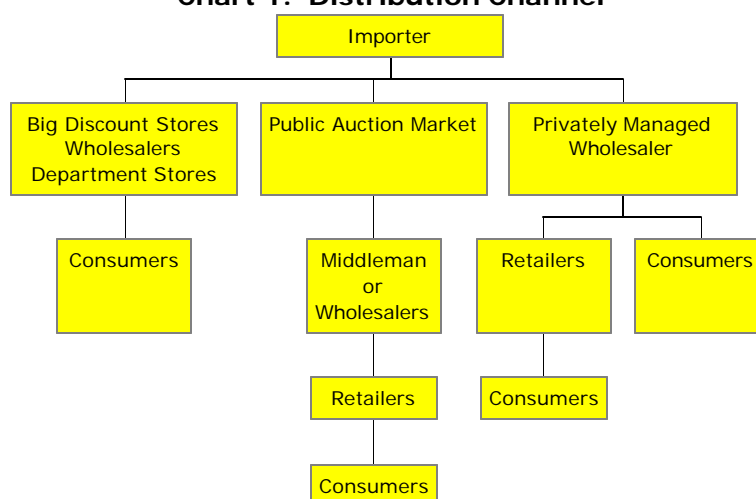
? There are many things that the U.S. exporter should follow closely with the importer during the initial stage of export. The Korean government maintains very strict regulations on food imports and requires various certificates/documents before import clearance. Therefore, the exporter must provide the importer with necessary documents and information to submit to the government.

The amount of time taken from looking for an importer to finally getting the product in the store in Korea may vary. Again, the key is meeting the right partner.

Attending a Korean food show could be a time and cost saving way to gain access to the Korean food trade from importers to retail operators to media. Seoul Food & Hotel Korea is a trade-only international food show event that is one of the few trade shows around the world that is endorsed by USDA's Foreign Agricultural Service (FAS). Seoul Food & Hotel is recommended for U.S. suppliers of fresh produce. The Seoul Food & Hotel Korea Show will be held during May 14-17, 2008 in KINTEX, Ilsan Korea. You may find further information for show participation via www.atoseoul.com.

The U.S. Agricultural Trade Office (ATO) in Seoul maintains a current list of produce importers and has on-going marketing activities that provide new-to-market U.S. food exporters with an opportunity to meet important players in the Korean food trade. Contacting the ATO is highly recommended for new-to-market U.S. exporters who seek opportunities in the food retail market in Korea.

Fresh fruits, such as oranges and bananas, are sold at all types of retail outlets, from high-end grocery stores to traditional wet markets. However some imported fresh produce is only available at the high-end grocery stores such as cherry, avocado and mango.

Chart 1: Distribution Channel

3. Market Size, Structure & Trends

A. Fruit

In 2006, U.S. fresh fruit exports to Korea, reached \$153 million, accounting for 33 percent market share (total imports were \$454 million). Oranges continue to be the largest U.S. fresh fruit export to Korea valued at \$125 million followed by cherries (\$11 million), grapes (\$4.8 million), kiwifruit (\$4.7 million), lemons (\$2.7 million), , grapefruit (\$2.7 million) and avocado (\$1.5 million) in 2006. Total fruit production in Korea was 2.6 million metric tons in 2005 compared with 2.4 million tons in 2004 (an increase of 7 percent). Korea produces apples, table grapes, Asian pears, persimmons, tangerines, peaches and plums.

a. Oranges

Orange imports have steadily increased since 1995 reaching 123,000 tons in 2006.

Table 5: Imports of fresh Oranges (HS 0805-10)

Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
U.S.	75,234 (97%)	85,101 (97%)	109,367 (97%)	130,853 (96%)	115,000 (95%)	117,000 (95%)
Other	1,966	1,966	3,264	5,891	5,000	6,000
Total	77,200	88,088	112,631	136,744	120,000	123,000

Source: Korea Trade Information Service

b. Cherries

Korean's prefer Bing cherries because they are darker and sweeter. Mostly Koreans consume fresh cherries directly rather than using them as a baking ingredients. Tulare and Brooks varieties are early season varieties and are priced competitively with Bings.

Table 6: Imports of fresh Cherries (HS 0809-20)
Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
U.S.	1,183	1,497	3,826	5,351	7,400	11,000
Other	182	192	285	702	1,500	1,000
Total	1,365	1,689	4,111	6,053	8,900	12,000

Source: Korea Trade Information Service

c. Grapes

Fresh grapes are imported from the United States from October through January and from Chile from February through May. Korea signed a free trade agreement (FTA) with Chile on April 2004 that provides preferential access for Chilean grapes. A seasonal tariff of 45 percent was applied to Chilean grapes during the November-April period starting in 2004. This tariff will be reduced by 4.5 percent each year until it reaches zero in 2013.

Locally produced grape varieties include Campbell, Seredan and Geobong. Red Globe and Thompson varieties are imported from Chile and the United States

Table 8: Imports of fresh Grapes (HS 0806-10)
Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
Chile	8,438	8,673	13,656	13,133	19,200	27,800
U.S.	1,108	1,771	4,075	3,787	4,400	4,800
Other					24	
Total	9,546	10,444	17,732	16,921	23,600	32,600

d. Lemons

Table 7: Imports of fresh Lemons (HS 0805-50)
Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
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U.S.	4,453	4,669	3,784	4,340	4,300	5,400
New Zealand	129	214	73	76	0	0
Other	21	52	23	0	600	654
Total	4,603	4,935	3,880	4,416	4,900	6,054

B. Vegetables

Korea produces large quantities of many vegetables although production is decreasing slightly. In 2005, local vegetable production was 9.1 million tons compared with 10.1 million tons in 2004, an decrease of 10 percent. Also, fresh vegetable imports increased from \$90 million in 2005 to \$133 million in 2006, an increase of 47 percent. Most of the increase was from onions, carrots and others.

Vegetable consumption has increased by 21 percent since 1990. Surprisingly, vegetable production used for kimchi (a local staple), such as Chinese cabbage and radishes, has declined by 20 percent. Imports of ready to eat kimchi, up 50 percent from 72,600 metric tons in 2004 to 111,000 metric tons in 2005 are the reason for the decrease in local Kimchi production. Consumption of cabbage, green pepper, garlic and onions has increased while lettuce and watercress have decreased.

Some of the main local vegetable crops are : Chinese cabbage, radishes, onion, garlic, water melons, red peppers, cucumbers and tomatoes.

a. Onions

Korea imported 38,000 metric tons of fresh onions for \$14 million in 2006. Imports from the United States increased from 470 metric tons in 2005 to 2,100 metric tons in 2006, an increase of 350 percent. Onions are mostly used for adding flavor to Korean side dishes, in the preparation of Chinese-style foods, and for manufacturing snacks, such as onion rings. It is expected that imports will decrease compared to last year because domestic onion production substantially increased in 2007.

Fresh onions are imported via the "aT" quasi government agency (the former Agriculture Fishery Marketing Corporation) under a tariff rate quota of 20,000 metric tons with 50 percent tariff. In 2005, there were no fresh onion imports via "aT" due to abundant local onion production. Instead, "aT" imported 1,500 metric tons of dried onion (under the 20,000 metric ton quota) with 50 percent tariff from China. The imported fresh onions detailed in Table 3 were imported by private importers outside the tariff rate quota at a 135 percent tariff.

Table 3: Imports of fresh Onions (HS0703-10-1000)
Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
China	1,333	25	8,452	3,537	4,900	13,000
	3	0	11		0	0

New Zealand						
U.S.	8	45	6,932	6,075	190	1,200
Other	0	37	1,360	16	100	0
Total	1,345	107	16,755	9,628	5,190	14,200

Source: Korea Trade Information Service

b. Potatoes

Korea imported 17,800 metric tons of fresh potatoes for manufacturing in 2006. Potato chips are a popular local snack item. Imports from the United States decreased from 5,800 metric tons in 2005 to 3,600 metric tons in 2006, a decrease of 60 percent. Fresh potatoes used for processing are mainly for the manufacture of potato chips. The total potato chip market was 72,000 metric tons: 75 percent made from local production, 15 percent from Australian potatoes, and 5 percent from U.S. potatoes in 2005. Local manufacturers receive access to the tariff rate quota in return for pledging to use certain quantities of locally produced potatoes.

The price of U.S. fresh potatoes is more competitive and the quality is better for the manufacture of potato chips compared to our major competitor, Australia. The majority of fresh potatoes are sold through retail outlets while 30 percent are used in the hotel/restaurant sector, and 10 percent for processing.

Korea's restrictions on Columbia Root Knot Nematodes disrupted imports in 2005.

Imports of U.S. potatoes are expected to recover because the Korean harvest was not good due to heavy rain.

Table 2: Imports of fresh potatoes (HS0701)
Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
Australia	2,602	3,574	4,800	8,025	6,500	6,900
Japan	148	343	0	0	0	0
U.S.	81	236	2,497	4,038	1,900	1,400
Other	48	0	0	0	0	0
Total	2,879	4,153	7,297	12,063	7,200	8,300

Source: Korea Trade Information Service

c. Garlic

Currently, Korea only imports garlic from China due to its price competitiveness.

Table 4: Imports of Fresh Garlic (HS0703-20)

Unit: Value - \$1,000

	2001	2002	2003	2004	2005	2006
China	8,135	6,996	3,888	2,382	8,000	10,300

Total	8,135	6,996	3,888	2,382	8,000	10,300
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Source: Korea Trade Information Service

4. Company Profiles

There are two to three hundred importers and/or distributors of produce products currently supplying the Korean market. Contact ATO Seoul for an updated list of produce importers. See last page for contact information.

Section III. COSTS AND PRICES

Table 10: Current Vegetable Price

Vegetable	Country of Origin	Weight/Number	Price
Cauliflower	Korea	1 stem	W4,000
Pumpkin Sweet Potato	Korea	1 Kilogram	W5,000
Cucumber (Environmentally friendly product)	Korea	2 big size	W2,700
Baby tomato (Environmentally friendly product)	Korea	500 grams	W3,900
Mushroom	Korea	200gram	W2,000
Sweet Pumpkin	NewZealand	1 medium size	W3,200
Green onion	Korea	1 big bunch	W2,000
Radish	Korea	1 large size	W2,000
Mushroom	Korea	200 grams	W2,000
Zucchini	Korea	1 medium size	W1,700
Cucumber	Korea	3 medium size	W1,700
Egg Plant	Korea	3 medium size	W1,700
Green Pepper (fresh)	Korea	1 small package	W2,000
Bell Pepper (green)	Korea	100 grams	W500
Sesame Leaf	Korea	1 small package	W1,000
Bell Pepper (Yellow & Red)	Korea	3 medium size	W5,000
Broccoli	Korea	1 stem	W1,300
Sweet Pumpkin	Korea	1 medium size	W3,200
Onion	Korea	5 medium size	W2,200
Green Onion	Korea	1 big bunch	W2,000
Carrot	Korea	100 grams	W400
Potato	Korea	100 grams	W250
Sweet Potato	Korea	100 grams	W500

Celery	Korea	100 grams	W500
Asparagus	Philippines	4 stems	W2,900
Spinach	Korea	1 large pack	W2,700
Cabbage	Korea	1 medium size	W2,000
Head Lettuce	Korea	1 small size	W2,000
Garlic (peeled)	China	350 grams	W2,500

Source: Survey on September 19, 2006 at high-end department store's grocery

Exchange Rate: 1 US\$ = 950 Korean Won

Table 11: Current Fruit Price

Fruit	Country of Origin	Weight/Numbers	Price
Tomato	Korea	5 Kilograms	W9,800
Apple Mango	Philippines	One Large size	W8,000
Seedless Green Grapes	U.S.	1 Kilogram	W10,000
Red Globe Grapes	U.S.	1 Kilogram	W6,800
Avocado	U.S.	1 Large size	W4,500
Lime	U.S.	1 Kilogram Pack	W4,800
Lemon	U.S.	2 Medium size	W1,800
Watermelon	Korea (Environmentally Friendly Products)	1 medium size	W15,000
Mixed Fruit Cuts (fresh Pineapple +Grape+Citrus)	Korea	300 gram package	W4,000
Pineapple (whole cut)	Philippines	1 medium whole	W6,000
Tangerine	Korea	800 grams	W6,800
Peach	Korea	5 medium size 3 large size	W5,000 W8,800
Mini Tomato	Korea	500 grams	W3,800
Kiwifruit	Chile New Zealand	10 medium size 8 medium size 8 gold Kiwifruit	W4,300 W4,500 W6,800
Grapes	Korea	5 big bunch	W7,000
Apple	Korea	5 large size	W5,000
Orange	South Africa	7 medium size	W7,000
Navel Melon	Korea	5 large size	W7,000
Pear	Korea	1 medium size	W2,000
Pineapple	Philippines	1 whole	W5,000
Mango	Philippines	3 medium size	W5,500
Grape fruit	U.S.	2 large size	W4,000
Banana	Philippines Philippines	1 bunch 1 piece (organic)	W4,000 W800
Cantaloupe	Korea	1 medium size	W5,000

Source: Survey on September 19, 2006 at high-end department store's grocery
 Exchange Rate: 1 US\$ = 950 Korean Won

Section IV. MARKET ACCESS

Korea Ministry of Agriculture & Forestry has been compensating grapes, kiwifruit and peach farms that may have been hurt or forced to close due to the Korea-Chile FTA since October 2004.

Table 12: Tariffs and Tariff Quotas for Vegetables

	Commodity Description	Tariff
0701.10.0000 0701.10.9000	Seed Potato Other than seed potato	Quota: 1,898 MT/N=0%, M=304% Quota: 18,810 MT/N=30%, M=304%
0703.10.1000 0703.20.1000	Onions Garlic	Quota: 20,645MT/ N=50%, M=135% Quota: 14,467 MT/ N=50%, M=360%
0704	Cabbage & Cauliflower	27%
0705	Lettuce & Chicory	Lettuce: 45% & Chicory: 8%
0709	Artichoke & Asparagus	27%

N: tariff within the quota, M: tariff when exceeding the quota

Table 13: Tariffs and Tariff Quotas for Fruits

HS Code	Commodity Description	Tariff
0803	Bananas	30%
0804.30 0804.40 0804.50	Pineapple Avocado Mango	30% 30% 30%
0805.10 0805.20.1000 0805.20.9000 0805.50.2020 0805.90.0000	Oranges Korean citrus Others Limes Others	Quota: 57,017 MT / N=50%, M=50% Combined Quota of these 4 different codes 2,097MT / N=50%, M=144%
0809.20	Cherries	24%

N: tariff within the quota, M: tariff when exceeding the quota

Source: Tariff Book from Korea Customs Office

Table 14: Current Entry Requirements for U.S. Vegetables

Commodity	Entry Requirements	Comments
Artichoke	PC ¹	
Asparagus	PC	
Barley	PC	
Basil	PC	
Bean husk(dried)	PC	
Bean Sprout	PC	
Broccoli	PC	
Brussels sprout	PC	
Carrot	PC	
Cauliflower	PC	
Celery	PC	
Chinese cabbage	PC	Cabbage is prohibited
Chive	PC	
Cilantro	PC	
Corn(seed)	PC	
Endive	PC	
Garlic	PC	
Ginkgo	PC	Pulp should be removed
Horseradish(w/raw roots) (Armoracia rusticana)	PC	
Leek	PC	Underground part prohibited
Lemon grass	PC	
Mint	PC	
Mushroom	PC	
Mustard green	PC	
Onion	PC	
Oregano	PC	
Parsley	PC	
Potato	PC	AZ, CA, CO, DE, KS, MD, MT, NB, ND, NM, NV, NY, OK, PA, SD, UT, WV, WY prohibited
Radicchio	PC	
Rhubarb	PC	
Rice(hulled)	PC	
Rosemary	PC	
Shallot	PC	
Soybean oilseed cake	PC or EC ²	
Soybean palletized hulls	PC or EC	
Soybean seeds	PC	
Spinach	PC	

Tarragon	PC	
Turnip	PC	
Watercress	PC	
Wheat	PC (KB AD ³)	Allowed from Karnal bunt free area only.

Table 15: Current Entry Requirements for U.S. Fresh Fruits

Commodity	Entry Requirements	Comments
Avocado	PC	HI, TX, FL prohibited
Banana	PC	Mature banana prohibited
Cherry	PC, MB ⁴	
Coconut palm	PC	
Grape	PC (ff AD ⁵)	HI, TX prohibited
Grapefruit	PC (ff AD)	HI, TX, prohibited Grapefruit from Florida should meet the "Florida Orange Protocol for Export to Korea".
Kiwi	PC (ff AD)	HI prohibited
Lemon	PC(ff AD)	HI, TX, FL prohibited
Lime	PC (ff AD)	HI, TX, FL prohibited
Melon	PC (ff AD)	HI prohibited
Orange	PC (ff AD) Mandatory fumigation	HI, TX prohibited Oranges from CA should meet the "CA Orange Protocol for Export to Korea".
Persimmon	PC (ff AD)	HI, TX, FL prohibited
Pineapple	PC	Underground part prohibited

Notes:

1. Phytosanitary Certificate (PPQ Form 577)
2. Export Certificate for Processed Plant Products (PPQ Form 578)
3. Following Additional Declaration should be on the PC, "The wheat in this shipment originated in areas of the United States where *Tilletia indica* (Karnal bunt) is not known to occur".
4. Methyl Bromide treatment
5. Following Additional Declaration must be entered on the PC, "This shipment was produced and packed in an area outside of the quarantine regulated area for fruit flies (Med fly, Oriental fruit fly, Mexican fruit fly, etc.)"

Commodities not listed should be considered prohibited, or else the requirements are not known or have not been established. The information included in this report should only be considered a guideline. Please check with your local APHIS office for specific Korean import requirements.

SECTION V. POST CONTACT AND FURTHER INFORMATION

U.S. Agricultural Trade Office (ATO), Seoul, Korea

Tel: (011 82-2) 397-4188

Fax: (011 82-2) 720-7921

E-mail: atoseoul@usda.gov

Home Page: www.atoseoul.com

U.S. Mailing Address

U.S. Embassy Seoul

Unit 15550 – ATO

APO, AP 96205-5550

Local Mailing Address:

U.S. Agricultural Trade Office

#303, Leema Building

146-1, Susong-dong, Chongro-ku

Seoul 110-140, Korea