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Product Brief

Korean Potato Market

2008

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Report Highlights:
Domestic potato production is expected to rebound in 2008 reaching 608,000 metric tons. Imports of U.S. fresh potato are forecast to end the year at a record 15,000 tons, equivalent to 80 percent of the import quota. Meanwhile, imports of frozen potatoes this year are forecast slightly up at 40,000 metric tons, of which 30,000 tons will be from the United States. Lastly, the ratification of the KORUS FTA will provide additional opportunities for U.S. potato products.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Seoul [KS1]
[KS]

Production:

After a poor harvest last year due to summer flooding, domestic potato production is expected to rebound in 2008, reaching 608,000 metric tons as farmers increase plantings in response to higher retail prices. About 90 percent of domestically grown potatoes are consumed as table stock, leaving room for sizeable volumes of imported chipping potatoes and frozen potato products, especially french fries.

Korea's potato-cropping pattern is well developed. Spring potatoes account for the majority of production, followed by autumn and highland harvested potatoes.

South Korea: Potato Supply & Demand (Ha/MT)						
	2003	2004	2005	2006	2007	2008 1/
Cultivated Area (Ha)	20,219	25,141	32,728	23,957	20,421	22,054
Production	498,401	642,597	894,215	631,086	562,492	608,000
Import 2/	55,367	65,287	59,189	57,374	59,113	60,000
Export	188	165	48	90	70	70
Total Supply	553,580	707,719	953,356	688,370	621,535	690,124

Source: Ministry for Food, Agriculture and Forestry & Fisheries (MIFAFF)
1/ Korea Rural Economic Institute (KREI) forecast
2/ Includes fresh and frozen potato products

Cropping System	MONTH											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Spring		Seeding		Harvest & Shipment								
Highland				Seeding			Harvest & Shipment					
Autumn							Seeding					
	Harvest & Shipment											

Source: Rural Development Administration (RDA), Korea Rural Economic Research Institute (KREI)

Consumption:

Fresh potato consumption can fluctuate widely depending on the size of the local harvest. For example, consumption was more than 950,000 tons in 2005 due to a bumper potato harvest. However, 2006 production fell resulting in consumption dropping by 265,000 metric tons. This trend is also evident when comparing annual per capita potato consumption, which peaked at nearly 20 kilograms in 2005.

South Korea: Per Capita Potato Consumption 1/					
Year	2003	2004	2005	2006	2007
Per Capita Consumption	11.7 KG	14.9 KG	19.9 KG	14.4 KG	13 KG

Source: Korea Rural Economic Institute (KREI)
1/Includes fresh and frozen potato products

According to local wholesalers, there are significant market opportunities for U.S. table stock potatoes since they are juicer, water-cleaned and of higher quality than domestic potatoes. However, only a small fraction of Korean consumers have eaten U.S. table stock potatoes given the limited import volumes. In a recent consumer survey, respondents indicated that they had purchased U.S. table stock potatoes because they were cheaper and shapelier than domestic potatoes.

The majority of frozen potato products consumed in Korea are french fries, most of which are imported. While imports frozen potato products are slightly up this year, imports have remained unchanged at 36,000 metric tons over the past three years (2005-07) due to the slowdown in growth of the fast food industry. An increase in frozen potato product consumption is also being held in check as consumers become more health conscientious.

Prices:
The retail price for a kilogram of fresh potatoes is about 2,800 won ($3.00), while the wholesale price is approximately 1,200 won ($1.20). The average annual wholesale price for a kilogram of potatoes has jumped 23 percent compared to last year (Jan-Oct). Retail prices are up 17 percent during this same period. The rise in prices is mainly due to the drop-off in domestic production resulting from the heavy rains in summer 2007.

Annual retail prices since 2003 have been roughly 2.5 times higher than wholesale prices. However, this price difference will likely narrow as consumers struggling to cope with rising commodity prices are expected to buy greater volumes of cheaper priced potatoes at wholesale outlets.

In February 2007, Korea imported U.S. table stock potatoes for only the second time. The wholesale price for U.S. fresh potatoes ranged from 700–850 won per kilogram, about 25-30 percent cheaper than domestic fresh potatoes. These prices are for U.S. fresh potatoes in-quota imports, which are subject to a 30 duty. In contrast, out-of-quota imports are non-existent since the tariff is more than 300 percent.

Fresh Potato Price & Import Price (Unit: Korean Won, US Dollar)

Year	Retail Price (KRW) Per Kg 1/	Wholesale Price (KRW) 1/	Import Price (US$) 2/	Exchange Rate (KRW/US$)
2003	2,038	1,072	0.40	1,191.68
2004	2,707	1,441	0.47	1,146.19
2005	2,053	836	0.46	1,024.24
2006	2,229	878	0.46	955.34
2007	2,430	984	0.50	929.38
2007 3/	2,360.9	956.6	0.48	932.16
2008 3/	2,759.0	1,176.1	0.49	1,012.30
Change	+ 17%	+ 23%		

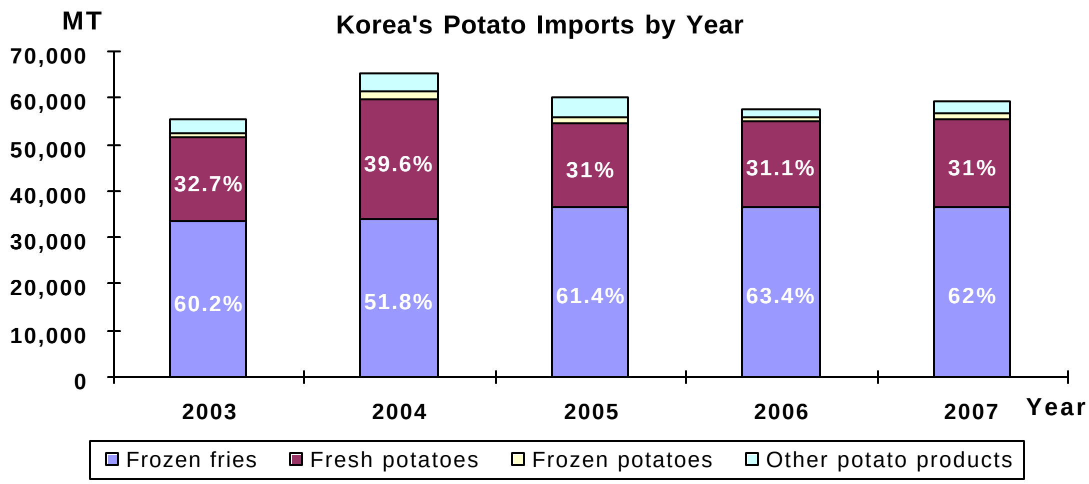
Source: Korea Agro-Fisheries Trade Corporation (aT), Korea Trade Information Services (KOTIS)
1/ Price for 1st Grade Sumi variety
2/ CIF price
3/ Data for January – October period

Imports:
Potato and potato product imports increased substantially during the 1990's with the liberalization of the Korean market under the Uruguay Round negotiations. The expansion of family-owned businesses during that period also played an important role in the growth of processed potato imports, especially french fries.

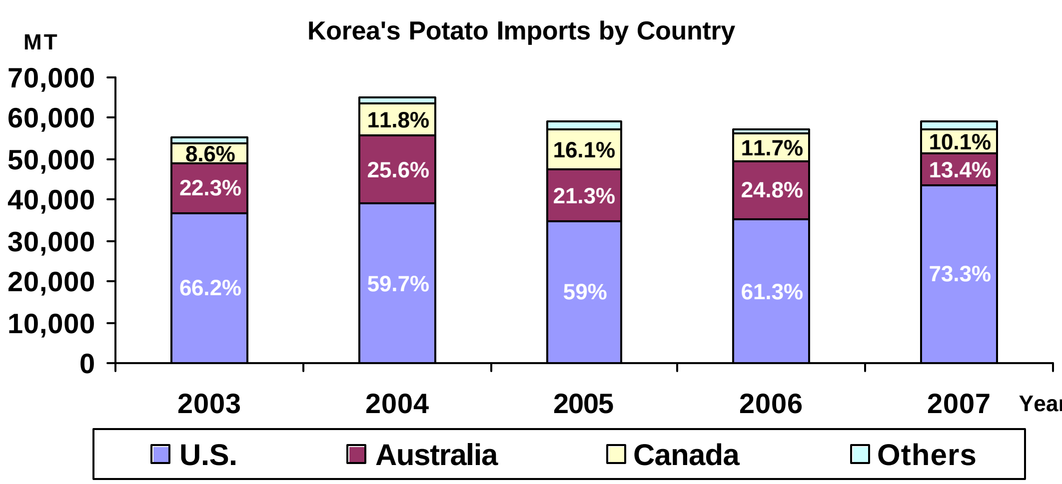
Korea imports roughly 55,000 tons of fresh and frozen potato products annually. Frozen potato products account for roughly 60 percent of total imports, while fresh potatoes make-up only 30 percent. Imported fresh potatoes are primarily used in snack food manufacturing, and frozen potato product imports are mainly french fries.

The United States is the largest potato and potato product supplier to Korea, with total market share ranging between 60-70 percent over the last five years. Korea is the fifth largest market for U.S. fresh and frozen potatoes, importing 42,000 metric tons of potatoes and products in 2007, valued at $36 million.

The following two tables illustrate the composition of imports and their origin.



Source: Korea Trade Information Service (KOTIS), aT (Korea Agro-Fisheries Trading Corporation)



Source: aT (Korea Agro-Fisheries Trading Corporation)

Fresh Imports

Fresh potatoes are subject to a global WTO TRQ of 18,810 metric tons, with an in-quota tariff of 30 percent. This TRQ is generally filled each year and is usually allocated for chipping potatoes. The out of quota tariff, a prohibitive 304 percent, discourages any additional imports.

Korea has historically imported fresh potatoes from Australia and to a lesser extent the United States from December to April, when domestic supplies are tight. However, imports of U.S. fresh potatoes jumped last year to nearly 11,000 metric tons since Australian exportable supplies were limited due to the country's drought situation.

U.S. potato imports are expected to finish the year at a new record of 15,000 metric tons. However, imports of U.S. fresh potatoes in 2009 will likely slide since the U.S. dollar has strengthened in recent months (Sep-Oct), while the Australian dollar has weakened vis-à-vis the Korean won.

Korea: Fresh Potato Imports by Country (Unit: tons)			
Year	Australia	U.S.	Total
2003	11,702	6,402	18,104
2004	16,133	9,752	25,885
2005	12,620	5,758	18,378
2006	14,202	3,643	17,845
2007	7,934	10,980	18,914
2008 (Jan-Sep)	3,040	10,405	13,444

Source: WTA

Frozen Imports

In contrast to fresh potato imports, frozen potato products are only subject to modest duties ranging from 18-27 percent.

Annual imports of frozen potato products, mainly french fries, reached 37,000 metric tons last year, which is in line with recent historical trends. Imports are slightly up this year and are forecast at 40,000 metric tons.

The U.S. has dominated the market for frozen potato products, and currently has an 80 percent share. Imports of U.S. frozen potato products totaled 30,000 metric tons last year and based on year-to-date trade data are forecast to remain unchanged in 2008. However, imports of U.S. frozen potatoes in 2009 will likely soften since the U.S. dollar has strengthened in recent months (Sep-Oct), while the Canadian dollar has weakened vis-à-vis the Korean won.

Korea: Frozen Potato Imports by Country (Unit: tons) 1/				
Year	U.S.	Canada	Other	Total
2003	27,119	4,778	1,420	33,317
2004	24,761	7,687	1,353	33,801
2005	25,560	9,506	1,262	36,328
2006	28,970	6,684	738	36,392
2007	29,961	5,998	737	36,686
2008 (Jan-Sep)	22,496	6,049	572	29,117

Source: WTA
1/ Only includes HS200410

Dehydrated

Imports of dehydrated potato products –flour and flakes - are limited by a 60 ton quota. The in-quota duty is 5.4 percent, while the out-of-quota duty is a prohibitive 304 percent. The quota is generally filled and on several occasions imports have exceeded the quota by as much as 35 tons. The EU is the main supplier of dehydrated potato products to Korea.

KORUS FTA:
The ratification of the KORUS FTA will provide additional opportunities for U.S. potato products, which is expected to bolster the existing strong U.S. market share. However, these gains might be short-lived as Korea is negotiating FTA's with both Australia and Canada.

Last year, Korea imported 57,000 tons of potatoes and potato products worth $47 million. The United States, the largest supplier, supplied 42,000 metric tons of fresh and frozen potatoes, valued at $36 million.

Fresh
Korea is the third largest market for U.S. fresh potatoes. Korea has historically imported fresh potatoes for chipping and on rare occasion imported table stock potatoes. However, under the FTA there is a 3,000 ton tariff rate quota for table stock potatoes, worth slightly more than $1.3 million based on 2008 (Jan-Jul) average unit U.S. export prices.[1] This TRQ will grow at an annual rate of 3 percent.

The 18 percent duty for chipping potatoes will be eliminated for shipments from December to April. During this duty-free period, U.S. chipping potatoes will become be more price competitive and as such are expected to replace imported product from the second largest supplier, Australia, which supplied about 8,000 metric tons last year.

Furthermore, local industry sources anticipate that U.S. chipping potatoes will gradually replace the 50,000-60,000 tons of domestic potatoes used for processing when the existing out-of-quota duty is phased out from years 8 to 15 of the agreement. This additional access would be worth $21-26 million at today's prices.

Frozen
Korea is the sixth largest market for U.S. frozen potato products. The 18 percent duty on of worth of frozen processed potato products, such as french fries, will immediately go to zero upon implementation of the agreement. U.S. frozen potatoes will become more price competitive and as such are expected to replace imported product from the second largest supplier, Canada, which supplied nearly 6,000 metric tons last year.

A summary table of the benefits from the agreement follows. A complete summary of the benefits the FTA will have for U.S. potato industry is available at the following website: http://www.fas.usda.gov/info/factsheets/Korea/commodity-potatoes.asp.

[1] Average unit value for exports of U.S. fresh potatoes is nearly $430 per metric ton from Jan-Jul 2008. This value multiplied by TRQ of 3,000 metric is about $1.3 million.

KORUS FTA Fact Sheet

Description	TRQ	Current Tariff (%)		KORUS FTA
	Quota (tons)	In-Quota	Out Quota	TRQ & Phase out
Seed Potatoes 0701100000	1,898	0%	304%	-
Fresh Potatoes 0701900000	18,810	30%	304%	Table stock: o 3,000 ton duty free TRQ o TRQ will grow 3%, compounded annually in perpetuity o Out of quota remains 304% Chipping stock: – Duty free from Dec-Apr – 15-yr phase out of in-season tariff o no reduction in years 1-7 o starting in year 8, duties shall be reduced in equal annual reductions
Frozen Potatoes 0710100000	-	27%		– Tariff will be phased out over 5 years
Dried Potatoes 0712902093	-	27%		–
Potato Flour 1105100000 Potato (Flakes) 1105200000	60	5.4%	304%	– 10-year safeguard – 5,000 ton duty free TRQ o TRQ will grow 3%, compounded annually
Potato Starch 1108130000	1,065 a/	8%	455%	–
Prepared Frozen potatoes 2004100000	-	18%		– Duty free upon implementation

Source: USDA KORUS FTA Fact Sheet
a/ The Quota reflects the total amount of 4 starch products (potato, wheat, corn and etc.)