

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Korea - Republic of**

### **Dairy and Products Annual**

#### **Dairy Update - ATO Seoul**

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**Report Highlights:**

Korea's per capita consumption of dairy products is expected to grow about 15 percent over the next decade reflecting a strong economy, Koreans' exposure to a Western diet, a rise in fast food outlets, and a growing appetite for pizza and pasta. New product launches by major dairy companies and aggressive marketing activities are expected to diversify the range of dairy products consumed. Fortified products are expected to increase in popularity and there is a growing focus on functional additives in dairy products.

## Executive Summary:

On March 7, 2011, the Ministry of Strategy and Finance (MOSF) announced temporary duty reductions on dairy products to ease inflation due to the massive slaughter of livestock caused by the food-and-mouth disease (FMD) epidemic and colder than normal winter weather. Duties were eliminated on 30,000 tons of powdered skim & whole milk; 3,500 tons of butter; 40,000 tons of processed butter dairy spreads; and 23,000 tons of mozzarella cheese through the end of 2011. On June 27, 2011, MOSF announced zero-duty TRQs for the second half of 2011 on dairy products including 18,500 tons of milk and cream; 1,200 tons of fresh cheese; and 24,000 tons of other cheese.

Once implemented, the Korea-U.S. free trade agreement will eliminate the 36 percent import tariff on imported cheddar cheese (HS0406.90) over 10 years and duties on other cheese (0406.10) will be phased out over 15 years. FTAs are expected to expand the market share for the United States and the EU at the expense of New Zealand and Australia.

FMD forced the slaughter of 34,000 dairy cows (8 % of 430,000 national herd) which some thought would result in a shortage of fluid milk. While fresh milk for consumers is in sufficient supply, milk for bakery use is expected to run short.

### Raw Milk Supply & Demand Prospects for 2016-2021

Unit: 1,000 MT

		2010	PROSPECTS		
			2011	2016	2021
Supply	Inventory from Previous Year	55	13	54	67
	Production	2,073	1,869	2,048	2,023
	Import	1,135	1,164	1,267	1,378
	Total	3,263	3,046	3,369	3,468
Demand	Consumption	3,249	3,039	3,313	3,398
	Inventory	13	7	56	70
	Total	3,263	3,046	3,369	3,468
Precipitate Consumption(Kg)		62.8	62.2	68.3	70.4

Source: Agriculture Outlook 2011 / Korea Rural Economy Institute

## Trends

In 2010, retail sales of fluid milk products increased by 3.4 percent to reach \$3.3 billion in value terms. After an extended decline in retail volume since 2005, the slow economic recovery resulted in a marginal increase in retail volume sales in 2010. However, the increase in retail value sales was attributable to the increase in unit price rather than the small increase in retail volume terms. Animal feed prices increased substantially during 2009 and 2010, raising the price of raw milk. Fat-free fresh/pasteurized milk registered the highest retail value growth rate of 5 percent in 2010. Seoul Dairy Cooperative continued to be the leading fluid milk producer with a 36 percent value share in 2009. Drinking milk is expected to show marginal growth of less than 1 percent in near future.

Cheese sales are expected to continue to record strong growth as major manufacturers focus attention on developing the cheese market and more Korean consumers accept cheese as a source of calcium. While drinking milk and yoghurt are well known products in Korea, cheese is relatively new, has more room for growth, and manufacturers are expected to expand the number and types of products they carry in order to appeal to a wider range of consumers.

Foodservice is expected to see a turnaround in the performance and realize positive growth with a near 1 percent in volume terms. With the economic recovery, more Korean consumers are expected to enjoy dining out and pizza and other Italian cuisine that normally use cheese will see growth in the future. Cheese has also been used for various fusion menus at times and with the recovery of consumer foodservice it will show positive growth in the future.

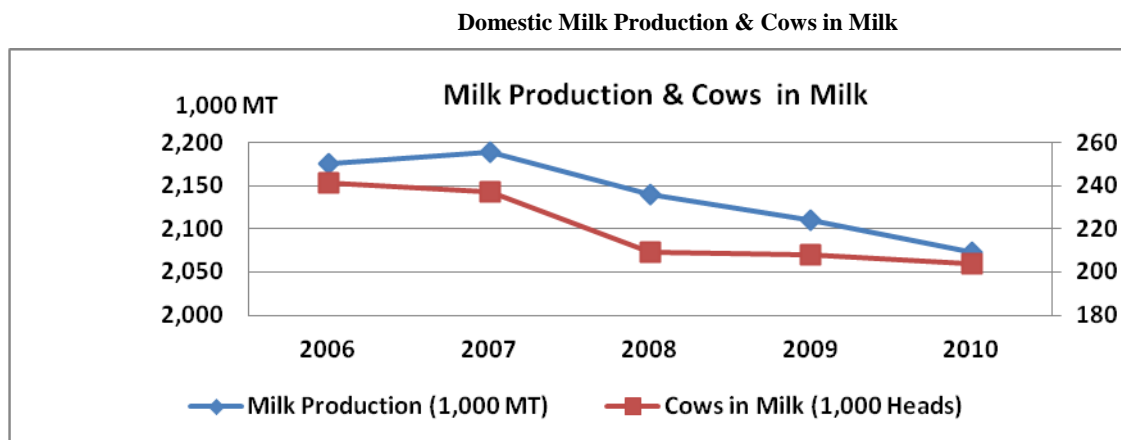
Data included in this report is not official USDA data. Official USDA data is available at: <http://www.fas.usda.gov/psd>

## Commodities:

Dairy, Milk, Fluid

## Production:

In conjunction with the continuing decline in dairy cattle numbers, raw milk production is expected to decrease slightly in near future. In 2010, 74 percent of total raw milk production is marketed for drinking use. Remaining 36 percent is marketed for processing. Korean raw milk production was 2.07 million metric tons (MMT), decreased by 1.7 percent compared to a previous year. Consolidation of dairy herds is expected to continue to improve milk yields as the table below shows. While the implementation of a two-tier pricing system for Korea's major dairy companies is expected to dampen "overproduction", overall price structures in the dairy industry still appear likely to encourage production increases in coming years.



## Consumption:

Sales of all drinking milk products were valued at nearly \$3.33 billion in 2010, increased by 3 percent compared to 2009. Soy beverages experienced healthy 3 percent value growth in 2010 due to the introduction of premium products, while volume sales experienced only fractional growth. This trend reflects the demands of health-conscious consumers.

Milk is perceived as a drink for children to consume as a source of calcium, so, with the low birth rate, milk consumption per capita has been declining, although it recovered slightly to record fractionally positive volume sales growth from 2009. Recently, with the introduction of semi-skimmed milk and fat-free milk, milk has been increasingly targeted at adults, especially at women in their 20s and 30s and is promoted as being an excellent drink for losing weight. Flavored milk drinks continued to show the positive growth since 2008.

According to current regulations, manufacturers can choose between stating one of the two, either the production date or the expiry date. Seoul Dairy put both of them on its packages to give a fresher and reliable image to its products, and this helped to boost its sales growth in 2009. Also, some of the increase could be attributed to Seoul Dairy being the exclusive supplier of milk to Starbucks Korea, which used to be supplied by Maeil Dairy.

Retail value and volume sales of drinking milk products are expected to grow by less than 1 percent in near future. However, long-life/UHT milk will continue to register negative volume growth due to the perception that shelf-stable products are not healthy and have less nutritional value.

As demand for fresh milk is at a standstill due to a declining birth rate and a growing variety of dairy products, product variation and premiumisation were actively pursued. Low-fat milk and organic milk emerged as key drivers of volume growth of fresh milk. Demand for low-fat milk remained rather slow until 2008, despite growing concerns over excess calorie intake, because it has less flavor than full-fat milk.

### Korea Raw Milk Supply & Demand

Unit: 1,000 Metric Ton

		2005	2006	2007	2008	2009	2010
<b>Supply</b>	Inventory from a year before	68	116	53	107	96	55
	Production	2,229	2,176	2,188	2,139	2,110	2,073

	Import	898	882	968	885	959	1,135
	Total	3,195	3,174	3,209	3,131	3,166	3,263
<b>Demand</b>	Consumption	3,079	3,121	3,101	3,035	3,111	3,249
	Inventory	116	53	107	96	55	13
	Total	3,195	3,175	3,209	3,131	3,166	3,263
<b>Per Capita Consumption (Kilo Gram)</b>		62.7	63.6	63.0	61.3	62.3	62.8

Source: Ministry of Food & Agriculture Fisher Forestry (MIFAFF) /  
2011 Agriculture Outlook by Korea Rural Economy Institute (KREI)

## Trade:

### Domestic Raw Milk Usage

Unit: 1,000 MT

Milk	2005	2006	2007	2008	2009	2010
Drinking Use	1,544	1,555	1,582	1,583	1,569	1,541
Processed Use	685	621	606	556	540	532
Total	2,229	2,176	2,188	2,139	2,110	2,073

Source: Ministry of Food & Agriculture Fisher Forestry (MIFAFF) /  
2011 Agriculture Outlook by Korea Rural Economy Institute (KREI)

### Korea's Key Dairy Product Imports

Unit: Metric Tons

Products(HS Code)	2010 Tariff	2007		2008		2009		2010	
		U.S.	Total	U.S.	Total	U.S.	Total	U.S.	Total
Cheese(0406)	36%	7,900	49,500	11,300	47,400	9,100	49,000	18,500	61,000
NFDM (0402.10)	(20%-176%) <sup>1</sup>	120	5,000	41	4,900	100	9,600	650	7,900
Whole Fat DM (0402.21)	(40%-176%) <sup>2</sup>	0	1,100	0	1,300	0	1,200	0	1,400
Mixed Milk (0404.90 & 1901.90.2000)	36%	960	31,700	1,468	25,900	910	26,000	440	31,600
Butter (0405.10)	(40%-89%) <sup>3</sup>	6	4,100	56	1,900	80	2,100	66	3,000
Whey Powder (0404.10)	(20%-49.5%) <sup>4</sup>	23,300	46,800	14,009	32,000	15,800	32,200	16,000	37,600
Ice Cream (2105)	8%	430	3,700	356	2,000	520	2,010	632	2,600

Source: 2011 Korea Trade Information Service (KOTIS)

#### Notes:

- 1: 20% tariff within the quota of 1,034 metric tons, 176% tariff out of the quota
- 2: 40% tariff within the quota of 573 metric tons, 176% tariff out of the quota
- 3: 40% tariff within the quota of 420 metric tons, 89% tariff out of the quota
- 4: 20% tariff within the quota of 54,233 metric tons, 49.5% tariff out of the quota

The consumers' priorities of milk selection are freshness (40%), brand name (20%), safety (20%) and price (18.6%) by agriculture outlook center survey during February 2011.

In 2010, imports of dairy products increased, such as cheese imports increased by 30% up to 61,000 MT, mixed milk increased by 22% up to 31,600 MT, butter increased by 43% up to 3,000 MT but NFDM decreased by 18% up to 7,900 MT compared to 2009.

In 2010, average unit price of imported dairy products was \$3.30 per kilogram which was increased by 16% than 2009. Jumping the international animal feed price and decreased raw milk production of Australia and New Zealand made the price higher.

## Marketing:

### Domestic Produced Raw Milk Usage for Processed Dairy Products

Unit: 1,000 MT

	2005	2006	2007	2008	2009	2010
Whole Fat Milk (WFM)	4.8	4.0	3.6	3.4	3.1	2.6
Non Fat Dry Milk (NFDM)	23.7	18.3	22.2	19.9	15.2	9.5
Mixed Milk	15.2	12.8	14.6	15.6	14.5	14.5 (2.7%)
Condensed Milk	3.9	3.7	3.6	3.5	3.9	3.7
Butter	4.0	3.9	3.9	3.5	3.5	2.6
Cheese	23.7	27.9	24.4	25.0	23.2	24.7 (4.6%)
Fermented Milk	428.4	504.3	485.9	454.9	445.7	502.6 (94%)
Total	685	621	606	556	540	532

Source: Ministry of Food & Agriculture Fisher Forestry (MIFAFF) /  
011 Agriculture Outlooks by Korea Rural Economy Institute (KREI)

Most cheese is imported from New Zealand, U.S. and Australia, mixed milk from Netherlands and France, butter and NFDM from Australia and New Zealand into Korea. Value wise, New Zealand is the most export country to Korea with 22% share, U.S. with 21%, Australia with 15% and Netherlands with 14% in order.

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

Dairy, Milk, Fluid of Korea, Republic	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1,000 Heads)	208	204	207	186		189
Cow's Milk Production (1,000 MT)	2,103	2,073	2,097	1,869		1,902
Other Milk Production	0	0	0	0		0
Total Production	2,103	2,073	2,097	1,869		1,902
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	2,103	2,073	2,097	1,869		1,902
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consume.	1,685	1,541	1,680	1,308		1,426
Factory Use Consume.	418	532	417	561		476
Feed Use Dom. Consume.	0	0	0	0		0
Total Dom. Consumption	2,103	2,073	2,097	1,869		1,902
Total Distribution	2,103	2,073	2,097	1,869		1,902
CY Imp. from U.S.	0	0	0	0		0
CY. Exp. to U.S.	0	0	0	0		0
TS=TD		0		0		0
Comments						
AGR Number						

## Commodities:

### Dairy, Cheese

#### Production:

In 2010, South Korea produced 27,400 MT of cheese, increase of 18 percent from 2009. Fresh cheese was produced 7,900 MT and processed cheese accounted for the remaining 19,500 MT of total production. Import was increased to 61,000 Metric Tons by 24 percent and made 24 percent higher consumption than a previous year. Seoul Dairy Cooperative accounted for 46 percent, Sangha Co., (former Maeil Dairy) for 23 percent, Dongwon Dairy for 13 percent, and Namyang Dairy Company for 5 percent of retail cheese sales in 2009.

Most unspreadable processed cheese is yellowish in color in Korea due to artificial coloring, so Namyang Dairy excluded the yellowish coloring, with the product coming in a white color and the company claiming that which is the natural color of cheese. With increasing concern about health and wellness, Korean consumers are looking for more natural product positioning such as 'wellbeing' in Korea. In 2009, Namyang Dairy introduced a new product without artificial coloring under the De Vinch brand. To target health and wellness conscious-consumers, manufacturers are expected to introduce more premium products in the future.

Manufacturers were introducing various cheese products targeting children during 2010. Cheese has been emerging as a very good source of calcium through very active media education. Sangha Company introduced first organic children's cheese and Namyang Dairy introduced new products targeting babies starting on solid food, which has earned popularity among mothers.

#### Cheese Production, Import & Consumption

Unit: Metric Ton

		2006	2007	2008	2009	2010
<b>Production</b>	Fresh Cheese	13,350	9,100	9,700	7,700	7,900
	Processed Cheese	14,600	15,300	15,300	15,500	19,500
	Import (Fresh Cheese)	29,700	34,700	43,700	44,800	56,100
	Import(Processed)	14,300	14,700	3,700	4,300	4,900
	Total	71,960	73,800	72,400	72,200	88,400
<b>Consumption</b>	Fresh Cheese	43,440	44,400	53,000	51,800	64,300
	Processed Cheese	28,700	30,000	19,000	20,000	24,300
	Export (Fresh Cheese)	165	23	91	57	35
	Export(Processed)	64	28	19	74	47
	<b>Total</b>	72,400	74,400	72,060	71,600	88,700

Source: MIFAFF, Korea Dairy Committee

#### Sales of Cheese by Subsector: Value 2005-2010

Unit: \$ Million

	2005	2006	2007	2008	2009	2010
Processed cheese	196	206	217	225	233	243
• Unspreadable Processed Cheese	196	206	217	225	233	243
Unprocessed cheese	4	4	4	4	4	4.7
• Soft cheese	4	4	4	4	4	4.7
Total cheese	200	210	221	230	238	247.7

Source: Official statistics, Euromonitor International estimates

Exchange Rate: One US\$ equivalents to 1,000 Korean Won

#### Consumption:

With the growing interest of Korean consumers in western food, the demand for a wider variety of cheese has increased. In addition, to satisfy the growing demand, manufacturers have extended their assortments by introducing various cheese types and products, including imported varieties. In 2010, cheese continued to record healthy retail volume and value sales growth. This trend continued in 2010 and sales grew healthily in all cheese categories. The range of available products diversified considerably in the retail channel.

There are some stick cheeses available in high-end department stores, but it is not widely enough available to affect consumer preferences. None of the three largest domestic brands produced by Maeil Dairy, Namyang Dairy and Seoul Milk Cooperative are stick cheese. The most popular cheese in Korea remains processed sliced cheese. Although unprocessed cheese is growing fast, Korea continues to be dominated by yellow processed sliced cheese. Unspreadable processed cheese is dominated by sliced cheese in Korea.

In Korea, domestic companies dominated retail value sales in 2009. Three major domestic companies, Seoul Dairy, Sangha, and Dongwon Dairy, generated over 80% of retail value sales in 2009. This is not due to the lack of varieties of imported cheese products, but the selling price of imported cheese is very high in Korea.

Future sales are expected to continue to record strong growth, due to the major manufacturers' attention on the cheese category as more Korean consumers come to accept cheese as a good source of calcium. While drinking milk and yoghurt are mature already in Korea, cheese is rather new and has more room for growth and more manufacturers are expected to reinforce their product ranges to appeal to various consumer groups.

Foodservice is expected to see a turnaround on the performance in recent years and see positive growth with a near 1% in volume terms. With the economic recovery, more Korean consumers are expected to enjoy dining out and pizza and other Italian cuisine that normally uses cheese will see growth. Cheese has also been used for various fusion menus at times and with the recovery of consumer foodservice it will show positive growth.

Once the U.S.-Korea FTA comes into effect, Korean consumers are expected to have more varieties of cheese from U.S. at lower prices to choose from once the import tax of 35% is removed, as specified under the terms of the agreement. With the FTA, more premium cheeses are expected to come into Korea and it will result in strong growth in margins despite the declining import tax in the future.

**Trade:**

In 2010, Korea imported 56,100 MT of fresh cheese and 4,900 MT of processed cheese, totaling 61,000MT, increased by 24 percent compare to a previous year. New Zealand was the largest exporter, accounting for 19,300 MT followed by U.S.A with 18,500 MT, Australia with 8,600 MT, EU with 7,300 to Korea. Cheese sales are expected to continue to record strong growth, partly due to the ongoing diversification of product assortments. With the continued popularity of the health and wellness trend and western-style food and dining, the demand for cheese will increase in the short- to medium-term.

In 2011, from January through September, Korea imported 57,400 MT cheese, increased by 33% from 43,300 MT compared to the same period of 2010. Because, on March 2011, the Ministry of Strategy and Finance (MOSF) announced temporary no import duty on 23,000 MT of mozzarella cheese (HS 0406.10) and cheddar cheese (HS 0406.90) through the end of 2011. The United States is the largest exporter with 25,600MT followed by New Zealand with 14,600 MT, Australia with 5,800MT in 2011.

Once the FTA between the United States and Korea comes into effect, Korean consumers are expected to have more varieties of cheese from U.S. at lower prices to choose from once the import tax of 36% is removed, as specified under the terms of the agreement . The import tax will decline by 2.5% every year from 2011. With the FTA, more premium cheeses are expected to come into Korea and it will result in strong growth in margins despite the declining import tax in the future.

**Cheese Tariff Schedule on Korea-US FTA implementation**

HS Code Products	Rate (%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
0406.10.1000 Fresh Cheese	36%	32.4	28.8	25.2	21.6	18	14.4	10.8	7.2	3.6	0					
0406.1	36	32.4	28.8	25.2	21.6	18	14.4	10.8	7.2	3.6	0					

0.2000 Curd			8		6		4									
Annual duty- free quota in MT for HS 0406.1 0.10, 0406.2 0.00, 0406.3 0.00 & 0406.9 0.00	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	Unli- mited
0406.2 0.0000 Grated/ powder ed 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
0406.3 0.0000 Process ed cheese, not grated or powder ed	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
0406.4 0.0000 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
0406.9 0.0000 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
0406.9 0.0000 Cheese, Cheddar	36	*Starting in year 10, cheddar cheese 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 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](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>





U.S. and EU are the same but blue line is applied to fresh cheese (0406.10.1000), Curd (0406.10.2000) & Cheddar Cheese (0406.90.0000) and red line is applied to other cheeses as the above table notified.

### Whey Tariff Schedule on Korea-US FTA implementation

HS Code Products	Rate(%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
0406.10.10, 040410.21, 0404.10.29 Whey& Modified whey, Whether or not Concentrated or sweetened for Human consumption – up to 80% protein	49.5%	20%	17.8	15.6	13.3	11.1	8.9	6.7	4.4	2.2	0
3502.20 Milk albumin, including concentrates of two or more whey protein for Human consumption – more than 80% protein	8%	6.4	4.8	3.2	1.6	0					
0406.10.10, 040410.21,0404.10.29 Whey & modified whey, whether or not Concentrated or sweetened for Animal Feed – up to 80% protein	49.5%	0%									
Annual duty-free quota in MT for HS0404.10 for food – up to 80% protein	NA	3,000 MT	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.

### Whey (0404.10) Import by Year

Unit: 1,000 MT

Import Volume		2008	2009	2010	2010 (Jan-Sept)	2011(Jan-Sept)
HS:0404.10	Volume (1,000 MT)	32,000	32,200	37,600 (53% market Share from U.S.)	27,200	22,700 (44% market share from U.S.)
	Value (\$1,000)	38,300	29,000	41,000	28,700	31,000
HS:3502.20*	Volume (1,000 MT)	1,240	1,400	1,740 (57% market share from U.S.)	1,250	1,400 (68% market share from U.S.)
	Value (\$1,000)	14,000	12,200	15,600	11,000	14,200

\*: HS 3502.20 is milk albumin, including concentrates of two or more whey proteins which is a high protein and high value whey product on behalf of infant formula ingredient.

Whey is co-product of cheese and contains lactose, protein, vitamins and minerals which is 50% of the nutrient of the original milk. Diverse whey protein usage across categories such as sports & energy bar, cereals, desserts & ice cream, baby food, bakery, and soft drinks are introduced to the market. Whey protein demands are extended by body builder, 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.

#### Marketing:

Seoul Dairy maintained its leading Position with a 46% share in cheese during 2010. At the end of 2008, Seoul Dairy introduced low-fat processed cheese with added calcium, which has earned popularity among Korean consumers.

In processed cheese the company has maintained its leading position through its sliced cheese brands; Seoul, Infant, and Prune.

#### Average Import Price per Kilogram of Imported Cheese(HS:0406) by Country

Unit: \$/Kilogram

	U.S.	Australia	Netherlands	France
2010	4.10	4.03	4.31	6.80
2011(Jan.-Aug.)	4.20	4.39	4.97	7.07

Source: based on CIF Price / Korea Trade Information System

In 2009, Sangha followed as number two after the leading player Seoul Dairy with a 23% value share. Also its unprocessed soft cheese brands Sangha Camembert and Sangha Brie cheese are performing well the retail channel.

In processed cheese, the company has maintained its strong position through its sliced cheese brands: Maeil Calcium Cheese for Bone, Maeil High Calcium Cheese, and maeil Our Child's First/Growth Cheese.

Namyang Dairy Product is a leading dairy producer in most dairy categories, except cheese. Its share in cheese was 5% in value terms in 2009, while the shares of Seoul Milk and Sangha stood at 46% and 23% respectively in 2009. The company added the new product De Vinch No Color Cheddar Slice Cheese in 2009, reflecting consumer demand for healthier choices with no additives and no artificial coloring. Unlike most sliced cheese, which is yellow to enhance the visual effect, this new product comes in white color, with the

company advertising the color because it does not include any coloring, which helped it earn popularity among Korean consumers. After its successful launch of the De Vinch brand at the end of 2008, it has continued to grow from a 3% value share in 2007, to 4% in 2008 and 5% in 2009.

In Korea, domestic companies dominated retail value sales in 2009. Three major domestic companies, Seoul Dairy, Sangha Co, and Dongwon Dairy, generated over 80% of retail value sales in 2009. This is not due to the lack of varieties of imported cheese products, but the selling price of imported cheese is very high in Korea because of the high import tax of 35% on imported cheese currently.

### Production, Supply and Demand Data Statistics:

Dairy, Cheese of Korea, Republic	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Unit: 1,000 MT						
Beginning Stocks	1	1	1	1		1
Production	22	27	22	32		38
Other Imports	58	61	64	80		96
Total Imports	58	61	64	80		96
Total Supply	81	89	87	113		135
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	80	88	86	112		134
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	80	88	86	112		134
Total Use	80	88	86	112		134
Ending Stocks	1	1	1	1		1
Total Distribution	81	89	87	113		135
CY Imp. from U.S.	15	18	17	40		0
CY. Exp. to U.S.	0	0	0	0		0
TS=TD		0				
Comments						
AGR Number						

### Commodities:

Dairy, Milk, Nonfat Dry

#### Production:

In 2010, local NFDM production amounted to 10,000 MT; a 40% decrease from the previous year. NFDM is produced from over-quota raw milk purchased at lower prices. In 2011, the domestic manufacturing cost of NFDM was about \$10 per kilogram, increased by 15% compared to a previous year due to a 20% jump in the Korean raw milk cost since August 2011 from \$0.7 to \$0.84 per liter. Current market retail prices of NFDM range from \$7.00 to \$7.50 per kilogram. Quota control of raw milk production and a decreasing number of dairy farms reduced the “over production” in 2010.

#### Consumption:

In 2010, NFDM consumption amounted to 23,000 MT. 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.

Unit: Metric Ton

	2005	2006	2007	2008	2009	2010
Production	23,677	18,318	22,158	20,000	15,200	9500
Import	6,147	6,709	4,928	5,025	9,600	7900
Export	69	114	140	270	470	1000
Consumption	25,784	29,894	22,674	25,614	27,800	19,600

Source: Korea Dairy Committee 2011

#### Powdered Milk Inventory, Price and Import

		2006	2007	2008	2009	2010
<b>Inventory (Metric Ton)</b>	WFDM	470	530	260	340	110
	NFDM	4,000	8,240	7,530	4,100	940
	Total	4,400	8,770	7,800	4,500	1,050
<b>Price* (\$/Kg)</b>	WFDM	3.13	5.32	9.1	0	-
	NFDM	2.67	5.53	6.0	0	-
<b>Import (Metric Ton)</b>	WFDM	2,000	1,140	1,260	1,160	1,400
	NFDM	6,700	4,900	5,030	9,700	7,900
	Total	8,700	6,100	6,300	10,800	9,300

Source: Korea Dairy Committee 2011

\*: (CIF Price + Tariff + Other Cost)

#### Trade:

There is a tariff rate quota for NFDM. The quota quantity for 2010 was 1,034MT with an in-quota tariff rate of 20%. The out of quota tariff is 176%. In 2010, imports of NFDM were 7,900 MT; decreased by 18 percent compared to 2009. However, in 2011, from January to September, Korea imported 18,900 MT, increased 230% compared to same period of 2010. Because, on March 2011, the Ministry of Strategy and Finance (MOSF) announced temporary no import 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. In 2011, the domestic manufacturing cost of NFDM was about \$10 per kilogram, increased by 15% compare to a previous year due to a 20% jumping up the Korean raw milk cost since August 2011 from \$0.7 to \$0.84 per liter. Current market retail prices of NFDM range from \$7.00 to \$7.50 per kilogram. Quota control of raw milk production and a decreasing number of dairy farms reduced the "over production" in 2010. There should be a very limited price competition of locally produced raw milk which will be processed for NFDM and cheese products for the future.

#### Marketing:

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 2011, the most imported NFDM was used for bakery ingredients and infant formula. 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.

#### NFDM Imports by Country of Origin in 2010

Unit: MT

	U.S.	Australia	New Zealand	E.U.	Total
Import Volume (MT)	650MT	4,750	526	1,258	7,873
Import Value (\$1,000)	\$1,926	\$14,300	\$1,763	\$3,265	\$24,283
Unit Price per MT	\$2,963	\$3,010	\$3,352	\$2,595	\$3,084

Source: Korea Trade Information Service 2011

**Production, Supply and Demand Data Statistics:**

Dairy, Milk, Nonfat Dry of Korea, Republic	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	5	5	5	1		1
Production	14	10	13	3		3
Other Imports	8	8	9	16		16
Total Imports	8	8	9	16		16
Total Supply	27	23	27	20		20
Other Exports	0	1	0	0		0
Total Exports	0	1	0	0		0
Human Dom. Consumption	22	21	21	19		19
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	22	21	21	19		19
Total Use	22	22	21	19		19
Ending Stocks	5	1	6	1		1
Total Distribution	27	23	27	20		20
CY Imp. from U.S.	0	0	0	0		0
CY. Exp. to U.S.	0	0	0	0		0
TS=TD						
Comments						
AGR Number						