Market brief **Republic of Korea**

Version 1 – August 2016

A high income country, the Republic of Korea imports large quantities of cheese, whey and milk powders. Australian market share is under pressure from American, European and New Zealand competitors, as exporters face higher tariffs for key products.

Global Exports to Republic of Korea in 2015/2016

Rank at #19 in the global dairy market (by volume).

Destination for 215.8 thousand tonnes of dairy product, worth US $652.1 million (May 2015 to April 2016).

Exports to Republic of Korea have increased by 0.7% over 5 years.

The biggest volume growth (product categories exceeding US$20 million) has been in: Ice Cream (109%), Infant Powder (104%), SMP (32%) and Cheese (4%).

The biggest volume decline (product categories exceeding US$20 million) has been in: Whey Powder (-24%), Milk Products (-18%), Butter (-17%) and Casein (-10%).

Australian Market Share in 2015/2016

Rank at #4 in the share of the Republic of Korea import volume.

Destination for 18.7 thousand tonnes of Australian dairy product, worth US $62.7 million (May 2015 to April 2016).

Exports to Republic of Korea have decreased by 29.3% over 5 years.

The biggest volume growth (product categories exceeding US$1 million) has been in: Infant Powder (81%), Butter (70%) and Whey Powder (65%).

The biggest volume decline (product categories exceeding US$1 million) has been in: WMP (-70%), Condensed Milk (- 33%), SMP (-33%), Cheese (-26%) and Milk (-26%).

Tariff Environment

Australia and Korea have a bilateral free trade agreement, KAFTA, with entry-into-force in December 2015, and annual tariff cuts in January. However, given the US, EU and New Zealand, the three largest dairy exporters, have all concluded Free Trade Agreements with Korea with faster tariff-reduction schedules, the environment is extremely competitive for Australian exporters. The failure to include milk powders in the final KAFTA agreement will likely see Australian exports of these products effectively cease over the medium run. A summary of current tariffs for the key dairy categories imported by Korea can be found in Figure 7*.

Key International Marketing Programs and Initiatives

Dairy Australia is involved in a number of marketing programs and promotion activities in South Korea. Dairy Australia collaborates with Austrade to promote Australian dairy products through initiatives such as industry seminars. In addition, Chef Tim Hollands (#OzChefTim) has conducted a series of cooking demonstrations and classes in Korea, aimed at promoting the use of Australian produce and foodstuffs. Two representatives from South Korea are invited annually to participate in the South East Asia Dairy Scholarship program. Begun in 2015, the program familiarises students and food industry representatives from the region with aspects of the Australian dairy industry, stressing Australia's clean environment, product quality and strict food safety standards.

Market Developments

South Korea is a rapidly growing economy, with a high level of human development. Rising incomes and an increased appetite for western-style food have seen strong growth in dairy consumption, and imports. In 2015, Korea's dairy imports totalled some 260,000 tonnes, worth approximately $725 million USD.

However, Korea also maintains an extensive and heavily protected agricultural sector, particularly in beef, pork and dairy, and also provides substantial financial assistance to farmer. Recent free trade agreements, particularly with the US (KORUS), were particularly contentious, with strong political opposition to any liberalisation of the agricultural sector delaying ratification. Since KORUS, Korea has gone on to sign agreements with the EU, Australia and New Zealand. The Korean government has promised extensive funds to the agricultural sector as it undergoes structural re-adjustment.

Within Korea, per capita consumption of liquid milk and yogurt is expected to grow, but at a relatively low rate of around 1.6% pa. Korea's domestic production is generally focussed on these dairy categories, and will become ever more so in the face of increasing competition from manufactured imports.

Exporters have benefitted from a significant increase in cheese consumption, which grew almost 5% in 2015. This was mainly in the processed cheese category, destined for use in the restaurant and food-service channels. There has also been some growth in higher-end specialist cheeses.

However, a complication for Australian exporters is the issue of Geographical Indicators (GI). The EU has inserted clauses relating to the recognition and protection of several varieties of cheese. Of particular concern is the application of GI status to parmesan and feta, which are commonly considered generic, signifying a style or variety rather than a place of origin. As a result, Australian producers may have to market their cheese under different, less-recognised names.

** Figures shown on the overleaf*

Figure 1 Dairy imports (Republic of Korea)

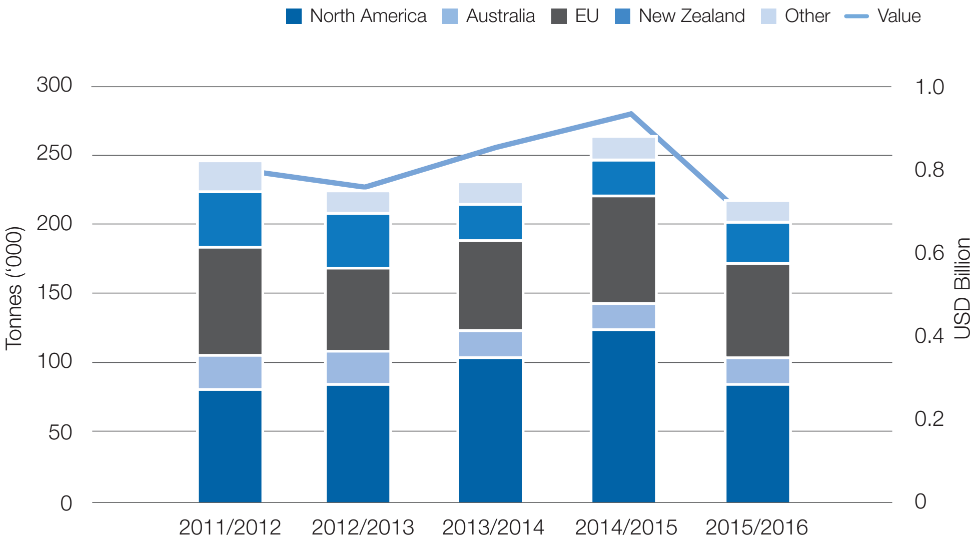


Figure 6 Australia's exports (Republic of Korea)

	Market Share (USD)		Volume (thousand tonnes)		Value (million USD)	
	2011/12	2015/16	2011/12	2015/16	2011/12	2015/16
Butter Blend	42.8	34.6	1.3	1.6	5.5	5.3
Cheese	8.8	8.2	6.5	6.9	29.0	25.4
Condensed Milk	92.8	79.7	3.3	1.9	17.3	6.7
Milk	19.5	31.6	3.2	1.5	8.9	4.1
SMP	24.8	19.3	6.2	4.2	22.3	8.7
Total Imports	13.1	9.6	24.6	18.7	104.6	62.7

Figure 7 Dairy tariffs (Republic of Korea)

Tariff Category	Product Category	Applied Tariff
040210 1010	Milk and cream, concentrated or containing added sugar or other sweetening matter: skim milk powder	20.00%
040610 1010	Cheese and curd: Mozzarella cheese	30.00%
040630 0000	Cheese and curd: Processed cheese, not grated or powdered	30.00%
040690 1000	Cheese and curd: Cheddar	27.60%

Applied Tariffs are drawn from Integration Point. Where Australia does not have a specific tariff agreement in place, the Applied Rate for qualifying product is the MFN rate. Where a specific tariff agreement exists, the Applied Rate for qualifying product is as per that agreement. The countries with specific agreements in place are: Japan (JAEPA) The Republic of Korea (KAFTA), Malaysia (MAFTA), Singapore (SAFTA), Thailand (TAFTA), ASEAN (AANZFTA), China (ChAFTA) and the USA (AUSFTA).

Figure 2 Top dairy exports by volume (Republic of Korea)

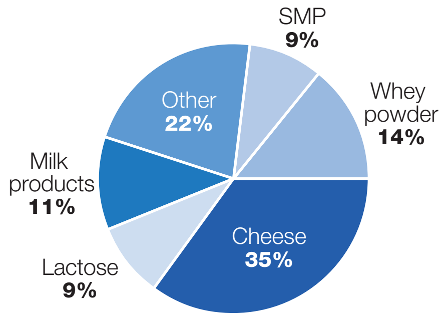


Figure 3 Top dairy imports by USD value (Republic of Korea)

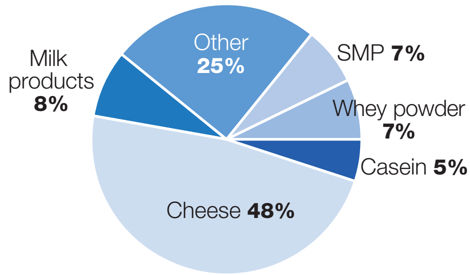


Figure 4 Top Australian dairy exports by volume (Republic of Korea)

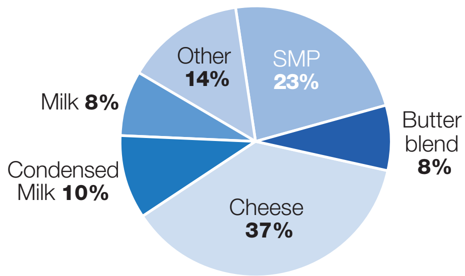
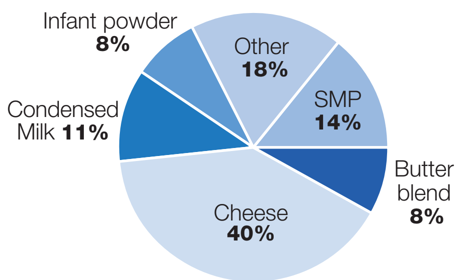


Figure 5 Top Australian dairy exports by USD value (Republic of Korea)



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