

MARKET BRIEF

REPUBLIC OF KOREA

Global exports to the Republic of Korea in 2018–19

- Rank at #13 in the global dairy market (by volume).
- Destination for more than 312 thousand tonnes of dairy product, worth US\$929.8 million (April 2018 to March 2019).
- Exports to the Republic of Korea have increased by 38.3 percent over the past five years.
- The biggest volume growth (product categories exceeding US\$20 million) has been in:
 - Cream (345 per cent)
 - Milk Products (124 per cent)
 - Infant Powder (119 per cent)
 - Lactose (74 per cent)
 - Ice Cream (51 per cent).
- The biggest volume decline (products categories exceeding US\$20 million) has been in:
 - Whey Powder (-1 per cent).

Australian market share in 2018–2019

- Rank at #4 in the share of the Republic of Korea import volume.
- Destination for more than 19 thousand tonnes of Australian dairy products, worth US\$73.2 million (April 2018 to March 2019).
- Exports to the Republic of Korea have decreased by 0.9 percent over the past five years.
- The biggest volume growth (product categories exceeding US\$1 million) has been in:
 - Whey powder (7312 per cent)
 - Cheese (80 per cent)
 - SMP (3 per cent).
- The biggest volume decline (product categories exceeding US\$1 Million) has been in:
 - Butter (-57 per cent)
 - Butter Blend (-55 per cent)
 - Milk (-52 per cent)
 - Condensed Milk (-50 per cent)
 - Infant Powder (-19 per cent).

Market developments

The Republic of Korea's economy is steadily growing with gross domestic product (GDP) increasing roughly 3 per cent per annum. This has led to an increase in household incomes and a greater appetite for high-quality, western-style foods including dairy products. In the twelve months to March 2019, Korea's dairy imports totalled 311,664 tonnes.

Within Korea, per capita consumption of dairy products continues to grow. In the twelve months to March 2019, dairy imports totalled US\$929 million, up 7 percent from the twelve months prior. Exporters have benefitted from rising demand of cheese, butter and cream as consumption of these dairy products have increased. This consumption increase is the result of strong demand for products to make western food recipes. As the local dairy industry generally produces packaged milk, due to a government subsidy program, there is a strong demand for imported processed dairy products.

Cheese remains an important product within the food processing industry and the consumer market. Packaged convenience foods and ready-to-eat meals are becoming increasingly popular within Korea. Cheese is recognised to increase the texture and the flavour of foods, and Korean manufacturers have been introducing hot and spicy convenience food products that contain cheese to the market. Cheese, on its own, is a popular nutritious snack for children and adults. Manufacturers are launching products targeted just for children, such as string cheese, whilst cubed and portion cheese is popular amongst male consumers as a light snack to have alongside alcohol.

Due to the low fertility rate in Korea demand for fresh milk has slowed. At Korean primary schools, fresh milk is provided at cheaper prices than retail channels, however due to the fall in birth rate, the sales of fresh milk have consequently decreased. Despite this, consumers enjoy flavoured milk as an easy-to-drink snack and consumption has increased by 10 per cent.

The Korean dairy industry is heavily protected and Australian dairy exports to Korea are valued at US\$73.2 million (April 2018 to March 2019). On the implementation

of KAFTA, Australia received immediate duty-free quotas for most cheeses, butter and infant formula however, high tariffs on products outside the duty-free quotas which are to be eliminated over time. When KAFTA is fully implemented, 99.7 percent of cheese and butter exports to Korea will have tariffs removed. This is being done by annual reduction in tariffs over a phase-out period. For example in 2014, cheddar had a 27.8 per cent tariff but with a 3.1 per cent annual reduction will reach zero by 1 January 2026.

Tariff environment

Australia and the Republic of Korea are both party to the Korea Australia Free Trade Agreement (KAFTA). Entry came into force on the 12 December 2014. 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. A summary of current tariffs for the key dairy categories imported by Korea can be found in Figure 7*.

Key international marketing programs and activities

Dairy Australia runs or is involved in a number of marketing programs and activities in South Korea. These include the South East Asia Dairy Scholarship program aimed at familiarising dairy and food industry professionals from the region with aspects of the Australia dairy industry and the South East Asian Alumni Program for past scholars. Dairy Australia regularly visits South Korea and presents seminars to local industry players in key markets.

Figure 1 Dairy imports

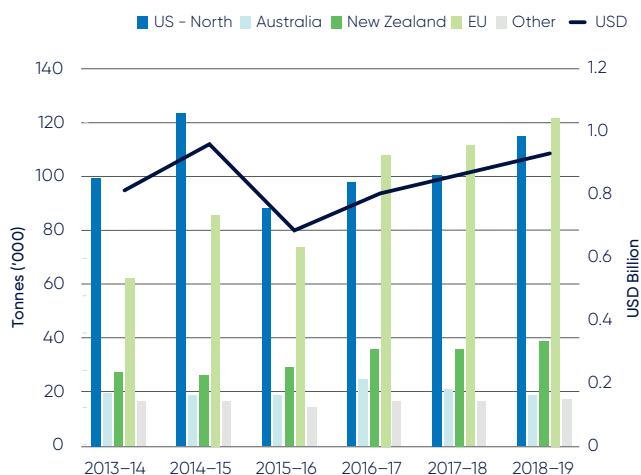


Figure 2 Top dairy imports by volume

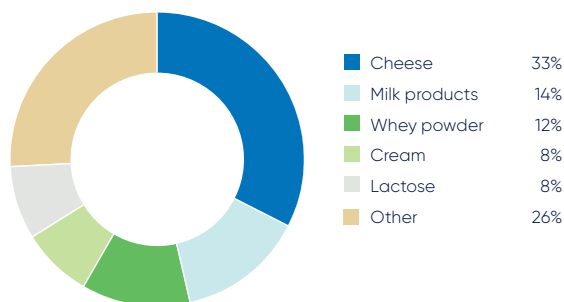


Figure 3 Top dairy imports by USD value

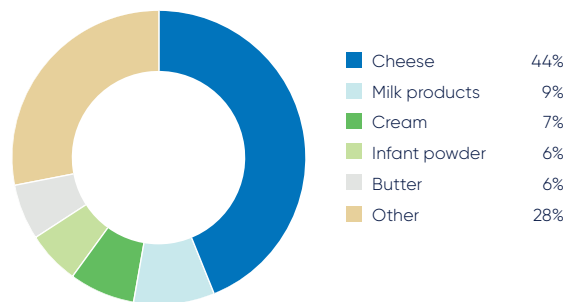


Figure 4 Top Australian dairy exports by volume

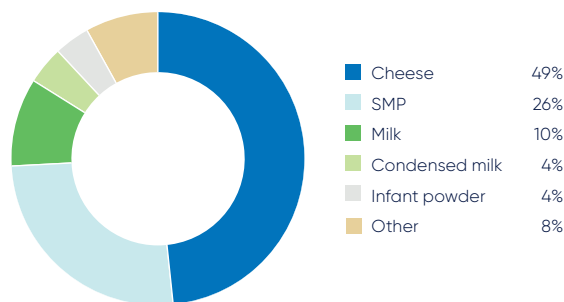


Figure 5 Top Australian dairy exports by USD value

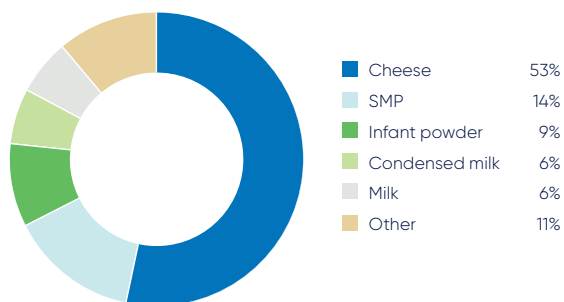


Figure 6 Australia's exports

Product group	Market share (USD)		Volume (1000 of tonnes)		Value (Million USD)	
	2014–15	2018–19	2014–15	2018–19	2014–15	2018–19
Cheese	5	9	5.5	9.2	25.8	38.5
SMP	27	22	5.9	5.0	21.0	10.4
Infant powder	24	13	0.6	0.7	6.3	6.9
Condensed milk	78	71	1.8	0.8	8.4	4.6
Milk	30	47	2.0	1.8	3.9	4.6
Total	8	8	18.9	19.0	77.5	73.3

Figure 7 Dairy tariffs

Tariff category	Product category	Applied tariff %
405.1	Butter and other fats and oils	0
406.1	Cheeses except curd and blue vein	0
1901.1	Prepared milk/infant formula	0

FOR FURTHER INFORMATION

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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: India (ChAFTA), Indonesia (AANZFTA), Japan (JAEPA) The Republic of Korea (KAFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

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