

Market brief Republic of Korea

Calendar year 2022

GLOBAL EXPORTS TO KOREA

Ranked #9 in the global dairy market (by volume)

Destination for over 417,000 tonnes of dairy product, worth close to US\$1.8 billion (in 2022)

Exports have increased by 39% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$20 million) has been in:

- Milk 322%
- Butter 255%
- Butter blend 121%

The biggest volume decline (product categories exceeding US\$20 million) has been in:

- SMP -47%

AUSTRALIAN MARKET SHARE

Ranked #4 in the share of Korea's import volume

Destination for almost 19,000 tonnes of Australian dairy product, worth almost US\$87 million (in 2022)

Exports have decreased by 4% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$1 million) has been in:

- Butter blend 609%
- Milk 93%
- Ice cream 82%

The biggest volume decline (product categories exceeding US\$1 million) has been in:

- Condensed milk -71%
- SMP -63%

Market developments

The Republic of Korea's (Korea) economy has steadily grown over the last few years and increased household incomes have led to a greater appetite for western-style foods. As such, demand for dairy has grown, with global dairy exports to Korea increasing 39 per cent over the past five years. Born out of the COVID-19 pandemic, healthier, premium milk products (i.e., organic and/or antibiotic-free) have become a key focus for consumers; many are anxious about food safety and environmental concerns continue to grow among the population.

In Korea, milk prices paid to farmers are set yearly by the government and are based on production costs and inflation. As a result, the farmgate value of milk is one of the highest in the world. These prices do not reflect changes in dairy commodity markets, and therefore lowers the competitiveness of locally produced milk compared to cheaper imported dairy products.

High farmgate milk prices, however, have been unable to elicit a production response, as the national milk herd and number of dairy farms decline. Seasonal challenges faced over the last year have weighed on domestic milk production, which has fallen in recent years.

Although there has traditionally been strident opposition to the importation of drinking milk or yoghurt among Korean farmers, the widening gap between declining local production and steady per capita milk consumption has meant that the importation of milk has become more essential. In line with this, global exports of milk to Korea have surged 322 per cent over the last five years.

Demand for fresh milk has traditionally been strong in Korea, with children and teenagers the main consumers. However, declining fertility and birth rates have decreased sales via all channels in recent years.

This was further exacerbated throughout the COVID-19 pandemic, where school closures created a surplus of drinking milk, causing this excess product to then be diverted into powder production and stockpiled. While the initial impact of this was felt in 2020/21, exports of skim milk powder (SMP) to the market have remained subdued since, with both global and Australian exports of SMP dropping 29 per cent and 27 per cent respectively, between 2020 and 2022.

While Korean's generally prefer the taste of fresh milk compared to ultra-high temperature (UHT) alternatives, robust demand for premium and processed milk products and beverages among the adult population is expected to increase sales of processed milk in the future. Fresh and flavoured milks are often sold in multipacks as easy-to-drink snacks.

In light of declining birth rates and a reduction in milk consumption, sources suggest local dairy manufacturers are looking to diversify their product offering, targeting adult and senior consumers. While this has led to the launch of new premium milk products (i.e., organic/antibiotic-free) by various manufacturers, cheese has also grown to become a dairy product of choice, with strong demand from both consumers and processors.

As a popular snack for all ages, it is estimated that per capita consumption of cheese has doubled over the past ten years. In recent years, various manufacturers have incorporated cheese to improve the texture and flavour of foods, whilst marketing snack-sized cheese to capitalise on growing preference for convenience foods. While Korean importers have been struggling with fluctuating exchange rates in recent times, demand for cheese continues to grow, and global exports have increased 33 per cent over the past five years, now accounting for 30 per cent of all imported dairy products by volume.

The Korean dairy industry is heavily protected and export opportunities to this market are highly competitive. When the Korea Australia Free Trade Agreement (KAFTA) was implemented, Australia received immediate duty-free quotas for most cheese, butter and infant formula. Whilst this makes these products affordable and competitive, the quotas set for each are relatively low. Outside of quota limits, high tariffs set by the KAFTA are put in place, which can discourage further exports of these products. For all other Australian dairy products, high tariffs are imposed at all times. While these are set to be gradually eliminated, bilateral trade agreements between Korea and other exporting countries with much lower tariff rates, place Australia at a competitive disadvantage in the market. As such, Australian dairy exports to Korea have fallen 4 per cent over the past five years.

Tariff environment

The Korea Australia Free Trade Agreement (KAFTA) came into force on the 12th of December 2014. While duty-free quotas for some dairy products and the gradual reduction of tariff rates support exportation to Korea as part of the KAFTA, the United States (US), European Union (EU) and New Zealand also have their own trade

agreements with Korea. The faster tariff-reduction schedules of these agreements has made for a highly competitive environment for Australian exporters. Duty-free quotas are scheduled to increase 3 per cent every year on January 1st. Australian cheddar cheese will be duty free by 2026, butter by 2028 and mozzarella and cream cheese by 2031. A summary of the duty-free quotas, in quota and out of quota tariffs for key products can be found in Table 2.

Key international marketing programs and initiatives

Dairy Australia runs or is involved in a number of marketing programs and activities in Korea. These include the Southeast Asia Dairy Scholarship program aimed at familiarising dairy and food industry professionals from the region with aspects of the Australia dairy industry and the Southeast Asian Alumni Program for past scholars. Outside of COVID-19 travel restrictions, Dairy Australia regularly visits Korea and presents seminars to local industry players in key markets.

Figure 1 Dairy imports

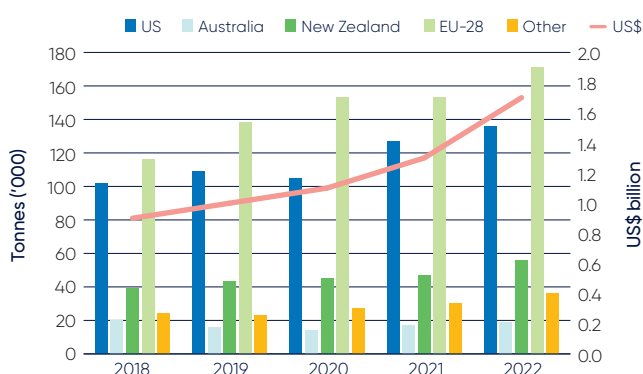


Figure 2 Top dairy exports to Korea by volume

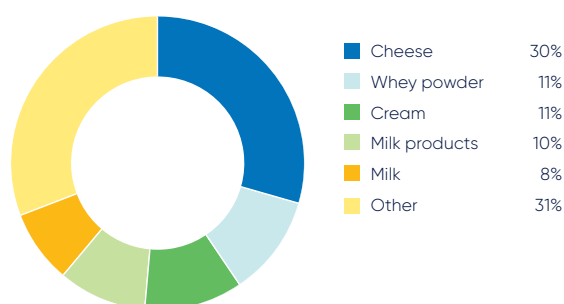


Figure 3 Top dairy exports to Korea by US\$ value

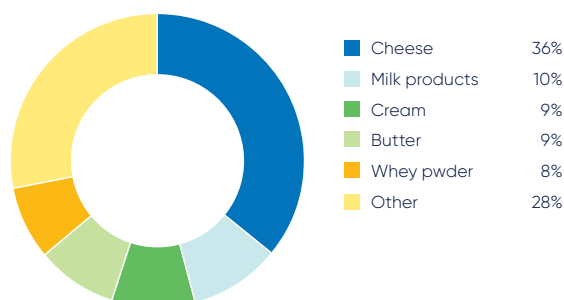


Figure 4 Top Australian dairy exports by volume

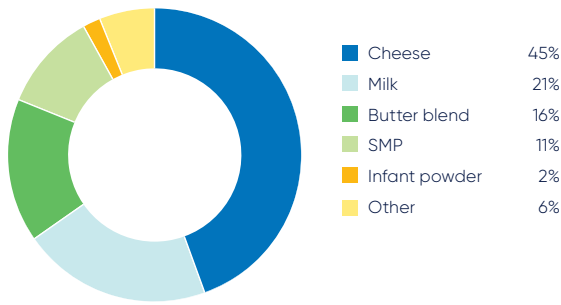


Figure 5 Top Australian dairy exports by US\$ value

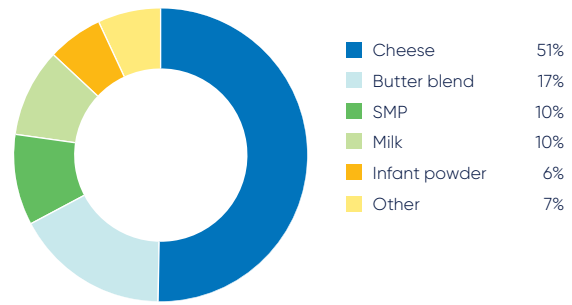


Table 1 Australia exports

Product group	Market share (US\$ %)		Volume ('000)		Value (million US\$)	
	2018	2022	2018	2022	2018	2022
Cheese	10	7	9.0	8.4	38.4	44.4
Milk	55	25	2.0	3.9	5.5	8.8
Butter Blend	12	31	0.4	3.0	2.5	14.9
SMP	23	17	5.6	2.0	11.3	8.5
Infant Powder	12	6	0.6	0.4	5.8	4.8
Total	8	5	19.7	18.9	75.2	87.0

Table 2 Dairy tariffs

Tariff category	Product category	Quota (tonnes)	In quota	Out of quota (%)
0405.1	Butter and other fats and oils	135	Free	29.60
0406.1	Cheese except curd and blue vein	6041	Free	8.30–18.00
1901.1	Prepared milk/infant formula	613	Free	8.30

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

FURTHER INFORMATION

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