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Korea - Republic of

Dairy and Products Annual

Dairy Update - ATO Seoul

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Report Highlights:
In 2011, retail sales of cheese reached a recorded to $333 million, which was a 15 percent increase from 2010. The United States was the largest dairy exporting country with 43 percent market share, followed by New Zealand with 27 percent and the , EU with 14 percent. FTAs are expected to expand market share for cheese and non-fat dry milk for the United States and the EU at the expense of New Zealand and Australia. A wellbeing trend is supporting a new and growing market segment of 'super premium' milk including organic milk, milk from grass fed cows, and milk with added nutritional supplements, and commands prices 3 times higher than regular milk. Despite a shortage of fluid milk resulting a FMD outbreak, Korea's per capita consumption of dairy products grew by 1.4 percent to 73.2 kg, in 2011.

Executive Summary:

An implementation of the Korea-U.S. Free Trade Agreement (FTA) since March 2012, which 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 including cheese, no fat dry milk (NFDM – HS 0402.10.1010) with 5,000 MT's TRQ every year and Whey with 3,000 MT for 9 years.

In 2011, food and mouth diseases (FMD) forced the slaughter of 34,000 dairy cows (8 % of 430,000 national herds) which resulted in a shortage of fluid milk. While fresh milk for consumers is in sufficient supply, milk for bakery use was to run short. Korean Government announced zero-duty TRQs on dairy products for 142,000 MT including 48,000 MT for dairy products processing industry and 94,000 MT for bakery sectors.

Accordingly, most of dairy products imports into Korea were jumped up: Cheese increased by 25 percent up to 76,000 MT, NFDM increased by 324 percent up to 34,000 MT, Mixed milk increased by 14 percent up to 36,000 MT, Whey decreased by 19 percent up to 30,400 MT and Butter increased by 47 percent up to 35,000 MT during a year of 2011.

The average unit price of imported dairy products was also increased by 21 percent up to $4 per Kilo Gram (KG): Cheese jumped up 11 percent with $4.7 per KG, NFDM $3.7 per KG, Whey $1.4 per KG, Mixed milk $3.4 per KG and Butter $3.7 per KG.

Major dairy products exporting countries for Korea are United States, New Zealand, Australia, Netherlands and Germany. United States is the largest exporting country with 26 percent of market share with 73,000 MT out of total dairy products imports, followed by New Zealand 19 percent with 53,000 MT, Netherlands 12 percent with 35,000 MT into Korea in 2011.

Table 1: Raw Milk Supply & Demand Prospects for 2012-2022

Unit: 1,000 MT

		2011	PROSPECTS			
			2012	2013	2017	2022
Supply	Inventory from Previous Year	13	36	109	171	198
	Production	1,888	1915	1939	1903	1846
	Import	1,620	1640	1,679	1757	1,852
	Total	3,521	3590	3726	3832	3,895
Demand	Consumption	3,485	3481	3,582	3652	3,398
	Inventory	36	109	144	180	201
	Total	3,521	3590	3,726	3832	3,895
Precipitate Consumption(Kg)		69.4	69.2	(+2.7%)71.1	(+1.5%)72.2	(+1.4%)73.2

Source: Agriculture Outlook 2012 / Korea Rural Economy Institute

Table 2: Dairy Products Import by Year and by Product

		2007	2008	2009	2010	2011
Total Imports	Import Volume(MT)	184,000	165,000	176,000	207,000	281,000
	Value ($1,000)	556,000	673,000	501,000	682,000	1,120,000
	Unit Price($/Kg)	3.0	4.1	2.8	3.3	4.0
Cheese	Import Volume(MT)	49,500	47,400	49,000	61,000	76,000
	Value ($1,000)	179,000	239,000	190,000	259,000	357,000
	Unit Price($/Kg)	3.6	5.0	3.9	4.2	4.7
Mixed Milk	Import Volume(MT)	23,600	26,000	26,000	31,600	36,000
	Value ($1,000)	76,900	107,000	70,000	91,000	123,000
	Unit Price($/Kg)	3.3	4.1	2.7	2.9	3.4
Whey	Import Volume(MT)	46,800	32,000	32,200	37,600	30,000

	Value ($1,000)	67,100	38,000	29,000	41,000	43,000
	Unit Price($/Kg)	1.4	1.2	0.9	1.1	1.4
Butter	Import Volume(MT)	21,400	20,500	20,000	23,400	34,500
	Value ($1,000)	49,700	81,300	50,000	82,000	160,000
	Unit Price($/Kg)	2.3	4.0	2.5	3.5	4.6
NFDM	Import Volume(MT)	5,000	5,000	9,700	7,900	33,500
	Value ($1,000)	17,600	20,000	23,200	24,500	123,600
	Unit Price($/Kg)	3.5	4.0	2.4	3/1	3.7

Source: Korea Customs Office 2012

Table 3: Dairy Product Import by Country

	U.S.		New Zealand		Netherlands		Australia		Germany		Total	
	Import Volume	Share	Import Volume	Share	Import Volume	Share	Import Volume	Share	Import Volume	Share	Import Volume	Share
2007	42,100	(23%)	28,600	(16%)	21,500	(12%)	25,900	(14%)	5,600	(3%)	184,000	(100%)
2008	40,000	(24%)	31,100	(19%)	23,100	(14%)	21,600	(13%)	5,700	(3.4%)	165,000	(100%)
2009	36,300	(21%)	34,500	(20%)	20,100	(11%)	31,300	(18%)	6,900	(4%)	176,200	(100%)
2010	55,000	(26%)	39,400	(19%)	28,600	(14%)	28,600	(14%)	5,800	(3%)	207,000	(100%)
2011	72,800	(26%)	53,300	(19%)	34,500	(12%)	32,400	(12%)	20,500	(7%)	280,500	(100%)

Source: Korea Customs Office 2012

Commodities:

Dairy, Milk, Fluid

Production:

In 2011, Korean raw milk production was 1.89 million metric tons (MMT), decreased by 9 percent compared to a previous year. From November 2010, FMD among cows, pigs and ox was prevalent in over 200 districts within South Korea. FMD forced the slaughter of 34,000 dairy cows (8 % of 430,000 national herds) which resulted in a shortage of fluid milk. The Korean government set a policy where when one animal was found to have FMD, destroyed. This led to a shortage of raw milk which badly affected the production of drinking milk products. Drinking milk use was 86 percent of total raw milk production while remaining 14 percent is marketed for processing.

Table 4: Domestic Milk Production & Number of Cows in Milk

Consumption:

In 2011, retail value sales of drinking milk are decreased by 1% to reach $3.4 billion which was strongly affected by shortages of raw milk from foot-and-mouth disease. Flavored milk drinks with fruit juice reached the highest retail value growth by 10% and unit prices rose in all types of drinking milk products due to a higher raw milk prices.

Fresh/pasteurized milk decreased by 5% in 2011.Sales of drinking milk products are marginally decreased due to incidents of FMD in cattle. This led to a shortage of raw milk which badly affected the production of drinking milk products. On the other hand, many consumers and restaurants replaced milk with soy milk, enabling soy milk with a healthy growth rate in 2011.

In May 2009, regulations regarding flavored milk drinks changed so that products including real fruit juice could feature brand names such as real fruit juice included flavored milk drink. As such, products without real fruit juice could be called 'fruit name syrup milk drink' instead of 'flavored'. Manufacturers started to add real fruit juice to most fruit flavored milk drinks to maintain the brand name as 'fruit name flavored milk drink'. Flavored milk drinks increased by 4% in 2011 due to changes in most dairy only flavored milk drinks to flavored milk drinks with fruit juice. This is because 'fruit name syrup milk drink' could convey a negative image of being low quality among consumers. In 2011, only coffee flavored, grain and bean flavored milk drinks remained under the dairy only flavored milk drinks, and all fruit flavored milk drinks move under the flavored milk drinks with fruit juice category.

Seoul Dairy maintained the leading position with a 38% value share in 2010 followed by Maeil Dairy at 15% market share with organic milk brand, Sangha Farm. Since the recent outbreaks of FMD, consumers became concerned about drinking fresh milk. As a result, sales of soy milk increased as opposed to fresh milk. Sangha Farm is now a leader in organic milk. Vegemil by Dr. Chung's Food maintained the leading position to a 39% value share in soy milk.

Table 5: Korea Raw Milk Supply & Demand

Unit: 1,000 Metric Ton

		2006	2007	2008	2009	2010	2011
Supply	Inventory from a year before	116	53	107	96	55	13
	Production	2,176	2,188	2,139	2,110	2,073	1,888
	Import	882	968	885	959	1,135	1,620
	Total	3,174	3,209	3,131	3,166	3,263	3,521
Demand	Consumption	3,121	3,101	3,035	3,111	3,249	3,485
	Inventory	53	107	96	55	13	36
	Total	3,175	3,209	3,131	3,166	3,263	3,521
Per Capita Consumption (Kilo Gram)		63.6	63.0	61.3	62.3	62.8	69.4

Source: Ministry of Food & Agriculture Fishery Forestry (MIFAFF) /
2012 Agriculture Outlook by Korea Rural Economy Institute (KREI)

Table 6: Domestic Raw Milk Usage

Unit: 1,000 MT

Milk	2006	2007	2008	2009	2010	2011
Drinking Use	1,555	1,582	1,583	1,569	1,541	736
Processed Use	621	606	556	540	532	206
Total	2,176	2,188	2,139	2,110	2,073	942

Source: Ministry of Food & Agriculture Fisher Forestry (MIFAFF) /
2012 Agriculture Outlook by Korea Rural Economy Institute (KREI)

The Korean consumers' priorities of milk selection are freshness (30%), brand name (20%), safety (19%), function (8%) and price (22%) by agriculture outlook center survey during January 2012.

Table 7: Korea's Key Dairy Product Imports

Unit: Metric Tons

Products(HS Code)	2008		2009		2010		2011	
	U.S.	Total	U.S.	Total	U.S.	Total	U.S.	Total
Cheese(0406)	11,300	47,400	9,100	49,000	18,500	61,000	32,400	76,200
NFDM (0402.10)	41	4,900	100	9,600	650	7,900	900	33,500
Whole Fat DM (0402.21)	0	1,300	0	1,200	0	1,400	0	5,300
Mixed Milk (0404.90 & 1901.90.2000)	1,468	25,900	910	26,000	440	31,600	1,300	36,000
Butter (0405.10)	56	1,900	80	2,100	66	3,000	900	4,800
Whey Powder (0404.10)	14,009	32,000	15,800	32,200	16,000	37,600	12,900	30,400
Ice Cream (2105)	356	2,000	520	2,010	632	2,600	840	3,600
TOTAL	39,700 (24%)	165,000	36,300 (21%)	176,200	54,700 (26%)	207,000	72,800 (26%)	280,500

Source: 2012 Korea Customs Office

Notes: In 2011, imports of dairy products increased, such as cheese imports increased by 25% up to 76,200 MT, mixed milk decreased by 11% up to 28,000 MT, butter increased by 60% up to 4,800 MT but NFDM increased by 320% up to 33,500 MT compared to 2010.

Table 8: Dairy Products Imports by Country

Unit: Metric Tons

	U.S.	New Zealand	Netherlands	Australia	Germany	Total
2007	42,100 (23%)	28,600	21,500	25,900	5,600	183,700
2008	39,700 (24%)	31,100	23,100	21,600	5,700	164,700
2009	36,300 (21%)	34,500	20,100	31,300	6,900	176,200
2010	54,700 (26%)	39,400	28,600	28,600	5,800	207,000
2011	72,800 (26%)	53,000 (19%)	32,400 (12%)	32,400 (12%)	20,500 (7%)	280,500 (100%)

Source: 2012 Korea Customs Office

In 2011, average unit price of imported dairy products was $4 per kilogram which was increased by 21%. Jumping the international animal feed price and decreased raw milk production of Australia and New Zealand made the price higher.

Marketing:

The effects of the new regulation concerning flavored milk drinks will include the disappearance of dairy only fruit flavored milk drinks in the future. The overall category will shrink alongside the reduction in the variety of products available. Currently, the price of individual flavored milk drinks is about Won1,000 (about $1) at convenience stores, although there are also many bundle promotions of flavored milk drinks that also sell for Won1,000 in hypermarkets. Thanks to the wellbeing trend, diverse recipes will begin to emerge involving baking bread and biscuits with fresh milk instead of powder and UHT milk. As such, consumption of powder and UHT milk will grow slow. Furthermore, the organic milk trend will be sustained, although organic milk will also be segmented further into low fat or baby milk. On the other hand, zero fat and low fat fresh/pasteurized milk will increase faster than full fat milk thanks to the consumer base of young females who will not drink milk because of its fat content.

Maeil Dairy and Namyang Dairy will continue to develop new products in order to gain more category share. Seoul Dairy's products already carry lower prices than its competitors in milk; therefore the other two main companies will focus on premium brands, even if they are more expensive. These players will expand demand for premium milk in the future and will be among the first players to develop organic milk in South Korea for the first time.

Expanding the wellbeing trend, premium milk brands in each drinking milk category are popular. The Maeil Dairy Industry is present with organic milk brand, Sangha Farm, the milk of which is derived from good quality cows reared using environmentally friendly methods without artificial feed. According to Maeil, organic milk is suitable for consumers of all ages, particularly babies, children and pregnant women. The unit price of organic milk is almost double that of normal milk, but has expanded its market share rapidly. As the brand increased faster than expected since 2009, other competitors such as Namyang Dairy Products, Pasteur Milk and province milk brands have since also introduced organic milk brands. Babies' milk contains more DHA and Omega3 than other milk products and its ingredients most closely resemble breast milk. Milk targeting special consumers was also introduced in 2010. Maeil segmented milk products under babies' milk, children's milk and zero fat milk. Children's milk also offers more nutrition than normal milk and zero fat milk targets young women.

Powder milk and long-life/UHT milk continued to decrease both in value and volume terms. The retail volume of powder milk recorded 2 million liters and long-life/UHT 16 million liters respectively. These volume sales are marginal compared to those of fresh/pasteurized milk, as most consumers are not familiar with in Korea.

Unit prices were seen to increase in 2011, due to premium products and a shortage of raw milk from 2010. However, the current unit price of normal full-fat fresh/pasteurized milk decreased due to diverse promotions and also decreased more relative to other premium products. The current unit price of flavored milk drinks also increased to reflect the fact that most products now include real fruit juice.

Table 9: Domestic Produced Raw Milk Usage for Processed Dairy Products

Unit: 1,000 MT

	2006	2007	2008	2009	2010	2011
Whole Fat Milk (WFM)	4.0	3.6	3.4	3.1	2.6	1.8
Non Fat Dry Milk (NFDM)	18.3	22.2	19.9	15.2	9.5	4
Mixed Milk	12.8	14.6	15.6	14.5	14.5 (2.7%)	15
Condensed Milk	3.7	3.6	3.5	3.9	3.7	2.6
Butter	3.9	3.9	3.5	3.5	2.6	1.2
Cheese	27.9	24.4	25.0	23.2	24.7 (4.6%)	24.7
Fermented Milk	504.3	485.9	454.9	445.7	502.6 (94%)	522
Total	621	606	556	540	532	600

Source: Ministry of Food & Agriculture Fisher Forestry (MIFAFF) /
2012 Agriculture Outlooks by Korea Rural Economy Institute (KREI)

Most cheese is imported from U.S. and New Zealand, 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:

Table 10: Production, Supply and Demand Data Statistics:

PSD TABLE for Fluid Milk

Dairy, Milk, Fluid Korea, Republic of	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	186	191	189	194		196
Cow's Milk Production	1,869	1,889	1,902	1,915		1,934
Other Milk Production	0	0	0	0		0

Total Production	1,869	1,889	1,902	1,915		1,934
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	1,869	1,889	1,902	1,915		1,934
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	1,308	1,624	1,426	1,532		1,547
Factory Use Consum.	561	265	476	383		387
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	1,869	1,889	1,902	1,915		1,934
Total Distribution	1,869	1,889	1,902	1,915		1,934
1000 HEAD, 1000 MT						

Commodities:

Dairy, Cheese

Production:

In 2011, South Korea produced 24,700 MT of cheese, decrease of 10 percent from 2010. Fresh cheese was produced 3,600, decrease of 55 percent and processed cheese accounted for the remaining 21,100 MT, increase of 9 percent. Import was increased to 76,200 MT by 25 percent and made 12 percent higher consumption than a previous year. U.S. market share was 43 percent for 32,400 MT out of total imports. Outbreak of local FMD in November 2010, forced the slaughter of 34,000 dairy cows (8 % of 430,000 national herds), resulted in a shortage of raw milk and led to decrease the production of domestic raw cheese products. Most major cheese manufacturers produce several unprocessed soft cheeses to have as a dessert along with wine. Manufacturers are trying to introduce new format soft cheese slice format that is convenient for children and which has a squeezable format to use in cooking or as a salad dressing.

Table 11: Cheese Production, Import & Consumption

Unit: Metric Ton

		2007	2008	2009	2010	2011
Production	Fresh Cheese	9,100	9,700	7,700	7,900	3,600
	Processed Cheese	15,300	15,300	15,500	19,500	21,100
	Import (Fresh Cheese)	34,700	43,700	44,800	56,100	70,400
	Import(Processed)	14,700	3,700	4,300	4,900	5,800
	Total	73,800	72,400	72,200	88,400	100,900
Consumption	Fresh Cheese	44,400	53,000	51,800	64,300	
	Processed Cheese	30,000	19,000	20,000	24,300	
	Export (Fresh Cheese)	23	91	57	35	61
	Export(Processed)	28	19	74	47	16
	Total	74,400	72,060	71,600	88,700	99,600

Source: MIFAFF, Korea Dairy Committee 2012

Table 12: Sales of Cheese by Subsector: Value 2006-2011

Unit: $ Million

	2006	2007	2008	2009	2010	2011
Processed cheese	206	217	225	233	230	227
• Unspreadable Processed Cheese	206	217	225	233	230	227
Unprocessed cheese						
• Soft cheese	53	57	69	81	93	106
Total cheese	259	274	294	314	323	333

Source: Official statistics, Euromonitor International estimates

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

Consumption:

In 2011 retail value sales of cheese are increased by 15 percent to reach $333 million with 100,000 MT of volume. Cheese shows a marginal unit price increase as well as other dairy products. Korean consumers became familiar with unprocessed cheese through experience of overseas cultures. Unprocessed cheese recorded a healthy growth rate and leads the entire cheese market. Soft cheese is projected to record strong value growth of 15 percent with new products of unprocessed cheese. Unprocessed soft cheese Mozzarella was the leading type of cheese for pizza. Camembert cheese and Feta cheese is producing as dessert cheeses to have with wine. Due to the much higher price than processed cheese, the current unit price of cheese marginally increased in 2011. Many consumers demand unprocessed soft cheese in wine bars to have with wine and also enjoy cheese and wine at home. Premium cheese was made with high quality ingredients and led to an increase in the current unit price of processed cheese. Processed cheese is producing target children as a nutritional food, but unprocessed cheese increasingly targets adults. To recover from stagnation, processed cheese now also features organic or baby cheese.

Trade:

In 2011 Korea was the United States' second largest market for cheese and curd with exports of around $140 million. Mozzarella, processed, and ripened cheeses are all significant categories. The U.S. market share in Korea for all cheeses is 39 percent, followed by New Zealand with 26 percent, the EU with 18 percent and Australia with 9 percent. Korea's per capita consumption of dairy products is expected to grow about 15 percent over the next decade reflecting the growing economy, Korean's exposure to a western diet, a rise in fast food outlets, and a growing appetite for pizza and pasta. Most domestic processed cheese is manufactured from imported fresh cheese.

Table 13: Korean Imports of Cheese:

Country	2009		2010		2011	
	$1,000	MT	$1,000	MT	$1,000	MT
World	189,918	49,024	258,749	60,971	357,918	76,222
United States	37,521	9,103	75,935	18,518	140,233	32,473
New Zealand	55,855	16,650	77,755	19,306	93,833	20,583
EU	40	5,489	38,525	6,056	65,980	10,619
Australia	11	7,067	34,829	8,636	33,285	7,446
Switzerland	0	1,604	5,920	1,227	7,174	1,244
Uruguay	0	5,484	14,616	4,185	6,258	1,400
Chile	0	20	700	174	5,937	1,270
Others	523	3,609	10,470	2,869	5,217	1,187

Source: Global Trade Atlas, HS 0406, Cheese and Curd

Table 14: Cheese Tariff Phase-Out Schedule under KORUS FTA:

The KOR-US FTA creates a zero-duty tariff-rate quota for cheeses covered under tariff lines 0406101000, 0406200000, 0406300000 and 0406900000. In the first year the in-quota amount is 7,000 MT and rises to 10,280 MT in year 2014. All U.S. cheeses will enter duty free by 2026.

HSK	Description	Base Rate	2012	2013	2014
0406101000**	Fresh Cheese**	36%	33.6%	31.2%	28.8%
0406102000	Curd	36%	32.4%	28.8%	25.2%
0406200000**	Grated or powdered cheese of all kinds**	36%	33.6%	31.2%	28.8%
0406300000**	Processed cheese, not grated or powdered**	36%	33.6%	31.2%	28.8%
0406400000	Blue-veined cheese	36%	32.4%	29%	25.4%
0406900000**	Cheese, NES, including cheddar**	36%	33.6%	31.2%	28.8%
	TRQ Volume (MT)		7,000	7,210	7,426

** included in TRQ.
The Korea Dairy Industries Association (KDIA) will administer the TRQs and allocate the in-quota quantity to historical and new importers through a licensing system.

In 2011, Korean cheese import reached to 76,200 MT by 25 percent increase and made 12 percent higher consumption than a previous year. U.S. market share was 43 percent for 32,400 MT out of total imports.
Korea was the United States' second largest market for cheese and curd with exports of around $140 million in 2011. 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 due to the outbreak of FMD. The Mozzarella, processed, and ripened cheeses are all significant categories.

By the Korea-U.S. FTA implementation since March 2012, 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. Korea's per capita consumption of dairy products is expected to grow about 15 percent over the next decade reflecting the growing economy, Korean's exposure to a western diet, a rise in fast food outlets, and a growing appetite for pizza and pasta. Most domestic processed cheese is manufactured from imported fresh cheese.

In 2012, from January through August, Korea imported 49,000 MT cheese, U.S. exported 20,250 MT with 41 percent market as the largest exporter into Korea followed by New Zealand with 15,000 MT, Australia 4,700 MT as 3rd largest exporter.

Table 15: Korean Imports of Cheese:

Country	2009		2010		2011	
	$1,000	MT	$1,000	MT	$1,000	MT
World	189,918	49,024	258,749	60,971	357,918	76,222
United States	37,521	9,103	75,935	18,518	140,233	32,473
New Zealand	55,855	16,650	77,755	19,306	93,833	20,583
EU	40	5,489	38,525	6,056	65,980	10,619
Australia	11	7,067	34,829	8,636	33,285	7,446
Switzerland	0	1,604	5,920	1,227	7,174	1,244
Uruguay	0	5,484	14,616	4,185	6,258	1,400
Chile	0	20	700	174	5,937	1,270
Others	523	3,609	10,470	2,869	5,217	1,187

Source: Global Trade Atlas, HS 0406, Cheese and Curd

Stocks:

Policy:

Table 16: 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					
0406.10.2000 Curd	36	32.4	28.8	25.2	21.6	18	14.4	10.8	7.2	3.6	0					
Annual duty-free quota in MT for HS 0406.10.10, 0406.20.00, 0406.30.00 & 0406.90.00	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	Unlimited
0406.20.0000 Grated/ powdered 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
0406.30.0000 Processed cheese, not grated or powdered	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
0406.40.0000 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
0406.90.0000 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
0406.90.0000 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

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

Marketing:

Implementation of the U.S.-Korea FTA, 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 benefit, 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. Hard cheese will develop among consumers who have experienced a hard cheese culture while travelling overseas. Premium cheese products, such as baby cheese, are expected to develop the market. Additionally, consumers will seek more high quality products without artificial additives, and organic alternatives are expected by continuing concern of health consciousness. While production volumes will increase, the unit price of unprocessed cheese will drop.

Table 17: Average Import Price per Kilogram of Imported Cheese (HS: 0406) by Country

Unit: $/Kilogram

	U.S.	Australia	New Zealand	France
2010	4.10	4.03	4.31	6.80
2011	4.32	4.47	4.5	7.16

Source: based on CIF Price / Korea Customs Office 2011

Production, Supply and Demand Data Statistics:

Table 18: Production, Supply and Demand Data Statistics: PSD Table for Cheese

Dairy, Cheese Korea, Republic of	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1	1	1	1		1
Production	32	24	38	25		26
Other Imports	80	76	96	77		78
Total Imports	80	76	96	77		78
Total Supply	113	101	135	103		105
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	112	100	134	102		104
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	112	100	134	102		104
Total Use	112	100	134	102		104
Ending Stocks	1	1	1	1		1
Total Distribution	113	101	135	103		105
1000 MT						

Author Defined:

Table 19: 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	8%	6.4	4.8	3.2	1.6	0					

two or more whey protein for Human consumption – more than 80% protein											
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.

Table 20: Whey (0404.10) Import by Year

Unit: 1,000 MT

Import Volume		2008	2009	2010	2011
HS:0404.10	Volume (1,000 MT)	32,000	32,200	37,600 (53% market Share from U.S.)	30,400 (42% market share from U.S.)
	Value ($1,000)	38,300	29,000	41,000	43,000 ($13,600, 32% market share)
HS:3502.20*	Volume (1,000 MT)	1,240	1,400	1,740 (57% market share from U.S.)	1,900 (69% market share from U.S.)
	Value ($1,000)	14,000	12,200	15,600	19,200

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

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.
Whey is co-product of cheese and contains lactose, protein, vitamins and minerals which are 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.

Commodities:

Dairy, Milk, Nonfat Dry

Production:

In 2011, local NFDM production amounted to 4,000 MT; a 58% decrease from the previous year. Due to the FMD outbreak in November 2010, import was increased to 34,000 MT, jumping up by 320 percent than a year of 2010 which was made by the government TRQ application.

Consumption:

In 2011, NFDM consumption amounted to 38,000 MT increased by 93 percent compare to a year of 2010. 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.

Table 21: NFDM Production, Imports, Consumption by Year

Unit: Metric Ton

	2006	2007	2008	2009	2010	2011
Production	18,318	22,158	20,000	15,200	9500	4,000
Import	6,709	4,928	5,025	9,600	7900	34,000
Export	114	140	270	470	1000	5
Consumption	29,894	22,674	25,614	27,800	19,600	37,900

Source: Korea Dairy Committee 2012

Trade:

Due to the FMD outbreak in November 2010, import was increased to 34,000 MT, jumping up by 320 percent than a year of 2010. 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. From January to August in 2012, Korea imported 13,500 MT, decreased by 60% compared to same period of 2011. Australia has 32 percent market share, followed by Germany 31 percent, France 14 percent and U.S. 7 percent with 950 MT during January through August in 2012.

Policy:

Table 22: NFDM Tariff and TRQ Schedule on Korea-US FTA implementation

HSK	Description	Base Rate	2012	2013	2014
0402.10	NFDM –In powder, fat content not exceeding 1.5%	176%	176%	176%	176%
	Duty free quota 5,000 MT every year with an additional 3% compound increase				

Source: Ministry of foreign Affairs and Trade

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.

Table 23: NFDM Imports by Country of Origin in 2011

Unit: Metric Tons

	U.S.	Australia	New Zealand	E.U.	Total

Import Volume (MT)	928MT	7,400	2,100	22,800	33,500
Import Value ($Million)	$3.4M	$26.8M	$8.2M	$80M	$123.4M
Unit Price per MT	$3,664	$3,622	$3,905	$3,509	$3,684

Source: Korea Trade Information Service 2012

Production, Supply and Demand Data Statistics:

Table 24: NFDM Production, Supply and Demand Data Statistics:

PSD TABLE for NFDM

Dairy, Milk, Nonfat Dry Korea, Republic of	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1	1	1	1		1
Production	3	4	3	4		5
Other Imports	25	34	20	30		31
Total Imports	25	34	20	30		31
Total Supply	29	39	24	35		37
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	28	38	23	34		36
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	28	38	23	34		36
Total Use	28	38	23	34		36
Ending Stocks	1	1	1	1		1
Total Distribution	29	39	24	35		37
1000 MT						

Author Defined:

EXPORT REQUIREMENT:

See APHIS' website (http://www.aphis.usda.gov/regulations/vs/iregs/products/ for any sanitary requirements for shipping cheese to Korea.

For more information, please contact the U.S. Agricultural Trade Office, U.S. Embassy Seoul, Korea, at atoseoul@fas.usda.gov, Tel: 82-2-397-4188, Fax: 82-2-720-7921, or visit www.atoseoul.com