USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 10/21/2008

GAIN Report Number: KS8055

Korea, Republic of

Dairy and Products

Annual

2008

Approved by:
Stan Phillips, Director
Agricultural Trade Office, Seoul

Prepared by:
Youngsook, OH, Ag. Marketing Assistant

Report Highlights:
South Korea, the United States' 8th largest market for dairy products in CY 2007, is expected to import a record level (over $100 million) of U.S. dairy products in CY 2008. Cheese, roughly one-third of U.S. dairy exports to South Korea by value in recent years, grew to nearly 60 percent of U.S. dairy exports to Korea during the first 8 months of 2008. Although global economic conditions may reduce Korean import demand in 2009, ratification of the Korea-U.S. Free Trade Agreement will secure a larger share of the market for U.S. suppliers.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Seoul [KS1]
[KS]

Table of Contents

SECTION I. SITUATION AND OUTLOOK

SITUATION

In 2007, Korea produced 2.188 million metric tons (MMT) of raw milk and imported .968 MMT of dairy products on a raw milk equivalent basis. Three-quarters of raw milk production (1.65 MMT) was consumed as either regular white milk (1.35 MMT) or flavored milk (.3 MMT) in 2007. The remaining .534 MMT (25%) entered processing channels.

In September 2008, detection of melamine in dairy products produced in China disrupted demand for a variety of products in Korea, particularly infant formula. Prior to the melamine scandal, Korean consumer demand for dairy products was growing robustly. In addition to relatively good economic conditions, import demand for dairy products benefitted from enthusiasm for products perceived to convey health benefits and interest in complimentary products (e.g., wine and cheese). For example, consumption of drinking yoghurt grew sharply in 2007 to sales levels over $1 billion thanks to marketing campaigns highlighting the products perceived health benefits.

According to the Organization for Economic Cooperation and Development (OECD), South Korea is the largest user of farm chemicals among OECD members. In the face of such revelations as well as a series of food scares (which in some cases proved to be over-hyped by elements of the Korean media), Korean consumers remain very sensitive about food safety. Taken together with the recent “well-being” trend toward health consciousness, Korean consumers appear to be increasingly willing to pay premiums for products perceived to be healthier by virtue of production processes (“natural” or “organic”) or health claims promoted by manufacturers.

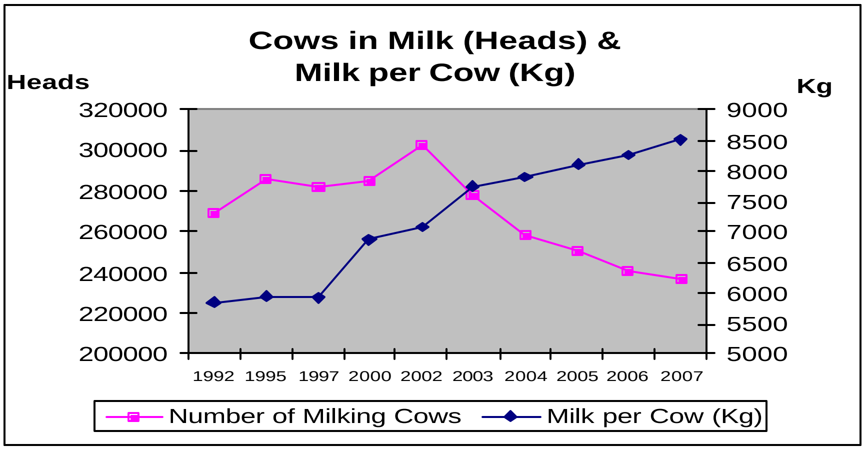
OUTLOOK

Continued use of a differentiated pricing mechanism for a portion of Korean dairy producers has partially stemmed overproduction of raw milk caused by the current quota based system of milk pricing. However, the quota system diffuses market signals from consumers sufficiently that producers are not expected to reduce production despite lower demand reflecting anemic economic conditions. Accordingly, raw milk production is expected to increase slightly to 2.20 MMT in 2008 and 2.22 MMT in 2009.

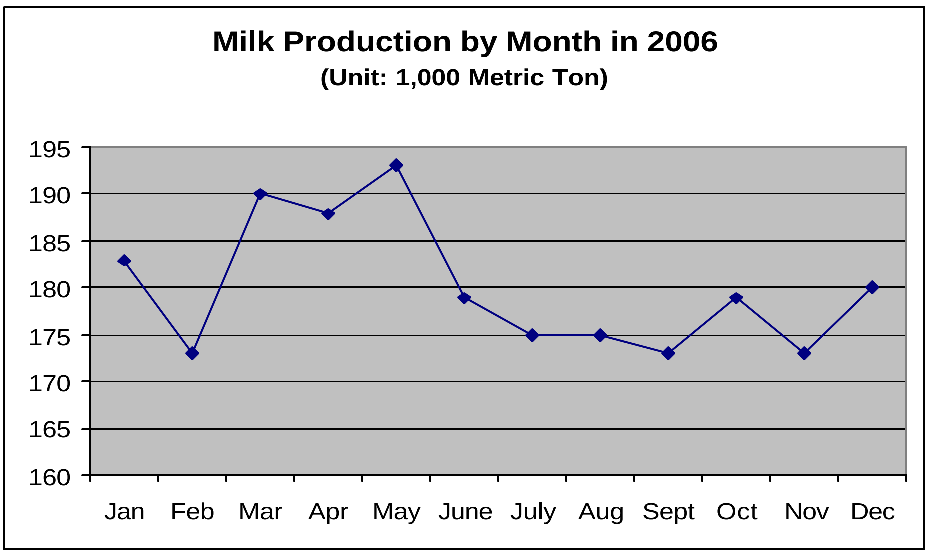
In 2007, Korea consumed 63.0 kilograms of dairy products per capita (raw milk equivalent). Relative to the United States and Europe, per capita consumption of fluid milk, cheese and other dairy by-products is relatively low. Korea’s per capita consumption of dairy products is expected to grow about 20 percent over the next decade reflecting the growing economy, Koreans’ exposure to a western diet, a rise in fast food outlets, and a growing appetite for pizza and pasta. Continued new product launches from major players and aggressive marketing activities are expected to diversify and increase consumption of dairy products.

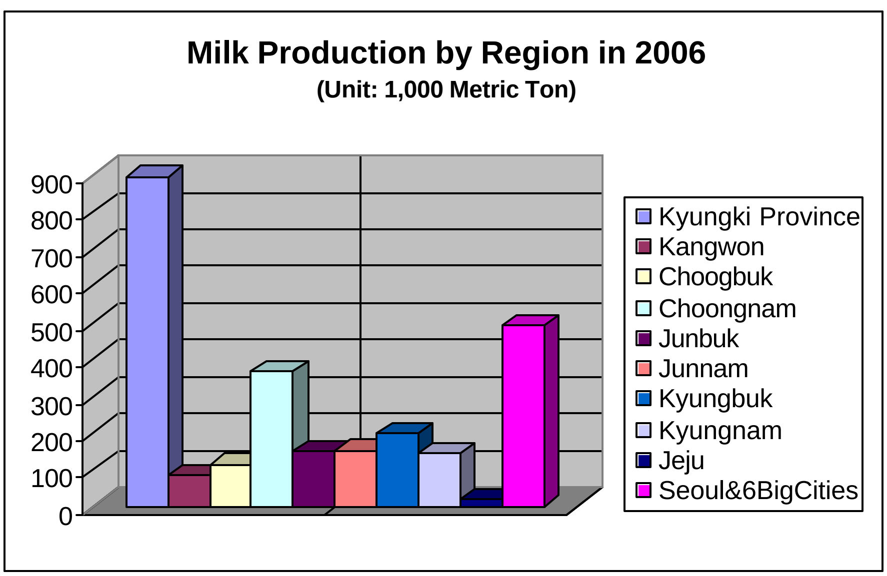
Domestic NFDM and Whole Fat Milk Powder are manufactured from surplus raw milk. The manufacturing cost for local nonfat dry milk powder is roughly double the price of imported milk powder which will continue to provide opportunities for imported milk powder.

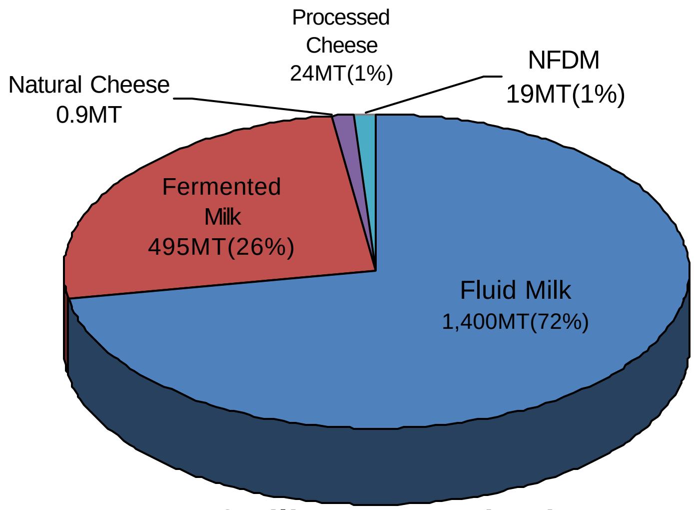
Although global economic conditions may dampen Korean import demand in 2009, ratification of the Korea-U.S. Free Trade Agreement will secure a larger share of the market for U.S. suppliers.



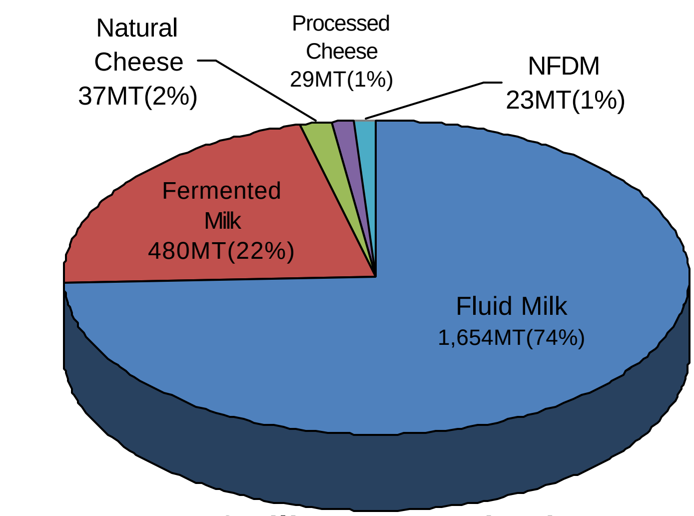
Source: National Statistics Office 2008







Type of Milk Consumption in 1998
(Unit: 1,000 Metric Ton)



Type of Milk Consumption in 2007
(Unit: 1,000 Metric Ton)

SECTION II. STATISTICAL TABLES

Dairy, Milk, Fluid for Korea, Republic of

Dairy, Milk, Fluid Korea, Republic of	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Cows In Milk * (1,000 Heads)	235	237		227	232			227	
Cows Milk Production ** (1,000 Metric Ton)	2174	2188		2172	2200			2222	
Other Milk Production	0	0		0	0			0	
Total Production	2174	2188	0	2172	2200	0		2222	0
Other Imports	0	0		0	0			0	
Total Imports	0	0		0	0			0	
Total Supply	2174	2188	0	2172	2200	0		2222	0
Other Exports	0	0		0	0			0	
Total Exports	0	0		0	0			0	
Fluid Use Dom. Consum.	1522	1654		1520	1672			1689	
Factory Use Consum.	652	534		652	528			533	
Feed Use Dom. Consum.	0	0		0	0			0	
Total Dom. Consumption	2174	2188	0	2172	2200	0		2222	0
Total Distribution	2174	2188	0	2172	2200	0		2222	0
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									

Comments To Post

Source: Ministry of Food, Agriculture, Forestry and Fish (MIFAFF)
*: Unit: 1,000 Heads for Cows in Milk
**: Unit: 1,000 Metric Ton for Milk

Dairy, Cheese for Korea, Republic of

Dairy, Cheese Korea, Republic of	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks (1,000 Metric Ton)	1	1		1	1	0		1	0
Production (1,000 Metric Ton)	30	24		32	26			27	
Other Imports	47	50		50	52			55	
Total Imports	47	50		50	52	0		55	0
Total Supply	78	75		83	79	0		82	0
Other Exports	0	0		0	0			0	
Total Exports	0	0		0	0	0		0	0
Human Dom. Consumption	77	74		82	78			82	
Other Use, Losses	0	0		0	0			0	
Total Dom. Consumption	77	74		82	78	0		82	0
Total Use	77	74		82	78	0		82	0
Ending Stocks	1	1		1	1			1	
Total Distribution	78	75		83	79	0		82	0
CY Imp. from U.S.	0	8		0	11			12	
CY. Exp. to U.S.	0	0		0	0			0	
TS=TD						0			0
Comments									
AGR Number									

Unit: 1,000 Metric Ton

Dairy, Milk, Nonfat Dry for Korea, Republic of

Dairy, Milk, Nonfat Dry Korea, Republic of	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks (1,000 Metric Ton)	3	5		4	7	0		8	0
Production (1,000 Metric Ton)	21	22		20	23			22	
Other Imports	7	5		8	4			5	
Total Imports	7	5		8	4	0		5	0
Total Supply	31	32		32	34	0		35	0
Other Exports	0	0		0	0			0	
Total Exports	0	0		0	0	0		0	0
Human Dom. Consumption	27	25		27	26			26	
Other Use, Losses	0	0		0	0			0	
Total Dom. Consumption	27	25		27	26	0		26	0
Total Use	27	25		27	26	0		26	0
Ending Stocks	4	7		5	8			9	
Total Distribution	31	32		32	34	0		35	0
CY Imp. from U.S.	0	0		0	0			0	
CY. Exp. to U.S.	0	0		0	0			0	
TS=TD						0			0
Comments									
AGR Number									

Comments To Post

Unit: 1,000 Metric Ton

Table 1: Raw Milk Supply, Demand & Per Capita Consumption in Korea

Unit: 1,000 Metric Ton

		2002	2003	2004	2005	2006	2007
Supply	Stock	70	161	94	68	116	53
	Production	2,537	2,366	2,255	2,229	2,176	2,188
	Import	646	604	842	898	883	968
	Total	3,253	3,131	3,191	3,195	3,175	3,209
Demand	Consumption	3,060	2,990	3,074	3,029	3,070	3,101
	Export	32	47	49	50	52	47
	Stock	161	94	68	116	53	61
	Total	3,253	3,131	3,191	3,195	3,175	3,209
Per Capita Consumption (Kg)		64.2	62.4	63.9	62.7	63.6	63.0

Source: Korea Rural Economic Institute, 2007
Note: Stocks, imports and exports of all dairy products are converted to raw milk equivalent.

Table 2: Raw Milk Price per Kilogram and GNI by Country in 2006

Unit: US$, KW/Kg

Country	GNI	Raw Milk Price per Kg	Competitiveness
Korea	$14,162	KW710($0.71)	100
Japan	34,294	863($0.86)	121.5
Switzerland	37,381	663($0.66)	93.3
Australia	19,599	186($0.20)	26.2
U.S.	36,704	329($0.33)	46.3
U.K.	26,911	303($0.30)	42.6
Canada	22,894	472($0.47)	66.5

Source: Food Distribution Yearbook 2008
Exchange rate: One U.S. dollar equals to 1,000 Korean Won (KW), August 2008
GNI: Gross national Income per Capita

Table 3: Projected Raw Milk Supply & Demand (2008-2018) Assuming the Korea-U.S. FTA is Ratified and Implemented for 2009

Unit: 1,000 Metric Ton

		2007	Prospect (1)		
			2008	2013 Scenario 1 – Scenario 2	2018 Scenario 1 – Scenario 2
Supply	Stock	53	102	108 - 107	115 - 113
	Production	2,187	2,201	2,218 – 2,189	2,228 – 2,192
	Import	968	954	1,191 – 1,256	1,430 – 1,520
	Total	3,208	3,257	3,517 – 3,552	3,773 – 3,825
Demand	Consumption(2)	3,101	3,154	109 – 3,444	3,657 – 3,711
	Stock	102	103	109 – 108	116 - 114
	Total	3,203	3,257	3,517 – 3,552	3,773 – 3,825
Per Capita Consumption (Kg)		63.0	63.9	68.3 – 69.0	73.0 – 74.1

Source: Korea Rural Economic Institute Estimate for 2008
(1): Scenario 1 assumes ratification and implementation the Korea-U.S FTA for 2009. Scenario 2 assumes ratification and implementation the Korea-U.S FTA for 2009 and implementation of new WTO trade liberalization measure resulting from the Doha Deveopment Agenda negotiations with the assumption that Korea will be treated as a 'Developed Country' (i.e., Korea will be subject to a 46.4% tariff reduction over 5 years beginning in 2010).
(2): Consumption includes export volume

Table 4: Dairy Herd Information

	2003	2004	2006	2006	2007
Total Dairy Cows	519,000	497,000	479,000	464,000	453,000
Milking Cows	241,000	236,000	227,000	220,000	215,000
Dairy Farms	10,500	9,600	8,900	8,200	7,600
Average Cows per Farm	49.3	51.7	53.8	56.6	59.6
Total Milk Production (Metric Tons)	2,366,000	2,255,000	2,229,000	2,176,000	2,188,000

Source: Korea Livestock Yearbook 2008-2009

Table 5: Milk Consumption Percentage Breakdown by Type 2007

Type	Percent
Adult	88%
Children	12
Total	100

Source: Korea Rural Economy Estimate 2008

Table 6: Sales of Drinking Milk Products by Subsector: Value 2002-2007

Unit: $ Million

	2002	2003	2004	2005	2006	2007
Milk	$1,713	1,716	1,713	1,762	1,898	1,908
-Fresh/Pasteurized milk	1,682	1,685	1,682	1,730	1,866	1,877
-Long life/UHT milk	30	31	31	32	32	32
Flavored milk	510	663	796	825	778	762
-Dairy only flavored milk drinks	483	619	734	761	715	699
-Flavored milk drinks with fruit juice	28	44	62	64	62	63
Soy beverages	217	260	263	267	272	277
Powder Milk	13	13	13	14	14	14
Flavored powder milk drinks	19	19	18	18	18	19
-Chocolate based flavored powder drinks	15	16	14	15	15	15
-Non Chocolate based flavored powder drinks	4	3	4	3	3	4
Drinking milk products	2,472	2,672	2,803	2,886	2,980	2,980

Source: Official statistics, Euromonitor International estimates
Exchange Rate: One US$ equivalents to 1,000 Korean Won in August 2008

Table 7: Domestic Cheese Market Share by Major Companies

Year	Seoul Dairy	Sangha(Maeil)	Namyang	Dongwon Dairy Food
2006	48%	36.3%	10.4%	5.3%
2007	46.1%	37%	11.4%	5.5%

Source: Industrial Sources – Food Journal October 2008

Table 8: Sales of Cheese by Subsector: Value 2002-2007

Unit: $ Million

	2002	2003	2004	2005	2006	2007
Processed cheese	152	170	186	196	206	217
- Unspreadable processed cheese	152	170	186	196	206	217
Natural cheese	2	2	3	4	4	4
- Soft cheese	2	2	3	4	4	4
Total cheese	153	172	190	200	210	221

Source: Official statistics, Euromonitor International estimates
Exchange Rate: One US$ equivalents to 1,000 Korean Won

Table 9: Major Cheese Product Retail Price by Brand

Company	Product Name	Specialty	Price
Seoul Dairy Co	Shredded Pizza Cheese Multi Pack	Mild Mozzarella cheese. Processed from imported cheese from Australia & New Zealand. Natural Cheese	300grams(100gramsX3)W6,300
	Organic Clear Cheese	Combination of Camembert & Brie cheese	126 grams, W3,500 252 grams, W6,300
	Organic Baby Cheese	Processed from imported organic New Zealand Cheese. Organic grains, fruits & veg. included	90 grams, W2,700 180 grams, W4,900
	Organic Children Cheese	Organic cheese with DHA,EPA	90 grams, W2,700 180 grams, W4,900
	Cheese for Ramen	Include beta-carotene with 55% natural cheese	90 grams, W1,400
	Cheddar Slice Cheese	Good for hamburger and kimbab	100 grams, W1,900 200 grams, W3,600
	Prune Cheese	For kid including carrot & spinach	180grams, W3,500
	Enfant Cheese	For kid including iron, VitaminD3, DHA	90 grams, W2,200
	Cooking Roll Cheese	Good for cooking	180 grams, W3,700
Namyang Dairy	Dbinch Cheddar Slice Cheese	Premium cheese	200 grams, W3,300

	Dbinch Einstein DHA Cheese	For children contained DHA	180 grams, W4,000
	Dbinch Bonehealth206 Calcium Cheese	Contained GP-C	180 grams, W4,000
	Dbinch Smoke Ham Cheese	Contained smoke ham for wine	180 grams, W3,500
	Dbinch Greentea Cheese	Contained greentea	180 grams, W3,500
	Dbinch Almond Cheese	Contained crushed almond	180 grams, W3,500
	Dbinch Blackpepper Cheese	Contained blackpepper	180 grams, W3,500
	Dbinch Pineapple Cheese	Contained pineapple	180 grams, W3,400
	Dbinch half fat fiber Cheese	Half fat with fiber	180 grams, W3,400
	Dbinch Organic Cheese	Eleven different fruit&vegetable contained	180 grams, W4,700
Maeil Dairy	Brie Cheese	Processed by local milk	100 grams, W6,000
	Squeezable Camembert Cheese	Soft cheese for children	300 grams, W7,000
	Delicious Vita Cheese	For children contained Vitamin A,B1,D3,E	96 grams, W3,500
Dongwon Dairy Food	Thick Cheese for Sandwich	Processed Gouda cheese	154 grams, W3,450

Source: Market Survey, Food Journal 2008
Exchange rate: One US$ = 1,000 Korean Won as of August 2008

Table 10: Korea's Key Dairy Product Imports

Unit: Metric Tons

Products (HS Code)	2007 Tariff	2006		2007		% Change	
		U.S.	Total	U.S.	Total	U.S.	Total
Cheese (0406)	36%	6,859	44,030	7,900	49,470	15%	12%
NFDM (0402.10)	(20%-176%)[1]	0	6,708	119	5,000	0	-25%
Whole Fat DM (0402.21)	(40%-176%)[2]	0	1,992	0	1,130	0	-43%
Mixed Milk (0404.90 & 1901.90.2000)	36%	1,380	26,527	960	31,700	-30%	20%
Butter (0405.10)	(40%-89%)[3]	0	2,043	6	4,100	0	101%
Whey Powder (0404.10)	(20%-49.5%)[4]	34,300	52,500	23,300	46,800	-32%	-11%
Ice Cream (2105)	8%	636	2,899	430	3,673	-32%	27%

Source: 2007 Korea Customs & Trade Institute

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

Table 11: Dairy Product Imports from Key Origins (2006-2007)

	2006			2007		
	Volume (A) (Metric Ton)	Value(B) ($1,000)	Unit Price (B/A) ($/Kg)	Volume (A) (Metric Ton)	Value(B) ($1,000)	Unit Price (B/A) ($/Kg)
U.S.	51,726	65,621	1.27	40,851	83.464 (16%)	2.04
New Zealand	18,625	58,201	3.12	21,329	75,087 (14%)	3.52
Australia	23,348	58,772	2.52	20,776	67,731 (13%)	3.26
Netherlands	14,766	32,649	2.21	18,302	60,474 (12%)	3.30
France	9,018	20,935	2.32	11,181	30,808 (6%)	2.76

Source: Agriculture Trade Center, 2007 in Agriculture Outlook 2008 by Korea Rural Economic Institute. Dairy product import value totals $522 million in 2007. Volume was converted to raw milk quantity.

Table 12: Dairy Product Imports

Unit: $1,000, (Percent)

	Total Imports	Powder Milk				Cheese	Whey
		NFDM	Whole fat Milk	Prepared Dry Milk	Mixed Milk		
2003	$246,299	7,865 (3.2%)	2,973 (1.2%)	13,597 (5.5%)	25,000 (10.2%)	93,829 (38.1%)	25,035 (10.2%)
2004	355,061	8,729 (2.5%)	3,190 (0.9%)	16,960 (4.8%)	63,953 (18%)	120,197 (33.9%)	26,334 (7.4%)
2005	434,530	14,635 (3.4%)	4,343 (1.0%)	23,028 (5.3%)	72,657 (16.7%)	143,572 (33%)	32,785 (7.5%)
2006	446,553	15,475 (3.5%)	4,785 (1.1%)	20,808 (4.7%)	67,602 (15.1%)	146,262 (32.8%)	50,449 (11.3%)
2007	522,500	17,624 (3.4%)	3,366 (0.6%)	19,768 (3.8%)	103,782 (20.0%)	178,992 (34%)	67,083 (12.8%)

Source: Agriculture Trade Center, 2007 in Agriculture Outlook 2008 by Korea Rural Economic Institute

Table 13: Dairy Product Sales Value in 2006

Unit: $ Million

		2003	2004	2005(a)	2006(b)	Change (b-a)	2006 Sales Share
Drinking Milk	White	1,460	1,500	1,638	1,735	6%	50%
	Processed	560	590	541	421	-22%	
	Total	2,020	2,090	2,179	2,156	-1%	
Fermented Milk	Liquid	334	343	370	372	0.4%	27%
	Spoon able	170	183	181	206	14%	
	Drink	423	460	514	582	13.4%	
	Total	927	986	1,065	1,160	8.9%	
Cheese	Natural	130	184	202	218	8.2%	10%
	Processed	163	170	207	195	-5.8%	
	Total	294	353	409	414	1.1%	
Butter		35	38	38	40	3.7%	1%
Evaporated Milk		12	14	15	14	-4.1%	0.3%
Infant Formula (including Baby Food)		424	385	378	361	-4.4%	8%
Whole Fat Milk Powder		29	17	27	25	-6.4%	0.6%
NFDM		70	51	54	59	10.1%	1.4%
Cream		57	52	66	58	-12.2%	1.3%
Total		3,867	3,985	4,229	4,286	1.3%	100%

Source: Korea Dairy Industry Association, Livestock Statistical Annual 2007-2008
Exchange Rate: One US$ ($) = 1,000 Korean Won (KW) as of August 2008

Table 14: NFDM Production, Imports, Consumption by Year

Unit: Metric Ton

	2003	2004	2005	2006	2007
Production	26,319	24,770 (-6%)	23,677 (-4%)	18,318 (23%)	22,158 (21%)
Import	4,560	4,389 (-4%)	6,147 (40%)	6,709 (9%)	4,928 (-27%)
Export	1	1	69 (680%)	114 (65%)	140 (23%)
Consumption	35,450	30,985 (-13%)	25,784 (-17%)	29,894 (16%)	22,674 (-24%)

Source: Korea Dairy Industry Association 2008

Table 15: Milk Powder Consumption

Unit: Metric Ton

	2003	2004	2005	2006	2007
NFDM	35,450	30,985	25,784	29,894	22,674
Whole Fat Milk Powder	8,859	6,547	6,645	6,096	4,626
Infant Formula	17,566	17,263	15,742	13,600	14,629
Total	61,875	54,795	48,171	49,590	41,929

Source: Korea Dairy Industry Association 2008

Table 16: NFDM Imports by Origin in 2007

Unit: $, MT

	U.S.	Australia	New Zealand	E.U.	Other	Total
Import Volume (MT)	119MT (2.4% Market Share)	3,127 (63%)	933 (19%)	650 (13%)	96 (2%)	4,925 (100%)
Import Value ($1,000)	$525	$10,492	$2,987	$3,049	242	$17,300
Unit Price per Kilogram	$4.41	$3.36	$3.20	$4.69	$2.52	$3.51

Source: Korea Trade Information Service 2008

Table 17: Sales of Ice Cream by Subsector: Value 2002-2007

Unit: $Million

	2002	2003	2004	2005	2006	2007
Impulse ice Cream	$950	1,023	1,149	1,191	1,238	1,288
Take Home ice cream	172	181	209	215	215	223
Frozen Yoghurt	-	-	52	62	72	80
Premium ice cream	169	186	213	218	225	234
Total Ice Cream	1,290	1,390 (8%)	1,622 (17)	1,687 (4%)	1,750 (4%)	1,824 (4%)

Source: Official statistics, Euromonitor International estimates
Exchange Rate: One US$ equivalents to 1,000 Korean Won

Table 18: Major Ice Cream Manufacturer Market Shares by Value

Unit: %

	2002	2003	2004	2005	2006
Lotto Confectionery Co Ltd	30%	29%	28%	27%	27%
Haitai Confectionery & Foods Co Ltd	17	20	20	21	21
Binggrae Co Ltd	21	19	20	19	18
Lotte Samkang Co Ltd	11	11	10	10	11
Artisanal	13	13	13	13	13
Others	8	8	9	10	10
Total	100	100	100	100	100%

Source: Official statistics, Euromonitor International estimates
Exchange Rate: One US$ equivalents to 1,000 Korean Won as of August 2008

Table 19: Sales of Yoghurt by Value

Unit: $Million

	2002	2003	2004	2005	2006	2007
Drinking Yoghurt	$917M	1,039	1,060	1,114	1,162	1,184
Spoon able Yoghurt	272	284	287	300	306	309
Total Yoghurt	1,190	1,323	1,347	1,412	1,468	1,492

Source: Official statistics, Euromonitor International estimates
Exchange Rate: One US$ equivalents to 1,000 Korean Won as of August 2008

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY & MARKETING

FLUID MILK

Production
In 2007, Korean raw milk production was 2.19 million metric tons. Despite the continuing decline in dairy cattle numbers, raw milk production is expected to increase slightly to 2.20 MMT in 2008 and 2.22 MMT in 2009. Consolidation of dairy herds is expected to continue to improve milk yields. While implementation of a two-tier pricing system for Korea's largest dairy cooperative 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 milk products consumed in fluid form were valued at nearly $3 billion in 2006 and 2007. Plain pasteurized milk accounted for nearly two-thirds of sales value. Sales of milk-based beverages with soy content grew 2 percent to a level of $277 million in 2007. Retail prices for fluid milk products are expected to increase 10 to 25% in 2008 due to higher feed and energy costs.

Although sales volume decreased marginally in 2007, price increases led to higher sales values. Many milk companies offered buy-one-get-one free type sales promotions to market their products.

Growing concerns about health and obesity favor the market for reduced-fat milk products. Within the various milk categories, fat-free and semi-skimmed milk (2% fat milk) posted the highest sales growth rate. Whole-fat milk sales decreased in 2007. The sales volume of fat-free fresh milk increased 14% in 2007 (value increase 15% to $13 million). Although fat-free milk accounted for only 1% of total milk sales in 2007, sales have grown rapidly since fat-free milk was first offered on the Korean market in 2005.

Trade
Korea does not import or export raw milk.

In addition to the synopsis of tariffs and tariff rate quotas provided earlier in this report, see detailed current (base) tariffs and tariff reductions that will occur after Congressional ratification 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

Policy
Dairy industry associations including the Dairy Farmers Association, Korea Dairy Committee, Korea Dairy & Beef Farmers Association and others attempt to control milk production through a marketing quota system. Raw milk supplied up to the quota limit receives a basic price of KW713 per liter. Milk supplied above the quota receives reduced prices. The intent of the two-tier pricing system is to reduce "overproduction". However, it appears that the pricing structure still encourages "overproduction". Accordingly, we foresee gradual increases in milk production in 2008 and 2009.

Dairy farmers cooperatives established an Association of Self-Dependence Fund for Dairy (ASDFD) in early 2006. The purpose of the fund is to promote milk consumption via television, radio and other advertising media. The fund is generated through a mandatory check-off program. Under the check-off program, each producer pays Korean Won 2 per Liter. The fund is expected to collect approximately $4.2 million annually from dairy farmers, which will be matched by the Korean government, and then usable fund is $8.4 million.

Currently, 75% (1.65 million MT) of total raw milk production (2.19 million MT) is marketed for drinking use. Only 25% (534 million MT) is marketed for processing.

In general, the retail price of reduced fat milk is higher than the prices of whole fat milk in Korea. To avoid local consumers' resistance to higher prices, companies often make pack sizes of reduced fat milk products slightly smaller than equivalent whole fat milk items. For example, many companies offer 900 ml or 930ml packs for reduced fat milk, while most whole fat milk items are offered in 1-litre packs.

Marketing

Sales of drinking milk products are expected to continue to increase on a value basis in the coming years. Sales volume is expected to increase for low-fat milk, soy beverages and flavored powder milk. Companies are expected to introduce more health and wellness products with added health claims and these products are expected to drive the sales value growth.

Both reduced fat milk and fat-free milk are expected to continue to see noticeable growth. In contrast, sales of flavored milk drinks is projected to decline in response to perceptions that such products are less healthy because of high sugar content.

Due to the rising cost of raw milk, companies had to increase the retail prices of their milk products in the previous year.

CHEESE

Production

South Korea produced 24,400 MT of cheese in 2007, a decrease of 13% from 2006. Natural cheese composed 9,100 MT of the total. Processed cheese accounted for the remaining 15,300 MT of total production. Domestic production is expected to increase marginally in 2008 to 26,000 MT and to 27,000 MT in 2009. Seoul Dairy Cooperative accounted for 52% of retail cheese sales in 2006.

Consumption

Cheese consumption in Korea is relatively low compared to the United States. Foodservice sales account for significantly more of cheese consumption that retail sales. Processed cheese accounted for the vast majority of total cheese sales in Korean retail stores.

During the last several years, natural cheese sales grew significantly, but it is still in the early stage of development. Mozzarella cheese for primarily for pizzas accounts for roughly 70% of natural cheese consumption. Industry contacts surmise that growth in wine sales in Korea will lift sales of complimentary natural cheeses.

In Korea, sales of spreadable cheese are still negligible. Spreadable processed cheese have grown recently, but available products are limited primarily to cream cheese".

Cheese products targeting children are marketed with an emphasis on health benefits. The focus of such products tends to be on functional benefits and ingredients like calcium and vitamins. Sliced cheese items account for most sales of these products. There appears to be few if any string cheese or other cheese snack products on the market in Korea.

Trade
Increased natural cheese consumption in 2007 was driven largely by increase imports. Nearly three-quarters of natural cheese consumption is composed of imported cheese. In contrast, slightly more than half of processed cheese is imported.

In 2007, South Korea imported 34,700 MT of natural cheese and 14,700 MT of processed cheese. Recent weakening of the Korean won against the U.S. dollar have dampened imports of many products. Exchange rate fluctuations and the broaden Korean and global economic conditions will influence import demand. Nevertheless, Post projects 2008 and 2009 cheese imports at 52,000 MT and 55, 000 MT, respectively.

In addition to the synopsis of tariffs and tariff rate quotas provided earlier in this report, see detailed current (base) tariffs and tariff reductions that will occur after Congressional ratification 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
Most supermarkets and hypermarkets now offer various cheese products. Western-style dishes like pasta, pizza and salad are becoming more popular.

In the foreseeable future, sales of cheese are expected to increase in both volume and value terms. Growing demands for major cheese products and increasing product diversification are expected to drive positive sales growth in the future.

Natural cheese demand is expected to post slightly stronger growth with a complimentary increase in diversification of products available on the Korean market.

NONFAT DRY MILK (NFDM)

Production
The intent of the current two-tier pricing system and marketing quotas is to reduce “overproduction” and ensuing production of NFDM. Despite intentions of the policy, Post expects NFDM production to remain stable at 23,000 MT in 2008 and 22,000 MT in 2009.

In 2007, local NFDM production amounted to 22,000 metric tons; a 21% increase from the previous year. The manufacturing cost for local nonfat dry milk powder is roughly double the price of imported milk powder.

Industry sources say the domestic manufacturing cost of NFDM is about $7.50 per kilogram. In contrast, retail prices of NFDM range from $4.00 to $4.50 per kilogram. Industry source say they lose money on NFDM but are forced to buy raw milk up to yearly marketing quotas (which may exceed demand). Over-quota raw milk purchased as lower prices may offset some of the losses.

Consumption
In 2007, NFDM consumption amounted to 25,000 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. Consequently, Post products consumption in 2008 and 2009 at 26,000 for both years.

Trade
There is an tariff rate quota for for NFDM. The quota quantity for 2007 was 1,034MT with an in-quota tariff rate of 20%. The out of quota tariff is 176%. From January to September 2008, imports of NFDM were 2,400MT; a 30% decrease compared to same period of 2007.

Marketing
Local food processors import NFDM for the purpose of processing into infant formula and re-exporting to other countries, including Saudi Arabia, Taiwan, China and Bangladesh. 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.

DRIED WHEY

Production
Whey powder is not produced locally.

Consumption
Seventy percent of imported whey powder is utilized for animal feed and milk replacer and pig feed. Other whey imports are used primarily for bakery items, ice cream manufacturing and baby formula production.

Trade
Imports of whey powder (HS 0404-10) amounted to $67 million (46,800 metric tons) in 2007; a 33% increase in value from 2006 levels ($50.4 million). The import volume decreased 11% from 52,500 metric tons in 2006. In 2007, $31 million (23,300 metric tons) was imported from the United States. Accordingly, the United States accounted for 50 percent of the Korean whey market by volume. The major foreign competitors for the United States are France and Chile.

Whey powder imports during January through August in 2008 amounted to $28 million (23,000 metric tons); a 35% decrease compared to the same period of a previous year.

In addition to the synopsis of tariffs and tariff rate quotas provided earlier in this report, see detailed current (base) tariffs and tariff reductions that will occur after Congressional ratification 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

Policy
Whey imported for feed purposes is eligible for reduced tariffs under tariff rate quotas including a 45,000 ton quota with a 4% in-quota rate. Out-of-quota imports are subject to a 49.5% tariff.

Upon implementation of the Korea-U.S. Free Trade Agreement, a 3000-ton duty free quota will be establishing for whey imported for food use. The quota will grow 3 percent annually. The over-quota tariff for U.S. whey for food use will be reduced from 49.5% to 20% upon implementation of the agreement. The over-quota tariff will be reduced through 10 annual reductions.

ICE CREAM

Sales of ice cream increased by 3% in volume and 4% in value to reach $1.8 billion and 254 million liters in 2007. Diversified products and increasing demand for premium products drove sales growth in 2007. Lotte Confectionery Company continued to be the leading ice cream manufacturer in 2007 with a 27% share of the market. Lotte diversified its ice cream products by launching new products in most categories. Lotte strengthened marketing activities for its major brands, including World Cone, Choki Choki, Seoleim and Natuur.

Sales of take-home ice cream returned to positive growth in 2007 on increasing sales of premium products. Sales of ice cream are projected to increase continually in value and in volume. From July 2007, a production date was required to be placed on all packaged ice cream products.

Sales of frozen yoghurt recorded the fastest growth in the ice cream sector with a 10% increase in value in 2007. Frozen yoghurt is still a relatively new product and regarded as a healthy ice cream, companies are now beginning to introduce even healthier variants, like fat-free frozen yoghurt. A rising level of health consciousness, Korean consumers are increasingly willing to pay more for premium but healthier ice cream variants

About 13% of the total ice cream market is comprised of leading foreign brands such as Baskin Robbins, Hagen Dazs and Dolomiti including Lotte Natuur. Other major premium imported brands in the market include Coldstone Creamery, Blue Bunny, Ben & Jerry's and Red Mango. The U.S. market share of imported ice cream has increased to 60%. Overall ice cream imports increased by 39% in 2007 and are expected to continue to grow.

YOGHURT

In 2007, retail sales of yoghurt increased by 2% in value terms to reach $1.5 billion. Korean consumers' health conscious outlook is helping to drive positive growth backed by increasing product diversification. Functional drinking yoghurt posted the highest growth rate of 2% to reach $1.1 billion in 2007. In 2006, Yakult Korea continued to lead retail yoghurt sales with a 42% value share. It is expected to continue to increase in the foreseeable future.

COMPETITORS' ACTIVITY

The focus of marketing cheese products in Korea has shifted from TV advertisements to retail promotion activities. For example, give-aways, e.g., 10 grams free after purchasing 100 grams, one free package for every package purchased, free gifts with each purchase, etc. Denmark is also very active in conducting in-store promotions for cream cheese.

Our major dairy product competitors are Australia, Netherlands, France, Denmark and New Zealand. These competitors promote dairy products including whey, lactose, cheese, ice cream, yoghurt, and milk powder by participating in trade shows, hosting solo food shows, inviting Korean buyers to their countries, conducting tastings, and providing trade servicing.