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Korea - Republic of

Dairy and Products Annual

Dairy Product Update - ATO Seoul

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Report Highlights:
In 2014, $56 billion in local dairy product sales were one-percent higher than 2013. Domestic raw fluid milk production increased 5.8 percent; however total raw fluid milk consumption increased by only 2.1 percent, which was satisfied by a 12.2-percent increase in imports. Drinking milk products by value decreased by 2.7% in 2014 to reach 1.64 million metric tons. New government price controls pushed average drinking milk prices higher in 2014. The value of drinking milk products are expected to increase at a rate of 3% between 2014 and 2018, at constant 2014 prices. The local raw fluid milk price jumped13 percent to $1 per liter since January 2015, recording the highest raw fluid milk price in the world. Cheese sales increased by 9% in current volume terms to reach 118,000 metric tons in 2014. Unprocessed cheese sales increased by 12% in 2014, contributing 80% of overall sales volume for cheese in the year.

Executive Summary:

With the growing interest in higher quality cheese, the cheese products market is expecting to grow. U.S. and European manufacturers are keen to export their cheeses to Korea, with both the Korea-U.S. and Korea-EU free trade agreements. By 2026, there will be a 0% tariff on cheese from the U.S. and European countries. Due to the high price of domestic raw fluid milk, the local cheese industry is in an unfavorable position and suffers from the threat posed by imported cheese. Korea is still at a beginning stage in terms of product variety and consumption patterns. Local manufacturers continue to develop new products to induce additional purchases and to create new demand. Also, the importation of premium products is likely to accelerate due to favorable free trade agreements.

Drinking milk products posted current value growth of 3% which was driven by demand for healthier premium products despite a decline in volume sales. Due to the consciousness of nutritional benefits of milk, many consumers traded up to products with more health benefits. Currently, the majority of local drinking milk products are pasteurized at very high temperatures in order to maximize efficiency against cost. The drinking milk product is pasteurized at 63 degrees and is available in both full fat and reduced fat versions. The rapid growth of lower-temperature pasteurized milk has a higher average unit price as it is characterized as a type of premium-*ization*.

Probiotics has become the new buzzword in the health food industry in Korea. In 2014 yoghurt posted current value growth of 8% to reach sales of U.S. $ 2.5 billion. Drinking yoghurt was the best sales product in 2014 with current value growth of 10%, mainly due to the popularity of functional variants.

Ice cream product showed a modest recovery, with retail volume and current sales value growing by 2% and 3% respectively. Retail volume sales of ice cream grew by 2% in 2014 to reach 222,800 Metric Tons; current sales value grew by 3% to reach U.S. $1.8 billion. After three consecutive years of decline through 2011 – 2013, the hot summer weather and increased demand during the FIFA World Cup supported a recovery in ice cream consumption for 2014. Frozen yoghurt was the most dynamic ice cream product in 2014, with retail volume and current value sales growing by 21% and 24% respectively.

Table 1: Korea Raw fluid milk Supply &Demand, Per Capita Consumption

Unit: 1,000 Metric Ton

		2011	2012	2013	2014
Beginning Inventory		13	18	92	93
Supply	Production	1,889	2,111	2,093	2,214
	Import	1,713	1,414	1,586	1,683
	Total	3,601	3,525	3,679_	3,897
Demand	Local Consumption	3,518	3,359	3,582	3,646
	Export	78	93	96	111
	Total	3,596	3,452	3,678	3,757
Ending Inventory		18	92	93	233
Per Capita Consumption(Kilogram)		70.7	67.2	71.5	72.4

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA/
2015 Dairy Statistics Yearbook by Korea Dairy Committee (KDC)

Table 2: Korea's Key Dairy Product Imports Unit: Metric Ton

	2012		2013		2014	
	U.S.	Total	U.S.	Total	U.S.	Total
Cheese (HS:0406)	31,900	77,500	42,530	85,069	63,800	97,200
NFDM (HS:0402.10)	1,900	18,800	5,907	19,710	7,700	21,100
WFDM (HS:0402.21)	0	1,600	357	1,990	300	2,100
Mixed Milk	0 961+	19,517 +8,031	180 +987	25,577 +8281	495 +1,246	28370 +9,723

(HS:0404.90 & 1901.90.2000)		=27,548	=1,167	=33,858	=1,741	= 38,093
Butter (HS:0405.10)	1,200	4,260	1,218	3,355	1,187	3,523
Whey Powder (HS:0404.10)	20,200	42,451	18,201	35,091	12,700	31,400
Ice Cream (HS:2105)	920	4,100	1,264	4,744	1,200	5,400
Total	57,081 (33%)	176,259	70,644 (38%)	184,817	88,628 (45%)	198,816

Source: 2015 Korea Customs Office

Commodities:

Dairy, Milk, Fluid

Production:

In August 2013, the Korean government established a new guideline to resolve the continued conflict between dairy farms and dairy manufacturers regarding raw fluid milk prices. A raw fluid milk price sliding system was devised to adjust the final raw fluid milk price based on the production cost of milk the previous year and the inflation rate. Under this new guideline, the price of raw fluid milk was raised to KRW940 per liter (U.S.$ 0.9), equating to a 13% increase. In July 2014, a raw fluid milk price increase was postponed for the time being and discussions are likely to take place on whether the current solution is workable for both sides of the industry.

Table 3: Domestic Milking Cows, Farms, and Production

	2011	2012	2013	2014
Number of Raising Milking Cows (1,000 Heads)	404	420	424	431
Number of Practical Milking Cows (1,000 Heads)	191	209	206	208
Number of Farms	6,068	6,007	5,830	5693
Average number of cows per Farm	65.7	69.9	72.8	75.7

Source: Korea National Statistics 2014

Table 4: Raising Cost of Dairy Cow per Head

Unit: U.S.$

	2010	2011	2012	2013	2014
Total Raising Cost	5,600	6,200	6,900	7,139	7,307
Feed Cost	3,300	3,700	3,900	4,012	4018

Source: Korea Dairy Committee 2014

Table 5: Raw fluid milk Production Cost per 100 Liter

Unit: U.S.$

	2010	2011	2012	2013	2014
Total Production Cost	64.1	71.8	78.4	80.7	79.6

Feed Cost	67.1	74.5	80.4	82.6	81.6
Income from By Product	3.0	2.7	2.0	2.0	2.0

Source: Korea Dairy Committee 2014

Consumption:

Semi-skimmed fresh/pasteurized milk is expected to record the strongest value of 4% at constant 2014 prices. More adults have converted to reduced-fat milk for health reasons and this has led to the greater availability of such products, including private label. Following the example of hypermarkets, major convenience store brand CU also added a reduced-fat version to its private label milk line in mid-2013 soon after the launch of its regular white milk products.

The strong growth of soy milk over 2011/2012 was closely linked to the nationwide issue of foot and mouth disease, which occurred in late 2010. As a milk alternative, demand for soy milk then fell as the situation returned to normal. Soy milk, when viewed as a sizeable category within drinking milk products, started to post a decline in 2013. As a result, the sales share of soy milk within this wider category, which stood at 11% in 2012, fell to 9% in 2014. Due to the declining child population and increased variety of other alternatives, milk consumption is falling.

Marketing:

Strong interest in health and wellbeing continued to influence the drinking milk products in 2014. Within fresh/pasteurised milk, the growth rate of reduced fat milk overtook that of full fat milk in 2010. Unlike other countries, reduced-fat milk is higher in price than full fat milk due to the increased cost of eliminating milk fat. Despite this fact, the preference for low-fat products continues to increase as consumers seek to maintain a slim physique.

Seoul Dairy Cooperative remained the leading player in drinking milk products in 2014 with sales approaching U.S.$ 1.5 billion. With conflicts surrounding the raw fluid milk supply and price increases, the industry will strive to find an optimal solution for the stable supply of raw fluid milk at reasonable prices. Domestic drinking milk products are heavily reliant on raw fluid milk production from dairy farms and the price increase in raw fluid milk will be directly reflected in final retail prices.

Table 6: Domestic Raw fluid milk Usage Unit: 1,000MT

	2009	2010	2011	2012	2013	2014
Drinking Use	1,569	1,541	1,483	1,578(75%)	1,587 (76%)	1,540(70%)
Processed Use	540	532	406	533(25%)	506(24%)	674(30%)
Total	2,110	2,073	1,889	2,111(100%)	2,093(100%)	2,214(100%)

Source: 2014 Korea Dairy Committee

Table 7: Sales of Drinking Milk Products by Category: Value ($Million)

	2012	2013	2014
1.Flavored Milk Drinks	$962.08 Mil.	$1,017.85 Mil.	$1.065.24
-Dairy Only Flavored Milk Drinks	$408.58	$430.15	$444.63
-Flavor red Milk Drinks with Fruit Juice	$554.50	$587.70	$620.61
2.Flavored Powder Drinks	$22.54	$23.85	$25.07
-Chocolate based	$18.61	$19.75	$20.80
-Non Chocolate based	$3.93	$4.10	$4.27
3.Milk	$2,406.63	$2,539.13	$2,629.23
-Cow's Milk	$2,406.63	$2,539.13	$2,629.23
4.Powder Milk	$15.11	$15.56	$15.75

5.Non-Dairy Milk Alternatives	$411.41	$380.56	$358.86
-Soy Milk	$411.41	$380.56	$358.86
Total Drinking Milk Products (1+2+3+4+5)	$3,817.78 Mil.	$3,958.24 Mil.	$4,094.16

Source: Euromonitor 2015

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 8: Production, Supply and Demand Data Statistics: PSD TABLE for Fluid Milk

Dairy, Milk, Fluid	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	204	208	203	207	0	206
Cows Milk Production	2073	2214	2065	2200	0	2193
Other Milk Production	0	0	0	0	0	0
Total Production	2073	2214	2065	2200	0	2193
Other Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	2073	2214	2065	2200	0	2193
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1575	1540	1569	1530	0	1529
Factory Use Consum.	498	674	496	670	0	664
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	2073	2214	2065	2200	0	2193
Total Distribution	2073	2214	2065	2200	0	2193
(1000 HEAD) ,(1000 MT)						

Commodities:

Dairy, Cheese

Production:

In 2014, Korea produced 23,779 MT of cheese, an increase of 6 percent from 2013. Fresh cheese production of 8,582 MT was an increase of 34 percent and processed cheese accounted for the remaining 15,197 MT, a decrease of 10 percent. Cheese imports increased by 10 percent to 97,216 MT while consumption was 9 percent higher than the previous year. U.S. market share was 66 percent with shipments of 63,848 MT out of total imports by Korea. In 2014, the production cost of dairy products including cheese, jumped due to the increase of the raw fluid milk price and the increase in labor cost. Despite a slow economy the market the higher domestic dairy products consumption still had to be satisfied by increased imports. Most major cheese manufacturers produce several unprocessed soft cheeses to have as a dessert along with wine. Manufacturers are trying to introduce a new soft cheese slice that is convenient for children. Also plans are for a squeezable format to use in cooking or as a salad dressing.

Table 9: Cheese Production, Import &Consumption Unit:Metric Ton

		2011	2012	2013	2014
Production	Fresh Cheese	3,600	4,420	5,700	8,600
	Processed Cheese	21,100	18,000	16,700	15,200
	Import (Fresh Cheese)	70,400	71,500	76,900	87,200
	Import (Processed)	5,800	6,000	8,200	10,000
	Total	100,900	99,920	107,500	121,000
Consumption	Fresh Cheese	64,000	64,400	69,400	76,000
	Processed Cheese	24,900	18,400	18,500	14,500
	Export (Fresh Cheese)	61	95	124	200
	Export (Processed)	16	5	28	32
	Total	99,600	82,900	88,052	90,732

Source: Korea Dairy Committee 2014

Consumption:

Current cheese value growth posted an increase of 9% to reach sales of U.S. $505 Million in 2014. Cheese remained one of the most vibrant within the overall dairy sector, and manufacturers are competing to gain a stronger share of sales. Packaged cheese dominates sales in Korea.

As hard cheese is still a marginal product in Korea, soft cheese accounted for the entirety of overall unprocessed cheese value sales. Preference for unprocessed cheese continues to rise among local consumers, resulting in a wider range of products in the marketplace. Soft cheese was the best sales performer, maintaining a value growth of 14% in 2014. The popularity of topping food with cheese was the main reason behind a strong increase in sales of mozzarella, commonly labelled as shredded pizza cheese by local brands.

Other types of soft cheese are most often purchased as an accompaniment to wine. The growth of soft cheese is also closely related to the positive trend for wine consumption in Korea. Wine drinking is expanding widely among the younger generation and the variety and price range of imported wines have greatly increased in recent years.

Average unit price in cheese increased in 2014 as a result of rising demand for higher quality cheese, particularly unprocessed cheese. Soft cheese recorded the strongest unit price growth of 5% in 2014. In unprocessed cheese, the reliance on imported products is very high due to the high cost of producing local products. Therefore, future price movement of cheese product is likely to be closely related to the expansion of free trade agreements.

Traditionally, the local cheese marketplace consisted of un-spreadable processed cheese in slice format. Recently, string cheese made from mozzarella has become very popular. Maeil Dairies introduced a brand of string cheese in May 2013, which quickly proved popular. The convenient format and healthy nature of the product have made it a favorite snack among children and young adults.

Table 10: Korean Imports of Cheese

	2011		2012		2013		2014	
	$1,000	MT	$1,000	MT	$1,000	MT	$1,000	MT
World	357,918	76,222	359,718	77,506	403,041	85,069	497,416	97,215

United States	140,233	32,473	140,596	31,877	188,384	42,530	301,316	63,848
New Zealand	93,833	20,583	100,858	23,908	102,242	23,883	50,522	10,139
EU	65,980	10,619	65,704	9,648	69,698	10,217	108,865	16,212
Australia	33,285	7,446	33,320	7,483	26,817	5,749	27,043	5,374
Switzerland	7,174	1,244	0	0	0	0	0	0
Uruguay	6,258	1,400	0	0	0	0	0	0
Chile	5,937	1,270	4,597	969	5,275	1,144	0	0
Others	5,217	1,187	14,643	3,621	10,625	1,546	9,670	1,642

Source: Korea Customs Office 2014, HS 0406,CheeseandCurd

Trade:

Table11: Cheese Tariff Phase-Out Schedule under KORUS FTA:

The KOR-USFTA creates a zero-duty tariff-rate quo ta for cheeses covered under tariff lines 0406101000, 0406200000, 0406300000and0406900000.Inthefirstyearthein-quota amount is7,000 MT and rises to10,280 MT in year 2014. All U.S. cheeses will enter duty-free by 2026.

HS	Description	BaseRate	2012	2013	2014	2015
0406101000**	Fresh Cheese**	36%	33.6%	31.2%	28.8%	26.4%
0406102000	Curd	36%	32.4%	28.8%	25.2%	21.6%
0406200000**	Grated or powdered cheese of all kinds**	36%	33.6%	31.2%	28.8%	26.4%
0406300000**	Processed cheese, not grated or powdered**	36%	33.6%	31.2%	28.8%	26.4%
0406400000	Blue-veined cheese	36%	32.4%	29%	25.4%	21.8%
0406900000**	Cheese, NES, including cheddar**	36%	33.6%	31.2%	28.8%	26.4%
	TRQ Volume (MT)		7,000	7,210	7,426	7,649

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

Table 12: Cheese Tariff Schedule on Korea-US FTA implementation

HS Code Product	Rate %	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr10	Yr11	Yr12	Yr13	Yr14	Yr15
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.	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

00& 0406.90.00																
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	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(KDIA)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:

Seoul Dairy Cooperative retained its leadership for cheese products in 2014 with a value share of 39%, followed by Maeil Dairies Co Ltd and Namyang Dairy Products Co Ltd with respective shares of 22% and 17%. The cheese product segment is dominated by domestic manufacturers and their brands, which are familiar to local consumers. Kraft Co Ltd held a value share of just 3% in 2014. Domestic brands are mostly limited to processed sliced cheese and shredded mozzarella cheese.

With the Korea-US and Korea-EU free trade agreements, U.S. and European manufacturers are keen to export their cheeses to Korea. By 2026, there will be a 0% tariff on cheese from the U.S. and European countries. Due to the high price of domestic raw fluid milk, the local cheese industry is in an unfavorable position and suffers from the threat posed by imported cheese.

Korea is still at a beginning stage in terms of product variety and consumption patterns. Local manufacturers continue to develop new products to induce additional purchases and to create new demand. Also, the importation of premium products is likely to accelerate due to favorable free trade agreements. With the growing interest in higher quality cheese, the cheese product's market is expecting to grow.

Consumers value the nutritional benefits of cheese and favor its unique taste which is difficult to be replaced by other food types. Price resistance in cheese is relatively low compared to other dairy products. Cheese has been positioned at the high end of dairy products from the beginning and is perceived as a premium food item. The popularity of cheese will continue to rise among younger generations who are accustomed to Western types of cuisines and wines. Currently, Korea's unprocessed cheese product is entirely accounted for by soft cheese as hard cheese is almost non-existent.

Production, Supply and Demand Data Statistics:

Production, Supply and Demand Data Statistics:

Table 13: Production, Supply and Demand Data Statistics :PSD Table for Cheese

Dairy, Cheese	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1	1	1	4	0	3
Production	22	24	23	24	0	24
Other Imports	97	97	105	100	0	102
Total Imports	97	97	105	100	0	102
Total Supply	120	122	129	128	0	129
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	119	118	128	125	0	127
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	119	118	128	125	0	127
Total Use	119	118	128	125	0	127
Ending Stocks	1	4	1	3	0	2
Total Distribution	120	122	129	128	0	129
(1000 MT)						

Commodities:

Dairy, Milk, Nonfat Dry

Production:

In 2014, local NFDM production amounted to 21,395 MT; a 45% increase from the previous year. Due to an outbreak of FMD in 2011, milk production was down until the middle of 2012. In March of 2012, there was surplus of raw fluid milk which resulted in an increase of NFDM production in 2012. The local raw fluid milk price jumped about 13 percent to $1.1 per liter from $0.98 per liter since August, 2013 which recorded the highest raw fluid milk price in the world. Due to a severe cold weather in the beginning of 2013, milk production began with less production, however, production picked up to increase by the government's price control initiative to encourage the farmers to produce.

Consumption:

In 2014, inventory of NFDM and amount of duty-free NFDM imports impacted the markets. There was oversupply the fresh milk which led to the significant amount of NFDM production at 21,395 metric tons.   In 2014, NFDM consumption amounted to 32,046 MT, an increase of 2 percent compared to the year of 2013. 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 14: NFDM Production, Imports, Consumption by Year Unit:Metric Ton

	2010	2011	2012	2013	2014
Production	9500	4,000	14,200	11,670	21,395
Import	7900	34,000	18,840	19,749	21,130
Export	1000	5	41	23	17
Consumption	19,600	37,900	27,120	31,445	32,046

Source: Korea Dairy Committee 2014

In 2014, NFDM import increased by 7 percent to 21,130 MT compared to 2013. Due to the FMD outbreak in November 2010, imports increased to 34,000 MT, jumping by 320 percent over 2010. On March 2011, the Ministry of Strategy and Finance (MOSF) announced temporary a zero 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. There was over production of fresh milk which resulted turned in the over production of NFDM in 2014.

Trade:

Table15 : NFDM Tariff and TRQ Schedule on Korea-USFTA implementation

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

Table 16: NFDM Imports by Country ofOriginin2014 Unit: Metric Tons

	U.S.	Australia	New Zealand	E.U.	Total
Import Volume (MT)	7,693	5,012	384	7,960	21,129
Import Value ($Million)	$31.3M	$22.4M	$1,843	$35M	$91.1M
Unit Price per MT	$4,068	$4,469	$4,800	$4,397	$4,310

Source: Korea Trade Information Service 2014

Marketing:

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. 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 2014, most imported NFDM was used for bakery ingredients and infant formula.

Production, Supply and Demand Data Statistics:

Data Statistics: Production, Supply, Demand

Table 17: NFDM PSD Table

Dairy, Milk, Nonfat Dry	2014		2015		2016	
Market Begin Year	Jan-14		Jan-15		Jan-16	
Korea, Republic of	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	8	8	8	18	0	25
Production	15	21	16	20	0	20
Other Imports	21	21	21	21	0	21
Total Imports	21	21	21	21	0	21
Total Supply	44	50	45	59	0	66
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	36	32	37	34	0	36
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	36	32	37	34	0	36
Total Use	36	32	37	34	0	36
Ending Stocks	8	18	8	25	0	30
Total Distribution	44	50	45	59	0	66
(1000 MT)						

Author Defined:

Other Dairy Product

I. Whey Products

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 continue to be introduced to the market. Whey protein demands are supported by body builders, 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.

Table 18 : Whey Tariff Schedule on Korea-USFTA implementation

HS Code Products	Rate %	Yr 1 (2012)	Yr2	Yr3	Yr4	Yr5	Yr 6	Yr 7	Yr 8	Yr 9	Yr10
406.10.10, 040410.21, 0404.10.29 Whey & Modified whey, Whether or not Concentrated or	49.5 %	20%	17.8	15.6	13.3	11.1	8.9	6.7	4.4	2.2	0

sweetened for Human consumption – up to80%protein											
3502.20Milk albumin, including concentrates of	8%	6.4	4.8	3.2	1.6	0					
T woor more whey protein for Human consumption – morethan80 % protein											
0406.10.10, 040410.21,0 404.1 0.29 Whey & modified whey, whether or not Concentrated or sweetened for Animal	49.5 %	0%									

Feed– up to 80% protein										
Annual duty-free quota in MT for HS0404.10f or food– up to 80% protein	NA	3,000MT	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 19: Whey Import by Year(0404.10 &3502.2.)

Import Volume		**2011**	**2012**	**2013**	**2014**
HS: 0404.10	Volume (1,000MT)	30,400	42,450 (fromU.S.20,200MT-48%marketshare)	35,091 (from U.S. 18,201MT, 51% market share)	31,402 (from U.S. 12,651MT – 40% market share)
	Value ($1,000)	43,000	$66,700 (fromU.S.$23,300 – 35%market share)	$60,835 (from U.S. $22,514, 37% market share)	$57,833 (from U.S. - $15,891 – 27% market share)
HS: 3502.20*	Volume (MT)	1,875	2,000 (fromU.S.1,100MT– 55%market share)	2,400 (from U.S. 1,300MT, 54% market	2,007 MT(from U.S. 1,183 MT 59% market share)

				share)	
	Value ($1,000)	19,200	24,700 (U.S.$12,000– 49%market share)	32,000 (from U.S. 14,000MT, 43% market share)	$25,157 (from U.S. $12,388 – 49% market share)

*: HS 3502.20is 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.

II. Yoghurt Products

Consumption

Probiotics has become the new buzzword in the health food industry in Korea. In 2014 yoghurt posted current value growth of 8% to reach sales of U.S.$ 2.5 billion. Drinking yoghurt was the best sales product in 2014 with current value growth of 10%, mainly due to the popularity of functional variants.

According to statistics from the Ministry of Food and Drug Safety, sales of probiotics within overall functional health foods amounted to U.S. $52 Million in 2012, which reflected a 28% increase on the previous year. As a leading specialist in probiotics, Korea Yakult Corp introduced a new brand of probiotic drinking yoghurt, called Seven, in October 2012.

Functional drinking yoghurt achieved the strongest value growth of 11% in 2014 thanks to probiotic yoghurts. Sales of plain yoghurt are also increasing and this trend is expected to continue.

Marketing

Similar to the cheese category, yoghurts are also positioned as high-value products due to their nutritional content. The yoghurt product is expected to continue to enjoy healthy growth thanks to strong consumer loyalty to probiotic products. Drinking yoghurt will continue to lead sales due to the strong interest in functional products and its convenience in terms of consumption.

Drinking yoghurt is set to post the strongest sales, thanks to strong demand for functional probiotic yoghurt. Unit prices in yoghurt will rise due to ongoing developments in terms of functionality. Consumers place great value on premium yoghurt products which offer more nutritional benefits. Probiotic drinking yoghurt is expecting to lead price increases due to potential innovations and product improvements.

III. Ice Cream

Consumption

In 2014, ice cream product showed a modest recovery, with retail volume and current value sales growing by 2% and 3% respectively. Retail volume sales of ice cream grow by 2% in 2014 to reach 222,800 Metric Tons; current value sales grow by 3% to reach U.S. $1.8 billion.

After three consecutive years of decline during 2011 - 2013, hot summer weather and increased demand during the FIFA World Cup supported a recovery in ice cream consumption in 2014. Frozen yoghurt was the most dynamic ice cream product in 2014, with retail volume and current value sales growing by 21% and 24% respectively.

Overall average unit prices for ice cream increased by 1% in 2014 due to rising production and raw material costs but, was also an impacted by the government’s fixed pricing systems. Retailers frequently offer discounts of up to 50% on popular ice cream brands to boost demand. Ice cream value sales at 2014 prices are expected to decline at about 1% to reach U.S. $1.7 billion in 2019; retail volume sales are expected to grow at about 1% to reach 236,200 metric tons in the same year. Sticks remained the most popular product format in 2014 with a value share of 38%, followed by cones with a 17% share.

Marketing

Lotte Confectionery Co maintained its leading position in ice cream in 2014 with an overall value share of 36%. Domestic manufacturing companies dominate ice cream in Korea with strong consumer loyalty towards their brands. The presence of international brands is largely limited to the premium price segment, particularly in bulk dairy ice cream.

Growth in retail volume of impulse-sales of ice cream is expected to be modest, while sales value at 2014 prices are projected to decline slightly. Aside from rising health awareness among consumers and low birth rates in Korea, retail volume growth will be hampered by increasing competition from on-trade operators such as ice cream fast food chain Baskin Robbins, as well as from homemade alternatives like shaved ice desserts. Sluggish growth in retail volume sales will contribute to the projected decline in ice cream value sales at constant 2014 prices.

Despite challenging conditions, ice cream is expected to perform slightly better in both retail volume and value terms. Retail volume growth will be boosted by increasing price competition, as well as by the longer term trend of rising summer temperatures in Korea. At the same time, trading up to higher quality and more expensive products should help to ensure that ice cream value sales decline at a slower pace than they did over 2009-2014.

Frozen yoghurt will remain by far the most dynamic ice cream product in terms of retail volume growth and value sales growth at 2014 prices. Hypermarkets will remain the leading retail distribution channel for both impulse and take- home ice cream. This is mainly because hypermarkets operators can offer much wider assortments and more competitive prices than other retailers. Supermarkets will continue to be the second most important distribution channel for take-home ice cream, while independent small grocers will remain the second leading channel in impulse-sales ice cream.

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.AgriculturalTradeOffice, U.S.Embassy Seoul,Korea,at atoseoul@fas.usda.gov,Tel:82-2-6951-6845,Fax:82-2-720-7921,or visitwww.atoseoul.com

Commodities:

Select