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Korea - Republic of

Food Processing Ingredients

Food Processing Ingredients : 2018

Approved By:
Lynne Larrabee, ATO Director

Prepared By:
Hye Rim Chun, Marketing Specialist

Report Highlights:
Korea relies heavily on imports to fulfill its food and agricultural needs. Korea maintains a strong food processing industry that manufactures a wide variety of food and beverage products. As a result, the Korean food processing industry offers an outstanding opportunity for imported agricultural products for processing use from basic commodities such as wheat and soybeans to intermediate ingredients such as vegetable oils and fruit juice concentrates. The food processing industry generated $67.8 billion of sales in 2016, up 6.4% from the previous year.

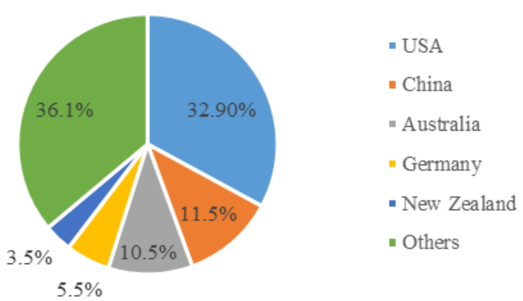
Post:
Seoul ATO

Executive Summary

South Korea is the 11th largest economy in the world with a national GDP of $1.53 trillion and a per capita GNI of almost $30,000 as of 2017. It is about the size of the state of Indiana and has a population of 51 million. Over 90% of Koreans live in urban areas. Korean consumers maintain strong demand for healthy diets, diversified choices, and new tastes. The country relies heavily on imports to fulfill total demand. Korea is the fifth largest export market for American agriculture. The United States was the leading supplier of imported agricultural products to Korea by accounting for $7.9 billion or 23.5% of Korea's total agricultural imports of $33.8 billion in 2017.

Imports of Consumer-Oriented Products

Korea's imports of consumer-oriented products totaled $12.8 billion in 2017, or 37.9% of overall agricultural imports. The United States remained the leading supplier in the segment by accounting for a record $4.3 billion or 33.4% of total imports. Despite elevated competition from export-oriented competitors, the consumer-oriented segment offers increased export opportunities for various American products, including beef, pork, fruits, tree nuts, dairy products, confectioneries, beverages, and further prepared foods.



Food Processing Industry

Korea maintains a strong food processing industry that manufacturers a wide variety of processed foods, beverages, and additives. There were over 28,000 food processing companies in Korea as of 2016 which generated $67.8 billion of sales. Korean food processing companies rely heavily on imported commodity and ingredient products. Korea's imports of basic and intermediate agricultural products amounted to $12.8 billion in 2017. American products accounted for $3.3 billion or 25.8% of total imports, used for feed, industrial and food manufacturing.

Food Retail Industry

Sales of food products in the Korean retail industry totaled about $76 billion as of 2016, which was 22.8% of overall retail industry sales. Grocery supermarkets were the leading food retail channel, followed by hypermarket discount stores, convenience stores, on-line retailers, and department stores. On-line retailers and convenience stores are likely to lead the growth of food sales in the industry in the coming years as Korean consumers pay more emphasis to convenience and value. At the same time, fast expansion of on-line retailers will force conventional retail channels to restructure space and product strategies to attract consumer traffic.

Quick Facts CY 2017

Imports of Ag. Products from the World

- Basic Products US$4.9 billion
- Intermediate Products US$7.9 billion
- Consumer-Oriented Products US$12.8 billion
- Forest Products US$3.2 billion
- Seafood Products US$5.0 billion
- Total US$33.8 billion

Top 10 Consumer-Oriented Ag. Imports

1)	Beef	$2.3 B	6)	Alcoholic Bev	$706 M
2)	Pork	$1.5 B	7)	Coffee	$655 M
3)	Frozen Fish	$1.4 B	8)	Tree Nuts	$406 M
4)	Fresh Fruit	$1.2 B	9)	Bakeries	$367 M
5)	Dairy	$854 M	10)	Confectionery	$324 M

Top 10 Growth Consumer-Oriented Ag. Imports

Eggs, Specialty Nuts, Lamb Meat, Tea, Beer, Animal offal, Preserved Vegetables, Beef, Butter, Cherries

Food Industry by Channels (2016)

- Retail Food Industry US$75.9 billion
- HRI Foodservice Industry US$97.5 billion
- Food Processing Industry US$70.3 billion
- Food & Agricultural Exports US$6.8 billion

Top Korean Retailers

EMART, LOTTE Mart, HOME PLUS, COSTCO, GS Retail (GS Super, GS25), BGF Retail (CU), Korea Seven, E Land Retail, Lotte Department Store, Shinsegae Department Store, Hyundai Department Store, Hanwha Galleria, CJ O Shopping, GS Home Shopping, SK Planet, Ebay Korea

GDP/Population

Population: 51.2 million
GDP: US$1.53 trillion
GDP per capita: US$29,891

Strengths/Weaknesses/Opportunities/Challenges

Strengths	***Weaknesses***
- Well established market with modern distribution channels - Consumer income level continues to increase	- High logistics cost to ship American products - Consumers have limited understanding of American products
Opportunities	***Challenges***
- Strong consumer demand for value, quality, and diversity - KORUS FTA reduces tariff barriers for American products.	- Elevated competition from export-oriented competitors - Discrepancies in food safety and labeling regulations

Data and Information Sources: Korea Ministry of Food & Drug Safety, Korea National Statistics Office, Korea Int'l Trade Association, Global Trade Atlas, CIA Factbook

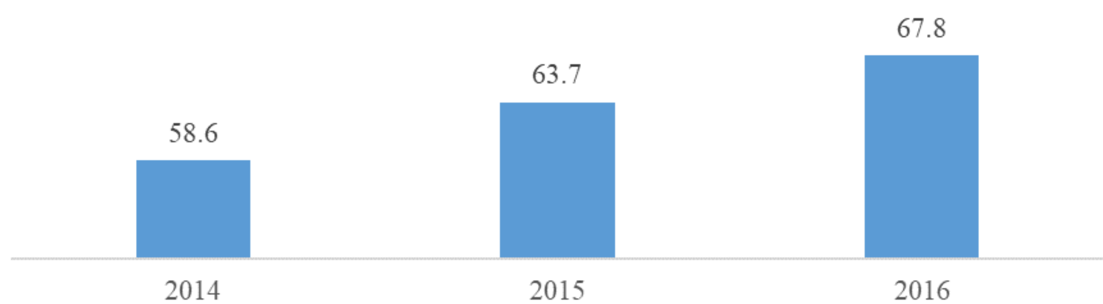
Contact:
U.S. Agricultural Trade Office (ATO) Seoul

E-mail: atoseoul@fas.usda.gov

SECTION I. MARKET SUMMARY

Korea relies heavily on imports to fulfill its food and agricultural needs. The Korean food processing sector is the major user of imported agricultural products for processing use including, wheat, soy, dairy, and value-added processed products. The Korean food processing industry generated $67.8 billion of sales in 2016, up 6.4% from the previous year. The rise in single-person households and increase in women's participation in the workforce are influencing food purchasing patterns. Consumer trends include convenient and value-for-money food products as well as healthier and higher quality food options. The home meal replacement (HMR), private label, and café/bakery markets are expected to continue to grow and the processing sector to expand to meet domestic and emerging export market demands.

Figure 1. Annual Sales of Korean Food Processing Industry (2014-16, Billion USD)



Source: Korea Ministry of Food & Drug Safety (MFDS)

Despite challenges from competitors, the United States is expected to remain the leading supplier of food and agricultural products to Korea for years to come, not only for commodities and intermediate products but also for consumer oriented products. The United States accounted for 23.5% of total Korean imports of food and agricultural products in 2017.

Table 1. Advantages and Challenges of U.S. Food Products

Advantages	Challenges
▪ Continued tariff reductions under KORUS FTA will make U.S. products more competitive with other foreign suppliers.	▪ Imports of many products still face restrictive trade barriers. Certain food additives that are approved for food use in the U.S. may not be approved in Korea.
▪ Health consciousness and increasing affluence of Koreans are shifting consumer focus from price to quality.	▪ Food safety concerns, including biotechnology and BSE, are still lingering. Outbreaks of animal diseases such as Avian influenza restrict the trade.
▪ U.S. food is perceived as equal or superior quality relative to competitors.	▪ Imported products are subject to complicated labeling and food safety standards in Korea, which change frequently with limited lead time.
▪ Local supply of agricultural products is limited.	▪ Complicated inspection/customs clearance procedures.

SECTION II. ROAD MAP FOR MARKET ENTRY

1. Entry Strategy

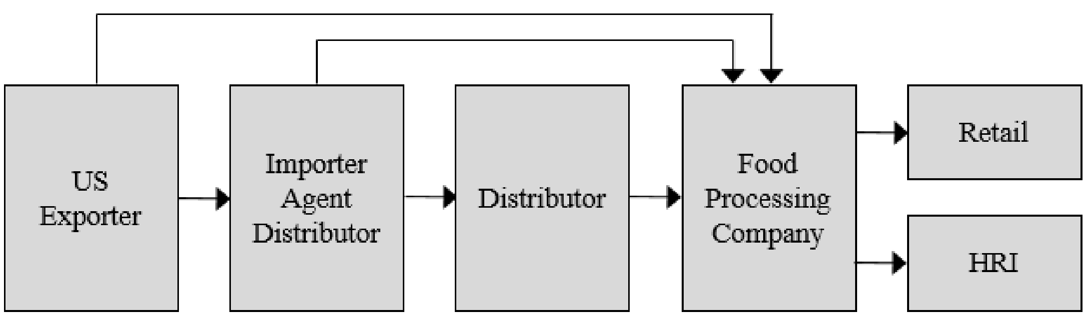
American suppliers are recommended to refer to the resources listed below for additional information and guidance needed to establish an efficient entry strategy for Korea:

- Korea FAIRS Report provides Korean government regulations and standards on imported food and agricultural products.
- Korea Exporter Guide provides market entry guidance for American suppliers.
- ATO Seoul Website provides various information about the Korean market, including product briefs, media food news clippings, KORUS FTA, and links to other resources and organizations.
- Korea Country Commercial Guide published by the U.S. Commercial Service is another outstanding source of information about exporting to Korea.

2. Distribution Channels and Market Structure

Figure 2 gives an overview of the usual distribution channel for imported food ingredients from U.S. exporters to Korean food processors. Large food processing companies prefer to source directly from overseas suppliers as they can reduce costs. However, they tend to purchase from local importers, agents or distributors when the quantities they require are small.

Figure 2. Imported Food Ingredients Distribution Channel



Source: ATO Seoul Analysis

3. Share of Major Segments in the Food Processing Industry

Table 2. Breakdown of Food Processing Industry by Product Category (2014-16)

	Product Category	Annual Sales[1] (Bil $)[2]			CAGR
		2014	2015	2016	
1	Livestock Products	9.8	12.5	13.5	17.9%
2	Alcoholic Beverages	6.7	5.3	5.3	-10.3%
3	Beverages	4.2	4.7	5.1	10.4%

[1] Annual Sales = Shipment amount (domestic sales) + export amount

[2] 1 USD = KRW 1,130 (Exchange rate as of Aug. 14, 2018)

4	Seasonings, Spices, Dressings	4.1	4.3	4.8	7.5%
5	Breads, Cakes, Dumplings	3.4	3.7	3.7	4.4%
6	Coffee & Tea	3.0	3.2	3.6	9.9%
7	Snacks & Candies	3.6	3.7	3.4	-2.1%
8	Noodles	2.5	2.9	2.9	8.6%
9	Health Functional Foods	1.6	1.8	2.1	14.2%
10	Sugars, Syrups, Jams	2.0	1.9	2.0	-0.4%
11	Seafood Products	1.5	1.8	1.9	12.2%
12	Kimchi & Pickles	1.5	1.7	1.9	11.9%
13	Fat & Oil	1.7	1.8	1.8	3.1%
14	Food Additives	1.7	1.6	1.6	-1.7%
15	Chocolates & Cacao Products	1.2	1.3	1.2	2.0%
16	Tofu & Muk	0.6	0.7	0.8	16.8%
17	Special Dietary Foods	0.3	0.3	0.4	8.5%
18	Other Processed Foods	9.4	10.4	11.9	12.6%
	Total	**58.6**	**63.7**	**67.8**	**7.5%**

Source: Korea Ministry of Food & Drug Safety (MFDS)

4. Company Profiles & Products

Annual sales of Korea's top 20 food processing companies account for more than $17.57 billion. The list of top 10 companies can be found below (Table 3). More information can be found in Section II-C of 2017 Korea Food Processing Ingredients Report or Table 1-2-1-11 of MFDS Statistics.

Table 3. Top 10 Food Processing Companies (2016, Billion USD)

	Company	Main products	Annual Sales
1	Lotte Chilsung Beverage Co., Ltd.	Beverages	2.30
2	CJ Cheil Jedang Corporation	Flour, Noodles, Ready-to-serve food, Snacks	2.05
3	Hite Jinro Co., Ltd	Alcoholic Beverage	1.37
4	Oriental Brewery Co., Ltd.	Beer	1.29
5	Nongshim Co., Ltd.	Instant noodles, Snacks, Beverages	1.28
6	Dong Suh Food Co., Ltd.	Coffee(instant/brewed/canned), Creamer, Cereal	1.06
7	Lotte Confectionery Co., Ltd.	Snacks, Confectioneries	1.00
8	Daesang Corporation	Sauces, Instant noodles, Ready-to-serve foods	0.78
9	The Coca-Cola Company	Beverages	0.75
10	Samyang Corporation	Sugar, Flour, Edible Oil, Bakery ingredients	0.70

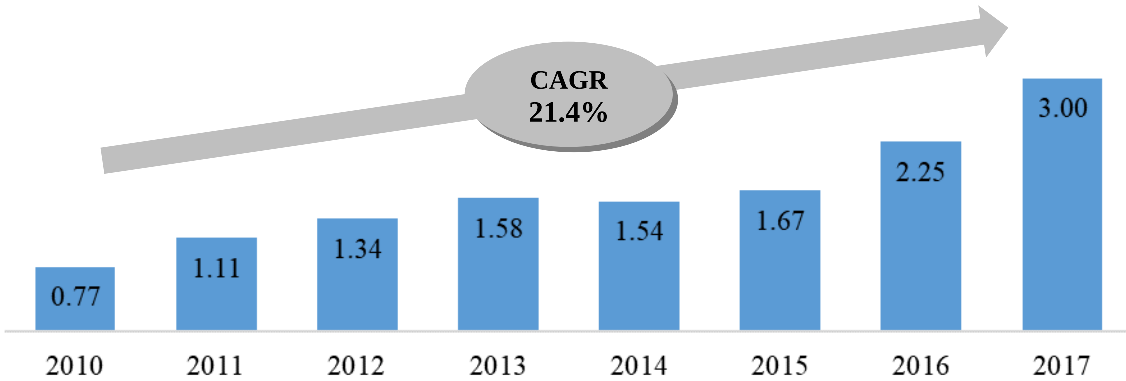
Source: Korea Ministry of Food & Drug Safety (MFDS)

5. Sector Trends

The Korean market reflects global food trends. The rise in single-person households and increase in women's participation in the workforce are influencing food purchasing patterns. Consumers want convenient and value-for-money food products that suit their lifestyle. Moreover, consumers continue to seek healthier and higher quality food options.

The home meal replacement (HMR) market grew from 0.77 trillion KRW in 2010 to 3 trillion KRW in 2017 at a CAGR of 21.4%. Single-person households accounted for 27.6% of total households in 2016 and are expected to increase up to 30% by 2020. Due to this trend, small portion size HMR products in particular are getting more popular in the market. Korean consumers are smart consumers who demand the best value for their money. In order to meet their needs, food processors are seeking to reduce costs by looking for new sources of lower price ingredients and by launching private label products. The overall HMR market is expected to grow continuously over the next few years.

Figure 3 Annual Sales of HMR (2010-17, Trillion KRW)



Source: Korea Ministry of Food & Drug Safety (MFDS)

Although Korean consumers prefer price competitive products, health considerations area equally if not more important. While products that are considered healthy are more expensive than other products, demand for healthy food is increasing every year. Organic product sales in retail stores increased 7.5% in 2015, reaching 1.35 trillion KRW. This trend is also evident in the beverage market. Consumers preferred non-alcoholic beverages over alcoholic beverages. In 2014, alcoholic beverage sales increased 17.4% compared to 2008, while non-alcoholic beverage sales increased 42.9% in the same period. Within the alcoholic beverage sector, whiskey and soju with lower alcohol content were sold more than ones with higher alcohol content. In the non-alcoholic beverage sector, sales of fruit juice decreased as consumers are aware of the high sugar content in juices. However, imports of fruit juice have been constantly growing over the past three years. Meanwhile, coffee and drinking water saw an increase in sales.

SECTION III. COMPETITION

The HMR market is growing rapidly. In 2018, the market size is expected to reach 4 trillion KRW, and is forecasted to become 17 trillion KRW in 10 years. Therefore, the food processing industry finds the HMR market as an opportunity. The competition within the market is becoming fiercer as new players are entering the market and existing players are expanding their business within the market.

CJ Cheil Jedang is by far the number one food processor in the HMR market. Its instant rice brand “Hat Ban” reached an annual sales of 300 billion KRW in 2017 and accounts for 73.7% of market share. Its Korean-style HMR brand “Bibigo” is also popular in the market. In May 2017, CJ Cheil Jedang launched CJ Olive Market, which is solely dedicated to selling HMR products. Other food processing companies such as Ottogi and Dongwon F&B have their own HMR brands and are focusing on further developing the HMR sector.

The retail sector has also entered into the competition. In November 2017, Hyundai Department Store launched its premium HMR brand “One Table” targeting the higher income consumer group.

Hypermarkets such as Emart, Lotte Mart and Home Plus, have their own private labels as well. Emart is the most aggressive player in the market. It was one of the first to launch a HMR private label, and in 2015, it even launched "Peacock Secret Lab" to promote R&D of its brand. The sales of Emart's HMR brand "Peacock" hit 228 billion KRW in 2017, showing a seven-fold surge since its launch in 2013. In September 2017, Emart launched its first Peacock Store in the upscale residential area of Gangnam. Convenience stores are launching lower price HMR products. While their products were limited to ready-made lunch boxes or side dishes in the past, now they are launching 'meal kits' which customers can simply fix a meal at home with prepared ingredients.

At the same time, the café industry is constantly growing and the market size is estimated at 11 trillion KRW in 2017. In the first half of 2018, 6,290 new cafes opened, 4.8% up from the same period in 2017. Korean consumers go to cafes not only for coffee but also for food and desserts. Although Korean consumers prefer value-for-money products, they are willing to pay more for small treats like desserts that make them happy and satisfied. The sales of desserts exceeded 20% of total sales in Starbucks and 30% in Twosome Place, a café franchise owned by CJ Group.

SPC Group, one of the leading food conglomerate and also the bakery industry leader, is the leading player in the café industry. Paris Croissant Co., under SPC Group, started its business in 1986 with the business model that combined bakery and café. It has 3,420 window bakery stores throughout Korea, and 350 stores in foreign markets. SPC uses a wide diversity of ingredients, mostly quality products including wheat, dairy, meat, produce, and value-added processed products.

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

1. Products present in the market which have good sales potential

HS Code	Description	Import From World (2017)	Import From U.S. (2017)	U.S. Products Market Share
0201	Beef, Fresh or Chilled	719,892	392,488	54.5%
0202	Beef, Frozen	1,543,344	784,766	50.8%
0203	Pork, Fresh, Chilled or Frozen	1,527,159	402,375	26.3%
0206	Edible Offals	247,917	96,153	38.8%
0406	Cheese and Curd	535,768	209,125	39.0%
0802	Other Nuts	324,306	297,296	91.7%
1001	Wheat & Meslin	957,625	329,485	34.4%
1201	Soybeans	592,217	279,140	47.1%
1507	Soybean Oil	266,896	144,283	54.1%
1806	Chocolate & Food Preparations	324,088	81,265	25.1%
1901	Malt	172,162	28,744	16.7%
2009	Fruit Juices (including concentrates)	186,684	67,193	36.0%
2101	Extracts and Essences	105,370	27,419	26.0%
2207	Alcohols greater than 80%	213,329	81,662	38.3%

2. Products with low presence in market but which have good sales potential[3]

[3] Products which total import from U.S. is under $10 million and market share of U.S. products is less than 3%

HS Code	Description	Import From World (2017)	Import From U.S. (2017)	U.S. Products Market Share
0401	Milk/Cream, Not Concentrated	67,618	659	1.0%
0710	Vegetables, Frozen	241,108	5,082	2.1%
0801	Coconuts, Brazil Nuts & Cashew	81,465	1,591	2.0%
1108	Starches	115,798	258	0.2%
1109	Wheat Gluten	18,837	300	1.6%
1212	Locust Beans, Seaweed, Sugar	61,185	511	0.8%
1509	Olive Oil	65,745	236	0.4%
1513	Coconut, Palm Kernel Oil	96,465	545	0.6%
1514	Rape, Colza or Mustard Oil	118,611	502	0.4%
1801	Cocoa Beans	29,383	1,108	3.8%

3. Products not present because they face significant barriers

Due to regulatory and phytosanitary issues, imports of some U.S. products are restricted. For example, due to the risk of transferring plant pests and disease, fresh fruits and vegetables have to go through the risk analysis process. Also, outbreaks of animal diseases, such as swine cholera, avian influenza, and bovine spongiform encephalopathy (BSE), also restrict imports of related livestock products into Korea. Please refer to Section IV. C of 2017 Korea Retail Foods Report for details.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

U.S. Agricultural Trade Office Seoul (ATO)
Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul, Korea
Telephone:+82-2 6951-6848 Fax: +82-2 720-7921
E-mail: atoseoul@fas.usda.gov Webpage: www.atoseoul.com

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)
Address: U.S. Embassy, 188 Sejong-daero, Jongro-gu, Seoul, Korea
Telephone:+82-2 397-4297 Fax: +82-2 738-7147
E-mail: agseoul@fas.usda.gov

U.S. Animal Plant and Health Inspection Service Seoul (APHIS)
Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul, Korea
Telephone:+82-2 725-5495 Fax: +82-2 725-5496
E-mail: yunhee.kim@aphis.usda.gov Webpage: www.aphis.usda.gov

Please refer to Korea Exporter Guide for contact information of USDA cooperators, state offices, and industry organizations that offer various export assistances. For more information, ATO Seoul website (www.atoseoul.com) provides up-to-date information about Korea's food and agricultural imports:

- Korea's Agricultural Import Statistics: This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports on four-digit HS product code level.

- Korea's Agricultural Import Trends Presentation: This presentation, published quarterly, provides a summary of competition between the U.S. and competitors for key products.