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Korea - Republic of

Food Processing Ingredients

Food Processing Ingredients : 2019

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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 soybean to intermediate ingredients such as vegetable oils and fruit juice concentrates to food additives such as flavors and coloring agents. In 2017, the food processing industry generated 70.2 trillion KRW, approximately $62.1 billion, of sales, up 3.5 percent from 2016.

Post:
Seoul ATO

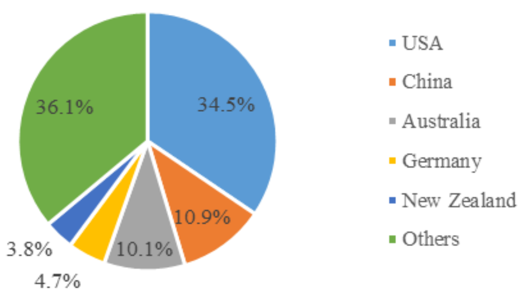
Market Fact Sheet: Korea- Republic of

Executive Summary

South Korea is the 11th largest economy in the world with a national GDP of $1.62 trillion and a per capita GDP of 31,355 in 2018. It is about the size of the state of Indiana and has a population of 51.8 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 $9.4 billion or 25.3% of Korea's total agricultural imports of $37.1 billion in 2018.

Imports of Consumer-Oriented Products

Korea's imports of consumer-oriented products totaled $14.5 billion in 2018, or 39.1% of overall agricultural imports. The United States remained the leading supplier in the segment by accounting for $5.1 billion or 34.5% 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 29,000 food processing companies in Korea as of 2017 which generated 70.2 trillion KRW, approximately $62.1 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 $13.3 billion in 2018. American products accounted for $3.9 billion or 26.9% of total imports, used for feed, industrial and food manufacturing.

Food Retail Industry

Sales of food products in the Korean retail industry totaled $88.6 billion as of 2017, which was 26.2% 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 2018

Imports of Ag. Products from the World

- Basic Products	US$5.2 billion
- Intermediate Products	US$8.0 billion
- Consumer-Oriented Products	US$14.5 billion
- Forest Products	US$3.5 billion
- Seafood Products	US$5.8 billion
- Total	US$37.1 billion

Top 10 Consumer-Oriented Ag. Imports from the World

1)	Beef	$2.7 B	6)	Alcoholic Bev	$769 M
2)	Pork	$1.7 B	7)	Coffee	$637 M
3)	Frozen Fish	$1.4 B	8)	Tree Nuts	$439 M
4)	Fresh Fruit	$1.4 B	9)	Bakeries	$364 M
5)	Dairy	$896 M	10)	Confectionery	$352 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

- Retail Food Industry	US$88.6 billion
- HRI Foodservice Industry	US$113.5 billion
- Food Processing Industry	US$62.1 billion
- Food & Agricultural Exports	US$7.0 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: 51.8 million
GDP: US$ 1.62 trillion
GDP per capita: US$ 31,355

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. To the greatest extent possible, the latest available statistics are used in this publication.

Market Fact Sheet: Korea- Republic of

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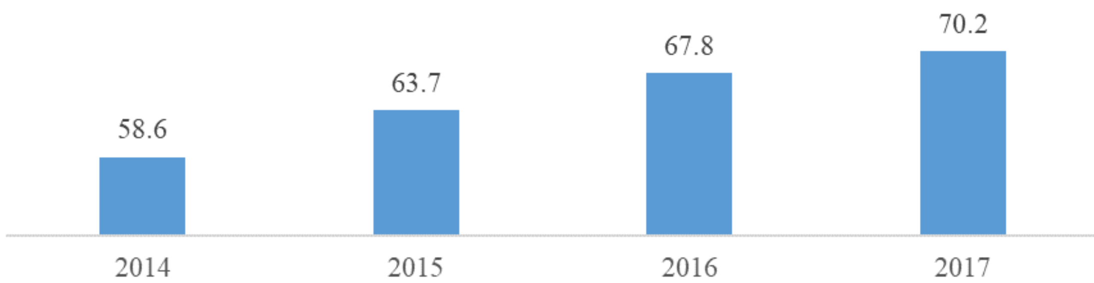
SECTION I. MARKET SUMMARY

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 soybeans, wheat, vegetable oils, fruit juice concentrate, and food additives such as flavors, coloring agents, and preservatives. The Korean food processing industry generated 70.2 trillion KRW, approximately $62.08 billion[1], of sales in 2017. Annual sales are up 3.5 percent from the previous year and the industry has been growing at a CAGR of 6.2 percent in 2014-17.

Figure 1. Annual Sales of Korean Food Processing Industry (2014-17, Trillion KRW)



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 percent 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.

[1] Exchange rate of 1 USD = KRW 1,130.61 has been applied here and throughout the report

SECTION II. ROAD MAP FOR MARKET ENTRY

1. Entry Strategy and Import Procedure

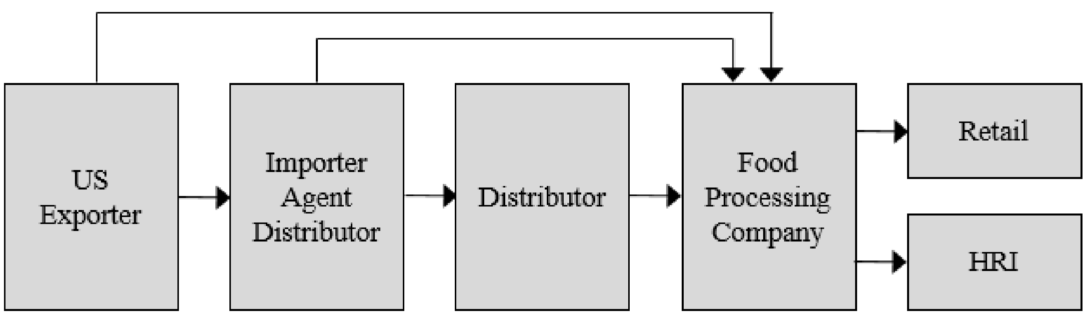
American suppliers are recommended to refer to resources listed below for additional information and guidance needed to establish an efficient entry strategy for Korea:

- 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 (2015-17)

	Product Category	Annual Sales[2] (Billion USD)[3]			CAGR
		2015	2016	2017	
1	Livestock Products	11.1	11.6	12.1	4.6%
2	Alcoholic Beverages	4.7	4.6	5.1	4.5%

[2]Annual Sales = Shipment amount (domestic sales) + export amount
[3]Respective exchange rates have been applied for each year (2015-17)

3	Beverages	3.8	4.1	4.4	6.9%
4	Seasonings, Spices, Dressings	4.1	4.4	4.2	0.6%
5	Breads, Cakes, Dumplings	3.3	3.2	3.4	2.7%
6	Coffee & Tea	2.8	3.1	3.2	6.7%
7	Snacks & Candies	3.3	2.9	3.1	-3.4%
8	Noodles	2.6	2.5	2.9	6.4%
9	Health Functional Foods	1.6	1.8	2.0	10.9%
10	Sugars, Syrups, Jams	1.5	1.6	1.8	8.6%
11	Seafood Products	1.6	1.7	1.8	7.6%
12	Kimchi & Pickles	1.7	1.7	1.7	0.9%
13	Fat & Oil	1.4	1.4	1.7	8.1%
14	Food Additives	1.5	1.5	1.6	2.6%
15	Chocolates & Cacao Products	1.1	1.0	0.9	-8.2%
16	Tofu & Muk	0.6	0.7	0.6	0.5%
17	Special Dietary Foods	0.3	0.3	0.3	8.8%
18	Other Processed Foods	9.2	10.2	11.2	10.6%

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 $18.36 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. 2017 Top 10 Food Processing Companies (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	2.21
3	Nongshim Co., Ltd.	Instant noodles, snacks, beverages	1.53
4	Hite Jinro Co., Ltd	Alcoholic beverage	1.49
5	Oriental Brewery Co., Ltd.	Beer	1.37
6	Dong Suh Food Co., Ltd.	Coffee(instant/brewed/canned), creamer, cereal	0.98
7	Lotte Confectionery Co., Ltd.	Snacks, confectioneries	0.94
8	Haitai Confectionery & Foods Co., Ltd	Confectionery, beverage, ice cream	0.82
9	Daesang Corporation	Sauces, instant noodles, Ready-to-serve foods	0.75
10	The Coca-Cola Company	Beverages	0.72

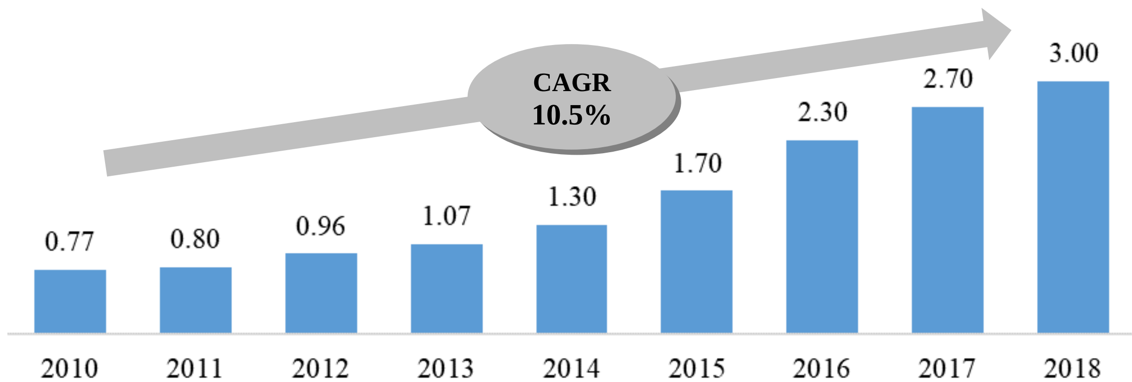
Source: Korea Ministry of Food & Drug Safety (MFDS)

5. Sector Trends

The Korean market reflects global food trends. The rise in single-person households and the 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 2.70 trillion KRW in 2017. Single-person households accounted for 27.6 percent of total households in 2016 and are expected to increase up to 30 percent by 2020. Due to this trend, small portion size HMR products in particular are getting more popular in the market. Consumers also demand more than just the convenience of preparing HMR products. They want convenient meals that suit their specific preferences and needs according to their lifestyle.

Figure 3 Annual Sales of HMR (2010-18[4], Trillion KRW)



Source: Korea Agro-Fisheries & Food Trade Corporation

Korean consumers these days 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. In addition, the recent growing trend is consumers seeking products that give them maximum satisfaction for what they pay. Consumers want products that suit their lifestyle and, at the same time, want to be emotionally relieved through their consumption. For example, a vegetarian or vegan diet is in line with this trend. Consumers choose this type of diet since they feel it is a healthier option, rewarding them with the feeling that they are protecting the environment or contributing to animal welfare.

Although Korean consumers prefer price competitive products, health considerations are 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. The trend is evident in the beverage market. Sales of fruit juice with high sugar content has been decreasing while healthier products such as mineral water, sparkling water or tea products are constantly gaining popularity over the past few years. The drinking water market reached $687 million, up 29.3% from 2014, and is estimated to grow up to $792 million in 2019. The sparkling water market has been growing rapidly as well. Manufacturers entered the market with new flavors such as lemon, lime and grapefruit, and retailers launched private brand (PB) products that are relatively lower priced.

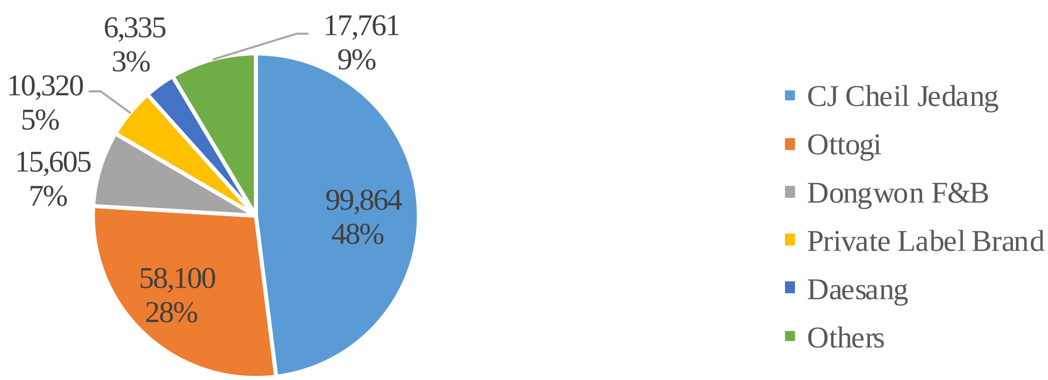
[4] 2018 annual sales is an estimated data

SECTION III. COMPETITION

The HMR market is growing rapidly. In 2023, the market size is expected to reach $8.8 billion, which is more than three times the size of 2018. Therefore, the food processing industry sees the HMR market as an opportunity. The competition in this sector is fierce and intensifying as new players enter and existing players expand their business within the market.

CJ Cheil Jedang is the number one food processor in the HMR market. Its instant rice brand “Hat Ban” reached annual sales of 300 billion KRW, approximately $264 million in 2017, accounting for more than 70 percent of the instant rice market, and its Korean-style HMR brand “Bibigo” is also popular in the market. In November 2018, CJ Cheil Jedang acquired the U.S. frozen food company Schwan’s Co., one of the largest global food companies in the pizza, pie, and Asian appetizer market, for $1.84 billion. Through the acquisition, CJ hopes to expand its market share in the North American processed food market. CJ is also planning to invest more aggressively in the domestic market- 200 billion KRW ($176 million) for HMR R&D and 540 billion KRW ($476 million) for developing a manufacturing plant in Jincheon by 2020. As CJ is by far the largest player in the sector, it poses competition challenges to other food processors in the market. 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. Moreover, Ottogi plans to invest 61 billion KRW ($54 million) to expand its processing line, and Dongwon F&B plans to build a new manufacturing plant.

Figure 4 Market Share of Food Processors in the HMR Market (2018 1Q sales, Million KRW)



Source: Company sales data

The retail sector has also entered the fray. In November 2017, Hyundai Department Store launched its premium HMR brand “One Table” targeting the higher income consumer group. Compared to CJ, it is still in the initial stages, but is expanding rapidly by leveraging its distribution network across the country. 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 an HMR private label, and in 2015, it launched "Peacock Secret Lab" to promote R&D of its brand. The sales of Emart's HMR brand "Peacock" hit 228 billion KRW, around $201 million, 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. Shinsegae, Emart's parent company, expanded its manufacturing plant in 2018 by investing 51.6 billion KRW ($45 million), and plans to invest an additional 93.7 billion KRW ($82 million) and 72.6 billion KRW ($64 million) in 2019 and 2020, respectively, to increase market share in the HMR sector. Convenience stores are launching lower price HMR products. While their products were limited to ready-made lunch boxes or side dishes in the past, they are now launching 'meal kits' that allow customers to simply prepare a meal at home with included, pre-prepared ingredients.

Korea is also well known for its café industry. The café industry is constantly growing and the market size was estimated at 11 trillion KRW, approximately $9.7 billion, in 2017. In the first half of 2018, 6,290 new cafes opened, up 4.8 percent 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 products like desserts that makes them happy and satisfied. In fact, the sales of dessert exceeded 20 percent of total sales in Starbucks and 30 percent in Twosome Place[5].

SPC Group, one of the leading food conglomerates 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 a 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 from the U.S., 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

U.S. products, in general, have a good image among Korean consumers, which explains why American products have a high market share than other countries. Some of the products that are present in the market and still have good sales potential are beef, pork, dairy, soybeans, and snacks. U.S. beef, which went through some difficult years due to BSE, is now popular among consumers. In 2018, Korea imported $1.55 billion of U.S. beef, up 31.5 percent from $1.18 billion in 2017, becoming the top imported beef in the market. This growth has been due to the consumer attitudes and preferences. As consumers seek good quality and taste, the popularity of U.S. beef is expected to continue.

For more detailed data with HS code, please refer to Section IV (Part 1) of 2018 Korea Food Processing Ingredients Report.

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

[5] Twosome Place is one of the largest café franchise in Korea, owned by CJ Group

The Korean food market is a saturated market, making it difficult to find products with low presence but that have good sales potential. A U.S. exporter may target some niche markets related to new emerging trends in Korea such as sustainable food movement, veganism, animal welfare. However, trends come and go fast in Korea so one should do plenty of research before entering the market.

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, several types of fresh fruits and vegetables are still awaiting approval by the Korean authorities. Also, outbreaks of animal diseases and outdated concerns related to bovine spongiform encephalopathy (BSE), can restrict imports of related livestock products into Korea. Finally, despite the KORUS free trade agreement, some products continue to face high tariff barriers in the Korean market. Please refer to Section IV (Part C) of 2017 Korea Retail Foods Report for details.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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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.