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Organic Products Market Brief Update

Report Categories:
Market Development Reports
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Report Highlights:

The Korean organic food market grew at an astonishing rate of over 100 percent through 2000 and during the last five years has maintained an average growth rate of 50 percent. The organic market is predicted to climb to $6 billion by 2020. Consumers in Korea are increasingly willing to purchase organic products as they become more aware of the importance of a healthy diet. Organic food now represents a 10 percent share of the total agricultural products market, which suggests that organic products have entered into the main stream consumer market.

SECTION I. MARKET OVERVIEW

The organic market is entering a new phase in Korea. The market share increased to $3.1 billion, based on market price, in 2009, up 17 percent from the previous year. Organic processed food production has also seen major growth and change in the past decade. Major food manufacturing companies are beginning to enter the packaged organic product market, because the organic processed foods market is increasing 25 percent each year. Out of the domestic processed food, however, it is important to note that 72 percent of the ingredients were imported, and of those, 89 percent was imported from the United States and the EU. Most fresh organic vegetables and fruits are produced and consumed domestically. Korea's organic production is also growing at a fast pace.

Table 1: Import Data for organic products in Korea

Unit: Metric Ton (MT), US dollar in Million

Year		2004	2005	2006	2007	2008	2009	2010
Imports cases	Unprocessed	n/a	n/a	n/a	n/a	250	286	263
	Processed	n/a	n/a	n/a	n/a	3,629	2,613	3,728
	Total	**1,588**	**2,290**	**2,674**	**3,553**	**3,879**	**2,899**	**3,991** **(1,103 from US)**
Imports weight (MT)	Unprocessed	5,615	6,810	5,600	9,000	7,321	5,583	7,060
	Processed	4,400	7,090	11,300	16,000	18,072	13,687	18,413
	Total	**10,015**	**13,900**	**16,900**	**25,000**	**25,393**	**19,270**	**25,473** **(3,417 from U.S.-13.4% Mkt Share)**
Imports value ($Mil.)	Unprocessed	1.7	3	5	7	7.4	7.6	$10.7 ($1.6 from U.S.)
	Processed	12.6	32.4	27	36	49.3	28.2	$38.7 ($11.4 from U.S.)
	Total	**14.3**	**35.4**	**32**	**43**	**56.7**	**35.8**	**$39** **($11.4 from U.S.)**

Source: Korea Food & Drug Administration
Value: based on CIF price

Table 2: Advantages and Challenges

Advantages	**Challenges**
Consumers are increasingly aware of organic products and the demand is growing. Growth of the children and baby food sector is much anticipated.	Lack of knowledge of varieties of processed organic products in U.S. As a result, the variety of products is very similar from store to store in Korea.
Korea imports 60-70 percent of total food and feed needs.	Fresh food sector is almost completely dominated by the domestic producers.
Local production of processed organic products is negligible. Imported ingredients help lower the production cost of the domestic manufacture, thus ingredients will continue to be sought by the	The changing regulation could mean that there may be extra cost associated with the importing procedures, and that foreign exporters need to go through a

domestic producers, especially by the large conglomerates	complicated certificate system
In general, consumers trust the USDA label. According to importers, Koreans prefer the taste of U.S. organic foods to those from our competitors.	Many U.S. suppliers do not view the Korean market as an opportunity. U.S. exporters of organic products tend to be smaller suppliers with little international experience and little knowledge of the Korean market.
Food products used for school meals. Providing school meals with eco-friendly products are becoming one of the mainstream policies in various local governments.	The shelf-life of imported organic processed products is very short and the products are difficult to sell. As a result, the products are prices 200-400 percent higher than conventional counterparts.
Tariffs for processed organic products are relatively low.	Imports of organic products are usually purchased in consolidated shipments because most of importers lack information about U.S. organic product consolidators.

SECTION II. REGULATIONS AND POLICY

Currently the Korean Organic Certification Program is enforced by two government branches, the Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF) and Korean Food and Drug Administration (KFDA).

A. Korean Food and Drug Administration (KFDA)

KFDA is the principal government agency charged with ensuring that foods are safe, sound, wholesome and correctly labeled. KFDA publishes its food-related regulations, including the Food Code, Food Additive Code, Labeling Standards for Food, Labeling Standards for Recombinant Food, Guidelines for Safety Assessment for Recombinant Food, functional food regulations, etc., on its website at: www.kfda.go.kr.

1) Organic Labeling

Labeling may be done in the following manner depending on the content of organic agricultural ingredients in a food product.

1. 100 percent: when the finished food product does not contain any other food or food additive except for organic agricultural ingredients, the label “100% organic agricultural product” or similar labels may be used.

2. Not less than 95 percent: when not less than 95 percent of the raw materials contained in the finished food product are organic agricultural ingredients, the term “organic” or similar terms may be used as a part of the product name and stated on the main labeling panel of the container or package; and the name, seal and logo of the organization that certified the organic agricultural produce used in the product, as well as other certification information, may be stated. In this case, the content of the organic agricultural ingredients must be stated in percentage terms on the raw material section of the label.

3. Less than 95 percent but more than 70 percent: when 70 percent or more but less than 95 percent of raw materials

contained in the finished food product are organic agricultural ingredients, the term "organic" or similar terms may be stated on a labeling surface of the container or package other than the main labeling panel. In this case, the content of the organic agricultural ingredients must be stated in percentage terms on the raw materials section of the label.

4. Others: when a food not included in (1) through (3) above includes organic agricultural products, the term "organic" or similar terms may be used as a part of the names of such ingredients on the raw materials section of the label. In this case, the content of individual organic agricultural ingredients must be stated in percentage terms on the raw materials section of the label.

2) Documentation Requirements to Qualify for Imported Organic Food Products

The following two documents should be presented to regional offices of the KFDA when submitting an import application for organic food products for import clearance:

1. A copy of an organic certificate issued by the USDA-accredited certifying agent. The certificate must include the following information:

(a) Name, address, and phone number of the certifying agent
(b) A list of the types of organic food the operation is certified by the certifying agent to produce or process
(c) The company name, address, and effective date (or renewal date) of the certification

2. An original ingredient statement (a list of all ingredient names) issued by the manufacturer (only required for organic food products made of mixed ingredients) that includes the office/department/division name, name and signature of the issuer.
Please note that a "transaction certificate" is no longer required for imported organic food products.

Contact information for the KFDA division responsible for labeling is:

For nutrition labeling
Food Safety Policy Division
Food Safety Bureau, KFDA
Phone: 82-2-380-1726/27
Fax: 82-2-388-6396
www.kfda.go.kr

B. Ministry for Food, Agriculture, Forestry and Fisheries (MIFAFF)

MIFAFF is responsible for establishing regulations and standards related to agricultural products, including livestock and dairy products. Several agencies within MIFAFF are responsible for issuing and enforcing regulations.

NOTE: Korea Extends Implementation of Organic Processed Foods Regulation

For organic labeling of processed food products, MIFAFF had introduced a mandatory organic certification program for processed food products in June 2008. This new program was to be fully implemented on January 1, 2013, which would require all domestic and imported organic processed products to be certified by a MIFAFF accredited certifying body.

On December 31, 2009, the Korea Food and Drug Administration (KFDA) published a revision to the Labeling Guidelines for Food Products, which included an extension of the labeling standard for organic processed food products until December 31, 2012. Now, the new MIFAFF regulation was to be fully implemented on January 1, 2012 and would replace the KFDA labeling guideline for organic products. The United States and several other organic exporting countries encouraged Korea to extend the deadline in order for certifiers to become accredited to the new regulation, and to work with MIFAFF to add language to the regulation to allow for recognition of foreign accrediting bodies and equivalence to foreign standards.

As written there are some significant challenges with the Korean regulations, which will prevent organic products from entering the Korean market when they take effect:

- Korean regulations include extensive mandatory product testing with zero tolerance for all prohibited materials including GMOs
- Every ingredient must be certified to their regulations back to the farm.

The organic processing regulations were under the supervision of two different government bodies, which has caused much confusion within and outside Korea. However, recently, it was decided that the implementation of the new regulation would be suspended until this problem is resolved and the two bodies are integrated. The organic regulations will also be overhauled to meet international requirements. Since this is expected to take more than two years, the effect of this decision is that for 2011 and 2012, the Republic of Korea (ROK) will operate under two Organic Labeling systems, as it has been for the past years. Thus organic products that are certified by USDA can continue to be imported as before.

SECTION III.   CONSUMPTION AND MARKET SECTORS

A. Consumption

The increasing consumption of organic food products has been a global trend for a number of years already, and Korea is no exception to this. Consumers in Korea are increasingly more willing to purchase organic products as they become more aware of the importance of healthy and safe eating. The advertence of BSE and other toxin-related food safety problems have added to their concerns.

1) Appeals to the consumers

Almost of the consumers purchase organic products primarily because of health and food safety benefits. People mainly consider health safety when purchasing organic products.

Table 3: Reasons for Purchase Organic Products

Reasons for purchase		Percentage (%)
reasons	Health	43.8
	Taste	2.5
	Toxin-free	39.1

	Chemical	5.5
	Nutritious	0.9
	Convenient package	1.7
	freshness	4.5
	Etc	1.7
	Total	100

Currently, the best selling organic items in retail market are in the order presented below:

Table 4: Best Selling Organic Items

	Percentage (%)
Dried Fruits	33
Sugar	31
Oil	13
Breakfast Cereal	12
Beverage	5
Condiments	4
Confectionery	1
Others	1

2) Drawbacks to the consumers

Barriers to the purchase included distrust for the organic products and high price. This seems to mean that even though trust for organic products rose compared to that in the past, still, there are consumers who are doubtful of the real benefits of the organic product, given the high premium in price they need to pay for.

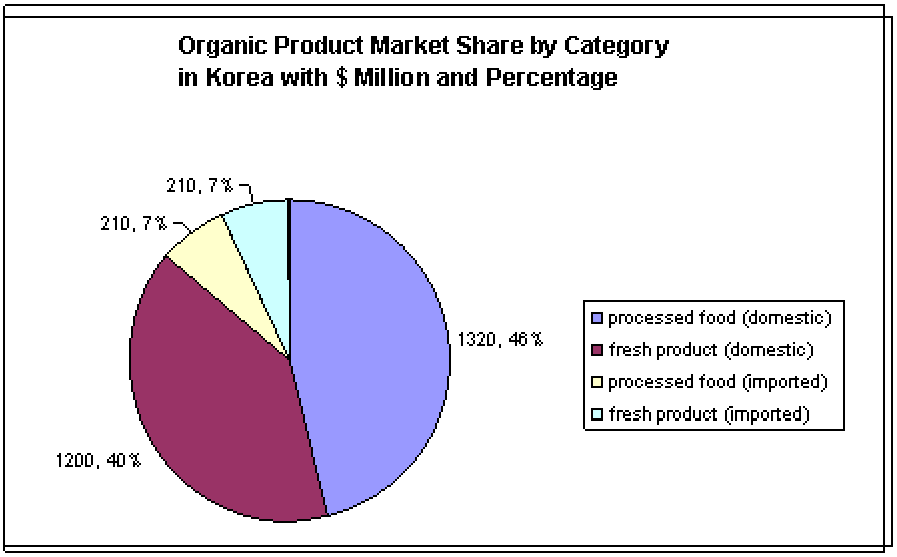
Table 5: Barriers to Purchase Organic Products

		%
Barriers	High price	28
	Few stores	9
	Dissatisfying quality	3
	Distrust	28
	taste	0.2
	etc	1

B. Market Sector

1) Overview

Table 6: Organic Product Market Share by Category



Note: Based on market price

In year 2008, the market share for the domestic organic product totaled 2.7 billion dollars, out of which 1.2 billion dollars was captured by domestic fresh product consumption and 1.3 billion dollars by domestic processed product consumption. Out of the domestic processed food, however, it is important to note that 72% of the ingredients were imported, and of those, 89% was imported from the US and the EU.

The organic market grew at an astonishing rate of over 100% till the beginning of the 2000's, and, during the last five years, is still maintaining a growth rate of 50% on average. The growth rate is expected to decline slightly around year 2015, when the low-pesticide category will be excluded from the organic list; nonetheless, the organic market value is predicted to climb up to 6 billion dollars by the year 2020.

Table 7: Organic Packaged Food Market also Consistently Grew in Value

Unit: $Million

year	2004	2005	2006	2007	2008	2009
organic packaged food	126	140.2	161	165.2	179.1	192

Note: Based on market price

2) Price

Currently, the eco friendly agricultural foods in the market are 150%~200% more expensive than conventional agricultural foods. Organic processed foods are 190%~460% more expensive than conventional processed foods.

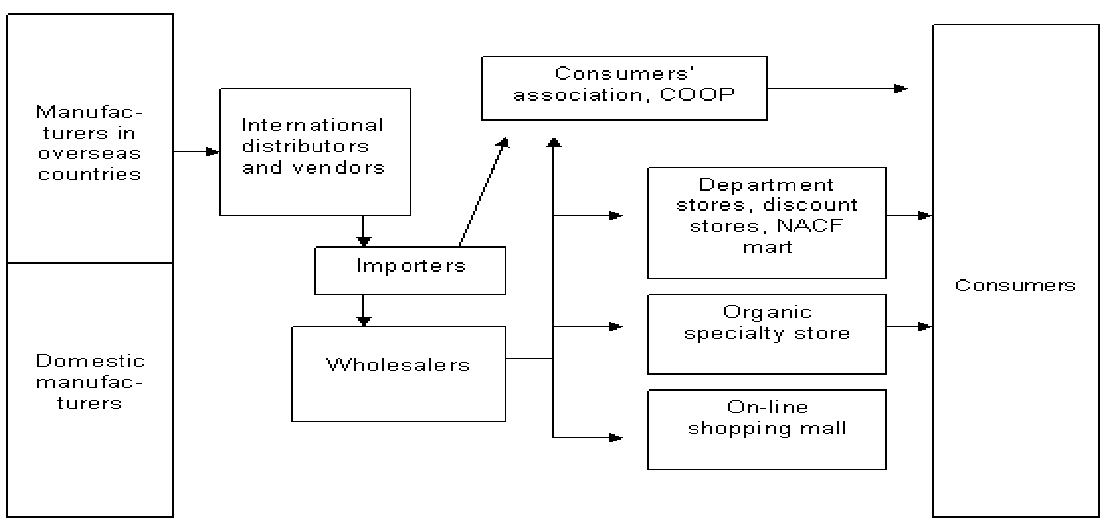
3) Distribution channel

Most consumers purchase organic products at the giant discount chain stores. Consumers also seem to prefer shopping at NACF (National Agriculture Cooperatives Federation) organized mart and clubs, as well as at the organic specialty stores such as Orga Stores. There is very little direct purchase between the consumers and the producers; however, consumers are increasingly choosing to buy products online, and this may become one of the most promising purchase methods for direct transaction.

Table 8: Distribution Channel

Purchase Route	Shore (%)
Giant discount chain stores	46
NACF Hanaro Mart/Club	22
Organic specialty store	11
Direct trade, department store	12

Table 9: Organic Processed Foods distribution system



5) Main retail outlets

From the various efforts in the past few decades, some of the organic food distributors, such as Han-Sal-Lim, and few with Seng-Hyup ending organizations, have become dominant suppliers. While the above organization is not necessarily profit oriented, some of the organic food distributors focuses on making profits. Orga is a subsidiary brand of Pulmuone, one of the major food conglomerates in Korea. It operates as a chain of individual organic stores, directly managed by the brand itself. Orga runs under a strict management system, and is renowned for high quality and safe food standard (uses international food standard, CODEX).

SECTION IV. PRODUCTION

Most of the fresh organic vegetables and fruits are produced and consumed domestically. Korea's organic production history is short compared to other countries, but are growing at a fast pace. In terms of output, recording an unforeseen jump in output from 35,000 tons to 2,411,000 tons in 2008.

Table 10: Organic Agricultural Product Output

Unit: 1,000 MT

year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Volume	35	67	200	386	461	806	1,135	1,786	2,411

As aforementioned, the certification grade is expected to undergo some changes from the year 2011, as the government decides to invalidate the low pesticide product category.

Table 11: Domestic Production Certification grade in 2008

Low pesticide	1,663(69.0%)
None pesticide	600(24.9%)
Organic	148(6.1%)
Total	2,411(100%)

Organic processed food production has also seen a major growth and change in the past decade. Major companies are beginning to enter the packaged organic product market, because the organic processed foods market is increasing 25% each year. The expected effect of major companies entering the market is that it will lower the cost of production and distribution and thus lower the retail cost. Their entry increased consumers' accessibility by setting reasonable price policy on them.

Table 12: Examples of major Korean companies and their products in market

Brands	Company name	Pack	Price

		size	(Won)
Organic Milk Formula			
Foodis Organic Doctor	Ildong Foodis Co Ltd	350 g	13,800
Maeil Goat Milk based Organic Follow-up Formula 2	Maeil Dairies Co Ltd	400 g	21,500
Namyang Mother's Organic 4	Namyang Dairy Products Co Ltd	375 g	21,400
Pasteur Nussein Organic 3	Pasteur Milk Co Ltd	750 g	35,000
Organic Dried Baby Food			
Foodis Agimill Organic 2	Il Dong Foodis Co Ltd	550 g	20,800
Namyang Step Myungpoom Organic 4	Namyang Dairy Products Co Ltd	540 g	24,600
Organic Mama Meal -from 9 months	Maeil Dairy Industry Co Ltd	540 g	23,200
Organic Prepared Baby Food			
Foodis Organic Agimill Nyam Nyam - Pear & Blueberry	Ildong Foodis Co Ltd	2 x 100 g	5,800
Organic Biscuits			
Crown Organic Animal Biscuit	Crown Confectionery Co Ltd	100 g	2,380
Organic Kids Biscuit	Crown Confectionery Co Ltd	50 g	1,580
Organic Olive Crackers	Crown Confectionery Co Ltd	110 g	1,580
Organic Sand	Crown Confectionery Co Ltd	220 g	3,980
Organic Wafer	Crown Confectionery Co Ltd	60 g	1,980
Organic Cheese			
De Vinch Teun-teun-tan-tan Organic Baby Cheese 3	Namyang Dairy Products Co Ltd	180 g	5,200
Organic Pure Cheese	Seoul Dairy Cooperative	252 g	5,650
Organic Pure Cheese	Seoul Dairy Cooperative	252 g	5,650
Sangha Our Kids Organic First Cheese	SangHa Co Ltd	216 g	5,040
Organic Milk			
Maeil Sangha Pasture Organic Milk	Maeil Dairies Co Ltd	180 ml	1,300
Namyang Organic Right Milk	Namyang Dairy Products Co Ltd	750 ml	3,900
Organic St. Isidore Pasture Milk	Diangold Co Ltd	900 ml	4,950
Organic Soy Milk			
Yonsei Premium Organic Soy Milk	Yonsei Milk Co Ltd	200 ml	16,000
Organic Yoghurt			
E-5 Organic	Namyang Dairy Products Co Ltd	5 x 80 ml	1,900
Maeil Sangha Pasture Organic Yoghurt	Maeil Dairies Co Ltd	750 ml	5,100
Organic Spoonable Bulgaris	Namyang Dairy Products Co Ltd	4 x 85 g	2,400
Pasteur Pasture Near Me Organic Yoghurt	Pasteur Milk Co Ltd	450 ml	5,900
Organic Olive Oil			
Baeksulyoo Organic Olive Oil Extra Virgin	CJ Cheiljedang Co Ltd	500 ml	16,800

O'food Organic Olive Oil	Daesang Co Ltd	350 ml	10,000
Organic Extra Virgin Olive Oil	Sajohaepyo Corp	500 ml	14,000
Organic Vegetable and Seed Oil			
Chungjungwon O'food Organic Perilla Seed Oil	Daesang Corp	300 ml	11,300
Saimdang Organic Sesame Oil	Saimdang Food Co Ltd	270 ml	15,950
Organic Sauces, Dressings and Condiments			
Chungjungwon O'food Organic Sunchang Gochujang	Daesang Corp	450 g	9,790
Chungjungwon O'food Organic Yangjo Soy Sauce	Daesang Corp	500 ml	3,800
Chungjungwon Organic Apple Vinegar	Daesang Corp	350 ml	6,000
Chungjungwon Organic Ketchup	Daesang Corp	400 g	4,100
Sempio Organic Soybean Soy Sauce	Sempio Foods Co Ltd	500 ml	5,250
Other Organic Non-Honey Spreads			
Chungjungwon Organic Strawberry Jam	Daesang Corp	300 g	5,500
Ottogi Organic Strawberry Jam	Ottogi Corp	300 g	4,500
Other Organic Food			
Baeksul Organic Flour	CJ Cheiljedang Co Ltd	1 kg	5,300
Baeksul Organic Traditional Pancake Powder Mix	CJ Cheiljedang Co Ltd	400 g	3,450
Chungjungwon O'Food Organic Brown Sugar	Daesang Corp	454 g	3,000
Ottogi Organic Powder Mix for Frying	Ottogi Corp	500 g	4,000
Baeksul Organic Brown Sugar	CJ Cheiljedang Co Ltd	400 g	3,450

Note: US Dollar one equivalents to Korean Won 1,100 in 2010.

Source: health and wellness: Euromonitor from trade sources/national statistics

SECTION V. PROMOTIONAL ACTIVITIES

- Seoul Food and Hotel 2011 (April 26-29, 2011): Seoul Food & Hotel is the largest food trade show in Korea which will be held in KINTEX Ilsan, put together by Korea Trade & Investment Agency (KOTRA) and Overseas Exhibition Services, Ltd. This is a perfect venue for new-to-market suppliers to meet with key players in the vibrant Korean food industry. The U.S. Agricultural Trade Office Seoul (ATO) will help organize the U.S. Pavilion at the show in partnership with state regional trade groups (SRTG) and USAD cooperator groups (such as U.S. Meat Export Federation). Visit http://www.atoseoul.com for more information and assistance.

- Organic & Eco Friendly Food Expo 2011 (July 15 - 17, 2011): The ninth Organic & Eco Friendly Food Expo, will be held in COEX Seoul, organized by Korea Organic Famers Association. ATO Seoul will participate in the show. Visit http://www.organicshow.co.kr for more information.

SECTION VI. POST CONTACT AND FURTHER INFORMATION

For more information or assistance, please contact:

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