



# MARKET BRIEF

## THE REPUBLIC OF KOREA (KOREA)

### Global exports to Korea

- Rank #10 in the global dairy market (by volume).
- Destination for more than 354,000 tonnes of dairy product, worth over US\$1.1 billion (in 2020/21).
- Exports to Korea have increased by 22.9% over the past five years (2016/17 – 2020/21).
- The biggest volume growth (product categories exceeding US\$20 million) has been in:
  - Butter (109%)
  - Ice cream (73%)
  - Cream (54%)
- The biggest volume decline (products categories exceeding US\$20 million) has been in:
  - SMP (-46%)
  - Lactose (-12%)

### Australian market share

- Rank #4 in the share of Korea's import volume.
- Destination for almost 14,000 thousand tonnes of Australian dairy products, worth close to US\$54 million (in 2020/21).
- Exports to Korea have decreased by 45% over the past five years (2016/17 – 2020/21).
- The biggest volume growth (product categories exceeding US\$1 million) has been in:
  - Ice Cream (89%)
  - Butter Blend (40%)
- The biggest volume decline (product categories exceeding US\$1 Million) has been in:
  - SMP (-73%)
  - Infant Powder (-59%)
  - Whey Powder (-52%)
  - Cheese (-24%)
  - Milk (-9%)

### Market developments

The Republic of Korea's (Korea) economy has steadily grown over the last few years and increased household incomes have led to a greater appetite for high quality western-style foods. As such, demand for dairy has grown, with global dairy exports to Korea increasing 23% over the past five years. The COVID-19 pandemic increased demand for healthier, premium milk products (i.e. organic and/or antibiotic-free) and more prominent environmental concerns among consumers have seen a rise in products advertised as 'animal welfare approved'.

In Korea, milk prices paid to farmers are set yearly by the Government and are based on production costs and inflation. As a result, the farmgate value of milk is one of the highest in the world. These prices do not reflect changes to dairy commodity markets, affecting the competitiveness of locally produced milk compared to cheaper imported dairy products. However, there are pressures on the dairy processing industry to utilise locally produced milk, mainly for drinking milk. Generally, Korean consumers prefer the taste of fresh milk compared to ultra-high temperature (UHT) equivalents.

Although strident opposition to the importation of drinking milk or yoghurt exists amongst Korean farmers, imports of cheese, butter and cream are more accepted as local production cannot supply rising demand for these products.

Demand for fresh milk has traditionally been strong in Korea, with children and teenagers the key demographics. Fresh and flavoured milks are often sold in multipacks as easy-to-drink snacks. Around 6% of drinking milk sales are through primary schools (where prices are often cheaper than retail channels). However, declining fertility and birth rates have decreased sales via all channels in recent years. Additionally, the closure of schools during the COVID-19 pandemic created a surplus of milk. This product was diverted into powder production and consequently stockpiled. As such, Korea's imports of skim milk powder (SMP) dropped 33% in 2020/21.

In light of declining birth rates and a reduction in milk consumption, sources suggest local dairy manufacturers are now looking to diversify their product offering, targeting adult and senior consumers. Cheese has rapidly grown as a dairy product of choice, with strong demand from consumers and processors. As a popular snack for all ages, it is estimated that per capita consumption of cheese has approximately doubled over the past ten years. In recent years, various manufacturers have incorporated cheese to improve the texture and flavour of foods, whilst marketing snack-sized cheese to capitalise on growing preference for convenience foods. Cheese now accounts for 32% of imported dairy products by volume and global exports have increased 21% over the past five years.

Australian dairy exports to Korea have fallen 45% over the past five years. The Korean dairy industry is heavily protected and export opportunities to this market are highly competitive. When the Korea Australia Free Trade Agreement (KAFTA) was implemented, Australia received immediate duty-free quotas for most cheese, butter and infant formula. Whilst this makes these products affordable and competitive, the quotas set for each are relatively low. Outside of quota limits, high tariffs set by the KAFTA are put in place, which can discourage further exports of these products. For all other Australian dairy products, high tariffs are imposed at all times. While these are set to be gradually eliminated, bilateral trade agreements between Korea and other exporting countries with much lower tariff rates, place Australia at a competitive disadvantage in the market.

### Tariff environment

The Korea Australia Free Trade Agreement (KAFTA) came into force on the 12th December 2014. While duty-free quotas for some dairy products and the gradual reduction of tariff rates support exportation to Korea, the US, EU and New Zealand also have their own trade agreements with Korea. The faster tariff-reduction schedules of these agreements has made for a highly competitive environment for Australian exporters. Duty-free quotas are scheduled to increase 3% every year on January 1st. By 2026 it is expected that tariffs for Australian cheese and butter will be removed. A summary of the duty-free quotas, in quota and out of quota tariffs for key products can be found in Figure 7.

### Key international marketing programs and initiatives

Dairy Australia runs or is involved in a number of marketing programs and activities in Korea. These include the Southeast Asia Dairy Scholarship program aimed at familiarising dairy and food industry professionals from the region with aspects of the Australia dairy industry and the Southeast Asian Alumni Program for past scholars. Outside of COVID-19 travel restrictions, Dairy Australia regularly visits Korea and presents seminars to local industry players in key markets.

Figure 1 Dairy imports

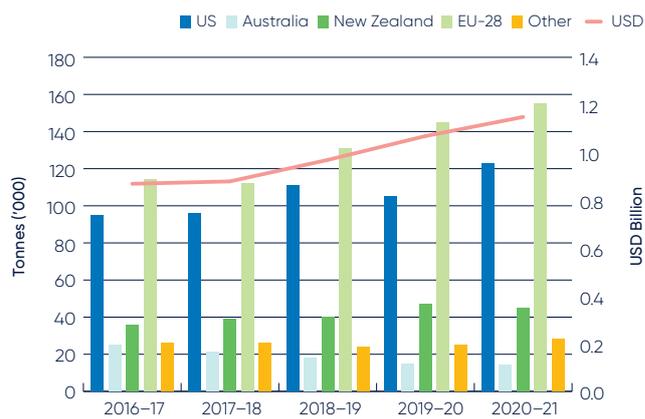


Figure 2 Top dairy exports to Korea by volume

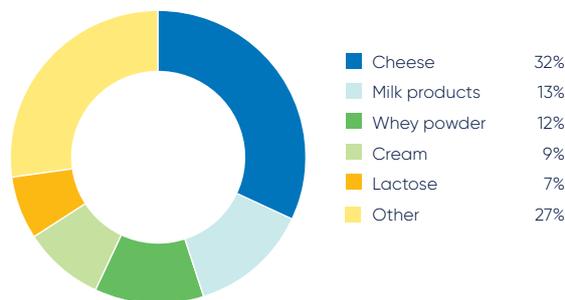


Figure 3 Top dairy exports to Korea by US\$ value

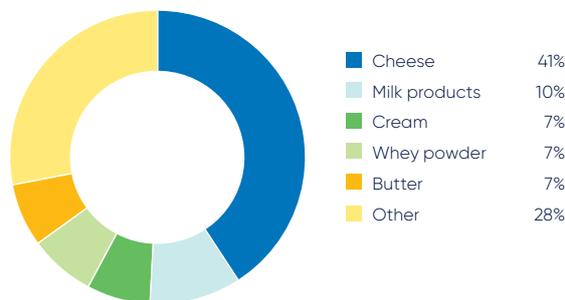


Figure 4 Top Australian dairy exports by volume

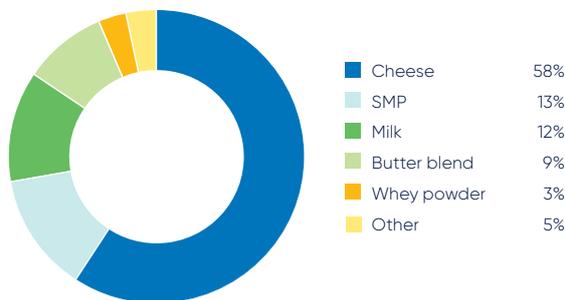
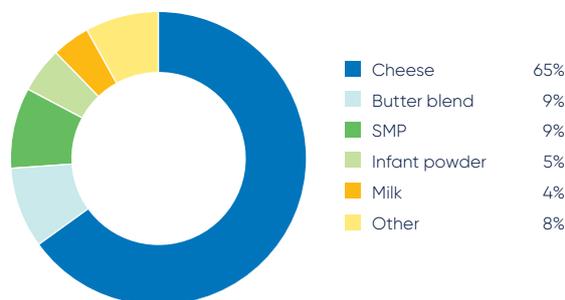


Figure 5 Top Australian dairy exports by US\$ value



**Figure 6** Australian exports

Product group	Market share (US\$ %)		Volume ('000)		Value (million US\$)	
	2016/2017	2020/2021	2016/2017	2020/2021	2016/2017	2020/2021
Butter Blend	21.9	27.6	0.9	1.2	3.2	4.8
Cheese	10.3	7.4	10.4	7.9	40.0	35.0
Milk	36.0	14.3	1.8	1.7	4.4	2.4
SMP	25.1	13.5	6.4	1.8	14.8	5.1
Whey Powder	4.6	1.9	0.9	0.4	2.4	1.6
Other	9.8	4.7	24.9	13.8	85.8	53.7

**Figure 7** Dairy tariffs

Tariff category	Product category	Quota (tonnes)	In Quota	Out of Quota
0405.1	Butter and other fats and oils	130	Free	41.50%
0406.1	Cheese except curd and blue vein	5694	Free	13.80 - 21.60%
1901.1	Prepared milk/infant formula	578	Free	13.80%

Applied tariffs are drawn from Integration Point. Where Australia does not have a specific tariff agreement in place, the Applied Rate for qualifying product is the MFN rate. Where a specific tariff agreement exists, the applied rate for qualifying product is as per that agreement. The countries with specific agreements in place are: China (ChAFTA), Indonesia (AANZFTA), Japan (JAEPA), The Republic of Korea (KAFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

**FURTHER INFORMATION**

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