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## Korea, Republic of

### Organic Products

### Organic Market Update

### 2005

**Approved by:**

Marcus E. Lower, Director  
Agriculture Trade Office, Seoul

**Prepared by:**

Susan Phillips, Deputy Director and Young Sook OH, Ag. Marketing Assistant

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**Report Highlights:**

The size of the retail market for Environmentally-Friendly agricultural products of which organic products are a subset is estimated to be \$1 billion. The number of imported organic processed products doubled during 2004, resulting in a 30-40 percent increase in sales.

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Includes PSD Changes: No  
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## SECTION I. SUMMARY

The nascent Korean market for organic products is small, but local industry sources project a growth rate of 30 percent per year. Domestically produced organic products consist mainly of fresh vegetables, some fruits, and rice. While imported organic ingredients are used to manufacture some processed organic products, such as tofu and baby food, most processed organic products are imported.

The Korean government has developed an organic certification and labeling program that has had an ancillary positive effect of increasing consumer awareness about the heavy use of agricultural chemicals in Korea. At present, one U.S. organic farm has been approved by a Korean organic certifying organization to export organic vegetable seeds, such as broccoli, alfalfa and radish, to Korea. Organic ingredients and processed organic products need only a copy of an organic certificate issued by a USDA-accredited certifying agent to export to Korea. (See Section II, A. below)

**Table 1. Advantages vs. Challenges**

| <b>Advantages</b>   | <b>Challenges</b>  |
|---|--|
| Local production of processed organic products is negligible.                   | Korean importers and retailers have very little knowledge about imported processed organic products.           |
| Consumers are increasingly aware of organic products and the demand is growing. | U.S. exporters of organic products know little about the Korean market and do not view it as an opportunity.   |
| Tariffs for processed organic products are relatively low.                      | U.S. fresh organic produce and grain farms need to be approved by a Korean organic certifying agent exporting. |
| Consumers trust the USDA label.   | Consumers are more comfortable with Korean labels.   |
| Korea imports 60-70 percent of total food needs.                                | Organic products are priced 10-30 percent higher than conventional counterparts.                               |
| Korean prefers the taste of U.S. organic food to competitors'.                  | Korean importers need more information about U.S. organic product consolidators.                               |

## SECTION II. REGULATIONS AND POLICY

The regulations for fresh organic produce and grains are implemented by the Ministry of Agriculture and Forestry (MAF) and the regulations for processed organic products are implemented by the Korean Food and Drug Administration (KFDA). This is true for both imports and domestically produced organic products.

### A. Certification Requirements for Imported Processed Organic Products

Transaction Certificates, since July 2004, are no longer required for imported organic food products.

KFDA requires organic certificates issued to the producer, processor or manufacturer of organic products. KFDA is currently not accepting organic certificates issued to handlers.

The U.S. Agricultural Affairs Office is working with KFDA to gain acceptance of U.S. handlers' certificates. Any developments or changes in regard to this matter will be reported in voluntary Attaché report.

The following two documents are required to be presented to a KFDA regional office when submitting the import clearance application for organic food products.

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

- Name, address, and phone number of the certifying agent;
- Types of organic food the operation is certified by the certifying agent to supply, along with the company name, address, and effective date (or renewal date) of 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.

## **B. Labeling Requirements for Processed Organic Foods**

Labeling requirements for processed organic agricultural products are determined by KFDA. The following labels may be used depending on the percentage of organic ingredients contained in the product.

- If the finished food product contains only organic food or food additives, it can be labeled as a "100 percent organic agricultural product."
- If 95 percent or more of the raw materials are organic agricultural products, the term "Organic" can be used as part of the product name on the primary display panel. The seal and logo of the certifying institution can also be on the label. The quantities of organic agricultural products must be stated in percentage in the section for labeling raw materials.
- If the raw materials contain between 70 percent and 95 percent organic agricultural products, the term "Organic" can be used on any of the sides other than the primary display panel of the package. The quantity of organic agricultural products must be labeled in percentage in the section for labeling raw materials.
- If a product, with less than 70 percent organic agricultural products, contains organic agricultural products as a certain ingredient, the label "Organic" can be used for the relevant items in the section for labeling raw ingredients. The quantity of organic agricultural products must be labeled in percentage in parenthesis next to the name of the raw materials in question.

Additionally, the term "Natural" can be used for products that do not contain artificial (combined) flavoring agents, synthetic colors, synthetic preservatives or other artificial or post-harvest-added synthetic components and has not gone through additional processes other than a process of eliminating non-dietary elements. The term "100 percent" can only be used when no materials other than the raw materials in question are added.

Korea maintains a list of usable food additives and some are only allowed in certain food products. Exporters should send a sample of the product and a list of the ingredients to the Food Standard Division of KFDA (Tel: 001 82-2 380-1665/8; Fax: 001 82-2 382-4892) to verify compliance with Korean requirements. The U.S. Agricultural Trade Office (ATO) and/or the importer are also sources of information if there is a question about a particular food additive.



### C. Labeling Requirements for Fresh Agricultural Produce and Grains

The labeling requirements for fresh agricultural produce and grains are set by the National Agricultural Products Quality Management Service (NAQS). NAQS was designated as the official certification body for sustainable agricultural products by MAF.

Under the Environmentally-Friendly Agriculture Promotion Act (EAPA), there are four emblems that are used for fresh agricultural produce and grains depending on the amount of chemicals and fertilizer used and the number of years the product has been cultivated without chemicals or fertilizers:

- Fresh agricultural produce and grains cultivated with no agricultural chemicals and no chemical fertilizer for three years are labeled with a dark green emblem as “Organic Products.”
- Fresh agricultural produce and grains cultivated with no agricultural chemicals and no chemical fertilizer for one year are considered to be in a transitional period and are labeled (like the example) with a light green emblem as “Transitional Organic Agricultural Products.”
- Fresh agricultural produce and grains cultivated with no agricultural chemicals, but with chemical fertilizer used within the amount allowed by law, are labeled with a blue emblem as “No Agricultural Chemicals.”
- Fresh agricultural produce and grains cultivated with half the amount or less of agricultural chemicals allowable by law are labeled with an orange emblem as “Low Agricultural Chemicals.”

The above labeling laws have greatly increased consumer awareness about the amount of chemicals used in local agricultural production. In addition, the Korean government encourages farmers to grow organic products for environmental reasons and participating farmers receive a premium for their products. The government also provides certain subsidies to advertise organic agricultural products and for packing organic products.

## SECTION III. CONSUMPTION AND MARKET SECTORS

### A. Consumption

Women, between the ages of 30 and 50, generally do the family food shopping. Culturally, Korean mothers are well known for the great lengths they will go to protect their children. Many people are concerned with the high rate of cancer and skin diseases thought to have come from the excessive use of agricultural chemicals in Korea. As a result, this group purchases organic products for their children, mostly baby food or infant formula, even when they do not do so for themselves. Although education and income levels play a role, the significance is not clear. According to the largest Korean retailers of processed organic products, this segment has shown the most growth in the sector and is anticipated to continue to do so in the future.

In addition, Koreans' interest in health is extremely high. The last consumer survey, conducted in 2004, indicated that 50 percent of Korean consumers were purchasing organic products because they were concerned about their family's health; 22 percent were

concerned about food safety; 17 percent thought that organic foods tasted better or the quality was better; and, 5 percent were concerned about the environment. As a whole, Koreans are very aware of the term “organic” as the Environmentally-Friendly emblems are easy to understand and the Korean government has done a lot of public-service advertising.

## B. Market Sectors

### RETAIL FOODS

#### Entry Strategy

There are four major importers/distributors of organic products currently supplying the Korean market. With a few exceptions, they are working with same U.S. consolidators. It is increasingly apparent that additional consolidators are needed to supply a greater variety of organic products in order to keep consumers interested in these types of products. Although Korean consumers prefer U.S. products, importers may be forced to turn to other suppliers, such as Europe and Australia, to meet consumers’ demand for greater variety. One retailer has developed several exclusivity arrangements and is importing those products directly and distributing them to other outlets. New-to-market exporters can create product awareness by presenting their products to importers/distributors or they can attempt to develop a relationship with an importer/distributor who is currently not importing organic products. To reach the latter audience, exhibiting the product at a food show or at an organic event is an effective way to promote branded organic products (see Section V).

#### Market Summary

The size of the retail market is estimated to be \$1 billion for Environmentally-Friendly agricultural products including fresh produce and imported/domestic processed food, of which organic products are a subset. According to trade sources, the growth rate is approximately 30 percent per year. Department stores in Korea rent space on their grocery floor for independent concessions, which are managed by importers/distributors. These “organic corners,” as they are often called, are not actually in a corner, but often in a prime location in the store. Several major department stores have organic corners. For example, Hyundai Department Store has two organic corners, one called “Gutenmorgen,” which features mostly organic foods from the European Union (EU), and located right next to it is a competitor’s organic corner, “Yuginongsan”, with products from the United States. Lotte Department Store also has an organic food products corner called “Purum,” which handles a variety of organic food products, from locally produced staple grains to imported confectionaries, beverages, infant food, pasta and jams.

**Table 2. Retail Company Profiles**

| Locations                 | No. of Outlets | Importer                  | Purchasing Agent Type  |
|---------------------------|----------------|---------------------------|------------------------|
| Department Stores:        |                |                           |                        |
| Hyundai                   | 9              | Yuginongsan               | Consolidator (US & EU) |
| Hyundai                   | 6              | GutenMorgan/<br>Samyangsa | Consolidator (US & EU) |
| Shinsegae                 | 3              | Yuginongsan/<br>Samyangsa | Consolidator (US & EU) |
| Lotte                     | 6              | Yuginongsan               | Consolidator (US & EU) |
| Samsung Plaza             | 2              | Yuginongsan/<br>SamYangsa | Consolidator (US & EU) |
| Organic Specialty Stores: |                |                           |                        |

|              |                                   |             |  |
|--------------|-----------------------------------|-------------|--|
| Orga         | 10 (5 road shop & 5 shop in shop) | Pulmuone    | Direct Imports, Consolidator & Yuginongsan (US,EU & Japan) |
| Guten Morgen | 1                                 | Samyangsa   | Consolidator (US & EU)                                     |
| Einplaza     | 1                                 | Yuginongsan | Consolidator (US & EU)                                     |

In addition to the high-end department stores, there are several specialty stores selling mainly organic products and health food. There are also many local grocery store chains that sell small amounts of imported organic items depending on their locations. Stores located in more affluent areas carry more organic and natural items.

### Sector Trends

Currently, the types of organic products available are either domestically grown fresh produce or grains (mostly rice). The only domestically produced processed organic products being sold in the retail sector are green tea, kimchi and tofu. There are two soybean farms in China that have been approved by the Korean government to export organic product to Korea but, to date, no U.S. farms have applied for certification. The types of imported processed organic products available include breakfast cereal, juice, jam, popcorn, pickles, tea, coffee, salt, sugar, olive oil, vinegar and others. The number of imported organic processed products doubled during the last year resulting in a 30-40 percent increase in sales, according to an industry source.

According to sector contacts, the fastest growing organic products are baby food, infant formula, baby teething crackers and other non-food organic items such as baby clothes, diapers and shampoo.

In general, organic products are priced well above conventional counterparts, as noted below, which is severely constraining organic market expansion. Nevertheless, many Korean consumers perceive a benefit and are willing to pay the higher prices, particularly for their children. The average percentages people are willing to pay for EFAP (Environmentally-Friendly Agricultural Production) products are 21 percent more for fresh produce and 17 percent more for processed food in 2004, according an industry consumer survey.

## FOOD INGREDIENTS

### Entry Strategy

The market for food ingredients is likely saturated for the limited number of products being produced in Korea. However, there has been interest from importers to source organic soybeans for the production of organic tofu, and vegetable and fruit purees for the production of organic baby food. There are not many other organic products currently being produced in Korea.

The best market entry strategy for new-to-market exporters of organic ingredients is to begin by contacting the existing manufacturer of the organic/conventional product.

### Market Summary

Organic baby food first appeared in the Korean market in February 2002. Four major local dairy companies are currently manufacturing organic baby food. The size of the market is estimated at \$10 million per year for wet and dry organic baby food. The organic baby food price is more than 50 percent higher than price of conventional baby food. Ingredients are typically organic rice (30 percent), and dairy products, grains, fruits and vegetables (70

percent). Only the organic rice is supplied by domestic production, while the other organic ingredients are imported from either the European Union or the United States.

Nam Yang Dairy dominates the manufacturing sector for organic baby food with the balance of the market shared by three smaller competitors.

**Table 3. Food Ingredient Company Profiles**

| Manufacturer Name | Market Share | Production of Dry Baby Food                 | Production of Wet Baby Food <sup>1</sup> |
|-------------------|--------------|---|--|
| Nam Yang          | 50%          | Manufacturer using 80% imported ingredients | Importing Direct: Gerber Baby Food (US)  |
| Maeil             | 20%          | Manufacturer using 80% imported ingredients | No production                            |
| Il dong Foodies   | 15%          | Manufacturer using 80% imported ingredients | Importing Direct from New Zealand        |
| Pasteur           | 10%          | Manufacturer using 80% imported ingredients | No production                            |

1. Note: No wet baby food is produced locally.

### Sector Trends

Young mothers are willing to pay more for baby foods especially if they think the brand is trustworthy. The market for these products is very competitive in terms of both quality and price. Organic baby food sales value did not increase but remained steady due to the lower rate of baby births and sluggish economy in 2004, while the regular organic food market increased 30 percent.

## **FOOD SERVICE PRODUCTS**

A few restaurants are selling an organic menu item or two, but it is mostly limited to domestically grown vegetables. Restaurants in Korea are typically so specialized that a menu is not needed. As a result, there is usually no information provided to consumers that they are consuming organic food. These food service establishments believe that word of mouth is sufficient advertising.

## SECTION IV. PRODUCTION AND PROMOTION

### **A. Production**

Organic agriculture in Korea is generally defined as agricultural production without the use of synthetically produced chemicals. Although local production is still very small, it is expected to grow rapidly in the coming years. Interest in organic production has come about since the late 1980's, as public concern about food safety and environmental degradation increased as a result of several environmental disasters. In 1990, the *National Agricultural Cooperative Federation* (NACF) started training farmers in organic farming methods and, in 1992, the Ministry of Agriculture and Forestry (MAF) established a strict quality certification program for organic products. In 2001, the Korean National Assembly passed the *Environment-Friendly Agriculture Promotion Act* (EAPA).

As a result of this legislation, MAF established both a direct payment program and a regulatory system to promote organic agriculture and to encourage farmers to participate. Concurrently, the National Agricultural Products Quality Management Service (NAQS) was designated as the government certification body responsible for regulating environment-friendly agricultural products.

In 2003, the number of certified organic farms was 1,459 with a total acreage of 4,221 hectares. Total production was 25,342 tons, about 0.2 percent of the total agricultural production in Korea. It is estimated that the annual rate of growth for domestic organic production has been more than 30 percent since 1998. In Korea, mainly middle aged and educated farmers engage in organic farming. According to a recent study, about 50 percent of organic farmers are less than 40 years of age and 60 percent of them have had more than 12 years of formal education.

The government expects production of certified EFAP produce to rise from the current two percent to ten percent of all agricultural production by 2010. In 2004, the Korean government set up a plan to decrease the use of agricultural chemicals by 40 percent by 2013. Unless a farm is participating in the EFAP program, there are no restrictions on the amount of agricultural chemicals used. Farmers are motivated by higher yields to use increasing amounts of chemicals.

**Table 4. Environmentally-Friendly Agricultural Production (EFAP)**

| Year                     | 1999   | 2000   | 2001   | 2002    | 2003    |
|--------------------------|--------|--------|--------|---------|---------|
| Number of Farms          | 1,000  | 3,000  | 5,000  | 12,000  | 23,000  |
| Size (hectare)           | 1,000  | 2,000  | 5,000  | 11,000  | 25,000  |
| Production (metric tons) | 28,000 | 38,000 | 87,000 | 200,000 | 366,000 |

Source: Ministry of Agriculture & Forestry

**Table 5. Environmentally-Friendly Agricultural Production by Product in 2003**

| Total<br>(1,000 metric tons) | Grains  | Fruits    | Vegetables | Soybeans | Others  |
|------------------------------|---------|-----------|------------|----------|---------|
| 366 (100%)                   | 30 (8%) | 120 (33%) | 174 (48%)  | 8 (2%)   | 34 (9%) |

Source: Ministry of Agriculture & Forestry

**Table 6. Environmentally-Friendly Agricultural Production by Different Cultivation in 2003**

|                          | Total             | Organic        | Transition to Organic | No Ag. Chemicals | Low Ag. Chemicals |
|--------------------------|-------------------|----------------|-----------------------|------------------|-------------------|
| Number of Farms          | 23,309            | 1,459          | 1,297                 | 7,426            | 13,127            |
| Size (hectare)           | 24,565            | 4,221          | 1,433                 | 6,756            | 12,155            |
| Production (metric tons) | 366,107<br>(100%) | 25,342<br>(7%) | 8,849<br>(2%)         | 120,358<br>(33%) | 211,558<br>(58%)  |

Source: Ministry of Agriculture & Forestry

Locally produced EFAP market size is \$460 million, but total market including imported and locally produced was \$1 billion in 2004. EFAP production showed an average 95 percent increase per year for past 4 years, but whole market showed 30 percent increase. Currently locally cultivated EFAP products are distributed: 60 percent via discount store; 15 percent via specialty shop; 20 percent via agriculture cooperators; and, 5 percent via consumers directly.

A major barrier to understanding the volume of imports is the lack of a reliable source of data. As Korean Customs' method for tracking imports does not distinguish organic food from other food, there are no official statistics on Korean organic food imports. For example, organic soybeans are not differentiated from any other soybeans under the current system.

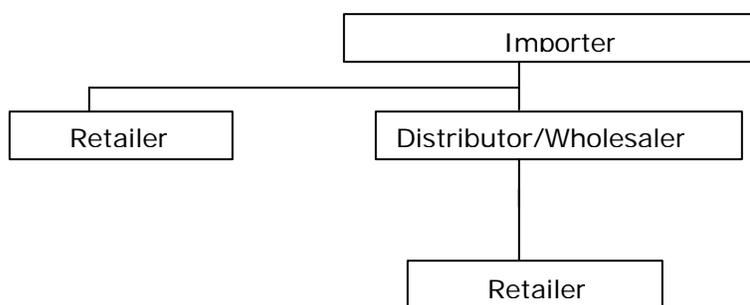
Korea imports organic raw ingredients, including grains, oils, and processed products from the United States, China, Australia, New Zealand and the E.U. However, most processed organic products, such as cereals, pasta and olive oil, are from the U.S.

Imports of non-processed organic farm products spiked to 3,498 metric tons (MT) in the second half of 2004, from 904 tons a year earlier, according to the MAF. For all of 2004, imports of organic farm products amounted to 5,313 MT, which includes 4,420 MT of soybeans, 570 MT of wheat, 183 MT of sesame and 40 MT of mung beans. Most of these organic grains are imported from China and are being used to produce processed foods, such as tofu. However, fresh organic fruits and vegetables are not commonly imported due to the restrictive government regulations, transportation and perishability problems.

Last year, one of the largest organic foods retailer/importer/distributor in Korea, imported 200 new to market products; 50 percent from U.S., 40 percent from EU and 10 percent from Japan. Products imported from Japan were mostly soybean products such as Natto, Japanese bean paste, soy sauce and snack foods, which were produced with, imported ingredients from 3<sup>rd</sup> countries and certified in Japan. The company's retail stores displayed 2,500 items, one third of which are imported products, which increased 30 percent in sales value last year.

The typical distribution channel for processed organic products is shown below. According to industry sources, due to the limited product varieties and volume, it is estimated that one-third of the organic food volume goes through distributors to retailers.

#### Distribution Channel for Processed Organic Products



The Korean organic foods market, including fresh produce, field crops, and imported processed food, has shown strong growth over the last five years, and is forecast to continue to grow in the future. Because some consumers perceive that organic food is

“safer,” “healthier,” or “better for the environment” than non-organic food, organic products can increasingly be found in mainstream retail outlets.

**Table 7. World Organic Agriculture (2002)**

| Country   | Size (hectare) | Total versus Organic (percent) | Number of Farms |
|-----------|----------------|--------------------------------|-----------------|
| Korea     | 2,660          | 0.14                           | 1,300           |
| Japan     | 8,471          | 0.15                           | 3,993           |
| U.S.      | 950,000        | 0.23                           | 6,949           |
| Australia | 10,000,000     | 2.20                           | 1,380           |
| Germany   | 696,978        | 4.10                           | 15,628          |
| Canada    | 478,700        | 1.30                           | 3,510           |
| China     | 301,295        | 0.06                           | 2,910           |

Source: IFOAM. The World of Organic Agriculture: Statistics and Emerging trends 2004

There are only eight government accredited organic certificate organizations in Korea as follows:

1. Heuksalrim, Mr. Taekun, LEE, Phone:82-2-6300-8179
2. Dolnara Hannongbokkuhoe, Mr. Keesong, LEE, Phone:82-33-747-4234
3. Yangpyong Hwankyungnongup, Mr. Insu, LEW, Phone:82-31-774-8095
4. Korea Soybean Processing Association, Mr. Jongchan,BAE, Phone: 82-2-3277-8330
5. Korea Organic Farmers Association, Mr. Jinyoung, JUNG, Phone: 82-2-406-4462 E-mail: [KOFA@chollian.net](mailto:KOFA@chollian.net) Homepage: [www.organic.or.kr](http://www.organic.or.kr)
6. Korea Organic Agriculture & Food Certification System Co., Ltd, Mr. Jaehee, RYU, Phone:82-2-6300-2978 e-mail: [freerjh@koacs.com](mailto:freerjh@koacs.com) Homepage: [www.koacs.com](http://www.koacs.com)
7. KNT, Mr. Dongwoo, KIM, Phone: 82-2-556-2001 Email: [yymy@ev21.co.kr](mailto:yymy@ev21.co.kr)
8. Jeongnong Association, Mr. Daein, KANG, Phone: 82-2-984-2145 Homepage: <http://jeongnong.or.kr>

## B. Promotion

Currently, very little domestically produced organic produce or grain is being exported. The Korean government plans to promote organic products as an export-oriented item, but that has not yet happened.

## SECTION V. PROMOTIONAL ACTIVITIES

- Organic Seminar (March 17, 2005): The U.S. Agricultural Trade Office (ATO) in Seoul, Korea; along with the Western U.S. Agricultural Trade Association (WUSATA) will host an information seminar aimed at educating Korean importers, distributors and retailers on “Marketing Trends in the U.S. Organic Foods Industry”. Visit [www.ato.com](http://www.ato.com) for more information.
- Food and Hotel Korea 2005 (March 16-18, 2005): The U.S. Organic Products Pavilion will be set up in Food & Hotel Korea (FHK). There will be organic seminar and an organic grocery market tour in conjunction with FHK. Currently, FHK is the only food show in Korea that has been endorsed by the Foreign Agricultural Service, U.S. Department of Agriculture. Visit [www.fhko.com](http://www.fhko.com) for more information.

- Organic & Natural 2005 (July 15 – 18, 2005): The third Environmentally-Friendly & Organic exposition 2005, which will be held in COEX, Seoul and organized by Korea Organic Farming Association. ATO Seoul will participate in the show. Visit [www.organicshow.co.kr](http://www.organicshow.co.kr) for more information.
- Eco-Agriculture/Organic Food Expo 2005, Korea (July 22 - August 15, 2005): The 1<sup>st</sup> international organic food Expo that will be held in Uljin, Korea and organized by Kyungsang Province. ATO Seoul will participate for U.S. pavilion. Visit [www.2005ofex.org](http://www.2005ofex.org) for more information.

#### SECTION VI. POST CONTACT AND FURTHER INFORMATION

For more information or assistance, please contact:

U.S. Agricultural Trade Office (ATO), Seoul, Korea

Tel: (011 82-2) 397-4188

Fax: (011 82-2) 720-7921

E-mail: [atoseoul@usda.gov](mailto:atoseoul@usda.gov)

Home Page: [www.atoseoul.com](http://www.atoseoul.com)