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Korea, Republic of

Dairy and Products

Annual

2006

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Report Highlights:
According to the Korean Rural Economy Institute, per capita consumption of milk and milk products is expected to increase from 62.7 kilograms per capita in 2005 to 69.8 kilograms by 2010 as Koreans continue to increase consumption of cheese and other dairy products. Domestic production of milk and milk product is not however expected to grow given the high cost of production due to reliance on imported animal feeds. Over the last decade, the number of dairy farms and dairy cows has steadily declined. Imports, particularly cheese, have been growing steadily and are expected to reach 52,000 metric tons in 2006, an 18% increase, despite a 36% import duty.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Seoul ATO [KS2]
[KS]

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SECTION I. SITUATION AND OUTLOOK

Relative to the United States and Europe, per capita consumption of fluid milk, cheese and other dairy by-products are relatively low. In 2003 Korea consumed 38.7 kilograms of fluid milk per capita in contrast with 85.8 kilograms in the United States. Nevertheless, Korea's per capita consumption of fluid milk is not expected to grow although the demand for dairy by-products, specifically cheese and ice cream have been increasing and are expected to continue to increase over the next decade reflecting Korean's exposure to a Western diet, a rise in fast food outlets, and a growing appetite for pizza.

The size of the national dairy herd has declined by roughly 10 percent or 50,000 head over the last few years. Similarly, the number of dairy farms has decreased from 23,500 in 1995 to 8,900 in 2005, while the average number of cows per farm has increased from 23.5 to 53.8 head. Costs of production for domestically produced fluid milk are relatively high in part due to reliance on imported animal feed. Out of the 2,230,000 metric tons of raw milk produced in 2005, roughly 70 percent was consumed as white or processed drinking milk, 16 percent as other dairy products, with the remaining 14 percent turned into non-fat dried milk.

In order to stimulate domestic consumption of fluid milk, the Ministry of Agriculture and Forestry (MAF) established the Association of Self-Dependence Fund for Dairy (ASDFD) in early 2006. The purpose of the fund is to promote consumption of milk via television, radio and other public relations activities. It is funded through a mandatory check-off program where each producer pays KW 2 per Liter (about $2 per 1 Kilogram). The fund is expected to collect approximately $5 million dollars annually, which will be matched by the Korean government. Despite fluid milk promotional activities funded by Korean producers, fluid milk consumption actually decreased by 3.2 percent in 2005 compared to the previous year. The reduction in consumption is attributed to questions raised in the media by the Consumer Protection Association about the amount "Added Sugar to Flavored Milk" in June 2005.

The fund is managed by a 22-member committee representing farmers, dairy cooperatives and government officials. The ASDFD was privately used to promote fluid milk consumption in 2006 through a variety of promotional activities. In addition to the funds' public relations efforts, the fund can also be used for research and development, particularly the development of new products and improvement in production management and product quality. ASDFD also plays a role in negotiating production and price levels between dairy farmers and the dairy industry.

SECTION II. STATISTICAL TABLES

PS&D Dairy, Milk, Fluid

PSD Table

Country **Korea, Republic of**

Commodity **Dairy, Milk, Fluid** (1000 HEAD)(1000 MT)

	2005 Revised			2006 Estimate			2007 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01-2005	01-2005		01-2006	01-2006		01-2007	01-2007	MM/YY
Cows In Milk	244	0	251	244	0	246	0	0	241	(1000 H
Cows Milk Production	2232	0	2229	2254	0	2184	0	0	2140	(1000 M
Other Milk Production	0	0	0	0	0	0	0	0	0	(1000 M
Total Production	2232	0	2229	2254	0	2184	0	0	2140	(1000 M
Other Imports	0	0	0	0	0	0	0	0	0	(1000 M
Total Imports	0	0	0	0	0	0	0	0	0	(1000 M
Total Supply	2232	0	2229	2254	0	2184	0	0	2140	(1000 M
Other Exports	0	0	0	0	0	0	0	0	0	(1000 M
Total Exports	0	0	0	0	0	0	0	0	0	(1000 M
Fluid Use Dom. Consum.	1562	0	1544	1555	0	1530	0	0	1500	(1000 M
Factory Use Consum.	670	0	685	699	0	654	0	0	640	(1000 M
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0	(1000 M
Total Dom. Consumption	2232	0	2229	2254	0	2184	0	0	2140	(1000 M
Total Distribution	2232	0	2229	2254	0	2184	0	0	2140	(1000 M
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 M
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 M

PS&D Dairy, Cheese

PSD Table

Country Korea, Republic of

Commodity Dairy, Cheese

(1000 MT)

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01-2005	01-2005		01-2006	01-2006		01-2007	01-2007	MM/YY
Beginning Stocks	2	0	2	2	0	1	2	0	2	(1000 M
Production	23	0	24	23	0	24	0	0	26	(1000 M
Other Imports	43	0	44	45	0	45	0	0	47	(1000 M
Total Imports	43	0	44	45	0	45	0	0	47	(1000 M
Total Supply	68	0	70	70	0	70	2	0	75	(1000 M
Other Exports	0	0	0	0	0	0	0	0	0	(1000 M
Total Exports	0	0	0	0	0	0	0	0	0	(1000 M
Human Dom. Consumptio	66	0	69	68	0	69	0	0	74	(1000 M
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 M
Total Dom. Consumption	66	0	69	68	0	69	0	0	74	(1000 M
Total Use	66	0	69	68	0	69	0	0	74	(1000 M
Ending Stocks	2	0	1	2	0	2	0	0	1	(1000 M
Total Distribution	68	0	70	70	0	71	0	0	75	(1000 M
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 M
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 M
						TS=TD				
						1				

PS&D Dairy, Milk Nonfat Dry

PSD Table

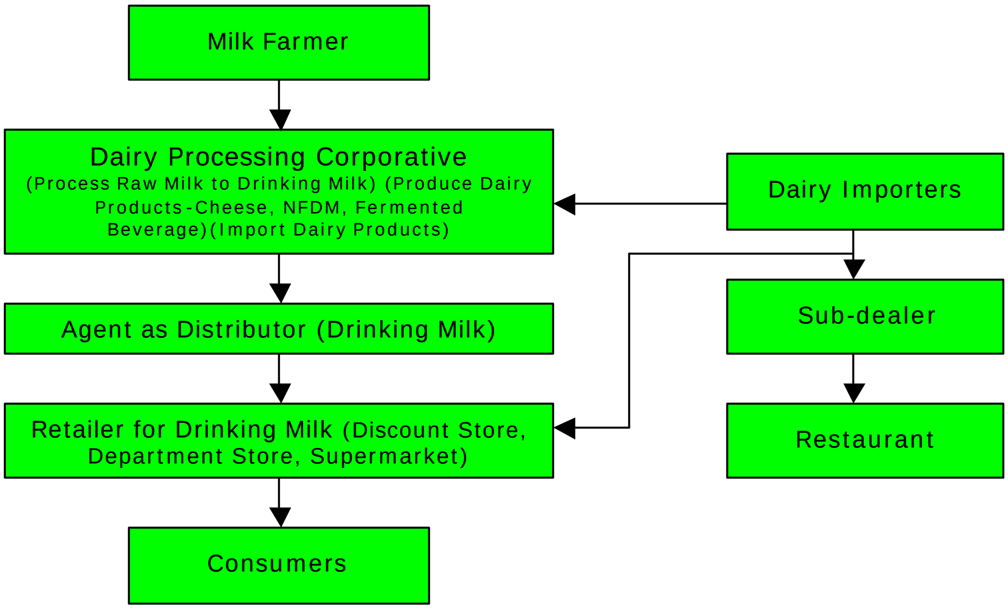
Country Korea, Republic of

Commodity Dairy, Milk, Nonfat Dry

(1000 MT)

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01-2005	01-2005		01-2006	01-2006		01-2007	01-2007	MM/YY
Beginning Stocks	7	0	5	4	0	5	2	0	5	(1000 M
Production	25	0	24	25	0	23	0	0	23	(1000 M
Other Imports	4	0	6	5	0	6	0	0	7	(1000 M
Total Imports	4	0	6	5	0	6	0	0	7	(1000 M
Total Supply	36	0	35	34	0	34	2	0	35	(1000 M
Other Exports	0	0	0	0	0	0	0	0	0	(1000 M
Total Exports	0	0	0	0	0	0	0	0	0	(1000 M
Human Dom. Consumptic	32	0	26	32	0	25	0	0	25	(1000 M
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 M
Total Dom. Consumption	32	0	26	32	0	25	0	0	25	(1000 M
Total Use	32	0	26	32	0	25	0	0	25	(1000 M
Ending Stocks	4	0	5	2	0	5	0	0	6	(1000 M
Total Distribution	36	0	31	34	0	30	0	0	31	(1000 M
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 M
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 M
			TS=TD			TS=TD			TS=TD	

Table 1: Structure of Korean Dairy Product and Industry



Source: Dairy Industry Resources

Dairy cooperatives pay average KW710 ($0.75 per Kilogram) to milk farmers. Dairy cooperatives process the raw milk into fluid milk at the additional cost of KW90 per kilogram and add 20-30 percent margin. The agents add 25-30 percent margin to distribute to retail markets that add another 30 percent to make the retail price of KW1,800 (=$1.90) to consumers. The retail price is 2.5 times more than milk farmer's compensation from dairy corporatives.

Table 2: Dairy Herd Information

	Total Dairy Cows	Milking Cows	Dairy Farms	Cow per Farm	Milk Production per Cow (Kg/Head)
1995	553,000	280,000	23,500	23.5	5,800
1996	551,000	286,000	21,000	26.2	6,000
1997	544,000	282,000	17,400	31.3	5,880
1998	539,000	281,000	15,700	34.3	6,000
1999	535,000	306,000	14,400	35.1	6,100
2000	544,000	286,000	13,300	40.9	6,600
2001	548,000	289,000	13,000	42.6	6,800
2002	544,000	302,000	11,700	46.4	7,017
2003	519,000	279,000	10,500	49.3	7,102
2004(a)	497,000	259,000	9,600	51.7	7,286
2005(b)	479,000	251,000	8,900	53.8	7,417
% Change (a/b)	-3%	-3%	-7%	4%	2%

Source: 2006 Korea Livestock Yearbook

Table 3: Raw Milk Production and Consumption Prospects

Unit: 1,000 Metric Tons

	2004	2005	2010	2014
Raw Milk Production (1000 Metric Tons)	2,255	2,229	2,396	2,499
Raw Milk Consumption (1000 Metric Tons)	3,123	3,079	3,513	3,898
Import of dairy products (converted to raw milk equivalent) (1000 Metric Tons)	842	898	1,120	1,401
Self Supply (%)	72.5	72.4	68.2	64.1
Per capita dairy product in raw milk equivalent Consumption (Kilogram)	63.7	62.7	69.8	76.5
Dairy Product Inventory (converted to raw milk equivalent) (1000 Metric Tons)	68	116	124	137

Source: Korea Rural Economy Institute

Table 4: Local Milk Production by Month and by Year

Unit: Metric Tons

	Jan.	Feb.	Mar	Apr.	May	June	July	Aug	Sep	Oct	Nov	Dec	Avg
2003	6,736	6,814	6,808	6,926	6,783	6,532	6,395	6,198	6,126	6,151	6,140	6,210	6,483
2004	6,217	6,277	6,338	6,477	6,433	6,272	6,002	5,929	5,999	5,970	5,990	6,111	6,162
2005	6,197	6,271	6,313	6,453	6,385	6,155	5,932	5,850	5,883	5,914	5,937	5,948	6,106

Source: 2005 Korea Dairy Yearbook

Table 5: Dairy Supply and Demand

Unit: 1,000 Metric Tons

Year	Supply			Demand	Self Sufficiency	Per Capita Consumption
	Production	Import	Total			
2000	2,253	640	2,893	2,812	80.2%	59.6Kg
2001	2,339	653	2,992	3,046	76.8%	63.9Kg
2002	2,537	646	3,183	3,092	82.9%	64.2Kg
2003	2,366	604	2,970	3,037	77.9%	62.4Kg
2004	2,255	842	3,098	3,124	72.2%	63.9Kg
2005	2,229	898	3,127	3,079	72.4%	62.7Kg

Source: 2006 Korea Livestock Yearbook published by the Agriculture Fishery & Livestock Newspaper
Note: All dairy products were converted into raw milk equivalent units.

Table 6: Leading Dairy Cooperatives in 2005

Unit: 1,000 Metric Tons

	Corporation	Amount of Milk Processed	Average Amount of Milk Processed Daily
1	Seoul Milk	703,200	1,900
2	Maeil Dairy	325,300	890
3	Namyang Dairy	296,550	812
4	Bingrae	177,600	490
5	Busan Milk	108,800	300
6	Lotte Milk	108,800	295
7	Vilac Milk	102,300	280
8	Yeonse Milk	68,300	187
9	Kunkook Milk	63,500	174
10	Korea Yokurt	62,600	171
11	Pasteur Dairy	47,300	130
12	Haitai Dairy	45,000	123
13	Samyang Foods	27,300	75
14	DM Foods	25,000	68
15	Cheju Dairy Cooperative	15,000	40
16	Imsil Dairy Cooperative	11,300	31
17	SangHa	8,700	24
18	Choonchun Livestock Cooperative	5,100	14
19	Youngnam Milk	3,700	10
20	Dairy Promotion Cooperative	0	0

Source: 2006 Korea Dairy Industry Association

Table 7: Average Farm Price for Raw Milk

Unit: Korean Won per Liter

	1995	1997	2000	2001	2002	2003	2004	2005
Price	454	483	609	610	627	625	646	710

Source: Korea Dairy Industry Association

Table 8: Local Raw Milk Production and Processing in 2005

Unit: 1,000 Metric Tons (MT)

Raw Milk Production	White Drinking Milk	Processed Drinking Milk	Other Dairy Product	Surplus (Production of NFDM)
2,230 MT	1,330 MT (60%)	220 MT (10%)	360 MT (16%)	320 MT (14%)

Source: 2006 Korea Livestock Yearbook

Table 9: Raw Milk Price Competitiveness by Country

Unit: US$, Korean Won per Kilogram

	GNI (Gross Nat'l Income) (=Per Capita Income)	Raw Milk Price	Competitiveness
Korea	14,162 US$	710 Korean Won	100%
Japan	34,294	863	121.5
Switzerland	37,381	663	93.3
Australia	19,599	186	26.2
U.S.	36,704	329	46.3
U.K.	26,911	303	42.6
Canada	22,894	472	66.5

Source: Korea Central Bank, 2005

Table 10: Cheese Imports by Origin (HS:0406)

Unit: Metric Tons

	2002	2003	2004	2005
U.S. (market share)	3,910 (12%)	4,559 (12%)	4,849 (11%)	6,063 (13%)
Australia	13,649 (42%)	6,792 (18%)	12,056 (29%)	9,823 (22%)
New Zealand	10,983 (34%)	11,162 (31%)	15,044 (36%)	13,215 (30%)
Other	13,341	13,270	9,403	14,931
Total	31,983	35,783	41,352	44,032

Source: 2005 Trade Statistics Year Book

Table 11: Major Dairy Products Import to Korea

Unit: Metric Tons

Products (HS Code)	2005 Tariff	2004		2005		% Change	
		U.S.	Total	U.S.	Total	U.S.	Total
Cheese (0406)	36%	4,849	41,351	6,062	44,032	25%	6%
NFDM (0402.10)	(20%-176%)[1]	559	4,387	0	6,141	-100%	39%
Whole Fat DM (0402.21)	(40%-176%)[2]	0	1,510	0	1,742	0	15%
Mixed Milk (0404.90)	36%	82	21,643	1,407	22,331	1615%	3%
Butter (0405.10)	(40%-89%)[3]	13	1,856	8	1,884	-38%	1%
Whey Powder (0404.10.10)	(20%-49.5%)[4]	15,205	23,843	19,673	24,000	29%	1%
Ice Cream (2105)	8%	497	1,700	394	1,655	-20%	-2%

Source: 2005 Korea Customs & Trade Institute

Notes:

1: 20% tariff within the quota of 1,034 metric tons, 176% tariff out of the quota
2: 40% tariff within the quota of 573 metric tons, 176% tariff out of the quota
3: 40% tariff within the quota of 420 metric tons, 89% tariff out of the quota
4: 20% tariff within the quota of 54,233 metric tons, 49.5% tariff out of the quota

Table 12: Per Capita Consumption of Dairy Products by Country in 2003

Unit: Kilogram

	Drinking Milk	Cheese	Fermented Milk	Butter
U.S.	85.8 Kilogram	14.2 Kilogram	-	2.0 Kilogram
E.U.	96.2	18.9	18 Kilogram	4.4
Japan	35	-	-	-
Korea	38.7	1.23	11.6	-

Source: 2006 Korea Livestock Yearbook and 2005 Korea Dairy Yearbook

Table 13: Major Dairy Product Consumption and Imports

Unit: Metric Ton

		1990	1995	2004(A)	2005(B)	B/A
Local Consumption	Fluid Milk	1,336,000	1,568,000	1,781,000	1,691,000	94.9
	Cheese	6,713	14,417	63,596	68,431	107.6
	Fermented Milk	353	585	518	477	92.1
Imports	Cheese	123	11,074	41,351	44,032	106.5
	Mixed Milk	0	3,217	29,612	28,708	96.9
	Fermented Milk	0	291	130	68	52.3

Source: 2006 Korea Livestock Yearbook

Table 14: Processed Dairy Products Competitiveness

Unit: KW (Korean Won) per Kilogram, %

	Local Product (A)	Import Price			Total (B)	Competitiveness (B/A)
		CIF Price 1)	Tariff 2)	Other Expense 3)		
NFDM	7,000 KW	2,500	4,400	200	7,100	101.4
WFDM	7,500	2,200	3,872	176	6,248	83.3
Cheese	7,200	3,000	1,080	240	4,320	60.0
Butter	6,000	2,900	2,581	232	5,713	95.2
Mixed Milk Powder	7,500	2,500	900	200	3,600	48.0

Source: 2006 Korea Livestock Yearbook
1) Applied exchange rate (1 US$ for 1,000 Korean Won)
2) Current Tariff applied: 176 percent for milk, 36 percent for cheese, 89% for butter
3) Applied 8 percent more than CIF Price

Table 15: Scenario after FTA Agreement with Non-Tariff

Unit: KW (Korean Won) per Kilogram, %

	Local Product (A)	Import Price			Total (B)	Competitiveness (B/A)
		CIF Price 1)	Tariff	Other Expense 2)		
NFDM	7,000 KW	2,500	-	200	2,700	38.6
WFDM	7,500	2,200	-	176	2,376	31.7
Cheese	7,200	3,000	-	240	3,240	45.0
Butter	6,000	2,900	-	232	3,132	52.2
Mixed Milk Powder	7,500	2,500	-	200	2,700	36.0

Source: 2006 Korea Livestock Yearbook
1) Applied exchange rate (1 US$ for 1,000 Korean Won)
2) Applied 8 percent more than CIF Price

Table 16: Comparison of Korean Domestic Support Levels for Dairy with OECD Average

		1986-88	2002-04	2002	2003	2004p*
Korea	PSE(KW Billion)	301	944	970	955	906
	Percentage PSE	67	61	61	62	61
	Producer NPC	3.04	2.54	2.52	2.57	2.52
	Producer NAC	3.06	2.60	2.57	2.66	2.57
	Percentage CSE	-66	-60	-60	-61	-60
	Consumer NPC	3.04	2.54	2.52	2.57	2.52
	Consumer NAC	3.00	2.52	2.50	2.56	2.50
OECD	USD ($Million)	49,374	40,048	39,638	41,378	39,127
	EUR ($Million)	44,883	36,758	42,059	36,626	31,588
	Percentage PSE	61	42	47	43	36
	Producer NPC	2.84	1.65	1.79	1.66	1.50
	Producer NAC	2.59	1.73	1.88	1.74	1.57

Source: Agricultural Policies in OECD Countries Monitoring & Evaluation, OECD Publishing,2005
P*: provisional. **PSE:** Producer Support Estimate. **KW:** South Korean Won Currency. **NPC:** Nominal Protection Coefficient. **NAC:** Nominal Assistance Coefficient. **CSE:** Consumer Support Estimate.

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY & MARKETING

FLUID MILK

Production
In 2005, Korean raw milk production was 2.23 million metric tons, down 1.2 percent from the previous year. It is expected to steadily decline in the foreseeable future, as the government begins to decrease support and the number of milking cows declines.

Out of total production of 2.23 million metric tons, 1.54 million metric tons (70 percent) is for drinking use; this category includes regular white milk of 1.22 million metric tons and flavored milk of 324,000 metric tons in 2005. The remaining 690,000 metric tons (30 percent) is for processing use.

Consumption
A growing niche market in Korea for beverages is that of specialty milk, i.e., milk with added nutrition or flavorings (fruit, black bean, etc.) The consumption of these niche milk products has been growing at the rate of 10 percent per year.

The popularity of soymilk has grown dramatically as Korean consumers increasingly regard this drink to be a health food. Some Koreans believe milk made from soy is better than cows' milk.

Trade
Korea does not import raw milk, as there is currently a surplus in domestic production.

Policy
Surplus raw milk production of 116,000 metric tons was used for the production of whole and nonfat dry milk in 2005. Despite this surplus, Korea still imports milk powder. The manufacturing cost for local nonfat dry milk powder is roughly double the price of imported milk powder.

Marketing
Dairy Cooperatives supply inputs to dairy farmers including alfalfa, hay, mixed feed, seed for forage crops, milk quality testing, milk production recording and livestock genetics. Mixed feed with soybean, beer meal, rice, barley, wheat husk and corn silage feed are fixed in local market and roughage feed such as alfalfa, hay, seed for forage crops are imported from dairy cooperatives. Individual dairy farmers buy their own inputs in the dairy cooperatives.

OECD estimated Korea's producer support estimate for dairy at 61 percent for 2004 (see table 16).

CHEESE

Production
There are two sources of local cheese production. Most local cheese products are comprised for the most part of imported cheese. A small amount of cheese is produced from local raw milk. However, the variety of cheese produced are very limited (Cheddar, Mozzarella and Camembert cheese).

Local cheese production from local raw milk is constrained by the lack of manufacturing facilities. In September 2004, Maeil Dairy established a new natural cheese manufacturing plant, using manufacturing techniques acquired from Japan under its SangHa brand name. The purpose of this new plant is to utilize surplus local raw milk to make cheese. It is not, however, expected to impact demand for imported cheese in the near future.

Consumption
The younger generation is demand for western foods, such as pizzas, cheeseburgers and sandwiches, has assisted in the growing cheese sales. Consumption of cheese has shown high growth in 2005 and this trend is expected to continue for the foreseeable future.

Trade
In 2006, total cheese imports are expected to increase 18 percent to reach 52,000 metric tons.

While imports of U.S. cheese benefit from increasing cheese consumption, there is strong competition from Australia and New Zealand. The price of imported U.S. fresh cheese ($3.51/kg) was $0.31 higher than the average price ($3.20/Kg) of all imported fresh cheese. Despite this difference, U.S. cheese has a good reputation among Korean consumers for taste and quality.

In 2005, total imports of cheese products were $144 million (44,032 metric tons), an increase of 20 percent from the previous year. Cheese imports from the United States reached $16 million through the first eight months of 2006; a year-on-year decrease of 7 percent by value. However, the weight of U.S. cheese imports in 2005 increased by 25 percent (from 4,849 to 6,063 metric tons) in 2004.

Marketing
The European Union (EU), Australia and New Zealand are the main U.S. competitors in Korea. Australian cheese is mainly imported in bulk and then processed by local Korean processors.

A variety of gourmet cheese is imported for wine bars and high-end restaurants. The Korean wine market increased by 17 percent in 2005 compared to the previous year and is up 37 percent during first eight months in 2006 compared to same period of last year. Consequently, growing interest in wine and wine culture is likely to result in increased consumption of new to market and high quality cheeses.

NONFAT DRY MILK (NFDM)

Production
In 2005, local NFDM production amounted to 23,700 metric tons; a 2 percent decrease from the previous year. NFDM is expected to steadily decline in the foreseeable future, as the government begins to decrease support for milk production and the number of milking cows declines.

The local raw milk price has increased by 10 percent since September 2004. Despite the increase, production of NFDM has dereased. The retail price of locally produced NFDM is 15 percent higher ($4.20 per kilogram) than imported NFDM ($3.70 per kilogram) due to the higher manufacturing cost.

Consumption
Consumption of NFDM in 2005 of 29,800 metric tons (MT) included 23,700 MT from local production and 6,100 MT from imports and was primarily used for bakery, baby formula and ingredients of other dairy products.

Trade
Most NFDM is imported from Australia, New Zealand and the EU. There were no imports from the United States in 2005, nor to date in 2006. Importers state that other suppliers offer lower prices. From January to August 2006, imports of NFDM were 4,100 metric tons, a 10 percent increase compared to last year. The average cost from the EU, Australia and New Zealand was $2.30 per kilogram, CIF value. Imports of NFDM are forecast to increase 10 percent in 2006. There is an import quota of 1,034 metric tons for NFDM since 2004. The within quota tariff is 20 percent and the out of the quota tariff is 176 percent.

Policy
Local food processors import NFDM for the purpose of re-exporting to other countries, including Saudi Arabia, Taiwan, China and Bangladesh, after having processed it into infant formula. The Korea Customs Service reimburses the out-of-quota tariff of 176 percent to importers once the NFDM has been re-exported in the processed form.

Marketing
NFDM is used for the production of baby formula to re-export in order to create the similar formula as mother's breast milk.

Imports of mixed milk (HS0404.90) increased by 3 percent in 2005 compared to previous year. Mixed milk is used bakery and drinking yogurt production.

DRIED WHEY

Production
Whey powder is not produced locally due to the limited production of cheese domestically.

Consumption
Imports of whey powder (HS 0404-10-1010) amounted to $16.7 million (24,000 metric tons) in 2005, about the same as in 2004. Seventy percent of imported whey powder is utilized for animal feed. Specifically, the majority of such use targets the market of milk replacers and pig feed. Twenty percent is used for bakery and ice cream manufacturing and the other ten percent is used for baby formula production.

Trade
Whey powder imports are far less than the amount available within the low tariff rate quoata. In 2005, $13.7 million (20,000 metric tons) was imported from the United States with a market share of 80 percent. The major foreign competitors for the United States are France and Australia.

Whey imports from the United States during January through August in 2006 were $12.3 million, a 55 percent increase compared to the same period of last year. The U.S. market share in 2006 is expected to increase to 40 percent by value and increase by 15 percent by volume. This is caused by a shortage of local facilities to produce whey powder to meet local demand. Imported whey powder is, on average, $0.80 per kilogram on a CIF basis. Imports of whey powder should continue to increase.

ICE CREAM

Production
The Korean ice cream market is dominated by four Korean ice cream manufacturing companies: Lotte, Bingrae, Haitai, and Samkang. They accounted for 90 percent of the total ice cream market, about $1 billion in 2005 . Seven out of the remaining 10 percent is accounted for by leading premium foreign ice cream companies such as, Baskin Robbins, Natuur, Hagen Dazs and Dolomiti. Other major premium imported brands include Coldstone Creamery, Blue Bunny, Ben & Jerry's and Red Mango.

Consumption
Ice cream is one of the most popular desserts in western-style restaurants, as well as a common item in cafes and bars. Some foodservice outlets make ice cream on-site but many outlets purchase packaged ice cream. In addition to direct purchases from manufacturers, an increasing number of foodservice operators are opting for bulk purchases of ice cream at discounters.

Trade
In 2005, U.S. imports (January through August) were $1.6million, an increase of 71 percent by value compared to same period during the previous year. Coldstone Creamery was launched in August 2005 by CJ Foodville, one of the largest conglomerate groups. CJ Foodville plans to establish 5 Coldstone Creamery shops in 2006 and has a plan to open up to 400 shops more in Korea overtime.

Marketing
Ice cream parlours continue to expand in Korea, with an increasing number of outlets utilising a café concept. This supported a striking current value growth of 18 percent in 2004. Ice cream fast food outlets increasingly sell not only ice cream but also coffee, cakes and other drinks. These outlets are often backed by strong leadign brands, such as Haagen Dazs and Baskin Robbins, who promote ice cream as more than just a dessert. With increased health concerns, more fruit ice cream and low fat ice cream is surfacing, with a growing diversification of flavours such as green tea, aloe, black bean or black sesame. The recent trend also increased the popularity of fresh yoghurt-based ice cream, which is perceived to benefit health. Brand Susch from New Zealand ice cream performed well in this aspect. Consumers are also going for more premium ice cream at higher prices but with perceived better quality.

Since 2002, one of the largest Korean importers, Häagen Dazs began sourcing its product from France instead of the United States. Additionally, the Dippin' Dots Ice Cream Company and the Mini Melts Company are now manufacturing their ice cream locally. Despite these developments, the U.S. market share has increased to 71 percent in the first 8 months of 2006 and is expected to continue to grow.

In 2005, the Korean ice cream (including ice bars) market recorded $1 billion in sales; a 16 percent compared to the previous year. The sales increase was attributed to a higher price per unit by industry rather than a higher volume of sales.

The premium ice cream market comprises 20 percent of the entire whole ice cream (including ice bars) market. Premium ice cream sales are estimated at $200 million and are increasing by 7-8 percent every year.

COMPETITORS' ACTIVITY

Marketing Activity of Australia and New Zealand in Korea

Our major dairy product competitors are Australia, Netherlands, France, Denmark and New Zealand. These competitors promote dairy products including whey, lactose, cheese, ice cream, yogurt, and milk powder by participating in trade shows, hosting solo food shows, inviting Korean buyers to their countries, conducting tastings, and providing trade servicing.

The focus of marketing cheese products in Korea has shifted from television advertisements to retail promotional activities. For example, give-aways, e.g., 10 grams free after purchasing 100 grams, one free package for every package purchased, free gifts with each purchase, etc. Denmark is also very active in conducting in-store promotions for cream cheese.