



An online review of Foreign Agricultural Service initiatives and services

Market and Trade Data

South Korea Warms to Environmentally Friendly Products

By Susan Phillips and Youngsook Oh

The South Korean organic foods market, including fresh produce, field crops and imported processed foods, has shown strong growth in the past 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 foods, organic products can increasingly be found in mainstream retail outlets.

South Korea's total market for environmentally friendly products was estimated at \$1 billion in 2004. The nascent South Korean market for organic products, a subset of environmentally friendly products, is small; but domestic industry sources forecast the annual growth rate at 30 percent over the next few years. Domestically produced organic products consist mainly of fresh vegetables, some fruits and rice. Although South Korea imports most of its processed organic products, imported ingredients are used to manufacture some products.

South Korea imports most of its processed organic products.

South Korea imports organic raw ingredients, including grains, oils, and processed products from the United States, China, Australia, New Zealand and the EU (European Union). However, most processed organic products, such as cereals and pasta, come from the United States.

Imports of unprocessed organic farm products spiked to 3,498 metric tons in the second half of 2004, from 904 tons just a year earlier. For all of 2004, imports of organic farm products amounted to 5,213 tons: 4,420 tons of soybeans, 570 tons of wheat, 183 tons of sesame and 40 tons of mung beans. Most of these products were imported from China and used to make processed foods such as tofu. Organic fresh fruits and vegetables are not commonly imported due to restrictive government regulations, and transportation and perishability problems.

Domestic Production and Promotion

The South Korean government encourages farmers to grow organic products for environmental reasons, and farmers receive a premium for these products. The government provides subsidies for advertising and packing organic agricultural products.

In South Korea, organic agriculture is generally defined as agricultural production without synthetic chemicals. Although domestic organic production is small, it is expected to grow rapidly in the coming years.



Photos courtesy of USDA/FAS Agricultural Trade Office, Seoul, South Korea

In 1990, the National Agricultural Cooperative Federation started training farmers in organic methods. In 1992, MAF (the Ministry of Agriculture and Forestry) established a strict quality certification program for organics. In 2001, South Korea passed the Environmentally Friendly Agriculture Promotion Act, through which MAF established a direct payment program and regulatory system to promote organic agriculture.

In 2004, the government developed a plan to decrease the nation's generally heavy use of agricultural chemicals by 40 percent by 2013. The government expects certified environmentally friendly production to rise from the current 2 percent to 10 percent of all agricultural production by 2010.

Dynamic Retail Sector Leads Growth

The size of the South Korean retail market is estimated at \$1 billion for environmentally friendly agricultural products, including fresh produce and processed foods. Trade sources peg sales growth at approximately 30 percent per year.

In 2004, South Korean retailers displayed 2,500 environmentally friendly items — one-third of them imports. One major organic food retailer/importer/distributor imported 200 new-to-market products: 50 percent of them from the United States, 40 percent from the EU and 10 percent from Japan. The number of organic processed imports doubled last year, resulting in a 30-40 percent increase in sales.

Four major importer/distributors of organic products currently supply the market, and they usually rely on the same U.S. consolidators. More consolidators are needed to provide the variety of products needed to keep consumers interested. Although South 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 ever-greater variety. One retailer has developed several exclusivity



The number of imported organic processed products doubled in calendar 2004, and sales jumped between 30 and 40 percent.

Fresh Produce and Grains

South Korea's National Agricultural Products Quality Management Service regulates environmentally friendly agricultural products and handles labeling requirements for fresh produce and grains.

The Environmentally Friendly Agriculture Promotion Act established four emblems for fresh agricultural produce and grains to indicate the amount of chemicals (including fertilizers) used in production, and the number of years the product has been cultivated without chemicals.

Commodities produced entirely without chemicals for three years are labeled with a dark green emblem as "organic products."

Products cultivated with no chemicals for one year have a light green emblem that says "transitional organic agricultural products."

Products cultivated without agricultural or chemical pesticides, but with one-third less of the chemical fertilizers allowed by law, have a blue emblem that states "no ag-chemical pesticide agricultural products."

Products cultivated with one-half or less of the agricultural or chemical pesticides allowed by law have an orange emblem stating "low ag-chemical pesticide products."

arrangements, importing products directly and distributing them to other outlets.

New-to-market exporters can create product awareness by presenting their products to importers/distributors or can try to develop a relationship with an importer/distributor that is currently not bringing in organics. Exhibiting products at a food show or an organic event can be effective ways to promote branded organic products to the latter group.

Department stores in South Korea rent space on their grocery floors to independent concessions managed by importers/distributors. Several major department stores have "organic corners" that often occupy prime locations. Hyundai Department Store has two organic corners, one called Gutenmorgen, featuring organic

Processed Products

The KFDA (South Korean Food and Drug Administration) handles environmentally friendly processed organic products.

Documents

A company supplying U.S. processed organic products must submit the following documents to the KFDA:

- an import clearance application
- a copy of an acceptable organic certificate issued by a USDA-accredited agent that includes the name, address and phone number of the agent; the types of organic foods the operation is certified to supply;
- and the company name, address, and effective or renewal date of certification for organic food products made of mixed ingredients, an original ingredient statement (a list of all ingredient names) issued by the manufacturer with the office/department/division name with the issuer's name and signature

Since July 2004, transaction certificates are no longer required for imported organic food products.

Labels

Labeling of processed products is governed by their percentages of organic ingredients.

- 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, 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 appear on the label. The percentages of organic products must be specified in the raw materials section.
- If the raw materials contain 70-95 percent organic products, the term "organic" can be used on any of the sides other than the primary display panel of the package. Organic product percentages must be stated in the raw materials section.
- If a product of less than 70 percent organic agricultural products contains organic agricultural products as a certain ingredient, "organic" can be used for the relevant items in the section for labeling raw ingredients. The percentage of organic material must be stated in parentheses next to the name of the raw material.

The term "natural" can be used for products that do not contain artificial or a combination of artificial and natural flavorings, synthetic colors, synthetic preservatives or other artificial or post-harvest-added synthetic components and have not undergone additional processes other than eliminating non-dietary elements.

Information About Allowed Additives

South Korea maintains a list of allowed food additives, some of which are restricted to certain food products. To verify compliance with South Korean requirements, exporters should send a sample of the product and a list of the ingredients to:

KFDA's Food Standard Division
Tel.: 001-82-2 380-1665/8
Fax: 001 82-2 382-4892

The FAS Office of Agricultural Affairs and Agricultural Trade Office in Seoul, as well as the importer, are also sources of information about additives.

foods mostly from the EU, and right next to it, Yuginongsan, with products from the United States. Lotte Department Store also has an organic food products corner called Purum, which handles organic foods ranging from domestic staple grains to imported confectioneries, beverages, infant food, pasta and jams.

Several specialty stores also sell mainly organic products and health foods. Many grocery store chains sell small amounts of imported organic items.

The only domestically produced processed organic products in the retail sector are green tea, kimchi and tofu. Imported processed products include breakfast cereals, juices, jams, popcorn, pickles, tea, coffee, salt, sugar, olive oil and vinegar.



In general, organic products are priced well above their conventional counterparts, severely constraining market expansion. On average, this market segment is willing to pay 21 percent more for fresh produce and 17 percent more for processed foods produced in an environmentally friendly way.

Nevertheless, many South Koreans are willing to pay the higher prices, particularly for products for their children. Baby food, infant formula, teething crackers and nonfood items such as baby clothes, diapers and shampoo generally

lead in South Korean organic sales; however, 2004 sales growth was stagnant due to a sluggish economy and low birth rate. Prices for organic baby foods typically run more than 50 percent higher than prices of conventional products.

The average South Korean's interest in health is extremely high. A 2004 survey indicated that 50 percent of consumers buy organic products because they were concerned about their family's health; 22 percent were concerned about food safety; 17 percent thought that organic foods' taste or overall quality was better; and 5 percent were concerned about the environment. Consumers are very aware of the term "organic," because the environmentally friendly emblems are easy to understand and the South Korean government has done a lot of public service advertising.

Ingredient Sector Prospects Merely Modest

The market for organic food ingredients is likely saturated for the limited number of products being made in South Korea. However, some importers have expressed interest in sourcing organic soybeans for tofu, and vegetable and fruit purées for baby food.



Ingredients are typically organic rice (30 percent), and dairy products, grains, fruits and vegetables (70 percent). Nam Yang Dairy dominates the manufacturing sector for organic baby food with the balance of the market shared by three smaller competitors.

The best entry strategy for new-to-market suppliers is to contact the manufacturer of the organic product or its conventional equivalent.

Food Service Sector Sluggish

Although a few South Korean restaurants offer an organic menu item or two, the food service sector is mostly limited to domestically grown vegetables. Restaurants in South Korea are typically so specialized that a menu is not needed, so consumers usually have no information about whether they are consuming organic foods.

Susan Phillips is the deputy director and Youngsook Oh is an agricultural marketing assistant in the FAS Agricultural Trade Office in Seoul, South Korea. E-mail: atoseoul@usda.gov

The FAS Office of Agricultural Affairs in Seoul also has information on the South Korean market. E-mail: AgSeoul@kornet.net

FAS Worldwide is an online magazine from USDA's Foreign Agricultural Service. Text of this magazine is in the public domain and may be reprinted freely. Photographs may not be reprinted without permission.

Use of commercial and trade names does not imply approval or constitute endorsement by USDA or by FAS.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotope, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.