

KOREA MARKET REPORT: PET FOOD



주한 뉴질랜드 대사관
NEW ZEALAND EMBASSY SEOUL
DECEMBER 2016

Pet Food: FTA Benefits and Koreans' Changing Attitudes to Pets Offer Treats for New Zealand Exporters

The concept of pet ownership is enjoying growing popularity in Korea. This changing attitude to pets, coupled with the tariff concessions achieved through the Korea-NZ FTA, present an opportunity for New Zealand exporters of pet food. Some players in New Zealand's pet food industry have already caught on and are off the leash. The New Zealand Embassy in Seoul stands ready to assist exporters who are keen to sniff out further opportunities.

The Korean Market

The commercial pet food market in Korea is worth an estimated \$300 million annually. The number of pet dogs in Korea is estimated to be around 3.5 million - around ten times the size of the cat population. This is reflected in the make-up of pet food sales, with dog foods accounting for around 90% of the market.

Imports account for around 70% of the Korean pet food consumption. The market is very fragmented with over 100 Korean companies importing pet foods and snacks from foreign suppliers. China is the main supplier, with 29% market share by value. Not far behind is the US with 26% market share. France (13%), Thailand (11%), Australia (6%), and Canada (5%) also have significant stakes.

China's dominant position has been helped by many Japanese companies having moved their pet food plants to China over the past ten years. However, Chinese pet food exporters have lost some of their price advantage, as under the Korea-China FTA the 5% tariff will only be reduced over a 15-year timeframe. Meanwhile exporters from the US, Europe, Canada, Australia, and New Zealand all enjoy duty free access already.

Around 30 Korean companies have local pet food and snack brands in Korea, with half having their own local manufacturing facilities. Locally-produced products are mostly low or middle priced. However, international brands face a growing challenge from both established and new domestic competitors. Royal Canin Korea is the leading local pet food company, but CJ Corp is expanding its distribution networks and new players have entered the market in the past few years, such as KT&G, Dongwon F&B and Sajo Industries.

New Zealand trade with Korea

The value of New Zealand pet food exports to Korea in 2015 was \$3 million, representing a tenfold increase from 2008. Korea took less than \$300,000 worth of New Zealand pet food that year, when it was our 17th largest export market for these products. Korea now ranks as New Zealand's 8th largest pet food market and the compound annual growth rate during that period equates to 41%.

Despite this growth, in terms of market share, New Zealand is still a comparatively small player, coming in as Korea's 7th-largest pet food supplier last year with 1.4% market share overall. This suggests that further growth is possible. Dog food accounts for around four-fifths of New Zealand's pet food exports to Korea, with the remainder for cats.

Korean Market Trends and Opportunities

Smaller breeds of dog, weighing less than 10kg, are sought after in Korea as around half of Koreans live in apartments with little space available for larger pets. The most popular breeds are Maltese, Shi Tzu, Pomeranian, Yorkshire terrier, Poodles, and Schnauzers. The most popular cat breeds are Korean Short Hair, Persian, Turkish Angora, and Siamese.

Because of apartment living, most Korean dog owners prefer dry pet foods that render the resultant waste more manageable for owners. Dry pet foods account for over 75% of the market with more expensive wet pet foods making up around 5%, although this figure is higher for cats. The pet snacks category accounts for the rest, and is growing strongly as Korean pet owners seek to indulge their pets with more treats.

In the same way that Koreans are seeking healthy food for themselves, they are also doing so for their pets. Products that have functional benefits, or are age-specific, command premium prices in the Korean market. For example, since indoor dogs are more prone to allergies, products that seem to help ease allergic reactions, such as organic and herbal food, are in high demand. Similarly, as pets have greater access to medical care, they are living longer, so products targeted at the senior pet population are becoming increasingly popular.

Outside of foods, spending on pet care in general is also surging in Korea. Many local hotels offer upscale services for pets including beauty salons. Leading telecommunications companies such as LG U+ and SK Telecom are also encouraging pet owners to use Internet of Things (IoT) technologies to monitor and care for their pets. Such technologies enable owners to remotely feed, watch over and communicate with their pets while they are at work or otherwise away from home. The advent of such technologies has made pet ownership more viable for single-person households and should encourage continued growth.

Korea-NZ FTA Outcomes

The prospects are good for further accelerated growth after pet food became duty-free on entry into force of the Korea-New Zealand FTA, in December 2015. Pet food had previously attracted a tariff of 5%, and duty free access appears to have had an immediate impact on the trade. Pet food exports to Korea are up 110% in the first nine months of 2016 compared to a year earlier. This is well ahead of the 19% growth for New Zealand's pet food exports globally. Among our top ten export markets, only China has shown stronger growth - up 490% from a much lower base.

New Zealand's Value Proposition

New Zealand exporters are well placed to meet greater Korean demand for premium pet food products given our high manufacturing standards, safe ingredients, and novel product offerings.

While price sensitive Korean consumers will continue to look to purchase in bulk at lower prices, there is a growing segment of the market which is brand conscious and seeking premium pet food products. New Zealand exporters are well placed to capture that demand as our strong reputation in Korea as a manufacturer of high quality and healthy food products carries over into the pet food sector. Many of the New Zealand companies trading in Korea are positioned at this high end of the market. In addition, some New Zealand pet food exporters are also responsible for making novel products, such as dog food "chews", which appeal to Korean consumers.

New Zealand Government: What We Can Do to Help

The New Zealand Embassy in Seoul sees opportunities to put more effort into supporting exporters in this sector, given the relatively nascent state of the Korean market for pet food.

Mirroring the large-scale Seoul Food and Hotel show, a Korea Pet Show (KOPET) trade fair for pet food and pet care products is held in Seoul twice a year. April's three-day event attracted more than 34,000 visitors to see the 327 booths from 120 exhibitors. The next KOPET will be held at the end of November 2016.

For further information on exporting to Korea, you are welcome to contact NZ Trade and Enterprise, New Zealand Embassy, Seoul, at:

Mr. YG Shin, Business Development Manager
YG.shin@nzte.govt.nz

Note for readers

This report has been produced by MFAT and NZTE staff of the New Zealand Embassy in Seoul to outline market opportunities generated by the Korea-NZ Free Trade Agreement since its entry into force in December 2015. While every effort has been made to ensure accuracy, readers are encouraged to make their own enquiries before entering into commitments.