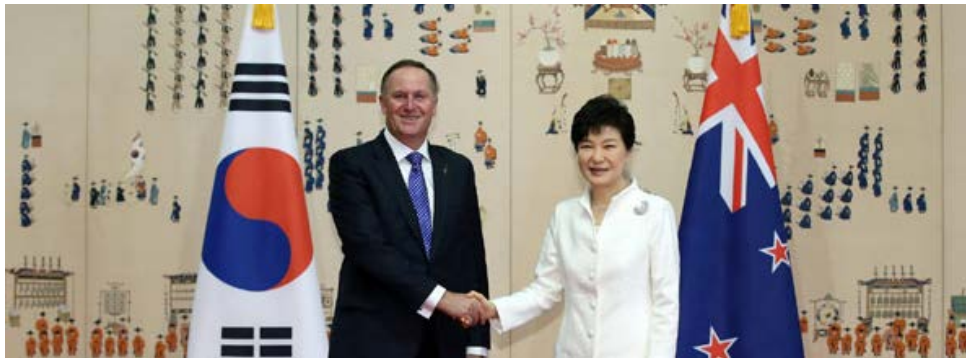


KOREA MARKET REPORT: RED MEAT



주한 뉴질랜드 대사관
NEW ZEALAND EMBASSY SEOUL
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Red Meat and the Korea-NZ FTA: Beef Still Moving Ahead while Young Koreans Flock to Lamb

New Zealand's red meat sector can look ahead to increasing opportunity in the Korean market now that the Korea-NZ FTA has entered into force. New Zealand's price competitiveness with other countries' beef and lamb products will erode no further, as tariffs reduce to zero over time. Meanwhile, New Zealand product is well-positioned to capture Korean consumers' growing consciousness of the health benefits of lean beef and growing interest in lamb.

The Korean Red Meat Market

Korea's domestic supply meets just under half of the overall demand for beef in the Korean market. The domestically-supplied proportion of the Korean market for secondary products (bones, heads, offal, feet, skin, blood and fat) is even smaller. Korea's domestic supply is unlikely to increase as its beef herd is expected to remain stable at around 3 million head (as against New Zealand's herd size of 3.6 million).

Imported frozen and chilled beef is being used to satisfy the growing demand - demonstrated by the approximately 9% growth in such imports overall last year. New Zealand ranks third in market share for beef (4%), offal (9%) and tripe (13%), behind Australia and the US for all three products.

Korea does not have a domestic sheepmeat industry and Australia is the only overseas competitor to New Zealand in the market. Australia was the dominant supplier to Korea in 2015 with 94% market share - New Zealand accounted for the rest. Our sheepmeat exports did grow 7% during 2015, but were still outpaced by Australia's 22% annual growth.

New Zealand Red Meat Trade with Korea

Korea is a significant market for New Zealand's red meat industry overall, ranking in our top 10 red meat markets globally. New Zealand's total red meat exports to Korea for 2015 were worth \$159 million, accounting for almost 10% of our overall trade with Korea. Korea took \$106 million worth of New Zealand beef last year, making it our 5th-largest export market for the product. Korea is New Zealand's largest market for bovine offal, taking \$30 million worth last year - more than a quarter of our overall global trade. Korea imported another \$11 million worth of New Zealand stomachs and intestines (eaten in traditional Korean dishes).



New Zealand was the leading supplier of meat extracts to Korea in 2015 with \$7 million worth of New Zealand meat extracts and preparations for use in flavouring popular Korean soups, stews and instant noodles imported over the period. (Korea is 5th-largest export market for these products). At 37th Korea does not feature highly among New Zealand's sheepmeat export markets, though sheepmeat is our next most valuable red meat export to Korea with \$5 million of trade in 2015. Goat and venison do not appear at all in the 2015 trade statistics, although small amounts have been traded previously.

Korean Market Trends and Opportunities

Beef is by far the most popular red meat among Korean consumers. Overall annual beef consumption currently stands at around 550,000 tonnes – the equivalent of 10.9kg per capita - and is forecast to expand between 1% and 2% per annum out to 2020. While Canadian and American beef imports have bounced back from BSE-related issues more than a decade ago, market share has shifted to Australian product.

A range of beef cuts are used in a variety of Korean dishes from BBQ, to stews and soups, as well as a growing number of Western restaurants and fast food chains. The growth in the number of single-person households and double-income families in recent years has also led to higher demand for convenient, ready-to-eat meals and lunchboxes. As a result, Korean food companies are looking to develop easy-to-cook products, which contain meat extracts and products that are easy to consume and have a consistent portion size.

Korean consumers are also embracing new flavours which have the potential to benefit New Zealand exporters. Sheepmeat, for instance, has not traditionally been a major part of the Korean diet, with many consumers having a negative perception towards sheepmeat's smell and taste after being exposed to only cheaper cuts of mutton in the past. But younger generations are now flocking to Chinese-influenced lamb BBQ and skewer restaurants in Seoul, in particular. Korea's "next big culinary craze" (as some media are describing it) has seen sheepmeat sales in Korea expand 47% in 2014 and another 24% in 2015.

The burgeoning Korean-Chinese population in Korea is being credited with starting the trend. Chinese-Korean Lee Hang-yung told local media that he opened the first Chinese lamb restaurant outside Konkuk University, and now the street is end-to-end with restaurants selling dishes of lamb shoulders, rack, and flaps. "In the past, our customers were all Chinese, but now it's 90% Koreans" said Lee. "In China, lamb skewers are prepared with the fat and the meat together, but here it's more like Korean BBQ (galbi) with seasoning of red pepper, cumin, mustard seed and other spices."

Korea-NZ FTA Outcomes

Figures for red meat exports to Korea have been under pressure in recent years and competitors such as the United States, and more recently Australia and Canada, have enjoyed a tariff advantage in the market through their bilateral FTAs.

The FTA with Korea is a significant step towards reducing the overall amount of tariff paid on New Zealand's red meat exports and will allow New Zealand exporters to remain competitive with other exporters to the Korean market. A 15-year phase out period was achieved under the Korea-NZ FTA for the 18% tariff on offal, 27% on stomachs and casings, 30% tariff on meat extracts, and 72% tariff on prepared and preserved meats. For some products, such as meat extracts, New Zealand will enjoy a widening tariff advantage over competitors, as this line was excluded from their FTAs with Korea. The 10-year phase-out period under the Korea-NZ FTA for the 22.5% tariff on sheepmeat is shorter.

It is still early days, but statistics for the first nine months of trading under the FTA (against the same period a year ago) indicate some promising signs. Exports of meat products are up 21% to NZ\$133 million.

New Zealand's Value Proposition

Koreans are used to grain-fed red meat, with consumers associating marbled (fatty) beef with premium quality. This influences the type of cuts and the way that meat is used in traditional Korean dishes. The perception favours beef produced in Korea, the US, and parts of Australia, where cattle are raised on feed. New Zealand's grass-fed, leaner red meat has typically been aimed at high-end Western restaurants and the wider food service industry with very little sold direct to Korean consumers.

However, Korean consumers are very conscious of their general health, well-being and image. Leaner meat, and beef in particular, has been linked to healthy body shapes, strengthened immunity, improved iron intake, and warding off heart problems. These facts, as well as imaging and marketing that emphasises New Zealand's outdoor farming systems and the various health and nutritional benefits of New Zealand-produced beef, have the potential to stimulate further consumption by Koreans.

In addition, Korean consumers also have strong concerns about food safety. This is especially relevant for beef. Mass public protests erupted during the BSE-related issue with US imports and regular outbreaks of Foot-and-Mouth Disease in local livestock have kept animal disease in the public consciousness. Since the BSE issue, it has been mandatory in Korea for restaurants over a certain size to identify on their menus the country of origin of the beef they serve - so New Zealand's animal disease-free status and reputation as a clean and safe source of beef is beneficial in these circumstances. Our traceability system is a further source of comfort.

New Zealand Government: What We Can Do to Help

While Korea is an established market for New Zealand red meat exporters, the New Zealand Embassy in Seoul is keen to support and promote exporters in their activities. In Korea, New Zealand exporters must work with local importers to distribute their product. There are over 100 importers that deal in beef, but the pool is more limited for those wanting to import lamb. We are aware of only around four Korean companies that currently import lamb from New Zealand.

There is significant value to be explored in the Korean market and the Embassy is keen to highlight opportunities for New Zealand exporters in the wake of the FTA's entry into force. Industry visits to the market to identify opportunities are welcome and there are numerous opportunities to showcase New Zealand product to potential importers, hoteliers, restaurateurs, retailers, food service representatives, and media.

NZTE is happy to assist exporters in identifying appropriate "showcasing" opportunities. Such opportunities can generate positive Korean-language media coverage, which helps to get the FTA message out to a wider audience. Cooking demonstrations and events, which the Embassy has hosted, are useful chances to demonstrate recipes that may appeal to Korean tastes using beef cuts that are commonly available locally.

The Embassy also monitors changes in the Korean regulatory environment which may adversely impact on New Zealand exporters.

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.