

Korea: Opportunities and Challenges

The Agri-Food Sector



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IRC Consulting

www.ircconsultingkorea.com



21 June, 2022

A Korea focused Business Development Consultancy

- 40 years in Korea
- 6 experienced international consultants
- Differentiators:
 - Local insight
 - Language ability
 - Cultural knowledge
 - Access to Korean market information & contacts
 - Customized service
 - Proven record of success for clients



Market Entry & Expansion Services

→ Starting off on the right foot



Organizational Optimization

→ Aligning Korea operations with head office expectations



Representation

→ Permanent, part-time local contact point for foreign organizations



What do IRC clients look like?

- Global Fortune 500 companies
- Medium-large multinationals
- Technically specialized niche players
- Government agencies & Associations



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada



Australian Government
Austrade



- Korea's Historical and Cultural Background
- Korea's Economy
- Korea's Agri-Foods Sector and Opportunities
- Imports: Challenging yet Worthwhile Market
- Success Factors for Market Entry

My neighbourhood, 1982 to 2022





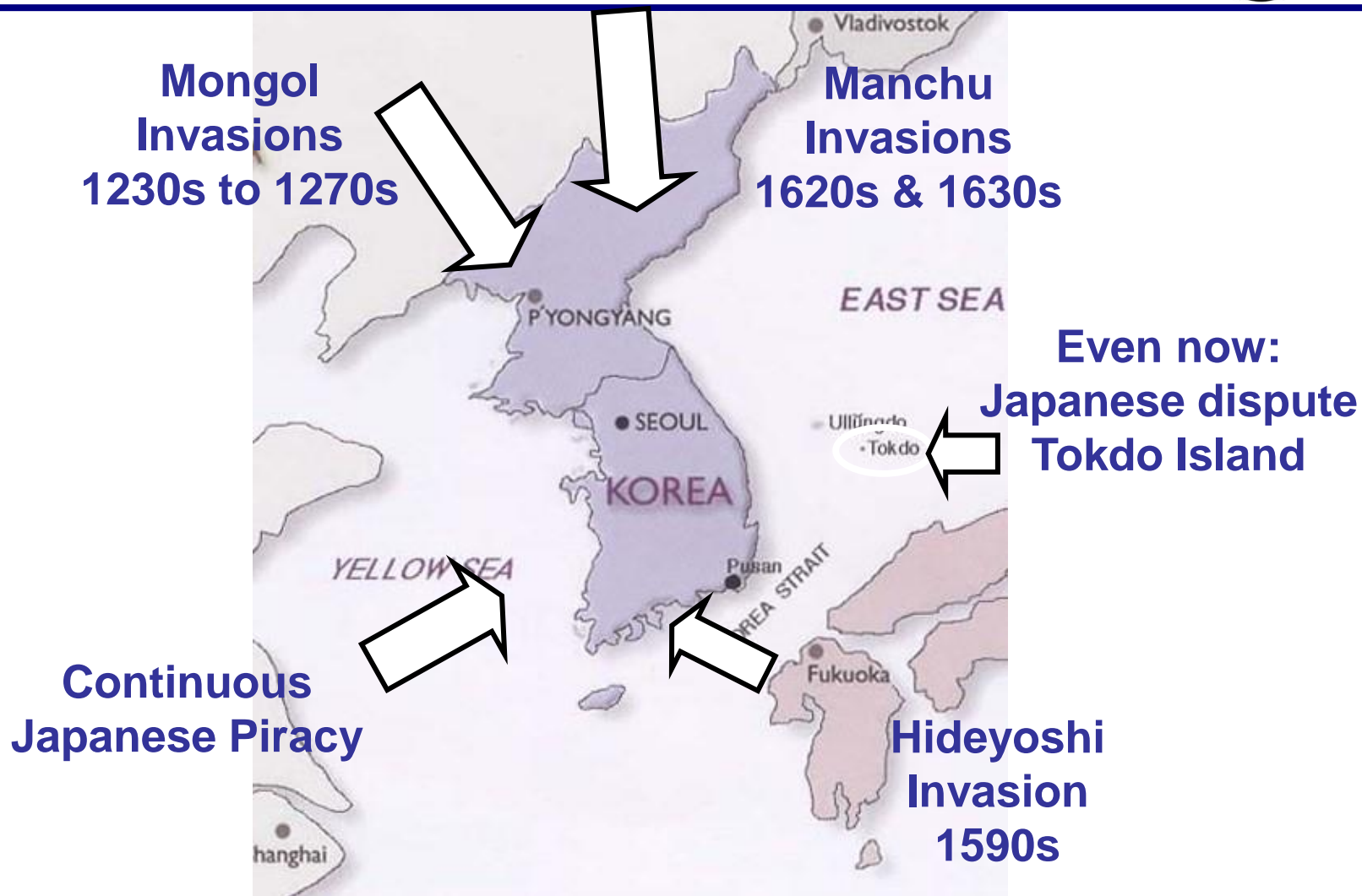
Korea's Historical and Cultural Background

Korea: A Brief History

- Over 5,000 years of history
- 300 BCE Korea's Historical Begin
- 668 CE Silla unites Korea
- 1392-1910 The Joseon Dynasty



“A Shrimp Among Whales”



“The Hermit Kingdom”



Long history of repeated invasions and occupations

→ Korea reacted by shutting its doors to the outside world

40 years of destructive turbulence

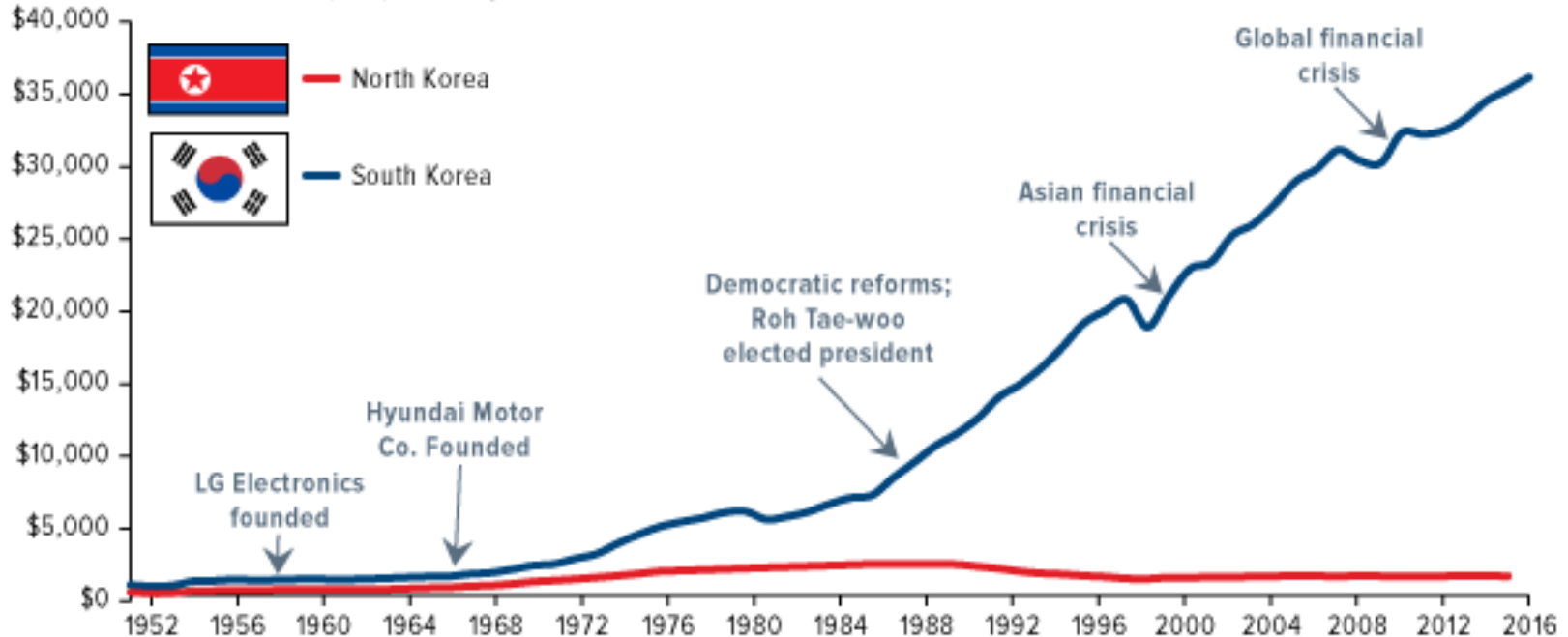
- 1910-1945 Japan
- 1945-1950 U.S. and Russia:
→ The 38th parallel
- 1950-1953 Korean War
- 1953-present Divided Korea



“The Miracle on the Han River”

Miracle on the Han River, 70 Years Later

Gross National Income (GNI) Per Capita



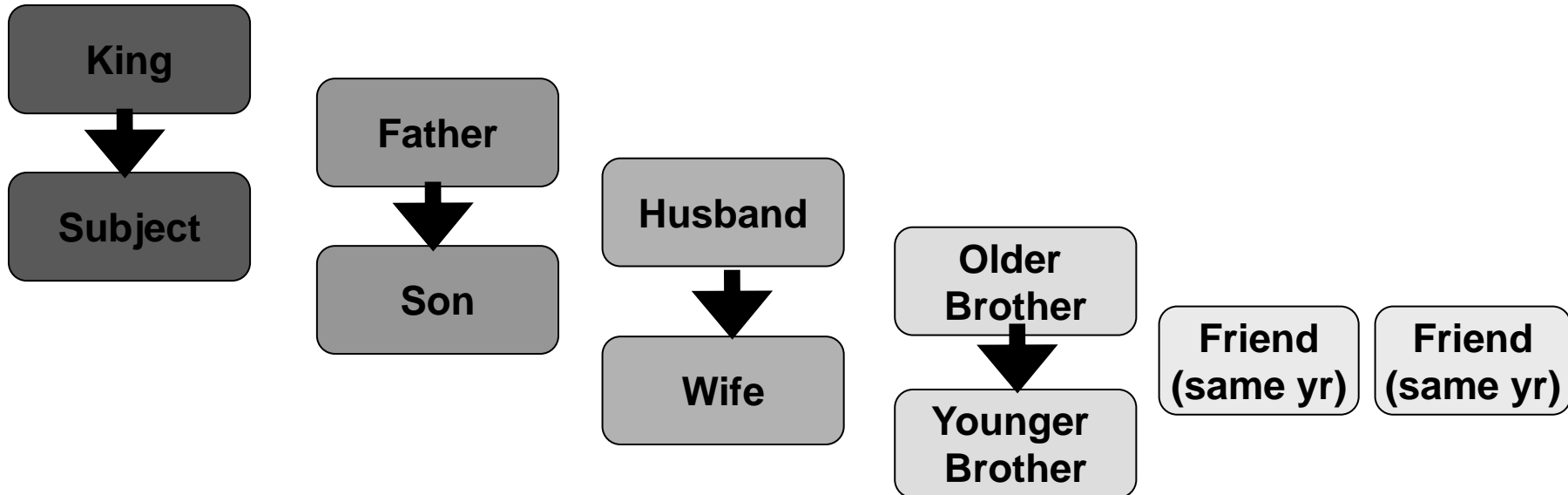
Source: Maddison Historical Statistics Project, U.S. Global Investors

- GDP per capita increase from € 1,120 in 1978 to over € 28,000 today
- From aid recipient to aid donor in just 50 years

- A Chinese ethical and philosophical system
- Influenced Korea since 200 CE
- Institutionalized by the Joseon Dynasty in 1400 CE
- Emphasis on social harmony through correct relationships
- Places value on family, order, education, “face” or honor and reputation



Five Relationships



- Almost all relationships are hierarchical
- Age is the major differentiator, requiring deference
- Status is more important than all other factors

- 갑 / 을: Gap / Eul = Master / Servant
 - Vertical relationships: 'seniors' and 'juniors'
 - Employee to boss
 - Supplier to customer
 - Importance of Titles to confirm status

→ **Emphasis on relationships plus the habit of giving status means Koreans depend on, and often excel at, provision of friendly and efficient service**

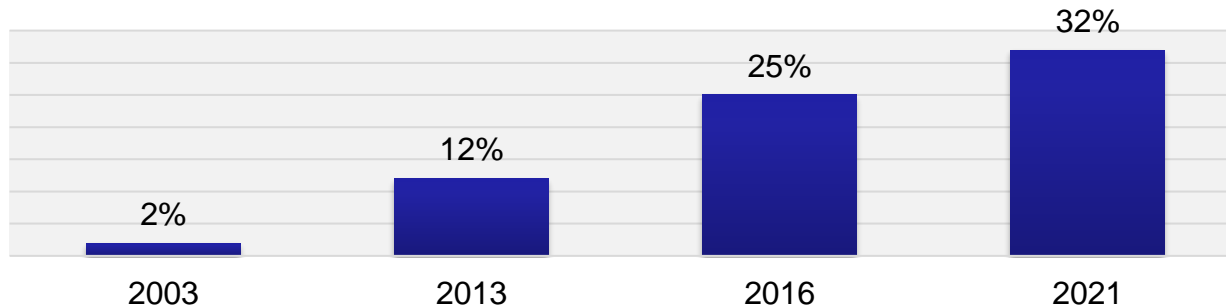
- Aging population + OECD's lowest birth rate
- Young people rejecting marriage
- Family unit weakening – fewer children 'reverses' focus to young



- Environmental, global awareness increasing
- Confucianism giving way to individualism
- Shift from country and family to individual goals, needs, desires

- Young people seek out foreign firms, entrepreneurship
- Women's roles slowly growing
- Nationalistic purchasing patterns disappearing

Example: Market Share of Imported Cars



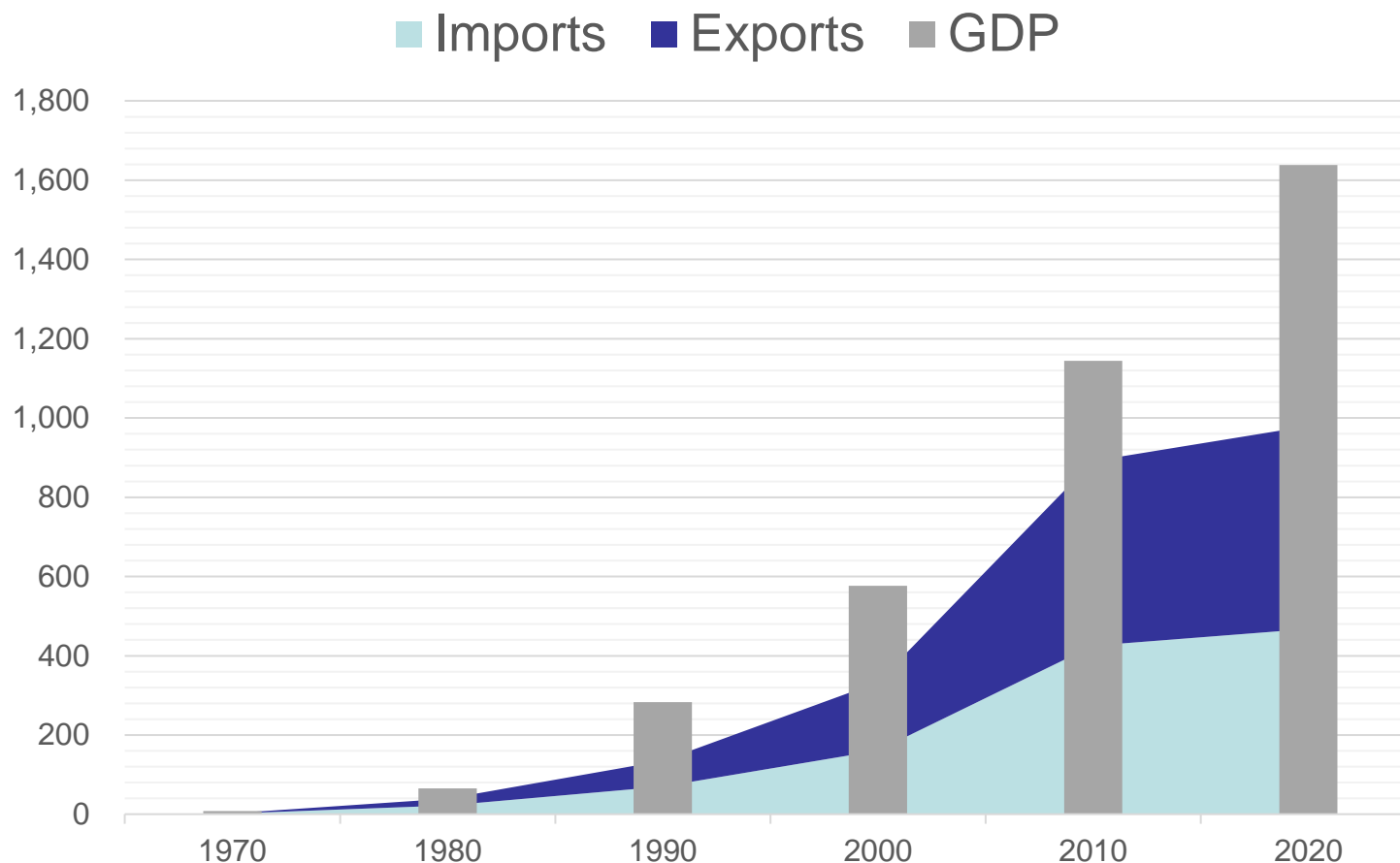
- Hierarchy's hold weakening, increasing autonomy
- Work-life balance: Affluence means greater focus on quality of life



Korea's Economy

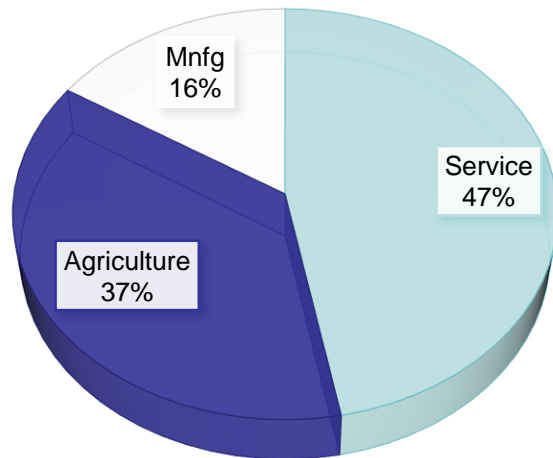
- GDP: € 1.7 billion (€ 30,282 per person)
 - Spain?
- Trade: € 1.2 trillion (> 64% of GDP)
 - Exports: € 612.4 billion
 - Imports: € 584 billion (30% energy)
 - China is #1 trade partner
- Population: appr. 52 million (growth almost zero)
 - Nearly 50% live in the area of Seoul, the capital
 - 82% live in urban areas
- Land area: appr. 100,000 km²
 - 70% mountainous, unsuitable for farming
 - High population density: 517 people per km²

A Trading Nation

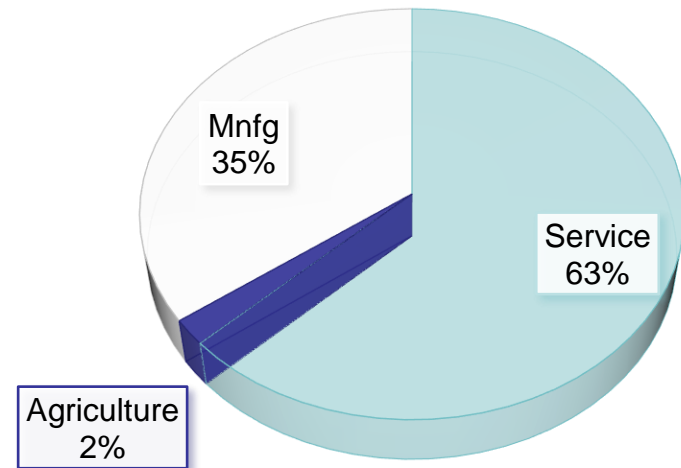


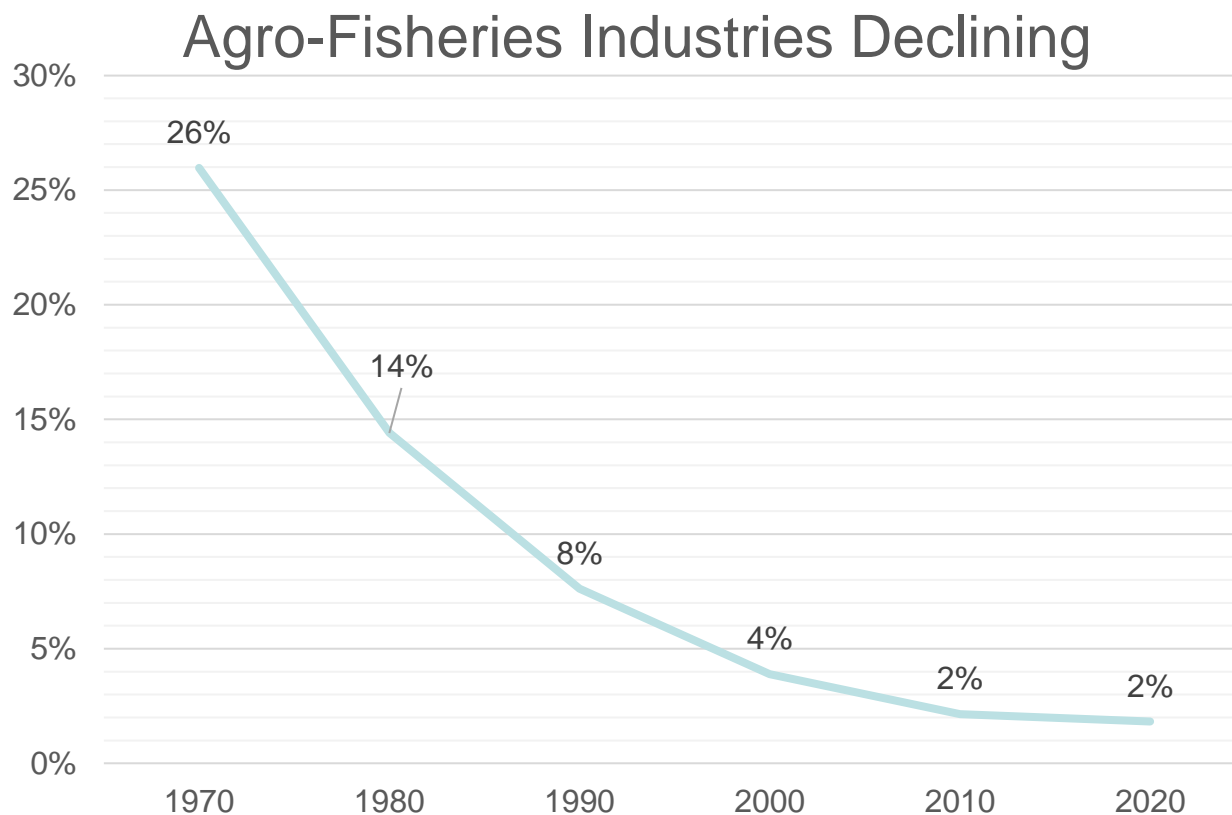
Source: Bank of Korea

1960 - KOREAN ECONOMY

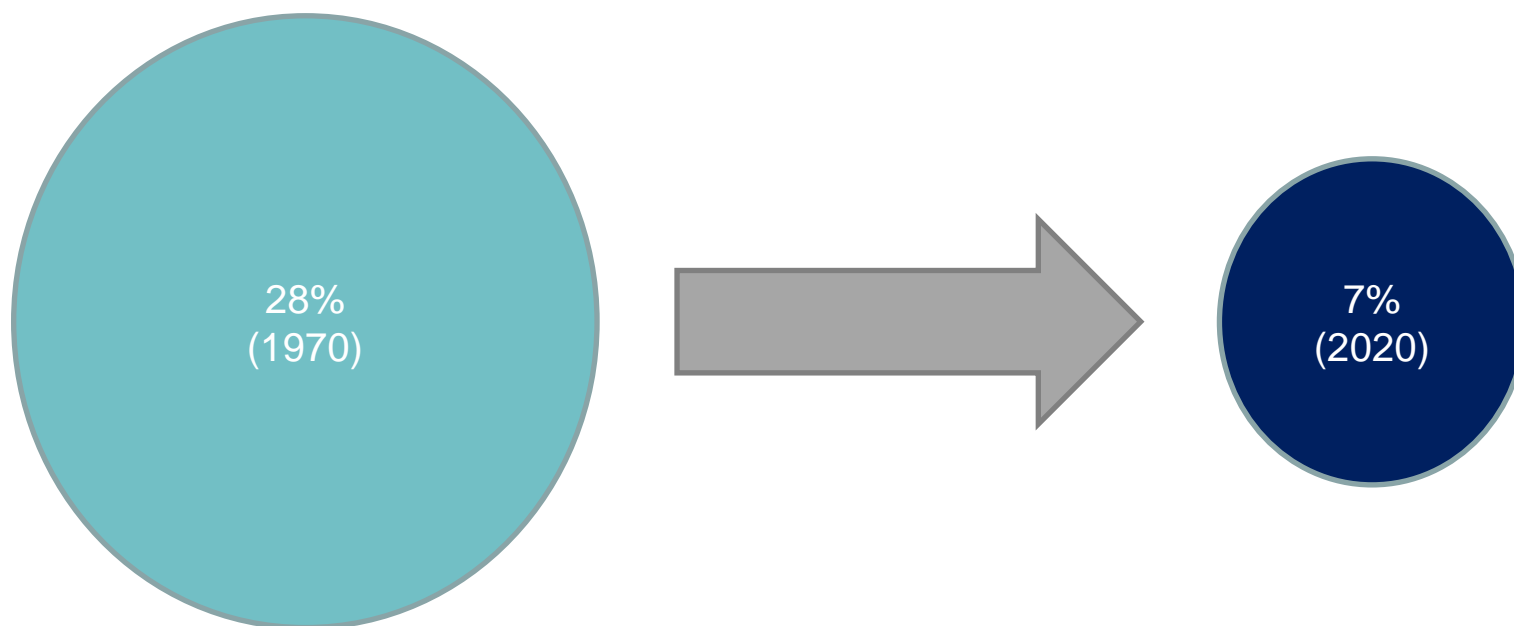


2020 - KOREAN ECONOMY





Source: Statistics Korea



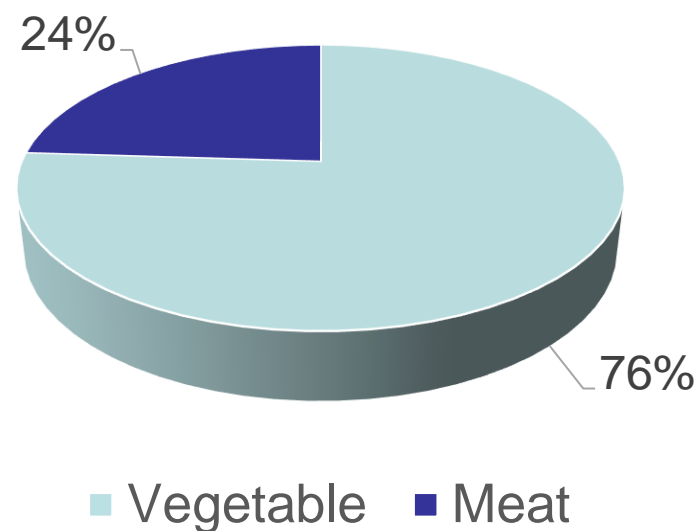
Source: Statistics Korea

60% of agricultural population was over 60 by 2020

Diet	Volume (Grams)
Grains	352.79
Vegetables	280.76
Fruits	145.04
Fish	158.19
Meat	126.2
Dairy	100.48
Others	353.5
Total	1163.46

Source: KHIDI

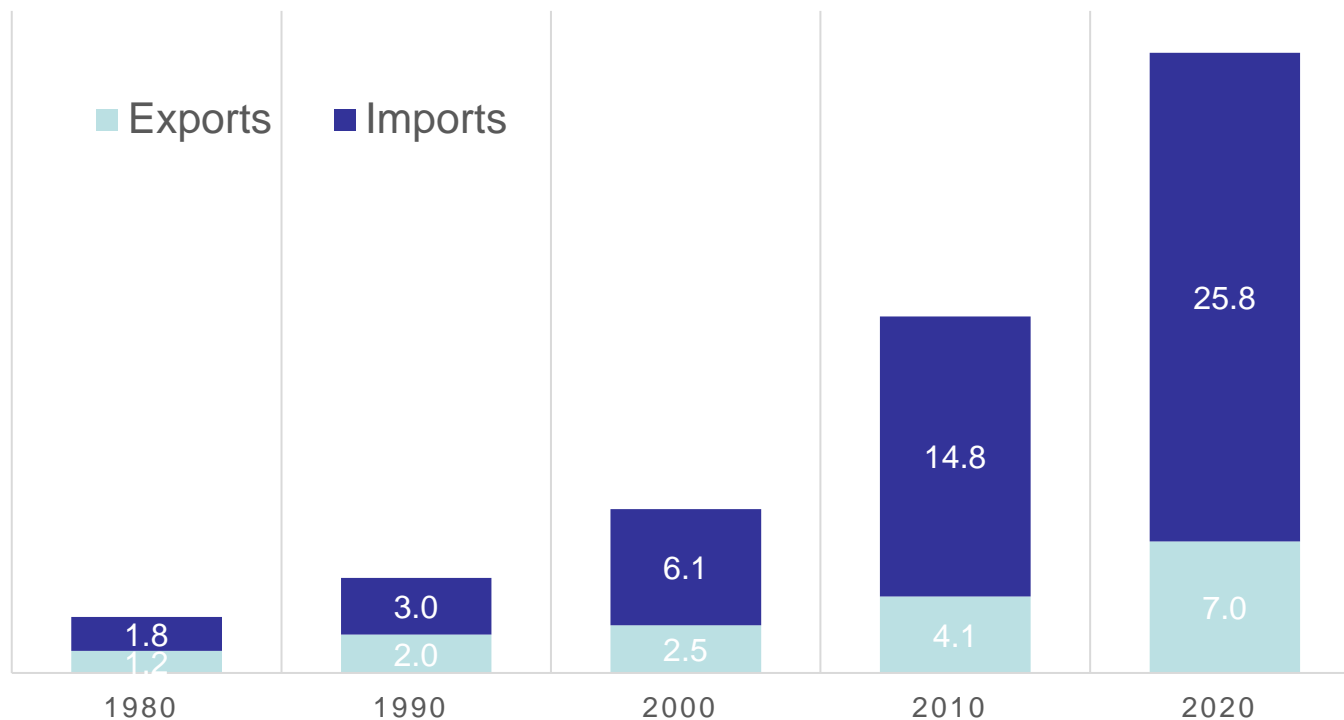
Composition of Korean Diet (2020)





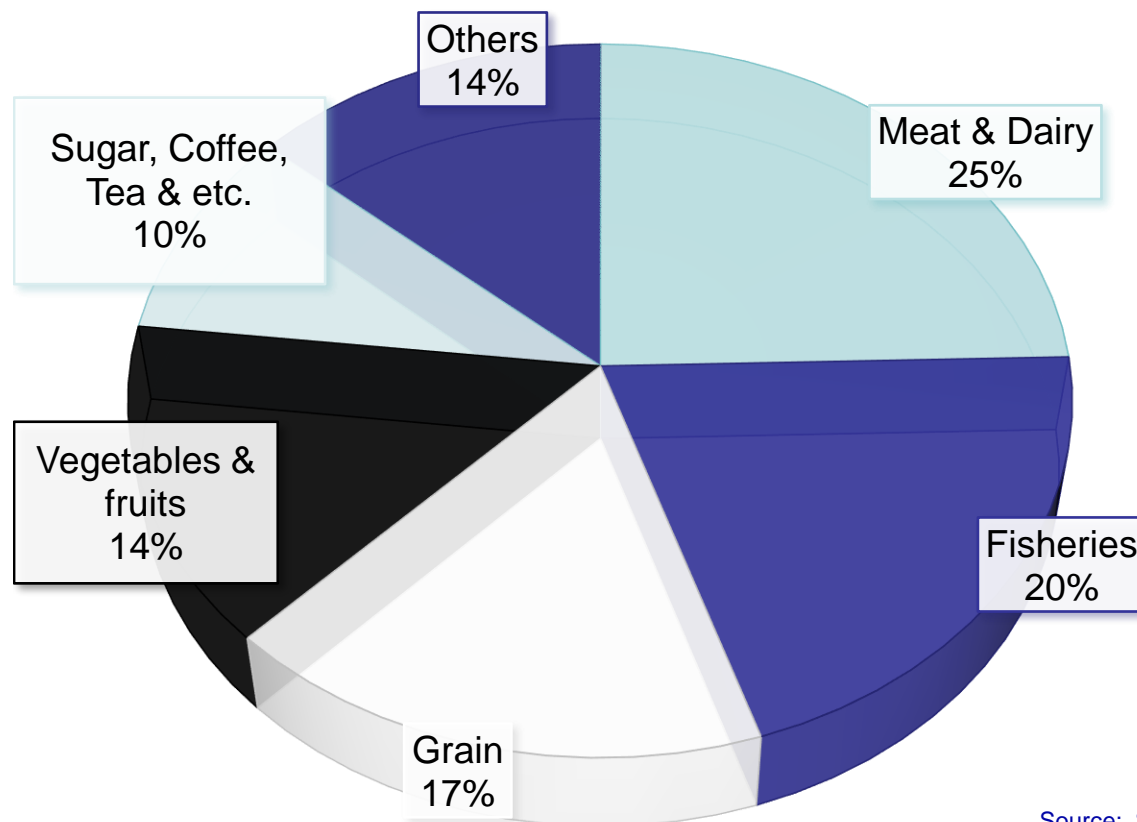
Korea's Agri-Foods Sector and Opportunities

FOOD TRADE (UNIT: USD BILLION)



**Growing dependence on food imports → 5% of total imports in 2020
Imports 50% of its food needs**

Food Imports by Product

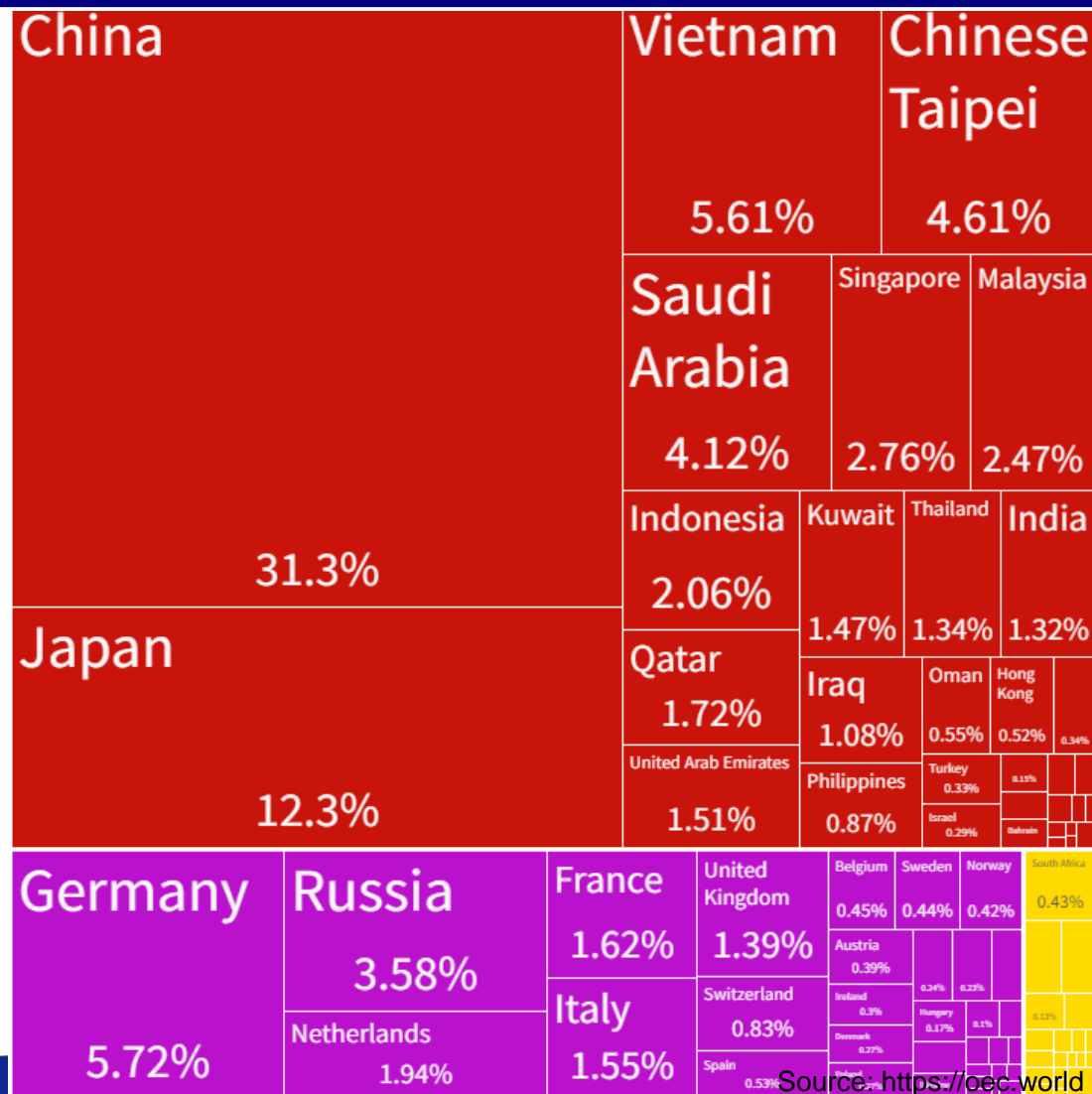


Source: Statistics Korea

Meat, Grain & Fisheries: 62% of Food Imports
Korea's total food imports in 2020: USD 25.8 billion / € 24.5 billion

- | | | | | | | | | | | | | | | | | | |
|---|----------------------------|---------------------------------|-------------------------|-------------------|-------------|--------------------|--|------------------------|-----------------------|------------------|---------------------|----------|--|--------------|--|---------------|--|
| Other Edible Preparations | | Processed Crustaceans | | Alcohol > 80% ABV | | Frozen Bovine Meat | | Non-fillet Frozen Fish | | Pig Meat | | | | | | | |
| 4.29% | | 4.12% | | 2.08% | | 5.61% | | 4.9% | | 3.96% | | | | | | | |
| Soybean Meal | Other Processed Vegetables | Other Processed Fruits and Nuts | Wine | | Baked Goods | Crustaceans | | Fish Fillets | | Cheese | | | | | | | |
| 1.99% | 1.16% | 1.13% | 1.02% | 0.89% | | | | | | | | | | | | | |
| Raw Sugar | Other Vegetable Residues | Chocolate | Sauces and Seasonings | Processed Fish | Beer | Bovine Meat | | Live Fish | Non-fillet Fresh Fish | Whey | Sheep and Goat Meat | | | | | | |
| | 0.86% | 0.85% | 0.82% | 0.76% | 0.73% | | | | | | | | | | | | |
| Animal Food | Fruit Juice | Confectionary Sugar | Animal Meal and Pellets | Other Sugars | | Molluscs | | Poultry Meat | Animal Organs | Butter | | | | | | | |
| | 0.72% | 0.54% | 0.42% | 0.41% | 0.32% | | | | | | | | | | | | |
| Starch Residue | Pasta | Malt Extract | Rolled Tobacco | Coffee and Tea... | | | | Edible Offal | Milk | | | | | | | | |
| | 0.64% | 0.53% | 0.31% | 0.3% | 0.27% | | | | | | | | | | | | |
| | Raw Tobacco | Other Frozen Vegetables | Water | | | | | | Processed... | Other... | | | | | | | |
| | 0.6% | 0.52% | | | | | | | | | | | | | | | |
| | Other Prepared Meat | Hard Liquor | Pickled... | Jams | Stem | | | | | | | | | | | | |
| | 0.58% | 0.48% | Ice Cream | Animal... | | | | | | | | | | | | | |
| Corn | | Coffee | | Forage Crops | | Bananas | | Citrus | | Other Oily Seeds | | Grapes | | Stearic Acid | | Palm Oil | |
| 6.15% | | 2.33% | | 1.01% | | 0.76% | | 0.72% | | 0.7% | | 0.52% | | 1.18% | | 1.09% | |
| Wheat | | Soybeans | | Other Nuts | | Other Fruits | | Starches | | Sowing Seeds | | Grain... | | Soybean Oil | | Other Fats... | |
| | | | | 0.91% | | 0.52% | | 0.35% | | 0.33% | | 0.32% | | | | | |
| | | Rice | | Frozen Vegetables | | Pitted Fruits | | Meal... | | Other... | | Oil... | | Cocoa Butter | | Cocoa Oil | |
| | | | | 0.82% | | 0.46% | | 0.21% | | 0.19% | | 0.18% | | | | | |
| | | | | Vegetable Saps | | Tropical Fruits | | Grain... | | Cut... | | Other... | | | | | |
| | | | | | | Perfumery Plants | | Meal... | | Other... | | Other... | | | | | |
| | | | | | | | | 0.39% | | 0.19% | | 0.19% | | | | | |
| Source: https://oec.world | | | | | | | | | | | | | | | | | |

- Total: USD 35 billion (out of total imports of USD 446 billion)
- Regions Included: Asia, Europe, Africa
- Specific countries:
 - Vietnam – 5.61%
 - France – 1.62%
 - Italy – 1.55%
 - Spain – 0.53%
 - Belgium – 0.45%
 - Finland – 0.23%
 - Slovakia: 0.14%
 - Ukraine – 0.11%
 - Romania: 0.1%
 - Portugal – 0.071%
 - Tunisia: 0.024%

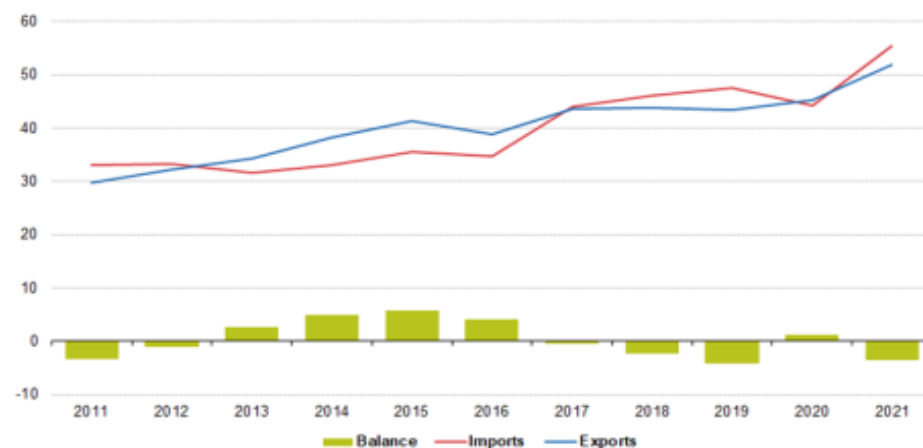


Source: <https://oec.world>

- Korea-EU FTA – ratified in 2015
 - Accessible: removed almost all customs duties
 - Marked increase in trade since passage in 2011

€ 30 billion → € 52 billion

EU trade in goods with South Korea, 2011-2021
(€ billion)



Source: Eurostat (online data code: ext_st_eu27_2020sitc and DS-018995)

eurostat 

EU exports to Korea

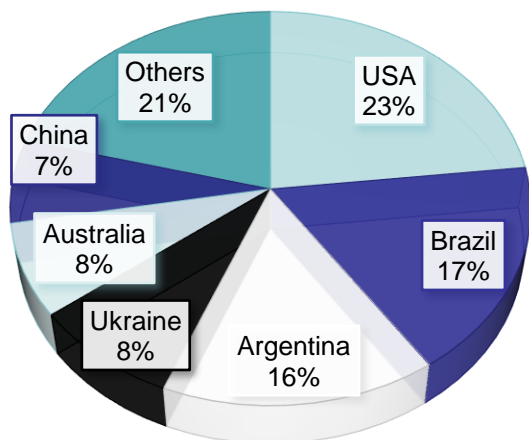
- 2020: over € 45 billion
- Food made up appr. € 3 billion
- South Korea is EU's 9th largest export destination
- EU is Korea's 3rd largest export destination

Hierarchy of Country of Origin – Consumer Perceptions

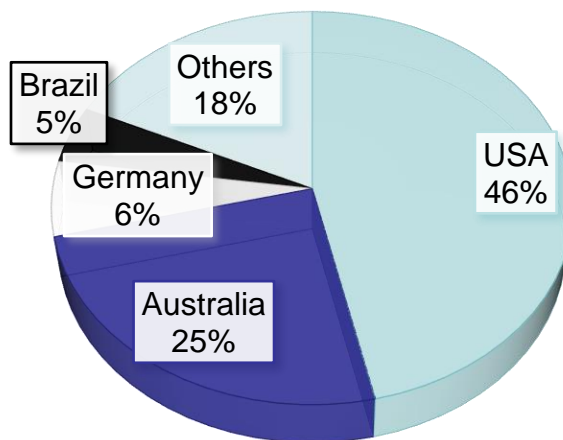
- Home-grown & homemade “best taste & quality” – most trusted
- Europe – safe, clean, premium
- Australia / New Zealand – clean, safe, natural
- Canada – natural, clean, but image tainted by proximity to USA
- USA – reliable, but US has too much GMO
- Southeast Asia – questionable reliability
- China – Major supplier out of necessity, but not preference due to frequent issues with food scandals
- Japan – Out of favor due to politics and Fukushima

Country of Origin is so important that by law restaurants must post country of origin for major ingredients, such as meat, rice, and kimchi.

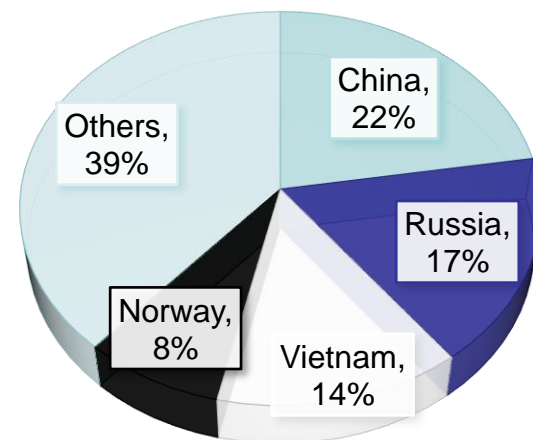
GRAIN IMPORTS



MEAT IMPORTS

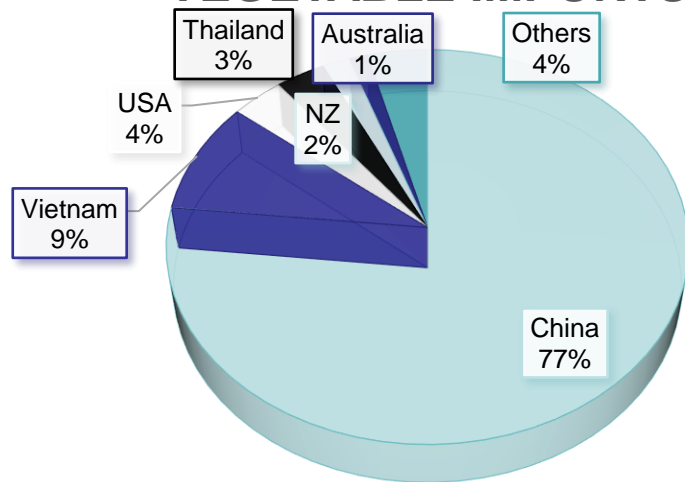


FISHERIES IMPORTS

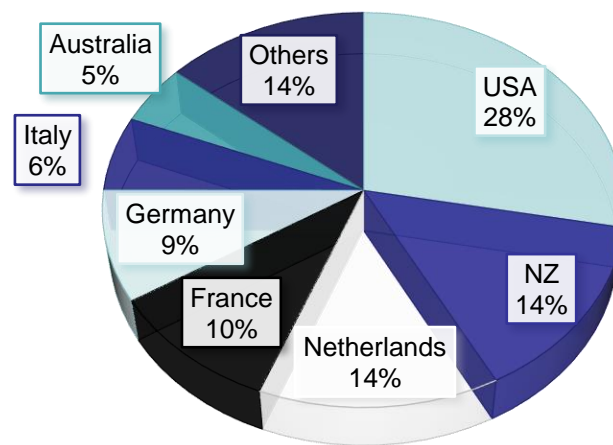


European countries are not yet significant suppliers of grain, meat or fisheries products

VEGETABLE IMPORTS



DAIRY IMPORTS



Vegetables dominated by China

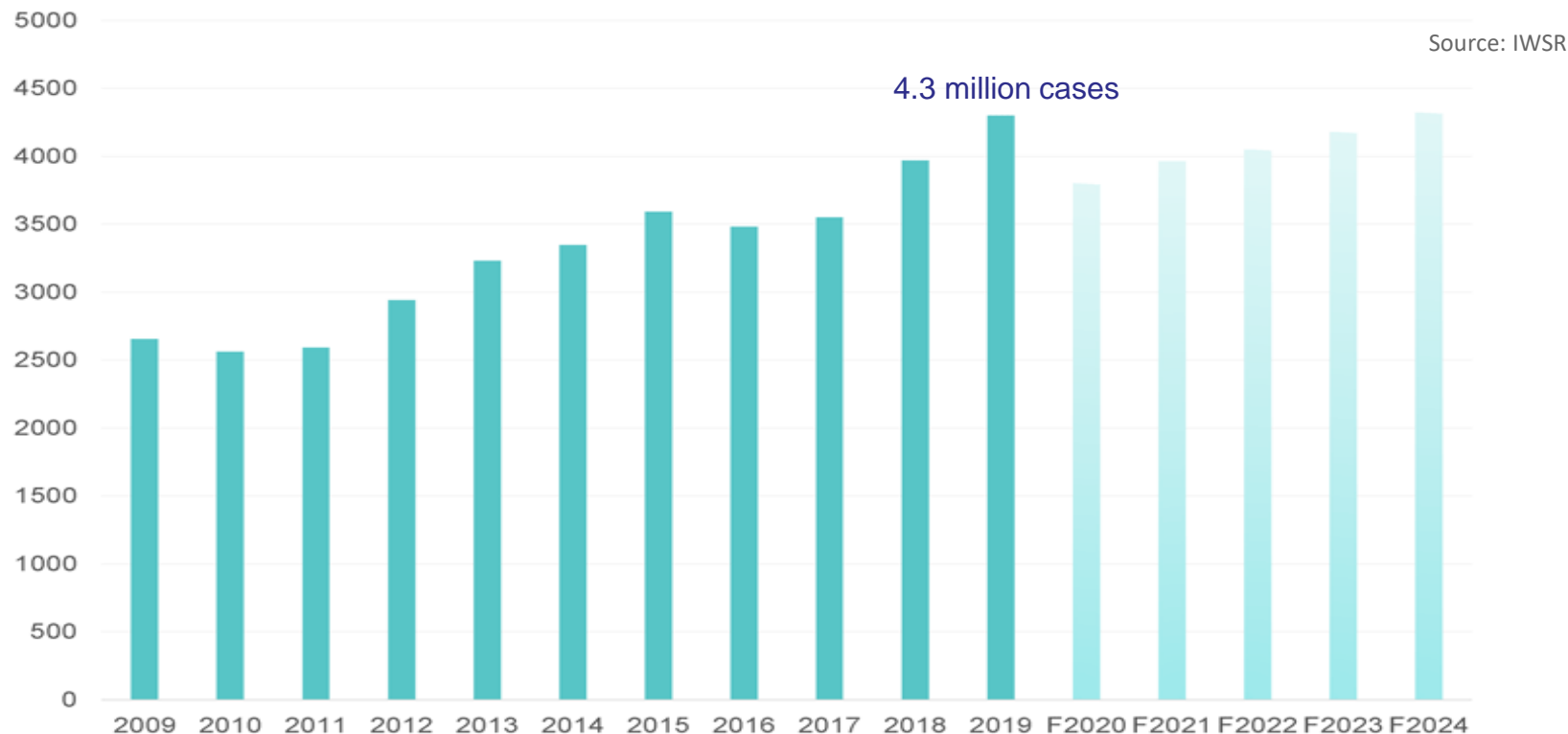
European countries have a significant foothold in dairy product imports

- Shrinking household sizes, double income households increasing, plus “the pandemic effect”
 - Convenience, ready meals (HMR) – KRW 2 trillion in 2020
 - Smaller portion sizes
 - Shopping for smaller quantities more frequently – from hypermarket to CVS
- Highly influenced by social media → status, image
 - “Flash and Crash” - sudden popularity that suddenly evaporates
 - Also reputation vulnerability – online comments and reviews

- Consumer interest in premium versions of existing products
 - Iberico pork: traditional cheap meat, but became an established “brand”
 - Status and image created sought-after product
 - Finnish yogurt: dairy not a staple, but returning Koreans wanted access to favored overseas brand and created demand
 - Also functional benefit of high protein
- New focus on health
 - Vegetarianism growing – 2.5 million in 2021
 - Organic foods becoming popular: dairy, olive oil, baby products
 - Additives / preservatives shunned
 - Functional foods on the rise
- Premium + health trends together are changing alcohol sector
 - Beer market share decline → Wine and spirits share increase



Still wine consumption volume in South Korea – historical and forecast ('000 9L cases)



Significant upside remains: in 2019, Kore's wine consumption rate was just 0.9 liters per person, compared to 25 liters in Australia and 12 liters in the USA.

- Reflects increased health focus after pandemic
- Increased an average of 21.4% from 2018-2020
- 19,825 tons in 2020, 34% of which was imported
- Top 5 products in 2020 imports – 59% of sector:
 1. Complex Nutrients – multivitamins & minerals
 2. Fructooligosaccharides (FOS) – plant-based sweeteners
 3. EPA and DHA containing Omega-3 oils
 4. Nutrient and Functional Complex Products – fortified foods
 - Jumped from 12th to 4th place 2019-2020
 5. Protein



Imports: Challenging yet Worthwhile Market

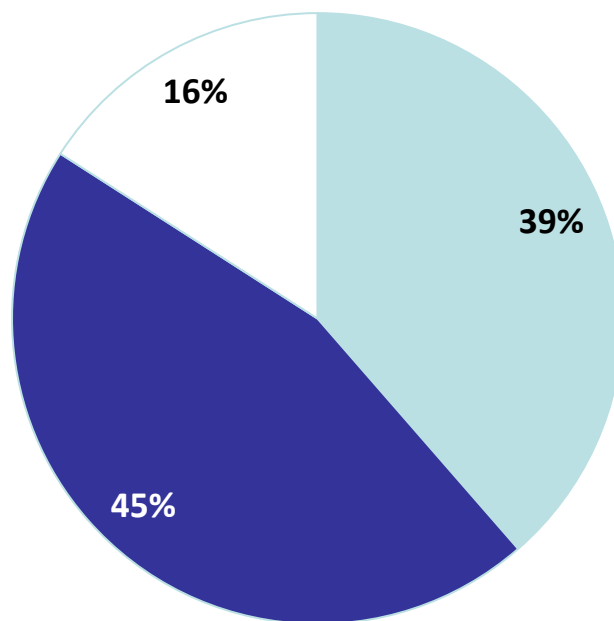
- Resistance to imports is declining
 - Korean consumers believe that local produce is best, but for many products they want, only imports are available
 - Declining rural ties: 2nd generation urbanites, personal connection with producer is weakening
- Trade barriers declining
 - FTAs with major trading partners: EU, Australia, Canada, US, China
 - Benefits of imports appreciated: cheaper, more choice
 - International experiences driving desire for new, innovative, and international cuisine
 - Covid left more time for experimentation, encouraged culinary “travel”

Have shifted from “getting enough to eat” to:

- Health – “Well-being”:
 - Weight reduction, Blood pressure, Diabetes
- Food Safety
 - Contamination / impurities (Fukushima, China)
 - GMO – must be labeled, consumers avoid
 - Purity, production methods, ‘use-by’ dates
- Sensitivity to negative press, publicity

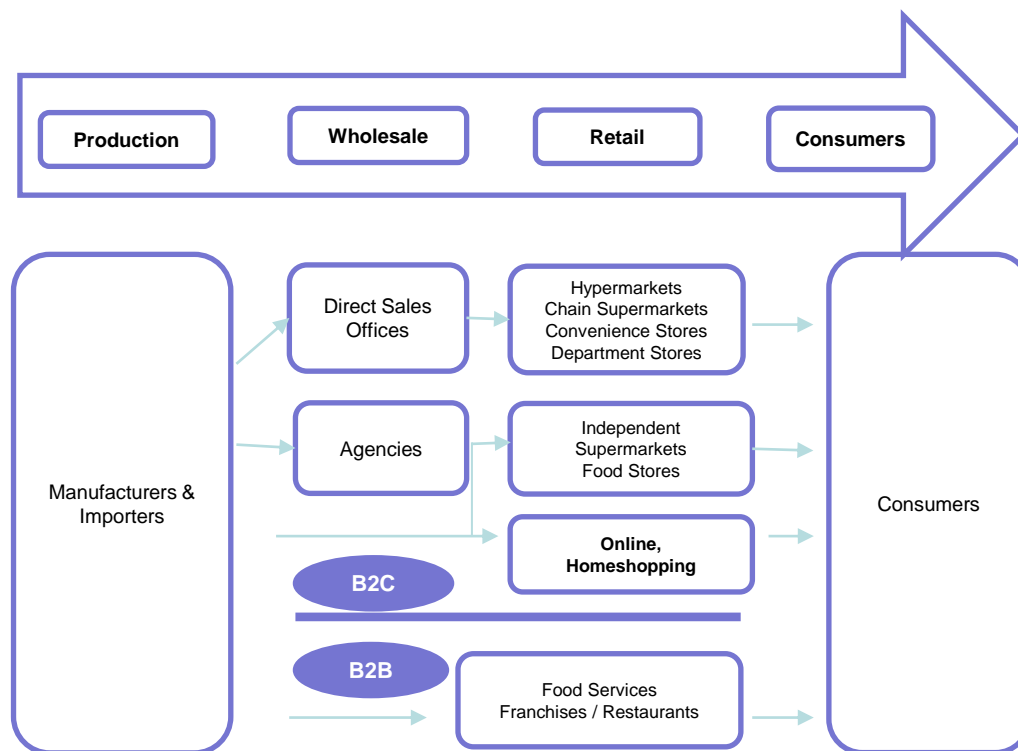
Food Industry

■ Food Processing ■ Food Service ■ Food Retail



Source: Korea Agro-Fisheries & Food Trade Corporation

Import Channels



Source: aT, Korea Agro-Fisheries & Food Trade Corporation

- Main Authority: Ministry of Food and Drug Safety (MFDS – formerly the KFDA)
 - Food, drugs and medical equipment Safety
 - ✓ Ingredients
 - ✓ Sanitation
 - ✓ Production equipment
- Recently upgraded from Agency to Ministry
- Other authorities include Ministry of Agriculture, Food and Rural Affairs (MAFRA) and the Animal and Plant Quarantine Agency (APQA)



- Most tariffs now gone after joining WTO in 1995, signing FTAs with many countries
 - BUT received special consideration for certain agricultural products
 - 63 specific products still protected with very high tariffs: e.g., Oats, Honey
- Tariff Rate Quota system: A reduced tariff applied for a specific quota of imports on 63 products.
 - Either aT (Korea Agro-Fisheries & Food Trade Corporation) or relevant industry association (e.g., The Korea Dairy Industries Association) allocates the quota
 - aT estimates gap between production and demand for agricultural products, then imports products from lowest price supplier and stores them for distribution when prices rise. aT also sells import rights under WTO and FTA quotas to private companies, through public auction.

- **Sesame Seeds** (HS code: 1207-40-0000)
 - Basic tariff: 630% (or 6,660 KRW/kg)
 - TRQ rate: 40%.
 - *Korea-China FTA: 0% for the first 24,000 tons per year, 630% or 6,660 KRW/kg for over 24,000 tons*
 - *Korea ASEAN FTA: 504% or 5,328 KRW/kg*
- **Mung beans** (HS Code: 0713.31-9000)
 - Basic Tariff: 607.5%.
 - TRQ rate: 30%
- **Red peppers:**
 - Basic tariff: 270% or 6,210 KRW/kg,
 - TRQ: 50%



- Ministry of Agriculture, Food and Rural Affairs has authority to designate countries from which specific fruits (including avocados, mangoes, limes, lemons, pomegranates and several other fruits) can be imported.
 - For example, Avocados can be imported only from Mexico, New Zealand, and the United States (excluding Hawaii, Texas, and Florida).
- Peru recently added to approved countries.
- The Peruvian government first asked for approval of avocado imports in 2013 when the Free Trade Agreement (FTA) with Korea was signed. It worked for six years to convince the Animal and Plant Quarantine Agency (APQA) to approve product from Peru. The APQA visited Peru and thoroughly examined avocado farms, balers and certification system of Peru in June 2018. After a six-year effort, imports from Peru were permitted on 28 September 2019.



Manbulloo Limited

- Strict, and compliance is a prerequisite for customs clearance
- Labeling must be in Korean
- Basic Product Information Label is required for most food products and must include 27 points of information about the product
 - Product name
 - Type of food product
 - Importer and principal place of business
 - Manufacture date, expiration date or retention date
 - Names and quantities of ingredients
 - Country of origin – due to tariff implications, this is a must
 - MAFRA, MOTIE, and Korea Customs Service websites have details on origin determination
 - Net contents (weight, volume, etc.)
 - Safety, nutrition, health information
 - Claims (eg., high in fiber, gluten-free, etc.)
 - Any mandatory consumer warnings (allergens)

Options:

- Print directly on label
- Add a sticker

<Examples of Nutrition Label Format>

<Example of Basic Product Information Label Format>

Product Name
 Product Category
 Importer Details
 Country of Origin
 Producer
 Date of Production
 Expiration Date
 Total Contents & Energy
 Ingredient List
 Packaging Materials
 Faulty Product Reporting Number
 Preservation Instructions
 Return & Exchange Instructions
 Production Facility Allergen Alert
 Serving Suggestion Alert

제품명	핀크리프스 갈릭 크리스프브레드 (통호밀분말57%, 마늘1.9% 함유)
식품유형	과자
수입판매업소	(주)스칸딕프라자 T.02-856-8700 서울특별시 구로구 디지털로30길 28, 1307호 (구로동, 마리오타워)
원산지	핀란드
제조업소	Lantmännen Cerealia Oy
제조일자	제품 측면에 별도표기 (읽는법: 일, 월, 년 순)
유통기한	제품 측면에 별도표기일까지 (읽는법: 일, 월, 년 순)
내용량	175 g (620 kcal)
원재료명	통호밀분말 57%, 밀가루(소맥분) 35%, 정제수, 마늘1.9%, 정제소금, 효모, 양파, 파슬리
포장재질	내포장-폴리프로필렌, 외포장-종이
● 부정·불량식품 신고는 국번 없이 1399 ● 보관방법 : 직사광선 및 습기 찬 곳을 피하여 건조하고 서늘한 곳에 보관하세요. 개봉 후 빨리 드시기 바랍니다. ● 반품 및 교환: 수입판매원 및 구입처 ● 본 제품은 참깨, 보리, 가리를 사용한 제품과 같은 제조시설에서 제조하므로 혼입될 수 있습니다. ● 본 제품포장의 앞, 뒤면에 사진은 조리의 예입니다.	

Allergen

Recycling Label



Source: Korea Ministry of Food & Drug Safety

Nutrition Fact	Total amount	
	0.0g	000kcal
Total amount	% Daily value	
Sodium	00mg	00%
Carbo-hydrate	00g	00%
Sugars	00g	
Lipid	00g	00%
Trans-fat	00g	
Saturated-fat	00g	00%
Cholesterol	00mg	00%
Protein	00g	00%
Percent Daily values are based on 2,000 kcal. Your daily values maybe higher or lower depend on calories needs.		

Nutrition Fact	Total amount	
	0.0g	000kcal
Total amount	% Daily value	
Sodium	00mg	00%
Carbo-hydrate	00g	00%
Sugars	00g	
Lipid	00g	00%
Trans-fat	00g	
Saturated-fat	00g	00%
Cholesterol	00mg	00%
Protein	00g	00%
Percent Daily values are based on 2,000 kcal. Your daily values maybe higher or lower depend on calories needs.		

Total amount 00g(00g*Oversing) 1 serving (00g)								
Calory	Sodium	Carbo-hydrate	Sugars	Lipids	Trans-fat	Saturated-fat	Cholesterol	Protein
000 kcal	00%	00%	00%	00%	00%	00%	00%	00%

Percent Daily values are based on 2,000 kcal. Your daily values maybe higher or lower depend on calories needs.

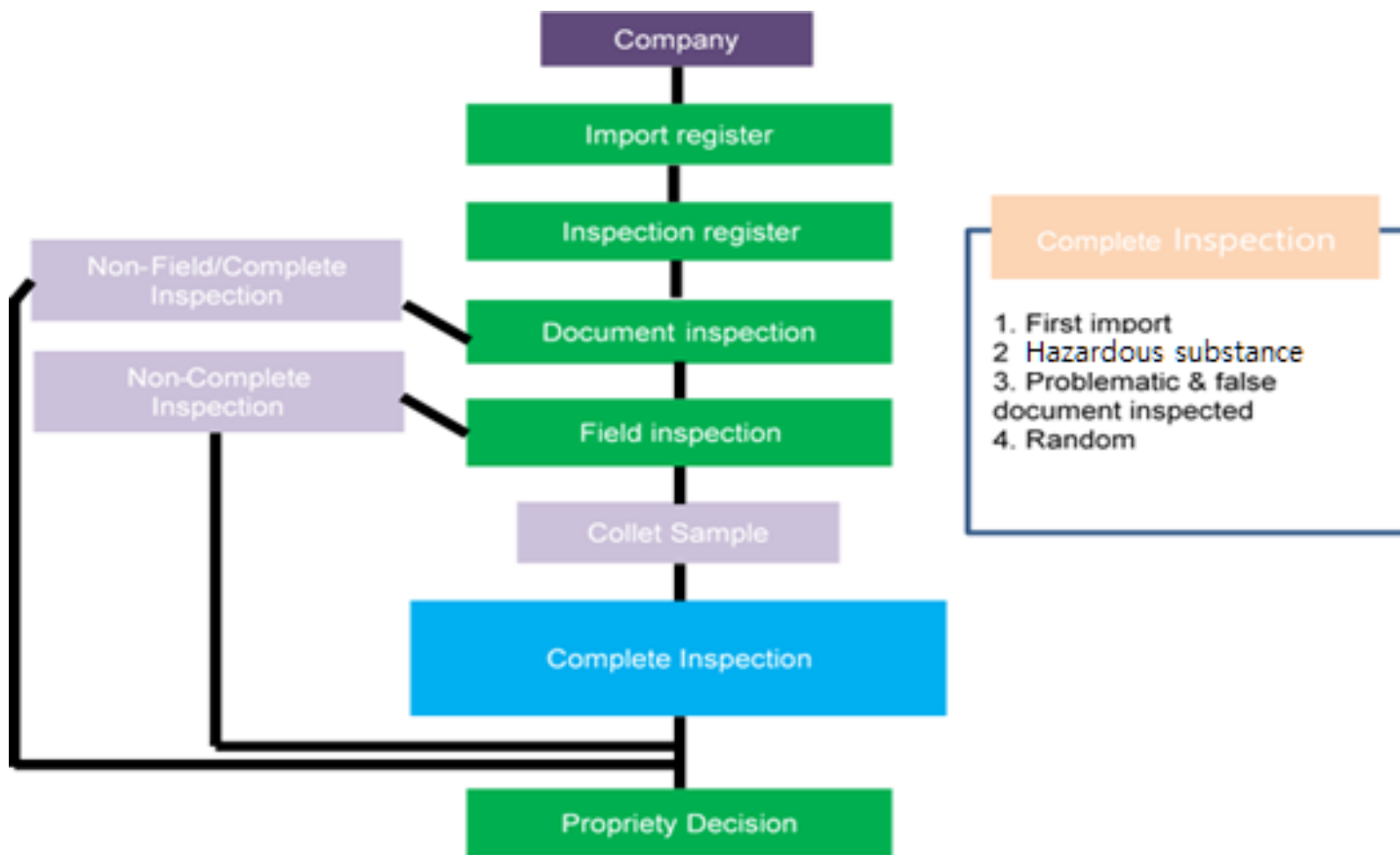
Nutrition Fact	Total amount		% Daily values		Total amount		% Daily values	
	Sodium	00mg	00%	Lipid	00mg	00%		
	Carbo- hydrate	00g	00%	Trans-fat	00g	00%		
	Sugars	00g	00%	Saturated -fat	00g	00%		
	Cholesterol	00mg	00%	Protein	00mg	00%		
	Percent Daily values are based on 2,000 kcal. Your daily values maybe higher or lower depend on calories needs.							

- Some products require specific font and label sizes
- Functional Foods: Different labeling requirements apply
 - E.g., noting that product is not for medicinal use or disease prevention
 - Must bear specific Functional Foods identifying mark
- Organic: EU and US have equivalence agreements for organic labeling with Korea for processed foods
 - For non-processed, must separately apply for Korea organic certification
- Gluten-free: Specific requirements on contents for that marking, but no logo is required



- Before export, to be completed:
 - Origin Declaration, esp for countries with agreements affecting tariff rates
 - Registration of manufacturing facility with Korea's MFDS
 - 7 days before first export, renew every 2 years
 - Can be done online by exporter or by Korean importer
 - Includes consent to onsite inspection if MFDS deems necessary, to check safety and sanitation management of food manufacturer
 - Livestock and Dairy products require separate registration with the Ministry of Agriculture, Food, and Rural Affairs (MAFRA)
 - Preparations to
 - Confirm compliance for product ingredients, product category and exact tariffs, any additives & pesticides used, and required documentation
 - Undergo a complete product inspection on first import, including extra time and possible testing costs

Import Process



*Ministry of Food and Drug Safety

- Find a good partner: It is the importer's responsibility to manage the import process, not the exporter.
- The Importer is responsible for handling
 - Customs / tariffs
 - Quarantine / inspections
 - Physical movement of goods from port of arrival
- Be a good partner: The exporter can make the importer's life easier by carefully and meticulously preparing documentation, test results, etc.

Your partner is dealing with the Korean bureaucracy. When he asks for information, documents, samples, he is trying to manage the local bureaucrats. Keep in mind the importer is your conduit to the market: an ally, not a foe or competitor.

- Consider impact of product packaging on target customer
 - Localization? Labels?
 - Eye appeal: Koreans are very sensitive to product packaging appearance
 - Environmental concerns: Koreans pay for waste disposal by volume, while post-consumer recycling is free
- Choose entry strategy
 - Importer
 - Most common, handles many aspects of the process
 - Many retailers prefer dealing with importers
 - Option to access more than one sales channel
 - Commission increases prices
 - Direct Import
 - Direct import by retailer, no third parties in between
 - May be only selected products, usually after market test
 - Great access, but limited to the selected sales channel
 - Online Direct Purchase
 - Requires own efforts for marketing and product awareness
 - High delivery fees
 - Some products ineligible

Incheon:

- Primary airport

Gyeong-gi Province

- Location of most warehouses

Korea has well-established distribution services:

- 3PL
- Chilled & frozen distribution
- Chilled & frozen warehouses



Rail:

- Intermodal Container Transport

Busan:

- 4th largest seaport globally
- Primary port of import



Success Factors for Market Entry

- Different Business Culture
 - Language (not just different but also vague)
 - Priorities
 - Values
- Market entry takes time and effort
 - Important to be committed – not for dabbling
- Demanding market
 - High standards
 - Sensitive, savvy consumers
 - Speed

- Differentiate yourself
 - Product quality, features, image
 - Company commitment to Korea market
 - Reputation, popularity in home country
 - Fit with consumer trends and interests
- Responsive service is key
 - Extras at no extra cost make people reach for your products
 - Free and fast after-sales service – positive online reviews
- Speedy yet careful delivery
- Price

More reasons your import partner is the key relationship!

Communication

- Rely on written communication – follow up calls with email
- Respond quickly
- Verify messages received & understood
- Adjust speed and level of English to your audience
- Verify understanding – “yes” doesn’t mean “I understand”

Meetings

- Business Cards, be aware of rank
- Small talk first – it’s about relationship
- Listen. English skills may be weak. Reconfirm / rephrase important points when in doubt. Be patient.
- Follow up in writing on key points

Invest in Relationships

- Visit Korea regularly to know market and partners
- Invest time with people – more than elsewhere
- Be honest and reliable, patient and persistent
- Give a little – without thought of compensation or revenue
- Demonstrate interest in Korea and things Korean
- Language: learn a few Korean phrases

- Democratic, stable, growing middle class
- High volume of food imports, no change in sight
- Consumers w high disposable income, willing to spend on quality
- Access to entire country through one partner
- Internationalization means opportunities: developing food trends
- New focus on healthy & safe foods
- Positive reputation to build on for many countries
- Relatively untapped market to build brand following
- Rising online F&B purchasing makes exploration easier
- Importer partner role in getting through processes

Thank you

- Market Access
- Wagrallim
- F2F Health Matters

Feel like you are in uncharted waters?



Let IRC guide your way!

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