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Korea, Republic of

Organic Products

Organic Market Brief Update

2006

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Report Highlights:

The value of the Korean organic market has increased substantially in 2005, especially imported organic processed products. According to import data collected by the Korean Food and Drug Administration (KFDA), imported non-processed organic products increased by 76 percent (from \$1.7 million to \$3 million) and imported processed organic products increase by 157 percent (from \$12.6 million to \$32.4 million) in 2005. These processed products came largely from the United States and about half were used as ingredients in the manufacturing sector.

Includes PSD Changes: No
Includes Trade Matrix: No
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SECTION I. SUMMARY

The value of the Korean organic market has increased substantially in 2005, especially imported organic processed products. According to import data collected by the Korean Food and Drug Administration (KFDA), imported non-processed organic products increased by 76 percent (from \$1.7 million to \$3 million) in 2005. These were mostly wheat and soybean products largely imported from China and used domestically to make processed organic tofu and other products. Imported processed organic products increase by 157 percent (from \$12.6 million to \$32.4 million) in 2005. These products came largely from the United States and about half were used as ingredients in the manufacturing sector. These included products for the manufacture of olive oil, juices and condiments.

Domestically produced organic products consisted mainly of fresh vegetables, some fruits, and grains. The Korean government plans to develop an organic certification program to help encourage farmers to increase the amount of organic production. In addition, the government is planning to modify their labeling requirements by reducing the current four labels (organic, transitional, low pesticide and no pesticide) to only two (organic and no pesticide). These labels have had the ancillary effect of increasing consumer awareness about the heavy use of agricultural chemicals in Korea. By reducing the labels to only two, the Korean government is hoping to further encourage farmers to reduce their use of agricultural chemicals.

At present, one U.S. organic farm has been approved by a Korean organic certifying organization to export organic vegetable seeds, such as broccoli, alfalfa and radish to Korea. In addition, a New Zealand organic kiwifruit orchard was approved by a Korean organic certifying organic and has recently launched its kiwi fruit using a Korean organic label.

In the past year, one of the leading organic domestic food companies opened several new concept stores promoting healthy and functional food supplements, such as vitamins and other health products. Most of its products are imported from the United States. Interestingly, this company has plans to import cooked (ready to eat) organic brown rice from the United States, packaged with a Korean language label.

Table 1. Advantages vs. Challenges

Advantages	Challenges
Consumers are increasingly aware of organic products and the demand is growing.	U.S. exporters of organic products know little about the Korean market and do not view it as an opportunity.
Consumers trust the USDA label.	Korean importers and retailers have very little knowledge about imported processed organic products.
Tariffs for processed organic products are relatively low.	U.S. fresh organic produce and grain farms need to be approved by a Korean organic certifying agent.
Koreans prefer the taste of U.S. organic food to competitors'.	Korean importers need more information about U.S. organic product consolidators.
Local production of processed organic products is negligible.	Organic processed products are priced 240 percent higher than conventional counterparts.

Korea imports 60-70 percent of total food and feed needs.	Consumers are increasingly concerned with food safety and are not confident of the reliability of organic certificates.
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SECTION II. REGULATIONS AND POLICY

The regulations for fresh organic produce and grains are implemented by the Ministry of Agriculture and Forestry (MAF). For livestock and processed livestock products including dairy products (over 50% meat content and over 3% dairy content), the National Veterinary Research Quarantine Service (NVRQS) is the regulatory agency.

The regulations for processed organic products are implemented by KFDA. This is true for imported and domestically produced organic products.

In contrast to KFDA, MAF generally requires its own organic certifiers to certify producers and manufacturers in foreign countries. However, NVRQS will accept U.S. processed organic dairy products such as cheese and butter if they are accompanied by a valid health certificate and an organic certificate from a USDA-accredited organic certification agent.

A. Certification Requirements for Imported Processed Organic Products

KFDA requires organic certificates issued to the producer, processor or manufacturer of organic products. KFDA is currently not accepting organic certificates issued to handlers.

The following two documents are required to be presented to a KFDA regional office when submitting the import clearance application for organic food products.

1. A copy of an acceptable organic certificate issued by a USDA-accredited certifying agent

The certificate must include following information.

- Name, address, and phone number of the certifying agent;
 - The type of organic food for which the operation is certified to supply, along with the company name, address, and effective date (or renewal date) of certification.
2. An original ingredient statement (a list of all ingredient names) issued by the manufacturer (only required for organic food products made of mixed ingredients) that includes the office/department/division name, name and signature of the issuer.

B. Labeling Requirements for Processed Organic Foods

Labeling requirements for processed organic agricultural products are determined by KFDA. The following labels may be used depending on the percentage of organic ingredients contained in the product.

- 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 agricultural products, 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 be on the label. The quantities of organic agricultural products must be stated in percentage in the section for labeling raw materials.

- If the raw materials contain between 70 percent and 95 percent organic agricultural products, the term “Organic” can be used on any of the sides other than the primary display panel of the package. The quantity of organic agricultural products must be labeled in percentage in the section for labeling raw materials.
- If a product, with less than 70 percent organic agricultural products, contains organic agricultural products as a certain ingredient, the label “Organic” can be used for the relevant items in the section for labeling raw ingredients. The quantity of organic agricultural products must be labeled in percentage in parenthesis next to the name of the raw materials in question.

Additionally, the term “Natural” can be used for products that do not contain artificial (combined) flavoring agents, synthetic colors, synthetic preservatives or other artificial or post-harvest-added synthetic components and has not gone through additional processes other than a process of eliminating non-dietary elements. The term “100 percent” can only be used when no materials other than the raw materials in question are added.

Korea maintains a list of usable food additives and some are only allowed in certain food products. Exporters should send a sample of the product and a list of the ingredients to the Food Standard Division of KFDA (www.kfda.go.kr, Tel: 001 82-2 380-1665/8; Fax: 001 82-2 382-4892) to verify compliance with Korean requirements. The U.S. Agricultural Trade Office (ATO) and/or the importer are also sources of information if there is a question about a particular food additive.

C. Labeling Requirements for Fresh Agricultural Produce and Grains

The labeling requirements for fresh agricultural produce and grains are set by the National Agricultural Products Quality Management Service (NAQS). NAQS was designated as the official certification body for sustainable agricultural products by MAF.



인증기관명

Under the Environmentally-Friendly Agriculture Promotion Act (EAPA), there were four emblems that were used for fresh agricultural produce and grains depending on the amount of chemicals and fertilizer used and the number of years the product has been cultivated without chemicals or fertilizers:

- Fresh agricultural produce and grains cultivated with no agricultural chemicals and no chemical fertilizer for three years are labeled with a dark green emblem as “Organic Products.”
- Fresh agricultural produce and grains cultivated with no agricultural chemicals and no chemical fertilizer for one year are considered to be in a transitional period and are labeled (like the example) with a light green emblem as “Transitional Organic Agricultural Products.”
- Fresh agricultural produce and grains cultivated with no agricultural chemicals, but with chemical fertilizer used within the amount allowed by law, are labeled with a blue emblem as “No Agricultural Chemicals.”
- Fresh agricultural produce and grains cultivated with half the amount or less of agricultural chemicals allowable by law are labeled with an orange emblem as “Low Agricultural Chemicals.”

The above labeling laws have greatly increased consumer awareness about the amount of chemicals used in local agricultural production. However, as can be seen in the table 3 below, farmers have more readily accepted production methods using lower amounts of pesticides and MAF would like to encourage farmers to use no pesticides. As a result, MAF

recently announced that they will change their certificates in order to more closely follow international standards as shown in table 2 below. This will be followed by a corresponding change in the labels.

Table 2. EFA Produce Certificate Chart by Country

	Austria	Switzerland	U.S.	Japan	Korea		China	
Organic Cultivation	Organic	Organic	Organic	Organic	EFA Produce	Organic	Green Food	Class AA
	(Transit)	(Transit)	(Transit)	(Transit)		Transit		
Low Pesticide Cultivation		(Integrated Production)	(Integrated Pest Maintenance)	(Special Cultivation)		No Pesticide		
					Low Pesticide		Class A	

Source: 2006 Korean Agriculture Prospect by Korea Rural Economy Institute

“Transitional Organic Agricultural Products” (light green emblem) will be merged into “Organic Products” (green emblem) starting in 2006 and “Low Agricultural Chemicals” (orange emblem) will be cancelled from 2009. After 2009, there will be only two emblems – “Organic Products” and “No Agricultural Chemicals” (blue emblem) in the market.

In addition, the Korean government encourages farmers to grow organic products for environmental reasons and participating farmers receive a premium for their products. The government also provides certain subsidies to advertise organic agricultural products and for packing organic products.

Table 3. Local Production of Environmentally Friendly Agriculture Products by Year

	1999	2000	2001	2002	2003	2004	2005	Annual Increase(%)
Organic	7,000 (26%)	6,500 (19%)	11,000 (12%)	21,100 (11%)	34,200 (9%)	37,000 (8%)	68,100 (9%)	46 percent
No Pesticide	12,000 (44%)	15,700 (44%)	32,300 (37%)	77,000 (38%)	120,000 (33%)	167,000 (36%)	241,000 (30%)	65 percent
Low Pesticide	7,800 (30%)	13,200 (37%)	44,000 (51%)	102,000 (51%)	211,600 (58%)	257,000 (56%)	488,000 (61%)	99 percent
Total	27,000 (100%)	35,400 (100%)	87,300 (100%)	200,000 (100%)	366,100 (100%)	461,000 (100%)	796,000 (100%)	76 percent

Source: National Agricultural Products Quality Management Service (2006)

SECTION III. CONSUMPTION AND MARKET SECTORS

A. Consumption

Women, between the ages of 30 and 50, generally do the family food shopping. Culturally, Korean mothers are well known for the great lengths they will go to in order to protect their family. Many people are concerned with the high rate of cancer and skin diseases (atopic dermatitis) thought to have come from the excessive use of agricultural chemicals and pollution in Korea. Initially, this group purchased organic products for their children, mostly baby food or infant formula. However, the organic food that is now being purchased has expanded to include the whole family. As the price of conventional food continues to rise, consumers are more willing to purchase organic food, as the difference is minimal.

In addition, Koreans' interest in health is extremely high. One of the latest consumer surveys, conducted in 2005, indicated that 80 percent of surveyed consumers were purchasing organic products because they were concerned about their family's health; 72 percent were concerned about food safety; 8 percent thought that organic foods contained more nutrition or the quality was better; and, 4 percent were concerned about the environment. As a whole, Koreans are very aware of the term "organic" as the Environmentally-Friendly emblems are easy to understand and the Korean government has done a lot of public-service advertising.

B. Market Sectors

RETAIL FOODS

Entry Strategy

There are three-to-five major importers/distributors of organic products currently supplying the Korean market. Half of all importers seem to be working with the same three U.S. consolidators. The other half imports directly from U.S. suppliers and distributes these products to retailers and wholesalers. It is increasingly apparent that additional consolidators are needed to supply a greater variety of organic products in order to keep consumers interested in these types of products. Although Korean consumers prefer U.S. products, importers have been forced to turn to other suppliers, such as Europe and Australia, to meet consumers' demand for greater variety. One retailer has developed several exclusivity arrangements and is importing those products directly and distributing them to other outlets. New-to-market exporters can create product awareness by presenting their products to importers/distributors or they can attempt to develop a relationship with an importer/distributor who is currently not importing organic products. To reach the latter audience, exhibiting the product at a food show or at an organic event is an effective way to promote branded organic products (see Section V to learn more about upcoming promotional activities).

Market Summary

The size of the retail market is estimated to be \$200 million for organic agricultural products.

Department stores in Korea rent space on their grocery floor for independent concessions, which are managed by importers/distributors. These "shop-in-shops," as they are often called, have become an extremely popular mechanism for selling organic products in department stores and discount stores.

Sector Trends

Currently, the types of organic products available are either domestically grown fresh produce or grains. The domestically produced processed organic products being sold in the retail sector are green tea, kimchi, functional foods and tofu. There are two soybean farms in China that have been approved by the Korean government to export organic products to Korea. The types of imported processed organic products available include breakfast cereal, juice, jam, popcorn, pickles, tea, coffee, salt, sugar, olive oil, vinegar and others. The number of imported organic processed products increased during the past year resulting in about 157 percent increase in imports, according to KFDA. A large portion of this increase was for ingredients needed to produce finished retail products, such as organic olive oil, a variety of fruit juices and others.

In general, the prices for organic produce are not substantially different than their conventional counterparts; however, processed organic products seem to be priced well above their conventional counterparts as noted below (Table 4). This price difference may

limit organic market expansion. Nevertheless, many Korean consumers perceive a benefit and are willing to pay the higher prices, particularly for their family.

Table 4. Imported Organic Processed Food Price Premium

	Unit	Price (Organic)	Price (Conventional)	Organic Premium
Chocolate Flakes	100 grams	\$4	\$0.7	5.77
Dried Prune	100 grams	\$2.6	\$1.5	1.79
Canned Sweet Corn	100 grams	\$2.6	\$0.3	8.85
Orange Juice	100 mille liter	\$1.6	\$0.17	9.22
Instant Coffee	100 grams	\$14	\$11.2	1.25
Olive Oil	100 mille liter	\$2.5	\$0.8	3.13
Strawberry Jam	100 grams	\$4.2	\$0.5	8.58
Tomato Ketchup	100	\$1.4	\$0.22	6.34
Mayonnaise	100	\$4	\$0.4	10.05
Salt	100	\$6.6	\$0.65	10.2
Apple Vinegar	100 mille liter	\$2	\$0.16	12.2
Brown Sugar	100 grams	\$1	\$0.11	8.8
Soybean Sauce	100 mille liter	\$1.2	\$0.4	3.03
Average	-	-	-	6.86

Source: Dr. Sunghoon, PARK – Korea Rural Economy Institute 2005

Table 5. Locally Produced Processed Organic Food Price Premium

	Unit	Price (Organic)	Price (Conventional)	Organic Premium
Powdered Milk	100 grams	\$5.8	\$2.4	2.47
Red Bean Paste	100 grams	\$1.2	\$0.28	4.29
Tofu	100 grams	\$0.7	\$0.6	1.15
Green tea	100 grams	\$27.8	\$18.4	1.51
Average	-	-	-	2.36

Source: Dr. Sunghoon, PARK – Korea Rural Economy Institute 2005

FOOD INGREDIENTS

Entry Strategy

The market for food ingredients has been mostly unexplored by the U.S. organic industry; however, there has been a growing interest from Korean manufacturers to source organic ingredients for the production of finished retail products such as olive oil, vegetable & fruit juices and others. There are not many other organic products currently being produced in Korea, but in the future, this is one sector that is expected to greatly expand.

The best market entry strategy for new-to-market exporters of organic ingredients is to begin by contacting the existing manufacturer of the organic/conventional product.

Market Summary

It is estimated that half of all imported processed organic products are currently being used as ingredients to develop finished organic products locally. That accounted for about 6,000 metric tons (valued at \$27 million) to produce organic processed products such as juices, jams, ketchup, olive oil and others. Industry sources expect this type of demand to increase further.

FOOD SERVICE PRODUCTS

A few restaurants are selling an organic menu item or two, but it is mostly limited to domestically grown vegetables. Restaurants in Korea are typically so specialized that a menu is not needed. However, some schools have started to use EFA products for school meals due to the demands of parents.

SECTION IV. PRODUCTION AND PROMOTION

A. Production

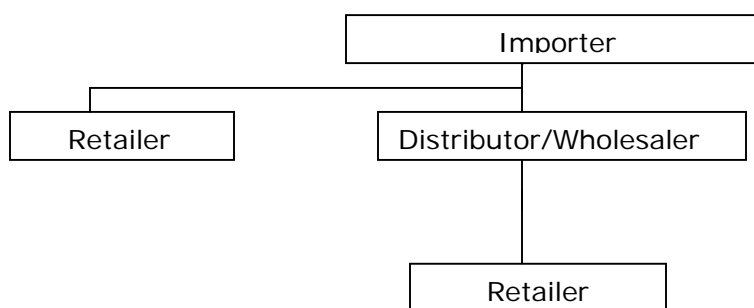
Organic agriculture in Korea is generally defined as agricultural production without the use of synthetically produced chemicals. Although local production is still very small, it is expected to grow rapidly in the coming years.

As a result of legislation, MAF established both a direct payment program and a regulatory system to promote organic agriculture and to encourage farmers to participate. Concurrently, the National Agricultural Products Quality Management Service (NAQS) was designated as the government certification body responsible for regulating environment-friendly agricultural products.

The government expects production of certified Environmentally-Friendly Agricultural Produce (EFAP) to rise from the current two percent to ten percent of all agricultural production by 2010. In 2004, the Korean government set up a plan to decrease the use of agricultural chemicals by 40 percent by 2013. Unless a farm is participating in the EFAP program, there are no restrictions on the amount of agricultural chemicals used. Farmers are motivated by higher yields to use increasing amounts of chemicals.

The typical distribution channel for processed organic products is shown below. According to industry sources, due to the limited product varieties and volume, it is estimated that one-third of the organic food volume goes through distributors to retailers.

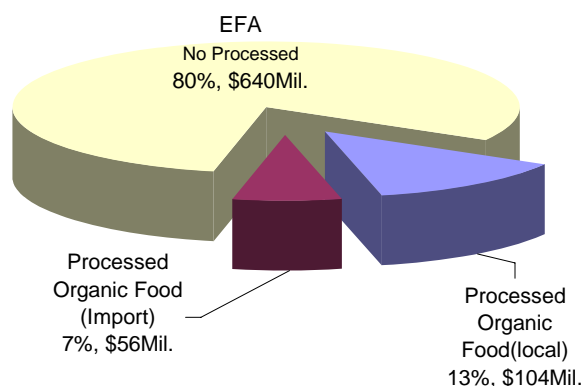
Distribution Channel for Processed Organic Products



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

There are twenty government accredited organic certificate organizations in Korea. You may view via www.naqs.go.kr.

Share of Environmentally-Friendly Agriculture (EFA) Products (Unit: Value of Retail Market)



Source: Estimate from Industrial Resources for 2005

Table 6. Number of EFA Food Distribution Stores by Years

	2000	2001	2002	2003	2004	Annual Average Increase
Total	352	477	602	701	931(100.0)	27.5%
Nat'l Ag. Coop. Fed.	108	110	112	127	170(18.3)	12.0%
Discount Stores	131	175	221	238	259(27.8)	18.6%
Shopping Center	7	43	46	46	46(4.9)	60.1%
Department Stores	75	97	98	98	98(10.5)	6.9%
Specialty Shops	31	36	48	114	265(28.4)	71.0%
Others	0	16	77	78	93(10.0)	79.8%

Source: Dr. Sunghoon, PARK – Korea Rural Economy Institute 2005

Table 7. Imports of Organic Processed & Non-Processed Agricultural Products by Year

Unit: Metric Tons (MT), Million (M)

	2002	2003		2004		2005	
Cases	334	684		1,588		2,290	
Imports Weight (MT)	1,674	No processed	1,650	No processed	5,615	No processed	6,810
		Processed	1,400	Processed	4,400	Processed	7,090
		Total	3,050	Total	10,015	Total	13,900
Imports Value (M)	\$3.9M	No processed	\$1.54M	No processed	\$1.7M	No processed	\$3M
		Processed	\$4.56M	Processed	\$12.6M	Processed	\$32.4m
		Total	\$6.1M	Total	\$14.3M	Total	\$35.4m

Source: Korea Food & Drug Administration 2006 – *CIF Price

*CIF price will turn out 2.5-3 times higher in retail market.

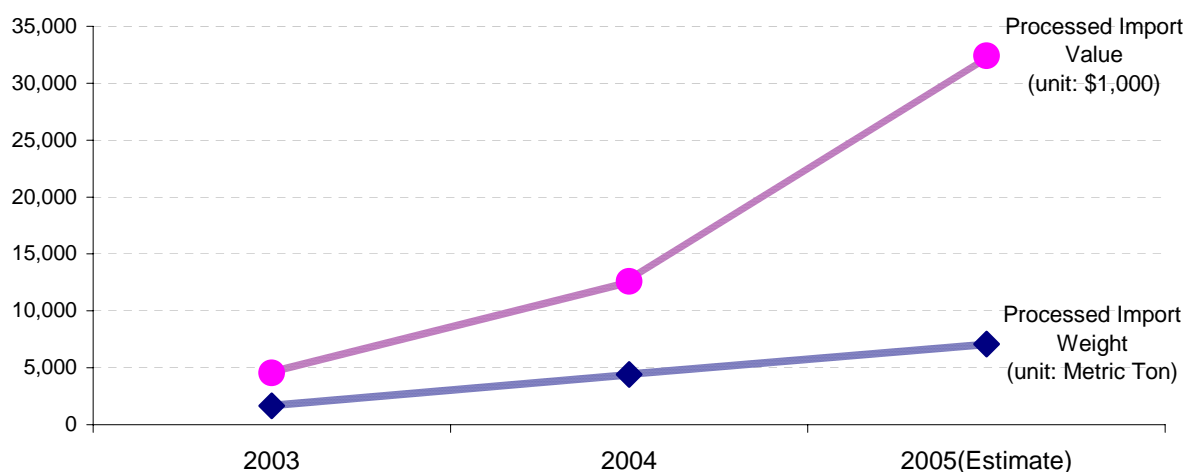


Table 8. Local Production of EFA Certified Products in 2005 (Estimate)

Unit: Metric Ton

	Grains	Fruits	Vegetables	Soybeans	Special	Other	Total
Organic (inc. Transit)	17,000 (18%)	4,100 (1%)	43,000 (13%)	3,300 (21%)	900 (1%)	100 (28%)	68,000 (9%)
No Pesticide	33,000 (35%)	12,400 (4%)	116,000 (36%)	7,300 (46%)	73,000 (98%)	250 (72%)	241,000 (30%)
Low Pesticide	43,000 (46%)	272,000 (94%)	167,000 (51%)	5,100 (33%)	400 (0.6%)	0 (%)	488,000 (61%)
Total	92,000 (100%)	289,000 (100%)	326,000 (100%)	16,000 (100%)	74,000 (100%)	340 (100%)	796,000 (100%)

Source: National Agricultural Products Quality Management Service (2006)

Table 9. Price Comparison between Environmental Friendly Agricultural (EFA) and Conventional Ag. Produces in 2005

Unit: \$/Kilogram

	Rice	Lettuce	Green Onion	Onion	Cucumber	Tomato	Apple	Citrus
EFA Product (A)	\$3.8	\$10.4	\$6.7	\$3.3	\$7.4	\$6.3	\$6	\$4.9
Conventional Ag. Product (B)	\$2.3	\$5.5	\$1.6	\$1.2	\$5.2	\$3.7	\$3.4	\$2.8
(A/B)	1.7	1.9	4.2	2.7	1.4	1.7	1.8	1.7

Source: "Agricultural Product Distribution Information" (2005 Edition) by Agri-Fisheries Trade Corporation

Table 10. Constraints of Purchasing the EFA

	Purchasing Experience Consumer	No Purchasing Experience Consumer
High Price Premium	41%	37%
Lower Reliability of production and distribution	33%	24%
Continuing Supply Deficit	15%	5%
Others	11%	34%
	100%	100%

Source: 2006 Agriculture Prospects by Korea Rural Economic Institute

Table 11. Favorite EFA Products Shopping Place and Reason

	Shopping Place	Reason
Discount Stores	41%	Convenience
EFA Specialty Shop	20%	Varieties and Continuing Supply
Cooperative Shop	12%	Competitive Price
Department Store Grocery Market	12%	Kindness
On Line Shopping	4%	Convenience
Other	11%	
Total	100%	

Source: 2006 Agriculture Prospects by Korea Rural Economic Institute

Table 12. Production of Certified EFA Products by Year

	2000(A)	2001	2002	2003	2004	2005(B)	Increase(B/A)
Farms(1,000)	2	5	12	23	29	53	27
Cultivation Area (1,000ha)	2	5	11	22	28	50	25
Production(1,000MT)	35	87	200	365	461	798	23
Share out of Whole Ag. Production	0.2%	0.4%	1.1%	2.1%	2.5%	4%	-

Source: 2006 Agriculture Prospects by Korea Rural Economic Institute

Table 13. EFA Production by Product in 2005

Total Production	Grains	Fruits	Vegetables	Other
798(100%)	94(12%)	289 (36%)	326(41%)	89(11%)

Unit: 1,000 Metric Ton

Source: 2006 Agriculture Prospects by Korea Rural Economic Institute

B. Exports

Currently, very little domestically produced organic produce or grain is being exported. The Korean government plans to promote organic products as an export-oriented item, but that has not yet happened.

SECTION V. PROMOTIONAL ACTIVITIES

- Organic & Natural 2006 (December 14-16, 2006): The fifth Environmentally-Friendly & Organic exposition 2006, which will be held in COEX, Seoul and organized by Korea Organic Farming Association. ATO Seoul will participate in the show. Visit www.organicshow.co.kr for more information.
- Seoul Food and Hotel 2007 (April 24-27, 2007): The U.S. Pavilion will include organic product exhibitors. One-on-one meetings can be arranged for participating exhibitors. For more information about this show, please contact our office.

SECTION VI. POST CONTACT AND FURTHER INFORMATION

For more information or assistance, please contact:

U.S. Agricultural Trade Office (ATO), Seoul, Korea

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