



June 27, 2001

## *Dairy, Livestock, & Poultry Market Report: The Korean Beef Market*

### **A Market Poised to Grow?**

With imported beef selling for as little as one third the price of domestic product in Korea, one would wonder why sales of imports are not higher. Some would argue that imported beef by its very foreignness is suspect. Eating domestic beef is a vote for tradition, self reliance, and national pride in Korea. These values are in turn capitalized upon by political leaders seeking to support the less than 10 percent of the population engaged in agriculture by slowing the flow of imports. This occurs even though it means limited consumer access to less expensive imported product.

### **Korean Beef Prices Are Among the World's Highest, Exceeding Those of Japan**

<b>THE COST OF BEEF IN KOREA</b>			
(USD/POUND)	Imported	Domestic	Price Difference
Rib Eye	\$5.50	\$8.65	57%
Deboned Short Rib	\$13.50	\$21.80	61%
Sirloin	\$7.95	\$18.35	131%
Hamburger	\$3.30	\$8.65	162%
Stew Beef	\$6.20	\$17.30	179%

South Korea's 47 million people pay some of the highest prices in the world for food and spend 28 percent of their income for it. Yet, despite recent high beef prices, Korea's cattle industry is shrinking. The recent Asian economic crisis dealt a blow to Korea's cattle herd, which fell from a record 2.9 million head in 1998 to 1.45 million head at present official Korean estimates. Attempting to turn this situation around, the Republic of Korea Government (ROKG) in April published new

measures, including a \$1.8-billion dollar subsidy program, over the next 9 years, to offer incentives to Korea's cattlemen, retailers, and Hanwoo specialized breed producers.

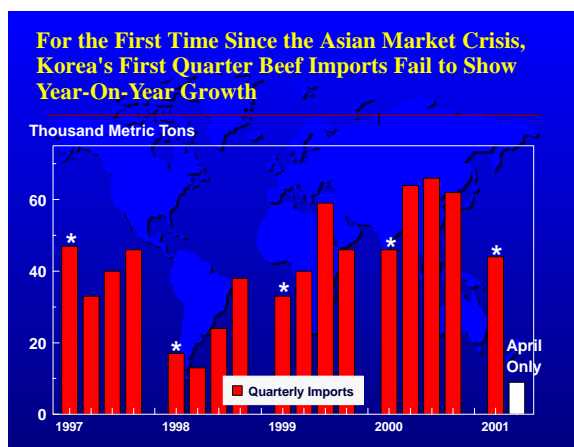
With Korea's strong domestic beef prices and declining domestic supplies, the United States and other beef-exporting nations should expect additional beef sales. In addition, the number of potential handlers of imported beef is growing. These retailers are not the mom-and-pop stores of the past, but the newly emerging supermarket chains and hypermarkets that are securing a strong foothold across the country. A single super or hypermarket can replace the business of 50 to 150 traditional butcher shops. With a rapidly growing and sophisticated retail sector, and more open-minded consumer preference and demand for affordable beef, especially U.S. product, Korea's beef imports should rapidly begin to grow.

On January 1, 2001, the ROKG made significant moves to liberalize its market by removing a number of trade-restricting measures.<sup>1</sup> These include the termination of state trading,

<sup>1</sup> For more information on these measures, please see "The Korean Beef Market: The Uncertain Impact of WTO Trade Liberalization," at [http://www.fas.usda.gov/dlp/highlights/2001/korea\\_a.html](http://www.fas.usda.gov/dlp/highlights/2001/korea_a.html).

government-held stocks, and import quotas for beef. Less than 6 months after liberalization, there are now nearly 50 firms importing on a regular basis – four times the number of firms permitted in 2000. Importers can now sell to whomever they choose, something not permitted until this year. In a victory for countries exporting beef to Korea, the WTO Dispute Settlement Body on January 11, 2001, adopted the Appellate Body ruling that Korea's use of separate retail systems for imported and domestically produced beef were against WTO regulations as they did not provide consumers with equal access to imported products.

### First Four Months of 2001 Disappointing for U.S. Beef Exports



In fact, Korea's imports of U.S. beef in the last two quarters of 2000 reached a record 72,000 tons. However, Korean imports for the first five months of 2001 fell to only 33,000 tons. While rumors of a U.S. recession; the devaluation of the *won* by 25 percent since a year ago; and strong U.S. beef prices may have constrained Korean demand, other non-market factors were also in play. These include the dumping of some 20,000 to 30,000 metric tons of LPMO (government-held) stocks at below market prices and Korea's continued use of a dual retail system that discriminates against the use of imported beef. Prior to these recent

developments, Korea was projected to overtake Japan in per capita beef consumption in 2001 at 27 pounds. The last of the LPMO stocks is now down to 35,000 tons, but the recovery of the market is uncertain, especially as the ROKG continues to adhere to unfair trade practices that shield producers but are unfair to importers, processors, and consumers.

### One Key Market Restraint Still in Place Despite the WTO Ruling

Under the control of this two-tier retail system, only 5,000 of Korea's 50,000 butchers have elected to handle imported beef as the government's separate storage, signage, and paperwork requirements for imported product are deemed too costly by most businesses. Of the minority of companies that do handle imported product, they would acquire more if they and their clientele, especially restaurants, did not face such burdensome and expensive administrative controls. This last barrier should have been dissolved when the WTO first ruled against Korea's market access controls on July 31, 2000. Korea has until September 10, 2001, to bring its retail system into compliance with the WTO Dispute Settlement Body's findings. As of today's publication, the ROKG has offered no confirmation of the repeal of the dual-retail system and its discrimination against imported beef. At this point, it is uncertain how Korea intends to comply, but eliminating this final constraint is essential if exporters are to be allowed to compete with domestic beef on an equal basis.

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