KOREA MARKET REPORT:
FRUIT AND VEGETABLES

NEW ZEALAND
EMBASSY

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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.

Fruit and Veges: Korea-NZ FTA Horticulture Outcomes Fuel Trade Growth

Koreans are consuming an expanding range of fruit and vegetables which will provide opportunities for New Zealand growers. Some horticultural products have already benefited from tariff reductions and others will become increasingly competitive over the next five to ten years. New Zealand's reputation for food safety and ability to meet high consumer expectations and standards position us well to command premium prices in the Korean market. The New Zealand Embassy in Seoul is focused on supporting exporters that are interested in gaining a foothold in this market.

The Korean Market

There are six traditionally dominant fruit in Korea: apples, tangerines, pears, grapes, peaches, and persimmons. Another three domestically-grown fruits are increasingly popular: watermelon, strawberries, and tomatoes (which are used locally in both fruit and vegetable salads). Much of the horticultural product consumed in Korea is home-grown. In 2015, domestic fruit accounted for 84% of total volumes. For vegetables, Korean production is focused on staples such as cabbage, radish and lettuce.

However, Korean imports of horticultural products are expanding. Much of this growth has come through a doubling of fresh fruit imports over the past five years. The most popular imported items are capsicums, garlic, onions, bananas, oranges, cherries and potatoes. There is a reliance on imports to cater for the diverse range of vegetables for the retail and food service markets.

New Zealand Trade with Korea

New Zealand's overall horticultural exports to Korea were worth $79 million in 2015, up 22% from a year earlier, placing Korea in our top ten markets for fruit and vegetable exports. We are Korea's fourth-largest source of fruit imports and fifth-largest for vegetables.

New Zealand dominates the Korean market in two products. Kiwifruit is our most successful export and the $52 million of kiwifruit exported in 2015 represented 76% of the market. Buttercup squash is also a significant item, with exports to Korea valued at $13 million last year. In the space of a decade, the Korean market has grown from effectively nothing to taking 30% of the total volume of New Zealand's buttercup squash exports, which constitutes more than 90% of the Korean market for the product. Collectively, these two products represent 82% of New Zealand's horticultural exports to Korea by value.

Coming in third place are cherries, which accounted for $2.6 million worth of exports to Korea in 2015, making us the third-largest supplier to Korea. Avocados were worth $2.3 million, with New Zealand the second-largest supplier, and apple juice rounded out the top five, with $1.8 million worth of exports that same year.

Korean Market Trends and Opportunities

Overall consumption of fruit and vegetables in Korea is growing and there is further room for New Zealand to increase export volumes. Koreans currently consume 169 kilograms of vegetables per person each year, but only 60 kilograms of fresh fruit per person each year. This is well below the equivalent figure in Taiwan, for example, where each person consumes at least 132 kilograms of fruit annually.

There is a noticeable interest on the part of Korean consumers in diversifying their tastes to new types of horticultural produce, as it becomes available in the market. Cherries are one example of a fruit not grown locally, for which Koreans have quickly acquired a taste. Imports of fresh cherries increased dramatically from $40 million in 2010 to $177 million in 2015. Given the difficulties in growing and transporting the fragile fruit, cherries are premium-priced, typically selling to consumers for around $60/kg.

The diversification of fruit is also being led by changes to the Korean climate. The Rural Development Administration credits a 1.6 degrees celsius rise in average temperatures over the past century for Jeju Island farmers being able to grow tropical crops on a scale that would previously never have been possible. This has enabled Koreans to become much more familiar with these crops.

As with a number of other Asian markets, sweetness is an important factor in attracting Korean consumers to try particular fruits. This is reflected in cherries, mangoes, strawberries and other berries becoming increasingly popular following their introduction into Korea, despite their high prices relative to other more traditional fruit. Mangoes are another product that has shown remarkable growth in consumption, with imports into Korea growing from $8 million in 2010 to $78 million last year.

The growth of café chains in Korea has also seen fresh fruit and vegetable-based smoothies become increasingly popular. The popularity of these drinks highlights Korean consumer preference for convenience when eating fruit and vegetables. Convenience drivers are also leading to the emergence of small-serve packaging of fruit and vegetables to appeal to the growing number of single-person households in Korea.

Another interesting trend is Korean consumer interest in the wider health properties of food products. Alongside messaging about the vitamins, minerals and fibre contained in fruit and vegetables, Korean consumers are interested in the potential positive impact consumption can have on beauty. The association of avocados, for example, with oils that are good for the skin is pointed to as one of the reasons for their popularity. Avocado imports have shot up from just $2 million in 2010 to $10 million in 2015, again despite typically high retail prices.

Korea-NZ FTA Outcomes

Entry into force of the Korea-NZ FTA in December 2015 was a positive development for many of our main horticultural exports, of which a number have enjoyed or will enjoy substantial tariff reductions thanks to the agreement. Korea's 45% tariff on kiwifruit will be phased out by 2020 and kiwifruit exporters have already had a third wiped off this tariff since entry-into-force of the FTA. Sales are expected to grow over the next five years, as New Zealand's competitive advantage is fully leveraged against competing exporters.

Korea's 27% tariff on buttercup squash will be removed by 2019, although the tariff benefits will only apply for seasonal supply between December and May (inclusive) and the gains were not reflected in the first season under the FTA. Tariffs on New Zealand cherries (24%) were eliminated on the FTA's entry-into-force. This has helped the value of our cherry exports increase – these trebled in the early part of 2016 compared with a year earlier, benefitting from the level playing field that they now enjoy with Australian and US product. Avocados are another horticultural product set to achieve a tariff benefit under the FTA, with a 30% tariff gradually reduced to zero by 2024. The 45% tariff on apple juice will also be eliminated by 2022. The FTA is already showing signs of

having boosted some of New Zealand's horticultural exports to Korea, with a 24% jump in fruit exports in the first nine months of 2016 compared to a year earlier.

New Zealand's Value Proposition

Given the growing appetite for fresh fruit and vegetables, New Zealand exporters should be able to source significant value from the Korean market. Korean consumers assess the quality of fruit and vegetables both by the taste and also by appearance. Size and features of appearance are particularly important when horticultural products are sold in expensive gift sets during holiday periods throughout the year. New Zealand exporters' ability to produce food that appeals to these sensibilities holds us in good stead.

New Zealand's food safety record, and wider perceptions of the clean environment in which our crops grow, also helps distinguish our horticultural products in the minds of Korean consumers. The Korean public currently harbours concerns about the influx of produce from other countries which could pose a food safety risk. This is particularly apparent when linked to ingredients used for making the national dish, kimchi. A recent survey found that country of origin sat alongside freshness and price as the three main factors that influence Korean consumers' choice when buying vegetables.

Notwithstanding FTA tariff savings, New Zealand's higher cost of production means the product price in market is higher than that of the majority of our competitors. New Zealand also faces limitations on the volume of product that can be produced and exported. The focus for New Zealand's horticultural exporters in Korea, therefore, should be on quality over quantity.

New Zealand Government: What We Can Do to Help

The Embassy is actively involved in supporting New Zealand's horticultural exporters in the Korean market. This can include organising and supporting exporter presence at trade shows and events such as Food Connections, in order to showcase products to Korean importers, hoteliers, restauranteurs, retailers, food service representatives and media. Outside of regular events, the Embassy is also happy to support product-specific promotional events, which can attract significant Korean-language media attention.

The Embassy is supporting studies into areas of new horticultural engagement with Korea and is also involved in ongoing efforts to monitor the regulatory environment in Korea to assist exporters in understanding the requirements.

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

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