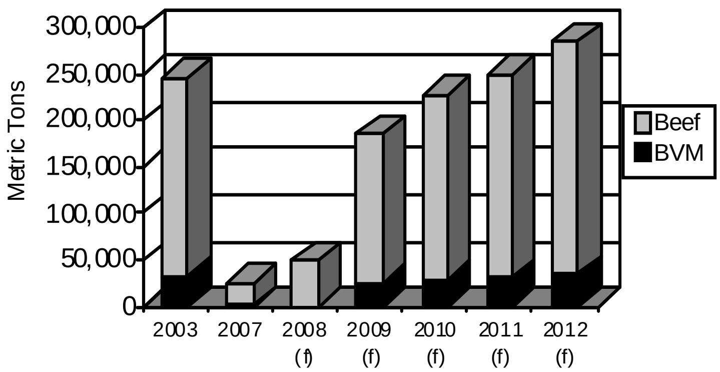
KOREA BEEF

U.S. Beef & Beef Variety Meat Exports



MARKET OVERVIEW

Although market access for U.S. beef was limited to a strict boneless under-30-month protocol for an intermittent five months in 2007, Korea remained the fifth largest market for U.S. beef plus beef variety meat exports, reaching 25,166 mt valued at $118.7 million. During the brief period that the market was open, U.S. beef sales (not including beef variety meat) reclaimed a 6.4% market share of Korea's total import volume. The Korean market re-opening is expected to add $25 to $30 per head of U.S. cattle from premiums derived from new demand for traditional Asian cuts, including short ribs, chuck rolls, and selected variety meat items. U.S. beef officially reentered the Korean market on June 26, 2008 when the Korean government announced import protocols, and product began arriving in Korea in July. Sales have been slowly increasing and consumer reaction to this point has been somewhat muted.

MARKET OPPORTUNITIES

- The agreement reached between the U.S. and South Korea on April 21, 2008, opened the Korean market to U.S. beef and beef product exports from cattle of all ages. Subsequently the U.S. beef industry settled on exports of bone-in and boneless beef and select beef products from cattle less than thirty months of age.
- High labor and production costs make average beef prices in Korea roughly three times higher than U.S. prices, with retail prices for some cuts far exceeding these levels. The return of U.S. beef helped to lower the overall price of imported and domestic beef, and despite U.S. beef safety concerns, Korean consumers like the fact that they can once again include beef in their diets. As the demand for beef grows, BBQ restaurants are again developing new menus and differentiation strategies.
- Although big retail chains have not yet begun promoting U.S. beef due to public concerns of safety and potential consumer boycotts, they hope to begin U.S. beef promotions as consumer concerns subside and the retailers recognize U.S. beef's competitiveness in terms of quality and price. Big retail chains are the largest potential buyers in Korea as the retail sector has grown considerably in the last five years.

Strategic Objective: Buyer Loyalty Reeducate key accounts about the quality, profitability and versatility of reasonably priced U.S. beef and inform consumers about its tastiness and availability, while also providing information across sectors about safeguards in place in the U.S. beef industry to mitigate the risk from future cases of BSE and ensure consistent supply.

Budget Allocation (FY09)	
Buyer Loyalty	*93%*
Issue Management	*7%*

Strategic Objective: Issue Management Reassure customers at all levels of the market of the safety of the product and the integrity of the U.S. beef production system, and contribute to and support U.S. government initiatives to eliminate trade restrictive policies in Korea while keeping the U.S. industry informed on critical changes in Korean government requirements and emerging consumer issues.

MARKET BACKGROUND INFORMATION

Market Trends and Growth Potential	2007	2002
Per Capita Beef Consumption (2007)	7.6 kg	8.5 kg
Total Beef Imports (2007)	219,941 mt	315,967 mt
Total Beef Variety Meat (BVM) Imports (2007)	24,659 mt	42,268 mt

- Before the Korean ban, U.S. beef was the major beef import supplier to Korea, accounting for almost 50% of total beef consumption. While U.S. beef was out of the market, Australian beef picked up boneless beef market share, although some U.S. bone-in beef products (especially, bone-in and short rib) could not be replaced by Australian beef.
- Consumer concern about beef safety initially made consumers stay away from all beef dishes, regardless of country of origin, which led to increased consumption of poultry and pork.

Competitiveness & Product/Industry Image	2007	2002
U.S. Share of Total Beef/BVM Import Market	5.7%	64%
Other Beef/BVM Suppliers & Market Shares	Australia 73%	Australia 26%
	New Zealand 18%	New Zealand 6%
	Mexico 2%	Canada 5%
Domestic Self Sufficiency	46.9%	30 %

- Although the market for domestic beef grew, the production capacity of the Korean industry was limited and could not expand significantly enough to take advantage of this situation.
- Although Korea's beef self sufficiency rates have grown, total consumption has decreased because of high consumer prices for beef which were, at one time, the highest in the world.
- Price discounts and the lower cost of U.S. beef during its reentry contrasted sharply with the high price of domestic beef.
- Although Australian beef benefited from its clean and safe image among Korean consumers over the past five years, many retailers and restaurant operators are still loyal to high quality marbled U.S. beef.

Market Penetration

Customers for U.S. Beef Imports	Processing 10%
	HRI 65%
	Retail 25%
Top Imported U.S. Beef Cuts: ribs (short, back and chuck), chuck rolls, briskets	
Top Imported U.S. Beef Variety Meat (BVM) Items: femur bones, intestines, feet, tendons, tail	

- Given the fact that U.S. beef has been out of the market for the past five years, it will be necessary to retrain the serving staff of restaurants on the attributes of U.S. beef, so they can actively recommend U.S. beef to their customers.
- The Asia Economic Daily reported in October 2008 that over 90% of the butcher shops in the Yeongdungpo Market, Namdaemun Market, and Majang-dong Livestock Market were selling U.S. beef. The cuts currently being distributed include chuck roll, neck meat and LA ribs.

Operating/Marketing Environment & Trade/Distribution Issues

- The re-introduction of U.S. beef in Korea was viewed with some trepidation as Korean consumer protests and candlelight vigils captured the media's attention and made potential promotion partners anxious about consumer reaction. Though these vigils seem to be motivated more by opposition to Korean government policies than U.S. beef safety concerns, it will take time and effort to educate Korean consumers on the safety and benefits of U.S. beef.
- Although U.S. beef re-launches at retail meat shops and *galbi* restaurants went well and the protests are waning, there is still some concern about consumer reaction in the retail and foodservice sectors.
- A report from the Korea Economic Research Institute estimated that the candlelight vigils protesting U.S. beef import, which had lasted for over a hundred days, brought losses of 3,750 billion Korean Won to the Korean economy due to union strikes (136,000 members participated), police enforcement costs, personal/material damage, business loss at stores around the demonstration area, advertising loss because of threats to advertisers, and losses from daily traffic blockage by vigil participants. Korean consumers are now questioning the real impact of the debate over U.S. beef.
- Foodservice in South Korea is reaching near maturity in many of the larger sectors, with strong competition for a share in fast food chains, family restaurants, coffee chains, etc. In 2008, the most important challenge in the industry is how to tackle the growth limit in this maturing market.
- The interest in healthy eating is anticipated to continue in 2008. U.S. beef needs to find a way to become part of this trend, possibly by stressing its nutritional value.

Import and market share data is based on import data of South Korea (from GTA), and U.S. export data is from the U.S. Department of Commerce, Trade Census Bureau.