



Submission No 35

Inquiry into Australia's Relations with the Republic of Korea; and Developments on the Korean Peninsula

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Australian Government

Department of Agriculture, Fisheries and Forestry

Mr John Carter
Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
Canberra ACT 2600
Via email: jscfadt@aph.gov.au

Dear Mr Carter

Australia's Relationship with the Republic of Korea

Thank you for the invitation to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade on Australia's relations with Korea.

Please find attached DAFF's submission which addresses directly the Committee's terms of reference on important aspects of the economic relationship between the two countries.

Our submission highlights the importance of Korea as an agricultural trading partner, particularly in regards to beef, wheat, sugar, cotton and dairy exports. Agriculture is a highly sensitive sector in Korea, and has a strong influence over government policy, particularly in the area of self-sufficiency. Australian agricultural exports to Korea are limited by a lack of quarantine market access and a range of tariff and non-tariff trade measures. Despite these trade issues, agricultural trade between Australia and Korea is important for Australia's agriculture, fisheries and forestry industries.

We look forward to the opportunity to discussing these issues at the upcoming public hearing.

Yours sincerely

Ms Nicola Gordon-Smith
General Manager
International Trade Branch



Australian Government
**Department of Agriculture,
Fisheries and Forestry**

Submission

by the

**Australian Government Department of Agriculture, Fisheries and
Forestry**

to the

**Inquiry into Australia's Relationship with Korea;
and Developments on the Korean Peninsula**

by the

**Joint Standing Committee on Foreign Affairs, Defence and Trade
Foreign Affairs Sub-Committee**

August 2005

INTRODUCTION

1. This submission by the Australian Government Department of Agriculture, Fisheries and Forestry ('DAFF' or the 'Department') addresses the importance of Australia's trade with the Republic of Korea (Korea) in the agriculture, forestry and fisheries sectors. It looks at the agricultural situation in Korea, including an examination of Korea's agricultural policies and the impact they have on agricultural trade. This is followed by an analysis of Australia's agricultural trade with Korea.

Korean Agriculture

2. The Korean economy has grown rapidly since the 1960s. It has been transformed from a relatively poor agrarian based economy to a highly industrialised economy with a focus on exports. Korea became a member of the Organisation for Economic Cooperation and Development in 1996. However, it has retained its developing country status in the World Trade Organisation. The agriculture sector, unlike the rest of the economy has little export focus and exists with high levels of government protection.

3. Agriculture accounts for only 3.2 per cent of Korea's GDP. However, the agriculture sector has a disproportionately strong influence over government policy and net agricultural support exceeds the sector's GDP contribution.

4. Approximately 19 per cent of the Korean land mass is available for agricultural production. The main agricultural crops are rice, root crops, barley, vegetables, fruit, cattle, pigs, chickens, milk and eggs.

5. The proportion of the population employed in the agriculture, forestry and fisheries sectors has declined rapidly from 58 per cent in 1965 to 8 per cent in 2004. Despite this decline the agriculture industry remains relatively labour intensive and is characterised by an aging farm population and small agricultural land holdings. More than half of Korea's farmers are over 60. Despite numerous government attempts to consolidate farms into larger units, the average farm size is still only 1.5 hectares.

6. Korea's agriculture policy is largely driven by the desire for self-sufficiency in agricultural production. Therefore the agriculture sector is heavily subsidised and there are significant barriers to imports of agricultural products. Another factor influencing the Korean government policy is the growing disparity between rural and urban incomes.

7. The OECD calculates producer support estimates (PSEs) to measure the proportion of farm output value attributable to government support. Support to agricultural producers (the PSE) in Korea has decreased from 70% in 1986-88 to 63% in 2002-04, but is still double the OECD average.

8. The main form of support is market price support. Border measures, including high tariffs, import quotas and minimum market access arrangements, and domestic price stabilisation schemes maintain the large gap between domestic and world prices of agricultural products.

9. The share of market price support as a percentage of total price support for agricultural producers has fallen from 99% in 1986-88 to 93% in 2002-04. Prices received by farmers in 1986-88 were on average 233% higher than those received in the world market. By 2002-04 the gap had decreased to 159%. The price for rice is much higher at around three times the world price.
10. Rice is the major focus of Korea's agricultural policy and much of the support provided to the agriculture sector goes to the rice industry. The government supports prices and producer incomes by purchasing a substantial amount of total rice production at a high cost to the budget. The government also controls imports and segregates them from the domestic rice market. The combined policies of production support and import restrictions lead to retail prices for rice well above international levels.
11. As rice stocks have grown and under pressure to open the Korean rice market, the government is trying to manage rice production more efficiently and improve quality. A set aside program and a deficiency payment scheme have been introduced and farmland ownership is being deregulated gradually.
12. In 2003 Korea imported US\$9.4 billion of agricultural products accounting for 5.3 per cent of Korea's total imports. The US and China are the major suppliers of agricultural products to Korea. Australia is a smaller but important supplier of a range of products including wheat, beef and dairy products.
13. High tariffs apply to agriculture, with these averaging 52.2 per cent in 2004 (more than seven times higher than on non-agricultural products) a slight reduction from the 54.8 percent in 2000. Out-of-quota tariffs, often exceeding 200% apply to many commodities. The multiplicity of tariff bands not only distorts competition but unnecessarily adds to the tariff complexity.
14. Almost all tariffs are ad valorem, contributing significantly to tariff transparency. On the other hand, alternate specific rates (mainly as out-of-quota duties) tend to conceal relatively high ad valorem equivalents, which vary between the same commodities (depending upon quality) and over time, providing greatest protection when world prices are lowest. These non-ad valorem tariffs undermine economic efficiency, transparency and tariff predicability.
15. State trading enterprises and producer associations administer tariff quotas affecting many agricultural imports, although auctioning of import entitlements has introduced greater market discipline in quota management.
16. Under the Uruguay Round Agreement on Agriculture (URAA) Korea committed to policy reforms which have generally resulted in improved market access (in the form of tariff reductions, quota growth and elimination of import bans), restrictions on export subsidies and trade distorting domestic support, and provision of some recourse against the use of safety and health standards as disguised barriers.
17. Under its URAA market access commitments, Korea began to phase out non-tariff barriers on agricultural products in January 1995. The rice import ban was lifted, and tariff rate quotas for a number of former import-restricted agricultural products,

including many horticultural products were established. Technically Korea has reduced barriers to imports of all agricultural products except rice. The tariffs for all agricultural products except rice are bound.

18. Agricultural protection undermines Korea's economic efficiency and tends to penalise efficient exports, including manufacturers. Although self-sufficiency goals and other "non-trade" concerns underpin agricultural protection, the resulting higher food prices are borne disproportionately by poor consumers. The measures used are an economically inefficient and costly means of achieving food security, and have contributed to surplus production of key commodities, like rice and dairy products.

Australia's Agricultural Trade with the Republic of Korea

19. While Korea is not a large overall market for Australian agricultural, forestry and fisheries products it is a major market for a number of specific products including beef, sugar, and wheat. Australian agricultural exports to Korea are limited by a lack of quarantine market access and a range of tariff and non-tariff trade measures. As the Korean economy continues to grow and the affluence of its population increases the prospects for increased trade with Australia will expand, although will be limited by the trade barriers.

Australian Agricultural Exports to the Republic of Korea (\$A'000)

Commodity	2002	2003	2004
Bovine Meat	339,311	272,069	483,938
Cotton	183,371	131,012	131,688
Animal Feed	77,395	55,269	77,365
Meat (other than bovine)	58,595	38,183	67,370
Wool	282,392	131,312	49,781
Cereal Preparations	49,451	40,727	44,427
Woodchips	42,129	33,812	43,950
Cheese and curd	53,242	51,956	42,967
Tobacco, manufactured	7	8,969	37,645
Wood, rough	52,102	38,646	34,147
Butter	16,078	13,737	25,816
Milk and cream	12,029	10,967	19,772
Animal oils and fats	1,666	5,729	13,920
Chocolate	15,761	16,236	13,010
Paper and paperboard	4,680	8,515	12,855
Starches, inulin & wheat gluten	4,948	8,571	9,195
Oilseeds & oleaginous fruits	11,479	5,701	9,191
Veneers, plywood, particle board	37,946	25,776	8,725
Barley	19,252	10,349	8,508
Fresh Vegetables	7,724	8,024	8,401
Sugars, molasses and honey	1,160	2,424	7,957
Alcoholic beverages	6,260	6,213	7,467
Live animals	5,091	4,664	5,753
Fruit and Nuts	4,888	1,627	1,978

Source: DFAT

20. The above table excludes sugar cane and wheat figures which are confidential. However estimates based on Korean import figures for Australian wheat imports are \$220m in 2002, \$220m in 2003 and \$338m in 2004; and sugar cane \$214m in 2002, \$251m in 2003 and \$267m in 2004.

Beef

21. Korea is Australia's third largest beef market behind Japan and the US. In the 2004 calendar year Australia exported 93,312 tonnes of beef to Korea with a value of \$484 million. The high prices in Korea and market opportunities that exist in the absence of the US (which has been banned from the market following the discovery of BSE) are likely to continue to attract product from Australia that would otherwise be sent to Canada, the European Union or other overseas markets. Australia is also increasing the number of cattle on feed to meet the demand from the Japanese and Korean markets resulting from the absence of the US.

22. Beef consumption in Korea has grown strongly, parallel with the country's economic growth. Koreans consumed a total of 402,700 tonnes of beef in 2002. This declined slightly in 2003 to an estimated 395,000 tonnes, due to a slowdown in the economy. In 2004 there was a further decline to 325 000 tonnes (provisional figures). The decline in 2004 is primarily due to a decreased supply due to US absence from the market. Consumption is forecast to reach 341,000 tonnes in 2005. Korea has a 40% tariff on beef imports and a 72% tariff on value added beef. The tariff on value added beef effectively blocks Australia from exporting value added beef to Korea.

23. Although Australia does not have regular government-to-government discussion on red meat, Meat & Livestock Australia has established a post in Korea to promote and market Australian red meat products.

24. Korea's import requirements are very well known to the Australian export industry, and AQIS ensures our industry is informed of changes to these requirements in a timely fashion. While there are currently no access issues for edible and inedible meat and non-meat products, issues do arise from time to time. AQIS resolves these issues with Korea on an as needs basis through bilateral negotiations. In addition, formal animal quarantine technical discussions are held occasionally between National Veterinary and Quarantine Research Service (NVRQS) of Korea and AQIS.

25. AQIS continues to work with NVRQS so that the Australian export industry is aware of and implements Korea's import requirement to ensure continued access to this important market.

Live Cattle

26. The liberalisation of the Korean beef market on 1 January 2001, granted permission for the first imports of live cattle in over a decade from Australia to the Republic of Korea in March 2001.

27. Korean producers were strongly opposed to imports of cattle, especially breeding cattle, as they were concerned about the potential impact the imported cattle would have on the national Hanwoo herd. These concerns gathered further strength following the detection of bluetongue antibodies post-arrival in the first two shipments of live cattle from Australia in 2001. Protesters rallied at the quarantine

facilities, distribution centres, properties, and retail outlets that either received, produced, purchased or sold beef derived from imports of live cattle. Due to the political and trade concerns which resulted from the resistance to imports of live cattle by the National Hanwoo Association (NHA), AQIS issued a quarantine operational notice (QON) on 13 June 2001 prohibiting further exports of live cattle to Korea.

28. Following extensive consultation between the Korean authorities, the Australian government, and industry groups, the *Australian Meat and Live-stock Industry (Live Cattle Exports to Republic of Korea) Order 2002* (the order) was developed under section 17 of the *Australian Meat and Live-stock Industry Act 1997* which enabled the export of live cattle to recommence in August 2002.

29. As there is only sufficient quarantine space for 851 head of cattle in Korea at any given time a significant aspect of the order regulates the export of live cattle to the ROK by incorporating local Korean import requirements and ensuring that sufficient quarantine space is available in the ROK before a vessel is allowed to depart an Australian port.

Table: Cattle Exports to ROK 2001 - 2005

	2001	2002	2003	2004	2005 (YTD)
Number of consignments	2	1	3	1	1
Average number of animals per consignment	669	563	836	851	851
Total number of animals	1338	563	2508	851	851

30. Meat from live cattle imported into Korea is labelled as domestic product after spending six months on feed in Korea. However, the country of origin labelling is retained which results in the beef being labelled both domestic product and Australian on the label. This can be misleading and also raises concerns regarding traceability and product integrity.

Sheepmeat

31. Australia does not ship large quantities of sheepmeat to Korea. In the 2004 calendar year Australia exported 1148 tonnes of lamb and 683 tonnes of mutton to Korea which was valued at \$5.9 million and \$3 million respectively.

32. Despite the lack of any domestic sheepmeat production, Korea has a 22.5% tariff on sheepmeat. This is a constraint to Australia's efforts to further develop the sheepmeat trade with Korea.

Field Crops

33. Australia is a major supplier of wheat, raw cotton and sugar to Korea. It also supplies other grains and field crop products like rice, barley, oats, oilseed meal and cottonseed.

34. A key issue for Australia is Korea's rice import arrangements. Developing country special and differential provisions were applied to Korea under the URAA. In addition the "Special Treatment Provision" was applied to the Korean rice sector

allowing Korea to postpone a decision on tariffication of rice for ten years (from 1995-2004) in exchange for providing minimum market access (MMA) for rice.

35. Korea's Uruguay Round commitments on rice were to provide MMA based on access of 1% of consumption (51,000 tonnes) in 1995 rising to 2% in 1999 and 4% (205,000 tonnes) in 2004. The in quota tariff rate is set at 5% but is not bound. Under these arrangements the ROK Government strictly controls the release of imported rice, preventing it from reaching consumers' tables.

36. Within the framework of the URAA, Korea concluded rice negotiations with the United States, China, Australia and a number of other countries during 2004. The key result was to extend special treatment for rice until 2014 and to increase the minimum market access amounts from 226,000 tonnes in 2005 to 409,000 tonnes in 2014 in equal annual installments.

37. The existing import volume of 205,000 tonnes has been allocated to suppliers based on historical trade flows from 2001-2003. Under this arrangement Australia has received a quota of 9,030 tonnes per annum. Future growth in the MMA will be allocated on a competitive basis. Australia will also have access to a small tender at a seasonally beneficial time for Australian rice, expected to commence from 2007. In addition Korea has agreed to allow a minimum of 10 per cent (rising to 30 per cent in 2010) of rice imports to be distributed on the domestic market for table use.

38. There are no major trade matters for the other Australian grains and field crops exports to Korea as they enter Korea at relatively low tariffs. However, Australia competes with major exporters like the United States, Canada, the European Union and China for grains and field crop products, and it is important that import arrangements for Australian products into Korea are treated equally to other countries.

39. Wheat exports held fairly steady over the last five years, and raw sugar exports increased steadily between 2001 and 2004. For other commodities and products, export figures for oats, rice, cottonseed and oilseed show a general downward trend, while those for raw cotton and barley have been fairly steady.

40. As Korea is a relatively mature economy and consumption of field crop products is fairly steady. Major growth in demand for these commodities would have to come from population growth, increased re-exports, and increased demand for animal feed driven by any rise in the demand for livestock products

Dairy

41. Korea is Australia's 9th largest market by value. In 2003/04 Australia exported 35,500 tonnes of dairy products to Korea with an export value of \$90 million, representing 3.78% of total Australian dairy exports.

42. The Australian dairy industry has identified Korea as a priority market due to its potential for growth through continued high incomes and more western diets. As such, Dairy Australia undertakes an interactive relationship building and education program with the Korean dairy industry. Opportunities for growth include cheese, butter blends, cocoa preparations and skim milk powder (SMP) preparations.

43. Exports of Australian dairy products have continued to grow in recent years, with cheese being the single most important product. This growth has continued despite an overall drop in the volume of Australian exports as a result of the drought.

44. Korea is Australia's 4th largest market for cheese, following Japan, the EU and Saudi Arabia. Cheese is the major dairy export representing nearly half the value of dairy exports. Most cheeses exported are fresh cheeses used in the pizza and food services sector.

45. While exports to Korea have remained steady, the composition of these exports has changed over time according to world supply and changing consumer demand in Korea.

Major dairy product exports to Korea (A\$ million)

Year	2003/04	2002/03	2001/02	2000/01	1999/00
Cheese	43.6	57.3	59.3	57.4	49.4
Butter/Butteroil	19.1	13.4	16.2	13.7	9.7
Milk	6.3	3.1	1.0	0.3	-
Casein	4.8	1.6	1.1	1.0	0.6
Mixtures	4.9	5.9	-	-	-
SMP	3.5	4.3	6.1	7.3	4.3
WMP	3.7	2.3	4.3	3.3	0.6
All Australian dairy exports	90.0	90.7	91.6	89.4	69.9

Source: Dairy Australia

46. The Korean dairy industry has been growing since the early 1960's. Although domestic milk production is steadily increasing, demand now outstrips supply and imports have filled the gap.

47. Total Korean dairy imports in 2003 were around 600,000 tonnes raw milk equivalent and worth approximately US\$178 million (A\$227 million). Australia was the second largest exporter to Korea in 2003, accounting for 21% of the market, preceded by the United States (26%) and followed by New Zealand (17%).

48. The Korean market has become more open to imports since 1995 as a result of liberalisation following the URAA. However, imports of key dairy categories are still restricted by low tariff quotas and high out of quota tariffs. As a result, dairy imports account for around 20 percent of Korea's dairy requirements.

49. The Korean government also intervenes in the market place through regulatory impediments including food standards, labelling requirements and testing regimes.

Wool

50. Wool exports to Korea have declined significantly from \$282m in 2002, to \$131m in 2003 and \$50m in 2004. Over the same time Korea's has declined in ranking from Australia's third largest market by value to our tenth largest market.

51. Raw wool imports from all countries into Korea were down 21% in 2004 from 2003. This appears to be due to the shift of wool processing facilities overseas and weak domestic demand.

52. Consumption of domestically produced wool apparel has been substituted with cheaper Chinese imports. Korean-produced wool apparel exports have maintained their competitiveness. During the 1990's, Korea lost its largest export market (Japan) to China as cheaper Chinese wool apparel products flooded the market. Despite the loss, Korea's woven wool garments exported to the US (the 2nd largest market) were maintained and a new market is emerging in China – this mainly appears to be in the form of men's suits with the volume of wool suits exported in 2003 being 1 million units. Exports of Korean knitwear dropped from 7.4 million pieces in 1990 to 2.9 million in 2003.

53. With the removal of quotas on textiles and apparel products into the US and EU markets, Korean exports are likely to face stiff competition and may lose some market share against the predicted increases of cheaper Chinese products entering these markets. Despite this, some Korean wool apparel exporters may be able to take advantage of their close proximity to the world's largest growing market, China.

Forests and Forest Products

54. Korea is largely dependent on timber production from overseas. In 2000, only 10% of Korea's timber consumption was supplied domestically. The relative lack of forest resource is expected to become more serious with population growth and economic development. Demand for wood products is largely driven by the housing sector.

55. Korea imports timber and primary processed timber products, such as logs, sawnwood, plywood, veneer and woodchips. Log imports account for 80% of imports by volume. This is partly due to investment assistance offered by the Korean Government to Korean companies for investment in offshore plantations on the basis that the plantation timber is returned to Korea for processing. Also Korean tariffs on logs are zero, while the tariff on wood chips is 1% and on other processed wood products are between 3% and 9%.

56. Australia is interested in attracting investment from Korean plantation companies as part of Korea's program to establish 1 million hectares of plantation outside of Korea by 2050. Overseas plantations are expected to supply 50% of Korea's timber demand.

57. The Korean company Hansol has made a substantial investment in plantation forestry in Western Australia. The company is one of the major manufacturers of pulp, paper and wool based panels in Korea.

58. In 1997 the Korean Forestry Administration (now Korea Forest Service) and the Department of Primary Industries and Energy (now the Department of Agriculture, Fisheries and Forestry) signed an "Arrangement concerning cooperation in the field of forestry". The 'Arrangement' makes provision for the establishment of a Cooperative Committee that endeavours to meet once every two years. Three meetings have taken place and the fourth meeting is scheduled to take place in Australia in late 2005.

Wine

59. Korea is a growing market for wine. From 1994 to 2003, Korea more than tripled its wine imports, from 4 to over 13 million litres. Korea has become an important emerging market for the Australian wine industry. Australia is a small supplier of wine to Korea, but has increased its share of the Korean wine market in the last four years. A major increase during that period occurred in 2003 when Korea imported over 80 per cent more wine from Australia (by volume) compared to the previous year. Strong export figures for early 2004 point to Australia continuing to increase its wine exports to Korea.

Horticulture

60. Trade in horticultural products between Australia and Korea is small. In 2003 Australian exports of fresh and processed fruit and vegetables to Korea were \$9.6 million, while for 2004 exports totalled \$10.4 million.

61. Australian access to the Korean fresh horticulture market is currently limited to potatoes, onions, carrots, leafy and flowering type vegetables (for example, asparagus, broccoli, cauliflower, radish, lettuce), cut flowers, nuts, navel and valencia oranges, lemons and green bananas. Access for other fresh horticultural products is not permitted.

62. Three commodities dominate Australia's horticultural export trade with Korea: potato products; fresh citrus; and macadamia nuts. The Korean market for Australian citrus products opened in 2000. In 2004 seed potato exports to Korea were \$3.4 million, fresh potato \$4.8 million, citrus \$1.1 million and macadamia nuts \$0.7 million.

63. On 8 January 2004 Korea gave official recognition to the fruit fly free status of Tasmania opening up the possibility of exporting Australian fresh produce previously not permitted for being fruit-fly-hosts. However access into Korea for these products has to be obtained.

64. In September 2004 Korea also provided in-principle acceptance of citrus fruit fly area freedom for the Riverland.

65. High tariffs have historically been a major barrier in horticultural trade, for example the tariff on oranges is 50%.

66. Industry sources have confirmed that the Korean fresh market is technically difficult, with quarantine barriers considered to be the main restriction, and thus the Australian horticultural industry gives this market a low priority compared to other markets.

67. Australian imports of horticultural products from Korea average around \$0.6 million annually. The only fresh Korean fruits allowed access into Australia are Ya pears and persimmons. Ya pear trade began in October 1999 with \$110,000 worth imported in 2002-03. Persimmons have only been allowed entry since June 2004.

Seafood

68. The Republic of South Korea is the twelfth largest export market for the Australian seafood industry. According to ABARE statistics, seafood exports from Australia to ROK were worth \$354,000 in 2003-04, a significant drop from \$1.62m in 2002-03 and \$1.84m in 2002-02.

69. Traditionally, Korea has tended to favour higher value seafood from Australia - abalone, lobster, and so on.

70. Generally, there have been very few occasions where AQIS intervention has been necessary as a result of seafood consignments being detained by Korean authorities. In that regard, trade conditions appear satisfactory.

Fresh Organic Products

71. While fresh organic products such as meat, fruit and vegetables can now be sold into the Korean marketplace there are restrictions on labelling and no guarantee of continuing access.

72. In 2004, a Korean government agency, the National Agricultural Products Quality Management Service (NAQS), part of the Ministry of Agriculture and Forestry (MAF), banned the promotion and sale of Australian organic beef, as the NAQS did not recognise Australia's export certification system for organic produce.

73. After a number of meetings with various Korean authorities and with the intervention of the Korean Centre for Corporate Difficulty Resolution and the Ministry of Government Legislation, the ban by NAQS was overturned and fresh organic produce was able to be sold provided that the any reference to the term "organic" appearing on the label was only in the English language and not in Korean.

74. While the overturning of the ban now allows fresh organic produce into the Korean marketplace, without recognition of Australia's export certification system ongoing access to the market is viewed as problematic. Australia remains keen to access this important market and to this end will continue to negotiate with Korean officials for the recognition of our export organic certification system.

The Korean Retail Sector

75. Figures from IGD (a UK based food and grocery industry body) valued the Korean food retail and grocery market at \$US 28.5 billion in 2002 with a \$US 598.2 per capita annual spend on retail items (Table 1).

Table 1: Food Retail and Grocery Retail Market Size

	Population (million)	Food Retail (\$US billion)	Food Retail Per Capita	Grocery Retail (\$US billion)	Grocery Retail per Capita (\$US)
Japan	127.1	428.0	3367.4	530.0	4,169.9
China	1,271.9	233.0	183.2	284.0	223.3
Korea, South	47.6	28.5	598.2	38.0	797.6

Source: IGD, Global Retailing 2003.

76. There were no foreign retail stores operating in Korea until 1995, but the number rapidly grew from five in 1996 to 79 in 2004. A number of large sized foreign discount stores or hypermarkets, such as Carrefour, Homeplus (Samsung-Tesco), Walmart and Costco, have been established throughout Korea, now accounting for 30 percent of total discount store sales in Korea. The proliferation of discount stores is largely a result of Korean consumers becoming more discriminating and price conscious following the Asian Financial Crisis in 1997. The presence of multi-national corporations has introduced new ways of doing business, new pricing structures, improved management processes and new marketing and merchandising methods.

77. Samsung-Tesco (Homeplus) is the fastest growing retailer in Korea. Carrefour, the single largest foreign investor in Korea, has designated Korea as a priority investment target due to the enormous growth potential of the Korean discount store market.

78. Since 1997 and the Asian financial crisis Korean consumers have become more discriminating and cost-conscious. This has caused a rapid proliferation of discount stores throughout Korea.

79. The market for most consumer products is concentrated in major cities. Retail distribution is accomplished through a highly complex network, the majority of which are small family-run stores, stalls in markets, and street vendors, though this traditional distribution method is changing rapidly toward large discount stores.

80. Australian exports to Korea face costs associated with high tariffs on imports and a rigid distribution structure making retail prices in Korea significantly higher than those in Australia.

81. Korea represents about 3% (\$809m in 2003/04 financial year) of Australia's food exports. The difficulties in market access and distribution go some way to explaining the relatively low levels of exports.

82. The United Nations estimates that the Korean population will reach 51.5 million by 2020 up from 47.3 million in 2000 and that a larger portion of the population will be over 65. In the short-term there is an expectation that consumer-ready, high value food products are expected to continue to grow as the number of two income families increase. There is also a growing consumer confidence in and acceptance of western food products leading to increased demand.

83. Also in the short-term the growing affluence of Koreans is leading to increased pet ownership and in turn leading to opportunities in ready-made imported pet food such as kibble and canned products. The demand for seafood in Korea is also especially strong while supplies are short due to a shrinking local catch.

Technical Market Access Issues

84. Negotiations with Korea on market access issues have improved significantly in the last five years due to closer government-to-government consultation and bilateral meetings. Regular bilateral meetings on both plant and animal quarantine market access issues have been held between the two countries since 2002.

85. Australia is currently considering market access requests from Korea for Unshu mandarins and fuji apples.

86. Imports of agricultural products into Korea must generally receive clearance from several organisations and may encounter port delays. Lengthy clearance times, technical and administrative regulations and procedures may pose problems for perishable products.

87. In addition to the items mentioned earlier, Australia has recently been given access to the Korean market for a number of animal and animal products. In July 2004, Australia achieved approval for the export of kangaroo meat and processed kangaroo meat products to Korea from several Australian kangaroo processing establishments and for crocodile meat in January 2003 and in September 2003, health requirements were finalised to enable export of camels to commence.

88. Korea is currently considering requests from Australia for market access for table grapes, mangoes and cherries.

89. Import clearance of agricultural product remains generally slow and procedures continue to be somewhat arbitrary with officials exercising discretion when implementing the broadly drafted laws, despite recent steps taken by the Korean government. MAF is responsible for imposing numerous requirements that can delay import clearance, such as incubation tests for non-quarantine pests, constant rejection of consignments resulting in fumigation treatments and product detention for minor administrative errors on paperwork.

90. Overall improvements in the inspection process have been hampered by various new testing and document requirements, extension of detention periods for pest identification, a high number of insects registered as quarantine pests and extensive fumigation of non-complying consignments.

91. Korea continues to revise its food related standards and specifications annually in an attempt to better harmonise them with international standards, but work still needs to be done, particularly those related to food additives (for example Korea does not recognise the “generally recognised as safe” standards).

92. Anti-import bias in the agricultural sector is still prevalent even though the government no longer supports campaigns.

93. The Department has supported Korea in providing technical information on various aspects of Australian quarantine and by providing training for Korean technical staff. Korean delegations regularly visit the Department for briefing on various aspects of Australian agriculture.