

South Korea's beef prices are world's highest without U.S. imports

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Summary

One-hundred-dollar steaks and gold-flaked chocolates once symbolized both the luxury and expense of urban life in Japan, but the U.S. Meat Export Federation (USMEF) calculates that South Korea now has replaced Japan as the country with the highest average beef prices worldwide. As a result, annual beef consumption in Korea for 2006 is estimated to total 305,000 metric tons (mt) compared to 390,000 mt in 2003. Some speculate normalized beef trade between the United States and Korea would increase competition and moderate beef prices.

Background

South Korea has become one of the most expensive countries to live in, with consumer prices increasing at the sixth highest rate during the first half of 2006 among the 30 member countries of the Organization for Economic Co-operation and Development (OECD). Additionally, the price of food increased by more than 22 percent, outpacing the OECD average of 16.3 percent. A strong currency, high import duties and the continued absence of U.S. beef, which once accounted for half of total beef consumption in Korea, have combined to create record consumer beef prices.

According to USMEF, Korean consumers are now paying the highest prices for average-quality beef, in part because of overly strict import policies toward U.S. beef. At current exchange rates, reasonably priced *kalbi* and *bulgoggi* meals are no longer within the reach of all Koreans.

Jeon Young-jae, a senior researcher at the Samsung Economic Research Institute, told a Korean newspaper prices have been growing rapidly due to Korea's reluctance to open goods and service markets. In addition, high taxes and a low productivity improvement rate compared to other developed countries have further affected South Korean consumers. Chung Min-kook, a livestock expert for the Korea Rural Economic Institute, said the country's distribution network is antiquated and dominated by profiteering middlemen.

USMEF calculated recent U.S. dollar equivalent prices for two common grain-fed beef items in the Seoul and

Tokyo markets: Australian short-fed chilled rib-eye roll and domestic average quality beef "loin" (Hanwoo and Wagyu A2 grade). At the wholesale level, prices for Australian beef in Seoul and Tokyo were U.S. \$20.63 per kilogram (kg. or 2.2 pounds) and U.S. \$18.30 per kg, respectively. For domestic Hanwoo and Wagyu A2 loin of equivalent quality, wholesale prices were U.S. \$26.05 per kg. and U.S. \$23.83 per kg. In large supermarket chains, Seoul consumers pay an average of U.S. \$31 per kg. for sliced chuck roll while Japanese shoppers can buy equivalent product for \$21 per kg.

Korea and Japan maintain high import duties of 40 percent and 38.5 percent, respectively, on beef imports. However, Japanese imports of U.S. beef are just 1.4 percent of the pace of shipments in 2003 due to a shortage of eligible U.S. age-verified cattle. The Korean market is effectively closed to U.S. beef imports. The resulting lack of supply has led to beef "stagflation," whereby high prices dampen consumption.

Despite rising consumer incomes, beef consumption in Korea continues to decline. The Ministry of Agriculture and Forestry (MAF) reports Koreans on average consumed about 18 pounds of beef in 2000 compared to just 14 pounds in 2006. "In wealthy countries, beef consumption increased along with income growth, but in Korea it went the opposite way in the past five years. Consumption has fallen," Shin Dae-shik, a MAF official told a Korean newspaper.

Korean beef consumption declined from an annual volume of approximately 390,000 mt in 2003 to 160,000 mt when beef from the United States was banned. Korea was the third-largest U.S. beef market in 2003, with the United States exporting almost 247,000 mt of beef and beef variety meat valued at \$815.8 million. Consumers naturally would shift and purchase more Korean beef, USMEF believes, but high prices have made them more reluctant.

Australia is currently the leading beef exporter to Korea, serving leading hotel restaurants as well as popular restaurant chains and retail stores. Korea imported 139,798 mt of Australian beef valued at \$539.7 million in 2005. Australia markets its beef as "clean," to set its beef apart from the United States by suggesting being an island guards the country against animal diseases. New Zealand is the second largest beef exporter to Korea, exporting 51,829 mt valued at \$178.6 million in 2005.

USMEF estimates total beef consumption in Japan and Korea for 2006 will be 794,000 mt and 305,000 mt respectively, down from 936,000 mt and 390,000 mt in 2003. However, the speculation is a return to normalized trade between the United States and Korea, would increase competition and push beef prices down as much as 20 percent to 30 percent.

Key Points

- Korean consumers are facing record-high beef prices due to its strong currency, high import duties and the continued absence of U.S. beef, which once accounted for half of total beef consumption in Korea.
- Beef consumption in Korea fell from an annual volume of approximately 390,000 metric tons (mt) in 2003 to 160,000 mt when beef from the United States was banned. At that time, Korea was the third-largest market for U.S. beef.
- Australia is currently the leading beef exporter to South Korea, providing supply for hotel restaurants as well as popular restaurant chains and retail stores.
- Calculating U.S. dollar equivalent prices for common grain-fed beef in Seoul shows Australian short fed chilled rib-eye roll was U.S. \$20.63 per kg. while domestic Hanwoo beef was \$26.06 per kg. wholesale or \$31 per kg. in supermarkets.