FUNCTIONAL AND LUXURY FOODS OPPORTUNITIES FOR SOUTH AUSTRALIA IN SOUTH KOREA

FOODS

South Korea is one of the fastest-growing health food markets in the region, driven by an extremely image-conscious urban population, high dependence on imported foods, and a greater focus on healthy eating. There is a general aspiration amongst South Koreans for purchasing the 'Three Great Delicacies' (Caviar, Foie Gras and Truffles).

FUNCTIONAL & LUXURY

PREMIUM FOOD AND WINE FROM OUR CLEAN ENVIRONMENT

SOUTH AUSTRALIA

Government of South Australia

Primary Industries and Regions SA

This fact sheet presents a high level summary of the opportunities for South Australia to supply luxury and functional foods to South Korea.

Country context

South Korea is one of the fastest-growing health food markets in the region, driven by an extremely image-conscious urban population, high dependence on imported foods, and a greater focus on healthy eating. South Korean consumers have high awareness of the health benefits of functional foods and supplements, and actively consume a wide variety of them.

Ingredients and safety standards are reviewed by the Korean Food and Drug Administration (KFDA). All food products available in South Korea must adhere to specific legislation, codes and regulations administered at the federal level.

The number of High Net Worth Individuals in South Korea is relatively low (around 188,000 in 2014) but growing interest in gourmet cuisine is driving consumption of luxury foods. There is a general aspiration amongst South Koreans for purchasing the 'Three Great Delicacies' (Caviar, Foie Gras and Truffles).

Presentation is a key aspect of South Korean luxury cuisine. South Koreans are sensitive to the visual appeal of food, and they recognise fine dining to be an integral status symbol, as well as an important part of their social lives.

Traceability is considered another aspect of luxury, with transparency of imported ingredients and their sources being a value-added factor for most manufacturers.

The major barrier to growth in luxury foods in Korea is a slowing economy, which has made shoppers more price conscious. While this has not decreased consumer spending, it has increased focus on value for money. Restaurants in South Korea tend to focus on this trend to attract new clientele.

Rather than trying to compete with domestic luxury producers, South Australia's key strategy in South Korea could be to focus on products where story and brand is a key differentiator.

Functional food opportunities in South Korea

ALOE VERA

Australia's aloe vera market is largely an export one, catering to cosmetics and functional beverages containing aloe vera extracts. Demand is driven by interest in the plant's native medicinal and antioxidant properties. The fact that aloe vera is locally-sourced contributes much of its product appeal in the domestic market. South Australia currently produces a minor crop of aloe vera, but could expand operations to capitalise on the growing demand.

In South Korea, aloe vera products and extracts are in high demand. Beverage usage is expected to continue to drive demand with dairy products flavoured with aloe vera extract presenting an emerging market. Similar to the probiotic market, there is a mature product development and production capacity in South Korea's domestic market.

CAROTENOIDS

Carotenoids are naturally-produced pigments found in plants, algae, bacteria, yeasts and moulds and are used in fruit and vegetable juices and as a natural food colouring. Although industry growth will be confined to beverages in the short-term, the dairy and baked-good sectors will also see market interest in the coming period. South Australia does have a variety of agricultural sources of carotenoids, as well as a growing algal carotenoid production industry.

In South Korea, the market for carotenoids is a subset of the antioxidant market and is a niche segment being driven by population concerns about free radical effects on the skin and demand for healthier food options. Beverages dominate usage of carotenoids in functional foods. Similar to the probiotic market, there is strong demand, product development and production capacity in South Korea's domestic market.

GLUTEN-FREE FOOD

Australia is the largest established gluten-free market in the Asia Pacific region. As gluten-free awareness continues to grow there is a trend towards cutting gluten out of consumer diets, and heightened customer awareness is driving IT-based packaging innovations on gluten-free products.

South Korea's gluten-free consumers constitute a minority of the market; however, an emerging café culture in South Korea will drive interest in baked goods, particularly prevalent in Seoul. Recent demand has generally been driven more by consumers seeking a healthier, low-carbohydrate diet rather than to support a particular medical condition.

LACTOSE-FREE FOOD

Still largely restricted to liquid milk and baby milk powder, lactose-free products are generally perceived to be less-fattening and easier for people to digest. Lactose-intolerance is more widely spread among non-European populations, and continued development of digestive-related product options, beyond dairy and into confectionery and baked goods, will drive consumer demand in this market.

In South Korea, there is limited demand for lactose-free products, in spite of the relatively high rates of lactose malabsorption in the country. There are companies present in South Korea that produce lactose free products, however there remains limited demand for their products.

OTHER 'FREE FROM' FOODS

'Free from' foods are likely to see growth in South Korea. There is a growing trend among Generation-Y consumers to adopt gluten-free products as a lifestyle choice, in spite of not having particular allergies or intolerances. There is also consumer interest in purchasing hypoallergenic skincare products and cosmetics to alleviate skin irritations and sensitivities. Therefore, a general focus on health rather than allergy alleviation will drive 'free from' food markets.

PHYTOSTEROL

The Australian market for phytosterol tends to revolve around oils, seeds and nut products, used as heart health ingredients and for their potential to lower cholesterol. South Australia could explore how to use its canola industry to develop phytosterol extraction capabilities.

The South Korean market for phytosterols is currently small, but demand is likely to be driven by increasing rates in cardiovascular disease and concerns over rising obesity levels. A domestic South Korean biotech company has also developed and patented a manufacturing technique that allows phytosterols to be added to foods that have high-fat content, including ice cream, mayonnaise and soups. Phytosterols are mainly found in heart-healthy beverages, cereal bars and baked goods.

POLYPHENOLS

Australia has a wide raw materials base for polyphenol development, but the industry is largely import dependent and focused on the beverage sector. As more Australian manufacturers begin to promote the antioxidant benefits of polyphenols, demand will grow beyond wine, apples, and tea, and there will be a shift to explore use of polyphenols in a broader range of functional foods. Waste products from South Australia's large wine industry is a key source of raw materials for polyphenols, as well as other fruits and vegetables grown across the State.

In South Korea, polyphenols and flavonoids enjoy a strong demand and rate of consumer uptake, with majority usage in beverage products. Similar to the probiotic market, there is a mature product development and production capacity in South Korea's domestic market.

POLYUNSATURATED FATTY ACIDS

Polyunsaturated fatty acids (PUFA) are one of the most well-established classes of functional products in Australia. South Australia's large aquaculture industry is a prime sourcing point to provide marine-based fish oil to the industry, and flax used in the development of vegetarian omega-3 products.

South Korean consumers are highly health conscious, and omega-3 is a common ingredient of the staple health supplements that many South Koreans consume. There is a high number of South Korean nutrition companies producing and retailing omega-3 products, including in partnership with global companies. However, in general South Koreans prefer imported PUFA based products and place a high focus on source of PUFA. For instance, Scandinavian suppliers are often preferred to those from the United States due to perceptions of better quality.

PREBIOTICS AND PROBIOTICS

Prebiotics support beneficial bacteria in the gut and are most commonly combined with probiotics. Future growth will be driven by innovations in pro and prebiotic formulations, and increased consumer awareness of the relationship between their digestive health, immunity, and overall wellness. South Australia's large grain industry is a key source for dietary fibre, while fruit and berry processing side streams are sources of soluble fibre, which could also provide opportunities in this space.

Probiotics are widely used in South Korea, with several global companies such as Yakult producing several product lines, including to cater particularly to children of various ages. The busy lifestyles of South Koreans, long work hours, and subsequent rise in lifestyle diseases have resulted in significant awareness and concern around preventing primary health issues. Several South Korean companies are developing probiotics for use in food preparation for common household dishes such as kimchi. Prebiotics are often purchased in conjunction with probiotics as supplements or as part of a compound product (symbiotic). South Korea boasts an advanced production capacity for pre and probiotic foods and ingredients which is driven by strong local demand.

PROTEINS AND PEPTIDES

Australia is a key producer of mainly dairy-based proteins and peptides, and also manufactures fish, egg, gelatin and soy protein products. The growth of the sports nutrition sector has also driven consumer interest in these products, particularly in protein-rich beverages. Downstream processing of South Australia's dairy exports provides a large market opportunity for proteins and peptides as functional ingredients.

The South Korean market for proteins and peptides is largely focused on traditional foods, and soy protein forms the cornerstone of the market. Milk and eggs are also growing in popularity. In terms of functional foods, whey proteins dominate the sports nutrition sector (milkshakes and protein bars), driven by a healthy living trend amongst young South Korean men. Children's nutrition is a growing sector for imported products, claiming both protein and other ingredient benefits.

VITAMIN D

Products rich in vitamin D are particularly important for older persons, to address bone and joint health issues such as osteoporosis. Post-menopausal women are also target customers in this sector, and the primary market for dairy products and beverages fortified with vitamin D. Beverages and baked goods with added vitamin D are also proving popular with younger consumers.

Vitamin D deficiency in South Korea is more prevalent amongst the younger generation, due to longer work hours resulting in less exposure to sunlight. Vitamin D fortification is a niche market at this stage, with most demand coming from vitamin water and multivitamin products. Several South Korean dairy products and soy milks also mention the added vitamin D potential.

Luxury food opportunities in South Korea

ABALONE

Abalone is one of the most valued seafood products globally, especially in Asia. Opportunities for South Australian abalone exist in product differentiation and marketing. A later harvest would allow abalone to grow to an optimal size and therefore demand a higher price per kilogram. Greater uptake of nitrogen freezing is another opportunity for South Australia, as well as better marketing of our clean and green, sustainable credentials, including through product certification. Producers should also explore e-commerce opportunities.

In South Korea, abalone was historically served as food for royalty and it has maintained its reputation as the 'ginseng' of the sea. However, unlike other countries, abalone is no longer considered a luxury food in South Korea but more a premium food. This is because South Korea is now the world's second largest producer of abalone and supply is abundant, as a result of huge investments in increasing farming capacity. There is a price premium for wild-caught abalone; however, there are concerns about the sustainability of this product.

BLUEFIN TUNA

The rise of the sushi and sashimi markets in Japan and in other parts of the world has created a strong and growing demand for Bluefin tuna. Opportunities exist in differentiating how South Australia captures and farms Bluefin tuna and developing an industry-wide marketing program in export markets beyond Japan.

Bluefin tuna is a highly regarded food in South Korea, and locally known as guromaguro. In line with the increasing wealth of the South Korean population, demand for Bluefin tuna has continued to grow. South Korea is a major producer of Bluefin tuna and has recently agreed to regulate the fishing of juvenile fish. There is a current ban on Bluefin tuna imported from Japan.

BRANDY, COGNAC AND DISTILLED SPIRITS

The Asian luxury market for brandy is currently dominated by products from major French cognac houses. While St Agnes distillery has recently launched some luxury products, overall exports of brandy from Australia are negligible. Opportunities exist for South Australian producers to invest in an 'origin' story for our niche distilled spirits, potentially modelled on Tasmania's success in the export whisky market.

In South Korea there is strong demand for distilled spirits, prompted by the local drinking culture and high disposable incomes of urban professionals. Grain-based soju is the most widely consumed distilled spirit, and makes up the bulk of local production. South Korea's recent decision to remove the 15% import duty on distilled spirits is helping to drive demand for more diverse beverages, and particularly international luxury distilled spirits.

CAVIAR

Sturgeon is a prohibited (noxious) species in Australia so there is currently no sturgeon farming undertaken in Australia and establishment of aquaculture operations would require licensing. Opportunities exist in pursuing exemption permits, considered on a case-by-case basis, to enable a sturgeon fish production facility in South Australia. This would be subject to stringent environmental assessment and evaluation.

South Koreans consider caviar one of the 'Three Great Delicacies' (Caviar, Foie Gras, Truffles), sought after as a status symbol and high-class indulgence. Demand for caviar has continued to grow in recent years, with South Korea developing its own caviar industry, but current domestic production does not yet meet demand.

CHOCOLATE

It is feasible for South Australian companies to produce, export and enter the luxury chocolate market, leveraging Australia's reputation in Asia as a reliable manufacturer of high-quality product. Opportunities exist in specifically marketing luxury product to affluent local and international tourists at exclusive airport boutiques, and in high-end and flagship stores.

The rising general income of the South Korean population, coupled with an active gift giving culture, has driven demand for luxury chocolates. South Korean consumer generally prefer dark chocolate, linked to the perceived health benefits. In 2008 the South Korean confectionery conglomerate Lotte Confectionery purchased the Guylian company, bolstering South Korea's significant chocolate manufacturing sector.

MATSUTAKE MUSHROOMS

Matsutake mushrooms require a specific, symbiotic relationship with host trees, commonly pine trees. Due to their limited production, matsutake mushrooms can achieve prices around USD2,000 per kilogram. Matsutake mushrooms are not currently produced in Australia. Research will be needed to determine the viability of matsutake mushroom production in South Australia, as well as the planting of suitable host trees.

In South Korea, matsutake mushrooms are grown in the acidic soils of mountainous area, mainly on the east coast of the country. South Korean pine mushrooms have low water content, giving them a richer flavour and aroma, and they are highly sought after in Japan and China, where they can retail for up to USD2,200 per kilogram.

RED WINE

Driven by the growth of an aspirational middle class across Asia, red wine consumption has experienced a renaissance in those markets. The perceived sole origin for luxury wines in the market has traditionally been in the Bordeaux region of France; however, this conception is shifting thanks to growing customer sophistication. Ensuring traceability across the value chain will be important for South Australian wines, requiring enhanced consideration of processing and packaging technologies.

Wine consumption is traditionally seen as an indicator of social status, however, wine accounts for only 2% of total alcoholic beverage sales in the country. Red wine is particularly favoured for its strong, intense flavours that complement South Korea's garlic rich foods. Coupled with rising incomes and the recent removal of import duties, there has been a significant rise in demand for red wines, particularly in high-end restaurants, in-home consumption is also becoming more popular. South Korea does not have favourable conditions to produce wine locally.

ROCK LOBSTER

Rock lobster is Australia's largest seafood export by value, and South Australia's southern rock lobster accounts for 19% of total Australian production value. South Australia's high environmental standards should sustain the State's competitive advantage going forward, but the main challenge will be the relatively higher product price compared with other exporters. South Australian producers could also consider value-added luxury product opportunities for rock lobster, including lobster portions, ravioli, and pizza.

South Korea's Free Trade Agreements have led to a proliferation of lobster in the local diet. The demand for lobster continues to grow, with more than 50% of imported lobster coming from the United States; however Canadian imports are considered superior to the United States' product. There is no significant domestic production of rock lobster in South Korea.

TRUFFLES

Australia is the world's fifth largest producer of truffles, with production occurring across the cooler climates of southern Australia. Producers in South Australia are small-scale in comparison with counterparts in other states and tend to rely on local distribution channels such as farmers' markets. South Australian producers should consider growing white truffles, which are more highly valued in Asia and would offer product differentiation against other Australian and Chinese producers. Luxury packaging will also need to be developed to complement the product.

Truffles are mainly imported into South Korea from France, and usually consumed in high-end European-style restaurants. Truffles are not typically part of Korean cuisine so they are considered a statement of wealth and consumed at business dinners and on special occasions. With higher disposable incomes and increasing interest in luxury goods across South Korea, truffles are increasingly being sought after as haute cuisine items. Recent breakthroughs in the artificial cultivation of truffles are expected to create an alternative source of income for farmers in South Korea.

WAGYU BEEF

Australia has the largest population of full-blood genetic Wagyu outside of Japan, and it is a key value-added niche sector in our cattle industry. There is some Wagyu production already occurring in south-eastern regions around Adelaide, and South Australia's product is prized for our effective food safety regulations, traceability, and a focus on animal husbandry, farm management and welfare.

South Korea's supply of Wagyu beef mainly comes from Australia, due to a recent ban on Japanese imports. However there is strong competition in the premium beef market due to the high demand for Hanwoo beef which is a local, South Korean produced luxury beef.

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South Australian Food Innovation Centre | Phone: (08) 8226 0109
Email: PIRSA.foodinnovationcentre@sa.gov.au