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Summary

- **Air freight** costs have begun to reduce and are currently around twice as high as pre-COVID-19 levels: NZD7.3 per kg compared with NZD3-4 per kg.
- **Food and beverage** products have benefitted from New Zealand's clean/green image.
- **Horticulture** products are performing well, driven by wholesale and e-commerce sales and appear to be well positioned to benefit from growing demand.
- **Meat** exporters have overcome most supply chain disruptions caused by COVID-19 and sales of meat through online channels have been showing modest growth. New Zealand's position has been strengthened by a shortage of meat supply from the United States.
- **Honey** sales in Korea grew by 20% in May compared to last year, driven by an 80% increase in online sales.
- New Zealand manufactured **electric fence** sales have slowed due to Korean local government funding being re-diverted to other COVID-19 priorities.
- Common **challenges** faced by New Zealand businesses have included:
 - Weaker in-store retail sales (and reduced promotional activities);
 - Difficulty sourcing raw materials/components (e.g. containers) from China;
 - Slower sales due to cancellation of events, school closures, and reduced customer foot traffic at food service outlets and tourist destinations;
 - Remote working and social distancing policies have made it difficult to undertake sales pitches and generate sales leads.
- **International education** stakeholders view New Zealand as safe/well-governed and interest in New Zealand as a study destination compared with competitors remains high.
- The situation for **outbound international tourism** remains grim. Outbound travel from Korea has dropped by 98.6% this year.
- **Airlines** are planning to resume services on a number of international air routes from Korea from this month, though demand is expected to remain low.
- **Air New Zealand** has extended the suspension of direct flights between Auckland and Incheon until at least the end of August.

Report/findings

We provide a further update on the impact of COVID-19 on New Zealand businesses exporting to and operating in Korea. We plan to provide such updates every 2 weeks.

Air freight costs falling

2 Air freight costs have begun to reduce as flight connections have increased. Freight forwarders report that costs for air freight between New Zealand and Korea are currently around twice as high as pre-COVID-19 levels (NZD7.3 per kg compared with NZD3-4 per kg). This is an improvement on the prices noted in our report on 20 April (which were 2-5 times higher than normal). This is also significantly lower than the cost of air freight between Korea and the United States, which is currently 4 times higher than March/April prices.

Horticulture performing well

3 Horticulture sales are up by more than 10% compared to 2019 figures. Although in-store retail sales have fallen, wholesale is performing strongly, followed by e-commerce sales. New Zealand horticulture exporters appear to be benefitting from not only New Zealand's clean/green image but also from proactive marketing and promotion with distributors in Korea.

4 New Zealand horticulture exporters appear to be well positioned to benefit, both in value and volume, from growing demand in Korea. Supply of fruit in New Zealand is now stable following the easing of COVID-19 restrictions. Sales of horticulture products in Korea are expected to remain stable in a post-COVID-19 world.

Recovery for meat

5 Meat exporters to Korea have reportedly overcome most supply chain disruptions caused by COVID-19 and have recovered from a 50% drop in the production of meat in New Zealand. Sales of meat through online channels have been showing modest growth and have reportedly benefitted from New Zealand's clean/green image. Efforts to capitalise on strong demand for meat in Korea have included the sale of high value (albeit low volume) products (such as chilled meat) to retail chains.

6 Prolonged labour shortages and low volume of meat production in the United States - including meat for export to other markets - continue to present an opportunity for New Zealand exporters to secure more market share, including in Korea. Exporters note however that some restaurants in Korea are reluctant to replace their existing offerings with New Zealand meat given existing relationships and the need to upgrade menus to reflect changes to food origin markings.

7 Local meat importers in Korea reported a recovery in sales revenue in the month of May, helped by warmer "picnic" weather and higher prices. Beef prices grew by around 30% and pork prices by around 20%. Sales by volume, however, remained 60% below those of last year. Although sales of "barbeque cuts" in Korea remain low, there has been strong growth in the volume of meat sold to Home Meal Replacement (HMR) food product manufacturers.

Honey sales remain strong

8 Sales of New Zealand honey in Korea grew by 20% in May compared to the same month last year. Despite a 99% drop in duty-free sales, online sales grew by 80%. Although sales through department stores – the main retail channel for honey – have remained steady (despite a slump in

overall department store sales more broadly), exporters have sought to expand sales through home shopping and new retail channels.

9 New Zealand honey exporters remain concerned about the impact which global – and Korean – economic uncertainty may have on sales in the second half of the year. Demand in Korea for health-enhancing foods is expected to continue growing and this could result in more opportunities but also increased competition. Exporters report that much of the honey import quota for Korea remains unused, which means an even larger volume of honey is expected to be imported from New Zealand in the second half of the year.

10 Exporters report that although consumers in Korea have started to venture outside more, sales still largely take place through hyper/supermarkets rather than food service channels such as restaurants. This trend is expected to continue if COVID-19 remains.

Slowing electric fence sales

11 New Zealand manufacturers of electric fences that supply central and local government funded Korean farmers report slower sales, largely as a result of local governments re-diverting subsidies to other COVID-19 priorities.

Common challenges

12 In-store retail sales have been weak as a result of reduced customers and promotional activities. This has proven challenging for food and beverage exporters that have traditionally used tasting promotions to boost sales. Costco has reportedly implemented a “no tasting” policy after a tasting assistant at one of its stores tested positive for COVID-19. Tasting promotions have reportedly dropped by 30-100% across retail stores.

13 Some New Zealand exporters report that sourcing raw materials or key components (e.g. containers for products) from China remains a challenge. This has made it difficult to complete production and fully capitalise on increased market demand.

14 Cancellation of events, school closures, and reduced customer foot traffic at food service outlets and tourist destinations due to social distancing policies have resulted in slower sales for some businesses, including some meat and beverage exporters.

15 Remote working and social distancing policies remain challenging for some businesses. In some instances, local distributors have not been able to receive sales pitches from prospective customers, making it difficult to generate sales leads.

Education

16 International education stakeholders in Korea continue to view New Zealand as a safe and well-governed country, particularly in comparison to traditional competitors such as the United States and United Kingdom. Korean interest in New Zealand as a study destination remains high.

17 Tertiary and school education remain priorities in the Korean market but interest in New Zealand as a destination for English language learning has also grown, particularly from those that have taken – but not yet completed - programmes in the Philippines and Malaysia. We believe New Zealand is well positioned to secure a larger share of the international higher education market in a post-COVID-world.

18 In a post-COVID world, we anticipate that the role of local education agents will grow in importance rather than diminish. While all traditional face-to-face promotional activities scheduled for February and May were cancelled, education agents in Korea have been delivering minimalist online promotional activities. International education agents already hit hard by the COVID-19 economic fallout remain concerned that prolonged closure of borders in key markets beyond expectations will have irreversible economic damage on their businesses.

Tourism and international air links

19 Although Incheon airport remains open for business and an important hub, outward travel from Korea has fallen this year by 98.6%. The situation for outbound international tourism remains grim. Hana Tour, the largest wholesale travel provider in Korea (which recorded a loss of KRW27 billion (NZ\$36.6 million) in Q1 of this year) has closed most overseas branches and is in the process of reviewing its domestic affiliated companies.

20 Number of Koreans travelling abroad:

	Jan	Feb	Mar	Apr	Jan-Apr
2019	2,912,331	2,617,946	2,334,153	2,246,417	7,864,430
2020	2,513,030	1,046,779	143,366	31,425	3,703,175
	-13.7%	-60.0%	-93.9%	-98.6%	-63.1%

21 Research conducted by the Korea Culture and Tourism Institute suggests that consumers will likely to shun face-to-face consultations and purchases in favor of online consultations and purchases in the post-COVID-19 world.

22 Korean airlines plan to resume services on a number of international air routes:

- *Korean Air* plan to extent services from its current 13 routes to 25 routes from June (including to Europe, the US, Canada).
- *Asiana Airlines* plan to maintain flights on 17 routes.
- *Jin Air* plan to resume services on 5 of its international routes from June (including Bangkok, Taipei, Narita, Osaka, and Hanoi).
- *Jeju Air* currently operates on 3 international routes (to Japan and China) and plan to add the Philippines from June.
- *Air Busan* and *Air Seoul* have opened booking systems for the resumption of some international services from July.

23 *Air New Zealand* has extended the suspension of direct flights between Auckland and Incheon until at least the end of August.

24 Even with the resumption of many international air routes, demand for international travel is expected to remain low. Domestic travel in Korea has, however, soared in recent months and demand is expected to remain strong.

Consumer spending in Korea

25 Hana Institute of Finance have published a Korea-language report on the impact COVID-19 has had on consumer spending in Korea through credit card transactions. It shows significant growth in this year's Q1 sales of:

- Bicycles (up 45%)
- Online shopping (up 41%)
- TV home shopping (up 19%)
- Butchers' shops (up 15%)
- Liquor stores (up 15%)

26 Sectors that saw the largest spending declines in Q1 (compared to last year) included:

- Purchases at duty-free stores (down 88%)
- Travel agencies (down 85%)
- Martial arts studios (down 85%)
- Movie theatres (down 84%)
- Theme parks (down 83%)

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