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Global Agricultural Information Network

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Korea - Republic of

Food Service - Hotel Restaurant Institutional

Biennial Report

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Report Highlights:

The Hotel, Restaurant and Institutional (HRI) food service sector in South Korea continues to restructure as large-scale restaurant franchises and broad-line distributors gain market share at the expense of small scale, independent businesses. Cash register sales for the restaurant and bar sector totaled ₩66.9 trillion (\$58.7 billion) in 2010. The HRI sector is increasingly seeking products with new taste, added value, consistent quality, and specifications catered to the food service industry. These changes, coupled with implementation of Korea-United States Free Trade Agreement, offer new opportunities to American suppliers.

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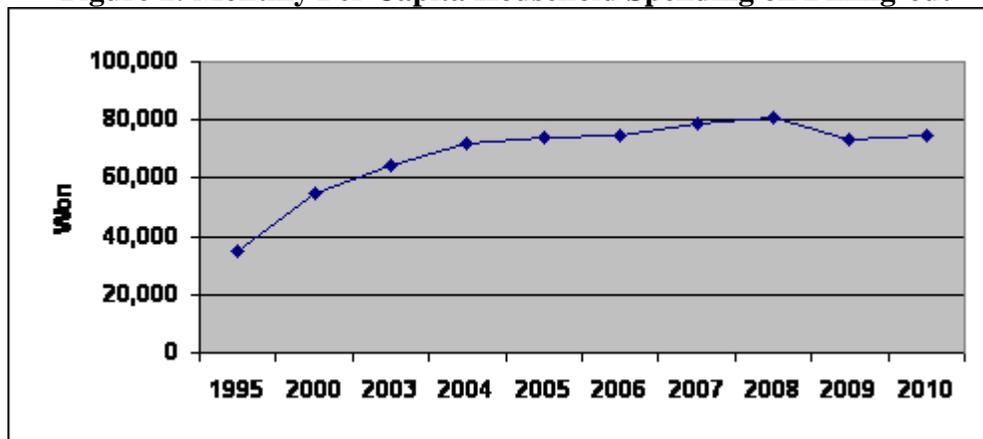
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Section I. Market Summary

A. Overview of the Korean Food Service Sector

Changes in lifestyle and dietary culture coupled with increased income level have stimulated a rapid growth of the food service industry in Korea^[1]. Monthly per capita household spending on eating outside of the home has more than doubled in the last ten years, reaching ₩74,654 won^[2] in 2010, up 2.3 percent from the previous year. In other words, each household spent 48.1 percent of its food and beverage expenditure, or 12.4 percent of total consumption expenditure on dining out. It is expected that spending on dining out will continue a steady growth in the coming years as Korean consumers face ever busier lifestyle with increased number of dual-income families and single-member households.

Figure 1: Monthly Per Capita Household Spending on Dining-out



Source: Monthly Household Income & Expenditure Survey (Korea National Statistics Office)

Figure 2: Share of Dining-out in Household Spending

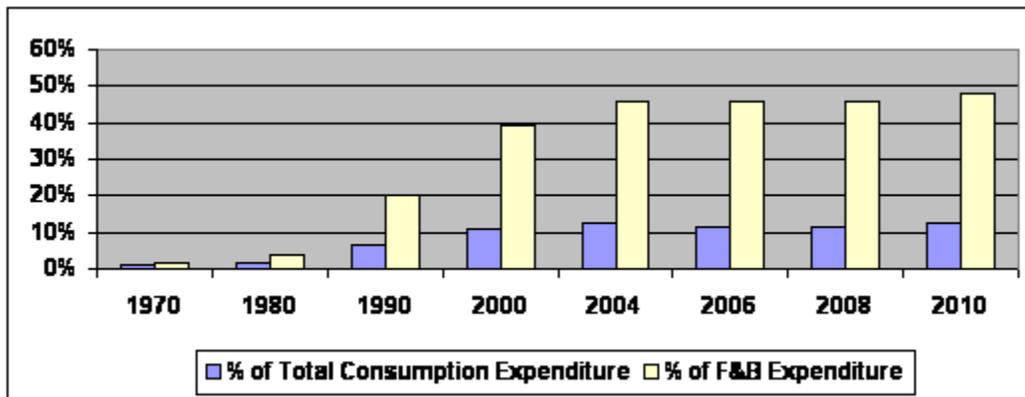
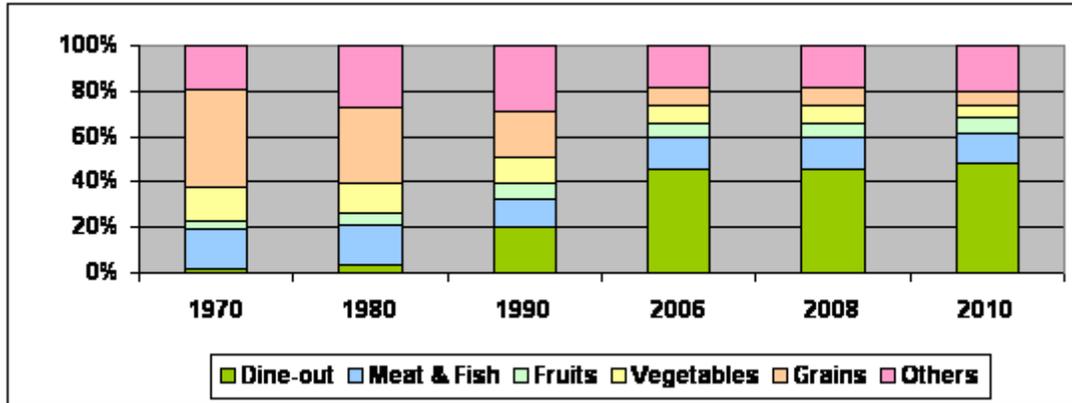


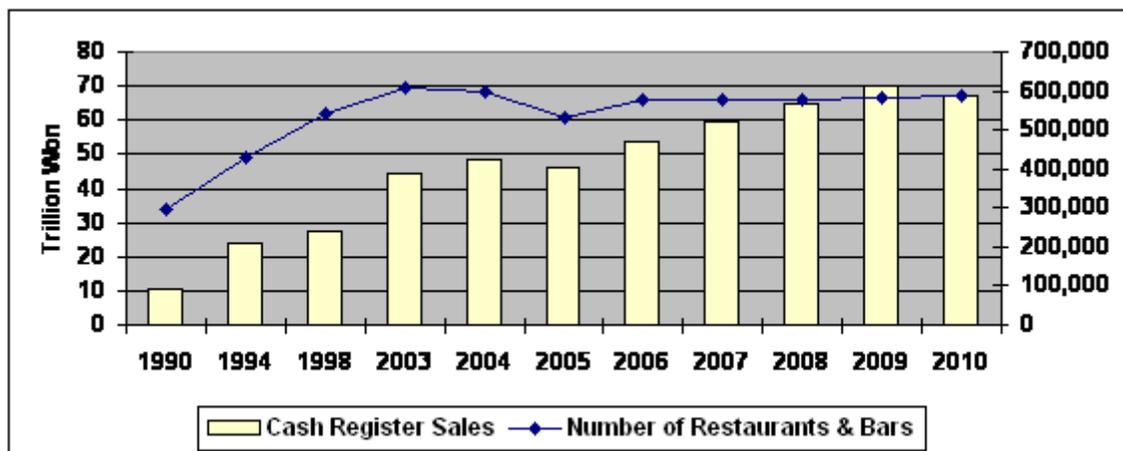
Figure 3: Breakdown of Household Food & Beverage Expenditure by Item



According to the most recent Korean government statistics available, the restaurant and bar industry earned ₩66.9 trillion in cash register sales in 2010, down 4.2 percent from the previous year. Despite a slight increase in overall household spending on eating outside of the home, increased competition from the grocery stores in take out meal business backed by strong consumer demand for affordable meal options under the sluggish economy was reportedly the main cause of the decline in the restaurant and bar industry sales in 2010.

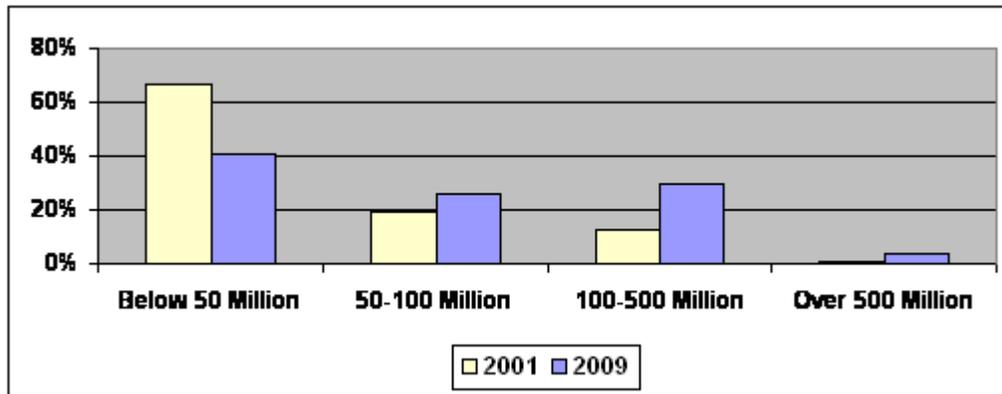
The Korean government maintained a policy up until mid 1990's that prohibited large corporations from entering the food service business. In addition, the sector was a major refuge to many of those individuals who lost or retired from corporate jobs during the Asian economic crisis in late 1990's and again over the last couple of years under the global economic downturn. As a result, the sector has largely been composed of small-scale, family-operated businesses, evidenced by the fact that 90 percent of restaurants and bars in Korea were small establishments that hired less than five employees as of 2010. In addition, over 40 percent of restaurants and bars earned less than ₩50 million in annual cash register sales. However, market analysts point out that the sector has finally reached a saturation point in terms of the total number of restaurants and bars, as indicated by the stagnant growth in the number since 2003. Roughly speaking, currently there is one restaurant per every 100 Koreans.

Figure 4: Annual Sales and Total Number of Restaurants & Bars in Korea



Source: Annual Industry Survey (Korea National Statistics Office)

Figure 5: Breakdown of Restaurants and Bars by Annual Sales (Unit: Won)



As a result, distribution of products in the food service sector still relies heavily on traditional channels, which involve multiple layers of small-scale middlemen between the producer and the restaurant. According to an industry analysis ^[3], total value of the products distributed in the sector amounted to ₩18.8 trillion in 2010, up 4.4 percent from the previous year. Some 2,000 small-scale, independent distributors reportedly accounted for a 92 percent of this food service supply chain sales, while less than ten large-scale broad-line distributors took the remaining 8 percent market share.

However, restructuring of the sector, mainly fueled by the entry of large corporations into the food service business, has led to a rapid growth of restaurants and bars under the umbrella of large-scale management at the expense of small-scale, independent establishments over the last ten years. Retail stores, armed with stronger HMR (Home Meal Replacement) products, have also emerged as a strong competitor to the restaurant industry. Streamlining of the supply chain is another area in which the sector has made a significant progress over the years along with the growth of the large-scale restaurant business. Large-scale broad-line distributors, which offer lower cost and more efficient service, should show a strong growth in the coming years.

Recently, the social initiative of protecting small businesses from large corporations has gathered many supporting voices. The policy makers are under pressure to consider introducing regulations that restrict expansion of large corporations in the food service industry once again. However, despite the anti-corporation sentiment, restructuring force in the sector that favors large-scale business is likely to remain strong in years to come because economy-of-scale is a vital tool for the sector to meet the taste of today's Korean consumers. Marketers point out that changes in consumption trends in Korea are becoming more frequent and shorter-spanned. It is not surprising to observe that many of the newly open restaurants in Korea take totally different approaches from existing stores next door in terms of recipes, services, and interior design. Consequently, food service business today requires heavier input of cash investment and management skills, and bigger part of the sector is expected to join the large-scale operation to remain competitive and efficient.

The evolvement of the food service sector is generating new opportunities for imported products that offer new tastes, healthy recipes, added-value, stable supply, and specifications catered to the food service industry use, characteristics where U.S. products are competitive. The outlook for U.S. exports to the Korean food service sector is excellent for beef, pork, chicken meat, processed turkey meat, ham and sausage, premium seafood, frozen vegetables, fresh and processed fruits, tree nuts, cheese and

processed dairy products, fruit juices and other non-alcohol beverages, wine and other alcohol beverages, sauces and condiments, coffee, bakery flour and fillings. In addition, on-going trade liberalization, including the Korea-United States Free Trade Agreement (KORUS FTA) scheduled to take effect on March 15, 2012 in particular, will help expand the market for various American products in Korea.

B. Advantages and Challenges for U.S. Exports

Advantages	Challenges
<p>Korea is an emerging market where new ideas and trends are eagerly tried and accepted, leading to greater opportunities for new-to-market products. Consumers are looking for new and international tastes as the income level continues to rise.</p>	<p>Consumers are generally biased toward locally produced products. Many consumers still maintain a negative view on the quality and safety of imported foods. Imported foods are often associated with contaminations and potential food-borne diseases. In addition, food safety issues are increasingly becoming means to restrict imports.</p>
<p>Korea, by nature, depends heavily on imports for its food and agricultural needs. Many imported products are free from competition from locally grown products. On-going liberalization of import barriers improves market access and price competitiveness of imported American products.</p>	<p>Imports of many products still face restrictive trade barriers, including high tariffs, tariff-rate quotas (TRQ), and food safety/labeling standards. Certain food additives approved for use in the United States may not be approved in Korea.</p>
<p>A series of public food safety scandals associated with imported products from China in recent years has led consumers and traders to be more concerned about the quality of product that they buy. Traders are likely to switch procurement sources to developed countries, including the United States, in an effort to regain consumer confidence.</p>	<p>American products face steeper competition against cheaper products from export-oriented competitors such as China and EU. Although changing, price is still an important factor governing procurement decisions in the food service sector. Few local decision makers understand the overall benefit of using higher quality, value-added products.</p>
<p>Modern, large-scale businesses are leading the growth of the food service sector, which offers new opportunities to imported products.</p>	<p>Many American suppliers have little understanding about different needs and tastes of the Korean market and thus do not offer catered products and services.</p>
<p>Due to the long history of economic and political ties between Korea and the United States, Korean consumers are familiar with American products and food trends. Many consumers maintain a positive view on the quality and value that American products offer. English is the most popular foreign language for Koreans.</p>	<p>Although relying heavily on imported ingredients, Korea has well developed food processing industry, which produces a wide range of products that compete against imported products. Local food processing industry is paying more attention to offering food service sector oriented products.</p>

Section II. Road Map for Market Entry

A. Entry Strategy

A-1. Understanding Local Tastes

Recipes and products marketed in Korea reflect the contemporary dietary culture of Koreans. Even most of the foreign themed recipes newly gaining popularity in the market are outcomes of modification based on the local taste. Therefore, products that are used in similar dishes in the United States may require some degree of modification to be marketed in Korea. Needed modification could mean anything from changing packaging design and volume to reformulating the recipe. A common mistake that new-to-market American suppliers often make is viewing Koreans as the same category of consumers in the neighboring countries, Japan and China. Although it is true that people in these three far eastern Asian countries share some parts of their histories and cultures, Koreans’ tastes for foods are different in many ways from their neighbors. Consequently, products that are catered to the taste of Korean consumers will have higher chance of making a successful entry into Korea. Personal visits to Korea should be the best way to develop understanding about the local taste. Information gathering through Internet or associating with the Korean American community in the states could also be an efficient approach.

A-2. Consumption Trends

Represented by Ssalbob (steamed short-grain rice), Kimchi (fermented Napa cabbage), and Bulgogi (marinated beef), traditional Korean cuisine remains the mainstream of the Korean diet. However, globalization of the market and change of consumer lifestyle have made today’s Korean diet quite different from what it was several years ago. Like consumers in developed countries everywhere, Koreans are looking for new taste, better value, convenience, high quality, and most of all, safe and healthy products in their daily diet.

Due in part to the aging population, there is a heavy emphasis among the general public on healthy eating, which is interpreted into a strong demand for organic and functional foods. In particular, 'Well-being', a theme that has evoked new consumer movement of seeking both physical and psychological health by adopting more wholesome way of life, remains one of the most influential ideas in the market. As an old Korean proverb "food and medicine are from the same source" indicates, Korean's long-held belief in health-improving efficacy of foods still prevails and contributes to on-going popularity of functional foods as well as regular foods that target specific health concerns.

Table 1: Aging Korean Population (unit: 1,000 people)

Age Group	1995		2010 (Estimate)		Growth
	Number	Share	Number	Share	
0-14	10,236	23.0 %	7,907	16.2%	-22.7 %
15-64	31,678	71.1 %	35,611	72.9%	12.4 %
65 +	2,640	5.9 %	5,357	11.0%	102.9 %

Source: Korea National Statistics Office

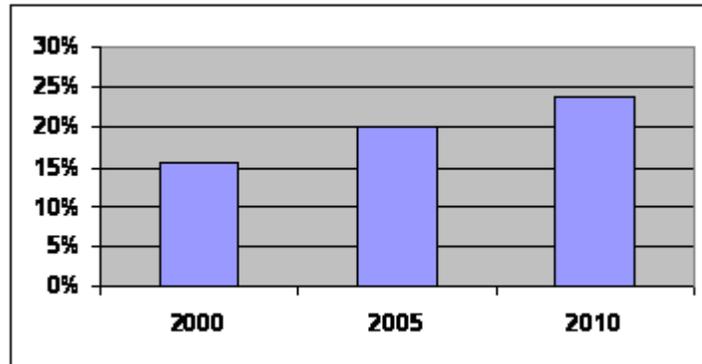
‘Kids & education’ theme is another important driving force often found behind new food trends. The Korean society has traditionally put a high emphasis on education, and the reduced birth rate (resulting

in fewer kids to support in a family) encourages people to opt for premium options when it comes to spending related to kids and education.

Improved economic conditions allow Korean consumers to pay more attention to quality and diversity in diet. In particular, better-traveled young consumers, many of whom are educated in foreign countries, are seeking more international products and food culture in the market. While Japan served for many years as a reference market for Koreans to monitor and adopt new foreign food culture, today's Korean consumers are tracking more diverse international markets, including California, New York, and Paris, for new foreign food ideas and trends. However, at the same time, the call for better value is also emphasized in the market mainly due to the on-going retirement of the Korean baby boomers as well as the slow-down of the local economy under the recent global financial crisis.

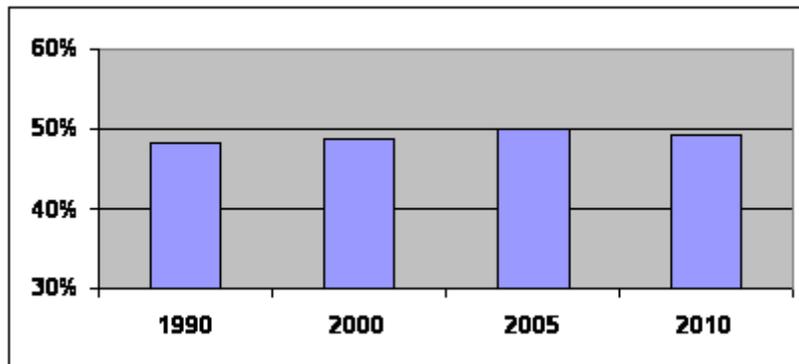
Korea's 50 million inhabitants occupy a country the size of the state of Indiana. About 70 percent of the land is mountainous terrain, and over 80 percent of Korean population lives in metropolitan areas, which explains high population density and real estate cost. Convenience is a strong driving force behind many consumer trends as everyday life of Koreans gets busier. For example, increase of dual-income families and single-member households has led to a growing demand for HMR (Home Meal Replacement) products in retail stores. Motorcycle delivery service by both grocery stores and quick service restaurants is extremely well developed due to high traffic congestion in metropolitan markets. Rapid growth of on-line shopping is also rooted partly in the demand for convenience.

Figure 6: Share of Single-member Households in Total Korean Households



Source: Korea National Statistics Office

Figure 7: Ratio of Korean Women Participating in Economic Activity



Source: Korea National Statistics Office

Note: ratio of women, 15 years old or older, with jobs or seeking for jobs

A-3. Establishing Korean Partners

Because of many variables involved, there is no single best way for a successful entry into the Korean market. Success is unlikely, however, without catered support of local partners. Korea has well established regulations and procedures on food imports as well as complex tariff and tax codes, which often make the entry of new-to-market product a time and resource consuming process. Working with reputable importers is the approach that has been proven most efficient to overcome these challenges. Established importers are well aware of market demand/supply intelligence, local business laws and practices, supply chain, and most of all are the best information source for up-to-date government regulations on imported foods.

The type of business relationship agreed between the U.S. exporter and the Korean importer may vary from joint investment partnership to exclusive agent to non-binding broker contract depending on how the exporter sees the role of the Korean partner in the process of market development. The most common practice is starting with a group of sector-designated importers on non-binding broker contracts during the initial stage of market entry (i.e., designating one importer for the retail sector and another importer for the food processing sector).

There are many items that the U.S. exporter should follow upon promptly with the importer during the initial stage of market entry. The Korean government maintains very strict regulations on food imports and requires various certificates/documents and product information before approving import of a new-to-market product. For detailed information regarding standards and regulations that imported food and agricultural products are subject to in Korea, including Labeling, Packaging, Export Sanitary Certificates, MRL (Maximum Residue Level) Code, and Food Additive Code, please refer to the following annual reports produced by the Agricultural Affairs Office, FAS Seoul.

- (1) [“FAIRS \(Food and Agricultural Import Regulations and Standards\) Country Report Annual 2011”](#), KS1102 dated January 11, 2011 (or visit www.fas.usda.gov for more recent update).
- (2) [“FAIRS Export Certificate Report Annual 2011”](#), KS1101 dated January 5, 2011

The Agricultural Trade Office (ATO) in Seoul maintains listings of established Korean importers by product, which are available at no cost to U.S. exporters. ATO Seoul also provides trade lead (purchase intention) inquiries collected from Korean importers to State and Regional Trade Groups (SRTGs), which are disseminated to U.S. exporters through the network of the state department of agriculture and trade promotion agencies. ATO Seoul regularly organizes Korean buyer missions in cooperation with SRTGs and USDA cooperators to major food trade shows in the United States, such as the FMI Show/US Food Showcase^[4] and the NRA Show/American Food Fair^[5], for matchmaking with U.S. exporters.

U.S. export brokers or middlemen may get involved in the entry of a new-to-market product into Korea especially when the original U.S. supplier (manufacturer or grower) is not interested in direct export business or when the volume of business is small. Although Korean importers in general prefer to work directly with the original supplier, using experienced brokers or middlemen can be an efficient way to find the right trading partner in Korea.

Exhibiting in food trade shows in Korea can be a cost-effective way to meet with a large number of key Korean importers/traders in one place. Currently, the Seoul Food & Hotel (SFH) ^[6] is the only show in Korea endorsed and supported by the U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Exporters who are considering exhibiting in any Korean trade show may contact ATO Seoul for guidance and information because most local shows are consumer-oriented and are not particularly efficient for promoting new-to-market products.

New-to-market U.S. exporters should also pay attention to protecting the company/product trademarks and patents, which can be easily handled by working with the Korean import partner or through local attorneys. For more information, see the Korea Industrial Property Rights Information Service website (<http://eng.kipris.or.kr>).

A-4. American-Origin Restaurant Franchises

Many of the leading restaurant chains in Korea are of U.S. origin and can be approached through the headquarters in the United States. The degree of involvement of the U.S. headquarters in the operation of the partner chain in Korea varies from one company to another depending on the nature of the contract between them. U.S. headquarters in general have a significant amount of influence over what products and recipes the Korean partners serve. Below is a list of U.S. origin restaurants currently in operation in Korea.

Table 2: A List of U.S. Origin Restaurant Chains in Korea

Type	Chains
Quick Service Food Restaurants	McDonald's, KFC, Burger King, Subway, Popeye's, Taco Bell
Family Restaurants	TGIF, Bennigans, Outback Steakhouse, Sizzler, Chili's, Toni Roma's, Ruby Tuesday, Hard Rock Cafe, Hooters, On The Boarder
Ice Cream Restaurants	Ben & Jerry's, Haagen-Dazs, Cold Stone Creamery, Baskin Robbins
Pizza Restaurants	Pizza Hut, Domino Pizza, Papa John's
Coffee & Beverage Shops	Starbuck's, Seattle's Best, Au Bon Pain, Krispy Kreme Doughnuts, Cinnabon, Dunkin Doughnuts, Smoothie King, Jamba Juice

A-5. Sell Recipe Ideas First, Not Products

One of the biggest challenges for new-to-market products to establish a market in Korea is educating local distributors and chefs of the possible uses and applications of the products. Recipes are the most efficient carrier to deliver the marketing message of the supplier to the Korean customers. Recipe seminars and cooking demonstrations are some of the most commonly used tools to achieve the strategy of “*sell recipe ideas first, not products*”.

B. Market Structure - Distribution Channel

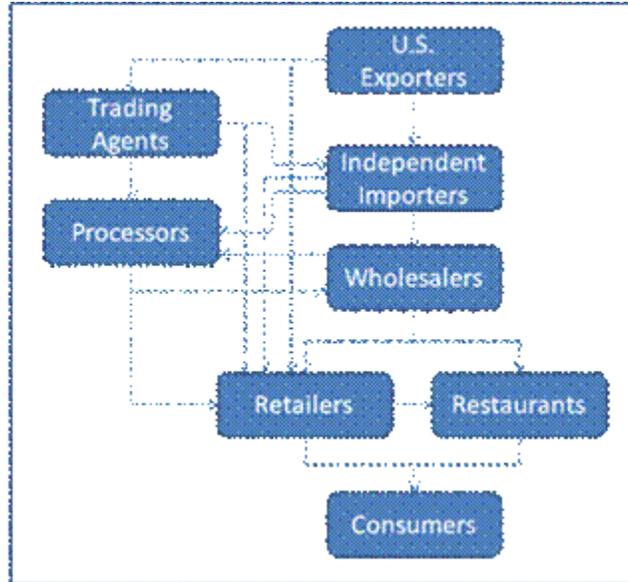
B-1. Supply Chain and Product Flow

It takes at least two weeks for a container ship from a western U.S. port, and three weeks from an eastern port, to arrive in a port in Korea. In general, most imported consumer ready products enter Korea through the port of Busan, the second largest city located at the southeastern tip of the Korean peninsula. In rare occasions, small-volume-high-value products, such as premium wine and live lobsters, are brought via air cargos through Incheon International Airport (ICN), one hour drive away

from downtown Seoul.

The amount of time that the product sits in the port of entry for food safety inspection and customs clearance process varies from one day to a few weeks largely depending on the kind of inspection the product is subject to. The detailed laboratory inspection that all new-to-market products and randomly selected returning products are subject to may take as long as ten working days. The documentary inspection, which is allowed on products with previous import records, may be completed within a day or two.

Figure 8. Flow of Imported Food and Agricultural Products



Once the products are cleared through the Customs, they are transported to the importer's warehouse for temporary storage. Importers may have warehouses in more than one location. The importer usually supplies directly to the large-scale customer's warehouse but may use wholesalers or independent sales brokers when supplying to small customers or to distant regional markets. Large-scale retailers and franchise food service (restaurant) companies in general operate a network of "distribution-hubs" across the country, each of which services all the branch stores and end-user restaurants in the given regional market. Many importers use third party logistics service providers for warehousing and trucking because of the high overhead cost.

The city of Seoul (capital city of Korea) and its surrounding area within 60 miles radius account for over 50 percent of the total Korean population and 70 percent of total retail sales in Korea. Although the government maintains a strong policy initiative to develop other regions of the country for balanced growth, Seoul metropolitan area is expected to take even bigger share of the food market sales in Korea in the coming years because it should continue to draw people looking for jobs and education opportunities. Other markets that are likely to see strong growth include Busan, Inchon, and Daejeon (this city, located in the middle section of the peninsula, has been designated as the new home of the Korean government offices).

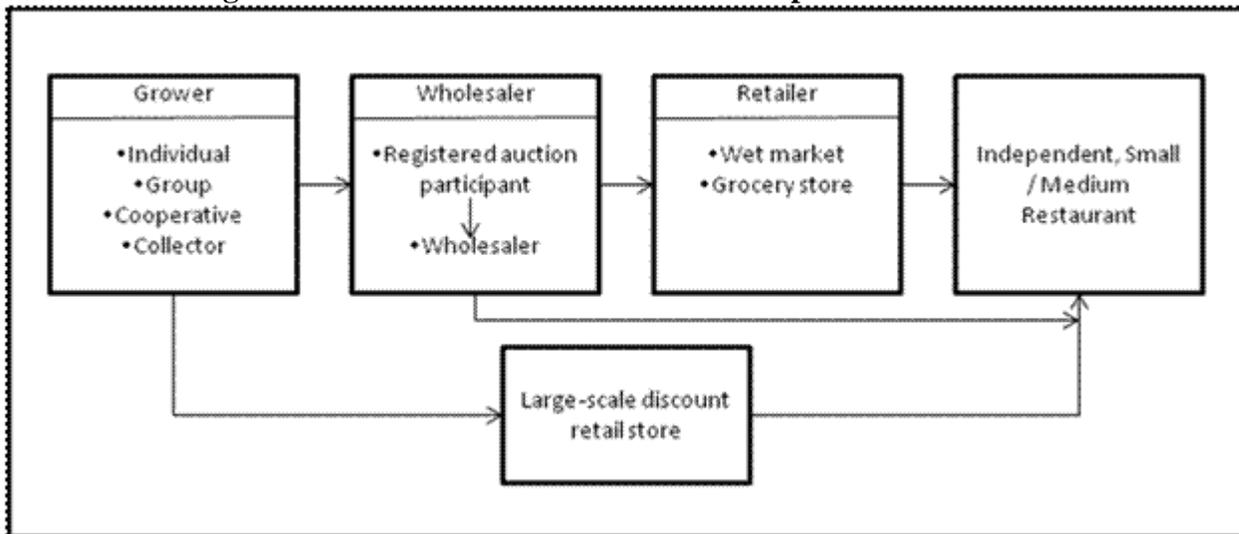
B-2. Traditional Distributors

Most of independent small-scale restaurants still procure products from traditional distribution channel including wet-markets, wholesalers, and retailers. It is notable that large grocery stores, such as hypermarket discount retailers (e.g., Emart) and membership warehouse retailers (e.g., COSTCO Korea), have become an important source of products for many small-scale restaurants in metropolitan areas.

Traditional distributors in general are specialized in limited product categories (meat, fish, or fresh produce for example) and are based near major wholesale markets around the country (such as the Seoul Garak Metropolitan Agro-Fishery Wholesale Market, www.garak.co.kr/eng/) for an easy access to the product flow. Most of them target regional markets, so it often takes additional layers of middlemen to distribute product to distant markets. Partly due to limited financial resources and the risk of high seasonal fluctuations in supply, traditional distributors seldom offer long-term pricing. As a result, restaurants relying on traditional channel should work with several different distributors for different products and transaction terms, which adds inefficiency and cost.

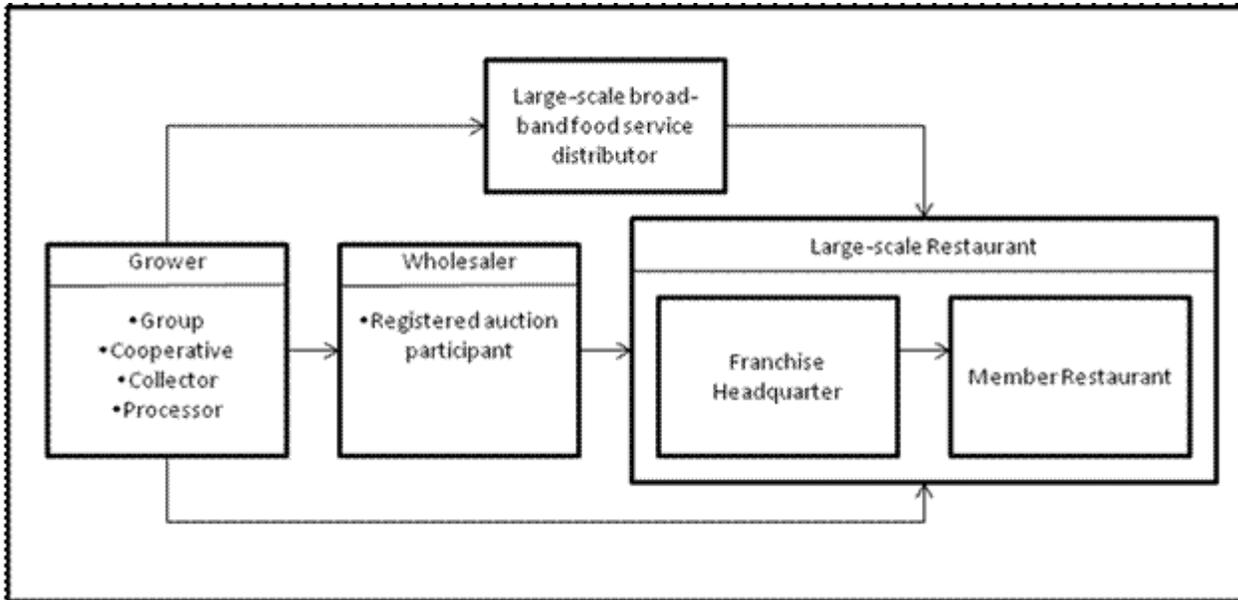
However, business of these traditional distributors is expected to be on a gradual decline just like their customers as they face tougher competition from large-scale broad-line distributors who offer more efficient service at cheaper price. Tightened government tax regulation has also deteriorated price competitiveness of traditional distributors who in the past were given wide latitude in tax reporting.

Figure 9: Product Distribution Flow to Independent Small Restaurant



Source: Korea Rural Economic Institute (KREI)

Figure 10: Product Distribution Flow to Large-scale Restaurant

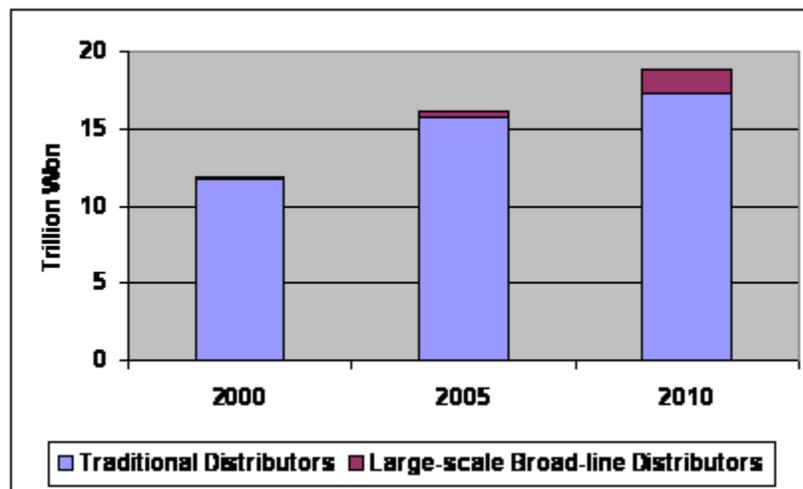


Source: Korea Rural Economic Institute (KREI)

B-3. Large-scale Broad-line Distributors

The rapid growth of large-scale restaurant business has prompted an equally rapid growth of large-scale foodservice distributors who offer efficient consolidation over a broad range of products. Currently, there are about ten large-scale broad-line distributors in the sector, most of them established by some of the leading food or retail conglomerates in Korea. Strong financial investment and marketing support by the mother company has allowed each of the broad-line distributors to quickly establish a nationwide network of sales force and modern logistics facility composed of temperature-controlled warehouses and trucking fleets. The broad-line distributors reportedly accounted for an eight percent, or ₩1.5 trillion, of total product distribution sales in the food service sector in 2010.

Figure 11: Total Sales of Product Distribution in the Food Service Sector in Korea



Source: Company IR Report, CJ Freshway Co. (www.cjfreshway.co.kr)

Below is a brief description of general procurement practices of broad-line distributors:

- Fresh agricultural products for long-term storage, such as onions, dried red pepper, carrots and

potatoes are procured from local contract farms and/or from the Korea Federation of Agricultural Cooperatives ('Nonghyup').

- Perishable fresh vegetables are procured from local contract farms, usually large-scale green houses developed in the vicinity of metropolitan areas that supply fresh products year around.
- Fresh vegetables subject to seasonal supply fluctuations, such as Asian cabbage and radish, are procured through middlemen/wholesaler in the wholesale auction market.
- Local meat is procured through local middlemen/wholesaler in the wholesale meat auction market. Direct purchase from contract farms or packers is also developing.
- Locally processed vegetables (frozen, canned and pickled) are procured from domestic manufacturers every one to three months through price bidding.
- Locally processed foods (such as cooking oils and sauces) are procured from domestic manufacturers on a yearly contract.
- Imported food products of all types are procured from importers or, to a lesser extent, directly from overseas suppliers. Broad-line distributors prefer direct imports for high-volume products, such as meat, seafood and canned vegetables, while preferring to use middlemen importers for low-volume or products of seasonal demand. Imports and distribution of products under import quota restrictions, including fresh potatoes, onions, selected grains and honey, are in general regulated by the Korea Agro-Fisheries Trade Corporation (aT), a government agency under the Ministry of Agriculture, Forestry, Fishery and Food (MAFF). In general, the set annual import quota is distributed evenly to the importers who signed up for the product. In other cases, the quota is allocated on a first come, first served basis or through auctions. A broad-line distributor may acquire an import quota allocation or purchase from other importers who have an allocation.

Many of the broad-line distributors operate processing facilities attached to their warehouses for preliminary processing of vegetables and meat, such as washing, cutting, repackaging, and limited cooking. Some of the leading companies also operate separate food manufacturing facilities or have developed partnerships with local manufacturers to offer private branded processed products, such as soups, sauces, and packaged marinated meat. The broad-line distributors are expected to put an increased emphasis on developing prepared or packaged products under their own brands for stronger customer royalty and profit.

Table 3: A List of Major Broad-line Food Service Distributors (Year 2010)

Company Name	Annual Sales of Distribution Biz	Notes
CJ Freshway	₩795 billion	Affiliated with CJ group. Other areas of business include contract feeding restaurants and commercial restaurants. www.cjfreshway.co.kr
Foodmerce	₩410 billion	Affiliated with Pulmoowon group. www.foodmerce.com
Our Home	₩400 billion	Separated from LG group in 2000. Other areas of business include contract feeding restaurants and commercial restaurants. www.ourhome.co.kr
Samsung Everland	₩290 billion	Affiliated with Samsung group. Other areas of business include contract feeding restaurants and commercial

(Food Culture Division)		restaurants. www.samsungeverland.com www.welstory.com
Dongwon Homefood	₩290 billion	Affiliated with Dongwon group. www.dwhf.co.kr
Shinsegae Food	₩280 billion	Affiliated with Shinsegae group. Other areas of business include contract feeding restaurants and commercial restaurants. www.shinsegaefood.com
Korea Tourist Supply Center	₩200 billion	Maintained a monopoly product distribution to hotels and registered 'tourist restaurants' up until market liberalization in late 1980's. www.ktsc.co.kr
Hyundai Green Food	₩152 billion	Affiliated with Hyundai department store group. Other areas of business include contract feeding restaurants and commercial restaurants. www.hyundaigreenfood.com

Source: Press articles, Company IR reports, Industry interviews

B-4. Food Processors

Local food processing industry is a major supplier of processed products to the food service sector. Although food processors in general maintain bigger emphasis on retail products, more companies are shifting attention to offer food service industry oriented products. More serious processors have recently developed strategic alliance with broad-line distributors to market food service products under the distributor's brands. While a large portion of these co-packed products are simply the same retail products repackaged in bigger food service containers, some are developed exclusively for the food service market. CJ Cheiljedang, Daesang, Ottoogi, and Dongwon F&B are the leading players in this area. Although products by local processors are currently limited to items of large volume demand, it is expected that processors will expand into more diverse products, many of which will compete directly with imported products. Local processors, however, depend heavily on imported ingredients. Products from local processors are generally distributed through multiple layers of wholesalers or retail stores before reaching restaurants unless they are bound directly for broad-line distributors.

B-5. Large-scale Discount Retail Stores

Large-scale discount retailers, including hypermarkets and membership warehouse clubs, have emerged as an important supply channel for the food service sector as many small-scale, family-operated restaurants procure products there for convenience. Currently, there are about 400 large-scale discount stores nationwide with about a dozen new stores added every year. Although Emart (135 outlets as of May 2011) and Home Plus (123 outlets) are the leading players in the segment, COSTCO Korea (7 outlets), an American membership warehouse retailer, remains the most active player that targets restaurant customers.

C. Sub-Sector Profiles

C-1. Hotel Segment

There were 562 hotels in Korea at the end of 2009, about 200 less than ten years before. This significant drop was mainly caused by closings of small-scale hotels with less than 50 guestrooms. However, the growth of large-scale hotels with over 100 guestrooms has more than compensated for the loss, resulting in an outstanding growth of cash register sales of the segment to ₩4.5 trillion in 2009, up 117 percent from 1999. Although the hotel segment accounted for only 1 percent of the lodging industry in terms of the number of business, it accounted for 48 percent of total lodging industry sales in 2009.

Table 4: Korean Lodging Industry Statistics

	Number of Business		Number of Rooms		Cash Register Sales	
	2001	2009	2001	2008*	2001	2009
Hotels	618	562	59,015	59,014	4,450,677	4,501,670
Inns	26,939	26,458	453,420	553,687	1,511,921	2,233,781
Resort Condos	103	232	25,125	30,024	399,252	1,400,609
Others	6,657	20,321	46,744	218,310	183,263	1,306,599
Total	34,317	47,573	584,304	861,035	6,545,113	9,442,658

Source: Wholesale & Retail Industry Statistics, Korea National Statistics Office, Sales unit: Million won

*Note: Year 2008 is the most recent statistics available for the number of rooms

Table 5: Hotel Segment Statistics Broken Down by Number of Guestroom

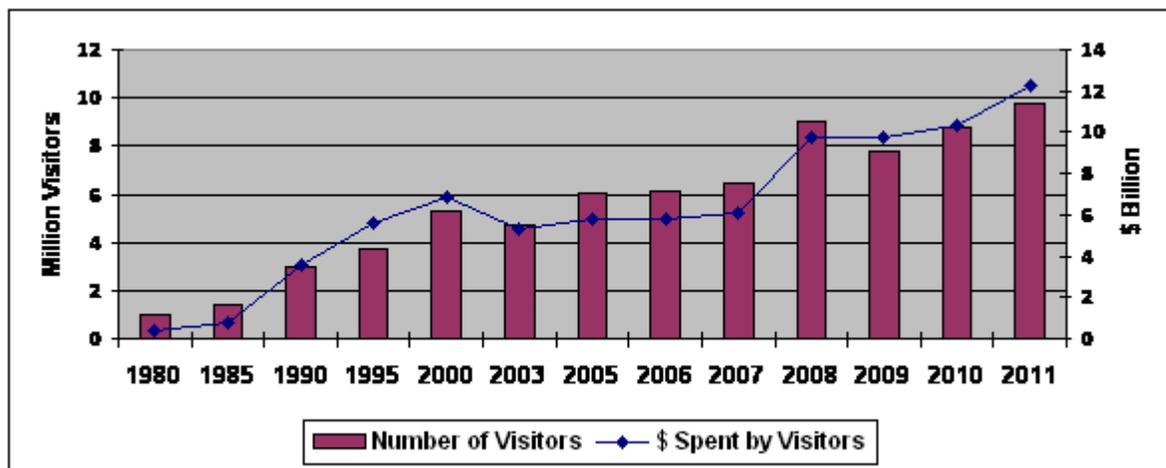
Number of Rooms		<50	50-99	100-300	>300	Total
Number of hotels	2009	152	224	133	53	562
	1999	332	276	118	25	751
	Change	-54.2%	-18.8%	12.7%	112.0%	-25.2%
Number of rooms	2009	5,746	16,059	18,348	18,596	58,749
	1999	12,484	17,745	18,020	10,637	58,886
	Change	-54.0%	-9.5%	1.8%	74.8%	-0.2%
Number of employees	2009	2,333	5,548	11,236	19,718	38,835
	1999	4,431	9,659	14,317	10,591	38,998
	Change	-47.3%	-42.6%	-21.5%	86.2%	-0.4%
Total cash register sales	2009	132,596	370,029	983,852	3,015,193	4,501,670
	1999	155,076	373,573	716,976	831,143	2,076,768
	Change	-14.5%	-1.0%	37.2%	262.8%	116.8%
Room sales	2009	66,064	189,432	493,661	968,698	1,717,855
	1999	56,855	159,171	253,220	196,538	665,784
	Change	16.2%	19.0%	95.0%	392.9%	158.0%
F&B sales	2009	32,439	108,546	335,986	1,018,123	1,495,094
	2005	46,540	124,864	329,902	1,165,678	1,666,984
	Change	-30.3%	-13.1%	1.8%	-12.7%	-10.3%

Competition has precipitated restructuring of the hotel industry over the last ten years, favoring large-scale hotels under franchise operation at the expense of independent small-scale hotels. In particular, five-star hotels with over 300 guestrooms have shown the most remarkable growth. Many three and four-star hotels have joined professional management franchises, such as Hyatt, Ramada and Marriott,

to remain competitive in operation efficiency. Many middle-sized three-star hotels have gone under the umbrella of budget-format franchises, such as Best Western, Day’s Inn, Ramada Inn and Holiday Inn, to target the niche market of low-budget tourists and business travelers. The rapid growth of unconventional lodging formats, such as serviced residences, pensions, by-the-hour motels and 24 hour hot-spa houses, has also resulted in closings of many small-scale hotels and inns.

The hotel segment is expected to maintain a healthy growth in the coming years both from domestic and international travelers. In particular, the five-work-day system, which became national standard for most Korean workers in mid 2005, has significantly boosted domestic tourism. According to the government statistics, the total number of local travelers increased from 320 million in 2001 to 650 million in 2008. A steady growth in the number of foreign travelers to Korea is also anticipated to continue in the coming years.

Figure 12: Foreign Travelers Visiting Korea



Source: Korea Tourism Agency Statistics

A good number of new hotels are currently under construction or on the drawing board in order to meet the increased demand for additional hotel rooms. According to the Seoul city government, 62 new hotels are currently planned to open between 2012 through 2015 which will add 12,762 guestrooms in the city.

The hotel segment, especially five and four-star hotels with in-house premium restaurants, has played a leading role in introducing new-to-market food products and recipes to local consumers. It also has served as an efficient venue for promotional activities of the food service industry, including menu promotions, product launchings, and technical seminars. Currently, food and beverage sales account for 30 to 40 percent of total cash register sales of five and four-star hotels. Some of the leading hotels have expanded their food service business outside of their hotels and operate stand-alone restaurants of various formats, including microbrew pubs, food courts, coffee shops, bakery shops, and premium gourmet restaurants. Although the share of the food service sector sales taken by the hotel segment has been on a gradual decline, it is likely that the segment will remain a leading distribution channel of premium, high-quality imported food and beverage products.

C-2. Restaurant Segment

Table 6: A Brief History of the Restaurant Industry in Korea

Year	GNI	Major Events
1900 - 1950's	N/A	<ul style="list-style-type: none"> • Birth of the modern commercial restaurant industry. • A total of 166 restaurants in business in Korea as of 1945.
1960's	\$100 - \$210	<ul style="list-style-type: none"> • Most consumers had very low income and limited food supply. • Western foods, mainly wheat flour and dried milk, first introduced to the general public through the food aid programs by the United Nations and the United States.
1970's	\$248 - \$1,644	<ul style="list-style-type: none"> • A large number of small mom-and-pop restaurants opened in metropolitan cities for the first time. • Rapid improvement in the diet of the general public due to economic development. • Opening of the first franchise restaurant chain, Nandarang (1979) and the first fast food restaurant chain, Lotteria (1979). • Imported foods became available commercially for the first time to hotels with the establishment of the Korea Tourist Supply Center (KTSC), a monopoly import distribution body (1978)
1980 - 1985	\$1,592 - \$2,158	<ul style="list-style-type: none"> • A limited variety of Western menus available to the general public. • Rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken and draft beer pubs) in metropolitan areas. • The first wave of international restaurant chains into the market: Americana (1980), Burger King (1982), Wendy's (1984), KFC (1984), Pizza Hut (1984), Baskin Robbin's (1985)
1986 - 1990	\$2,194 - \$4,197	<ul style="list-style-type: none"> • The Asian Games in 1986 and the Olympic Games in 1988, both held in Seoul, introduced a wide variety of international recipes to the market. • Rapid development of restaurants and bars under Western themes. • Introduction of commercial institutional food service (contract feeding) business: Seoul Catering (1989), Our Home/LG Mart (1989). • The second wave of international restaurants into the market: McDonald's (1986), Denny's (1987), Pizza Inn (1988), Cocos (1988), Crown Bakery (1988), Chicago Pizza (1988), Domino's Pizza (1989).
1990's	\$5,883 - \$10,076	<ul style="list-style-type: none"> • Large conglomerate companies were allowed to enter the restaurant business, which led development of large scale restaurant and distribution businesses. • Diversification of food service industry with new formats and menus. • Hardies (1990), TGIF (1991), Haagen-Dazs (1991), Subway (1992), Ponderosa (1992), Sizzler (1993), Mister Pizza (1993), Sky Lark (1994), Kenny Rogers (1994), Popeye's (1994), LA Farms (1994), Bennigan's (1995), Tony Roma's (1995), Planet Hollywood (1995), Marché (1996), Hard Rock Café (1996), Outback Steak (1997), Chili's (1997).
2000 - 2011	\$11,292 - \$22,500	<ul style="list-style-type: none"> • Restaurants under chain or franchise management lead the growth of the sector at the expense of small scale, independent restaurants. • Rapid growth of broad-line food service distribution business. • The industry continues to evolve with new formats and menus, including take-out, espresso cafe, food court, fusion cuisine, ethnic cuisine, rebirth of

		traditional themes, and wine bar.
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Source: Ph.D. Na, J.K., Understanding Food Service Industry (1998), Press articles, Industry interviews

According to the Korean government statistics, total cash register sales of the restaurant and bar industry amounted to ₩69.9 trillion in 2009. Full service Korean restaurant was the leading segment of the industry, accounting for a 48.3 percent of the industry sales, followed by bar segment (16.6 percent) and quick service Western restaurant segment (7.1 percent). Compared to 2005, segments that showed a strong sales growth were bakery shops (203.6 percent growth), full service Japanese restaurants (67.3 percent), full service Chinese restaurants (61.8 percent), quick service Western restaurants (58.2 percent), full service Korean restaurants (56.1 percent), and tea/coffee shops (51.7 percent). Bakery shops in particular also showed a strong growth in the number of business, 106.3 percent, during the period.

Table 7: Break Down of Restaurant Industry

Type of Restaurant	Year	Number of Restaurants	Cash Register Sales
Full Service Korean Restaurants	2009	278,978	33,770,488
	2005	254,784	21,639,214
	Change	9.5%	56.1%
Full Service Chinese Restaurants	2009	21,466	3,097,452
	2005	21,932	1,914,501
	Change	-2.1%	61.8%
Full Service Japanese Restaurants	2009	6,268	1,752,405
	2005	4,628	1,047,728
	Change	35.4%	67.3%
Full Service Western Restaurants	2009	8,610	2,840,269
	2005	10,684	2,286,469
	Change	-19.4%	24.2%
Institutional Feeding Restaurants	2009	4,566	2,833,415
	2005	3,238	2,123,207
	Change	41.0%	33.4%
Catering Service	2009	469	138,860
	2006*	444	185,909
	Change	5.6%	-25.3%
Quick Service Western Restaurants	2009	38,258	4,961,822
	2005	30,585	3,135,912
	Change	25.1%	58.2%
Quick Service Korean Restaurants	2009	45,454	2,722,268
	2005	52,553	2,707,571
	Change	-13.5%	0.5%
Other Quick Service Restaurants	2009	3,703	914,611
	2005	4,653	956,708
	Change	-20.4%	-4.4%
Bars & Salons	2009	130,881	11,625,794
	2005	116,864	8,112,523

	Change	12.0%	43.3%
Bakery Shops	2009	13,223	2,830,895
	2005	6,408	932,349
	Change	106.3%	203.6%
Tea & Coffee Shops	2009	27,768	2,118,772
	2005	25,600	1,396,341
	Change	8.5%	51.7%
Total	2009	580,505	69,865,186
	2005	531,929	46,252,523
	Change	9.1%	51.0%

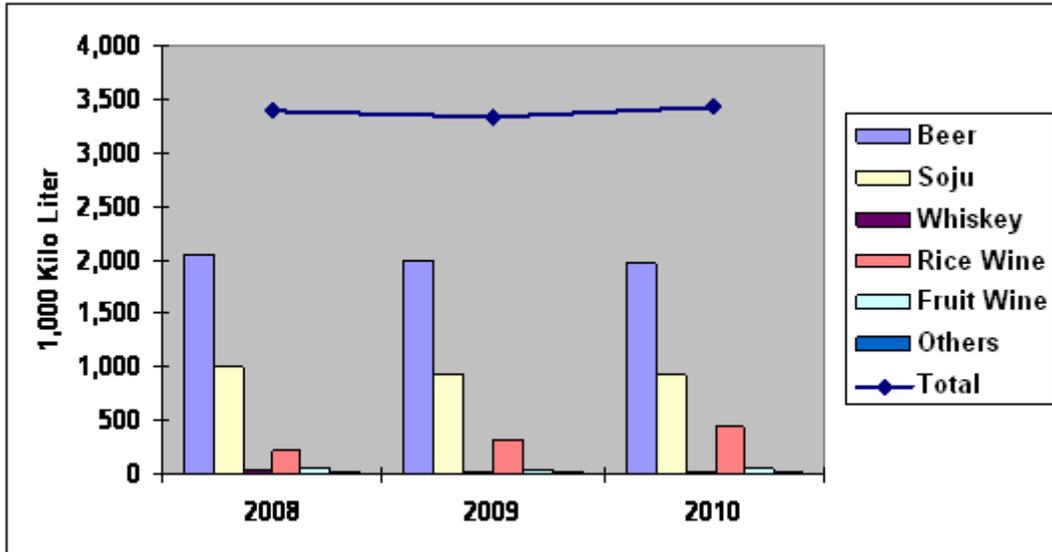
Source: Wholesale & Retail Industry Statistics, Korea National Statistics Office, Sales unit: Million won

*Note: 2005 figure is not available

Although facing elevated competition, Korean cuisine restaurants still accounted for a dominant share of the restaurant segment both in terms of the number of restaurant and sales. “Internationalization of Korean Cuisine”, a culture marketing campaign launched in 2009 by the Korean government with avid participation of local food industry and consumer groups, has helped the Korean cuisine restaurants regain attention of the general public. However, menus and products served in Korean cuisine restaurants are increasingly incorporating ideas and ingredients of foreign origins, which offers greater opportunities to imported products. In a similar vein, many of the international dishes served in Korea are somewhat ‘Koreanized’ in terms of the taste, ingredient, and presentation. In general, tastes of Korean consumers have high affinity to hot spices, vegetables, seafood, and fermented foods. There is a general consensus among the local consumers that Western menus are too salty, sweet, and fatty.

It is notable that Korea remains one of the biggest markets for alcoholic beverage in the world, which explains the exceptionally high number of bars for the population. Drinking has traditionally been considered an important part of social life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, the market is getting new drinkers from the young and female population. Beer and soju^[7] are by far the most consumed alcoholic beverages, while fruit wine and traditional rice wine are on a steady growth. Over half of the alcohol beverages sold in Korea is reportedly consumed in the food service sector. In particular, food service sector is the leading distribution channel of premium, high-value products such as Scotch whiskies and cult wines.

Figure 13: Volume of Alcohol Beverages Distributed in Korea



Source: Korea National Tax Service

Below is a summary of major issues of focus that have led significant changes in the restaurant industry in recent years:

- Reducing operation costs: part-time employees, central kitchen, prepared products, standardization of recipes and product specifications, strategic alliance with broad-band distributors, new information technology solutions such as ERP (Enterprise Resource Planning) and RFID (Radio Frequency Identification Tag).
- Economy of scale: mergers and acquisitions.
- Diversification of menu: foreign & ethnic, fusion, natural & health, added-value.
- Diversification of interior design: natural, organic, fresh, fusion, Zen, fun, ethnic, retro.
- Stronger food safety message: HACCP certification, country of origin labeling on the menu, nutritional fact on the menu
- Efficient sales promotion: cross-promotional partnerships with non-food businesses such as mobile communication services and credit card companies. Sales promotions tied with holidays and special occasions, including New Year Day, Lunar New Year Day, Valentine Day (Feb. 14), White Day (March 14), Kids Day (May 5), Parents Day (May 8), Teachers Day (May 15), Korean Thanksgiving Day (around September) and Christmas.

Table 8: Profile of Major Quick Service Western Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
Lotteria	Lotteria	2010	₩498 billion	890
		2008	₩440 billion	750
McDonald's Korea	McDonald's	2010	₩380 billion	243
		2008	₩197 billion	235
SRS Korea	KFC	2010	N/A	140
		2008	₩147 billion	140
	Burger King	2010	₩121 billion	113
		2008	₩92 billion	94
TS Haemaro	Popeye's	2010	N/A	N/A

		2008	₩41 billion	113
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Source (Table 8-13): Food Distribution Yearbook 2011, The Monthly Food Journal

Table 9: Profile of Major Western Family Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
Outback Steak House Korea	Outback Steak House	2010	N/A	103
		2008	₩275 billion	101
CJ Foodville	VIPS	2010	₩300 billion	75
		2008	₩260 billion	74
Lotteria	T.G.I. Friday's	2010	₩71 billion	23
		2008	₩80 billion	30
Rise On	Bennigan's	2010	N/A	23
		2008	₩94 billion	30
Amoje	Marché	2005	₩76 billion	3
		2008	₩52 billion	5
Samyang	Seven Springs	2010	₩27 billion	12
		2008	₩22 billion	12

Table 10: Profile of Major Pizza Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
Pizza Hut Korea	Pizza Hut	2010	N/A	N/A
		2008	₩430 billion	330
Mister Pizza Group	Mister Pizza	2010	₩520 billion	385
		2008	₩390 billion	350
DPK	Domino's Pizza	2010	N/A	347
		2008	₩300 billion	305
Ettang	Pizza Ettang	2010	₩105 billion	340
		2008	₩37 billion	290
PJI Korea	Papa Jones	2010	N/A	N/A
		2008	₩23 billion	65

Table 11: Profile of Major Café Franchises

Brand / Company	Year	Annual Sales	# of Outlets
Starbucks / Starbucks Korea	2010	₩240 billion	365
	2008	₩171 billion	282
Coffee Bean / Coffee Bean Korea	2010	N/A	198
	2008	₩92 billion	150
Angelinus / Lotteria	2010	N/A	370
	2008	₩65 billion	144
Tom & Toms / Tom & Toms	2010	N/A	232
	2008	₩36 billion	111
Hollys / Hollys F&B	2010	₩108 billion	293
	2008	₩23 billion	179
Café Bene / Café Bene	2010	₩97 billion	459

	2008	₩2 Billion	17
Ediya Coffee / Ediya	2010	₩74 billion	431
	2009	₩50 Billion	349

Table 12: Profile of Major Quick Service Fried Chicken Restaurant Franchises

Brand / Company	Year	Annual Sales	# of Outlets
BBQ / Genesis	2010	N/A	1,830
	2008	₩182 billion	1,800
Gyochon Chicken / Gyochon F&B	2010	₩110 billion	993
	2008	₩97 billion	1,035
Ne Ne Chicken / Hyein Food	2010	N/A	N/A
	2008	₩80 billion	830
Ttoraeorae / Mokwoochon	2010	N/A	N/A
	2008	₩60 billion	1,000
Goobne Chicken / Masineun Saengak	2010	N/A	836
	2008	₩37 billion	514
Mexicana Chicken / Mexicana	2010	₩39 billion	865
	2008	₩35 billion	800

Table 13: Profile of Major Full Svc Korean Food Restaurant Franchises

Company	Year	Annual Sales	# of Outlets
Nolboo NBG	2010	₩650 billion	690
	2008	₩101 billion	282
Bon IF	2010	₩310 billion	1,260
	2008	₩54 billion	44
Chesundang	2010	₩110 billion	223
	2009	₩44 billion	139
One & One	2010	₩81 billion	343
	2008	₩71 billion	302

Table 14: Profile of Major Bakery Shop Franchises

Company	Year	Annual Sales	# of Outlets
Paris Baguette	2009	₩1 trillion	2,256
	2008	₩783 billion	1,798
CJ Tous Les Jours	2009	₩339 billion	1,294
	2008	₩275 billion	1,090
Crown Bakery	2009	₩72 billion	408
	2008	₩86 billion	474
Shilla Bakery	2009	₩39 billion	135
	2008	₩43 billion	176

3. Institutional Food Service Segment

Institutional food service segment maintains a solid growth as more office workers and members of other institutional organizations are seeking quality meal options at an affordable price. It is a general practice in Korea that private companies and public offices provide complimentary meals to employees as part of the compensation. In addition, all public schools, except colleges, are now required to provide lunches to the students. According to the Korean government statistics, cash register sales of institutional feeding restaurants amounted to ₩2.8 trillion in 2009, up 33.4 percent from 2005.

Increased number of institutions that operated in-house institutional feeding restaurants on their own or by independent contractors in the past is switching to large-scale, commercial operators for quality and efficiency. In particular, a handful of leading large-scale companies realized aggressive growth over the last ten years, and now each serves over half million meals a day. The leading players have been closing down small-scale outlets to focus on big volume clients in recent years, which left behind room for smaller players to grow. For example, CJ Freshway withdrew from the public school feeding business several years ago.

Table 15: Profile of Major Institutional Food Service Companies

Company	Year	Annual Sales*	# of Outlets
Ourhome	2010	₩1.2 trillion	600
	2008	₩900 billion	800
Samsung Everland (Food Culture Division Only)	2010	₩914 billion	400
	2008	₩670 billion	400
CJ Freshway	2010	₩945 billion	400
	2008	₩660 billion	N/A
Shinsegae Food	2010	₩619 billion	440
	2008	₩419 billion	N/A
Hanwha Hotel & Resort**	2010	₩693 billion	300
	2008	₩190 billion	295
Hyundai Green Food***	2010	₩395 billion	450
	2008	₩332 billion	N/A
ECMD	2010	₩210 billion	400
	2008	₩ 155 billion	350

Source: The Monthly Restaurant (Feb. 2010 Issue), Company IR Reports, Press Articles

*Note: Annual sales of some of the companies include revenue from product distribution business.

** Note: Hanwha Hotel & Resort is a new company that resulted from the merger of Hanwha Resort, Hanwha Development, and Hanwha 63 City in 2009.

*** Note: Hyundai Green Food merged with Hyundai Food System in July 2010. New company name remained Hyundai Green Food.

Most of the leading institutional food service companies have diversified into regular restaurant businesses over the years for additional growth opportunity, including food courts, bars, coffee shops, bakery shops, and premium restaurants. Another area of emphasis among the leading players has been to expand into the product distribution business. Most of the large-scale broad-line distributors in the food service sector are run by these institutional food service companies. It is expected that the distribution business arms of these institutional food service companies will someday be separated from the mother companies.

Section III. Competition

Domestic products, both raw and processed, present competition to many U.S. products. Although limited in variety and production season, local agriculture produces a considerable amount of raw agricultural products, including rice, fresh vegetables (including cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom, garlic), fresh fruits (mainly apple, pear, grape, tangerine orange, strawberry, persimmon, and water melon), seafood (both farmed and wild caught), pork meat, chicken meat, egg, and milk. In addition, Korea has a strong food processing industry that manufactures a wide variety of processed products, including processed meat, seafood, vegetables, fruits, noodles, sauces, oils, beverages, snacks, dairies, and liquors. Domestically produced products in general better reflect the tastes and consumption trends of local consumers than imported products. Furthermore, Korean consumers are generally biased toward locally grown and manufactured products and willing to pay premium on locally produced products.

Table 16: Korea's Sufficiency Rate for Agriculture and Fishery Products (2005)

Grains	Peas	Beans	Vegetables	Fruits	Meat	Egg	Milk	Seafood	Fat/Oil
29.3%	98.3%	10.7%	94.5%	85.6%	81.6%	100%	72.8%	64.3%	2.8%

Source: Korea Rural Economic Institute (KREI)

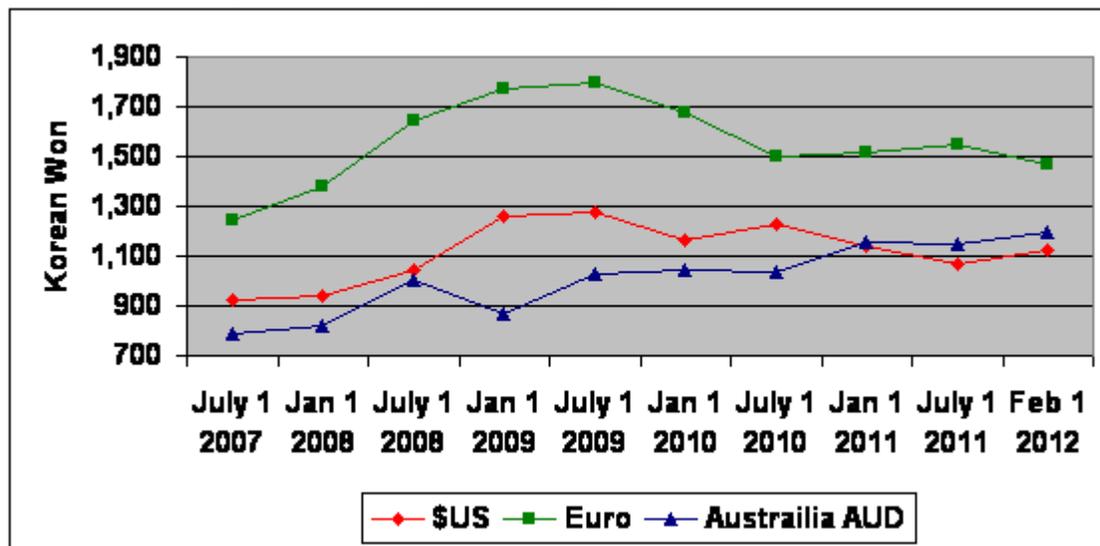
For raw agricultural products and input ingredients for the local processing industry that are not grown or manufactured in Korea, U.S. products face increasing competition from imported products from export-oriented countries. Products from competitor countries, including China, Australia, Chile and Thailand, in general offer lower prices than U.S. products and, thus, are quickly gaining market share. China, for example, has become the leading supplier of fresh and processed vegetables, sauces, spices and seafood to the Korean food service sector. In addition, increased demand for more diverse international cuisines and recipes are translated into growing demand for imported products from more diverse origins, including European and South Asian countries.

Lifting of import barriers directly affects competition in the market. Many local products have lost price and availability competitiveness when protective import barriers were removed, which is expected to happen continuously in the coming years with an increasing number of bi-lateral free trade agreements (FTA). For example, since the implementation of the Korea-Chile Free Trade Agreement in April 2004, Chile has quickly stepped up to a leading exporter of wine and fresh fruits to Korea. Korea has concluded additional FTAs with Singapore, EFTA, and EU, and is currently engaged in FTA talks with several other countries, including India, Japan, and China. The Korea-U.S. Free Trade Agreement (KORUS FTA), scheduled to take effect on March 15, 2012, is expected to create opportunities for U.S. exporters. Details of the KORUS FTA, including tariff reduction schedules and market briefs on some top 40 products, can be found in the Internet home-page of ATO Seoul (www.atoseoul.com).

As tariff barriers decline and trade in food products increases, food safety issues are becoming more prevalent. Restriction of imports from certain countries results in replacement imports from competing countries, as seen in the import ban on the U.S. beef for BSE issue. Consequently, in an effort to maintain stable supply, local food service importers in general prefer to transact with more than two different countries especially for potentially risky items, such as meat (chicken, pork and beef) and fresh fruits (oranges and grapes).

Price of imported products sold in Korea is directly affected by change of exchange rate between the exporting country's currency and Korean won. As a result, fluctuations of exchange rates bring change of price competitiveness among products from different origins. It is notable that leading international economic institutes have forecast a trend of weaker U.S. dollar against other major international currencies in the coming years, which would make American products more price competitive in Korea.

Figure 17: Change of Exchange Rate of Korean Won



Source: Korea Exchange Bank

IV. Best Product Prospects for U.S. Exporters

A. Products Present in the Market Which Have Good Sales Potential

1. Beef: U.S. beef (both chilled and frozen) has good prospects in the Korean food service sector as traders in general have a good understanding about the value and taste of grain-fed American beef. It is notable that dry-aged beef has developed a very positive awareness among the premium restaurant segment over the last couple of years. Imports of U.S. beef have amounted to \$599 million in 2011, up 52 percent from the previous year. Over 85 percent of the imports were frozen products.
2. Pork meat & bone: Although Korea has a large domestic supply of pork meat, local demand is highly skewed to the belly cut meat, which results in a strong need for imports. Korea also has a significant demand for pork neck bone and back bone for popular local stew recipes. A total of \$461 million of U.S. pork meat was imported into Korea in 2011, up 184 percent from the previous year. Local swine industry was the most seriously hit by the Foot-and-Mouth Disease (FMD) outbreaks in early 2011, which created an explosive demand for imported products through 2011.
3. Processed meat products (sausages, hams): Due to easy application, a wide variety of menus served in Korea incorporate processed meat products. Quick service outlets, bars, and buffet restaurants are the main users of these products. Imports of processed meat products from the United States in 2011

included: processed meat (dried, meals, HS0210), \$6 million, up 50 percent from the previous year, sausages (HS1601), \$22 million, up 13 percent, and other prepared/preserved meat (HS1602), \$9 million, up 5 percent.

4. Poultry meat: Korea has a large number of quick service/home delivery fried chicken restaurants and thus has a strong demand for imported chicken meat. Local taste favors legs and drum sticks over wings. Total imports of poultry meat from the United States amounted to \$130 million in 2011, up 81 percent from the previous year.

5. Seafood: Korea is an outstanding seafood market with good growth potential for imported products. The domestic supply is decreasing due to the depletion of near sea fishery resources and increased international restrictions on deep-sea fishing. Imports from the United States in 2011 amounted to \$7 million for live fish, up 27 percent from the previous year, \$86 million for frozen fish (not fillet), up 43 percent, \$39 million for fish fillets, down 2 percent, \$5.5 million for crustaceans and mollusks, up 22 percent, and \$2.5 million for preserved crustaceans, up 54 percent. Major species currently imported from the United States include: Alaska Pollack, Pollack surimi, Pollack roes, tuna, skate, mackerel, hagfish, halibut, scallop, cod, Pacific salmon, angler fish, rock fish, and prepared sea cucumber.

6. Processed fruits and nuts: Processed fruits and nuts are gaining popularity for their natural and healthy image, which results in the introduction of more recipes that incorporate these products. Products currently imported from the United States include: dried, frozen, or preserved prunes, cranberries, cherries, strawberries, grapes, figs, blueberries, walnuts, almonds, pistachios, pecans and peanuts. Imports from the United States in 2011 amounted to \$33 million for preserved fruits and nuts (HS2008), up 1 percent from the previous year, \$4 million for jams (HS2007), up 40 percent, \$50 million for fruit juices (HS2009), up 11 percent, \$23 million for processed fruits & nuts (HS0811), up 43 percent, and \$5 million for dried fruits (HS0813), up 1 percent.

7. Tree nuts: Korean consumers are well aware of health benefits of eating tree nuts (in particular almond and walnut), which is translated into growing demand in restaurants and bakery shops. Total imports of tree nuts from the United States amounted to \$171 million for nuts (HS0802) in 2011, up 26 percent from the previous year.

8. Fresh fruits: Despite import barriers maintained on many fresh fruits, Korea imports a significant amount of fresh fruits from the world. Major American fruits imported to Korea in 2011 included: citrus (\$181 million, up 30 percent from the previous year), grapes (\$24 million, up 42 percent), and cherries (\$45 million, up 48 percent).

9. Vegetables (fresh, frozen, canned or prepared): Although Korea is self-sufficient in many varieties of fresh vegetables, seasonal fluctuations in the local supply and unfavorable growing condition for foreign varieties are resulting in an increased demand for imports. China has emerged as the leading supplier of vegetables to the Korean food service sector in both fresh and processed category; however, there remains a solid demand for a limited variety of high-quality U.S. products. Major products imported from the United States in 2011 included processed vegetables (\$87 million, HS2004, HS2005), preserved tomatoes (\$12 million, HS2002), vegetable pickles (\$4 million, HS2001), frozen or dried vegetables (\$6 million, HS0710, HS0712, HS0713) and fresh vegetables (\$12 million, mostly chipping

potatoes and lettuce).

10. Cheese and processed dairy products: Proliferation of bakery shop segment, which is a strong user of dairy ingredients, as well as pizza restaurant segment is resulting in a growing demand for imports. Imports of cheese from the United States amounted to \$140 million in 2011, up 85 percent from the previous year. Culling of a large number of local dairy cows under the FMD outbreaks in 2011 was partly responsible for the strong growth in imports.

11. Alcohol Beverages (wine, beer and hard liquors): Korea has a large number of bars and pubs. Demand for products with lower alcohol content remains strong in the bar industry. Imports from the U.S. amounted to \$12 million for wine, \$6 million for beer, and \$7 million for hard liquors in 2011.

12. Coffee: On-going expansion of franchise cafe chains results in an increased demand for imported coffee. Imports of coffee from the United States grew 9 percent to \$27 million in 2011.

13. Sauces: With introduction of more diverse foreign recipes, demand for imported sauces continues to rise. Imports of sauces and preparations (HS2103) from the United States amounted to \$22 million in 2011, up 3 percent from the previous year.

14. Bread, pastry, cakes: Due to the strong growth of the bakery shop segment, imports of related products are on an increase. Imports of bread, pastry and cakes (HS1905) from the United States amounted to \$46 million in 2011, up 22 percent from the previous year.

15. Rice: American rice is price competitive against local rice and is expected to gain further market share in the food service industry. In particular, American suppliers have the capacity to export medium grain variety that Koreans prefer. Imports of rice from the United States amounted to \$125 million in 2011, up 60 percent from the previous year.

B. Products Not Present in Significant Quantities But Which Have Good Sales Potential

1. Pasta: Italian cuisine is gaining popularity, resulting in increased demand for related products, including pasta noodles. Among \$122 million of pasta products imported in 2011, imports from the United States amounted to \$1 million.

2. Olive oil: Consumption of olive oil is on a rapid increase as restaurants as consumers are seeking for healthier alternatives to conventional cooking oil. However, among \$45 million of olive oil imported in 2011, imports from the United States amounted to less than \$1 million.

3. Butter: Among \$42 million of butter imported into Korea in 2011, imports from the United States were \$4.6 million. Although facing tough competition from export-oriented countries including New Zealand and EU, there is a good market potential in Korea for American butter as many local consumers are well aware of the leading American butter brands.

4. Ingredients for Mexican and Cajun cuisine: Many traders agree that Mexican and Cajun cuisine have a good potential in Korea as Korean consumers have a strong preference for hot, spicy dishes. However, not many local chefs have enough knowledge and experience with these new to

market cuisines.

5. Processed turkey meat: Many Korean consumers still maintain a negative view on turkey meat. However, processed turkey products (hams in particular) are likely to gain more local followers, especially among young consumers who have traveled to the United States and have developed tastes for related dishes.

6. Premium seafood: Products such as lobster, crabs (King, Snow, and Dungeness), black cod, and wild-caught Sockeye salmon have a good niche potential in the high-end restaurant segment as affluent consumers are looking for premium, healthier alternatives to meat dishes.

7. Processed eggs (fluid, frozen and flour): More restaurants and bakery shops are expected to switch to processed egg products such as shelled or powdered for food safety and efficiency. Imports of shelled egg products from the United States amounted to \$4 million in 2011, up 44 percent from the previous year.

8. Frozen prepared products: Demand for frozen prepared products such as frozen soups, frozen dough, and frozen desserts that offer longer shelf life and labor-saving convenience is likely to increase in the food service sector in the coming years.

9. Frozen or preserved berries: Demand for berries, including blueberries, black currants, and cranberries, is likely to increase in the food service sector as consumers are developing bigger interest in recipes incorporating these specialty fruits for new taste and health benefits. However, mainly due to the high price, imported berry products are used by limited number of restaurants.

10. Processed organic products: Despite the strong interest in the industry, imported processed organic products are used by limited number of restaurants for the high price.

11. Many imported agricultural products, including honey, fresh potatoes, fresh onions, and popcorn, are subject to high import tariffs and tariff rate quotas (TRQs) that restrict open market access. On-going trade negotiations are likely to reduce some of these barriers in the coming years. In particular, some of these products will receive duty free access as part of a TRQ under the KORUS FTA.

12. Fresh blueberries from the state of Oregon were allowed to enter Korea in December 2011. Korean importers and distributors have expressed strong interest in carrying Oregon fresh blueberries, which will land in Korea from 2012 season.

C. Products Not Present Because They Face Significant Barriers

1. Korea utilizes a “positive list” system for importing fresh agricultural products meaning imports of any product that is not pre-approved in the Korean government regulation is prohibited. Because of the risk of transferring pests, trade of fresh fruits and vegetables are only possible when the importing country (Korea) approves phytosanitary standards of the exporting country (the United States) through a pest risk assessment, which takes a considerable amount of time as it involves extensive amount of both laboratory and field studies. Many fresh fruits from the United States, including apple, pear, peach, and watermelon, are currently not importable as there are no phytosanitary import agreements established on

these products between Korea and the United States.

2. Imports of approved fresh fruits and vegetables are frequently restricted for phytosanitary reasons such as outbreaks of fruit flies. The internet home-page of the Korean Quarantine Inspection Agency has up-to-date information on plant (including fresh fruits and vegetables) import restrictions and regulations in English (www.qia.go.kr). Outbreaks of animal diseases, such as swine cholera, avian-flu virus, and BSE, also restrict imports of related animal products into Korea. U.S. suppliers may contact established importers or ATO Seoul for up-to-date import restriction information and regulation on animal products. Related products include:

(1) Korean government still maintains import restrictions on American beef. There is a commercial understanding between Korean beef importers and U.S. exporters to only export U.S. beef from cattle less than 30-months of age. Imports of processed products from animals less than 30 months of age are also not allowed to be shipped to Korea until further discussions with the Korea Food and Drug Administration (KFDA).

(2) Lamb meat: Imports of products from all ruminant animals, except beef, are still banned because of BSE related concerns.

(3) Korea maintains an import ban on elk antlers, which is an important ingredient for local herb medicine and functional menus, from the United States due to the risk of Chronic Waste Disease (CWD). Consequently, American elk antler industry currently has no access to the Korean market, which exported \$24 million to Korea in 2006.

(4) Korea maintains an import ban on fresh potatoes from many American states, including Wisconsin and some counties in Idaho, due to nematode risk.

3. Fresh organic agricultural produce including vegetables and fruits: there are technical barriers that prohibit imports of fresh organic produce. Korean regulation does not accept USDA organic certificates for fresh produce but requires certification from Korean government accredited certifying agents. In addition, there is a high chance for imported fresh vegetables and fruits to be subject to fumigation treatment upon entering the market, which will disqualify the product from “organic” status.

4. The Korean Food Additive Code defines specifications and usage standards for individual food additives. Korea utilizes a “positive list” system for food additives meaning any food additive not listed in the code is prohibited. The Korean standard differs from the CODEX standard in some cases and consequently may prohibit entry of American products manufactured solely under the CODEX or American standard. The home-page of Korea Food & Drug Administration (<http://fa.kfda.go.kr/foodadditivescode.html>) provides detailed information about the Korean food additive code in English. Or, an established importer should be a reliable source for the Korean standard.

V. Key Contacts and Further Information

A. USDA/FAS Offices in Korea

1. For information about the Korean agricultural market and regulations, please contact:

U.S. Agricultural Trade Office Seoul (ATO)

Korean Address: Room 303, Leema Building, 146-1, Susong-dong, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550

Telephone: +82-2 397-4188 Fax: +82-2 720-7921

E-mail: atoseoul@fas.usda.gov

Internet homepage: www.atoseoul.com

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)

Korean Address: U.S. Embassy, 82, Sejong-ro, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

Telephone: +82-2 397-4297 Fax: +82-2 738-7147

E-mail: agseoul@fas.usda.gov

2. For further information about sanitary/export certificate requirements, please contact:

U.S. Animal Plant and Health Inspection Service Seoul (APHIS)

Korean Address: Room 303, Leema Building, 146-1, Susong-dong, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550

Telephone: +82-2 725-5495 Fax: +82-2 725-5496

E-mail: yunhee.kim@aphis.usda.gov

Internet Homepage: www.aphis.usda.gov

B. USDA/FAS' On-line Supplier List

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA/FAS Overseas offices to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at

http://www.fas.usda.gov/agx/partners_trade_leads/us_suppliers_list.asp

C. Strategic Trade Regional Groups (STRG)

For information about financial supports and export aid programs offered by Strategic Trade Regional Groups, please contact:

Food Export Association of the Midwest USA

309 W. Washington St., Suite 600, Chicago, Illinois 60606, USA

Telephone: 312-334-9200 Fax: 312-334-9230

E-mail: thamilton@foodexport.org

Website: www.foodexport.org

Western United States Agricultural Trade Association (WUSATA)
2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA
Telephone: 360-693-3373 Fax: 360-693-3464
E-mail: janet@wusata.org
Website: www.wusata.org

Food Export USA - Northeast Region of the United States
150 S. Independence Mall West, 1036 Public Ledger Building, Philadelphia, PA 19106, USA
Telephone: 215-829-9111 Fax: 215-829-9777
E-mail: jcanono@foodexportusa.org
Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)
2 Canal Street Suite 2515, New Orleans, LA 70130, USA
Telephone: 504-568-5986 Fax: 504-568-6010
E-mail: jim@susta.org
Website: www.susta.org

D. Additional Sources of Information & Support

1. For information on the non-agricultural commercial and industrial products in Korea, please contact:

U.S. Commercial Service
Korean Address: U.S. Embassy, 82, Sejong-ro, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-USCS, APO, AP 96205-5550
Telephone: +82-2 397-4535 Fax: +82-2 739-1628
E-mail: Seoul.office.box@mail.doc.gov
Homepage: www.buyusa.gov/korea

2. The American Chamber of Commerce in Korea (AMCHAM) offers a local network of American businesses by sector, through which its over 1,000 member companies can share market intelligence and collaborate on new business opportunities.

Address: #4501 Trade Tower, 159-1 Samsung-dong, Gangnam-gu, Seoul, Korea
Telephone: +82-2 564-2040 Fax: +82-2 564-2050
E-mail: amchamrsvp@amchamkorea.org
Homepage: www.amchamkorea.org

^[1] Korea in this report refers to South Korea only

^[2] About \$70 (\$1 = ₩1,150 won as of Feb. 1 2012)

^[3] Company IR Report, CJ Freshway Co. (www.cjfreshway.co.kr)

^[4] Dallas, Texas, April 30 - May 3, 2012 (www.fmi2012.com)

^[5] Chicago, May 5-8, 2012 (www.restaurant.org/show)

^[6] Seoul, May 8-11, 2012 (www.seoulfood.or.kr)

^[7] Local hard liquor traditionally distilled from rice but now made from imported tapioca. It contains about 17-25% of alcohol.

