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Date: 2/5/2013

GAIN Report Number: KS1311

Korea - Republic of

Post: Seoul ATO

Coffee Market Brief Update

Report Categories:

Coffee

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Report Highlights:

South Korea's per capita coffee consumption is five times greater than consumption in the rest of the Asia-Pacific region and the total coffee market is valued at about \$3 billion in 2012. Despite the economic down turn and health concerns, the coffee sector in Korea continues to grow by 30 percent over last four consecutive years. As the younger generation embraces a western coffee culture and consumers demand premium, high quality coffee beans, this trend is expected to continue. In 2012, there were about 12,000 specialty coffee shops, such as Starbucks and Café Bene, a 60 percent increase since 2008. Most roasted coffee beans imported from the U.S. are handled by U.S. based coffee franchises such as Starbucks, Coffee Bean and Tea Leaf. In addition to these chains, fast food restaurants, such as McDonald's and Lotteria also import roasted coffee beans. Moreover, with demand surging among young Koreans for good-quality coffee served in a modern, comfortable environment leads to the popularity of coffee and spread of coffee franchises.

General Information:

Section I. Market overview

Table 1: Coffee Imports in Korea by Year and by Country (HS:0901 & HS:2101.1)

Country	2010		2011		2012	
	\$1,000	MT	\$1,000	MT	\$1,000	MT
World	394,464	114,500	699,306	128,533	581,529	113,556
Brazil	69,645	20,992	146,893	26,204	132,974	23,584
Colombia	69,026	14,740	114,053	17,782	70,671	12,678
Vietnam	51,918	33,754	88,529	38,985	79,093	36,269
Honduras	40,900	12,172	65,828	11,074	42,492	9,111
Peru	32,109	7,333	54,167	9,599	39,090	8,950
United States	27,015	2,466	29,505	2,223	42,651	2,742
Others	103,851	23,043	200,331	22,666	174,558	20,222

Source: Global Trade Atlas, HS0901 (Coffee W/N Roast or Decaff.), 21011 (Coffee Extracts Essence & Concentrate)

In 2011, Korea imported roughly \$700 million worth of coffee and this is approximately 66.5% rise from previous year. Apart from 2009 when the global economic recession occurred, Korea's coffee import had been increasing since 2003 due to booming of the coffee franchises such as Starbucks, Coffee Bean and Tea Leafs. Coffee sector in Korea is promising as more people, especially younger generations are adapting to western cultures.

Starbucks has served as a key catalyst of popularity of modern specialist coffee shops trend with sales expected to surpass \$1.4 billion (1.5 trillion won) in 2011. It introduced many Koreans, particularly young people, to the virtues of high-quality drip coffee and espresso drinks. The American chain remains the leading specialist coffee shop chain in South Korea, with estimated 2010 sales of \$230 million (250 billion won), while average annual sales growth has remained in the double digits since the chain's arrival. Numbers of Starbucks coffee shops are recorded over 500 in Korea and broke the record of the most sales value in the world out of one shop sales value competition.

Yet the Korean coffee boom goes beyond just a Starbucks-driven fad in a market where consumer trends can reach critical mass and then vanish in a matter of months. Specialist coffee shops fill an important niche in a country where foodservice outlets remain the primary choice for entertaining, socializing, and study, particularly for young people, in a market where living spaces tend to be quite small. Free Wi-Fi also serves as a minor, yet real inducement in a country with one of the highest rates of PC ownership and broadband penetration in the world.

Table 2: Bean Coffee (HS:0901: Coffee W/N Roast or Decaff) Import By Year in Korea

	2009	2010	2011	2012
Value (\$1,000)	276,284	371,612	618,626	477,206
Volume (MT)	100,576	111,625	121,855	106,119

Source: Korea International Trade Association (KITA), HS0901, (Coffee W/N Roast or Decaff)

Table 3: Bean Coffee (HS:0901 : Coffee W/N Roast or Decaff) Import By Country in Korea

Country	2009		2010		2011		2012	
	\$1,000	MT	\$1,000	MT	\$1,000	MT	\$1,000	MT
The U.S.	22,026	2,110	24,693	2,315	26,860	2,074	39,135	2,648
Vietnam	55,974	33,364	51,143	33,639	86,695	38,765	73,828	35,892
Brazil	41,977	17,343	62,104	19,966	123,238	23,884	91,705	20,130

Columbia	49,978	13,767	65,661	14,389	108,796	17,337	61,108	12,137
Peru	19,124	6,538	32,109	7,333	54,167	9,599	39,090	8,950

Source: Korea International Trade Association (KITA), HS0901, (Coffee W/N Roast or Decaff)

Table 4: Instant Coffee (2101.11: Instant Coffee) Import By Year in Korea

	2009	2010	2011	2012
Value (\$1,000)	14,705	22,852	80,712	104,323
Volume (MT)	2,346	2,875	6,678	7,437

Source: Korea International Trade Association (KITA), HS2101.11

Table 5: Korean Coffee Market Opportunities and Challenges

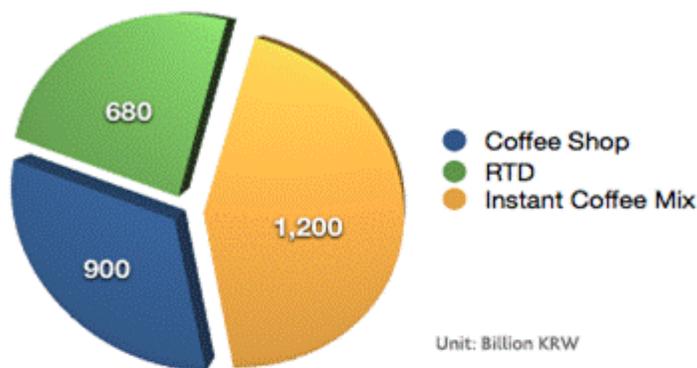
Opportunities	Challenges
Korean coffee market depends entirely on imports	Importers and consumers are unaware of the coffee varieties available from the U.S.
The U.S. enjoys a good reputation for high quality coffee	In general, consumers tend to drink the least expensive instant coffee
Coffee is a popular and established beverage	Coffee product market is so competitive
Low tariffs and exemption from the special excise tax	In terms of health consciousness, coffee has a negative connotation

Section II. Market Sector Opportunities and Threats

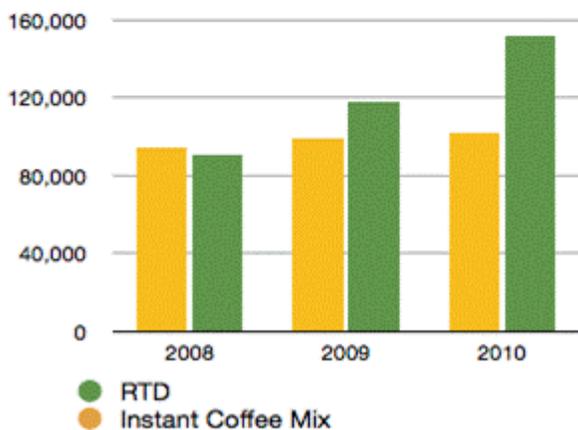
Market Sector

Table 6: Coffee Market Sector Share

2010 Korean Coffee Market



Annual Sales Volume (Tons)



Source: Nielsen

nielsen

Table 7: Korea Coffee Retail Sales in categories

	Instant Coffee		Coffee Mix		RTD Coffee		Roasted Bean coffee	
	\$Million	Growth	\$Million	Growth	\$Million	Growth	\$Million	Growth
2008	146.2	11%	845.2	20.7%	366.5	28.2%	127	30%
2009	155.2	6.1%	975.8	15.5%	515.5	40.6%	166	30%
2010	152.4	-1.8%	1,017	4.2%	678.5	31.6%	215	30%
2011	142.1	-6.7%	1,110	9.2%	864.9	27.5%	280	30%

Source: Korea Food Year Book 2012 for Instant Coffee Mix & RTD Coffee, The Coffee monthly magazine 'November 2011' for Roasted Bean Coffee

1) Instant coffee and coffee mix: The instant coffee has been such a dominant coffee market player since 2002 and it still holds a highest portion of the coffee market share. The growth in the sales of coffee mix primarily depends on its convenience, but recently, the growth is being carried by the premiumization of the instant coffee mix. As the quality of the coffee mix improves and is marketed to the consumers as such, there is a good chance that it will maintain its current popularity.

2) Ready-To-Drink coffee: In 2011, it is estimated that the amount of RTD coffee shares of coffee market was

approximately \$ 835 million, which is an increase by 15% in total volume terms. RTD coffee shows a strong performance, which is attributed to the substantial growth of specialist coffee shop brands in the retail channel. Due to this popularity of RTD coffee, average unit prices increase by 2% in 2011, mainly as a result of the premiumization trend within the category. Based on consumers' increasing desire for a good coffee taste, operators of chained specialist coffee shops collaborated with beverage manufacturers in order to produce RTD coffee through the retail channel. These specialist coffee shop branded RTD coffee products appeal to young consumers in their 20s and 30s, as they appreciate being able to enjoy the same coffee flavors and taste at a lower price anywhere. More young consumers who prefer premium coffee are expected to be willing to pay a relatively higher price when purchasing RTD coffee. They enjoy premium RTD coffee from convenience stores, with a cheaper price than the coffee sold in specialist coffee shops. Therefore, manufacturers are expected to follow this trend with more premium products with a high-end positioning.

3) Roasted bean coffee: Most of the roasted coffee bean imported from the U.S. is handled by the U.S. based franchise coffee chains such as Starbucks, Coffee Bean and Tea Leaf, etc. In addition to these stores, even the fast food restaurants, such as Macdonald's and Lotteria also showcased premium coffee from fresh beans at a lower price compared with that of other franchise shops. This shows that the previous competition between the high end franchise specialty coffee shops has moved into the more accessible arena. Because of the continued penetration of roasted bean coffee into the market, the growth is expected to be sustainable for the near future.

Section III. Consumption Opportunities and Threats

1) Premiumization

Korea is currently the world's 11th largest coffee market. At the end of 2011 there were over 12,300 coffee shops in Korea – up a staggering 54% from just over 8,000 in 2010. Sales jumped 59.7 percent from \$1.4 billion (1.55 trillion Korean won) to \$2.2 billion (2.48 trillion Korean won) in the same one-year period. One of major industry resources expects the Korean coffee market to grow up to about \$10 billion market size. Koreans consume an average of 300 metric tons of coffee beans a day, or 37 million cups of espresso. Korea currently imports coffee from 83 countries. Korea's top importer of coffee beans is Vietnam, providing a huge 88%, followed by Brazil at 15% and Columbia at 11%, while processed coffee is mainly imported to Korea from the United States and Italy. In five years, between 2006 and 2011, the number of coffee shops in Korea has risen by 890% with sales climbing a massive 1600% in the same period. Korea's coffee industry has doubled over the past three years, seeing an explosion in both import and consumption and catapulting Korea to its place as 11th largest coffee market in the world. South Koreans are now amongst the top global consumers of coffee, and the country is home to over 12,300 coffee shops. Seoul itself boasts the highest concentration of coffee shops in any city in the entire world. Each of the various coffee formats has role to play for coffee lovers. Canned coffees are primarily selected for their low prices, and consumers tend to be loyal to their brands. Convenience was also an important factor. Drip coffee is chosen primarily for its taste, while low price and variety of flavors also rank highly for consumers. Meanwhile, take-away coffee from cafés is selected primarily for their taste, while the outlets are easy to get to and offer a cozy atmosphere.

2) Health and Wellness trend

Korean consumers are also very health-conscious. The recent favor for the black coffee also stems from the awareness for the benefit of the black coffee, introduced in media. The use of instant coffee also decreased with the knowledge that prima (the white substance that is used to soften the taste of coffee) is bad for health while roasted bean coffee sales rises dramatically over the past few years. Thus it would be a good strategy to advertize a coffee product with relation to the health benefit it has. On the other hand, experts in coffee industries doubt the potential popularity of decaffeinated coffee because Korean locals are accustomed to caffeinated tastes and giving stimulus to their system is one of the main reasons for their caffeine consumption. Not to mention the fact that decaffeinated coffee is still not very well known in Korea. Nevertheless, considering the recent focus on the health and wellness, if suitably targeted and advertised, may bring decaffeinated coffee into demand.

Section IV. Costs and Prices

Table 8: Market Price for RTD coffee

Brand	Company	Outlets	Pack size	Price(Won)
Caffé Latte Mild	Maeil Dairy Industry Co Ltd	Hypermarket	2 x 200 ml	\$2 (KW2,090)
Cantata Original Sweet Black	Lotte Chilsung Beverage Co Ltd	Hypermarket	275 ml	\$1.7(KW1,770)
Cappuccino For Me	Haitai Beverage Co Ltd	Convenience store	173 ml	\$0.8(KW800)
French Café Cafe au Lait	Namyang Dairy Products Co Ltd	Convenience store	200 ml	\$1.2(KW1,200)
French Café Caramel Macchiato	Namyang Dairy Products Co Ltd	Convenience store	200 ml	\$1.2(KW1,200)
Let's Be	Lotte Chilsung Beverage Co Ltd	Hypermarket	6 x 175 ml	\$2.2(KW2,200)

* Brands with biggest shares of RTD coffee market in 2011. (Exchange Rate: About \$1 = W1,000)

Most of franchise coffee shops in Korea, are about the same prices as Starbucks

Coffee shop as follows:

Table 9: Starbucks Coffee Shop – Current Coffee Prices

Type	Pack Size	Price \$ (Won)	Pack Size	Price \$ (Won)
Café Americano	Tall	\$3.9(KW3,900)	Grande	\$4(KW4,000)
Iced Americano Coffee	Tall	\$3.9(KW3,900)	Grande	\$4.4(KW4,400)
Cappuccino	Tall	\$4.4(KW4,400)	Grande	\$4.9(KW4,900)
Soy Caffe Latte	Tall	\$4.4(KW4,400)	Grande	\$4.9(KW4,900)
Cocoa Cappuccino	Tall	\$4.4(KW4,900)	Grande	\$5.4(KW5,400)
Caffe Mocha	Tall	\$4.9(KW4,900)	Grande	\$5.4(KW5,400)
Caramel Macchiato	Tall	\$5.4(KW5,400)	Grande	\$5.9(KW5,900)
White Chocolate Mocha	Tall	\$5.5(KW5,500)	Grande	\$6(KW6,000)

Source: Star bucks Coffee Shop Market Survey, 2013

Section V. Market Access

Table 10: Tariff Phase-Out Schedule under KORUS:

Duties on unroasted coffee will be removed immediately upon implementation of the Agreement. Duties on roasted coffee and instant coffee will be phased-out in five equal annual stages and these coffees will enter duty free in year five of the Agreement.

HSK 10	Description	Base Rate	2012	2013	2014	2015	2016
0901 11 0000	Caffeinated, unroasted	2%	0	0	0	0	0
0901 12 0000	Decaffeinated, unroasted	2%	0	0	0	0	0
0901 21 0000	Caffeinated, roasted	8%	6.4	4.8	3.2	1.6	0
0901 22 0000	Decaffeinated, roasted	8%	6.4	4.8	3.2	1.6	0
2101 11 1000	Instant Coffee	8%	6.4	4.8	3.2	1.6	0

Source: Tariff Schedules of Korea 2013 by Korea Customs Office

ATO Seoul homepage (www.atoseoul.com) also has a [special section](#) dedicated to the Korea-U.S. Free Trade Agreement.

Section VI. Key Contacts and Further Information

1. **For more information:** Please contact the U.S. Agricultural Trade Office, U.S. Embassy Seoul, Korea, at atoseoul@fas.usda.gov, Tel: 82-2-397-4188, Fax: 82-2-720-7921, Or visit www.atoseoul.com . Please note that our homepage also has a [special section](#) dedicated to the Korea-U.S. Free Trade Agreement.

2. **Other Relevant Reports:** you may find more information on Korean market reports at www.atoseoul.com: such as 1. [FAIRS Country Report 2012](#) 2. [Exporter Guide 2012](#) 3. [Retail Foods Sector Biennial Report](#) 4. [Food Processing Ingredient Market Brief](#)

3. **Suggested Marketing Tools:** Please let us know if you want to have your product offers featured in the ‘New American Supplier/Product’ section in our quarterly e-newsletter, which is sent out to our 3,000 industry contacts. It is free of charge, and all we need is a brief article about your company/product, contact info, and a couple of graphic images (logos or product photos). Next issue is published in March 2013.

4. **Local Show Participation:** Seoul Food & Hotel (www.seoulfoodnhotel.co.kr), the leading food trade show in Korea that provides a venue for new to market suppliers to develop contacts with a large number of local distributors and buyers. This is the only show in Korea that is officially endorsed and supported by USDA/FAS. The show schedule for next year is May 14-17, 2013. There will be a sizable U.S. pavilion in the show put together by various American Ag promotion agencies and state departments of agriculture. For registration information, please contact the U.S. pavilion manager, Oak Overseas (Russell Hood, Rhood@oakoverseas.com).