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Korea - Republic of

Retail Foods

Retail Food Sector Report Biennial

Approved By:

Kevin Sage-EL, ATO
Director

Prepared By:

Sangyong Oh, Marketing
Specialist

Report Highlights:

Expansion and diversification of large-scale retail businesses coupled with introduction of information technologies has led a rapid evolvement of the retail food sector in South Korea over the last two decades. Strong consumer demand for value, convenience, diversity and quality generates increased demand for imported food and agricultural products in the sector. The United States remains the leading supplier of consumer-ready food products to the Korean retail food sector. Korea's imports of consumer-ready food products from the United States totaled a record high \$3.6 billion in 2014, up 21.4 percent from the previous year. Reduction of import tariffs under KORUS FTA should provide

American products with additional opportunities in the sector.

Post:

Seoul ATO

Author Defined:

KOREA RETAIL FOOD SECTOR REPORT

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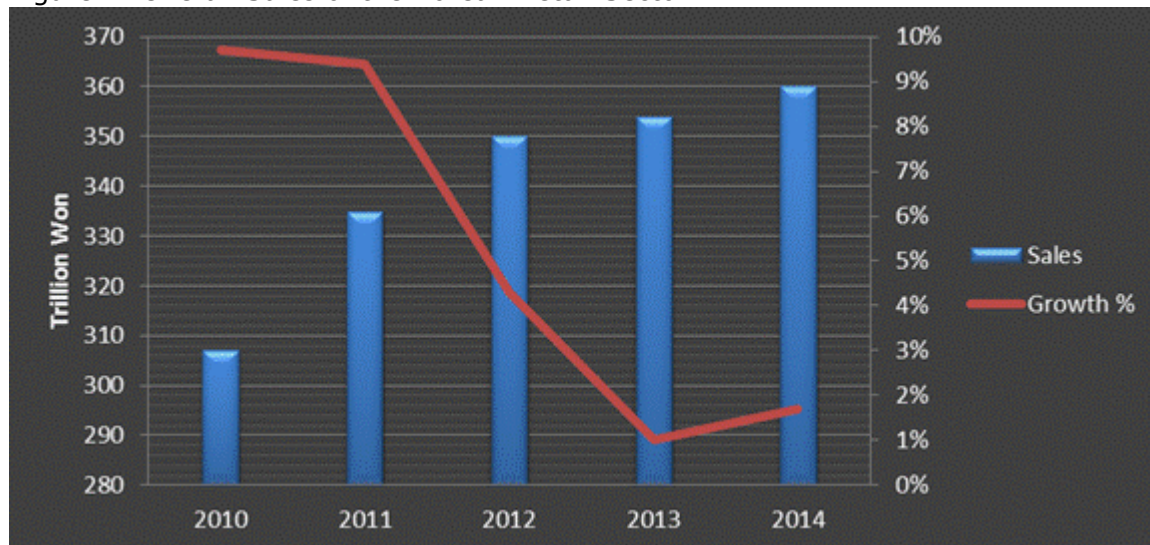
I. Market Summary

A. South Korean Retail Food Sector Overview

The retail food sector in South Korea (here in after referred to Korea) has evolved dramatically ever since opening of its first large-scale discount store (i.e., hypermarket) in 1993 (E-Mart by Shinsegae Co.) and the liberalization of large-scale retail business to foreign ownership in 1996 (Macro, a Dutch retailer was the first one to enter the market). As a result, modern format, large-scale retail businesses such as hypermarket chains, grocery supermarket chains, convenience store chains, and on-line retailers have grown rapidly at the expense of traditional street markets and family-operated small retailers over the years. Expansion of these new retail industries coupled with the introduction of new information technologies has brought a big change in the way Korean consumers purchase daily necessities, including food.

Overall retail sector sales in Korea amounted to W360 trillion Korean won in 2014 (approximately \$331 billion, exchange rate: \$1 = W1,088 as of Dec. 31, 2014), up 1.7 percent from the previous year. The retail sector sales have shown a sluggish growth in recent years as the Korean economy slowed down under the global economic crisis.

Figure 1: Overall Sales of the Korean Retail Sector

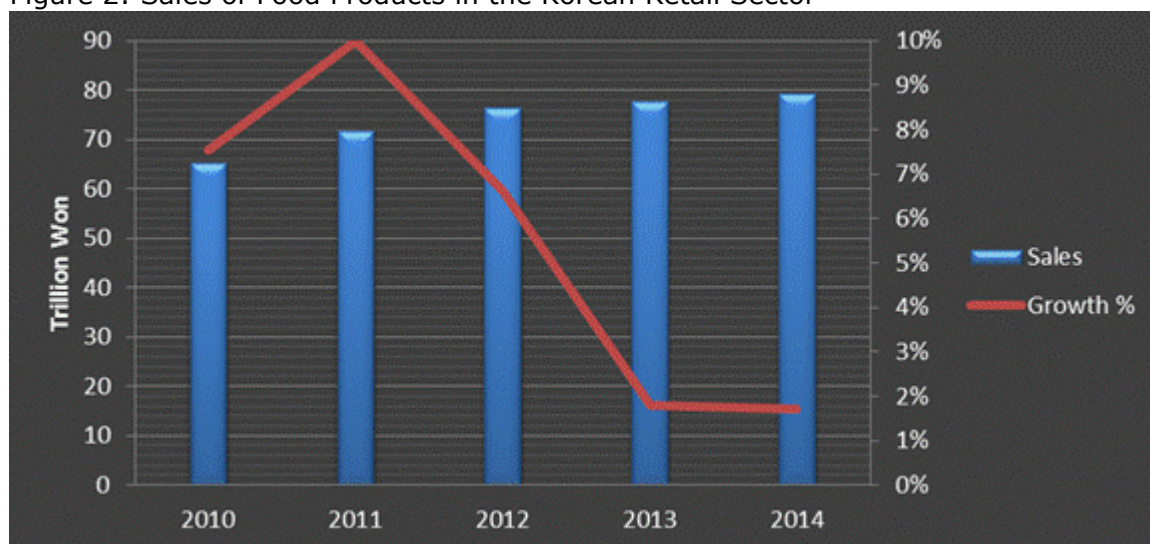


Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Total sales of food products in the retail sector amounted to W79.2 trillion in 2014, up 1.7 percent from the previous year. In other words, food products accounted for 22 percent of the overall retail sector sales.

Grocery supermarket segment was the leading retail channel for food products in Korea with an estimated W29.9 trillion of food sales in 2014, followed by hypermarket segment. However, in terms of growth, on-line retailer segment showed the highest growth of food sales between 2012 and 2014, followed by convenience store segment. Considering the strong consumer demand for convenient and time saving shopping tool, on-line retailers and convenience stores are likely to lead the growth of food product sales in the Korean retail sector in the coming years. On the other hand, hypermarkets and department stores are expected to see stagnant food sales growth not only under the rising competition from other retail segments but also because of limited room to add new stores in the market.

Figure 2: Sales of Food Products in the Korean Retail Sector



Source: Retail Industry Sales by Product Statistics, Korea National Statistics Office (<http://kosis.kr>)

Table 1: Estimated Sales of Food Products by Retail Industry Segment (2014)

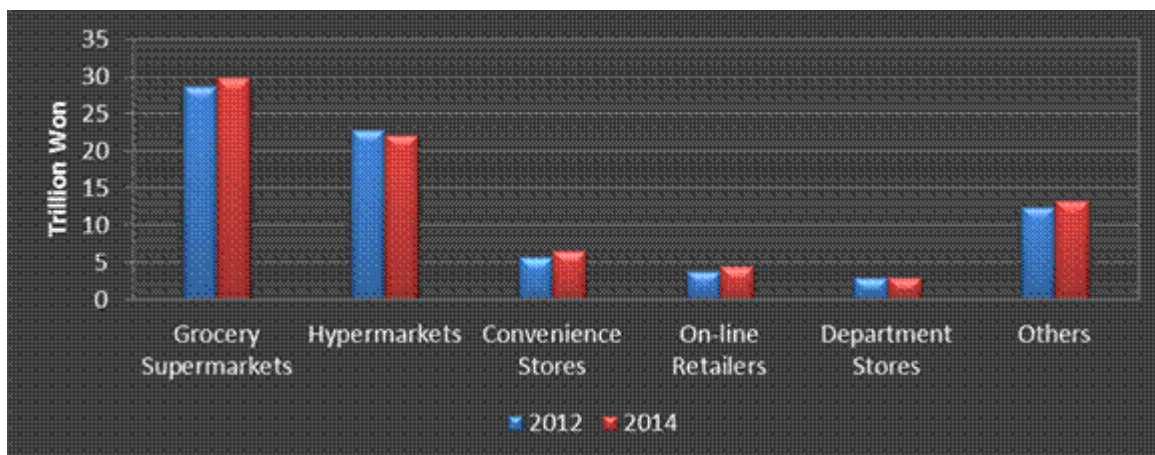
Industry Segment	Total Sales	Share of Food Products in Total Sales*	Food Sales (Estimates)
Grocery Supermarkets	W35.4 trillion	84.5%	W29.9 trillion
Hypermarkets	W47.5 trillion	51.0%	W22.2 trillion
Convenience Stores	W12.7 trillion	51.4%	W6.5 trillion
On-line Retailers	W41.1 trillion	10.7%	W4.4 trillion
Department Stores	W29.3 trillion	10.1%	W2.9 trillion
Others**			W13.3 trillion
Total			W79.2 trillion

Source: Retail Industry Sales by Product Statistics, Korea National Statistics Office (<http://kosis.kr>)

*Note: Estimates based on IR reports of some of the leading companies in each segment. The figure for on-line retailers is from 'On-line shopping industry product sales statistics' by Korea National Statistics Office.

**Note: Others include independent, family operated retail stores of various consumer goods; traditional street markets; and category-focused specialty retail stores (independent or franchise operation).

Figure 3: Estimated Sales of Food Products by Retail Industry Segment (2012 vs 2014)



Rapid expansion of large-scale businesses over the years has heightened the competitive pressure in the Korean retail sector. As a result, leading players have actively pursued merger and acquisition (M&A) opportunities to achieve bigger control of the market. It is notable that leading retail companies in Korea today have become “conglomerate” retail force that operates retail businesses in diverse retail industry segments. For example, the business umbrella of Lotte Shopping Co. includes grocery supermarkets, hypermarkets, department stores, convenience stores, outlet shopping malls, duty free stores, TV home shopping, and Internet shopping malls. Expansion into foreign markets has been another area that leading Korea retailers have also invested heavily in recent years for new growth opportunity. For example, Lotte Mart, which currently operates 108 hypermarket stores in Korea, has increased its stores in foreign markets to 148 as of January 2015, including 102 in China and 38 in Indonesia.

Korean retailers in general rely heavily on independent importers or middleman distributors for imported food and agricultural products. Although leading players are making increased efforts to expand direct imports for lower cost and improved product assortment, their current attention is mainly targeted on a limited number of large volume products such as fresh fruits and meat.

Growth of modern retail business in Korea has coincided with development of modern, large-scale logistics service industry. Leading retailers are equipped with temperature controlled distribution network of trucks and warehouses that cover the entire market. On the other hand, small to medium size retailers in general rely on third party logistics service providers. Logistics service industry is likely to continue a strong growth in the coming year due to a rapid rise in demand for home delivery service which is now widely offered not only by on-line retailers but also by conventional retail stores.

B. Consumer Food Trends

Each Korean household spent on average W362,450 or 14.2 percent of its total monthly consumption expenditure on grocery food purchases in 2014. Compared to 2012, household spending showed a significant increase on grains, salted or dried seafood, confectioneries & snacks, alcohol beverages, and other processed foods. On the other hand, spending on fresh or processed vegetables, spices and seasonings, and coffee and tea showed a significant decline.

Table 2: Breakdown of Monthly Korean Household Grocery Food Purchases (Unit: Won)

Year	2012	2014	Change
Number of Household Members	3.27	3.21	-1.8%

Total Household Income	4,076,876		4,302,352		5.5%
Total Consumption Expenditure	2,457,441		2,551,057		3.8%
Total Grocery Food Expenditure	358,969		362,450		1.0%
Product Category	Amount*	Share	Amount	Share	
Grains	21,092	5.7%	22,152	6.0%	5.0%
Processed Grains	16,813	4.6%	16,234	4.4%	-3.4%
Bakery Products & Rice Cakes	21,708	5.9%	22,221	6.0%	2.4%
Meat	49,166	13.4%	52,598	14.3%	7.0%
Processed Meat	11,573	3.1%	11,172	3.0%	-3.5%
Fresh Seafood	21,207	5.8%	20,592	5.6%	-2.9%
Salted or Dried Seafood	7,045	1.9%	7,978	2.2%	13.2%
Other Processed Seafood	7,123	1.9%	7,366	2.0%	3.4%
Dairy Products & Eggs	31,805	8.7%	31,686	8.6%	-0.4%
Oil & Fat	2,753	0.7%	2,806	0.8%	1.9%
Fresh & Processed Fruits	43,314	11.8%	44,500	12.1%	2.7%
Fresh & Processed Vegetables	39,679	10.8%	35,565	9.7%	-10.4%
Fresh & Processed Seaweeds	4,375	1.2%	4,339	1.2%	-0.8%
Confectioneries & Snacks	26,069	7.1%	28,135	7.7%	7.9%
Spices & Seasonings	14,963	4.1%	11,972	3.3%	-20.0%
Other Processed Foods	10,208	2.8%	11,957	3.3%	17.1%
Coffee & Tea	8,500	2.3%	7,904	2.1%	-7.0%
Juice & Beverages	11,797	3.2%	12,006	3.3%	1.8%
Alcohol Beverages	9,779	2.7%	11,267	3.1%	15.2%

Source: Monthly Household Expenditure Survey, Korea National Statics Service (<http://kosis.kr>)

Due in part to the aging population, there is a heavy emphasis among the general Korean public on healthy eating. Of course, Korean consumers' strong belief in health-improving efficacy of regular food ingredients dates back thousands of years as indicated by a still prevailing old proverb, "food and medicine are from the same source". However, 'Well-being', a theme that evoked new consumer trend of seeking both physical and psychological health by adopting more wholesome approaches in daily life has further heightened the Korean consumers' attention to healthy diet. As a result, sales of functional foods (such as glucosamine, chlorella, vitamins, anti-oxidants, lactic bacteria, antlers, pollen, fish oil, ginseng and other Asian herbs) as well as regular foods that are associated with health benefits (such as red wine, organic food, green tea, yoghurt, blueberries, pomegranate, and quinoa) continue to grow in the retail sector.

Table 3: Aging Korean Population (Unit: 1,000 people)

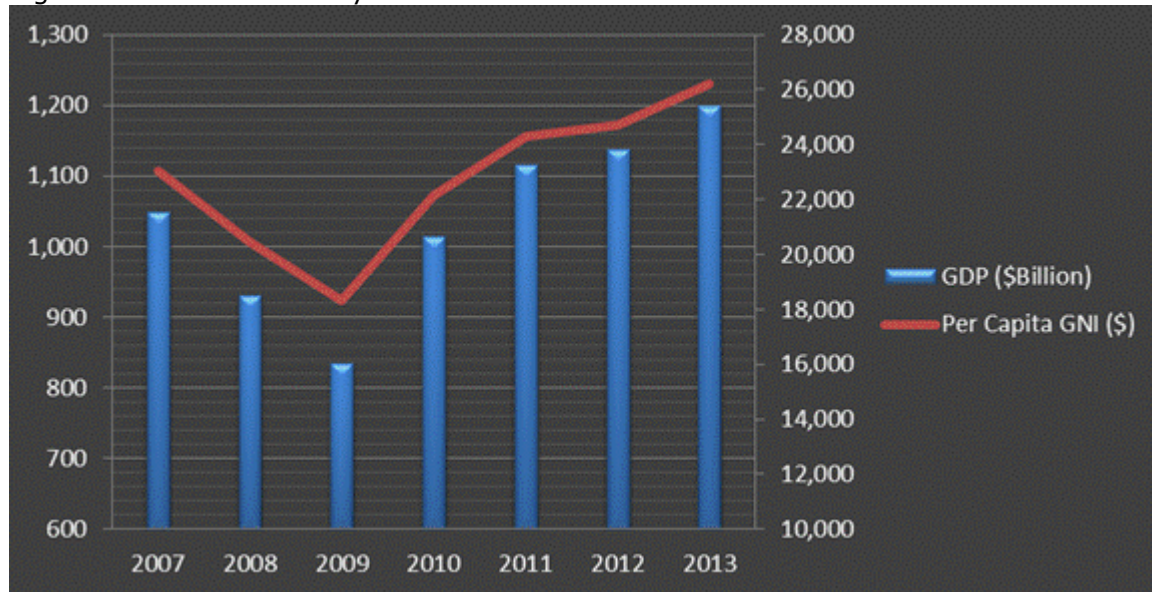
Age Group	1995		2000		2010		Change
	Number	Share	Number	Share	Number	Share	
0-14	10,236	23.0 %	9,639	21.0 %	7,907	16.2%	-22.7 %
15-64	31,678	71.1 %	32,973	71.7 %	35,611	72.9%	12.4 %
65 +	2,640	5.9 %	3,372	7.3 %	5,357	11.0%	102.9 %

Source: National Population Survey, Korea National Statics Service (<http://kosis.kr>)

Outstanding growth of the Korean economy and consumer income over the years has naturally resulted in growth of demand for products of higher quality and new tastes. Due to the strong performance of export industries, Korea maintained a relatively stable economy during the recent global economic crisis. Korean GDP for 2013 amounted to \$1.2 trillion, which was 13th highest in the world. Korean's per capita GNI amounted to \$26,205 in 2013, which was 8th highest in the world among countries with over 40 million populations. Nevertheless, the global economic crisis

took its toll in Korea and generated strong call for better value and lower price particularly among the low and middle income consumer groups who were pressured by high housing debt as well as reduced job opportunity.

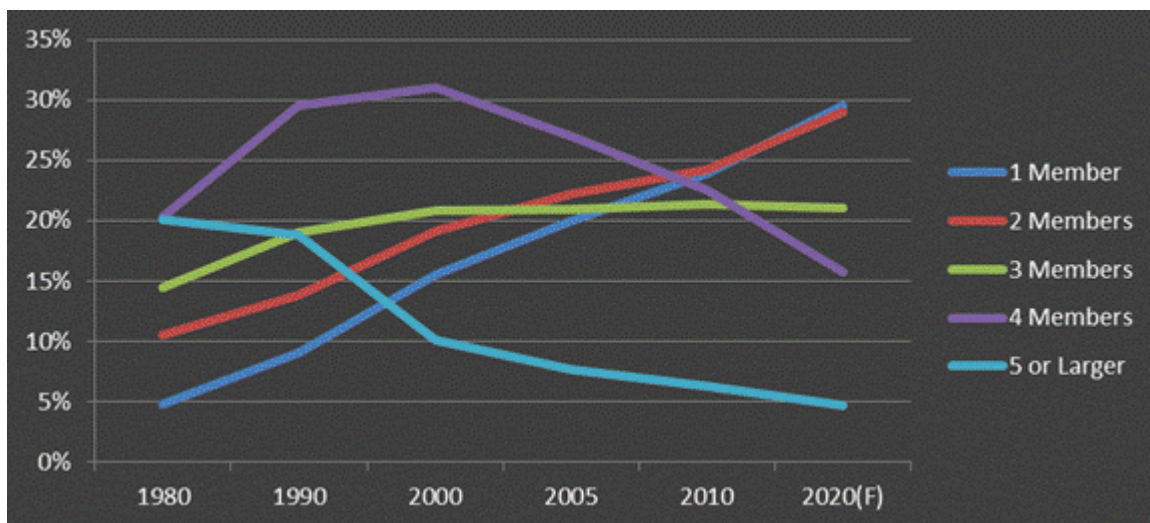
Figure 4: Korean Economy Trend



Source: Gross Domestic Production - Per Capita Gross National Income, Bank of Korea; CIA Fact Book (www.cia.gov)

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 90 percent of Korean population lives in urban cities, which explains the high population density and high real estate cost. Convenience has become a very important factor behind many new consumer trends as everyday life of Koreans gets busier. For example, increase of dual-income families and single parent households have led to bigger demand for Home Meal Replacement (HMR) products in retail stores. Delivery service is commonly offered by retail stores in Korea as people do not want to waste time on the traffic-jammed roads. Rapid growth of on-line shopping is also rooted partly in the demand for convenience. Of course, high real estate cost is another factor that drives stores to move to 'cyber space'.

Figure 5: Breakdown of Korean Households by the Number of Household Member

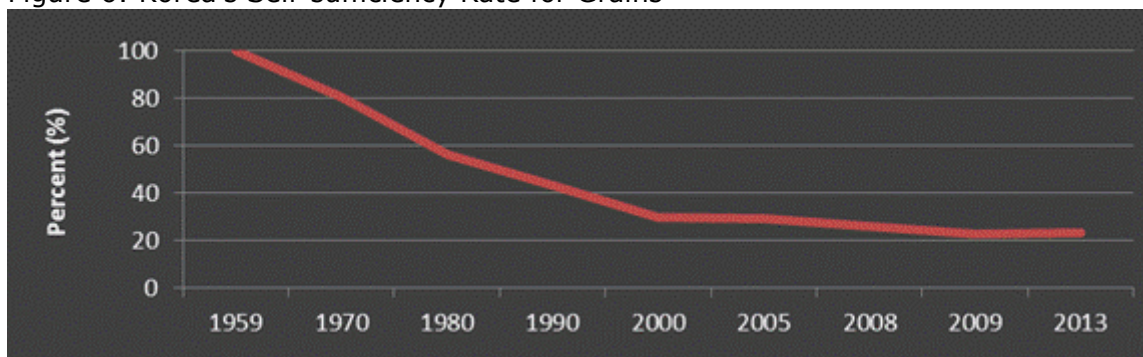


Source: Household Statistics, Korea National Statics Service (<http://kosis.kr>)

C. Food Import Trends

By nature, Korea depends heavily on imports for both raw agricultural commodities and consumer-ready products. Local supply alone is not capable of meeting the rising consumer demand for quality, value, and diversify. For example, Korea's self-sufficiency rate for grains marked 23.1 percent in 2013, making Korea an OECD country with the lowest self-sufficiency rate (even worse, over 90 percent of the local grain produced was rice). Industry sources estimate that over 70 percent of all food and agricultural products consumed in the market is either imported or locally processed products using imported ingredients.

Figure 6: Korea's Self-sufficiency Rate for Grains



Source: Korea Rural Economic Institute (KREI)

Growth of modern format, large-scale retail businesses coupled with evolving taste of Korean consumers are translated into growing opportunities for imported consumer-ready food products in the Korean retail sector. Large-scale retail stores such as hypermarkets and grocery supermarkets have become the major retail channel for imported consumer-ready foods as they offer favorable shopping environment where imported products can better compete against locally manufactured or grown products. Department stores are likely to remain the leading retail channel for high-end, premium quality imported foods. On-line retailers are expected to play a bigger role in distributing imported consumer-ready foods in the future. In particular, on-line retailing should be an efficient distribution channel for specialty imported products that has limited but diversified demand.

According to Korean government trade data (KOTIS), Korea's imports of consumer-oriented foods in 2014 totaled a record high \$10.5 billion, up 15.6 percent from the previous year. The United States remained the leading exporter of consumer-ready food products to Korea by shipping a record high \$3.6 billion of products, up 21.4 percent.

Table 4: Korea's Imports of Agricultural, Forestry, and Fishery Products (Year 2014, CIF value)

Product Category	From the World Total		From the U.S.	
	Value	Growth	Value	Growth
Basic Commodity	\$6.6 Billion	-8.7%	\$2.5 Billion	102.8%
Intermediary	\$9.0 Billion	4.4%	\$1.5 Billion	-1.3%
Consumer-Oriented	\$10.5 Billion	15.6%	\$3.6 Billion	21.4%
Forestry	\$3.2 Billion	17.3%	\$0.2 Billion	-2.2%
Fishery	\$4.2 Billion	16.7%	\$0.2 Billion	5.4%
Total	\$33.5 Billion	7.1%	\$8.1 Billion	31.0%

Source: Korea Trade Information Service (KOTIS) Database (www.kita.net)

The outlook for U.S. food exports to the Korean retail sector is excellent for a wide variety of products, including beef, pork, poultry, seafood, processed vegetables, fresh and processed fruits, nuts, dairies, juices, alcohol beverages, condiments and sauces, processed organic foods, coffee, bakery goods, snacks, and confectioneries. In addition, on-going trade liberalization should create new opportunities for those products that are currently under restrictive import barriers (such as tariff-rated import quota and phytosanitary certification barrier). In particular, Korea-United States Free Trade Agreement (KORUS FTA), implemented in March 2012, will help American products better compete in the Korean market under reduced import tariffs.

Table 5: Advantages and Challenges Facing U.S. Products in Korea

Advantages	Challenges
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.	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.
Korea, by nature, depends heavily on imports for its food and agricultural needs. On-going elimination of import barriers will improve market access and price competitiveness of imported products. In particular, KORUS FTA will help American products better compete in the Korean market under reduced import tariffs.	Imports of many products still face restrictive trade barriers. Many American fresh fruits have no access to Korea. Certain food additives approved for food use in the United States may not be approved in Korea. Korean government makes frequent changes into its food safety/labeling standards.
A series of public food safety scandals associated with imported products from China and Japan in recent years has led the general public and traders to be more concerned about the quality of imported product that they buy. Traders are likely to switch procurement sources to safer sources, including the United States, in an effort to	Local retailers in general lack experience and expertise on international sourcing. As a result, the flow of imported products to the retailer is often participated by multiple layers of middlemen, which adds cost and inefficiency to the supply chain. Retailers are reluctant to carry imported products of short shelf life.

regain consumer confidence.	
Growth of the retail sector is led by modern format, large-scale retail businesses, which offer better environment for imported products to compete against locally grown or manufactured products. Large-scale retailers are actively seeking ways to increase the assortment of imported products.	Korea maintains a strong food processing industry, which presents tough competition to imported consumer-ready products. High markups coupled with tariffs often deteriorate price competitiveness of imported products against locally processed products.
Due to the long history of economic and political tie between Korea and the United States, many Korean consumers are familiar with American products and food trends. Consumers maintain a positive view on the quality and value of American products. English is the most popular foreign language in Korea.	Consumers maintain negative perceptions about GMO products. Retailers fear reprisal from anti-GMO activists and, consequently, refuse to stock any product that would have to be labeled "Contains GMO". Many U.S. products would be required to have "Contains GMO" labeling under Korean regulations.

II. Road Map for Market Entry

A. Entry Strategy

Market Research:

The first step recommended for new-to-market American supplier seeking an entry into Korea is preliminary research to determine if there is a potential market for its product in Korea. The research should cover key issues including consumption trends, size of the market (imports), major distribution channels, current import tariffs and local taxes, and Korean government regulations and standards. The research, together with consultations with potential Korean import partners down the road, can also help the American supplier to tell if any modifications to its existing products or marketing strategy would be needed. The Foreign Agricultural Service (FAS) under the United States Department of Agriculture (USDA) is a useful source of information and resources available to the American supplier. In particular, Attaché GAIN reports covering various products and industries for the Korean market are available in the FAS website (www.fas.usda.gov). Local offices in Korea under USDA/FAS can also provide the American supplier with catered assistance with various market entry tools as well as links to other relevant sources of support (please see Section V of this report for contact information of the offices). Additionally, the United States Department of Commerce is another important source of information for non-agricultural products. In particular, the "Country Commercial Guide" published by the department includes a wide range of useful information about the Korean market (www.buyusa.gov/korea/en/).

Establishing Korean Import/Distribution Partners:

While executing the preliminary market research, the American supplier is recommended to develop dialogues with potential business partners (importers/distributors) in Korea. Lists of Korean importers by product or by industry are available from the USDA/FAS offices in Korea. The lists are based on the industry contact database updated by the offices regularly. Korean importers in general are actively seeking new business opportunities with foreign suppliers and would willingly provide in-depth market intelligence if they are interested in the supplier's product or business offer.

An effective tool recommended for developing contacts with Korean importers is exhibiting in

reputable food trade shows because Korean importers highly value face-to-face encounters when developing new business with foreign supplier. In particular, the Seoul Food & Hotel, the only show officially endorsed by USDA/FAS in Korea, has been an outstanding venue for new-to-market American suppliers to meet with a large number of key importers and distributors in Korea. Registration information to join the U.S. Pavilion of the show is available from the organizer (www.seoulfoodnhotel.co.kr, rhood@oakoverseas.com). Other international food trade shows that attract a sizable number of Korean food importers include FoodEx Japan (www3.jma.or.jp/foodex/en/), *Natural Products Expo West* (www.expowest.com), *Fancy Food Show* (www.specialtyfood.com), *SIAL France* (www.sialparis.com), and *ANUGA Germany* (www.anuga.com).

Another tool recommended is joining trade delegations to Korea organized by various American agricultural export promotion organizations, such as State Regional Trade Groups (SRTG, e.g., Food Export Association of the Midwest USA), State Departments of Agriculture, and USDA Cooperators (e.g. U.S. Dairy Export Council). Some of the states and USDA cooperators maintain representative offices or marketing contractors in Korea. Contact information of these organizations is available from USDA/FAS Korea offices.

As the dialogue develops further and the potential business partner is narrowed down, the American supplier would be asked to ship sample products to Korea. Sample products shipped to Korea could be subject to the same set of Korean regulations as required on regular commercial shipment to enter the market, and therefore allow the American supplier to verify in advance if the product would have any problem against Korean standards such as export certification requirement or food additive standard. Test shipment also helps verify the Harmonized Tariff System (HS) Code that the product would be subject to in Korea, which decides the import tariff or tariff rated import quota that the product is subject to (for more information about the Advance Product Classification Service offered by the Korea Customs Valuation and Classification Institute, please visit www.customs.go.kr).

Once the test shipment finds no conflict against local regulations, and an agreement on price and transaction terms is reached, both parties would move forward to sign a formal contract to start actual business. The type of business relationship agreed between the U.S. exporter and the Korean importer may vary from a market exclusive, long-term business agreement to a non-binding, one-time purchase order mainly depending on how the exporter sees the role of the import partner in market development. One common practice is maintaining a non-binding seller-buyer relationship during the test-market period and then upgrading to a more binding option later if the partnership proves bigger potential. Letter of credit (L/C) is the most common and recommended payment terms used between new business partners. It is also recommended that the contract include an agreement on the method of resolution for any trade dispute that may arise from the transaction.

Import Food Standards & Regulations:

Korea has well-established standards and regulations on food and agricultural products. Imported products must meet all the local rules to be able to enter and sell in Korea. For detailed information regarding standards and regulations that imported food and agricultural products are subject to in Korea, including Labeling, Packaging, Export Health Certificates, MRL (Maximum Residue Level) Code, and Food Additive Code, please refer to the following annual reports published by the Office of Agricultural Affairs/FAS Seoul.

(1) [FAIRS \(Food and Agricultural Import Regulations and Standards\) Country Report Annual 2014](#), KS1453 dated December 31, 2014 (or visit www.atoseoul.com or www.fas.usda.gov for more recent update).

(2) [FAIRS Export Certificate Report Annual 2014](#), KS1452 dated December 31, 2014

(3) Animal & Plant Health Inspection Service (APHIS/USDA) also provides via its website (www.aphis.usda.gov) detailed information and guidance on export health certificates and documents required in Korea by product.

Meeting Local Tastes:

One of the common mistakes that American suppliers often make is viewing Koreans as the same natured 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 the 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 tastes. Information gathering through Internet or associating with Korean American communities could also be an efficient tool.

Meeting local tastes could mean anything from modifying package design to reformulating the recipe. Package design, in particular, is a very important factor in Korea, and the American supplier should consider developing a new design that can better attract Korean consumers. Although many Koreans can read English, adding Korean language on the label can significantly improve the level of exposure on the shelf. Another noteworthy issue in packaging is the separate Korean language label required on imported products. This added, stick-on label can detract from the appearance of the product. The American supplier should discuss the design of the Korean language label with the import partner for better look. Korean language label is in general printed by the import partner and hand-attached to the product in the duty free warehouse at the port of entry before the customs inspection.

New-to-market suppliers should also have a thorough plan for promotional activities and advertisements to develop local consumer awareness. Korean retailers in general require in-store promotions at the cost of the supplier when accepting new products. Some of the most widely offered programs include in-store advertisements, free sampling events, and point of purchase (POP) sales promotions such as sweepstakes and coupons.

B. Market Structure and Product Flow

Korean retailers in general rely heavily on independent importers for imported food products. Although leading retailers are currently putting increased efforts to expand direct imports, their attention is focused on a limited number of large volume products. Purchasing managers in local retail companies tend to be risk averse, and have yet to develop expertise and experience needed to carry out direct purchasing on an international scale.

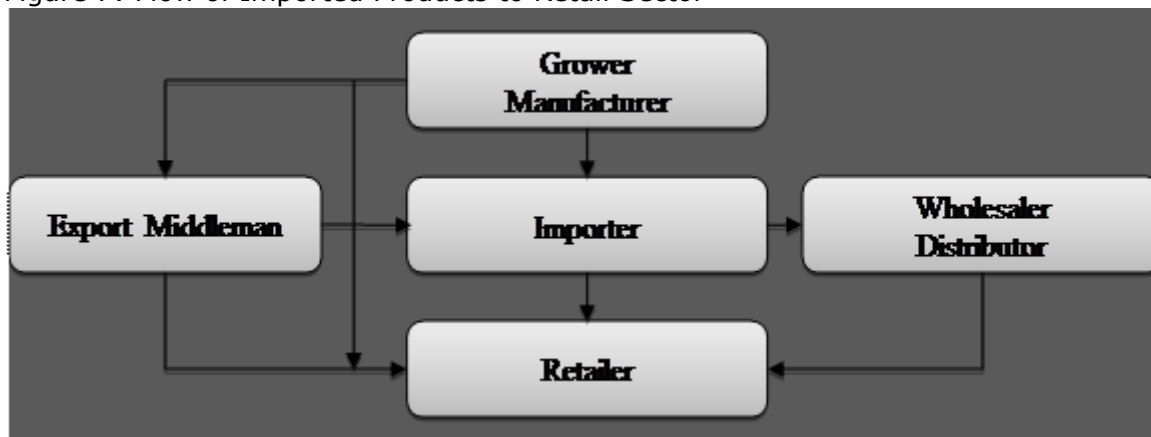
Participation of multiple layers of independent importers and distributor middlemen in the supply chain is part of the reason behind high consumer price of many imported products in Korea. The independent importers are required to bear greater amount of the risk than the retailers when placing a new product on the shelf, which forces the importers to add high markup on new products to cover potential loss. In contrast, products brought in directly by retailers can be sold at lower price due to less distribution cost and markup.

It takes at least two weeks for a container ship from a western American port, and three weeks from an eastern port, to arrive in a port in Korea. In general, most imported consumer ready products enter the country through the port of Busan, the second largest city in Korea at the

southeastern tip of the peninsula. Port of Incheon, which is much closer to the Seoul metropolitan market, is another important entry point. Small-volume-high-value products, such as premium wine, fresh cherries, and chilled beef, are in general brought in via air cargos through Incheon International Airport (ICN) which is about an hour drive distance from the city of Seoul.

The amount of time that the product sits in the port of entry for food safety inspections and customs clearance process varies from one day to a couple of 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 existing products are subject to may take as long as ten working days. In case of live animals, the quarantine sanitary inspection can take more than a couple of months. The documentary inspection, which is allowed on products with previous import records, may be completed within a day or two.

Figure 7: Flow of Imported Products to Retail Sector



Once the products are cleared from the customs, they are transported to the importer's warehouse for storage. Importers may have warehouses in more than one location. The importer usually supplies directly to the large-scale retailer's warehouses but may use wholesalers or brokers when supplying to small retailers or to regional markets. Large-scale retailers in general operate a network of "distribution-hubs" across the country, each of which services all the stores in a given province or regional market. Most importers are using third party logistics service providers for warehousing and trucking because of the high overhead cost.

The city of Seoul (capital of Korea) and its surrounding area within 60 miles radius together account for over 50 percent of the Korean population and 70 percent of total retail sales in Korea. Although the government maintains a strong policy initiative to develop other parts of the country for balanced growth, Seoul metropolitan area is expected to maintain a leading share of the retail market sales in Korea in the coming years. Other markets that are likely to see strong growth of retail industry include Busan, Incheon, and Daejeon (this city, located in the middle section of the peninsula, has been designated as the new home of the Korean government offices).

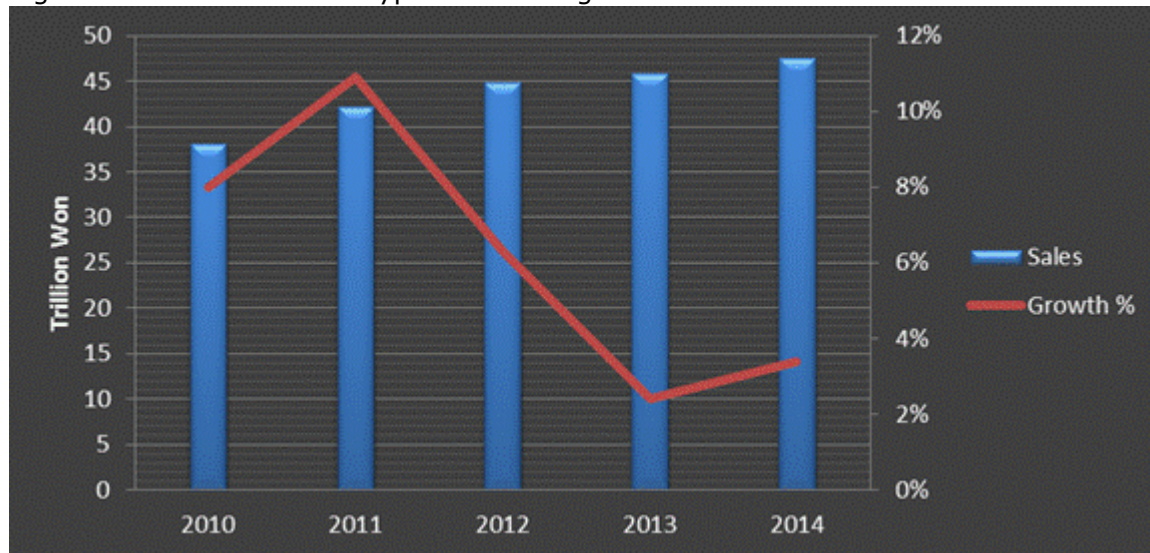
C. Sub-Sector Company Profiles

C-1. Hypermarkets

Overall sales of hypermarkets amounted to W47.5 trillion in 2014, up 3.4 percent from the previous year. The growth of the segment is expected to slowdown in the coming year largely because there is limited room left in the market to add new stores (typical hypermarket store

targets an area of over 150,000 populations). In addition, it is reported that many projects for new hypermarket stores are not progressing due to protests by small grocers and NGO groups in the area. Korean government is also pressured to introduce regulatory barriers restricting further expansion of hypermarkets on behalf of small grocers and traditional street markets. For example, the 'Retail Industry Development Act', implemented in January 2013, has mandated large-scale retail stores (including hypermarkets and large-scale grocery supermarkets) to close minimum two days per month. Robust growth of on-line retailers is another key challenge that hypermarkets face.

Figure 8: Annual Sales of Hypermarket Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Table 6: Total Number of Hypermarket Stores in Korea

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number	201	235	261	278	306	337	363	394	409	437	446	470	483

Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

Accordingly, leading players in the segment have made serious efforts in recent years to develop new growth opportunities. Establishing on-line stores, expansion into foreign markets (mainly China and South Asian countries), diversifying into other retail industries (such as membership warehouse discount stores) are some of the key growth strategies that leading players have pursued as a result. Reflecting strong competition from on-line retailers, hypermarkets have also adopted a very aggressive "Everyday Low Price" strategy in that they routinely engaged in "price wars" on key consumer products (such as pork meat and instant noodles) to attract consumer attention. Leading players have also brought a significant change in the product assortment strategy. Private label brand (PB) products, direct imports, home meal replacement (HMR) products, and direct farm sourcing are some of key ideas that are getting bigger shelf space in the hypermarket store.

Table 7: Description of a Typical Hypermarket Store in Korea (2013)

Share of Food & Agricultural Products in Total Sales	Fresh Agricultural Products: 11-18% Livestock Products: 5-9% Seafood: 3-7%
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	Processed Foods: 21-29% Prepared Foods: 8-14%
Size of Store	10,000 square meter
Parking Capacity	500 - 700 cars
Number of Employees	100 full-timers, 40 part-timers
Number of Items in Inventory	56,000 SKUs (stock keeping units)
Daily Sales	W192 million
Number of Daily Customers	4,800
Per Customer Purchase Amount	W40,000

Source: Estimates based on the Yearbook of Retail Industry 2014 (Korea Chain Store Association)

Table 8: Profile of Major Hypermarket Chains in Korea (2013)

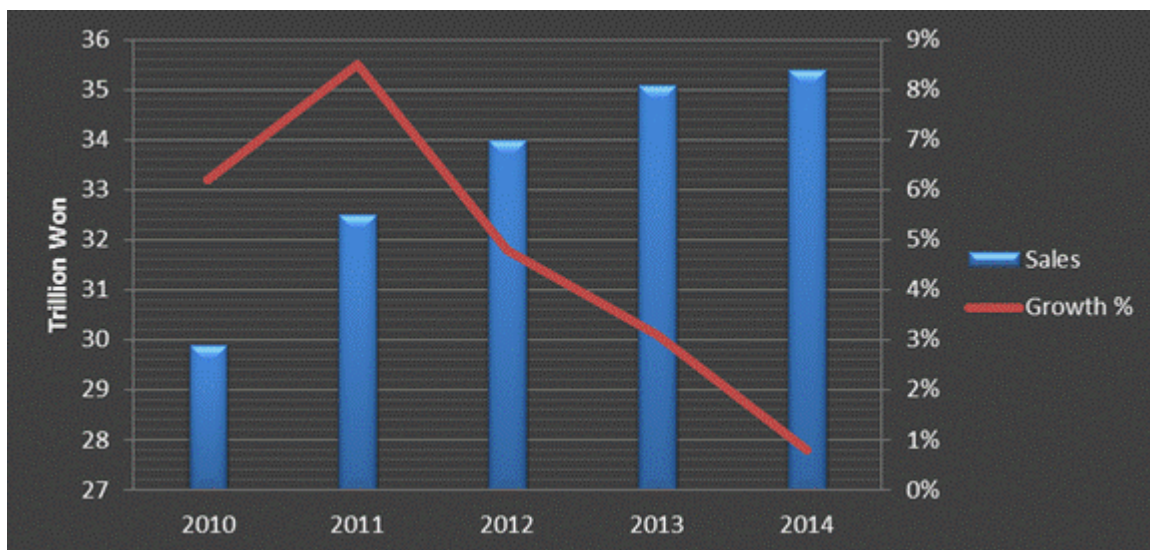
Company	Store Name	Ownership	Annual Sales	Total Store	New Store
EMART Company, Ltd.	E Mart	Korea	W12.3 trillion	148	2
Homeplus Co., Ltd.	Home Plus	U.K.	W11.5 trillion	139	6
Lotte Shopping Co.	Lotte Mart	Korea	W6.5 trillion	108	4
E. Land Retail	New Core	Korea	W2.8 trillion	19	0
Costco Wholesale Korea	COSTCO	U.S.	W2.5 trillion	9	0
KACM Inc.	Hanaro Club	Korea	W1.6 trillion	6	0
Mega Mart Co., Ltd.	Mega Mart	Korea	W0.6 trillion	8	0

Source: The Yearbook of Retail Industry, Korea Chain Store Association

C-2. Grocery Supermarkets

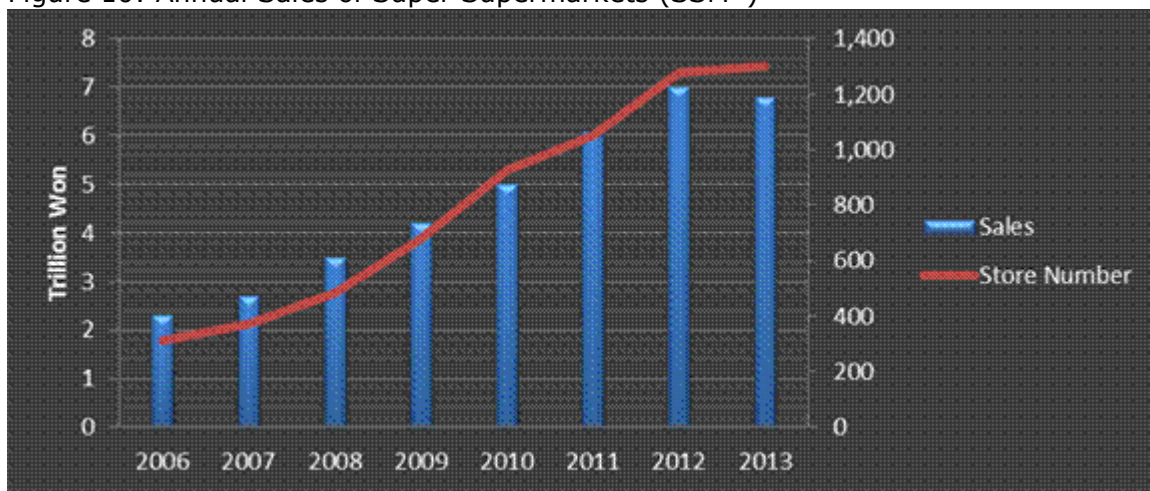
Sales of grocery supermarkets amounted to W35.4 trillion won in 2014, up 0.8 percent from the previous year. Small to medium size supermarkets under independent ownership accounted for over 75 percent of the total segment sales. On the other hand, stores under large-scale retail companies (i.e., Super Supermarkets, SSM), which led the growth of the segment over the years, have experienced weak growth since 2012 largely due to the government regulations that intended to protect small grocers and traditional street markets. For example, the government introduced a regulation in January 2011 that prohibited opening of new SSM stores within 500 meters from designated "traditional market zones". SSM stores have also been mandated under the 'Retail Industry Development Act' implemented in January 2013 to close minimum two days per month as well as between midnight and 10:00 a.m.

Figure 9: Annual Sales of Grocery Supermarket Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Figure 10: Annual Sales of Super Supermarkets (SSM*)



Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

*Note: SSM in this figure represents stores under the leading seven SSM companies

Some of the key trends in the segment include improvement in product assortment (to offer more home meal replacement products, fresh products, portion-packaged products, and private label brand products), efficient promotions (on-line coupons, membership programs), stronger customer service (in-store service outlets such as pharmacy, laundry shop, and post office), and expansion into on-line shopping.

Table 9: Description of a Typical Super Supermarket (SSM) Store in Korea (2013)

Share of Food & Agricultural Products in Total Sales	Fresh Agricultural Products: 22-26% Livestock Products: 9-13% Seafood: 5% Processed Foods: 42% Prepared Foods: 3-5%
Size of Store	770 square meters
Parking Capacity	50 cars

Number of Employees	10 full-timers, 5 part-timers
Number of Items in Inventory	28,000 SKU
Daily Sales	W15 million
Number of Consumers Daily	1,000
Per Consumer Purchase Amount	W15,000

Source: Estimates based on The Yearbook of Retail Industry, Korea Chain Store Association

Table 10: Profile of Major Supermarket Chains (2013)

Company Name	Store Name	Annual Sales	Total Store
Lotte Shopping Co.	Lotte Super Market 999	W1.6 trillion	496
GS Retail Co., Ltd.	GS Supermarket	W1.4 trillion	254
Seowon Utong Co., Ltd.	Top-Mart	W1.3 trillion	75
Homeplus Co., Ltd.	Home Plus Express	W1.2 trillion	286
Everyday Retail Co., Ltd.	E Mart Everyday	W746 billion	132

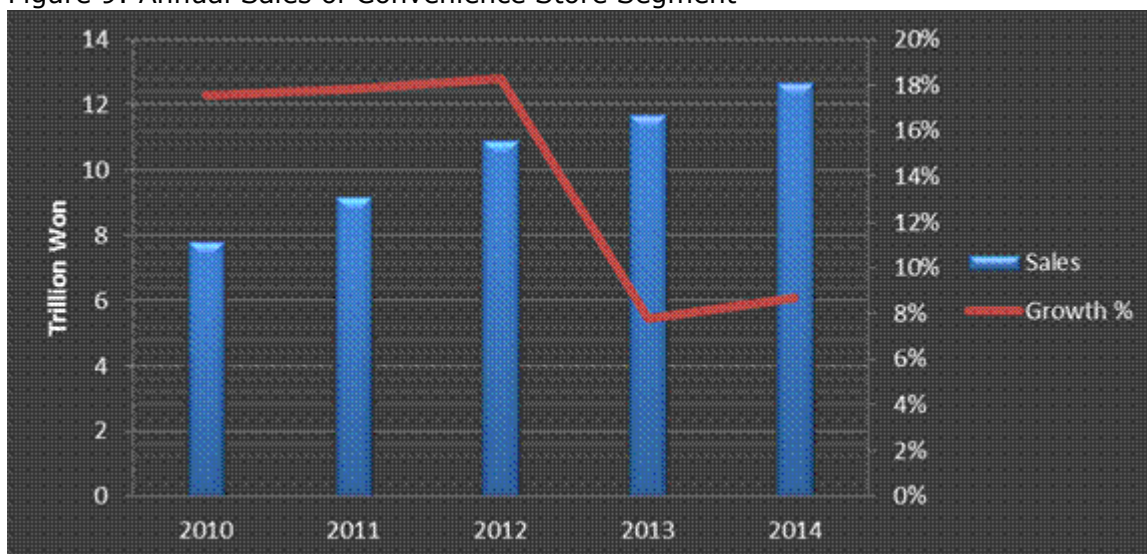
Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

C-3. Convenience Stores

Total sales of convenience store segment amounted to W12.7 trillion, up 8.7 percent from the previous year. Convenience stores have shown strong sales growth particularly in congested metropolitan areas where office workers and young consumers with busy lifestyle demand an easy shopping channel for small food purchases.

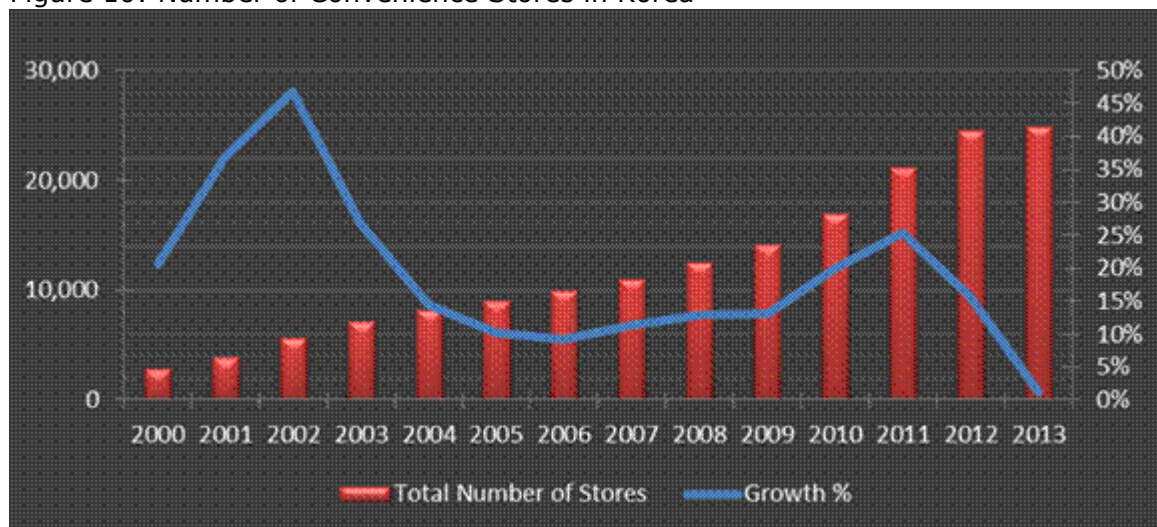
Due to low entry barrier, convenience store segment saw an explosive opening of new stores between 2009 and 2012 (total number of stores in the segment grew from 14,130 to 24,559). However, 'fair trade guide', introduced by the Korean government in 2013 under the objective of fostering sustainable business environment in the segment, resulted in a drastic decline in new store opening in 2013. Under the guide, new convenience store under same franchise is prohibited within 250 meter radius of existing store.

Figure 9: Annual Sales of Convenience Store Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Figure 10: Number of Convenience Stores in Korea



Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

Expansion of the segment has been driven by the top three players over the years, CU (Family Mart changed the name to CU in 2012), GS25, and Seven Eleven that currently has over 5,000 stores each. Increased competition in the segment is likely to encourage the leading players to seek merger and acquisition (M&A) opportunities in the coming years.

Introduction of more Home Meal Replacement (HMR) products and private brand (PB) products have been heavily emphasized in the segment in recent years for higher profit and customer loyalty. Another area of emphasis has been offering more service products, including postal service, quick delivery, banking, and photo processing, to increase consumer traffic to the stores. It is notable that convenience stores maintain a very aggressive product assortment policy in that new products are eagerly tried while under-performing products are quickly dropped, a strategy to keep abreast with the fast changing consumption trends of its target consumers.

Table 11: Description of an Average Convenience Store in Korea (2013)

Share of Food & Agricultural Products in Total Sales	Liquors: 8% Snacks: 7% Daily Delivered Fresh & Chilled Foods: 13% Processed Foods & Beverages: 18% Fast Foods: 6% Tobacco: 38%
Size of Store	75 square meters
Number of Employees	2 full timer, 7 part timer
Number of Items in Inventory	3,000 SKU
Daily Sales	W1.5 million
Number of Consumers Daily	350
Per Consumer Purchase Amount	W3,700

Source: Estimates based on The Yearbook of Retail Industry 2014, Korea Chain Store Association

Table 12: Profile of Major Convenience Store Chains (2013)

Company Name	Store Name	Annual Sales	Total Stores
BGF Korea Co., Ltd.	CU	W3.1 trillion	7,939

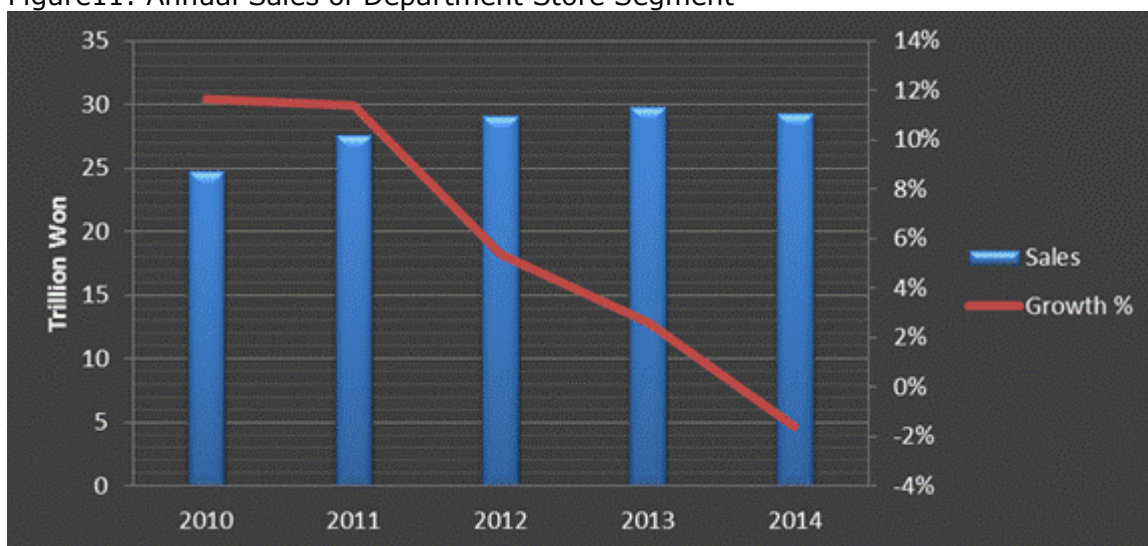
GS Retail Co., Ltd.	GS25	W4.7 trillion	7,774
Korea Seven Co., Ltd.	Seven Eleven	W2.6 trillion	6,444
Ministop Korea Co., Ltd.	Ministop	W791 billion	1,897

Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

C-4. Department Stores

Total sales of department store segment amounted to W29.3 trillion in 2014, down 1.6 percent from the previous year. Weak consumer sentiment under extended economic downturn reportedly resulted in the poor performance of the segment. Rapid expansion of on-line retailers, including consumer's direct purchases of high-profile, branded consumer goods from foreign on-line shops, was another key force that reduced the consumer traffic to department stores.

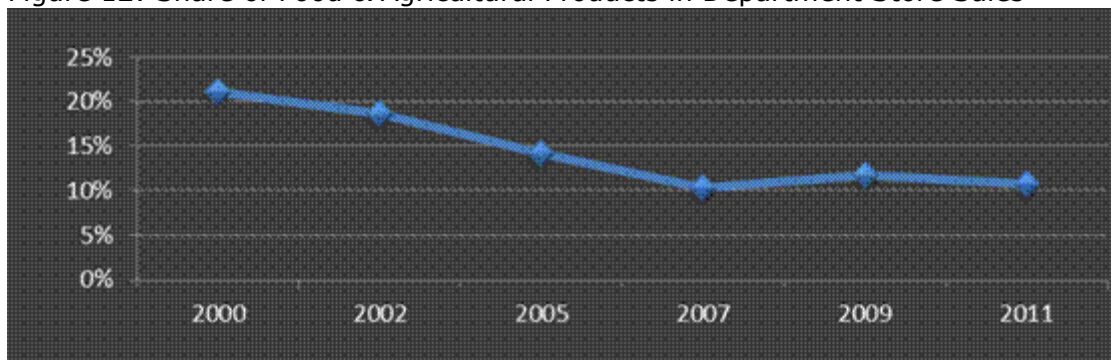
Figure11: Annual Sales of Department Store Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Leading players in the segment have made heavy investments into business restructuring projects during the last several years and up-scaled the store layout and product assortment, which was a strategic move to strengthen their market position as the premium product retailer. As a result, more of the store space has been allocated to luxury brand shops and specialty products. On the other hand, the share of food and agricultural products in the department store sales has been on a decline over the years as the industry had higher focus on high value, non-food products.

Figure 12: Share of Food & Agricultural Products in Department Store Sales



Source: Retail Industry Year Book 2000 - 2012, Korea Chain Store Association

However, department stores are likely to remain the leading retail channel for premium quality food products in the coming years as leading players recognize that food is an important component of their business in attracting consumer traffic. For example, restructuring of the leading stores in the segment over the last few years has significantly expanded space for premium and specialty food products.

Table 13: Description of a Typical Department Store in Korea (2013)

Share of Foods in Total Sales	3-13 % (including take-out food kiosks sales)
Size of Store	15,000 - 30,000 square meter
Parking Capacity	700 - 2,000 cars
Number of Products in Inventory	220,000 SKU (2005)
Number of Consumers Daily	2,000 - 25,000
Per Consumer Purchase Amount	₩50,000 - 100,000

Source: Estimates based on the Yearbook of Retail Industry 2014, Korea Chain Store Association

Table 14: Profile of Major Department Store Chains (2013)

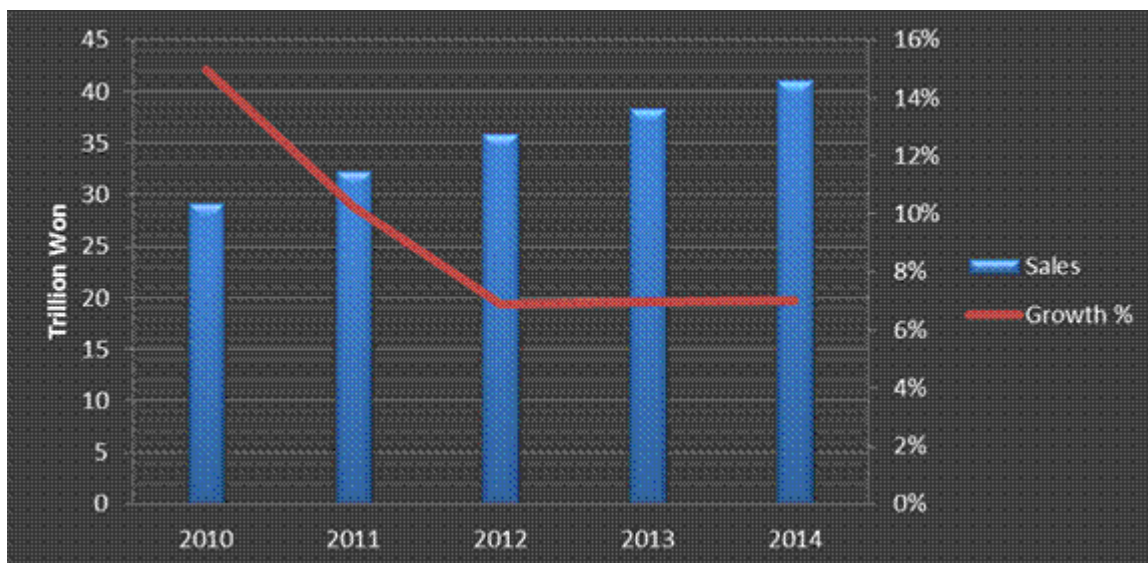
Company Name	Store Name	Annual Sales	Total Stores
Lotte Shopping Co.	Lotte Department Store	₩13.7 trillion	31
Shinsegae Co.	Shinsegae Department Store	₩5.9 trillion	10
Hyundai Dept. Co., Ltd.	Hyundai Department Store	₩1.7 trillion	12
E Land Retail Co., Ltd.	NC Department Store Donga Department Store	N/A	19

Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

C-5. On-line Retailers

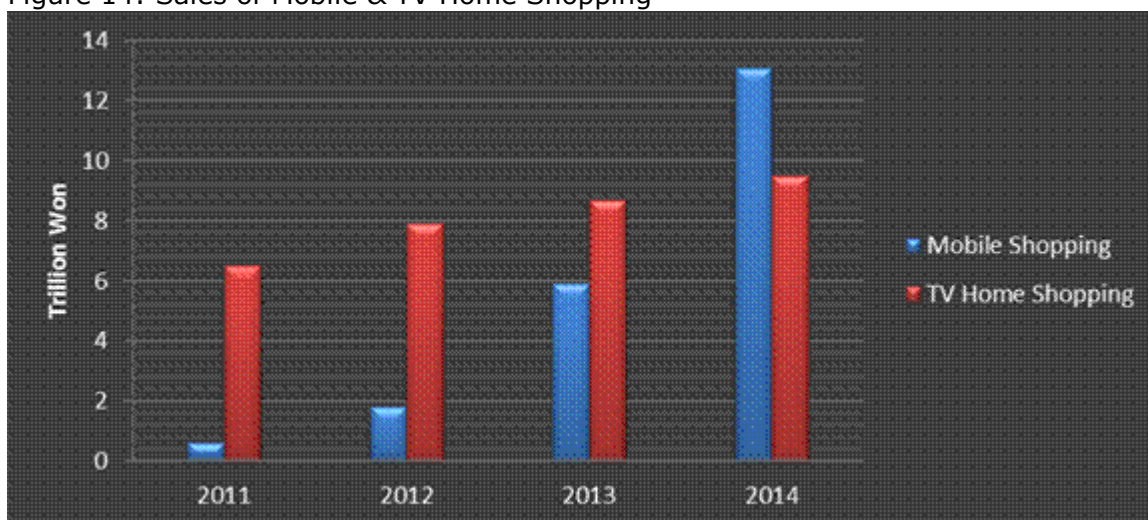
Korea has become one of the most advanced markets in the world for on-line retail industry. Changes in consumer lifestyle coupled with development of information technology have fueled a rapid growth of on-line retail businesses over the years. Total sales of on-line retail segment amounted to 41.1 trillion won in 2014, up 7.0 percent from the previous year. It is notable that on-line shopping via smart phones and TV home shopping channels has led the growth of the segment in recent years. On the other hand, shopping via desktop personal computers (PC) is declining.

Figure 13: Annual Sales of On-line Retail Segment in Korea



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>);
The Yearbook of Retail Industry 2014, Korea Chain Store Association

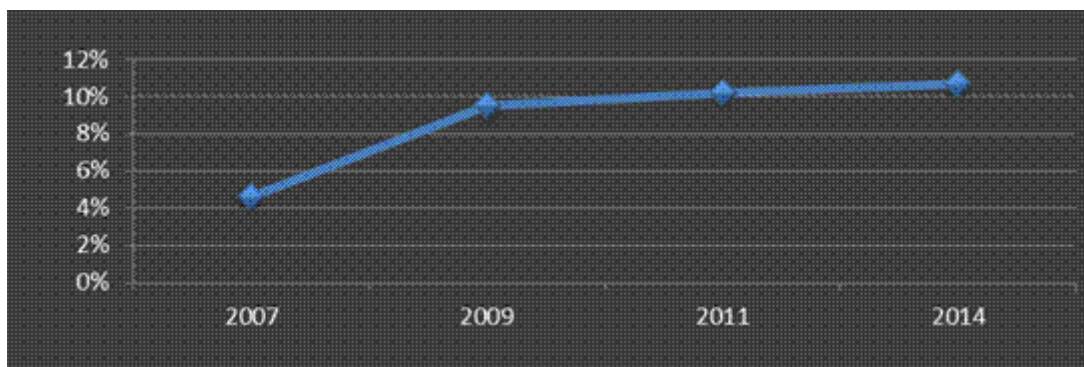
Figure 14: Sales of Mobile & TV Home Shopping



Source: Retail Industry Yearbook 2015, Korea Chamber of Commerce;
The Yearbook of Retail Industry 2014, Korea Chain Store Association

Currently food and agricultural products account for a minor, 10.7 percent of the overall segment sales (or W4.4 trillion won) as of 2014. However, it is likely that the sales of food and agricultural products in the segment will grow gradually in the coming years as most of the leading conventional retailers (hypermarkets and grocery supermarkets) are making efforts to expand sales through their on-line version stores. For example, E-Mart, the leading hypermarket store chain, launched its new internet store (www.emart.co.kr) in 2010. Orders made through the internet store can be picked up at conventional E Mart stores, or can be delivered to home (at no cost for purchases over certain amount) within the day (for orders made by certain time of the day) or at reserved time in the following day. It is notable that internet E Mart store offers much wider selections of products than conventional E Mart store.

Table 15: Share of Food & Agricultural Products in On-line Shopping Segment Sales



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Along with the expansion of on-line shopping, Social Network Services (SNS), such as Blogs, Internet Communities, and Twitters, are also expected to have a bigger influence on the retail market as increased number of consumers follows these on-line communication tools for shopping ideas and opinions. Accordingly, more of the sales and marketing programs of suppliers and retailers are targeted to the SNS tools.

Table 15: Profile of Major On-line Retailers (2013)

Company Name	Sales*	Business Type	Internet Site
SK Planet Co., Ltd.	W1.4 trillion	Internet shopping mall Mobile shopping mall	www.11st.com
CJ O Shopping, Co., Ltd.	W1.3 trillion	TV home shopping Internet shopping mall Catalog shopping Mobile shopping mall	www.cjmall.com
GS Home Shopping, Inc.	W1 trillion	TV home shopping Internet shopping mall Catalog shopping Mobile shopping mall	www.gseshop.co.kr
Hyundai Home Shopping Network Corporation	W800 billion	TV home shopping Internet shopping mall Catalog shopping	www.hmall.com
Woori Home Shopping Co., Ltd.	W773 billion	TV home shopping Internet shopping mall	www.lotteimall.com
Ebay Korea, Inc.	W662 billion	Internet shopping mall	www.auction.co.kr www.gmarket.co.kr
NS Shopping Co., Ltd.	W347 billion	TV home shopping Internet shopping mall Catalog shopping	www.nseshop.com

Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

*Note: Korean accounting rule defines the sales of on-line retail company as the amount of transaction fee collected from

transactions intermediated, unless the product or service sold was owned by the on-line retail company. Therefore, the actual value of products transacted through the on-line retailers should be much bigger than the sales figure shown in this table. For example, total value of products and services transacted through Ebay Korea amounted to W8.1 trillion in 2010, but only W354 billion was recorded as the sales of the company.

C-6. Franchise Specialty Grocery Retailers

Growing consumer demand for more efficient shopping channel for specialty food and agricultural products provides a new growth niche in the market for specialty grocery retailers under franchise management that offer deep assortment of products within the target product category (as called "category killer") at value price. Due to the smaller space and capital input needed, specialty grocery retailers are spreading in the metropolitan markets where large-scale retail stores have limited access. Currently health & beauty and organic & natural foods are the leading categories of products that the specialty grocery retailers are focusing on. However, the segment is likely to expand its target categories further in the coming years into new areas, such as Home & Garden, Home Baking, and Drugs Store.

Table 16: Profile of Major Franchise Specialty Grocery Retailers (2013)

Company	Store Name	Sales	Products	Stores	Sales from Foods
CJ Oliveyoung	Olive Young	W547 billion	Health & Beauty	380	7.7%
Chorokmaeul Co., Ltd.	Chorok Maeul	W138 billion	Organic & Natural Foods	346	Over 90%
GS Watsons Co., Ltd.	Watsons	W100 billion	Health & Beauty	90	N/A
ORGA Whole Foods	ORGA	W89 billion	Organic & Natural Foods	85	96.5%

Source: The Yearbook of Retail Industry 2014, Korea Chain Store Association

D. Traditional Retail Businesses - Wet Markets and Independent Small Grocers

Despite the rapid expansion of the modern format large-scale retail segments, traditional retailers, mainly regional wet markets and family-operated small grocers, remain active in old metropolitan areas as well as in rural areas where the environment has yet to merit entry of large-scale hypermarkets or grocery supermarkets. In addition, policy makers have introduced a series of regulations over the years that intended to restrict expansion of large-scale retailers under the strong social initiative of protecting small businesses. For example, large-scale retailers have been banned from operating shuttle buses provided to the shoppers in distant areas since 2001. A new regulation introduced in 2011 have prohibited opening of new stores by large-scale retailers within the direct vicinity of designated "traditional market zones". However, marketers in general agree that traditional retailers would continue a decline in the coming years unless they find a way to meet the consumer demand for value price, convenience, and quality.

There is no official data that tracks the size of traditional retail industry in Korea. Korean government statistics (Retail & Wholesale Industry Survey) indicate that there were a total of 99,263 "food & beverage" retail stores in Korea that hired less than five employees in 2011. Traditional retailers tend to focus on a limited assortment of fresh products, such as grains, produce, seafood, and meats, and carry less variety of processed foods. Imported products that are distributed in significant volume through traditional retailers include fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals, and cooking oils.

Regional wholesale markets run by provincial governments serve as a key distribution channel of fresh agricultural and fishery products to traditional retailers. Independent wholesalers, most of them specialized in a limited category of products, are the major distributor of processed foods to the traditional retailers.

III. Competition

Locally grown or manufactured products present a significant competition to many American products. Although limited in volume, Korean agriculture produces a considerable variety of raw agricultural products, including rice, fresh vegetables (cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom, garlic, etc.), fruits (apple, pear, tangerine orange, grape, persimmon, water melon, strawberry, kiwi, etc.), seafood, beef, pork, chicken, eggs, and fluid 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, grain flour, beverages, snacks, confectioneries, dairies, and liquors. Domestically produced products should 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 willingly pay premium on domestic products.

Table 17: Korea's Self-Sufficiency Rate for Agricultural and Fishery Products

Product	1990	2000	2010
Grains Total	43.8%	30.8%	26.7%
Rice	108.3%	102.9%	104.6%
Wheat	0.1%	0.1%	1.7%
Corn	1.9%	0.9%	N/A
Beans	20.1%	6.8%	31.7%
Vegetables	98.9%	97.7%	89.3%
Fruits	102.5%	88.7%	81.1%
Beef	53.6%	53.2%	43.2%
Pork	100.3%	91.6%	80.9%
Chicken	100%	79.9%	79.7%
Eggs	100%	100%	99.8%
Milk & Dairies	92.8%	81.2%	65.4%
Fish & Clams	121.7%	132.6%	N/A
Fat & Oil	8.0%	3.2%	N/A

Source: Korea Rural Economic Institute report 2011 (www.krei.re.kr)

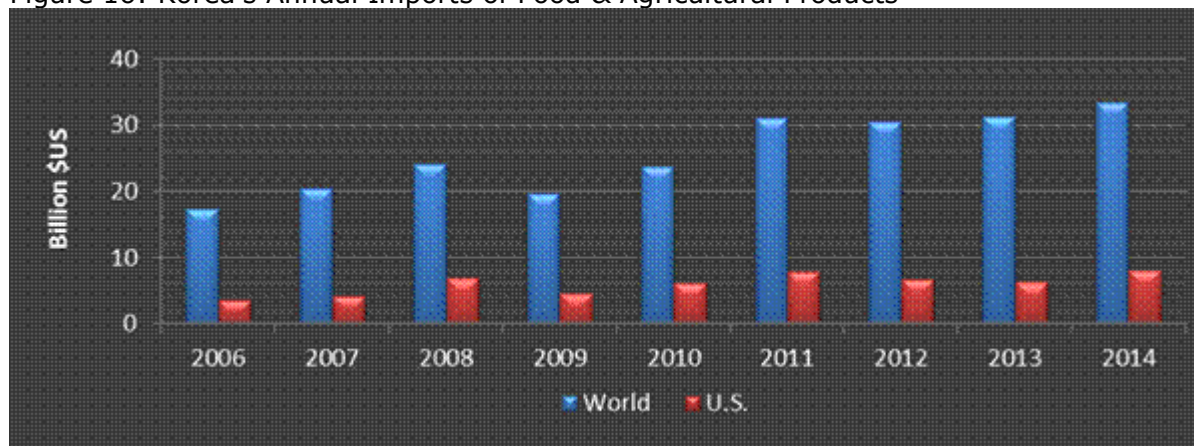
Korea relies heavily on imports for input ingredients for the local processing industry as well as for consumer-oriented products for the retail industry that are not grown or manufactured enough in Korea. Many U.S. products face rising competition in the Korean market from products from export oriented countries, including China, EU, Australia, Chile, and South Asian countries. Many of the products from competitor countries offer either lower price or higher quality than U.S. products and accordingly have built up significant market shares in Korea. China, for example, has become the leading supplier of fresh and processed vegetables, seafood, and spices to Korea based on price. EU has become the leading supplier of premium whiskies, wine, specialty cheeses, chocolate confectioneries, pasta, and olive oil to Korea based on quality. Increased consumer demand for more diversified tastes will further generate competitive pressure on American products in Korea.

Despite the challenges from the competitors, the United States is expected to remain the leading supplier of food and agricultural products to Korea for years to come, not only for commodity products but also for consumer oriented products. The United States accounted for 24.1 percent of total Korean imports of food and agricultural products in 2014.

ATO Seoul's internet home-page (www.atoseoul.com) provides up-to-date trends of Korea's food and agricultural imports:

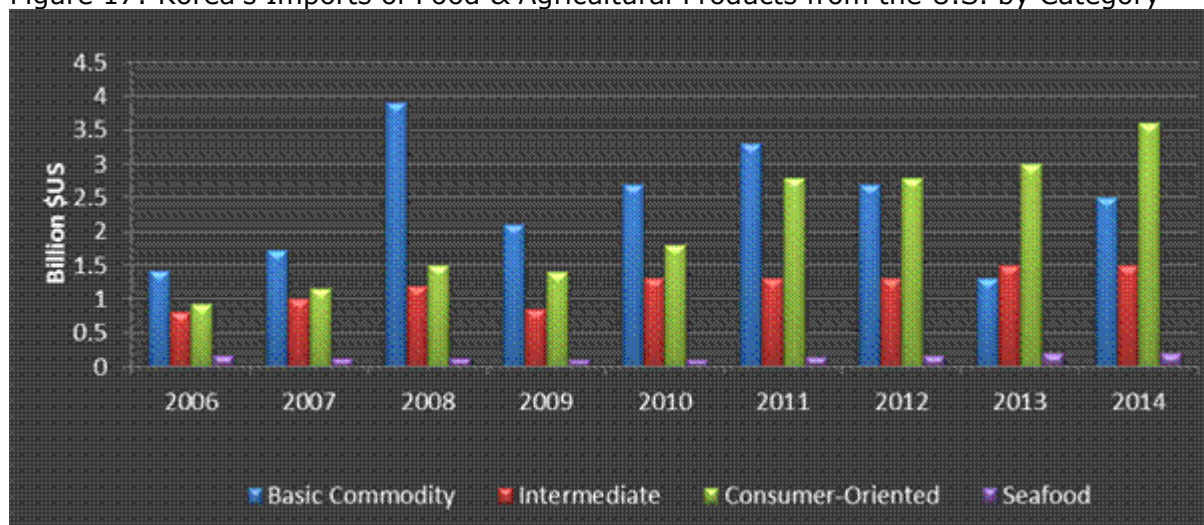
- [Korea's Agricultural Import Statistics](#): This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports by four digit HS product code.
- [Korea's Agricultural Import Trends Presentation](#): this presentation updated quarterly provides an overview of Korea's agricultural imports and the competition between the U.S. and other players for key products.

Figure 16: Korea's Annual Imports of Food & Agricultural Products



Source: Korea Trade Information Service (KOTIS) Data (www.kita.net)

Figure 17: Korea's Imports of Food & Agricultural Products from the U.S. by Category

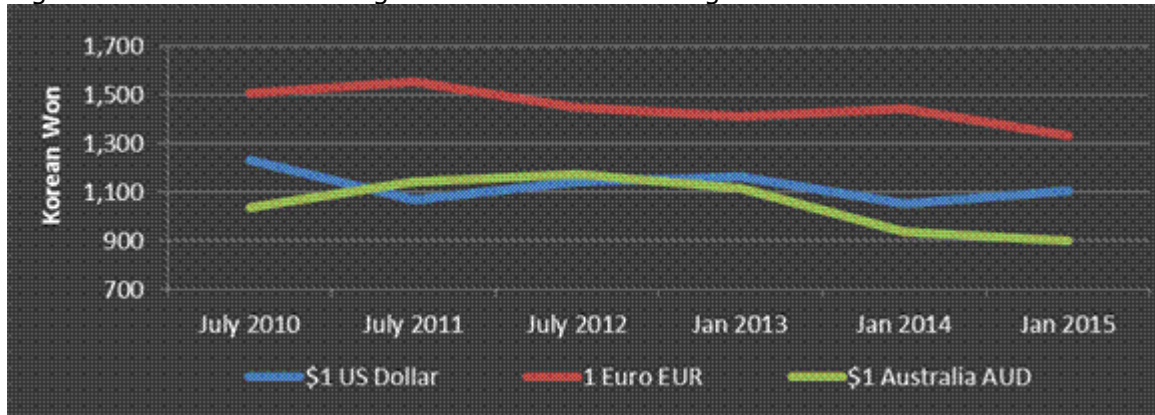


Korea and the United States have implemented Free Trade Agreement (KORUS FTA) since March 2012, and Korea's import tariffs and quota volume barriers on American food and agricultural products have been reduced significantly. As a result, Many American products have gained

competitive advantage over competitors that lacked free trade agreements with Korea. ATO Seoul website provides detailed information about the agreed effects of KORUS FTA, including FTA Product Briefs on over 40 high prospective products (http://www.atoseoul.com/fta/fta_page2_final.asp).

Shifts of currency exchange rates among competitor countries have been another important factor that affected the price competition in Korea. Between January 2014 and January 2015, the value of U.S. dollar rose 5.1 percent against Korean won, while Euro and Australian dollar value declined 7.8 percent and 3.7 percent respectively. As a result, import cost of American products to the Korean importer went up comparatively to European and Australian products.

Figure 18: Shifts of Exchange Rates of U.S. Dollar against Korean Won



Source: Korea Exchange Bank

IV. Best Product Prospects*

*Note: All import value figures in this section is based on Korea Trade Information Service (KOTIS) database

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

1. Beef: The United States shipped \$706 million of beef to Korea in 2014, up 33.5 percent from the previous year, which accounted for 42.2 percent of Korea's total beef imports.

Beef is considered a premium meat in Korea. Over 720 thousand metric tons is annually consumed, with over 50 percent of it being imported. Over 82 percent of imported beef is frozen because about 70 percent of imported beef is used in the HRI sector. Additional 10 percent is used by processing industry. The rest 20 percent is marketed through the retail stores. The top imported cuts are short ribs, accounting for over 40 percent of total imports, followed by loin, briskets, and fore shank meat.

The United States and Korea agreed to fully open up the market for U.S. beef in 2008. However, Korean beef importers and U.S. exporters reached a commercial understanding that, as a transitional measure, only U.S. beef from cattle less than 30 months of age will be shipped to Korea. Products produced at plants that have been approved under the EV and QSA program provided by the Agricultural Marketing Service are allowed to export beef to Korea. While eligible under the protocol, imports of processed products from animals less than 30 months of age are not being shipped because the Korea Food and Drug Administration (KFDA) has yet to lift its suspension that would allow for products that meet the OIE standards.

2. Pork: Pork is the most popular meat among Korean consumers with annual consumption exceeding 1.5 million metric tons, nearly one-third of it imported. The United States, Canada and Chile account for 32 percent, 12 percent and 9 percent of total imports, while the European Union countries account for roughly 36 percent. Over 93 percent of imported pork is frozen, and primarily used for processing, but there are growing opportunities for imports of chilled pork for use in the HRI sector and retail sector. The top imported cuts are pork bellies, picnics and Boston butt. Pork imports from the United States totaled \$384 million in 2014, up 28 percent from the previous year.

3. Processed meats (sausages, hams of non beef ingredients): Busy lifestyle and introduction of western recipes generate increased demand for imported processed meat products such as hams and sausages. Imports of processed meat products (falling under HS 1601) from the United States amounted to \$28 million in 2014, up 13.8 percent from the previous year.

4. Poultry meats (largely chicken): Per capita poultry meat consumption in Korea is now second only to pork and is expected to continue to grow in the coming years. In 2014, poultry meat imports totaled nearly \$252 million of which almost \$98 million was from the United States. About 80 percent of imported chicken meat is frozen chicken legs. By the way, due to outbreaks of Avian Influenza in the United States, imports of American poultry meats are currently restricted as of March 2015.

5. Dairy products (mainly cheese): Koreans are developing taste for cheese. Cheese and curd imports from the United States amounted to \$301 million in 2014, up 59.9 percent from the previous year. Although a majority of the cheese and curd imported are used by local processors, increased volume is marketed through the retail sector. Imports of butter from the United States amounted to \$6.5 million, up 24.7 percent from the previous year.

6. Seafood: Korea is an outstanding seafood market with good growth potential for a wide variety of imported products. The domestic supply is decreasing due to the depletion of near sea fishery resources and increased restrictions on international deep-sea fishing. On top of that, Korean importers are seeking alternative source of seafood that can replace Japanese products due to safety concerns (there was explosion of nuclear power plants in Fukushima, Japan in March 2011). Seafood imports from the United States totaled \$217 million in 2014, up 6.2 percent from the previous year. Imports of fresh/chilled fish fillet and crustaceans in particular showed a very strong growth, 23.6 percent and 81.6 percent respectively to \$64.9 million and \$44.5 million. Major species currently imported from the United States include Alaska Pollack, Pollack surimi, Pollack roes, tuna, skate, mackerel, hagfish, halibut, scallop, cod, salmon, angler fish, rock fish, lobster, crabs, and sea cucumber.

7. Fresh fruits: Seasonal fluctuations in local fresh fruit supply as well as consumers' strong demand for new taste generate increased imports of fresh fruits. Imports of fresh fruits from the United States totaled \$384 million in 2014, up 2.7 percent from the previous year. Major American fresh fruits imported include: citrus (\$196 million), grapes (\$32 million), and cherries (\$123 million).

8. Tree nuts: Consumption of tree nuts continues to increase due to highly publicized health benefits of eating nuts (in particular almonds and walnuts). Korea relies almost entirely on imports to meet the demand. Imports of tree nuts from the United States amounted to \$346 million in 2014, up 22.9 percent from the previous year.

9. Processed fruits and nuts: Processed fruits and nut products are gaining consumer popularity due to their natural and healthy image. Imports of processed fruit and nut products (HS 0811 – 0814) from the United States totaled amounted to \$31.4 million, up 16.6 percent from the previous year.

10. Fruit juices: Increased attention to healthy diet generates strong consumption of fruit juices in Korea. In particular, more consumers are switching to higher quality products such as 'Not from concentrate' or 'No artificial ingredient added' products. Imports of fruit juices from the United States totaled \$55.5 million 2015. A majority of the imported fruit juices are blended and bottled by local processors in Korea.

11. Coffee: As more Korea consumers are switching to espresso coffee from instant coffee, imports of coffee beans and powder in both bulk and retail package are on a rapid increase. Korea's imports of coffee products totaled \$527 million in 2014, up 26.9 percent from the previous year. Imports from the United States amounted to \$35.5 million.

12. Confectionery products (chocolates & candies): Imports of chocolate based confectionary products from the United States amounted to \$95.6 million in 2014, up 5.8 percent from the previous year. Imports of sugar based confectionery products from the United States amounted to \$30.2 million, up 41.1 percent from the previous year.

13. Bread, cakes, and pastry: Introduction of western food culture generates increased demand for imported bread, pastry, and cake products. Imports from the United States amounted to \$76.3 million in 2014, up 20.9 percent from the previous year.

14. Prepared Sauces: Introduction of foreign recipes generates increased demand for imported sauces and condiments. Imports of prepared sauces from the United States amounted to \$29.9 million in 2014, up 3.7 percent from the previous year.

15. Alcohol Beverages: Korea remains one of the leading markets in the world for alcohol beverages. Increase of female drinkers and demand for diversified tastes among young consumers are likely to expand the market for imported beer, wine and distilled spirits in the coming years. Imports from the United States amounted to \$21.5 million for wine; \$7.3 million for beer; and \$9.9 million for distilled consumer spirits in 2014.

16. Flavored mineral water (soft drinks): Demand for new taste generates strong demand for imported soft drinks. Imports of flavored mineral water from the United States amounted to \$25.1 million in 2014.

17. Rice: Minimum market access (MMA) program that Korea has established for rice trade under World Trade Organization (WTO) maintains significant imports of American rice into Korea. Rice imports from the United States amounted to \$22.3 million in 2014. Although a majority of the imported rice is currently used by processors and food service sector, increased number of retail stores is likely to offer the imported rice in the coming year to attract consumers with diversified taste.

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

1. Pasta: Italian cuisine is gaining popularity among the Korean consumers, generating increased demand for related products, including pasta noodles. Among the \$139.9 million of pasta products imported in 2014, imports from the United States amounted to mere \$1.3 million. Traders point out that the United States, a leading supplier of semolina wheat should also have a potential to become a major supplier of pasta noodles.

2. Wheat flour: There is a market potential for imported wheat flour as the price of locally milled

products continues to rise. Among the \$14.6 million of wheat flour imported into Korea in 2014, imports from the United States amounted to less than \$1 million. Traders point out that imported wheat flour needs modifications to meet the specifications required by local recipes.

3. Bakery premixes (including frozen dough): The idea of home baking is spreading among young housewives, which should generate increased opportunity for imported bakery premixes.

4. Olive oil: Demand for olive oil remains strong as consumers are seeking healthier alternatives for conventional cooking oils. However, among the \$57 million of olive oil imported in 2014, imports from the United States amounted to less than \$1 million.

5. Processed turkey meat: Many Korean consumers still maintain a negative image 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 recipes. Additionally, low fat diet, which is followed by a significant number of health-conscious Koreans, should help improve the image of turkey meat

6. Premium seafood: There is a growing potential for premium American seafood products such as lobster, crabs (King, Snow, and Dungeness), black cod, halibut, scallop and wild caught Alaskan salmon in Korea as affluent consumers are looking for premium, healthier alternatives for beef and other meat dishes. However few Korean consumers have understanding about the quality of premium seafood from the United States. For example, few local consumers are aware of the quality difference between the farmed Norwegian salmon and wild-caught Alaskan salmon.

7. Vegetables: 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 Korea in both fresh and processed category. However, Korean consumers' strong attention to quality and safety may generate increased opportunity to American suppliers in the coming year. Among \$199 million of fresh vegetables that Korea imported in 2014, imports from the United States amounted to \$13.9 million (mostly potatoes, lettuce, and cabbages).

8. Pecans, Pistachios: Over 99 percent of tree nuts that Korea imported from the United States are almonds and walnuts. Pecans and pistachios have a good market potential in Korea if Korean consumers understanding about the health benefits of eating pecans and pistachios improves.

9. Prepared foods: Demand for Home Meal Replacement (HMR) products is on a rapid increase, reflecting busier lifestyle of Korean consumers. Ready-to-serve, prepared foods or microwavable instant foods targeting the retail sector have a good potential. But marketers point out that imported prepared foods in general need modifications to meet local consumer's taste.

10. Processed organic food: Korea and the United States established an equivalency agreement on processed organic food in 2014, which allows American processed organic food certified under USDA National Organic Program (NOP) to enter Korea without local certification. As a result, American suppliers should develop increased export opportunity to Korea.

11. Specialty fruits: Diversified consumer taste generates increased demand for imported specialty fruits. Key American products with good growth potential include lemon, lime, grapefruits, avocado, pomegranate, and blueberries.

C. Products Not Present Because They Face Significant Barriers

1. Because of the risk of transferring pests, trade of fresh fruits and vegetables are only possible when Korea approves phytosanitary standards of the United States through a pest risk assessment process, which takes a considerable amount of time for both laboratory and field studies. Many American fresh fruits, including apples, pear, peach, strawberries, and berries other than blueberries from state of Oregon are currently banned for imports into Korea as there is no phytosanitary import agreement established on these products between Korea and the United States.

2. Imports of approved fresh fruits and vegetables are frequently restricted for phytosanitary issues, such as outbreaks of fruit flies. Outbreaks of animal diseases, such as swine cholera, avian influenza, and bovine spongiform encephalopathy (BSE), also restrict imports of related animal products into Korea. U.S. suppliers should contact established Korean importers or FAS Seoul for up-to-date information on regulatory issues that restrict imports. Restrictions currently in place include:

(1) Beef jerky and other processed foods containing beef ingredients are currently restricted for BSE risk.

(2) Lamb meat and other meat from ruminant animals, except for beef meat from cattle under 30 months of age, are restricted for BSE risk. Korea's imports of meat from ruminant animals other than beef totaled \$42.9 million in 2014, up 56.3 percent from the previous year.

(3) American elk antlers currently have no access to the Korean market due to Chronic Wasting Disease risk. Korea's imports of antlers totaled \$31.2 million in 2014, up 11.2 percent from the previous year.

(4) Korea maintains an import ban on fresh potatoes from many American states due to nematode risk.

(5) Due to outbreaks of Avian Influenza in the United States, imports of American poultry meat products are currently restricted as of March 2015.

3. Unprocessed organic agricultural products: Korean regulation does not recognize USDA NOP organic certification for unprocessed agricultural products. American unprocessed organic agricultural products such as organic rice and organic oranges are required to obtain certification by Korea's accredited certifying agents to enter Korea. Because of high cost (and the certification should be renewed every year), Korean importers are reluctant to import unprocessed organic agricultural products unless there is big enough demand for the product. Furthermore, there is a high chance for imported unprocessed organic agricultural products (fresh vegetables and fruits in particular) to be fumigated with chemical agents to prevent potential pest risk during the import quarantine inspection process, which disqualifies the product from "organic" status.

4. The Korean Food Code has yet to further evolve to recognize the standards and rules already established in foreign countries. As a result, imported products allowed in foreign countries but do not meet the Korean regulation are restricted. For example, cheese and processed dairy products made from non-heat treated milk are currently restricted because Korean food code mandates that cheese and processed dairy products be made solely from heat treated milk.

5. 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 for target use 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.

V. Key FAS/USDA 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 6951-6848

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. State Regional Trade Groups (SRTG)

For information about export assistant programs offered by State Regional Trade Groups, please contact:

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 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

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

C. 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