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Korea - Republic of

Retail Foods

Biennial Report 2017

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Report Highlights:

Expansion and diversification of large-scale retail businesses coupled with the 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-oriented food products to the Korean retail food sector. Korea's imports of consumer-oriented food products from the United States totaled a record high \$3.7 billion in 2016. Reduction of import tariffs under the KORUS FTA should provide American products with additional opportunities in the sector.

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KOREA RETAIL FOOD SECTOR REPORT

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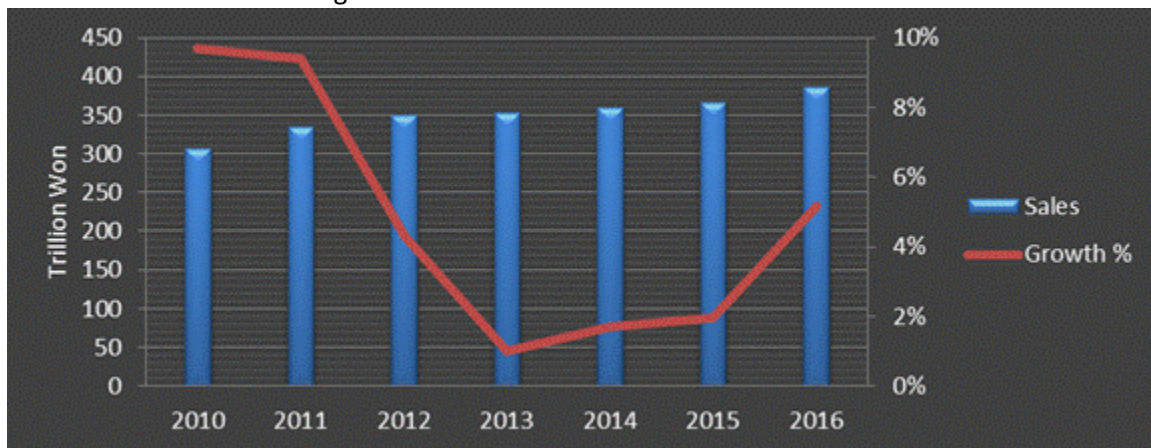
I. Market Summary

A. Korean Retail Food Sector Overview

The retail food sector in South Korea (here in after referred as Korea) has evolved dramatically ever since opening of its first large-scale discount retail store in 1993 (E Mart by Shinsegae Group was the first hypermarket launched) and liberalization of retail business to foreign ownership in 1996 (Macro, a Dutch retailer was the first one that entered the market). Over the last two decades, 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 grocers. On-going evolvement of the retail food sector is likely to bring a continuous change in the way Korean consumers purchase daily necessities, including grocery food.

The overall retail sector in Korea generated 386 trillion won of cash-register sales in 2016 (approximately \$331 billion, exchange rate: \$1 = ₩1,167 won), up 5.2 percent from the previous year. The retail sector sales marked a weak growth between 2012 through 2015 as the Korean economy slowed down under unfavorable global economic environment.

Figure 1: Overall Retail Sector Sales in Korea*



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

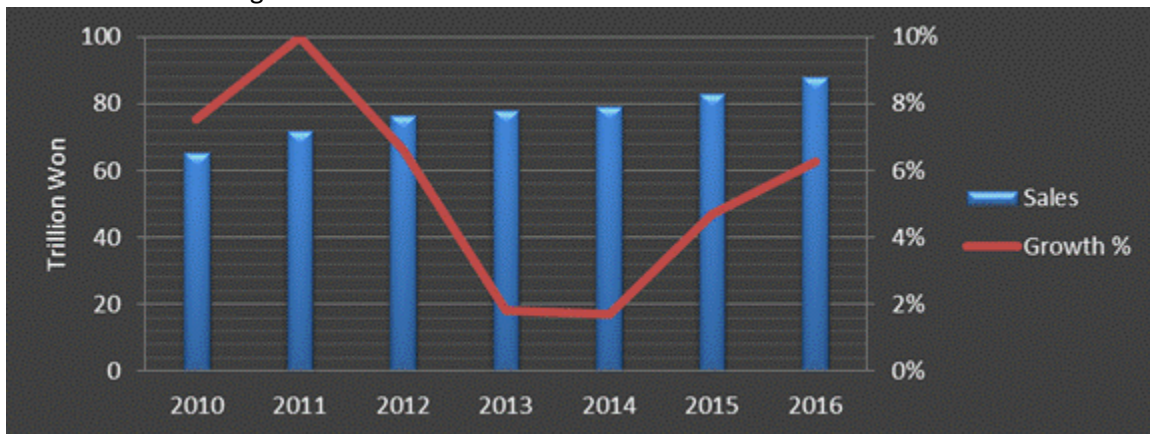
*Note: Overall retail sector includes automobile and gas retailers

Total sales of food products in the retail sector amounted to 88.1 trillion won in 2016, up 6.3 percent from the previous year. In other words, food products accounted for 23 percent of the overall retail sector sales in Korea.

Grocery supermarkets were the leading retail channel for food products in the sector with an estimated 31.9 trillion won of food sales in 2016, followed by hypermarkets (27.0 trillion won). However, in terms of growth, on-line retailers marked the highest, 84.0 percent growth of food sales between 2014 and 2016, followed by convenience stores (53.5 percent). Considering increased consumer demand for convenience and value, on-line retailers and convenience stores are likely to lead the growth of food 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 due to escalated competition from on-line retailers but also because of limited room to build new stores in the market. Small-scale, family-oriented grocers and traditional street markets continue to see

reduced food sales.

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: Breakdown of Food Product Sales by Retail Industry Segment (Estimates, 2016)

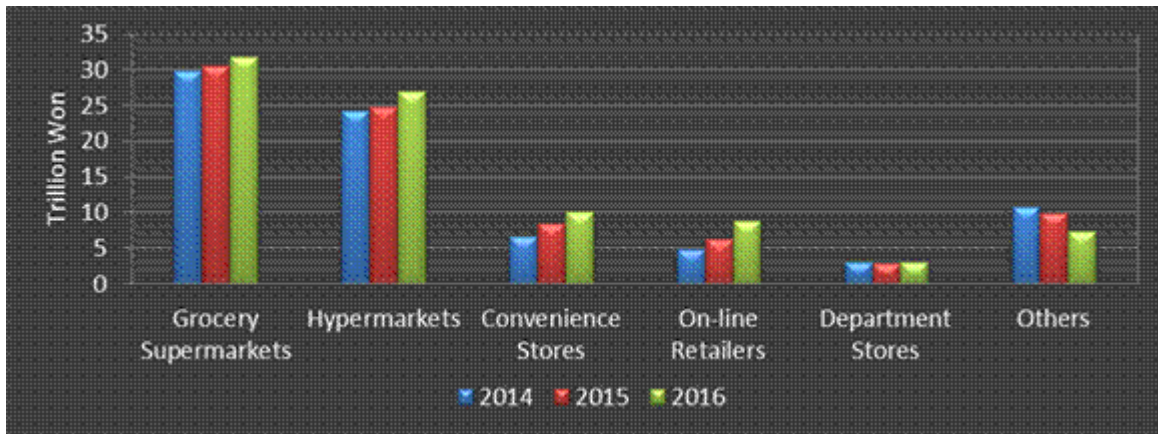
Industry Segment	Total Sales	Share of Food Products in Total Sales (Estimates*)	Food Sales (Estimates)
Grocery Supermarkets	₩37.8 trillion	84.5%	₩31.9 trillion
Hypermarkets	₩52.9 trillion	51.0%	₩27.0 trillion
Convenience Stores	₩19.6 trillion	51.4%	₩10.1 trillion
On-line Retailers	₩65.6 trillion	13.4%	₩8.8 trillion
Department Stores	₩29.9 trillion	10.1%	₩3.0 trillion
Others**			₩7.3 trillion
Total			₩88.1 trillion

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

*Note: Estimates are 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 small retail shops and vendors in traditional street markets.

Figure 3: Breakdown of Food Product Sales by Retail Industry Segment (Trend)



It is notable that the aggressive expansion strategy pursued by leading large-scale retail companies has heightened competition in the Korean retail food sector. While maintaining heavy investment to add additional stores and new businesses, leading players have also actively pursued merger and acquisition opportunities to achieve bigger control of the sector. As a result, the Korean retail food sector today is mainly driven by a handful number of leading players. These leading players are in general “conglomerate” retail businesses that participate in all key retail industry segments. For example, the business umbrella of Lotte Shopping Co. (one of the leading large-scale retail companies in Korea) includes supermarkets (Lotte Super), hypermarkets (Lotte Mart), department stores (Lotte Department Store), convenience stores (Seven Eleven Korea), outlet shopping malls (Lotte Outlet), duty free stores (Lotte DFS), health and beauty shops (LOHBs), TV home shopping (Lotte Home Shopping), and Internet shopping mall (Lotte.com).

Korean retailers in general rely heavily on independent importers or middleman distributors for imported food products. Although leading players are making increased efforts to expand direct imports from foreign suppliers 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, livestock meat, and seafood.

Evolution of the retail sector in Korea has also led to development of modern, large-scale logistics industry. Leading retailers are equipped with a 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 for warehousing and trucking. The logistics industry is likely to continue solid growth in the coming years due to a rapid rise of consumer demand for home delivery service, which is now widely offered not only by on-line retailers but also by conventional retail stores.

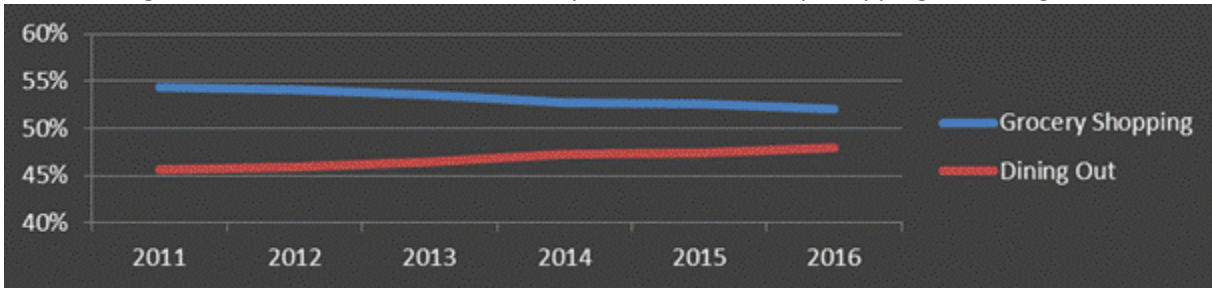
B. Consumer Food Trends

Each Korean household, representing 3.13 members, spent on average 361,702 won per month in 2016 on grocery purchases. Spending on grocery purchases accounted for 14.2 percent of total Korean household consumption expenditures or 52 percent of food expenditure. The remaining 48 percent of household food expenditure was for dining out.

Between 2011 and 2016, Korean household spending on grocery purchases marked an average of 0.7 percent annual growth. The weak growth of grocery spending was partly due to increased spending on dining out. During the period, household spending on dining out marked an average of 2.6 percent annual growth. It

is likely that dining out will account for an increased portion of Korean household food expenditure in the coming years as Korean families face ever busier lifestyle.

Figure 4: Korean Household's Food Expenditure – Grocery Shopping vs. Dining Out



Top five product categories that Korean household spent the most grocery food money on were fresh meat, fresh and processed fruits, fresh and processed vegetables, dairy and egg products, and confectionery and snacks. Between 2011 and 2016, Korean household's grocery food spending showed a significant annual growth on other processed food, alcohol beverages, fresh meat, processed meat, juice beverages, and confectionery and snacks. On the other hand, spending on grains, fresh seafood, fresh and processed seaweed, spices and seasonings, and coffee and tea showed a significant annual decline.

Table 2: Breakdown of Monthly Korean Household Grocery Food Purchases

Year	2011		2016		Growth**
Number of Household Members	3.28		3.13		-0.9%
Total Household Income	3,841,586		4,399,190		2.8%
Total Consumption Expenditure	2,392,666		2,549,731		1.3%
Total Grocery Food Expenditure	348,771		361,702		0.7%
Product Category	Amount*	Share	Amount	Share	Growth**
Grains	20,647	3.2%	17,340	2.5%	-3.2%
Processed Grains	16,661	2.6%	16,433	2.4%	-0.3%
Bakery Products & Rice Cakes	20,979	3.3%	22,231	3.2%	1.2%
Meat	49,161	7.7%	57,315	8.2%	3.2%
Processed Meat	10,881	1.7%	12,047	1.7%	2.1%
Fresh Seafood	22,616	3.5%	19,780	2.8%	-2.6%
Salted or Dried Seafood	7,641	1.2%	7,490	1.1%	0.1%
Other Processed Seafood	7,032	1.1%	7,319	1.1%	0.8%
Dairy Products & Eggs	30,458	4.7%	29,106	4.2%	-0.9%
Oil & Fat	2,759	0.4%	2,803	0.4%	0.5%
Fresh & Processed Fruits	39,841	6.2%	42,594	6.1%	1.4%
Fresh & Processed Vegetables	37,634	5.9%	38,515	5.5%	0.6%
Fresh & Processed Seaweeds	4,366	0.7%	4,041	0.6%	-1.5%
Confectioneries & Snacks	24,665	3.8%	27,105	3.9%	2.0%
Spices & Seasonings	14,991	2.3%	11,386	1.6%	-5.1%
Other Processed Foods	9,909	1.5%	13,978	2.0%	7.1%
Coffee & Tea	7,968	1.2%	7,293	1.0%	-1.7%
Juice & Beverages	11,160	1.7%	12,644	1.8%	2.5%

Alcohol Beverages	9,400	1.5%	12,284	1.8%	5.5%
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*Unit: Korean Won

**Growth: Compound Annual Growth Rate (CAGR) between 2011 and 2016

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

Due in part to aging population, there is a heavy emphasis among the general Korean public on healthy eating. 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". '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 a healthy diet since early 2000's. 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 tree nuts, red wine, organic food, green tea, yoghurt, blueberries, pomegranates, and quinoa) continue to grow in the retail sector.

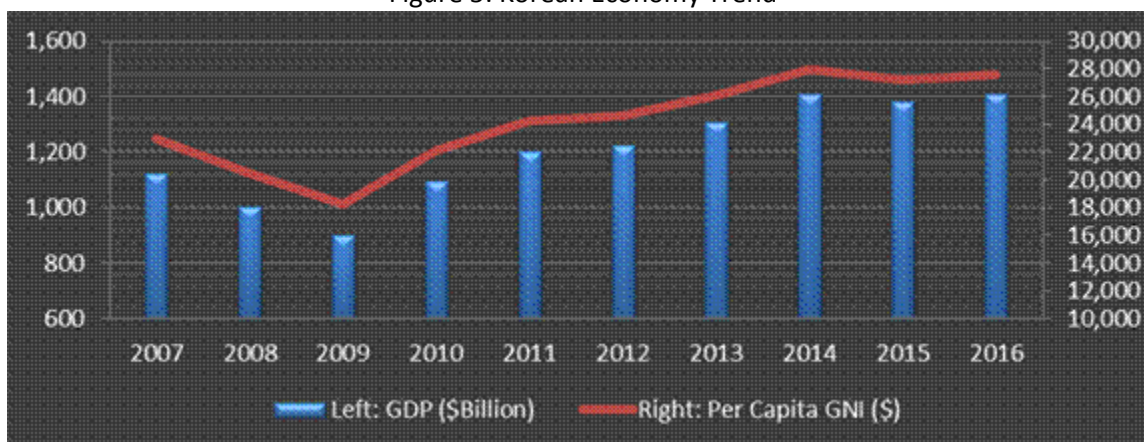
Table 3: Aging Korean Population (Unit: million people)

Age	1995	2000	2010	2015	Change
Under 15	10.2	9.6	7.9	6.9	-32%
15 – 64	31.7	32.8	35.6	35.0	10%
Over 65	2.6	3.4	5.4	6.4	146%

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

The 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 in the retail food sector. Based on strong performance of export industries, the Korean economy made a solid recovery from the global economic crisis since 2010. Korea's Gross Domestic Production (GDP) for 2016 amounted to \$1.4 trillion, which was 11th highest in the world. Korean per capita Gross National Income (GNI) amounted to \$27,561 in 2016. Affluent consumer groups in Korea, which are growing in number continuously, in particular are leading the evolvement of the premium segment in the food market that offers products and services catered to individualized tastes. However, at the same time, aftermath of the global economic crisis has generated stronger call for products of better value in the food market particularly among the low and middle income consumer groups.

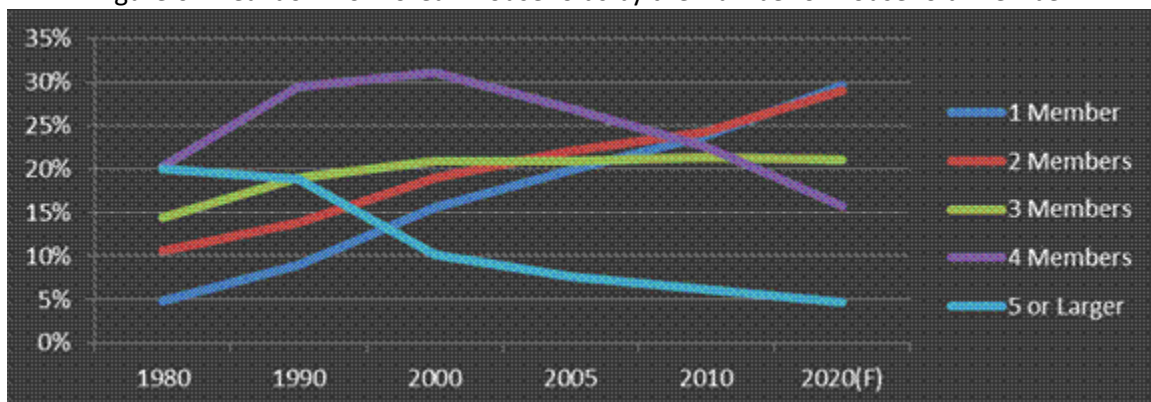
Figure 5: Korean Economy Trend



Source: Gross Domestic Production - Per Capita Gross National Income, Bank of Korea; World Bank

Korea's 50 million inhabitants occupy a country the size of the state of Indiana. About 70 percent of the land is under mountainous terrain, and over 90 percent of the Korean population lives in urban cities, which explains the high population density and high real estate cost. Convenience has become a very important driving force behind many new consumer trends as everyday life of Koreans gets busier. For example, the continuous increase of single member households and dual-income families has led to greater demand for Home Meal Replacement (HMR) products in retail stores. Delivery service is commonly offered by retail stores in Korea today 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, the high real estate cost is another factor that drives stores to move to 'cyber space'.

Figure 6: Breakdown of Korean Households by the Number of Household Member

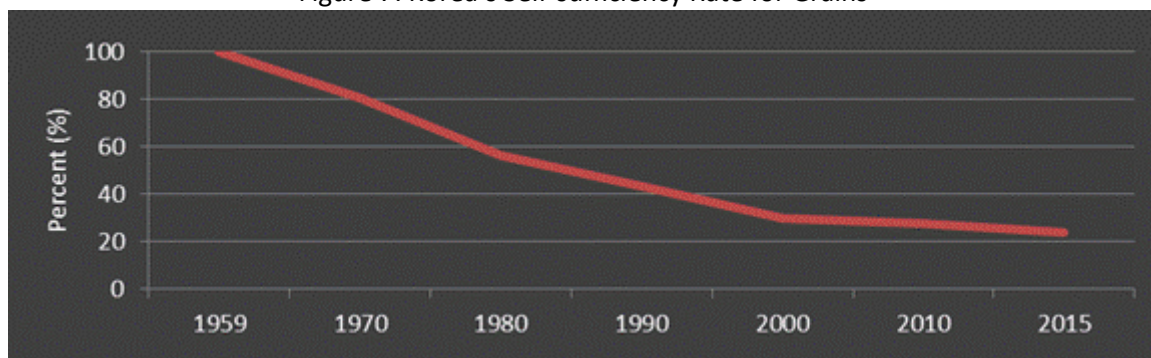


Source: Household Statistics, Korea National Statics Service (<http://kosis.kr>)

C. Food Import Trends

By nature, Korea depends heavily on imports for both raw agricultural commodities and consumer-oriented food products. Local supply alone is not capable of meeting the rising consumer demand for quality, value, and diversity. For example, Korea's self-sufficiency rate for grains marked 23.8 percent as of 2015, which was the lowest level among the 35 countries under OECD (Organization for Economic Co-operation and Development). Over 90 percent of the local grain production was rice, which reflects its traditional importance. Marketers estimate that over 70 percent of all food and agricultural products consumed in Korea is either imported or locally processed using imported ingredients.

Figure 7: 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-oriented 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-oriented foods as they offer a 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 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, Korea's imports of consumer-oriented foods in 2016 totaled a record high \$11.5 billion, up 3.4 percent from the previous year. The United States remained the leading exporter of consumer-oriented food products to Korea by shipping a record high \$3.7 billion of products, up 1.6 percent.

Table 4: Korea's Imports of Agricultural, Forestry, and Fishery Products (Year 2016, CIF value*)

Product Category	From the World Total		From the U.S.	
	Value	Growth	Value	Growth
Basic Commodity	\$5.1 Billion	-10.2%	\$1.7 Billion	-10.1%
Intermediary	\$7.5 Billion	-4.4%	\$1.2 Billion	-5.4%
Consumer-Oriented	\$11.5 Billion	3.4%	\$3.7 Billion	1.6%
Forestry	\$2.9 Billion	-0.9%	\$0.1 Billion	-17.9%
Fishery	\$4.5 Billion	6.2%	\$0.1 Billion	-2.5%
Total	\$31.4 Billion	-1.0%	\$7.0 Billion	-3.2%

*CIF Value is the cost of product inclusive of international shipping and insurance to a port in Korea

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

The outlook for American food exports to the Korean retail sector is excellent for a wide diversity of products, including beef, pork, poultry, seafood, processed vegetables, fresh and processed fruits, nuts, dairy products, 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 requirements). 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 that American Products Face 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 a mean 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 yet to obtain access to Korea. Certain food additives approved for use in the United States may not be allowed in Korea. Korean government makes frequent changes in its food safety/labeling standards, which adds risk and cost to traders.
A series of public food safety scandals associated with imported products from risky origins 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 regain consumer confidence.	Local retailers in general have yet to establish expertise on international sourcing. As a result, the flow of imported products to the retailer is often through multiple layers of middlemen, which adds cost and inefficiency to the supply chain. Retailers are reluctant to carry imported products of short shelf life.
Growth of the retail sector is led by modern format, large-scale retail businesses, which offer a 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 to attract consumers.	Korea maintains a strong food processing industry, which presents tough competition to imported processed food products. Locally processed products in general better reflect the current consumption trends in Korea.
Due to the long history of economic and political ties between Korea and the United States, many Korean consumers are familiar with American products and food trends. Many 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 are consequently reluctant to offer GMO products. Many U.S. products would be required to be labeled as GMO products 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 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 market information 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 details of the

offices). Additionally, the United States Department of Commerce is another important source of export supports 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 (<https://www.export.gov/article?id=Korea-Market-Overview>).

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 target 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, rhoood@oakoverseas.com). Other international food trade shows that attract a sizable number of Korean buyers include FoodEx Japan (www.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), 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 for these organizations is available from USDA/FAS Korea offices.

As the dialogue develops further and the potential business partners are 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 shipments 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 requirements or food additive standards. 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 restriction that the product is subject to.

Once the test shipment finds no conflicts 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 to have greater potential. Letters of credit (L/C) are 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 2016](#), (or visit www.atoseoul.com or www.fas.usda.gov for more recent update).

(2) [FAIRS Export Certificate Report Annual 2016](#)

(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 common mistakes that American suppliers often make is viewing Koreans as the same natured consumers in neighboring countries, Japan and China. Although it is true that people in these three Far East Asian countries share some parts of their histories and cultures, Koreans' tastes for foods are different in many ways from these neighbors. Consequently, products that cater 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 recipes. 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 a better look. Korean language labels are 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

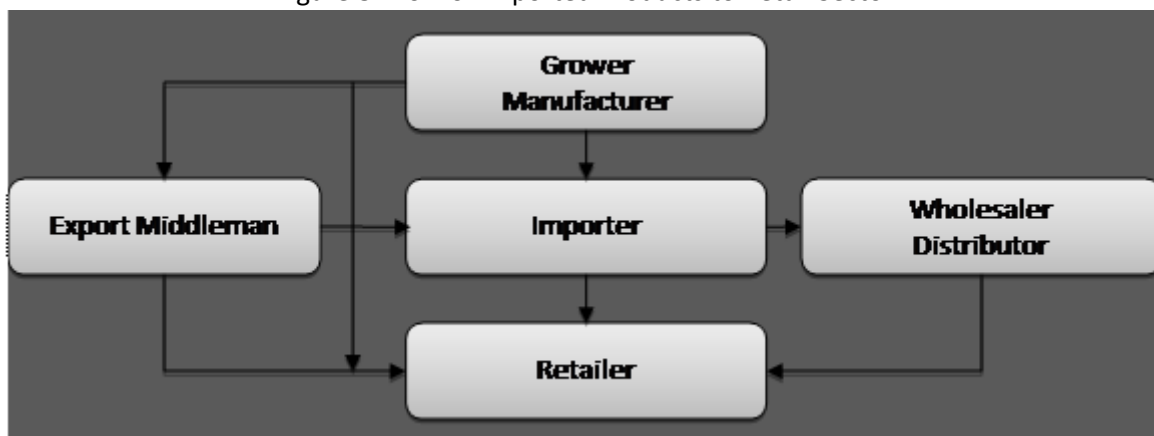
Korean retailers in general rely heavily on independent importers for imported food products. Although leading retailers are currently putting increased efforts to expand direct imports from foreign farms and processors, their attention is focused on a limited number of large volume products. Purchasing managers in Korean retail companies tend to be risk averse, and in general have yet to develop expertise and experience needed to carry out direct international purchasing without support of trade brokers or middleman agents.

The independent importer is required to bear a greater amount of the risk than the retailer when placing a new product on the shelf, which forces the importer to add high markups on products to cover potential loss. In contrast, products imported directly by the retailer can be sold at lower prices 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. The 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 8: Flow of Imported Products to Retail Sector



Once the product is cleared from customs, it is transported to the importer's warehouse for storage. The importer 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 small scale 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 a 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

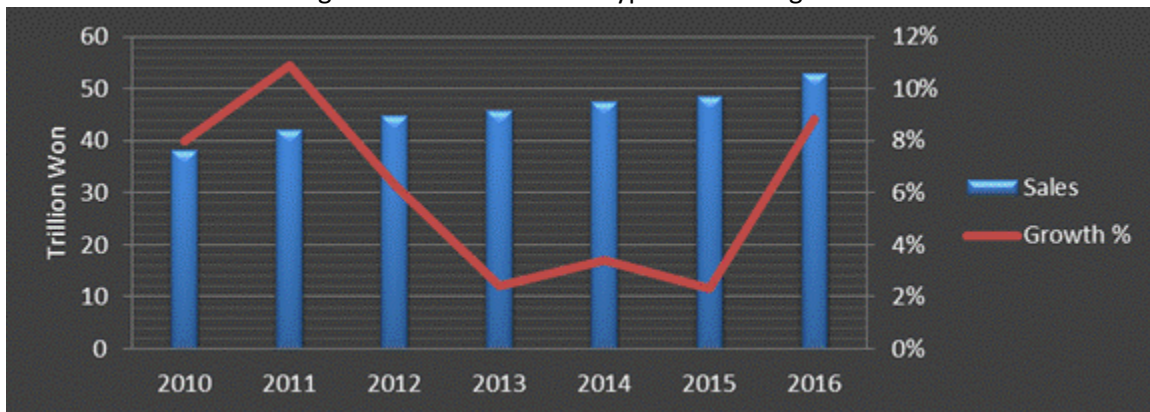
(this city, located in the middle section of the peninsula, has been designated as the new home for major Korean government administrative offices).

C. Sub-Sector Company Profiles

C-1. Hypermarkets

Overall sales of hypermarkets amounted to 52.9 trillion won in 2016, up 8.8 percent from the previous year. It is estimated that food products accounted for 51 percent (or 27.0 trillion won) of the hypermarket segment sales. The growth of the segment is expected to slowdown in the coming years largely because there is limited room left in the market to add new stores (typical Korean hypermarket stores target areas with a minimum population of 150,000). 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. The Korean government is also pressured to introduce additional 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 during the evening hours and a minimum two full additional days each month. Robust growth of on-line retailers is another major challenge that hypermarkets face.

Figure 9: 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	2005	2010	2011	2012	2013	2014	2015
Number	201	306	437	446	470	483	504	515

Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

Accordingly, leading players in the segment have made serious efforts in recent years to identify 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 and category killer 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 traffic. 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 sourcing from partner farms are some of key trends that are getting increased shelf space in the hypermarket store.

Table 7: Description of a Typical Hypermarket Store in Korea (2016)

Share of Food & Agricultural Products in Total Sales	Fresh Agricultural Products: 11-13% Livestock Products: 6-7% Seafood: 4-7% Processed Foods: 24-29% Prepared Foods: 4-6%
Size of Store	10,000 square meter
Parking Capacity	500-700 cars
Number of Employees	100-150 full-timers, 5-20 part-timers
Number of Items in Inventory	56,000 SKUs (stock keeping units)
Daily Sales	170-230 million won
Number of Daily Customers	4,000-5,000
Per Customer Purchase Amount	35,000-50,000 won

Source: Estimates based on the Yearbook of Retail Industry 2016, Korea Chain Store Association

Table 8: Profile of Major Hypermarket Chains in Korea (2015)

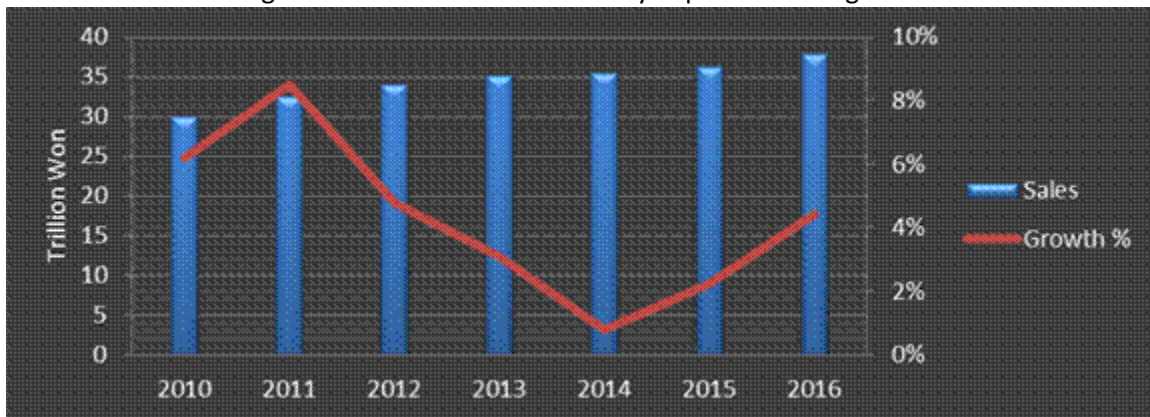
Company	Store Name	Ownership	Annual Sales	Total Stores	New Stores
EMART Company, Ltd.	E Mart	Korea	11.7 trillion won	145	6
Homeplus Co., Ltd.	Home Plus	Korea	6.7 trillion won	141	1
Lotte Shopping Co.	Lotte Mart	Korea	7.3 trillion won	112	3
Costco Wholesale Korea	COSTCO	U.S.	3.2 trillion won	12	1

Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

C-2. Grocery Supermarkets

Overall sales of grocery supermarkets amounted to 37.8 trillion won in 2016, up 4.3 percent from the previous year. It is estimated that food products accounted for 84.5 percent (or 31.9 trillion won) of the supermarket segment sales. It is notable that small to medium size supermarkets under independent ownership account for over 70 percent of the segment sales. On the other hand, large-size supermarkets under large-scale retail companies (i.e., Super Supermarkets, SSM) have seen stagnant growth since 2012 largely due to the government regulations that intended to protect small grocers and traditional street markets. As a result, SSM companies have been focusing their efforts on renovating their existing stores to offer a more efficient mix of products and services. SSM companies have also diversified their new store strategies to better address tastes and demands of different target markets. For example, E Mart has recently introduced 'No Brand Supermarket' in areas where demand for value shopping is high. Lotte Super has introduced 'Lotte Premium Supermarket' targeting affluent communities.

Figure 10: Annual Sales of Grocery Supermarket Segment



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

Some of key product assortment trends that are getting increased shelf space in the segment include home meal replacement (HMR) products, fresh products, portion-packaged products, and private label brand (PB) products. Leading players are also making efforts to offer more efficient promotions (on-line coupons, membership programs), stronger customer service (in-store service outlets such as pharmacy, laundry shop, and post office), and on-line shopping (with home delivery service).

Table 9: Description of a Typical Super Supermarket (SSM) Store in Korea (2016)

Share of Food & Agricultural Products in Total Sales	Fresh Agricultural Products: 14-26% Livestock Products: 9-17% Seafood: 2-8% Processed Foods: 37-50% Prepared Foods: 3-5%
Size of Store	300-2,000 square meters
Parking Capacity	5-50 cars
Number of Employees	3-15 full-timers, 1-10 part-timers
Number of Items in Inventory	4,000-30,000 SKU
Daily Sales	10-20 million won
Number of Consumers Daily	1,000-2,000
Per Consumer Purchase Amount	10,000-20,000 won

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

Table 10: Profile of Major Supermarket Chains (2015)

Company Name	Store Name	Annual Sales	Total Stores
Lotte Shopping Co.	Lotte Super	1.9 trillion won	555
GS Retail Co., Ltd.	GS Supermarket	1.4 trillion won	286
Seowon Utong Co., Ltd.	Top-Mart	1.5 trillion won	76
Homeplus Co., Ltd.	Home Plus Express	Not disclosed	371
Everyday Retail Co., Ltd.	E Mart Everyday	841 billion won	224

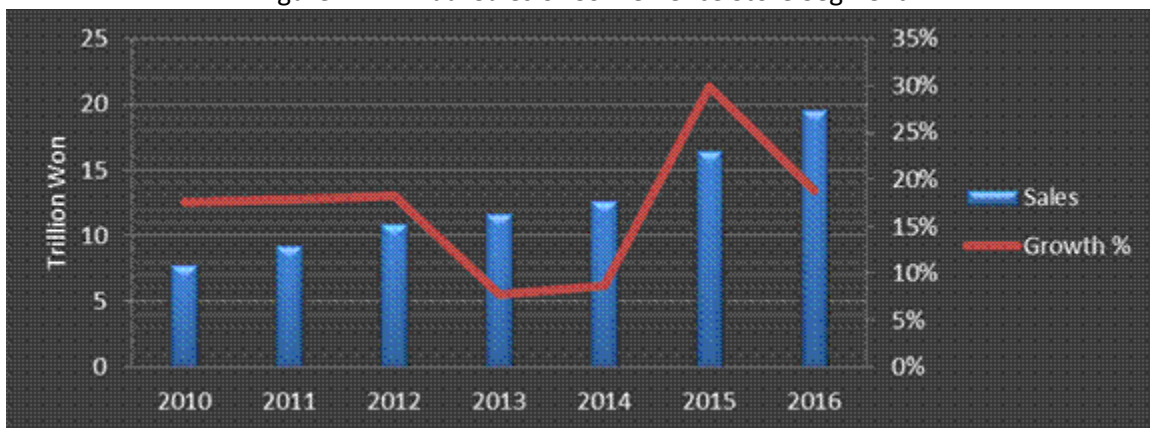
Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

C-3. Convenience Stores

Overall sales of convenience stores amounted to 19.6 trillion won, up 18.4 percent from the previous year. It is estimated that food products accounted for 51.4 percent (or 10.0 trillion won) of the convenience store segment sales. Convenience stores have shown strong growth both in store number and sales particularly in congested metropolitan areas where office workers and young consumers with busy lifestyles generate increased demand for quick shopping venues for small grocery purchases.

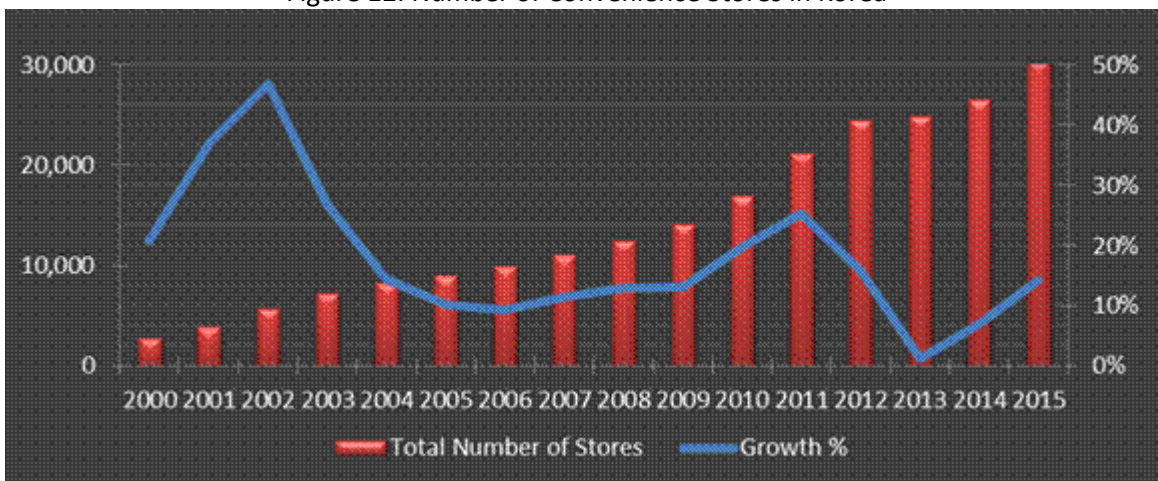
Due to a relatively low capital investment required to enter the business, convenience store segment saw an explosive opening of new stores between 2009 and 2012. However, 'fair trade guideline', introduced by the Korean government in 2013 under the objective of fostering a sustainable business environment in the segment, resulted in a drastic decline in new store opening in 2013. Under the guideline, new convenience stores under the same franchise are prohibited within 250 meter radius of existing stores. However, openings of new stores rebounded quickly since 2014 as the segment attracted a good number of new franchisees due to extended economic slowdown and reduced corporate jobs offered in the market. Improved consumer traffic and spending in convenience stores are likely to support a solid expansion of the segment in the coming years.

Figure 11: Annual Sales of Convenience Store Segment



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

Figure 12: Number of Convenience Stores in Korea



Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

Introduction of take-out meal 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 the convenience store industry maintains a very aggressive product assortment strategy 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 (2016)

Share of Food & Agricultural Products in Total Sales	Liquors: 8-9% Snacks: 7% Daily Delivered Fresh & Chilled Foods: 13-15% Processed Foods & Beverages: 16-18% Fast Foods: 4-6% Tobacco: 38-43%
Size of Store	72 square meters
Number of Employees	2 full timer, 5 part timer
Number of Items in Inventory	3,000 SKU
Daily Sales	1.8 million won
Number of Consumers Daily	362
Per Consumer Purchase Amount	5,000 won

Source: Estimates based on The Yearbook of Retail Industry 2016, Korea Chain Store Association

Table 12: Profile of Major Convenience Store Chains (2015)

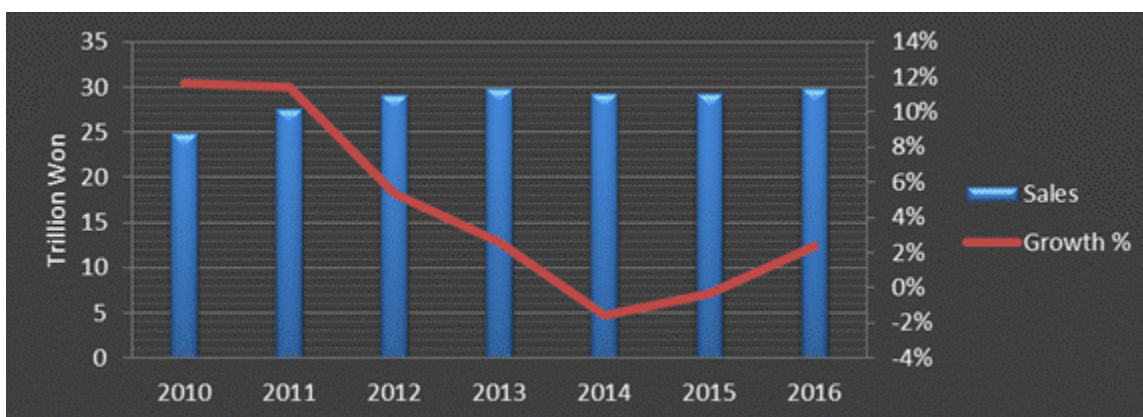
Company Name	Store Name	Annual Sales	Total Stores
BGF Korea Co., Ltd.	CU	4.3 trillion won	9,409
GS Retail Co., Ltd.	GS25	4.4 trillion won	9,285
Korea Seven Co., Ltd.	Seven Eleven	3.3 trillion won	8,178
Ministop Korea Co., Ltd.	Ministop	1.1 trillion won	2,200
E Mart, Inc.	With Me	1.4 trillion won	1,314
Home Plus	365 Plus	Not disclosed	401

Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

C-4. Department Stores

Total sales of the department store segment amounted to 29.9 trillion won in 2016, up 2.3 percent from the previous year. It is estimated that food products accounted for 10.1 percent (or 3.0 trillion won) of the segment sales. The department store segment has seen stagnant growth in recent years mainly due to extended slowdown of the Korean economy. Rapid expansion of on-line retailers, including consumer's direct purchases of high-profile, premium brand consumer goods from foreign on-line shops, was another key force that reduced consumer traffic to department stores.

Figure13: 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 store layouts and product assortment, which was a strategic move to strengthen their market position as the leading retail channel for premium consumer goods. 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.

Nevertheless, department stores should remain the leading retail channel in Korea for premium food products as the industry recognizes that food is a critical component of their business in attracting consumer traffic. For example, restructuring of the leading stores in the segment has significantly expanded store space for specialty food and beverage outlets.

Table 13: Description of a Typical Department Store in Korea (2016)

Share of Foods in Total Sales	3-15 % (including take-out food kiosks)
Size of Store	15,000 - 60,000 square meter
Parking Capacity	700 – 2,000 cars
Number of Consumers Daily	2,000 - 25,000
Per Consumer Purchase Amount	50,000 - 100,000 won

Source: Estimates based on the Yearbook of Retail Industry 2016, Korea Chain Store Association

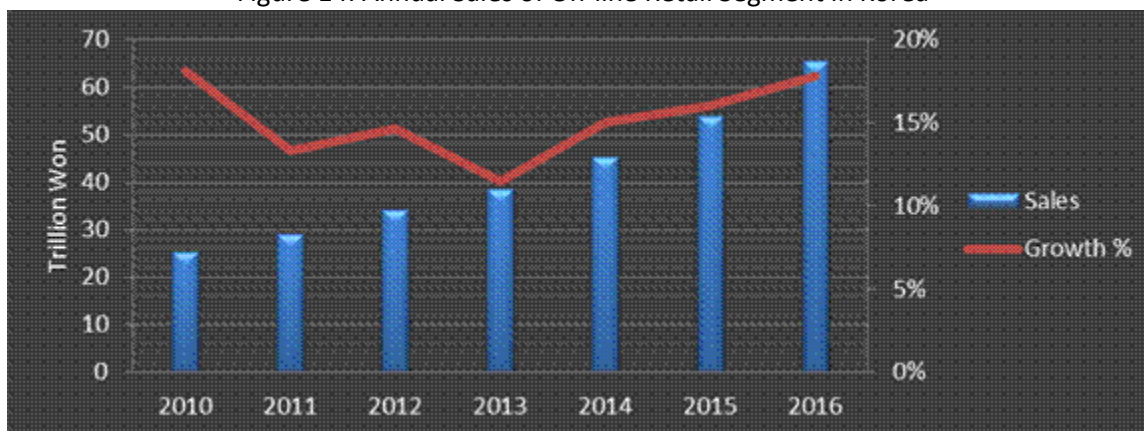
Table 14: Profile of Major Department Store Chains (2015)

Company Name	Store Name	Annual Sales	Total Stores
Lotte Shopping Co.	Lotte Department Store	15.0 trillion won	33
Shinsegae Co.	Shinsegae Department Store	6.0 trillion won	10
E Land Retail Co., Ltd.	NC Department Store Donga Department Store	4.7 trillion won	26
Hyundai Dept. Co., Ltd.	Hyundai Department Store	1.2 trillion won	11
Hanwha Galleria	Galleria Department Store	525 billion won	5

Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

Korea has been a pioneer market in the world for the on-line retail industry. Changes in consumer lifestyle coupled with introduction of new information technologies have fueled a rapid growth of on-line retail business over the years. In addition, high population density (second in the world among countries with over 20 million populations) and high ratio of urbanized population (83 percent as of 2015) provide a perfect environment for the on-line retail industry to develop. Total sales of on-line retailers amounted to 65.6 trillion won in 2016, up 21.7 percent from the previous year. Food products accounted for 13.4 percent (or 8.8 trillion won) of the segment sales. It is notable that on-line shopping via mobile gears (smart phones and smart pads) is rapidly replacing desktop personal computers (PC), which lifts time and location barriers for on-line shopping.

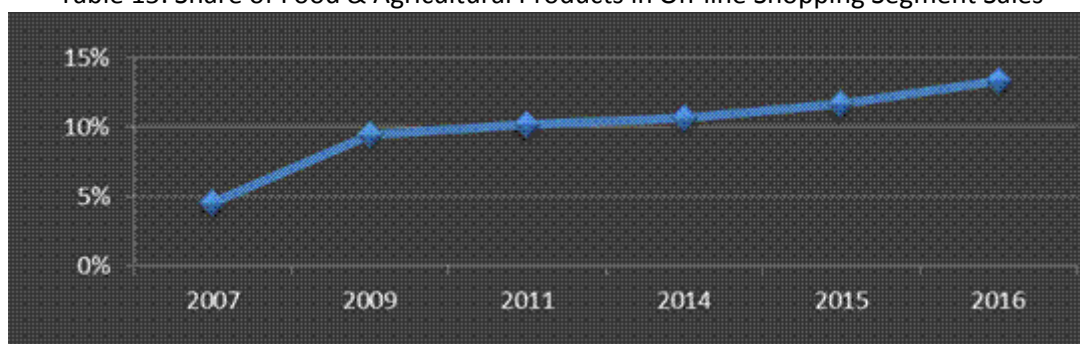
Figure 14: Annual Sales of On-line Retail Segment in Korea



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

It is also notable that sales of food and agricultural products in the segment continue to grow as conventional retailers (hypermarkets and grocery supermarkets) have also joined the segment by launching on-line version stores.

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 messenger services and internet blogs, are also expected to have a bigger influence on the Korean retail market as increased number of consumers follows these on-line communication tools for shopping ideas and peer opinions. Accordingly, more of the sales promotions and consumer marketing programs in the retail market are targeted to the SNS media and other cyberspace venues.

Table 15: Profile of Major On-line Retailers (2015)

Company Name	Sales*	Business Type	Internet Site
SK Planet Co., Ltd.	1.0 trillion won	Internet shopping mall Mobile shopping mall	www.11st.com
CJ O Shopping, Co., Ltd.	1.1 trillion won	TV home shopping Internet shopping mall Catalog shopping Mobile shopping mall	www.cjmall.com
GS Home Shopping, Inc.	1.1 trillion won	TV home shopping Internet shopping mall Catalog shopping Mobile shopping mall	www.gseshop.co.kr
Hyundai Home Shopping Network Corporation	891 billion won	TV home shopping Internet shopping mall Catalog shopping Mobile shopping mall	www.hmall.com
Woori Home Shopping Co., Ltd.	854 billion won	TV home shopping Internet shopping mall Mobile shopping mall	www.lotteimall.com
Ebay Korea, Inc.	799 billion won	Internet shopping mall Mobile shopping mall	www.auction.co.kr www.gmarket.co.kr
NS Shopping Co., Ltd.	406 billion won	TV home shopping Internet shopping mall Catalog shopping Mobile shopping mall	www.nseshop.com
Interpark Corp.	378 billion won	Internet shopping mall Mobile shopping mall	www.interpark.com
Wemakeprice, Inc.	217 billion won	Internet shopping mall Mobile shopping mall	www.wemakeprice.com
Lotte.Com, Inc.	211 billion won	Internet shopping mall Mobile shopping mall	www.lotte.com
Ticket Monster, Inc.	196 billion won	Internet shopping mall Mobile shopping mall	www.ticketmonster.co.kr

Source: The Yearbook of Retail Industry 2016, 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 8.1 trillion won in 2010, but only 354 billion won was recorded as the sales of the company.

C-6. Franchise Specialty Grocery Retailers

Increased consumer demand for more efficient shopping venues for specialty food and agricultural products provides a new growth niche in the retail market for specialty grocery retailers. Leading players in the segment are under franchise management and offer limited assortment of products within target product categories. Specialty grocery retailers mainly target busy metropolitan areas where large-scale discount retail stores have limited access. Currently health & beauty products and organic & natural foods are the major focus of the specialty grocery retailers. However, the segment is likely to expand its target products 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 (2015)

Company	Store Name	Sales	Products	Stores
CJ Oliveyoung	Olive Young	758 billion won	Health & Beauty	621
Chorokmaeul Co., Ltd.	Chorok Maeul	211 billion won	Organic & Natural Foods	442
GS Watsons Co., Ltd.	Watsons	127 billion won	Health & Beauty	122
ORGA Whole Foods	ORGA	102 billion won	Organic & Natural Foods	108
Lotte Shopping Co., Ltd.	LOHB's	Not disclosed	Health & Beauty	66

Source: The Yearbook of Retail Industry 2016, Korea Chain Store Association

C-7. Traditional Retail Businesses – Street Markets and Independent Small Grocers

There is no official data that tracks the size of traditional retail industry in Korea. It is estimated that traditional retailers accounted for less than 8 percent (or 7 trillion won) of the retail food market sales in Korea as of 2016.

Despite the rapid expansion of modern format, large-scale retail segments, traditional retailers (regional street 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, a series of regulations implemented by local governments recently under strong social initiative of protecting small business restrict entry of large-scale retailers into designated “traditional market zones”. However, traditional retailers are likely to see continued decline in their business in the coming years unless they find a way to meet escalated consumer demand for value, quality, diversity, and convenience. Traditional retailers tend to focus on a limited category of target products, such as grains, produce, seafood, meats, condiments, spices, and processed foods. Supply chain to traditional retailers involves multiple layers of middleman distributors.

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, watermelon, strawberry, kiwi, etc.), seafood, beef, pork, chicken, eggs, and milk. In addition, Korea has a strong food processing industry that manufactures a wide diversity of processed products, including processed meat, seafood, vegetables, fruits, noodles, sauces, oils, grain flour, beverages, snacks, confectioneries, dairies, and liquors. Domestically produced products in general better reflect the current taste and consumption trends of local consumers than imported products. Furthermore, Korean consumers are generally biased toward locally grown and manufactured products and willingly pay a premium for domestic products.

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

Product	1990	2000	2010
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%
Grains Total	43.8%	30.8%	26.7%
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)

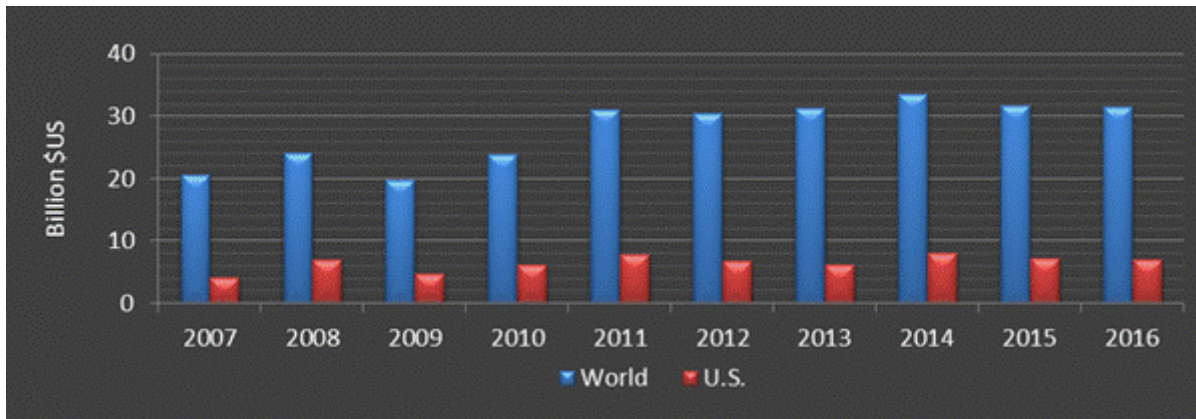
However, Korea relies heavily on imports for input ingredients for the local processing industry as well as for consumer-oriented products for the retail industry. Many American products face escalated competition in the Korean market from products from export-oriented competitors, including China, EU, Australia, Chile, and South Asian countries. Many of the products from competitor countries offer either lower prices or higher quality than American 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 low price and logistic advantage. The EU has become the leading supplier of premium whiskies, wine, specialty cheeses, chocolate confectioneries, pasta, and olive oil to Korea. Korean consumers' increased interest in products from more diversified origins also furthers the competitive pressure on American products in Korea.

Despite the escalated challenges from the competitors, the United States is expected to remain the leading supplier of food and agricultural products to the Korean retail sector. The United States accounted for 22.2 percent of Korea's overall imports of food and agricultural products in 2016. More importantly, the United States accounted for 32.6 percent of consumer-oriented products that Korea imported in 2016.

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

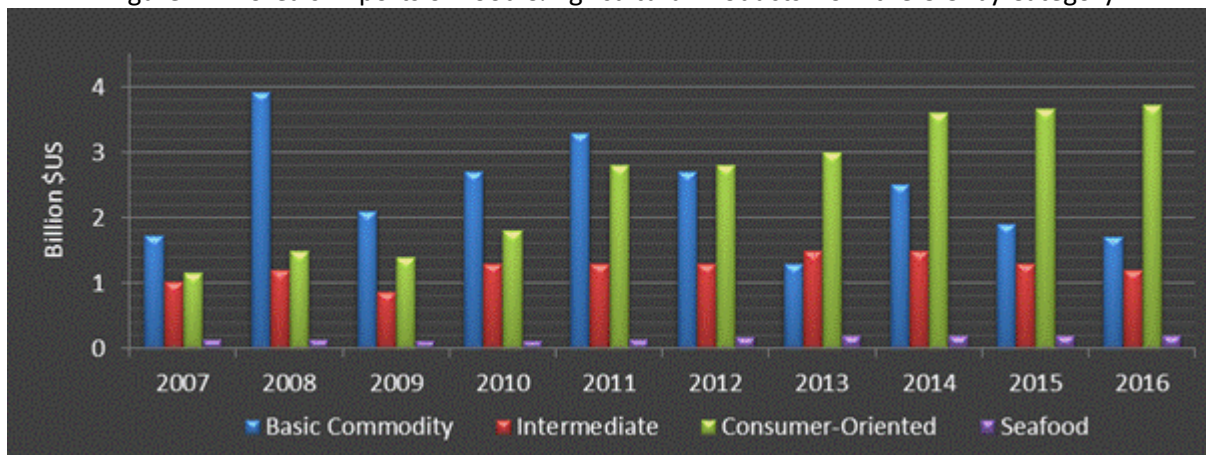
- [Korea's Agricultural Import Statistics](#): This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports by four digit HS product code.
- [Korea's Agricultural Import Trends Presentation](#): this presentation updated quarterly provides an overview of Korea's agricultural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

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



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

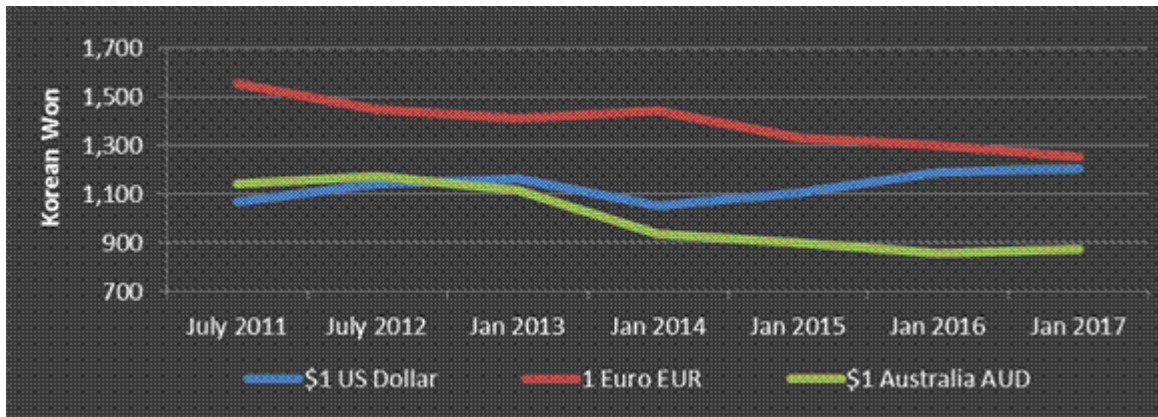
Figure 17: Korea's Imports of Food & Agricultural Products from the U.S. by Category



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 lack 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). By the way, it is notable that Korea has also established free trade agreements with many of its trading partners over the years, including EU, Canada, Australia, and Chile.

Shifts of currency exchange rates among competitor countries have been another important factor that affected the price competition in Korea. Between January 2015 and January 2017, the value of U.S. dollar rose 9.0 percent against the Korean won, while Euro and Australian dollar value declined 5.7 percent and 2.8 percent respectively against the Korean won. A strong U.S. dollar weakens price competitiveness of American products to Korean buyers.

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



Source: Woori Bank (www.wooribank.com)

IV. Best Product Prospects*

*Note: All import value figures in this section is based on Korea Trade Information Service (KOTIS) database, which is CIF (cost of product, insurance and freight) import price.

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

1. Beef: The United States shipped \$967 million of beef to Korea in 2016, up 29.1 percent from the previous year. American beef accounted for 46.3 percent of Korea's total beef imports, which was a significant growth from 42.2 percent in 2014.

Beef is considered a premium meat in Korea. Over 720 thousand metric tons are annually consumed and imported products supply over 50 percent of the market demand. Over 70 percent of imported beef is frozen products because HRI foodservice sector and processing sector are the leading users of imported beef. The rest 30 percent of imported beef is chilled products and is largely marketed through 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 Ministry of Food and Drug Safety (MFDS) has yet to lift its suspension that would allow for products that meet the OIE standards.

2. Pork: The United States shipped \$352 million of pork meat to Korea in 2016, down 12.6 percent from the previous year. The decline in imports was mainly due to an improved supply of local pork. American pork accounted for 27.7 percent of Korea's total pork meat imports which amounted to \$1.27 billion in 2016, down 3.9 percent from the previous year.

Pork is the most popular meat among Korean consumers with annual consumption exceeding 1.5 million metric tons. Imported products supply about one-third of the market demand. The United States remains the leading

supplier of imported pork meat to Korea, followed by Canada and Chile with about 10 percent import market share each. The European Union countries as a group take roughly 35 percent of import market share. Over 90 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.

3. Poultry meats (largely chicken): In 2016, Korea's poultry meat imports totaled \$193 million, down 12.6 percent from the previous year. The United States shipped \$7 million of poultry meat to Korea, down 52.4 percent. The decline in imports was a result of Korea's temporary import restrictions on uncooked American poultry meat for outbreaks of avian influenza in the United States.

Per capita poultry meat consumption in Korea is now second only to pork and is expected to continue to grow in the coming years. About 80 percent of imported chicken meat is frozen chicken legs.

4. Processed meats (sausages and hams of non-beef ingredients): Further introduction of western dishes and recipe ideas coupled with ever busier consumer lifestyle generates increased demand for imported processed meat products such as hams and sausages. Imports of processed meat products (falling under HS 1601 and 1602)) from the United States amounted to \$51 million in 2016, up 12.3 percent from the previous year, and accounted for 30.2 percent of Korea's total processed meat imports.

5. Dairy products (mainly cheese): An increased number of Korean consumers are developing a taste for cheese although their taste is still quite limited to general processed products such as Mozzarella and Cheddar. Cheese and curd imports from the United States amounted to \$169 million in 2016, down 32.7 percent from the previous year. The decline was due to aggressive marketing by European competitors who were looking for alternative markets for their cheese under on-going trade sanction by Russia. The import market share of American cheese went down to 39.3 percent in 2016 (from 50 percent in 2015). Although a majority of the imported cheese and curd are currently used by processors and HRI foodservice industry, an increased volume is marketed through retail stores in the coming years.

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 consumer safety concerns (since the nuclear power plant accident in Fukushima, Japan in March 2011). That said, American seafood took only 5.7 percent of the imported seafood market in Korea in 2016 due to aggressive marketing by export-oriented competitors. Implementation of the Korea-Canada Free Trade Agreement generated elevated competition for American lobster in Korea. Korea's seafood imports from the United States amounted to \$225 million in 2016, down 1.9 percent from the previous year. 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.

8. Fresh fruits: Seasonal fluctuations in local fresh fruit supply as well as consumers' strong demand for new taste generate increased demand for imported fresh fruits. Imports of fresh fruits from the United States totaled \$423 million in 2016, up 7.2 percent from the previous year, and accounted for 37.5 percent of Korea's overall fresh fruit imports. Major American fresh fruits imported include: citrus (\$257 million), grapes (\$33 million), and cherries (\$110 million).

9. Tree nuts: Korean consumers maintain strong demand for tree nuts 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 \$271 million in 2016, down 27.2 percent from the previous year, and accounted for 78.6 percent of Korea's overall tree nut imports. The decline in imports was mainly due to high market inventory as the imports in the previous year hit a record high, \$373 million.

10. Processed fruits and nuts: Processed fruits and nut products are gaining consumer popularity due to their natural and healthy image. Imports of processed fruits and nuts (HS 0811 – 0814) from the United States amounted to \$26 million, down 21.2 percent from the previous year, and accounted for 20.6 percent of Korea's overall imports of processed fruits and nuts. The decline in imports was also due to high market inventory of nuts from the previous year.

11. 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 sugar/artificial ingredients added' juices. Imports of fruit juices from the United States amounted to \$50 million in 2016, down 16.3 percent from the previous year, and accounted for 32.6 percent of Korea's overall fruit juice imports. The decline in imports was due to improved performance of competitors such as Brazil. A majority of the imported fruit juices are blended and bottled by local processors in Korea.

12. Coffee: Korea's imports of coffee products totaled \$563 million in 2016, up 2.9 percent from the previous year. Imports from the United States amounted to \$61 million, up 75 percent. It is notable that Americano and espresso type coffee has been leading the rapid evolution of the coffee market in Korea since early 2000's at the expense of instant mixes.

13. Confectionery products (chocolates & candies): Imports of chocolate based confectionery products from the United States amounted to \$79 million in 2016, down 6.6 percent from the previous year, and accounted for 21.2 percent of Korea's overall imports. Imports of sugar based confectionery products from the United States amounted to \$24 million, down 19.6 percent from the previous year, and accounted for 5.4 percent of Korea's overall imports. The decline in imports was due to improved performance of competitors (EU, South Asian countries, and Japan).

14. Bread, cakes, and pastry: Further introduction of western food ideas among the general public generates increased demand for imported bread, pastry, and cake products. Imports from the United States amounted to \$59 million in 2016, down 14 percent from the previous year, and accounted for 16.2 percent of Korea's overall imports. The decline in imports was due to improved performance of competitors (EU, South Asian countries, and Japan).

15. Prepared Sauces: Further introduction of foreign food ideas among the general public generates increased demand for imported sauces and condiments. Imports of prepared sauces from the United States amounted to \$31 million in 2016, up 2 percent from the previous year, and accounted for 15.1 percent of Korea's overall imports.

17. Alcohol Beverages: Korea remains one of the leading markets in the world for alcohol beverages. Continued increase of female drinkers as well as diversified taste of 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 \$22 million for wine; \$10 million for beer; and \$8 million for distilled spirits in 2016. The import market share of

American products was 5.4 percent for beer; 11.4 percent for wine; and 3.8 percent for distilled spirits.

18. Non-alcohol Soft Drinks: Korean consumers' increased demand for new and diversified taste generates solid demand for imported soft drinks. Imports of soft drinks (flavored mineral water) from the United States amounted to \$21 million in 2016, down 15.6 percent from the previous year, and accounted for 28 percent of Korea's overall imports. The decline in imports was due to improved performance of competitors.

19. Pet foods: An increased number of Korean families are raising pet animals (dogs and cats) at home. As a result, imports of retail package pet food products are on a solid growth. The United States shipped \$42 million of retail package pet food products to Korea in 2016, up 5.1 percent from the previous year, accounting for 24.5 percent of Korea's overall imports.

20. Rice: Tariff Rate Quota (TRQ) program for rice that Korea has established with trading partners, including the United States, requires Korea to import about 410,000 metric tons of rice each year. Under the TRQ program, The United States shipped \$86 million of rice to Korea in 2016, which accounted for 32.5 percent of Korea's overall imports. Although a majority of the imported rice is currently used by processors and HRI foodservice sector, there is an increased window of opportunity for American rice to be distributed through retail stores targeting those local consumers who look for better value and diversified taste.

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

1. Pasta: Italian cuisine is gaining popularity among the general public, generating increased demand for related products, including pasta noodles. Among the \$143 million of pasta products imported in 2016, imports from the United States amounted to \$1 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.

2. Wheat flour: There is a market potential for imported wheat flour as the price of locally milled products continues to rise. Among the \$15 million of wheat flour imported into Korea in 2016, imports from the United States amounted to less than \$1 million. Traders point out that imported wheat flour may need modifications to meet the specifications required for popular local recipes such as Korean style noodles.

3. Bakery premixes (including frozen dough): The idea of home baking is spreading among young housewives, which generates increased opportunity for imported bakery premixes, including frozen dough products. Currently, a majority of bakery premixes distributed in Korea is products from local bakery processors. Traders point out that imported bakery premixes may need modifications in recipe and packaging to meet local consumer taste.

4. Olive oil: Demand for olive oil remains strong as consumers are seeking healthier alternatives for conventional cooking oils. However, among the \$61 million of olive oil imported in 2016, imports from the United States amounted to less than \$1 million.

5. Processed turkey meat: Many Korean consumers still maintain a negative image of turkey meat. However, marketers point out that processed turkey meat products (hams in particular) have good market potential in Korea particularly among young consumers who are looking for new taste as well as healthy diet foods.

6. Premium seafood: There is market potential for premium American seafood products such as lobsters, king crabs, black cod, halibut, scallop and wild caught Alaskan salmon in Korea particularly among affluent consumer

groups who are looking for premium, healthier alternatives for beef and other meat dishes. However not many Korean consumers have an understanding about the quality of premium seafood from the United States. For example, few local consumers are aware of the quality difference between 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 consumer demand for new taste generate 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 presents a market potential for American suppliers. Among \$288 million of fresh vegetables that Korea imported in 2016, imports from the United States amounted to \$10 million (mostly potatoes, lettuce, and cabbages).

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

9. Prepared foods: Demand for Home Meal Replacement (HMR) products is on a rapid increase as Korean consumers face ever busier lifestyles. Ready-to-serve or microwavable prepared foods targeting the retail sector have a good potential. Marketers point out that imported prepared foods in general need modifications to meet local consumer taste.

10. Processed organic foods: Korea and the United States established an equivalency agreement on processed organic foods in 2014, which allows American processed organic foods certified under USDA National Organic Program (NOP) to enter Korea without additional local certification. Korean consumers' increased demand for safe and premium quality foods should generate new export opportunity for American processed organic products.

11. Specialty fruits: Korean consumers generate increased demand for imported specialty fruits. Key American products with good growth potential include lemon, grapefruits, avocado, pomegranates, and blueberries.

12. Natural honey: The KORUS Free Trade Agreement offers increased market access for American honey. Korea's imports of natural honey from the United States amounted to \$3 million in 2016, which accounted for 36.9 percent of Korea's overall imports.

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, pears, peaches, strawberries, and berries other than blueberries from the 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 livestock 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 lamb meat and other meat from ruminant animals except for beef totaled \$69 million in 2016, up 33.1 percent from the previous year.
 - (3) American elk antlers currently have no access to the Korean market due to Chronic Waste Disease risk. Korea's imports of antlers totaled \$50 million in 2016, up 54.7 percent from the previous year.
 - (4) Korea maintains an import ban on fresh potatoes from many American states due to nematode risk.
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 the 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 upon arrival in Korea to prevent potential pest risks, which will disqualify the product from "organic" status.
4. The Korean Food Code has yet to further evolve to recognize the standards and rules already established internationally or in the United States (ingredients allowed for use in a specific product category for example). As a result, imported products allowed in foreign countries but do not meet the Korean regulation are restricted.
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, 42 Jongro 1-gil, 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, 188 Sejong-daero, 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, 42 Jongro 1-gil, 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: export@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: info@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: info@foodexport.org
Website: www.foodexport.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: susta@susta.org
Website: www.susta.org

C. ADDITIONAL SOURCES OF INFORMATION & SUPPORTS

(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/southkorea

(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