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Market Brief

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Korea's wine imports, both by value and volume, set a new record in 2001 and are expected to maintain a double digit growth rate in years to come. Imports from the U.S. also set a record high, reaching 1.1 million liters and $5.7 million dollars, up 7.8% and 67.1% respectively from a year earlier. Korea is an excellent market for high quality U.S. wine and also promises a good potential for low to medium priced wines. Wine consumption is mainly driven by changes in dietary and drinking culture. These factors equate to abundant opportunities for U.S. exporters.

Includes PSD changes: No
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Market Brief on Wine

July 2002

1. Market Prospects

Summary

Korea's wine imports, both by value and volume, set a new record in 2001, reaching 9.4 million liters and $23.1 million dollars. The previous record was 8.8 million liters and $22.8 million dollars, both set in 1997 before the Asian economic crisis. The rapid growth of wine imports is expected to continue in years to come considering the changes in dietary and drinking culture of Korean consumers that favor western and healthy diet. Imports from the U.S. have shown the most dramatic growth so far. Imports from the U.S. also set a record high in 2001, 1.1 million liters and $5.7 million dollars. Between 1992 and 2001, total wine imports about quadrupled while imports from the U.S. increased more than 23 times. The U.S. share of the market has continuously increased, reaching an impressive new record high, 24.5% by value, in 2001. However, demand for U.S. wine is heavily skewed to high quality premium products, leaving good opportunities for entry level to medium quality products. Red wine is leading the market, taking about 70% of share, but sparkling and whites have a good room for additional growth. Local wine production has almost disappeared due to its lack of price and quality competitiveness against imports. In recent years, the market has seen developments of new marketing and educational channels for wine including wine schools, Internet-based wine communities, wine bars and wine exhibitions, which have contributed to the expansion of wine consumers. Especially, wine is getting more popular among the young professionals and high income elderly group. These factors equate to abundant opportunities for U.S. exporters.

Opportunities

- Korea is one of the biggest markets for alcoholic beverages in the world
- Changes in dietary and drinking culture favor Western and healthy alternatives
- Wine is well positioned with highly publicized health benefits
- Rising reputation of U.S. wine
- Korean consumers have higher affinity to English and U.S. products
- Lack of local competition
- Young consumers are getting more interested in wine

Challenges

ž High consumer prices for wine in general

ž Lack of awareness of wine among the consumer and trade

ž Little understanding about Korean market by U.S. wine exporters

ž Complex labeling and tax requirements

ž Little marketing and promotion efforts by suppliers and marketers

ž Demand on U.S. wine heavily skewed to high quality, high price wine

ž Aggressive marketing and pricing supports by export-oriented competitors

2. Tariffs, Taxes and Pricing

ž Consumer prices for wine are quite high. A combination of import duty and taxes, and large distribution costs and mark-ups results in retail wine prices two to four times those in the U.S.

ž Korea applies a complicated tariff and tax system to imports of alcoholic beverages. Those applied to wine are as follows:

A.	Tariff:	15 percent
B.	Liquor Tax:	30 percent
C.	Education Tax:	10 percent

ž Wine imports are subject to a relatively lower duty and taxes compared to other alcoholic beverages. For example, beer import duty is 30%, liquor tax 115%, and education tax 30%. The whisky import duty is 20%, liquor tax 72%, and education tax 30%. The relatively lower duty and taxes on wine imports were originally intended to promote local production of fruit wine.

ž Following is an example of the effects of taxes and mark-ups on a CIF $10 bottle of wine:

A.	CIF value:		$ 10
B.	Tariff (Customs Duty):	A x 15% =	$ 1.5
C.	Wine Tax:	(A+B)x 30% =	$ 3.45
D.	Education Tax:	C x 10% =	$ 0.35
E.	Subtotal:	(A+B+C+D) =	$ 15.30
F.	*Value Added Tax:	E x 10% =	$ 1.53
G.	**Fees for Customs Clearance, etc.:	A x 8% =	$ 0.8
H.	Customs cleared cost of wine:	E+F+G =	$ 17.63

* The Value Added Tax is refunded to the importer because the tax is carried over to the final consumers.

** In addition to the duties and taxes, additional cost of 7-8% of CIF value will occur due to customs clearance fee, warehousing fee, transportation fee, etc. The amount of this additional cost depends mainly on the kind of inspection the shipment is subject to. For example, the warehousing fee will increase significantly in case a detailed inspection is required.

I. Typical Importer Mark-ups (each mark-up calculation is based on $16.10, the customs cleared cost (H) minus value added tax):

1. Importer's selling price to discount store: $20.93 (mark-up 30%)
2. Importer's selling price to supermarket/liquor store: $22.54-24.15 (mark-up 40-50%)
3. Importer's selling price to luxury hotel: $22.54 (mark-up 40%)
4. Importer's selling price to wholesaler: $18.52-20.93 (mark-up 15-30%)

J. Typical Retailer Mark-ups:

1. Discount Store's selling price: $22.60-25.12 (mark-up 8-20%)
2. Supermarket & Liquor store's selling price: $29.30-33.81 (mark-up 30-40%)
3. Luxury hotel restaurant's selling price: $67.62-112.7 (mark-up 200-400%)

Thus, a CIF $10 bottle of wine typically sells for about $23-25 at discount stores, $29-34 at supermarkets and liquor stores, and $68-113 in hotel restaurants. The cost for advertising and promotions, payment conditions (i.e. cash versus 60 days credit), and sales volume cause the big price differences between discount stores and liquor stores. In addition, the Korean Liquor Act prevents retailers and end-users from purchasing from other retailers/discount stores for re-sale purposes, which explains some part of the different prices charged for the same wine.

ž Korean government newly introduced "Liquor Purchase Credit Card" program in 2001 as a safeguard to prevent black marketing of liquor products between suppliers and buyers(not general consumers but trade buyers). The new regulation requires buyers to use special credit cards issued by banks for this program exclusively to pay suppliers when purchasing alcoholic beverage products.

3. Labeling

ž Imported wine is required by law to have a Korean language label. In many cases, the importer attaches a Korean label manually after the shipment has arrived in Korea. The Korean language label should contain the following information:

1. Name of the product
2. Country of origin
3. Type of the product
4. Importer's name, address and phone number
5. Business license number of importer
6. Expiration date (Voluntary)
7. Alcohol percent and volume
8. Name and volume of ingredients by percentage
9. Name of place where the product can be returned or exchanged in case the product is damaged or defective.
10. Instructions for storage.
11. Name of food additives
12. Government's health warning clause
13. *Bottling date

* Bottling date label requirement was newly added in 1999.

ž Korean Internal Revenue Service recently proposed an amendment of the labeling regulation to include distribution channel (wholesaler, discount store, etc.) that the subject bottle is destined for in order to prevent black marketing. However, liquor importers and foreign trade representatives strongly opposed to the proposal and any official decision has not been made yet as of July 2002.

ž The "Sulfite" labeling requirement poses potential negative consumer health concerns, while FDA maintains conventional use of sulfites in wine has no health risk.

ž Korean labeling requirement for alcohol content maintains 0.5% tolerance level on the difference between the labeled and actual alcohol content, which is much tighter than the U.S. standard, 1.5%. U.S. wines manufactured under the higher tolerance level may fail KFDA's inspection.

4. Inspections

ž All foods and beverages are subject to Ministry of Health and Welfare/Food Quarantine inspection. There are two kinds of inspections: A detailed inspection (chemical analysis test) and visual inspection (eye/document inspection).

ž The first shipment is always subject to a detailed inspection which under Korean law should take a maximum of 10 working days (but in practice can take much longer). Subsequent shipments are subject to visual/document inspections which should take no more than 2 calendar days if the product is identical in label, product name, alcohol degree, vintage, and net weight (milliliter) of the first shipment. Importers are required to submit front (English label) and back labels (Korean language label) to food inspection authorities.

ž Established importers are well aware of all inspection and labeling requirements and are the best source of current information on labeling and inspection.

5. Market Situation

ž The Korean economy has fully recovered from the impact of economic crisis of 1998 and has maintained satisfactory growth ever since. GDP growth rate expectations are set at 6.4% for 2002. Market has shown a strong demand for imports as consumer spending and corporate investment continue to increase. U.S. agricultural imports likely to exceed last years' totals of over $3.3 billion. Especially the Korean Won has strengthened almost by 10 percent versus the U.S. dollar since January of this year and is expected to gain additional strength due to slumping U.S. economy.

ž Korea is one of the biggest markets for alcoholic beverages in the world. Drinking is a very important part of social culture and is often recommended at social occasions. According to WHO's recent report, Korea ranks the second place in the world in dietary alcohol consumption as of 1996. Korean government's data provide further details of liquor market. The total volume of alcoholic beverages that Koreans consumed in 2001 was 3.07 million kiloliters, up 9.3% from the previous year. On average, each adult Korean consumed 119 bottles of beer (0.5 liter bottle),

79 bottles of Soju (a traditional Korean vodka, 0.36 liter bottle), and 1.4 bottles of whisky (0.5 liter bottle) in 2001. Although drinking is decreasing in elderly group mainly for increasing health concerns, the market is getting even more new drinkers especially from young generation and female group.

ž Drinking trends are mainly driven by changes in dietary and drinking culture that favor western and healthy alternatives. Westernization has been interpreted into the growth of consumption of western liquors including wine. Increasing social emphasis on healthier diet has made many elderly drinkers to switch over to 'weaker' alternatives including cocktail and wine. Consumption of Soju (a traditional Korean vodka) has been steady due to its very competitive price (below $1 per bottle, retail price) and the big success of newly introduced products that have lower alcohol content.

ž Wine is still a relatively new product to Koreans. Currently, wine comprises less than 1% of the total liquor market. Consumers, distributors, retailers, and even many importers have limited knowledge about wine.

ž Major consumers of wine are young professionals and elderly group with high income. However, the biggest season for wine sales is Lunar New Year's Day(late January), Korean Thanks Giving Day(mid September) and Christmas seasons when wine is purchased as a gift item.

ž There have been notable changes in distribution channel for wine in recent years. More food companies are interested in wine business. Good example is the Lotte Chilsung Co., Ltd., a major food and beverage company, who newly launched a wine business. Wine shops have emerged as a major place to purchase wine and the market has seen openings of many of them recently. Traditional bars also have become an important channel for wine sales while hotels have lost the leading role. More wine is sold through discount stores (hypermarkets) as more Koreans do their grocery shopping in this format. Dominating distribution channel for wine is different from one importer to another depending on what channel the importer has a focus. It is often the case that each importer relies on as many channels as possible wherever there is a demand because long-term supply contract or big volume contract is very rare considering the limited size of the market.

ž The market has seen development of new marketing and educational channels for wine. Internet-based wine communities and wine schools are newly developed in recent years and have become a major channel for wine marketing and education especially targeting young consumers. Bestwine.co.kr and winenara.co.kr are the notable ones. There has been openings of private wine schools in recent years, which helped expansion of wine drinkers among young consumers. Bordeux Wine School and Mouton Cadet Wine School are the notable ones. The 'Korean California Wine Importers Association (KCWIA)' was organized earlier this year by sixteen local wine importers and is likely to play an important role in marketing of Californian wine in Korea. 'World Wine Festival', the first international wine exhibition, was first held in Seoul June this year and received heavy attention from both wine drinkers and trade. The organizer of the show, Kyunghyang Daily Newspaper, plans to host the show annually.

ž Wine imports were liberalized in 1988. Any licensed liquor importers now can import wine. There are about 150 liquor importers in Korea but only about 20 of them actively import on a regular basis. Most importers also have a wholesaler's license, which allows them to distribute directly to retailers. Some importers have their own retail stores under different licenses. Korean government abolished a restriction last year that had prevented liquor manufacturers from importing liquor products directly.

6. Competitors

Table 1. Korea Wine Imports Statistics 2001 (Year End)
Source: KOTIS Data (Unit: Liter, US $)

Country		Sparkling	Red	White	Others	Total	* Price/ Volume	Share
USA	Volume	1,134	784,001	301,573	17,169	1,103,877	5.14	11.8%
	**Value	2,966	4,616,808	984,071	67,864	5,671,709		24.5%
France	Volume	136,273	2,369,399	747,947	978,508	4,232,127	2.58	45.1%
	Value	666,950	8,252,746	1,639,161	365,625	10,924,482		47.3%
Germany	Volume	3,120	49,245	838,778	545	891,688	1.73	9.5%
	Value	11,289	141,095	1,385,095	8,324	1,545,803		6.7%
Italy	Volume	14,759	407,855	206,369	10,227	639,210	2.50	6.8%
	Value	39,423	1,164,779	371,718	22,613	1,598,533		6.9%
Australia	Volume	648	189,590	153,497	895	344,630	2.60	3.7%
	Value	2,314	594,737	295,305	4,403	896,759		3.9%
Spain	Volume	33,396	671,491	796,799	12,073	1,513,759	0.69	16.1%
	Value	77,660	535,571	410,042	26,686	1,049,959		4.5%
Chile	Volume	0	102,072	28,475	30,513	161,060	4.05	1.7%
	Value	0	470,972	114,598	66,838	652,408		2.8%
Others	Volume	3,923	255,726	187,898	41,275	488,822	1.57	5.2%
	Value	4,807	350,996	331,302	81,911	769,016		3.3%
Total	Volume	193,253	4,829,379	3,261,336	1,091,205	9,375,173	2.46	100.0%
	Value	805,409	16,127,704	5,531,292	644,264	23,108,669		100.0%
US Share	Volume	0.6%	16.2%	9.2%	1.6%			
	Value	0.4%	28.6%	17.8%	10.5%			

* $ price per liter
** CIF value

ž Korea's wine imports, both by value and volume, set a new record in 2001, reaching 9.4 million liters and $23.1 million dollars. Imports from the U.S. also set a record high in 2001, 1.1 million liters and $5.7 million dollars. The rapid growth of wine imports is expected to continue in years to come. The Korean market has a strong demand for high quality U.S. wine, which is evidenced by the fact that average import price of U.S. wine is higher than that of wine from other countries and that U.S. wine has much bigger market share by value than by volume. This means additional opportunity for entry level, budget priced U.S. wine.

Table 2: Korea Wine Imports (Annual Total)
Source: KOTIS Data (Unit: Million Liter, Million US $)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001

Value	5.6	5.9	8.1	13.6	16.4	22.8	6.5	15.1	19.8	23.1
Volume	1.88	2.94	3.93	5.67	5.51	8.8	2.4	5.2	7.52	9.38

ž Between 1992 and 2001, total wine imports about quadrupled while imports from the U.S. increased more than 23 times. The U.S. share of the market has also continuously increased, reaching a new record high, 24.5% by value, in 2001.

Table 3: U.S. wine Vs. French wine
Source: KOTIS Data

Variety		U.S.	French
Sparkling	Volume Share	0.6%	70.5%
	Value Share	0.4%	82.8%
	Import Price / Volume	$2.62 /Liter	$4.89 /Liter
Red	Volume Share	16.2%	49.1%
	Value Share	28.6%	51.2%
	Import Price / Volume	$5.89 /Liter	$3.48 /Liter
White	Volume Share	9.2%	22.9%
	Value Share	17.8%	29.6%
	Import Price / Volume	$3.26 /Liter	$2.19 /Liter

ž French wine has traditionally dominated imports. However, the reputation and demand for U.S. wine has grown rapidly. Especially, French wine is not as dominant as it used to be on white wine. English is the most popular foreign language in Korea and consumers often find it easier to select U.S. wine over European products partly because they can read the label. In addition, U.S. is the country which has the biggest Korean population outside Korea and, naturally, Koreans have developed more experiences with U.S. brands.

ž Most competitors are much more export-oriented and putting heavy resources on marketing and pricing supports to expand their market shares in Korea. Competitors major marketing tactics include; tasting seminars, invitation of wine trade and press to overseas wine exhibitions, hosting cultural events coupled with wine promotion, organizing consumer trips to wineries, participating in local food shows with information booths, supporting of local wine schools, working closely with local wine experts and helping them to get educated in export countries. In comparison, U.S. wine industry is in general domestic market oriented and often overlooks opportunities and potentials of Korean market, which in many cases makes it difficult for local importers to build long-term business relationships with U.S. wineries.

7. Local Production

ž Korean wine grape production is negligible. *The Korea Food Yearbook '01* predicts wine grape production will gradually disappear due to the high cost of vineyards and a lack of

international competitiveness in quality. Korea's winter is too cold and summer is too rainy to grow quality wine grape. One province government is currently working on making wine from table grape but the project is not moving very well. Another local wine from table grape is under production by a contract with Korean Association of Catholic Churches to be used during service but not for commercial sales.

ž Quite amount of wine is locally bottled from imported bulk wine by three local liquor companies, Doosan Liquor Business Co., Ltd., Jinro Co., Ltd., and Lotte Chilsung Co., Ltd. Bulk wine for local bottling is mainly from Spain, Italy and France but the origin switches quite often as the bottlers always seek the lowest price available. Some of the locally bottled wine is a mixture of imported bulk wine and locally grown table grape wine.

8. Importers List

ž Please contact ATO Seoul directly for importers list.

For further information, contact:
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