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Retail Food Sector

Biennial Market Brief

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Report Highlights:

The retail food sector in Korea is undergoing a rapid change due to the development of modern mass retail businesses, changes in consumer tastes, and the increasing income levels. These developments translate into growing opportunities for imported consumer-ready food products. Total imports of consumer-ready foods from the United States increased by 13.3 percent from the previous year to reach \$851 million in 2006 (Jan. through Nov., CIF value).

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I. Market Summary

A. Korean Retail Industry Overview

The retail sector in Korea¹ has undergone dramatic change ever since the opening of the first hypermarket store in 1993 (E-Mart store by Shinsegae Co.) and the liberalization of mass retail business to foreign ownership in 1996 (Macro, a Dutch retailer, was the first one to enter the market). Modern mass retail businesses such as hypermarkets, grocery supermarkets, convenience stores, and on-line retailers have grown rapidly at the expense of traditional retail outlets, including wet markets and family-oriented small grocers. Growth of these new retailers, coupled with the development of information technology and income levels, has significantly changed the way Korean consumers purchase daily necessities and has also changed consumers' perception of the value and quality of food products.

As of 2005, the size of the overall retail market in Korea is estimated at Won (W²) 157.1 trillion (approximately \$149 billion), a 5.2 percent increase from the previous year. The growth of overall retail market sales has slowed down in recent years due to the sluggish economy and stagnant performance of traditional retailers. However, modern mass retail businesses have continued to expand rapidly, and accounted for 40 percent, or W62.8 trillion, of the market in 2005. Although diminishing, traditional retailers still account for a significant part of the market especially in areas where modern mass retailers have yet to penetrate.

Hypermarkets have become the single largest retail force in Korea, replacing department stores. Hypermarkets currently account for 15.0 percent of overall retail market sales, or W23.5 trillion in 2005. The share of hypermarkets is likely to increase further in the coming year, as there still remains room in the market for an additional 100-200 stores. In particular, expansion of metropolitan areas across the country fuels the growth momentum for hypermarket stores, which target densely populated urban markets.

The growth of the on-line shopping segment has been most remarkable in recent years. The sales of on-line retailers, including Internet shopping, TV home shopping, and catalog shopping, has grown 188.7 percent during the last five years to take 9.7 percent, or W15.3 trillion, of total retail market sales in 2005. Convenience and better assortment have been the driving force behind this explosive growth of on-line shopping in Korea. Of course, dense population and high affinity towards information technology were also the key factors behind this success. It is expected that on-line shopping will become the second largest retail channel in Korea by 2008 provided that the current growth rate is maintained.

Table 1. Breakdown of Korean Retail Market³

| Segment | 2001 | | 2005 ⁴ | | Growth % |
|-------------------|----------------|--------|-------------------|--------|----------|
| | Sales | Share | Sales | Share | |
| Hypermarkets | W10.6 trillion | 8.1 % | W23.5 trillion | 15.0 % | 121.7 % |
| Department Stores | W16.1 trillion | 12.2 % | W17.2 trillion | 10.9 % | 6.8 % |

¹ Korea refers to the Republic of Korea (South Korea) in this report.

² \$1 = W950 as of January 1, 2007

³ Source: Food Distribution Yearbook 2006 (The Monthly Food Journal), The Yearbook of Retail Industry 2006 (Korea Superchain Association), Shinsegae Retail Industry Research Institute Data

⁴ Year 2005 data are the most up-to-date official statistics available currently.

| | | | | | |
|---------------------------------|-----------------|--------|-----------------|--------|---------|
| On-line shopping ⁵ | W5.3 trillion | 4.0 % | W15.3 trillion | 9.7 % | 188.7 % |
| Convenience Stores | W1.9 trillion | 1.4 % | W4.6 trillion | 2.9 % | 142.1 % |
| Chain Supermarkets ⁶ | W2.0 trillion | 1.5 % | W2.2 trillion | 1.4 % | 10.0 % |
| Traditional Retailers | W86.6 trillion | 65.9 % | W91.3 trillion | 58.1 % | 5.4 % |
| Others | W19.6 trillion | 14.9 % | W26.5 trillion | 16.9 % | 35.2 % |
| Total | W131.5 trillion | 100% | W157.1 trillion | 100% | 19.5% |

Total food sales of the retail sector were estimated at W50.2 trillion⁷ for 2005, up 1.5 percent from the previous year. In other words, food sales accounted for about 32 percent of overall retail market sales. Hypermarkets have become the leading retail channel for food products, selling an estimated W12.7 trillion of food products in 2005. The average Korean household spent W292,300 (approximately \$307.7) per month, or 14.4 percent of total monthly expenditures purchasing grocery foods in 2005.

Table 2. Estimated Food Sales by Retail Format⁸

| Year 2005 | Percent of Sales from Food Products ⁹ | Total Food Sales |
|--------------------|--|------------------|
| Hypermarkets | 54.1 % | W12.7 trillion |
| Department Stores | 14.2% | W2.4 trillion |
| Convenience Stores | 41.5 % | W1.9 trillion |
| Chain Supermarkets | 82.4 % | W1.8 trillion |
| On-line shopping | 8.4% | W1.3 trillion |

Table 3. Breakdown of Monthly Expenditure on Grocery Foods by Average Korean Household¹⁰

| Items | 2002 | | 2005 | |
|-------------------------------|----------|--------|----------|-------|
| | Spending | Share | Spending | Share |
| Grains & Cereals | W48,356 | 19.9 % | W45,652 | 15.6% |
| Meat | W38,601 | 15.9 % | W41,596 | 14.2% |
| Milk & Dairy products | W19,229 | 7.9 % | W22,102 | 7.6% |
| Fishery products | W29,138 | 12.0 % | W32,632 | 11.2% |
| Vegetables including Seaweeds | W34,997 | 14.4 % | W39,917 | 13.7% |
| Fruits | W22,266 | 9.2 % | W33,505 | 11.5% |

⁵ On-line shopping includes Internet shopping, TV home shopping, and catalog shopping.

⁶ Large supermarket retailers that operate multiple number of stores.

⁷ Source: Monthly Household Spending, National Statistics Office

⁸ Traditional retailers are excluded in this table.

⁹ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

¹⁰ Source: Monthly Household Spending, National Statistics Office (Average size of a household in Korea was 3.3 people as of year 2005)

| | | | | |
|---------------------------------------|----------|-------|----------|-------|
| Seasonings, Oils, Fats | W16,157 | 6.6 % | W17,919 | 6.1% |
| Bakery and Snacks | W15,817 | 6.5 % | W22,634 | 7.7% |
| Tea, Soft drinks, Alcoholic Beverages | W15,578 | 5.7 % | W22,381 | 7.7% |
| Other foods | W4,470 | 1.8 % | W14,049 | 4.8% |
| Total | W243,103 | 100 % | W292,384 | 100 % |

Rapid expansion of hypermarkets and on-line shopping retailers has heightened the competition in the industry in recent years, resulting in mergers and acquisitions (M&A) not only of small, regional retailers by large national retailers, but also consolidation among large retailers. In particular, acquisition of Carrefour Korea (a French -based hypermarket retailer) by E-Land Group and acquisition of Wal-Mart Korea by Shinsegae E-Mart in 2006 took the industry by surprise because these incidents were seen as 'unexpected' victories of local Korean retailers against multi-national competitors.

Competition and consolidation in the industry is expected to remain strong in the coming year as leading retail companies aggressively seek to establish 'horizontally integrated' businesses that encompass the whole spectrum of retail segments. For example, both Shinsegae Co. and Lotte Co., the top two retail conglomerates in Korea, have pursued an active M&A strategy over the years. This strategy includes raising capital from the public stock exchange to expand and operate full-spectrum retail businesses, including convenience stores, grocery supermarkets, department stores, hypermarkets, and on-line shopping (Internet, TV, and catalog). The leading Korean retail conglomerates are also making serious investments into developing Asian countries, including China and Vietnam, in an effort to find new growth opportunities. For example, Shinsegae Co. added two new stores in China in 2006.

Currently, few of the modern mass retailers import food products directly. Rather, retailers tend to purchase from specialized importers. However, retailers of international origin, Costco in particular, do import directly using international sourcing networks. Mass retailers of local origin are seeking ways to increase the assortment of imported foods through direct importing, but any rapid move is unlikely in the near future as they lack experience and expertise on international sourcing. Mass retailers are also paying more attention to private label branded (PB) products, including processed food items, for higher profits and consumer loyalty. But again it will take some years for local mass retailers to catch up with the PB program of international retailers for imported foods.

Growth of modern mass retail businesses has coincided with the rapid development of a modern, large-scale logistics and distribution sector in Korea. Most mass retailers are now equipped with a nationwide, temperature controlled distribution network of trucks and warehouses. However, small to medium size retailers generally rely on third party independent logistics services due to the high overhead cost. Many food importers have their own distribution force covering major metropolitan markets but use third party distributors when supplying stores in suburban regional markets.

B. Consumer Trends

Like consumers everywhere, Korean consumers are looking for better value, convenience, new tastes, and safer and fresher products in their shopping trips.

Due in part to the increasing health awareness of aging consumers, there is a heavy emphasis among the general public on healthy eating. Organic food and wine, among many others, are gaining popularity among health-conscious aging consumers and young mothers. 'Well-being' is another popular theme in the market behind the consumer trend of seeking healthier and more 'wholesome' products. For affluent consumer groups and young professionals, quality and image can be more important factors than price and value when making purchasing decisions.

Korean's long-held strong belief in health-improving functionality of regular foods (as an old Korean proverb says "food and medicine are from the same source") still prevails and contributes to the ongoing trend of seeking functional effects in almost every food they encounter in the market. As a result, sales of functional foods (or regular foods targeting health concerns) with government approved efficacy claims and perceived efficacy based on word-of-mouth remain strong. Glucosamine, Chlorella, vitamins, anti-oxidants, lactic bacteria, antlers, pollen, green tea, fish oil, Ginseng and other Asian herbs are some of the functional ingredients that are popular in the market.

Table 4. Aging Korean Population

| Age Group | 1995 | | 2000 | | 2005 | | Growth |
|-----------|---------------------|--------|--------|--------|--------|--------|--------|
| | Number ¹ | Share | Number | Share | Number | Share | |
| 0-14 | 10,236 | 23.0 % | 9,639 | 21.0 % | 8,986 | 19.1 % | -6.8 % |
| 15-64 | 31,678 | 71.1 % | 32,973 | 71.7 % | 33,690 | 71.6 % | 2.2 % |
| 65 + | 2,640 | 5.9 % | 3,372 | 7.3 % | 4,365 | 9.3 % | 29.5 % |

Source: Korea Statistics Office

Consumer demand for products of higher quality and new taste are increasing along with the growth of income level of Korean consumers. Korean GDP¹² reached \$787.5 billion in 2005, up 15.7% from the previous year. Per capita GNI¹³ also grew by 14.8% to reach \$16,291. Korean government estimates that the per capita GNI will reach \$20,000 for the first time in history in 2008. If the \$20,000 level is realized, Korea would become one of the most affluent countries in Asia following Japan, Singapore, and Taiwan. At the same time, broadening consumer tastes and buying power are creating demands for more diversified quality and price options. For example, while the strong demand for lower prices by the middle to low income consumer group has driven the rapid expansion of hypermarkets, sales of luxury goods of premium quality and price in department stores have also shown strong growth even under the economic slow down in recent years.

Korea's 50 million inhabitants occupy a country the size of the Indiana. About 70 percent of the land is mountainous terrain and over 90 percent of Korean population lives in metropolitan areas, which explains the high population density and land cost. Convenience remains a very important factor behind many consumer trends in Korea as everyday life gets busier. For example, an increased number of dual-income families and single parent households have led to a growing demands for HMR (Home Meal Replacement) products in retail stores.

Mass retailers have actively responded by introducing in-store fast food and deli outlets, prepared food sections, and more microwavable (or ready-to-eat) processed foods. Delivery service is extremely well developed in Korea, as people do not want to waste time on the traffic-jammed roads. Rapid growth of on-line shopping is also rooted partly in the demand for convenience (of course, high land cost is another factor that drives stores to go 'virtual').

¹¹ Unit: 1,000 people

¹² Gross Domestic Production Annual, GDP

¹³ Gross National Income Annual, GNI

C. Food Imports

By nature, Korea depends heavily on imports as the local agriculture and fishery industry alone can only supply 45.7 percent of average caloric intake¹⁴. Roughly 70 percent of all food in the market is imported. In particular, local production is not capable of meeting increasingly diversifying consumer tastes for international products and the demand for wider price and quality options.

Table 5. Imports of Agricultural, Forestry, and Fishery Products into Korea (Year 2006, Jan. through Nov., CIF value)¹⁵

| Category | From the World Total | | From the U.S. | |
|-------------------|----------------------|--------|---------------|--------|
| | Value | Growth | Value | Growth |
| Basic Commodity | \$2.9 Billion | 0.7% | \$1.3 Billion | 44.7% |
| Intermediary | \$4.0 Billion | 10.7% | \$740 Million | 5.5% |
| Consumer-Oriented | \$4.4 Billion | 16.2% | \$851 Million | 13.3% |
| Forestry | \$1.9 Billion | 13.6% | \$153 Million | -2.2% |
| Fishery | \$2.4 Billion | 14.9% | \$124 Million | -5.0% |
| Total | \$15.6 Billion | 11.2% | \$3.2 Billion | 20.2% |

Growth of modern mass retailers and changes in consumer tastes are translated into growing opportunities for imported consumer-ready food products. According to official import statistics, total imports of consumer-oriented foods in 2006 (Jan. through Nov., CIF Value) increased 16.2 percent from the previous year to reach \$4.4 billion, while imports from the United States also grew by 13.3 percent to reach \$851 million. "One-stop" themed hypermarkets and large supermarkets have become the major retail channel for imported foods as they offer a shopping environment where imported products can better compete against locally manufactured or grown products. In addition, large retailers are seeking ways to increase their assortment of imported foods in an effort to differentiate their stores from competitors.

The outlook for U.S. exports to the Korean retail sector is excellent for beef¹⁶, pork, poultry, seafood, processed vegetables, fruits, nuts, dairy products, juices, alcoholic beverages, condiments, sauces, cooking oils, organic foods, coffee, snacks, and confectioneries. In addition, on-going trade liberalization will create new opportunities for those products that are currently face restrictive import barriers in the form of tariffs, quotas and food safety regulations.

Table 6. Advantages and Challenges Facing U.S. Products in Korea

| Advantages | Challenges |
|---|---|
| Korea is a 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 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 means to restrict imports. |

¹⁴ Korean Government Annual Report containing 2005 official agricultural data issued on December 2006.

¹⁵ Source: Korea Trade Information Service (KOTIS), Korean Government

¹⁶ Current regulation allows imports of deboned skeletal muscle meat of cattle under 30 months old from pre-approved slaughter houses only.

| | |
|---|---|
| Korea, by nature, depends heavily on imports for its food and agricultural needs. | Consumers hold negative perceptions about GMO products. Retailers fear reprisal from anti-GMO activists and, consequently, refuse to stock any product that would have to be labeled "Contains GMO". |
| Liberalizations of import barriers improve market accessibility and price competitiveness of imported U.S. products. | Imports of many products face restrictive trade barriers, including high tariffs, volume quotas, safety documentation requirements, and Korean language labeling regulation. Certain food additives approved for use in the United States may not be approved in Korea. |
| Growth of modern mass retail businesses offers new opportunities to imported consumer oriented products. Large retailers seek a way to increase the assortment of imported products to differentiate from competitors. | Few large retailers import directly. Local retailers in general lack experience and expertise for international sourcing. Markets outside metropolitan areas have low access to imported foods. Most retailers require minimum two thirds of designated shelf life left for imported products upon delivery to the warehouse. |
| Due to the long history of economic and political ties between Korea and the United States, Korean consumers are familiar with American products and food trends. English is the most popular foreign language for Koreans. | High margins/markup on imported products coupled with import tariffs and taxes deteriorate price competitiveness of many imported products against locally grown or manufactured products. |

II. Road Map for Market Entry

A. Modern Mass Retail Businesses - Hypermarkets, Grocery Supermarkets, Convenience Stores, Department Stores, On-line Retailers

A-1. Entry Strategy

Establishing Korean Partner:

Thorough research about the market and related regulations is necessary for any U.S. exporter who seeks entry into the Korean retail market. Korea has well established regulations and procedures on food imports, as well as complex tariff and tax codes, which often make an entry of a new-to-market product a time consuming process. In addition, certain food additives approved for use in the United States may not be approved in Korea. U.S. exporters must be willing to conform exactly to the Korean labeling and documentation requirements. Working with established importers is the approach that has been proven most efficient in overcoming these challenges.

? Established importers are well aware of market intelligence, local business practices, distribution channels, and most of all are the best source for up-to-date information on government food import regulations.

? ATO Seoul maintains listings of established Korean importers by product or by industry, which are available at no cost to U.S. exporters. ATO Seoul also feeds trade lead information from Korean importers to State Regional Trade Groups (SRTGs), which are disseminated to U.S. exporters through the network of the state department of agriculture or trade promotion agency. ATO Seoul regularly organizes Korean buyer missions in cooperation with SRTGs and

agricultural cooperators to major food shows in the United States, such as the FMI Show and the NRA Show, for matchmaking with U.S. exporters.

? Exhibiting in a Korean food trade show can be a cost-efficient way to meet with a large number of key Korean importers/traders. Currently, the Seoul Food & Hotel (SFH)¹⁷ is the only show in Korea endorsed and supported by U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Exporters who are considering exhibiting at any Korean show may contact ATO Seoul for guidance and information because most local shows are consumer-oriented and are not particularly efficient for promoting new-to-market products.

? The type of business relationship agreed between the U.S. exporter and the Korean importer may vary from joint investment partnership, to exclusive agent, to non-binding broker. The type of relationship mainly depends on how the exporter sees the role of the importer in market development. The most common practice is maintaining a non-binding seller-buyer relationship during the test-market period and then upgrading to a more binding option if the market shows bigger potential.

? There are many items that the U.S. exporter should follow closely with the importer during the initial stage of market entry. The Korean government maintains very strict regulations on food imports and requires various certificates/documents and product information before approving import of a new-to-market food product. Therefore, the exporter must provide the importer with the necessary documents and information to submit to the government authorities. More detailed up-to-date information on the Korean food safety and labeling regulations can be found in the FAS report #KS6080 (Korean Food and Import Regulations Standards Report Year 2006, www.fas.usda.gov).

? New-to-market U.S. exporters should pay attention to protecting the company/product trademark and patents, which can be easily handled by working with the Korean partner or through local attorneys. For more information, see the Korea Industrial Property Rights Information Service website at: <http://eng.kipris.or.kr> or the Korea Institute of Intellectual Property website at: <http://www.kiip.re.kr/eng>.

U.S. brokers or export middlemen may get involved in the entry of a new-to-market product into Korea especially when the original U.S. supplier (manufacturer or producer) is not interested in export business or when the volume of business is small. Although Korean importers in general prefer to work directly with the original supplier, using experienced brokers or middlemen can be a more efficient way to find established Korean importers. For those large retailers who import directly, Costco Korea in particular, working directly with the purchasing network of the retailer in the United States can be a way to gain entry into Korea.

Understanding Local Tastes:

All foods sold in retail stores in Korea, whether traditional or imported, reflect the contemporary dietary culture of Koreans. Even those new-to-market imported foods that recently appeared on the shelf mirror the on-going trends and tastes of local consumers. Accordingly, a good understanding of trends and local tastes is the key to make a successful entry into the Korean market. At the same time, considering the rapid evolution of the sector, it is very important to be kept informed of the changes in the tastes of Korean consumers to stay ahead of the competition. A rule of thumb is that new food trends in Korea are two to five years behind Japan, a reference market that Korea has followed for the last 50 years when accepting western culture and products, although the time gap between the two countries seems to be narrowing.

¹⁷ April 24-27, 2007 (www.seoulfood.or.kr)

Meeting the Korean consumer's tastes could mean anything from modifying packaging material and design, to reducing unit size, to adding or reducing ingredients. Package design, in particular, is a very important factor in Korea and exporters should consider developing a new design that can better attract Korean consumers. Although most Koreans read English, adding Korean on the package design can improve the level of exposure on the shelf. The current trends in package design include "freshness", "new tastes", "fun", and "environmentally friendly" themes.

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. Exporters should discuss the design of the Korean language label with the importer. Korean language labels are in general designed and printed by the importer and hand-attached to the products in the duty free warehouse before the customs inspection.

A-2. Market Structure and Product Flow

Few mass retailers currently import food products directly. Instead, purchasing managers of the retail company in general rely on independent importers for imported products. These purchasing managers tend to be risk averse and many are not familiar with foreign products or brands. Furthermore, many retailers maintain the policy of rotating purchasing managers among different product categories every two to three years to prevent corruption or job abuse. Consequently, few local purchasing managers have the expertise and experience necessary for direct international sourcing. This limits the entry of new-to-market products to the Korean retail sector. The independent importers are required to bear a great amount of the risk when placing a new product on the shelf. As a result, importers tend to add high markups to new-to-market products to cover potential losses.

In contrast, mass retailers who do direct importing, Costco Korea in particular, take aggressive positions in introducing new-to-market imported products by adding much lower markups. Korean agents of foreign food exporters are another force that handles a significant amount of imported food traffic in the sector. Independent importers and agents may supply mass retailers directly, but may use wholesalers or brokers when supplying small retail stores or traditional retail outlets in suburban markets.

It takes at least two weeks for a container ship from a western U.S. port, and four 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. In rare occasions, small-volume-high-value products, such as premium wine and beef, are brought via air cargos through Incheon International Airport (ICN).

The amount of time that the product sits in the port of entry for food safety inspection and customs clearance process varies from one day to a few weeks largely depending on the type of product. The detailed laboratory inspection that all new-to-market products and randomly selected returning¹⁸ 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 allowed for products that have previously cleared inspection may be completed within a couple of hours.

Once the products are cleared from the customs office, they are transported to the importer's warehouse for storage. Importers may have warehouses in more than one location (in the case of alcoholic beverages, up to two warehouses are allowed). From the

¹⁸ 'Same Product from Same Origin' rule allows quick "documentary inspection" on imported products that have been imported regularly in the past.

importer's warehouse(s), products are distributed to retailers' warehouses (major mass retailers now have a network of "distribution-hubs" across the country, each of which services all stores in a given province or market), or directly to individual retail stores when the volume of transaction is less than the minimum volume requirement set by the retailer's distribution hub. Many importers are using third party logistics services for warehousing and trucking because of the high overhead cost. When the supply chain includes wholesalers or middlemen between the importer and the retailer, products from the importer's warehouse are distributed via the wholesaler's warehouses.

However, distribution of product to department stores is quite different from the above path. In Korea, a department store's grocery section operates as a collection of individual food retail outlets occupying space leased from the store. In addition to a fixed amount of lease deposit paid up front, each tenant pays the department store a pre-agreed percentage of its sales every month. Consequently, distribution of imported foods to the department store involves a multiple number of importers and logistics services, which is an inefficient system and results in higher markups on the products sold. This is why the department stores in general focus on high-value, premium products. Each tenant is solely responsible for the procurement and inventory management. The department store reserves the right to extend or end the lease contract with tenants every two to three years based on the sales performance. Department stores are less interested in operating the grocery section directly, as they perceive grocery products to be less profitable than non-food products.

The city of Seoul (capital city of Korea) and the surrounding area within a 60 miles radius account for about half of the national population and over 70 percent of total retail sales in Korea. Aggravating traffic conditions and high real estate costs in this area can make distribution of products time consuming and costly. Due to the difficulty of building additional mass retail stores in Seoul, traditional markets and small independent retail outlets still take a significant portion of the food retailing. However, large supermarkets and hypermarkets are expected to gradually replace traditional retailers even in old metropolitan markets. The expansion of hypermarkets and chain supermarkets has been more obvious in newly developed towns in and around Seoul where preplanning of land usage allowed easier entry of mass retail stores. Penetration of convenience stores has been a lot easier and faster in old metropolitan areas and has rapidly replaced a large number of mom-and-pop grocers.

The amount of slotting fee that the retailer would charge for adopting a new product varies depending on the market potential of the product. Local retail stores are eager to add new products to their shelves as they strive to meet the consumer's strong demand for new tastes. However at the same time retailers are very concerned about the risk of carrying something new. Consequently, local retailers often ask for promotional support instead of slotting fees for new products. Promotional support may include in-store advertisement, in-store free sampling, and point of purchase (POP) sales promotions such as sweepstakes, coupons, and games. Free sampling is the most common tactic used. Thus Korean retail stores always have many 'sampling ladies' working in the store. In-store promotions are highly recommended for launching new-to-market products since local consumers are strongly influenced by such educational experiences when making a buying decision on new products.

Most of the leading retail companies in Korea are horizontally integrated and operate across the full spectrum of retail businesses, encompassing department stores, hypermarkets, supermarkets, convenience stores, and on-line shopping. For example, Lotte Shopping Co. has under its umbrella "Lotte" Department Stores, "Lotte Mart" hypermarkets, "Lotte Lemon" supermarkets, "Seven Eleven" convenience stores, "Lotte TV home shopping", and

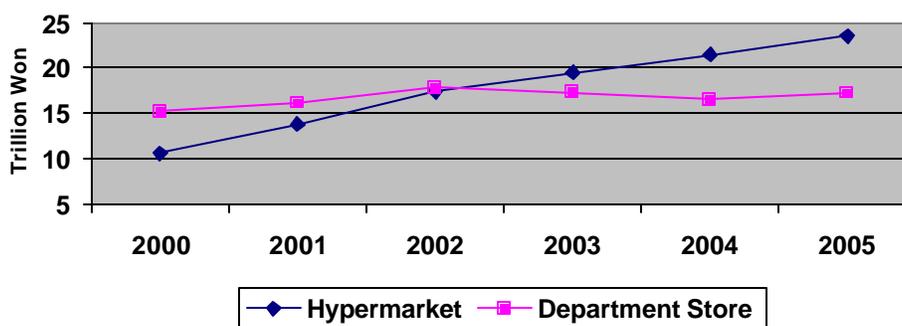
"Lotte.com" Internet shopping mall. Entry into one part of an integrated retailer can lead to an access to the whole system.

A-3. Sub-Sector Company Profiles

A-3-1. Hypermarkets

The rapid growth of hypermarkets continued in 2005 with the opening of an additional 31 new stores across the nation. Room still remains for an additional 100 to 200 new hypermarket stores in this market, according to industry experts. However, consolidation among competitors is expected to continue. Korea's leading retail companies are seeking expansion into foreign markets, especially China and Vietnam, for new growth opportunity. Wal-Mart Korea pulled out of the Korean market in 2006 by selling all 16 stores to Shinsegae Co. (E-Mart, the market leader), shortly after Carrefour Korea's announced withdrawal from the Korean market (E-Land Retail Co., Ltd. won the bid for 31 Carrefour stores in Korea).

Picture 1. Hypermarket vs Department Store Sales



Now Costco Korea and Home-Plus (by Tesco) are the only two hypermarket chains owned by foreign retailers. The growth of this segment has been mainly driven by a few leading companies as evidenced by the fact that the top three chains accounted for 24 out of the 31 new stores opened in 2005. The market share of the top five companies has continued to rise from 50.5 percent in 2000 to 82.3 percent in 2005.

Table 7. Description of An Average Hypermarket Store in Korea (2005)¹⁹

| | |
|---------------------------------------|---|
| Annual Sales | ₩80 billion |
| Share of Foods in Total Sales | Fresh Foods: 25.9% Processed Foods: 23% Fast Foods: 3.4% Other Foods: 1.8% |
| Average Value of Product in Inventory | ₩2.5 billion |
| Size of Store | 15,964 square meter |
| Number of Employees | 131 full-timers, 97 part-timers, 181 promoters from suppliers |
| Number of SKU | 46,908 (25,494 in 2001) |

¹⁹ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

| | |
|------------------------------|---------|
| Number of Consumers Daily | 6,739 |
| Per Consumer Purchase Amount | W33,704 |

Table 8. Profile of Major Hypermarket Chains (2005)²⁰

| Company Name | Store Name | Ownership | Annual Sales | Stores | New Stores |
|-------------------------------|-------------|-----------|---------------|--------|-----------------|
| Shinsegae Co. | E-Mart | Korea | W8.1 trillion | 83 | 10 |
| Samsung Tesco Co., Ltd. | Home Plus | U.K. | W4.6 trillion | 40 | 7 ²¹ |
| Lotte Shopping Co. | Lotte Mart | Korea | W3.2 trillion | 43 | 7 |
| Carrefour Korea ²² | Carrefour | France | W2.0 trillion | 31 | 4 |
| KAC Inc. ²³ | Hanaro Club | Korea | W1.6 trillion | 16 | 1 |
| Mega Mart Co., Ltd. | Mega Mart | Korea | W0.8 trillion | 9 | 0 |
| GS Retail Co., Ltd. | GS Mart | Korea | W0.8 trillion | 13 | 2 |
| Wal-Mart Korea ²⁴ | Wal-Mart | U.S. | W0.8 trillion | 16 | 0 |
| Newcore Co., Ltd. | Kim's Club | Korea | W0.5 trillion | 11 | 1 |
| Costco Korea | Costco | U.S. | W0.4 trillion | 5 | 0 |

A-3-2. Grocery Supermarkets

Although traditional independent grocery stores have given way to hypermarkets and convenience stores, the consolidation of the industry has left room for large size grocery supermarkets to grow. In particular, large grocery supermarkets target regional markets of population less than 100,000, where the collective buying power is not big enough to support the entry of a hypermarket store.

Merger and acquisition have also prevailed in the supermarket segment in recent years, favoring expansion of stores under leading retail conglomerates at the expense of regional small-scale companies. Major supermarket chains have spent the last ten years restructuring their businesses to reposition stores in the niche between hypermarkets and convenience stores. The restructuring has resulted in an aggressive "scrap and build" process in which a considerable number of existing stores were replaced by larger new stores in new locations. New stores emphasize improved assortment (bigger HMR²⁵ section, more fresh products), convenience (ground floor location, parking lot), and customer service (home delivery, in-store service outlets such as pharmacy, laundry and bank).

²⁰ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association), Food Distribution Yearbook 2006 (Monthly Food Journal)

²¹ Including 3 stores from the acquisition of Aram Mart Co., Ltd. in 2005

²² Sold to E-Land Retail Co., Ltd. in 2006.

²³ KAC: Korean Agricultural Cooperative Inc.

²⁴ Sold to Shinsegae Co. in 2006

²⁵ HMR: Home Meal Replacement

Table 9. Description of an Average Grocery Supermarket in Korea (2005)²⁶

| | |
|-------------------------------|---|
| Annual Sales | W7.7 billion won |
| Share of Foods in Total Sales | Fresh Foods: 38.7% Processed Foods: 41.5% Other Foods: 2.2% |
| Size of Store | 1,631 square meter |
| Number of Employees | 14 full-timers, 12 part-timers |
| Number of SKU | 7,388 SKU |
| Number of Consumers Daily | 1,383 |
| Per Consumer Purchase Amount | W15,328 |

Table 10. Profile of Major Supermarket Chains (2005)²⁷

| Company Name | Store Name | Annual Sales | Total Stores | New Stores | Stores Closed |
|--------------------------------------|------------------|--------------|--------------|------------|---------------|
| GS Retail Co., Ltd. | GS Supermarket | W691 billion | 83 | 10 | 2 |
| Seowon Utong Co., Ltd. | Top Mart | W475 billion | 40 | 5 | 3 |
| Lotte Shopping Co. | Lotte Super | W439 billion | 46 | 8 | 2 |
| Haitai Utong Co., Ltd. ²⁸ | Haitai Mart | W157 billion | 32 | 0 | 1 |
| Samsung Tesco Co., Ltd. | SuperExpress | W130 billion | 18 | 14 | 3 |
| CS Utong Co., Ltd. | Goodmorning Mart | W107 billion | 15 | 2 | 0 |

A-3-3. Convenience Stores

The strong expansion of convenience stores under large-scale franchise management has continued in recent years at the expense of traditional mom-and-pop grocery stores. The year 2005 alone saw the opening of 1,364 new stores across the nation. The total number of convenience stores in Korea reached 9,085 at the end of 2005 and another 1,000 to 2,000 new stores are expected to open every year in the coming year. Introduction of more meal replacement products, including fast foods, and private label branded (PB) products have been the segment's top priority in product assortment in recent years. Another area of emphasis has been to add more non-product services, including postal service, quick delivery, banking, and photo processing, to increase consumer traffic to stores.

Table 11. Description of an Average Convenience Store in Korea (2005)²⁹

| | |
|--------------|------------------|
| Annual Sales | W548 million won |
|--------------|------------------|

²⁶ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

²⁷ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association), Food Distribution Yearbook 2006 (Monthly Food Journal)

²⁸ Sold to E-Land Retail Co., Ltd. in 2005

²⁹ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

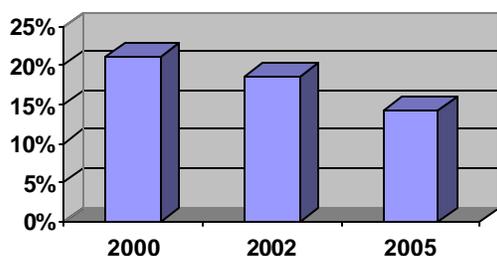
| | |
|-------------------------------|--|
| Share of Foods in Total Sales | Beverages: 8-11% Liquor: 4-8% Snacks: 5-7% Daily delivery fresh foods: 10-18% Processed: 4-7% Fast Foods: 2-6% Tobacco: 35-45% |
| Size of Store | 89 square meter |
| Number of Employees | 4 |
| Number of SKU | 2,500 SKU |
| Number of Consumers Daily | 533 (706 in 2001) |
| Per Consumer Purchase Amount | ₩2,800 |

Table 12. Profile of Major Convenience Store Chains (2005)³⁰

| Company Name | Store Name | Annual Sales | Total Stores | New Stores | Stores Closed |
|------------------------------|--------------|---------------|--------------|------------|---------------|
| Korea Seven Co., Ltd. | Seven Eleven | ₩650 billion | 1,238 | 124 | 0 |
| Bokwang Familymart Co., Ltd. | Familymart | ₩1.2 trillion | 3,152 | 576 | 189 |
| GS Retail Co., Ltd. | GS25 | ₩967 billion | 2,060 | 306 | 110 |
| Ministop Korea Co., Ltd. | Ministop | ₩428 billion | 925 | 83 | 82 |
| Buy The Way Co., Ltd. | Buy The Way | ₩398 billion | 997 | 230 | 75 |
| SK Networks Co., Ltd. | OK Mart | ₩45 billion | 305 | 39 | 9 |

A-3-4. Department Stores

Picture 2: Share of Foods in Department Store Sales



The rapid expansion of hypermarkets and on-line retailers has suppressed the growth of the department store segment in recent years and has resulted in active merger and acquisition of independent regional department stores by large national chains. Consequently, the market share of the top three department store chains has continuously risen to take 78 percent of total department sales in 2005, which is a significant increase from 41 percent in 1998. Currently, there is a heavy emphasis in the segment to reposition product assortment and customer service to target more affluent

consumer groups. The goal of this strategy is to differentiate the segment from value-oriented hypermarkets and on-line retailers. Leading companies have initiated expensive store renovation programs to adopt a premium look and product assortment. The share of food products in overall department store sales has been on a gradual decline since the

³⁰ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

advent of other modern mass retail businesses. However, it is likely that department stores will remain the leading distribution channel for imported foods of premium quality and price in the coming year.

Table 13. Description of An Average Department Store in Korea (2005)³¹

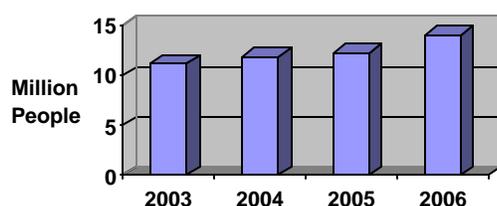
| | |
|-------------------------------|--|
| Annual Sales | W147 billion won |
| Share of Foods in Total Sales | 14.2 % |
| Size of Store | 30,449 square meter (17.8 % of the space is leased out to independent retailers) |
| Number of Employees | 251 full-timers, 66 part-timers, 842 promoter staff paid by suppliers |
| Number of SKU | 220,000 SKU |
| Number of Consumers Daily | 11,729 (17,515 in 2001) |
| Per Consumer Purchase Amount | W47,400 |

Table 14. Profile of Major Department Store Chains (2005)³²

| Company Name | Store Name | Annual Sales | Stores | New Stores |
|------------------------------------|----------------------------|---------------|--------|------------|
| Lotte Shopping Co. | Lotte Department Store | W8.6 trillion | 19 | 0 |
| Shinsegae Co. | Shinsegae Department Store | W1.9 trillion | 6 | 0 |
| Hyundai Department Store Co., Ltd. | Hyundai Department Store | W0.8 trillion | 6 | 0 |

A-3-5 On-line Retailers

Picture 3. Number of High-Speed Internet Subscribers



Changes in consumer life-style and development of information technology have fueled the rapid growth of on-line retailing, which includes internet shopping, TV home shopping, and catalog shopping. Currently three out of four Koreans use internet on a regular basis.³³ In particular, the size of the population that has access to high-speed internet service has increased rapidly, which is vital for the penetration of e-commerce in the daily life of regular consumers.

Virtually all kinds of food products that are found in conventional retail stores are available on-line since conventional retailers now operate internet stores coupled with home delivery service. Furthermore, on-line shopping has greatly expanded the assortment of products available, in particular to those consumers in suburban areas where modern mass retailers are yet to penetrate. However, most of the sales of food products through on-line retailing are focused on a limited number of "well-known" or "reputable" existing products as many consumers still do not feel comfortable with on-line purchasing of foods with which they have little personal experience. Obviously price and convenience are the two leading factors that make people shop on-line.

³¹ Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

³² Source: The Yearbook of Retail Industry 2005 (Korea Superchain Association)

³³ Source: Korea National Internet Development Agency (NIDA), June 2006

It is expected that leading players in the conventional retail industry will also become the major players in the on-line retailing segment as all leading retail companies seek to build up their on-line capacity. Market experts agree that maximizing synergy between the conventional retail network and the on-line technology will be the key in winning the competition in the on-line market.

Table 15: Internet Connectivity in Korean Households (June, 2006)³⁴

| Age of Leading Household Member | Rate of Internet Access at Home |
|---------------------------------|---------------------------------|
| 20's | 90.3% |
| 30's | 92.4% |
| 40's | 90.7% |
| 50's | 49.6% |
| Total | 76.1% |

Table 16: Annual Sales of On-line Retail Segment³⁵

| | 2001 | 2003 | 2005 | 2008 (forecast) |
|---------------------------------|---------------|----------------|----------------|-----------------|
| Catalog Shopping | W1.1 trillion | W700 billion | W580 billion | W650 billion |
| TV Home Shopping ³⁶ | W2.6 trillion | W4.2 trillion | W4.3 trillion | W5.3 trillion |
| Internet Shopping ³⁷ | W1.7 trillion | W6.6 trillion | W10.4 trillion | W18 trillion |
| T-Commerce ³⁸ | 0 | 0 | 0 | W60 billion |
| M-Commerce ³⁹ | 0 | 0 | W10 billion | W900 billion |
| Total | W5.4 trillion | W11.5 trillion | W15.3 trillion | W24.9 trillion |

Table 17: Breakdown of On-line Shopping Sales⁴⁰

| Ranking | Category | 2003 | 2005 |
|-----------|---|-------------|-------------|
| 1 | Home Electronics | 18.3% | 16.8% |
| 2 | Fashion & Clothing | 10.3% | 14.8% |
| 3 | Computer Products | 12.9% | 9.6% |
| 4 | Home & Garden & Car | 11.6% | 9.9% |
| 5 | Tourism & Travel | 7.4% | 15% |
| 6 | Cosmetics | 6.6% | 5.5% |
| 7 | Books | 4.9% | 4.6% |
| 8 | Processed Foods & Beverages & Health Foods | 4.0% | 5.0% |
| 9 | Sports & Leisure Goods | 4.1% | 3.7% |
| 10 | Fresh Agricultural & Fisheries | 4.2% | 2.7% |
| 11 | Child & Baby Goods | 2.7% | 3.8% |
| 12 | Helps & Labor | 3.2% | 0.9% |
| 13 | Audio & Video Material | 1.4% | 0.9% |
| 14 | Office Supplies | 0.9% | 1.0% |
| 15 | Computer Software | 1.0% | 0.9% |
| 16 | Flowers | 0.5% | 0.4% |
| | Others | 5.9% | 4.5% |
| | Total | 100% | 100% |

³⁴ Source: Korea National Internet Development Agency

³⁵ Source: The Yearbook of Retail Industry 2006 (Korea Superchain Association)

³⁶ Sales of both home shopping channels and infomercials in cable and satellite TV.

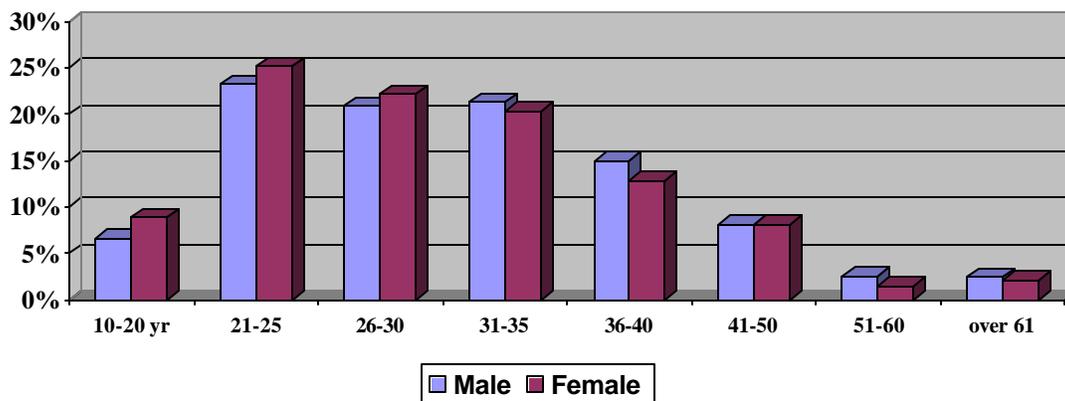
³⁷ Sales of both commercial Internet shopping malls and Internet open markets (such as auction).

³⁸ T-commerce is an interactive TV home shopping tool tied with regular TV programs.

³⁹ M-commerce is an on-line shopping tool utilizing cellular phones or other mobile communication.

⁴⁰ Source: Korea Statistics Office

Picture 4. Breakdown of On-line Shoppers by Age (2005)



Picture 5. Per Purchase Value of On-line Shopping (2005)

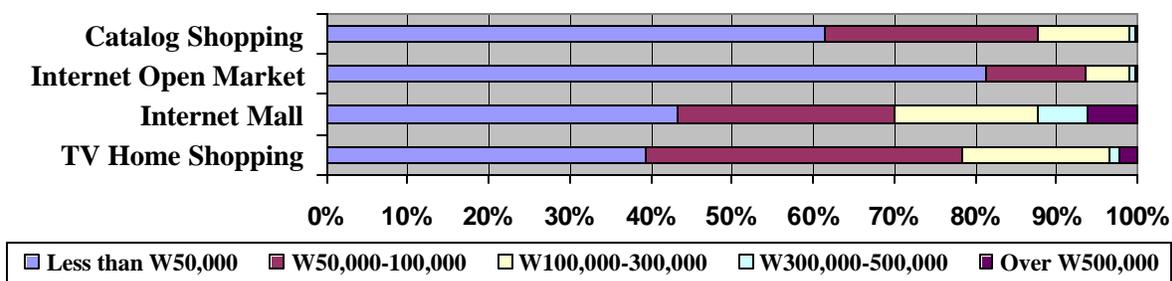


Table 18. Profile of Major On-line Retailers (2005)⁴¹

| Retailer Name | Sales ⁴² | Business Type | Internet Site |
|------------------|---------------------|--|-------------------|
| GS Home Shopping | W526 billion | TV home shopping Internet shopping mall Internet marketplace ⁴³ Catalog shopping | www.gseshop.co.kr |
| CJ Home Shopping | W452 billion | TV home shopping Internet shopping mall Catalog shopping | www.cjmall.com |

⁴¹ Source: Company IR Information

⁴² New local fiscal regulation defines the sales of on-line retailing as the amount of commission fee the on-line retailer receives from the transaction since the on-line retailer works as intermediary between the suppliers and the buyers. Therefore, the actual value of products distributed by the on-line retailer is much bigger than the sales figure in the fiscal data.

⁴³ Internet Marketplace is an on-line virtual marketplace where buyers and sellers transact freely and frequently while the owner of the marketplace collects a pre-agreed percentage of the transactions as commission. In contrast, there is only one seller (store) in the Internet shopping mall.

| | | | |
|-----------------------------------|--------------|--|------------------------|
| Hyundai Home Shopping | W285 billion | TV home shopping Internet shopping mall | www.hmall.com |
| Woori Home Shopping ⁴⁴ | W246 billion | TV home shopping Internet shopping mall | www.woori.com |
| Nongsoosan Home Shopping | W199 billion | TV home shopping Internet shopping mall | www.nseshop.com |
| Shinsegae I&C | W184 billion | Internet shopping mall | www.mall.shinsegae.com |
| Auction | W154 billion | Internet marketplace | www.auction.co.kr |
| Yes24 | W143 billion | Internet shopping | www.yes24.com |
| Daum Onket Co., Ltd. | W135 billion | Internet marketplace | www.onket.com |
| Interpark G-Market | W104 billion | Internet marketplace | www.gmarket.com |
| Interpark | W94 billion | Internet shopping mall | www.interpark.co.kr |
| Lotte.Com | W45 billion | Internet shopping mall | www.lotte.com |
| Korea Home Shopping | W29 billion | TV infomercial | www.ezket.co.kr |
| Samsung Corporation | N/A | Internet shopping mall | www.samsungmall.com |

A-3-6. Franchise Specialty Food Retailers

Although currently taking a small portion of the overall food retail industry, specialty food retailers under franchising arrangements are growing rapidly in Korea. This trend highlights the diversifying tastes of Korean consumers. These stores are specialized in a limited category of products, such as health & beauty (drugstore), wine & liquor, or functional & natural foods, but offer a deep assortment of goods within the category. Due to the smaller space and investment needed, specialty stores are spreading in the metropolitan markets where mass retail stores have limited access.

Table 19. Profile of Major Franchise Specialty Food Retailers (2005)⁴⁵

| Company | Store Name | Sales | Products | Stores | Food Share |
|------------------|--------------|-------------|-------------------------|--------|------------|
| CJ Oliveyoung | Olive Young | W27 billion | Health & Beauty, Drugs | 31 | 15% |
| W Store | W Store | W4 billion | Heal & Beauty, Drugs | 32 | 30% |
| GS Retail | Watsons | W3 billion | Health & Beauty, Drugs | 7 | N/A |
| Hansalim | Hansalim | W64 billion | Organic & Natural Foods | 69 | Over 90% |
| Hankyoreh Plus | Chorok Maeul | W54 billion | Organic & Natural Foods | 196 | Over 90% |
| ORGA Whole Foods | ORGA | W26 billion | Organic & Natural Foods | 18 | Over 90% |

⁴⁴ Sold to Lotte Shopping Co. in 2006

⁴⁵ Source: The Yearbook of Retail Industry 2006 (Korea Superchain Association)

B. Traditional Retail Businesses - Wet Markets and Mom-and-Pop Grocers

The traditional wet markets and independent, family-owned stores accounted for about 58 percent of total retail sales in Korea as of 2005. Traditional retailers still prevail in old metropolitan areas where traffic and real estate infrastructure make the entry of large size hypermarkets or department stores physically difficult. A ban on mass retailers' shuttle bus operations enforced by the Korean government in July 2001 has somewhat restricted the reach of mass retailers to these areas. However, the on-going development of old neighborhoods in metropolitan areas is likely to expand prospects for mass retail stores. At the same time, as car ownership is now quite common for most Korean families, more consumers are willingly driving a long distance to a hypermarket or large supermarket store, seeking lower prices, better assortment, and one-stop shopping convenience. The Korean government's strong initiative to identify the actual income of small independent businesses by reinforcing the usage of credit cards and debit cards has further suppressed the profit level of traditional retailers, which now have to comply with elevated tax and social security responsibilities.

Traditional wet markets in Korea take the form of large wholesale markets and local neighborhood markets. They tend to specialize in a limited assortment of fresh products, including produce, fish, and meats, rather than processed foods. Imported products that are distributed in significant volume through traditional markets include fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals, and oils. The wholesale markets serve as major distribution channel to the mom-and-pop grocers and street vendors. Consumers may also purchase at these wholesale markets, and do so to obtain fresh products at a price lower than in a downstream mom-and-pop outlets. Independent wholesale distributors are still playing an important role in supplying suburban regional food retail markets but are facing increasing competition from hypermarkets. With the growth of modern mass retailers, the share of traditional retailers in Korea will continue to decline in the years to come.

III. Competition

Korea has a well-developed food processing industry for both processed and fresh products. Korean food processors compete directly with imported consumer-ready U.S. products. The domestic food industry currently leads the market in many processed products since domestically produced products better reflect the tastes and trends of Korean consumers. Furthermore, Korean consumers are generally biased toward locally grown and manufactured products and willingly pay a premium. However, the Korean food industry depends heavily on imported raw materials and ingredients for almost all processed foods. The United States maintains significant market shares in the supply of raw materials and ingredients to the Korean food processing industry but faces increased competition from export-oriented competitors such as China, Australia, Italy, Chile, and Thailand.

The United States also faces increased competition in consumer-ready foods that are not produced by the Korean food industry. For confectioneries and snacks, European countries and Japan are the major competitors for American exporters. For meats and dairy products, Australia, New Zealand, and France are the major competitors. For fishery products, Norway, China, Thailand, and Vietnam are the major competitors. China and Chile are the major competitors for fresh fruits and produce. The growth of imports from China has been most significant in recent years extending to almost all kinds of consumer-ready products other than those currently banned for food safety issues. On-going trade liberalization is likely to heighten competition in the Korean market for American products in general. For example, the free trade agreement between Korea and Chile, which went into effect in April 2004, has

increased Chile's market share in many products, including wine, fresh table grape, pork meat, and olive oil.

Export promotions by competitors are focused on the areas where competitors have built up significant market shares or where market access has been newly approved by changes in Korean import regulations. Fresh and processed meat (beef, pork, poultry), fresh fruits and vegetables, processed fruits, dairies, seafood, and functional ingredients are some of the areas that competitors are engaging in aggressive promotional efforts.

Weakening of the U.S. dollar against major international currencies, including Korean won, has helped American products gain an edge against competitors in recent years. For example, the value of U.S. dollar decreased against the Korean won by 20.6 percent since January 2004, which means that the import price of American products dropped by 20.6 percent in Korea. Additionally, the Korea -United States free trade agreement has focused attention of Korean importers on American products.

Table 20. Exchange Rate Change

| | Jan. 2004 | Jan. 2005 | Jan. 2006 | Jan. 2007 |
|----------------|-----------|-----------|-----------|-----------|
| Value of \$1 = | W1,186.70 | W1032.10 | W986.80 | W941.10 |

Source: Korea Exchange Bank

IV. Best Product Prospects

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

? The largest and fastest growing categories of imported consumer-ready foods from the United States include:

- (1) Pork meat, chilled or frozen (\$162 million⁴⁶ of imports from the United States, 34.7 percent growth from the previous year)
- (2) Processed meat (\$17.9 million, 40.2 percent growth)
- (3) Frozen fish (\$67 million, 13.9 percent growth)
- (4) Crustaceans (\$5 million, 13.1 percent growth)
- (5) Mollusk (\$3 million, 19.1 percent growth)
- (6) Fresh fruits (mainly oranges, grapes, cherries, \$143 million, 5.8 percent growth)
- (7) Nuts (mainly walnut and almond, \$68 million, 38 percent growth)
- (8) Coffee (\$7.8 million, 34.7 percent growth)
- (9) Soybean oil (\$11.4 million, 40.9 percent growth)
- (10) Chocolate confectioneries (\$37.9 million, 8.2 percent growth)
- (11) Bakery products (bread, pastry, and cake, \$23 million, -1.1 percent growth)
- (12) Processed vegetables (\$49 million, 8 percent growth)
- (13) Processed tomatoes (\$9.3 million, 3.8 percent growth)
- (14) Preserved fruits and jams (\$15.8 million, 4.6 percent growth)
- (15) Fruit juices (\$37 million, 11.6 percent growth)
- (16) Sauces (\$15.5 million, 15.2 percent growth)
- (17) Beer (\$4.8 million, 19.6 percent growth)
- (18) Wine (\$10.1 million, 24.3 percent growth)

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

⁴⁶ Source: All data in Chapter IV are from Korea Trade Information Service (KOTIS), Year 2006, January through November.

? American products are losing market share to lower-priced imported products from competitors in many areas, including:

- (1) Fish fillets (\$45 million, -26.5 percent growth)
- (2) Processed cheese (\$22 million, -4.6 percent growth)
- (3) Fresh/chilled vegetables (\$3.2 million, -9.1 percent growth)
- (4) Processed vegetables (frozen, dried, canned, \$7.1 million, -41.8 percent growth)
- (5) Processed soups (\$2.9 million, -17.4 percent growth)

However, American products still maintain significant market share in these areas and are likely to regain lost shares if exchange rate trends for the U.S. dollar continue to favor U.S. suppliers.

? Despite the growth of overall import volume into Korea, the share of American products remains small in the following products:

- (1) Out of \$34 million of imported preserved/processed fruits and nuts, imports from the United States accounted for only \$3.5 million (135 percent growth).
- (2) Out of \$85.6 million of imported olive oil, imports from the United States accounted for less than \$0.5 million.
- (3) Out of \$106 million of imported processed fish, imports from the United States accounted for less than \$1 million.
- (4) Out of \$172 million of imported processed crustaceans, imports from the United States accounted for \$1.8 million (29.1 percent growth).
- (5) Out of \$10.3 million of imported ice cream, imports from the United States accounted for \$2.2 million (73 percent growth)
- (6) Out of \$231 million of imported hard liquor, imports from the United States accounted for \$3.2 million (-4.7 percent growth).

More aggressive marketing approaches in these areas are likely to expand the market share of American products in the future.

? Although official import data are not available, imports of the following products are likely to increase rapidly in the coming year: processed turkey meat, specialty cheeses, soup and broth, ethnic sauces and spices, prepared foods (packaged Home Meal Replacement products), processed organic products, packaged fresh vegetables, specialty fresh fruits (such as grapefruits, cherries, avocados). Private label branded (PB) products also offer new opportunities to American exporters.

C. Products Not Present Because They Face Significant Barriers

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

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

regulation on animal products. Below lists some of the outstanding import restrictions currently in place for food safety issues:

(1) Value of annual beef meat imports from the United States was as high as \$813 million before the import ban ordered in Dec. 2003 due to the outbreak of "mad-cow-disease" in the United States. Even though the Korean government ostensibly lifted the ban on deboned U.S. beef from cattle under 30 months old in December 2006, it is unlikely that the beef trade will resume to the previous level in the near future.

(2) Korea maintains an import ban on elk antlers from the United States due to the occurrence of Chronic Wasting Disease in the United States. Consequently, American elk antler exporters currently have no access to the Korean market, which imported \$24 million of antlers in 2006, up 13.5 percent growth from the previous year.

? Imported fresh fruits and vegetables, including cherries, oranges, and shelled walnuts, from the United States are subject to a mandatory methyl-bromide fumigation treatment before being shipped to Korea or at the bonded warehouse in the port of entry in Korea. This fumigation can damage the quality of products and shorten the shelf life of the products. In particular, fumigation regulation results in no market for imported fresh organic agricultural products because these products will lose "organic status" once fumigated.

? Many products, including rice, honey, fresh potato, and popcorn, are subject to tariff rate quotas and high out-of-quota tariffs that restrict open market access.

? The Korean Food Additive Code defines specifications and usage standards for individual food additives. Korea utilizes a "positive list" system for food additives meaning any food additive not listed in the code is prohibited. As of January 2007, the code lists 627 approved food additives and the usage standard for each additive on a product-by-product basis. The Korean standard differs from the CODEX standard in some cases and consequently may prohibit entry of American products manufactured solely under the CODEX standard. The home-page of Korea Food & Drug Administration (<http://fa.kfda.go.kr/foodadditivescode.html>) provides detailed information about the food additive code in English. Working with an established importer is the most efficient way to check whether a new-to-market product would meet the Korean standard or not.

V. Post Contact and Further Information

If you have any questions or comments regarding this report, please contact:

Street Address:
U.S. Agricultural Trade Office
Room 303, Leema Bldg.
146-1 Susong-dong, Jongro-gu, Seoul 110-140, Korea

U.S. Mail Address:
Agricultural Trade Office
American Embassy-Seoul
Unit #15550
APO AP 96205-0001

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