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Annual Market Brief

2007

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Report Highlights:

Overall wine imports in the first half of 2007 saw a remarkable growth of 75 percent. Although imports from the United States also showed a significant growth of 33 percent during the same period, American wines lost 2 percent of market share to competitors. While the Korean market presents growing opportunities for American wines, competition from both old and new world competitors is expected to also rise.

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SECTION I. MARKET OVERVIEW

Summary

Overall wine imports continued showing robust growth¹ through 2006 and the first half of 2007, 31 percent and 75 percent in value respectively. Total yearly imports, which only amounted to \$30 million 5 years ago, are expected to exceed \$100 million in 2007 for the first time in history. The rapid growth of wine consumption in Korea is mainly fueled by an increased emphasis on the so-called "well-being" lifestyle among the general public.

Imports from the United States grew 32 percent and 33 percent, respectively, in 2006 and in the first half of 2007. Strong interest in American wines among local consumers and traders reflects the on-going depreciation² of the U.S. dollar against local currency as well as the future opportunities that may arise from ratification of the free trade agreement concluded recently between South Korea and the United States³.

Although U.S. wine exports to Korea continue to grow along with the overall market, the market share of American wines in Korea has seen a continuous decline in recent years, as indicated by another 2 percent drop in the first half of 2007, due to the strong rise of competitors. In particular, Italy jumped to the third largest wine supplier to Korea with a stunning 114.5 percent of growth in the first half of 2007. Nevertheless, American wines are expected to remain one of the top choices of local wine drinkers, as they are firmly positioned in the market as products of good value and unique quality. The close political, economic and tourism ties between South Korea and the United States have also contributed heavily to the popularity of American products in Korea.

Since the Asian economic crisis of late 1990's, the Korean wine market has rebounded quickly, offering growing opportunities for imported wines over a full spectrum of price and quality levels. As consumers become more familiar with wine and more discriminating in their tastes, the wine market is also becoming more diversified with a wider variety of products offered. Consumers are paying more attention to new-to-market wines and are willingly purchasing products from more diverse origins in an effort to expand their experience and knowledge.

American wines primarily target the value-oriented segment of the market. In particular, entry-class products from the United States retailing below 10,000 KRW (roughly \$10.8) a bottle have established a firm presence in the market due to the aggressive marketing efforts of two long-established American suppliers, E&J Gallo and Constellation Brands. The "California label series" co-bottled by the Ironstone Vineyard and Doosan Corporation, a leading local liquor importer/distributor, has also contributed significantly to the expansion of entry-class American wines. Interestingly, Concord grape based "Kosher" American wines, particularly products by the Mogen David Winery under the Wine Group, have also grasped a significant market share in this segment as novice wine consumers have found the sweet, grapy taste familiar and easy drinking.

¹ Unless specified otherwise, growth figures in this brief are calculated on a value basis in comparison to the same period of previous year.

² \$1 = KRW 927 (July 1, 2007), KRW 960 (July 1, 2006), KRW 1,028 (July 1, 2005)

³ Korea and the United States signed a FTA agreement on June 30, 2007 after 18 months of negotiation. The agreement awaits congressional ratification in both countries.

The premium segment of the market for products above 80,000 KRW (roughly \$86)⁴ a bottle is another area in which American wines have enjoyed steady success in Korea. Many affluent local wine drinkers are well traveled and are well informed of world-renowned premium American wine brands. However, the number of bottles allocated to the Korean market by these premium suppliers is very limited. At the same time, many premium American wines are currently not available in Korea not only because of limited production but also because of exporters' little interest in the Korean market.

On the other hand, American wines that target the mid level price segment of the market between 10,000 to 80,000 KRW a bottle are facing tougher competition from both old and new world competitors. It is notable that products from large volume American suppliers in the lower middle-priced segment between 10,000 to 40,000 KRW have created a significant number of brand-royal followers in the market. Standouts in this segment include Robert Mondavi, Kendal Jackson and Chateau St. Michelle.

Advantages	Challenges
Korea, one of the biggest alcoholic beverage markets in the world, has a huge potential for wine.	Wine is still enjoyed only by a relatively small portion of the population.
Wine is firmly positioned in the market as a "healthy" product due to highly publicized health benefits of red wine.	Few food traders possess more than rudimentary knowledge about wine.
Lack of competition from local products, and no serious entry-barriers provide a positive environment for wine import/distribution businesses.	Distributors are placing high mark-ups on wine, which is partly responsible for high prices as compared to other alcoholic beverages.
The distinctive characteristics of American wines are well accepted by many local consumers, especially among the younger set.	Many American wineries are currently not fully committed to export business and rely largely on export brokers for less developed foreign markets, including Korea.
Currency exchange rates currently are favorable for U.S. suppliers.	American wine faces tougher competition from both old and new world competitors.
Wine drinking has not yet achieved a place in the mainstream culture in Korea. By investing at this early stage of market development, U.S. suppliers can secure a solid image as a high quality and good value product, at minimal investment.	Imported wine is subject to complex labeling and tax requirements. New-to-market products must go through a complicated documentation and inspection process.

Local Production

Wine production in Korea is expected to remain negligible as it lacks competitiveness in price and quality against imports. High land prices and unfavorable weather conditions are the major impediments preventing any meaningful commercial local wine industry from evolving. Small amounts of locally grown table grapes are currently used to bottle local souvenir wines

⁴ Due to freight, taxes and mark ups, bottle that sell for \$25 in the United States may sell for 80,000 KRW or more in Korea.

or low-end products to be blended with imported bulk wine. Currently, there is no *Vitis vinifera* grape variety cultivated in South Korea.

Instead of maintaining local vineyards, major Korean liquor companies have switched to either co-bottling with the exporting wineries or importing bulk wines for local blending/bottling. Doosan Corporation Liquor BG and Gooksoondang Brewery (formerly Haitai Liquor) are the most notable players currently operating local bottling and/or co-bottling in foreign wineries. In the first half of 2007, a total of 2.4 million liters of bulk-packaged wines (those shipped in two liter containers or larger) were imported, most of which were for local bottling/blending. Chile and Spain remain the leading suppliers of bulk red and white wine, respectively, to Korea.

There are some fruit wines produced in Korea from locally grown mountain berries (*Bok-boon-ja*). However, these products present no direct competition to imported wines. Rather they have helped the general public develop a taste for table wines. At the same time, the local fruit wine industry offers a growing opportunity for imported bulk berry wines (mostly blueberries) for blending.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Consumption Patterns

Korea is one of the biggest markets for alcoholic beverages in the world. For many, drinking is considered an important part of everyday life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly, mainly because of health concerns, the market is getting many new drinkers from the younger generation and the female population.

Although wine consumption has grown remarkably over the past decade since full-scale market liberalization in 1991, wine is still consumed by a very small population. Wine consumers tend to be high-income urban residents. Wine sales comprise less than 2 percent of total alcoholic beverage sales in Korea. A Vinexpo report indicated that the annual per capita wine consumption of Koreans was 0.5 liters as of 2005. According to a 2004 industry survey, 77 percent of all wine consumption in Korea took place in the Seoul metropolitan market, which represents about 35 percent of total Korean population. In terms of volume, lower-end products under 10,000 KRW a bottle account for 50 percent of all wine consumed in Korea.

Korean tastes are heavily skewed to red wine due to the highly publicized health benefits of drinking red wine. Currently, red wine commends over 75 percent of the market and is not likely to lose its dominant share in the near future. However an increasing number of consumers are becoming interested in white and sparkling wines as the idea of wine-food pairing begins to filter into the market (A large part of the Korean diet is composed of hot and spicy dishes which are best matches for many white and sparkling wines).

Although slowly declining in popularity, beer and Soju⁵ are by far the most consumed alcoholic beverages among the general public. All Soju and most of the beer sold in Korea are manufactured locally and are sold at much cheaper prices than imported wines. For example, one 360 ml bottle of Soju retails for less than 50 cents. Although the consumption of hard liquor has been on a gradual decline in recent years due to increased health concerns,

⁵ Traditional local hard liquor similar to Vodka but now made from imported tapioca. It contains about 19-25% of alcohol.

Soju sales have maintained a steady growth backed by the launch of new products that contain less alcohol (most popular Soju products now contain less than 20 percent alcohol).

Table 1: Sales of Alcoholic Beverages in Korea (by Volume)

Product	2005	2006	Growth
Soju	929,000 Kiloliters	959,000 Kiloliters	3.2 %
Beer	1,837,000 Kiloliters	1,878,000 Kiloliters	2.2 %
Hard Liquor (except Soju)	34,000 Kiloliters	33,000 Kiloliters	- 2.9 %
Wine	25,000 Kiloliters	27,000 Kiloliters	8.7%

Source: The National Tax Service

Retail Market (Off-Premise)

Even though there is no official statistics available, industry analysis indicates that supermarkets (including hypermarkets and discount stores) currently lead wine sales in Korea with about 55 percent of market share (on a volume basis). On-premise distribution channel (restaurants and food service outlets) accounts for another 30 percent. Specialty liquor shops and convenience stores cover 8 percent and 4 percent of the market respectively. It is expected that supermarket channel, in particular hypermarket stores, will gain market share in the coming years as more Korean consumers switch to larger size stores for grocery shopping due to one-stop convenience and better value.

With the rapid expansion of large supermarket stores across the nation, there is less room left for independent wholesalers to play a major role in wine distribution. However, wholesalers still remain active in markets where entry of large-volume retail stores is difficult, such as small suburban areas or old, congested metropolitan areas. Wholesalers also handle most of the wine traffic to small-scale restaurants and bars because local laws do not allow restaurants to buy liquor products from retail stores. Most large-scale food service businesses, such as franchise restaurant chains and five-star hotels, procure wines directly from importers.

Most hypermarkets and large-scale supermarkets now operate a designated wine section in the store and offer quite a large selection of wines to everyday shoppers. A typical hypermarket store carries about 100 to 200 different varieties of wines, most of which are lower-end to middle priced products under 40,000 KRW (roughly \$43 a bottle). Currently, no mass retail chain imports wine directly for their stores except COSTCO. COSTCO Korea purchases some wines directly from wineries but relies on independent importers to handle logistics. However, large retailers may move into direct import business as the size of the market expands.

Although far less in number than grocery supermarkets, there are many stand-alone wine shops and specialty liquor stores, independent or under franchise chain operation, thriving in metropolitan markets which target serious wine consumers. A few of the wine shops, in particular those operated directly by wine importers, offer the largest selections in the market with over 500 different varieties of wines, most of which are middle-priced to premium products above 40,000 KRW a bottle. Convenience stores, most of which are under franchise chain operation, are another emerging player in the market. Although each outlet carries less than a dozen different varieties of wines, convenience stores now offer the most extensive retail network in Korea as the total number of stores across the nation is fast increasing (over 10,000 stores as of May 2007). Currently, there is no zoning regulation in Korea that restricts the number and location of liquor retailers in a given area, which is partly

responsible for the proliferation of liquor retailers throughout Korea. However, on-line sales of beverages containing alcohol through the Internet, mail, or TV home-shopping, are currently prohibited.

About 30 percent of annual wine sales are purchased and given as gifts during the following holidays: Korean Thanksgiving Day ("*Chu-Sok*", September), Christmas, New Year's Day, Lunar –New Year's Day (usually in early February), Valentine's Day (February), and Parent's Day (May). Backed by the on-going "well-being" trends, wines are increasingly replacing traditionally popular gift sets of whiskies or other hard liquors.

Food Service Market (On-Premise)

Demand for wine is rising rapidly in the food service sector as more restaurants and bars seek to serve wine. The kind of products carried varies widely depending on the food and target consumers that each restaurant serves. For example, high-end western cuisine restaurants, such as those in hotels, carry the most extensive wine selections in the sector, most of which are middle-priced to high-end class wines. Wine bars also lead the sector in terms of variety. The number of wine bars and wine restaurants is increasing rapidly in metropolitan areas. One noticeable trend is that an increased number of traditional Korean food restaurants serve wine. In general, sales mark-up on wine is much higher in restaurants and bars than in retail stores. Many wines are available exclusively in restaurants and bars as traders do not want consumers to develop price resistance to their wines by making them also available in retail stores at much lower prices.

Competitors

France remained the biggest exporter of wine to Korea with a 37.6 percent market share by value in the first half of 2007, which is 3.9 percent point higher than the previous year. Interestingly, a Japanese cartoon series, titled "*Water-drops of the Gods*", sold over 300,000 copies in Korea since its publication in Korean language in late-2006 (new volumes keep coming) and contributed greatly to the strong rise of French and Italian wines in Korea by delivering positive images about the wines from these two old world regions not only to experienced wine drinkers but also to those new to wine. This cartoon is credited as jump starting an expansion of wine culture in Korea. Although many Koreans harbor the perception that France is still the source of best quality wines, the market share of French wine in Korea had been on a continuous decline until the *Water-drops of the Gods* revitalized French wine. French products have lost significant market share in entry and mid level segments of the market to value-oriented new world competitors (the United States, Chile, and Australia). The appreciation of the Euro against the U.S. Dollar is further deteriorating price competitiveness of French products. As a response, French suppliers have shifted their primary target to the med level and premium segment of the market, which is less responsive to price fluctuations.

Chilean wine, which took off in early 2004 after implementation of Korea-Chile free trade agreement, continued a strong rise in the first half of 2007 with 75.7 percent growth. Import tariffs on all Chilean wines are scheduled to be eliminated by 2010. Chile surpassed the United States to become the second largest exporter of wine to Korea in 2005. Chile will present tough competition for American wines in the low-end to mid level price segments in the coming years. However, Chilean wine presents little competition for white and sparkling wine.

Capitalizing on a perception that Italian cuisine culture is appealing to Koreans, Italian wine had strong inroads into the Korean market in 2007. Imports during the first half of 2007 were up 114.5 percent. As a result, Italy became the third largest wine exporter to Korea,

pushing American wine to the fourth position for the first time. This explosive growth was mainly led by low-end, easy drinking red and white wines. However, Korean wine aficionados, influenced by reviews of well known wine critics, are also increasingly interested in premium class Italian wines. Italian white wines with small amount of bubbles have started to sell in large volume for the first time in Korea in the second half of 2006. This trend suggests that Korea could become an important market for white wines and sparkling wines in the future.

Although small in overall market share, products from unusual origins, including Argentina and New Zealand, continued to exhibit outstanding import growth through 2006 and the first half of 2007. This trend adds additional competitive pressure, while contributing to the expansion and diversification of the overall wine market.

Export-oriented competitors are investing significant resources into marketing and promotional efforts targeting Korea. Competitors' major marketing tactics include: tasting seminars; paid-invitation of wine traders and press to overseas wine exhibitions; hosting cultural events coupled with wine promotions; organizing consumer trips to wineries; exhibiting at local trade shows; supporting local wine schools with free samples; and working closely with local wine experts including support to attend wine schools in their countries.

Entry and Marketing Strategy

For new-to-market suppliers who seek an entry into the market, the following approaches are recommended:

- Exhibit in a local trade show can develop contacts with a large number of key players in the industry. Below two shows are recommended:
 - Seoul Food & Hotel (<http://seoulfood.or.kr/eng/>) is a "trade-only" food show held annually in Korea and is attended by a large number of international wine exporters. This is the only show in Korea that is officially endorsed and sponsored by FAS/USDA. The up-coming show in 2008 (May 14-17) will again have a separate U.S. pavilion organized by the Agricultural Trade Office of the U.S. Embassy Seoul (www.atoseoul.com).
 - The Seoul International Wine & Spirits Expo (www.swsexpo.com, early May 2008) is another local trade show that brings together a large group of decision makers from the Korean wine industry. More detailed registration information about these shows is available from the ATO.
- One-on-one meetings with potential importers: Visiting Korea and meeting in person with potential importers is highly recommended to new-to-market suppliers. A list of wine importers with contact information is available from the ATO. U.S. suppliers are welcome to utilize ATO meeting space and conduct sampling events at the ATO using ATO wine glasses and kitchen facilities.
- Product seminar / Winemaker tastings: Seminars hosted by an exporter can bolster contacts with key traders and opinion leaders in the market. Assistance from local public relations (PR) companies with strong presence in the wine trade can be helpful. Contact the ATO for a list of such companies. Hosting a seminar in conjunction with the local wine trade shows mentioned above is also recommended.

Along with the outstanding growth of wine consumption, a wide variety of new businesses related to wine have sprung up in the market, including wine schools, Internet-based wine communities, wine journals, and not-for-profit wine associations. Any entry or marketing strategy should attempt to leverage the voices of these organizations which are increasingly playing an opinion-leading role in the market.

SECTION III. COSTS AND PRICES

Consumer prices for wine are quite high in Korea. A combination of import tariff, taxes, distribution costs and mark-ups result in retail wine prices being two to four times those in the United States.

Tariffs, Taxes and Pricing

Korea applies a complicated tariff and tax system to imported alcoholic beverages. Those applied to fruit wine, including grape wine, are:

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

Fortunately, fruit wine is subject to relatively lower tariff and taxes compared to other types of alcoholic beverages. It is not likely that the liquor or education taxes on fruit wine will be increased as the Korean government maintains a policy that products of higher alcohol content should be subject to higher liquor taxes. In addition, the Korean government intends to promote the production of local fruit wines by maintaining relatively lower taxes.

The free trade agreement signed between the United States and Korea will remove the import tariff on all American wine immediately after the FTA is ratified by the U.S. Congress and the National Assembly of Korea. Many local traders expect that the FTA will significantly increase imports of American wines to Korea not only because of the reduced import prices but also because of the press exposure and positive publicity it will generate. However the benefit of the FTA may not last long as EU-Korea FTA negotiations are currently in progress.

Table 2: Import Tariffs and Additional Taxes on Liquor Products

	Import Tariff	Liquor Tax	Education Tax
Fruit Wine	15%	30%	10%
Beer	30%	72%	30%
Whisky	20%	72%	30%

The following table illustrates the effects of import tariff, taxes and distributor mark-ups on a \$10 (CIF: Cost, Insurance, Freight) bottle of imported wine:

Table 3: Effects of Import Tariffs, Taxes and Distributor Mark-ups

		Current	Under FTA
A	CIF invoice value	\$10.00	\$10.00
B	Tariff (Customs Duty) ⁶ : A x 15%	\$1.50	\$0.00
C	Wine Liquor Tax: (A+B) x 30%	\$3.45	\$3.00
D	Education Tax: C x 10%	\$0.35	\$0.30
E	Subtotal: (A+B+C+D)	\$15.30	\$13.30
F	Value Added Tax ⁷ : E x 10%	\$1.53	\$1.33

⁶ Once the KORUS FTA is implemented, import tariff on U.S. wine will go to zero percent immediately.

⁷ The paid Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer. Example: An importer paid \$100,000 of VAT to the customs office in a

G	Handling fees for customs clearance ⁸ : A x 8%	\$0.80	\$0.80
H	Total cost of wine upon customs cleared: (E+F+G)	\$17.63	\$15.43
I	Typical Importer Mark-ups ⁹		
	1. Importer's selling price to discount store: (mark-up 15-30%)	\$18.52-20.93	\$16.22-18.33
	2. Importer's selling price to supermarket/liquor store: (mark-up 40-50%)	\$22.54-24.15	\$19.74-21.15
	3. Importer's selling price to luxury hotel: (mark-up 40-50%)	\$22.54-24.15	\$19.74-21.15
	4. Importer's selling price to wholesaler: (mark-up 15-30%)	\$18.52-20.93	\$16.22-18.33
J	Typical Retailer Mark-ups:		
	1. Discount store's selling price: (mark-up 20-30%)	\$22.22-27.21	\$19.46-23.83
	2. Supermarket & liquor store's selling price: (mark-up 30-40%)	\$29.30-33.81	\$25.66-29.61
	3. Luxury hotel restaurant's selling price: (mark-up 50-300%)	\$33.81-96.60	\$29.61-84.60

Thus, a \$10 (CIF) bottle of imported wine typically retails for about \$22 to \$27 at discount stores, \$29 to \$34 at supermarkets/ liquor stores and \$34 to \$97 in hotel restaurants. Overhead expense, payment conditions (i.e., cash versus 60 days credit), product turnover rate, and sales volume are key factors governing the level of mark-ups taken by different retailers.

Liquor Purchase Debit Card

The Korean government introduced a "Liquor Purchase Debit Card" regulation in 2001 as a safeguard to prevent black marketing of liquor products as well as tax evasion in the supply

given year for a total of \$1 million of wine imported. During the year, the importer made \$2.2 million of cash-register sales, 10 percent of which, \$200,000, was VAT paid by the purchasers (all commercial sales, except for some fresh agricultural products, are subject to 10 percent VAT by law). At the end of the year, the surplus between the annual paid VAT (\$100,000) and the earned VAT (\$200,000) is reported (\$200,000 - \$100,000 = \$100,000) and paid to the tax office. As a result, the VAT paid by the importer to the customs office is carried over to the consumer.

⁸ In addition to tariffs and taxes, additional fees of 7 to 8 percent of CIF value will occur for miscellaneous expenses, including customs clearance fees, warehousing fees, transportation fees, etc. The amount of these additional costs depends mainly on the kind of inspection to which the shipment is subject. For example, the warehousing fee will increase significantly if a detailed chemical inspection is required rather than document inspection.

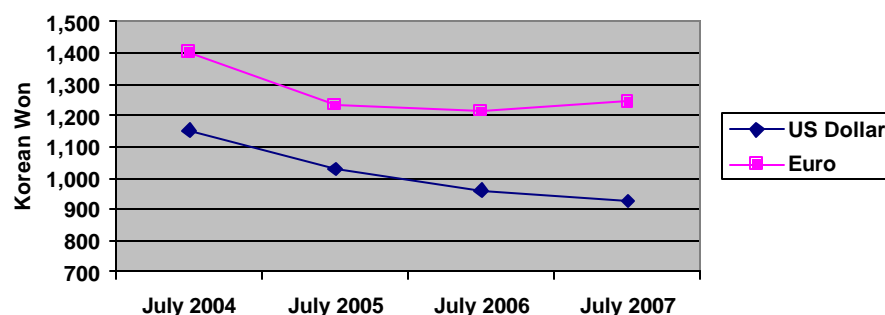
⁹ Each mark-up calculation is based on \$16.10, i.e., the customs cleared cost (H: \$17.63) minus the value added tax (F: \$1.53).

channel. The regulation mandates that distributors and retailers use exclusively a registered debit card bank account when paying suppliers for alcoholic beverages including wine. This mechanism is designed to provide the government with a robust tool to monitor the traffic of alcoholic beverages in the distribution channel.

Exchange Rate

The Korean Won continued its appreciation against the U.S. Dollar through 2006 and the first half of 2007, making American wines more affordable to Korean importers. Meanwhile, the value of the Euro rose 2.5 percent against the Korean Won during the last 12 months. Local economists forecast that the Korean Won will gain additional strength against international currencies in the coming years, making prices of imported products more attractive to local consumers.

Figure 1: Change of Exchange Rate of Korean Won



SECTION IV. MARKET ACCESS

Labeling

Korean law requires Korean language labels on imported wine. In most cases, the Korean label is attached to the bottle manually by the importer in the duty-free warehouse before official inspection. The Korean language label should contain the following information:

1. Name of the product (e.g., Robert Mondavi Cabernet Sauvignon)
2. Country of origin (e.g., U.S.A)
3. Type of the product (e.g., Fruit Wine or Red Grape Wine)
4. Importer's name, address, and phone number
5. Business license number of the importer
6. Date of bottling (e.g., Year-Month-Day or Julian Code or Lot Number)
7. Alcohol percentage and product volume (e.g., 13.5%, 750 ml)
8. Name of ingredients by volume percentage
9. Name of place where the product can be returned or exchanged in case the product has any defect.
10. Instructions for storage
11. Name of food additives used
12. Government health warning clause
13. Government warning clause against liquor sales to minors.

14. Name of distribution channel through which the product is destined to be sold (one of following two destinations should be marked: "Retail Store Sale Only" or "Restaurant/Bar Sale Only").¹⁰

Inspections & Food Safety Standards

Imported foods and beverages are subject to Ministry of Health and Welfare (MHW) Food Quarantine inspection. The Korea Food & Drug Administration (KFDA) under MHW is responsible for executing all inspections. There are two kinds of inspections: detailed inspection (chemical analysis test) and visual inspection (eye/document inspection).

The first commercial shipment of any new-to-market wine is always subject to a detailed food safety inspection, including chemical testing, which under Korean law should take no longer than 10 working days. But in practice, however, importers say that it could take longer. For the detailed inspection, importers are required to submit two sample bottles of each product to the inspection office along with a chemical analysis document provided by the exporter (there is a 150,000 KRW fee per test). Once the chemical inspection on the first shipment confirms no potential health concerns, subsequent shipments are only subject to visual and/or document inspection. Visual and document inspection should take no longer than 2 calendar days provided that the product of subsequent shipments is identical to the product in the first shipment with respect to label, product name, alcohol percentage, ingredients and net volume. However, even subsequent shipments of identical products may be subject to random detailed chemical inspections.

Korean labeling regulations for alcohol percentage allows for a +/- 0.5 percent point tolerance level for the difference between the labeled and actual alcohol content. For example, a wine labeled as 12 percent alcohol must be measured during inspection to be within 11.5 percent to 12.5 percent range. Korea's tolerance is much tighter than the U.S. standard of 1.5 percent point tolerance level. Wine that falls outside of Korea's tolerance level for alcohol content may fail inspection.

The Korean government is paying more attention to food additives used in imported wine. In recent years, several shipments of U.S. wines failed import inspection because they tested positive for Sorbic acid although the additive was not listed in the ingredient list submitted by the winery. Sorbic acid is allowed in Korea to be used in fruit wine as a preservative (residue standard: below 0.2 gram / liter), but it must be listed as an ingredient on the document provided to the inspection office.

Ethyl Carbamate, a carcinogen that can develop in wine, presents a potential threat to the health image of wine. Although currently there is no residue standard on Ethyl Carbamate in Korea, it is advised that American wineries and exporters pay attention to this issue because the Korean food safety authority and the press are likely to monitor the presence of this substance in imported wine.

Below are some of the major safety standards set by the Korean government for fruit wine:

- (1) Methanol Content: Should be below 1.0 mg/ml
- (2) Food Preservatives: Preservatives other than those specified below should not be detected in fruit wine.
 - Sorbic acid and Potassium Sorbate: Below 0.2 g/Liter
 - Para-oxi-butyl Benzoate: Below 0.05 g/Liter

¹⁰ Added in October 2002 to prevent tax evasion from liquor sales by restaurants. Revision made in early 2007 reduced the number of label categories down to two.

- Sulfur dioxide: 0.35g/kg
- (3) Volume: Volume printed on the label should be within +/- 6 ml from the actual volume measured for bottles that hold 200ml or less, or within +/- 3 percent for bottles that hold more than 200 ml.
- (4) Food Additives that can be added to fruit wine:
- Sweeteners: Sugar, Glucose, Fructose, Wheat-gluten, Molasses syrup, Maple syrup, Oligo sugar, Honey, Aspartame, Sorbitol, Stebioside
 - Acids: Lactic acid, Succinic acid, Acetic acid, Fumalic acid, Gluconic acid, Tartaric acid, Citric acid, Malic acid, Tannic acid
 - Seasonings: Amino acids, Glycerin, Dextrin, Hop, Minerals
 - Flavorings: Ester compounds, Aldehyde compounds, Fusel compounds
 - Colorants: Compounds allowed by the food safety law
- (5) Arsenide (As₂O₃): Below 0.3 mg/Kg
- (6) Heavy Metals: Below 10 mg/Kg
- (7) Food Poisoning Pathogens should not be detected: *Salmonella spp.*, *Staphylococcus aureus*, *Vibrio parahaemolyticus*, *Clostridium perfringens*, *Listeria monocytogenes*, *Escherichia coli O157:H7*

Established importers are well aware of all inspection and labeling requirements and are the best source of up-to-date regulatory information.

Licenses

Only licensed liquor importers are allowed to import alcoholic beverages, including wine. However, any qualified candidate can obtain an import license. There are over 300 licensed liquor importers and the number is likely to increase steadily in the coming years as more people become interested in the wine business. However, only about 50 importers currently import wine on a regular basis. Moreover, only a handful of leading importers account for over 80 percent of total imports. Importers are allowed to sell directly to retailers (restaurants and liquor stores) as well as to wholesalers. However, importers are not allowed to sell directly to consumers nor can they purchase wine from other importers or wholesalers. Established importers usually prefer to handle warehousing and product delivery with their own logistics force. Small or developing companies mainly rely on third-party logistical service providers. A few importers also operate chains of retail wine shops under separate retail licenses in order to gain additional business volume and a direct reach to consumers.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

? Please contact ATO Seoul directly for questions, importer lists and information on market promotion opportunities.

U.S. Agricultural Trade Office
American Embassy Seoul, Unit #15550-ATO, APO AP 96205-5550
Tel: 82-2-397-4188
Fax: 82-2-720-7921
E-mail: Atoseoul@usda.gov
Internet: www.atoseoul.com

? California Wine Institute (CWI) now has a local Korean representative who works on a contract project basis for CWI.

Ms. Lan Sohn, Representative
Sohn's Market Makers
Tel: 82-2-543-9380

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? The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the On-line U.S. Suppliers List (<http://fas1.agexportservices.org/apps/storefronts/Searchmultiselect.asp>) is a searchable database of over 3,800 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA FAS Overseas offices, such as the ATO in Seoul, Korea to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at <http://fas1.agexportservices.org/apps/logon3.asp>

APPENDIX I: Wine Import Statistics

Table 1: Korea Annual Wine Imports

Year	Value ¹	Growth ²	Volume ³	Growth
1992	5,644	65.3%	2,109,570	68.9%
1993	5,855	3.7%	3,233,975	53.3%
1994	8,104	38.4%	4,225,764	30.7%
1995	13,633	68.2%	6,181,234	46.3%
1996	16,406	20.3%	5,852,665	-5.3%
1997	22,809	39.0%	9,390,449	60.4%
1998	6,491	-71.5%	2,558,561	-72.8%
1999	15,122	133.0%	5,766,043	125.4%
2000	19,802	31.0%	8,052,562	39.7%
2001	23,109	16.7%	8,861,609	10.0%
2002	29,432	27.4%	11,522,387	30.0%
2003	45,783	55.6%	13,979,720	21.3%
2004	57,979	26.6%	15,897,748	13.7%
2005	67,654	16.7%	18,984,127	19.4%
2006	88,607	31.0%	22,194,500	16.9%
2007 June	69,768	75.2%	15,284,241	45.5%

Source: KOTIS (Korean government import statistics)

Table 2. Annual Wine Imports Broken down by Country and Product Category

Country	Category	2006		2007 (through June)				
		Value	Volume	Value	Volume	Growth	\$ M/S	Vol. M/S
France	Red Bottle	26,233	3,994,883	21,487	2,746,860	88.2%	39.9%	26.5%
	Red Bulk ¹⁴	28	11,510	20	891	-24.5%	1.8%	0.1%
	White Bottle	2,448	458,020	2,148	327,417	72.4%	22.0%	15.7%
	White Bulk	6	1,449	0	0	N/A	0.0%	0.0%
	Sparkling	3,847	180,722	2,466	118,182	101.6%	80.6%	48.9%
	Others Bottle	42	7,028	111	8,936	358.1%	18.2%	10.2%
	Others Bulk	101	6,032	4	97	-39.7%	1.3%	0.1%
	Total	32,705	4,659,644	26,235	3,202,383	88.1%	37.6%	21.0%

¹¹ Unit: \$1,000 US dollar, CIF value¹² Compared to the same period in the previous year.¹³ Unit: Liter¹⁴ Bulk wine: contained in 2 liter or larger package.

Chile	Red Bottle	13,395	3,017,572	11,064	2,264,443	80.2%	20.5%	21.8%
	Red Bulk	533	442,090	277	356,418	-11.7%	25.4%	33.3%
	White Bottle	1,145	299,940	817	205,986	65.5%	8.4%	9.9%
	White Bulk	0	0	1	360	N/A	0.1%	0.0%
	Sparkling	50	6,939	2	450	-96.2%	0.1%	0.2%
	Others Bottle	97	22,549	151	28,810	155.7%	24.8%	32.9%
	Others Bulk	156	53,970	0	12	N/A	0.0%	0.0%
	Total	15,376	3,843,060	12,311	2,856,479	74.7%	17.6%	18.7%
Italy	Red Bottle	6,513	1,335,400	5,967	1,017,326	106.6%	11.1%	9.8%
	Red Bulk	11	7,159	6	2,482	-46.3%	0.5%	0.2%
	White Bottle	2,118	450,317	2,333	458,185	149.8%	23.9%	22.0%
	White Bulk	10	8,350	6	2,475	7.4%	0.6%	0.2%
	Sparkling	281	45,659	255	43,342	84.4%	8.3%	17.9%
	Others Bottle	36	12,130	32	4,640	32.9%	5.3%	5.3%
	Others Bulk	20	1,810	3	197	-70.9%	0.9%	0.2%
	Total	8,989	1,860,825	8,601	1,528,647	114.5%	12.3%	10.0%
U.S.	Red Bottle	10,230	3,367,033	6,890	1,980,203	32.9%	12.8%	19.1%
	Red Bulk	406	108,517	195	109,666	-25.0%	17.9%	10.2%
	White Bottle	1,494	521,365	941	244,935	28.3%	9.7%	11.7%
	White Bulk	147	138,145	127	140,755	114.8%	12.3%	10.7%
	Sparkling	38	3,429	13	1,380	192.6%	0.4%	0.6%
	Others Bottle	107	37,145	102	15,848	183.8%	16.7%	18.1%
	Others Bulk	60	16,724	99	35,989	1238.9%	31.3%	32.7%
	Total	12,482	4,192,361	8,367	2,528,776	33.2%	12.0%	16.5%
Australia	Red Bottle	4,673	950,003	3,893	754,912	76.0%	7.2%	7.3%
	Red Bulk	418	190,393	167	97,140	67.2%	15.3%	9.1%
	White Bottle	1,250	299,295	923	208,847	86.6%	9.5%	10.0%
	White Bulk	156	123,812	114	71,634	59.7%	11.0%	5.4%
	Sparkling	91	13,588	67	11,730	97.6%	2.2%	4.9%
	Others Bottle	36	7,617	54	4,671	214.9%	8.9%	5.3%
	Others Bulk	28	10,089	192	72,961	42924.9%	60.8%	66.3%
	Total	6,652	1,594,797	5,409	1,221,895	84.7%	7.8%	8.0%
Spain	Red Bottle	2,619	1,212,165	2,300	984,244	127.5%	4.3%	9.5%
	Red Bulk	453	696,744	320	484,798	11.2%	29.3%	45.2%
	White Bottle	342	244,756	289	201,699	81.1%	3.0%	9.7%
	White Bulk	894	1,465,353	567	911,180	39.2%	54.9%	69.1%
	Sparkling	124	26,581	154	33,589	99.0%	5.0%	13.9%
	Others Bottle	41	5,861	23	2,727	1176.1%	3.8%	3.1%
	Others Bulk	32	1,563	0	5	-98.0%	0.0%	0.0%
	Total	4,505	3,653,023	3,652	2,618,242	86.5%	5.2%	17.1%

Germany	Red Bottle	736	239,155	502	151,489	55.1%	0.9%	1.5%
	Red Bulk	1	72	1	128	1879.2%	0.1%	0.0%
	White Bottle	2,061	556,107	1,320	328,220	24.9%	13.5%	15.7%
	White Bulk	213	167,951	187	121,750	14897.2%	18.1%	9.2%
	Sparkling	101	32,978	70	18,245	152.8%	2.3%	7.5%
	Others Bottle	73	23,776	63	17,428	57.0%	10.3%	19.9%
	Others Bulk	1	145	5	195	445.8%	1.6%	0.2%
	Total	3,186	1,020,190	2,147	637,455	48.0%	3.1%	4.2%
Others	Red Bottle	2,983	1,024,377	1,813	470,220	32.8%	3.4%	4.5%
	Red Bulk	3,778	2,936,225	106	19,929	71.0%	9.7%	1.9%
	White Bottle	1,243	244,212	974	110,681	93.6%	10.0%	5.3%
	White Bulk	43	37,982	30	69,598	2900.0%	2.9%	5.3%
	Sparkling	37	17,052	31	14,896	63.2%	1.0%	6.2%
	Others Bottle	236	9,943	73	4,476	-60.1%	12.0%	5.1%
	Others Bulk	90	13,625	13	564	-72.9%	4.1%	0.5%
	Total	8,410	4,283,416	3,040	690,364	39.4%	4.4%	4.5%
Grand Total	Red Bottle	67,382	15,140,588	53,916	10,369,697	76.5%	77.3%	67.8%
	Red Bulk	1,930	1,479,884	1,092	1,071,452	2.9%	1.6%	7.0%
	White Bottle	12,101	3,074,012	9,745	2,085,970	73.0%	14.0%	13.6%
	White Bulk	1,469	1,943,042	1,032	1,317,752	87.3%	1.5%	8.6%
	Sparkling	4,569	326,948	3,058	241,814	95.5%	4.4%	1.6%
	Others Bottle	668	126,049	609	87,536	58.1%	0.9%	0.6%
	Others Bulk	488	103,958	316	110,020	267.4%	0.5%	0.0%
	Total	88,607	22,194,500	69,768	15,284,241	75.2%	100%	100%

Source: KOTIS (Korean government import statistics)

APPENDIX II: Retail Price Survey¹⁵

Country	Product Name ^I	Retail Price ^{II}
U.S.	Rivercrest California Red NV	5,800
	Rivercrest California White NV	5,800
	Mathew Fox Vineyards C/S California '05	7,900
	Mathew Fox Vineyards Merlot California '05	7,900
	Mathew Fox Vineyards Chardonnay California '05	7,900
	Manischewitz Concord NV	8,500
	E&J Gallo Carlo Rossi Sangria (1.5 liter bottle)	9,900
	E&J Gallo Chardonnay Sierra Valley '05	9,980
	E&J Gallo Merlot Sonoma '02	38,000

¹⁵ This survey was conducted in July 2007 at three stores in Seoul metropolitan area (one hypermarket store, one membership discount store, one wine shop in department store).

	Columbia Crest Two Vines C/S Columbia Valley '04	14,840
	Columbia Crest Two Vines Merlot Columbia Valley '00	16,800
	Columbia Crest Grand Estate C/S Columbia Valley '03	25,900 – 36,000
	Columbia Crest Grand Estate Merlot Columbia Valley '03	25,900 – 36,000
	Domaine St. Michelle Brut NV	21,990
	Seghesio Zinfandel Sonoma '03	54,970
	Beringer White Zinfandel '06	15,500 – 19,000
	Beringer Founders Estate C/S '05	49,000
	Kendall Jackson Vintners Reserve Chardonnay '05	31,670 – 44,000
	Kendall Jackson Vintners Reserve C/S '04	34,090 – 50,000
	R. Mondavi Woodbridge C/S '05	22,000 – 24,000
	R. Mondavi Woodbridge Merlot '04	22,000 – 24,000
	R. Mondavi Woodbridge Chardonnay '05	22,000 – 24,000
	R. Mondavi Private Selection C/S '05	34,970 – 41,000
	R. Mondavi Private Selection Merlot '04	38,000
	R. Mondavi Private Selection P/N '06	34,090
	R. Mondavi Private Selection S/B '06	37,000
	R. Mondavi C/S Napa Valley '03	73,000
	R. Mondavi Merlot Napa Valley '03	57,900 – 66,000
	R. Mondavi Chardonnay Carneros '04	49,000 – 57,000
	R. Mondavi C/S Oakville '98	99,000
	R. Mondavi C/S Reserve Napa Valley '03	318,890
	Opus One '03	359,000
	Ridge Monte Bello '98	457,000
	Colgin '95	2,691,000
	Bryant Family '97	3,648,000
	Screaming Eagle '97	7,300,000
France	Cuvee Borie White VDT NV	4,400
	Cuvee Borie Red VDT NV	4,400
	Le Petit Sommelier C/S Vin de Pays VDT '06	4,900
	Le Petit Sommelier Merlot Vin de Pays VDT '06	4,900
	Ginestet Bordeaux '03	16,490
	Ginestet Medoc '03	21,000
	Ginestet Saint-Emilion '04	24,000
	Mouton Cadet Bordeaux '04	25,900
	Mouton Cadet White Bordeaux '05	25,900
	Chateau Bellegrave Medoc Cru Bourgeois '04	20,890
	Château Citran Haut-Medoc '03	49,900
	Chateau Talbot '01	114,000 – 138,000

	Chateau Pontet Canet '02	77,000 – 116,000
	Chateau Lynch Bages '01	112,000 – 199,000
	Chateau Palmer '96	225,000 – 341,000
	Chateau Margaux '01	399,000 – 680,000
	Chateau Mouton-Rothschild '01	340,890 – 676,000
	Chateau d'Yquem '89	1,438,000
	Chateau Petrus '96	2,538,000
	Chateau Cheval Blanc '00	2,700,000
	Chateau Le Pin '95	3,283,000
	E. Guigal Cotes du Rhone '03	34,000
	E. Guigal Hermitage '01	184,000
	M. Chapoutier Cote Rotie La Modoree '99	390,000
	Louis Jadot Bourgogne Chardonnay '04	29,900 – 39,000
	Louis Jadot Bourgogne P/N '04	29,900 – 39,000
	Louis Jadot Chablis '05	47,000 – 56,000
	Louis Jadot Chablis 1er Cru '02	96,500
	Louis Jadot Chablis Grand Cru '01	247,000
	Louis Jadot Gevrey Chambertin '99	147,000
	Louis Jadot Clos Bougeot Grand Cru '00	254,000
	DRC Richebourg '00	975,000
	DRC Montrachet '01	3,348,000
	DRC Romanee-Conti '02	4,400,000
	Moet & Chandon Champagne NV	49,990 – 65,000
	Bollenger Special Cuvee Champagne NV	87,500 – 103,000
	Bollenger Grand Annee '97	175,000
	Louis Roederer Cristal Rose '99	950,000
Chile	Casillero del Diablo C/S '05	16,900 – 20,000
	Casillero del Diablo Carmenere '05	16,900 – 20,000
	Casillero del Diablo Chardonnay '05	16,900 – 20,000
	Montes Classic Series C/S '06	16,900 – 19,000
	Montes Classic Series Merlot '05	16,900 – 19,000
	Montes Alpha C/S '05	32,500 – 38,000
	Montes Alpha Merlot '05	32,990 – 38,000
	B.P. Rothschild Escudo Rojo '04	32,000 – 37,000
	San Pedro 1865 Carmenere '05	37,900
	Concha y Toro Almaviva '02	120,000
Australia	Jacob's Creek Shiraz Cabernet '05	14,500
	Jacob's Creek Merlot '05	15,800
	Jacob's Creek Chardonnay '06	14,500
	Yellow Tail Merlot '06	12,640
	Lindemans Cabernet Merlot Limestone Coast '04	23,640
	Lindemans Chardonnay Padthaway '05	23,640

	Wynns Cabernet Shiraz Merlot '03	32,990
	Penfolds Koonunga Hill Shiraz-Cab '05	29,00 – 42,000
	Penfolds Koonunga Hill Chardonnay '04	39,000
	Penfolds Bin 407 C/S '05	68,000
	Penfolds Bin 707 C/S '02	338,000
	Penfolds Grange '00	762,000
Italy	Citra C/S IGT '06	7,900
	Citra Merlot IGT '06	7,900
	Citra Montepulciano D'Abruzzo '05	7,900
	Rocapolte Lambursco Rosso 1.5 liter	12,640
	Danzante Pinot Grigio IGT '06	16,500
	Villa Antinori Toscana '03	35,190
	Castello D'albola Chianti Classico '04	25,290
	Balbi Soprani Barolo '02	58,190
	Pio Cesare Barbaresco '03	105,000
	Pio Cesare Barolo '02	105,000
	Tignanello '01	156,000
	Sassicaia '03	300,000
	Ornellaia '01	457,000
	Masseto '00	592,000
	Angelo Gaja Barbaresco '98	491,000
	Angelo Gaja Sori Tildin '99	863,000
Germany	Blue Nun Donfelder Pfalz '06	9,900
	Black Tower Dornfelder - P/N '06	11,900
NZ	Montana S/B Marlborough '06	25,000
	Montana P/N South Island '06	26,000
	Villa Maria S/B Marlborough '06	23,640 – 29,000
	Villa Maria P/N Marlborough '05	53,500 – 63,000
Argentina	Argento Malbec '06	9,890 – 9,900
	Noton Malbec Mendoza '06	18,000
	Noton Malbec Reserve Mendoza '04	38,000
	Catena Zapata Malbec Mendoza '04	34,000 – 40,000
Spain	Freixenet Carta Nevada Sparkling	16,490
	Torres Gran Coronas C/S Penedes '03	23,090
	Torres Mas La Plana C/S Penedes '02	59,900
Portugal	Taylor's Select Reserve Port NV	21,770 – 29,000
Korea	Gooksoondang Jin-Jin Wine NV 500 ml (locally bottled imported bulk wine)	1,650
	Red Mountain 375 ml (local mountain berry wine)	6,500
	Chateau Mani Cambell Early NV	9,900

	Majuang Red C/S '04 (locally bottled with imported bulk wine and local wine)	8,200
	Majuang California C/S '04	8,200
	Majuang Mosel-Saar-Ruwer Riesling '06	8,900
	Majuang Medoc '03	14,840 – 17,000