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Report Highlights:

Large-scale franchise restaurants and broad-line distributors continue to grow rapidly at the expense of small scale, independent businesses. There is an increased demand for products with new tastes, added value, stable price and volume capability, and specifications tailored for the food service industry. All these changes, coupled with possible implementation of the Korea-United States Free Trade Agreement, offer new opportunities to American suppliers.

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Section I. Market Summary

A. Executive Summary

Changes in lifestyle and dietary culture coupled with increased consumer income level are interpreted into a rapid growth of the food service sector in Korea. Monthly per capita spending on eating outside of the home has more than doubled in the last ten years, reaching ₩ 74,882¹ in 2006. In other words, 46 percent of each Korean's food expenditures (or 11.7 percent of total consumption expenditures) went toward dining out (including spending in drinking places). It is expected that eating out will remain the single most dominant item in the Korean household's food expenditure in the coming years as Koreans face a busier lifestyle with increasing numbers of single-member households and dual-income families. One interesting observation to note is that the share of eating-out relative to both food expenditure and total consumption expenditure has reached a plateau since 2004.

Figure 1: Monthly Per Capita Spending on Eating-Out²

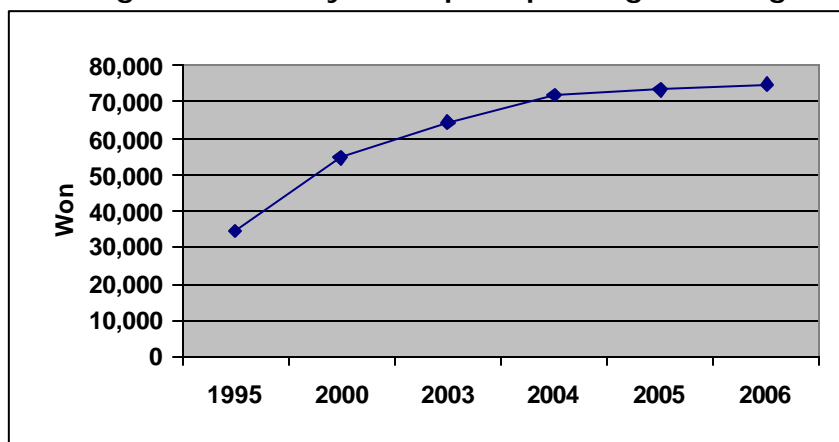
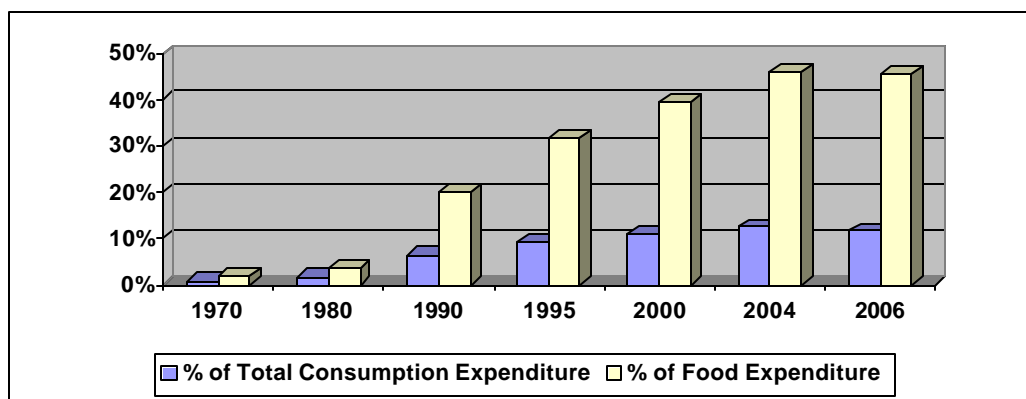


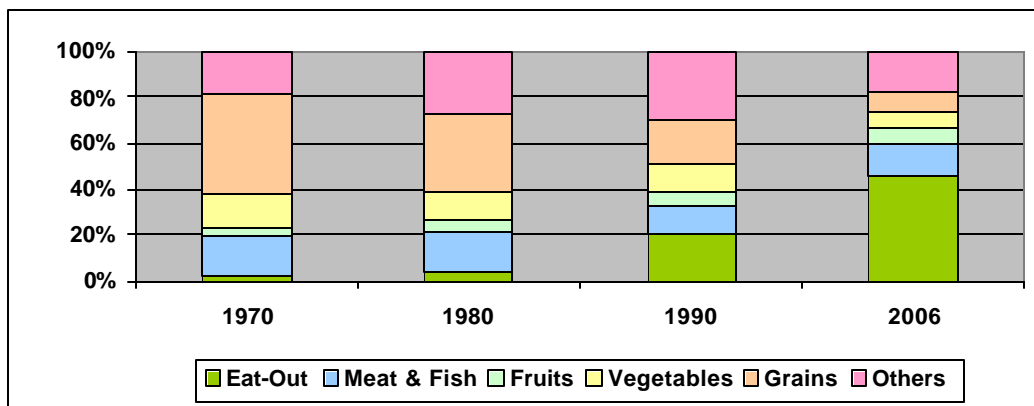
Figure 2: Share of Eating-out in Household Spending



¹ \$1 = ₩ 945 (Korean won) as of Feb. 1, 2008

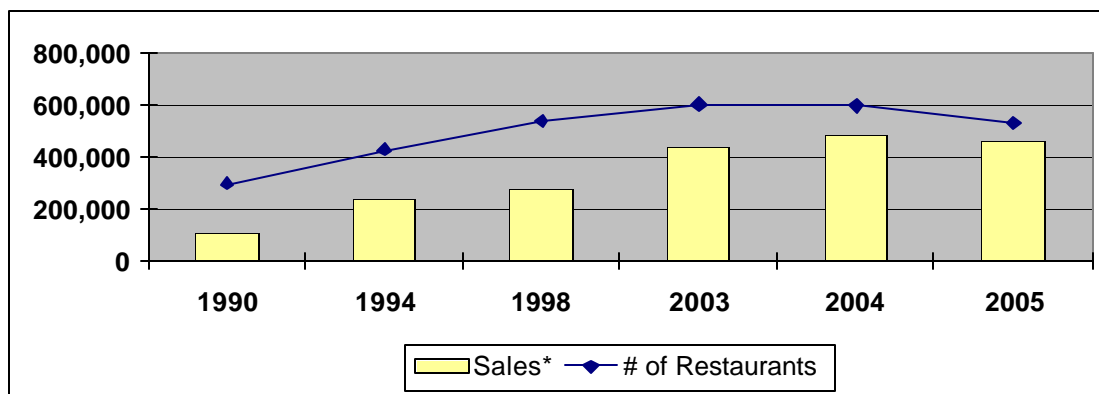
² Source: Korean Government Statistics (Feb. 2008)

Figure 3: Breakdown of Food Expenditure by Item



According to the most recent Korean government data available, the restaurant sector earned ₩46.3 trillion of cash register sales in 2005, down 4.5 percent from the previous year. Entry into the restaurant business was allowed by law only to individuals and small businesses up until the mid 1990's. In addition, the restaurant sector was a major refuge for many of those people who lost corporate jobs during and aftermath of the Asian economic crisis in late 1990's. As a result, the sector has been largely composed of small-scale, family-operated restaurants, as evidenced by the government statistics. Around 90 percent of restaurants in Korea were small businesses that hired less than five employees as of 2005. In addition, 53 percent of restaurants made less than ₩50 million of sales revenue per year. However, market analysts point out that the sector has finally passed a saturation point in terms of the total number of restaurants³, as indicated by the decline in numbers since 2003.

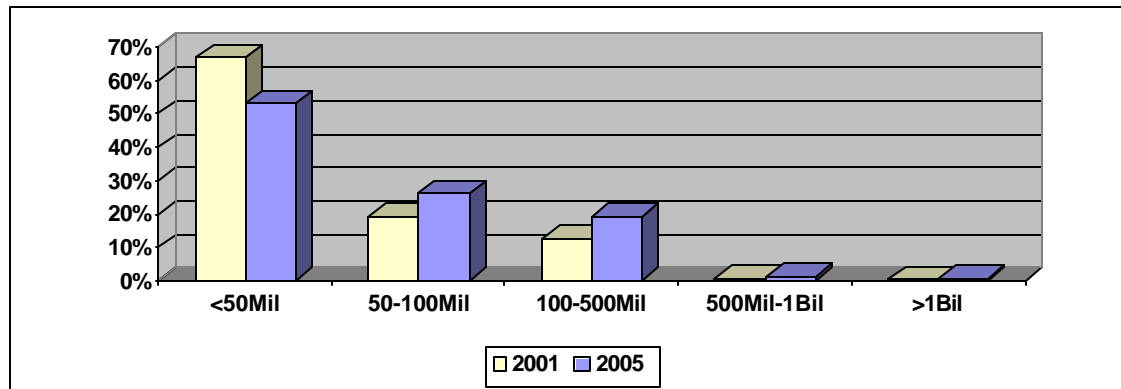
Figure 4: Total Number and Annual Sales of Restaurants



* Unit: ₩100 million

³ 530,000 restaurants mean roughly one restaurant per every 100 Koreans.

Figure 5: Breakdown of Restaurants by Annual Sales



Restructuring of the sector, government deregulation that allows large corporations into the restaurant business, and the on-going economic slowdown, has led to a rapid growth of large-scale restaurants under franchise management. These ideas come at the expense of small-scale, family-operated establishments. The retail sector, armed with HMR (Home Meal Replacement) products and convenience stores, has emerged as another competitor to restaurants. Decline in the total number of restaurants, resulting from sluggish sales growth is expected to continue in the sector for several years.

Evolving tastes of Korean consumers have also brought significant changes to the restaurant sector in terms of recipes, products and services offered. Consumers are seeking new and international tastes while becoming more concerned about the quality, safety, and “well-being” aspect of the foods in restaurants. It is not surprising to observe that many of the newly opened restaurants take different concepts for recipes and store design compared to existing ones next door. Diversification and differentiation have emerged as key terms in the sector due to elevated competition.

Streamlining of the supply chain is another area in which the sector has seen restructuring in recent years. Once governed by traditional multi-layered chain comprised of wet-markets and independent wholesalers, today’s product supply chain in Korea is rapidly evolving into modern, ‘one-stop, broad-line’ distribution service for efficiency and convenience. Although traditional channels are still taking a dominant share of the market, newly emerging large-scale ‘broad-band’ distributors are likely to continue a rapid expansion in the coming years.

The growth of large-scale businesses, in both the restaurant sector and the product supply chain in addition to consumers’ evolving tastes are interpreted into growing demand for imported products. These products offer opportunities for new recipes, stable pricing, and volume capability. In particular, U.S. products are likely to maintain a strong market share in the thriving restaurant sector, due to the fact that American products have a high quality image in the market. The outlook for U.S. exports is excellent for beef, pork, processed poultry products, seafood, processed vegetables, fruits, nuts, dairies, juices and non-alcohol beverages, alcohol beverages, sauces and condiments, cooking oils, organic foods, coffee, frozen desserts, bakery ingredients, and frozen prepared products. In addition, on-going trade liberalization, including the Korea-United States Free Trade Agreement currently pending ratification in both countries, will create new opportunities for those products that are currently under restrictive import barriers in the form of tariffs, volume quotas and food safety regulations.

B. Advantages and Challenges for U.S. Exports

Advantages	Challenges
Korea is a developing market where new ideas and trends are eagerly tried and accepted. This leads to greater opportunities for new-to-market products. Consumers are looking for new and international tastes as their income levels continue 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.
Korea, by nature, depends heavily on imports for its food and agricultural needs. Many imported products are free from competition from locally grown products.	American products face steeper competition against cheaper products from export-oriented competitors such as China and Australia.
On-going liberalization of import barriers improves market accessibility and price competitiveness of imported American products.	Imports of many products face restrictive trade barriers, including high tariffs, volume quotas, safety certifications, and Korean language labeling. Certain food additives approved in the United States may not be approved in Korea.
Growth of modern, large-scale businesses in the sector offers new opportunities to imported products. Evolving consumer tastes are also interpreted into opportunities for products that are new to the market.	Although changing, price is still the most important factor governing procurement decisions. Unfortunately, few decision makers understand the overall benefit of using higher quality, value-added products.
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/markups on imported products coupled with import tariffs and taxes deteriorate price competitiveness of many imported products against locally grown or manufactured products.

Section II. Road Map for Market Entry**A. Entry Strategy***Understanding Local Tastes:*

Dishes served in Korea largely reflect the contemporary dietary culture of Koreans. Even though international ethnic recipes are gaining popularity, almost all of these dishes under new-to-market themes are developed through modifications based on local tastes. For example, products that are used in similar dishes in the United States may require different specifications to be marketable in Korea. Needed modification could mean anything from changing packaging design to reducing portion sizes to adding or deleting some ingredients. Personal visits to Korea will be the best way to understand the newest tastes and trends of Korean consumers. As an alternative, the Internet can be a very effective tool to stay informed. It might be helpful to remember the long-held rule of thumb that new food trends in Japan will show up in Korea years later. The time gap between the two countries seems to

be narrowing. In addition, opinion leaders are now tracking more diverse culinary destinations around the world, including New York, Paris, and Shanghai.

Consumption Trends:

Like consumers everywhere, Korean consumers are looking for better value, convenience, new tastes, and safer more fresh products in their diet. Due to the increasing health awareness of aging consumers, there is a heavy emphasis 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 options. 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 a regular diet still prevails and contributes to the on-going trend of seeking functional effects in almost every food one encounters. As a result, recipes and products that incorporate healthy and functional themes and ingredients are widespread in the market.

Table 1: Aging Korean Population

Age Group	1995		2000		2005		Growth
	Number ⁴	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 a higher quality and new taste are increasing along with the growth of income level of Korean consumers. Korean GDP ⁵ reached \$787.5 billion in 2005, up 15.7% from the previous year. Per capita GNI ⁶ also grew by 14.8% to reach \$16,291. Korean government estimated correctly that the per capita GNI of \$20,000 would be reached in 2007. This positions Korea as one of the most affluent countries in Asia following Japan, Singapore, and Taiwan. As consumers are becoming more diversified in their tastes and buying power, the food service sector provides more diversified quality and price options accordingly. For example, while the strong demand for value prices by the middle to low income consumer group has driven the rapid expansion of quick-service Korean restaurant franchises, sales in premium restaurants have also shown 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, the increase of dual-income families and single member households has led to a growing demand for HMR (Home Meal Replacement) products in retail stores. Delivery service by restaurants is extremely well developed in Korea because people do not want to take the time due to traffic and several other factors. Rapid growth of on-line shopping is also rooted partly in the demand for convenience.

Establishing Korean Partners:

Because of the many variables involved, there is no perfect way to enter the Korean market. Success is unlikely without catered support of local partners. Korea has well established

⁴ Unit: 1,000 people

⁵ Gross Domestic Production Annual, GDP

⁶ Gross National Income Annual, GNI

regulations and procedures on food imports, as well as complex tariff and tax codes, which often make the entry of a new-to-market product timely and a resource consuming process. In addition, certain food additives approved for use in the United States may not be approved in Korea. Working with reputable importers is the approach that has been proven most efficient to overcome these challenges. Established importers are well aware of market demand/supply intelligence, local business laws and practices, supply chain, and most of all are the best information source for up-to-date government regulations.

The type of business relationship agreed between the U.S. exporter and the Korean importer may vary from a joint investment partnership to an exclusive agent to a non-binding broker contract depending on how the exporter sees the role of the Korean partner in the process of market development. The most common practice is starting with a group of sub-sector-designated importers on non-binding broker contracts during the initial stage of market entry. Working with one large-scale, broad-line importer could be an effective alternative to quickly gain access to various sub-sectors in the market.

There are many items that the U.S. exporter should follow up promptly 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 necessary documents and information to submit to government authorities. More detailed current information on the Korean food safety and labeling regulations can be found in the FAS report #KS7053, (Korean Food and Import Regulations Standards Report Year 2007, www.fas.usda.gov).

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 and trade promotion agencies. ATO Seoul regularly organizes Korean buyer missions in cooperation with SRTGs and USDA cooperators to major food trade shows in the United States, such as the Global Food & Style Expo⁷ and the NRA Show⁸, for matchmaking with U.S. exporters.

Exhibiting in Korean food trade shows can be a cost-efficient way to meet with a large number of key Korean importers/traders in one place. Currently, the Seoul Food & Hotel (SFH)⁹ is the only show in Korea endorsed and supported by U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Exporters who are considering exhibiting in any Korean trade show may contact ATO Seoul for guidance and information. Most local shows are consumer-oriented and are not particularly efficient for promoting new products.

New 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>. Trademarks should be registered with the Korean Intellectual Property Office (<http://www.kipo.go.kr>).

American-Origin Restaurant Franchises:

Many of the leading restaurant chains in Korea are of U.S. origin and can be approached through the headquarters in the United States. The degree of involvement of the U.S.

⁷ Chicago, April 27-29, 2008 (www.nasdatradeshow.org)

⁸ Chicago, May 17-20, 2008 (www.restaurant.org/show)

⁹ Seoul, May 14-17, 2008 (www.seoulfood.or.kr)

headquarters in the operation of the partner chains in Korea varies from one company to another depending on the nature of the contract between them. U.S. headquarters in general have a significant amount of influence over what products and recipes the Korean partners serve. Below is a list of U.S. origin restaurants currently in operation in Korea.

Table 2: A List of U.S. Origin Restaurants in Korea

Type	Chains
Fast Food Restaurants	McDonald's, KFC, Burger King, Subway, Popeye's
Family Restaurants	TGIF, Bennigans, Outback Steakhouse, Sizzler, Chili's, Toni Roma's, Ruby Tuesday, Hard Rock Cafe, Hooters, On The Boarder
Ice Cream Restaurants	Ben & Jerry's, Haagen-Dazs, Cold Stone Creamery, Baskin Robbins
Pizza Restaurants	Pizza Hut, Domino Pizza, Papa John's
Coffee & Deli Shops	Starbuck's, Seattle's Best, Au Bon Pain, Krispi Kreme Doughnuts, Cinnabon, Dunkin Doughnuts

Sell Recipe Ideas First, Not Products:

One of the biggest challenges for new-to-market product is to establish a market in Korea. Educating local distributors and chefs about possible uses and applications of the products is a good solution for the challenges. Recipes are the most efficient carrier to deliver the marketing messages of the suppliers to the Korean customers. Culinary camps, recipe seminars, and cooking demonstrations are some of the most commonly used tools to achieve the strategy of "sell recipe ideas first, not products".

B. Market Structure - Distribution Channel

Logistics:

It takes at least two weeks for a container to ship from a western U.S. port, and four weeks from an eastern port, to arrive in Korea. In general, most imported consumer ready products enter Korea through the port of Busan, the second largest city located at the southeastern tip of the Korean peninsula. On rare occasions, small volume, high value products, such as premium wine and chilled beef are brought via air cargo through Incheon International Airport (ICN), one hour drive away from downtown Seoul.

The amount of time that the product sits in the port of entry for customs clearance process, including food safety inspections varies from one day to a few weeks, largely depending on the kind of inspection the product is going through. The detailed laboratory inspection required for all new-to-market products and randomly selected existing¹⁰ products may take as long as ten working days. In case of live animals, the quarantine sanitary inspection may take more than a couple of months. The documentary inspection allowed for products that have previously been imported may be completed within a couple of days.

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). After the importer's warehouse(s), the products may go through multiple layers of wholesale and retail distributors before reaching restaurants (traditional channel for independent small-scale restaurants) or through one consolidation warehouse which distributes directly to restaurants

¹⁰ 'Same Product from Same Origin' rule allows documentary inspection for products that have been imported in the past.

under a large scale franchise operation. Many importers are using third party logistics services for warehousing and trucking because of the high overhead cost.

Traditional Distributors:

Most of independent small-scale restaurants still procure products from traditional distribution channels, which include multiple layers of wholesalers and wet markets. Wholesalers and wet markets in general are specialized in certain product categories (meat, fish, and fresh produce) and are considered to offer the freshest products at a good value. However, sales of these traditional channels are on a gradual decline just like their customers as they face tougher competition against large-scale distributors who offer efficient one-stop service. Tightened government tax regulations have also deteriorated price competitiveness of traditional distributors who in the past were given a large tax break.

Broad-line Distributors:

The rapid growth of large-scale restaurant business is prompting an equally rapid growth of large scale foodservice distributors who offer efficient one-stop service over a broad range of both food and non-food products. Currently, about six local conglomerate businesses, all committed to be the “Sysco of Korea” someday, operate nationwide armed with modern distribution network of temperature controlled warehouses and truck fleets. However, business of these broad line suppliers is currently focused on large scale restaurants. Due to underdeveloped sales force, broad line distributors still rely heavily on wholesalers for regional markets and small scale independent restaurants. Furthermore, these broad line distributors are currently focusing mainly on high volume products and, thus, have not yet achieved true “one stop service” capability. Consequently, restaurants that use broad line distributors procure additionally from a multiple number of specialty product suppliers for low volume products.

Below is a brief description of general procurement practices of broad line distributors:

- Long storage agricultural products (such as onions, dried pepper, carrots and potatoes) are procured from local contract farms and/or from the National Federation of Agricultural Cooperatives (NACF).
- Fresh vegetables are procured from local contract farms, usually large scale green houses that supply fresh products around the year.
- Fresh vegetables subject to seasonal supply fluctuations (such as Chinese cabbage and radish) are procured locally through middlemen in the wholesale auction market.
- Local meat is procured through local middlemen in the wholesale meat auction market.
- Locally processed vegetables (frozen, canned and pickled) are procured from domestic manufacturers every one to three months through price bidding.
- Locally processed foods (such as oils and sauces) are procured from domestic manufacturers on a yearly contract.
- Imported food products of all types are procured from importers or, to a lesser extent, directly from overseas suppliers. Broad line distributors prefer direct imports for high-volume products, such as meat, seafood and canned vegetables, while preferring to use middlemen importers for low-volume or products of seasonal demand. Imports and distribution of products under import quota restrictions, including fresh potatoes, onions, grains and honey, are handled by the Korea Agro-Fisheries Trade Corporation (aT), formally known as the Agri-Fishery Marketing Corporation (AFMC). aT is a government agency under the Ministry of Agriculture and Forestry (MAF). In general, the set annual import quota is divided evenly among the importers who signed up for the product. In other cases, the quota is allocated to importers through bidding. A broad-line

distributor may acquire an import quota allocation or purchase from other importers who acquired an allocation.

Many broad line distributors operate processing facilities attached to their warehouses for preliminary processing of vegetables and meat. Processes include washing, cutting, repackaging and limited cooking. Some of the leading companies also operate food manufacturing facilities in order to offer private branded processed products, such as soups, sauces and packaged marinated meat. Broad line distributors currently put heavy emphasis in developing prepared or packaged products under their own brands as a way of increase customer royalty and profit.

Table 3: A List of Broad-line Food Service Distributors (2007)¹¹

Company Name	Annual Sales (Estimates)	Web-site
CJ Food System Co.	₩400 billion	www.cjfood.com
Our Home Co. Ltd.	₩130 billion	www.ourhome.co.kr
Samsung Everland Co., Ltd.	₩140 billion	www.samsungeverland.com
Foodmerce Co.	₩260 billion	www.foodmerce.com
Korea Tourist Supply Center Co., Ltd.	₩160 billion	www.ktsc.co.kr

Food Processors:

The local food processing industry is one of the major suppliers of processed products to the food service sector. Although food processors in general mainly focus on retail products, more and more are shifting attention to offer food service oriented products. In particular, the most serious processors have developed strategic alliances with broad line distributors to market food service products under the distributor's brand name. While a large portion of these co-packed products are simply the same retail products in bigger food service packages, some are developed exclusively for the food service market. CJ, Daesang, Ottoogi and Dongwon are the leading players in this area. Although products by local processors are currently limited to items of large volume demand, it is expected that processors will expand into more diverse products, many of which will compete directly with imported consumer ready products. Local processors, however, depend heavily on imported ingredients. Products from local processors are generally distributed through multiple layers of wholesalers or regular retail stores before reaching restaurants unless they are bound directly for broad-line distributors.

Discount Retail Stores:

Discount retailers, including hypermarkets and membership warehouse clubs, have been an important supply channel for the food service sector, because many small scale family operated restaurants procure products there. Currently, there are about 300 large scale discount stores nationwide with about a dozen new stores added every year. E-Mart and Lotte Mart, both locally established chains, are the leading players, while Tesco, an international chain, is following behind closely. Costco, an American membership club chain, has been the most active player in targeting restaurant customers.

Development of the modern food service supply chain in Korea is an outcome of ongoing market liberalization. Imports and distribution of products to the food service sector were regulated under a monopoly system up until the early 1990's. It was not until the early

¹¹ Source: Company interview. Be noted that all the companies in this list, except Foodmerce and Korea Tourist Supply Center, also operate restaurant and contract feeding business.

1990's that conglomerate businesses were allowed to enter this sector. These companies are now the key force behind the outstanding growth of large scale franchise restaurants as well as broad-line food service distributors.

C. Sub-Sector Profiles

1. Hotel Segment

Table 4: Lodging Industry Market Share¹²

	Number of Business		Number of Rooms		Cash Register Sales	
	2001	2005	2001	2005	2001	2005
Hotels	618	554	59,015	59,014	4,450,677	3,716,501
Inns	26,939	27,487	453,420	553,687	1,511,921	1,918,620
Resort Condos	103	170	25,125	30,024	399,252	768,177
Others	6,657	14,463	46,744	218,310	183,263	697,338
Total	34,317	42,674	584,304	861,035	6,545,113	7,100,636

Table 5: Hotel Segment Statistics Broken Down by Number of Rooms

Number of Rooms		<50	50-99	100-300	>300	Total
Number of hotels	2006	149	243	116	41	549
	1999	332	276	118	25	751
	Change	-55.1%	-12.0%	-1.7%	64.0%	-26.9%
Number of employees	2006	2,053	6,181	10,252	17,924	36,410
	1999	4,431	9,659	14,317	10,591	38,998
	Change	-53.7%	-36.0%	-28.4%	69.2%	-6.6%
Cash register sales	2006	95,857	369,418	842,722	2,997,250	4,305,247
	1999	155,076	373,573	716,976	831,143	2,076,768
	Change	-38.2%	-1.1%	17.5%	260.6%	107.3%
Room sales	2006	52,472	175,815	357,595	802,828	1,388,710
	1999	56,855	159,171	253,220	196,538	665,784
	Change	-7.7%	10.5%	41.2%	308.5%	108.6%
F&B sales	2006	30,552	133,049	308,983	1,127,118	1,599,693
Number of rooms	2006	5,746	16,059	18,348	18,596	58,749
	1999	12,484	17,745	18,020	10,637	58,886
	Change	-54.0%	-9.5%	1.8%	74.8%	-0.2%

¹² Source: Korean Government Statistics 2008, Unit: Million won

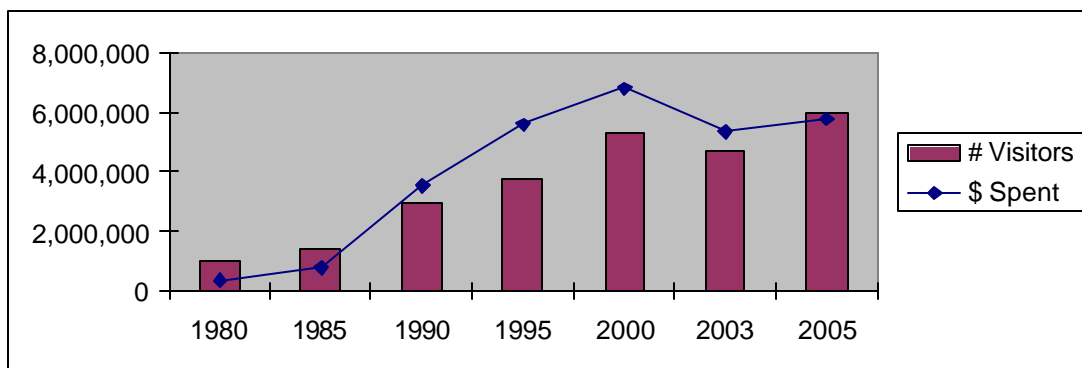
Number of guests	2000	5,037,564	7,650,031	8,776,468	9,892,972	31,357,035
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There were 549 hotels in Korea at the end of 2006, 200 less than in the year 1999. This significant drop was mainly caused by closings of small-scale hotels, with less than 50 guestrooms. However, the growth of large scale hotels over the years has more than compensated for the loss, resulting in outstanding growth of cash register sales of the segment to ₩4.3 trillion in 2006, up 107 percent from 1999. The hotel segment comprises about 52 percent of total lodging industry sales in Korea. Another 48 percent of industry sales are shared by over 40,000 inns, condos and other lodging facilities.

Competition has precipitated the restructuring of the industry in recent years, favoring the steady expansion of large scale hotels at the expense of independent small scale hotels. In particular, five star hotels with over 300 guest rooms have shown the most remarkable growth. Many four star hotels have joined professional management franchises, such as Hyatt, Ramada and Marriott, to remain competitive in operation efficiency. Many mid sized hotels have gone under the umbrella of budget format franchises, such as Best Western, Day's Inn, Ramada Inn and Holiday Inn, to target the niche market of low budget tourists and business travelers. The rapid growth of new lodging formats, in particular service residences, pension homes, by the hour motels and hot spa houses, have also resulted in the closings of many small scale hotels and inns. These trends indicate that the diversification of the lodging industry will continue in the coming years.

The hotel segment is expected to maintain a healthy growth pattern in the coming years both from domestic and international travelers. In particular, the five work day system, which became a national standard for most Korean workers in mid-2005, is expected to significantly boost domestic tourism. A steady growth in the number of foreign travelers to Korea is also anticipated in the coming years.

Figure 6: Foreign Travelers Visiting Korea¹³



A good number of new hotels are currently under construction or are planned in order to meet the increased demand for additional hotel rooms. According to a government study, the market will need an additional 16,000 guestrooms by 2010 in the Seoul metropolitan area alone. The shortage of hotel rooms is expected to be worse in regional markets where new industrial or tourist districts are under development. Recognizing the emerging opportunities, local conglomerates have unveiled plans for new hotels throughout the nation. A 106 story hotel is currently under construction by Lotte Hotel in Busan, which upon

¹³ Source: Korean Gov't Statistics (Feb. 2008), Unit: Number of people, \$1,000

completion will be one of the tallest hotel buildings in the world. This is a prime example of the type of investments being made in the sector.

The hotel sector, especially five and four star hotels with in-house premium restaurants, has played a leading role in introducing new-to-market food products and recipes to local opinion leaders. It also has served as an efficient venue for promotional activities of the food service industry, including menu promotions, product launchings and technical seminars. Currently, food and beverage sales are estimated to comprise 40 to 50 percent of total sales revenue of five and four star hotels. Some leading hotels, the Shilla and the Westin Chosun for example, have expanded their food service businesses outside of their hotels and now operate detached restaurants in various formats, including microbrew pubs, food courts, coffee shops, bakery shops and premium gourmet restaurants. Although the role played by hotels in the food service sector is on a gradual decline due to the growth of restaurants on the street, it is likely that the sector will remain a leading distribution channel for premium, high-quality imported food and beverage products.

2. Restaurant Segment

Table 6: A Brief History of the Restaurant Industry in Korea¹⁴

Year	GNI	Major Events
1900 - 1950's	N/A	? Birth of the modern commercial restaurant industry. ? A total of 166 restaurants in business in Korea as of 1945.
1960's	\$100 - \$210	? Most consumers had very low income and limited food supply. ? Western foods, mainly wheat flour and dried milk, were first introduced to the general public through the food aid programs by the United Nations and the United States.
1970's	\$248 - \$1,644	? A large number of small mom and pop restaurants opened in metropolitan cities. ? Rapid improvement in the diet of the general public due to economic development. ? Opening of the first franchise restaurant chain, Nandarang (1979) and the first fast food restaurant chain, Lotteria (1979). ? Imported foods became available commercially to hotels with the establishment of the Korea Tourist Supply Center (KTSC), a monopoly import distribution agency (1978)
1980 - 1985	\$1,592 - \$2,158	? A limited variety of Western menus penetrated to the general public. ? The rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken, and draft beer pubs) in metropolitan cities. ? The first wave of international restaurant chains entered the market: Americana (1980), Burger King (1982), Wendy's (1984), KFC (1984), Pizza Hut (1984), Baskin Robbin's (1985).
1986 - 1990	\$2,194 - \$4,197	? The Asian Games in 1986 and the Olympic Games in 1988, both held in Seoul, introduced a wide variety of international recipes to the market. ? Rapid development of restaurants and bars under western themes. ? Introduction of the institutional food service business: Seoul

¹⁴ Source: Na, J.K., Understanding Food Service Industry (1998), Industry news articles

		Catering (1989), Our Home/LG Mart (1989). ? More international restaurants entered the market: McDonald's (1986), Denny's (1987), Pizza Inn (1988), Cocos (1988), Crown Bakery (1988), Chicago Pizza (1988), Domino's Pizza (1989).
1990's	\$5,883 - \$10,076	? Conglomerates allowed to enter the food service business. ? Diversification of food service industry with new formats and menus. ? Hardies (1990), TGIF (1991), Haagen-Dazs (1991), Subway (1992), Ponderosa (1992), Sizzler (1993), Mister Pizza (1993), Sky Lark (1994), Kenny Rogers (1994), Popeye's (1994), LA Farms (1994), Bennigan's (1995), Tony Roma's (1995), Planet Hollywood (1995), Marché (1996), Hard Rock Café (1996), Outback Steak House (1997), Chili's (1997).
2000's	\$10,000 - \$20,000	? Restaurants under chain or franchise management lead the growth of the sector at the expense of small scale, independent restaurants. ? Rapid growth of broad line food service distribution business. ? Diversification continues in formats and menus, including take-out, food courts, fusion cuisine, foreign ethnic cuisine and wine.

Below is a summary of major issues and resulting trends that are taking place in the restaurant segment:

- Reducing operation costs by switching to part-time employees, adopting central kitchen facilities and prepared products, standardization of recipes and product specifications, adopting information technology solutions such as POS (Point Of Sales), ERP (Enterprise Resource Planning) and RFID (Radio Frequency Identification Tag).
- Achieving more efficient product procurement by switching to broad line suppliers and further processed products. Mergers and acquisitions of companies, both in the area of restaurant operation and product distribution, are actively pursued for economy of scale.
- Diversification of menus with foreign ethnic cuisines and ingredients.
- Diversification of restaurant concepts and designs reflecting changes in the consumption and cultural trends. Natural, organic, fresh, fusion, Zen, seafood, fun, ethnic and neighborhood are some of the key themes in the market.
- Capitalizing on the consumer trend of healthy eating. Restaurants are making greater emphasis on incorporating more functional and organic ingredients, HACCP certification, and promotional activities under health theme. Sales of local restaurants have fluctuated significantly in recent years in response to a series of nation wide food safety issues, including BSE (mad-cow disease), AI (avian influenza) and GMO (genetically modified organism).
- Deploying more efficient sales promotion programs. In particular, there has been greater emphasis on cross promotional partnerships with businesses in the non food industry, such as information technology, movies and finance. Sales promotions are heavily targeted to tie with holidays and special occasions, including New Years' Day, Lunar New Years' Day, Valentine Day (Feb. 14), White Day (March 14), Kid's Day (May 5), Parent's Day (May 8), Teacher's Day (May 15), Thanksgiving Day (around November) and Christmas.

Table 7: Break Down of Restaurant Segment by Type of Restaurant (2005)¹⁵

Type of Restaurant	# of Restaurants	Annual Sales	# of Seats
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¹⁵ Source: Korean Government Statistics (Feb. 2008), Unit: Million won

Full Svc Korean Restaurants	254,784	21,639,214	11,416,346
Full Svc Chinese Restaurants	21,932	1,914,501	601,143
Full Svc Japanese Restaurants	4,628	1,047,728	228,676
Full Svc Western Restaurants	10,034	2,080,277	544,728
Institutional Feeding Restaurants	3,238	2,123,207	587,732
Other Full Svc Restaurants	650	206,192	45,259
Quick Svc Western Restaurants	30,585	3,135,912	583,548
Quick Svc Korean Restaurants	52,553	2,707,571	1,076,945
Other Quick Svc Restaurants	4,653	956,708	95,307
Drinking Places	116,864	8,112,523	3,582,373
Bakery Shops	6,408	932,349	66,284
Tea & Coffee Shops	25,600	1,396,341	767,327
Total	531,929	46,252,523	19,595,668

Although on a steady decline in number due to the rapid growth of international-theme restaurants, traditional Korean food restaurants still take the dominant part of the restaurant sector. However, menus and products served in these Korean restaurants are becoming fused with more diverse ideas and styles of international cuisines, offering greater opportunities to imported products. In a similar vein, many of the international dishes served at the restaurants in Korea are somewhat 'Koreanized' in terms of the taste, ingredients, and style. In general, local consumers want more hot spices, vegetables and seafood ingredients added to international recipes while preferring less salt, oil and fat.

Due to the high population density, delivery service is commonly offered by many restaurants in metropolitan areas. For example, the Pizza Hut Korea chain makes 70 percent of the sales from home delivery service. The high real estate cost is also forcing small scale restaurants focus on the home delivery market.

It is notable that Korea has an exceptionally high number of bars and pubs. The newest trends in the segment include micro-brew pubs, wine bars and the growth of bars under franchise management. Although decreasing among the health conscious elderly generation, drinking is still considered an important part of business and social life. Although slowly declining in popularity, beer and Soju¹⁶ are by far the most consumed alcoholic beverages among the general public. Although the consumption of hard liquor has been on a gradual decline in recent years mainly due to increased health concerns, 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).

¹⁶ Traditional local hard liquor similar to Vodka but now is made from imported tapioca. It contains about 19-25% of alcohol.

Table 8: 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

The number of expensive drinking saloons and the consumption of premium whiskies are on a decline due to the ongoing economic slowdown coupled with the new government regulation that excludes corporate spending in bars over certain limit from tax deduction.

Growth of fast food restaurants has been stagnant in recent years largely due to the consumers' growing concerns about healthy eating. In particular, BSE and avian influenza scandals further deteriorated consumer confidence in beef and chicken meat, the key ingredients for fast food restaurants. As a result, several fast food chains, including Hardies, Wendy's and BHC(a local hamburger chain), went out of business while leading chains closed a large number of "under performing" outlets. Lowering prices and introducing new, healthier menus are of the two major counter measures being implemented in the industry. In spite of the challenges facing the industry, there has been a continuous flow of new restaurants added to the segment armed with new recipes and themes, reflecting the strong consumer demand for quick meal solutions. In particular, quick service restaurant chains that serve fusion Korean dishes have shown a dramatic growth in recent years.

Table 9: Profile of Major Quick Service Western Restaurant Franchises¹⁷

Company	Brand	Year	Annual Sales	# of Outlets
Lotteria	Lotteria	2005	₩ 380 billion	800
		2006	₩ 362 billion	730
McDonald's Korea	McDonald's	2005	N/A	350
		2006	N/A	300
SRS Korea	KFC	2005	₩ 160 billion	179
		2006	₩ 152 billion	162
	Burger King	2005	₩ 70 billion	95
		2006	N/A	87
TS Haemaro	Popeye's	2005	₩ 65 billion	150
		2006	₩ 61 billion	123

Table 10: Profile of Major Family Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
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¹⁷ Source: The Monthly Restaurant (Feb. 2007), Unit: Korean won

Ojjung	Outback Steak House	2005	₩ 220 billion	70
		2006	₩ 300 billion	88
CJ Foodville	VIPS	2005	₩ 130 billion	41
		2006	₩ 250 billion	67
Foodstar	T.G.I. Friday's	2005	₩ 110 billion	39
		2006	₩ 170 billion	51
Rise On	Bennigan's	2005	₩ 99 billion	26
		2006	₩ 100 billion	31
Amoje	Marché	2005	₩ 20 billion	7
		2006	₩ 22 billion	8
Sun@Food	Mad for Garlic, etc.	2005	₩ 15 billion	7
		2006	₩ 15 billion	7

Table 11: Profile of Major Pizza Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Outlets
Pizza Hut Korea	Pizza Hut	2005	₩ 400 billion	340
		2006	₩ 400 billion	340
Mister Pizza Korea	Mister Pizza	2005	₩ 180 billion	250
		2006	₩ 240 billion	300
DPK	Domino's Pizza	2005	₩ 200 billion	280
		2006	₩ 240 billion	287
Ettang	Pizza Ettang	2005	₩ 80 billion	268
		2006	₩ 120 billion	303
PJI Korea	Papa Jones	2005	₩ 12 billion	39
		2006	₩ 25 billion	54
Redcap	Redcap Pizza	2005	₩ 9 billion	22
		2006	₩ 14 billion	24

Table 12: Profile of Major Coffee Shop Franchises

Company	Year	Annual Sales	# of Outlets
Starbucks Korea	2005	₩ 92 billion	144
	2006	₩ 110 billion	188
Rosebud	2005	₩ 33 billion	284
	2006	₩ 36 billion	312
Hollis Coffee	2005	₩ 17 billion	56
	2006	₩ 25 billion	89
Angelinus Coffee	2005	₩ 13 billion	28

	2006	₩ 17 billion	37
Coffee Beans	2005	₩ 46 billion	43
	2006	N/A	81
Pascuzzi	2005	N/A	22
	2006	₩ 25 billion	29
Java Coffee	2005	₩ 9 billion	28
	2006	₩ 16 billion	35

Table 13: Profile of Major Fried Chicken Restaurant Franchises

Company	Year	Annual Sales	# of Outlets
BBQ	2005	₩ 336 billion	1,750
	2006	₩ 550 billion	1,850
Gyochon Chicken	2005	₩ 86 billion	1,055
	2006	₩ 84 billion	1,049
Mexicana Chicken	2005	₩ 61 billion	910
	2006	₩ 70 billion	970
Ttoraeorae	2005	₩ 27 billion	500
	2006	₩ 38 billion	800
Dool Dool Chicken	2005	₩ 30 billion	300
	2006	₩ 40 billion	380

Table 14: Profile of Major Korean Food Restaurant Franchises

Company	Year	Annual Sales	# of Outlets
Nolboo	2005	₩ 70 billion	530
	2006	₩ 90 billion	640
One & One	2005	₩ 35 billion	227
	2006	₩ 45 billion	251
Keun Deul F&B	2005	₩ 80 billion	396
	2006	₩ 846 billion	430
Ebadom	2005	N/A	0
	2006	₩ 40 billion	150
Han-A-Food	2005	N/A	20
	2006	₩ 42 billion	60
Don Day	2005	₩ 18 billion	204
	2006	₩ 20 billion	252
Bon Jook	2005	₩ 160 billion	550
	2006	₩ 185 billion	690

3. Institutional Food Service Segment

Table 15: Profile of Major Institutional Food Service Companies¹⁸

Company	Year	Annual Sales	# of Outlets
Samsung Everland	2005	₩ 410 billion	500
	2006	₩ 430 billion	320
Ourhome	2005	₩ 355 billion	580
	2006	₩ 420 billion	700
Hyundai Foodsystem	2005	₩ 270 billion	320
	2006	₩ 290 billion	347
Shinsegae Foodsystem	2005	₩ 168 billion	400
	2006	₩ 199 billion	410
CJ Foodsystem	2005	₩ 200 billion	580
	2006	₩ 155 billion	400
Hanwha Resort	2005	₩ 115 billion	218
	2006	₩ 131 billion	230
Arako	2005	₩ 100 billion	360
	2006	₩ 120 billion	350
ECMD	2005	₩ 103 billion	300
	2006	₩ 115 billion	400

Institutional food service segment maintains a solid growth as more office workers and students are seeking quality meal options at affordable price. It is the general practice in Korea that private companies and public offices provide free meals to the employees as part of the compensation package. In addition, all schools, except colleges, are now regulated to provide lunches to the students. Many offices and schools that in the past directly operated in-house institutional restaurants have switched to outside commercial operators for quality and efficiency. It is expected that commercial institutional feeding services will keep expanding the market share at the expense of in-house restaurants in the coming years.

The growth of the commercial institutional feeding segment is mainly led by a handful of leading players, all of them subsidiaries or affiliated businesses of local conglomerates. The leading players are currently closing down small scale outlets to focus on big volume clients, which is leaving some room for smaller players to grow. In particular, after mass food poisoning incidents broken out during the last couple of years, leading players have stepped away from the school segment.

Most of the leading companies have diversified into regular restaurant businesses, including food courts, cafeterias, bars, coffee shops, bakery shops and premium restaurants. Some of the leading companies have also expanded into the food service distribution business that offers a broad line of products to outside restaurants. It is expected that the distribution

¹⁸ Source: Korea Food Distribution Yearbook 2007 by the Monthly Food Journal, Unit: Korean won

business arms of these institutional food service companies will someday evolve into separate, independent broad line food service distribution companies.

Price and stable supply capability are the two most important criteria when restaurants in the segment make purchasing decisions. Consequently, the segment relies heavily on low price products from export oriented countries, including China, South Asia, and Australia. However, it is expected that the segment will accept more high value further processed American products in the coming years that can save labor and overhead cost.

Section III. Competition

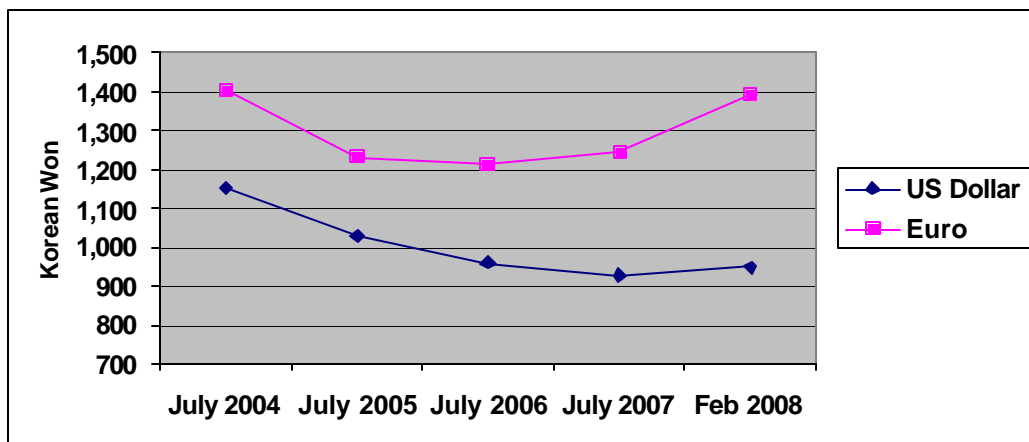
Domestic products, both raw and processed, comprise a major competition to many U.S. products. Although limited in variety, Korean agriculture produces a considerable amount of raw agricultural products, including rice, fresh vegetables, fruits, seafood, pork, chicken, eggs and fluid milk. In addition, Korea has a strong processed food industry that manufactures a wide variety of processed products, including processed meat, seafood, vegetables, fruits, noodles, sauces, oils, beverages, snacks, dairies and liquors. For raw agricultural products and input ingredients for the local processing industry that are not grown or manufactured in Korea, U.S. products face increasing competition from imported products from export oriented countries. Products from competitor countries, including China, Australia, Chile and Thailand, in general offer lower prices than U.S. products and, thus, are quickly building up market shares. China, for example, has become the biggest supplier of fresh and processed vegetables, sauces, spices and seafood to the Korean food service sector. In addition, increased demand for more diverse international cuisines and recipes are translated into growing demand for imported products from more diverse origins, including European and South Asian countries.

The lifting of import barriers directly affects competition in the market. Many local products have lost price and availability competitiveness when protective import barriers were removed, which is expected to happen continuously in the coming years with the progress of WTO negotiations and bi-lateral free trade agreements (FTA). For example, since the implementation of the Korea-Chile Free Trade Agreement in April 2004, trade between the two countries has reached record levels. Korea has also concluded two other FTAs with Singapore and EFTA, and is currently engaged in FTA talks with several other countries, including EU and China. The Korea-U.S. Free Trade Agreement (KORUS FTA) concluded in early 2007 is expected to create opportunities for U.S. exporters. The KORUS FTA is currently pending in the National Assembly of Korea and the U.S. Congress for ratification.

As tariff barriers decline, food safety issues are becoming more powerful measures for the Korean government to restrict imports. Restriction of imports from certain countries results in replacement imports from competing countries, as seen in the import ban on U.S. beef for BSE. Consequently, in an effort to maintain a stable supply, local food service importers in general prefer to interact with more than two different countries especially for potentially risky items, such as chicken, pork and beef.

Steep appreciation of currencies of competitors, Euro in particular, against Korean won since mid 2006 has been translated for many American products into better price competitiveness in Korea.

Figure 7: Change of Exchange Rate of Korean Won



IV. Best Product Prospects for U.S. Exporters

A. Products Present in the Market Which Have Good Sales Potential¹⁹

1. Pork (chilled and frozen belly cut): Due to the import restriction on U.S. beef since December 2003, many beef restaurants have switched to pork menus, resulting in a strong demand for additional imports. Although Korea has a large domestic supply of pork meat, local demand is highly skewed to the belly cut, which has resulted in a strong need for imports. It is interesting to note that much of the meat is distributed frozen in the food service sector, as restaurants generally want a longer shelf life. Total pork meat imports increased 20 percent from the previous year to \$798 million in 2007. Imports from the United States during that same period grew 18 percent to \$191 million.

2. Processed meats (sausages, hams): Due to easy application, a wide variety of menus served in Korea incorporate processed meat products. Fast food, bars and buffet restaurants are the main users of these products. Imports of sausages from the U.S. grew 28 percent to \$13 million in 2007 while imports of preserved meat grew 35 percent to \$7 million.

3. Chicken (frozen and processed): Although there still remain some safety concerns among consumers over poultry products due to the ongoing Avian Influenza issue, Korea remains an excellent market for chicken products. Demand for further processed poultry products is expected to grow gradually in the coming years. Conversely, Korean food service sector is not a market for imported fresh chicken meat due to the short shelf life and strict sanitary standards (zero tolerance on E-coli contamination). U.S. exported \$25 million of poultry meat and edible offal to Korea in 2007.

4. Seafood (frozen and processed): Korea is an outstanding seafood market with good growth potential for imported products. The domestic supply is decreasing due to the depletion of near sea fishery resources and increased international restrictions on deep-sea fishing. Imports from the U.S. amounted to \$3 million for live fish, \$57 million for frozen fish (not fillet) and \$48 million for fish fillets, \$6 million for crustaceans and mollusks, and \$2 million for preserved crustaceans in 2007. Major species currently imported from the U.S. include: Alaska Pollack, Pollack surimi, Pollack roes, tuna, skate, mackerel, hagfish, halibut, scallop, cod, Pacific salmon, angler fish, rock fish, and prepared sea cucumber. It is notable that the demand for processed products (fillet, dried, and cooked) is rising.

¹⁹ All import value figures for 2007 in this section is for January through November period unless specified otherwise.

5. Processed fruits and nuts: Processed fruits and nuts are gaining consumer popularity due to their natural and healthy image, which resulted from the introduction of more recipes that incorporate these products. Products currently imported from the United States include: dried, frozen, or preserved prunes, cranberries, cherries, strawberries, grapes, figs, blueberries, walnuts, almonds, pistachios, pecans and peanuts. Imports from the U.S. amounted to \$19 million for preserved fruits, \$1.2 million for processed fruits & nuts, \$2 million for dried fruits, and \$63 million for nuts in 2007. American fruit juices also have a big market in Korea at \$42 million.

6. Fresh fruits: Korea is an excellent market for U.S. oranges. Demand for imported oranges is increasing in both food service and retail sectors. Currently, U.S., Australia and South Africa are allowed to export oranges to Korea. Major American products imported to Korea include: citrus (\$107 million), grapes (\$14 million) and cherries (\$30 million).

7. Vegetables (fresh, frozen, canned and prepared): Although Korea is self-sufficient in many varieties of fresh vegetables, seasonal fluctuations in the local supply and unfavorable growing condition for foreign varieties are resulting in an increased demand for imports. China has emerged as the leading supplier of vegetables to the Korean food service sector in both fresh and processed category; however, there remains a solid demand for a limited variety of high quality U.S. products. Major products imported from the United States include processed vegetables (\$54 million), preserved tomatoes (\$9 million), vegetable pickles (\$5 million) and fresh vegetables (\$6 million - mostly potatoes and lettuce).

8. Dairy Products (milk concentrate, cream, whey, butter and cheese): Introduction of more diverse recipes, in particular in the thriving bakery industry, incorporating dairy ingredients are resulting in a growing demand for imports. Total dairy product imports from the U.S. grew 16.9 percent to \$59 million in 2007.

9. Alcohol Beverages (wine, beer and hard liquors): Demand for products with health benefits and lower alcohol contents is rapidly growing. Imports from the U.S. amounted to \$15 million for wine (up 43 percent), \$7 million for beer (up 35 percent) and \$6.3 million for hard liquors (up 97 percent) in 2007.

10. Coffee: Ongoing expansion of franchise coffee shop chains results in an increased demand for imported coffee. Imports of coffee from the U.S. grew 71 percent to \$13 million in 2007.

11. Sauces and Condiments: With introduction of more diverse foreign recipes, demand for imported sauces and condiments continue to rise. Imports from the U.S. grew 14 percent from the previous year to \$18 million in 2007.

12. Bread, pastry, cakes: Due to the expansion of bakery segment, imports are rising rapidly. Imports from the U.S. amounted to \$35 million in 2007, up 51 percent from the previous year.

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

1. Beef: Before the import ban due to BSE, Korea imported as high as \$800 million of beef products annually from the U.S. Although deboned beef meat from cattle under 30 months old is currently allowed, imports have been suspended since the partial market reopening. Despite the relatively small window given for importing U.S. beef in 2007, importers brought \$14 million in chilled U.S. beef and \$78 million in frozen U.S. beef.

2. Rice: The new rice trade agreement that Korea signed in early 2006 with exporting countries now allows imported rice to be distributed commercially through the retail channel. It is expected that some portion of imported rice, including U.S. rice, will eventually be used by the food service sector. Imported rice will gain more price competitiveness over the coming years, as the agreement is made to gradually increase the volume of imported rice for access to the commercial retail market.

3. Pasta: Increased popularity of Italian recipes is resulting in increasing imports of products related to the cuisine, including Pasta. Among the \$69 million of pasta products imported in 2007, imports from the United States amounted to mere \$550,000. However, the 8 percent import duty that currently applies to U.S.-origin spaghetti and macaroni would be reduced to zero over 5 years after the KORUS FTA is implemented which would increase the competitiveness of U.S. pasta substantially.

4. Ingredients for Mexican cuisine: Many industry opinion leaders predict that Mexican cuisine has a great potential in Korea, as the cuisine contains a lot of hot, spicy dishes. However, unfortunately, local chefs and restaurants have little knowledge and experience about this new to market cuisine.

5. Processed turkey meat: Local mainstream consumers still maintain a negative image on turkey meat. However, processed products are likely to gain more local followers, especially among those Koreans who have traveled to the U.S. and have developed tastes for related dishes. For example, turkey ham sandwiches are becoming popular among affluent, young consumers.

6. Premium seafood: Products such as lobster, crabs (King, Snow, and Dungeness), black cod and wild caught Sockeye salmon have good potential in Korea as affluent consumers are looking for premium, healthier alternatives to beef and pork.

7. Processed eggs (fluid, frozen and flour): More restaurants and bakery shops are expected to switch to processed egg products from shelled eggs for safety and efficiency. Shelled egg imports from the U.S. grew 15 percent to \$3 million in 2007.

8. Prepared processed food: Demand for prepared products, such as frozen soups and fully cooked meals, is gradually picking up in the food service sector. As more restaurants understand the economic benefit and quality of prepared products, demand for U.S. products is likely to increase.

9. Ingredients for micro-brew beer: Demand for ingredients for micro-brew beer is likely to increase with the addition of more micro-brewery restaurants to the sector.

10. Processed organic products: The demand for processed organic products continues to increase among the affluent consumer groups and young mothers. However, Korean government currently maintains a prohibitive, zero tolerance residue standard for GMO.

11. Many imported agricultural products, including honey, fresh potatoes, fresh onions and popcorn, are subject to high tariffs and tariff rate quotas (TRQs) that restrict import volumes. However, ongoing trade negotiations are likely to reduce some of these barriers in the coming years.

C. Products Not Present Because They Face Significant Barriers

1. Import provisions for beef remain problematic as of March 2008. Currently, no American-origin processed products that contain beef ingredient are allowed for imports into Korea.
2. Lamb meat: Imports of U.S. lamb meat is banned, as imports of products of all ruminant animals, except boneless beef, are currently banned due to the BSE issue.
3. Imports of many U.S. fresh fruits, including apples, fresh berries, pomegranates and mangos, are prohibited as there is no bilateral plant sanitary quarantine agreement between the U.S. and Korea.
4. Fresh organic produce: imports of fresh organic produce are unlikely in the near future due to the lack of organic certification equivalency.

V. Key FAS/USDA Contacts and Further Information

For further information about the Korean agricultural market, please contact:

U.S. Agricultural Trade Office

Korean Address: Room 303, Leema Building
146-1, Susong-dong, Chongro-ku, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550
Telephone: 82-2 397-4188 Fax: 82-2 720-7921
E-mail: atoseoul@usda.gov
Website: www.atoseoul.com

Agricultural Affairs Office

Korean Address: U.S. Embassy, 82, Sejong-ro, Chongro-ku, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550
Telephone: 82-2 397-4297 Fax: 82-2 738-7147
E-mail: agseoul@usda.gov

For more information on how you can register for USDA/FAS' Supplier List:

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 U.S. Suppliers Service is a searchable database of over 5,000 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 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://www.fas.usda.gov/agexport/exporter.html>

AgConnections Team
AgExport Services Division, Foreign Agricultural Service, Washington, D.C.
Telephone: 202-690-4172 Fax: 202-205-2963
E-mail: joyce.estep@usda.gov
Website: www.fas.usda.gov/agx/agx.html

For further information about sanitary and phytosanitary requirements, please contact:

[U.S. Animal Plant and Health Inspection Service \(APHIS\)](#)

Korean Address: Room 303, Leema Building
146-1, Susong-dong, Chongro-ku, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550
Telephone: 82-2 725-5495 Fax: 82-2 725-5496
E-mail: yunhee.kim@aphis.usda.gov
Website: www.aphis.usda.gov

For information about activities by Strategic Trade Regional Groups, please contact:

Food Export Association of the Midwest USA

309 W. Washington St., Suite 600
WHAT CITY HERE???? Illinois 60606
Telephone: 312-334-9200 Fax: 312 334-9230
E-mail: thamilton@foodexport.org
Website: www.foodexport.org

Western United States Agricultural Trade Association (WUSATA)

2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA
Telephone: 360-693-3373 Fax: 360-693-3464
E-mail: bruce@wusata.org
Website: www.wusata.org

Food Export USA - Northeast Region of the United States

150 S. Independence Mall West, 1036 Public Ledger Building
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E-mail: jcanono@foodexportusa.org
Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)

2 Canal Street Suite 2515, New Orleans, LA 70130, USA
Telephone: 504-568-5986 Fax: 504-568-6010
E-mail: jim@susta.org
Website: www.susta.org

For information on the commercial and industrial products in Korea, please contact:

U.S. Commercial Service

Korean Address: U.S. Embassy, 82, Sejong-ro, Chongro-ku, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-USCS, APO, AP 96205-5550
Telephone: 82-2 397-4535 Fax: 82-2 739-1628
E-mail: Seoul.office.box@mail.doc.gov Homepage: www.buyusa.gov/korea