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Retail Food Sector

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Report Highlights:

The retail food sector in Korea has undergone a rapid change mainly due to the development of modern retail businesses coupled with evolution of consumer tastes and increased income levels. These developments translate into growing opportunities for imported consumer-ready food products. Total imports of consumer-ready foods from the United States increased by 23 percent from the previous year to \$1.4 billion in 2008.

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I. Market Summary

A. Korean Retail Sector Overview

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

As of 2007, the size of the overall retail market in Korea was estimated at W232 trillion Korean Won² (approximately \$247 billion), up 5.6 percent from the previous year. The growth of overall retail market sales has slowed down in recent years due to the sluggish local economy and stagnant performance of traditional retailers. However, modern retail businesses have continued a rapid expansion to take an estimated 40 percent of the retail market sales today. Although on a decline, traditional retailers still account for a significant retail force especially in areas where modern large-scale retailers have yet to penetrate.

Hypermarkets, armed with value price, one-stop shopping convenience and efficient product assortment, have stepped up to the single largest retail force in Korea since 2002, replacing the old time leader, department stores. Hypermarkets accounted for 12.5 percent of overall retail market sales, or W28.9 trillion as of 2007. The market share of hypermarkets is likely to increase further in the years to come as there still remains room in the market for additional 100-200 stores as a result of on-going renovation projects of old metropolitan areas and developments of new residential areas across the country.

On-line retail business remains one the fastest growing segments in the market as more consumers are attracted to this innovative shopping method for convenience and competitive pricing. The sales of on-line retailers, including internet shopping, TV home-shopping and catalog shopping, have grown 82.1 percent during the last five years to take 9.2 percent, or W21.3 trillion of retail market sales in 2007. Korea has the right mix of socio-economic conditions, in particular dense population and high affinity towards information technology, that foster development of on-line retailing.

Table 1: Breakdown of Korean Retail Market Sales³

Segment	2005		2007		Growth
	Sales	Share	Sales	Share	
Hypermarkets	W24.2 trillion	11.6%	W28.9 trillion	12.5%	19.4%
On-line Retailers ⁴	W17.8 trillion	8.5%	W21.3 trillion	9.2%	19.7%
Department Stores	W17.2 trillion	8.2%	W18.7 trillion	8.1%	8.7%

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

2 Exchange rate: \$1 = W1,258 (Jan. 1, 2009); W1,044 (July 1, 2008); W938 (Dec. 31, 2007)

3 Source: Korea Statistics Office. Year 2007 data were the most up-to-date official statistics available at the time of reporting.

4 On-line shopping in this report refers to Internet shopping, TV home-shopping, catalog shopping and other types of retailing over communication tools that detour physical stores.

Supermarkets	W11.0 trillion	5.3%	W11.8 trillion	5.1%	7.3%
Convenience Stores	W4.0 trillion	1.9%	W4.8 trillion	2.1%	20.0%
Others	W134.4 trillion	64.4%	W146.2 trillion	63.1%	8.8%
Total	W208.6 trillion	100%	W231.7 trillion	100%	11.1%

Total food sales in the retail sector were estimated at W49.7 trillion⁵ in 2007, up 8 percent from the previous year. In other words, food products accounted for about 21 percent of overall retail market sales. Hypermarkets led the sector for food sales at an estimated W10.8 trillion. The Korean household spent on average W297,739 or 13.5 percent of total monthly expenditure on grocery foods in 2007.

Table 2: Estimated Food Sales by Retail Channel

Year 2007	Percent of Sales from Food Products ⁶	Total Food Sales
Hypermarkets	37.4%	W10.8 trillion
Department Stores	10.3%	W1.9 trillion
Convenience Stores	47.8%	W2.3 trillion
Supermarkets	84.5%	W10.0 trillion
On-line shopping	4.7%	W1.0 trillion

Table 3: Breakdown of Monthly Household Expenditure on Grocery Foods⁷

Items	2005		2007	
	Spending	Share	Spending	Share
Grains & Cereals	W45,652	15.6%	W41,818	14.0%
Meat	W41,596	14.2%	W43,914	14.7%
Milk & Dairy Products	W22,102	7.6%	W21,191	7.1%
Fishery Products	W32,632	11.2%	W34,148	11.5%
Vegetables including Seaweeds	W39,917	13.7%	W42,443	14.3%
Fruits	W33,505	11.5%	W35,492	11.9%
Seasonings, Oils, Fats	W17,919	6.1%	W16,059	5.4%
Bakery and Snacks	W22,634	7.7%	W22,910	7.7%
Tea, Soft Drinks, Alcohol Beverages	W22,381	7.7%	W22,797	7.7%
Other Foods	W14,049	4.8%	W16,969	5.7%

⁵ Source: Korea Statistics Office

⁶ Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

⁷ Source: Monthly Household Spending, Korea Statistics Office (average size of a household in Korea was 3.3 people as of year 2005)

Total	W292,384	100%	W297,739	100%
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Rapid expansion of hypermarkets and on-line retailers has heightened the competition in the industry, resulting in mergers and acquisitions (M&A) not only of small, regional retailers by large national retailers but also consolidation among large retailers. For example, Lotte Super bought Big Mart, a regional supermarket chain with 14 stores, and Nice Mart, another regional chain, in 2008 in an effort to strengthen its presence in the regional market in the southern part of Korea. Samsung Tesco narrowed the gap between itself and the number one player in the hypermarket segment, Shinsegae E-Mart, by acquiring the hypermarket division (36 stores) of E. Land Group in 2008. Industry experts forecast that consolidation will continue in the industry as leading players strive to achieve dominance in the market. It is notable that leading retail companies in Korea have 'horizontally integrated' over the years through aggressive investment and now operate various types of retail formats that encompass the whole spectrum of retail business. For example, both Shinsegae Co. and Lotte Shopping Co., the top two retail conglomerates in Korea, operate convenience stores, grocery supermarkets, department stores, hypermarkets and on-line shopping business. Leading retailers have also expanded into developing Asian countries, including China and Vietnam, to find new growth opportunities. For example, Shinsegae Co., which currently operates 18 hypermarket stores in China, plans to expand the China business to 70 stores by 2012.

Currently, most of the local retail companies do not import food and agricultural products on their own. Rather, retailers in general rely on independent importers for imported products. On the other hand, retailers of international origin, Costco Wholesale Korea in particular, procure a larger part of the imported products directly through their international sourcing networks. Retailers of local origin are currently seeking ways to expand direct importing for lower cost and improved product assortment, but any rapid change is unlikely in the near future as they lack experience and expertise. Leading retailers are making heavy efforts to develop their on private label brand (PB) programs for both local and imported food and agricultural products for higher profit and consumer loyalty. But again retailers of local origin rely largely on independent importers even in the case of private label imports.

Growth of the modern retail business in Korea has coincided with development of modern large-scale logistics service industry. Leading retailers are now equipped with temperature controlled distribution networks of trucks and warehouses throughout the country. On the other hand, small to medium size retailers in general rely on third party independent logistics service providers. The logistics service industry is likely to continue its rapid growth as demand for home delivery service, now widely offered not only by on-line retailers but also by conventional retail stores, continues to increase.

B. Consumer Trends

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

Due in part to the aging population, there is a heavy emphasis among the general public on healthy eating. Organic food and wine, among other products, are gaining popularity among health-conscious aging consumers and young professionals. The 'Well-being' lifestyle, a theme that denotes a new consumer movement toward psychological and physical health through changes in consumption behavior, is popular among the general public and has evoked new consumer trends in favor of healthier and 'wholesome' diets. For affluent consumer groups and young professionals, quality and image can be more important factors than price and value when making purchasing decisions.

Koreans' long-held belief that many regular foods have specific health benefits is captured by an old Korean proverb which says, "food and medicine are from the same source". Such beliefs still prevail and contribute to the on-going trend of seeking functional effects in almost every food that consumers encounter in the market. As a result, sales of functional foods (or regular foods targeting health concerns) with government approved efficacy claims and perceived efficacy based on word-of-mouth remain strong. Glucosamine, Chlorella, vitamins, anti-oxidants, lactic bacteria, antlers, pollen, green tea, fish oil, Ginseng and other Asian herbs are some of the functional ingredients that are popular in the market.

Table 4: Aging Korean Population

Age Group	1995		2000		2005		Growth
	Number ⁸	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%

Consumer demand for products of higher quality and new taste are increasing along with the growth of income level of Korean consumers. Korean GDP⁹ reached \$969.9 billion in 2007 (13th highest in the world), up 9.2 percent from the previous year. Per capita GNI¹⁰ also grew by 11.3 percent to reach \$19,690 (38th highest in the world). Evolution of consumer tastes and buying power over the years has diversified demand for products covering broad ranges of price and quality. For example, while the strong demand for value-oriented products by the middle income segment has driven the rapid expansion of hypermarkets, sales of luxury goods in department stores have also shown strong growth even under the economic slow down in recent years.

Korea's 50 million inhabitants occupy a country the size of the state of Indiana. About 70 percent of the land is mountainous terrain and over 90 percent of Korean population lives in urban cities, which explains the high population density¹¹ and real estate cost¹². Convenience has become a very important factor behind many consumer trends as everyday life gets busier. For example, increased numbers of dual-income families and single parent households have led to a growing demand for HMR (Home Meal Replacement) products in retail stores. Large-scale retailers have actively responded by introducing in-store fast food and deli outlets, prepared food sections and more microwavable processed foods. Delivery service is extremely well developed in Korea as people do not want to waste time on traffic-jammed roads. Rapid growth of on-line shopping is also rooted partly in the demand for convenience (of course, high real estate cost is another factor that drives stores to go 'virtual').

It is likely that consumer demand and consumption trends will change significantly during the on-going global economic depression. According to a report by International Monetary Fund (IMF) in February 2009, the Korean GNP was forecast to contract 4 percent in 2009. Although other predictions for the Korean economy in 2009 are not a pessimistic, higher unemployment, reduced consumer income and reductions in expenses like eating out would influence overall food demand. Devaluation of Korean won against major international currencies, including the US dollar, is likely to continue due to financial instability, making imported food more expensive to local consumers.

8 Unit: 1,000 people (Source: Korea Statistics Office)

9 Gross Domestic Production Annual, GDP

10 Gross National Income Annual, GNI (GDP and GNI figures in this report are from World Bank database)

11 483 people per square kilometer (3rd highest level in the world), Korea Statistics Office 2005 Data

12 A Bloomberg report 2006 indicated that Seoul was the 9th expensive city in the world in office rent.

C. Food Imports

By nature, Korea depends heavily on imports. The supply from local agriculture and fishery industry accounted for only 45.7 percent of Koreans' calorie intake¹³ as of 2005. Industry sources estimate that roughly 70 percent of all food products sold in the market is from foreign origins. Local production alone is not capable of meeting the increasing demand for products of diversified international tastes and wider price and quality options.

Table 5: Imports of Agricultural, Forestry, and Fishery Products by Korea (Year 2008, CIF value)

Category	From the World Total		From the U.S.	
	Value	Growth	Value	Growth
Basic Commodity	\$6.3 Billion	53.7%	\$3.9 Billion	127.9%
Intermediary	\$6.5 Billion	23.8%	\$1.2 Billion	15.8%
Consumer-Oriented	\$6.1 Billion	5.0%	\$1.4 Billion	22.7%
Forestry	\$2.4 Billion	-1.0%	\$252 Million	32.7%
Fishery	\$2.4 Billion	-3.6%	\$129 Million	-2.1%
Total	\$24.1 Billion	17.6%	\$6.9 Billion	63.7%

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

Growth of modern large-scale retailers and changes in consumer tastes are translated into growing opportunities for imported consumer-ready food products. According to official import statistics, total imports of consumer-oriented foods in 2008 increased 5 percent from the previous year to \$6.1 billion, while imports from the United States grew 22.7 percent to \$1.4 billion. "One-stop" shopping hypermarkets and large supermarkets have become the major retail channel for imported foods as they offer more favorable shopping environment where imported products can better compete against locally manufactured or grown products. In addition, large retailers are seeking ways to increase their assortment of imported foods in an effort to differentiate their stores from competitors.

The outlook for U.S. food exports to the Korean retail sector is excellent for beef¹⁴, pork, poultry, seafood, processed vegetables, fruits, nuts, dairies, juices, alcohol beverages, condiments, sauces, cooking oils, organic foods, coffee, snacks and confectioneries. In addition, on-going trade liberalization will create new opportunities for those products that are currently under restrictive import barriers in the form of tariffs, quotas and food safety regulations.

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

Advantages	Challenges
Korea is an emerging market where new ideas and trends are eagerly tried and accepted, leading to greater opportunities for new-to-market products. Consumers are looking for new and international tastes as the income level continues to rise.	Consumers are generally biased toward locally produced products. Many consumers 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.

¹³ Korean Government Annual Report (December 2006)

¹⁴ Current regulation allows imports of deboned skeletal muscle meat and bone-in meat with no Specified Risk Material (SRM) from cattle under 30 months of age from pre-approved slaughter houses only.

<p>Korea, by nature, depends heavily on imports for its food and agricultural needs. On-going liberalizations of import barriers improve market accessibility and price competitiveness of imported products.</p>	<p>Imports of many products still face restrictive trade barriers, including high tariffs, volume quotas, safety documentation and labeling regulation. Certain food additives approved for use in the United States may not be approved in Korea.</p>
<p>A series of public food safety scandals associated with imported products from China in recent years has led consumers and traders to be more concerned about the quality of product that they buy. Traders are likely to switch procurement sources to developed countries, including the United States in an effort to regain consumer confidence.</p>	<p>Few local retailers import directly. Local retailers in general lack experience and expertise on international sourcing. Markets outside metropolitan areas have low access to imported foods. Leading retailers require minimum two thirds of designated shelf life left on imported products upon delivery to the warehouse.</p>
<p>Growth of modern retail businesses offers new opportunities to imported consumer oriented products. Large retailers seek ways to increase the assortment of imported products to differentiate from competitors.</p>	<p>High margins/markup on imported products coupled with import tariffs and taxes deteriorate price competitiveness of many imported products against locally grown or manufactured products.</p>
<p>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. Consumers maintain positive view on the quality and value that American products offer. English is the most popular foreign language for Koreans.</p>	<p>Consumers hold negative perceptions about GMO products. Retailers fear reprisal from anti-GMO activists and, consequently, refuse to stock any product that would have to be labeled "Contains GMO". Many U.S. products would be required to have "Contains GMO" labeling under Korean regulations.</p>

II. Road Map for Market Entry

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

A-1. Entry Strategy

Establishing Korean Partner:

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

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

? ATO Seoul maintains listings of established Korean importers by product or by industry, which are available at no cost to U.S. exporters. ATO Seoul also feeds trade lead information from Korean importers to State Regional Trade Groups (SRTGs), which are disseminated to registered U.S. exporters through the network of the state department of agriculture or trade promotion agency. ATO Seoul regularly organizes Korean buyer delegations in cooperation with SRTGs and agricultural cooperators to major food shows in the United States, such as the FMI Show and the NRA Show, for matchmaking with U.S. exporters.

? Exhibiting in local Korean food trade shows can be a cost-efficient way to meet with a large number of key Korean importers/traders. Currently, the Seoul Food & Hotel (SFH) show¹⁵ is the only show in Korea endorsed and supported by U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Exporters who are considering exhibiting at any Korean show may contact ATO Seoul for guidance and information because most local shows are consumer-oriented and are not particularly efficient for promoting new-to-market products.

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

? There are many items that the U.S. exporter should follow closely with the importer during the initial stage of market entry. The Korean government maintains very strict regulations on food imports and requires various certificates/documents and product information before approving importing of a new-to-market food product. Therefore, the exporter must timely provide the importer with necessary documents and information to submit to the government authorities. More detailed up-to-date information on the Korean food safety and labeling regulations on imported food can be found in the FAS report #KS8044, (Korean Food and Import Regulations Standards Report (FAIRS) Year 2008, www.fas.usda.gov).

? New-to-market U.S. exporters should pay attention to protecting the company/product trademarks 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 Korean Intellectual Property Office website at: <http://www.kipo.go.kr/kpo/eng>.

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

Understanding Local Tastes:

All foods sold in retail stores in Korea, whether traditional or imported, reflect the contemporary dietary culture of Koreans. Even those new-to-market imported foods that recently appeared on the shelf mirror the on-going consumption trends and consumer tastes. Accordingly, a good understanding of trends and local tastes is the key to make a successful entry into the Korean market. At the same time, considering the rapid evolution of the sector,

15 May 13-16, 2009 (www.seoulfood.or.kr), For more information, contact the show organizing partner, Oak Overseas, Ltd. (rhood@oakoverseas.com)

it is very important to be kept informed of the changes in the consumer tastes and trends to stay ahead of the competition.

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

Another noteworthy issue in packaging is the separate Korean language label required on imported products. This added stick-on label can detract from the appearance of the product. Exporters should fully discuss the design of the Korean language label with their importer for best results. Korean language labels are in general designed and printed by the importer and hand-attached to the products in the duty free warehouse before the customs inspection.

A-2. Market Structure and Product Flow

Few large-scale Korean retailers currently import food products directly. Instead, retail companies in general purchase from independent importers for imported products. Most of the leading retailers have unveiled recently plans to expand direct importing divisions but it is likely that direct importing will remain a minor part of the total purchasing, limited to niche areas such as private label products. Purchasing managers in local retail companies tend to be risk averse and many are not familiar with foreign products or brands. Furthermore, many retailers maintain the policy of rotating purchasing managers among different product categories every two to three years to prevent corruption or job abuse. Consequently, few local purchasing managers have the expertise and experience required for direct international sourcing. This limits the entry of new-to-market products to the Korean retail sector. The independent importers are required to bear greater amount of the risk when placing a new product on the shelf. As a result, importers tend to add high markups to new-to-market products to cover potential loss. In contrast, retailers who do direct importing take more aggressive approach in introducing new-to-market imported products by adding much lower markups. Many foreign food companies with internationally renowned brands have direct sales offices in Korea and handle a significant amount of imported food traffic in the sector.

It takes at least two weeks for a container ship from a western U.S. port, and four weeks from an eastern port, to arrive in a port in Korea. In general, most imported consumer ready products enter the country through the port of Busan. In rare occasions, small-volume-high-value products, such as premium wine and chilled beef, are brought via air cargos through Incheon International Airport (ICN).

The amount of time that the product sits in the port of entry for food safety inspection and customs clearance process varies from one day to a few weeks largely depending on the kind of inspection the product is subject to. The detailed laboratory inspection that all new-to-market products and randomly selected returning¹⁶ products are subject to may take as long as ten working days. In case of live animals, the quarantine sanitary inspection can take more than a couple of months. The documentary inspection allowed for products with previous import records may be completed within a day.

¹⁶ 'Same Product from Same Origin' rule allows time saving "documentary inspection" on products that have been imported regularly in the past without any problem.

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

It is notable that department store's grocery section in general operates as a collection of individual food retail outlets that occupy the space leased from the store. In addition to a fixed amount of lease deposit paid up front, each tenant pays the department store a pre-agreed percentage of its sales every month. Consequently, distribution of imported foods to the department store involves a multiple number of importers and logistics services, which is an inefficient system and results in higher markups on the products sold (the land that department stores sit on fetches high cost which is eventually carried over to the price of product sold). The department store reserves the right to extend or end the lease contract with tenants every two to three years based on the sales performance. Consequently, most of the food products sold in department stores are focused on high-value, premium products.

The flow of imported food through the on-line retail channel differs widely from conventional distribution channel. In general, once orders are received by the on-line retailer, products from importers (or via wholesalers) are consolidated in the designated warehouse operated by third party logistics service company (large-scale on-line retailers may have their own consolidation warehouses) for final delivery to consumers. Many logistics service companies that provide nation-wide warehousing and delivery service have sprouted in Korea since late 1990s to support the fast growing on-line shopping industry. However mergers and acquisitions have been actively sought in the industry in recent years due to heavy competition. Many importers and wholesalers also sell on-line directly to consumers under separate retail licenses.

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

The amount of slotting fee that the retailer would charge for adopting a new product varies depending on the market potential of the product. Local retail stores are eager to add new products to their shelves as they strive to meet the consumer's strong demand for new tastes. However at the same time retailers are very concerned about the risk of carrying something new. Consequently, local retailers often ask for promotional support instead of

slotting fees when accepting new products. Promotional support may include in-store advertisement, in-store free sampling and point of purchase (POP) sales promotions such as sweepstakes, coupons and games. Free sampling is the most common tactic used. One of special features that foreign travelers find in Korean retail stores is that there are many 'sampling ladies' working on the floor offering various kinds of free foods. In-store promotions are highly recommended for launching new-to-market products since local consumers are strongly influenced by such educational experience when making a buying decision on new products.

Most of the leading retail companies in Korea are horizontally integrated and operate across the full spectrum of retail businesses, encompassing department stores, hypermarkets, supermarkets, convenience stores and on-line shopping. For example, Lotte Shopping Co. has under its umbrella "Lotte" Department Stores, "Lotte Mart" hypermarkets, "Lotte Super" supermarkets, "Seven Eleven" convenience stores, "Lotte TV home shopping" and "Lotte.com" Internet shopping mall. Entry into one part of an integrated retailer can lead to an access to the whole system.

A-3. Sub-Sector Company Profiles

A-3-1. Hypermarkets

The hypermarket segment has become the largest retail force in Korea since 2002. The rapid growth of hypermarket segment continued in 2007 with openings of an additional 30 new stores across the nation. Consolidation among competitors is expected to continue as there remains less room in the market for news stores. Wal-Mart Korea pulled out of the Korean market in 2006 by selling all of its 16 stores to Shinsegae Co. (the segment leader who operates E-Mart hypermarket chain), shortly after Carrefour Korea's announcement of withdrawal from the Korean market (E. Land Retail Co., Ltd. won the bid for 31 Carrefour stores in Korea). E. Land Retail again sold the 31 stores to Samsung Tesco (the number two player in the segment) in 2008. Leading players are seeking expansion into foreign markets, especially China and Vietnam, for new growth opportunities. Lotte Shopping acquired

Macro's (a Holland retailer) entire China business (total 8 stores) in 2008. The growth of the segment has been mainly driven by leading players as evidenced by the fact that the top three chains accounted for 26 out of the 30 new stores opened in 2007. The top three chains took 73 percent of total hypermarket segment sales in 2007. It is notable that leading players have newly organized "direct international purchasing division" in recent years to strengthen private label brand programs on imported products.

Figure 1: Hypermarket versus Department Store Segment Sales

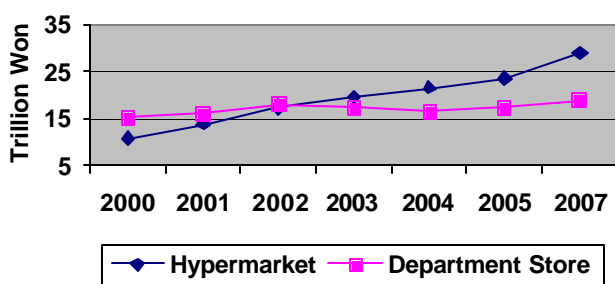


Table 7: Description of An Average Hypermarket Store in Korea (2007)

Daily Sales	W200 million (roughly \$200,000)
Share of Food in Total Sales	Fresh Agricultural Products: 9.1% Livestock Products: 4.6% Seafood: 3.2% Processed Foods: 18.3% Home Meal Replacement Foods: 2.2%

Size of Store	15,000 square meter
Number of Employees	77 full-timers, 238 part-timers
Number of Items in Inventory	50,000 - 100,000 SKU (stock keeping unit)
Number of Consumers Daily	6,689
Per Consumer Purchase Amount	W41,370 (roughly \$41)

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association), Company IR Information

Table 8: Profile of Major Hypermarket Chains (2007)

Company Name	Store Name	Ownership	Annual Sales	Stores	New Stores
Shinsegae Co.	E-Mart	Korea	W10.3 trillion	110	7
Samsung Tesco Co., Ltd.	Home Plus	U.K.	W6.2 trillion	64	13
Lotte Shopping Co.	Lotte Mart	Korea	W4.5 trillion	56	6
E. Land Retail	Home Ever	Korea	W2.3 trillion	35	3
	New Core		W1.8 trillion	15	0
KACM Inc. ¹⁷	Hanaro Club	Korea	W1.6 trillion	18	1
GS Retail Co., Ltd.	GS Mart	Korea	W0.8 trillion	13	0
Mega Mart Co., Ltd.	Mega Mart	Korea	W0.7 trillion	9	0
Costco Wholesale Korea	Costco	U.S.	W0.7 trillion	5	0

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

A-3-2. Grocery Supermarkets

Large grocery supermarket chains under the umbrella of leading retail companies are expanding presence in areas where hypermarket stores can not penetrate either due to lack of enough land space (such as old metropolitan areas) or lack of enough population (such as suburban areas) at the expense of family-run independent grocery stores. Merger and acquisition have been actively pursued in the segment in recent years as there remains less room in the market for new stores. For example, Lotte Super (by Lotte Shopping Co.) added 28 new stores during 2007 largely through acquisition of two regional supermarket chains. Major supermarket chains have made heavy investment over the years to reposition their stores in the niche between hypermarkets and convenience stores. The restructuring has resulted in an aggressive "scrap and build" process in which a considerable number of existing stores were replaced by larger-sized new stores in new locations. New stores emphasize improvement in assortment (bigger Home Meal Replacement section, more fresh products), convenience (ground floor location, parking lot) and customer service (home delivery, in-store service outlets such as pharmacy, laundry shop and post office).

Table 9: Description of an Average Grocery Supermarket in Korea (2007)

Daily Sales	W20 million won (roughly \$20,000)
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¹⁷ KACM: Korea Agricultural Cooperative Marketing Inc., a retail arm of Korea Agricultural Cooperatives Federation, a quasi government agency.

Share of Food in Total Sales	Fresh Agricultural Products: 25.1% Livestock Products: 16.3% Seafood: 4.7% Processed Foods: 37.6% Home Meal Replacement Foods: 0.8%
Size of Store	1,227 square meter
Number of Employees	9 full-timers, 10 part-timers
Number of Items in Inventory	7,000 - 25,000 SKU
Number of Consumers Daily	1,383
Per Consumer Purchase Amount	W15,328 (roughly \$15)

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association), Company IR Information

Table 10: Profile of Major Supermarket Chains (2007)

Company Name	Store Name	Annual Sales	Total Stores	New Stores	Stores Closed
GS Retail Co., Ltd.	GS Supermarket	W750 billion	84	4	1
Lotte Shopping Co.	Lotte Super	W588 billion	79	28	1
Seowon Utong Co., Ltd.	Top Mart	W596 billion	51	7	0
Samsung Tesco Co., Ltd.	HomePlus Express	W230 billion	76	28	1
E. Land Retail Co., Ltd.	Kims Mart	W178 billion	32	5	3
CS Utong Co., Ltd.	Goodmorning Mart	W168 billion	24	3	0

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

A-3-3. Convenience Stores

The total number of convenience stores in Korea reached 11,056 at the end of 2007 with openings of 1,128 new stores throughout the year. Rapid expansion of convenience store segment is likely to continue in the next several years due to on-going development projects of new office and residential areas across the country. In particular, convenience stores are thriving in metropolitan areas where young consumers with busy lifestyle look for an easy shopping solution for small food items. It is expected that leading players in the segment will gain additional market shares as opening of new stores require heavy investment. Family Mart and GS25, the top two players in the segment, took 59.7 percent of the total number of convenience stores in Korea and 63.4 percent of the total number of new stores opened in 2007. Introduction of more take-out meal replacement products and private label brand products have been top priorities in the segment in recent years for higher profit and consumer loyalty. Another area of emphasis has been adding more non-product services, including postal service, quick delivery, banking and photo processing, to increase consumer traffic to stores. It is notable that convenience stores maintain a very aggressive product assortment policy in that new products are more eagerly tried while under-performing products are quickly dropped, a strategy to keep abreast with the fast changing consumption trends of the young consumers. Among the 3,265 products sold in convenience stores as of year end 2007, 1,346 products, or 41.2 percent, were something newly introduced to the stores during the year.

Table 11: Description of an Average Convenience Store in Korea (2007)

Daily Sales	W1.5 million won (roughly \$15,000)
Share of Food in Total Sales	Dry Processed Foods: 17% Chilled Processed Foods: 12.2% Chilled Fresh Foods: 0.6% Snacks: 6.3% Fast Foods: 4.3% Liquor: 7.4% Tobacco: 44.1%
Size of Store	82 square meter
Number of Employees	2 Full-timers, 4 Part-timers
Number of Items in Inventory	3,265 SKU
Number of Consumers Daily	475
Per Consumer Purchase Amount	W3,178 (roughly \$3)

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

Table 12: Profile of Major Convenience Store Chains (2007)

Company Name	Store Name	Annual Sales	Total Stores	Store Increase from 2006
Bokwang Familymart Co., Ltd.	Familymart	W1.5 trillion	3,871	273
GS Retail Co., Ltd.	GS25	W1.3 trillion	2,856	456
Korea Seven Co., Ltd.	Seven Eleven	W552 billion	1,750	330
Ministop Korea Co., Ltd.	Ministop	W533 billion	1,012	0
Buy The Way Co., Ltd.	Buy The Way	W435 billion	1,055	64

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

A-3-4. Department Stores

The rapid expansion of hypermarkets and on-line retailers has suppressed the growth of the department store segment and has resulted in active merger and acquisition of independent regional department stores by large national chains. Consequently, the market share of the top three department store chains has continuously risen to take 75.4 percent of total department segment sales in 2007, which is a significant increase from 41 percent in 1998. Currently, there is a heavy emphasis in the segment to reposition product assortment and customer service to target more affluent consumer groups. The goal of this strategy is to differentiate the segment from value-oriented hypermarkets and on-line retailers. Leading companies have carried out extensive store renovation projects in recent years to adopt a premium look and product assortment. The share of food products in overall department store sales has been on a gradual decline as department store segment has given more emphasis on luxury non-food products for higher sales and profits. However, it is likely that department stores will remain the leading distribution channel for imported foods of premium quality and price.

Figure 2: Share of Foods in Department Store Sales

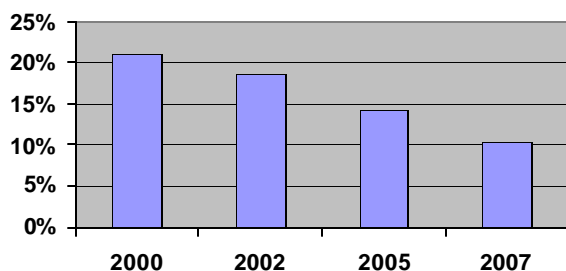


Table 13: Description of An Average Department Store in Korea (2007)

Daily Sales	W860 million won (roughly \$860,000)
Share of Food in Total Sales	10.3%
Size of Store	30,636 square meter
Number of Employees	251 full-timers, 66 part-timers, 842 promoter staff paid by suppliers (2005)
Number of Products in Inventory	220,000 SKU (2005)
Number of Consumers Daily	14,175
Per Consumer Purchase Amount	W60,691 (roughly \$60)

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

Table 14: Profile of Major Department Store Chains (2007)

Company Name ¹⁸	Store Name	Annual Sales	Stores	New Stores
Lotte Shopping Co. / Lotte Station building Co., Ltd. / Lotte Midopa Co., Ltd.	Lotte Department Store	W10.7 trillion	28	1
Shinsegae Co.	Shinsegae Department Store	W2.4 trillion	6	1
Hyundai Department Store Co., Ltd. / Hyundai Dept. Co., Ltd. / Hyundai DSF Co., Ltd.	Hyundai Department Store	W1.0 trillion	7	0

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

A-3-5 On-line Retailers

Changes in consumer life-style and development of information technology have fueled a rapid growth of on-line retailing, which includes internet shopping, TV home shopping, and catalog shopping. In particular, explosive growth of Internet shopping has made the on-line shopping segment the second largest modern retail channel in Korea since 2005. The size of the Korean population that has access to high-speed internet service has increased rapidly,

¹⁸ Lotte and Hyundai department stores are owned by more than one sister companies.

which is vital for the penetration of e-commerce into the daily life of regular consumers. Currently three out of four Koreans use high-speed internet on a regular basis¹⁹.

Figure 3: Number of High-Speed Internet Subscribers

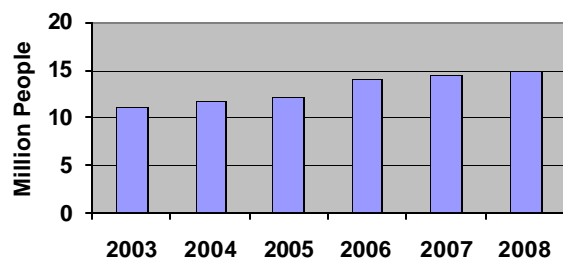
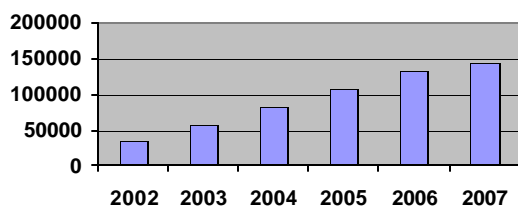


Figure 4: Number of Registered On-Line Retailers in Korea



Virtually all kinds of food products that are found in conventional retail stores are available on-line as even many of conventional retailers such as hypermarkets and supermarkets now operate Internet stores coupled with home delivery service (by the way, on-line sales of products that are required adult authentication by law such as liquor and tobacco are prohibited). On-line shopping, which requires no physical display shelves, has greatly expanded the variety and assortment of products offered to shoppers. On-line shopping has also expanded the boundary of target

market as home delivery can virtually reach any address around the country. Obviously price and convenience are the two leading factors that have made consumers shop on-line. However, most of the sales of food products through on-line retailing are focused on "well-known" or "reputable" existing products and brands as many consumers still feel uncomfortable about purchasing something that they have little information or experience with over on-line channel.

It is expected that leading players of the conventional retail industry will also become the major players of the on-line retailing segment as all leading retail companies seek to build up their on-line capacity. Market experts agree that maximizing synergy between the conventional retail network and the on-line technology will be the key in winning the competition in the on-line market. It is notable that a wide variety of imported food and beverage products are available from specialty Internet stores that are largely operated by importers and wholesalers. These specialty Internet stores often carry a deep assortment of products within a limited number of categories, such as dried fruits or bakery ingredients, and offer an easy access to specialty imported products that are not carried by neighborhood retailers.

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

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

Source: Korea National Internet Development Agency

Table 16: Percentage of Internet Shopping Users

Age / Sex	2006	2007
12 - 19	49.5%	54.8%

¹⁹ Source: Korea Communications Commission

20's	76.6%	82.2%
30's	62%	68.8%
40's	34.6%	38.8%
40's	19.8%	25.1%
60's	11.9%	11.6%
Male	48.5%	51.2%
Female	49.5%	64.4%
Total	52.7%	57.3%

Source: Korea National Internet Development Agency

Table 17: Annual Sales of On-line Retail Segment

	2001	2003	2005	2007
Catalog Shopping	W1.1 trillion	W700 billion	W580 billion	W650 billion
TV Home Shopping	W2.6 trillion	W4.2 trillion	W4.3 trillion	W3.9 trillion
Internet Shopping	W1.7 trillion	W6.6 trillion	W10.4 trillion	W15.8 trillion
T-Commerce ²⁰	0	0	0	W2 billion
M-Commerce ²¹	0	0	0	W2 billion
Total	W5.4 trillion	W11.5 trillion	W15.3 trillion	W20.4 trillion

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

Table 18: Breakdown of On-line Shopping Sales (2007)

Category	Internet Shopping	TV Home Shopping	Catalog Shopping
Computer Hardware	11.4	6.9	1.5
Computer Software	0.7	0.0	0.0
Electronics	22.7	13.8	14.5
Books	0.7	3.4	2.4
Audio Visual Disks	1.4	0.1	0.0
Tourism	1.0	0.4	0.0
Child & Baby	5.6	1.1	0.6
Food & Beverage	4.6	10.5	11.6
Flowers	0.4	0.0	0.0
Sport Leisure Goods	5.5	2.2	2.6
Home, Garden, Auto	14.2	16.5	26.8
Clothing & Fashion	19.7	23.9	35.2
Cosmetics	7.9	10.6	4.4
Office	0.9	0.0	0.0
Services	3.2	10.6	0.3
Total	100	100	100

Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association)

Table 19: Profile of Major On-line Retailers (2007)

Retailer Name	Sales ²²	Business Type	Internet Site
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20 T-commerce is an interactive TV home shopping tool tied with TV programs.

21 M-commerce is an on-line shopping over cellular phones or other mobile communication tools.

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

GS Home Shopping	W593 billion	TV home shopping Internet shopping mall Internet marketplace ²³ Catalog shopping	www.gseshop.co.kr
CJ Home Shopping	W519 billion	TV home shopping Internet shopping mall Catalog shopping	www.cjmall.com
Hyundai Home Shopping	W363 billion	TV home shopping Internet shopping mall Catalog shopping	www.hmall.com
Woori Home Shopping ²⁴	W242 billion	TV home shopping Internet shopping mall Catalog shopping	www.woori.com
Nongsoosan Home Shopping	W211 billion	TV home shopping Internet shopping mall Catalog shopping	www.nseshop.com
Auction	W182 billion	Internet marketplace	www.auction.co.kr
G-Market	W226 billion	Internet marketplace	www.gmarket.com
Interpark	W32 billion	Internet shopping mall	www.interpark.co.kr
Lotte.Com	W68 billion	Internet shopping mall	www.lotte.com
Korea Home Shopping	W60 billion	TV infomercial Catalog shopping Internet shopping mall	www.jfclub.com

Source: Company IR Information

A-3-6. Franchise Specialty Food Retailers

Although currently taking a small portion of the overall food retail industry, specialty food retailers under large-scale franchise managements are growing in Korea, which highlights the diversifying tastes of Korean consumers. These stores are specialized in a limited categories of products, such as health & beauty, wine & liquor, or functional & natural foods, but offer a deep assortment of goods within the target category (as called "category killer"). Due to the smaller space and investment needed, specialty food retailers are spreading in the metropolitan markets where mass retail stores have limited access.

Table 20. Profile of Major Franchise Specialty Food Retailers (2007)

Company	Store Name	Sales	Products	Stores	Food Share
CJ Oliveyoung	Olive Young	W54 billion	Health & Beauty	45	15%
GS Retail	Watsons	W22 billion	Health & Beauty	15	N/A
Hansalim	Hansalim	W67 billion	Organic & Natural Foods	88	Over 90%
Hankyoreh Plus	Chorok Maeul	W57 billion	Organic & Natural Foods	200	Over 90%
ORGA Whole Foods	ORGA	W35 billion	Organic & Natural Foods	26	Over 90%

²³ Internet Marketplace is an on-line virtual marketplace where buyers and sellers transact freely and frequently while the owner of the marketplace collects a pre-agreed percentage of the transactions as commission. In contrast, there is only one seller (store) in the Internet shopping mall.

²⁴ Sold to Lotte Shopping Co. in 2006

Choheung	Huckleberry Farms	W66 billion	Organic & Natural	7	N/A
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Source: The Yearbook of Retail Industry 2008 (Korea Superchain Association), Company IR Information

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

The traditional wet markets and independent, family-owned retail stores accounted for over 50 percent of total retail sales in Korea as of 2007. Traditional retailers still prevail in old metropolitan areas as well as in suburban/rural areas where traffic and real estate infrastructure have yet to be developed to make the entry of large scale hypermarkets or department stores possible. A ban on large-scale retailers' shuttle bus operations enforced by the Korean government in July 2001 has somewhat restricted the reach of mass retailers to these areas. However, the on-going development of old neighborhoods in metropolitan areas and new residential towns in suburban areas is likely to expand prospects for mass retail stores. At the same time, as car ownership is now common for most Korean families, more consumers are willingly driving a long distance to a hypermarket or large supermarket store, seeking lower price, better assortment and one-stop shopping convenience.

Traditional wet markets in Korea take the form of large wholesale markets and local neighborhood markets. According to the government statistics, there were a total of 1,610 traditional markets in Korea which housed over 230,000 retail outlets as of 2007. They tend to specialize in a limited assortment of fresh products, including produce, fish and meats, rather than processed foods. Imported products that are distributed in significant volume through traditional markets include fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals and oils. The wholesale markets serve as major distribution channel to the mom-and-pop grocers and street vendors. Consumers may also purchase at these wholesale markets, and do so to obtain fresh products at a price lower than in downstream mom-and-pop outlets. Independent wholesale distributors are still playing an important role in supplying suburban retail markets but are facing increasing competition from hypermarkets. With the growth of modern large-scale retailers, the share of traditional retailers in Korea will continue to decline in the years to come.

III. Competition

Domestic products, both fresh 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 (cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom, garlic, etc.), fruits (apple, pear, tangerine orange, grape, persimmon, water melon, strawberry, kiwi, etc.), 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. Domestically produced products in general better reflect the tastes and consumption trends of local consumers than imported products. Furthermore, Korean consumers are generally biased toward locally grown and manufactured products and willingly pay a premium on locally produced products.

Table 21: Korea's Sufficiency Rate for Agriculture and Fishery Products (2005)

Grains	Peas	Beans	Vegetables	Fruits	Meat	Egg	Milk	Seafood	Fat/Oil
29.3%	98.3%	10.7%	94.5%	85.6%	81.6%	100%	72.8%	64.3%	2.8%

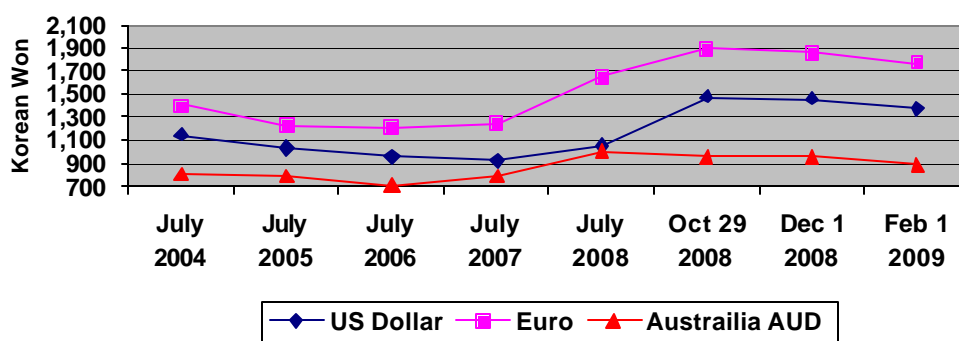
Source: Korea Rural Development Institute

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 industry. 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-United States 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 United States 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 during 2004 - 2007. Consequently, in an effort to maintain a stable supply, local importers in general prefer to transact with more than two different countries especially for potentially risky items, such as fresh fruits, chicken, pork and beef.

Figure 5: Change of Exchange Rate of Korean Won



The change of exchange rate between the Korean Won and the currency of export country is one of the most important factors that affect market competition. For example, the value of Korean Won maintained a steady rise against the U.S. Dollar between 2004 through 2007, making American products more affordable to Korean importers. However, since October 2008, the value of Korean won has plummeted against major international currencies, including the U.S. Dollar and the Euro, due to the on-going global economic depression. This sudden change of exchange rate, coupled with wide spread worries about the local economy in the coming year, have made Korean importers and distributors extremely conservative with respect to new purchase decisions. Retail prices of imported products in general have also risen sharply. It is too early to project the future trend of the exchange rate but many

economists agree that the Korean Won will regain strength against the U.S. dollar in the next 6 to 12 months as the international financial market recovers stability.

IV. Best Product Prospects

A. Products Present in the Market Which Have Good Sales Potential²⁵

1. Beef: Lifting of import restrictions on U.S. beef implemented in 2008 has allowed boneless meat and bone-in meat with no specified risk material (SRM) from cattle under 30 months of age from preapproved packing houses to enter the Korean market. As a result, imports of U.S. beef have increased sharply through 2008 to reach \$197 million, up 105.9 percent from the previous year. For now a majority of U.S. beef is imported in a frozen form and is mainly distributed through the food service industry (restaurants prefer frozen meat for longer shelf life) as many consumers still maintain safety concerns. However, imports of chilled beef are likely to catch up in the near future as more retail and department stores expand their offerings of U.S. beef.

2. Pork (belly cut): Although Korea has a large domestic supply of pork meat, local supply alone can not satisfy Korea's specific demand for the belly cut. Imports from the United States grew 9 percent in 2008 to \$226 million.

3. Processed meats (sausages, hams): Due to convenience, Korean consumers are incorporating more processed meat products in their diets. Imports of sausages and other types of preserved meats from the United States grew 19 percent and 79 percent respectively to \$18 million and \$14 million in 2008.

4. Chicken (frozen and processed): Concern among consumers about Avian Influenza has subsided as consumers have become more aware of the safety of poultry meat. Accordingly, Korea remains an excellent market for chicken products. Demand for further processed poultry products is expected to grow gradually in the coming years. Korea 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). The United States exported \$57 million of poultry meat and edible offal to Korea in 2008, up 101 percent from the previous year.

5. Dairy Products (cheese): Cheese is becoming an important part of many Koreans' diets as consumers welcome more international cuisines and tastes. Total cheese imports from the United States grew 71 percent to \$55 million in 2008.

6. Seafood: 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 restrictions on international deep-sea fishing. Imports from the United States amounted to \$5 million for live fish, \$59 million for frozen fish (not fillet) and \$58 million for fish fillets, \$5 million for crustaceans and mollusks and \$2 million for preserved crustaceans in 2008. Major species currently imported from the United States include: Alaska Pollack, Pollack surimi, Pollack roes, tuna, skate, mackerel, hagfish, halibut, scallop, cod, Pacific salmon, angler fish, rock fish, and prepared sea cucumber.

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 Korea in both the fresh and processed category; however, there remains a solid demand for a limited variety of high

²⁵ All import value figures in this section is from Korea Trade Information Service (KOTIS) database.

quality U.S. products. Major products imported from the United States include processed vegetables (\$62 million), processed tomatoes (\$12 million), pickled vegetables (\$6 million), frozen vegetables (\$2.5 million) and fresh vegetables (\$7.4 million - mostly potatoes and lettuce).

8. Fresh fruits: Korea is an excellent market for U.S. oranges. Currently, the United States, Australia, Chile and South Africa export oranges to Korea. Major American fresh fruits imported include: citrus (\$117 million), grapes (\$13 million) and cherries (\$29 million).

9. Tree nuts: Korean consumers are well aware of health benefits of eating tree nuts (in particular almond, walnut and macadamia), which has translated into growing demand. Total imports of tree nuts from the United States amounted to \$86 million in 2008, up 19 percent from the previous year.

10. Processed fruits and nuts: Processed fruits and nuts are gaining consumer popularity due to their natural and healthy image. Products currently imported from the United States include: dried, frozen, or preserved prunes, cranberries, cherries, strawberries, grapes, figs, blueberries, walnuts, almonds, pistachios, macadamia, pecans and peanuts. Imports from the United States amounted to \$26 million for preserved fruits and nuts, \$4 million for dried fruits, \$2.2 million for jams and \$52 million for fruit juices in 2008.

11. Coffee: Demand for imported coffee products is on an increase due to the rapid expansion of espresso coffee consumption. Imports of coffee products from the United States grew 29 percent to \$20 million in 2008.

12. Chocolate confectionery products: Consumption of high quality chocolate confectionery products is on an increase. Imports from the United States in 2008 amounted to \$40 million.

13. Bread, Cakes, Pastry: Diversification and westernization of Korean diet results in increased demand on imported bread, pastry and cake products. Imports from the United States increased 31 percent to \$50 million in 2008.

14. Sauces and Condiments: With the introduction of more diverse foreign recipes, demand for imported sauces and condiments continues to rise. Imports from the United States amounted to \$19 million in 2008.

15. Alcohol Beverages: Korea is one of the largest markets in the world for alcohol beverages. Imports from the United States amounted to \$16 million for wine, \$7 million for beer and over \$8 million for distilled spirits (primarily bourbon) in 2008.

16. Flavored mineral water: Consumers are looking for alternatives for tap water and soft drinks. As a result, imports of bottled mineral water are on the increase. Imports from the United States totaled \$22 million in 2008.

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

1. Rice: The new rice trade agreement that Korea signed in early 2006 with exporting countries allows imported rice to be sold at retail stores (before imported rice was only used by processors). Imported rice will gain more price competitiveness against local rice in the coming years, as volumes of rice earmarked for retail sale increase under the agreement.

2. Pasta: Italian cuisine is gaining popularity, resulting in increased demand for related products, including pasta noodles. Among the \$92 million of pasta products imported in

2008, imports from the United States amounted to less than \$1 million. However, importers are seeking U.S. suppliers as the value of Euro continues to appreciate against the Korean Won. In addition, the 8 percent import duty that currently applies to U.S. origin spaghetti and macaroni products would be reduced to zero over 5 years after the Korea-United States Free Trade Agreement goes into effect.

3. Olive oil: Consumption of olive oil is rapidly increasing as consumers seek to capture its health benefits. However, among the \$49 million of olive oil imported in 2008, imports from the United States amounted to less than \$1 million.

4. Butter: Among \$13 million of butter imported into Korea in 2008, imports from the United States amounted to only \$0.2 million. There is a good market potential in Korea for American butter depending on relative exchange rates with competing suppliers.

5. Processed turkey meat: Many Korean consumers are unfamiliar with the versatility and value of turkey meat. However, processed turkey products (hams in particular) are likely to gain more local followers, especially young consumers who have traveled to the United States and have developed tastes for related dishes.

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, healthy alternatives to other protein sources.

7. Prepared processed food: Demand for Home Meal Replacement (HMR) products is gradually picking up, which reflects the busy lifestyle of today's Korean consumers.

8. Processed organic products: The demand for processed organic products continues to increase among affluent consumer groups and young mothers.

9. Specialty fruits: Along with increased consumer incomes, demand for specialty imported fruits, including lemon, grapefruit, avocado and pomegranate, is expected to grow.

10. Many imported agricultural products, including honey, fresh potatoes, fresh onions and popcorn, are subject to high tariffs and tariff rate quotas (TRQs) that restrict open market access. However, the KORUS FTA would reduce these barriers. Conversely, other food supplying nations are also working to establish free trade agreements with Korea covering the same products.

C. Products Not Present Because They Face Significant Barriers

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

2. Imports of approved fresh fruits and vegetables can be restricted for phytosanitary reasons. USDA/APHIS (http://www.aphis.usda.gov/import_export/plants/plant_exports) and the Korean National Plant Quarantine Service have up-to-date information on plant (including fresh fruits and vegetables) import restrictions and regulations in English (www.npqs.go.kr).

Outbreaks of animal diseases can also result in restrictions on imports of related animal products into Korea. U.S. suppliers may contact established importers or ATO Seoul for up-to-date import restriction information and regulation on animal products. Related products include:

(1) Meat from U.S. cattle over 30 months of age is restricted under a voluntary import measure. Furthermore, American-origin processed products, including beef jerky and pet food, that contain beef ingredients are not allowed for imports into Korea.

(2) Lamb meat: Imports of products from all ruminant animals, except beef, are still banned for potential BSE ("mad cow disease") risk.

(3) Korea maintains an import ban on elk antlers from the United States due to the Chronic Wasting Disease. Consequently, American elk antler industry currently has no access to the Korean market, which exported \$24 million to Korea in 2006.

3. Fresh organic vegetables and fruits: there are technical barriers that prohibit imports of fresh organic produce. Korean regulations do not currently recognize USDA organic certificates for fresh produce. Imported fresh vegetables and fruits may be subject to fumigation with chemical agents to prevent potential pest risk during the customs clearance process which could affect the organic status of products.

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

V. 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, Jongro-gu, 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@fas.usda.gov

Website: www.atoseoul.com

Agricultural Affairs Office

Korean Address: U.S. Embassy, 82, Sejong-ro, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

Telephone: 82-2 397-4297 Fax: 82-2 738-7147

E-mail: agseoul@fas.usda.gov

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/agx/partners_trade_leads/us_suppliers_list.asp

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, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550
Telephone: 82-2 725-5495 Fax: 82-2 725-5496
E-mail: yunhee.kim@aphis.usda.gov
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
Chicago, Illinois 60606
Telephone: 312-334-9200 Fax: 312 334-9230
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
Website: www.wusata.org

Food Export USA - Northeast Region of the United States

150 S. Independence Mall West, 1036 Public Ledger Building
Philadelphia, PA 19106, USA
Telephone: 215-829-9111 Fax: 215-829-9777
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
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, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-USCS, APO, AP 96205-5550
Telephone: 82-2 397-4535 Fax: 82-2 739-1628
E-mail: Seoul.office.box@mail.doc.gov
Homepage: www.buyusa.gov/korea