

Voluntary Report – Voluntary - Public Distribution

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Report Name: Distilled Spirits Market Report

Country: Korea - Republic of

Post: Seoul ATO

Report Category: Beverages

Prepared By: Sangyong Oh

Approved By: Andrew Anderson-sprecher

Report Highlights:

U.S. distilled spirits exports to South Korea totaled \$13.4 million in 2019, up 12.2 percent from 2018. The top U.S. products in the market are whiskey, vodka, and liqueurs. While distilled spirits imports have been declining by value due to a drop in demand for Scotch whiskey, the volume of imports continues to grow. Korean consumers are demanding a more diverse range of spirits from a wider range of countries.

TABLE OF CONTENT

SECTION I: MARKET OVERVIEW

SECTION II: MARKET SECTOR OPPORTUNITIES AND THREATS

1. IMPORTED DISTILLED SPIRITS
2. DOMESTIC DISTILLED SPIRITS
3. OTHER ALCOHOLIC BEVERAGES
4. MARKET ENTRY & DISTRIBUTION

SECTION III: COST & PRICING

1. IMPORT TARIFF AND TAXES
2. EXCHANGE RATE

SECTION IV: MARKET ACCESS

1. INSPECTIONS & FOOD SAFETY STANDARDS
2. LABELING

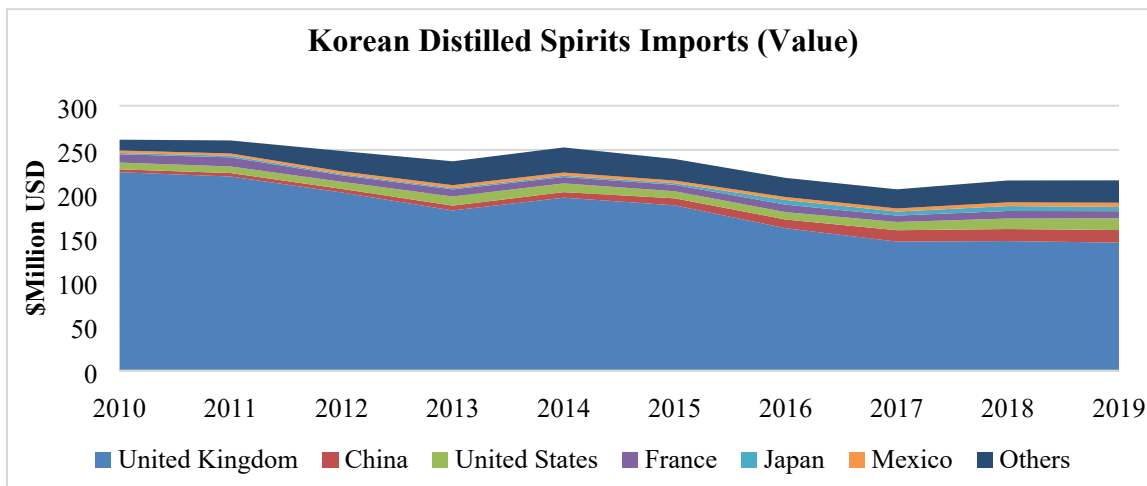
SECTION V: KEY CONTACTS AND FURTHER INFORMATION

APPENDIX: KOREAN DISTILLED SPIRITS IMPORTS STATISTICS

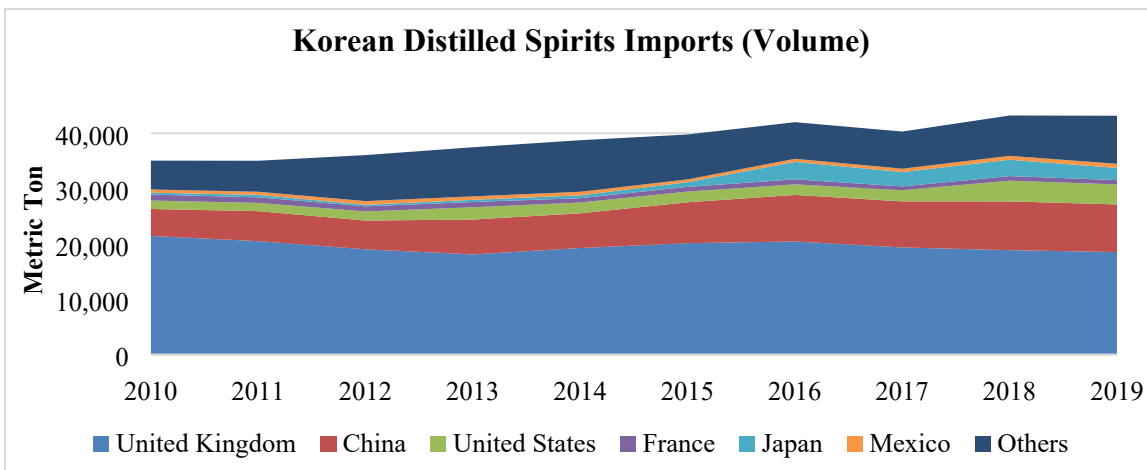
SECTION I: MARKET OVERVIEW

The South Korean distilled spirits market has gone through a major shift over the last decade as consumers have switched to lower alcohol content beverages, like wine and beer. Increased regulations on labeling and advertising limit marketing of distilled spirits. As a result, overall imports of distilled spirits have been on a gradual decline over the years, mainly led by reduced demand for Scotch whiskey.

The market shift has created opportunities for non-Scotch suppliers, including the United States. U.S. distilled spirits exports to Korea have grown at a compound annual growth rate (CAGR) of 6.3 percent since 2010, reaching \$13.4 million in 2019. U.S. exports by volume grew at a 10 percent CAGR during this period to 3,611 metric tons in 2019. U.S. market share reached 6.2 percent by value in 2019, up from 2.9 percent in 2010.



Source: Korean Government Import Data (KOTIS, www.kita.net)



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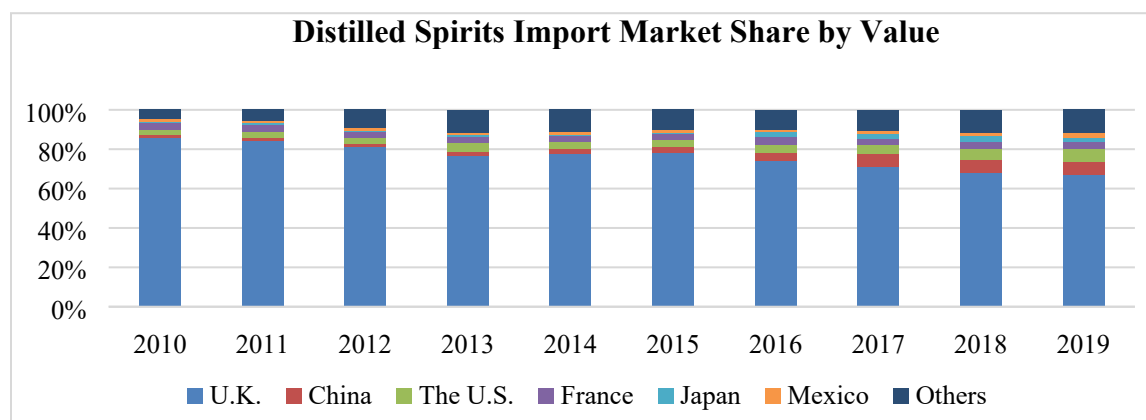
Advantages & Challenges in Korean Distilled Spirits Market

Advantages	Challenges
Consumer lifestyles and tastes continue to evolve, creating opportunities for non-Scotch products including U.S. distilled spirits.	Korean consumers have a negative image of distilled spirits based on health concerns. Government regulations restrict marketing of distilled spirits.
Many consumers, particularly younger consumers, actively follow new American food and beverage trends, including cocktails and food and beverage pairings.	Competitors are export-oriented and deploy aggressive promotions in Korea. Many consumers and marketers have outdated views that competitors offer better quality and value.
Local Korean distillers present little competition to imported products.	The retail price of imported distilled spirits is high due to distribution costs, regulations, taxes and fees. On-line sales of alcoholic beverages are not allowed.
Some major U.S. distillers and brands have established a firm marketing presence in Korea.	Many small to medium size U.S. producers, including craft distillers, have limited resources to market their products in Korea.

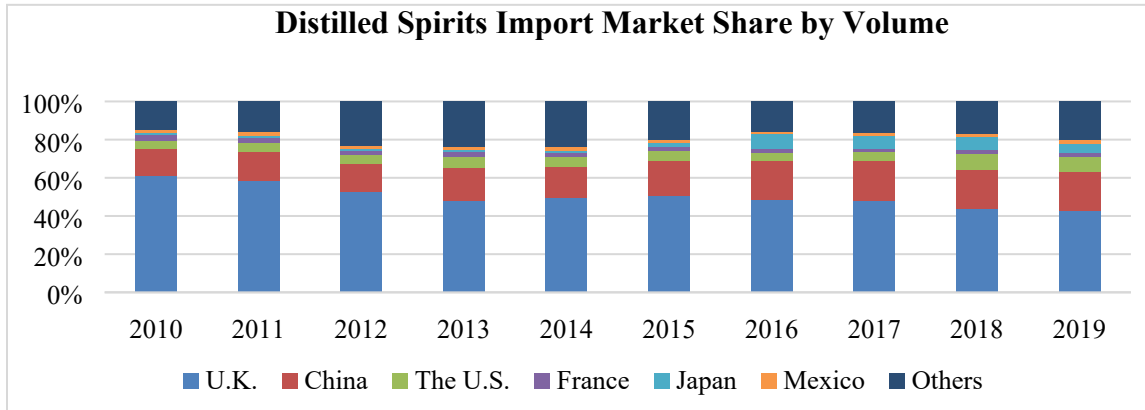
SECTION II: MARKET SECTOR OPPORTUNITIES AND THREATS

1. IMPORTED DISTILLED SPIRITS

Korean distilled spirits imports totaled \$215.5 million in 2019, down 17.6 percent from 2010. Measured by volume, however, distilled spirits imports increased 23.2 percent during this period to reach 43,164 metric tons in 2019. This is the result of a sharp decline in high-value scotch imports from the United Kingdom, and an increase in other lower priced distilled spirits from other suppliers. Distilled spirits imports from the United Kingdom declined 35.5 percent during this period, while imports from China, the United States and Japan increased. Korean consumers are looking to try different spirits from a wide range of countries.

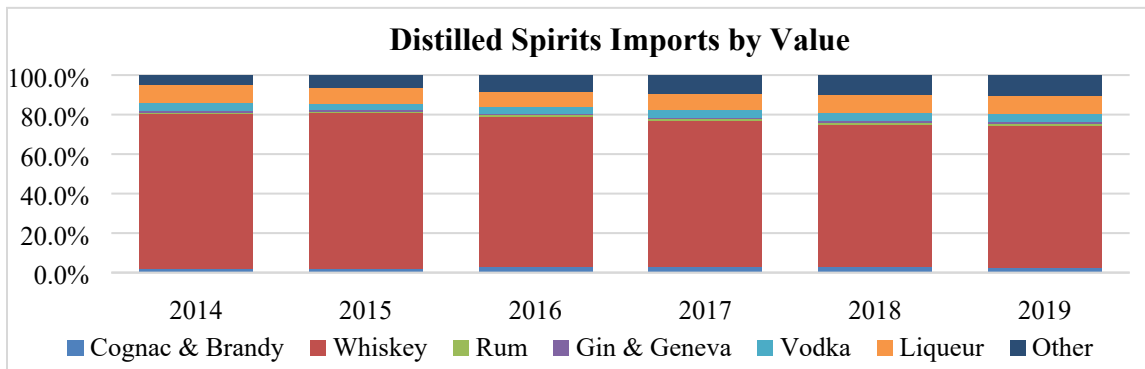


Source: Korean Government Import Data (KOTIS, www.kita.net)

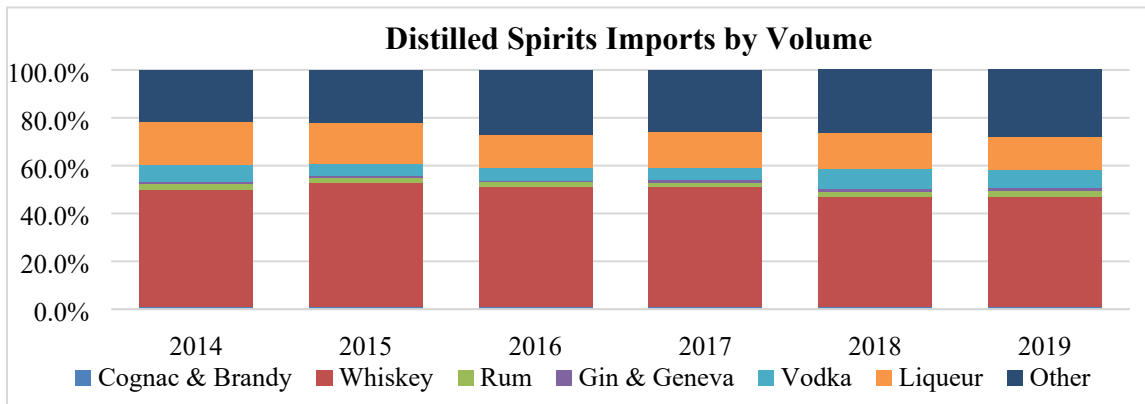


Source: Korean Government Import Data (KOTIS, www.kita.net)

Whisky accounted for 71.4 percent of distilled spirits imports by value in 2019, followed by the “other” category (10.6 percent / includes soju, kaoliang and tequila), liqueur (8.7 percent) and vodka (4.1 percent). Whiskey accounted for 46.1 percent of overall imports by volume, followed by the other category (28 percent), liqueur (13.5 percent) and vodka (7.9 percent). Imports of distilled spirits in the “other” category grew the most over the last five years (2014-2019) with a 12.3 percent CAGR, followed by gin (8.3 percent CAGR), rum (5.8 percent CAGR) and cognac/brandy (3.6 percent CAGR). Whiskey imports declined the most during this period (-4.9 percent CAGR), followed by liqueur (-3.7 percent CAGR) and vodka (-3.2 percent CAGR).



Source: Korean Government Import Data (KOTIS, www.kita.net)



Source: Korean Government Import Data (KOTIS, www.kita.net)

U.S. distilled spirits exports to Korea continue to grow. Strong marketing by large-scale U.S. producers of whiskey and vodka have helped drive this growth (e.g. Jack Daniel's, Jim Beam, Wild Turkey and Smirnoff). The United States is the third largest foreign supplier of distilled spirits in Korea, accounting for 6.2 percent of imports by value and 8.4 percent by volume in 2019. Whiskey accounted for 56.6 percent of U.S. distilled spirits exports to Korea in 2019, followed by vodka (13.5 percent) and “other” distilled spirits (12.3 percent). The United States is a minor supplier of brandy and gin.

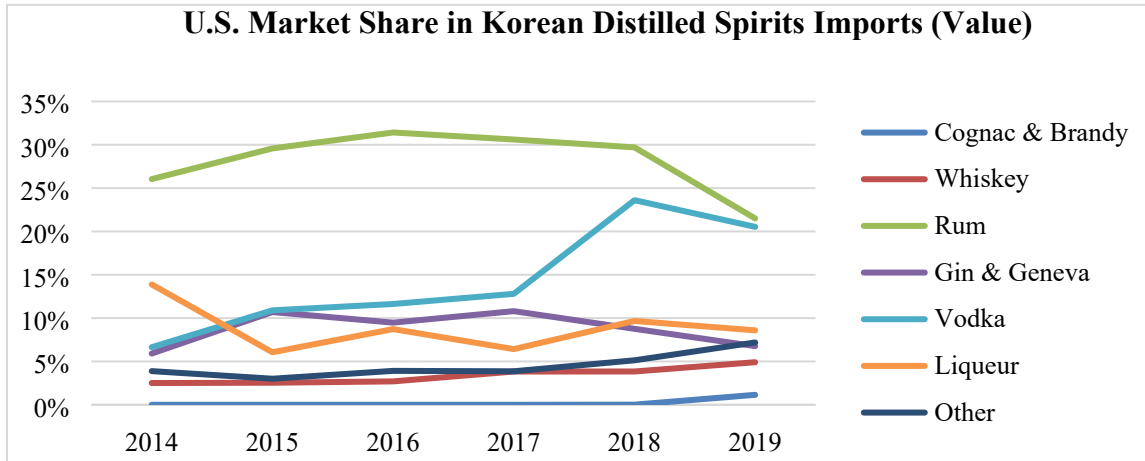


Source: Korean Government Import Data (KOTIS, www.kita.net)

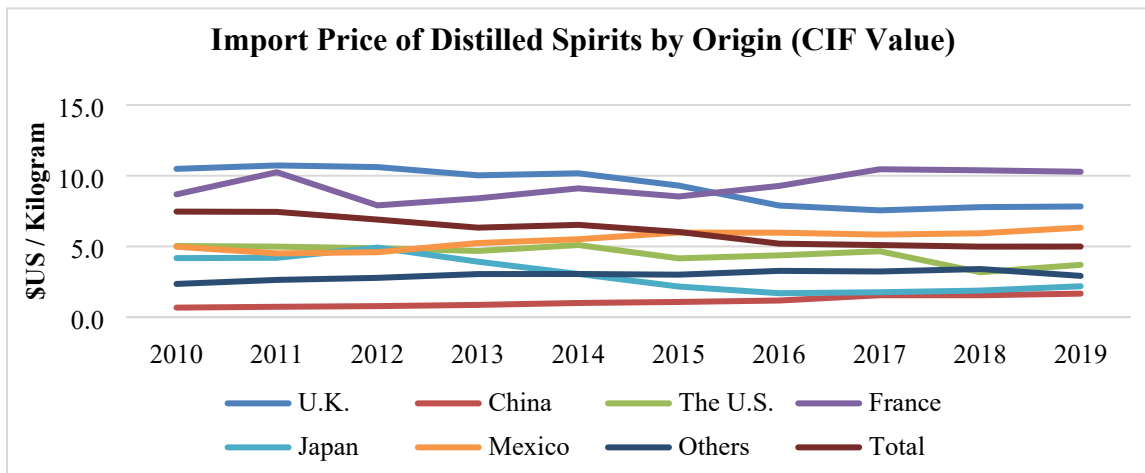


Source: Korean Government Import Data (KOTIS, www.kita.net)

The United States faces strong competition. Competitors deploy aggressive marketing programs in Korea, including advertisements, point-of-sales promotions, consumer/trade educations, and brand building events. Many consumers and marketers have outdated views that competitors offer better quality and value. While Scotch (single malt in particular) whiskey continues to drive the premium segment of the market, other countries such as China and Japan are active in both the premium and value segments.



Source: Korean Government Import Data (KOTIS, www.kita.net)



Source: Korean Government Import Data (KOTIS, www.kita.net)

2. DOMESTIC DISTILLED SPIRITS

Distilled spirits production in Korea is limited. Most local distilled spirits offered in the market are either traditional liquors made in small quantities or blends from imported bulk spirits. Soju (a traditional local liquor) is one of the leading alcoholic beverages in Korea. Low cost soju makers use imported bulk ethanol for blending. The alcohol content in most soju brands has declined to 17-18 percent to accommodate consumer health concerns and target women drinkers. Soju producers are working to expand exports, including to the United States, Japan, China and South Asian countries.

3. OTHER ALCOHOLIC BEVERAGES

Per capita alcohol consumption in Korea is slightly higher than in the United States according to World Bank statistics. Drinking is considered an important part of social life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, overall alcohol consumption remains high partially due to an increase in consumption by women.

Shipment of Alcoholic Beverages by Local Producers (2018)

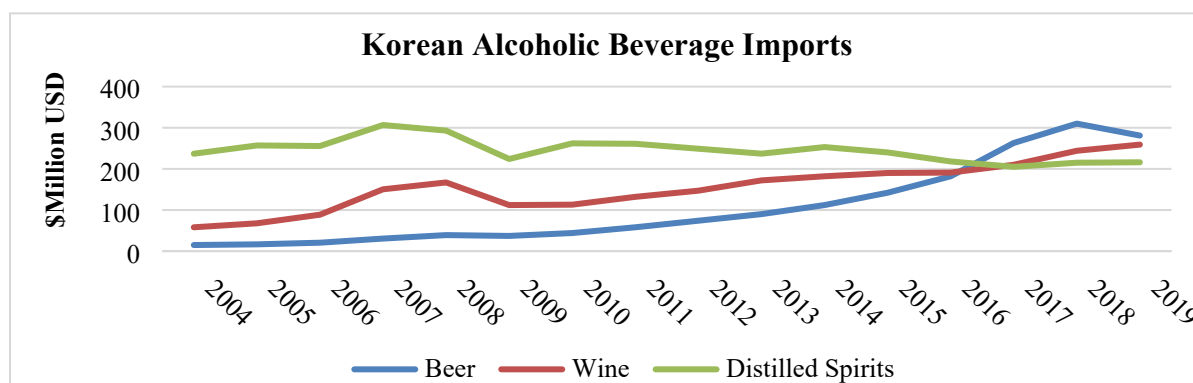
Product Category	Million Kiloliter	Trillion Won*
Beer	1.74	3.86
Soju	0.92	3.74
Distilled Spirits	Less than 0.01	Less than 0.01
Rice Wine	0.43	0.63
Fruit Wine	0.01	0.1
Others	0.33	0.70
Total	3.44	9.04

Source: Korea National Tax Service <https://www.nts.go.kr/>

*Note: 1 Trillion Won = \$0.9 Billion USD

In 2018, 3.4 million kiloliters of domestic alcoholic beverages were shipped in Korea. Domestic products account for 87 percent of alcoholic beverage consumption by volume. Beer and soju are the most consumed alcoholic beverages. Beer, soju and rice wine are mainly supplied by local producers, while wine and distilled spirits are mainly supplied by imports.

Imports of alcoholic beverages have almost doubled over the last 10 years to reach \$756 million in 2019. The United States supplied 11 percent of Korean alcoholic beverages imports in 2019 (12.1 percent for beer; 13.1 percent for wine; 6.2 percent for distilled spirits). While imports of distilled spirits are stagnating due to increased health concerns, demand for imported beer and wine remain strong.



Source: Korean Government Import Data (KOTIS, www.kita.net)

(Beer HS2203; Wine HS2204; Distilled Spirits HS2208)

4. MARKET ENTRY & DISTRIBUTION

By law, only licensed liquor importers can import alcoholic beverages, including distilled spirits. There is no ceiling on the number of licenses issued, so any qualified candidate can obtain an import license. Currently there are over 500 licensed liquor importers, but the top ten importers, including multinational distillers Diageo Korea, Pernod Ricard Korea and Suntory Korea, account for over 90 percent of overall distilled spirits imports.

On-trade (restaurants and bars) is the leading distribution channel for distilled spirits, accounting for 81 percent of distilled spirits sold in Korea by value (56 percent by volume) in 2018 according to

Euromonitor. Premium products mainly target the on-trade channel, particularly boutique salons and five-star hotels, while value products focus on the off-trade channel (supermarkets, discount stores, convenience stores, and liquor shops).

It takes a large amount of resources for importers to develop on-trade distribution sales due to strong competition. As a result, many importers require financial support from foreign suppliers to launch new products. This poses a challenge for small-scale (craft) U.S. distillers with limited resources. On-line sales of alcoholic beverages are not allowed, except for officially recognized small-scale producers of traditional Korean liquors.

Most alcoholic beverage importers are cautious about launching new products at this time due to the slowdown in the Korean economy. Importers may not respond to new product offers from foreign suppliers unless the product in question shows strong market potential based on price competitiveness, international acclaim (awards, favorable reviews by critics, etc.), or promotional support offered by the supplier.

Korean traders highly value face-to-face contact when developing business relationships with new foreign suppliers. Personal visits to Korea allow new-to-market suppliers to meet with Korean importers and obtain firsthand knowledge of local market trends. For recommendations on how to enter the market, please refer to [the Exporter Guide: Korea 2019](#) published by ATO Seoul.

SECTION III: COST & PRICING

The combined effect of local liquor taxes, logistics costs and distributor mark-ups make the retail price of imported distilled spirits in Korea several times higher than in the exporting country.

1. TARIFFS, TAXES

Korea applies a complicated duty and tax system to imported alcoholic beverages. The table below summarizes import duties and local taxes applied to U.S. alcoholic beverages imported into Korea as of 2020.

Import Duties and Taxes on U.S. Alcoholic Beverages in Korea

Product	Import Duty	Liquor Tax	Education Tax
Fruit Wine	0%	30%	10%
Beer	0%	830.3 won/liter*	30%
Distilled Spirits	0%	72%	30%

*Liquor tax for beer was changed to a volume-based system in 2020. Beer distributed to restaurants and bars in kegs is taxed at 664.2 won per liter (a 20 percent tax discount) until the end of 2022.

The following table illustrates the effects of import duty and liquor taxes on a bottle of \$10 (CIF value) U.S. distilled spirits imported into Korea:

Effects of Import Duties and Taxes on U.S. Distilled Spirits

A	CIF* Invoice Value	\$10.00
B	Import Duty: A x 0%	\$0.00
C	Liquor Tax: (A+B) x 72%	\$7.20
D	Education Tax: C x 10%	\$0.72
E	Subtotal: A+B+C+D	\$17.92
F	Value Added Tax **: E x 10%	\$1.79
G	Handling fees for customs clearance ***: A x 8%	\$0.80
H	Total cost of product upon customs clearance: E+F+G	\$20.51

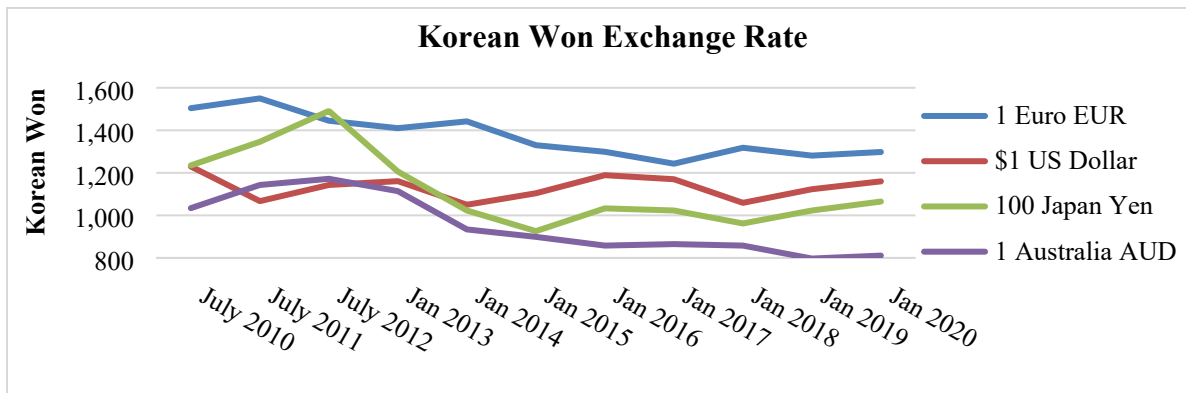
* CIF is an export price inclusive of insurance and freight cost to an entry port in Korea.

**The paid Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer.

***In addition to import duty and taxes, an additional cost of about 8 percent of CIF value will occur for miscellaneous expenses, including paperwork, inspection, warehousing, and transportation. The amount of this additional cost depends mainly on the kind of inspection to which the shipment is subject. For example, warehousing fee will increase significantly if a detailed chemical inspection is required instead of document inspection.

2. CURRENCY EXCHANGE RATE

Imports and the retail price of imported distilled spirits are heavily influenced by the exchange rate. The Korean won has fluctuated significantly since the Asian financial crisis back in 1998. The depreciation of the won in 2019 created challenges for importers. This trend has so far continued into 2020.



Source: Korea Hana Exchange Bank

SECTION IV: MARKET ACCESS

1. INSPECTIONS & FOOD SAFETY STANDARDS

Imported food and beverages, including alcoholic beverages, are subject to documentation and food safety inspection when entering Korea. For more information about Korean import regulations please refer to the [FAIRS Country Report \(Food and Agricultural Import Regulations and Standards\)](#). The table below summarizes key Korean food safety standards for wine under the Korea Food Code and the National Tax Office Decree:

Korean Food Safety & Additive Standards for Distilled Spirits

Product	Issue	Standards
Soju	Methanol	0.5 mg/ml or less
	Aldehyde	70.0 mg/100ml or less
	Additives allowed	Sugars, Citric acid, Amino acid, Sorbitol, Stevioside, Stevia, Saccharin, Aspartame, Sucralose, Tomatine, Acesulfame K, Erythritol, Xylitol, Tea extract, Allulose, Oak chip
Whiskey	Methanol	0.5 mg/ml or less
	Aldehyde	70.0 mg/100ml or less
	Additives allowed	Sugars, Acids, Seasonings, Flavors, and Colors allowed under the Korea Food Additive Code
Brandy	Methanol	0.5 mg/ml or less
	Aldehyde	70.0 mg/100ml or less
	Additives allowed	Sugars, Acids, Seasonings, Flavors, and Colors allowed under the Korea Food Additive Code
Rum, Gin, Vodka, and Regular Distilled Spirits other than, Soju, Whiskey and Brandy	Methanol	1.0 mg/ml or less (0.5 mg/ml or less for products made from grains)
	Aldehyde	70.0 mg/100ml or less
	Additives allowed	Sugars, Acids, Seasonings, Flavors, Colors, Plants, and Other additives allowed under the Korea Food Additive Code
Liqueurs	Methanol	1.0 mg/ml or less
	Additives allowed	Sugars, Acids, Seasonings, Flavors, Colors, Plants, and Other additives allowed under the Korea Food Additive Code
Other Distilled Spirits	Methanol	1.0 mg/ml or less (0.5 mg/ml or less for products made from grains)
	Aldehyde	70.0 mg/100ml or less
	Additives allowed	Sugars, Acids, Seasonings, Caramel colors allowed under the Korea Food Additive Code

Source: Korea Ministry of Food and Drug Safety (www.mfds.go.kr), Korea National Tax Service (<https://www.nts.go.kr/>)

2. LABELING

Korean law requires a separate Korean language label on imported distilled spirits. In most cases, the Korean language label (sticker) is attached to the back of the bottle manually by the importer in the duty-free warehouse before customs clearance. The Korean language label should contain the following information:

- 1) Product Name
- 2) Country of origin
- 3) Product Type
- 4) Importer's name, address, and phone number
- 5) Date of bottling (e.g., Year-Month-Day or Julian Code)
- 6) Alcohol percentage and product volume
- 7) Name of major ingredients
- 8) Name of place where the product can be returned or exchanged in case the product has any defect.
- 9) Instructions for proper storage
- 10) Name of food additives used
- 11) Mandatory health warning statement against excessive drinking
- 12) Mandatory warning statement against liquor sales to minors
- 13) Name of designated distribution channel (only required on bottles sold in retail stores. Bottles sold in retail stores should be marked "For Home Use". Soju, whiskey and brandy sold in large-scale retail stores should be marked "For Large Size Stores". These liquors should also state in the label "Not allowed to be sold in restaurants and bars".)
- 14) Containers or packages that can be recycled must carry a "separation and discharge" marking (e.g., PVC, PP, PS, PVDV, PE, PET, or PF for plastic materials; iron or aluminum for metals)

Alcohol content percentage marked on the label should be within 0.5 percent point from actual content measured by the local authority under the import inspection.

Fruit images or photos are not allowed on the label of food and beverage products, including distilled spirits, if the product contains synthetic flavors only for the fruit images shown on the label.

Whiskey is required to have a Radio Frequency Identification (RFID) tag since October 1, 2012. RFID tags, provided by National Tax Service authorized vendors, are loaded with detailed product information and are attached to the bottle by the supplier (importer) before being distributed to the supply chain. Distributors and consumers down the supply chain should be able to scan the RFID tag and verify the authenticity of the product.

Marketing Claims such as HACCP, ISO 22000, Kosher, Halal, GMP, Vegan, etc.: Currently, the Ministry of Food and Drug Safety (MFDS) does not check supporting documents for marketing claims on packaging when the product arrives in Korea. However, MFDS maintains a right to request supporting documents if necessary. Therefore, in order to apply a marketing claim to packaging, U.S. exporters and Korean importers should keep supporting documents for the claim. Supporting documents should be issued by relevant and credible organizations.

The Korean government introduced the "Standard for Labeling of Packaging Material Grade" in February 2020 to promote use of recyclable packaging materials. Products containing "difficult to recycle" grade materials must be labeled accordingly and will be subject to extra recycling fees. However, grape wine and whiskey in glass bottles are currently excluded from the labeling requirement.

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

U.S. Agricultural Trade Office Seoul (ATO)

Korean Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul, Korea

Telephone: +82-2 6951-6848 Fax: +82-2 720-7921

E-mail: atoseoul@fas.usda.gov Internet homepage: www.atoseoul.com

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)

Korean Address: U.S. Embassy, 188 Sejong-daero, Jongro-gu, Seoul, Korea

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

E-mail: agseoul@fas.usda.gov

U.S. Animal Plant and Health Inspection Service Seoul (APHIS)

Korean Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul, Korea

Telephone: +82-2 725-5495 Fax: +82-2 725-5496

E-mail: yunhee.kim@aphis.usda.gov Internet Homepage: www.aphis.usda.gov

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[U.S. State Regional Trade Groups \(SRTG\)](#)

[U.S. State Offices in Korea](#)

[American Chamber of Commerce \(AMCHAM\)](#)

Host Country Government

[Ministry of Agriculture, Food and Rural Affairs \(MAFRA\)](#)

[Ministry of Food and Drug Safety \(MFDS\)](#)

[Ministry of Trade, Industry and Energy \(MOTIE\)](#)

[Ministry of Foreign Affairs \(MOFA\)](#)

APPENDIX: KOREAN DISTILLED SPIRITS IMPORT STATISTICS

Source: Korean Government Import Data (KOTIS, www.kita.net)

Value by Country (\$1,000 USD)

	2014	2015	2016	2017	2018	2019	CAGR
Total	252,767	239,652	218,268	205,352	215,388	215,507	-3.1%
U.K.	195,869	187,197	161,235	146,147	146,728	144,920	-5.8%
China	6,269	7,933	9,868	12,868	13,634	14,305	17.9%
The U.S.	9,941	8,036	8,341	9,369	11,902	13,352	6.1%
France	7,141	7,265	8,520	7,202	8,569	8,015	2.3%
Japan	1,576	1,828	5,310	4,574	5,539	4,794	24.9%
Mexico	3,540	3,028	3,324	3,529	4,217	4,786	6.2%
Others	28,431	24,365	21,670	21,663	24,799	25,335	-2.3%

Value by Category (\$1,000 USD)

	HS Code	2014	2015	2016	2017	2018	2019	CAGR
Total		252,767	239,652	218,268	205,352	215,388	215,507	-3.1%
Cognac & Brandy	220820	5,038	5,313	6,086	5,596	6,187	6,000	3.6%
Whiskies	220830	198,283	188,153	166,123	152,575	154,987	153,933	-4.9%
Rum	220840	1,951	1,944	1,967	1,846	2,276	2,586	5.8%
Gin & Geneva	220850	1,759	1,645	1,530	1,629	2,351	2,615	8.3%
Vodka	220860	10,340	7,900	7,911	7,328	8,891	8,797	-3.2%
Liqueurs	220870	22,598	19,341	16,913	16,874	19,355	18,720	-3.7%
Other*	220890	12,798	15,358	17,738	19,504	21,341	22,857	12.3%

*Other category includes soju, Kaoliang wine, tequila, and aquavit

Volume by Country (Metric Ton)

	2014	2015	2016	2017	2018	2019	CAGR
Total	38,741	39,778	42,004	40,304	43,209	43,165	2.2%
U.K.	19,256	20,126	20,436	19,356	18,865	18,516	-0.8%
China	6,271	7,397	8,412	8,330	8,815	8,619	6.6%
The U.S.	1,950	1,933	1,909	2,012	3,750	3,611	13.1%
France	784	851	918	689	825	780	-0.1%
Japan	517	846	3,146	2,600	2,952	2,196	33.6%
Mexico	643	506	557	605	711	756	3.3%
Others	9,320	8,118	6,626	6,714	7,290	8,687	-1.4%

Volume by Category (Metric Ton)

	HS Code	2014	2015	2016	2017	2018	2019	CAGR
Total		38,741	39,778	42,004	40,304	43,209	43,165	2.2%
Cognac & Brandy	220820	396	451	439	342	368	447	2.4%
Whiskies	220830	19,031	20,535	21,029	20,290	19,966	19,836	0.8%
Rum	220840	848	839	851	783	958	1,042	4.2%
Gin & Geneva	220850	400	364	330	351	451	498	4.5%
Vodka	220860	2,682	2,061	2,163	2,053	3,682	3,401	4.9%
Liqueurs	220870	7,077	6,716	5,825	6,155	6,387	5,835	-3.8%
Other*	220890	8,307	8,812	11,367	10,330	11,396	12,106	7.8%

*Other category includes soju, Kaoliang wine, tequila, and aquavit

Attachments:

No Attachments.