Required Report: Required - Public Distribution

Date: August 12,2020

Report Number: KS2020-0032

Report Name: Food Service - Hotel Restaurant Institutional

Country: Korea - Republic of

Post: Seoul ATO

Report Category: Food Service - Hotel Restaurant Institutional

Prepared By: Sunyoung Yoo

Approved By: Andrew Anderson-sprecher

Report Highlights:

The long-term outlook for South Korea's Hotel, Restaurant and Institutional (HRI) sector is positive, with strong growth up until the COVID-19 pandemic. As in other countries, the pandemic hit Korea's HRI sector especially hard. Spending on dining out and lodging in Q1 2020 was 11.2 percent lower than the year before. Employment in the HRI sector has also dropped sharply.

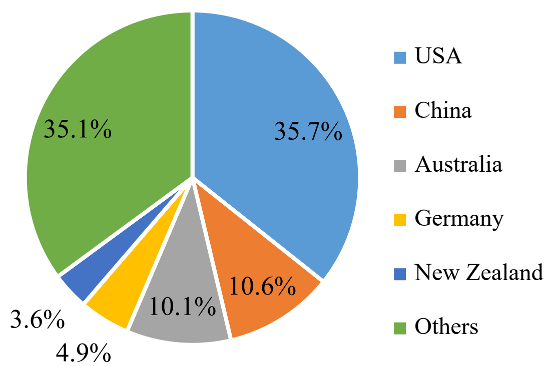
Market Fact Sheet: South Korea

Executive Summary

South Korea has the 12th largest economy in the world with a GDP of $1.6 trillion and a per capita GNI of $32,047 in 2019. It is about the size of Indiana and has a population of 52 million. Over 90 percent of Koreans live in urban areas. Domestic production meets only 45 percent of food demand. The United States exported $8.9 billion in agricultural products to Korea in 2019, making it our fifth largest export market. The U.S. supplies a quarter of Korea's agricultural imports.

Imports of Consumer-Oriented Products

Korea imported $14.7 billion in consumer-oriented products in 2019, accounting for 41 percent of its total agricultural imports. There are still many opportunities for U.S. export growth in this segment, including for beef, pork, fruits, tree nuts, dairy products, confectioneries, beverages, and further prepared foods.



Food Processing Industry

Korea had over 29,000 food-processing companies as of 2018, generating $63.3 billion in sales. Korean food processing companies rely heavily on imported commodities and ingredients. Imports of basic and intermediate agricultural products totaled $13.2 billion in 2019. Twenty four percent ($3.2 billion) of these imports came from the United States.

Food Retail Industry

Korean retail food sales totaled $95.3 billion in 2018, accounting for 26 percent of total retail sales. Grocery supermarkets are the leading food retail channel, followed by hypermarket discount stores, convenience stores, on-line retailers, and department stores. On-line retailers and convenience store food sales are expected to grow faster than other channels over the next 5-10 years. The fast expansion of on-line retailers is forcing conventional retail channels to restructure space and devise new strategies to attract consumer traffic.

Quick Facts CY 2019

Imports of Ag. Products from the World

- Basic Products	$5.2 billion
- Intermediate Products	$8.0 billion
- Consumer-Oriented Products	$14.7 billion
- Forest Products	$2.8 billion
- Seafood Products	$5.4 billion
- Total	$36.1 billion

Top 10 Consumer-Oriented Ag. Imports

Beef ($2.9 billion), pork ($1.6 billion), frozen fish ($1.3 billion), fresh fruits ($1.2 billion), dairy ($958 million), alcoholic beverages ($788 million), coffee ($662 million), tree nuts ($354 million), bakeries ($340 million), chocolate confectioneries ($328 million)

Top 10 Growth Consumer-Oriented Ag. Imports

Animal offal, mineral water, food preparations not-elsewhere-specified, butter, vinegar, grapes, poultry meat, beef, roasted prepared foods, melons & papayas

Food Industry by Channels (2018)

- Retail Food Industry	$95.3 billion
- HRI Foodservice Industry	$120.2 billion
- Food Processing Industry	$63.3 billion
- Food & Agricultural Exports	$7.0 billion

Top Korean Retailers

EMART, Lotte Mart, Home Plus, COSTCO, GS Retail (GS Super, GS25), BGF Retail (CU), Korea Seven, E Land Retail, Lotte Department Store, Shinsegae Department Store, Hyundai Department Store, Hanwha Galleria, CJ O Shopping, GS Home Shopping, Coupang, SK Planet, Ebay Korea

GDP/Population

Population: 52 million
GDP: US $1.6 trillion
GDP per capita: US $32,047

Strengths/Weaknesses/Opportunities/Challenges

Strengths	Weaknesses
- Well established market with modern distribution channels - Consumer income level continues to increase	- High logistics cost to ship U.S. products - Consumers have limited understanding of U.S. products
Opportunities	**Challenges**
- Strong consumer demand for value, quality, and diversity - KORUS FTA reduces tariff barriers for U.S. products.	- Elevated competition from export-oriented competitors - Discrepancies in food safety and labeling regulations

Data and Information Sources: Korea Ministry of Food & Drug Safety, Korea National Statistics Office, Korea Int'l Trade Association, Global Trade Atlas, CIA Factbook (This report uses the latest available statistics data)

Contact:
U.S. Agricultural Trade Office (ATO) Seoul
E-mail: atoseoul@fas.usda.gov

SECTION I. MARKET SUMMARY

Korea's HRI sector had been growing rapidly until the COVID-19 pandemic in 2020. HRI sales totaled W138 trillion Korean Won ($120.2 billion) in 2018 (latest year available), up 7.7 percent from the year before.[1] Monthly per capita spending on dining out reached W138,403 won ($120) in 2019.[2] Dining out accounts for half of Korean household food and beverage expenditures and 16 percent of total expenditures.

Korean consumers place a high premium on convenience as busy urban lifestyles leave little time for traditional home cooked meals. Today over half of households consist of one or two members and more women have joined the workforce. These demographic changes have led to growing demand for home meal replacement products in retail stores, as well as take-out meals in restaurants. The demand for convenience has also driven rapid growth in online food sales and restaurant delivery services using food delivery apps. These trends are expected to continue, driving further growth in HRI sales.

Table 1. Advantages and Challenges for U.S. Products in Korea

Advantages	Challenges
Korean consumers are eagerly looking for new-to-market products and international tastes as income levels continue to rise.	Consumers have a bias toward local products. Past food safety scandals have raised consumer concerns about the quality and safety of imported foods.
Korea depends on imports for its food and agricultural needs. On-going elimination of import barriers will improve market access for imports.	Imported food products still face regulatory barriers, especially U.S. fresh fruit. The government changes food safety and labeling standards frequently. Food additives rules differ between the U.S. and Korea.
Korean consumers are very sensitive to food safety and quality. Korean traders want to source products from more trusted origins, including the United States, to regain consumer confidence.	Price is still a major factor in purchasing decisions in the HRI sector in Korea. U.S. products face strong competition from cheaper products from exporters such as China and the EU.
Modern large-scale businesses are driving growth in the HRI sector, creating market efficiencies and distribution platforms for imported products with new tastes, high value, stable supply, consistent quality, and catered specifications.	Many U.S. suppliers do not have a sufficient understanding of the Korean market and are not ready to offer customized products and services. Exporters should consider modifying product specifications and recipes to better match the Korean market.

While the long-term outlook is positive, the Korean food industry is facing huge challenges during the COVID-19 pandemic and the food service and HRI sectors have been hit the hardest. According to monthly labor and employment statistics released by the Ministry of Labor and Employment, the number of people employed declined by 220,500 and 360,500 in March and April respectively. The HRI industry saw the largest decline in employment (-166,000), followed by education (-93,000) and arts-sports-leisure (-45,000). Monthly average household spending during Q1 2020 was 3,945,000 won ($3,156 USD) according to the National Statistics Office, down 4.9 percent from the same quarter last year. Spending on dining out and lodging declined 11.2 percent from the year before.

[1] 2019 Major Statistics of Food Industry, aT Center (www.aTFIS.or.kr)
[2] 2019 Monthly Household Expenditure Survey, Korea National Statistical Service (http://kosis.kr)

The Korean economy declined by 3.3 percent in the second quarter compared to the first quarter and the unemployment rate for young Koreans hit a record high in June 2020.[3] The HRI sector may continue to face sales declines as consumers avoid travel and eating out due to COVID-19 and many restaurants and institutions will go out of business due to serious financial problems.

SECTION II. ROAD MAP FOR MARKET ENTRY

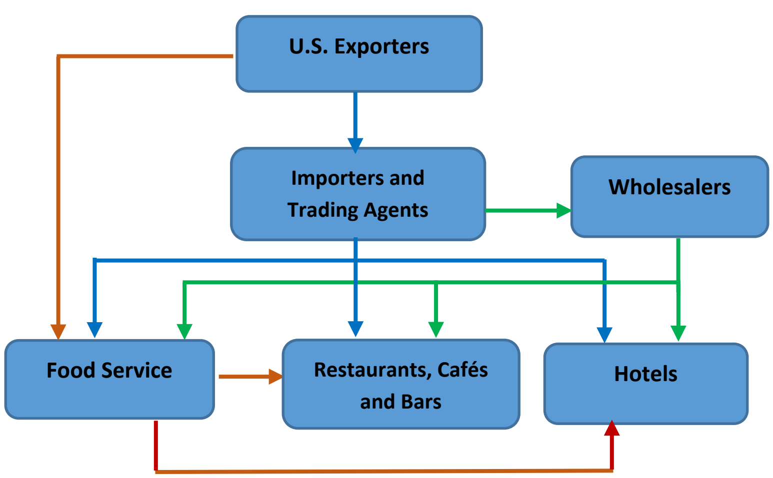
II-1. ENTRY STRATEGY

Korean HRI food service providers generally rely on independent importers or intermediary distributors for imported food products. Leading market players are working to expand direct imports from foreign suppliers to lower costs and improve product assortments. However, their attention is limited to a few high-volume products, such as fresh fruit, meat, and seafood. For contact listings of established Korean import distributors and retail store buyers, please contact the U.S. Agricultural Trade Office (ATO) in Seoul at ATOSEOUL@fas.usda.gov. ATO Seoul also organizes U.S. pavilions at the annual Seoul Food and Hotel Show, Korea International Beer Expo (KIBEX), and Busan International Seafood and Fishery Expo and offers support to U.S. exhibitors by providing market briefings and arranging business meeting lounges. In addition, ATO Seoul also offers various marketing tools and trade facilitation assistances to U.S. suppliers interested in exporting to Korea.

The following reports and websites provide additional information and guidance on exporting to Korea:

- Korea FAIRS Report and Export Certificate Report provide Korean government regulations and standards on imported food and agricultural products.
- Korea Exporter Guide provides market entry guidance for U.S. suppliers.
- The ATO Seoul website provides information about the Korean market, including product briefs, food news clippings, KORUS FTA, and links to other resources and organizations.
- Korea Country Commercial Guide published by the U.S. Commercial Service is another useful source of information about exporting to Korea.

II-2. MARKET STRUCTURE AND DISTRIBUTION



[3] 2020 The Bank of Korea Quarterly GDP Report (www.bok.or.kr) and 2020 June Employment Report, Statistics Korea (www.kostat.go.kr)

Market Structure: Korea's HRI industry is divided into three major segments based on the type of business and distribution channel: hotels, restaurants and bars, and institutional food service and distributors.

Distribution: Wholesalers and intermediary distributors have traditionally played an important role in the market. These are gradually being replaced and streamlined as large-scale restaurant companies and broad-line food service distributors expand direct imports to reduce cost.

Hotel Industry

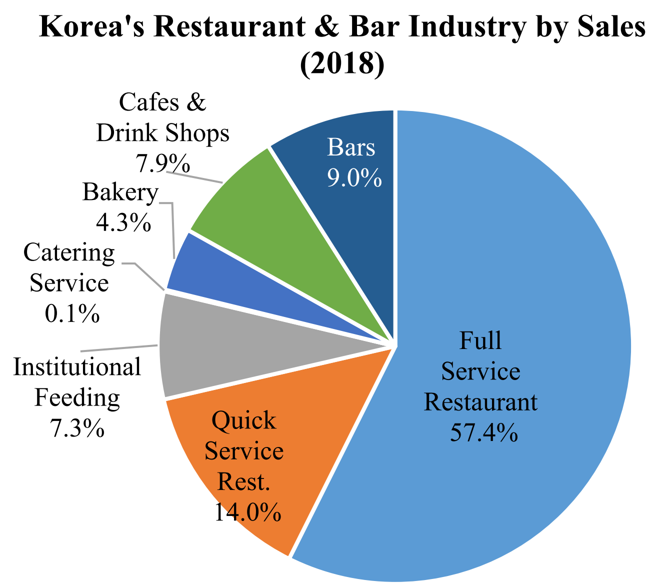
Korea's hotel room supply continued to increase until 2016 to meet growing demand from foreign travelers, but in 2017 the number of hotels dropped 1.8 percent to 800 in response to fewer Chinese visitors and a resulting re-organization in the industry. In 2018, the number of hotels dropped 2.6 percent to 779 but guestroom sales increased 2.4 percent. Food and beverage sales at hotels also increased 2.4 percent that year due to higher prices. In 2020, the hotel industry is suffering from a record low occupancy rate of around 10 percent due to COVID-19 and related travel restrictions. The average occupancy rates before the pandemic were 60 to 70 percent, with around 70 percent of guests coming from foreign countries. View more tables and charts for industry details.

Source: Korea Tourism Organization

Restaurant and Bar Industry

Total restaurant and bar sales reached 138 trillion Won ($120 billion) in 2018, up 7.7 percent from the year before. Full-service restaurants account for over half the market. Bars serving alcohol are second by number, but only account for 9 percent of sales. Caterers were the worst performers in 2018; sales dropped 9.4 percent as they had to raise prices to cover rising labor costs.

Bar sales grew 4.5 percent in 2018. However, consumers are becoming more attentive to health risks of high ABV alcohol consumption and companies have been reducing representational expenses in response to government anti-corruption regulations. Sales at bars will likely continue to decline as the Korean economy contracts due to COVID-19 and people practice social distancing.



Source: Korea National Statistical Service

Quick service restaurants and cafes showed the fastest growth, with sales increasing 12.1 and 23.4 percent, respectively. These two sectors are expected to perform well as consumers look for new tastes, manage busy schedules, and become more price sensitive. However, they too have suffered in 2020 due to COVID-19.

The HRI sector in Korea was mainly composed of small-scale independent or family-operated restaurants and bars until the mid-1990s due to government policies restricting large corporations from entering the sector. Large scale and chain restaurants have been growing since then. Between 2005 and 2015 the number of restaurants and bars with 10 or more employees increased 72 percent, while small establishments with 5 employees or less increased only 19 percent. During those ten years the portion of small restaurants and bars fell from 90 percent to 86 percent. Franchise foodservice businesses have also increased as heightened competition has favored economies of scale. In 2018, 17.4 percent of restaurants and bars in Korea were franchise operation, up 0.5 percentage points from 2017. View more tables for industry details.

Institutional Food Service and Distributors

The institutional sector in Korea includes food service and distribution to schools, corporate headquarters, manufacturing facilities, hospitals, military bases, and entertainment facilities such as amusement parks and golf resorts. This sector accounted for 7.3 percent of the HRI market sales in 2018. It is mainly supplied by local importers, wholesalers and, large-scale distributors. The expansion of large-scale and franchise restaurants should generate more opportunities for large-scale distributors in the coming years. Large-scale integrated distributors are expected to displace older distribution channels that involve multiple layers of small and medium-sized intermediary distributors. Industry analysts forecast that large-scale distributors may account for more than 15 percent of product distribution in the sector in 2020. However, this sector is also undergoing unprecedented sales loss due to COVID-19 mandated closures and reduced demand by restaurant distribution businesses. CJ Freshway and Shinsegae Food had 12.6 billion won and 4 billion won of operating losses in the first quarter and further losses are expected in the second quarter. View more tables for industry details.

SECTION III. COMPETITION

The outlook is excellent for a wide variety of agricultural products, such as beef, pork, condiments and sauces, dairy products, nuts, fresh and processed fruits, processed vegetables, alcohol beverages, and edible offal. In addition, on-going trade liberalization should create new opportunities for products that currently face restrictive import barriers. These changes, along with the ongoing implementation of the KORUS FTA, will offer more export opportunities for wide varieties of U.S. food products in the coming year.

ATO Seoul’s website provides up-to-date information about Korea’s food and agricultural imports:

- Korea’s Agricultural Import Statistics: monthly updates on Korean agricultural imports (four-digit HS product code level). Both U.S. export data (FOB value) and Korean import data (CIF value) are provided.
- Korea's Agricultural Import Trends Presentation: quarterly summary of competition between the U.S. and competitors in key products.

Table 2. Top 25 Korean Imports of Consumer-Oriented Agricultural Products and Competition

Product Category/HS Code	Imports 2019 ($ million)	1st Supplier	2nd Supplier	U.S. Ranking
Beef, Frozen/HS0202	2,055	U.S. (59%)	Australia (35%)	1 (59%)
Food Preparations NESOI[4]/HS2106	1,758	U.S. (58%)	N.Z. (6%)	1 (58%)
Pork, Chilled or Frozen/HS0203	1,600	U.S. (31%)	Germany (21%)	1 (31%)
Fish, Frozen (Not Fillets)/HS0303	1,294	Russia (28%)	China (23%)	3 (8%)
Crustaceans/HS0306	1,200	Russia (34%)	Vietnam (19%)	9 (2%)
Mollusks/HS0307	951	China (45%)	Vietnam (24%)	15 (0.5%)
Beef, Chilled/HS0201	868	U.S. (62%)	Australia (37%)	1 (62%)
Coffee/HS090	662	U.S. (15%)	Colombia (14%)	1 (15%)
Fish Fillets/HS0304	582	Vietnam (18%)	U.S. (16%)	2 (16%)
Cheese and Curd/HS0406	555	U.S. (46%)	N.Z. (14%)	1 (46%)
Crustaceans, Prepared/Preserved/HS1605	534	Vietnam (26%)	China (23%)	20 (0.4%)
Other Preserved Fruits & Nuts/HS2008	362	China (29%)	Vietnam (18%)	3 (15%)
Bread, Pastry, Cakes, Biscuits/HS1905	340	Malaysia (16%)	U.S. (16%)	2 (16%)
Chocolate Food Preparations/HS1806	328	U.S. (28%)	China (9%)	1 (28%)
Other Nuts/HS0802	304	U.S. (91%)	Australia (4%)	1 (91%)
Bananas/HS0803	302	Philippines (79%)	Ecuador (8%)	NA (0%)
Poultry Meat & Offal/HS0207	293	Brazil (90%)	Thailand (9%)	4 (1%)
Other Vegetables, Prepared, Not Frozen/HS2005	286	China (76%)	Thailand (10%)	3 (6%)
Beer made from malt/HS2203	281	China (15%)	Japan (14%)	4 (12%)
Citrus Fruit/HS0805	274	U.S. (88%)	S. Africa (3%)	1 (88%)
Live Fish/HS0301	261	China (51%)	Japan (20%)	4 (3%)
Wine/HS2204	259	France (32%)	Chile (19%)	3 (13%)
Fish, Fresh/Chilled (Not Fillets)/HS0302	255	Norway (88%)	Japan (7%)	15 (0.02%)
Vegetables, Frozen/HS0710	249	China (90%)	Vietnam (4%)	3 (2%)
Sauces & Preparations/HS2103	244	China (37%)	Japan (21%)	3 (15%)

Source: Korean government import data (KOTIS) released by Korea Int'l Trade Association (www.kita.net). CIF value.

[4] NESOI: Not elsewhere specified or included

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Table 3. Fastest Growing Korean Imports of Consumer-Oriented Agricultural Products[5]

Product Category/HS Code	Gross Imports 2019 ($ million)	Growth from 2018	Imports from U.S. ($ million)	U.S. Growth
Ginger, Saffron, Turmeric, Thyme/HS0910	17	39%	0.5	2%
Aquatic Invertebrates/HS0308	42	31%	2.5	2%
Mineral Waters/HS2201	86	28%	0.3	0.3%
Food Preparations NESOI/HS2106	1,758	24%	1,020	27%
Butter/HS0405	86	21%	10	43%
Other Prepared or Preserved Meat/HS1602	229	18%	36	27%
Grapes/HS0806	214	17%	60	-7%
Poultry Meat and Offal/ HS0207	293	16%	4	-67%
Beef, Frozen/HS0202	2,055	13%	1,206	16%
Prepared Foods, Roasted/HS1904	39	12%	11	-4%
Other Vegetables, Prepared/HS2004	178	11%	118	7%
Processed Fish, Dried or Salted/HS0305	120	10%	0.5	-42%
Other Fruit, Fresh/HS0810	151	10%	32	30%
Fruit Juices/HS2009	235	8%	61	-6%
Sausages & Similar Products/HS1601	40	8%	37	8%
Wine/HS2204	259	6%	34	12%
Cheese and Curd/HS0406	555	4%	253	14%
Coffee/HS0901	662	4%	97	14%
Crustaceans/HS0306	1,200	2%	22	-12%
Mushrooms and Truffles/HS2003	20	2%	0	N/A

[5] Limited to products that Korean imports were $10 million or larger

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Post Contact

U.S. Agricultural Trade Office Seoul (ATO)
Korean Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul 03152 Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 9600 Box 0198, DPO, AP 96209-0198
Tel: (82) 2-6951-6848
Fax: (82) 2-720-7921
Email: atoseoul@fas.usda.gov
Website: www.atoseoul.com / www.fas.usda.gov

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)
Korean Address: U.S. Embassy, 188 Sejong-daero, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550
Tel: (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 03152 Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550
Tel: (82) 2-725-5495
Fax: (82) 2-725-5496
E-mail: yunhee.kim@aphis.usda.gov
Website: www.aphis.usda.gov

USDA Cooperators, SRTG, State Offices and AMCHAM in Korea

USDA Cooperators in Korea
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)

Attachments:

No Attachments