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# **Korea, Republic of**

## **Retail Food Sector**

### **Report**

### **2003**

Approved by:

**Mr. Daryl A. Brehm**  
**U.S. Embassy, Seoul**

Prepared by:

Mr. Sangyong Oh

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#### **Report Highlights:**

**The retail food sector in Korea is undergoing a rapid change, as large retail formats and convenience stores edge out traditional wet markets and "mom-and-pop" grocers. The change will progress from the retail outlets to the distribution system, eventually leading to lower prices and greater variety to consumers. The growth of modern retail formats, coupled with the consumers' ever stronger demand for international tastes and products, will be translated into growing opportunity for a wider variety of consumer ready U.S. food products.**

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Seoul ATO [KS2], KS



# KOREA RETAIL FOOD SECTOR REPORT

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## I. Market Summary

The liberalization of mass retail businesses to foreign ownership in 1996 and the Asian economic crisis in 1997 ignited revolutionary restructuring of the retail sector in Korea and have resulted in a rapid growth of hypermarkets (a hybrid between a discount store and a grocery supermarket), convenience stores, and chain supermarkets at the expense of traditional players, including wet markets, mom-and-pop stores, and even department stores. Supermarkets have been common in Korea since 1980's, but the economic crisis has prompted a consolidation in the industry, favoring the growth of large national chains. Only six years after the liberalization, the market has seen the opening of 200 hypermarkets, 3,000 convenience stores and 150 large size supermarkets nationwide. These three newly growing mass retail formats garnered 13.3% of the overall retail market sales, or W20.4 trillion won (\$16.9 billion at \$1=W1,200 won) of cash register sales, in 2001, and are expected to continue to increase their shares in years to come. The restructuring in retailing has also brought about development in distribution/logistics channels, as well as changes in consumer purchasing habits.

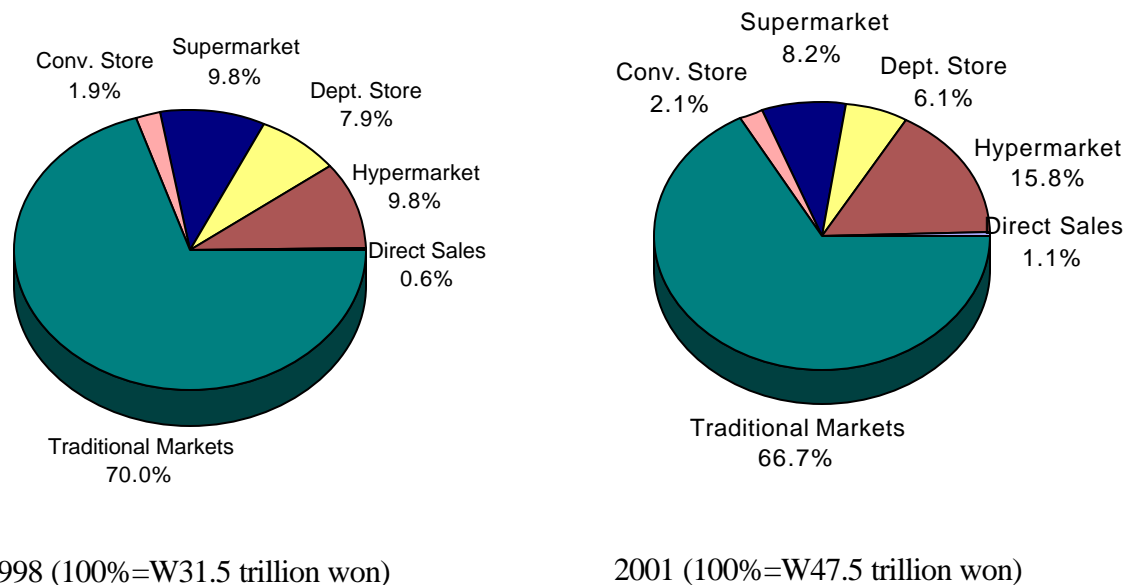
Another growing segment of the sector is direct sales (Internet, TV, catalog, and network) retailing. Backed by the changes in consumer lifestyle and breakthroughs in information technology, the growth of direct sales retailing has been explosive in recent years to get the segment 3.5% of the overall retail market sales in 2001.

The size of the overall retail market in Korea is estimated at W153 trillion won (\$128 billion at \$1=W1,200 won) in 2001. Traditional wet markets and mom-and-pop stores still govern 72% of the market while department stores take another 10.3% of share. However all of these traditional players face a serious challenge from the newly growing mass retail formats and direct sales channels. The sales growth of the overall retail market in Korea has been stagnant for the past few years due to the suppression of the traditional players.

Table 1. Size of overall retail market sales & food retail sales in Korea (2001)

Segment	Total Retail Sales		Food Retail Sales	
	Amount	Share	Amount	Share
Dept. Stores	15.8 trillion won	10.3 %	2.9 trillion won	6.1 %
Hypermarkets	13.8 trillion won	9.0 %	7.5 trillion won	15.8 %
Supermarkets	4.9 trillion won	3.2 %	3.9 trillion won	8.2 %
Conv. Stores	1.7 trillion won	1.1 %	1 trillion won	2.1 %
Direct Sales	5.3 trillion won	3.5 %	0.5 trillion won	1.1 %
Traditional Markets	111.5 trillion won	73.0 %	31.8 trillion won	66.7 %
Total	153 trillion won	100 %	47.5 trillion won	100 %

Source: Korea Food Yearbook 2002 (The Monthly Food



Journal), Analysis of Retail Industry Performance in 2001 (Korea Chamber of Commerce), The Yearbook of Distribution Industry 2002 (Korea Superchain Association)

Figure 1. Share of the Food Retail Sales in Korea

The average Korean household spent W3.3 million won (\$2,750), or 15.5% of total expenditure, shopping for groceries in 2001. The total food sales of the retail market in Korea is estimated at W47.5 trillion won (\$39.6 billion) in 2001. In other words, food sales accounted for 31% of the overall retail market sales in 2001. Although traditional wet-markets and mom-and-pop grocers still accounted for 66.7% of the food retail market with W31.8 trillion won of sales in 2001, the shares of the newly growing mass retailers are expected to rise continuously. Especially hypermarkets have become the leading channel of food retailing, taking 15.8% of the food retail market with W7.5 trillion won of food sales in 2001. The share of hypermarkets is likely to increase further as there still remains room for additional 100-200 hypermarket stores in Korea.

Korean consumers are seeking more food products of international taste, higher value, safer quality, and improved convenience, which is translated into growing opportunities for imported consumer ready foods through retail channels. Total imports of consumer oriented foods in 2002 (Jan.- Nov.) increased 25.8% from the same period of the previous year to reach \$3.2 billion (CIF value), while imports from the U.S. also surged by 33.4% from the previous year to reach \$1.2 billion. One noteworthy trend is that Korean consumers are becoming more diversified in their tastes and buying powers and, consequently, demand a wider range of products and prices. For example, while the success of hypermarkets have been backed by the strong demand for low price options, sales of luxury products of premium quality and price in department stores has showed strong growth even under the economic downturn in recent years. The increase in the number of dual-income families and single parent

households has been interpreted into growing demand for HMR (Home Meal Replacement) products in retail stores, to which mass retailers have actively responded by introducing in-store fast food and deli outlets, prepared food sections, and more microwavable (or ready-to-eat) processed foods.

Table 2. Breakdown of Per Household Average Monthly Expenditure on Grocery Shopping (1998 vs 2001)

Items	1998		2001	
	Spending	Share	Spending	Share
Grains	48,400 won	19.9%	56,600 won	20.7%
Meat including poultry	38,600 won	15.9%	43,000 won	15.7%
Milk and dairy products	19,200 won	7.9%	20,100 won	7.4%
Fishery products	29,100 won	12.0%	32,900 won	12.0%
Vegetables & seaweeds	35,000 won	14.4%	34,700 won	12.7%
Fruits	22,300 won	9.2%	28,200 won	10.3%
Seasonings, oils, fats	16,100 won	6.6%	15,100 won	5.5%
Bakery and snacks	15,800 won	6.5%	18,000 won	6.6%
Tea and soft drinks	14,100 won	5.8%	11,700 won	4.3%
Alcoholic beverages			5,800 won	2.1%
Other foods	4,500 won	1.8%	7,000 won	2.6%
Total	243,100 won	100%	273,100 won	100%

Source: Korea Bureau of Statistics

Credit cards are becoming more common to the Korean consumer and rapidly replace hard currency in retail shopping. For example, 67.4% of department store sales and 54% of hypermarket sales were made by credit card payment in 2001.

Large retailers and convenience stores have become the major retail channel for imported foods as they offer a shopping environment where imported products can better compete against local products in both price and assortment. For example, on average, imported foods accounted for 24.1% of sales of the processed food section and 29.7% of the unprocessed food section of a hypermarket store in 2001. In addition, large retailers are seeking ways to increase their assortment of imported foods in an effort to differentiate their stores from competitors.

Currently, only a few of the mass retailers import food products directly. Rather, the retailers purchase from specialized importers. However, retailers of international origin, including Wal-Mart, Carrefour, and Costco, do import food products directly using their international sourcing arms. Mass retailers of local origin are seeking ways to increase their assortment of imported foods, including direct importing, but any rapid move is unlikely for a couple of years for they lack experience and international sourcing networks.

Large retailers are giving more attention to private brand products, including food products, for higher profits as well as building store image. Hypermarkets of international origin have moved quickly to launch a variety of imported private brand food products, ranging from sauces to canned nuts to canned fruits. However, local mass retailers are moving in a much slower pace.

Along with the development of mass retail formats, distribution systems have also seen a rapid development in Korea. More mass retailers are now equipped with a nationwide, temperature controlled distribution network of trucks and warehouses. But small to medium size retailers in general rely on third party independent logistics service providers. Most of the food importers have their own distribution network within major metropolitan markets but often use third party distributors for regional markets. More importers are moving to farm out the distribution arm to a third party logistics service for cost savings.

Thorough research about the Korean market and regulations is necessary for any U.S. exporter newly entering this market. Korea has well established regulations and procedures on food imports as well as complex tariff and tax codes, which often cause an entry of a new-to-market product to be a time and labor consuming process. In addition, certain food additives approved in the U.S. are not approved in Korea. Exporters must be willing to conform exactly to the Korean labeling and documentation requirements. Building relationships with established importers is the approach that has been proven most efficient in overcoming the entry barriers.

### Advantages and Challenges Facing U.S. Products in Korea

Advantages	Challenges
47 million consumers in a densely populated area. Affluent population, per capita income \$10,000 annual.	Markets outside metropolitan areas have low awareness level of imported foods.
Government import barriers are falling and on-going free trade talks are likely to improve market accessibility further. Korea imports 70% of its food and agricultural needs.	High margins/markup on imported products coupled with import tariffs and taxes often cause poor price competitiveness against local counterparts.
Younger generation has affinity to western tastes and imported foods.	Few large retailers import directly. Local retailers in general lack experienced labor force and international sourcing networks.
Consumers are familiar with U.S. foods and dietary culture. There is a general acceptance of and confidence in imported U.S. foods.	Consumers are generally biased toward locally produced products. Aversion to imported products in general still exists.
Rapid growth of modern retail formats offers more opportunity to a variety of imported foods. International retail chains are leading the growth of the market, making the shopping environment more favorable to imported products.	Meat and poultry imports are subject to complicated import inspections and require proper sanitary certificates and documentation. Fresh fruit and vegetable imports are frequently restricted for phytosanitary issues. Certain food additives approved in the U.S. are not approved in Korea.
Comparatively lower import tariffs on consumer oriented products.	Korea maintains a GM food labeling regulation, which requires additional documentation for non-GM products.



## II. Road Map for Market Entry

### A. Mass Retailers - Hypermarkets, Chain Supermarkets, Convenience Stores, Department Stores(food section)

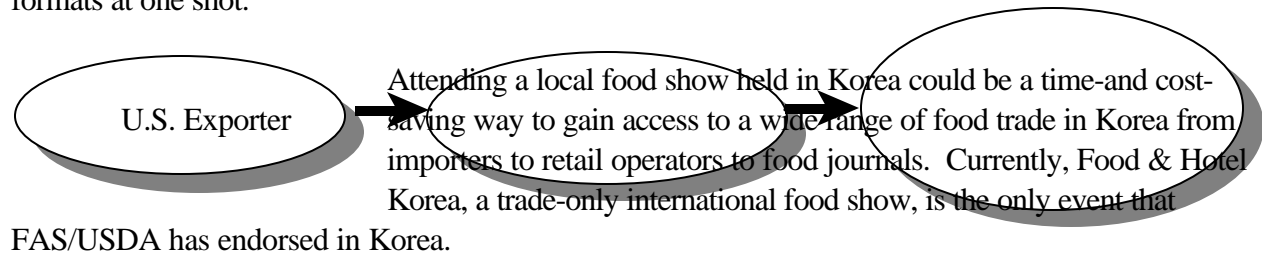
#### A-1. Entry Strategy

The entry strategy for mass retailers, including hypermarkets, supermarkets, convenience stores, and department stores (food section), is currently similar in Korea. The current best strategy to enter the market with new consumer ready food products is to contact and work with a reputable importer. This may change in the future as mass retailers are seeking ways to increase direct imports. Established importers should be able to provide market knowledge, up-to-date information and guidance on business practices and trade related laws, sales contact with existing and potential buyers, market development expertise, and the distribution system. Many of these importers are independent, and supply a wide range of retail outlets. Others may be large food processing firms, interested in importing 'private label' products to expand their lines. Some importers work on an exclusive agent/representative contract with exporters while others prefer to work independent. Many importers often procure products from overseas brokers or middlemen, not directly from the grower or manufacturer. The exporter must support the importer by providing proper labeling and documentation to facilitate the import process.

Mass retailers of international origin, such as Wal-Mart and Costco, partly import food products directly, using their international sourcing networks. It is likely that your products can gain entry into the retailers of U.S. origin by working directly with their purchasing headquarters in the U.S.

Some of the major retail companies in Korea have become vertically integrated and operate a variety of retail formats, encompassing department stores, hypermarkets, chain supermarkets, convenience stores, and on-line shopping malls. For example, Lotte Shopping Co. Ltd owns Lotte Department Stores, Lotte Mart hypermarkets, Lotte Lemon supermarkets, Seven Eleven convenience stores, and Lotte.com internet shopping mall. These vertically integrated retailers are currently moving forward to consolidate purchasing functions of different retail arms for the economy of scale. Therefore, entry into

one of these integrated retailers can provide an imported product with an access to a variety of retail formats at one shot.



The U.S. Agricultural Trade Office (ATO) in Seoul maintains a list of importers of various categories of consumer ready food products and food ingredients and has on-going marketing activities that provide new-to-market U.S. food exporters with an opportunity to meet important players in the Korean food trade.

## A-2. Market Structure

Importer, Agent,  
Distributor

Hypermarket,  
Supermarket,  
Convenience Store,  
Dept. Store

Few mass retail chains currently import directly. Instead, purchasing managers of the retail chains usually purchase products through independent importers. These managers tend to be risk averse, many are not familiar with imported products or brands, and are wary of trying new products. This limits the availability of imported consumer ready foods to the Korean consumer. The importer is required to bear a great amount of the risk of placing a new product on the shelf.

It takes about two weeks on average for a container ship from a western U.S. port, and four weeks from an eastern port, to arrive at a port in Korea. In general, most imported consumer ready products enter the country through the port of Busan. From there, the products are transported to an importer's (or a third party logistics service's) warehouse, and are distributed to warehouses of mass retailers, or in some cases, to individual retail stores, in the importer's vehicles (or in a third party logistics service's vehicles). Then the products are distributed through the distribution network of the retailer.

However, distribution to the department stores is quite different from the above path. In Korea, department store's food section operates as a collection of "mom-and-pop" outlets leased to importers. In addition to fixed amount of lease fee up front, importers who run outlets in a department store pay

the department store a fixed percentage of their monthly sales as a concession fee. Consequently, distribution of imported foods to department store segment is inefficient and markups are high. In addition to the food outlets leased to importers, many department stores also operate a full-line grocery department in house by themselves but the current trend is to lease it out to a third party supermarket operator as well.

The city of Seoul and the surrounding areas within 25 miles of it account for about half the Korean population and form the biggest retail market in Korea. Aggravating traffic conditions and high land price are making distribution of imported foods within the city of Seoul time consuming and costly. Due to the difficulty of building mass retail stores in Seoul, traditional markets and mom-and-pop stores are still playing a big role in food retailing. Other major old metropolitan markets are under the same situation. However, large supermarkets and hypermarkets are expected to replace traditional retailers in old metropolitan markets sooner or later, starting from outskirts residential areas. Growth of hypermarkets and chain supermarkets have been more obvious in newly developed towns and regional metropolitan areas outside of Seoul. Penetration of convenience stores has been a lot easier and faster in old metropolitan areas, including Seoul.

### A-3. Company Profiles

#### A-3-1. Hypermarkets

The rapid growth of hypermarkets continued in 2001 to reach W13.8 trillion won of sales, up 29% from 2000, mainly due to the opening of an additional 39 new stores nationwide. Overall hypermarkets sales are expected to surpass that of department stores by the end of 2002. It is believed that there still remains room for additional 100 to 200 new hypermarkets in this market but it is already expected that M&A (Merger & Acquisition) and consolidation will prevail in the industry in a few years as the market quickly nears saturation. The growth of this segment is mainly driven by a few leading companies as evidenced by the fact that the top three chains accounted for 29 out of the 39 new stores opened in 2001. The top four leading chains garnered 67% of sales of the segment in 2001.

Table 3. Description of A typical hypermarket Store in Korea (2001)

Annual Sales	W83 billion won
Share of Foods in Total Sales	Food: 54.6%, Non-food: 45.8%
Share of Imported Foods in Total Sales	10.4% (8.1% in 2000)
Size of Store	13,500 square meter
Number of Employees	121 Permanent, 81 Part-timers
Number of SKU	25,494 (21,766 in 2000)
Number of Consumers Daily	8,169

Per Consumer Purchase Amount	W32,390 won
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Source: Analysis of Retail Industry Performance in 2001 (Korea Chamber of Commerce)

Table 4. Profile of Major Hypermarket Chains (2001)

Retailer Name	Ownership	Sales (Million won)	No. of Stores	Stores newly opened in 2001	Locations
E-mart (by Shinsegae Co.)	Korea	4,080,000	42	14	National
Lotte Mart (by Lotte Shopping Co., Ltd.)	Korea	1,650,000	28	8	National
Home Plus (by Samsung-Tesco Co., Ltd.)	U.K. & Korea	1,546,000	14	7	National
Carrefour	France	1,510,300	22	2	National
Kim's Club (by New-core Co., Ltd.)	Korea	654,500	13	0	National
Hanaro Club (by KAC Inc.*)	Korea	637,500	6	2	Seoul
Freshmarket (by Mega Mart Co., Ltd.)	Korea	636,100	5	0	National
Wal-Mart	U.S.	615,800	9	3	National

Source: The Yearbook of Distribution Industry 2002 (Korea Superchain Association)

\* KAC: Korean Agricultural Cooperative Inc.

### A-3-2. Chain Supermarkets

Although traditional independent supermarkets have given way to the growth of hypermarkets and convenience stores, the consolidation of the industry has left a room for large size supermarket chains to grow. Especially, in markets of less than 150,000 population, where the collective buying power is not big enough to rationalize an entry of a hypermarket store, large size full-line grocery supermarkets have become the leading food retailer of the area. All the major supermarket chains have spent the last few years restructuring their businesses, repositioning their stores to fill in the niche between hypermarkets and convenience stores. The restructuring has resulted in an aggressive "scrap and build" process in that considerable number of stores have been replaced by new ones. For example, LG Mart Co., Ltd., the market leader, closed 22 stores in the past three years while opening 24 new ones. Haitai

Distribution Co., Ltd. closed 31 stores while opening 9 new stores. Improvement in store accessibility, one-stop shopping capability, convenience and customer service have become the emphasis of the new stores. Striking features that differentiate a new store from an old one include; first floor location, increase in both store size and product assortment, bigger emphasis in HMR and fresh product section, more PB products, sizable parking lot, more in-house service outlets such as pharmacy, laundry and bank, and on-line shopping/delivery service. Another important move was the entry of Lotte Shopping Co., Ltd. and Shinsegae Co. into the supermarket business in recent years, which was prompted by the maturing of hypermarket and department store segments.

Table 5. Description of Newly Opened Supermarket Stores in Korea (2001)

Annual Sales	W10 - 15 billion won
Share of Foods in Total Sales	70% - 80%
Size of Store	*1,800-3,300 square meter
Number of Employees	15-20 Permanent, 40-80 Part-timers
Number of SKU	5,000 - 6,000 SKU
Number of Consumers Daily	1,027
Per Consumer Purchase Amount	W7,770 won

Source: Analysis of Retail Industry Performance in 2001 (Korea Chamber of Commerce), Monthly Chain Store

\* Conventional stores: 600-900 square meter

Table 6. Profile of Major Supermarket Chains (2001)

Retailer Name	Sales (Million won)	No. of Stores	Stores Newly Opened in 2001	Locations
LG Supermarket (by LG Mart Co., Ltd.)	520,000	61	11	National
Hanwha Store & Mart (by Hanwha Stores Co., Ltd.)	388,200	34	3	National
Haitai Supermarket (by Haitai Stores Co., Ltd.)	227,600	48	4	National
Lotte Lemon (by Lotte Shopping Co., Ltd.)	200	4	4	Seoul, Kyoungkido
Top Store (by Seowon Distribution Co., Ltd.)	485,200	39	8	Kyongsangd o
Bada Mart (by *NFFC)	129,300	24	3	National

Source: The Yearbook of Distribution Industry 2002 (Korea Superchain Association)

\*NFFC: National Federation of Fishery Cooperatives

### A-3-3. Convenience Stores

The growth of convenience stores has been explosive in recent years and is expected to continue in years to come at the expense of traditional mom-and-pop grocery stores. The year 2001 alone saw openings of 1,107 new stores while closing of existing stores was record low at 136. The total number of convenience stores in Korea has reached 3,753 at the end of 2001 and is expected to be over 5,000 in another year. The average number of daily customers per store and per customer purchase both improved in 2001 to 708 and W2,411 won respectively, up from 666 and W2,176 won in 2000. Introduction of more fast food items and ready to eat products targeting young consumer group has been the industry's top priority in product assortment in recent years. Another area of emphasis has been developing more PB products for higher mark-ups. In an effort to attract more consumers, convenience stores now offer a wide range of additional services including postal service, delivery service, and banking.

Table 7. Description of A Typical Convenience Store in Korea (2001)

Annual Sales	W590 million won
Share of Foods in Total Sales	59.5% (64.6% in 2000)
Size of Store	80 square meter
Number of Employees	2 Permanent, 4 Part-timers
Number of SKU	3,000 SKU
Number of Consumers Daily	708
Per Consumer Purchase Amount	W2,411 won

Source: Analysis of Retail Industry Performance in 2001 (Korea Chamber of Commerce)

Table 8. Profile of Major Convenience Store Chains (2001)

Retailer Name	Sales (Million won)	No. of Stores	Stores Newly Opened in 2001	Locations
LG 25 (by LG Mart Co., Ltd.)	402,000	777	157	National
Family Mart (by Bokwang Family Mart Co., Ltd.)	370,000	958	312	National
Seven Eleven (by Korea Seven Co., Ltd.)	382,000	1001	321	National

Mini Stop (by Daesang Distribution & Service Co., Ltd.)	145,000	406	151	National
Buy The Way (by Dongyang Mart Corporation)	130,000	303	77	National

Source: Analysis of Retail Industry Performance in 2001 (Korea Chamber of Commerce)

#### A-3-4. Department Stores

The advent of hypermarkets in Korea has suppressed the growth of the department store segment and has resulted in aggressive M&As of independent regional stores by national chains. The segment garnered W15.8 trillion of cash register sales in 2001, which is up 4.7% from the previous year. However, taking the sales from the three newly opened stores in 2001 into consideration, the sales of existing stores actually showed a slight decrease in 2001. The growth of the segment is mainly led by the top three national chains, Lotte, Shinsegae and Hyundai, as evidenced by the fact that these three chains accounted for 70% of the total sales of the segment in 2001, which is a big increase from 41% in 1998. The major chains are trying to reposition their product assortments and target markets toward more affluent consumer groups in an effort to differentiate themselves from direct sales retailers as well as hypermarkets.

Table 9. Description of A Typical Department Store in Korea (2001)

Annual Sales	W195 billion won
Share of Foods in Total Sales	18.6% (21.1% in 2000)
Size of Store	16,700 square meter (14.5% of the space leased out to third party retailers)
Number of Employees	367 permanent, 931 part-timers
Number of SKU	N/A
Number of Consumers Daily	17,515
Per Consumer Purchase Amount	W31,893 won

Source: Analysis of Retail Industry Performance in 2001 (Korea Chamber of Commerce)

Table 6. Profile of Major Department Store Chains (2001)

Retailer Name	Sales (Million won)	No. of Stores	Stores Newly Opened in 2001	Locations
Lotte Department Store (by Lotte Shopping Co., Ltd.)	5,789,400	15	2	National

Hyundai Department Store (by Hyundai Dept. Stores Co., Ltd.)	3,492,800	12	1	National
Shinsegae Dept. Store (by Shinsegae Co.)	2,169,600	7	0	National

Source: The Yearbook of Distribution Industry 2002 (Korea Superchain Association)

## B. Traditional Wet Markets and Mom-and-Pop Grocers

The traditional wet markets and mom-and-pop grocers still accounted for about 66.7% of the food retail market in 2001. Especially, traditional retailers still prevail in old metropolitan areas where traffic and real estate infra structure make an entry of a modern format supermarket or hypermarket store physically difficult. Banning of mass retailers' shuttle bus operation introduced 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 towns in metropolitan cities is providing more of these areas with a direct access to mass retail stores. At the same time, ownership of a car is now quite common for most Korean families, and more consumers are willingly driving to a hypermarket or large supermarket store despite the distance, seeking lower prices and one-stop shopping. The Korean government's strong initiative to identify the actual income of independent businesses by increasing the usage of credit cards has aggravated the profit level of traditional retailers, who now have to comply with elevated tax and social security responsibilities.

Traditional wet markets in Korea take the form of large wholesale markets and local town markets. They tend to specialize in fresh products, including produce, fish, and meats, rather than processed foods. Imported products that take a considerable portion of the products distributed through traditional markets include fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals, and oils. The wholesale markets serve as sources of supply for 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 a downstream mom-and-pop outlet. The importers and/or distributors to the traditional retailers are the same importers and/or distributors who supply the modern retailers. The main difference is the inclusion of at least one wholesaler between the importer and the end retailer.

With the growth of the modern format mass retailers, the share of the traditional retailers in Korea will continue to decline significantly in the years to come and, consequently, we do not recommend an exporter of consumer oriented food products to target this sector.

## III. Competition

The domestic food industry offers the major competition to U.S. exporters in most categories. This is natural, as the domestic industry is geared to the Korean consumer tastes, and produces both traditional and trendy foods. The domestic horticultural industry supplies a variety of produce in good



quantity and quality, frequently greenhouse grown. The local processing industry is very sophisticated, and often uses imported ingredients. The Korean consumer is generally biased toward locally produced products and willingly pays a premium.

However, with the on-going lifting of trade barriers in food products as well as consumers' ever strong demand for new-to-market tastes and products, international suppliers are becoming the major competitors to U.S. exporters for an increasing number of products. On the processed food side, the U.S. maintains about a 35% share. Major competition comes from the European countries and Australia. On meats and dairy products, Australia, New Zealand, and Europe are the major competitors. On fishery products, Norway, China, Thailand, and Vietnam are the major competitors. The growth of imports from China has been remarkable in recent years in many products, including fishery products, produce, processed vegetables, and poultry meat. China is also likely to rapidly expand their processed products exports in the near future. Chile has a potential to become a major supplier of consumer oriented food products to Korea as the free trade agreement signed between the two countries is scheduled to go into effect in 2003.

Market promotions by other competitors are similar to the activities organized by U.S. suppliers, and include in-store promotions, educational training and seminars, food shows, reverse trade missions, and trade servicing. Australia and France operate sizable promotional agencies in Korea dedicated to food exports.

#### IV. Best Product Prospects

##### A. Products Present in the Market Which Have Good Sales Potential

The largest and fastest growing categories of imported retail products include; meat (beef and pork), fruits, fruit juices, fruit jams, canned fruits, canned or frozen vegetables, poultry meat, tree nuts, snack foods, candies and confectionary, alcoholic beverages (beer, hard liquor, and wine), fishery products, dairy products, pet foods, sauces and spices (Japanese, Chinese), oils.

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

The growing demand on new-to-market tastes and products is expected to increase the sales of the following products in near future; processed meat (sausages and hams), processed turkey meat, specialty cheeses, sauces and spices (Italian, French, Indian, Chinese, Mexican), noodles, prepared foods (packaged HMR products), organic products (both fresh and processed products). Private brand products also have a good potential.

##### C. Products Not Present Because They Face Significant Barriers

Imports of fresh fruits and vegetables are frequently restricted for phytosanitary reasons. Currently, imports of fresh apples and mangos from U.S. are banned. Only three variety of cherries, Bing, Van, and Lambert cherry, are permitted for imports. Imports of a variety of fruits from Hawaii and Texas, including grape, grapefruit, orange, avocado, and lemon, are prohibited. Fresh cherry, orange, and shelled walnuts imported from U.S. are subject to a mandatory methyl-bromide fumigation treatment

before being shipped to Korea, which can damage the quality of products. Many products, including rice, honey, and pop-corn, are subject to import quotas. However, these import restrictions are frequently changing and U.S. suppliers should contact either established importers or ATO Seoul for up-to-date regulations.

## V. Post Contact and Further Information

If you have any questions or comments regarding this report, please contact:

Local Address:

U.S. Agricultural Trade Office  
Room 303, Leema Bldg.  
146-1 Susong-dong, Jongro-gu, Seoul 110-140, Korea

U.S. Mail Address

Agricultural Trade Office, American Embassy-Seoul  
Unit #15550  
APO AP 96205-0001

Tel: 82-2-397-4188

Fax: 82-2-720-7921

E-mail: [atoseoul@fas.usda.gov](mailto:atoseoul@fas.usda.gov)

Internet: [www.atoseoul.com](http://www.atoseoul.com)

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