

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 3/17/2014

GAIN Report Number: KS1415

Korea - Republic of

Food Service - Hotel Restaurant Institutional

Biennial Report

Approved By:

Kevin Sage-EL, ATO
Seoul Director

Prepared By:

Sangyong Oh, Marketing
Specialist

Report Highlights:

The Hotel, Restaurant and Institutional (HRI) foodservice sector in South Korea continues to grow as on-going socio-economic changes promote increased consumer spending on dining outside of the home. Cash-register sales for the sector totaled ₩77.3 trillion won (\$70.3 billion) in 2012, up 3 percent from the previous year. At the same time, the sector continues to restructure as large-scale restaurant companies as well as broad-line foodservice distributors expand at the expense of small-scale, independent businesses. As a result, the sector generates additional demand for products of new taste, added value, stable supply, consistent quality and specifications catered to the industry. These changes, coupled with implementation of the Korea-United States Free Trade Agreement, offer new export opportunities to a wide variety of American Products.

Post:

Seoul ATO

Author Defined:

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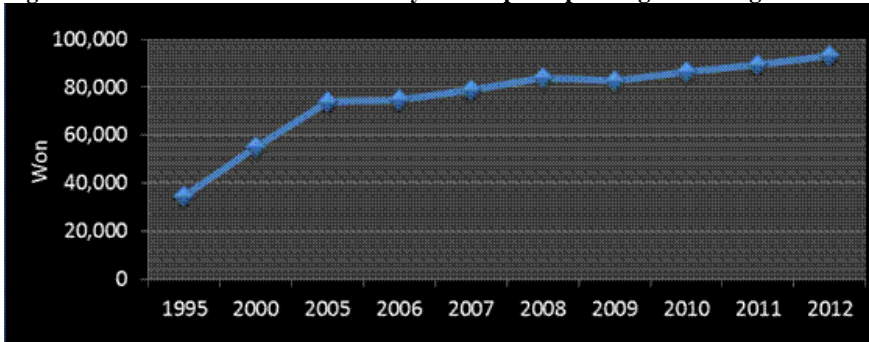
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SECTION I. MARKET SUMMARY

A. Overview of the Korean HRI Foodservice Sector

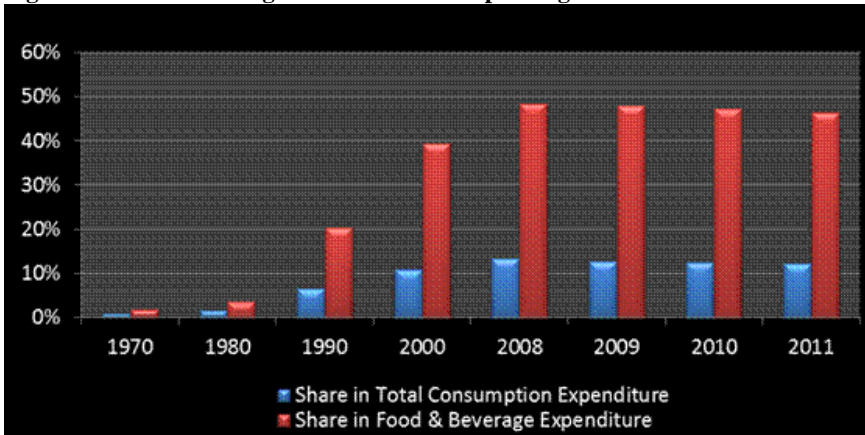
Changes in lifestyle and dietary culture coupled with increased income level have stimulated a rapid growth of the Hotel, Restaurant and Institutional (HRI) foodservice sector in South Korea (hereinafter referred to Korea) over the last three decades. Monthly per capita household spending on dining outside of the home has more than doubled in the last ten years, reaching ₩93,211 won (roughly \$85, \$1 = ₩1,100) in 2012, up 4.4 percent from the previous year. In other words, each household spent 46.6 percent of its food and beverage expenditure, or 12.4 percent of total consumption expenditure on dining out. It is expected that spending on dining-out will continue a steady growth in the coming years as Korean consumers face ever busier lifestyle with increased number of dual-income families and single-member households.

Figure 1: Korean Household's Monthly Per Capita Spending on Dining-out



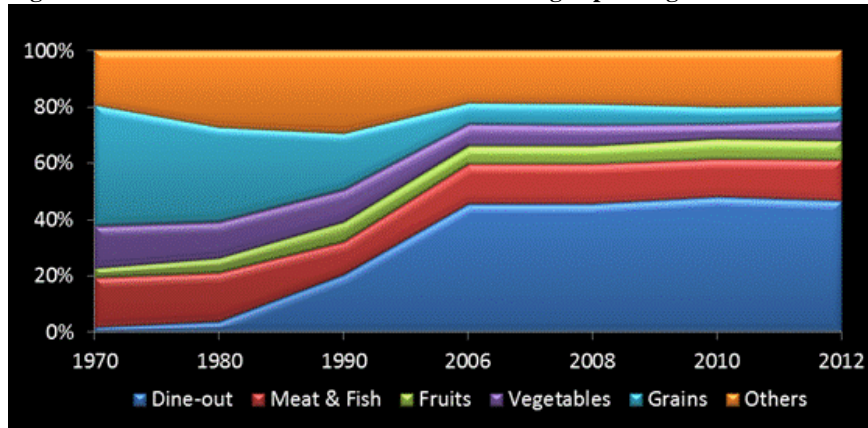
Source: Household Income & Expenditure Statistics (Korea Statistics Office, <http://kosis.kr>)

Figure 2: Share of Dining-out in Household Spending



Source: Household Income & Expenditure Statistics (Korea Statistics Office, <http://kosis.kr>)

Figure 3: Breakdown of Household Food & Beverage Spending



Source: Household Income & Expenditure Statistics (Korea Statistics Office, <http://kosis.kr>)

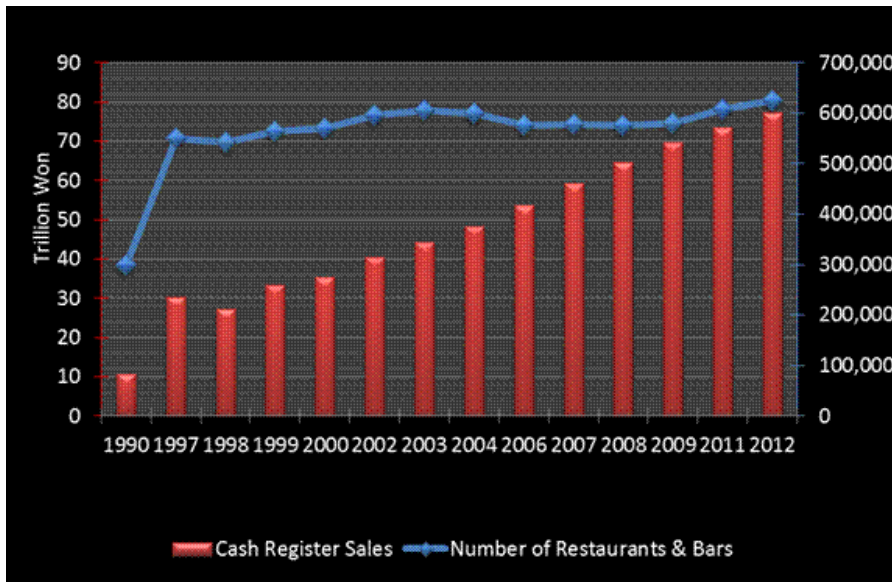
Cash register sales for the restaurant and bar industry in Korea totaled ₩77.3 trillion won (\$70.3 billion) in 2012, up 3 percent from the previous year. Restaurants accounted for 81.6 percent (or ₩63.1 trillion won) of the sales while bars accounted for the rest 18.4 percent (or ₩14.2 trillion won). While restaurant segment sales grew 5.8 percent in 2012, bar segment sales declined 0.7 percent from the previous year largely due to weak performance of premium salons under the sluggish local economy. Within the restaurant segment, institutional feeding restaurants and café/beverage shops showed much higher sales growth than the segment average, reflecting increased consumer attention to value-for-money, diversified taste and convenience.

It is notable that the restaurant and bar industry in Korea has largely been composed of small-scale, family-operated businesses partly due to the Korean government policy maintained up until mid-1990's that prohibited large corporations from entering the foodservice sector. In addition, the industry has been a major refuge to many of those individuals who lost or retired from corporate jobs during the Asian economic crisis in 1997-2000 and again during the recent years of global economic downturn. Over 88 percent of the 624,000 restaurants and bars in the market were small businesses that hired less than five employees as of 2012. Marketers point out that the industry has already gone over the saturation point in terms of the number of businesses and therefore cannot support a sustainable growth. As an indicator, there is roughly one restaurant per every 100 consumers in Korea today and over 60 percent of the restaurants and bars make less than ₩10 million won (roughly \$90,000) of annual sales each. Retail industry's aggressive expansion into HMR (Home Meal Replacement) business has been another force that further heightened the competition in the restaurant industry.

As a result, a restructuring trend that favors expansion of large-scale businesses at the expense of small-scale, independent establishments is expected to remain very strong in the Korea foodservice sector in the coming years. For example, between 2008 and 2012, the number of large-scale restaurants and bars that hired 50 or more employees increased 28.9 percent while the number of small establishments that hired less than 5 employees increased 6.8 percent. During the same period, the large-scale restaurants

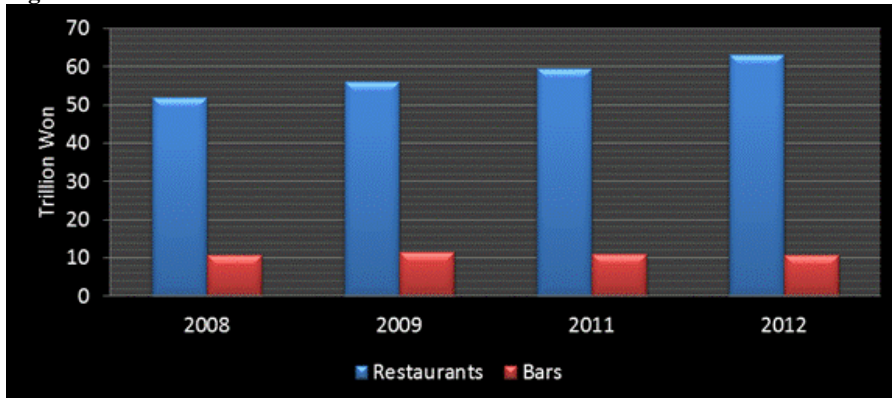
and bars recorded 70.5 percent of cash-register sales growth while small-scale establishments recorded 10.7 percent of cash-register sales growth.

Figure 4: Annual Sales and Total Number of Restaurants & Bars in Korea



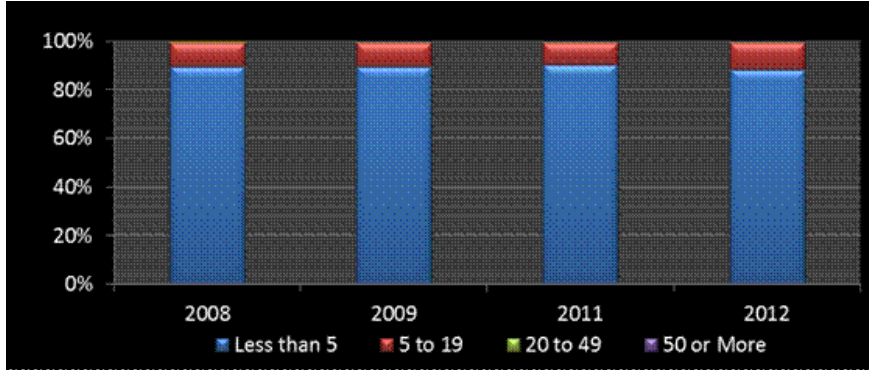
Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Figure 5: Annual Sales of Restaurants & Bars in Korea



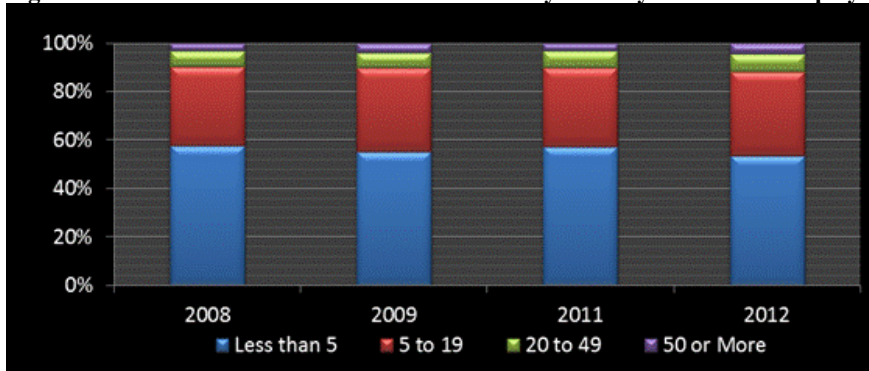
Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Figure 6: Breakdown of Restaurants & Bars by Number of Employees



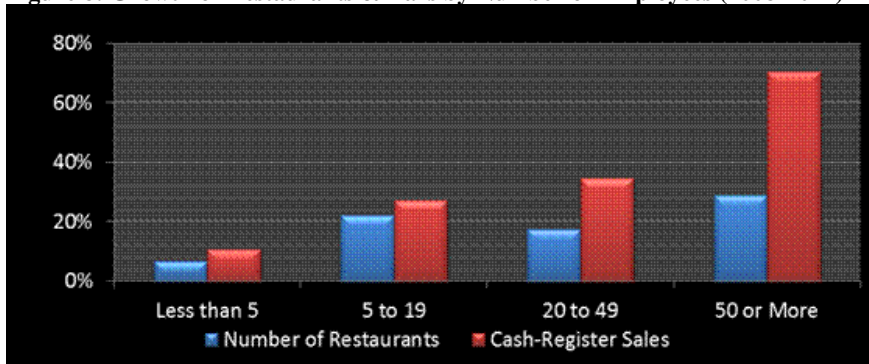
Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Figure 7: Breakdown of Restaurant & Bar Industry Sales by Number of Employees



Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

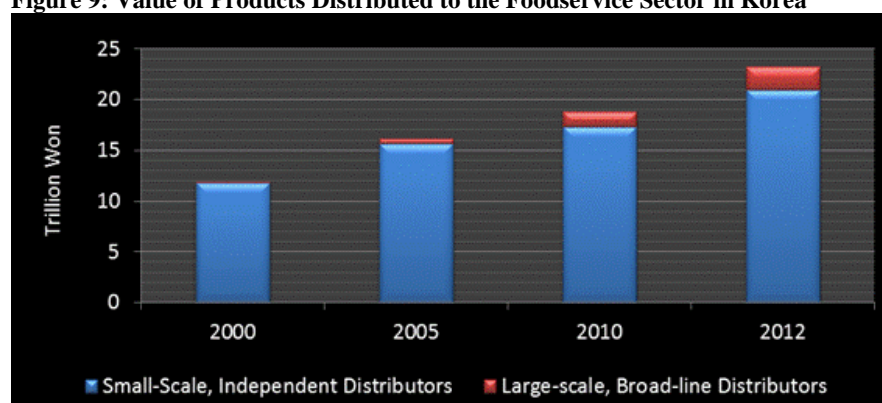
Figure 8: Growth of Restaurants & Bars by Number of Employees (2008-2012)



Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

A big part of the supply chain for the foodservice sector in Korea still remain inefficient as distribution of products to small-scale, independent restaurants and bars involve multiple layers of middlemen distributors. However, restructuring of the supply chain, which started in early 2000's with introduction of large-scale, broad-line foodservice distributors, is likely to accelerate in the coming years as restaurants and bars under the umbrella of large-scale conglomerate business groups or franchise companies further expand. Industry analysis estimated that the value of products distributed to the foodservice sector totaled ₩23.3 trillion won in 2012, up 6.1 percent from the previous year. Over 2,000 small to medium size distributors accounted for 90 percent of the product distribution while ten large-scale broad-line foodservice distributors supplied the remaining 10 percent.

Figure 9: Value of Products Distributed to the Foodservice Sector in Korea



Source: CJ Freshway Co. IR Report (www.cjfreshway.co.kr), NH Economic Research Institute Report (www.nheri.re.kr)

Recently, the social initiative of protecting small businesses from large corporations has gathered strong voice in Korea. As a result, Korean government has introduced new regulations (so called 'co-growth' measures including 'businesses designated for small-to-medium-scale companies) that aimed to restrict further expansion of large-scale corporations in the foodservice sector. However, these 'co-growth' measures are likely to have limited impact because the sector has few other choices but to adopt some economy-of-scale in order to regain momentum for sustainable growth. Furthermore, the current scope of the 'co-growth' measures excludes vicinities near public transportation hubs and newly developing residential/commercial areas which is where the large-scale foodservice companies should find most of the new growth opportunities in the market.

The evolvement of the Korean foodservice sector generates new opportunities for imported products that offer new tastes, healthy recipes, added-value, stable supply, consistent quality and specifications catered to the industry, characteristics where U.S. products are competitive. The outlook for U.S. exports to the Korean foodservice sector is excellent for beef, pork, chicken, processed meat (including ham and sausage), seafood, processed vegetables, fresh and processed fruits, tree nuts, cheese and processed dairy products, fruit juices and other non-alcohol beverages, wine and other alcohol beverages, sauces and condiments, coffee, bakery products and much more. In addition, reduction of import duties under the Korea-United States Free Trade Agreement (KORUS FTA) will also help U.S. exporters expand the market in the Korean foodservice sector.

B. Advantages and Challenges for U.S. Exports to the Korean Foodservice Sector

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 products of new and international tastes as their perspectives and income level continue to expand.	Consumers are generally biased toward locally produced products. Imported foods are often associated with contaminations and potential food-borne diseases. In addition, food safety issues are increasingly becoming means to restrict imports.
Korea by nature depends heavily on imports to satisfy increased demand for food and agricultural products from its population of 50 million. The United States currently maintains leading market share in Korea's over \$30 billion in food and agricultural imports. KORUS FTA further helps U.S. products remain price-competitive in Korea.	Imports of many products still face restrictive trade barriers, including high tariffs, tariff-rate quota (TRQ) and food safety/labeling standards. Certain food additives approved for use in the United States may not be approved in Korea.
Korean consumers have gone through many food safety issues over the years, part of which were associated with products from less-trusted origins such as China. As a result, traders are making efforts to source additional products from developed countries, including the United States, in an effort to regain consumer confidence.	Price is still a key factor governing procurement decisions in the Korean foodservice sector. As a result, American products face steep competition against cheaper products from export-oriented competitors such as China and EU. Future implementation of other FTA's such as those with Canada and Australia could result in renewed competition for this market.
Modern, large-scale businesses are leading the growth of the HRI foodservice sector in Korea, which enhances more efficient distribution of imported products.	Many American suppliers have little understanding about the Korean market and thus do not offer catered products and services.
Due to the strong economic and political ties between Korea and the United States, many Korean consumers are actively following new American products and food trends. English is the most used foreign language in Korea, and a sizable number of Korean students are studying in the United States.	Although relying heavily on imported ingredients, food processing industry in Korea presents strong competition to American suppliers for consumer-ready products. Local food processing industry is paying increased attention to offer more products to the foodservice sector.

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SECTION II. ROADMAP FOR MARKET ENTRY

A. Entry Strategy

A-1. Food Trends in Korea

Represented by Ssalbob (steamed short-grain rice), Kimchi (fermented Napa cabbage) and Bulgogi (marinated beef), traditional Korean cuisine remains the mainstream of the Korean diet. However, globalization of the market and change of consumer lifestyle have made today's Korean diet quite

different from what it was in the past. Like consumers in developed countries everywhere, Koreans are looking for new taste, better value, convenience, quality and most of all, safe and healthy products in their daily diet.

Due in part to the aging population, there is a heavy emphasis among the general public on healthy eating, which is interpreted into a strong demand for organic and functional foods. In particular, 'Well-being', a theme that has evoked new consumer movement of seeking both physical and psychological health by adopting more wholesome way of life since early 2000's, still remains one of the most influential ideas in the market. As an old Korean proverb "food and medicine are from the same source" indicates, Korean's long-held belief in health-improving functionality of regular foods still prevails and contributes to on-going popularity of functional foods as well as regular foods that target specific health concerns.

Table 1: Aging Korean Population (unit: 1,000 people)

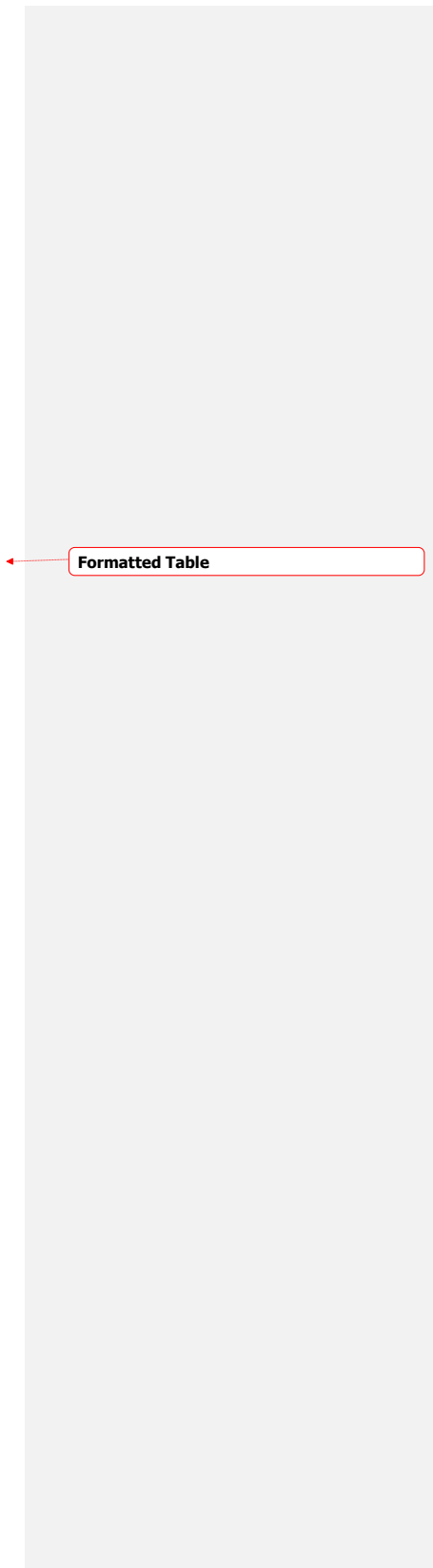
Age Group	1995		2000		2010		Growth 1995-2010
	Number	Share	Number	Share	Number	Share	
0-14	10,236	23.0 %	9,639	21.0 %	7,907	16.2%	-22.7 %
15-64	31,678	71.1 %	32,973	71.7 %	35,611	72.9%	12.4 %
65 +	2,640	5.9 %	3,372	7.3 %	5,357	11.0%	102.9 %

Source: National Population Survey, Korea National Statics Service (<http://kosis.kr>)

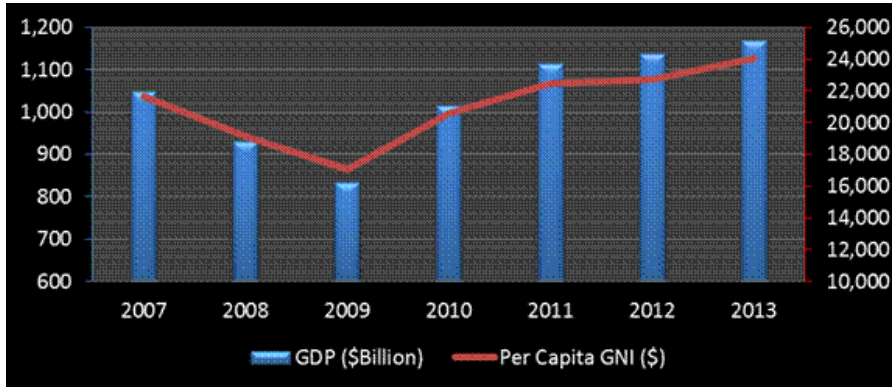
It is important to note that Korean consumers are extremely sensitive to food safety issues as they have gone through many big and small food safety issues over the years, including BSE cattle, Avian Influenza, Genetically Modified Organism (GMO), Melamine risk from Chinese processed foods and radiation risk from Japanese seafood. Internet and Social Media Network (SNS) have become a handy source of food safety information for the general public. As a result, news of any food safety concern, regardless of the truthfulness of the issue in question, can potentially spread in the market in no time, which makes it difficult for the supplier to address the issue in a timely and efficient manner.

Growth of the Korean economy and consumer income continues to expand the demand for products of higher quality, diversity and new taste. In particular, better-traveled young professionals, many of whom are educated in foreign countries, are ushering more international products and food culture into the market. However, the call for better value and lower price is also emphasized in the market due to the on-going retirement of the seven million Korean baby boomers as well as tight job market under the recent global economic slow-down.

Figure 10: Korean Economy Trend



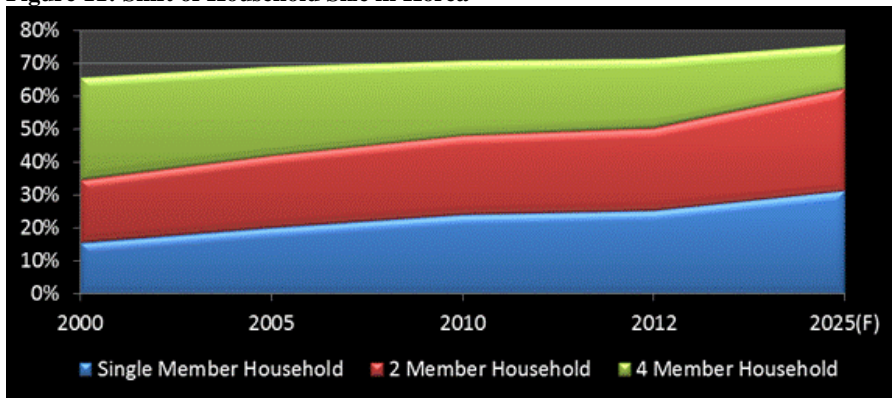
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Source: Bank of Korea - Gross Domestic Production (GDP), Per Capita Gross National Income (GNI)

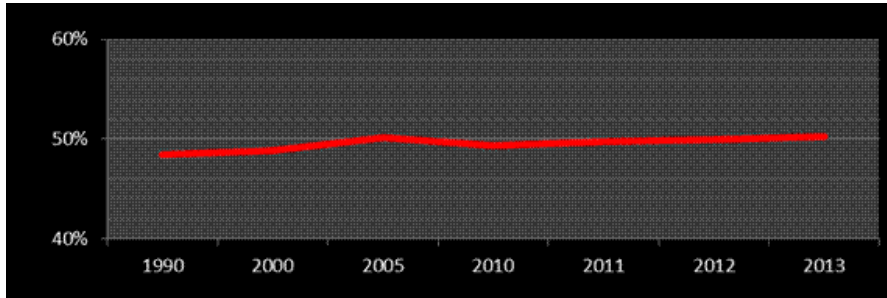
Korea's population of 50 million occupies a country the size of the state of Indiana. About 70 percent of the land is mountainous terrain and over 90 percent of the population lives in urban cities, which explains the high population density and high real estate cost. Convenience has become a top driving force behind many consumer trends today as everyday life of Koreans gets busier. In particular, increased ratio of women joining the economy through the labor market as well as rapid increase of single and two member households are generating stronger demand for quick and easy meal options, including take-out meals in quick-service restaurants and Home Meal Replacement (HMR) products in retail stores. More of the restaurants and retail stores offer home delivery services to attract these busy consumers. Strong growth of on-line shopping is also rooted partly in the demand for convenience.

Figure 11: Shift of Household Size in Korea



Source: Household Survey, Korea National Statics Service (<http://kosis.kr>)

Figure 12: Ratio of Korean Women Participating in Economic Activity*



Source: Employment Survey, Korea National Statistics Service (<http://kosis.kr>)

*Note: ratio of women, 15 years old or older, who are currently with jobs or seeking for jobs.

A-2. Suggested Market Entry Tools

Understanding Local Tastes

Trends of recipes and products in the foodservice sector reflect the contemporary dietary culture of Korean consumers. Therefore, American products that are even used in similar dishes in the United States may require some degree of modification to be marketed successfully in Korea. Required modification could mean anything from changing packaging design and unit volume to reformulating the recipe. A common mistake that new-to-market American suppliers often make is viewing Koreans to be culturally similar to consumers in the neighboring Asian countries like Japan and China. Although it is true that people in these three far eastern Asian countries share some parts of their histories and cultures, Koreans' tastes for food are different in many ways from their neighbors. Personal visits to Korea should be the best way to develop understanding about the local taste. Information gathering through Internet or associating with the Korean American community in the states could also be an efficient approach.

Market Research

The website of the Agricultural Trade Office (ATO) under USDA/FAS Seoul (www.atoseoul.com) offers various information about the Korean market, including:

- 1) [Market Reports](#) on industries and products of significant interest to American food and agricultural suppliers. Particularly Exporter Guide, FAIRS Country Report, FAIRS Export Certificate Report, Retail Food Sector Report, Food Processing Sector Report and HRI Foodservice Sector Report are recommended to new-to-market suppliers.
- 2) [Korea's Agricultural Import Statistics](#), organized by 4-digit HS Code and updated monthly, provide a summary of import trends. Quarterly import trend presentations are also provided.

Korean standards & Regulations on Imported Food and Agricultural Products

Korea has well-established standards and regulations on food and agricultural products. Imported products must meet all the local rules to be able to enter and sell in Korea. For detailed information regarding standards and regulations that imported food and agricultural products are subject to in Korea, including Labeling, Packaging, Export Health Certificates, MRL (Maximum Residue Level) Code and Food Additive Code, please refer to the following annual reports published by the Office of Agricultural Affairs/FAS Seoul:

- 1) [FAIRS \(Food and Agricultural Import Regulations and Standards\) Country Report Annual, KS1359](#)

dated December 26, 2013 (or visit www.atoseoul.com or www.fas.usda.gov for more recent update).
2) [FAIRS Export Certificate Report Annual, KS1358](#) dated December 23, 2013.

KORUS FTA and Import Duties

The Korea-United States Free Trade Agreement (KORUS FTA), implemented on March 15, 2012 significantly reduces tariffs on many American products imported into Korea. The website of ATO Seoul provides a special section that offers detailed information and links related to the KORUS FTA, including:

- 1) Full Text of the Agreement: <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta/final-text>
- 2) Korea Tariff Schedule:
http://www.ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file786_12756.pdf

You will find the base tariff rate and the phase out category for all agricultural and food products, organized by HSK code in the Korea Tariff Schedule. Phase-out categories include:

A	Immediate tariff elimination	E	6 year
B	2 year phase-out	F	7 year
C	3 year	G	10 year
D	5 year	H	15 year

- 3) Country of Origin Certification:
[http://www.atoseoul.com/fta/KORUS%20FTA%20COO%20FAQ_clean%20\(2\).pdf](http://www.atoseoul.com/fta/KORUS%20FTA%20COO%20FAQ_clean%20(2).pdf)
- 4) Tariff-rate Quotas: <http://www.atoseoul.com/fta/step4.asp>
- 5) FTA Briefs on Top 40 Products: <http://www.atoseoul.com/fta/fta%20product%20briefs.asp>

Trademarks and Patents

New-to-market American suppliers should pay attention to protecting the company/product trademarks and patents, which can be easily handled by working with the Korean business partner or through local attorneys. The Korea Industrial Property Office (KIPO) is responsible for registration of trademarks and review of petitions related to trademark registration. In accordance with the Trademark Law, trademarks are registered in Korea on a “first file, first registered” principle. A person who registers a trademark first has a preferential right to that trademark, and Korean law protects the person who has the right over the trademark. To prevent trademark disputes, American companies considering conducting business in Korea are encouraged to register their trademarks as early as possible. For more information, see the Korea Industrial Property Rights Information Service website (<http://eng.kipris.or.kr>).

Importer Contact List

Contact lists of Korean food and agricultural importers sorted by product are available from ATO Seoul upon request. Established Korean importers are the best information source for up-to-date Korean regulations on imported products as well as market trends and intelligence.

Introduction through ATO Seoul Newsletter

Space in the ‘New American Supplier/Product’ section in ATO Seoul’s quarterly [e-newsletter](#), which is sent out to over 2,500 industry contacts in Korea, is provided to American suppliers free of charge upon request.

Trade Shows

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Established trade shows remain one of the most efficient tools to develop contacts with Korean importers. Seoul Food & Hotel (www.seoulfoodnhotel.co.kr) is the leading food trade show in Korea that provides a venue for new-to-market suppliers to develop contacts with a large number of local distributors and buyers. This is the only show in Korea that is officially endorsed and supported by USDA/FAS. The show schedule for 2014 is May 13-16, 2014. There will be a sizable U.S. pavilion in the show put together by various U.S. agricultural industries and organizations including USDA cooperators, state regional trade groups (SRTG) and state departments of agriculture. For registration information, please contact the U.S. pavilion manager, Oak Overseas (Russell Hood, Rhood@oakoverseas.com). Other international food trade shows that attract a sizable number of Korean importers include FoodEx Japan (www3.jma.or.jp/foodex/en/), Natural Products Expo West (www.expowest.com), Fancy Food Show (www.specialtyfood.com), SIAL France (www.sialparis.com) and ANUGA Germany (www.anuga.com).

Export Assistant Programs by State Regional Trade Groups

State Regional Trade Groups (SRTG) offer various export assistant programs including outbound delegations of suppliers to Korea for match-making meetings. Please contact the SRTG of your region for more information about upcoming programs:

1) Western United States Agricultural Trade Association (WUSATA)

2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA

Telephone: 360-693-3373 Fax: 360-693-3464

E-mail: janet@wusata.org

Website: www.wusata.org

2) Food Export Association of the Midwest USA

309 W. Washington St., Suite 600

Chicago, Illinois 60606

Telephone: 312-334-9200 Fax: 312 334-9230

E-mail: thamilton@foodexport.org

Website: www.foodexport.org

3) 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

E-mail: jcanono@foodexportusa.org

Website: www.foodexportusa.org

4) Southern United States Agricultural Trade Association (SUSTA)

2 Canal Street Suite 2515, New Orleans, LA 70130, USA

Telephone: 504-568-5986 Fax: 504-568-6010

E-mail: jim@susta.org

Website: www.susta.org

U.S. Origin Restaurant Franchises in the Market

Many of the leading restaurant chains in Korea are of U.S. origin and can be approached through the headquarters in the United States. The degree of involvement that the U.S. headquarter has in the operation of the partner chain in Korea varies from one company to another depending on the nature of the contract between them. U.S. headquarters in general have a significant amount of influence over what products and recipes the Korean partners serve. Below is a list of U.S. origin restaurants currently

in operation in Korea.

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

Category	Key Companies
Quick Service Restaurants	McDonald's, KFC, Burger King, Subway, Popeye's, Taco Bell, Quiznos
Family Restaurants	TGIF, Bennigans, Outback Steakhouse, Sizzler, Chili's, Toni Roma's, Ruby Tuesday, Hard Rock Cafe, Hooters, On The Boarder
Ice Cream Restaurants	Ben & Jerry's, Haagen-Dazs, Cold Stone Creamery, Baskin Robbins
Pizza Restaurants	Pizza Hut, Domino Pizza, Papa John's
Coffee & Beverage Shops	Starbuck's, Seattle's Best, Au Bon Pain, Krispy Kreme Doughnuts, Cinnabon, Dunkin Doughnuts, Smoothie King, Jamba Juice

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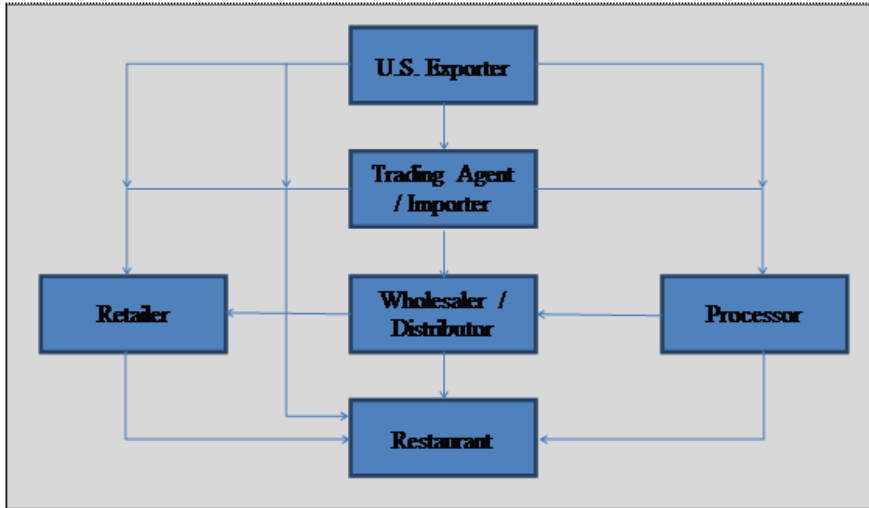
B. Market Structure - Distribution Channel

B-1. Product Flow

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

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 that the product is subject to. The detailed laboratory inspection that is required on all new-to-market products and randomly selected existing products may take as long as ten working days. The documentary inspection, which is allowed on existing products with previous import records, may be completed within a day or two.

Figure 13: Flow of Imported Food and Agricultural Products



Once the products are cleared from the customs, they are transported to the importer's warehouse for temporary storage. Importers may have warehouses in more than one location. Many importers use third party logistics service providers for warehousing and trucking because of high overhead cost. The importer usually supplies directly to large-scale customers (food processors, retail store chains, restaurant chains, or broad-line foodservice distributors) but may use wholesalers or middleman distributors when supplying to small customers or to distant regional markets. Large-scale retailers and foodservice companies in general operate a network of "distribution-hubs" across the country, each of which services all the branch stores and end-user restaurants in the given regional market.

The city of Seoul (capital city of Korea) and its surrounding area within 60 miles radius account for over 50 percent of the total Korean population and over 50 percent of the restaurant and bar industry sales in Korea. Although the government maintains a strong policy initiative to develop other regions of the country for balanced growth, the Seoul metropolitan area is expected to remain the leading market for the foodservice sector in the coming years. Other regional markets in Korea that are likely to see strong growth of the restaurant and bar industry include Busan, Sejong (the new home of the Korean government offices) and Jeju (an island south of the peninsular and the leading tourist attraction).

B-2. Product Distribution to Independent, Small-scale Restaurants and Bars

Typically, distribution of products to independent, small-scale restaurants and bars involve multiple layers of middleman distributors that include wholesalers, wet markets and grocery retail stores. It is notable that large-scale retail store chains that specifically target independent, small-scale restaurants and bars are likely to expand further in the coming years. Leading players, such as Traders (by E Mart), Vic Market (by Lotte Mart) and COSTCO Korea have made aggressive investment in recent years to open additional stores.

Wholesalers in general are specialized in limited categories of products (meat, fish, or fresh vegetables for example) and are based around public wholesale auction markets that serve major metropolitan areas (e.g., the Seoul Garak Agro-Fishery Wholesale Market, www.garak.co.kr/eng/). Partly due to limited

financial resources and the risk of seasonal supply fluctuations, wholesalers seldom offer long-term pricing. As a result, independent, small-scale restaurants in general work with several different distributors for different products and transaction terms, which adds inefficiency and cost.

B-3. Large-scale, Broad-line Foodservice Distributors

As restaurants and bars under the umbrella of large-scale foodservice companies or franchise businesses expand, large-scale, broad-line foodservice distributors that offer efficient, consolidated supply of a broad range of products have grown rapidly since early 2000's. As of 2012, about 15 percent of the restaurants and bars in Korea were under franchise businesses and they accounted for about 24 percent of the restaurant and bar industry sales. Industry analysis estimated that there were ten broad-line foodservice distributors in 2012 and they accounted for about 10 percent of the ₩23.3 trillion won of products distributed to the foodservice sector. Leading players include CJ Freshway, Ourhome, Shinsegae Food, Samsung Welstory and Hyundai Greenfood.

It is notable that most of the leading broad-line foodservice distributors are subsidiaries of food/restaurant conglomerate business groups in Korea. Reflecting the outstanding business potential down the road, many food/restaurant conglomerates have newly established broad-line foodservice distribution companies or business divisions in recent years (examples include Maeil Dairies and Samyangsa).

Leading broad-line foodservice distributors are currently making heavy efforts to establish a network of sales force and logistics infrastructure of temperature-controlled warehouses and trucking fleets that can service the entire country. As competition builds up among the players, mergers and acquisitions for bigger economy-of-scale are likely to be pursued in the industry in the future which should further accelerate the expansion of broad-line foodservice distribution in the foodservice sector.

Below is brief summary of general procurement practices of broad-line foodservice distributors:

- Fresh agricultural products for long-term storage, such as onions, dried red pepper, carrots and potatoes are procured from local contract farms and/or from the Korea Federation of Agricultural Cooperatives (Nonghyup, NH).
- Perishable fresh vegetables are procured from local contract farms, usually large-scale greenhouses developed in the vicinity of metropolitan areas.
- Fresh vegetables subject to seasonal supply fluctuations, such as Napa cabbage and radish, are procured through middlemen/wholesale brokers in the wholesale auction markets.
- Local meat/seafood is procured through local middlemen/wholesalers in the wholesale meat/seafood auction markets. Direct purchase from contract farms or packers is on an increase.
- Locally processed vegetables (frozen, canned and pickled) are procured from domestic manufacturers every one to three months through price bidding.
- Locally processed foods (such as cooking oils and sauces) are procured from domestic manufacturers on a yearly contract.
- Imported food products of all types are in general procured from the importers. Broad-line distributors are trying to expand direct imports from foreign suppliers for high-volume products such as meat, frozen seafood and canned vegetables to lower the cost. However, they still rely heavily on the importers for low-volume products or products of seasonal demand.
- Broad-line distributors are making heavy efforts to expand private label (PB) program to offer

more value-added products. For this, broad-line distributors have either developed business partnerships with local food processors or have developed internal processing subsidiaries. PB products currently offered by broad-line distributors range from simple-processed (e.g., washing, cutting, repackaging) products to ready-to-cook products such as soups, sauces and marinated meat.

C. Sub-Sector Profiles

C-1. Hotel Industry

There were 603 hotels in Korea at the end of 2012 which earned a total of ₩5.5 trillion won of cash-register sales. Hotel was the leading segment of the lodging industry in Korea as indicated by the fact that hotels accounted for over 50 percent of the lodging industry sales.

Between 2009 and 2012, total number of hotels in Korea increased by 41 due to strong growth of mid-size hotels with 50 to 300 guest rooms. On the other hand, the number of small hotels with less than 50 guest rooms showed a slight decline. Tight competition has precipitated restructuring of the hotel industry over the last ten years, favoring growth of larger-scale hotels at the expense of independent, small-scale hotels. At the same time, rapid growth of unconventional lodging businesses, such as serviced residences, pension homes, by-the-hour motels and 24 hour spas, has also reduced demand for small-scale hotels and inns.

Table 3: Korean Lodging Industry Statistics

	Number of Business		Cash Register Sales (Million Won)	
	2009	2012	2009	2012
Hotels	562	603	4,501,670	5,494,207
Inns	26,458	25,137	2,233,781	2,213,376
Resort Condos	232	230	1,400,609	1,836,385
Others	20,321	22,966	1,306,598	1,350,521
Total	47,573	48,936	9,442,658	10,894,489

Source: Lodging Industry Statistics, Korea National Statistics Service (<http://kosis.kr>)

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Table 4: Hotel Industry Statistics Broken Down by Number of Guestroom

Number of Rooms		Below 50	50-99	100-300	Over 300	Total
Number of hotels	2009	152	224	133	53	562
	2012	147	244	159	53	603
	Change	-3.3%	8.9%	19.5%	0.0%	7.3%
Total cash register sales*	2009	132,596	370,029	983,852	3,015,193	4,501,670
	2012	136,266	506,682	1,427,064	3,424,195	5,494,207
	Change	2.8%	36.9%	45.0%	13.6%	22.0%
Room sales*	2009	66,064	189,432	493,661	968,698	1,717,855
	2012	82,281	281,141	757,183	1,075,885	2,196,490
	Change	24.5%	48.4%	53.4%	11.1%	27.9%
F&B sales*	2009	32,439	108,546	335,986	1,018,123	1,495,094

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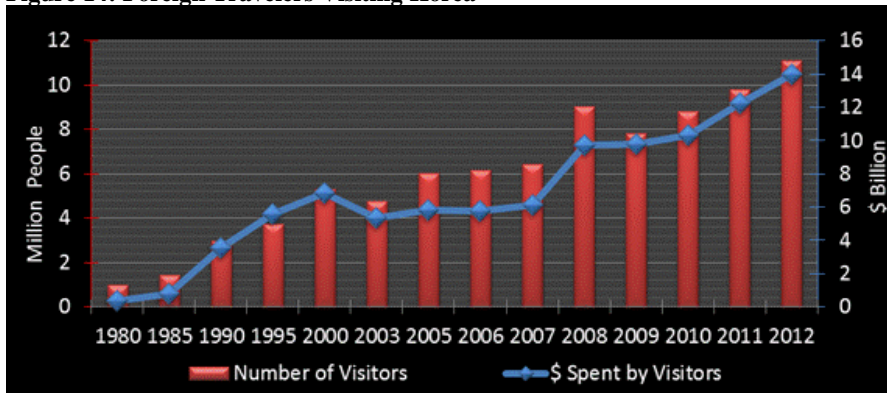
	2012	36,775	147,227	448,495	951,128	1,583,625
	Change	13.4%	35.6%	33.5%	-6.6%	5.9%

Source: Lodging Industry Statistics, Korea National Statics Service (<http://kosis.kr>)

*Note: Million won

The hotel segment is expected to maintain a healthy growth in the coming years both from domestic and international travelers. In particular, the five-work-day system, which became national standard for most Korean workers in 2005, has significantly boosted domestic tourism. Internationalization of Korean culture, represented by K-Pop, K-Movie and K-Food, is likely to attract increased number of foreign tourists to Korea. Reflecting the strong business prospect, a good number of new hotels, most of them are mid-to-large scale, are currently under construction. According to the Seoul city government, 62 new hotels are currently planned to open between 2012 through 2015 which will add 12,762 guestrooms in the city.

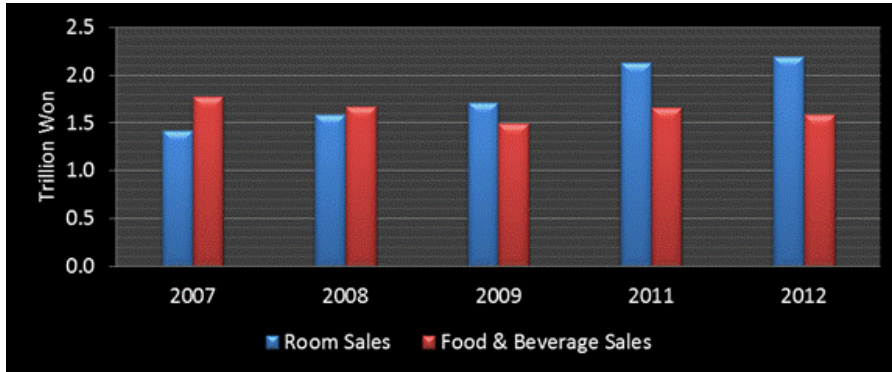
Figure 14: Foreign Travelers Visiting Korea



Source: Korea Tourism Organization

The hotel segment, especially five and four-star hotels, has played a leading role in introducing new-to-market food products and recipes to the Korean consumers over the years. However, stronger growth of the restaurant and bar industry outside the hotel venue has resulted in stagnant growth of food and beverage sales in the hotel segment recently. Food and beverage sales in the hotel segment totaled 1.6 trillion won in 2012, down 4 percent from the previous year. Food and beverage accounted for 29 percent of the hotel segment sales in 2012, down from 33 percent in 2009. Despite the challenge, it is likely that the hotel segment will remain a leading distribution channel of premium, high-quality imported food and beverage products in Korea.

Figure 15: Cash-Register Sales of Hotels in Korea



Source: Lodging Industry Statistics, Korea National Statics Service (<http://kosis.kr>)

C-2. Restaurant & Bar Industry

Table 5: A Brief History of the Restaurant Industry in Korea

Year	GNI	Major Events
1900 - 1950's	N/A	<ul style="list-style-type: none"> ● Birth of the modern commercial restaurant industry. ● A total of 166 modern restaurants in business in Korea as of 1945.
1960's	\$100 - \$210	<ul style="list-style-type: none"> ● Most consumers had very low income and limited food supply. ● Western foods, mainly wheat flour and dried milk, were introduced to the general public through international food aid programs.
1970's	\$248 - \$1,644	<ul style="list-style-type: none"> ● A large number of small, family-operated restaurants opened in metropolitan cities. ● Diet and nutrition of the general public improved under economic development. ● Establishment of the first franchise restaurant chain, Nandarang (1979), and the first fast food restaurant chain, Lotteria (1979). ● Imported foods became available commercially to hotels with the establishment of the Korea Tourist Supply Center (KTSC), a quasi-government monopoly import distribution channel (1978).
1980 - 1985	\$1,592 - \$2,158	<ul style="list-style-type: none"> ● A limited variety of Western menus available to the general public. ● Rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken and beer pubs) in metropolitan areas. ● The first wave of international restaurant chains into the market: Americana (1980), Burger King (1982), Wendy's (1984), KFC (1984), Pizza Hut (1984), Baskin Robbin's (1985)
1986 - 1990	\$2,194 - \$4,197	<ul style="list-style-type: none"> ● The Asian Games in 1986 and the Olympic Games in 1988, both held in Seoul, introduced a wide variety of international recipes to the market. ● Rapid development of restaurants and bars under Western themes. ● Introduction of commercial institutional foodservice (contract feeding) business: Seoul Catering (1989), Our Home/LG Mart (1989). ● The second wave of international restaurants into the market: McDonald's (1986), Denny's (1987), Pizza Inn (1988), Cocos (1988), Crown Bakery

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		(1988), Chicago Pizza (1988), Domino's Pizza (1989).
1990's	\$5,883 - \$10,076	<ul style="list-style-type: none"> • Large-scale conglomerate business groups were allowed to enter the restaurant business, which led to development of large-scale foodservice/distribution business. • Diversification of restaurant industry with new formats and menus. • Hardies (1990), TGIF (1991), Haagen-Dazs (1991), Subway (1992), Ponderosa (1992), Sizzler (1993), Mister Pizza (1993), Sky Lark (1994), Kenny Rogers (1994), Popeye's (1994), LA Farms (1994), Bennigan's (1995), Tony Roma's (1995), Planet Hollywood (1995), Marché (1996), Hard Rock Café (1996), Outback Steak (1997), Chili's (1997).
2000 - 2014	\$11,292 - \$24,044	<ul style="list-style-type: none"> • Restaurants under large-scale companies/franchise management lead the growth of the industry at the expense of small-scale, independent restaurants. • Rapid growth of broad-line foodservice distributors. • The industry continues to evolve with new formats and menus, including take-out, espresso cafe, food court, fusion cuisine, ethnic cuisine, wine bar, culinary tourism, local food and K-food.

Source: Ph.D. Na, J.K., Understanding Food Service Industry (1998), Press articles, Industry interviews

Cash register sales for the restaurant and bar industry in Korea totaled ₩77.3 trillion in 2012, up 5.1 percent from the previous year. Full service restaurant was the leading segment of the industry, accounting for 57 percent of the industry sales, followed by bars (14.1 percent) and quick service restaurant (13.1 percent). However, segments that target convenience and better value led the growth of the industry. Between 2009 and 2012, segments under the restaurant and bar industry that showed strong sales growth include café & beverage shop (54.7 percent), bakery shop (40.2 percent), institutional feeding restaurant (65.9 percent) and pizza/hamburger/sandwich restaurant (24.3 percent). It is notable that sales of bar segment declined 6.3 percent during the period.

Table 6: Break Down of Restaurant & Bar Industry in Korea

Category	Type of Restaurant		2009	2012	Change
Full Service Restaurant	Korean Restaurants	Number	278,978	295,348	5.9%
		Sales*	33,770,488	35,178,359	4.2%
	Chinese Restaurants	Number	21,466	21,680	1.0%
		Sales	3,097,452	3,010,600	-2.8%
	Japanese Restaurants	Number	6,268	7,211	15.0%
		Sales	1,752,405	2,169,666	23.8%
	Other Foreign Restaurants	Number	27,734	28,891	4.2%
		Sales	4,849,857	5,180,266	6.8%
	Sub Total	Number	316,183	334,917	5.9%
		Sales	41,718,750	44,163,768	5.9%
Quick Service Restaurant	Pizza, Hamburger, Sandwich Restaurants	Number	12,102	13,711	13.3%
		Sales	2,754,305	3,423,588	24.3%
	Fried Chicken Restaurants	Number	26,156	31,139	19.1%
		Sales	2,207,517	2,658,616	20.4%
	Korean Restaurants	Number	45,454	45,070	-0.8%
		Sales	2,722,268	3,007,144	10.5%

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	Other Restaurants	Number	3,703	4,251	14.8%
		Sales	914,611	1,069,437	16.9%
	Sub Total	Number	87,415	94,171	7.7%
		Sales	8,598,701	10,158,785	18.1%
Institutional Feeding Restaurants		Number	4,566	6,955	52.3%
		Sales	2,833,415	4,700,254	65.9%
Catering Services		Number	469	496	5.8%
		Sales	138,860	126,921	-8.6%
Bakery Shops		Number	13,223	14,799	11.9%
		Sales	2,830,895	3,969,754	40.2%
Café & Beverage Shops		Number	27,768	42,458	52.9%
		Sales	2,118,772	3,277,863	54.7%
Bars		Number	130,881	131,035	0.1%
		Sales	11,625,794	10,887,855	-6.3%
Grand Total		Number	580,505	624,831	7.6%
		Sales	69,865,186	77,285,199	10.6%

Source: Wholesale & Retail Industry Statistics, Korea National Statistics Service (<http://kosis.kr>)

*Note: Million won

Below is a summary of some of key issues that the restaurant and bar industry is paying heavy attention to and are responsible for on-going evolution of the industry:

- Reducing cost: part-time employees, central kitchen, prepared products, standardization of recipes and product specifications, new information technology solutions such as ERP (Enterprise Resource Planning) and RFID (Radio Frequency Identification Tag).
- Economy of scale: strategic alliance with broad-line distributors, mergers and acquisitions.
- New growth opportunity: expansion to regional markets, expansion into foreign markets.
- Meeting new consumer trends: take-out ready, outdoor meals, seats for customers eating alone, budget menus, catered menus for females, elderly and kids.
- Diversification of menu: foreign & ethnic, fusion, natural & healthy.
- Trendy interior design: natural, organic, fresh, fusion, Zen, fun, ethnic, retro.
- Stronger food safety message: HACCP certification, country of origin labeling, nutritional fact labeling, organic ingredients, local food.
- Efficient sales promotion: cross-promotional partnerships with non-food businesses, on-line promotions through Social Network Services (SNS), promotions targeting holidays and special occasions, including New Year's Day, Lunar New Year's Day, Valentine's Day (Feb. 14), White Day (March 14), Children's Day (May 5), Parents' Day (May 8), Teacher's Day (May 15), Korean Thanksgiving Day (around September) and Christmas.

Table 7: Profile of Major Quick Service Western Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Stores
Lotteria	Lotteria	2009	₩415 billion	797
		2012	N/A	1,070
McDonald's Korea	McDonald's	2009	₩320 billion	239

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		2012	N/A	292
SRS Korea	KFC	2009	₩142 billion	140
		2012	₩145 billion	145
	Burger King	2009	₩110 billion	102
		2012	N/A	130

Source (Table 7-13): Food Distribution Yearbook 2013, The Monthly Food Journal

Table 8: Profile of Major Western Family Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Stores
Outback Steak House Korea	Outback Steak House	2009	₩275 billion	102
		2012	₩356 billion	106
CJ Foodville	VIPS	2009	₩280 billion	75
		2012	N/A	84
Lotteria	T.G.I. Friday's	2009	₩63 billion	26
		2012	₩77 billion	41
Barunson	Bennigan's	2009	₩76 billion	26
		2012	N/A	26
Eland Park	Ashley	2009	N/A	N/A
		2012	₩300 billion	121
Samyang	Seven Springs	2009	₩22 billion	12
		2012	₩44 billion	19

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Table 9: Profile of Major Pizza Restaurant Franchises

Company	Brand	Year	Annual Sales	# of Stores
Pizza Hut Korea	Pizza Hut	2009	₩180 billion	310
		2012	N/A	315
MPK Group	Mister Pizza	2009	₩460 billion	373
		2012	₩520 billion	429
DPK	Domino's Pizza	2009	₩98 billion	330
		2012	N/A	372
Ettang	Pizza Ettang	2009	₩60 billion	320
		2012	N/A	340

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Table 10: Profile of Major Café Franchises

Brand / Company	Year	Annual Sales	# of Stores
Starbucks / Starbucks Korea	2009	₩204 billion	316
	2012	N/A	480
Coffee Bean / Coffee Bean Korea	2009	₩112 billion	190
	2012	N/A	255
Angelinus / Lotteria	2009	₩86 billion	236
	2012	N/A	788
Hollys / Hollys F&B	2009	₩87 billion	218
	2012	N/A	396
Café Bene / Café Bene	2009	₩22 billion	105

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	2012	N/A	830
Ediya Coffee / Ediya	2009	₩50 billion	420
	2012	N/A	800

Table 11: Profile of Major Quick Service Fried Chicken Restaurant Franchises

Brand / Company	Year	Annual Sales	# of Stores
BBQ / Genesis	2009	N/A	1,805
	2012	N/A	1,857
Gyochon Chicken / Gyochon F&B	2009	₩110 billion	1,002
	2012	₩141 billion	944
Ne Ne Chicken / Hyein Food	2009	₩25 billion	686
	2012	N/A	1,050
Goobne Chicken / GN Food	2009	₩68 billion	713
	2012	N/A	863
Mexicana Chicken / Mexicana	2009	₩32 billion	637
	2012	₩43 billion	801

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Table 12: Profile of Major Full Svc Korean Food Restaurant Franchises

Brand / Company	Year	Annual Sales	# of Stores
Nolboo Bossam / Nolboo NBG	2009	₩600 billion	690
	2012	₩775 billion	N/A
Wonhalmuni Bossam / Won&Won	2009	₩73 billion	319
	2012	₩69 billion	350
Bonjook / Bon IF	2009	₩280 billion	1,109
	2012	N/A	1,415
Chesundang / Dayoung F&B	2009	₩44 billion	139
	2012	₩57 billion	302

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Table 13: Profile of Major Bakery Shop Franchises

Brand / Company	Year	Annual Sales*	# of Stores
Paris Baguette / Paris Croissant	2009	₩1 trillion	2,222
	2011	₩1.6 trillion	3,141
Tous Les Jours / CJ Foodville	2009	₩649 billion	1,294
	2011	₩790 billion	1,390

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*Note: sales figure of both Paris Baguette and Tous Les Jours is total sales of the mother company.

Table 14: Profile of Major Institutional Feeding Companies

Company	Year	Annual Sales*	# of Restaurants
Ourhome	2010	₩1.1 trillion	600
	2012	₩1.2 trillion	800
Samsung Welstory	2010	₩914 billion	400
	2012	₩1.3 trillion	700
CJ Freshway	2010	₩945 billion	400
	2012	₩1.8 trillion	430

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Shinsegae Food	2010	₩619 billion	440
	2012	₩721 billion	N/A
Hyundai Green Food	2010	₩395 billion	450
	2012	₩1.2 trillion	N/A
Hanhwa Hotel & Resort	2010	₩210 billion	400
	2012	₩500 billion	324

Source: Company IR Reports, Press Articles

*Note: Annual sales include revenues from non-institutional foodservice business such as product distribution business and regular restaurant franchise business.

SECTION III. COMPETITION

Domestic products, either grown or processed in Korea, present a significant competition to many U.S. products in the foodservice sector. Although limited in variety and harvest season, Korean agriculture produces a considerable amount of raw agricultural products, including rice, fresh vegetables (including cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom and garlic), fresh fruits (including apple, pear, grape, tangerine orange, strawberry, persimmon and water melon), seafood (both farmed and wild caught), beef, pork, chicken, egg and milk. In addition, Korea has a strong food processing industry that manufactures a wide variety of processed products, including processed meat, seafood, vegetables, fruits, noodles, sauces, oils, juices and soft drinks, snacks, dairies and alcohol beverages. Korean consumers are generally biased toward locally grown and manufactured products and willingly pay premium on locally produced products. The Korean labeling law requires restaurants to label the country of origin of major ingredients of the serving menus, including meat, rice and kimchi.

Table 15: Share of Local Products in Products Distributed to Restaurants (2012)

Product	Franchise Restaurants	Independent Restaurants	Overall
Rice	96.0%	98.4%	97.8%
Fresh Carrot	71.2%	75.0%	73.6%
Fresh Garlic	60.6%	67.6%	65.4%
Fresh Onion	89.4%	90.8%	90.4%
Fresh Grape	81.3%	75.0%	75.6%
Beef	28.0%	39.6%	35.9%
Pork	48.1%	73.2%	66.6%
Chicken	71.5%	87.1%	83.0%
Red Pepper Powder	43.8%	55.8%	52.3%
Wheat Flour	22.4%	31.6%	29.5%
Kimchi	68.5%	73.4%	72.0%

Source: Korea Rural Economic Institute (KREI)

For raw agricultural products as well as for input ingredients for the processing industry that are not grown or manufactured in Korea, U.S. products face increasing competition from imported products from export-oriented countries, including China, Australia, Chile, EU and Thailand. Many of the products from competitor countries offer lower price than U.S. products and have established a significant market share in the Korean foodservice sector. China, for example, has become the leading

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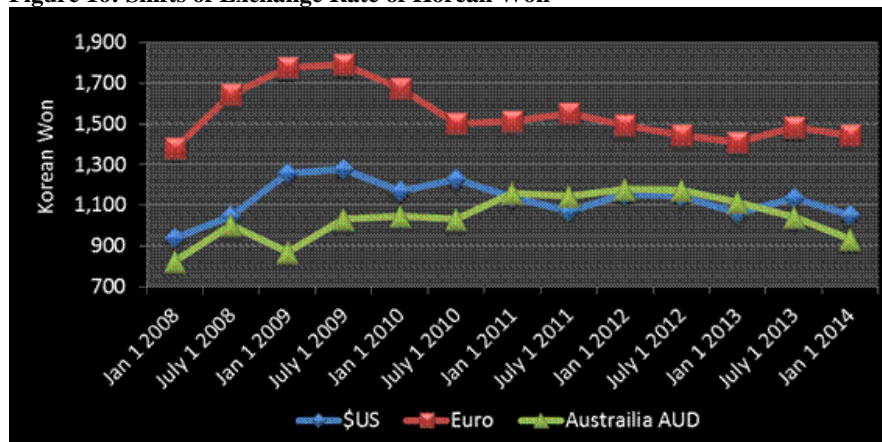
supplier of fresh and processed vegetables, sauces, spices and seafood to the Korean foodservice sector. In addition, increased consumer demand for more diverse international cuisines and recipes are translated into growing demand for imported products from more diverse origins. [Korea's Agricultural Import Statistics](#), updated monthly and offered in ATO website, tracks share of American products in Korea's agricultural imports down to 4-digit HS Code.

Lifting of import barriers directly affects the competition in the market. For example, since the implementation of the Korea-Chile Free Trade Agreement in April 2004, Chile has quickly stepped up to a leading exporter of wine and fresh grapes to the Korean foodservice sector. Korea has concluded FTAs with Singapore, EFTA, EU and the United States and is currently engaged in additional FTA talks with several other countries, including India, Japan, China and TPP.

Food safety issues also affect the competition in the market. Restricting of imports from certain country due to a food safety issue results in market share gains to other competing countries. For example, much of Japan's seafood exports to Korea have been replaced by other competitors due to the radiation risk out of the Hukusima nuclear accident in recent years. Consequently, in an effort to maintain stable supply, Korean foodservice importers in general prefer to transact with more than two different countries especially for products of potential food safety issues, such as meat (chicken, pork and beef) and fresh fruits (oranges and grapes).

Significant shifts of exchange rate between the exporting country's currency and Korean won directly affect the price competition of imported products in Korea. For example, the value of Australian dollar has shown steeper decline against Korean won since mid-2012, making Australian products gain price competitiveness in Korea.

Figure 16: Shifts of Exchange Rate of Korean Won



Source: Korea Exchange Bank

SECTION IV. BEST PRODUCT PROSPECTS FOR U.S. EXPORTERS

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

1. Beef: The Korean foodservice sector generates strong demand on U.S. beef as local traders in general have a good understanding about the value and quality of grain-fed American beef. Imports of U.S. beef into Korea totaled \$529 million in 2013, up 12.1 percent from the previous year. Although over 85 percent of American beef imported was frozen beef, it is expected that demand for chilled American beef would see a stronger growth in the near future as local consumers' safety (BSE) concern on U.S. beef improves.

2. Pork meat & bone: Although Korea has a large domestic supply of pork, Korean consumers' highly skewed taste for belly cut meat generates strong demand for additional imports of belly cut meat. Korea also has a significant import demand for pork neck bone and spine bone for popular local stew recipes. Imports of American pork meat totaled \$272 million in 2013, down 22.5 percent from the previous year. The sharp import decline was due to recovery of domestic pork industry from FMD (Foot-and-Mouth Disease). The local swine industry was seriously hit by outbreaks of FMD in 2011, and pork meat imports showed an explosive growth in 2011-2012 as a result.

3. Processed meat products (pork and poultry origin only): Strong consumer demand for quick meal solutions and diversified recipes generates strong demand for processed meat products such as hams and sausages. Proliferation of quick service restaurants in the foodservice sector also boosts additional imports. Imports of processed meat products from the United States in 2013 amounted to \$8.1 million for processed meat (dried, meals, HS0210), up 41.3 percent from the previous year; \$24.5 million for sausages (HS1601), up 7 percent; and \$11.8 million for other prepared/preserved meat (HS1602), up 12.1 percent.

4. Poultry meat: Although Korea maintains a strong poultry industry, the local supply alone cannot satisfy the strong demand for chicken meat. In particular, proliferation of fried chicken restaurants generates additional demand for imported frozen chicken meat. It is notable that Korean consumers favor legs and drum sticks over wings. Imports of poultry meat from the United States amounted to \$72.5 million in 2013, down 21.5 percent from the previous year. The sharp decline was largely due to recovery of local chicken farms from Avian Influenza (AI) outbreaks. In addition, Brazil continued to present strong competition to American chicken in the Korean foodservice market.

5. Seafood: Korea is an outstanding seafood market and provides a good growth potential for imported products. In particular, radiation risk of Japanese seafood generates strong demand for seafood from other quality origins, including the United States. Imports from the United States in 2013 amounted to \$32.0 million for live fish (HS0301), up 119.1 percent from the previous year; \$92.3 million for frozen fish (not fillet, HS0303), down 7 percent; \$52.5 million for fish fillets (HS0304), up 19.2 percent; \$24.5 million for crustaceans (HS0306), up 791.1 percent, and \$5.7 million for preserved crustaceans (HS1605), up 68.1 percent. 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, crabs, lobsters and prepared sea cucumber.

6. Processed fruits and nuts: Processed fruits and nuts are gaining popularity among the Korean consumers for natural and healthy image. As a result, retail and foodservice industry is making additional efforts to introduce additional products and recipes that incorporate processed fruits and

nuts. Imports from the United States in 2013 amounted to \$45.4 million for preserved fruits and nuts (HS2008), up 13.3 percent from the previous year; \$4.9 million for jams (HS2007), up 34.6 percent; \$90.6 million for fruit juices (HS2009), up 17.4 percent, \$22.4 million for processed fruits & nuts (HS0811), down 12.9 percent; and \$4.5 million for dried fruits (HS0813), down 2.5 percent.

7. Tree nuts: Korean consumers are well aware of health benefits of eating tree nuts (in particular almond and walnut). Imports of tree nuts (HS0802) from the United States totaled \$281.9 million 2013, up 19 percent from the previous year.

8. Fresh fruits: Limited supply from local farms and diversified consumer taste make Korea rely heavily on imports to meet the strong demand for fresh fruits. Imports of American fruits into Korea in 2013 amounted to \$221.8 million for citrus (HS0805), down 6.5 percent from the previous year; \$30.8 million for grapes (HS0806), up 12.6 percent; \$87.5 million for cherries (HS0809), up 8.1 percent.

9. Vegetables (fresh, frozen, canned or prepared): Although Korea is self-sufficient in many varieties of fresh vegetables, seasonal fluctuations in the local supply and unfavorable growing condition for foreign varieties are resulting in an increased demand for imports. China has emerged as the leading supplier of vegetables to the Korean foodservice sector in both fresh and processed category. However, there remains a solid demand for a limited variety of high-quality U.S. products. Major products imported from the United States in 2013 included processed vegetables (\$116.3 million, HS2004, HS2005, up 10.6 percent from the previous year), preserved tomatoes (\$17.1 million, HS2002, up 16.7 percent), vegetable pickles (\$3.8 million, HS2001, up 8.2 percent), frozen or dried vegetables (\$5.9 million, HS0710, HS0712, up 12.8 percent) and fresh vegetables (\$16 million, mostly chipping potatoes and lettuce, down 22.1 percent).

10. Cheese and processed dairy products: Strong consumer demand for western cuisine generates additional demand for cheese and dairy products. Imports of cheese from the United States totaled \$188.4 million in 2013, up 34 percent from the previous year. It is notable that bakery shops and pizza restaurants remain the leading user of imported cheese. Imports of butter from the United States totaled \$5.2 million in 2013, up 8.6 percent from the previous year.

11. Alcohol Beverages (wine, beer and distilled spirits): Korea remains a leading market for alcohol beverages around the world and maintains a large number of bars and pubs. Due to elevated health concerns, demand for products with lower alcohol content is on a strong rise. Imports from the United States amounted to \$19.7 million for wine (HS2204) in 2013, up 14.7 percent; \$6.8 million for beer (HS2203), up 4.6 percent; and \$10.4 million for distilled spirits (HS2208), up 28.9 percent.

12. Coffee: Korea maintains a strong café industry which generates strong demand for coffee imports. Imports of coffee products (HS0901) from the United States totaled 40.6 million in 2013, up 3.8 percent from the previous year.

13. Sauces: Introduction of more diverse foreign recipes generates increased demand for imported sauces. Imports of sauces and preparations (HS2103) from the United States amounted to \$28.8 million in 2013, up 20.3 percent from the previous year.

14. Bread, pastry, cakes: Due to the strong growth of the bakery shops, imports of related products are

on an increase. Imports of bread, pastry and cakes (HS1905) from the United States amounted to \$63.1 million in 2013, up 11.5 percent from the previous year.

15. Rice: American rice offers competitive price and quality and is expected to gain further market share in the foodservice and processing sector. Imports of rice from the United States amounted to \$145.4 million in 2013, up 204.9 percent from the previous year.

16. Soybean oil: American soybean oil offers competitive price and quality and is expected to gain further market share in the foodservice and processing sector. Imports of soybean oil from the United States amounted to \$54.9 million in 2013, up 722.3 percent from the previous year.

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

1. Pasta: Italian cuisine is gaining popularity among the general consumers, resulting in increased demand for related products, including pasta noodles. Among \$133.8 million of pasta products imported in 2013, imports from the United States amounted to \$1.3 million.

2. Olive oil: Consumption of olive oil is on a rapid increase as restaurants as consumers are seeking for healthier alternatives to conventional cooking oil. However, among \$43.5 million of olive oil imported in 2013, imports from the United States amounted to \$20,000.

3. Ingredients for Mexican and Cajun cuisine: Many foodservice traders agree that Mexican and Cajun cuisine have a good potential in Korea as Korean consumers have a strong preference for hot, spicy dishes. However, not many local chefs have knowledge and experience with these cuisines.

4. Processed turkey meat: Many Korean consumers still maintain a negative view on turkey meat. However, processed turkey products (hams in particular) are likely to gain more local followers, especially among young consumers who have traveled to the United States and have developed taste for related dishes.

5. Premium seafood: Products such as lobster, crabs (King, Snow, and Dungeness), black cod, and wild-caught Sockeye salmon have a good niche potential in the high-end restaurant segment as affluent consumers are looking for premium, healthier alternatives to meat dishes.

6. Processed eggs (fluid, frozen and flour): More restaurants and bakery shops are expected to switch to processed egg products such as shelled or powdered products for safety and efficiency. Imports of shelled egg products from the United States amounted to \$3.7 million in 2013, down 15.6 percent from the previous year.

7. Frozen prepared products: Demand for frozen prepared products such as frozen soups, frozen dough and frozen desserts that offer longer shelf life and labor-saving convenience is likely to increase in the foodservice sector in the coming years.

8. Organic products: Despite strong consumer interest in organic food and recipes, imported organic products have developed little market in the foodservice sector mainly because of certification

requirement and high price.

9. Many imported agricultural products, including honey, fresh potatoes, fresh onions, and popcorn, are subject to high import tariffs and tariff rate quotas (TRQs) that restrict open market access. On-going trade negotiations are likely to reduce some of these barriers in the coming years.

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 watermelon, are currently not importable as there are no phytosanitary import agreements established on these products between Korea and the United States.

2. Imports of approved fresh fruits and vegetables are frequently restricted for phytosanitary reasons such as outbreaks of fruit flies. Outbreaks of animal diseases, such as swine cholera, avian-flu virus and BSE, also restrict imports of related products into Korea. Related products include:

(1) Beef from over 30 month old cattle, processed beef products: Korean government still maintains import restrictions on American beef as of February 2014. Commercial understanding between Korean importers and U.S. exporters to only export U.S. beef from cattle less than 30 months of age is effectively keeping out imports of beef and beef products from over thirty month old cattle. Imports of processed products from cattle less than 30 months of age are also not allowed to be shipped to Korea currently.

(2) Lamb meat: Imports of American products from all ruminant animals, except beef from 30 months of age, are still banned for potential BSE risk.

(3) Korea maintains an import ban on elk antlers, which is an important ingredient for local herb medicine and functional menus, from the United States due to the risk of Chronic Waste Disease (CWD). Consequently, American elk antler industry currently has no access to the Korean market, which exported \$24 million to Korea in 2006.

(4) Korea maintains an import ban on fresh potatoes from many American states due to nematode risk.

3. Fresh organic agricultural produce including vegetables and fruits: there are technical barriers that prohibit imports of fresh organic produce. Korean regulation does not accept USDA organic certificates for fresh produce but requires certification from Korean government accredited certifying agents. In addition, there is a high chance for imported fresh vegetables and fruits to be subject to fumigation treatment upon entering the market, which will disqualify the product from “organic” status.

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. The Korean standard differs from the CODEX standard in some cases and consequently may prohibit entry of American products manufactured solely under the CODEX or American standard.

SECTION V. KEY USDA/FAS CONTACTS AND FURTHER INFORMATION

A. USDA/FAS Offices in Korea

1. For information about the Korean agricultural market and regulations, please contact:

U.S. Agricultural Trade Office Seoul (ATO)

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

Internet homepage: www.atoseoul.com

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

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

2. For further information about sanitary/export certificate requirements, please contact:

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

Internet Homepage: www.aphis.usda.gov

B. USDA/FAS' On-line 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.

For more information to register to the list, please contact:

exportassist@fas.usda.gov

C. State Regional Trade Groups (SRTG)

For information about financial supports and export aid programs offered by State Regional Trade Groups, please contact:

Western United States Agricultural Trade Association (WUSATA)
2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA
Telephone: 360-693-3373 Fax: 360-693-3464
E-mail: janet@wusata.org
Website: www.wusata.org

Food Export Association of the Midwest USA
309 W. Washington St., Suite 600, Chicago, Illinois 60606, USA
Telephone: 312-334-9200 Fax: 312-334-9230
E-mail: thamilton@foodexport.org
Website: www.foodexport.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
E-mail: jcanono@foodexportusa.org
Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)
2 Canal Street Suite 2515, New Orleans, LA 70130, USA
Telephone: 504-568-5986 Fax: 504-568-6010
E-mail: jim@susta.org
Website: www.susta.org

D. Additional Sources of Information & Support

1. For information on the non-agricultural 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

2. The American Chamber of Commerce in Korea (AMCHAM) offers a local network of American businesses by sector, through which its over 1,000 member companies can share market intelligence and collaborate on new business opportunities.

Address: #4501 Trade Tower, 159-1 Samsung-dong, Gangnam-gu, Seoul, Korea
Telephone: +82-2 564-2040 Fax: +82-2 564-2050
E-mail: amchamrsvp@amchamkorea.org
Homepage: www.amchamkorea.org

