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Retail Foods

Retail Food Sector Biennial Report

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Report Highlights:

Expansion of large-scale retail businesses coupled with the introduction of information technologies has led a rapid evolvement of the retail food sector in South Korea over the last two decades. While hypermarkets and grocery supermarkets are likely to see stagnant growth as a result of slow economic growth in the coming years, on-line retailers, convenience stores, and department stores are expected to maintain solid growth for strong consumer demand for value, convenience, and quality. The United States remains the leading supplier of consumer-ready food products to the Korean retail food sector. Imports of consumer-ready foods from the United States totaled \$2.8 billion in 2012, up 1 percent from the previous year. Reduction of import tariffs under KORUS FTA should provide American suppliers with additional opportunities in the Korean retail food sector.

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KOREA RETAIL FOOD SECTOR REPORT

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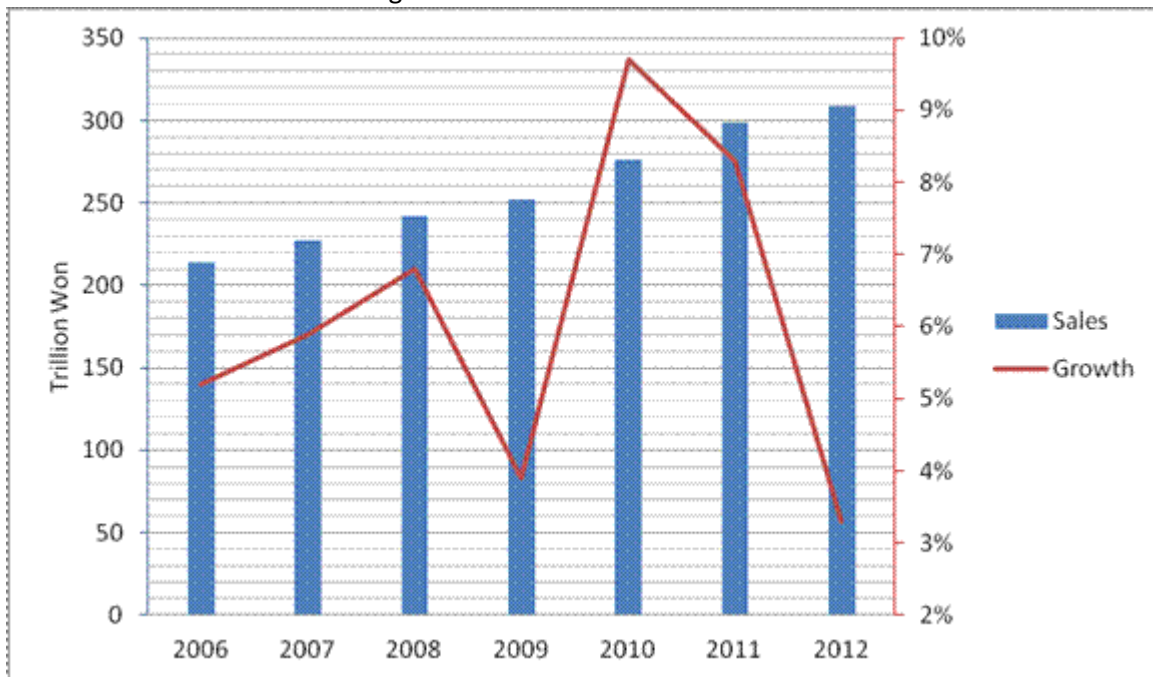
I. Market Summary

A. South Korean Retail Food Sector Overview

The retail food sector in South Korea (here in after referred to Korea) has evolved dramatically since the opening of the first large-scale discount store (i.e., hypermarket) in 1993 (E-Mart by Shinsegae Co.) and the liberalization of large-scale retail business to foreign ownership in 1996 (Macro, a Dutch retailer was the first one to enter the market). As a result, modern format, large-scale retail businesses such as hypermarket chains, grocery supermarket chains, convenience store chains, and on-line retailers have grown rapidly at the expense of traditional street markets and family-operated small retailers over the years. Expansion of these new retail channels coupled with the introduction of new information technologies has altered the way Korean consumers purchase daily necessities, including food.

Overall retail sector sales in Korea amounted to W309 trillion Korean won in 2012 (approximately \$291 billion, exchange rate: \$1 = W1,063 as of Dec. 31, 2012), up 3.3 percent from the previous year. Growth of the sector has been on a down-turn since 2010 as the Korean economy continued to slow-down under the global financial crisis.

Figure 1: Retail Sector Sales in Korea



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Hypermarkets, armed with economies of scale and one-stop shopping convenience have stepped up to the largest retail force in Korea since 2002, replacing the former leader, department stores. Hypermarkets accounted for a 12.1 percent of overall retail sector sales in 2012. However, hypermarket segment is expected to see stagnant growth in the coming year mainly because there is limited room left in the market for new stores. In addition, emerging social initiative of protecting small businesses may generate additional regulatory barriers to the industry that would limit the operation hours and opening of new stores.

On-line retailers, including internet shopping, TV home-shopping, and catalog shopping businesses, have stepped up to the second largest retail force in Korea since 2007. Sales of on-line retail segment grew 35.5 percent between 2009 and 2012 to take an 11.9 percent of overall retail sector sales in 2012. On-line retailers, internet shopping malls in particular, are expected to remain one of the fastest growing retail forces in Korea in the coming year as more and more consumers are attracted to this innovative shopping tool for convenience and value. Market analysts point out that Korea has the right mix of socio-economic conditions that favor growth of on-line retail business, in particular high population density and high affinity toward new information technologies.

Expansion of affluent consumer group has led an outstanding growth of department store segment in recent years even under the economic slow-down. Sales of the segment grew 31 percent between 2009 and 2012, which was much higher than hypermarkets. Leading players in the segment have successfully realigned their market position by up-scaling the store layout and product assortment to catch up with the evolving tastes of their target consumers.

Growth of grocery supermarket segment has been driven by 'Super Supermarkets (SSM)' industry in recent years. SSM is a grocery store chain under the umbrella of large-scale retail company that targets congested residential areas where larger size hypermarket store cannot infiltrate. However, expansion of SSM business has met strong opposition from local government and NGO groups for driving small-scale grocers out of business. As a result, growth of grocery supermarket segment is likely to see stagnant growth in the coming year.

Convenience store segment is expected to continue robust growth in the coming year, reflecting busier lifestyle of Korean consumers. Although on a decline, traditional retailers such as street markets and family-operated small grocers still account for a significant retail force particularly in areas where modern format, large-scale retailers have yet to penetrate.

Table 1: Breakdown of Overall Retail Sector Sales in Korea

Segment	2009		2012		Sales Growth
	Sales	M/S	Sales	M/S	
Hypermarkets	W31.2 trillion	12.4%	W37.5 trillion	12.1%	20.2%
On-line Retailers*	W27.0 trillion	10.8%	W36.6 trillion	11.9%	35.5%
Department Stores	W21.8 trillion	8.6%	W28.5 trillion	9.2%	31.0%
Grocery Supermarkets	W22.4 trillion	8.9%	W26.5 trillion	8.6%	18.2%
Convenience Stores	W6.2 trillion	2.5%	W10.2 trillion	3.3%	63.9%
Others**	W146.9 trillion	56.8%	W169.7 trillion	54.9%	18.6%
Total	W251.7 trillion	100%	W309.1 trillion	100%	22.8%

Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

*Note: 'On-line Retailers' refers to Internet shopping, TV home-shopping, catalog shopping, and other types of retail business over communication tools that bypass physical stores.

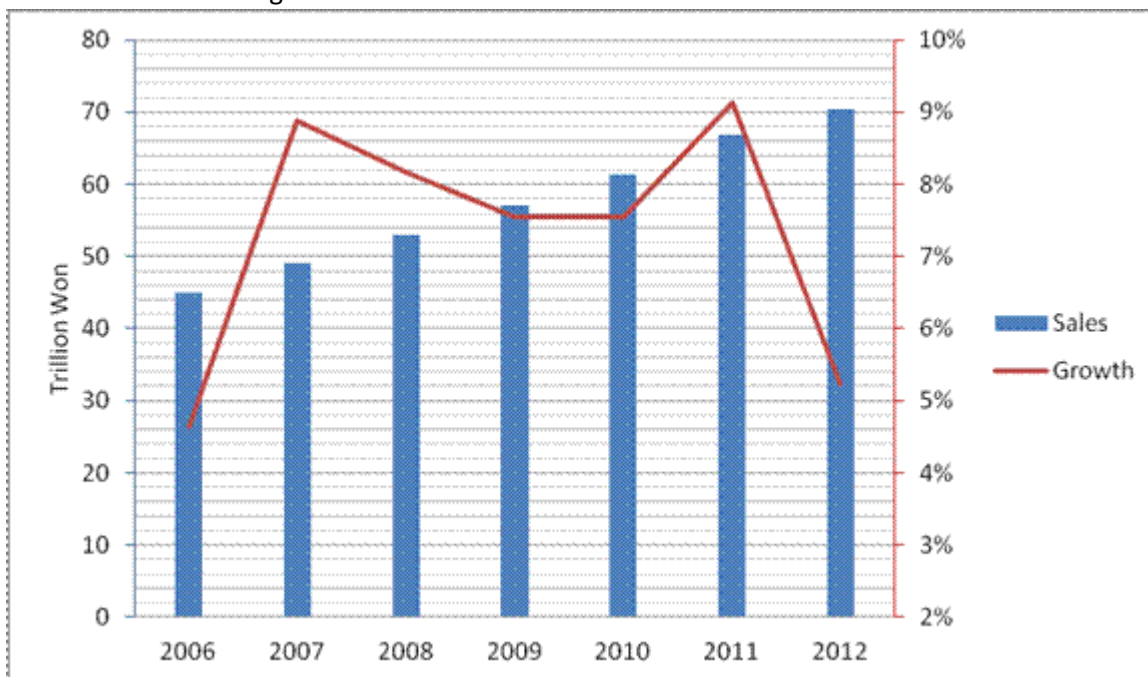
**Note: 'Others' includes specialty product retailers such as automobile, electronics, and gas as well as traditional food retailers such as family-operated small grocers and paddlers in the street markets.

Total sales of food products in the retail sector amounted to W70.4 trillion in 2012, up 5 percent from the previous year. In other words, food products accounted for about 23 percent of overall retail sector sales in

Korea.

Grocery supermarket segment was the leading retail channel for food products with an estimated W22.4 trillion of food sales in 2012, followed by hypermarket segment. Despite the rapid growth, on-line retailers still remain a relatively minor retail channel for food products. However, sales of food products through on-line retailers are likely to increase rapidly in the near future because most of the leading conventional retail companies, in particular grocery supermarkets and hypermarkets, have been making heavy investment to sell products on-line as well.

Figure 2: Sales of Food Products in Retail Sector in Korea



Source: Retail Industry Sales by Product Statistics, Korea National Statistics Office (<http://kosis.kr>)

Table 2: Estimated Sales of Food Products by Retail Channel

Year 2012	Share of Food Products in Total Sales*	Total Food Sales (Estimates)
Grocery Supermarkets	84.5%	W22.4 trillion
Hypermarkets	51.0%	W19.1 trillion
Convenience Stores	51.4%	W5.2 trillion
On-line Retailers	9.2%	W3.4 trillion
Department Stores	10.1%	W2.9 trillion
Others	10.3%	W17.4 trillion
Total		W70.4 trillion

*Note: Share figures were based on a survey of leading companies in each segment by the Korea Chain Store Association in 2011.

Rapid expansion of large-scale businesses over the years has heightened the competitive pressure in the sector. As a result, leading players have actively pursued merger and acquisition (M&A) opportunities in recent years to achieve bigger control of the market. For example, Lotte Super acquired CS Retail, a regional grocery

supermarket chain with 34 stores, in 2011. E Mart acquired Kims Club Mart, another grocery supermarket chain with 54 stores, in 2011. It is notable that leading retail companies in Korea today are “horizontally integrated” retail force that operates businesses in almost all retail channels in the market. For example, the business umbrella of Lotte Shopping Co. includes grocery supermarkets, hypermarkets, department stores, convenience stores, outlet shopping malls, TV home shopping, and Internet shopping malls. Expansion into foreign markets has been another area that leading Korea retailers have also invested heavily in recent years for new growth opportunity. For example, Lotte Mart, which currently operates 103 hypermarket stores in Korea, has increased its stores in foreign markets to 138 as of January 2013, including 103 in China.

Korean retailers in general rely heavily on independent importers for imported food and agricultural products. Although leading players are seeking ways to expand direct imports for lower cost and improved product assortment, their current attention is mainly targeted on a limited number of large volume products such as fresh banana and beef. On the other hand, retailers of international origin, Costco Wholesale Korea in particular, procure a large part of the imported products that they sell directly through their international sourcing network. Private label (PB) product business is another area that Korean retailers are paying additional attention for higher profit and customer loyalty.

Growth of modern retail business in Korea has coincided with development of modern, large-scale logistics service industry. Leading retailers are equipped with temperature controlled distribution network of trucks and warehouses that cover the entire market. On the other hand, small to medium size retailers in general rely on third party logistics service providers. Logistics service industry is likely to continue a strong growth in the coming year due to a rapid rise in demand for home delivery service which is now widely offered not only by on-line retailers but also by conventional retail stores.

B. Consumer Food Trends

Each Korean household spent on average W358,969 or 14.6 percent of its total monthly consumption expenditure on grocery food purchases in 2012. Compared to 2009, household spending showed a significant increase on bakery, processed meat, fruits, vegetables, confectioneries & snacks, spices & seasonings, coffee & tea, and juice & beverages. On the other hand, spending on grains, fresh seafood, and oil & fat showed a decline.

Table 3: Breakdown of Monthly Household Grocery Food Purchases

Year	2009		2012		Spending Growth
Number of Household Members	3.33		3.27		
Product Category	Amount	Share	Amount	Share	
Grains	W21,957	7.2%	W21,092	5.9%	-3.9%
Processed Grains	W14,746	4.8%	W16,813	4.7%	14.0%
Bakery & Rice Cakes	W17,979	5.9%	W21,708	6.0%	20.7%
Meat	W43,880	14.3%	W49,166	13.7%	12.0%
Processed Meat	W7,905	2.6%	W11,573	3.2%	46.4%
Fresh Seafood	W21,488	7.0%	W21,207	5.9%	-1.3%
Salted Seafood	W6,426	2.1%	W7,045	2.0%	9.6%
Other Processed Seafood	W6,097	2.0%	W7,123	2.0%	16.8%
Dairy & Eggs	W28,571	9.3%	W31,805	8.9%	11.3%

Oils & Fats	W2,801	0.9%	W2,753	0.8%	-1.7%
Fresh & Processed Fruits	W35,284	11.5%	W43,314	12.1%	22.8%
Fresh & Processed Vegetables	W31,235	10.2%	W39,679	11.1%	27.0%
Fresh & Processed Seaweeds	W3,875	1.3%	W4,375	1.2%	12.9%
Confectioneries & Snacks	W19,838	6.5%	W26,069	7.3%	31.4%
Spices & Seasonings	W11,018	3.6%	W14,963	4.2%	35.8%
Other Processed Foods	W8,662	2.8%	W10,208	2.8%	17.8%
Coffee & Tea	W6,095	2.0%	W8,500	2.4%	39.5%
Juice & Beverages	W9,798	3.2%	W11,797	3.3%	20.4%
Alcohol Beverages	W8,356	2.7%	W9,779	2.7%	17.0%
Total	W306,008	100.0%	W358,969	100.0%	17.3%

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

Due in part to the aging population, there is a heavy emphasis among the general public on healthy eating. Organic and functional foods, among many others, are gaining popularity among health-conscious elderly consumers and young professionals. In particular, 'Well-being', a theme that has evoked new consumer movement of seeking both physical and psychological health by adopting more wholesome approaches in every aspect of lifestyle, remains one of the most influential ideas in the market. As indicated by an old Korean proverb "food and medicine are from the same source", Korean's long-held belief in health-improving efficacy of foods still prevails and contributes to the on-going trend of seeking functional effects in almost every food they encounter in the market. As a result, sales of functional foods as well as regular foods that target specific health concerns remain strong. Glucosamine, chlorella, vitamins, anti-oxidants, lactic bacteria, antlers, pollen, green tea, fish oil, ginseng and other Asian herbs are some of the popular functional ingredients heavily marketed in Korea.

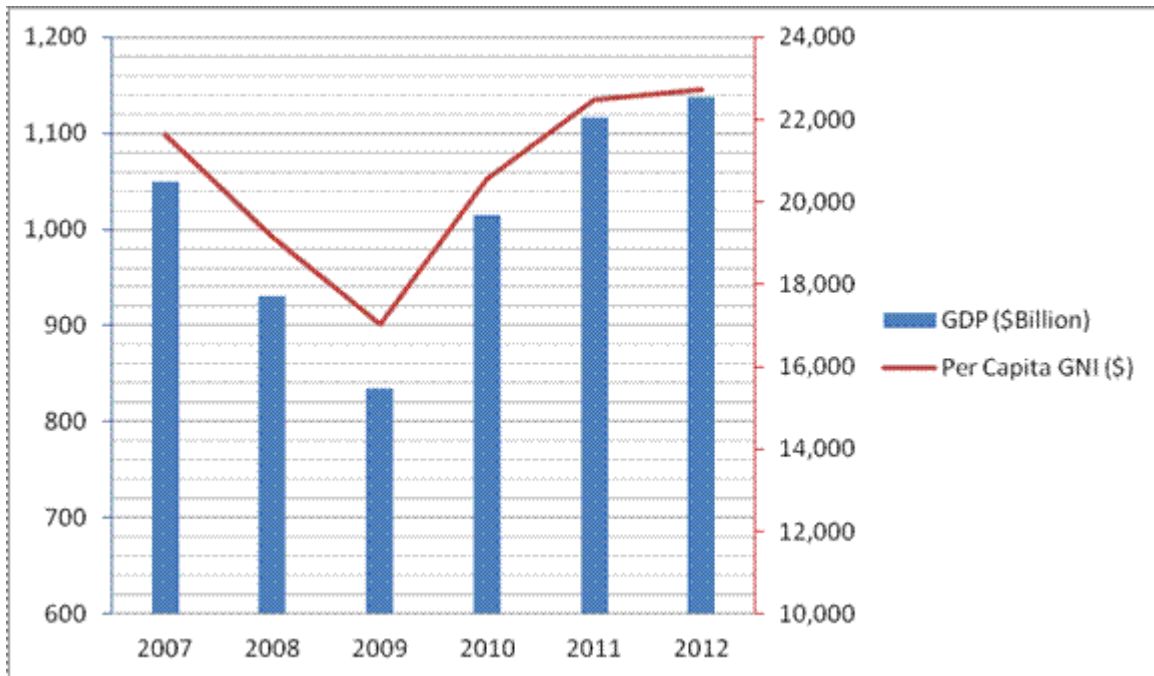
Table 4: Aging Korean Population (Unit: 1,000 people)

Age Group	1995		2000		2010		Growth
	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>)

Outstanding growth of the Korean economy and consumer income over the years has naturally resulted in growth of demand for products of higher quality and new tastes. Due to the strong performance of export industries, Korea maintained a relatively stable economy during the recent global financial crisis. Korean GDP for 2012 amounted to \$1.1 trillion, which was 13th highest in the world. Korean's per capita GNI amounted to \$22,720 in 2012, which was 8th highest in the world among countries with over 40 million populations. However, the call for better value and lower price has also gathered stronger voice in the market in recent years as the general public was seriously concerned about the future economy. In addition, many Korean households are reportedly under heavy household debt, largely from housing debt.

Figure 3: Korean Economy Trend



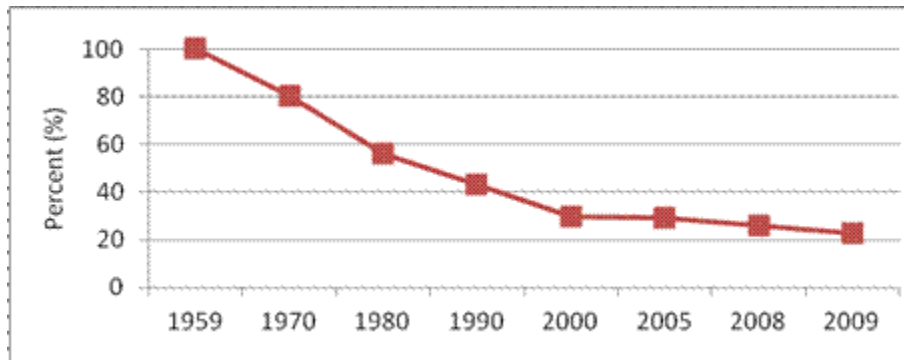
Source: Bank of Korea - Gross Domestic Production, Per Capita Gross National Income

Korea's 50 million inhabitants occupy a country the size of the state of Indiana. About 70 percent of the land is mountainous terrain, and over 90 percent of Korean population lives in urban cities, which explains the high population density and high real estate cost. Convenience has become a very important factor behind many consumer trends as everyday life of Koreans gets busier. For example, increase of dual-income families and single parent households have led to a growing demand for Home Meal Replacement (HMR) products in retail stores. Delivery service is commonly offered not only by restaurants but also regular retail stores in Korea as people do not want to waste time on the traffic-jammed roads. Rapid growth of on-line shopping is also rooted partly in the demand for convenience. Of course, high real estate cost is another factor that drives stores to move to 'cyber space'.

C. Food Imports

By nature, Korea depends heavily on imports for both raw agricultural commodities and consumer-ready products. Local supply alone is not capable of meeting the rising consumer demand for products of higher quality, better value, and diversified tastes. According to Korean government statistics, Korea's self-sufficiency rate for grains marked a record low 22.6 percent in 2009 (much of the food grains produced in Korea is rice), making Korea an OECD country of lowest self-sufficient rate. Industry sources estimate that over 70 percent of all food and agricultural products consumed in the market is either imported or locally processed from imported ingredients.

Figure 4: Korea's Self-sufficiency for Grains



Source: Korea Rural Economic Institute (KREI)

Growth of modern format, large-scale retailers coupled with evolving taste of Korean consumers are translated into growing opportunities for imported consumer-ready food products targeting the retail sector. According to Korean government trade data, total imports of consumer-oriented foods in 2012 declined 2.9 percent from the previous year to \$9.0 billion, while imports from the United States grew 1 percent to \$2.8 billion. Large-scale retail stores such as hypermarkets and grocery supermarkets have become the major retail channel for imported consumer-ready foods as they offer more favorable shopping environment where imported products can better compete against locally manufactured or grown products. Department stores are likely to remain the leading retail channel for high-end, premium quality imported foods. On-line retailers are expected to play a bigger role in distributing imported consumer-ready foods in the future. In particular, on-line retailing should be an efficient distribution channel for specialty imported products that has limited but diversified demand such as processed vegan foods.

Table 5: Korean Imports of Agricultural, Forestry, and Fishery Products (Year 2012, CIF value)

Category	From the World Total		From the U.S.	
	Value	Growth	Value	Growth
Basic Commodity	\$6.9 Billion	-1.7%	\$2.3 Billion	-31.9%*
Intermediary	\$8.9 Billion	-0.3%	\$1.3 Billion	1.1%
Consumer-Oriented	\$9.0 Billion	-2.9%	\$2.8 Billion	1.0%
Forestry	\$2.4 Billion	-1.0%	\$0.2 Billion	-21.6%
Fishery	\$3.6 Billion	-4.9%	\$0.2 Billion	19.0%
Total	\$30.5 Billion	-2.0%	\$6.7 Billion	-13.3%

Source: Korea Trade Information Service (KOTIS) Data

*Note: The sharp decline in the imports of basic commodity category from the U.S. was largely due to reduced supply of corn under serious drought.

The outlook for U.S. food exports to the Korean retail sector is excellent for beef, pork, poultry, seafood, processed vegetables, fresh and processed fruits, nuts, dairies, juices, alcohol beverages, condiments and sauces, processed organic foods, coffee, bakery goods, snacks, and confectioneries. In addition, on-going trade liberalization should create new opportunities for those products that are currently under restrictive import barriers. In particular, Korea-United States Free Trade Agreement (KORUS FTA), implemented in March 2012, will help American products better compete in the Korean market under reduced import tariffs.

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

Advantages	Challenges
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Korea is an emerging market where new ideas and trends are eagerly tried and accepted, leading to greater opportunities for new-to-market products. Consumers are looking for new and international tastes as the income level continues to rise.	Consumers are generally biased toward locally produced products. Many consumers still maintain a negative view on the quality and safety of imported foods. Imported foods are often associated with contaminations and potential food-borne diseases. In addition, food safety issues are increasingly becoming means to restrict imports.
Korea, by nature, depends heavily on imports for its food and agricultural needs. On-going elimination of import barriers will improve market access and price competitiveness of imported products. In particular, KORUS FTA will help American products better compete in the Korean market under reduced import tariffs.	Imports of many products still face restrictive trade barriers. Many American fresh fruits have no access to Korea. Certain food additives approved for use in the United States may not be approved in Korea. Korean government makes frequent changes into its food safety/labeling standards.
A series of public food safety scandals associated with imported products from China and Japan in recent years has led the general public and traders to be more concerned about the quality of imported product that they buy. Traders are likely to switch procurement sources to safer sources, including the United States, in an effort to regain consumer confidence.	Local retailers in general lack experience and expertise on international sourcing. As a result, the flow of imported products to the retailer is often participated by multiple layers of middlemen, which adds cost and inefficiency to the supply chain. Retailers are reluctant to carry imported products of short shelf life.
Growth of the retail sector is led by modern format, large-scale retail businesses, which offer better environment for imported products to compete against locally grown or manufactured products. Large-scale retailers are actively seeking ways to increase the assortment of imported products.	Korea maintains a strong food processing industry, which presents tough competition to imported consumer-ready products. High markups coupled with tariffs often deteriorate price competitiveness of imported products against locally processed products.
Due to the long history of economic and political tie between Korea and the United States, many Korean consumers are familiar with American products and food trends. Consumers maintain a positive view on the quality and value of American products. English is the most popular foreign language in Korea.	Consumers maintain negative perceptions about GMO products. Retailers fear reprisal from anti-GMO activists and, consequently, refuse to stock any product that would have to be labeled "Contains GMO". Many U.S. products would be required to have "Contains GMO" labeling under Korean regulations.

II. Road Map for Market Entry

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

A-1. Entry Strategy

Establishing Korean Partner:

There are many variables involved and no single best way for a successful entry into the Korean retail market. Success is unlikely, however, without catered support of local partners. Korea has well established regulations and procedures on food imports, as well as complex tariff and tax codes, which often make the entry of new-to-market product a time and resource consuming process. Working with reputable importers is the approach that has been proven most efficient to overcome these challenges. Established importers are well aware of market demand/supply intelligence, local business laws and practices, supply chain, and most of all are the best information source for up-to-date government regulations on imported foods.

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

The Korean government maintains strict regulations on food imports and requires various certificates/documents as well as product information before approving importation of a new-to-market product. Therefore, the exporter must work closely with the importer and provide necessary documents and information to meet the regulations. More detailed information on the Korean food safety and labeling regulations can be found in the FAS report #KS1102, (FAIRS Report, www.fas.usda.gov).

The Agricultural Trade Office (ATO) in Seoul maintains listings of established Korean importers by products, which are available at no cost to U.S. exporters upon request. ATO Seoul also feeds trade lead (purchase intention) inquiries collected from Korean importers to State Regional Trade Groups (SRTGs), which are disseminated to U.S. exporters through the network of the state departments of agriculture and trade promotion agencies. ATO Seoul regularly organizes Korean buyers' missions in cooperation with SRTGs and USDA cooperators to major food trade shows in the United States, such as the Boston Seafood Show and the Natural Product Expo West, for matchmaking with U.S. exporters.

Exhibiting in local Korean food trade shows can be a cost-effective way to meet with a large number of key Korean importers/traders over a short period of time. Currently, the Seoul Food & Hotel (SFH, May 14-17, 2013, www.seoulfoodnhotel.co.kr) is the only show in Korea endorsed and supported by the U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Exporters who are considering exhibiting at any Korean show may contact ATO Seoul for guidance and information because most local shows are consumer-oriented and are not particularly effective for promoting new-to-market products.

Brokers or export middlemen based in the United States may get involved in the entry of a new-to-market product into Korea especially when the original American supplier (manufacturer or producer) is not interested in direct export business or when the volume of business is small. Although Korean importers in general prefer to work directly with the original supplier, using experienced brokers or middlemen can be an efficient way to find right trading partner in Korea.

New-to-market U.S. exporters should pay attention to protecting the company/product trademark and patents, which can be easily handled by working with the Korean partner or through local attorneys. For more information, see the Korea Industrial Property Rights Information Service website (<http://eng.kipris.or.kr>).

Meeting Local Tastes:

One of the mistakes that new-to-market American suppliers often make is viewing Koreans as consumers of the same nature in the neighboring countries, 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 foods are different in many ways from their neighbors. Consequently, products that are catered to the taste of Korean consumers will have higher chance of making a successful entry into Korea. Personal visits to Korea should be the best way to develop understanding about the local taste. Information gathering through Internet or associating with Korean Americans could also be an efficient tool. One noticeable observation is that Korea has followed Japan for the last 30 years when it comes to adopting new western style dietary culture. A new western-themed food trend taking place in Japan today is likely to repeat in Korea down the road. However, the time gap between the two countries is getting narrower. In addition, Korean consumers are now monitoring a number of different reference markets as well, including European countries and the United States, for new product ideas and trends.

Meeting local tastes could mean anything from modifying packaging material and design to reducing packaging size to reformulating the recipes. Package design, in particular, is a very important factor in Korea, and exporters should consider developing a new design that can better attract Korean consumers. Although many Koreans can read English, adding Korean language on the label can significantly improve the level of exposure on the shelf. Another noteworthy issue in packaging is the separate Korean language label required on imported products. This added stick-on label can detract from the appearance of the product. Exporters should discuss the design of the Korean language label with the importer for better look. Korean language labels are in general designed and printed by the importer and hand-attached to the products in the duty free warehouse at the port of entry before the customs inspection.

New-to-market suppliers should also have a thorough plan for promotional activities and advertisements to develop local consumer awareness. Korean retailers in general require in-store promotions at the cost of the supplier when accepting new products. Some of the most widely offered programs include in-store advertisements, free sampling events, and point of purchase (POP) sales promotions such as sweepstakes and coupons.

A-2. Market Structure and Product Flow

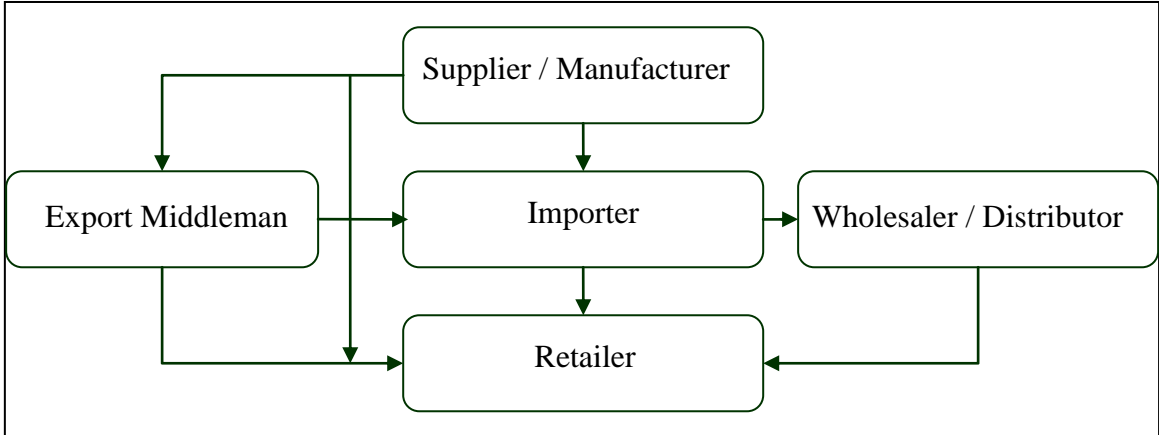
Korean retailers in general rely largely on independent importers for imported food products. Although leading retailers are currently putting increased efforts to expand direct imports, their attention is focused on a limited number of large volume products such as fresh banana and beef. Purchasing managers in local retail companies tend to be risk averse, and few have the expertise and experience needed to carry out direct purchasing on an international scale.

Participation of multiple layers of independent importers and distributor middlemen in the supply chain is part of the reason behind high consumer price of many imported products in Korea. The independent importers are required to bear greater amount of the risk than the retailers when placing a new product on the shelf, which forces the importers to add high markup on new products to cover potential loss. In contrast, products brought in directly by retailers can be sold at much lower price due to less distribution cost and markup. In addition, scale of economy under direct importing by the retailer allows the foreign supplier to eliminate the potential service of export middlemen, which further reduces the product cost and helps the retailer exert more aggressive promotional push on the product.

It takes at least two weeks for a container ship from a western American port, and three weeks from an eastern port, to arrive in a port in Korea. In general, most imported consumer ready products enter the country through the port of Busan, the second largest city in Korea at the southeastern tip of the peninsula. Port of Incheon, which is much closer to the Seoul metropolitan market, is another important entry point. Small-volume-high-value products, such as premium wine, fresh cherries, and chilled beef, are in general brought in via air cargos through Incheon International Airport (ICN) which is about an hour drive distance from the city of Seoul.

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

Figure 5: Flow of Imported Products to Retail Sector



Once the products are cleared from the customs, they are transported to the importer’s warehouse for storage. Importers may have warehouses in more than one location. The importer usually supplies directly to the large-scale retailer’s warehouses but may use wholesalers or brokers when supplying to small retailers or to regional markets. Large-scale retailers in general operate a network of "distribution-hubs" across the country, each of which services all the stores in a given province or regional market. Most importers are using third party logistics service providers for warehousing and trucking because of the high overhead cost.

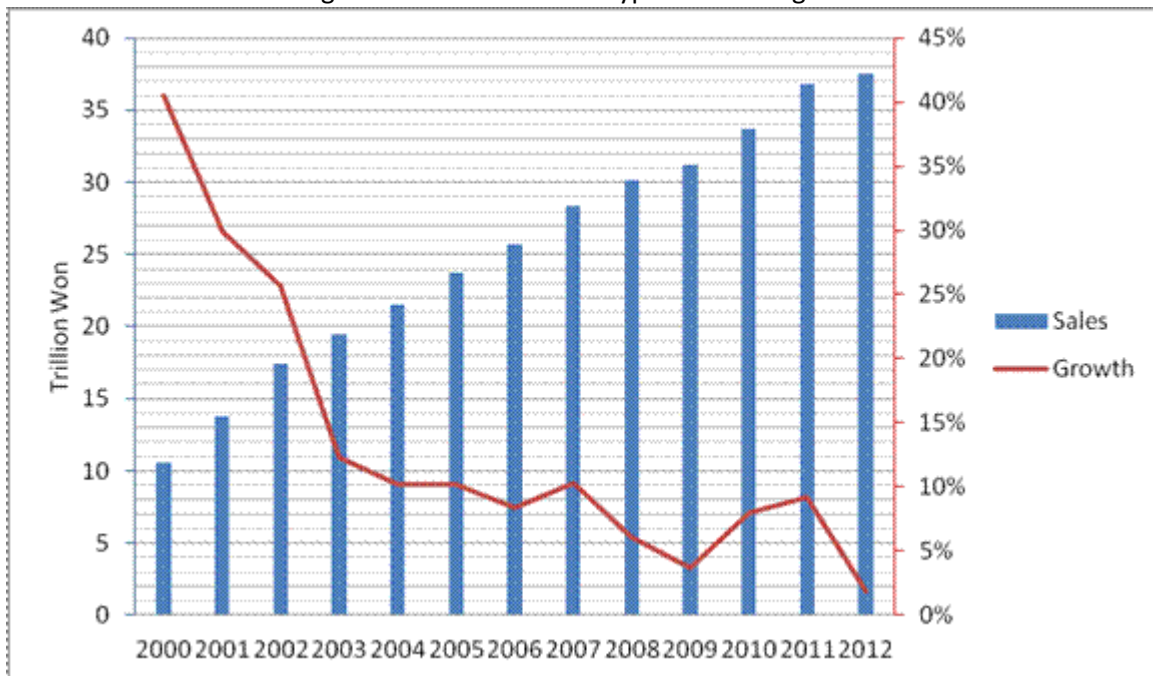
The city of Seoul (capital of Korea) and its surrounding area within 60 miles radius together account for over 50 percent of the Korean population and 70 percent of total retail sales in Korea. Although the government maintains a strong policy initiative to develop other parts of the country for balanced growth, Seoul metropolitan area is expected to maintain a leading share of the retail market sales in Korea in the coming years. Other markets that are likely to see strong growth of retail industry include Busan, Incheon, and Daejun (this city, located in the middle section of the peninsula, has been designated as the new home of the Korean government offices).

A-3. Sub-Sector Company Profiles

A-3-1. Hypermarkets

The sales of hypermarkets amounted to W37.5 trillion in 2012, up 1.9 percent from the previous year. Total number of hypermarket stores in the market reached 455 at the end of 2012 with addition of 9 new stores through the year. The growth of the segment is expected to further slowdown in the coming year. Marketers point out that there is limited room left in the market for new stores (typical hypermarket store targets an area of over 150,000 populations). It is reported that many projects for new stores are not progressing due to disputes with small grocers and NGO groups in the area. In addition, local governments are likely to introduce additional regulatory barriers restricting operation of hypermarket stores under emerging social initiative of protecting small businesses and traditional markets. For example, new regulation under the 'Retail Industry Development Act', implemented in January 2013, has mandated large-scale retail stores (hypermarkets and Super Supermarkets) to close minimum two days per month as well as between midnight and 10:00 a.m.

Figure 6: Annual Sales of Hypermarket Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Table 7: Total Number of Hypermarket Stores in Korea

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(E)
Number	171	201	235	261	278	306	337	363	394	409	437	446	455

Source: Retail Industry Year Book 2012, Korea Chain Store Association

As a result, leading players are likely to put increased efforts to find new growth opportunities elsewhere. Merger & acquisition, expansion into foreign markets (mainly China and South Asian countries), expansion into on-line shopping, and diversifying into different format discount retail businesses such as drugs stores and warehouse discount stores are some of the key strategies that leading players have been pursuing.

Hypermarkets, just like all other conventional retailers, are facing strong competition from on-line retailers. To maintain its position in the market as price leader, hypermarkets have returned to Every Day Low Price (EDLP) strategy since 2009. To draw consumer attention back from the on-line retailers, leading players have been staging a series of marketing campaigns in which they engaged in “price wars” on selected key consumer products such as pork meat and instant noodles. All major hypermarket chains now also operate on-line stores that offer complimentary home delivery service.

Leading players are seeking ways to expand private brand (PB) and direct importing business to offer better value products to the customers. Both E Mart and Lotte Mart have set up purchasing offices in key foreign markets, including the U.S. in recent years to better facilitate direct imports. Home Meal Replacement (HMR) product is another area that hypermarket segment has been paying strong attention.

Table 8: Description of an Average Hypermarket Store in Korea (2011)

Share of Food & Agricultural Products in Total Sales	Fresh Agricultural Products: 12.2% Livestock Products: 6.4% Seafood: 4.0% Processed Foods: 23.6% Prepared Foods: 9.2%
Size of Store	18,929 square meter
Parking Capacity	652 cars
Number of Employees	79 full-timers, 72 part-timers
Number of Items in Inventory	56,536SKUs (stock keeping units)
Daily Sales	₩212 million
Number of Daily Customers	5,079
Per Customer Purchase Amount	₩41,669

Source: Retail Industry Year Book 2012, Korea Chain Store Association

Table 9: Profile of Major Hypermarket Chains in Korea (2011)

Company	Store Name	Ownership	Annual Sales	Total Store	New Store
EMART Company, Ltd.	E Mart	Korea	₩14 trillion	138	5
Homeplus Co., Ltd.	Home Plus	U.K.	₩11.8 trillion	125	4
Lotte Shopping Co.	Lotte Mart	Korea	₩4.9 trillion	95	5
E. Land Retail	New Core	Korea	₩2.4 trillion	26	0
Costco Wholesale Korea	COSTCO	U.S.	₩2.1 trillion	7	0
KACM Inc.	Hanaro Club	Korea	₩0.9 trillion	6	0
Mega Mart Co., Ltd.	Mega Mart	Korea	₩0.7 trillion	7	0

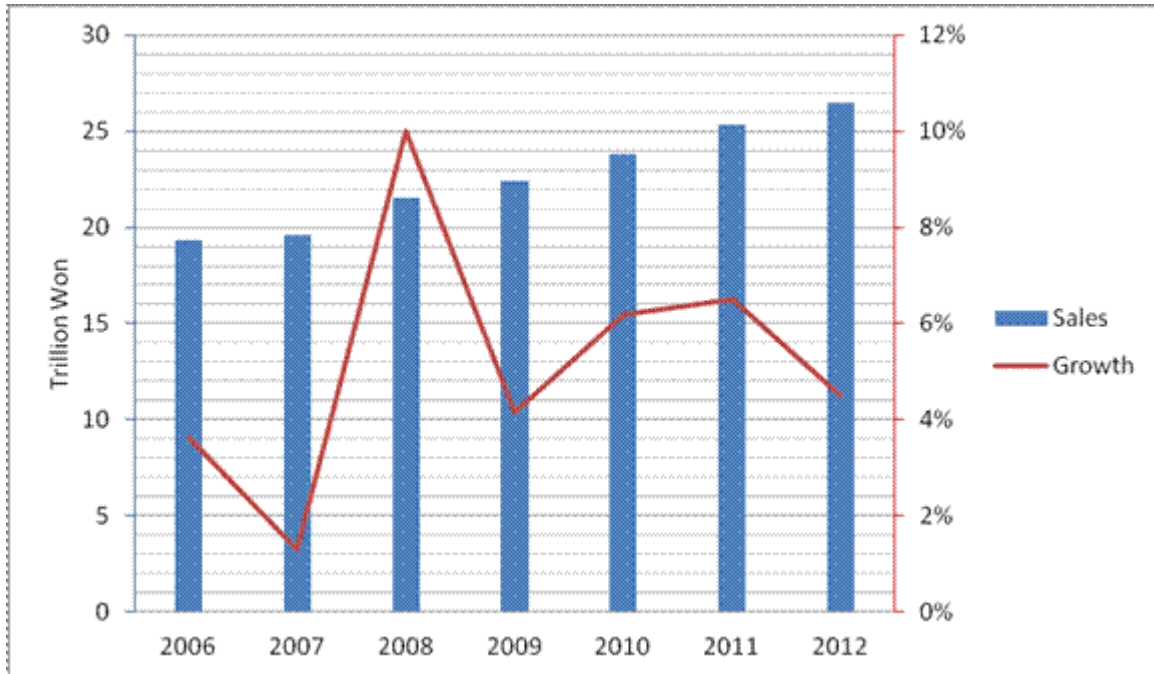
Source: Retail Industry Year Book 2012, Korea Chain Store Association

A-3-2. Grocery Supermarkets

Sales of grocery supermarkets amounted to ₩26.5 trillion won in 2012, up 4.5 percent from the previous year. Small to medium size supermarkets under independent ownership still account for over 70 percent of the total segment sales. However, supermarket chains under large-scale retail companies (i.e., Super Supermarkets, SSM) have expanded rapidly at the expense of independent stores ever since abolition of the government regulation that previously prohibited entry of large-scale company into grocery supermarket business in early

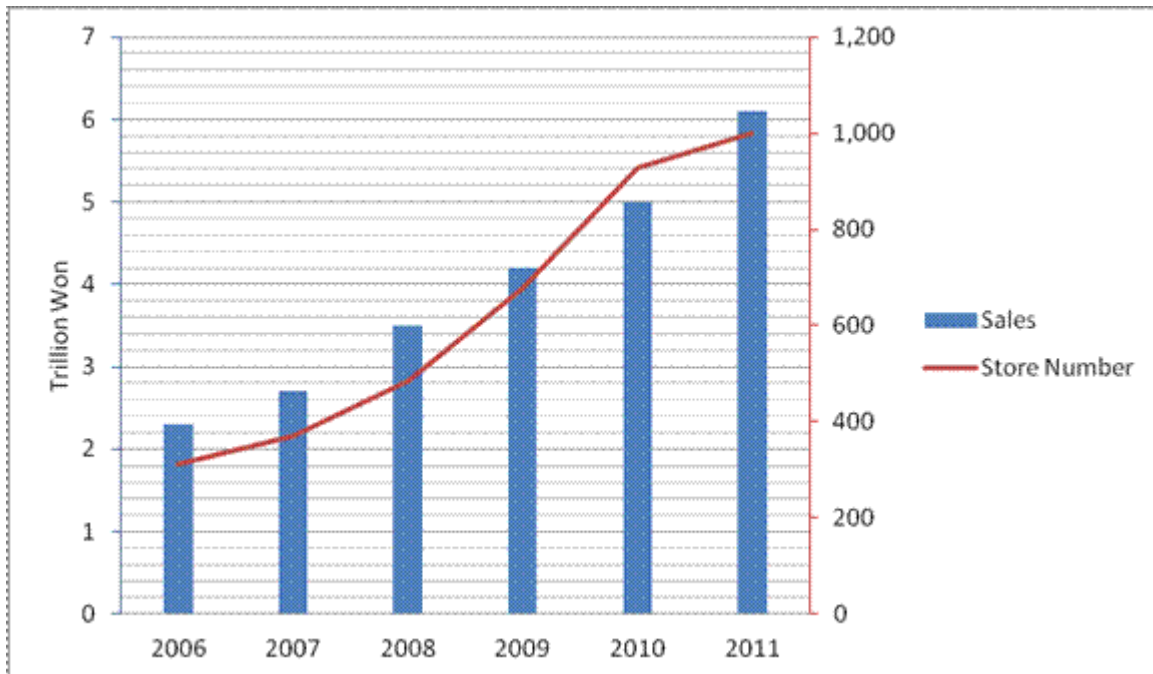
1990's. Although leading SSM companies are planning for an aggressive expansion in the coming year, including through acquisition of smaller regional chains, it is uncertain if SSM industry will be able to continue robust growth it recorded over the last couple of years. SSM industry currently faces strong pressure building up in the market from both government and NGO groups under the social initiative of protecting small businesses and traditional markets. For example, the government introduced a regulation in January 2011 that prohibited opening of new SSM stores within 500 meters from designated "traditional market zones". SSM stores have also been mandated under the 'Retail Industry Development Act' implemented in January 2013 to close minimum two days per month as well as between midnight and 10:00 a.m.

Figure 7: Annual Sales of Grocery Supermarket Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Figure 8: Annual Sales of Super Supermarkets (SSM*)



Source: Retail Industry Year Book 2012, Korea Chain Store Association

*Note: SSM in this figure represents stores under the leading seven SSM companies

Some of the outstanding trends in the grocery supermarket segment include improvement in product assortment (to offer more Home Meal Replacement products, fresh products, portion-packaged products, and private brand products), efficient promotions (on-line coupons, membership programs), stronger customer service (in-store service outlets such as pharmacy, laundry shop, and post office), and expansion into on-line shopping.

Table 10: Description of an Average Super Supermarket (SSM) Store in Korea (2011)

Share of Food & Agricultural Products in Total Sales	Fresh Agricultural Products: 22.2% Livestock Products: 11.6% Seafood: 7.2% Processed Foods: 40.8% Prepared Foods: 2.9%
Size of Store	775 square meters
Parking Capacity	49 cars
Number of Employees	6 full-timers, 20 part-timers
Number of Items in Inventory	27,673 SKU
Daily Sales	W16 million
Number of Consumers Daily	1,114
Per Consumer Purchase Amount	W14,282

Source: Retail Industry Year Book 2012, Korea Chain Store Association

Table 11: Profile of Major Supermarket Chains (2011)

Company Name	Store Name	Annual Sales	Total Store
Lotte Shopping Co.	Lotte Super	W1.6 trillion	350

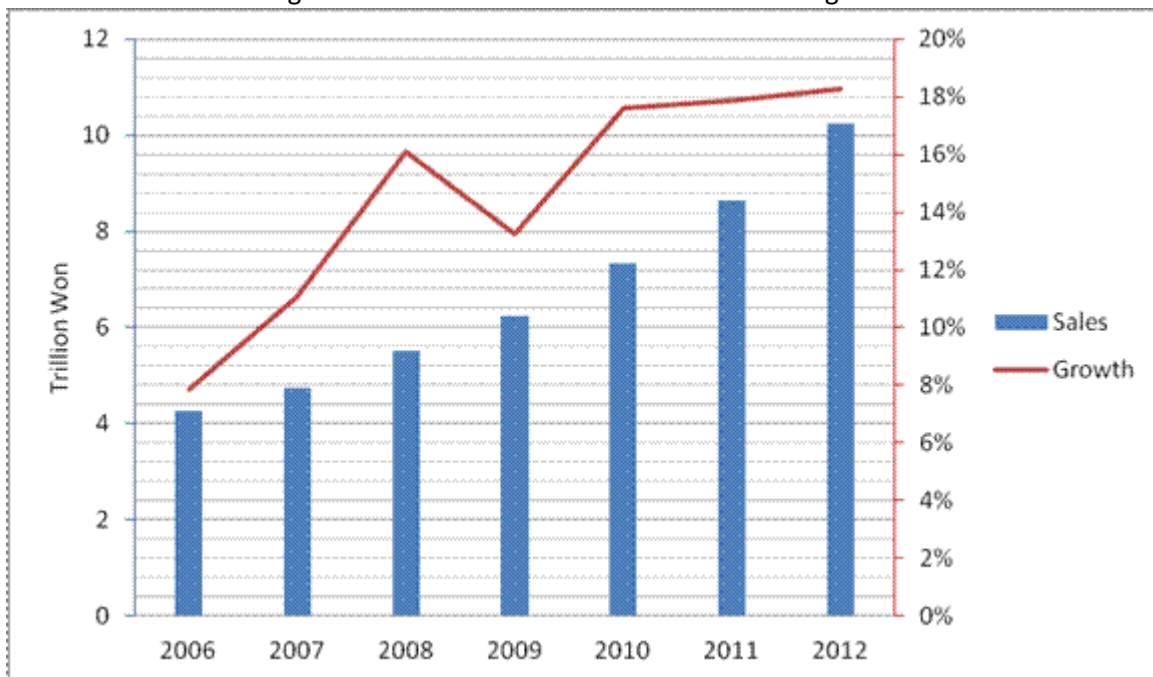
GS Retail Co., Ltd.	GS Supermarket	W1.4 trillion	230
Seowon Utong Co., Ltd.	Top-Mart	W1.1 trillion	76
Homeplus Co., Ltd.	Home Plus Express	W960 billion	315
Everyday Retail Co., Ltd.	E Mart Everyday E Mart Metro	W260 billion	78
CS Utong Co., Ltd.	Goodmorning Mart	W291 billion	34

Source: Retail Industry Year Book 2012, Korea Chain Store Association

A-3-3. Convenience Stores

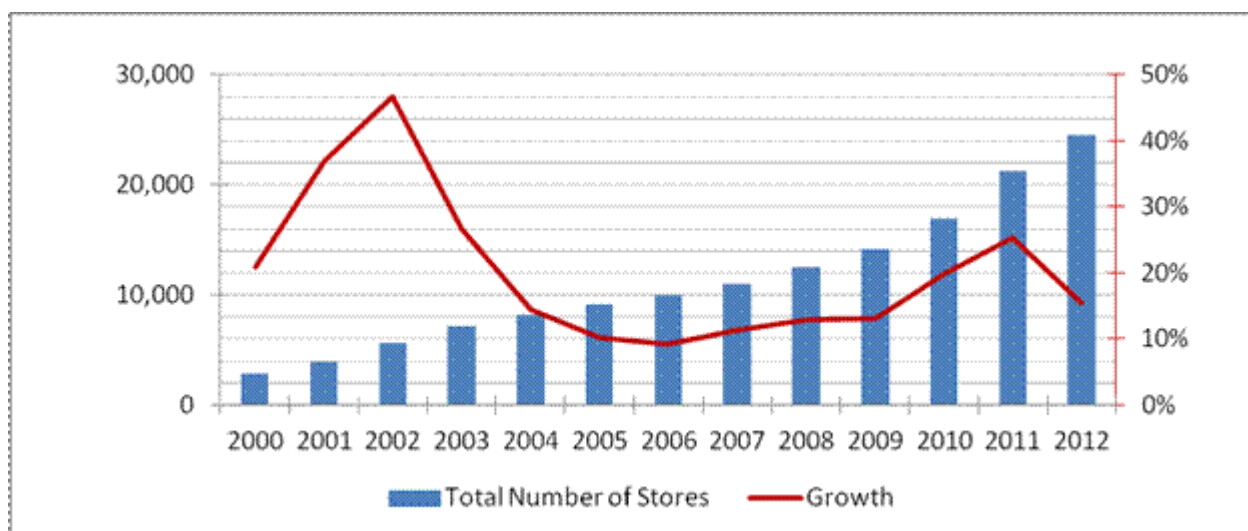
Total sales of convenience store segment amounted to W10.2 trillion, up 18.3 percent from the previous year. The strong sales growth of the segment was largely due to opening of a large number of new stores. Total number of convenience stores in Korea reached 24,500 at the end of 2012 with opening of 3,279 new stores through the year. Convenience stores are likely to further thrive in metropolitan areas where office workers and young consumers with busy lifestyle demand an easy shopping channel for small food purchases. Rapid increase in the number of single household and dual-income families is also contributing to the increased consumer traffic to the segment. Due to low entry barrier, convenience store remains one of the most popular retirement businesses for people who depart from their corporate jobs.

Figure 9: Annual Sales of Convenience Store Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

Figure 10: Number of Convenience Stores in Korea



Source: Retail Industry Year Book 2012, Korea Chain Store Association

Expansion of the segment has been driven by the top three players, CU (Family Mart changed the name to CU in 2012), GS25, and Seven Eleven that has over 3,000 stores each. Increased competition in the segment is likely to encourage the leading players to seek merger and acquisition (M&A) opportunities in the coming years.

Introduction of more Home Meal Replacement (HMR) products and private brand (PB) products have been heavily emphasized in the segment in recent years for higher profit and customer loyalty. Another area of emphasis has been offering more service products, including postal service, quick delivery, banking, and photo processing, to increase consumer traffic to the stores. It is notable that convenience stores maintain a very aggressive product assortment policy in that new products are eagerly tried while under-performing products are quickly dropped, a strategy to keep abreast with the fast changing consumption trends of its target consumers.

Table 12: Description of an Average Convenience Store in Korea (2011)

Share of Food & Agricultural Products in Total Sales	Liquors: 7.7% Snacks: 6.9% Daily Delivered Fresh & Chilled Foods: 13.0% Processed Foods & Beverages: 18.5% Fast Foods: 6.0% Tobacco: 40.4%
Size of Store	75 square meters
Number of Employees	7
Number of Items in Inventory	4,000 SKU
Daily Sales	₩1.5 million
Number of Consumers Daily	385
Per Consumer Purchase Amount	₩3,942

Source: Retail Industry Year Book 2012, Korea Chain Store Association

Table 13: Profile of Major Convenience Store Chains (2009)

Company Name	Store Name	Annual Sales	Total Stores
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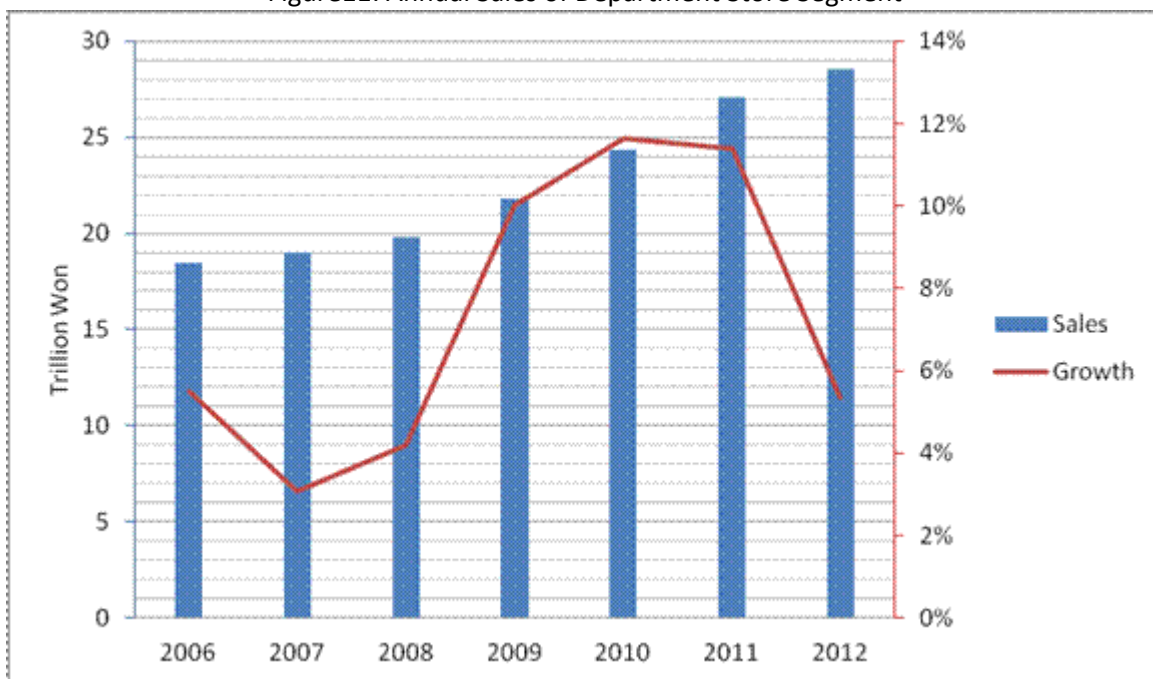
BGF Korea Co., Ltd.	CU	W2.6 trillion	6,686
GS Retail Co., Ltd.	GS25	W2.6 trillion	6,307
Korea Seven Co., Ltd.	Seven Eleven	W1.9 trillion	4,740
Buy The Way, Inc.	Buy The Way	W842 billion	1,555
Ministop Korea Co., Ltd.	Ministop	W688 billion	1,775

Source: Retail Industry Year Book 2012, Korea Chain Store Association

A-3-4. Department Stores

Total sales of department store segment amounted to W28.5 trillion in 2012, up 5.4 percent from the previous year. It is notable that the segment has made a strong growth even during the recent global economic crisis. Leading players in the segment have made heavy investments into business restructuring projects during the last several years to up-scale the store layout and product assortment, a strategic move to strengthen their market position as luxury goods retailer. As a result, more of the store space has been allocated to luxury brand shops and specialty products.

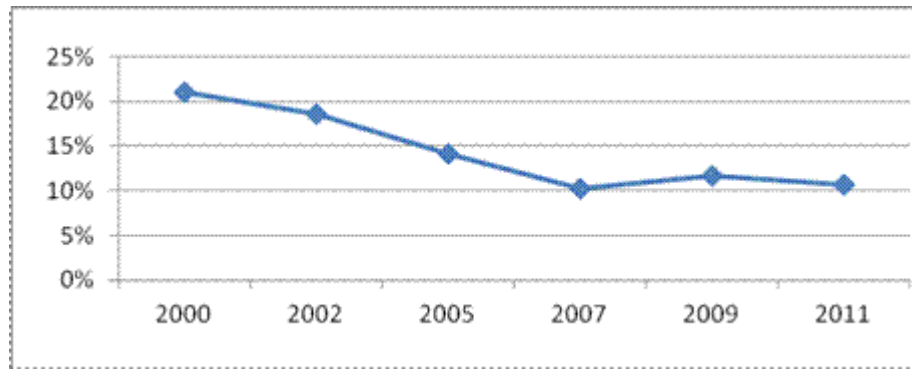
Figure11: Annual Sales of Department Store Segment



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>)

The share of food and agricultural products in total department store sales has been on a decline over the years as the segment placed higher focus on high value non-food business. However, department stores are likely to remain the leading retail channel for premium quality food products in the coming years.

Figure 12: Share of Food & Agricultural Products in Department Store Sales



Source: Retail Industry Year Book 2000 - 2012, Korea Chain Store Association

Currently, there is a heavy emphasis in the segment to offer more specialty food products such as nutritional supplements, organic foods, and premium specialty fruits. In addition, department stores are paying additional attention to the food court business to offer wider variety of premium home meal replacement products, targeting busy housewives and office workers.

The grocery section in the department store, including the food court, is in general operated by a collection of individual food retail tenants who pay the store pre-agreed percentage of the monthly sales as rent on top of a sizable amount of key money paid upon contract. While sales and promotional activity of the tenant retail outlet is closely monitored and regulated by the store, each tenant is responsible for its own operation, including product supply and labor management. The department store usually reserves the right to extend or terminate the contract every two to four years based on the sales performance.

Table 14: Description of an Average Department Store in Korea (2011)

Share of Foods in Total Sales	10.7% (including the food court sales)
Size of Store	22,745 square meter
Parking Capacity	1,493 cars
Number of Employees	173
Number of Products in Inventory	220,000 SKU (2005)
Number of Consumers Daily	6,000 - 170,000
Per Consumer Purchase Amount	₩43,000 - 58,000

Source: Retail Industry Year Book 2012, Korea Chain Store Association, Company IR Information

Table 15: Profile of Major Department Store Chains (2011)

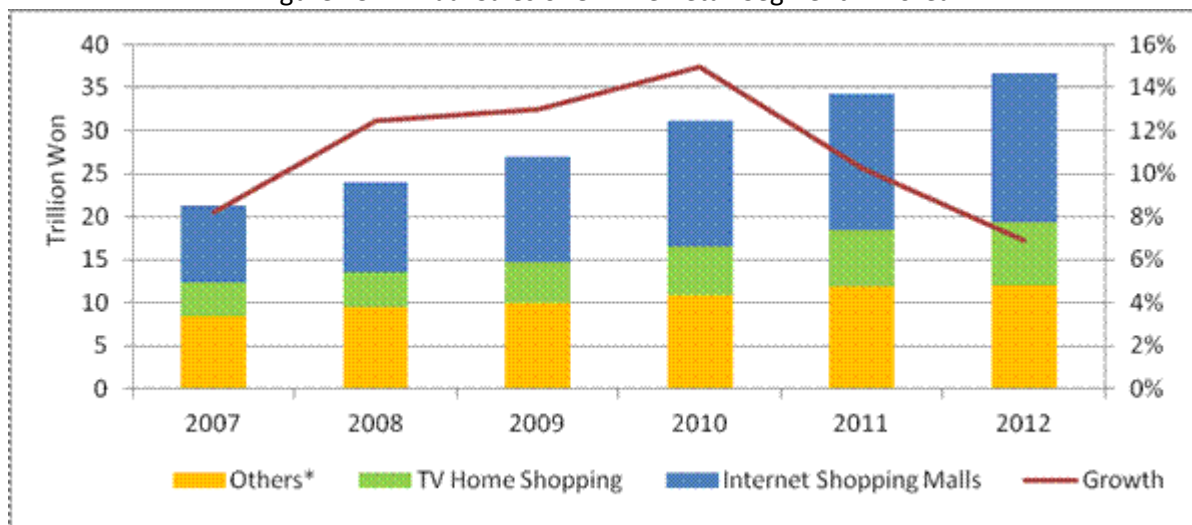
Company Name	Store Name	Annual Sales	Total Stores
Lotte Shopping Co.	Lotte Department Store	₩12.2 trillion	34
Shinsegae Co.	Shinsegae Department Store	₩5.4 trillion	10
Hyundai Dept. Co., Ltd.	Hyundai Department Store	₩1.4 trillion	13
E Land Retail Co., Ltd.	NC Department Store Donga Department Store	₩1.2 trillion	14
Hanwha Galleria	Galleria Department Store	₩1.3 trillion	7

Source: Retail Industry Year Book 2012, Korea Chain Store Association, Company IR Information

A-3-5 On-line Retailers

Korea has become one of the most advanced markets in the world for on-line retail industry. Changes in consumer lifestyle coupled with development of information technology have fueled a rapid growth of on-line retail business, including internet shopping and TV home shopping, over the last ten years. On-line retail segment has stepped up to the second largest retail channel in Korea since 2005. It is likely that on-line retail segment will become the largest retail force in Korea within the next 5 years. Total sales of on-line retail segment amounted to 36.6 trillion won in 2012, up 6.9 percent from the previous year. Internet shopping malls, the main driving force of the segment, generated W17.3 trillion of sales in 2012, up 8.9 percent from the previous year. TV home shopping, another important player of the segment, generated W7.2 trillion of sales, up 10.7 percent from the previous year.

Figure 13: Annual Sales of On-line Retail Segment in Korea



Source: Retail Industry Sales Statistics, Korea National Statistics Office (<http://kosis.kr>),
Retail Industry Year Book 2012, Korea Chain Store Association

*Note: 'Others' category includes Internet Open Markets and Catalog Shopping. Industry reports indicate that Internet open markets, such as www.auction.co.kr that bridges independent sellers and buyers, account for a majority of 'Others' category sales.

Currently food and agricultural products account for a minor part of the overall segment sales (10.2 percent as of 2011, Korea Chain Store Association). However, it is likely that the sales of food and agricultural products through the segment will grow significantly in the coming years as most of the leading conventional retailers (hypermarkets and grocery supermarkets) have launched internet version stores in recent years. For example, E-Mart, the leading hypermarket store chain, launched its new internet store (www.emart.co.kr) in 2010. Orders made through the internet store can be picked up at E Mart stores, or can be delivered to home (at no cost for purchases over certain amount) within the day (for orders made by certain time of the day) or at reserved time in the following day. It is notable that internet E Mart store offers much wider selections of products than conventional E Mart store.

More of the on-line shopping is likely to take place through mobile devices such as smart phones and tablet PCs (e.g., i-Pads) in the future. Shopping on mobile devices will eventually allow consumers to buy anything at anytime at anyplace, overcoming all the physical limitations that conventional retail stores are subject to. Along with the expansion of on-line shopping, Social Network Services (SNS), such as Blogs, Internet Communities, and Twitters, are also expected to have a bigger influence on the retail market as increased number of consumers

follows these on-line communication tools for shopping ideas and opinions. Accordingly, more of the sales and marketing programs of suppliers and retailers are targeted to the SNS tools.

Table 16: Sales Breakdown of Internet Shopping Malls by Product

Rank	Product Category	2007	2009	2011
1	Clothing & Fashion	19.7%	17.1%	16.8%
2	Tourism	1.0%	12.9%	14.0%
3	Electronics	22.7%	13.0%	11.1%
4	Home & Garden, Automobile	14.2%	9.5%	10.5%
5	Food & Agricultural Products	4.6%	9.5%	10.2%
6	Computer Hardware	11.4%	9.9%	9.7%
7	Cosmetics	7.9%	5.4%	5.5%
8	Child & Baby Products	5.6%	6.0%	5.3%
9	Books	0.7%	5.0%	4.4%
10	Sport Leisure Goods	5.5%	4.1%	4.2%
11	Office Supplies	0.9%	1.5%	1.2%
12	Services	3.2%	0.3%	0.5%
13	Audio Visual Disks	1.4%	0.7%	0.5%
14	Computer Software	0.7%	0.6%	0.3%
15	Flowers	0.4%	0.3%	0.3%

Source: Retail Industry Year Book 2012, Korea Chain Store Association

Table 17: Profile of Major On-line Retailers (2011)

Company Name	Sales*	Business Type	Internet Site
GS Home Shopping, Inc.	₩906 billion	TV home shopping Internet shopping mall Catalog shopping	www.gseshop.co.kr
CJ O Shopping, Co., Ltd.	₩895 billion	TV home shopping Internet shopping mall Catalog shopping Social commerce	www.cjmall.com
Hyundai Home Shopping Network Corporation	₩889 billion	TV home shopping Internet shopping mall Catalog shopping	www.hmall.com
Lotte.Com, Inc.	₩825 billion	Internet shopping mall Mobile shopping	www.lotte.com
Woori Home Shopping	₩636 billion	TV home shopping Internet shopping mall	www.lotteimall.com
Ebay Korea, Inc.	₩444 billion	Internet open market	www.auction.co.kr www.gmarket.co.kr
NS Shopping Co., Ltd.	₩342 billion	TV home shopping Internet shopping mall Catalog shopping	www.nseshop.com

Source: Retail Industry Year Book 2012, Korea Chain Store Association, Company IR Reports

*Note: Korean accounting rule defines the sales of on-line retail company as the amount of transaction fee collected from transactions intermediated, unless the product or service sold was owned by the on-line retail company. Therefore, the actual value of products transacted through the on-line retailer should be much bigger than the sales figure shown in this

table. For example, total value of products and services transacted through Ebay Korea amounted to W8.1 trillion in 2010, but only W354 billion was recorded as the sales of the company.

A-3-6. Franchise Specialty Grocery Retailers

Growing consumer demand for more efficient shopping channel for specialty food and agricultural products provides a new growth niche in the market for specialty grocery retailers under franchise management that offer deep assortment of products within the target product category (as called “category killer”) at value price. Due to the smaller space and capital input needed, specialty grocery retailers are spreading in the metropolitan markets where large-scale retail stores have limited access. Currently health & beauty and organic & natural foods are the leading categories of products that the specialty grocery retailers are focusing on. However, the segment is likely to expand its target categories further in the coming years into new areas, such as Home & Garden, Home Baking, and Drugs Store.

Table 18: Profile of Major Franchise Specialty Grocery Retailers (2011)

Company	Store Name	Sales	Products	Stores	Food Share
CJ Oliveyoung	Olive Young	W212 billion	Health & Beauty	191	10.5%
Chorokmaeul Co., Ltd.	Chorok Maeul	W115 billion	Organic & Natural Foods	258	Over 90%
GS Watsons Co., Ltd.	Watsons	W75 billion	Health & Beauty	47	N/A
ORGA Whole Foods	ORGA	W75 billion	Organic & Natural Foods	53	96.5%
Hansalim	Hansalim	W47 billion	Organic & Natural Foods	129	Over 90%

Source: Retail Industry Year Book 2012, Korea Chain Store Association, Company IR Reports

B. Traditional Retail Businesses - Wet Markets and Independent Small Grocers

Despite the rapid expansion of the modern format large-scale retail segments, traditional retailers, mainly regional wet markets and family-operated small grocers, remain active in old metropolitan areas as well as in rural areas where the environment has yet to merit entry of large-scale hypermarkets or grocery supermarkets. In addition, policy makers have introduced a series of regulations over the years that intended to restrict expansion of large-scale retailers under the strong social initiative of protecting small businesses. For example, large-scale retailers have been banned from operating shuttle buses provided to the shoppers in distant areas since 2001. A new regulation introduced in 2011 have prohibited opening of new stores by large-scale retailers within the vicinity of designated “traditional market zones”. However, marketers in general agree that traditional retailers would continue a decline in the coming years unless they find a way to meet the consumer demand for value price, convenience, and quality.

There is no official data that tracks the size of traditional retail industry in Korea. Korean government statistics (Retail & Wholesale Industry Survey) indicate that there were a total of 99,263 “food & beverage” retail stores in Korea that hired less than five employees in 2011. Traditional retailers tend to focus on a limited assortment of fresh products, such as grains, produce, seafood, and meats, and carry less variety of processed foods. Imported products that are distributed in significant volume through traditional retailers include fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals, and cooking oils. Regional wholesale markets run by provincial governments serve as a key distribution channel of fresh agricultural and fishery products to traditional retailers. Independent wholesalers, most of them specialized in a limited category of products, are the major distributor of processed foods to the traditional retailers.

III. Competition

Locally grown or manufactured products present a significant competition to many American products. Although limited in volume, Korean agriculture produces a considerable variety of raw agricultural products, including rice, fresh vegetables (cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom, garlic, etc.), fruits (apple, pear, tangerine orange, grape, persimmon, water melon, strawberry, kiwi, etc.), seafood, beef, pork, chicken, eggs, and fluid 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, grain flour, beverages, snacks, confectioneries, dairies, and liquors. Domestically produced products should better reflect the tastes and consumption trends of local consumers than imported products. Furthermore, Korean consumers are generally biased toward locally grown and manufactured products and willingly pay premium on domestic products.

Table 19: Korea's Self-Sufficiency Rate for Agricultural and Fishery Products

Product	1990	2000	2010
Grains Total	43.8%	30.8%	26.7%
Rice	108.3%	102.9%	104.6%
Wheat	0.1%	0.1%	1.7%
Corn	1.9%	0.9%	N/A
Beans	20.1%	6.8%	31.7%
Vegetables	98.9%	97.7%	89.3%
Fruits	102.5%	88.7%	81.1%
Beef	53.6%	53.2%	43.2%
Pork	100.3%	91.6%	80.9%
Chicken	100%	79.9%	79.7%
Eggs	100%	100%	99.8%
Milk & Dairies	92.8%	81.2%	65.4%
Fish & Clams	121.7%	132.6%	N/A
Fat & Oil	8.0%	3.2%	N/A

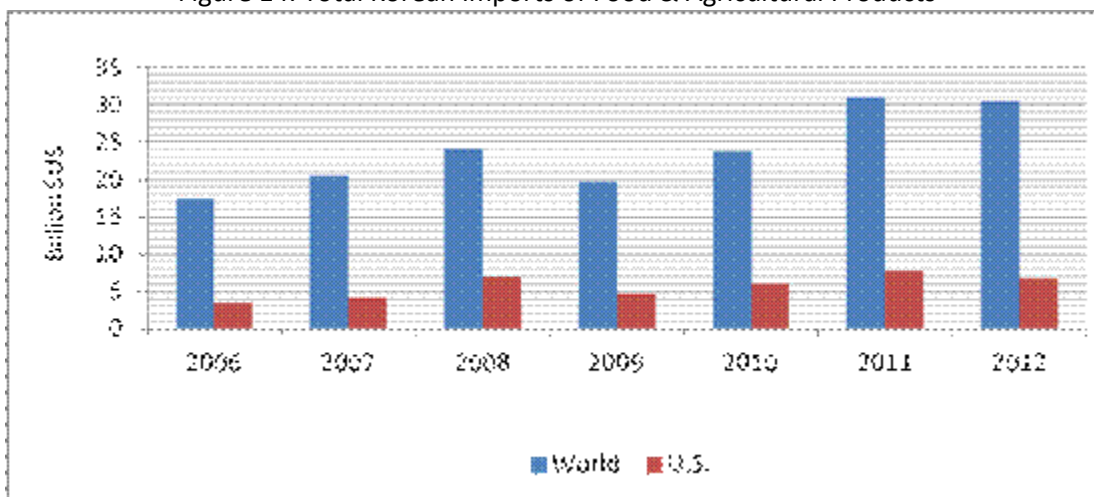
Source: Korea Rural Economic Institute report 2011 (www.krei.re.kr)

Korea relies heavily on imports for input ingredients for the local processing industry as well as for consumer-oriented products for the retail industry that are not grown or manufactured enough in Korea. Many U.S. products face rising competition in the Korean market from products from export oriented countries, including China, EU, Australia, Chile, and South Asian countries. Many of the products from competitor countries offer either lower price or higher quality than U.S. products and accordingly have built up significant market shares in Korea. China, for example, has become the leading supplier of fresh and processed vegetables, seafood, and spices to Korea based on price. EU has become the leading supplier of premium whiskies, wine, specialty cheeses, chocolate confectioneries, pasta, and olive oil to Korea based on quality. Increased consumer demand for more diversified tastes will further generate competitive pressure on American products in Korea.

Despite the challenges from the competitors, the United States is expected to remain the leading supplier of food and agricultural products to Korea for years to come, not only for commodity products but also for consumer oriented products. The United States accounted for 22.1 percent of total Korean imports of food and

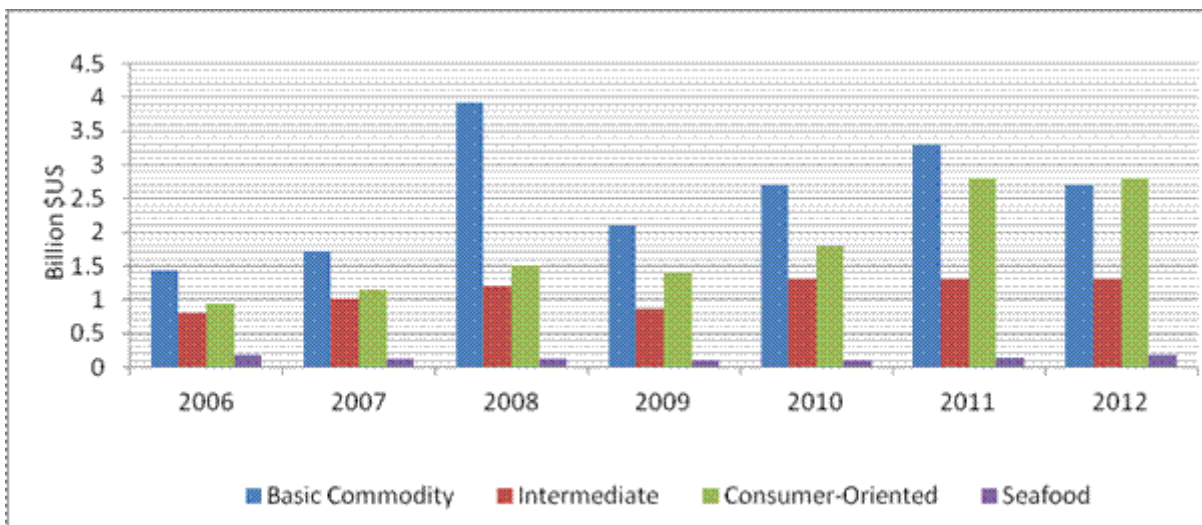
agricultural products in 2012. Imports of consumer-oriented agricultural products from the United States amounted to \$2.8 billion, up 1.0 percent from the previous year. Up-to-date statistics of Korea's food and agricultural imports (organized by harmonized tariff system code and by export country) can be found in ATO Seoul's internet home-page (www.atoseoul.com).

Figure 14: Total Korean Imports of Food & Agricultural Products



Source: Korea Trade Information Service (KOTIS) Data (www.kita.net)

Figure 15: Korean Food & Agricultural Imports from the U.S. by Category

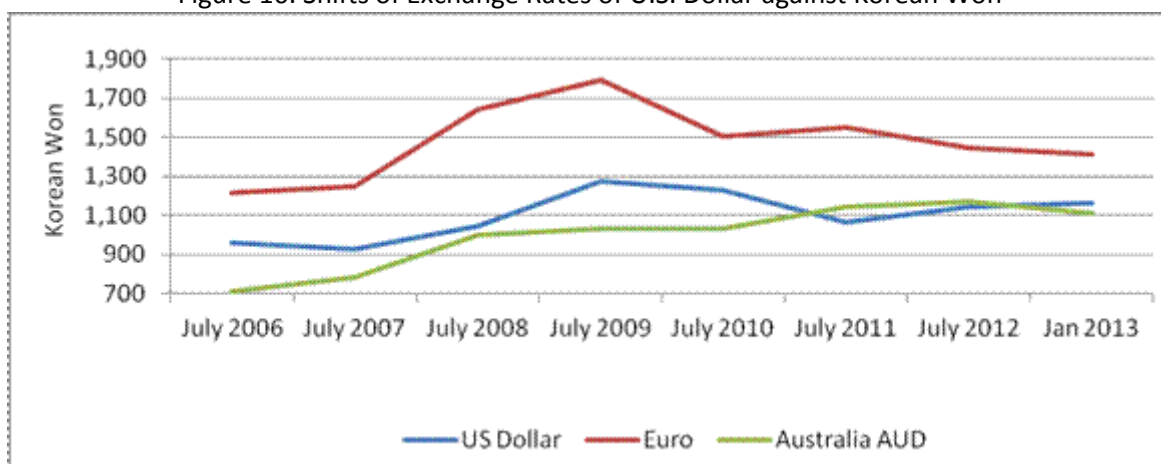


Importation of many food and agricultural products into Korea still face barriers such as high import tariffs, import volume quota, and phytosanitary requirements, which intend to protect local farmers. On-going removal of the barriers should expand the market in Korea for imported food and agricultural products. In particular, the Korea-United States Free Trade Agreement (KORUS FTA), implemented in March 2012, will significantly reduce the tariffs on American food and agricultural products imported into Korea and create new opportunities for American suppliers. ATO Seoul website has detailed information about the agreed effects of KORUS FTA, including FTA Product Briefs on some top 40 products:

Food safety issues associating imported products have become a serious concern for Korean retailers. Restriction of imports from one country due to a food safety issue results in replacement imports from competing countries. Consequently, in an effort to maintain a stable supply, local importers in general prefer to transact with more than two countries especially for potentially risky items, such as fresh fruits and meat.

Shifts of exchange rates of currencies among competitor countries have been another important factor that affected the competition in Korea. For example, value of U.S. dollar has weakened against other currencies including Korean won since mid 2009, which made American products more price-competitive in Korea.

Figure 16: Shifts of Exchange Rates of U.S. Dollar against Korean Won



Source: Korea Exchange Bank

IV. Best Product Prospects*

*Note: All import value figures in this section is based on Korea Trade Information Service (KOTIS) data

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

1. Beef: Beef is considered a premium meat in Korea. Over 600 thousand metric tons is annually consumed, with nearly 52 percent of it being imported. The United States, Australia, New Zealand, Canada and Mexico are the 5 nations that currently export to Korea, accounting for 36 percent, 52 percent, 10 percent and under 1 percent for Mexico and Canada of total imports. Beef imports from the United States totaled \$472 million (95,082 metric tons) in 2012, down 21.3 percent from 2011 largely due to increased domestic production of beef and pork as well as weaker demand under economic downturn. Over 84 percent of imported beef is frozen. About 70 percent of imported beef is used in the HRI sector, 20 percent consumed at home and 10 percent used for processing. The top imported cuts are short ribs, accounting for over 43 percent of total imports, followed by loin, fore shank and chuck meat.

The United States and Korea agreed to fully open up the market for U.S. beef in 2008. However, Korean beef importers and U.S. exporters reached a commercial understanding that, as a transitional measure, only U.S.

beef from cattle less than 30-months of age will be shipped to Korea. Products produced at plants that have been approved under the EV and QSA program provided by the Agricultural Marketing Service are allowed to export beef to Korea. While eligible under the protocol, imports of processed products from animals less than 30 months of age are not being shipped because the Korea Food and Drug Administration (KFDA) has yet to lift its suspension that would allow for products that meet the OIE standards.

2. Pork: Pork is the most popular meat among Korean consumers with annual consumption exceeding 1.5 million metric tons, nearly one-third of it imported up to 2012. The United States, Canada and Chile account for 32 percent, 15 percent and 10 percent of total imports, while the European Union countries account for roughly 40 percent. Over 92 percent of imported pork is frozen, and primarily used for processing, but there are growing opportunities for imports of chilled pork for use in the HRI sector and retail sector. The top imported cuts are Pork Bellies, Picnics and Boston Butt. Pork imports from the United States totaled \$365 million (122,567 metric tons) in 2012, down 19 percent from 2011 largely due to oversupply of domestic pork as well as weaker demand under economic downturn.

3. Processed meats (sausages, hams): Due to easy application, Korean consumers incorporate more processed meat products in their diet. Imports of pork and poultry sausages and other types of preserved pork and poultry meats from the United States amounted to \$33 million in 2012, up 5.5 percent from the previous year.

4. Poultry meats (largely chicken): Per capita poultry meat consumption is now second only to pork and is expected to continue to grow in the coming years. In 2012, poultry meat imports totaled nearly 117,000 metric tons of which almost 55,000 tons were from the United States. Brazil had the largest share of the imports with about 49 percent, while the United States had 47 percent. The United States shipped the most frozen leg quarters, while Brazil shipped the most frozen wings and breast meat.

5. Dairy products (mainly cheese): More Koreans are developing taste for cheese. Total cheese imports from the United States amounted to \$141 million in 2012, up 0.3 percent from the previous year. Imports of butter from the United States amounted to \$5 million, up 3 percent from the previous year. Korean importers are paying more attention to American suppliers as supplies from EU and Australia face challenge for rising price and lower production.

6. Seafood: Korea is an outstanding seafood market with good growth potential for a wide variety of imported products. The domestic supply is decreasing due to the depletion of near sea fishery resources and increased restrictions on international deep-sea fishing. On top of that, Korean importers are seeking alternative source of seafood that can replace Japanese products due to safety concern (there was explosion of nuclear power plants in Fukushima, Japan in March 2011). Seafood imports from the United States totaled \$165 million in 2012, up 19 percent from the previous year. Live fish imports in particular showed a very strong, 107 percent growth to \$15 million. Major species currently imported from the United States include Alaska Pollack, Pollack surimi, Pollack roes, tuna, skate, mackerel, hagfish, halibut, scallop, cod, salmon, angler fish, rock fish, lobster, crabs, and sea cucumber.

7. Vegetables (mainly processed and frozen products): Although Korea is self-sufficient in many varieties of fresh vegetables, seasonal fluctuations in the local supply and unfavorable growing condition for foreign varieties are resulting in an increased demand for imports. China has emerged as the leading supplier of vegetables to Korea in both 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 2012 included processed/preserved

vegetables (\$105 million), processed tomatoes (\$15 million), frozen vegetables (\$4 million), and fresh vegetables (\$21 million - mostly potatoes, lettuce, onion, and cabbage).

8. Fresh fruits: Demand for foreign fruits is likely to grow due to limited supply from local farms. Korean imports of fresh fruits from the United States amounted to \$369 million in 2012, up 38 percent from the previous year. Major American fresh fruits imported include: citrus (\$232 million), grapes (\$27 million), and cherries (\$81 million).

9. Tree nuts: Consumption of tree nuts have shown a strong growth in recent years due to highly publicized health benefits of eating nuts (in particular almonds, walnuts, and macadamia). Korea relies almost entirely on imports to meet the demand. Total imports of tree nuts from the United States amounted to \$237 million in 2012, up 59 percent from the previous year.

10. Processed fruits and nuts: Processed fruits and nut products are gaining consumer popularity due to their natural and healthy image. Imports from the United States in 2012 amounted to \$66 million for processed/preserved fruits and nuts, \$5 million for dried fruits, and \$3.6 million for fruit jams.

11. Fruit juices: Increased attention to healthy eating expands consumption of fruit juices in Korea. In particular, more consumers are switching to higher quality products such as 'Not from concentrate' or 'No artificial ingredient added' products. Korea imported a total of \$77 million of fruit juices from the United States in 2012, up 54 percent from the previous year. Major American products imported were apple juice, grape juice, and orange juice. Much of the imported fruit juices are blended and bottled in Korea.

12. Coffee: As more Korea consumers are switching to espresso coffee from instant coffee, imports of coffee beans and powder in both bulk and retail package are on a rapid increase. Imports of coffee products from the United States amounted to \$39 million in 2012, up 46 percent from the previous year.

13. Specialty confectionery products: Consumption of imported specialty confectionery products is on an increase. Imports of chocolate based confectionery products from the United States amounted to \$89 million in 2012, up 12 percent from the previous year. Imports of sugar based confectionery products from the United States amounted to \$16 million, up 30 percent from the previous year.

14. Bread, cakes, and pastry: Westernization of Korean diet generates increased demand on imported bread, pastry, and cake products. Imports from the United States amounted to \$57 million in 2012, up 22 percent from the previous year.

15. Prepared Sauces: With introduction of more diverse foreign recipes, demand for imported sauces continues to rise. Imports of prepared sauces from the United States amounted to \$24 million in 2012, up 10 percent from the previous year.

16. Soybean oil: Although Korea has a strong cooking oil processing industry, there is a solid demand in the market for imported products for lower price and diversity. Imports of soybean oil from the United States amounted to \$7 million in 2012.

17. Alcohol Beverages: Korea remains one of the leading markets in the world for alcohol beverages. Solid increase of female drinkers and demand for diversified tastes are likely to expand the market for imported beer,

wine, and non-Scotch whiskey in the coming years. Imports from the United States amounted to \$17 million for wine, \$6 million for beer, and \$8 million for hard liquors in 2012.

18. Flavored mineral water: More consumers are looking for quality alternatives for tap water and soft drinks. As a result, imports of bottled mineral water are on a rapid increase. Imports of flavored mineral water from the United States amounted to \$19 million in 2012.

19. Rice: Korea is a significant market for U.S. rice. Rice imports from the United States amounted to \$48 million (64,000 metric tons) in 2012. However, all imported rice currently enters Korea through a minimum market access (MMA) program under the WTO regime. In addition, importation and distribution of rice is managed by a state trading enterprise, Korea Agro-Fishery Trade Corporation (aT). As a result, a majority of the imported rice is used by processors and food service sector.

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

1. Pasta: Italian cuisine is gaining popularity among the general public, generating increased demand for related products, including pasta noodles. Among the \$127 million of pasta products imported in 2012, imports from the United States amounted to \$2 million only. Traders point out that the United States, a leading supplier of pasta wheat should also have a potential to become a major supplier of pasta noodles. In addition, the 8 percent import duty currently applied to American spaghetti and macaroni products will be phased out over a 5 year period under the Korea-United States Free Trade Agreement.

3. Wheat flour: There is a growing demand for imported wheat flour as the price of locally milled products continues to rise. Among the \$16 million of wheat flour imported into Korea in 2012, imports from the United States amounted to less than \$1 million. Traders point out that imported wheat flour needs modifications to meet the specifications required by local recipes.

4. Bakery premixes (including frozen dough): It is likely that the market for imported bakery premixes would rise in the future as more Korean consumers develop a taste for home baking.

5. Olive oil: Demand for olive oil remains strong as consumers are seeking healthier alternatives for conventional cooking oils. However, among the \$37 million of olive oil imported in 2012, imports from the United States amounted to less than \$1 million.

6. Processed turkey meat: Many Korean consumers still maintain a negative image 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 tastes for related dishes. Another important trend that should help improve the image of turkey meat is a low fat diet followed by a significant number of Koreans.

7. Premium seafood: There is a growing potential for premium American seafood products such as lobster, crabs (King, Snow, and Dungeness), black cod, halibut, scallop, and wild caught Alaskan salmon in Korea as affluent consumers are looking for premium, healthier alternatives for beef and other meat dishes. However few Korean consumers have understanding about the quality of premium seafood from the United States. For example, few local consumers are aware of the quality difference between the farmed Norwegian salmon and wild-caught Alaskan salmon.

8. Meal replacement prepared food: Demand for Home Meal Replacement (HMR) products is on a rapid increase, reflecting busier lifestyle of Korean consumers. Ready-to-serve meals or microwavable processed foods are likely to have bigger sales potential in the coming years.

9. Processed organic food: As retailers strive to expand their organic product offerings, there is growing demand for imported processed organic products. Currently imported processed organic food certified under USDA National Organic Program (NOP) standards are allowed to be labeled and sold as organic products in Korea. However, Korean government has introduced its own organic certification standards, which is also applied to imported products. As a transition measure, Korean government has extended its existing regulation (accepting USDA NOP certificates) until December 31, 2013. American suppliers should contact ATO Seoul or Organic Trade Association (www.ota.com) for updated information about Korean regulations.

10. Specialty fruits: There is a growing demand for imported specialty fruits, including lemon, lime, grapefruits, avocado, and pomegranate.

11. Many imported agricultural products, including honey, fresh onions, and popcorn, are currently subject to high tariffs and volume quotas (TRQs) that restrict open market access. KORUS FTA should expand the market for many of these products by reducing tariffs or offering low-duty quotas.

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 Korea approves phytosanitary standards of the United States through a pest risk assessment process, 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 strawberries, are currently banned for imports as there are no phytosanitary import agreements made on these products between Korea and the United States.

2. Imports of approved fresh fruits and vegetables are frequently restricted for phytosanitary issues, such as outbreaks of fruit flies. Outbreaks of animal diseases, such as swine cholera, avian influenza, and bovine spongiform encephalopathy (BSE), can also restrict imports of related animal products into Korea. U.S. suppliers should contact established Korean importers or ATO Seoul for up-to-date information on regulatory issues that restrict imports. Restrictions currently in place include:

(1) Korean government still maintains import restrictions on American beef as of February 2010. Commercial understanding between Korean beef 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 animals less than 30 months of age are also not allowed to be shipped to Korea until further discussions with the Korea Food and Drug Administration (KFDA), Pet food containing ruminant ingredients are banned for imports into Korea.

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

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

(4) Korea maintains an import ban on fresh potatoes from many American states, including Wisconsin and some counties in Idaho, due to nematode risk.

3. Fresh organic agricultural produce: there are technical barriers that prohibit imports of fresh organic produce. Korean regulation does not accept USDA NOP organic certificates for fresh produce but requires certification from Korea's accredited certifying agents to sell organic agricultural produce in Korea. In addition, there is a high chance for imported fresh vegetables and fruits to be fumigated with chemical agents to prevent potential pest risk during the plant quarantine inspection process, which will disqualify the product from "organic" status. This fumigation can also damage the quality of products and shorten the shelf life.

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 for target use 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. The home-page of Korea Food & Drug Administration (<http://fa.kfda.go.kr/foodadditivescode.html>) provides detailed information about the Korean food additive code in English. Or, an established importer should be a reliable source for the up-to-date Korean standard.

V. Key FAS/USDA Contacts and Further Information

- For further information about the Korean agricultural market, please contact:

U.S. Agricultural Trade Office Seoul

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

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@usda.gov

- For more information on how you can register for USDA/FAS' Supplier List:

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA FAS Overseas offices to help export agents, trading companies, importers and foreign market buyers locate U.S.

suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at

http://www.fas.usda.gov/agx/partners_trade_leads/us_suppliers_list.asp

- For further information about sanitary and phytosanitary requirements, please contact:

U.S. Animal Plant and Health Inspection Service 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

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

Food Export Association of the Midwest USA

309 W. Washington St., Suite 600

Chicago, Illinois 60606

Telephone: 312-334-9200

Fax: 312 334-9230

E-mail: thamilton@foodexport.org

Website: www.foodexport.org

Western United States Agricultural Trade Association (WUSATA)

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

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

E-mail: janet@wusata.org

Website: www.wusata.org

Food Export USA - Northeast Region of the United States

150 S. Independence Mall West, 1036 Public Ledger Building

Philadelphia, PA 19106, USA

Telephone: 215-829-9111

Fax: 215-829-9777

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

- 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/kor