

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Korea - Republic of**

**Post:** Seoul ATO

### **Wine Market Report**

**Report Categories:**

Wine

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#### **Report Highlights:**

Despite challenging economic environment, the South Korean wine market continues to expand. Korea's wine imports in 2014 totaled a record high \$182 million, up 6 percent from 2013. The United States remained the fourth largest supplier of wine to Korea by shipping a record high \$21 million during the period, up 8 percent from the previous year. While American wine faces elevated competition against products from export-oriented competitors, American wine should remain one of top choices of Korean wine consumers as it is firmly positioned in the market as a product of fair value and unique quality.

**General Information:**

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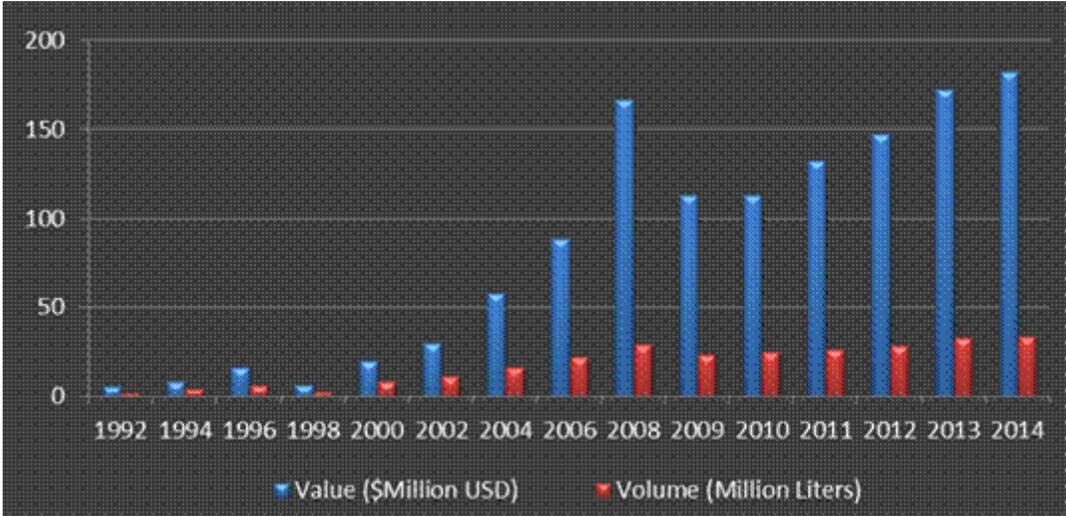
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**SECTION I: MARKET OVERVIEW**

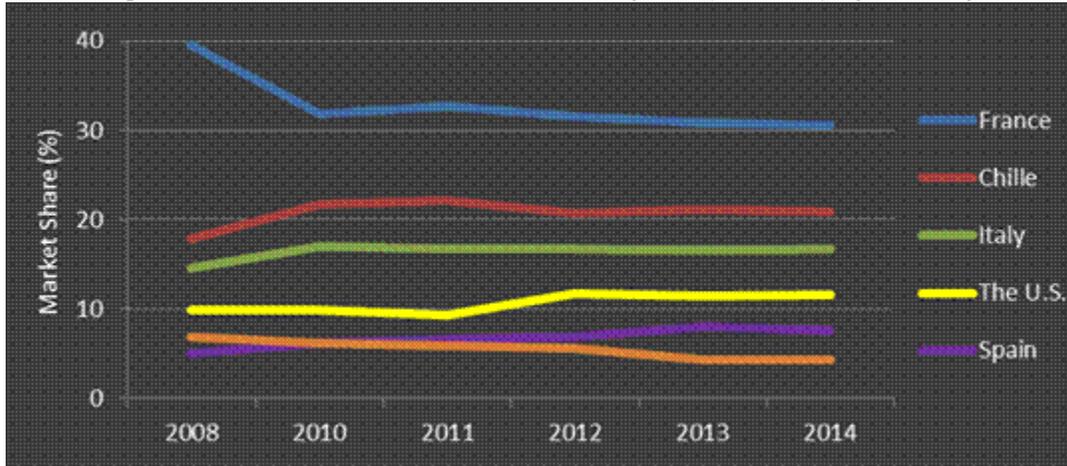
- South Korea’s (herein after referred as Korea) wine imports from all countries totaled a record high \$182.2 million in 2014, up 6.0 percent from 2013. Total volume of imports amounted to 33.1 million liters, up 1.7 percent. Although further evolvement of the Korean wine market led to a significant growth of the wine sales (and imports) in terms of value, weak consumer sentiment under the extended economic slow-down somewhat restricted the growth of the wine consumption in volume.
- Imports from the United States amounted to a record high \$21.2 million in 2014, up 7.7 percent from 2013. In terms of volume, imports from the United States amounted to 3.4 million liters, down 11.9 percent from 2013. Strong growth of wine sales in large-scale hypermarket retail stores coupled with elimination of the import duty (15 percent) under the United States – Korea Free Trade Agreement (KORUS FTA, implemented in 2012) has been the key momentum behind the solid success of American wine in Korea in recent years. However, combined effect of several issues has resulted in the unexpected decline of the import volume in 2014. First of all, a tragic ferry boat accident that took place in April 2014 brought a dip in the local retail market sales of many products, including wine, for several months following the accident as the general public maintained a sentiment to commemorate the casualties. Secondly, the unit import price of American wine saw a significant increase in 2014 due to rise of the value of U.S. dollar, which restricted sales of products in value-oriented segments of the market. Additionally, extensive port strike in the west coast United States during the second half 2014 (which lasted through the first half 2015) had bigger impact on shipments of large-volume American wines in value-oriented segments of the market that relied on routine sea container shipping.
- France remained the leading supplier of wine to Korea in 2014 with a 30.5 percent market share in terms of value, followed by Chile (20.8 percent), Italy (16.7 percent), and the United States (11.6 percent). In terms of volume, value-oriented suppliers, Chile (26.2 percent) and Spain (20.8 percent) in particular, were the leading suppliers.

Figure 1: Korea’s Wine Imports from All Countries



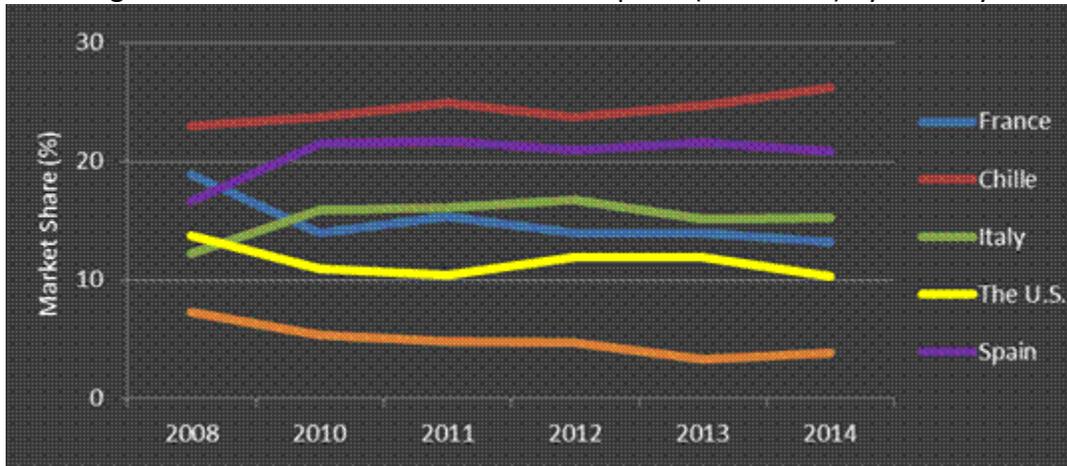
Source: Korea Trade Information Service Database (KOTIS)

Figure 2: Break Down of Korea's Wine Imports (in Value) by Country



Source: Korea Trade Information Service Database (KOTIS)

Figure 3: Break Down of Korea's Wine Imports (in Volume) by Country



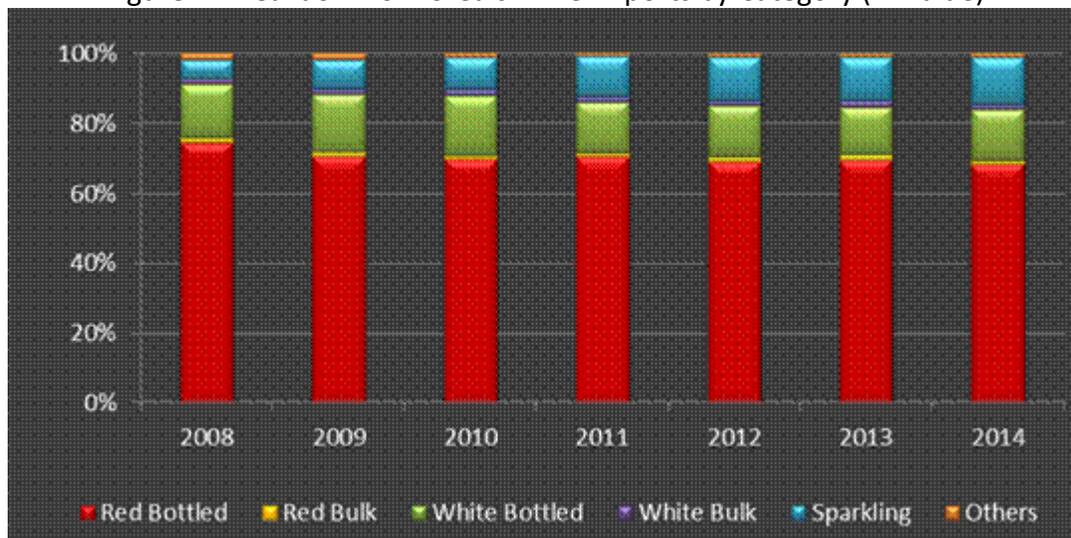
Source: Korea Trade Information Service Database (KOTIS)

- After peaking in 2008 at \$167 million, Korea's wine imports declined sharply down to \$112 million in 2009 due to the international financial crisis that started at the end of 2008. However, the Korean wine market has rebounded quickly and continued an outstanding recovery since 2011.
- The Korean wine market is still in its early stage of development. Korea lacks local wine industry of comparable quality/scale against international suppliers. Although Korea's wine imports have evolved dramatically over the last two decades ever since the Korean government introduced market liberalization policy in early 1990's, wine is still considered a premium product among the general public and is largely consumed by a limited population of young professionals and affluent elderly consumers. According to the industry data, imported wine accounted for a 4.6 percent of total alcohol beverage sales in Korea in terms of value in 2013

(only 0.9 percent in terms of volume). However, marketers in general agree that the Korean wine market should eventually grow to a size comparable to other developed markets. As an indicator, Japan's wine imports in 2013 were \$1.47 billion which was nine times larger than Korea's (Japan's population is 2.5 times larger than Korea's). Key barriers that restrict further growth of the Korean wine market are high distribution cost and tight government regulations, which makes retail price of imported wine in Korea several times higher than the price in the export country.

- Due to highly publicized health benefit of drinking red wine, current wine consumption in Korea is heavily skewed toward red wine as indicated by the fact that red wine accounted for a 69.6 percent of total wine imports in terms of value (or 66.9 percent in volume) in 2014. However, increased number of local wine consumers is adopting the idea of food-wine pairing, and as a result white wine and sparkling wine are likely to gain additional market share in the coming years. In particular, sparkling wine has shown the most outstanding growth in recent years and accounted for a 13.6 percent of the total wine imports in terms of value in 2014 (compared to 5.5 percent in 2008).

Figure 4: Breakdown of Korea's Wine Imports by Category (in Value)



Source: Korea Trade Information Service Database (KOTIS)

- Due to consumers' economic concerns under the on-going economic downturn, more of the wine is distributed through off-premise retail channel in Korea. According to the industry, off-premise channel currently accounts for over 70 percent of total wine sales in the market. In particular, large-scale hypermarket stores have become the leading retail channel for wine particularly for products that target value-oriented segments of the market. However, on-premise retail channel, particularly five-star hotels and premium restaurants/bars, remains the leading sales channel for products that target higher-end segments of the market.
- American wine faces elevated competition in Korea against both quality-imaged old world suppliers (France, Italy) and value-imaged new world suppliers (Chile, Australia, Argentina). In

addition, as Korean consumers welcome entries of new wines from more diverse origins, wine from other competitors (Spain, New Zealand, Germany, South Africa) is likely to increase their presence in the market. Competitors are much more export-oriented than American suppliers by nature and as a result maintain aggressive export promotion programs to Korea.

- Nevertheless, American wine remains one of the top choices of Korean wine consumers as American wine is firmly positioned in the market with an image of fair value and unique quality. The close political and economic tie between Korea and the United States continues to help promote American brands and products in Korea. Additionally, diversifying taste of Korean wine consumers should expand export opportunities to American wine from more diversified origins, such as state of Washington and Oregon, in the coming years.

## SECTION II: MARKET SECTOR OPPORTUNITIES AND THREATS

Table 1: Market Opportunities & Challenges

Advantages	Challenges
Korean consumers are paying extra attention to healthy diet. Health benefit of drinking red wine is highly publicized among the general public.	Both consumers and traders in general have limited knowledge and experience about American wine. Consumers in general harbor the idea that old world producers are the source of best quality wine in the world.
The general public maintains a strong attention to globalized dietary culture, including wine dining. Consumer taste is further evolving to generate demand for more diversified ideas and products.	American wine faces elevated competition against both old and new world competitors. Competitors are export-oriented by nature and deploy aggressive export promotions in Korea.
The Korean wine market is still in its early stage of development. Considering the size of overall alcohol beverage consumption in the market, wine has a good growth potential.	Retail price of imported wine in Korea is very high due to high distribution cost and tight government regulations. As a result, wine is still recognized as a premium product among the general public, and is consumed by a limited population.
American wine is firmly positioned in the market, especially among young consumers as a product of fair value and unique quality. Implementation of the KORUS FTA further strengthens the value position of American wine in the market.	Korean importers in general intend to do business directly with foreign wineries. However, many American wineries rely on export middlemen for emerging markets such as Korea. Export opportunities may fail to fruit without American winery’s catered attention to the Korean buyers.
Local Korean wineries present little competition to imported products. Instead,	Imported wine is subject to complicated labeling and food safety standards, which change

Korea imports a significant volume of bulk wine for local blending & bottling.	frequently.
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Table 2: American Wine’s Competitive Position in Market Segment

Market Segment	Retail Price*	American Wine’s Competitive Position	Major Competitors
Entry	Below KRW10,000	Mid-High	Chile, Spain
Value	KRW10,000-30,000	Mid	Chile, France, Italy, Australia, Spain
Mid-class	KRW30,000-60,000	Mid-Low	Chile, France, Italy, Australia, Spain
Premium	KRW60,000-100,000	Mid-Low	France, Italy, Chile, Spain, Australia
Luxury	Above KRW100,000	Mid-High	France, Italy

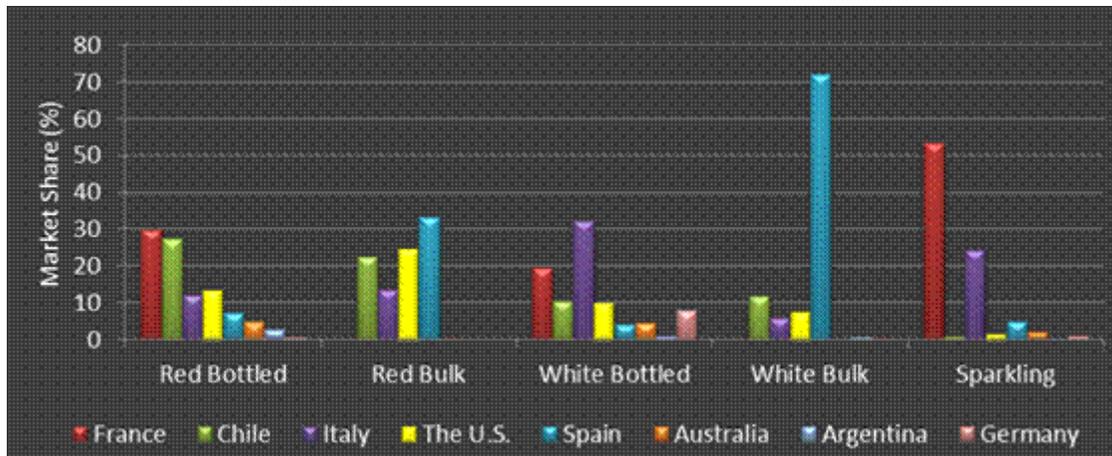
Source: Industry Interviews by ATO Seoul

\* Note: Price in off-premise retail shops / \$1 USD = KRW 1,120 won as of July 1, 2015

## 1. COMPETITORS

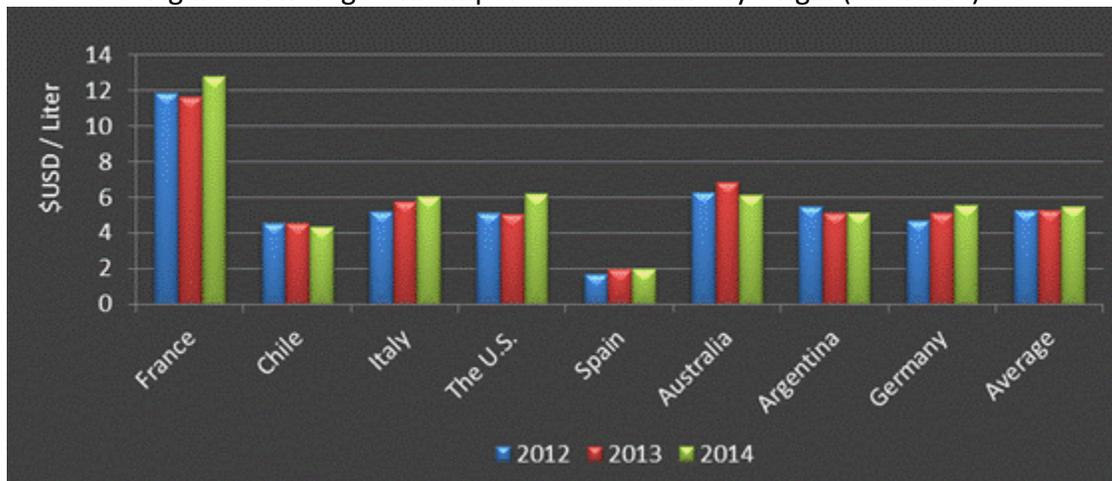
- France: Many Koreans, both wine opinion leaders and regular consumers, harbor the perception that old world European countries, France in particular, are the source of the best quality wine in the world. As a result, France has remained the leading supplier of wine to Korea over the years. Imports from France amounted to \$55.7 million (4.4 million liters) in 2014, up 4.7 percent from 2013. The Korea-EU Free Trade Agreement, which was implemented on July 1, 2011, eliminated the 15 percent import duty on French wine. However, overall market share held by France has continued a decline since mid-2000’s because French suppliers lost much of the ground in value-oriented product segments of the market to Chile, the United States, Italy and Spain. Italy and the United States have also eroded some of the market demand for high-end French wine. French suppliers are likely to maintain bigger focus on higher price, quality-oriented segments of the market in the coming years. French suppliers will also continue to capitalize on the rapidly growing sparkling wine segment.

Figure 5: Breakdown of Korea’s Wine Imports by Category/Country  
(in Value, Year 2014)



Source: Korea Trade Information Service Database (KOTIS)

Figure 6: Average Unit Import Price of Wine by Origin (CIF Value)



Source: Korea Trade Information Service Database (KOTIS)

- Chile: Wine imports from Chile totaled \$38.0 million (8.7 million liters) in 2014, up 4.1 percent from 2013. The strong rise of Chilean wine in Korea started in 2005 as a result of the Korea-Chile Free Trade Agreement implemented in April 2004. The FTA advantage solely enjoyed by Chilean suppliers, which enabled Chilean wine to be recognized as the source of better value wine among the general Korean consumers, disappeared upon implementation of the Korea-EU FTA (July 2011) and the United States – Korea FTA (March 2012). However, Chile is still viewed as a leading source of value wine by many Korean consumers and should continue to present tough competition to other countries, including the United States, particularly for red wine targeting entry through mid-class product segment of the market. However, Chile presents less competition in white and sparkling wine.

Figure 7: Effect of FTA\* on Chile's Wine Exports to Korea



Source: Korea Trade Information Service Database (KOTIS)

\*Note: Korea-Chile FTA was implemented in 2004 / Korea-the U.S. FTA in 2012

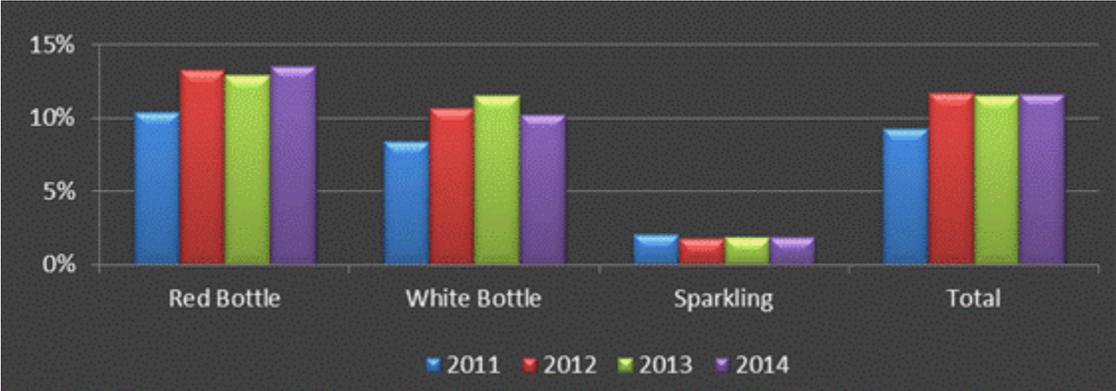
- Italy: Wine imports from Italy amounted to \$30.3 million (5.0 million liters) in 2014, up 6.1 percent from 2013. Strong performance of Italian wine in recent years has coincided with on-going popularity of Italian cuisine and travel among the Korean consumers. It is also notable that Italy has become the leading supplier of white wine to Korea based on a huge success of *Frizantte* style product (white wine with small amount of bubbles) made from Moscato grapes. Italy is also gaining from the expansion of the sparkling segment.
- Spain: Wine imports from Spain amounted to \$13.8 million (6.9 million liters) in 2014, up 0.7 percent from 2013. Part for value for money under the sluggish economy and part for diversified tastes, Spanish wine is likely to draw additional consumer attention in the coming years. It is notable that a significant portion of Spanish wine imported into Korea is bulk wine for local bottling or blending use, not only for grape wine but more for other types of fruit wine such as Japanese apricot wine. Bulk wine accounted for about 43 percent of Spain's wine exports in terms of volume to Korea in 2014.
- Australia: Wine imports from Australia totaled \$7.9 million (1.3 million liters) in 2014, up 7.6 percent from 2013. Australian wine struggled in Korea due to steep rise of the value of Australian dollar between 2010 and 2012. On top of this, Korea's implementation of free trade agreements with the EU and the United States further deteriorated the value position of Australian wine in the market. That said, Australian dollar has been on a downturn since 2014 and Korea-Australia Free Trade Agreement was implemented in December 2014, which should provide significant growth momentum for Australian wine in Korea in the coming years.
- Other Competitors: Wine imports from all minor suppliers combined, including Argentina, Germany, New Zealand, and South Africa totaled \$15.3 million (3.5 million liters) in 2014, up 18.0 percent from 2013. Particularly, Argentina is emerging as a source of good value wine while New Zealand is emerging as a source of high quality wine among early adopters in the market. Increased consumer demand and attention on products from more diverse origins is likely to increase demand for wine from these minor origins in the coming years.

- Competitors are export-oriented by nature and as a result maintain aggressive marketing and promotional efforts in Korea. Competitors’ major programs in Korea include: local seminars and tasting events, buyer & journalist delegations to international wine exhibitions (e.g., Vinexpo, Vinality and ProWine), cultural and culinary events incorporating wine components, exhibitions at local trade shows, education program partnerships with local wine schools, and local sommelier competitions.

**2. THE UNITED STATES**

- Korea’s wine imports from the United States totaled a record high \$21.2 million in 2014, up 7.7 percent from 2013. However, the imports in terms of volume declined 11.9 percent to 3.4 million liters during the period. According to the industry sources, combined effect of several issues has resulted in the unexpected decline of the import volume in 2014. First of all, a tragic ferry boat accident (over 300 high school students died) that took place in Korea in April 2014 brought a big dip in the local retail market sales of many products, including wine and other ‘festive’ products, for several months following the accident as the general public maintained a sentiment to commemorate the casualties. Secondly, the unit import price of American wine saw a significant increase in 2014 as the value of U.S. dollar rose over 5 percent against Korean won, which restricted sales of products in value-oriented segments of the market. In addition, Korean importers were also pressured to maintain minimum inventory of American wine with limited new orders throughout the year. Thirdly, extensive port strike in the west coast United States during the second half 2014 (which lasted through the first half 2015) had bigger impact on shipments of large-volume American wines under value-oriented segments of the market that relied on routine sea container shipping compared to smaller-volume/higher-price products that were shipped on a less frequent schedule.
- American wine accounted for 11.6 percent of Korea’s total wine imports in terms of value in 2014, up 0.1 percent point from 2013. It is notable that American wine maintained a balanced market share in both red and white wine category, whereas many of competitors’ market shares were skewed either toward white or red. However, American wine lagged behind competitors in sparkling wine category which was the fastest growing category in the market.

Figure 8: American Wine’s Market Share by Category (in Value)



Source: Korea Trade Information Service Database (KOTIS)

- Strong growth of wine sales in large-scale hypermarket stores coupled with the effect of the KORUS FTA was the key driving force behind the solid import growth of American wine in recent years. Hypermarket stores are the leading retail channel for value-oriented product segments where American wine has competitive edge. In addition, off-premise distribution channel including hypermarkets has seen its share of the wine sales in the market grow significantly under the extended economic slowdown since 2009.
- American wine has established a strong presence in entry product segment of the market (products retailing below KRW 10,000 a bottle, roughly \$10 / export FOB price around \$20 per 9 liter case) mainly due to aggressive marketing efforts by large-scale American suppliers. Roughly speaking, one every two bottles of American wine currently imported to Korea is entry segment product. In addition, Concord grape based "Kosher" red wine has also developed a significant demand in this segment as novice local wine consumers found the sweet, grapy taste familiar and easy to enjoy.
- Luxury product segment that targets products retailing above KRW 100,000 (roughly \$100) a bottle is another area in which American products have enjoyed solid success over the years. Many affluent Korean wine consumers are well traveled and are aware of many established high-end American wine brands particularly from Napa valley. Products targeting this segment of the market are marketed as luxury goods, often available exclusively in selected retail outlets such as luxury bars and premium department stores. However, the number of bottles allocated to the Korean market by most of the high-end American suppliers is very limited.
- On the other hand, American products that target value, mid-class, and premium segment of the market (products retailing between KRW 10,000 to 100,000 a bottle, roughly \$10 - \$100) are facing tough competition from both old and new world competitors. These are the segments that hold the key for building brand-loyal consumers and long-term financial success for the wine trade. Unfortunately, American wine has not been successful in retaining those consumers who started their early wine experience with entry segment American wine and later traded up to higher quality products. Many of these trade-up consumers have found their ways to Chilean, Italian and French wine for wider selections, better value or stronger brand/origin recognition. In addition, competitors have outsold American wine in the gift-set market, which constitutes a significant portion of the yearly sales of products in these segments, based on their aggressive promotional supports to local retailers. Marketers also point out that local wine consumers in general show higher price resistance to American wine in these segments than to competitors' products because many of them have traveled to the United States and are aware of the going retail price of these wines in the United States.

### **3. LOCAL WINE PRODUCTION**

- Grape wine production in Korea is expected to remain small as it lacks competitiveness in price

and quality against imported products. High cost of land and labor, coupled with unfavorable weather condition, is the major obstacle that restricts development of large-scale wine industry in Korea. Currently, there is no *Vitis. vinifera* vine commercially cultivated in Korea. Most of the local wines are either souvenir wines made in small quantity or blends between local table grape wine and imported bulk wine.

- Instead of maintaining local vineyards, major Korean liquor companies have switched to either co-bottling in foreign wineries or importing bulk wine for local blending/bottling. Lotte Chilsung ([www.wine.co.kr](http://www.wine.co.kr)), Hite-Jinro ([www.terrior.co.kr](http://www.terrior.co.kr)) and Gooksoondang L&B ([www.ksdlb.com](http://www.ksdlb.com)) are the major players that currently operate local bottling and/or co-bottling in foreign wineries. A total of 4.4 million liters of bulk-packaged wines (products shipped in two liter or larger size containers) were imported in 2014, most of which were for local blending/bottling use. It is notable that a large portion of imported bulk white wine has been used for blending 'Japanese apricot wine' and other types of local fruit wine.
- There are some fruit wines produced in Korea from locally grown fruits, including Japanese apricot, Korean pear, persimmon and *Bok-boon-ja* (local berry fruit similar in appearance to raspberry). Local fruit wines in general have a sweet taste and easy drinking character (many of them are added with sugar and alcohol). The production of *Bok-boon-ja* wine has been on a rapid increase partly due to active regulatory and financial support by the local government. However, these local fruit wines present little competition to imported wine. Rather they are likely to help the general public develop a taste for higher quality table wine.

#### 4. ALCOHOL BEVERAGE MARKET

- Korea is one of the leading markets in the world for alcohol beverages. Drinking is considered an important part of social life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, the market is gaining new drinkers from the young and female population.
- The cash register sales of alcohol beverage products in Korea totaled KRW 10.2 trillion (about \$9.3 billion) in 2013, up 6 percent from the previous year. Beer and soju (traditional Korean hard liquor) together accounted for a 76 percent of the alcohol beverage market sales in terms of value (84 percent in terms of volume). Imported (grape) wine accounted for a 4.6 percent of the alcohol beverage market sales.

Table 3: Cash Register Sales of Alcohol Beverage Products in Korea (2013, Billion Won)

Product Category	Local Products	Imported Products	Sub-Total
Beer	4,301	380	4,681
Soju	3,127	3	3,130
Distilled Spirits	88	880	968
Rice Wine	589	51	640
Fruit Wine*	126*	470	596

Others	102	133	235
Total	8,332	1,917	10,249

Source: Korea Alcohol Beverage Industry Association, Korea Wine & Spirits Importers Association

\*Note: Local products under Fruit Wine category includes all wine made from fruits. Imported fruit wine refers to grape wine only.

Table 4: Volume Sales of Alcohol Beverage Products in Korea (2013, Million Liter)

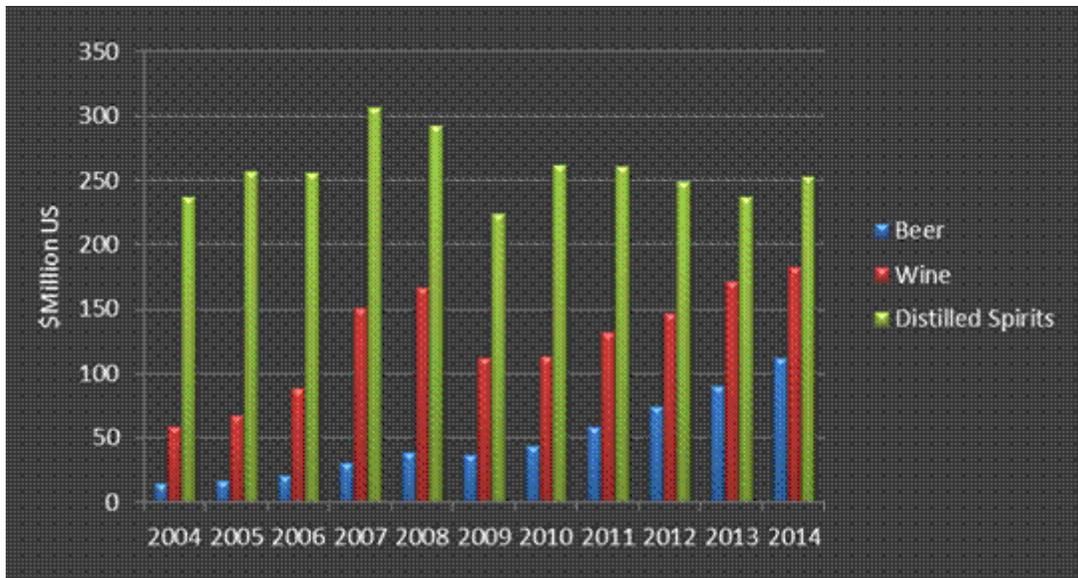
Product Category	Local Products	Imported Products	Sub-Total
Beer	2,062	95	2,157
Soju	907	0	907
Distilled Spirits	6	22	28
Rice Wine	445	4	449
Fruit Wine*	18*	33	51
Others	17	14	31
Total	3,455	169	3,624

Source: Korea Alcohol Beverage Industry Association, Korea Wine & Spirits Importers Association

\*Note: Local products under Fruit Wine category includes all wine made from fruits. Imported fruit wine refers to grape wine only.

- Increased health concerns among the general public is increasing the demand for products with less alcohol content such as wine and beer. Soju (distilled-diluted spirit made from sweet potato/tapioca/rice/other starch ingredients) has shown a steady performance in recent years mainly backed by continued launchings of new products that contained less alcohol.
- While local products dominate the market for beer and soju, imported products continue to lead the market for distilled spirits and fruit wine. While imports of distilled spirits are stagnating mainly due to increased health concerns, Korean consumers' strong demand for diversified taste is likely to generate additional imports for wine, beer and sake (rice wine) in the coming years.

Figure 9: Korea's Alcohol Beverage Imports



Source: Korea Trade Information Service Database (Beer HS2203; Wine HS2204; Distilled Spirits HS2208)

## 5. DISTRIBUTION CHANNEL

### 5-1. OFF-PREMISE MARKET

- While no official statistics are available from the Korean government, industry sources indicate that off-premise channel currently accounts for over 70 percent of the total wine sales in Korea. In particular, large-scale retail stores represented by hypermarkets and warehouse discount stores are likely to remain the dominant retail channel for wine in the coming years.
- Large-scale retail stores in general have designated wine sections that offer a large selection of wines to everyday shoppers. For example, a typical hypermarket store carries about 200 different varieties of wine, most of which are entry through mid-class segment products under KRW 60,000. Leading retail companies are putting efforts to expand their “private label brand” wine program for better control of the price and higher customer loyalty. For example, “G7” wine brand by Shinsegae Emart (the leading hypermarket store chain in Korea) has now become the bestselling wine in the chain. At the same time, large-scale retail companies are trying to expand direct purchases from foreign wineries (through their subsidiary/partner wine importing companies). As a result, independent wine importers are pressured to realign their product portfolio and target market to avoid direct competition against the retail companies.
- There are many stand-alone liquor/wine shops, either independent or under franchise chain operation, in metropolitan areas. Some of these wine-oriented liquor stores, in particular those operated directly by leading wine importers offer the most extensive selections of wine targeting serious wine consumers. The majority of sales in these liquor/wine shops is from mid-class through premium segment products retailing at KRW 30,000 up to KRW 100,000. Convenience stores are another emerging player in the market. Although each outlet currently carries a limited number of products (about a dozen), convenience stores now offer

the most extensive retail network in Korea as the total number of outlets across the nation is fast increasing (reached 26,000 stores at the end of 2014). Currently, there is no zoning regulation in Korea that restricts the number and location of alcohol beverage retailers in a given area, which is partly responsible for the high number of alcohol beverage retailers in the market.

- Currently, sales of alcohol beverage products through on-line channel, including Internet, postal mail, and TV home-shopping, are prohibited in Korea (the only exception is officially recognized Korean traditional alcohol beverage products from small volume suppliers).
- Wine sales through the off-premise retail channel peak during the following local holiday seasons: Korean Thanksgiving Day ("*Chu-Sok*", late September), Christmas, New Year's Day, Lunar New Year's Day (early February), Valentine's Day (mid-February), and Parents' Day (mid-May). Wines are increasingly replacing traditionally popular gift sets of whiskey or other hard liquors. Products in the mid and high-price segment constitute the largest portion of the gift wine sales.

## **5-2. ON-PREMISE MARKET**

- On-premise channel (restaurants and bars) currently accounts for about 30 percent of the total wine sales in Korea. Large-scale food service companies, such as franchise restaurant chains and five-star hotels, generally buy wine directly from importers while wholesalers bridge importers and smaller-scale restaurants and bars. Local laws prohibit restaurants and bars from procuring alcohol beverages from retail stores. Although restaurants and bars currently face weaker wine sales under the sluggish economy, it is notable that the number of restaurants and bars that serve wine is on a steady rise, reflecting increased popularity of wine among the general consumers. The quality and variety of wine offered by restaurants vary widely depending on the food and target consumers of the restaurant. Dedicated wine bars and Western restaurants in five-star hotels would carry the most extensive wine selections in the sector, most of which are mid-class through premium segment products. In general, restaurants and bars add much higher mark-ups on wine than off-premise retail stores. Many wines are available exclusively in restaurants and bars as the importers do not want consumers to develop price resistance to the products by making them also available in retail stores at lower prices.

## **6. MARKET ENTRY STRATEGY**

- Mainly due to the on-going economic downturn, Korean wine importers in general currently maintain a very conservative stance when it comes to launching new wine. The importers may not react to new product offers from foreign suppliers unless the product in question indicates strong market potential particularly in terms of international acclaims (awards, critics' favorable evaluations, etc.) earned by the wine; value-quality proposition in comparison to leading products in the target segment; and promotional supports offered by the supplier.

- Korean traders highly value face-to-face contacts when developing business relationship with new foreign suppliers. Personal visits to Korea allow new-to-market suppliers to gain contacts with Korean importers as well as hands-on knowledge about local market trends. Contact information of Korean wine importers is available from ATO Seoul upon request. Facility and equipment of ATO Seoul, including meeting rooms, wine glasses and a small kitchen are also available to new-to-market suppliers.
- Wine trade shows are an efficient venue for new-to-market American wine suppliers to develop contacts with a large number of Korean wine buyers. Many established Korean importers and distributors attend key wine trade shows around the world, including Vinexpo, Vinitaly, ProWine. Below food and wine trade shows in Korea could also be considered:
  - 1) Seoul Food & Hotel ([www.seoulfoodnhotel.co.kr](http://www.seoulfoodnhotel.co.kr)) is the most important food trade show held annually in Korea. This is the only show in Korea that is officially endorsed and sponsored by USDA/FAS. The schedule of up-coming show in 2016 is May 10-13. For registration information, please contact the American Pavilion organizer, Oak Overseas ([rhood@oakoverseas.com](mailto:rhood@oakoverseas.com)).
  - 2) The Seoul International Wines & Spirits Expo ([www.swsexpo.com](http://www.swsexpo.com)) is an important annual event dedicated to wine and alcohol beverage products. The show opens around late April each year.
- Various regional wine organizations in the United States offer export assistant programs to their member suppliers, including trade delegations to key foreign markets and invitation of foreign buyers to local wine events. New-to-market suppliers are recommended to contact affiliated organizations for more information about available supports.
  - 1) California Wine Institute:  
 Phone: 415-512-0151  
 Fax: 415-356-7569  
 Internet Home-page: [www.wineinstitute.org](http://www.wineinstitute.org)
  - 2) Napa Valley Vintners Association:  
 Phone: 707-968-4213  
 Fax: 707-963-3488  
 Internet Home-page: [www.napavintners.com](http://www.napavintners.com)
  - 3) Washington State Wine Commission:  
 Phone: 206-667-9463  
 Fax: 206-583-0573  
 E-mail: [info@washingtonwine.org](mailto:info@washingtonwine.org)  
 Internet Home-page: [www.washingtonwine.org](http://www.washingtonwine.org)
  - 4) Oregon State Wine Board:  
 Phone: 503-228-8336  
 Fax: 503-228-8337  
 E-mail: [info@oregonwine.org](mailto:info@oregonwine.org)

### SECTION III: COST & PRICING

A combined effect of import duty, local taxes, logistics costs and distributor mark-ups makes retail price of an imported wine in Korea several times higher than in the export country.

#### 1. DUTIES, TAXES, MARK-UPS

- Korea applies a complicated duty and tax system to imported alcohol beverages. The table below summarizes import duties and local taxes applied to American alcohol beverage products as of 2015.

Table 5: Import Duties and Taxes on Alcohol Beverages in Korea

Product	Import Duty	Liquor Tax	Education Tax
Fruit Wine	0%	30%	10%
Beer	12.8%*	72%	30%
Bourbon Whiskey	0%	72%	30%

\*Note: The 30 percent base import duty on American beer is phased out over seven years under KORUS FTA. As a result, American beer shall enter Korea duty free on January 1, 2018.

- The following table illustrates the effects of import duty, taxes and distributor mark-ups on a bottle of \$10 (CIF value) American wine imported into Korea:

Table 6: Effects of Import Duties, Taxes and Mark-ups on American Wine

A	CIF* Invoice Value	\$10.00
B	Import Duty: A x 0%	\$0.00
C	Liquor Tax: (A+B) x 30%	\$3.00
D	Education Tax: C x 10%	\$0.30
E	Subtotal: (A+B+C+D)	\$13.30
F	Value Added Tax **: E x 10%	\$1.33
G	Handling fees for customs clearance ***: A x 8%	\$0.80
H	Total cost of wine upon customs clearance: (E+F+G)	\$15.43
I	Typical Importer Mark-ups ****:	
	1. Importer's selling price to large-scale retail store (hypermarket): (mark-up 15-40%)	\$16.22- 19.74
	2. Importer's selling price to wholesaler: (mark-up 15-20%)	\$16.22- 16.92
	3. Importer's selling price to luxury hotel: (mark-up 40-50%)	\$19.74- 21.15

J	2. Wholesaler's selling price to liquor store: (mark-up 15-30%)	\$18.65- 22.00
K	1. Hypermarket store's retail price: (mark-up 20-30%)	\$19.46- 25.66
	2. Liquor store's retail price: (mark-up 30-40%)	\$24.24- 30.79
	3. Luxury hotel restaurant's selling price: (mark-up 50-200%)	\$29.61- 63.45

\* CIF is an export price inclusive of insurance and freight cost.

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

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

\*\*\*\*Each mark-up calculation is based on \$14.10, the cost of wine upon customs clearance (H: \$15.43) minus the value added tax (F: \$1.33).

- Thus, a bottle of \$10 imported American wine typically retails for about \$19 to \$26 in hypermarket stores; \$24 to \$31 in independent liquor stores; and \$30 to \$63 in luxury hotel restaurants in Korea. The amount of mark-up added by the distributors largely depends on the volume of transaction. Products transacted in a large-volume would be added with minimum mark-ups. Because price discount has been the key sales tactic used by the distributors, mark-ups planned by the distributors usually incorporate eventual discounts offered upon sales. As a result, actual profits that distributors earn from sales could be much lower than what is shown on the table above.

## 2. CURRENCY EXCHANGE RATE

- Retail price of imported wine in Korea is directly affected by shift of exchange rates. The value of U.S. dollar has been on a significant increase since early 2014 whereas competitors' currency, euro in particular, has been on a down turn. As a result, American wine's price competitiveness in Korea is being challenged.

Figure 10: Shifts of Exchange Rate of U.S. Dollar, Euro, Australian dollar against Korean Won



Source: Korea Exchange Bank

## SECTION IV: MARKET ACCESS

### 1. LICENSES

- By law, only licensed liquor importers are allowed to import alcohol beverages, including wine. There is no ceiling on the number of licenses issued, so any qualified candidate can obtain a liquor import license. Currently there are over 500 licensed liquor importers, but marketers estimate that about 50 of them currently maintain an active business. Moreover, a dozen leading importers account for over 70 percent of total imports. Importers are allowed to sell directly to wholesalers, retailers (restaurants and liquor stores), and individual consumers (through the importer's own wine shops only). However, importers are not allowed to purchase from other importers or from wholesalers. A few of the leading importers operate wholesale business and retail wine shops under separate wholesale and retail licenses, a tactic to maintain greater control of the distribution channel.

### 2. LABELING

- Korean law requires a separate Korean language label on imported wine. In most cases, the Korean language label (sticker) is attached to the back of the bottle manually by the importer in the duty-free warehouse before customs clearance. The Korean language label should contain the following information:
  - 1) Product Name (e.g., Robert Mondavi Cabernet Sauvignon)
  - 2) Country of origin (e.g., U.S.A)
  - 3) Product Type (e.g., Grape Wine)
  - 4) Importer's name, address, and phone number
  - 5) Date of bottling (e.g., Year-Month-Day or Julian Code)
  - 6) Alcohol percentage and product volume (e.g., 13.5%, 750 ml)
  - 7) Name of major ingredients (e.g., Grape)
  - 8) Name of place where the product can be returned or exchanged in case the product has any defect.
  - 9) Instructions for proper storage
  - 10) Name of food additives used (e.g., Sulfur Dioxide)
  - 11) Mandatory health warning clause
  - 12) Mandatory warning clause against liquor sales to minors.
  - 13) Name of designated distribution channel (only required on bottles sold in retail stores. Bottles sold in retail stores should be marked "For Home Use".)
- Fruit images or photos are not allowed on the label of food and beverage products, including wine, if the product contains synthetic flavors only.
- American origin wine with USDA organic certification is allowed to be labeled and marketed as

organic wine in Korea based on the United States-Korea Organic Equivalency Agreement implemented in 2014.

### 3. INSPECTIONS & FOOD SAFETY STANDARDS

- Imported foods and beverages, including alcohol beverages, are subject to food safety inspections. There are two kinds of inspections: detailed inspection (chemical analysis) and visual inspection (document inspection).
- The first commercial shipment of new-to-market wine is mandated to a detailed inspection, which under Korean laws should take no longer than 10 working days (in case of incubation test, up to 14 working days). However, importers claim that in practice it could take longer. For detailed inspection, importers are required to submit one sample bottle of each wine to the inspection authority along with detailed product information such as major ingredient list and processing flow chart. Once detailed inspection on the first shipment confirms no potential health concerns, subsequent shipments of the same product will be subject to visual (document) inspections. Visual inspection should take no longer than 3 working days provided that the product in the subsequent shipment is identical to the product in the first shipment with respect to label, product name, ingredients and net volume (vintage change is not recognized as a reason for requiring detailed inspection). However, local authority maintains a policy to require detailed inspections randomly on a significant portion of subsequent shipments of identical products. For more information about Korean regulations and standards on imported agricultural products, please refer to [FAIRS Country Report \(Food and Agricultural Import Regulations and Standards\)](#) published by the Agricultural Affairs Office of the U.S. Embassy Seoul (available in [www.fas.usda.gov](http://www.fas.usda.gov) under Attaché Report section).
- The cost of mandatory lab analysis for detailed inspection has been on a steep increase over the last few years. At the moment, each detailed inspection costs the importer about \$300 of fee.
- Korean labeling regulations for alcohol percentage allows for a +/- 0.5 percent point margin of error for the difference between the labeled and actual alcohol content. For example, a wine labeled as 12 percent alcohol must be measured within 11.5 percent to 12.5 percent range.
- Several shipments of wine have reportedly failed the import inspection in recent years as the Korean lab analysis found presence of sorbic acid in the wine while sorbic acid was not listed as an additive used on the product label. Korean authority uses HPLC method for testing sorbic acid. HPLC has a 1.5 ppm detection limit, which is far more sensitive than other methods used by most wineries around the world. American suppliers should take extra caution not to declare 'not detected' claim for sorbic acid (thus not listing it on the label) based on the result of its less sensitive analysis method.
- Korean government is paying more attention to food safety issues for imported food. When a new food safety issue associated with specific additive or ingredient arises, local authority may

enforce additional safety standards and tests on imported wine. For example, test for Melamine was temporarily added to detailed inspection for imported wine from March 2009 until June 2011 due to a food safety scandal involving Melamine. Tests for Ochratoxin A and lead have been newly added to detailed inspection for imported wine since July 2010. Other ingredients that Korean authority currently considers adding tests or strengthening safety standards for imported wine include Ethyl carbamate and Cyclamate. Consumer groups have also been questioning the safety of Sulfur dioxide in wine.

- Below table summarizes key food safety and additive standards currently applied to fruit wine in Korea:

Table 7: Korean Food Safety & Additive Standards on Wine

Key Issue		Standards
1	Methanol	Less than 1.0 mg/ml
2	Food Preservatives	Preservatives other than those specified below should not be detected in fruit wine. (1) Sorbic acid (Potassium Sorbate): Less than 0.2 g/liter (2) Sulfur dioxide: Less than 0.35g/kg
3	Ochratoxin A	Less than 2ug/kg
4	Melamine	Less than 2.5 mg/kg
5	Lead	Less than 0.2mg/kg
6	Food Additives that can be added to fruit wine	(1) Sweeteners: Sugar, Glucose, Fructose, Wheat-gluten, Molasses syrup, Maple syrup, Oligo sugar, Honey, Aspartame, Sorbitol, Stebioside, Sorbitol, Sucralose, Acelsulfame potassium, Erythritol, Xylitol (2) Acids: Lactic acid, Succinic acid, Acetic acid, Fumalic acid, Gluconic acid, Tartaric acid, Citric acid, Malic acid, Tannic acid (3) Seasonings: Amino acids, Glycerin, Dextrin, Hop, Minerals (4) Flavorings: Ester compounds, Aldehyde compounds, Fusel compounds (5) Colorants: Compounds allowed by the food safety law
7	Total Heavy Metals	Below 10 mg/Kg
8	Food poisoning pathogens	Should not be detected: <i>Salmonella spp.</i> , <i>Staphylococcus aureus</i> , <i>Vibrio paraphaemolyticus</i> , <i>Clostridium perfringens</i> , <i>Listeria monocytogenes</i> , <i>Escherichia coli O157:H7</i>

## SECTION V: KEY 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 6951-6848 Fax: +82-2 720-7921  
E-mail: atoseoul@fas.usda.gov  
Internet homepage: www.atoseoul.com

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)  
Korean Address: U.S. Embassy, 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. STATE REGIONAL TRADE GROUPS (SRTG)**

For information about export assistant 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

**C. ADDITIONAL SOURCES OF INFORMATION & SUPPORTS**

(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: amchamsvp@amchamkorea.org  
 Homepage: www.amchamkorea.org

**APPENDIX: WINE IMPORT STATISTICS**

Table 8: South Korea’s Annual Wine Imports

Year	Value	Growth	Volume	Growth
1992	5,644	65.3%	2,109,570	68.9%
1993	5,855	3.7%	3,233,975	53.3%
1994	8,104	38.4%	4,225,764	30.7%
1995	13,633	68.2%	6,181,234	46.3%
1996	16,406	20.3%	5,852,665	-5.3%
1997	22,809	39.0%	9,390,449	60.4%
1998	6,491	-71.5%	2,558,561	-72.8%
1999	15,122	133.0%	5,766,043	125.4%
2000	19,802	31.0%	8,052,562	39.7%
2001	23,109	16.7%	8,861,609	10.0%
2002	29,432	27.4%	11,522,387	30.0%
2003	45,783	55.6%	13,979,720	21.3%
2004	57,979	26.6%	15,897,748	13.7%

2005	67,654	16.7%	18,984,127	19.4%
2006	88,607	31.0%	22,194,500	16.9%
2007	150,364	69.7%	31,810,196	43.3%
2008	166,512	10.7%	28,795,281	-9.5%
2009	112,450	-32.5%	23,009,429	-20.1%
2010	112,888	0.4%	24,568,118	6.8%
2011	132,079	17.0%	26,003,973	5.8%
2012	147,260	11.5%	28,083,744	8.0%
2013	171,840	16.7%	32,557,220	15.9%
2014	182,179	6.0%	33,100,434	1.7%

Source: Korea Trade Information Service Database (KOTIS)

Unit: \$1,000 (Value), Liter (Volume)

Table 9. Korea's Wine Imports by Country and Category (Year 2012-2014)

Country	Category	2012		2013		2014	
		\$1,000	Liter	\$1,000	Liter	\$1,000	Liter
France	Red Bottle	32,515	3,160,913	37,120	3,761,451	37,012	3,469,084
	Red Bulk	125	3,292	45	1,316	7	630
	White Bottle	3,306	332,857	4,261	374,419	5,116	425,822
	White Bulk	35	1,651	25	935	2	67
	Sparkling	10,274	412,305	11,294	410,313	13,212	438,043
	Others Bottle	233	12,818	227	14,976	202	14,658
	Others Bulk	63	2,576	98	4,470	99	4,838
	Total	46,551	3,926,412	53,070	4,567,882	55,650	4,353,142
Chile	Red Bottle	27,667	5,806,811	32,626	6,543,085	34,165	7,230,394
	Red Bulk	354	224,126	798	462,914	500	318,239
	White Bottle	2,315	607,278	2,379	644,983	2,769	775,648
	White Bulk	-	15	533	360,015	272	288,004
	Sparkling	125	26,028	97	22,486	224	68,290
	Others Bottle	13	2,194	15	2,839	20	3,686
	Others Bulk	15	1,553	9	1,275	10	1,049
	Total	30,489	6,668,005	36,457	8,037,597	37,960	8,685,310
Italy	Red Bottle	11,473	1,717,043	14,363	1,962,330	15,000	1,927,305
	Red Bulk	348	154,398	306	135,688	307	138,198
	White Bottle	7,401	1,626,131	7,623	1,602,721	8,556	1,730,931
	White Bulk	315	153,154	187	83,991	138	59,374
	Sparkling	4,899	1,038,981	5,998	1,170,298	6,043	1,091,212
	Others Bottle	124	9,012	87	4,740	273	32,358
	Others Bulk	35	3,150	35	3,593	28	3,488
	Total	24,595	4,701,869	28,599	4,963,362	30,345	4,982,866
U.S.	Red Bottle	13,534	2,480,183	15,483	2,821,871	16,867	2,475,040
	Red Bulk	464	278,844	662	418,648	550	315,102
	White Bottle	2,326	439,212	2,664	461,004	2,690	388,132
	White Bulk	96	59,867	96	68,362	175	122,374
	Sparkling	335	55,042	409	89,187	468	90,579
	Others Bottle	229	26,316	244	22,134	296	26,632
	Others Bulk	190	7,598	133	3,743	161	5,230

	Total	17,174	3,347,062	19,691	3,884,949	21,207	3,423,093
Spain	Red Bottle	5,900	2,273,337	8,119	2,948,831	8,944	3,028,963
	Red Bulk	736	813,853	832	749,492	748	864,587
	White Bottle	1,052	760,971	1,151	716,180	1,070	540,632
	White Bulk	1,389	1,748,359	2,516	2,337,243	1,644	2,123,813
	Sparkling	785	234,085	969	250,880	1,245	289,948
	Others Bottle	93	24,891	106	21,012	94	18,513
	Others Bulk	11	1,341	16	2,137	20	2,321
	Total	9,967	5,856,837	13,709	7,025,775	13,806	6,887,350
Australia	Red Bottle	6,086	950,786	5,966	868,680	6,085	946,407
	Red Bulk	23	2,070	15	2,379	10	3,211
	White Bottle	1,635	287,005	1,044	153,371	1,198	229,867
	White Bulk	37	2,506	-	2	-	-
	Sparkling	415	66,557	249	38,564	524	99,763
	Others Bottle	60	7,538	39	5,885	33	4,765
	Others Bulk	13	884	12	1,045	30	2,831
	Total	8,269	1,317,346	7,325	1,069,926	7,880	1,286,844
Argentina	Red Bottle	2,412	414,091	2,933	515,433	3,340	607,400
	Red Bulk	-	45	1	21	-	5
	White Bottle	148	29,498	237	66,761	265	71,214
	White Bulk	14	23,784	44	47,610	17	23,789
	Sparkling	20	3,600	14	3,331	25	4,545
	Others Bottle	2	193	2	154	3	480
	Others Bulk	2	309	6	601	3	466
	Total	2,598	471,520	3,237	633,911	3,653	707,899
Germany	Red Bottle	820	236,618	895	264,965	706	206,965
	Red Bulk	-	19	-	-	1	36
	White Bottle	1,830	326,188	1,573	214,544	2,115	303,895
	White Bulk	2	257	-	-	2	405
	Sparkling	252	52,389	248	52,370	245	53,569
	Others Bottle	12	1,086	7	1,536	79	5,588
	Others Bulk	5	440	4	371	15	697
	Total	2,921	616,997	2,727	533,786	3,163	571,155
New Zealand	Red Bottle	279	27,610	406	44,213	286	30,560
	Red Bulk	14	968	-	18	-	4
	White Bottle	1,117	124,580	1,106	120,996	1,588	167,219
	White Bulk	25	2,439	-	-	-	13
	Sparkling	12	1,355	6	722	26	2,888
	Others Bottle	4	249	4	350	3	308
	Others Bulk	3	302	3	388	6	435
	Total	1,454	157,503	1,525	166,687	1,909	201,427
Others	Red Bottle	955	237,514	1,658	410,636	2,119	505,144
	Red Bulk	47	20,218	37	15,986	114	72,357
	White Bottle	595	70,777	1,190	218,945	1,041	99,074
	White Bulk	4	4,337	14	11,828	32	19,783
	Sparkling	1,427	659,811	2,073	963,173	2,761	1,272,037
	Others Bottle	117	5,566	345	39,407	352	18,229
	Others Bulk	97	21,970	115	2,703	170	8,695

	Total	3,242	1,020,193	5,500	1,673,345	6,606	2,001,348
Grand Total	Red Bottle	101,641	17,304,906	119,569	20,141,495	124,524	20,427,262
	Red Bulk	2,111	1,497,833	2,696	1,786,462	2,237	1,712,369
	White Bottle	21,725	4,604,497	23,228	4,573,924	26,408	4,732,434
	White Bulk	1,917	1,996,369	3,415	2,909,986	2,282	2,637,622
	Sparkling	18,544	2,550,153	21,357	3,001,324	24,773	3,410,874
	Others Bottle	887	89,863	1,076	113,033	1,355	125,217
	Others Bulk	434	40,123	431	20,326	542	30,050
	Total	147,260	28,083,744	171,840	32,557,220	182,179	33,100,434

Source: Korea Trade Information Service Database (KOTIS)

Unit: \$1,000 (Value), Liter (Volume)