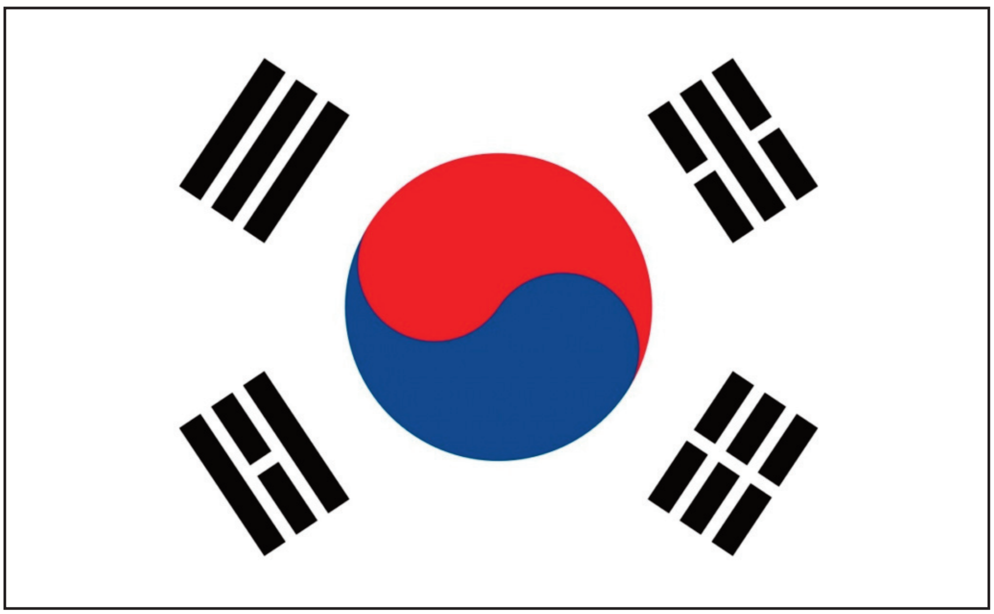
GO TO MARKET REPORT: South Korea



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Overview:

The Republic of Korea (formerly South Korea) imports approximately 60 to 70 percent of its food and agricultural products, and is one of the least self-sufficient countries for grain production. Between 2010 and 2015, total spending on food is expected to increase over 20 percent.

With over 50 percent of the population concentrated within a 60 mile radius of the capital city of Seoul, that region accounts for over 70 percent of the retail spending in the country. Despite the limited volume of domestic agriculture, Koreans favor locally grown and manufactured foods and are willing to pay a premium for domestic goods. A wide variety of agricultural products are grown or processed locally, including rice, fresh and processed vegetables, fruits, seafood and meats, eggs, dairy products, noodles, sauces, oils, grain flour, beverages, snacks, confections, and liquor. Unlike other sectors of the Korean economy, there is not a focus on exporting in Korean agriculture, and, in general, government policies favor domestic agriculture.

The organic food market is anticipated to grow to $6 billion by 2020, after an average growth rate of 50 percent from 2006—2011. In 2011, organic food represented 10 percent of the total agricultural products market in Korea. Within the organic category, organic packaged food grew by 9 percent in 2012 to reach approximately US$113.9 million. Meanwhile, organic beverage sales grew 4 percent to approximately US$4.2 million, with green tea a 64 percent share of the organic beverage market. The market for organic milk, yogurt, cheese and other dairy products, with demand currently exceeding supply, is expected to be $418.6 million by 2017, and will have a compounded annual growth rate of 9.1 percent. Sales of baby food, confectionery and bread are also increasing.

Regulatory status

The new Act on the Management and Support for the Promotion of Eco-Friendly Agriculture/Fisheries and Organic Foods consolidates Korea's organic regulations, and is sometimes referred to as the New Organic Regulations. Certification by a MAFRA-approved certifier is required. In December 2013, the Korean Ministry of Agriculture, Food and Rural Affairs (MAFRA) announced a six-month Education Period to allow business to adapt and transition to the new regulations, which were implemented January 1, 2014. The six-month period will allow U.S. and Korean negotiators to conduct peer review audits and begin equivalency negotiations.

Commonly imported products

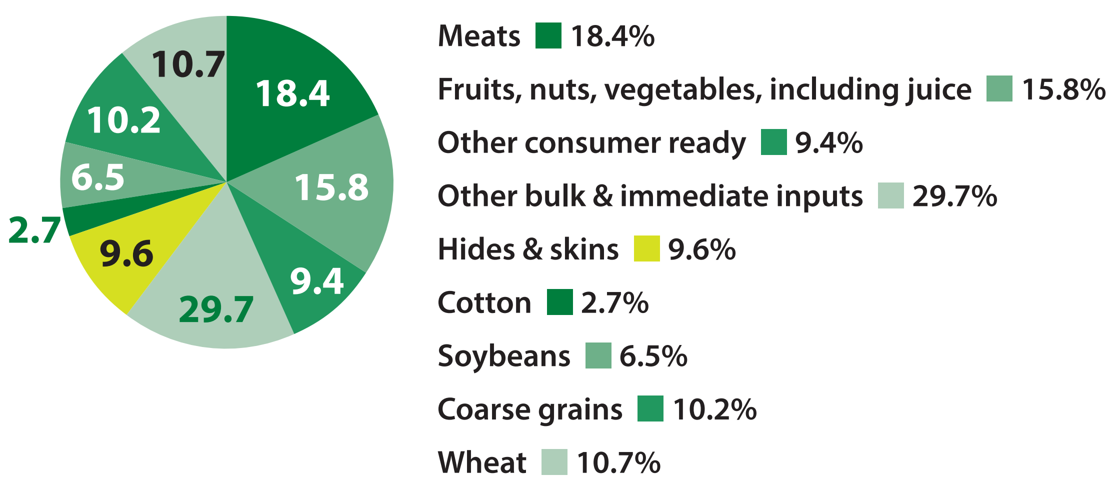
Korea imported about $25 billion in agricultural goods in 2012, 4.8 percent of all its imports. The United States is the chief exporter to Korea, supplying $6.04 billion of U. S. agricultural exports in 2012, making Korea the fifth-largest U.S. foreign market. Imports of consumer-ready foods from the United States totaled $2.8 billion in 2012.

Non-organic: Free trade agreements from 2011 and 2012 have reduced tariffs on agricultural imports. As a result, tariffs will be phased out on U.S. pork products by 2021, U.S. chicken products by 2023, and U.S. beef products by 2026. Agricultural products used in clothing manufacturing, such as cotton and hides, and wheat, coarse grains, and soybeans are common imports, and these products face fewer trade barriers. Imported grains are used both for livestock feed and human food.

Because Korea produces an abundance of vegetables and fruits, particularly apples, pears, persimmons, and peaches during the same time of year as the United States, import opportunities for produce will be most favorable for citrus fruits, nuts, and certain other fruits and vegetables. Nevertheless, Korean imports of fresh fruits and vegetables and nuts from the United States were up 44 percent in 2012 to $650 million. Oranges, grapefruit, lemons, grapes, sweet cherries, and kiwifruit are the leading fruits from the U.S., and raisins are the top dried fruit exported from the U.S. Almonds represent over half of U.S. nut exports to Korea, followed by walnuts.

For processed foods, leading U.S. imports include prepared foods and sauces, chocolate products, juices, pet food, frozen french fries, and canned sweet corn. Brazil is the leading supplier of orange juice, but U.S. suppliers provide one-third of total juice imports.

U.S. AGRICULTURAL EXPORTS TO SOUTH KOREA BY PERCENT OF TOTAL VALUE, 2012



Source: USDA data

Organic: Technical barriers limit imports of fresh organic produce, which must be certified by Korea's accredited certifying agents. Fresh fruits and vegetables also risk fumigation with materials prohibited for use on organic products as part of the plant quarantine inspection process. Demand for organic processed foods is increasing, however.

Market Sector Overviews

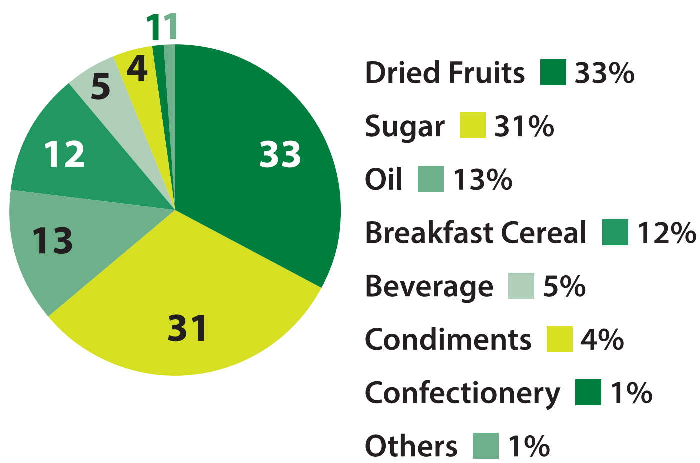
Food Retail: The Korean food retail sector encompasses a wide variety of channels, including hypermarkets, grocery supermarkets, online retailers, convenience stores, department stores, specialty stores, street markets and small family-owned shops. Top retailers are integrated across nearly all retail channels by selling via supermarkets, online stores, department stores, convenience stores and other channels.

In 2012, sales of food products in the retail sector were up 5 percent overall from 2011 and valued at approximately US$66.2 billion, or about 23 percent of Korea's overall retail sales. Although imports of consumer-oriented foods from the United States were up 1 percent to $2.8 billion in 2012, total imports of consumer-oriented foods in 2012 declined 2.9 percent from the previous year to $9.0 billion.

Large discount chain stores are the most popular place to get organic products. About a quarter of organic products are sold through National Agriculture Cooperatives Federation Hanaro Mart and clubs. Organic specialty stores, such as Orga Stores, which are a subsidiary brand of the major Korean food conglomerate Pulmuone, have about 11 percent of the organic market. Buying directly from producers is not common, although the increasing popularity of online sales may better enable direct sales.

WHERE ORGANIC PRODUCTS ARE SOLD

BEST SELLING ORGANIC ITEMS IN 2011



In 2011, the best selling organic items at retail were dried fruits and sugar, together accounting for nearly two-thirds of the organic market.

Supermarkets are the leading channel for retail food sales, with approximately US$21.1 billion (W22.4 trillion) in sales in 2012, followed by hypermarkets.

ESTIMATED TOTAL SALES OF FOOD PRODUCTS BY RETAIL CHANNEL

Year 2012	Share of Food Products in Total Sales*	Total Food Sales (Estimates)
Grocery Supermarkets	84.50%	$21.1 billion
Hypermarkets	51.00%	$18.9 billion
Convenience Stores	51.40%	$4.9 billion
Online Retailers	9.20%	$3.2 billion
Department Stores	10.10%	$2.7 billion
Others	10.30%	$16.4 billion
Total		$66.4 billion

*Note: Share figures were based on 2011 information from the Korea Chain Store Association

W1= $0.00094

KOREAN COMPARISON OF AVERAGE STORE BY CHANNEL 2011				
Store type	**Hypermarket**	**Super Supermarket**	**Convenience Store**	**Department Store**
Store size, in square meters	18,929	775	75	22,745
Parking capacity	652	49		1,493
Inventory size in SKUs	56,536	27,673	4000	220000 (2005)
Daily sales, in US$	199,916	15,088	1,415	
Daily customers	5,079	1,114	385	6,000–170,000
Per customer purchase total	$39.17	$13.43	$3.70	$40.42–54.52
Percent of total sales that comes from food and agriculture			10.7	
Fresh Agricultural products	12.2	22.2		
Livestock Products	6.4	11.6		
Seafood	4	7.2		
Processed foods		23.6	40.8	18.5 (incl. beverages)
Prepared foods	9.2	2.9		
Liquors			7.7	
Snacks			6.9	
Fresh and chilled foods		13		
Fast food			6	
Tobacco			40.4	

Based on charts in USDA's Republic of Korea Retail Foods Retail Food Sector Biennial Report
W1= $0.00094

Supermarkets: Supermarket sales are expected to slow, since the social movement to protect small businesses is also limiting the growth of grocery store chains that are part of large-scale retailers (Super Supermarkets). These retailers target residential areas without space for larger hypermarkets. Within the supermarket channel, independently owned small to medium sized stores account for over 70 percent of total supermarket sales, which were approximately US$24.9 billion in 2012.

Supermarket trends include offering more Home Meal Replacement products, fresh products, portion-packaged products, private brand products, promoting via online coupons and membership programs, adding outlets such as pharmacy, laundry, and post offices to improve customer service, and developing online shopping.

LEADING SUPERMARKET CHAINS, 2011

Company Name	Store Name	Annual Sales	Total Stores
Lotte Shopping Co.	Lotte Super	$1.5 billion	350
GS Retail Co., Ltd.	GS Supermarket	$1.3 billion	230
Seowon Utong Co., Ltd.	Top-Mart	$1.0 billion	76
Homeplus Co., Ltd.	Home Plus Express	$905 million	315
Everyday Retail Co., Ltd.	E Mart Metro; E Mart Everyday	$245 million	78
CS Utong Co., Ltd.	Goodmorning Mart	$274 million	34

From: GAIN Retail Food Sector Biennial Report
W1 = $0.00094

Hypermarkets: Although Korea's 455 hypermarkets had 12.1 percent of the overall retail sector in 2012, this channel is not expected to grow, as there is limited room in the market for additional stores and there is a movement to protect small businesses by limiting hypermarket store openings and hours.

LEADING HYPERMARKET CHAINS IN KOREA, 2011

Company	Country of origin	Store Name Ownership	Annual Sales	Total Stores	New Store
EMART Company, Ltd.	Korea	E Mart	$13.2 billion	138	5
Homeplus Co., Ltd.	U.K.	Home Plus	$11.1 billion	125	4
Lotte Shopping Co.	Korea	Lotte Mart	$4.6 billion	95	5
E. Land Retail	Korea	New Core	$2.26 billion	26	0
Costco Wholesale Korea	U.S.	COSTCO	$1.98 billion	7	0
KACM Inc.	Korea	Hanaro Club	$848 million	6	0
Mega Mart Co., Ltd.	Korea	Mega Mart	$660 million	7	0

From: GAIN Retail Food Sector Biennial Report
W1 = $0.00094

Organic foods are available at; E-Mart hypermarkets, Lotte Department stores, and Orga stores. Most Homeplus stores, E-marts and Lotte department stores carry products from Pulmuone and organic produce, usually in a special section.

Convenience stores: With over 24,500 convenience stores representing approximately US$10 billion in sales at the end of 2012, the channel is especially popular among urban office workers, young people with busy lifestyles, and the increasing number of one and two person households. Home meal replacements and private label products, as well as service offerings such as banking, photo processing, post offices, help drive repeat business, customer loyalty, and higher profits.

LEADING CONVENIENCE STORE CHAINS, 2009

Company Name	Store Name	Annual Sales	Total Stores
BGF Korea Co., Ltd.	CU	$2.45 billion	6,686
GS Retail Co., Ltd.	GS25	$2.45 billion	6,307
Korea Seven Co., Ltd.	Seven Eleven	$1.79 billion	4,740
Buy The Way, Inc.	Buy The Way	$794 million	1,555
Ministop Korea Co., Ltd.	Ministop	$649 million	1,775

From: GAIN Retail Food Sector Biennial Report
W1 = $0.00094

Department stores: From 2009 to 2012, department store sales grew 31 percent, resulting in total department store segment sales of approximately US$28.8 billion in 2012, up 5.4 percent from 2011. With an eye toward bolstering market position as luxury goods retailers, department stores have allocated more space to luxury brand and specialty products. Despite a decline in the share of department store's sales of food and agriculture products, department stores are likely to remain the leading retail channel for premium quality food products in the coming years. Organic foods are among the specialty products department stores might offer, along with nutritional supplements and specialty fruits. Department store grocery sections and food courts are generally run by individual food retail tenants who pay a part of monthly sales as rent; each tenant is responsible for its operations, including product supply

LEADING DEPARTMENT STORE CHAINS, 2011

Company Name	Store Name	Annual Sales	Total Stores
Lotte Shopping Co.	Lotte Department Store	$11.5 billion	34
Shinsegae Co.	Shinsegae Department Store	$5.09 billion	10
Hyundai Dept. Co., Ltd.	Hyundai Department Store	$1.3 bllion	13
E Land Retail Co., Ltd.	NC Department Store; Donga Department Store	$1.1 billion	14
Hanwha Galleria	Galleria Department Store	$1.2 billion	7

From: GAIN Retail Food Sector Biennial Report
W1 = $0.00094

Specialty: With growing demand for specialty food and agricultural products, specialty grocery retail franchises are spreading, especially in metropolitan markets. Organic and natural foods and health and beauty products are among the leading categories for these stores.

LEADING SPECIALTY GROCERY FRANCHISES, 2011

Company	Store Name	Sales (millions)	Products	Stores	Food Share
CJ Oliveyoung	Olive Young	$199.9	Health & Beauty	191	10.50%
Chorokmaeul Co., Ltd.	Chorok Maeul	$108.4	Organic & Natural Foods	258	Over 90%
GS Watsons Co., Ltd.	Watsons	$70.7	Health & Beauty	47	N/A
ORGA Whole Foods	ORGA	$70.7	Organic & Natural Foods	53	96.50%
Hansalim	Hansalim	$44.3	Organic & Natural Foods	129	Over 90%

From: GAIN Retail Food Sector Biennial Report
W1 = $0.00094

With 115 stores in 2012, iCoop, a cooperative of Korean farmers and producers, sells organic and local food at favorable prices. iCoop also encourages fair trade and has facilities to manufacture some organic products, such as noodles.

Online: Overall retail sales via the online retail channel were up 35.5 percent between 2009 and 2012. With 11.9 percent of the total retail market, online sales are the second largest retail sales channel in Korea. Although food sales are only a small part of overall online retailing (10.2 percent in 2011), those sales are expected to increase in coming years, as leading food retailers are making an increasing investment in online sales. Furthermore, sales through convenience stores and department stores are also expected to grow, as consumers continue to seek value, convenience and quality. Some retailers, such as E-Mart, with both online and brick-and-mortar locations offer a larger selection of products online ordering with in-store pick up, or free delivery for purchases over a specified amount.

MAJOR ONLINE RETAILERS, 2011

Company Name	Internet Site
GS Home Shopping, Inc.	www.gseshop.co.kr
CJ O Shopping, Co., Ltd.	www.cjmall.com
Hyundai Home Shopping Network Corporation	www.hmall.com
Lotte.Com, Inc.	www.lotte.com
Woori Home Shopping	www.lotteimall.com
Ebay Korea, Inc.	www.auction.co.kr, www.gmarket.co.kr
NS Shopping Co., Ltd.	www.nseshop.com

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

Other: Traditional wet markets and family-operated small grocers are found primarily in rural and old metropolitan areas. Sales data is not available for the estimated 999,263 food and beverage stores of this type with less than five employees. Traditional stores might offer a limited selection of imported products, such as fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals and cooking oil. Government-run regional wholesale markets are the primary suppliers of fresh farm and fishery products to traditional retailers, while independent wholesalers supply processed foods.

Hotel, Restaurant, Institution: South Korean households spend the dominant part of their food expenditures on eating out, especially as lifestyles get busier. This trend is expected to continue with a rise in single-person and dual-income household, with bright prospects for growth in the food service sector as one result. These same factors are also pushing growth of home meal replacements and more convenient ways of shopping. Restaurant trends include natural, organic fresh, fusion, zen, seafood, fun, and ethnic foods.

Food ingredients: Seventy-two percent of ingredients used in domestic food processing are imported, primarily from the United States and Europe. In contrast, most fresh organic fruits and vegetables are produced and used domestically. From 2001 to 2011, organic processed food production experienced significant growth and change, as major food manufacturers entered the packaged organic product market. The organic processed foods market has been increasing 25 percent per year. This rapid growth is expected to result in reduced retail costs, and increased accessibility for consumers.

Market access and distribution chain

For businesses new to the market, working with a reputable importer can reduce challenges related to import approvals, tariffs, tax codes, and other strict regulations and procedures in place in Korea. Using an experienced broker or middleman may also be effective, although importers generally prefer to work directly with the original supplier. Although a variety of business arrangements between exporters and Korean importers are possible, the most common arrangement is a non-binding seller-buyer relationship for a test-market period, and then a more binding option if prospects are strong. Other types of possible business relationships include joint investment partnerships, exclusive agent, or non-binding broker contracts, depending on what role the import partner might take in market development. Exhibiting at food trade shows in Korea can be a cost-effective way to meet with a large number of key Korean importers/traders over a short period of time, but most shows are consumer-oriented. Contact USDA's Agriculture Trade Office in Seoul (www.atoseoul.com) for guidance, since consumer shows are not as effective for products new to the market.

Retailers in Korean typically rely on independent importers, and imports may go through multiple layers of middlemen. Purchasing managers for local retail companies tend to avoid risk, and avoid carrying imported products with short shelf life. The retailers that work with direct imports primarily focus on large volume products in order to reduce costs and boost product assortment, or in the case of retailers that originated outside of Korea, such as Costco Wholesale Korea, use their own international sourcing networks to procure imports. However, some retailers, for example E Mart and Lotte Mart, now have purchasing offices in the United States and other foreign markets to better facilitate direct imports.

Retailers also expect suppliers of new products to provide in-store promotions such as advertisements, samples, and coupons at the supplier's expense. Furthermore, new products must meet local tastes not only in the specific product formula but also in attributes such as package size, material, and design. Imported products are required to have a Korean language label, which is generally designed and printed by the importer and applied by hand at the duty-free warehouse prior to customs inspection. Working with the importer on the appearance of this label can enhance the overall look of the product on the shelf.

Busan, at the southeastern tip of the peninsula, is the port of entry for most consumer-ready products, but small-volume-high-value products, such as premium wine, fresh cherries, and chilled beef are generally brought via air cargo through Inchon International Airport, about an hours' drive from Seoul.

The leading retailers typically have temperature controlled trucks and warehouses to cover the market, but medium and small retailers usually rely on outside logistics service providers for these needs.

Characteristics of shoppers

In 2012, average monthly household spending for grocery foods was about $338 (W358,969) or 14.6 percent of total monthly consumption expenditure. Households are spending more on bakery, processed meat, fruits, vegetables, confections and snacks, spices and seasonings, coffee and tea, and juice and beverages than they were in 2009, while spending less on grains, fresh seafood, oil and fat. Over 90 percent of Korea's population is in urban cities, resulting in high population density and high real estate costs. As everyday life gets busier, the demand for convenience—such as online ordering and delivery service not only from restaurants but regular retailers as well—has increased.

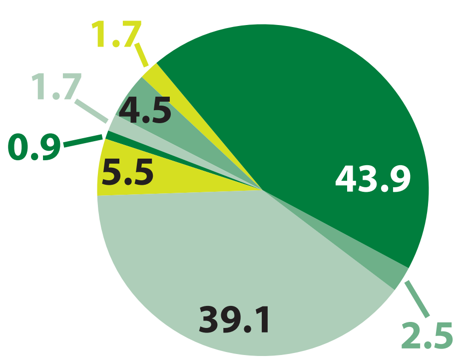
Although tastes in Korea differ from those in China or Japan, trends in Japan usually show up in Korea as well. In addition, many Koreans are aware of products and food trends in the United States, and they are generally favorable toward the quality and value of American products. Products with genetically modified organisms, however, are viewed unfavorably, and retailers would not likely stock items that say 'contains GMOs.' With food safety concerns about imported foods from China and Japan in recent years, traders are looking for safer sources of food to regain consumer confidence.

Healthy eating is an emphasis, in part due to an aging population, and health-conscious elderly consumers and young professionals are among those driving interest in organic and functional foods. The idea of foods as medicine has long been a part of Korean culture, and contributes to the trend toward seeking the functional effects of foods.

Organic foods and products without genetically modified ingredients fit in very well with the idea of well-being, and foods that target specific health concerns are popular.

The primary reasons people choose organic products are health and to avoid toxins. Meanwhile, quality and image are as important as price and value for some shoppers, especially affluent consumers and young professionals.

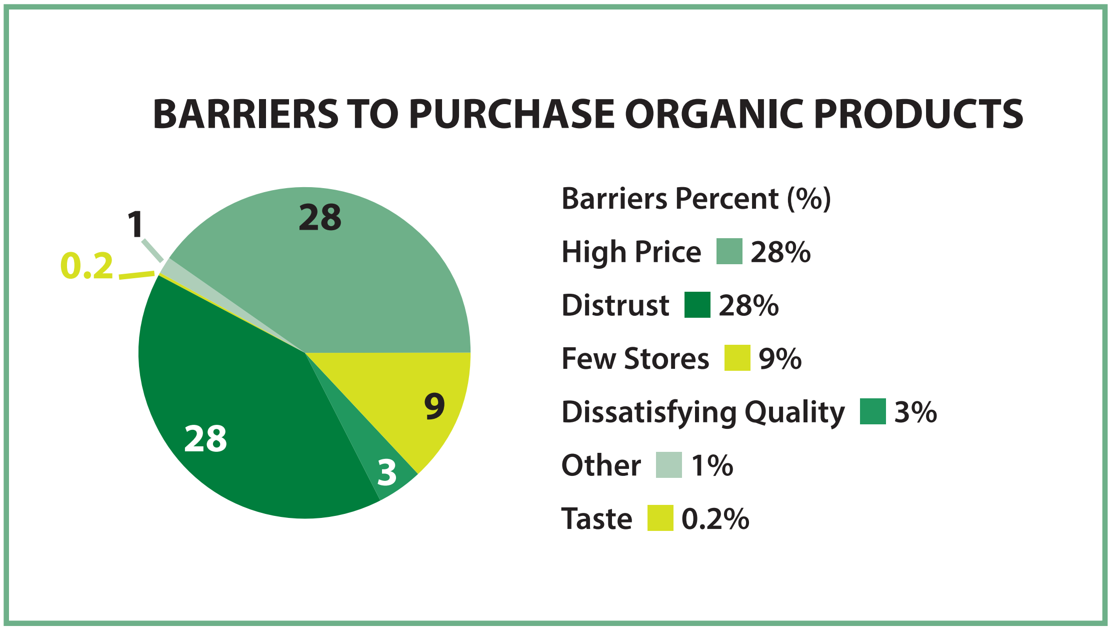
REASONS FOR BUYING ORGANIC PRODUCTS



Reasons for Organic Purchase Percentage (%)

- Health 43.9%
- Toxin-Free 39.1%
- Less Pesticides 5.5%
- Freshness 4.5%
- Taste 2.5%
- Convenient Package 1.7%
- Other 1.7%
- Nutritious 0.9%

The two main barriers to purchase of organic products are cost—organic processed foods cost 190~460 percent more than non-organic processed foods—and a lack of trust that organic products provide enough real benefits to offset the high price.



Resources

IN KOREA

United States Department of Agriculture Foreign Agriculture Service Agricultural Trade Office:

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

Maintains listings of established Korean importers by products, which are available at no cost to U.S. exporters upon request; sends trade leads to State Regional Trade Groups in the United States; offers guidance on trade shows in Korea; keeps statistics on food and agriculture imports.

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

Offers information about sanitary and phytosanitary requirements.

Korea Trade World

Offers lists of product requests from Korean buyers

IN THE UNITED STATES

Regional trade groups can provide assistance for entering the Korean market, including trade leads and trade missions.

Midwest
West
Northeast
South

Organic Trade Association

United States Organic Export Directory
The Organic Pages

These searchable directories offer listings of organic businesses, including those that may be able to assist US exporters.

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