

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary - Public

**Date:** 2009-10-14

**GAIN Report Number:** KS9049

## Korea - Republic of

**Post:** Seoul ATO

### Annual Wine Market Brief

**Report Categories:**

Wine

**Approved By:**

Michael Fay

**Prepared By:**

Sangyong Oh

**Report Highlights:**

Korea's wine imports from all countries declined 40 percent during the first half of 2009 after reaching a record \$167 million in 2008. Importers and distributors remain conservative with respect to new purchase decisions due to the on-going economic recession. However, the wine market is expected to rebound quickly in the coming months as economic indicators and consumer index suggest a rapid recovery of the local economy. Furthermore, shifts in consumption trends and currency exchange rates should generate new opportunities for American wine.

**General Information:**

**Author Defined:**

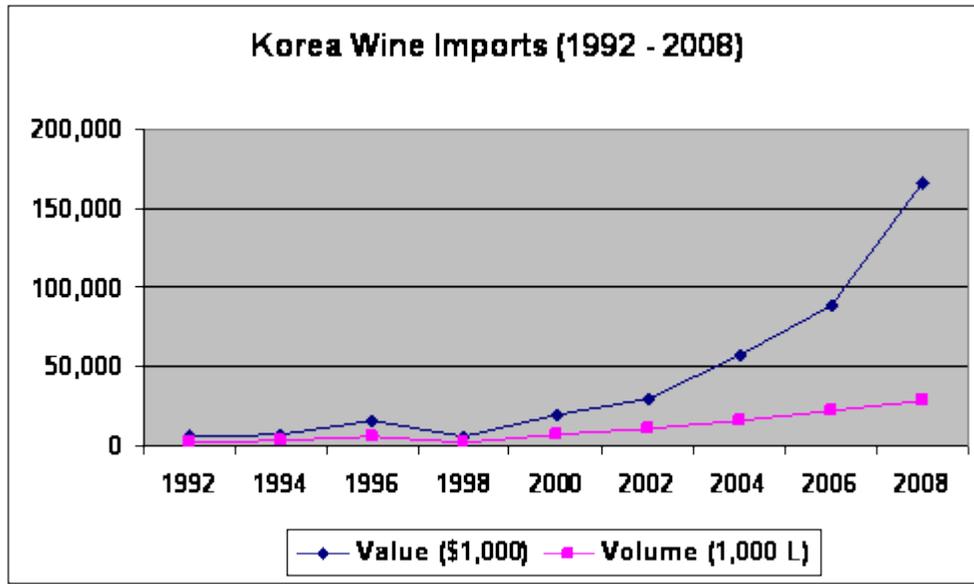
## Table of Contents

<b>SECTION I. MARKET OVERVIEW.....</b>	<b>3</b>
<b>SECTION II. COMPETITION.....</b>	<b>4</b>
Competitors.....	4
Local Production.....	7
<b>SECTION III. MARKET SECTOR OPPORTUNITIES AND THREATS.....</b>	<b>8</b>
Market Opportunities & Challenges.....	8
Consumption Patterns Driving the Market.....	8
Sales Channels.....	9
Retail (Off Premise) Market.....	10
Food Service (On Premise) Market.....	11
<b>SECTION IV. PRICING.....</b>	<b>12</b>
Tariff, Taxes and Mark-ups.....	12
Price Segments.....	14
Exchange Rate.....	14
<b>SECTION V. MARKET ACCESS.....</b>	<b>15</b>
Licenses.....	15
Labeling.....	15
Inspection & Food Safety Standards.....	16
<b>SECTION VI. ENTRY AND MARKETING STRATEGY.....</b>	<b>18</b>
<b>SECTION VII. KEY CONTACTS AND FURTHER INFORMATION.....</b>	<b>19</b>
<b>APPENDIX: Korea Wine Import Statistics.....</b>	<b>20</b>

### SECTION I. MARKET OVERVIEW

- Korea's wine imports from all countries showed a sharp decline in the first half of 2009 as a result of the global economic recession. Import value declined 40 percent over the same period of 2008 to \$54.6 million while import volume declined 26 percent to 10.8 million liters.

- Among the leading wine suppliers, France has seen the largest decline (53 percent in value) of wine exports to Korea in the first half of 2009 followed by Australia (37 percent), Italy (33 percent), the United States (31 percent) and Chile (26 percent).
- Local wine consumers have opted for value-oriented products under the sluggish economy, which resulted in a sharp decline of demand on higher end French wines. Market share of value-oriented suppliers, including the United States and Chile, is likely to further expand in the coming months as consumers are paying more attention to quality returns on limited budgets.
- Major economic indicators and consumer confidence index suggest a rapid recovery of the Korean economy <sup>[1]</sup>. U.S. dollar is expected to weaken against international currencies, including euro and Korean won in the coming months, which will make American wine more price competitive in Korea. Furthermore, the free trade agreement concluded between the U.S. and South Korea (KORUS FTA) will remove the 15 percent import tariff on American wine immediately upon implementation.
- Before the global economic recession that started in late 2008, Korea's wine imports had experienced robust growth, reaching a record \$166.5 million and 28.8 million liters in 2008. Between 2000 and 2008, wine import value increased 741 percent from \$19.8 million to \$166.5 million while import volume increased 258 percent from 8 million liters to 28.8 million liters. The rapid growth of wine consumption in Korea is mainly fueled by expansion of globalized dietary culture as well as a "well-being" lifestyle trend among the general public.



- As consumers become more familiar with wine and more discriminating in their tastes, the wine market is also becoming more diversified with a wider variety of products offered. Serious consumers are paying more attention to new-to-market wines and are willingly purchasing products from more diverse origins in an effort to expand their experience and knowledge.
- American wine faces steep competition in Korea from both quality-imaged old world suppliers (France and Italy) and value-imaged new world suppliers (Chile and Australia). Although U.S. wine exports to Korea continued to grow along with the expansion of the overall market, the share of the market held by American wine declined continuously over the years. In 2008, the U.S. was the fourth largest supplier of wine to Korea with 9.8 percent market share in value and 13.7 percent in volume after France, Chile and Italy. Nevertheless, American wine is expected to remain one of the top choices of local wine consumers, as it is firmly positioned in the market with an image of good value and unique quality. The close political and economic ties between South Korea and the United States have also contributed heavily to the popularity of American brands and products in general to local consumers.

## SECTION II. COMPETITION

### Competitors

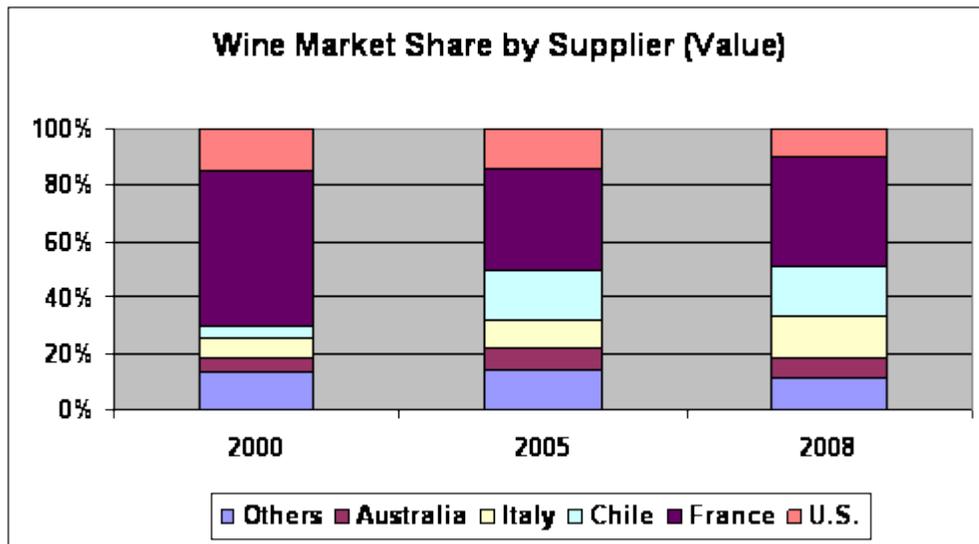
- Many Koreans still harbor the perception that old world suppliers, in particular France, are

the source of the best quality wines in the world. As a result, France remained as the largest supplier of wine to Korea with a 39.5 percent market share in terms of value in 2008. It is notable that a Japanese cartoon series, titled "*Water-drops of the Gods*"<sup>[2]</sup>, has sold over 500,000 copies in Korea since its publication into Korean language in late 2006 (new volumes still keep coming) and reportedly contributed significantly to the strong rise of French and Italian wines in Korea by delivering a positive image on the wines from old world regions not only to experienced wine drinkers but also to those new to wine. However, the market share held by French wine is expected to be on a decline in the coming years as local wine drinkers' attention is becoming diversified to a wider variety of products from different origins. In particular French wine has already lost a significant market share over the last several years in the entry-level and mid-level price segment to value-oriented new world suppliers including the United States, Chile and Australia. In addition, continued appreciation of the euro against U.S. dollar in recent years has further deteriorated price competitiveness of French wine in the value-oriented segments. As a response, French suppliers have shifted their primary target to higher end segments of the market, which is less susceptible to price barrier.

- Chilean wine exports to Korea continued a strong rise in 2008 with a 16.5 percent growth in value. Chile has surpassed the United States to become the second largest exporter of wine to Korea since 2005 backed by the strong publicity pull of the Chile-Korea free trade agreement that went into effect in April 2004. Under the FTA the 15 percent import tariff on all Chilean wines is scheduled to be eliminated by 2010. Chile, viewed as a source of good value wine by local wine consumers, presents tough competition to American red wine in the entry and mid-level price segment. However, Chilean wine presents little competition for white and sparkling wine as the consumption and demand for Chilean wine in Korea is largely concentrated on red wine.
- Capitalizing on Korean consumers' increased attention to European culture and products, Italian wine has made a strong rush into the Korean market since 2007 (import value marked a stunning 118.1 percent growth in 2007). Growth of Italian wine exports to Korea remained strong in 2008 at 22.8 percent in terms of value. As a result, Italy has become the third largest wine exporter to Korea, pushing America to the number four position, since 2007. This explosive growth was mainly led by lower end, easy drinking white wines. However, Korean wine enthusiasts partly influenced by reviews of international wine critics are also increasingly interested in Italian wines in the mid and higher end segment. It is notable that the consumption of Italian white wine with small amounts of carbonation

(Frizante) has shown a rapid growth since the second half of 2006, which suggests that Korea could become an important market for white and sparkling wine in the future.

- Although small in overall market share, products from minor origins, including Argentina, South Africa and New Zealand continued to exhibit outstanding import growth in 2008. This trend adds additional competitive pressure to American wine, while contributing to the expansion and overall diversification of the wine market.
- Export-oriented competitors are currently investing much more resources than American suppliers into marketing and promotional efforts in Korea. Competitors' major marketing programs include: tasting seminars, paid-invitations of wine traders and press to overseas wine exhibitions, hosting cultural and culinary events incorporating wine components, organizing commercial consumer trips to wineries, exhibitions at local trade shows, supporting local wine schools with free samples and educational materials, and working closely with local wine experts including providing supports to Korean sommelier competitions.



- American wine primarily targets the value-oriented segment of the market. In particular, entry-level products from the United States retailing below KRW 10,000 (roughly \$10)<sup>[3]</sup> a bottle have established a dominant presence in this segment due to the aggressive marketing efforts of two long-established American suppliers, E&J Gallo and Constellation Brands. Interestingly, Concord grape based "Kosher" wine, particularly the Mogen David Winery brand under the Wine Group, has also developed a significant demand in this segment as novice wine drinkers have found the sweet, grapy taste familiar and easy to drink.

- The luxury segment of the market for products above KRW 100,000 (roughly \$100) a bottle is another area in which American wine has enjoyed steady success over the years. Many affluent local wine drinkers are well traveled and informed of established high-end American wine brands. Products targeting this segment are marketed as luxury goods. However, the number of bottles allocated to the Korean market by the high-end suppliers is in general very limited. At the same time, many high-end American wines are currently not available in Korea not only because of limited production but also because of suppliers' focus on the domestic U.S. sales and/or other more developed foreign markets.
- On the other hand, American wines that target mid and premium-level price segments of the market between KRW 10,000 to 100,000 per bottle are facing tough competition from both old and new world competitors. This is the segment that holds the key for building brand-loyal consumers and long-term financial success. Unfortunately, American wine has not been as successful in this segment, particularly in retaining those consumers who started their first wine experience with entry-level American wine and later traded up to mid or higher-end products. Many of these trading-up consumers have found their way into Chilean, Italian, Australian and French wine for wider selections and stronger brand recognitions. In addition, competitors have outsold American wine in the gift-set market which constitutes a large portion of the yearly sales of the mid and premium-level segment. Although it is notable that a few large volume American suppliers have created a significant number of brand-loyal followers (stand-outs include Robert Mondavi, Kendall Jackson, Beringer and Chateau St. Michelle) in the mid-level price segment between KRW 10,000 to 60,000, American suppliers in general currently offer narrower selections and maintain weaker brand recognitions than competitors in the mid-level price segment.

### **Local Production**

- Wine production in Korea is expected to remain negligible as it lacks competitiveness in price and quality against imported bottles. High land price and unfavorable weather condition are the major impediments preventing any meaningful commercial local wine industry from evolving. Small amounts of locally grown table grapes are currently used to bottle souvenir purpose wines or low-end products to be blended with imported bulk wine. Currently, there is no *Vitis. vinifera* grape variety commercially cultivated in Korea.
- Instead of maintaining local vineyards, major Korean liquor companies have switched to either co-bottling in foreign wineries or importing bulk wines for local blending/bottling.

Lotte Liquor BG ([www.wine.co.kr](http://www.wine.co.kr))<sup>[4]</sup>, Jinro ([www.jinro.co.kr](http://www.jinro.co.kr)) and Gooksoondang L&B ([www.ksdlb.com](http://www.ksdlb.com)) are the leading players currently operating local bottling and/or co-bottling in foreign wineries. A total of 4.5 million liters of bulk-packaged wines (those shipped in two liter containers or larger) were imported in 2008, most of which were reportedly for local blending/bottling. It is notable that the amount of bulk wine imports is evenly divided between red and white wine as a large portion of the imported bulk white wine is used for blending ‘Japanese apricot wine’ and other types of white fruit wines in Korea. Spain remains the leading suppliers of bulk red and white wine to Korea. However, any rapid growth of bulk wine imports in the near future is unlikely as locally bottled wine is not price/quality competitive against imported bottled wine.

- There are some fruit wines produced in Korea from locally grown wild raspberries, locally known as *Bok-boon-ja*. The production of *Bok-boon-ja* wine is on a rapid increase due to regulatory and financial support by the local government<sup>[5]</sup>. However, these local fruit wines present no direct competition to imported wines. Rather they have helped the general public develop a taste for the table wine. In addition, the local fruit wine industry offers a growing opportunity to bulk fruit wine imports for blending.

### SECTION III. MARKET SECTOR OPPORTUNITIES AND THREATS

#### Market Opportunities & Challenges

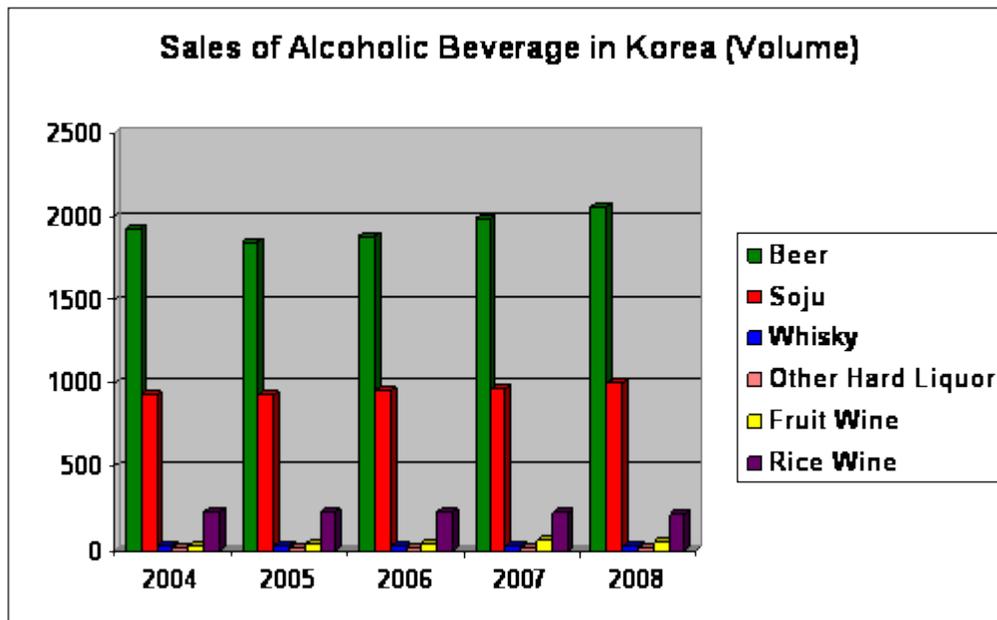
Advantages	Challenges
Korea, one of the biggest alcoholic beverage markets in the world, has a huge potential for wine.	Wine is enjoyed by a small portion of the population. Consumers and traders in general have little knowledge and experience about wine.
Wine is firmly positioned in the market as a "healthy" product due to highly publicized health benefits of red wine.	American wine faces tougher competition from both old and new world competitors.
The distinctive characteristics of American wine are well accepted by many local consumers, especially among the younger set.	Imported wine retails at much higher prices in Korea than in other markets due to taxes and inefficiencies in the local regulation and the distribution channel.
Lack of competition from local products provides a positive environment for wine import/distribution business.	Many American wineries are currently not fully committed to export business in less developed foreign markets, including Korea.

Wine drinking has not yet achieved a place in the mainstream culture in Korea. Investing at this early stage of market development can secure an image of quality and value for American wine at minimal investment.	Imported wine is subject to complex labeling and food safety test requirements. Frequent change of local regulations adds cost and inefficiency to the supply channel.
--	--

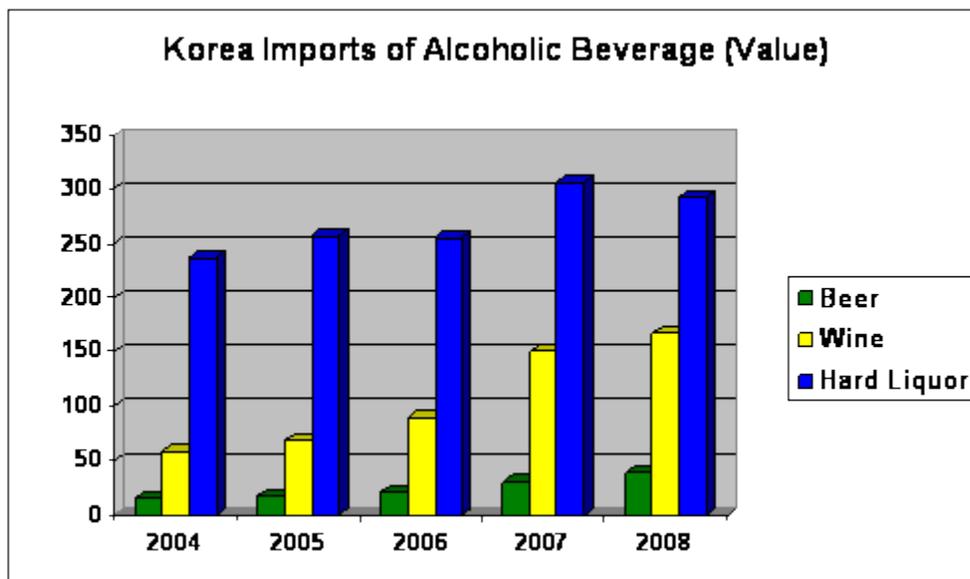
### **Consumption Patterns Driving the Market**

- Korea is one of the biggest markets for alcoholic beverage in the world. Drinking is considered an important part of everyday life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, the market is getting more new drinkers from the younger generation and the female population.
- Although wine consumption has grown remarkably over the past decade since full-scale market liberalization in 1991, wine is still consumed by a very small portion of the population. Wine sales comprise less than 2 percent of total alcoholic beverage sales in Korea. A Vinexpo report indicated that the annual per capita wine consumption of Koreans was 0.5 liters as of 2005. The main stream wine consumers tend to be high-income urban residents, most of whom are either young professionals in their 30's and 40's or financially accomplished elderly residents in their 50's and 60's. According to a 2004 industry survey, 77 percent of all wine consumption in Korea took place in the Seoul metropolitan market which represents about 40 percent of the total population. Entry-level products under KRW 10,000 a bottle accounted for an estimated 50 percent of all wine consumed in Korea in terms of volume.
- Korean tastes are heavily skewed to red wine due to the highly publicized health benefits of drinking red wine. Currently, red wine commands over 75 percent of the market and is not likely to lose its dominant share in the near future. However, an increasing number of consumers are becoming interested in white and sparkling wine as the idea of wine-food pairing begins to develop in the market, which is evidenced by a steady increase of market share held by sparkling wine from 4.1 percent in 2005 to 5.5 percent in 2008 <sup>[6]</sup>.
- Beer and soju <sup>[7]</sup> are by far the most consumed alcoholic beverages among the general public. All soju and most of the beer sold in Korea are manufactured locally and are sold at much cheaper prices than imported wine. For example, one 360 ml bottle of soju retails for less than 50 cents. Although the consumption of hard liquor has been on a gradual decline in recent years due to health concerns, soju sales have maintained a steady growth partly

backed by the launch of new products that contain less alcohol (most popular soju products now contain less than 20 percent alcohol). Beer is also showing a sign of growth with local brewers' launching of new products (in particular stout style dark-color beers) and a steady increase of imports. Although declining in popularity due to health concerns and tighter government regulation on corporate spending in luxury bars, Korea remains one of the largest markets in the world for premium hard liquors including Scotch whiskies.



Source: Korea National Tax Office (Unit: 100,000 liters)



Source: Korea Trade Information Service (Unit: Million U.S. Dollar)

## **Retail Market (Off-Premise)**

- While no official statistics are available at the moment, industry analysis indicates that large-scale supermarkets (including hypermarkets and discount stores) currently lead wine sales in Korea with an estimated 55 percent of the market share in terms of volume. Specialty liquor stores and convenience stores account for another 8 percent and 4 percent of the volume market share respectively. It is expected that the large-scale supermarket channel, in particular hypermarket stores, will gain additional market share in the coming years as more Korean consumers switch to larger size stores for one-stop convenience and value.
- Large-scale supermarkets in general have designated wine sections and offer quite a large selection of wines to everyday shoppers. A typical hypermarket store carries about 100 different varieties of products, most of which are entry-level to mid-level price products under KRW 60,000. Shinsegae Co., the largest retail company in Korea, established a wine import business in early 2009 to import wine directly for the stores under its umbrella (including the E-Mart hypermarkets and the Shinsegae department stores). Other local large-scale retailers are expected to move into direct import business in the near future as value wine is considered as a key item to build consumer traffic to the store. Due to large retailers entering into the wine import business with a focus on entry to mid level products, independent wine importers are likely to be pressured to focus on higher-end products in the coming years.
- Although far less in number than grocery supermarkets, there are many stand-alone wine shops and specialty liquor stores, independent or under franchise chain operation, popping up in metropolitan areas that target serious wine consumers. A few of these wine shops, in particular those operated directly by wine importers, offer the largest selections in the market of over 500 different varieties of wine, most of which are upper mid and higher-end segment products above KRW 30,000 per bottle. Convenience stores, most of which are under franchise chain operation, are another emerging player in the market. Although each outlet carries less than a dozen different varieties of wines, convenience stores now offer the most extensive retail network in Korea as the total number of stores across the nation is fast increasing (over 10,000 stores as of May 2007). Currently, there is no zoning regulation in Korea that restricts the number and location of liquor retailers in a given area, which is partly responsible for the proliferation of liquor retailers throughout Korea. However, on-line sales of alcoholic beverages through the Internet, mail, or TV home-

shopping are prohibited.

- About 30 percent of annual wine sales by retailers are purchased for gifts during the following holidays: Korean Thanksgiving Day ("*Chu-Sok*", around late September), Christmas, New Year's Day, Lunar New Year's Day (around early February), Valentine's Day (February) and Parent's Day (May). Backed by the on-going "well-being" trend, wines are increasingly replacing traditionally popular gift sets of whisky or other hard liquors. Products in the mid-level price segment constitute the largest portion of the gift set sales.

### **Food Service Market (On-Premise)**

- On-premise channels (restaurants and food service outlets) account for an estimated 30 percent of the wine sales in Korea (on a volume basis). Large-scale food service businesses, such as franchise restaurant chains and five-star hotels, generally buy wine directly from importers while wholesalers work in the middle between importers and small-scale restaurants and bars. Local laws do not allow restaurants to buy liquor products from retail stores. Demand for wine is rising rapidly in the food service sector as more restaurants and bars seek to serve wine not only for rising consumer demand but also for higher profits associated with wine sales. The quality and amount of wine carried varies widely depending on the food and target consumers that each restaurant serves. For example, 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-level and higher-end segment products. One noticeable trend is that an increased number of traditional Korean food restaurants now seek to serve wine. In general, mark-up on wine is much higher in restaurants and bars than in retail stores. Many wines are available exclusively in restaurants and bars as traders do not want consumers to develop price resistance to their wines by making them also available in retail stores at much lower prices.

## **SECTION IV. COST & PRICING**

Consumer prices for wine are quite high in Korea. A combination of import tariffs, taxes, distribution costs and mark-ups result in retail wine prices two to four times higher than those in the United States.

### **Tariff, Taxes and Mark-ups**

- Korea applies a complicated tariff and tax system to imported alcoholic beverages. The

table below summarizes import tariffs and taxes applied to different alcoholic beverages.

Product	Import Tariff	Liquor Tax	Education Tax
Fruit Wine	15%	30%	10%
Beer	30%	72%	30%
Whisky	20%	72%	30%

- Fruit wine, including grape wine, is subject to relatively lower import tariffs and taxes compared with other types of alcoholic beverages. It is not likely that the taxes on fruit wine will be increased, as the Korean government maintains a policy that products of higher alcohol content should be subject to higher taxes. In addition, the Korean government intends to promote the production of local fruit wine by maintaining relatively lower taxes.
- The free trade agreement concluded between the United States and Korea (KORUS FTA) will remove the import tariff on all American wine immediately after the FTA is ratified by the U.S. Congress and the National Assembly of Korea. Many local traders expect that the FTA will significantly increase imports of American wines to Korea not only because of reduction of import prices but also because of positive publicity that it will generate. However, the benefit of the KORUS FTA may not last long as the European Union and Korea have signed on a FTA agreement in early 2009 which includes the same, immediate removal of tariffs on EU wine imported to Korea upon ratification of the agreement.
- The following table illustrates the effects of import tariffs, taxes and distributor mark-ups on a \$10 bottle of imported wine:

		Current	Under FTA
A	CIF <sup>[8]</sup> invoice value	\$10.00	\$10.00
B	Tariff (Customs Duty): A x 15%	\$1.50	\$0.00
C	Wine Liquor Tax: (A+B) x 30%	\$3.45	\$3.00
D	Education Tax: C x 10%	\$0.35	\$0.30
E	Subtotal: (A+B+C+D)	\$15.30	\$13.30
F	Value Added Tax <sup>[9]</sup> : E x 10%	\$1.53	\$1.33
G	Handling fees for customs clearance <sup>[10]</sup> : A x 8%	\$0.80	\$0.80
H	Total cost of wine upon customs cleared: (E+F+G)	\$17.63	\$15.43
I	Typical Importer Mark-ups <sup>[11]</sup>		
	1. Importer's selling price to discount store: (mark-up 15-30%)	\$18.52-20.93	\$16.22-18.33
	2. Importer's selling price to supermarket/liquor store: (mark-up 40-50%)	\$22.54-24.15	\$19.74-21.15

	3. Importer's selling price to luxury hotel: (mark-up 40-50%)	\$22.54-24.15	\$19.74-21.15
	4. Importer's selling price to wholesaler: (mark-up 15-30%)	\$18.52-20.93	\$16.22-18.33
J	Typical Retailer Mark-ups:		
	1. Discount store's selling price: (mark-up 20-30%)	\$22.22-27.21	\$19.46-23.83
	2. Supermarket & liquor store's selling price: (mark-up 30-40%)	\$29.30-33.81	\$25.66-29.61
	3. Luxury hotel restaurant's selling price: (mark-up 50-300%)	\$33.81-96.60	\$29.61-84.60

- Thus, a \$10 (CIF) bottle of imported wine typically retails for about \$22 to \$27 at discount stores, \$29 to \$34 at supermarkets/ liquor stores and \$34 to \$97 in hotel restaurants. Overhead expense, payment conditions (i.e., cash versus 60 days credit), product turnover rate and sales volume are key factors governing the level of mark-ups taken by different retailers.

### Price Segments

- Below table illustrates categorization of wine in Korea in terms of retail price.

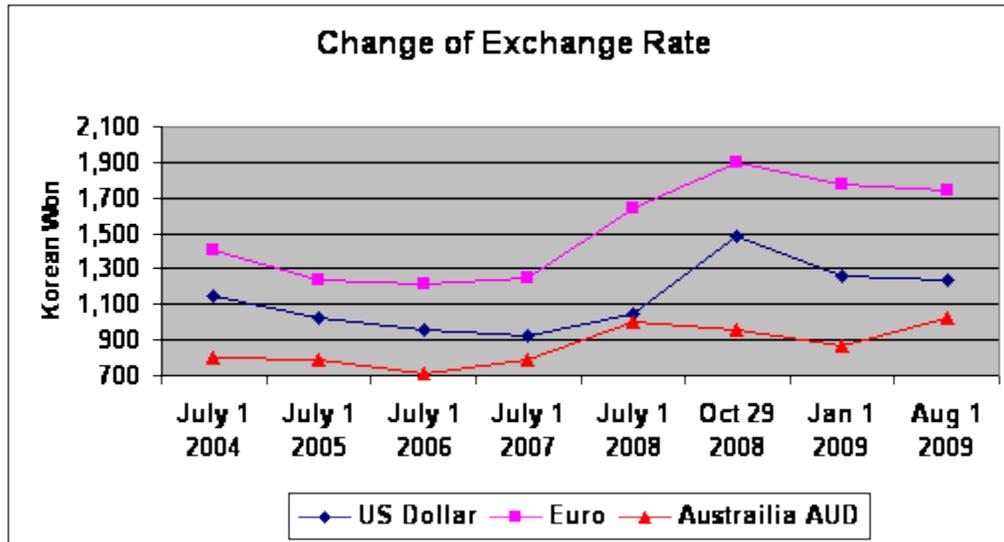
Category	Price
Luxury	Over 100,000 won
Premium	60,000 - 100,000 won
Mid-High	30,000 - 60,000 won
Mid-Low	10,000 - 30,000 won
Entry-Level	Under 10,000 won

- Wine21.com, a wine marketing service firm in Korea, offers an Internet based search tool that lists retail prices of over 7,000 wines currently distributed in Korea. For product/price search, please visit <http://www.winesearcher.co.kr/><sup>[12]</sup>

### Exchange Rate

- Price of imported wine sold in Korea is directly affected by changes of exchange rates between the exporting country's currency and the Korean won. Furthermore, fluctuation of exchange rates also brings changes of price competitiveness among wines from different origins. The drastic plunge of the value of Korean won against the U.S. dollar and European euro during October 2008 through the first half of 2009 has made local importers and distributors extremely conservative with respect to new purchase decisions. The value

of Korean won is expected to gain strength and stability against the U.S. dollar in the coming months along with the recovery of the international financial market. It is notable that leading economic institutes have forecasted a weaker U.S. dollar against other major international currencies in the coming years, which would make American wine more price competitive in Korea.



## SECTION V. MARKET ACCESS

### Licenses

- By law, only licensed liquor importers are allowed to import alcoholic beverages, including wine. Any qualified candidate can obtain an import license. There are over 300 licensed liquor importers and the number is likely to increase steadily in the coming years as more people become interested in the wine business. However, only about 50 importers currently import wine on a regular basis. Moreover, only a handful of leading importers account for over 80 percent of total imports. Importers are allowed to sell directly to retailers (restaurants and liquor stores) as well as to wholesalers. However, importers are not allowed to sell directly to consumers nor can they purchase wine from other importers or wholesalers. A few importers also operate chains of retail wine shops under separate retail licenses in order to gain additional business volume and direct reach to consumers.

### Labeling

- Korean law requires Korean language labels on imported wine. In most cases, the Korean label is attached to the bottle manually by the importer in the duty-free warehouse before official inspection. The Korean language label should contain the following information:

1. Name of the product (e.g., Robert Mondavi Cabernet Sauvignon)
2. Country of origin (e.g., U.S.A)
3. Type of the product (e.g., Fruit Wine or Red Grape Wine)
4. Importer's name, address, and phone number
5. Business license number of the importer
6. Date of bottling (e.g., Year-Month-Day or Julian Code or Lot Number)
7. Alcohol percentage and product volume (e.g., 13.5%, 750 ml)
8. Name of ingredients by volume percentage
9. Name of place where the product can be returned or exchanged in case the product has any defect
10. Instructions for storage
11. Name of food additives used
12. Government health warning clause
13. Government warning clause against liquor sales to minors
14. Name of distribution channel through which the product is destined to be sold ("For Home Use (Not for Restaurant/Bar Sale)" should be marked on the label of the product sold in the retail store.

<sup>[13]</sup> Bottles sold in restaurants and bars do not carry any mark on the label)

- The use of fruit images is not allowed on the packaging of food and beverage products, including alcoholic beverages, by law unless the product contains ingredients obtained from the fruit in question.
- The Korean government has proposed new labeling standards around the issue of GMO (Genetically Modified Organism) and organic. In short, the proposal intends that processed food and beverages, including wine, made from GMO ingredients (such as GM soybean) or GMO processing aids (such as enzymes) must be labeled as GMO food. The proposal also intends that the Korean government maintains the exclusive authority over organic certification on all products sold in Korea and no foreign government's organic certification (such as USDA organic certificates) should be accepted, which means all USDA certified organic wines must be certified by a Korean authority accredited certifying body in order to carry "organic" on the label. It is advised that suppliers check "attaché reports" for Korea at [www.fas.usda.gov](http://www.fas.usda.gov) or contact with FAS/USDA Seoul for updates on changes of labeling

standards.

## **Inspections & Food Safety Standards**

- Imported foods and beverages are subject to Ministry of Health and Welfare (MHW) Food Quarantine inspection. The Korea Food & Drug Administration (KFDA) under MHW is responsible for executing all inspections. There are two kinds of inspections: detailed inspection (chemical analysis test) and visual inspection (visual/document inspection).
- The first commercial shipment of any new-to-market wine is always subject to a detailed food safety inspection, including chemical testing, which under Korean law should take no longer than 10 working days. In practice, however, importers claim that it could take longer. For the detailed inspection, importers are required to submit two sample bottles of each product to the inspection office along with a chemical analysis document provided by the exporter (there is a considerable fee per test). Once the chemical inspection on the first shipment confirms no potential health concerns, subsequent shipments are only subject to visual and/or document inspection. Visual and document inspection should take no longer than 2 calendar days provided that the product of subsequent shipments is identical to the product in the first shipment with respect to label, product name, alcohol percentage, ingredients and net volume. However, even subsequent shipments of identical products may be subject to random detailed chemical inspections.
- Korean labeling regulations for alcohol percentage allows for a +/- 0.5 percent 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 during inspection to be within 11.5 percent to 12.5 percent range. Korea's tolerance is much tighter than the U.S. standard of 1.5 percent margin of error tolerance level. Wine that falls outside of Korea's tolerance level for alcohol content may fail inspection.
- The Korean government is paying more attention to food additives used in imported wine. In recent years, several shipments of imported wines, including some from the U.S., failed import inspection because they tested positive for sorbic acid although the additive was not listed in the ingredient list submitted by the winery. Sorbic acid is allowed in Korea to be used in fruit wine as a preservative (residue standard: below 0.2 gram / liter), but it must be listed as an ingredient on the document provided to the inspection authority.
- Ethyl Carbamate and Ochratoxin A, compounds that can develop naturally in any fermented

product in trace amounts including wine, present a potential threat to the health image of wine. Although currently there is no residue standard on both compounds in Korea, it is advised that American wineries and exporters pay attention to this issue because the Korean food safety authority and the press are likely to keep monitoring the presence of these substances in imported wine.

- Below are some of the major safety standards set by the Korean government for fruit wine:

(1) Methanol Content: Should be below 1.0 mg/ml

(2) Food Preservatives: Preservatives other than those specified below should not be detected in fruit wine.

- Sorbic acid and Potassium Sorbate : Below 0.2 g/Liter

- Para-oxi-butylbenzoate : Below 0.05 g/Liter

- Sulfur dioxide: 0.35g/kg

(3) Volume: Volume printed on the label should be within +/- 6 ml from the actual volume measured for bottles that hold 200ml or less, or within +/- 3 percent for bottles that hold more than 200 ml.

(4) Food Additives that can be added to fruit wine:

- Sweeteners: Sugar, Glucose, Fructose, Wheat-gluten, Molasses syrup, Maple syrup, Oligo sugar, Honey, Aspartame, Sorbitol, Stebioside

- Acids: Lactic acid, Succinic acid, Acetic acid, Fumalic acid, Gluconic acid, Tartaric acid, Citric acid, Malic acid, Tannic acid

- Seasonings: Amino acids, Glycerin, Dextrin, Hop, Minerals

- Flavorings: Ester compounds, Aldehyde compounds, Fusel compounds

- Colorants: Compounds allowed by the food safety law

(5) Arsenide (As<sub>2</sub>O<sub>3</sub>): Below 0.3 mg/Kg

(6) Heavy Metals: Below 10 mg/Kg

(7) Food Poisoning Pathogens should not be detected: *Salmonella spp.*, *Staphylococcus aureus*, *Vibrio paraphaemolyticus*, *Clostridium perfringens*, *Listeria monocytogenes*, *Escherichia coli O157:H7*

- Established importers are well aware of all inspection and labeling requirements and are the best source of up-to-date regulatory information.

## **SECTION VI. ENTRY AND MARKETING STRATEGY**

- For new-to-market suppliers who seek an entry into the Korean market, the following approaches are recommended:

(1) Exhibit in a local trade show to develop contacts with a large number of key players in the industry. Two shows are recommended:

- Seoul Food & Hotel ([www.seoulfood.or.kr/2010/eng/main/main.asp](http://www.seoulfood.or.kr/2010/eng/main/main.asp)) is a leading food show held annually in Korea and is attended by a large number of international wine exporters. This is the only show in Korea that is officially endorsed and sponsored by FAS/USDA. The up-coming show in 2010 (May 12-15) will again have a separate U.S. pavilion organized by the Agricultural Trade Office of the U.S. Embassy Seoul ([www.atoseoul.com](http://www.atoseoul.com)).
- The Seoul International Wine & Spirits Expo ([www.swsexpo.com](http://www.swsexpo.com), first week of May 2010) is another local trade show that brings together a large number of foreign wine exporters and local wine traders.

(2) One-on-one meetings with potential importers: Visiting Korea and meeting in person with potential importers is highly recommended to new-to-market suppliers. A list of wine importers with contact information is available from the ATO. U.S. suppliers are welcome to utilize ATO facilities and equipment, including meeting spaces, wine glasses and the kitchen.

(3) Product seminars / winemaker tastings: Seminars hosted by an exporter can bolster contacts with key traders and opinion leaders in the market. Assistance from local public relations (PR) companies with a strong presence in wine trade can be helpful. Contact the ATO for a list of such companies. Hosting a seminar in conjunction with the local wine trade shows mentioned above is also recommended.

(4) A wide variety of new businesses and bodies of opinion leaders related to wine have sprung up in the market, including wine schools, Internet-based wine communities, wine journals, and not-for-profit wine associations (most notables are the Korea Wine Society and Korea Sommelier Association). Any entry or marketing strategy should attempt to leverage the voices of these organizations which are increasingly playing an opinion-leading role in the market.

## **SECTION VII. KEY CONTACTS AND FURTHER INFORMATION**

- Please contact ATO Seoul directly for questions, importer lists and information on market promotion opportunities.

U.S. Agricultural Trade Office  
American Embassy Seoul, Unit #15550-ATO, APO AP 96205-5550  
Tel: 82-2-397-4188  
Fax: 82-2-720-7921  
E-mail: [Atoseoul@fas.usda.gov](mailto:Atoseoul@fas.usda.gov)  
Internet: [www.atoseoul.com](http://www.atoseoul.com)

- California Wine Institute (CWI) now has a local Korean representative who works on a contract project basis for CWI.

Ms. Lan Sohn, Representative  
Sohn's Market Makers  
Tel: 82-2-543-9380  
Fax: 82-2-543-0944  
E-mail: [info@sohnm.com](mailto:info@sohnm.com)

- 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 On-line U.S. Suppliers List (<http://fas1.agexportservices.org/apps/storefronts/Searchmultiselect.asp>) 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, such as the ATO in Seoul, Korea 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://fas1.agexportservices.org/apps/logon3.asp>

## APPENDIX: Korea Wine Import Statistics

**Table 1: Korea Annual Wine Imports**

Year	Value [14]	Growth [15]	Volume [16]	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 (through June)	54,556	-39.7%	10,824,661	-25.9%

Source: KOTIS (Korean government import statistics)

**Table 2. Annual Wine Imports Broken down by Country and Product Category**

		2008					2009 (through June)	
Country	Category	Value	Volume	Growth	\$ M/S	Vol. M/S	Value	Volume
France	Red Bottle	53,486	4,598,568	13.8%	43.0%	24.5%	13,988	1,330,169
	Red Bulk	51	4,082	112.5%	2.1%	0.2%	12	1,194
	White Bottle	5,025	517,396	-4.4%	20.0%	12.0%	1,559	200,202
	White Bulk	45	21,166	221.4%	1.9%	0.8%	1	21
	Sparkling	6,591	270,279	2.6%	71.9%	36.9%	2,064	107,428
	Others Bottle	446	38,523	15.2%	17.1%	8.5%	129	9,322
	Others Bulk	86	3,814	290.9%	17.4%	7.2%	30	1,421
	Total	65,730	5,453,828	11.1%	39.5%	18.9%	17,783	1,649,757
Chile	Red Bottle	26,943	5,606,240	16.2%	21.7%	29.9%	10,302	1,975,446
	Red Bulk	423	463,733	-21.8%	17.1%	25.6%	143	144,003
	White Bottle	1,840	451,344	22.7%	7.3%	10.5%	717	177,015
	White Bulk	0	30	-100.0%	0.0%	0.0%	2	270
	Sparkling	35	11,300	75.0%	0.4%	1.5%	16	5,494
	Others Bottle	464	76,715	83.4%	17.8%	16.9%	170	24,386
	Others Bulk	8	1,098	N/A	1.6%	2.1%	11	1,047
	Total	29,713	6,610,460	16.5%	17.8%	23.0%	11,361	2,327,661
Italy	Red Bottle	13,446	1,773,387	2.5%	10.8%	9.4%	4,105	593,378
	Red Bulk	230	50,574	1542.9%	9.3%	2.8%	58	24,148
	White Bottle	8,557	1,388,526	49.8%	34.0%	32.2%	3,473	667,601
	White Bulk	4	2,416	-33.3%	0.2%	0.1%	8	4,356
	Sparkling	1,601	239,075	144.4%	17.5%	32.7%	807	141,180
	Others Bottle	226	49,029	151.1%	8.6%	10.8%	34	1,214
	Others Bulk	27	3,387	170.0%	5.5%	6.4%	18	1,987
	Total	24,091	3,506,394	22.9%	14.5%	12.2%	8,502	1,433,864
U.S.	Red Bottle	11,786	2,543,612	-13.0%	9.5%	13.6%	4,439	951,519
	Red Bulk	886	410,720	70.7%	35.7%	22.7%	198	176,778
	White Bottle	1,979	360,101	13.8%	7.9%	8.3%	735	159,830
	White Bulk	350	382,309	31.6%	14.9%	14.4%	57	59,572

	Sparkling	106	15,614	17.8%	1.2%	2.1%	77	17,059
	Others Bottle	898	214,102	124.5%	34.4%	47.1%	282	70,379
	Others Bulk	241	12,568	21.7%	48.9%	23.8%	58	1,722
	Total	16,247	3,939,036	-3.0%	9.8%	13.7%	5,845	1,436,859
Australia	Red Bottle	8,331	1,375,956	6.0%	6.7%	7.3%	2,677	572,432
	Red Bulk	277	120,329	-47.7%	11.2%	6.6%	129	28,454
	White Bottle	2,239	452,578	15.2%	8.9%	10.5%	794	203,595
	White Bulk	132	83,481	-51.1%	5.6%	3.1%	31	21,873
	Sparkling	195	29,483	-6.7%	2.1%	4.0%	184	32,410
	Others Bottle	139	17,904	12.1%	5.3%	3.9%	98	16,634
	Others Bulk	35	12,615	-84.5%	7.1%	23.9%	9	1,113
	Total	11,348	2,092,346	1.6%	6.8%	7.3%	3,922	876,511
Spain	Red Bottle	5,096	1,701,223	6.6%	4.1%	9.1%	1,706	653,647
	Red Bulk	502	661,882	-14.6%	20.3%	36.6%	187	263,474
	White Bottle	887	462,236	43.5%	3.5%	10.7%	347	212,945
	White Bulk	1,481	1,887,944	21.4%	63.1%	71.0%	516	747,900
	Sparkling	295	58,611	19.9%	3.2%	8.0%	149	27,160
	Others Bottle	54	12,422	-18.2%	2.1%	2.7%	19	3,444
	Others Bulk	8	931	300.0%	1.6%	1.8%	4	459
	Total	8,324	4,785,249	10.7%	5.0%	16.6%	2,927	1,909,029
Germany	Red Bottle	1,040	257,695	-16.0%	0.8%	1.4%	291	82,771
	Red Bulk	60	29,796	5900.0%	2.4%	1.6%	2	405
	White Bottle	2,273	388,289	-11.1%	9.0%	9.0%	742	149,896
	White Bulk	165	97,121	-35.0%	7.0%	3.7%	75	48,049
	Sparkling	173	34,386	13.1%	1.9%	4.7%	59	13,092
	Others Bottle	132	23,408	29.4%	5.1%	5.1%	13	3,550
	Others Bulk	5	447	-16.7%	1.0%	0.8%	2	113
	Total	3,848	831,147	-10.8%	2.3%	2.9%	1,184	297,876
Others	Red Bottle	4,121	914,116	10.5%	3.3%	4.9%	1,648	391,102
	Red Bulk	50	68,497	-67.1%	2.0%	3.8%	66	59,115
	White Bottle	2,360	295,556	23.5%	9.4%	6.8%	686	104,040
	White Bulk	170	184,951	-27.4%	7.2%	7.0%	187	174,609
	Sparkling	175	73,008	116.0%	1.9%	10.0%	335	150,812
	Others Bottle	254	22,780	22.7%	9.7%	5.0%	89	10,948
	Others Bulk	83	17,908	48.2%	16.8%	33.9%	18	2,478
	Total	7,211	1,576,821	13.3%	4.3%	5.5%	3,032	893,104
Grand Total	Red Bottle	124,249	18,770,797	8.5%	74.6%	65.2%	39,156	6,550,464
	Red Bulk	2,479	1,809,613	4.6%	1.5%	6.3%	795	697,571
	White Bottle	25,160	4,316,026	18.5%	15.1%	15.0%	9,053	1,875,124
	White Bulk	2,347	2,659,418	3.5%	1.4%	9.2%	877	1,056,650
	Sparkling	9,171	731,756	16.4%	5.5%	2.5%	3,691	494,635
	Others Bottle	2,613	454,883	60.4%	1.6%	1.6%	834	139,877
	Others Bulk	493	52,768	-5.2%	0.3%	0.0%	150	10,340
	Total	166,512	28,795,281	10.7%	100%	100%	54,556	10,824,661

Source: KOTIS (Korean government import statistics)

<sup>[1]</sup> Korean GDP Growth Forecast for 2010 announced in September 2009: 3.6% (IMF), 4.3% (S&P), 3.6% (Bank of Korea). Consumer Survey Index (CSI) by Bank of Korea marked 114 for August 2009, a seven year high.

<sup>[2]</sup> [http://www.haksanpub.co.kr/comics/c\\_detail.asp?comics\\_id=C2000162&comics\\_sub\\_id=21](http://www.haksanpub.co.kr/comics/c_detail.asp?comics_id=C2000162&comics_sub_id=21)

<sup>[3]</sup> Due to freight, taxes and trader mark-ups, a bottle that retails for around \$3-4 in the United States would retail for about KRW 10,000 in Korea.

<sup>[4]</sup> Doosan Liquor BG was acquired by Lotte Corporation in 2009 and the company name was changed to Lotte Liquor BG.

<sup>[5]</sup> A revision of the Liquor Tax Act that went effect on July 1, 2008 provided 50 percent reduction in liquor taxes on locally made traditional liquor products recognized as necessary for continuation/preservation of cultural heritage.

<sup>[6]</sup> A large part of the Korean diet is composed of hot and heavily spiced dishes incorporating abundant use of vegetable ingredients, which suggests favorable matches with white and sparkling wine.

<sup>[7]</sup> Traditional local hard liquor similar to vodka but now made from imported tapioca. It contains about 17-25% of alcohol.

<sup>[8]</sup> CIF is an export price inclusive of insurance and freight cost.

<sup>[9]</sup> The paid Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer down stream.

<sup>[10]</sup> In addition to tariffs and taxes, additional fees of 7 to 8 percent of CIF value will occur for miscellaneous expenses, including customs clearance fees, warehousing fees, transportation fees, etc. The amount of these additional costs depends mainly on the kind of inspection to which the shipment is subject. For example, the warehousing fee will increase significantly if a detailed chemical inspection is required instead of document inspection.

<sup>[11]</sup> Each mark-up calculation is based on \$16.10, i.e., the customs cleared cost (H: \$17.63) minus the value added tax (F: \$1.53).

<sup>[12]</sup> Please note that listed prices in the website may be different from current actual prices in the market as the listed price does not reflect discounts and varying mark-ups by retailers.

<sup>[13]</sup> Added in October 2002 to prevent tax evasion related to liquor sales by restaurants and bars. A recent revision requires destination mark only on bottles sold in retail stores.

<sup>[14]</sup> Unit: \$1,000 US dollar, CIF value

<sup>[15]</sup> Compared to the same period in the previous year.

<sup>[16]</sup> Unit: Liter