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Coffee Market Brief Update

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Report Highlights:

Most roasted coffee beans imported from the United States are handled by U.S. based coffee franchises such as Starbucks, Coffee Bean and Tea Leaf. In addition to these chains, fast food restaurants, such as McDonald's and Lotteria also import roasted coffee beans. South Korea's per capita coffee consumption is five times greater than consumption in the rest of the Asia-Pacific region. Despite the economic downturn and health and safety concerns, the coffee sector in Korea continues to grow. As the younger generation embraces a Western coffee culture, this trend is expected to continue.

SECTION I. MARKET OVERVIEW

SUMMARY

The Korean coffee market continues to expand. The latest estimate of the market pegs coffee consumption at 1 kg per person, compared to an average per capital consumption of 0.2 kg in the Asia-Pacific region. Widespread penetration of coffee in the country means that there is already a solid consumer base for coffee-related beverages. Moreover, increased income levels in tandem with rapid economic growth and adoption of a Western lifestyle make coffee an affordable and fashionable drink for many of Korea's young consumers. In addition, despite the economic downturn and various health problems including the melamine incident with China and other substance issues in 2008, the coffee industry is still growing.

Table 1: Korea Coffee Bean Imports, Volume & Value

| | 2005 | 2006 | 2007 | 2008 | 2009 (First Half) |
|-------------------------|-----------|-----------|-----------|-----------|----------------------|
| Volume (Metric Tons) | 91,619 | 91,662 | 90,889 | 108,413 | 56,117 |
| Value (US\$1,000) | \$164,934 | \$187,782 | \$230,918 | \$331,353 | \$157,611 |

Instant Coffee which uses Robusta beans holds the larger market share in Korean coffee market. With its convenience and established traditional popularity, this instant coffee held about 90% of the coffee market. However, coffee which uses Arabica beans has consistently gained its market share in the past decade. This trend has been very conspicuous, and even the chief executive of Holly's Coffee estimates this Arabica based coffee to reach about 40% of the coffee market in the next five years. As consumer tastes are becoming more sophisticated, they seem to demand more varieties and premium quality in coffee products.

Almost all of the coffee used in the industry is imported from various countries. While coffee has been classified as Robusta or Arabica beans, these coffee beans can also be classified by its roasted-ness (below Table, classified as green beans and roasted beans). As Korea roasts and processes much of the cheaper Robusta based coffee beans from the green beans, Robusta based coffee beans are largely imported as green beans. As Vietnam produces Robusta based coffee beans, Korea has been traditionally importing the dominant amount of the beans from the country.

While the green beans require the roasting to get to the final production of the coffee when in use, the roasted beans are those that have already been roasted. These roasted beans are dominantly used in the coffee specialty shops and cafes, such as Starbucks, Illy issimo, and Holly's Coffee.

Table 2: Imported Coffee Volume, Classified by Beans

Unit: Metric

| | 2005 | 2006 | 2007 | 2008 | 2009 First |
|---------------|--------|--------|--------|--------|------------|
| Green Beans | 83,327 | 84,930 | 84,542 | 97,820 | 9 |
| Roasted Beans | 1,210 | 1,613 | 2,522 | 3,081 | 1 |

Although the ranking for green bean importing countries has been stable, that of the roasted beans have changed each year for the past few years. In 2006, it was ranked by the order of The United States, Brazil, Japan, Italy, and Egypt. While the above record shows the ranking of 2008, by the end of first half of 2009, Switzerland has replaced Japan for its second place, and Italy has replaced Brazil for the third. Apparently, this dramatic shift in imports signifies the trend of consumers demanding more premium high quality coffee beans.

Table 3 : Green Beans Import in 2008

| Rank | 1 | 2 | 3 | 4 | 5 |
|----------------------|-------|-------|--------|--------|-------------|
| Country | U.S. | Japan | Brazil | Italy | Switzerland |
| Volume (Metric Tons) | 2,447 | 2,156 | 1,283 | 628 | 144 |
| Value (US\$/MT) | 9,464 | 5,874 | 7,648 | 13,545 | 34,712 |

Table 4 : Roasted Beans Import in 2008

| Rank | 1 | 2 | 3 | 4 | 5 |
|----------------------|---------|--------|----------|----------|-------|
| Country | Vietnam | Brazil | Columbia | Honduras | Peru |
| Volume (Metric Tons) | 47,289 | 16,014 | 13,716 | 8,450 | 8,011 |
| Value | \$2,145 | 3,142 | 3,285 | 3,007 | 2,822 |

| | | | | | |
|-----------|--|--|--|--|--|
| (US\$/MT) | | | | | |
|-----------|--|--|--|--|--|

Table 5 : Korean Coffee Market Opportunities and Challenges

| Opportunities | Challenges |
|---|---|
| Korean coffee market depends entirely on imports | Importers and consumers are unaware of the coffee varieties available from the U.S. |
| The U.S. enjoys a good reputation for high quality coffee | In general, consumers tend to drink the least expensive instant coffee |
| Coffee is a popular and established beverage | Fresh coffee beans are not popular |
| Low tariffs and exemption from the special excise tax | In terms of health consciousness, coffee has a negative connotation |

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

MARKET SECTOR

1) Instant Coffee and Coffee Mix

Because the instant coffee is such a dominant coffee market player (approximately 90% of the total coffee market), it is impossible to ignore the instant coffee market, even though it may be in the transitional phase of the spread of Arabica based coffee. The demand of Coffee Mix, the dominant form of the instant coffee, has been very steady and even grew more than 22% in 2005 and 10% in 2008. The growth in the sales of coffee mix primarily depends on its convenience, but recently, the growth is being carried by the premiumization of the instant coffee mix. As the quality of the coffee mix improves and is marketed to the consumers as such, there is a good chance that it will maintain its current popularity.

Table 6 : Coffee Mix Sales by Company

Unit: Metric tons

| | DongSuh | Nestle | DaeSang | Minor | Total |
|------|---------|--------|---------|-------|--------|
| 2006 | 60,096 | 14,824 | 1,151 | 2,110 | 78,181 |
| 2007 | 67,540 | 14,363 | 868 | 2,030 | 84,801 |
| 2008 | 74,975 | 15,745 | 505 | 2,473 | 93,698 |

While there are few of the instant coffee products that are still firm in their popularity, some of the traditional products, such as in vending machine channeled instant coffee, are facing a tough time. In addition, the melamine incident in 2008 has exacerbated the problem of people shunning the instant coffee over more premium Arabica based coffee.

Media has also contributed to people's changing preference. While coffee were popularly deemed to be an unhealthy product, an episode appearing in one of the well known health-related program discouraged the use of instant coffee, and encouraged the use of Arabica based roasted beans and its coffee.

Coffee in Korea was traditionally a very conservative industry, fixed on producing the same products each year. However, as the trend has turned to people seeking healthier and premium coffee, a large number of new instant coffee products have been introduced from the Dongsuh and Nestle Korea. The health and wellness trend was well reflected in the production of various products such as "Maxim Wellbeing Polyphenol coffee" and "Taster's choice Wellbeing Coffee," "Maxim Arabica 100" and "Taster's Choice Supremo". The companies began to premiumize the instant coffee market to attract consumers.

2) Roasted Bean Coffee

From 2006, the use of roasted coffee beans has steadily increased. The increase in the number of takeout coffee shops continued, and is marking a constant growth in the year 2007 and 2008.

Most of the roasted coffee bean imported from the U.S. is handled by the U.S. based franchise coffee chains such as Starbucks, Coffee Bean and Tea Leaf, etc. In addition to these stores, even the fast food restaurants, such as Macdonald's and Lotteria also showcased premium coffee from fresh beans at a lower price compared with that of other franchise shops. This shows that the previous competition between the high end franchise specialty coffee shops has moved into the more accessible arena. Because of the continued penetration of roasted bean coffee into the market, the growth is expected to be sustainable for the near future.

3) Ready-to-drink coffee

South Korea is the second largest RTD coffee market in Asia, with volume sales of 137 million liters in comparison to the number one consumer Japan. In 2008 alone, the RTD coffee market has grown 16.9% compared to the previous year, recording the total sales value of about \$590 million (Korean Won 645 billion) in 2009.

In 2009, sales of RTD coffee were driven by premium products. Global coffee franchises such as Starbucks, Illy Issimo and Coffee Bean and Tea Leaf provided premium coffee of better quality, which made the consumers more sophisticated in their tastes and choice of coffee. As the companies put more efforts on positioning their products as premium, the average unit prices also increased by 6% in 2009.

Leading the pack is Lotte Chilsung Beverage Co Ltd, with 44% share in off-trade value terms. Its Let's Be brand led the category with a high level of penetration and wide distribution, but eventually, it lost both value and volume share to new brands because of its traditional positioning. The company's Cantata brand, introduced in 2007, targeted the young, urban high-income male consumers and working people who are familiar with the coffee culture. Dongsuh food Co Ltd also has strong corporate brand power and offers three RTD coffee brands: Maxwell House, with a share of almost 8% in 2009, Starbucks Discoveries (3%) and TOP, launched in 2007 and 2008 respectively. These products all target different groups and thus are marketed differently. Both advertising and packaging is highly important in the coffee industry, where existing players and

newcomers alike are competing for the premium segment as consumers are looking for more premium products. In South Korea, the look of RTD coffee packaging is especially influencing purchases among younger women. The packaging often adopts very stylish and trendy images and slim size so that the female consumers are easily attracted to the products.

New products are developed in co-operation with well-known chained specialist coffee shops and manufacturers. Manufacturers introduced RTD coffee products in partnership with famous coffee franchises. As urban consumers seek premium coffee provided by franchised specialist coffee shops and become loyal to a specific brand of outlet, some manufacturers sought to associate their products with strong-performing coffee franchises in the competitive RTD coffee category. Rather than building brands on their own, RTD coffee players are increasingly looking to strategic alliances with existing companies to develop brands.

SECTION III. CONSUMPTION, OPPORTUNITIES AND THREATS

1) Premiumization

With the familiarization of the western coffee culture in the younger generation, the consumption of coffee is only expected to increase. The form of coffee that is favored would also shift from the traditional instant coffee to the fresh bean coffee. In time, consumers' preference for the high quality coffee would translate into a demand for a variety and premium quality coffee in all forms of coffee products. Thus coffee in various tastes and in high quality would need to be provided in order to satisfy the more complex consumer demand. Various shops are already taking in such demands, and are offering exotic coffee beans from places unfamiliar. Various coffee tastes and products are developed to attract consumers and distinguish their products from the competitors.

2) Health and Wellness trend

Korean consumers are also very health-conscious. The recent favor for the black coffee also stems from the awareness for the benefit of the black coffee, introduced in media. The use of instant coffee also decreased with the knowledge that prima (the white substance that is used to soften the taste of coffee) is bad for health. Thus it would be a good strategy to advertize a coffee product with relation to the health benefit it has. On a similar note, while decaffeinated coffee is still not very well known in Korea, the recent focus on the health and wellness, if suitably targeted, may bring decaffeinated coffee into demand.

3) Private Label(PL) posts a strong performance

The large retail store E-mart produced a private label on almost all categories, including the coffee mix and the instant coffee. The trend was followed by the other retail stores, and now almost all the mega retail stores have various PL coffee products. So far, the main targeting point is the lower price compared to the original products that are already in the market, but the market share is still small. People also worry that the PL products may be low in quality. Yet there are still benefits in its price, so it is still competitive, and with appropriate marketing.

SECTION IV. COST AND PRICE

Table 7 : Coffee Tariff by Category

| Coffee (unroasted) | Coffee (roasted) | Coffee (instant) |
|--|--|--|
| caffeinated: HSK0901.11-0000, tariff rate 2% | caffeinated: HSK0901.21-0000, tariff rate 8% | HSK2101.11-1000, tariff rate 8%, VAT added |
| decaffeinated: HSK0901.12-0000, tariff rate 2% | decaffeinated: HSK0901.22-0000, tariff rate 8% | |

Table 8 : Market Price of Instant Coffee per 250 gram

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------|-------|--------|--------|--------|--------|--------|
| Price (Korean Won)* | 9,200 | 10,000 | 11,000 | 12,000 | 13,000 | 13,800 |

*: One US\$ equivalents to 1,100 Korean Won.

SECTION V. MARKET ACCESS

Labeling Requirements

Imported coffee is required by law to have a Korean language label. Korean language stickers may be applied in lieu of a Korean language label. The sticker should not be easily removable and should not cover the original labeling. The principal display panel must contain the product name, product type and content information. If this is not feasible, such information shall be provided in a Korean language sticker using a 12-point or larger font pitch size. The Korean language label should contain the following information:

1. **Product Name:** The label should state the name of the product. The product name should be identical to the product name declared to the licensing/inspection authority.
2. **Product type:** This is mandatory for specially designated products such as coffee.
3. **Manufacturing company of origin and address**
4. **Manufacturing date, month and year**
5. **Importer's name and address, and the address where products may be returned or exchanged in the event of defects.**
6. **Importers' business license number**
7. **Seller's name, address and phone number**
8. **Shelf life**
9. **Weight of product**
10. **Ingredient(s) or raw material(s) and a percent content of the ingredient(s):**
The name of the major ingredient must be included on the label as well as the st the next four principle ingredients. These should be listed with the highest percentage first followed by the others. Artificially added purified water does not count as one of the five major ingredients.
11. **Nutrients:** Only special nutritional foods, health supplementary foods, products wishing to carry nutritional labels and products wishing to carry a nutrient emphasis mark are subject to nutritional labeling.
12. **Other items designated by the detailed labeling standards for food et al.:**

This includes cautions and standards for use or preservation (e.g., drained weight for canned products, radiation-processed products, etc.).

13. **Country of origin labeling** is required on food products.

14. **Packaging material**

SECTION VI. KEY CONTACTS AND FURTHER INFORMATION

U.S. Agricultural Trade Office

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For more information about the Korean market, please review the Exporter's Guide (KS1025)

at [Exporter Guide_Seoul ATO_Korea - Republic of_2010-10-26](#)

and the FAIRS Country Report (KS9039) at [FAIRS COUNTRY REPORT 2009](#)

More Korea specific reports can be found at

<http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>.

General information about the Korean Market can be found on the Agricultural Trade Office Website at <http://www.atoseoul.com/> or about the Foreign Agricultural Service at <http://www.fas.usda.gov/>