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GAIN Report

Global Agricultural Information Network

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Korea - Republic of

Food Service - Hotel Restaurant Institutional

Biennial Report 2016

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Report Highlights:

The Hotel, Restaurant and Institutional (HRI) foodservice sector in South Korea continues to grow as on-going socio-economic changes promote increased consumer spending on dining outside of the home. Cash-register sales for the sector totaled ₩83.8 trillion won (\$79.6 billion) in 2014, up 5.4 percent from the previous year. The sector also continues to restructure as large-scale restaurant companies as well as broad-line foodservice distributors expand at the expense of small-scale, independent businesses. As a result, the sector generates additional demand for products of new

taste, added value, stable supply, consistent quality and specifications catered to the industry. These changes, coupled with implementation of the Korea-United States Free Trade Agreement, should offer greater export opportunities for a wide variety of American products in the coming year.

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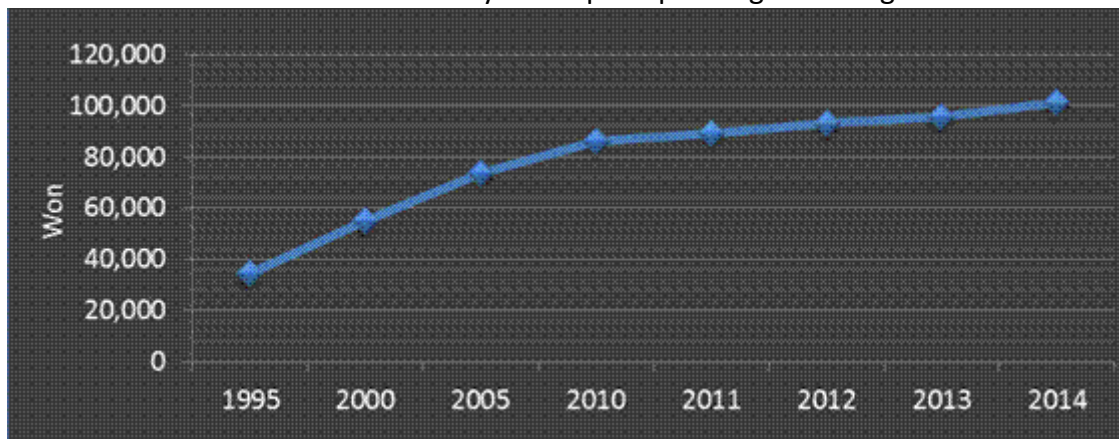
This report was prepared by the Agricultural Trade Office of the U.S. Embassy Seoul, Korea. Korean government policy and regulation are subject to change and revision. Please check for updated reports and verify Korean import requirements with your Korean business partners to ensure that you have the most up-to-date information prior to shipping. FINAL IMPORT APPROVAL OF ANY PRODUCT IS SUBJECT TO THE IMPORTING COUNTRY'S RULES AND REGULATIONS AS INTERPRETED BY BORDER OFFICIALS AT THE TIME OF PRODUCT ENTRY.

SECTION I MARKET SUMMARY

A. Overview of the Korean HRI Foodservice Sector

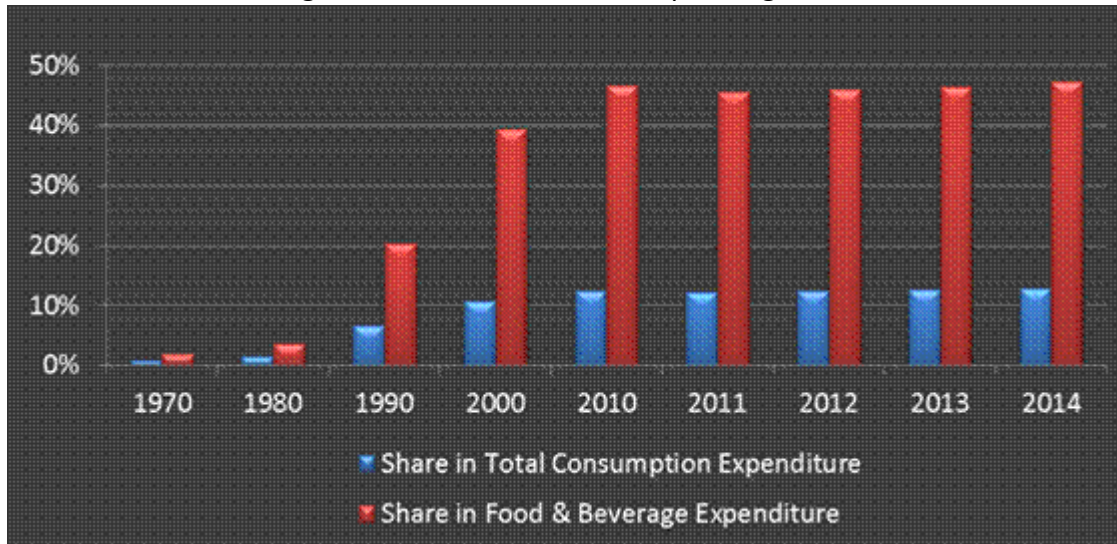
Changes in lifestyle and dietary culture coupled with increased income level have promoted a rapid growth of the Hotel, Restaurant and Institutional (HRI) foodservice sector in South Korea (hereinafter referred to Korea) over the last three decades. Monthly per capita household spending on dining outside of the home has continued a solid growth, reaching ₩101,342 won (roughly \$96, \$1 = ₩1,053) in 2014, up 5.6 percent from the previous year. In other words, each Korean household spent 47.3 percent of its food and beverage expenditure, or 12.8 percent of its total consumption expenditure on dining out. It is expected that spending on dining-out will continue a steady growth in the coming years as Korean consumers face ever busier lifestyle with increased number of dual-income families and single-member households.

Chart 1: Korean Household's Monthly Per Capita Spending on Dining-out



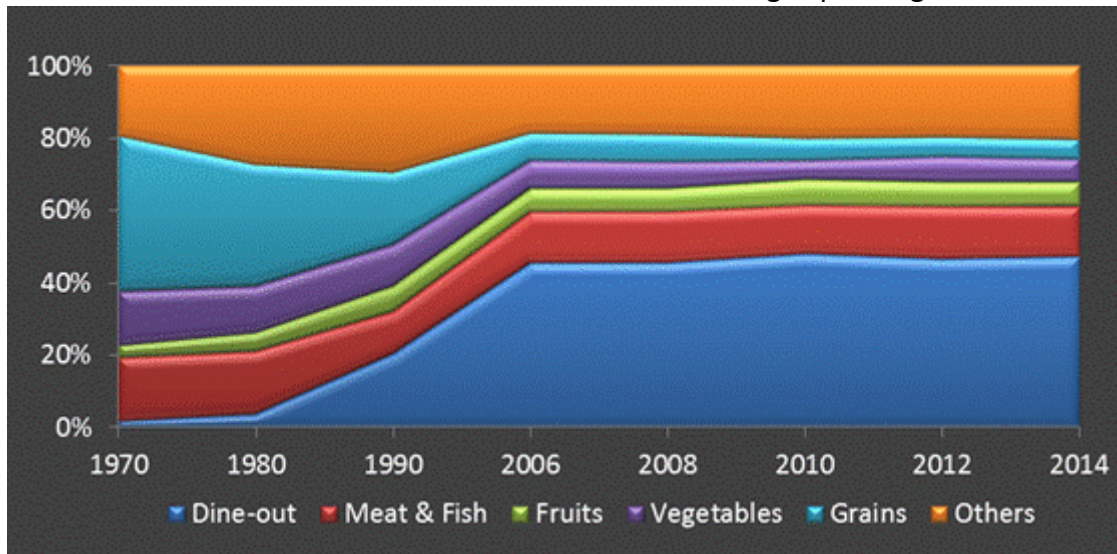
Source: Household Income & Expenditure Statistics (Korea Statistics Office, <http://kosis.kr>)
Exchange Rate: \$1 = ₩1,126 won (2012), ₩1,107 (2013), ₩1,053 (2014)

Chart 2: Share of Dining-out in Korean Household Spending



Source: Household Income & Expenditure Statistics (Korea Statistics Office, <http://kosis.kr>)

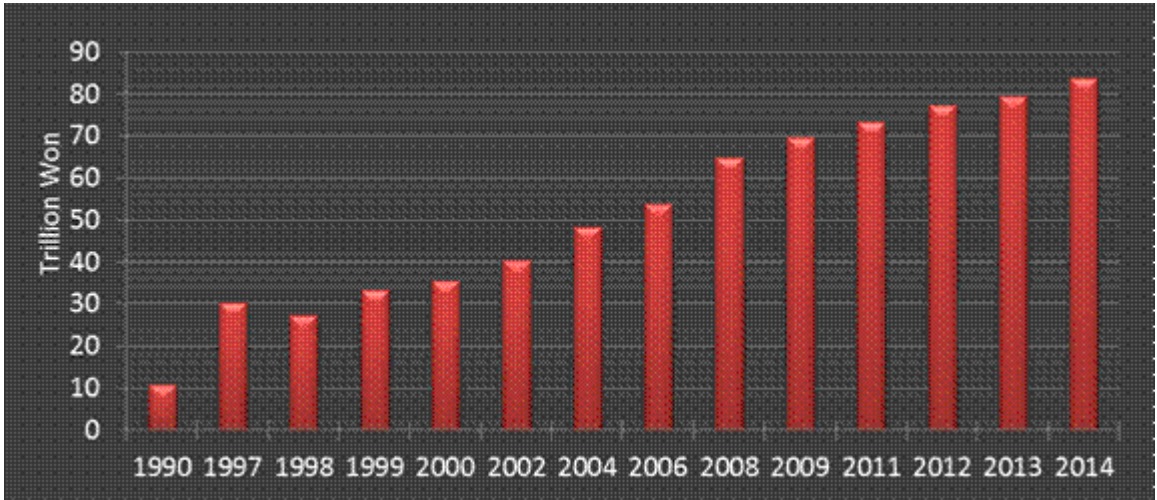
Chart 3: Breakdown of Korean Household's Food & Beverage Spending



Source: Household Income & Expenditure Statistics (Korea Statistics Office, <http://kosis.kr>)

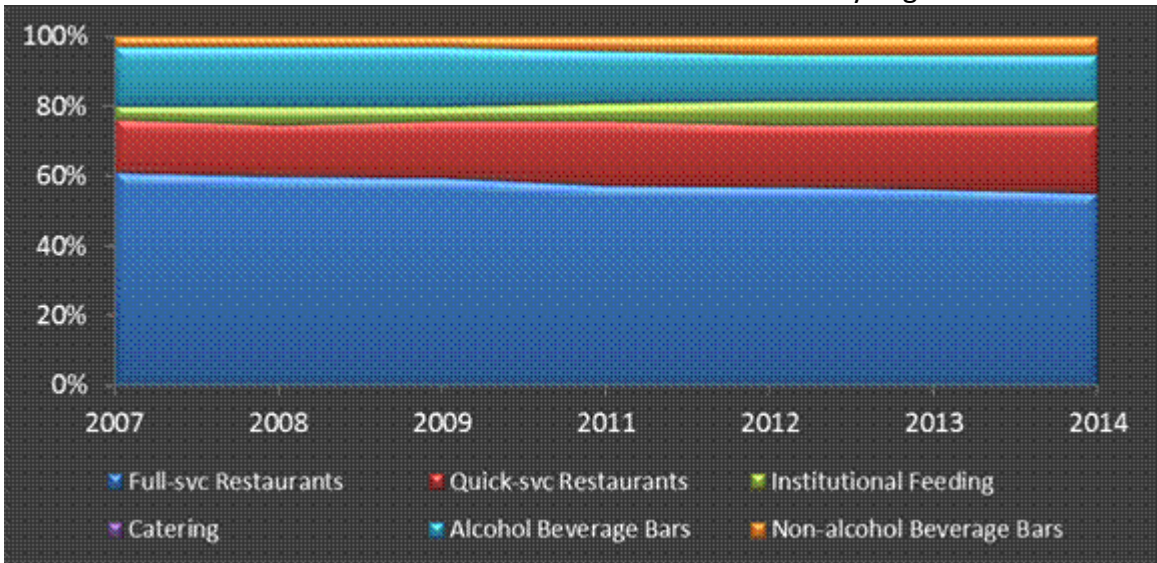
Cash register sales for the HRI foodservice sector in Korea totaled ₩83.8 trillion won (\$79.6 billion) in 2014, up 5.4 percent from the previous year. Breakdown of the sector sales indicated that full-service restaurants were the leading segment of the sector by accounting for 55.5 percent of the sector sales, followed by quick-service restaurants (19.5 percent) and alcohol beverage bars (13.3 percent). In terms of sales growth between 2013 and 2014, non-alcohol beverage bars (largely café) recorded the highest, 17.8 percent growth, followed by institutional feeding restaurants (13.9 percent) and quick-service restaurants (9.8%).

Chart 4: Cash-register Sales for the HRI Foodservice Sector in Korea



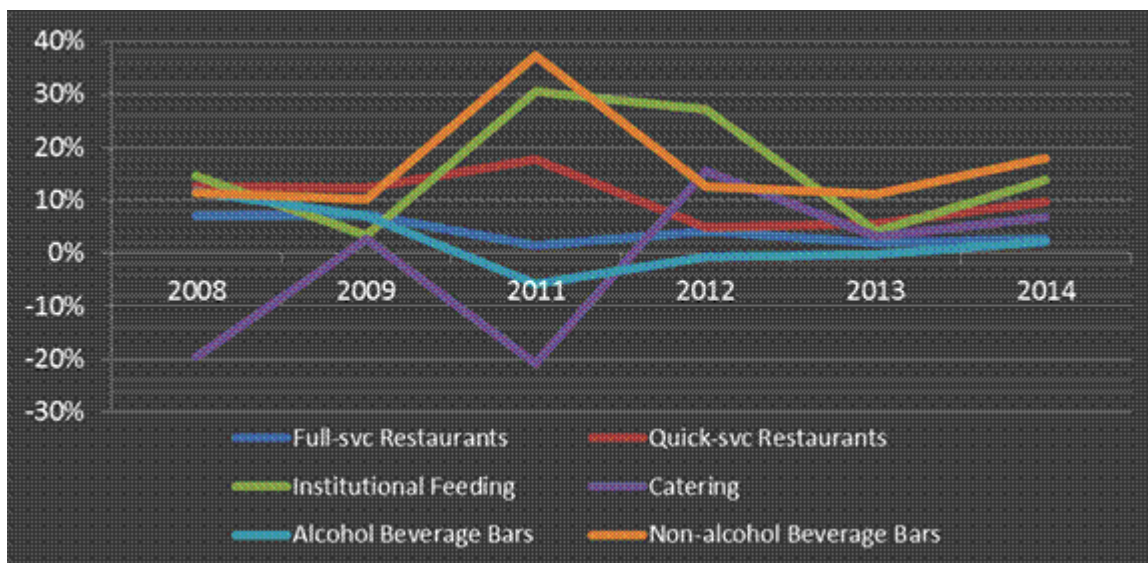
Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Chart 5: Breakdown of the Korean HRI Foodservice Sector Sales by Segment



Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Chart 6: Annual Sales Growth Rate of HRI Foodservice Segments in Korea



Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

It is notable that HRI foodservice sector in Korea has largely been composed of small-scale, independent (or family-operated) restaurants and bars partly due to the Korean government policy maintained up until mid-1990's which restricted large corporations from entering the foodservice sector. In addition, the restaurant and bar industry has been a major refuge to many of those individuals who lost or retired from their corporate jobs during the Asian economic crisis in 1997-2000 and again during the recent years of global economic downturn (since 2008 to current). Almost 88 percent of the restaurants and bars in Korea were small businesses that hired less than five employees as of 2013.

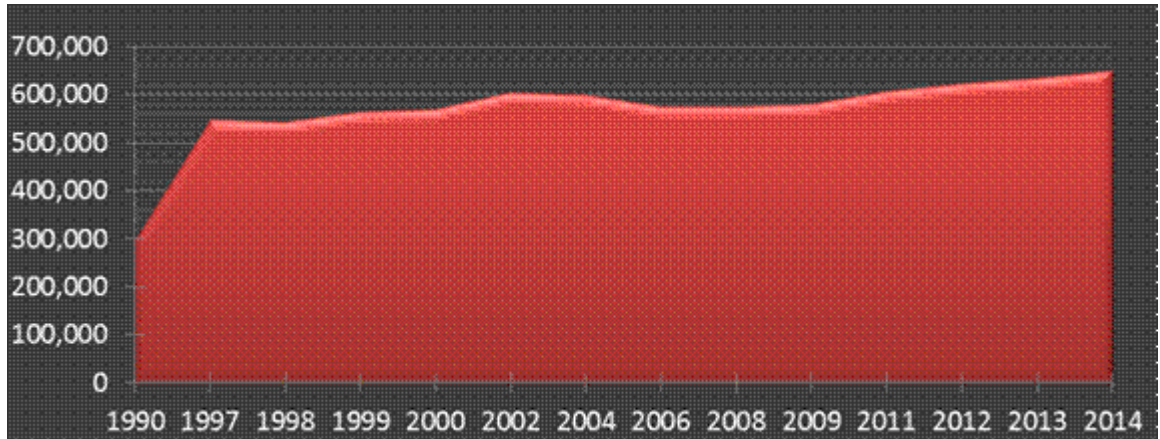
However, marketers point out that the sector has already gone over the saturation point in terms of the number of restaurants and bars that the market can support for sustainable growth. As an indicator, there is roughly one restaurant per every 100 consumers in Korea today and over 60 percent of the restaurants and bars make less than ₩10 million won (roughly \$90,000) of annual cash-register sales each. Retail industry's aggressive expansion into HMR (Home Meal Replacement) business has been another force that further heightened the competition in the HRI foodservice sector recently.

As a result, a restructuring trend that favors expansion of large-scale businesses at the expense of small-scale, independent establishments is expected to remain very strong in the HRI foodservice sector in the coming years. For example, between 2008 and 2013, the number of large-scale restaurants and bars that hired 20 or more employees increased 32.0 percent while the number of small establishments that hired less than 5 employees increased only 7.9 percent. During the same period, the large-scale restaurants and bars that hired 20 or more employees recorded 42.9 percent cash-register sales growth while small-scale establishments that hired less than 5 employees recorded 14.6 percent growth.

Restructuring trend in the sector has also promoted a rapid growth of franchise foodservice business over the years as elevated competition in the market forced the industry to adopt the idea of economy

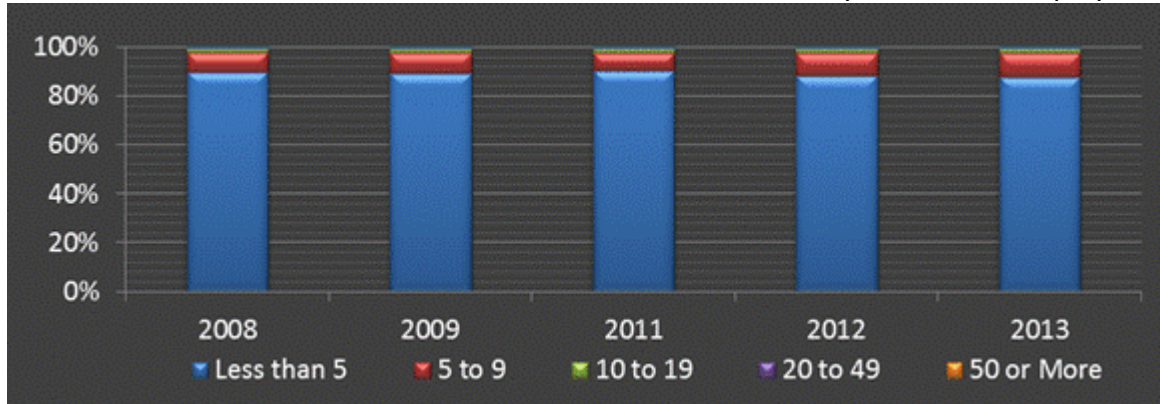
of scale. A large number of small-scale, independent restaurants and bars have been replaced by establishments under the network of franchise businesses for more efficient consumer marketing, recipe development and product (ingredient) supply. As of 2014, 25.6 percent of the restaurants and bars in Korea were under franchise operation, up 1.9 percent point from 2013. The restaurants and bars under franchise operation accounted for 51.3 percent of overall foodservice sector sales, up 4 percent point from 2013.

Chart 7: Total Number of Restaurants & Bars in Korea



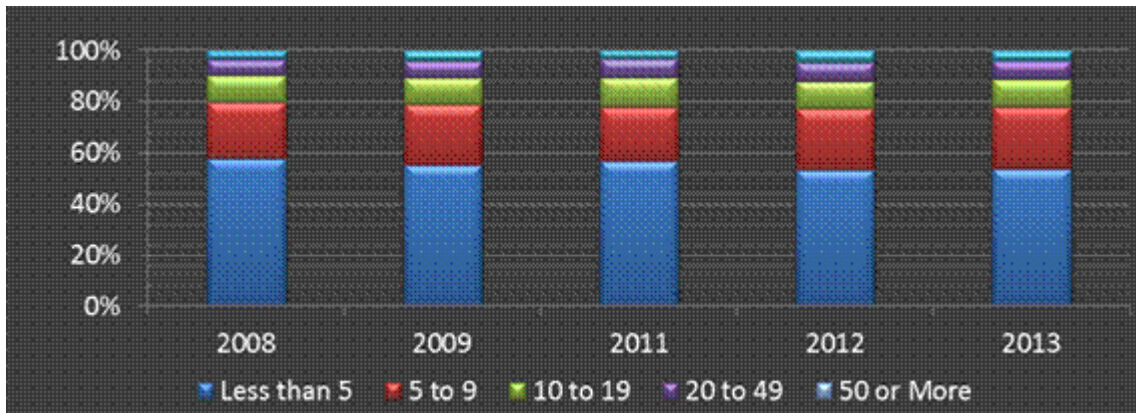
Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Chart 8: Breakdown of Number of Restaurants & Bars in Korea by Number of Employees



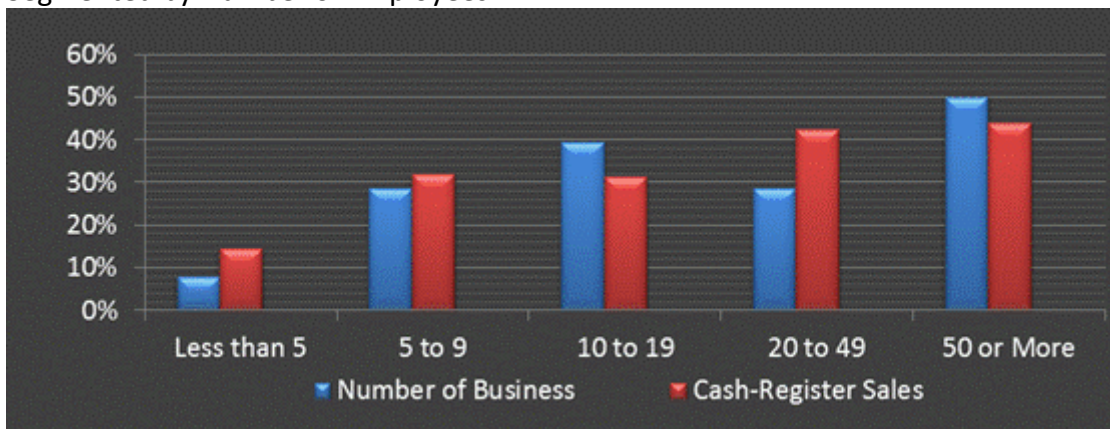
Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Chart 9: Breakdown of Cash-register Sales of Restaurants & Bars in Korea by Number of Employees



Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

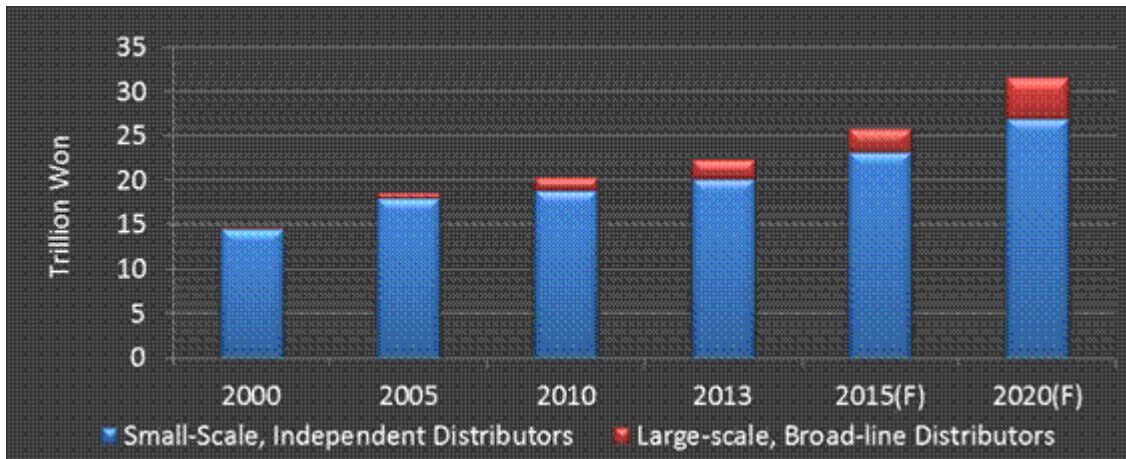
Chart 10: Growth of Restaurants & Bars in Korea between 2008 and 2013 Segmented by Number of Employees



Source: Wholesale & Retail Industry Survey (Korea Statistics Office, <http://kosis.kr>)

Rapid growth of large-scale, broad-line foodservice product distributors, which is another key outcome of the restructuring force in the sector, is also likely to continue in the coming years at the expense of old distribution channel that involves multiple layers of small-scale middlemen distributors. Industry analysis estimates that the value of food products (ingredients) distributed to the foodservice sector in Korea totaled ₩22.4 trillion won in 2013. Over 2,000 small to medium-scale distributors accounted for 90 percent of the product distribution while a dozen large-scale, broad-line foodservice distributors supplied the remaining 10 percent. Expansion of larger-scale restaurants and bars as well franchise businesses in the sector should generate further growth of large-scale, broad-line distributors in the coming years. It is forecast that large-scale distributors will account for 15 percent of the product distribution in the sector by 2020.

Chart 11: Value of Food Products Distributed to the HRI Foodservice Sector in Korea



Source: CJ Freshway Co. IR Report 2014 (www.cjfreshway.co.kr), Seoul Financial News Article (March 18, 2015) based on Data by Eugene Investment & Securities Co., Ltd.

Recently, a social initiative of protecting small businesses from the continued expansion of large corporations in the foodservice sector has gathered strong voice in Korea. As a result, Korean government has introduced a series of regulations and guidelines (so called 'co-growth' measures) to address the issue. However, these 'co-growth' measures are likely to have limited impact to the HRI foodservice sector because the sector needs some level of restructuring to regain momentum for sustainable growth.

The evolvement of the HRI foodservice sector in Korea generates new opportunities for imported products that offer new tastes, healthy recipes, added-value, stable supply, consistent quality and specifications catered to the industry, characteristics where U.S. products are competitive. The outlook for U.S. exports to the Korean HRI foodservice sector is excellent for beef, pork, chicken, processed meat (including ham and sausage), seafood, processed vegetables, fresh and processed fruits, tree nuts, cheese and processed dairy products, fruit juices and other non-alcohol beverages, wine and other alcohol beverages, sauces and condiments, coffee, bakery products and much more. In addition, reduction of import duties under the Korea-United States Free Trade Agreement (KORUS FTA) will also help U.S. exporters compete against export-oriented competitors in the HRI foodservice sector in Korea.

B. Advantages and Challenges for U.S. Exports to the Korean Foodservice Sector

Advantages	Challenges
Korea is an emerging market where new ideas and trends are eagerly tried and accepted, leading to greater opportunities for new-to-market products. Consumers are looking for products of new and international tastes as their perspectives and income level continue to expand.	Consumers are generally biased toward locally produced products. Imported foods are often associated with contaminations and potential food-borne diseases. In addition, food safety issues are increasingly becoming means to restrict imports.
Korea by nature depends heavily on imports to	Imports of many products still face restrictive

<p>satisfy increased demand for food and agricultural products from its population of 50 million people. The United States currently maintains leading market share in Korea's over \$30 billion food and agricultural imports. Implementation of KORUS FTA expands export opportunities for American suppliers by reducing the tariff barriers.</p>	<p>trade barriers, including high tariffs, tariff-rate quota (TRQ), food safety/labeling standards, pest-risk assessment for fresh fruits. Certain food additives approved for use in the United States may not be approved in Korea. Outbreaks of animal diseases such as Avian influenza restrict the trade.</p>
<p>Korean consumers, who have gone through numerous food safety issues and scandals over the years, maintain a high level of sensitivity to the safety and quality of food offered in the market. As a result, Korean traders are making extra efforts to source products from more trusted origins, including the United States, in an effort to regain consumer confidence.</p>	<p>Price is still a key factor governing procurement decisions in the HRI foodservice sector in Korea. As a result, American products face steep competition against cheaper products from export-oriented competitors such as China and EU. Advantages of KORUS FTA could be diluted as competitors are actively pursuing free trade deals with Korea to remain price competitive.</p>
<p>Modern, large-scale businesses are leading the growth of the HRI foodservice sector in Korea, which provides more efficient market environment and distribution capacity for imported products. The sector generates increased demand for imported products that offer new tastes, healthy recipes, added-value, stable supply, consistent quality and specifications catered to the industry, characteristics where U.S. products are competitive.</p>	<p>Korean consumers' food taste is different from Americans in many ways. American suppliers should consider modifying their existing product specifications or recipes to better target the Korean consumers. However, many American suppliers have not enough understanding about the Korean market and thus are not in the position yet to offer catered products and services.</p>

SECTION II ROADMAP FOR MARKET ENTRY

A. Entry Strategy

A-1. Consumer Food Trends in Korea

Represented by steamed rice, Kimchi (cured and seasoned cabbage) and Bulgogi (soy sauce marinated beef), traditional Korean cuisine remains the mainstream of the Korean diet. However, globalization of the market and evolvement of consumer lifestyle have made today's Korean diet quite different from what it was in the past. Like consumers in developed countries elsewhere, Koreans are looking for new taste, better value, convenience, high quality, and most of all, safe and healthy food in their daily diet.

Due in part to the aging population, there is a heavy emphasis among the general Korean public on healthy eating. Korean consumers' strong belief in health-improving efficacy of regular food ingredients dates back thousands of years as indicated by a still prevailing old Korean teaching, "food and medicine are from the same source". On top of this, 'Well-being', a theme that evoked new consumer trend of seeking both physical and psychological health by adopting more wholesome approaches in daily life has further heightened the Korean consumers' attention to healthy diet. As a result, sales of functional foods (such as glucosamine, chlorella, vitamins, anti-oxidants, lactic bacteria, antlers, pollen, fish oil, ginseng and other Asian herbs) as well as regular foods that are associated with health benefits (such as red wine, organic food, green tea, yoghurt, blueberries, pomegranate, and quinoa) continue to grow.

Table 1: Aging Korean Population (unit: 1,000 people)

Age Group	1995		2010		Growth
	Number	Share	Number	Share	
0-14	10,236	23.0 %	7,907	16.2%	-22.7 %
15-64	31,678	71.1 %	35,611	72.9%	12.4 %
65 +	2,640	5.9 %	5,357	11.0%	102.9 %

Source: Korea Statistics Office (www.kostat.go.kr)

It is important to note that Korean consumers today are extremely sensitive to food safety issues as they have gone through endless outbreaks of big and small food safety scandals over the years, including BSE cattle, Avian Influenza, Genetically Modified Organism (GMO), faulty additives found in Chinese processed foods, and radiation risk from Japanese seafood. As a result, Korean consumers tend to over-react to food safety issue of any magnitude regardless of the truthfulness of the issue in question. Furthermore, Internet and SNS networks have become the major communication channel to share and spread the food safety issues and concerns among the general Korean public, which makes it more difficult for the government authority or the supplier to respond to the issue in a timely and efficient manner.

Continued growth of the economy allows Korean consumers to pay more attention to quality, diversity and new taste in diet. In particular, better-traveled young consumers, many of whom are educated in foreign countries, are ushering more international products and food culture into the market. It is also notable that the number of 'super rich' consumers continues to increase in Korea (Korea had over 180,000 cash-millionaires in 2014, which ranked Korea 11th in the world in terms of the number of cash-millionaire in the market). While Japan served in the past as the leading window for Korean consumers to monitor and adopt new foreign food culture and products, today's Korean consumers are tracking more diverse international markets, including California, New York, Paris, and London for new foreign food ideas and trends.

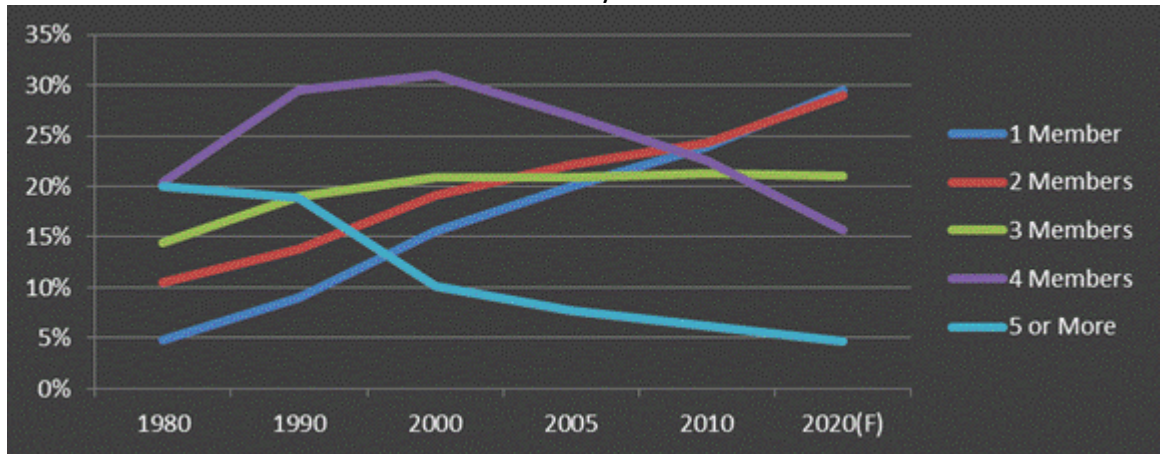
At the same time, the call for better value is also emphasized in the market mainly due to the on-going retirement of the seven million Korean baby boomers as well as slowing-down of the local economy under the on-going global economic crisis. As a result, the number of private brand label products introduced by retail stores is on a rise. Retail stores are also trying to expand direct importation of

agricultural products in an effort to eliminate the middlemen in the supply chain and lower the cost to the consumers. In addition, value-oriented retail stores, including dollar shops, warehouse discount stores and outlet shopping malls are currently deploying an aggressive expansion strategy to capitalize on the trend.

Korea's population of 50 million occupies a country the size of the state of Indiana. About 70 percent of the land is mountainous terrain and over 90 percent of the population lives in urban cities, which explains the high population density and high real estate cost for both housing and commercial space in Korea. Urban lifestyle provides general Korean consumers with easy access to restaurants and bars. The nature of urban lifestyle also promotes the idea of wider diversity and fast-changing trends in the Korean foodservice sector.

Convenience is another strong driving force behind many consumer trends as everyday life of Koreans gets busier. For example, rapid increase of dual-income families, single parent households, and single member households has led to a growing demand for Home Meal Replacement (HMR) products in retail stores as well as take-out meals in restaurants. Delivery service is extremely well developed in Korea as people do not want to waste time in the heavy traffic. Rapid growth of on-line shopping, including home-delivery service by restaurants and bars, is also rooted partly in the demand for convenience.

Chart 12: Breakdown of Korean Households by the Number of Household Member



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

A-2. Suggested Market Entry Tools

Market Research

The first step recommended for new-to-market American supplier seeking an entry into Korea is preliminary research to determine if there is a potential market for its product in Korea. The research should cover key marketing and regulatory issues including consumption trends, size of the market (imports), major distribution channels, current import tariffs and local taxes, and Korean government regulations and standards. The research, together with consultations with a potential Korean import partner down the road, can also help the American supplier to tell if any modifications to its existing

product or marketing strategy would be needed.

The internet home-page (www.atoseoul.com) of the Agricultural Trade Office Seoul under the USDA/Foreign Agricultural Service is highly recommended to new-to-export American suppliers as the site offers various information about the Korean food market, including:

- [Market Reports](#) (GAIN): Reports on key products and industries published by FAS Seoul. Particularly Exporter Guide, FAIRS Country Report, Export Certificate Report, Retail Food Sector Report, and HRI Food Service Sector Report are recommended to new-to-market suppliers.
- [KORUS FTA Product Briefs](#): Short briefs on over 45 “best prospect” products are available.
- [Korea’s Agricultural Import Statistics](#): This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports by four digit HS product code.
- [Korea's Agricultural Import Trends Presentation](#): This presentation, updated quarterly, provides an overview of Korea's agricultural imports and the competition between the U.S. and other competitors for key products.
- [What's Hot in South Korean Food Market](#): This monthly food news clipping summarizes new trends and developments in the Korean food market.

Additionally, the United States Department of Commerce is another important source of information for non-agricultural products. In particular, the “Country Commercial Guide” published by the department includes a wide range of useful information about the Korean market (www.buyusa.gov/korea/en/).

Understanding Local Tastes

Trends of recipes and products in the foodservice sector reflect the contemporary dietary culture of Korean consumers. Therefore, American products that are even used in similar dishes in the United States may require some degree of modification to be marketed successfully in Korea. Required modification could mean anything from changing packaging design and unit volume to reformulating the recipe. A common mistake that new-to-market American suppliers often make is viewing Koreans to be culturally similar to consumers in the neighboring Asian countries like Japan and China. Although it is true that people in these three far eastern Asian countries share some parts of their histories and cultures, Koreans’ tastes for food are different in many ways from their neighbors. Personal visits to Korea should be the best way to develop understanding about the local taste. Information gathering through Internet or associating with the Korean American community in the states could also be an efficient approach.

Korean Standards & Regulations on Imported Food and Agricultural Products

Korea has well-established standards and regulations on food and agricultural products. Imported products must meet all the local rules to be able to enter and sell in Korea. For detailed information regarding standards and regulations that imported food and agricultural products are subject to in Korea, including Labeling, Packaging, Export Health Certificates, MRL (Maximum Residue Level) Code, and Food Additive Code, please refer to the following annual reports published by the Office of

Agricultural Affairs/FAS Seoul.

(1) [FAIRS \(Food and Agricultural Import Regulations and Standards\) Country Report Annual 2015](#), KS1551 dated December 29, 2015

(2) [FAIRS Export Certificate Report Annual 2014](#), KS1452 dated December 31, 2014 (or visit www.atoseoul.com or www.fas.usda.gov for more recent update)

Animal & Plant Health Inspection Service (APHIS/USDA) also provides via its website (www.aphis.usda.gov) detailed information and guidance on export health certificates required in Korea by product.

Establishing Korean Business Partners:

While executing the preliminary market research, the American supplier is recommended to develop dialogues with potential business partners (importers/distributors) in Korea. Lists of Korean importers by product or by industry are available from the USDA/FAS offices in Korea. The lists are based on the industry contact database updated by the offices regularly. Korean importers in general are actively seeking new business opportunities with foreign suppliers and would willingly provide in-depth market intelligence if they are interested in the supplier's product or business offer.

An effective tool recommended for developing contacts with Korean importers is exhibiting in reputable food trade shows because Korean importers highly value face-to-face encounters when developing new business with foreign supplier. In particular, the Seoul Food & Hotel, the only show officially endorsed by USDA/FAS in Korea, has been an outstanding venue for new-to-market American suppliers to develop business contacts with a large number of key importers and distributors in Korea. Registration information to join the U.S. Pavilion of the show is available from the organizer (www.seoulfoodnhotel.co.kr, rhoad@oakoverseas.com). Other international food trade shows that attract a sizable number of Korean food buyers include FoodEx Japan (www3.jma.or.jp/foodex/en/), Natural Products Expo West (www.expowest.com), Fancy Food Show (www.specialtyfood.com), SIAL France (www.sialparis.com), and ANUGA Germany (www.anuga.com).

Another tool recommended is joining trade delegations to Korea organized by various American agricultural export promotion organizations, such as State Regional Trade Groups (SRTG, e.g., Food Export Association of the Midwest USA, Western U.S. Trade Association, and Southern U.S. Trade Association), State Departments of Agriculture, and USDA Cooperators (e.g. U.S. Dairy Export Council). Some of the states and USDA cooperators maintain representative offices or marketing contractors in Korea. Contact information of these organizations is available from USDA/FAS Korea offices.

KORUS FTA and Import Duties

The Korea-United States Free Trade Agreement (KORUS FTA), implemented on March 15, 2012 significantly reduces tariffs on many American products imported into Korea. The website of ATO Seoul provides a special section that offers detailed information and links related to the KORUS FTA, including:

1) Full Text of the Agreement: <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus->

[fta/final-text](#)

2) Korea Tariff Schedule:

http://www.ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file786_12756.pdf

You will find the base tariff rate and the phase out category for all agricultural and food products, organized by HSK code in the Korea Tariff Schedule. Phase-out categories include:

A	Immediate tariff elimination	E	6 year
B	2 year phase-out	F	7 year
C	3 year	G	10 year
D	5 year	H	15 year

3) Country of Origin Certification:

[http://www.atoseoul.com/fta/KORUS%20FTA%20COO%20FAQ_clean%20\(2\).pdf](http://www.atoseoul.com/fta/KORUS%20FTA%20COO%20FAQ_clean%20(2).pdf)

4) Tariff-rate Quotas: <http://www.atoseoul.com/fta/step4.asp>

5) FTA Briefs on Top 40 Products: <http://www.atoseoul.com/fta/fta%20product%20briefs.asp>

Trademarks and Patents

New-to-market American suppliers should pay attention to protecting the company/product trademarks and patents, which can be easily handled by working with the Korean business partner or through local attorneys. The Korea Industrial Property Office (KIPO) is responsible for registration of trademarks and review of petitions related to trademark registration. In accordance with the Trademark Law, trademarks are registered in Korea on a “first file, first registered” principle. A person who registers a trademark first has a preferential right to that trademark, and Korean law protects the person who has the right over the trademark. To prevent trademark disputes, American companies considering conducting business in Korea are encouraged to register their trademarks as early as possible. For more information, see the Korea Industrial Property Rights Information Service website (<http://eng.kipris.or.kr>).

U.S. Origin Foodservice Companies in the Market

Many of the leading restaurant and café chains in Korea are of U.S. origin and can be approached through the headquarters in the United States. The degree of involvement that the U.S. headquarter has in the operation of the partner chain in Korea varies from one company to another depending on the nature of the contract between them. U.S. headquarters in general have a significant amount of influence over what products and recipes the Korean partners serve. Below is a list of U.S. origin restaurants currently in operation in Korea.

Table 2: A List of U.S. Origin Restaurant Chains in Korea (2015)

Category	Key Companies
Quick Service Restaurants	McDonald's, KFC, Burger King, Subway, Popeye's, Taco Bell, Quiznos
Family Restaurants	TGIF, Bennigans, Outback Steakhouse, Sizzler, Chili's, Toni Roma's, Ruby Tuesday, Hard Rock Cafe, Hooters, On The Boarder
Ice Cream Restaurants	Ben & Jerry's, Haagen-Dazs, Baskin Robbins
Pizza Restaurants	Pizza Hut, Domino Pizza, Papa John's

Coffee & Beverage Shops	Starbuck's, Seattle's Best, Au Bon Pain, Krispy Kreme Doughnuts, Cinnabon, Dunkin Doughnuts, Smoothie King, Jamba Juice
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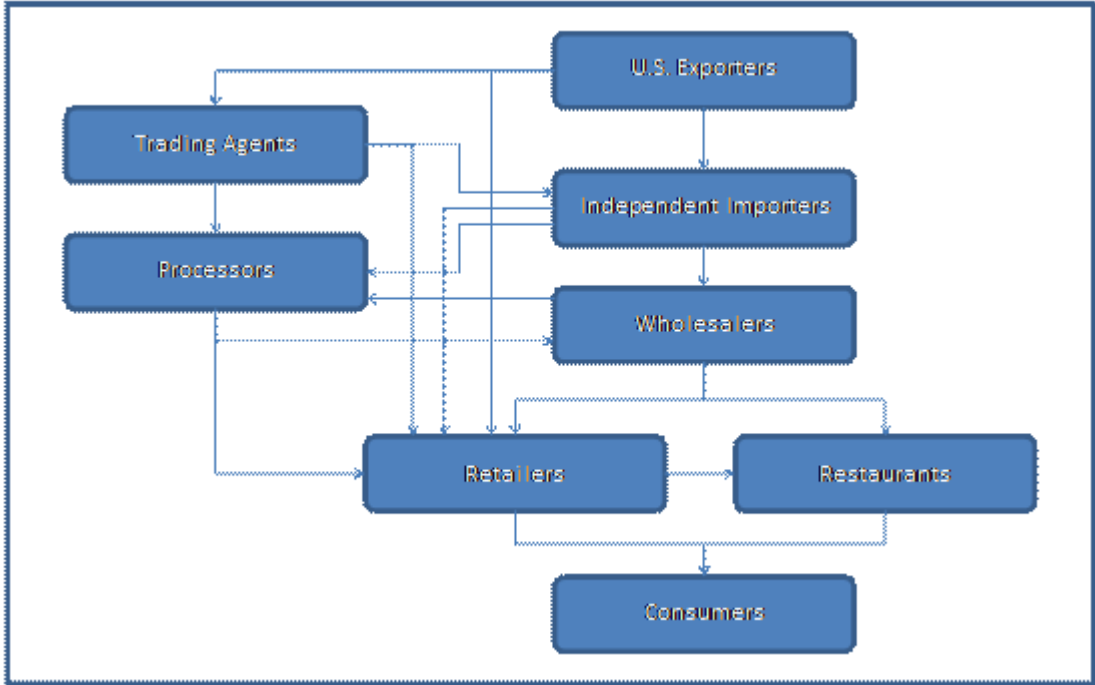
B. Market Structure - Distribution Channel

B-1. Supply Chain and Product Flow

The supply chain for imported agricultural and food products in general involves multiple layers of middlemen and distributors, which is part reason for high consumer price of many imported products in Korea.

It takes at least two weeks for a container ship from a western American port, and four weeks from an eastern port, to arrive in a port in Korea. Most imported consumer ready products enter Korea through the port of Busan, the second largest city in Korea at the southeastern tip of the peninsula. Port of Incheon, which is much closer to the Seoul metropolitan area, is another important entry point. In rare occasions, small-volume-high-value products, such as premium wine and live lobsters, are brought via air cargos through Incheon International Airport (ICN).

Chart 13: Flow of Imported Food and Agricultural Products



Once the products are cleared from the customs, they are transported to the importer’s warehouse for temporary storage. Importers may have warehouses in more than one location. Small, independent importers in general use third party logistics service providers for warehousing and trucking to avoid high overhead cost. The importer usually supplies directly to the large-scale customer’s warehouse but may use wholesalers or independent sales brokers when supplying to small customers or to distant regional markets. Large-scale retailers and franchise food service (restaurant) companies in general operate a network of "distribution-hubs" across the country, each of which

services all the branch stores and end-user restaurants in the given regional market.

The city of Seoul (capital city of Korea) and its surrounding area within 60 miles radius account for over 50 percent of the total Korean population and 70 percent of total retail sales in Korea. Although the government maintains a strong policy initiative to develop other regions of the country for balanced growth, Seoul metropolitan area is expected to maintain a dominant share of the food market sales in Korea in the coming years because it should continue to draw people for jobs and education. Regional markets that are likely to see a significant growth in the coming years include Busan, Incheon, Jeju, and Daejeon (Daejeon area, located in the middle section of the peninsula, has been designated as the new home of the Korean government offices).

B-2. Product Distribution to Independent, Small-scale Restaurants and Bars

Typically, distribution of products to independent, small-scale restaurants and bars in Korea involves multiple layers of middleman distributors that include wholesalers, wet markets and grocery retail stores.

Wholesalers in general are specialized in limited categories of products (meat, fish, or fresh vegetables for example) and are based around public wholesale auction markets that serve major metropolitan areas (e.g., the Seoul Garak Agro-Fishery Wholesale Market, www.garak.co.kr/eng/). Partly due to limited financial resources and the risk of seasonal supply fluctuations, wholesalers seldom offer long-term pricing. As a result, independent, small-scale restaurants in general work with several different distributors for different products on a short-term transaction term, which adds inefficiency and cost.

It is notable that large-scale retail store chains in Korea are likely to expand their sales to independent, small-scale restaurants and bars in the coming years. Leading players, such as Traders (by E Mart), Vic Market (by Lotte Mart) and COSTCO Korea have made aggressive investment in recent years to open additional stores.

B-3. Large-scale, Broad-line Foodservice Distributors

As restaurants and bars under the umbrella of large-scale foodservice companies or franchise businesses expand, large-scale, broad-line foodservice distributors that offer efficient, consolidated supply of a broad range of products have grown rapidly since early 2000's. Industry analysis estimated that there were about a dozen broad-line foodservice distributors in 2013 and they accounted for about 10 percent of the ₩22.4 trillion won of products distributed to the foodservice sector. Leading players include CJ Freshway, Ourhome, Shinsegae Food, Samsung Welstory and Hyundai Greenfood.

It is notable that most of the leading broad-line foodservice distributors are subsidiaries of food/restaurant conglomerate business groups in Korea. Reflecting the outstanding business potential down the road, many food/restaurant conglomerates have newly established broad-line foodservice distribution companies or business divisions in recent years (examples include SPC Group, Daesang and Maeil Dairies).

Leading broad-line foodservice distributors are currently making heavy efforts to establish a network of sales force and logistics infrastructure of temperature-controlled warehouses and trucking fleets

that can service the entire country. As competition builds up among the players, mergers and acquisitions for bigger economy-of-scale are likely to be pursued in the industry in the future which should further accelerate the expansion of broad-line foodservice distribution in the Korean foodservice sector.

Below is brief summary of general procurement practices of broad-line foodservice distributors:

- Fresh agricultural products for long-term storage, such as onions, dried red pepper, carrots and potatoes are procured from local contract farms and/or from the Korea Federation of Agricultural Cooperatives (Nonghyup, NH).
- Perishable fresh vegetables are procured from local contract farms, usually large-scale greenhouses developed in the vicinity of metropolitan areas.
- Fresh vegetables subject to seasonal supply fluctuations, such as Napa cabbage and radish, are procured through middlemen/wholesale brokers in the wholesale auction markets.
- Local meat/seafood is procured through local middlemen/wholesalers in the wholesale meat/seafood auction markets. Direct purchase from contract farms or packers is on an increase.
- Locally processed vegetables (frozen, canned and pickled) are procured from domestic manufacturers every one to three months through price bidding.
- Locally processed foods (such as cooking oils and sauces) are procured from domestic manufacturers on a yearly contract.
- Imported food products of all types are in general procured from the importers. Broad-line distributors are trying to expand direct imports from foreign suppliers for high-volume products such as meat, frozen seafood and canned vegetables to lower the cost. However, they still rely heavily on the importers for low-volume products or products of seasonal demand.
- Broad-line distributors are making heavy efforts to expand private label (PB) program to offer more value-added products. For this, broad-line distributors have either developed business partnerships with local food processors or have developed internal processing subsidiaries. PB products currently offered by broad-line distributors range from simple-processed (e.g., washing, cutting, repackaging) products to ready-to-cook products such as soups, sauces and marinated meat.

C. Sub-Sector Profiles

C-1. Hotel Industry

There were 716 hotels in Korea at the end of 2014 which earned a total of ₩6.3 trillion won of cash-register sales, up 13.3 percent from 2013. The strong growth of the sales was due to opening of over 80 new hotels in 2014. Hotel remained the leading segment of the lodging industry in Korea as the segment accounted for 50 percent of overall lodging industry sales.

The hotel segment is expected to maintain a healthy growth in the coming years due to expansion of domestic and international travelers. In particular, the five-work-day system, which became national standard for most Korean workers since 2005, has significantly boosted domestic tourism. Internationalization of Korean culture, represented by K-Pop, K-Movie and K-Food, has also

generated a sharp increase in the number of foreign tourists to Korea. Reflecting the strong business prospect, a good number of new hotels, most of them are mid-to-large scale, are currently under construction in Korea.

It is notable that the growth of the hotel segment is driven by medium to large scale hotels with over 100 guest rooms. Tight competition in the industry has precipitated restructuring of the hotel segment over the last ten years, favoring growth of larger-scale hotels at the expense of independent, small-scale hotels. At the same time, rapid growth of unconventional lodging businesses, such as serviced residences, pension homes, by-the-hour motels and 24 hour spas, has also reduced the demand for small-scale hotels and inns.

It is also notable that small-scale hotels with less than 100 guest rooms are reducing the food & beverage operation to focus on guestroom sales. Competition pressure from rapid growth of the restaurant and bar industry is likely to further restrict the food & beverage business of small-scale hotels in the coming years.

Table 3: Korean Lodging Industry Statistics

Segment	Number of Business		Cash Register Sales (Million Won)	
	2013	2014	2013	2013
Hotels	630	716	5,571,267	6,314,654
Inns	25,094	24,635	2,225,323	2,218,245
Resort Condos	236	254	1,875,847	1,636,897
Others	24,525	26,869	1,408,434	1,539,453
Total	44,320	46,210	10,533,941	11,111,883

Source: Lodging Industry Statistics, Korea National Statics Service (<http://kosis.kr>)

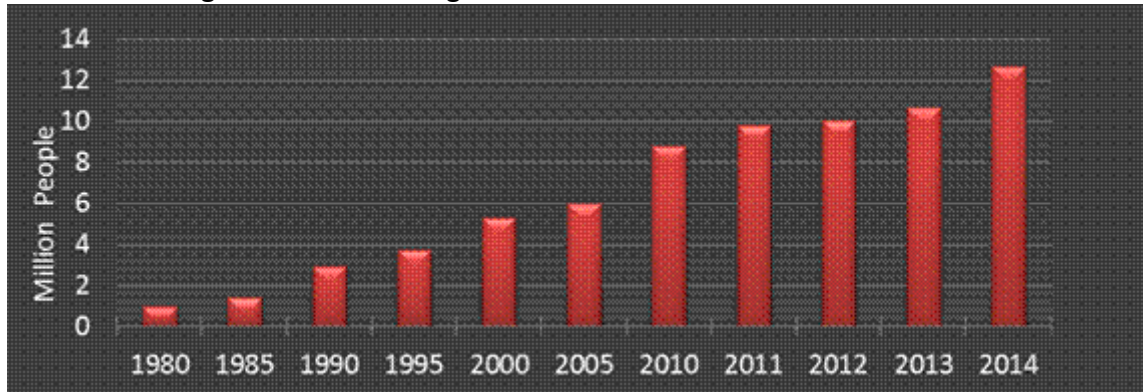
Table 4: Hotel Segment Statistics Broken Down by Number of Guestroom

Number of Rooms		Below	50-99	100-299	300 or	Total
		50			More	
Number of hotels	2011	142	229	145	53	569
	2013	152	245	177	56	630
	Growth	7.0%	7.0%	22.1%	5.7%	10.7%
Total cash register sales*	2011	138,570	491,683	1,311,480	3,397,646	5,339,379
	2013	128,753	431,326	1,538,629	3,472,559	5,571,267
	Growth	-7.1%	-12.3%	17.3%	2.2%	4.3%
Guestroom sales*	2011	75,933	262,282	668,181	1,127,077	2,133,473
	2013	85,149	297,168	882,990	1,417,015	2,682,322
	Growth	12.1%	13.3%	32.1%	25.7%	25.7%
F&B sales*	2011	42,113	153,162	438,723	1,022,857	1,656,855
	2013	28,549	68,255	473,600	1,216,316	1,786,720
	Growth	-32.2%	-55.4%	7.9%	18.9%	7.8%

Source: Lodging Industry Statistics, Korea National Statics Service (<http://kosis.kr>)

*Unit: Million won

Chart 14: Foreign Travelers Visiting Korea



Source: Korea Tourism Organization Data

The hotel segment, especially five and four-star hotels, has played a leading role in introducing new-to-market food products and recipes to the Korean consumers over the years. Despite the stronger growth of the restaurant and bar industry outside the hotel venue, hotel segment should remain a leading entry/distribution channel for premium, high-quality imported food and beverage products in Korea.

C-2. Restaurant & Bar Industry

Table 5: A Brief History of the Restaurant Industry in Korea

Year	GNI*	Major Events
1900 - 1950's	N/A	<ul style="list-style-type: none"> ● Birth of the modern commercial restaurant & bar industry. ● A total of 166 modern restaurants in business in Korea as of 1945.
1960's	\$100 - \$210	<ul style="list-style-type: none"> ● Most consumers had very low income and limited food supply. ● Western foods, mainly wheat flour and dried milk, were introduced to the general public through international food aid programs after the Korean war.
1970's	\$248 - \$1,644	<ul style="list-style-type: none"> ● A large number of small, family-operated restaurants opened in metropolitan cities. ● Diet and nutrition of the general public improved significantly under rapid economic development. ● Establishment of the first franchise restaurant chain, Nandarang (1979), and the first fast food restaurant chain, Lotteria (1979). ● Imported foods became available commercially to hotels with the establishment of the Korea Tourist Supply Center (KTSC), a quasi-government monopoly import distribution channel (1978).
1980 - 1985	\$1,592 - \$2,158	<ul style="list-style-type: none"> ● Introduction of franchise restaurants (mainly hamburger, noodle, fried chicken and beer pubs) in metropolitan areas. ● The first wave of international restaurant chains into the market: Americana (1980), Burger King (1982), Wendy's (1984), KFC (1984), Pizza

		Hut (1984), Baskin Robbin's (1985)
1986 - 1990	\$2,194 - \$4,197	<ul style="list-style-type: none"> ● The Asian Games in 1986 and the Olympic Games in 1988, both held in Seoul, introduced a wide variety of international food culture and recipes to the general public. ● Expansion of restaurants and bars under Western themes. ● Introduction of commercial institutional foodservice (contract feeding) business: Seoul Catering (1989), Our Home/LG Mart (1989). ● The second wave of international restaurants into the market: McDonald's (1986), Denny's (1987), Pizza Inn (1988), Cocos (1988), Crown Bakery (1988), Chicago Pizza (1988), Domino's Pizza (1989).
1990's	\$5,883 - \$10,076	<ul style="list-style-type: none"> ● Large-scale conglomerate business groups were allowed to enter the HRI foodservice business, which led to development of large-scale foodservice/distribution businesses. ● Diversification of restaurants and bars under new formats and menus themes. ● Hardies (1990), TGIF (1991), Haagen-Dazs (1991), Subway (1992), Ponderosa (1992), Sizzler (1993), Mister Pizza (1993), Sky Lark (1994), Kenny Rogers (1994), Popeye's (1994), LA Farms (1994), Bennigan's (1995), Tony Roma's (1995), Planet Hollywood (1995), Marché (1996), Hard Rock Café (1996), Outback Steak (1997), Chili's (1997).
2000 - 2014	\$11,292 - \$28,180	<ul style="list-style-type: none"> ● Restaurants and bars under large-scale companies/franchise management lead the growth of the industry at the expense of small-scale, independent establishments. ● Growth of large-scale, broad-line foodservice distributors. ● The industry continues to evolve with new formats and menus themes.

Source: Ph.D. Na, J.K., Understanding Food Service Industry (1998), Press articles, Industry interviews

* GNI: Per-capita Gross National Income (GNI)

Full-service Korean restaurants remained the leading segment of the restaurant & bar industry in Korea by accounting for 46.4 percent of the restaurants and bars in the market in number, or 43.6 percent in cash-register sales. Bars were the second largest segment of the industry (19.7 percent in number or 13.3 percent in sales). However, bar segment recorded the least sales growth between 2012 and 2014 in the industry due to elevated consumer health concerns and reduced corporate entertainment spending. On the other hand, café (non-alcohol beverage bars), quick-service restaurants, and institutional feeding restaurants led the sales growth of the industry during the period. Strong consumer interest in new tastes, busier lifestyle, and concerns for sluggish economy are likely to boost the sales of these segments in the coming years.

Table 6: Break Down of Restaurant & Bar Industry in Korea

Category	Type of Restaurant		2012	2014	Growth
Full Service Restaurant	Korean Restaurants	Number	295,348	301,939	2.2%
		Sales*	35,178,359	36,554,531	3.9%
	Chinese Restaurants	Number	21,680	21,550	-0.6%
		Sales	3,010,600	3,148,505	4.6%

	Japanese Restaurants	Number	7,211	7,740	7.3%
		Sales	2,169,666	2,361,812	8.9%
	Western & Other Foreign Restaurants	Number	10,678	12,186	14.1%
		Sales	3,805,143	4,234,064	11.3%
	Sub Total	Number	334,917	343,415	2.5%
		Sales	44,163,768	46,298,911	4.8%
Quick Service Restaurant	Pizza, Hamburger, Sandwich Restaurants	Number	13,711	14,630	6.7%
		Sales	3,423,588	3,902,596	14.0%
	Fried Chicken Restaurants	Number	31,139	31,529	1.3%
		Sales	2,658,616	3,150,774	18.5%
	Korean Restaurants	Number	45,070	46,221	2.6%
		Sales	3,007,144	3,462,750	15.2%
	Other Restaurants	Number	4,251	4,669	9.8%
		Sales	1,069,437	1,182,160	10.5%
	Sub Total	Number	94,171	97,049	3.1%
		Sales	10,158,785	11,698,280	15.2%
Institutional Feeding Restaurants		Number	6,955	9,709	39.6%
		Sales	4,700,254	5,582,825	18.8%
Catering Services		Number	496	560	12.9%
		Sales	126,921	140,046	10.3%
Bakery Shops		Number	14,799	16,496	11.5%
		Sales	3,969,754	4,681,799	17.9%
Café & Non-alcohol Beverage Shops		Number	42,458	55,693	31.2%
		Sales	3,277,863	4,294,162	31.0%
Alcohol-beverage Bars		Number	131,035	127,968	-2.3%
		Sales	10,887,855	11,123,909	2.2%
Grand Total		Number	624,831	650,890	4.2%
		Sales	77,285,199	83,819,931	8.5%

Source: Wholesale & Retail Industry Statistics, Korea National Statics Service (<http://kosis.kr>)

*Unit: Million won

Below is a summary of some of key issues in the restaurant and bar industry, which should be influential in the evolvement of the industry in the coming years:

- Reducing cost: part-time employees, central kitchen, prepared/value-added ingredients, standardization of recipes and product specifications, new information technology solutions such as ERP (Enterprise Resource Planning) and RFID (Radio Frequency Identification Tag).
- Economy of scale: strategic alliance with broad-line distributors, mergers and acquisitions.
- New growth opportunity: expansion to regional markets, expansion to foreign markets, launching restaurant-branded products for retail stores
- Meeting new consumer trends: home delivery service for on-line orders, take-out ready, outdoor meals, seats for customers eating alone, budget menus, catered menus for females, elderlies and kids.
- Diversification of menu: foreign & ethnic, fusion, natural & healthy.
- Trendy interior design: natural, organic, fresh, fusion, Zen, fun, ethnic, retro.

- Stronger food safety message: HACCP certification, country of origin labeling, nutritional fact labeling, organic ingredients, local food.
- Efficient sales promotion: celebrity chefs, TV cooking programs, cross-promotion partnerships with non-food businesses, on-line promotions through Social Network Services (SNS), promotions targeting holidays and special occasions, including New Year's Day, Lunar New Year's Day, Valentine's Day (Feb. 14), White Day (March 14), Children's Day (May 5), Parents' Day (May 8), Teacher's Day (May 15), Korean Thanksgiving Day (around September) and Christmas.

Table 7: Profile of Major Quick Service Hamburger Restaurants in Korea

Company	Brand	Year	Annual Sales	# of Stores
Lotteria	Lotteria	2014	N/A	1,391
		2012	₩877 billion	1,068
McDonald's Korea	McDonald's	2014	N/A	239
		2012	₩382 billion	292
SRS Korea	KFC	2014	N/A	187
		2012	₩145 billion	154
	Burger King	2014	N/A	199
		2012	₩110 billion	130

Source (Table 7-13): Food Distribution Yearbook 2015, The Monthly Food Journal

Table 8: Profile of Major Full Service Western Restaurants

Company	Brand	Year	Annual Sales	# of Stores
Outback Steak House Korea	Outback Steak House	2014	N/A	109
		2012	₩356 billion	106
CJ Foodville	VIPS	2014	N/A	90
		2013	₩350 billion	85
Lotteria	T.G.I. Friday's	2014	N/A	44
		2012	₩82 billion	41
Barunson	Bennigan's	2014	N/A	26
		2012	₩52 billion	18
Eland Park	Ashley	2014	N/A	155
		2012	₩300 billion	123
Samyang	Seven Springs	2014	N/A	26
		2012	₩40 billion	18

Table 9: Profile of Major Quick Service Pizza Restaurants

Company	Brand	Year	Annual Sales	# of Stores
Pizza Hut Korea	Pizza Hut	2014	N/A	350
		2012	N/A	315
MPK Group	Mister Pizza	2014	N/A	435
		2012	₩520 billion	401
DPK	Domino's Pizza	2014	N/A	405

		2012	N/A	372
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Table 10: Profile of Major Café Franchises

Brand / Company	Year	Annual Sales	# of Stores
Starbucks / Starbucks Korea	2014	N/A	720
	2012	₩391 billion	477
Coffee Bean / Coffee Bean Korea	2014	N/A	N/A
	2012	₩137 billion	255
Angelinus / Lotteria	2013	N/A	845
	2012	N/A	700
Hollys / Hollys F&B	2014	₩87 billion	460
	2012	₩149 billion	396
Café Bene / Café Bene	2014	N/A	908
	2012	N/A	840
Ediya Coffee / Ediya	2014	N/A	1,238
	2012	₩42 billion	633

Table 11: Profile of Major Quick Service Fried Chicken Restaurants

Brand / Company	Year	Annual Sales	# of Stores
BBQ / Genesis	2014	N/A	N/A
	2013	₩175 billion	1,500
Gyochon Chicken / Gyochon F&B	2014	₩223 billion	965
	2012	₩141 billion	944
Goobne Chicken / GN Food	2014	₩89 billion	890
	2012	₩80 billion	863
Mexicana Chicken / Mexicana	2014	₩44 billion	705
	2012	₩43 billion	740

Table 12: Profile of Major Full Service Korean Restaurants

Brand / Company	Year	Annual Sales	# of Stores
Nolboo Bossam / Nolboo NBG	2014	₩130 billion	914
	2012	₩88 billion	652
Bonjook / Bon IF	2014	₩89 billion	890
	2012	₩113 billion	1,276
Chesundang / Dayoung F&B	2014	₩65 billion	329
	2012	₩57 billion	302

Table 13: Profile of Major Bakery Shop Franchises

Brand / Company	Year	Annual Sales*	# of Stores
Paris Baguette / Paris Croissant	2013	₩1.7 trillion	3,258
	2011	₩1.6 trillion	3,141

Tous Les Jours / CJ Foodville	2013	₩948 billion	1,258
	2011	₩790 billion	1,303

*Note: sales figure of both Paris Baguette and Tous Les Jours is inclusive of other businesses of the company.

Table 14: Profile of Major Institutional Feeding Companies

Company	Year	Annual Sales*	# of Restaurants*
CJ Freshway	2014	₩1.8 trillion	480
	2012	₩1.9 trillion	430
Samsung Welstory	2014	₩1.6 trillion	700
	2012	₩1.3 trillion	700
Hyundai Green Food	2014	₩1.4 trillion	660
	2012	₩1.2 trillion	N/A
Ourhome	2014	₩1.3 trillion	920
	2012	₩1.2 trillion	800
Shinsegae Food	2014	₩652 billion	477
	2012	₩721 billion	N/A

Source: Company IR Reports, Press Articles

*Note: The leading institutional feeding companies in Korea in general also operate regular restaurant business as well as broad-line product distribution business. The annual sales in the table are overall cash-register sales of the companies. For example, institutional feeding business accounted for 55 percent of the overall annual sales of Ourhome in 2014. The number of restaurants is the total number of restaurants operated by the companies.

SECTION III. COMPETITION

Domestic products, either grown or processed in Korea, present a significant competition to many U.S. products in the foodservice sector. Although limited in variety and harvest season, Korean agriculture produces a considerable amount of raw agricultural products, including rice, fresh vegetables (including cabbage, radish, cucumber, pumpkin, onion, potato, sweet potato, green onion, mushroom and garlic), fresh fruits (including apple, pear, grape, tangerine orange, strawberry, persimmon and water melon), seafood (both farmed and wild caught), beef, pork, chicken, egg and milk. In addition, Korea has a strong food processing industry that manufactures a wide variety of processed products, including processed meat, seafood, vegetables, fruits, noodles, sauces, oils, juices and soft drinks, snacks, dairies and alcohol beverages. Korean consumers are generally biased toward locally grown and manufactured products and willingly pay premium on locally produced products. The Korean labeling law requires restaurants to label the country of origin of major ingredients of the serving menus, including meat (pork, beef, chicken, duck), fish, rice and kimchi.

Table 15: Share of Local Products in Products Distributed to Restaurants (2012)

Product	Franchise Restaurants	Independent Restaurants	Overall
Rice	96.0%	98.4%	97.8%
Fresh Carrot	71.2%	75.0%	73.6%
Fresh Garlic	60.6%	67.6%	65.4%

Fresh Onion	89.4%	90.8%	90.4%
Fresh Grape	81.3%	75.0%	75.6%
Beef	28.0%	39.6%	35.9%
Pork	48.1%	73.2%	66.6%
Chicken	71.5%	87.1%	83.0%
Red Pepper Powder	43.8%	55.8%	52.3%
Wheat Flour	22.4%	31.6%	29.5%
Kimchi	68.5%	73.4%	72.0%

Source: Korea Rural Economic Institute (KREI)

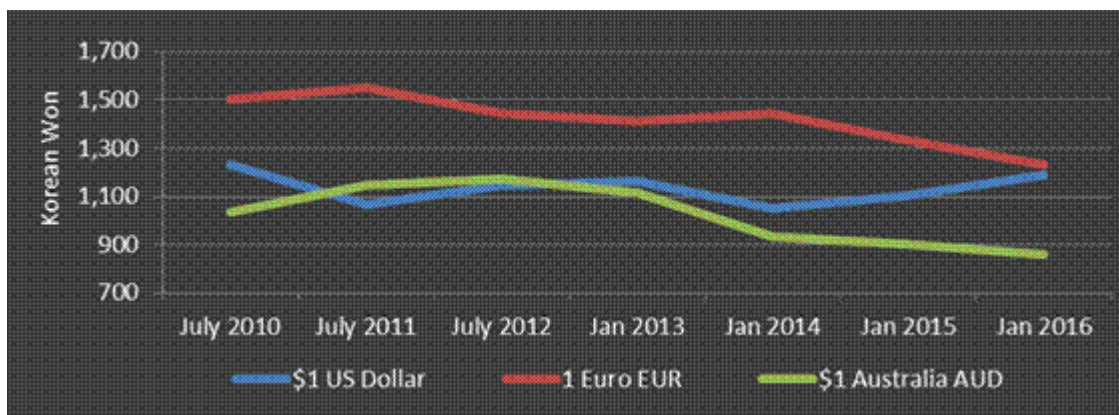
For raw agricultural products as well as for input ingredients for the processing industry that are not grown or manufactured in Korea, U.S. products face increasing competition from imported products from export-oriented countries, including China, Australia, Chile, EU and Thailand. Many of the products from competitor countries offer lower price than U.S. products and have established a significant market share in the Korean foodservice sector. China, for example, has become the leading supplier of fresh and processed vegetables, sauces, spices and seafood to the Korean foodservice sector. In addition, increased consumer demand for more diverse international cuisines and recipes are translated into growing demand for imported products from more diverse origins. [Korea's Agricultural Import Statistics](#), updated monthly and offered in ATO website (http://www.atoseoul.com/board/board_list.asp?brdId=statistics), tracks share of American products in Korea's agricultural imports down to 4-digit HS Code.

Lifting of import barriers directly affects the competition in the market. For example, since the implementation of the Korea-Chile Free Trade Agreement in April 2004, Chile has quickly stepped up to a leading exporter of wine and fresh grapes to the Korean foodservice sector. Korea has concluded FTAs with Singapore, EFTA, EU, the United States and China, and is currently engaged in additional FTA talks with several other countries, including India, Japan and the Trans Pacific Partnership (TPP).

Food safety issues also affect the competition in the market. Restricting imports from a certain country due to a food safety issue results in market share gains to other competing countries. For example, much of Japan's seafood exports to Korea have been replaced by other competitors due to Korean consumers continuing to perceive a radiation risk from Hukusima nuclear accident in 2011. Consequently, in an effort to maintain stable supply, Korean foodservice importers in general prefer to transact with more than two different countries especially for products of potential food safety issues, such as meat (chicken, pork and beef) and fresh fruits (oranges and grapes).

Significant shifts of exchange rate between the exporting country's currency and Korean won directly affect the price competition of imported products in Korea. For example, the value of Australian dollar has shown steeper decline against Korean won since mid-2012, making Australian products gain price competitiveness in Korea.

Figure 17: Shifts of Exchange Rate of U.S. Dollar, Euro, Australian dollar against Korean Won



Source: KEB Hana Bank Korea

SECTION IV. BEST PRODUCT PROSPECTS FOR U.S. EXPORTERS

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

1. Beef: The HRI foodservice sector in Korea generates strong demand for U.S. beef as local traders in general have a good understanding about the value and quality of grain-fed American beef. Imports of U.S. beef (HS0201, 0202) into Korea totaled \$749 million in 2015, up 6.0 percent from the previous year. Although over 80 percent of the American beef imported was frozen products, it is expected that demand for chilled American beef would see a stronger growth in the coming years as indicated by the fact that chilled beef imports recorded much higher growth (33.8 percent) than frozen beef imports (0.8 percent) in 2015.

2. Pork meat: Although Korea has a large domestic supply of pork, Korean consumers' highly skewed taste for belly cut meat generates strong demand for additional imports of belly cut meat. Korea also has a significant import demand for pork neck bone and spine bone for popular local stew recipes. Imports of American pork meat (HS0203) totaled \$402 million in 2015, up 15.5 percent from the previous year.

3. Processed meat products (pork and poultry origin only): Increased consumer demand for western recipes generates strong demand for processed meat products such as hams and sausages. Proliferation of quick service restaurants in the foodservice sector also boosts the demand. Imports of processed meat products from the United States in 2015 amounted to \$11.0 million for processed meat (dried, meals, HS0210), up 0.7 percent from the previous year; \$28.8 million for sausages (HS1601), up 3.1 percent; and \$17.0 million for other prepared/preserved meat (HS1602), up 9.2 percent.

4. Poultry meat: Although Korea maintains a significant scale of broiler farm industry, the local supply alone cannot satisfy the strong demand for chicken meat. In particular, proliferation of fried chicken restaurants generates additional demand for imported frozen chicken meat. It is notable that Korean consumers favor legs and drum sticks over wings. Imports of poultry meat from the United States

amounted to \$15.0 million in 2015, down 84.7 percent from the previous year. The sharp decline was due to the import ban on American poultry products for outbreaks of avian influenza in the U.S. Korea's overall imports of poultry meat from the world amounted to \$221 million in 2015.

5. Seafood: Korea is an outstanding seafood market and provides a good growth potential for imported products. It is also notable that Korean consumers' continued safety concerns on Japanese seafood since Hukushima nuclear accident generates additional demand for seafood from other quality origins, including the United States. Korea's seafood imports from the United States in 2015 amounted to \$12.7 million for live fish (HS0301), up 5.1 percent from the previous year; \$101.8 million for frozen fish (not fillet, HS0303), up 9.2 percent; \$69.6 million for fish fillets (HS0304), up 7.3 percent; \$42.1 million for crustaceans (HS0306), down 5.3 percent. Major species currently imported from the United States include: Alaska Pollack, Pollack surimi, Pollack roes, salmon, tuna, skate, mackerel, hagfish, halibut, scallop, cod, Pacific salmon, angler fish, rock fish, crabs, lobsters and prepared sea cucumber.

6. Processed fruits and nuts: Processed fruits and nuts are gaining popularity among the Korean consumers for natural and healthy image. As a result, retail and foodservice industry is making additional efforts to introduce additional products and recipes that incorporate processed fruits and nuts. Imports from the United States in 2015 amounted to \$28.2 million for processed fruits & nuts (HS0811), up 9.1 percent from the previous year; \$59.4 million for preserved fruits and nuts (HS2008), down 7.6 percent; \$4.8 million for jams (HS2007), up 5.4 percent; and \$59.4 million for fruit juices (HS2009), up 6.9 percent.

7. Tree nuts: Korean consumers are well aware of health benefits of eating tree nuts (in particular almond and walnut). Imports of tree nuts (HS0802) from the United States totaled \$372.8 million 2015, up 7.6 percent from the previous year.

8. Fresh fruits: Limited supply from local farms and diversified consumer taste make Korea rely heavily on imports to meet the strong demand for fresh fruits. Imports of American fruits into Korea in 2015 amounted to \$215.1 million for citrus (HS0805), up 9.9 percent from the previous year; \$29.6 million for grapes (HS0806), down 8.5 percent; and \$119.9 million for cherries (HS0809), down 2.1 percent.

9. Vegetables (fresh, frozen, canned or prepared): Although Korea harvests a significant amount of fresh vegetables including from green houses, seasonal fluctuations in the local supply and unfavorable growing condition for foreign varieties generate increased demand for imports. China has emerged as the leading supplier of vegetable products to the Korean HRI foodservice sector for both fresh and processed category. However, there remains a solid demand for a limited variety of high-quality U.S. products. Major products imported from the United States in 2015 included processed vegetables (\$133.6 million, HS2004, HS2005, up 8.5 percent from the previous year); preserved tomatoes (\$20.9 million, HS2002, up 6.1 percent); frozen or dried vegetables (\$7.2 million, HS0710, HS0712, up 7.5 percent); dried peas and beans (\$6.5 million, HS0713, up 33.6 percent); and fresh potatoes (\$12.7 million, HS0701, up 58.9 percent).

10. Cheese and processed dairy products: Increased consumer demand for western recipes generates

strong demand for cheese and dairy products. However, local dairy industry mainly targets packaged milk market due to government subsidy program. As a result, Korea relies heavily on imports for cheese and other processed dairy products. Imports from the United States amounted to \$250.7 million for cheese in 2015, down 16.8 percent from the previous year; \$12.8 million for concentrated milk/cream, down 61.5 percent; \$6.4 million for butter, down 1.4 percent. Aggressive marketing of European suppliers under on-going trade sanction to Russia is likely to present tough competition to American dairy suppliers in Korea in the coming year.

11. Alcohol Beverages (wine, beer and distilled spirits): Korean HRI foodservice sector maintains a large number of bars and pubs, which generates strong demand for alcohol beverages. In particular, diversified consumer taste expands the market for imported products. It is also notable that elevated consumer health concerns generate additional demand for products with lower alcohol content. Imports from the United States amounted to \$23.1 million for wine (HS2204) in 2015, up 8.8 percent; \$9.1 million for beer (HS2203), up 23.3 percent; and \$8.0 million for distilled spirits (HS2208), down 19.2 percent.

12. Coffee: Korea maintains a strong café industry which generates strong demand for coffee imports. Imports of coffee products (HS0901) from the United States totaled 34.9 million in 2015, down 1.5 percent from the previous year.

13. Sauces: Introduction of more diverse foreign recipes generates increased demand for imported sauces. Imports of sauces and preparations (HS2103) from the United States amounted to \$30.7 million in 2015, up 2.8 percent from the previous year.

14. Bread, pastry, cakes: Due to the strong growth of window bakery shops and café outlets, HRI foodservice sector generates strong demand for imported bakery products. Imports of bread, pastry and cakes (HS1905) from the United States amounted to \$69.0 million in 2015, down 9.6 percent from the previous year.

15. Rice: American rice offers competitive price and quality and is expected to gain further market share in the HRI foodservice sector. Imports of rice (HS1006) from the United States amounted to \$136.5 million in 2015, up 512.5 percent from the previous year.

16. Soybean oil: American soybean oil offers competitive price and quality and is expected to gain further market share in the HRI foodservice and processing sector. Imports of soybean oil from the United States amounted to \$32.2 million in 2015, up 157.6 percent from the previous year.

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

1. Pasta: Italian cuisine is gaining popularity among the general consumers, resulting in increased demand for related products, including pasta noodles. Among \$136.6 million of pasta products imported in 2015, imports from the United States amounted to \$1.2 million.

2. Olive oil: Consumption of olive oil is on a rapid increase as restaurants as consumers are seeking for

healthier alternatives to conventional cooking oil. However, among \$54.2 million of olive oil imported in 2015, imports from the United States amounted to \$36,000.

3. Processed turkey meat: Many Korean consumers still maintain a negative view on turkey meat. However, processed turkey products (hams in particular) are likely to gain more local followers, especially among young consumers who have traveled to the United States and have developed taste for related dishes.

4. Premium seafood: Products such as lobster, crabs (King, Snow, and Dungeness), black cod, and wild-caught Sockeye salmon have a good niche potential in the high-end restaurant segment in Korea as affluent consumers are looking for premium, healthier alternatives to meat dishes.

5. Processed eggs (fluid, frozen and flour): Increased number of restaurants and bakery shops in the HRI foodservice sector is expected to switch to processed egg products such as shelled or powdered products for safety and efficiency in the coming years. Imports of shelled egg products from the United States amounted to \$1.2 million in 2015, down 66.8 percent from the previous year.

6. Frozen prepared products: Demand for frozen prepared products such as frozen soups, frozen dough and frozen desserts that offer longer shelf life and labor-saving convenience is likely to increase in the HRI foodservice sector in the coming years.

7. Organic products: Strong consumer health concerns are likely to expand the market for organic products in the HRI foodservice sector in the coming years.

8. Oats: Korean consumers are paying extra attention to healthy, functional food, including oats and other “super grains”. Further removal of import tariffs under the Korea-United Free Trade Agreement should make American oats more price competitive against Canadian and South American competitors in the future.

9. Premium malt and hop for craft beer: Korean craft breweries are expected to maintain a strong growth in the coming years due to local consumers’ increased demand for high quality beer. In particular, many young Korean consumers are developing taste for imported premium American craft beer, which could potentially encourage local Korean craft breweries to produce American style craft beer using premium American malt and hop. Korea imported \$133.4 million of malt in 2015 but imports from the United States amounted to only \$50,000.

C. Products Not Present Because They Face Significant Barriers

1. Korea utilizes a “positive list” system for importing fresh agricultural products meaning imports of any product that is not pre-approved in the Korean government regulation is prohibited. Because of the risk of transferring pests, trade of fresh fruits and vegetables are only possible when the importing country (Korea) approves phytosanitary standards of the exporting country (the United States) through a pest risk assessment, which takes a considerable amount of time as it involves extensive amount of both laboratory and field studies. Many fresh fruits from the United States, including apple, pear,

peach, strawberry, raspberry, and watermelon, are currently not importable as there are no phytosanitary import agreements established on these products between Korea and the United States.

2. Imports of approved fresh fruits and vegetables are frequently restricted for phytosanitary reasons such as outbreaks of fruit flies. Outbreaks of animal diseases, such as swine cholera, avian-flu virus and BSE, also restrict imports of related products into Korea. Products currently restricted include:

(1) Beef meat from over 30 month old cattle: Korean government maintains import restrictions on American beef as of January 2016. Commercial understanding between Korean importers and U.S. exporters to only export U.S. beef from cattle less than 30 months of age is effectively keeping out imports of beef and beef products from over 30 month old cattle.

(2) Processed food containing beef ingredient is not allowed to be shipped to Korea currently.

(3) Poultry meat (non-heat treated): Imports of American poultry meat is banned due to outbreaks of avian influenza in the United States as of January 2015.

(4) Lamb meat: Imports of American products from all ruminant animals, except beef from cattle less than 30 months of age, are still banned for potential BSE risk.

(5) Korea maintains an import ban on American elk antlers, which is an important ingredient for local herb medicine and health-functional recipes, due to the risk of Chronic Waste Disease (CWD). Consequently, American elk antler industry currently has no access to the Korean market, which exported \$24 million to Korea in 2006.

(6) Korea maintains an import ban on fresh potatoes from many American states due to nematode risk.

3. Fresh organic agricultural produce including vegetables and fruits: there are technical barriers that prohibit imports of fresh organic produce. Korean regulation does not accept USDA organic certificates for fresh produce but requires certification from Korean government accredited certifying agents. In addition, there is a high chance for imported fresh vegetables and fruits to be subject to fumigation treatment upon entering the market, which will disqualify the product from “organic” status.

4. The Korean Food Additive Code defines specifications and usage standards for individual food additives. Korea utilizes a “positive list” system for food additives meaning any food additive not listed in the Korean code is prohibited. The Korean standard differs from the CODEX or American standard in some cases and consequently may prohibit entry of American products manufactured solely under the CODEX or American standard.

SECTION VII. 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 & Support

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: amchamrsvp@amchamkorea.org
Homepage: www.amchamkorea.org