Market Profile for Wine in Korea

1.0 MARKET STRUCTURE[1]

1.1 Size

According to Datamonitor, the wine market in Korea was worth an estimated US$359.6 million in 2007, up from US$321.6 million in 2006. Still wines accounted for 80.5 percent of sales, sparkling wines a further 16.5 percent, and fortified wines the remaining 3 percent. Within the still wine category, red wine made up 81 percent of sales.

Local companies produce wine, but the quantity and quality is low. A few companies import bulk wine from Spain, the US, Australia, Chile, Australia and Germany and bottle it locally. In 2005 Korea imported US$3.4 million worth of bulk wine and in 2006 it increased to US$3.9 million, and in 2007 it further increased by 33 percent to US$5.2 million.

1.2 Growth Rate

In 2005 Korea imported US$64 million worth of bottled wine. In 2006 imports increased 32 percent to US$84 million, and in 2007 imports further increased by 70 percent to US$144 million. The current import market split by wine type is:

- red wine: 79.7%
- white wine: 14.8%
- sparkling wine: 5.5%.

1.3 Known Factors Influencing Growth Rate

An increasingly Westernised diet and drinking culture, rising incomes among middle and upper classes, and a perception that wine – in particular red wine – has health benefits have all contributed to the growth in wine consumption. The low alcohol percentage of wine compared to local and imported spirits, along with the enjoyable scent and taste of wine, is appealing to a younger generation Koreans, particularly women.

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In the Korean market white wine was more popular than red wine until 1993. Media reports on the health benefits of red wine have shifted Korean customers' preferences from white to red wine.

Wine is permeating all levels of Korean society, and many people think that offering wine makes you look smart and sophisticated. A wide range of Koreans are interested in learning more about wine, so wine appreciation classes are always packed. Wine experts regularly write columns about wine in daily newspapers, weekly and monthly business magazines.

Wine has become one of the most popular gifts at Lunar New Year (early February), Korean Thanksgiving (mid-September) and Christmas, because it is perceived as an upmarket, sophisticated, and elegant gift.

Korea's leading economic think tank, Samsung Economic Research Institute, selected wine as one of the top 10 hit items in 2007.

2.0 COMPETITIVE ENVIRONMENT

2.1 Major Players in the Market

There are currently more than 300 Korean companies importing wine into Korea and among them around 80 companies import regularly. These companies handle mainly European brands as Korean consumers like prestigious products and associate higher quality with well known European brands.

However, language barriers with European suppliers and difficulties understanding European labelling, together with increasingly competitively priced and higher quality wines from the US, Australia and Chile have resulted in importers increasing their purchases of non-European wines. Chilean wines in particular have increased market share in recent years. However France still dominates in all sectors as outlined below[2].

- Bottled sparkling wine imports 2007 - US$7,877,933

France	82%
Italy	8%
Spain	3%

- Bottled red wine imports 2007 - US$114,462,900

France	41%
Chile	20%
US	12%
Italy	11%
Australia	7%

- Bottled white wine imports 2007 - US$21,239,003

Italy	27%
France	25%
Germany	12%
Australia	9%
US	8%
Chile	7%

2.2 Marketing Strategies

France is the most aggressive player in the market (with a market share of 39 percent), followed by Chile (17 percent), Italy (13 percent), the US (11 percent) and Australia (7 percent). All these countries hold large and regular wine promotions in the market. Foreign embassies, trade promotion agencies and wine export associations hold wine tasting events, participate in local food and/or wine shows and invite wine importers, experts and media to overseas wineries and wine exhibitions. They also support local wine schools, shops and bars.

Most consumers know little about wine and have difficulty in making selections. Consumers rely heavily on sales people at retail outlets and sommeliers in hotels, restaurants and bars when selecting wine.

Accordingly, it is important for the New Zealand wine industry to not only raise the general profile of New Zealand wine in Korea, but also focus on educating those who influence purchasing decisions, for example sommeliers, restaurant managers, wine shop owners, wine experts and media.

2.3 Distribution Channels

To date, the most important sales channel for wine is hotels and restaurants. Now, however department stores, discount stores and wine shops are emerging as major distribution channels. Some convenience stores and supermarkets also sell low-priced imported wine.

Importers mark up 30-50 percent depending on the distribution channel. Typical retailers mark up 8-20 percent (discount stores), 30-40 percent (department stores, wine shops, supermarkets), 100 percent or more (restaurants), 150 percent or more (hotel restaurants).

2.4 Pricing

In Korea, wine is still regarded as a luxury item. High taxes (68 percent of CIF value) and high costs and markups in distribution channels make consumer prices high. However, as the number of wine importers increases rapidly (from around 40 in 2002 to over 80 in 2004

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[2] *Source: Korea Customs Service.*

and to over 300 in 2007), competition is becoming more intense and accordingly consumer prices are slowly declining.

3.0 REGULATORY OVERVIEW

3.1 Duties/taxes

The following are duty and taxes imposed on wine imports:

- import duty: 15 percent of CIF value
- liquor tax: 30 percent of the gross value (CIF value + import duty)
- education tax: 10 percent of liquor tax
- value added tax: 10 percent x (CIF value + import duty + liquor tax + education tax)

Total: 68 percent of CIF value

The Korea-Chile free trade agreement came into effect in April 2004, and it was agreed that import tariff rates on Chilean wine would fall by 2.5 percent per annum from 2004, reaching zero in 2009. Accordingly, total import duty and taxes imposed on wine imports from Chile are as follows:

- 2005 - 60.9 percent
- 2006 - 57.3 percent
- 2007 - 53.6 percent
- 2008 - 50.0 percent
- 2009 - 46.3 percent.

If the Korea-US free trade agreement is ratified, the import duty on US wine will fall to zero. Accordingly total import duty and taxes will be 46.3 percent.

3.2 Regulatory and Licensing Restrictions or Difficulties

Importers must obtain a licence from the regional tax office to import alcoholic beverages, including wine. The importation of wine is not restricted in Korea, but is subject to inspection by the Korea Food and Drug Administration (KFDA).

For any initial shipment into the market, a close inspection usually takes 18 days. Inspections of subsequent shipments usually take 3-4 days if the product is identical in label, product name, alcoholic content, vintage and bottle size. The KFDA also tests whether the alcohol content maintains a 0.5 percent tolerance level between the labelled and actual alcoholic content.

It is compulsory for imported wine to carry a Korean language label. Stickers may be used but should not be easily removed or cover the original labelling. Basically, labels should have the following information printed in letters large enough to be read:

- product type and name
- country of origin

- alcohol percent and volume
- name and volume of ingredients by percentage
- name of food additives
- instructions for storage
- importer’s name, address and phone number
- business licence number of importer
- bottling date
- address where products may be returned or exchanged in the event of defects
- health warning clause
- distribution channel (i.e. for restaurants/bars, for home use, for discount stores).

Korean food importers can prepare labels in Korean and stick these to bottles in a bonded warehouse in Korea prior to customs clearance.

Labelling standards and import requirements can change frequently in Korea and are controlled by the KFDA. Close contact with a Korean importer is essential to obtain the latest information on requirements.

In 2007, Korea’s national TV network KBS reported on the hazards of urethane (ethyl carbamate) contained in imported wine. It noted that high levels of urethane, known to be a human carcinogen, were found in 68 of the 71 wines tested by a Korean university and that some wines had urethane levels 26 times higher than the US FDA recommended limit.

However, major Korean wine importers also tested urethane content levels in various imported wines and found urethane levels were less than 10ppb – lower than the US FDA recommended limits of 15ppb and also much lower than the legal level of 30ppb in Canada, the only country that has legal limits on urethane in wine.

The Korean FDA is investigating other countries’ regulations regarding urethane content levels permissible in wine and is considering introducing a new regulation on imported wines.

4.0 RECOMMENDED STRATEGIES

4.1 Possible Points of Differentiation for New Zealand Companies

The demand for New Zealand wine is gradually increasing. Up until mid-2001 there was only one New Zealand winery in the Korean market. In February 2007 there were 38.The following table shows the growth of New Zealand wine exports to Korea over the last four years.

Year	New Zealand wine exports to Korea (NZ$)	Percentage change from previous year
2004	$204,355	+86.7%
2005	$424,111	+107.5%
2006	$573,951	+35.3%

2007	$1,482,610	+158.3%

Source: World Trade Atlas: A Product of GTI©.

New Zealand is not a well-recognised exporter of wine in Korea, so demand from consumers is currently limited. Industry contacts believe this will gradually change with the introduction of more New Zealand wines into the market, along with an appropriate awareness campaign.

Currently, 22 Korean companies import New Zealand wines from 38 wineries. In addition to sauvignon blanc, chardonnay, cabernet sauvignon and pinot noir, there are now more varieties of New Zealand wine available in the market including pinot gris, riesling, gewürztraminer, merlot, dessert and sparkling wine.

NZTE Seoul believes there is room for more New Zealand wineries to enter the Korean market.

4.2 Tactical Recommendations on Market Entry

Local representation is essential in the Korean market and it is recommended that New Zealand wineries appoint an agent or importer to handle distribution.

Participation in a wine exhibition is a cost-effective way of initial market entry. The leading one is Seoul International Wines & Spirits Expo.

4.3 Recommendations on Long Term Strategic Issues for Exporters to Consider

It is important to continue to provide Korean importers with consistent quality, timely delivery, and stable supply and prices. Otherwise it is difficult to maintain long-term relationships as importers can easily turn to other sources.

5.0 MARKET RESOURCES AND CONTACTS

Korea Food and Drug Administration (KFDA) - http://www.kfda.go.kr/index.html

Seoul International Wines & Spirits Expo - http://www.swsexpo.com/en/index.php

Seoul Food and Hotel Exhibition - http://seoulfood.or.kr/eng/

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