

KOREA MARKET REPORT: ALCOHOLIC BEVERAGES



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Causes for Celebration: Korea-NZ FTA and Changing Korean Drinking Culture

The Korean market represents a promising prospect for enterprising New Zealand alcoholic beverage exporters. There is significant growth potential in the post-FTA environment and the New Zealand Embassy in Seoul stands ready to provide necessary support to enable entry into this emerging alcohol market.

The Korean Alcohol Beverage Market

The alcoholic beverage market in Korea was estimated to be worth NZ\$9.1 billion in 2015. While soju, Korea's national drink, accounts for around a third of consumption, overall preferences are shifting away from such rice-based beverages.

Alcoholic beverages accounted for around NZ\$9.1 million worth of New Zealand's exports to Korea in 2015, two thirds of which was from spirits and liqueurs. That ranks Korea as our 15th largest market for alcoholic beverages overall.

Korean Market Trends and Opportunities

Wine

State of the market

While wine accounts for only around 3% of total alcohol consumption in Korea, it is showing strong growth. In contrast to beer and spirits, imported wine dominates the Korean market since there is no *Vitis. vinifera* grape variety commercially cultivated in Korea.

Korean wine imports grew 24% in 2015 from a year earlier to reach NZ\$272 million in sales. France is the leading supplier of wine to Korea with 30% market share by value, followed by Chile (22%), Italy (15%) and the US (12%). These statistics serve to highlight that Korean consumers' nascent knowledge and experience in wine means they still associate old world suppliers with quality.

New Zealand's share

New Zealand is ranked as Korea's 10th-largest wine importer, with a mere 1% market share. But it is emerging as a source of high quality wine among early adopters in the market. The NZ\$2.7 million in New Zealand wine sales to Korea in 2015 represents an 18% increase from a year earlier. Following the removal of tariffs at the end of 2015, New Zealand wine exports increased a further 29% in the first half of 2016 compared to a year earlier.

By varietal, New Zealand's exports were predominantly white wine (83%), particularly sauvignon blanc, with pinot gris and chardonnay gaining some traction. Red wines (16%) are led by pinot noir with some cabernet sauvignon and merlot. The remainder is a limited amount of New Zealand sparkling wine (1.6%).

Consumer trends

Wine is hampered by not being offered by traditional Korean restaurants. Yet as the Korean diet becomes more varied and the number of Korean fusion and western-style restaurants expands, wine is becoming more available. There are also substantial numbers of banquet and wedding halls, often associated with hotels, which can be large outlets for wine.

Off-premise channels, such as hypermarkets, department stores, supermarkets and convenience stores, generate the majority of wine sales in Korea. It is estimated that the practice of gift-giving during holiday periods, which increasingly involves wine, accounts for about one third of total yearly wine sales, with import figures spiking in the two or three months prior to these holidays.

Koreans favour red wine (70% market share) because of its familiarity and perceived health benefits, but other wines are becoming increasingly popular as Korean consumer tastes expand. Korean consumers are beginning to adopt the idea of food-wine pairing, and as a result white wine (14%) and sparkling wine (16%) are likely to gain additional market share. Sparkling wine has shown outstanding growth in recent years, having accounted for just 5.5% market share in 2008.

As Koreans get more accustomed to wine, the market overall should eventually grow to a size comparable to other developed markets. As an indicator, Japan's wine imports in 2013 were US\$1.5 billion which was nine times larger than Korea's, despite Japan's population being only 2.5 times larger than Korea's.

Beer

State of the market

The Korean beer market is worth around NZ\$4.8 billion annually. It is dominated by domestic players, which produce around 91% of beer sales by value. The two major domestic producers have focused on lager-style products and have not developed capacity to meet the emerging consumer demand for a wider range of beers.

Reflecting shifting consumer tastes, there has been significant growth in beer imports. The value of Korea's total beer imports more than tripled between 2009 and 2014. They grew another 53% in 2015 from a year earlier to reach NZ\$205 million and Korea is expected to maintain double digit growth for beer imports in the coming years. Among importers of beer, Japan is the largest supplier with 29% available market share, followed by Germany (13%), Ireland (11%) and China (10%).

New Zealand's share

New Zealand is ranked 24th amongst importers of beer into Korea, with less than \$200,000 in exports in 2015.

Consumer trends

In 2015, beer overtook soju (which has around three to four times higher alcohol content than most beers) as Korea's most popular alcoholic beverage by sales, preference and market share.

The beer boom in Korea is not only due to the general preference for liquor with lower alcohol content, but also the sheer range of beers that have become available locally in recent years. The emerging popularity of imported beers from around the world, particularly those from Europe following the Korea-EU FTA, available in various flavours, aromas and types, has shaken up the staid local beer industry. Along with domestically-produced lagers, there are now stouts, porters, malts and lighter ales being imported by licensed importers to distribute to pubs, restaurants and supermarkets, offering consumers a wider selection of tastes.

Korea-NZ FTA Outcomes

Under the KNZFTA, the 15% tariff on wine was eliminated immediately on entry into force in December 2015; the 30% tariff on beer will be eliminated by 2021; and the 20% tariffs on spirits will be gone from 2024. These market access outcomes will enable New Zealand exporters to regain competitiveness against their rivals, many of whom already enjoy duty-free access into Korea.

The FTA will also move the Korean market in line with the conditions New Zealand exporters face in other Asian markets.

New Zealand's Value Proposition

Korean importers are highly margin-driven and can be conservative when it comes to launching new products. Importers may not react to new product offers from foreign suppliers, unless the product indicates strong market potential, particularly in terms of international recognition (awards, critics' favourable evaluations etc.) as well as promotional supports offered by the supplier. For wine suppliers, fortunately New Zealand wines occupy a premium position in Korea - the FOB price per unit of New Zealand wine is the 2nd-highest in Korea, after France.

In Korea, only licensed liquor importers can import alcoholic beverages. Currently there are around 500 licensed importers, but the leading 20 account for around 70% of the trade. Most of the top 20 companies currently import New Zealand wine although most would like to handle only a single New Zealand brand, which can mean a reduced level of attention for the exporter. Exporters who choose to partner with a smaller importer instead, need to be aware the importer may be less equipped to meet expectations in terms of volumes and accessing a variety of channels.

Once a partnership is established between the exporter and Korean importer, it is important for the exporter to visit Korea on a regular basis to demonstrate commitment to the market and to develop an understanding of how and where consumers are drinking the wine. Being close to market, understanding the consumer, and being agile enough to support local partners with packaging and promotional concepts (e.g. gifting, media events) is important.

New Zealand Government: what we can do to help

The New Zealand Embassy in Seoul is looking to actively promote the New Zealand alcoholic beverage industry in Korea and highlight opportunities in the wake of the FTA's entry into force. The Embassy has supported a Korean-language New Zealand wine education programme, a New Zealand Wine Fair and a New Zealand Food and Beverage Week, which allow exporters to showcase their products for prospective importers and other buyers.

The Kiwi Chamber of Commerce also holds annual New Zealand Wine Festival events in Busan and Seoul, targeted at the Korean consumer. In their 11th year, these events see a mixture of New Zealand wine and beer brands providing tastings to the more than 300 guests attending each event.

Longer term, the FTA has the potential to address Korean alcohol labelling issues. A Technical Barriers to Trade (TBT) Committee will meet annually under the FTA and provide a forum to address such government-imposed requirements.



For further information on exporting to Korea, you are welcome to contact NZ Trade and Enterprise, New Zealand Embassy, Seoul, at:

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Note for readers

This report has been produced by MFAT and NZTE staff of the New Zealand Embassy in Seoul to outline market opportunities generated by the Korea-NZ Free Trade Agreement since its entry into force in December 2015. While every effort has been made to ensure accuracy, readers are encouraged to make their own enquiries before entering into commitments.