

KOREA- AUSTRALIA

FREE TRADE AGREEMENT



WINE AND BEER TO KOREA

KAFTA BENEFITS FOR WINE AND BEER

The Korea-Australia Free Trade Agreement (KAFTA) came into force in December 2014, bringing significant benefits for Australian exporters. When KAFTA is fully implemented, tariffs on 99.7 per cent of exports to Korea will be eliminated. The agreement helps level the playing field for Australian exporters competing with companies from the US, EU, Chile and the Association of Southeast Asian Nations, which all benefit from existing trade deals with Korea.

Under KAFTA, the tariff on wine was immediately eliminated on entry into force and the tariff on beer will reduce from 17.1 per cent to 12.8 per cent on 1 January 2017, and will be completely eliminated by 1 January 2020.

These tariff cuts help improve Australia's competitiveness and make it an ideal time for exporters to enter Korea. Korean consumers have an appetite for imported premium products, and Australian companies offering high-quality wine and beer with distinctive packaging and branding will find a growing market for their goods.

Korean wine consumers associate Australia with good-quality full-bodied red wines, but they know little else about other varieties. There is considerable scope to change this perception and to educate Korean consumers on the diverse range of regional Australian wines.

This document provides an overview of the wine and beer market in Korea to help Australian companies plan their export strategy. Exporters are encouraged to undertake their own market research and refer to the Free Trade Agreement Portal (ftaportal.dfat.gov.au) developed by the Department of Foreign Affairs and Trade (DFAT) for more information on tariff cuts. Austrade can also provide insights and assistance to support a successful market entry.

MARKET SNAPSHOT

Korea imports more than 70 per cent of its food and agriculture products.¹ The market for imported packaged food and drinks is rapidly growing and diversifying. Consumer tastes are changing and demand for luxury and high-quality beverages is increasing.



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WINE MARKET OVERVIEW

In 2015, Korea's wine market was worth US\$189.8 million.² KAFTA has helped put Australian wines on equal footing with Chilean, European and American wines by removing the 15 per cent tax.

Korea's wine market has taken five years to recover from the 2008 global financial crisis. The value of wine imports peaked at US\$165.5 million in 2008 and dropped 32.5 per cent to US\$112.5 million in 2009. However, since 2011 the market rebounded. According to the Korea Customs Service, by December 2014 the total value of wine imports reached US\$182 million, a 6.2 per cent increase in value compared to the same period the previous year.

In 2015, the ranking of nations importing wine to Korea based on value was: France (30 per cent), Chile (22 per cent), Italy (14.7 per cent), the US (12.2 per cent), Spain (7.8 per cent) and Australia (4.6 per cent). The 2015 ranking based on volume was: Chile (26.1 per cent), Spain (20.7 per cent), Italy (15 per cent), France (13.1 per cent), the US (10.7 per cent), South Africa (5.3 per cent) and Australia (3.9 per cent).

These figures demonstrate a recent trend of Spanish wine replacing Chilean wine in the lower-price market, and Chilean wines taking a greater share of Korea's mid-priced wine market.

Consumers are increasingly purchasing wine in discount and department stores (off-market) compared to restaurants and hotels (on-market). Although there are no official statistics detailing on-market/off-market sales ratios, the industry estimates off-market sales account for around 70 per cent of total wine sales. This is a significant increase, given a few years ago the split was an estimated 50/50.

Imported red wine continues to dominate the Korean wine market, accounting for 68.5 per cent of total wine imports in terms of value in 2015. A prominent trend in Korea's wine market is the rapid growth of sparkling wines. The market share of sparkling wines increased from 2 per cent in 2007 to 15 per cent in 2015. Wine beginners and female consumers are enjoying a diverse range of sparkling wine varieties, from sweet to dry.

As Korean wine consumers' taste diversifies, there will be increased demand for new and 'exotic' varieties of red, white and sparkling wine.

BEER MARKET OVERVIEW

Beer is Korea's favourite alcoholic beverage. In 2014, beer accounted for 52.3 per cent or US\$2.4 billion of the country's US\$4.5 billion alcoholic beverage market. Next is 'soju' at 28.1 per cent, with other traditional liquors coming in third at 5.7 per cent.

In 2015, the Korean beer market was valued at US\$2.7 billion and was dominated by three Korean breweries, which represented over 82 per cent of the market: Oriental Brewery, HITE-Jinro and Lotte Liquor.³

Korea's beer imports reached a record high of US\$142 million in 2015, up 27 per cent from 2014. Imports by volume reached 171 million litres, up 43 per cent.

The market share of foreign brands (including foreign beer manufactured in Korea) reached 19 per cent of the total market in 2015, a dramatic increase from 4 per cent in 2010. Japanese brands lead the imported beer market, with 29 per cent of value, followed by Germany (13.2 per cent) and Ireland (11.5 per cent). Japan's Asahi tops the list of international beer brands in terms of sales, followed by Heineken and Hoegaarden.⁴

Korean beer does not have a strong reputation for taste. Historically, there has been little pressure to offer a greater selection to consumers, largely due to the fact the entire domestic market was controlled by two breweries, Oriental Brewery and HITE-Jinro. However, this is starting to change, with Korean consumers increasingly preferring drinks with a lower alcohol content and premium-quality beer. This is driving the rapid increase of imported beer sales.

Beer imports increased over 300 per cent between 2009 and 2014 and Korean brewers are starting to respond to consumers' shifting preference for premium brands, ales and wheat beers. One reason for this change in beer imports was the implementation of free trade agreements with European countries and the US.



Another factor has to do with evolving tastes. As more Koreans travel overseas and experience a variety of beers, their tastes change from the relatively plain flavour of domestic brews (which have also been brewed to mix with soju), in favour of richer varieties of imported lagers, ales and wheat beers. Rising affluence and global awareness among Koreans are also important factors.

According to E-mart, Lotte Mart and Homeplus – Korea's top three hypermarket chains – imported beer sales have grown steeply from a couple of years ago and now account for around 40 per cent of total beer sales. These stores are hosting promotional activities for foreign brands, and have increased shelf space dedicated to imported beer brands.

Craft beer represents 1 per cent of the overall beer market, including imported craft beer. Consumers are increasingly choosing to drink beers produced by small and mid-sized regional breweries and future growth is predicted. Some craft brands available in Korea include Hawaii's Kona Longboard Island Lager, Denmark's Mikkeller and Japan's Hitachino Nest beer. However, some industry observers predict the imported beer market may follow a similar famine-to-glut pattern as the upscale coffee market in Korea.

For beer to be considered premium, it needs to be in a glass bottle with an attractive label. Premium beers are often bought as singles in boutique beer stores. Consumers are brand-conscious and will search for award-winning beers or labels they have read about in magazines. The Korean market presents a significant opportunity for new Australian beer brands; however, investment in marketing and promotion will be critical to their success.

The retail price of ordinary import beers range between 2,000 won (A\$2.30) and 4,000 won (A\$4.60) per 330 millilitre bottle (some products are 300 or 355 millilitres), while some craft beers are priced at least 50 per cent higher at discount chains – between 4,000 won and 12,000 won (A\$13.80).

There is fierce competition among imported beers. According to online news portal Chosun Biz, there are more than 120 companies importing 400 to 500 foreign beers in the country. Korea's breweries produce almost entirely only lager, whereas importers purchase a wide range of beers, including stouts, ales and malts, as well as flavoured beers.

Sources:

1. *Yonhap News*, 8 September 2014.
2. Korea Customs and Trade Development Institute (KCTDI) statistics, monthly statistics, February 2016.
3. Korea Customs Service, monthly statistics, https://unipass.customs.go.kr:38030/ets/index_eng.do, accessed February 2016.
4. Korea Alcohol & Liquor Industry Association, figures available for members only based on Korean Customs Service figures, February 2016.

HOW TO USE KAFTA WHEN EXPORTING PRODUCTS TO KOREA

Preferential KAFTA tariffs are not applied automatically in Korea; follow the steps below to take advantage of KAFTA.

1. Read through the DFAT [Guide to using KAFTA to export and import goods](#) and the Austrade *Food and Beverage Market Entry Guide: Opportunities under the Korea-Australia Free Trade Agreement*.
2. Identify the correct HS codes for your product and cross-check with your freight forwarder.
3. Search the DFAT Free Trade Agreement Portal (ftaportal.dfat.gov.au) to check how your products will be treated under KAFTA in terms of tariff reduction, any tariff quota, and that they meet the criteria for 'Australian Origin'.
4. Prior to signing any contract with an importer or partner, you can cross-check your tariff reduction with them and seek legal advice if required. If necessary,

cross-check the HS codes and get an advanced ruling from Korea Customs Service (customs.go.kr) with the assistance of your importer.

5. Prepare FTA certification of origin for your products. You must have origin documents to claim FTA benefits.

KAFTA allows Australian exporters to self-certify the origin of their goods by preparing an Origin Certification Document (OCD).

You can also certify origin by obtaining a Certificate of Origin (COO) from the Australian Chamber of Commerce and Industry (ACCI) and Australian Industry Group (AIG), the accredited certifiers in Australia.

ACCI: acci.asn.au

AIG: aigroup.com.au

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