

KOREA- AUSTRALIA

FREE TRADE AGREEMENT



CHOCOLATE TO KOREA

KAFTA BENEFITS FOR CHOCOLATE

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 food 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 chocolate will reduce from 3.2 per cent currently to 1.6 per cent on 1 January 2017, and will be completely eliminated by 1 January 2018 (for HS code 1806.20 Chocolate and chocolate confectionery).

The 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 chocolate with distinctive packaging and branding will find a growing market for their goods.

'The gift-giving sector is extremely important for chocolates, with some brands making 90 per cent of their annual profits on Valentine's Day alone. Winter (November to March) is the peak season. In Korea, women traditionally give men gifts such as chocolates on Valentine's Day and men return the favour a month later on White Day (14 March). Christmas is another important season, and significant sales are also made to Chinese and South East Asian tourists via duty free.'

– Industry expert, Korea



This document provides an overview of the chocolate confectionary 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.



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MARKET SNAPSHOT

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

Chocolate confectionery is a growing product category within the snack food segment, with the overall market worth US\$574.3 million.² Milk chocolate is the most popular product (75.5 per cent), followed by dark (14 per cent), plain white (6 per cent) and filled (4.5 per cent).³ The dominant companies in the Korean chocolate confectionery market include Lotte (Korea), Orion (Korea), Haitai (Korea), Masterfoods Korea (US), Ferrero (Italy) and Crown (Korea).

‘Chocolate consumption is becoming more diverse, with chocolate-making classes and handmade chocolates, along with Koreans studying and travelling abroad, increasing awareness of premium brands and imported chocolates. While milk chocolate is the main flavour, there is an increasing awareness of the health benefits of dark chocolate.’

– Industry expert, Korea

These companies offer largely high-volume, lower-cost products. Strong performing local brands, such as Ghana and Dream Cacao, are manufactured by Lotte and Orion.

Imported chocolates are popular in Korea. Total imports (of product less than 2kg) were worth US\$79 million in 2015.⁴ The top three countries exporting chocolate confectionery to Korea in 2015 were Italy (US\$23 million), Germany (US\$16 million) and the US (US\$15 million), followed by Switzerland, Belgium, China, Malaysia, France, Japan and Turkey.

‘This is a product where it is critical to get everything right, from the product taste, high-quality gift-giving packaging, being in good condition on arrival, and working with your distributor a year in advance on marketing and promotions that will support a premium positioning in this competitive market.’

– Industry expert, Korea

European countries hold strong country of origin branding in the minds of Korean consumers – for example, Italy’s Ferrero Rocher is one of the country’s most popular brands. Products from countries such as the US and Japan are also highly regarded. US brand Hershey’s in particular has a long history in Korea. Australian products can expect to compete with niche, premium, high-cost imported products.

Chocolate products are available in a range of outlets in Korea. Low-cost products from South East Asian countries that use milk powders can be found at HomePlus (Tesco), while tablet chocolate can be bought in supermarkets. More expensive boxed chocolates for gift-giving are available in high-end department stores. Ultra-premium brands such as Godiva, Läderach and Teuscher have stand-alone branded stores.

CHOCOLATE HS CODES AND TARIFF RATES FROM DECEMBER 2014

The following table provides an overview of the tariff reductions under KAFTA for select chocolate HS codes. Refer to the DFAT Free Trade Agreement portal for more detailed information.

HS code (HS2012)	Description	Base Rate	Staging Category	Tariff rate (%)				
				Year 1 12/12/2014	Year 2 1/1/2015	Year 3 1/1/2016	Year 4 1/1/2017	Year 5 1/1/2018
1806201000	Chocolate and chocolate confectionery	8	5	6.4	4.8	3.2	1.6	0.0
18062090	Other							
1806209010	Cocoa preparation containing 50% or more by weight of milk powder	8	5	6.4	4.8	3.2	1.6	0.0
1806209090	Other	8	5	6.4	4.8	3.2	1.6	0.0
18063	Other, in blocks, slabs or bars							
180631	Filled							
1806311000	Chocolate and chocolate confectionery	8	5	6.4	4.8	3.2	1.6	0.0
1806319000	Other	8	5	6.4	4.8	3.2	1.6	0.0
180632	Not filled							
1806321000	Chocolate and chocolate confectionery	8	5	6.4	4.8	3.2	1.6	0.0
1806329000	Other	8	5	6.4	4.8	3.2	1.6	0.0
180690	Other							
1806901000	Chocolate and chocolate confectionery	8	5	6.4	4.8	3.2	1.6	0.0

Separate to KAFTA, each party is able to unilaterally reduce its MFN-applied tariff at any time. For example, countries might temporarily reduce a tariff for a commodity that is in short supply. Traders will need to assess whether it is more advantageous to import under the preferential tariff under the Agreement or the current MFN-applied tariff.

HOW TO USE KAFTA TO EXPORT PRODUCTS TO KOREA

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

- ▶ **1.** Identify the correct HS codes for your product with the Korea Customs Service and your importer or freight forwarder.

If necessary get an advance ruling from the Korea Customs Service (customs.go.kr) with the assistance of your importer.
- ▶ **2.** Visit the DFAT Free Trade Agreement Portal to confirm how your products will be treated under KAFTA in terms of tariff reduction and tariff quota.
- ▶ **3.** Review the Free Trade Agreement Portal to ensure your products meet the criteria for 'Australian Origin'.
FTA Portal: ftaportal.dfat.gov.au

- ▶ **4.** Prepare certification of origin for your products.

KAFTA allows Australian exporters to self-certify the origin of their goods by preparing an Origin Certification Document (OCD). Instructions on self-certification are included in DFAT's [Guide to using KAFTA to export and import goods](#).

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

In-depth detail of the above four steps are included in DFAT's [Guide to using KAFTA to export and import goods](#).

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Sources:

1. *Yonhap News*, 8 September 2014.
2. Euromonitor Data 2015.
3. Euromonitor International, Chocolate Confectionery in South Korea Category Briefing, October 2015.
4. International Trade Centre, Trade Map, Trade statistics for international business development, December 2015.

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