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Australia and South Korea Free Trade Agreement: Understanding and Opportunities in the South Korean Wine Market



FINAL REPORT to

AUSTRALIAN GRAPE AND WINE AUTHORITY

Project Number: **USA1301**

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Research Organisation: **University of South Australia**

Date: **15 December 2014**

Australia and South Korea Free Trade Agreement: Understanding and Opportunities in the South Korean Wine Market

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15 December 2014

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1. Abstract

By eliminating the 15% import tariff, the imminent Korea-Australia Free Trade Agreement (KAFTA) will bring about opportunities for Australian wine exporters to enhance its competitiveness in the domestic Korean market. This project triangulated qualitative findings from Korean wine businesses with quantitative surveys with Korean consumers to distil the changing nature of the Korean wine market in the new era of bilateral trade relations. The findings suggest that Australian exporters need to capitalise on a small window of opportunity leading to, and shortly beyond, the signing of the KAFTA to increase importers and consumers' preference for Australian wine. Six key recommendations serve to guide Australian exporters' engagement with Korea in the post-KAFTA era.

2. Executive Summary

The imminent emergence of new trade relations between Australia and Korea raises a number of significant implications for wine trade with Korea. The Korean wine market has grown by over 350% since 2000, is worth about USD70 million in 2012[1] and is dominated by wines from France (32%), Chile (22%), Italy (17%), the United States (US) (10%) and Spain (7%), all of whom enjoy zero import tariffs. By contrast, with an import tariff of 15% currently, Australian wine has seen export dropped by 30% to about 4% market share between 2007 and 2012 (http://www.dfat.gov.au/fta/kafta/fact-sheet-key-outcomes.html). The removal of tariff and non-tariff barriers due to the Korea- Australia Free Trade Agreement (KAFTA) will significantly improve the competitiveness of Australian wine in Korea. But to derive maximal benefits from the KAFTA would require a strategic repositioning of how the Australian wine industry does business in Korea.

The project harnesses the researchers' acquired expertise of the Korean market and network of connections to shed light on the Korean wine market trend, the structure of the distribution channel, the regulatory environment and Korean consumers' wine perceptions and preferences. Using a combination of in-depth

[1] Han, J. (2012), 'Skyrocketing Increasing Korea's Imported Wine Market', *Economy Chosun*, Issue 35, August. Accessed 10 June 2014 at https://economyplus.chosun.com/special/special_print.php?t_num=2541&tableName=article_2005_03&boardName=Industry&t_ho=35&t_y=2012&t_m=08

interviews with Korean distributors, opinion leaders and relevant government agencies as well as surveys with Korean consumers, key information is collected in four areas: 1) Australia's key competitors (France, Chile, and the US); 2) distribution channel (both on and off premise markets); 3) non-tariff barriers/regulatory environment on imported wine, including labelling, licenses, policies, regulations/inspections on food and safety; 4) insights of Korean consumers towards Australian and other foreign wines.

By generating this new knowledge regarding the Korean wine market, this study makes a substantial contribution towards the Australian wine industry's understanding of how the future trade relations will shape Australia's position in the market. A successful assessment of the Korean wine market would help Australia enhance its wine trade with Korea, including a potential reduction in transaction costs and an improvement in efficiency. Increased familiarity with the market would enable the Australian wine industry to mitigate potential investment risks and improve its entry and marketing strategy. Boosting Australia's ability to deal directly with Korea would also lead to a strengthening of Australia's trade and commercial relations with Korea in the Asian Century. As other East Asian countries are similarly emerging as important markets for Australian wine, knowledge gained from this project would benefit future strategies and initiatives to penetrate these other markets. Along with these benefits, another key outcome of this project would be to help develop a 'Korea-literate' workforce, particularly among AGWA stakeholders.

Specifically, this study proposes the following six key and actionable recommendations on Australian wine producers' engagement with Korea:

1. Developing better engagement with industry
2. Positioning of Australian wines in Korea
3. Pricing and value propositions
4. Meeting consumer preferences
5. Marketing to consumers
6. Doing business in Korea.

Australia has a small window of opportunity leading to, and shortly after, the signing of the KAFTA into law. We believe that the six recommendations that follow from

this study's findings will enable Australian producers to sharpen their competitiveness and obtain a stronger foothold in the Korean wine market in the new trade era.

3. Background and Rationale

This study is conducted against a backdrop of the imminent signing of the Korea-Australia Free Trade Agreement (KAFTA). With an increasingly competitive global wine market, Australian wine exports to Korea are at a competitive disadvantage compared to major players (France, Chile, the US, Italy and Spain), all of whom currently enjoy the benefits of their respective FTAs with Korea. For example, Chile concluded their FTA with Korea by as early as 2004, while the European Union (EU) finalised theirs in 2011. The elimination of import tariffs has helped these countries gain market share in the growing Korean wine market. By contrast, burdened by an import tariff of 15%, Australian wine export had lost substantial market share to about 4% by 2012 (Jeong 2014). Hence, the KAFTA presents a significant opportunity for Australia to capture a larger market in the coming years.

However, the elimination of import tariff on Australian wine does not automatically mean that the savings will be reflected in the retail price. Similarly, it may not necessarily lead to Korean distributors importing more Australian wine, especially if downstream consumer demand does not pick up. Therefore, just as the other countries such as Chile and the US have successfully capitalised on their FTAs to extend their foothold in the Korean market, the primary aim of this project is to make strategic recommendations for Australian wine exporters to compete successfully in the post-KAFTA era of bilateral trade relations between Australia and Korea. The findings of this study will facilitate the Australian wine industry in formulating strategies that relate to Australia's engagement and competitiveness in the Korean market.

4. Project Aim and Performance Targets

The project harnesses the researchers' acquired expertise of the Korean market and a network of connections to shed light on the current Korean wine market trend, the structure of the distribution channel, the regulatory environment, as well as insights into Korean consumers' perceptions and preferences of wine. The overarching aim is to determine the nature of the market access and opportunity in the Korean wine market, leading to appraising and recommending strategies to enhance Australian wine export. Specific objectives are to:

- Highlight the relevant regulatory, political and cultural dimensions of the Korean wine market
- Identify the distribution channel and structure (both on- and off-premise)
- Identify non-tariff barriers on importing wine, including labelling, licenses, and food and safety policies
- Determine the critical success factors and the potential pitfalls in developing a successful position in the market
- Assess the market access strategies of Australia's key competitors
- Identify and assess the relevant aspects of public-private sector interaction involved in establishing successful market positions in Korea.
- Uncover Korean consumers' perceptions and preferences for wines from various countries.

The findings of this study shall benefit wine producers and those communicating with key markets, including the Winemakers' Federation of Australia and Wine Grape Growers Australia. Australian Government bodies, including the Department of Foreign Affairs and Trade and the Department of Agriculture, may also be important audiences for this project.

5. Method

In order to address the objectives listed in the previous section, this project used a combination of qualitative and quantitative methods. First, investigative interviews with established distributors/wholesalers and secondary data shed light on Australia's key competitors' (France, Chile, and the US) operating in Korea and their market access strategies. Second, assessments of the distribution channel (both on- and off-premise markets), as well as the regulatory regime and mechanism, were carried out through in-depth interviews with Korean distributors/wholesalers, opinion leaders, and relevant government agencies (total sample size in excess of 50). Third, an analysis of Korean consumer insights was conducted via an extensive quantitative survey (sample size=300). Finally, two focus groups (2 × 8 people) triangulated the findings from the earlier interviews and surveys. The details of each method and rationale are further elaborated below.

5.1 Interviews

In-depth interviews were conducted during two separate fieldtrips to Seoul in May and July/August 2014. The main objective and rationale of these interviews was to collect the insights from a business perspective. All interviews were conducted in Korean, audio recorded, and transcribed into English. In total more than 50 interviews were conducted with:

- Major wine importers/distributors in Korea
- Wine shop owners
- Wine opinion leaders (Wine consultants, journalists, writers, president of Association of Imported Wine, President of Wine Academy)
- FTA-related organisations (Korean government/Ministry of Food and Drug Safety, Korea Customs Office, Austrade, Australian Embassy in Korea, Tourism Australia Seoul Office)
- Korean sommeliers working at international hotels (Intercontinental, Hilton, Sheraton)
- Small and medium-sized enterprises (SMEs) wine importers
- Owners of imported wine shops

- Managers in off-premise markets (major retailers)
- the Australian economic counsellor at the Australian Embassy, Korea
- the Country (Korea) Manger of Tourism Australia
- the Foreign Investment Ombudsman at the Korea Trade-Investment Promotion Agency (KOTRA).

5.2 Quantitative Consumer Survey

Consumer insights into the Korean market were obtained through two quantitative surveys over 10 days in July/August 2014. One survey captured 150 respondents patronising Home Plus, a Korean supermarket chain that sells wine. The second survey tapped 150 respondents who visited a specialist wine shop in Seoul. Trained interviewers from a Korean market research firm approached respondents as they were about to enter the supermarket or wine shop. After clarifying the purpose of the research as academic, respondents were asked to complete a paper-based questionnaire. Those who completed the questionnaire were rewarded with a token of KRW40,000 (about USD40) for participation. No identifying information was captured. Respondents were simply told that the research was about their perceptions of wine. No explicit information about Australia or Australian wines was offered.

Collecting the data at two distinctly different venues aided external validity by determining whether consumer perceptions and preferences might differ. However, subsequent data analyses revealed no significant differences between the two samples for the vast majority of the variables in the questionnaire (only 9 out of 101 showed significant but relatively small and inconsequential differences). The two samples were combined for all subsequent analyses.

5.3 Focus Group Meetings

To triangulate and further shed light on the findings of the interviews and consumer survey, two focus groups each with eight participants where conducted in Seoul in September 2014. One group comprised businesses involved in the Korean wine industry including wine importers and distributors, opinion leaders and representatives from trade organisations. The second group involved wine consumers, four of whom were light wine buyers (who buy on average one bottle or less per month) and the other four were heavy buyers (who buy on average at least one bottle

per week). Both sessions, each lasting about 1.5 hours, were facilitated by a research agency, audio recorded, and transcribed into English. Participants in the consumer, but not business, focus group were each rewarded with KRW100,000 (about USD100).

6. Results / Discussion

6.1 Secondary Data and Interviews

6.1.1 Understanding Korean market

Korean Consumers: Koreans consume a majority of alcohol through beer and *soju* (a distilled-diluted liquor made from sweet potato or tapioca). Korea is also the 5th largest whiskey market in the world with a value of USD1.4 billion, or an average of 1.26 bottles/person/year. Despite their high alcohol consumption, Koreans consume a relatively small portion of wine, with grape wine holding less than 2% of market share (by volume) of all alcoholic drinks. But wine is the fastest growing alcohol segment as consumers switch from other alcoholic beverages to wine because of health perceptions, prestige seeking and a growing interest in Western culture. Table 1 in Annex I provides a breakdown of the Korean market by alcohol type.

Major wine importers: Data relevant to the market share of imported wines shows a few variations in years 2012 and 2013. Apart from Australia, where there was a 1.29% decline, there has been little difference in the overall market share for all other countries. An exception was Spain, which recorded close to a 1% increase in market share by volume (see Annex I, Table 2). With the exception of Prosecco, Italian wines appear to have been overtaken by Spanish and Chilean wines. The strong performance of Spanish wines might be due to its 'old world' status. With China absorbing most of French Bordeaux wines, Koreans turned to Spanish wines somewhat to replace French wines. (See Annex I, Figure 1). Compared to the previous year, the market share (by $ amount) of France, Chile, Italy and the US have exhibited a growth rate close to the average. Australia and Germany were the only two countries with a sharp decline in market share (by $ amount). This implies that between 2012 and 2013, not only was Australia selling less wine (by volume), the per-unit revenue from the wine sales declined even more (see Annex I, Table 3). The table below illustrates the major competitors in the different market segment.

Market Segment	Retail Price	Australia's Wine Competitiveness	Major Competitors
Entry Level	Below KRW10, 000 (A$10)	high low	Chile, Spain
Low-Price	KRW10, 000-30, 000 ($10-30)	High-low	Chile and Spain
Mid-Price	KRW30, 000-60, 000 ($30-60)	Medium High	Chile, US
High-Price	KRW60, 000-100, 000 ($60-100)	Above High (Blue Ocean)	Chile, US
Luxury	Above KRW100, 000 ($100 +)	Below Low	France, Italy

Trend of imported wine: Chile's exports are predominantly red wine and its market share reduced by approximately 0.9% between 2012 to 2013. This may mean there will be a vast change in the market share (i.e., Spain factor as noted above; Spain's market share has risen by 1.6%). Despite red wines being Australia's central focus, a significant drop of its market share by 1.16% underpins concerns for Australian winemakers. While mid-price red wines are Australia's forte, Chile has made substantial inroads into this segment. It is therefore imperative for Australia to aggressively strengthen its position in this segment if it wishes to advance in Korea's overall wine market (see Annex I, Table 4 and Table 5. Also see Figure 2).

Countries that are traditionally strong in red wine, such as the US, Argentina, and Chile, are increasingly making more inroads into the white wine segment. This also reflects a changing consumer trend towards white wines. In particular, the popularity of sparkling wines among young Korean female consumers is rapidly increasing, with Moscato being popularly sold at discount supermarkets at around the KRW10,000. This compares favourably to white wines with a typical price of about

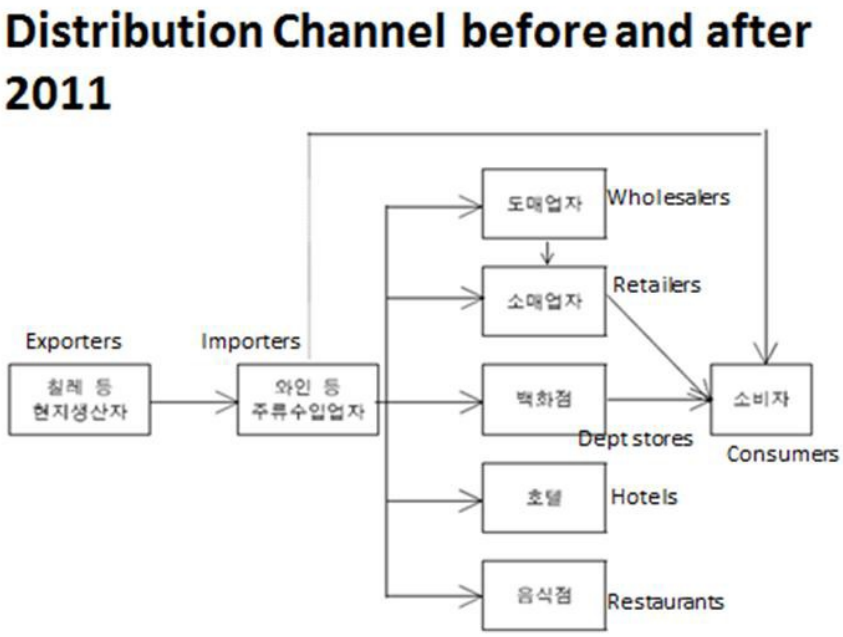
KRW20,000 to 30,000 and to red wine for about KRW50,000 to 100,000. To-date, Australia appears to have missed the large opportunity in this segment (see Annex I, Figure 3).

***Price calculations*:** An imported wine undergoes various levies before it reaches the wholesaler in Korea. These tariffs and taxes are ultimately included and added up to the price of wine. These tariffs and taxes are:

- Import tariff: 15% against Cost and Insurance Freight (CIF) total
- Liquor tax: 30% against CIF + import tariff
- Education tax: 10% on Import and Liquor tax each.

In addition to the above taxes, importers' margin (typically 30%), wholesalers' margin (20%), retailers' margin (30%), and VAT (10%) further increase the price of wines by the time they hit the retail shelves. The KAFTA will eliminate the 15% import tariff but not the liquor and education tax. This means that not all taxes are eliminated by the FTA. Thus, as a bottle of wine moves through the distribution system, the actual cost advantage of the FTA may not be apparent to consumers. Regardless, the KAFTA has prompted Korean importers to turn their attention and interest to Australian wines. For example, an interviewee from a major importer remarked that: *I think Koreans will show more interest in Australian wines when the Korea-Australia FTA has more media exposure, even though consumer prices won't change significantly from the FTA.*

Distribution channel: The distribution channel in the Korean market has gone through a straightforward change in a sense that now it is more direct and simplified. As depicted in the figure below, traditionally consumers could buy from intermediaries like retailers and departmental stores. From January 2012 onwards, consumers can purchase foreign wines directly from importers. This change in the distribution channels has important implications in terms of price and customer service. The new trend of easy access to foreign imported wine has made wine more readily available and price comparisons more transparent. Consequently, this gives rise to the perception that Australian wines are 'expensive' as low-end products sold through these expanded channels.



In short, the section above provides in-depth knowledge of the structure of Korean wine market. In order to grow in this market, Australian wine exporters should understand these trends. The next section outlines findings about the current situation of Australian wines in Korea.

6.1.2 Performance of Australian wine in Korea: Past, present and future

Until the early 2000s, Australia's market share of red wines in Korea was between 9 and 11 %. The wines were well regarded by Korean importers and consumers as good taste for value. Australia in the 1990s and early 2000s was ranked among the top five in the Korean imported wine market. The success of Australian wines during this early period can be attributed to following reasons:

- Good taste per value against French wines (regarded as luxury product);
- Wyndham Estate Bin series (i.e., Bin xxx Shiraz): Huge success/sensation, never had this taste with the low price before in the Korean market;
- Due to the huge success of Bin series (Shiraz), there was no urgency among Australian wine producers and exporters to develop particular marketing strategies against its competitors;

- Until April 2004, when Korea-Chile FTA was signed into law, Australian wines did not experience competitive disadvantage (i.e. the price of Australian wine was competitive);
- During this period, most of the wine selling was made on premise (i.e., mostly sold in restaurants, special wine shops, wine galleries).

The current state of Australian imports to Korea is as follows:

- Around 450 Australian brands/varieties are exported to Korea
- Of these, over 66% (300) are red wines.
- 4.4% (20 brands) are exported at the price of lower than AUD10 per bottle; most of them imported by Chilsung Lottee Mart.
- Most Australian wines are sold on premise.
- Most Australian wines are between the mid- and high-price range
- Currently, about 110 Australian brands are predominantly imported by 4 big (Nara Cellar, Lotte Chilsung, Keumyang and Shindong Wine), small-to-medium scale (Giljin, Cave De Maeng etc) and around 50 medium-to-small scale Korean importers.

6.1.3 Reasons for low market share of Australian wines

a) The Chile factor:

Since the FTA between Korea and Chile, aggressive marketing in the Korean media on the benefits of the FTA and its impact on the wine price has tilted Korean consumer preference towards Chilean wine. By taking advantage of the FTA, virtually all Chilean wineries are currently exporting to Korea, thereby resulting in a decline in the importation of other wines. Chile not only leads the off-premise market, which is the dominant trend in the Korean wine market today, the country also dominates the market share of wine in the low to mid-price range (see table on page 11). This success is reflected in two

major wine importers' sales of Chilean wines (Keumyang; 1865 and Nara Cellar; Montes), with over 6 million bottles sold respectively since its introduction in 2004 (year of Chile-Korea FTA). Many interviewees view that in the past when Australian market share was around 10%, Australian wines were selling well based purely on the fact that they were reasonably priced and tasted good. Windham Estate was popular then because it was perceived as excellent value for money and with good taste. The Chilean FTA has since eroded Australia's edge as a good priced wine.

b) ***Off premise markets***

The other major reason for the decline of Australian wines is the emergence of off-premise markets as a key sales channel. Discount marts and department stores led by *Chaebol* groups (family owned conglomerates, i.e., Samsung, Lotte) predominantly prefer to do business with large importing companies, so they can purchase large quantities at a time.

In Australia, wines are mostly sold in bottle shops, but the concept of liquor stores and bottle shops is still relatively foreign to Korean consumers. Most Korean consumers are more familiar with purchasing wines at discount marts and supermarkets. As these supermarkets, such as E-mart, Lotte Mart and Homeplus, can directly import foreign wines, they are importing a substantial quantity of Chilean wines because Chilean wines are easier to sell. For example, G7 is a Chilean wine that retails for about KRW 7000-8000, so it is very affordable to Korean consumers.



c) Branding

The third major reason for decline of Australian wines is the lack of effective marketing activities, particularly branding. Branding of Australian wines in Korea appears weak. An interviewee remarked that '*Australian wineries are selling their wines as if they are selling beer. They focus more on the volume and thus only do business with large companies that can facilitate this'*.
As Korea is a brand-conscious society historically and culturally, Australian exporters need to be cognisant of the fact that consumers seek social approval in their consumption as how they are looked on by others is more important than their actual being.

Interviewees also believe that since an Australian producer may be controlling a variety of brands, there are no differentiating factors among the brands. For example, it is often found among Korean importers that the same person (Australian representative) who is promoting Penfolds wine is also promoting Wolf Blass wines.

Below are more key points gleaned from the interviewees regarding Australia's loss of market share:

- No strategic preparation/initiation (marketing and entry strategies among wine producers and government) in the case of fierce competition in the Korean market (pricing, distribution, regional marketing) was made;
- No image, no branding image of Australian wine in Korea has been developed;
- In the meantime, emergence of new competitors (i.e., Spain, Argentina);
- Every interviewee believes Australia's lack of investment in marketing and promotional efforts in Korea attributed to the declining market share.
- Chile, France, and now Italy and Spain, are more aggressive in their marketing efforts than Australia. These efforts include tasting seminars, paid invitations of wine traders and press to overseas wine exhibitions, hosting cultural and culinary events incorporating wine components, supporting commercial consumer trips to wineries, exhibitions at local trade shows, supporting local wine schools with free samples and educational materials, and working closely with local wine experts including providing support to Korean sommelier competitions.

6.1.4 Korean importers' perceptions about the Australian exporters

This study found that Australian exporters do not enjoy the same repute and perception as their counterparts in other countries in the minds of Korean importers. For example, unlike major exporters who are proactive and experienced in offshore markets, Australian exporters particularly small and medium enterprises (SMEs) seem to lack international trade experience and interest in seeking foreign markets especially small markets like Korea. As one of the respondents commented, '*Australian wine producers are not very pro-active in the sense that they do not particularly go out of their way to market and export their wine. Some wineries for example, if I contact them with the intention of importing their wines, I never get a response or I only hear back from them after many months have passed. Australians are very different to Americans who are quite business oriented. In general, I get the impression that Australians are slightly vague and not overtly certain about what they want to really achieve. Koreans on the other hand are very different; they want to achieve everything with precision and must always be aware of what exactly is going on.*'

Similarly, while wine exporters from the US, Italy and France, listen and try to accommodate a number of difficult requests from the Korean importers, Australian exporters are perceived as rigid and inflexible. It is important to note that Australian wine exporters do not seem to be aware of the significant influence and power held by Korean importers. Many interviewees remarked that Australia seemed more focused on the China market. They also viewed some marketing managers participating in the Korean wine expo or exhibition as lacking in Korean market or business-culture knowledge. Korean importers also complained about a lack of Australian wine experts and a lack of information available on Australian wine in Korea. In summary, these poor perceptions about Australian wines and Australian exporters probably contributed to the below-par performance of Australian wines in this market.

6.1.5 Framework of the regulatory system

Ministry of Strategy and Finance (MOSF): The MOSF is the 'control tower' of Korea's economic policies. The Minister (Mr Kyungwhan Choi, concurrently Deputy Prime Minister) is responsible for developing and coordinating Korea's economic policies and strategies to efficiently manage the nation's finances. The MOSF also has enforcement functions, where it oversees the National Tax Tribunal and the Financial Intelligence Unit. In particular, the MOSF is:

- Developing and implementing national economic growth strategies
- Developing and coordinating economic and fiscal policies
- Formulating, executing the budget as well as monitoring its execution
- Managing tax and customs systems, treasury, government accounting,
- Handling international financial matters, the exchange rate, and international financial cooperation.

There are two main offices (Tax and Budget) and ten specialised departments. Department of International Economies is responsible for Korea's FTA negotiations with foreign countries including Australia. The Office of Taxation specialises in tariff and is responsible for developing, planning and handling all the related FTA policies. The MOSF Korean website (http://www.mosf.go.kr/info/info03a.jsp) in general provides detailed information of each office and department's role and contact

points including names of officers who are responsible for different tasks. For the people unfamiliar with Korean, the website in English (http://english.mosf.go.kr/) does have some information but not in detail.

Korea Customs Services (KCS): KCS is an agent of the MOSF and it does not have an enforcement function. The rules and policies that the KCS handles come from MOSF. Any decisions on tariff matters have to be made by the MOSF. There are three key areas in the KCS in relation to the FTA:

- Division of FTA Implementation, which consists of Managing, Planning and Origin Support Departments.
- Customs Validation and Classification Institute that assesses the preferential tariff products including agricultural products (i.e., fruit = wine)
- Clearance and Facilitation Bureau

As is the case with MOSF, websites are primarily in Korean thereby making information access difficult for non-Korean speakers (http://www.customs.go.kr/kcshome/main/content/ContentView.do?contentId=CONTENT_ID_000001283&layoutMenuNo=21006). The website in general provides detailed information about each Office and the Division contact points including names of officers who are responsible for different tasks (http://www.customs.go.kr/kcshome/main/content/ContentView.do?contentId=CONTENT_000000000305&layoutMenuNo=242).

Ministry of Food and Drug Safety (MFDS, formerly Food and Drug Safety Administration): MFDS is a government agency responsible for all the relevant food safety activity in Korea, except meat/poultry products. As wine in Korea is categorised as food, MFDS examines any imported food including its safety. The Food Sanitation Committee, which comprises experts from academia, industry and consumer groups, works to develop and endorse the decisions about the various food safety issues and policies. Food Import Policy Division/Food Safety Policy Bureau is responsible for the examination of all the imported food including wine. According to the Deputy Director of the Bureaus, who has been in charge of the wine inspection for the last 10 years, Australian wine has been an excellent example that has satisfied all the requirements (interview conducted on 1 August 2014 at the MFDS in Osong Korea). The Food Safety Bureau works closely with the National Korea Food and

Drug Safety Evaluation (NiFDS) for scientific evaluation and risk assessment for various contaminants, pesticides, veterinary drugs, microorganism and viruses, food packaging materials and other hazardous materials that might be contained in foods.

6.2 Consumer Surveys[2]

6.2.1 Demographic profile

Of the 300 respondents, there were 171 (57%) male and 129 (43%) female. Age ranged from 20 to 81 years, with a mean of 38 years and a median of 37 years. By age group, those in their 30s or 40s made up the vast majority (combined 73%) of the respondents. The mean and median income were both in the KRW30,000 to KRW50,000 range.

6.2.2 Wine knowledge and image of Australian wine

Korean consumers possess average wine knowledge (mean =4.1 on a 7-point scale, with a standard deviation of 1.4) and interest (mean=4.5, SD=1.3). This is unsurprising in that the Korean consumers are generally less sophisticated, especially compared to their Western counterparts[3]. When asked about their perceptions of Australian wine, most viewed Australian wine favourably (mean=5.0; SD=1.2) and would prefer to buy Australian wine over Korean wine (mean=5.0; SD=1.2), but with no clear preference over other foreign wines (mean=4.3; SD=1.4). These results suggest that Korean consumers do not possess a negative image of Australian wine, although they may not necessarily prefer Australian wine to other foreign wine.

6.2.3 Preference by wine characteristics

For personal consumption, 46% of respondents preferred red wine for their own consumption, and this percentage increased substantially to 68% for gifting. While white wine (19%) was second only to red wine, sparkling wine (17%) appeared to gain popularity for own consumption. In red wine, consumers preferred a fruity or sweet taste, and did not like savoury and tannin tastes. There was no clear preference for full-bodied or light-bodied red wine.

[2] All data and tables are in ANNEX II

[3] For example, see Johnson and Bastian (2007), A preliminary study of the relationship between Australian wine consumers' wine expertise and their wine purchasing and consumption behavior, Australian Journal of Grape and Wine Research. 13(3):186-197

Similarly, with white wine, consumers preferred fruity or sweet tastes, although they were indifferent to acidic or woody tastes. Contrary to red wine, consumers prefer full-bodied (80%), rather than light-bodied white wine. Finally, there was a clear and strong preference for bottles with cork closures (70%) rather than other forms of closures (including screw cap) or packaging (casks).

6.2.4 Country comparisons

The respondents were asked to nominate their preferred country-of-origin for wines across five price categories. The list of countries for each category was Australia and its key competitors: Chile, France, Italy, Korea, Spain, and the US. The five price categories were:

- low-end (less than KRW10, 000)
- entry-level (KRW10, 000 to 30, 000)
- mid-range (KRW30, 000 to 60, 000)
- high-end (KRW60, 000 to 100, 000)
- luxury (more than KRW 100, 000).

For both own consumption and gifting, Australian wine is well positioned as entry-level and mid-range wine, although it is not the most preferred country-of-origin in these categories; Chile dominated the top preference for entry-level whereas France was most preferred for mid-range wine. However, Australian wine fared poorly in the high-end and luxury category, both of which were strongly dominated by France.

The survey then investigated whether consumer preferences would change should the FTA lead to a drop in the retail price of Australian wine. To determine this, the respondents were first told that an FTA between Australia and Korea is imminent and that the signing would eliminate the 15% import tariff. Given the potential price reduction post-FTA, respondents then re-selected their preferences for each of the five price categories. The results show that for personal consumption**,** Australian wine now led the entry level and mid-range categories by cannibalising preferences from Chile and France respectively. Furthermore, Australian wine registered a clear increase in perceived best value across the other categories after the FTA. These collective results allude to the importance of Australian wine capitalising on the FTA to improve market share.

6.2.5 Past versus future purchase

Respondents next answered which country's wine they had bought most often in the 12 months preceding the survey and which one they intended to buy most often in the 12 months following the survey. Overall, Chile recorded the highest past purchase frequency (43%), followed by France (26%). Australia was on par with Italy in the joint third position at 10%. For future purchase (i.e., after the FTA), Australia jumped to the top position with 33% indicating that respondents intended to buy Australian wine most often. As Table 9 shows, this improvement by Australian wine came at the expense of Chilean wine. This result reinforced the earlier finding that Australia wine is very much competing against Chilean wine, especially at the entry and mid-range categories.

6.2.6 The influence of country image

Past research has established the link between consumers' perceptions of a country's wine and their perceived image of the country as a travel destination[4]. The relationship is particularly pertinent for products, such as wine, that are related to tourism. This study similarly found a strong correlation between the respondents' perceptions of Australian wine and their perceived image of Australia as a travel destination (correlation coefficient=.587, significant at $p<.001$). As discussed below, unprompted responses during the consumer focus group similarly found that Korean consumers made references to tourism icons like nature and kangaroos when asked about what came to mind when they thought of Australia. This finding holds key implications on how Australian wine, at a country level, can be promoted to improve its brand awareness among Korean consumers.

6.3 Focus Group Results

Finally, in order to shed further light on the survey findings, this study conducted a consumer focus group, facilitated by a market research agency in Seoul. Of the four heavy buyers (who buy on average buy one or more bottles per week), there were two males and two females, with ages ranging from 37 to 54 years. Of the four light buyers (who buy on average one bottle or less per month), there was also an equal number of males and females, with ages ranging from 42 to 54 years.

[4] Lee, R. and Lockshin, L. (2012). Reverse Country-of-Origin Effects of Product Perceptions on Destination Image. Journal of Travel Research, 51(4), 502-511.

The key findings from this focus group are:

- Heavy buyers (HB) consumed a variety of wines originating from a range of different countries. Light buyers (LB) consumed mostly entry-level or low-end Chilean wine.
- HB were more likely to associate wine with a variety of hedonic characteristics (e.g. luxury, socialising), whereas LB associated wine mostly with health-related factors (especially heart disease prevention).
- HB were more discerning about quality. LB focused more on the perceived image and price of the wine. LB were also more prone to buy wine on special promotion or sale.
- To both groups, country-of-origin was a key source of information to judge the quality of a wine.
- Both groups were more likely to purchase at a supermarket for personal consumption, but preferred specialist shops for gifting. Also, LB were more likely to use shop assistants' help and advice, implying that they were less knowledgeable or familiar with wine.
- When gifting, both groups preferred wines that are "attractive" i.e. sophisticated, with cork closures, packaged in a case and made from eco-friendly organic grapes. They also concurred that red wine is best for gifting. Participants reported attending more events where white and sparkling wines, instead of red wine, were served. White wines and screw-cap closures were generally acceptable for home or an outdoor setting.
- All participants were unanimous in their view that Australian wines were low to mid-range, and that they were ***not*** cheap relative to competitors in each category. Consistent with the survey results, Chile was the most popular low-end wine, and France was considered the best and most opulent.
- When asked about what came to mind when they thought of Australia, the responses were primarily tourism-related terms such as nature, the beach, and kangaroos (all unprompted).
- None were able to recall any Australian wine brands.

In summary, the consumer focus group findings were consistent with the survey results. In particular, Australian wine was perceived as low-end or mid-range and was relatively expensive in the respective categories. There was little awareness of Australian wine brands. Even though heavy buyers were more discerning, they still relied on country-of-origin to judge wine quality. The perception of Australian wine was strongly linked to the country's image as a travel destination.

7. Outcome/Conclusion

The overarching aim of this project was to explore the nature of market access and opportunity in the Korean wine market from the perspective of Australian wine exporters, leading to appraising and synthesising market entry strategies. Following from this primary aim, this project has targeted and addressed the following objectives through the execution of qualitative in-depth interviews and focus groups, coupled with a quantitative consumer survey:

- Highlight the relevant regulatory, political and cultural dimensions of the Korean wine market
- Identify the distribution channel and structure (both on- and off-premise);
- Identify non-tariff barriers on importing wine, including labelling, licenses, and food and safety policies
- Determine the critical success factors and the potential pitfalls in developing a successful position in the market
- Assess the market access strategies of Australia's key competitors
- Identify and assess the relevant aspects of public-private sector interaction involved in establishing successful market positions in Korea.
- Uncover Korean consumers' perceptions and preferences for wines from various countries.

In addressing the above objectives, this study has provided detailed descriptions of the workings of the Korean wine market from government, business and consumer perspectives. It has identified the key government organisations involved in managing and regulating the domestic Korean market. This information provides Australian businesses with better clarity and direction on conducting business in Korea. Through a series of in-depth interviews with key players in the market, the study has also identified the major competing countries operating in Korea and their respective strengths and weaknesses. This information enables Australian wine producers to compare and position themselves against their key competitors, and to develop better competitive strategies to strengthen their foothold in the Korean market.

The in-depth interviews are also instrumental in uncovering perceptions that importers, both big and small, have of Australian wine and of Australian exporters. This often tacit or implicit feedback will give Australian exporters more insightful glimpses into how they should manage business relationships with their Korean counterparts. Finally, the data from the quantitative and qualitative consumer surveys will help Australian producers develop more effective marketing activities and more competitive products to grow their market share. In the next concluding section of this report, we put forth six recommendations that arise from this study's findings to guide Australian exporters to obtain a stronger foothold in the Korean market.

8. Recommendations

This study proposes the following six key and actionable recommendations on Australian wine producers' engagement with Korea:

1. Developing better engagement with industry

Our findings suggest that a lack of collaboration among exporters, distributors and the Australian government organisations might have contributed to the reduced market share of Australian wine in Korea. While Australian producers individually, or the Australian wine industry collectively, fails to engage with Korean business proactively, the opposite applies to Australia's competitors, who often engage in activities such as:

- holding wine tasting/dinner events for importers
- hosting wine tour to the country of origin
- running wine workshops for Korean importers
- engaging with wine media in Korean (magazine, Wine21.com, Wine review etc.).

The outcomes of this lack of industry engagement are reflected in the comments from the in-depth interviews, including these:

- Australian exporters lack a good understanding of the Korean market
- Importers lack information and expertise about Australian wine
- There is a lack of consumer-directed marketing activities for Australian wine.

Since news of the FTA negotiations between Australia and Korea became public, there has been a steep increase in interest among Korean importers and distributors. These businesses are the most influential parties in Korea's imported wine market, and working with them collaboratively to maximise the word-of-mouth factor is crucial for Australian exporters. Proactive engagement with key Korean businesses would also help Australian exporters better manage the '*Chaebol* factor', the family-owned conglomerates (refer to 6.1.3) that control extensive distribution networks from importers right down to retail outlets. An effective engagement strategy should also include working with smaller importers and smaller producers.

2. ***Develop a clear and dominant position, aligned with business, marketing and pricing strategies***

The findings distinctly show that although Australian wines are perceived as low-end and mid-range, they do not occupy dominant positions in those categories. Furthermore, the market regards Chile as Australia's main competitor, which implies that Australian wine may even be perceived as entry-level products. Similarly, due to this weak position, heavy buyers perceive Australian wine as uncharacteristically similar to US wine. This lack of a distinctive and dominant position hinders the competitiveness of Australian wine.

The findings also show that there is a gross lack of highly recognisable Australian wine brands. It appears that Australian wine has done little to capitalise on the positive associations with Australia as a country. A key finding is that Australian wine is positively associated with tourism images such as nature, the beach and kangaroos. Thus, the Australian wine industry should take a two-pronged approach by positively linking Australian wine to positive country images, plus executing in-country marketing activities to raise the awareness of individual brands. Prolonged and well-coordinated campaigns, both at country and brand level, will help Australian wine develop a clear and competitively distinct position in importers and consumers' minds.

3. ***Capitalise on FTA tariff cut to improve consumer perceptions and drive preference***

A key reason why Chilean wine became immensely popular and gained much market share was the Chileans' ability to capitalise on and develop effective marketing communication activities around their FTA with Korea. These actions have led to perceptions of increased value of Chilean wine among Korean consumers, *regardless of whether the retail price was actually reduced*. Likewise, Australian wine producers should embrace the opportunity presented by the KAFTA to change the current consumer mindset that Australian wines are relatively expensive and lack value for money as low-end or mid-range products. Marketing communications about the KAFTA tariff reduction will lead to improved consumers' price perception, even if the tariff reduction does not flow on to an actual retail price reduction. However, Australian wine sold into the high-end or luxury segments is less likely to benefit from this approach because consumers in these segments are less price sensitive, and a price drop may even detrimentally signal quality degradation.

At the same time, Australia exporters should be negotiating with Korean importers to ensure that the 15% tariff savings are passed on to consumers. It appears from the in-depth interviews that while large supermarket chains are likely to reduce the retail price accordingly, other channels such as specialist wine shops are less likely to do so. Instead, these latter channels can choose to retain the cost savings, thereby boosting their profitability. As the FTA terms do not mandate the on-passing of tariff savings to consumers, Australian exporters should proactively pursue this matter with their Korean counterparts. This would help increase the competitiveness of Australian wine especially when consumer comparisons take place at retail shelves.

4. ***Develop products to meet preferences (or educate the market)***

Korean consumers generally possess limited knowledge about wines and show a strong and skewed preference for only a few types. Secondary data and the quantitative consumer survey revealed that the vast majority (>60%) of sales come from red wine. Furthermore, bottles with cork closures are the most preferred packaging type. There is also increasing white and sparkling wine consumption, both of which are viewed as trendy compared to traditional red wine. Regardless of grape

variety, the general preferences are for wines that are sweet and fruity, rather than those with tannin, woody or savoury flavours.

Australia presently exports around 450 stock keeping units to Korea. It may be necessary to map supply with demand by focusing on wines that meet Korean consumers' taste. This may also mean that Australian producers need to develop market-specific products to meet these preferences. For instance, red wine in bottles with cork closures are the most preferred choice for gifting. It may be futile to try to convince Korean consumers to accept red wine in bottles with screw caps – they are perceived as cheap and inferior. An alternative, albeit over a longer time frame, is to educate Korean consumers about our wine. Educating and exposing Korean consumers to different Australian wines, and even packaging, would pay dividends in the long run.

5. ***Capitalise on the forthcoming FTA to launch aggressive marketing activities***

Australian producers have a *limited* window of opportunity leading to and shortly after the KAFTA is signed into law to launch aggressive marketing campaigns to promote their wines. As Korean consumers lack knowledge, familiarity and awareness about Australian wines, the forthcoming FTA offers an extraordinary opportunity to start to rectify this problem. As the consumer focus group shows, no participants were able to recall *any* Australian wine brand. The marketing communication activities should also aim to increase word-of-mouth, an important communication mechanism in relationship-oriented societies like Korea. As the survey suggests that wine purchase takes place across multiple channels (wine shops, supermarket chains, departmental stores, pubs, online), marketing activities should also include developing appropriate networks and working relationships with these outlets, especially by shifting the benefits of FTA to them.

It is also pertinent to note from the findings that heavy buyers tend to shop differently from light buyers. While heavy buyers associate wine with a variety of hedonic characteristics (e.g. luxury, socialising), light buyers associate wine mostly with health-related factors (especially heart disease prevention). Heavy buyers are also more discerning about quality, whereas light buyers focus on price and image and are more attracted by promotions. These collective insights give hints to effective advertising messages in order to reach the different segments.

However, actual data on buyer distribution is currently unavailable. A key question that remains unanswered is whether Australian producers should focus more on light buyers, who may be many, or heavy buyers to increase market share. This is a future research issue that the industry would need to consider.

6. Develop more guided understanding of doing business in Korea

Unlike many Western countries, Korea is very much a relationship-oriented society. Arguably even among the Northeast Asian countries (China, Hong Kong, Japan, Korea and Taiwan), Korea is the most collectivist country. While formal business agreements are necessary and important especially in international business, much of the business across most industries in Korea is done based on relationships. While the importance of relationships in business is universal, relationship-oriented business is particularly institutionalised in Korea. Consequently, deals are often based on connections and contacts, rather than on merits. Also, as all importers know each other, it is unrealistic to assume that information about a business arrangement is limited/restricted to only the contracting parties.

At present, Australian wine exporters rely largely on one-off contracts and fail to foster strong relationships with importers. Interviewees remarked that competitors (esp. Chile, US, France) are able to take flexible approaches, whereas Australian exporters are perceived as rigid. Australian wine exporters should understand the relationship and the cultural practices that they may face when doing business in Korea. Nurturing longer-term relationships will help develop trust, confidence, and stickiness between Australian and Korean businesses in the wine market.

ANNEX 1: Aggregate Market Information

Table 1.

Imported Wines & Spirits Statistics(Dec. 2013)

*A(Amount): CIF USD1,000, *V(Volume): L

category \ year		2009	2010	2011	2012	2013	Growth
Wine	A	112,451	112,888	132,074	147,426	171,771	16.5%
	V	23,009,425	24,568,118	26,003,780	28,169,841	32,547,000	15.5%
Beer	A	37,156	43,750	58,440	73,590	89,663	21.8%
	V	41,491,717	48,712,649	58,993,004	74,749,542	95,210,568	27.4%
Vermouth	A	75	648	338	628	989	57.5%
	V	27,793	336,670	140,489	287,273	435,321	51.5%
Sake(청주)	A	9,638	14,220	15,260	16,658	16,147	-3.1%
	V	2,641,456	3,424,936	3,555,224	3,781,663	4,367,311	15.5%
Other Fermented (기타발효주)	A	905	2,459	3,381	4,744	6,851	44.4%
	V	591,702	1,377,778	1,687,652	2,364,718	3,522,011	48.9%
Cognac	A	6,873	7,278	7,383	3,832	3,921	2.3%
	V	480,117	414,817	333,511	146,251	140,923	-3.6%
Grape Brandy	A	1,159	1,866	2,042	1,480	1,860	25.7%
	V	280,939	395,031	416,364	349,584	388,797	11.2%
Other Brandy	A	230	323	494	552	556	0.7%
	V	59,066	65,062	76,111	83,086	101,714	22.4%
Whisky	A	194,812	231,026	225,158	205,934	185,194	-10.1%
	V	21,243,465	22,589,547	21,433,209	19,542,913	18,433,986	-5.7%
Rum	A	1,015	1,228	1,425	1,741	1,963	12.8%
	V	488,221	585,626	607,617	815,336	826,928	1.4%
Gin	A	452	640	1,052	1,333	1,812	35.9%
	V	172,079	209,563	337,098	330,012	398,560	20.8%
Vodka	A	2,477	3,047	4,205	6,570	9,333	42.1%
	V	957,509	1,000,017	1,196,998	1,823,028	2,609,176	43.1%
Liqueur	A	10,103	9,388	11,213	18,898	22,513	19.1%
	V	4,647,082	4,186,662	4,302,548	6,579,959	7,076,359	7.5%
Kaoliang Liquor (고량주)	A	1,928	2,352	3,027	3,309	4,440	34.2%
	V	3,843,827	4,142,891	4,956,206	4,782,652	5,861,309	22.6%
Tequila	A	2,187	2,904	2,553	3,099	3,077	-0.7%
	V	519,950	614,599	585,826	687,658	613,298	-10.8%
Other Liquor (기타)	A	2,992	1,515	1,867	1,967	2,351	19.5%
	V	1,417,661	845,374	782,574	903,437	1,020,225	12.9%
Total	A	384,453	435,532	469,912	491,761	522,441	6.2%
	V	101,872,009	113,469,340	125,408,211	145,396,953	173,553,486	19.4%
Growth	A		13.3%	7.9%	4.6%	6.2%	
	V		11.4%	10.5%	15.9%	19.4%	

Imported Wine Statistics(Dec 2013)

mount: CIF USD1,000, Volume: L

				2009	2010	2011	2012	2013	Growth
Sparkling Wine			Amount	9,363	10,362	15,092	18,544	21,357	15.2%
			Volume	1,029,209	1,238,841	1,893,599	2,550,153	3,001,324	17.7%
Still	2L down	Red	.	79,251	78,903	93,218	101,640	119,568	17.6%
			Volume	14,257,521	15,144,746	16,342,002	17,304,906	20,141,945	16.4%
		White	Amount	18,595	19,214	18,883	21,725	23,228	6.9%
			Volume	3,905,495	4,472,898	4,006,124	4,604,497	4,573,924	-0.7%
		Other	Amount	1,521	875	693	887	1,076	21.3%
			Volume	255,771	124,674	76,829	89,863	113,033	25.8%
		S.total	Amount	99,367	98,992	112,794	124,252	143,872	15.8%
			Volume	18,418,787	19,742,318	20,424,955	21,999,266	24,828,902	12.9%
	2L up	Red	Amount	1,647	1,258	1,513	2,184	2,696	23.4%
			Volume	1,459,368	1,125,409	1,258,954	1,534,713	1,786,462	16.4%
		White	Amount	1,724	1,913	2,273	2,013	3,415	69.6%
			Volume	2,079,715	2,445,246	2,409,005	2,046,189	2,909,986	42.2%
		Other	Amount	350	363	402	433	431	-0.5%
			Volume	22,346	16,304	17,267	39,520	20,326	-48.6%
		S.total	Amount	3,721	3,534	4,188	4,630	6,542	41.3%
			Volume	3,561,429	3,586,959	3,685,226	3,620,422	4,716,774	30.3%
	Red Total		Amount	80,898	80,161	94,731	103,824	122,264	17.8%
			Volume	15,716,889	16,270,155	17,600,956	18,839,619	21,928,407	16.4%
	White Total		Amount	20,319	21,127	21,156	23,738	26,643	12.2%
			Volume	5,985,210	6,918,144	6,415,129	6,650,686	7,483,910	12.5%
	Other Total		Amount	1,871	1,238	1,095	1,320	1,507	14.2%
			Volume	278,117	140,978	94,096	129,383	133,359	3.1%
	Still Wine Total		Amount	103,088	102,526	116,982	128,882	150,414	16.7%
			Volume	21,980,216	23,329,277	24,110,181	25,619,688	29,545,676	15.3%
Grand Total			Amount	112,451	112,888	132,074	147,426	171,771	16.5%
			Volume	23,009,425	24,568,118	26,003,780	28,169,841	32,547,000	15.5%
Growth			Amount		0.4%	17.0%	11.6%	16.5%	
			Volume		6.8%	5.8%	8.3%	15.5%	
9L CASE				2,556,603	2,729,791	2,889,309	3,129,982	3,616,333	

Red: including other

White: including Sparking wine

		2009	2010	2011	2012	2013	Growth
Red	Amount	82,769	81,399	95,826	105,144	123,771	17.7%
	Volume	15,995,006	16,411,133	17,695,052	18,969,002	22,061,766	16.3%
white	Amount	29,682	31,489	36,248	42,282	48,000	13.5%
	Volume	7,014,419	8,156,985	8,308,728	9,200,839	10,485,234	14.0%
Total	Amount	112,451	112,888	132,074	147,426	171,771	16.5%
	Volume	23,009,425	24,568,118	26,003,780	28,169,841	32,547,000	15.5%
Share	Red	73.6%	72.1%	72.6%	71.3%	72.1%	
Amount	White	26.4%	27.9%	27.4%	28.7%	27.9%	
Share	Red	69.5%	66.8%	68.0%	67.3%	67.8%	
Volume	White	30.5%	33.2%	32.0%	32.7%	32.2%	

Sources: Raw data collected from various wine importers in Korea

Table 2: Market share of imported wines in 2012 and 2013 and the difference/variation (Amount)

Country	2012	2013	Variation
1. France	32.70%	32.52%	-0.17%
2. Chile	21.36%	21.62%	0.26%
3. Italy	16.86%	17.26%	0.40%
4. United States	11.49%	11.45%	-0.04%
5. Spain	5.49%	6.32%	0.83%
6. Australia	5.77%	4.48%	-1.29%
7. Argentina	1.83%	1.96%	0.13%
8. Germany	2.06%	1.68%	-0.38%
9. South Africa	1.45%	1.78%	0.33%
10. New Zealand	1.00%	0.94%	-0.06%
Total	100%	100%	

Source: Jeong, J. (2014), *Report on Import Wine Market in Korea 2014 (https://wine21.com/11_WineNews/winenews02_view.php?SelUno=12720)*

Table 3: Monetary value of Imported wine; 2012 and 2013, variation/difference

Country	2012	2013	Change	Percentage Change
France	$ 46,094,000	$ 52,726,000	$ 6,632,000	14.4%
Chile	$ 30,107,000	$ 35,051,000	$ 4,944,000	16.4%
Italy	$ 23,772,000	$ 27,984,000	$ 4,212,000	17.7%
United States	$ 16,195,000	$ 18,556,000	$ 2,361,000	14.6%
Spain	$ 7,737,000	$ 10,239,000	$ 2,502,000	32.3%
Australia	$ 8,136,000	$ 7,259,000	$ -877,000	-10.8%
Argentina	$ 2,580,000	$ 3,184,000	$ 604,000	23.4%
Germany	$ 2,902,000	$ 2,716,000	$ -186,000	-6.4%
South Africa	$ 2,037,000	$ 2,885,000	$ 848,000	41.6%
New Zealand	$ 1,408,000	$ 1,518,000	$ 110,000	7.8%
(Other)	$ 899,000	$ 1,817,000	$ 918,000	102.1%
Austria	$ 41,000	$ 181,000	$ 140,000	341.5%
Japan	$ -	$ 37,000	$ 37,000	(N/A)
Total	$ 141,908,000	$ 164,153,000	$ 22,245,000	45.7%

Source: Jeong, J. (2014), *Report on Import Wine Market in Korea 2014* (*https://wine21.com/11_WineNews/winenews02_view.php?SelUno=12720)*

Table 4: Trend of imported red wines (value) in 2012 and 2013 and the difference/variation by Country

Country	2012	2013	Change	Percentage
France	$ 32,514,000	$ 37,171,000	$ 4,657,000	14%
Chile	$ 27,667,000	$ 32,575,000	$ 4,908,000	18%
United States	$ 13,534,000	$ 15,483,000	$ 1,949,000	14%
Italy	$ 11,472,000	$ 14,363,000	$ 2,891,000	25%
Spain	$ 5,900,000	$ 8,119,000	$ 2,219,000	38%
Australia	$ 6,086,000	$ 5,966,000	$ -120,000	-2%
Argentina	$ 2,412,000	$ 2,933,000	$ 521,000	22%
Germany	$ 820,000	$ 895,000	$ 75,000	9%
South Africa	$ 521,000	$ 751,000	$ 230,000	44%
(Other)	$ 419,000	$ 848,000	$ 429,000	102%
New Zealand	$ 279,000	$ 406,000	$ 127,000	46%
Austria	$ 16,000	$ 33,000	$ 17,000	106%
Japan	$ 27,000	$27,000	$ -	0%
Total	**$ 101,640,000**	**$ 119,570,000**		

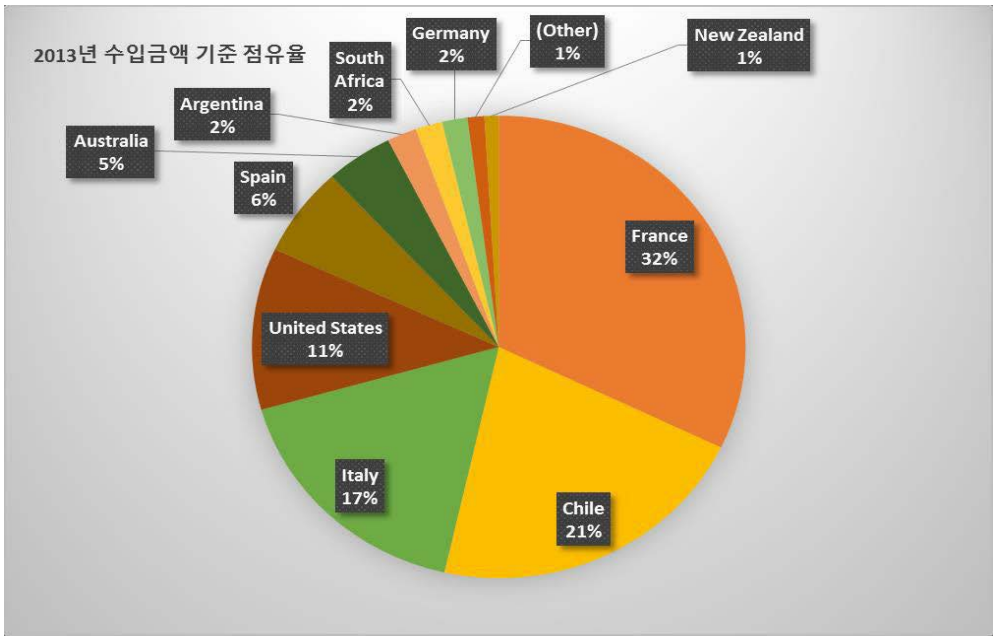
Source: Jeong, J. (2014), *Report on Import Wine Market in Korea 2014 (https://wine21.com/11_WineNews/winenews02_view.php?SelUno=12720*

Table 5: Difference in market share volume for red wines in 2012 and 2013

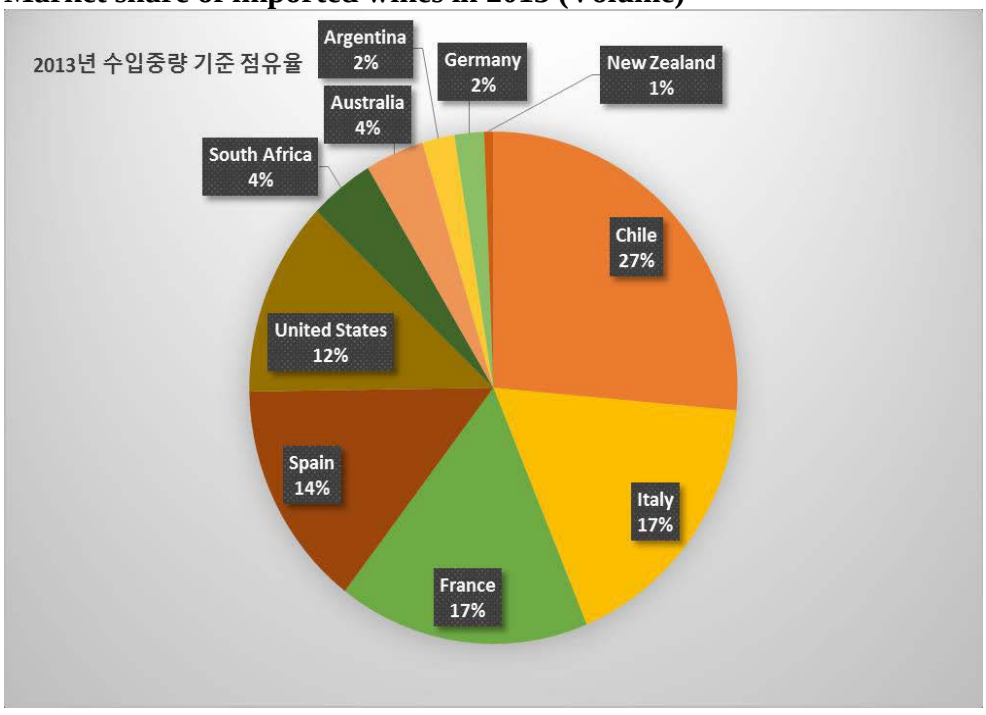
Country	2012	2013	Variation
Argentina	2.40%	2.59%	0.18%
Australia	5.52%	4.36%	-1.16%
Chile	33.73%	32.84%	-0.89%
France	18.36%	18.88%	0.52%
Germany	1.38%	1.33%	-0.05%
Italy	9.97%	9.85%	-0.12%
New Zealand	0.16%	0.22%	0.06%
South Africa	0.85%	0.95%	0.10%
Spain	13.20%	14.80%	1.60%
United States	14.41%	14.17%	-0.24%
Total	100.00%	100.00%	

Source: Jeong, J. (2014), *Report on Korean Import Wine Market Analysis*

Figure 1: **Market share of imported wines in 2013 (Value)**

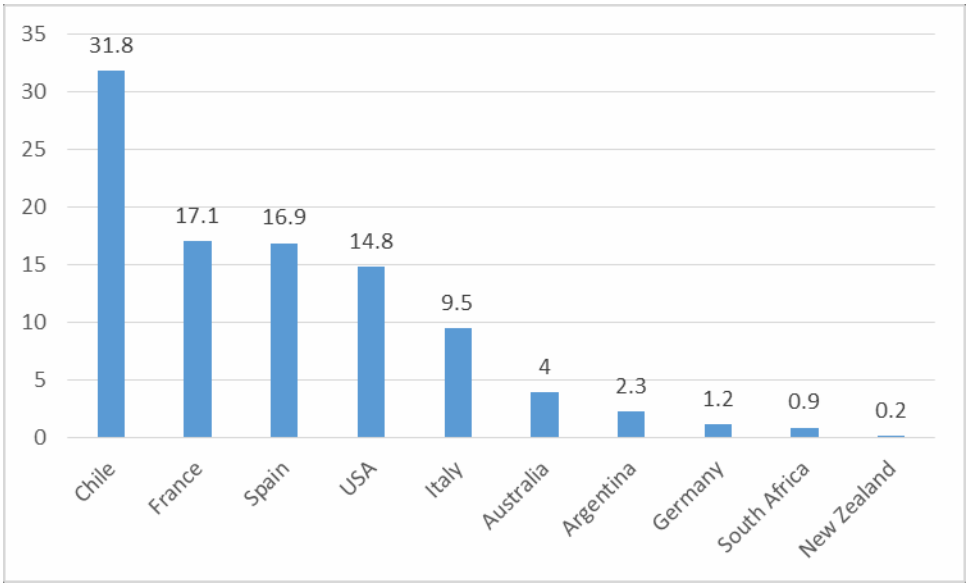


Market share of imported wines in 2013 (Volume)



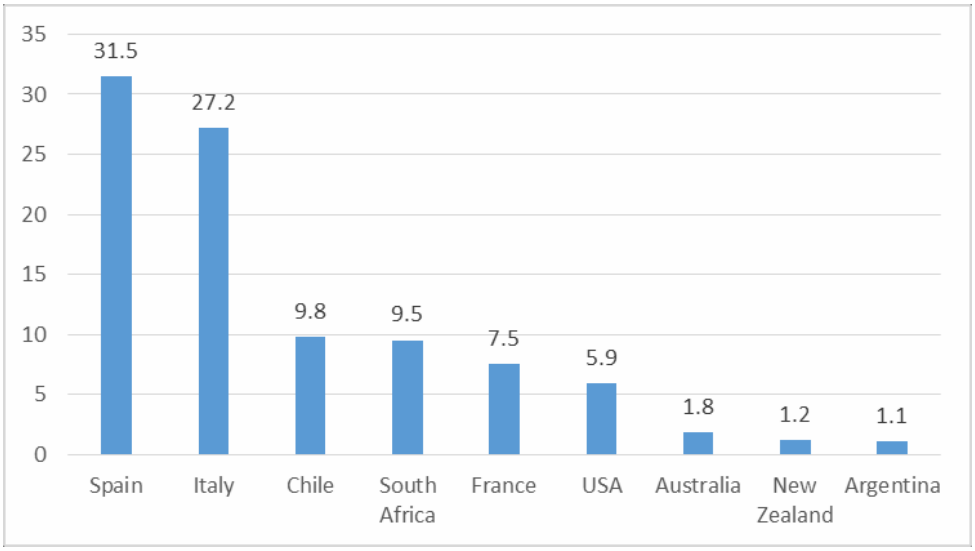
Source: Jeong, J. (2014), *Report on Korean Import Wine Market Analysis 2014 (https://wine21.com/11_WineNews/winenews02_view.php?SelUno=12720)*

Figure 2: Market Share of red wine in Korea, 2013 (%)



Source: Jeong, J. (2014), *Report on Korean Import Wine Market Analysis*

Figure 3: Market Share white wine in Korea, 2013 (%)



Source: Jeong, J. (2014), *Report on Korean Import Wine Market Analysis*

ANNEX II: Consumer Survey Information

Table 1: Perceptions of wine and Australian wine image (Scale 1-7)

Descriptive Statistics

	N	Mean	Std. Deviation
I feel very knowledgeable about wine	300	4.05	1.394
I have a strong interest in wine	300	4.52	1.355
Average Wine Image score	300	4.8829	.90208
Overall, the image of Australian wine is good	300	5.00	1.195
Valid N (listwise)	300		

Table 2: Preference for own consumption and gifting

Descriptive Statistics

	N	Mean	Std. Deviation
To buy as a gift, I prefer Australian wine to Korean wine	300	5.23	1.232
To buy as a gift, I prefer Australian wine to other foreign wine	300	4.35	1.301
To buy for my own consumption, I prefer Australian wine to Korean wine	300	5.00	1.248
To buy for my own consumption, I prefer Australian wine to other foreign wine	300	4.31	1.361
Valid N (listwise)	300		

Table 3: Preference by wine type for own consumption

For your own consumption, which type of wine do you buy often often

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Red	138	45.8	46.0	46.0
	White	56	18.6	18.7	64.7
	Rose	12	4.0	4.0	68.7
	Sparkling wine	52	17.3	17.3	86.0
	Sweet/Desert wine	34	11.3	11.3	97.3
	Champagne	8	2.7	2.7	100.0
	Total	300	99.7	100.0	
Missing	System	1	.3		
Total		301	100.0		

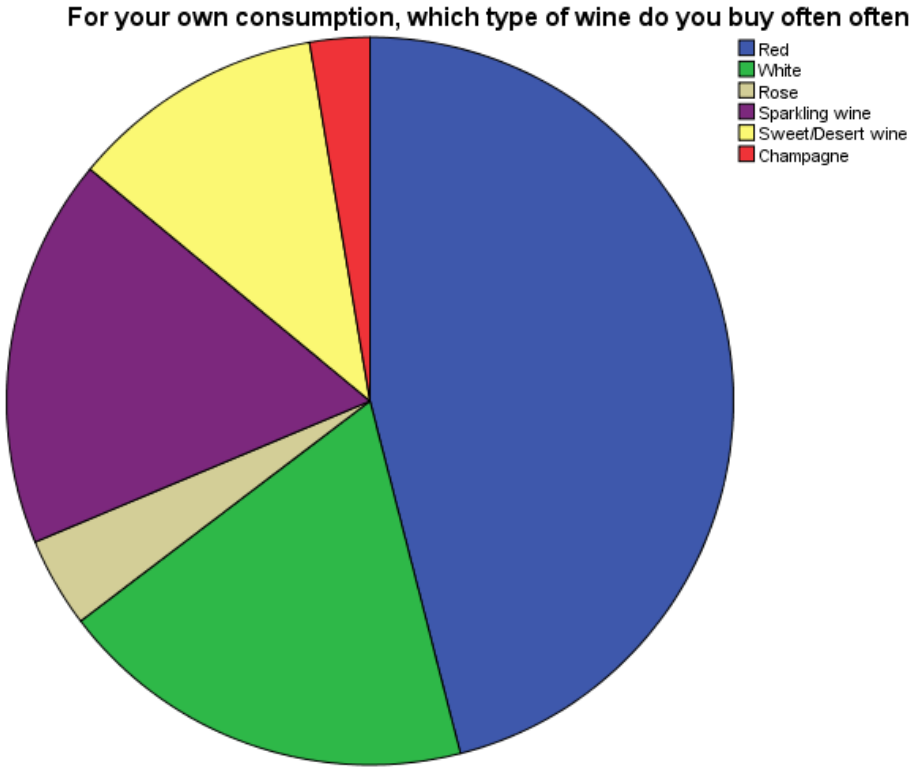


Table 4: Preference by wine type for gifting

To buy as a gift, which type of wine do you buy often often

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Red	206	68.4	68.7	68.7
	White	43	14.3	14.3	83.0
	Rose	12	4.0	4.0	87.0
	Sparkling wine	16	5.3	5.3	92.3
	Sweet/Desert wine	19	6.3	6.3	98.7
	Champagne	4	1.3	1.3	100.0
	Total	300	99.7	100.0	
Missing	System	1	.3		
Total		301	100.0		

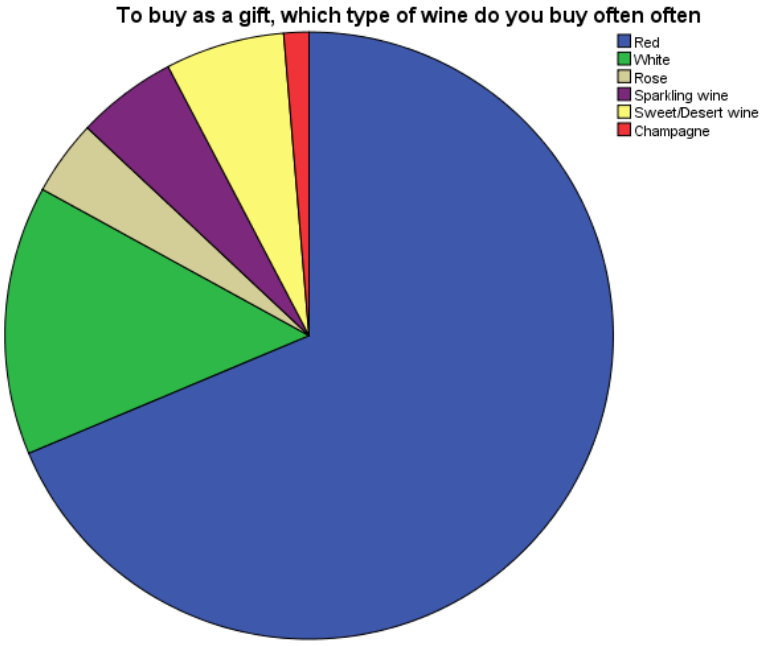


Table 5: Preferences for wine characteristic

Descriptive Statistics

	N	Mean	Std. Deviation
For red wine, how much do you like or dislike wine with the following characteristics: Fruity (e. g., plum or cherry taste)	299	4.65	1.280
Sweet	299	4.67	1.450
Savoury (e.g., meaty or black pepper taste)	299	2.77	1.324
Tannin (e.g., unripe persimmon taste)	300	3.75	1.658
Valid N (listwise)	299		

Which type of red wine do you prefer

		Frequency	Percent	Valid Percent
Valid	Full bodied	155	51.5	51.7
	Light bodied	145	48.2	48.3
	Total	300	99.7	100.0
Missing	System	1	.3	
Total		301	100.0	

Descriptive Statistics

	N	Mean	Std. Deviation
For white wine, how much do you like or dislike wine with the following characteristics:Fruity (e.g., green apple taste)	300	4.93	1.286
Sweet	300	4.87	1.325
Acidity (e.g., lemon taste)	300	4.19	1.328
Woody (e.g., oak taste)	300	3.97	1.423
Valid N (listwise)	300		

Which type of white wine do you prefer

		Frequency	Percent	Valid Percent
Valid	Full bodied	239	79.4	79.7
	Light bodied	61	20.3	20.3
	Total	300	99.7	100.0
Missing	System	1	.3	
Total		301	100.0	

Table 6: Preference for packaging

When you buy wine, you normally prefer to buy wine in what package

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	bottle	208	69.1	69.3	69.3
	cask	47	15.6	15.7	85.0
	Doesn't matter	45	15.0	15.0	100.0
	Total	300	99.7	100.0	
Missing	System	1	.3		
Total		301	100.0		

When you buy bottled wine, you normally prefer to buy them in

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cork	222	73.8	74.0	74.0
	Screw cap	37	12.3	12.3	86.3
	Doesn't matter	41	13.6	13.7	100.0
	Total	300	99.7	100.0	
Missing	System	1	.3		
Total		301	100.0		

- Strongly prefers traditional cork bottles

Table 7: Country comparisons (before FTA)

For your own consumption, Which country's wine do you perceive as best value for:

	low-end wine (less than KRW10,000)		entry-level wine (KRW10,000-30,000)		mid-range wine (KRW30,000-60,000)		high-end wine (KRW60,000-100,000)		luxury wine (> KRW100,000)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Australia	52	17	72	24	62	21	26	9	23	8
Chile	98	33	115	38	55	18	36	12	20	7
France	14	5	32	11	83	28	115	38	177	59
Italy	10	3	20	7	48	16	83	28	57	19
Korea	72	24	20	7	7	2	4	1	3	1
Spain	16	5	16	5	30	10	28	9	13	4
US	36	12	25	8	15	5	8	3	7	2
Total	298	99	300	100	300	100	300	100	300	100

To buy as gift, which country's wine do you perceive as best value for:

	low-end wine (less than KRW10,000)		entry-level wine (KRW10,000-30,000)		mid-range wine (KRW30,000-60,000)		high-end wine (KRW60,000-100,000)		luxury wine (> KRW100,000)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Australia	48	16	78	26	63	21	31	10	26	9
Chile	101	34	83	28	56	19	28	9	15	5
France	24	8	41	14	84	28	131	44	178	59
Italy	10	3	19	6	44	15	75	25	53	18
Korea	67	22	19	6	6	2	5	2	4	1
Spain	24	8	23	8	25	8	19	6	15	5
US	26	9	36	12	22	7	11	4	9	3
Total	300	100	299	99	300	100	300	100	300	100

- Australian wine well positioned as entry-level and mid-range wine
- Second to leader

Table 8: Country Comparisons (after FTA)

As you may know, Australia and Korea is about to sign a free-trade agreement. This will remove the 15% tariff on the import of Australian wine and make Australian wine more competitive in the retail market. With the expected reduction in the retail price of Australian wine:

For your own consumption, which country's wine do you perceive as best value for:

	low-end wine (less than KRW10,000)		entry-level wine (KRW10,000-30,000)		mid-range wine (KRW30,000-60,000)		high-end wine (KRW60,000-100,000)		luxury wine (> KRW100,000)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Australia	81	27	120	40	84	28	61	20	43	14
Chile	104	35	85	28	54	18	27	9	29	10
France	22	7	38	13	65	22	105	35	169	56
Italy	18	6	20	7	43	14	74	25	40	13
Korea	37	12	7	2	4	1	5	2	3	1
Spain	27	9	16	5	30	10	16	5	10	3
US	11	4	14	5	20	7	12	4	5	2
Total	300	100	300	100	300	100	300	100	299	99

To buy as gift, which country's wine do you perceive as best value for:

	low-end wine (less than KRW10,000)		entry-level wine (KRW10,000-30,000)		mid-range wine (KRW30,000-60,000)		high-end wine (KRW60,000-100,000)		luxury wine (> KRW100,000)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Australia	84	28	98	33	96	32	64	21	38	13
Chile	99	33	84	28	50	17	37	12	27	9
France	27	9	41	14	76	25	106	35	168	56
Italy	5	2	24	8	32	11	65	22	45	15
Korea	38	13	11	4	7	2	2	1	2	1
Spain	33	11	24	8	25	8	16	5	13	4
US	14	5	18	6	14	5	10	3	7	2
Total	300	100	300	100	300	100	300	100	300	100

Table 9: Past versus future purchase

Overall in the past 12 months, which country's wine have you bought most often. Please pick only one

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Australia	31	10.3	10.4	10.4
	Chile	128	42.5	42.8	53.2
	France	77	25.6	25.8	78.9
	Italy	31	10.3	10.4	89.3
	Korea	15	5.0	5.0	94.3
	Spain	6	2.0	2.0	96.3
	US	11	3.7	3.7	100.0
	Total	299	99.3	100.0	
Missing	System	2	.7		
Total		301	100.0		

Overall for the next 12 months, which country's wine are you likely to buy most often. Please pick only one

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Australia	99	32.9	33.0	33.0
	Chile	80	26.6	26.7	59.7
	France	73	24.3	24.3	84.0
	Italy	31	10.3	10.3	94.3
	Korea	7	2.3	2.3	96.7
	Spain	5	1.7	1.7	98.3
	US	5	1.7	1.7	100.0
	Total	300	99.7	100.0	
Missing	System	1	.3		
Total		301	100.0		

Table 10: Buying Intentions

During this shopping trip, which <*wine-type*> are you most likely to buy (select as many as you wish to buy):

	low-end wine (less than KRW10,000)		entry-level wine (KRW10,000-30,000)		mid-range wine (KRW30,000-60,000)		high-end wine (KRW60,000-100,000)		luxury wine (> KRW100,000)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Australia	48	18%	106	25%	64	21%	21	11%	17	11%
Chile	79	30%	109	26%	55	18%	29	15%	21	13%
France	29	11%	70	17%	91	30%	78	41%	87	55%
Italy	25	10%	51	12%	50	17%	41	22%	22	14%
Korea	41	16%	20	5%	6	2%	4	2%	1	1%
Spain	23	9%	33	8%	19	6%	12	6%	5	3%
US	17	6%	27	6%	15	5%	4	2%	5	3%
Total	262	100%	416	100%	300	100%	189	100%	158	100%

Appendix 1. Communication

On 8 July 2014, A/Professor Lee and Dr Richard Lee presented initial findings of the project to the AGWA's industry reference group at the Industry House.

On 20 October 2014, A/Professor Lee and Dr Richard Lee presented key findings of the project to the AGWA's industry reference group at the National Wine Centre.

Associate Professor You-il Lee and Dr Richard Lee were invited as Guest Speakers at the South Korean Wine Opportunities Briefing on 21 November 2014 organised by Primary Industries and Regions South Australia (PIRSA). They talked on 'Understanding Opportunities in the South Korean Wine Market'.

Appendix 2. Intellectual Property

There is no specific valuable intellectual property arising from this Report except for key findings and recommendations stated in this report.

Appendix 3. References

Han, J. (2012), 'Skyrocketing Increasing Korea's Imported Wine Market', *Economy Chosun*, Issue 35, August. Accessed 10 June 2014 at https://economyplus.chosun.com/special/special_print.php?t_num=2541&tableName=article_2005_03
&boardName=Industry&t_ho=35&t_y=2012&t_m=08

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Johnson, T. and Bastian, S. (2007), A preliminary study of the relationship between Australian wine consumers' wine expertise and their wine purchasing and consumption behavior, *Australian Journal of Grape and Wine Research*. 13(3):186-197

Lee, R. and Lockshin, L. (2012). Reverse Country-of-Origin Effects of Product Perceptions on Destination Image. *Journal of Travel Research*, 51(4), 502-511.

The Korea Customs Services

(KCS): http://www.customs.go.kr/kcshome/main/content/ContentView.do?contentId=CONTENT_ID_00000

1283&layoutMenuNo=21006

The Korea Ministry of Food and Drug Safety (MFDS, formerly Food and Drug Safety Administration): http://www.mfds.go.kr/index.do

The Korean Ministry of Strategy and Finance
(MOSF): http://www.mosf.go.kr/info/info03a.jsp

Appendix 4. Staff

Associate Professor You-il Lee, University of South Australia

Dr Richard Lee, University of South Australia.

Appendix 5.

Given that KAFTA has now become real, Australian wine industry needs to think how Australia capitalises the opportunity such as entry and marketing strategies. We believe that it is time for the AGWA to allocate some time and budget for educating wine producers and relevant authority on the Korean imported wine market and Korean business culture in the near future.