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## **Hong Kong**

### **Market Development Reports**

#### **Hong Kong Wine Market Brief**

**1999**

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#### **Report Highlights:**

The wine import market in Hong Kong has experienced growth due to increased local demand and significant re-exports to mainland China. The local market is dominated by red wines and high-end champagne, particularly French Champagne. In recent years, the retail sector has emerged catering to the growing and sophisticated needs of Hong Kong consumers. There is strong potential for wine in Hong Kong with continued education and support from suppliers.

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Hong Kong [HK1], HK

**TABLE OF CONTENTS**

|                                  | <b><u>Page</u></b> |
|----------------------------------|--------------------|
| <b>I. Introduction</b>           |                    |
| Methodology                      | 1                  |
| Executive Summary                | 1 - 4              |
| <b>II Wine Market</b>            |                    |
| Overview                         | 5                  |
| <b>III Wine Imports</b>          |                    |
| Overview                         | 6                  |
| Still Wine                       | 7 - 8              |
| Sparkling Wine                   | 9 - 10             |
| Price Trends                     | 11                 |
| Volume vs Value                  | 12                 |
| <b>• Wine Local Demand</b>       |                    |
| Overview                         | 13                 |
| Still vs Sparkling               | 14 - 15            |
| Red vs White Wine                | 16 - 17            |
| Sparkling Wine                   | 18                 |
| <b>V Wine Re-exports</b>         |                    |
| Overview                         | 19                 |
| Destination Countries            | 20                 |
| Still Wine                       | 21                 |
| Sparkling Wine                   | 22                 |
| Volume vs Value                  | 23                 |
| <b>VI Distribution</b>           |                    |
| Distribution & Promotion Offices | 24                 |
| Retail vs Food Service           | 25                 |
| Food Service Trends              | 26                 |
| Retailing Trends                 | 27                 |
| Retailing Pricing                | 28 - 31            |
| Retailing Practices              | 32                 |
| <b>VII Rules and Regulations</b> | 33                 |
| <b>VIII Summary</b>              | 34 - 35            |
| <b>IX Contacts</b>               | 36 - 41            |

**WINE MARKET BRIEF****INTRODUCTION**

- **Methodology**

The goal of this report is to provide a brief of the wine market in Hong Kong from 1992-1997 as well as project future developments through the year 1999. For the purpose of this report, wine has been divided into two categories: still wine and sparkling wine.

For Hong Kong dollar currency figures, the exchange rate used is US\$1 = HK\$7.78

Numbers listed as “Official Statistics” are Hong Kong Trade and Statistics Department figures. Other numbers are Eastern Strategic Limited estimates.

- **Main Findings**

Wine imports into Hong Kong has experienced explosive growth, particularly over the last three years. This demand growth has been driven in part by growing demand in Hong Kong, but more significantly the re-exports supplying surging demand from Mainland China. Overall Still wines dominate (95%) and the French wines have taken the majority share with over 62% of supply.

The Hong Kong market is dominated by red wines and in recent years it has been the Hong Kong Chinese who have been driving growth as they have come to appreciate red wines for their positive health benefits versus other alcoholic beverages. White wine growth has been less dramatic, with the majority of consumption remaining confined to the Western expatriate community.

Sparkling wine demand has declined over recent years, but has evolved into an almost exclusively premium end market dominated by French champagne. French Champagne has been the only sector experiencing growth in recent years. From 1992, low priced Chinese sparkling wine was a significant product in Hong Kong, but in recent years it has declined drastically as consumers move towards still wines and, when celebrating, prefer the higher end French Champagne.

Wine supply in Hong Kong has become intensively competitive with over 600 brands in the market. In the early 1990s, the food service sector had driven wine demand, but in recent years the retail sector has rapidly emerged catering to the growing and sophisticated needs of Hong Kong consumers.

Overall, Hong Kong consumers remain relatively unsophisticated about wine, but they do appreciate wine and are learning more about it. The white wine market remains untapped as most consumers do not yet understand nor appreciate this product. There is strong potential for wine in Hong Kong with continued education and support from suppliers. Hong Kong is also a key test market for the potential mainland Chinese market.

**WINE MARKET BRIEF****INTRODUCTION****• Market Access Statement****LABELING REQUIREMENTS**

The Food and Drugs (Composition and Labeling ) Regulations require food manufacturers and packers to label their products in a prescribed, uniform and legible manner. The following information is required to be marked on the label of all prepackaged food except for 'exempted items' as provided in the Regulations. Prepackaged food means any food packaged in such a way that the contents cannot be altered without opening or changing packaging and the food is ready for presentation to the ultimate consumer or a catering establishment as a single food item.

## 1 Name of the Food

- a) Prepackaged food shall be legibly marked or labeled with its name or designation.
- b) The food name should not be false, misleading or deceptive but should serve to make the nature and type of food known to the purchasers.

## 2 List of Ingredients

- a) Preceded by an appropriate heading consisting of the words " ingredients", "composition", "contents" or words of similar meaning, the ingredients should be listed in descending order of weight or volume determined when the food was packaged.
- b) If an additive constitutes one of the ingredients of a food, it should be listed by its specific name or by the appropriate category (e.g. Preservative, artificial sweetener, etc.) Or by both name and category.

## 3) Indication of "best before" or "use by" date

Prepackaged food shall be legibly marked or labeled with the appropriate durability indication as follows:

- a) a "best before" (in Chinese characters as well) date; and
- b) in the case of a prepackaged food which, from the microbiological point of view, is highly perishable and is likely, after a short period, to constitute an immediate danger to human health, a " use by" (in Chinese characters as well) date.

**WINE MARKET BRIEF****INTRODUCTION**

The words “use by” and “best before” in English lettering and Chinese characters followed by the date up to which specific properties of the food can be retained, to indicate the shelf life of the food. The “use by” or “best before” date should be shown either in Arabic numerals in the order of day, month and year (or month and year in certain circumstances) or in both the English and Chinese languages. For specific details refer to the Regulation. Website: <http://www.info.gov.hk/justice>

4) Statement of Special Conditions for Storage or Instruction for Use

If special conditions are required for storage to retain the quality, or special instructions are needed for prepackaged food use, a statement should be legibly marked on the label.

5) Name and Address of Manufacturer or Packer

Prepackaged food shall be legibly marked or labeled with the full name and address of the manufacturer or packer, except under the following situations:

- a) The package is marked with an indication of the country of origin, and the name and address of the distributor or brand owner in Hong Kong, and the address of the manufacturer or packer of the food in its country of origin has been submitted in writing to the Director of Health.
- b) The package is marked or labeled with an indication of its country of origin and with a code identifying the manufacturer or packer in that country, and particulars of the code and of the manufacturer have been submitted in writing to the Director of Health.

6) Count, Weight or Volume

The food label should include the numerical count or net weight or net volume of the food.

7) Appropriate Language

The marking or labeling of prepackaged food can be in either the English or the Chinese language or in both languages. If both the English and Chinese languages are used in the labeling or marking of prepackaged food, the name of the food and the list of ingredients shall appear in both languages.

**WINE MARKET BRIEF****INTRODUCTION**

**Exempt from labeling regulations:** Individually wrapped confectionery products and preserved fruits intended for sale as a single item; Prepackaged foods for sale to catering establishment for immediate consumption and those containing more than 1.2 percent alcohol by volume.

Under the amended Food and Drugs (Composition and Labeling) Regulations, it is illegal to sell any food after its “use by” date. Furthermore, any person who, other than the food manufacturer or packer or without their written authorization, removes or obliterates any information on the label required under these regulations also commits an illegal act.

**IMPORT DUTIES**

Hong Kong is a free port which does not impose any import tariffs on products with the exception of four dutiable products: liquor, tobacco products, hydrocarbon oils and methyl alcohol. Local importers have to apply for a licence from the Hong Kong Customs and Excise Department for the importation of dutiable commodities. In addition, a licenced importer has to apply for a permit for each and every consignment.

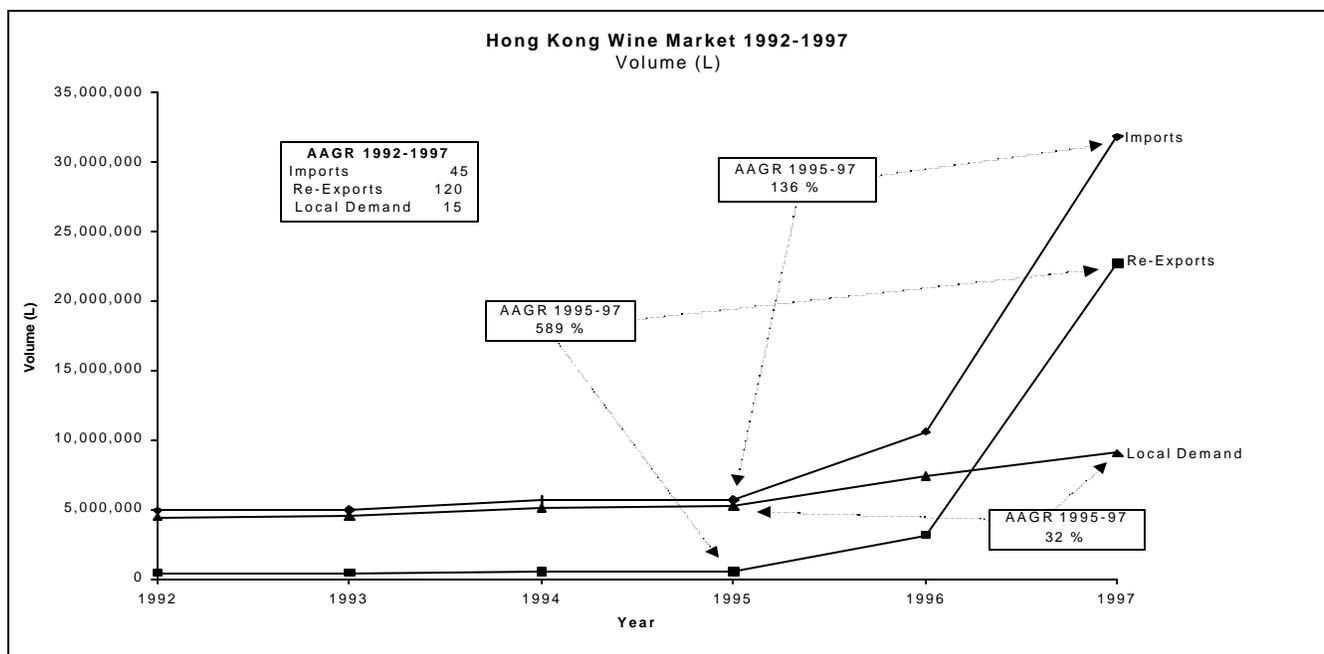
The current duties are as follows:

|  |            |
|--|------------|
| Cigarettes per 1000 sticks                 | US\$98.45  |
| Cigars per kg                              | US\$126.74 |
| Beer & liquor with less than 30% alcohol : | 30%        |
| Liquor with more than 30% alcohol :        | 100%       |
| All wines:                                 | 60%        |

**WINE MARKET BRIEF**

**OVERVIEW**

- The market for wine has grown over the past five years, particularly since 1995. The driving force behind the explosive growth has been the demand from mainland China. The Hong Kong demand has also increased significantly, but demand pales in comparison to the volumes re-exported to China.
- Lowering of the import duty in 1994 and 1997 has also influenced the increasing volumes of wine imported into Hong Kong.



**WINE MARKET BRIEF**

**WINE IMPORTS**

In 1992, Hong Kong primarily imported wines for domestic consumption. Today, Hong Kong has shifted to becoming a transshipment point for wine re-export to China.

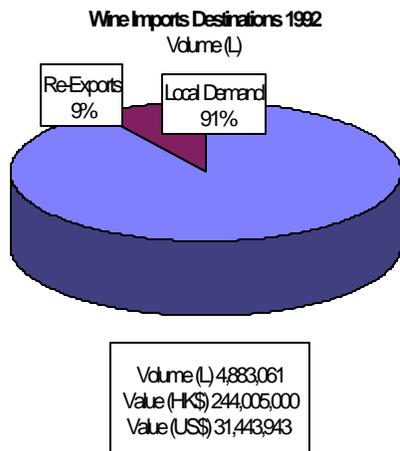
This growth has been entirely still wines. Sparkling wines have been reduced to a tiny percentage of the market.

The category “Still Wine” includes: red, white and rose.

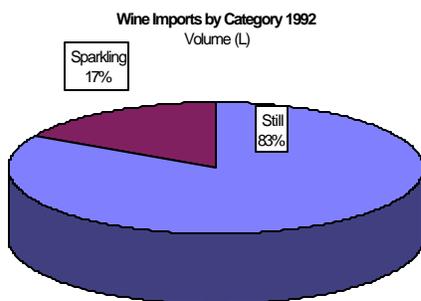
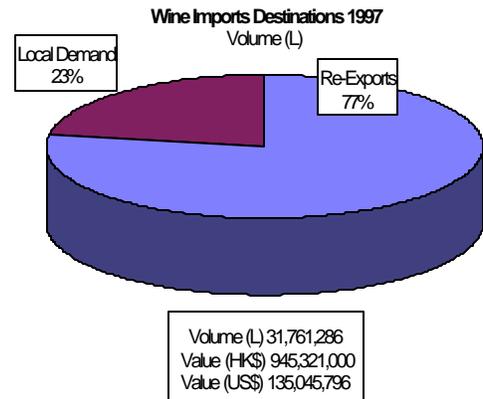
The category “Sparkling Wine” includes Champagne and all other sparkling wines.

**There is no local wine production.**

To emphasize the importance of the growing China market and to highlight the growing sophistication at the local wine market, and less significantly, Asia, Wine EXPO will take place in the Hong Kong Exhibition and Convention center from June 16-18, 1998. This is the first time the show has been held outside of Bordeaux, France.



45% AAGR



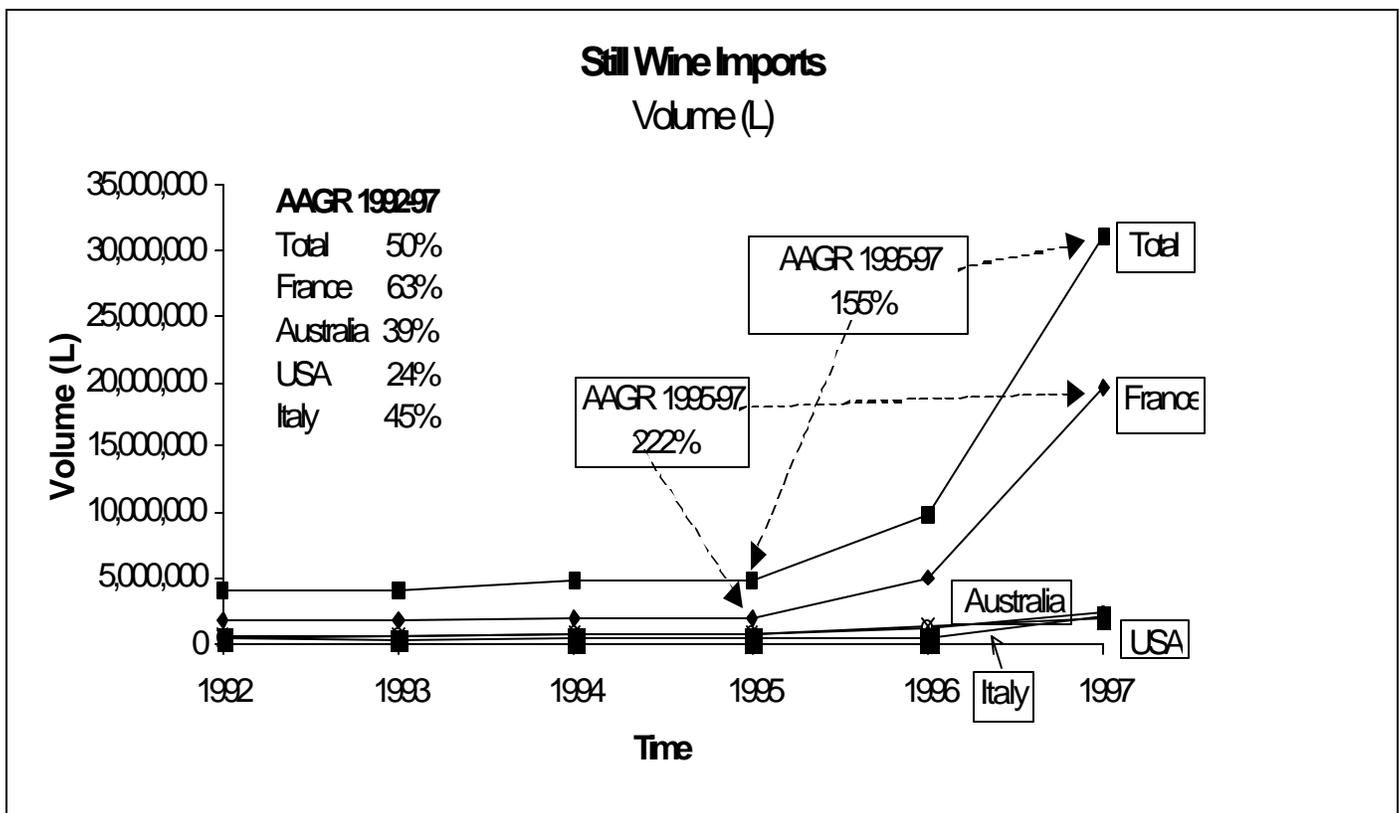
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**WINE MARKET BRIEF**

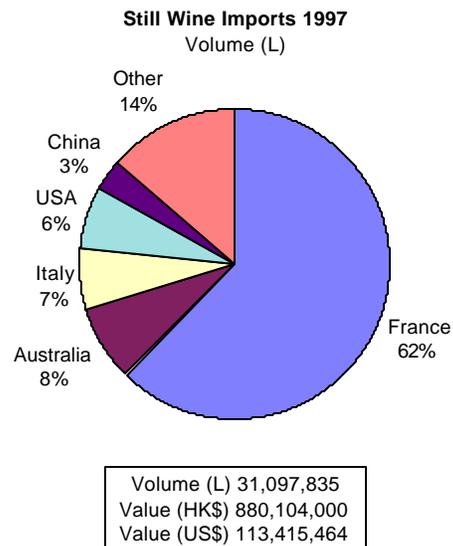
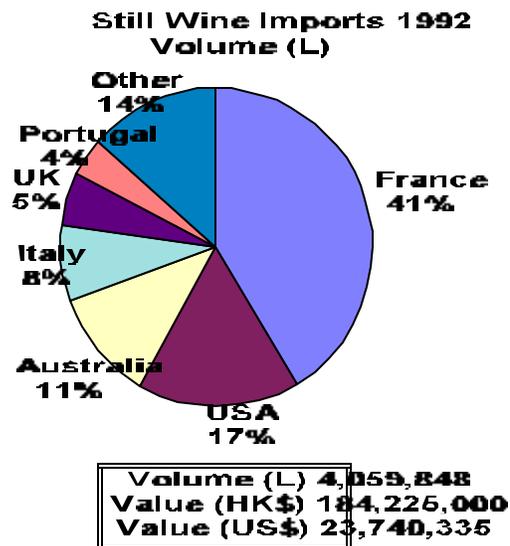
**STILL WINE IMPORTS**

- Still wines grew explosively from 1995-1997 due to surging China demand. French wines have been dominant due to the country's reputation as a traditional and foremost wine producer. Two segments have grown the fastest:  
 (1) "vin de pays" particularly from the D'Oc region (2) Bordeaux wines.
- American, Australian and Italian wines have also grown at high rates, but volumes remain minute compared to French wine.



## WINE MARKET BRIEF

## STILL WINE IMPORTS



French wines are dominant in imports from the D'Oc Region, Bordeaux and others.

Countries producing popular types of wine have done well in this market. For instance, Chilean imports have maintained a market share because most of their wines are the popular Cabernet Sauvignon Variety.

Australian and Italian wine demand has remained steady but has not enjoyed the same popularity as French wine.

The current Asian economic downturn has shifted sales to the middle range priced wines, and New World red wines including American wine, have increased in popularity. Hong Kong importers have found some producers in these countries are unable to respond to the growth in demand.

American wine's market share has seriously declined over the past five years as a result of displacement by French wine and the lack of popularity for typical Californian wines such as Pinot Noir.

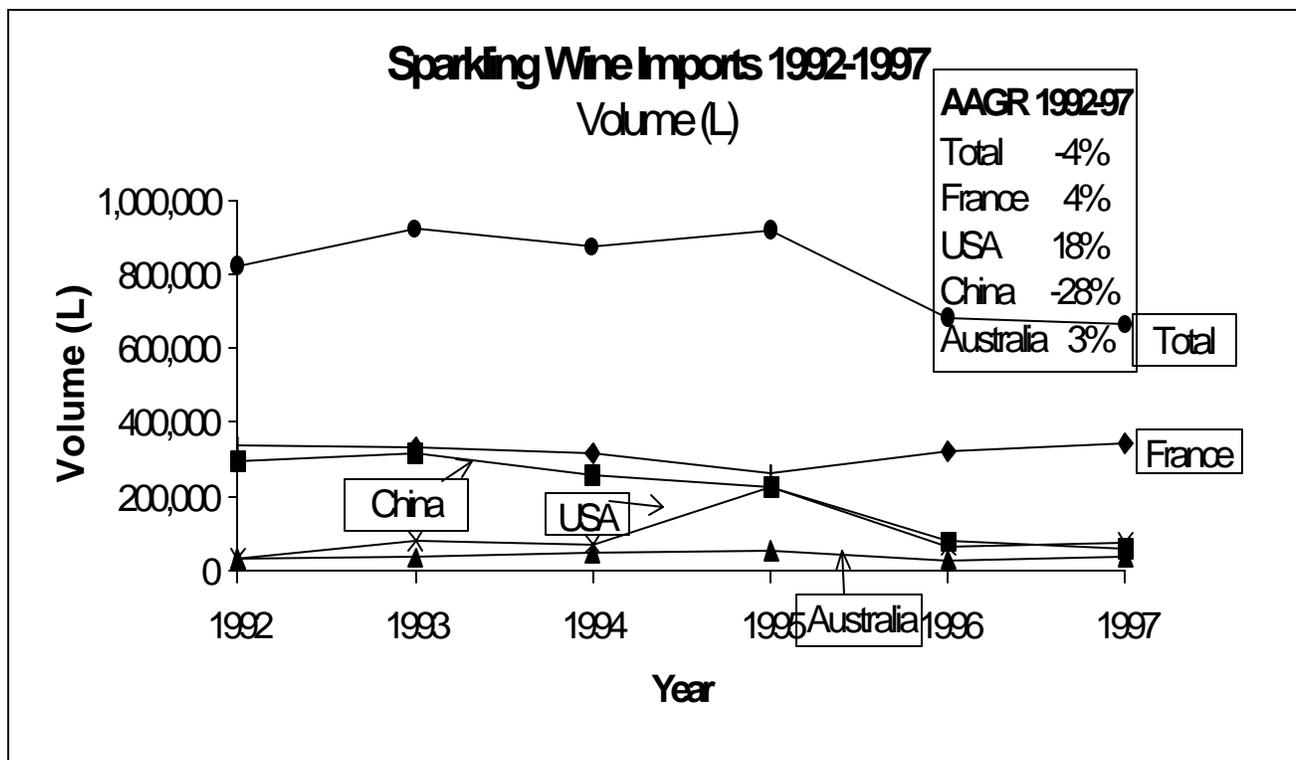
China's wine producers, including joint ventures with foreign partners, are increasing in number and size. China's main exports are produced by (1) Dynasty Winery Limited, a Sino-French joint-venture in Tianjin, and by (2) Chinese-owned Great Wall company.

By the end of the year, there was strong sentiment that importers had been too excited in 1997 and that a lot of the wine imported into Hong Kong and also quantities transhipped to China are now sitting in warehouses.

**WINE MARKET BRIEF**

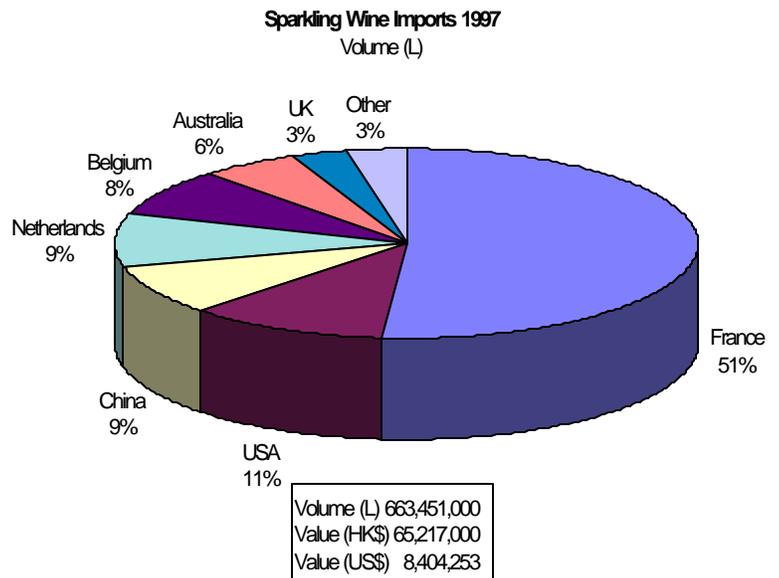
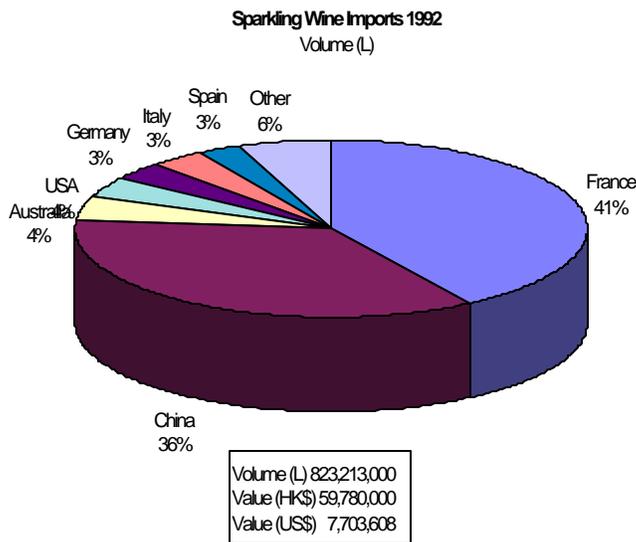
**SPARKLING WINE IMPORTS**

Imports for sparkling wines are primarily for domestic consumption and have been flat from 1992 to 1995. Since 1995, imports have been declining. French sparkling wine / champagne demand has been flat up until 1995, but has been gradually increasing since then. The drop in imports of Chinese sparkling wine has been significant, influencing the overall drop in Hong Kong demand.



**WINE MARKET BRIEF**

**SPARKLING WINE IMPORTS**

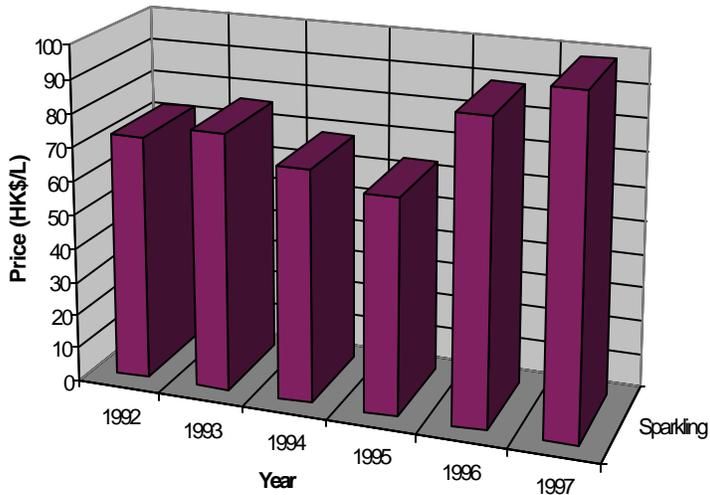


- France has been the key stable supplier of sparkling wines into Hong Kong due to an appreciation of France as a pre-eminent wine producing country and more specifically recognition of the value of champagne compared to other sparkling wines.
- The low priced Chinese sparkling wines have declined rapidly as a result of being displaced by still wine in the Hong Kong market.
- American imports jumped in 1995 before falling back to 1994 levels.

**WINE MARKET BRIEF**

**PRICE TRENDS**

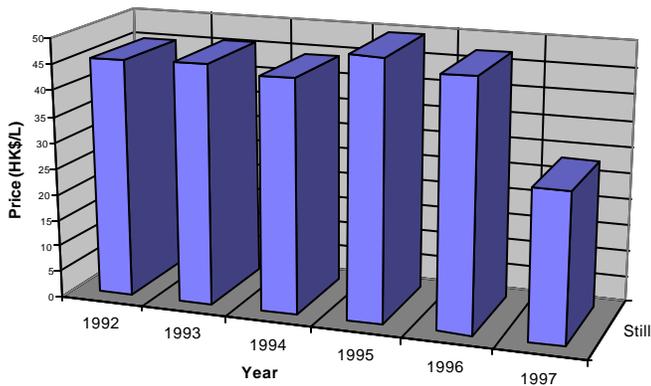
Wine Imports - Price per Litre



The price of still wine imports has decreased over the past two years reflecting the increased importance of the China market where demand is high for cheaper wines.

The price of sparkling wine has increased as consumers buy more champagne and buy less low priced sparkling wine, i.e. China. As a result, imports of cheap China-made wine have tumbled rapidly, while imports from France increased in each of the past two years.

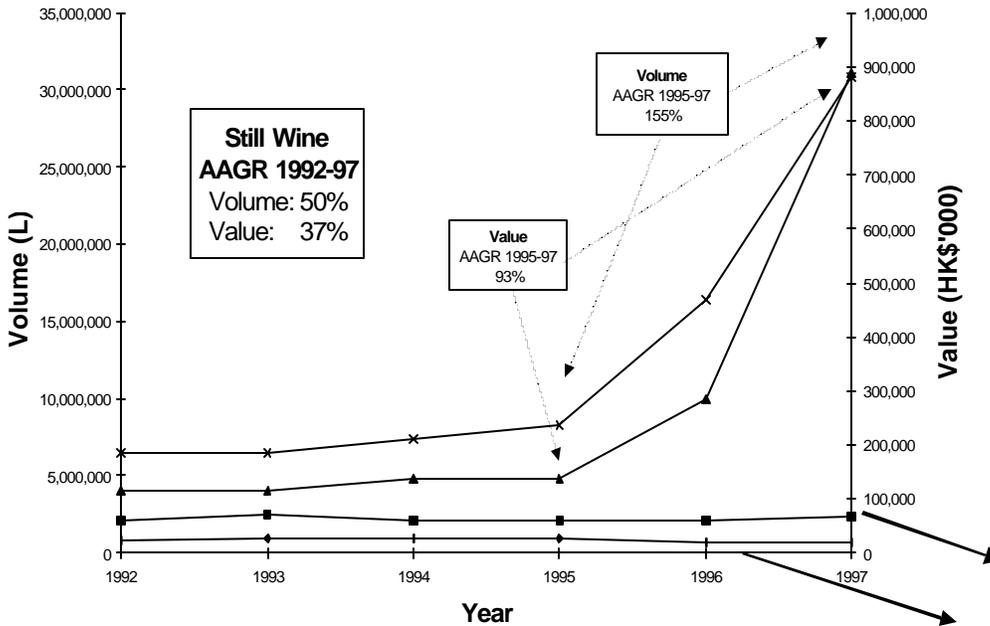
Wine Imports - Price per Litre



**WINE MARKET BRIEF**

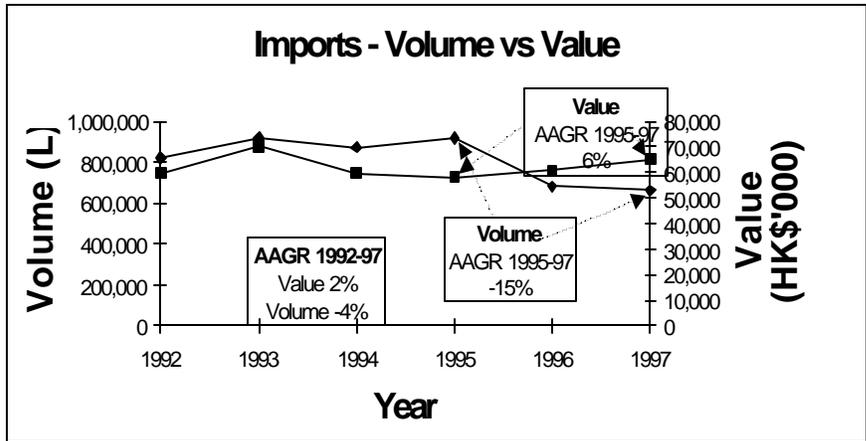
**WINE IMPORTS**

**Wine Imports - Volume vs Value**



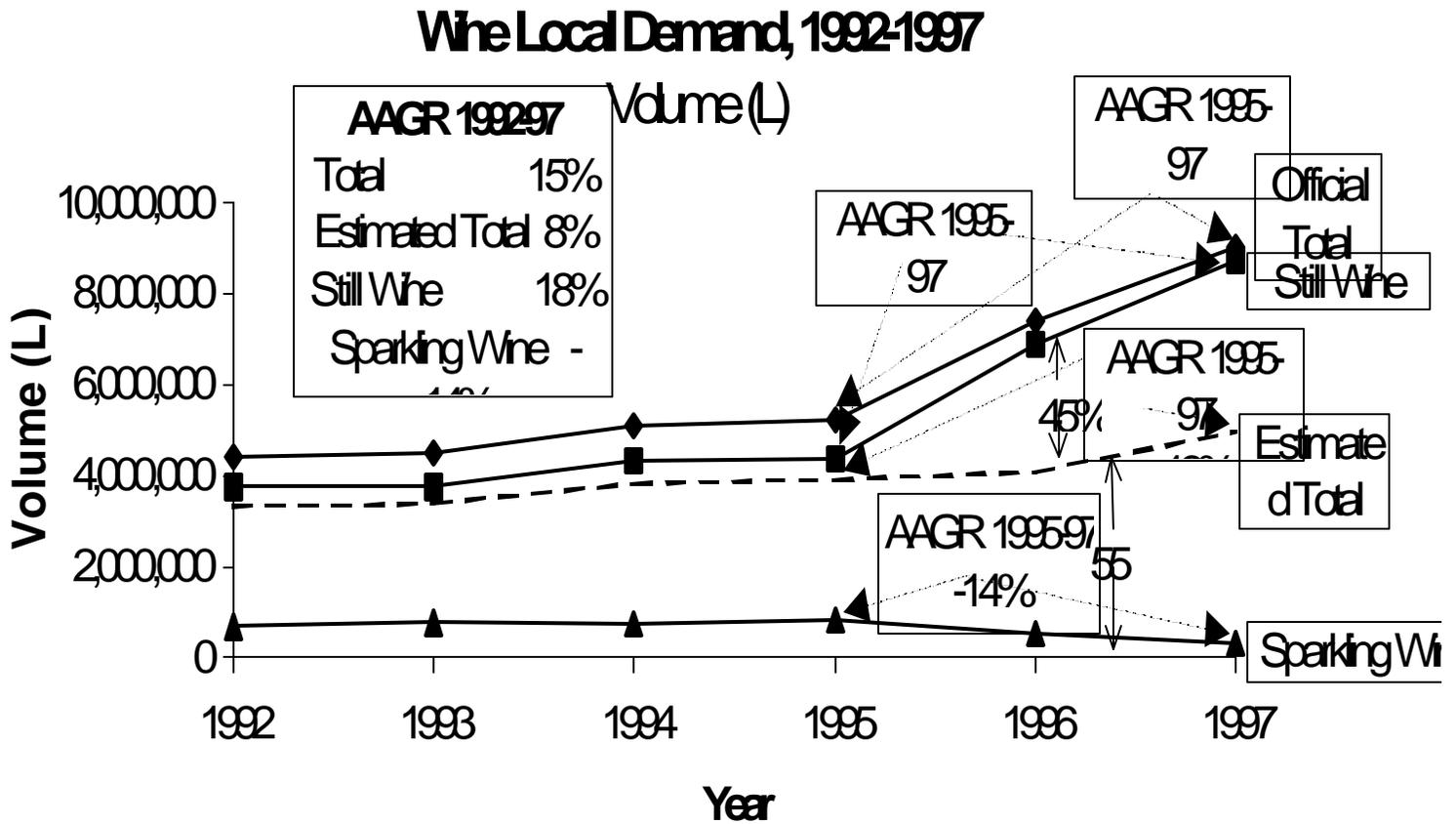
Imports duty decreased from 90% to 60% in March 1997 due to intense industry lobbying. Savings were not passed on to consumers. In fact, Champagne distributors did the opposite and raised prices in response to high demand.

**Imports - Volume vs Value**



WINE MARKET BRIEF

HONG KONG DEMAND



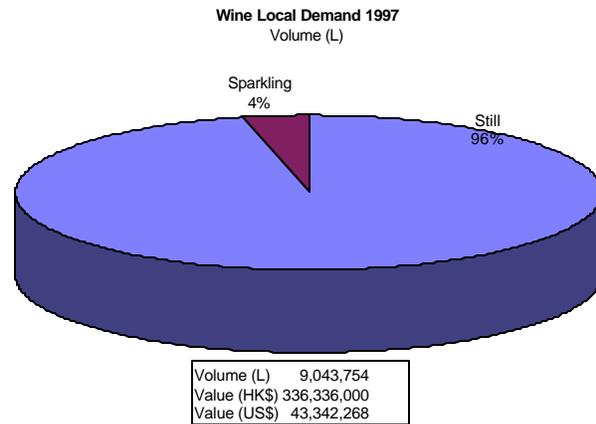
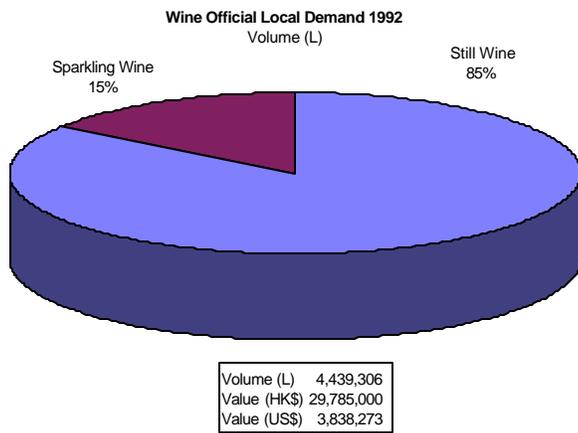
Official import and re-export statistics used to calculate local demand were revised downward by 10% to reflect the economic downturn at the end of the year.

Estimated local consumption was a maximum 5 million liters for 1997. Close to half of the official local demand volume is split evenly between an export black market to China and stockpiling in Hong Kong.

**WINE MARKET BRIEF**

**HONG KONG DEMAND**

**Still Versus Sparkling Wine**



There has been a continuous decrease in sparkling wine demand in Hong Kong. Overall, it has become a very minor portion of total consumption.

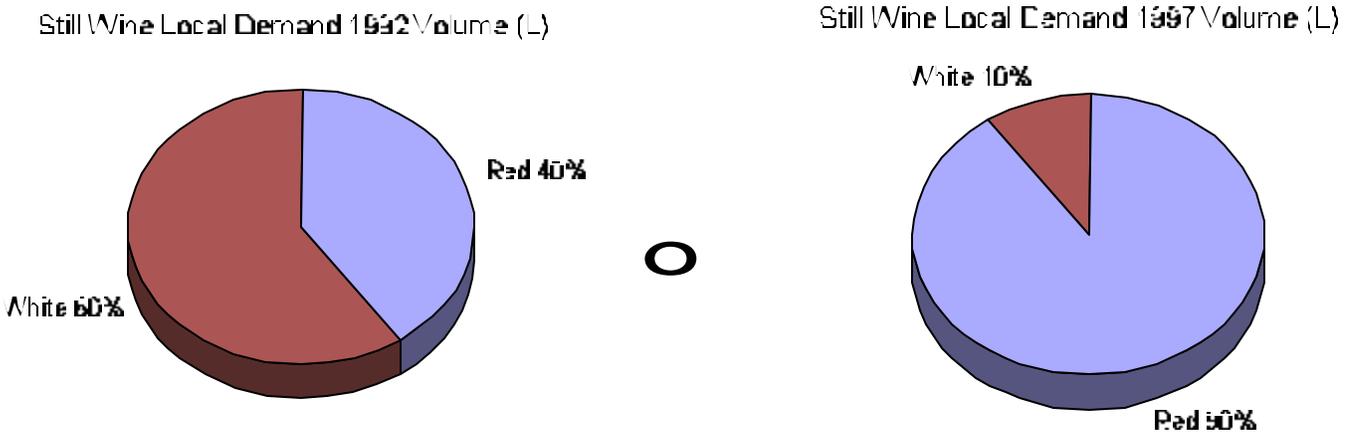
About 45 percent of still wine in Hong Kong is French (compared to about 67 percent in China) reflecting Hong Kong's position as a more sophisticated and mature market.

**WINE MARKET BRIEF**

**HONG KONG DEMAND**

**Driving Forces**

- Total local consumption of wine nearly doubled from 1995-1997. Wine has displaced sales of spirits including cognac, whisky and brandy for a variety of reasons.
  
- Growth in Hong Kong wine consumption is due to:
  - The “French Paradox”: Alcohol has a reputation of being harmful to health however research suggesting that drinking up to two glasses of wine a day, especially red wine, may benefit one’s health and reduce heart and blood ailments and Alzheimer’s Disease.
  
  - An image approaching that of premium spirits such as Cognac and in line with the new uncertain economic realities of Hong Kong.
  
  - Lifestyle image of a high class, educated, and sophisticated individual.
  
  - Increased promotion and education about wine, along with increased availability.
  
- Per capita consumption for adults 20 years and over and reaching a record high of 1.85 liters in 1997.

**WINE MARKET BRIEF****STILL WINE - HONG KONG DEMAND****Red Versus White Wine**

The emergence of the Hong Kong Chinese as wine consumers has catalyzed demand growth for red wine. Chinese customers are attracted to red wine due to a number of factors including: the “French Paradox”, its strong flavors and because Bordeaux wines are very fashionable.

Five years ago wine consumption was mainly limited to expatriates and Hong Kong was a white wine market. Expatriates have continued to drink white wine and remain its main market. As a result, wine sales have been flat since 1992, not yet catching the attention of the large base of Hong Kong Chinese wine drinkers.

Due to its light color, white wine is associated with juice by many Hong Kong consumers. There is a slight increase of white wine consumption in the summer months.

**WINE MARKET BRIEF**

**STILL WINE - HONG KONG DEMAND**

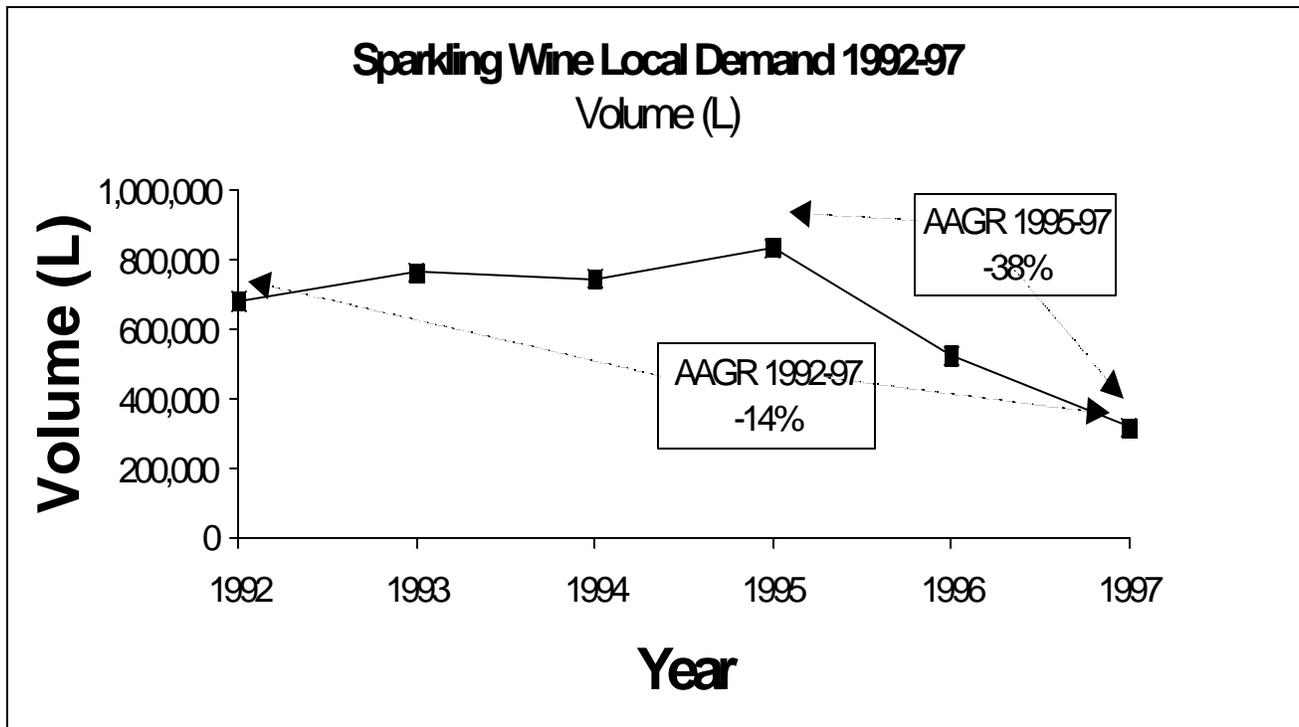
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**Driving Forces**

- The taste preference among wines has shifted in recent years. Only a few years ago, customers preferred wine with a weak flavor. Now, more robust and stronger tastes of wine, for example Chiras, are popular.
  - Established wine varieties such as Cabernet Sauvignon and Merlot for red.
  - Chardonnay for White.
- The shift to stronger flavors is also related to the shift away from cognac and other spirits as consumers search for similar tasting replacements.
- Overall, Hong Kong consumers remain relatively unsophisticated about drinking wine. One indication is that they do not abide by traditional “rules” of wine drinking, and little consideration is given to choosing a wine that would traditionally be served with a particular meal.
- Red wine is often consumed as a long drink. This is particularly true in China.

## WINE MARKET BRIEF

## SPARKLING WINE - HONG KONG DEMAND



- Low priced sparkling wines are being displaced by still wines, overshadowing a recent surge in demand for premium sparkling wines and Champagne.
- Champagne is perceived as a drink consumed only when celebrating.
- Champagne sales are seasonal. Winter holidays (Christmas and New Year) account for 20 percent of annual sales volume.

**WINE MARKET BRIEF**

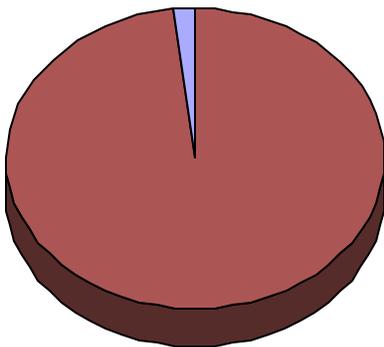
**WINE RE - EXPORTS**

Overview

Re-exports are almost entirely red wines going to China.  
 About 70 percent of re-exports to China are French wines.

**Wine Re-exports 1997 Volume (L)**

Sparkling Wine 2%



Still Wine 98%

**Wine Re-exports 1997 Volume (L)**

White 10%

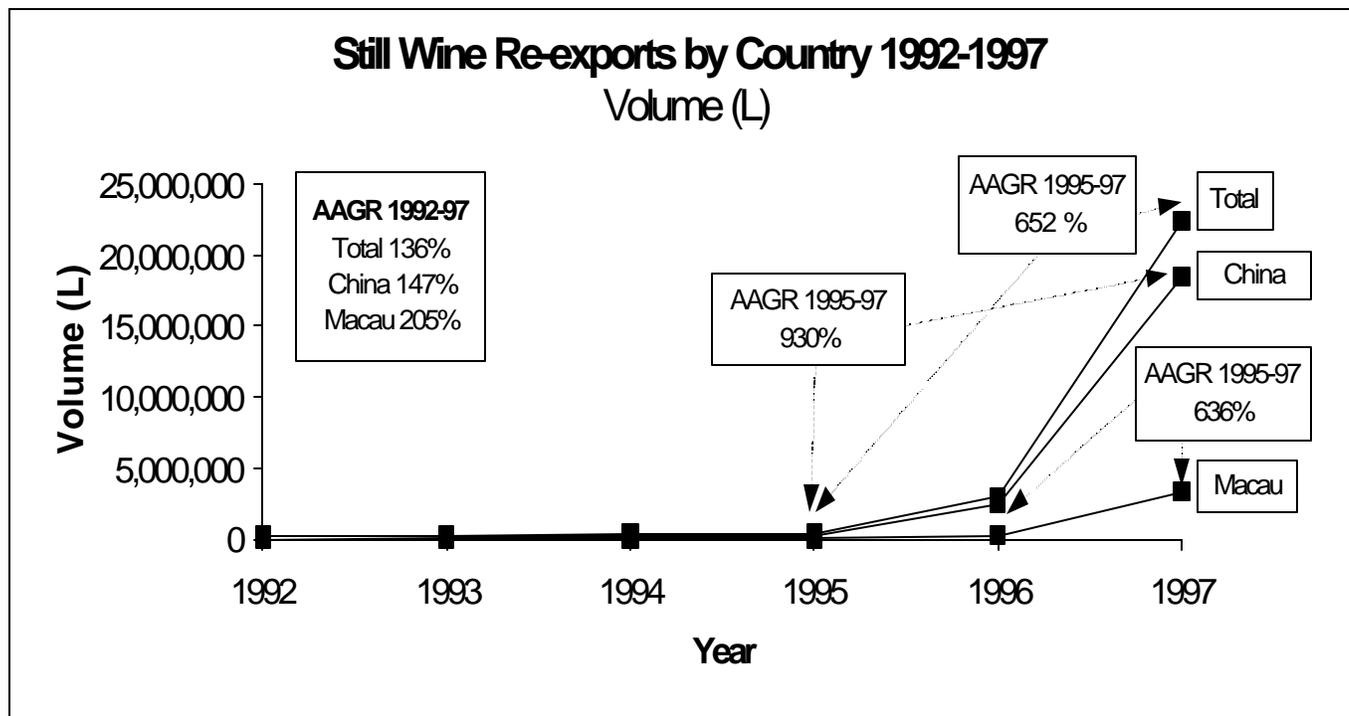


Red 90%

|                |            |
|----------------|------------|
| Volume (L)     | 21,717,532 |
| Value (HK\$)   | 608,985,00 |
| Value (U.S.\$) | 78,477,448 |

## WINE MARKET BRIEF

## WINE RE - EXPORTS



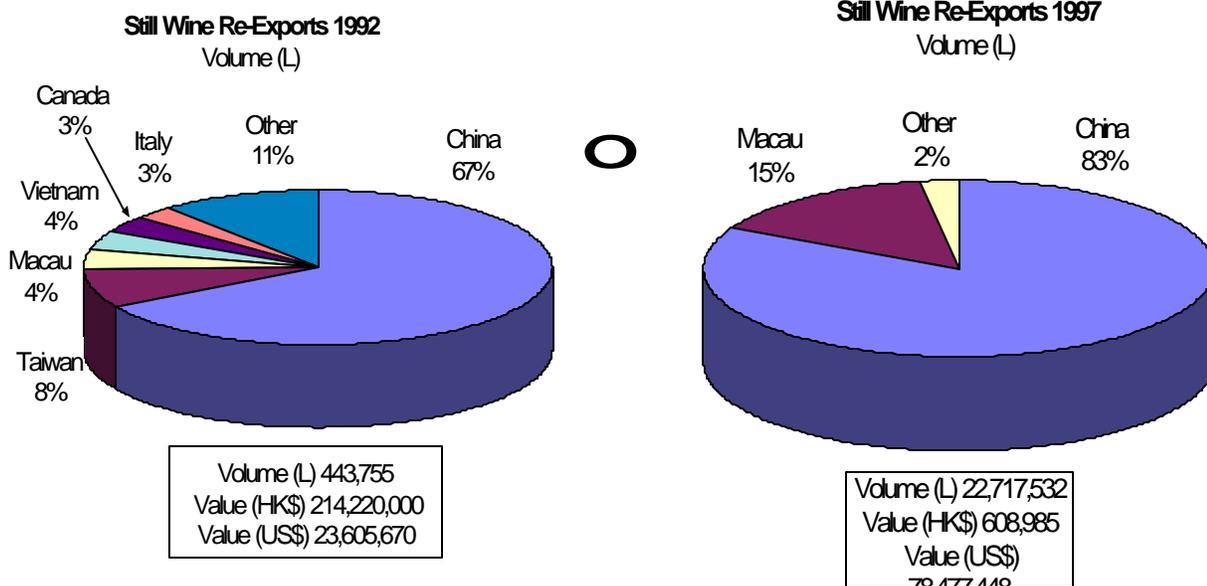
A huge market for wine has developed in China over the past two years as mainland Chinese have recognized the detrimental effects Cognac and other alcoholic beverages have on one's health and the relative benefits red wine has on one's health.

Official growth in re-exports to China has been explosive since 1995, and is even higher when the black market is included.

**WINE MARKET BRIEF**

**STILL WINE RE - EXPORTS**

At least 60 percent of re-exports have gone to China every year since 1992. In 1996 and 1997 the amount increased to nearly 100 percent, between 10 and 15 percent of which passed through Macau.



Non-China re-exports represent Hong Kong's ongoing role as a transshipment point for many other Asian wine importing countries.

The importance of Hong Kong as a regional transshipment point has shrunk. However, in absolute volume and value terms, re-exports to Asian countries excluding China have grown since 1992.

**WINE MARKET BRIEF**

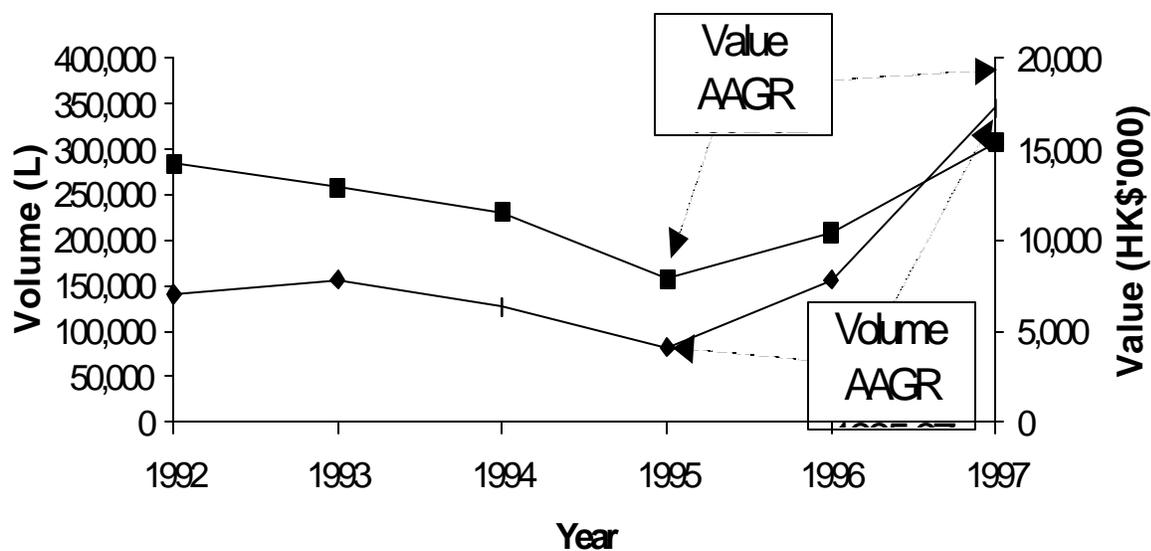
**SPARKLING WINE RE - EXPORTS**

Re-exports of sparkling wine are now almost exclusively to China.

The China market demand for sparkling wine began earlier than for still wine. By 1993 over 80 percent of sparkling wine re-exports were going to China.

Sparkling wine re-exports to China have not grown as fast as still wine re-exports because of the predominance and popularity of an inexpensive domestic sparkling wine brand, *Grande Champagne*.

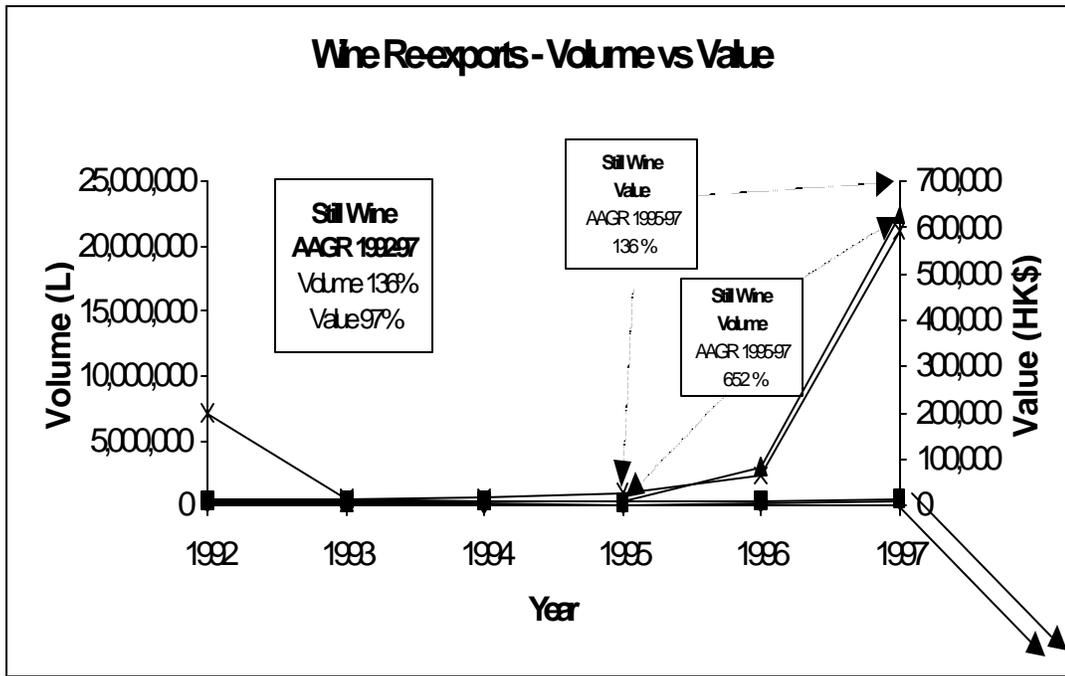
### Sparkling Wine Re-Exports Volume vs Value



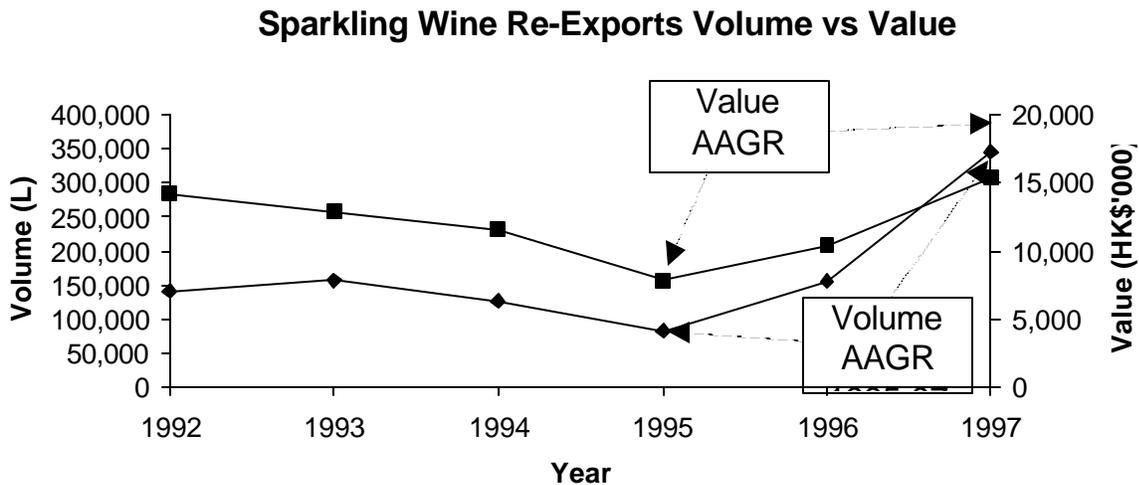
Japan is the only other transshipment market. It had declined in importance because of the growth of the market in China.

**WINE MARKET BRIEF**

**RE - EXPORTS**



Re-exporters increased their price margins in 1997 reflecting their confidence in high sales demand



**Distribution & Promotion Offices**

| Distributor Size   | Identity and Number Of Distributors  |
|--|--|
| Primary Hong Kong Wine Distributors<br>(Offices in Hong Kong and usually in China) | Caldbecks<br>Casells<br>IDV<br>Jebesen            6<br>Remy<br>Richemonde<br>Seagrams<br>Topsy |
| Secondary Wine Distributors<br>(One or two person operation)                       | 200-300  |

Remy is the largest distributor and has six 'Fine Wines' retail shops alternatively promoted as information centers. Remy offers home delivery on orders of 12 or more bottles.

Wine distributors almost invariably have other, often complementary food and beverage business interests.

Note that IDV and Seagrams have both stopped distribution operations in Hong Kong due to poor market conditions and high operating costs.

In addition to distributors, trade promotion arms of wine producing countries have promotion offices in Hong Kong. These organizations run seminars and training programs. They market directly through in- store promotion activities. The promotion of Champagne is left solely to distributors because it is a brand market.

| Country     | Promotion Office                |
|-------------|---------------------------------|
| France      | Sopexa                          |
| Australia   | Austrade                        |
| USA         | California Wine Institute       |
| Italy       | Vino Italy,<br>Trade Commission |
| Chile       | Trade Commission                |
| New Zealand | Wine Institute of New Zealand   |

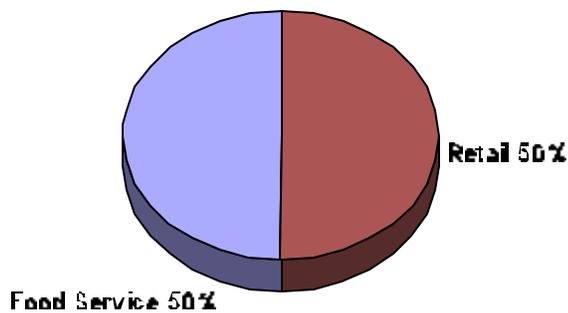
**WINE MARKET BRIEF**

**DISTRIBUTION**

**Retail Versus Food Service**

**Retail:** Supermarkets, Convenience Stores, Wine and Spirit Boutiques, Airlines

**Food Service:** Hotels, Bars, Karaoke Bars, Restaurants, Airlines



The retail sector is taking up an increasing share of total sales due to increased availability and sales to customers taking store-bought wine to Chinese restaurants where there is usually little or no corkage charge.

| Distribution Outlet Type                                  | Range of Wine Available |
|---|-------------------------|
| Food Service<br>Gourmet Grocers<br>High-end Boutiques     | Medium to High End      |
| Grocery Stores<br>Convenience Stores<br>Low-end Boutiques | Low to Medium End       |

**WINE MARKET BRIEF****FOOD SERVICE****Trends and Driving Forces**

- # Wine has long been a common sight in Hong Kong's non-Chinese restaurants. It is not until recently that wine has been consumed in Chinese restaurants. Wine sales in Chinese restaurants continue to lag behind Western restaurants but sales have increased as customers are more willing to experiment. Wine by the glass has become increasingly popular, especially during lunch.
- # Chinese restaurant sales are expected to increase and take up a significant share of food service sales within the next few years.
- # Wine is trendy among young adults and is available in most discotheques in Hong Kong.
- # Sales in restaurants are being moderated by high prices as restaurateurs vie for margins similar to those they have for soft drinks, beer and bottled water.
  - C Wine by the glass is particularly expensive (usually US\$5.50 to \$8.00 or more). This deters customers from trying wine or sampling new flavors.
- # Only a few hotels have lowered the price of their wines as a result of the falling price of wine over the past two years. Not surprisingly, it is a commonly held view that wines are overpriced in hotels.
- # Food Service mark-ups tend to be higher on cheaper wines than more expensive wines as a percent of cost.
- # An effective distributor promotion in the Food Service industry has been to offer a direct financial incentive to serving staff as a reward for sales. An example of this is the sales schemes which include offering staff commission for meeting a quota or in return for collecting corks. Promotions also include discounts for volume.
- # The downturn and uncertainty in the future of the Hong Kong economy had not affected wine sales in the food Service industry by the end of 1997, though it is expected that demand will drop as will prices in 1998 with the Asian economic crisis adversely affecting employment, business and tourism.

**WINE MARKET BRIEF****RETAILING**

### Trends and Driving Forces

- # Retailers have adapted quickly to the increased local demand for wine, with outlets of all sizes and types now carrying wines.
- # Over the last two years, the number of boutique stores has blossomed in numbers, catering to the growing consumer base and increasing sophistication.
- # Grocery chains have increased their selection of wines and have created separate wine sections within the larger store outlets.
- # The price of wine has dropped by approximately 30 percent in the last quarter of 1997. The downturn in the economy, stock market and real estate have adversely affected consumer spending and reduced wine demand, resulting in lower prices. Prices are expected to remain at this new level or drop further during 1998.
- # Consumer education, such as advice and guidance for customers and free samples for regular customers, are proven methods to increasing wine sales.
- # The economic downturn in Asia has reduced high end wine sales. By the end of 1997 local Hong Kong consumers had adapted to shifted their purchases of high end wines to the middle range of US\$26 to \$40 per bottle. Hong Kong is also experiencing a tourism slump; Asian tourists, previously large consumers of premium wines, no longer travel to Hong Kong.
- # Gift purchases tend to be French wine. Australian and USA wines are usually purchased for personal consumption as prices are more reasonable.

## WINE MARKET BRIEF

## RETAILING

| <b>Still</b>      |                      |                                 |  |                           |   |
|-------------------|----------------------|---------------------------------|--|---------------------------|---|
| <b>Store Type</b> | <b>No. of Brands</b> | <b>Shelf Space Red Wine (%)</b> | <b>Shelf Space By Country (%)</b>  | <b>Price Range (HK\$)</b> | <b>Packaging</b>  |
| Grocer (Large)    | 300 - 500            | 80%                             | France 50%<br>USA 20%<br>Aus. 10%<br>Chile 5%<br>Italy 5%<br>Other 10%             | 30-135                    | 85% are 750 ml bottles<br><br>Some small bottles<br>some tetrapak,<br>wine bags |
| Grocer (Small)    | 5 - 10               | 50%                             | France 50%<br>Other 50%  | 22-79                     | All 750 ml bottles  |
| Gourmet Grocer    | 600 - 800            | 80%                             | France 60%<br>Italy 10%<br>USA 7%<br>S.Africa 7%<br>Aus 5%<br>Chile 5%<br>Other 5% | 70-rare vintage           | All bottles<br>Mostly 750 ml<br><br>Some variation in size                      |

**WINE MARKET BRIEF****RETAILING**

| <b>Sparkling</b>        |                           |                   |                                     |
|-------------------------|---------------------------|-------------------|-------------------------------------|
| <b>Number Of Brands</b> | <b>Price Range (HK\$)</b> | <b>Assistance</b> | <b>Special Promotions</b>           |
| 10 - 20                 | 35 - 365                  | Yes               | Wine of the month<br>Special offers |
| 5                       | 33 - 300                  | No                | N/A                                 |
| 30                      | 90 - 407                  | Yes               | Gifts<br>Special Displays           |

**WINE MARKET BRIEF****RETAILING**

| <b>Still</b>        |                         |                                     |  |                           |  |
|---------------------|-------------------------|-------------------------------------|--|---------------------------|--|
| <b>Store Type</b>   | <b>Number of Brands</b> | <b>Shelf Space For Red Wine (%)</b> | <b>Shelf Space By Country (%)</b>  | <b>Price Range (HK\$)</b> | <b>Packaging</b>                         |
| Convenience Store   | 0-12                    | 30%                                 | USA 50%<br>China 25%<br>Other 25%  | 35-75                     | All bottles<br>2/3 750 ml<br>1/3 smaller |
| Boutique (High end) | 500-700                 | 70-90%                              | France 50%<br>Italy 10%<br>USA 10%<br>Chile 10%<br>Australia 10%<br>Portugal 10% | 70-rare vintage           | All bottles<br>95% 750 ml                |
| Boutique (Low-end)  | 50-200                  | 80-95%                              | France 50%<br>USA 12%<br>Australia 12%<br>Italy 12%<br>Other 14%                 | 35-150                    | All 750 ml bottles                       |

**WINE MARKET BRIEF****RETAILING**

| <b>Sparkling</b>        |                           |                   |                           |
|-------------------------|---------------------------|-------------------|---------------------------|
| <b>Number of Brands</b> | <b>Price Range (HK\$)</b> | <b>Assistance</b> | <b>Special Promotions</b> |
| 1-5<br>(China 50%)      | 45 - 80                   | No                | N/A                       |
| 20-40                   | 80 - 5000                 | Yes               | Special offers            |
| 5-20                    | 35 - 350                  | Yes               | N/A                       |

**Retailing Practices**

- # Wine has become a higher profile item in retail outlets. It is increasingly being displayed near the entrance/exit of stores.
  
- # Wine sales are higher in boutiques, grocers (large), and gourmet stores. Sales are lower in convenience stores and small grocers.
  
- # Grocers include the two main chains in Hong Kong, Wellcome and Park’N Shop. These stores, and the shelf space they allot for wine, varies according to the size of the store and the location/surrounding neighborhood. Individual grocers sometimes purchase directly from local distributors.
  - C For chain stores it is more common for their headquarters to make purchases. In addition to purchasing from local distributors, headquarters will also source directly from overseas.
  
- # High-end boutiques’ red wine sales are lower than the market average, but are expected to increase as wealthier Chinese clientele consume more wine.
  
- # Close to 100 percent of all wines are packaged in 750 ml bottles. Providing smaller packaging was important for sales in convenience stores. Due to the flexibility of their packaging, USA wines held about half of the shelf space.
  
- # Labels rarely indicate the identity of the local distributor.

**WINE MARKET BRIEF****RULES AND REGULATIONS**

- In 1994 the import duty for alcohol decreased in Hong Kong. The present rate of duty is a fixed percentage on the ex-factory price. The duty is determined based upon the alcohol content of the beverage products.

| <u>Alcohol Content</u> | <u>Import Duty Payment</u> |
|------------------------|----------------------------|
| Below 15%              | 60%                        |
| 15 - 40%               | 90%                        |
| Above 40%              | 100%                       |

- Most wines have alcohol content of no more than 15%, the import duty is thus 60%.
- The present duty rate has been in effect since 1994. However, it is currently under revision by the Custom Department and a revised rate should be decided in March-April 1998.
- Imports and exports of wine require a dutiable commodities import-export license.
  - This license is available from the Commissioner of Custom and Excise.
- Meanwhile each import or export shipment also requires a dutiable commodities permit from the Customs Department.
- For distributors, a license to warehouse wine is required.
- Any establishment is required to have a liquor license to sell “intoxicating liquors” including wine for consumption on premises.

**WINE MARKET BRIEF****SUMMARY**

- # The Hong Kong wine market has grown explosively in recent years offering American wineries a multitude of opportunities.
  - C The Hong Kong market is now being driven by local Chinese consumers who have accepted wines as a healthier alternative to liquors such as Cognac.
  - C Consumers have taken to stronger tasting red wines and are relatively unsophisticated in understanding and selecting wines.
  
- # French wines dominate the market by default as consumers perceive French wines as being the traditional and best choice. Also French wines are heavily subsidized, therefore prices are relatively low on most products.
  
- # American suppliers have opportunities in providing high quality, but lower priced wines to Hong Kong consumers, competing with other producers such as Australia, Chile, South Africa and New Zealand.
  - C Currently US brands are trailing producers such as Australia.
  - C With current economic pressure putting downward pressure on consumer spending, US brands have strategic opportunities to strike aggressively into the Hong Kong market taking potential market share away from French and other premium priced wines.
  - C As many consumers will purchase low and moderate priced wines for consumption at home, this consumer segment should be carefully targeted.
  - C The American wine industry needs to conduct consumer preference research to determine what Hong Kong consumers want and, with the extensive variety of wine now produced in the U.S., provide the products consumers want.

**WINE MARKET BRIEF**

**SUMMARY**

- # The white wine market remains embryonic in terms of demand and consumer understanding. This segment offers US producers a chance to educate consumers on white wine and, in doing so, build loyalty and brand recognition with consumers.
  
- # Beyond the local market, Hong Kong as a key transshipment point is highly strategic for China market supply and market development. Hong Kong is also an excellent test market for potential sales in the mainland Chinese market.
  
- # The sparkling wine market in Hong Kong is now declining in volume but increasing in value as premium products mostly from France displace the competition. Hong Kong consumers appreciate expensive Champagne for key celebrations and holiday periods.
  
- C American suppliers of sparkling wine have limited opportunities in Hong Kong, unless they are willing to market premium priced and highly differentiated brand now being produced in the USA.

**WINE MARKET BRIEF**

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**WINE MARKET BRIEF**

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