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Wine Market in North China

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Report Highlights:

The North China wine market is still emerging but offers significant market potential for the US wine industry. Investment in education and brand recognition activities is extremely important and Beijing's position as the 'National Center of China's Lifestyle Media' makes it the ideal location for market development and educational efforts. Development of China's corporate management and distribution infrastructure is also key to the realization of potential wine markets here. However, wine enjoys an ever-growing reputation as a sophisticated, high-end product that should be indulged in as part of a modern, healthy and affluent lifestyle. As disposable incomes rise and Chinese palates develop, domestic and imported wines are realizing good returns on early investments in marketing and education.

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Introduction/Overview



As anyone who has spent time in China knows, the market for wine in the People's Republic is still immature. Local spirits (Baijiu) and beer are still by far and away the alcohols of choice in China with total wine consumption at less than one-third liter per capita. Additionally, American wine is not as well known as that of other countries. France and Australia, in particular, have employed significant resources over the past decade in developing and educating the Chinese population about their products; American wines are just starting to catch up.

Wine consumption is much more common in China's large urban centers than in the countryside or in China's second- and third-tier cities. In larger cities, consumption per capita of over 1 liter is already higher than the national average. Beijing, Guangzhou, and Shanghai with their large markets for high-end products, have the largest markets for wine and offer the widest variety of imported brands. Although China produces many domestic wines, imports dominate the high-end market segment, as local brand quality is neither consistent nor high, although it is improving. In smaller cities, supermarkets almost exclusively carry domestic wines. Alcohol in the countryside is mostly limited to Chinese beer, and Baijiu.

Part of the difficulty in selling imported wine in the Chinese market lies in the price sensitivity of the consumer market. Chinese domestic wine typically sells for somewhere around US \$4 per bottle, while imported wines range from as little as US \$6 per bottle to more often the US \$15 and up range. Little incentive exists for a Chinese consumer who knows little about wine in the first place to purchase an expensive imported brand that is at least three times as expensive as a Chinese-produced variety with Chinese language labeling.

Background

Wine is not unknown in China, and in fact has a long history. The people of Xinjiang Province in far western China have been cultivating wine for generations; it was they who originally spread this technology to Central and Eastern China. Grape wine's popularity in Central and Eastern China waxed and waned with the centuries and its recent revival was inspired not by Xinjiang but by imported European wines brought to China during the Qing dynasty (c.1644-1911). Still, in the past century beer and strong spirits have far surpassed wine in both familiarity and popularity.



Currently, domestic wine production has been dominated for four major brands: Changyu, Great Wall, Tonghua and Dynasty. Together, these local companies have a combined market share of more than 60 percent of the China market. In order to maintain this lead, they invest heavily in advertising and media outreach, making it very difficult for smaller producers with limited resources to break into the market. Even though per capita wine sales are still below the Asia Pacific regional average of 3.2 liters, sales by volume due to China's nearly 1.31 billion citizens are quite high and are forecast to grow by 29.3 percent by 2010 (Business Monitor International [BMI], China Food & Drink Report Q2 2006).

Opportunities

Despite the large market share of these four main Chinese wine brands, there are growing opportunities for imported wine. The wine market in China has been expanding rapidly: the average monthly growth in wine sales revenues was around 10 percent in 2003 and rose to 20 percent in 2004. In 2005, these growth rates jumped to between 30 and 40 percent, resulting in 2005 wine sales of over 2 billion liters. Dry red wines, especially high-end varieties, have driven growth, accounting for more than three-fifths of total wine sales. In general, much of the recent rise in wine sales can be attributed to increased consumer awareness coupled with increased disposable income. Wine is seen as a part of a socially and culturally sophisticated lifestyle that once affordable, should be indulged in. While imported brands currently account for less than 5 percent of the total wine market in China, this will no doubt change as consumers learn more about wine and wine culture and seek higher quality and more diverse wine products.

Table: Size of China's Alcoholic Drinks Market (mn liters)

	2000	2005e	2010f
Alcoholic Drinks Production (mnhl)(1)	22,245	28,647	36,817
Alcoholic Drinks Sales	30,377.60	36,049.30	45,268.30
Wine Sales	1,430.00	2,004.10	2,591.10
Beer Sales	21,179.80	29,289.20	37,277.20
Spirits Sales	7,227.80	4,756.00	5,400.00
Per Capita Consumption (liters)	24.06	27.35	32.87

Notes: (1)hls=hectoliters 1hls=1,000 liters; (e/f)=BMI estimate/forecast; Source: China Brewing Association, Customs General Administration of PRC, US Census Bureau, BMI calculations/estimates/forecasts

In response to the need for wine knowledge, foreign wine producer groups have focused on consumer education, sponsoring wine tastings and seminars that educate on a variety of aspects of the wine experience, including wine types, food and wine pairing, what to look for in a quality wine, and the geographical locations of famous wine-producing regions. Wine traders note that these educational tasting events provide big boosts to wine sales in China. Every imported brand, no matter how well respected or known in the West, is starting from scratch in China. Much time and effort must be spent on name and brand recognition. Currently, France and Australia are the most well known foreign wine producing areas in China, and not surprisingly both countries have invested significant time and money in convincing the Chinese populous of the quality of their wine products. California wines have also experienced some recent successes although its brand recognition still doesn't match that of countries that started developing the Chinese wine market much earlier.



An example of a packaged wine and wine glass boxed set of the type popular with Chinese consumers

However, once a brand has been established, Chinese wine consumers will often choose a product based on this 'famous brand name' condition alone. A consumer may not truly know whether he or she enjoys a certain producer's wine, but if it has a good reputation that will impress friends and family, the consumer may very well buy it. Chinese consumers often buy wine for what some consumers in the West might think of as unsophisticated reasons; big names, attractive labels, elaborate packaging and wine from the 'right' regions all contribute more in China to consumer choices than they do in the United States. Accordingly, there is much to be gained from imported wine sellers investing in marketing and media promotions in order to spread a wine's name. North China is a particularly important

region to focus on for this reason; Beijing is home to the nation's Lifestyle Media that has a large influence on China's high-income elite. Positive publicity in these media has a large influence on purchasing patterns of not only Beijing, but also the entire country. For example, with the help of ATO Beijing and the California Wine Institute, recent issues of Men's Health in China have featured articles on California wine. Although non-California wines from the United States are still relatively unknown and unavailable, the most recent issue of Men's Health featured an article on Washington wine. With investment in this type of market development, both California and non-California wines have great potential for growth. In addition to its status as the center of Lifestyle Media, Beijing is also important as the home to a significant expense account entertaining sector, catering to both official and informal wining and dining in the nation's capital.

Still, the Chinese consumer is highly price-sensitive, especially outside China's largest cities. Starting January 2005, tariffs on bottled imported wines were reduced to 14 from 64 percent as part of China's commitment when it joined the World Trade Organization (WTO). This tariff reduction will help imported wines compete in price with domestic brands. However, other taxes and fees still help raise imported wine costs above that of its domestic competition; the best approach for imported wine is still to compete on quality rather than on price.

Another driver of growth in the wine market stems from returned Chinese from overseas. Chinese who study, live or work abroad then return home are very willing to pay higher prices to enjoy the wines they became used to while abroad. These Chinese also help to educate their friends and family about wines and wine culture. One trader in Beijing commented that perhaps a challenge to the market for American wines in China is a lack of returnees: Chinese tend to return to their homeland from study or life in, for example, Japan, but a higher percentage of Chinese who go to America choose to stay there.

The North China Market

While Shanghai and Guangzhou are commonly assumed to have the largest markets for imported wine, this is not necessarily the case. These cities import the most wine as they have large and established ports, but the wine market itself is approximately the same size in all three of China's major cities, Shanghai, Guangzhou and Beijing, according to local importers with operations in all three locations. In fact, North China is historically the wine- and alcohol-drinking and producing region of China. People in these regions are often able to drink more than their counterparts in the South and competitive drinking is a popular pastime.



China's wine-producing regions

In addition, the Chinese Government is investing heavily to encourage development of Western food and drink in the North and Northeast regions of China in preparation for the 2008 Olympic Games' international visitors. Beijing's restaurant and hotel industries, especially those catering to Western tastes, are booming thanks to both the influx of pre-Olympic investment and China's expanding economy. More and more Chinese restaurants in Beijing are offering both domestic and imported wines as well.

North China's smaller cities are no exception to this growth trend in the wine market. Qingdao is looking forward to being one of the host cities for the 2008 Olympics and is

expanding its services to match. Dalian, long considered one of the most international cities in China because of its past history with Russia and Japan, will also benefit from Olympic investment in the Northeast. Although disposable income outside of Beijing is not especially high on average, North China is home to a large number of high-income Chinese. These Chinese have done well in North China's newly expanding market and are looking for ways to improve their standard of living and express their newfound wealth. Learning about and indulging in fine wines is one of the many ways they are doing this. One wine trader stated that while her primary business is importing and distributing wine, increasingly her company is building high-end wine cellars complete with an inventory of imported wine for China's nouveau riche. Educational efforts aimed at these types of consumers in particular have great potential for developing the market for wine imports.

Market Constraints

One of the biggest constraints to the wine market in China lies in the difficulty of distribution. When selling their products in China, foreign producers must work with wine-specific importing and distribution agents who have varying levels of competence. These agents are responsible for getting imported wine from the port to the consumer. The largest market constraint is the challenge in finding a reliable agent inside China, as the larger, more established firms are reluctant to add wines to their distribution lists and the smaller agents may be not be as experienced or effective. Additionally, there are not always appropriate storage and transportation facilities for wine in China. Some wine groups maintain refrigerated warehouses in Beijing, Shanghai, Guangzhou and Shenzhen, but smaller distributors have no choice but to leave their wines vulnerable to the vagaries of ambient temperatures and humidity levels.

Another constraint lies in the Chinese consumer's lack of familiarity with imported wines in general, and with American wines in particular. A California Association of Wine Growers-commissioned report found that even in stores carrying California wines, employees and consumers knew little about them. At one-third of the supermarkets the report surveyed, store employees didn't know that their establishment carried California wines, and in several stores the surveyors were told that the United States did not make wine. In recent years, the United States has ranked between 5th and 10th in terms of its wine exports to China, always behind France, Spain and Italy and often behind Chile, Argentina and Australia.

There is also a challenge in the need for large-scale marketing to break into the Chinese wine market. China's large domestic producers are able to spend huge amounts money and time on widespread advertising campaigns. Conversely, premium wineries in the US are generally small scale and may not be able to afford the high costs associated with establishing a distinct brand perception in China. These smaller vineyards also may not be able to suffer the possible long periods of underperformance before the Chinese wine market develops enough to truly offer high returns.



Importing Update

Chinese traders tell ATO Beijing that while previous challenges in importing wine resulted from unclear labeling regulations, these issues have been largely resolved and the matter no longer poses a serious challenge to international wine producers. The industry is still working on resolving Chinese national standards with international standards; Chinese standards are over fifteen years old and pose problems when an internationally accepted 'dry' wine cannot

be called such in China. This is especially pertinent when, for example, wines with a 'dry' label sell better than those without in the People's Republic. Currently, the industry's greatest challenge often lies in importing wine's accompanying packaging. For example, French wine apparently sells better when it is packaged in its original French wooden wine cases, but the import of this wood has often proven more difficult than the import of the wine itself.

Currently, there are nine major wine importer/distributors working in Beijing and other regions of China that our office is aware of: ASC Fine Wine; Montrose Food and Wine; Torres Food and Wine; PHA-Shanghai; Jointek; Jensen; Aussino; Summergate; and French Wine.

Conclusions

The wine market in North China is an emerging but still immature market. Currently, investment in education and brand recognition is extremely important and Beijing's position as the national center of China's Lifestyle Media and the nation's capital make it an ideal area for marketing efforts. Traders that work with ATO Beijing have emphasized again and again the importance of marketing when selling wine in China. Currently, the importation of wine is not the real challenge. Local importers can help bring international wine brands into China without an excess of difficulty. However, wine producers must remember that they will have to market their wines otherwise they will not sell, and that they will most likely have to pay all of or share the cost of this marketing themselves. Development is also required in China's corporate management and distribution infrastructure before the full potential of its wine market can be realized. Still, wine enjoys a reputation as a sophisticated and high-class product to be indulged in as part of a modern and healthy lifestyle. As disposable incomes rise and Chinese palates develop, imported wines should see increasing returns on early marketing and education investments in China.



A reporter inspects her glass of wine at ATO Beijing's 2006 Great American BBQ at The Commune

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More Information

Please see the 2005 GAIN Report CH5808 "Shanghai Wine Brief" which, in addition to Shanghai-specific information, contains 'national data' about the Chinese wine market. The California Association of Wine Growers also commissioned a year-long market study of wine in China in 2006, "Wine in China," that includes in-depth research on China's horticulture economy and the wine market with specific emphasis on California wine in China.

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