About the Centre

The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The centre was established in 2012 through the generous support from Bankwest (a division of the Commonwealth Bank of Australia), with a core mission to examine the key economic and social policy issues that contribute to the sustainability of Western Australia and the wellbeing of WA households.

The Bankwest Curtin Economics Centre is the first research organisation of its kind in Western Australia, and draws great strength and credibility from its partnership with Bankwest, Curtin University and the Western Australian government.

The centre brings a unique philosophy to research on the major economic issues facing the state. By bringing together experts from the research, policy and business communities at all stages of the process – from framing and conceptualising research questions, through the conduct of research, to the communication and implementation of research findings – we ensure that our research is relevant, fit for purpose, and makes a genuine difference to the lives of Australians, both in WA and nationally.

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Executive Summary

“China is now the world’s fastest growing wine consumption market”.
China Wine Market Snapshot

“Every winery in Australia should have a clear plan to build the market in...China”.
Troy Christensen
Former CEO
Accolade Wines

“Australian wine exports to China... have almost recovered to levels before... austerity measures severely dented volumes”.
Australian Grape and Wine Authority Media Release

“Growth prospects in the ‘premium’ segment are very good...especially in China”.
Benoit Léchenault
Head of Agrifrance
BNP Wealth Management

Australian wine production has had a fair share of ups and downs in the past 10 years. More recently, overproduction, the high value of the dollar, and global competition from rapidly improving New World wine producers has strained the industry. Revenue has declined. Exports have softened. An estimated 85% to 90% of producers are unprofitable. Some producers have sold off land, ripped out vines, or otherwise have been forced to close up shop.

Despite a tough environment recently, emerging signs indicate some renewal. While oversupply remains problematic, it is lessening. The Australian dollar is weakening, leading to an uptick in exports. The Wine Equalisation Tax (WET) is under review. State and national peak wine bodies are focusing on the premium segment of the market. A Free Trade Agreement (FTA) with China has been signed. Yet, many challenges remain.

This report addresses one of the key challenges facing Western Australia (WA) wine: exports. Specifically, Wines of Western Australia (Wines of WA), in its Strategic Plan 2014–2024, call for a doubling of exports to AU$100 million by 2017. While aggressive, this target also reflects a confidence in the wine industry in WA and the value of the wine produced in its nine distinct regions.

China remains a particular focus for exports. WA sends about one third of its Asian exports to China. In fact, China is WA’s largest export market representing 35% by value (around AU$16 million in revenue). The value of WA exports to China tends to be concentrated in three regions; namely Geographe, Margaret River, and Pemberton. However, these regions suffered a decline in export volumes to China in 2014, while other regions (e.g. Blackwood Valley, Great Southern) enjoyed an increase.
Executive Summary (continued)

The reality is that while China is not the only export market with potential, it does remain one of the biggest opportunities in the world. Yet, China is complicated. Markets and consumer tastes are fragmented and ever changing. Distribution is complex, diverse, and unreliable. Competition is fierce. The good news is that the austerity measures of recent times in China appear to have abated, offering renewed opportunity to lift WA volume (and value) to the most rapidly growing wine market in the world.

To undertake this challenge, the present report provides insights from a study conducted in 2015 of the WA wine industry. Funded by the Bankwest Curtin Economics Centre (BCEC) at Curtin University, 26 wine producers across multiple WA regions and six industry stakeholders were interviewed to gain insight into export issues and the Chinese market.

Several key themes were identified from a data analysis of the interviews. First, there appears to be a perception that WA’s wine production volume is too small to make any significant penetration into the Chinese market. However, there is clearly a market for premium wine in China (a strength of WA wine production). For example, a recent reported lift in profits for Treasury Wine Estates was, in part, credited to increased sales of their premium-end wines in China. The premium market segment offers good potential for profitability, although a niche strategy is required for WA wine producers.

Second, participants noted that distribution in China is complicated and unsophisticated. In fact, there is an estimated 20,000 wine importers and distributors in China, with 4,000 of those as registered importers of bottled wine. Distribution is, perhaps, the biggest barrier in exporting WA wine to China and significant effort is required by the State Government, national peak industry bodies, Wines of WA, Regional Associations, and producers to simplify the process, while ensuring trusted distributors are secured who will act in the best interest of WA wine.

Third, packaging is important. The Chinese are peculiar (if not superstitious) with respect to colours and most lack English language skills. At a minimum, Mandarin back labels are required. However, innovators are exploring new label colours, specifically-branded wines to suit local market tastes, and wine descriptors on labels that are meaningful to the Chinese people.

Fourth, marketing and branding are a concern. WA is isolated and not well known. Even regions like Margaret River have little global recognition (outside of knowledgeable wine consumers). Recommendations are put forth that would engage industry to create a branding exercise on a regional basis, with a goal of putting WA wines on the global map.
Fifth, and a final major theme, is a need for more innovative—if not practical—business models. For example, several participants expressed that regional producers should investigate more thoroughly how they can collaborate or cooperate to increase the volume of their exports to China. This likely would help to overcome some concerns about too many small producers acting alone, where participation is encouraged towards a common goal, yet where individual brands remain intact. Because costs (e.g. information search costs, shipping costs, distribution costs) could be spread among several producers, the likelihood of profitability is increased.

In addition, with the Australian dollar at its lowest point in years, the time to develop partnerships with foreign investors is immediate. This is so that a cash injection to industry may be forthcoming. Further, with devalued wine assets in recent years, domestic investment partners are also encouraged. The reality is that the majority of producers in WA are unprofitable and new business models are a needed avenue in the attempt to restore profitability—and to secure a sustainable future.
Global Wine Snapshot
Global Wine Snapshot

Area under Vines

In 2014, the total world area under vines (including the area not yet in production, whether harvested or not, and regardless of the grapes’ final destination) should see a slight growth between 2013 and 2014 of 8 kha to reach 7554 kha (i.e. thousands of hectolitres) in 2014 (Figure 1).

Figure 1 World area under vines

Source: International Organisation of Vine and Wine (OIV).

Europe

Since the end of the European Union programme (2011/2012 harvest) to regulate wine production potential in the EU, the rate of decline of EU vineyards has significantly slowed.

The areas under vines in the EU should stand at 3399 kha (Table 1), a decline of 21 kha between 2013 and 2014 (compared with a decline of 13 kha between 2012 and 2013). It is indeed important to reiterate that, between 2008 and 2011, EU vineyards shrank by an average of 93 kha/year. However, between 2013 and 2014, Italian and Portuguese vineyards are expected to show a decrease even further, by 15 kha and 5 kha respectively.
Table 1  European areas under vines

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>2013 Provisional</th>
<th>2014 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>1032</td>
<td>1017</td>
<td>1021</td>
<td>1021</td>
</tr>
<tr>
<td>France</td>
<td>796</td>
<td>792</td>
<td>793</td>
<td>792</td>
</tr>
<tr>
<td>Italy</td>
<td>720</td>
<td>712</td>
<td>705</td>
<td>690</td>
</tr>
<tr>
<td>Portugal</td>
<td>236</td>
<td>233</td>
<td>229</td>
<td>224</td>
</tr>
<tr>
<td>Romania</td>
<td>191</td>
<td>192</td>
<td>192</td>
<td>192</td>
</tr>
<tr>
<td>Greece</td>
<td>110</td>
<td>110</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>Germany</td>
<td>102</td>
<td>102</td>
<td>102</td>
<td>102</td>
</tr>
<tr>
<td>Hungary</td>
<td>65</td>
<td>64</td>
<td>64</td>
<td>65</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>75</td>
<td>67</td>
<td>65</td>
<td>64</td>
</tr>
<tr>
<td>Russia</td>
<td>63</td>
<td>62</td>
<td>62</td>
<td>63</td>
</tr>
<tr>
<td>Austria</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>45</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Other wine-producing countries in Europe</td>
<td>716</td>
<td>684</td>
<td>684</td>
<td>687</td>
</tr>
<tr>
<td>EU-28 Total</td>
<td>3468</td>
<td>3429</td>
<td>3418</td>
<td>3399</td>
</tr>
<tr>
<td>Continental total</td>
<td>4164</td>
<td>4103</td>
<td>4095</td>
<td>4060</td>
</tr>
</tbody>
</table>

Source: OIV.

Outside Europe

The information in the table below (Table 2) shows that vineyards outside Europe appeared to grow slightly between 2013 and 2014 (+28 kha). This moderate increase is the result of contrasting developments.

Table 2  Outside Europe areas under vines

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>2013 Provisional</th>
<th>2014 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>633</td>
<td>709</td>
<td>760</td>
<td>799</td>
</tr>
<tr>
<td>Turkey</td>
<td>508</td>
<td>497</td>
<td>504</td>
<td>502</td>
</tr>
<tr>
<td>United States</td>
<td>413</td>
<td>412</td>
<td>424</td>
<td>425</td>
</tr>
<tr>
<td>Argentina</td>
<td>219</td>
<td>222</td>
<td>224</td>
<td>227</td>
</tr>
<tr>
<td>Chile</td>
<td>206</td>
<td>206</td>
<td>208</td>
<td>211</td>
</tr>
<tr>
<td>Australia</td>
<td>170</td>
<td>162</td>
<td>157</td>
<td>152</td>
</tr>
<tr>
<td>South Africa</td>
<td>133</td>
<td>135</td>
<td>133</td>
<td>132</td>
</tr>
<tr>
<td>Brazil</td>
<td>90</td>
<td>91</td>
<td>90</td>
<td>89</td>
</tr>
<tr>
<td>New Zealand</td>
<td>37</td>
<td>38</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Other African countries</td>
<td>242</td>
<td>237</td>
<td>234</td>
<td>234</td>
</tr>
<tr>
<td>Other American countries</td>
<td>87</td>
<td>90</td>
<td>91</td>
<td>94</td>
</tr>
<tr>
<td>Other Asian countries</td>
<td>584</td>
<td>587</td>
<td>580</td>
<td>622</td>
</tr>
<tr>
<td>Total outside Europe</td>
<td>3324</td>
<td>3386</td>
<td>3443</td>
<td>3525</td>
</tr>
</tbody>
</table>

Source: OIV.
As noted in recent years, in China and South America (except Brazil, which seems to be proceeding with a significant restructuring of its vineyards), the total areas under vines continued to increase: these areas are the main vineyard growth centres in the world and China now ranks second in the world in terms of vineyard surface area, with nearly 800 kha.

In Asia, the growth in Indian vineyards is holding steady, while Turkey, after experiencing a recovery in 2013, saw its areas under vines resume its downward trend in the medium term.

Conversely, Australia should record a reduction in its vineyards for the third year in a row: -5 kha for two consecutive years after the -8 kha decline recorded between 2011 and 2012.

**Wine Production**

World wine production (excluding juice & musts) is forecasted to rise to 279 mhl from a low of 258 mhl in 2012 (Figure 2). However, the 2014 forecasted wine production level remains 12 mhl lower than the 2013 production.

![Figure 2: Global wine production (mhl)](source: International Organisation of Vine and Wine (OIV).)

**Europe**

2014 EU vinified production may be described as average. It indeed stood at a lower level than that of the fairly high 2013 production, yet at a higher level than that of the low productions recorded between 2010 and 2012.

2014 production, excluding juice and musts, is predicted to reach 164.3 mhl—a decline of 6% from 2013, which is a development equivalent to that of the average 2010–2012 production.

This situation is the result of fairly anticipated changes that have brought various countries back to their respective average levels.

Thus, considering the poor 2013 productions in France and Germany, respective growths of 4.7 mhl and 0.9 mhl (+11% from 2013 levels) were recorded in 2014.
This is in contrast to Italy and Spain, where the 2013 productions were high or even very high, and respective declines of 9.3 mhl (-17%) and 4.0 mhl (-11%) were experienced.

Production in Romania and Bulgaria remained at a low level in 2014, at 4.1 and 1.2 mhl respectively, representing a decline of 20% and 30% from 2013 production levels in the two countries.

Asia, Southern Hemisphere, and America

There were contrasting developments in these regions (Table 3):

- With 22.3 mhl, the United States of America (USA) should record a significant wine production, excluding juice and musts, in 2014; however, this constitutes a decline considering the very high production levels in 2013, re-estimated at 23.6 mhl.
- In South America, while Argentine wine production remained almost stable at around 15 mhl (at the cost of a reduction in juice & must production), Chile recorded a decline in its wine production reaching 10.5 mhl (-18% from 2013 levels), although this is in comparison to the record production of the previous year (12.8 mhl). As for Brazil, its production stayed stable, with 2.7 mhl vinified.
- In South Africa, vinified production reached a very high level for the second consecutive year at 11.3 mhl (+3% compared with the already substantial production of 2013).
- Although the Australian production marked a pause in its recovery with around 12.0 mhl vinified (4% lower than 2013), New Zealand’s production set a new record for the second year running, reaching 3.2 mhl in 2014 compared with the previous record in 2013 (2.5 mhl).

Table 3 Global wine production (khl)(1)

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<tr>
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<tr>
<td>France</td>
<td>44,381</td>
<td>50,757</td>
<td>41,548</td>
<td>42,004</td>
<td>46,698</td>
<td>4694</td>
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<tr>
<td>Italy</td>
<td>48,525</td>
<td>42,772</td>
<td>45,616</td>
<td>45,029</td>
<td>44,739</td>
<td>-9290</td>
</tr>
<tr>
<td>Spain</td>
<td>35,353</td>
<td>33,397</td>
<td>31,123</td>
<td>45,650</td>
<td>41,620</td>
<td>-4030</td>
</tr>
<tr>
<td>United States(2)</td>
<td>20,887</td>
<td>19,140</td>
<td>21,650</td>
<td>23,590</td>
<td>22,300</td>
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<td>Argentina</td>
<td>16,250</td>
<td>15,473</td>
<td>11,778</td>
<td>14,984</td>
<td>15,197</td>
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<td>Australia</td>
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<td>11,180</td>
<td>12,260</td>
<td>12,500</td>
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<td>South Africa</td>
<td>9,327</td>
<td>9,725</td>
<td>10,569</td>
<td>10,982</td>
<td>11,316</td>
<td>334</td>
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<tr>
<td>China</td>
<td>13,000</td>
<td>13,200</td>
<td>13,511</td>
<td>11,780</td>
<td>11,178</td>
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<td>1,940</td>
<td>2,484</td>
<td>3,204</td>
<td>720</td>
</tr>
<tr>
<td>Greece</td>
<td>2,950</td>
<td>2,750</td>
<td>3,115</td>
<td>3,343</td>
<td>2,900</td>
<td>-443</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,762</td>
<td>2,750</td>
<td>1,818</td>
<td>2,666</td>
<td>2,734</td>
<td>68</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,459</td>
<td>3,460</td>
<td>2,967</td>
<td>2,710</td>
<td>2,732</td>
<td>22</td>
</tr>
<tr>
<td>Austria</td>
<td>1,737</td>
<td>2,814</td>
<td>2,125</td>
<td>2,392</td>
<td>2,250</td>
<td>-142</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1,224</td>
<td>1,442</td>
<td>1,755</td>
<td>1,228</td>
<td>-527</td>
<td>-30%</td>
</tr>
<tr>
<td>OIV World Total(3)</td>
<td>264,425</td>
<td>267,279</td>
<td>257,889</td>
<td>291,902</td>
<td>278,800</td>
<td>-13102</td>
</tr>
</tbody>
</table>

Sources: OIV, OIV Experts, Trade Press.

(1) Countries for which information has been provided with a wine production of more than 1 mhl.
(2) OIV estimate (USDA basis).
(3) Mid-range estimate: 275.2 mhl to 282.4 mhl.
Wine Consumption

2014 World wine consumption is estimated at 2404 mhl, a decrease of 2.4 mhl compared with 2013 (Figure 3).

Wine consumption was still marked by the effects of the economic and financial crisis of 2008, which has impeded the return to the growth of global consumption observed between 2000 and 2007.

Figure 3  Global wine consumption (mhl)

Source: International Organisation of Vine and Wine (OIV).

As shown in Table 4, in keeping with the trends of previous years, traditional consumer countries resumed their decline or stagnation to the advantage of new consumer countries in Northern Europe and outside Europe.

Table 4  Major wine-consuming countries (mhl)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>United States</td>
<td>21.2</td>
<td>27.9</td>
<td>27.3</td>
<td>30.2</td>
<td>30.7</td>
<td>2%</td>
<td>9%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>France</td>
<td>34.5</td>
<td>32.2</td>
<td>30.2</td>
<td>28.7</td>
<td>27.9</td>
<td>-3%</td>
<td>15%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Italy</td>
<td>30.8</td>
<td>26.7</td>
<td>24.1</td>
<td>21.8</td>
<td>20.4</td>
<td>-6%</td>
<td>14%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Germany</td>
<td>20.2</td>
<td>20.8</td>
<td>20.2</td>
<td>20.2</td>
<td>20.2</td>
<td>-1%</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>China</td>
<td>10.9</td>
<td>14.3</td>
<td>14.9</td>
<td>17.0</td>
<td>15.8</td>
<td>-7%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9.7</td>
<td>13.7</td>
<td>12.7</td>
<td>12.7</td>
<td>12.6</td>
<td>-1%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Russia</td>
<td>4.7</td>
<td>12.7</td>
<td>11.8</td>
<td>10.4</td>
<td>9.6</td>
<td>-7%</td>
<td>2%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Argentina</td>
<td>12.5</td>
<td>11.2</td>
<td>10.3</td>
<td>10.4</td>
<td>9.9</td>
<td>-4%</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Spain</td>
<td>14.0</td>
<td>13.1</td>
<td>11.3</td>
<td>9.8</td>
<td>10.0</td>
<td>2%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Australia</td>
<td>3.9</td>
<td>4.9</td>
<td>5.1</td>
<td>5.4</td>
<td>5.4</td>
<td>0%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>63.3</td>
<td>72.6</td>
<td>73.5</td>
<td>74.2</td>
<td>73.7</td>
<td>-1%</td>
<td>28%</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>WORLD(1)</td>
<td>226</td>
<td>250</td>
<td>242</td>
<td>242</td>
<td>240</td>
<td>-1%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: OIV, OIV Experts, Trade Press.
(1): Mid-range estimate: 235.2 to 244.3.
Changes in the consumption market shares also demonstrate that the growing markets were countries in North America and Asia (the USA increased their share by 4 points since 2000 and China by 2 points).

At the same time, the traditional wine consumer countries recorded a reduction in their share of the global market (France and Italy lost 4% and 3% of their global market share respectively).

The USA, with 30.7 mhl (excluding vermouth and special wines), confirmed their position as the top global consumer, with an almost stable level compared with the previous year’s consumption (+1%).

Since 2000, the consumption of the USA increased considerably—by 9.4 mhl (+45%)—despite a drop in 2008 and 2009 following the effects of the economic and financial crisis.

In keeping with past trends, France (27.9 mhl) and Italy (20.4 mhl) resumed their decline between 2013 and 2014, by 0.9 mhl and 1.4 mhl respectively.

In other traditional producer and/or consumer countries in Europe, consumption was either increasing or almost stable, the latter being the case in Northern Europe and in Germany (although the taxed consumption in the United Kingdom (UK) recorded a reduction of 1.4% between 2013 and 2014). However, in Spain, after a long period of decline in the internal consumption, the year 2014 should mark a sudden end to this downward trend, with internal consumption reaching 10 mhl (+0.2 mhl from 2013).

With regard to China, at 15.2 mhl, 2014 consumption went down following a rapid increase since the beginning of the 2000s. Its recent trend is approached here considering the rolling development over two years of apparent consumption. This approximation, which results from a lack of precise information on stock and distillate levels, led to an evaluation of this reduction at 1.2 mhl, which is a drop of 7% since 2013.

In South America, while consumption in Brazil and Chile did not experience significant developments between 2013 and 2014, it would appear that Argentina saw a decline in its internal consumption following a recovery in 2012 and 2013, so that internal consumption seems to now be fluctuating around 10 mhl.
Wine Exports

The analysis by country shows that the wine trade was largely dominated by Spain, Italy and France, which together represented more than half of the exports in terms of value (15.2 billion EUR) and 56% of the world market in terms of volume in 2014, equating to 57.4 mhl (Table 5).

In terms of volume, a rise in exports from Spain—the leading world exporter—stood out with a variation of more than 21.7% compared with the previous year. This increase is not unrelated to the very high 2013 production and the near disappearance of EU intervention, which, in the past, oriented a significant share of Spanish production towards distillation.
Italy and France remained almost stable compared with the levels exported in 2013.

The main exporting countries that experienced a reduction in their export volume are Portugal (-6.7%), South Africa (-8.8%), Chile (-9%) and Argentina (-15.7%).

However, the decline in the volume exported by these countries does not go hand in hand with a drop in value, since Portugal saw a 1.4% growth in terms of value and Argentina recorded a drop of only 4.1%.

In terms of value, Italy and France continued to dominate the market with shares of 20% and 30% respectively.

Despite the high volume of Spanish exports, the significant market share of bulk wines (57%) resulted in an lower average weighted price for the overall exports than that which was observed in Italy and France, meaning that Spain only represented 10% of the value of world trade (and 22% in terms of volume, as mentioned above).

Conversely, New Zealand stood out with an increase of 9.4% in terms of the value of its exports, which is rising more quickly than its volume.

The USA, Australia, South Africa and Spain saw the value of their exports decrease.

Lastly, regarding the global snapshot, additional statistics below provide further context:

- Area under vines has increased substantially from 2000 to 2013 in both China (+127%) and India (+177%).
- China now produces nearly as much wine as Australia (12 mhl versus 12.6 mhl).
- Per capita, the Chinese consume around one litre of wine per year; this is expected to grow to 15 litres (overall consumption is predicted to rise by one billion litres in the next five years).
- The 2000–2013 period has been characterised by a transfer of wine consumption: today about 39% of wine is consumed outside of European countries (with America and Asia leading the way), compared to 31% in 2000.
- In 2013, Chile overtook Australia in export volume.
- During 2008–2013, New Zealand had the biggest gains of any wine-producing country in terms of export volume and value.

1 Source: OIV.
Currently, there are some 71 wine regions throughout Australia. They directly employ around 23,000 people and at least the same number again indirectly. Sales of wine are some AU$4.3 billion made up of AU$2.4 billion domestic (wholesale) sales and AU$1.9 billion in Free on Board (FOB) export sales. Australia is the fifth largest global exporter of wine behind Spain, Italy, France, and Chile. Australian wine is exported to 123 countries.

From a historical perspective, the Australian wine industry tripled in size from 1991 to 2007. Almost all of this growth was exported.

In 2007 exports peaked at 800 million litres (value AU$3 billion), 12 times the level in 1991. Production grew from about 400 million litres in 1991 to a peak of about 1.47 billion litres in 2004. It has since declined to about 1.23 billion litres in 2012 (see Figures 4 and 5).

Figure 4  Australian wine grape plantings and production

![Figure 4](image)

Source: Australian Bureau of Statistics.

Figure 5  Australian export and domestic volumes

![Figure 5](image)

Source: Wine Australia.

Some material in this section reprinted with permission from Wines of WA.
Exports represent the largest market for Australian wine. They peaked at 80% of total production in 2007 (see Figures 6 and 7).

Figure 6  Australian wine export volume

Figure 7  Australian wine export value

In the five years to 2013 export volumes declined by 12.5% while export value fell by 40%. Contributing factors were the global financial crisis, the high Australian dollar, increasing international competition and a decline in consumer preference for Australia’s premium and popular-premium quality wines in its major markets, the USA and UK. Australia’s top export wine markets by value are shown in Figure 8.
The Australian industry is dominated by a few major producers with two of these accounting for over 50% and 16 accounting for 86% of production. Some 2,300 producers account for less than 14% of production.

The four largest Australian wine producers collectively accounted for about 40% of industry revenue in 2013. This represents a medium level of concentration in global terms. The major companies are Treasury Wine Estates, Premium Wine Brands, Accolade Wines Holdings Australia, and Casella Wines, which represent about 16%, 11%, 9%, and 8% market share respectively.

Other major wine producers include Australian Vintage, Lion, McWilliam’s Wine Group, De Bertoli, Warburn Estate, Samuel Smith & Sons, and Brown Brothers.

Other important facts about the Australian wine industry include:

- The Wine economic contribution of wine to the national economy is around AU$2 billion.
- Wine industry employment is generates 16,000 direct jobs (20x 20 times more than the spirits industry and 4x 4 times more than the beer industry).
- Wine tourism generates over AU$8 billion to the economy.
- In the beverage industry, wine is the only net exporter (12x 12 times more than spirits and 39x 39 times more than beer).
- Australia taxes wine at a much higher rate than any other wine-producing country in the world.

Source: Winemakers’ Federation of Australia (WFA).
Detailed export statistics 2014

The following provides detail on Australian wine exporters in 2014, by state and region, and exports to the Chinese market.

**New South Wales Stats**

449 wine producers
- 42% exporting (58% not exporting or not reporting exporting).

187 exporters
- 131 exporting between 1%-25% of production (29%)
- 31 exporting between 26%-50% of production (7%)
- 15 exporting between 51%-75% of production (3%)
- 9 exporting over 75% of production (2%).

111 exporting to China (25%)
- 4 from Canberra District Geographic Indication (GI) Region (4%)
- 3 from Cowra GI Region (4%)
- 1 from Hastings River GI Region (0.009%)
- 2 from Hilltops GI Region (2%)
- 32 from Hunter Valley GI Region (29%)
- 10 from Mudgee GI Region (9%)
- 1 from New England GI Region (0.009%)
- 12 from Orange GI Region (11%)
- 2 from Perricoota GI Region (2%)
- 7 from Riverina GI Region (6%)
- 2 from Shoalhaven Coast GI Region (2%)
- 5 from Southern Highlands GI Region (5%)
- 1 from Tumbarumba GI Region (0.009%)
- 28 from undesignated GI Regions (25%).

* Taken from Winetitles’ annual Australian & New Zealand Wine Industry Directory database (2014) and author calculations.
South Australia

635 wine producers
- 68% exporting (32% not exporting or not reporting exporting).

432 exporters
- 215 exporting between 1%-25% of production (34%)
- 97 exporting between 26%-50% of production (15%)
- 74 exporting between 51%-75% of production (12%)
- 46 exporting over 75% of production (7%).

291 exporting to China (46%)
- 25 from Adelaide Hills GI Region (9%)
- 5 from Adelaide Plains GI Region (2%)
- 57 from Barossa Valley GI Region (20%)
- 13 from Claire Valley GI Region (5%)
- 17 from Coonawarra GI Region (6%)
- 3 from Currency Creek GI Region (1%)
- 9 from Eden Valley GI Region (3%)
- 1 from Grampians GI Region (0.003%)
- 1 from Hunter GI Region (0.003%)
- 3 from Kangaroo Island (1%)
- 9 from Langhorne Creek GI Region (3%)
- 59 from McLaren Vale GI Region (20%)
- 3 from Mount Benson GI Region (1%)
- 5 from Padthaway GI Region (2%)
- 10 from Riverland GI Region (3%)
- 1 from Southern Fleurieu GI Region (0.003%)
- 1 from Southern Flinders GI Region (0.003%)
- 69 from undesignated GI Regions (24%).

Tasmania

93 wine producers
- 29% exporting (71% not exporting or not reporting exporting).

27 exporters
- 25 exporting between 1%-25% of production (27%)
- 1 exporting between 26%-50% of production (1%)
- 1 exporting between 51%-75% (1%).

6 exporting to China (6%)
- 6 from Tasmania GI Zone (100%).
Victoria

680 wine producers
• 43% exporting (57% not exporting or not reporting exporting).

292 exporters
• 214 exporting between 1%-25% of production (31%)
• 51 exporting between 26%-50% of production (8%)
• 19 exporting between 51%-75% of production (3%)
• 8 exporting over 75% of production (1%).

162 exporting to China (24%)
• 4 from Alpine Valleys GI Region (2%)
• 13 from Bendigo GI Region (8%)
• 7 from Geelong GI Region (4%)
• 1 from Glenrowan GI Region (0.006%)
• 9 from Goulburn Valley GI Region (6%)
• 6 from Grampians GI Region (4%)
• 18 from Heathcote GI Region (11%)
• 5 from King Valley GI Region (3%)
• 7 from Macedon Ranges GI Region (4%)
• 8 from Mornington Peninsula GI Region (5%)
• 4 from Murray Darling GI Region (2%)
• 1 from Purrcoota GI Region (0.006%)
• 12 from Pyrenees GI Region (7%)
• 1 from Riverland GI Region (0.006%)
• 4 from Rutherglen GI Region (2%)
• 3 from Strathbogie Ranges GI Region (2%)
• 2 from Sunbury GI Region (1%)
• 2 from Swan Hill GI Region (1%)
• 4 from Upper Goulburn GI Region (2%)
• 28 from Yarra Valley GI Region (17%)
• 23 from undesignated GI Regions (14%).
**Western Australia**

340 wine producers
- 46% exporting (54% not exporting or not reporting exporting).
- 156 exporters
  - 128 exporting between 1%-25% of production (38%)
  - 22 exporting between 26%-50% of production (6%)
  - 6 exporting between 51%-75% (2%)
  - 5 exporting over 75% of production (1%).

90 exporting to China (26%)
- 2 from Blackwood GI Region (2%)
- 2 from Geographe GI Region (2%)
- 19 from Great Southern GI Region (21%)
- 2 from Manjimup GI Region (2%)
- 43 from Margaret River GI Region (48%)
- 1 from Peel GI Region (1%)
- 5 from Pemberton GI Region (6%)
- 2 from Perth Hills GI Region (2%)
- 6 from Swan District GI Region (7%)
- 8 from undesignated GI Regions (9%).

**2015 Export Updates**

In the 12 months to 30 June 2015, the value of Australian wine exports increased by 5% to AUS$1.89 billion and the average value of exports increased by 0.3% to AUS$2.61 per litre. Australian wine exports increased in volume by 4% to 724 million litres. This is the first time value has increased on a financial year basis since 2006-2007 while volume is the highest since 2010-2011.

Factors that continue to assist growth include the weaker Australian dollar, the free trade agreements with Japan and South Korea, a rebound from austerity measures in China and improved economic conditions in the UK and the USA. Favourable trade and media responses to promotional activities with a strong Australian contingent such as ProWein and the Vancouver International Wine Festival have also contributed to a resurgent interest in Australian wine around the world.

Australian wine was exported to 122 countries by 1,405 exporters, 45 more than the previous year. More exporters recorded volume growth compared to those in decline (904 in growth versus 816 in decline). The opposite was true in 2013-2014.

The number of products exported also grew, from 16,360 in 2013-2014 to a record 17,731 in 2015.

The value of wine exports increased in most price points, with exports at:

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5 Reported by Wine Australia, Wine Export Approval Report (July 2015).
6 References to value and average value per litre are in Free On Board (FOB) terms.
7 This includes exporters that exported in 2013-2014 but not in 2014-2015 hence they are not included in the 1405 that exported in 2014-2015.
• below AUS2.49 per litre down 3% to AUS426 million;
• AUS2.50-4.99 up 2% to AUS713 million;
• AUS5.00-7.49 up 0.2% to AUS225 million;
• AUS7.50-9.99 up 3% to AUS131 million; and
• above AUS10.00 up 25% to AUS398 million.

The strong growth at the higher price points contributed to the average value of bottled exports increasing by 4% to AUS4.91 per litre, the highest since 2003–2004 (Figure 9). In contrast, the average value of bulk exports fell by 7% to AUS0.95 per litre. This was driven by a 25% increase in bulk exports below AUS1.00 per litre combined with a 21% decline above AUS1.00 per litre.

Growth in value to Asia offset a decline in the value of exports to Europe and North America:
• Northeast Asia up 29% (up AUS103 million);
• Europe down 1% (down AUS3 million);
• Southeast Asia up 18% (up AUS20 million); and
• North America down 6% (down AUS37 million).
The top five countries for Australian wine exports by value remained the USA, the UK, China, Canada, and Hong Kong with a combined value share of 72%. Exports increased to 73 countries, with the biggest value increases to China (up AU$68 million), Hong Kong (up AU$25 million), Malaysia (up AU$9 million), Italy (up AU$8 million), Vietnam (up AU$6 million), Taiwan (up AU$5 million), Japan (up AU$4 million) and Germany (up AU$4 million).

The key wine styles recorded mixed results. Red table wine exports grew by 8% to AU$1.3 billion, while white table wine declined by 1% to AU$504 million and sparkling wine declined by 1% to AU$54 million. Red wine’s stronger performance can in part be attributed to growth in Asian markets where white wine has yet to gain as much popularity. Furthermore, due to shorter cellaring periods, white wine is more likely to be exported in bulk containers having a negative effect on the unit price of wine.

Competitor analysis

The International Organisation of Vine and Wine (OIV) recently estimated that global wine production fell by 7% in 2014 to 27 billion litres. France is the biggest producer and production increased by 11% to 4.7 billion litres. After huge crops in 2013, production in Italy, Spain and the USA declined, by 17% to 4.5 billion litres, by 16% to 3.8 billion litres and by 5% to 2.2 billion litres respectively. There were mixed results in South America, with production in Argentina up by 1% to 1.5 billion litres and Chilean production down by 18% to 1 billion litres.

Australia is the fifth largest exporter of wine in the world behind Spain, Italy, France and Chile (Table 6). Spain, after coming off a large 2013 crop, recorded significant volume growth in the last 12 months but the growth was mainly in low-priced bulk shipments. Australia, Italy and Portugal were the only other countries among the top ten to record an increase in volume.

<table>
<thead>
<tr>
<th>Country</th>
<th>YE ended</th>
<th>Volume million litres</th>
<th>Average value USD/litre</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>April 2015</td>
<td>2,272</td>
<td>$1.37</td>
<td>-24%</td>
</tr>
<tr>
<td>Italy</td>
<td>March 2015</td>
<td>2,013</td>
<td>$3.23</td>
<td>-4%</td>
</tr>
<tr>
<td>France</td>
<td>March 2015</td>
<td>1,432</td>
<td>$6.85</td>
<td>-4%</td>
</tr>
<tr>
<td>Chile</td>
<td>May 2015</td>
<td>803</td>
<td>$2.24</td>
<td>1%</td>
</tr>
<tr>
<td>Australia</td>
<td>June 2015</td>
<td>724</td>
<td>$2.30</td>
<td>-4%</td>
</tr>
<tr>
<td>South Africa</td>
<td>May 2015</td>
<td>495</td>
<td>$1.54</td>
<td>-2%</td>
</tr>
<tr>
<td>United States</td>
<td>April 2015</td>
<td>403</td>
<td>$3.69</td>
<td>-1%</td>
</tr>
<tr>
<td>Germany</td>
<td>April 2015</td>
<td>373</td>
<td>$3.19</td>
<td>-6%</td>
</tr>
<tr>
<td>Portugal</td>
<td>April 2015</td>
<td>290</td>
<td>$3.18</td>
<td>-6%</td>
</tr>
<tr>
<td>Argentina</td>
<td>May 2015</td>
<td>271</td>
<td>$3.06</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: GTA.
Growth in higher price points

Growth continued in the above AU$7.50 per litre segment for the third consecutive financial year. Value rose by 19% to AU$529 million, average value by 8% to a record AU$15.40 per litre while volume grew by 10% to 34 million litres. While the segment accounts for 5% of total export volume, the value share is much higher at 28%.

More than half of exports above AU$7.50 per litre were destined for Asia, a quarter to North America and 16% to Europe. The average value per litre for the price segment in Asia was AU$18.49 compared to AU$12.29 for Europe and AU$11.54 for North America.

Growth was also strongest in Asia, up 18%, compared to 7% in Europe and 6% in North America. Exports of Australia’s highest-priced wines (>AU$50 per litre) grew for the fifth successive year and while relatively small in volume this segment is a significant contributor to total value. Exports in this segment grew 62% to a record AU$123 million (from 1.6 million litres). The segment accounted for only 0.2% of the volume but 7% of the value of all Australian wine exports. There were 299 companies exporting in this price segment with 221 recording growth.

Record exports to Asia

The strongest growth for Australian exports was to Asia. The value of exports to Asia grew by 26% to a record AU$600 million and volume increased by 30% to 93 million litres. Australia exported to 25 countries in Asia and volumes increased to 19 of those countries. While China was the main contributor to the growth, there were also strong performances in Japan, Hong Kong, Malaysia, Thailand, Taiwan, South Korea, and the Philippines, many at record levels.

China

China continues to rebound strongly after the austerity measures impeded growth in 2012–2013 and 2013–2014. The value of exports to China increased by 32% to a record AU$280 million while volume grew by 44% to 53 million litres. Bulk exports more than doubled to 8 million litres (although well below the peak of 24 million litres shipped in 2010–11) while bottled exports grew by 34% to a record 44 million litres.

The number of exporters also increased, from 913 in 2013–2014 to 931 in 2014–2015.

Figure 10 illustrates that austerity measures impacted most negatively on bottled exports to China above AU$5 per litre (the red line) but also slowed growth below AU$5 per litre (the grey line). However, we’ve seen recovery in both price segments. Bottled exports below AU$5 per litre grew by 42% to 28 million litres while above AU$5 per litre increased by 22% to 17 million litres, just above the peak achieved in 2012–2013.
China remains the number one destination for Australian exports priced at more than AU$7.50 per litre with AU$123 million worth of trade from a volume of 8 million litres, well ahead of the USA (4 million litres at AU$50 million) and Canada (4 million litres at AU$44 million).

Finally, while the USA remain Australia’s largest export market in terms of volume, volume growth in the Chinese market far outstrips that of the USA (Figure 11). The Chinese market also leads by growth in value (Figure 12).
Figure 11  Bottled export destination by volume

% = Percentage growth during the latest year

Source: Wine Australia.

Figure 12  Bottled export destination by value

% = Percentage growth during the latest year

Note: Destinations ranked by volume

Source: Wine Australia.
WA Wine Snapshot
WA Wine Snapshot

Western Australia produces about 45 million litres of wine annually, representing nearly 5% by volume of Australia’s production, but 12% of the value. It produces nearly one quarter of Australia’s fine wines (specialty and super-premium).

WA exports fell from AU$52.9 million in 2006 to AU$33.0 million in 2010 but rebounded to AU$45.3 million in 2012 with large sales increases to China and Hong Kong. China is now WA’s largest export market representing 35% by value. Western Australian wines are exported to more than 60 countries. The top 10 destination countries by value are shown in Figure 13.

The average FOB price of WA export wines in 2012 was AU$6.48 per litre compared with AU$2.61 per litre for the rest of Australia. The average price across WA’s top five export markets was AU$7.29 per litre.

Wine grape plantings in WA were about 13,000ha in 2012. Around 70% of the vineyard area is in the Margaret River and Great Southern regions (see Table 7 and Figure 14).

Figure 13 Value of WA wine exports

![Value of WA wine exports](chart)

Source: Australian Bureau of Statistics.

Table 7 Number of wine grape properties and area planted in WA wine regions in 2012

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of properties</th>
<th>Area planted (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackwood Valley</td>
<td>49</td>
<td>435</td>
</tr>
<tr>
<td>Geographe</td>
<td>107</td>
<td>869</td>
</tr>
<tr>
<td>Great Southern</td>
<td>150</td>
<td>3,424</td>
</tr>
<tr>
<td>Margaret River</td>
<td>386</td>
<td>5,960</td>
</tr>
<tr>
<td>Manjimup</td>
<td>28</td>
<td>393</td>
</tr>
<tr>
<td>Peel</td>
<td>13</td>
<td>108</td>
</tr>
<tr>
<td>Pemberton</td>
<td>45</td>
<td>971</td>
</tr>
<tr>
<td>Perth Hills</td>
<td>46</td>
<td>168</td>
</tr>
<tr>
<td>Swan District</td>
<td>249</td>
<td>897</td>
</tr>
<tr>
<td>Total</td>
<td>1,073</td>
<td>13,225</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics.

---

8 Some material in this section reprinted with permission from Wines of Western Australia.
Western Australian grape production peaked at nearly 88,000 tonnes and 56 million litres of wine in 2004. Since 2010 grape production has stabilised at around 68,000 tonnes and wine production at about 45 million litres.

The Western Australian industry is complex and multi-layered with many different business models. It is dominated by small, mostly privately-owned and family-operated businesses. There are more than 500 grape growers, 400 wine producers and over 300 wineries.

The largest three wine businesses together produce nearly 40% of the total wine, while the next five largest companies account for about 15%. The major companies are Accolade Wines Holdings Australia, Fogarty Wines, and Ferngrove Estate. Other major wine producers include Vasse Felix, Burch Family Wines, Cape Mentelle, Leeuwin Estate, and Plantagenet Wines. The wine production supply chain is diverse and highly integrated with a reasonably high level of engagement by industry participants. Distribution and marketing channels are diverse.

The wine industry is a significant contributor to the Western Australian economy. Wine is a major value-adding industry with significant regional economic and employment benefits. Wine is the largest value-adding horticulture industry in Western Australia according to estimates by the Department of Agriculture and Food (DAFWA) (Table 8 and Figure 15).
The value of wine at the point of final sale was estimated at AU$684 million in 2010 and expected to grow to AU$795 million by 2015. The value of wine increases 10 times from the farm gate as grapes to the end consumer as wine (potatoes are the next highest, increasing value by seven times). The average increase in value across all horticulture industries is three times.

Wine represented 41% of the AU$1.1 billion total value added by the main 11 horticulture industries in 2010. The total value of horticulture at the final point of sale was estimated at AU$2.35 billion of which wine accounted for about 30%.

The industry is highly reliant on the domestic market, principally the local WA market. About 48% of the total value was generated through wine sales in WA, 40% in eastern Australia and 12% in exports. Direct sales to customers are strong, accounting for up to 21% of total sales and up to 80% of income for some small wine companies. Direct sales are the most profitable channel to market.

Table 8  WA horticulture industry value

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm gate value</td>
<td>$725m</td>
<td>$879m</td>
</tr>
<tr>
<td>GVAP</td>
<td>$829m</td>
<td>$1.0b</td>
</tr>
<tr>
<td>Value added</td>
<td>$1.6b</td>
<td>$1.9b</td>
</tr>
<tr>
<td>Value of industry</td>
<td>$2.3b</td>
<td>$2.8b</td>
</tr>
<tr>
<td>Ratio of final sale value to farm gate value</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Industry with highest farm gate value</td>
<td>Wine</td>
<td>Wine</td>
</tr>
<tr>
<td>Highest value-adding industry</td>
<td>Wine</td>
<td>Wine</td>
</tr>
<tr>
<td>Industry with highest flow-on benefits</td>
<td>Wine</td>
<td>Wine</td>
</tr>
<tr>
<td>Industry with highest export value</td>
<td>Carrots</td>
<td>Carrots</td>
</tr>
<tr>
<td>Industry with highest growth rate in value added by 2015</td>
<td>–</td>
<td>Avocados</td>
</tr>
</tbody>
</table>

Source: DAFWA.

Figure 15  Contribution of different horticulture industries in total value added

Source: DAFWA.
With respect to export comparisons between WA and other wine-producing states, Figure 16 demonstrates that overall exports, as well as exports to China, are comparable to the large wine-producing states of New South Wales and Victoria, while lagging South Australia.

These statistics suggest that while WA has room to grow, the state has established a good exporting presence.

![Figure 16 Exporters by state](image)


However, an alternative perspective reveals that two regions in WA dominate exports to China (Great Southern and Margaret River at nearly 70% of combined export share), suggesting much room for export growth in other regions (see Figure 17).

Finally, it should be noted that the Great Southern has experienced particularly robust export growth. Recent statistics suggest that export volumes are up by 90% and export wine value by 95% (AUS$8.42/litre compared to the national average of AUS$4.89/litre).

![Figure 17 Percentage of WA producers exporting to China by GI Region (2014)](image)

China is now the world’s fastest growing market for wine consumption. It has rapidly become Australia’s fourth largest export destination for bottled wine at more than AU$7.50 per litre with exports worth AU$123 million in 2015. Australia is now China’s second largest supplier of bottled wine next to France.

Over the last 15 years, wine consumption in China has exhibited the strongest growth amongst all alcoholic beverages. In 1999, retail wine sales were only 3.76 billion RMB. By 2008, this increased to about 20 billion RMB, an average annual increase rate of about 20%. For the first time in 2009, bottled wine imports exceeded bulk wine import volumes. This trend reflects the demand for good quality wines that suit a growing middle class consumer base.

In terms of quantity, annual per capita consumption of wine in China is still only around one litre per annum, a fraction of the consumption in western countries. However wine consumption has been growing at around 7% per annum; a much higher rate than traditional wine drinking countries which have been growing at 1% only in recent years.

Wine drinking is increasingly considered a healthier alternative to spirits and is somewhat trendy. Still red wines are particularly popular. Wine bars and boutique wine stores have flourished in the major cities of Shanghai, Beijing and Guangzhou. Young urban professionals and business people account for most wine consumed in bars and hotels. The retail sector is also experiencing growth, with many supermarkets and other outlets stocking a range of domestic and imported wines. In many instances the purchase of imported wine is for a special occasion gift or to serve at a restaurant banquet to impress guests.

China is also becoming a wine producing country in its own right, and in the past few years has made some progress developing local premium wines. Some European wine houses have started producing wine in China, particularly in the Penglai region of Shandong Province which has climatic and soil conditions similar to those of the world famous wine region of Bordeaux, making it a suitable growing region. The quality and brand recognition of local wines is increasing, with the local industry recognizing that brand and packaging are important and spend large amounts of money on advertising and brand building.

Chinese distribution companies are fast gaining wine marketing expertise and many new companies have joined the industry with the rules for establishing private import/export businesses being relaxed in recent years. These privately owned importers are now starting to take market share from foreign distributors and in some cases have an advantage in being able to tap into local corporate and government client networks.

Since joining the World Trade Organisation, (WTO) China lowered its wine import tariff rate to 14% from 65% (excluding consumption and VAT tariff) creating more opportunities for foreign wine against local products and higher taxed spirits. Although China is still emerging as a wine consumption market, the prospects for continued growth are huge because of the rapid increase in wealth and increasing urbanisation of the population.

9 Detailed, up-to-date statistics on China wine are difficult to obtain. We have done our best to provide an accurate picture with the data at our disposal. More current statistics, where available, are provided.
Other aspects

China, being the most populous country in the world has huge potential as a growth market for wine. In 2015, China is the second-largest economy in the world after the USA (on purchasing power parity basis) although in per capita terms the country is still lower middle-income. It is estimated that by 2025, there will be 221 Chinese cities with a population greater than one million, compared to only 35 cities in Europe. Rapid economic growth has produced a middle class with the capacity to pay for imported foods and premium products of all types including wine. Reflecting this, China is now the world’s fastest growing wine consumption market.

Wine drinking is considered a healthier alternative to spirits and somewhat trendy, with still red wine being particularly popular. Young urban professionals and business people account for most wine consumed in bars and hotels, in the main cities of Shanghai, Beijing, and Guangzhou. The retail sector is experiencing growth, stocking a range of imported wines. In many cases the purchase of imported wine is for special occasion gifts or to at a restaurant banquet to impress guests.

In Asia, wine sales have doubled over the past decade, with China and Japan together accounting for 80% of the total Asian market. China only began importing bottled wines in the last 15 years or so, and only in recent years, have consumers begun to develop a taste and preference for particular wine types that compliment food. Growth in wine consumption from 2001 to 2006 averaged around 7% annually, in contrast to global demand which grew at just over 1% during the same period.

In the past five years, Australia has been gradually gaining market share of bottled wines from traditional market leaders including France, Italy and Spain, and bulk the wine segment mainly supplied from Chile and used for local blending. These trends reflect the demand for good quality wines that suit a growing consumer base.

Import Duties

Australia has done well to increase market share over the past few years in the face of increased competition, though still faces challenges from New World countries such as Chile, (who have strong government sponsorship), New Zealand, and the USA, as well as Old World countries such as France and Italy. Both Chile and New Zealand have the added advantage of Free Trade Agreements, which in the case of New Zealand, sees China import tariffs reduced on a yearly basis from 14% in 2007 to zero in 2012. However, the signing of Australia’s Free Trade Agreement with China in 2015 will reduce tax barriers. The import tariff on Australian wine will be reduced to zero in four years (currently, the tariff is 14% for bottled wine and 20% for bulk).

Food Safety Regulations

New Food Safety laws were enacted on 1 June 2009 and are applicable to both imported and domestically produced food. Wine producers are now required to indicate a lot number on the body of wine bottles. The lot number can be either the date of bottling (yy/mm/dd) or a batch code reflecting the production date.
Chinese Consumption Patterns

Over the last ten years wine consumption has exhibited the strongest growth amongst all alcoholic beverages. In 1999, retail wine sales were only 3.76 billion RMB. By 2008, this increased to about 20 billion RMB, an average annual increase rate of about 20%. The Government has discouraged drinking higher alcohol beverages through public education and by increasing liquor taxes.

Imported wine is believed to be healthy and implies a certain social status and cultural sophistication. It is considered a fashionable alternative to traditional Chinese rice wines and alcohol.

In China, gift giving and the presentation of the gift are extremely important. The Chinese often purchase wine as an elegant and tasteful gift to share or for others to enjoy. Larger gift boxes may include two bottles of wine and a corkscrew or wine glasses. Gift packaging in the form of a sturdy, ornate wooden display box is very standard. Gift items are top sellers among premium wines especially during festive times of the year.

A survey conducted by the China Wine Information Network with Chinese wine consumers, found the following general characteristics:

- People believe that wine can help relieve pressure/stress.
- 95% of consumers have limited knowledge about wine but are willing to learn.
- 60% of consumers prefer to buy imported wine if the imported wine and domestic wine are the same price.
- People believe the quality of imported wine will be better at the same price.

Red wine is overwhelmingly more popular than white wine in China. The colour red is associated with good fortune and happiness. Also, the tannins in red wine allegedly evoke a taste similar to that of tea, which is the most commonly consumed beverage in China. However, white wine (and rose) are also now more accepted by consumers than before and are becoming fashionable.

In 2008 the Australian Wine Research Institute (AWRI) in Beijing conducted a blind tasting of foreign and local red wines amongst Chinese consumers in Beijing, Shanghai and Guangzhou. The Australian wines were particularly well liked, with Chinese wines least liked. The results showed that Chinese consumers preferred fruity, berry and vanilla flavoured wines with a touch of sweetness. However, there were differences in palates with 50% preferring lighter styles and 20% choosing strong flavoured wines.

In July 2009, the Munari Estate Schoolhouse Shiraz/Viogner won a special gold medal in the Yantai International Wine Competition, the highest award in this competition. Another 12 Australian wines won gold medals and silver medals, accounting for 65% of all the awards. Seven of the 13 awards won by Australian producers were for Shiraz or Shiraz blends.
Distribution and Retail Channels

Foreign owned wine distributors brought wine distribution expertise to China in the 1990’s. In the past few years, with relaxed rules on establishing import businesses and the perceived market for wine, private companies have entered this market with significant impact. These privately owned importers are starting to take market share from foreign distributors and in some cases have an advantage in being able to tap into local corporate and government client networks (Table 9).

Table 9 China wine Import Share Jan-Sept 2009

<table>
<thead>
<tr>
<th>Nature of importer</th>
<th>Import volume litre</th>
<th>Change than same period last year</th>
<th>% total value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private owned</td>
<td>50,400,000</td>
<td>Increased by 66.9%</td>
<td>38.6</td>
</tr>
<tr>
<td>Foreign owned</td>
<td>52,590,000</td>
<td>Decreased by 34.5%</td>
<td>40.2</td>
</tr>
<tr>
<td>State owned</td>
<td>21,860,000</td>
<td>Increased by 3.5%</td>
<td>16.7</td>
</tr>
</tbody>
</table>

Source: China Customs Special Report.

Whilst the Eastern seaboard capitals, Beijing, Shanghai and Guangzhou, have a strong but still growing wine culture, second and third tier cities are emerging as viable markets. These cities have been the focus of strong promotional activity by Austrade and the former Australian Wine and Brandy Corporation over the past few years.

As Chinese consumers are still relatively new to wine, generating sales requires considerable education and promotion, something that both foreign and private Chinese distributors are beginning to undertake. This involves educating traders such as shop assistants, waiters and hotel staff as well as the general public. Some Chinese wine distributors such as Jointek, Aussino and Guangzhou Longchamp work on a franchise model with different investor partners in different Provinces spreading the promotional cost but allowing the wines in their range a broader reach. Important clients for these companies are corporate and government organisations who buy wine by the case for business meetings and functions or for distribution as gifts at festive times of the year.

Both Chinese and foreign distributors are increasingly undertaking to support Australian partners to bring wine into the market. Two such companies are Vigena Wines in Nanjing and Yabby Lake in Guangzhou. Both companies have set up impressive concept stores and tasting rooms to showcase their own wines. Their main target is not the passing retail trade but corporate, government and high end individuals. Some wines are imported from Australia by Chinese potential migrants, with limited knowledge about wine, who need to reach a level of trade to satisfy Australian permanent visa requirements. These may be one off purchases.

China is still emerging as a wine consumption market, and success can come down to brand recognition and distribution channels. In China the highest volume brands are the result of huge effort in brand building and marketing. Mazet from French Castel became famous in China, due to successful brand building by the wine distributor Jian Fa Wine. Pernod Ricard China input vigorously on Jacob Creek promotion. Golden Butterfly from Spain is being promoted by Guangzhou Long Cheng Wine in elevator advertisements in Shenzhen and sold in retail outlets and night clubs.
The leading foreign and domestic wine distributors have good access to hotels, restaurants, bars, supermarkets and specialty stores in the major cities and have a sales force that respond quickly to customer orders. Increasingly these distributors have a near full complement of brands and are reluctant to take on new brands and smaller foreign wineries unless these wineries come with considerable promotional backing.

Whilst supermarkets and hypermarkets are good sales channels they sometimes charge shelf and promotion fees and wines are quickly dropped if they do not sell sufficiently well. Hypermarkets like Carrefour and Metro offer a wide range of imported and domestic wines with wine sections in their stores showcasing different countries of origin. In May 2008, during the SIAL International Agribusiness Exhibition period in Shanghai, Metro invited 18 wine suppliers to the show to exhibit over 160 styles of wine. Some cheaper wines sold in these supermarkets, promoted by some of the newer importers, are export orientated brands not marketed in Australia; it remains to be seen how many have a long term presence.

Wine bars and specialty wine stores first flourished in Shanghai and are emerging in secondary cities and even some smaller cities. Wine bars are becoming increasingly popular, especially after a dinner and to meet with friends. Seeing the trends, some traditional Chinese wine, liquor and cigarette shops have been transformed into fashionable wine shops where they provide a selection of wines rather than white spirits. Jieqiang, who own over 100 wine, liquor and cigarette shops in Shanghai, a subsidiary of the State owned Shanghai Tobacco, Sugar and Liquor Company, have recently refurbished their shops and renamed them Joymax.

Some bars now serve both coffee and wine. The main consumers in these bars are aged between 18–45 years. A recent survey in these outlets found that 20% choose wine by the glass, 20% choose bottled wine and 40% choose coffee, the other 20% choose juice or other drinks.

Around 54% of wine sales in China were made through retail chains (supermarkets, discounters, other outlets). A contributing factor is that many restaurants are allowing BYO wine, after changes were made to legislation to stop excessive charges from within the foodservice industry. Restaurant wine sales (clubs, pubs, bars) declined recently, as a result of the global financial crisis and consumers cut back on entertainment. However, in the long-term, consumer expenditure on entertainment is expected to show an upward trend.
Chinese wine production

China is fast becoming a wine producing country. Domestic wine production is mostly concentrated on dry red wine and with an emphasis on quantity rather than quality. Most wine producers buy grapes from farmers under exclusive contract or from brokers; they rarely own their own vineyards due to government restrictions on commercial land ownership. Grape growing areas in China are mainly concentrated in Shandong, Hebei, Ningxia and Xinjiang provinces. China’s wine companies are mainly located close to grape supply areas.

The top three domestic wine producing companies control 50% of the market share and 67% industry profit share. Changyu, has a strong presence in Shandong, and Fujian provinces; Great Wall, dominates North China, South China, including Southwest and Northwest regions, and Dynasty has a strong presence in Shanghai.

In the past few years there has been good progress in the development of local premium wines. A few wines from Xinjiang, Shanxi and Henan are retailing at 300 RMB (AU$65) and selling in hotels and restaurants for as much as 800 RMB (AU$175). Intricate, sophisticated labels are extremely popular with local Chinese. The rise in local production has actually helped the imported wine market profile. To build brand recognition some of the larger Chinese wine companies spend hugely on television and print advertising and public relations efforts, such that their reputation can sometimes exceed that of imported wines. With local brands selling at such high prices, they have created an acceptable price category that is higher than many believed the Chinese consumer would be willing to pay.

European wine houses are starting to produce wine in China. The owners of the famed Chateau Lafite label planted a vineyard on 25 hectares (62 acres) on a peninsula in eastern Shandong Province and Domaines Barons de Rothschild, one of the great names in wine-making, recently announced plans to produce in China. This area has good potential to produce top quality wines and will enhance China’s reputation in the wine world.

One of the biggest names in Bordeaux wine, Barons de Rothschild, is producing a premium grand cru wine in China for the first time. The group, which owns iconic Bordeaux wine house Chateau Lafite, is producing the wine near Penglai in the Shandong Province. The area has become known as the Chinese Bordeaux due to its potential for turning out top quality wines.

The value of the wine market in China continues to grow and become more sophisticated as consumer knowledge of grape wine develops. Imported bottled wines are becoming more available in both the foodservice and retail sectors. Consumer research is essential to success for wine importers who must compete with an increasing variety and quality of domestic wines.
More recent statistics

Table 10 displays the most recent statistics by volume and value, China wine import share from 2012 to 2014.

<table>
<thead>
<tr>
<th>Country</th>
<th>2012 volume (L)</th>
<th>2012 value ($)</th>
<th>2013 volume (L)</th>
<th>2013 value ($)</th>
<th>2014 volume (L)</th>
<th>2014 value ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>140,002,720</td>
<td>788,332,250</td>
<td>136,895,022</td>
<td>708,816,540</td>
<td>129,692,194</td>
<td>661,631,939</td>
</tr>
<tr>
<td>Australia</td>
<td>42,781,198</td>
<td>227,443,919</td>
<td>41,189,634</td>
<td>236,178,549</td>
<td>40,909,649</td>
<td>256,171,179</td>
</tr>
<tr>
<td>Chilli</td>
<td>61,002,043</td>
<td>147,798,139</td>
<td>83,638,128</td>
<td>166,887,495</td>
<td>90,839,000</td>
<td>166,735,645</td>
</tr>
<tr>
<td>Spain</td>
<td>71,342,785</td>
<td>112,066,082</td>
<td>43,274,902</td>
<td>107,246,115</td>
<td>49,513,766</td>
<td>110,775,757</td>
</tr>
<tr>
<td>Italy</td>
<td>32,541,007</td>
<td>96,264,056</td>
<td>23,702,690</td>
<td>105,385,463</td>
<td>25,358,253</td>
<td>104,365,166</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2,513,203</td>
<td>23,702,065</td>
<td>6,677,206</td>
<td>24,362,743</td>
<td>2,031,422</td>
<td>24,263,682</td>
</tr>
<tr>
<td>South Africa</td>
<td>5,098,594</td>
<td>22,481,744</td>
<td>4,981,708</td>
<td>23,171,553</td>
<td>7,012,541</td>
<td>23,623,649</td>
</tr>
<tr>
<td>Argentina</td>
<td>4,330,901</td>
<td>18,542,198</td>
<td>3,898,619</td>
<td>20,598,520</td>
<td>4,474,347</td>
<td>21,776,091</td>
</tr>
<tr>
<td>Germany</td>
<td>3,797,949</td>
<td>17,629,207</td>
<td>1,927,266</td>
<td>20,097,356</td>
<td>4,319,470</td>
<td>17,985,047</td>
</tr>
<tr>
<td>Portugal</td>
<td>5,844,059</td>
<td>15,632,862</td>
<td>5,436,517</td>
<td>18,901,958</td>
<td>4,215,868</td>
<td>14,667,518</td>
</tr>
<tr>
<td>Canada</td>
<td>1,058,537</td>
<td>12,234,283</td>
<td>1,224,031</td>
<td>14,053,019</td>
<td>1,072,046</td>
<td>10,554,372</td>
</tr>
<tr>
<td>Moldova</td>
<td>1,706,385</td>
<td>5,112,465</td>
<td>1,043,125</td>
<td>4,132,829</td>
<td>784,259</td>
<td>4,442,585</td>
</tr>
<tr>
<td>Hungray</td>
<td>857,394</td>
<td>3,506,685</td>
<td>1,155,444</td>
<td>3,770,231</td>
<td>1,246,804</td>
<td>4,270,214</td>
</tr>
<tr>
<td>Romania</td>
<td>982,890</td>
<td>3,153,114</td>
<td>903,063</td>
<td>3,635,088</td>
<td>1,092,767</td>
<td>3,916,113</td>
</tr>
<tr>
<td>Georgia</td>
<td>641,528</td>
<td>2,916,493</td>
<td>368,758</td>
<td>3,580,544</td>
<td>381,971</td>
<td>3,801,436</td>
</tr>
<tr>
<td>Greece</td>
<td>757,793</td>
<td>2,391,136</td>
<td>1,061,799</td>
<td>3,465,966</td>
<td>1,084,111</td>
<td>3,466,075</td>
</tr>
<tr>
<td>Austria</td>
<td>260,891</td>
<td>2,018,262</td>
<td>473,376</td>
<td>2,486,157</td>
<td>358,419</td>
<td>1,874,711</td>
</tr>
</tbody>
</table>

Sources: China Customs.

Importantly, after a 5% drop in overall wine sales in 2013, sales of wine (excluding sparkling) rose by 4.5% in 2014. This further confirms the belief that austerity measures are lessoning in the country.
Introduction to the WA Wine Export Study
This research project was undertaken in various stages: 1) interviews with industry stakeholders and WA wine producers; 2) coding and analysis of the interviews; and 3) report writing.

Interviews with industry stakeholders and wine producers was conducted from February to June 2015; coding and analysis was completed from June to July 2015; and report writing commenced in August 2015.

As for industry stakeholders and wine producers, we invited a cross-section of participants from distribution, government, industry associations, suppliers, and the various GI regions across WA—including a mix of those producers exporting to China and those who are not. In all, six industry stakeholders and 26 wine producers agreed, for a total of 32 participants in the study.

Table 11 displays a breakdown of the participants. As can be seen, there is a relatively good mix of wine producers from across WA designated GI regions (participants are listed in the order in which they were interviewed). In addition, a leading wine distributor based in China offered thoughtful insights as well as did members from wine industry professional bodies, government, and the supplier community.

Figure 18 demonstrates the number of producers by GI region.

Table 11 Participants in WA wine export study (2015)

<table>
<thead>
<tr>
<th>Type of Participant</th>
<th>Affiliation</th>
<th>Coding Designation</th>
<th>Exports to China?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder</td>
<td>Industry Association</td>
<td>S1</td>
<td>NA</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Industry Association</td>
<td>S2</td>
<td>NA</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>State Government</td>
<td>S3</td>
<td>NA</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Industry Association</td>
<td>S4</td>
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“E” = Exporter to China.

“NE” = Non exporter to China.
The Great Southern has the largest representation at six producers, followed by Margaret River and Pemberton with four each, Blackwood Valley, Geographe, Manjimup, and Swan Valley with three each, Peel with two, and Perth Hills with one. Figure 19 represents graphically the location of producers.

Note: Some producers reported being based in one location but operating in more than one region.
With respect to annual case production, Figure 20 demonstrates a range, from less than 999 cases to over 250,000 cases annually. The most common production range is 20,000 cases annually.
Regarding export volume, Figure 21 demonstrates that 15 out of 26 producers reported their overall export volume. Four producers are exporting less than 999 cases, two between 1,000 and 1,499 cases, four between 2,400 and 4,999 cases, one between 5,000 and 9,999 cases, two between 10,000 and 19,999 cases, five between 20,000 and 49,999 cases, two between 50,000 and 99,999 cases, one between 100,000 and 249,000, and one between 250,000 and 499,999 cases.

As for exports to China, Figure 22 shows that 13 of 26 producers export to China. Four export less than 999 cases, two export between 1,500 and 2,499 cases, one exports between 2,500 and 4,999 cases, five export between 5,000 to 9,999 cases, two export between 10,000 and 19,999 cases, and one exports between 20,000 and 49,999 cases.
Figure 23 demonstrates the price points of producers (AU$) for both the domestic and Chinese markets. The prices range from the lower-end (AU$7-AU$10) to the premium-end (higher than AU$30).

**Figure 23** Price point domestic and Chinese markets (AU$)

Finally, two scatterplots are provided. Figure 24 demonstrates the relationship between annual production volume and export volume to China, while Figure 25 demonstrates the relationship between export volume to China and export value to China.

**Figure 24** Annual production x export volume to China

**Figure 25** Export value to China x export volume to China (AU$)
Study Findings
Data collection consisted of semi-structured, open-ended interviews. Around 10 of the interviews were conducted face-to-face, with the remainder completed over the phone. All interviews were recorded digitally, with permission. Interviews were then transcribed verbatim. The average length of an interview was 37 minutes, with some lasting more than 1 hour.

A team of researchers, experienced in qualitative methods, undertook an analysis of the transcripts. Analysis consisted of looking for patterns and themes in the interview data that reflected barriers to exporting to China, enablers/success factors for exporting to China, benefits of exporting to China, recommendations for improving export volume and value to China, and other emerging themes.

Further, the analysis consisted of a perspective that took into account differences between stakeholders, producers who export to China, and producers who do not currently export to China.

Lastly, to ensure consistency in the coding effort, interviews were divided among four researchers. Where there was discrepancy in the coding of any transcript, these were resolved until 100% agreement was reached.

Lack of WA wine exports to China?¹⁰

One of the first questions we explored during the interviews was a general perception about WA wine exports, and why relatively few are exporting to China.

From a stakeholder perspective, and perhaps not surprisingly, a key factor is the small size of the wine industry in WA compared to other wine producing regions such as South Australia (who lead the nation in exports to China):

### Stakeholders

We’re smaller, and typically much smaller (S1).

Production wise, WA’s only like 5% [of national production volume] (S3).

So we are a large region in area, but we’re not a massive producer either... Moving into China, they’re supporting large volume producers, basically (S4).

Smaller volume higher quality (S6).

¹⁰ In these section, to protect the privacy of the participants, a coding designation in parentheses (XX) is used at the end of each quote. Please refer to Table 11 for more information.
Similarly, wine producers that were interviewed offered a similar perception with respect to size:

**Producers – Non-exporters to China**

Because you have a lot more smaller wineries here than South Australia (P3NE).

So to make it work [exporting to China] is quite difficult because you have to the volumes and the economies of scale (P8NE).

From our point of view it’s I think a size thing and having the focus of where we put our resources, so with the amount of wine we have to sell it’s not worth us putting in a lot of resources to find an export market (P9NE).

**Producers – Exporters to China**

And the size of the WA producers. I don’t even know if it’s—is it 4% of Australia’s wine production? Just a small amount. There aren’t a lot of public companies selling WA wine who have stealth and distribution…[the public companies] are very effective because they have engagement at a supply chain level within marketplace. They can navigate through that space really easily (P1E).

I’d say the quality is good for Margaret River but the quantities would be—they wouldn’t have the quantities that South Australia has got or Victoria (P10E).

The other thing is volume, we’re not a big producing state but there’s a lot of wineries doing great things but they’re all quite small and quite boutique whereas on the eastern seaboard they’ve got massive companies and they can deliver big volumes at low prices (P12E).

Seems the bigger people and the mid-size wineries can do it but the smaller ones we just haven’t got the volume (P17NE).

The major overriding thing for us is we’re a very small vineyard and buyers from China, in particular, want bulk because they’re filling up containers (P18NE).11

We’ve had some Chinese companies continually coming to us “We’ll buy all your stock”. And you say “What are we going to sell to our normal customers?” (P22E).

Well I reckon if you’re doing less than 5,000 cases, forget trying to export (P24E).

We’re small producers so often we don’t have great volumes of any one wine that we can present so that’s often a factor that blows in (P25NE).

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11 P17NE previously exported to China but is no longer doing so.
Barriers and Risks

However, it is not clear to what extent size is always the issue with respect to Chinese exports. For example, there were some relatively small producers (less than 5,000 cases annually) exporting to China. Further, for those who do export, with few exceptions, volumes to China are generally small. We therefore looked deeper.

Other factors that are closely related are the nature of the type of product produced in WA and its associated cost structure. For example, stakeholders perceive that China is more interested in cheaper wines in volume, which puts WA at a disadvantage, both on price and cost:

Stakeholders

[As for barriers to exporting to China] price point is one of them (S1).

Western Australia, across the board, is not a low cost producer...It can’t do it (S2).

Therefore, you can’t compete with what others in Australia can do or others internationally can do. Because they have lower labour costs and higher mechanisation or lower mechanisation costs (S2).

Eastern states, where some of the larger operations, economies of scale and the sorts of wines that they were producing and getting into the market—for want of a better word, the cheap and cheerful stuff sort of grabbed the market [in China] (S3).

So it’s really related to what the Chinese market is after and how much they are willing to pay for it...Moving into China, they’re supporting large volume producers, basically...[where WA]... are premium wine producers (S4).

Traditionally the market in China has been built more so on lower priced wine (S5).
Perceptions of stakeholders are backed up by producers who export to China and those who previously exported but longer do so:

**Producers – Non-exporters to China**

When you crunched the numbers and then started adding in your real expenses, we were actually losing money on it. I just went in [to China] and almost pretty much just doubled the price. I said “Look if you still want our wine this is the price it will be,” and obviously they didn’t like the new price so yeah we stopped exporting (P15NE).12

Our business model works on small volumes large margins, rather than large volumes small margins...then I looked at the pricing structure and what other wineries that were compatible to us were selling their wine into China for, and there’s just no margins in it (P15NE).

Unless you’re in the high capacity production, your cost of goods are just retarding any margin that you’re going to make out of it. If you’re a small producer using a shared facility and you don’t have your own operating machinery to make the wine and you’re only bottling wines and labelling and then you’ve got to look at your production costs as well, if you can’t make the wine for under, let’s say, $3.00 a bottle, then there’s just no market there for you (P15NE).

It’s the bigger players in the market that are able to capitalise on these markets because they have economies of scale for a start so they can produce the wine probably cheaper than we can (P18NE).

But the price that they’re expecting to pay is way below what even our cost price is (P19NE).

I think they’ve either got to be 10 times larger than me and making a very small margin on each bottle but they’re selling so many that it makes it viable (P21NE).

And at the end of the day, a lot of the deals which are going to China are based on price...[and WA is not] in the lower price point wines (P25NE).

Most export deals rely upon high volume, low margin, which is not really where [WA is] at (P25NE).

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12 P15NE previously exported to China but is no longer doing so.
Another concern, or barrier, that might be affecting WA wine exports to China is the Chinese infatuation with prestige. The Chinese tend to gravitate towards “brand image”. This is reflected in both stakeholder and producer perceptions as there is a concern that WA wines, in general, do not have a known “brand” in China:

**Producers – Exporters to China**

The major reason [for our lack of exports to China] is because our cost of goods are so high...(while)...There is little appreciation of value for—value in high price wines [in China] (P1E).

The only problem we have is our costs, it’s so hard to produce here we have to be careful of where we go and what we do because you can’t compete with the Chilean wines and South African wines (P5E).

I think price is a key factor [for lack of WA exports to China] (P7E).

I think the Chinese are pretty fussy about what they buy, they want the best but they want it cheap (P10E).

Then you have to look at the prices of the wines being exported and the volume of wine being exported versus our own industry because here it’s quite expensive to produce wine in WA (P11E).

Being more of a premium producer, it is harder to find an export market because our FOB price is a little bit higher than probably the bigger guys as well (P20E).

Very, very price sensitive over [in China] (P20E).

Prohibitive cost and generally WA wineries are much smaller on average than east coast, South Australian, wineries (P24E).

Your wine has to be their price. That’s probably the highest thing. Your wine has to be their price so probably a sign that most of these... and I stand to be corrected on this but a lot of these wineries down south and around Western Australia are very high [cost] wineries (P26E).

Even a region with the gravitas of Margaret River internationally doesn’t fit that [reputational] bill [in China] right now (S1).

[When you look at things internationally] you begin to realise just how unrecognised we really are (S1).

The drawbacks and risks are your wine won’t stack up when compared internationally [in China] (S2).
Concerns over a known brand might be somewhat dispelled given a current general lack of sophistication of Chinese wine consumers. As noted earlier, the wine market in China is in its infancy. Consumer pallets and tastes are ever evolving as is knowledge of more premium wines and the regions they come from. This is reflected in the following comments from the interviews about the Chinese wine market:

**Producers – Non-exporters to China**

[China is] not a market we know, it’s not a market we control, we’re a no name brand, there’s no reason for them to buy our wine because they don’t know who we are, so it’s just quite difficult (P8NE).

**Producers – Exporters to China**

The Chinese market has always been talking about the eastern states and the Barossa and the reds and all that and rarely [are they talking about] the WA wines (P4E).

Margaret River is widely acknowledged domestically but not overseas (P7E).

It’s just the Chinese they prefer the South Australian wine because they’re better known, they’ve been around a lot longer (P10E).

But the area that we produce our wine is not really recognised...it is pretty much dominated by Margaret River and unless you had a Margaret River label in Australia it seemed to be it can’t be a good wine (P12E).

French wine is viewed as the better wine in China for newer wine drinkers so just getting Australia established is probably the biggest challenge within itself (P20E).

**Stakeholders**

China, it’s a very, very young market (S1).

They’re a naïve wine market (S4).

Interesting run for Australia here in China and a bit volatile and very generally speaking the market here is quite immature still both on the trade level and on the consumer level (S6).
Given an immature market and one that lacks consumer—if not supply chain—knowledge, there is concern about the effort (time, resources) needed to be successful in China. This concern is reflected by both stakeholders and producers:

**Producers – Non-exporters to China**

So it’s that sort of premium end because of the Chinese also not knowing what they’re drinking. They only see the lovely logo and the lovely price on it and think well this must be a top drop (P3NE).

**Producers – Exporters to China**

It’s like I’m explaining a concept for the first time in every conversation I have [about my wines in China] (P1E).

They’re not huge wine drinkers, they still need a lot of education there and that’s something that needs to be—maybe there should be more education done in China so they understand and are educated about wine because they’re still quite uneducated about wine (P5E).

Relatively inexperienced, undereducated market that you’re dealing with, which isn’t necessarily attuned to high quality wine (P6E).

Then you’ve got the level of education that’s still required for a significant number of consumers (P6E).

The other thing is that they’re new in the market and they still don’t know how to look after the wine and maintain the quality, it’s not just about buying quality wines it’s about being able to store it correctly at the right temperatures and that sort of stuff, handling (P10E).

So the Chinese are probably still a little bit not really understanding the difference in price points although they’re starting to get there (P12E).

**Stakeholders**

So whilst the opportunities are obviously quite substantial, the investment in time, money and effort is quite considerable too (S1).

I think, for most producers, I don’t know if they see the risk too high, but maybe just having the—not the business skills, but the time in their operation to actually get involved in export (S3).
Two other factors that can be seen as “barriers” to entry to China include various risks and, ultimately, distribution. Counterfeiting of wine, if not labels, is seen as a particular risk:

**Producers – Non-exporters to China**

So to me, these small wineries don’t really have the capital and the actual funding to be able to spend on any sort of dynamic export scenarios to China (P3NE).

Not everybody can get into the market. I think that it’s a very time consuming exercise. Not just monetarily, but giving a huge amount of time to finally get there (P3NE).

So you need to do a lot of research. I think it’s very expensive to set up, to go over there and set up, unless you’ve got an import company who’s managing that for you who (P16NE).

But it just became so complicated that I let it go in the end and also of our size... We don’t have staff and we do everything ourselves. So the more complicated something is, the less likely I will take up the opportunity (P21NE).

**Producers – Exporters to China**

It’s been a slow process, because we bring the western view of business into anything we do, but we now understand the oriental view of business (P6E).

There are people who want to spend a lot of time with [name withheld], coming here tasting, being treated like royalty, from China. They expect a lot, just too even taste our wines basically, so it is a lot of hard work for everyone (P14E).

**Stakeholders**

With the problems with counterfeiting, with the gravitas that there is in guaranteed place of origin and authenticity, I think you’ve got to be pretty consistent (S1).

Counterfeiting is a big issue there (S3).

Well, there is the requirement to protect IP, which could be of a concern (S5).
Other risks that could be seen as a barrier to exporting to China include receiving payment:

**Producers – Non-exporters to China**

Probably one of the risks unfortunately that we’ve heard about, we haven’t come across it ourselves, is the duplicating of labels, ripping off labels (P2NE).

In China, once they get hold of your brand, they tend to replicate it as well and then sell it under your brand but it’s not actually our product. I’ve noticed that a lot with wine as well. So they’ll imitate your product and sell it as the real thing when yeah it originated in China and is a fake (P15NE).

**Producers – Exporters to China**

Even though you protect your intellectual property, people absolutely rip off your intellectual property all the time (P1E).

[from a risk perspective] I wouldn’t have China over ten points of my distribution. Over 10% absolutely not (P1E).

The problems are counterfeiting...we investigated the legal implications because we had no idea about China’s legal system. How do property rights apply to wine? What about label integrity? All that sort of stuff (P6E).

So it is risky from that aspect, the trademark issue is obviously a major one (P7E).

The Chinese copy, they copy labels, there’s lots of false Penfolds and stuff running around. I always joke that if they copied my label I’d be laughing if they spread it all over the country, it would be great marketing (P12E).

**Stakeholders**

There are all the financial [risks]. Getting paid (S1).

The risks of actually getting paid and how you set up all those risk aversion things so that you’re going to get paid if things go wrong (S3).

Certainly first and foremost and most fundamental is just payment (S6).
Producers – Non-exporters to China

Outstanding invoices and when things don’t get paid and they have to be written off, it makes the entire exercise a very negative experience (P15NE).

There are always risks that you might not get paid (P16NE).

We got a few [cases] in but, because we’re small, they strung out payment and it took 6, 7, 8, 9 months to get paid. We haven’t got the clout over there (P17NE).

I’d want to start it off very, very small, low risk. I’d need to be paid 100% before it leaves the wharf and most of the deals that you do with exporting to China, they want everything the other way around (P25NE).

Producers – Exporters to China

In fact, it’s cash prior to production. Fifty% cash prior to production and 50% at dispatch (P1E).

If you’re doing a one off with China you want to be paid up front before it leaves the port because you don’t want to spread that risk of losing—it’s a big risk that we take to tell you the truth (P5E).

Then heard nothing again and getting the money out of her was a tough six month process, little payments at a time because I think she wanted me to go mad and say just ship it and we’ll get the rest later but I waited until we had every last cent in the bank before we shipped it (P7E).

Certainly...payment [is an issue], we don’t do anything until the money is in the bank, we don’t even pack the container or anything (P7E).

The other thing too is you’ve got to be careful when you’re dealing with overseas. I got caught a few times with not being paid so our policy is pay for it before it leaves (P10E).

I would say the biggest thing would be sending stock over and not necessarily may be getting your payment (P20E).

We have a simple policy. When it’s getting put on the ship in Fremantle, we want our money...All the wineries that had done deals, never got paid (P22E).

I don’t let it leave the country until I’ve been paid (P24E).

They get you over there and they make you buy presents and things like that and then they don’t pay you and then the deal doesn’t go ahead. There’s lots of those scams over there so there’s always that. You’ve got to be very careful that your clients are proper business people. That’s why you have to be over there and check out their credentials or you’re not going to get your money (P26E).
Lastly, distribution/supply chain in China is seen as potentially the biggest barrier among stakeholders and producers alike:

**Stakeholders**

It might work fine for [South Australia], but we don’t understand it just yet.... It’s understanding how distribution works within that country, because it’s quite different to established markets (S1).

Because obviously, I think the supply chain and the distribution channels are quite different in China compared to developed markets, as you’d say, where wine has been part of the market for many years (S3).

There’s a lot of distribution complexity here [and] one of the major challenges and you ask this question further down, but one of the major challenges here really is finding a good partner that’s reliable, that really genuinely is capable of distributing (S6).

**Producers – Non-exporters to China**

They’ve had people [in China] buying—going from buying 2,000 cases to 50,000 cases to 100,000 cases and then, the next year, saying we don’t need any wine this year. Because they haven’t been able to—because they’re so new at it, they haven’t been able to manage their stocks (P1E).

Getting access to those [premium] segments and the other side of that is there are very few Chinese distributors that focus in that area and that’s probably one of the biggest problems (P2NE).

I think it’s the contacts at the other end—the intermediaries between the producer and the actual sort of—let’s say the buyer who will distribute it at the other end. That’s where I think it falls down (P3NE).
Success Factors

Among many of the participants in the study, there appears to be a perception that China is synonymous with a market for low-priced wine. The reality is the Chinese market for wine and associated price-points is vast and is ever-changing. While clearly there is a market for low-priced bulk wine, there is also a market for value-for-money and premium wine.

According to AGWA, by example, over the 2014–2015 period, bottled exports to China grew by 34% to a record 44 million litres.

Bottled exports above AU$5 per litre increased by 22% to 17 million litres, just above the peak achieved in 2012–2013.

Further, China remains the number one destination for Australian exports priced at more than AU$7.50 per litre with AU$123 million worth of trade from a volume of 8 million litres, well ahead of the USA (4 million litres at AU$50 million) and Canada (4 million litres at AU$44 million).

While the USA remains Australia’s largest export market in terms of volume, volume growth in the Chinese market far outstrips that of the USA. The Chinese market also leads by growth in value.

Producers – Exporters to China

The supply chain within China is complicated and not sophisticated (P1E).

This is the hardest thing for people to be able to cope with. That you’re selling to a guy who’s a trader. He sells to everyone he knows. That’s how they sell. That’s what they do; they trade in China. He may have two restaurants, but 500 guys buying his wine. That’s the reality (P1E).

In particular, distribution, good distribution is so hard to get. In all of China there wouldn’t be more than four companies that can do it on a national scale (P6E).

I’ve had various different people in China selling our wine, so it’s always that struggle, you’ve got to find someone to import it and these people have tried and got out of the business or whatever, I don’t know, so it’s always about trying to find and importer, it’s never about trying to find the buyer, it’s always about trying to find the importer (P11E).

Because, while we were up here, we wanted to go and see the [importers] facilities and we wanted to find out their credibility with Austrade and everything to make sure they’re real people, because 99% of them aren’t. They’re just fronting pretending to be. Yeah it’s shonky, trust me (P22E).
Finally, while Australia has secured a respectable market share in entry-level wines in China (15% share of wine retailing between 100-150RMB (AU$22-AU$32), it also garners 20% share of wine retailing at 200-300RMB (AU$43-AU$65) and 49% of wine retailing at 300-400RMB (AU$65-AU$88). Australia also has a 12% share of wine retailing over 400RMB (>AU$88).

Apart from these facts, perhaps the best summaries with respect to the perceived opportunity in China include:

So I think we need to go on that journey with them and be there when they’re learning about wine and affect their perception to believe that WA producers that make wine...is the equal of anywhere in the world (S1).

This is going to be one of the most important wine markets on the planet especially for premium wines and I think it’s absolutely essential that serious guys...should be here (S6).

Remember, we’ve lost—we’ve gone from $3 billion [in exports] down to $1.8 billion. Think of the impact. Where’s that stock sitting? In the domestic marketplace. So our industry has been in a crises. So in the last ten years, we have lost 50% of the equity and value of our industry off its balance sheet. That’s about where we stand, right?...we need to export (P1E).

In the end we thought if we don’t take this opportunity and the market goes even 100th of the way that it could go and we’re not there, we will never forgive ourselves (P6E).

Understanding or acknowledging the opportunity in China, along with the barriers and risks, is one thing. Successfully exporting to China is another. With that in mind, we sought views on what it takes to deliver successfully in the Chinese market.

First, there is consideration of wine style:

**Stakeholders**

From what I know, what I understand...is Chinese enjoy different styles depending on whether you’re in the north, or in the south (S5).

So what we find is definitely the market favours red wine over white right now probably to the magnitude of perhaps ten to one (S6).
Producers – Non-exporters to China

That’s quality wines, red wine particularly not as much white wine and chardonnay, more blends that they’re going for (P2NE).

But they seem to prefer red. Whenever I’ve—I’m very limited in my exposure, but it seems to be red as a preference (P3NE).

Definitely reds and it’s more of a prestige thing (P15NE).

They want sweet red wine mainly. Red wine is perceived as being of extreme health benefit to them (P16NE).

Currently it’s all about red. There’re a very immature market there so actually probably white is better for their cuisine. But, yes, it’s mainly red styles (P25NE).

Producers – Exporters to China

Most Asian countries...love their red wine, they think it’s more superior and important and everything like that (P5E).

You want to keep it simple just to one or two wines, red wines initially and sweeten one up and try it make it to the Chinese taste (P7E).

The Chinese buy mostly only reds, they have a preference, they still prefer the cork (P10E).

But obviously there’s a demand for Australian premium reds which is what we sell and therefore we’ve been looking at China with the rest of the world (P11E).

They like sweet wine, they don’t drink any white wine, or hardly at all. It’s 95% red sweet (P12E).

All of our wines are dry and we’ve found they go for whatever’s the most popular, mainly reds (P14E).

They’re generally reds. They love that for a number of reasons, health reasons. They think the red wine is the way to go (P26E).
Second, to be successful, there is a need to ensure that packaging, and particularly the wine label, meets Chinese requirements:

**Producers – Non-exporters to China**

I think it’s a very important area, the labels…You know, the red colours and the yellow colours and the happy New Year colours (P3NE).

You’d have to possibly rebrand it or relabel it or have some sort of a Chinese lucky number on the label and away they go (P18NE).

**Producers – Exporters to China**

Words that are meaningful to them that are descriptors of wine, information and back labels, which are all in Chinese (P1E).

People [in China] don’t believe wines that sell for $100 in Australia are worthwhile if they come in a screwcap closure. However, we have stayed with our position. We have presentations in all of our—in all the things that we present—and we’ve had articles written and we have all these sorts of campaigns around the appreciation of wine under screwcap closure versus cork. It’s become part of our campaign (P1E).

The top end wines the label packing is not so much of a thing, but on the lower end wines it does…So the lower end wines needs to be a nice colourful label, a good catchy label and things like that (P4E).

Yes, we have a Mandarin back label. We have a standard front label (P6E).

We certainly changed our label because we wanted to put it under a different brand but we made it very specific like red… and made it a bit more specific. Whereas in terms of [brand withheld] it’s not too bad because we’ve got gold on our label, we don’t have red but it looks expensive (P11E).

Yes and the packaging has to [represent] good luck and big and wealth and that type of thing, that’s what they’re into and once you understand all those traditions and those types of things you’re a long way down the track especially if you can deliver (P12E).

They’ll do a small label for the back of the bottle which would be in Chinese (P26E).
Other factors include positioning, branding, and recognition or acclaim. This was most evident in the following quotes:

**Stakeholders**

I reckon if you’re on a wine list in London that has a beneficial effect on aspirational markets like China (S1).

You’re going to make your money by concentrating on quality (S2).

How are you going to get traction? Name and reputation, brand platform, product differentiation (S2).

So it’s really quality or value that we need to be sort of selling on (S3).

[Wine] is a product that the Chinese like to give as a gift because it holds a certain level of prestige. If they give a gift it needs to be of a reasonable quality (S5).

So there’s still a heavy element of wanting to have big brands, known brands, known producers with credibility (S6).

It’s an exercise in starting to get in front of these guys in the right venues, handled by the right people, well communicated and well-priced so that you can start to build that basis of reputation and recognition (S6).

**Producers – Non-exporters to China**

Probably one of the main reasons is that at our end, at the premium end of the wines, in China unless you get really, really high ratings from the American writers etcetera, there’s no sustainable business because the Chinese market at that end still buys on prestige (P2NE).

It takes ratings, no doubt about, it takes building a brand in China because people are brand orientated, so the Australia, West Australia, Margaret River brand is very important (P2NE).
Ways to increase volume/value of WA wine exports to China

Lastly, we asked the participants what they believed to be ways to increase the volume—if not value—of WA wine exports to China. Responses were varied, including everything from resourcing local, state, and national bodies, to facilitating tourism, to education efforts in China, to industry responsibility, to collaboration among producers, to efforts to brand WA regions in China, to accessing export grants, to regions taking control of their own destinies, to the recently signed FTA with China, to the vetting of Chinese wine importers, to greater marketing and promotion efforts, and to simply being patient in establishing a presence in China.

Producers – Exporters to China

We actually have to build our reputation first. Because reputation is really important in how people—perceptions are really important in China (P1E).

But the correct commercial solution might be—you know, anyone who’s from WA won’t be selling anything effectively under ¥200 [<AU$43]. In a retail sense. Which means you are in the top 5%. You’re in that zone. So therefore, your aspirations have to meet that price point. And that’s low; ¥200 [<AU$43] is low (P1E).

Anyway so there’s a lot of James Halliday behind the WA wines to China because for example we do have a lot of potential Chinese buyers and they want to explore them and talking about exporting wine to China one of the first questions they ask is how many points did this wine get from James Halliday (P4E).

At our level the Chinese are only interested in high quality prestige (P6E).

This company in Guangzhou that’s bought out top end wine, they are prepared to spend a little bit more money for reasonable quality wine (P7E).

China, it’s just a lot of people and we can’t even hope to supply anywhere near enough but there’s people there and they’re willing to—they want to drink...at the premium end and it’s been great (P12E).

But the other thing is brand recognition, just gaining that recognition on an international scale can open up real opportunities and I guess there’s a couple of ways to do that and one is to participate in international competitions and try to gain recognition that way which then can drive your export opportunities (P13E).

They do like quality, anything that’s top quality, and if you’ve won awards and got good write-ups in magazines etc. (P14E).
These diverse views are reflected in the following quotes:13

**Stakeholders**

We need to have, I think, a dedicated export development office for wine based in WA...that allows those people who are taking those first steps to fast track that (S1).

Tapping into the Wine Australia programs that make sense, making certain that we have all the resources that Wine Australia has available, in terms of intelligence, market contacts, et cetera, here. We need to be able to tighten that relationship (S1).

Resourcing the federal statutory body, AGWA, so that it actually can assist [WA] very important as well (S1).

Facilitating tourism is something that really is important. That’s at both state and federal level (S1).

But it does come down to industry taking responsibility to achieve that, showing a real will to do so. To have a cohesive plan on how that will be achieved (S1).

So if you’ve got ten producers of a similar scale across, say, three regions that all are interested in Singapore, why wouldn’t you facilitate for them the ability to collaborate to do something? (S1).

It gives some motivation to realise that pre-competitive collaboration is required in an enormous way for us to – for everybody to become successful (S1).

You don’t want to be part of an Australian exhibition of wines from Australia. You don’t want to be part of a Western Australia exhibition from wines of WA. You want to be standing by yourself [as a region] (S2).

The wine industry of WA—you can’t do it at a WA level. You’ve got to break it down to GIs (S2).

So if [exports are] a major aim, I think there needs to be some sort of dedicated... funding and export development officer (S3).

So I think it’s the capacity to collaborate not only with your fellow wine producers, but with other people with resources (S3).

Government support, the level of government support, the existence of a trade office over there. Constant marketing, you know, plugging into the Chinese social media (S4).

We see regionality as the major marketing tool (S4).

[as for producers collaborating] I’d really like to do that. I’ve had somebody offer me the concept in the last couple of months. Then it’s just a question of engaging with the producers to see if they really want to do it (S4).

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13 Quotes are provided by participant category rather than by theme.
Stakeholders (continued)

We could see benefit of a Western Australia (Wines of WA) state office in Beijing or Shanghai or something like that, who had an interest in wine (S4).

There’s a lot of drive in China to educate the emerging younger generation to understand wine, they have a thirst to appreciate wine which has been in traditional markets in Australia, from Australia (S5).

I think this free trade agreement is one huge thing that’s helped us, will help us in the future. That is a big ticket item that will increase sales, I think facilitate more sales (S5).

I think it’s really trade missions to China, I think, is one of the big ways to form those relationships, to increase the awareness of West Australian wines (S5).

Wines of WA for example, I think it’s one of their responsibilities to assist [producers] facilitate more sales into China, more effort into China, in conjunction with the government (S5).

Some producers will persist with screw cap and they will continue to export into China. It’s just persisting with that and educating the market, so there is an understanding there is a point of difference (S5).

So a bit more resourcing for Wines of Australia might be a good thing (S6).

Government could… have a registry or some sort of vetting of companies that are involved in importing a wine in China (S6).

We have a situation where my view is that a lot of the smaller wineries that are really struggling should collaborate, they should get together, there should be some consolidation going on otherwise they’re going to go out of business and that consolidation should be taking place now (P2NE).

Unless we can get like a cooperative going where we can find somebody that’s prepared to buy individual lots that will then make up a 40 foot container, it’s not very feasible I don’t think (P18NE).

Some workshops and best practice case examples (P19NE).

Hearing more good luck stories rather than bad luck stories (P19NE).

I suppose the best thing that can happen is to… put face to face with importers. That’s probably the best, most useful thing peak bodies can do (P25NE).

Producers – Exporters to China

Wines of Western Australia have to go out and build the reputation on behalf of their constituents (P1E).

I think export development grants are very helpful for people to have cash flow to attend to activities (P1E).
Producers – Non-Exporters to China

So someone who can work them through all of those steps to actually tie down a commercial deal. That’s what all winemakers in Australia need (P1E).

I suppose the best thing that can happen is that…there’s the knowledge base at Wine Australia which tells people that—you can go into a dashboard and have a look at what the ten markets or the top 20 markets are [in China] and what they’re yielding and whether you’ve got product within that price point and how that’s growing (P1E).

It needs to go down to one channel…in this scenario, because you’re a different wine region all together, that you should promote and have wine just channelled out of Western Australia, under its own banner (P1E).

If I talk about the industry bodies, some of the stuff that these people talk about, I just think it’s stating the bleeding obvious. It’s too little, too late. If growers and wine producers are waiting for the industry body to provide the direction and the advice, you’re already two or three years too late (P6E).

The Free Trade Agreement has helped. The Free Trade Agreements are really interesting things [for enabling exports] (S6E).

I have had bits and pieces to do with Austrade over the years. A lot of what they do is pretty good, their networking and positioning Australia at an official level is pretty good, irrespective (P6E).

AGWA does a great job in keeping us informed of what’s going on and lobbying for sensible – it’s got approvals now at the end of the day we actually have to send samples across to South Australia and if you test it now you can basically do it in a 24 hour period it’s so much easier (P7E).

So I thought we’ve got to get out there and find our niche and deal with these people [in China] and explain why our wines are different and are good. It’s just a case of building that relationship (P12E).

What we would need, ideally, is the ground work and the leg work in identifying key importers, distributors, retailers in, firstly, tier 1 cities and tier 2, which is what they call them in China, because you spend the first 1 to 2 years trying to find who are the actual players in those markets (P24E).

I have a very strong view that Western Australian wineries need to have a united voice about brand WA to the global market and that is our biggest weakness, full stop (P24E).

We’ve been developing this for 3 years now and only just now we’ve got the confidence of the Chinese (P26E).

China is new to wine, very new, and I find that working with Chinese is good because you’re like teaching a baby how to walk. It’s a lot easier because they’ll learn like a sponge (P26E).

I did 3 days of talks [in China] teaching…clients about wine and you have to spend money to go over there and get the confidence of these people before they’ll even start to show a long-term interest (P26E).
Recommendations
Recommendations

This section outlines recommendations based on the study findings, as well as secondary research undertaken.

Given the goal of doubling WA exports to AU$100 million by 2017, the expectation is that a variety of strategies will be required. While we do not believe China is a panacea nor is it the sole market for achieving an increase in exports, it does represent a potentially large opportunity. Yet, it also comes with many inherent barriers and risks. This requires well thought-out strategies.

Before recommendations are offered for consideration, an overall view of on-the-ground research—and strategies—in China is presented.

In a report conducted for the then Grape and Wine Research and Development Corporation, Rabobank International provides in-depth analysis on successfully exporting wine to the Chinese market.14 Highlights of the findings are presented here.

First, consideration is giving to a Chinese wine market overview. There are five key characteristics that are highlighted here:

1. Beer and Chinese spirits remain the leading consumed alcoholic beverages in China; however, the demand for wine is outpacing both.
   - Consumption can be broken down by Tier 1 cities (e.g. the well-known cities of Shanghai, Beijing, Guangzhou, and Shenzhen), Tier 2a cities, Tier 2b cities, and Tier 2c cities; this reflects the fact that China consists of several markets (see Appendix for more information on Chinese cities).
   - Tier 1 cities currently account for more than 70% of imported wine.
   - Tier 2 cities are expected to increase share of wine consumption, where the French have significant penetration due to first mover advantage.
   - The developing middle class and younger generations are seeing particularly strong growth in wine consumption, although this varies by Tier city. This equates to roughly 250 million (and growing) urban customers with purchasing power for “premium” wine.
   - Appreciation for taste is still in its infancy, so today Chinese wine consumers base their “quality” assessments on perceived factors, including price, country of origin, packaging and labelling, image, and, if by recommendation, the fit with food.
   - Knowledge of wine is still very limited, and the majority of consumers do not know where to source basic information.

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2. Over 70% of wine in China is consumed through the on-trade channel (hotel, restaurant, pubs, other venues where alcohol is served), although the off-trade channel (supermarkets, grocery stores, other stores for consumption off the premise) is rapidly developing (double-digit growth), particularly in Tier 2 cities.
   • Hong Kong represents an important trading hub to reach mainland Chinese distribution points.
   • Potential of high-end (RMB 200–300) and premium (RMB 300–400) wine is growing in China, but at a slower rate than entry level wine (below 200 RMB).

3. Two holidays account for 60% of wine sales in China.
   • Chinese New Year and the Mid-Autumn festival are important to sales, particularly for wine giving as gifts (supported through the off-trade channel).

4. Red wine accounts for around 85% of China’s wine market.
   • The preference for red wine relates to its image of vintage, sophistication, heritage, investment value, and healthiness.
   • The colour red also symbolizes fortune and joy.
   • Chinese palates are “young,” and will evolve over time to include a greater appreciation of white wines, and more full-bodied reds (although these preferences may be different depending on the Tier cities).

5. Packaging and labelling are more important than taste (currently), driven by “premium” image often more perceived than real.
   • Brands with packaging/labelling that is “grey” in colour perceived to be premium in image, one associated with heritage.
   • Chinese language labels on imported bottles mandatory (particularly the back label).
   • Bottles with straight sides and tall shoulders rather than sloping shoulders are preferred.
   • Cork is “necessary” versus screw-cap.
   • Screw-caps are beginning to be better received by younger Chinese consumers, but may be perceived as part of a daily casual wine experience rather than a premium product.
   • With respect to gift-giving (where the off-trade represents the primary sales channel), local brands currently dominate sales.
In sum, the Rabobank report offers five key recommendations for Australian wine exports to China:

1. Expand presence beyond Tier 1 cities through direct linkages with 2nd tier distributors in Tier 2 cities (see Appendix for list of Tier 2 cities).

2. Confirm consumer perception of Australian wine to maintain lead position at high-end and premium segments. Better to focus on becoming the leader in one price segment to develop clear positioning.

3. Increase coordination of marketing campaigns among trade commissions and industry and consider utilizing local PR agents.

4. Increase marketing at “point of sale” and focus on image of freshness and screw-cap as points of differentiation.

5. Focus on educating the Chinese market on the uniqueness and regionality of Australian wine, including through the use of the Internet and social media.

As for recommendations specific to this report, and specific to WA, we table them according to the type of involvement in the industry. Our belief is that WA has spent decades perfecting the technical aspects of grape growing and wine making. The following recommendations therefore flow from the fact that many participates acknowledged that “non-technical” strategies and tactics are increasingly essential to restore profitability as well as to meet the on-going challenges of export markets.\(^\text{15}\)

**Federal Government**

The Federal Government has a role to play, particularly with respect to national trade agreements. The most positive news is that Canberra, at the time of this writing, is working towards finalising a Free Trade Agreement (FTA) with China, which will phase out import taxes on wine over the next few years. This, combined with the weakening Australia dollar, are substantial developments for exporters of wine to China.

In addition, much of the industry supports reforming the WET (or at least restructuring it), which should, in principle, free up cash flow for producers. Greater cash flow should permit greater investment in export efforts. The WET is currently under review.

\(^\text{15}\) However, we do not discount technical aspects of grape growing and wine making, and believe they are an ever present part of strategy in the continual quest for producing quality WA wine.
AGWA (Australian Grape and Wine Authority)
AGWA, which trades as Wine Australia, is the single Australian Government statutory service body for the Australian grape and wine community. They commenced as a merged body (between GWRDC and Wine Australia Corporation) on 1 July 2014. AGWA supports a competitive wine sector by investing in research, development and extension (RD&E), protecting the reputation of Australian wine and growing domestic and international markets through marketing and promotional activities.

- Distributor vetting and distributor website – WA producers need intelligence on distribution in China. Any AGWA screening and vetting processes of distributors in China should be made available to all producers, and not just those who engage in user-pays schemes. Of particular interest would be intelligence on distributors in China’s top 10 or 20 markets based on Tier 1 and Tier 2 cities (the Appendix lists Tier 1 and Tier 2 cities). A special link should be created directly from the Wine Australia website and could be linked into the website of Wines of WA.

- Export dashboard – Wine producers need to understand what a viable commercial solution means in terms of China. For example, multiple scenarios should be created that consider the variety, costs of production (e.g. bulk, bottled), volume, transport, import costs, price (e.g. retail price, wholesale price), and Chinese city of destination, among other key variables. Producers select the most relevant factors/variables and a calculator estimates expected gross margins based on volume and value. This export dashboard could be provided directly through the Wine Australia website and linked into the website of Wines of WA.

Wines of WA
Wines of WA is state’s peak wine body. Wines of WA provides support to WA producers and Regional Associations in the development of regions.

- Export development office – Given the strategic goal of an increase in exports of WA wine to AU$100 million by 2017, this is likely not achievable unless there is more dedicated support for producers—here in WA. The positive news is Wines of Western Australia, at the time of this writing, is positioning for an export development office (EDO) with at least one dedicated staff member. Should this materialize, WA producers would be better positioned to take advantage of export opportunities to China—as well as other global markets.

- Distributor roadshow (WA) – One of the most complicated factors related to Chinese exports is distribution. Wines of WA should consider creating, funding, and hosting an event that brings to WA at least one of the top distributors in China for a regional roadshow. For example, Tall Tree Wines, a Chinese importer in Guangzhou dedicated to Australian wine, could be an excellent choice. A distributor roadshow would be expected to create substantial educational and networking opportunities, as well as market intelligence on China.

16 This could be achieved with additional support and funding from Regional Associations, AGWA, and DFWA, for example.
• Distributor roadshow (China) – As a corollary, Wines of WA should consider a roadshow to China, with visits to select distributors in the top 3–5 Tier 1 and Tier 2 markets. This effort could be supported by Regional Associations with a call to producers to also participate.

• Establish an export and marketing committee – Wines of WA currently has a Technical Committee in place. This committee acts on behalf of grape growers and wine producers on technical matters of interest. Because regional branding, and export and marketing experience, are increasingly important in a globally competitive marketplace, a recommendation is put forth that a committee focused on matters relating to exports and marketing be established. This committee should comprise individuals from WA wine producers, as well as state government stakeholders, with expertise in exports and marketing. The charter would be to lobby on behalf of WA wines on matters related to exports and marketing at the national level, as well as to offer strategies and information on increasing WA wine exports.

• Create a WA “brand” – We believe that WA’s ability to compete on the global stage, and certainly in export markets such as China, requires a marketing effort that creates a brand name, and one that connotes an image of quality, premium wine. Given the recent “Wines of Western, Extraordinary Regions” branding effort of the Wines of WA website, the following two graphics represent examples of what a branding effort for producers might look like.

![Quality Wine of Western Australia](image1)

We encourage Wines of WA, in conjunction with Regional Associations, to commit to the development of a marketing brand that could be used as an opt-in program, for example, where producers who meet a certain quality standard (e.g. 90+ points in James Halliday Wine Companion guide, medal winner in noted wine competitions) are granted permission to use the image on their printed labels and in their marketing collateral. Further, a scan code on labels could be linked to Mandarin language videos, developed for each WA region that explain provenance, which is increasingly important to the Chinese consumer.
State Government – Department of Agriculture and Food Western Australia (DAFWA)

The recent Agrifood 2025+ strategy calls for a doubling of the value of sales of the WA agriculture sector by 2025.

With respect to wine, we recommend that DAFWA, in conjunction with Wines of WA and Regional Associations, focus effort on branding, marketing, investment, and trade relations.

More specifically, the results of the interviews for this study suggest that there is a perception that Western Australia holds little value as a brand name in export markets. Therefore, it is imperative that DAFWA, and particularly its market development and access team, craft a two-prong branding and marketing strategy.

First, an overall image and brand of “clean and green” should be considered for WA wines in general. This is supported by several participants in this study. The Chinese are particularly interested in the origins of products—as well as having an interest in the perceived health benefits of wine. However, this extends beyond the Chinese market.

There is a growing class of consumers who are interested in environmentally friendly and sustainable production practices, including consumers of organic and biodynamic wines. As an “overarching” theme, WA wines, and the clean and pristine environment in which they are produced, should form the basis of branding and marketing development—all within the context of premium winemaking. This should be developed into a point of differentiation. However, we suggest that this is a minimum requirement as one of Australia’s closest wine-producing competitors, New Zealand, already has forged a clean and green image around the world. More is therefore needed.

Second, recent research highlights the ever-growing importance of regional identity. Given differences in regional characteristics, DAFWA should work to develop branding around these differences within the context of the broader brand message—and distinct from Australia’s other famous wine regions (e.g. Barossa, Hunter Valley, Yarra Valley). In a crowded international market, and particularly in China, brand recognition and distinguished and differentiated marketing stories are essential. DAFWA should be particularly focused on festivals such as the lunar New Year, and mid-autumn and other national celebrations, which provide excellent marketing opportunities for WA wine.

Lastly, there is little secret in the fact that the Australian wine industry has struggled in the last several years. While there are positive signs of recovery, recent reports estimate that as much as 85% of production is still unprofitable. Much debate at the national peak body level has ensued over industry consolidation and the ripping out of vines. However, we recommend that DAFWA sustain a campaign of in-bound investment and trade relations.

17 In addition to a “clean and green” image, the largest research and development program undertaken by the New Zealand wine industry is now focussed on high quality, naturally produced “lifestyle” low-alcohol and low-calorie wines.
As a point of differentiation, wine is the largest value-adding horticulture industry in Western Australia and represents significant opportunities for future contributions to both economic output and employment in regional centres. However, cash-flow in the WA wine industry is particularly relevant in the current environment.

We applaud DAFWA’s efforts regarding the InvestWest Agribusiness Alliance and efforts such as the report, *Investment opportunities in Western Australia’s wine industry*. However, DAFWA should now establish a target of investment flows into the wine industry over the next three to five years, on the order of at least AU$20 million. These investment flows would be particularly targeted at mergers and acquisitions of promising yet unprofitable grape growers and wine producers, as well as financial capital to support expansion of the human capital, land, technology, and volume needed to increase export sales, including exports to China.

These investments could entail cross-border alliances such as the recent merger between Beelgara Estate (New South Wales) and Cumulus Wines (New South Wales), which includes the Margaret River-based Moss Bros (Western Australia), as well as backing from the Portuguese-based Bernardo wine group who majority-owns Cumulus.

Alternatively, the South Australian and Chinese governments recently announced a commitment of AU$70 million to develop an agriculture park in Adelaide that will supply Chinese shops in Shandong province with food and wine products. This type of investment partnership must be considered in WA as well. Of particular interest would be investment partnerships with fast-growing Tier 2 Chinese cities.

Hence, DAFWA, in conjunction with the Department of State Development and the Department of Regional Development, should actively target the investment community, including prospective commercial and private investors in both domestic and international markets (especially given that the Australian dollar is at its lowest point in years).

DAFWA should also be active in trade relations with China and in opening up the lines of communication with wine producers. According to Amy Burch, Managing Director of WA-based Burch Family Wines, producers aren’t necessarily looking for money from the Government, but rather are looking for “advice and opening the doors to communication to make sure that our trade facilities are much smoother and it’s easier to trade with them. [China] is a potentially good market for Australia. It is a large country, but all these barriers are ones that actually impeded the small trade. If we can do anything to make it easier, we should.”

While the signing of the FTA with China by the Federal Government will certainly help, we recommend that DAFWA specifically focus its efforts on forging relations with Chinese distributors and importers, while creating a bridge between them and WA wine producers. For example, the Minister for Trade, Tourism, and Major Events of New South Wales, Stuart Ayres, recently announced that the state had signed an agreement for the export of AU$1 million worth of wine annually to China—from a single producer. DAFWA, working with the Department of State Development and the Department of Regional Development, should actively seek similar trade deals for WA and its wine producers.

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Universities

WA producers must face a reality that funding for R&D is likely to be increasingly difficult to secure. For example, uncertainty surrounding future DAFWA R&D efforts, particularly with respect to wine-related R&D projects, could diminish local research efforts. Alternatively, research coming from AGWA and other bodies (e.g. AWRI) has a much broader contingency to consider, and therefore local research specialised to the needs of WA can receive less attention.

We recommend that institutions of higher education, Wines of WA, Regional Associations, and producers engage in more relevant and targeted relationships to produce industry-valued research. For example, at the time of this writing, Curtin University is investigating the expansion of its research centre, the Australian Centre of Wine Excellence, in collaboration with the Department of Agriculture and Food, the Australian Wine Research Institute, and Wines of WA. The University of Western Australia actively engages in wine-related research as does Murdoch University.

In an era where government research budgets are dwindling and a single entity like AGWA is unlikely to meet the specific needs of WA producers, innovative collaborations—and funding mechanisms—are required between universities, industry, and the government.

WA Wine Producers

Recommendations for producers will be provided in two sections. First, more general recommendations will be put forth that flow from the interviews as well as our own research. Second, using a popular strategy framework, two “representative” strategies will be offered for current exporters to China and those seeking to enter the market there.

General recommendations

This section puts forth ten key recommendations for WA wine producers.

First and foremost, to increase success in the Chinese export market, WA producers must continue to focus on quality, premium wines. While there may be reason for some producers to sell low-priced wine (<AU$10) to draw down excess stock or to “test the waters” in China, this neither is a good strategy nor is it sustainable. Competition at the bottom end of the market is fierce. It is impossible to dominate the bargain end indefinitely nor is WA positioned to do so relative to other wine-producing regions in Australia—let alone lower-cost producing countries around the world.

Second, a reputation for quality must be built. While the facts are known to the Australian industry that WA produces a large share of wine value relative to its volume, we would suggest that the vast majority of Chinese consumers are unaware of the quality of WA wines.
One consistent theme that emerged from the interviews was ensuring that WA producers are rated by independent sources. These could include James Halliday (e.g. annual Wine Companion) and Wine Spectator (the highly respected American-based magazine), among others. Entry in wine competitions both in Australia and China are a necessity to prove credentials.

Third, China has very few national distributors and WA producers should therefore target specific markets within the country and find appropriate distributors. Second tier cities, with populations significantly larger than many mainstream Western cities, offer good potential.

Fourth, gift-giving festivals such as the lunar New Year, mid-autumn and other national celebrations, weddings and corporate events can provide excellent marketing opportunities (see the Appendix for a comprehensive list of the Chinese traditional holidays and festivals).

Fifth, In China, each province has its own diverse demographics with over a hundred dialects spoken throughout the country. There is no national cuisine as is sometimes perceived by Westerners.

While the following recommendation has mixed opinions from the participants, WA producers might consider localised palate preferences in what they bring to the market in China. In other words, a “customised” wine. For example, based on our market research, one producer from South Australia is developing a wine with hints of smoked sausage.21 Another producer from South Australia has found that the Chinese are comfortable with dryness but don’t like high acid in their wine.22 Lastly, a partnership between an import company based in Hong Kong and a wine producer in Western Australia are developing a line of wines “customised” to a Chinese palate.23

Further, a recent report found that over 40% of imported wine drinkers in China are now 18–29 year-olds.24 This segment appears to be moving away from mainstream French and Spanish wines, while embracing new wine styles such as Port, Asti, Lambrusco, and sparkling wines from New World producers such as Australia. However, in this segment, opportunities exist mainly for wines priced under ¥100 (<AU$21), which may or may not offer profitable space for WA producers.

Sixth, one emerging trend in China is that consumers are beginning to embrace more elegant, food-friendly wines. WA producers should therefore consider carving a niche for themselves by running cuisine-specific promotions in China. They should pick a dish (with relevance to the market in which the wine is sold) and promote an appropriate wine as a way of engaging new consumers.

Seventh, packaging is important. More specifically, bottled wine exported to China must have a Mandarin back label. However, there are other considerations. For example, the Chinese are particularly fond of the colours red and gold, as these convey fortune, joy, strength, and nobility. Producers are therefore encouraged to consider label colour prior to export.

In another example, research has found that the descriptions on labels may be “lost in translation” in the Chinese market (e.g. the Chinese may not understand terms like “strawberries” or “blueberries” because they have never seen or tasted them). Producers are therefore encouraged not only to consider using easily understood, Chinese names to brand their wine, but to use descriptors of the wine on the back label that Chinese consumers can identify with (e.g. health, well-being. yangmei is the equivalent descriptor from strawberry, dried Chinese hawthorn is the equivalent of blackberry jam, pineapple is the equivalent of jackfruit).

Eighth, the Chinese strongly associate red wine with health. Given this connection, WA producers should consider increasing the production of organic and biodynamic wines as this adds to the mantra of health and environmentally safe production. According to one interviewee who currently exports to China, the Chinese are keen on “anything organic, biodynamic”.

Ninth, another consistent theme that emerged from the interviews was the potential necessity for more collaboration among smaller wine producers. The expense of shipping a few cases of wine to China is unlikely to generate good margins. Several interviewees recommended that small WA producers should consider joining forces to fill containers full of wine. We believe this is likely viable, but should be well thought-out. More specifically, there must be a valid story behind the wine, one that highlights regionality and the uniqueness of regional characteristics. Otherwise, the Chinese are likely to view such efforts as nothing more than a pure volume exercise requiring low-price wine, one that most WA producers cannot fulfil.

Alternatively, smaller producers must not be timid about co-investment, whether from domestic or overseas partners. The reality is, recent reports demonstrate that, for example, around 50% of Margaret River producers are unprofitable, while around 85% of producers in the Great Southern are unprofitable.

We are not advocating the wholesale take-over of wine production in WA, but rather believe that the WA wine industry should recognise the value of co-investment that will allow producers to continue doing what they do best while the investors themselves secure the markets for WA’s quality wines. This entails engagement and establishing relationships with commercial and private investors both in Australia and overseas. This would entail a joint effort between producers, Wines of WA, and the State Government.

Tenth, and finally, another consistent theme that emerged from the interviews is that for WA producers who wish to be successful in China requires patience, perseverance, and a long-term view. Currently, for example, the Chinese consume around one litre of wine per year; this is expected to grow to 15 litres. Overall consumption is therefore predicted to rise by one billion litres in the next five years, representing a potentially large market. Hence, China is a long-term play. Dabbling in Chinese exports or simply targeting China as a destination to sell excess stock in a given year are not viable, sustainable strategies.

This equates to being prepared to invest multiple years of time and resources to establish a successful presence in China. Building long-term relationships with business partners in China is critical in order to sustain brands.

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Representative recommendations

This section draws on a well-established strategy framework to demonstrate representative recommendations for both exporters and non-exporters to China. Known as the “diamond model” (Figure 26), the framework identifies five key dimensions of effective strategy: 1) economic logic; 2) arenas; 3) vehicles; 4) differentiators; and 3) staging.

**Figure 23 Diamond strategy model**

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**Economic logic** refers to how returns will be obtained. There are basically three choices. First, a differentiation economic logic means offering a product that is differentiated in the market in order to command a premium price (e.g. Rolex watches). For wine producers, this largely equates to high quality and smaller volumes.

Second, a low-cost economic logic means offering an acceptable product to the majority of a customer segment, but at a lower cost than competitors (e.g. Dell Computers). For wine producers, this generally means low quality (bulk) wine produced in mass volume.

Third, a hybrid economic logic means offering a product that has some slight advantage over low-cost producers in order to charge a price slightly above the average price (e.g. some degree of value-add over low-cost competitors). For wine producers, this generally means a value-for-money wine product.

**Arenas** refers to where a company will be active. This encompasses product categories, market segments, geographic areas, and core technologies.

**Vehicles** refers to how a company will meet its market demand. Relevant factors here include organic growth, joint ventures and alliances, mergers and acquisitions, and channels.

**Differentiators** refers to how a company seeks to offer points of differentiation in the

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market. These can include image, customisation, styling, quality, product reliability, among others.

**Staging** refers to what the speed of the strategy is and the accompanying sequences of moves. Staging is driven by the availability of resources, urgency, and the need for early wins. Staging also encompasses the speed of expansion and sequence of initiatives.

Representative strategy: **Current exporter to mainland China**
- Economic logic – differentiation; premium pricing
- Arenas – premium to ultra-premium products; mainly red wine although white is becoming more popular; middle to upper class consumers with a growing appreciation of fine wines; Tier 1 cities with increasing, if not rapid, expansion to Tier 2 cities; technical focus on continuous improvement in quality
- Vehicles – mainly organic growth although partnerships with commercial or private investors to expand volume (e.g. increase case production or expansion of vineyards or new varietals), if not distribution, warrants consideration; mainly on-trade and direct sales channels although some select off-trade (see p. 96); trial on-line sales
- Differentiators – quality; third-party/independent ratings; clean and green image; organic/biodynamic; regional features and distinguishing facts; tailored packaging
- Staging – movement and increased sales to Tier 2 cities within the next 1 to 2 years.

Representative strategy: **Producer seeking to export to mainland China for the first time**
- Economic logic – differentiation; premium pricing; hybrid model (value-for-money) possible but profitability a concern without high volumes
- Arenas – premium to ultra-premium products; mainly red wine although white wine becoming more popular; middle to upper class consumers with a growing appreciation of fine wines; Hong Kong as a possible first entry point to gain experience (Hong Kong is an important springboard to mainland China); Tier 2 cities (appears to still be early mover advantage in many such cities); technical focus on continuous improvement in quality
- Vehicles – organic growth; collaboration with in-region producers to build export volume; export grants (e.g. Austrade) to facilitate opportunity; mainly on-trade and direct sales channels although some select off-trade (see p. 96); trial on-line sales
- Differentiators – quality; third-party/independent ratings; clean and green image; organic/biodynamic; regional features and distinguishing facts; tailored packaging
- Staging – Hong Kong initially (year 1); movement to Tier 2 cities in year 2 or 3; alternatively, if trusted distributor found in mainland China with broad market reach, simultaneous entry into Tier 1 (e.g. Shanghai) and Tier 2 (e.g. Harbin) cities.

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29 In terms of colour, white has negative symbolism in China. Producers wishing to export white wine might consider marketing this product as “light golden” or “amber” wine, or even “transparent” wine, as these reflect positive symbolism in China.
30 A recent McKinsey & Co report estimates that the value of Chinese on-line retail is likely to exceed that of Europe and the USA within three years. This could present opportunity for alternative distribution, particularly for the individual wine consumer.
31 In terms of colour, white has negative symbolism in China. Producers wishing to export white wine might consider marketing this product as “light golden” or “amber” wine, or even “transparent” wine, as these reflect positive symbolism.
32 See footnote 30.
Representative strategy: *Current exporter to mainland China*

**Arenas**
- premium to ultra-premium products
  - mainly red wine although white wine becoming more popular
- middle to upper class consumers with a growing appreciation of fine wines
- Tier 1 cities with increasing, if not rapid, expansion to Tier 2 cities
- technical focus on continuous improvement in quality

**Differentiators**
- quality
- third-party/independent ratings
- clean and green image
- organic/biodynamic
- regional features and distinguishing facts
- tailored packaging

**Staging**
- movement and increased sales to Tier 2 cities within the next 1 to 2 years

**Vehicles**
- mainly organic growth although partnerships with commercial or private investors to expand volume, if not distribution, warrants consideration
- mainly on-trade and direct sales channels although some select off-trade (see p. 96); trial on-line sales

**Economic Logic**
- differentiation
- premium pricing
Representative strategy: *Producer seeking to export to mainland China for the first time*

**Arenas**
- premium to ultra-premium products
- mainly red wine although white wine becoming more popular
- middle to upper class consumers with a growing appreciation of fine wines
- Tier 1 cities with increasing, if not rapid, expansion to Tier 2 cities
- technical focus on continuous improvement in quality.

**Differentiators**
- quality
- third-party/independent ratings
- clean and green image
- organic/biodynamic
- regional features and distinguishing facts
- tailored packaging.

**Staging**
- movement and increased sales to Tier 2 cities within the next 1 to 2 years.

**Vehicles**
- mainly organic growth although partnerships with commercial or private investors to expand volume, if not distribution, warrants consideration
- mainly on-trade and direct sales channels although some select off-trade (see p. 96); trial on-line sales.

**Economic Logic**
- differentiation
- premium pricing
- hybrid model (value-for-money) possible but profitability a concern without high volumes.
Further Help
Further Help

In light of the recent signing of a FTA with China (and FTAs with Korean and Japan already in force), the Federal government is implementing its North Asia Free Trade Agreement Information Seminar Series. This series will visit cities, rural, and regional areas over the next two years to give business the opportunity to hear about the agreements and obtain practical guidance.

The Government is also developing a sophisticated and interactive online FTA portal/dashboard, including a tariff finder, to help potential and existing exporters make informed decisions about using the FTAs. For more information, visit www.austrade.gov.au/ftaseminars.

In 2015, Wine Australia launched a series of user-pays marketing activities, including those directed at China. For more information on these China marketing programs, download the pdf at http://www.wineaustralia.com/en/Market%20Development/Market%20Programs/~media/0000Industry%20Site/Documents/Marketing/Market%20Programs/user-pays-activities/CHINA%20Market%20Programs.ashx or contact Willa Yang, Regional Manager (China), at willa.yang@wineaustralia.com (phone: +86 21 6010 3951).

The AWRI Commercial Services offers wine exporters a customer service team and can advise on the analytical requirements for different countries and can assist in working through the paperwork needed for each specific export destination. For further information on exporting wine contact AWRI Commercial services on 08 8313 6600 or commercialservices@awri.com.au. Otherwise visit http://www.awri.com.au/commercial_services/analytical_services/exporting-wine.

For local support, contact Wines of WA (http://www.winewa.asn.au) or the Regional Association of interest (http://www.winewa.asn.au/fine-wine-regions).
Appendix
## Snapshot of the Australian Wine Industry

### Wine Producers

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Value</th>
<th>% change over last 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td># Decrease</td>
<td>number</td>
<td>2,573</td>
</tr>
</tbody>
</table>

### Wineries by Size of Crush (2013)

<table>
<thead>
<tr>
<th>Size of Crush</th>
<th>2014</th>
<th>2013</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 500 tonnes</td>
<td>number</td>
<td>2,244</td>
<td>0.04%</td>
</tr>
<tr>
<td>500-4,999 tonnes</td>
<td>number</td>
<td>177</td>
<td>-2.3%</td>
</tr>
<tr>
<td>5,000-9,999 tonnes</td>
<td>number</td>
<td>14</td>
<td>-12.5%</td>
</tr>
<tr>
<td>&gt;=10,000 tonnes</td>
<td>number</td>
<td>28</td>
<td>-9.7%</td>
</tr>
<tr>
<td>Unspecified</td>
<td>number</td>
<td>110</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

### Direct Employment

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>16,186</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

### Viticulture

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Winegrape Crush</td>
<td>1,700</td>
</tr>
</tbody>
</table>

### Environment

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>Megalitres per hectare</td>
<td>2.52</td>
<td></td>
</tr>
</tbody>
</table>

### Beverage Wine Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>million litres</td>
<td>1,202</td>
<td>-2.4%</td>
</tr>
</tbody>
</table>

### Sales & Trade

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Domestic Sales - Volume</td>
<td>459</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

### Imports - Volume

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>million litres</td>
<td>83</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

### Exports - Volume

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>million litres</td>
<td>700</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

### Wine as % of total value of crops export (fob)

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Quantity</th>
<th>% market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>ranking</td>
<td>8%</td>
<td>6th</td>
</tr>
</tbody>
</table>

### Australian Wine’s Contribution to Value of World Trade (2012)

<table>
<thead>
<tr>
<th>Property</th>
<th>Quantity</th>
<th>% %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ranking</td>
<td>4th</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Tourism

<table>
<thead>
<tr>
<th>Property</th>
<th>Quantity</th>
<th>% market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>International visitors to wineries (year ending Sep 2014)</td>
<td>no of people</td>
<td>696,602</td>
</tr>
<tr>
<td>Domestic visitor overnight trips to wineries (year ending Sep 2014)</td>
<td>no. of trips in million</td>
<td>3</td>
</tr>
<tr>
<td>Estimated tourism revenue generated from international and domestic visits (year ending Sep 2014)</td>
<td>$A billion</td>
<td>8.20</td>
</tr>
</tbody>
</table>

### Consumption

<table>
<thead>
<tr>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>litres</td>
<td>29.11</td>
</tr>
</tbody>
</table>

### Taxation

<table>
<thead>
<tr>
<th>Property</th>
<th>Quantity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Wine Equalisation Tax 2013-14</td>
<td>$A million</td>
<td>766</td>
</tr>
</tbody>
</table>

Sources: ABARES Commodity Statistics, Australian & New Zealand Wine Industry Directory, IBISWorld Industry Report, Tourism Australia, Entwine Member Database, ABF Domestic Sales and Import Statistics and Wine Australia Export Approval Database via Winefacts Statistics, ABF Catalogue No. 1.329.0 Australian Wine and Grapes Industry, ABF Catalogue No. 8154.0 Shipments of Wine and Brandy in Australia by Australian Winemakers and Importers, ABF Catalogue No. 4.317.0.55.001 Apparent Consumption of Alcohol, Wine Australia and Treasury (Budget and Mid-year Economic and Fiscal Outlook), Aztec Report, Australian Taxation Office, Taxation Statistics, WFA analysis.

Major wine distributors/retailers and sellers in Shanghai

ASC Fine Wine
www.asc-wines.com
A pioneer of China wine imports, ASC is reputedly the biggest wine importer and distributor in China. Sells a high proportion of premium level wine including some of the biggest brands in France and Australia. In 2009, ASC imported 12 new styles of wine, seven of those being from New Zealand. Key customers are high end restaurant and hotels.

Aussino
www.aussino.net
A leading distributor/importer of fine wines was established in 1995. Targets medium to high-end market, stocks more than 1000 wines from 200 wineries selected from 12 countries. The company owns their own retail outlets, wine club and undertakes wine appreciation courses.

Jointek Fine Wines
www.jointekfinewines.com
Leading importers of international wine brands in China established the 1990s with regional offices in Hong Kong, Macau, Guangzhou, Shanghai and Beijing, together with wholesalers in various second or third tier cities. Clients include major 5 star hotels, top-end western restaurants, leading Chinese restaurants, private clubs, night-clubs, supermarkets and retail stores. Over sixty of their own retail shops throughout China.

Sino Drink
www.channelvino.com
Focus on Italian wine import and distribution. Price of wines imported range from less than AU$16.00 to over AU$80.00. Distribution to Shanghai and Northern China.

Jian Fa Wine
www.cndwine.com
Headquarters in Xiamen. Belongs to top 500 Chinese company, Jian Fa Group. One of the leading distributors of white spirits. Starting importing wine in 2006. They distribute French, German, Chile and Australian wine. Have retail outlets in 40 cities and distribute to 100 cities. Deal with Castel from France and Constellation from America.

Global Wine Shop
www.global-finewines.com
Small distributor and online seller based in Shanghai. Retail store in Shanghai. Focus on premium wines.

Wine Mall
Wine Mall is a wine retail shop set up by Global Beverages Asia. They sell over 800 types of wine from 14 countries.
Shanghai Torres
www.torreschina.com
Foreign owned distributor established by Miguel Torress in 1997. Now has the backing of Baron Philippe de Rothschild. Focus on selling premium wines to major hotels and fine restaurants. Offer wines from 14 countries including Australia. Regional offices in Shanghai, Beijing, Guangzhou and Shenzhen. Online sales and offer free delivery within 36 hours in the centre of those four cities.

Summergate Wine
www.summergate.com
Foreign owned distributor that commenced operations in Shanghai in 1999 and now have offices in Shanghai, Beijing, Guangzhou, Shenzhen, Macau and Hong Kong distributing to hotels, restaurants and retail outlets. Import from 60 wineries in 12 countries including a strong portfolio of Australian wine.

Tall Tree Wines
www.talltreewines.com

The Wine Republic
Owned by Australians. Wine importer with offices in Shanghai and Beijing. Import wine from 30 wineries in six countries. Strong focus on Australian wine.

Sino Drink
www.sino-drink.com
Importer based in Shanghai selling Italian wines to a network across China. Strong program of promotional events.

Shanghai Vinna
www.vinna-finewine.cn
Set up in 2002. Small wine importer. Import wine from many countries including Australia. Supply to wine distributors and clubs.

Panati Wine Shanghai
www.panatiwine.com

Napa Reserve
www.napareservewines.com
American wine importer focusing on wines from the Napa Valley. One outlet in Shanghai.

Guangzhou Longchamp Wine
www.longchampwine.com
Established in 1998 they are a prestigious wine importer and distributor focused on Southern China. Have ten franchised wine outlets across China. Strong focus on French wine but also import from Australia, Italy, Chile, USA and other countries.

Hangzhou Dingshi Wine
www.fwp-wines.com
Set up by a Frenchman Erwann Lemoigne in Hangzhou in 1999. Have several offices in China. Sell to major supermarket chains. Sell wines from eleven countries but have a strong focus on French wine.
Key specialty retail wine shops and sellers in Shanghai and Guangzhou

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Market Segmentation</th>
<th>Additional Information</th>
<th>Year Business Started</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aux Millesimes</td>
<td>Import/Retail</td>
<td>Shop address 415 Shan Xi Bei Rd</td>
<td>2006</td>
</tr>
<tr>
<td>Cheese &amp; Fizz</td>
<td>Import/Retail</td>
<td>Has 3 shops in Shanghai, can taste cheese and wine.</td>
<td>2002</td>
</tr>
<tr>
<td>Golden Gate Wines</td>
<td>Import/Wholesale/Retail</td>
<td><a href="http://www.goldengatewine.com">www.goldengatewine.com</a></td>
<td>2006</td>
</tr>
<tr>
<td>Jointek</td>
<td>Import/Retail/Wholesale</td>
<td><a href="http://www.jointekfinewines.com">www.jointekfinewines.com</a></td>
<td>1997</td>
</tr>
<tr>
<td>Just Grapes</td>
<td>Retail</td>
<td><a href="http://www.justgrapes.cn">www.justgrapes.cn</a></td>
<td>2007</td>
</tr>
<tr>
<td>Napa Reserve</td>
<td>Retail/Wholesale</td>
<td><a href="http://www.napareservewines.com">www.napareservewines.com</a></td>
<td>2007</td>
</tr>
<tr>
<td>Summergate</td>
<td>Direct Import, Wholesale*</td>
<td><a href="http://www.summergate.com">www.summergate.com</a></td>
<td>1999</td>
</tr>
<tr>
<td>Tall Trees Wines</td>
<td>Direct Import</td>
<td><a href="http://www.talltreewines.com">www.talltreewines.com</a></td>
<td>2005</td>
</tr>
<tr>
<td>Torres China</td>
<td>Direct Import/On &amp; Off Trade/Retail/Wholesale*</td>
<td><a href="http://www.torreschina.com">www.torreschina.com</a></td>
<td>1997</td>
</tr>
<tr>
<td>Vins Descombe</td>
<td>Import/Retail/Wholesale</td>
<td><a href="http://www.vinsdescombe.cn">www.vinsdescombe.cn</a></td>
<td>2007</td>
</tr>
<tr>
<td>Ruby Red</td>
<td>Import/Retail/Wholesale</td>
<td><a href="http://www.rubyred.com.cn">www.rubyred.com.cn</a></td>
<td></td>
</tr>
<tr>
<td>Wine Red</td>
<td>Import/Retail</td>
<td>A wine bar</td>
<td>2007</td>
</tr>
</tbody>
</table>

*These importers/distributors will take orders and deliver to customers but do not have a physical retail store.
Major Chinese cities

![Map of China showing major cities](source.png)


China’s global top 200 cities

![Map showing global top 200 cities in China](source.png)

Australia’s penetration in China by wine price point

Australia’s penetration in China by wine price point

Top 20 cities ranked by GDP: China
Regional preferences of wine styles in China

Taste is only just becoming a more important factor in the purchasing decision of Chinese wine consumers. Appreciation for the taste of wine in China is virtually non-existent today among the majority of Chinese consumers. Thus, consumers base their “quality” assessment on perceived factors, including (in order of priority) price, country of origin, packaging and labeling, image and, if by recommendation, the fit with food. Regarding price, Chinese consumers look for good value within their affordable price range, and not necessarily to find the best quality wines. Although French wine is the most consumed imported wine in China, taste-wise Chinese consumers are likely to prefer New World over Old World wines given their more “approachable” taste profile for entry-level consumers. According to interviews, Chinese perceive Australian, Chilean and Argentine wines as easier drinking due to a sweeter, more fruit forward taste profile. With much of the domestically produced wine being developed to mimic French wine, it is not rare to see Chinese consumers adding carbonated soft drinks to the wine to overcome its dry taste profile. Differing taste preferences around China are generally due to climatic differences and cuisine styles (taste preferences by city discussed in detail in the Appendix “City Profiles”). The majority of Chinese consumers prefer sweet wine with strong fruit flavouring, common among entry-level wine consumers. Though also entry-level, consumers in the north of China tend to prefer drier, fuller bodied wines. Grape varietals are not well-known among Chinese consumers, but Cabernet Sauvignon is the favorite followed by Chardonnay, Merlot and Pinot Noir.

<table>
<thead>
<tr>
<th>City</th>
<th>Taste preference (feedback from distributors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>Red wine, common consumers prefer sweet, accessible wine. Successful people enjoy the smell of metal</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Sweet, fresh and light bodied</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Fresh, soft, 10-14 degrees</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>Simple and non-complex layered</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Sweet, fresh, slightly tannic</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>Sweet and light bodied</td>
</tr>
<tr>
<td>Nanjing</td>
<td>Sweet and light bodied</td>
</tr>
<tr>
<td>Harbin</td>
<td>Dry red with a bit of freshness</td>
</tr>
<tr>
<td>Qingdao</td>
<td>Dry red, rich, strong, not too bitter</td>
</tr>
<tr>
<td>Wuhan</td>
<td>Dry red, strong fruit aroma and full bodied</td>
</tr>
<tr>
<td>Chengdu</td>
<td>Rich aroma, strong and full body to go with spicy food</td>
</tr>
</tbody>
</table>

Sales breakdown of imported bottled wines by Chinese city

Total imports: 10.1 million 9L cases

<table>
<thead>
<tr>
<th>City</th>
<th>Million 9L cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>18%</td>
</tr>
<tr>
<td>Beijing</td>
<td>16%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>12%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>7%</td>
</tr>
<tr>
<td>Tianjin</td>
<td>6%</td>
</tr>
<tr>
<td>Wuhan</td>
<td>5%</td>
</tr>
<tr>
<td>Chengdu</td>
<td>4%</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>4%</td>
</tr>
<tr>
<td>Nanjing</td>
<td>2%</td>
</tr>
<tr>
<td>Harbin</td>
<td>1%</td>
</tr>
<tr>
<td>Qingdao</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>24%</td>
</tr>
</tbody>
</table>

Distribution breakdown – China*

**By volume**

<table>
<thead>
<tr>
<th>Total wine</th>
<th>Imported wine only</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-trade</td>
<td>Off-trade</td>
</tr>
<tr>
<td>46%</td>
<td>54%</td>
</tr>
</tbody>
</table>

**By value**

<table>
<thead>
<tr>
<th>Total wine</th>
<th>Imported wine only</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-trade</td>
<td>Off-trade</td>
</tr>
<tr>
<td>72%</td>
<td>28%</td>
</tr>
</tbody>
</table>

---


*On-trade: Hotel, restaurant, pubs, venues where alcohol is served; Off-trade: Supermarkets or stores for consumption off the premises.
Imported wine penetration by cities – China

<table>
<thead>
<tr>
<th>City</th>
<th>Tier one</th>
<th>Tier two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Chengdu</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Harbin</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>Nanjing</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Qingdao</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>Tianjin</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Wuhan</td>
<td>82%</td>
<td>18%</td>
</tr>
</tbody>
</table>


Imported wine distribution by cities – China

<table>
<thead>
<tr>
<th>City</th>
<th>Tier one</th>
<th>Tier two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>40%</td>
<td>30% 20% 10%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>30% 40% 20%</td>
<td>20%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>30% 40% 20%</td>
<td>20%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>30% 30% 10% 30%</td>
<td></td>
</tr>
<tr>
<td>Chengdu</td>
<td>35% 40% 10% 15%</td>
<td></td>
</tr>
<tr>
<td>Hangzhou</td>
<td>40% 40% 10% 10%</td>
<td></td>
</tr>
<tr>
<td>Harbin</td>
<td>40% 40% 5% 15%</td>
<td></td>
</tr>
<tr>
<td>Nanjing</td>
<td>40% 35% 10% 15%</td>
<td></td>
</tr>
<tr>
<td>Qingdao</td>
<td>35% 40% 10% 15%</td>
<td></td>
</tr>
<tr>
<td>Tianjin</td>
<td>40% 40% 10% 10%</td>
<td></td>
</tr>
<tr>
<td>Wuhan</td>
<td>35% 35% 15% 15%</td>
<td></td>
</tr>
</tbody>
</table>

Price segment differentiation – domestic versus imported wines (China)

Rabobank’s model combines on- and off-trade price points to assess the overall market:

- As imported wines are perceived as more premium than local wines, even low-end imported wines are able to be priced at considerable prices to customers in China.
- However, most foreign wineries avoid targeting the low-end segment in which domestic wine companies have strong competitive advantage in both pricing and distribution channels.
- Despite this, the strong growth of entry-level priced wines in China vs. the widening deficit, will also create opportunities for high volume, low value imported wines.

**Top 15 imported wine brands in China by sales volume**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>Sales (000' 9L cases)</th>
<th>Estimated Off-trade sales (000' 9L cases)</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Castel Freres*</td>
<td>350</td>
<td>280</td>
<td>France</td>
</tr>
<tr>
<td>2</td>
<td>Rochemazet</td>
<td>100</td>
<td>80</td>
<td>France</td>
</tr>
<tr>
<td>3</td>
<td>Felix Solis</td>
<td>80</td>
<td>64</td>
<td>Spain</td>
</tr>
<tr>
<td>4</td>
<td><strong>Jabobs Creek</strong></td>
<td><strong>77</strong></td>
<td><strong>61.6</strong></td>
<td><strong>Australia</strong></td>
</tr>
<tr>
<td>5</td>
<td>Concha y Toro</td>
<td>67</td>
<td>53.6</td>
<td>Chile</td>
</tr>
<tr>
<td>6</td>
<td>Sta Rita</td>
<td>40.5</td>
<td>32.4</td>
<td>Chile</td>
</tr>
<tr>
<td>7</td>
<td>Val D’Orbieu</td>
<td>35</td>
<td>28</td>
<td>France</td>
</tr>
<tr>
<td>8</td>
<td>Sur Andino</td>
<td>34</td>
<td>27.2</td>
<td>Chile</td>
</tr>
<tr>
<td>9</td>
<td>Plainmont</td>
<td>33</td>
<td>26.4</td>
<td>France</td>
</tr>
<tr>
<td>10</td>
<td><strong>Wolf Blass</strong></td>
<td><strong>32</strong></td>
<td><strong>25.6</strong></td>
<td><strong>Australia</strong></td>
</tr>
<tr>
<td>11</td>
<td>Jean Jean</td>
<td>30</td>
<td>24</td>
<td>France</td>
</tr>
<tr>
<td>12</td>
<td>Ginestet</td>
<td>28</td>
<td>22.4</td>
<td>France</td>
</tr>
<tr>
<td>13</td>
<td><strong>Penfolds</strong></td>
<td><strong>27</strong></td>
<td><strong>21.6</strong></td>
<td><strong>Australia</strong></td>
</tr>
<tr>
<td>14</td>
<td>Sta Carolina</td>
<td>25.5</td>
<td>20.4</td>
<td>Chile</td>
</tr>
<tr>
<td>15</td>
<td><strong>Hardy’s Varietals</strong></td>
<td><strong>25</strong></td>
<td><strong>20</strong></td>
<td><strong>Australia</strong></td>
</tr>
</tbody>
</table>

*Castel Freres includes all the Castel range.

Most popular brands by city – China

<table>
<thead>
<tr>
<th>City</th>
<th>China</th>
<th>Australia</th>
<th>France</th>
<th>US</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>Changyu, Greatwall, Dragon Seal, Dynasty</td>
<td>Penfolds, Jacob’s</td>
<td>Lafite, Latour, Mouton, Castel, Longues</td>
<td>Carlo Rossi</td>
<td>--</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Changyu, Greatwall, Dynasty, Weilong</td>
<td>Penfolds, Jacob’s, Hardy</td>
<td>Lafite, Cellier des Dauphins</td>
<td>Carlo Rossi</td>
<td>Concha y Toro, Frontera merlot</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Greatwall, Changyu, Dynasty, Dragon Seal</td>
<td>Penfolds, Jacob’s, Yellow Tail</td>
<td>Lafite, Latour, Mouton</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>Greatwall, Dynasty, Changyu</td>
<td>Penfolds, Jacob’s, Yellow Tail</td>
<td>Lafite, Latour, Mouton</td>
<td>Stag’s Leap</td>
<td>Concha y Toro</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Greatwall, Dynasty</td>
<td>Jacob’s, Yellow Tail</td>
<td>Lafite</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>Changyu, Greatwall, Weilong</td>
<td>Penfolds, Teylors</td>
<td>Lafite, Castel</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Nanjing</td>
<td>Changyu, Dynasty, Greatwall, Dragon Seal</td>
<td>Penfolds, Jacob’s, Yellow Tail</td>
<td>Lafite, Castel</td>
<td>--</td>
<td>Frontera merlot</td>
</tr>
<tr>
<td>Harbin</td>
<td>Changyu, Dynasty, Greatwall, Weilong</td>
<td>Penfolds, Jacob’s</td>
<td>Lafite, Latour</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Qingdao</td>
<td>Huadong, Greatwall, Changyu</td>
<td>Penfolds, Wolf Blass</td>
<td>Lafite, Castel, Latour-Laguens</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Wuhan</td>
<td>Changyu, Dynasty, Greatwall, Weilong</td>
<td>Penfolds, Jacob’s, Yering</td>
<td>Lafite, Mouton, Caprousse, Ginesial</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Chengdu</td>
<td>Greatwall, Changyu</td>
<td>Penfolds</td>
<td>Lafite, Latour, Castel</td>
<td>Stag’s Leap</td>
<td>--</td>
</tr>
</tbody>
</table>


Imported wine distribution channels by volume – China

Top three wine distributors in select cities

- Shanghai
- Shenzhen
- Qingdao

Key priorities to introduce a new wine to the Chinese market

### Distributors

<table>
<thead>
<tr>
<th>Priority</th>
<th>Unit margins</th>
<th>Wine taste</th>
<th>Exclusive agreement</th>
<th>Marketing support</th>
<th>Payment term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distributors</strong></td>
<td>10%</td>
<td>25%</td>
<td>5%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Retailers</strong></td>
<td>10%</td>
<td>20%</td>
<td>5%</td>
<td>55%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Hotels/Restaurants</strong></td>
<td>20%</td>
<td>20%</td>
<td>5%</td>
<td>55%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Factors shaping the Chinese consumer’s profile

- Tea remains the number one beverage in China, with about 50 billion litres consumed annually.

- Although China has over one fifth of the world’s population, much of this market of 1.3 billion people is outside the reach of wine marketers today. Consumers are in the economic growth regions of Beijing, Guangzhou and Shanghai, because consumption of wine in China, especially imported wine, relates to consumer purchasing power. Studies have indicated that mainly young, aspiring men, working in these major metropolitan areas, are China’s potential wine drinkers.

- If the population of wine consumers was confined to just the economic growth regions, the per capita consumption would be around 2.7%, compared to the 0.5% per capita consumption for the total population.

- Around 80% of wine consumed in China is red. Besides the associations of happiness and celebration with the colour red, the similarity of the tannins found in tea and red wine, and the health benefits associated with it, also play a role.

- Imported wines are more popular among the younger generation and the expatriate community in Shanghai, while evidence is showing that older, wealthy executives are becoming familiar with Western wine culture.

- Chinese consumers like to try new products, but only if the price is right or they have had the opportunity to test the product first.

- Rising consumer sophistication is resulting in a decline in demand for economy brands priced under RMB20 (<AUS4) per litre and a rapid increase in the volume share of higher-quality premium products.

- The majority of wine purchases are made during the major holidays: Chinese New Year, Spring Festival and the mid-Autumn Festival. Most of these purchases are destined as gifts for people who do not even own wine glasses or a cork screw.

- Chinese culture does not share the Western custom of lingering over a bottle of wine whilst enjoying a good meal. A trip to most major cities will reveal that wines are rarely consumed with everyday comfort food. Wine is purchased as an alternative to beer or spirits and is more often than not consumed as part of a social lubricant. The advent of fine dining establishments and the proliferation of Western restaurants offer the opportunity to appreciate wine as part of a bigger dining experience.

Chinese wine-drinking customs

- The Chinese like to mix Coca-Cola with white wine and Sprite with red wine. There are numerous reports of Bordeaux First Growths mixed with Sprite. A popular saying goes: “Red wine and Sprite—the more you drink the sweeter you’ll be”. Until fairly recently it was common to find wine packages taped to a bottle of Sprite.

- Slices of watermelon, lemonade, lemon slices, onions, cucumbers and dried Chinese Wolfberries (bright orange in colour with bitter taste, added for medicinal reasons) often form part of the wine.

- Wines are often downed in shots like Tequila (especially in karaoke bars), with the objective of getting drunk rather than sipped for taste. Many Chinese down glasses of wine with one swig while they are making toasts, shouting “gambei” before they do—even high-end premium wines are not spared from this custom.

- Some Chinese say they drink wine to fall asleep, ward off SARS (Severe Acute Respiratory Syndrome) and to take the edge off more brain-bending forms of alcohol like baijiu (grain-distilled spirits).

- Elaborately wrapped boxes with a bottle of wine, corkscrew and wine glasses are popular gift items, often re-wrapped and given several times. Bottles of imported wine often forms part of displays rather than used for consumption.

- Many people buy wine for status, not only for what it brings to the buyer, but also for what it brings to the person they give it to.

A move towards Westernisation and a strong appeal towards foreign products, in conjunction with wine education, should result in the development of a wine appreciation culture. Palettes of Chinese wine drinkers are also likely to mature over time, creating a greater appreciation—and demand—for premium wines. This transition is likely to take some time however.

Route to the Chinese consumer

Foreign owned wine distributors brought wine expertise to the Chinese market in the 1990’s. In the past few years, with relaxed rules on establishing import businesses, private companies have entered this market with significant impact. They are starting to take market share from foreign distributors and have an advantage in being able to tap into local corporate and government client networks.

While the Eastern seaboard capitals of Beijing, Shanghai and Guangzhou have a strong, but still growing wine culture, 2nd and 3rd tier cities (those situated more inland and with lower GDP’s per capita) are emerging as viable markets. Leading foreign and domestic distributors have good access to hotels, restaurants, bars, supermarkets and speciality stores in the major cities and have a sales force that respond quickly to customer orders. These distributors have a near full complement of brands and are reluctant to take on new brands and smaller foreign wineries, unless they come with considerable promotional backing.

According to Ian Ford (Summergate), the Chinese market splits in two between an “open” and “closed” market. The open market covers all the traditional areas of supply through established importers, distributors, wholesalers and retailers. The closed market consists of a mass of uncoordinated local players with far lower standards of supply, storage, transportation and organisation. He estimates that 40% of wine is going through the open market and 60% through the closed market, comprising mainly of local commodity wines.

Don St. Pierre estimates that there are now in the region of 20,000 importers and distributors in China.

Supermarkets and hypermarkets are good sales channels, but they can sometimes charge shelf and promotion fees, and wines loose shelf space quickly if they do not sell well. Hypermarkets like Carrefour and Metro offer a wide range of imported and domestic wines with wine sections in their stores showing different countries of origin.

Traditionally, wine retails through state-owned tobacco and liquor shops, but a new phenomenon has seen speciality retail wine shops opening in Shanghai. These stores have unique marketing strategies, offering educational events and wine and food matching seminars.
Wine bars are becoming increasingly popular after dinner hangouts to meet with friends. Seeing these trends, some traditional Chinese wine, liquor, and cigarette shops transformed into fashionable wine shops where they provide a range of wines rather than spirits. The “Joymax” chain of stores in Shanghai is a good example of these transformations.

Wine retail sales have increased their volume share slightly since 2009, mainly due to restaurants allowing patrons to BYO after legislation changes to stop excessive charges from within the foodservice industry.

**Wine distribution system in China**

![Diagram of Wine Distribution System in China](image)

Wholesalers buy various quantities from the importers and distribute them to other retailers.

The off-trade channel is composed of all the sales points where you can buy, but not consume the wine. These include supermarkets, convenience stores, and boutique wine stores.
The on-trade channel includes places where the customer buys and consumes the wine, i.e. hotels, restaurants, bars, and wine bars.

Importers can sell their wine directly to individual customers or to companies who buy wines for their employees or clients.

**The advantages of the international supermarket channel**

Chinese consumers are very aware of and trust international supermarket chains. They see it as a symbol of quality, offering the assurance that no fake or counterfeit wines sell there.

According to Charles Carrard, Commercial and Communications Director at French Paradox Wines, “building your wine brand image in China consists in having a presence at Carrefour”:

- Rich Chinese people shop at Carrefour—it is a symbol of affluence and the Western way of life.
- Carrefour has a wide selection of cheap and expensive wines.
- The off-trade channel helps to create brand awareness—as more Chinese consumers buy their wine in Carrefour, the more they become familiar with the different brands of wine.
- In order to get feedback about wine consumers, having a strong presence at Carrefour implies that in-store representatives are of higher quality and more motivated to promote your wine in the supermarket. These sellers are able to observe and report the buying patterns and behaviours of Chinese consumers.
• An indirect advantage of mastering the off-trade channel is that it can help to gain a foothold in the on-trade channel. Having a famous wine brand in the off-trade is a good selling point to be able to sell across to the on-trade. Brand is key to the Chinese consumer – if your brand is famous in the off-trade channel, consumers prefer it to other unknown wines in the on-trade channel.

Having a strong presence at the international supermarket level presents several advantages. It has been established that “brand is the key,” but sometimes the first key is international supermarkets which create or reinforce the brand image of your wine.

![Distribution Channels Diagram]

![International Supermarket Chains Diagram]
Labelling requirements for wine

Given the difficulties associated with translation and interpretation, not to mention the reputation of Chinese regulatory authorities for inconsistent application of the rules, it is recommended that labelling requirements be treated cautiously. Consult the relevant importer or agent for further details before finalising and printing labels.

1. Name of product: the name of the product is mandatory in China. The words ‘grape wine’ should be sufficient. However, it is advisable to qualify this with ‘red’, ‘white’, ‘sparkling’, ‘semi-sparkling’, ‘fortified’ or ‘sweetened fortified’ etc.
   - Print height: > 1.8mm
   - Position: not defined.

2. Ingredient list: given that wine production from a single raw material is possible, it should be exempt from the requirement for ingredient listing. A statement such as ‘100% grape juice’ is generally sufficient. It is required to declare sweeteners, preservatives and added colour (legal in the case of fortified wine only). Rather declare the name of the substance (sulphur dioxide, sorbic acid, caramel etc.) than the generic category, e.g. ‘preservative’ or ‘colour’. This may pose some difficulties, as the Chinese regard sulphur dioxide as a bleaching agent, rather than a preservative, and the suggestion is that the generic category may be preferable in this instance. The declaration of added acids is also required.
   - Print height: > 1.8mm
   - Position: not defined.

3. Alcohol statement: Chinese regulations prescribe the alcohol format. The alcohol statement should be in the form ‘Alcoholic strength xx.x percent vol’. Apparently percentage mass is also acceptable and this may account for some of the reported disparity between results obtained from testing authorities within China. The tolerance between the actual and the stated alcohol is +/- 1.0%.
   - Print height: > 1.8mm
   - Position: not defined.

4. Volume statement: the volume statement must appear on the label. The statement must be on the same display panel as the word ‘wine’. This should be marked as ‘net content xxx (ml)’ for bottle sizes under a litre, or ‘net content x (l)’ for bottle sizes over a litre.
   - Print height: minimum 3mm for packages up to and including 200ml; minimum 4mm for packages from 200ml up to and including 1 litre; minimum 6mm for packages greater than 1 litre
   - Position: same label as word ‘wine’.
5. Name and address: the Chinese agent, importer or distributor’s name and address must appear on the label. The name and address of the producer is not mandatory, however if included does not need to be translated into Chinese characters.
   • Print height: > 1.8mm
   • Position: not defined.

6. Country of origin: a country of origin statement is mandatory. Importers will usually request a Certificate of Origin to confirm this claim.
   • Print height: > 1.8mm
   • Position: not defined.

7. Bottling date: the date of bottling is required on Chinese labels. If for instance the wine was bottled on 10 September 2011, the following would be acceptable: 2011 09 10, or 20110910, or 2011-09-10. The bottling date cannot be applied in the form of a sticker, reprint or tampering which suggests that the label itself must contain the required information. A reference to the placement of the bottling date is necessary on the label if the foresaid date is etched on the bottle. Negotiations with the exporter’s bottler are required in order to satisfy this traceability requirement.
   • Print height: > 1.8mm
   • Position: not defined.

8. Minimum durability date: wines with an alcohol content of 10% or less are required to include a minimum durability date. Wines with an alcohol content of over 10% are exempt from this requirement. Nevertheless, many importers and/or regulatory authorities seem unaware of this exemption and it is advisable to include a statement such as 'recommended to drink before (year)'.
   • Print height: > 1.8mm
   • Position: not defined.

9. Product type: the product type is mandatory for China. The actual sugar content or the category can indicate this.
   • Print height: > 1.8mm
   • Position: not defined.
# Chinese holidays and festivals

<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Customs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last day of lunar year</td>
<td>Chinese New Year’s Eve</td>
<td></td>
</tr>
<tr>
<td>1st day of lunar month</td>
<td>Spring Festival (Chinese New Year)</td>
<td>Fireworks after midnight and visiting family members.</td>
</tr>
<tr>
<td>15th day of 1st lunar month</td>
<td>Lantern Festival</td>
<td>Lantern parade and lion dance celebrating the first full moon. Tangyuan (balls of rice and flour and water cooked and served in boiling water) is eaten. This day is also the last day of the New Year celebration.</td>
</tr>
<tr>
<td>2nd day of 2nd lunar month</td>
<td>Zhonghe Festival (Blue Dragon Festival)</td>
<td>Eating of Chinese pancakes and noodles and cleaning of the house. An alternative name for this festival is ‘Dragon Rising its Head’.</td>
</tr>
<tr>
<td>3rd day of 3rd lunar month</td>
<td>Shangsi Festival</td>
<td>Celebrated as a traditional Chinese Women’s Day.</td>
</tr>
<tr>
<td>At solar longitude 15°, 104 days after winter solstice (around April 5)</td>
<td>Ching Ming Festival (Tomb Sweeping Day)</td>
<td>Visit, clean, and make offerings at ancestral gravesites, spring outing.</td>
</tr>
<tr>
<td>5th day of 5th lunar month</td>
<td>Duanwu Festival (Dragon Boat Festival)</td>
<td>Dragon boat race, eat dumplings wrapped in lotus leaves (Zongzi). This festival commemorates the ancient poet Qu Yuan; drink yellow rice wine, related to the White Snake Lady legend.</td>
</tr>
<tr>
<td>7th day of 7th lunar month</td>
<td>The Night of Sevens (Magpie Festival)</td>
<td>According to legend, the goddess “Zhi Nü” (the star Vega) fell in love with the farmer boy “Nü Lang” (the star Altair), but the relationship was disapproved by her mother goddess. As punishment, they were separated by the Milky Way and could only meet once a year on this night.</td>
</tr>
<tr>
<td>15th day of 7th lunar month</td>
<td>Spirit Festival (Ghost Festival)</td>
<td>Burn fake paper money. Make offerings to ancestors and the dead to appease them, so that they will not come and trouble the living.</td>
</tr>
<tr>
<td>10th day of 8th lunar month</td>
<td>Mid-Autumn Festival (Moon Festival)</td>
<td>Eat moon cake, family union meal, related to the legend of Chang E.</td>
</tr>
<tr>
<td>9th day of 9th lunar month</td>
<td>Double Ninth Festival (Chung Yeung Festival)</td>
<td>Autumn outing and mountain climbing, some Chinese also visit the graves of their ancestors to pay their respects.</td>
</tr>
<tr>
<td>15th day of 10th lunar month</td>
<td>Spirit Festival (Water Lantern Festival)</td>
<td>Set flower shaped lanterns adrift in stream or river at sundown, give offerings to the deceased whose wandering spirits/ghosts may return at night to visit.</td>
</tr>
<tr>
<td>21st or 22nd December</td>
<td>Winter Solstice Festival (Mid-Winter Festival)</td>
<td>Have Tangyuan and Juniang (a sweet soup or pudding-like dish made by fermenting glutinous rice) and worship the ancestors, feast day, family gatherings, also name “Chinese Thanksgiving”.</td>
</tr>
<tr>
<td>8th day of 12th lunar month</td>
<td>Laba Festival (Congee Festival)</td>
<td>This is the Buddha attained enlightenment. People usually eat Laba congee, which is rice porridge mixed with grains and fruits.</td>
</tr>
</tbody>
</table>
Useful websites

- **www.wineeconomist.com** – A blog that analyses and interprets today’s global wine markets.

- **www.chinatradegateway.com** – Useful website to help new entrants into the Chinese trade market research their target areas and set up new business.

- **www.grapewallofchina.com** – A China wine blog: The scene in the world’s largest market.

- **www.winechina.cn** – Information website about the Chinese wine market.

- **www.winechina.com/en** – A website with informative content about the Chinese wine market.

- **www.wine-club.cn** – Information website about the Chinese wine market.

- **www.wineintelligence.com** – Research of different wine markets and market-specific newsletters.


- **www.zhongguo-wine.com** – Information website about the Chinese wine market.
Interview 1 with Ian Ford, Summergate Wine (distributor based in Shanghai)


Summergate is marking its fifteenth year as a wine importer and distributor in China. I asked founding partner Ian Ford about changes during that time, the current state of the country’s wine scene and what bottles from the portfolio he’d recommend for an absolute beginner to wine.

When I moved to Beijing in 2004, the market seemed to largely consist of Summergate, Montrose, ASC and a half-dozen to dozen smaller players. Since then, the floodgates have opened and there are importers / distributors everywhere. What happened and what has it meant for the market?

Ian: In 2004 at Summergate we were just celebrating our fifth anniversary and were just coming into our own as an established importer and distributor in China. At that time shipments of bottled wine to China totalled only 786,954 nine-litre cases, compared to roughly 31 million cases today.

In 2006 there were a total of 812 registered importers of bottled wine in China – in 2013 there were well above 4,000! While there have been a few serious new players, the large majority of these newentrants across the country are general trading companies seeking opportunistic profits from a new and emerging market. Wine is by nature very fragmented in terms of brands and labels, and difficult to navigate for new consumers and buyers. This has opened up many opportunities for unscrupulous traders to cheat the market and gouge on prices. Much of this trading is done with private labels and “look-a-like” copy brands.

As the China market grows, and the stakes along with it, it seems like the world’s biggest wine producers will want to handle their own distribution here in China. What’s you take on this?

Ian: The major wine producers in the world will want to optimize their route to market in China, and gain as much access to buyers and consumers in China as they can. The smart and patient ones are recognizing that you need a serious and capable partner to build a market across China. There are creative ways to innovate and structure the distribution model with a partner, but in my firm view having a partner is indispensable.

The industry has gone through a period where some sizable producers have opted to “handle” the market themselves, or to go with multiple local wholesalers. Kendall-Jackson, Georges Duboeuf, Antinori, and Catena have all gone down this path, and they are now a shadow of their former selves in terms of awareness, visibility, and sales in China, and are far away from building a brand and a market.
Also, they face multiple risks to their brand, including price structure manipulation, trademark violations, poor storage and handling, inappropriate or non-compliant brand communications, regulatory violations, erroneous Chinese back labels, and even counterfeits. These and many other risks are difficult if not impossible to manage across the breadth of the Chinese continent without a competent and trustworthy partner.

_I keep hearing about fast growth in second-tier and third-tier cities and that cities like Beijing, Shanghai, Guangzhou and Shenzhen are saturated. Fair assessment?_

Ian: Only half right in my view! There is a lot of strong growth and evolution happening in cities all around the country, the fast growth that you mention is indeed a reality. Summergate has just opened our thirteenth registered and licensed office, with a team and a warehouse, in Wuhan covering Hubei province, in addition to registered and licensed offices in Liaoning, Shandong, Zhejiang, Fujian, Sichuan, and Sanya. We have seen and continue to plan for significant expansion in all of these provinces.

In the primary cities of Beijing, Shanghai, Guangzhou, and Shenzhen, the market is still far away from saturation, although they are generally more advanced down the path of market development. If you imagine a mature city market like London or New York, there is still a long, long way to go before the markets in Beijing and Shanghai are saturated!

_People have long bought wine for reasons of status, such as gifts, and for health, but now an increasing number are buying for taste. How far along is this trend and what niches of consumers are leading the way?_

Ian: Consumers in China are buying wine for all kinds of different reasons these days, all over the country. Health continues to be a factor favouring wine, when consumers are choosing from different options of beverage alcohol. Food scandals have driven many consumers towards imported wine where they have greater confidence in the integrity of the production. Provenance and credibility are also increasingly important as consumers get wise to the rip-off private labels and even counterfeits that have been flogged to them by unscrupulous short-term trading companies.

Taste, as you mention, is also increasingly a driving factor in consumer choice. A retailer like Pudao Wines [note: Summergate has a stake in this company] that offers 20 different wines to taste, changing every two weeks, is at the epicentre of this development. Over the few years now that the Pudao Wines shops have been operating, it is 100 percent clear that if given a chance, consumers in China will buy what they like to taste, over labels, image, or heritage.

_Summergate once carried a Chinese wine, Catai, from Shandong. Are there any plans to carry another Chinese label? What is your assessment of Chinese wines?_

Ian: We don’t have plans at this stage to carry a Chinese wine, but I would be very open to the possibility and very keen to have one. It’s exciting to see smaller Chinese wine producers of various shapes and backgrounds making great strides in terms of quality and integrity.

_What brands have been with Summergate from the start or at least from near the start?_
Ian: Villa Maria Estate was one of if not the first wine producer to appoint Summergate in China, right at the beginning in 1999. We’ve had a great partnership and ongoing success with them, even through tough times like 2013. Villa Maria was one of our great growth brands in the last 12 months, and persists today as the leading and most visible New Zealand brand in the market. We launched Vina Concha y Toro in China on the Great Wall in Beijing less than two years into our existence, an amazing success story over the past 12 years, and growing strong. Today Concha y Toro is undoubtedly one of the leading imported wine brands in China, period. Yalumba, from the heart of the Barossa, has been with us for ten years or so. Bouchard Pere et Fils started with us very early on, as did Delicato Family Vineyards and Ridge from California. Dr. Loosen from Germany joined us within a couple of years of our founding, and again has been a tremendous growth and success story. We’re really thrilled with the quality of partnerships that we have, and the amazing families and winemakers that we work with.

If you had to pick one red and one white from your portfolio for an absolute beginner to wine, which would you choose?

Ian: It’s very hard to choose only one or two wines, there are so many great ways to get into the world of wine!

For a white wine I might recommend Dr. Loosen “Dr. L” Riesling, a low-alcohol, off-dry Mosel Riesling with good acidity and great flavor. This wine is a delicious way to start to experience the fruit, the acidity, and the aromas that great wine has to offer, in a very accessible way. For a red wine, ordinarily for a beginner you would try to avoid high tannin and acidity, and perhaps look for something a bit more lush and ripe and inviting. La Vielle Ferme red, made by the Perrin Family in the Rhone Valley, is seductive, juicy and eminently drinkable and a perfect entrée to red wine for a new wine drinker.
Interview 2 with Ian Ford, Summergate Wine (distributor based in Shanghai)


BTN Interviews Ian Ford, the General Manager and Co-Founder of Summergate Fine Wines, on What Wine Importers Look for when Sourcing New Brands as Long Term Supply Partners.

Founded in 1999, Summergate serves the Greater China drinks market from a platform of 13 registered and licensed offices and operations across the country, and a team of 500 professional staff. Summergate Fine Wines has built a reputation as one of the leading wine providers across Greater China, working with a direct distribution base of several thousand contracted retail trade buyers, as well as hundreds of downstream distributors. Summergate is also the sole distributor of Perrier water in mainland China, and has been since 2007, firmly establishing Perrier as the leading imported sparkling mineral water in China.

BTN: What do you think of the influx of Exporters looking to enter the China Market?

Ian: There is an initial and fundamental choice for wine exporters looking to sell wine in China. That choice is between long term market building, and near term opportunistic sales. That choice is between national importers that market and distribute brands across the country, in a systematic, comprehensive, and transparent way, consistently building brands and building a long term sustainable market (there are not many of us); and localized distributors that typically have what we would call a closed market - very localized, not employing structured or transparent pricing, systematic distribution, or any brand marketing or communications. The latter represents the large majority of registered importers in China. My comments will be from the perspective of the former, a national importer that engages with long term supply partners, with a large marketing organization that is geared to building brands.

BTN: What are the 3 main factors that Chinese importers consider when picking up a new winery?

Ian: First and foremost is partnership. We look for a winemaker that is intent on building a long term, sustainable market here with us, that expands year on year, in the face of the many challenges here that confront us, and throughout the ups and downs of a volatile emerging wine market. We look for level-headed brand owners that are not lured by the false promise of a China market “Eldorado” but are prepared for and committed to a serious effort to build a market here over time with us. Hand in hand with this is the patience required to stick to the disciplines and strategy of long term market building.

Second, we look for producers or brands that are in a leadership position in their category, whether that category is big or small. Our principle is to work with benchmark producers from the world’s great wine regions, and deliver their wines and their stories to our very keen Chinese consumers. Integral to this of course is that they make great wine!
Last but certainly not least is integrity. This is a bedrock value for Summergate that guides everything that we do, and we need to see that same posture in our winery partners.

BTN: What support programs do Chinese wine importers expect from a supplier. Please list top 5.

Ian: In terms of the more practical measures required for building a market in Greater China, here are five important cornerstones from the Summergate perspective. Summergate has invested in a significant brand building and marketing team and capability, so much of what we require are the tools to empower us to build brands:

- **Chinese language:** The vast majority of Chinese consumers across the continent, don’t speak a foreign language, or if they do many are not completely comfortable in that language. While this may seem like stating the obvious, serious brand builders need to fully adopt a Chinese language platform (back labels, tasting notes, marketing materials, website) to make their brand accessible and meaningful to Chinese consumers.

- **Trademarks:** This is a fundamental issue and must be addressed by the brand owner. All proprietary trademarks, in the original foreign language AND in Chinese, must be registered with the relevant Chinese trademark authority. It is surprising how many brand owners have failed to accomplish this basic requirement, and get caught out in the marketplace sooner or later.

- **Marketing visuals and video materials:** A picture says a thousand words, especially where your target audience doesn’t speak a foreign language! Video materials, of the winery, winemaking, proprietor speaking about the family of history, are increasingly important. These are tools that we can deploy with social media, e-commerce platforms, and for trade education. These materials must be sub-titled properly in Chinese.

- **Sales team motivation and inspiration:** The brand owner should make every effort not just to educate, but also to inspire and motivate the trade in China behind their wines. Too often we see dry, boring educational presentations, and not enough that inspires the sales team, both ours and the trade people in the retail level, to advocate their wines.

- **Marketing Investment:** Every brand owner has a different appetite and capacity for investing in a market. It is a fact however that the China market will not materialize out of thin air, purely on the back of the hard work and effort of the importer and distributor. Some scale of marketing investment should be provided to a serious and capable importer, along with the trust in the importer that those funds will be deployed efficiently, effectively, and transparently. That trust of course must be reciprocated by the importer with a proper use of funds and clear and accurate reporting and evaluation.

BTN: Which varietals you see are HOT and what trends do you see for 2014. Like in US, blends and Moscato’s are HOT followed by Malbecs.
Ian: We have been noticing a significant expansion in interest and demand for both Riesling and Sauvignon blanc across the market, albeit from a very small base. Two of our top ten selling items across the whole portfolio are now a Sauvignon Blanc and a Riesling. I believe this reflects the evolution of a genuine consumer-driven demand, where some consumers are increasingly buying what they like to drink as opposed to labels or wines from a prestige region purely on reputation. It’s still very early but it is an exciting trend to witness!

We have also seen a surge in consumer interest in Carmenere from Chile, which goes hand in hand with a general increase in interest in wines from Chile. In 2013, a challenging year for the beverage alcohol industry across China, shipments from Chile to China grew faster than any from any other major country of origin, twice as fast as the next on the list. Shipment figures can reflect unnatural surges in pipeline fill in China, but in market we are also building sustained demand and growth for Concha y Toro in China, a brand we have been building for almost fifteen years, and the leading brand of Chilean wine in China.

Finally, Pinot Noir, on the back of increasing interest in fine wines of Burgundy, is making great strides across the market.

**BTN: Which are the 3 main markets in China that wineries should focus first?**

Ian: The traditional core three markets in Greater China are no doubt the Pearl River delta area (Hong Kong and Macau and Guangdong province); Shanghai and the greater Yangtze River delta area (Zhejiang and Jiangsu provinces); and greater Beijing and the surrounding area. A major wine producer, or any brand really, cannot be strong in China without having wide relevant distribution and a unified brand position across these three areas. China is a massive territory with many important markets however, and the Northeast corridor, Sichuan province, Shandong province, and Fujian province also represent significant opportunities.

**BTN: What are the 3 main challenges that wineries will face/or face while developing their brand with an importer in China?**

**Geographic scale:**

Ian: China is a huge and diverse geography, that is more similar to Europe then it is to a single country, in terms of diversity of language and dialect, culture, cuisine, and consumer habits. Likewise, the distribution platform across the country is very fragmented and diverse. National key accounts in the off trade channel for example, represent less than 5% of the volume of imported wine sold in China, by our analysis, compared to roughly 80% of the market for wine in the UK! Building a brand and a market in China therefore requires the ability to construct, manage, and serve a diverse and fragmented distribution platform across the entire continent. Summergate as a distributor owns 14 companies across the country, each managed by a team of professionals, focused on their specific regional or provincial market. This enables us to deliver a consistent product, service, price, and marketing message to a diverse array of buyers across the continent.
Transparency, Reporting, Market intelligence:

Lack of market intelligence and transparency is one of the biggest challenges facing an exporter to China. Many wineries already shipping to China, if asked, are mostly unable to specify where their wines are available to consumers in China, either cities, channels, or outlets, and at what price. For whatever volumes are shipped to China, they are mostly unable to specify where those wines have gone, where is the inventory, and how much inventory is there in the pipeline. The opacity of the market makes it virtually impossible to make decisions about promotion, investments, products, and pricing, to forecast future demand, or to develop brand plans or strategies to pursue market opportunities.

Market Chaos:

The reality today is that outside of the comfortable and familiar five star Western hotels and fine dining restaurants in major cities, wineries exporting to China will face a bewildering market that is still quite chaotic. There are a preponderance of buyer’s own brands, commoditized wines, and “look -a–like” wines across the market, at a bewildering spectrum of prices. Buyers of all shapes and sizes will make outrageous and mostly hollow claims and promise everything under the sun to secure an advantage with a winery. The market is awash in wine competitions, trade shows, and events, the vast majority of which are only attempting to cash in on the international wine world’s frenzy for China. Journalists, educators, consultants, and advisers most of whom have questionable credentials and motives, are abundant. All of this can lead to serious and brand damaging diversions from the path of building a strong and sustainable brand in China. It is crucial for a winery to make every effort to see through all of this chaos to the core of the consumer market for wine that is building in China, and an honest, serious, and professional importer and partner is key to that effort.

BTN: What advice can you give to people looking to enter the China market?

Ian: There is no question that the first and foremost concern is finding a strong, experienced, and honest importer to engage with. This has been said before and is true now more than ever. Find a true partner that can provide genuine market intelligence on the whole country, build, defend and steward the brand, build relevant and sustainable distribution that is transparent, manage an honest pricing structure, and engage in an ongoing dialogue about opportunities, threats, and strategies. The large majority of importer-distributors in China today are seeking short term, opportunistic profits, and are not in any way engaged in building a sustainable business or brand.

These companies will come in and out of the business frequently, and wineries working with them will learn very little if anything about their distribution, pricing, brand, and customers, and may find that serious damage has been done to their brand over time. A winery should take their time, conduct more due diligence than necessary in most markets, and make a sound and informed choice for an importer to represent their brand in the market.
About the Centre

The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The centre was established in 2012 through the generous support from Bankwest (a division of the Commonwealth Bank of Australia), with a core mission to examine the key economic and social policy issues that contribute to the sustainability of Western Australia and the wellbeing of WA households.

The Bankwest Curtin Economics Centre is the first research organisation of its kind in Western Australia, and draws great strength and credibility from its partnership with Bankwest, Curtin University and the Western Australian government.

The centre brings a unique philosophy to research on the major economic issues facing the state. By bringing together experts from the research, policy and business communities at all stages of the process – from framing and conceptualising research questions, through the conduct of research, to the communication and implementation of research findings – we ensure that our research is relevant, fit for purpose, and makes a genuine difference to the lives of Australians, both in WA and nationally.

The centre is able to capitalise on Curtin University’s reputation for excellence in economic modelling, forecasting, public policy research, trade and industrial economics and spatial sciences. Centre researchers have specific expertise in economic forecasting, quantitative modelling, micro-data analysis and economic and social policy evaluation. The centre also derives great value from its close association with experts from the corporate, business, public and not-for-profit sectors.

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BANKWEST CURTIN ECONOMICS CENTRE

WA WINE EXPORTS: BUILDING AN ECONOMIC FUTURE WITH CHINA

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