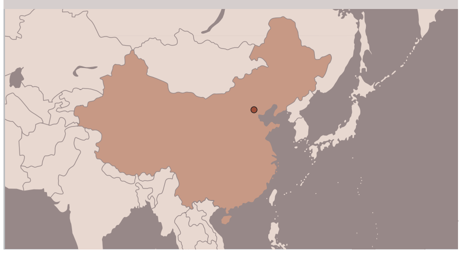
CHINA: AN ELUSIVE MARKET

If every Chinese were to drink a mere half bottle this year, the European wine lake would dry in the blink of an eye. That is unlikely to happen. Further, as demand increases, so does domestic production, observes Jeannie Cho Lee, well aware of the government's goal of self-sufficiency.

Much has been written about the potential and growth of the 'Chinese wine market', as though a cohesive, recognizable and quantifiable market exists. In reality, numerous clusters of distinctively different markets exist within China and the national statistics available through the customs and statistics departments, are more a moving target than a set of reliable and fixed figures. Each potential 'Chinese market' is guided by a strong provincial government that answers to the national communist party. Each market is unique and locals often prefer to speak in their regional dialect than the national language taught at school. In Xinjiang for example, where vineyards are increasing at the fastest rate in China, about half of the population are Uyghur, with their own unique language and customs more akin to the Middle East than Central Asia.

In this vast and diverse country that hopes to join the ranks of the G8 economic powerhouses, wine is an aspirational beverage. With consumption rising at 10-15% per year it can be tempting for producers whose traditional markets are stagnant to consider China as a possible solution to their problems. Though there is little doubt that the market will continue to expand, the challenges are numerous: Lack of transparency and unreliable information, dominance of the domestic giants, consumer and cultural challenges and finally, distribution and logistics. Two aspects of China's character as a country that should not be underestimated are: Their goal for agricultural self-sufficiency, under which category wine falls, and the strong sense of nationalism and pride which no doubt the 2008 Olympics will only fuel.

1 Benchmark Data	www.cn
Inhabitants:	1.32 billion
GDP:	US$2,231 billion (€1,716 billion)
Currency:	CNY or RMB (CNY100 = €16.26)
Per capita wine consumption:	0.3 litres
Total wine consumption:	450 million litres
Legal drinking age:	18
Vineyard area:	450.000 hectares
Domestic production:	434 million litres



Slippery figures

China's officially released government statistics are a moving target. Paul French, the publishing and marketing director of Access Asia, a market research firm based in Shanghai says, "Back figures are constantly revised (by the government) so I see fluctuations in numbers every year." French says many of the figures need to be cross referenced with practical market knowledge and independent analysis. Government figures only reveal what they what you to see for that particular year.

Domestic consumption figures vary from just under 500 million litres (according to Euromonitor) to 360 million litres (the latest 2006 Vinexpo market research report) and 400 million according to foreign trade departments such as Austrade. The differences may seem trivial; however, in light of domestic wine production, this number is the difference between a surplus or deficit situation. According to China's National Statistic's Bureau, domestic wineries in China produced 434 million litres of wine last year.

Market analysts from Bank of China to UBS do agree on several key aspects of wine importation and consumption throughout China: Imports total somewhere between 3% (Vinexpo 2006 study) to 5% (Macquarie Research) of the total volume of wines consumed. Within the imported wines, the vast majority, up to 90%, arrives in bulk on the eastern shores in 20,000 litre containers with an average price of US$0.50 per litre. Encouraging statistics such as the 150% increase in imports since 2000 must be considered in light of the fact that since 1998 the percentage of imports as part of the total wine market is declining. Using numerous sources, including China's official custom's statistics, Access Asia's 2005 wine market study points to the steady decline of the percentage of imported wines against the total consumption volume from 40% in 1998 to 10% in 2004 and currently only about 5%. In the Vinexpo study, the percentage of wine in total alcoholic beverages in 1996 was 8%, while spirits enjoyed 25% and beer 65%. In 2005, wine's percentage shrunk to just 5%, with beer gaining and spirits also losing. According to Access Asia, the total value of wine imports has been in decline for seven years.

What these figures show is that while the pie is getting bigger, it is the domestic producers who are taking the lion's share. However, there are still many reasons to be hopeful: There is steady growth and major importers of bottled wine have reported 30-50% year-on-year sales increases for the past three years. Since China joined WTO, duties for wine have come down significantly from 45% to 14%. However, with all taxes added, the total is closer to 50%. Bong Ha, greater China regional manager of Constellation wines based in Beijing says, "Prices have not really come down. While recent laws are making the logistics of importing wine easier, the enforcement is stricter. Ten years ago, everyone under-declared. Now the government is looking at the paperwork more closely." Since early 2006, the criteria for accurate translation of imported wine labels has been eased, alleviating a bottleneck which was a problem even a year ago.

There is opportunity for everyone is this burgeoning land. The total value of the market is close to US$1 billion according to the latest wine sales figures from the National Statistic's Bureau. Analysts such as Euromonitor paint a rosier picture and figures between US$3 to 7 billion are not uncommon. What is important about all these confusing numbers, is that growth percentages are similar, in the double digits across the board.

Domestic giants

Three of the largest Chinese wineries – Changyu, Dynasty and Great Wall - enjoy about 50% of the entire market. The top ten wineries have an 80% market share. The large producers all plan to grow by at least 25%, if not more, in 2007. Gao Xiaode, executive director and general manager of Dynasty, says they will double their production capacity to 60,000 tons by 2008. Great Wall plans to increase production by 30% per year over the next few years. Fu Mingzhi, deputy general manager of Changyu-Castel winery, says, "We expect substantial growth in China's wine industry with 20% increase in production, reaching about 500,000 tons for the entire country over the next few years. On the consumption side, we project a 15% increase during the same time period." Like many senior executives in management positions, Fu is also the local Deputy Secretary of the Communist Party.

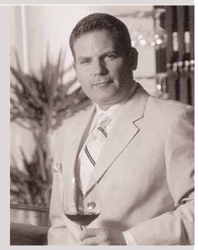
This close link between the producer and the communist party is significant. It is a theme found among nearly all the successful domestic wineries, many of which, like Changyu, are closely allied with the local government. Vini Suntime, one of the fastest growing wineries in China, was established by the national People's Liberation Army. The local Yantai government has substantial shares in Changyu, with foreign partners such as Illva Saronno from Italy and France's Castel group investing huge sums to ensure the company's continuing success. Currently, Changyu is the largest producer by value and enjoys 18% of total wine sales. The Great Wall group, the largest producer by volume, is 100% owned by one of the national government's largest import and export companies.

The close government ties by domestic players pose several challenges for importers: First, the wholesale and distribution channels are closely regulated, if not operated, by the local government. Second, the hidden costs of selling wine increases as competition forces local players to create more incentives to move their product. Third, there is little incentive for local governments to enforce regulation created to encourage label integrity, be it the correct vintage or blending of imported bulk wine then labelled 'Produced in China'. Although by law Chinese wine must be produced from domestically grown grapes, enforcement is non-existent. All major producers officially deny inclusion of imported wine into their product, but the large volumes of imported bulk have to go somewhere.

QUOTE UNQUOTE

»Knowing something about wine, but nothing about China, is a recipe for disaster.«

Don St. Pierre, ASC



ASC sold only 25,000 bottles of wine in 1996, its first year; ten years down the road that figure has climbed to 2.3 million with revenues in excess of US $40 million and year-on-year growth through 2010 estimated at 40% by value. Their top ten brands by value are Wolf Blass, Penfolds, Chateau Saint Pierre, Ginestet, Santa Rita, Louis Jadot, Robert Skalli, Beringer, Ruffino, and Laurent-Perrier.

Brand dominance

The emergence of the top ten domestic producers over the past twenty years has created a market that is both brand conscious and loyal. For example, Access Asia's report states that Dynasty is especially strong in coastal cities such as Shanghai, Hangzhou and Suzhou. In southern China, Great Wall holds over 30% of that region's retail market. Changyu and Great Wall perform well across all national markets, but in Beijing, Changyu commands an especially strong following.

According to Paul French, "Unlike in other food markets, Chinese wine consumers are loyal to their favoured brands. All the top brands in the wine market enjoy high brand loyalty, which is calculated in surveys as repeat purchases: Changyu with 56.7%, Great Wall 72.6%, Dynasty 56.3%, Weilong 48.3%, China Red 50.9%, Qingdao 43.9%."

China is currently a brand dominated market with local companies having a near monopoly at every price point. While Changyu and Great Wall's entry basic wines are around 20 RMB (€1,98), their mid-market wines, which compete with entry level imports, are between 50-100 RMB (€4,95-9,90), and their super premium wines, beautifully packaged in bright red and gold, usually from an unlimited supply of a said vintage, with the current favourite being 1994, may be found at 300 (€29,75) to over 500 RMB (€49,60).

Logistic and distribution woes

Distribution of domestic products was entirely controlled by the National Sugar and Wines Corporation and its local branches until just recently when foreign and joint venture companies were allowed to use their own distribution channels. However, regulation is tightly controlled by the provincial governments: The domestic alcoholic beverages industry is controlled by the China Light Industry Association and the Municipal Liquor Monopoly Bureau issues wholesale and retail licenses. These government bodies are gatekeepers to local consumer markets, which are distinct from the growing expatriate and western-educated Chinese market.

According to Access Asia, there are around two million wholesale establishments in China, at all levels of the industry, with an average staff size of about 6 people. The vast majority are one-man trucking operations taking agricultural produce to market. Beer companies have opted to control their own distribution and it is probably only a matter of time before wine importers will follow suit.

Navigating the local distribution system is so difficult, expensive and challenging that even local producers have given up and are using alternative channels. Boutique player, Grace Winery, instead of using traditional distribution channels, is setting up their own shops. With cheap rents and inexpensive labour, Judy Chan, Grace's CEO, feels it is more lucrative to operate a small shop selling just their own range than to pay off layers of buying, management and sales teams. Chan expects to have ten shops by the end of 2007.

A local sales director for a large wine importing company based in Shanghai who wanted to remain anonymous says, "For a wine to enter a Chinese restaurant, there are many different hidden fees: The biggest is the listing fee, whether on a restaurant list or a retailer's shelf. These range from 10,000 RMB (€990) to 500,000 RMB (€49,500) – and such payments are mostly under the table. If it is an exclusive arrangement, the cost can be as much as 700,000 RMB. Gift packets, or payments, are made to everyone related to the business – from sales staff, purchasing manager, accounting manager, food and beverage manager to the general manager and owner. There is almost always a payment made to the restaurant for every cork returned, which ranges from 5 to 50 RMB. Aproprietary payment offers the producer exclusive rights during a set period of time to send promotional girls who are paid a salary and a commission for every bottle they sell. The persons promoting or selling wine play important roles since many consumers often do not know much about wine and will follow the promoter or the waiter's recommendation."

Besides the hidden costs, logistics for moving goods around in China can be a nightmare. The sales director confides, "We once hired a Shanghai company to deliver some wines to a client's office. Because of the city's regulation, deliveries could only be made late at night. They just left the wines at the lobby and the bottles disappeared. When we called to follow up and complain, they hung up."

Payment terms are 90 days for wholesalers and 30 days for retailers. Don St. Pierre Jr of ASC says there are several categories of markets in China, which they have identified as high risk. Local bars, karaokes and nightclubs are among this category because they are notorious for not paying their debts. This sector also has a high turnover, so a popular club may be closed overnight and resurface under a different name, but with the same investors. St. Pierre says that ASC is now in a position not to have to sell to high risk customers. "However," he adds, "in the beginning we had to [take the risks] because the market was so small." The magnitude of this problem is highlighted by Montrose, once one of the major players among importers, who is rumoured to be in financial difficulty due to the number of outstanding invoices.

In preparation for the 2008 Olympics in Beijing and the 2010 World Expo in Shanghai, new hotels, shopping outlets and international multiple grocers such as Wal-Mart and Carrefour are opening at breakneck pace. Importers will continue to have much greater options as the potential market expands. Hopefully some of these new ventures will target the small off-trade segment which is currently only around 20-30%.

Consumers first

The population of the affluent provinces along the eastern and southern coast in China is about 420 million. Among those, market analysts believe approximately half are able to afford wine. Although no reliable figure exists for how many of these would choose to drink wine, it is most likely that the new wine consumer will be aged between 25 and 40, most likely male, living with relatively high income in one of the top ten cities.

Nearly every major coastal city has its own dialect – and eating and drinking habits differ widely. Shanghai and Guangzhou, both with long historical ties to the west, are the

2	Top 10 Imported Brands
1	Jacob's Creek
2	Wolf Blass
3	Mouton Cadet
4	Castel
5	Carlo Rossi
6	Chateau Saint Pierre (Private-label California wine)
7	Santa Rita
8	Frontera by Concha y Toro
9	Penfolds
10	Fortant by Skalli

3	Top Importers
1	ASC
2	Aussino
3	Montrose*
4	Torres
5	Summergate
6	Riche Monde
7	Maxxium

Table 3 shows the top importers to China by volume.

*The trading status of Montrose is currently uncertain.

4	Wine Imports in Value and Volume

1) Total bottled still wine imports in China amounted to 1,148,658 9-litre cases in 2005. Already, in the first nine-months of 2006, 1,455,407 9-litre cases entered the country. The top six countries of origin supply 90% of the total market.

2) Year-on-year growth in volume in 2006 is projected to be up 60–70% over 2005. The projected annual volume in 2006 will thus fall between 1,900,000 and 2,100,000 9-litre cases.

3) Over the first nine months of 2006, the breakdown in market share looks consistent with 2005. France and Australia still dominate, with a combined market share of 56%. Both are growing, but neither gaining nor losing market share.

4) The US and Chile are still growing, but each has lost 1% market share thus far in 2006. Italy and Spain have fared better. Growing faster than the market, each has gained 3% market share in volume over 2005.

SOURCE: WINE BUSINESS INTERNATIONAL, 2007 two wealthiest provinces in terms of average per capita income. Both cities sell more white wines, for example, than the national average, which remains at about 80% red to 20% white.

The shelf of Carrefour's Gubei branch, acknowledged by many to have the best wine selection, is a colourful, red and gold tribute to Chinese packaging specialists. The majority of wine purchases are during the major holidays – Chinese New Year, Spring Festival and mid-Autumn festival. Most of the wines are destined for gifts, often to people who do not even own wine glasses or corkscrews at home. French confides. "I often receive so many of these red boxed wines that I am convinced that many were re-circulated. I do that too."

Critics of local brands point to the high prices relative to the wine's quality and the wide bottle variation and questionable label integrity. How long will it be before the consumer can tell the difference and demand the imported wine? If consumers were drinking wine, together with a meal, lingering over the fine, or not so fine, qualities of a wine, perhaps that time would come soon. However, a trip to any major Chinese city will reveal that wines are rarely consumed with everyday, comfort food. Wine bottles are being pushed as an alternative to beer or spirits and, more often than not, consumed as part of a social lubricant. However, the advent of fine dining establishments and the proliferation of western restaurants offer the opportunity to appreciate wine as part of the dining experience.

A relatively simplistic mentality exists in many parts of northeast Asia: Eating is for eating and drinking is for drinking. Eating, for the most part, is done traditionally without any beverages that might detract from the pure enjoyment, whether it be devouring a bowl of noodles or savouring the fine delicate flavours of steamed abalone. This is true in most cities in China, Korea as well as Japan. Tea is the only traditional beverage served with food and more recently beer. In addition, Chinese believe that cold beverages are not healthy, especially in summer months and particularly not for girls since cold brings too much yin into the body, with the potential to decrease fertility. Drinking alcoholic beverages is often for enhancing social interaction and breaking down the rigid and formal barriers between people. With wine replacing whisky as the healthier and trendier option, the kampai, or bottom's up culture, applies equally to wine.

Looking towards 2008

There are subtle signs that despite the robust forecasts of domestic producers, the picture may not be what it seems. During vineyard and winery visits to Shandong, Hebei and Xinjiang provinces at the height of harvest in mid September of 2006, a group of Austral-Asian wine professionals were surprised at the inactivity in major wineries such as Great Wall Yantai (Shandong province), Changyu (Shandong province) and Vini Suntime (Xinjiang province). At Suntime, chief winemaker Robert Wu, said, "We can process a maximum of 120,000 tons per year. Our maximum output was 80,000 tons in 2005, but in 2006 it will be 60,000 tons." As an explanation, Wu cited smaller wineries who were 'stealing' their grape sources by paying more. On the bottling lines of the Great Wall Yantai, 2003 whites were being bottled in 2006. It could be a question of label integrity or it could be that wine is not selling as well nor as quickly as the figures being brandied about.

One of the biggest challenges for the future will be bridging the cultural gap between China and traditional wine consuming countries. Differences are inherent in even the language of wine. The word wine has no direct translation except hong jiu (red alcohol) or bai jiu (white alcohol), which usually means spirits, but can also mean white wine. Hardly anyone uses the more precise term, putao jiu (grape alcohol) for wine. Even 'winery' translates into the very unglamorous 'grape production factory'. Looking at Japan, the most mature wine market in Asia, the saturation point may have already been reached at two litres per capita consumption. The reality check is a visit to one of the narrow noodle counters where there is barely room for a plate or bowl, much less a wine bottle and wine glass.

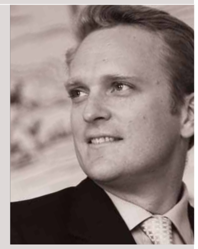
Despite the challenges ahead, importers do have distinct advantages. Generally, foreign brands are highly regarded and considered superior in quality. The international reputation and the higher prices enjoyed by foreign brands confer a sense of achievement, pride and social standing in being able to afford the higher priced, higher quality foreign products.

The large local producers are paving the way for importers who, if they are nimble enough, have much to gain from the marketing efforts of these giants. Every sector and price point in the market offers opportunities. For the branded wines, the opening of new distribution channels via multiple grocers and discount warehouses will enable greater exposure. For premium and luxury items, there are also plenty of opportunities for those who can navigate the complex market. Nicholas Pegna, managing director of Berry Brothers and Rudd Hong Kong says, "The fine wine market in China is beginning to take off, but it is still at an early stage, comparable to Japan in the early 90's or Hong Kong in the mid 90's. Demand tends to be label driven, being predominantly for first growth Bordeaux, especially Lafite. Of our total sales of 2005 Bordeaux, Asia accounted for 30%, and approximately 8% overall to China."

QUOTE UNQUOTE

» We are building our business with strong foundations to support sustainable growth. «

Ian Ford, Summergate



Ian Ford founded Summergate in 1999 with Brendan O'Toole. Since, it has been the fastest-growing wine importer in China. Based in Shanghai, they employ a staff of 170 in sales, marketing and distribution to suport Lafite-Rothschild, JP Moueix, Georges Duboeuf, Hugel, Jaboulet, Antinori, Allegrini, Concha y Toro, Catena, Ridge, Stag's Leap Wine Cellars, Yalumba, d'Arenberg and Villa Maria.

WE THREE KINGS

There are hundreds of small importers staking their claims in China, but only a handful bear the comparison to their counterparts in more mature markets. Chantal Chi spoke with three that appear to have winning hands.

------*Wine Business:* What brought you to China.

------***Alberto Fernandez, Torres:*** We came to China in 1997 as a joint venture with a producer associated with Great Wall. Today we have three offices, nearly 100 staff, and a turnover, in 2006, of 720,000 bottles of wine totaling €6 million.

------***Ian Ford, Summergate:*** Our business was founded by in 1999 as a wholly foreign-owned enterprise. Since then we have been the fastest-growing wine importer in China, outpacing the market year in and year out. Although our head office is in Shanghai, we currently have 170 employees, with full sales, marketing, and distribution teams in Beijing, Shenzhen, and Guangzhou as well as Macau. Our focus is on building sound distribution platforms across China and bringing the message of fine wines to customers and consumers through proper marketing and branding activities.

------***Don St. Pierre, ASC:*** When we started in 1996, we sold 25,000 bottles of wine; this year we will sell more than 2.3 million, with revenues in excess of $40 million. Further, we estimate year-on-year growth through 2010 at not less than 40% by value. 60% of that business is done with hotels and restaurants. We are also investing in people. We now have 300 employees at our offices in Beijing, Shanghai, Hangzhou, Xiamen, Guangzhou, Shenzhen and Macau, so that 95% of our turnover is handled via our own sales and logistics team.

------*Wine Business:* How is the Chinese Market developing?

------***Torres:*** 1996 saw a wine boom, but it was only in 2005 that imports overtook the volume of nine years earlier. Now the annual growth is at 40%, and the imported wine market is evolving rapidly following the last duty rate cuts in 2004 and the nationwide development of international and local hotel chains, restaurants, bars, and retailers. Today there are 300 wine importers in China, many run as a parallel businesses.

------*Wine Business:* How does the market break down?

------***ASC:*** There are two traditional markets at two quality levels. First, there are hotels and restaurants. At the top end of this market, on which most importers focus – are the 4 and 5 star hotels, western restaurants and finer Chinese restaurants. Most importers do not sell into middle-to-lower end channels because collecting accounts receivable is a challenge. This clientele is dominated by local wineries through regional wholesalers. Then, there is the off-premise sector, with supermarkets, department stores, and wine shops. Again, you have the top end, with its focus on first class products. This is the channel that most importers target. The second segment is comprised of local supermarkets and government-owned liquor shops. Again, it is difficult to do business here because of payment problems and inefficiencies of distribution. Most importers also offer their wines for direct sale to private clients.

------*Wine Business:* What are the differences between north and south China?

------***Torres:*** The biggest market difference is the way consumers approach alcohol. While the north is still very much driven by Chinese spirits and wines, the south is more modern and more open to mainly French and Australian wine.

------***Summergate:*** In Europe, they would be two distinct countries. The language is different, as are the food, the culture, the climate and the business operating environment – all of which impact on the wine market. South China's proximity to Hong Kong has influenced consumption trends there. In the north, there are many more international restaurants focusing on wine, which creates a natural base for wine education and consumption. In the industrial south, the market is oriented towards Chinese dining, cuisine, and entertainment.

------*Wine Business:* What are the differences between the major cities?

------***Torres:*** "Major city" in China means over 8 million inhabitants and each such conurbation is a separate market with its own consumption patterns. While in Beijing they prefer to spend money on cars, in Shanghai it is on fashion and dining and in Guangzhou on pampering the body and mind.

------***Summergate:*** The most sophisticated consumers live in Shanghai. Beijing would rank second; and then there is a big drop in overall understanding and appreciation of wine. Cities like Guangzhou and Shenzhen, with their buying power, are also large, developing markets for wine.

------*Wine Business:* What influence do these regional differences have on the fine versus bulk wine market?

------***ASC:*** Well, first the majority of bulk wine that is imported, and that was 40 million liters in 2005, is used by large local wine brands like Great Wall and Changyu for their domestic brands. The market for fine wine is mainly confined to cities where there has been substantial investment by foreign companies and exposure to foreign culture.

------*Wine Business:* What origins work best in China?

------***ASC:*** France is still the leading supplier of imported bottled wines, with a 38% share. Australia is catching up fast, with more than 20%. Beyond that you have Italy, America, and Chile. France occupies the top position in terms of perception, but as more consumers become comfortable with wine, they will move towards easier to drink, easier to understand wines.

------***Torres:*** Today you can find almost all famous brands from both France and Australia in China. Chile will be soon the third player in the big leagues, primarily due to its attractive price points. Italy has been increasing its share too, thanks to the opening of numerous of Italian restaurants. The US, on the other hand, is no longer growing.

------***Wine Business:*** What price points work?

------***Summergate:*** All price points work. It depends on the market segment, the product, and the distribution channel.

------***Torres:*** If it is to move in any volume, a bottle should be on the shelf at under CNY 100 (€10) per bottle. At €4–5, imported wines will sell well. Branded wines at around €8–9 also have potential.

------***Wine Business:*** How much does a wine that would retail for €10 in Paris, Rome or Madrid cost in Bejing or Shanghai?

------***Summergate:*** A bottle of Freixenet Carta Nevada costs approximately CNY 100 (€10) at a hypermarket in China, twice the European price. That sum includes approximately 44% tax on the value of the wine when it is imported. That said, there are great inefficiencies and high costs for importers in China. The wholesale network is not orientated towards imported wines yet; hence you have to bear all import, logistics, marketing, and promotional costs on your own.

------***Wine Business:*** How much paralleling is taking place?

------***Torres:*** There are still over 100,000 cases of nine-litre cases of imported wine being re-exported from Hong Kong into China every year. Often, though, these wines are brands that are not otherwise available in China.

------***Wine Business:*** Are the current distributors at risk from the big wine companies like Dynasty, Great Wall, and others as they move into distribution of imported wines?

------***Torres:*** Not at all. They may take a brand for complementing their wholesale network, as Great Wall has done with Montes Alpha or Dragon Seal with Hardys, but the focus on their own brand remains the priority; they are not behaving like real distributors, developing portfolios with 300 wines from 12 countries.

------***Summergate:*** There is room for everyone. The universe of qualified, national wine distribution companies for imported wine is extremely limited at this time. Local wine brands certainly have strengths, but they also have their weaknesses. Success will require more than a distribution network. Expertise, training, sound marketing and a commitment to build a market for a complex product will all be critical.

------***ASC:*** The large local wineries will certainly move into distributing imported wine, but they don't have an effective way to market high-cost, lesser-known brands. Their local distributors have become dependent upon wines which have large margins and high recognition – easy sells, if you will. They will have to invest time and energy to sell imported wines.

------***Wine Business:*** Is the lack of training a problem?

------***Summergate:*** There are few companies in China that devote time and resources to advance better wine knowledge. We employ certified sommeliers and WSET diploma holders, who conduct regula wine-training programs for the trade in an effort to raise the level of knowledge. With the trade acting as the industry's ambassadors to the market, that will filter down to wine consumers. The arrival this year of the International Wine Center (IWC) to Shanghai is also a step forward. The IWC has been educating the brightest of the wine world in Hong Kong for years and will now be available across China.

------***ASC:*** Training is a huge problem. There are very few restaurant or retailer staff who know much about wine.

------***Wine Business:*** Is China still a red wine only zone?

------***ASC:*** Domestic wine sales are probably 95% red; imported around 85%. Right now most consumers purchase a bottle of wine because they think it is sophisticated or fashionable. When they start buying wine because they really like the taste, that is when white wine sales will begin to grow.

------***Torres:*** Generally speaking, Chinese consumers do not like to drink cold beverages while eating. Most Chinese restaurants don't even serve properly chilled beer.

------***Wine Business:***What are your expectations for the future wine market in China?

------***ASC:*** Right now wine makes up 5% of total alcohol consumption in China, and imported bottled wine makes up less 5% of total wine consumption. Over the past four years, imported bottled wine has gone from 750,000 cases to an estimated 2 million cases in 2006. Things are moving fast!

------***Wine Business:*** What is the most difficult part of being a wine importer in China?

------***Summergate:*** The biggest issue is the lack of a level playing field. There are too many shady players. They will gradually be weeded out as the market professionalizes and matures.

------***Wine Business:*** Can wine become part of Chinese daily consumption? And if so, how?

------***Summergate:*** Absolutely. Food culture is alive in China, and wine will increasingly find a central role to play in that world. But patience is required; the market will not open easily.

------***Wine Business:***Is there a key to being successful in the wine business in China?

------***ASC:*** The "must" is to understand how to do business in China. This cannot be explained; it has to be experienced. ■

This is an excerpt from a longer interview.
Read the full text at www.wine-business-international.com

QUOTE UNQUOTE

»Wine will never become part of the Chinese lifestyle. You can't change cultural habits!«

Alberto Fernandez, Torres

Torres came to China in 1997 as a joint venture associated with Great Wall. Today they have three offices, nearly 100 staff and a turnover, in 2006, of 720,000 bottles of wine totaling €6 million. Their major brands, beyond those of their own production, include Baron Philippe de Rothschild, Grace Vineyard from China, Bodegas Callia, Zonin, and Peter Lehmann.