Market profile
for wine
in China

1.0 MARKET STRUCTURE

1.1 Background

The market for domestic and imported wine has been developing rapidly in China. An expanding middle class, rising incomes, a growing interest in western lifestyle and tastes, and better wine education have driven the rise in wine consumption. More Chinese people are taking an interest in wine – especially young, urban professionals and business people in the main cities of Shanghai, Beijing and Guangzhou. A Chinese government study reports that Chinese wine consumption will grow 15% over the next five years. Most of this consumption will be fuelled by domestic producers who are now learning the art of premium dry wine output. In the meanwhile, the import statistics demonstrate a rapid growth of wine from around the world to mainland China. In 2008, imports were up by an impressive 36% by volume and 50% by value compared to 2007.

Current Chinese wine consumption is 0.38 litres a year per capita. The figure is 0.7 litres in urban areas, which is fairly low compared to a global wine drinking norm of seven litres per capita. China may eventually become the world's largest wine-consuming nation by way of gross volume due to its large population. In 2007, locally produced wine captured 87-90% of the domestic market. Imports accounted for the remaining 10~13%, but this is anticipated to grow to 20% in the coming years (Sourced from China Economy Net: www.ce.cn).

The largest market for imported wine consumption is "on-premise", at top-end hotels, restaurants, bars and nightclubs. Four-star and five-star hotels, western restaurants and upscale local chain restaurants targeting middle and upper income groups generally carry a selection of imported wines, alongside local offerings. New Zealand wines are generally positioned in restaurant wine lists at between US$40~90 per bottle in Shanghai and Beijing.

The retail market for imported wines is also growing. Foreign supermarket chains normally have a wine corner at outlets located in middle to high-income districts. High-end domestic department stores also carry imported wine, as do independent wine shops. The 18~45 age group probably accounts for most wine consumed in bars and hotels. As a further market development, China's first independent wine school opened in Shanghai in July 2007.

The main driver behind purchasing an imported wine in many cases is to impress a guest at a restaurant banquet dinner or home gathering, or to use as a gift on a special occasion. Chinese nationals returning from living and working abroad are also more disposed to selecting imported products.

Knowledge of wine producing countries and varietals at consumer, and in many cases trade, level is limited. France and Italy have enjoyed higher recognition due to their inherent image and a higher level of promotion, but some blind tastings have shown that Chinese consumers often prefer the fruitier and fuller flavours of New World wines.

Overall red wine still dominates the market. Some reports suggest that over 70% of the wine consumed in China is red wine, however it is difficult to obtain definitive data. The popularity of red wine is linked to perceived health benefits and the fact that red is a colour traditionally linked to festivals and gift giving. However, a marketing survey highlighted a preference towards the taste of white wine, especially amongst women, due to its “lighter taste” and because chilled product is nicer to drink during summer. This conflicting information between consumption and preference most likely relates to the relative immaturity of the market and a lack of solid market research.

1.2 Distribution

As with most imported food and beverage products, an importer and distributor or wholesaler are typically involved in the distribution of foreign wine before it reaches retail or HRI users. In some cases, the importer will also perform the role of distributor. Distributors also sell direct to consumers, in some instances through wine clubs or direct mail. It is difficult for a single distributor to manage the entire China market, so in some instances it may be appropriate to appoint more than one regional distributor.

There are clearly a limited number of capable distributors in China, perhaps 15-20 regarded as being in the ‘first tier’. These companies, will either have foreign ownership or at least strong foreign involvement at a management level in-house. Approximately 46% at volume and 52% at value of imported wine entered China via Shanghai in 2008. Apparently Shanghai has become the base for the majority of the leading distributors. Other companies are located in Beijing and Guangzhou, which are the other two major consumption markets besides Shanghai. With the growth in the market, however, it is likely that the strength of current second-tier distributors will improve, or foodstuff companies will also get involved in wine distribution.

The leading distributors are frequently approached by overseas suppliers, including companies from New Zealand, and are reluctant to take on additional labels unless they are a “sure bet” and are supported by significant market support (including financial) from the winery concerned. The position directly links to the relative immaturity of the market and the fact that imported wine, especially at the premium end, is still out of the reach of most consumers. Leading distributors will already carry between 1~4 New Zealand labels.

Margins at importer/distributor level are estimated to be around 15%, but could be anywhere between 30~300% at restaurants or hotels.

2.0 COMPETITIVE ENVIRONMENT

New Zealand exporters face competition in the China market from other overseas and domestic wineries. Currently, there are around 50 New Zealand wineries with established distribution into the market.

2.1 Imports

At least 1000 imported labels are sold in China, with French, Italian and Australian wines receiving the greatest recognition. The total value of imports – both bulk and bottled - into China in 2006 was US$138.7 million, up by 84.5% from 2005. In 2007, this figure rose to US$258.2 million, up by 86.2% compared with 2006. While in 2008, total wine imports were US$380.8 million, an increase of 48.5% from 2007.

Statistics for bottled still (not sparkling) wine are given in the table below.

Wine Imports by Value, Tariff Code: 2204.2100 (US$ Million)

Rank	Country	2006	2007	2008	% Change 08/07
	World	77.261	184.132	276.307	50.06
1	**France**	29.202	82.727	126.939	53.44
2	**Australia**	17.106	36.462	54.889	50.54
3	**Italy**	7.520	17.874	21.612	20.92
4	**United States**	5.298	8.590	14.764	71.88
9	**New Zealand**	1.312	1.895	4.273	125.48

Source: World Trade Atlas

Wine Imports by Volume, Tariff Code: 2204.2100 (Litres)

Rank	Country	2006	2007	2008	% Change 08/07
	World	20,229,282	42,337,976	57,617,036	36.09
1	**France**	6,887,283	15,517,251	22,945,458	47.87
2	**Australia**	4,582,301	8,783,927	11,628,067	32.38
3	**Italy**	1,845,664	5,113,181	5,053,292	-1.17
4	**Chile**	1,243,847	2,646,432	4,206,324	58.94
12	**New Zealand**	184,285	268,082	484,328	80.66

Source: World Trade Atlas

The average price per litre of imported bottled wine (tariff code 2204.2100) between January to December 2008 from the major countries of supply are outlined in the following table. New Zealand had the highest average amongst supplying countries at US$8.82 per litre.

Average Price of Imported Wine, Tariff Code 2204.2100

Country	2007 Average CIF Price (US$/litre)	2008 Average CIF Price (US$/litre)
World	4.35	4.80
France	5.33	5.53
Australia	4.15	4.72
U.S.A.	3.64	3.82
Italy	3.50	4.28
Chile	3.21	3.42
New Zealand	7.07	8.82

Source: World Trade Atlas

As stated earlier, competition also comes from local wine producers in China, of which ten are regarded as being major players in the market. The main grape planting areas are across Xinjiang and the northern provinces of Shandong, Hebei, Henan, Gansu, and Ningxia, etc. The total output from the top ten areas represents 93.76% of the national wine production (Sourced from China Economy Net: www.ce.cn).

Foreign expertise has assisted the development of the Chinese wine industry. This has been in the form of total foreign ownership (e.g. Grace Vineyards), joint ventures, technical transfer or the recruiting of European wine makers.

The total China wine production in 2008 was 698,300 tons, which was increased by 23.83% comparing to year 2007 (sourced from www.winechina.com).

Leading local brands are Great Wall, Dragon Seal, Changyu, Dynasty and Imperial Court. The average bottle price of these brands is approximately US$3.00-5.00 at retail, however some high-end wines are also offered. Great Wall produces wine mainly from vineyards in Hebei and Shandong provinces. Its export business represents approximately 40% of China's total wine exports. Changyu, one of the top 10 wine producers in the world, exports to the United States, Europe and South East Asia.

3.0 REGULATORY OVERVIEW

Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.

3.1 Import Duty and Taxes

Import tariffs applied to wine have fallen along with China's commitments under WTO accession. The current import duty on bottled wine is 14%. Added to this are a further 10% consumption tax and VAT of 17%. All are applied to the CIF price, giving an effective total tariff of 48.2%.

$$\text{Total Import Tax rate} = \frac{\text{ICD } (0.14) + \text{VAT } (0.17) + \text{CT } (0.10) + \text{ICD } (0.14) \times \text{VAT } (0.17)}{1 - \text{CT } (0.10)}$$

$$= 48.20\%$$

Bulk wine attracts an import tariff of 20%.

The New Zealand China Free Trade Agreement came in to force on 1 October 2008 and as a consequence many New Zealand products including wine have seen a drop in their respective tariff rates. The current import duty for New Zealand bottled wine is 8.4%. Consumption tax and VAT remain the same. The total import tax rate for New Zealand bottled wine is now:

$$\text{Total Import Tax rate} = \frac{\text{ICD } (0.084) + \text{VAT } (0.17) + \text{CT } (0.10) + \text{ICD } (0.084) \times \text{VAT } (0.17)}{1 - \text{CT } (0.10)}$$

$$= 40.92\%$$

Under the NZ China Free Trade Agreement the phase out schedule for NZ bottled wine to China is as follows:

Base Rate	14%
1 Oct 2008	11.2%
1 Jan 2009	8.4%
1 Jan 2010	5.6%
1 Jan 2011	2.8%
1 Jan 2012 onwards	Zero

(Sourced from New Zealand China FTA website: www.chinafta.govt.nz)

Please remember that to get the benefit of the duty reductions under the NZ China FTA you need to provide a FTA Certificate of Origin to the Chinese authorities. In the case of wine shipments made solely from grapes grown in NZ, the NZ Wine Institute is the designated certification body that can provide this document.

If an export consignment misses out on a preferential tariff because of a failure to present a FTA Certificate or Declaration of Origin, the importer in China can still claim a refund within 12 months of the product being imported. For further details please refer to Appendix 1.

One issue that has occurred for some exporters is that when a consignment is shipped via a port in a third country instead of direct shipment from NZ to China the FTA declaration has sometimes failed to be accepted. Consequently it has been suggested that NZ exporters should pay close attention to how shipments are transported if they want a favourable FTA tariff under the current scenario. Over time it is hoped these issues will be resolved logically.

3.2 Labelling Regulations

Prior to the product being imported or distributed, labelling verification must be sought from China Inspection and Quarantine (China CIQ), which is a process that takes 1-2 weeks. When going through this procedure, exporters should carefully consider the value of specifying that they will retain "ownership" of the label after CIQ approval in the contract they have with their importer or distributor. This will make it easier to work with other distributors in the future should the need arise.

A summary of the main items required for verification of labelling is as follows:

- Application Form of Import Food Labelling Verification; (http://www.cichk.com/pdf/spsqs.pdf)
- Brief explanation of the original English label in Chinese. According to the National Standard of the Labelling of Foods (GB7718-1994), the label should include the details stated above;
- "Certificate of Origin" or "Wine Export Certificate"
- Registration information and qualification of distributors or dealers
- Samples of Chinese label (see content below);
- Sample wine for inspection (2 bottles of each label).

The mandatory items for the Chinese label for still or sparkling wine are:

1) Name/Brand of the Wine
2) Ingredients
3) Net Content (ml)
4) Alcoholic Content (%) (V/V)
5) Production Date (yy/mm/dd)
6) Packer / Distributor (Name & Address)
7) Content of Must (%) (Sake is exempt from this requirement)
8) Country of Origin
9) Quality Guarantee and/or Storage Period (yy/mm/dd)
10) Content of Sugar (gram/l)
11) Content of Sulphur Dioxide (SO2) (It has been re-enforced by AQSIQ since late 2007)

Although the law bans the use of temporary adhesive labels, some foreign wineries continue to attach small and simple labels (translated into Chinese) on the outside of the bottle. This is done either prior to delivery to China or by the Chinese importer under the supervision of a Chinese inspection and quarantine organisation. This is a risky option to take and, as such, New Zealand Trade and Enterprise recommends that exporters strictly abide by the formal labelling regulations when developing business in China.

On arrival, individual shipments are inspected and issued a hygiene certificate if they pass. Products that fail inspection cannot be imported.

3.3 Advertising

All wine advertisements must observe the Advertising Laws of China. The advertiser of imported wine is required to provide the Certificate of Hygiene issued by the CIQ. Regulations also restrict the content of the advertisement.

3.4 Intellectual Property

Exporters should seek professional advice on the protection of intellectual property, such as registering brand names (both English and Chinese) and trademarks prior to engaging with a distributor in the market. It is not uncommon for companies, regardless of industry, to find that their brand or trademark has been registered by a third party without notification.

Companies should also give consideration to website registration in English and Chinese, even if their current website does not include Chinese.

4.0 MARKET TRENDS

With a growing middle class demand for premium lifestyle products is increasing. A new generation of consumers, typically located in the major cities, is emerging with more disposable income and a greater awareness and willingness to pay for high quality (often imported) products – including wine. Wine has become “fashionable” and symbolic of social status - a trend which is likely to continue. Additionally the health benefits associated with red wine in particular, have convinced some consumers to switch from traditional Chinese alcohol. Further, the low quality of domestically produced wines cannot meet the demand of a select consumer market seeking a quality, often international, food and beverage experience.

Combined these factors have all contributed to a growing demand for imported wine in the China market.

The China market is still at the developmental stage for imported wines and, like most emerging wine markets, competition is high and good distributors and outlets are limited.

Leading or capable importers in China typically only want to deal with companies that have a wide range of wines and good volumes. If they are going to invest money on advertising and promoting a New Zealand label, they normally want at least four wines from that company.

5.0 MARKETING STRATEGY

Companies need to take a long-term commitment to developing the market, a process that starts with market research and careful importer/distributor selection. Due diligence should be done on candidate partners, and it is wise to get third party validation of market information and marketing plans presented. A good distributor should also be familiar with the procedures and requirement surrounding labelling and product approval.

Apart from quality, image is an important part of marketing products such as wine in China. New Zealand companies will need to work hard to develop a sustainable premium image for their wine in China – a task that can be approached both individually and collectively. Given the relatively immature, yet competitive nature of the market, it is not unrealistic to expect a period of market investment to be required before achieving regular sales.

Interesting to note that amongst the top 10 import suppliers, the average import price form New Zealand is the highest – US$8.82/litre, more than double the average price of wines from Chile and Italy.

This supports New Zealand winery efforts to date in the market – targeting high end "premium" consumers in top end restaurants and 5 star hotels. Apart from the limited number of boutique retail shops, there are very few New Zealand wines in retail outlets targeting the mass consumer market.

Ways to introduce new products to market contacts include attendance at trade fairs, wine dinners, inviting people to visit New Zealand on educational wine tours, and working with specialist journalists to receive exposure. New Zealand Trade and Enterprise offices in China also do a considerable amount of work on promoting New Zealand food and beverage products to the Chinese industry.

Prepared by: *New Zealand Trade and Enterprise, April 2009*

Appendix 1

The following item first appeared on the Market New Zealand website on 29 October 2008.

Preferential tariff refunds available under China FTA

NEW ZEALAND: New Zealand exporters and China-based importers who missed out on a preferential tariff under the New Zealand-China Free Trade Agreement (FTA) can apply for a refund.

Without a Certificate or Declaration of Origin, importers of New Zealand goods into China will not be able to access preferential tariffs under the FTA at the time of importation.

New Zealand Trade and Enterprise market manager for China, Pat English, says this means New Zealand companies exporting to China will not be able to sell their goods at a tariff rate below other markets of supply. “Essentially, they will be missing out on this key benefit under the New Zealand-China FTA,” he says.

If an export consignment misses out on a preferential tariff because of a failure to present a Certificate or Declaration of Origin the importer in China can claim a refund.

To do this, the importer should present the relevant Certificate or Declaration of Origin to China Customs within a year of the date of importation. Providing the goods qualify for preference, the non-preferential tariff duty paid should be refunded.

China Customs usually operates a system requiring an importer to signal it would have claimed the preferential tariff at the time of importation but could not because it did not have the necessary certificate. Providing the required certificates become available within one year of original importation, the importer may than present these and claim a refund.

To give New Zealand companies time to adjust to the new Rules of Origin, a 12 month exemption period has been provided in the New Zealand-China FTA. This means up until October 2009, exporters will be exempted from the requirement to signal their intention to claim the preferential tariff.

After this time, exporters will need to signal their intention to China Customs at the time of importation in order to claim back within the year.

If you have missed out on preferential tariff it is not too late to claim a refund and benefit from the New Zealand-China FTA.

For further information on the New Zealand-China Free Trade Agreement and the new Rules of Origin go to www.chinafta.govt.nz.