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New Zealand's wine opportunities in China

Wine production and consumption in China has been increasing rapidly. The wine producing regions are mainly in the drier northern part of the country and span the geographic breadth of China from west to east. About 80 per cent of the wine consumed in China is produced locally with the remainder imported. New Zealand's wine exports to China increased from less than \$24,000 in the year 2000 to \$28 million for the 12 months ending October 2012.

However wine exports then declined sharply by 25 per cent in the 12 months to October 2013, with further declines likely. In this article we explore the causes for first the dramatic increases and then the more recent decline in wine sales. We also look at the long-term opportunities for China as a major destination for New Zealand wines and the factors that will determine success.

China's wine producing history dates back for centuries, yet it is only in recent decades that rapid growth has occurred. According to the Statistics Division of the FAO, wine production in China increased more than six-fold from 1986 to 2011. By early 2012, China had overtaken the United Kingdom to be the fifth largest wine producer in the world. However, consumption per



person is still low at somewhere between 0.6 and 1.5 litres a year, depending on the source.

According to the Wine Institute, the figures above contrast with 46 litres per person in France, 24 litres in Australia, and 22 litres in New Zealand. With wine consumption rising rapidly as wealth levels increase, contrasting with static or declining consumption in most parts of the world, it is realistic to consider that China will soon move beyond Germany, Italy and France, and then perhaps the United States to become the world's largest wine market.

New Zealand wine exports to China

There are inconsistencies in the statistics from different sources, but all show a rapid increase in New Zealand's wine exports to China since around 2000. According to FAO statistics, the volume of wine exported from New Zealand to China increased from almost negligible amounts before 2000 to more than two million litres in 2010, but as outlined earlier, experienced a significant drop. In contrast, the overall value of sales continued to increase through into early 2013.

However the story emerging in the latter half of 2013, and supported by recent New Zealand monthly export statistics, indicates that a sharp downturn in volume and value is now happening. This is associated with the major anti-corruption campaign led by President Xi Jinping which has in turn led to a ban on officials holding publicly-funded banquets.

The campaign began in May 2013 and the ban is having a major effect on all top-end food and beverage items. This is in contrast to products consumed by the middle classes, such as milk and meat, which remain on rapid growth paths. The anti-corruption campaign appears to be gaining further momentum and has the potential to lead to further declines in the import of wines throughout 2014.

China's wine imports from elsewhere

Despite the spectacular increase of wine exported to China in the past decade, New Zealand remains a small player in the Chinese wine market. For example, whereas in 2011 New Zealand exported just under two million litres of wine to China, France exported over 127 million litres. In the same year Spain exported 74 million litres, Australia 45 million and Chile 43 million. In recent years, New Zealand has usually been in about eleventh as a source of foreign wine into China.

All wine imported into China is subject to a consumption tax of 10 per cent and a value added tax of 17 per cent calculated by compounding. There is also a compound import tariff of 14 per cent which New Zealand has been exempt from since 2012 because of the free trade agreement. Chile will also have exemption from this tariff from 2015, but all other countries will still have to pay it.

Wine in the supermarkets

About 90 per cent of the shelf space in wine sections in supermarkets in China is taken up by red wines. However the younger generation, particularly professional women, are becoming more interested in varieties of white wine. Despite the relative unimportance of New Zealand in the overall market, it is easy to find a small selection of New Zealand wines in most high-end supermarkets in the tier one cities and also many of the tier two cities. Most New Zealand wines sell for the equivalent of between \$40 and \$85 a bottle. Relative to the wines from other countries, this places them towards the upper end in terms of price.

One example of a New Zealand wine was a Cloudy Bay Pinot Noir selling for the equivalent of \$84 in a Shanghai supermarket in September 2013 and for \$68 online at Taobao, one of the largest online shops, in December 2013. Exactly the same wine was selling in Countdown in New Zealand in December 2013 for \$50.

Opposite to the phrase 'lost in translation', the Chinese translations for some wine varieties have



sentimental values that Chinese can find appealing. For example, Sauvignon Blanc is often being translated as Chang Xiang Si, the name for a type of ancient Chinese poem with a set rhythm which literally means ‘thinking of you always’. Brand names can also be translated into meanings which have special connotations. For example, Australian wine Penfolds is being translated to Ben Fu in Chinese, meaning ‘running towards wealth’. Such a connotation can be very appealing to Chinese people who often buy things for a good omen, for self-consumption or as a gift.

Future of New Zealand wine in China

The short-term opportunities for marketing New Zealand wine in China are likely to be challenging due to the general downturn affecting all top end restaurants. This is a direct effect of China’s anti-corruption campaign having a major effect on the behaviour of officials. However in the longer term it is highly likely that demand for wine will increase and that China will be globally the biggest growth market for wine. The question for New Zealand

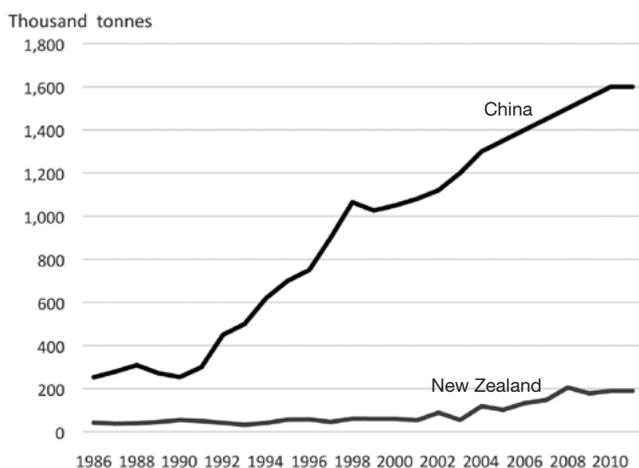
companies is how they should approach this market.

In contrast to products such as dairy and meat, New Zealand has no natural physical advantage over China in wine production. China has the bio-physical capacity itself to produce large quantities of wine at a low cost. In addition, unlike dairy and meat, New Zealand has lots of competitors who have the capability to market wine into China. If New Zealand is to prosper it will be by creating a reputation for superior quality.

New Zealand does have some characteristics that it can turn to advantage. There is an enviable image of clean and green, even if here we know that there are some weaknesses when it comes to the reality. However to the Chinese, anything coming from New Zealand is going to be trusted a lot more than any home product.

An increasing number of Chinese are coming to New Zealand each year as tourists. These people come from the demographic groups – the upwardly mobile middle and wealthy classes – who can be attracted to what New Zealand produces. There are opportunities to link Chinese tourism to New Zealand by marketing food and wine. In previous articles we have highlighted the challenges of distribution to Chinese supermarkets, but have pointed out the enormous opportunities which exist for online selling. It is similar for wine.

The main difference with wine, in comparison to so many land-based products, is that the Chinese are not going to develop the trade between the two countries. With meat and dairy products, Chinese importers seek out New Zealand companies with great determination because there are few other sources they can go to. However with wine it is very different as the opportunities are significant, but so is the competition.



Wine production in NZ and China 1986 to 2011 FAOSTAT

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