China's Wine Market Shows Great Potential

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The surging demand for wine in China has made the country one of the most important target markets for global wine producers, as regular Chinese consumers are now becoming more receptive to Western wine, and wealthy Chinese buyers are considering red wine as a new type of speculative investment to counter inflation.

Promising wine consumption market

While traditional wine consumption markets in the West are all declining amid the recent global economic woes, wine sales in China have been experiencing an impressive 15 percent annual increase over the past several years, according to estimates made by U.S.-based consulting firm A.T. Kearney (ATK). Furthermore, a report issued in September by U.K.-based International Wine and Spirit Research (IWSR) says that wine consumption reached 125 million 12-bottle cases in 2010 and is forecast to double to 250 million cases by 2016.

The fast-growing Chinese market is undoubtedly attractive to many foreign vineyards. The five most famous French vineyards – including Chateau Lafite Rothschild and Chateau Tertre Roteboeuf – have been thrilled to see significant price hikes in the wine they produce thanks to a large amount of Chinese purchases. A slew of Australian vineyards have also been happy to see their values trending upwards recently, after largely shrinking during the Global Financial Crisis.

France's Bordeaux Wine Industry Association recently announced that China has overtaken the United Kingdom and Germany as Bordeaux-originated wine's largest export market in 2010, and the country's overall wine consumption is also predicted to exceed that of the United Kingdom – the world's fifth largest market – in 2011, according to the IWSR report. The rapid rise of China's wine market owes thanks to an increasing wine awareness and growing health consciousness. "Wine has become a symbol of a desirable urban lifestyle, which shows sophistication, vitality and social status," said Howard Abe, a specialist in consumer goods and retail practice at ATK. In addition, the mounting importance attached to health has also drawn more and more drinkers away from beer and spirits.

Wine as an investment

Compared to regular wine consumers, many wealthy Chinese buyers are not only purchasing wine to serve it at their high-end business banquets, but also speculating on it for higher return in the future. The price of a 1982 bottle of Lafite – one of the wine brands with the highest recognition among Chinese investors – has surged by over 800 percent to more than GBP3,600 (US$5,645) from its price 10 years ago, and according to a recent China Daily report, the overall return for luxury wine investments has reached around 30 percent per year – higher than the return from gold investment.

In order to satisfy the demand of China's emerging millionaires who seek to invest their excess capital somewhere under the tightening monetary environment, a number of well-known Chinese financial institutions – including Bank of China and China Merchants Bank – have launched wine-related financial products. As such, an influx of investments has flown into wine futures – the purchases of wine that is made but not bottled – because of their greater appreciation potential.

China has even established its first privately-offered wine equity fund – the Dinghong Fund – which has raised around RMB1 billion and focuses on investment into Bordeaux and Burgundy, the two major wine production areas in France. Dinghong's practice has attracted quite a few followers, and will likely lead to the emergence of even more wine investment funds both in the mainland and in Hong Kong.

In China's cash-flowing coastal cities such as Shanghai, Tianjin and Guangzhou, investors can also trade wines at wine-trading centers. The Shanghai Wine Exchange – which was started last year and has just launched electronic services to its clients in September – has already attracted over 2,000 investors and sees a daily turnover of around RMB10 million on its more than 100 types of wines listed.

Li Wenfeng, president of the newly-founded Shanghai International Wine Trading Center, says the surging wine investment will give China a bigger say in international wine pricing in the future.

During the next five years, investment into red wine will likely reach the scale of RMB4 billion to RMB5 billion, a recent Reuters report says.

Access to the Chinese market

Most foreign wine exporters eyeing the Chinese market will first find companies registered in China as their local distributors, says Shirley Zhu, managing director of Shanghai-based market intelligence company Market Strategy China. The key to those domestic distributers is for them to have the qualifications to engage in domestic liquor sales (specified on their business licenses) and import wines (e.g. having liquor import licenses).

Many foreign wine producers also choose Hong Kong – a pre-eminent global wine hub with the greatest proximity to the mainland – as their transfer station from which they can tap the massive inland market. Hong Kong abolished its wine import duties in 2008 and has seen wine imports surge by nearly 60 percent during the first nine months of this year to US$940 million.

Foreign wine companies can also consider direct investment into China by establishing a wholly foreign-owned enterprise (WFOE) and importing wine from its mother company overseas. These WFOEs are required to have a series of licenses for import, food hygiene, alcohol wholesale permit, food import/export label verification – among other qualifications – to run their businesses in China.

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