

CHINA'S WINE IMPORTS GROW DRAMATICALLY, *WITHOUT U.S.*

By
Richard M. Blau, Esq.



GRAY | ROBINSON
ATTORNEYS AT LAW

China imported US\$ 1.77 billion worth of wines during the first nine months of 2016, representing a 19.1% year-on-year increase. China's total volume of wine imports also jumped 14.42% to over 464 million liters from January to September, according to the *China Association for Imports & Export of Wines & Spirits*, the nation's official trade association. China's bottled wine imports totaled about US\$ 1.66 billion, a year-on-year increase of 20.64%, and accounted for 93.4% of all imported wines. In volume terms, the country imported more than 354 million liters of wines, a 19.06% increase compared with the same period last year.

What is especially surprising about these numbers is the comparatively small role played by U.S. wines. Despite America's premier reputation for fine wine making, the United States represents a minute of China's overall wine imports.

DOING THE NUMBERS

Bulk wine imports by China in the first three quarters of the year also were up 9.76% year on year to US\$ 74.8 million. Sparkling wine imports, however, saw a year-on-year decline of 12.23% in value to US\$ 41.8 million, according to the statistics.

Australian and Chilean wines surged in volume, while French wines showed significant growth in average price. By contrast, American wines continue to lag far behind, capturing a comparatively tiny fraction of the China market. In terms of the origins of importing countries for bottled wines, France and Australia were responsible for 70% of all the bottled wines imported to China during the period based on imported value, followed by Chile, Spain, Italy, the USA, South Africa, Argentina, New Zealand, Portugal, Germany, Georgia and Canada.

Regarding average wine prices, New Zealand led the list with US \$9.66 per liter, followed by Australia with US\$ 7.14 per liter. Among the top 13 countries, Spanish wines recorded the lowest average sales price of US\$ 2 per liter, the figures showed.

In September China's e-commerce giants such as Alibaba and JD.com launched online wine and spirits festivals to increase sales across the country. The single month's wine imports, however,

dipped 10.2% to US\$ 170 million. The trade association attributed the decrease to a relatively high comparing base, given there was a year-on-year 61.5% increase in 2015.

The same report also released figures for spirits and beer. Imported spirits recorded a decline in sales value of almost 6% to US\$ 586 million, while imported beer showed a year-on-year double digit growth rate of 13.7%, to US\$ 525 million.

Table 1: China's alcoholic beverage imports from January to September, 2016 (Source: China Association for Imports & Export of Wines & Spirits)

	Volume (Liters)	Value (US\$)	Year-on-year volume increase	Year-on-year value increase
Spirits	41,355,585	586,138,556	-3.62%	-5.98%
Beer	512,860,156	525,489,459	19.07%	13.74%
Wines	464,132,959	1,775,699,774	14.42%	19.09%

Table 2: China's wine imports from January to September, 2016 (Source: China Association for Imports & Export of Wines & Spirits)

	Volume (Liters)	Value (US\$)	Year-on-year volume increase	Year-on-year value increase
Sparkling wines	9,886,495	41,865,609	-1.23%	-12.23%
Bottled wines	354,436,835	1,658,985,642	19.06%	20.64%
Bulk wines	99,809,629	74,848,523	1.91%	9.76%
Total	464,132,959	1,775,699,774	14.42%	19.09%

While the high end of the Chinese market remains sluggish due to the government austerity measures, it is widely reported that the younger and more sophisticated wine drinkers in China are branching out to value-for-money but good-quality wines. Major online shopping platforms, including [Alibaba](#) and [JD.com](#), which have started to import wines directly from overseas producers, have also contributed to the change.

NOT BIGGER, BUT BETTER COMPETITORS

The **United States** wine industry is one of the largest and strongest in the world. U.S. wine exports, 90% of which originate from California, reached \$1.61 billion in winery revenues in 2015, an all-time record and a 7.6% increase from 2014. Volume was up 4.1% from the previous year to 461 million liters or 51.2 million cases. Yet, America's sales of wine to China are dwarfed by other companies.

In contrast to America, **French** wines continue to occupy the biggest share of imported bottled wines in China. With 78% year-on-year increase on value, it is now entering China with an average price of \$6.16 per liter, up by 33.8% compared to last year.

As for **Australian** wines, with 50.9% growth in volume and 50.2% growth in value during the first three months of 2016, China has now 'overtaken the U.S. as the largest market for Australian wine exports. Imports of Australian wine surged more than 50 percent to A\$ 474 million in the year ending in September of this year, the body representing the country's wine

and grape producers said on October 20, 2016. Imports of bottled wine, which usually represents better vintages, grew by 48 percent in the same period. Imports of wines priced A\$ 10 or more per liter increased more than 60 percent, to A\$ 190 million, according to the latest statistics from Wine Australia. The implementation of the China–Australian Free-Trade Agreement (ChAFTA) and the reductions in tariffs has helped Australian wine exporters be more competitive and boost their sales in China.

While President Elect Donald Trump is threatening to terminate efforts by the Obama Administration to negotiate several regional trade agreements, America’s competitors are using trade agreements to reduce tariffs and boost wine sales. ChAFTA, signed between the two countries last year, is set to gradually abolish the import tariff on Australian wines by 2019. When the free-trade deal came into force, the Australian wine agency’s regulatory services team saw a record number of applications for wine export certificates to China, posting a 48 percent rise.

Similarly, the import of **Chilean** wines into China continue to grow in both volume and value during the same period. In 2015, Chilean wine exports to China stood at US\$ 175 million, a 41% increase in value over the previous year after China abolished all tariffs on Chilean wines in the same year. Since signing a Free Trade Agreement in 2005, China has become Chile’s biggest trade partner, and Chile has grown into China’s third largest trade partner in Latin America. Chile currently is China’s third biggest wine importing country by value after France and Australia.

As another example where accommodating trade laws translate into growing wine sales, **Italian** wine exports to China outperformed the overall market by more than six points in the first eight months of 2016. In the first eight months of 2016, China imported wine for €1.4 billion, with a jump of 24%. Italy grew by 30.4%, according to data from Nomisma’s Wine Monitor. “These are the first positive effects of the promotion policies set in place in China by the Italian government,” said Giovanni Mantovani, the CEO of Veronafiere trade fair. “The trend in exports sees us, at the end of the year, having record sales of €120 million.

WHAT THE FUTURE HOLDS?

In the last three years China has doubled its wine imports. Last year it surpassed Canada in fourth place in the ranking of consumers, and this year it is nearing Germany, which it will likely surpass in 2017.

Future prospects for wine sales in China continue to lean heavily toward the E.U. and the Southern Hemisphere, rather than America. China’s biggest listed winemaker reported on October 30th that it is preparing to ramp up imports from Spain, France and other European countries amid expectations that wine consumption in the world’s second-largest economy will continue to grow at a robust pace. **Changyu Pioneer**, the listed wine and spirits group whose Chinese vineyards cover more acres than all of Burgundy, already owns two wineries in France and last year bought a bodega in Spain. It ships approximately three million bottles a year from its Spanish property and one million bottles of wine from France — but aims to increase annual imports from its European wineries to 20 million bottles over the next three to five years.

Changyu's business plan also foresees the acquisition of two wineries in the Bordeaux region – an expansion drive based on expectations that Beijing eventually will change labelling restrictions in a way that incentivises imports from Chinese-owned wineries abroad.

This should be a matter of great concern, not only to U.S. wineries, but to the designers of America's trade policy as well. Currently, China is the fifth largest wine consumer nation in the world, with a population of 38 million wine consumers. Chinese industry officials believe in the future that number of wine consumers will increase ten-fold, making China the world's leader in wine imports. These are facts that America and its wine industry cannot afford to ignore.

Currently, France is the biggest exporter of foreign wine to China, followed by Chile. Spain is the third-largest supplier of wine, just ahead of Australia. Exports of Spanish wine to China, for example, have risen by an average 57 per cent every year since 2000, reaching 78 million liters in 2015. China now ranks as Spain's seventh-largest market for wine exports. Growth rates have been extraordinary — faster than for any other market over the past 15 years according to Spain's OEMV wine research body.

How can America rise into these ranks? US wines have the quality and the affordability; those are not at issue. But clearly a missing ingredient must be found to correct the existing trade imbalance. The incoming U.S. Trade Representative, whoever he or she is, should make the search for that ingredient a priority.