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Hong Kong

U.S. Wine Exports Poised To Set New Record In Wake Of 50% Tax Cut

2007

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Report Highlights:
On February 28, 2007, the Hong Kong Government announced that the excise tax on wine would be immediately reduced from 80% to 40%. Supported by the lower tax, continued economic growth, and the fast-paced expansion among its China and Macau neighbors, Hong Kong presents an excellent market opportunity for U.S. wine suppliers. U.S. wine exports to Hong Kong are expected to grow by over 20% this year and to set a new record for the first time since 1997. Traders report increased wine sales as most retailers are already passing tax savings on to consumers, reducing retail prices by 10-20%. Hong Kong's total wine imports reached $107 million and 18 million liters in 2006, a surge of 20% in value and 21% in volume respectively over 2005. Total Hong Kong wine imports in 2007 are expected to reach at least $128 million by value and 22 million liters by volume. France was the leading supplier with a market share of 46% in 2006. Australia came second with a market share of 17%, followed by the U.S. with a market share of 7%. The growth in imports of U.S. wine last year was due in part to depreciation of the U.S. dollar, as well as increased wine consumption driven by sophisticated and affluent Hong Kong consumers. Hong Kong re-exported 27% of its wine imports. With U.S. imports of $7 million in 2006, the U.S. is poised to break the $7.6 million record set in 1997. Volume in 2006 was 3 million liters, a 76% increase over 2005.

Includes PSD Changes: No
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[HK]

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SECTION I. MARKET OVERVIEW

Summary

- Hong Kong's decision to lower the tax was driven by a number of factors. Among the most important were:

  (a) Surplus budget;
  (b) Coordinated lobbying efforts; and
  (c) Lack of consumer group objections

- The Hong Kong Government enjoyed a high budget surplus of over 7 billion dollars. Advocates for the tax reduction, including consulates, trade and the tourism industry coordinated their efforts to lobby the Hong Kong Government and legislative members, all to help advance the case to lower the tax. They also argued that the tax on alcoholic beverages should be abolished to boost economic activities, increase employment and promote the development of Hong Kong as the region's wine exhibition, trading and logistics centre. The Hong Kong Government announced they would reduce the tax on wine from 80% to 40% on February 28, 2007[1]. To date there has been no consumer resistance to the tax cut which bodes well for further cuts in the future.

- Since the wine tax reduction, the response from the consumers and the trade is positive. The two largest supermarket chains reduced the prices of their wine immediately after the announcement and some consumers even lined up to buy the newly discounted items. Retailers, restaurants and pubs have indicated that the reduction of tax will enable them to reduce retail prices of wine by another 10-20% and stimulate more growth of their businesses this year. Members of the Hong Kong Wine and Spirits Industry Coalition have pledged to on-pass the tax saving to the consumers after the depletion of the old stocks for which the higher tax had been paid. It is expected that more price reductions will be seen from April onwards. Moreover, wine-tasting training classes organized by five-star hotels and high-end restaurants mushroomed after the announcement of the tax-cut, showing its positive impact on the evolving culture of wine appreciation in Hong Kong.

- Hong Kong wine[2] imports enjoyed a good year in 2006, with total import value at $107 million and volume at 18 million liters, representing a significant growth of 20% and 21% respectively over 2005 (please refer to Table 1).

- Imports of U.S. wines reached $7 million, representing a growth of 21% over 2005 and the second highest record since 1997 ($7.6 million).

- As an important regional distribution center, Hong Kong re-exported 27% of its wine imports ($29 million) and retained 73% ($78 million) for local consumption.

[1] Budget Speech on February 28, 2007, Financial Secretary, Hong Kong Government
[2] The HS code for wine referred to in this report is 2204 (Wine of Fresh Grapes)

Table 1: Hong Kong Imports of Wine[3]

(in $Million) Supplier		2001	2002	2003	2004	2005	2006	Share (2006)	Growth (06 v 05)
World	**Gross Imports**	**63**	**60**	**59**	**79**	**89**	**107**		**20%**
	Reexports	8	9	9	14	19	29[4]		52%
	Retained Imports[5]	56	51	50	65	70	78	100%	12%
France	Gross Imports	34	31	31	43	46	56		23%
	Reexports	6	6	6	9	13	20		56%
	Retained Imports	29	26	25	34	33	36	46%	9%
Australia	Gross Imports	9	9	10	12	15	17		10%
	Reexports	0	1	1	2	3	3		22%
	Retained Imports	8	8	9	11	12	13	17%	7%
United States	**Gross Imports**	**5**	**5**	**4**	**5**	**6**	**7**		**21%**
	Reexports	1	0	0	0	1	1		130%
	Retained Imports	5	4	3	4	5	6	7%	10%
Chile	Gross Imports	3	3	3	4	6	7		18%
	Reexports	0	0	0	0	0	1		76%
	Retained Imports	3	3	3	4	5	6	7%	13%
Spain	Gross Imports	1	1	1	1	1	2		51%
	Reexports	0	0	0	0	0	0		-14%
	Retained Imports	1	1	1	1	1	2	3%	60%
Rest of the World	Gross Imports	11	11	10	14	16	19		19%
	Reexports	1	2	1	2	2	3		42%
	Retained Imports	10	9	9	12	13	16	20%	16%

(in Liter) Supplier		2001	2002	2003	2004	2005	2006	Share (2006)	Growth (06 v 05)
World	**Gross Imports**	**10,808,880**	**10,958,260**	**11,217,456**	**13,440,067**	**15,123,625**	**18,351,056**		**21%**
	Reexports	1,008,651	1,056,503	1,023,632	1,695,169	2,046,279	3,617,844		77%
	Retained Imports	9,800,229	9,901,757	10,193,824	11,744,898	13,077,346	14,733,212	100%	13%
France	Gross Imports	4,903,980	4,741,797	4,668,009	5,282,406	5,208,417	5,758,670		11%
	Reexports	578,913	541,689	511,852	726,738	838,122	1,211,292		45%
	Retained Imports	4,325,067	4,200,108	4,156,157	4,555,668	4,370,295	4,547,378	31%	4%
Australia	Gross Imports	2,153,582	2,079,344	2,218,323	2,550,286	3,161,906	3,557,907		13%
	Reexports	113,886	201,750	215,106	256,811	362,560	441,403		22%
	Retained Imports	2,039,696	1,877,594	2,003,217	2,293,475	2,799,346	3,116,504	21%	11%
United States	**Gross Imports**	**776,372**	**1,057,271**	**1,042,151**	**1,336,994**	**1,782,495**	**3,133,191**		**76%**
	Reexports	80,443	78,495	84,282	93,665	235,178	1,404,550		497%
	Retained Imports	695,929	978,776	957,869	1,243,329	1,547,317	1,728,641	12%	12%
Chile	Gross Imports	727,582	878,672	973,912	1,264,747	1,771,510	2,177,710		23%
	Reexports	10,412	31,405	36,542	58,307	106,748	200,142		87%
	Retained Imports	717,170	847,267	937,370	1,206,440	1,664,762	1,977,568	13%	19%
Spain	Gross Imports	335,503	371,012	584,470	748,574	812,591	1,158,996		43%
	Reexports	1,238	4,734	7,044	9,942	41,782	42,864		3%
	Retained Imports	334,265	366,278	577,426	738,632	770,809	1,116,132	8%	45%
Rest of the World	Gross Imports	1,911,861	1,830,164	1,730,591	2,257,060	2,386,706	2,564,582		7%
	Reexports	223,759	198,430	168,806	549,706	461,889	317,593		-31%
	Retained Imports	1,688,102	1,631,734	1,561,785	1,707,354	1,924,817	2,246,989	15%	17%

[3] Source: Calculations based on World Trade Atlas statistics
[4] 56% of wine re-exports went to China and 26% went to Macau, source: World Trade Atlas statistics
[5] Retained imports = Gross imports less re-exports

- Prior to February 28, 2007, Hong Kong imposed a high excise tax of 80% on wine imports. That has encouraged the market entry of lower-price wines, as shown in the Table 2 below:

Table 2: Average Cost of Hong Kong Retained Wine Imports ($ per Liter)

Supplier	2001	2002	2003	2004	2005	2006	06/05 Growth
World	5.7	5.1	4.9	5.6	5.4	5.3	-1.0%
France	6.6	6.1	6.0	7.4	7.5	7.9	5.2%
Australia	4.1	4.2	4.3	4.7	4.5	4.3	-3.5%
United States	6.5	4.1	3.6	3.3	3.4	3.4	-1.2%
Chile	3.9	3.5	3.4	3.1	3.1	2.9	-4.6%
Spain	3.1	2.6	1.8	1.8	1.6	1.8	10.2%
Rest of the World	6.0	5.7	5.7	6.8	7.0	6.9	-0.9%

(Calculations based on World Trade Atlas statistics)

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS[6]

Consumption Patterns Driving the Market

- Hong Kong consumers are becoming much more sophisticated when it comes to wine. Generally they believe that drinking about two glasses of wine a day is beneficial to health and that is a major influence on the boom of the wine market in Hong Kong.

- Local consumers prefer red wine to white wine[7] because they like the flavor of the wine, the color of the wine and more perceived health benefits associated with drinking red wine. In 2006, retained imports of red wine amounted to $57.7 million and that of white wine were $9.7 million[8], representing a ratio of 6 to 1.

- Cabernet Sauvignon, Merlot and Shiraz are the three most popular grape varieties for red wine in Hong Kong. Together they accounted for around 80% of total volume sales. Of these, Cabernet Sauvignon is the most popular, accounting for around 50% of total red wine sales.

- For white wine, Chardonnay is the most popular grape type, accounting for over 60% of total white wine sales.

Sales Channels

- Majority of the wine in Hong Kong is sold at retail markets, which include supermarkets, specialty stores and convenience stores. Approximately 58% of the wine, in terms of volume, and 41% in value terms, is sold in Hong Kong retail markets. The rest of the wine is primarily sold at food service markets, which include hotels, restaurants and bars. Generally, wine mark-ups are high in the food service market, resulting in prices being three to four times higher than in the retail market.

[6] ATO Research Reports, Euromonitor and interviews with traders
[7] The HS codes for red wine and white wine referred to in this report are 22042191 and 22042192 respectively
[8] Source: World Trade Atlas statistics

Retail Market

- Supermarkets account for the greatest share of wine volume sales at 49% in the retail market. The two largest supermarket chains – Wellcome Supermarkets (247 outlets) and ParknShop (226 outlets), because of their large turnovers, usually import wine directly to reduce middlemen's mark-ups. Therefore they can price their wines more cheaply to their customers, who are generally a more price-conscious consumer paying lesser attention to wine quality, country of origin and age.

- Wine specialist stores account for 35% of wine volume sales in the retail market. Watson's Wine Cellar is largest wine specialist in Hong Kong with 13 outlets in busy locations. Specialist stores serve a consumer group who pay more attention to wine quality, country of origin, and age, rather than just price. Wine specialist stores offer most opportunities for moderate and high price point U.S. wines.

Food Service Market

- Restaurants in Hong Kong normally charge a high mark-up on wine consumption. Restaurants that allow customers to bring their own wine charge corkage fees[9] around HK$200-$300 per bottle (approx.=$25-$38 per bottle). Whether wine sold in restaurants is low price point, medium or high varies, depending on the food and target customers of the restaurant. As is the case almost anywhere, the higher-end the restaurant, the more premium the wine it will serve and vice versa.

- The high mark-up for wine sales and their high corkage fees on-premise has hindered consumption of some high-end wines through this channel. However, as Hong Kong reduces the wine tax from 80% to 40% beginning on February 28, 2007, many restaurants and hotels have begun to launch wine-tasting classes and wine promotions. This is expected to supplement the sales promotions at the retail market to spread of the wine appreciation culture and increase the demand for more fine wines. U.S. suppliers of high price point wines should expect more opportunities and target this market segment.

Low-end	HK$25-50 (general bars/restaurants/3 star hotels)
Low-end	HK$40 - 70 (up market restaurants/5 star hotels)
Medium-end	HK$60 - 150
High-end	HK$150 up

(Source: Interview with an experienced local wine importer/trader (HK$7.8=US$1)

Competition

- French wine still dominates the market, accounting for 46% of total retained wine imports value and 31% of import volume in 2006 (please refer to Table 1). However, New World wines, including those from the U.S., Australia, Chile and Spain have taken market shares from French wine, which enjoyed market share of 52% in value and 44% in volume in 2001[10].

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[9] Source: Interviews with HRI traders
[10] Source: World Trade Atlas statistics

- The growth of New World wines was partially attributed to the boom of the wine appreciation culture and consumers beginning to realize that they can buy high quality New World wine at competitive prices. U.S. wine is well known in Hong Kong for its fine quality and yet much cheaper price, thanks in part to the depreciation of U.S. dollars and aggressive promotional efforts by some U.S. wine distributors in the market.

Entry and Marketing Strategy

For new-to-market wineries that wish to enter the Hong Kong market, the following approaches are recommended:

- Exhibiting in a local trade show: There are trade shows in Hong Kong and Macau for U.S. wine exporters to showcase their high quality wine to buyers from Hong Kong, Macau, China and the region. The upcoming trade shows in Hong Kong/Macau in 2007 include:

HOFEX 2007 (in Hong Kong)	www.hofex.com	May 13 –16, 2007
Wine and Gourmet Asia (in Macau)	http://www.wineandgourmetasia.com/	Nov 7-9, 2007

- One-on-one meetings with potential importers: Most local importers are interested in meeting new-to-market exporters in a private environment. A list of local wine importers is available from the Agricultural Trade Office.

SECTION III. COSTS AND PRICES

Tax and Markups

- Hong Kong used to impose 80% excise tax on wine imports. The tax has been reduced to 40%[11] from February 28, 2007 onwards. The following table illustrates the effect of the wine tax and mark-ups[12] on the retail price of a bottle of wine:

A	Ex-factory Cost (in US$)	Before excise tax	$10.0
B	Wine tax	A x 40%	$4.0
C	Transportation	Around $1.1 per bottle	$1.1
D	Importer & Distributor's markup	(A+B+C) x 35%	$5.3
E	Retailer's markup	(A+B+C+D) x 35%	$7.1
F	Promotional expenses	(A+B+C+D+E) x 12.5%	$3.4
	Retail Price of a bottle (75 Cl) of wine (in US$)		**$30.9**

[11] The new wine tax of 40% became effective on February 28, 2007. Wine imports on or after this date are subject to the new tax. Source: Hong Kong Customs and Excise Department
[12] Source: interviews with wine importers and traders, the markups are indicative only as they vary from one product to another and also subject to relative bargaining powers among parties in the supply chain.

Price Segments[13]

- Red wine is typically categorized into five different price segments as follows:

Price Segments (per 75 Cl bottle)	% of Total Retail Sales Volume
Under HK$100	29
HK$100.01–130	28.5
HK$130.01–150	20.0
HK$150.01-250	14.0
HK$250.01 and above	8.5
Total	100.0

- White wine is typically categorized into five different price segments as follows:

Price Segments (per 75 Cl bottle)	% of Total Retail Sales Volume
Under HK$100	29
HK$100.01–130	26.0
HK$130.01–150	20.0
HK$150.01-200	18.5
HK$200.01 and above	6.5
Total	100.0

- To have an idea on the retail prices of wine, please refer to the Appendix that shows a partial list of wines available in Hong Kong. For more selection of wines, you can visit the websites of the two leading supermarkets and the leading wine specialist:

  Wellcome Supermarket http://www.wellcome.com.hk
  ParknShop http://www1.parknshop.com/WebShop/Home.do
  Watson's Wine Cellar http://www.watsonswine.com/

Exchange Rate

- Hong Kong Dollar has been pegged to U.S. Dollar (1US$=HK$7.8 approx.) since 1983. The depreciation of the U.S. dollar has increased the competitiveness of U.S. wines.

SECTION IV. MARKET ACCESS

- Food products can be imported to Hong Kong duty free except for cigarettes and alcoholic drinks. The taxes on alcoholic drinks are as follows[14]:

Liquor with an alcoholic strength of more than 30% by volume measured at a temperature of 20 °C	100%
Beer, liquor, other than wine, with an alcoholic strength of not more than 30% by volume measured at a temperature of 20 °C	20%
Wine	40%

[13] ATO Research Reports, Euromonitor and interviews with wine importers (HK$7.8=US$1).
[14] Source: Hong Kong Customs and Excise Department

- Hong Kong does not have specific labeling requirements for wine imports. For the general labeling requirements and a general guideline to Hong Kong's food import regulations, please refer to Gain Report #HK6017 or contact our office.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

- U.S. agri-food suppliers who want to gauge this opportunity to increase market shares of their products are welcomed to contact ATO Hong Kong for:

  - Market Information and Updates
  - Food Import Legislations
  - Promotional Opportunities
  - Trade Inquiries
  - Marketing Assistance

  U.S. Agricultural Trade Office Hong Kong
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- The Wine Institute of California has a local representative in Hong Kong:

  Wine Institute
  Mr. Phillip C. Holloway
  Ringe Marketing Service Limited
  Room 401, Dannies House
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  Hong Kong
  Tel: (852) 2366-3089
  Fax: (852) 2722-6300
  E-Mail: ringe@netvigator.com

APPENDIX: Retail Wine Price Survey[15]

Country	Type	Brand	Description	Price (US$)
USA	Red	BERINGER	CLASSIC RED	7.1
		BERINGER	STONE CELLARS CAB SAUV	8.9
		CARLO ROSSI	RED	4.5
		COL CREST	TWO VINES MERLOT 2001	9.0
		CORBETT CANYON	CAB SAUV RES	5.5
	White	BERINGER	WHITE ZINFANDEL	9.6
		CARLO ROSSI	WHITE	4.5
		COL CREST	TWO VINES CHARDONNAY	12.2
		CORBETT CANYON	CHARD RES	5.5
		E & J GALLO	TURNING LEAF SAUV BLANC	12.2
France	Red	BOIS FLEURI	VDP CAB SAUV	3.6
		CAVALIER	ROUGE VDP RED	3.8
		BORDEAUX	CH RICHEMONT RED	12.7
		CH HANTEILLAN	HAUT MEDOC CRU BOURGEOIS	19.2
		CH LE PIN	BORDEAUX	7.7
	White	BOIS FLEURI	VDP SAUV BLANC	4.2
		CELLAR SELECTION	AC BORDEAUX WHITE	5.1
		CONNAISSEURS CLUB	VDP SAUV BLANC	6.4
		D'OBERNAI	RIESLING	11.4
		DOM VINCENT	CHABLIS	17.9
Australia	Red	ANNIES LANE	CHBERNET MERLOT 2004	21.2
		BABICH	PINOTAGE/CABERNET	10.2
		CAPE MENTELLE	CABERNET MERLOT 2004	38.3
		EVANS & TATE	SALISBURY SHIRAZ CABERNET	8.4
		HARDYS	STAMP CABERNET MERLOT	6.4
	White	ANNIES LANE	RIESLING 2005	17.5
		BABICH	SEMILION CHARDONNAY	10.3
		BANROCK STATION	UNWOODED CHARDONNAY	6.4
		ELDERTON	UNWOODED CHARDONNAY 2005	13.9
		EVANS & TATE	SALISBURY SEMILLON BLANC	8.4
Chile	Red	AGUSTINOS	EST. MERLOT	8.9
		BOTALCURA	G. RES CABERNET SAU.	28.0
		CONCHA Y TORO	CDD. CAB. SAUVI.	11.4
		LADERA	PREMIUM RED	6.3
		SANTA INES	CABERNET SAUV	5.5
	White	AGUSTINOS	EST. CHARDONNAY	8.9
		BOTALCURA	RES.SAUVIGNON BLANC	16.6
		CONCHA Y TORO	FRONTERA SAUVI. BLANC	7.6
		CONCHA Y TORO	SUNRISE CHARDONNAY	8.9
		LADERA	PREMIUM WHITE	6.3
Spain	Red	ABANICO	SHIRAZ	7.6
		CARRIZAL	RESERVA	17.9
		DON SIMON	SANGRIA GLASS	4.4
		MAS COMTAL	ROSE	11.4
		NUEVE DOS	VINO DE MESA	3.6
Italy	White	ARALDICA	GAVI	12.7
		FONTANA CANDIDA	FRASCATI	9.6
		PLANETA	SEGRETA BIANCO 2005	15.8
		TOMMASI	PINOT GRIGIO LE ROSSE 04/05	16.6
		VIA NOVA	PINOT GRIGIO	11.4

[15] Source: websites of Wellcome Supermarket and ParknShop (1US$=HK$7.8), price per a bottle (75 Cl) of wine