



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 12/21/2004

GAIN Report Number: CH4620

China, Peoples Republic of

Market Development

South China's Wine and Beer Market

2004

Approved by:

Keith Schneller

Prepared by:

Joshua Emmanuel Lagos

Sharon Zhang

Report Highlights:

South Chinese incomes have doubled within the last few years, resulting in increased beer and wine expenditure. However, imported products only hold a small share in overall sales. Education and promotion will be necessary to introduce more imported wines since many consumers do not understand variety and quality differences. In addition, sales of foreign standard lager have primarily been successful with joint venture production in China.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Guangzhou [CH3]
[CH]

Section I: Market Overview.....Page 3 of 21

Section II: South China: First Look at Regional Potential.....Page 3 of 21

Section III: South China:
Consumer Incomes and Expenditure on Beer and Wine.....Page 4 of 21

Section IV: General Trends-
Consumer Habits and Knowledge: Wine.....Page 5 of 21

Section V: General Trends-
Consumer Habits and Knowledge: Beer.....Page 6 of 21

Section VI: Taxation, Import Duties, and other Legislation.....Page 7 of 21

Section VII: Domestic Classification Systems.....Page 8 of 21

Section VIII: Labeling Requirements.....Page 8 of 21

Section IX: Glass or Plastic?.....Page 8 of 21

Section X: Legal Importation and Distribution.....Page 9 of 21

Section XI: Gray Market Trade.....Page 9 of 21

Section XII: Education: The Key to South China’s Wine Market.....Page 9 of 21

Section XIII: Joint Ventures and Marketing:
The Key to South China’s Beer Market.....Page 11 of 21

Section XIV: South China HRIs, Distributors/Importers,
and Off-trade retailers.....Page 12 of 21

Section XV: Appendices.....Page 15 of 21

Section I: Market Overview

China, one of the world's leading consumers of beer, has traditionally had an enormous alcoholic beverage market. From CY 2000-2003, it increased its total lager sales from RMB \$124.7 to \$150.4 billion, while still wine held a relatively smaller position, rising from RMB \$49 to \$61.1 billion in the same period. In CY 2003, the wine and beer sector made up approximately 53% of all beverage sales in China (see Figure 1).

However, the share of total imported beer and wine has remained low. In Appendix I, wine imports only comprised .617% of the total wine market in CY 1999, gradually decreasing to .332% in CY 2002 and finally experiencing some improvement in CY 2003 at .446%. Beer imports have not been as impressive, decreasing its share from .441% to .272% from CY 1999-2003.

Figure 1

Total China Beverage Sales												
	2000			2001			2002			2003		
RMB billions	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change
Alcohol	\$321.7	88.2%	-0.9%	\$324.9	87.1%	1%	\$331.7	86.1%	2.1%	\$339.2	85.2%	2.2%
Wine	\$49	13.4%	7.7%	\$53.3	14.3%	8.8%	\$57.2	14.9%	7.4%	\$61.1	15.4%	6.8%
Beer	\$124.7	34.2%	6.8%	\$133.3	35.7%	6.9%	\$142.5	37%	6.9%	\$150.4	37.8%	5.5%
Non-Alcohol (exclude hot drinks)	\$26.9	7.4%	15.7%	\$30.9	8.3%	14.7%	\$35	9.1%	13.4%	\$39.1	9.8%	11.8%
Hot Drinks	\$16.1	4.4%	5.6%	\$17.3	4.7%	7.4%	\$18.7	4.9%	7.6%	\$19.8	5%	6.4%
Total	\$364.9	100%	0.4%	\$373.2	100%	2.3%	\$585.3	152%	56.8%	\$398.2	100%	-32%

Source: Euromonitor

Nonetheless, within both of these categories, certain players have performed exceedingly well. Chile and Australia have incrementally increased their wine market sales, with Chile now controlling half of total Chinese imports (Appendix IV). Mexico and Germany have accomplished a similar feat in the beer sector, comprising approximately three-quarters of total lager imports (Appendix V). On the contrary, the United States has not become a major contender, decreasing total Chinese beer and wine exports from RMB \$33 to \$2.2 million and consequently losing major market share from CY 1999-2003.

Section II: South China: First Look

Beer and wine sales are primarily concentrated within four regions in China: East,¹ Mid China,² North and Northeast,³ and the South.⁴ These highly industrialized areas have primarily been fueled by international trade (although mostly concentrated in larger cities such as Shanghai and Guangzhou), which has created higher paying jobs for many Chinese. As a result, with more income, locals now have the ability to increase their expenditure on luxury items such as high-end alcoholic beverages.

South China differentiates itself from other areas because it has drastically increased its market position for both beer and wine within the last five years. According to Appendix II,

¹ Shandong, Jiangsu, Anhui, Shanghai, and Zhejiang

² Henan, Hubei, Hunan, Jiangxi

³ Heilongjiang, Jilin, Liaoning, Tianjin, Beijing, Hebei, and Shanxi

⁴ Fujian, Guangdong, Guangxi, and Hainan

the region's total beer sales (domestic and imported) increased from RMB \$18,225 to \$24,946.9 million and total wine sales (domestic and imported) rose from RMB \$6,348 to \$8,988 million from CY 1999 to 2003. Other areas are also expanding, such as East China that had a 30.3% growth in wine and 34.3% growth in beer during the same time frame. Yet, South China's greatest advantage may be its higher income potential.

Section III: Consumer Incomes and Expenditure on Beer and Wine

Fig. 2

National Average Wage							
RMB	1998	1999	2000	2001	2002	2003	% change 1998-2003
Wage	\$7,479	\$8,346	\$9,371	\$10,870	\$12,422	\$14,040	88%

Source: China Statistical Yearbook 2004

Guangdong Average Wage							
RMB	1998	1999	2000	2001	2002	2003	% change 1998-2003
Wage	\$10,233	\$11,309	\$13,823	\$15,682	\$17,814	\$19,986	95%

Source: Guangdong Statistical Yearbook 2004

Since no aggregate figures exist for South China due to a lack of data in certain provinces, Guangdong provides an excellent illustration of South Chinese consumers since it is considered not only the hub of the region's Cantonese culture, but a pioneer in its trade-based economy. According to China Statistical Yearbook 2004, the average Guangdong wage increased from RMB \$10,233 to \$19,986 from 1998-2003, rising approximately RMB \$2000 more year-on-year than national figures (figure 2 above). In addition, as illustrated in figure 3, Guangdong has experienced little to no inflation, thereby, providing strong evidence that its residents have more spending power. Although the numbers average both rural and urban incomes, it is important to remember that those who live in the urban areas of China will have greater purchasing power since they have higher net earnings.

Fig. 3

National Consumer Price Index						
RMB	1998	1999	2000	2001	2002	2003
CPI (1995=100)	110	109	109	110	109	110

Source: World Bank Online

Guangdong Consumer Price Index						
RMB	1998	1999	2000	2001	2002	2003
CPI (previous year=100)	637.3	627.1	635.9	630.8	622	626.4

Source: Guangdong Statistical Yearbook 2004

Even with higher incomes, Guangdong beer and wine consumption was lower than the national average (all statistics refer to urban households). In CY 2003, Guangdong's lowest level income households bought .36 kg of beer while the highest income households consumed 2.04 kg. For wine, lower class families purchased between .12 to .24 kg, with richer households buying .48 kg. On average, Guangdong residents purchased .12 kg of wine and 1.32 kg of beer per family in CY 2003. This is quite low in comparison to national statistics, which show an average beer consumption of 6.12 kg and .29 kg for wine per family.

Nonetheless, Guangdong residential % increases in wine and beer consumption surpassed national figures. From CY 2000-2003, figure 4 shows that Guangdong wine and beer

consumption experienced 200% and 37.5% growth. This is noteworthy because it illustrates that not only have South Chinese consumed more beer and still wine than the average Chinese, but they also have been spending more of their income on these alcoholic beverages.

Reasoning behind South China's higher expenditure is cultural since the region's residents enjoy (more than other consumers) spending large sums of money at fine restaurants and on high-quality food. Moreover, this expenditure is not limited to local Cantonese fare, but also new cuisine such as Western food and beverages, which differentiates South China's populace from other Chinese inhabitants that are not as open-minded.

Fig. 4

Guangdong per capita annual purchases by urban households					
Kg	2000	2001	2002	2003	% change 2000-2003
Wine	0.04	0.1	0.105	0.12	200%
Beer	1.02	0.96	1.14	1.32	37.50%

National per capita annual purchases by urban households					
Kg	2000	2001	2002	2003	% change 2000-2003
Wine	0.18	0.19	0.24	0.275	52.70%
Beer	6.07	5.86	5.44	5.6	-4.40%

Source: China and Guangdong Statistical Yearbook: 2000-2004

Section IV: General Trends - Consumer Habits and Knowledge: Wine

Wine has existed in China for over 1000 years. Introduced sometime before the Han Dynasty (206 B.C.), only wealthy individuals, statesmen, and aristocrats traditionally purchased wine. After the 1949 revolution, China began to create modern wine production facilities and distribution centers, often mixing local grapes with foreign imports (a practice that continues today). Only within the last couple decades has China been capable of producing and distributing mass volumes of still wine.

Wine flavor has varied throughout China's history. Those who purchased wine from the Han Dynasty to Mao's Red China tasted a product that varied in structure, having qualities like the highly potent baiju, a liquor that is 45% proof, to a very syrupy and sweet composition. When high quality imported still wine entered China's market (without any further alteration or mixing) in the late 1980s and early 1990s (Appendix VI provides information on different wine varieties in China), due to their inexperience, many Chinese thought that the product tasted sour. As a result, the practice of mixing imported wine with soda, fruit, and ice at local restaurants, clubs, and bars became a common method to sweeten the flavor. Because of a lack of interest by many retailers, distributors, and other players, the wine edification process has also been very slow, with few Chinese enjoying high quality wines merely for its distinctive flavors and individuality. Actually, a popular social custom for many Chinese is to chug still wine until they are intoxicated.

Preferences for wine vary, but most Chinese prefer red wine to rosé or white. Some analysts believe part of the attraction to red wine is cultural since red is a color for good luck and white is commonly equated with misfortune. In addition, many consumers have openly acknowledged that red wine makes them appear more sophisticated and affluent, thereby, equating it as a symbol of social class and wealth.

Price also has an influence. China's cheap domestically produced wine primarily caters to lower-class Chinese and wealthy consumers who have little or no wine education. Although some economists believe there is no market for premium grade imported wines since

Chinese incomes have not reached a sufficient level, a stronger argument would be that middle and upper class Chinese do not have the knowledge to understand grape variety and quality differences. As a result, many are not willing to spend money on high-end wines. Therefore, a lack of knowledge and experience with higher quality wines as well as different varieties such as white and rosé have caused the market to remain in favor of cheaper products. Such a phenomenon can be remedied with more education and exposure.

Various statistics illustrate changing Chinese consumer preferences for wine. First, the numbers in Appendix III illustrate the % share and total sales of red wine in comparison to other varieties, showing an increase in reds from 13.2% to 17.8% from CY 1999-2003. In addition, although no stats exist that separate consumer purchases of domestic and imported reds, price can be an indicator of the Chinese preference for cheaper products, which is displayed in figure 5. However, it is important to note that cheaper red, white and rose wines priced under RMB \$30 have decreased in sales and mid to high-end products have grown from 1998-2003, showing potential for expensive imported wines.

Fig. 5

National Sales of Red Wine according to Price			
% off-trade		1998	2003
RMB	Under \$30	45%	32.50%
	\$30-\$59.99	30%	45%
	\$60-\$89.99	10%	12.50%
	\$90-\$119.99	12%	7.50%
	\$120 and above	3%	2.50%
	Total	100%	100%

National Sales of White Wine according to Price			
% off-trade		1998	2003
RMB	Under \$30	50%	38%
	\$30-\$59.99	35%	45%
	\$60-\$89.99	7%	12%
	\$90-\$119.99	6%	3.5%
	\$120 and above	2%	1.5%
	Total	100%	100%

National Sales of Rose Wine according to Price			
% off-trade		1998	2003
RMB	Under \$30	58%	50%
	\$30-\$59.99	28%	36%
	\$60-\$89.99	8.50%	10%
	\$90-\$119.99	4.80%	3%
	\$120 and above	0.70%	1%
	Total	100%	100%

Source: Euromonitor

Section V: General Trends - Consumer Habits and Knowledge: Beer

Beer has also historically been produced in China for thousands of years, becoming a common staple within the Chinese diet because it is often cheaper than water. As a result, the type of beer that dominates the market is inexpensive economy lager; however, this trend is slowly changing.

As Chinese incomes have risen, many have begun to purchase premium beer because, like wine, it shows their social status. Therefore, it has become a more common practice for wealthier Chinese to buy foreign brand name products, such as Heineken or Budweiser. Yet, this growing percentage is relatively small since the mid-premium beers are more expensive, with the majority of Chinese opting for economy lagers (see Appendix V).

Consumer loyalty to local brands is very strong given the small degree of outside competition, mostly attributed to regional protectionism. For example, many provinces levy high taxes on alcoholic beverages not produced locally, giving provincial breweries considerable advantages within the market. In addition, because most Chinese believe that freshly made lager is of higher quality, many prefer local brands, which usually sell their product within a 500 km radius.

Climate strongly affects when beer is consumed. Traditionally, most Chinese drink beer between the months of May to October since they believe it should be served during the hottest time of the year. Regions such as the north and northeast that have heaters during the winter months continue to drink lager year round, which differs from East China residences that mostly do not have heaters and consider it too cold for beer. South China is a particularly favorable area since it is warm practically all year, giving it higher sales potential. Recently, there have been a few restaurants and hotels in South China that have opened their own brew pubs, featuring freshly made lager and wheat beer at reasonable prices.

Chinese prefer lagers and usually do not consume other beers, such as dark beer, because many are unfamiliar with the product. In 2003, the only available stout was Guinness, whose overall market share was very small. Many new products have recently been introduced, such as fruit flavored beer (e.g. Yanjing Lemon and Yanjing Pinapple), low-alcohol beer that has 3% to 8% ABV, milk beer, draft beer, and nonalcoholic beer (e.g. Carlsburg's Jolly Shandy). However, none of these beverages have been on the market long enough to evaluate their success with Chinese customers.

Section VI: Taxation, Import Duties, and other Legislation

Fig. 6

	Consumption Tax	Import Duty
Beer with msp exceeding RMB 3,000/ton	RMB 250/ton	none
Beer with msp less than RMB 3,000/ton	RMB 220/ton	none
Unbranded beer	RMB 250/ton	none
Wine	RMB 240/ton	14%

Source: Foreign Agricultural Service, International Trade Administration, and Euromonitor, USITC

Adhering to its commitment to the WTO in 2001, as displayed in figure 6, China lowered its wine tariff to 14% and also eliminated its beer tariff on January 1, 2004. As a result, higher quality wines and beers have become affordable for more Chinese. The VAT for beer and wine is currently at 17%, but should be evenly applied to domestic and imported products.

The central government restricts advertising for certain alcoholic beverages. Spirits and hard liquor advertising are strictly limited to only two commercials from 7 pm to 9 pm, and no more than ten in one day (max. of two per hour) per TV channel. This number is all-inclusive, meaning that each channel is only allocated a couple slots per hour, not per

beverage company. Newspapers and magazines can only include two hard alcoholic advertisements per issue, which cannot be shown on the first page. Beer and wine have been excused from such regulations.

Section VII: Domestic Classification Systems

Currently, two grape varieties officially exist in China: passed and not passed. Wine can only be sold in the market if it receives the designation of passing, and there are no labeling requirements or classification methods that differentiate between domestically grown grapes, such as a Pinot Noir or Sinsaut. Because there is no legal requirement, only a few wineries have begun labeling their wines. Such a vague system makes it difficult for Chinese consumers to understand grape variety, quality, and taste, inhibiting their ability to make comparisons between domestic products and imports. Chinese authorities recognize the problem and have discussed using French and/or German classifications systems, although nothing has been formalized.

Beer also must pass a quality standard; however, there is no indication that an official classification system exists since most if not all of China's domestic beer production consists of lagers.

Section VIII: Labeling requirements

Since late March of 2004, China has been enforcing a new labeling law that requires pre-packaged food and beverage products (including alcoholic beverages) to include specific information in Chinese. Promulgated on July 1, 2002, the law effectively banned the use of temporary adhesive labels, although many foreign companies continue to attach stickers to their products. For US companies that are serious about entering China's market, it is strongly recommended to follow China's new labeling law. Currently, it applies only to delivery units and not shipping units and bulk merchandise.

Labels should include the following mandatory label contents in Chinese characters:

- 1) Name/Brand
- 2) Ingredients
- 3) Net Weight (ml)
- 4) Alcoholic Content (%) (V/V)
- 5) Production Date (yy/mm/dd)
- 6) Production Place
- 7) Packer / Distributor (name & address)
- 8) Content of Must (%) (sake is exempted from this requirement)
- 9) Country of Origin
- 10) Quality Guarantee and/or Storage Period (yy/mm/dd)
- 11) Content of Sugar (gram/l)

Section IX: Glass or Plastic?

There are no specific requirements for glass or plastic packaging, although it is important to consider cultural issues. Most Chinese prefer wine and beer in large glass bottles because they like to drink in big social groups. As a result, the 750 ml wine bottle and the 640 ml beer bottle have the highest sales. However, in regards to premium beer, consumers want to buy smaller 330-355 ml bottles to show their individual social status. Kegs, plastic bottles, and cans are not popular among the average Chinese consumer.

In addition, the attractiveness of the label and color of the bottle have a heavy influence on what products Chinese like to purchase. For wine and beer, many Chinese prefer products

with a classy and well-organized label on a dark tinted bottle. According to sources, Chinese view the color and appearance of the bottle as a physical extension of their overall guise while dining at a restaurant or a club.

Section X: Legal Importation and Distribution

There are currently two different mediums to import and distribute foreign alcoholic products: 1) CEROILS (China National Cereals, Oils, and Foodstuffs Import and Export Corporation), which is the official state importer, wholesaler, and distributor for mainland China and 2) foreign owned and joint-venture on-trade establishments and duty-free outlets (i.e. China Travel Services). Importers must acquire sublicenses from CEROILS if they want to have independent control of the marketing and distribution process. Often, these suppliers become one-stop-shops, providing many services such as climate-controlled warehousing, trade education, and delivery. HRIs and duty free outlets can only sell their products at their location and cannot become an independent distribution hub.

Introducing new imported wines and beers has been a challenge in China. For many years importers have been concentrated in Shanghai, mainly because of its modern infrastructure and higher demand from foreign clientele. However, Shanghai suppliers are often reluctant to expand their channels to new imported products since the demand is still relatively low.

South China importers in Hong Kong and cities within the Pearl River Delta are just as cautious. Because high-end imported wines and beers exist only in 5 star hotels and restaurants (which have only begun to enter many of the large metropolitan areas after local municipal governments lifted HRI restrictions within the last couple years), many importers have been weary of carrying and/or introducing new imported alcoholic items because they believe that a small demand still exists. However, many on and off trade retailers believe that demand has incrementally risen as incomes have improved, which will encourage South Chinese importers to carry a larger quantity and variety of imported beverages.

Section XI: Gray Market Trade

Contraband goods still compose a significant portion of total wine and beer sales in South China. In Guangzhou, many distributors on the mainland have formed exclusive relationships with importers in Hong Kong, giving them greater access to gray market products. Although many of these relationships were originally forged to acquire imported goods and materials before China opened up its economy, these historical alliances have continued as a means to avoid custom duties and the VAT.

Some of this gray market trade does not necessarily enter the mainland with its original packaging. For example, companies purchase large quantities of foreign wine and repackage the item with a new label and bottle, passing it off as a Chinese-made product. However, labeling does not necessarily mean giving the new bottled wine a Chinese brand, since these companies can also put domestic or foreign wine in a custom produced French, Spanish, or Chilean labeled bottle, generating almost a perfect replicate of the real packaging. As a result, it is difficult to tell what type of wine one has purchased.

Since March of 2004, China has begun to crack down on contraband trade, making it more difficult to transship illegal imports from Hong Kong to the mainland. However, sources recently have noted that pressure from the central government has recently eased.

Section XII: Education: The Key to South China's Wine Market

Although overall imported wine sales are low in comparison to China's overall wine market (as depicted in Appendix 1a), these items have a lot of potential, especially in South China. South Chinese enjoy high quality food products, and because imported high-end wines

cannot be replicated in Chinese wineries, due to different climate, soil, water, and production processes, imports should be able to make market headway assuming that Chinese consumers receive a proper wine education. Such education will be critical for marketing success, since many domestic wineries have flooded the market with comparatively lower quality/priced beverages such as Great Wall or Dynasty (although for domestic wines they are first tier). As a result, wineries serious about South China's market must promote their product with an educational emphasis, such as wine tastings, and concentrate on areas with higher incomes that are open to new beverages and foods.

Most wine companies and traders do not place much emphasis on the importance of marketing and education, leaving these activities to local retailers and consultants, which often operate amiss. For example, because there are few if any formal classes on wines in South China, most wine retailers that dabble in wine tasting do not offer a proper wine education. In addition, wine tasting does not occur very regularly or have widespread advertisement, and mostly travels by word of mouth among the expatriate community, with no ads in local newspaper or magazines for the local Chinese population.

Additionally, many of these events do not illustrate how wines complement certain Chinese cuisine, often only including western products such as crackers, French bread, and cheese that do not appeal to the Chinese palate. Of course, introducing wine with Chinese fare is a complicated task that might take years to perfect due to the immense variety of Chinese food. For example, major types of cuisines include Cantonese, Shanghai-nese, Sichuan, Hunan, and Beijing style.



Some promotions have currently taken advantage of cultural activities and national holidays, but other events need to be explored. For example, during the September Moon Festival, some retailers offer discounts or package promos that include red wine and moon cakes in gift boxes; yet, the red wines are French and usually do not include any US varieties. Other ideas such as publicizing imported wines with local pastries, breads, meats, and rice dishes in local supermarkets, hypermarkets, and popular Cantonese restaurants are almost nonexistent in South China.

It is important to begin to educate those who can afford to purchase imported wines. Focusing in areas of China that are not open to new products or cannot afford imported goods will have little success. South China is a strong market because, as previously stated, many residents not only have higher incomes, but also like trying new foods and beverages and spending large sums of money on quality meals. However, this process will not occur rapidly, and requires long-term commitment from foreign firms willing to educate the populace in order to create a larger consumer base.

Complete eradication of certain practices such as mixing low quality wines with soda should not be the objective. Other cultures, such as the Spanish, mix low-end red wines with coca-cola (called a *calimocho*) in order to improve the flavor; in addition, Austrians also enjoy blending cheap wine with soda water to create a *gespritzt*. However, the difference is that these consumers also recognize that high-end wines should be enjoyed without any alteration. As a result, providing Chinese consumers a greater understanding of how to

differentiate products becomes a critical component in the wine edification process. If this occurs, then imported wines could carve out a significant market share within South China.

Section XIII: Joint Ventures and Marketing: The Key to South China's Beer Market

Although total volume (imports and domestic) increased by 40% from CY 1998-2003, most of these sales have been in economy beers. Total imports have gradually decreased from 1999 RMB \$515.1 to \$409.7 million, forming even a smaller part of China's beer market (see Appendix I(b)). In the near future, both economy and mid-end beers more than likely will be produced by joint ventures and foreign-owned local breweries, while opportunities for imports may only be available for high-end items. Appendix V illustrates the opportunity for growth in this sector since its overall market share has increased from 10.5% to 12.6% within the last five years.

Foreign beer companies have concentrated on creating joint ventures with local breweries. Within a few years, most domestic local breweries have undergone mergers and acquisitions, generating a more stream-lined, cost efficient platform to produce lager. International breweries have responded by creating joint ventures and strategic alliances with these local conglomerates, such as Anheuser-Busch, which in October 2002 acquired 27% of Qingdao. Other examples include SABMiller's purchase of 30% of Harbin Brewery Group in June 2003 (China's fourth largest brewery), Carlsberg's buy-out of Dali Beer Brewery and Kunming Huashi Brewery in Yunnan province, and Belgium-based Interbrew that acquired 70% of KK Brewery in Zhejiang province.

Through joint ventures, foreign beer companies have generated mutually beneficial partnerships by providing local management with sales/marketing expertise, while also taking advantage of the company's distributional channels, production facilities, and established sales networks. Such advantages have given foreign businesses the ability to penetrate China's provincial markets, which are usually protected with high taxes. By taking advantage of established provincial networks, international breweries have promoted their product through local channels and sold it at more affordable prices. As a result, higher distribution and more brand recognition have increased their market share. Of course, the types of beer they are promoting are low to mid end grade foreign lager, and most have not dabbled in producing high-end micro-brew. US companies such as Coors, Budweiser, and Pabst Blue Ribbon have licensed local breweries to produce their beer in China.

Nonetheless, some imported lager has been successful. Mexico's gradual domination with Sol and Corona (Appendix 1(b)) illustrates that it is possible to penetrate China's beer market with imports; however, the question of how long Moctezuma Brewery (Sol) and/or Grupo Modelo/Cervecia Modelo (Corona) will continue to export beer in lieu of creating a joint venture remains to be seen.

South Chinese HRI managers and traders believe a market exists for high-end imported lager in the Pearl River Delta. In regards to % change, premium high quality lager has grown at least 9% year on year from 1999-2003, almost twice as high as low-mid end imports (as shown in Appendix V). Most of these sales have been concentrated in high-end retailers, such as Guangzhou's China Hotel, the White Swan, the Garden Hotel, and restaurants such as Celebrity. Yet, it is expected that sales and demand will continue to rise as more foreigners flock to South China and Chinese continue to acquire higher incomes.

Another avenue for consideration might include the exportation of hops or barley for use in local Chinese breweries, especially since hops are not produced in China. Although these inputs have primarily been sourced from the Canadian and Australian market, there are still opportunities for the introduction of US products. However, further elaboration of such prospects will be written in a later report.

Section XIV: South China HRIs and Off-trade retailers

a) Sheraton (Dongguan)/China Hotel (Guangzhou)

The Sheraton Hotel, located about an hour south of Guangzhou in Dongguan, opened one and a half years ago and operates with a staff from all parts of China (e.g. Guangxi, Hunan, Yunnan, and Sichuan). The hotel has 400 rooms and 8 conference rooms, averaging 70% occupancy with the average expenditure of USD \$80 per check on food and beverage. During the entire year, the hotel has approximately 123,000 guests, with the majority comprising of Chinese customers. Americans, Taiwanese, Hong Kongese, Japanese, South Koreans, and Italians primarily make up the foreign customer base. In addition, the hotel has four restaurants (Italian, Chinese, Japanese, and Western style cuisine) and a martini/wine bar.

The China Hotel, located near the center of Guangzhou, has been established for over 20 years, has over 2,000 employees and services approximately 3,000 customers per day (restaurant, bar, and hotel guests), or 1,080,000 customers per year, most of whom are Chinese locals (70% local and 30% foreign). Moreover, the establishment has 15 floors, 842 rooms, 171 suites, 16 meeting rooms, four restaurants (two international and two Chinese), and one champagne/cigar bar.

Both hotels sell different types of imported beers and wines. The Sheraton has over 200 different varieties of imported and domestic wines (70% are reds with about 30% whites); however, only ten originate from the US. Wine can sell up to RMB \$8,000 per bottle, although a few are priced even higher. All of the beers are foreign brands; yet, most have been produced locally, including American brand products. Currently, the hotel only offers a few US lagers. Because the Sheraton just opened, it did not have any specific figures on wine/beer revenues; however, management noted they have consistently had quarterly increases in sales.

The Marriott has over 100 different bottles of imported wine, selling approximately 3,000 to 4,000 bottles each month. Of this enormous variety, the hotel only currently offers nine US wines. Furthermore, it has over 30 different types of beers, and 80% of these are foreign products. None of the imported beer comes from the US, although it does offer domestically produced Budweiser. At the time of the interview, management had no specific stats on beer revenues, but mentioned that quarterly sales have risen for most of these products, especially at the China Hotel's Food Street restaurant (for low-middle class Chinese).

The Sheraton and Marriott management want to introduce more imported wine and beers. In order to stimulate more demand, the Sheraton hotel offers a monthly promotion of a pre-selected imported wine, making it the house wine for its restaurants and room service (sold at a lower price), as well as a gift for VIP customers. In addition, management has introduced a wine bazaar that sells over 100 varieties of wine with Italian food, wine tasting and educating seminars, and an international-wine maker night where a wine producer personally promotes his/her wine to the local populace for two to three days. In regards to beer promotion, the hotel plans to create a beer bar that will primarily showcase imported micro-brewed beer, as well as hold beer tastings. The Marriot has only begun to dabble in wine/beer tastings and promotions, but has already noted that many companies from different countries, such as Australia, Germany, and Chile, have already set-up seminars and monthly events to showcase their products for CY 2005.

b) Wine Distributors/Importers: Jointek and ASC

Two of the most prominent importers and distributors for the South China market are Jointek and ASC. Created in 1995, Jointek has over 500,000 customers nationwide. Within South China, it distributes its product to 150 hotels and 200-300 restaurants, receiving approximately 200-300 walk-in customers per day. Its main income comes from off-trade sales, such as Lotus hypermarket, Friendship store, Golden Leaf, and Kedi. Jointek distributes both domestic and imported wines; however, French wines comprise most of its product line. The company does not currently sell any US wines.



Although it has only operated in South China for a few years, ASC controls most of the region's market, experiencing sales of around RMB \$1 billion per year. The company services 68 cities and represents 60 foreign wineries, with an inventory of over 700 products. Most of its wines have been imported from France (30%), with American and Australian wines coming in a close second (20-25%). Unlike Jointek, it only distributes imported wine products, which sell from RMB \$80 to \$150 per bottle on-trade and RMB \$40 to \$80 per bottle off-trade. The company's primary clients are five star hotels, western-style restaurants, and international hypermarkets (20% off-trade and 80% on-trade sales), with less concentration in local Chinese businesses since many are not willing to take risks with imported wines.

ASC and Jointek have different approaches in introducing new wines to the market. ASC focuses more on educating the general populace, hosting various wine tasting seminars in international supermarkets and hypermarkets. In addition, the company recently has begun a new program that conducts wine tasting with local Chinese fare. Jointek has primarily promoted its products to GMs of high-end on-trade establishments, introducing imported wines through VIP wine tastings and dinners.

c) Off-trade: Metro

Metro, also located in the city of Dongguan, recently opened in March of 2004 and has approximately 90,000 members, averaging 1,500 customers per day, with around 2,000-2,500 customers per day during the holiday season (i.e. September Moon Festival). It has a customer base of 80% local Chinese and 20% expats/western HRIs. Operating like a Sam's Club, the establishment exclusively offering items at wholesale prices to businesses and professional customers. 20% of its products are imported, with only 2-3% from the US. Those customers that buy imported products primarily are expats and western style restaurants and hotels, averaging RMB \$300 per receipt.

Management believes that a higher demand now exists for imported wines and beers, mainly due to the increased presence of foreigners. HRIs that are customers of Metro have responded by requesting more imported products; as a result, during the last few months, the wholesale store has begun to increase its imported beer and wine selection. Currently, 10% of its imported beer comes from the United States, and out of its 100+ wine selection, the store only sells 10 US wines.

d) Common Conclusions from HRIs, importers/distributors, and Off-trade retailers

Regardless of their different strategies, distributors/importers, HRIs, and off-trade retailers believe that the imported wine and beer market has increasingly grown within the last 10 years, especially in regards to variety and quality. Moreover, they argue that the demand for imported beverages will only increase as South China incomes improve and more foreigners conduct their business in the region.

Many have commented that Europeans and Australians have been the primary players within the South China market, conducting aggressive campaigns that have given them higher market shares. As the beer and wine market matures, all interviewees believe it will become more difficult to penetrate South China with new foreign products, especially as local consumers begin to habitually purchase certain brand names. As a result, management from every establishment concede that unless other foreign companies begin to advertise/push their products, current players such as the Europeans will eventually control most of the South China beer/wine market.

Appendix I(a)

Chinese Wine Imports CY 1999-2003 - Market Share

	Current RMB Millions	1999		2000		2001		2002		2003	
		Value	% share	Value	% share	Value	% share	Value	% share	Value	% share
Total World Imports		\$281	0.617%	\$231.3	0.472%	\$192.8	0.361%	\$190.3	0.332%	\$273.0	0.446%
Key Regional Players	<i>France</i>	\$53.9	0.118%	\$39.6	0.081%	\$43.4	0.081%	\$41	0.072%	\$66.2	0.108%
	<i>Italy</i>	\$41.3	0.091%	\$36.3	0.074%	\$27.4	0.051%	\$12.9	0.023%	\$10.4	0.017%
	<i>Spain</i>	\$144.7	0.318%	\$108.8	0.222%	\$41.1	0.077%	\$11.5	0.020%	\$7.9	0.013%
	<i>Australia</i>	\$8.7	0.019%	\$6	0.012%	\$6.8	0.013%	\$13.4	0.023%	\$22	0.036%
	<i>Chile</i>	\$6.9	0.015%	\$16.2	0.033%	\$49.5	0.093%	\$76	0.133%	\$128.8	0.211%
	<i>United States</i>	\$14.4	0.032%	\$15.6	0.032%	\$1.9	0.004%	\$1.4	0.003%	\$1.8	0.003%
Total Chinese Sales (Domestic and Imported)		\$45,548	100%	\$49,038	100%	\$53,349	100%	\$57,274	100%	\$61,185	100%

Source: Global Trade Atlas, UN Statistics

Appendix I (b)

Chinese Beer Imports CY 1999-2003 - Market Share

	Current RMB Millions	1999		2000		2001		2002		2003	
		Value	% share	Value	% share	Value	% share	Value	% share	Value	% share
Total World Imports		\$515.1	0.441%	\$759.2	0.609%	\$567.2	0.425%	\$428.6	0.301%	\$409.7	0.272%
Key Regional Players	Malaysia	\$2	0.002%	\$4.3	0.003%	\$6.1	0.005%	\$3.5	0.002%	\$8.2	0.005%
	South Korea	\$1.2	0.001%	\$5.5	0.004%	\$7.7	0.006%	\$13.1	0.009%	\$11.5	0.008%
	Netherlands	\$389	0.333%	\$416.4	0.334%	\$194	0.145%	\$47.3	0.033%	\$23.9	0.016%
	Germany	\$2.9	0.003%	\$3.3	0.003%	\$77.8	0.058%	\$206.2	0.145%	\$182.1	0.121%
	Mexico	\$59.1	0.051%	\$105	0.084%	\$107.1	0.080%	\$126.7	0.089%	\$130.4	0.087%
	United States	\$18.6	0.016%	\$6.0	0.005%	\$2.2	0.002%	\$0.5	0.000%	\$0.4	0.000%
Total Chinese Sales (Domestic and Imported)		\$116,748	100%	\$124,714	100%	\$133,352	100%	\$142,554	100%	\$150,415	100%

Source: World Trade Atlas, UN Statistics

Appendix II

Total Beer Sales by Region															
RMB millions	1999			2000			2001			2002			2003		
	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change
East	\$36,269	31.1%	7.3%	\$39,618	31.8%	9.2%	\$42,717	32%	7.8%	\$46,017	32.3%	7.7%	\$48,718	32.4%	5.9%
Mid China	\$16,043	13.7%	6.5%	\$17,075	13.7%	6.4%	\$18,293	13.7%	7.1%	\$19,569	13.7%	7%	\$20,667	13.7%	5.6%
North and Northeast	\$33,832	29%	7.6%	\$35,634	28.6%	5.3%	\$37,552	28.2%	5.4%	\$39,628	27.8%	5.5%	\$41,312	27.5%	4.2%
Northwest	\$5,856	5%	0.9%	\$5,990	4.8%	2.3%	\$6,174	4.6%	3.1%	\$6,390	4.5%	3.5%	\$6,582	4.4%	3%
South	\$18,225	15.6%	4.8%	\$19,474	15.6%	6.9%	\$21,301	16%	9.4%	\$23,186	16.3%	8.9%	\$24,946	16.6%	7.6%
Southwest	\$6,521	5.6%	5.2%	\$6,920	5.5%	6.1%	\$7,313	5.5%	5.7%	\$7,762	5%	6.1%	\$8,188	5.4%	5.5%
Total	\$116,748	100%	6.4%	\$124,714	100%	6.8%	\$133,352	100%	6.9%	\$142,554	100%	6.9%	\$150,415	100%	5.5%

Source: Euromonitor

Total Wine Sales by Region															
RMB millions	1999			2000			2001			2002			2003		
	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change
East	\$25,471	55.9%	6.1%	\$27,235	55.5%	6.9%	\$29,303	54.9%	7.6%	\$31,296	54.6%	6.8%	\$33,211	54.3%	6.1%
Mid China	\$6,204	13.6%	6.5%	\$6,641	13.5%	7.0%	\$7,207	13.5%	8.5%	\$7,732	13.5%	7.3%	\$8,247	13.5%	6.7%
North and Northeast	\$4,811	10.6%	7.1%	\$5,284	10.8%	9.8%	\$5,934	11.1%	12.3%	\$6,481	11.3%	9.2%	\$7,066	11.5%	9%
Northwest	\$458	1%	5.3%	\$491	1%	7.4%	\$540	1%	9.9%	\$574	1.0%	6.4%	\$610	1%	6.3%
South	\$6,348	13.9%	10%	\$6,956	14.2%	9.6%	\$7,699	14.4%	10.7%	\$8,332	14.5%	8.2%	\$8,988	14.7%	7.9%
Southwest	\$2,255	5%	6.9%	\$2,428	5%	7.7%	\$2,663	5%	9.7%	\$2,858	5.0%	7.3%	\$3,060	5%	7.1%
Total	\$45,548	100%	6.8%	\$49,038	100%	7.7%	\$53,349	100%	8.8%	\$57,274	100%	7.4%	\$61,185	100%	6.8%

Source: Euromonitor

Appendix III

Wine Market Distribution

	1999			2000			2001			2002			2003		
	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change
RMB million															
Still Red	\$6,024	13.2%	11.6%	\$7,025	14.3%	16.6%	\$8,521	16.0%	21.3%	\$9,636	16.8%	13.1%	\$10,897	17.8%	13.1%
Still White	\$2,845	6.2%	5.8%	\$3,083	6.3%	8.4%	\$3,415	6.4%	10.8%	\$3,639	6.4%	6.6%	\$3,887	6.4%	6.8%
Still Rose	\$1,232	2.7%	3.1%	\$1,286	2.6%	4.4%	\$1,358	2.5%	5.6%	\$1,405	2.5%	3.4%	\$1,461	2.4%	4.0%
Still Wine subtotal	\$10,101	22.2%	8.8%	\$11,394	23.2%	12.8%	\$13,295	24.9%	16.7%	\$14,680	25.6%	10.4%	\$16,245	26.6%	10.7%
Rice Wine below RMB \$10/liter	\$2,715	6.0%	6.2%	\$2,903	5.9%	6.9%	\$3,067	5.7%	5.7%	\$3,239	5.7%	5.6%	\$3,386	5.5%	4.5%
Rice Wine from RMB \$11-50/liter	\$5,325	11.7%	7.4%	\$5,703	11.6%	7.1%	\$6,109	11.5%	7.1%	\$6,527	11.4%	6.8%	\$6,909	11.3%	5.8%
Rice Wine from RMB \$51-100/liter	\$13,695	30.1%	6.0%	\$14,503	29.6%	5.9%	\$15,415	28.9%	6.3%	\$16,403	28.6%	6.4%	\$17,356	28.4%	5.8%
Rice Wine over RMB \$100/liter	\$13,714	30.1%	6.0%	\$14,536	29.6%	6.0%	\$15,463	29.0%	6.4%	\$16,427	28.7%	6.2%	\$17,290	28.3%	5.3%
Rice Wine subtotal	\$35,447	77.8%	6.2%	\$37,644	76.8%	6.2%	\$40,055	75.1%	6.4%	\$42,595	74.4%	6.3%	\$44,940	73.4%	5.5%
Wine Grand Total	\$45,549	100%	6.8%	\$49,038	100%	7.7%	\$53,350	100%	8.8%	\$57,275	100%	7.4%	\$61,186	100%	6.8%

Source: National Bureau of Statistics of China, Euromonitor

Appendix IV

Chinese Wine Imports CY 1998-2003

RMB \$1000	1999			2000			2001			2002			2003		
	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change
United States	\$14,362	5.1%	139.2%	\$15,580	6.7%	8.5%	\$1,883	1%	-87.9%	\$1,440	0.8%	-23.5%	\$1,768	0.65%	23%
EU-15	\$245,582	87.4%	-14%	\$188,980	81.7%	-23%	\$113,996	59.1%	-39.7%	\$73,456	38.6%	-35.6%	\$91,675	33.6%	24.8%
<i>France</i>	\$53,856	19.2%	-12.4%	\$39,551	17.1%	-26.6%	\$43,386	22.5%	9.7%	\$40,978	21.5%	-5.6%	\$66,179	24.2%	61.5%
<i>Italy</i>	\$41,283	14.7%	32.8%	\$36,283	15.7%	-12.1%	\$27,430	14.2%	-24.4%	\$12,887	6.8%	-53%	\$10,371	3.8%	-19.5%
<i>Spain</i>	\$144,666	51.5%	-11.6%	\$108,832	47.1%	-24.8%	\$41,067	21.3%	-62.3%	\$11,461	6%	-72.1%	\$7,850	2.9%	-31.5%
Asia	\$9,558	3.4%	29.7%	\$6,789	2.9%	-29%	\$7,475	3.9%	10.1%	\$13,905	7.3%	86%	\$22,859	8.4%	64.4%
<i>Australia</i>	\$8,733	3.1%	28.8%	\$6,045	2.6%	-30.8%	\$6,810	3.5%	12.6%	\$13,360	7%	96.2%	\$21,968	8%	64.4%
Central & South America	\$7,524	2.7%	51.5%	\$17,753	7.7%	135.9%	\$53,685	27.8%	202.4%	\$89,543	47%	66.8%	\$138,595	50.8%	54.8%
<i>Chile</i>	\$6,920	2.5%	94.3%	\$16,233	7%	134.6%	\$49,533	25.7%	205.1%	\$75,951	39.9%	53.3%	\$128,837	47.2%	69.6%
World	\$281,023	100%	-9.1%	\$231,300	100%	-17.7%	\$192,828	100%	-16.6%	\$190,336	100%	-1.3%	\$272,951	100%	43.4%

Source: World Trade Atlas, UN Trade Statistics, China Customs

Appendix V

Beer Market Distribution

	1999			2000			2001			2002			2003		
	RMB million	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share
Premium	\$12,280	10.5%	10.2%	\$13,921	11.2%	13.4%	\$15,518	11.6%	11.5%	\$17,294	12.1%	11.4%	\$19,006	12.6%	9.9%
Standard	\$14,845	12.7%	4.1%	\$15,931	12.8%	7.3%	\$17,014	12.8%	6.8%	\$18,073	12.7%	6.2%	\$18,940	12.6%	4.8%
Economy	\$89,624	76.7%	6.3%	\$94,863	76.1%	5.8%	\$100,821	75.6%	6.3%	\$107,188	75.2%	6.3%	\$112,470	74.8%	4.9%
Total	\$116,784	100%	6.5%	\$124,715	100%	6.8%	\$133,353	100%	6.9%	\$142,555	100%	6.9%	\$150,415	100%	5.5%

Source: National Bureau of Statistics of China, Euromonitor

Chinese Beer Imports CY 1998-2003

Current RMB \$1000	1999			2000			2001			2002			2003		
	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change	Value	% share	% change
United States	\$18,586	3.6%	22.8%	\$5,972	0.8%	-67.9%	\$2,238	0.4%	-62.5%	\$547	0.1%	-75.5%	\$367	0.1%	-32.8%
Mexico	\$59,134	11.5%	617.3%	\$105,041	13.8%	77.6%	\$107,081	18.9%	1.9%	\$126,734	29.6%	18.4%	\$130,384	31.8%	2.9%
EU-15	\$394,741	76.6%	201.2%	\$575,682	75.8%	45.8%	\$403,467	71.1%	-29.9%	\$274,340	64%	-32%	\$234,323	57.2%	-14.6%
Germany	\$2,924	0.6%	16.6%	\$3,268	0.4%	11.7%	\$77,765	13.7%	2279.6%	\$206,242	48.1%	165.2%	\$182,062	44.4%	-11.7%
Netherlands	\$389,047	75.5%	206.8%	\$416,392	54.8%	7%	\$193,956	34.2%	-53.4%	\$47,255	11%	-75.6%	\$23,867	5.8%	-49.5%
Asia	\$41,871	8.1%	101.9%	\$70,760	9.3%	69%	\$52,259	9.2%	-26.1%	\$26,383	6.2%	-49.5%	\$21,306	5.2%	-19.2%
South Korea	\$1,233	0.2%	4.9%	\$5,465	0.7%	343%	\$7,682	1.4%	40.6%	\$13,084	3.1%	70.3%	\$11,469	2.8%	-12.3%
Malaysia	\$1,952	0.4%	1157.9%	\$4,338	0.6%	122.2%	\$6,145	1.1%	41.7%	\$3,493	0.8%	-43.2%	\$8,220	2%	135.3%
World	\$515,094	100%	193.3%	\$759,205	100%	47.4%	\$567,226	100%	-25.3%	\$428,606	100%	-24.4%	\$409,684	100%	-4.4%

Source: World Trade Atlas, UN Statistics, China Customs

Appendix VI

Wine Varieties

Red		White	
Variety	Introduction Year	Variety	Introduction Year
Cabernet Sauvignon	1892	Aligote	1978
Cabernet Franc	1892	Chardonnay	1981
Cabernet Gernischt	1892	Chenin Blanc	1982
Carignan	1915	Muller-Thurgau	1980
Gamay	1978	Muscat Blanc	1980
Grenache	1980	Pinot Blanc	1965
Merlot	1892	Grey Riesling	1892
Mission	unknown	Italian Riesling	1892
Nebbiolo	1981	White Riesling	1982
Petit Verdot	1892	Sauvignon Blanc	1892
Pinot Noir	1964	Semillon	1983
Ruby Cabernet	1980	Silvaner	1980
Sangiovese	1981	Traminer (Gewurz Traminer)	1892
Sinsaut	1980		
Syrah	1980		
Zinfandel	1980		

Source: China Wine Online