

- a) **Date of Proposal:** August 15, 2008
- b) **Name of Organization:** Texas Tech University, in collaboration with the University of South Carolina Institute for Wine Education
- c) **Organization Address:** Box 41240, Lubbock, Texas 79409-1240 USA
- d) **Tax Id Number:** 75-600-2622
- e) **DUNS number:** #041367053
- f) **Primary Contact Person:** Dr. Nelson Barber
- g) **Full title of proposal:** Developing a U.S. wine market in southwest China through education and price competitiveness.
- h) **Target Markets:** China (Mainland)
- i) **Current conditions in the target market affecting the intended commodity or product:**

#### **Background – China and the southwest region**

Recent research has pointed to the changes in the Chinese economy during the last few years. This change has resulted in the involvement of the business community. This boom in the private sector can be illustrated by some simple figures:

- The number of private companies has increased by 35% per year since 1990;
- The private sector represents today 25% of industrial production,
- A third of the GNP (excluding Agriculture) and 11% of employment.
- Currently it is estimated that China has 200 million middle-income consumers (VIA, 2004).

This dynamic environment coupled with the increase in the population's wealth and education should benefit the wine sector. In addition, the wine sector should also benefit from the economic boost provided by the 2008 Olympic Games and the Universal Exposition in Shanghai in 2010.

Beijing, Shanghai and Guangzhou currently have the highest concentration of imported wine products, which are priced at the higher end of the market. Domestic wines are also present but they are of inferior quality. While on-trade wine sales are strong, purchases of domestic and foreign premium and regular table wine in supermarkets and hypermarkets account for the largest sales volume, comprising more than half of total volume sales in 2006.

However, little has been written about the southwest China wine market.

#### **Southwest China**

Southwest China's diverse topography, climate and economy reflect all of the problems and opportunities of China's latest growth region. The three provinces of Sichuan, Yunnan and Guizhou, plus Chongqing, the new municipality which is the world's largest city by area with a population of 31 million, have a combined 200 million. Yet only 10% of China's GDP. Exporters it would be worthwhile to focus on growth generated from this region's rich resources and the central government's decision to help this region catch up with the prosperous coast through its Western Development Strategy (WDS).

In 2001, the western economy outpaced the coast's, as housing, construction and major infrastructure projects raised regional growth. This shift in infrastructure expenditures should

continue for several years on major regional projects in transport, IT links, energy supplies, environmental upgrading and education.

Southwest provincial markets already compare favorably with other Asian national markets. Sichuan's GDP nearly equals Malaysia's; Yunnan and Guizhou together match Vietnam's GDP; the region's GDP/capita is above Vietnam's average and within 10% of India's. These averages mask major opportunities, as growth in the economic corridor of Chengdu-Chongqing, and two urban centers of Kunming and Guiyang far outpace their hinterlands. Here, some 30 million consumers in the urban centers present elevated standards of living matching the coastal regions, with annual incomes four times the national average (Canada, 2008).

The result is that the Southwest's potential in the medium term is high, driven by the central government's commitment to stabilize and nurture the western region, the amount of local and private resources into the region, and qualified people returning home from the coast.

### **The Domestic Wine Industry**

Fortified wines are by far the preferred product in the category, accounting for over 60% of total sales. Fortified wine is followed by still wine at roughly 30% of the sector and sparkling wine at less than 10%. Consumers have trouble adapting to the taste of still grape wine and tend to mix it with soda or sweet juice. White wine has established a small but growing base as Chinese consumers have adapted more easily to the lighter, fresher taste of white wine. Icewine's sweet taste has proven popular amongst Chinese consumers (Canada, 2008).

China's vineyards have expanded 40 percent between 1997 and 2002 and are expected to grow at an annual average of 12 percent through 2007. In 2002, China had about 461,127 acres planted with grapes (VIA, 2004).

Top wine-producing provinces are Hebei and Shandong in North China and Xinjiang in the far west. Although China's wine output has grown rapidly, its exports have declined steadily during the last few years while its domestic consumption has increased (VIA, 2004).

The import duties in China for wines and liquors are respectively 14% and 10%, plus 17% value added tax, applying to imports from most favored nations. There are no import duties for such imports into Hong Kong. However, they are subject to excise tax if these goods are removed for local consumption.

China's demand for wines is growing even faster than its steadily rising production, creating a shortfall that has led to the blending of inexpensive bulk foreign wines with local ones, so most wines labeled as Chinese contained 30-40 percent imported product (VIA, 2004).

However, imports of inexpensive U.S. bulk wines have been undercut by growth in China's own wine production, while lower tariffs and growing disposable income has smoothed the way for bottled wine imports.

No single data source completely captures China's market for imported wines. However, certain trends have come to light. In the last several years, China's wine imports have shifted from indirect shipments through Hong Kong to direct shipments into Shanghai, due to improvements in both the quantity and quality of import and distribution options and infrastructure available to U.S. bottled wine producers (VIA, 2004).

Another dramatic change in the Chinese is the change in consumer attitude. For example, more Chinese women are drinking wine than before. Recent issues of popular magazines and newspapers have extolled the health benefits of drinking wine. The prospective growth of the market could also be boosted by the reduction in import taxes due when China joins the WTO (VIA, 2004).

## **Southwest**

### **Key areas: Chongqing, Chengdu, Kunming**

Local still red wine has strong demand in Southwest China, particularly in urban cities such as Chongqing, Guiyang, Kunming and Chengdu. Demand has also been boosted through promotions in supermarkets, night clubs and restaurants. Large cities, such as Chongqing, have a thriving nightlife, while the Yunnan region has many popular tourist attractions, bringing in large numbers of tourists who want high quality alcoholic beverages while on vacation. The rural population prefers inexpensive local products.

Domestic wineries dominate the regional market. On the whole, consumers are price sensitive and are reluctant to purchase expensive alcoholic products, which they know little about. The region suffers from a poor distribution network and a lack of supermarkets and hypermarkets. Despite this, wine consumption has seen steady growth in night clubs and bars, especially that of foreign brands. Off-trade wine sales are boosted by in-store wine promotion, which is mostly done in supermarkets. It is common practice to offer discounts or free gifts along with wine purchases (Canada, 2008).

j) **Description of problem(s), constraints to be addressed, inadequate knowledge of the market, insufficient trade contacts, lack of awareness by foreign officials of U.S. products and business practices, impediments, infrastructure, financing, regulatory or other non-tariff barriers, etc...**

The following issues need to be addressed and understood in order for U.S. wine producers to effectively market their products in southwest China. The results of this research study will be published and shared in both academic and trade journals in order to benefit U.S. wine producers, grape growers and marketing professionals.

### **Education**

The most important measure taken to help fuel interest and growth in this market is wine education. Chinese consumers suffer from lack of wine education and brand awareness. Since off-trade generates the highest sales, exporters will find it best to target supermarkets and hypermarkets as well as specialist liquor retailers. Examples of current wine promotion methods in local supermarkets include discounting prices (local wines are sometimes sold at half the price); wine tasting events; or buy one get one free deals, where a complimentary can of soda is handed out for every bottle sold. While seemingly a strange marketing tool by Western standards, the current consumption preferences of Chinese consumers have made "wine and soda" promotions viable.

### **Wine Pairing Program**

This is a sub section of the education section above. A key obstacle to drinking wine in China is to know how to pair wine with food. There are standard pairings for western food that while not well known in the local market could be translated in to Chinese. Pairing with Sichuan food is a blank slake, but is a critical first step to effective wine marketing. The complexity of wine pairing in Szechuan cuisine is because it often contains food preserved through pickling, salting, drying and smoking, and is generally spicy. The Sichuan peppercorn is commonly used; it is an indigenous plant producing peppercorns with a fragrant, numbing, almost citrusy flavor. Also common are chili, ginger and other spicy herbs, plants and spices.

## **Import and Distribution Channels**

One of the biggest constraints to the wine market in China lies in the difficulty of distribution. When selling their products in China, foreign producers must work with wine-specific importing and distribution agents who have varying levels of competence.

It is vital for producers to have good relationships with their importers and distributors to ensure that the entire supply process works smoothly. Extensive marketing and educational activities are essential to reach beyond the business traveler and expatriate segments and develop a critical base of Chinese consumers.

China's vast country and large population offer large and varied markets that exporters can tap into. However, its sheer size can be a hindrance as China's infrastructure is often underdeveloped in many areas. It is also hard to find a good distributor who can guarantee the timely distribution of products and foreign importers often have to turn to many agents, complicating co-ordination. In addition, agents vary in their levels of competence and reliability.

Many importers and distributors may not have marketing and education services, so unless new products are competitively priced or introduced through comprehensive educational promotions, they may fail, even in relatively developed coastal markets

Typically, wines enter China's importer and distributor network through three channels:

- CEROILS (China National Cereals, Oils & Foodstuffs Import and Export Corporation), the state monopoly wholesaler and distributor of alcoholic beverages.
- Joint venture and foreign-owned hotels and duty-free stores under China Travel Services. This is a somewhat limited channel, as products are restricted from general distribution.
- The gray channel of Hong Kong and Guangzhou. This channel is declining in importance as duties fall and enforcement of regulations becomes more rigorous.

As the dominant port of entry, Shanghai offers several foreign-run, fully integrated import and distribution options; however, importers in Shanghai are often reluctant to carry new products.

Some importers and distributors offer a full range of sales and marketing services, including climate-controlled warehousing, trade education, market promotion, sales and delivery. Most successful importers and distributors obtain a sublicense from CEROILS, and then handle marketing and distribution themselves - an arrangement that allows them more control over brand development, handling and storage.

## **Pricing**

Price comparison and analysis is difficult in the import wine sector because of product mix differences and the relative importance of bulk imports in different countries. Prices can range from a high of \$27.31 per liter for Singapore imports from France to a low of \$.62 per liter for Russian imports from Argentina. In fact, the U.S. ranks 6<sup>th</sup> in average market position behind Spain (5<sup>th</sup>), Italy (4<sup>th</sup>), Australia (3<sup>rd</sup>), Chile (2<sup>nd</sup>) and France (1<sup>st</sup>).

Part of the difficulty in selling imported wine in the Chinese market lies in the price sensitivity of the consumer market. Chinese domestic wine typically sells for somewhere around US \$4 per bottle, while imported wines range from as little as US \$6 per bottle to more often the US \$15 and up range. Little incentive exists for a Chinese consumer who knows little about wine in the first place to purchase an expensive imported brand that is at least three times as expensive as a Chinese-produced variety with Chinese language labeling (California Wine Export Program, 2007).

## **Brand Recognition**

Regardless of how well respected or known a brand is in countries other than China and parts of Asia, the brand recognition is starting over in China. Considerable time and effort must be spent on name and brand recognition. France and Australia are currently the most well recognized foreign wine producing areas to Chinese consumers, and not surprisingly because these two countries have invested significant time and money in convincing the Chinese consumers of the quality of their wine. California wines have also experienced some recent successes although its brand recognition still doesn't match that of countries which started developing the Chinese wine market much earlier.

However, once a brand has been established, Chinese wine consumers will often choose a product based on this 'the brand name alone. Consumers' may not know whether they enjoy a certain producer's wine, but if it has a good reputation and will impress friends and family, the consumer may purchase it. Choices made by Chinese consumers are different than those made by consumers in the U.S. Consumers in China often buy wine for unsophisticated reasons such as, big names, attractive labels, elaborate packaging and wine from the 'right'. Accordingly, there is much to be gained from imported wine sellers investing in marketing and media promotions in order to spread a wine's name (Gain report number CH6416).

### **k) Project objectives:**

A number of GAIN reports have been produced by the USDA Foreign Agricultural Service, China branch (2005 – 2008) regarding the Chinese wine market (see reference list). However, most of these reports have focused on the north and east regions of China, such as Shanghai (2005 and 2008) and the North China (2006). No studies were found that focused on the wine market in the southwest region of China.

Therefore, focusing on the southwest region, this project will determine the types and scope of markets for wine; consumer knowledge of wine and wine preferences; domestic Chinese and foreign competition; domestic Chinese production; obstacles faced when importing wines; how to best transport and distribute wine grapes, wine and must; the degree of government's involvement in the markets; the level of technology in wine and wine grape production; and, the role of direct foreign investment under China's evolving market conditions.

Very little is known about the southwest wine region or the Chinese wine consumer living there. Who are they? What are their consumption habits? This research project will set in motion a consumer survey in four major southwest Chinese cities. This project will require the cooperation of Texas Tech faculty in the RHIM program with contacts in China, Texas Wine Marketing Research Institute, University of South Carolina Wine Education Institute, the society of wine educators, and assistance from local graduate students in China.

Develop education programs and guides to assist the Chinese consumer in wine pairings. For example, Sichuan is a culinary hub, and if a pairing guide could be developed, it could be included into other market development efforts by the ATO offices in southwest China. High-end restaurants and hotels in Chengdu generally do not help their customer pair wine. If a menu of U.S. wine pairing with Sichuan cuisine were developed, it would greatly help efforts to promote U.S. wine.

In relation to pricing pressures and understanding, a test marketing program in southwest China. U.S. wines are not price competitive. Therefore it is critical to find the competitive edge for U.S. products and identify the best market development strategy. It would be extremely helpful to ATO Chengdu and other southwest ATO's efforts to export U.S. wine to China to test different market development efforts.

**l) Performance measures: benchmarks for quantifying progress in meeting the objectives**

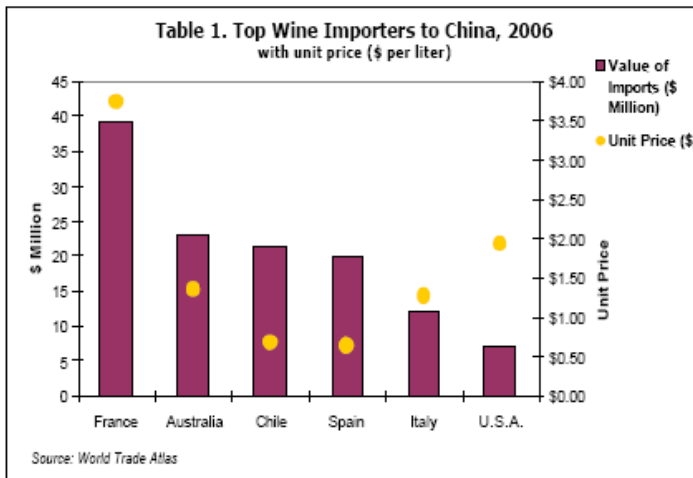
This project has been divided into four stages (see time-line) with detailed comprehensive plans of action. Before implementing the next stage and upon completion of each stage, a through review and evaluation of performance will be performed and adjustments made accordingly.

**m) Rationale: explanation for the underlying reasons for the project proposal and its approach, including especially the anticipated benefits:**

According to the GAIN REPORT CH8802, the value of U.S. wine exports to China increased more than fourfold from \$1.4 million in 2002 to almost \$7 million in 2006. Due to their late entry, U.S. winemakers have yet to gain a significant market share relative to their French and Italian counterparts, or relative to other latecomers such as Australia and Chile. Although imports increased steadily over the past three years, the United States dropped in rank to 6th place among the top wine importers to China, following France, Australia, Chile, Spain, and Italy (see Table 1). The unit price of Chilean and Spanish wine has actually decreased over time, which suggests that more bulk wine may be exported to China compared to previous years.

Although imported wines currently maintain the dominant position in the premium wine segment, foreign wines are not yet popular in China. Chinese wine consumers are very familiar with domestic brands such as Changyu, Dynasty and Great Wall. However, very few know anything about foreign wines. This makes it difficult for Chinese consumers to distinguish different foreign wines and choose the right one for their purchase.

Texas is ranked below the top 10 in wine production in the U.S. (BATF 2006), with over 170 wineries under management. Texas wine professionals report the need for increased research on effective marketing strategies targeting new markets that can promote Texas wines. Understanding the Chinese market, particularly the southwest region, and their wine consumers may benefit Texas wineries with the possibility of expanding to an international market while it is still developing.



n) **Clear demonstration that successful implementation will benefit a particular industry as a whole, not just the applicant:**

*China and wine:*

The Chinese market, and in particular the southwest region, deserves interest because of a change in consumer attitude: more women are drinking wine than before. Recent issues of popular magazines and newspapers have extolled the health benefits of drinking wine.

The Chinese market will live up to expectations only if investment is made in consumer education: the average Chinese consumer knows very little, if anything, about wine, so it's no wonder that 90% of the Chinese market is dominated by low quality wines. Generally, in wine producing countries consumer wine education campaigns are spearheaded by local producers.

Wine sales (grape and nongrape) in China jumped 42 percent between 2001 and 2006, from 1.5 billion liters in '01 to 2.18 billion liters last year. And per capita consumption of wine in China is up 55 percent from 2000 to 2006, according to the U.S. Department of Agriculture Trade Office in Shanghai, making China one of the six biggest wine consuming countries in the world. Rice wine is one of the most well known and popular alcoholic beverages in China. While grape wine has a long history in China and is widely consumed, it is consumed in much smaller quantities. Consumers residing in industrialized cities tend to have more knowledge of grape wine products than rural consumers.

However, the average Chinese consumer is unfamiliar with the different types of wine available and better consumer education and brand awareness is needed for imported wine to successfully penetrate the Chinese market. Overall, Chinese consumers are price sensitive and prefer to purchase local or regional brands. Educating the consumer on food pairing with U.S. wines will not only increase their understanding of the various wines (U.S.), but possibly develop a brand loyalty to U.S. wines.

*Texas and the U.S. wine industry:*

Support is strong within the state of Texas wine and grape industry to develop export markets for Texas wine and grape products.

Texas Tech University will work in with the Texas Wine Marketing Research Institute, a market research group funded by the Texas Department of Agriculture (TDA). The mission of the Texas Wine Marketing Research Institute is to provide timely and relevant research and education to the Texas wine and grape growers industry and to foster the economic development and growth of the grape and wine industry in Texas. The University Of South Carolina is responsible for the wine education and food pairing program. This education component is well received by The Society of Wine Educators. They are a non-profit educational organization whose mission is to advance wine education through professional development and certification.

Dr. Nelson Barber and Dr. Ben Goh of Texas Tech University are the principal investigators, and Dr. Sandy Strict of University Of South Carolina.

During the 77th Texas legislative session (2001) House Bill 892 established the Texas Wine Marketing Assistance Program at TDA to assist the Texas wine industry in promoting and marketing Texas wines and educating the public, in/out of state and internationally, about the Texas wine industry.

There are 5 wineries in Texas that account for over 80% of wine and juice production. This collaboration will not only help bring economic value to the Texas wine industry by to improving the opportunities for distribution of their wine into the southwest Chinese market, but will add

valuable insights for other U.S. wine producers that are in need of expanding into emerging markets and that face competition for larger foreign wine producing countries.

Once completed, the results of this study will be shared with other U.S. wine producing and/or grape growers regions and other wine marketing organizations such as the Wine Institute, so they can establish marketing and education programs and export programs to penetrate the Chinese market.

On Premise wine grape production

|    |                | Millions of liters | % of total |
|----|----------------|--------------------|------------|
| 1  | California     | 2,190.0            | 89.30%     |
| 2  | New York       | 106.8              | 4.40%      |
| 3  | Washington     | 75.9               | 3.10%      |
| 4  | Oregon         | 15.6               | 0.64%      |
| 5  | Florida        | 6.6                | 0.27%      |
| 6  | New Jersey     | 6.3                | 0.26%      |
| 7  | Kentucky       | 4.7                | 0.19%      |
| 8  | Ohio           | 4.2                | 0.18%      |
| 9  | Virginia       | 3.7                | 0.15%      |
| 10 | North Carolina | 3.5                | 0.14%      |

Texas 1.8 0.07%

TTB report for 2006

**o) Explanation as to what specifically could not be accomplished without federal funding assistance and why participating organizations are unlikely to carry out the project without such assistance:**

Without federal assistance for an important research project such as this, with potential and significant benefit to U.S. wine producers and grape growers, this project could not be undertaken.

**p) Specific description of activity/activities to be undertaken:**

Part one:

This study will be conducted using a self-administered paper survey. It is expected that up to 6,000 questionnaires will be handed out to visitors at wine shops, restaurants and major shopping malls; 1,500 in each of the four major Chinese cities. The four major cities are Chongqing (pop. 3.4 million/32.7 million administrative area), Chengdu (pop. 3.8 million/11.3 million admin area), Kunming (pop. 3.1 million/6.8 million admin area), and Guiyang (pop. 2.2 million/3.3 million admin area). Data collection will be conducted during November through April, 2009. The survey will be handed to only native Chinese in the four cities, avoiding expatriates that might skew the segmentation results. The participants will be informed that participation is voluntary and that all responses will be kept anonymous and used only for statistical analysis by the research personnel.

Part two:

Assessment of wine and food pairings. This would be accomplished through a second survey of 4,000 questionnaires will be handed out to Chinese wine consumers to assess their understanding of wine and food pairing. As part of this, food and wine pairing guides will be made and used as part of the survey. Local restaurants would be asked to participate in this portion of the project.



Part three:

An evaluation of test marketing strategies of U.S. wine promotion would be performed. This evaluation of the best (targeted) restaurants would assess the most effective marketing tools for U.S. wine. The focus would be to find out how restaurants could best promote U.S. wine, what marketing tools would be most effective, and what the promotional cost would be. Assessing consumer awareness of U.S. wines would be an integral part of this process. This would provide a better picture of best strategies for market development and promotions.

These cities were selected because:

### **Chongqing**

Chongqing, rates as the chief industrial city of Southwest China and the Central Government is promoting Chongqing as one of the major hubs for economic growth and reform under the "Go West" strategy. According to a recent survey by "Fortune" magazine, Chongqing came fourth among investment destinations in China after Shanghai, Beijing and Shenzhen (Denmark, 2007).

### **Chengdu**

Chengdu is the political, economic and cultural hub of the province. It serves as the regional centre for services, science and high-tech industries.

Chengdu has a large pool of technically skilled workers available as a result of the high number of annually graduates from the province's large number of technical universities and institutes.

Data will also be collected from wine distributors and producers to gather their insights into the production and distribution of domestic wines and the distribution of foreign (imported) wines and their perceived barriers to entry into this market.

The survey(s) will be created in English and then translated into Mandarin Chinese in the U.S. by Chinese graduate students at Texas Tech University and then sent to China (Mainland) to be translated back into English by graduate students affiliated with a hospitality program of a major Chinese university. This technique has been proven successful when dealing with multicultural studies.

Once the data has been gathered, it will be translated back into English. These data will then be screened for missing or unusual entries and entered into an excel worksheet. Once data cleaning and screening is complete, data analysis will be performed using SPSS (14.0) software.

**q) Timeline(s) for implementation of activity, including start and end dates:**

| YEAR:  | 2008 - 2009 |     |   |   |   |     |   |   |   |     |   |   |   |     |     |
|--------|-------------|-----|---|---|---|-----|---|---|---|-----|---|---|---|-----|-----|
| MONTH: | Nov         | Dec |   |   |   | Jan |   |   |   | Feb |   |   |   | Mar | Apr |
| WEEK:  | 1-4         | 1   | 2 | 3 | 4 | 1   | 2 | 3 | 4 | 1   | 2 | 3 | 4 | 1-4 | 1-4 |

**PHASE 1: DEVELOPMENT**

|  |   |   |  |  |  |  |  |  |  |  |  |  |  |  |  |
|--|---|---|--|--|--|--|--|--|--|--|--|--|--|--|--|
| Research faculty and graduate student preparation                    | X |   |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Develop questionnaires and translate to Chinese                      | X |   |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Research survey sites and site selections                            | X | X |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Research & select Chinese company for professional service agreement | X | X |  |  |  |  |  |  |  |  |  |  |  |  |  |

**PHASE 2: SITE VISIT**

|   |  |   |   |   |   |  |  |  |  |  |  |  |  |  |  |
|---|--|---|---|---|---|--|--|--|--|--|--|--|--|--|--|
| Site visit to survey locations in China                                       |  | X |   |   |   |  |  |  |  |  |  |  |  |  |  |
| Review intercept survey procedures with professional service agreement agency |  | X |   |   |   |  |  |  |  |  |  |  |  |  |  |
| Begin survey collection in Chengdu  |  | X | X | X |   |  |  |  |  |  |  |  |  |  |  |
| Begin survey collection in Chongqing i  |  | X | X | X |   |  |  |  |  |  |  |  |  |  |  |
| Begin survey collection in Kunming  |  |   | X | X | X |  |  |  |  |  |  |  |  |  |  |
| Begin survey collection in Guiyang  |  |   | X | X | X |  |  |  |  |  |  |  |  |  |  |
| Evaluation of test marketing strategies of U.S. wine promotion                |  |   |   |   |   |  |  |  |  |  |  |  |  |  |  |

**PHASE 3: DATA ANALYSIS**

|   |  |  |  |  |   |   |   |   |   |   |   |   |   |   |  |
|---|--|--|--|--|---|---|---|---|---|---|---|---|---|---|--|
| Clean and screen data for analysis                    |  |  |  |  |   | X | X |   |   |   |   |   |   |   |  |
| Recruit graduate student analysis for data entry      |  |  |  |  | X | X |   |   |   |   |   |   |   |   |  |
| Data Entry  |  |  |  |  |   |   |   | X | X | X |   |   |   |   |  |
| Prepare initial report for review by research faculty |  |  |  |  |   |   |   |   |   | X | X |   |   |   |  |
| Prepare final report for EMP - USDA                   |  |  |  |  |   |   |   |   |   |   |   | X | X |   |  |
| Publish in academic and industry journals             |  |  |  |  |   |   |   |   |   |   |   |   |   | X |  |

**r) Information on whether similar activities are or have previously been funded with USDA sources in target country/countries:**

The California Association of Wine Growers also commissioned a year-long market study of wine in China in 2006, "Wine in China," that includes in-depth research on China's horticulture economy and the wine market with specific emphasis on California wine in China.

s) **Detailed line item activity budget: (budget explanation – next page)**

|                            |  |                      |                 |
|----------------------------|--|----------------------|-----------------|
| <b>Project Title:</b>      | Developing an understanding of the potential wine market in the southwest regin of China |                      |                 |
| <b>Budget Period Start</b> | November 1, 2008   | <b>Budget Year</b>   | 2009            |
| <b>Budget Period End:</b>  | April 30, 2009   |                      |                 |
| <b>Revision Date:</b>      |  | <b>Budget Totals</b> | <b>Matching</b> |
| <b>Submitted by:</b>       | Dr. Nelson Barber  |                      |                 |

|    |  |                    |                     |                     |
|----|--|--------------------|---------------------|---------------------|
| A. | Salary Senior Personnel (Research Associate @ 1.00 FTE for 3 mos.)   |                    | \$ 13,333.33        | \$ 19,789.87        |
| B. | Salary Other Personnel   |                    |                     |                     |
|    | Other Professional Staff   |                    |                     |                     |
|    | Other (Unallocated)  |                    |                     |                     |
|    | Language Tutoring  |                    |                     |                     |
|    | Graduate Students  |                    |                     |                     |
|    | Subtotal: Salaries and Wages (A+B)   |                    | \$ 13,333.33        |                     |
| C. | Fringe Benefits  |                    | \$ 5,886.00         | \$ -                |
| D. | Capital Acquisitions (exluded from MTDC)   |                    | \$ -                |                     |
| E. | Total Travel   |                    | \$ 11,575.00        |                     |
|    | Domestic Travel  | \$ -               |                     |                     |
|    | Foreign Travel (see budget explanation)  |                    |                     |                     |
|    | Airfare for 2 from Lubbock to China (4 cities)   | \$ 7,000.00        |                     |                     |
|    | 3 days hotel in Chengdu (sharing room) & Per Diem  | \$ 1,200.00        |                     |                     |
|    | 3 days hotel in Guiyang(sharing room) & Per Diem   | \$ 1,125.00        |                     |                     |
|    | 3 days hotel in Chongqing (sharing room) & Per Diem  | \$ 1,125.00        |                     |                     |
|    | 3 days hotel in Kunming (sharing room) & Per Diem  | \$ 1,125.00        |                     |                     |
| F. | Participant Support Costs (exluded from MTDC)  |                    |                     |                     |
| G. | Other Direct Costs   |                    |                     |                     |
|    | 1. Professional Service Agreement (Survey distribution & collection)   |                    | \$ 20,000.00        |                     |
|    | 2. Training Materials  |                    | \$ 1,353.00         |                     |
|    | 3. Sub awards subject to F&A rate  |                    |                     |                     |
|    | 4. Sub awards not subject to F&A rate (exluded from MTDC)  |                    |                     |                     |
|    | 5. Graduate Tuition and Fees (exluded from MTDC)   |                    |                     |                     |
|    | 6. Other Costs, subject to F&A rate  |                    |                     |                     |
|    | 7. Other Costs, not subject to F&A rate (exluded from MTDC)  |                    |                     |                     |
|    | Subtotal, Other Direct Costs   |                    |                     |                     |
| H. | Total Direct Costs   |                    | \$ 52,147.33        |                     |
| I. | Modified Total Direct Costs  |                    | \$ 52,147.33        |                     |
|    | (Total Direct Costs less Capital Acquisitions, participants Costs, Amount of Sub awards>\$25k, Graduate Tuition and Fess, and Other, not subject to F&A) |                    |                     |                     |
| J. | Facilities and Administrative (F&A) Cost Rate  | 26%                |                     |                     |
| K. | F&A Cost Basis   | Total Direct Costs | \$ 52,147.33        |                     |
| L. | Facilities and Administrative Costs  |                    | \$ 13,558.31        |                     |
| M. | <b>Total Budget Period Costs (Direct + F&amp;A)</b>  |                    | <b>\$ 65,705.64</b> | <b>\$ 19,789.87</b> |

**Budget Explanation:**

**BUDGET EXPLANATION AND NOTES**

**A & B SENIOR PERSONNEL SALARIES & FRINGE BENEFITS**

|                 | <b>9 MO<br/>BASE</b> | <b>PROJECT<br/>PERIOD/MOS</b> | <b>%<br/>TIME</b> | <b>TOTAL<br/>SALARY</b> | <b>FRINGES<br/>18%</b> | <b>INS<br/>\$581/MO</b> | <b>TOTAL</b> |
|-----------------|----------------------|-------------------------------|-------------------|-------------------------|------------------------|-------------------------|--------------|
| Research Assoc. | \$ 20,000.00         | 6.00                          | 100%              | \$ 13,333.33            | \$ 2,400.00            | \$ 3,486.00             | \$ 19,219.33 |

**E. TRAVEL EXPENSES**

|            | <b>Hotel</b> | <b>Per Diem</b> | <b>Units</b> | <b>Total</b>        | <b>Notes</b>               |
|------------|--------------|-----------------|--------------|---------------------|----------------------------|
| Chengdu    | \$ 200.00    | \$ 100.00       | 6            | \$ 1,200.00         | Expenses are for 2 persons |
| Chongqing  | \$ 175.00    | \$ 100.00       | 6            | \$ 1,125.00         | Expenses are for 2 persons |
| Guiyang    | \$ 175.00    | \$ 100.00       | 6            | \$ 1,125.00         | Expenses are for 2 persons |
| Kunming    | \$ 175.00    | \$ 100.00       | 6            | \$ 1,125.00         | Expenses are for 2 persons |
|            |              |                 |              | \$ 4,575.00         |                            |
| Air Ticket |              | \$ 3,500.00     | 2            | \$ 7,000.00         | Expenses are for 2 persons |
|            |              |                 |              | <b>\$ 11,575.00</b> |                            |

**Note: Hotel and Per Diem rates are based on US Department of State published Foreign Per Diem Rates**

**G. OTHER DIRECT EXPENSES**

|                      | <b># of Surveys</b> | <b>Unit<br/>Cost</b> | <b>Total</b> | <b>Notes</b>  |
|----------------------|---------------------|----------------------|--------------|---|
| Professional Service | 10,000.00           | \$ 2.00              | \$ 20,000.00 | Hire local professional company to help distribute & collect up to 10,000 surveys |

**Note: Unit cost include printing, translation, distribution, and collection of surveys by local professional company (Chinese).**

**Training Materials**

|                                  |                    |
|----------------------------------|--------------------|
| Intercept Guidelines Development | \$ 400.00          |
| Printing and Binding             | \$ 300.00          |
| Badges                           | \$ 200.00          |
| Office Supplies                  | \$ 200.00          |
| Miscellaneous                    | \$ 253.00          |
| <b>Total</b>                     | <b>\$ 1,353.00</b> |

**FACULTY COST SHARING WORKSHEET**

| <b>ORIGINAL</b> | <b>9 MO<br/>BASE</b> | <b>PROJECT<br/>PERIODS</b> | <b>%<br/>TIME</b> | <b>COST<br/>SHARE</b> | <b>FRINGES<br/>18%</b> | <b>INS<br/>\$581/MO</b> | <b>TOTAL</b> |
|-----------------|----------------------|----------------------------|-------------------|-----------------------|------------------------|-------------------------|--------------|
| BEN GOH         | \$ 81,924.00         | 6.00                       | 20%               | \$ 10,923.20          | \$ -                   | \$ -                    | \$ 10,923.20 |
| NELSON BARBER   | \$ 66,500.00         | 6.00                       | 20%               | \$ 8,866.67           | \$ -                   | \$ -                    | \$ 8,866.67  |
|                 |                      |                            |                   | \$ 19,789.87          | \$ -                   | \$ -                    | \$ 19,789.87 |

|                                      |
|--------------------------------------|
| <b>TOTAL FRINGES &amp; INSURANCE</b> |
| \$ -                                 |

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