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Selling more South African (RSA) wine overseas

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Since 1994, RSA wine quality has risen quite steadily. Extensive replanting of vineyards has taken place, and wine making technology and training has improved dramatically. Accordingly, the acceptance, and more recently, the sustained accolades of the international wine journalist community have been attained. Despite these achievements, the penetration of foreign wine markets with consumer sales of RSA branded wines has not kept pace. In the US (where the author is based and most familiar), bottled RSA wine sales have remained at approximately 1 million cases/year for over 10 years, while the total USA wine market continues to grow, presently more than 399 million cases per year, including sparkling wine, and that over 14% alcohol. Annual US wine sales growth, however, has slowed to about 2.5% to 3%+ in recent years, which does not make things easier and many more US wineries are created annually. (Total US wineries, which exist in all 50 states, is fast approaching 10,000.) With more US producers in the market every year, and extensive local promotional efforts by US wineries, many large US grocery store chains no longer carry any selections from RSA; retail distribution has shrunk in numerous areas. To mix an old metaphor, "the dogs are not eating the RSA dog food" in the US. Unfortunate, but true.

Imported wines constitute 30% of US wine sales, but clearly those sales proceeds are largely going to other wine producing regions of the world. (RSA wine share of US market is a meager 1/4 of 1%!) Nevertheless, the purpose of this discussion is not to elaborate on the US wine market (the largest in the world), and the marginalized role of RSA wine in the US wine market, but rather to analyze and propose some alternatives for selling more RSA wine in other foreign markets. The region that beckons most strongly is Peoples Republic of China (PRC) and to a lesser degree, certain other Asian countries, such as Japan, Vietnam, and Singapore, to name three). Reportedly over 70% of the growth in expected international wine sales will be in this Asian area for the next 10 or more years. Of course, this potential is known by all wine producing regions in the world, and the resulting competition is and will continue to be intense.

Far and away, the greatest market potential for substantial wine sales growth lies with China. The number of Chinese drinkers consuming imported wine more than doubled from 19 million to 48 million people between 2011 and 2017 alone, according to a study by consultants Wine Intelligence. At present, only 4% of the total alcoholic beverages consumed annually in China are wines, and no more than 64% of total wine consumed is domestically produced. As a point of reference, in the US roughly 70% of the wine consumed is domestically produced. Further, only 33% of the US adult population drinks wine, and one third of wine drinkers (say 11- 12% of the population) drink almost 90% of wine consumed. On basis of these numbers, tripling the number of wine drinkers (from 4% to 12%) in China is long term realistic. China is clearly in its infancy as a wine consuming country, but that status can change reasonably quickly, as it has for autos, fashionable clothing, travel and many other luxury goods. (Long term may be more like 5-10 years, not 20 or more …)

Per the internationally respected OIV, as of 2015 China's per capita consumption of wine was 1.4 liters/year, the lowest of 21 wine drinking nations reported, and yet China was also the 5th greatest wine consuming nation at 17.25 million hl/year. If in perhaps the next 10 years, per capita wine consumption in China doubles (to 2.4 L/yr per capita), reflecting a 7.2% annual growth rate, a conservative expectation based on

growth rates of recent years, and the fact Japan's per capita consumption is 3.2 L/yr, China's total annual consumption would be 34.5 million hl/yr, greater than the entire US consumption and make it the largest wine consuming nation in the world. Even if total wine imports did nothing more but hold a 33% (if not greater) present market share, imported wine sales would be 11.5 million hl, or almost 16.7 million nine liter cases. From any standpoint, this is a lot of wine.

An exceptionally astute discussion of the Chinese wine market (other than a typo in its headline) was published by June 28, 2017, by Jim Boyce, publisher of the Grape Wall of China. (See: http://www.grapewallofchina.com/2017/06/28/les-miserables-rvfs-annaul-china-wine-tasting-is-a-reality-check/ From his vantage point in Beijing, Boyce has been publishing the Grape Wall newsletter for the past 10 years and he always provides great insight into murky areas. For example, "Last year, China imported 625 million liters of bulk and bottled wine, according to China customs, while local production was listed at 1.1 billion liters. That gave imports a 36 percent share." Further," … local production is overstated and, in turn that imports now have half or more of the market." If so, domestic wine production and the total wine being consumed in China is somewhat overstated and the per capita consumption as well.

As of the first four months of 2017 (per Natalie Wang/Drinks Business), the following countries held the indicated IMPORTED wine market shares in China:

		Perceived Regional Characteristics
France 42.3%		History. Prestige. Quality
Australia	25.5%	Tariff free. Price. Tourist/Education friendly to PRC
Chile	10.4%	Tariff free. Price competitive.
Spain	5.9%	PRICE very competitive.
Italy	5.7%	History. Price
USA	2.8%	Napa Valley prestige. (Vulnerable on high prices.)
New Zealand	1.2%	Tariff free. 90% white wine. (Vulnerable on high prices.)
Argentina	1.0%	PRICE
South Africa	.9%	Affordable quality. Increased RSA tourism potential.
Portugal	.8%	Price.
Germany	.7%	History.
Georgia	.7%	Tariff free Price.
Canada	.4%	Ice wine? Tourist/Education friendly to PRC

In the author's opinion, the first five positions are probably unassailable, at least for a generation. However, the next five to 10 appear "up for grabs." RSA sits in 9th place, could vault in a few years to 6th or fall back to 13th, depending on the efforts of its exporting wineries and those of its competitors.

Further, there are some other factors that should be considered in devising an overall plan.

1. **Unfortunately for Chinese producers, the quality perception of domestic wine remains low ("adulterated plonk" and "Paint-stripper-laced- bulk wine" are terms frequently used in evaluating most Chinese wine) but hopefully improving. (Most of the plantings are Cabernet Sauvignon, irrespective of its suitability for local conditions.) It is reasonable to assume as more middle-income wine consumers in China first try domestic wine and subsequently gain an appreciation for imported wine, imported wine sales will increase as a percentage of domestic consumption and in unit sales at**

higher price points. This suggests greater imported unit sales at ever increasing average unit prices. And as recently as 2014, China was already the world's second-largest consumer of wine priced US$10 or higher. Further, if a 36% market share for imported wines becomes 45-50%, which is not an unreasonable level within 10 years, if not sooner, the imported wine numbers will be staggering.

2. **Chile, New Zealand, Georgia, and (by 2019) Australia will not have their wines impacted by a Chinese import tariff (14%) which is a substantial advantage to wines from those countries. Despite the substantial investment by the PRC into RSA, we are unaware of any ANC government efforts to gain RSA admittance to this exclusive "duty free" club. (We presume WOSA has been lobbying on the RSA wine industry's behalf for some time but no impending change has been reported to its members of which we are aware.) <u>However, the allure of Hong Kong as a wine market is there are no excise taxes or tariffs at all! This makes the HK wine market a relatively "fair fight," and one that most producers can enter at relatively small scale and reasonable expense.</u> (For example, there are no "label qualification" requirements in HK, versus what the PRC requires.)**

3. **The HK and PRC wine markets are proving very attractive to the US wine producers (90% from CA). In 2016, the US wine industry sold $99 million into HK, and $82 million into the PRC. (Many surmise there is substantial subsequent movement of imported wine from HK into the PRC through "informal channels." In June 2017, Chinese Customs announced the arrest of 29 suspects and confiscation of 490 tons of contraband worth US $33.8 million. Another case involving four smuggling rings and 1,800 tons of wine is ongoing. As we will remark below, HK's population is just over 7 million; the PRC is almost 1.4 billion.) Some have estimated that 65% of the wine imported to HK is then "smuggled out" to the PRC. Irrespective, with at least equivalent quality, RSA has the potential for far outselling the US in wine quantity in HK and the PRC, and with much increased prices than now experienced.**

   Another factor, as yet undiscussed in wine media, is the high number of visitors (both tourist and business) to Hong Kong. In recent years, HK has experienced close to 60 million visitors with about 45 million (75%) from the PRC. The very high market share of French wines sold in HK may be largely due to fact tourists everywhere are less price sensitive when dining out, and the same for business people on expense accounts. (Market research should be done in this area to either support or debunk this prospective theory.)

4. **However, maintaining a RSA wine sales presence sufficient to sell in Asia is no easy undertaking. Hong Kong is six time zones to the east of Cape Town, and about 17 degrees north of the Equator, versus 33 degrees south for Cape Town. Almost all Cape producers (those without personal jets) must fly to Jo'berg to get a nonstop flight to Hong Kong; the travel time and resulting jet lag impacts are roughly comparable to travel to the US. Accordingly, few producers want to make the exhausting trip (and recovery) more than once a year, if that. (Coming and going is time consuming, tiring, and**

expensive. The author can attest to this as he has made close to 40 round trips over the past 23 years from the US to RSA.)

5. **The advantage of having a depreciated Rand, when pricing export wines, is not helpful when it comes to the expense of personnel required to represent RSA wines in China, especially Hong Kong. By the same token, any continuing marketing programs (such as that proposed below), that must be funded in Rand but paid in Yuan/RMB, must be well thought out and justified.**

6. **Hong Kong, as a former British colony, has a long history of familiarity with English, and "operating" in English in the cosmopolitan city appears relatively easy. Visually, most visitors will conclude that everyone lives in a relatively modern, high-rise apartment house. Transportation is efficient, and of reasonable cost. The population of approximately 7.1 million, is growing very slowly, and is aging. Hong Kong has one of the world's lowest birth rates—1.11 per woman of child-bearing age as of 2012, far below the replacement rate of 2.1. It is estimated that 26.8% of the population will be aged 65 or more in 2033. Ethnically, Hong Kong mainly consists of Han Chinese who constitute approximately 92% of the population. Other ethnic groups include Filipino and Indonesian foreign domestic helpers, making up approximately 4% of the population.**
7. **Hong Kong for the past 7 years has been ranked the least affordable city in the world. Home prices have nearly tripled over the past 10 years. Twenty years ago HK's GDP was 18% of China's; now it is 3%. It's port, once the world's busiest, has slipped to fifth place. Older hotels are being converted into offices due to escalating rents: in Central, leasing office space is about $16/sq. ft per MONTH, up 6% from a year ago and expected to go 10% higher. The Central office vacancy rate is a very low 1.8%, due in largest part mainland China firms opening HK offices. Prime rents are double those of London's West End and Mid-town Manhattan, already fifth and sixth in the world.**

   Not surprisingly, the French recognize Hong Kong is as a key Champagne market. In 2016, Hong Kong ranked second in Asia and 14th worldwide among export markets for Champagne. How to make headway against the French wine dominance, therefore, and increase RSA wine market share in HK, and its visibility is the key question. With 80% of the HK population transient at any given time, gaining attention is a major challenge (for any wine region other than France). Certainly people on vacation or business are not spending much time absorbing local media offerings. Therefore, it appears to us that the approach has to be via restaurants, hotel bars, upscale retail outlets, and perhaps coordination with Internet travel agencies

   Over the past six months, according to Wine Intelligence, 48 per cent of Chinese imported wine drinkers bought wine online, with eCommerce "vital" to Chinese wine trade, driven by recommendations and lower prices. An optimal long term approach to the Chinese wine consumers unfamiliar with RSA wines may be first through Internet contact with their "influencers," such as PRC based bloggers/journalists, who then encourage HK consumer visits to include specific "imported

wine tasting rooms/venues," and thereby encouraging continuing consumer wine sales made via online purchasing/eCommerce. None of this will be easy, or initially profitable, but little in business is.

8. **WOSA has an experienced market representative, Ms. Michaela Stander, stationed in Hong Kong. She is highly capable, well respected, and knows the market and its participants quite well. However, she also is responsible for the markets for RSA wines in other Chinese cities and other Asian countries. She has no excess time to administer the envisioned promotional program.**

9. **While the numbers vary, RSA reportedly has about a .9% to 1.6% market share of the total China wine market, and 1.5% representation in HK. (If these numbers are correct, RSA has roughly 4-6 times the China wine market penetration as it does in the US.) In Michaela's opinion, HK has value as a cultural/style trend setter for the rest of the PRC as well as much of Asia. Industry analysts note that while red wine typically drives growth in newly-established wine markets, maturing tastes gradually favor the introduction of more white, rosé and sparkling varieties. This should create room for additional market growth well into the future of China's wine industry, which in 2014 was almost entirely concentrated in red wine (90 percent of consumption). As noted further below, in some Beijing stores, white wine now accounts for 15-20% of sales.**

10. **Further note because vast quantities of average quality bulk wine are available on world markets for well less than $1/bottle, it is reasonable to assume many domestic Chinese wineries will import and blend foreign wines into their products, improving their overall quality with relatively low investment cost. Because there is no 14% tariff on Chilean wine, reportedly 86% of the 49.1 million liters of bulk wine that were imported to China in 2016 came from Chile. Depending on how fast and to what extent bulk importation/blending occurs, the market for bottled/branded imported wines may be slower than otherwise anticipated. (Point of fact: the country's bulk wine importation grew 29.99% in value year-on-year, five months of 2017, to US$53.3 million, while its volume climbed 7.5% to 60.4 million liters.)**

Given these facts, devising a marketing plan for RSA wine in both China and HK is challenging. To date, it has largely been "everyman for himself" with limited coordination/cooperation among producers. While this is partially understandable, this must change. We believe a joint effort, at least starting in HK, would be highly beneficial to all exporting RSA producers and may also contribute to heightened "wine tourism" for the Western Cape, and to national tourism for all South Africa. What we envision are scheduled wine tasting events, initially for HK wine importers/retailers and their staff, enhanced with "grazing food," recorded RSA music, and large screen videos. Such events would take place on Sunday afternoons, starting perhaps at 1300 hours and lasting not more than 3 hours.

According to www.wine-searcher.com, there are presently about 840 wine retailers and importers in HK. (The information is well organized on this respected site.) One of our assumptions is that the retail staff of

these shops must become familiar with RSA wines and initially "hand sell" consumers RSA wines to make a significant dent in the market. Further, the F&B managers, bartenders and waitrons of tourist-centric bars and restaurants all need to have greater awareness of the quality of RSA wines. We seriously doubt that many of these people are able to attend the foreign wine shows held a couple of times/year in HK. We also believe that many of these service people would feel honored to be invited to events designed especially for them.

The largest chain in HK is Watson's Wines (www.watsonswines.com) which the author visited one of their 14 stores in April 2016. The shop was quite large, well appointed, and predominantly filled with French wines at 4X+ RSA prices. When asked about RSA wines, a bilingual clerk took me to a two-shelf space where less than 20 wines reposed, all very good RSA brands and then in a locally affordable price range of about HK$100 to HK$200 (R169-R337, or US$12.86-US$25.72). As I wrote down names and prices, the clerk volunteered these were by far the best values in the store; however, when I suggested they were not really known or asked for brands, he absolutely agreed. There is the problem. (Most of the French wines were seemingly clustered at HK$1000 or more.) While the envisioned program could ultimately involve HK consumers as well, our initial target would be the HK retailers/staff who are curious about RSA wine, want to learn more, and are positioned to influence the local consumers.

Requirements: **To put such a program together, it would require at least the following:**

1. **Suitable venue (park, pier/wharf, home with a very large yard/garden, college grounds, or other). If outside, marquis tents are needed.**

2. **Local organizer (prospectively part of the time of an employee of an importer/distributor). However, if the full program discussed herein were implemented, including a website disclosing all retail shops carrying RSA wines, the specific brands/SKUs, and retail prices, a dedicated full-time person is likely needed. This also means this person would attend and manage the event, have preprinted lists of the cellars and their wines to hand out, with normal suggested retail prices and who carries the wines locally. (Certain local media might also be invited once the program got seriously underway.) These informational listings would also be sent electronically to all attendees and possibly to all local retailers.**

3. **Local rental company(ies) supplying tables, chairs, tents, etc. for such wine tasting events and a local catering company capable of supplying the desired "grazing" foods. (Are there also "food trucks" available for same purpose?)**

4. **Cooperation of numerous local HK retailers who want their employees to learn more (on their own time) about wine, especially RSA wines.**

5. **Financial support of a "critical mass" of RSA producers presently (or prospectively) supplying the HK market. (This would involve some WOSA participation and support in both HK and the Cape of a TBD nature. At a minimum, there should be a web listing of all WOSA producers exporting to HK/PRC.)**

Like any party, such events must be of a certain size to make the effort worthwhile yet not so large as to lose intimacy/personal communication. Our initial thoughts were something like 200-300 attendees/event, including spouses/significant others. It may require six -12 months (2-4 such events) to give most of the interested retail community initial exposure to the RSA wines. Years 2 and 3 should be where initial efforts start to pay off with increased wine sales.

Frequency: our initial thoughts are to hold such a tasting event on a quarterly basis in 2018; if successful, increasing to bi-monthly in 2019; and perhaps monthly in 2020. (So 4 events in first year, 6 in second, and then possibly 12/year after that.) If by the third year the program was really taking hold, we would have retailers start to invite their strongest customers for RSA wines, and the consumers would be able to order by the case at the end of the function.

Winemaker/winery owners: A big drawing card would be having "wine luminaries" from the Cape attend, and interact/answer questions with the participants. Whether their wines were being poured or not, we think this would be a big draw; owners and winemakers are always more effective than sales managers, no matter how talented they are. The events would be scheduled and promoted well in advance, and anyone from a Cape winery who plans to be in HK the month of the scheduled event would not want to miss it. (The thirst for more wine knowledge is unquenchable.) We doubt any other wine producing region has done such a program in a continuing fashion and we think this could become something very respected and influential.

Estimated cost and justification. Without more local input, it is very difficult to estimate costs in advance. But as a WAG (wild ass guess) it might run at a minimum US$5,000/event, HK$40,000 (with local importers providing pouring staff and RSA suppliers providing sample wines) but more likely US$10,000/HK$80,000, half spent on admin/invites and confirmations and half on rentals and food. So perhaps the first-year costs US$40,000 (four events), and the second year costs US$60,000 (six events).

Some assumptions must be made about increased RSA wine sales resulting from such a program. Accordingly, we estimated the following:

MONTHLY)
(if handstacked)

				Minimum Event Expenses	
			Sales	***@5% of Sales Revenues***	
Increased containers	***cases of 12***	***FOB wine prices/CT***	***Revenues***		
1	***1,000***	***R50/btl (US$3.85)***	***R600,000***	***R30,000***	***$2,308***
2	***2,000***	***R600/case***	***R1,200,000***	***R60,000***	***$4,615***
3	***3,000***		***R1,800,000***	***R90,000***	***$6,924***

YEARLY				
Containers	***cases of 12***	***Sales Revenues***	***Minimum Event Marketing Expenses @5% sales /rev***	
12	***12,000***	***R7,200,000***	***R360,000***	***(US$26,666)***
24	***24,000***	***R14,400,000***	***R720,000***	***(US$53,332)***
36	***36,000***	***R21,600,000***	***R1,080,000***	***(US$79,998)***

Note: Our underlying assumption is that collectively RSA wine producers would have to pay at least 5% of revenues to attain such additional sales in HK. However, if the exposure of the RSA wines to the wine trade in HK resulted in increased sales of 1-3 containers of wine/mo in return for the proposed marketing expenditures, the producers would have received a very good return on their "soft cost" investment.

Further, if 150 local HK shops sold 20 more cases/month, you achieve a 3,000 case sales/month increase. In our opinion, this is not likely to be attained in first year, but likely by second or third. At present, on average, HK receives X wine containers/year of RSA wine. (The below article cites .92 million liters/yr (102,000+ cases) to HK from South Africa. Investigation needs to be done to determine how much of the RSA wine is bottled versus shipped in bulk and bottled in HK or China, and where actual consumption takes place.)

Note the projected average import price of US$3.85/bottle, close to the US$3.62 cited in the article below. Now, if the tasting program utilized exclusively more expensive bottles, say $7 or $8, including shipping costs of $1/bottle, the HK retailers will be exposed to a more upscale inventory, and presumably be more inclined to tout such brands/bottles against the more expensive offerings from France, Napa Valley, and elsewhere.

Now, one will never know how many more cases each individual winery will have sold without the events program (none, little, lots, etc.), but the purpose of the program is to promote and establish Brand South Africa in Hong Kong in a substantial and continuing fashion. Secondly, it may be possible to duplicate efforts in other major Chinese cities, starting with Shanghai, after a year or two there are encouraging results in HK.

Thirdly, we believe a local website should be developed, citing the specific RSA brands/bottles carried by all HK retailers and their offering prices. Apart from the initial development effort, this would entail ongoing efforts on the local South African representative's part, but it could become very effective as it would be available to all local consumers. It would simplify the efforts in tracking down where the products are available and enable traveling producer reps to focus their promotional/sales efforts.

Not discussed above is the value of increased HK/Chinese tourism to the RSA Winelands: difficult to gauge but also likely significant. As the entire proposal is studied further by multiple parties, perhaps others will suggest a way to measure increased tourism. Such as by developing a base line of flights to RSA from HK, and then measuring the annual increase in traffic, if there is one, would be a viable approach. Further, if West Cape Tourism already does any advertising in HK, there may be possible tie ins with our proposed wine tasting program. It would really be helpful and fully justified for the Western Cape "Tourism Board" to underwrite a percentage of the cost, perhaps R500,000/year or more.

There has been numerous international media coverage of increasing Chinese tourism. Notably, Ms. Jane Jie Sun, CEO of www.Ctrip.com, China's biggest online travel site, is challenging www.priceline.com to become the world's largest travel platform. She has been quoted as saying that after the Chinese buy a house and a car, they want to travel. Last year, her company spent US$1.7 billion to buy travel search site Skyskanner.

Wines presently (April 2017) featured for tasting at Watsons Wines

	Price/btl (HK$)	
Radford Dale Black Rock 2014	*HK$188*	*special HK$158*
Vergelegen Sauvignon Blanc 2015	*HK$118*	
De Grendel Koetshuis Sauvignon Blanc 2016	*HK$168.00*	*special HK$138*
Journey's End The Cape Doctor	*HK$288*	

Cabernet Sauvignon 2011	*HK$288*	*special: HK$238*
Jordan Cobblers Hill 2014	*HK$298*	*special: HK$248*
Glenelly Lady May 2011	*no price available*	

PIWOSA

***Mid April 2017 the PIWOSA* http://www.piwosa.com group of 10 *(*Journey's End, Paul Cluver, Ken Forrester, The Drift, De Grendel Wines, Glenelly Estate, Jordan Wine, Klein Constantia, Radford Dale and Raats) held a tasting of 200 wines in HK. In addition to hosting the walk-around tasting, Wines of South Africa also rolled out a city wide South African wine promotions at supermarkets, retail shops and restaurants for the whole month of April. (We presume the above Watson's tasting of their members' wines is a result to PIWOSA's recent efforts. Q: what did this cost?)**

Cited in the Drinks Business article, https://www.thedrinksbusiness.com/2017/04/south-africa-eyes-bigger-market-share-in-china-hk in 2016, South African wine exports to Hong Kong totaled 0.92 million liters, (a scant 102,000 cases) a year-on-year drop of 1.1%, representing only a 1.5% market share in Hong Kong, according to figures from Hong Kong's Commerce and Economic Development Bureau.

In mainland China, reportedly, South African bottled wine exports dropped 10% year-on-year in value to US$34.78 million, representing only 1.6% of the market, based on data released from China Association for Imports & Exports from Wine and Spirits. The average bottled wine price saw a further slide of 13.51% to US$3.62.
[As noted in our text earlier, in 2016, the US wine industry sold $99 million into HK, and $82 million into the PRC. We would expect the US unit volume may be roughly equivalent but the average bottle price perhaps more like US$10.]

Acknowledging South African wines' limited presence in the two markets, Rollo Gabb, chairman of PIWOSA and owner of Journey's End, said: "I think the reason for the lack of South African wines in the market is due to a lack of investment and focus from South African producers in the last 20 years. But now we are ready and we are coming in."

Very honestly, the PIWOSA approach, although presently limited to only 10 South African producers, is not unlike what we have proposed above, although on a multiple market basis (their tour includes Shanghai, Tokyo, and Singapore.) but perhaps not as sustained an effort in any given market as we propose for HK. Certainly, there will be opportunities to work together and coordination will be sought with Rollo Gabb, and others.

Memorandum of Understanding (MOU) on Co-operation in Wine-related Businesses

Since August 2008, Hong Kong entered into wine co-operation agreements with Australia, Chile, France (and its Bordeaux and Burgundy regions), Germany, Hungary, Italy, New Zealand, Portugal, Romania, Slovenia, Spain and the United States (and its Oregon and Washington states). On April 27, 2017, The Secretary for Commerce and Economic Development, Mr Gregory So, signed such an agreement with Comité Champagne of France. The MOU will facilitate co-operation in wine and Champagne-related education and training, culinary arts, tourism and trading activities. (Notably missing is a MOU with South Africa.)

Hong Kong is a free wine port as well as a key Champagne market. In 2016, Hong Kong ranked second in Asia and 14th worldwide among export markets for Champagne. "We are happy to welcome the Presidents of Comité Champagne. We are confident that Hong Kong is well positioned to promote appreciation of Champagne and related culinary arts in Asia, as well as to <u>over 56 million visitors arriving in Hong Kong each year</u>. As a culinary capital, we are experts in wine pairing with international and Asian cuisines," Mr So said.

Additional items of RSA wine interest

ORG DE RAC

Rian du Plessis and the author spent April 24th with Frank Meaker, GM/Winemaker, Org de Rac, and briefly with his Sales & Marketing Manager, Ms. Bethchen Zaayman, who has experience in the HK/China Markets. She had not had the time to study this draft but observed that the last two large wine shows she attended in China were relatively ineffectual. However, she observed any HK strategy should also consider Macau, less than an hour away by ferry. Macau has a super abundance of large hotels and casinos, domestic and foreign visitors, and the clientele drinks a lot of wine.

Du Toitskloof Wines

This large winery is selling wine into the PRC with the assistance of a broker, Kobus de Waal, a RSA national, who started his Chinese sales efforts in 2013. Results have reportedly been modest to date but that is to be expected in dealings in China, where long term relationships are respected. Incidentally, Kobus moved his family to Wellington, NZ, in 2016 for a full time financial position not in the wine industry; nonetheless, he is now in a better position to visit the PRC more frequently and advance his wine brokerage efforts.

Recent Internet "nuggets" re international and China wine consumption

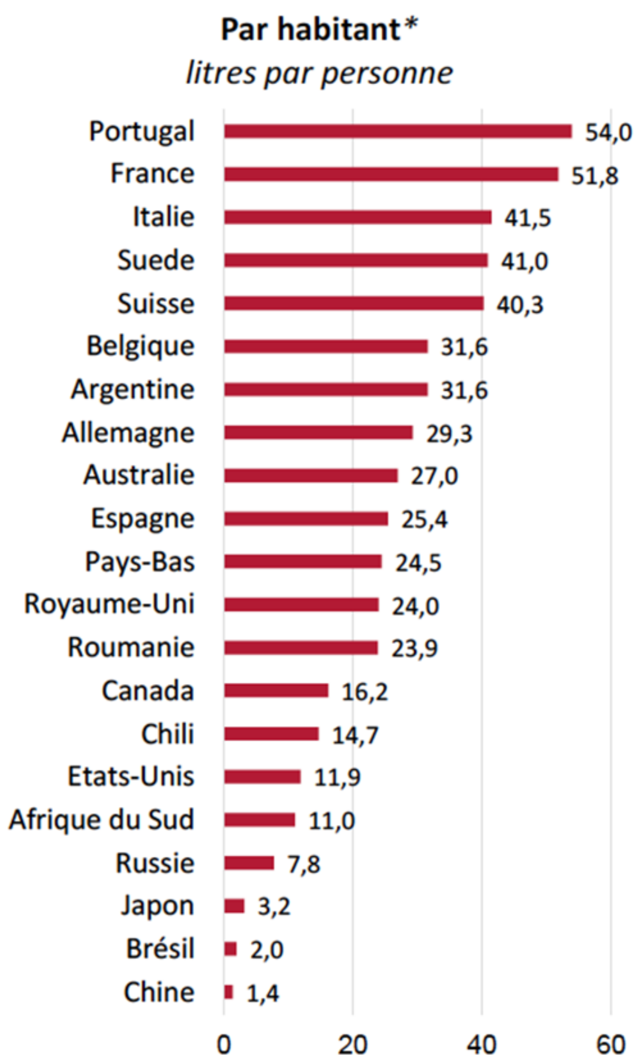
- **First, world wine consumption in 2016 grew but 0.4%, with 266 million hectoliters consumed. A major contributor to such modest growth is wine consumption per capita in most of the historical major producers in Europe (such as France, Italy, and Spain) has been in a 50-year continual decline. Those unsold domestic liters will go somewhere, and many are headed to China.**
- **Historically, white wine has had virtually no traction in China – all wine was referred to as "red wine" until recently. Nowadays, 56% of imported wine drinkers say they drink white wine at least once in a while. According to trade interviews conducted by Wine Intelligence amongst a few importers and retailers in China, strong growth in sales of white wines is predicted, driven by the increasing popularity of aromatic whites, particularly in major cities. Aline Bao, a panelist at the Vinexpo event from COFCO (one of the biggest importers of wine into China as well as a major domestic producer) noted that <u>in some Beijing stores, white wine now accounts for 15-20% of sales</u>.**
- ***Total Australian wine sales to China in 2016 jumped 40% to $520 million. (As noted above, in 2016 South African bottled wine exports amounted to only US$34.78 million.)* The Chinese are reportedly paying US$5 more per bottle for wine with a cork stopper!**

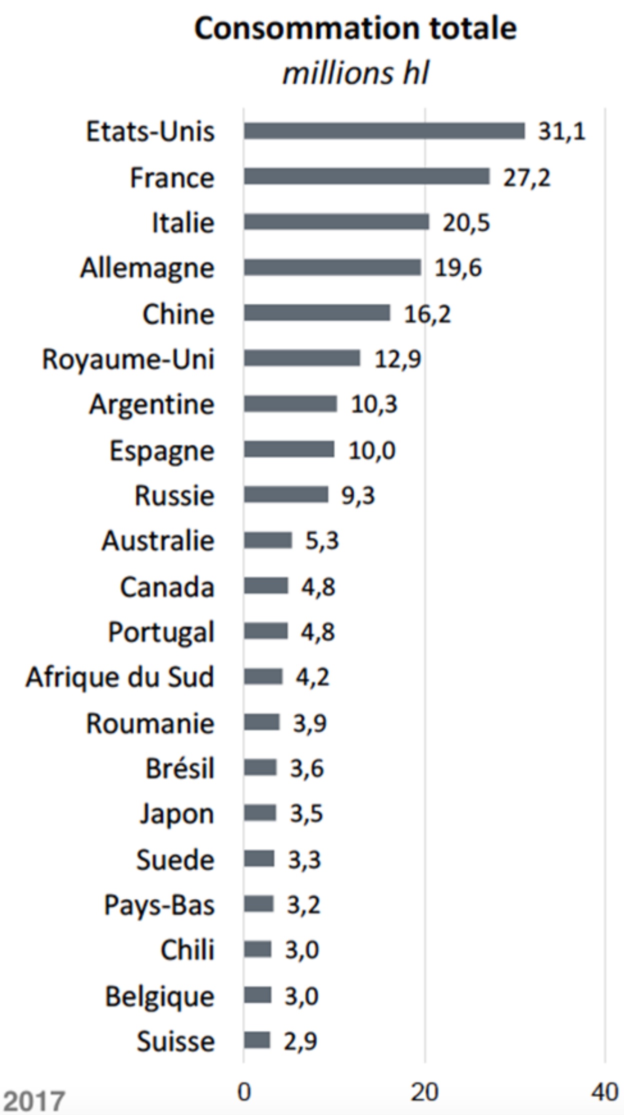
- **"Georgia, which arrived on the market four years ago, now ranks tenth," notes the American wine journalist and consultant Debra Meiburg, who has been based in Hong Kong for decades. (This may be largely price-driven but it is still remarkable.)**
- **Per influential Chinese wine blogger Terry Xu, "You have to be online. China is an online country," with websites such as TMall, Amazon and Wine.com recording record wine sales.**

Exhibits to follow

1. ***OIV 2015 per capita and total annual wine consumption***
2. ***2016 Tourism results for Napa and Sonoma Counties (CA, USA)***
3. ***Calculating PRC import duties and taxes***

Consommation en 2015





*** Population Nation Unies +15 ans**

Source: OIV, Paris, 11 April 2017

NORTH BAY BUSINESS JOURNAL May 3, 2017

Napa Valley tourists spend nearly $2B in 2016

Wine tasting at wineries: 72.7%
Dining in restaurants: 52.6%
Winery tours: 39.8%
Shopping: 36.4%

Napa Valley tourism generated $1.92 billion in visitor spending in 2016, a 17.5 percent increase since the last survey was done in 2014. Figures released Wednesday from Visit Napa Valley, the county's tourism agency, indicated 3.5 million visitors came to Napa, an increase of 6.3 percent from 3.3 million in 2014.

North Bay tourism spending up 4% in 2016

"The tourism industry continues to provide a significant positive impact to Napa Valley's economy," said Clay Gregory, president and CEO, Visit Napa Valley, in the announcement. "We also see a continued rise in visitors from China, overtaking Canada last year as the top international market, with 17.6 percent staying overnight in Napa Valley."

The largest component of visitor spending was on retail, which accounted for 40 percent, or $768 million. Next in visitor spending was on restaurants, at $438 million, or 23 percent. Group meetings and events, including weddings, generated $196 million. Most of the spending came from hotel guests, who were responsible for $1.34 billion, or 69.9 percent of the total. Hotel guests in 2016 spent an average of $401.59 per person daily, compared with $146 by day-trippers. Overnighter spending increased 3.34 percent from $389 in 2014.

The visitor industry generated $80.4 million in tax revenues last year. That is an increase of 25.2 percent from $64.2 million in 2014.

Wine-tasting remains the most popular visitor experience. The average tourist visits 3.1 wineries. One in five visitors said they were either "likely," 12.4 percent, or "very likely," 8.5 percent, to join a wine club during their visit.

Two-thirds of the guests surveyed, 67.4 percent, said they were either "likely" or "very likely" to purchase wine at a winery to take home, and 56.8 percent of respondents said they had purchased wine during their visit.

Tourism is one of the largest industries in Napa Valley. It supports an estimated 13,437 jobs, up 14.1 percent from 11,776 in 2014. Payroll totaled $387 million in 2016, up 16.5 percent from $332 million in 2014.

Sonoma Co. tourists spend almost $2B

Travel spending in Sonoma County was $1.93 billion for 2016, growing by 5.7 percent over 2015, according to figures released Thursday from Visit California, the state's tourism agency. (Travel spending in the county in 2015 was $1.82 billion.)

"Tourism is an important economic driver for Sonoma County," stated Ken Fischang, president and CEO of Sonoma County Tourism, the marketing organization for the county, in the announcement. "We are very pleased that we continue to show a return on our investment in tourism marketing, which translates to local jobs and government revenue."

There has also been a 5.3 percent increase in government revenue from tourism in the form of local and state taxes, bringing in $158.4 million. That money is used locally for regional parks, public safety, economic development, agricultural promotion, and arts and cultural festivals as well as general funds for cities and the county, according to the tourism impact report.

The report also states each household in Sonoma County would pay an additional $820 a year in taxes to make up for the tax revenue attributed to tourism.

The total number of jobs in the tourism economy also grew by 3.1 percent, with 20,410 jobs now in the tourism sector locally. That equates to more than one in 10 private employer jobs in Sonoma County.

Hospitality jobs are varied in Sonoma County, with tour guides, restaurateurs and brewery tasting room staff just as likely to interact with a visitor as a hotel front desk clerk. And this doesn't include the supporting businesses needed for the industry like commercial laundries, farmers, and all types of business services.

According the Sonoma County Economic Development Board's annual tourism report, 91 percent of Sonoma County tourism businesses are locally owned and 82 percent are small businesses, employing fewer than 24 employees.

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By Angela Ma, Associate, Dezan Shira & Associates

BEIJING – The taxes involved in import to China include import duties, value-added tax (VAT), and possibly consumption tax (CT) if the product being imported falls under CT specified categories. For foreign trading companies engaged in the business of selling (or import) to China, it is wise to be fully clear about the relevant tax issues before rushing into signing any sales contracts, because the amount of import taxes and who would be ultimately liable for those taxes largely depends on how the sales contract is concluded between the foreign seller and the Chinese buyer.

International Commercial Terms (a.k.a. Incoterms) published by the International Chamber of Commerce (ICC) are widely used in international commercial transactions to help communicate the costs and risk-bearing associated with the transportation and delivery of goods. "CIF" (Cost, Insurance, and Freight) and "FOB" (Free On Board) are probably the most common price terms that have been adopted by international trading companies when signing a contract. "CIF" implies that the seller would be responsible for the freight and insurance to bring the goods to the port of destination; the buyer pays for the freight and insurance if a "FOB" pricing is agreed upon.

The amount of import taxes and customs duty payable is calculated based on the price or value of the imported goods. This value is called the Duty Paying Value (DPV) which is determined based on the transacted price of the goods. It includes transportation-related expenses and insurance premiums on the goods prior to unloading at the port of arrival in China. Taxes, such as VAT or CT are not included in the determination of the DPV.

The Composite Assessable Price (CAP), which is another important term for the topic, is the total of DPV, import duty, and CT if applicable.

Below is how the rationales are shown in formulae:

DPV = Cost of goods + Transportation cost + Cargo insurance

Import duty = DPV * Tariff rate

CAP = DPV + Import duty = DPV * (1+tariff rate)

VAT = CAP * VAT rate

To further elaborate the calculation of import taxes, we'll use the example of a Chinese company deciding to purchase machinery from a European company which has concluded a contract using FOB price. FOB price means the Chinese buyer would arrange the freight, and the related shipping cost and insurance premium would be borne by the Chinese buyer. The European company only needs to load the machinery on the board of the ship nominated by the Chinese buyer and clear the goods at the customs for export.

Hypothetically, the expenses that need to be considered are as follows:

Cost of the machinery: US$1,000,000

Freight: US$30,000

Insurance premium: US$4,000

Import tariff rate: 10%

Import VAT rate for machinery: 17%

Port handling: US$3,000

VAT rate for port handling service: 6%

Import duty and VAT:

DPV = 1,000,000 + 30,000 + 4,000 = US$1,034,000

*Import duty = 1,034,000 * 10% = US$103,400*

*CAP = 1,034,000 * (1+10%) = US$1,137,400*

*VAT = 1,137,400 * 17% = US$193,358*

*Port handling VAT = 3,000 * 6% = US$180*

Under FOB, the import VAT (17 percent) and VAT levied on the service for port handling (6 percent) would both be borne by the Chinese buyer. The only possible way to reduce the import VAT liability for the imported goods may be to negotiate a lower transportation cost and insurance premium with the nominated freight forwarder and insurance company so as to reduce the CAP value and therefore import VAT.

That being said, if the Chinese buyer is a General VAT taxpayer, they would be able to use the VAT paid for the imported goods to offset their output VAT, so that their total turnover tax burden could potentially be reduced.

- See more at: http://www.china-briefing.com/news/2014/01/31/calculating-taxes-and-duties-for-import-to-china.html#sthash.BKZ1Iowm.dpuf