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Hong Kong Hub

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Hot property

Hong Kong hub

Denis Gastin

Any wine business with market ambitions in Asia, and particularly in North Asia, should now have one eye firmly focused on Hong Kong. It is taking shape quickly as a functional wine hub for the region.

That does not necessarily mean established exporters must make major shifts in strategy, but some of the active instruments now available in Hong Kong provide new options for creative fine-tuning of regional representation, logistics and promotional strategies. For newer players, it is a logical place to start looking when formulating an export strategy for the Asian region.

To recap briefly, the ground rules changed fundamentally in February 2008. Already a logical shopping destination for the region's aspirational consumers because of the absence of a VAT or GST, the Hong Kong Government sought to boost the appeal specifically for wine buyers (and wine traders) by removing all customs duties and administrative controls relating to wine. The initial target was Mainland China, which provides the bulk of Hong Kong's shopping visitors. But there were much broader longer-term goals.



The A+ Wine Australia stand at the Hong Kong International Wine and Spirits Fair.

This was just the first step in a collaborative policy manoeuvre on various fronts by several government agencies working with major private sector interests to position Hong Kong as a regional marketing and logistics base for the wine trade. The next step was to set about making the first week in November each year a landmark regional wine event that would capture global industry focus as a logical door to Asian markets.

The Hong Kong Trade Development Council joined forces with the London-based International Wine and Spirits Competition (IWSC) and a group of commercial sponsors, including Cathay Pacific Airlines, to launch in 2009 a wine competition with broad international participation, but with a very specific focus on Asian consumers. An important step to localise the competition was to work with a judging panel made up of appropriately qualified judges with active roles in the wine sector in Asia. The local focus is underlined by also judging the medal winning wines as partnering possibilities for classic Asian food dishes: trophies are awarded to the best picks.

There were 1300 entries at the 2010 HK IWSC. Australian entries dominated the competition, winning nine trophies, 14 gold medals (34% of the total), 48 silver medals (35%) and 143 bronze medals (34%). New Zealand put in the next strongest showing, with six trophies, 13 gold, 35 silver and 88 bronze.

The other major move was to reschedule the Hong Kong International Wine and Spirits Fair to now coincide with the IWSC in the first week of November each year. The major producing countries have been

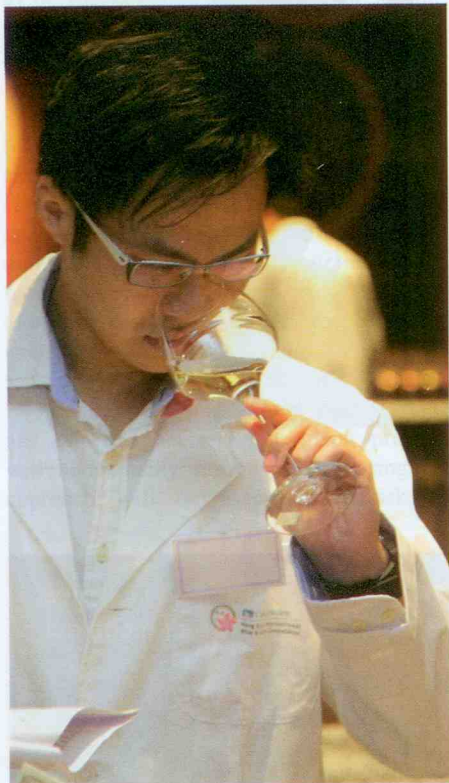
invited to add their weight to the event with a specific country being nominated each year as the official partner country. France was the partner country in 2009. Australia was the partner country in 2010 and in 2011 it will be Italy.

Being the Fair's partner country in 2010 gave Australia an enhanced national profile as well as specific opportunities in the broad range of events that accompany the Fair to deliver key messages to regional importers, Asian media and Asian consumers. It also added practical expression to the bilateral Memorandum of Understanding on Wine-related Business that Australia has signed with Hong Kong, providing on-going support to Hong Kong's wine hub strategy. The Australian activities carried out during the Fair included interactive seminars introducing the different wine-producing regions of Australia, wine-tasting sessions and workshops.

Australia's chief trade representative in HK, Austrade's Phil Ingram says Australian wine is doing very well in Hong Kong: with a 22% market share that ranks Australia as the second largest supplier to the market, and the per litre return here is 3 to 4 times what the nation's major export markets are currently offering.

"But, it is a very open and highly competitive market and we cannot rest on our laurels, so the trade fair and the competition are ideal occasions to promote the quality and diversity of Australia's offering," Ingram said.

"The other great aspect of this market is that it is a showcase for China and Asia broadly: there are more than 30 million visitors to HK each year, over half from



Trophies were awarded to medal winning wines on the basis of their partnering possibilities with classic Asian food dishes.



Key organisers and sponsors, including competition co-director and Master of Wine Debra Meiburg on far right, toast the winners of trophies in the IWSC.

mainland China, and they come to dine and shop, so they take notice of what is being served and sold to them, and it's a great chance for us to establish a positive buyer's resolve if they can try and buy our wines in Hong Kong."

There were 680 exhibitors from 30 countries in 2010. There were 69 Australian wineries exhibiting, of which 55 were in the official Australian Pavilion and 14 exhibiting on agents' stands. The Australian Pavilion was jointly organised by Austrade and Wine Australia and components of the stand were managed by State Governments and some regional organisations. More than 14,000 trade buyers, from 67 countries, attended on

the first two (trade) days of the fair, up 19% on 2009, and another 14,000 visitors attended on the final (open) day.

A major international wine event now with a specific Hong Kong link is France's Vinexpo. It alternates between Bordeaux and Hong Kong (where it is billed as Vinexpo Asia-Pacific) and was staged there for the fourth time in 2010. This event has a distinctly European flavour and, as such, it is not as strongly supported by New World producers as IWSTF. This year French exhibitors occupied more than half the total floor space, with a total of 152 exhibitors. And, not surprisingly given the frenetic buying of Bordeaux first and second

growth wines at auctions in Hong Kong, Bordeaux alone accounted for one-fifth of the exhibitors overall. There were only 11 Australian exhibitors and just five from New Zealand. Arrangements are also in place now for Vinitaly to have a Hong Kong presence.

Beyond these promotional activities, the Government has launched a number of initiatives to expand the facilities international companies can use to support a regional logistical base in Hong Kong. For example, it now runs the Wine Storage Management Systems Certification Scheme, to accredit commercially operated wine storage and warehousing facilities.

A major driver of the wine storage

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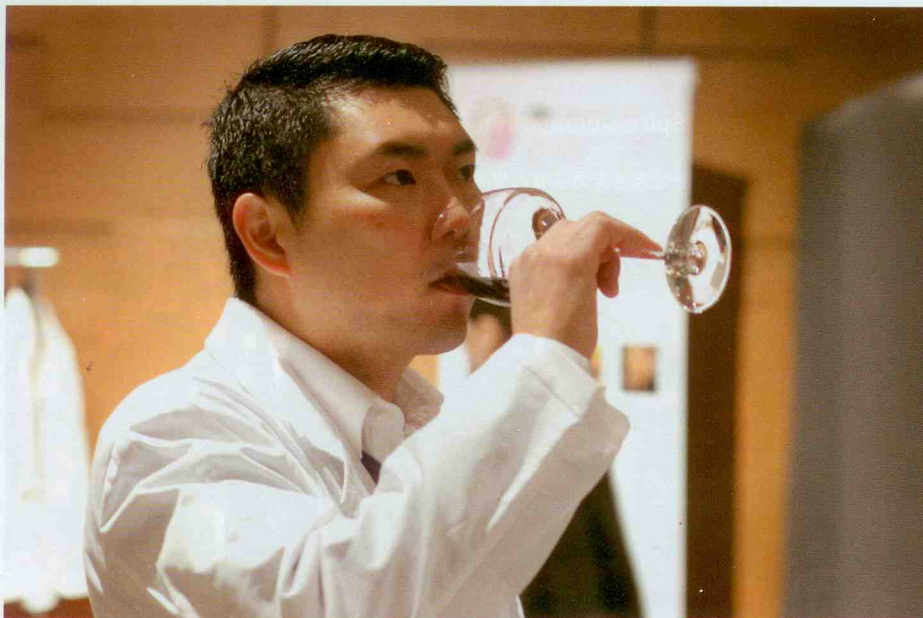
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Hong Kong IWSC co-director Simon Tam participates in the judging.

initiative is the stunning emergence of Hong Kong as a leading wine auction centre, and the practical requirements of the growing network of active wine investors in China and elsewhere across the region. In just two years, Hong Kong has overtaken London as the No.2 wine auction centre globally and is moving in on New York for No.1 position. Most of the world's leading auction houses now have a Hong Kong operation.

An indicator of how Hong Kong has also quickly become a wine communications hub is that it is now the operational base for two of the four Asia-based Masters of Wine – Debra Meiburg MW and Jeannie Cho-Lee MW. Debra is the co-director of the HK IWSC, along with Simon Tam, also a Hong Kong-based regional wine industry identity, with a strong Australian background. Debra is spearheading regional wine communication through her column in the South China Morning Post (SCMP) as well as a very active website. Jeannie also writes for SCMP and has taken wine appreciation in the region to a new level with the publication of her book, *An Asian Palate*, and an active website, AsianPalate.com, that keeps the issue of Asian food and wine pairing a very lively and attractive subject.

To add yet another dimension to the regional hub role, the University of Hong Kong has collaborated with the Bordeaux Management School to offer Asia's first full-fledged wine business program and associated master's degree. It aims to generate in students sound managerial thinking for most roles in the wine sector and provide practical management tools. It is a part-time program extending over 22 months, it is taught and assessed in English, and consists of a total of 200 credits and nine mandatory modules across a spectrum of wine business subjects. The course is

delivered by experienced academics and a range of guest lecturers with well-established wine industry credentials.

Another global training link is through the Wine & Spirits Education Trust (WSET). It had between 100 and 200 students per year in Hong Kong six years ago: now it has 2500, and they represent one-tenth of all its students globally.

All this effort has fundamentally transformed the wine scene in Hong Kong. There is every prospect now that, given its independent status as a non-wine producing country, Hong Kong may provide the effective clearing house function for Asia that London has provided for the European market.

It is no coincidence that, since 2008, the number of wine shops has risen by an estimated 850 outlets and that there are now an estimated 40,000 people employed in wine-related activities such as distribution, retailing, logistics and education and training. And, according to the Hong Kong Trade Development Council, total wine imports increased by 72% in the first nine months of 2010, reaching a value of HKD\$ 4.67 billion (A\$590 million). A major contributor, of course, has been the import of extravagantly priced collectors wines for auction, but general on and off market sales locally are growing impressively as well.

So it is no surprise that Hong Kong is now the base for Wine Australia's expanded regional market operation. Director - Asia, Lucy Anderson, moved to Hong Kong in December to lead the Wine Australia team in China and Japan, and to provide strategic direction for Australian wine in other key Asian markets including Singapore, South Korea and Vietnam. Her responsibilities comprise a mix of market research, relationship building, market development, education and promotional activities.

Bring on 2011

It's official, the catchphrase for the 2010 wine industry in Australia and New Zealand was 'downward trends', according to annual figures released for both countries last month.

The Australian Bureau of Statistics (ABS) released their annual 2010 Vineyards survey (first reported by G&W in its December issue, page 92) which revealed ongoing reductions in wine production and the dollar value of exports.

In New Zealand, Vintage 2010 - the annual financial benchmarking survey released by Deloitte and New Zealand Winegrowers - showed declining profitability and rising indebtedness across the wine industry.

The ABS survey found the area of bearing vines fell to 152,000 hectares and the yield dropped to 10.1 tonnes per hectare. Exports of Australian produced wine rose 4.8% (to 789 million litres), but the dollar value of those exports dropped by 12.4%.

The 13 largest winemakers crushed a total of 1.2 million tonnes of grapes or 72% of the total crush. Conversely, the 95 smallest winemakers accounted for only 0.7% of all grapes crushed and averaged 120 tonnes each.

In New Zealand 2010 financial benchmark survey reported a consistent "downward trend" in its national grape harvest and profits.

The survey tracks the results of 35 respondents (accounting for approximately 30% of the industry's export sales revenue) for the previous financial year. Like Australia the reduced vintage is a result of New Zealand growers trying to address an oversupply, particularly Sauvignon Blanc.

There has also been a steady decline in average revenue per case, for wineries in the \$10 to 20 million category, which is linked to price pressure and the higher sales volume of cases. Bottom line profits for wineries of all revenue sizes was down. Wineries earning under \$1million are showing an average loss of almost \$50 a case.

To read or download the full Vintage 2010 report, go to www.deloitte.com/nz/wine

Further information is in *Australian Wine and Grape Industry* (cat. no. 1329.0) is available from the ABS website www.abs.gov.au