2020 Wine Outlook

Trends and Insights in China

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BDM/MA

Oct 2020

NEW ZEALAND
TRADE & ENTERPRISE
Te Taurapa Tūhono

Report Scope

Background: The wine market in China is undergoing phase of adjustment. Consumers have not yet fully acquired a sophisticated taste for wine due to their rudimentary knowledge, a relatively high barrier to entry, and lack of frequent consumption occasions. The Covid-19 has further speed up the decline due to the shutdown of the on-trade channel in the first quarter. But the market is expected to bounce back with livestreaming trade fairs, tastings and wine classes convert into more online sales.

Definition in this report:

Wine: The wine market is defined as still wine and sparkling wine. Still wine includes red, rose and white wine. Sparkling wine includes Champagne and other types of sparkling wine.

Purpose: The purpose of this document is to offer a better understanding of the market reality of the wine

Methodology: Research was conducted from Oct 2020. The analysis in the report is based on the

a) Trade data from China customs
b) Other public sources that referenced in the report

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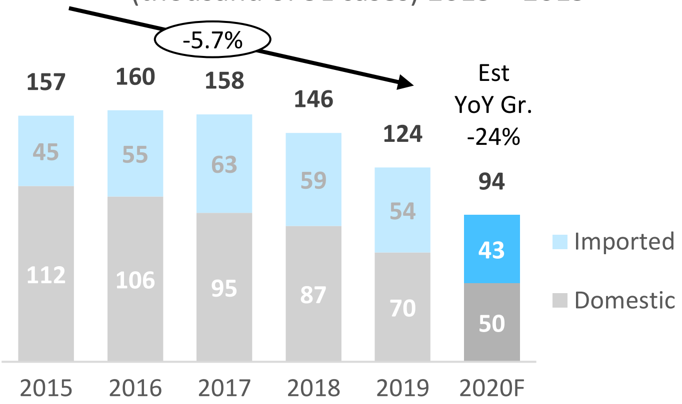
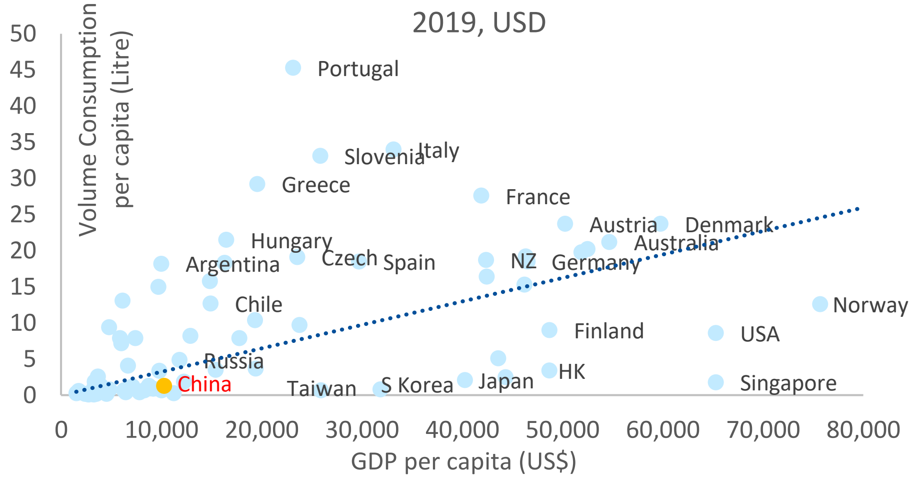
Decline in both **production and imports**

- Case volumes have turned negative for both domestic and imported wines in 2018 and 2019. The wine sector in China is under the adverse effect of reduced global and domestic wine supply, lack of appreciation from the mass market, and pressure from other alcoholic drinks categories.
- Per capita consumption in China continues to be very low compared with other markets, suggesting wine is not yet breaking into a fully mainstream product. The situation is similar with other East Asia countries.
- Covid-19 further complicates the outlook of wine in 2020. The already slowing Chinese import demand has been magnified under Covid-19, with year-on-year total import volumes from all suppliers for the period January to April 2020 down by over a quarter.

Domestic and Imported Wine Volumes (thousand of 9L cases) 2015 – 2019

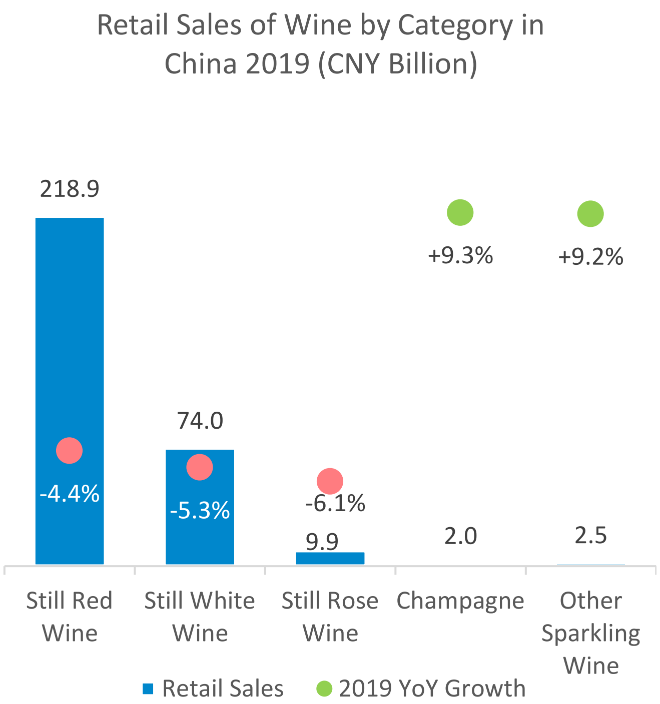


Per Capita Wine Consumption and GDP 2019, USD



Source: IWSR, Euromonitor International

Champagne/sparkling wine expecting expansion



- Still wine across all categories has experienced declines in 2019, as a result of structural problems, a negative perception of local wine industry, overstock and sluggish growth in larger population centers.

- The decline of still wine has not stopped consumers from craving sparkling wine. Sparkling wine recorded strong growth rates in 2018 and 2019, despite its small shares in wine market. Champagne is perceived as a premium festive or celebratory drink in China, often consumed in bars, high-end restaurants and parties. As young generation is becoming a major consumer group of champagne, in addition to the rising interest in the product, champagne and other sparkling wine is expecting further expansion in the future.

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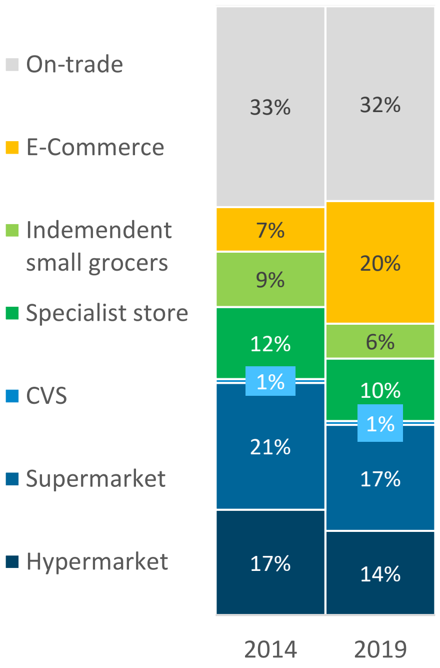
Source: Euromonitor International

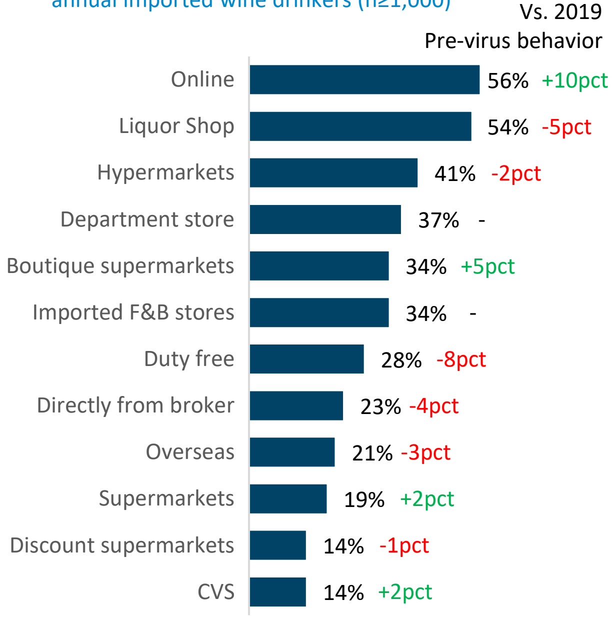
Channel distribution

Channel Distribution % By **Sales Volume**



Wine Buying Channel usage **2020**

Base = All Chinese urban upper-middle class semi-annual imported wine drinkers (n≥1,000)

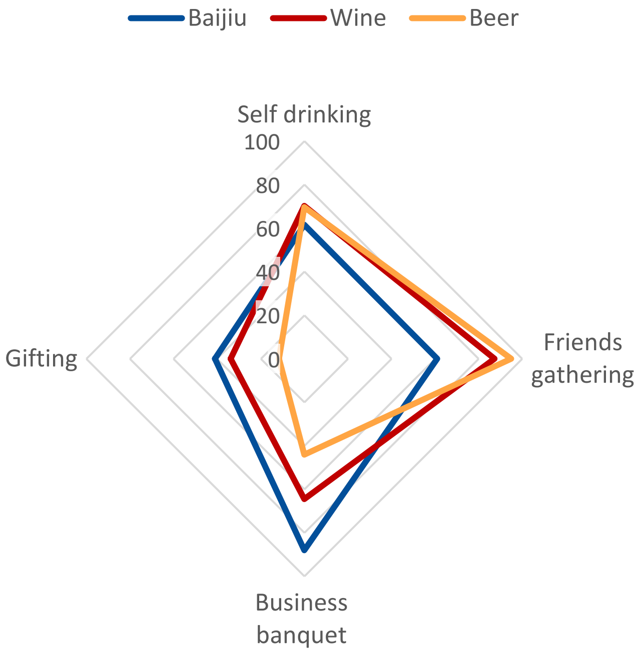


- In terms of total category, both traditional and modern grocery is losing shares to e-commerce, which had already become the biggest channel for off-trade volume sales of wine in 2019. After pandemic, e-commerce further solidified the lead in the minds of urban upper-middle class by wide range of products, good deals, and convenient home delivery during social.
- However, hyper/supermarket and liquor stores will continue to be important retail distribution channels in lower tier cities where consumers make wine purchases with limited amount of knowledge about wine and seek for sales assistants to help with purchase decision.

Source: Euromonitor International, Wine Intelligence

Drinking Occasion: Friends gathering and self drinking

Drinking occasion of different alcoholic drinks

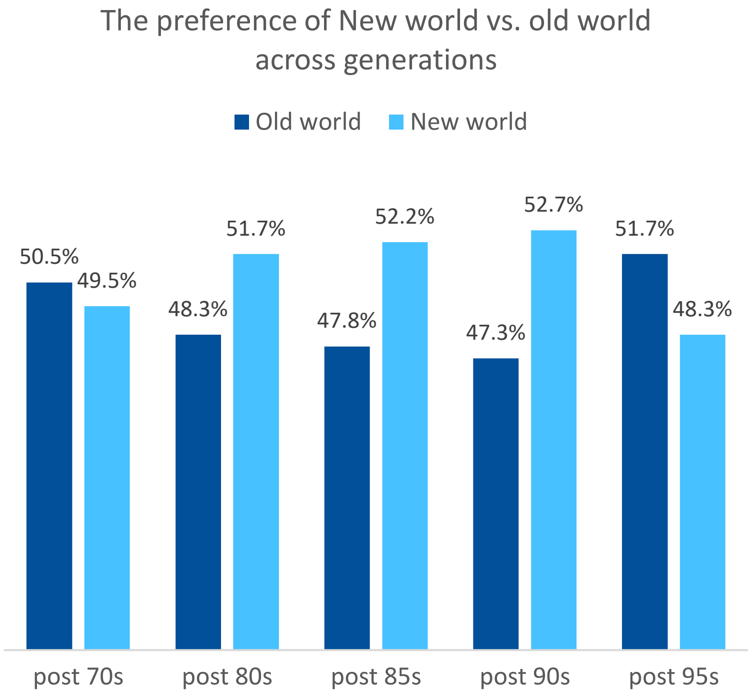


- Apart from business banquet, friend gathering and self drinking are also important occasions for wine consumption in China. According to the survey, nearly 90% of consumers drink wine with friends and over 70% of consumers prefer wine when drink on their own.

- Baijiu, especially the premium baijiu, is more popular than wine when it comes to busines banquet and gifting occasion due to the reason of premium packaging and consensus of high price. Additionally, consumer’s lack of knowledge of premium wine is also a deterrent to wine gifting.

Source: NetEase alcoholic drink consumer survey, July 2020.

Consumer Trends – New World wines are more preferred by millennials



- According to the survey, the 80s to 90s generation (30-40 years old) has a higher acceptance of new world wines, mainly because of the lighter and fruitier taste, and the more open and up-to-date cultural background.

"Australian brands belong to the new world wines, with a relatively short history, lighter taste and more open cultural background. It is more suitable for drinking with friends or girls. I prefer Australian brands such as Penfolds, which are emerging brands and feel very young and fashionable."

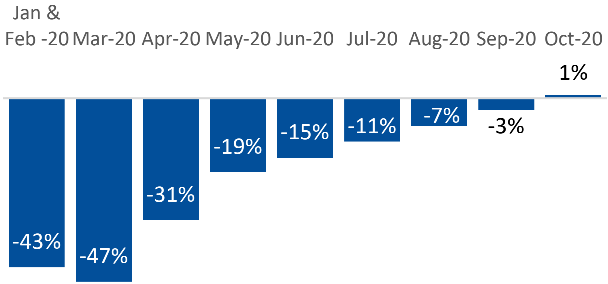
Source: NetEase alcoholic drink consumer survey, July 2020.

WINE MARKET OVERVIEW

Covid-19 Impact

Foodservice

Foodservice Turnover in China YoY growth

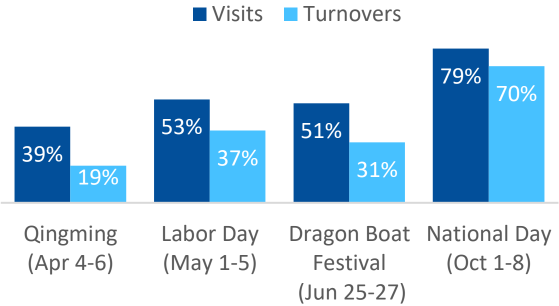


-21%

Jan - Oct revenue YoY growth

Tourism

Tourism Recovery Rate in for major holidays (compare with same holiday LY)

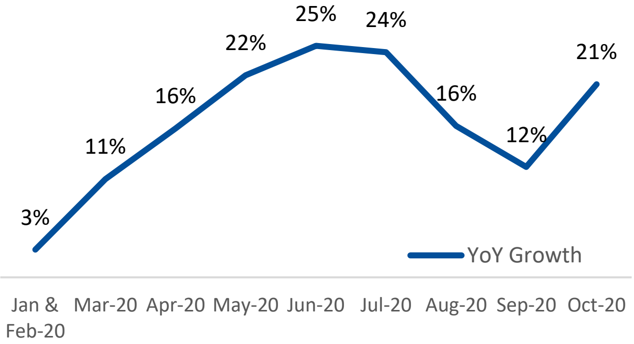


-52%

Estimated revenue fall in 2020

Online Shopping

YoY Growth of Online Retail Sales Of Physical Goods

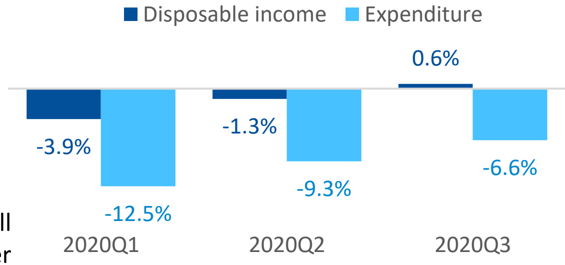


+16%

Jan - Oct YoY growth

Expenditure

Real growth of China per capita Disposable income and Expenditure



-6.6%

Expenditure fall in first 3 Quater of 2020

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Source: National Statistic Bureau

Covid-19 Impact

- **Foodservice ↓**
- **Tourism ↓**
- **Online Shopping ↑**
- **Expenditure ↓**

Informal non-food occasions were boosted during lockdown, whilst social occasions and celebrations saw a big fall

Share of sales through online channel continue to expand, with additional boost from pandemic related restrictions

Some consumers cut back on wine since it is not a necessity consumption. More consumers seek better value and trading down to mid-priced wine.

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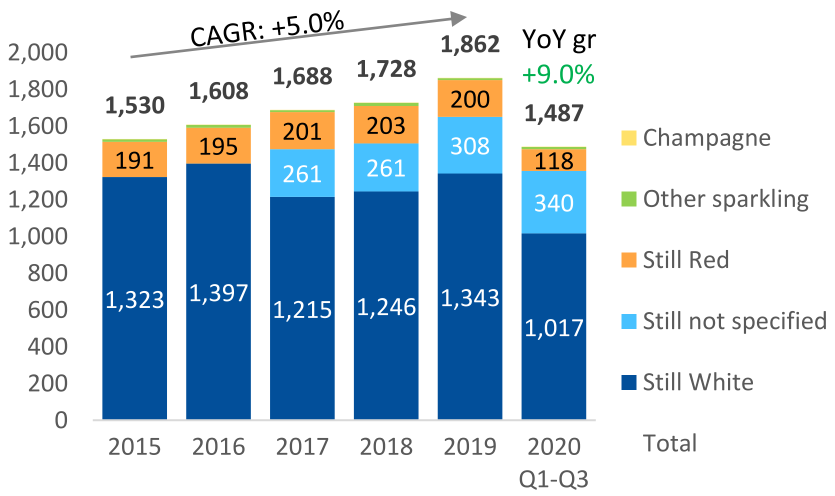
TRADE ANALYSIS

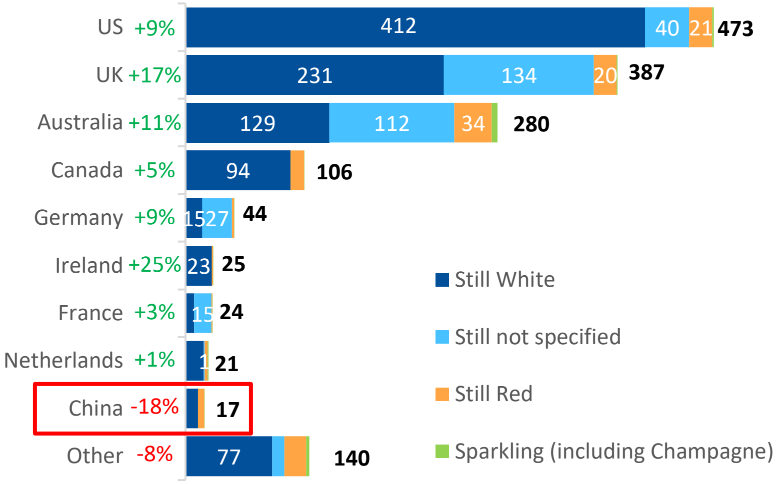
New Zealand wine export to the world

- In terms of value, NZ wine export has reached US$1.2 billion in 2019 with a stable 3.6% compounded growth rate. In the first three quarters of 2020, the total export value increased 9.0%. The top exporting destinations all recorded growth.
- China is the 9th export market for New Zealand wine in 2020 accounting for 1.1% of total export value. Still white wine increased 11%, while still red decreased 46%.

NZ Export Value, HS2204, Wine of fresh grapes 2015-2020Q3 (NZD Mn)



NZ Export Value by trade partners, HS 2204 2020 Q1-Q3 (NZD Mn)



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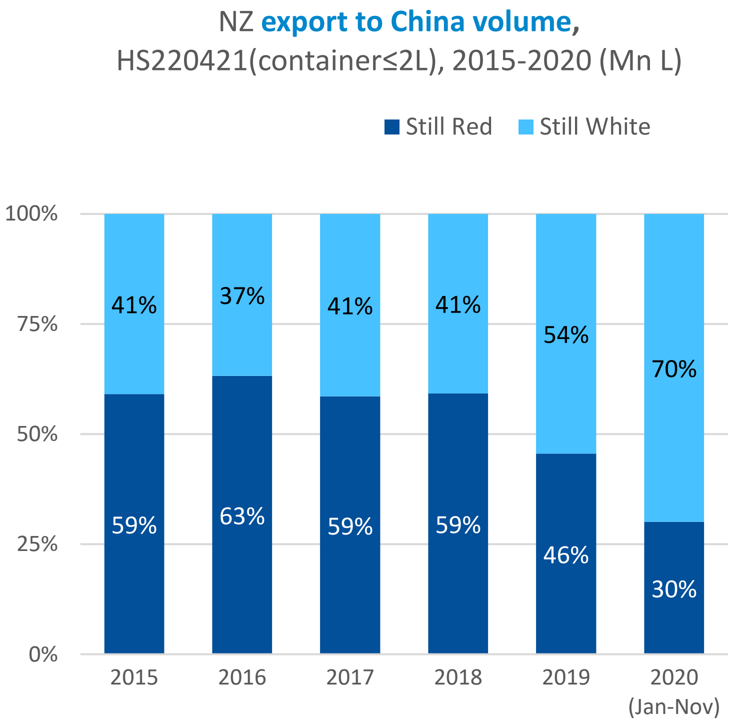
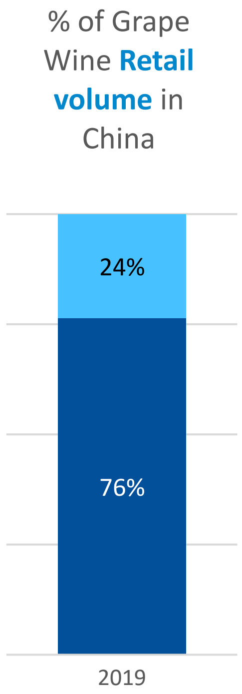
Source: Global Trade Atlas

New Zealand wine export to China





- From 2015 to 2018, New Zealand wine exports to China had focused on the red wine, accounting for around 60% of still wine export volume (container ≤2L).
- Since 2019, the wine exports started to shift to mainly white wine, which accounted for 70% in the first eleven month of 2020.
- However, the retail wine market in China is still dominated by red wine, which is three times of white wine.

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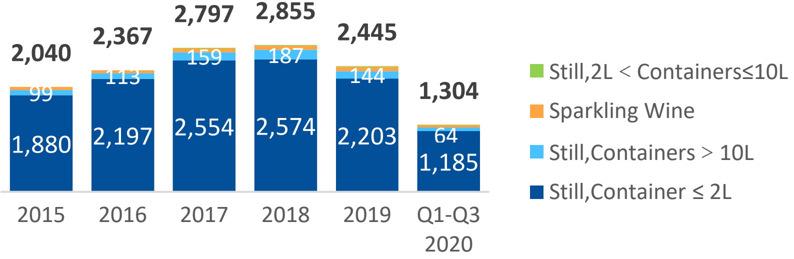
Source: stats.govt.nz (export volume); Euromonitor(retail volume)

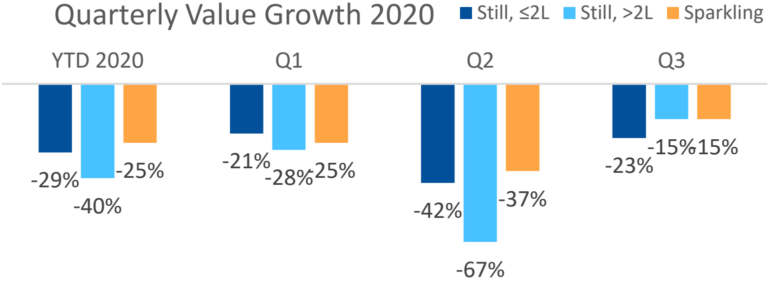
China wine import value and volume

- Wine import in China decreased 14% and 11% respectively in terms of value and volume in 2019. The drops have been attributed to China's slowing economy, the depreciation of RMB and the uncertainties associated with the trade friction.
- The decline speed up in the first three quarters of 2020, impacted by the Covid-19 pandemic. The import value and volume of wine decreased 29% and 31% respectively in Q1-Q3 2020.

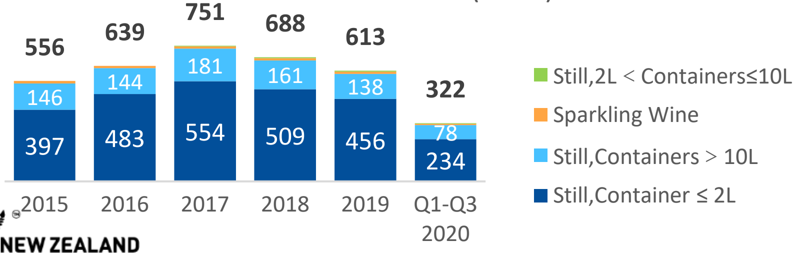
China Import Value, HS2204, Wine of fresh grapes 2015-2020Q3 (USD Mn)



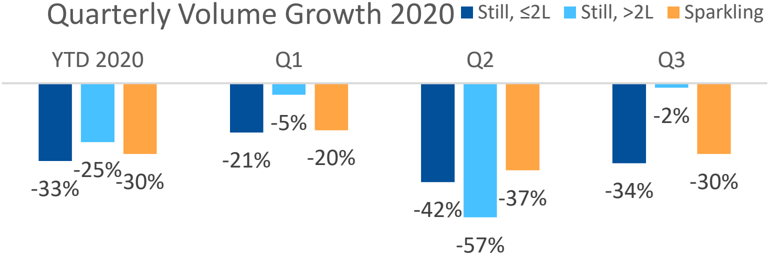
Quarterly Value Growth 2020



China Import Volume, HS2204, Wine of fresh grapes 2015-2020Q3 (Mn L)



Quarterly Volume Growth 2020



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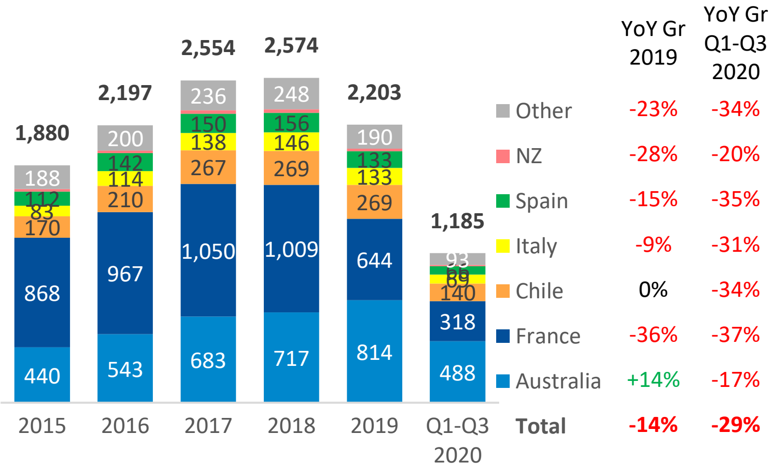
Source: Global Trade Atlas

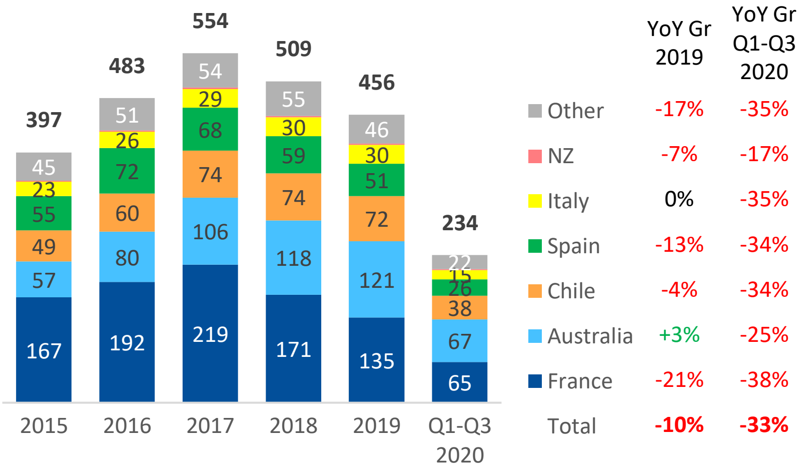
China still wine (container ≤ 2L) import value & volume

- Retail still wine (packed in the container less than or equal to 2L) import value decreased 14% in 2019 to reach US$2.2 billion. Import volume decreased 10% in 2019 to reach 456 million liters.
- Australia, France and Chile are the top three countries for China's retail still wine imports. Australia become the import leader due to the granting of zero import tariff since Jan 2019. Imports from New Zealand accounted for 0.9% and ranked 10th in terms of value in 2019. The ranking went up to 9th in Q1-Q3 2020.

China Import Value, HS220421, Wine of fresh grapes
2015-2020Q3 (USD Mn)



China Import Value, HS2204, Wine of fresh grapes
2015-2020HY (Mn L)



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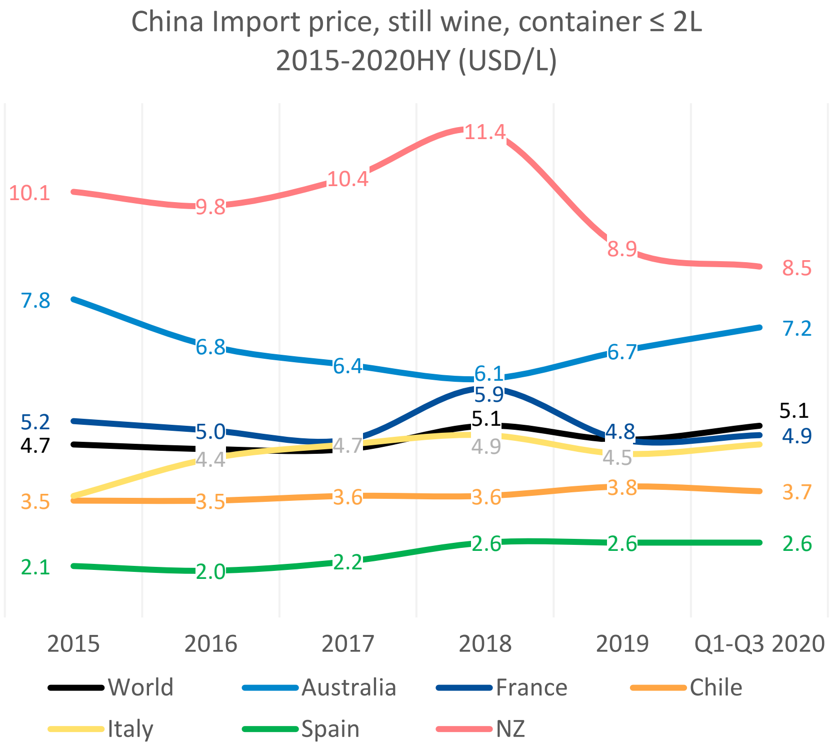
Source: Global Trade Atlas

China still wine (container ≤ 2L) import price



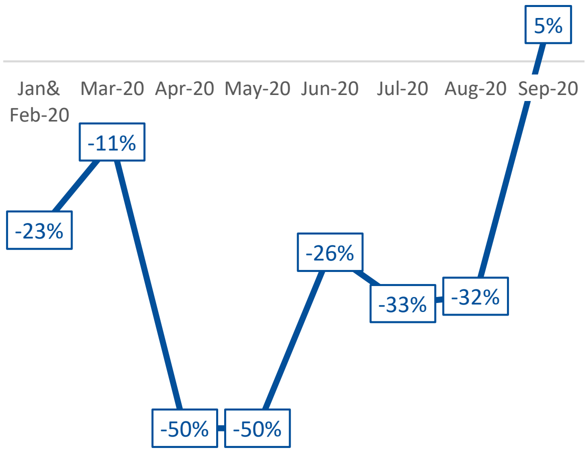
- The average import price was down by 4% in 2019 to reach US$ 4.8/L and increased 5% to reach US$4.9/L in the first three quarters of 2020.
- Import price from Australia has increased from **US$6.1/L in 2018 to 6.9/L in 2020**, due to the decline at lower price points and increased at higher ends.
- Import price from France has decreased from US$5.9 in 2018 to US$4.8, led by a cooling of interest in the fine wines of Bordeaux and ultimately France.
- Import price from New Zealand has dropped 22% to reach US$8.9 in 2019, driven by a decline in shares of still red wine, which priced much higher than still white wine.

Source: Global Trade Atlas

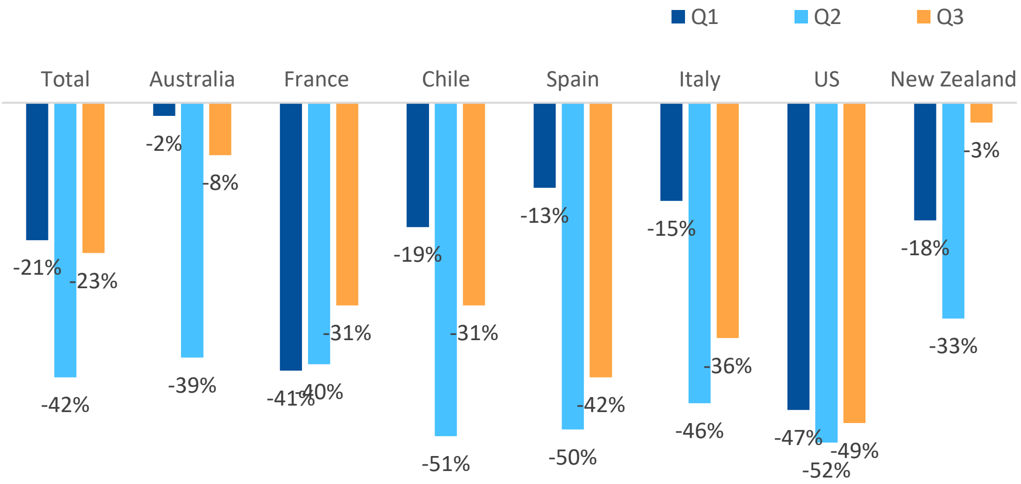
China still wine (container ≤ 2L) Quarterly performance 2020

- In 2020, the market was hit worst in the second quarter, dropped 42% year-on-year in terms of import value. The market is picking up a little in the third quarter, with a slightly growth since September.
- Australia and New Zealand was two of the fastest recovery provenance, with only single digit decline in quarter three. By contrast, import from Europe, Chile and United States still recorded sharp decline in the third quarter. One of the reasons for fast recovery in Q3 of Australian wine is that importers has been stockpiling in advance, to avoid the outcome of anti-dumping investigations.

Monthly YoY Growth of Still Wine



Quarterly YoY Value Growth 2020

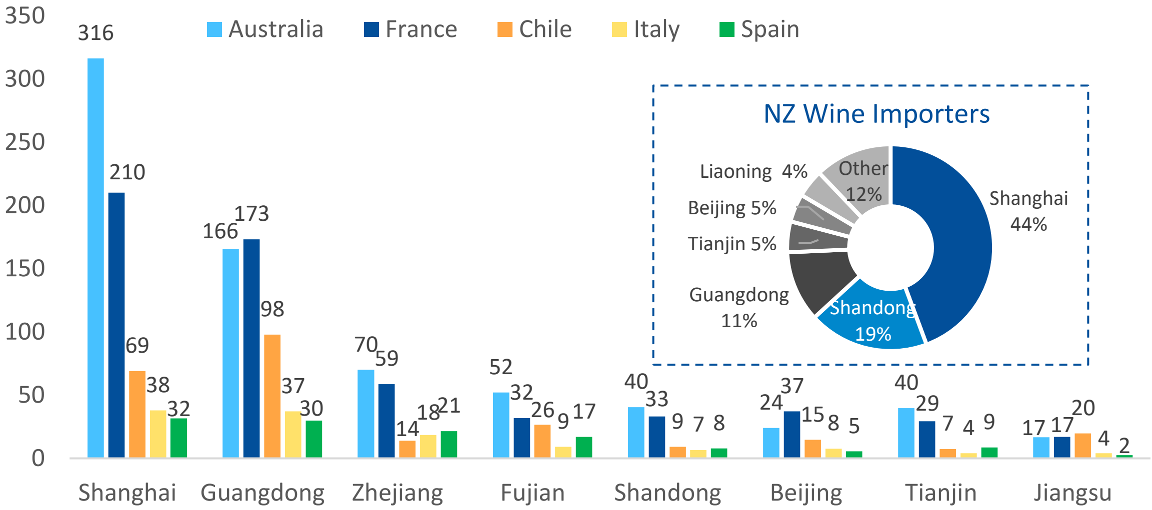


Source: Global Trade Atlas

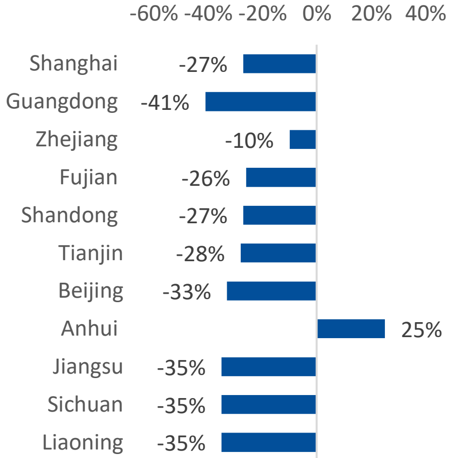
China still wine (container ≤ 2L) import by importer registration location

- In 2019, still wine are mostly imported by importers that registered in Shanghai (33%) and Guangdong (25%). Guangdong and Beijing companies imported more wine from France, While Shanghai leads the imports from all the other regions.
- As for NZ wine, importers from Shanghai (44%), Shandong (19%) and Guangdong (11%) have imported most in 2019.
- In the first three quarters of 2020, imports across almost all regions have declined around 30% except for Anhui (+25%)

China still wine (container≤2L) import value by importer registration location (USD Million) 2019



Import value by importer location 2020 Jan – Sep YoY Growth %



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Source: Customs.gov.cn

China still wine (container ≤ 2L) import data comparison YE June

China Import Statistics - Wine, Still, Container≤2L
Commodity: HS 22042100
Year End: Sep | Quantity Unit: Thousand L | Value: CIF USD Dollars

2020 Rank by Value	Partner Country	2018			2019			2020				19/18 Growth			20/19 Growth			2020 Δ Share
		000' L	USD	% Share	000' L	USD	% Share	000' L	USD	% Share	Unit Price	Value	QTY	Price	Value	QTY	Price	
	World	**543,309**	**2,732,026,344**	**100%**	**460,242**	**2,226,786,722**	**100%**	**342,545**	**1,719,846,732**	**100%**	**5,021**	**-18%**	**-15%**	**-4%**	**-23%**	**-26%**	**4%**	**0%**
1	Australia	117,744	747,273,508	27%	119,236	774,257,479	35%	99,053	711,123,883	41%	7,179	4%	1%	2%	-8%	-17%	11%	7%
2	France	196,551	1,097,351,588	40%	136,966	692,858,996	31%	95,097	454,491,726	26%	4,779	-37%	-30%	-9%	-34%	-31%	-6%	-5%
3	Chile	77,975	285,024,707	10%	73,617	272,479,953	12%	52,535	195,782,989	11%	3,727	-4%	-6%	1%	-28%	-29%	1%	-1%
4	Italy	30,181	151,977,580	6%	28,861	129,416,931	6%	21,827	101,574,660	6%	4,654	-15%	-4%	-11%	-22%	-24%	4%	0%
5	Spain	62,737	159,601,624	6%	51,947	135,919,426	6%	38,136	97,204,539	6%	2,549	-15%	-17%	3%	-28%	-27%	-3%	0%
6	United States	10,586	85,637,287	3%	6,604	37,071,123	2%	3,859	20,400,336	1%	5,286	-57%	-38%	-31%	-45%	-42%	-6%	0%
7	Germany	4,396	23,274,968	1%	3,429	18,931,253	1%	3,421	19,214,350	1%	5,616	-19%	-22%	4%	1%	0%	2%	0%
8	Portugal	7,686	24,963,488	1%	6,785	22,755,782	1%	5,151	18,803,713	1%	3,650	-9%	-12%	3%	-17%	-24%	9%	0%
9	Argentina	5,032	23,737,168	1%	4,736	24,845,094	1%	3,537	18,047,126	1%	5,102	5%	-6%	11%	-27%	-25%	-3%	0%
10	New Zealand	2,553	28,289,652	1%	2,401	23,654,959	1%	2,038	17,719,062	1%	8,696	-16%	-6%	-11%	-25%	-15%	-12%	0%
11	Other	27,869	104,894,774	4%	25,659	94,595,726	4%	17,891	65,484,348	4%	3,660	-10%	-8%	-2%	-31%	-30%	-1%	0%

Wine import Quarterly Data

	Total Import									Import from NZ								
	Quantity (000L)			Value (USD)			Avg Price (USD/Ton)			Quantity (Ton)			Value (USD)			Avg Price (USD/Ton)		
	2019	**2020**	% Chg	**2019**	**2020**	% Chg	**2019**	**2020**	% Chg	**2019**	**2020**	% Chg	**2019**	**2020**	% Chg	**2019**	**2020**	% Chg
Q1	108,435	86,092	-21%	547,464,325	431,554,398	-21%	5,049	5,013	-1%	509	347	-32%	4,749,227	3,873,804	-18%	9,338	11,154	19%
Q2	118,770	68,772	-42%	556,735,330	321,999,405	-42%	4,687	4,682	0%	773	563	-27%	6,210,297	4,148,371	-33%	8,037	7,363	-8%
Q3	120,510	79,021	-34%	564,271,893	431,896,984	-23%	4,682	5,466	17%	491	553	13%	4,528,901	4,397,670	-3%	9,228	7,945	-14%
YTD Total	**347,716**	**233,884**	**-33%**	**1,668,471,548**	**1,185,450,787**	**-29%**	**4,798**	**5,069**	**6%**	**1,772**	**1,464**	**-17%**	**15,488,425**	**12,419,845**	**-20%**	**8,740**	**8,482**	**-3%**

Source: Customs.gov.cn

Uncertainty of the import landscape due to the **trade tension between CN and AU**

- Although Chinese authorities are rejecting claims of government directive order of bans on wine since Nov 6th, **the Australia wine has already seen stockpile of product mount in the warehouse**. The Australian wine exporters are facing canceled orders and delay or clearance at the customs in China.
- According to Industry group Australian Grape and Wine, there's been no official confirmation of a ban, but **shipments have been subject to increased testing and scrutiny of documents,** and significantly slowing the clearance of customs. This has caused a significant disruption particularly at the peak export season leading up to Chinese New Year.

- **Feb 2020:** Australian Dumping Commission (ADC) initiates anti-dumping investigation against China for the sales of aluminum micro-extrusions.
- **Mar 2020:** The commission initiates anti-dumping investigation into cheap precision pipe and tube steel from China
- **Apr 2020:** Australian Prime Minister discusses a probe into the origins of the coronavirus with world leaders
- **May 2020:** China bans imports from four major Australian Meat processing plants, and confirms 80.5% tariff on Australian barley exports following the conclusion of its anti-dumping investigations
- **Jun - July 2020:** ADC initiates anti-dumping investigation into painted steel strapping, aluminum zinc coated steel, copper tubes from China
- **Aug 2020:** China confirms it has started an anti-dumping investigation into **Australian wine** imports
- **Oct 2020:** China verbally bans Australian thermal and coking coal imports. China customs bans imports of log timber from Queensland and grain imports from Emerald Grain. China also "discouraging" its spinning mills from using Australian cotton.
- **Nov 2020:** Australian coal, barley, log timber, lobster, **wine**, copper, sugar faces blocks at Chinese ports due to **"unofficial" verbal bans**. China customs bans imports of log timber from Victoria
- **Nov 2020:** China is set to impose anti dumping deposits, which range from 107% to 212%, started from Nov 28th

Source: Australian Grape and Wine; ABC News; Bloomberg

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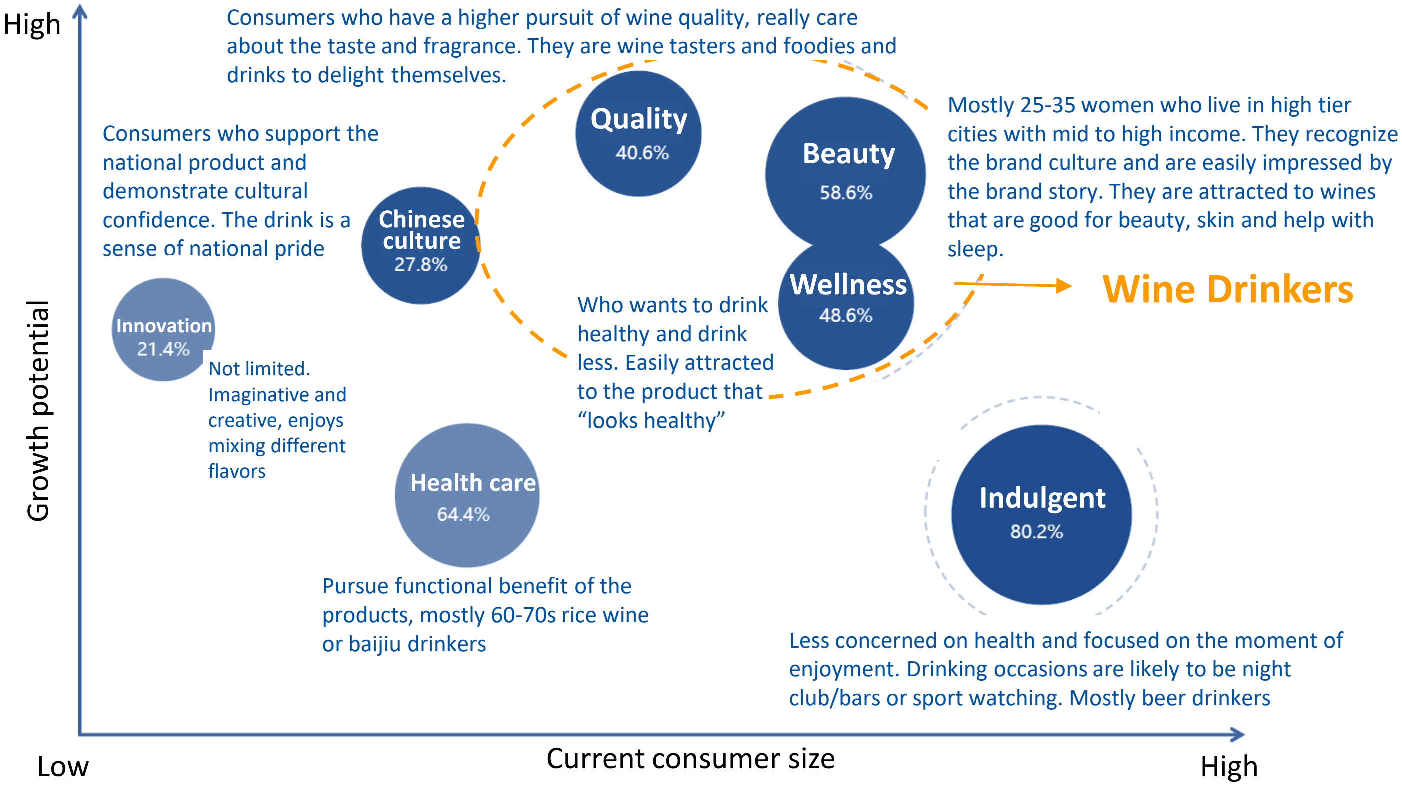
Tribes of different types of liquor drinkers in China



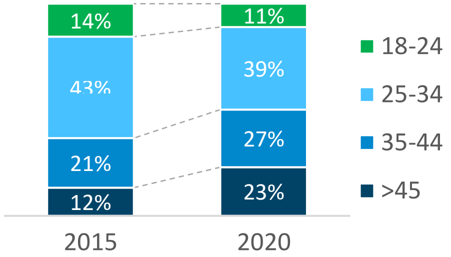
Source: NetEase alcoholic drink consumer survey, July 2020.

Consumer Profile – Demographics of Chinese semi-annual wine drinkers

Gender Distribution

2020	53%	47%
2015	53%	47%

Age Distribution



Cities

	2015	2020
Beijing	18%	17%
Guangzhou	12%	12%
Shanghai	18%	18%
Wuhan	10%	3% ↓
Chengdu	8%	8%
Shenyang	9%	5% ↓
Hangzhou	7%	6%
Shenzhen	8%	7%
Chongqing	10%	11%
Changsha	n/a	4%
Zhengzhou	n/a	4%
Guiyang	n/a	4%

Personal Income

	2015	2020
Below RMB 5,000	2%	0%
RMB 5,000-5,999	9%	2% ↓
RMB 6,000-6,999	13%	5% ↓
RMB 7,000-8,999	18%	20%
RMB 9,000-14,999 RMB	30%	47% ↑
RMB 15,000 or above	28%	26%

Source: Wine Intelligence

COVID-19 impact on China wine consumers: attitudinal segmentation

Halters (29%)

Severely reduced relationship with wine because **consumption is dependent on social activities**

Demographics: Broad Mix of ages, middle income, living in Tier 1 cities
Wine relationship: Occasional but habitual wine drinkers, typically having an imported wine occasion every 1-2 months

Pre-lockdown behaviors	Post- lockdown lifestyle	Lockdown: drinking patterns	Wine patterns
• Average socializers who are slightly likely to planned events such as celebration banquets in restaurants	• Dramatic reduction in their usual planned social activities • Significant shift to saving and de-prioritizing large purchase such as house or cars	• Significant reduction in alcoholic drinks purchasing across all segments • Increase in bottled water purchases	• Reduce wine consumption • Much less use of supermarkets and hypermarkets

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Source: Wine Intelligence

COVID-19 impact on China wine consumers: attitudinal segmentation

Reducers (8%)

Relationship with wine **still intact** but **key social occasions missing**

Demographics: Youngest segment (More likely to be under 30), high income, live in tier 1 cities (especially Beijing)
Wine relationship: Relatively new to wine, cautious purchasers. Tend to have wine when eating western food or celebrating a special occasion

Pre-lockdown behaviors

- Highly sociable, most likely segment to visit restaurants, go to gyms;
- Less likely to travel abroad for business or pleasure
- Big online shoppers

Post- lockdown lifestyle

- Will significantly reduce social lives post-lockdown. Traumatic fall in parties and going to restaurants, along with festivals and other events.
- Will priorities saving and reduce big purchases, treats & vacations.

Lockdown: drinking patterns

- Moved away from spirits and sparkling, buying more bottled water

Wine patterns

- Increased frequency of wine drinking at home.
- However big reduction in wine drinking in social settings.
- Big increase in online shopping

Source: Wine Intelligence

COVID-19 impact on China wine consumers: attitudinal segmentation

Moderators (44%)

Behavior **less affected** by lockdown – some evidence of switch from spirits to wine

Demographics: Broad mix, generally lower income, more likely to live in Tier 2 and Tier 3 cities than other segments

Wine relationship: Most likely to drink only red wine, more likely to come from the relatively wine-inexperienced Social Newbies Portrait segment, happy to drink wine once a month, like to taste before buy

Pre-lockdown behaviors

- Not very active socially, will go to a restaurant occasionally, but more likely to attend a planned event.
- Less likely to travel by air, stay in hotels, shop online.

Post- lockdown lifestyle

- Most likely to return to pre-existing behaviours.
- Although saving is important, will dulge in wine & food treats and other small luxuries

Lockdown: drinking patterns

- Less change in drinking patterns, buying less beer and spirits. Wine largely unchanged

Wine patterns

- Increased wine drinking frequency and more purchases from hypermarkets than previously

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Source: Wine Intelligence

COVID-19 impact on China wine consumers: attitudinal segmentation

Hedonists (19%)

Making the best of the lockdown, anticipating big growth in social and lifestyle activities afterwards

Demographics: Strongly presented in those aged 30-39/Millennials, high income, tier 1 cities (especially Shanghai and Guangzhou)

Wine relationship: Regular (often weekly+) wine drinkers who find wine a pleasurable part of their lives

Pre-lockdown behaviors

- Dedicated hedonists, most likely to go on vacation abroad and travel for business
- Shop for food and drink online.

Post- lockdown lifestyle

- More social & lifestyle activities anticipated post-lockdown than pre-pandemic.
- Increase in holidays, bar and restaurant use.
- Strong prioritization of luxury treats, and big social events

Lockdown: drinking patterns

- Drink more wine, beer and non-alcoholic options, but no change in spirits consumption

Wine patterns

- Largest increase in wine consumption frequency, particularly for non-food occasions at home, with no reduction in per bottle spends

Source: Wine Intelligence

KEY TAKEAWAY

SUMMARY

Market undergoing phase of adjustment

The market is under the pressure of importers being overstocked and on-trade channels limited by Covid-19. The challenging environment is likely to shake out the opportunistic importers and domestic manufacturers with low quality and expected to leave with a healthy ground for future market growth.

Changes in leading import brands

The share of import wine in the market is growing. Wine imports from Europe face a 14% tariff and have been losing market share to New world brands from Australia and Chile. However, the trade tension between China and Australia is adding uncertainty to the import landscape

Reshaping distribution channel

E-commerce channels such as online stores (eg Tmall, JD), O2O retailers (eg Hema, MissDaily) and WeChat stores are taking the shares from traditional retailers. The pandemic have accelerated this phenomenon with more some consumption occasion switching from foodservice to in-home drinking.

Impact on consumer demand

Some Chinese consumers have cut back on wine due to the lack of social occasion, while the majority have remained their wine engagement or trade down to more economic products. The caution of going out to eat and socializing still existing, but the engagement and confidence is likely to recover with stabilized economic development and containment of virus.

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