

Summary – China emerging as a global wine powerhouse

China is now the fifth largest import market globally, following a substantial growth in the past 5 years.

Consumption has doubled twice in the last 5 years. Per capita consumption is significantly below global levels but rising, as households migrate up the income scale into brackets that typically over-index on consumption of wine.

Domestic production has increased 4x over the past decade, and is now the fifth largest producer of wine globally. The majority of production occurs in the North East provinces, which are largely in line with Mediterranean Europe and Californian growing regions.

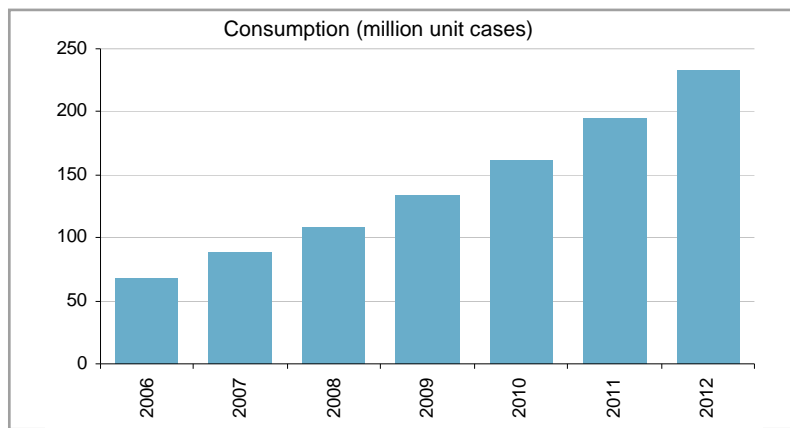
Imports have dominated growth in recent years, and are now 20% of total consumption. France accounts for half of total imports by volumes, and 54% by value. Australia is the number two import market with 15% share and Italy #3 with 6%. Imports are skewed to bottled wine – 67% by volumes and 91% by value. Average import prices in China are amongst the highest globally, with import demand skewed towards premium and luxury wines.

Total consumption is estimated to nearly double by 2016, to over 400m unit cases, which would make China the worlds largest consumer of wine. Domestic production growth has been strong (currently delivering ~180mn cases) and domestic wine makers are becoming increasingly responsive to the threat from imports. However targeted levels of domestic production fall short of this forecast level of production. As a result, further import demand will likely be required to meet the rising consumption gap.

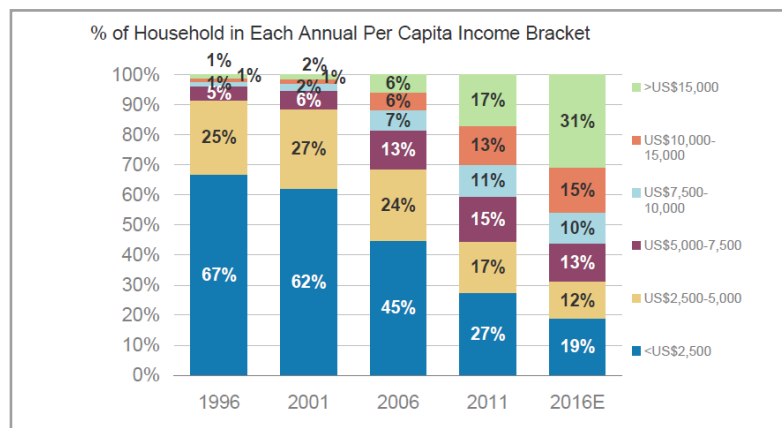
As a net importer of wine, supply and demand has remained largely in balance.

China – A structural growth story

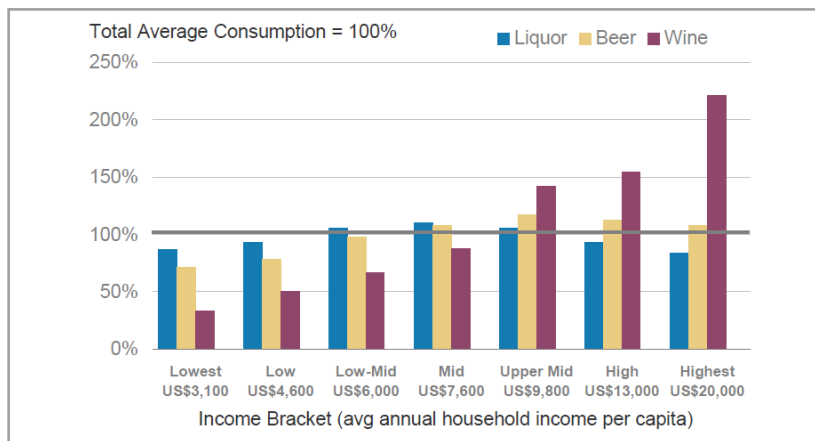
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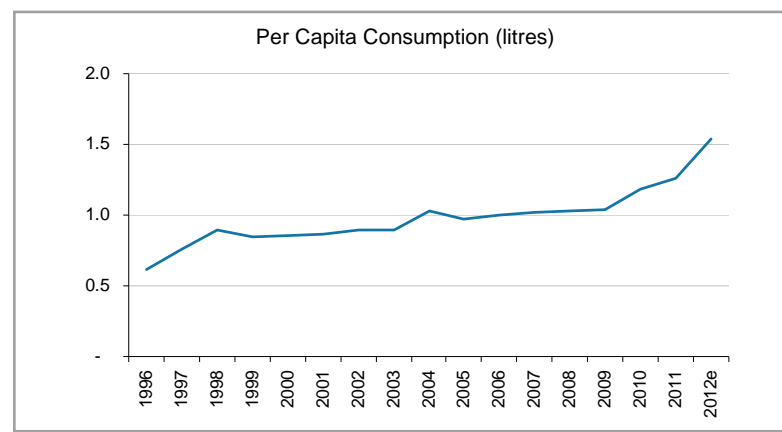
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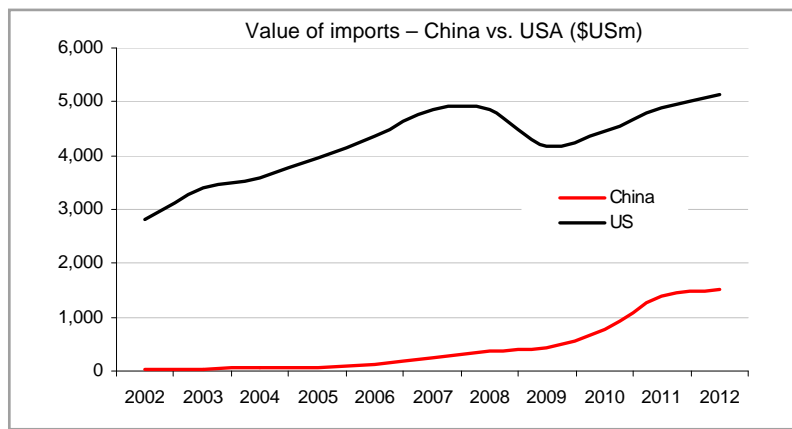
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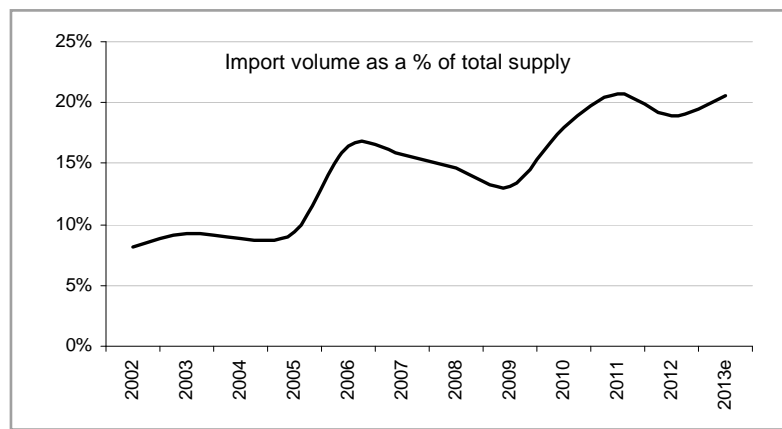
Chinese wine consumption has twice doubled over the past 5 years [1], driven by increasing per capita consumption off a very low base [4], a migration of households up the income scale [2], into income brackets that over-index on consumption of wine [3] and a growing appetite for imported wine. With per capita consumption a fraction of global levels, and expectations for a near doubling of households in China with income brackets that favour wine consumption, we see strong structural support for ongoing consumption growth.

China – Imports have been a meaningful driver of recent growth

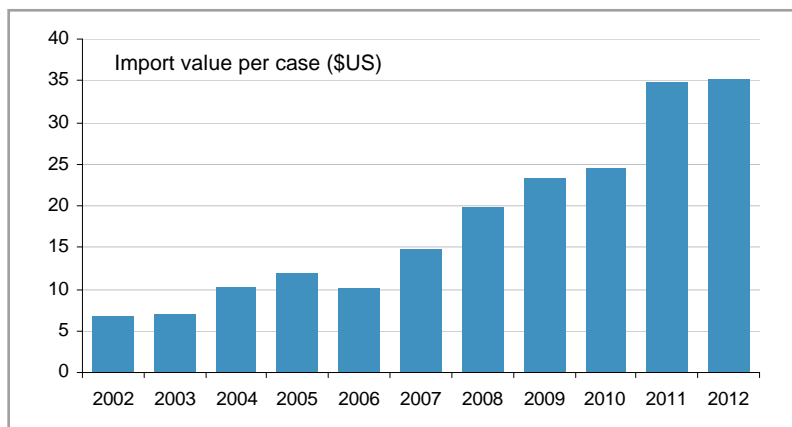
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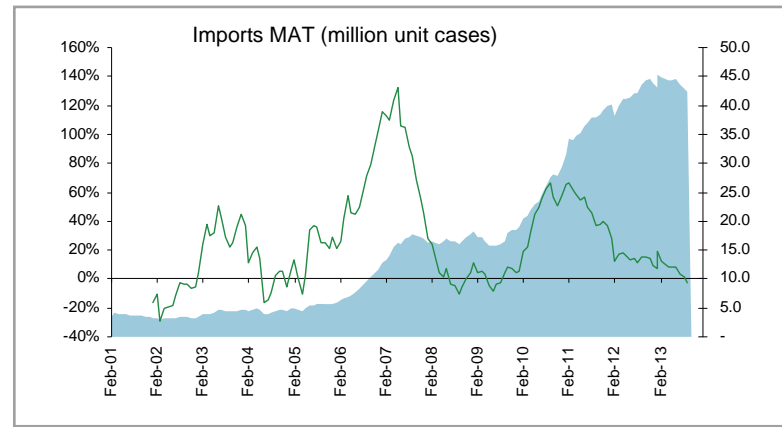
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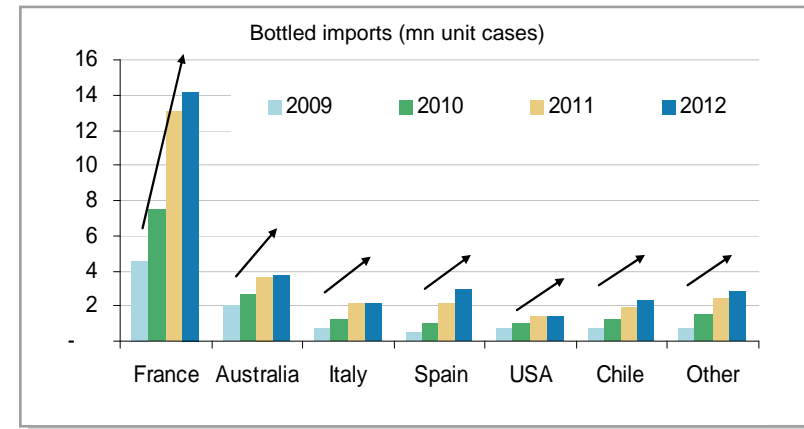
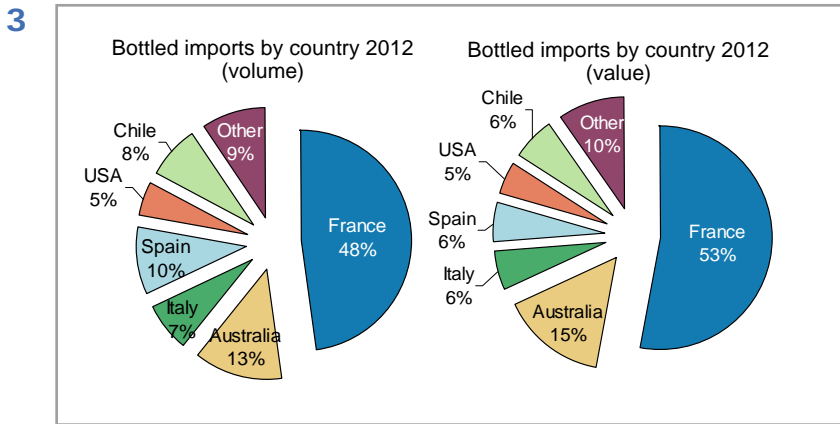
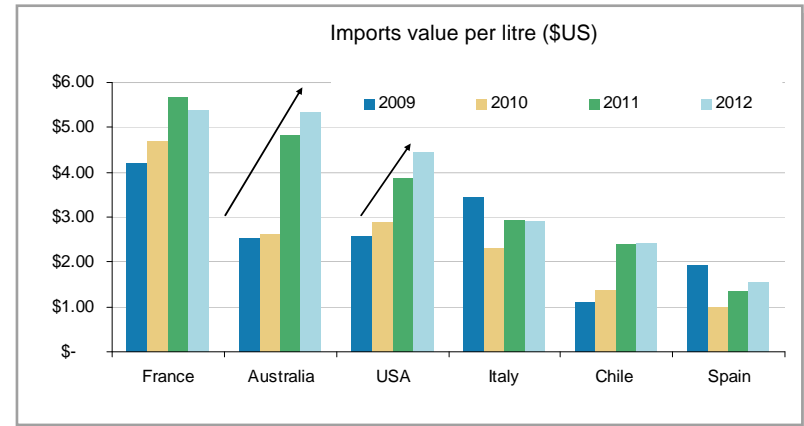
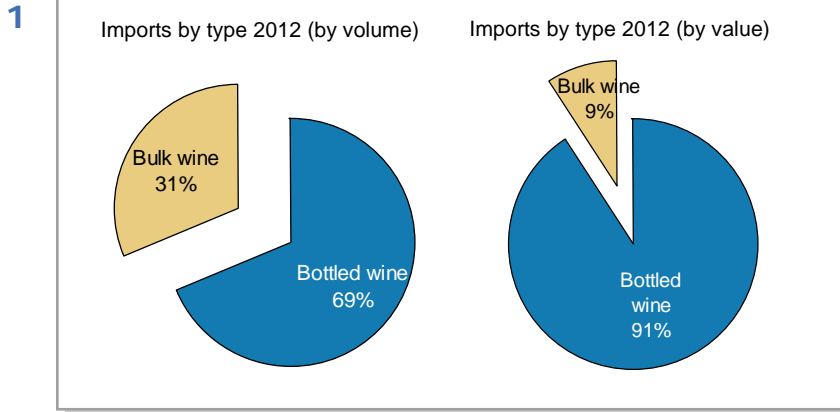


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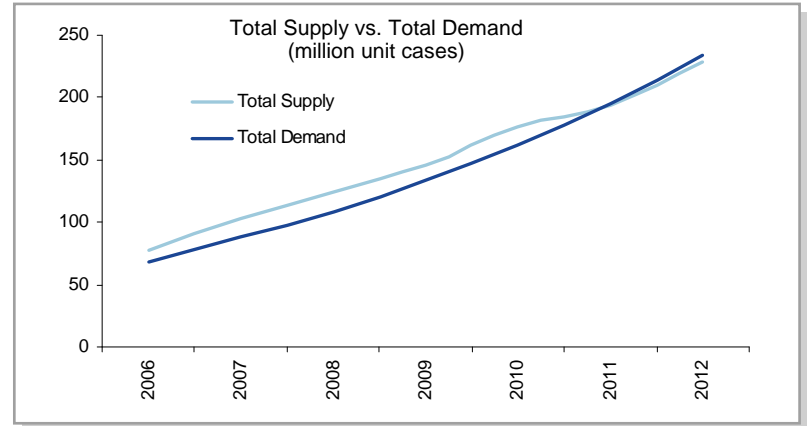
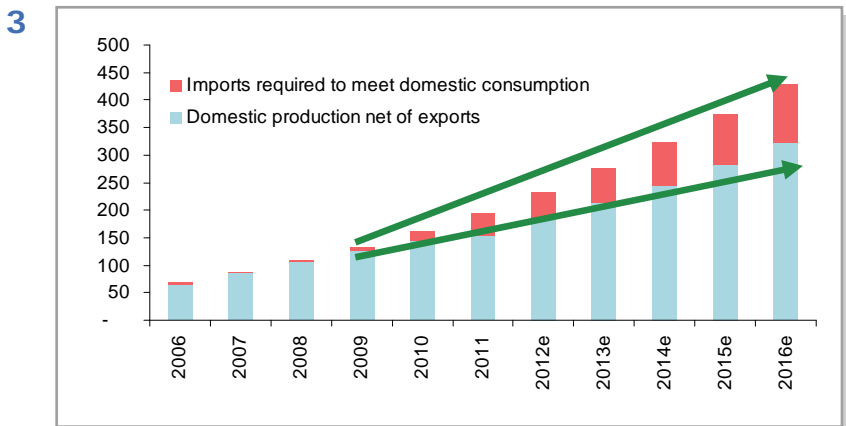
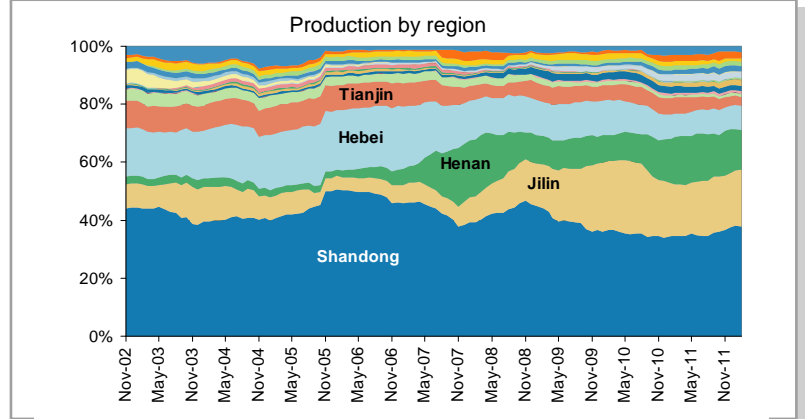
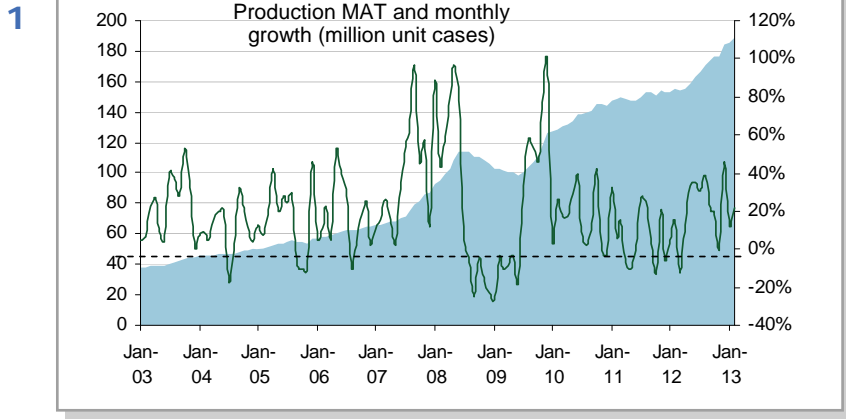
Total value of Chinese imports has accelerated strongly from a near zero base 10 years ago [1], and imports now represent 1 in 5 bottles of wine consumed in China [2]. The average value per case has also risen substantially reflecting China's bias towards premium and luxury wines for imports [3]. Total import growth moderated in 2012 from very high levels in 2011, as the overall base increased, and due to stronger competition from domestic producers.

China – Bottled imports drive value growth



Bottled imports represent over 2/3rds of import volume and more than 90% of imported value [1]. Value per case increases were most noticeable to Australia and the US, although France has seen a modest reduction in 2012 [2]. The source for bulk imports varies year-to-year depending on supply and cost (currency of producer therefore being relevant), bottled imports on the other hand, are consistently dominated by France with Australia at number 2 [3].

China – Domestic production has accelerated, imports still required to meet future growth



Domestic production has accelerated in response to the accelerating demand [1]. Shandong is the primary production region, however the majority of incremental production has come from the Jilin and Henan regions in the North East of China [2]. Total consumption is estimated to exceed 400m unit cases of wine by 2016, however targeted levels of domestic production fall short of this level. As a result, further import demand will likely be required to meet the rising consumption gap [3]. As a net importer, supply and demand is predominately in balance [4].

Source: OIV, China Customs, comtrade, Morgan Stanley Research, e= Euromonitor estimates for consumption