

## **Great Wall or Red Carpet? Challenges and Opportunities for Australian Wines in China**

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Global trade in wine has doubled in the last 15 years to about 25 billion euros with almost 40% of all wine now exported up from 25% in early 2000s (World Wine Institute 2015). New markets like China are fuelling this growth and the Chinese domestic wine industry is already worth US\$ 7.3 billion per annum. Beginning from negligible wine consumption in 1970's, China now has the 2<sup>nd</sup> largest vineyard area in the world (1.97 million acres) and is the 8<sup>th</sup> largest wine producer (1.12 billion litres), the 5<sup>th</sup> largest wine consumer (1.58 billion litres) and the largest red wine consumer (1.40 billion litres), as of 2014. With a huge gap between local production and consumption, it is not surprising that China is also the world's largest importer of wine.

Chinese domestic wine market is dominated by players such as Great Wall, Changyu and Dynasty, whereas France is the biggest exporter of wines to China closely followed by Australia. Australian wine exports to China increased by 8% to 40 million litres worth about A\$224 million in 2014 (Wine Australia 2015). As a result, Australia's market share of the bottled wine imports in China remained strong at about 18% by value and 12.6% by volume in 2014 and Australia's average value of bottled imports (US\$6.83/litre) is also the highest among the top five importing countries. To sustain their performance, Australian wine exporters use a range of activities including consumer fairs and roadshows, social media and online activities, trade shows and promotions and industry awards, to raise the profile of Australian wine in the market.

Australian wine exporters face many challenges and opportunities in China. First, wine constitutes less than 5% of total alcohol consumption in China and hence, per capita wine consumption is still very low at only about 1 litre per annum (Qing and Hu 2015). Second, brand awareness for foreign-made wines still quite low and the consumers are quite price-sensitive outside the top 11 cities that account for 76% of imported wine sales and 60% of domestic wine sales by volume (Bouzdine-Chameeva and Zhang 2012). Third, the wine distribution network in China is dominated by big wholesalers, hotels, restaurants and bars (80%) while the retail sector and online players are also growing. Fourth, the demand for wine in China is quite seasonal, with about 60% of the sales during the two main holidays (Chinese New Year and Mid-Autumn Festival) driven by the demand for gifting purpose, an integral part of Chinese culture. Finally, despite a high country-of-origin recall (66%), Australian wines still have quite low penetration (4%) and repeat demand (16%) in China (Cohen, Corsi and Lockshin 2015).

In this keynote talk, I would address all these challenges and opportunities for Australian wine in China, using the experience from similar product categories in China and other emerging markets, in terms of changing consumer attitudes and lifestyles, increasing consumer awareness and building brand preference, improving penetration and repeat purchase rates as well as the impact of China Australia Free Trade Agreement (ChAFTA) on the demand for Australian wines by eliminating within four years the tariffs that range from 14 to 20% at present.