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Hong Kong

Market Development Reports

Hong Kong Imports of U.S. Wine Expected To Set New Record

2009

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Report Highlights:

Hong Kong imports of US wines are expected to reach a new record of US\$25 million and 6.5 million liters in 2009, a surge of 34% and 13% respectively over 2008. US wine exports to Hong Kong soared over 250% last year in response to the HKG eliminating the 40% excise tax on wine, making it one of the only tax free wine markets in the world. The surge in exports has made Hong Kong our fastest growing and 4th largest market behind Canada, the EU and Japan, up from the 9th largest in 2006. The U.S. has also moved up to be Hong Kong's 3rd largest supplier, behind Australia and a still dominant France. For the first 4 months of 2009, Hong Kong imports of wine exceeded US\$133 million and 10.4 million liters, representing an increase of 58% and 41% respectively over the same period in 2008. In addition to being a vibrant local market, Hong Kong also serves as a gateway to wine markets in the region because of its prime geographical location, superior logistical infrastructure and sound legal and financial system. This allows U.S. exporters to access China and other Asian markets while remaining protected by the sanctity of a Hong Kong contract. For the first 4 months of 2009, HKG statistics indicate traders re-exported 19% of U.S. wine imports and retained 81% for local consumption. Wine imports from all sources in 2009 are expected to reach US\$400 million and 35 million liters. Exporters of U.S. wine are encouraged to contact ATO Hong Kong or check the ATO Hong Kong website for information on upcoming trade shows and other promotion opportunities.

Includes PSD Changes: No
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Trade Report
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SECTION I. MARKET OVERVIEW

- The Hong Kong Government (HKG) reduced its excise tax on wine from 80% to 40% in February 2007 and further reduced it to zero in February 2008. As a result, wine imports into Hong Kong have grown significantly. For the first 4 months of 2009, Hong Kong wine imports exceeded US\$133 million and 10.4 million liters, representing an increase of 58% and 41% respectively over the same period in 2008.
- In addition to being a vibrant local market, Hong Kong also serves as a gateway to wine markets in the region because of its prime geographical location, superior logistical infrastructure and sound legal and financial system. As an important regional distribution center, Hong Kong re-exported 19% of its wine imports and retained 81% for local consumption¹.
- In view of its zero-wine-tax policy and important role as the regional wine hub, Hong Kong wine imports are expected to reach US\$400 million and 35 million liters in 2009. As for US wines, imports into Hong Kong are expected to reach a new record at US\$25 million and 6.5 million liters in 2009, a surge of 34% and 13% respectively over 2008.

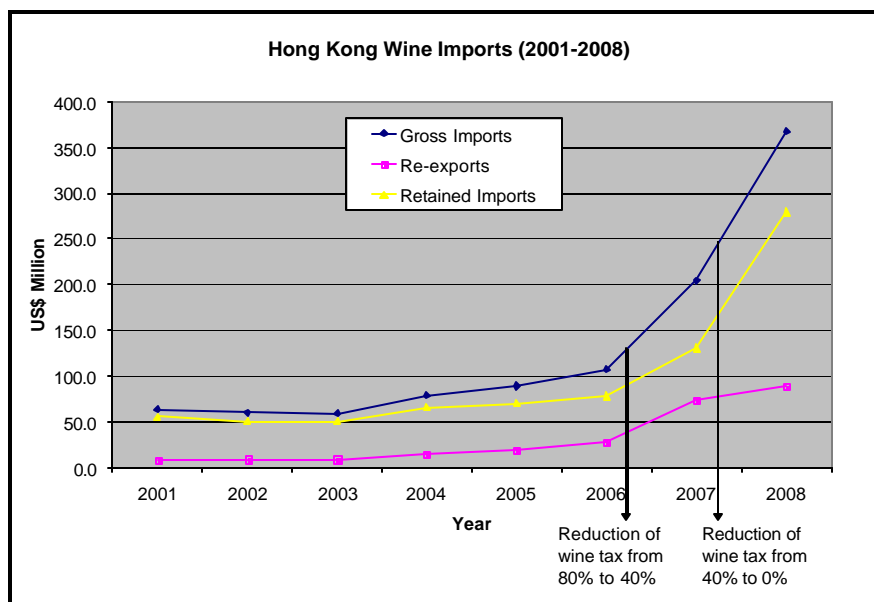
Table 1: Hong Kong Wine² Imports (Value)

Suppliers	Value (US\$ Million)	2006	2007	2008	Growth 07 v 06	Growth 08 v 07	2008 Jan-Apr	2009 Jan-Apr	Growth 09 v 08	2009 Jan-Apr
										Re-export v Gross Imp
World	Gross Imports	107.1	204.6	367.9	91%	80%	84.6	133.4	58%	19%
	Re-exports	28.7	73.9	88.6	157%	20%	27.5	25.7	-6%	
	Retained Imports	78.4	130.8	279.3	67%	114%	57.1	107.7	89%	
France	Gross Imports	56.0	116.4	225.3	108%	94%	51.3	80.4	57%	23%
	Re-exports	20.3	55.0	66.1	171%	20%	20.7	18.3	-12%	
	Retained Imports	35.8	61.4	159.2	72%	159%	30.5	62.1	103%	
Australia	Gross Imports	16.5	25.6	32.7	55%	28%	8.0	11.4	44%	18%
	Re-exports	3.1	6.5	7.0	108%	9%	2.1	2.1	0%	
	Retained Imports	13.4	19.1	25.7	42%	34%	5.9	9.4	59%	
United States	Gross Imports	7.1	9.0	18.6	26%	108%	3.2	6.2	97%	25%
	Re-exports	1.2	2.0	3.0	64%	48%	0.8	1.6	92%	
	Retained Imports	5.9	6.9	15.6	18%	125%	2.3	4.6	99%	
Chile	Gross Imports	6.6	8.7	11.8	33%	35%	3.4	3.9	16%	22%
	Re-exports	0.8	2.0	2.1	159%	4%	0.9	0.8	-3%	
	Retained Imports	5.8	6.7	9.7	16%	45%	2.5	3.1	23%	
Italy	Gross Imports	5.4	8.0	11.3	49%	41%	2.8	3.6	30%	17%
	Re-exports	0.9	1.2	2.0	37%	68%	0.6	0.6	-1%	
	Retained Imports	4.5	6.8	9.3	51%	37%	2.1	3.0	39%	
Spain	Gross Imports	2.2	3.2	5.3	51%	63%	1.2	1.3	9%	13%
	Re-exports	0.1	0.3	0.6	119%	105%	0.2	0.2	2%	
	Retained Imports	2.0	2.9	4.6	46%	58%	1.0	1.1	10%	
Argentina	Gross Imports	1.2	2.1	1.7	76%	-17%	0.5	0.9	96%	24%
	Re-exports	0.2	0.3	0.6	36%	96%	0.2	0.2	13%	
	Retained Imports	1.0	1.8	1.2	84%	-35%	0.3	0.7	156%	
New Zealand	Gross Imports	2.5	3.7	5.0	49%	35%	1.4	1.5	4%	6%
	Re-exports	0.2	0.3	0.3	108%	-5%	0.1	0.1	-31%	
	Retained Imports	2.3	3.4	4.7	45%	39%	1.3	1.4	8%	
South Africa	Gross Imports	0.9	1.6	2.1	65%	35%	0.5	0.8	73%	13%
	Re-exports	0.1	0.3	0.3	249%	-15%	0.1	0.1	-6%	
	Retained Imports	0.9	1.2	1.8	45%	48%	0.3	0.7	99%	
United Kingdom	Gross Imports	4.7	15.2	23.1	224%	52%	5.3	18.0	237%	4%
	Re-exports	0.6	3.1	1.3	437%	-58%	0.5	0.7	53%	
	Retained Imports	4.1	12.2	21.8	195%	79%	4.9	17.3	255%	
Total of Top 10 Suppliers	Gross Imports	103.1	193.5	336.9	88%	74%	77.4	128.0	65%	19%
	Re-exports	27.4	71.0	83.3	159%	17%	26.2	24.7	-6%	
	Retained Imports	75.6	122.5	253.6	62%	107%	51.2	103.4	102%	
Total of Rest of World	Gross Imports	4.1	11.1	31.0	174%	178%	7.2	5.4	-25%	19%
	Re-exports	1.3	2.8	5.3	116%	88%	1.3	1.0	-19%	
	Retained Imports	2.7	8.3	25.6	202%	209%	5.9	4.3	-27%	

(Source: Calculations based on World Trade Atlas data)

¹ Based on trade statistics for the January-April 2009² HS code for Wine referred to in this report is 2204 (Wine of Fresh Grapes)

- The following graph illustrates the spectacular growth of Hong Kong wine imports, especially after the reduction of wine tax in February 2007 and February 2008.



- In terms of quantity, Hong Kong wine imports have also grown significantly:

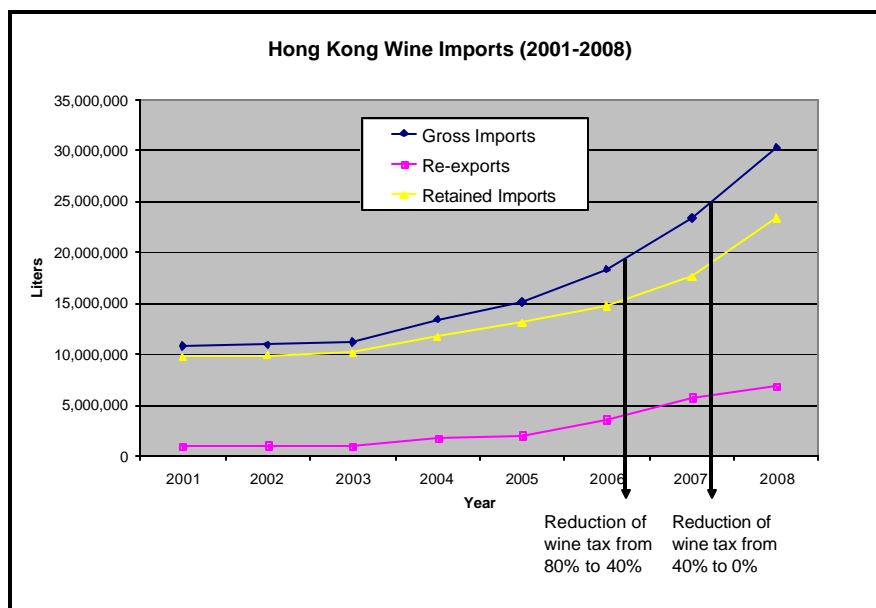
Table 2: Hong Kong Wine Imports (Volume)

Country	Quantity (Liters)	2006	2007	2008	Growth 07 v 06	Growth 08 v 07	2008 Jan-Apr	2009 Jan-Apr	Growth 09 v 08	2009 Jan-Apr	
										Re-export v Gross Imp	
World	Gross Imports	18,405,261	23,459,572	30,429,614	27%	30%	7,460,150	10,482,828	41%	25%	
	Re-exports	3,653,760	5,805,324	6,998,553	59%	21%	2,363,010	2,612,110	11%		
	Retained Imports	14,751,501	17,654,248	23,431,061	20%	33%	5,097,140	7,870,718	54%		
France	Gross Imports	5,763,554	7,262,704	9,092,686	26%	25%	2,525,254	3,392,995	34%	26%	
	Re-exports	1,211,388	1,999,671	2,425,774	65%	21%	903,154	874,040	-3%		
	Retained Imports	4,552,166	5,263,033	6,666,912	16%	27%	1,622,100	2,518,955	55%		
Australia	Gross Imports	3,557,907	4,964,557	5,786,357	40%	17%	1,276,709	2,265,688	77%	13%	
	Re-exports	441,403	895,429	819,571	103%	-8%	262,883	300,472	14%		
	Retained Imports	3,116,504	4,069,128	4,966,786	31%	22%	1,013,826	1,965,216	94%		
United States	Gross Imports	3,133,191	3,632,525	5,732,138	16%	58%	1,081,419	1,821,128	68%	50%	
	Re-exports	1,404,550	1,872,646	2,428,895	33%	30%	729,511	913,112	25%		
	Retained Imports	1,728,641	1,759,879	3,303,243	2%	88%	351,908	908,016	158%		
Chile	Gross Imports	2,177,710	2,675,371	3,735,251	23%	40%	975,036	999,859	3%	13%	
	Re-exports	200,142	408,626	388,268	104%	-5%	165,709	127,631	-23%		
	Retained Imports	1,977,568	2,266,745	3,346,983	15%	48%	809,327	872,228	8%		
Italy	Gross Imports	777,786	1,078,443	1,131,519	39%	5%	303,029	531,785	75%	23%	
	Re-exports	131,958	172,981	248,971	31%	44%	66,321	123,480	86%		
	Retained Imports	645,828	905,462	882,548	40%	-3%	236,708	408,305	72%		
Spain	Gross Imports	1,158,996	1,376,293	1,672,676	19%	22%	424,005	419,963	-1%	11%	
	Re-exports	42,864	70,745	108,635	65%	54%	30,685	45,931	50%		
	Retained Imports	1,116,132	1,305,548	1,564,041	17%	20%	393,320	374,032	-5%		
Argentina	Gross Imports	400,901	671,737	494,664	68%	-26%	124,547	250,256	101%	30%	
	Re-exports	40,039	72,941	116,075	82%	59%	43,448	75,592	74%		
	Retained Imports	360,862	598,796	378,589	66%	-37%	81,099	174,664	115%		
New Zealand	Gross Imports	379,177	487,587	643,446	29%	32%	164,303	179,343	9%	7%	
	Re-exports	19,966	41,503	29,351	108%	-29%	13,745	12,907	-6%		
	Retained Imports	359,211	446,084	614,095	24%	38%	150,558	166,436	11%		
South Africa	Gross Imports	282,913	382,663	459,829	35%	20%	92,237	162,628	76%	13%	
	Re-exports	15,334	66,517	58,447	334%	-12%	27,702	20,985	-24%		
	Retained Imports	267,579	316,146	401,382	18%	27%	64,535	141,643	119%		
United Kingdom	Gross Imports	165,932	201,886	331,538	22%	64%	127,125	88,704	-30%	7%	
	Re-exports	14,856	16,319	12,334	10%	-24%	3,468	6,412	85%		
	Retained Imports	151,076	185,567	319,204	23%	72%	123,657	82,292	-33%		

Total of	Gross Imports	17,798,067	22,733,766	29,080,104	28%	28%	7,093,664	10,112,349	43%	
Top 10	Re-exports	3,522,500	5,617,378	6,636,321	59%	18%	2,246,626	2,500,562	11%	25%
Suppliers	Retained Imports	14,275,567	17,116,388	22,443,783	20%	31%	4,847,038	7,611,787	57%	
Total of	Gross Imports	607,194	725,806	1,349,510	20%	86%	366,486	370,479	1%	
Rest of	Re-exports	131,260	187,946	362,232	43%	93%	116,384	111,548	-4%	30%
World	Retained Imports	475,934	537,860	987,278	13%	84%	250,102	258,931	4%	

(Source: Calculations based on World Trade Atlas data)

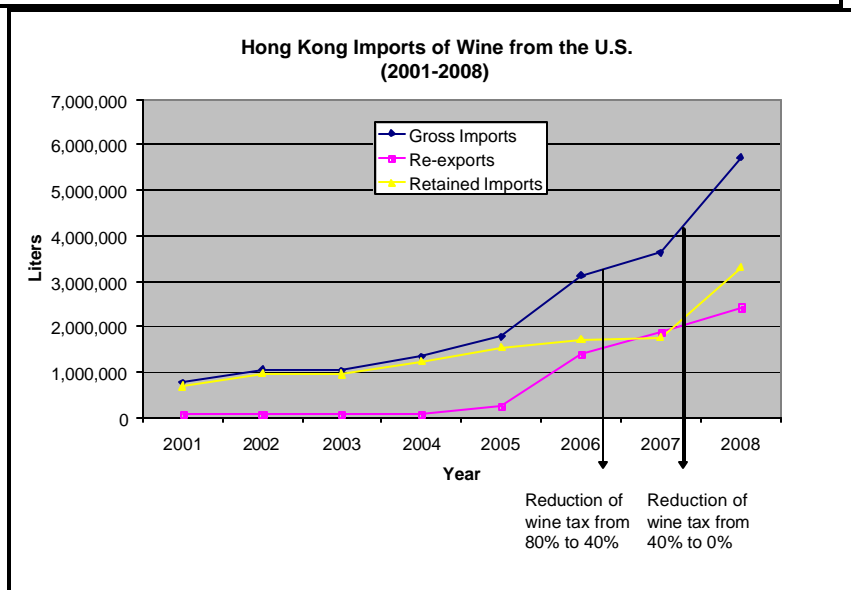
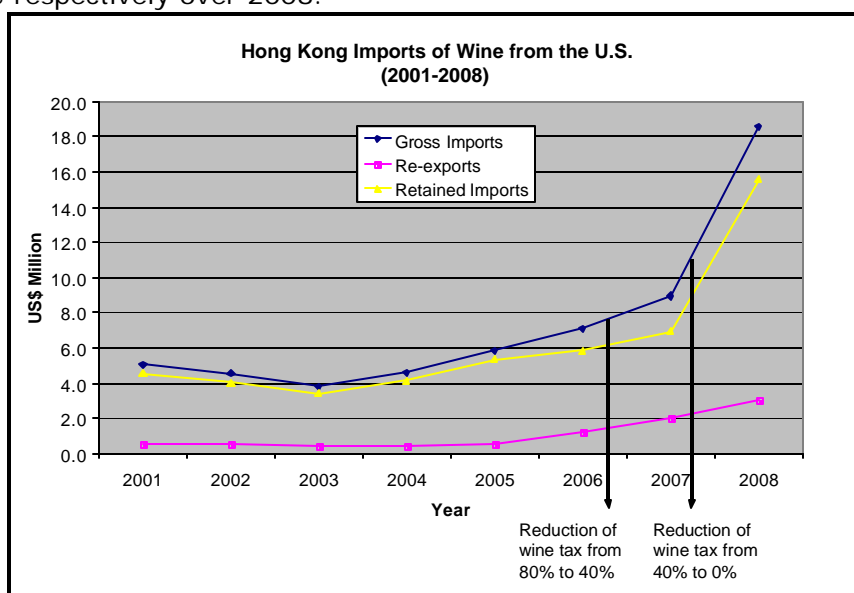
- The following graph illustrates the spectacular growth of Hong Kong wine imports (in terms of quantity), especially after the reduction of wine tax in February 2007 and February 2008.



SECTION II. COMPETITION

- French wine still dominates the market, accounting for 58% of total retained wine imports value and 32% of import volume for the first 4 months of 2009 (please refer to Table 1). However, New World wines, including those from the U.S., Australia, Chile and Spain have also gained popularity in the market.
- The growth of New World wines was partially attributed to the boom of the wine appreciation culture and consumers beginning to realize that they can buy high quality New World wine at competitive prices. U.S. wine is well known in Hong Kong for its fine quality and yet much cheaper price, thanks in part to the depreciation of U.S. dollars in the past few years and aggressive promotional efforts by some U.S. wine distributors in the market.
- Competitors of U.S. wine have aggressive marketing campaigns, as they dominate in-store promotion areas and feature large pavilions at major trade shows. These vehicles provide them with great exposure to Hong Kong and emerging consumers in the region.

- Hong Kong imports of U.S. wine already reached a record high at US\$18.6 million in value and 5.7 million liters in volume in 2008, representing a growth of 108% for value and 58% for volume over 2007. The growth in imports of U.S wine last year was due in part to depreciation of the U.S. dollar, increased wine consumption driven by the tax elimination, and increased sophistication and affluence of Hong Kong consumers.
- For the first 4 months of 2009, Hong Kong imports of U.S. wine continued to grow, reaching US\$6.2 million and 1.8 million liters, representing a growth of 97% for value and 68% for volume.
- Supported by the tax-free wine policy and the spread of the wine appreciation culture, Hong Kong’s ambition to develop into the region’s wine hub presents an excellent market opportunity for U.S. wine, imports of which into Hong Kong are expected to reach a new record at US\$25 million and 6.5 million liters in 2009, a surge of 34% and 13% respectively over 2008.



SECTION III. MARKET SECTOR OPPORTUNITIES AND THREATS³**Consumption Patterns Driving the Market**

- Hong Kong consumers are becoming much more sophisticated when it comes to wine. Generally they believe that drinking about two glasses of wine a day is beneficial to health and that is a major influence on the boom of the wine market in Hong Kong.
- Local consumers prefer red wine to white wine⁴ because they like the flavor of the wine, the color of the wine and more perceived health benefits associated with drinking red wine. In 2008, retained imports of red wine amounted to US\$239 million and that of white wine were US\$20.5 million⁵, representing a ratio of 12 to 1.
- Cabernet Sauvignon, Merlot and Shiraz are the three most popular grape varieties for red wine in Hong Kong. Together they accounted for around 80% of total volume sales. Of these, Cabernet Sauvignon is the most popular, accounting for around 50% of total red wine sales.
- For white wine, Chardonnay is the most popular grape type, accounting for over 60% of total white wine sales.

Sales Channels

- The majority of the wine in Hong Kong is sold at retail markets, such as supermarkets, specialty stores and convenience stores. Approximately 58% of the wine, in terms of volume, and 41% in value terms, is sold in those outlets. The remainder is primarily sold at the food service level. Generally, wine mark-ups are high in the food service market, resulting in prices being three to four times higher than in the retail market.

Retail Market

- Supermarkets account for the greatest share of wine volume sales among retailers, accounting for 49% of all sales. The two largest supermarket chains – Wellcome Supermarkets (246 outlets) and ParknShop (230 outlets), because of their large turnovers, usually import wine directly to reduce middlemen's mark-ups. Therefore they can price their wines more competitively to their customers, who are generally more price-conscious and rank wine quality, country-of-origin and age as secondary for importance in selection.
- Wine specialist stores account for 35% of wine volume sales in the retail market. Watson's Wine Cellar is largest wine specialist in Hong Kong with 14 outlets. Specialist stores serve a consumer group who pay more attention to wine quality, country of origin, and age, rather than just price. Wine specialist stores offer most opportunities for moderate and high price point U.S. wine.

³ ATO Research Reports, Euromonitor and interviews with traders

⁴ The HS codes for red wine and white wine referred to in this report are 22042191 and 22042192 respectively

⁵ Source: World Trade Atlas statistics

Food Service Market

- Restaurants in Hong Kong normally charge a high mark-up on wine consumption. Restaurants that allow customers to bring their own wine charge corkage fees⁶ around HK\$200-\$300 per bottle (approximately=US\$25-\$38 per bottle). Whether wine sold in restaurants have a low, medium or high price point depends on the food and target customers of the restaurant. As is the case almost anywhere, the higher-end the restaurant, the more premium the wine it will serve and vice versa.

Table 3: Wine at food service outlets – relationship between price and image

Low-end	HK\$25- 50 (general bars/restaurants/3 star hotels)
Low-end	HK\$40- 70 (up market restaurants/5 star hotels)
Medium-end	HK\$60–150
High-end	HK\$150 up

(Source: Interview with an experienced local wine importer/trader (HK\$7.8=US\$1)

- The high mark-up for wine sales and their high corkage fees on-premise has hindered consumption of some high-end wines through this channel. However, since the abolishment of the wine tax in February 2008, many restaurants and hotels have launched more wine-tasting classes and special promotions. These activities have supplemented sales promotions at the retail market to spread of the wine appreciation culture and increase the demand for more fine wines. U.S. suppliers of high price point wines should expect more opportunities and target this market segment.

SECTION IV. PRICING

Price Segments⁷

- Red wine is typically categorized into five different price segments as follows:

Price Segments (per 75 Cl bottle)	% of Total Retail Sales Volume
Under HK\$100	29
HK\$100.01–130	28.5
HK\$130.01–150	20.0
HK\$150.01- 250	14.0
HK\$250.01 and above	8.5
Total	100.0

- White wine is typically categorized into five different price segments as follows:

Price Segments (per 75 Cl bottle)	% of Total Retail Sales Volume
Under HK\$100	29
HK\$100.01–130	26.0
HK\$130.01–150	20.0
HK\$150.01- 200	18.5
HK\$200.01 and above	6.5
Total	100.0

⁶ Source: Interviews with HRI traders

⁷ ATO Research Reports, Euromonitor and interviews with wine importers (HK\$7.8=US\$1).

- To see a list of popular wine available in the Hong Kong retail market and their retail prices, please visit the websites of the two leading supermarkets and the leading wine specialist:

Wellcome Supermarket <http://www.wellcome.com.hk>

ParknShop <http://www1.parknshop.com/WebShop/Home.do>

Watson's Wine Cellar <http://www.watsonswine.com/>

(Note: Retail prices of wine you can find on their websites are based in Hong Kong dollars and US\$1 equals to approximately HK\$7.8.)

SECTION V. MARKET ACCESS

- Food products can be imported to Hong Kong duty free except for cigarettes and some alcoholic beverages. The taxes on alcoholic beverages are as follows⁸:

Liquor with an alcoholic strength of more than 30% by volume measured at a temperature of 20 °C	100%
Beer, liquor, other than wine, with an alcoholic strength of not more than 30% by volume measured at a temperature of 20 °C	0%
Wine	0%

- Hong Kong does not have specific labeling requirements for wine imports. For the general labeling requirements and a general guideline to Hong Kong's food import regulations, please refer to Gain Reports #HK7011, HK#7017 & HK#8017 or contact our office.

SECTION VI. ENTRY AND MARKETING STRATEGY

For new-to-market wineries that wish to enter the Hong Kong market, the following approaches are recommended:

- One-on-one meetings with potential importers: Most local importers are interested in meeting new-to-market exporters in a private environment. A list of local wine importers is available by contacting our Agricultural Trade Office in Hong Kong.
- Exhibiting in a local trade show: There are trade shows in Hong Kong for U.S. wine exporters to showcase their high quality wine to buyers from Hong Kong, Macau, China and the region. USDA will be endorsing the following trade show and organizing a USA Pavilion in 2009:

Hong Kong International Wine and Spirits Fair

Date: November 4-6, 2009

Website: <http://hkwinefair.hktdc.com/>

Organizer: The Hong Kong Trade Development Council (HKTDC)

⁸ Source: Hong Kong Customs and Excise Department

About the Organizer: HKTDC is the international marketing arm for Hong Kong-based manufacturers, traders and service providers. HKTDC is also the largest organizer of trade fairs and business missions to connect companies with opportunities in Hong Kong and mainland China, while providing information via trade publications, research reports and online. The HKTDC is governed by a 19-member Council of Hong Kong business leaders and senior government officials.

About the Show: The First Hong Kong International Wine and Spirits Fair was held August 14-16 in 2008, shortly after the Hong Kong Government announced the abolishment of the wine excise tax in February the same year. The exhibition showed the determination of the Hong Kong Government to develop Hong Kong into a regional wine hub. The inaugural show had over 240 exhibitors from 25 countries, attracted over 18,800 buyers and visitors from 55 countries and regions.

The Hong Kong International Wine and Spirits Fair is an officially endorsed show of the U.S. Department of Agriculture. In addition to the special package and a location within the professionally designed U.S. Pavilion, U.S. exhibitors will also be treated to a special briefing, tour and reception organized by the Agricultural Trade Office in Hong Kong to increase their value in joining the Show. Below are some of the photos taken at the Show in 2008:



Senior Hong Kong Government official visiting the US Pavilion



USA Pavilion



US Wine Day at the Show



Last Day – Open for Private Citizens

SECTION VII. KEY CONTACTS AND FURTHER INFORMATION

- U.S. agri-food suppliers who want to gauge this opportunity to increase market shares of their products are welcomed to contact ATO Hong Kong for:
 - Market Information and Updates
 - Food Import Legislations
 - Promotional Opportunities
 - Trade Inquiries
 - Marketing Assistance

U.S. Agricultural Trade Office Hong Kong

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- The Wine Institute of California has a local representative in Hong Kong:

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