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The Chinese Wine Industry

Linda Jiao and Shan Ouyang

10.1 Introduction

China is an emerging wine market experiencing rapid growth since the beginning of the 2000s. This market is also a market in evolution, in every aspect, from wine production to wine consumption. The cultivation of the vine in China can be traced back to ancient times, when people described their enjoyment of grape wine in poetry. Nowadays, China has come to be the world's second largest winegrower (by vineyard surface area), the sixth biggest wine producer, and the fifth most important wine consumer in terms of volume (OIV 2017). In addition, as we can observe from Fig. 10.1, the gap between wine consumption and production, which is filled by imports, has been expanding since the second half of the 2000s. Imported wine is a growing and developing part of the Chinese wine market, due to the evolving consumption behavior of Chinese wine drinkers. Regarding market size, according to International Wine & Spirits Research (IWSR), China is predicted to become the second largest wine market and the largest non-sparkling wine consumer by 2020.

The wine-production sector is highly concentrated in China with leading national wine groups providing a wide range of products which take over half

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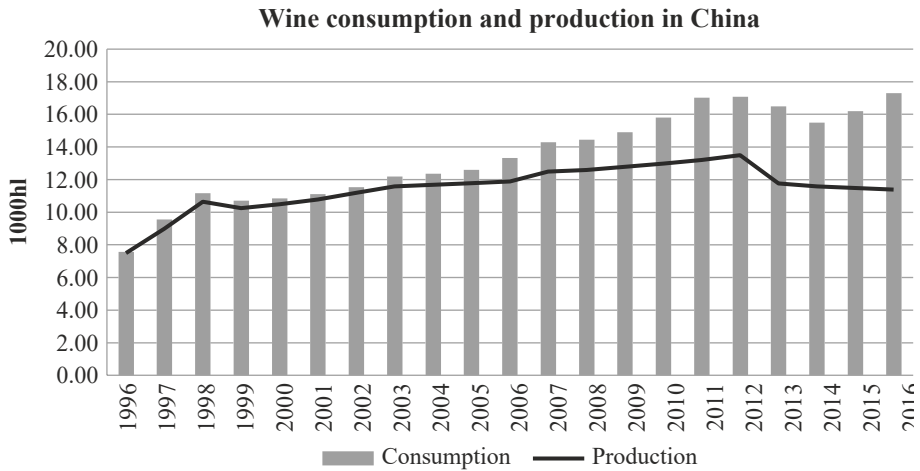


Fig. 10.1 Evolution of wine consumption and production in China. (Source: Cosslected from OIV annual reports of World Vitiviniculture Situation and OIV Statistics, 2013–2017)

of the entire market. However, the small wineries in Ningxia have gained the highest reputation among quality wine producers. In addition, the Chinese domestic wine industry is characterized by a high vertical integration along the value chain. Large groups and small wineries often have their own distribution channels. In particular, e-commerce and social network marketing have emerged over recent years, and the wine market is no exception to these trends.

Last but not least, it is worth mentioning that the intervention of the Chinese government is a key factor in the Chinese wine industry. The government released the first national standards and policies to regulate the domestic wine industry in the early 1990s and improved them during the 2000s. Then, in the “12th Five-Year Plan” for the Chinese wine industry (2012), the Ministry of Industry and Information Technology and the Ministry of Agriculture underlined the importance of government support in the domestic wine industry, especially in the development of the wine-production sector, the improvement of industrial structure, the innovation of science and technology, the guarantee of product quality and safety, and the promotion of domestic wine culture. Afterward, green development in the wine-production sector was highlighted in the “13th Five-Year Plan”. Moreover, the government promotes wine as a healthier alternative to traditional spirits and encourages people to consume wine with moderation. During 2013–2014, the wine market, especially the fine-wine market, suffered significantly as a result of the crackdown on gifting and corruption, but it has been gradually recovering since 2015.

In order to have a global overview of the Chinese wine industry, we will introduce and analyze the main operators along the chain in this chapter.

10.2 Winegrowing and Winemaking Sectors in China

In China, the cultivation of the vine can be dated back to the fourth century BC. Poems like *The Song of Grapes* and *The Song of Liangzhou* in the Tang Dynasty recorded ancient people enjoying grape wine. Wine industrialization in China started in the late nineteenth century when European missionaries brought in vines and winemaking technologies. In 1892, Mr. Chang Bishi (1841–1916), a patriotic overseas Chinese, set up the Changyu Pioneer Wine Company. Four years later, Changyu imported quality grape vines in large quantities from Europe to Yantai, Shandong Province, and that is how the first wines in modern China were established. But the birth of Chinese wine culture should be dated to the 1980, thanks to China's reform, opening up to the rest of the world and the investment of foreign groups. Influential Sino-French joint ventures appeared during that time, such as the Remy Martin Group, which created the Dynasty Fine Wine Group in 1980, and Pernod Ricard, associated with the Beijing Winery, which created Dragon Seal in 1988. Later on, with the support and promotion of the Chinese government, wine production in China has been increasing gradually since the 1980s.

According to the report by the International Organisation of Vine and Wine (OIV) (2017), in China, the surface area under vine was 830,000 hectares in 2015 and forecasted to be 847,000 hectares in 2016, which accounts for about 1.5% of the entire national agricultural land. Most of the production is for table grapes and wine grapes account only for 15% of the total grape production. As regards wine production, the volume has been dropping slightly since 2012 from 13.5 to 11.4 million hectoliters, but China still remains in sixth position in the world. In fact, there are wineries in western China selling their bulk wine to be bottled in eastern China, and the production of wine is often double counted – the first time in the west and for a second time in the east. As a result, statistics on Chinese wine production are questionable.

10.2.1 Chinese Wine-Production Regions

Despite having huge geographical diversity, China has a rather unfavorable and extreme climate for viticulture. The vines are cultivated in various regions but under diverse climatic and soil conditions.

A specific challenge for grapes is that, in winter, the climate in certain wine regions is extremely cold and sometimes the temperature falls below -20°C . To protect the grapes from the wind and cold, vines have to be buried in winter in order to keep them alive and then unburied in spring. Covering vines for the winter is undertaken by hand, which implies extra costs. This is the major reason why Chinese wine production has higher costs. Furthermore, vines generally need to be irrigated by river water or groundwater in most of the wine regions. Besides, Chinese wineries like hiring French winemakers and oenologists as consultants, as well as investing in advanced and expensive equipment.

Wine regions are dispersed throughout the country, but most of them are in eastern China. When it comes to wine regions, people usually talk about their administrative divisions, although those are insufficient to define certain wine regions (Li, 2016). It helps to have a first location of Chinese wineries. Geographically speaking, eight main wine regions can be considered: Shandong, Hebei-Beijing, Shanxi, Dongbei, Xinjiang, Ningxia, Gansu, and Yunnan (Fig. 10.2).

Regional official data concerning winegrowing and winemaking sectors are rarely available. In order to acquire more information, data on major wineries for each region were collected. These data are from online resources and not available for all considered wineries.

The eight main regions considered are:

10.2.1.1 Shandong

Shandong is the largest wine-production region in China, occupying the top place for market share by both volume (about 35% of the total wine production (author's calculation based on the China Brewing Industry Yearbook)) and value. This region has a long winemaking history and relatively advanced technologies. The vines here are mainly cultivated in the Shandong Peninsula, and the most famous region is Yantai (a protected geographic indication) where Changyu, the Great Wall, and Weilong are located. The climate in winter is moderate, so that vines can naturally survive without being buried. However, there are fewer sunshine hours in summer because of the rainy weather. The wineries in this region are mainly of around 150 hectares.

10.2.1.2 Hebei: Beijing

Hebei is another important wine region in China in terms of both volume (around 7% (author's calculation based on the China Brewing Industry

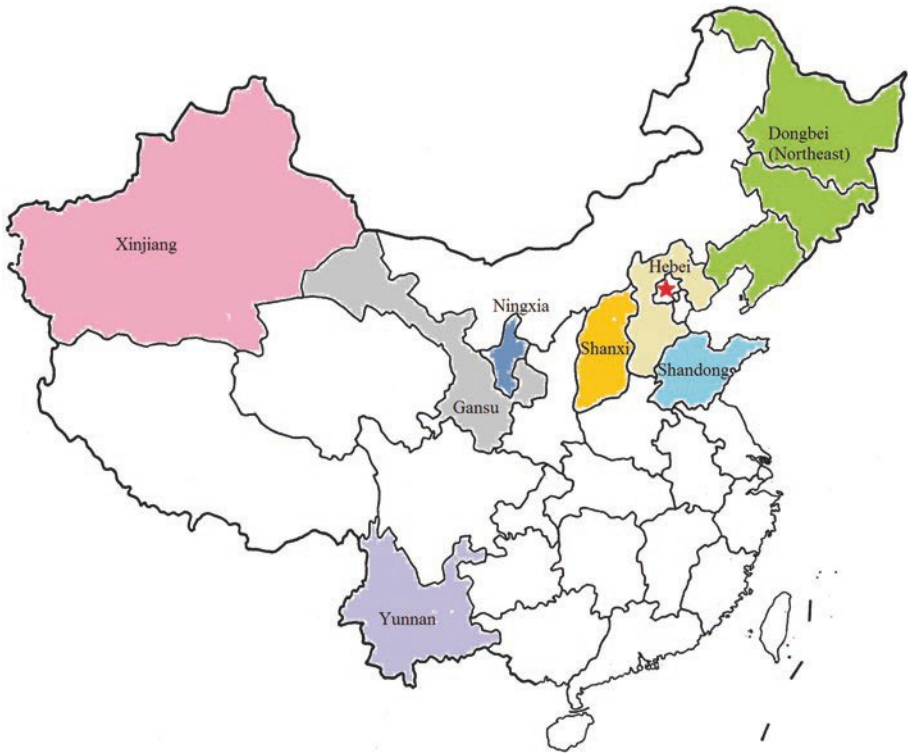


Fig. 10.2 Main wine regions in China. (Drawn by author)

Yearbook)) and value. The Hebei and Shandong regions represent nearly half of the total domestic wine production. The Hebei wineries are located in Shacheng (northwest of Beijing) and Changli (northeast of Beijing). The wines produced from these two regions are protected as geographical indications. The winter here is rather cold which means vines need to be protected artificially. The domestic grape variety Dragon Eye is widely planted in this region. The planting size of the wineries here is mainly from 100 hectares to over 500 hectares. There are also relatively smaller wineries such as Domaine Franco-Chinois, a Sino-French joint venture, which has 23 hectares of vineyards and 25 hectares in total.

Several relatively smaller wineries, with 70–100 hectares in plantation, are in the northwest and southwest of Beijing’s outer suburbs, such as Dragon Seal and Changyu Aifeibao Winery. These wineries can be ideal for wine tourism thanks to their geographical location.

10.2.1.3 Shanxi

Winemaking is relatively small in Shanxi and its recognition in the wine industry is mainly due to the success of the Grace Vineyard. Grace Vineyard was the first family-owned winery in China, which was founded in 1997. It has a total of 133.33 hectares, of which 60 hectares are planted with vines with a production of 400,000 bottles per year.

10.2.1.4 Dongbei (the Northeast)

The Dongbei region consists of three provinces: Liaoning, Jilin, and Heilongjiang. Their production accounts for over 20% of the total production in volume (author's calculation based on the China Brewing Industry Yearbook). A domestic grape variety called *Vitis amurensis* is widely grown in the Changbaishan region of Jilin Province. This grape is highly resistant to extreme cold (Dongbei is the coldest region in winter in China), but its sugar content is often inadequate when harvesting, meaning it requires chaptalization. Besides, this region produces ice wine, and the most famous ice-wine region is Huanren County in the Liaoning Province. The wineries here are huge, from hundreds of hectares to thousands of hectares.

10.2.1.5 Xinjiang

Xinjiang is the largest grape-production region in China, and the cultivation of wine grapes has increased rapidly since the 2000s. The large wine companies are used to buying fresh grapes or grape juice from the independent wine-growers of this area. But also some wineries have been established here, have commercialized their own wines, and gained good reputations. Furthermore, Heshuo and Tulufan have officially become protected geographic indications since 2016. The wineries in Xinjiang are also huge, most of them occupying thousands of hectares in plantation.

10.2.1.6 Ningxia

Contrary to other provinces, “the wine industry occupies the most important position in the economic development of Ningxia” according to Pr. Li Demei, consultant of Ningxia Helan Qingxue Vineyard. Due to the Helan Mountain East Foothill appellation, the provincial wine bureau, and the winery classifi-

cation system, Ningxia has gained the reputation as the producer of the highest-quality Chinese wines and is regarded as one of the country's most promising wine regions. The climate here is arid or semiarid with good conditions of sunlight and warmth. There are also convenient irrigation conditions thanks to the Yellow River. The vines have to be buried each winter to be protected from the cold and wind. There are 72 wineries with 34,000 hectares of vines for winemaking. More details about this region will be presented in the following sections.

10.2.1.7 Gansu

Gansu has a relatively long history of winemaking, but the wine industry hasn't taken an important position in this region, probably due to the inconvenience of transportation. The wine quality here has been barely satisfactory because of unfavorable climate conditions. Over the last few years, the wine industry has developed rapidly thanks to the support of the regional government, especially as regards organic wine production. In addition, the Hexi Corridor has become a protected geographic indication since 2012. The size of the wineries ranges from hundreds to thousands of hectares.

10.2.1.8 Yunnan

There is not a long winemaking history in this region, although the climate is relatively favorable for winegrowing. In a high-altitude but low-latitude geographical location, the sunlight is sufficient, the weather is not hot in summer and in winter, like the Shandong region, vines do not have to be protected as they can survive naturally. The vineyards are tiny, scattered all over the mountains in small plots with normally dozens of plots making up just 1 hectare. The difficulties and challenges of producing wine in Yunnan will be presented by the Ao Yun case in the section on foreign investment.

10.2.2 Grape Varieties

There are hundreds of grape varieties in China if we take into consideration both table and wine grapes. Red varieties dominate, representing 80% of the total. Among the main red wine varieties, Cabernet Sauvignon accounts for 80%, followed by Merlot representing 12.5%, Cabernet Gernischt (Carmenère) 5%, Shiraz, Cabernet Franc, Pinot Noir, and other foreign vari-

eties in small quantities plus *Vitis amurensis*, which is a domestic variety. For white wine, Chardonnay accounts for over 61% of the total white-wine grape area, followed by Riesling representing about 36%, plus Chenin Blanc, Sauvignon Blanc, Gewurztraminer, Ugni Blanc, and so on. Dragon Eye is a celebrated domestic white variety (the Chinese Agricultural Year Book; Anderson and Aryal, 2013; Li, 2000).

The “12th Five-year Plan” indicates that strengthening winegrowing bases is a key factor to ensuring the quality and stability of winemaking raw materials. Local government should be in support of breeding high-quality imported-wine grape varieties that adapt well to the climate of Chinese wine regions.

Marselan, a hybrid variety of Cabernet Sauvignon and Grenache, is bred by INRA (French National Institute for Agricultural Research) and was first imported to China in 2001. Unlike in France where Marselan is cultivated little, this variety has spread across China during the last 15 years. Strongly structured and elegant wines are made from Marselan, and the result is that it is regarded as a grape variety which is highly adapted to the taste of Chinese consumers. Several Chinese wineries (such as Zhongfei Winery, Yiyuan Winery, and Huailai Amethyst Manor) present Marselan wines as their main product.

10.2.3 Big Wine Groups Versus Elite Wineries

There are about 450 wine producers in China but only 150 companies with a turnover of more than 5 million RMB registered in official statistics. The wine-production sector is highly concentrated in China with 5 leading groups taking more than 60% of total volume. The main groups are Yantai Changyu Group Co., Ltd.; Great Wall Wine Group Co., Ltd. of COFCO Ltd.; Dynasty Fine Wine Group Co., Ltd.; Yantai Weilong Grape Wine Co., Ltd.; and Dragon Seal Wines Co., Ltd. (Ubifrance 2012; IWSR 2015). According to the study by MarketLine, in 2015, in terms of market volume of domestic wine, the top 4 account for almost 60% of total volume and the remaining 40% is shared by hundreds of operators (see Fig. 10.3). However, since 2016, the degree of concentration has been diluted so that the top 4 account for less than half of the total volume. But, Changyu still holds the first position in China and takes around one fifth of the market.

Large companies provide a wide range of products from low-priced to high-end ones in large volumes. As a result, they need grape sources and grape juices from independent domestic growers or those worldwide. They buy

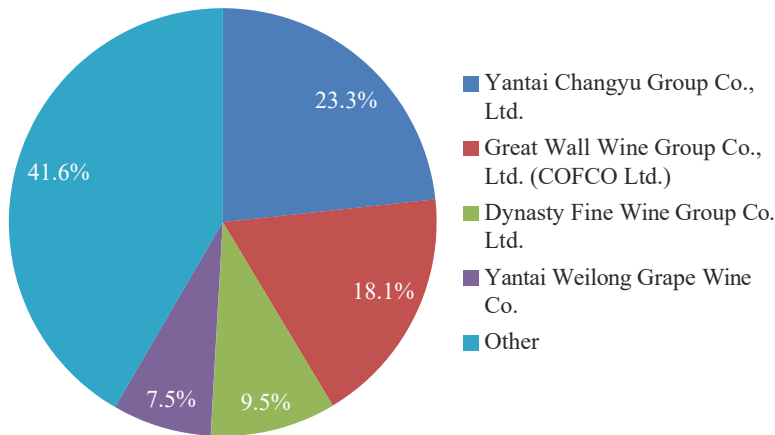


Fig. 10.3 China wine market share by volume. (Source: MarketLine 2015)

grape juices from New World producers such as Chile, Australia, and also from the Xinjiang Province. They mainly negotiate the price of grape juices without strict quality criteria. Therefore, in some cases, grapes produced by company-owned vineyards are often used for high-end products, while third-party grapes are for low-priced products. Besides, there are local producers who are used to importing bulk wine from Chile, Spain, or Australia and then mixing them with their own “grape juice” to improve their qualities, because their costs are lower than growing grapes themselves.

Wineries in the Ningxia region are the best representatives of elite Chinese wineries. All wines are produced by grapes cultivated in their own vineyards following certain requirements in quality in order to pinpoint their origin. “The idea was to change the current situation of the wine industry in China, which tended to ‘industrialize wine production’ and generate a ‘massive amount of low-quality wines’ according to a special consultant of the region’s wine industry.

Most of the large companies and “small and fine” wineries operate vertically integrated businesses from growing grapes to making wine and then bottling. But there are some exceptions, and the bottling of bulk wine is described in the section entitled “Relationships along the chain”.

10.2.4 Appellation Versus Brand

In China, there are seven protected geographic indications of grape wines: Changli, Shacheng, Helan Mountain East Foothill, Hexi Corridor, Yantai, Heshuo, and Tulufan.

The term “appellation” or “protected geographic indication” is rather new for Chinese wines. Helan Mountain East Foothill in Ningxia Province is the best-known appellation thanks to their gold medals in international wine competitions and their promotion in influential wine media. It is also as a result of the Ningxia government’s effort. Other appellations are less well-known by consumers.

In 2011, Helan Mountain East Foothill became a protected geographic indication in China. In 2012, Ningxia became the first Chinese provincial wine region accepted as an official observer in the OIV. In the same year, the first provincial-level wine bureau in China was founded here. In 2013, the Ningxia government released the first local regulations designated for a wine region – “Ningxia Helan Mountain East Foothill Wine Region Conservation Regulations”. And following the Bordeaux 1855 Classification, the government announced the introduction of a classification system to recognize and encourage Ningxia wineries producing high-quality wines. This is a classification system that divides the best wineries into five classes in accordance with strict conditions such as grape variety, yield (about 57.7–92.3 hl/ha by red wine), and wine quality. The classification system was officially implemented in 2016. Also a regulation aimed to protect the geographic indication of Helan Mountain East Foothill was released in the same year (Wu, 2016).

With the support of the local government and the cooperation of wineries, regional wine- industry associations sprang up in wine regions (Wu, 2014). There is no doubt that Ningxia is a pioneer and plays a guidance role for all the associations. The legal system, such as the protected geographic indication and the classification are frequently demanded by both wine producers and the Chinese government. Chinese wine regions are approaching international standards step by step.

As for the brands, Changyu has undoubtedly the highest market share, and it is also the brand with most consumer awareness, followed by Great Wall, Weilong, and Dynasty. From market share statistics, it is not hard to see that consumers have stronger brand awareness than appellation awareness.

Two quite different wine producers – Changyu and Helan Qingxue Vineyard – will now be described in order to have a better understanding of the characteristics of the Chinese wine industry.

10.2.5 Case Study: Changyu Versus Helan Qingxue Vineyard

Changyu is one of the oldest Chinese wineries. It has now been transformed into a big group which offers a wide range of products from wine to spirits

produced from six production regions in China and eight chateaux from their properties in China and abroad. Their Pioneer International Chateau Alliance with several chateaux from France, Italy, Spain, New Zealand, and Australia produce their high-end wines with a very competitive image.

Changyu holds an important market share in almost every catalog in the Chinese wine market, with a very large range of products from cheap wine to high-end wine, cognac and brandy from their estates abroad, ice wine, and health-care liquor. Changyu still holds a positive status and keeps expanding its investment overseas in spite of the economic decline, the competition from imported wines and the downturn of wine consuming caused by the anti-corruption campaign from 2012.

By contrast, Helan Qingxue is not only at the opposite extreme to Changyu because of the size of the company but also in the building of the image of their products—100% Chinese ancestry. Founded in 2005, Helan Qingxue Vineyard is the first demonstration vineyard in Ningxia. It has about 13.33 hectares of vineyard with an annual production of 50,000 bottles, situated in Helan Mountain East Foothill. Its consultant, Li Demei, is a well-known Chinese winemaker trained in Bordeaux, as well as a professor in Beijing Agricultural College. This winery has built up its image and reputation gradually by the successful performance of their wines in several competitions. Their wines have won many awards in international contexts such as the Decanter World Wine Award and the “best Chinese wine” selected by the Revue du Vin de France (RVF) China.

10.2.6 Foreign Wineries and Joint-Venture Wineries in China

As mentioned before, Chinese wine industrialization was started by the Sino-foreign joint-venture wine companies, and, up until now, foreign capital has continued to invest in wineries in China. Among these foreign investments, there are wineries established by large groups such as Pernod Ricard which founded Helan Mountain Winery in Ningxia, the LVMH group which planted 66 hectares of vines in Ningxia for the production of its Chandon subsidiary in China, and the 25-hectare vineyard owned by Domaines Barons de Rothschild (Lafite) in Penglai, Shandong Province. In addition, there are also wineries established by wine enthusiasts like Dr. Karl Heinz Hauptmann, a financial-industry expert, who founded Chateau Nine Peaks in Shandong.

10.2.6.1 Moët Hennessy's Chinese Red Wine: Ao Yun

Ao Yun is the first luxury Chinese wine by Moët Hennessy produced in Yunnan Province. The history of producing Ao Yun is a vivid example to illustrate the surprisingly high cost of wine production in certain Chinese regions and also the challenges encountered by foreign investors. According to the president of Moët Hennessy Estates & Wines, Jean-Guillaume Prats, producing Ao Yun combines “a great human challenge and a logistical nightmare”, which results in extremely high costs, even more than those to make Chateau Yquem (Schmitt, 2016). The logistics are very difficult since the vineyards are situated in the foothills of the Himalayas at an average altitude of 2500 m. Besides, when communicating with local farmers who speak only the local language, French managers are facing problems related to culture and the language barrier. Furthermore, electricity is not available on the farm, which means every winemaking procedure has to be done by hand. 2013 is the first vintage of this unique wine, with a small production of 24,000 bottles, priced at USD300 internationally.

10.3 Wine Distribution in China

10.3.1 Segmentation by Color and Grape Variety

As we can see in Fig. 10.4, still red wine dominates the market, accounting for 71% of the total wine sales in volume, followed by still white wine representing 23% of the total, complemented with small percentages of still rosé, sparkling wine, and Champagne. With an increasing popularity of Champagne, sparkling wines have gained some share but it is still limited. Among the grape varieties for red wine, Cabernet Sauvignon occupies the first place with around 35% of the total sales in volume, followed by Merlot with about 23%, Cabernet Franc 10%, Cabernet Sauvignon/Shiraz 10%, and others. For white wine, the top 3 most popular varieties are Chardonnay with 43%, Riesling 26% and Dragon Eye 8%, and others account for 23% of the total (author's calculation based on Euromonitor International (2011, 2015)). Rosé wines consumed in China are mainly made of Merlot.

10.3.2 Domestic Wine Versus Imported Wine

The majority of wine consumption is Chinese domestic wine that accounts for 77% of the total consumption. Imported wines make up the remaining

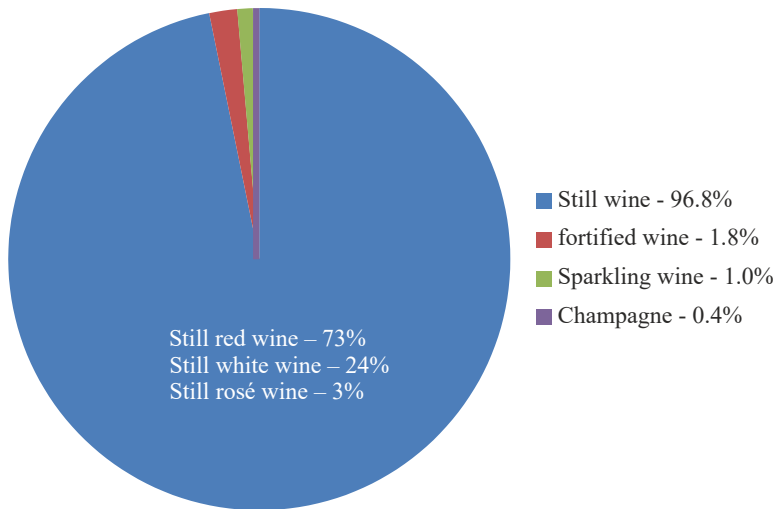


Fig. 10.4 Wine market share segmentation by color. (Source: MarketLine 2015 and author's calculation based on Euromonitor International 2011, 2015)

23% of consumption. With the evolving consumption behavior of Chinese wine drinkers, imported wine is a growing and developing part of the Chinese wine market with a high potential for the future. Among all the imported wines, France (36%), Chile (22%), Spain (12%) and Australia (11%), Italy (6%), and the USA (4%) are the top "countries of origin" (author's calculation based on Euromonitor International (2011, 2015)). French wine dominates the market but there is a significant growth of New World wines.

10.3.2.1 Export

Exports of Chinese wines are negligible and the main destination is Hong Kong. As the wine industry is still very young in China, only a few wineries sell their wines abroad. But with a good trend of development, it will not be long until we see Chinese wine all around the world as it is already possible to find Ningxia wines in California's wine cellars.

10.3.3 Wine Distribution

On-trade and supermarkets/hypermarkets are the leading distribution channels in China. According to IWSR (2015), Walmart, RT-mart/Auchan, Carrefour, Tesco (CRV), Metro, Parkson, and Lotus are the largest wine retail-

ers in China (Fig. 10.5). Since 2016, on-trade has increased significantly in China. Meanwhile, e-commerce has contributed a significant share (MarketLine 2016, 2017).

10.3.4 Price Segmentation

Off-trade, the most common selling price range for all wines is 20–59.9 RMB (3–10 USD) per bottle. Nearly 80% of red wines are sold within that price range, and the same occurs for 71% of white wines, 78% of rosé wines, and 79% of sparkling wines (author’s calculation based on Euromonitor International (2011, 2015)).

When it comes to imported wines, the average spending per bottle ranges from 179 RMB for a casual drink to 260 RMB for a special occasion. On-trade, average spending per bottle varies from 219 RMB for an informal meal, to 296 RMB for a party or celebration, and up to 424 RMB for a business meal (Wine Intelligence 2015).

The Chinese wine market is still in an hourglass structure (Fig. 10.6) with a mid-range market smaller than the low-priced and high-end markets. Domestic wine, along with low-priced imported wine, has gained the largest market share and still has potential. The top-end fine wines have been experiencing a decline over the last two years (2013–2015). While the mid-range market that includes mid-priced imported wines from a wide diversity of ori-

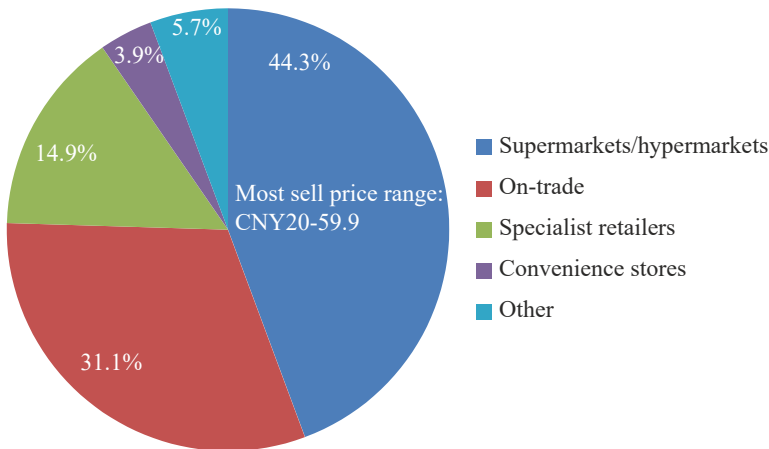


Fig. 10.5 Wine distribution in China. (Source: MarketLine 2015 and author’s calculation based on Euromonitor International 2011, 2015)



Fig. 10.6 Hourglass structure. (Drawn by author)

gins – Old World wines as well as New World wines – is growing and is expected to continue that trend.

10.4 Relationships Along the Chain

10.4.1 From Winegrowing to Winemaking in China

According to the Chinese economic system, the ownership of land in China is public, which means that neither the winegrowers nor the wineries own the land. So, there are two common models of production among the wineries in China.

- (a) Firstly, at the beginning of the development of the wine industry in China, wineries used to buy the grapes from independent winegrowers who rented land from the government to make their wines. They barely had any control during the viticulture productive process. Sugar and acid degrees after harvest are the only indicators to control grape quality. Independent winegrowers are numerous and hard to regulate, and they can also find alternative markets such as fruit-sugar production or switching to table grape varieties.
- (b) During the past decades, the model of “wineries + independent winegrowers” has shown a lot of disadvantages, such as unstable quality and quantity of grape and unstable income for winegrowers. Recently, a growing number of pioneer wineries have tried to rent the land themselves and train their hired winegrowers.

Wineries choose either of these two explained models to cooperate with winegrowers depending on their size and their business strategy. Big wineries from more traditional wine regions, like Xinjiang, prefer to continue to buy grapes from winegrowers to ferment large quantities of cheap wines. The first model can't reach grape quality expectations of wineries aiming at making small production of high-quality wines.

The second model raises costs of production but it provides wineries with more innovation flexibility to create their own wines. Some wineries are also encouraged by government supports. In some regions, like in the Ningxia Province with the government subsidy, the rent of land is 100 times less expensive than in other regions.

Government supports have just extended to Xinjiang and Ningxia provinces. In other regions, government supports are still at municipal or district levels, like the Hengren County in Liaoning Province, Fangshan District in Beijing, or Penglai District in Shandong Province. For instance, from 2006 to 2014, the Penglai government allocated incentives and subsidies to encourage both the construction of wineries and the wine producers who own vineyards.

At the beginning, government supports were applicable from the land rent up to the distribution. But, since 2013, the distribution subsidy has diminished and market influence has begun to be more noticeable.

10.4.2 Market of Bulk and Bottled Wines

In China, wineries tend to be distributed geographically according to their size. According to the interviews with scholars and professionals, small wineries are concentrated in the eastern part of China, and big ones are often located in the western part.¹ Big wineries, often belonging to large groups and located in Xinjiang, send their bulk wines to other subsidiaries from the same group for bottling and distribution. Except for those kinds of wineries, most wineries in China are equipped with bottling and packaging pipelines. So, they often bottle in their wineries and sell their wine in bottles.

¹Generally speaking, the wineries in the eastern part of China are relatively small compared to the wineries in the western regions such as Xinjiang and Gansu. Ningxia is a special case, though it is located in the western part of China.

10.4.3 Distribution of Chinese Wine

Viewed as a whole, Chinese wineries show a high degree of vertical integration. However, different wineries have different strategies to distribute and promote their wines.

10.4.3.1 Traditional Distribution Channels

Although distribution channels are improving gradually, *guanxi*² still plays a significant role in wine sales, which means that establishing a close relationship with distributors and with government, corporate, and private clients is a key factor for commercial success in China. The Chinese domestic wine industry is characterized by high vertical integration along the chain. Despite a huge difference in business models between large groups and small wineries, they often have their own distribution channels. Government and corporate clients are important buyers of Chinese wine. They purchase wine in a large volume for their staff or clients as a gift for national festivals such as the Mid-Autumn Festival, the New Year, and the most famous Spring Festival. In addition, the staff is often interested in getting discounts.

10.4.3.2 E-commerce

With the emergence of e-commerce and social networks, digital marketing has a very important role in the distribution of Chinese wine and is proving successful. There are distributors like Yesmywine.com which only sell wines on the Internet, and some multiple domestic importers/distributors use e-commerce to sell their wines such as JD (Jing Dong), Tmall (Alibaba Group), and GOME.

Chinese consumers can easily get lost in the middle of the wine shelves of a wine cellar or supermarket because of the lack of professional sales guidance. On the Internet, consumers can often get more information and also better advice from reading comments of other consumers, which helps them make their choices. In addition, delivery is fast and with very low prices. Buying wine online is appealing for young generations and for those who are interested

²Literally, *guanxi* means “go through the gate and get connections” or simply “relationships”. In the business world, it is a Chinese term used to describe the network of relationships aimed to provide support and cooperation or exchange favors among the parties involved.

in bargains, although fake wine is a severe problem challenging consumers' trust.

For instance, on 9 September 2016, Tmall host edits first Global Wine & Spirits Festival online, bringing 100,000 wines and spirits from 50 countries of origin (including Chinese wineries) to Chinese consumers. Meanwhile, 5000 bars and pubs will provide free tastings and distribution services offline. It was a phenomenal event that showed the considerable influence of e-commerce on wine distribution in China. Besides, the Alibaba Group has expanded its activities to the Bordeaux region by acquiring wine estates and establishing a negociant company. The group intends to cooperate with foreign wineries and exporters to retail wine to Chinese consumers through its Wine Direct platform.

Apart from the distributors, wine groups and large wineries also manage their own online platforms. Their wines are available from official online shops where consumers can acquire guaranteed authentic products. They promote their wine on social networks, in particular via Weibo (Chinese Twitter) and the official account platform of WeChat (a powerful app combining all kinds of existing social network apps, an essential of everyday life to make business). Also, they provide VIP services such as buying wine *en primeur*, enjoying exclusive member discounts, customizing products with special packing or whole barrel orders, and so on.

10.4.3.3 Promotion

Chinese wineries increasingly make high-quality wines with prices as expensive as imported wines. This brings some difficulty to consumers to choose between a Chinese wine and an imported wine. Thus, Chinese wineries use the same promotional methods as for imported wines. Master class and wine-tasting activities are organized by wineries cooperating with media such as *RVF* and *Decanter*. "Best Chinese wines" ranking competitions are also popular in building a good image to consumers.

10.4.4 Distribution of Imported Wine

There are not many barriers for foreign wine entering China. Unlike the three-tiered system in the USA, there are no particular regulations in China to prevent an importer distributing the wine on their own and even reaching end-buyers. *Guanxi* is also important for distributing domestic wine as well as imported wine.

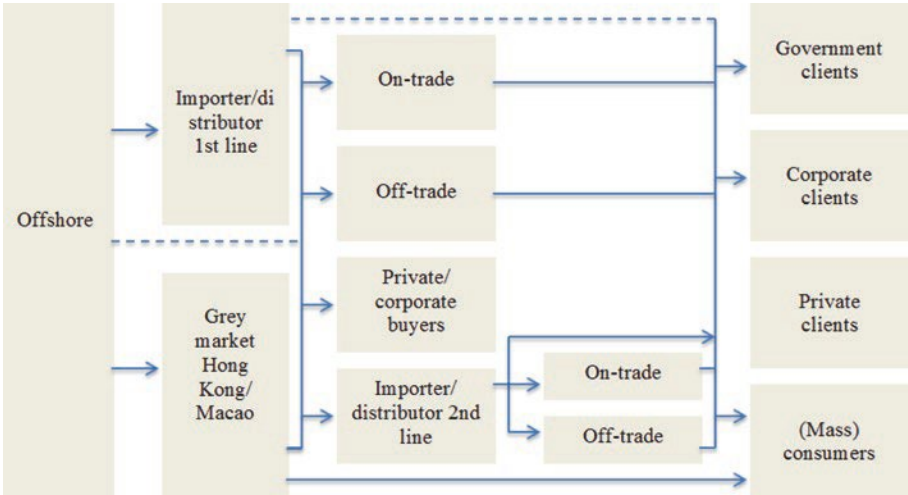


Fig. 10.7 Distribution chain of import wine in China. (Source: Wine Intelligence 2013). Dashed line represents significant relationship but with little volume

The distribution chain is somewhat vertically integrated without clear specialization or division of roles among the operators. Importers also play the distribution role or that of retailer, and so on. In addition, it is an advantage to establish a closer relationship with their clientele, especially with end-buyers, because retail stores with terminal clients are often the most profitable.

As presented by Fig. 10.7, there are five types of players along the imported-wine distribution chain: foreign suppliers, importers, distributors, interfaces, and final consumers. Foreign suppliers are foreign wine producers, merchants, or Chinese imported-wine brokers. They provide wine to first-line importers/distributors or to the gray market in Hong Kong or Macao.³ Then, wine can be distributed from first-line importers to second-line importers/distributors, then to retailers, and so on. Another possibility is that importers distribute wine directly to retailers, restaurants, hotels, bars as well as to private or corporate buyers. Finally, wine reaches consumers. However, part of the wine in the gray market can flow directly to final consumers.

³Smugglers use the gray markets in Hong Kong or Macao to transfer imported wines into mainland China to evade import duties.

10.4.4.1 First-Line Importers/Distributors

As mentioned before, the border between importing and distributing activities is not clear. First-line importers/distributors import more than distribute. Their wine provisions are from foreign wine producers directly, or foreign wine merchants, or Chinese brokers of foreign wine.

We can consider five types of first-line importers/distributors: the historical national, the specialist, the super-regional, the regional, and the wheeler-dealer (Wine Intelligence 2013). The historical nationals are the small number of large groups like ASC, Summergate, C&D, Torres, and COFCO, with public or foreign capital, providing a wide range of products and implanted in major wine-consumption regions of China. The specialists are small and medium-sized organizations specialized in certain types or certain wine origins, most of them implanted in cities like Shanghai and Shenzhen. The super-regionals, successfully implanted in their regions, and the regionals are mostly in second- and third-tier cities of their region. The wheeler-dealers are opportunists looking for short-term profits, found at every level along the chain and in every region.

10.4.4.2 Second-Line Importers/Distributors

Second-line importer/distributors are essentially dedicated to the wholesale business. They are mostly private companies of different sizes, specializing in one region or one city and often successfully implanted in the second- and third-tier cities of their region. Their main supplies are from first-line importers/distributors, and many of them have also developed a direct import activity, but distribution remains as their main activity.

10.5 Conclusion

- China is an emerging wine market and has a young domestic wine industry. The market is characterized by its dynamism. The industry structure, especially the channels of distribution, has been evolving rapidly to adapt to changes in consumer behavior.
- The domestic wine industry is characterized by high vertical integration along the chain from winegrowing to winemaking and finally to distribution.

- Leading groups provide a wide range of products from low- to high-end prices and occupy about half of the total market of domestic wine. The degree of concentration has been experiencing a decreasing trend over the last two years. The large groups buy wine grapes from independent domestic winegrowers or import grape juice or bulk wine from the New World to obtain high volumes. Grapes produced by company-owned vineyards are used for high-end products.
- Independent winegrowers are numerous. They rent land from the government to grow vines and barely have control during the viticulture process. The quality of their grapes and grape juice cannot be guaranteed.
- Small wineries in Ningxia have a different business model to the large groups. Following the Bordeaux path, they have relatively strict regulations in terms of winegrowing and winemaking. All wines are produced from their own vineyards with high quality, and have gained an international reputation.
- There is a high cost in winegrowing because of extreme climates. In certain regions, vines have to be buried each winter in order to protect them from the cold and wind.
- The Chinese government has been playing a significant role in the development of the wine industry: government subsidies for winegrowing and winemaking sectors and also promoting wine as a healthier alternative to *Baijiu* (a strong Chinese distilled alcoholic beverage made from grains).
- Red wine undoubtedly dominates the market, followed by white wine. Rosé wine is scarcely consumed in China. Sparkling wine has started to gain in popularity, but it still has a long way to go.
- In China, *guanxi* (the network of relationships) is still a key factor of success in the wine business. Government and corporate manage a great number of clients but with high seasonality. The Chinese traditional festivals are the best occasions to make turnover.
- Domestic wineries, be they big groups or small wineries, often have their own channels to distribute wine. Online platforms are an effective way to promote their wines. E-commerce has been successfully operated in China by distributors as well as wineries themselves.
- Chinese consumers have become more open-minded and adventurous vis-à-vis novel products. Imported wine is growing and developing in China, thanks to the evolving behavior of Chinese wine consumers. Mid-price-ranged imported wines from the Old World as well as the New World have great potential on the Chinese market.

- There are not many entry barriers for imported wines. The border of the activities between importers and distributors is not clear. There is evidence of a vertical-integration trend along the imported-wine distribution chain.
- The export of domestic wine is negligible, although there is room for optimism because the quality of wine is improving.

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