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## Australia's China wine boom is gathering pace



Wine consumption in China is shifting to 'informal' settings. Photos: Getty

ANALYSIS



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After a bit of a dry spell – pun intended – Australian wine makers have just recorded their best 12 months of exports ever.

And the good news is that changing tastes in China are likely to make that a continuing boom rather than a short-term high.

Exports to all nations were up **16 per cent in value terms in the past 12 months**, helped along by a mighty 51 per cent jump in exports to China.

These are important numbers for an economy trying to transition away from exports dominated by mining and agriculture, because unlike a tonne of wheat or iron ore, the value of a case of wine can rise much higher than simple supply-demand dynamics dictate in commodity markets.

In the past couple of decades, Australian wine exports were centred on UK and US drinkers who learned to love low-priced, reliable brands such as the Jacobs Creek, Yellow Tail and the lower end of the Penfolds ranges.

The boom in their sales through the 1990s and 2000s has often been blamed for tarnishing the image of more upmarket Australian wines, making it harder for Australians to win a share of the higher value-added market segments.

Those markets are still skewing our exports towards the lower price-points, as the chart below shows.

So will we see the same in China?

There are some danger signs – two years ago, after buying a nice pinot noir at a winery near Daylesford, this columnist told the proprietor he'd drop back to buy more next time he was passing.

"Don't bother," she replied. "This place has just been sold to a Chinese company – they just want the brand so they can use it to ship cheap wine to China."

However, that experience is not widespread, according to Professor Larry Lockshin, a wine marketing expert at the University of South Australia Business School.

"A brand can do whatever it likes," he says, "but to put the name of a region, or grape variety on the label the product has to be 85 per cent that grape or that region."

Australia's tight regulation of content, and legal protections against 'copycat' brands trying to dupe Chinese drinkers into buying an inferior product, augur well for the mid- to high-priced exports of the future.

At present, a bottle of Jacobs Creek shiraz costs about \$430 in China, according to Professor Lockshin.

That may come down a touch when Australia's preferential trade deal with China comes into full force – tariffs on Aussie wine will fall to zero from January 2018.

Professor Lockshin argues that Australian firms – whether locally owned or not – can extract the best value from the China market by focusing on higher-quality, higher-priced wines.

That's not least because Australia's wine-growing regions, though excellent, are far more water-constrained than the world's biggest producers France, Italy, Spain and the US – we just can't match their volumes.

And while Chinese wine palates are not generally as discerning as more established quaffers in the West, that is changing rapidly.

Wine drinking is moving from an 'official occasion' drink in China to a more popular beverage for informal occasions, including restaurant drinking or imbibing at home.

### China's wine crackdown

Anita Poddar, corporate affairs manager for the government-owned agency Wine Australia, says the strong growth in the past year marks a clear end to the lull in exports to China between 2013 and 2015.

That lull was part of **Beijing's clampdown in 2012** on the traditional practice of gift giving as a way of oiling the wheels of business and government.

Expensive wine was one of the categories of luxury goods that were routinely changing hands – providing officials with lavish treats, but antagonising the general populous.

So while Australian wine exports had grown from \$100 million to \$250 million between 2009 and 2013, they flatlined through to June 2015.

Fortunately, the Chinese consumer is now taking over where the gift-quaffing officials left off.

And it's been a rapid lift-off: Exports to China hit \$500 million in the 12 months to the end of 2014, according to Wine Australia, rising to \$750 million in the year to last October, and \$1.04 billion in the year to March this year.

That's 40 per cent of our total wine exports.

If those booming figures continue, and if Australia can avoid getting stuck in a low-price rut as they did in the UK and US, then we really will have a wine boom on our hands.

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