Chinese Austerity Measures Hit Wine and Spirits Sales

© AFP | *State banquets like this one in Guangzhou have been hit by the cutbacks*
Jeannie Cho Lee MW reports that a falling market in Hong Kong and China has resulted in cut-throat tactics.
By Jeannie Cho Lee | Posted Monday, 28-Oct-2013
Château Lafite and the high-priced Chinese white spirit Moutai were expensive staples in Chinese banquets across the country a few years ago. Now, they have become the symbols of excessive extravagance – the exact opposite of the austere and more somber philosophy the current government espouses.

When estimates for spending on banquets and entertainment were made public by researchers in early 2012, the figure was put at $50 billion to $145 billion per year. Not surprisingly, there was a considerable public backlash. Academics such as Zhu Guangming, head of the government management institute at Beijing Normal University, publicly voiced concern about the amount of corruption and waste involved in official banquets. The government responded with austerity measures that have had a dramatic impact on the food, beverage and hotel industries over the past 12 months.

In the first half of 2013, revenues were significantly lower than in the same period the previous year. Surveys indicate that more than 60 percent of fine-dining restaurants have seen a decline in their business – not least because government-sponsored banquets are down by about 30 percent. In the wine trade, most importers I spoke to said that while volumes were either slightly above last year or flat, profits were reduced.

According to recent studies, including one by Data Driven Marketing Asia (DDMA), more than 50 percent of China's medium- to large-sized companies have slashed their corporate spending. And it's not just high-end Chinese restaurants that are affected. The change has also hammered brokers of delicacies such as abalone, shark’s fin, sea cucumber and other fresh seafood.

The DDMA study produced an interesting revelation about why companies had decided to cut costs on entertaining. Only 2 percent cited internal financial constraints as a reason for the reduced expenditure, while more than 40 percent said they were falling into line with government policy.

The current slowdown in the economy has made the situation even tougher for the wine industry here. As the center of fine-wine trading for Asia, Hong Kong has seen a huge growth in European and American wine brokers vying for a piece of the action. With the slowdown in China, and other traditional wine markets declining or stagnant, competition is fierce.

Patricio de la Fuente Saez, the founder of Hong Kong- and China-based wine business Links, is still steaming over one example.

“I was furious when I found out that half a dozen British wine importers were broking the [latest vintage] 2006 Cristal Champagne in Hong Kong before I even received my own stock as the official agent for the brand," she explains. "The prices at 99 pounds ($160) per bottle meant they were willing to sell the wines at single-digit margins."

Saez adds: "Parallel imports in Hong Kong are rampant and we have a word for them: PUKE – parallel U.K. exporters.”

© AFP | *A selection of Château Lafite wines from 1799 to 2003 was sold at auction in Hong Kong in 2010*

Wine importers may complain about single-digit growth in both 2013 and 2012, but it is local spirits that have borne the brunt of the decline. Part of the reason is that 70 to 80 percent of baijiu (including Moutai) is bought for gifts and corporate entertaining. While wine sales in China also depend heavily on entertainment and gifting, the percentage is far less than for baijiu.
Recently, baijiu sales have plummeted. In 2011, the average bottle of Moutai cost more than $323, and aged Moutais from the 1980s sold for $5,000 per bottle. In early 2012, the prices began dropping and now hover at around $164. Admittedly, it's been boom and bust. Just seven years ago, the same average bottle of Moutai was sold for $33 before prices shot skyward.
Château Lafite has experienced a similar drop. In May 2011, the 2009 vintage was trading at $1,930 per 750-ml bottle; now, it's $970. In other words, the prices of both Moutai and Lafite have halved since their peak two years ago.

The baijiu industry has a much larger share of the Chinese market than wine. By volume, baijiu consumption in 2012 was estimated at around 1.2 billion 9-liter cases; Wine, by comparison, accounted a meager 170 million 9-liter cases.

At the very top of the pyramid is Kweichow Moutai – the most popular baijiu and the brand that attracts the highest prices for its aged bottles. Made from sorghum, Moutai is the alcoholic beverage of choice for entertaining government officials. During the baijiu boom, when high-end 500-ml bottles of Five-Star or Flying Fairy Moutai were selling for more than $328, the level of concern over fake Moutai was as serious as that over Lafite.

While industry insiders say that as much as 60 to 80 percent of Lafite in China is counterfeit, the figure for Moutai is even higher. Newspapers like China Daily have reported that up to 90 percent could be fake.

Just as Lafite has mounted a crack down on fraudulent bottles in China, Moutai has been working with authorities to stop counterfeiters. Many arrests have been made over the past several years, including one in March 2012 in Shenzhen, where three men attempted to sell more than 450 bottles of fake Moutai to a local department store.

As the market drops, however, fake wine and Moutai have become less of a concern – not least because illegal producers are themselves earning less from their sales. Further market corrections are expected. Many suspect that prices for fine wine and moutai have not yet bottomed out and may fall further before they stabilize.