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Is the Boom Over For Bordeaux in China?

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© Jeannie Cho Lee/AFP | L-R: Jeannie Cho Lee; sampling wine at a Hong Kong auction; a 1989 Château Margaux

Our new columnist, **Jeannie Cho Lee MW**, casts a skeptical eye over the market for French wine in the People's Republic.

The figures for French wine in [China](#) certainly look impressive: 53 percent of the market by value and 48 percent by volume in 2012. Last year, the entire market was subdued, but even so there was little sign of French imports slowing down.

The next most popular wine sources, Australia, Chile, Italy and Spain, are distant runners-up, posing little threat to French dominance – which in China means [Bordeaux](#) reds.

It's been a glorious ride to the top. In the decade to 2009, French wines enjoyed about a 40–45 percent share of the Chinese market. But then sales really took off, shooting past the 50 percent mark as revenue rocketed from \$182 million in 2009 to \$714 million in 2011. The majority of this gain was achieved from sales of Bordeaux wines. If consumption follows wine-import trends, roughly one out of every four bottles of imported wine consumed in China should be a red from Bordeaux. However, the figures and the reality are two different stories.

My observations during trips to China (I've been there almost monthly over the past year) suggest that Bordeaux is favored by importers, traders and speculators more than by consumers. Bordeaux's success in China over the past five to seven years is built upon excessive optimism that is not backed up by consumer preferences and consumption trends.

In high-end restaurants in Shanghai and Beijing, I saw as many people drinking Italian, Spanish, Australian and Chilean wines as were drinking Bordeaux. In addition, the sommeliers and wine buyers I spoke to told of a waning interest in Bordeaux wines. One Shanghai-based wine importer confided: “We don’t plan to do any Bordeaux wine dinners this year – this market is too competitive and we hardly make any margin on these open-market wines anyway. Demand is shrinking and we would rather promote other regions’ wines.”

The China National Sugar and Alcoholic Commodities Fair – one of the country's largest and most important wine shows – in Chengdu in March was notable for the absence of some large importers well known for dealing in cru classé wines. At the same time, rumors were rife that the small to medium-sized companies most reliant on sales of Bordeaux were close to shutting their businesses. However, it was said that those with deep pockets and government ties were likely to weather the storm.



© AFP | L-R: Chinese wine students take notes at a Bordeaux workshop; Chinese president Xi Jinping

The austerity measures espoused by the new president of China, Xi Jinping, have made a huge impact on the high-end hospitality industry as well as importers of fine wines and producers of expensive baijiu (Chinese spirit). There was very little optimism that this would change in the next six to eight months.

Not surprisingly, the wine category most affected by the austerity measures is Bordeaux. As well as discouraging lavish banquets and the consumption of expensive alcohol, the crackdown has shrunk the gifting market substantially – knocking out high-end wines and baijiu as “acceptable” presents. No figures exist about how many bottles of Bordeaux wine are purchased and given as gifts, but one large Beijing retailer said more than half of its Bordeaux reds were bought for that purpose.

To me, the situation for Bordeaux wine in the People's Republic is precarious, and it brings to mind the first wine boom that occurred in China and Hong Kong in the mid-1990's. Fueled by speculation and a buoyant real estate market, merchants became overly optimistic about the potential for wine sales; they didn't understand that consumption and demand were way behind.

This was the period when the message about the health benefits of red wine was starting to filter through to China. As a result, the then-premier, Li Peng, was openly encouraging wine consumption over local beverages such as baijiu, which has an alcoholic content of 50–52

percent. The outlook looked positive until the Asian financial markets crashed, then sales channels suddenly dried up.

The wine that was sitting on docks and in importers' warehouses and bonded storage facilities was not the sort that could withstand long-term cellaring. It was mostly rejected or became left-over plonk, dumped into a nascent market that quickly turned to vinegar. In 1998, wine imports to both China and Hong Kong were dismal.

The boom that turned into a bust occurred because the wine trade was too aggressive and did not look at the true market situation. The middle class – those who could afford to buy wine at that time – was extremely small, and the venues where wine could be enjoyed were limited to five-star hotels in major coastal cities. It was such a new market that to sell wine, one also had to sell wine openers and glasses because most restaurants did not have them! What the traders looked at were the investments that were starting to pour into China and the growing number of wealthy Chinese, as well as the positive economic figures.

Nowadays, of course, the situation is dramatically different. There is a stronger wine consumer base, an ever-expanding, vibrant hospitality sector, and a solid wine industry with networks stretching throughout China. The country's steady economic growth is also fueling optimism – possibly misguided – that the wine business is not a gamble but a sound investment. However, the growth and popularity of Bordeaux over the past several years, based on this optimism, is once again more trade-generated rather than consumer-driven.



© AFP | L-R: Sampling wine at a fair in Shanghai; a billboard advertising a Sotheby's sale in Hong Kong

On the consumer side, China has a small group of wine connoisseurs who really enjoy the finest reds of Bordeaux and who open up their bottles regularly to share the contents. But this group constitutes a tiny minority; the vast majority of Chinese who buy Bordeaux wines do so for entertaining – either personally or for business – and gifting.

Anyone who has been invited to a Chinese banquet, even of the highest caliber, understands that at some point, one needs to participate in the traditional form of gan bei ("Bottoms up!") drinking – even with a 1982 Lafite or a 1947 Cheval Blanc. In the recent Wine Intelligence 2013 report on the Chinese wine market, only 32 percent of wine drinkers said they drank it because they liked the taste. With expensive banqueting banned in government circles and frowned upon in the private sector, the market is very quiet at the moment.

There is another, much darker side to the Bordeaux wine trade in China that concerns me: the large (and growing) number of speculators and investment funds that have amassed huge quantities purely for future financial gains. There are many investors and shareholders who are distraught at seeing the fall in wine prices from their peak in 2010.

The concern among consumers and food and beverage leaders about counterfeit wines is also driving the fall in demand for Bordeaux. The future will depend on how well wine importers are able to penetrate the second- and third-tier cities to find new markets to sustain their position and growth. The more sophisticated coastal cities are extremely wary of fakes and the high prices have turned sommeliers and buyers towards new regions and alternatives.

There are plenty of Chinese who really enjoy Bordeaux wines, but many who have been loyal buyers for 10–20 years are feeling disenchanted. One such collector in Hong Kong confided: “I have never sold wine before, but recently, I decided to sell most of my Bordeaux. The prices are ridiculous and there are plenty of other great wines these days from around the world.”

This is a time for Bordeaux to heed the early warning signals and take on board the fact that the trade has been overly optimistic, and a growing number of investors and wine funds have been involved in driving up prices beyond what is justified by consumption and consumer demand. Despite Bordeaux’s huge success, the real work in building a solid consumer base in China is only just beginning.