The Little Red Book

Bottoms up? How China’s wine landscape is transforming

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Another edition uncorked
In The Little Red Book last year we wondered whether French hauteur had been hurt by news that China had taken over as the leading consumer of red wine.

Flushed by their achievement of quaffing almost 1.9 billion bottles of red, the Chinese seemed set to squeeze past the French again in April, this time in terms of winemaking area.

With 799,000 hectares or 1.97 million acres of grape-growing, China was said to trail only Spain in land area devoted to vineyards.

The Chinese have more than doubled the amount of land under vine in the last 15 years and are now boasting close to 11% of the global grape area, the International Organization of Vine and Wine reported.

But it turned out that the world’s journalists had jumped the gun in announcing another milestone moment for China’s wine sector.

A large portion of these new vineyards hasn’t reached production, with vines taking about five years before they start bearing a full crop. And more significantly still, the large majority of the harvest is destined to end up as table grapes and raisins, not as part of the winemaking process.

Ningxia, one of China’s leading wine regions, has just 40,000 hectares of vineyards, a fraction of the area under vine in other wine producing countries.

But perhaps the error was excusable – and
symptomatic of an atmosphere of growing excitement about China’s impact on the world of wine. This was a story that we introduced in the first edition of The Little Red Book. Back then we talked about how that influence was felt first in the most expensive vintages, fuelling the boom (and eventual bust) in prices for investment-grade wine.

This year prices for the very best bottles have stabilised, gaining a small amount and breaking a three-year run of declines, according to Liv-ex, a leading global wine exchange.

We narrow our focus to the wine auction scene in Hong Kong, looking at how it has been shaped by interest from China.

A guest columnist then talks about an extraordinary tasting of one of the rarest wines from Burgundy, the region that has taken over from Bordeaux as the favourite for investors.

Even as the boom in the best vintages was subsiding, industry insiders were hailing the beginnings of a new era for wine in China. Their hope: that the market is rebooting as millions more people buy more affordable brands to drink and enjoy for the first time.

We pick up on this theme and look at it more in detail, hearing from a wine insider about a few of the key features of the new landscape.

Then we talk to two men who are targeting China’s aspiring wine fans with offerings from the New World. They explain how demand for imports has been changing and what they are doing to cash in on the nation’s new drinkers.

China’s domestic winemakers are chasing the same customers, of course. Previously we looked at how a new breed of local wineries has been making excellent wine of its own, challenging the country’s reputation as purveyors of the world’s worst plonk. And this year we finish up in conversation with Judy Chan, head of Grace Vineyard in Shanxi, for more on how she has built her own winery into one of China’s best boutique producers.

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Bottoms-up: the basics

Whether it’s wine, beer or baijiu, how should you react if you are encouraged to down your drink at a business function in China?

This was a question earlier this year in one of our regular Ask Mei columns in which Mei, who grew up in northeastern China, handles queries from readers about the country’s cultural and social practices. Drinking etiquette is important at business functions, she acknowledged, citing the local saying that “a banquet is not a banquet without alcohol”. But fortunately the drinking rules at banquets are fairly standard. Pay particular attention to the following:

If you are the host, you should first toast the guest of honour as the banquet starts. More than one person can toast the senior person but only the most senior person can toast multiple people in one go.

When drinking, the Chinese like to gan bei or “bottoms up” to demonstrate their sincerity and hospitality. Gan bei translates as “dry cup” but if you aren’t Chinese you have a bit more leeway in downing your drink. One option is to say you can’t drink much for health issues or religious reasons, although you should still try to drink a little to show your sincerity. Also, be aware that if people toast you, you should at some point toast them back as a sign of respect.

As a general rule, women are not expected to take part in the ganbei-ing, although they are included in the drinking if they choose to be.

Typically, if you click another person’s wine glass, you should bottoms-up, especially if the other person is more senior. Another way of getting into the spirit of things is to tap your glass on the table instead of touching glasses with others.

If you don’t want to drain your drink, then just raise it to the guest without touching his/her glass. Or if you want to slow down on the boozing you can hold the glass in a way that the backs of your fingers will touch the other person’s glass instead. This is a sui yi signal — which indicates that you’d rather take it slow and sip.

Also, when you click a glass with a senior person, you should make sure that your glass is a bit lower than his/her. This is much the same principle as bowing in traditional Japanese culture. A lower glass infers respect upon the other person.

Finally, it’s better not to talk business before the drinking session starts. The ice is best broken after three rounds of toasting and bottoms-ups. And even then, the main point of the toasting is to deepen your bond with the other people present, not to discuss the nitty-gritty of a potential deal. So it’s best not to talk too much shop during a banquet, especially as you probably won’t be in the best condition to strike an effective deal.

But don’t worry too much if things get a little rowdy. For many Chinese, if the drinking session is successful (meaning loud, noisy and sweaty), then the business deal is more likely to be successful too.
2 Fine wine at auction
Auction

Under the hammer

A year ago The Little Red Book told the story of fine wine fever: from the origins of the boom, through its build-up and on to its eventual bust. Perhaps nowhere was more affected by this five-year period than Hong Kong.

One area we touched on was the auction market, where fine wine accounts for about a tenth of total demand for investment-grade wine. During the market’s heyday it was common to read headlines about how bidders had sent prices soaring to new highs.

Auction revenues in Hong Kong have declined since the highest peak in the market four years ago, although there were signs last year that they were getting back onto an upward trend.

Week in China spoke to David Wainwright and Charles Curtis, two industry insiders with long experience of the sector, for their views on how the auction business has developed in Hong Kong, Asia’s fine wine hub.

When did Hong Kong first emerge as an auction centre for wine?

Demand for fine wine at auction in Asia was sub-
Auction

W eek in China
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dued until relatively recently. The auction houses made sporadic attempts to drum up interest in places like Tokyo and Singapore but they weren’t active in the region, in part because their customers in Asia preferred to do business in the more established centres of London and New York.

“I ran an auction in Hong Kong in 2001 and it was pretty flat,” recalls David Wainwright, formerly of Christie’s and Zachys, and now running his own advisory firm in Hong Kong. “Most of the stock was held in London because of the tax implications of bringing it into Hong Kong and there wasn’t nearly the same interest in fine wine as there is today.”

There were early signs that the market’s axis was starting to tilt eastwards as far back as 2006, with a strong response to the release of the previous year’s en primeur from Bordeaux. But the real catalyst for the auction houses was Hong Kong’s removal of wine duty in February 2008.

“Initially the authorities cut the duty from 80% to 40% but it didn’t have much impact. Then they dropped it to zero in the first quarter of 2008,” Wainwright remembers. “At first the market reacted quite slowly, hampered by the financial crisis from October that year. It wasn’t until 2010 that interest really picked up.”

By the end of that year sales had exploded, almost tripling to $165 million in Hong Kong. Records were being broken on a regular basis, driven by demand for the most sought-after vintages. A record $132,584 was paid for a case of Lafite 1982 at a Sotheby’s auction in October 2010 and a new landmark was set for a single 750ml bottle of wine, when three bottles of Lafite from 1869 sold for a $232,692 each, obliterating the previous high-point of $156,450 from 1985. Business in Hong Kong continued to boom the following year, reaching $229.6 million of sales, or almost half of fine wine revenues at auctions worldwide.

Where does demand in Asia come from?
Identifying the origins of the surge in demand after 2008 isn’t straightforward. For one thing, Asian buying extends beyond Hong Kong. Asian wine lovers are more likely to bid at auctions outside the region than their counterparts in Europe and the US, and even today a lot of the fine wine purchased by Asian clients is sold under bond and stored in warehouses in Europe.

Charles Curtis, a former head of wine for Christie’s in Asia and the Americas who now runs his own advisory outfit in the United States, estimates that as many as half of the lots in New York were sold to Asian customers when he was working there.

“That may have dropped a little today. But I’d still estimate that more than a third of sales of fine wine at auction in New York are going to Asian buyers,” Curtis says.

Estimating how much of the stock sold in Hong Kong ends up across the border in China is also difficult. Some of the lots are bought by Hongkongers and there is a significant minority of purchasers from Singapore, Japan, South Korea and Taiwan. Chinese bidders often want to store their wine in cellars in Hong Kong as well, avoiding the taxes and duties for bringing consignments into the mainland.

Curtis says that his estimates from the market peak were that about two-thirds of sales in Hong Kong were going to private clients, with the remaining third to customers working in the wine trade. Private clients from Hong Kong were buying more wine than those from the Chinese mainland, he believes, although the trade clients in Hong Kong were likely to have a sales focus on the Chinese market.

This corroborates with Wainwright’s view that about a quarter of current customers at Hong Kong’s auctions are from the local wine trade. Many of them will still be selling stock to Chinese buyers but the overall proportion of wine destined for China is down from the peak, when closer to 40% of purchases at auction were head-
ing across the border.

Other auction houses also claim strong contributions from Chinese clients. John Kapon, chief executive at Acker Merrall & Condit, has said that customers from Greater China accounted for almost half of his turnover globally last year, while Jamie Ritchie, chief executive of Sotheby’s Wine in the Americas and Asia, has estimated that Asian demand made up 55% of his international sales over the same period.

Customers from Hong Kong bought four times as much as any other Asian market, Ritchie further disclosed, and they also represented a fifth of his sales in New York, and two-fifths of business in London.

How are Hong Kong auctions different?
Auctions in Hong Kong tend to be evening events at five-star hotels, with food and wine laid on for the attendees. That encourages a livelier feel than the more businesslike atmosphere in London or New York, where sales are typically arranged for weekday mornings.

The origins of hotels or restaurants as auction venues come from the United States and not from Hong Kong, Wainwright says. Traditionally auctions were conducted “classroom-style” but the auction house Zachys didn’t have suitable Manhattan office space so it hired out restaurants for its events in New York instead.

Certainly, clients in Hong Kong have welcomed the hospitality with gusto and the early auctions in the city developed a reputation as convivial, sometimes boisterous occasions.

“It was very much a social scene with plenty to eat and drink,” Curtis recalls. “Not everybody was there to buy wine but when the bidding started it often took on a more competitive feel. People wanted to be seen winning their bids, which was driving up prices.”

Another distinction about Hong Kong is that there is much less absentee bidding than in London and New York, where the majority of bids come from people who don’t actually show up to the event.

Curtis highlights an unusual case of a Christie’s auction in New York fifteen years ago when not a single customer turned up. All the lots were read out and hammered down to absentee buyers.

Sales in Hong Kong are much better attended and maintain more of a sense of occasion, even if the more exuberant behaviour of the early era has tapered off. “People here like to show a bit of face and more of them want to come to the event itself,” Wainwright confirms.

Is there a Hong Kong price premium?
The early days of Asia’s fine wine boom were a golden period for the auction trade. Higher prices were inevitable as impressionable customers chased some of the best stock to fill their new cellars. The aggressive bidding for Bordeaux’s first growths – especially Lafite – saw prices soar, much to the astonishment of more seasoned collectors.

The Hong Kong effect was confirmed in a research paper published earlier this year by Philippe Mas-
fect, showing that the pricing premium is most pronounced for the most powerful brands, as well as for wine with perfect scores from the influential critic Robert Parker.

While the pursuit of these trophy purchases can get very expensive, the competition for less celebrated wine isn’t so intense. Wainwright acknowledges that buyers at Hong Kong auctions may have paid more than in other markets, but he says they’ve done so for the most sought-after lots, not for everything in the catalogue. For instance, old and rare champagnes tend to sell better in New York, where they have a loyal following. Top-end Californian wine can command higher prices with American buyers too.

Wainwright also says that bidders in Asia are much more discerning than previously. “I still believe that Hong Kong is the best option to sell blue-chip wine from the very best years,” he reports. “If it’s 1982 Lafite, it will do well here. But if it’s a less impressive wine there isn’t going to be the same level of interest”.

**How is the market doing currently?**

Worldwide sales at auction dipped 7.5% to $147.5 million in the first six months of the year, Curtis says. The decline was steepest in London but revenues dropped nearly 15% in Hong Kong as well.

Only the American market bucked the trend, boosted by strong performance in New York.

In fact, worldwide sales at auction had increased to a little above $350 million last year, the first annual gain since revenues hit their high-water point of $478 million four years ago.

After the peak there were substantial declines, particularly in Hong Kong, which had jetted past the United States as the largest market during the boom. The Americans regained first place as demand for fine wine began to unwind in general. Sales at auction in Hong Kong fell to $155 million in 2012, $112 million in 2013, and then $104 million last year, according to figures published by Wine Spectator magazine.

Wine insiders now agree that prices raced too far ahead during the boom, especially for some of the leading vintages from Bordeaux. The fine wine market generally moves in line with the economic cycle, so the slowdown in Asia has also dampened sentiment. “Wine sold at auction is very much a luxury product and demand for luxury is tied to the overall economy. If there’s a dip, all the auction houses feel it,” Wainwright says. But he also thinks the peaks and troughs are felt a little more keenly in Hong Kong, where market sentiment is more responsive to the prevailing mood. Good times in the economy result in quicker pick-up in demand, for instance, while an uncertain outlook prompts more immediate selling pressure.

Concerns about counterfeit wine could also have had an impact on parts of the Chinese market, especially in a country that has come to trust in foreign labels more than homegrown ones.

The most dramatic example of wine fraud is the case of Indonesian national Rudy Kurniawan, who is now serving 10 years in prison for counterfeiting wine. He put up thousands of bottles for auction over many years, including two landmark events with Acker in New York in 2006 that generated $35 million in sales.

Some of his fakes will already have been drunk...
The prices of some of the best wine from Burgundy have surged, with top tier producer Domaine de la Romanée-Conti taking over from Lafite as the must-have choice for fine wine investors.

The reasons for the Burgundy boom are widely understood: apart from the undoubted quality of its best wine, the region produces a lot fewer cases than Bordeaux, bestowing more of a rarity factor on its annual vintages. But the chances to taste some of Burgundy’s very finest wines are getting fewer by the year, which is why the experience of Richard Orders, a banker based in Hong Kong with a particular passion for the wines of Burgundy, was all the more unusual this summer.

A reader of Week in China’s regular Friday editions, Orders was invited to an elite tasting this summer at La Romanée, one of the region’s much-vaunted Grand Cru producers. Below, he recounts his experience:

While it was Bordeaux that initially sparked the Chinese interest, in the last couple of years the great Pinot Noirs of Burgundy (Bourgogne), specifically from the Côte d’Or, have moved sharply into focus. These alluring, hedonistic, mercurial wines now have a firm following, as evidenced by the prices fetched in the Hong Kong auction market.

One of the most sought after is La Romanée, a monopole of the great Domaine du Comte Liger-Belair.

So it was in a state of high excitement and anticipation that I arrived at the Château de Vosne-Romanée, in the heart of the Côte de Nuits, home of the Domaine, in June this year. I was one of a very fortunate few – 12 of us to be precise – invited by the Proprietor of the Domaine, Louis-Michel Comte Liger-Belair to be his guests at a seminal and extraordinary tasting of La Romanée, one of Burgundy’s greatest and rarest wines.

In the course of the day, culminating in a memorable dinner on the Château’s terrace, we were to taste an incredible 71 vintages of the wine, whose production is a mere 3,000-4,000 bottles a year, significantly smaller even than its neighbour Romanée-Conti (in fact it’s the smallest appellation in France), ranging from 1865 to a cask sample of the 2014. It turned out to be closer to 80 wines in total as there was more than one producer in several of the vintages.

La Romanée is the crown jewel of Domaine du Comte Liger-Belair, which also has holdings in a number of other prestigious vineyards including Echézeaux, five Vosne-Romanée Premier Cru climats, a Nuits-Saint-Georges Premier Cru climat and an exceptionally good village Volnay-Romanée, Clos du Château, a monopole vineyard which, as the name suggests, nestles just up against the Château.

Louis-Michel is the seventh Comte Liger-Belair and the first for many generations to run the Domaine and be responsible for the winemaking. An oenologist and agronomist, he took over this role in 2000, and since then has steadily expanded the Domaine, making his family’s home at the Château. The quality of the wines has gone from strength to strength over this period, and they now count amongst the very best of their various appellations.

A regular visitor to Hong Kong, Louis-Michel assembles each year a ‘Golden Dragon’ selection of wines from the Domaine, sold in original wooden cases by auction house Acker, Merrall & Condit, while the agents for the Domaine in Hong Kong and China are AS Watson.

The Domaine was founded in 1815 by the first Comte, a distinguished Napoleonic General (the family has a proud military heritage) and in the nineteenth and early twentieth centuries had grown, through marriages and purchases, to encompass the vineyards of La Tâche, La Grande Rue, and holdings in Richebourg, Gevrey-Chambertin Clos St Jacques and a number of Vosne-Romanée Premier Cru climats.

Then in the 1920s and 1930s a combination of the worldwide recession – leading to a collapse of the market in Burgundy, and a multiplicity of heirs – meant the Domaine had to be broken up and the vineyard holdings sold, at an auction in 1933.

But one family member, a priest, Canon Just Liger-Belair, Louis-Michel’s great uncle, was determined to preserve family ownership of at least La Romanée, and with the help of Louis-Michel’s grandfather and one other brother, he was successful – at double the price at which La Tâche was
sold! They also managed to retain the holdings in Aux Reignots and Les Chaumes in Vosne-Romanée.

So La Romanée has been in continuous family ownership for 200 years, rare if not unprecedented among the Grands Crus of Burgundy and it was in the context of marking the Domaine’s 200th anniversary that Louis-Michel first mentioned to me his idea of a definitive La Romanée tasting, designed to identify and understand all that makes this incomparable wine so special and unique.

The assembled guests included a number of distinguished wine journalists and Burgundy experts from UK, Europe, US and Hong Kong and some renowned collectors. A number of us had contributed bottles but Louis-Michel contributed/sourced the bulk of the wines.

He had also arranged for three sommeliers to be flown in from New York to prepare and pour the wines.

For many years, including the period leading up to when Louis-Michel took over, La Romanée or a large part of it, was made, or élevé, by third parties, and/or sold off in barrels. These parties included at various times Bouchard Père, Regis-Forey, Bichot, Leroy, and you also see bottlings under the names of négociants such as Jules Bélin, Jules Regnier, Thorin, Morin, Misserey, and the family’s own négociant C. Mgary & Comte Liger-Belair, recently reacquired by Louis-Michel.

So not only were we trying to get a sense of La Romanée’s unique qualities as a vineyard, but also how it fared in different hands.

The wines were arranged not in chronological order but in flights of wines with similar vintage characteristics. In deciding on these flights, Louis-Michel enlisted the help of renowned collector Doug Barzelay and acknowledged Burgundy expert Allen Meadows, the ‘Burghound’.

Any nervousness as to how well the wines would show was quickly dissipated by the first few flights, culminating in a spectacular flight from the 1950s/60s over lunch, of which the 1962, 1966 and 1969 were among the best wines of the tasting and all still showing a lovely freshness and purity 50 or so years on.

Likewise over dinner, it was astonishing to see how brilliantly the 1911 and 1915 were drinking, again with a kernel of sweet fruit and a youthfulness that belied their age, while the 1865 at 150 years old was serene, confident and intense.

Another fascinating aspect of the tasting was the
comparison of the 2002-2005 period when Bouchard Père, who had been making the wine since the late 1970s, and Liger-Belair each produced different bottlings prior to Louis-Michel taking full control with the 2006 vintage. The wines were separately élevés and the Bouchard bottlings had noticeably had a more toasty oak treatment and longer élevage, richer and more powerful perhaps, whereas the Liger-Belair bottlings showed a much greater emphasis on elegance and purity.

The following wines particularly stood out for me on a 3 star (very good) to 5 star (the best) marking:


So what did I conclude at the end of this marathon tasting? At its best – and its best is the very top of the Burgundy quality hierarchy – La Romanée has a remarkable silkiness and elegance, subtle dried fruits and rose petal aromas, a lovely fresh sweetness on the initial palate leading to a long cool and profound finish which lingers on the palate. Also the subtlety of the wine belies the fact that it needs long aging in bottle to bring out all the nuances of aroma and flavour that it is capable of delivering.

Louis-Michel’s winemaking approach is perfectly suited to the La Romanée vineyard. A lightness of touch, deft use of new oak, an intense focus on the vineyard to ensure the best quality fruit, minimal racking, and bottling without fining or filtration to bring out the hallmark purity and elegance of the wine.

Sadly, not only is La Romanée rare, it is also expensive. It is hard to find a recent vintage under $2,000 per bottle and great years can be $4,000 or more, which puts it roughly on a par with La Tâche.

But I left the Château marvelling how one small patch of vines can produce such an exquisite beverage... moreover Louis-Michel is confident that, as he gets a deeper understanding of this vineyard, the best is yet to come.
but a portion could find their way back to the newer, less knowledgeable audience in Asia.

Curtis recognises that the Kurniawan case has got a lot of attention in the media. But he isn’t convinced that it has put a serious dent in demand. The sales declines of recent years look more like “normal fluctuations”, he says, rather than a specific reaction to the dangers of counterfeiting.

Wainwright – a specialist in wine authentication – says that more experienced buyers do seem more cautious about bidding at auction because of scandals like Kurniawan’s. A second outcome is that sales of ex-chateau wine are more popular because the stock is regarded as more reliable. Auction houses are even keener to secure private collections with the very best provenance too.

This trend was exemplified by Zachys’ sale of the Graham Lyons collection, which culminated this September in Hong Kong. After the first two instalments of the sale in New York in 2008 and 2010, the remainder of the cellar made over twice its estimate in Hong Kong last month, buoyed by highlights including a jeroboam of Haut-Brion 1961 for HK$343,000, three magnums of Domaine de la Romanée-Conti Romanée-Conti 1971 for HK$1.2 million and a magnum of Lafite 1974 for HK$196,000.

“The provenance was almost unprecedented because the collector kept immaculate records and almost all of the lots could be traced to well-known merchants in the UK and Europe,” Wainwright says.

What’s the outlook for the industry?
Despite softening demand at auctions in Hong Kong and the city’s sales ranking slipping back behind the United States, the longer-term prospects for fine wine in Asia look robust. Growth potential is greater than elsewhere, primarily because Chinese interest in wine is still at a very early stage.

China’s influence is already apparent, of course, as witnessed by the surge of new interest in Burgundy, and away from former favourites in Bordeaux. Lots from Burgundy have been the pacemakers at auction for three years. Wine from the region has accounted for more than 45% of Acker’s sales this year, for example, well ahead of Bordeaux on 30%, while three of Burgundy’s most prominent producers – Domaine de la Romanée-Conti, Comte Liger-Belair and Henri Jayer – are anticipated to be top-selling choices in the remaining sales of 2015.

Curtis isn’t surprised by the trend, pointing out that collectors choose wine against four key factors: innate quality, condition, provenance and rarity. “Whilst Bordeaux wines have the first three features they don’t always have the fourth, especially not in the more recent vintages,” he suggests. “There is a lot of first growth from Bordeaux out there, it was getting far too expensive, and Chinese buyers realised it. So they switched to Burgundy, which is more scarce.”

Curtis also says that he expects more Chinese connoisseurs to converge with collectors from other parts of the world by moving from an initial focus on Bordeaux into Burgundy and Champagne. “These three categories account for about 95% of auction sales globally,” he explains. “The rest – the high-end Italian, the best of California, and a few from Portugal and Spain – don’t count for much more than 5% combined.”

The premise is that the fine wine market is concentrated around 150 or 200 brands and that Chinese buyers will gravitate towards the same choices as their peers elsewhere. In the past much has been said about ‘what is different’ about Chinese buyers of fine wine, but increased wine education is lessening the distinctions.

But both Wainwright and Curtis make the point that their clients have developed an interest in wine because they feel an affinity for it, and not because they see a chance to make a killing as an investor. “I don’t have too many customers that I would term as ‘outright investors’, “ Wainwright concludes. “Almost always they start out by buying bottles to drink, then they develop more of an interest in wine culture, and only after that might they start to buy a few cases for investment. But their initial instinct is always to enjoy wine, not to speculate in it.”
3 The market goes mainstream
Back to basics

Millions of corks popped. Masses of wine flowed. An untold number of guests oohed and aah-ed over the labels. And then the cops showed up and the Party’s party was over.

When President Xi Jinping – the ‘cops’ in this case – introduced an austerity campaign after coming to power in late 2012, it cut off free-flow spending by officials on luxury goods, including expensive trophy wines. Most observers envisioned a short campaign before a return to business as usual. Instead, the clampdown continues and the initial anxiety of importers, producers and distributors – dependent on the old way – has long moved past panic. Many companies have been washed away, unable to find new revenue sources, while even established firms have been rocked by the declines in sales.

Fortunately, an alternative was already in play, a rapidly growing niche of consumers buying wine based on taste rather than status.

Sales for gifting and entertainment remain huge parts of the market but more people are exploring wine much as they are delving into fashion, music, movies and food.

Given rising disposable income (real per capita growth of 8% in 2014, government data suggests) and an increasing number of trips abroad (the China Outbound Tourism Research Institute reports 62 million in the first half of 2015, up 12% over the same period in 2014), including to places...
where wine is part of everyday life, this new interest in the world of wine comes as no surprise.

Such a niche might turn out tougher for suppliers, of course, as consumers tend to be more cautious with their money and more demanding in terms of choice and value.

What are the other key trends in this new landscape, however? Week in China asked Jim Boyce, a long time analyst of China’s wine scene and the author of the widely-followed blog Grape Wall of China for his own thoughts on the changes in the wine scene.

Below Boyce focuses on five key themes worth considering as the new market develops.

1 ‘New World’ Order

When it comes to bottled imports, the ‘Old World’ sources of France, Spain and Italy dominate with a 60% share by volume, according to Customs stats. But a closer look suggests this position is vulnerable. France, influenced by the austerity campaign, dropped to 40% this year from 49% in 2011. Italy, despite being a top-two global producer and exporter, has only a 7%. And Spain, the one rising member of this trio, has a 14% share but only half as much by value. These countries embody the traditional China market, which has been seen as hourglass-shaped, wide at the top where people buy the highest status wines (France, in this case, trumping Italy) and bulging again at the bottom where prices are lowest (mostly from Spain, easily the cheapest option of any major source).

The middle of that hourglass is now starting to fatten and ‘New World’ options from Chile (a 14% share) and Australia (13%) are well positioned to serve it. These brands are less likely to be status buys (who grabs a Chilean Cabernet to show off?), they arrive at Customs at higher declared prices (Australia even edges France), and they offer the “bottled sunshine” many consumers enjoy.

Arguably, if you remove gifting and entertainment buys from the equation, ‘New World’ wines are on the heels of their ‘Old World’ rivals, and nations such as Argentina and South Africa that offer similarly attractive taste profiles are positioned too to take advantage of this rare seismic market shift and go all-out with marketing and promotions.

2 The East is White?

Almost any media report about China’s wine market states that red rules, and that consumers find the colour lucky, a claim that begs questions such as why red wine only recently became popular and why it lags behind the most consumed alcohol, baijiu, which translates as “white spirit”.

In any case, red wine does dominate, to the tune of 80-90% of the market. And it was to much fanfare that a study commissioned by Vinexpo, one of the world’s biggest wine trade fairs, announced that China was the world’s biggest market for red in 2013. Such popularity is due both to red wine’s perceived health benefits, the “French paradox”, and its links with the sophistication surrounding the Grand Crus from Bordeaux, with such labels being used to market everything from bankcards to name apartment complexes.

It’s also notably due to top-down decisions such as those by local producers to plant red grape varieties and those by importers and distributors to mostly stock red wines.

In spite of this there is much evidence that Chinese consumers like white wine. To give just one example, professor Ma Huiqin has taught wine appreciation to more than 5,000 students at China Agricultural University during the past 15
Going mainstream

years and he says two-thirds of them have preferred whites to reds.

Whites are also arguably a better match for China’s diverse cuisine, have the potential of being positioned, especially for female consumers, as attractive alternatives to baijiu and beer, and are already producing success stories, including with off-dry bubbly.

The focus on red wine by producers and distributors has created a self-fulfilling prophecy but as taste increasingly rears its head, attitudes will – perhaps grudgingly – change and white wines will gain ground. And in a market of some 2 billion bottles, even a few percentage points of increased popularity means tens of millions of units in sales.

3 Going Local

Long a pariah in the wine world – sub-par products and an association with counterfeits and food safety scandals haven’t helped – Chinese-grown wines have a growing reputation for quality. Critics and publishers such as Jancis Robinson, Michel Bettane, Thierry Desseauve, Jeremy Oliver, Decanter and La Revue de Vin de France have all positively reviewed wines from vineyards in different parts of China.

The Ningxia region in north-central China is leading the way, with dozens of operations now making palatable wine, but there are quality operations nationwide, from Nine Peaks in Shandong to Grace Vineyard in Shanxi to Tiansai in Xinjiang, not to mention projects by global drinks heavyweights like Pernod Ricard and Moet Hennessy.

National distributors that once carried only imports now stock better Chinese wines, as do some distributors overseas, such as Berry Bros & Rudd in London, who offer wines from Changyu Moser XV.

These wines are the cream of the crop but the overall quality of Chinese wine is also improving, partly out of sheer necessity. As more consumers try inexpensive imports, and find them preferable to local options, China’s producers can no longer rely on marketing efforts to protect a share that is still three to four times that of imports but nevertheless declining.

The local industry finds itself in a good position to act. New vineyards in Ningxia and Xinjiang are helping to ease a grape shortfall that in recent years inspired liberal use of imported bulk wine. Such vineyards also allow producers to control fruit quality, as opposed to buying inconsistent grapes from hundreds of farmers, as is common in Shandong and Hebei. And there is a rising number of talented winemakers, often trained overseas, as well an army of foreign consultants at hand.

The crucial issue now isn’t whether China can make good wine but whether it can do so consistently and at prices that can satisfy consumers turned on to inexpensive imports. Look for this to be a major battle over the next five years, one that should benefit consumers with better wine and lower prices.

4 Online Retail

At one time, there were doubts consumers would buy much wine online anywhere, let alone China, with the chief executive of Vinexpo declaring in 2009 that the internet “is not a circuit for wine sales, [it] will always be marginal, and it will stay that way.”

Oops. Online wine sales in China have instead emulated a cork exploding upwards, with 30% of consumers buying online, according to a study from Kedge Business School in France.
Admittedly, measuring such things in China is difficult, but there is no doubt about the rocketing growth of online commerce or that wine is part of it. Besides making wine much more accessible to the average consumer, online retail also raises intriguing possibilities. For one thing, wines sealed with corks have long been the default, particularly for those seeking to impress at social gatherings. Closures matter far less if a wine is drunk at home, however, where consumers might not even have a corkscrew, let alone be able to use it, and thus screw tops might build momentum in the market.

Without the pressure of making the “right” wine choice at a restaurant or bar, consumers also have more freedom to explore – to give that Romanian Merlot, New Zealand Syrah or South African bubbly a try.

Third, they can overcome arguably the biggest issue in China: actually finding the wine they want, especially as bricks-and-mortar operations have limited stock of often the safest choices and may not be conveniently located. From the comfort of home, consumers can sign up for wine clubs and get a set number of bottles per month, buy directly from wineries, importers or massive platforms like yesmywine.com, and patronise bars and restaurants that sell online.

Take Temple in Beijing, which is regularly ranked as the city’s best restaurant. Customer demand inspired it to open its own online wine shop, a place that already has the trust of its patrons and guarantees delivery within 90 minutes to boot.

This online segment is destined to grow. ASC, the most important importer of the past two decades, reports that online sales have grown from 1% to 11% since 2011. California winery Robert Mondavi has just established an exclusive Tmall shop, partly due to the growing number of Chinese tourists visiting its US operation. And trade promotion group Wine Australia has an upcoming “users pay” programme that partners wineries with online retailers such as yesmywine for three-week sales promotions.

As online wine retailing takes a bigger share of sales, and suppliers fight it out to win over consumers, competitive pricing and increasing choice are likely to continue into the foreseeable future.

5 Niche markets

Unless a company has a highly sought-after product or an ability to scale for a market of a billion people, it is usually best to forgo a policy of selling to China at large. The incredible diversity of cultures, cuisines, tastes and incomes throughout the country, not to mention the sheer size of it, make a one-size-fits-all strategy hard to pull off.

It’s like a European strategy that assumes consumers in Sweden, Spain and Slovakia are the same. But luckily, China’s scale offers plenty of niches too.

Beijing, Shanghai, Guangzhou and Shenzhen will remain the leading cities for wine but there are ample opportunities beyond these four. Consider a USDA Foreign Agricultural Service report titled “South China Hidden Treasures” from 2013. “[Many] of the 2nd and even 3rd tier cities in South China are also flush with buyers of US agricultural products, rising per capita GDPS, and overall abundant with economic optimism and strong consumer purchasing power,” the report
states. "As market potential in China’s coastal and 1st tier cities is close to saturation, many 2nd and 3rd tier cities are becoming key battlegrounds for imported wine and spirits."

The problem? The report also noted that the trade promotion group Napa Valley Vintners had yet to visit any of these cities despite some eight trips to China.

Such attitudes are changing. This summer, the California Wine Institute launched a 21-city programme that goes far beyond typical stops like Beijing and Shanghai. Attendance and enthusiasm at the classes and consumer tastings thus far has exceeded expectations, says programme head Chris Beros, and helped reveal how to get the most bang for the bottle in markets that see much less saturation than the first-tier ones.

Niche opportunities are also being pursued in terms of imported wines. As consumers focus on taste, and explore wine styles, we see more fringe players appearing. Even five years ago, a few major firms dominated the import market, but now we find more importers focused on specific countries (such as Chile, New Zealand or Moldova), regions (such as Napa, Champagne and Sicily) and styles (such as cold climate, organic or ice wines).

One such newcomer is Australian Natural, focused on relatively inexpensive organic and biodynamic wines from Australia. The owners are betting they have found a dual niche of consumers worried about food safety, as well as better hotels and restaurants seeking more diverse wine menus. The early results look good.

Expect more such niche players, often featuring increasingly wine-savvy management, to pop up in China.

When considering all of these issues, from red wine dominance to the rising local wine quality to finding a niche in a massive country, we are essentially talking about two markets. The market created during the past decade, where status and health benefits were drivers and officials and state-owned executives the major buyers. And the new market where taste is a growing factor and regular consumers are footing the bill. For that second market, it almost feels as if someone hit a reset button and placed consumers at a more logical starting point, where fruity, even slightly sweet wines, at reasonable prices tend to come long before an appreciation of pricier Bordeaux.

This shift has not been easy for distributors in general but it has been a case of “no pain, no gain” since the result is a more sustainable market.

And growing in parallel with these taste-based consumers is a growing class of wine professionals. In 2009, when the first national sommelier competition was organised by wine educator Tommy Lam in Shanghai, it had about a dozen contenders, and the annual team sommelier competition added in 2012 was also modest in size.

The numbers for this year’s team event? More than 1,200 people from 37 cities applied and were whittled down via regional semi-finals to 63 sommeliers who competed in Qingdao for the crown before chief judge Brian Julyan, CEO of the Court of Master Sommeliers, the trade’s most esteemed organisation.

Like those going overseas to study wine making and marketing, or vying to become the first Master of Wine or Master Sommelier in China, or seeking to improve their job prospects by studying Wine and Spirit Education Trust courses, these sommeliers show that people now believe in the possibility of a career in wine.

Much like the rise in consumers who are exploring wine in and of itself, this is a watershed development, one that calms concerns that wine in China might turn out to be a fad and that buoys hopes for an even more vibrant market on the horizon.
New horizons
Taking their chance in China

Xi Jinping’s campaign against banqueting and gifting on the public purse generated a fierce headache for many of the foreign wine brands in China, as their traditional customers turned away from the most expensive bottles (as well as the ways in which they were drunk and distributed). The hangover is showing signs of lifting. In fact, the fortunes of some international labels look much better thanks to Chinese opting for imports over homegrown wine more than ever before.

While revenues for domestic winemakers are expected to decline by about 6% this year, sales of foreign brands are set for a boost of about the same amount.

But how best to cash-in on the changes in consumer demand? Week in China talked to Hein Koegelenberg, chief executive of La Motte Wine Estate, a South African producer, and Robert Foye, Managing Director for Treasury Wine Estates in Asia, EMEA and Latin America, to understand the ways in which they are responding to the changes in the market.

Know your customer

As Jim Boyce mentions in his market review on page 17, wine demand in China was traditionally described in the shape of an hourglass. Wider at the top, where people bought fancier wine, especially from France, it bulged out at the bottom too, where consumers chose cheaper plonk from Chi-
Robert Foye on the overhaul of TWE’s marketing effort

“We wanted to get closer to our customers and consumers”

Robert Foye

The middle of the hourglass – the market for mid-priced, good quality wine – needed fattening out and this is starting to happen in a context in which demand for ‘mass luxury’ or ‘masstige’ goods is growing in general.

For the wine market the same trends apply – and the international wine brands are the obvious beneficiaries.

There are currently 20 million drinkers of imported wine in China, according to Wine Intelligence, a research firm, but their number is expected to increase to 80 million by 2020. This new multitude is younger than China’s first generation of wine fans – most were born after the mid-1980s – but it already accounts for four out of 10 customers for imported labels. As a group they are more willing to try new things, they put more emphasis on how wine tastes rather than focusing purely on price, and they are ready to trade up to more expensive brands as their knowledge and enjoyment of wine increases.

Robert Foye arrived at Treasury Wine Estates (TWE) August last year after a lengthy career at Coca-Cola, much of it in Asia. Now based in Shanghai he oversees an extensive wine portfolio across four continents but focuses on seven priority brands in the Chinese market including Penfolds, Wolf Blass and Beringer.

Foye says that the changes in the Chinese market have prompted him to take back much of TWE’s sales and marketing effort from its long-time distributor, especially its sales to key partners like supermarkets and hypermarkets, convenience stores and online retailers.

TWE has signed distribution deals with JD.com, one of China’s largest online retailers, for example, and partnered directly with supermarket chain Yonghui, which became its largest customer in China within a matter of months of signing up to a more direct deal.

“In the past we relied very heavily on our partners to build our brands in China,” Foye says. “But we wanted to get much closer to our end customers and consumers so our new model sees us do more of the sales and marketing ourselves in the off-trade and for smaller, harder to reach customers. Of course, we’ve also maintained the partnership with our distributor ASC for the on-premise channel in the major cities as they have helped us build our brands over a long period of time.”

The newer, go-direct approach splits into two key areas. The first is an increased focus on brand marketing, including PR, print and digital advertising, where TWE is building wider awareness of its wine portfolio. The second priority is in-store marketing, which concentrates on point-of-sale, display and promotional campaigns.

“You need both,” Foye believes. “The brand marketing pays off most for our premium brands like Penfolds but there’s a lot of sales impact from ramping up in-store activity, especially for parts of our value-priced, commercial portfolio like Rawson’s Retreat.”

An example of the dual-pronged strategy is a recent campaign in Guangzhou at Sam’s Club, the membership-only warehouse chain owned by Wal-Mart, in which consumers and wholesale buyers were rewarded with iPad minis for purchasing a set amount of the Penfolds range, the premium selection in Foye’s portfolio.

He says that sales at Sam’s Club more than doubled in a very short space of time, while he credits the broader marketing overhaul with delivering an increase of more than a third in sales across Greater China in the year to the end of June.

Where to focus?

Like many luxury goods, the battle between the wine brands is fiercest in the wealthiest cities like Shanghai, Guangzhou and Beijing. But new markets are developing in second-tier and third-tier cities, where competition is a little less intense.

TWE has increased its reach by identifying about a hundred cities as priorities, using indicators like the number of international airline connections, the number of local universities, and the presence of luxury brand outlets.

The filtering process highlights lesser-known candidates, like Zhongshan in Guangdong province.

“In administrative terms Zhongshan would normally be classed as a third-tier city behind its larger neighbours Guangzhou and Shenzhen,” Foye agrees. “But it’s an interesting market for us because it’s big, it’s high-income and it has an outlook heavily influenced by nearby Hong Kong. That makes it a hotspot for wine.”

Another challenge is how to prioritise commercial activity in a market that is evolving so rapidly. Million of consumers are trying imported wine for the first time, while others are moving quickly from entry-level choices towards...
more expensive brands.

TWE tries to navigate this landscape by offering a range of wines – from its premium labels Penfolds and Stags’ Leap through to lower priced offerings by Wolf Blass and Rawsons Retreat.

A key challenge is to capitalise on the “premiumisation effect” in which drinkers move up through its brand portfolio as their incomes grow and their knowledge of wine increases.

Even within the Wolf Blass range the premiumisation strategy applies. The selection starts out with the lowest-priced Eaglehawk and Red Label tiers before moving up through each of the distinct Yellow, Gold, Grey and Black Labels to the top-of-the-range Platinum option (which offers only a premium Shiraz).

Within the selection there is special focus on ‘hero’ brands, like Yellow Label, which offers easy-to-appreciate single varietals like Chardonnay, Riesling, Cabernet Sauvignon and Merlot, all priced in what Foye describes as the “sweet spot range” for ‘masstige’ customers of Rmb100-200 a bottle.

Brand before bulk

Currently, about a quarter of the volume of foreign wine arriving in China is sold in bulk consignments rather than bottled, much of it from countries like Chile and Spain.

But Hein Koegelenberg from La Motte Wine Estate isn’t interested in bulk sales to the Chinese market because he says they don’t allow him to build effective brands or establish pricing power.

Koegelenberg has been selling wine to the Chinese since demand dipped in his traditional markets following the global financial crisis in 2008. Within five years his vineyards were accounting for about half the South African wine sold in China, or 3 million bottles.

Today he’s focused on promoting his own labels and improving Chinese awareness of his home country and its winemaking heritage.

“When we hold our promotional sessions only
a handful of attendees normally know anything about South Africa, so we have to educate them,” he explains. “We put a lot of effort into telling the story of our wine because it’s very important in helping it to stand out from the crowd. So we talk about the beauty of the countryside around our vineyards in the Franschhoek Valley and the long history of winemaking in the area, dating back to the arrival of Huguenot settlers from France.”

Koegelenberg also says that South African winemakers have the chance to cash-in on the country’s reputation for two particular kinds of grape.

“In white wine we need to draw on South Africa’s excellence in Chenin Blanc,” he explains. “My experience is that the Chinese already associate grapes with particular countries, like Sauvignon Blanc, which is perceived as a New Zealand varietal. But we have the chance to make Chenin Blanc more widely understood as a South African wine.”

Koegelenberg says he also favours Chenin Blanc for the Chinese market because it’s less acidic than Sauvignon Blanc, with a slightly oilier finish that fits well with local palates.

South Africa’s signature red grape Pinotage—a crossing of Pinot Noir and Cinsaut, should be another sweet spot. “One of the challenges with a typical Chinese meal is finding wine that pairs with all the different meats and flavours on the table,” he suggests. “But the uniqueness of the Pinotage grape is its flexibility. It pairs well with so many dishes: it doesn’t overwhelm the more subtle flavours but it handles spicy food well, toning down some of the heat.”

Adjust and adapt
Koegelenberg uses a distributor to sell most of his wine into restaurants, hotels and shops across China, especially his premium selection in the La Motte and Leopard’s Leap ranges.

But he has chosen to do things differently with the L’Huguenot collection, a range developed exclusively for the Chinese market.

Three years ago his Leopard’s Leap winery went into partnership with Perfect China, a major distributor of household, health and skincare items.

Their joint venture — Perfect Wines of South Africa — added L’Huguenot to the product list.

By developing a direct sales channel, Perfect Wines is tapping into local familiarity with the sales techniques of companies like Amway and Tiens Group. It also gets immediate access to a sales force of more than a million people and the venture is already reporting annual sales of 3 million bottles.

“It has turned out to be a very effective way of reaching a new market,” Koegelenberg says. “The salespeople have an established customer base which they can invite to wine tastings. The sales sessions have the feeling of a gathering of friends and it’s a great way for people to try new wine for the first time. For us, it’s a much quicker and more cost-effective method of getting to market.”

Many of China’s largest direct marketing firms have made headlines by rewarding their best employees with overseas holidays (Li Jinyuan – the founder of Tiens Group – took 6,500 colleagues with him on an all-expenses-paid trip to Paris and the Cote d’Azur this year). Perfect Wines does something similar for its top-performers, paying for them to visit Koegelenberg’s vineyards in South Africa. These tours incentivise his salespeople to sell wine (billings of at least $32,000 were required to earn their tickets for recent trips) but they also help them learn more about South Africa and the L’Huguenot label.

More than 200 sales staff visited Franschhoek for the harvest in the latest tour. “There’s a powerful word-of-mouth effect and they will become ambassadors for South African wine back in China,” Koegelenberg says.

Lead, but also listen
While Koegelenberg promotes South Africa’s Chenin Blanc and Pinotage grapes, his marketing
efforts also acknowledge China’s initial preference with wine of French origin. L’Huguenot’s positioning is as a classic wine with French heritage, for instance, while the same French connection stands out in decision not to use screw caps in the Chinese market, due to local perceptions that the best wine is bottled with cork.

That’s especially so for the higher-priced brands. “Our Chinese customers have been clear in telling us that – if they are paying a premium – they want a cork,” Foye agrees. “Of course, we could spend five years telling them that the rest of the world is moving towards screw caps. But what’s the point? There are times when we want to educate our consumers. But it also makes sense to listen to what the market is telling you.”

Another lesson to be learned in China is that demand for wine is seasonal, spiking heavily around the key holiday periods. Koegelenberg says that about 60% of his sales coincide with the Chinese New Year and the Mid-Autumn Festival. But perhaps that will change as wine culture spreads. Unlike more developed markets, where people open a bottle at home with dinner or enjoy a few glasses with friends at bars or restaurants, the Chinese are yet to establish the same set of commonly understood occasions when wine is normally consumed. “There is a still a tendency to see wine as a choice for more formal moments,” Foye says. “We want to broaden its appeal so that it is seen as more than a drink for banquets or business dinners. So for our Wolf Blass range we’ve been running an ‘After Six’ campaign that communicates that wine is great fun informally with friends and family as well. The message? That when work is over, think about having a glass of Wolf Blass.”

The glory of Grange

The origins of the Penfolds brand date back to Adelaide in 1844, when Christopher Rawson Penfold, a doctor who had recently arrived from England, started his own winery. For most of the next hundred years it made brandy and fortified wine, coming to wider attention only with the creation of Penfolds Grange, its best-known Shiraz.

Grange started to appear in the 1950s, followed later by some of Penfolds’ other powerhouse reds, including Bin 389 (a Cabernet Shiraz, widely known as ‘Baby Grange’) and Bin 707 (a Cabernet Sauvignon). But it is Grange that has the standout reputation as Australia’s most collectible wine – which is a little ironic as it didn’t get much of a reception when it was first made.

“A very good, dry port, which no one in their right mind will buy – let alone drink” was one of the more withering assessments.

In fact, the company’s directors instructed Max Schubert – Grange’s creator – to stop making it because of fears it would damage the winery’s image. Fortunately he continued in secret and Grange steadily built a following as it refined with age.

By the 1990s its appeal was starting to go global, helped by its commendation from wine commentator Robert Parker as “a leading candidate for the richest, most concentrated dry table wine on planet earth”.

Chinese wine fans began to take notice too, especially when Parker awarded the 2008 vintage a perfect 100-point score.

Grange’s owner Treasury Wine Estates (TWE) now allocates a larger share of its production to the Chinese market as part of the effort to turn Penfolds into a “luxury” brand. The marketing effort picked up pace in October with the launch of this year’s collection in Shanghai. It was only the second time that the Penfolds global range has debuted outside Australia.

TWE’s Robert Foye says Penfolds is putting a lot of work into celebrating the brand’s authenticity and heritage. One example is the re-corking clinics that it arranges for its Chinese customers. “They can bring us any Penfolds bottle that’s more than 10 years old and our winemakers will take out the cork, taste a tiny amount, assess and certify it, top it up with the current vintage and then re-cork it,” he explains. “So our customers meet the winemaker; they have the chance to taste the wine and get it assessed by an expert; and then it gets professionally re-corked. They love the whole experience.”

Having such a standout reputation isn’t always a positive, as Penfolds has discovered in its long-running dispute with Li Dazhi, a local wine distributor, over the legal ownership of its Chinese name – Ben Fu – which translates as “chasing prosperity.” On the flipside Foye says that brand helps him “to get into parts of China that others can’t”, like stores at Chinese airports, where TWE capitalises on the glamour of the Penfolds name to showcase its other wines to wealthy travellers.

“Penfolds is acting as the flagship, helping us to introduce a number of our other labels to the Chinese market,” he asserts.
Grace Vineyard: best of the boutiques
From coal to Cabernet

Bordeaux, Burgundy... but eventually, Xinjiang? Week in China first posed this unlikely question last year, after wine from China’s most westerly region did well at blind tastings co-hosted with HSBC in Hong Kong.

The idea was to showcase some of the wineries featured in the first edition of The Little Red Book. But some of the results were unexpected, especially when a Cabernet Sauvignon from Xinjiang trumped its more established peers from France and Australia as the favourite choice.

In July we repeated the experience in the cellars of Berry Bros & Rudd, the long-established wine merchant, in London. This time the participants were a little more accurate in identifying the wines that were Chinese and those from elsewhere. But there was no disgrace in the comparison and our guests left the event with a greater appreciation for the best that China had to offer.

Oenophiles who dismiss China’s wine as noth-
Boutique wineries

ing more than pariah plonk are seriously out-of-date. Instead, the question is shifting from the derogatory ‘Is any of it drinkable’ to the more considered ‘Which one is the best?’

One of the strongest candidates for the title of China’s best winemaker is Grace Vineyard, based a half-hour’s drive out of Taiyuan, the capital of Shanxi province. Grace was founded in 1997 by Chan Chun Keung, an Indonesian of Chinese descent. After developing an interest in wine during his career as a commodities trader, Chan decided to start a winery of his own, planting vines from a Bordeaux nursery in a place called Taigu, about 500 kilometres south-west of Beijing.

Chan ran Grace until it had bottled its first vintage in 2001 before handing control to his daughter Judy the following year.

During a visit to Shanxi this summer, WIC talked to Judy about how she has grown Grace into one of China’s most respected winemakers.

**Why Shanxi?**

In choosing Shanxi Chan senior was going against much of the wisdom of the time, which favoured the warmer climes of the Penglai peninsula in Shandong. Later, many of the newer wineries would choose to cluster more in Ningxia, to the west. Chan says her father chose Taigu after advice from French oenologist Denis Boulas, who had surveyed the soil and local climate. “But it was also an emotional choice, linked to my father’s years as a student at Taiyuan University of Technology in the 1970s,” she explains. “He was worried too that his years of trading coal had worsened pollution in the province, so he wanted to do something cleaner and greener in return.”

Shanxi’s ambitions for winegrowing don’t mesh easily with its reputation for coal mining, an industry that has given rise to some of the country’s most-polluted cities, as well as a few of its brashest tycoons (see Kings of Coal on page 34). But Grace’s vines are planted on Shanxi’s central plateau, some distance from the coal-blighted areas in the north and south of the province. In fact, the drive to the winery from Taiyuan has a pleasant, rural feel, passing through sandy ravines and orchards, where farmers grow fruit and walnuts.

Shanxi’s local government hasn’t invested in its wineries with the same gusto as neighbouring Ningxia, which wants to entrench its wine sector as a pillar industry for the province. But Grace is still something of a showcase for local political bosses, in helping to point to a more sustainable future away from coal. Chan also wants to capitalise on these provincial roots, having launched an introductory range for the local market called the Vineyard Series that costs a fraction of her premium offering. “There are 35 million people living in Shanxi, so if we get the right price and the right product we should be able to sell at least a million bottles a year,” she explains.

**Where does Grace fit within China’s winemaking universe?**

When Chan took over at Grace in 2002 she was just 24, educated in the United States, and with no experience of Shanxi. Nor did she have any real understanding of wine or wine culture: “I went from looking at the weather forecast to see if I should be getting my umbrella to watching it for what it meant for the harvest. It was the steepest of learning curves.”

One of the problems for fans of China’s boutique wineries is that it can be hard to find reasonably priced wine because their production is so small. But Grace’s annual output is about 1.5 million bottles, which makes it one of the country’s largest boutiques. It also sells wine across a range of varietals from the entry-level Vineyard Series at Rmb72 ($11.36) a bottle through to the top-end labels Tasya’s Reserve (Rmb199), Deep Blue (Rmb306) and Chairman’s Reserve (Rmb568).

That makes Grace a much bigger producer than some of the other stars in China’s wine firmament, including Kanaan and Silver Heights – both from Ningxia – which produce a few thousand cases a year.

But Grace’s business is still tiny compared to the state-owned wineries Changyu and Great Wall – which make hundreds of millions of bottles every year – as well as substantially smaller than the leading international producers targeting the Chinese market.

Chan says she’s grateful to the state-owned giants for helping to educate millions of new Chi-
China’s winemakers have always had a dilemma about where best to grow their grapes. Travel further north or west – to arid Ningxia or the wilds of Xinjiang, for instance – and the greater the danger that an unexpected frost will deep-freeze the vines. But opt for Shandong and its warmer, maritime climate, and the threat is summer rain, which can bring disease to the harvest.

Shanxi stands somewhere in between: drier and colder than Shandong but wetter than Ningxia, even though its growing season turns abruptly from summer sun to winter chill.

“We get enough water, about 500ml of rainfall in an average year. But the difficulty is that more than half of it comes between August and October,” Grace’s Judy Chan explains. “Generally, rain earlier in the season is fine but if it arrives too late in the year it can damage the grapes.”

White grape varietals are normally harvested at the end of August, with the red grapes following in the middle of October. Chan says that summer rain is a particular menace for white varieties, because their “thin skin” makes them susceptible to disease. In wetter years Grace has lost up to half of its Chardonnay harvest to grey rot.

Chan’s vineyards sit high on the Loess Plateau, an area of north-central China covering most of Shanxi and Shaanxi, and parts of Henan and Gansu. Once fertile and commonly farmed, the region has suffered from deforestation and over-grazing for generations, leaving a deep layer of powdery, yellowish soil known as loess.

In Grace’s case, this sandy silt has mixed with a bit of clay to about 100 metres of depth. Chan says that the soil structure holds water well, so she doesn’t have to invest in artificial irrigation like drip lines. The soil type is also very consistent so any variation in growing conditions across the vineyard is shaped more by the elevation of lower or higher ground. Lower ground holds moisture better, which helps earlier in the growing season. But it poses greater risk in the summer when rain is more common. The danger is that the vines take up too much moisture and the berries split or show signs of rot.

Grace now grows grapes on 200 hectares in Shanxi, plus an additional 75 hectares in Ningxia, as well as a few experimental plots in Shaanxi. In Ningxia the soil is equally sandy. Chan says, but lower in nutrients than Shanxi. Its water-holding capacity is less as well, so the vines have to be irrigated to make sure they grow. But the natural dryness in Ningxia brings more colour and ripeness to the fruit, which is better for fuller, bolder wine like Shiraz.

Shanxi’s vineyards get plenty of sunshine and the vines benefit from a temperature range of about 15 degrees centigrade between day and night. There the reds tend to show black fruit character with hints of spice and pepper producing softer wines than those from Ningxia.

In both provinces the winter chill drops to minus 20 (and below) and there can be a lot of snow. In early November workers bury the vines under about 30cm of topsoil to protect them. “It’s a manual process and we have a team who comes in for a week and does the spadework,” Chan explains. “They’re experienced now so we don’t see the vines damaged much. And then at the start of April, once the worst of the cold has passed, they come back and shovel all the soil out again.”
Chinese consumers that wine is a drink to enjoy. But she doesn’t regard them as her competitors: “We don’t compare on a cost basis and we don’t share the same customers, especially at the premium end, where our more expensive brands like Deep Blue and Chairman’s Reserve sell for up to Rmb600 a bottle.”

Nor is she basing much of her business on grabbing a share of the international markets. Most of China’s top-end wineries produce at such a small scale that competition with higher-volume rivals from Australia, the US and Europe is difficult. Their prices are simply too high to tempt overseas consumers, who are more likely to opt for cheaper choices from tried-and-tested producers than the relative unknown that Chinese wine still represents.

That makes the Chinese domestic market the key battleground for boutique wineries like Grace, where they are pitching themselves against the foreign imports. One key problem, though, is that local consumers still tend to regard the overseas labels as a better benchmark for quality than the local ones.

“People will still reach for foreign brands if they have the choice,” Chan admits. “You can see it with milk powder, with electronics and in luxury goods in general. It’s the same with wine. Our challenge is to prove that homegrown labels can be as good, if not better, than international ones.”

The focus on quality
The nature of the local market meant that Chan resolved from the beginning that Grace would compete on quality rather than price.

Early on that meant uprooting a lot of the original vines, a decision that angered the local government. “They saw it as a waste of resources but we told them that we were pulling out varietals like the Pinot, the Italian Riesling and some of the Chenin Blanc because they were unsuitable for the area,” Chan recalls.

She shocked them again a few years later, when
Boutique wineries

Week in China
Winter 2015

the harvest was almost wiped out by September downpours. Rather than sell sub-standard wine, Grace decided not to release a vintage and made only a small amount of table wine.

“In a funny way it was good for our brand,” Chan explains. “People were stunned that we didn’t produce a vintage but it made them realise that we were serious about focusing on quality. In the long run it helped us establish our reputation.”

A similar ethos has shaped Grace’s grape-growing routine. Like most Chinese winemakers, it depended at first on vines from small plots cultivated by families living on the boundaries of the winery. But the reliability of the harvest was unpredictable. Farmers were accustomed to being paid for the quantity of their crop rather than its quality, and they often disagreed with the winery about when harvesting should begin, especially if rain was threatening.

“They usually want to pick as soon as possible, whilst we want them to wait,” Chan explains.

Four years ago Grace decided that it needed more control over the quality of its grapes so it started to negotiate an agreement in which the local government paid the farmers a fee for their land and the winery then rented the plots back from the government.

The deal was finally implemented this year. Grace pays the farmers to work the land but it now gets more say in how they manage the harvest, allowing for improvements to grape quality with techniques like yield control and pruning.

Chan says the improvement in the harvest was immediate: “Our 2015 vintage was great despite having a few days of heavy rain in August. We saw higher sugar content this year and a lot less rotten fruit than ever before.”

Out in front of the market

Like most Chinese winemakers Grace started out growing the typical Bordeaux grapes of Cabernet Sauvignon, Merlot and Cabernet Franc. But it has been ahead of its peers in branching out from Cabernet and pioneering wine varietals that may be a few years ahead of local tastes.

Chan says that she promotes experimentation across her product range by encouraging her winemakers to make small amounts of their own blends each year. And in her desire to test out the terroir and develop a truly Chinese-style wine, she has been experimenting with some unlikely candidates of grape.

This year there were small releases of the 2012 vintage of three new varieties: Aglianico, a dark crimson grape originating in southern Italy; Marselan, a cross between Cabernet Sauvignon and Grenache; and Shiraz, which is being grown in the drier conditions of Ningxia.

“The way that we choose the new grapes is based on detailed soil analysis and climatic data,” Chan reports. “But we never pick them based on the potential selling price of the wine itself as we honestly don’t know what the market will prefer in future. Of course, better-known wines like
Main Wine Growing Regions

**Xinjiang**
- **For**: large areas of grapes under cultivation; dry
- **Against**: short growing season; little history of bottling its own wine; remote from major cities
- **Wineries**: Citic Guoan, Chateau Changyu Baron, Balboa, Tiansai Vineyards of Gobi

**Shanxi**
- **For**: up-and-coming area made famous by Grace Vineyard
- **Against**: limited production mostly in the Taiyuan Basin and fringes of the Loess Plateau
- **Wineries**: Grace Vineyard

**Jilin**
- **For**: grows a Chinese origin grape called the Amur, which is more resistant to cold weather
- **Against**: local grapes lack sugar and can be too acidic; few grape varieties can survive the weather
- **Selected wineries**: Tonghua Grape, Changbaishan

**Ningxia**
- **For**: policy support from local government; decent irrigation from Yellow River, good light and warmth; hub for new vineyards and wineries
- **Against**: short growing season; vines need to be buried over cold winters
- **Wineries**: Domaine Helan Mountain, Silver Heights, Changyu Moser XV, Domaine Chandon

**Hebei**
- **For**: closer to Beijing, which is useful for sales and distribution; drier climate than Shandong
- **Against**: high humidity in the summer increases risk of grape disease
- **Wineries**: Dragon Seal, Chateau Sun God, Moutai Wine

**Shandong**
- **For**: more moderate climate; no need to bury vines in winter; the longest history in China of winemaking; home to leading state wineries
- **Against**: rain in the summer, so pesticide required to reduce risk of fungal disease
- **Wineries**: Changyu Pioneer, COFCO Great Wall, Citic Lafite

**Yunnan**
- **For**: southerly latitude brings strong sunlight and milder winters; longer growing season
- **Against**: hilly terrain and fragmented plots; little winemaking history, shortage of experienced workers
- **Wineries**: Shangri-La Deqin

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Sources: Li Demei, Decanter China; Jim Boyce, Grape Wall of China
The kings of coal

Shanxi accounts for about a quarter of China’s coal output and one of the unfortunate byproducts is some of the country’s grimmest cities, headed by Linfen in the south of the province. Once reputed as a haven of fruit and flowers, Linfen regularly tops the rankings as one of China’s most polluted places. And it’s not just Linfen’s landscape that’s blighted – politically it’s a poisoned chalice too. With a track record of industrial accidents and rising joblessness, the city struggles to find people ready to become its mayor.

But Shanxi’s pollution problem also hints at the prosperity of its coal barons, who are often portrayed as typical tuhao by their fellow countrymen. The term is derived from tu, meaning dirty or uncultured, and hao, which can infer splendour. Although it has been used to mean different things in the past, today it denotes something similar to nouveau riche, or people with plenty of cash but little taste.

The tuhao temperament of many of the coal tycoons is best seen in the lavish nature of some of their family celebrations. In one case six years ago, a coal boss brought the city of Datong to a standstill with a wedding procession for his daughter’s nuptials of six Jeeps, four Ferraris, four Rolls Royce Phantoms, six Mercedes, six Bentleys, 20 Audi A8s, one Hummer, several Lamborghini and several Porsche Cayennes.

Not to be outdone, another coal magnate called Xing Libin paid Rmb70 million for the wedding extravaganza of his own daughter on Hainan island. The festivities included serenades from international pop stars, the obligatory fleet of Ferraris to transport guests, and even a ceremonial coach and horses for the happy couple.

Since then the most flagrant cases of tuhao excess have been toned down by Xi Jinping’s campaigns against graft and extravagance, as well as the wider slowdown in coal production. Many of the coal tycoons have gone bust (Xing Libin included), while others are talking about turning away from their former fortunes to do something more sustainable, often in agriculture. “After selling some of my mines, I have started to invest in potato processing,” Zhang Bao, another former baron, told Xinhua news agency last year.

But the tuhao trend hasn’t disappeared completely, following news from Shanxi in May that a local woman had held a fashion show to celebrate the birthday of her 2-year old daughter. Local newspapers reported an ostentatious event in which mother and girl had walked the catwalk together, dripping delightfully in luxury brands like Chanel, Dior, Armani and Prada.

“We have no financial issues, so I just want my daughter to have a better life,” the proud mum later explained.

Shanxi is best known for its coal mining

Cabernet are easier to sell but there are always ways to sell something new. Ultimately it’s the quality that matters most.”

Also making their debut this year are four new sparkling wines under the Angelina label, named after one of Chan’s daughters. Made in the traditional style, the range offers three single varietals of Chardonnay, Cabernet Franc and Chenin Blanc, plus the vintage 2009 Brut Reserve Blanc de Blancs.

As far as Chan is concerned, the Angelina range is another bet on the broadening interest in different types of wine in China.

“Most people still think only think of reds. But sparkling wine is a small but growing category and we’ve timed the launch well, following Moet & Chandon’s introduction of its own range of sparkling from Domaine Chandon in Ningxia last year. We were really pleased as it will help to promote the category in general in China.” (See last year’s Little Red Book for a feature on Domaine Chandon.)

Despite pioneering new choices for China’s wine lovers, Chan says she won’t give up the focus on quality, reiterating her desire to be the best rather than the biggest of the country’s wine-makers.

“We get pressure from the local authorities to expand our business because they want the job creation and the higher tax revenues,” she explains. “But we are cautious about trying to grow too fast. We’ve got to prioritise the quality of our product and how we grow the Grace brand around it. And to be frank, I like the fact that we’re a boutique producer. I can recognise all of my staff, which would change if we tried to grow too big.”

Shanxi is best known for its coal mining