

2008 sees big changes in food and wine industries



Since the beginning of the year, both the food and wine sectors in Hong Kong have been subject to major changes or major debate: the wine industry saw taxes cut to zero last February, while the food industry is currently divided by intense discussion about new requirements for nutrition labeling of foods. Within this context, what are the opportunities and new challenges for French suppliers? Marc Brugalière, Food and Wine Commercial Attaché, French Trade Commission in Hong Kong, tells us more.

Website: www.missioneco.org

Wine consumption in Hong Kong

In Hong Kong the market for still wines is very buoyant with an increase of 16% in volume and 69% in value in 2007.

Consumption remains low (circa 3l/year/head) because of low penetration in the Chinese population. Multiple types of consumers can be found: from the very rich collector, through the office worker occasional consumer to the expatriate. Red wine is mainly consumed as it is perceived as being healthy (French Wine paradox), and wine is mainly consumed outside the home in restaurants and hotels. However, home consumption is also growing fast. Despite a growing number of visitors (more than 20 millions per year) and very good food service infrastructures, HK remains a small market, limited by the size of its population (7 million inhabitants).

Still, the HK wine market is particularly important because of its anteriority and maturity and its influence on the whole of Asia. Furthermore, The HKSAR plays a major role as a re-exporting platform, first to mainland China (66%) and then Macau (25%), and notably for top-quality wines (75% of re-exports are

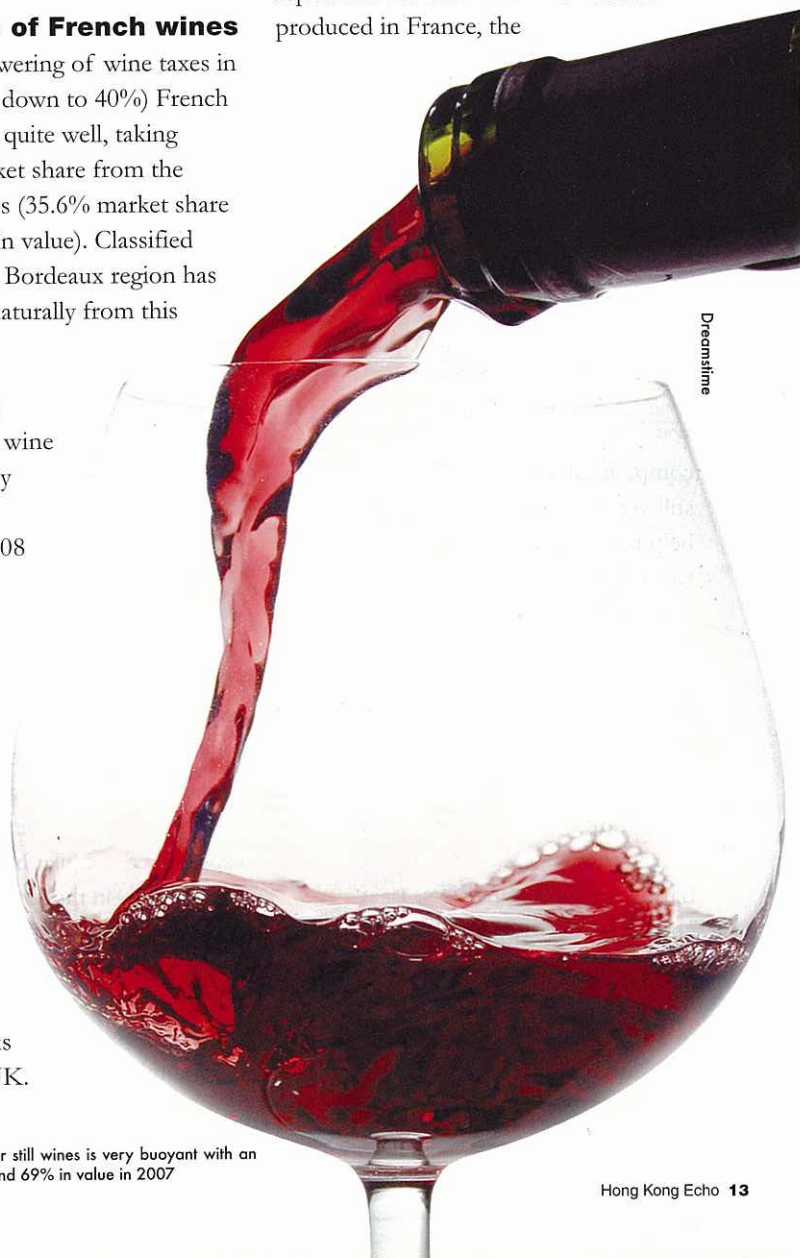
French wines, of which, a great many are Classified growth from Bordeaux).

The position of French wines

Thanks to the lowering of wine taxes in 2007 (from 80% down to 40%) French wines have fared quite well, taking back 4% of market share from the New World wines (35.6% market share in volume, 56% in value). Classified growth from the Bordeaux region has benefited quite naturally from this situation.

Even before the abolition of the wine taxes in February this year, the beginning of 2008 witnessed the same trends. We can be sure the total elimination of taxes on wine will help further the sales of Classified growth from Bordeaux, especially the import of stocks located in the UK.

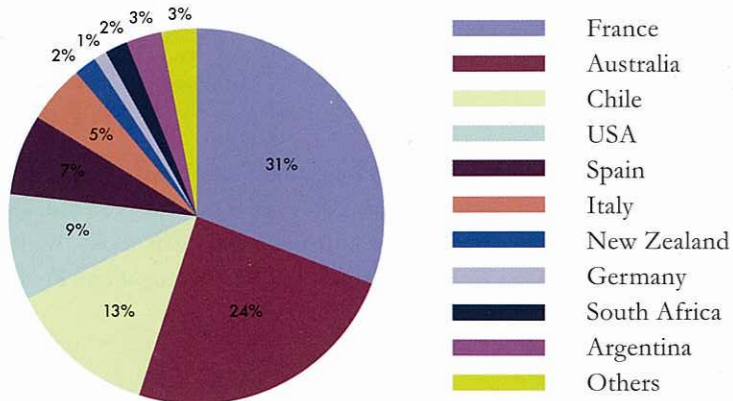
For wines at entry-level or on a more mass-market level, which still represents the essence of the volume produced in France, the



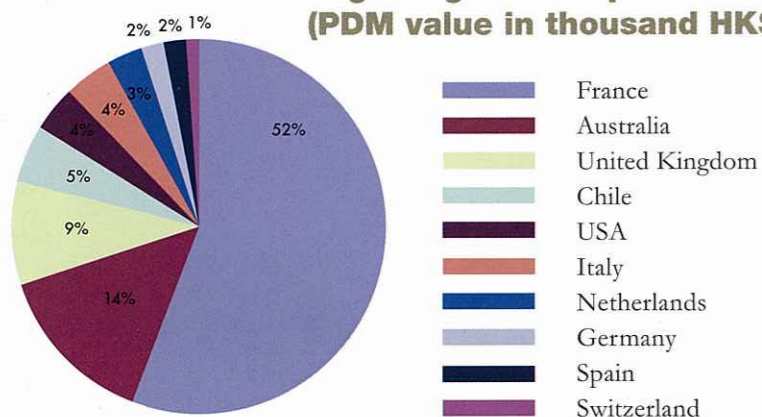
Dreamtime

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Hong Kong Wine Imports 2007(PDM Quantity)



Hong Kong Wine Imports 2007 (PDM value in thousand HK\$)



about 80 to 100 are regular and sound importers. Sales in specialist wine stores are developing, but the fastest growing market is certainly the supermarket chains. Historically, the main distribution channels for French wines in HK are the importers-wholesalers who have a clientele of hotels and restaurants as well as private customers.

The abolition of wine taxes has created an interesting basis for the launch of new products and for the importation of wines coming from not so well known wine regions. One hopes this could also spread to mainland China. Some importers think there could even be a storage possibility in HK for such wines which could be then resold to mainland China or other Asian markets.

The agro-food sector

Diversified suppliers

The main food supplying country to Hong Kong is mainland China with more than 20% of market share, followed by the USA and Brazil. The supply is therefore quite diversified and does not solely depend on the Asia-Pacific region.

France is a modest food supplier to HK (except for wines and spirits) with about a 1.5% market share. This is due to the fact that France mainly sells high quality and speciality products to this market (goose liver, cheeses, dairy products, high quality poultry and game, chocolates, etc). The distribution channels for these products are mainly fine hotels and restaurants, delicatessen shops (Great, Olivers, City Super, 360) to name a few. About 10 fine-food import companies share this market.

The challenge for French food products in HK is to further penetrate

the convenience distribution and lower end of the supermarket chains in order to get to the average consumer and not be so elitist. This would certainly allow greater volumes to be sold. Some other European countries have greater market share than France as they sell more industrial products, whereas France is more in the "boutique products" niche.

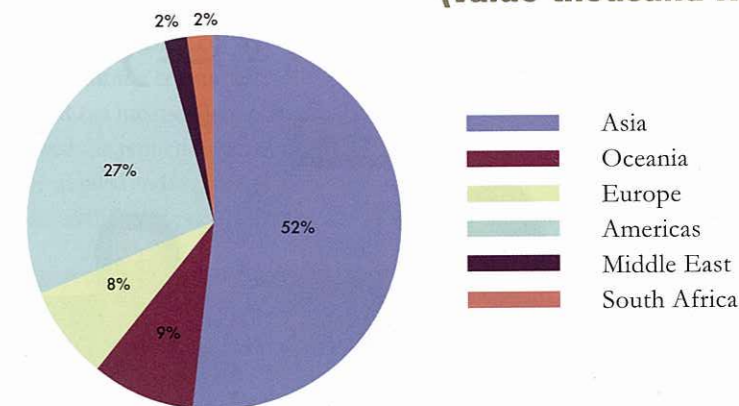
Health concerns and new labelling

In HK there are no problems with accessing the market, no real barrier. Health certificates for meat and dairy products are fully implemented and the dialogue with the local authorities is easy and very honest. Legco [Legislative Council] members are currently studying a government proposal on a tough nutritional labelling scheme for prepackaged food products, which they want to implement in two years time. The government has agreed on an exemption for small volumes (less than 30,000 units sold per year) which would allow French SMEs to carry on exporting fine food to HK. This should also allow for special promotions to take place in the future and for high quality products to find a place on the shelves. Discussions are still taking place regarding products claiming nutritional benefits (low in sodium, fat free, for instance).

Consumer trends

The key driving forces for new food trends in HK are food safety, increasing health consciousness and busy lifestyles. Consumers are showing more and more interest in organic products and convenience food. In 2007 France helped finance promotional activities at Park n Shop supermarkets to launch organic products and more than 350 new

Hong Kong Imports by Origins of Food 2007 (Value thousand HK\$)



food lines. In 2008 the focus for promotional support will be more on independent food importers supplying retail shops and food services. Even Sogo, the well known Japanese department store, has had some promotional spring activities involving French Food, cosmetics and fashion products. One of the most effective promotional tools in HK is in-store tasting which allow consumers to try and buy new food products.

Food service is also diversifying: all Asian cuisines are now found in HK, with Japanese restaurants developing rapidly. Western cuisine is also very trendy

(Australia, Italy and France being the leaders). New formats such as fast food, casual dining and coffee shops (Starbucks, Pacific Coffee, etc) are booming. **E**

competition with New World wines is still very fierce and much promotional help is necessary. While the wines from the Bordeaux region may be very well known indeed, numerous appellation wines from France (AOC Wines) are still to be discovered by the Hong Kong consumer.

Sales by the glass in hotels and restaurants are difficult for French wine as, at entry-level, they are barely seen on wine lists. Last autumn, Park n Shop the leading supermarket distributor in HK, launched a wine fair, with the introduction of many new lines from different French wine regions

(Rhône, South West, etc) giving these products a chance to make inroads into the HK market.

Wine distribution channels

There are many wine importing companies in HK, certainly more than 200, and this number is very likely to grow in the coming months due to the abolition of taxes, the growth of the market and the booming economy. HK experienced a similar boom in wine companies – in the nineties before the economic crisis. A lot of boutique importers have been created, together with Chinese entrepreneurs launching wine businesses in Hong Kong. Of this large number of companies, maybe only



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