



Wine Australia

Craft Cider Export – China

November 2019

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China Craft Cider

Executive Summary &
Recommendations

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China – Executive Summary

- At only 16,500 HL, Cider consumption in China is **in its infancy**, and has not gained major traction in recent years despite the attempts of domestic subsidiaries of major brewers (notably Heineken/Shanghai Asia Pacific Brewery and Carlsberg/Chongqing Brewery) to roll out product alongside their mainstream beer brands. Cider consumption in China is modest in absolute terms (less than 0.2% of the UK market at 9.8 mn HL), and positively minute in per-capita terms given China's significant population. Even Carlsberg and Heineken do not afford much attention to cider, and other leading brewers (China Resources, Tsingtao, even AB InBev) have so far refrained from joining the cider market.
- The first volumes of cider sold in China were recorded in **2010 only**, with enterprising American brand Gold, Heineken's Strongbow, C&C's Magners and Distell's Savanna and Hunter's generally credited to having established the market. Gold and both of Distell's brands have since quit China due to lack of success (while Distell wine remains available in China). Market leader Somersby only joined the market in 2016 and has since had good trajectory, particularly with its flavoured variants.
- Consumption of cider in China firmly remains the **domain of Western visitors and expatriates**, with take-up among the national population really only among Chinese who may have been exposed to the concept elsewhere in the world – experiences gathered during travels, or people who previously may have lived in Hong Kong or Singapore. Fruit ciders in particular may become a little more popular with upmarket Chinese females who are starting to play a stronger role in the consumption of beverage alcohol in general.
- What may hamper development further is the positioning of **cider vinegar** as a semi-medicinal product in Chinese culture. Availability of cider as a refreshment beverage alcohol product may, therefore, be construed as somewhat strange to the wider population.



China – Recommendations

Having said that, Australian ciders should have a reasonable chance to gain some traction in China. While opportunities may be modest, they are also somewhat straightforward given the current appeal primarily to Western visitors and expatriates:

- In the **on-premise**, a focus on high-end bars, pubs and hotels known to be frequented by a Western clientele – either direct or via suitable distributors. Some of these may be frequented by majority Australian visitors, and themed as such.
- In **off-premise**, a focus on supermarket chains that are known to stock reasonable ranges of imported, Western product, outlets with particular appeal to the Western expatriate population
- In **e-commerce**, focus on the large domestic platforms such as T-Mall (who already carries cider) or JD.com (who does not)
- Given the modest market size – with brands inevitably appearing and disappearing in the market – there is of course also the possibility of organising market presence through **generalist consolidators** – this is an option for those Australian cider companies seeking export volume without wanting to engage in expensive brand building exercises (with the disadvantage of course of losing control over their product positioning, merchandising etc. on the ground), and may actually be a solution that may be proscribed by both on- and off-premise outlets in China in any case.
- Flavoured variants, including notably large parts of Carlsberg’s Somersby range but also more recent entrants such as Rekorderlig, are expected to have particular success going forward, at least in percentage terms.



China – Recommendations

- Given the unstructured nature of the Chinese market for cider – certainly outside that of the ‘organised’ brands by the Heineken, Carlsberg, C&C and Rekorderlig – there is no real reason why Australian craft ciders should not be able to do some business in China, especially given the duty-free access it should have under the Asia Pacific Trade Agreement regulations. The question is of course route-to-market – with appointing exclusive distributors notoriously difficult in the Chinese market and given the small volumes at play possibly not even desirable.
- Only the largest cities – with sizeable Western expatriate populations, who also double up as the cities most visited by Western tourists – need to be targeted.
- **Cider Australia – and potentially Wine Australia** – could of course play a role in terms of generic marketing assistance. Assisted trade fair participation, sponsorship of Australia produce weeks in supermarket chains or sponsorship of Australia-heavy sports events could be ways of gaining consumer (and channel) interest. However, it must be borne in mind that the ultimate target consumer group is likely to be **non-Chinese** for the most part.



China – Recommendations

- Australian craft cider producers are encouraged to look at the Chinese market. We would, however, advise the following points:
 - **only the largest ones** among them should attempt to formalise distribution on the ground (even companies such as Distell have found the Chinese market difficult to negotiate, and Abro/Rekorderlig is yet to reap rewards of establishing a domestic subsidiary).
 - Given the modest size and focus on expatriates/visitors we would encourage to contact outlets directly, then allow them to redirect attention to their chosen **consolidator/consolidators** that they would typically use (and who may typically sit in Hong Kong/Singapore, or – if there is significant fmcg business overall – may be Australian consolidators in their own right).
 - While some supermarket chains (China Resources Vanguard, RT-Mart, Carrefour etc.), indeed, do **import directly**, again more often than not they would use consolidators to ease their importing business, and may direct attention to them.
 - Finally, T-Mall and JD.com are, famously, becoming very strong in the beverage alcohol business via their e-platforms. Many foreign beverage alcohol brand owners are very happy with just dealing with these platforms, without going to the headache of attempting on-the-ground distribution via brick-and-mortar arrangements.



China – Recommendations

- As advised, current cider consumption is **heavily geared towards non-Chinese nationals**. Below are some suggestions on how this imbalance could be addressed by enterprising cider suppliers:
 - Provide **proxy marketing activities** in surrounding countries with both a strong ethnic Chinese base and existing social and trading links with China. **Singapore and Hong Kong** should be at the forefront for this purpose. By keeping marketing material (labelling, POS material, special displays, also on-premise activation) predominantly in Chinese languages there may be some spill-over effect in time.
 - In a similar vein (if allowed) **tasting or other promotional events in airport departure lounges** (both Duty Free shops and airside bars) may be a way forward. These could be hosted either in major Chinese airports themselves or in airports with significant traffic of Chinese nationals – including, once again, notably Hong Kong and Singapore, but also, crucially, **Australian airports**. Promotional events, airside in Sydney, Melbourne etc., may start to have an impact on Chinese visitors especially if messaging and imagery could focus on Chinese language and culture.
 - Sponsor **tasting events** in modern Chinese on-premise outlets that are majority frequented by Chinese nationals. This could, for example, be done in conjunction with Wine Australia – joint wine/cider tasting events.



China – Recommendations

- While opportunities for this type of promotional event in off-premise is more limited, there may be opportunity both in **supermarket chains** and **specialist alcohol retailing** for hosting tastings.
- PR activity, mainstream newspaper interviews for lifestyle supplements, magazine interviews and infomercials are all potential tools to educate Chinese consumers on the virtues of Australian produce and cider in particular. Success stories of cider in surrounding countries – Japan, Hong Kong, Singapore – may invite curiosity to trial the product category. It may also provide opportunity to point out the difference between drinking cider and cider vinegar (as mentioned elsewhere, seen in China as a semi-medicinal, utilitarian product).
- Finally, there is opportunity for **generic product concept explanation on e-commerce platforms**, kept in Chinese languages. Chinese ecommerce platforms are typically happy to come to commercial arrangements on editorial features, specialist sub-shops etc.



China Cider

Overall Market and Craft in
Context

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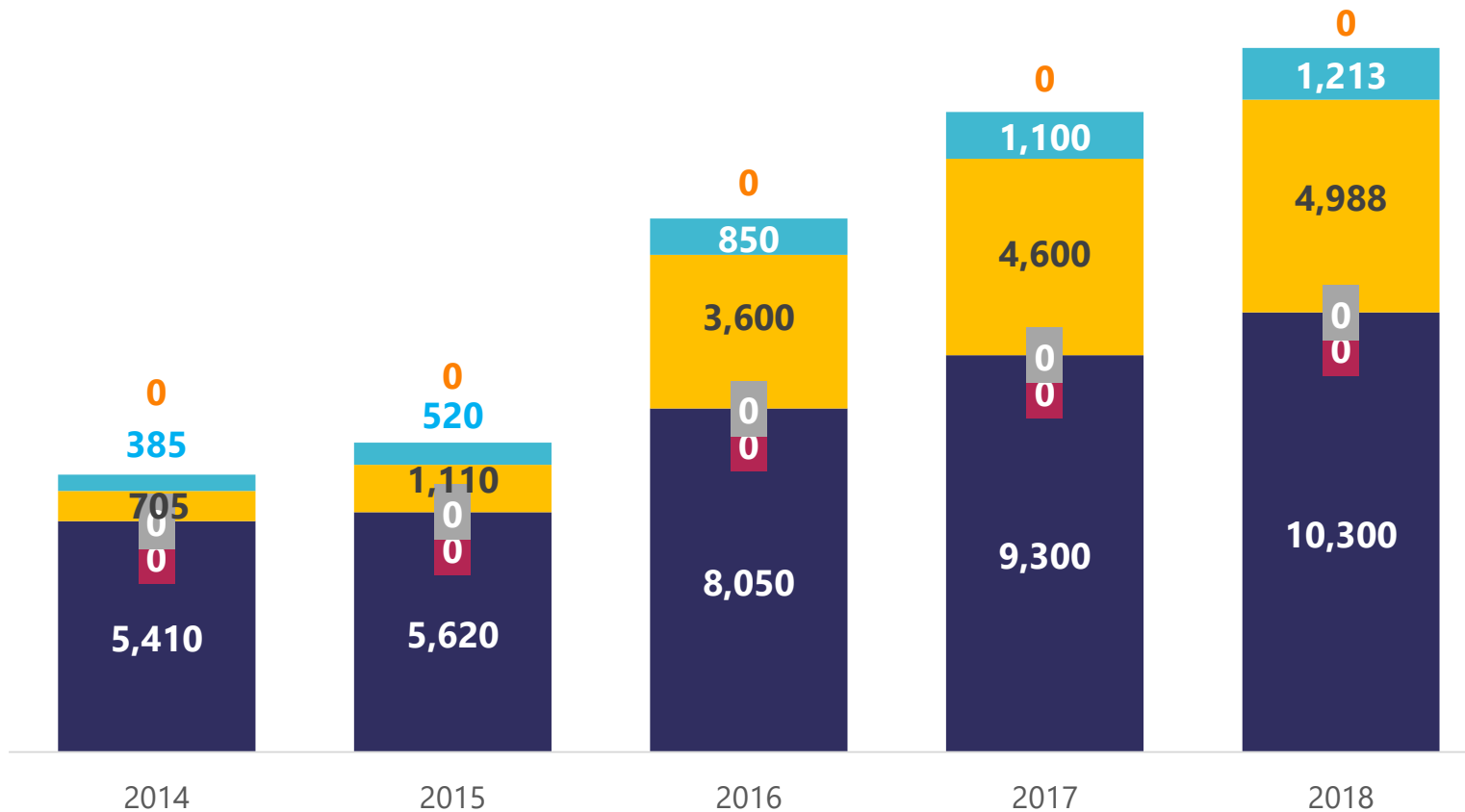
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Relatively strong percentage growth over the last few years does not mask the fact that the Chinese market for cider has **not yet reached levels of any significant magnitude**. Apple variants dominate, but fruit-flavoured ciders have provided most of the impetus in recent years, particularly following market entry of Somersby in 2016.

China – Cider Consumption 2014-2018 (HL)

6,500	7,300	12,500	15,000	16,500
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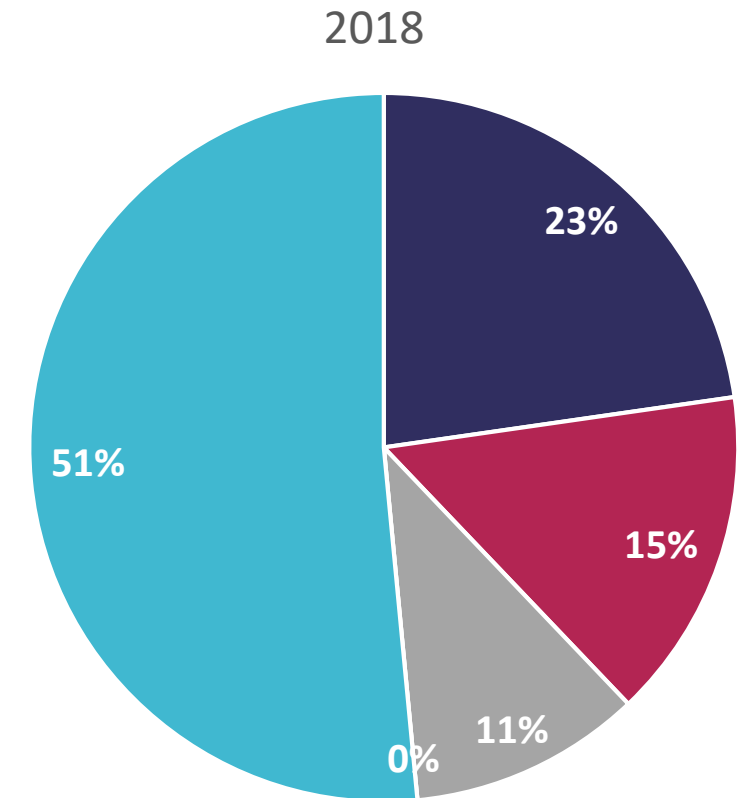
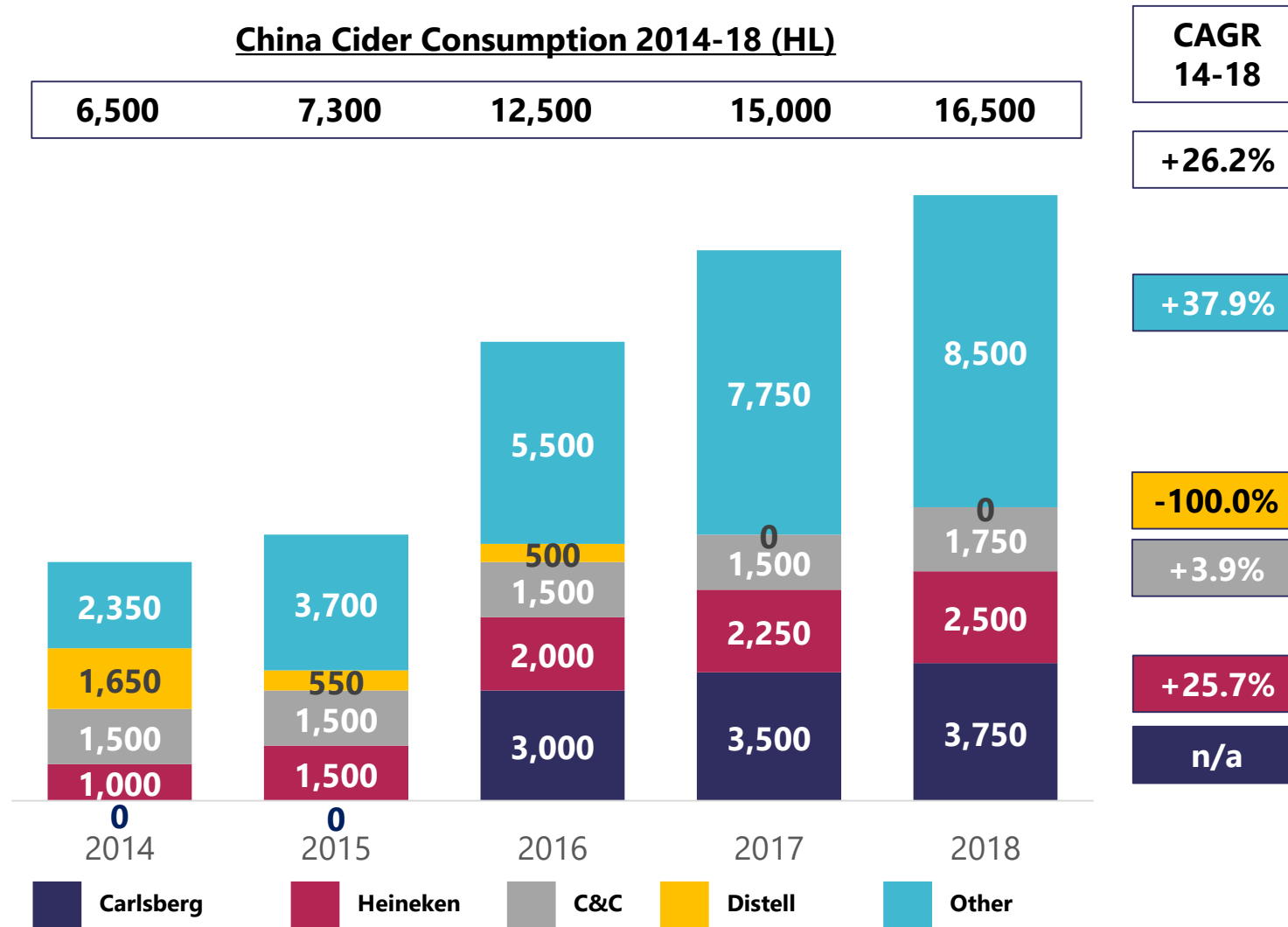
CAGR	14-18
+26.2%	
n/a	
+33.2%	
+63.1%	
n/a	
n/a	
+17.5%	

Rosé
Pear
Other Fruit/Flavoured
Crossovers/Hybrids
Apple – Varietal
Apple – Generic

Supplier shares in this small market are relatively meaningless as little focus is given to this sector. **Smaller brand owners** – whose individual availability in China fluctuates – have been successful in exporting greater quantities in recent years. Somersby, Strongbow and Magners continue to dominate, the latter two particularly in on-premise.



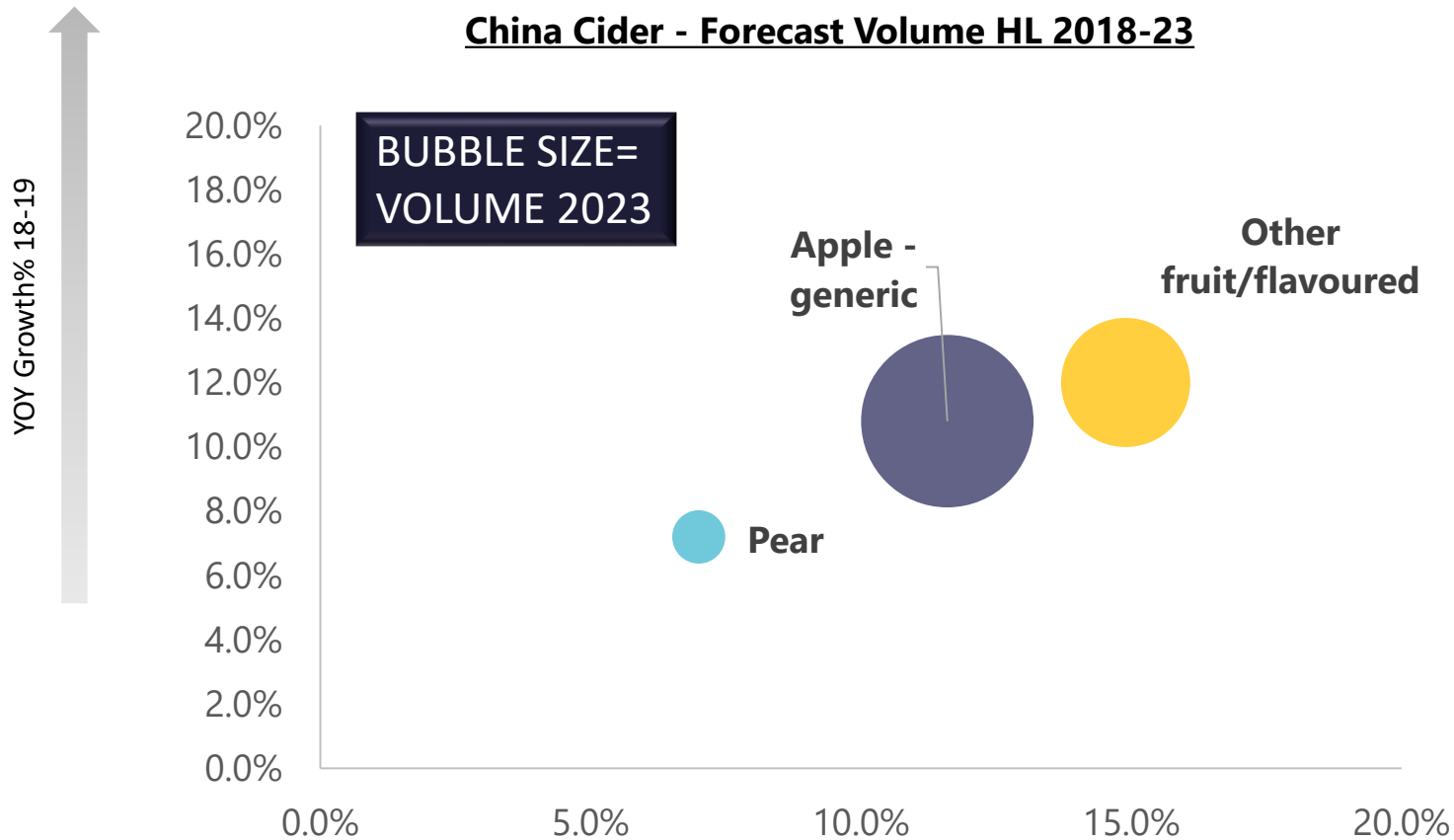
China Cider Consumption 2014-18 (HL)



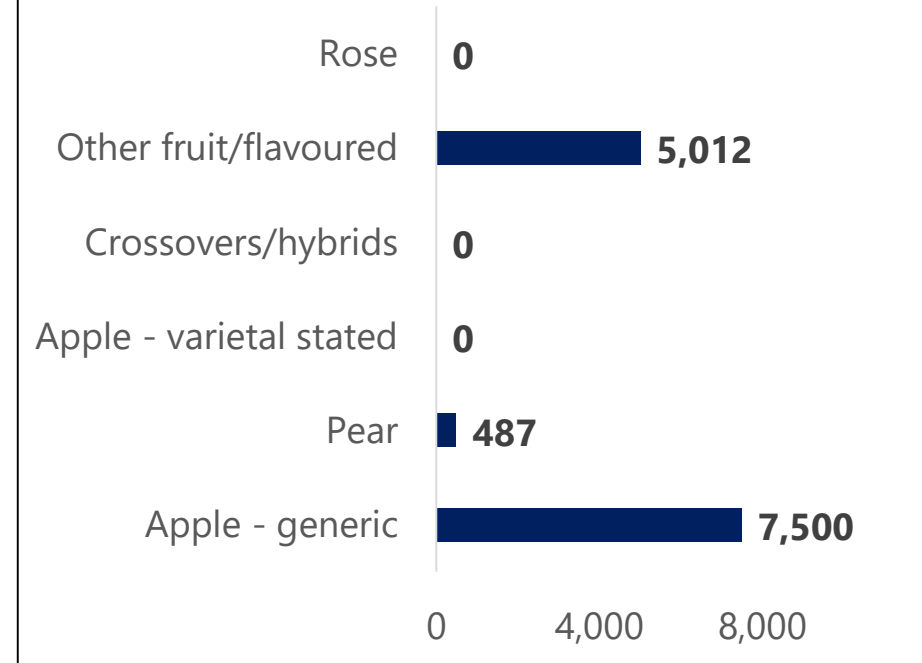
While the Chinese market for cider can be **expected to continue strong percentage growth** to just under 30,000 HL by 2023 (roughly double of current volumes) this will still mean **modest consumption** in comparison to much larger markets elsewhere in the region, including notably Japan. Fruit ciders will gain in strength.



China Cider - Forecast Volume HL 2018-23

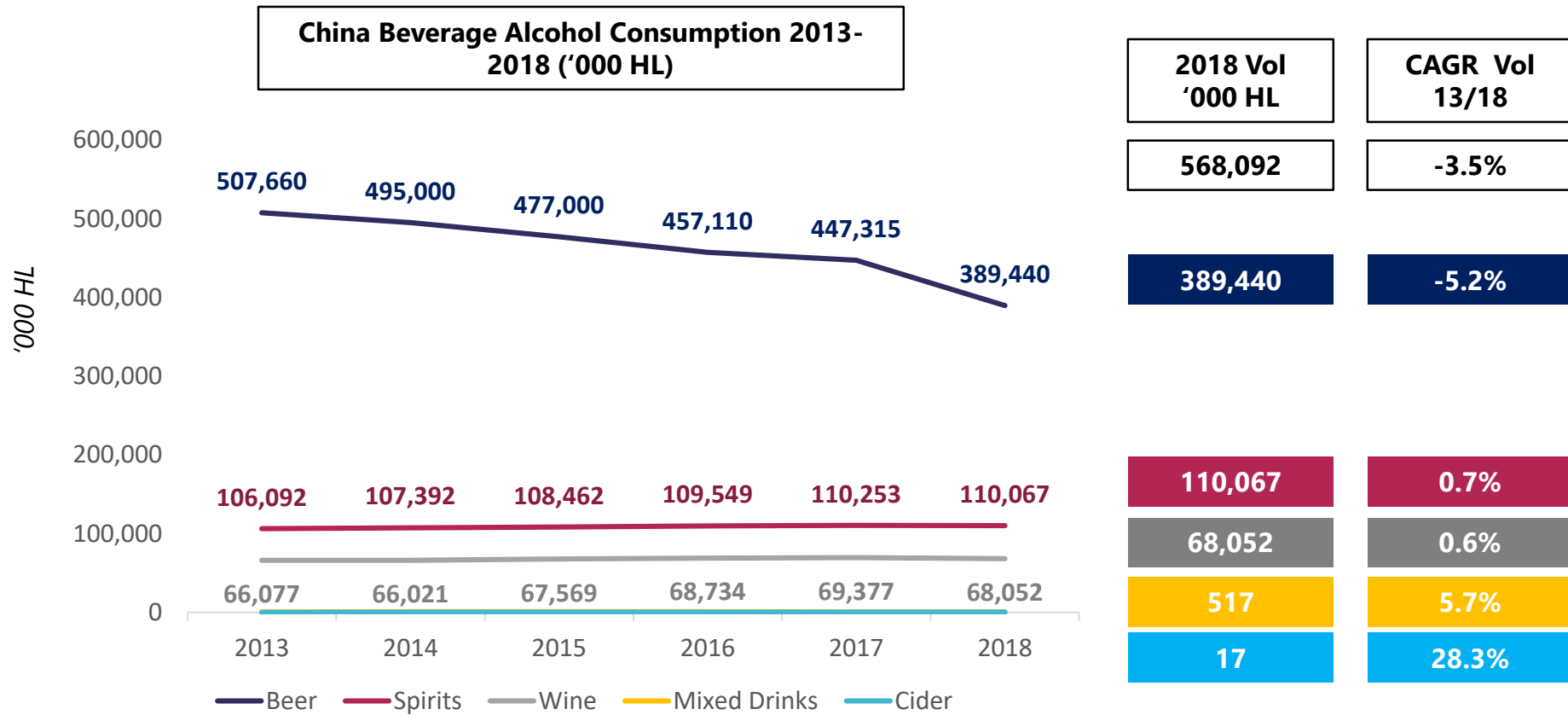


Volume Increment 2018-23 (HL)



CAGR% 18 - 23

The total **Beverage Alcohol** market in China has contracted significantly since 2003 caused by the strong demise in beer volume consumption. Both wine and spirits consumption have experienced modest growth only, unable to compensate for the decline in beer. Mixed Drinks and Cider remain positively **minute**, if at decent percentage growth rates.



Source: IWSR



China – The Cider Industry and Craft

Given two key features of the Chinese cider market -

- **Modest market size, and**
- **Low take-up of consumption by Chinese Nationals -**

there is no real possible definition of 'craft cider' in the country. Arguably, all brands other than the three largest ones (Somersby, Strongbow, Magners) can be considered craft – for the simple reason that for most of these brands (perhaps with the added exception of Rekorderlig) availability fluctuates, with many brands appearing and disappearing, often as part of mixed consignments even without the brand owners' knowledge.

Tentatively, therefore, the market for 'craft cider' may be somewhere in the region of **8,000 HL**, or half the entire market.



China – The Cider Industry and Craft

As an example, project store checks have revealed a 2019 presence of the following brands in China (over and above the market leaders):

- DDB/Royal Unibrew (Denmark) – Tempt
- Liefmans (Belgium) – Liefmans fruit beer, misrepresented as cider
- Zeffer Cider Co. (New Zealand) – Zeffer
- Halewood (UK) – Lambrini
- Celliers Associes (France) – Val de Rance
- Eva Group (Spain) – The Good Cider



Quick checks with two brand owners (Eva Group and Halewood) revealed that the cider brands sold in China were there without their knowledge, and have likely reached the market via parallel trading from other Asian markets (with suggestion on Hong Kong and Singapore). The brand mix is known to change frequently, with little consistency beyond Somersby, Strongbow and C&C. Most smaller cider brands do not have formal representation in China.

By contrast, Abro (Rekorderlig) is known to have opened a Chinese subsidiary in Shanghai, ie presumably with an intention to pursue domestic sales.



China – The Cider Industry and Craft

There was evidence of some previous domestic bottling of independent ciders by Hangzhou Cheerday, a brewery with a 25% Kirin stake (Crown and 9th Cat cider brands), but these are believed to have been discontinued. There is currently no evidence of any serious domestic filling of smaller brands of cider.

Neither Kirin nor Asahi currently have a significant footprint in China in beverage alcohol, and none with cider.

At present all volumes are believed to be imported.



China – The Cider Industry and Craft

Retail price levels of brands beyond Strongbow and Somersby that are currently in the market are fairly consistently in the region of:

- CNY 180 per 6 x 330 ml (ca. AUD 37.00 or 6.20 per can/bottle)
- CNY 30 per 330 ml bottle (6.20 per bottle)

Multipacks – and entire cases – are popular especially among expatriates, who are not believed to be particularly price-sensitive (unlike Chinese nationals).



China – Duties

Import duties can be – theoretically – significant. However, most Asia Pacific Trade Agreement nations, including Australia, have a zero tariff policy in place, with only domestic taxation (VAT etc.) on top.

China Tariff and Tax on HS code: 2206009000			
Article English Name	Other fermented beverages, mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included		
Article Chinese Name	其他发酵饮料(未列名发酵饮料混合物及发酵饮料与无酒精饮料的混合物);		
China Import Tariff Rates:			
Import Tariff & Tax Item	Rate	Applicable Rate	Applicable Country
General Duty	180.0%	✗	Non-MFN
MFN Duty	40.0%	✓	Most-favored Nation
MFN Interim Import Duty		or ✓	Annul Interim Duty for MFN
FTA Conventional Duty	00%-40.0%	✗	FTA Conventional Duty Search
LDCs Preferential Tariff	0.0%	✗	Low Developed Country
Import Consumption Tax	10.0%	✓	All Countries
Import VAT	13.0%	✓	All Countries
China retaliatory tariff on USA	25.0%	NEW	China retaliatory tariff against the United States enforced on Sep. 2018, because of the trade conflict with the Trump administration. 对美加征25%关税2018年9月24日12时01分执行

Source: www.transcustoms.com