

**For discussion
on 21 July 2009**

Legislative Council Panel on Commerce and Industry

Further Development of Wine-related Businesses in Hong Kong

Introduction

This paper takes stock of the further development of wine-related businesses in Hong Kong since the exemption of wine duty in February 2008.

Wine Duty Exemption

2. The global demand for wine is shifting from traditional wine consumption markets like Europe and the US to Asia. Currently, the Asian market (excluding Japan) represents a few percent of global wine consumption. The industry sees huge room for growth. In particular, strong economic performance, increased prosperity and changes in lifestyle have led to demand for wine in Mainland China going up dramatically.

3. To help our industry capitalise on the business opportunities thus presented, the Financial Secretary announced in his 2008-09 Budget reduction of the duty on wine from 40% to zero, after a similar reduction from 80% to 40% in 2007. We hope to develop Hong Kong into a regional hub for wine trading and distribution. This would bring economic benefits to the community, including synergy for such related sectors as catering and hospitality, tourism, brand promotion and exhibitions, wine appreciation and education.

Supportive Measures

4. Besides the duty reduction, the Government has been working on various supportive measures to facilitate the further development of wine-related businesses in Hong Kong. These have been developed after taking into account the views received from the industry. Details are set out below.

(a) Customs facilitation

5. Alongside the duty exemption, legislative changes have been effected from June 2008 to waive administrative controls required to track the movement of wine as a dutiable item. Also, from July 2008, traders may ask for the customs inspection of fine wine to be conducted at their own warehouses (with temperature and humidity controls to help preserve the quality of wine), rather than at boundary control points.

(b) Wine Storage Facilities

6. In response to market demand, individual industry players are expanding their storage capacity and/or commissioning new facilities in premises such as vacant industrial buildings. The industry anticipates adequate overall supply of wine storage facilities this year for meeting demand.

7. To boost users' confidence in the standards of Hong Kong's wine storage facilities, the industry is interested in developing a certification scheme whereby storage facilities meeting certain standards will be accredited. The Government has been facilitating the dialogue between the industry and possible implementation agents. The prospective agent is developing the detailed assessment criteria in consultation with the industry. If the scheme is launched, it will also vet applications from related companies.

(c) Promotion work

8. The Government is synchronising the promotional strategies of the Hong Kong Trade Development Council (TDC), Invest Hong Kong (InvestHK) and Hong Kong Tourism Board (HKTB) to bolster economic activities that may have synergy with wine trading and distribution, such as tourism, catering and hospitality etc.

9. Joint promotion work is carried out by these agencies to maximize synergy, leveraging on their network of overseas offices and our Economic and Trade Offices. They assist companies interested in setting up/expanding offices in Hong Kong for wine-related businesses, including prospective investors who may see a case for using heritage sites in Hong Kong for

commercial uses related to wine¹.

10. Two key wine-related events to be held in Hong Kong this autumn will mark the highlights of our promotion work in 2009. They are :

- (a) the first Wine and Dine Festival to be rolled out by HKTB from 30 October to 8 November 2009. This is an anchor event under HKTB's marketing theme of "Hong Kong Food and Wine Year" in 2009, which rides on the growth in wine-related businesses and the publication in December 2008 of the Michelin Guide of good restaurants in Hong Kong. There will be an outdoor carnival at the West Kowloon Waterfront Promenade to showcase wines and cuisines from different parts of the world to consumers, particularly tourists; and
- (b) building on the success of the first "homegrown" international wine fair held in August 2008, TDC plans to hold a similar fair from 4 to 6 November 2009. We hope to see a larger exhibition this year, with a strong turnout of Asian buyers.

(d) Wine education and manpower training

11. The Government has been facilitating exchanges between the industry and training institutions on how best to meet manpower training needs. We have also encouraged partnership between our training institutions and the overseas ones.

12. In response to market demand, private and public training institutions are enriching/expanding wine appreciation courses and developing enhanced manpower training programmes. For example, the Vocational Training Council (VTC) is planning to launch new courses in batches from July 2009 onwards for personnel ranging from sommeliers to frontline staff in the catering industry. Depending on responses, it may roll out more wine-related modules from autumn 2009. VTC is also partnering with a few overseas institutions. Other public institutions such as the HKU School of Professional and Continuing Education and the Li Ka Shing Institute of Professional and Continuing Education of the Open University of Hong Kong, are also planning

¹ The Government is identifying suitable heritage buildings for commercial purposes, including wine-related businesses (e.g. auction, retail and wholesale, wine appreciation, food and beverage as well as storage). To test the market, the Development Bureau plans to first put out the site of Haw Par Mansion through tendering later this year, with a view to granting the tenancy in a fair and open manner. Whether the site will eventually be used for wine-related businesses would depend on market response.

new courses and considering similar partnership.

(e) Enforcement actions against wine counterfeits

13. Whilst Hong Kong has a clean record, we recognise the importance of vigilance against wine counterfeits. To enhance its enforcement capability, the Customs and Excise Department has set up a specialized investigation team, formed an alliance with the industry, and strengthened liaison with overseas enforcement agents to promote exchange of intelligence etc.

(f) Cooperation with trading partners

14. For added impetus, we have signed Memoranda of Understanding (MOUs) with various wine-producing countries² to enhance joint promotion efforts. The main areas of cooperation include promotion of wine trading, investment and wine-related tourism; provision of manpower training and education; as well as combating wine counterfeits. The Wine and Dine Festival (para. 10(a) above) and Vinitaly (para. 19 below) are some of the initiatives flowing from such cooperation.

(g) Access to the Mainland market

15. Given the growing wine market in the Mainland, we are discussing with the Mainland authorities the possibility of facilitating the clearance of wines exported from Hong Kong into the Mainland. Meanwhile, we are arranging for the Mainland authorities to brief our traders on the Mainland's new legislative requirements on food imports (including wine).

Market response

16. The market has so far responded positively to the wine duty exemption and supportive measures. Despite the financial tsunami, industry players remain cautiously optimistic about the prospects of growing demand for wine across Asia.

17. Since the duty reduction, the value of wine imports into Hong Kong has increased significantly³. Trading and distribution activities have grown.

² We have signed MOUs with France (and its Bordeaux region), Spain, Australia, Italy and Hungary.

³ In the year ending March 2009, the value of wine imports into Hong Kong amounted to \$3,198 million. The corresponding figures for 2007/08 and 2006/07 are \$1,772 million and \$947 million respectively.

Wine companies are expanding their storage facilities. Many new companies are set up for wine-related businesses. They include the first winery in Hong Kong, producing wines from imported grapes. On-line wine trading platforms are also being developed. Consumers have also benefited from lower retail prices and wider choices.

18. Notably, 14 wine auctions have been held in Hong Kong since April 2008. More are in the pipeline. Renowned auction houses are starting to hold regular wine auctions in Hong Kong. It is reported that total auction sales in Hong Kong in 2008 amounted to US\$27 million, as compared with US\$100 million in New York and US\$33 million in London. The industry is forecasting that Hong Kong might surpass London in 2009 to become the world's second largest wine auction centre, after New York.

19. Vinexpo, a renowned international wine exhibition organizer, held its third exhibition in Hong Kong in May 2008. It will return to Hong Kong again in May 2010. The organizer of Vinitaly, a leading Italian wine exhibition, is planning to stage a roadshow exhibition for the first time in Hong Kong, as part of the TDC's wine fair in November 2009.

Way Forward

20. The vibrant development of wine-related businesses over the last year or so has brought benefits to our economy, including added jobs at various levels. The industry is responding well to the business opportunities emerging across Asia. The Government will continue to work with the industry on various fronts to fortify Hong Kong's position as a regional hub for wine trading and distribution.

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