

HONG KONG OPEN FOR BUSINESS



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Dropping wine duty was only the first step in turning Hong Kong into the wine hub of Asia. The government of Hong Kong has studied the issue carefully and is about to offer a new suite of services to attract the wine trade.

Getting into the wine storage facility at Crown Cellars in Hong Kong is no easy feat. The entrance, an innocuous looking door set into a hill, is actually a heavy metal security door. Greg Deeb, general manager of Crown Cellars, tells a small group of journalists that as soon as the door is open, they have only seconds to get inside. If the door is open for too long, an alarm sounds that will bring down two rapid response police teams. The journalists scurry in.

The extreme security is understandable. Hong Kong now stores around 17% of all the rare and fine wine in the world, of which €100m worth, or 15-20%, is stored at Crown Cellars' facilities. The light inside is provided by sodium vapour lamps, because they give out no heat. Dehumidifiers keep the humidity at 78.8%, while a Siemens control panel shows that the journalists' body warmth has raised the temperature by one degree. "We are the most fanatic wine cellar in the world," says Deeb.

The high-tech care is understandable given the value of the wines here, which would be damaged if exposed to Hong Kong's heat and humidity. Hong Kong isn't, after all, a natural place for wine – except that if the Hong Kong government achieves even a fraction of the ambitious programme it's set for itself, the world's wine will soon be pouring in.

Asia's wine hub

The Hong Kong Trade Development Council's Wine and Spirits Fair in November gave officials a platform to deliver a message to the international wine trade and they lined up to take advantage of it. Over and over, they made the same point: Hong Kong is at your service.

This is not a casual offer. Many people would, by now, be aware that the Hong Kong government scrapped duty on wine in February 2008. It was the first visible sign of their intention to turn Hong Kong into the wine hub of Asia and it soon attracted the attention of the auction houses. As officials are quick to say, Hong Kong has had 18 major auctions in the past 18 months, and is now tipped to overtake London as the world's second wine auction centre, after New York. But what the Hong Kong Trade Development Council (HKTDC) is also at pains to communicate is that the government is rolling out a comprehensive suite of services targeted at the entire wine trade.

A number of government agencies are behind

the push and their collective power is formidable. The HKTDC, Invest Hong Kong and the Hong Kong Tourism Board declared 2009 as Hong Kong's year of food and wine, synchronising their promotional strategies. The result was a series of joint ventures, including a weekend Wine and Dine festival that attracted around 70,000 visitors.

As Yvonne Choi Ying-pik, permanent secretary for commerce and economic development, told a press conference, Hong Kong has "also introduced a number of supportive measures in areas such as customs facilitation, forging closer cooperation with our wine trading partners and counteracting wine counterfeits," she said. "To strengthen enforcement capacity, the department has set up a specialised investigation team and has stepped up cooperation with overseas enforcement agents, to promote an exchange of intelligence on faked wines."

Miss Choi also outlined a certification scheme for wine storage that is to come into effect by the end of 2009. "The Hong Kong Quality Assurance Agency is assisting the industry to develop this certification scheme. The agency recently visited wine storage facilities in Europe and the US, to refine the scheme to international standards and best practices."

Not only that, but Hong Kong University Space has just signed an agreement with the University of Bordeaux and will begin to offer Wine MBAs, to ensure that Hong Kong will have a ready supply of experts on hand to manage the wine business that's expected to enter the city. And that's only the start of what's being planned.

Asia's wine hub

Hong Kong's ambition is not to have wine pouring in for the benefits of its own citizens alone; at present, the city drinks 3.3L a head which, although it may rise to 5L in the next decade, is hardly enough to justify the investment in major wine infrastructure. But the government is aware that the wine world sees China as the next major market – and Hong Kong wants a piece of the business. In return, they have a lot to offer. Hong Kong is the world's major transportation hub, being one of the world's busiest ports. It's also close to China geographically, culturally and linguistically, and can offer speedy custom clearance on the borders. This is no small matter, given how onerous China's wine import procedures are and how they can apparently change on a whim.

“On the face of it, bringing product through Hong Kong adds cost,” says Brendan O’Toole, the managing partner of Summergate Fine Wines, one of the major distributors in China.

What makes Hong Kong attractive, he says, is that a Hong Kong agent could shield a producer from the difficulties of importing wine into China. The problem he sees, however, is that Hong Kong is also expensive. While O’Toole says that this isn’t such an issue for higher grades of wine, there’s currently no cost benefit for commercial or lower-priced wines entering Asia through Hong Kong, especially if the wine producers already have distributors who can negotiate customs issues for them.

But HKTDC has thought of that, as well.

The Wine Centre

Anthony Wong rolls out architectural drawings at the slightest provocation, discussing issues like square feet and booth size with great enthusiasm. Wong is the general manager of what is going to be the Hong Kong Wine Centre, a major piece of wine infrastructure.

“We are going to develop the whole 13 floors,” he says, pointing at the drafts. “Each storey is about 100,000 square feet, but in the first phase we will develop 40,000 square feet.”

The Wine Centre is not going to be some tourist attraction, like London’s Vinopolis, but a place of business where small and medium sized wineries from around the world will want to come. Wong explains that when the government considered its wine hub plans, they looked carefully at everything Hong Kong could offer a global industry: “In terms of logistics there are no problems,” says Wong, ticking off the city’s strengths. “We’re an open city. Legal is OK. Finance is OK. Language is no problem.”

So far so good. But then the problem became clear – economies of scale. Although big multinational brands may dominate the supermarket aisles, a significant portion of the world’s wine producers are small players – people who don’t have large marketing, strategic and logistics budgets, who will struggle to access the global market. The same people will, unfortunately, also struggle to pay for Hong Kong hotel rooms, storage facilities and so on, unless they’re backed by an unusually

effective trade body or other organisation. But the Hong Kong Wine Centre has been conceived precisely to tackle this problem head on.

The idea is that the Wine Centre will be a permanent wine exhibition, divided into zones. One zone, for example, might be for distributors with multi-national portfolios. Another might be the New Zealand zone, or the French zone, or the Indian zone. Each individual company will have its own space, which will be about the size of a decent trade fair booth, and come fully equipped. “We consider it’s more or less space for the winery to showcase ten of their wines,” says Wong. “They will have glasses, storage, a cabinet, a working table, broadband, telephone... everything.”

Buyers, distributors and importers can stroll the Wine Centre, tasting wines they might never otherwise see, the whole world laid out in front of them. In this way, small and medium sized businesses can get some level of access to the market.

That’s phase one. In phase two, the Wine Centre will be a constant hub of activity, with non-stop wine tastings, seminars, corporate functions, and even fashion and jewellery shows involving wine. “Every night we will have wine tastings, wine school, talks...” says Wong.

The audience for all this activity will not be the people who actually live in Hong Kong. In fact, they will not have access to the Centre, except for special functions or promotions, because the Wine Centre doesn’t want to undermine local wine retailers. But tourists from other parts of Asia, particularly China, will be most welcome. “They will have special preferential treatment,” says Wong. “We want to turn Hong Kong into a place where most of the commercial wine into Asia will come. It will be consolidated and centralised here and then traded throughout Asia. How to make it happen? This Centre is one of the driving forces.”

Wong says the Wine Centre will also offer a series of support services for wine producers who want to import into China. “If you bring your whole container here, we can help you temporarily store it in some bonded warehouses across the border, where the cost is very minimal. Since it’s bonded, we don’t have to pay tax and we can easily move it back here.” Wong, who

has a background in logistics, says that Hong Kong’s superb capabilities can help the wine trade get through China’s labyrinthine customs and labelling procedures. “We know the customs officers very well and we can comply with everything,” says Wong. He says that the Hong Kong authorities are now so versed in what is required to get wine into China, they are actually training some of the Chinese customs officers in the correct procedures for importing wine.

The potential fly in this ointment is, of course, China itself. If China were ever to take the wine trade seriously and start providing storage and other services, there would be little need for the world to beat a path to its door through Hong Kong. However, that’s unlikely to happen, a number of commentators say, simply because nobody can imagine the Chinese government streamlining its bureaucracy any time soon.

Just what does Hong Kong get out of all this activity? Having dropped the wine duty, they’re not making money on the wine that enters the city. Officials say they want to burnish the image of Hong Kong, and food and wine is one way to do that. More seriously, Hong Kong’s ports have laid off staff and cancelled new construction projects, as shipping volumes fall. Having the world’s wine arriving on the wharves could only be a good thing.

The future

So how effective were the HKTDC’s efforts at the Wine and Spirit Fair? A look at the stands suggested they had attracted more minor and lesser-known labels than big, well-known wines, though the fair has doubled in size since last year. A quick straw poll of exhibitors also suggested that HKTDC needs to do more to qualify the buyers it allows in – exhibitors complained of buyers who seemed to know little about wine, looking for product at unfeasibly low costs.

But these are, probably, teething problems. The government seems to have thought more clearly about the way the global trade works than many who have been working in wine their whole lives. If even part of their rhetoric becomes reality, then it’s likely that the power brokers and style setters of the future will not come from the USA or the UK, but from this very dynamic city. ■