

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

**THE WALL STREET JOURNAL.**

WSJ.com

DECEMBER 3, 2009

# Wealthy Chinese Make Hong Kong a New Wine Hub

*Surge in Demand and Elimination of Duties Make for a Heady Market Where Chateau Lafite Rothschild Is King*

By LAURA SANTINI

HONG KONG—One of this city's hottest businesses these days is located inside the cool, climate-controlled confines of former World War II military bunker on the south side of Hong Kong island.

There, in a 6,000-square-foot space that offers some of the best cellaring conditions in Hong Kong, Gregory De'Eb shelters expensive wines from the semitropical climate for a rapidly expanding clientele of oenophiles from Hong Kong, mainland China and elsewhere in Asia. At around 27,000 cases, his storage facilities are filled to capacity.

"The past four months have been bigger than we ever expected," says Mr. De'Eb, a former South African diplomat.

Surging demand for quality wine from China's newly rich, combined with the recent elimination of all wine duties in this bastion of free trade, is transforming Hong Kong into a global hub for wine trading and distribution.

Wine imports to Hong Kong jumped more than 34% to 32.5 million liters in the year ended March 31. Wine sellers and collectors say that inflow is coming from several sources—longtime Asian collectors who are moving their wines closer to home, wine sellers who have recently set up shop in the city and buyers who are simply taking advantage of the no-tax policy to ship a broader array of wines home from overseas.

Sales at Hong Kong wine auctions have reached US\$47.2 million so far this year, a 75% increase from all of 2008, according to government data. Sotheby's, which held an US\$8 million wine auction here in October, says the city has now surpassed London and New York as its most important market, owing to the city's potential for further growth. On Tuesday, a Korean company is planning to launch a fund for Hong Kong investors focused on investment-grade wines.

Overall, London remains a larger market than Hong Kong in terms of dollar sales, says Nick Pegna, a Hong Kong-based managing director for the British wine merchant Berry Bros. & Rudd. But some sales counted in London are actually for clients in Hong Kong, he says. Hong Kong now accounts for nearly 35% of Berry Bros. sales versus about 25% two years ago, he says. Berry Bros.' customers include Hong Kong residents, mainland Chinese and a smaller group of other Asian who may be storing their wines in Hong Kong to avoid taxes at home.

Driving Hong Kong wine sales is a law enacted early last year wiping out a 40% tax on wine imports, after a reduction from an 80% duty a year earlier. Mainland China, by contrast, levies a 48% tax on wine imports, and all other Asian countries impose duties of some kind.

While the biggest impact of the no-tax policy has been on the fine-wine market, in dollar terms, Hong Kong consumers at the low end of the market are also discovering they have greater access. In supermarkets, for instance, wine consumers are seeing "a larger selection at much better prices than two years ago," says Jeannie Cho Lee, a collector and wine writer.

Yvonne Choi, Hong Kong's secretary for commerce and economic development, says economic benefits reaped from eliminating the tax have far exceeded the lost revenue, which for the 2006 fiscal year, amounted to US\$57 million.

Hong Kong's government, meanwhile, is in preliminary discussions with mainland Chinese officials on a wine agreement aimed at improving cross-border trading, says Ms. Choi, declining to disclose details.

Mainland Chinese buyers are taking advantage of Hong Kong's tax policy. On a recent visit to France, Beijing-based lawyer Jingzhou Tao shipped a couple of cases of Bordeaux to a friend in Hong Kong. Mr. Tao says that on regular visits to the city-state, he carries a couple of bottles home with him over the border.

He says he is currently digging an underground storage facility in his villa in Beijing, which will hold around 1,000 bottles.

"I find it easier to buy from Hong Kong now because I don't have to ship," says Gary Lock, another Chinese collector in Shanghai. He either drinks his wine in Hong Kong or hand carries bottles across the border.

Customs officials generally allow people to carry a couple of bottles for personal use over the border, and the practice among mainland Chinese is becoming more widespread. Sean Robson, buying manager at upscale market Oliver's, says that he sometimes sees wealthy Chinese customers show up in groups that may include drivers and domestic workers, so that each person can carry a bag containing a couple of bottles of fine wine.

For wine veterans, the exorbitant prices fetched at some recent auctions show that mainland buyers are still beginners in understanding the wine market. "Sometimes they pay a higher price than what you see at local wine stores," says George Tong, a 46-year-old collector from Hong Kong, especially for what he calls "show-off" wines.

The king of show-off wines in China is Chateau Lafite Rothschild, and the 1982 vintage—which typically sells for about US\$5,000 in Hong Kong—is considered the one to go for when sealing a deal with business associates or government officials, says Mr. Tong, who travels to the mainland frequently on behalf of the toy trading company he works for.

In a sign of its cachet, thieves stole 228 bottles of 1982 Lafite valued at US\$877,000 in November, Hong Kong police said. The bottles were being stored in a warehouse in an area of the territory that abuts mainland China. Investigators say they are asking customs officials to look out for smugglers trying to carry the booty across the border.

As with luxury handbags and watches, counterfeit wines in China represent a big challenge. In wine circles here it is often said that there is more 1982 Lafite in China than was ever produced that year in France.

In Hong Kong, longtime collectors are availing themselves of the no-tax policy by moving their wines closer to home, rather than storing them in London or New York. "Everyone is doing that now," says Ms. Lee.

Possible evidence of this is that the U.K., hardly a country known for wine production, is now the second-largest wine exporter to Hong Kong after France, according to the U.S. Agricultural Trade Office. Australia and the U.S. rank third and fourth, respectively.

The locals are also enjoying an uptick in auctions, tastings and other wine-related events. "It goes very well with Hong Kong's free-market, laissez-faire spirit," says one 57-year-old collector sitting with a group of friends at a Zachys auction last month.

In a few hours, the collector snapped up cases of French Burgundy, Rhone Valley reds, and an Italian Barolo, shelling out HK\$354,0000 (about \$46,000).

For collectors here, one drawback is the dearth of storage space. Ms. Choi says the government has cleared several vacant factories and other industrial buildings for use as wine storage sites and plans to auction those sites by the end of the year. Mr. De'Eb says that plans are under way for a larger space for wine storage at the former bunker, where a hodgepodge of Hong Kong Chinese, British, Indian and Canadian soldiers surrendered the island to the Japanese in 1941. In September, his company, Crown Wine Cellars, finished construction of a new wine storage warehouse. It is the first phase of a facility near the mainland border that eventually will be able to hold 300,000 cases.

—Juliet Ye contributed to this article.

**Write to** Laura Santini at [laura.santini@wsj.com](mailto:laura.santini@wsj.com)

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved  
This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our  
For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1  
[www.djreprints.com](http://www.djreprints.com)