

 Week in China

# The Little Red Book

A guide to how China is reshaping  
the global wine industry

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## Red dawn

**H**ere's something that the French probably don't want you to know: they like Big Macs so much that France is the second-most profitable market for McDonald's after the United States. That might sound unlikely, but McDonald's sales there look like being the best ever this year, as well.

In January France's bon viveur image took another knock following news that China had overtaken it as the largest consumer of red wine, quaffing almost 1.9 billion bottles in 2013 (the French drank 1.8 billion bottles).

That marked a 136% increase from five years ago, with red wine consumption almost tripling in China in the six years from 2007, while it decreased 18% in France.

No doubt French nationals will be keen to point out that – on an individual basis – they are still drinking more than 30 times as much wine as their Chinese counterparts.

But ranked by total consumption China came out top, which isn't bad for a country once reputed to know so little about wine that its shiny-suited businessmen mixed their Lafite with lemonade almost as a matter of course.

That kind of behaviour is largely consigned to the past. China's top tipplers are growing more sophisticated, and are as likely to be glimpsed bidding for Bordeaux's top wines at auctions in Hong Kong, assembling a first class selection of first growths in their cellars in Beijing, or even buying a chateau in Burgundy.

How is China becoming more influential in the world of wine and what does it mean for everyone else? *The Little Red Book* is designed as an introduction to some of the main questions about China's changing view of wine, as well as the likely impact it's set to have on the global wine market.

**1.9 billion**

Bottles of red wine drunk  
by the Chinese in 2013



Photo Source: Janis Mijlavs

Home with the harvest: a grape farmer from Yunnan

On a per capita basis the Chinese drink very little. Uncorking a few more bottles each year would be a massive fillip for wine professionals everywhere, boosting vineyards and wineries, as well as the coterie of middlemen and merchants that support them.

On the other hand, there is a sense of unease about some of China's newfound interest in wine, not least from lovers of the finer vintages who fear that they are going to be priced out of the best bottles forever.

Many long-term clients of Bordeaux from Europe and North America were forced out of the market in 2009 and 2010 by escalating prices, for instance, or found out to their fury that their usual allocations had been diverted eastwards to higher-bidders from Hong Kong and China.

Now that Bordeaux's bull market seems to have run its course it's the Burgundy lovers who are

complaining about overheating prices. And again, it is new interest from China that is often cited as the culprit.

And it's not just the customers for wine that are worried. In France there is grumbling about its wine country being snapped up too, with chateaux and vineyards sold to Chinese buyers.

By mid-2011 the prices for investment grade wine were sky-high. Then the market suddenly lost its fizz and prices have fallen dramatically in the years since. So in the first section of *The Little Red Book* we look in more detail at the anatomy of the wine boom and whether Chinese demand was really to blame for the hike in prices.

How about Chinese demand when it comes to buying wine for actual consumption? Could it go the same way as with the 'investment' world of wine, where Chinese buyers have been blamed for the rapid run up in prices?

The disruptive effect of changes in supply and demand even led to panic stories in the press last year, following a report by an investment bank seeming to indicate a looming wine shortage (although much of its analysis was pooh-poohed in the following months).

So in section two of the publication we discuss the Chinese palate and look at which types of wine look most likely to benefit from growing sales in China.

Finally, we turn to a lesser-known aspect of China's contribution to the wine world – the fact that it is already the fifth largest winemaker and still growing fast. In the third section of *The Little Red Book* we talk to insiders in some of China's winegrowing provinces and we look at some of the key challenges that its domestic producers face as they seek to compete against Old and New World imports. ■

## The history of wine in China

Traditionally, *mijiu* or "yellow wine" was made in China from sticky rice, yeast and water rather than grape, which is why the Chinese refer to wine today as *putaojiu* or 'grape wine'

This traditional rice wine is different to harder-hitting local booze like *baijiu*, which is made of sorghum, corn or barley, but sometimes translated incorrectly into English as 'white wine' rather than its truer description as white spirits.

But grape wines have a history in China dating back to the Han Dynasty. Production probably started in present-day Xinjiang or Gansu, where the locals learned their techniques from the Persians. Grape wine was more of a luxury good, enjoyed by the wealthy. Hence Cao Pi, who ruled the state of Wei during the Three Kingdoms period, praised it as "sweeter than the wine made [from cereals] using ferments and sprouted grain".

Importantly it gave him less of a hangover too. "One recovers from it more easily when one has taken too much," he noted appreciatively.

The difficulty for China's winemakers was that grapes are more seasonal than other crops and they do not retain their freshness for long.

So wine production didn't really take-off until the end of the nineteenth century, when European missionaries brought seedlings and new winemaking technology to China.

In 1892 an ethnic Chinese from Indonesia called Zhang Bishi started the Changyu wine company in Shandong, employing the Austrian consul as his winemaker. Other wineries were established in the years after, mostly to supply the foreign communities living in the main Chinese cities. It wasn't until the late 1990s that wine volumes grew significantly again, following a government campaign to reduce consumption of cereal-based spirits (not just for the health benefits, but also to reduce the pressure on the grain supply). More than a hundred new wineries opened between 1996 and 2004, ushering in the modern era of China's wine production. ■



Cao Pi: wine lover



# 1 China's bubbly returns

Photo Source: Janis Miglars

Jade Valley vineyard  
in Shaanxi



# A taste for wine investment



Christie's employees take notes during the auction of six bottles of 1999 Domaine de la Romanée-Conti in Hong Kong

**D**ecent wine doesn't need signs to be hung out (好酒不用掛招牌) is a Chinese idiom with a simple message: if something is good enough, it will sell on its own account.

Four years ago the proverb seemed to ring especially true in Hong Kong, the heart of the global boom in fine wine. The city's wine shops buzzed with visitors, its auction houses were announcing new records for wine sales almost by the week, and hundreds of new salespeople took up jobs in

the wine trade, hoping to profit as the market hit unprecedented highs.

Today the picture is more subdued. The wine trade is busy supplying its current clients and trying to win new ones. But there is far less of the exuberance that characterised the peaks of the market a few years ago. Instead, the talk is more about the next phase of the cycle, and how interest in fine wine in Asia is going to broaden, especially in China.

Below, WiC pieces together the story of Asia's wine boom – the build-up, the peak, and eventually the bust (for some of its more unfortunate participants) – including the inside view from four Hong Kong-based wine merchants who witnessed it firsthand.

## Poised for take off

Hong Kong was the place that many rich Chinese developed their interest for the wine world and it

continues to play that role today. So says Paulo Pong, who started Altaya Group – “a fax machine and me” – in the city in 2001. He built his business through word-of-mouth and his clients were Hong Kong-based for the first few years. It wasn’t until 2005 that customers from mainland China started to feature as private clients.

Other merchants tell a similar story. “It was mostly discerning Hong Kong drinkers setting the pace back then, even if there was a sense that more people from China would soon start buying,” says James Owen from Kerry Wines, who arrived in Hong Kong in 2003.

By 2005 interest from China was starting to pick up, bolstered by burgeoning income among wealthier Chinese and the growing numbers of mainland visitors arriving in Hong Kong for shopping, dining and entertainment.

Wine knowledge was limited among the newcomers and it was price, rather than personal preference, that defined what they wanted to buy.

“It was so strange at first,” Owen recalls. “Customers from China were turning up at shops with Samsonite suitcases and cleaning out the shelves. It was only the best stock that they wanted. Most of them didn’t have much idea of what they were buying. They just grabbed the most expensive bottles.”

Returns from investment in fine wine have averaged about 10% a year over the last quarter of a century. But new interest from emerging markets has supercharged prices over shorter periods. Until the 1960s virtually all of the best Bordeaux was bought and consumed in Europe, for instance, but new demand from the United States fuelled a six-fold jump in prices in the 15 years to 1975. Next it was excitement in Japan that buoyed sentiment, stirring the market from the late 1980s through to an eventual crash in 1998.

A key moment in the recent run-up in prices was Hong Kong’s decision to abolish wine duty in 2008. Buying and drinking wine in the city suddenly became much cheaper than elsewhere. Customers from China came to Hong Kong in greater



Chinese visitors sample wine during the Vinexpo Asia-Pacific in Hong Kong

numbers, not only because they were more comfortable with the provenance of the bottles sold there, but also because zero-duty meant they could dodge high taxes at home, at least in their initial purchases.

Over the next three years the Hong Kong wine market grew rapidly, with imports increasing from 32.4 million litres in 2009 to 47.3 million litres in 2013. Sales of \$491 million were achieved in 2009, only to hit a record high of \$1.2 billion two years later, before dropping back to \$966 million last year.

These figures probably understate the true growth in the market. That’s because much of the fine wine bought by customers in Hong

Kong was sold under bond and stored in warehouses in Europe, primarily in the United Kingdom. Even so, the spike in activity in Hong Kong was significant. Altaya’s business increased by a factor of 3 in the months after duty was removed, Pong acknowledges, although he believes that much of the boom would have happened anyway because of Hong Kong’s importance to the Chinese business world. Bosses from the mainland come to the city for advice from professional services firms or because they want to IPO their companies on the local stock market, he says. When they visit, they want to taste fine wine: “Hong Kong has served as their stepping stone into the world of wine”.



## The boom begins

Owen points to the 2005 en primeur release, which was sold in 2006, as one of the sparks for the most frenetic phase of the boom, after Robert Parker, the wine critic, gave huge scores to some of the wine on offer.

“The impact was dramatic. The 2004 Lafite had been priced at £990 a case, but suddenly the 2005 was selling for £4,000.”

In fact, interest from Hong Kong and China was credited with keeping the market going through a brief trough following the collapse of Lehman Brothers in 2008. By the following year trading activity was hectic and prices kept on going up. In 2010 some of the most favoured vintages shot up in value by as much as 40%.

Quite how much it was Chinese demand driving this surge is open to debate.

“A lot of the action was coming from buyers in Europe and the United States,” suggests Adam Bilbey, sales director for Berry Bros. & Rudd in Hong Kong. “People were speculating on what they were hearing about this new obsession with fine wine in China. Yes, some Chinese traders were buying stock and more wine was being given as gifts. But it was harder to know how much was being drunk or who was drinking it. That didn’t seem to matter because sentiment was so bullish.”

Doug Rumsam, managing director at Bordeaux Index in Hong Kong, agrees that calculating demand for investment grade wine in China is a challenge. But by his reckoning a small group of mainland traders bought €10 million worth of stock in 2008 and did well enough from their investments to spend the same again the following year. Most of the other speculators from China arrived later in the cycle, however, when prices were showing signs of wobbling. Rumsam also wonders whether demand was quite as deep as many thought at the time. His own estimate is that there were about 30 traders taking positions before prices peaked, with a similar number of private individuals spending a little less (up to €5 million



James Owen  
Kerry Wines

## Crossing the border

Is Hong Kong a smugglers’ paradise? That’s the belief of some of the city’s local media, which has written extensively on cross-border contraband in items as diverse as milk powder, iPhones and crocodile meat.

In November last year the press picked up the story of a Hong Kong man caught with 15 luxury watches wrapped around his ankles as he crossed the border into Shenzhen. The brands were worth Rmb2.38 million (about \$381,000, collectively, which amounted to tax evasion of Rmb710,000) and with 48% tax levied on foreign wine brought into China, some try to dodge the duty there too, often by paying local pensioners to carry a few bottles a time across the border. A two-year crackdown on parallel trading from Hong Kong led to the arrests of 1,485 people from the mainland, the Southern Metropolis Daily reported in July, although it didn’t say how many of the culprits were smuggling wine.

Because of the costs and complications of sending wine directly into China, most of Hong Kong’s merchants prefer not to handle cross-border shipments. Imports crossing the border legally into China face one more headache: a couple of bottles in each consignment is confiscated by customs officials. Formally, this is for health-and-safety tests, the merchants explain, although they admit that they don’t really know where the bottles end up.

Although this might be bearable for imports of larger blocks of cheaper wine, it is infuriating for owners of the most expensive shipments. The samples are generally taken in the same quantity whatever the lot size, so shippers of tiny but top-notch consignments can still expect to lose expensive stock to the health-and-safety testers – making the whole exercise uneconomic.

No wonder, perhaps, that Hong Kong’s border crossings are often clogged with pensioners pulling large trolleys of groceries into China... ■



Chinese visitors from Shenzhen line up at the Hong Kong border

Photo Source: Reuters



Adam Bilbey  
Berry Bros. & Rudd

each a year, he says). In addition, a larger number of customers were buying smaller consignments for giving to clients or friends.

The chronology of the market downturn three years ago was also revealing, Rumsam says, as there was a time lag between the first signs that the Chinese were balking at high prices and the wider downturn in sentiment, which didn't come until later in the year. "That's because global investors kept on punting until the autumn," he believes. "They didn't realise until later that year that the market in China had run out of steam."

### Lafite in the lead

None of the top Bordeaux producers rode the rollercoaster faster or higher than Chateau Lafite Rothschild, almost universally regarded as the king of first growths in China.

Respect for Lafite in Asia goes back some time, according to Fongyee Walker, Master of Wine and founder of Beijing-based wine consultancy Dragon Phoenix. Interviewed for *Red Obsession* – last year's documentary about the love affair between Bordeaux and Chinese wine fans – Walker gave the Hong Kong gangster movies of the 1990s as evidence: "Anything less than Lafite '82 is garbage!" a mobster screams at a rival triad in one of the references to the legendary label.

In fact, Lafite traded at similar prices to its peers Haut Brion, Latour, Margaux and Mouton until the market started to steam ahead in the summer of 2005. Demand from Asia then helped the gap grow to 60% by July 2009 and 120% by May 2010. The premium peaked at 130% in November that year, when Lafite was accounting for more than half of the weekly turnover on Liv-ex, a global trading platform for fine wine sales.

Why precisely Lafite was such a hit with the Chinese is unclear, although Jancis Robinson, wine columnist at the Financial Times, has said that it can't have been much to do with the taste. It was "torture to drink with most of the food served in China", she thought, and its "very dry, al-



An auction lot of Chateau Lafite Rothschild

most austere, racy style" was "particularly difficult for newcomers".

One suggestion about Lafite's popularity is that it is easier to pronounce than the other first growths or even that it might have benefited from its prime position at the head of the classification system ordered by Napoleon III for the best Bordeaux wine in 1855.

A further view is that Lafite was ahead of the

rest in promoting its products, despite the eye-popping prices. Sales of the chateau's second wine, Carruades de Lafite (popularly known as Little Lafite in China), also exploded during the boom, increasing tenfold, while Chateau Duhart-Milon, a fourth growth produced by the same house, saw its prices more than double.

Legende – a range of more basic Bordeaux – has also sold well in China because of its associa-



tion with the fabled French chateau.

But Bilbey from Berry Bros. & Rudd wonders if Lafite's success isn't explained rather more simply – that it prospered in China by getting in first.

“When I started out in the wine industry Lafite wasn't much more expensive than the other first growths,” he recalls. “Nor was it ahead in quality terms, with Latour generally regarded as the best

first growth. But it was more easily available when importers from Hong Kong and China started making larger orders of fine wine for the first time. Prices went up quickly. Then the legend became self-perpetuating because newer investors associated the highest prices with the highest quality. Lafite set the standard. The others were a little later to the party.”

That party would reach its height in October 2010 when chateau bosses announced that bottles of 2008 Lafite would feature the Chinese symbol for the figure eight, which is believed in China to denote good fortune. Investors swooned and prices increased by almost a fifth on Liv-ex within a few days.

Less than week later the euphoria was even

**“It was the  
perfect storm”**

Paulo Pong  
Altaya Group



China's President Xi Jinping (pictured centre) tastes French wine at the town hall in Lyon earlier this year

Photo Source: Reuters



Doug Rumsam  
Bordeaux Index

more palpable at an auction of a collection of Lafite spanning more than a hundred years in Hong Kong. The sale raised almost \$8.5 million or four times the anticipated reserve. Among the haul was the 2009 vintage, which was yet to be bottled but available on the London wholesale market for about £12,000 a case. That night in Hong Kong, it sold for more than £32,000.

### Then, the bust

The first signs that the fever for first growths was lifting came in mid-2010. In early summer the most sought-after producers from Bordeaux release their prices for en primeur (or wine sold as futures before it is bottled). En primeur sales the year before had set records as the highest grossing in Bordeaux's history. But in 2010 the prices were up again, sometimes by as much as 40%.

The Bordelais argued that this was another vintage of a lifetime, which justified another price hike. But customers started to show resistance, asking why they should pay so much for still-in-the-barrel 2009s when older bottles of excellent quality were available at much lower prices.

Perhaps the hope was that China's wine cognoscenti wouldn't ask the same questions, snapping up stock that went unwanted elsewhere. If so, the Bordelais had misjudged the mood. Brokers soon reported that Chinese investors were unwilling to pay so much for the new releases, especially newer customers unfamiliar with having to wait almost two years for delivery of their orders.

"It was the perfect storm," Pong says. "There was a slowdown in the Chinese economy, the mispricing of the en primeur, and the general loss of interest in younger wine from Bordeaux."

Prices for investment grade wine then went into extended decline, dropping by 15% in 2011 and another 12% the following year. Last year they stabilised a little, declining just 1.4%. This year they have headed south again, hastened by panic selling from wine funds (launched during the

boom years but now sitting on substantial losses). This summer a wine fund backed with South Korean money threw in its cards, dumping its remaining inventory. These fire sales set new benchmarks in the wider market, the merchants complain, forcing prices down steeply.

With little sign of resurgence in demand from Asian buyers, prices may need to fall further un-

til 'old market' customers in Europe and North America show interest once again. The industry will also have to work its way through the stock held by those remaining speculators who can still afford to wait for better conditions. Much of this overhang was bought by Chinese investors at the height of the market and is sitting in Hong Kong and the UK.

### Label conscious consumers

Grand-Puy-Lacoste is on alligator alert after reports that sales in China have suffered because of its reputation as 'the crocodile wine'. Consumers have been confusing the wine producer with the sportswear firm Lacoste, it seems.

With so many wineries trying to break into the market, labels will take any advantage they can get to stand out from the crowd. Calons-Ségur is called "flying dragon wine" in China, apparently because of the similar sound to "tianlong" or celestial dragon, while Château Beychevelle is known as 'dragon boat wine', benefiting from the prominent Viking ship on its label.

Lynch-Bages, one of the first Bordeaux estates to export to Hong Kong, built up its initial following after going onto the wine list at the territory's airline, Cathay Pacific. But its owner Jean-Michel Cazes also took advice in choosing a Chinese name for his label, opting for Lan Chi Pat, the name of a Cantonese opera singer. "As luck would have it, the pronunciation is very similar to the French for Lynch-Bages", he told wine writer Ch'ng Poh Tiong.

In fact, most of the leading chateaux have alternate names in Chinese, albeit unofficial ones (Lafite Rothschild is Lai-fat, which means "come get rich"). Two years ago auction house Christie's tried to standardise proceedings with a listing that matched the 62 most prestigious vineyards with given Chinese names. But it didn't catch on because the chateaux themselves didn't approve of the translations.





The en primeur market is dead for the foreseeable future, the merchants think, because the price increases in 2009 and 2010 left too little on the table for the trade and its clients. Of course, the slump in prices has been a chastening experience in its own right. "It has been very damaging for Bordeaux," says Rumsam. "By the beginning of this year some of the first growths were down 30% or 40%. Some of the Lafite was off by 60%. And unlike investors from other parts of the world, most of the Chinese haven't experienced many good times in the market. All they have known is pain! It's going to take time to regain their confidence."

### What happens next?

The longer-term trend is towards a more diverse market for fine wine. Liv-ex data already suggests this. It compiled a list of the most-viewed brands (based on page clicks) on its trading platform during the five months before the market peaked three years ago. The ranking was dominated by wine from Bordeaux, with Domaine de la Romanée-Conti, Burgundy's leading label, and Sassicaia, one of the Super Tuscans, the only outsiders. When the same list was compiled again between January and June this year, the picture was different. The five Premier Cru were still the most viewed wines (with Lafite holding on to top spot) but a group of non-Bordeaux brands was starting to feature too, with six climbing into the top 50.

Cristal, Masseto and Guigal were new additions; Sassicaia was the 28th most viewed wine compared to 44th in 2011; and Domaine de la Romanée-Conti had moved up into the top 10.

Bordeaux's travails need to be kept in perspective, mind you. The region's wine is still the overwhelming choice for most fine wine lovers and investors (in July this year it still accounted for a little over 76% of monthly sales on Liv-ex). But that is down more than 10% on the peak. And because wine from Bordeaux constitutes so much of



Photo Source: Reuters

### The nose have it: with growing interest there has been an increase in wine 'education'

the secondary trading in the market, it is inevitable that its declining popularity is going to spur interest in other parts of the wine world.

Anecdotal evidence from the Hong Kong wine merchants is that this wider interest is a marked feature of the new landscape. Demand for top-end Burgundy has been one of the most prominent themes, while investors have also been broadening their portfolios by adding the Super Tuscans from Italy, as well as some of the more iconic New World wines.

"Italy is going to have a bigger say because it has great wines and a good story to tell," Bilbey be-

lieves. "So expect more interest in brands like Sassicaia and Tiganello. But blue chip wine from other markets is popular too, like Penfolds from Australia and Harlan Estates from the United States. The trend is that clients are readier to look beyond Bordeaux but that they still want to buy 'best-in-class'."

Owen from Kerry Wines says there is burgeoning interest in high-quality wine just below the top tier, reporting solid sales of New World labels like Penfolds Bin 707, Opus One and Almaviva to Chinese clients, and that more customers are buying wine to drink rather than as

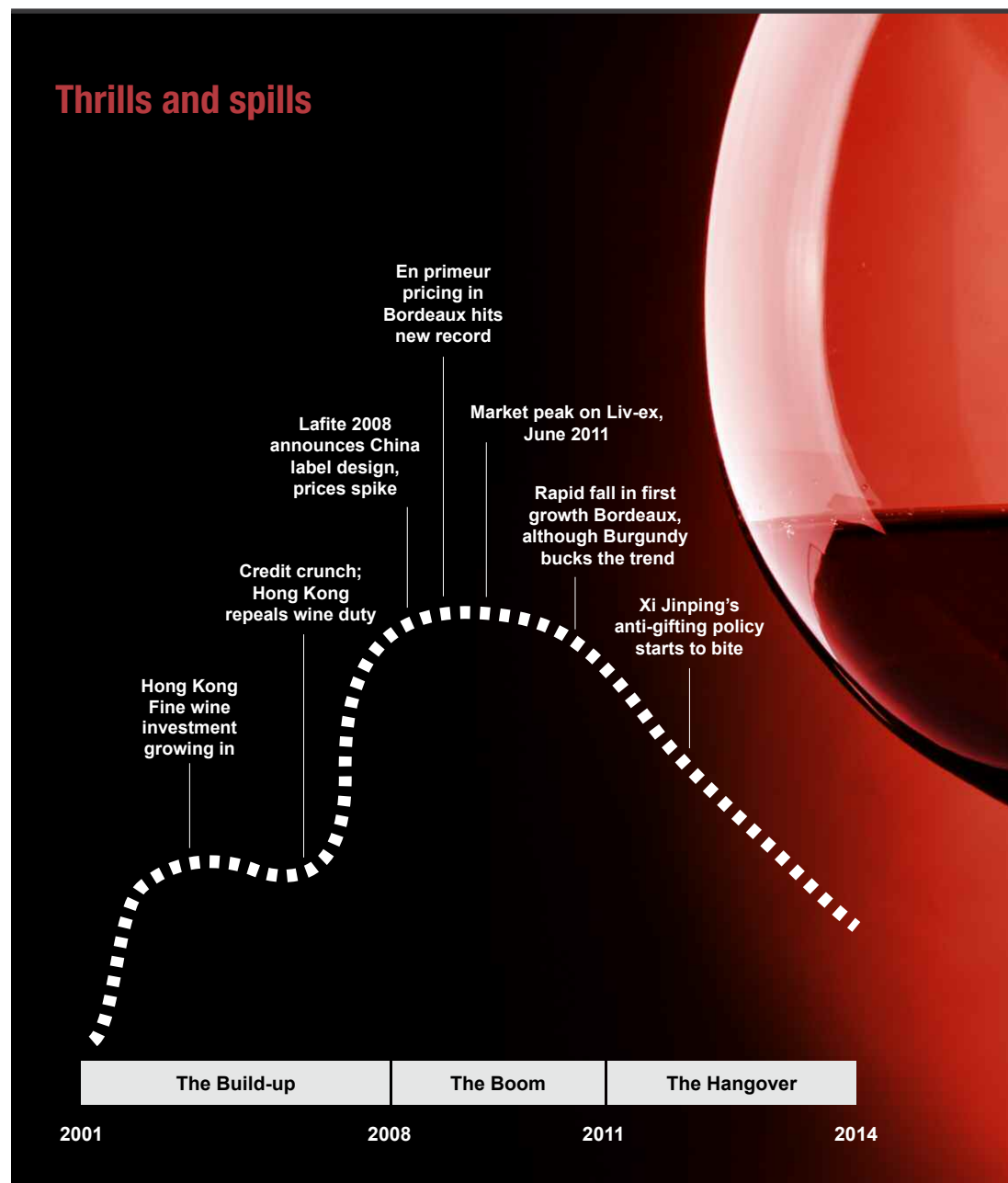
a longer-term investment too, something that he sees as “very positive” for business.

This ‘buy to drink’ mentality is crucial for the development of a longer-term, sustainable market across Greater China, the other merchants agree. They admit it’s exhilarating to sell hugely expensive consignments to a small number of super-rich clients. But the future of wine in the region is as a market in which a larger number of customers enjoy a more diverse wine selection across a broader range of prices.

But will that really happen when dollar signs are more important in determining how customers respond to a wine than whether they actually like it? Blind tastings are still unpopular with many clients, the merchants admit, because customers are reluctant to offer their view until they know how much the wine costs. Perhaps the growing number of female wine fans will help in changing attitudes, Rumsam hopes, because women seem more open to choosing wine that they actually like, and less swayed by reputation (“More about taste than face” is how he describes it).

Paulo Pong agrees that there’s no doubt that Chinese wine fans are becoming better informed. They also want to learn quickly, with an impressive range of tasting going on in Hong Kong. Most customers are ready to spend at least HK\$2,000 a bottle (\$260) to speed up their education. “These guys aren’t millionaires, they just want to learn fast,” he explains.

The culture of ‘face’ in Asia contributes to this trend, of course, because the locals want to impress friends and colleagues with the quality of wine being offered. Wine buffs are already trying varietals and vintages that more experienced oenophiles from other parts of the world only dream about. That means that many of the Chinese are going about their education in a different way to beginners in other countries, Pong says. “Many of them are learning ‘top-down,’” he explains. “They are starting with the most expensive wine and then broadening their interest from there.” ■





3%

Percentage of France's  
wine output that comes  
from Burgundy

## Is Burgundy next?

While prices have been dipping for the leading wines from Bordeaux, the mood has been brighter for many of the better-known vineyards from Burgundy. Prices of some of the best labels have surged, topping the charts at auctions in Hong Kong. Top tier producer Domaine de la Romanée-Conti (DRC) has even replaced Lafite as the must-have label as far as many aspiring collectors are concerned.

Exports to China and Hong Kong are up six-fold since 2007, according to BIVB, Burgundy's wine producer association, which identifies both markets as the "new engine" for sales of wine from the region.

Burgundy is a much smaller wine producer than Bordeaux, representing just 3% of French wine production. While Bordeaux's wine tends to come from larger estates, most of the domaines in Burgundy are much smaller. Lafite produced 25,000 cases of its famous 1982 vintage, for instance. But DRC rarely releases more than 7,000 cases a year – and fewer than 500 of its most treasured Romanée-Conti range.

That makes the market dynamics different for Burgundy, with the smaller supply pushing the best wine towards the higher-end of the market. Chinese investors are already impressed by its scarcity value, hoping that it confers more cachet than Bordeaux. But limited harvests in 2012 and 2013 have also prompted anxiety that Burgundy might go the way of Bordeaux in demanding astronomical prices, especially if the new interest from Asia persists.

"Burgundy is the obvious next stop on the Chinese wine route," Jancis Robinson, the wine critic, has warned, calling it "a truly terrifying



A bottle of Domaine Romanée Conti (DRC)

prospect for those who already have difficulty securing allocations from this extremely small fine wine region."

Burgundy's bosses say they have learned lessons from the difficulties of the Bordeaux producers, who lost many of their traditional clients after prices surged after 2005, but have suffered from waning interest from newer customers since the bubble burst in 2011.

Pierre-Henry Gagey, president of the Burgundy Wine Council, told journalists two years ago that the region plans to take a more 'prudent' approach to sales in Asia. "We believe in a deliberate devel-

opment of the market; we do not want to follow the Bordeaux example," he insisted. "We are not here to rob Peter to pay Paul."

All the same, demand for the top wines from the region has continued to grow, with prices rising at auction and in the secondary market. Speculative interest in last year's vintage also led to expressions of concern from some of the region's producers. "I am very strongly against it. It's stupid. It's a bubble. And all bubbles burst," warned Jean-Charles le Bault de la Morinière, owner of Corton-Charlemagne, a grand cru producer.

Photo Source: Reuters



## 2 A matter of taste

Photo Source: Jans Mijlans

The village of Beng in Yunnan provides grapes to the Shangri-La Winery



# Which wines appeal to a Chinese palate?

**“In general, the Chinese prefer wines with a fuller flavour”**

Alun Griffiths, MW



Photo Source: Janis Miglavs

The hopes of the world's vineyards rest with the responses of Chinese drinkers like them

**A**s wine matures, its flavour mellows (酒陳味醇, 人老識深). That is the advice of another wine-related Chinese proverb (its related meaning: that judgement also matures with age).

Luckily for winemakers worldwide, the Chinese wine market has a long way to go before it can be declared mature. Indeed, much of the excitement centres on the fact that it is in its relative infancy.

The Chinese consume a little less than one and half litres of wine per head every year, says the In-

ternational Organisation of Vine and Wine (OIV), far below the French, the top tipplers, who get through just over a bottle each every week. Of course, that is already well over a billion bottles for the Chinese market. But it's the prospects for boosting per capita consumption that are really cheering winemakers, especially as drinking habits in some of the more mature markets show declining trends. Consumption per capita in France fell by more than 20% between 2002 and

2011 to 46.4 litres annually, according to OIV data.

In fact, wine sales in China fell in volume terms last year by 3.8%, the first decline after a decade of growth. The volume and the value of imported wine also dropped, a by-product of President Xi Jinping's anti-graft crackdown (less banqueting, less gift-giving). Another factor: overstocking. Over the previous two years stores of wine were accumulated on fears Beijing would hike tariffs on EU wine imports as a means of retaliation.



Alun Griffiths, MW  
VATS Liquor

That didn't happen, meaning Chinese merchants imported less to run down stocks.

Imports continued to fall in the first six months of this year (5.8% less in volume and 9% less in value terms, according to customs data), although importers have actually gained market share against the main Chinese producers, which have experienced steeper sales declines.

Domestically produced wine accounts for about 80% of Chinese sales with the big three winemakers – Changyu, Dynasty and Great Wall – controlling about 40% of the market between them, says Jim Boyce, the author of *Grape Wall of China*, a widely-read blog. These leading state-owned firms spend heavily on marketing and sell to the lower-end of the market. Although much of the quality is poor, consumers are simply more familiar with the names on the bottle. "When world leaders are pictured drinking wine with their Chinese counterparts, there is a good chance that a brand like Great Wall or Changyu will be in the glasses," Boyce explains. "The heavy marketing of these brands makes them an easy buy for consumers who simply want a 'safe' choice."

In reality, as much as 30% of the wine that is classified as 'made in China' might not be. Many of the domestic labels blend bulk imports from countries like Chile and Spain into their own stocks or simply relabel overseas wine as their own. But there's also a broader realignment underway in the industry with a growing interest in foreign wine now challenging the local producers to improve their quality. With the government austerity programme plugging up their traditional sales channels, the big three are under pressure to win over new consumers. China's wine industry is on the verge of wider change.

### Starting again

Despite the drop in sales last year and the bursting of the wine investment bubble, wine insiders in China seem optimistic about the prospects, talking about a 'Wine 2.0' era, and hoping that a re-



Photo Source: Janis Miglans

### When you wish upon a star: a faux European chateau at a Changyu vineyard

booting of the market will result in more diverse and more sustainable demand.

"Because the Chinese started out buying the Grand Cru Bordeaux, they missed the entry-point phase of the market," explains Fongyee Walker, the founder of Dragon Phoenix, a Beijing-based wine consultancy. "They began by saying 'We don't really understand much about wine, so we'll just buy the expensive stuff'. So suddenly the focus was very high-end. But other countries that started to drink wine in larger numbers got into wine in a more organic way. Populations got richer gradually and people started to travel. Tastes took time to evolve and trends were driven primarily by the middle-classes. In China, things have happened much faster and the agenda has been driven by the über-rich, who don't have to

shop for wine in supermarkets or worry much about value for money! For them, it's just a label purchase."

John Watkins, chief executive at ASC Fine Wines, a major distributor of foreign brands in China, said something similar in an article in the *Wall Street Journal* in July, admitting that sales have been hit hard by Xi Jinping's crackdown on wasteful spending.

"A normal wine market is a pyramid, with premium Bordeaux wines at the top, a medium tier of quality wines, and your lower-priced wines at the bottom," he explained. "But China was an upside-down pyramid. As much as 50% of the premium wines, some people say, were paid for by government-related money. A lot of that money went away when the new policies came."



Alun Griffiths, a Master of Wine with 40 years experience in the industry, joined Beijing-based *baijiu* supplier VATS Liquor last year with a remit to further expand its growing business in the wine trade. He agrees that the obsession with high-end Bordeaux created a bubble effect in the Chinese wine world. That market has now imploded, he says, partly due to the stratospherically high prices of 2009 and 2010 but also because of the campaigns against gift-giving and entertainment in the public sector.

Nonetheless, China's fascination with red wine – especially the French variety – seems to be an enduring trait. “Currently, about 19% of the wine market is imports, with Chinese production making up the remainder,” Griffiths explains. “Half of these imports are French, and half of those come from Bordeaux. The problem we have had in terms of imported wine is that demand has been too concentrated in a narrow area.”

### Into the red

Explanations for why the Chinese have gone wild for red wine often draw on cultural roots, including red's status as a lucky colour. White wine, on the other hand, has more funereal connotations (white is the colour of mourning in China). The Chinese also have less of a tradition of consuming colder drinks at dinner and generally have a preference for savoury tastes over sweeter ones, says Jeannie Cho Lee, a Master of Wine and a Hong Kong-based wine critic.

Writing for *Decanter* China, Cho Lee noted how the condiments on a typical Asian table tend to be salty, savoury or spicy. The same lessons apply in the world of red wine, she suggested, with China's wine novices preferring the savoury fruit and tannic reds of Bordeaux to sweeter, riper-fruited reds from hotter climates.

Another commonly-held view is that most Chinese don't like higher levels of acidity in wine because their diet has traditionally been lighter in citrus. But they are more likely to prefer wine

### Comic results

It is now a decade since the release of *Sideways*, which was an unexpected hit with audiences and critics alike. Also unforeseen was the film's impact on the wine trade. Sales of Pinot Noir, beloved by the main character Miles, were reported to have risen by 15% in the two years after the movie. Merlot producers were less pleased, though, as their own sales fell after the film (“If anybody orders merlot, I'm leaving. I am NOT drinking any \*\*\*\*ing merlot!” shouts Miles, played by Paul Giamatti, in one scene).

Perhaps there are prospects for a silver-screen dividend for some of the forward-thinking wine producers in China too? As we have reported in our regular editions of WiC, the local film industry relishes product placement, and Wine Intelligence has already suggested that shots of characters in this year's instalment of the *Tiny Times* franchise enjoying sparkling wine have spurred interest in champagne in China.

Most influential of all in setting trends on the Asian wine scene is the manga series, *The Drops of God*, which is credited with spiking wine sales by 130% in Japan in the years after it was first published. Running as a weekly comic for 10 years, it tells the tale of Shizuku, a young man tasked with identifying thirteen mystery wines that his father has described in his will. Competing against his adopted brother, a sommelier and wine critic, Shizuku goes on a voyage of discovery. And of

course, the story also helps readers brush up on their wine knowledge, covering topics like viticulture, terroir and Burgundy's classification system.

The series was wildly popular in South Korea too, where it was even sold in supermarkets as a guide to wine purchasing, while bottles featured in the storylines often see a surge in sales. McLaren Vale in South Australia was surprised when stocks of 2006 Laughing Magpie Shiraz-Viognier suddenly sold out after being featured, for instance, while All Nippon Airways even redesigned its wine list in response to interest in the manga.

The brother-and-sister founders of the magazine have since been inaugurated into the *Commanderie du Bontemps*, a Bordeaux wine brotherhood, while *Decanter* magazine has lauded the comic as “arguably the most influential wine publication for the past 20 years”.



Photo Source: The Drops of God



Russell Badham  
APW International

with more texture or “mouthfeel”, perhaps because of a culinary heritage of richer stocks and sauces. This boosts interest in fuller-bodied wines or those with higher alcohol content, which generally offer more texture. It also favours wines with greater concentrations of tannin, which add a velvety quality to taste.

“In general, the Chinese seem to prefer wines with a fuller flavour”, Griffiths says. “They like richness and softness on their palate and they don’t mind tannins [the textural element that can make wine taste dry in the mouth] because they are often familiar with them from tea-drinking. Syrah and Cabernet Sauvignon tend to be popular grapes.”

But Griffiths adds that grape ripeness is a more fundamental factor than colour in driving consumer responses. He gives Sauvignon Blanc from New Zealand as an example: “It can be quite high in acidity. But my clients enjoy it as long as the grapes are ripe, because they like the aromatics.”

Fongyee Walker is cautious about defining a ‘Chinese palate’ saying that most choices to date have been driven by dollar signs rather than any true sense of preferred taste. She also queries some of the deeper-rooted influences said to be shaping Chinese tastes, including the culture of tea drinking. “Perhaps it’s relevant, but how many of our teas are genuinely tannic?” she asks. “Maybe Pu’er, but that is drunk largely in the south of China. In the north we prefer chrysanthemum tea, which is flower-based rather than full of tannins.”

### New market, old lessons

Rather than focus on what makes China different to the rest of the wine-loving world, perhaps it’s better to look at how behaviour in the Chinese might mirror that of other markets once new to wine.

That’s the view of Russell Badham, a *negociant* for Australian wineries looking for Chinese customers, who talked to WiC last year about how



the Australian experience in finding new customers in Britain a generation ago might have lessons in China today.

“I think the basics can be similar in how wine is marketed, particularly the focus on value for money,” he proposed. “What made Australia popular [in the UK] from the mid-1980s was that we sold fresh, clean and fruit-forward wine with a relatively high-alcohol content. We also demystified it. People could understand our labels, which wasn’t the case for most of the French bottles. But most of all we offered wine that was great value-for-money and I think this is a key selling point to-day too.”

“When people started to drink more wine in other countries they usually preferred off-dry, fruitier options,” Fongyee Walker agrees. “In Amer-

ica, the White Zinfandel grape was an early favourite. In the UK the big hit was Liebfraumilch, with the British going mad for Black Tower and Blue Nun. These were ‘beginner palate’ wines and similar lessons should apply in China.”

Because many Chinese are accustomed to drinking fruit juice or sweeter soda-based drinks, wine made from White Zinfandel grapes could be an easier sell, she adds.

The number of Chinese consumers drinking imported wines has doubled to 38 million in the last three years, according to Wine Intelligence’s China Wine Market Landscape Report (2014). This market is likely to advance to 80 million by 2020, the study suggests, and Griffiths says there are already signs of a shift towards more affordable wine for everyday consumption, including much



stronger demand for entry-level Bordeaux than for the top-end vintages that once dominated the wine debate.

Walker says she is seeing changes in behaviour among some of the super-rich too, who are starting to buy wine more on the basis of personal taste or perception of value, and not just grabbing the bottles with the highest prices.

In that regard they are “trading down”, she suggests.

But growth in wine consumption – especially of imported wine – is still going to be concentrated among the better-off, urban elites. Currently much of the market is focused on wealthier cities like Shanghai, Beijing and Shenzhen, although ‘Wine 2.0’ should start to spread to a wider number of

towns and provinces across China.

The female market is also going to be crucial, Griffiths says, because women don’t want to drink hard liquor or beer, and they see wine culture as something aspirational and sophisticated. Walker confirms that most of the students at her training programmes are aged 21-40 and that the majority are women. Describing them as “people who understand enough about wine to realise that they don’t know very much about it”, she also says there have been dramatic changes since the launch of Dragon Phoenix seven years ago, when interest in learning about wine was limited. But people are much keener to explore the wine world today, she says, and classes are filling up in different cities.

## The problem with price

Winning over more wine fans also depends on delivering reasonably priced choices, especially from the foreign producers. Definitions of affordability ranged from Rmb100 (roughly \$16.20) to Rmb400 a bottle among the industry figures interviewed by WiC. Even at the lower end of the range, that makes wine an expensive choice, especially when alternatives like beer cost a fraction of the price.

Earlier this year Wine Intelligence asked what a good, everyday ‘quality’ bottle of imported wine should cost. The answer depends on tax, regulation and market conditions but in Germany it would be about €2-3; in the UK, about £6; and in the US, about \$10.

40%

Proportion of Chinese  
wine imports that come  
from France



Learning about the palate and the nose: an exhibition attempts to explain viticultural tasting preferences



Jim Boyce  
Grape Wall of China

But for the Chinese it is much higher: something like Rmb120-150 (\$19-24) a bottle.

Clearly this limits some of the potential for foreign wine. It may also be stunting some of the growth of the wider market too.

Domestically produced wine is cheaper, of course, but a lot of that isn't going to provide the most promising introduction to curious consumers. Unfortunately, many of the 'beginner-palate' bottles that could help to foster the spread of the wine-drinking culture in China are out of price reach of many customers.

More positively, there are signs that this is changing, with surveys at stores in the run-up to the Mid-Autumn Festival in September indicating that some prices are starting to come down. It now seems possible to get hold of decent imported wine for closer to Rmb30 a bottle, Wine Intelligence reports, which would mean that imports are starting to compete with local brands like Great Wall and Changyu for the first time.

In informal polling, WiC's interviewees seemed to think that Rmb30-40 is the sweet spot that will spur wider demand, and it will be interesting to see if the initial reports on lower prices turn into a wider trend in the market.

Wine Intelligence hopes so too: "With a critical mass of wines suddenly available at affordable prices, this may actually be the moment that the wine category starts to develop from its base as a gift-oriented elite sector into a more mainstream consumer product."

### New World or Old World?

More Chinese are learning about wine at home, by travelling abroad (it also helps that more and more of the young are studying overseas). A wider choice of competitively priced bottles is starting to appear in shops and supermarkets. But which countries look like they could profit from the advent of the Wine 2.0 era?

Country-of-origin will persist as a key factor in wine shopping, with the French trading



Marketing hard at China's first winery

strongly on their reputation as the most respected winemaking nation. Despite predictions of decline, French wine has more market share in China than five years ago, Jim Boyce notes, while Wine Intelligence tips wine from regions like Languedoc, Provence and Cotes du Rhone for greater success too, because it will benefit from the French halo effect, but also offer new choices at non-premium prices.

Other forecasts for the future: red wine with higher fruit levels and lower tannins than some of the more typical Bordeaux reds. VAT Liquor's Griffiths is confident that softer, sweeter Spanish reds will sell well, for example, while Fongyee Walker is hopeful for some of the better Chilean wine. Along with New Zealand, Chile also has an advantage on its peers, having inked a free trade deal with China that removes the 14% duty on wine imports. Luxury tax and VAT still have to be paid, but the pricing impact is meaningful.

Chile increased its wine exports to China by

47% in volume terms last year, according to OIV.

Jim Boyce says no single producer will ever have enough wine to satisfy a population that is already consuming more than a billion bottles every year. That makes everyone a niche player, he says, but it also means that there is plenty of the market that is still up-for-grabs. True, French wines dominate in terms of imports, but they represent about 40% of the total, leaving the remainder for everyone else. And while red wine makes up 80% of demand, interest in white wine is meaningful, even at a 20% share.

He also forecasts a more radical shift towards whites too. "I'll go out on a limb since not everyone agrees with me, but I like the prospects for white wine," he says. "Red wine easily outsells white but much of it is bought as gifts or for entertainment purposes. When it comes down to taste – on people buying wine they like to drink – white wine is much closer to red wine than people think. If we are moving towards a market where consumers exert increasing power and buy based on taste, the prospects for white wine are good."

Whatever the kind of wine, brands that do the basic things well, like making sure the varietal is easily identified on the bottle, will prosper. Something as straightforward as an informative label can have a major impact. For context Alun Griffiths gives the example of Westerners walking into a shop full of Chinese tea. "We don't understand the labels and in most case we don't have a clue what to choose," he points out. "We don't know the difference between green tea, red tea or black tea, and we're not sure which tea is more delicate and which is more tannic."

There will need to be a rethink in respect to some of the label's tasting notes too. Descriptions like 'elderflower' and 'blackcurrant' mean little to Chinese consumers. Reference points like 'lychee', 'jasmine tea leaves', 'red apple', 'mango', 'guava' and 'coconut' all appear as preferred descriptors in Chinese tasting surveys. ■

Photo Source: Jians Minglans



## Matching wine and food

Disagreements about how to define the Chinese palate spill over into how best to pair Chinese food with wine too.

Some of the advice from winemakers seems shaped by more than a hint of self-interest. Producers of more muscular wines like Australian Shiraz argue that they are the better fit because they sustain the fiery sensation of some of China's spicier cuisine, for instance. But makers of lighter, off-dry options like Riesling and Chenin Blanc argue the opposite: that a little sweetness helps to restore the palate between peppery mouthfuls.

Fongyee Walker, China's first Master of Wine, says that food pairing hasn't been very important for most wine fans in China because they've usually made their drinking choices for status reasons rather than taste. But because palates are different, food-and-wine pairings can be different too, she says. For an example she returns to the question of pairing wine with spicy cuisine. "My husband and I have the same argument about Sichuanese food and we often choose two bottles of wine to accompany our meal," she tells WiC. "He loves the spiciness, so he wants to drink a big Barossa Shiraz. But I don't like so much heat, so I prefer something like an off-dry Riesling or Moscato."

However, rather than following standard rules like pairing red wine with meat and white with seafood, sommeliers suggest more focus on the method of cooking or flavouring (i.e. fish cooked in soy-based sauce might pair better with red wine). The choice of wine might also depend on the regional origins of the cui-



Fongyee Walker, MW  
Dragon Phoenix



Xiao Long Bao dumplings or steamed fish both go well with Chardonnay

sine on offer. Subtler dishes from a Cantonese menu in the south will pair differently to more robust options from the north and west.

Chinese meals usually consist of a range of dishes (so called family-style dining), which makes it unlikely that a single wine choice is going to pair with all the treats on offer. But at least this diversity means that a few of the dishes are likely to match with the wine being drunk.

In this instance, we'll leave the final word to Ch'ng Poh Tiong, the publisher of *The Wine Review*, Asia's oldest wine publication. He told *Decanter China* magazine this summer that food-and-wine matching isn't an exact science but that

a few rules apply, usually related to pairing with culinary texture.

Ignore them at your peril, he says, as the consequences can be explosive ("like pairing the singer Rihanna with a Muslim fundamentalist" is his analogy).

A few suggestions for white wine with Chinese food? Deep-fried spring rolls, hairy crab, Guo Tie fried dumplings and goose liver all go well with Sancerre, Pouilly-Fume, Sauvignon Blanc and Chablis. But for those of you tucking into steamed fish or lobster, Xiao Long Bao dumplings or Siew Mai dim sum, should stick to White Burgundy and Chardonnay.



# 3 Growth story

Photo Source: Janis Miglavs

Grace Vineyard's 200 hectares of vines in Shanxi – the locals call it the Yellow Valley



# Hoping for a growing influence

“Fine grape  
wine, luminous  
jade cups glow  
in moonlight”

Opening line to a famous  
Tang Dynasty poem by  
Wang Han



Photo Source: Janis Miglavs

China has about 600,000 hectares of vines under cultivation

A good wine doesn't fear the depth of the lane (好酒不怕巷子深) is the final proverb from *The Little Red Book's* collection.

The meaning is that decent wine will always attract interest, even if it is being sold off the beaten track. And that's advice that might embolden winemakers in a country that doesn't have much of a reputation for fine vintages.

China is already a major wine producer. More grapes are grown there than any other country,

with about 600,000 hectares of vines under cultivation last year, according to OIV, the international viticulture agency. Most of that is producing grapes to be eaten (i.e. fruit) but a small share is dedicated to wine, meaning that China already ranks fifth for wine output globally.

It's a position based on quantity rather quality, of course. And almost all of China's wine is sold domestically, with state firms like Changyu, Great Wall, Dynasty and Dragon Seal usually dominant.

But there are signs of a changing landscape, with new wineries from different parts of the country starting to feature.

## The main winegrowing regions

Shandong is the province with the longest history of winemaking. Most of its vineyards are clustered on the Penglai Peninsula, which is on similar latitude to Bordeaux and Napa Valley, benefiting from a milder maritime climate.

The largest state firms are prominent, including major estates like COFCO's Chateau Junding (a winery, a golf course and a country club) and Chateau Changyu-Castel, one of the early joint ventures, between Changyu and Groupe Castel of France.

Penglai was chosen for Lafite's joint venture with Citic Group and it is also home to Treaty Port Vineyards, owned by a British multimillionaire and modelled resplendently on a Scottish castle.

Many of the state winemakers also feature in Hebei, another of the leading winemaking provinces, and one which has the advantage of being closer to consumers in Beijing and Tianjin. The estates nearest these cities also tend to welcome most of China's new wine tourists. Changyu's Chateau AFIP on the outskirts of the capital is one of the best examples of a winery that wants to attract visitors and educate them about the wine world.

Changyu is the largest of the state-owned winemakers. Apart from its vast property near Beijing and its partnership with Castel in Shandong, it also produces wine at Chateau Balboa in Xinjiang, Chateau Moser XV in Ningxia and Chateau Reina in Shandong, as well as making ice wine in Liaoning.

Critics of the big firms say they have had little incentive to improve the quality of their wine because of their market dominance, as well as a business model that primarily competes on price.

That's made easier, their detractors say, because most Chinese have little idea of how wine is supposed to taste. Customers can't even be sure that their wine is really homegrown. Some domestic wineries blend their own plonk with imports from other countries, especially cheap bulk wine shipped from Spain and Chile. Others put imported wine into bottles and label it as their own, knowing that drinkers won't know the difference.

Further inland from Hebei and Shandong is the autonomous region of Ningxia, which has es-



Photo Source: Jans Mijlans

China already ranks fifth for wine output globally



tablished itself as a new focal point for domestic winemaking. One of China's poorest provinces, Ningxia is staking much of its future on the wine industry. In the late 1990s the local authorities started to invest in the wastelands near the Yellow River and the eastern slopes of the Helan Mountains, building new roads and waterways. The plan is to establish a 'million mu' of vineyards by 2020 (about 67,000 hectares, or more than the wine industry in New Zealand, according to *Decanter China* magazine) and encourage at least 100 wineries to set up in the province.

Such strong backing has already encouraged a host of new wineries to come to Ningxia, including independents like Silver Heights and Helan Qingque, as well as larger operators such as COFCO and Changyu, and two joint ventures with international winemakers – Pernod Ricard's Domaine Helan Mountains, one of the early pioneers, and Moët Hennessy's Domaine Chandon, which has just launched two new sparkling wines from grapes grown nearby (see insert).

Emma Gao's Silver Heights is one of the favourites when it comes to media coverage. Her winery is a small one – based in few sheds on the outskirts of the provincial capital – and it makes just 40,000 bottles a year. But her Bordeaux blends have an outsized reputation, selling at premium prices to hotels and restaurants around the country. Gao says that an altitude of 1,200 metres, the sunshine and dry wind, and the looming presence of the Helan Mountains, which protect the vineyard, all help in growing local grapes that can be made into good wine. Significant changes in temperature between day and night are another plus, she says, in fostering the phenolic content of the local grapes (or in layman's terms, the characteristics that shape taste, colour and mouthfeel).

The growing season is relatively short in Ningxia and the temperatures can be extreme,



Emma Gao at work

ranging by as much as 60 degrees centigrade between the peaks of summer and winter. The vineyards, clustered around the provincial capital of Yinchuan, get no more than 200mm of rain a year, relying instead on the Yellow River for water.

"On the other hand, the climate gives us the advantage of a disease-free environment, which means that we don't need pesticides," Gao suggests.

To the north west of Ningxia is Xinjiang, China's biggest grape producer and home to some

of the largest wineries (Citic Guoan's estate is said to produce six million bottles a year). Most of the winemaking takes place along the southern edge of the Tianshan Mountains, particularly around the cities of Turpan and Bayingol.

Here the growing period is short too and there is always the risk that the first frost arrives early, killing the crop. The climate contributes to a common problem for China's winemakers: that grapes don't ripen enough because they lack the time to mature, or even that they are picked ahead of schedule by farmers fearing poor weather could ruin the harvest.

The climate in Xinjiang is even drier than Ningxia, with not much more than 70mm of rain a year. But that hasn't discouraged new arrivals, including another premium producer called Tiansai (see box insert for an interview with Lilian Carter, its flying winemaker).

Yunnan is the newcomer to China's winegrowing scene. The vineyards there are much further to the south in latitude terms but the weather is cooler because of the altitude, so its wineries are hoping to resist the twin threats of summer rain and the deep-freeze of winter.

Moët Hennessy is trying its luck in Yunnan too, at the Shangri-La Deqin winery. Perched in the foothills of the Himalayas at altitudes 20 times higher than Bordeaux, the Shangri-La has taken 50-year leases on dozens of village vineyards on steep hillsides in the area. The combination of soil, sunshine and climate should grow the type of grapes to make robust, Bordeaux-style wine, Moët hopes.

## The weather

One reason why Yunnan is generating a buzz as the potential (Chinese) El Dorado for winemakers is its microclimate. The winegrowing regions have similar summer temperatures to Bordeaux. Summer rainfall is only two-thirds of the French

Photo Source: Janis Majlars

# Main Wine Growing Regions



## Xinjiang

**For:** large areas of grapes under cultivation; dry  
**Against:** short growing season; little history of bottling its own wine; remote from major cities  
**Wineries:** *Citic Guoan, Chateau Changyu Baron Balboa, Tiansai Vineyards of Gobi*



## Shanxi

**For:** up-and-coming area made famous by Grace Vineyard  
**Against:** limited production mostly in the Taiyuan Basin and fringes of the Loess Plateau  
**Wineries:** *Grace Vineyard*



## Jilin

**For:** grows a Chinese origin grape called the Amur, which is more resistant to cold weather  
**Against:** local grapes lack sugar and can be too acidic; few grape varieties can survive the weather  
**Selected wineries:** *Tonghua Grape, Changbaishan*



## Ningxia

**For:** policy support from local government; decent irrigation from Yellow River, good light and warmth; hub for new vineyards and wineries  
**Against:** short growing season; vines need to be buried over cold winters  
**Wineries:** *Domaine Helan Mountain, Silver Heights, Changyu Moser XV, Domaine Chandon*



## Yunnan

**For:** southerly latitude brings strong sunlight and milder winters; longer growing season  
**Against:** hilly terrain and fragmented plots; little winemaking history, shortage of experienced workers  
**Wineries:** *Shangri-La Deqin*



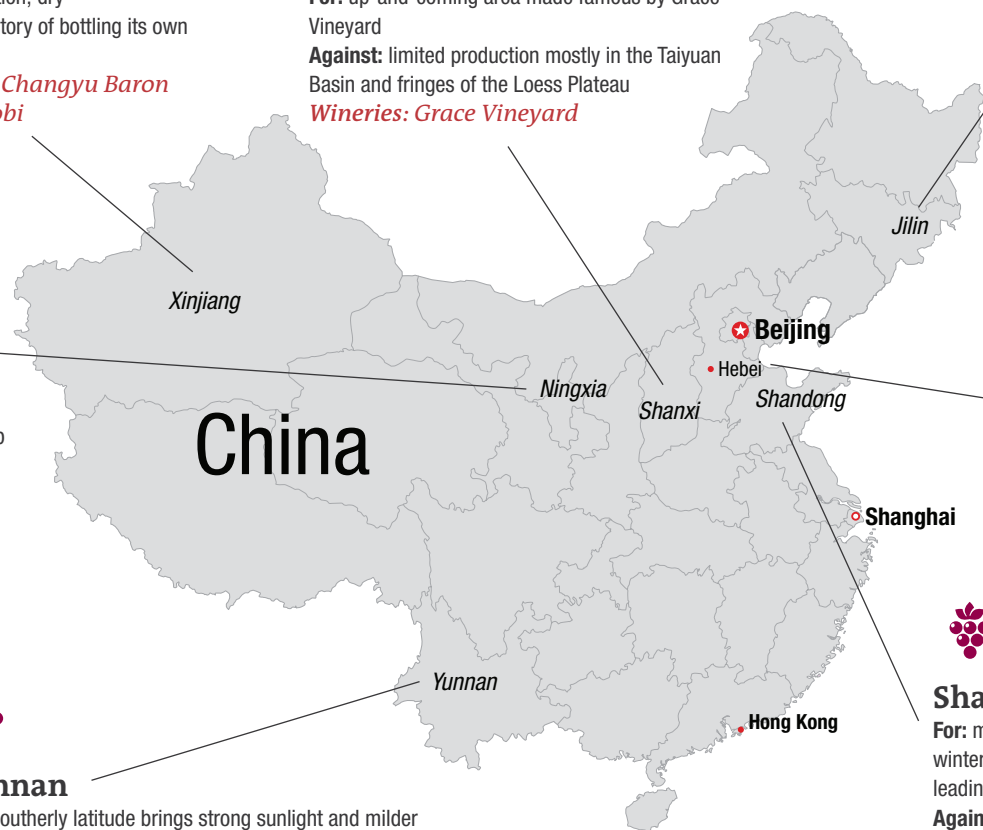
## Hebei

**For:** closer to Beijing, which is useful for sales and distribution; drier climate than Shandong  
**Against:** high humidity in the summer increases risk of grape disease  
**Wineries:** *Dragon Seal, Chateau Sun God, Moutai Wine*



## Shandong

**For:** more moderate climate; no need to bury vines in winter; the longest history in China of winemaking; home to leading state wineries  
**Against:** rain in the summer, so pesticide required to reduce risk of fungal disease  
**Wineries:** *Changyu Pioneer, COFCO Great Wall, Citic Lafite*





**“The climate gives us the advantage of a disease-free environment, which means we don’t need pesticides”**

Emma Gao  
Silver Heights

equivalent, says Jancis Robinson, but plenty of water is available from Himalayan snowmelt. The autumns are drier too, so grapes can be left to ripen for longer.

Elsewhere the widespread complaint is that China’s weather extremes make it too hot, too cold or too wet for consistent winemaking.

In Shandong the winters aren’t bitter, for instance, but the summers and autumns can be humid and wet, increasing the risk of grape disease. Inland it is drier but the winters are bone-chillers. Average temperatures of  $-20^{\circ}\text{C}$  in Ningxia are far lower than the coldest winegrowing areas of France, where they drop to about  $0^{\circ}\text{C}$ .

The yearly deep-freeze means that many Chinese vines have to be pruned and bent, before being covered with soil to protect them. This often results in damage, so vines in the wintry regions are often younger than estates enjoying more hospitable conditions. The pre-winter burial is usually done by hand as well, which is becoming more of a financial burden as labour costs go up.

### The grapes

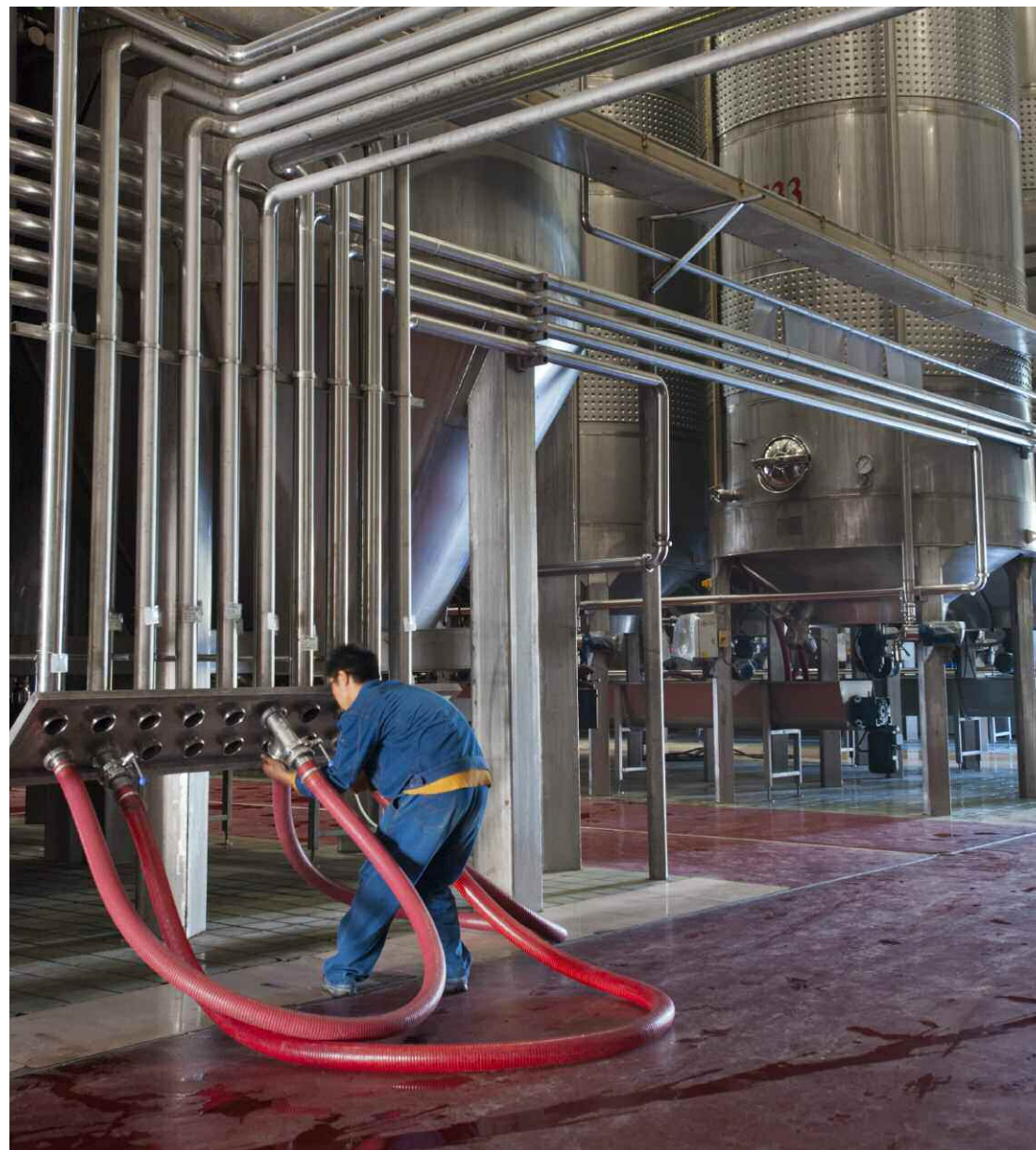
The most popular grapes grown in China are Cabernet Sauvignon and Merlot, with a smaller share for Cabernet Franc. Another common choice is Cabernet Gernischt, once regarded as ‘local’ but now identified as Carmanere, a long-lost varietal from Bordeaux (see box insert).

Grapes often seem to have been planted more on perceptions about what consumers want to drink than a deeper understanding of what might grow best in the local conditions.

But the more fundamental challenge is unreliable quality, which is generally regarded as the greatest obstacle to better wine being made in China.

Currently, many wineries are supplied through contracts with smaller vineyards, with the grapes transported to fermentation stations for pressing and then shipped to the producer.

These arrangements separate the winemaker



Producing on a larger scale: Citic Guoan's Xinjiang vineyard makes 6 million bottles annually

Photo Source: Jancis Mijavics



Photo Source: Janis Majors

Geese guard the grapes in Yunnan

from the soil, cutting the link between farmers and the finished product. There is also little incentive for growers to improve the quality of their harvest. Farmers who sell more grapes get more money, taking attention away from efforts to reduce quantity and improve yields.

There are signs of new attitudes, especially when wineries invest in programmes that pay for grapes filtered by quality, and not purely for amount.

Wine estates like Tiansai and Silver Heights are also electing to grow more of their grapes themselves.

“It’s true that sourcing good quality grapes is hard because most farmers choose to focus on quantity,” Gao says. “That’s why my father has decided to invest in our own vineyard. We’ve planted 40 hectares of new vines in land in the mountains and we are using French rootstock so

we hope to improve the grape quality even more.”

Local officials in Ningxia are also allowing winemakers to lease larger tracts of land over lengthier contract periods. This encourages them to invest and experiment with their own vineyards over the longer term, two trends that are lacking wherever plots are farmed by smallholders that depend on the annual harvest for their immediate livelihoods.

Despite this, a growing band of wineries is trying to nurture a ‘sense of place’ in the wine they are making. These producers understand that they need more control of the conditions in which their grapes are grown if they are to find consistent terroir – the intangible mix of soil, sunlight, elevation, temperature and moisture that characterises good wine – in their final product.

“Above all we need to ensure that the wine we



## Class struggle

The top wine from Bordeaux has a classification system set up in 1855. And in June this year, Chinese winemakers announced that they would follow the French example, after the China Alcoholic Drinks Association (CADA) launched a new set of standards that allow wineries to stamp their vintages with an “Estate Wines” classification (the image above).

To get the designation, a winery must handle all of the grape growing, winemaking and bottling itself, as well as own the vineyards that produce the grapes.

The grapes must be placed in fermentation tanks on the day of harvest, and the winery needs to produce 70 metric tonnes or more of wine a year to qualify.

A management committee has been formed from professionals from the industry, plus ‘media and companies using the trademark’ has been set up to oversee the usage of the new trademark, CADA says.

Once an Estate Wine stamp is granted, the producer can use it to support a specific wine for three years. Each year the quality of the wine will be re-examined, with the overall technical conditions of the winery scrutinised in the third year.

“To choose a Chinese wine of better quality, consumers don’t need to remember so many names of wineries anymore; they just need to look for the Estate Wine logo as the mark means the quality is guaranteed by the reputation of the CADA,” Li Demei, vice-general secretary of CADA’s wine division, said.





Domaine Chandon's Ningxia winery



Photo Source: Janis Majews & Domaine Chandon Ningxia Winery

## Hopes for a sparkling future

Another of the international brands making the long journey to Ningxia is Moët Hennessy, the wine and spirits division of French luxury group LVMH. It has partnered with Nongken, a state-owned agricultural firm, to make sparkling wine at Domaine Chandon (Ningxia) Moët Hennessy.

The local climate and soil conditions are great for growing Chardonnay and Pinot Noir grapes, Chandon says, and it has just released its first vintage, made under the *méthode traditionnelle* in which the effervescence is produced by secondary fermentation in the bottle.

Chandon broke ground on its Ningxia venture two years ago. “When we first arrived at the foot of the eastern side of the Helan Mountains, we had no water resources or electricity. So we started from ground zero,” explains Su Long, the vineyard’s general manager.

“We have had to struggle with nature too!” he says, “especially in the first year when there was the biggest flood in the region for 30 years”

But Su also likes to draw on the local history of wine, describing how Ningxia’s capital Yinchuan once stood on the path of the ancient Silk Road and even citing Tang Dynasty poet Wang Han in support of the region’s grape growing heritage (“Fine grape wine, luminous jade cups glow in

moonlight” – the opening line of “A Poem of Liangzhou”).

Moët Hennessy searched across China for the right conditions for its new enterprise but ended up in the Helan Mountains, where it found the sandy soil to be rich in nutrients and minerals, and the climate friendly enough to grow grapes for premium sparkling wine.

“A key factor is temperature, with the growing season from April to October allowing our crops to mature in natural conditions,” Su says. “We only get about 200 mm of rainfall a year – parts of southern China get more than that in a single day – but at least our grapes don’t get sick under these conditions.”



Photo Source: Domaine Chandon Ningxia

**Domaine Chandon Ningxia winery general manager Su Long and estate director Shen Yang**

Instead the local climate supports a “green management” style that yields excellent grapes from very natural conditions, which is “very important for food safety concerns”.

Sales of sparkling wine will need to grow from a relatively small base (about \$64 million in 2012, according in Chinese customs data, or less than 5% of bottled wine imports).

Some have asked if bottles of bubbly are going to be a tougher sell to Chinese consumers because of traditional preferences for warmer drinks, as well as potential discomfort at the drink’s frothiness.

Shen Yang, estate director at Domaine Chandon Ningxia, rebuts this view immediately,

pointing out that plenty of Chinese like colder or bubbly drinks, as indicated by demand for beer or soda water.

In fact Chandon sounds fairly sure of its prospects, seeing itself as the trailblazer for sparkling wine in China. “Our ambition is to create something fresh – a bubble-drinking market,” Shen explains.

Moët Hennessy also has a track record as a pioneer, starting a winery in Mendoza in Argentina in 1959, and then establishing sparkling wine enterprises in Brazil, California and Australia. Much more recently Chandon started operations in India too. But China is the newest frontier and sales of Chandon Brut and Chandon Rose began in Sep-

tember, priced at Rmb138 to Rmb168 a bottle. Chandon is aimed at “young professionals, including professional women, who like to enjoy life,” Shen explains. It is more affordable than champagne, but it is still being positioned as a premium drink for people who want a taste of the world of luxury.

Even the winery’s design is part of this plan, with its distinctive architectural style supporting the idea of Chandon offering something fresh and different.

“We want to surprise people with what we are doing here,” Shen says proudly. “We are ready to show them something modern and something new.”



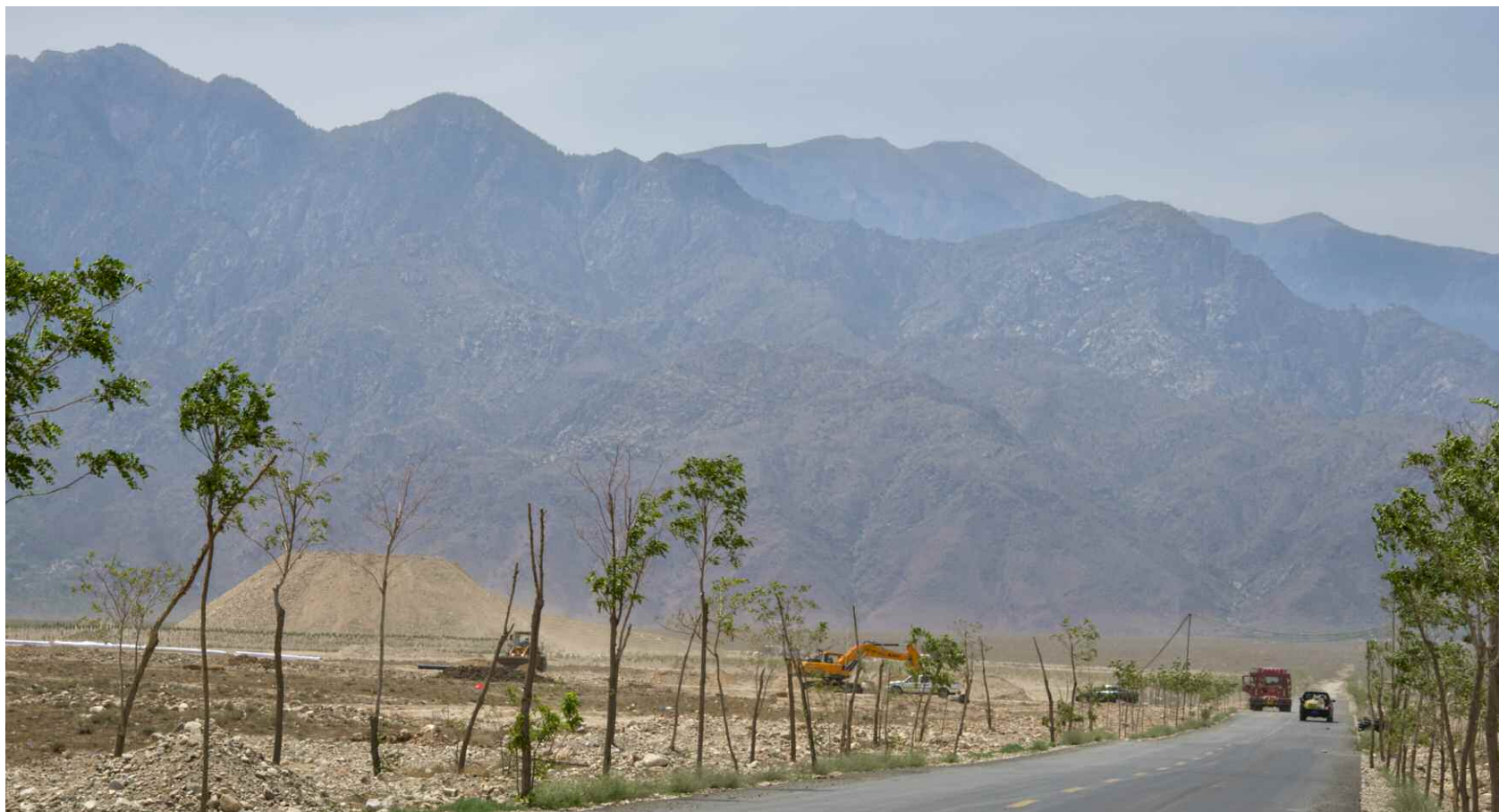


Photo Source: Janis Miglans

### The road to nowhere? Wineries are springing up in the wastes of Ningxia

produce truly reflects the terroir of Ningxia, which is very pure,” Gao says, of her own efforts at Silver Heights.

### Uncorking new demand

The challenge for the smaller wineries is that they don’t have the resources to develop mass brands, unlike some of the foreign entrants, who may have more opportunity to win over a bigger segment of the burgeoning middle-class market.

To compete with cheaper wine from Spain, Chile and Australia, the up-and-coming vineyards will also need larger production runs and decent marketing and distribution. It can be frustratingly difficult to get hold of the best vintages from many of the smaller wineries, says Jim Boyce, author of the Grape Wall of China blog, when just a few thousand bottles are made each year. Prices can be steep too, with some homegrown wine costing more than Rmb1,000 (\$150) a bottle.

Breakthrough brands need to offer wine that is appetising to consumers, but selling for Rmb100 or less, and which is readily available via retail chains or online, he says.

That’s one of the reasons why he picks out Grace Vineyards as a role model.

Established in 1997 in Shanxi province by Chan Chunkeung, a former coal boss, Grace is now led by Chan’s daughter Judy Leissner, who has expanded its operations to Shaanxi, Ningxia

## Chinese soil, French grapes

Cabernet Gernischt (or Cabernet Shelongzhu in Chinese) is the red wine grape favoured by many growers, alongside Cabernet Sauvignon and Cabernet Franc.

Until recently its origins were disputed. At first it was thought to be a cross between Cabernet Sauvignon and Cabernet Franc introduced by the Changyu Winery in Shandong on its founding in 1892. The term was thought to be a misspelling of Cabernet Gemischt, or German for 'mixed Cabernet', which referred to the mix of imported cuttings.

Cabernet Gernischt is similar to the Merlot grape, but can be greener and later to ripen, writes Jancis Robinson, wine critic at the Financial Times.

In fact, she doesn't sound like much of a fan – "I kept coming across a very distinctive and not altogether pleasant flavour, something almost aggressively green and peppery," she writes about tasting wine made with Cabernet Gernischt. Other viticulturalists also warn that the grape is more at risk of leafroll virus, which can delay ripening.

José Vouillamoz, a colleague of Robinson's, has solved the mystery of where the grape originated. He analysed samples from Changyu and the tests showed that Cabernet Gernischt wasn't the blend of stock that many had expected. In fact, it was Carmenère, an older variety from Bordeaux.

Carmenère gets its name from the French word for crimson (carmin), in tribute to the redness of the vine's late summer foliage. Once favoured in Bordeaux, it died out after the phylloxera outbreak of 1867 as winemakers struggled to regraft it onto newer American rootstock.

But Carmenère survived unwittingly in cuttings thought to be Merlot that were imported elsewhere, especially by Chilean farmers in the 19th century.

Because of the warmer weather and lower rainfall in its new home, the grape fared much better in Latin America, although it too was wrongly identified until 20 years ago, when a researcher from France was able to confirm its true origins. The Chilean government then recognised it as a distinct variety in 1998 and Carmenère is now known as the country's leading grape.

Carmenère can look inky-dark in the glass (in the past it was used to give more colour to Cabernets and Merlots) and it often has a dark-fruit taste (blackcurrant or blackberry, say the tasting notes).

Back in China – where it was brought to Changyu by an Austrian – Cabernet Gernischt's supporters say that it prospers in arid and inhospitable climates (like Ningxia's). Lenz Moser, a respected winemaker and consultant to the state giant Changyu, also argues that mixing in Merlot or Cabernet Sauvignon can remedy the potential greenness in the grape, creating a softer blend. "Cabernet Gernischt adds the spice, aromas we love," he told Robinson two years ago. "This type of assemblage creates something we believe will be the future for making China an international player."



Photo Source: Janis Miglavs





Photo Source: Janis Miglavs

A little bit of the Louvre, courtesy of Dynasty Chateau near Tianjin

and Shandong.

It makes two million bottles of wine a year, ranging from its more expensive flagship labels to affordable entry-level bottles.

“No other winery is close in terms of having a diverse portfolio of reasonably good and easy-to-find wines at affordable prices,” Boyce insists. “Grace still remains far and away the best winery in China in terms of balancing business and quality. Best of all, they don’t sit on their laurels. Now they’re working on sparkling wines and varieties

little-seen elsewhere in the world, let alone in China, like Aglianico and Marsellan.”

That sense of ambition is perhaps the key, especially as the industry adapts to the unfamiliar landscape created by the government austerity programme, which is dismantling the sales culture of large orders designed to be given as a gift by business bosses to public officials.

With that procurement channel drying up, distributors are being forced to think more about appealing to individual consumers. And that is

happening just at a time when more Chinese are starting to take an interest in wine’s taste rather than just for its implications of status.

The smaller wineries and the foreign joint ventures make up a tiny fraction of total production. But they could have a disproportionate influence on the domestic wine scene. “They aren’t a quantity threat to the big players,” says Jim Boyce. “But they are more of a quality threat – as wines that could shine and put more pressure on the industry at large to improve.” ■

# Lilian Carter: desert winemaker

Lilian Carter, a winemaker based in Victoria, Australia, now spends part of her time in the wilds of Xinjiang, China's most westerly province, close to the city of Kuerle, a six-hour drive from the regional capital of Urumqi.

Carter is preparing the third vintage at the Tiansai Vineyards of Gobi winery.

WiC caught up with her as the Shiraz crop was being harvested in September to ask about her experiences at two of China's up-and-coming wineries.

## How is this harvest?

It has been a good year so far. The weather has been cooler compared to our first two vintages which has meant the growing season has stretched out by 15 days or so. Also, the vines are one year older, so we are hoping to see more flavour concentration and phenolic ripeness in the red grapes.

Last week we were harvesting Chardonnay and the quality has improved there too, helped by milder conditions, and a healthy canopy.

## How did you become a winemaker in China?

In 2008 I was seconded from the Pernod Ricard Australia business into the China business to work on the Helan Mountains, Ningxia winery project. Over the next two years I travelled to and fro from Australia and initiated simple but effective improvements in areas like selective harvesting, fermentation monitoring and temperature control, winery hygiene and the elimination of oxidative processes.

We also implemented systems and processes that would bring the winery into line with Pernod Ricard's expectations of best practice. By focusing on protecting fruit quality and preventing oxida-



Photo Source: Gobi Winery

From Victoria to Kuerle: Australian winemaker Carter at the Tiansai Vineyards of Gobi winery

tion the wines improved quickly.

The Tiansai winery is a very different proposition as it is a newly established winery with 130 hectares of privately-owned and operated vineyards. And it's much, much further west! The first year I joined the team – 2012 – was the very first harvest. From the beginning we have been able to set high expectations in the vineyard and winery. We are also having some success in getting more supple fruit flavours into the wines.

## Which kind of grapes do you grow?

The largest plot is Cabernet Sauvignon, but we also grow Merlot, Cabernet Franc and Shiraz in the reds, plus Chardonnay in white.

Vineyards in China are fixated on planting Cabernet because of the historical obsession with Bordeaux. It's also a relatively 'safe' and international variety – hardy, with thick skins, so it can withstand many climatic difficulties. However it's a late-ripening grape so it's not always the best



choice for the shorter growing season that we have to contend with in China. For example, in the Coonawarra region of Australia budburst is around early October and harvest can be very late March or early April. Here budburst is early April and we harvest in early September, meaning that the growing season could be 3-5 weeks shorter. The risk is that the grapes end up being a little under-ripe, lacking concentration and the wines turn out tasting green or weedy.

Tiansai has been conservative in the early phase of its grape-growing too but we are looking at trialling some interesting varieties such as Marselan, Malbec, Petit Manseng, Tempranillo and others which may be more suited to this unique climate.

#### **How about Cabernet Gernischt? Hasn't that been popular among growers?**

I'm really not sure why the industry has persisted with Cabernet Gernischt. I think it was introduced in the early vine material that arrived many years ago. It tends to suffer from a leaf roll virus, which amplifies the green bell pepper taste many people don't like.

I don't see much potential in the variety but perhaps its uniqueness gives a marketing angle. The French have Cabernet, Argentina has Malbec and China has Gernischt?

#### **Is grape quality a wider issue for the industry?**

It can be if the winery doesn't own the vineyards. Sourcing grapes from farmers who are accustomed to getting paid based on quantity rather than quality is limiting if you are trying to produce good wine. A change of approach requires investment in new techniques and it means developing new levels of trust between the wineries and their suppliers – quite a challenge!

Tiansai owns and operates its vineyard with quality wine-grape growing as its ultimate focus. It has invested a lot in the correct establishment of the vineyard and the owner insists on diligent



Testing the wine at the Tiansai vineyard

Photo Source: Janis Mijlans

management throughout the season. That's surely the key to good wine – in any language.

Once or twice we have bought a small quantity of grapes from neighbouring vineyards to trial but it's not our future. As soon as you start buying from other people, you lose control of quality.

#### **Are you trying to make a wine that appeals to the Chinese palate?**

I'm sceptical that a 'Chinese palate' even exists. This is a huge country with a range of languages, cultures and cuisines so it's hard to see why Chinese tastes for wine wouldn't be diverse as well.

But another point is that we aren't trying to replicate a red from Bordeaux or reproduce a Barossa Shiraz. Our goal is simply to do our best

for this region in Xinjiang, focusing on what's appropriate from the viticulture and winemaking techniques available. We've put huge efforts into the establishment of the vineyard and started out with simple, precise winemaking. Hopefully we can build on these foundations to increase the complexity of our wine in the years ahead.

#### **Isn't water limited in Xinjiang? And what about the weather?**

We pump our water from underground and drip-irrigate the vines via pipes that deliver it in a controlled, measured way. This is more efficient for water usage than flood-based irrigation. It also gives us greater control over canopy and vine growth, and it means that we lessen the risks of disease in the vineyard's micro-climate.

In the winter temperatures drop to as low as 28C so the vines need to be buried and unearthed each year. This is a very labour intensive operation but we have some equipment that helps move the soil over the vines once they have been laid down by hand. The same machine is used to take the majority of the soil away as the temperature increases at the end of the winter and then the vines are re-trellised by hand. But if this process is performed without due care, the vines can be damaged or broken.

#### **How about the prices for your wine? Are they going to be within the reach of middle-class Chinese?**

Our Selection range of wine sells for between Rmb208 and Rmb328 a bottle, while our Reserve range of red wine is priced at Rmb528 and Reserve white wine at Rmb268.

Price is used as an indicator of quality in China. If our price is too low compared to the competition, consumers assume it is of a lower quality. Hopefully this will change as consumer awareness improves. Our aim is to deliver quality at a reasonable price because we hope to build up a loyal customer base in China. ■



# 4 A photographic journey

Photo Source: Janis Miglavs

Chateau Junding in Shandong's  
'Nava Valley' near Penglai



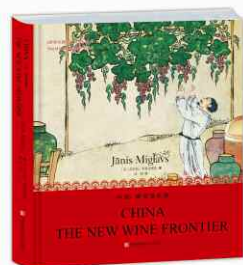
## French dominance

Many of China's wineries stick closely to a 'French' blueprint. One of the biggest and best examples is Chateau Changyu AFIP [AFIP is said to refer to America, France, Italy and Portugal, or sources for some of the investment in the project], which is about an hour outside Beijing. "It's very accessible so Changyu uses it to promote wine education", Janis Miglavs explains. "It's also a very popular spot for wedding photos."

Chateau Dynasty near Tianjin offers another case of French influence. "I think of it as Versailles, with a little bit of the Louvre thrown in for good measure," he says. "In fact, French imitation is common for a number of chateaux. Inside, there are lots of paintings of European landscapes and I've also noticed quite a few statues of bare-breasted ladies dotted around the grounds. The wine bosses must regard that as classical European style as well!"



The gardens at Chateau Changyu Baron Balboa in Xinjiang



Most of the photos in *The Little Red Book* were taken by Janis Miglavs, an Oregon-based photographer who visited all the wine-growing provinces to research his latest book *China: The New Wine Frontier*, published by Gourmand International.

Miglavs spoke to WiC about the different styles of the leading wineries.



French grandeur at Chateau Changyu AFIP



Chateau Changyu Moser XV: lighting up the night sky in Ningxia

Photo Source: Janis Miglavs



### Less sign of much 'Chinese' design

Very few wineries are built in a style that might be classified as 'Chinese', says Miglavs. "So I was really excited when I saw XiXia King's new style. It's the oldest winery in Ningxia but it has recently transformed its main building into something much more Chinese-looking. Inside, it is beautifully finished as well."

Other examples of local architectural style are hard to find, although he mentions Yuan Shi, also in Ningxia. "That's another striking design. It was built by a wealthy businessman, who insisted on using local craftsmen, traditional techniques and local stone. It definitely stands out from the crowd".

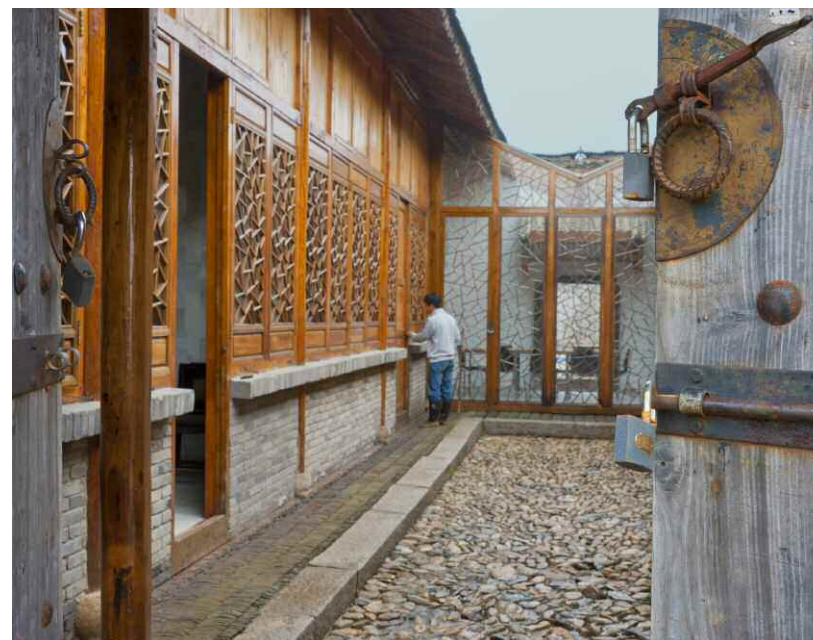
Jade Valley Wine and Resort in Shaanxi is another winery that differs from the rest. "I'd define it as having more of a 'freelance style'," Miglavs says. "Founded by the head of the Southern California University School of Architecture, it seems to be a mix of more modernist design with Chinese influence. But so many winery owners seem to have more of an instinct to mimic Europe, so it's always good to see other approaches."



The Yuan Shi Winery: stonemasons worked with Ningxia rock



Looking a little more Chinese at XiaXia King



Craftsmanship at the Jade Valley Winery and Resort

Photo Source: Janis Miglavs



### And some standout mentions...

“Treaty Port Vineyard in Shandong is completely unique as it was designed as a Scottish castle, with gargoyles on the walls and an interior similar to a hunting lodge. The kitchen even has an Aga! The owner is British and a history fan so the winery’s name was inspired by the nearby cities of Yantai and Penglai, which were treaty ports in the nineteenth century.”

A couple of other wineries have opted for strikingly modern architectural design. “Domaine Chandon Ningxia is one example (see page 30) and another is COFCO’s Great Wall Winery, which is also near Yinchuan,” Miglavs recalls. “I liked the way that the architectural lines of the building seem to mimic the jagged edges of the Helan Mountains behind.”

“And for another interesting photo look at the one of Citic Guoan’s vineyard in Xinjiang. It is greenery surrounded by the desert. And it also has the contrast of the natural beauty of the towering Tian Shan Mountains in the background versus the cooling towers of the power station right next to the vines!”



Great Wall Winery, with the Helan Mountains behind



A little bit of Scottish Baronial style in Shandong



Citic Guoan’s vineyard: man-made power, and nature’s glory

Photo Source: Jans Miglavs



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