

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 2/5/2015

GAIN Report Number: CH156005

China - Peoples Republic of

Post: Guangzhou

U.S. Craft Beer Has a Great Potential in the China Market

Report Categories:

Market Development Reports

Approved By:

Hoa Van Huynh

Prepared By:

Ken Chen

Report Highlights:

China is the world's largest beer consumer. Given continued growth of income, Chinese beer consumers pursue better quality and various flavors. Imported beers are getting popular, particularly in developed urban markets. With a great market potential, U.S. craft beer industry needs a more aggressive market promotional plan to establish a positive brand image and convey product know-how to beer trade, bar/restaurant professionals and beer consumers in China.

General Information:

Description: Beer made from malt (H.S. code: 2203.0000.00)

Import tariff: 0%

Value added tax (VAT): 17%

Consumption tax: RMB250/ton (\$42 per ton), if price (after VAT paid) \geq \$370 per ton
RMB220/ton (\$37 per ton), if price (after VAT paid) $<$ \$370 per ton

(Note: 1 ton = 998 liters; China's domestic beer is subject to a similar consumption tax.)

U.S. craft beer market situation and outlooks in China

According to U.S. Brewers Association (BA), in 2013, U.S. craft beer exports to China reached 505,206 liters worth \$1.15 million (FOB based). With an estimated growth of 30 percent by value, in 2014, it could reach \$1.48 million.

With a proactive three-year market promotional plan, U.S. craft beer exports to China could have a year-on-year growth of 50 percent and reach an annual sale of \$5 million by 2017. On an optimistic side, should the growth reach 100 percent, annual sales could be \$12 million by 2017.

Such optimistic market outlooks are based on the below facts:

- China is the world's largest beer producer and consumer; but its domestic beer production growth slows down and the market of mass-production beers is becoming saturated.
- Given continued growth of income, Chinese beer consumers pursue better quality and various flavors; therefore, imported beers, particularly those from Europe, are getting popular.
- Chinese consumers and even beer trade/bar&restaurant professionals lack of basic know-how about U.S. craft beer, which has a superior quality and more flavor options than European competitors.

Therefore, a well-planned comprehensive market promotion should be able to significantly raise brand image, increase product awareness and poise U.S. craft beer sales for a fast growth in China.

China's domestic beer production growth slows down

China has been the world's largest beer producer and consumer for 12 years. In 2013, China made 51 billion liters (or approx. 51 million tons) of beer, increased by 4.6% from that of 2012. In 2014, from January to June, the production reached 25.8 million tons, increased by 5.7% from that of the same period in 2013. It is believed that the 2014 FIFA World Cup Brazil held from June to July helped spur beer consumption. However, in July, August and September 2014, China's monthly beer production dropped by 1.2%, 6.5% and 10.8% respectively from those of the same periods in 2013. In 2014, China's annual beer production was 49 billion liters and dropped by 0.94%. It was the first drop after previous 10 years' consecutive growth.

Some believe a cool summer and the slow-down economy dented beer demand thus affected

production. Since most of China’s producers make mass-production beers with similar flavors, an increased number of consumers are getting bored. Furthermore, Chinese beer per capita consumption has reached 34.2 liters, slightly over the world’s per capita of 33 liters. Therefore, the market for domestic mass-production beer is becoming saturated.

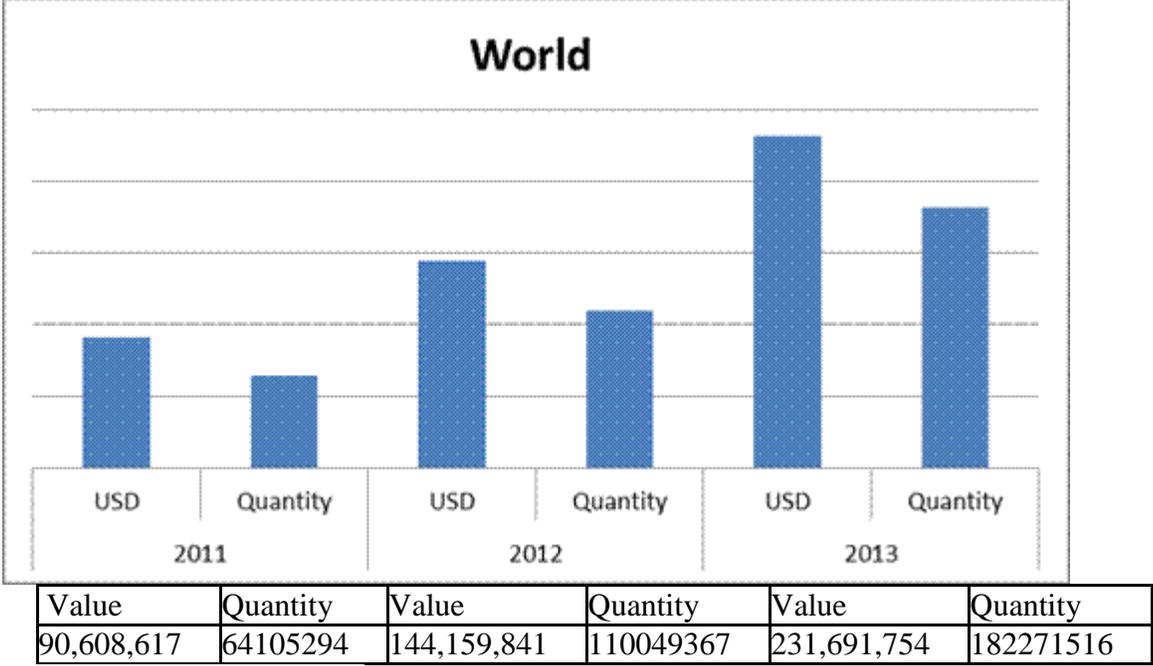
In the meantime, imported beers of premium quality are quickly entering the China market.

Imported beer sales grow fast as Chinese consumers pursue better quality beers

An increased number of Chinese consumers, particular those middle class urban residents, start preferring imported beers for better quality, various flavors and more ensured food safety.

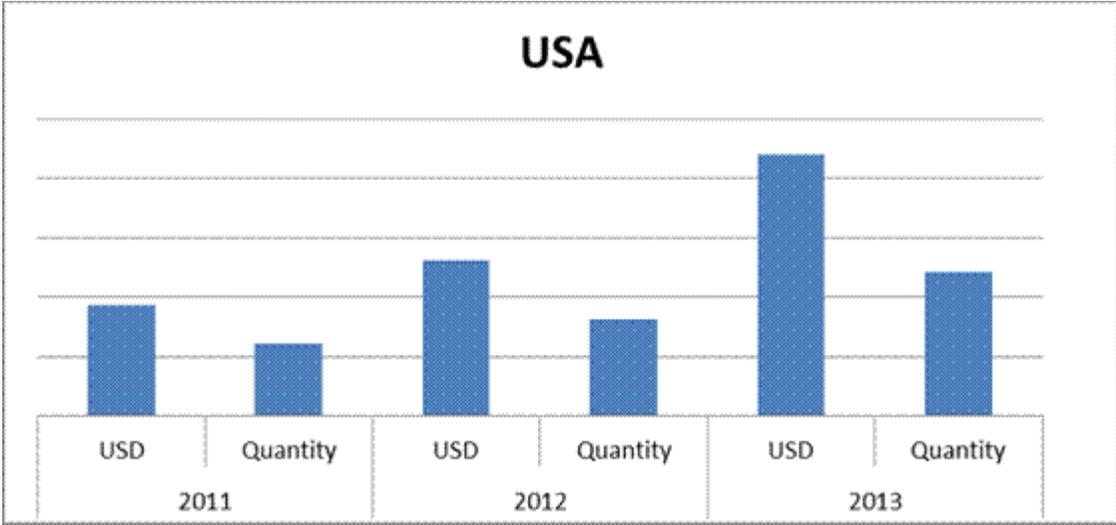
In 2013, China imported 182 million liters (or approx. 180,000 tons) of beer worth \$232 million, increased by 66% and 61% respectively from those of 2012. In terms of value, Germany is the leader with 59% of market share and Belgium is second with 7%; followed by Netherlands, Mexico and France, neck to neck around 4%. The U.S. ranks the 6th with 3.8%. In 2013, China purchased 4.8 million liters (or approx. 4,800 tons) of U.S. beer (including craft and non-craft beer) worth \$8.8 million, increased by 49% and 68% respectively.

Chart 1: China Beer Import from the world: (2011-2013; Value – U.S. dollars, Quantity – liter)



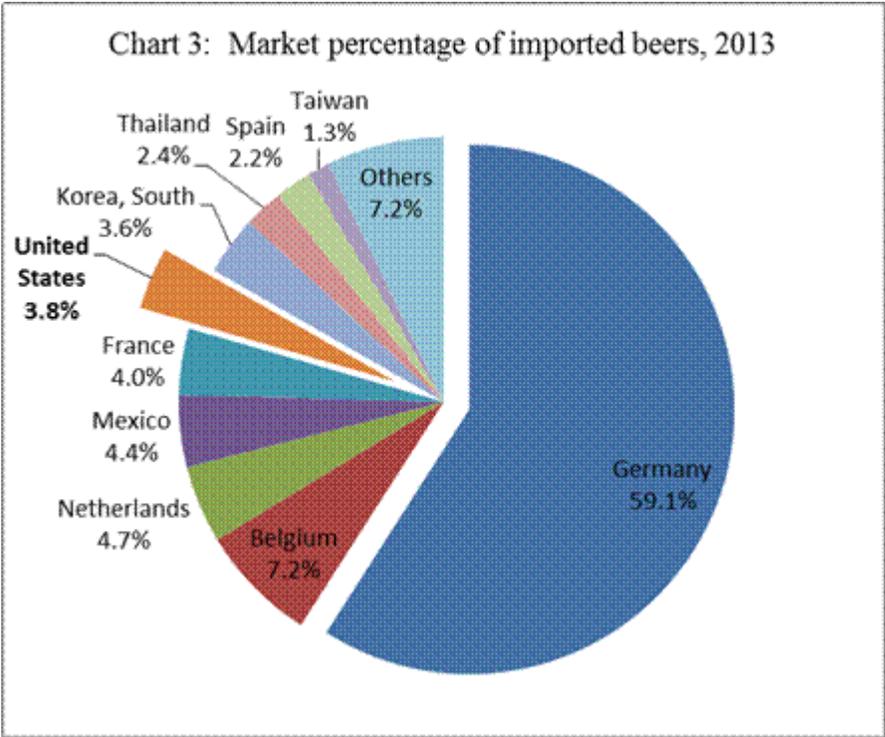
Source: Global Trade Atlas

Chart 2: China Beer Import from the United States: (2011-2013; Value – U.S. dollars, Quantity – liter)



Value	Quantity	Value	Quantity	Value	Quantity
3,739,321	2440124	5,238,376	3245935	8,817,209	4839731

Source: Global Trade Atlas



Source: Global Trade Atlas

In 2014, the growth continued in a fast pace. From January to September 2014, China imported 262 million liters worth \$321 million, increased by 91% and 80% respectively from those of the same period

in 2013; and U.S. beer (including craft and non-craft beer) also gained a healthy growth: 4.9 million liters worth \$8.2 million, increased by 44% and 30% respectively. In terms of value, Germany still led with over 50% of market share and gained a growth of 56%; in the meantime, other European countries gained much more astonishing growths: Netherland 569%, Belgium 74%, France 153% and Spain 462%.

Since 2013, China's economy has slowed down and Chinese government has strictly controlled spending by governmental organizations and state-owned enterprises. As a result, sales of Chinese liquor ("baijiu") and imported wine, which are often served at official or business banquets, have been greatly impacted. Nevertheless, imported beer has been remaining such a strong growth, which suggests its sales more rely on individual consumers' spending. Such consumer-driven growth is believed to be long-lasting and rise even faster if the economy warms up.

In retail, most imported beers are priced at \$2-4 per liter and 100-200% more expensive than Chinese domestic mass-production beers priced around \$1-2 per liter. Some premium imported beers including craft beers are up to \$8-15 per liter.

On-line shopping is booming and imported beer is one of the most popular commodities. For instance, at a known site YHD.com, consumers could conveniently use PC or mobile phones to place orders for over a hundred SKUs of imported beers from Germany, Belgium, Netherlands, France, Spain, Korea, United States, Mexico, British, Russia, Ukraine, Czech, Poland, Australia and Taiwan.

At the China's largest food and beverage show - China's Food&Drink Expo (a.k.a., Tang Jiu Hui) held in Chengdu every March, it is noticeable that the exhibitors of imported beers are mushrooming. Most of them are importers seeking distributors for newly introduced German beers. Some beer importers claimed that most if not all of German breweries have been approached by Chinese buyers; and eventually, many have made different levels of business cooperation with Chinese. A number of wine traders have also moved into beer trading to diversify portfolio in an attempt to counter the tough wine market.

However, most Chinese consumers and even a large percentage of beer trade or bar /restaurant professionals lack knowledge about craft beers, not to mention U.S. craft beers.

U.S. craft beer promotion and brand image building

In 2014, U.S. craft beer export to China is estimated to reach \$1.48 million, increased by 30 percent, accounting for 17% of U.S. beer exports to the China market.

U.S. craft beer's unit price (CIF) is \$2.4 per liter. Belgian and French beers have similar unit prices of \$2 and \$2.3 per liter respectively; and in 2014, their exports to China are estimated to reach \$29 million and \$23 million, increased by 70% and 150% respectively. Therefore, U.S. craft beer sales should have big room for improvement in China.

On the supply side, in 2013, 2822 U.S. craft breweries sold 15.6 million barrels (or 1.8 billion liters; 1 barrel is 31 gallons or approximately 117 liters), with an increase of 18%; in the meantime, export volume increased by 49%, totaling 282,526 barrels (or 33 million liters) and valued at an estimated \$73

million. Therefore, the U.S. craft beer industry should be able to meet potentially increased demand from China.

A window of opportunity for U.S. craft beer exports to the China has been opened, as the market of imported beers will soon enter a period of explosive expansion. Some industry insiders believe a similar situation happened ten year ago for the imported wine market.

According to the below chart, in China, the imported wine market experienced an explosive expansion during 2005-2009; however, in the meantime, U.S. wine’s market share dropped and sales growth was much slower.

Chart 4: Imported wine market growth in China

Wine imported from	2004		Value (million\$)	2009		Value (million\$)	2013	
	Value (million\$)	Market Share		Market Share	Growth from 2004		Market Share	Growth from 2009
World	25	100%	337	100%	1248%	1,382	100%	310%
France	9.4	38%	181	54%	1826%	658	48%	264%
Australia	5.7	23%	80	24%	1304%	226	16%	183%
United States	3.2	13%	21	6%	556%	74	5%	252%

Data source: Global Trade Atlas

The reason was, as many wine importers claimed, that the U.S. wine industry did not promote sufficiently and as a result, Chinese consumers lacked knowledge of U.S. wine. On the contrary, French and Austrian gained leading market positions and substantial growths through successful and well planned market promotions. Even though in recent years (2010-2013) U.S. wines tried hard to catch up by increasing promotional inputs, the turnout has been insignificant since Chinese consumers are already used to preferring French or Australian wines.

Therefore, U.S. craft beer industry needs to start investing to build a positive brand image and convey product know-how to the trade, bar/restaurant industry and beer consumers in China. When a promotion plan is to be developed, the below key points are suggested to be integrated:

- U.S. craft beer reflects a unique U.S. culture with distinctive characteristic such as innovation, diversity and individualism. It is a statement of unique life style and a reflection of sophisticated personal taste.
- To differentiate U.S. craft beer from competitors of other countries, such as Germany and Belgium. Convey the fact that now the U.S. is the world’s leader in making beers of quality,

consistency, and innovation; and such strength is derived from agricultural advantages, advanced production technologies, innovative beer makers and strong domestic consumption.

- To develop a sort of ritual in drinking craft beers by coaching people how to detect different flavors in beers and identify different beer varieties; how to pair beers with cuisines; and how to select best suitable glasses, etc.
- To encourage drinking moderately. Since craft beers are made with increased amount of high quality ingredients, it is easier for drinkers to achieve satisfaction without over-drinking. It helps avoiding potential health problems or fattening bellies.
- U.S. craft beers are made by relatively small scale but still have the same level of high food safety standard. And the United States have a sound system of ensuring food safety.
- To promote U.S. beer tourism to young and affluent Chinese tourists. Nothing builds demand like a personal connection/experience.
- Get active on Chinese social media such as WeChat or Weibo to promote U.S. craft beer culture and products.

To know more about U.S. agricultural trade services in China and contact us, please visit our website: www.usdachina.org .