WHAT DOES ASIA WANT FOR DINNER? A DRINK

PART II of Emerging Market Opportunities for New Zealand food & beverages in East & South East Asia

July 2014; v1.00

Part of the Food & Beverage Information Project

www.foodandbeverage.govt.nz

Objectives of Coriolis' assignment

Expanding the existing New Zealand still wine platform more strongly into add-on/adjacencies, sparkling wine and brandy emerged as one of the best "emerging market opportunities" for the New Zealand food & beverage industry (in Part I of this project)

- All 586 food-related HS trade codes were screened and ranked using qualitative and quantitative methods
- Both brandy (HS220820) and sparkling wine (HS220410) passed through the final stage of the screen as they were achieving strong import volume and value growth into Asia and had a strong fit with New Zealand capabilities
- New Zealand has strong and growing comparative advantage in wine
- See related document

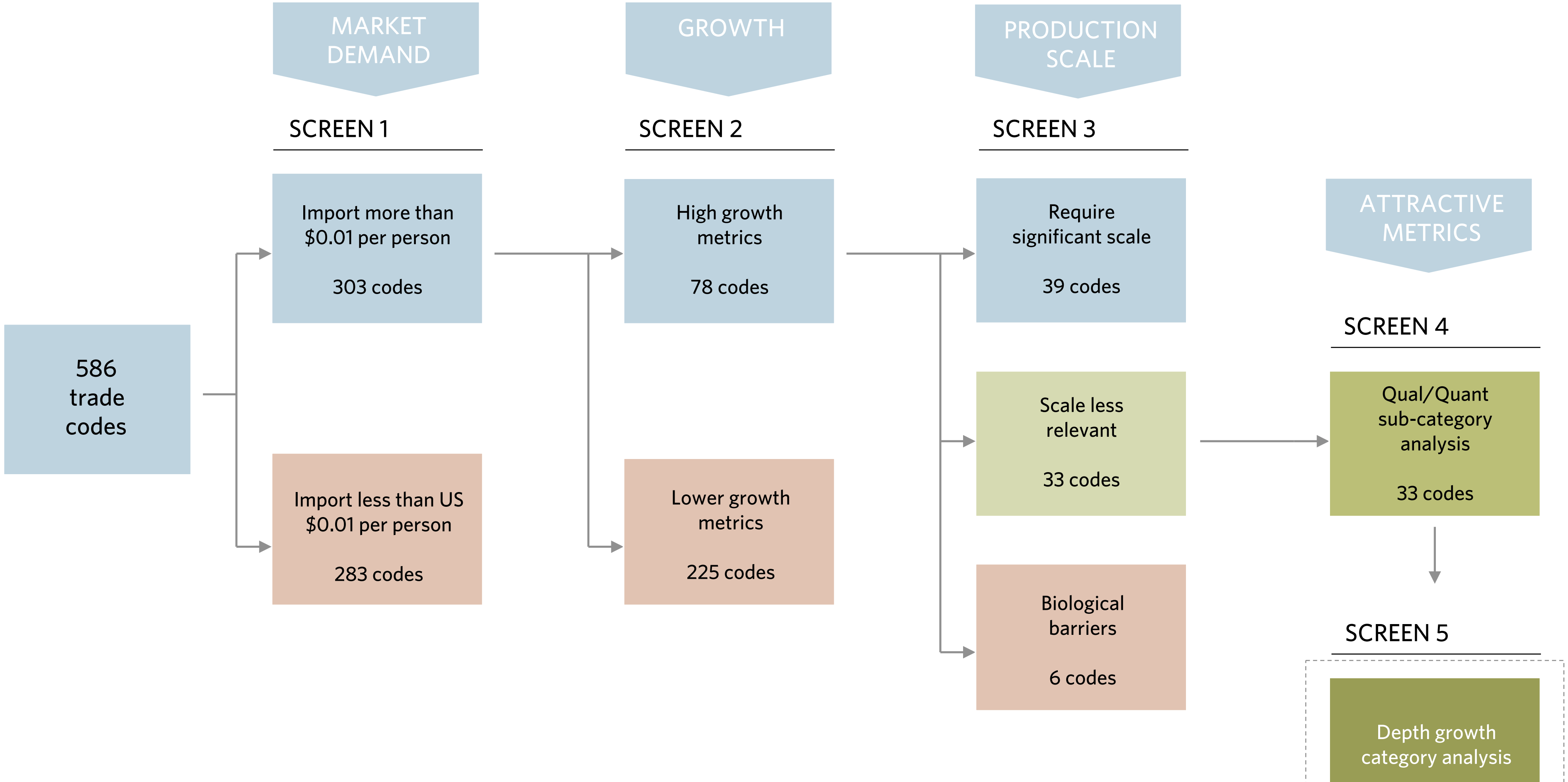
As part of the final stage of the market screen, Coriolis was asked to develop a "path forward" to assist NZ Inc. in embracing the opportunity

- Develop a "straw man" high level strategic direction for industry to discuss and debate
- Facilitate wider stakeholder community awareness and understanding of the potential opportunity
- Including the facts and analysis required to "come up to speed" on the industry and the opportunity

Project incorporates extensive, recent independent research

- Extensive quantitative analysis of key available data sources on the industry
- Surveys, benchmarks from other countries, commercial research and Coriolis expertise
- Significant past Coriolis research on the wine industry

Part I of the project completed an in-depth analysis structured as a five stage screening process: this report (Part II) acts as Screen 5 of this process



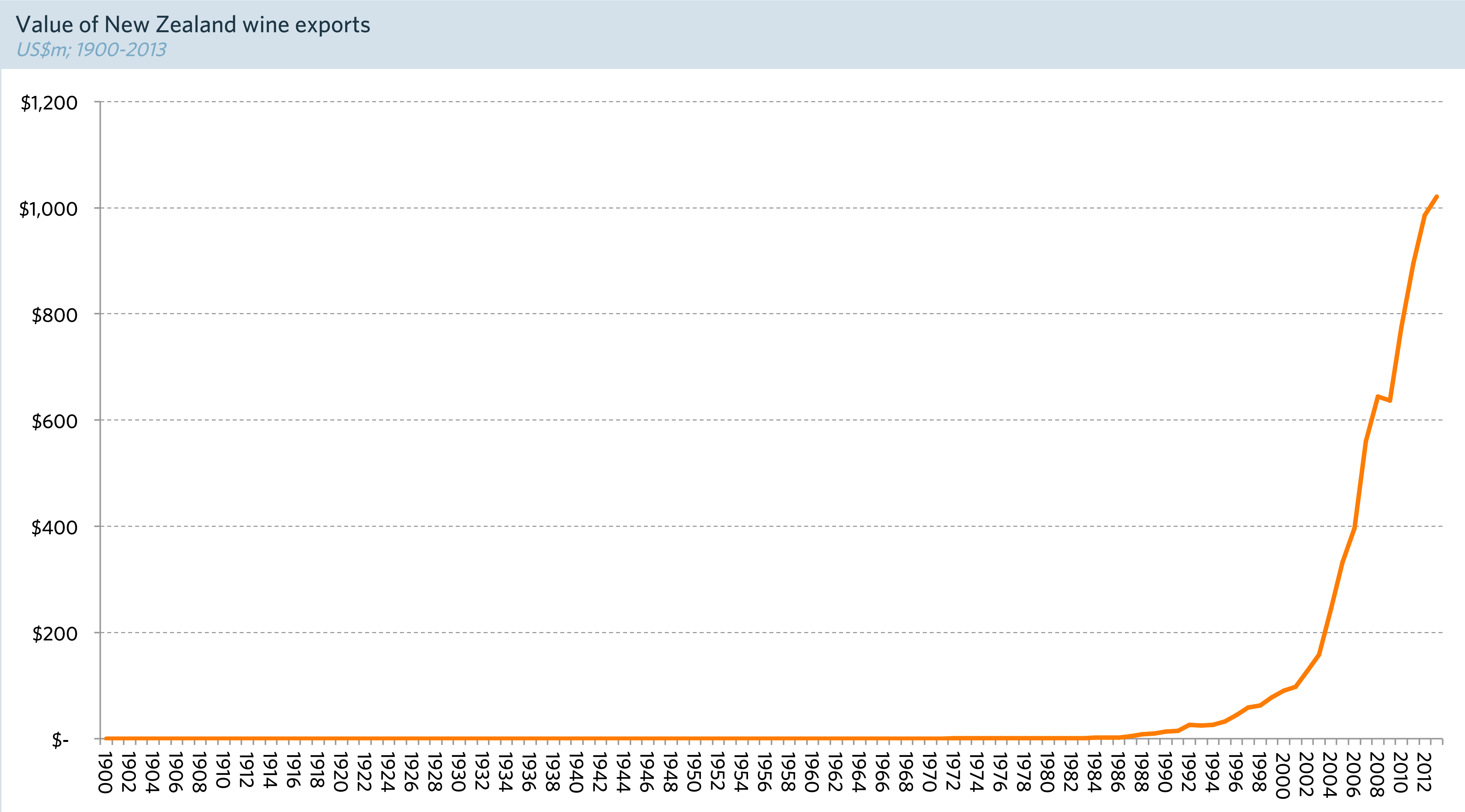
Complete analysis of Screens 1-4 is available in "**What does Asia want for dinner?** Emerging Market Opportunities for New Zealand food & beverages in East & South East Asia", conducted as part of the New Zealand Food & Beverage Information Project (iFAB) in 2014

The New Zealand wine export portfolio needs to adapt to strong signals from Asian consumers; a strong push should be made into add-on/adjacencies sparkling wine and brandy

Key Takeaways

- The greater wine platform (still, sparkling, brandy, vermouth) is an attractive market with strong fundamentals
  - Growing global market, particularly in East & South East Asia
  - Strongly on trend with key Asian mega-trends: rising incomes, conspicuous consumption, branded luxury & gifting
  - Highly profitable industry, particularly in the growing super-premium sector
  - Market is currently dominated by France, a strong competitor with clear strengths, but one that New Zealand has demonstrated the capability to match
- New Zealand has a strong and vibrant still wine industry with clearly revealed comparative advantage
  - Fifty years of strong export growth, leading to solid market positions in the Anglo-sphere; weaker elsewhere
  - Still too much of a "one-trick-pony" with an over-reliance on Marlborough Sauvignon Blanc; need to diversify
  - Developing the capabilities required to deliver the wine products Asia wants is a stretch, but not impossible
- The New Zealand industry now needs to take the next step and "lift its game" in sparkling wine and brandy
  - Continued marketing, innovation and new product development
  - Continued market development to build position in both developed and developing Asia
- Ideally these new products would emerge in regions other than Marlborough
  - France produces Cognac, Armagnac and Champagne in different regions than Sancerre (Sauvignon Blanc)
  - New Zealand needs wider geographic diversity and many secondary regions have yet to develop "their" wine
  - New high value products would support regional economic development

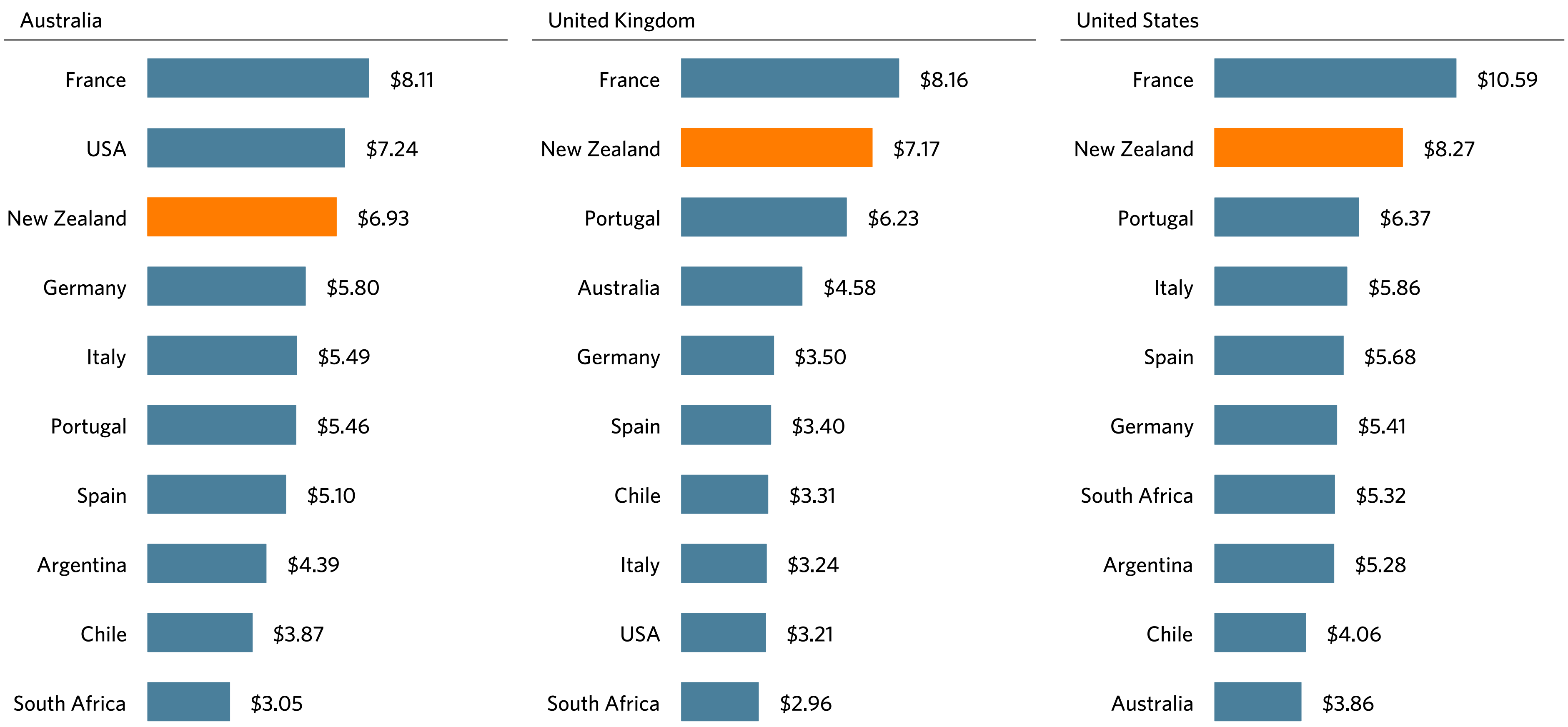
The New Zealand wine industry emerged from nothing and has grown into a billion dollar export



Source: UN Comtrade database; Coriolis analysis

New Zealand has demonstrated an ability to demand premium prices for its wine

Average declared price per litre of imported retail-pack wine (HS220421): select countries and top 10 suppliers (by import total value) for each
US$; CIF; actual; 2013

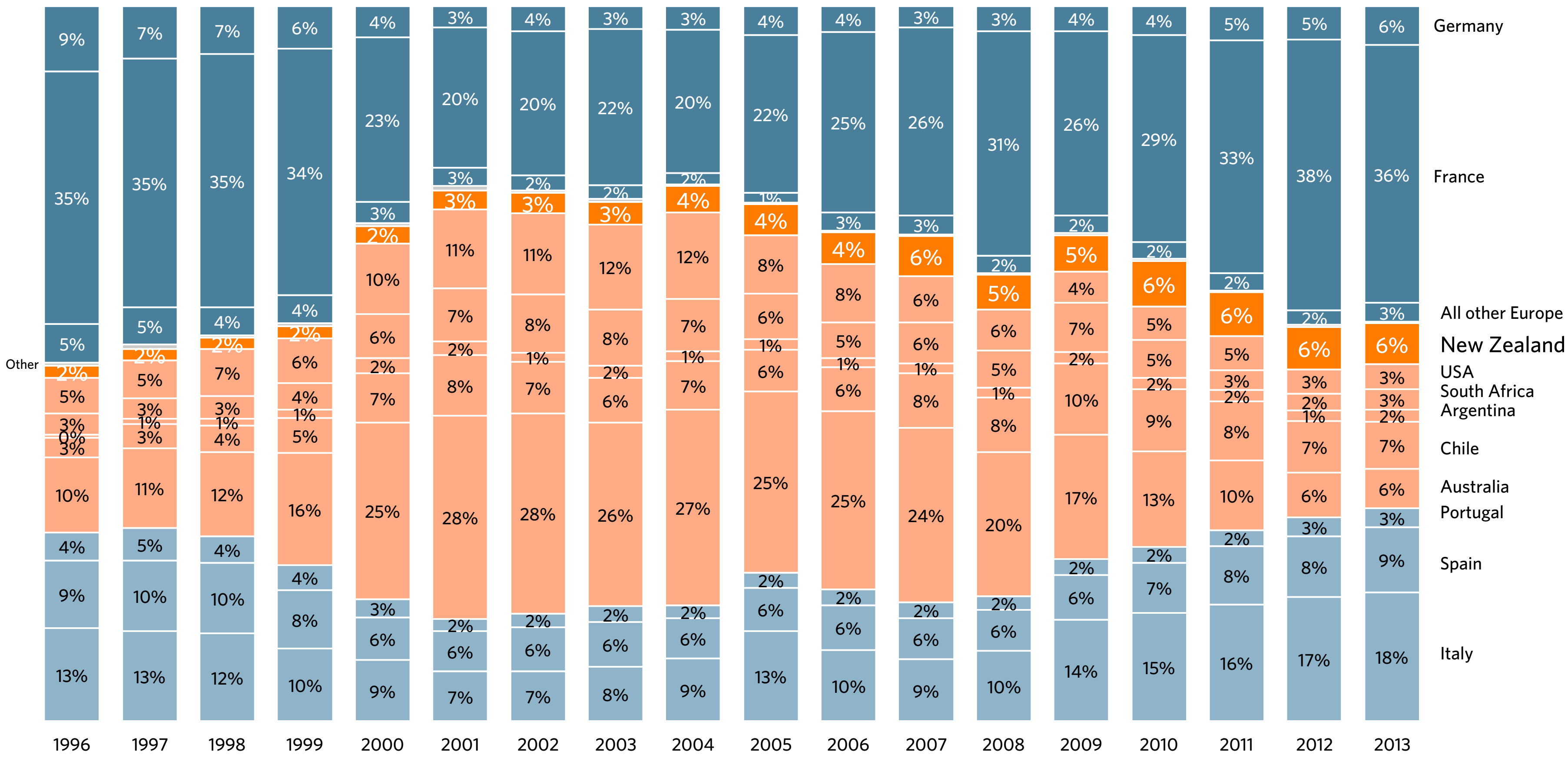


Note: Data is cost insurance and freight (CIF) as reported by receiver; will not agree with as reported sender (used elsewhere) for known and understood reasons
Source: UN Comtrade database; Coriolis analysis

New Zealand has demonstrated an ability to take share in highly competitive markets

EXAMPLE: Value share into the United Kingdom of imported retail-pack wine (HS220421): top 11 countries and other

% of total US$; CIF; actual; 1996-2013



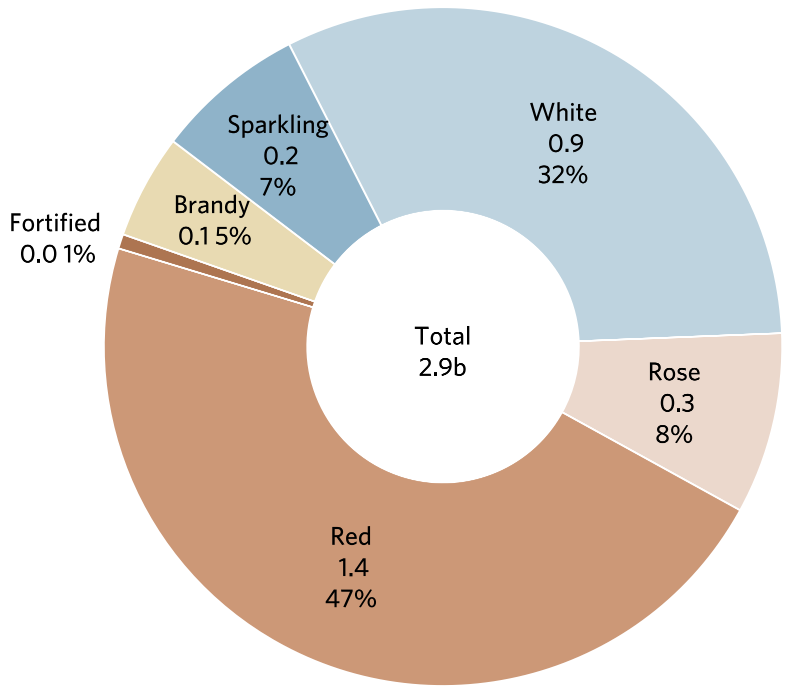
Note: data is as reported by receiving country

Source: UN Comtrade database; Coriolis analysis

New Zealand currently only competes seriously in white wine; other segments present opportunities for growth

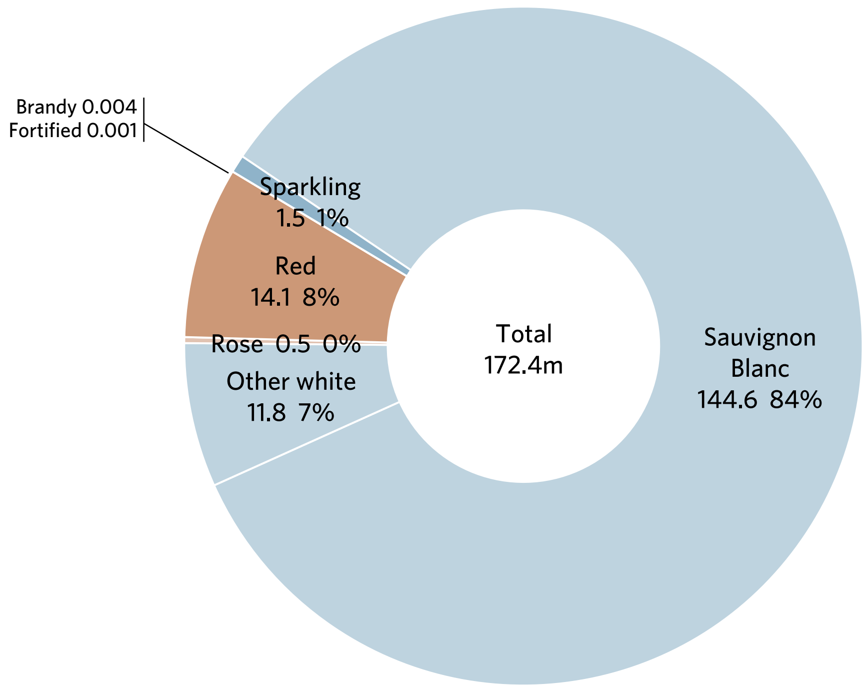
Global wine production volume by colour/type

Standardised 9 litre cases; billions; 2014e



New Zealand wine export volume by colour/type

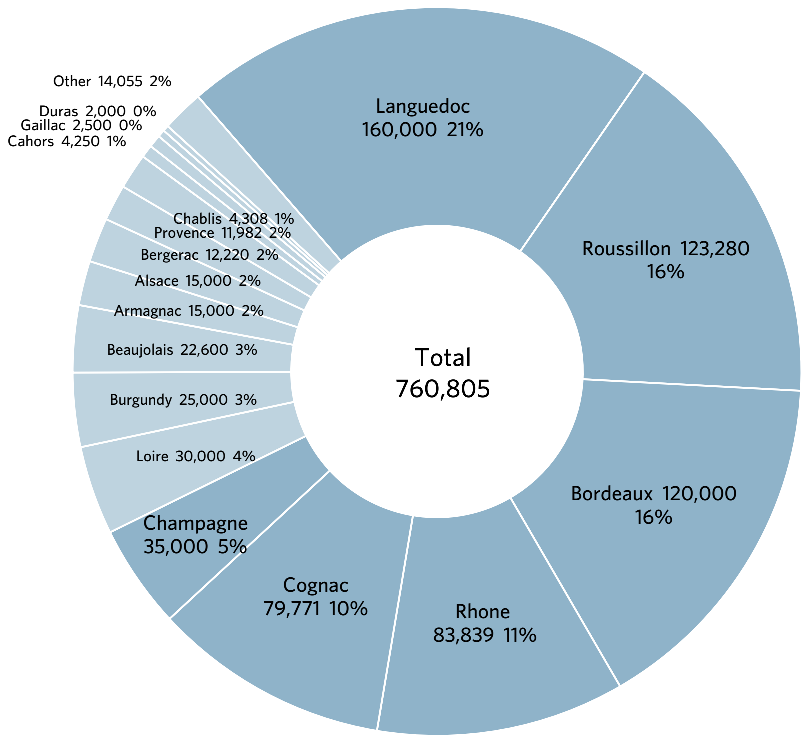
Litres; millions; 2013



Source: New Zealand Wine annual report 2013; Vinexpo; UN Comtrade database; OIV; Euromonitor (various reports); Impact; other; Coriolis estimates and analysis

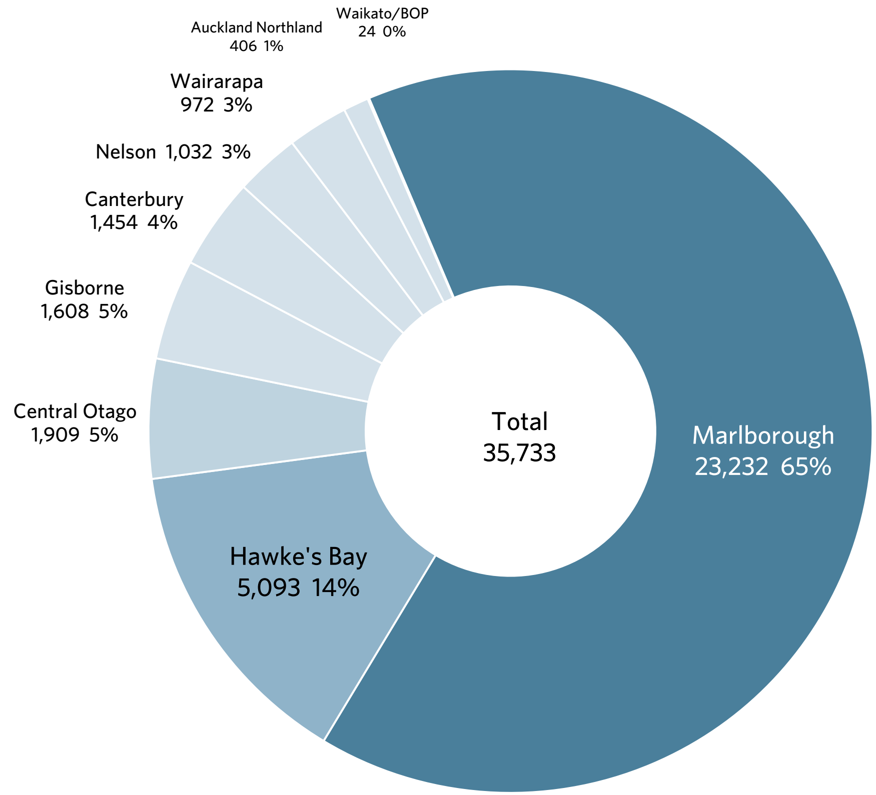
The New Zealand wine industry needs to diversify away from a single region; French experience suggests that New Zealand should have 5-6 regions of similar size each specialising more clearly

French wine area by region
Hectare; 2013



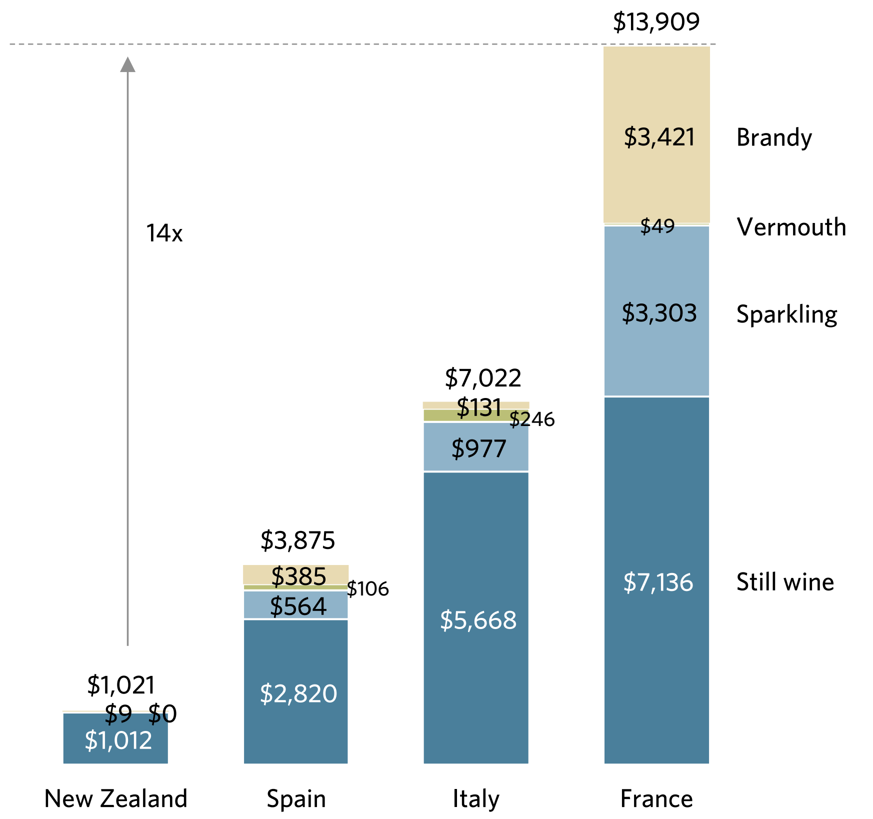
Note: Italy shows a very similar picture

New Zealand wine area by region
Hectare; 2013

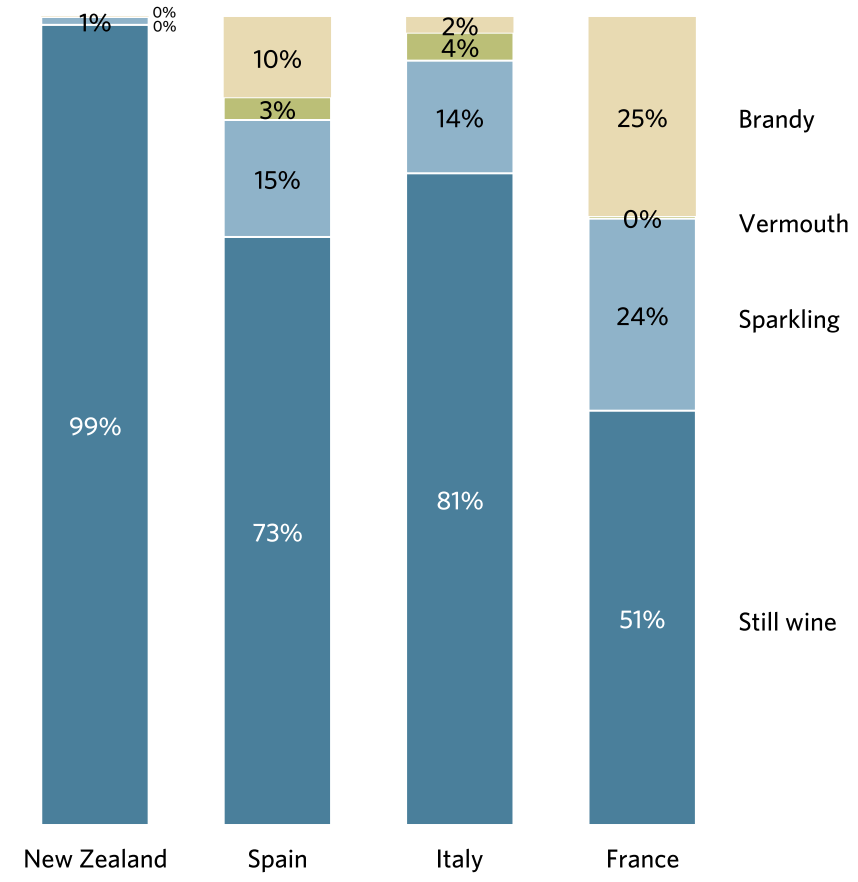


Key European competitors export more wine across a wider range of products; overall France exports fourteen times more wine products to the world market (by value) than New Zealand

Total export value across greater wine platform: select countries
US$m; 2013



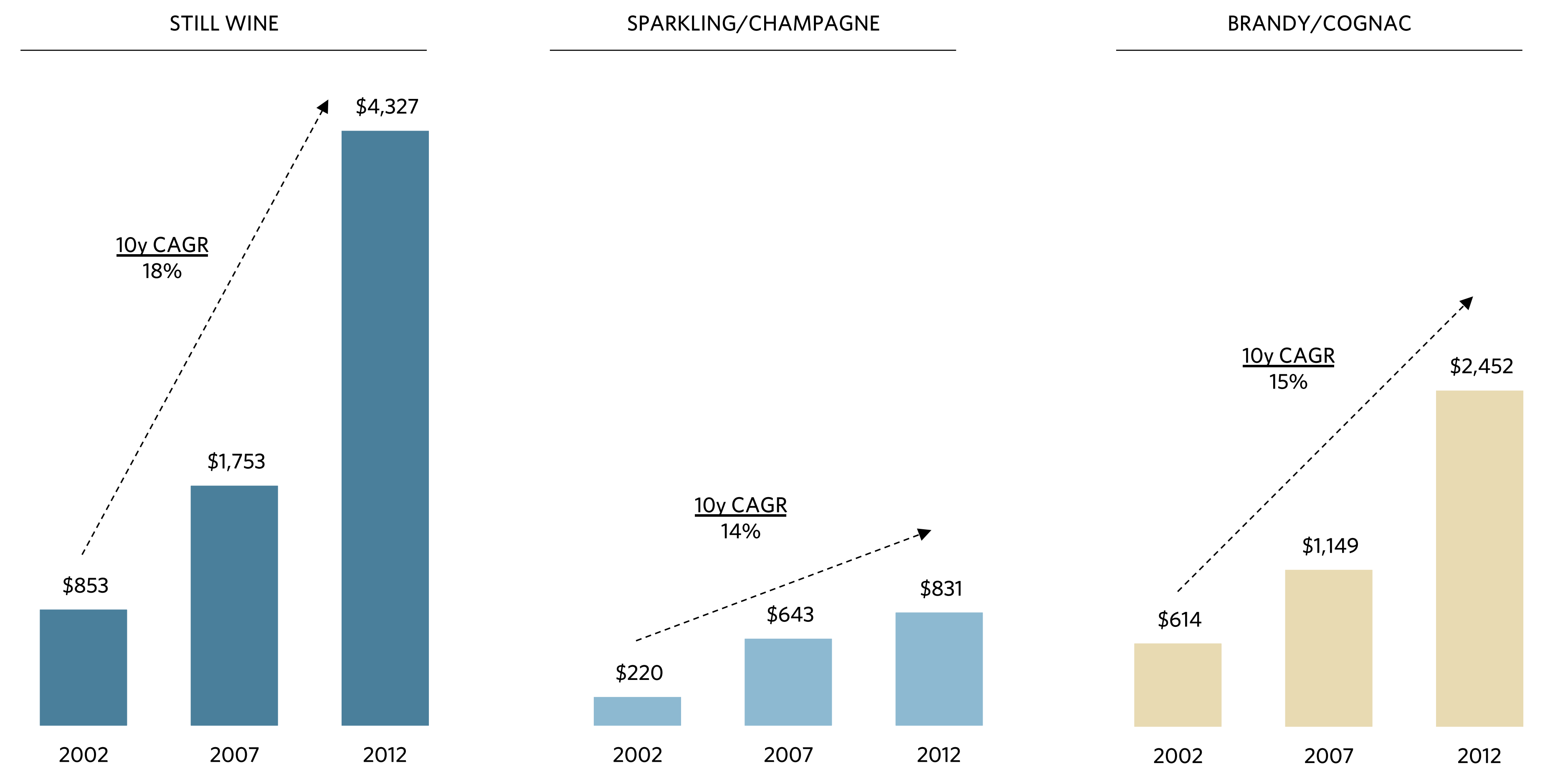
Share of export value across greater wine platform
% of US$; 2013



Note: Numbers are rounded to nearest million
Source: UN Comtrade database; Coriolis estimates and analysis

Asia is demanding more wine, more sparkling/Champagne and more brandy/Cognac

Aggregate CIF value of East/South-East Asia* greater wine platform imports (from all sources)
US$m; 2002-2012

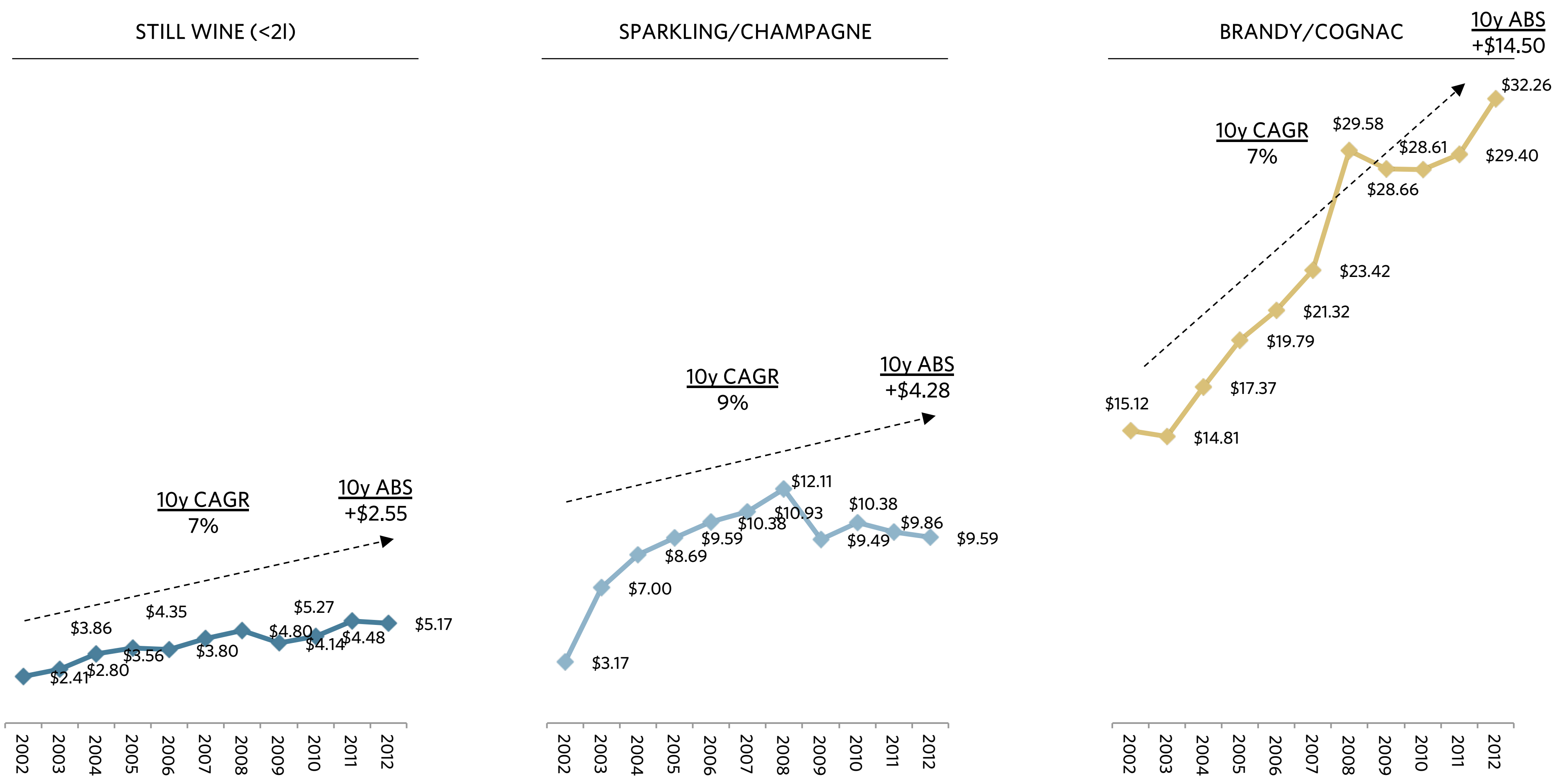


** East/South East Asia region defined in Appendix 1; Note: Data is cost insurance and freight (CIF) as reported by receiver; will not agree with as reported sender (used elsewhere) for known and understood reasons; uses 2012 as 2013 not available for all countries; CAGR = Compound Annual Growth Rate; Source: UN Comtrade database; Coriolis estimates and analysis*

Prices are trending upwards

EXAMPLE: Average declared CIF value of Chinese imports across greater wine platform (from all sources)

US$/l; 2002-2012



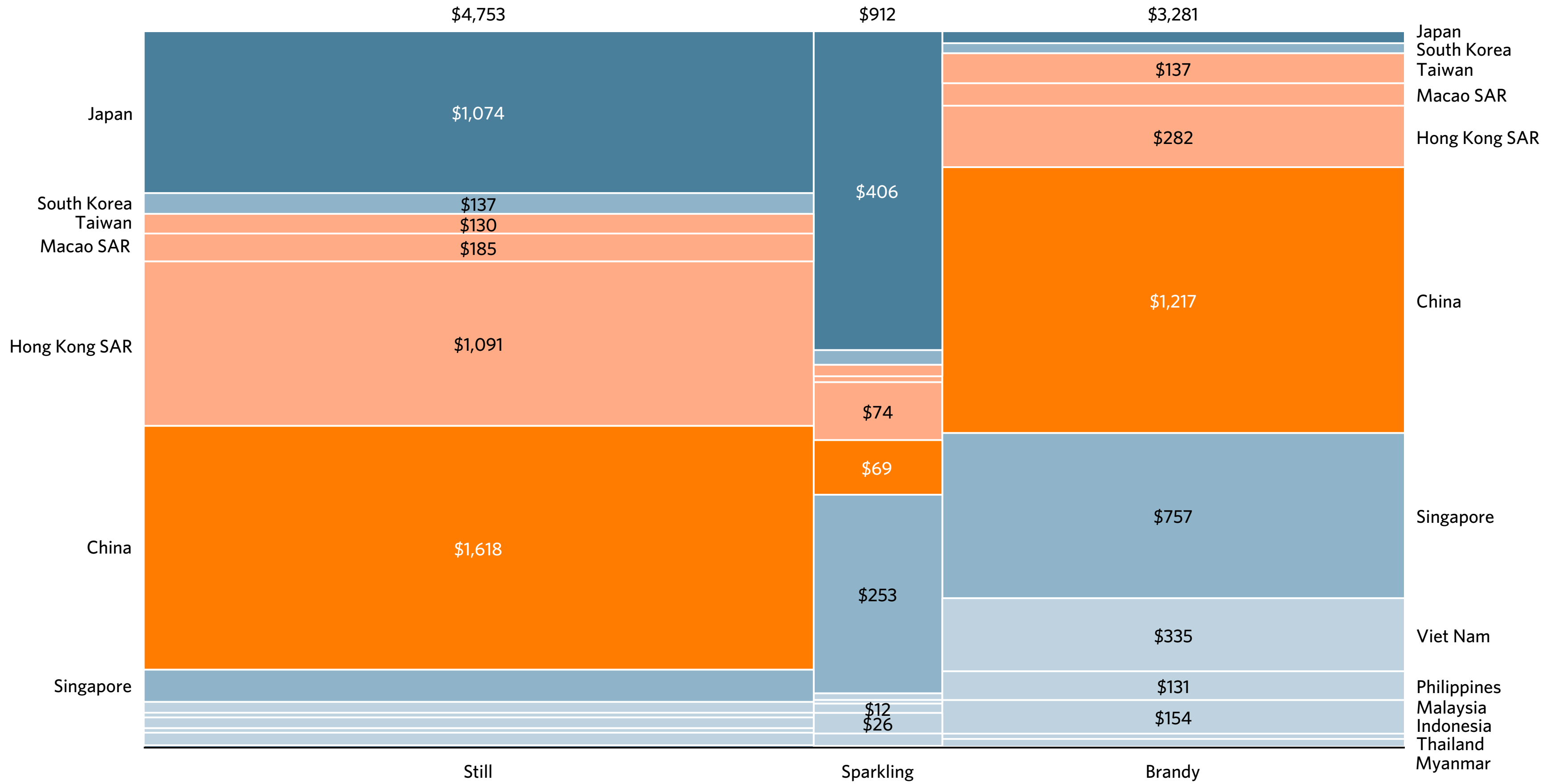
Note: Data is cost insurance and freight (CIF) as reported by receiver; will not agree with as reported sender (used elsewhere) for known and understood reasons; uses 2012 as 2013 not available for all countries

Source: UN Comtrade database; Coriolis estimates and analysis

Greater China and Japan are the key markets

MEKKO CHART: E/SE Asia wine products imports from all sources by country

US$m; 2012



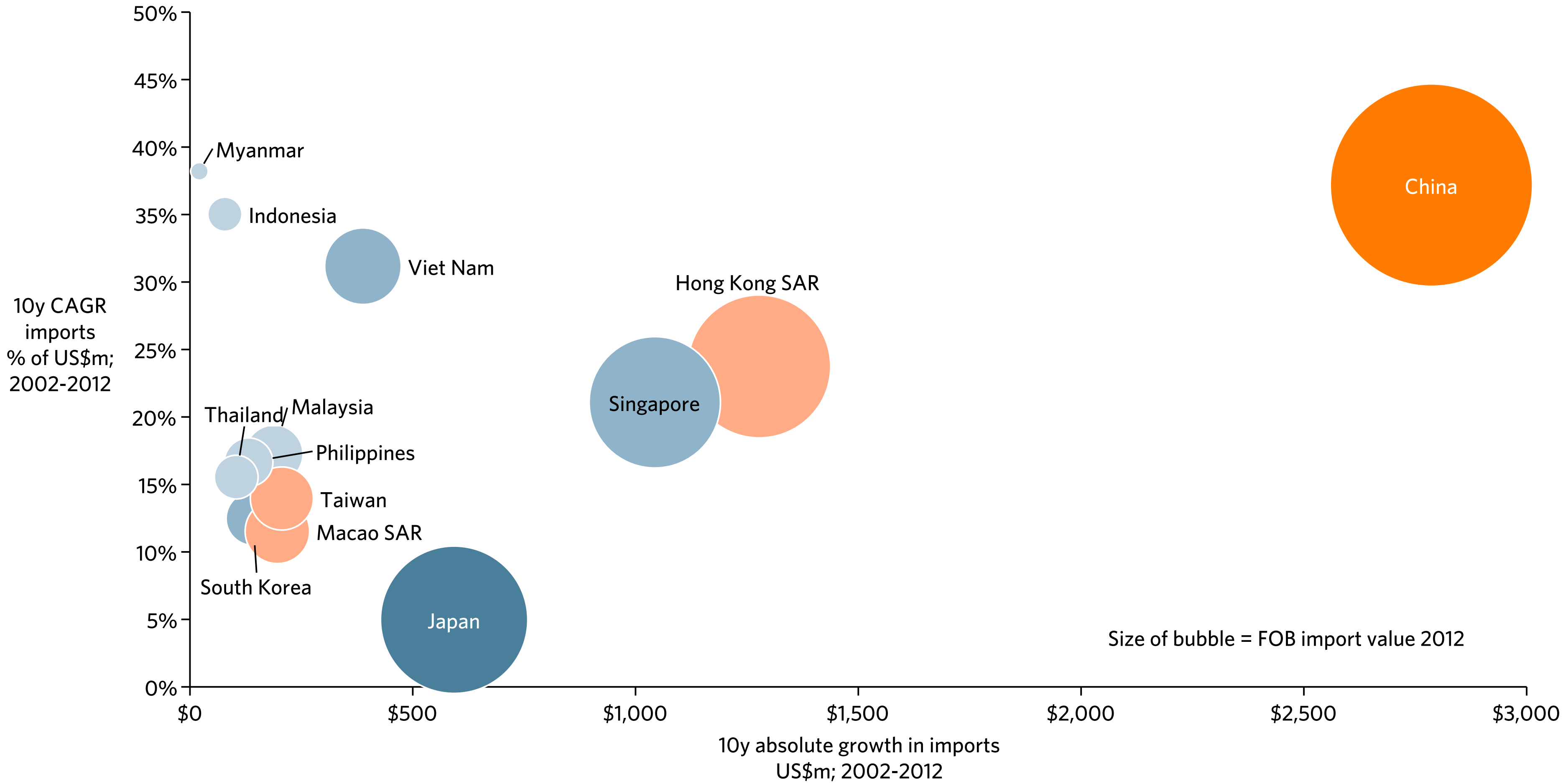
Note: Data is FOB as reported by sender; will not agree with as reported receiver (used elsewhere) for known and understood reasons; uses 2012 as 2013 not available for all countries; excludes vermouth for legibility

Note: A significant percent of Singapore's imports are then re-exported, effect is inseparable in data, therefore Singapore is over-reported; Singapore also has a large ethnic Chinese population

Source: UN Comtrade database; Coriolis estimates and analysis

China stands out as the key growth market

WINE PLATFORM IMPORT GROWTH MATRIX: 10y absolute value growth vs. 10y CAGR value growth vs. imports into E/SE Asia in 2012
US$m; 2002 vs. 2012

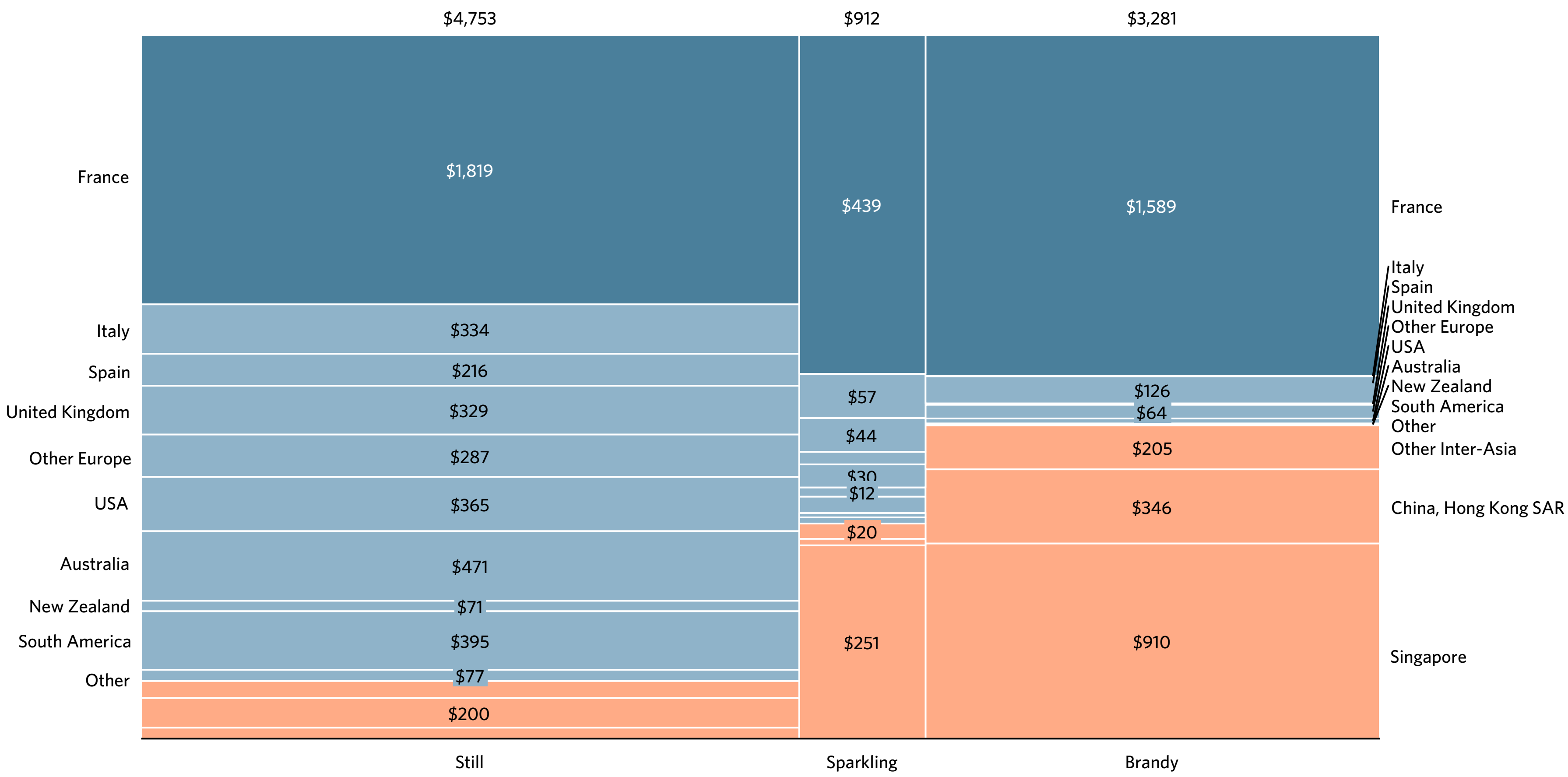


Note: Uses 2012 not 2013 as 2013 data only available for a few countries as of 4/2014
Source: UN Comtrade database; Coriolis analysis

France is the key competitor in all three products: still, sparkling and brandy

MEKKO CHART: E/SE Asia wine products exports from all sources by country

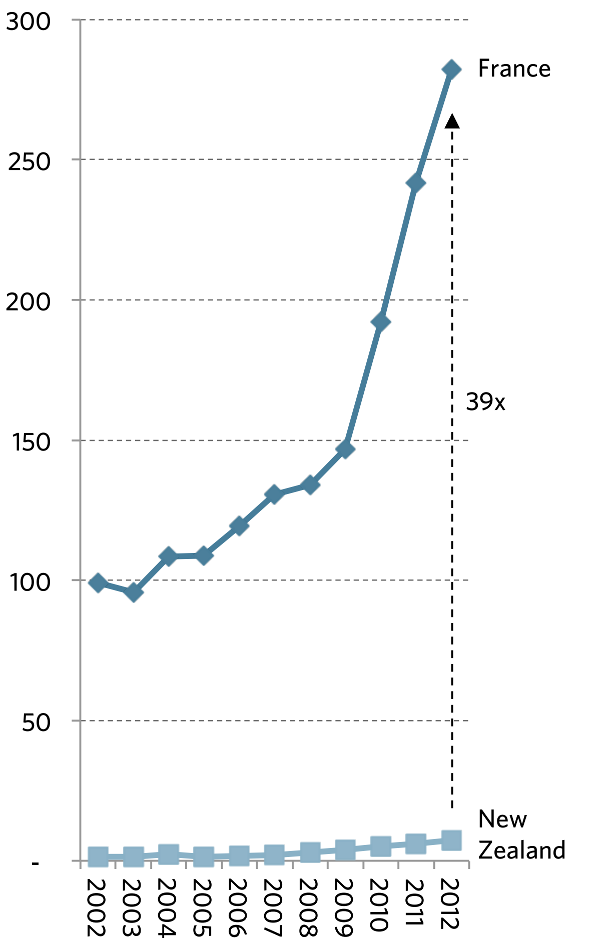
US$m; 2012



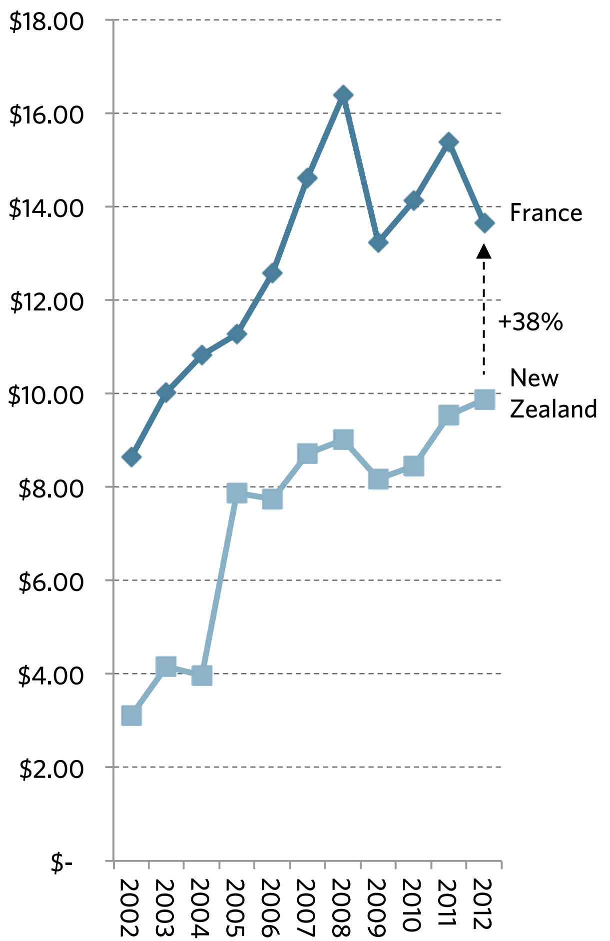
Note: Data is FOB as reported by sender; will not agree with as reported receiver (used elsewhere) for known and understood reasons; uses 2012 as 2013 not available for all countries; excludes vermouth for legibility
Note: A significant percent of Singapore and Hong Kong's exports were imported (and marked-up); effect is inseparable in data, therefore Singapore is over-reported; Singapore also has a large ethnic Chinese population
Source: UN Comtrade database; Coriolis estimates and analysis

France is beating New Zealand across all three key metrics into E/SE Asia

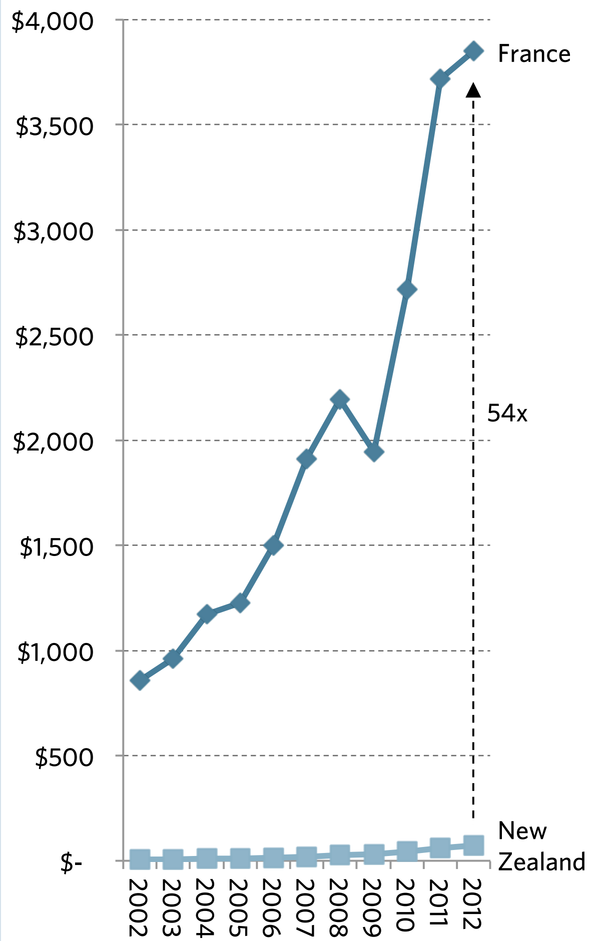
Volume: wine platform to E/SE Asia
L; m; 2002-2012



Average $/L: wine platform to E/SE Asia
US$/l; 2002-2012



Value: wine platform to E/SE Asia
US$m; 2002-2012

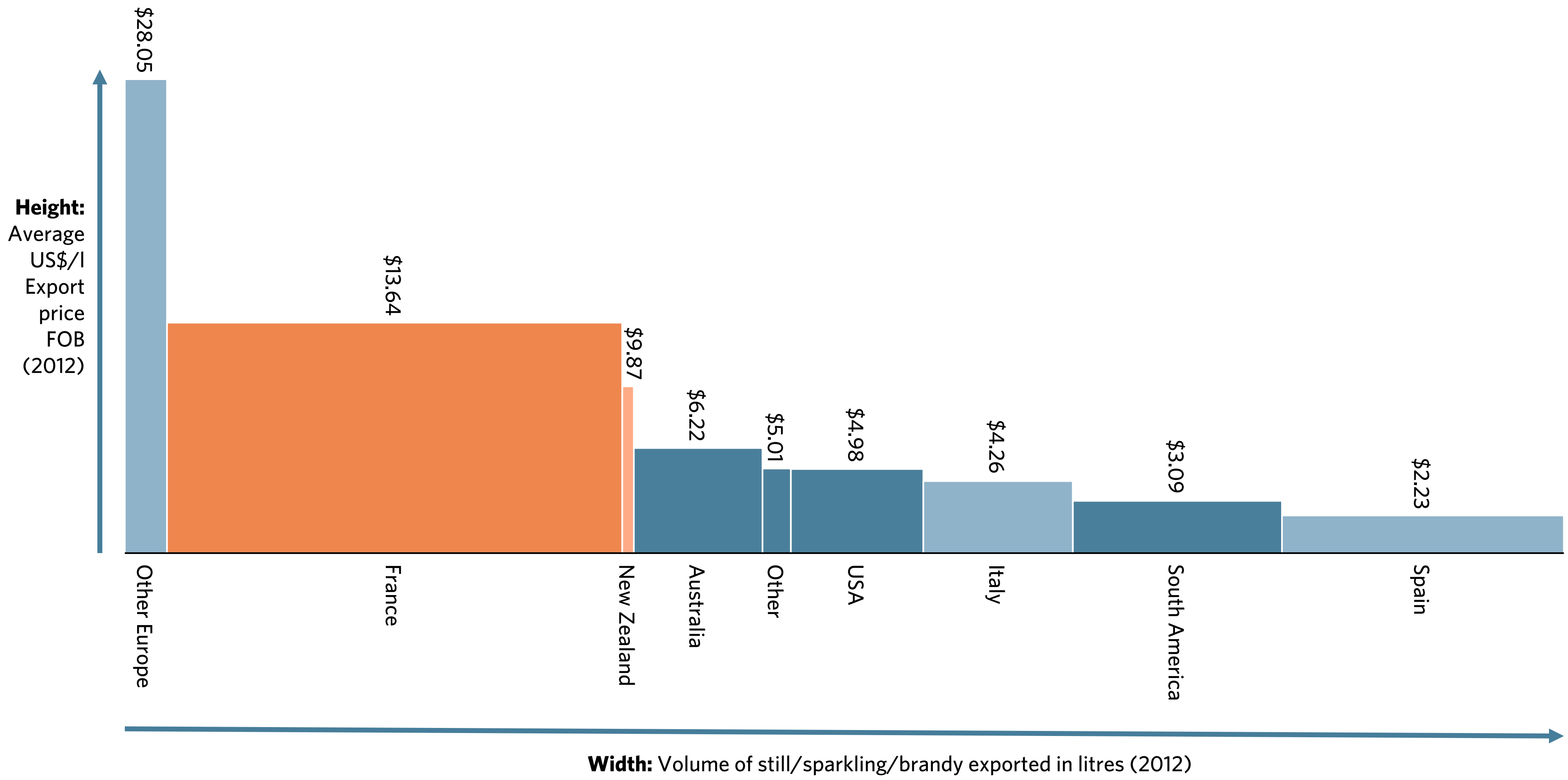


Source: UN Comtrade database; Coriolis estimates and analysis

France is achieving a large market share in E/SE Asia at premium prices

Mekko chart comparing still/sparkling/brandy export volume to E/SE Asia by source with average export value per litre

Litres; m; US$/kg; FOB; 2012

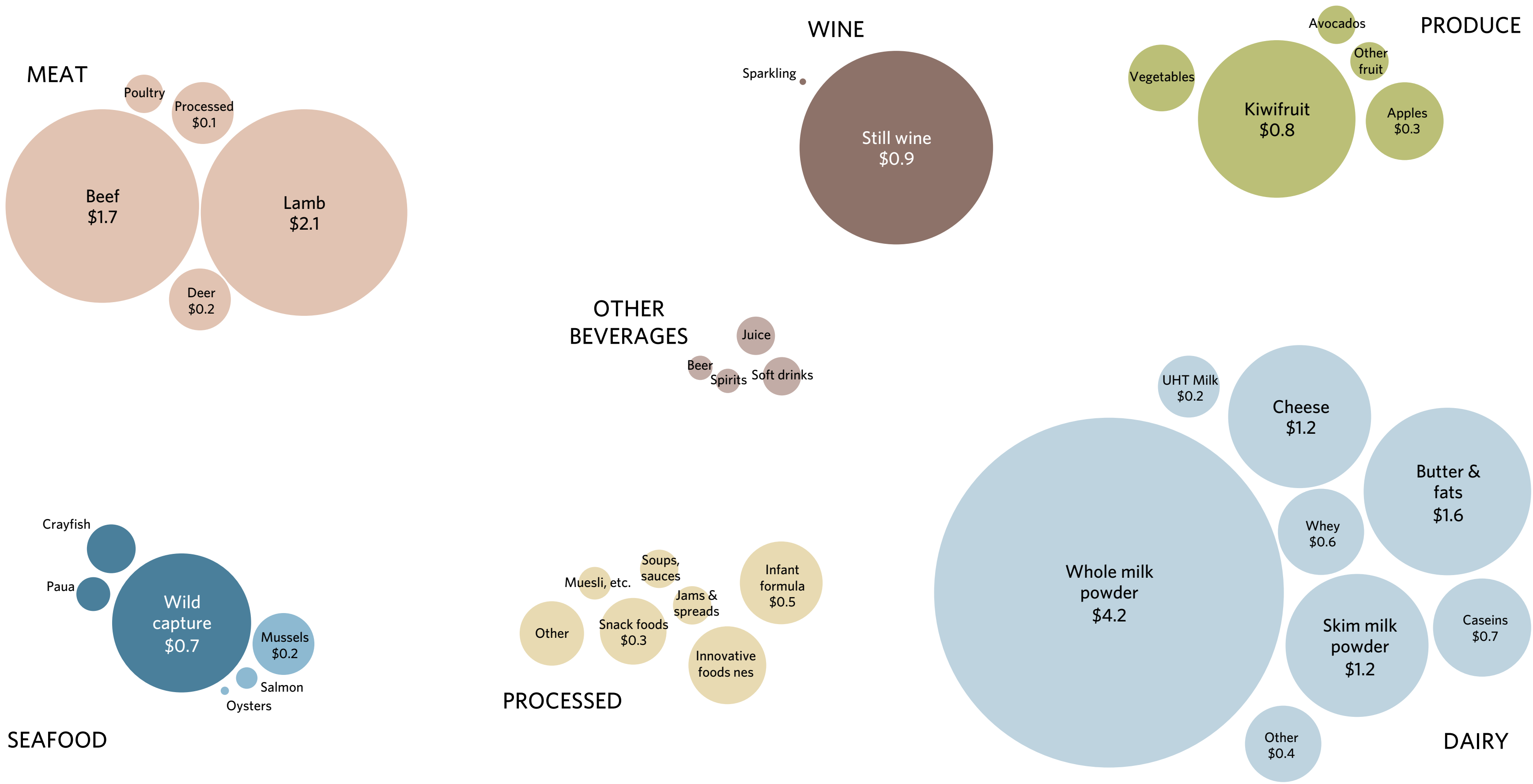


Note: Other Europe is strongly distorted by small amounts of high value premium/collectable wine coming out of the UK and elsewhere; excluding this it is likely closer to others

Source: UN Comtrade database; Coriolis estimates and analysis

Wine, as New Zealand's newest platform, is underdeveloped

Simplified model of New Zealand food & beverage industry export platforms
US$b; 2012



Note: Not all export products or categories are shown; bubbles not exactly to scale
Source: Coriolis iFAB Food & Beverage Information Project 2013/14 (see individual sector reports)

Based on the experience of other countries, we propose that the New Zealand wine platform should move towards a larger and more varied product range

PROPOSED: Future direction of New Zealand wine platform

Bubble size = approximate export value

PAST	CURRENT	FUTURE DIRECTION

Note: Bubbles not exactly to scale

Source: Coriolis iFAB Food & Beverage Information Project 2013/14 (see individual sector reports)

Proposed product line extensions/expansions have the capability to support significant price upside

EXAMPLE: Low-to-high retail unit shelf price of three types of alcohol in Hong Kong
US$; April 2014

Source: various online shopping websites; photo credit (fair use; low resolution; complete product/brand for illustrative purposes); Coriolis analysis

We propose a four stage strategic pathway to growth

1 **Defend & grow** existing Marlborough Sauvignon Blanc

2 **Improve & expand** red wine targeting Asian preferences & tastes

3 **Consider** radical steps to “restart” sparkling wine

4 **Develop** strong premium brandy offer targeting high end

- Industry executing on these opportunities, therefore not developed further
- Limited argument for collective action on-and-beyond business as usual

- Limited evidence of New Zealand achieving progress against these objectives
- Arguably an opportunity for a industry/NZ Inc. approach
- Discussed next…

The "sparkling wine" trade code (HS2204-10) encompasses any sparkling wine made from grapes

EXAMPLES: Sparkling wine products

2014

Champagne (France) | Cava (Spain) | Prosecco (Italy) | Asti (Italy)

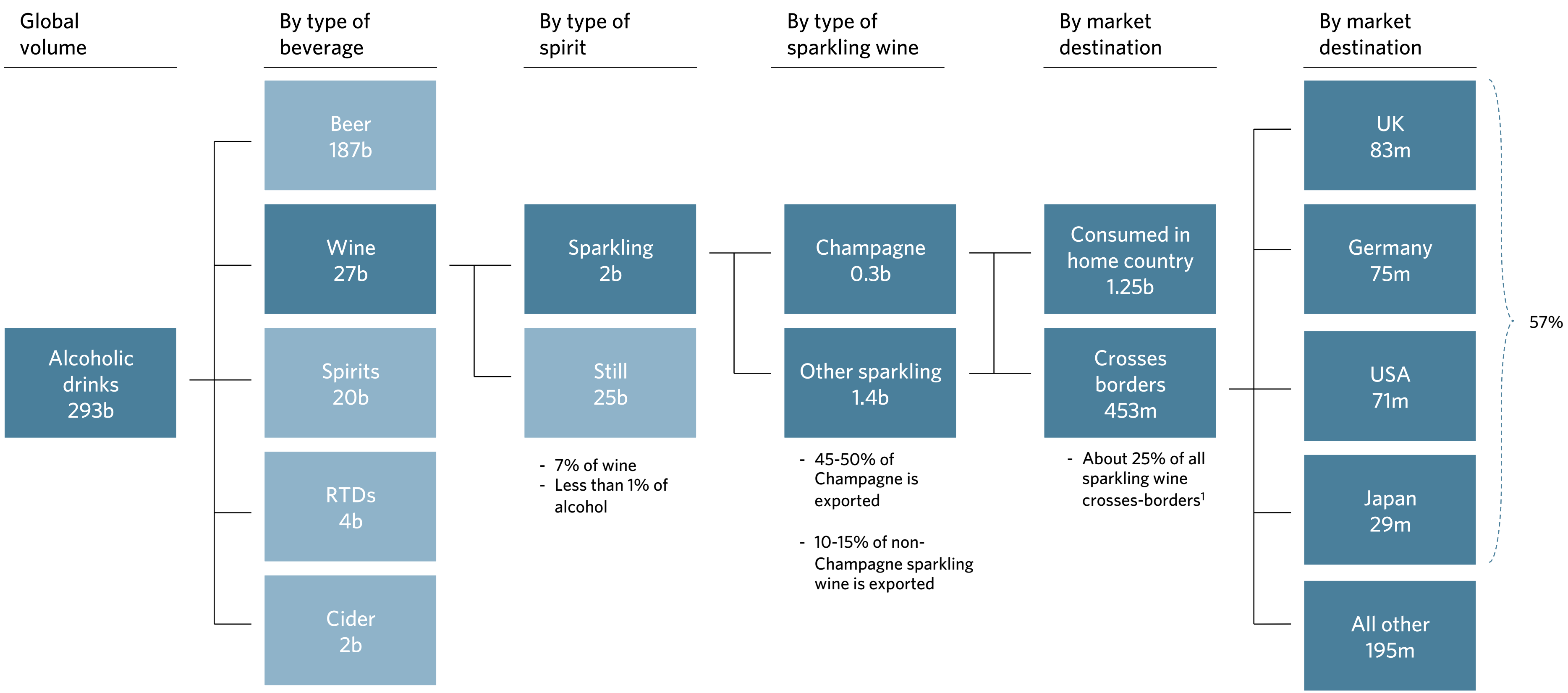
Australia | California | Washington/Oregon | New Zealand | Other

Source: various; photo credit (fair use; complete product/brand for illustrative purposes); Coriolis analysis

Sparkling wine is a major alcoholic beverage accounting for 7% of global wine volume

Position of sparkling wine in global alcohol volume in litres

Litres; m or b as given; 2012



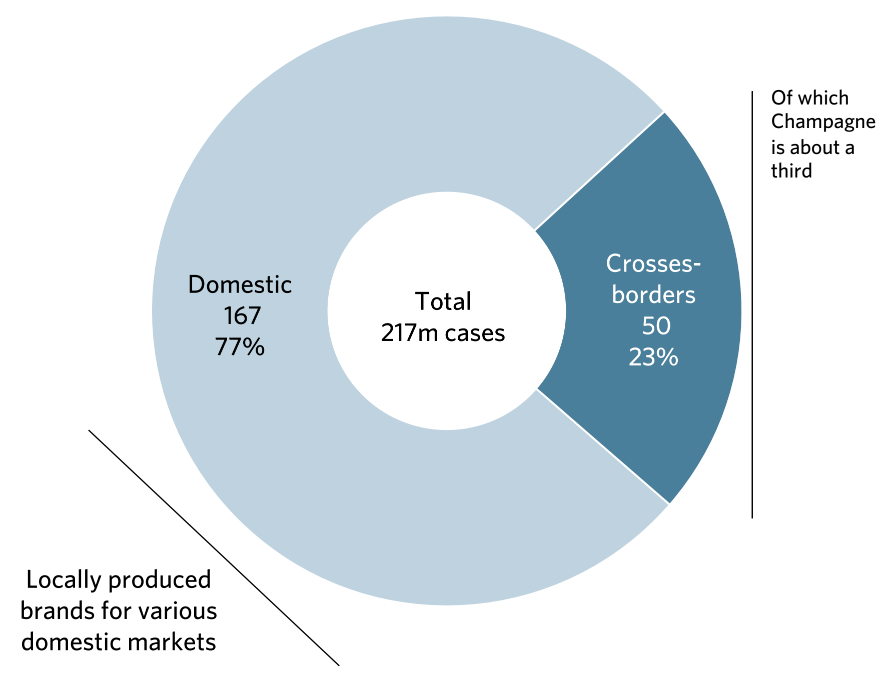
1. Includes some amount of double counting (crossing borders twice, for example into Singapore then on to China)

Source: UN Comtrade database; Euromonitor (various reports); Impact; other; Coriolis estimates and analysis

Most (77%) sparkling wine is produced and consumed in its home country; 23% crosses borders, of this, 1/3 is Champagne; Champagne is produced by a wide range of large producers

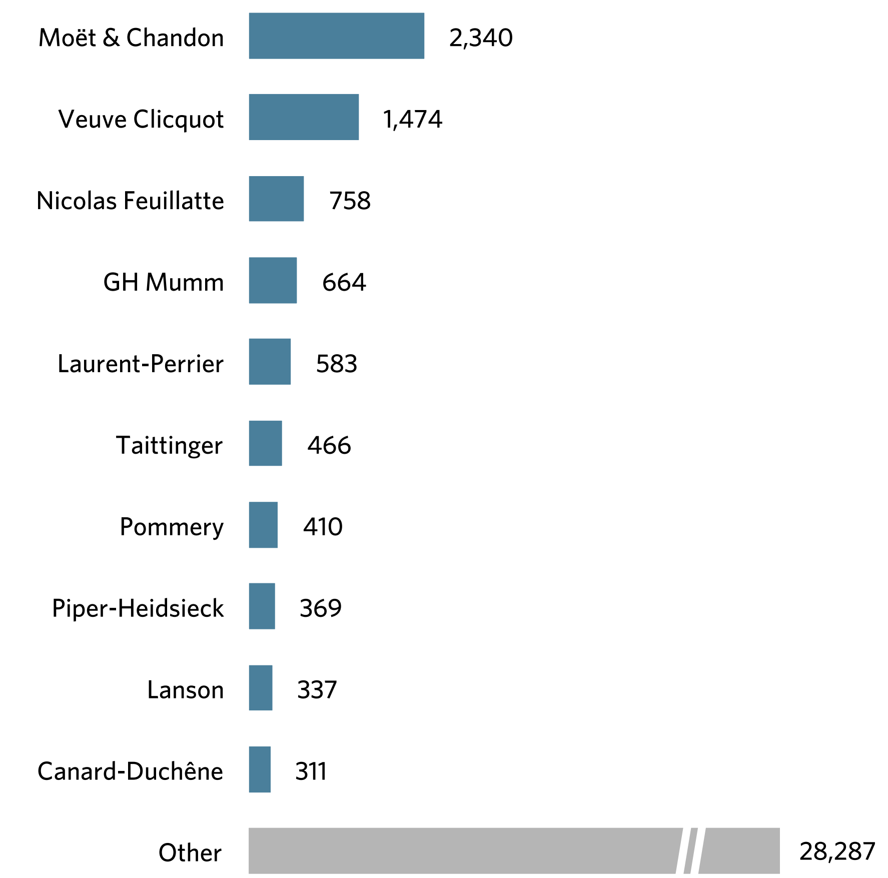
Global sparkling wine volume in cases by consumption location

Cases (9L); m; 2012



Top 10 global Champagne brands by cases sold

Cases (9L); m; 2012



Note: Crosses-borders includes some amount of double counting (crossing borders twice, for example into Singapore then on to China)

Source: UN Comtrade database; Vinexpo; Drinks International; Euromonitor (various reports); Impact; other; Coriolis estimates and analysis

Beyond generic "sparkling wine," there are a number of recognised varieties; many of these names were developed or introduced in response to French taking control of the name "Champagne"

Major recognised varieties of sparkling wine
2014

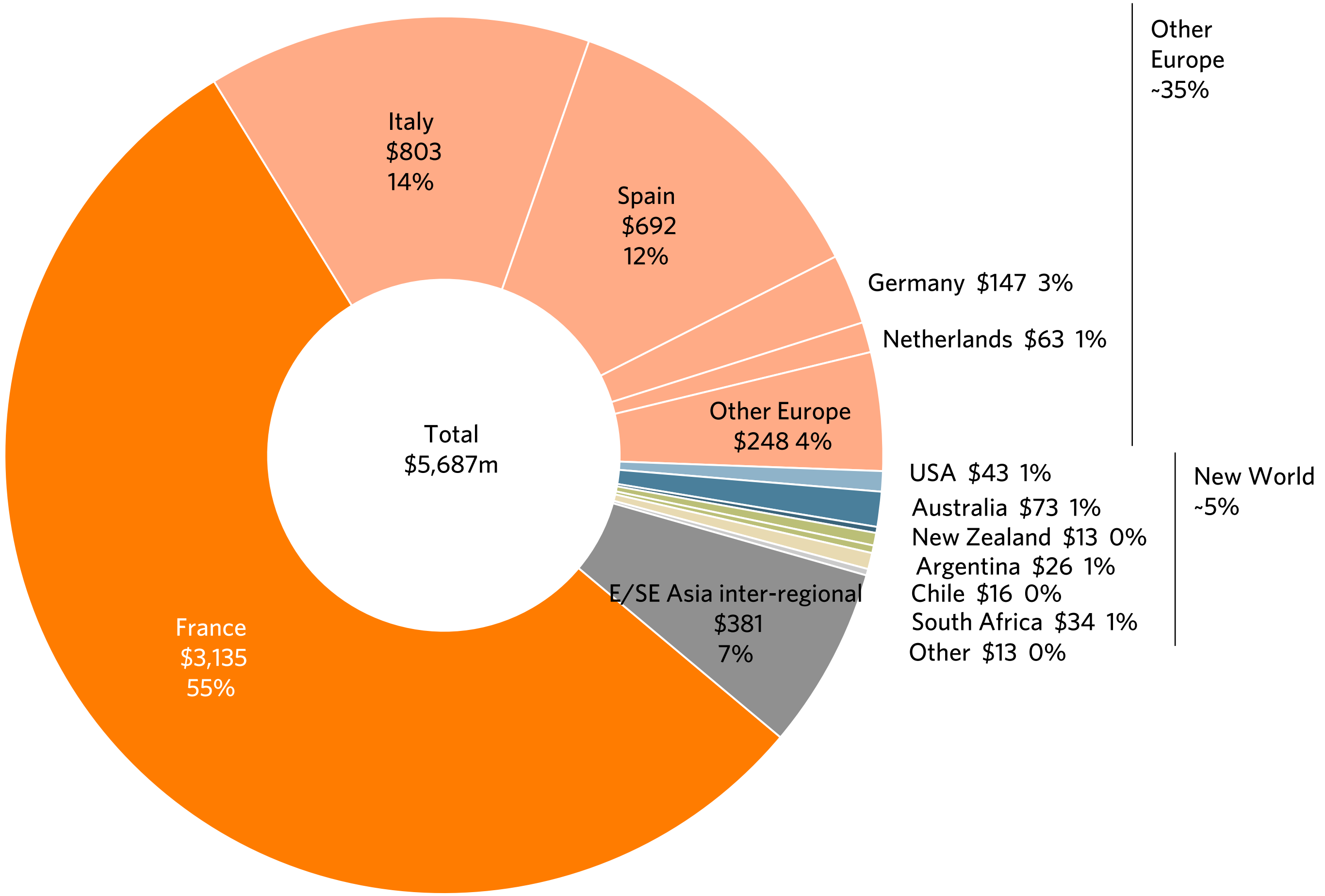
Country	Product	Age of origin	Planted area	Production (Bottles)	Grapes used	Production method	Where is it produced?
France	Champagne	16th Cent.	35,000	324m	Chardonnay, Pinot noir and Pinot meunier	*Méthode champenoise (aka. Méthode traditionnelle)*	Champagne region of France
	Cremant	16th Cent.	N/A	~150-160m		AOC status *Méthode traditionnelle*	Seven appellations use the name Primarily in Loire Valley
Spain	Cava	1851	32,000 (?)	~250m	Macabeu Parellada Xarel·lo	DOC status *Método Tradicional*	Eight regions of Spain, but primarily in Catalonia
Italy	Spumante	1908	N/A	N/A	Various	Generic name for sparkling wine	Italy
	Prosecco	Late 19th	N/A	150m	Glerá (Prosecco)	DOCG protection Charmat method	Veneto region of Italy
	Asti	1870	N/A	N/A	Moscato Bianco (Muscat Blanc)	DOCG protection in 1993 Charmat method	Southeast Piedmont region in Italy
	Franciacorta	1950's	2,200	~8m	Chardonnay Pinot Nero & bianco	DOCG *Méthode traditionnelle*	Lombardy
Germany	Sekt	1826	N/A	~350m	Various	Generic name for sparkling wine Deutscher Sekt is controlled 95% Charmat method	Throughout Germany
South Africa	Methode Cap Classique	1968 Name 1990's	N/A	N/A	Sauvignon blanc Chenin blanc Others	Producers association Voluntary code *Méthode traditionnelle*	Cape region of South Africa

1. Pomace is the "leftovers" from wine-making, including skins, seeds, pulp & stems
Source: Coriolis from various articles, books and other published sources

Global exports of sparkling wine are dominated by France (55%), Italy (14%) and Spain (12%); New World producers account for only ~5%

Value of total sparkling wine exports to world by key country and other

US$m; FOB; 2012



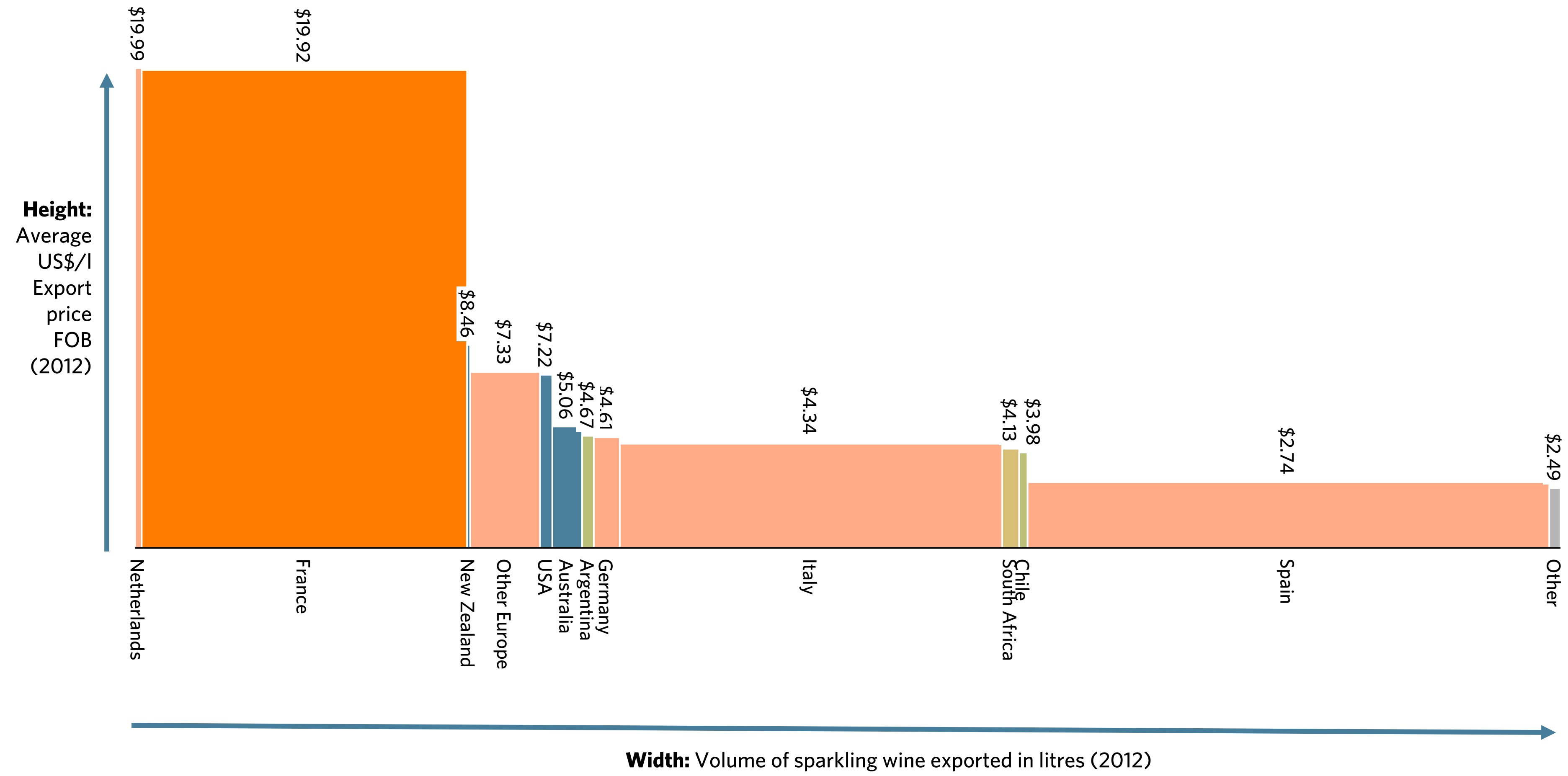
Note: E/SE Asian inter-regional primarily markup and distribution through Singapore for logistics (and tax) reasons

Source: UN Comtrade database; Coriolis analysis and classifications

There are dramatic variations in price received for sparkling wine, with France dominating the world market in terms of both price and volume and Italy & Spain taking the "cheap and cheerful" position

Mekko chart comparing sparkling wine export volume by source with average export value per litre to total world

Litres; m; US$/kg; FOB; 2012

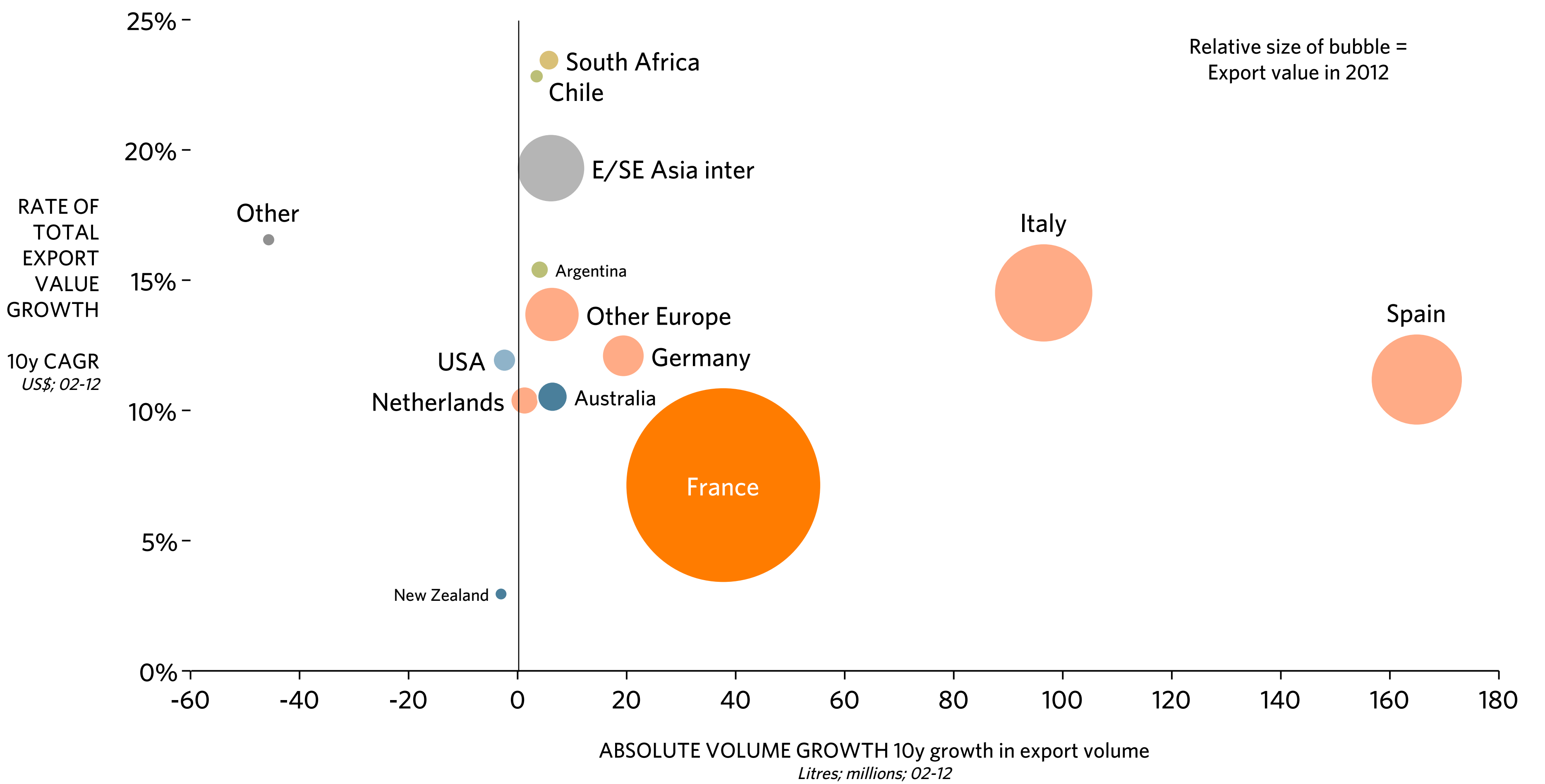


Note: E/SE Asian inter-regional excluded (data shows 2x markup)

Source: UN Comtrade database; Coriolis analysis and classifications

Turning to the drivers of export growth, we find Italy, Spain and France driving volume growth; New Zealand's global market performance has been poor

EXPORT GROWTH MATRIX: Sparkling wine 10y absolute volume growth vs. 10y value CAGR vs. export value 2012 to total world
US$; 2002 vs. 2012

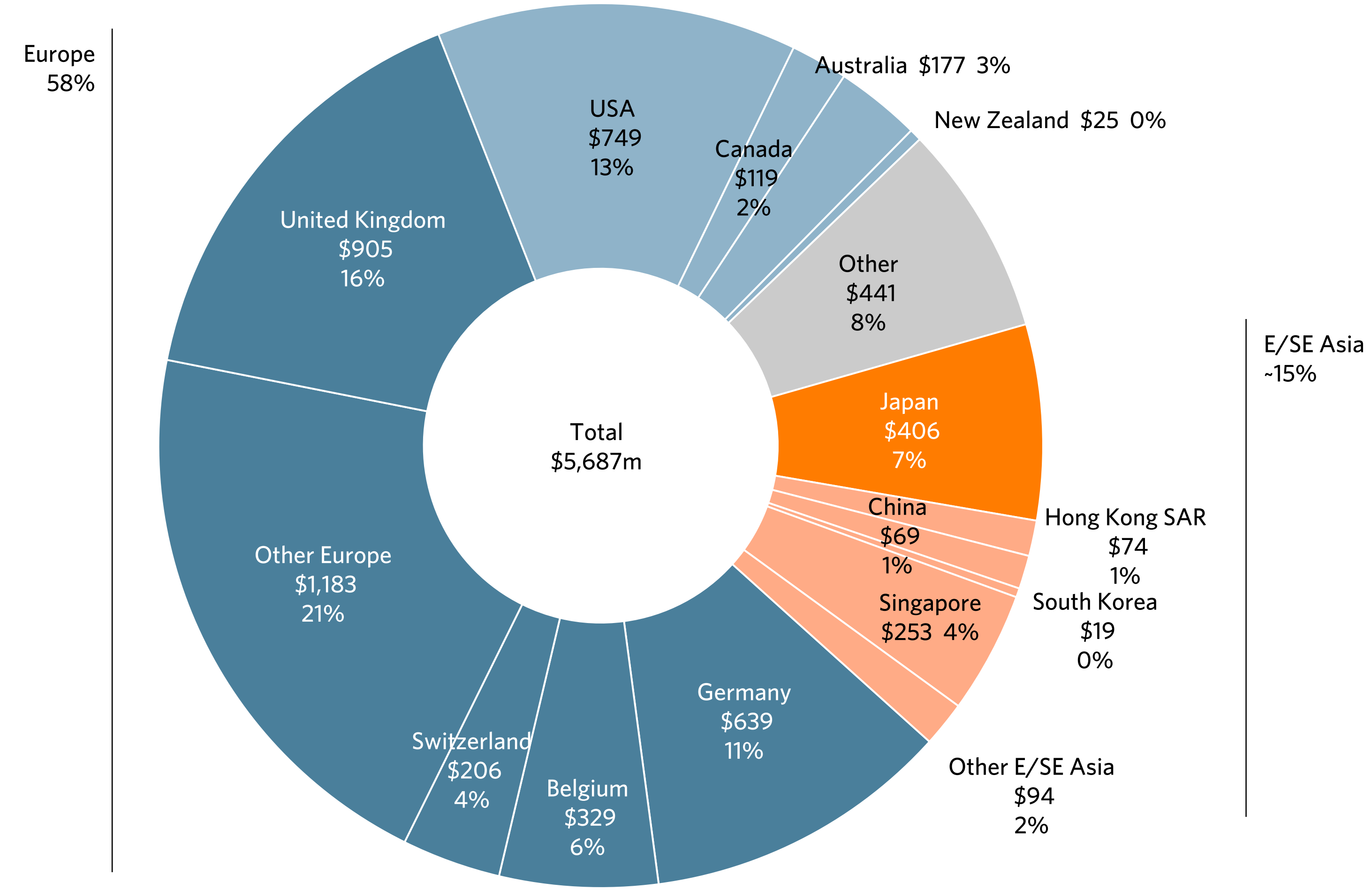


Source: UN Comtrade database; Coriolis analysis and classifications

Western countries dominate the global trade: Europe accounts for 58% of sparkling wine imports and the Anglo-Sphere (including the UK) for 34%; however Asia now accounts for 15% of the global market

Value of total sparkling wine imports by world by key importing country and other

US$m; FOB; 2012



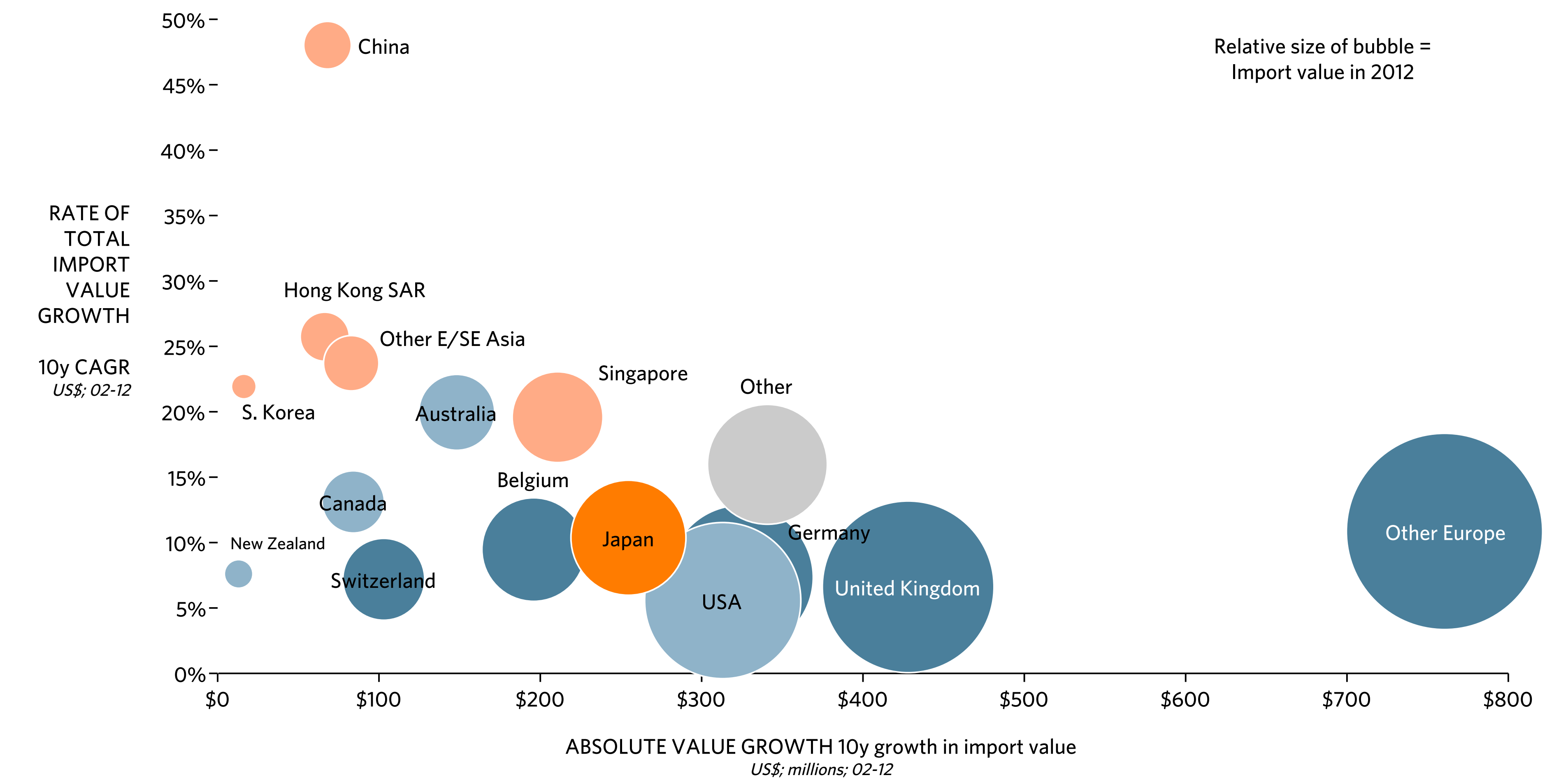
Note: Data is as reported by sender and is to first reported destination; data will include some amount of double counting (inseparable at source)

Source: UN Comtrade database; Coriolis analysis

Turning to the drivers of import growth, we find growth coming from a wide range of countries, though with Asia, particularly China, standing out for rate of growth

IMPORT GROWTH MATRIX: Sparkling wine 10y absolute import volume growth vs. 10y value CAGR vs. import value 2012 to total world

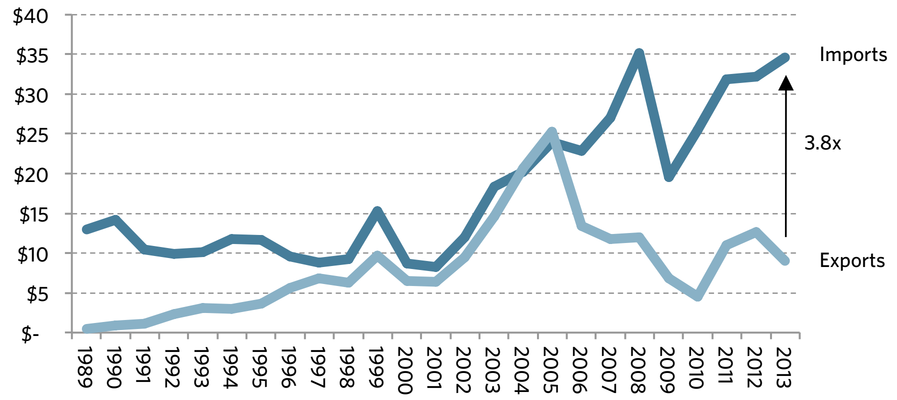
US$; 2002 vs. 2012



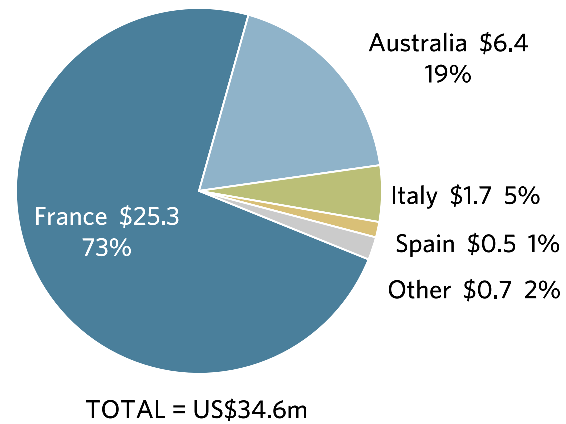
Source: UN Comtrade database; Coriolis analysis and classifications

Sparkling wine also offers a strong opportunity for import substitution; New Zealand has a widening trade deficit in sparkling wine/Champagne

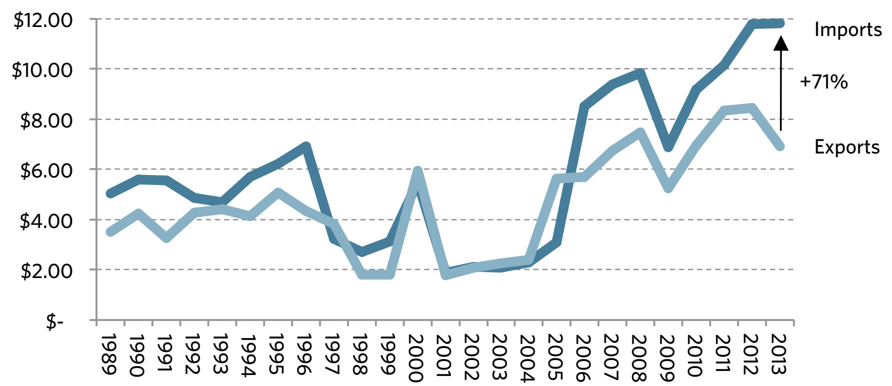
New Zealand sparkling wine (HS220410) trade
US$m; 1989-2013



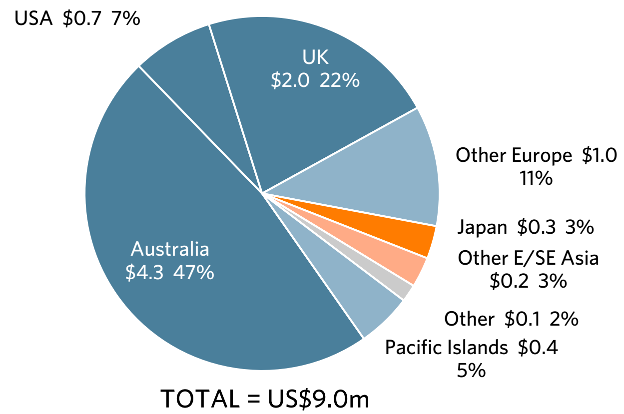
Source of New Zealand sparkling wine/Champagne imports
US$m; 2013



Average value per litre at border: imports versus exports
US$/litre; 1989-2013



Destination of New Zealand sparkling wine/Champagne exports
US$m; 2013

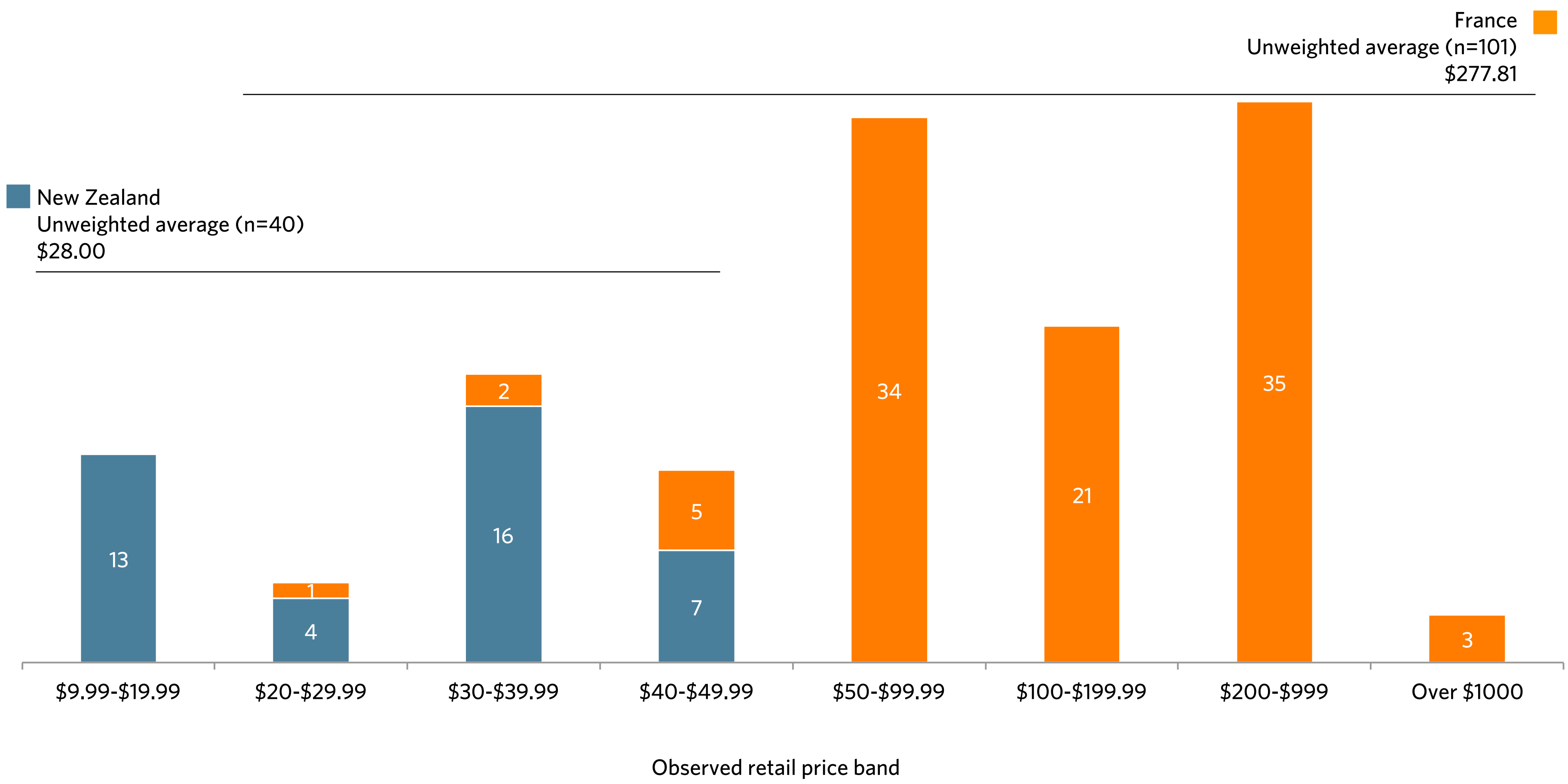


Source: UN Comtrade database; Coriolis estimates and analysis

The New Zealand domestic market clearly shows how New Zealand sparkling wine struggles to compete with French Champagne at the premium end of the market

Observed number of sparkling wine stock keeping units (SKU) for sale by retail price band at two NZ retailers: NZ vs. France

SKU at given price; actual; July 2014



Source: Coriolis observations of shelf prices at two retailers

New Zealand sparkling wine needs to continue to move up-market

EXAMPLE: New Zealand sparkling wine direction
2014

PAST

Chardon
$9.99

CURRENT

Cloudy Bay Pelorus
NV
$34.99

FUTURE

Veuve Clicquot NV
Brut
$79.99

Source: various; photo credit (fair use; complete product/brand for illustrative purposes); The Mill online (NZ) July 2014; Coriolis analysis

A clear strategic direction emerged from the research: the New Zealand wine industry needs to consider radical steps to "restart" sparkling wine exports, particularly to the growing E/SE Asian market

New Zealand Situation

- New Zealand has demonstrated a capability to produce premium white wine and compete with the best of France in still wine
- New Zealand has a history of producing "cheap and cheerful" sparkling wines
- New Zealand has a handful of quality producers attempting to make a better product
- New Zealand sparkling wine is currently failing to grow exports
- High-end New Zealand domestic consumers are buying premium French Champagne rather than local sparkling wine

Emergent Strategic Direction

"Restart" sparkling wine exports

E/SE Asia market situation

- E/SE Asian consumers tastes areWesternising and they are adopting Western cultural habits
- There is a strong and growing demand in E/SE Asia for premium sparkling wine, primarily for premium, status products with provenance
- Regional imports of sparkling wine, particularly Champagne, are large and growing
- Product achieves a high price per litre
- Strong role of gifting and gift packs
- France currently dominates the E/SE Asian market

A range of potential ideas are proposed to "restart" thinking around what is required to capture the emerging Asian market for premium sparkling wine

Potential idea to "push things forward"	Key question(s)	Real-world example of this idea working elsewhere
Technical research project to identify <u>where</u> in New Zealand is best suited to making world-class Champagne-type product	- Does soil/climate/terroir/region matter? - What region(s) of New Zealand are similar to the Champagne region of France? (climate, soils, rainfall, etc.)	- Contracting of Romeo Bragato of Italy in 1895 & 1901+ by New Zealand Department of Agriculture to evaluate the potential of the New Zealand wine industry - Research of New Zealand government soil scientist Derek Milne in highlighting the similarities between Martinborough and Burgundy
Technical research project to identify <u>how</u> New Zealand can produce a world-class Champagne-type product	- What grapes should be used? - What sparkling wine production system is best suited to New Zealand conditions? - How long should New Zealand produce be aged?	- Department of Viticulture and Oenology at the University of California at Davis has developed a prototype "California-style" brandy following Phylloxera and Prohibition - Emergence of Jazz™ apples and Zespri Gold™ kiwifruit from NZ government scientific research - NZ government-funded research into producing better milk powder in the 1930's, leading to this being NZ's largest export - Numerous other NZ scientific projects to improve exports
Define hard minimum standards for premium "New Zealand Champagne"	- Do hard rules or successful exports come first? Empirically global experience suggests rules come before successful premium exports - Why does the most premium sparkling wine product(s) have the hardest rules and standards?	- Role of AOC rules and protection in production/supply control, quality control and price support for Champagne - Role of a Protected Designation of Origin (PDO) in Spanish Cava and Italian Asti/Prosecco
Develop a unique, protected brand to identify and differentiate New Zealand sparkling wine	- What should the name be?	- Development of Spanish regional brand Cava following protection of name Champagne - Development of South African Methode Cap Classique for sparkling wine following protection of name Champagne - Development of Franciacorta regional brand in Italy following protection of Champagne (following EU ascension)
Develop competition(s) to highlight and improve New Zealand sparkling wine	- How can competition and excitement best be harnessed to grow the industry?	- Development of South African "Veritas" wine awards - Role of awards and competitions in growth and improvement of New Zealand wine industry

The “brandy” trade code encompasses any distilled grape wine based product

EXAMPLES: Brandy/Cognac/etc. products
2014

Cognac | Armagnac | Californian Brandy | Australian Brandy

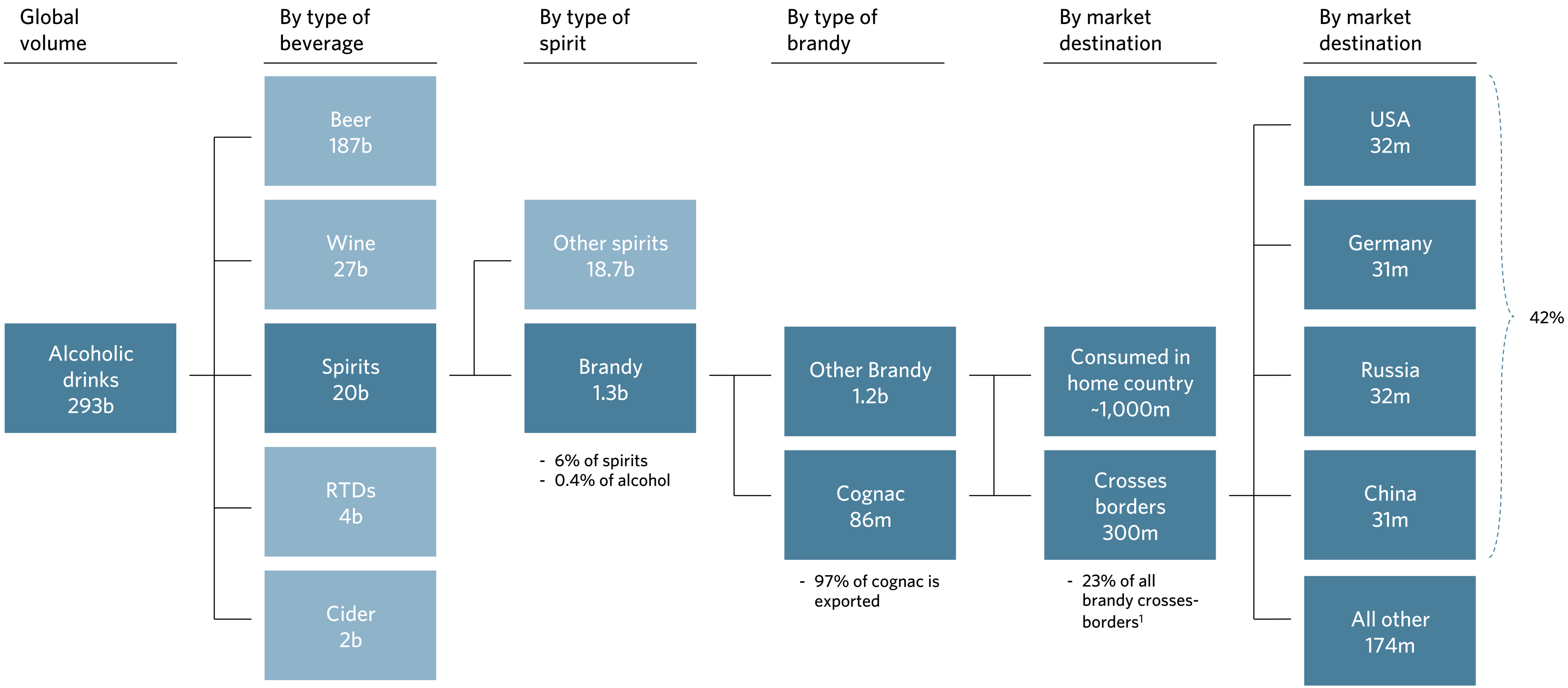
Brandy de Jerez | Grappa | Pisco | Other brandy

Source: various; photo credit (fair use; complete product/brand for illustrative purposes); Coriolis analysis

Brandy is a major alcoholic spirit accounting for 6% of global spirit volume; 23% of global production crosses borders; four markets (US, Germany, Russia & China) account for 42% of the world market

Position of brandy in global alcohol volume in litres

Litres; m or b as given; 2012

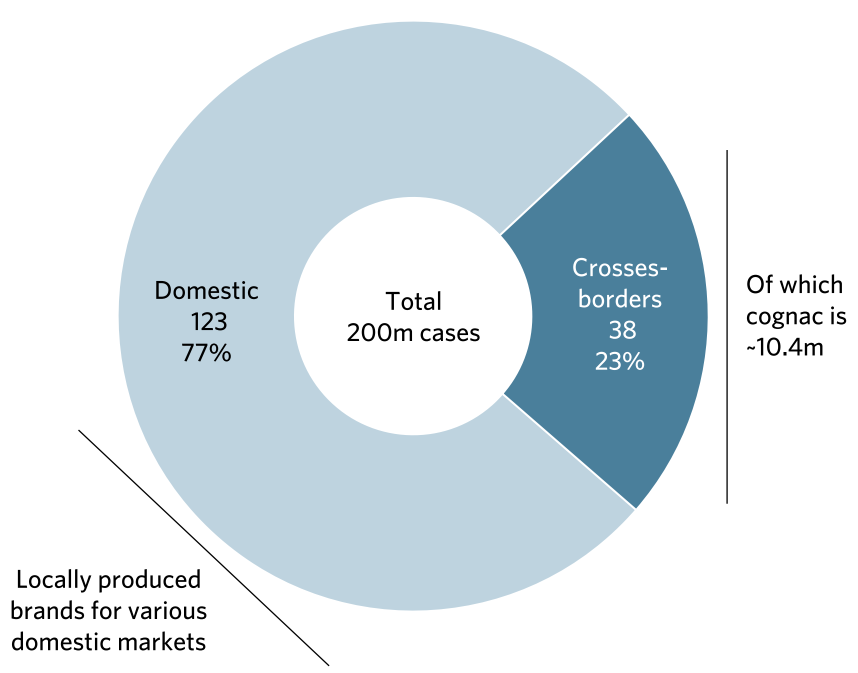


1. Includes some amount of double counting (crossing borders twice, for example into Singapore then on to China)

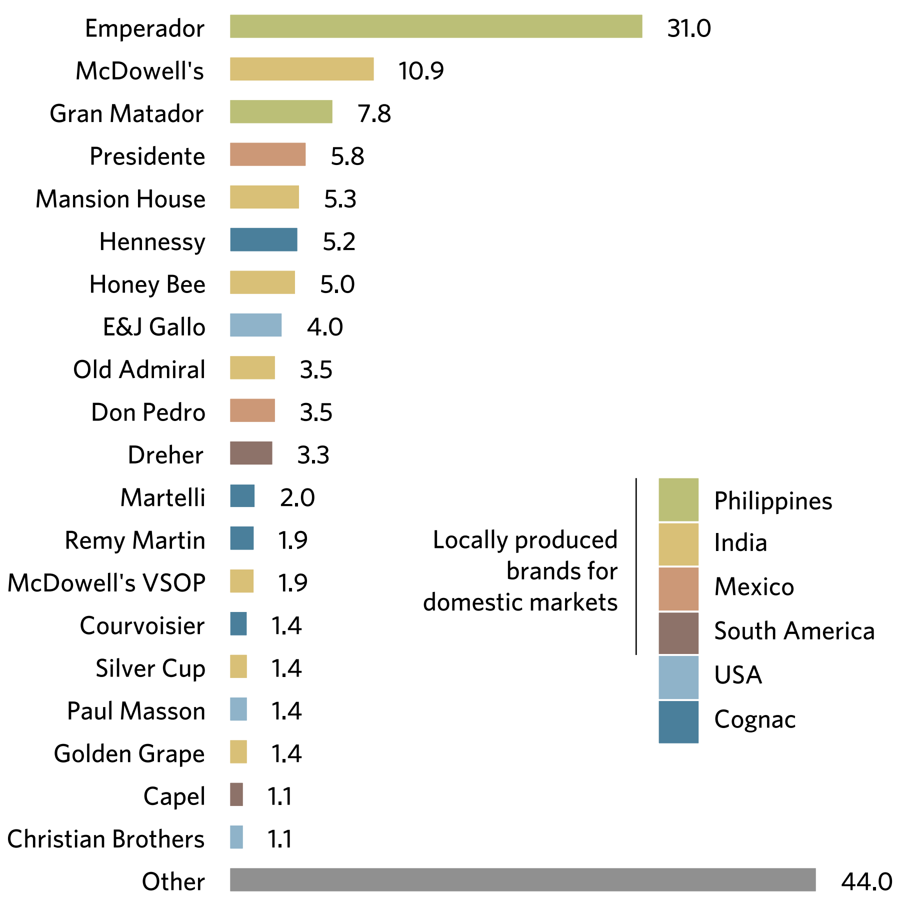
Source: UN Comtrade database; OIV; Euromonitor (various reports); Impact; other; Coriolis estimates and analysis

Most (77%) brandy is produced and consumed in its home country; therefore most of the largest global brands are single market, regional brands, particularly The Philippines, India, Mexico and Brazil

Global brandy volume in cases by location of sale
Cases (8L); m; 2012



Top 20 global brandy brands by cases sold
Cases (8L); m; 2012



Note: Crosses-borders includes some amount of double counting (crossing borders twice, for example into Singapore then on to China)
Source: UN Comtrade database; Drinks International; Euromonitor (various reports); Impact; other; Coriolis estimates and analysis

Brandy is made and marketed using a similar formula globally

Key stages in brandy production

Model; 2014

1. Wine production	2. Distillation	3. Aging
- Production of base white wine - Wine should be high acidity but low in alcohol, residual sugar and sulphates ("dry, acidic & thin") - Key varieties used globally are Ugni Blanc, Chenin Blanc, Colombar, Folle Blanche, Baco 22, Airen and Palomino - Often from a defined region (e.g. Cognac AOC) with limited available land	- Wine needs to be distilled quickly (vulnerable to oxygen spoilage) - Two distillation systems: batch copper pot still or continuous column still - Often AOC specific requirements around distilling - Result is clear spirit	- Aged in barrels, typically oak (except Grappa/ Pisco-type) - Aged for six months to 100+ years - Quality standards are typically defined by age - Typically stored underground in relatively stable temperature environments - Significant amount lost to evaporation - Major producers have significant holdings (e.g. Hennessey has ~300,000 barrels in storage and buys 15,000 new barrels annually)
4. Blending, bottling, labeling, packaging & shipping	**5. Advertising, marketing & promotion**	**6. Retailing**
- Multiple barrels of different ages are blended to deliver a consistent product to the consumer - Typically must be labeled as youngest blend - Product is bottled and labeled by market requirements	- Major advertising campaigns targeting consumers in all key markets globally - Constant new product development - Constant promotional activity	- Sold through both on-trade (restaurants, bars, etc.) and off-trade (liquor stores, wine shops, etc.) - Online a growing channel in many markets - Strong sales through duty free, particularly in Asia

Source: Coriolis from various articles, books and other published sources

Beyond generic "brandy," there are a range of recognised or defined sub-varieties

Major recognised sub-varieties of brandy

2014

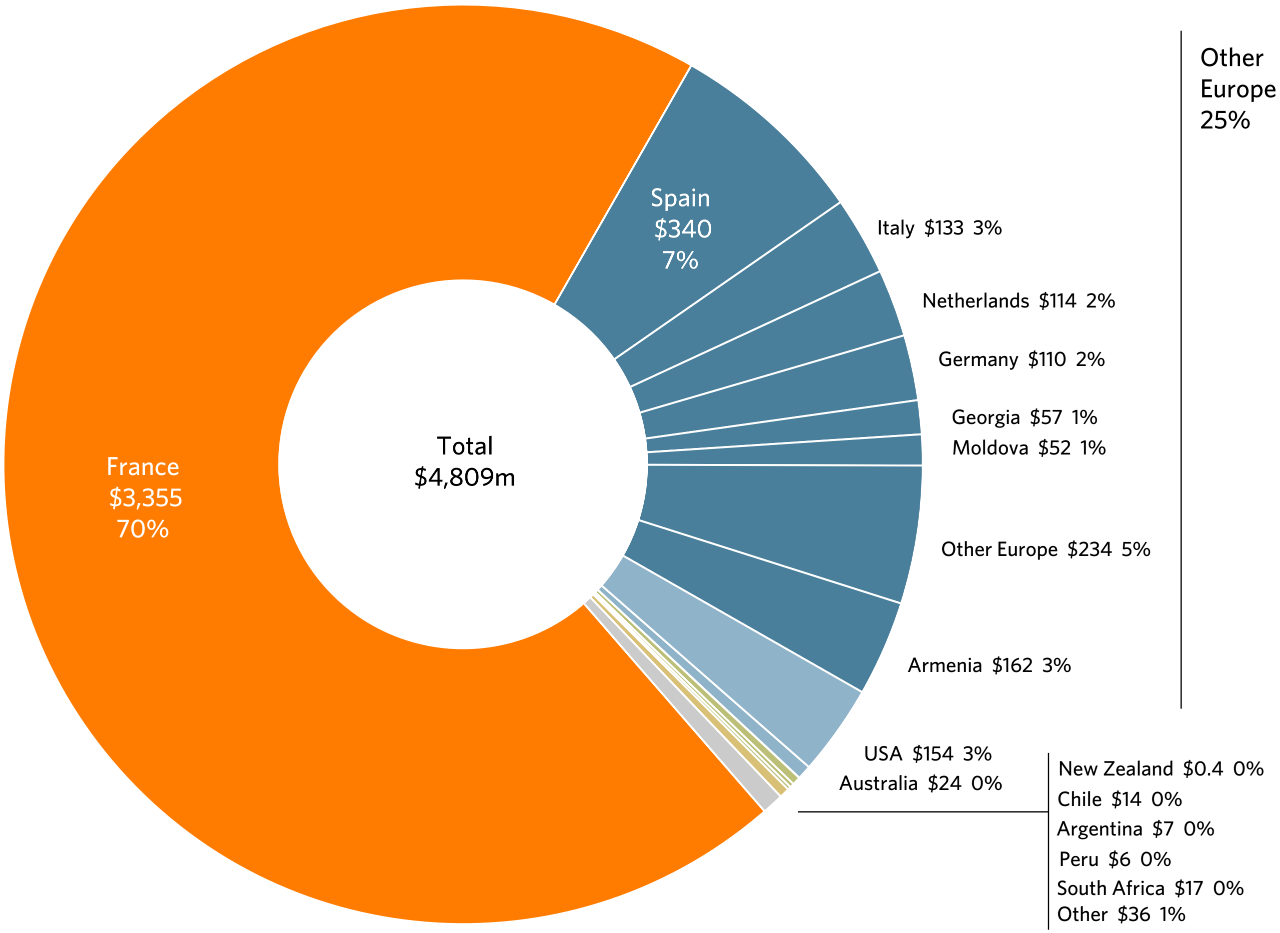
Country	Product	Age of origin	Planted area	% volume exported	Grapes used	Production method	Where is it produced?
France	Cognac	14th Cen.	~88,000	97%	Ugni blanc, Folle blanche Colombard	Charente pot still (2x) Aged in French oak	AOC in Charente and Charente-Maritime
	Armagnac	14th Cen.	15,000	95%+	Baco 22A, Colombard, Folle blanche, Ugni blanc	Alambic pot still Aged in French oak	AOC in Gers region
Spain	Brandy de Jerez	Pre-14th Cen.	N/A	25%	Airen (95%), Palomino	Batch or continuous still Aged in American oak previously containing sherry	PDO in Jerez area, Andalusia, though wine can come from elsewhere
Italy Switz.	Grappa	13th Cen.	N/A	15-20%	Undefined; any	Distilled from pomace[1] Not typically aged	Protected name: must be produced in Italy or Switzerland
Peru Chile	Pisco	17th Cen.	N/A	5-10%	Muscat	Batch or continuous still Matured in clay casks	Peru and Chile fight over the use of the name

1. Pomace is the "leftovers" from wine-making, including skins, seeds, pulp & stems

Source: Coriolis from various articles, books and other published sources

Global exports of brandy are dominated by France (70%) and a range of other European countries (25%); all other producers account for only 5% of world trade

Value of total Western brandy/Cognac/etc. exports to world by key country
US$m; FOB; 2012

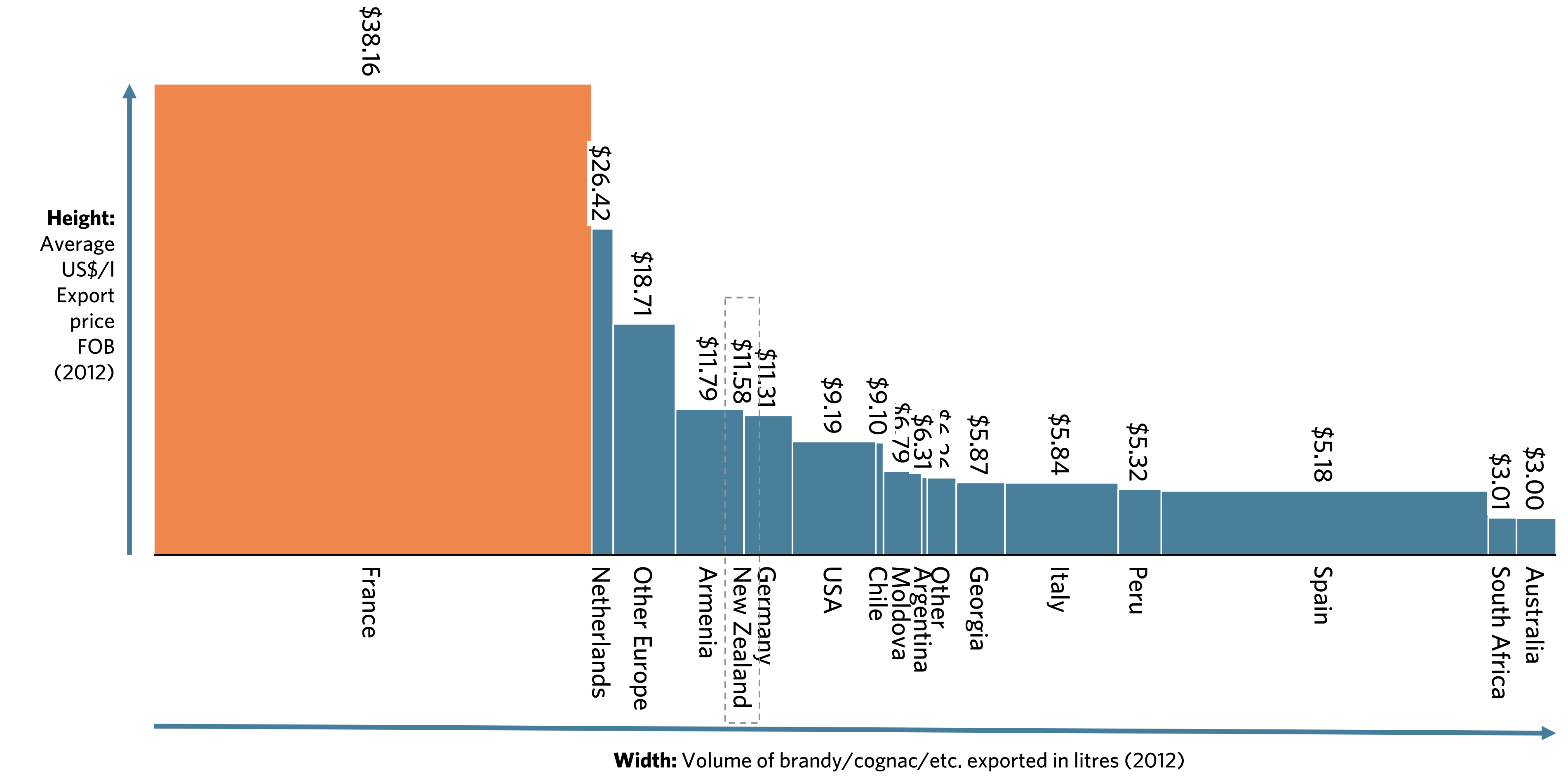


Note: Armenia is technically not part of Europe; analysis removes all E/SE Asian inter country trade for supply pool
Source: UN Comtrade database; Coriolis analysis and classifications

There are dramatic variations in price received for brandy, with France dominating the world market in terms of both price and volume

MEKKO CHART: Comparing brandy/cognac/etc. export volume by source with average export value per litre

Litres; m; US$/l; FOB; 2012



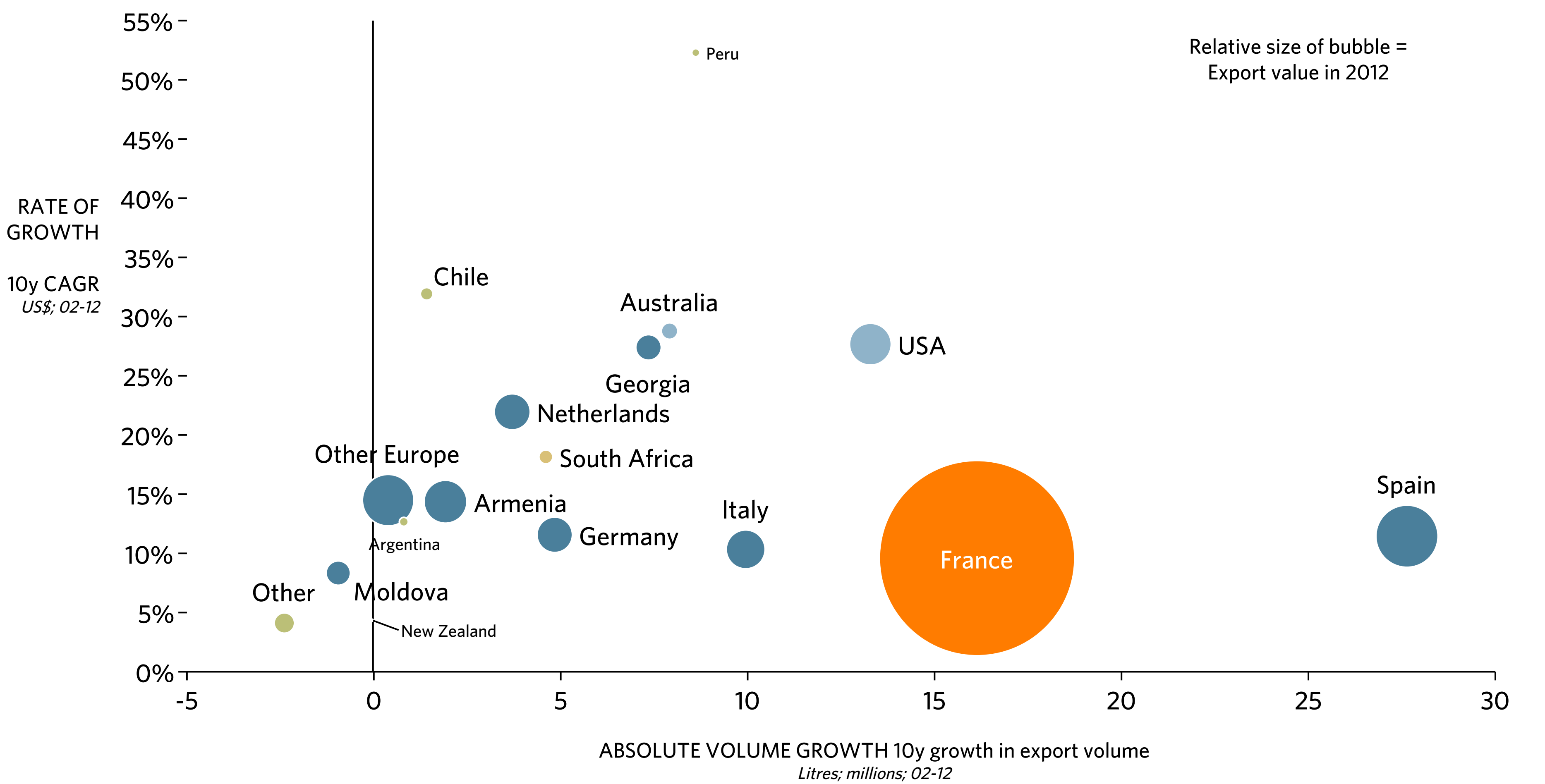
Note: Armenia is technically not part of Europe; analysis removes all E/SE Asian inter country trade for supply pool

Source: UN Comtrade database; Coriolis analysis and classifications

Turning to the drivers of export growth, we find that a wide range of countries are achieving growth in the category in terms of both volume and value

GROWTH MATRIX: Brandy 10y absolute volume growth vs. 10y value CAGR vs. export value 2012

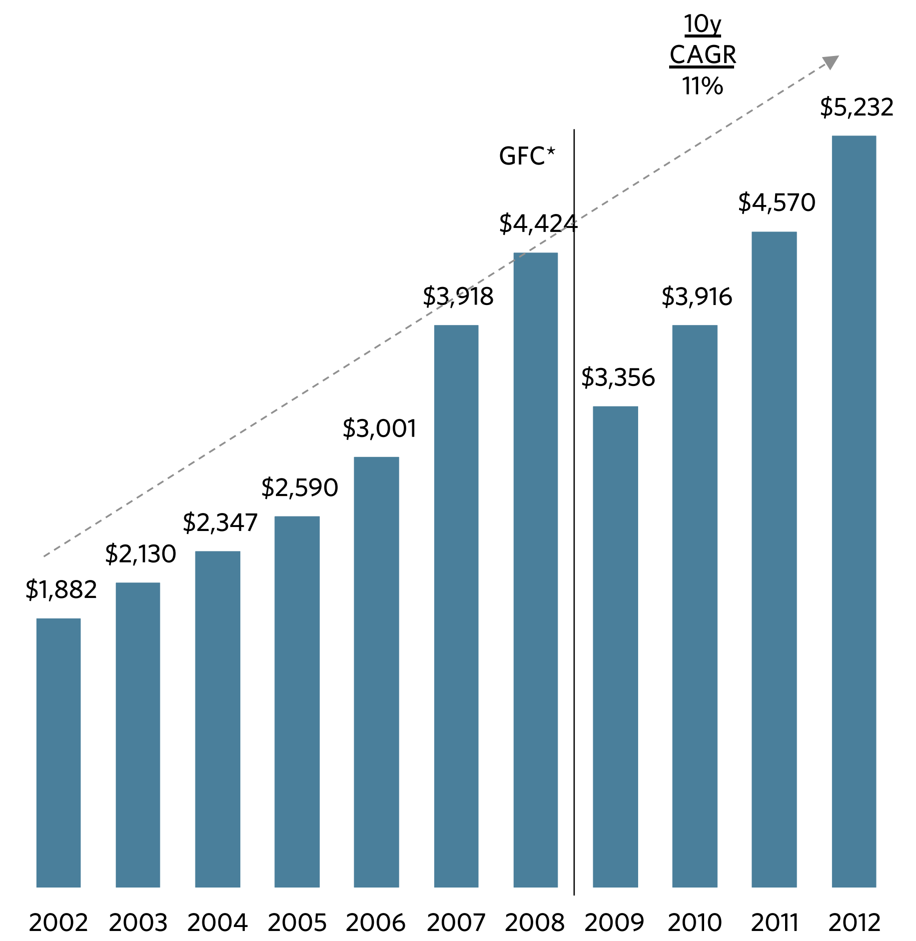
US$; 2002 vs. 2012



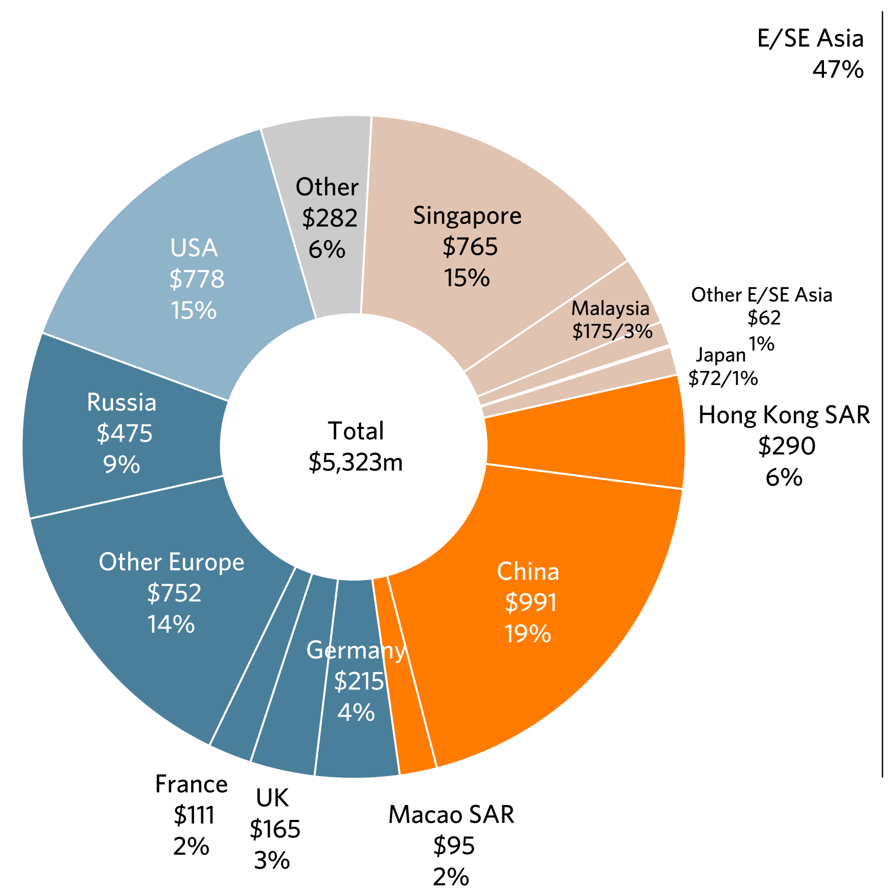
Source: UN Comtrade database; Coriolis analysis and classifications

Total global brandy import value – CIF from all sources – is showing strong growth (11% CAGR over 10 years); E/SE Asia now accounts for almost half (47%) of global imports by value

10 year total global brandy import value CIF
US$m; 2002-2012



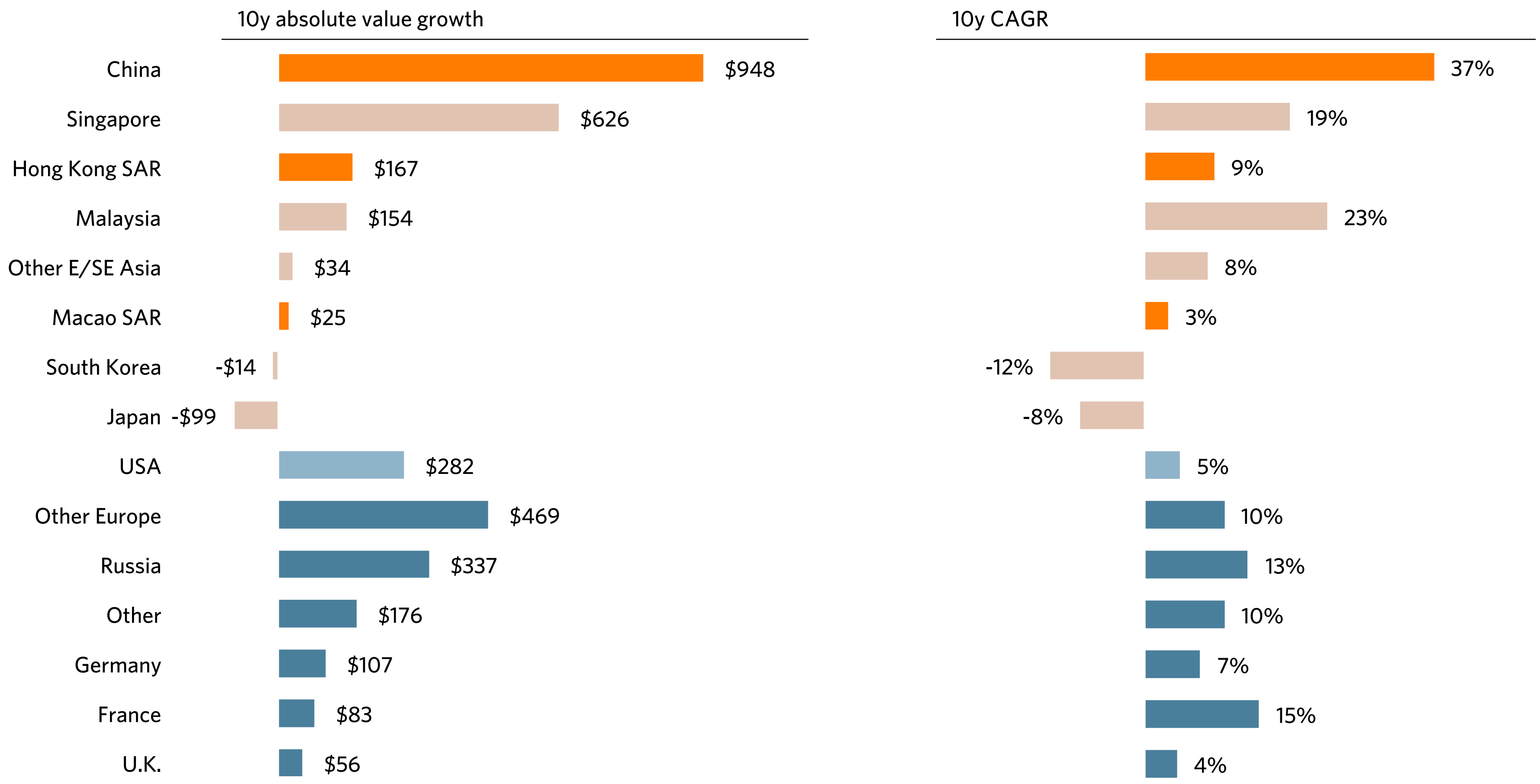
10 year total global brandy import value CIF
US$m; % total; 2012



**GFC: Global Financial Crisis; Note: Data is receiving country CIF (not FOB); will include some amount of double counting inseperable at source*
Source: UN Comtrade database; Coriolis analysis and classifications

China is driving global brandy import growth in Asia, while Japan and South Korea have declined; the US and Europe have seen reasonable growth

10 year total global brandy import value CIF absolute growth and CAGR
US$m; 2002-2012



Source: UN Comtrade database; Coriolis analysis and classifications

A clear strategic direction emerged from the research: the New Zealand wine industry needs to work to develop the "Marlborough Sav. Blanc" of brandy, targeted at the rapidly growing E/SE Asian market

New Zealand Situation

- New Zealand wine industry has experienced strong growth over the last 50 years
- However it is still a "one-trick pony" dominated by Marlborough Sauvignon Blanc
- New Zealand needs to grow and diversify into further products and regions
- New Zealand wine industry has the skills, capabilities and resources required to develop new products
- New Zealand wine industry has the capital and cash flow required to move into high "barrier to entry" products

Emergent Strategic Direction

Develop the "Marlborough Sav Blanc" of brandy

E/SE Asia market situation

- E/SE Asian consumers, particularly East Asians, traditionally drink small cups of fiery spirits (Baijiu/Shaojiu, Shōchū, Soju, Sake, Awamori, Arrak, Rượu đế, etc.)
- Brandy/Cognac fits this product/ taste/usage profile
- Import demand is for premium, status products with provenance
- Regional imports of brandy are large and growing
- Product achieves a high price per litre
- Strong role of gifting and gift packs
- France currently dominates the E/SE Asian market

A range of potential ideas are proposed to push forward the emerging strategic direction in brandy

Potential idea to "push things forward"	Key question(s)	Real-world example of this idea working elsewhere
Technical research project to identify where in New Zealand is best suited to making world-class Cognac-type product	- What region(s) of New Zealand are similar to the Cognac and/or Armagnac region of France? (climate, soils, rainfall, etc.)	- Romeo Bragato of Italy in 1895 & 1901+ contracted by New Zealand Department of Agriculture to evaluate the potential of the New Zealand wine industry - Research of New Zealand government soil scientist Derek Milne in highlighting the similarities between Martinborough and Burgundy
Technical research project to identify how New Zealand can produce a world-class Cognac-type product	- What brandy production system is best suited to New Zealand conditions? - What aging system should be used? Oak? How long?	- Department of Viticulture and Oenology at the University of California at Davis developed a prototype "California-style" brandy following Phylloxera and Prohibition - Emergence of Jazz™ apples and Zespri Gold™ kiwifruit from NZ government scientific research - NZ government-funded research into producing better milk powder in the 1930's leading to this being NZ's largest export - Numerous other NZ scientific projects to improve exports
Define hard minimum standards for brandy produced in New Zealand	- Do rules or successful exports come first? Empirically global experience suggests rules come first - Why does every successful premium brandy exporter have hard rules and standards?	- Role of AOC rules and protection in production/supply control, quality control and price support for Cognac and Armagnac - Role of a Protected Designation of Origin (PDO) in Spanish Brandy de Jerez and Italian Grappa - South African implementation of Cognac rules for brandy production (Charente pot still, Ugni blanc, etc.)
Develop competition(s) to highlight and improve New Zealand brandy	- How can competition and excitement best be harnessed to grow the industry?	- Extension of South African "Veritas" wine awards to cover brandy in 2010 - Role of awards and competitions in growth and improvement of New Zealand wine industry
Develop a unique, protected brand to identify and differentiate New Zealand brandy	- How valuable is a unique/protected name? - What should the name be? - How do you balance innovation with tradition and rules?	- France: Cognac, Armagnac (Champagne, Burgundy, Bordeaux, etc.) - Italy: Grappa (Chianti, Prosecco, Abruzzo, Asti, etc.) - Spain: Brandy de Jerez (Jerez/Xeres/Sherry, Rioja, etc.)

This report forms a part of the wider Food & Beverage Information Project

Other reports, including those from previous years, are available on the MBIE or Coriolis website…

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MAP OF EAST/SOUTH EAST ASIA

East/South East Asia Map

East/South East Asia country segmentation (population)

China (1,364m)	
Developed Asia (212m)	Japan (127m) South Korea (50m) Hong Kong (7m) Singapore (5m) Taiwan (23m)
Developing Asia (583m)	Vietnam (90m) Philippines (99m) Indonesia (247m) Malaysia (30m) Thailand (64m) Myanmar/Burma (53m)
Smaller markets (51m) (excluded)	Mongolia (3m) North Korea (25m) Laos (7m) Cambodia (15m) East Timor (1m)

Coriolis is a boutique management consulting firm that focuses on food, consumer packaged goods, retailing and foodservice.

Coriolis advises clients on strategy, operations, organization, and mergers and acquisitions. We develop practical, fact-based insights grounded in the real world that guide our clients decisions and actions. Founded in 1999, Coriolis is based in Auckland, New Zealand and works on projects across the Asia Pacific region.

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We help our clients assemble the facts needed to guide their big decisions. We make practical recommendations. Where appropriate, we work with them to make change happen.

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