CS Wines* – Importing wine in China

CS Wines is a European Wholly-Owned Foreign Enterprise (WOFE) importer with offices in Beijing and Shanghai. The company is registered in Europe and distributes to 20 provinces in mainland China[1]. CS Wines started from small beginnings when the owner came to Beijing in January 2008 with a suitcase full of wine samples. CS now employs 25 staff, mostly Chinese, and the owner, Klaus, continues to drive a China-wide expansion with his dedicated team. Klaus says he simply asked a lot of questions and persistently sought new knowledge after his arrival in China so as to better comprehend the complex and sometimes confounding regulatory structures.

Type of business:	Wine importer and retailer
Operation history in China:	3 years
Company size:	25 employees
Target market:	Young Chinese under 35 interested in buying good quality, affordable wines

Target markets and culture

Klaus's approach is one of simply leaving marketing in the hands of distributors and prioritising affordability through volume-based profits. He believes this is the most effective way to build trust amongst the consumer base.

Unlike many other European wine importers working in China, CS Wines does not distribute 'fine wines' nor does it seek to market itself as doing so. Klaus stated that his focus is on good-quality affordable standard wines (at around CNY 40 per bottle) aimed at consumers under 35 years of age. CS shuns the "grape and barrel" marketing of fine wine producers and does not seek to impose norms of wine consumption, such as sipping delicately (as opposed to the Chinese practice of continual toasting which requires the full glass to be drunk in one go) and promotion through "wine and cheese" events.

Distribution

CS Wines orients itself toward retail, and its wines feature on the shelves of Jenny Lou, 7Eleven, Jingkelong and other supermarkets in Beijing. Klaus says that this strategy has some limitations as many retailers are cautious of overstocking, which can lead to time lags between stock selling out and CS being able to provide new stock. However, a retail focus also avoids some of the vagaries of the restaurant, cafe and bar sector where managers either fail to pay, pay at random intervals, or return stock unused several months after supply. The company now also operates its own retail store in Beijing.

* Names used in this document have been altered for privacy protection.

[1] Heilongjiang, Liaoning, Jilin, Hebei, Henan, Shandong, Shanxi, Inner Mongolia, Jiangsu, Zhejiang, Fujian, Guangdong, Guangxi, Hainan, Yunnan, Sichuan, Qinghai, Gansu, Ningxia, and Shaanxi.

Customs

Customs procedures can seem extremely complex, unnecessarily restrictive and sometimes contradictory to first time importers operating in China.

Products sitting in customs incur a daily fee and are not stored in temperature-controlled conditions.

Klaus states that the total tax paid by CS Wines on each shipment comes to approximately 48-58% of the value of the goods.

Additionally, different entry ports have different regulations and practices, and customs officials can sometimes obstruct imports unnecessarily.

CS Wines prepares the following documentation for each product shipment and sends papers to the Beijing branch of the China Entry-Exit Inspection and Quarantine Bureau (CIQ) by air express to ensure they arrive in advance of the goods:

- Certificate of origin and health certificate issued by the local government in the country of origin;
- Detailed packing list, including net weight, gross weight, contents, packaging materials etc.;
- Invoice;
- Permission to sell, provided by the supplier (a contract);
- Authorisation letter from customs;
- Declaration papers.

Upon arrival, three to six bottles of wine are routinely impounded by CIQ for analysis and the shipment can only be sold after certification is complete, which may take up to one month.

Such delays can be extremely damaging to smaller importers, as they are generally required to pay suppliers within ninety days after import. If the goods are not sold by this date, financial risk must be incurred. Products with a shorter shelf life can also be negatively affected.

Unexpected challenges

When CS Wines moved into their current office, the team began changing the address on each of their many licences. After six successful changes, they were stopped from proceeding further when an official noted that their office could not be on the fifteenth floor of the building, as according to the twenty-year-old registration records the building only had three floors. Only after daily badgering from staff for three months were the relevant authorities finally prompted to reinstate each of CS's licences.

CS only managed to cover their losses because they had ... taken the precaution to buy their own warehousing insurance from a local Chinese company.

In another unexpected challenge, the warehouse in Beijing where CS Wines initially stored its wine burnt down soon after their first shipment was stored. 130,000 bottles of wine were lost and CS only managed to cover their losses because they had been suspicious of the warehouse owner's claims of insuring the property and had taken the precaution to buy their own warehousing insurance from a local Chinese company. Many others using the warehouse lost large sums of money when it was discovered that no insurance policy existed.

Finally, Klaus warns that correct documentation and constant awareness are essential in the importing business in China.

There was a recent case in which five importers were jailed for failing to declare the full quota of wine that they were importing.[2] Though a fairly common indiscretion in the business, this oversight had unforeseen implications for these companies. The resulting

[2] www.theaustralian.com.au/news/executive-lifestyle/china-targets-top-wine-importers/story-e6frga06-1111115946836

arrests underline the importance of double-checking all paperwork and staying within the boundaries of the law.

Best practice

1. Ask questions and constantly update your knowledge to better comprehend the regulatory structures in China.
2. Identify a niche and have a clear market strategy fit for that niche.
3. When possible, send in customs documents in advance of the goods to avoid delay at customs.
4. Take precautions to buy your own property insurance or closely inspect and cross check the insurance policies covered by the warehouse.
5. Provide correct documentation and declare the full quota of your goods, failing to do so could have serious legal repercussions.

The EU SME Centre assists European SMEs to export to China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs.

The Centre's range of free services cover:
• Business Development – provision of market information, business and marketing advice
• Legal – legal information, 'ask the expert' initial consultations and practical manuals
• Standards – standards and conformity requirements when exporting to China
• HR and Training – industry and horizontal training programmes
• Access to a service providers directory and information databases
• Hot-desking – free, temporary office space in the EU SME Centre to explore local business opportunities
• Any other practical support services to EU SMEs wishing to export to or invest in China.

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