

Wine, A French Symbol Turning Into A Chinese Investment

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Abstract

Purpose: *Perfect alchemy between men' expertise and the progress of science, the French symbol had played a key role in the international trade. The purpose of this paper to isto insist on the influence that this merchandise represents in the French economy and how it has moved into a Chinese investment. Facing a serious reassessment, French economy and culture might need to remodel it investment strategies.*

Approach: *Analyzing the wine market, it will demonstrate the economic impact on the Hexagon system and Chinese investments had created a whole new strategy.*

Finding: *France has to rethink its strategies and take into account the need of a foreign culture to maintain its emblematic product.*

Social implications: *The evolution of the worldwide consumption has slightly tensed the market, which made it difficult to categorize a stable target. Theory approves by a personal survey, result will be focused on French consumer in France and in Shanghai.*

Originality: *The main contributions of this paper are to defend wine as an emblematic French product, while defending the impact of the Franco-Chinese relationship based on a survey reflecting the culture issue.*

Paper category: *Case study*

Keywords: *France, China, wine, strategy, investment, symbol.*

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I. Introduction

Holder of a millennium history, wine is an inseparable mix of culture, heritage and lands especially in the Hexagon economy. Frequently seen as an emblematic French product, this symbol carries conflicting values as it reflects authenticity and divers according the human's knowledge as well as its localization. While the worldwide economy has evolved mentalities and consumption, the emergence of new producing countries and consumers have tensed up the competition. Polemic situation within the years, divers countries have been able to surprise the economy and use wisely the globalization effects. Where all the credits could belong to China, France has faced a difficult position as its ranks couldn't be maintain with globalization, even though decades ago its position was maintained without difficulty. Throughout this article, we will explain the importance of the wine market in the French economy and how it has helped us to define our culture and build our country. Perpetually evolving, we will see that French consumption has been through a lot of changes and those divers movements have created imbalances in the demand/supply chain. Furthermore, we will be interested in the European Union effects on the French wine market. Far to only be an advantage, we will see the difficulties created. Where trade allows use to consume a product "built" from all across the world, we will focus on the wine impact created in a foreign continent, precisely China. Within the decades, the Chinese economy has faced a major rise and if their consumptions have evolved so are their investments. Getting more and more interested in the western product, we will see how Chinese investment has been boosting French economy and at the same time creating a controversial problem where winemakers are fearing to lose their supremacy in the wine industry. Buying new domain and Château, we will try to see how it has influenced the French system and analyze if those investments could be considered as an opportunities or as an economic threat.

Wine, a tri-color symbol and system

Circumstances could divers according to historians, but it should be fair to say that wine became French symbolism during Napoleon's reign. Indeed, as he intended to lighten the burdens of demobilized soldiers, the government gave them permission to produce ten kilos of private wine each year without having to pay taxes. In addition, they were allowed to produce twenty litters more for their families. Strategy who passed generation through generation it has now become a popular custom that could have helped the Hexagon to maintain its reputation in the winemaking and wine tasting. Later on the history changes have been made as in the world wars II, France government has prohibited the wine-making method and wine selling, which has made it become as valuable as gold. At the end of these two wars, the French government had to abolish the ban on

wine in order to stimulate and develop the economy. Nowadays, wine industry has defined French culture and possesses an important number of famous wine factories, which have their origin from old private workshops of families who depend on their wine production to survive. Defending the importance of winemaking in France, winemakers take pride and care in making perfect product according to its predecessors and the customs defined from generation to generation. Since the mid-nineties, the wine market has entered a phase of globalization. If supply and demand have been mainly for a long time focused in wine country status (in particularly France, Spain and Italy), the latter have largely neglected wine consumption. Geographically speaking, supply and demand are dissociating more and more of each other and the market is now facing an offer over time growing number of countries in the South, as well as strong demand from North. As the worldwide demand/supply changed, it was needed to readapt the legislation within the European Union. Globally recognized as a true spearhead of French symbol, the tricolor viticulture has always *-by its history and traditions-* enjoyed a privileged notoriety. Centuries of tradition have allowed great and exceptional wines to win on the world market. Where wine market influences a lot the French culture, its wines and spirits are exported in more than 180 countries(1). As an example, the production over a year is around 7 billion bottles over the use of eight wines producing regions(2), allowing us to say that wine markets represent a capital investment and sources of incomes. Well-known for its grapes varieties and diversities, this industry also represents more than 75 000 (direct) employees without taking into account the 27 500 employees needed for trading(3). According to the *Fédération des Exportateurs de Vins & Spiritueux de France* (FEVS)(3), the wine market represents more €15 billion turnover. Even after the 2015 record, it has consolidated its position in value despite a slight withdrawal of 0.8% (7.9 billion euros). Wine market has also been shifted abroad, not only with the investment that could be provided. As the French wine market industry and its grapes varieties differs from others countries, wine tourism has become an important part in the tourism service(4). Indeed, the Hexagon system possesses a major classification model that needs time and knowledge to understand in order to enjoy the characteristics of each wine. Based on the concept of “terroirs”, each *Cru* and appellation have developed its own specialty and will never have the same characteristics (*production, taste, flavor*), from a neighboring appellation. Classification that has been legally imposed since August 2009, the reform of the CMO (*Common Market Organization*) has imposed, on a European scale, a harmonization of the diverse wine appellations and denominations. With distinct appellations, according to its regions of production (*around 450*), France possesses however 4 major categories defined in a very specific way.

On one hand, there are the *Appellation d'Origine Contrôlée* (AOC) that appeared in France around the 30s but changed to AOP (*Appellation d'Origine Protégée*) in 2009. Defending the regional wine specificities, this appellation has been representing the continuity in the wine history and oenological practices, in accordance with the local practices. Famous, it is also the most demanding and specific. Indeed, it takes into account a lot of criteria as the grape varieties used, their proportions or even its cultivation methods or the size of the vinification techniques, the durations of breeding before marketing... There is also the *Vins Délimités de Qualité Supérieure* (VDQS). Known as an intermediate name, it has been set up after the Second World War. Its notoriety is however not as famous as the AOP or the IGP. Created around the 70s, the *Indication Géographique Protégée* was known as *Vin de Pays* (VDP) but has been changed since the 2009 reform in order to include the all EU members. It protects wines in where (*at least*) one of the cultivation or winemaking stages has taken place in the geographical area protected. There are three types of IGP: regional, departmental and small areas. And in the last, you have *Vins de Table* this classification includes wines whose geographical origin hasn't been specified. The wine should then be defined according to their grape varieties or brand names. Some vine growers voluntarily decide this option in order to work historical grape varieties but not recognized by the AOP.

Defining the French winemaking system, it is also important to understand that within those appellations hundred of diverse criteria are being taken into account. Far to explain all of those diversities, we can now understand how it has attracted so many tourism and professional winemakers within the years. Known for their experienced advices, French are present all around the world through their knowledge. Due to its own success, wine tourism has then been recognized as a key point in the economy within the years as it represents 79 million tourists a year (2), and redefines France as one of the favorite country to visit. Indeed, since 2009, wine tourism has known an increase of 33% (4) that attracts both French visitors (58%) and foreigners (42%). Mainly represented by independent actors, with a local or regional vocation (single-member companies, associations, etc.), wine cellars, hotels/ restaurants and interpretation centers constitute most of the wine tourism offer, even though it still remains a highly segmented sector. Events are perpetually being organized in order to attract as much tourists as possible. As an example, Bordeaux had opened in 2016 *The City of Wine Civilizations*, and hosts around 400.000 visitors a year. Mainly managed by vineyard owners, the wine tourism supply accommodation is organized around a cultural program mixing wine and gastronomy. This increase is even more impressive on an international scale, as it has known an evolution of more than 40% since 2009, against + 29% for the French clientele. However, within the year their reputations have lost balance due to globalization and the perpetual need of innovation. Where the European Union has helped the Hexagon

to increase their influence, it also made them lose track against its EU partners. Far from being the only concurrent, we will see that the New World is now taking an important part within the wine market where France has to be careful and maintain its specificities if they do not wish to lose their rank.

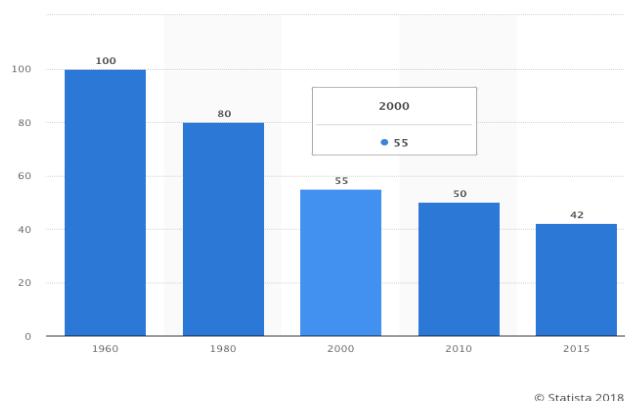
European Union and French wine markets

Within the years, emergent markets have appeared and made the competition higher. These newcomers had created an imbalance for France as much as it has strengthened its competitiveness. Improving its wine qualities has allowed them to implement new concepts adapted for its consumer's taste. If it was possible to define France as the first wine producer in 2014, globalization has however made a turnover and redefined Italy as its leader (7). Where all countries are progressing, especially on entry and mid-range wines, the French market is starting to fear the emergence of the new world as well as the economic development of the European Union members. Providing more than 60% of world production, the EU wine market depends mainly on the France-Spain-Italy trio, as it produced 47% of the world crop (2014). To develop their trading, new decrees have then been applied since 2009 in order to put all of the EU winemakers under the same regulation (*Commission Regulation n. 607/2009 of 14 July 2009*). As it aims to preserve the European wine traditions, this regulation strengthens the social fabric and ensures an environmentally friendly production. From a general point of view, those laws concern the protected designations of origin (AOP) and protected geographical indications (IGP), labeling and presentation of certain wine sector products. However, according to the International Wine Organization, French wine production has dramatically dropped due to the freeze waves that affected all the wine-growing basins in the spring (5). Where the production fell by 19% in volume, France remains however the second largest producer of wine behind Italy. Indeed, being part in the European Union zone has also created unbalances within the French economy. As the globalization increased the competitive position, having a stable rank in a common trade system also creates an important gap within its own members. Within unfavorable environments balancing the EU markets -as for example the Brexit or the climate -those events had negative effects in the French economy as much as their companies are facing low marketable volumes, especially in markets with high price. Depending on its location, flavor varies according to the grape varieties and where the three main countries produce different grapes their result can influence one another as well as were the policies. In the need to preserve our identity, the wine identity is then expressed at regional, national and European level. Few years ago (in 1999), the Council had written a text encouraging the abandonment of unprofitable vineyards and its conversion into more profitable markets. However, as new challenges have emerged and foreign competition became harsher, this law has not been approved. The 2008 reform (proposed by the Commission), was then adopted in order to meet all the challenges of the wine market. To favor high-quality products that would find markets in the world market, the reform provides for more aid for the conversion of unprofitable vineyards. As an example, the structural funds will be directed towards the rural development of the wine regions. This money could be used to set up young farmers, improve marketing, as well as supporting producer organizations. All of those facts won't change the major problem where the climate has played a negative effect in the wine production. However, this consequence is not the only difficulty facing in the wine industry. With the perpetual track on innovation and the change of mentalities, wine consumption has faced a turnover where consumers refer to consume a higher wine quality for special occasion than a casual basis drink. Decline present in the all-European zone, trading has become difficult and France has taken the lead of the decrease effect. Due to this tumble, the Commission estimates that total wine production in the EU was 145 million hectoliters, down 14% from the average of the last five years (8). We will now see the impact of consumption changes within the wine market.

Evolution of the consumption and the economy

Thanks to globalization, trading hasn't been the only aspects that changed the economy but mentality and consumption also made a complete turnover. Indeed, throughout the years, French consumption has evolved and renewed its interest in the wine market. Correlating with the French taste, more than 82% of French people believe that wine is best shared for occasion friends or family. Defining wine as the symbol of tradition, it is also connected with living well together to relax and define a status. If wine is the key element associated, it is also consumed without special occasion or to celebrate an exceptional event for 38% of respondents. The wine has become an important element in our daily life. However, in France, wine consumption has moved from 92.8 liters a year per inhabitant to 57.2 liters (*in less than 30 years*). Result all the more significant, when we know that more than 126 liters of wine were consumed on average per capita in 1960.

Wine consumption in France between 1960 and 2015 in liters per year per inhabitant



(ref Statistica.com. Available at: <https://fr.statista.com/statistiques/631534/vin-consommation-baisse-france/>)

According to these statistics, consumption had dramatically decreased in less than a decade. Theory defended by the fact that mentality has evolved, quality is then preferred over quantity. Consumers prefer to drink occasionally and define a higher budget. Indeed, it opts for controlled appellations, while table wine has almost disappeared. Being replaced by the country wines, French drink less but much better and in a much more varied way. All of those recent facts prove that Hexagon wine consumption will continue to decline by 2020 (especially red wine) while global consumption continues to increase slightly (9). France would then see a decrease in volume consumption of 13% between 2011 and 2020 (10). Still attached to red wine (52% of market share), France faces a trend where the *rosé* is getting a higher part in the market share within the years as much as sparkling wines (11). Other capital fact is that the consumption frequency changes according of the age categories. Where the regular consumption of wine mostly targets men over 50 years old, the percentage of regular consumers (consuming wine almost every day daily) stabilizes after a steady decline since 1980. In 2015, for the first time since 1995, the share of non-consumers of wine declined to occasional consumers. The increase in consumers is via the occasional consumption which is now as much men's as women's. The consumption of wine in France is more and more the fact of consumption in outside meals and with a weekly or monthly frequency. However the rise number of people drinking wine does not stop the decline in volumes of wine consumed on a national level. Over a personal recent survey, it has been proved that the 18-25 years old category mainly drinks wine for a special occasion but not on a daily basis, stronger alcohol or beer would be preferred. Even if this classification could vary according to the gender –where women would prefer to drink a glass of wine for casual drink within the week–, the 35 to 50 years old categories as well as 50 years and more would prefer to meet over a wine bottle on a casual meeting as well as on a special event. This theory also appears to be present wherever French consumers are based on. Where half of the result is being represented by Shanghai Expats, mentality is still the same and on a casual week day meeting women would prefer drinking a glass of wine where on the weekend (al gender confused) strong alcohol are being preferred. Of course, these statistics depend on the age category, but it insists on the theory where an outside glass of wine is cheaper and “cozier” on the weekday based. However on an international scale, wine consumption has increased by 0.4% (2016), Taking the lead, the United States and China, represent the largest importers, where China is expected to account for 71.8% of the volume import market growth by 2020 (2), which covers a total of 28 producing countries and 114 consumer markets.

Impact of the Chinese influence in the French idiom

Throughout the years, China has become a main actor in the worldwide economy and plays a part even more important in the wine trading market. According to a report from the International Organization of Vine and Wine (12), China now possesses a greater vineyards area than France. Second position on a worldwide scale, China has increased its domains by 26% since 2011, and moves from 633 thousand hectares (mha) to 799. While at the same time, French vineyards stagnated and moved from 792 in 2014 against 796 in 2011, the wine market is facing a complete turnover. As China represents around 11% of the total vineyards area (13), it has allowed them to become the second largest country in the world, behind Spain (13.4%). However, this evolution didn't happen without a lot of investments and reconsideration of their all-new economies. Indeed as the spending consumption has evolved and the social classes have been changing within the years, Chinese market opened up to globalization and used its territory as well as its labor on its behalf. Philosophy supported by the government, policies have also strongly encouraged its viticulture system by offering land in order to help winemakers, but they also invest in some regional companies to develop wine tourism. Massively planting vineyards within the Chinese territories, importing professional knowledge within the viticulture system has also

become a strategic key structure of this evolution. Thanks to all those factors, consumption has changed and made it accessible to divers social class. Keen on the imported product, China's investments (*in Europe - across all sectors*), hits a market share of 44% (import), while it represents only 2% in the United States during the same period(14).

China Wine Imports	2016		2016	
	Bottles, Millions 750 ML	Market Share	Value, Millions USD	Market Share
01. France	255.38	40%	967	44%
02. Australia	106.01	16%	543	25%
03. Spain	96.16	15%	142	6%
04. Chile	80.25	12%	210	10%
05. Italy	34.41	5%	114	5%
06. United States	13.00	2%	53	2%
07. South Africa	12.82	2%	35	2%
08. Portugal	9.07	1%	19	1%
09. Argentina	7.46	1%	23	1%
10. Germany	5.08	1%	16	1%

Not only its trading has been increasing but its wine production has also known an important evolution which has allowed them to become the 8th largest producer of wine with 4% of world production. As its desire to expand its market doesn't stop from here, *The Middle Empire* has become the first worldwide consumer (since 2014) of red wine where 25% of its consumption is being imported from the outside and 60% of it came from the EU (where 40% are French product) they do not plan on axing their economy only within their territories. Indeed according to *Challenge report by Vinexpo (2015)*, 91.5% of the wines consumed in China are red wines. With an increase of 37.9% between 2009 and 2013, it has allowed them to obtain their rank in 2014 dethroning France (*second rank*). Furthermore if their consumption rate increased, so did their investments. Nowadays, Chinese are mainly redirecting their interest in our emblematic product and the acquisition of our lands, making France the new investment target ahead of the North America. However, it is important to classify Chinese investors in two categories. On the one hand, there are professional investors who represent big Chinese companies in the sector or Chinese communities, like the Longhai. Indeed their acquisition happened in 2008 and it was the first investment in France. And on the other hand, there are some big Chinese fortunes including important personalities, like Jack Ma. Recently, the founder of the online trading Alibaba has bought a vineyard, *Château de Sours (Bordeaux)*. It is then fair to say that these Chinese offensives are last of a long list and can divers from their predilection sectors. Indeed, far to track all of the Chinese investment, few examples can be used to defend our theory where French symbol had attracted many Chinese investors. As an example, the acquisition of *Château Birot (2014)* by Chen Miaolin, a Chinese magnate of luxury hotels and real estate. Or that of Bellefont-Belcier Castle, a prestigious property of 13.5 hectares near Saint-Emilion, bought in 2012 for more than 25 million euros by Wang, a metallurgical industrialist. Another notable acquisition is Château Latour-Laguens, a 60-hectare estate in 2008, by the Cheng family of industrialists. Far to be the only actor, Chinese consumers had also increased their interest in the wine market. Expansion mainly due to the arrival of younger consumers, it has also been accelerated through social networks. Furthermore, the growth of the middle class and the rise in wages also increased the consumption of French and Bordeaux wines. But, if China is more than proud of this flagrant evolution, the situation is however not the same on the French side. Indeed, since Chinese vineyards have surpassed France in terms of surface, winemakers started to fear the Asian economic weight. Part of the French culture, Chinese investments are perpetually being discussed as great opportunities to open up to the Asian market and feared at the same time as a Chinese could influence the Hexagon economy in many ways. Indeed, Chinese investors are now in a higher position since they represent more than 47% of our investors (compared to 21% Belgium, in Bordeaux). As an example the Bordeaux region, known as the reference in the red wine quality attracts Chinese's investor as a major business in order to seek capital out of their territory. Contradicted among economists, Asian investors are mainly present in few lands where Britannic investors have a lot of parts throughout the territories. This dilemma shows that Chinese investors know where the quality is the most important and their acquisition within a few years have been more important than any others continents.

II. Conclusion

If wine has mainly been recognized as a French product, globalization had redefined it as a worldwide trade good. Depending on the tricolor know-how, the Hexagon was however not able to provide the resources needed to keep this symbolic merchandise their own and needed a bigger help to maintain its value. Where the economy and climate have made a completely turnover in its economy, the French Republic still possesses a major impact in the wine market, even if changes have been made and their rank had decreased. China, on the other hand has been able to demonstrate its economic supremacy on the worldwide trade. Chinese investors became more interested in the French culture and desire to develop a larger range of sophisticated products. Still considered as a controversial concern, winemakers experienced it as a fear of losing the country's identities. Defended by the fact where China reclaimed the market economic status from the EU, economists believe that this evolution will banned all the market protection coming from the country, allowing then the dumping problem. However where politics and economies are being slightly torn apart with the failing Chinese support in the US economy, France is bounding up a pretty good Franco-Chinese relationship. Only two permanent members of the United Nations Security Council representing the European Union and Asia, Paris and Beijing must stimulate their relations so that their interactions will continue to weigh in a world whose center of gravity has rapidly shifted around the Pacific. The bilateral relationship become an important way to link the countries together as their trade increased years by years (€165 billions for France, again €302 billions export trade from China -2016) showing the Chinese supremacy.

Notes

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