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Wine Market in Thailand

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Report Highlights:

TH9124: The market for wine in Thailand presents good opportunities for U.S. exporters. The market is growing and there is strong competition from other world suppliers. However, Thai importers are committed and eager to develop beneficial relationships featuring U.S. wines.

Market Overview

Thailand has a population of 67 million. As estimated 10 percent of the population drinks wine. This accounts for 3 percent of the alcohol beverage market. Even though wine has a much smaller market share compared to beer and spirits, there are strong developments in the level of consumer awareness and appreciation of wines. Wine consumption is increasing and still light red and white wines are often considered and positioned as beverages with superior health benefits. Wine is linked to fashionable lifestyles, particularly in urban areas, due to its high-quality image.

Thailand has fewer than ten local wine producers and retail price ranges starting from \$6 per bottle. However, the price of the better Thai wines, which are viewed locally as competitive with imported wines, will be over \$20 per bottle, which is almost the same range that the consumers can shop for good imported wines. Most wines consumed in Thailand are imported from France, Australia, Italy, Chile, and the USA. In 2008, the total import value of wines was \$33 million, a 31 percent increase from the previous year. Even though good performance is expected this year for wine, it is still likely to be affected by the economic downturn and a slight decline in purchasing power among some consumers. Consumers may cut down on unnecessary spending, which would have an impact on wine consumption. Even though the consumption of Old World wine has a long history in Thailand, there is strong penetration by New World wines due to price competition, a product availability and product variety. Popular Old World wines in the Thai market are from Italy and France.

Consumption Trends

As is the same as for drinkers in other nations, the Thais also consume other alcoholic beverages. The most popular types of alcoholic drinks in Thailand are beer, whisky, and wine. Due to the economic slowdown, a number of Thai consumers are increasingly price-sensitive and price is a major determinant in their buying decision. As a result, economical alcohol beverages continue to enjoy the strongest expansion in each product category, across beer, wine and spirits. For instance, New World wines retail at a 20-30 percent discount to Old World wines and have gained tremendous ground along with beer. Wine appears to compete mostly with beer as a drink of choice for the vast majority of Thai alcohol beverage drinkers.

Wine drinkers in Thailand are between 25-55 years of age. In Thailand, red wine dominates and holds a 70 percent market share in the retail market. The most popular varietals for red wines are Cabernet Sauvignon, Shiraz, Merlot, and Pinot Noir respectively. Chardonnay and Sauvignon Blanc are well known in the white wine category. Wine consumption is still limited to expatriates, tourists and Thais with medium to high-incomes. Even though consumers now enjoy a greater variety of wine available on the shelves in supermarkets and wine shops, price is still a key determining factor for consumers purchasing a bottle of wine.

A significant number of wine drinkers in Thailand lack a thorough knowledge of wines, so low to medium-priced level wines (below US\$40) retail hold the biggest market share of about 70 percent. This price level targets middle-income classes who possess higher education levels and higher spending power. Another factor persuading consumers to purchase wines are attractive packaging and labeling because it adds value to wine as a gift item. Wine is now becoming a

popular Thai gift for special occasions and festivals. With limited purchasing power for some consumers, Thai consumers typically are willing to pay an average of \$23-29 (Baht 800 – 1,000) per bottle of wine. Most view \$14 (Baht 500) as the minimum price for good taste and good quality wine in red wine and white wine. Middle-aged consumers as well as white collar workers are the main target groups and are expected to see the strongest growth in wine consumption. Wine will benefit from the health consciousness trend. Drinking wine is considered to offer heart health benefits. Thai consumers are likely to become more familiar with wine and a wine culture is expected to develop further in the country as wine consumption increases gradually.

Advantages:

- Consumers consider wine to be good for their health
- The number of wine consumers is increasing.
- Little local competition.
- Thailand is a well-recognized tourism destination and attractive to many travelers
- The number of varieties and import choices is increasing.
- California wines are well-known among Thai wine drinkers.

Challenges

- U.S. wines are generally priced above the prices of other major imports
- High tariff and excise tax burden.
- Low awareness for U.S. wine brands
- Australia and New Zealand have a tariff advantage under their FTA's with Thailand.
- Australian, Chilean, Argentina and Spanish wines are viewed by Thai consumers as value-for-money wines.

Less expensive wines from new suppliers in Chile, Argentina, Spain, Australia, and New Zealand are enjoying greater availability. The latter two countries in particular have benefited from their Free Trade Agreements with Thailand. Ongoing tariff reductions on Australian and New Zealand wines are having a large effect on the market and are creating a significant advantage for these two country's wine producers and reducing prices at the retail and food service levels significantly.

Market Size and Structure

The health benefits of wine consumption have increasingly been the focus of the popular media, which has prompted Thai consumers to shift their drink choices to wine from other alcohol beverages. Wines are now more accessible to consumers and are not just limited to wine shops, exclusive restaurants, and high-end hotels. Consumers in Bangkok and upcountry are offered more varieties of wines via extended distribution channels, particularly with the dynamic expansion of retail markets.

At present about 40 percent of all wines are sold via retail while the rest is sold in the HRI sector. Stringent alcohol control laws limit retail sale of alcohol beverages by limiting sales times and sale promotions. As a result wine sales in the retail channel have declined significantly. It is estimated that the proportion of retail sales would reach 60 percent, especially during this stagnant tourism situation. An increased number of fine-dining restaurants have contributed to the increase

of wine sales in the HRI sector.

Retail Market

Hypermarkets (Tesco Lotus, Carrefour, Big C, and Makro) carry imported wines but mostly focus on low to middle-priced products from France, Australia and Italy. Hypermarkets mainly place orders with local importers and to a lesser extent, from wholesalers. Hypermarkets mark up about 10 percent to reach their retail price. The availability of wines in these stores has made wine much more accessible and affordable to lower-income people, who enjoy trying new alcohol drinks. In general, hypermarkets see red wine taking an 80 percent share of their total wine sales. Wine sales are strongly influenced by store location.

Supermarkets (Tops, Villa, Foodland, The Mall, and Siam Jusco) differentiate themselves from hypermarkets by focusing more on a variety of imported western foods offered in store locations targeting expatriates and high-income Thai people. These stores offer a wide selection of wines from France, Australia, Chile, Italy, USA, Spain, and Argentina. Red wines account for 70 percent of total wine for these stores. About 10 percent of total supermarket wine shelf space is occupied by U.S. wine. Most eye-level shelves, the premium shelf-space, are dedicated to Australia, France, Chile and Italy. Seeing the potential of the growing wine market in Thailand, a few supermarket chains have decided to also become direct importers/wholesalers in addition to being retailers.

Specialty stores and wine shops usually carry a wide range of wines from various origins. The ranges of prices focus on the middle and premium levels. These stores service the demands of those higher-income clientele and wine connoisseurs. Specialty stores use well-trained staff to recommend wine varietals and quality to match these consumers' preferences. This can be counted as one of the most successful tactics for them to draw customers back to buy wine from their stores. Wine tasting events and wine maker dinners are held regularly as promotional tools to provide opportunities to both customers and prospects to become acquainted with new wines and induce purchasing.

HRIs

Most importers aggressively market their wines to hotels (especially four and five star hotels) and restaurants in other tourist destinations to capture the medium and high-end, expatriates and tourist markets. In the past, the importers and distributors normally mark up at least 100 up to 300 percent on cost for low-cost wine origins, while a 30 percent mark up is usual for U.S. wines. However, this mark up pattern has changed recently in light of the economic downturn. Promotions such as wine-pairing menus, wine of the month, in-house wine fair, and wine maker's dinner are usually used by hotels and restaurants to boost wine sales. The growing number of authentic fine-dining restaurants is the main driver for wine sales. Italian and French restaurants are distributed broadly in Thailand. France and Italy are not FTA partners, but enjoying considerably larger sales than the US as many of their wines are associated with and move through French and Italian-themed dining establishments.

Market Trend

According to trade sources, it is expected that the wine market in 2009 will remain at the same level as 2008 due to the world economic recession and slowdown of Thai tourism industry. However, importers project a rather modest 5 percent increase in their wine sales for 2010-2012, reflecting optimism that the economic climate and tourism will recover. The market for wine should continue to grow, despite setbacks due to rigid industry regulation. In Thailand, there is a favorable growing trend among lower income consumers to buy wines at retail outlets rather than consuming in restaurants or hotels. It is quite popular in Thailand to try new trends and adopt western lifestyle components. Wine is popular among young adults and woman, especially in socializing activities.

Structure of Wine Duties and Taxes

In Thailand, taxation on imported wines consists of customs duty, excise tax, local tax or municipality tax, health tax and value added tax (VAT). Tax on sales of wine is calculated based on either the ad valorem rate or the specific rate. The decision on which method is to be used is made by the Excise Tax Department, whichever is higher. Ad valorem taxes on locally manufactured products, mainly sales taxes, are calculated based on cost prices. Ad valorem taxes applied on alcoholic imported products are calculated based on the sum of import tax, cost insurance freight (CIF) value and other appropriate charges. Apart from the excise tax, sales of wine face municipal and health taxes, including VAT. These same taxes are applied to locally made wines excluding the import tariff.

For CIF value, the Thai Customs Department will compare the declared price of imported wine with a reference price. If the declared price is lower, a reference price will be applied. Below are the reference prices on U.S. wines according to the Thai Customs Department:

- Wines from California, Oregon or New York (State level), minimum CIF value is Baht 60 (\$1.70) per bottle.
- Wines from 123 American Viticultural Areas (AVA), minimum CIF value is Baht 150 (\$4.30) per bottle. For Napa Valley and Sonoma County, minimum CIF value is Baht 200 (\$5.70) per bottle
- Wines from other small states, which are not AVA, minimum CIF value is Baht 100 (\$2.90) per bottle.
- However, minimum CIF value of Baht 700 (\$20) per bottle is applied for other specific premium California wines such as Camus (Cabernet Sauvignon Special Selection), Stag's Leap Wine Cellars (Cask 23), etc.

The following is a description of the taxes applied:

Import tariff: The current import tariff rate is 54 percent on CIF value or 18 baht/liter, whichever is higher. However, under the Thai –Australia FTA agreement, Thai tariffs on Australian wine have fallen gradually from 54 percent to 24 percent on entry in 2009. The import duty will reach zero percent by 2015.

Excise tax: In principle, the Thai Government places an excise tax on certain products, which are considered "luxury goods" (such as cars, air conditioners, gasoline, soft drinks, perfumes, etc.) and health-affected goods (i.e., liquors and tobacco products), in order to control their consumption. In

reality, the Government manipulates this tax as a device to generate revenue. The excise tax has been accordingly increased from time to time when the Government needs more money. The excise tax rate for wine is 60 percent. However, in addition to a high rate of excise tax, the current calculation methodology creates a much higher tax burden than the rate reveals. The calculation is discussed in the next section.

Municipal tax: This tax is collected by the Ministry of Interior as a revenue source for provincial administration. The tax covers most of products which are subject to excise tax, including wine. The current municipal tax is 10 percent on the amount of excise tax.

Health tax: The health tax is 2 percent of the amount of the excise tax.

VAT: The value added tax is currently 7 percent on the value of the product, plus all of the other taxes (i.e.; CIF value + import duty + excise tax + municipal tax + health tax in the case of wine).

Given the current tax structure, the import tariff rate is 54 percent, excise tax 60 percent, municipal tax 10 percent, health tax 2 percent and VAT 7 percent. The following are the steps used in calculating all duties levied on imported wine:

A	CIF Invoice Value of Imported Wine	\$100.00
B	Tariff (Import Duty): A x 54%	\$ 54.00
C	Excise Tax Paid: Excise Tax Rate x (CIF value+import duty+excise tax paid+municipal tax) or 1.7647059(A+B)	\$271.76
D	Municipal tax: C x 10%	\$ 27.17
E	Health tax: C x 2%	\$ 5.44
F	Value Added Tax: (A+B+C+D+E) x 7%	\$ 32.09
G	Total Cost: (A+B+C+D+E+F)	\$490.46
	Effective Duty and Tax Burden	390.46%

Effective Duty and Tax Burden for Wine by Exporting Country

Countries	Tariff Rate	Effective Duty and Tax Burden
USA, France, Italy, Chile and other countries under WTO agreement	54%	390.46%
Australia	24%	294.92%
New Zealand	18%	275.81%

Pricing

Wine importers mark up their wholesale prices from 10 to 300 percent, depending on their customer's type of business. Average representative mark-ups charged by sellers in wine market;

1. Supermarkets, Hypermarkets, Liquor Store, Department Store, Convenience Store: 5-20 percent

2. Wine Shops: 20 percent
3. Hotels, Restaurants, Pubs, Night Clubs: 100-300 percent

Regulatory Measures on Alcohol Products

Licensing

To control and monitor the domestic production and sale of alcoholic beverages, the government requires that all alcohol producers, distributors and importers obtain licenses issued by the Excise Department for particular activities, namely:

- (1) license for alcohol production and possession of related equipment.
- (2) license for importation of more than one liter of alcohol
- (3) license for transportation of untaxed alcohol from the factory
- (4) license for transportation of more than ten liters of alcohol
- (5) license for transportation of more than one liter but less than ten liter of alcohol between specified territories (provinces),
- (6) license for selling alcohol products.

Licensed producers are required to pay all applicable taxes on alcoholic beverages produced and sold in Thailand prior to transporting the alcohol out of the factory. Excise stamps are used to indicate that the excise duties on alcohol products have been paid. Furthermore, alcohol producers are required to submit their monthly accounting statements to the Excise Department for monitoring purposes. By law, excise officials have the power to prosecute tax-evaders on both criminal and civil offences under the Thai judicial system.

Alcohol Labeling

All wine bottles must have the following clearly imprinted on the label or a sticker with the following statements may be affixed:

1. Type of wine such as grape wine, table wine, sparkling wine
2. Brand name
3. Alcohol concentration by degree or percentage
4. Quantity in volume
5. Name and address of licensed importer
6. "Warning: Sale of liquor to person under 20 years old is prohibited.
: Drinking reduces driving ability
: Not suitable for person under 20 years old"
7. Symbol of product registration (if any)

Entry and Marketing Strategies

The best method for U.S. wine exporters to sell to HRIs, supermarkets, hypermarkets or cash and carry is to contact local wine importers directly. Local wine importers have expertise in developing appropriate marketing and sale strategies that match the target markets and they also possess excellent distribution channels nationwide. Post recommends new U.S. wine exporters schedule

one-on-one meetings with prospected local wine importers. A personal meeting with Thai importers will help the U.S. exporters gain a better understanding of the market and the importers' experience as well as gauge the company's ability to market wines.

Due to legal constraints for advertising, wine manufacturers and importers tend to focus on marketing activities such as wine tasting and promotions and tasting events in food service channels to raise consumer awareness of wine. The FAS office can assist U.S. exporters organize U.S. wine seminars targeting to hotels, restaurant, and retails to stimulate the awareness for U.S. wines in Thailand.

U.S. exporters interested in exporting U.S. wines to Thailand or seeking additional details about the Thai market should contact agbangkok@fas.usda.gov .

End of Report.