

OPPORTUNITIES FOR SOUTH AUSTRALIA IN BRANDY, COGNAC AND OTHER DISTILLED SPIRITS

In 2014 the global market for distilled spirits was estimated to be worth USD230 billion. Of this, more than 40% was based in the Asian Pacific region. There are opportunities for South Australian producers to reposition their brandies at the premium end for Asia Pacific markets, and to focus on emerging brandy markets in Asia where the position of Cognac is less-entrenched.



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This fact sheet presents a high level summary of the opportunities for South Australia to supply distilled spirits to the eight countries analysed through the Functional and Luxury Foods Research Project.

In 2014 the global market for distilled spirits was estimated to be worth USD230 billion. Of this, more than 40% was based in the Asian Pacific region. The Asian Pacific region as a whole has seen more than a doubling in consumption from 2005 to 2014. This region has seen compound annual growth rates far higher than the Americas and Europe.

CHINA The increasing focus in China on entertaining, particularly in the business sector will continue to drive demand for premium distilled spirits. There are local producers in China, however not in spirits such as cognac and single malt whiskeys.

HONG KONG In Hong Kong, distilled spirits under 30% alcohol content by volume do not attract import duties, which has boosted consumer interest in these products. Distilled spirits over 30% alcohol content still attract a 100% import duty. There are many luxury distilled spirits brands present in the Hong Kong market with demand predominantly driven by High Net Worth Individuals. There are no domestic distillers of significant volume in Hong Kong.

INDIA The Indian market is underpenetrated. Cognac is very highly priced and is sold at high end hotels only. Hennessy, a major cognac company that sells only to high end hotels, claims to have sustained a 28-30% growth in sales over the last year in India. The price of a cognac bottle is typically upwards of USD280. India drinks more whisky each year than Scotland produces, and whisky accounts for 88% of India's alcohol market. There is a huge market for imported whisky in India.

INDONESIA In Indonesia, top distilled spirits brands are seen as an indicator of social status and wealth, and are largely purchased as gifts. In spite of being mainly a Muslim nation, Indonesia is witnessing growth rates for its imported spirits (over 6% year on year).

JAPAN In Japan, luxury alcohol consumption is part of the country's culture. There is a large local distilled spirits industry which is receiving growing international recognition. This industry is mainly limited to the production of whisky and sake. All imports must abide with Japanese alcohol regulatory guidelines.

MALAYSIA Malaysia is in the world's top ten countries for alcohol consumption per capita. Whisky and brandy are traditionally the most popular spirits for Malaysian consumers, with demand continuing to grow. There is a local industry which is producing lower quality spirits, but none producing luxury products. Distilled spirits attract Malaysian import duties similar to wine.

SINGAPORE In Singapore, distilled spirits are often purchased as collectibles and as indicators of social status. There is currently strong demand for luxury vodka products from Singapore's young consumers.

SOUTH KOREA In South Korea there is strong demand for distilled spirits, prompted by the local drinking culture and high disposable incomes of urban professionals. Grain-based soju is the most widely consumed distilled spirit, and makes up the bulk of local production. South Korea's recent decision to remove the 15% import duty on distilled spirits is helping to drive demand for more diverse beverages, and particularly international luxury distilled spirits.



OPPORTUNITIES FOR SOUTH AUSTRALIA

Australia's brandy industry has been in decline over recent years, and has a reputation for producing cheaper, lower quality brandies that compete in a different segment of the market to imported Cognacs. Exports of brandy from Australia are negligible, and the Asia Pacific luxury brandy market is dominated by products from the major French Cognac houses.

There are opportunities for South Australian producers to reposition their brandies at the premium end for Asia Pacific markets, and to focus on emerging brandy markets in Asia where the position of Cognac is less-entrenched (for example, Thailand, Vietnam, Philippines). South Australia's St Agnes distillery has recently launched some luxury products - the XO Imperial 20 Year Old and XO Grand Reserve 40 Year Old.

South Australian producers could potentially target new / developing brandy markets in Asia where the awareness of Cognac is still relatively low. Australian brandy could be positioned as a luxury product, whilst below the price charged for the highest end French Cognacs.

South Australian distillers, and their products, are being noticed by a wider audience of consumers who want to try 'craft' spirits, as a progressive alternative to traditional brands like Johnnie Walker. Given the dominance of traditional producers, South Australian producers cannot compete in the commodity market for distilled spirits by volume. Value chain opportunities are likely to lie in product differentiation, marketing and niche developments in the value-added craft sector. However, to date South Australia has not created an 'origin' story for its niche distilled spirits to the same extent as Tasmania has with its whisky industry.

- Social media provides an excellent opportunity for alcohol retailers to connect with consumers, particularly in the highly integrated and connected social environments of leading Asian markets. Innovative social media campaigns are at the forefront of marketing to these consumers.
- China is a promising market due to its rising middle-class who are well educated, and many have overseas education backgrounds and/or work experience. They are more open to western spirit products and enjoy a relatively more progressive lifestyle that includes indulgences, than their preceding generation, who prefer local white spirits.



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South Australian Food Innovation Centre | Phone: (08) 8226 0109
Email: PIRSA.foodinnovationcentre@sa.gov.au