Outline and objectives

- Let’s set the global stage for more in-depth presentations and treat wine like a normal food product
- Current situation and projections
  - Non-EU countries increase share of world
  - Declining consumption in traditional wine countries
- Why the future may be different
  - Population growth rates and demographic shifts
  - Income growth
  - A different geography of wine
- Changes within the wine industry
  - Company consolidation, Branding; bulk vs. bottle,

Top 10 wine-producing countries, 2006

Global & European wine production
Large European producers and consumers have their problems in competition

The wine world is continuing to expand outside Europe

- Production has stopped falling in Europe and is growing in the rest of the world
- Consumption continues to fall in traditional big wine producing European countries
- Much of world trade is within the EU South to North
- These patterns continue to change as the rest of the world grows in importance on both sides of the supply and demand balance
- Consumption growth in Northern Europe and the world outside Europe is accompanied by production growth outside Europe

Top 12 countries by wine exports, 2008

The Southern hemisphere is still jumping in terms of market shares
Consider simple statistical projections from the historical data

- We use past 50 years of consumption data in each place to project forward 20 years using recent patterns to forecast subsequent years, smoothing out big movements.

- This time series forecast approach is more sensible than just a linear or other trend line because it puts more weight on recent years, but it does not really do any economic or industry analysis.

- Consider this a straw man. We use no real information other than that the future will be like the past in relatively simple ways.

- But, if we think the future will be different we need some good reasons.

Some traditional European wine powers remain in contention
Annual per capita consumption of wine

Note: projections estimated using exponential smoothing with a damped trend

Germany shows that wine importing Europe is doing its part

There seems to be no magic to pull France from the wine doldrums
And, Italy has the blues

Projected consumption shares of the top 10 wine-consuming countries:
- France: 25%
- Italy: 12%
- USA: 11%
- Germany: 9%
- Spain: 8%
- UK: 7%
- Argentina: 6%
- Romania: 3%
- Portugal: 3%
- Australia: 2%

What may drive the future

- Population growth rates differ and remain high in poor places that consume little wine (especially Muslim countries)
- Demographic shifts
  - Longer life expectancies, especially in emerging economies; relatively young population especially in Non-wine drinking places
  - Share of population aged 20-40 relatively small in traditional wine consuming areas
- Income growth
  - Slowing growth rates in rich countries, high rates in countries with low per capita wine consumption
Don’t forget potential demand growth in high income East Asia

China, Russia and India

- According to FAO statistics, wine consumption increased significantly in Russia and China between 1992 and 2007:
  - Increased about 40 percent in Russia and over 260 percent in China
  - China’s share of world consumption went from 2 percent to 6.8 percent
  - Russia’s share went from 3 percent to 4 percent
- Wine consumption in India is still very low
  - (less than 0.1 percent of world consumption)
World population, 1950-2050 (projected)

Western Europe and U.S. population by age, 2010

China’s and India’s population by age, 2010

World map weighted by estimated population in 2050

Total population (est.) = 9.07 billion
What does population and income growth mean for the wine markets of the future?

- The wine consuming markets are NOT the growing parts of the globe.
- The Middle East, south Asia and Africa are growing and none have much of a history of wine or, probably, much future.
- The rich world is a shrinking share of the global consumption of most food and consumer products.
- These demographics mean that the overall wine market is not like food and agricultural markets generally.

Other issues for changes within the industry

- Bulk commodity wine vs. expensive packaged wine
- Branded commodities
  - duplicatable, high profit margin products
  - Colas, shampoos, beers
- Branded wine
  - different model than wines with unique terroir or practices
  - produced by distributors who capture benefits
  - Australian wine in the US has partially achieved this and others are attempting to use commodity grapes
- Traceability, location and labeling what is the role for policy and industry practice

Country of origin other labeling issues as the industry evolves to global sourcing without appellations of importance

- Traceability for products of mixed origin
  - Potential for blending wines from different regions of the world
- To what extent does terroir matter for bulk wine?
  - Issue that wine industry doesn’t necessarily face but the food industry does
- Effects of regulation and policy: will governments mandate added labeling for wines with multiple international sources

Still some optimism in the wine world
Thank you! www.aic.ucdavis.edu