“What's Gone Wrong with the Global Wine Industry?”
Robert Mondavi Institute Center for Wine Economics
12th October 2010

- A Roundtable Discussion of Boom and Bust Cycles and Emerging Opportunities in the World Wine Industry, Focusing on the Roles of Evolving Markets, Resource Constraints, and Technologies

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Boom and Bust Cycles and Emerging Opportunities in the World Wine Industry

*Peter Hayes*, Vice-President International Organisation of Vine and Wine (OIV)
OIV Role and Activities

44 Member States of the OIV

- Austria
- Belgium
- Cyprus
- Croatia
- Czech Rep.
- Greece
- Germany
- Belgium
- Luxembourg
- Finland
- Norway
- Sweden
- France
- Italy
- Ireland
- Portugal
- Spain
- Luxembourg
- FYR Macedonia
- Malta
- Netherlands
- Switzerland
- Serbia
- Montenegro
- Bulgaria
- Hungary
- Georgia
- Moldavia
- Romania
- Czech Rep.
- Slovakia
- Slovenia
- Russia
- Morocco
- Albania
- Albania
- Armenia
- Azerbaijan
- Belarus
- Brazil
- Chile
- South Africa
- Mexico
- Peru
- Uruguay
- Argentina
- Brazil
- Chile

* Observer

New Zealand
Objectives of the OIV are

a) to inform its members of measures whereby the concerns of producers, consumers and other players in the vine and wine products sector may be taken into consideration;

b) to assist other international organisations, both intergovernmental and non-governmental, especially those which carry out standardisation activities;

c) to contribute to international harmonisation of existing practices and standards and, as necessary, to the preparation of new international standards in order to improve the conditions for producing and marketing vine and wine products, and to help ensure that the interests of consumers are taken into account.
Recent and Current Issues I

- Improved aggregation, analysis and interpretation of grape and wine sector statistics; diminishing role of FAO
- Management strategies for control Ochratoxin A (OTA), this becoming the basis for the Codex Alimentarius’ guideline on OTA
- Research issues; potential introduction of GM varieties and microorganisms
  - variety naming, assessment protocols, product safety and biodiversity impacts
- Sustainability, resource deployment and climate change issues

Recent and Current Issues II

- Recommendations on compositional limits; chloride, lead, methanol, ethylene glycol etc
- Codes of practice; use of wood in fermenting must or juice, uses of pieces of wood (oak chips), limits to addition of acids, Good Manufacturing Practice
- Label harmonisation; sulfur dioxide, alcohol, field of vision placement
- Socio-economic and environmental impacts of grape growing and wine production
- Education and communication regarding moderate alcohol consumption
The Global Perspective

Surface Area of Vineyards Worldwide
Europe
Surface area of vineyards worldwide

- Europe: 69.3%
- Asia: 9.9%
- America: 4.1%
- Africa: 0.7%
- Oceania: 5.2%

Australia Strategy 2025
- Added 16,000 &10,000 ha
- NZ added 4,000 ha in one year

Recent developments of the leading vineyards

Australia’s Vineyards = 20% of France’s Vineyard Area and 40% of USA’s Vineyard Area

Source: http://news.reseau-concept.net/images/oiv_uk/Client/DIAPORAMA_STATISTIQUES_Tbilissi_2010_EN.ppt
Surface area of vineyards worldwide
Areas planted in vines of the 12 leading countries

Forecast 2009

Note: New Zealand added approximately 4,000 ha in one year

Global Grape Production
Global grape production

Recent developments of the leading grapes producers

- **Europe**
  - 63.3%
  - 18.4%
  - 5.2%
  - 21.0%
  - 53.3%

- **Asia**
  - 17.3%
  - 4.0%
  - 1.5%
  - 13.9%

- **Global**
  - 63.3%

- **America**
  - 13.9%
  - 18.4%
  - 5.2%

- **Africa**
  - 2.1%

- **Oceania**
  - 6.0%

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Recent developments of the leading grapes producers:

- **ITALY**
  - 1995: 55,000
  - 2000: 70,000

- **CHINA**
  - 1995: 85,000
  - 2000: 100,000

- **USA**
  - 1995: 30,000
  - 2000: 40,000

- **FRANCE**
  - 1995: 35,000
  - 2000: 50,000

- **SPAIN**
  - 1995: 25,000
  - 2000: 30,000

- **TURKEY**
  - 1995: 10,000
  - 2000: 15,000

- **CHILE**
  - 1995: 20,000
  - 2000: 30,000

- **IRAN**
  - 1995: 5,000
  - 2000: 10,000

- **ARGENTINA**
  - 1995: 15,000
  - 2000: 20,000

- **SOUTH AFRICA**
  - 1995: 10,000
  - 2000: 15,000

- **INDIA**
  - 1995: 5,000
  - 2000: 10,000

- **AUSTRALIA**
  - 1995: 2,500
  - 2000: 5,000
Global Wine Production

World production of wine

- Europe: 78.0%
- Asia: 16.0%
- America: 1.5%
- Africa: 3.0%
- Oceania: 1.6%

Years:
- 2001: 220
- 2002: 225
- 2003: 230
- 2004: 235
- 2005: 240
- 2006: 245
- 2007: 250
- Forecast: 268,7
Production of wine of the 12 leading countries

**Forecast 2009**

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<tr>
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Global Wine Consumption
Global wine consumption

Per capita wine consumption

Calculation taken from FAO 2007 demographics data base

Degree of Market Equilibrium in the World of Wine
Degree of market equilibrium in the world of wine

Difference between wine production and consumption

Difference between wine production and consumption for the main producer countries

Forecast 2009

Nb: This spread can not be considered as a surplus because near 35 million hl are used to supply the market for industrial purposes: brandies, carburation, vinegars and vermouth.

ITALY  FRANCE  SPAIN  USA  ARGENTINA  CHINA  AUSTRALIA  CHILE  SOUTH AFRICA  RUSSIAN FED  ROMANIA
International Trade

World wine exports

- Europe
- Asia
- America
- Africa
- Oceania

Bar chart showing average Hl and Years from 1996 to 2008 with a forecast to 2009.
Developments of the leading of wine exports

World wine imports
Opportunities and Threats

- Threats more evident;
  - Social-regulatory and “social licence” issues
  - Embedded surplus
  - Structural and economic
  - Market consolidation and accessibility
  - Resource allocation, competition and “climate change”
  - Technical-open access to modern and innovative techniques-differentiated and valued products
- Opportunities dependent upon grasp of challenges
- What role for R&D?

Emerging Issues
--including some well out of the stable

- Sustainability—in the full sense of the term
  - “C-footprint”, “food/wine miles”
  - Trade impediments; technical/regulatory and attitudinal
  - Resource competition and allocation— “food security”
  - Profitability-individual businesses and of “the industry”
- Health-Nutrition-“Lifestyle” debate and social policy
  - Role and legitimacy of wine in modern societies
  - Individual and societal health, “sin” taxes
- Product safety and traceability
  - Residues of agrochemicals, processing aids
  - Denomination of origin or provenance
- Authorised/accepted methods and technologies
  - GMO, fractionation
  - Innovation and novel products
Emerging Issues
--to summarise

- Unpredictability and/or uncertainty in
- Biophysical environment and resources
- Economic environment
- Business and marketing structures
  - Retail
  - Distribution
  - Direct sales/www
- Industry maturation and competitor behaviour
- Public policy settings
  - Taxation
  - Health and wellbeing
  - Regional development
- Industry leadership, coordination and coherence
  ---substantially driven by the above!
- Complexity of ownership, objective, structures and scale

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**FINANCIAL REVIEW**

There’s a good case for boosting tax on sin

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**COMMENTARY**

Last century, the classic tabloid newspaper front page headlined: “beer, cig’s”. That old quip will well be revived for the morning after the release of the Henry tax review. Treasury secretary Ken Henry is likely to make recommendations on whether the taxation system should include sin products, such as alcohol. The Henry review has stated that the taxation of goods such as alcohol and tobacco that are bad for public health.

Henry specifically called for more submissions on so-called “sin taxes” in a consultation paper issued last month. The issues are complicated and certainly taxes should not be seen as a total solution to the problem. It is wrong to suggest that tobacco controls alone will ensure that people stop smoking.

The Henry review will have the benefit of the report of the federal government’s National Preventative Health Taskforce released last September, which looked at the issue in detail. Certainly different strategies may be needed for different products. The case for higher cigarette taxes is clear. Cigarette companies claim a rise in taxation will have a negative impact on smoking, but this is in contrast to the evidence of increased prices of cigarettes and smoking by about 4 per cent. The sort of reduction could save many lives and a lot of spending on chronic disease.

Since a big increase by the Howard government in 2000, the cigarette price has remained unchanged, whereas Australian has fallen behind global counterparts. Tax on cigarettes is 69 per cent of the recommended retail price in Australia compared with 76 per cent in Canada or 30 per cent in France.

The taskforce recommended adding an extra 7¢ a cigarette to the current excise tax of 25¢ and taking the price of a packet of 30 to more than 3.20.

The issue of raising taxation on alcohol is more complicated. The link between alcohol consumption and health is not as direct. It is possible to untangle the complex alcohol levies will not be easy, but there is strong evidence that taxation works.

Uncoupling the effects of reducing the alcohol consumption. That is why the National Preventative Health Taskforce recommended that the levy on the pre-mixed spirits be increased to 10 per cent of the wholesale price.

The Rudd government’s so-called “alecop” legislation on the pre-mixed spirits popular among teenagers was a first step in this direction. However, it was ultimately blocked in the Senate because of objections that the tax might shift demand to another form of alcohol. The Henry review could help by sketching out a broader approach that cleans up the current logistical patchwork of alcohol taxation.

The tax on a drink containing a litre of alcohol can vary by a factor of 30 depending on which state or territory it is bought in, whether it is in a convenience store or supermarket.

This will not be easy to untangle, but there is strong evidence that taxation works. The popularity of light beer has been promoted by a low tax regime. The liquor industry has published the best research suggests that in the long run there will be a reduction in alcohol consumption significantly.

Of course, raising taxation on tobacco and alcohol will work best if it is part of an integrated program including more restrictions on advertising and sports sponsorships and more campaigns on负责任it would help build public support for higher sin taxes if some of the money raised was seen to be going to drugs activities.
Consequences for Industry

- Industry Legitimacy
  - Direct and indirect implications for industry’s “Licence to Operate”
- Accessibility, reliability and cost of resource access—land, water, energy, infrastructure----
- Accountability
  - Development and implementation of BMP+, diverse/confusing/competing certification schemes
  - Alignment with regional landscape environmental targets, social objectives-community health and wellbeing
  - Role of a “Sustainability Performance Index” e.g. Water
  - Public audit and reporting; social/community dividend and environmental impacts etc

Impacts on Business Performance and Investment

- Heightened production and compliance costs
- Greater public accountability measures
- Issues of genuine demand/supply balance
- Impacts of supply chain consolidation and balance in market power; novel approaches to marketing and distribution?
- Profitability and Influence; individual and regionally
  - Capacity for reinvestment, innovation and development
  - Political credibility
- Uncertainty and impact on investment confidence
Gaja rails against 'Italian' wine
10 Sep 2010 by Jancis Robinson

Mad Man of Barbaresco Angelo Gaja has just sent me the following cri de coeur entitled 'The Crisis and World Markets Hobble Italian Agriculture'. It is all a long way from the relaxed, rather back-slapping tone of yesterday's presentation of the Istituto di Grandi Marchi at the Masters of Wine AGM, but probably more accurately reflects the current state of the Italian wine market (see Italian wine prices plummet, Minister unconcerned). I assume, perhaps wrongly, that the non-100% 'Italian' products to which he refers so disdainfully are what make up most of the ocean of 'Pinot Grigio' exported from Italy - presumably based on white wine imported into Italy and made thoroughly eGrigious.

www.jancisrobinson.com/articles/201009101.html

Angelo Gaja; What is to be done? There is no lack of suggestions:

HIGHER QUALITY: but for wine, olive oil, Parmesan cheese quality has never been better.

BETTER VALUE: but by now even wine at €2 a bottle is well made.

FARMERS MARKETS: a palliative, but one which encourages cultivators to reckon with the market, to think of themselves as entrepreneurs as well, and gives consumers a better idea of the seasonal nature of agricultural production.

SHORTENING THE DISTRIBUTION CHAIN: but first producers need to get together to organise and unify what they have to offer.

MORE MARKETING: too many producers already boast that they do no marketing. They are mistrustful of the word itself which, for them, suggests merely some sort of ploy to increase sales.

NO OGM: but current bans need to be overcome. It would be better if producers were more virtuous and consumers learned to recognise and reward certain products through clear and honest labelling practices.

INCREASE DEMAND FOR THE PRODUCTS: in Italy the producers themselves are taking care of the question, but public funds should be allocated for promotion on foreign markets.

MAKE EXPORTING AN UTTER PRIORITY: absolutely, and of decisive importance for the growth of the agricultural sector.

PROTECT ITALIAN NAMES AND BRANDS on foreign markets, combat imitation and falsification; more can and must be done.

If the crisis does not ease, any and all remedies will be insufficiently effective.
Challenges and Opportunities for R&D?

Global Issues: Problems, Opportunities, Drivers

- Global supply-demand balance & system inertia
  - Defining, analysing and interpretation of statistics
  - Modelling, scenario analysis and projection?
  - Emerging (BRIC) and adjusting producer/consumers
- Structure of distribution and retail sector
  - Recent and ongoing consolidation, limits to SKUs
  - Alternative access, promotion & servicing pathways?
- Political and social pressures on consumption, pricing, margins, growth
  - Social licence; health/wellbeing, environment
  - Sponsorship and tacit promotion
  - Competition for natural resources and infrastructure
International/National/Regional Issues: Problems, Opportunities, Drivers

- Industry investor and competitor behaviour
  - Industry planning, communication and adoption
  - Numbers, sector focus, current/future viability, “adjustment”
- Policy settings
  - Regulation, Taxation etc
  - Product and industry legitimacy
- Regionality Branding cf/vs Proprietary Brand development
  - Scale and allocation of investments and by whom?
  - Legitimacy and credibility of regionality
  - Risk; climate change and variability

Proprietary: Problems, Opportunities, Drivers

- Regionality Branding c.f. Proprietary Brand development
  - Risk and exposure to weakest colleague
  - Reliable and valued differentiation—especially with “Climate Change”?
- Consolidation, Innovation and Diversification
  - Product; classic vs novel and FMCG approaches
  - Marketing
  - Sales and distribution
- Optimising business structures, scale and approach
  - “Whole of business” modelling, planning and belief
  - Implementation and monitoring
  - Adaptation and resilience
For Industry and its Businesses

- Improved sector and business analysis interpretation and communication
- Deeper consideration of
  - Business positioning and potential
  - Entrepreneurial opportunity and risk management
- **Adoption of more creative approaches in**
  - R&D for contribution to design and delivery
  - Business planning and execution-action
  - Communications and Marketing
  - Adaptability and resilience

Optimal adaptation to climate, environment & social pressures needs

- Development of regionally relevant and realistic potential scenarios
- Preemptive and active balance of management, technical and regulatory innovations to allow effective functioning of the sector, *rather than*
  - a belated uncoordinated recuperative action.
- Strategic investment in technical, social and economic R&D, information and communication
- **Support and promotion by very well informed leaders and executive management within the public and commercial sector**
Implementation of Mitigation/Adaption Strategies—"Climate Change" as an example

- Clear leadership will be required from industry and government in making a firm commitment to;
  - Transparent and rigorous analysis of the national and regional impacts of change (climate, social etc) in its diverse manifestations—technical, environmental, social and economic
  - Communication of alternative scenarios and candidate responses is made
  - Appropriate adaptation of production and marketing processes
  - Well considered legal and regulatory change recognising a need for more adaptable management

Accountability, information, education and communication

- The public perception and product image of wine has been reinforced by regulatory, industry protocol and promotional assurances of origin, quality, integrity and sustainability communicated to the public, customers and consumers; especially evident with "terroir" based propositions (+organic---?)
- Engagement with the public regarding emerging pressures and industry adaptations must be well planned and managed in order to preserve and enhance these attributes
Approaches to R&D?

- What themes?
- What approaches?
- “Academic” or “Applied”?
- Individual or collaborative?
- Participative?
- How to design programs and investment?

Some Possible Themes

- Landscape and production system resilience
- Resource use efficiency and resource recovery
- Scaling company size and business approach to optimise for
  - profitability and resilience
- Production/composition modelling and seasonal prediction and management
  - Maturation management and intake scheduling
  - Prediction, monitoring and mechanisation
  - Optimising yield and varietal or regional “character”
- Product attributes and implications for health and wellbeing
- Consumer and demand modelling
- Adaptive, integrated strategies for industry leadership, innovation, RD&E etc
To Illustrate--------

- **Title:** The demand for wine in the USA
  - **Author(s):** Steven S. Cuellar, (Department of Economics, Sonoma State University, Rohnert Park, California, USA), Tim Colgan, (Foster’s Wine Estate, Napa, California, USA), Heather Hunnicutt, (Wine Business Program, Sonoma State University, Rohnert Park, California, USA), Gabriel Ransom, (Sonoma Research Associates, Glen Ellen, California, USA) Citation: Steven S. Cuellar, Tim Colgan, Heather Hunnicutt, Gabriel Ransom, (2010) "The demand for wine in the USA", International Journal of Wine Business Research, Vol. 22 Iss: 2, pp.178 - 190

- **Purpose** – The purpose of this paper is to investigate the demand for wine and provide insight into the behavior of USA wine consumers.

- **Design/methodology/approach** – This paper uses a fixed effect, instrumental variable approach to estimate the demand for wine in the USA, correcting for endogeneity inherent in demand estimation by using grape prices as the instrument.

- **Findings** – Demand for the six top selling red wines and six top selling white wines was estimated. While the law of demand is confirmed, differences were found in the price elasticity of demand by varietal and price point. Also, these wines are found to be normal good as defined by economic theory and the results generally hold across color, varietal and price segment. There was a greater willingness of red wine drinkers to switch to white wines than white wine drinkers to switch to red wines.

- **Practical implications** – No statistically significant cross price effects were found.

- **Originality/value** – This paper provides an important contribution to the current literature by disaggregating the demand for wine by color, major varietal and price segment to analyze cross price effects.
Landscape and production system resilience

- Greater seasonal variability and competition for resources
  - Ecological implications; pest and disease range and consequences; “monoculture” c.f. “mosaic” approaches
  - Regional land use planning e.g. conjunctive groundwater/surface water allocation and use, matching crop/enterprise and land use capability
  - Ameliorating chronic and acute thermal shocks; relative roles of selection, breeding and management

Resource use efficiency and resource recovery

- Productivity/unit “natural resource”
  - water, diesel, electricity, “soil”---implications for plant material, production system, mechanisation
- Optimal yield/ “quality” settings; is this necessarily an inverse relationship?
- Regional infrastructure modelling/planning
- Integrated processing, packaging resource recovery/reuse
  - carbon/energy, nutrient, water, bio-actives
Production/composition modelling; seasonal prediction and longer-term projection

- Supply assurance and market/sales planning
- Intake planning; capacity, processing aids and additives
- Potential for field management cues
  - matching grade, style, yield and costs to market need
- Investment signalling