



University of California
Agricultural Issues Center

What Drives Imports and Exports of Bulk Wine?

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Georgi's Conclusion

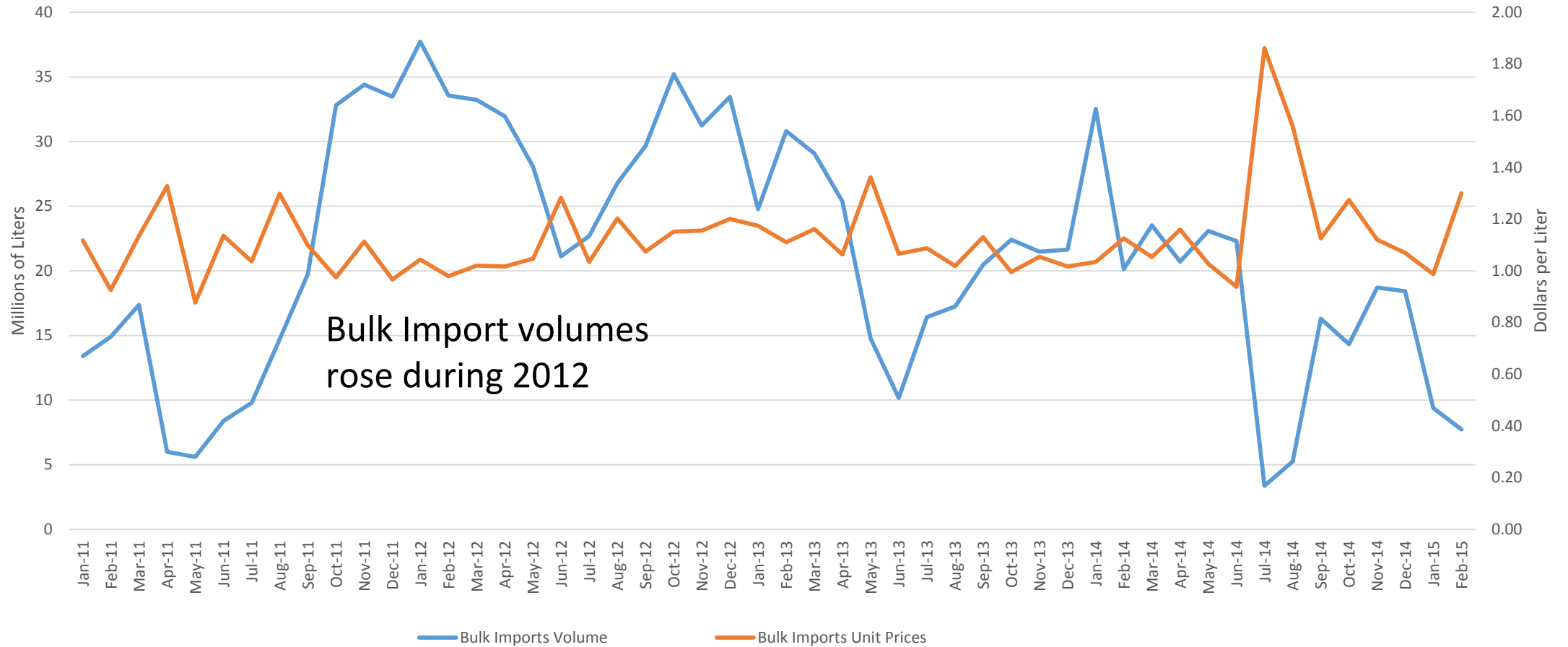
Exchange rates are part of the explanation.

There are other things that influence the wine trade: yields, demand changes, policy (duty drawbacks)

Theory and Reality: Bulk wine 2011-2014

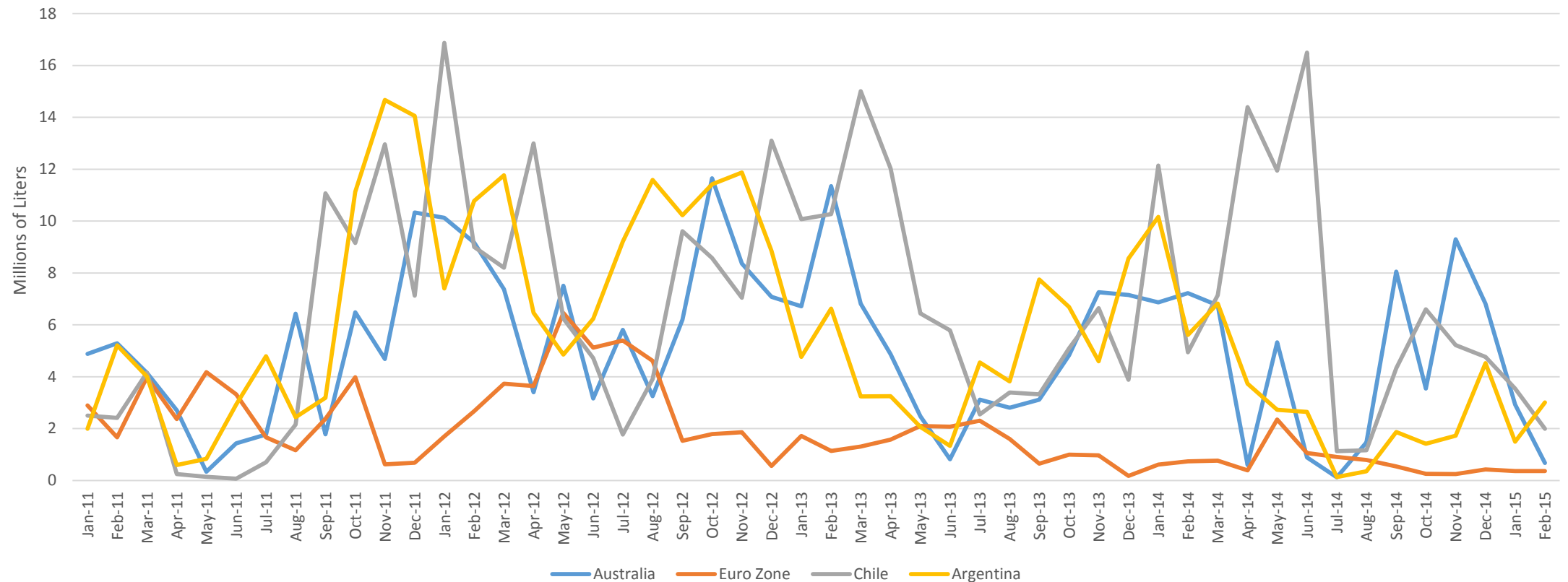
- A strong dollar
 - Increases volume of imports and
 - Lowers the U.S. dollar price of imports
 - Reduces volume of U.S. Exports and
 - Raises prices of U.S Exports for foreign buyers in their currencies
- Between 2011 and 2014 the dollar gained about 15.5% against currencies of most wine producing countries (weighted by value of imports).
- The dollar gained about 7.5% against the currencies of major wine importing countries (Euro, Pound, Yen, Yuan, HK Dollar)
- What happened to U.S. Imports and Exports of bulk wine?

U.S. Total Bulk Imports by Month

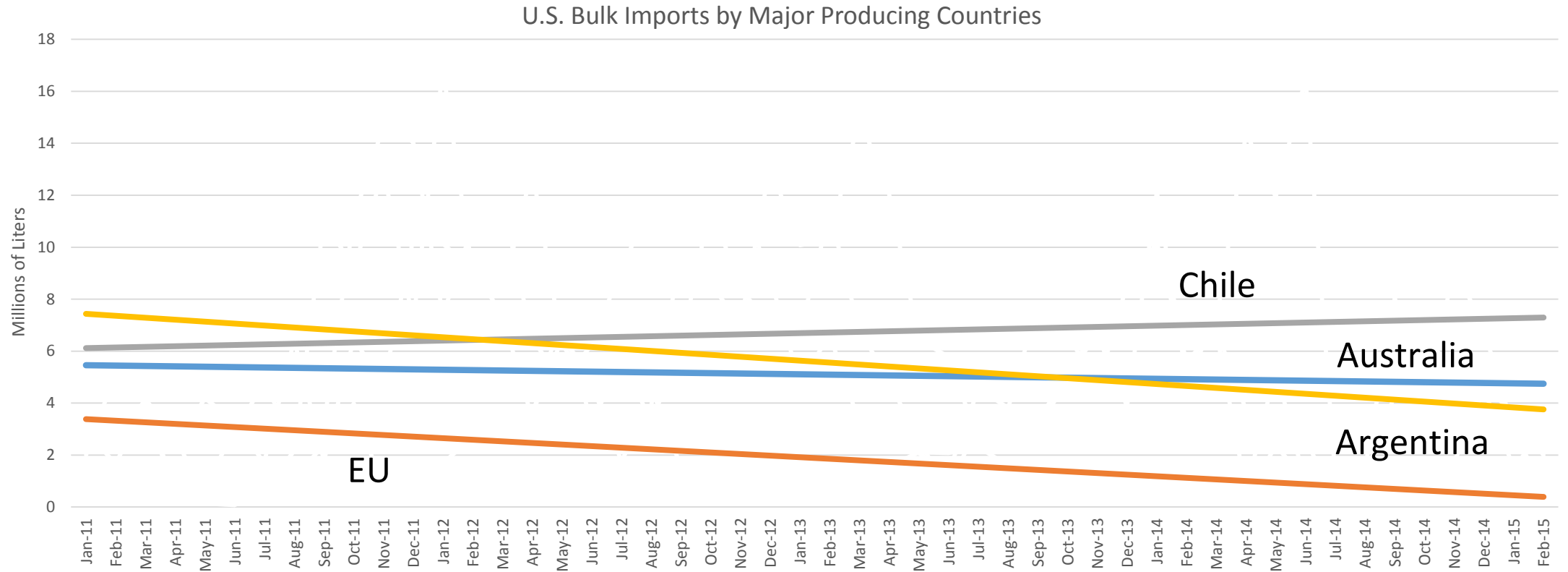


Chile, Argentina, and Australia are the major bulk suppliers to the U.S. (87%)

U.S. Bulk Imports by Major Producing Countries



Chile, Argentina, and Australia Bulk Imports as Trendlines



Changes in Bulk Wine Quantities and Price (dollars/liter) from 2011-2014

	2014 Bulk (millions of liters)	Quantity Change from 2011	2014 Average Price (dollars/liter)	Price Change from 2011
Australia	56.95	+12%	\$0.83	-19%
Argentina	41.73	-40%	\$0.92	+6%
Chile	90.25	+73%	\$0.77	-18%

Thoughts on Bulk Imports and Theory?

- Bulk imports did increase in 2012 for all countries but then declined in volume the following two years
- However Chilean and Australian prices fell in U.S. dollars by 18% and 19% and these two countries accounted for more than 50% of bulk shipments.
- Argentine bulk prices in U.S. dollars per liter remained roughly constant, but volumes declined by 60% from the 2012 high. Not competitive with Chile and Australia?

Despite a strong dollar, volumes of U.S. bulk shipments have remained fairly constant

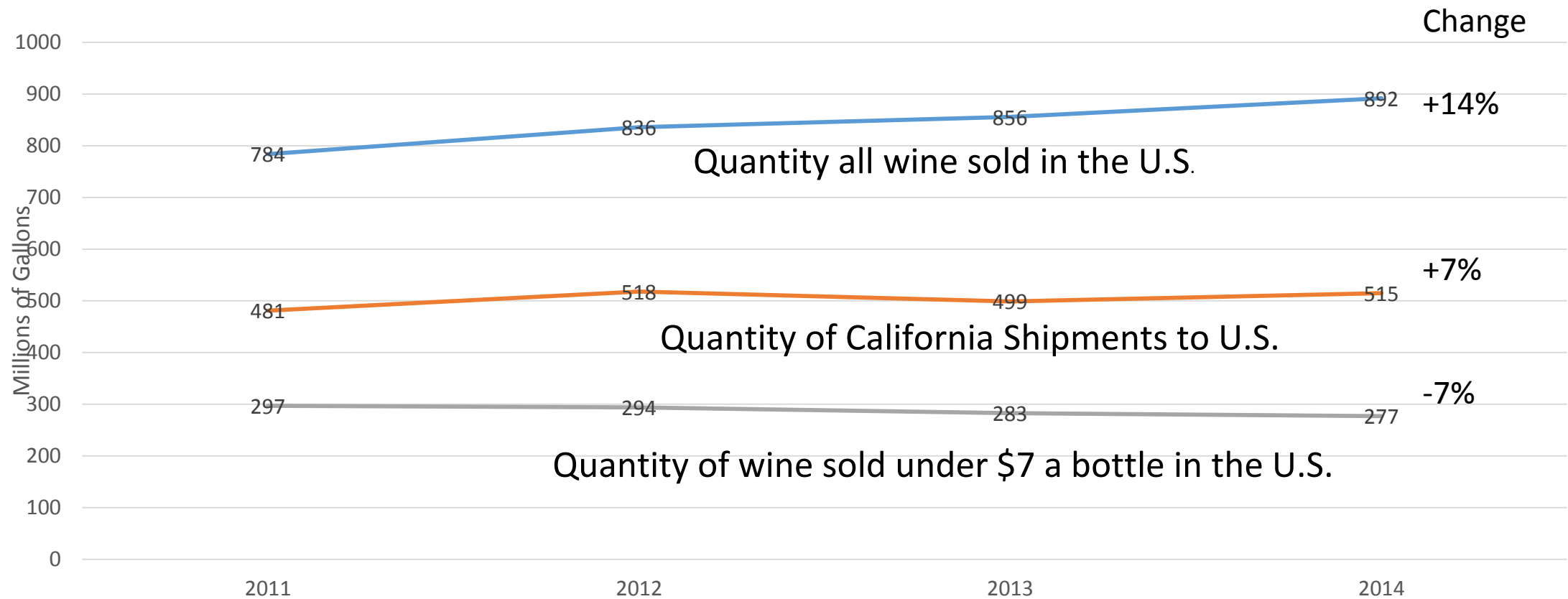
U.S. Bulk Shipments to UK and Euro Region in Millions of Liters 78% of all 2014 Shipments



What Was Happening in the U.S.?

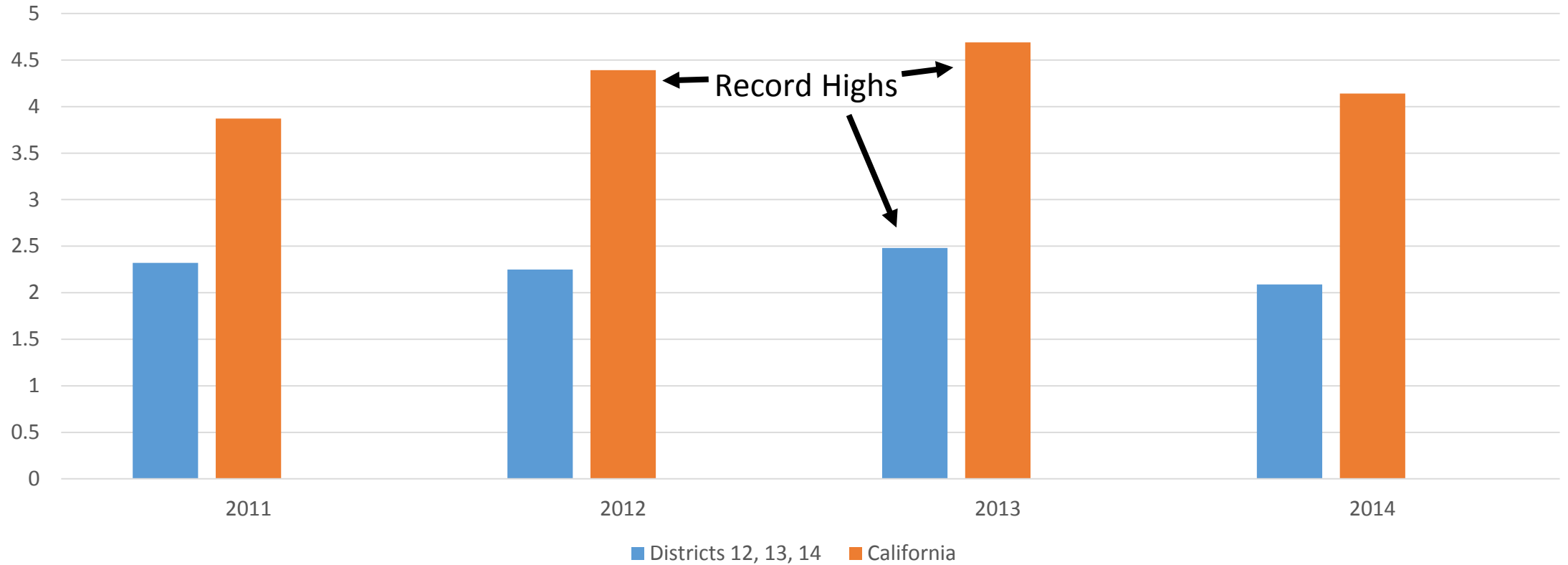
- Domestic quantity demanded has been increasing (2-4% per year)
- Quantity demanded for wine under \$7 a bottle has **decreased** by 7% from 2011 to 2014
- Short vintages in 2010 and 2011. CA supply did not keep up with U.S. demand.
- This led to increased bulk imports in 2012, accounting for the spike
- 2012 and 2013 were two record harvests in California
- Southern S.J Valley harvest produced a record 2.48 million tons in 2013, filling tanks and reducing the need for bulk wine imports
- All this effected California prices and import volumes

Quantity Demanded and California Shipments



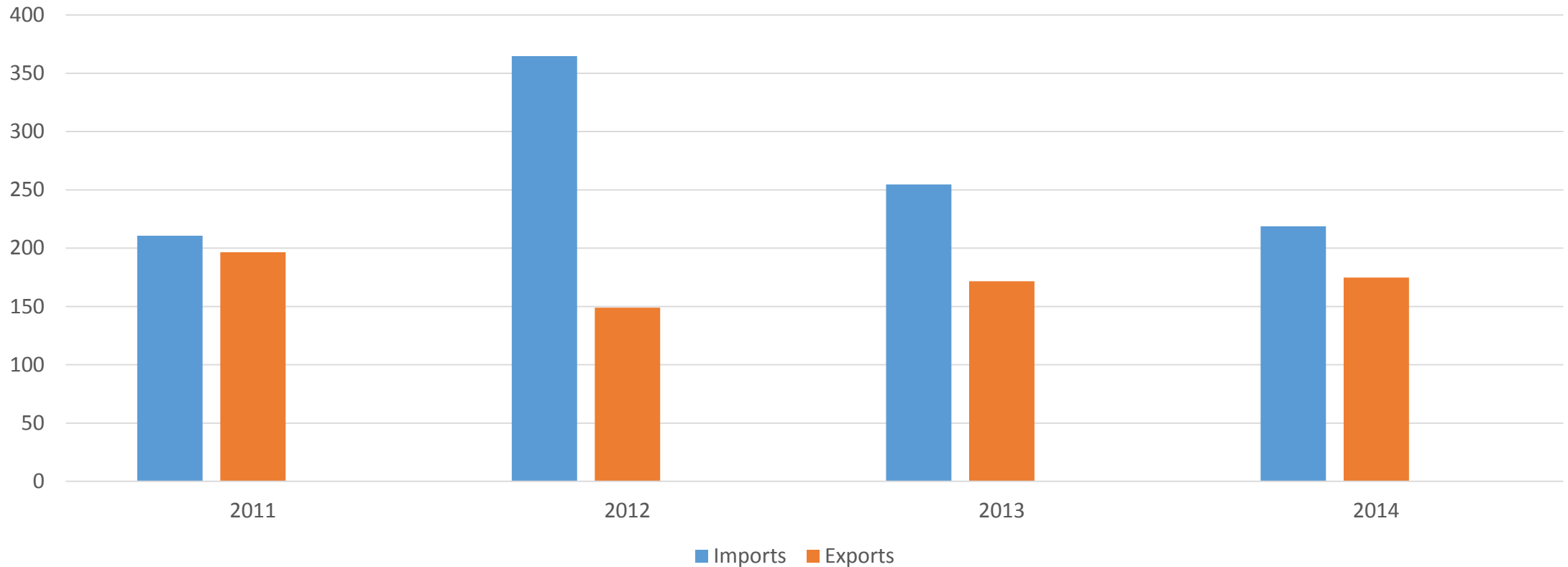
Recent California Grape Crush

Millions of Crushed Tons



Drawback, if a factor, encouraged exports (and would tend to raise grape prices)

U. S. Bulk Wine Imports and Exports



Exports must be matched with imports to claim drawback.

Conclusion?

- Exchange rates are one of several factors that effect grape prices.
- A strong dollar makes imports more competitive with domestic wine, thus lowering grape prices in California (at least for those segments where imports are a substitute)
- But decreasing U. S. demand for inexpensive wine coupled with large CA harvests also reduces CA prices (supply/demand)
- We live in a global marketplace. The two strategies for success are:
 - Differentiation (i.e. reduce the potential for substitution)
 - Increased efficiency (out compete foreign producers)

Thank you



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