What Drives Imports and Exports of Bulk Wine?

Jim Lapsley
jtlapsley@gmail.com
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

Bulk Import volumes rose during 2012.
Chile, Argentina, and Australia are the major bulk suppliers to the U.S. (87%)
Chile, Argentina, and Australia Bulk Imports as Trendlines
## Changes in Bulk Wine Quantities and Price (dollars/liter) from 2011-2014

<table>
<thead>
<tr>
<th></th>
<th>2014 Bulk (millions of liters)</th>
<th>Quantity Change from 2011</th>
<th>2014 Average Price (dollars/liter)</th>
<th>Price Change from 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>56.95</td>
<td>+12%</td>
<td>$0.83</td>
<td>-19%</td>
</tr>
<tr>
<td>Argentina</td>
<td>41.73</td>
<td>-40%</td>
<td>$0.92</td>
<td>+6%</td>
</tr>
<tr>
<td>Chile</td>
<td>90.25</td>
<td>+73%</td>
<td>$0.77</td>
<td>-18%</td>
</tr>
</tbody>
</table>
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.
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

Quantity all wine sold in the U.S.
- 2011: 784
- 2012: 836
- 2013: 856
- 2014: 892
Change: +14%

Quantity of California Shipments to U.S.
- 2011: 481
- 2012: 518
- 2013: 499
- 2014: 515
Change: +7%

Quantity of wine sold under $7 a bottle in the U.S.
- 2011: 297
- 2012: 294
- 2013: 283
- 2014: 277
Change: -7%
Recent California Grape Crush

 Millions of Crushed Tons

- **Record Highs**

- **2011**
- **2012**
- **2013**
- **2014**

**Districts 12, 13, 14**

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

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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