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?
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

- 2011
- 2012
- 2013
- 2014

Record Highs

D 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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