Europe and the United States in the World of Wine
Toward a Common Standard: New European Wine Label Laws and Geographic Indicators of Origin

University of California, Davis
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Outline and objectives

• The global context of wine trade presentations
• Current situation and projections
  – U.S. EU trade patterns
  – 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
• Other changes and issues within the wine industry
Top 10 wine-producing countries, 2006

Production in top 10 = 230 Mn hl = 81%

European Production = 152 Mn hl = 66%

Global Production 283 Mn hl
Global & European wine production

+ 4,02 Mn hl / an

+ 22%

- 6,82 Mn hl / an

- 28%

+ 1 Mn hl / an

+ 6,5%

+ 3,34 Mn hl / an

- 6,54 Mn hl / an

=UE15+PECO+ex-URSS+Malte+Suisse

1981

1995
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
International trade: market share

[Bar chart showing market share percentages for different regions over time.]

- Top 5 EU exporters
- Southern hemisphere + USA
- Other countries

[Legend and data labels for years 1995 to 2008, showing trends and percentages.]
### Volume of U.S. wine imports by container size and color, 2004-2010

<table>
<thead>
<tr>
<th></th>
<th>Two liters or less</th>
<th></th>
<th>Over four liters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Red</td>
<td>White</td>
<td>Other</td>
</tr>
<tr>
<td>(million liters)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>324</td>
<td>225</td>
<td>5</td>
</tr>
<tr>
<td>2005</td>
<td>343</td>
<td>251</td>
<td>7</td>
</tr>
<tr>
<td>2006</td>
<td>346</td>
<td>261</td>
<td>7</td>
</tr>
<tr>
<td>2007</td>
<td>376</td>
<td>275</td>
<td>8</td>
</tr>
<tr>
<td>2008</td>
<td>347</td>
<td>267</td>
<td>8</td>
</tr>
<tr>
<td>2009</td>
<td>345</td>
<td>259</td>
<td>8</td>
</tr>
<tr>
<td>2010</td>
<td>363</td>
<td>286</td>
<td>8</td>
</tr>
</tbody>
</table>
# U.S. Wine excise taxes and import duty rates

<table>
<thead>
<tr>
<th></th>
<th>Two liters or less</th>
<th>&gt; two liters but not &gt; four liters</th>
<th>&gt; four liters (MFN)</th>
<th>&gt; four liters from Chile or Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Import duty rate</strong></td>
<td>0.063</td>
<td>0.084</td>
<td>0.14</td>
<td>0.048</td>
</tr>
<tr>
<td><strong>Excise tax</strong></td>
<td>0.2827</td>
<td>0.2827</td>
<td>0.2827</td>
<td>0.2827</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0.3457</td>
<td>0.3667</td>
<td>0.4227</td>
<td>0.3307</td>
</tr>
</tbody>
</table>
Volume of U.S. wine imports and exports, by value grouping, 3 year moving average 2004-2010
Total volume of bottled wine imports from EU-27 (<2L) by color, 2005-2010
Total value of bottled wine imports from EU-27 (<2L) by color, 2005-2010
Average unit value of bottled wine imports from EU-27 by color, 2005-2010
Total volume of U.S. bulk wine exports (>2L) and imports (>4L) to and from EU-27, 2005-2010
Total value of U.S. bulk wine exports (>2L) and imports (>4L) to and from EU-27, 2005-2010
Average unit values of U.S. bulk wine exports (>2L) and imports (>4L) to and from EU-27, 2005-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (Rs per liter)</th>
<th>Imports (Dollars per liter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3.00</td>
<td>0.50</td>
</tr>
<tr>
<td>2006</td>
<td>3.50</td>
<td>0.00</td>
</tr>
<tr>
<td>2007</td>
<td>2.50</td>
<td>1.00</td>
</tr>
<tr>
<td>2008</td>
<td>2.00</td>
<td>1.50</td>
</tr>
<tr>
<td>2009</td>
<td>0.50</td>
<td>0.00</td>
</tr>
<tr>
<td>2010</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>
Total volume of U.S. bulk wine exports (>2L) and imports (>4L) by country, 2005-2010
Average unit values of U.S. bulk wine exports (>2L) and imports (>4L) by European country, 2005-2010
Wine consumption history, trends and projections

• 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.
Annual per capita consumption of wine

Note: projections estimated using exponential smoothing with a damped trend
Annual total consumption of wine in big European countries, 1960-2030

[Graph showing the consumption of wine in big European countries from 1960 to 2030, with data points for France, Italy, Germany, UK, Portugal, and Spain.]
Annual total consumption of wine in some significant consuming countries, 1960-2030

Projected
Consumption shares of the top 10 wine-consuming countries

1980

- France: 25%
- Italy: 12%
- USA: 11%
- Spain: 10%
- Germany: 9%
- UK: 8%
- Argentina: 7%
- Romania: 6%
- Portugal: 6%
- Australia: 3%

2005

- France: 26%
- Italy: 18%
- USA: 16%
- Spain: 12%
- Germany: 9%
- UK: 7%
- Argentina: 6%
- Romania: 5%
- Portugal: 4%
- Australia: 3%

2030 (projected)

- France: 19%
- Italy: 16%
- USA: 15%
- Spain: 13%
- Germany: 13%
- UK: 12%
- Argentina: 11%
- Romania: 9%
- Portugal: 7%
- Australia: 3%
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
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 map weighted by population in 1960

Total population = 3.04 billion
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
Real GDP growth rates for USA, China, India, EU-27, and world 2000-2010, with projections until 2030.
Real Gross Domestic Product of USA, China, India, and EU-27, 2000-2010, with projections until 2030
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

• 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
Traditional wine regions still have some victories left, but the Asians and others are more important all the time. The future of wine (and football) is gradually shifting away from the traditional places.
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