Europe and the United States in the World of Wine

Toward a Common Standard: New European Wine Label Laws and Geographic Indicators of Origin

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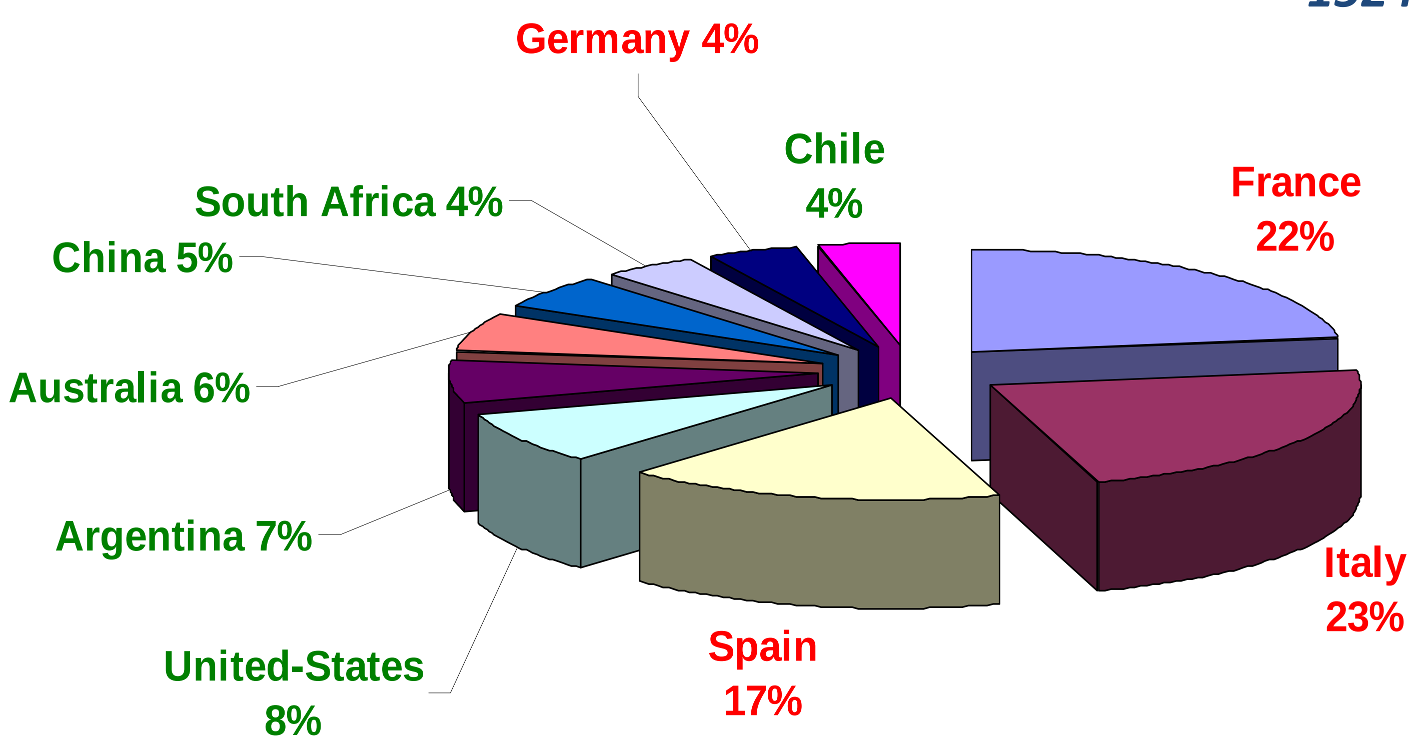
Outline and objectives

- 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

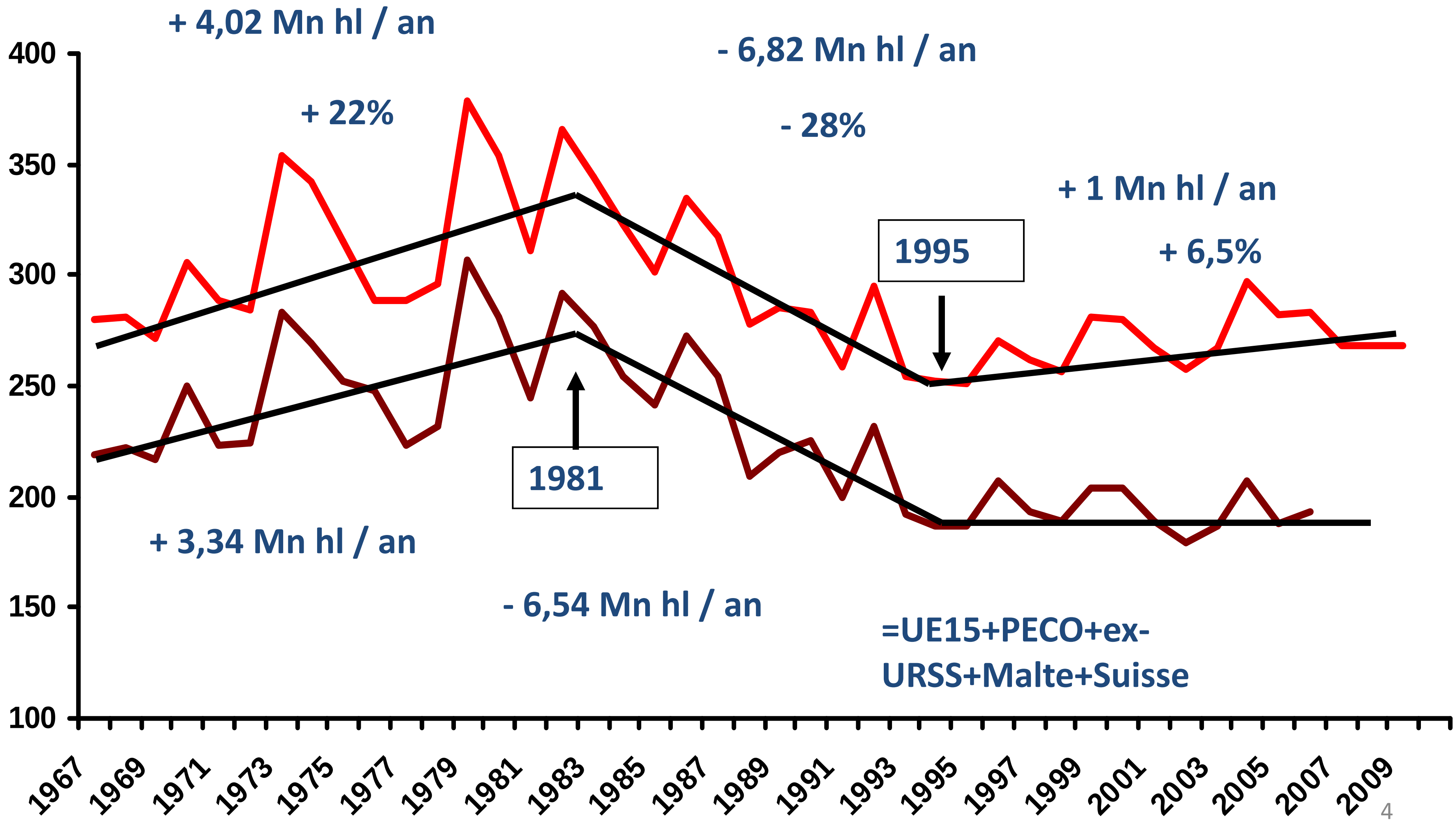
Production in top 10
= 230 Mn hl = 81 %

European Production
= 152 Mn hl = 66 %



Global Production
283 Mn hl

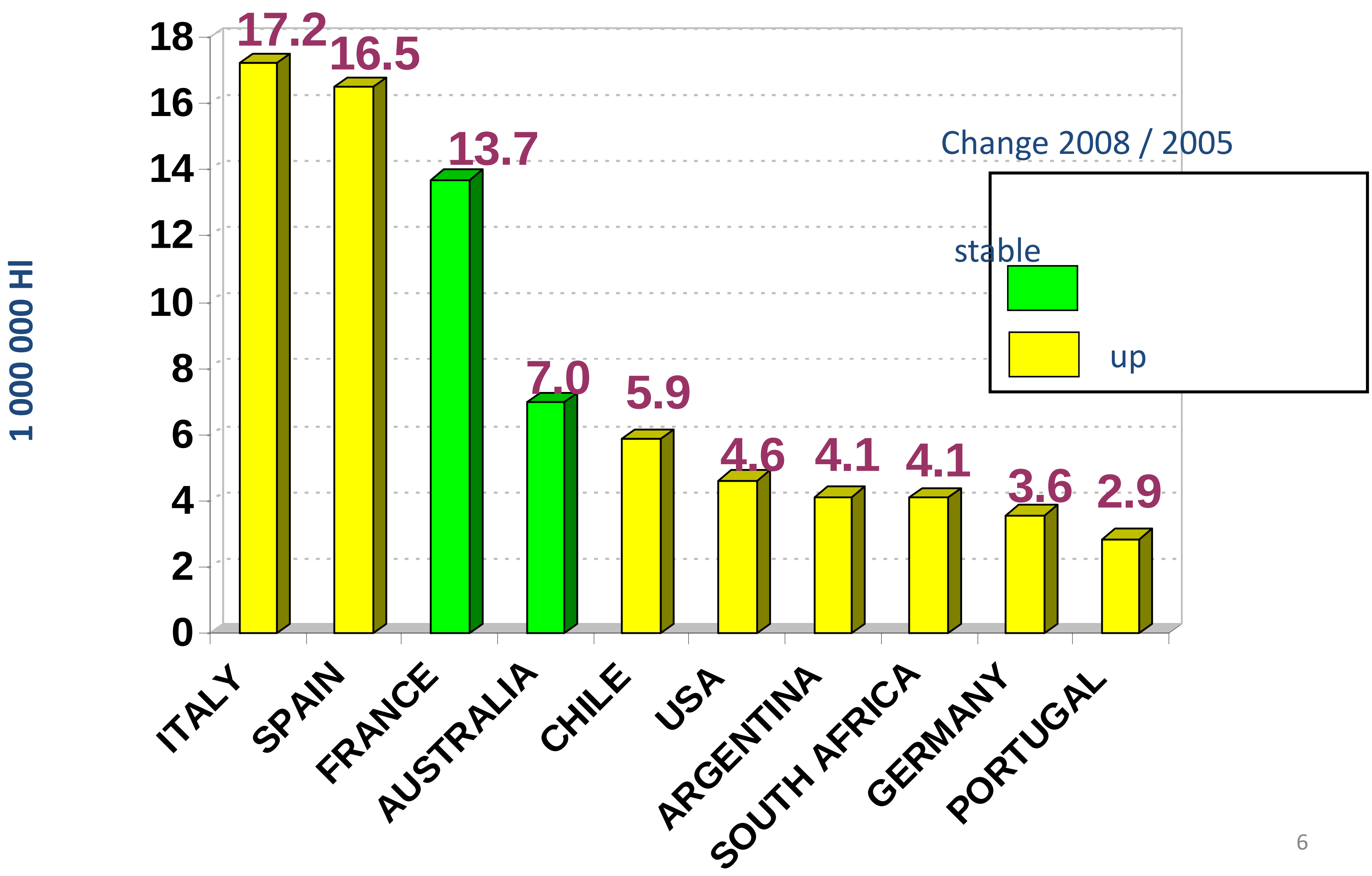
Global & European wine production



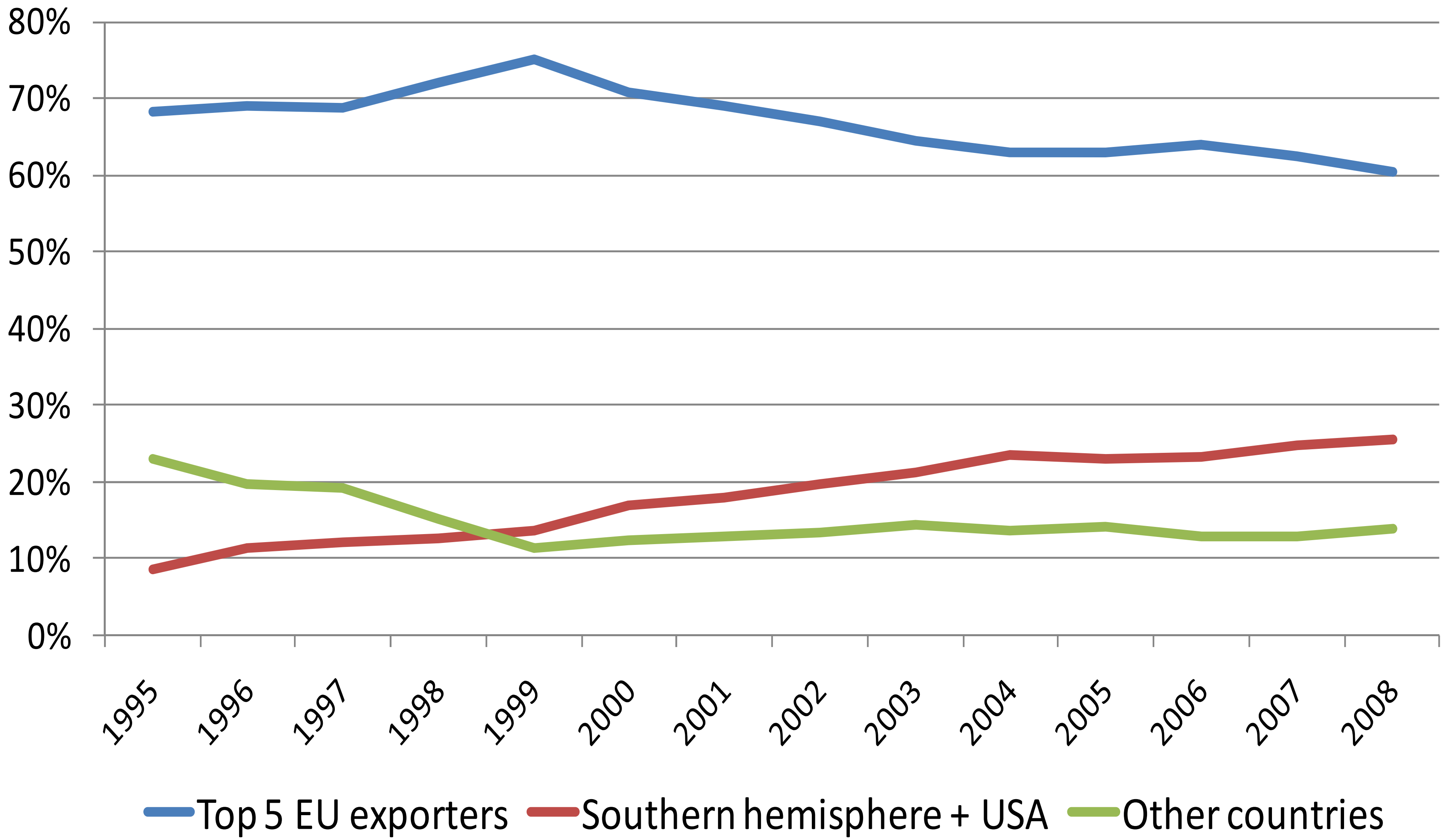
The wine world is continuing to expand outside Europe

- **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



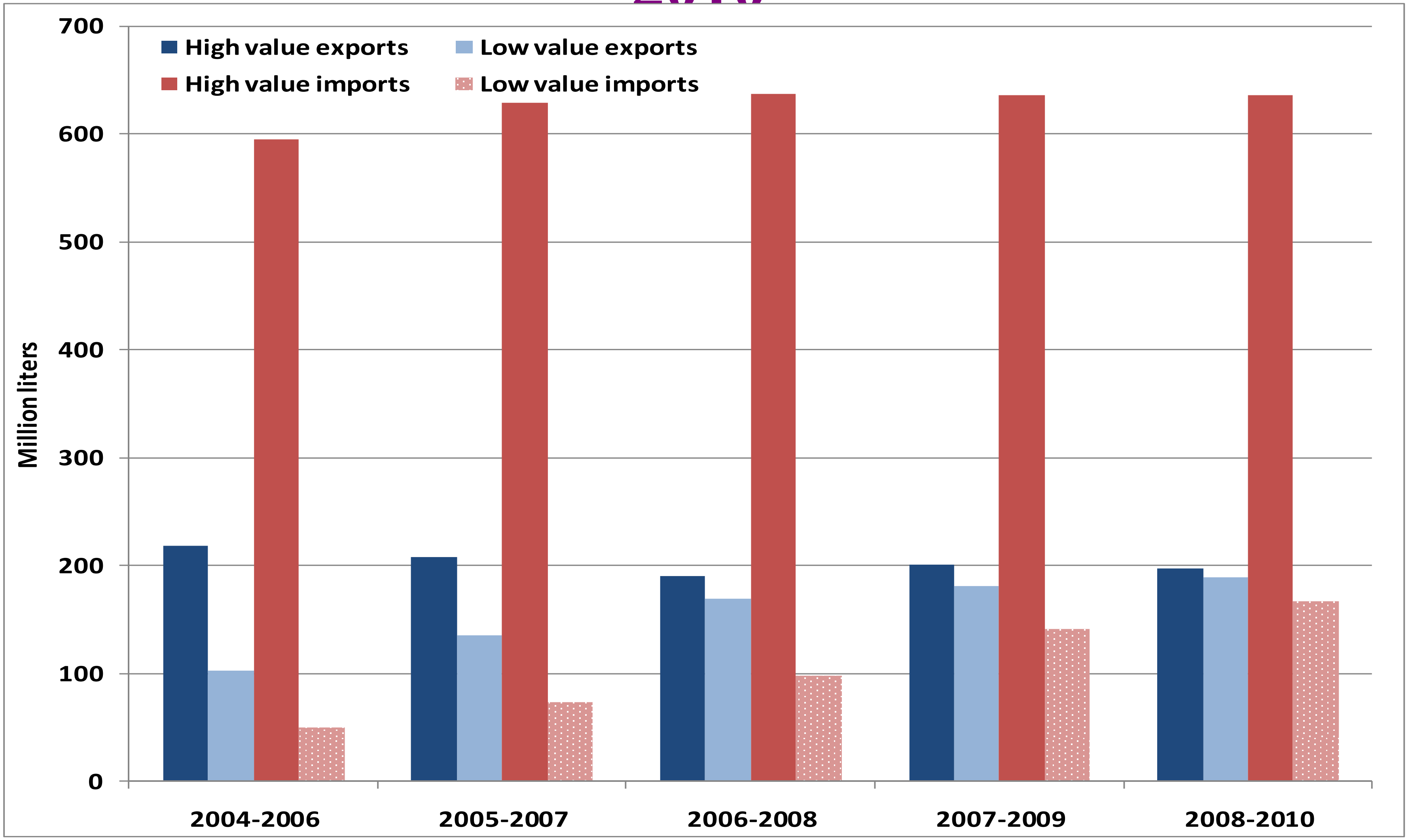
Volume of U.S. wine imports by container size and color, 2004- 2010

	Two liters or less			Over four liters
	Red	White	Other	
	(million liters)			
2004	324	225	5	20
2005	343	251	7	40
2006	346	261	7	84
2007	376	275	8	92
2008	347	267	8	112
2009	345	259	8	218
2010	363	286	8	168

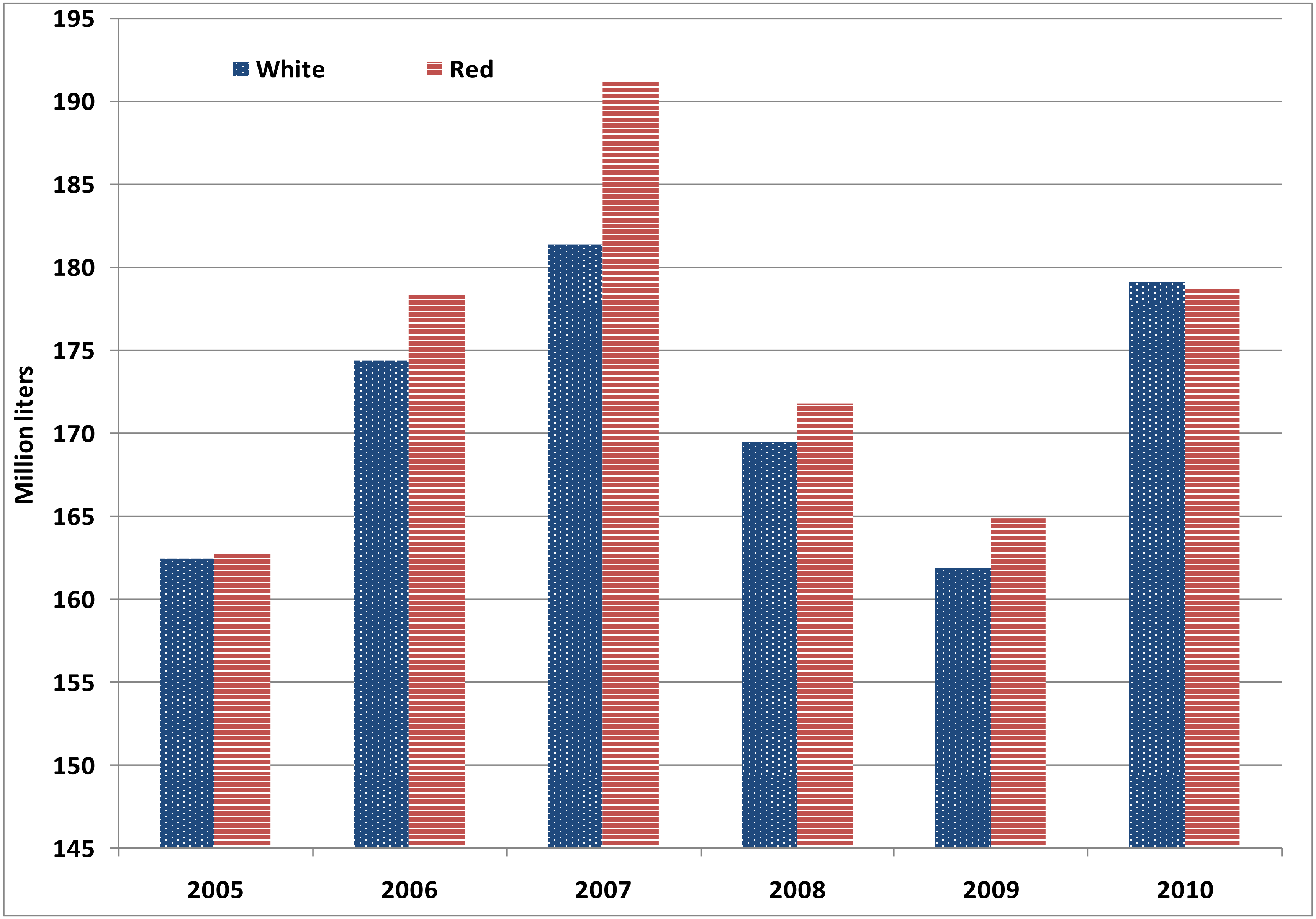
U.S. Wine excise taxes and import duty rates

	Two liters or less	> two liters but not > four liters	> four liters (MFN)	> four liters from Chile or Australia
($/liter)				
Import duty rate	0.063	0.084	0.14	0.048
Excise tax	0.2827	0.2827	0.2827	0.2827
Total	0.3457	0.3667	0.4227	0.3307

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



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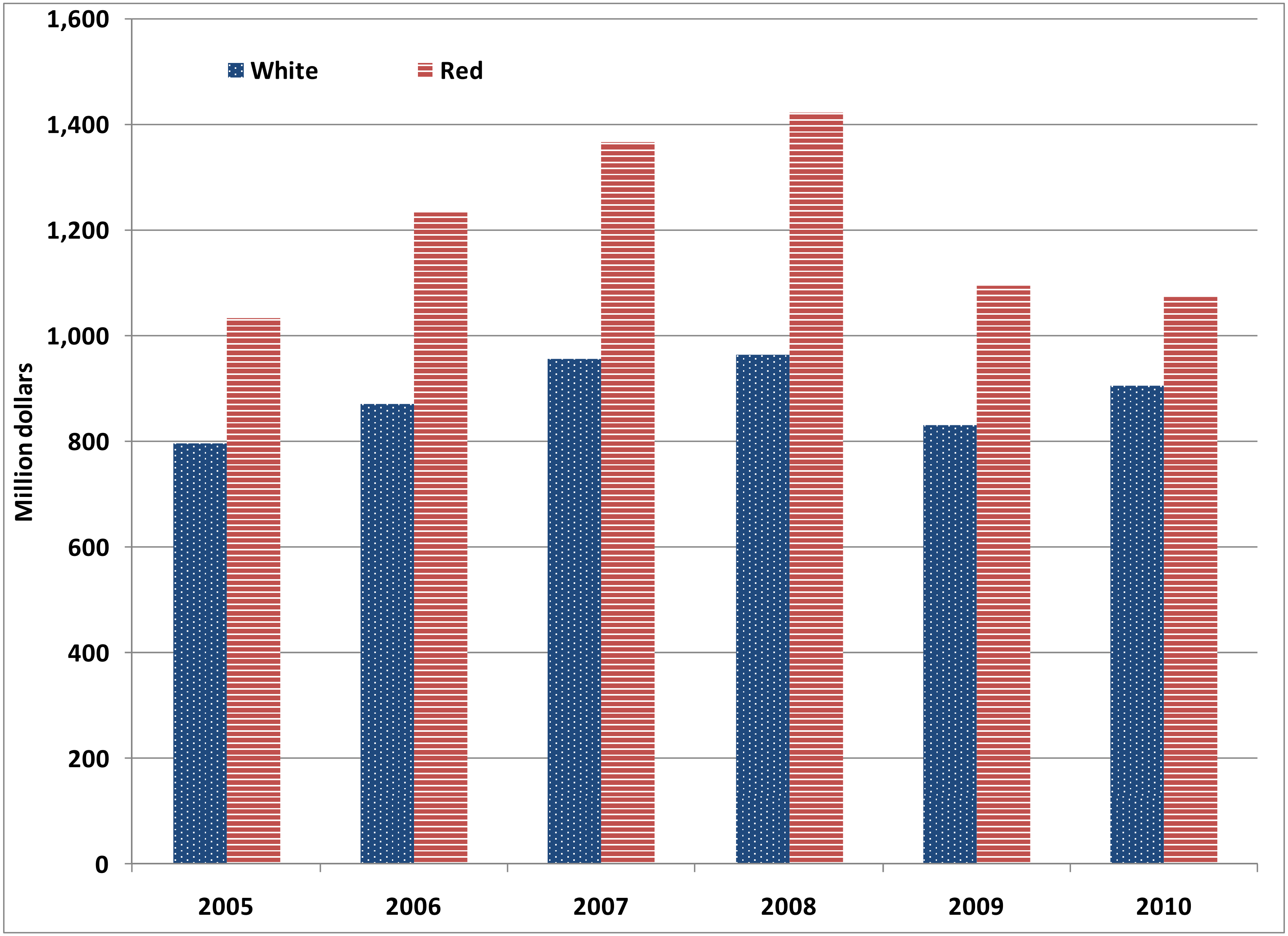
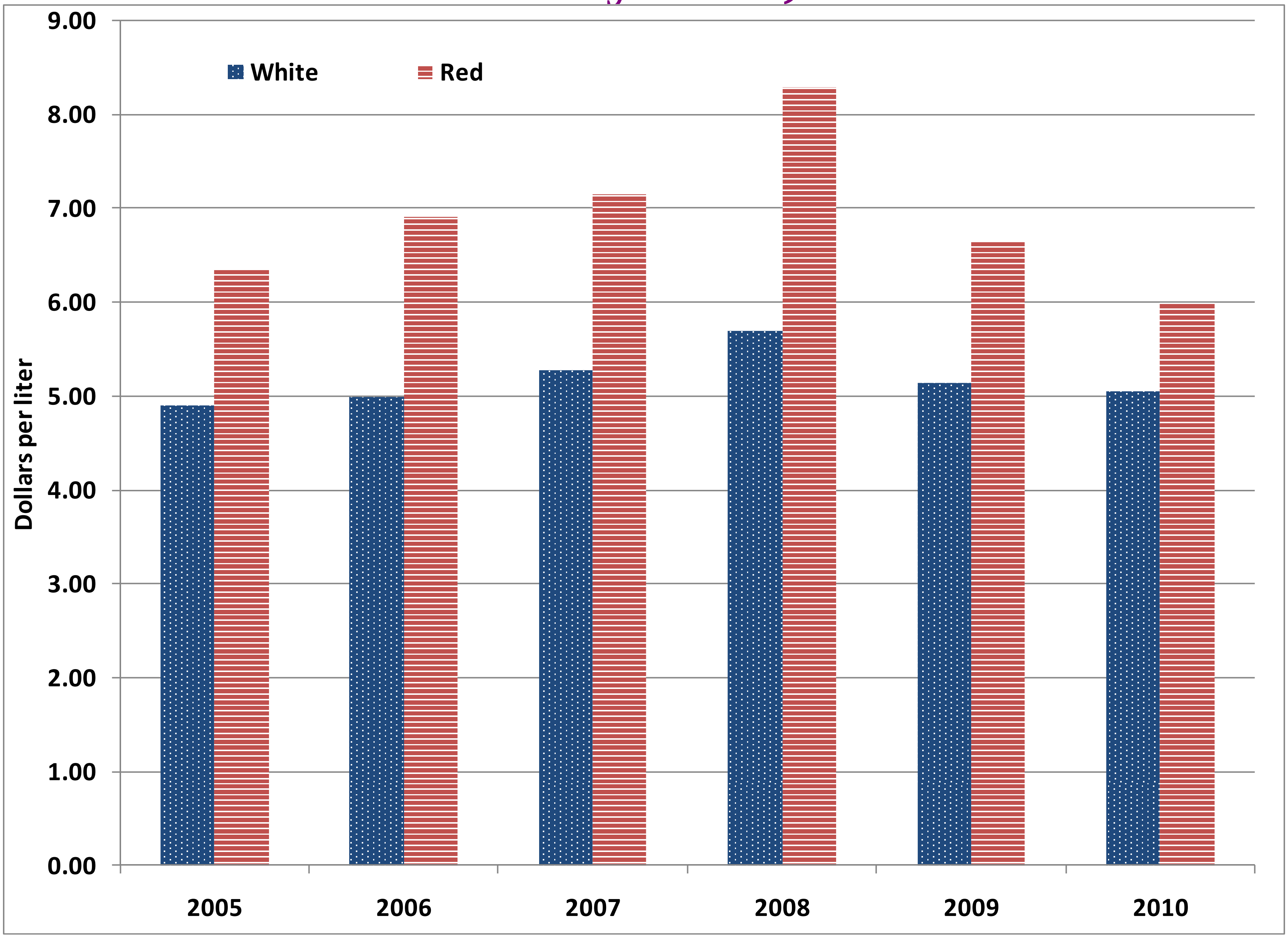
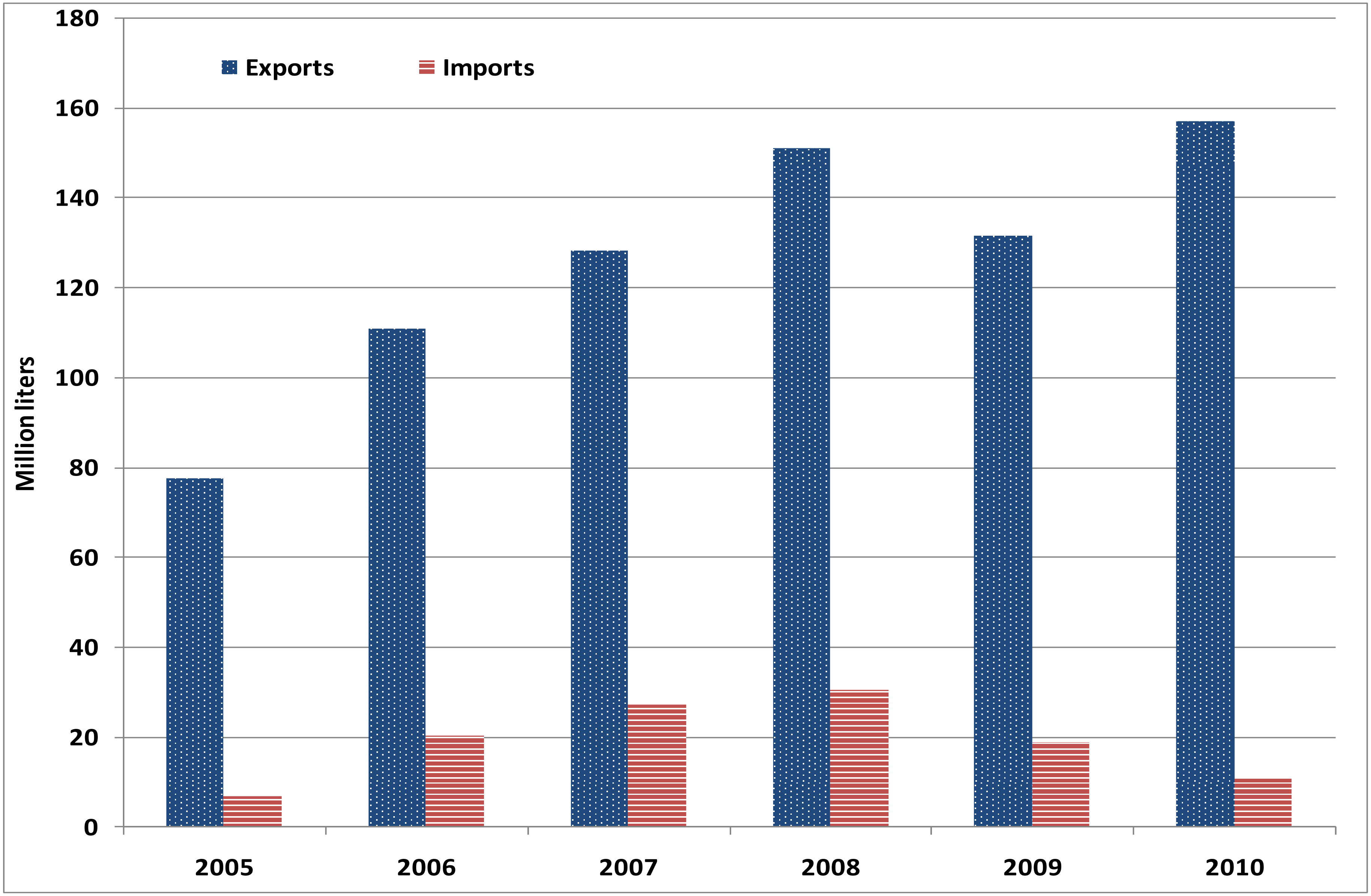


Average unit value of bottled wine imports from EU-27 by color, 2005-2010



Total volume of U.S. bulk wine exports (>2L) and imports (>4L) to and from EU-27, 2005-2010



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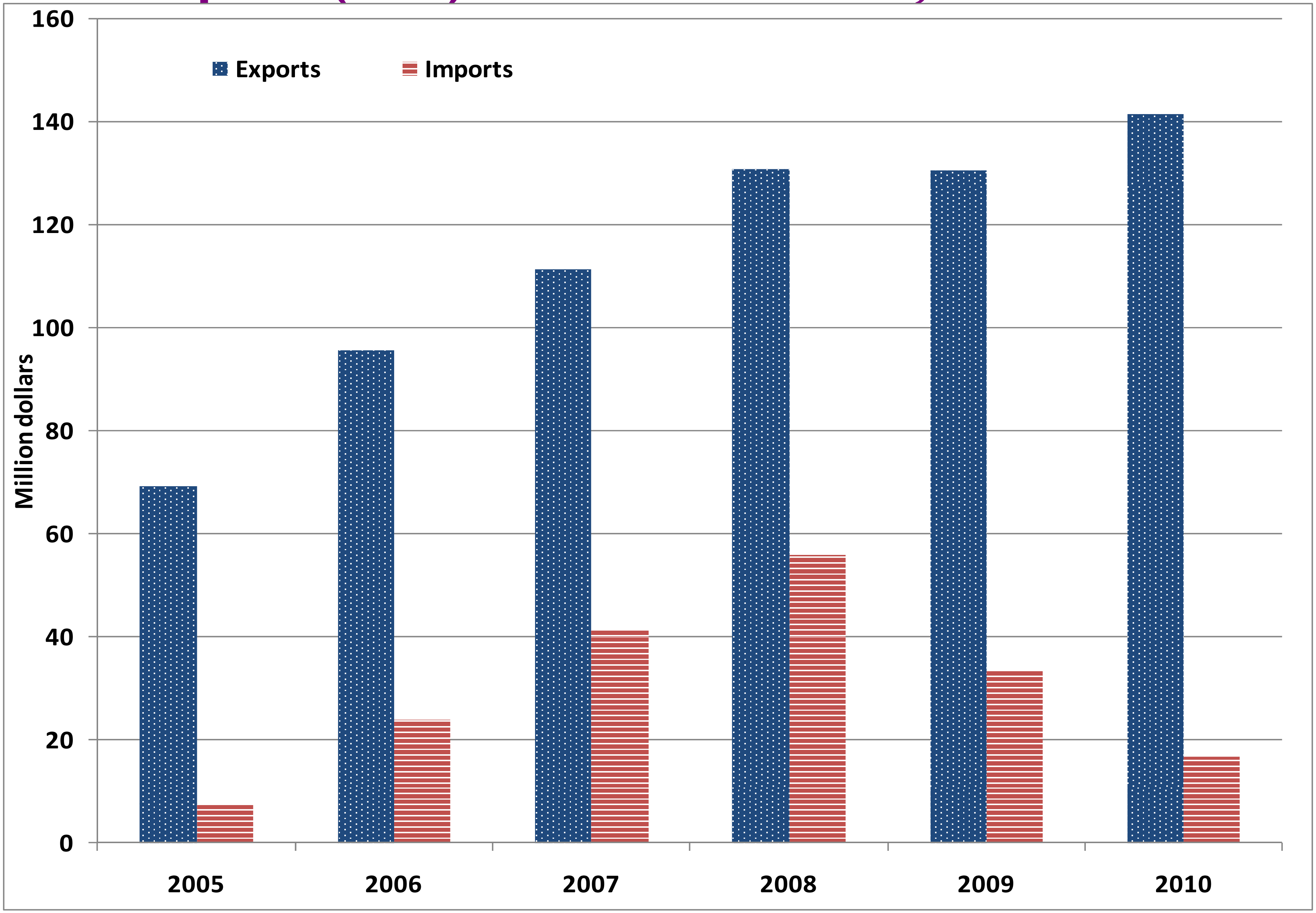

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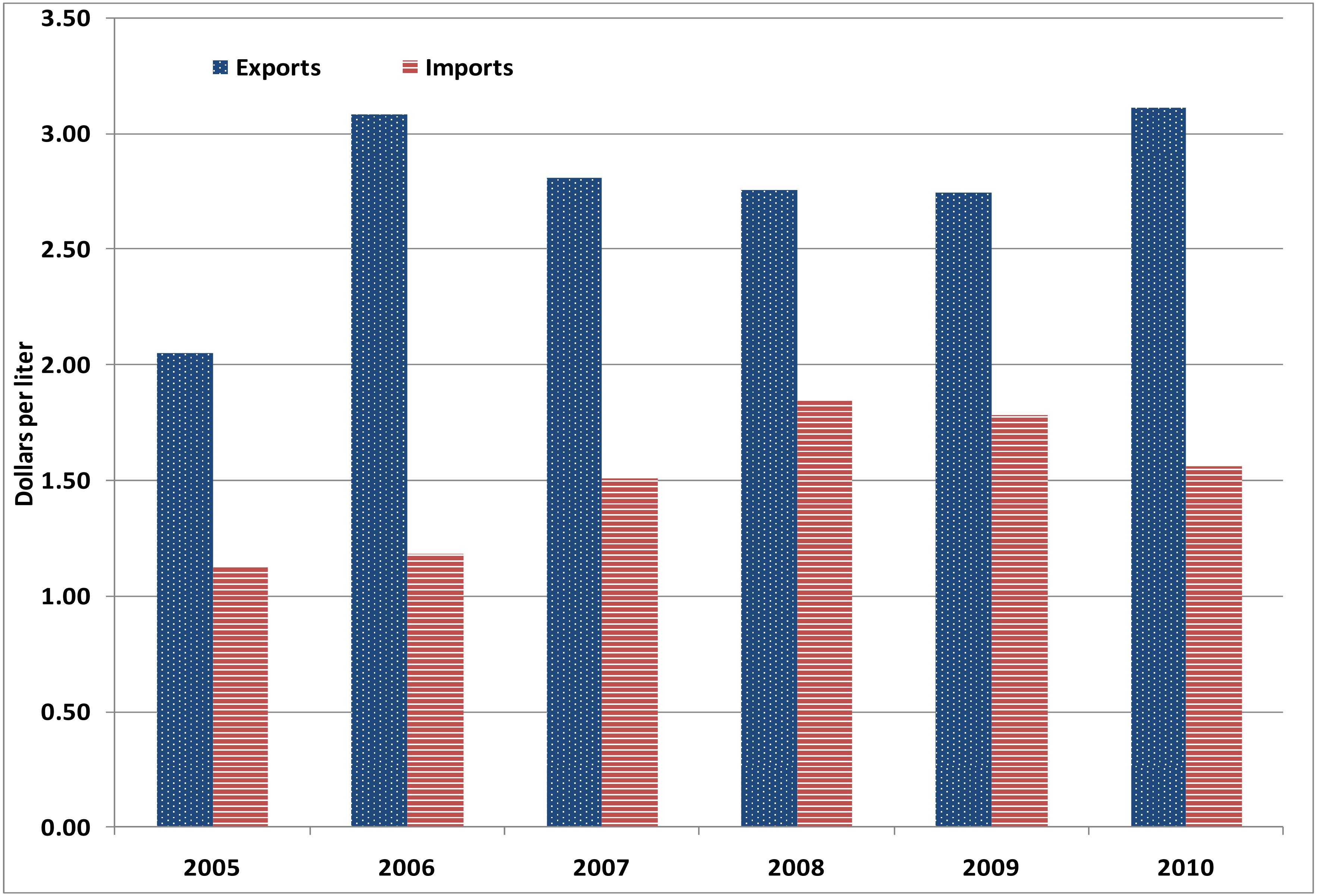
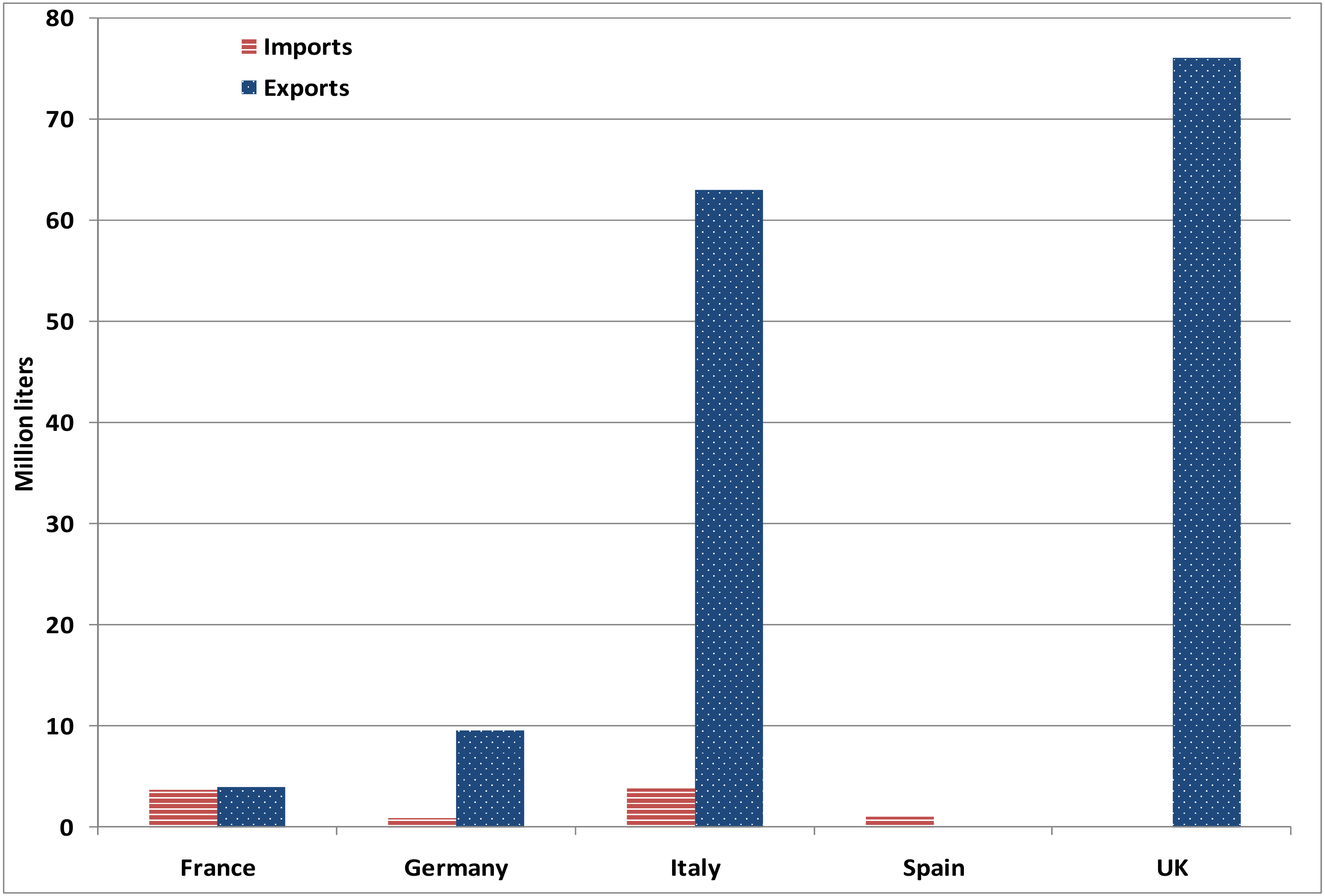
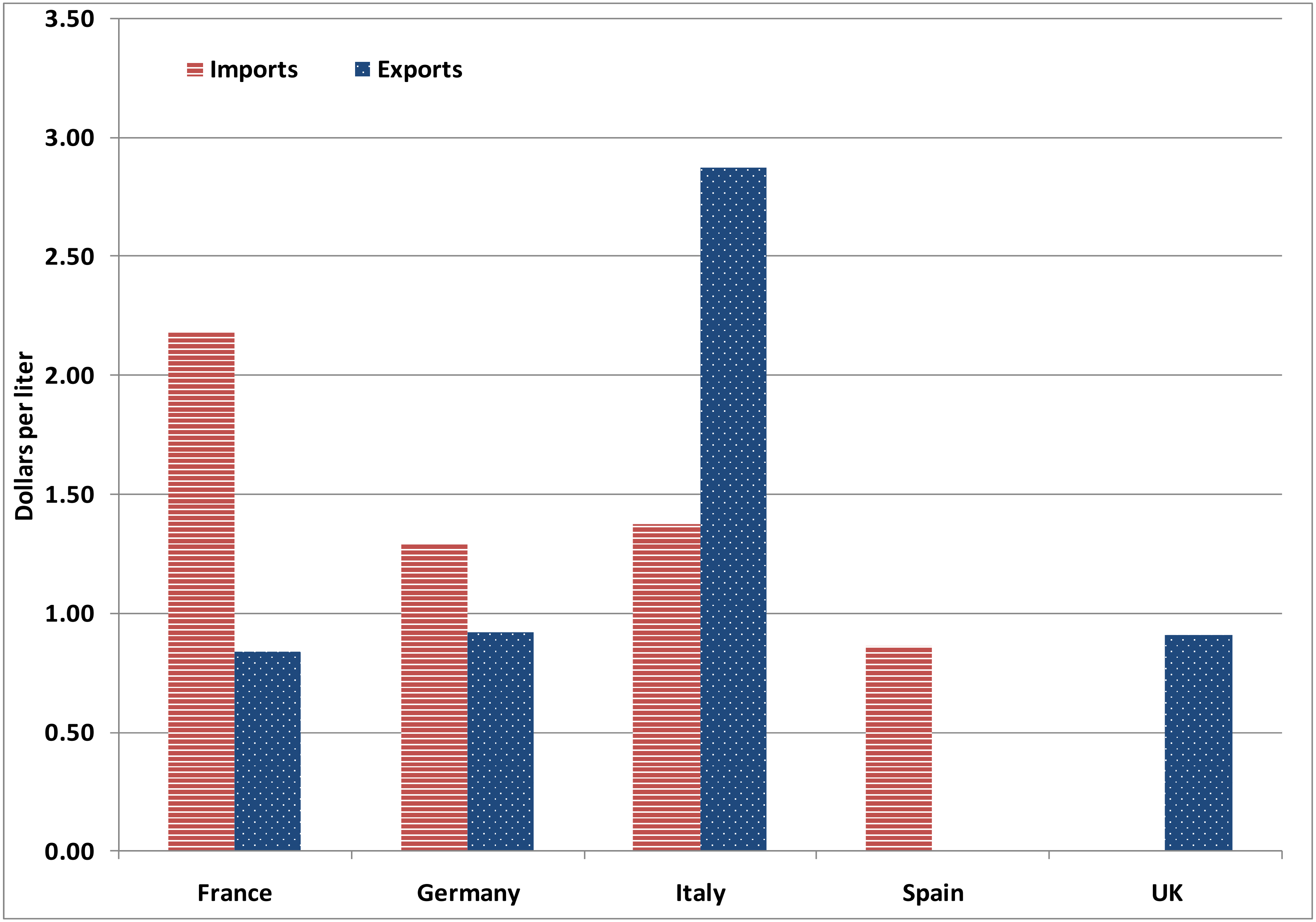


Total volume of U.S. bulk wine exports (>2L) and imports (>4L) by country, 2005-2010



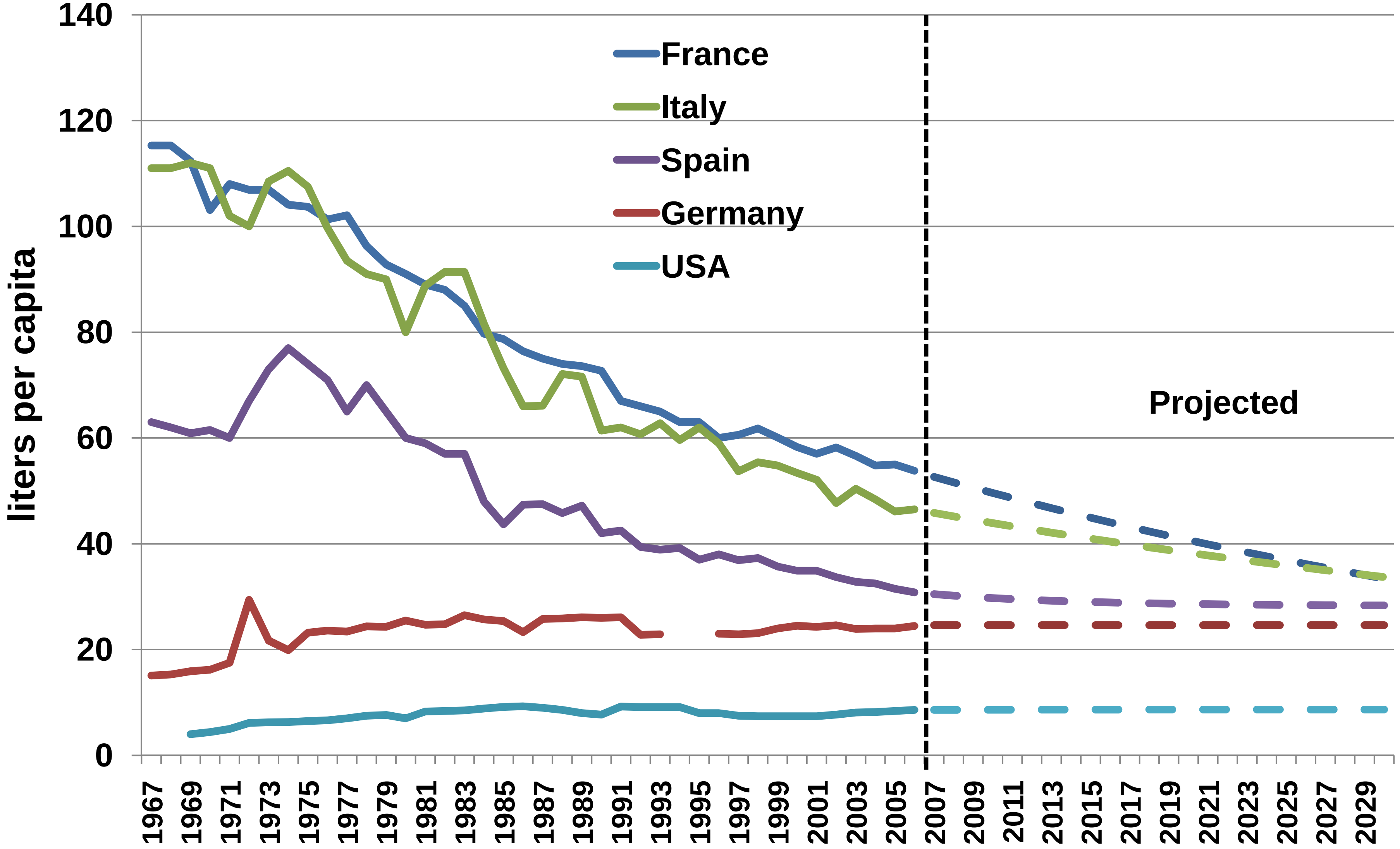
Average unit values of U.S. bulk wine exports (>2L) and imports (>4L) by European country, 2005-2010



Wine consumption history, trends and projections

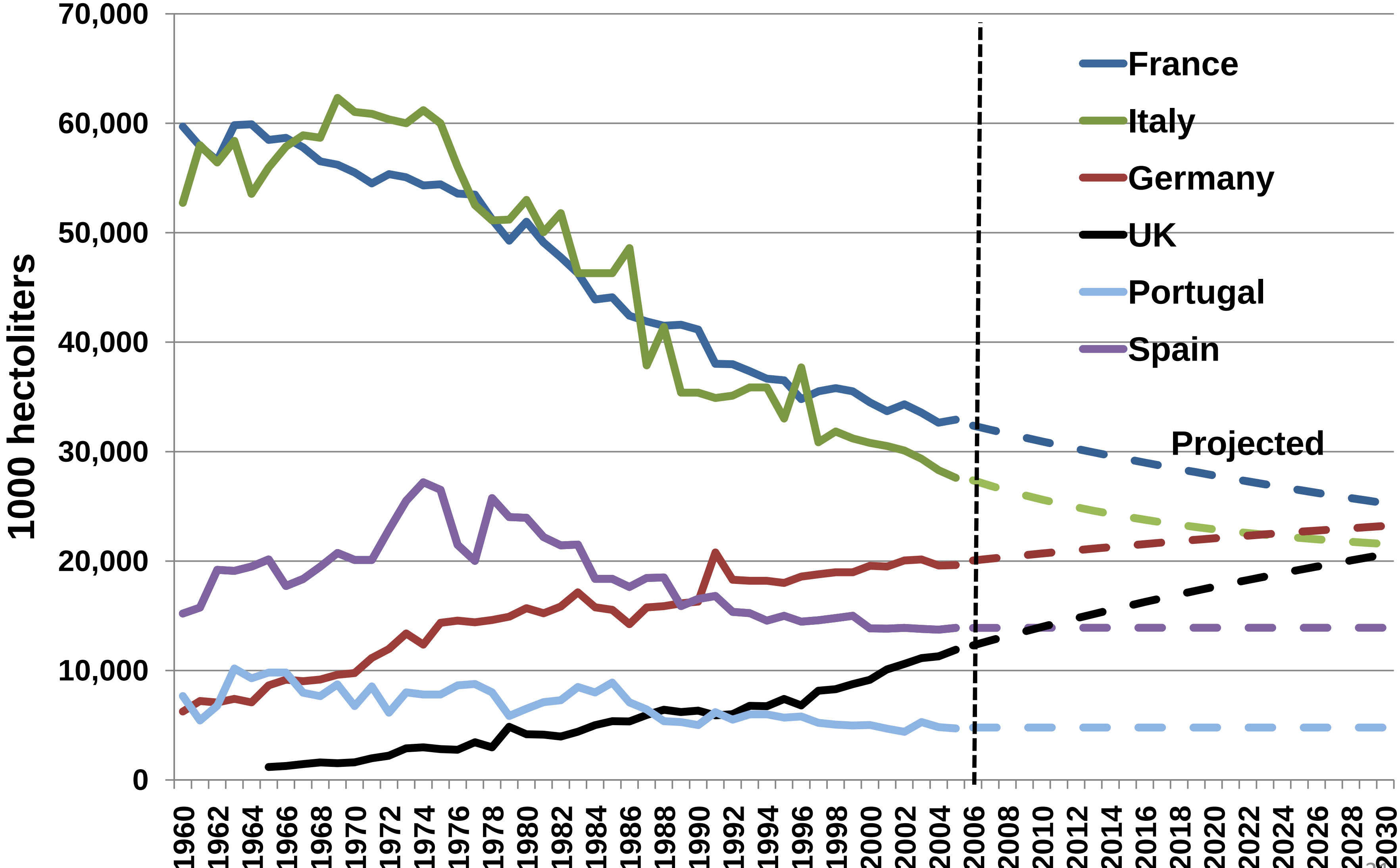
- We use past 50 years of consumption data in each place to project forward 20 years using recent patterns to forecast subsequent years, smoothing out big movements.
- This time series forecast approach is more sensible than just a linear or other trend line because it puts more weight on recent years, 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

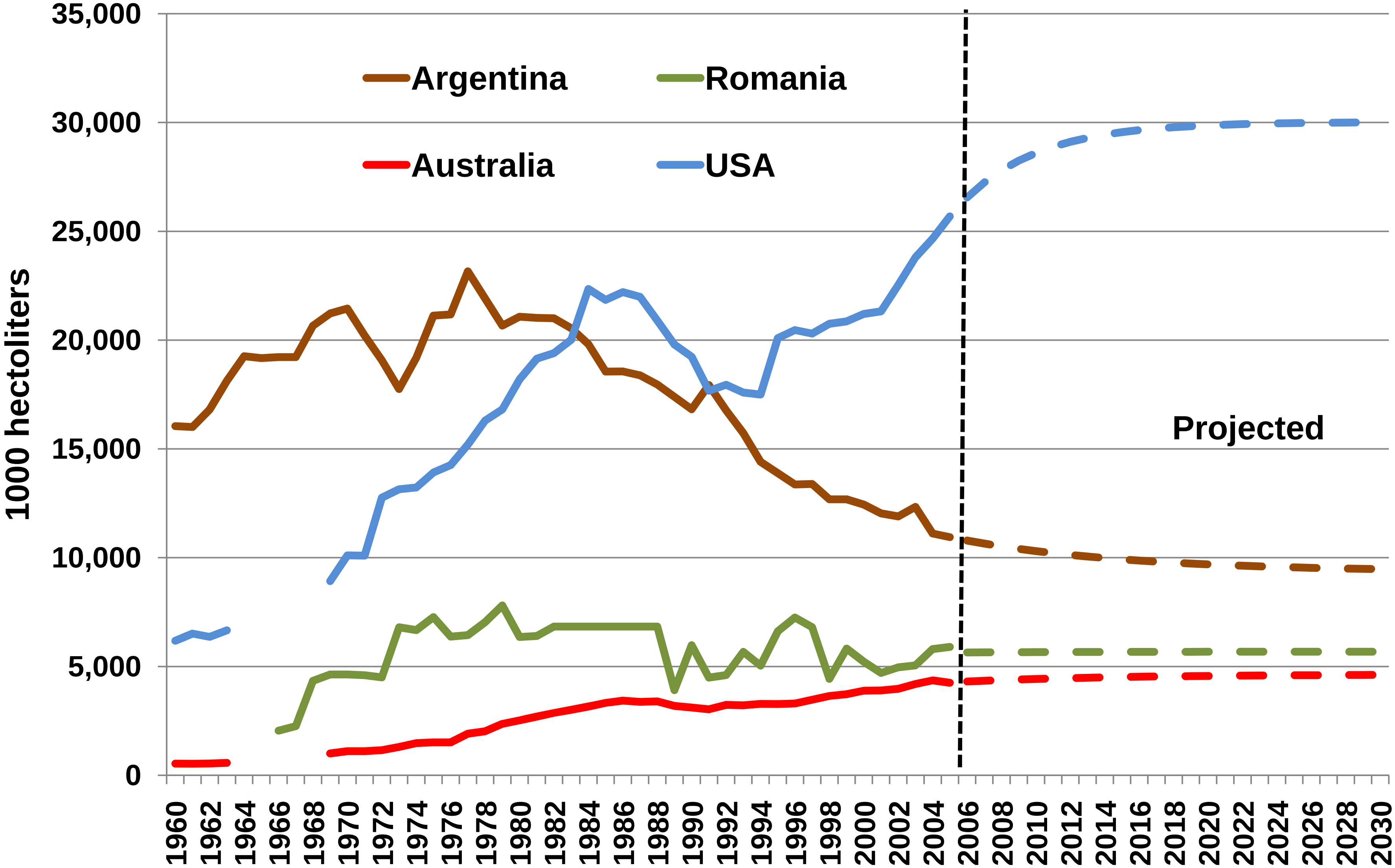


Note: projections estimated using exponential smoothing with a damped trend

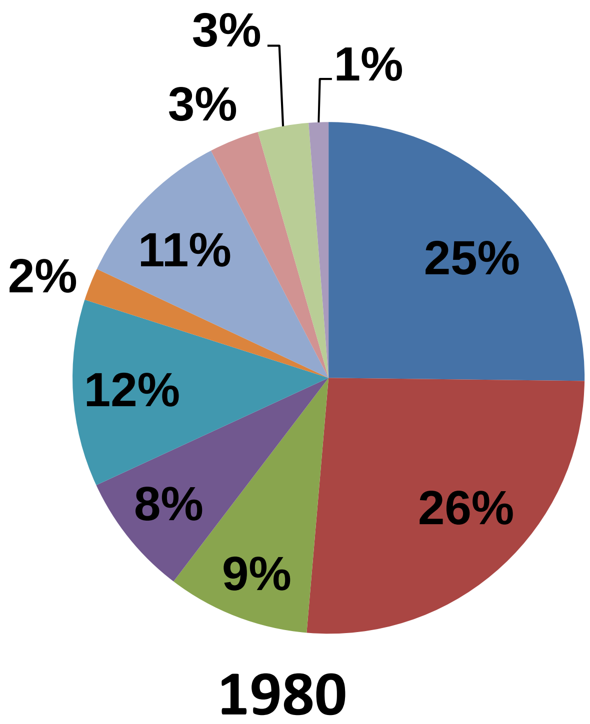
Annual total consumption of wine in big European countries, 1960-2030

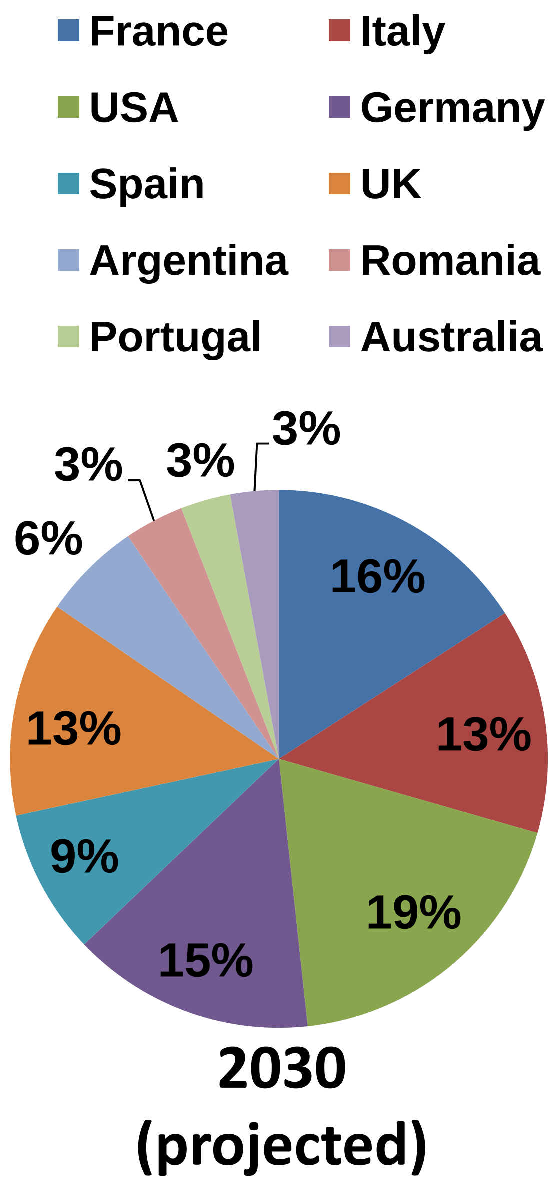


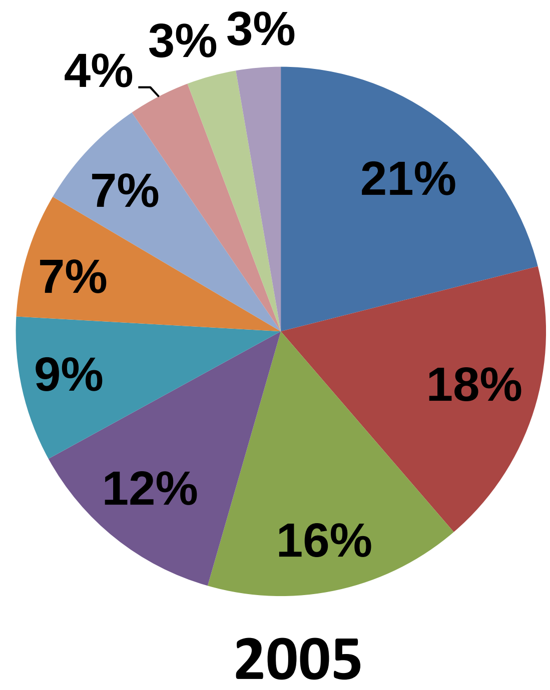
Annual total consumption of wine in some significant consuming countries, 1960-2030



Consumption shares of the top 10 wine-consuming countries







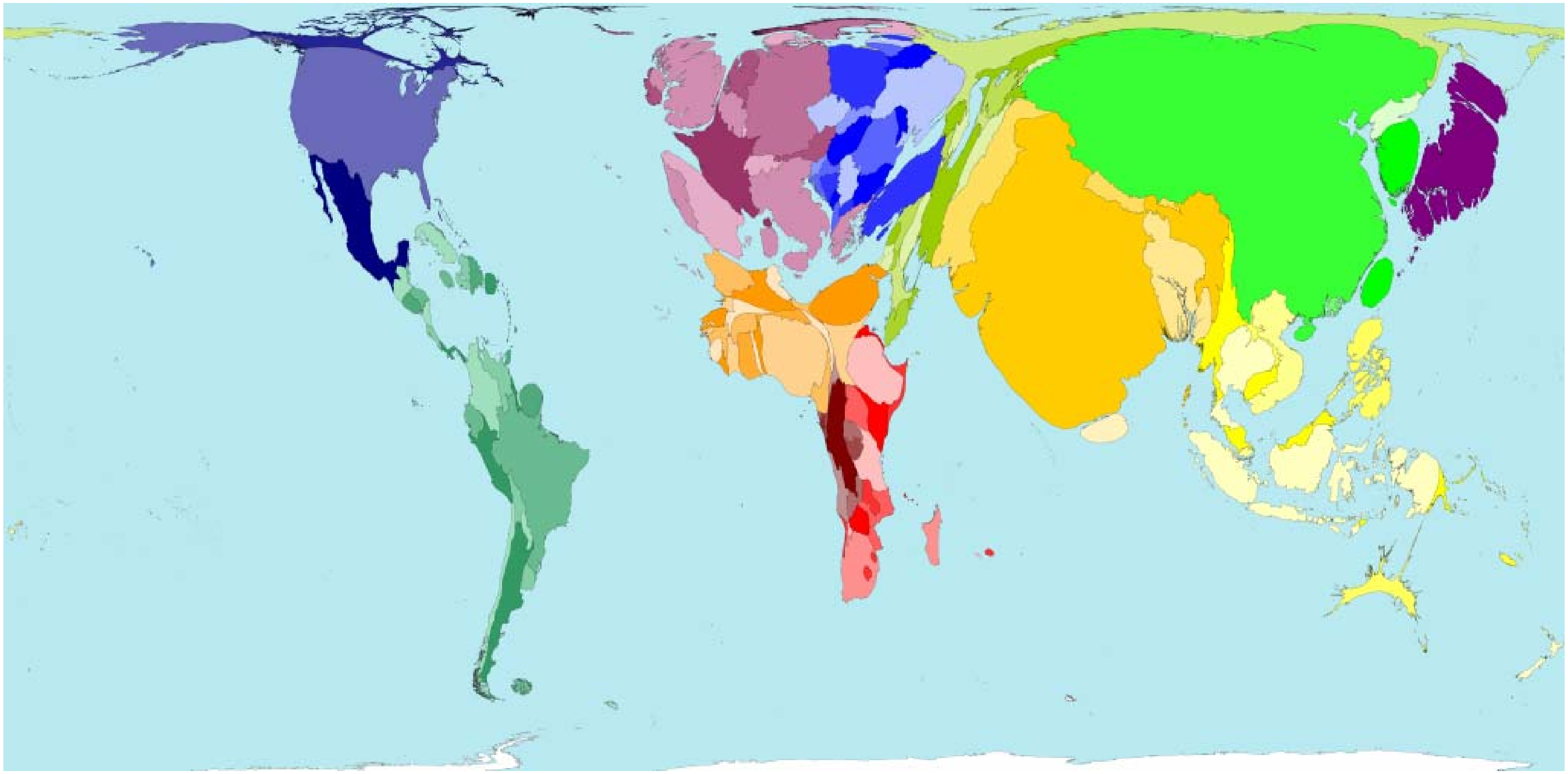
What may drive the future

- 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

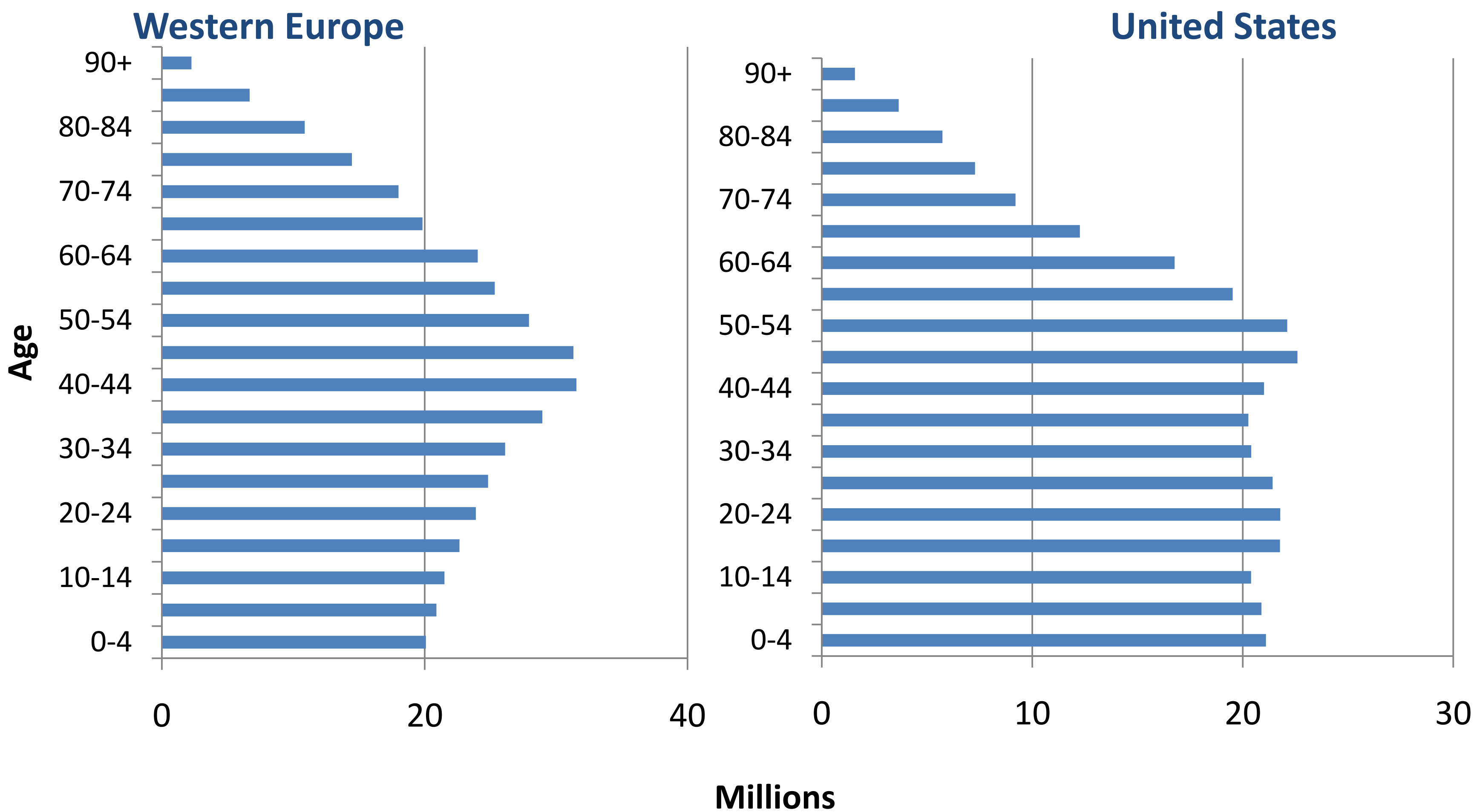
- According to FAO statistics, wine consumption increased significantly in Russia and China between 1992 and 2007:
  - Increased about 40 percent in Russia and over 260 percent in China
  - China's share of world consumption went from 2 percent to 6.8 percent
  - Russia's share went from 3 percent to 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

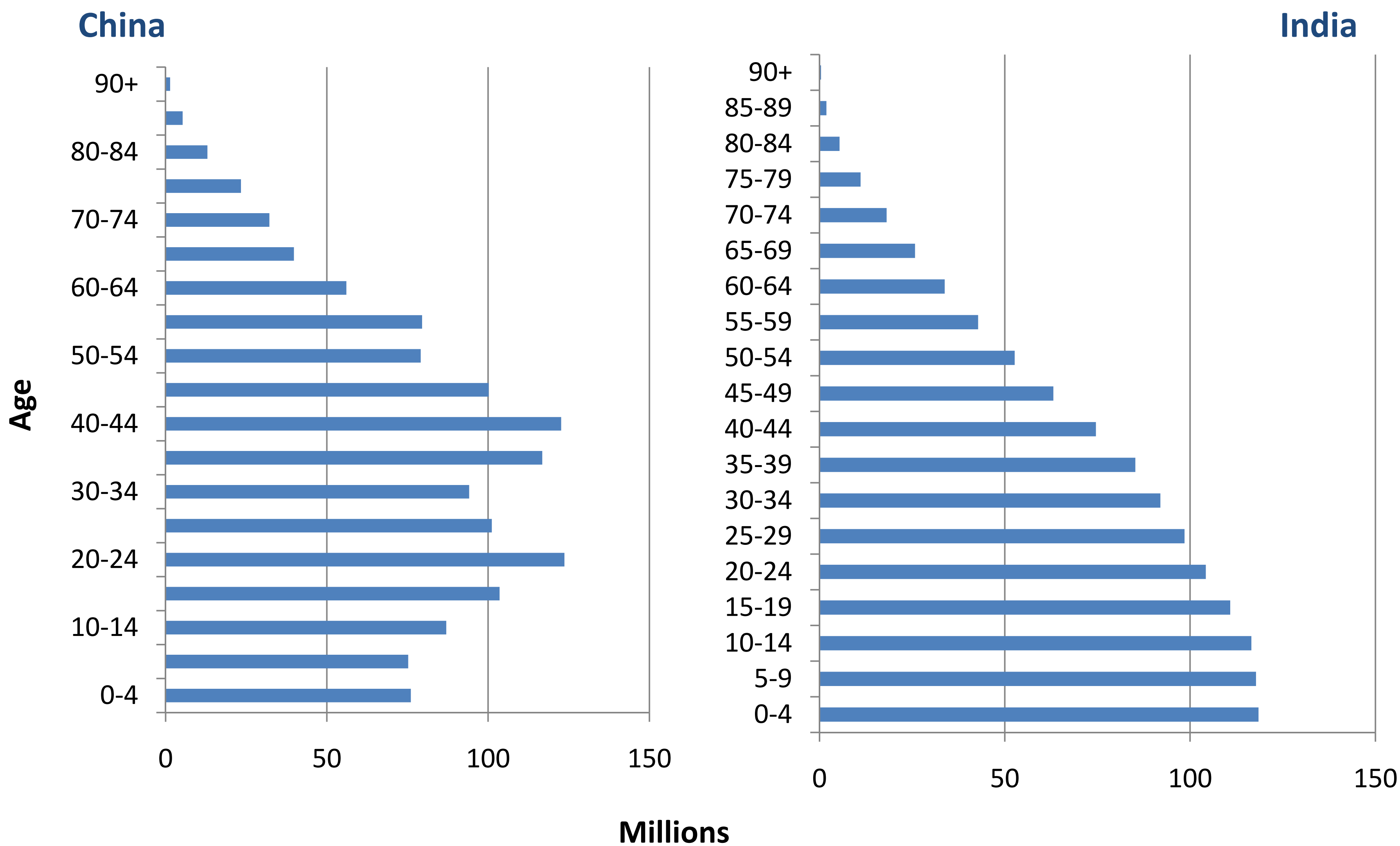


Total population = 3.04 billion

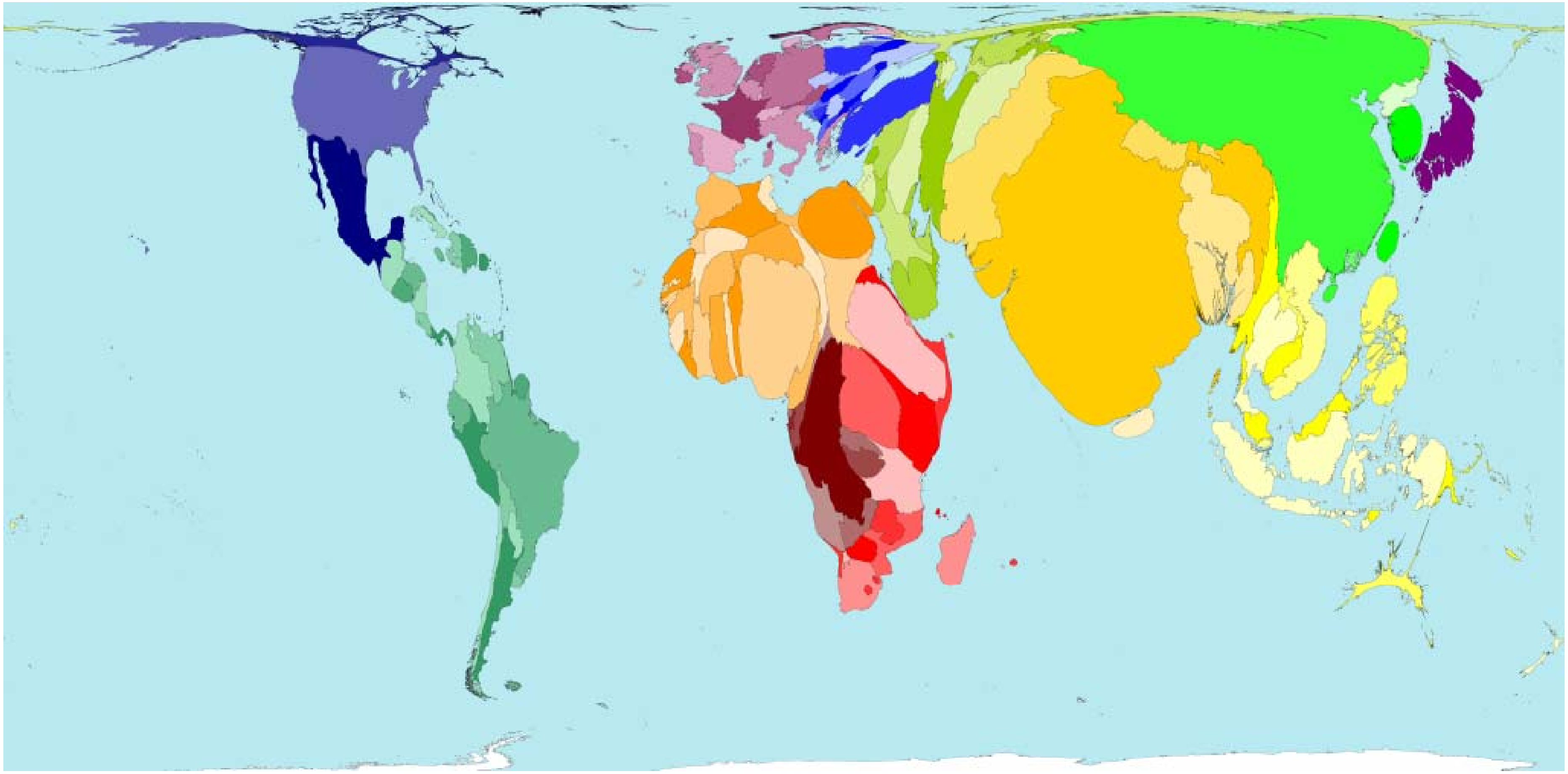
Western Europe and U.S. population by age, 2010



China's and India's population by age, 2010

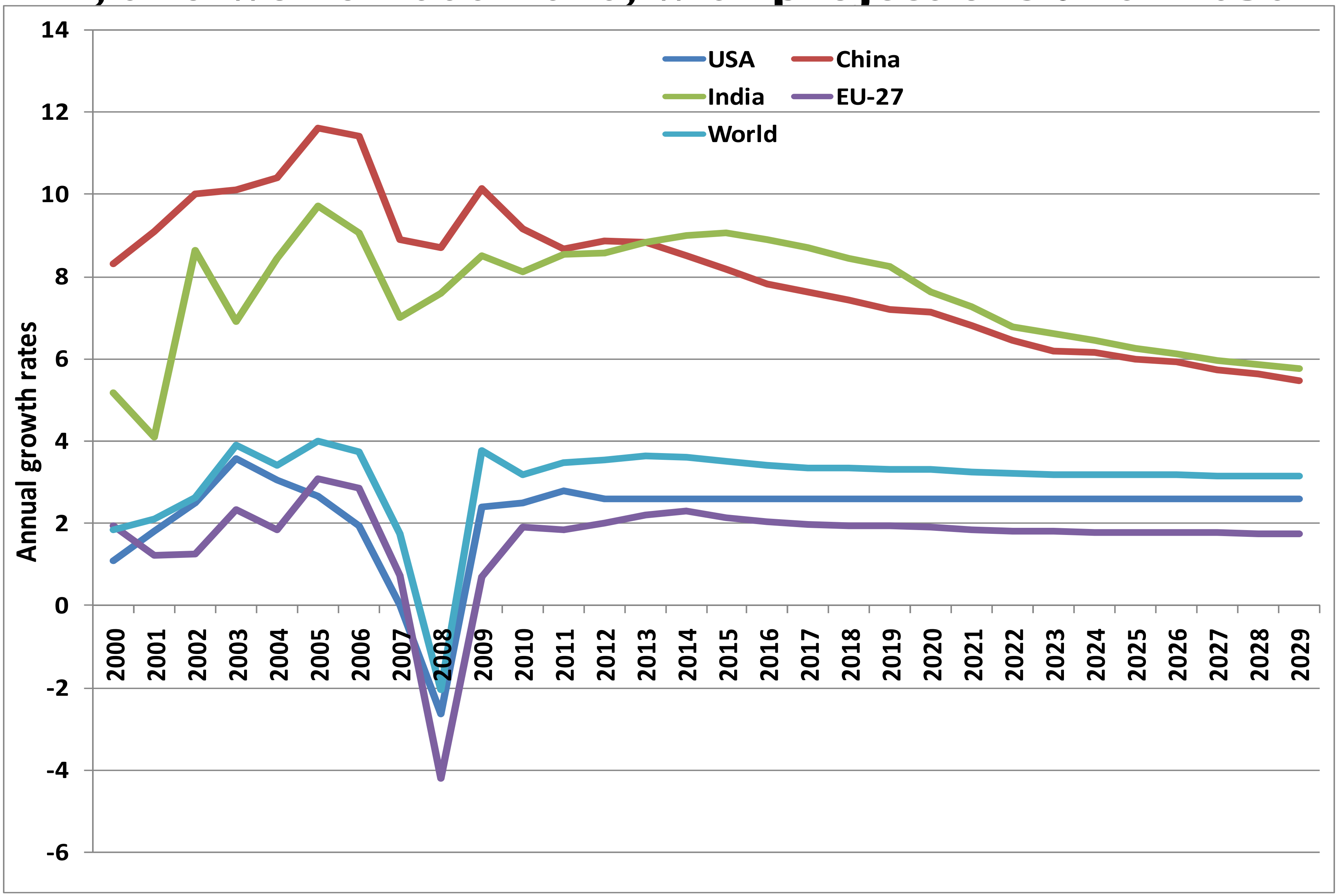


World map weighted by estimated population in 2050

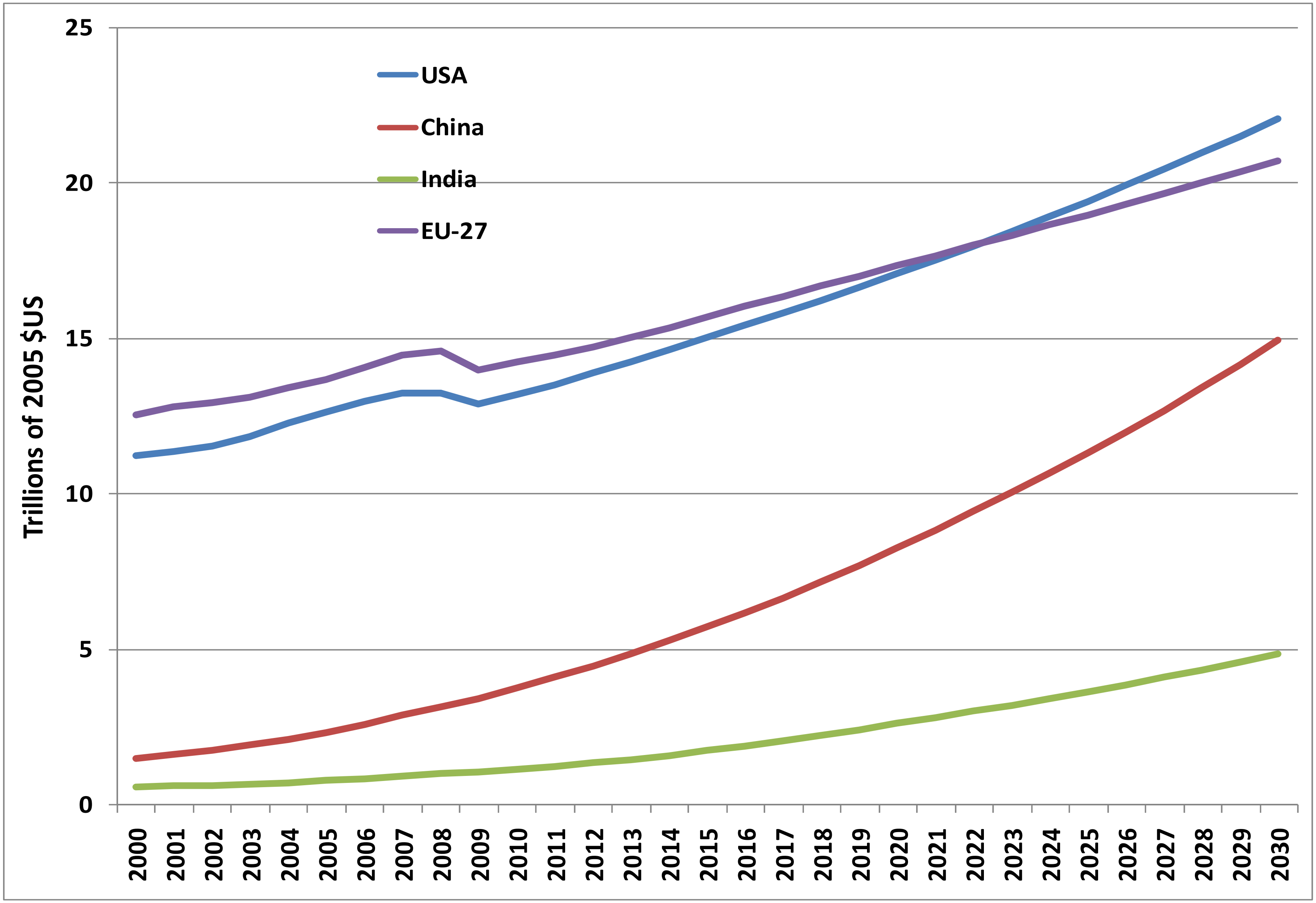


Total population (est.) = 9.07 billion

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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