

The U.S. Wine Market in 2030 and Export/Import Market Dynamics

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Topics to Cover

Demand for wine in 2030

Population growth and possible per capita consumption changes

Where will the grape supply come from?

Planting dynamics in District 13

Understanding the effect of “Drawback”

History and effect on bulk wine shipments

Can Winegrapes Compete with Almonds?



U.S. Population Projections

Millions of People

	2010	2020	2030	Increase
“White”	231	255.3	267.6	36.6
Black	42	44.8	49.2	7.2
Asian	17.3	18.8	22.8	5.5
Other/Mixed	18.4	15	18.9	.5
Total Population	308.7	333.9	358.5	49.8
“Hispanic”	50.4	63	78.6	28.2
Over 20 years	224.6	249.3	269.5	44.9

Source: U.S. Census Projections



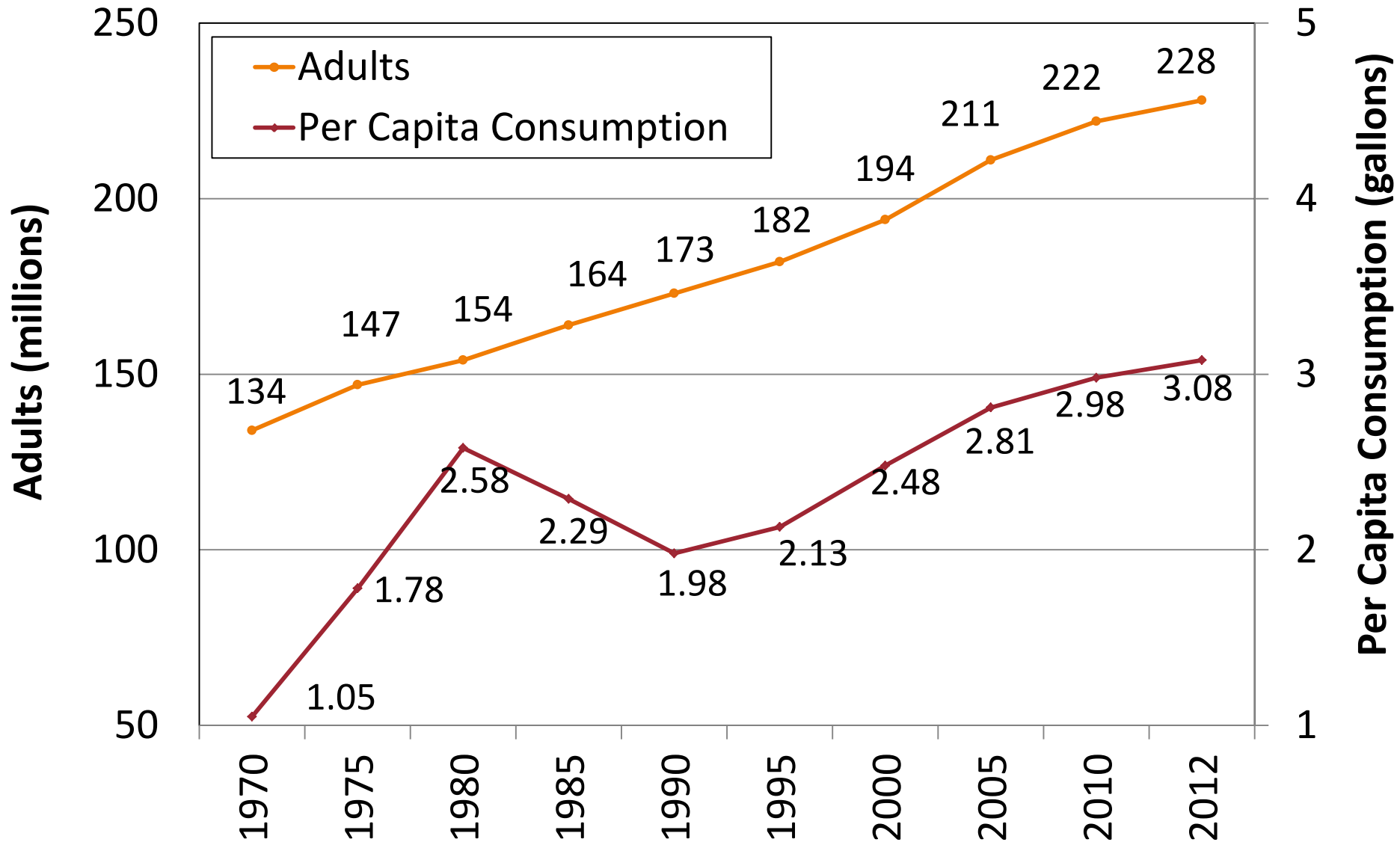
Two Straight Line Projections

Total U.S. population is expected to grow from 308.7 million in 2010 to 358.5 million in 2030—a 16% increase. Table wine sales in 2010 were 278 million cases. A 16% increase would mean **322 million cases in 2030**

Total adult population is expected to grow from 222 million to 269 million—a 20% increase. That projects to **333 million cases in 2030**

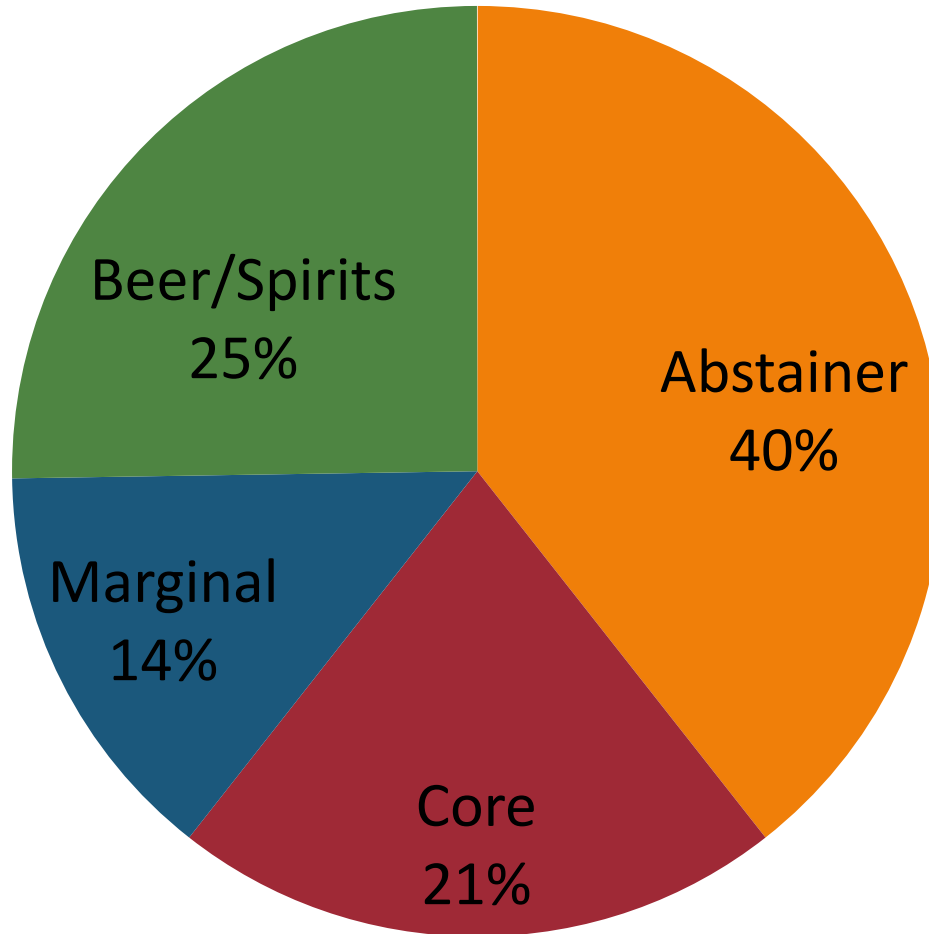


Adults and Per Capita Consumption, 1970-2012



2010 Wine Market Council Study

Percent Adult Population

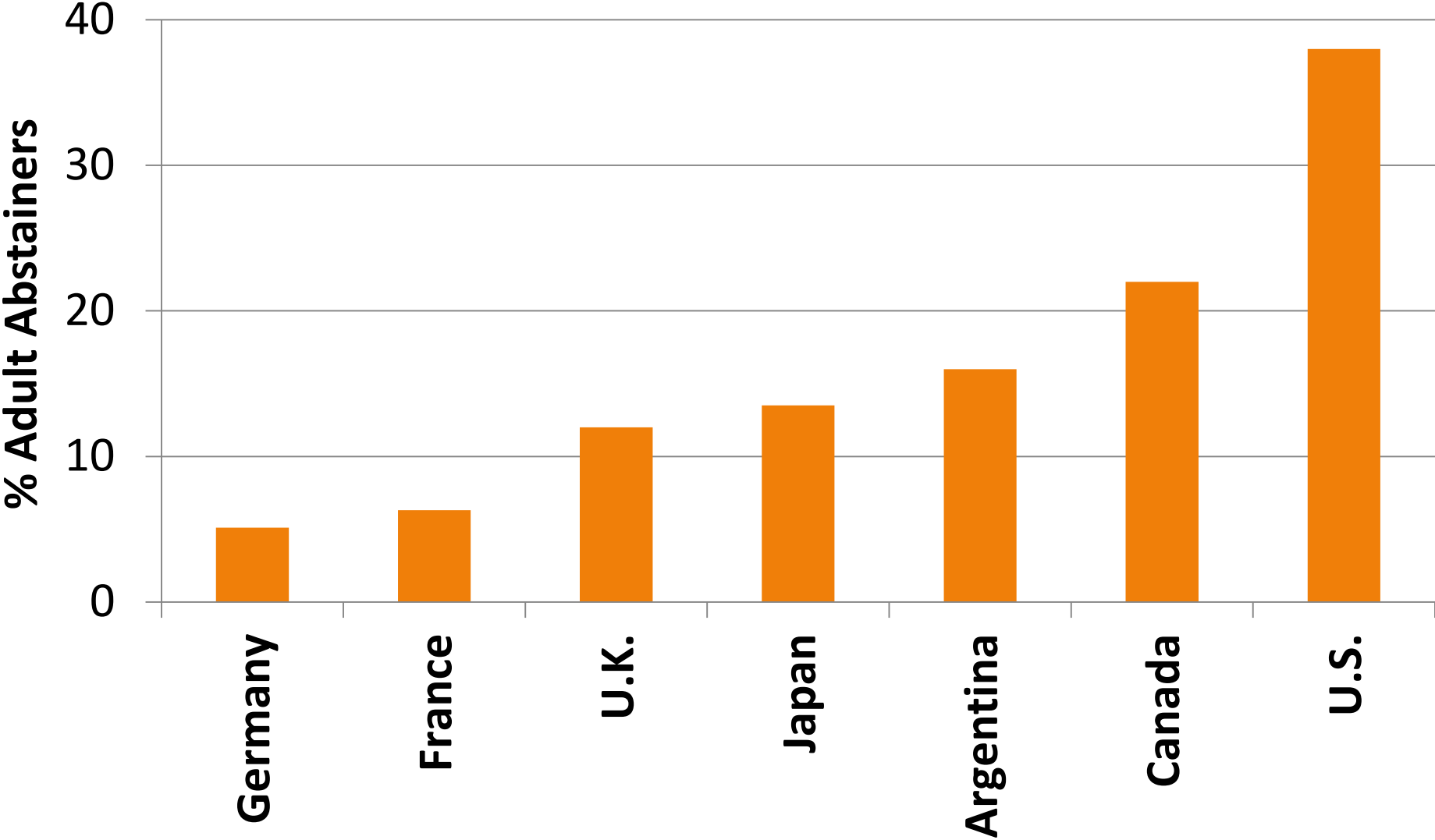


Marginal consumers drink less than 1 glass a week, although they say they enjoy wine. They drank the other 9%

Core Consumers enjoy at least one glass of wine a week or more. At 21% of the adult population in 2010 they numbered about 47 million and they consumed 91% of all table wine—averaging 70 liters per person



Percent Adult Abstainers by Country, 2004



Source: WHO Global Status Report on Alcohol 2004

Hispanics account for 58% of the increase in population

In 2010, Core Hispanic consumers were 3% of their ethnic group.

A 2005 study showed 23% of Hispanics drank some wine, lower than the general market

But Hispanics under 40 years old drank one more glass a month than did the general market.

Acculturated Hispanics drank more wine than their cohort

Hispanics have lower levels of abstaining than the general population

Source: Wine Market Council Private Study



What if by 2030???

Hispanics adopt wine as they acculturate?

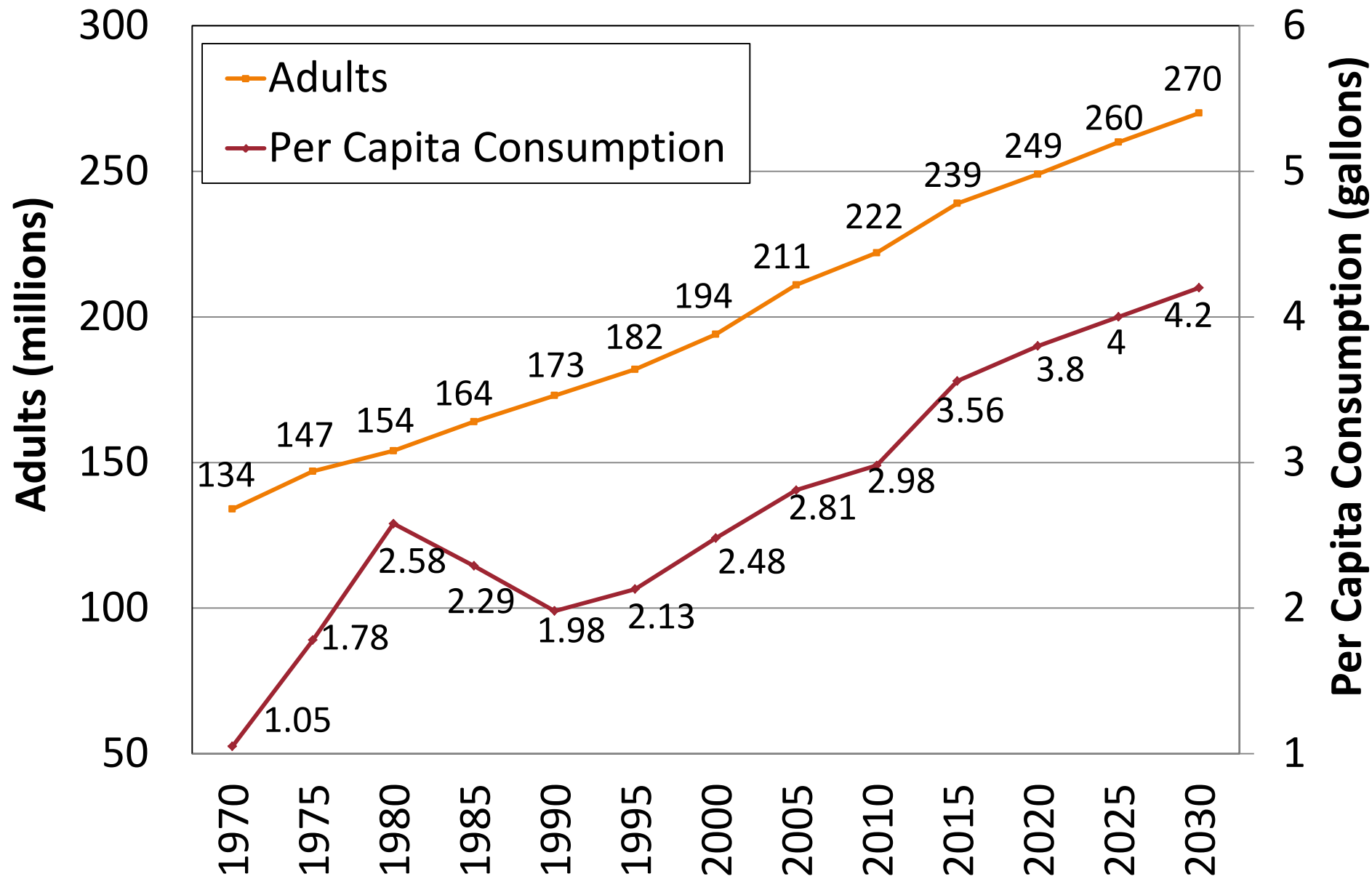
Abstention decreases from 40% to 25% of adult population?

Wine consumption increases from 35% to 50% of adults and Core Consumers grow from 21% to 30% of adults??

Core Consumers increase from 44 million to 81 million and continue at 70 liters?



Adults and Per Capita Consumption, 1970-2030



Well, if that happens. . .

Table wine consumption would increase by 50%
to about 430 million cases

We would need about 360 million gallons of
wine more than in 2010

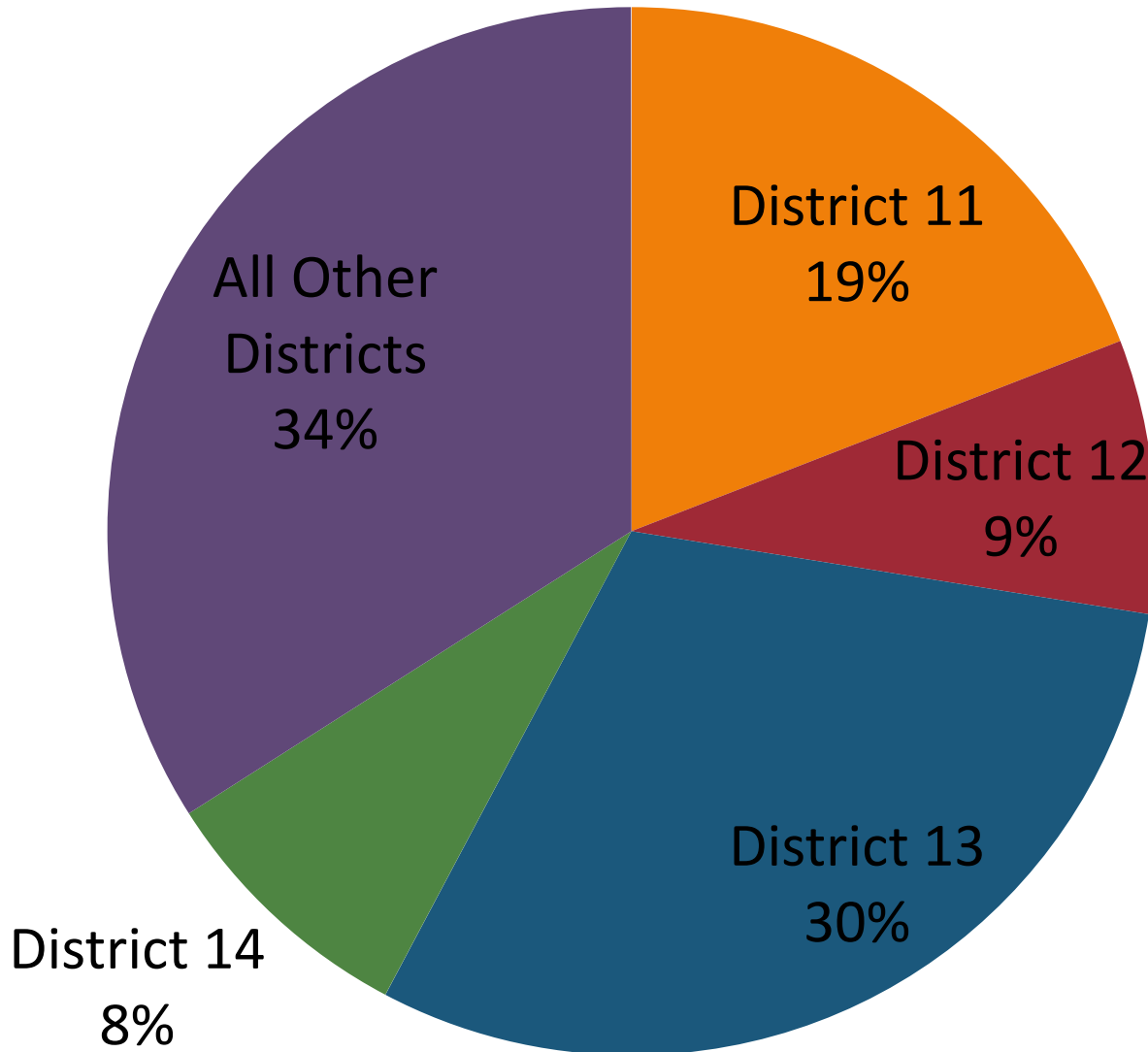
Which at 170 gallons/ton comes to 2.1 million
tons of grapes

Where will the wine come from? Imports or
Domestic production? Both?



Percent Winegrapes Crushed 2012

The San Joaquin Valley is VERY important in supplying wine grapes



Central Valley Supply

Let's assume that California maintains its current 61% share of U.S. Market. $360 \text{ million gallons} \times .61 = 220 \text{ million gallons}$

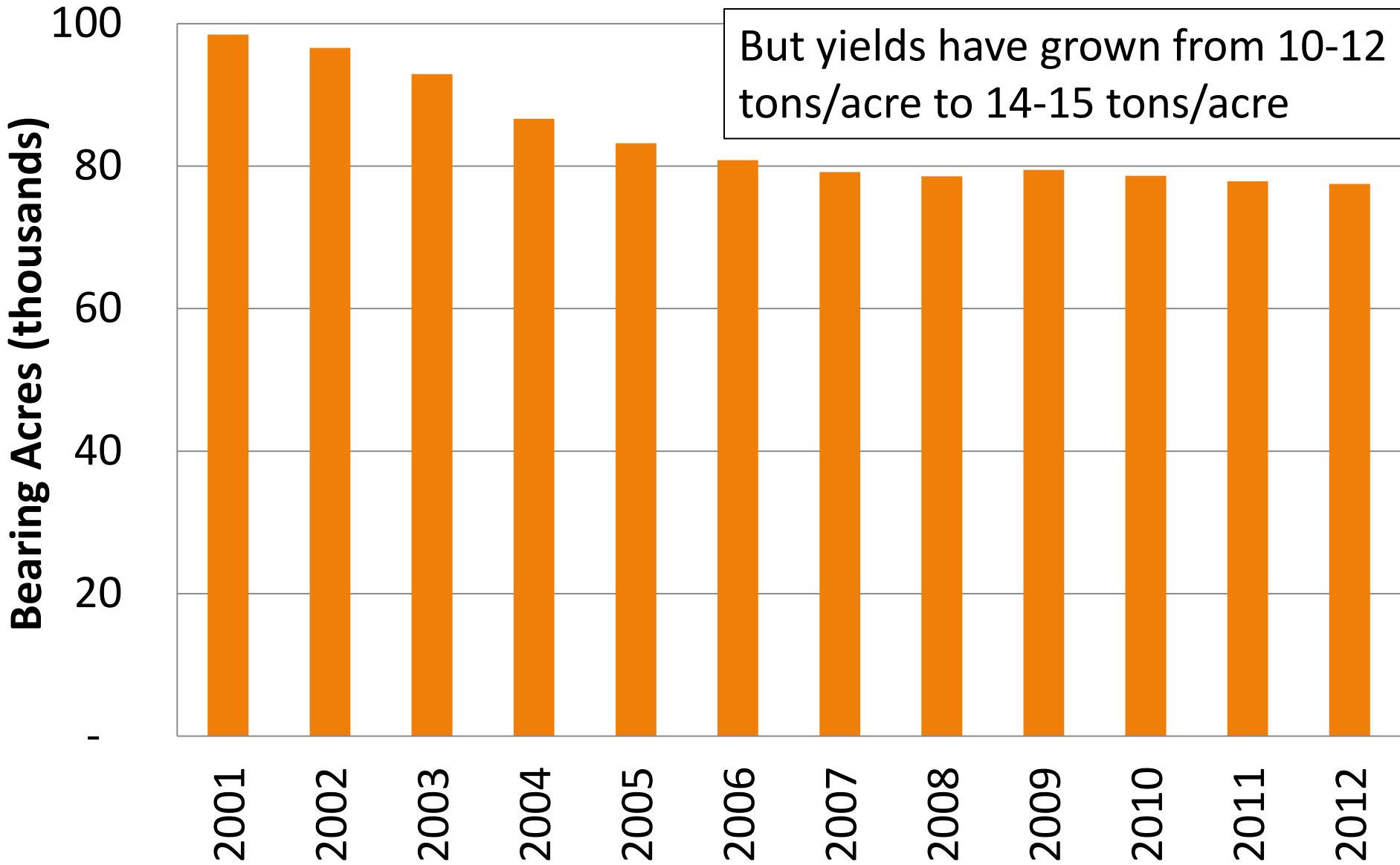
Let's further assume that 40% will retail under \$6 a bottle and will come from the lower Central Valley. $220 \times .4 = 88 \text{ million gallons}$

This requires about 515,000 tons, which at 15 tons/acre requires 34,333 acres

Since 2001, District 13 acreage has declined by 21,000 acres.

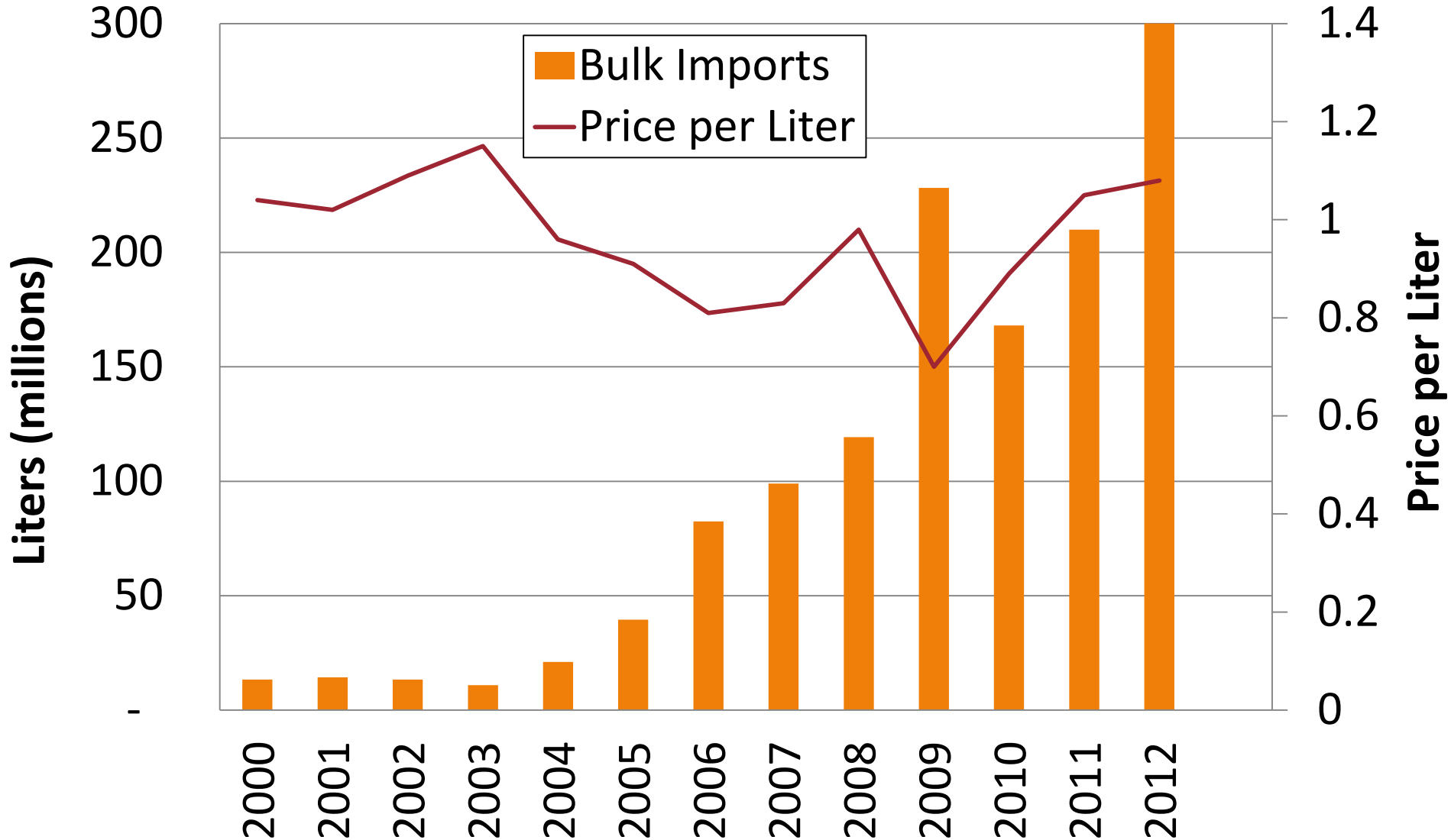


District 13 Bearing Acres Have Declined by 21% in 12 Years

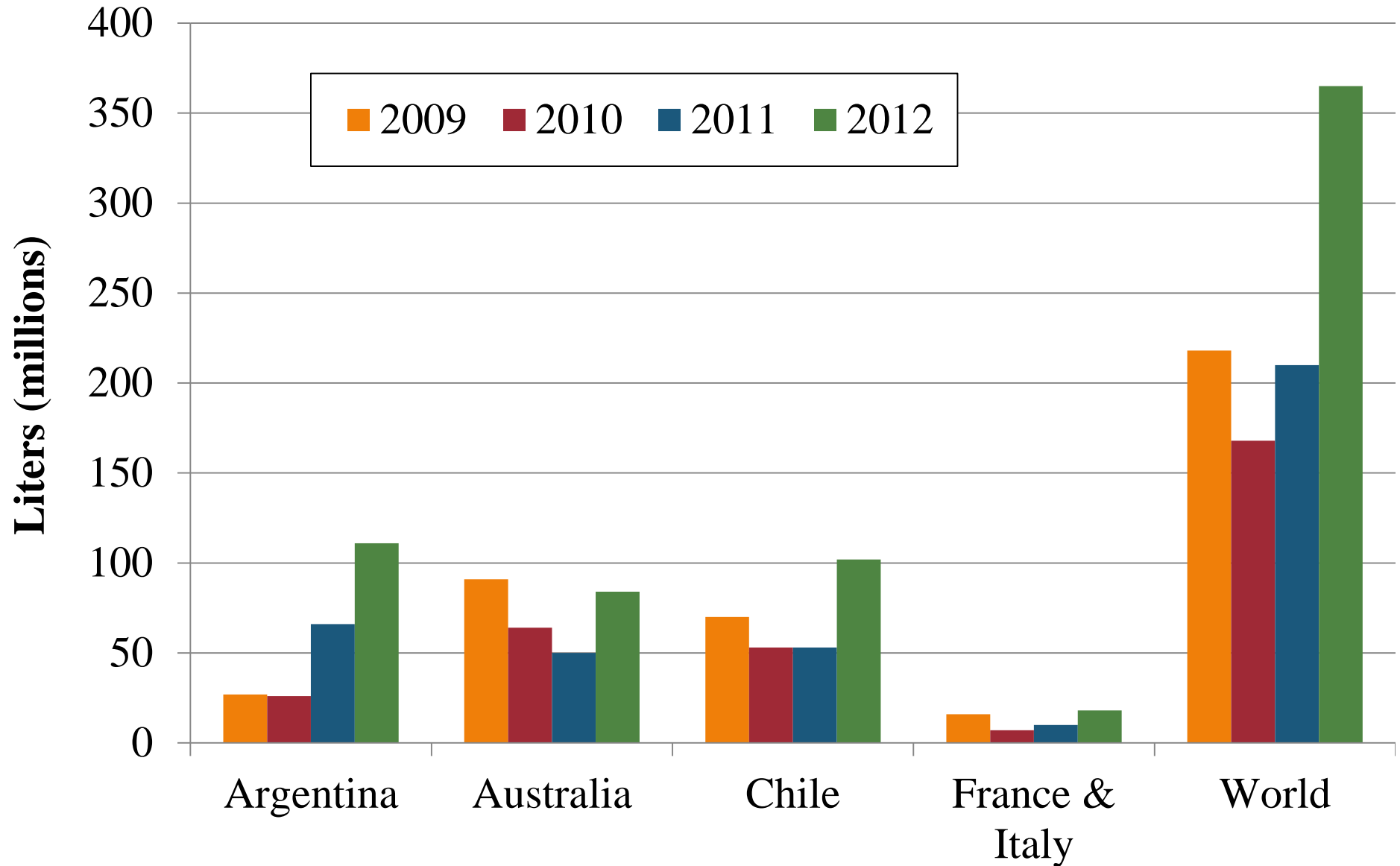


Wineries have met demand by importing inexpensive bulk wine

Bulk Wine Imports and Price per Liter



Volume of U.S bulk wine imports by origin, 2009-2012



Much Exported Wine is Shipped in Bulk

Flexitank in Shipping Container



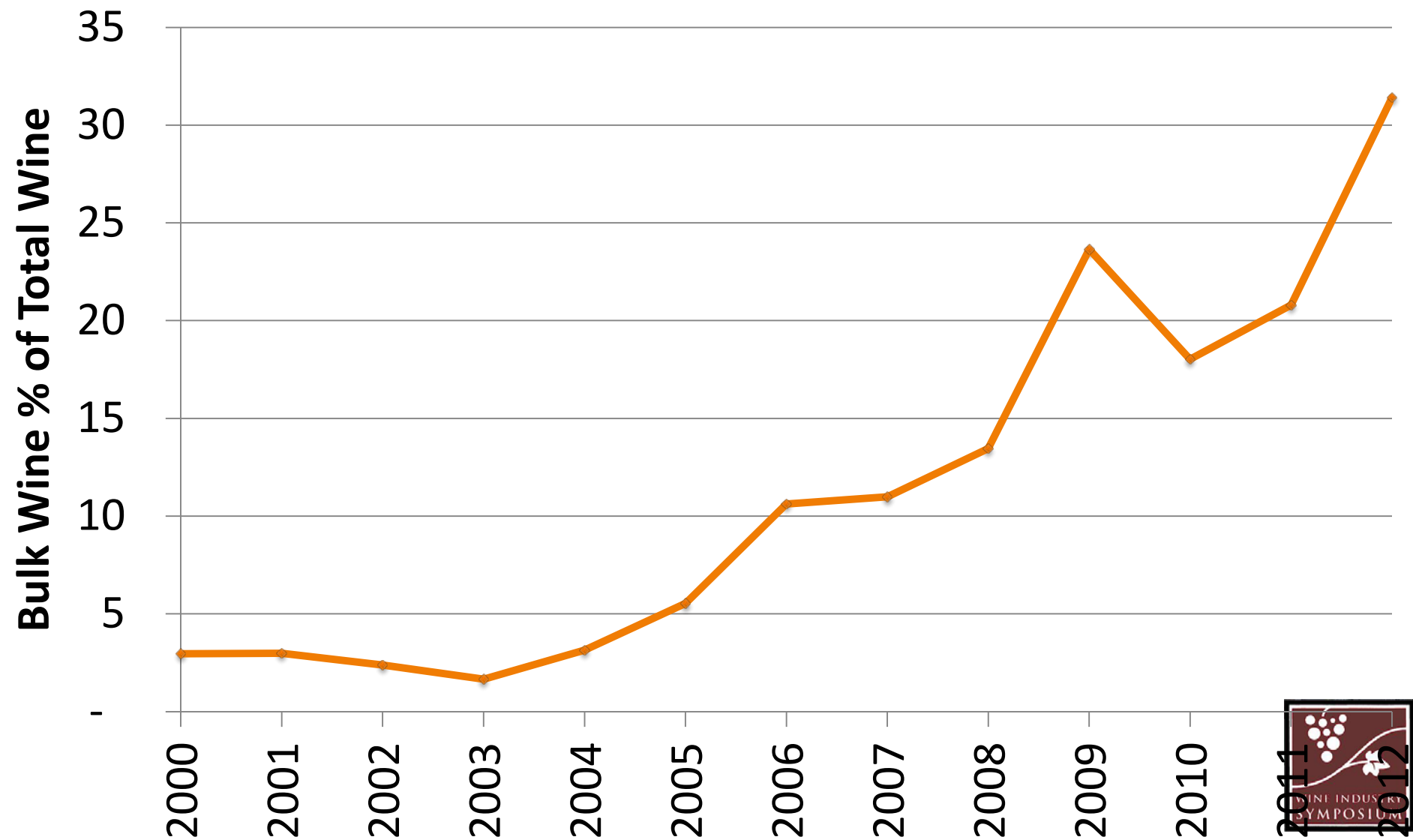
Percent 2012 Wine Shipped in Bulk

Argentina	45
Australia	53
Chile	37
France	20
Italy	31
Spain	51
U.S.	43

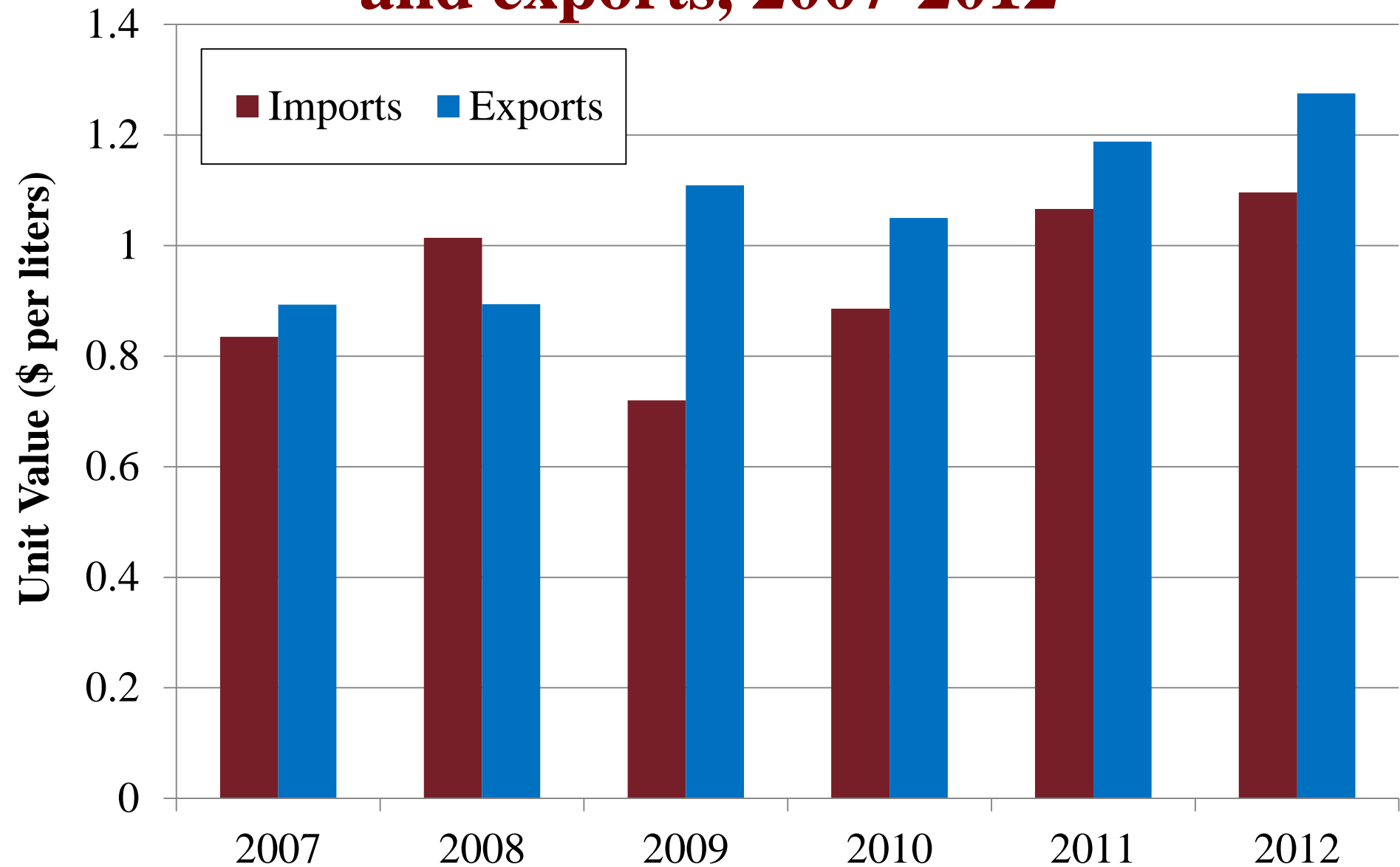
Source: OIV 2013



Bulk Wine Percentage of All U.S. Wine Imports, 2000-2012



Annual unit value of U.S. bulk wine imports and exports, 2007-2012



Bulk Shipments Are Not Inexpensive

A container can handle about 5500 gallons
(weight issues on roads)

\$400-450 for the bag

Freight Chile to Oakland? About \$1800

Freight Adelaide to Oakland? Maybe \$2200

Between \$0.40-\$0.50 a gallon plus hauling from
the port for wine valued at less than \$4 gallon



So what is a “Drawback”?

A return of paid duties and taxes (“drawback”) when an imported good is exported

Dates back to 1789 in the U.S.

Allows for “substitution” of “commercially interchangeable goods” i.e. the exporter need not export the originally imported goods on which duty and tax was paid **IF** the government determines the goods are “commercially interchangeable”



What does this have to do with wine?

In 2001 a California winery received a “predetermination letter” from Customs and Border Protection defining table wines of the same color and within 50% of value to be “commercially interchangeable”

Similar letters were issued to other major wineries and drawbacks on duties paid on imported wine were claimed when wine was exported



Defined in 2008 Farm Bill

In 2007 CBP moved to withdraw the letters of predetermination

In May of 2008, wine interchangeability was written into the Farm Bill

“wine of the same color having a price variation not to exceed 50 percent between the imported wine and the exported wine shall be deemed to be commercially Interchangeable”



Why is this important?

It encourages trade by reducing costs

Duties and excise tax come to about \$0.3457/L for bottled wine and \$0.4227/L for bulk wine

In 2010 firms received \$23 million in drawback for bottled wine and \$47 million for bulk wine

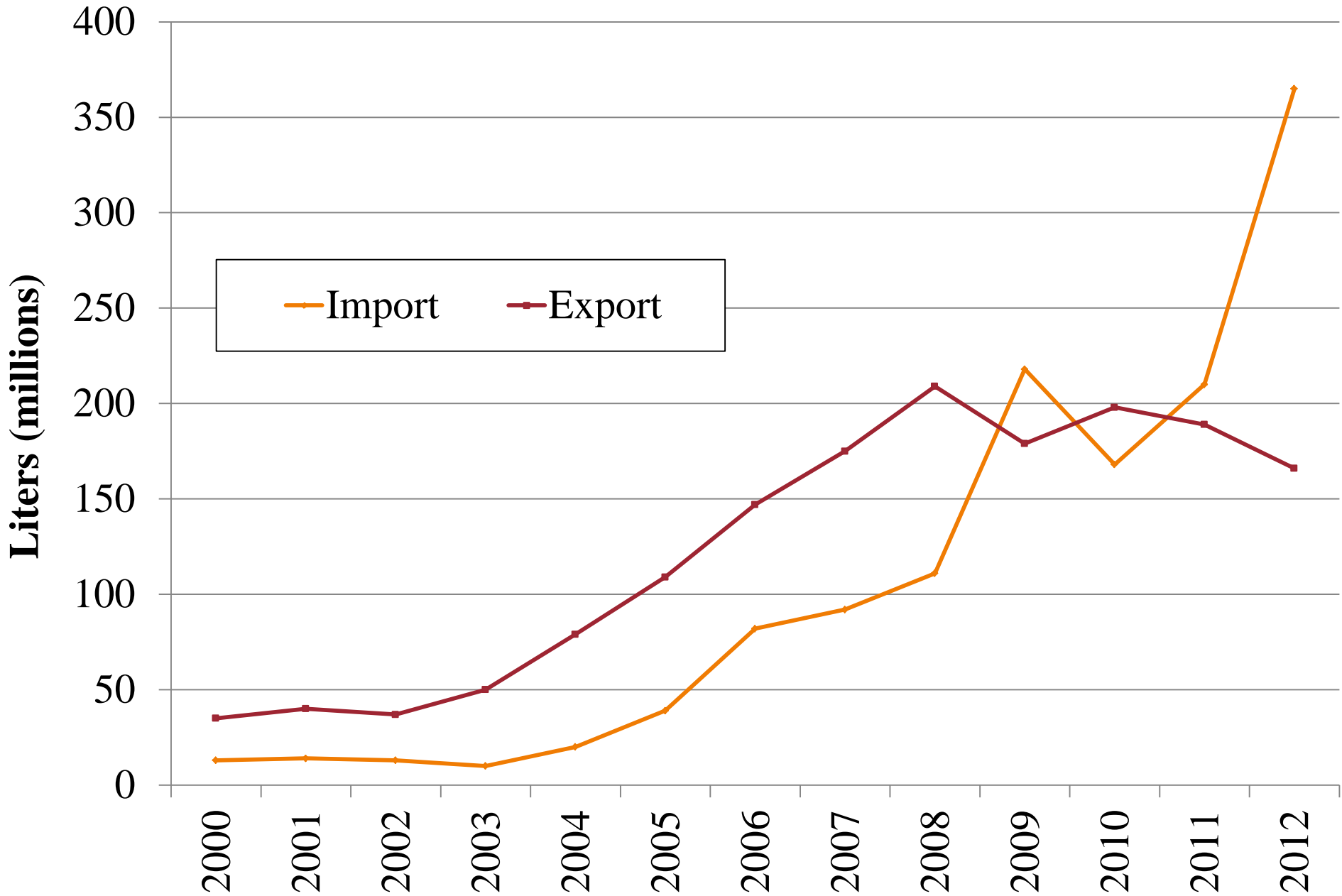
As a percent of value, drawback is much more important for inexpensive bulk wine and may equal 40-50% of the value



Excise tax and import duty rates in 2011

	Two liters or less (bottled)	Over two liters but not over four liters	Over four liters, MFN (bulk)	Over four liters, Chile or Australia (bulk)
	(\$/liter)			
Import duty rate	0.063	0.084	0.14	0.037
Excise tax	0.2827	0.2827	0.2827	0.2827
Total	0.3457	0.3667	0.4227	0.3197

U.S. bulk wine imports and exports, 2000-2012



Drawback encourages both imports AND exports

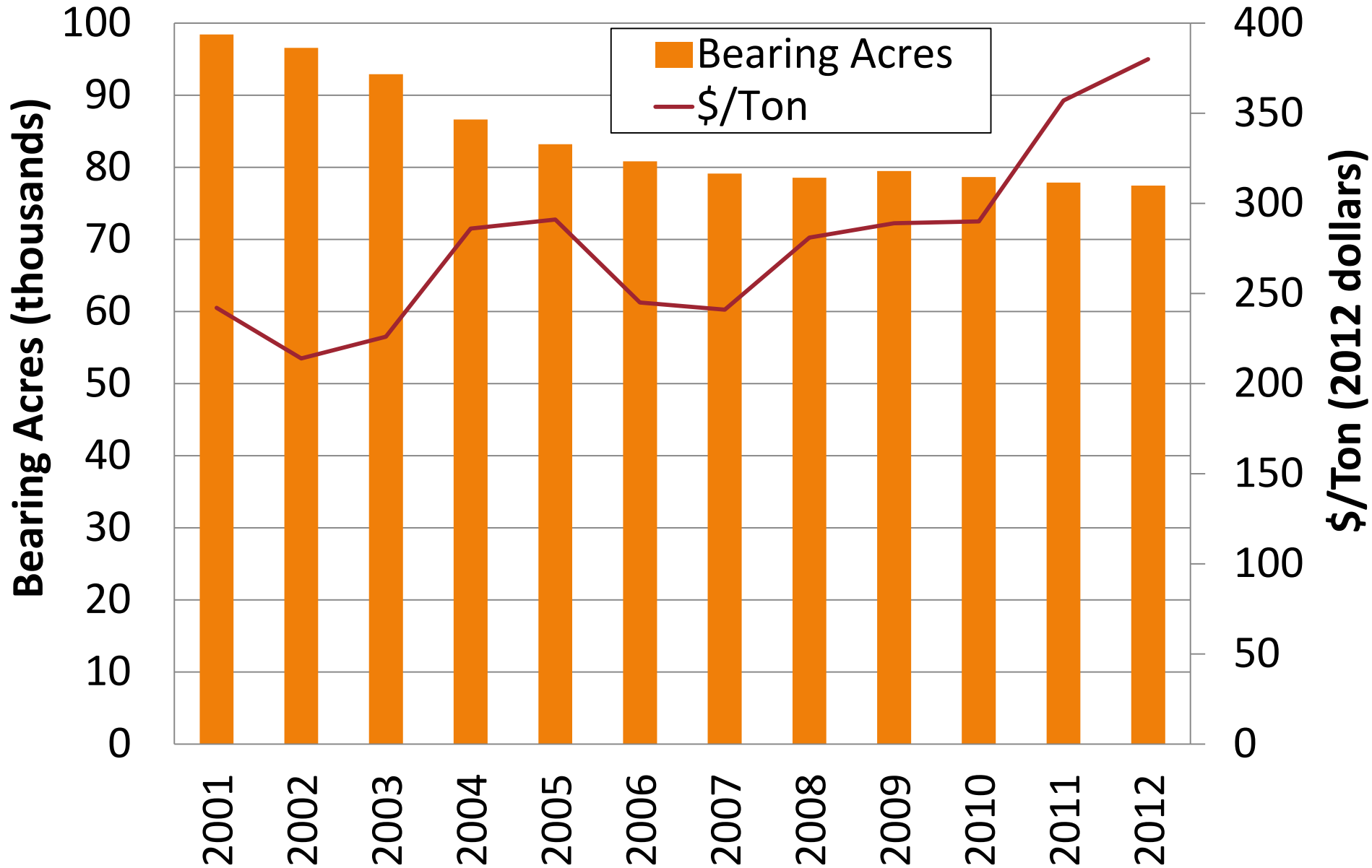
Percent Imports by Volume U.S. Sales California Exports as Percent of Production



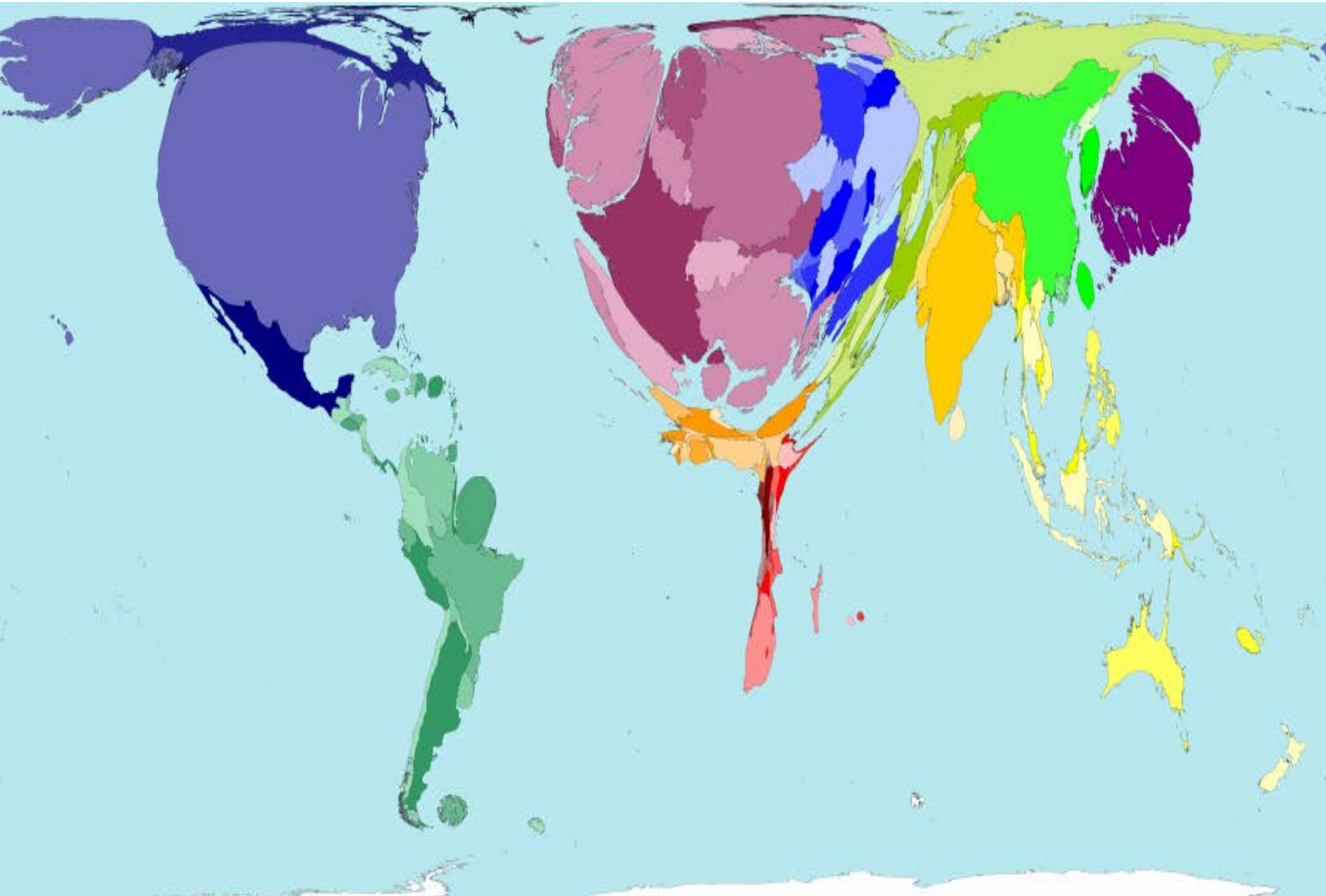
Friendly Competition?



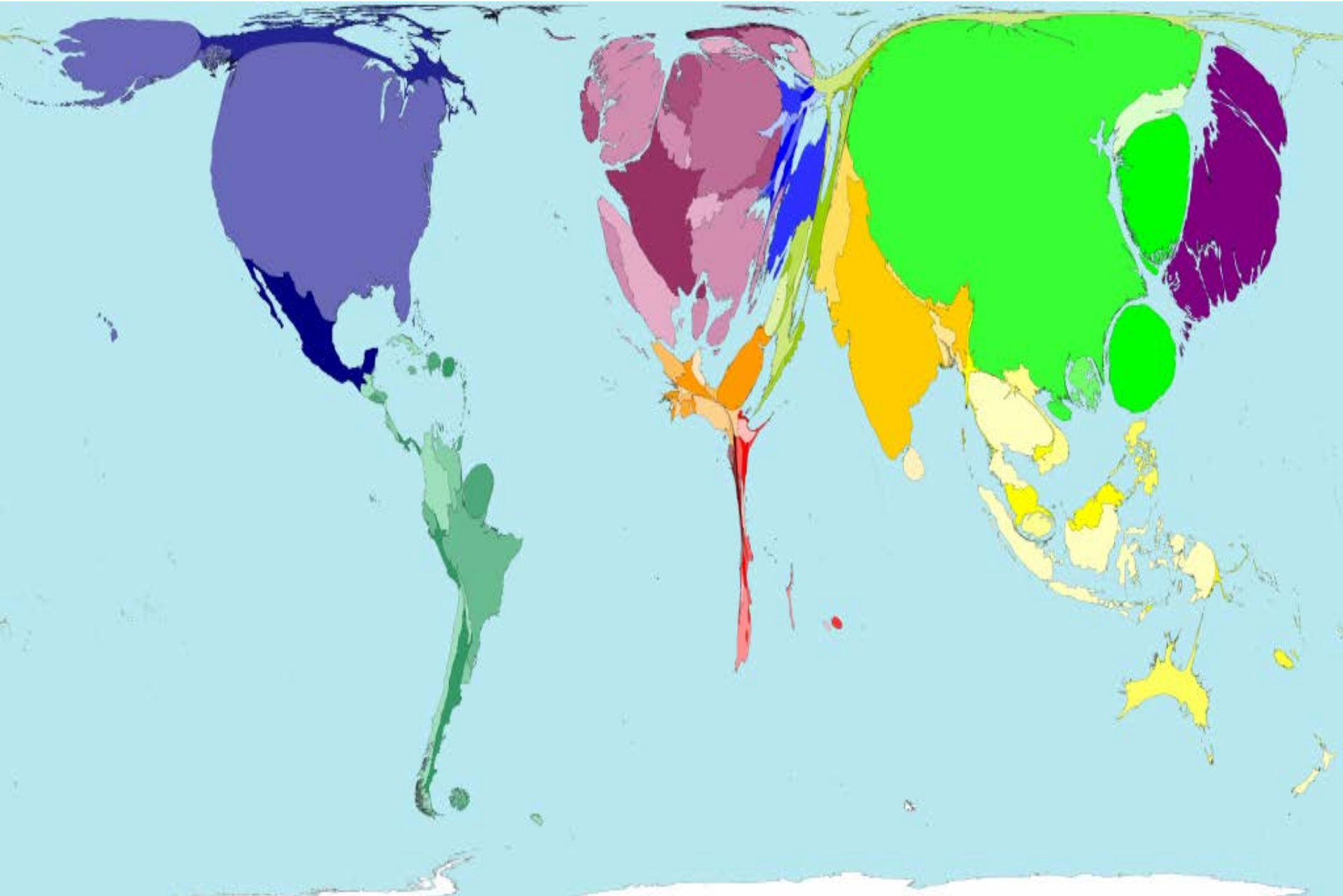
District 13 Bearing Acres



World map weighted by GDP in 1960

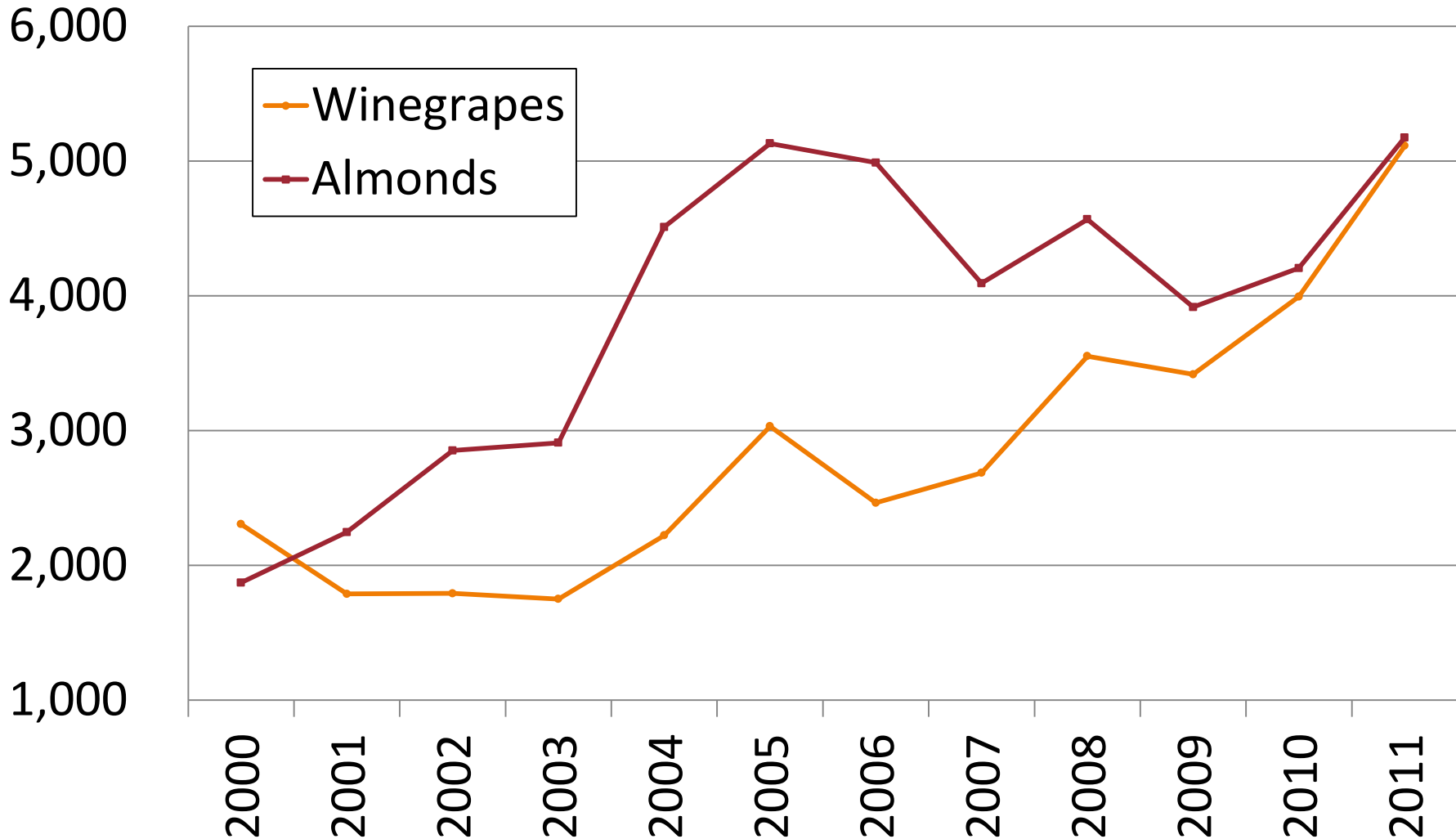


World map weighted by estimated GDP in 2015



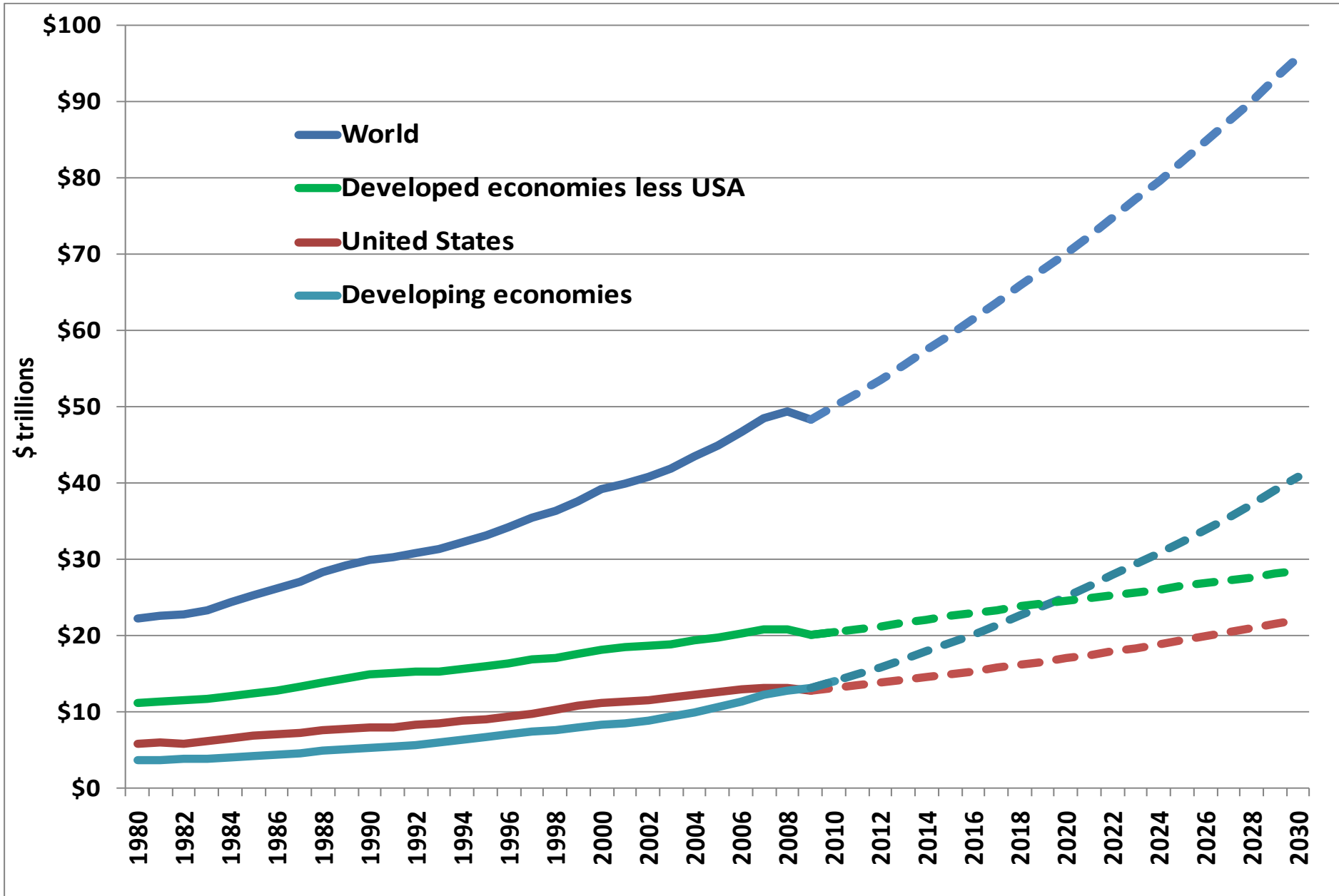
Average Gross Revenue Per Acre

District 13 Winegrapes vs. Fresno Almonds



Source: County Ag Commissioner Reports and Crush Reports

Real Gross Domestic Product (GDP), with projections



The World Matters for Both Almonds and Wine

	Almonds	Wine
% World Production	80	7
% California Production Exported	70	17
% of World Shipments	90	4

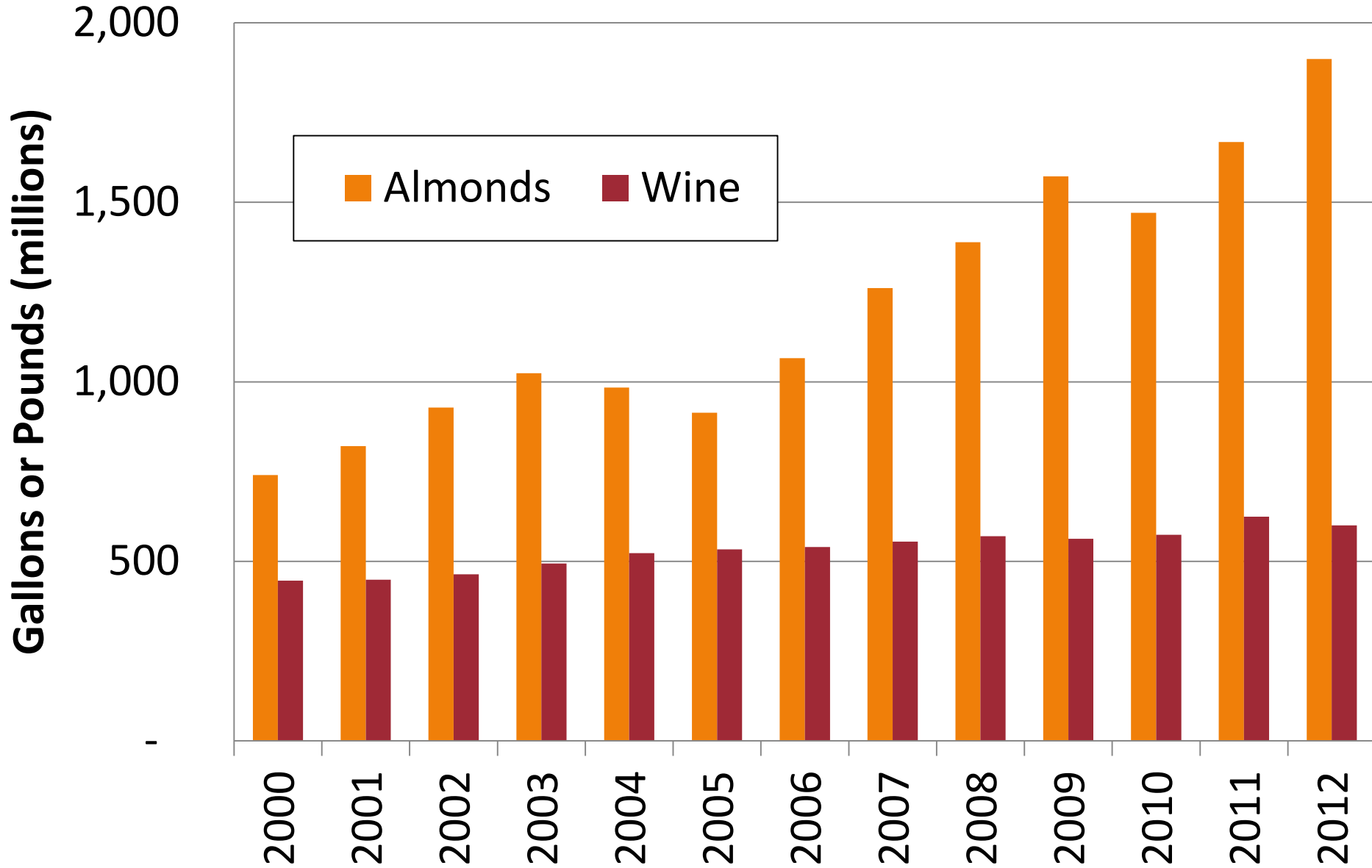
California seems to have a natural advantage with almonds over other growing regions: Better (more reliable) weather at bloom, dry summers, and generally available water.

Increasing incomes in developing worlds have led to increased consumption of “portable protein”

No religious prohibitions against almond consumption.



Total California Shipments (Domestic and Export)



The future of Winegrapes in districts 13 and 14?

With average yields of 14-15 tons/acre, the region is very productive but is in competition with other bulk wine producing regions of the world.

Of the 105,000 acres currently planted in districts 13 and 14, 90,000 are over 10 years old and will probably be pulled by 2030.

Will those acres be replanted and another 35,000 added to meet my projected increased demand—or will wineries meet demand by importing bulk wine?

Replanting is probable only if major wineries commit to long-term contracts and if California winegrapes can compete with other perennial crops.



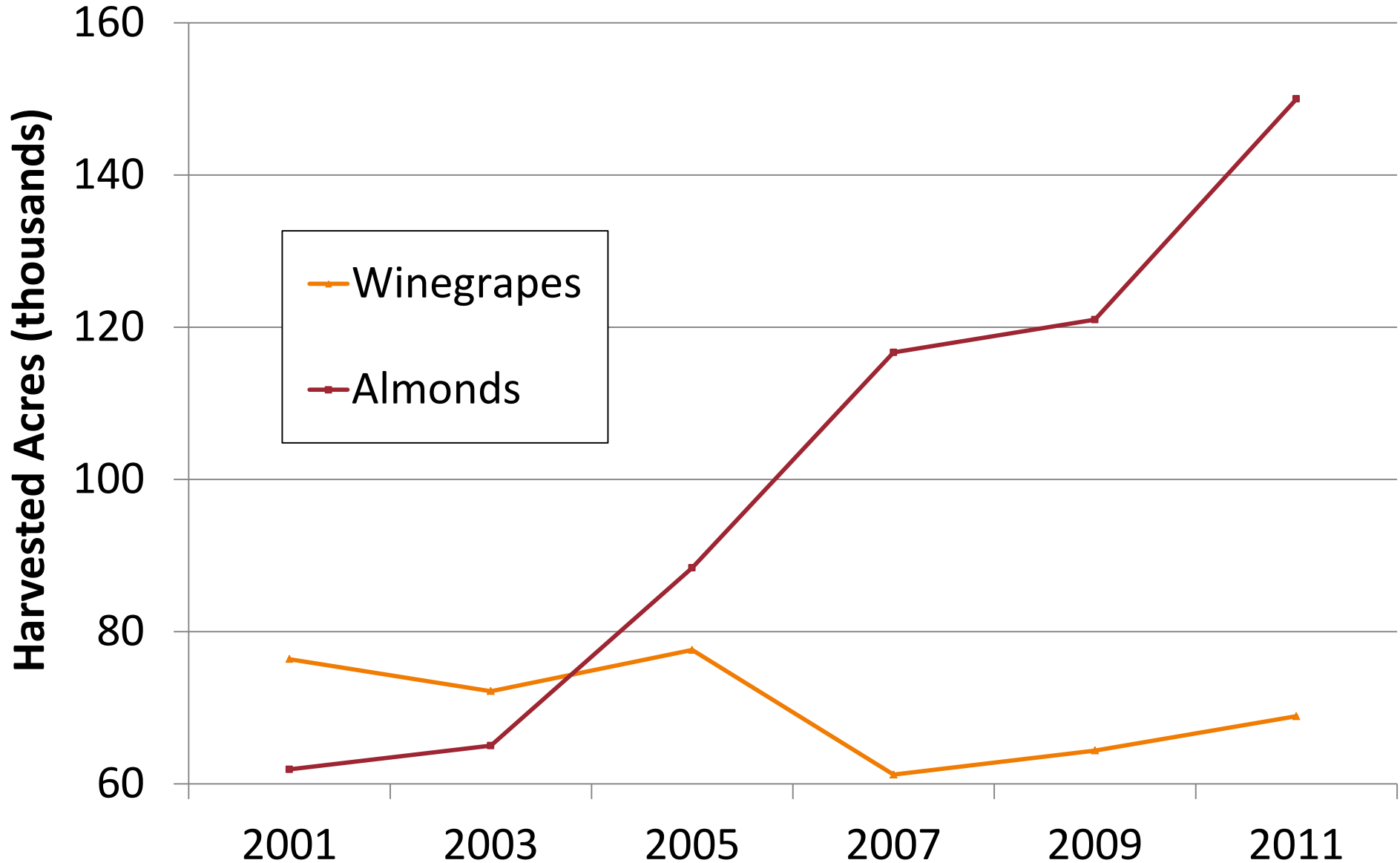
Growers have alternative crops

<i>Sale</i>	<i>Pistachio</i>	<i>Almond</i>	<i>Wine Grapes</i>	<i>Walnuts</i>
Production	3,500	3,500	12	6,000
Price	\$1.97	\$1.82	\$400.00	\$1.15
Total Income	\$6,895	\$6,370	\$4,880	\$6,900
Cultural Costs	\$1,680	\$2,140	\$1,132	\$1,186
Overhead Costs	\$504	\$330	\$410	\$325
Harvest Costs	\$389	\$500	\$483	\$864
Total Expenses	\$2,573	\$2,970	\$2,025	\$2,375
Planted Acres	112.85	56.71	125	77
Income per Acre	\$6,895	\$6,370	\$4,880	\$6,900
Expenses per Acre	\$2,573	\$2,970	\$2,025	\$2,375
Net Income per Acre	\$4,322	\$3,400	\$2,855	\$4,525
Sale Price per Acre	\$32,742	\$24,000	\$22,558	\$35,396
Capitalization Rate	13.20%	14.17%	12.66%	12.78%

Source: Correia-Xavier, inc.



Fresno County Harvested Acres



Source: Fresno County Ag. Commissioner Reports

Conclusion?

San Joaquin winegrape growers are excellent farmers.

They probably can out compete foreign producers in the long run

But can winegrapes compete with other crops?

It seems likely that U.S. wine consumption will increase by 50% and that by 2030 much of the wine consumed will be foreign.

