

UC

# An Overflowing World Cup of Wine?

For presentation at the Symposium on  
Outlook and Issues for the World Wine Market

University of California, Davis  
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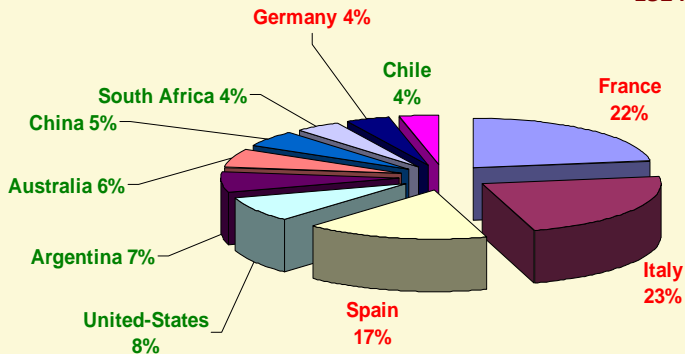
## Outline and objectives

- Let's set the global stage for more in-depth presentations and treat wine like a normal food product
- Current situation and projections
  - 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
- Changes within the wine industry
  - Company consolidation, Branding; bulk vs. bottle,

## Top 10 wine-producing countries, 2006

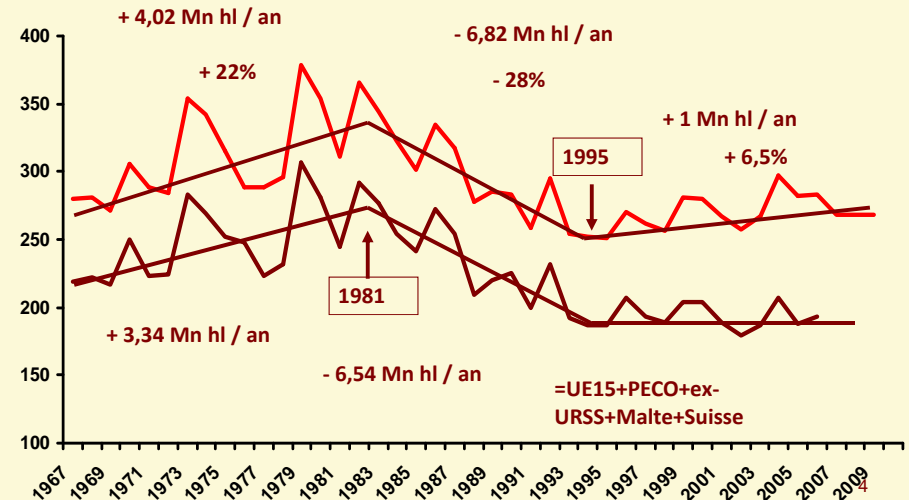
Production in top 10  
= 230 Mn hl = 81 %

European Production  
= 152 Mn hl = 66 %



Global Production  
283 Mn hl

## Global & European wine production



## Large European producers and consumers have their problems in competition

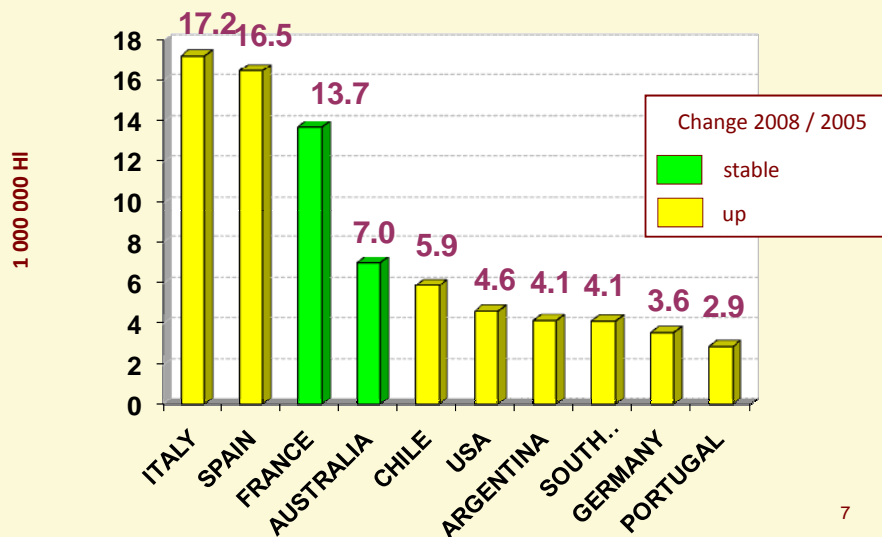


## The wine world is continuing to expand outside Europe

- 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

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## Top 12 countries by wine exports, 2008

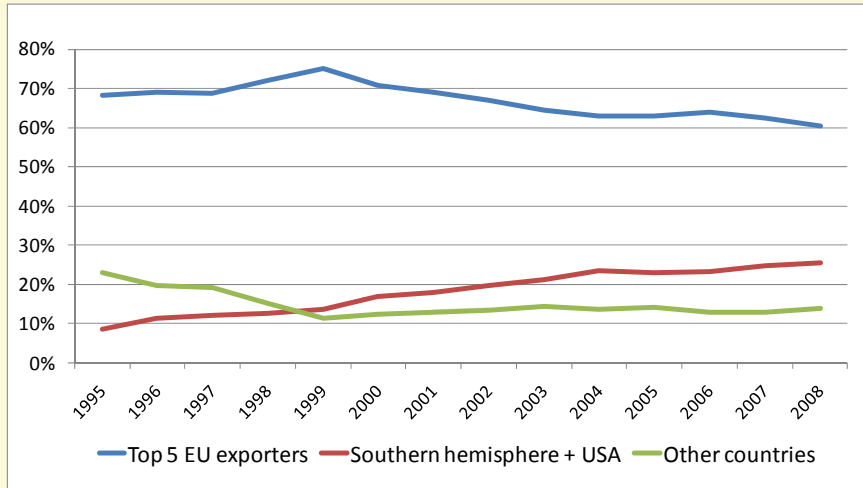


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## The Southern hemisphere is still jumping in terms of market shares

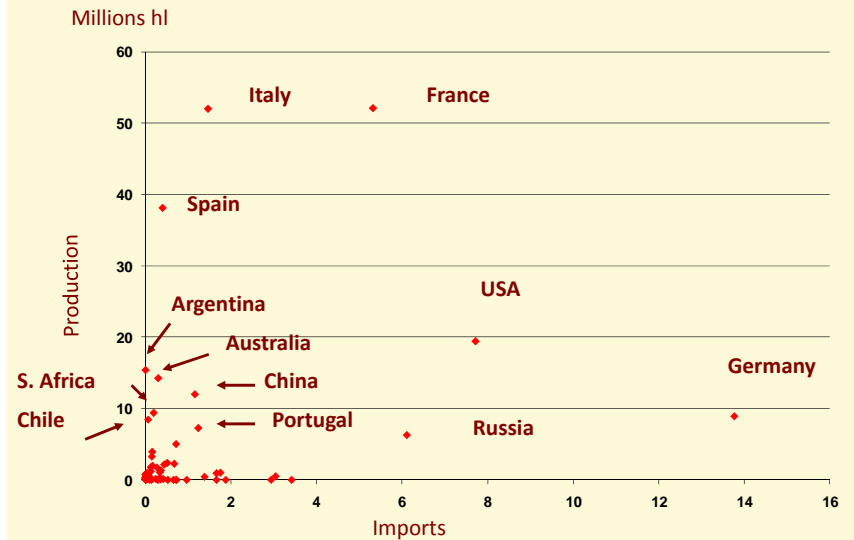


## International trade: market share



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## Production vs. Imports, 2006



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## Consider simple statistical projections from the historical data

- 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.

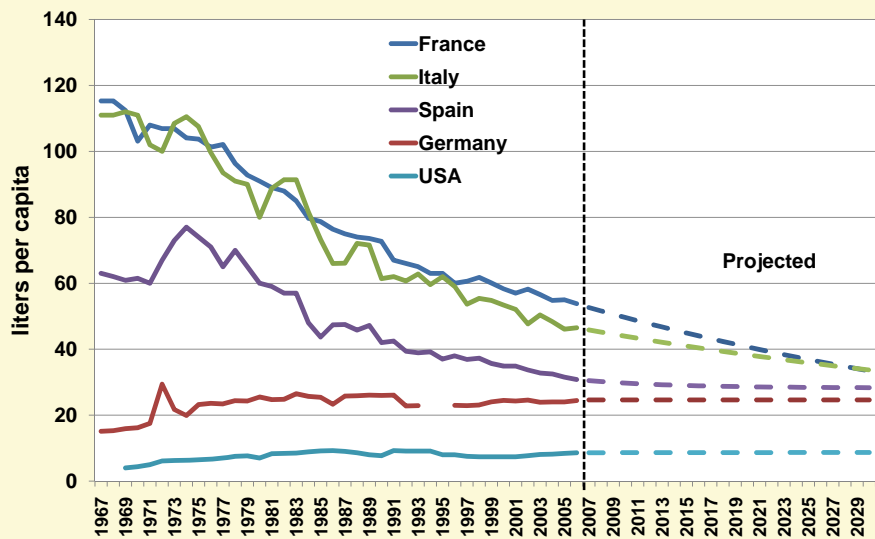
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## Some traditional European wine powers remain in contention



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## Annual per capita consumption of wine



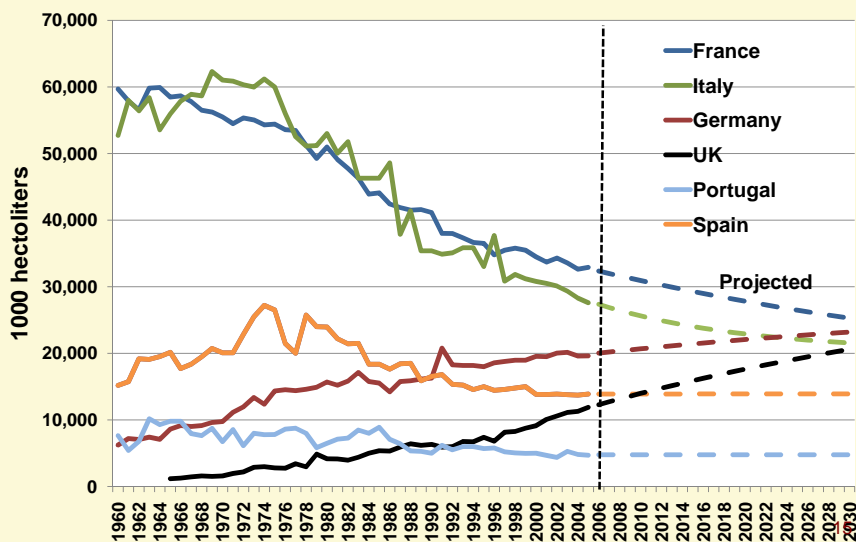
Note: projections estimated using exponential smoothing with a damped trend

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## Germany shows that wine importing Europe is doing its part



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



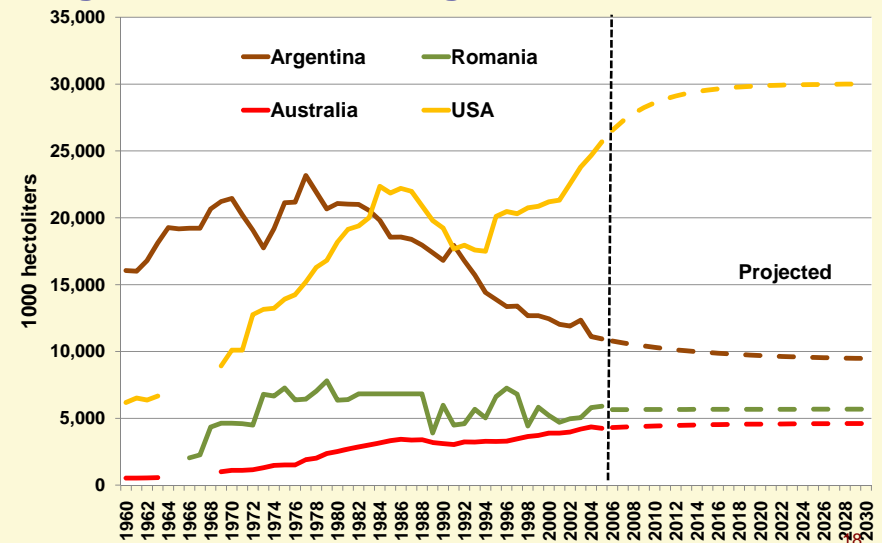
## There seems to be no magic to pull France from the wine doldrums



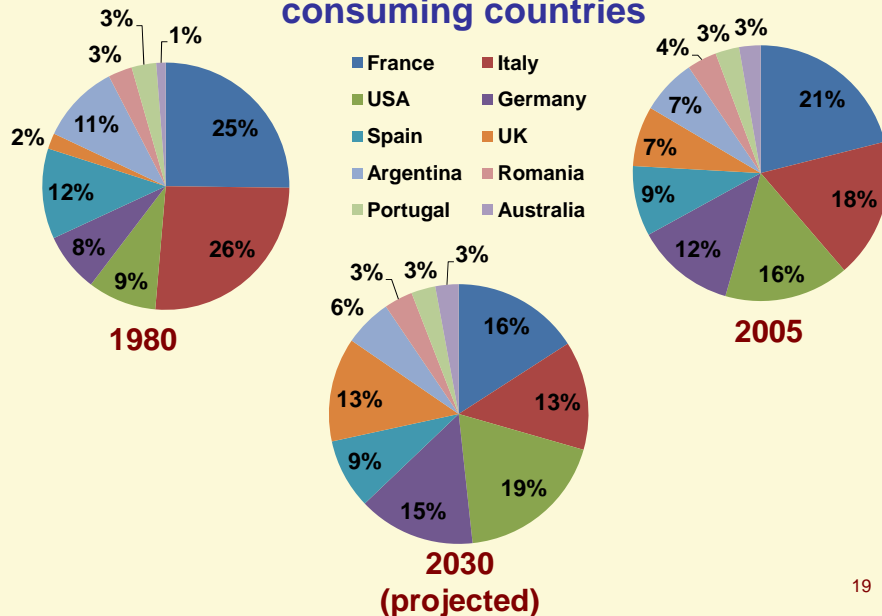
## And, Italy has the blues



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



## Consumption shares of the top 10 wine-consuming countries



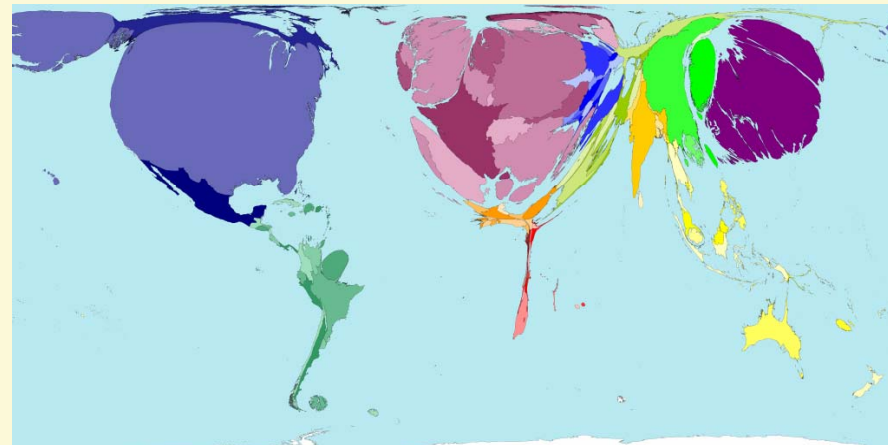
## What may drive the future

- **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

## Don't forget potential demand growth in high income East Asia



## World map weighted by total GDP in 2005



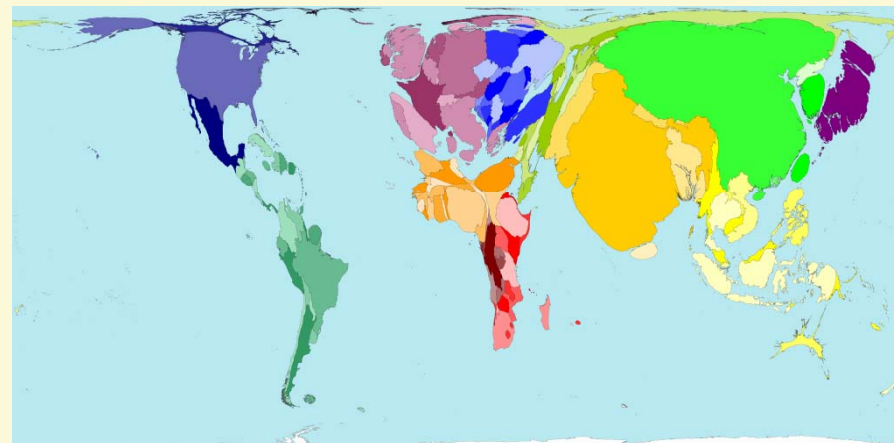
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## China, Russia and India

- 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)

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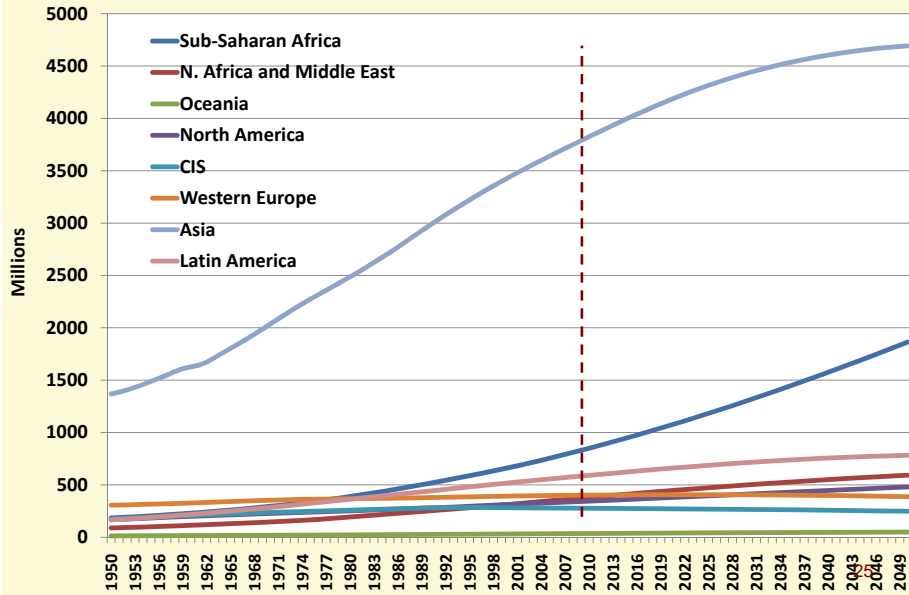
## World map weighted by population in 1960



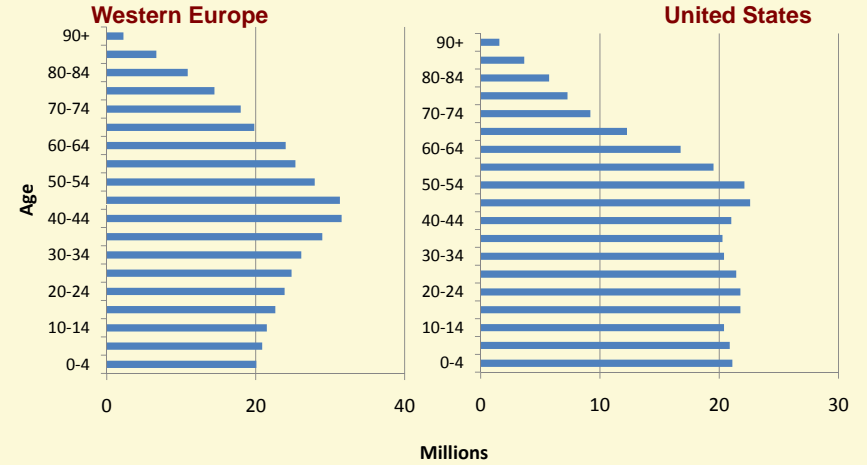
Total population = 3.04 billion

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## World population, 1950-2050 (projected)

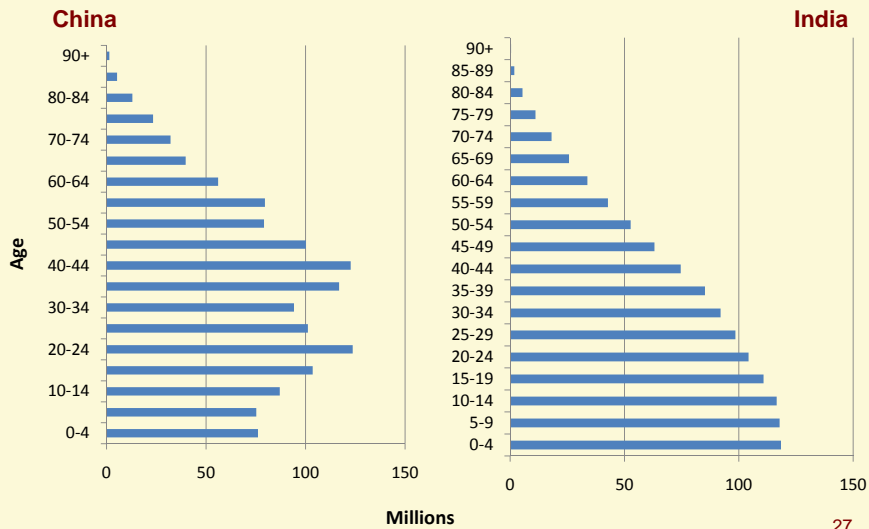


## Western Europe and U.S. population by age, 2010



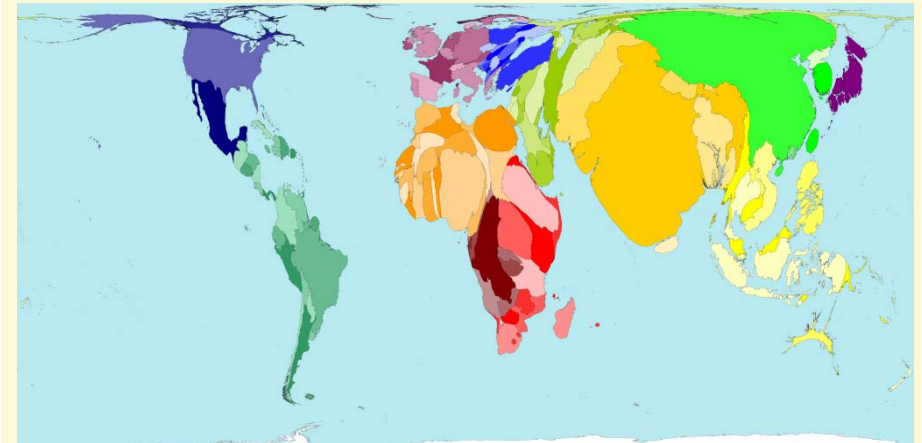
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## China's and India's population by age, 2010



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## World map weighted by estimated population in 2050



Total population (est.) = 9.07 billion

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## 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.

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## 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

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## Country of origin other labeling issues as the industry evolves to global sourcing without appellations of importance

- 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

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## Still some optimism in the wine world



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