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COVID-19 and Global Wine Trade

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COVID-19 and Global Wine Trade

Kym Anderson and Glyn Wittwer

How is the COVID-19 pandemic, and government responses to it, affecting the world's wine markets and trade? Many people have chosen – or been required – to self-isolate at home and avoid restaurants, bars and pubs. Social distancing regulations have made large celebrations impossible, which has been especially damaging to sparkling wine sales. Home consumption of beverages have gone only some way toward offsetting lost on-premise sales. In this article we provide estimates of how different wine sales in 2020 and 2021 would be because of COVID-19.

The shocking economics of COVID-19

Every sector of most national economies has been affected by COVID-19. Production has been curtailed, incomes have fallen despite fiscal efforts to assist firms and workers, and product demand has slumped to varying extents across sectors. In the case of beverages, sales to consumers are affected not only by declines in incomes but also by governmental measures that have led to closures of restaurants, bars and clubs. As well there has been a huge decline in international travel and tourism and hence also in duty-free sales, consumption on airlines and cruise ships, and foreigners' visits to cellar doors. Early indications are that expansions in off-premise sales and more direct e-commerce activities have been insufficient to offset lost on-premise sales.

Modelling beverage markets

Analysis of markets for the three main alcoholic beverage groups (wine, beer and spirits) requires a global economic model of national markets connected through international trade, in which the interactions between each nation's producers and consumers of these three beverages are explicitly recognized. Wittwer and Anderson (2020) provide such a model for 51 countries or residual country groups. The model is calibrated to 2019 and then projected to

2020 and 2021 without and with COVID. Results are reported each year relative to a no-COVID business-as-usual baseline simulation.

Based on the latest IMF (2020) forecasts, the average differences between the COVID and no-COVID scenarios in national household expenditure globally are -7.5% in 2020 and -5.5% in 2021. The reduced demands in 2020 are projected to lower real producer prices of beverages in all countries. The assumed part-reversal of incomes in 2021 is insufficient to make much impact in narrowing the difference between prices in the COVID and business-as-usual scenarios. This reflects the re-imposition of lockdowns and the spate of second- and third-waves of infections in numerous countries, postponing the recovery that had initially been hoped for in late 2020.

Effects on beverage consumption

The world is projected in 2020 to see a fall of 7% in consumption of wine and a somewhat smaller shortfall in beer and spirits consumption (4%-5%). Sparkling wine consumption is projected to be down by more than a quarter compared with business-as-usual in 2020, a reflection of the widespread cancellation of large celebratory activities in 2020.

Beverage consumption is affected in Asia almost as much as elsewhere, despite its income growth being curtailed less than in other regions, because Asia's income *difference* between the COVID and no-COVID scenarios is still large in percentage point terms. Sales growth is projected to occur in 2021, but the volume of consumption is still expected to be lower than it would have been without COVID.

The values of consumption alter considerably more than their volumes, because prices also fall; and they alter more for fine (especially sparkling) wines than for commercial and non-premium still wines.

For the world as a whole, while the volume of all wine consumption is 7% lower in 2020 than it would have been without COVID and 4% lower in 2021, the real expenditure on wine is 13% lower in 2020 and still 8% lower in 2021. Beer and spirits expenditures globally are projected to fall less than for wine.

Effects on international trade

The volume of world trade in wine is projected to be 5% lower in 2020 than it would have been without COVID, and still 3% lower than in the absence of COVID in 2021 (Table 1).

The fall in the value of global wine trade is three times greater, as prices also fall (compare Tables 1 and 2).

Australia and New Zealand are affected a little less adversely than other exporters of wine, but still harmed. Their exports are hurt less because sparkling wine is a smaller share of their exports than of the rest of the world's and that is the wine type hit hardest by the COVID lockdowns.

Similarly with imports: Table 3 shows that wine imports in 2020 are projected to be lower in Western Europe and North America by more than twice as much in percentage value as in percentage volume terms. In Asia, the value to volume difference is even greater, because a relatively high share of Asia's imports are fine wines, and their prices fall more than those of commercial wines.

Conclusion

Wine sales globally are being hurt by COVID-19, and markets may take years rather than months to recover. The damage is greatest for premium sparkling wines, but all wine quality segments are affected. The impacts are not equal across countries though: wine-exporting countries lose from selling less at lower prices, while wine-importing countries benefit from lower prices of imported wine. Within each country, consumers would be paying less for wine at the expense of grapegrowers and wineries. Meanwhile, on-premise sales are being lost to off-premise sellers, hurting small premium producers and independent retailers more than large-scale producers of lower-quality wines sold in supermarkets. It remains to be seen how well the financial system and current low interest rates are able to carry firms through the recovery period.

References

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Table 1: Changes in volume of wine exports, 2020 and 2021 (%, relative to no-COVID baseline)

(a) 2020

	WEur	US&Can	LatAmer	SthAfr	AUS	NZL	**WORLD**
All wine	**-6**	**-3**	**-7**	**-3**	**-4**	**-2**	**-5**
NPWine	-1	-2	-6	-3	-4	-3	**-2**
CPWine	-1	0	-8	-2	-3	-2	**-2**
SPWine	0	-3	-6	-1	-4	-2	**-1**
Sparkling	-28	-22	-37	-34	-26	-20	**-28**

(b) 2021

	WEur	US&Can	LatAmer	SthAfr	AUS	NZL	**WORLD**
All wine	**-3**	**1**	**-6**	**-1**	**-1**	**-2**	**-3**
NPWine	-1	0	-4	-2	-2	-1	**-2**
CPWine	-1	2	-5	0	-1	-1	**-1**
SPWine	-1	0	-9	-2	-1	-2	**-2**
Sparkling	-9	-1	-9	0	-3	-2	**-9**

Source: Authors' model results.

Table 2: Changes in real value of wine exports, 2020 and 2021 (%, relative to no-COVID baseline)

(a) 2020

	WEur	US&Can	LatAmer	SthAfr	AUS	NZL	**WORLD**
All wine	**-16**	**-9**	**-13**	**-11**	**-11**	**-7**	**-15**
NPWine	-6	-7	-10	-9	-9	-7	**-7**
CPWine	-10	-9	-14	-11	-10	-12	**-11**
SPWine	-5	-9	-10	-6	-8	-6	**-6**
Sparkling	-47	-43	-49	-52	-46	-41	**-47**

(b) 2021

	WEur	US&Can	LatAmer	SthAfr	AUS	NZL	**WORLD**
All wine	**-10**	**-7**	**-11**	**-7**	**-7**	**-9**	**-9**
NPWine	-5	-5	-7	-7	-6	-5	**-6**
CPWine	-7	-5	-10	-7	-7	-8	**-8**
SPWine	-9	-9	-15	-10	-9	-9	**-9**
Sparkling	-15	-10	-14	-11	-11	-10	**-15**

Source: Authors' model results.

Table 3: Changes in volume and real value of wine imports, 2020 and 2021 (%, relative to no-COVID baseline)

	Volume					Real[a] value			
(a) 2020									
	WE	US&Ca	Asia	**World**		WE	US&Ca	Asia	**World**
All wine	**-7**	**-3**	**-2**	**-5**	**All wine**	**-17**	**-12**	**-11**	**-15**
NPWine	-3	-1	-1	**-2**	NPWine	-8	-6	-7	**-7**
CPWine	-4	-1	1	**-2**	CPWine	-13	-9	-8	**-11**
SPWine	-2	0	0	**-1**	SPWine	-7	-5	-5	**-6**
Sparkling	-27	-24	-22	**-28**	Sparkling	-48	-44	-45	**-47**
(b) 2021									
	WE	US&Ca	Asia	**World**		WE	US&Ca	Asia	**World**
All wine	**-3**	**-2**	**-1**	**-3**	**All wine**	**-9**	**-9**	**-8**	**-9**
NPWine	-2	-1	0	**-2**	NPWine	-6	-5	-5	**-6**
CPWine	-2	-1	1	**-1**	CPWine	-8	-7	-5	**-8**
SPWine	-1	-1	-1	**-2**	SPWine	-9	-9	-9	**-9**
Sparkling	-7	-8	-6	**-9**	Sparkling	-15	-15	-14	**-15**

Source: Authors' model results.