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Wine Economics Research Centre

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Economics and Wine, and Globalization

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WINE ECONOMICS RESEARCH CENTRE

The Wine Economics Research Centre was established in 2010 by the School of Economics and the Wine 2030 Research Network of the University of Adelaide, having been previously a program in the University's Centre for International Economic Studies.

The Centre's purpose is to promote and foster its growing research strength in the area of wine economics research, and to complement the University's long-established strength in viticulture and oenology.

The key objectives for the Wine Economics Research Centre are to:

- publish wine economics research outputs and disseminate them to academia, industry and government
- contribute to economics journals, wine industry journals and related publications
- promote collaboration and sharing of information, statistics and analyses between industry, government agencies and research institutions
- sponsor wine economics seminars, workshops and conferences and contribute to other grape and wine events

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Economics of wine

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The economics of wine is a field of study that aims to improve our understanding of what affects the demand for and supply of different types of wines and wine grapes, and thereby the prices, quantities, and qualities of wines sold in regional and national markets and traded internationally. This area of study has grown considerably in recent years, for several reasons. One is the increasing GLOBALIZATION of wine. Another is that wine growers have shown, perhaps more clearly than any other farmers, the possibilities for adding value to their primary product, particularly by differentiating it according to its TERROIR or, for those growers who also venture into winemaking, via wine marketing investments. Wine producers are increasingly investigating which specific attributes of wine appeal to consumers in order to better target production and marketing efforts domestically and abroad. Some producers and buyers also benefit from INVESTMENT IN WINE. The demand for the best vintages of iconic wines as a way of storing wealth has grown along with affluence, including in newly wealthy countries such as China.

The basic point that excess supply can depress prices was well understood at the time of DOMITIAN's command in the first century AD to pull up half of the Roman Empire's vines planted outside Italy, in the hope of holding back collapsing Italian wine and grape PRICES. For centuries Spanish royalty also sought to restrict vine plantings in their Latin American colonies. More recently, Jean Milhau argued in his 1935 book, *Etude économétrique du prix du vin en France*, that wide variations in producer prices and incomes were due to huge swings in harvest volumes while CONSUMPTION remained insensitive (inelastic) to price. He argued that prices could be stabilized within certain limits by regulating the volumes released from the wineries' stocks and by distilling SURPLUSES. That idea became the cornerstone of France's wine policy in 1935, which also created a separate market organization for quality wines (see INAO). After the Second World War, integration of (initially six) European economies led to a single market and a common wine policy by 1970 (see EU). That policy soon involved compulsory DISTILLATION to support producer prices in an attempt to stem the flow of cheaper wines from Italy into France and appease social unrest in the LANGUEDOC—the so-called 'wine wars' of the 1970s. Its long-lasting effects included driving YIELDS up and quality down.

The study of wine demand initially focused on estimating the responsiveness of consumers to changes in price (relative to other beverages), taxes, and incomes. It then broadened to studying the many other aspects of wine that appeal to buyers such as regional reputations, varieties, brands, styles, closures, production methods, and vintages. Economists, most notably Orley Ashenfelter of Princeton University, have contributed to the reputation of VINTAGES by using econometric analysis to forecast the future value of each vintage's iconic wines, based on RAINFALL and TEMPERATURE data during the growing season. When Ashenfelter forecast in 1991 that the 1989 and 1990 vintages were likely to be outstanding for red bordeaux, many professional wine writers and judges at the time disagreed, but now there is almost unanimous agreement that they were exceptionally good years. More recently, economists have drawn on behavioural studies and neurosciences to explore, for example, the impact of price information on the consumer's perceived quality of wine. Some studies suggest that blind tasters often prefer cheaper wine if they are unaware of its price but, if told it is expensive, their perception of a wine's quality is raised, according to brain scans.

Even though international trade in wine has grown in significance only during the past three decades, economists have cited wine for two centuries in their teaching of international trade theory. This is because wine was used by English economist David Ricardo when in 1817 he introduced the compelling notion of comparative advantage to explain the benefits of free trade between textile-exporting England and wine-exporting Portugal following the METHUEN TREATY.

There is both an American and a European Association of Wine Economists (www.wine-economics.org and www.euawe.org respectively), each of which has an annual conference. The *Journal of Wine Economics* has been published commercially since 2006 (currently four issues per year by Cambridge University Press), and wine economics is recognized by ACADEME at, for example, the University of Bordeaux and the Free University of Bozen-Bolzano in Europe and UC DAVIS, the University of ADELAIDE and Stellenbosch University in the New World.

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Globalization of wine

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Globalization of the world's wine markets continues to accelerate. There was always some wine trade between Mediterranean countries, and a degree of trade expansion in the five decades to World War I, but until the late 20th century intercontinental interactions involved little more than the exporting of CUTTINGS and traditional production expertise. Most wine was consumed in the country of production, and those countries were mostly in Europe. But since the 1980s, with the fall in TRANSPORT and communication costs and the rise of ecommerce, the wine industry has embraced new modes of internationalization. They include a greater export focus by the main producers, mergers and acquisitions of what are becoming multinational wine companies (see below), the not-unrelated growth of supermarket chains operating internationally as wine retailers, and the increase in flying OENOLOGISTS and VITICULTURISTS consulting in multiple countries and covering two vintages each year.

Globalization has brought significant changes in demand. Gradual deregulation of wine retailing in Britain and elsewhere from the 1970s allowed rapidly expanding supermarket chains to compete with traditional sellers of wine and attract new consumers. Those chains responded to new consumers' preferences by sourcing robust, fruity wines that are more approachable and affordable than FINE WINE but better than traditional basic European wine. For national advertising to be profitable for those chains, and for wineries (and in some cases the supermarket chains themselves) seeking to build BRANDS, large quantities of homogenous wine are needed year after year. New World producers were initially more adept at responding to this new demand and one of the consequences was *la* CRISE VITICOLE.

The share of global wine production volume exported, which had previously been well below 15% and mostly Mediterranean or intra-European, grew dramatically from the late 1980s and by 2015 reached 40%. Meanwhile, the New World's share of global wine exports has risen from 3% in the late 1980s to almost one-third (if sparkling wine is excluded). Recognizing their poor performance, Europe's producers began belatedly in the mid-2000s to adapt their practices to compete. The world's three leading wine-exporting countries, Italy, Spain, and France, as a group now export more than two-fifths of their production volume, up from just one-fifth a generation ago. Between 2002 and 2015 the share of wine that is exported from the New World in BULK rose from less than 15% to more than 50%. Bottling in the country of destination can reduce both transport costs and the carbon footprint. It also reflects the growth of supermarkets' own brands, and their demands for prompt delivery of those and other branded wines. The new bulk container shipping technology offers greater opportunities to blend wines from any region of the world, and so may add to the commoditization of the most popular wine category.

The dramatic expansion in international wine trade is part of a general tendency for global trade to grow faster than production, fuelled in part by the lowering of trade restrictions and the freeing up of markets for foreign currency exchange. This greater openness means winemakers and hence grape growers are far more exposed now than pre-1990 to exchange rate volatility, and also to greater import competition in their domestic market as consumers seek an ever-broader range of wine varieties, qualities and styles. Wide fluctuations in exchange rates after the global financial crisis of 2008 substantially altered national shares in key markets, as did China's emergence as a significant player in global wine markets.

Greater openness and international travel also alter tastes and preferences. That has been very clear in the European Union where shares of beer, spirits and wine in national alcohol consumption have gradually converged. But nowhere has the emergence of wine consumption been more striking than in Asia, albeit from a low base. Between 2001 and 2017, Chinese wine imports grew from 30 to 750 million litres. Initially they were low- to medium-quality (often bulk) wines, but more recently they have been above the average price of imports by the rest of the world. Further large increases in wine consumption and probably imports are expected as China's middle class grows, since grape wine per capita consumption there is still barely one litre per year (less than 3% of China's total alcohol consumption).

Mergers and acquisitions accelerated from the mid-1980s when Louis Vuitton bonded with Moët-Hennessy to form LVMH. At about the same time UK-based Grand Metropolitan (now Diageo) invested in California wineries, and Paris-based PERNOD RICARD added Jacob's Creek to its portfolio of brands via Orlando Wyndham in Australia. Global drinks company interests rest mainly with sparkling wines, brandies, and vermouths, however, which have lent themselves much more easily to global branding than weather-dependent still wines. Seagram and Pernod had both entered the mass market before, only to leave it to wine-focused operators such as CONSTELLATION BRANDS and CASTEL; DIAGEO did the same in the mid-1990s. Pernod Ricard signalled a return to the fray by acquiring Montana (renamed BRANCOTT Estate) and other significant wine brands when Allied Domecq broke up in 2005.

A second phase of international consolidation drew Australian producers closer to the American market with the merger of California's Beringer with the Mildara Blass subsidiary of Australian brewers Foster's in 2001, and the acquisition of Hardys of Australia by Constellation in 2003. Foster's subsequently separated its wine business from beer to form Treasury Wine Estates, and Constellation sold their Australian arm, now called Accolade, to a private equity firm in 2011. Companies such as ANTINORI, GALLO, and MONDAVI have also been involved in a changing roster of JOINT VENTURES which have helped to globalize wine. A more recent development is the purchasing of vineyards and wineries, often for distribution reasons, by Chinese firms, particularly in France but also in some New World countries.

The emergence of large international wine companies and brands, built on economies of scale, and the ease with which technology and know-how can now be transferred, have led to significant shifts of wine grape production from western Europe to the globe's cheapest growing regions. But globalization is bound by TERROIR and the need for companies to offer differentiated wines of place—one of the main reasons why the largest wine companies have a much smaller global market share than do the largest beer, spirits and soft drink companies. See also BRANDS.

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