

Global wine markets in 2025: Impacts of new markets and free trade agreements

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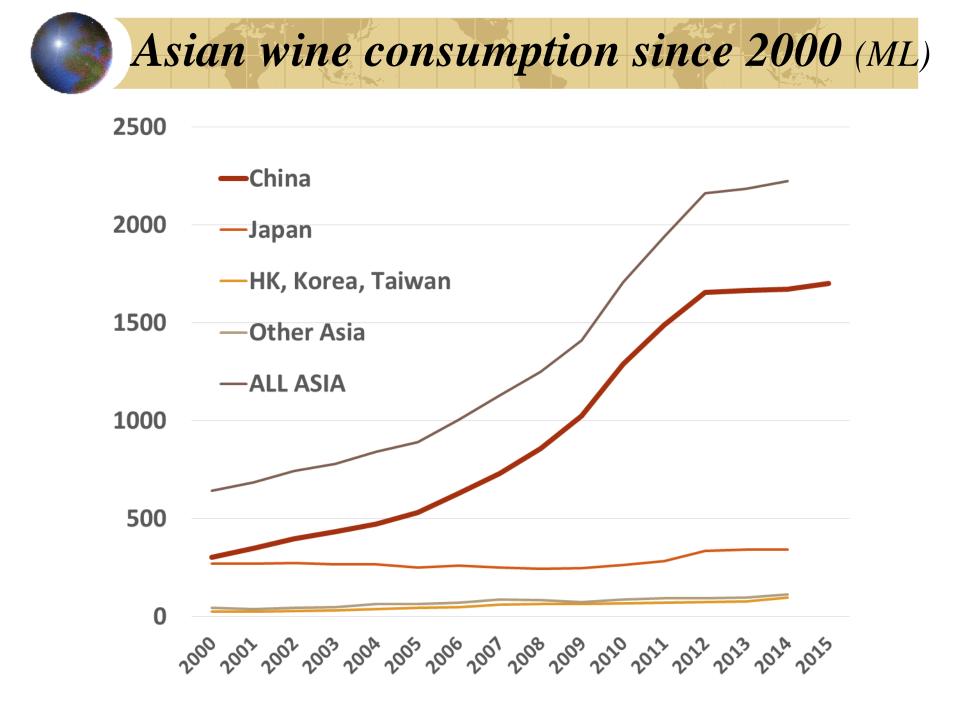
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Motivation

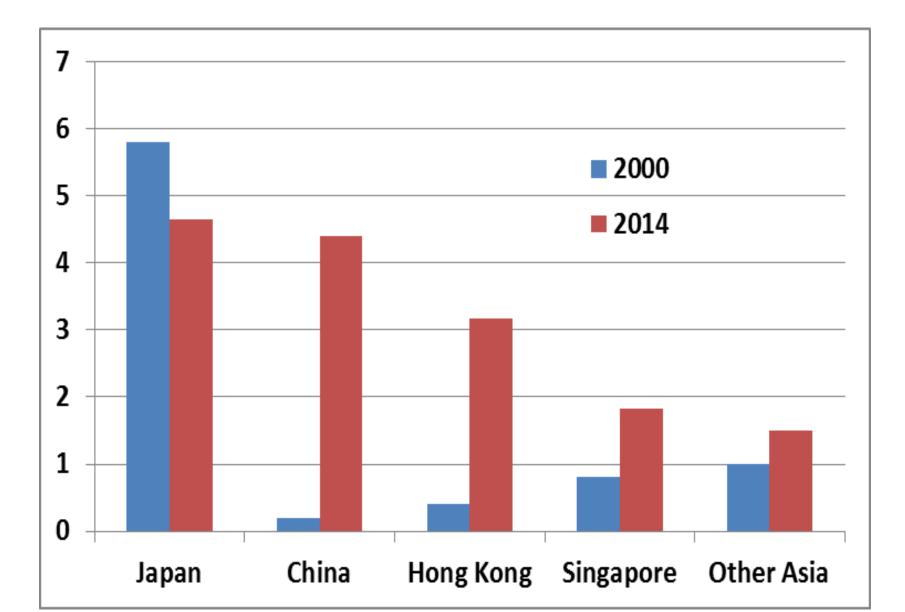
- Wine consumption is declining in traditional markets, and growing rapidly (x4 since 2000) in Asian markets
 Yet wine is still <3% of Asia's alcohol consumption
- Bilateral wine trade patterns are being altered also by various new preferential trade agreements, incl. in Asia
- Non-premium wine consumption is declining everywhere as consumers upscale to popular premium qualities that have become more affordable, and to super-premium too
- Real exchange rates have altered hugely since 2007
- How will these trends alter global markets by 2025?
 A chapter for our forthcoming book on wine glob'n history

Background: Asia's emergence

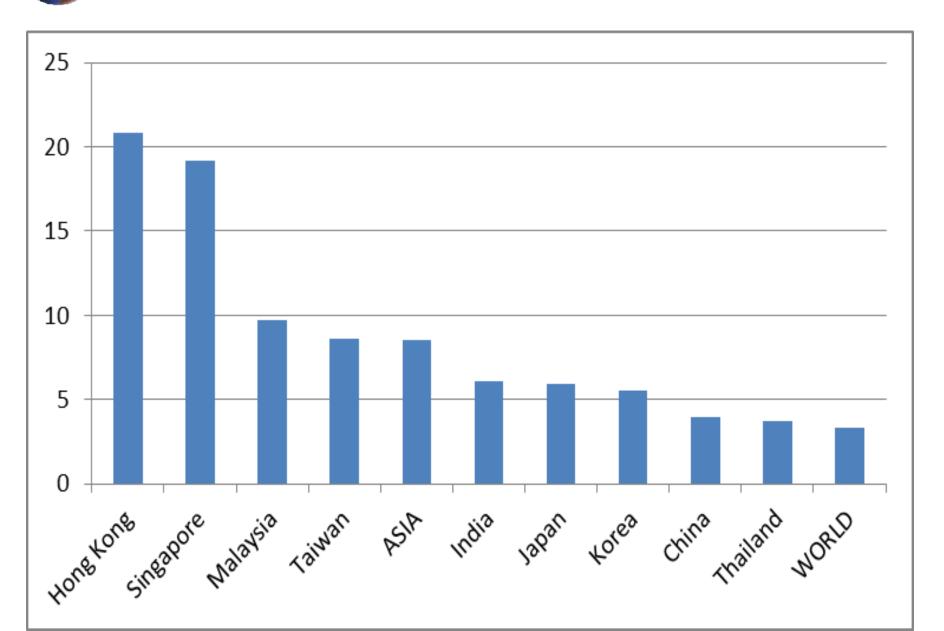
- Apart from China, Asia is almost fully dependent on imports for wine
- China dominates Asian consumption (4/5^{ths})
- Asia now accounts for 16% of value of global wine imports
 - half of which go to China and Hong Kong
- Those imports are highly priced (>2x world average)
- Sub-Saharan Africa has trebled its share of global wine import value since 1999 too (from a v. low base)







Average price of wine imports, 2014 (US\$/litre)





Outline

Model of global wine markets

Baseline projection, 2014 to 2025

Impacts of FTAs on baseline (briefly)

Model of world's wine markets

Expansion & update of Wittwer, Berger & Anderson (*Economic Modelling, 2003*)

44 key countries plus 7 aggregate regions

4 wine types, 2 winegrape types

Revised to include real exchange rates
 Changes in nominal rates adjusted for CPI changes (all relative to US\$)

Model's wine and grape types

Model distinguishes between:

- Non-premium still wine (NP)
- Commercial premium still wine (CP)
- Super premium still wine (SP)
- Sparking wine

Model separates winegrapes into:

- Non-premium (used in NP & CP wines)
- Premium (not used in NP wines)

Model recognises bulk wine trade is a mix of NP and CP wines





Model of global wine markets

Baseline projection, 2014 to 2025

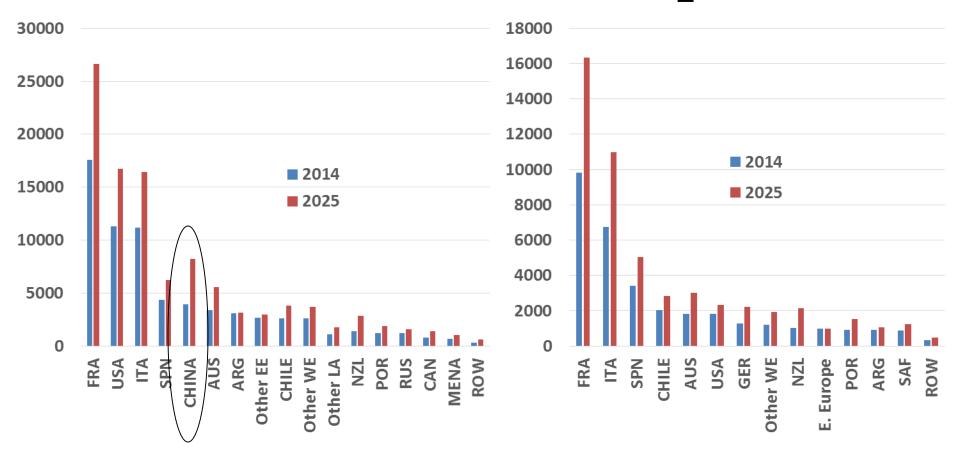
Impacts of FTAs on baseline

Projecting markets to 2025

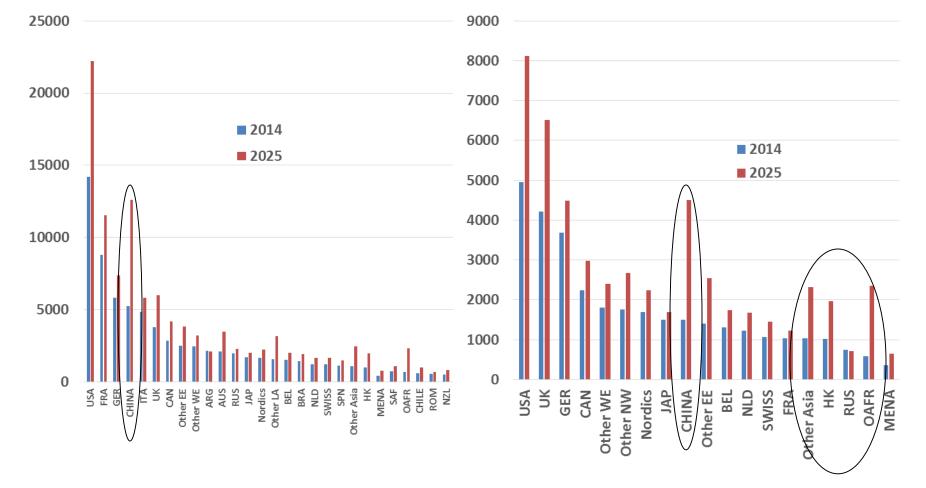
Model's baseline is 2014

- Model is projected from 2014 to 2025, assuming:
 - Wine demand:
 - WB/USDA's income per capita and pop'n growth rates
 - Swing in preferences away from non-premium wines
 - Growth in cons'm in China from 1.2 to 1.8 litres/capita
 - Grape and wine supplies:
 - Capital growth: 20% in China; slight fall elsewhere (rise in fine wine but bigger fall in commercial wine)
 - Productivity growth: 1%pa in all countries
 - Same RERs in 2025 as in 2014 in initial baseline

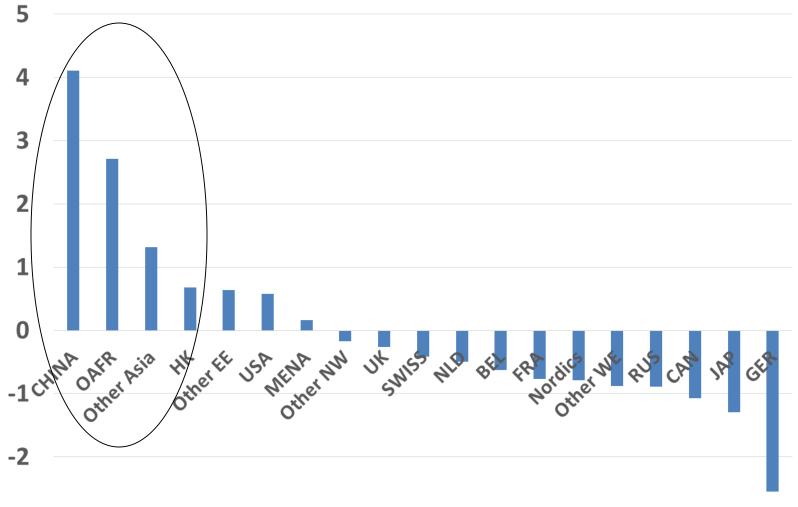
Key producers and exporters,2014 and 2025 (2014US\$ million)ProducersExporters



Key consumers and importers, 2014 and 2025 (2014US\$ million) Consumption Imports



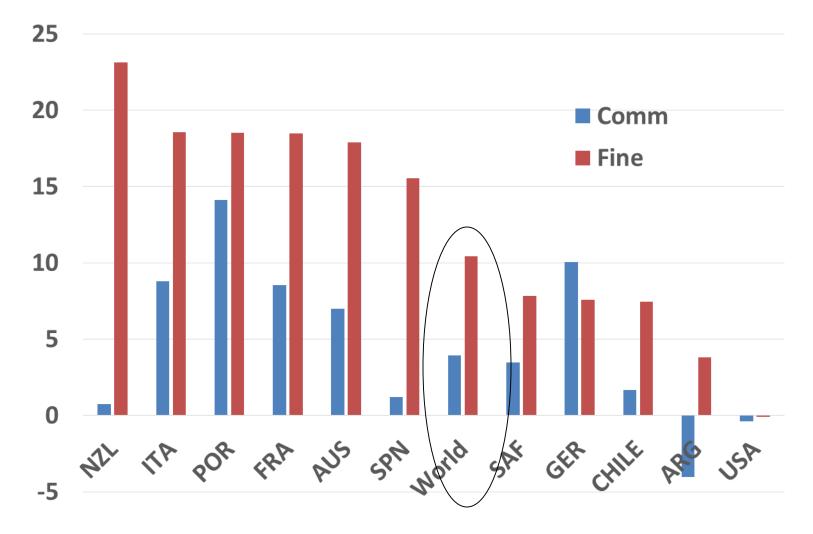
Percentage point change in share of global wine import value, 2014 to 2025



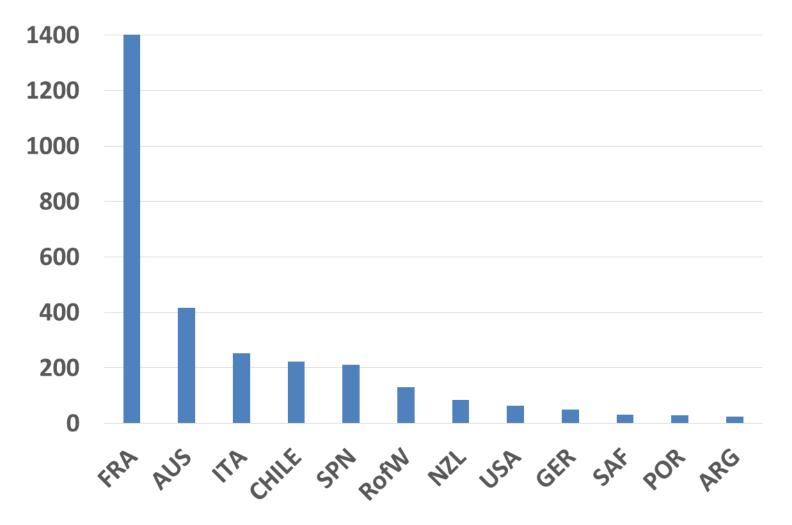
Projected changes in wine consumption, 2025 compared with 2014 (ML) (fine wines are those above US\$7.50/litre wholesale pre-tax) 1000 800 Fine wine Commercial 600 400 200 0 W. Europe New World **USA** China Russia **Rest of** (excl. USA) world -200

Projected growth in wine export volume, 2014 to 2025 (%, baseline)

(fine wines are those above US\$7.50/litre wholesale pre-tax)



Origins of China's increase in wine import value, 2014 to 2025 (2014US\$m)





Outline

Model of global wine markets

Baseline projection, 2014 to 2025

Impacts of FTAs on baseline

Impacts of adding FTAs to Baseline projection: 3+ scenarios

- FTA1: Impact of not including in Baseline Australia's new FTAs with China, Japan and Korea and New Zealand's FTA with Korea
- FTA2: The proposed Trans-Pacific Partnership (12 countries but not China or Korea)
- FTA3+: FTA2 plus EU28's EPA with S. Africa, prospective FTAs with China, ANZ, & Brexit

Impact of FTAs on 2025 Baseline scenario

- Little impact on Asia's wine consumption, but non-trivial impacts on wine-exporting countries:
 - FTA1 shows an export gain to Australia that more than offsets its loss from earlier-signed FTAs by Chile and NZ with NE Asia
 - at the expense of mainly US and European wine exporters
 - FTA2 (TPP) adds very little extra to wine trade because earlier bilateral FTAs freed up most of the Asian trade
 - **FTA3** shows Aust and NZ gaining market share in EU at expense of those currently enjoying preferential access
 - notably Chile and South Africa

Implications

- China's share of world wine consumption is projected to keep growing for some time
- Since China's production is projected to not keep pace with domestic consumption, its net imports and share of global wine import value are projected to continue to rise
- FTAs will raise total wine trade only slightly, but will alter bilateral trades more
 - Helping newly-preferred suppliers sometimes at the expense of earlier-preferred countries

Thanks!

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- Historical data updated from our compendium of global wine statistics, downloadable as a free e-book at www.adelaide.edu.au/press/titles/global-wine
- Data also freely available in Excel (and to be updated in late 2016) at www.adelaide.edu.au/wine-econ/databases/GWM/
- Modeling results are revised and updated from Anderson, K. and G. Wittwer, "Modeling Global Wine Markets to 2018: Exchange Rates, Taste Changes, and China's Import Growth", *Journal of Wine Economics* 8(2): 131-58, 2013; and "Asia's Evolving Role in Global Wine Markets", *China Economic Review* 35: 1-14, 2015