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Prospective Trends in Wine Export Markets – Expert Views from Spain

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Abstract

As in other European producing countries, the wine industry in Spain faces growing competition from New World producers. International competitiveness of Spanish and European wines has been affected by increasing supply, declining public support, saturated domestic demand and increasingly quality-driven markets. Resolving the derived wine competitiveness crisis would require production rationalisation and adaptation to changing commercial and demand requirements, through new productive processes and strategies for further opening of foreign markets. The purpose of this paper is to explore main current and future trends affecting the global wine market and their consequences from the Spanish perspective. After identifying the world wine market's main characteristics and conditioning regulatory factors, a prospective analysis of international trade and its impact on export strategies of Spanish operators is carried out, through a two-phase surveying process accomplished with a representative expert group from different backgrounds. Broadly, the results obtained indicate that the main tendencies experienced over the last decade will be maintained and/or intensified during the coming years, while emphasising the role of new consuming countries, demand-driven attributes, product differentiation and promotional marketing as most determining factors for future evolution of wine trade and competitiveness.

Keywords: Wine markets, export prospects, Spain

JEL: F14, Q13

1. Introduction

The wine industry is important to the Spanish agricultural economy, both in terms of production and rural development. Wine average contribution to total agricultural output value is around 3%, while its importance increases considerably in many regions where it is almost a monoculture. Over the last few years, different facts have been affecting international competitiveness of the Spanish wines, requiring the adoption of new actions within an integrated approach entailing technological and economic aspects.

The wine sector is evolving in an increasingly competitive international scenario characterised by the irruption of new producing countries with innovative strategies in production and trade (Campbell and Guibert, 2006). International positioning of new producers is also favoured by high business concentration: the five top companies control 73% of wine production in the United States, 68% in Australia and 47% in Chile, against respective figures of 13% in France, 10% in Spain and 5% in Italy (Anderson et al., 2001). Meanwhile, the prevailing industrial organisation model in Europe is sustained on product differentiation based on the territory through the recognition of Designations of Origin (DO) and Geographical Indications (GI).

Another explanatory factor of increasing competition on the world wine markets is the evolution of demand. In aggregate terms, the tendency towards reduction in world consumption experienced during the decades of 1980s and 1990s has been reverted in 2000 (since then, global wine demand has increased by 9%, according to OIV (2008). However, in the major producing and consuming countries the net tendency has been to decrease: between

1989 and 2004, total wine per capita consumption has fallen from 72 to 55 litres in France, from 62 to 49 litres in Italy and from 54 to 34 litres in Spain. This decrease has concerned almost exclusively table wines, whereas higher quality wines have seen their market share increasing progressively. In the European Union (EU), the proportion of quality wine consumption within total wine consumption has increased from 30% in 1986 to 46% in 2006 (European Commission, 2008).

Production and commercial strategies are also affected by national and supranational public regulations. In the EU, wine production has been traditionally conditioned by Common Agricultural Policy (CAP) which bases the control of vineyard production potential on the prohibition of new plantations and yield limitation in the DO areas. The Agenda 2000 represented a turning-point in the Community wine policy when it has been transformed from a price to quality-support policy (Salvatici, 2003). The new Common Market Organisation (CMO) for wine approved in April 2008 and coming in force in August of the same year, is also inspired by this objective of improving quality and competitiveness.

In Spain, whereas the vineyard area has experienced in the 1980s a notable reduction largely prompted by Community policy incentives to grubbing-up, over the 1990s significant improvement of the productive potential has happened through rejuvenation of old plantations and changes in production methods, with a tendency towards an increase of the irrigated surface which presently represents 25.2 % of total vineyard surface. This has contributed to a substantial increase of production, causing imbalances between supply and demand as uses have not increased in the same proportion. In particular, domestic consumption has been declining and exports have experienced only slight increases. Moreover, it is worth mentioning that at the normative level, the Spanish government has approved in 2003 a new

Law of wine whose main objective has been to modernise and to adapt the wine quality regulation to new market conditions.

Lastly, determined aspects of multilateral trade negotiations also affect crucially the wine sector. Considering the importance of the DO system in the quality policy of European wines, its international recognition has been considered critical for the UE in order to protect the denominations in third markets (Pomarici, 1999). The agreement reached on the Trade Related Intellectual Property (TRIPS) within the World Trade Organization (WTO) has improved the situation. Nevertheless, numerous problems still persist, such as the completion of a register of geographical indications foreseen in the GATT/WTO Marrakech Agreement and its consideration as a high-priority instrument by all countries, and the use of generic and semi-generic denominations by some third countries.

Within this sectoral context, the rationalisation and adaptation of production to commercial and demand requirements through new productive processes and strategies along with greater opening of foreign markets, appears to contribute to an adequate solution for the competitiveness crisis of Spanish and European wine production. Based on this premise, the purpose of this paper is to explore main current and future trends affecting the global wine market and their consequences from the Spanish perspective. After identifying the world wine market's main evolving features and conditioning regulatory factors, a prospective analysis of international trade and its impact on export strategies of Spanish operators is carried out. The remainder of the paper is organised into three sections. The methodology applied is developed in section two. The results obtained are summarised in section three, and the main conclusions are discussed in section four.

2. Methodology

This research uses expert judgements as a basis for information gathering. In this methodology it has been critical to ensure that selected experts are truly representative of different professional backgrounds, reflecting a broad spectrum of views and interests. The process consisted in a two-phase surveying approach. In the first phase, an exploratory survey through a questionnaire with open-ended questions has been accomplished with a relatively small sample of six experts carefully chosen. Its purpose has been to emphasise chief global wine market drivers and to identify the main factors potentially affecting the Spanish wine export perspectives. Through an iterative, Delphi-style process of views exchange with participants, a consensus has been reached regarding these drivers and factors.

In the second phase, based on these findings, a structured questionnaire has been constructed and addressed to a larger, more representative expert group. The questionnaire is structured into four clusters of questions related to word wine market features and export perspectives for Spanish wines, according to the analytical model presented in Figure 1. Each cluster includes variables whose influence on export perspectives has to be established.

In the first cluster, the objective has been to characterize the evolution of worldwide wine supply and demand, as well as fundamental market trends. It was a matter to determine not only the markets with highest potential for increase but also the price segments where these potential increases are located. The variables included in the second cluster intent to gather normative aspects related to multilateral and bilateral trade negotiations, as well as to recent CMO for wine reform and the new Spanish national regulation framework affecting wine trade. Considering the special relevance of foreign import demand, the third cluster aims at

establishing consumer features, type of consumption and most valued attributes associated to wine in foreign markets. Finally, in the fourth cluster the purpose has been to define business strategies of the Spanish export sector, as well as its strengths and weaknesses with respect to international markets.

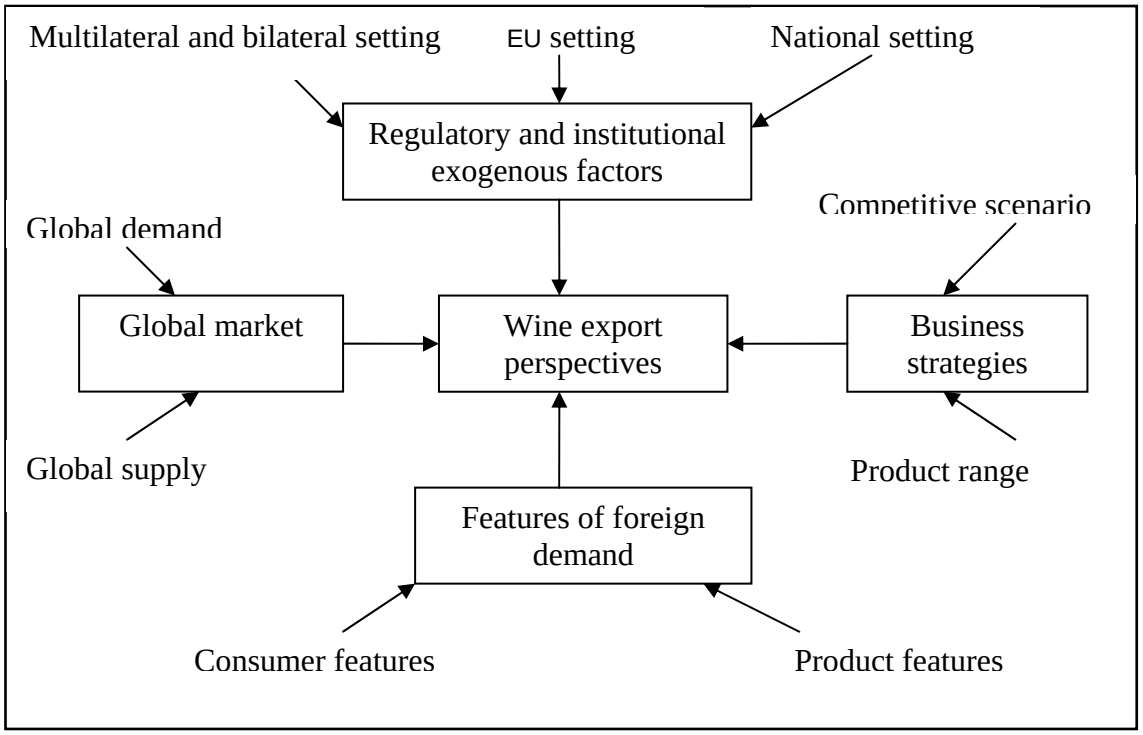

Figure 1. Analytical framework

In the questions posed in the questionnaire, different items are rated using a five-point Likert-type scale. In the definition of scales it has been procured that these contribute to turn subjective opinions into objective valuations, and that the categories composing scales are easy to understand and to discriminate between each other.

The questionnaire has been sent to a group totalling 66 experts in the wine sector. Forty-three (n = 43) responded which represents a response rate of 65.2%. In the selection of experts

contributed actively the participants in the first phase. Criteria like representativeness and degree of knowledge of the wine sector and international markets have been considered. Hence, the expert group has included export managers of wineries and cooperatives, importers, representatives of the export associations and public administration, experts from consulting firms and academia and independent experts (Table 1).

Table 1. Summary of survey responses

	Questionnaires sent	**Questionnaires received**	**Response Rate (%)**
Large wine companies, wineries	25	18	72.0
Cooperatives	15	5	33.3
Importers	4	3	75.0
Producer and exporter associations, DO regulating councils	9	6	66.6
Responsibles for international promotion	6	6	100.0
Independent and academia experts	7	5	71.4
Total	**66**	**43**	**65.2**

The quality of responses obtained has been evaluated taking into account a series of criteria widely accepted by the specialised literature, as internal coherence which has been ensured through inter-textual analysis (Bonnemaizon et al., 2007), and an acceptable degree of response dispersion. Under these parameters, the results can be considered quite satisfactory, since the individually examined answers offer substantial internal consistency, and the levels of dispersion expressed by standard deviation values are relatively reduced. The statistical treatment of data has been performed by the package SPSS v.15.

3. Results

The results obtained allow for emphasizing a series of fundamental trends that very likely will mark the future evolution of the global and Spanish wine production and trade. Below a synthesis of the main consensual points arisen from the integration of different individual contributions.

3.1. Evolving perspectives of worldwide wine supply and demand

It is expected that the internationalisation of the wine market tends to intensify in the foreseeable future. According to the experts surveyed, this will result from the increase in worldwide consumption derived from the incorporation of new consuming countries, and favoured both by the increase of income levels in importing countries and the globalisation of wine consumption patterns. This process also will be enhanced significantly by the growing interest of the multi-beverage multinational companies in the wine market (favoured in turn by the increase of demand), as well as by the likely reduction of tariff-barriers in the framework of future international trade agreements.

Global production also will grow during the next years. The magnitude of increase of both production and consumption will be greater outside than within Europe. In parallel, both export volumes of new producing countries and imports of traditional producing countries (mainly Europe) will increase. In the latter group of countries, the gap between production and domestic consumption will grow perceptively.

Table 2. Potential increases in wine consumption by geographical areas and price segments

Potential increase by geographical areas	Potential Growth score (scale 1-5)	Standard Deviation
Traditional producing countries		
France	1.52	0.74
Italy	1.49	0.60
Spain	1.45	0.59
New producing countries		
United States	3.83	0.73
Others	2.87	0.99
Australia	2.69	0.87
European importing countries		
Eastern Europe	3.52	0.92
Scandinavian countries	3.07	0.91
United Kingdom	2.93	1.07
Switzerland	2.59	0.92
Germany	2.52	0.92
Non-European importing countries		
China	3.83	0.76
Southeast Asia	3.36	0.91
India	3.16	1.00
Japan	3.14	1.07
Latin America	2.60	0.96
Potential increase by price segment	Potential Growth score (scale 1-5)	Standard Deviation
Popular premium (3 - 7 euros / bottle)	3.23	0.72
Super premium (7 - 14 euros / bottle)	3.16	0.87
Ultra premium (>14 euros / bottle)	3.02	1.01
Basic (< 3 euros /bottle)	2.70	1.35

On the other side, consumption levels in the biggest three world producers (France, Italy and Spain) will practically remain stable over the next years (Table 2). Meanwhile, geographic areas where increases in demand are expected will expand and be more diversified. The greatest increases will occur in the United States - which remains the most attractive market, as well as in China, Eastern Europe, Southeast Asia, India, Japan and Scandinavian countries.

By typology, these increases will be concentrated primarily in the price segments "popular premium", "super premium", "ultra premium" and “basic”, by this order.

In emergent markets, the expansion of wine culture will provoke an increase in demand of differentiated wines, wines presented in different packaging sizes and formats, and commercialised on the shelves of large distribution chains. In these markets, the biggest consumption increases will mostly rely on the demand of young population and the away-from-home consumption outlets.

In addition, wine increasingly will be considered in foreign markets as a quality product whose moderate consumption could be beneficial for health, though at the same time sensitivity to anti-alcoholic campaigns could increase. On these markets, wines differentiation will be based mainly on the attributes of price, brand name and country of origin. The variety features, package and DO, still being important, are less relevant as differentiating drivers.

3.2. Regulatory and institutional factors

It is expected that the ongoing multilateral, regional and bilateral trade negotiations will reinforce the tendency towards further trade liberalisation, in particular significant tariff reduction and export subsidies removal (Table 3). It is also expected to reach a tougher discipline regarding administrative and fiscal barriers to trade, as well as regarding oenological practices. Similarly, it is foreseeable to enhance recognition and international protection of geographical denominations and traditional mentions in future bilateral agreements, being less probable (though possible) the elimination of the use of semi-generics, and the implementation of the Multilateral Register of Geographic Indications in the TRIPS

Agreement. Compared with bilateral agreements, experts show little confidence towards the efficacy of multilateral institutions regarding international protection of DO. This perception could be related with technical and political complexity to reach a multilateral agreement regarding the products to be included in a world wine DO Register.

With respect to CMO for wine, new provisions will have significant impact on production and international positioning of Spanish wines. Resolving the competitiveness crisis of Spanish vineyard will depend largely on the way these provisions will be applied. It is argued that Spanish support programs to the sector should prioritise promotional measures in third countries, even before the necessary impulse to restructuring and re-conversion plans and to farm income. Furthermore, external competitiveness of Spanish wines will be reinforced by the authorisation to using the variety and the year of harvest on the labels of wines without GI (a practice reserved only for wines with DO until the recent CMO reform), the harmonisation of other European policies as fiscal and consumption policies, and the simplification of labelling rules.

Conversely, less clear will be the impact of the prohibition of new plantations until 2013. At the production level, it is foreseen that the situation will improve as a result of the adjustment of the oenological practices to the ones approved by the OIV, and the reduction of over-supply through vineyard grubbing-up, the prohibition to use sugar in must enrichment and the end of aids to musts used for this purpose.

Table 3. Regulatory and institutional factors

Effects of world trade liberalization	Importance score (scale 1-5)	Standard Deviation
Likely tariff reduction	3.65	1.13
Likely removal of export subsidies	3.12	1.14
Greater discipline in fiscal barriers	3.45	1.09
Recognition and international protection of DO and traditional mentions in bilateral agreements	3.21	1.17
Greater discipline in oenological practices	3.21	0.99
Greater discipline in administrative barriers	3.19	1.02
Elimination of use of semi-generic denominations	3.05	1.05
Implementation of Multilateral Register	2.79	0.98
CMO reform and international competitiveness of Spanish wines	Agreement score (scale 1-5)	Standard Deviation
Spanish programs should include international promotion	4.67	0.61
Using variety and year of harvest in labels of wines without GI will facilitate exportation in inferior price segments	4.05	1.15
Harmonization of other European policies (fiscal, consumption) would have important effects on exports	4.00	0.83
Spanish programs should include support to vineyard restructuring and re-conversion	3.88	1.10
Simplification of rules of labelling will improve competitive situation of traditional wine producing countries	3.86	1.25
Removal of aids to alcohol will increase over-supply in Europe	3.83	0.97
Adjustment of oenological practices to the approved by OIV will improve competitive situation of European production	3.51	1.01
Plans of vineyard grubbing-up will allow to reduce production and over-supply in segments of reduced prices	3.36	1.12
Prohibition to using sugar to enrich musts and elimination of aids to musts used for this purpose will contribute to reduce over-supply	3.29	1.33
Spanish programs should include support to farm income	3.09	1.29
Prohibition of new plantations until 2013 will improve competitive situation of Spanish and European quality wines	2.90	1.21
Implications of changes in the national institutional setting	Agreement score (scale 1-5)	Standard Deviation
Greater flexibility in bottling norms will foster exports	4.09	1.13
Liberalisation of use of common brands in quality wines will contribute to development of strong and competitive companies	3.95	1.11
Segmentation of supply envisaged in the Spanish ‘Law of wine’ will improve Spanish international competitiveness	3.47	1.37
Approval of the indication "Vineyards of Spain" is an important step to increase its international presence	3.23	1.43

At the national level, institutional changes will in general contribute to reinforce Spanish international competitiveness. In particular, Spanish exports will be favoured by greater flexibility in bottling norms, as well as by supply segmentation by means the creation of *vinos de la tierra* (land wines) with GI, quality wines with GI, *vinos de pago* (equivalent to French *crus*), and the indication of *vinos de la tierra* "Vineyards of Spain". Furthermore, the freedom in using common brands for quality wines will contribute to foster the competitiveness of many wine companies.

3.3. Business strategies

Contrary to growth and market diversification strategies followed by new world firms, experts argued that companies from traditional producing countries should increase substantially their investment and international presence through agreements and strategic alliances with foreign wine companies. In this process, big companies will decide respect to different differentiation strategies according to price segment (Table 4). Most relevant strategies would be the brand name, country of origin and DO (by this order) in the "ultra premium" and "super premium" segments. In the "popular premium" segment the most effective factors of differentiation are, correlatively, the brand name, country of origin and variety.

Results also reveal the increased importance of country of origin as a differentiating attribute compared with variety and DO. This is a movement detected in all countries though more intensely in new producing countries. Similarly, more relevance is given to business-driven strategies such as pricing, design and branding.

Table 4. Differentiation strategies by price segment

Strategy	Agreement score (scale 1-5)	Standard Deviation
Brand in ultra premium	4.72	0.67
Brand in super premium	4.27	0.59
Country of origin in ultra premium	3.98	0.96
Country of origin in super premium	3.93	0.82
DO in ultra premium	3.76	0.85
DO in super premium	3.73	0.78
Brand in popular premium	3.61	1.05
Country of origin in popular premium	3.54	1.12
Variety in popular premium	3.53	1.20
Variety in super premium	3.35	1.00
Variety in ultra premium	3.10	1.09
DO in popular premium	3.10	1.03

On the other side, the main strengths of the Spanish wine exporting sector derive from great diversity and adequate value for money levels of Spanish wines, along with the existence of companies with long exporting tradition. Conversely, their main weaknesses stem from excessive regulation of the sector, an inadequate vertical integration of the production-transformation-distribution channel, and the relatively reduced size of most companies which limit their international capacities (Table 5). In this context, institutional support to exportation, better focused, further reinforcing the country image, improving the availability of useful information on potential markets and involving more dynamic companies in exporting tasks, will all be crucially important.

Table 5. Strengths and limitations of the Spanish wine export industry

Strengths	Agreement score (scale 1-5)	Standard Deviation
Quality - price relationship adapted to mostly growing international segments	4.16	0.69
High capacity of adaptation of the Spanish production to changing external demand	3.93	1.06
Good country image in America	3.76	0.98
Good country image in Europe	3.45	0.94
Existence of companies having long exporting tradition	3.33	1.11
Good country image in Asia	3.07	1.05
Strong institutional support to exportation	2.91	1.17
Limitations	Agreement score (scale 1-5)	Standard Deviation
Excessive regulation	4.26	0.85
Inefficient connection with international distribution channels in many cases	4.21	0.77
Small size of companies	4.14	0.99
Deficiencies in international capacities compared to main competing countries	3.98	1.08
Excessive importance of cooperatives	3.93	0.74
Deficient grower - winery relationships in many cases	3.83	0.85
Deficiencies in technical innovation compared to main competing countries	3.21	1.28

4. Conclusion and discussion

The perspectives established in this study regarding likely future evolution of world and Spanish wine markets broadly point to the maintenance and/or the intensification of the main tendencies experienced over the last decade: increased productions in new world countries, productions superior to domestic consumption in traditional producing countries, growing levels of increasingly quality-oriented global consumption, and rising competition in international markets.

Specifically, the results obtained emphasise the role of demand-driven factors as further determining of future situation of world markets and trade evolution. Market dynamism will mostly take place outside Europe. Along with the maintenance of the attractiveness of traditional importing markets like the US market, the most significant feature for the coming years will be the incorporation on the scene of new consuming countries owing to increase in disposable incomes, globalisation of consumption patterns and the expansion of the "wine culture". In these countries, consumers will mostly demand quality differentiated wines, average prices, and innovations in design, formats and packaging.

From the regulatory viewpoint, despite the importance of the UE support to international protection of European DO and the attention paid to the use of semi-generic denominations in third countries, the issues included in multilateral and bilateral trade negotiations have not been perceived so significant in relation to their likely impacts on wine trade. Conversely, more importance is granted to the effects of CMO reform and to the national regulatory framework. Against conventional objectives of the agricultural policy like farm income support, the results obtained particularly highlight the importance of measures related to production modernisation and marketing factors including packaging and labelling rules, as fundamental instruments for prospective supply chain competitiveness.

Meanwhile, the importance given to promotional activities in third countries reveals several significant aspects. First, little importance, in relative terms, is attributed to the DO as a differentiating factor when undertaking promotional actions in foreign markets. Oddly, despite constituting the base for European production model and quality policy, DO are not perceived as the most effective differentiation strategy in any price segment, nor are

considered a solid factor on which could export institutional support be based. Second, quite significant importance is given to country image as an asset in international promotion campaigns; an image that seems to be associated more to a way of life and a culture than to a corporative image.

Furthermore, brand name appears as the attribute most highly valued by foreign consumers in all price segments. Consistent with this valuation is the importance given to the liberalisation of using common brands in different quality-wine producing regions. This is considered a relevant instrument both for developing strong brands that can compete effectively in international markets, and for overcoming the limitation derived from the atomisation and small-size of most Spanish wine enterprises.

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