

WINE IMPORTS INTO THE U.S. WINE MARKET

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The world wine economy has undergone changes in its supply and demand structures during the last two decades. While the U.S. is not a major producer of wine, it does represent a major market outlet for wine exports from such countries as Italy, Spain, and France which accounted for almost one-half of the world's wine production in 1987. The U.S. wine market has not only been a major importer of European wines it has also been a lucrative market. However, in recent years there have been dramatic shifts not only in the world wine economy but also in the U.S. wine market and general economic conditions. The major objective of this paper is to briefly review the major trends in the world wine economy and then to focus on the changes that have occurred in the U.S. with respect to wine.

World wine economy

The area planted to grapes in the world has declined since the late 1970's (Figure 1). For the year reported in Figure 1, the area planted to grapes peaked at 10.3 million hectares in 1975 and declined to 9.2 million hectares in 1987, or 11 percent. The leading countries in areas planted to grapes are Spain, Soviet Union, Italy, France, and Turkey. These five countries account for 61 percent of the total area planted to grapes in the world.

Grape production over the same time period has paralleled that of the area planted except for: 1) the lagged supply or production response because of nonbearing years during the establishment phase of a vineyard; and 2) the variations in production caused by weather, diseases, and pests. For the years reported above for area planted, world grape productions peaked in 1980 at 65 million metric tons and then declined to 63.4 million metric tons in 1987 or 2.3 percent (Figure 2). This production includes grapes for all purposes (wine, raisin, and fresh use). The leading countries in terms of grape productions for all purposes are Italy, France, Soviet Union, Spain, and Argentina. The difference in the rankings between area planted and grape production results from the differing types of grapes produced for different uses.

From the early 1970's through 1986 the lev-

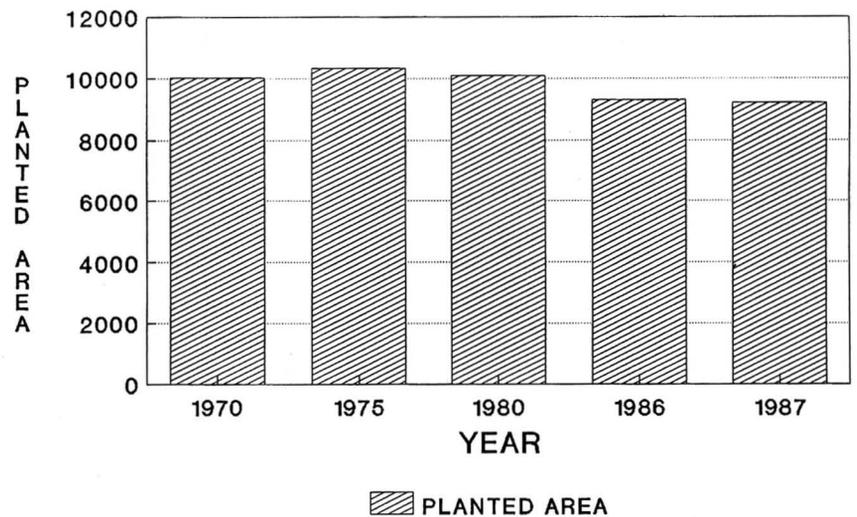
Abstract

The situation as regards vine-growing areas in the USA is studied within the framework of the changes taking place in the various producer countries. An analysis of the USA wine market describes the consumption patterns for different periods in connection with the appearance of new products derived from wine or based on wine coolers. The greatly increasing capacity to produce wine internally in recent years is being studied in connection with a negative trend in consumption. Import trends in particular are analyzed and highlight the decline of imports from Italy and the fundamental stability of French imports. Overproduction, which affects the traditional wine-producing countries also seems to be threatening the USA thus creating an increasingly difficult market for European exports.

Résumé

On organise le développement des superficies des vignobles aux USA dans le cadre des modifications actuelles dans les divers Pays producteurs. En analysant le marché du vin aux USA, on montre quelle est l'évolution des consommations à des moments différents en relation avec l'apparition de nouveaux produits qui dérivent du vin ou qui sont à base de vin (wine cooler). La capacité de produire du vin à l'intérieur du pays, qui progresse du reste de plus en plus, est étudiée ces dernières années en rapport avec les consommations qui n'augmentent pas positivement. En particulier le cours des importations est analysé pour mettre en évidence la chute des importations de l'Italie, et la stabilité substantielle de celles de la France. L'importante surproduction qui afflige les nations traditionnelles semble menacer aussi les Etats-Unis et déterminer ainsi un marché toujours plus difficile pour les exportations européennes.

Figure 1: Area planted to grapes in the world, selected years



1,000 HECTARES

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el of world wine production increased from 313.1 million hectoliters to 334.4 million hectoliters in 1986 (Figure 3). There was a 3 percent drop in world wine production between 1986 and 1987. Overall, while the area planted to grapes has decreased dramatically, the level of grape and wine production has not decreased as dramatically. It could be suggested that the long-term trend in world wine production is either steady or increasing slightly. Italy, France, and Spain accounted for 54 percent of all wine production in the world during the 1980's (Figure 4).

World wine consumption decreased 13.2 percent between 1980 and 1987. The estimated total wine consumption in the world was 293.1 million hectoliters in 1980 and decreased to 254.5 million hectoliters in 1987. The countries which experienced the largest decreases were the U.S.S.R. (-57.7%), Italy (-14.5%), France (-14.5%), and Spain (-13.3%) (Figure 5). These are the same countries which are also the top four producers of wine in the world. Thus, while the planted area to

grapes has decreased and the level of wine production has been fairly stable, the demand (consumption) for wine has decreased dramatically. Thus, Europe now has its «wine lakes» (Voss). With such a surplus of wine, the major producers are attempting to understand and develop further their export markets in countries such as the U.S. With their own domestic consumption levels decreasing the major wine producers and exporters must turn to foreign markets to lessen their wine surpluses.

U.S. wine market

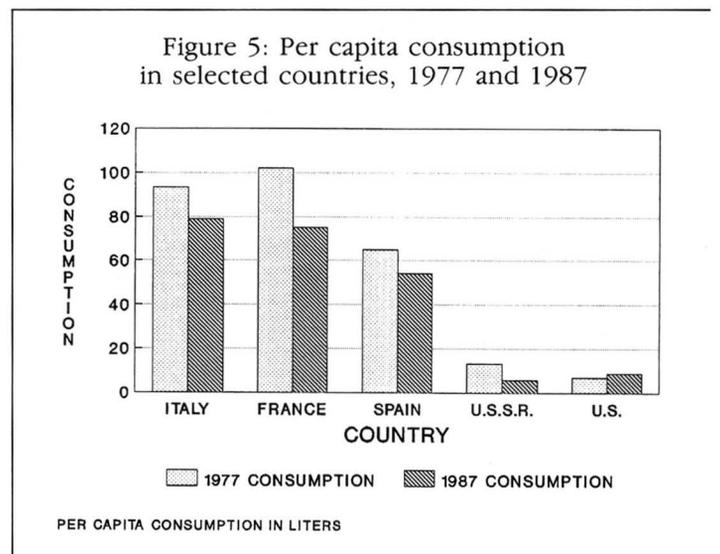
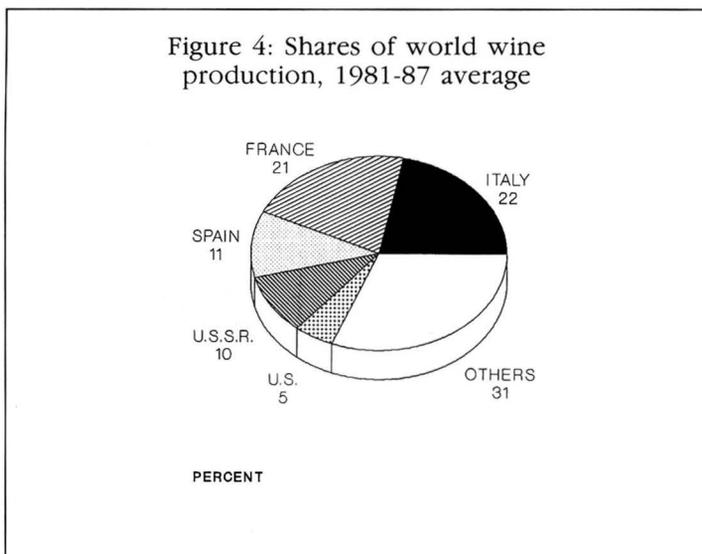
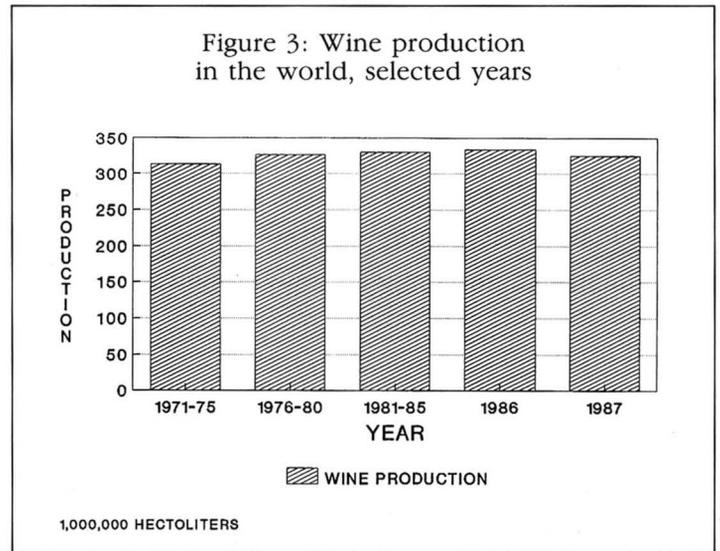
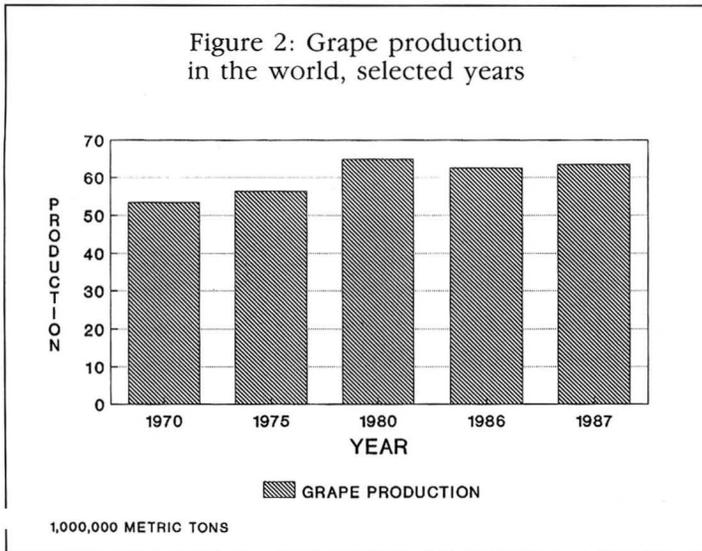
The U.S. wine market receives attention from the major producers and exporters of wine because of its overall size, market potential, and lucrative nature. Further, the U.S. wine market was expanding at a fairly rapid rate on a relative basis when major wine producing countries began to have surpluses. The following subsections of this paper will review the U.S. wine market in terms of its consumption, imports and ex-

ports, production capacity, and the economic and noneconomic factors which have impacted each of the supply and demand components.

U.S. wine consumption

The per capita consumption of wine in the U.S. rose from 3.71 liters in 1966 to a peak of 9.20 liters in 1984 and 1985. Since that time period the per capita consumption has declined to 8.52 liters in 1988.

The 1967-1972 time period in the U.S. was termed the «wine boom» years (Figure 6). Annual growth rates were double digit during some of the years. The period was one during which the U.S. wine industry learned about product development. Cold duck and other types of pop wine were introduced. All aspects of the U.S. wine market were booming including the consumption of foreign or imported wine. From 1967 through 1973, U.S. wine imports increased 1.4 million hectoliters. This was an average annual increase of 19.1 percent. However, in 1974 and 1975 U.S. wine imports decreased



as was true again in 1979. In all other years imports increased until 1985. In 1978, foreign wine accounted for 21.6 percent of the wine consumption in the U.S. By 1988, the market share held by imported wines was only 14.7 percent but had reached an all time high of 25.7 percent in 1984. Since that time the wine imports into the U.S. have decreased.

The recent decreases in wine imports into the U.S. were caused by economic factors (competition and exchange rates) as well as noneconomic factors such as the various wine scandals involving diethylene glycol and methyl alcohol. Consumers in the U.S. are concerned more about product safety and their health than ever before in history. The wine scandals have had a significant and longterm negative impact for some foreign wines. The economic factors such as exchange rates will be discussed later in this paper.

The U.S. consumption of all wine decreased in 1987 and 1988. The downward trend has continued through 1989. The decrease arises from two major sources. First, wine

coolers (another new wine product) entered the declining phase of its product life cycle. In the U.S., as many as seven new food products are introduced each day. Over 90 percent of these new products eventually fail and are withdrawn from the market. The life product cycle of such products is short lived. Cold duck, introduced during the wine boom years, is now a dead duck, and the wine coolers have been decreasing in importance. Second, impacting the demand for wine in the U.S. has been an increasing awareness of alcohol consumption. Various groups such as Mothers Against Drunk Drivers and Students Against Drunk Driving (MAD and SADD) have had an impact. General warnings from the medical profession have also had negative impacts. Starting this year all wine sold in the U.S. must carry a warning label about health concerns. Wine consumption during the last two years has declined in the U.S. and it appears to have decreased in 1989 as a result of these various forces.

However, wine was not alone. The consumption of all alcoholic beverages has

decreased while that for nonalcoholic beverages has steadily increased (Figures 7 and 8). For wine, per capita consumption in 1988 was only 96 percent of that in 1984 and for distilled spirits only 85.7 percent. In the case of beer, the per capita consumption fell 1 percent. In the cases of nonalcoholic beverages, coffee and tea per capita consumption remained constant, fluid milk decreased slightly, while soft drinks increased dramatically (Figure 9). The outlook is for these trends to continue in the near future. While there might be some improvement in the demand for all wine in the U.S., it will not be as dramatic as that experienced previously in the U.S.

Production capacity in the U.S.

In 1988, the amount of standard wine removed from fermenters in the U.S. was 17.9 million hectoliters. Of that total, 90.5 percent was in California. This is an increase of 10.5 percent over the 16.2 million hectoliters removed in 1978. This amounts to about a one percent increase on an annual

Figure 6: Consumption of wine in the U.S. by origin, 1966-88

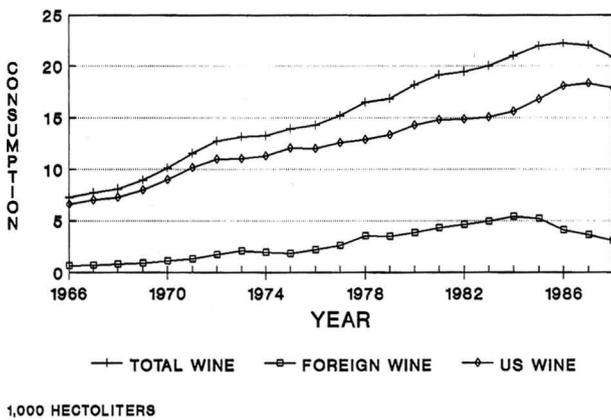


Figure 7: Per capita consumption of beverages in the U.S., 1984-88

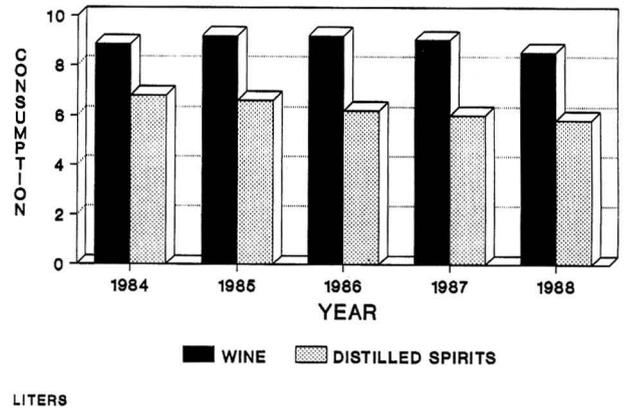


Figure 8: Per capita consumption of beverages in the U.S., 1984-88

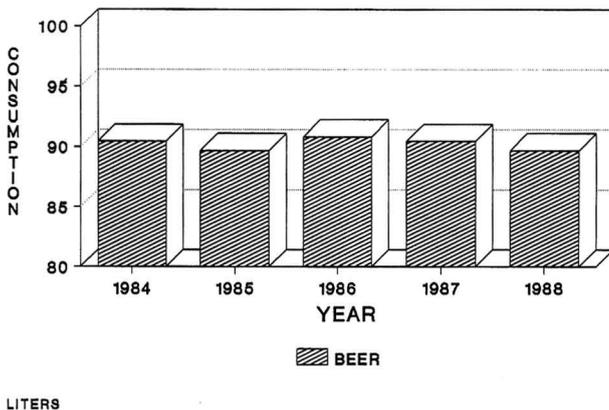
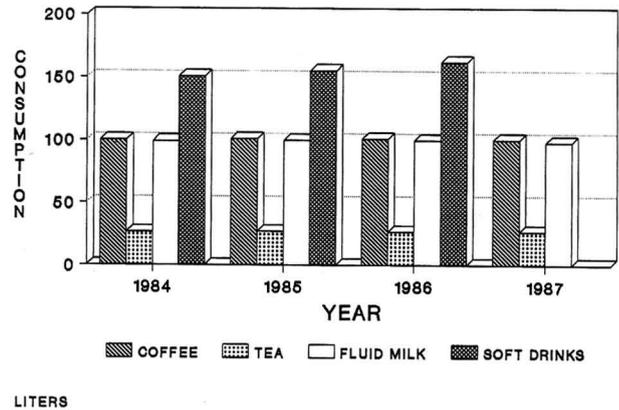


Figure 9: Per capita consumption of beverages in the U.S., 1984-87



basis. In contrast the consumption of all wine increased 2.4 percent annually during the same ten year time period. The difference has been made up through imports.

In relation to the types of wine produced, the importance of table wines, coolers, and champagne/sparkling wines have increased at the expense of dessert wines. This has resulted in a slightly different product mix (Figure 10).

Coolers, while currently declining in importance, did have the impact of reducing surplus grapes from the market and strengthening overall demand for grapes in the U.S. In addition wine coolers' market growth came primarily at the expense of beer.

The negative growth rates in wine consumption, increasing production, and changes in product mix have resulted in some surplus of certain types of grapes and wine in the U.S. As an example, «jug» table wine sales are decreasing, while premium table wine sales continue to increase. This is dramatically demonstrated by comparing the annual changes in wine sales from

Washington, which mainly produces premium table wines, to that of the entire U.S. wine market, which is dominated by other wines (Figure 11).

While U.S. wine sales (consumption) has been down for the last two years, the sales of Washington wines have increased 24 percent each year. There is no doubt that much of the current growth in the U.S. wine market is in the premium table wine market segment. These wines are made from *vitis vinifera* grapes. The only other growth segment, but comprising a small proportion of the market, is that of champagne/sparkling wines.

In conjunction with this growth there has been a significant increase in the number of wineries producing premium table wines in the U.S.

In California, the number of bonded wineries increased from 344 in 1976 to 771 in 1989. Even in Washington, which produces only a small fraction of all wine produced in the U.S., the number of wineries has increased from six in 1976 to 96 bonded wineries in 1989. These new wineries are

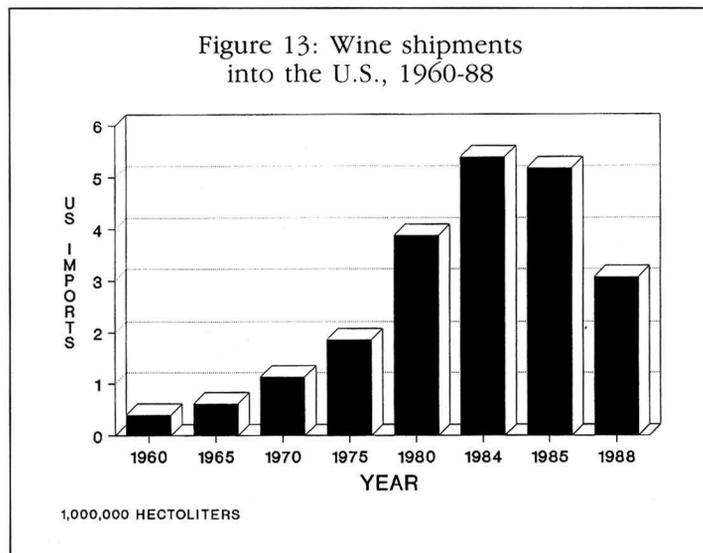
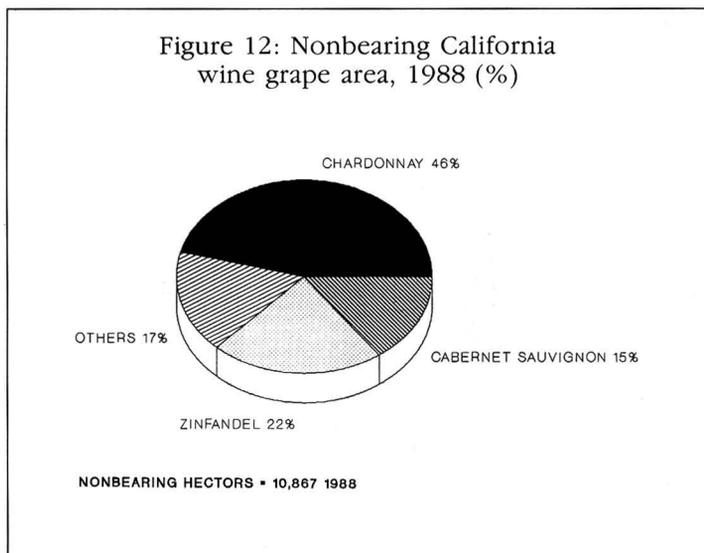
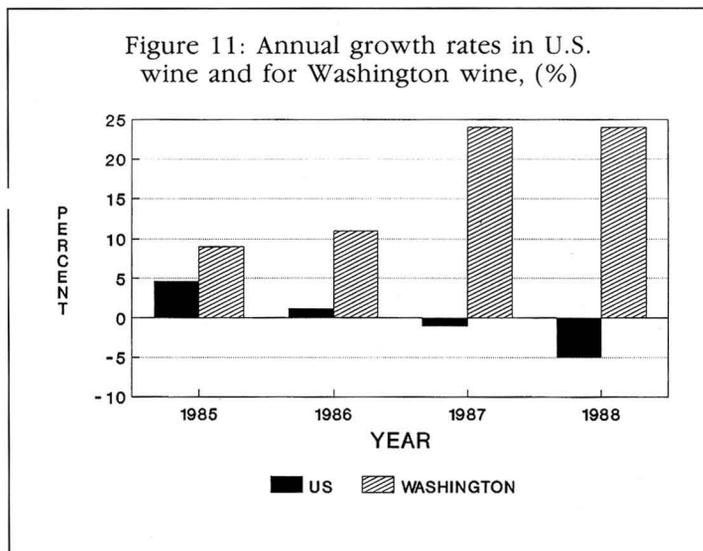
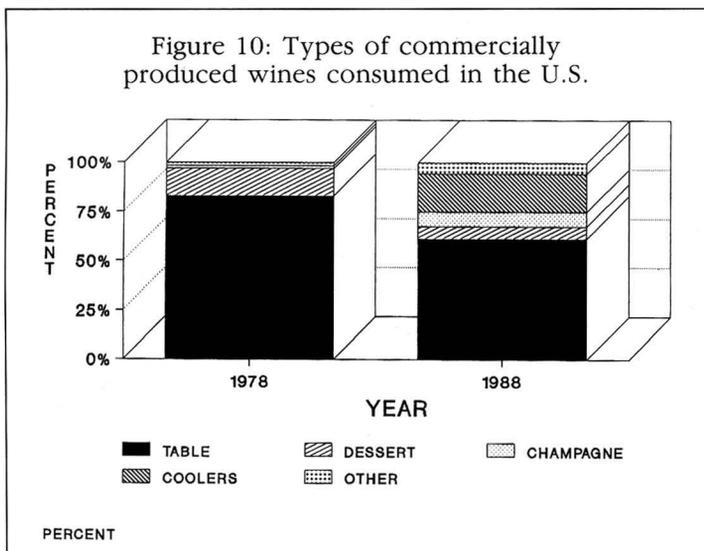
producing primarily premium table wines from *vitis vinifera* grapes.

The acreage of premium wine grapes in the U.S. has increased in those areas noted for producing premium wine grapes. As an example, of the 10,867 hectares that are non-bearing in California, 83 percent of the area is planted to Chardonnay, Cabernet Sauvignon, and Zinfandel (Figure 12).

The U.S. wine industry has responded and appears to be in a position to serve at least part of the growing demand for premium table wines in the U.S. and in other countries.

Wine imports and exports

The U.S. had a ratio of wine exports to imports of 1:11.2 in 1988. As recently as 1984 the ratio was 1:37.6. The trend in wine exports and imports is a function of economic and noneconomic factors as suggested above. The U.S. wine industry is producing wines for export primarily from *vitis vinifera* grapes that are in demand around the world.



The U.S.'s largest buyers of wine in 1988 were Canada (153,964 hectoliters), Japan (149,845 hectoliters), U.K. (119,577 hectoliters), Sweden (30,214 hectoliters), and Denmark (21,310 hectoliters).

Wine imports into the U.S. rose from 406,389.6 hectoliters in 1960 to a record level of 5.4 million hectoliters in 1984 (Figure 13). Since 1984, wine imports into the U.S. have declined. The major decline occurred with Italian imports which dominate the U.S. wine import market (Figure 14). Italian wine shipments to the U.S. dropped 1.4 million hectoliters or 52.2 percent. Imports from all major wine producing countries decreased during the latter part of the 1980's (Figures 14 and 15).

The value of the currencies in the major wine producing and exporting countries has declined relative to the U.S. dollar. The decline of the U.S. dollar relative to the currencies of the U.S. trading partners has contributed not only to the increased exports of U.S. wine but to the decline in U.S. wine imports. As shown in Figures 16, 17, and

18, the exchange ratio has not favored the exportation of wine to the U.S. From 1985 through 1988 the Italian lira fell 31.8 percent, the French franc 33.5 percent, Portuguese escudo 15.3 percent, the Spanish peseta 31.4 percent, and the West German mark 40.1 percent. It is not by coincidence that wine exports from these countries to the U.S. decreased during the same time period.

Coupled with the changing exchange ratios has been a dramatic increase in the value of imports into the U.S. from the major wine producing countries (Figure 19). The most dramatic increase has been in the case of France where the imported value increased from \$3.61 to \$5.60 per liter. The size of the increase is not only a function of the exchange ratio but also the wine types and quality. The major wine types imported into the U.S. from France are premium table wines and champagne. In relation to premium wines, the value of A.O.C. (appellation contrôlée) French table wines account for 61.1 percent of all French table wines imported into the U.S. in 1988. The A.O.C. ta-

ble wines have a value which is four times higher than Non-A.O.C. French table wines. In the case of Italy, the D.O.C. (denominazione di origine controllata) table wines also adds to the overall value of wine imports. This movement towards higher quality wine products exported to the U.S. is in agreement with the changing tastes and preferences for wines in the U.S.

The types of wine imported into the U.S. are dominated by table wines (74 percent) and champagnes (16 percent) (Figure 20). The importance of these wine types as imports is greater than on the average in the U.S. in terms of wines consumed. In the U.S., table wines account for 61.6 percent and champagnes for 7.4 percent of the total wine consumed. These are the only two growing segments of the U.S. market when the premium table wines are separated from the jug table wines.

The color of table wines imported into the U.S. is in some agreement with that which is consumed in total. In 1988, 59 percent of the table wine imports were white, while the total consumption of California table

Figure 14: Wine shipments into the U.S. by selected countries, 1960-88

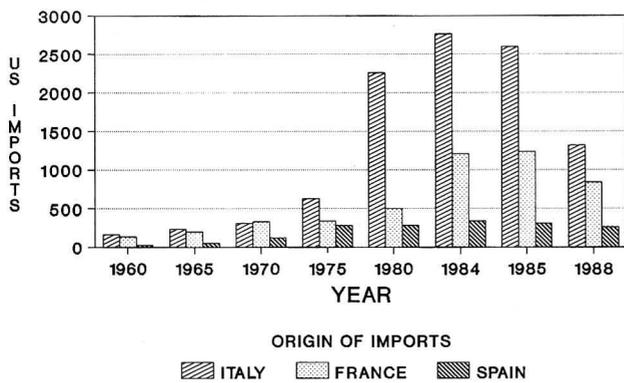


Figure 15: Wine shipments into the U.S. by selected countries, 1960-88

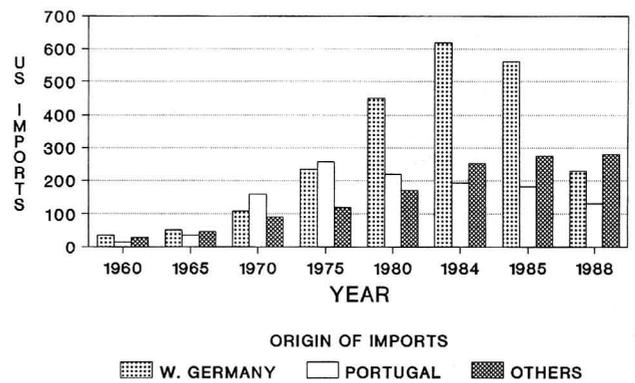


Figure 16: U.S. dollar versus currencies of leading sellers of foreign wine

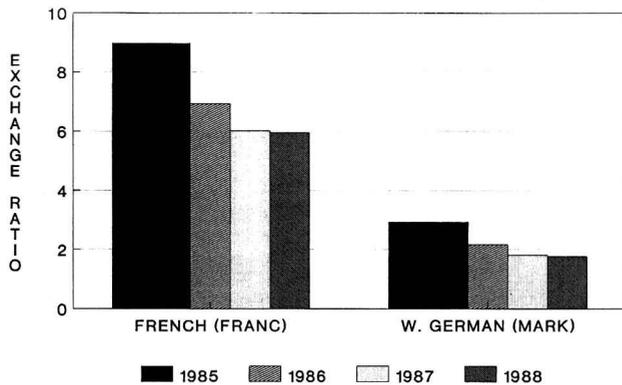


Figure 17: U.S. dollar versus currencies of leading sellers of foreign wine

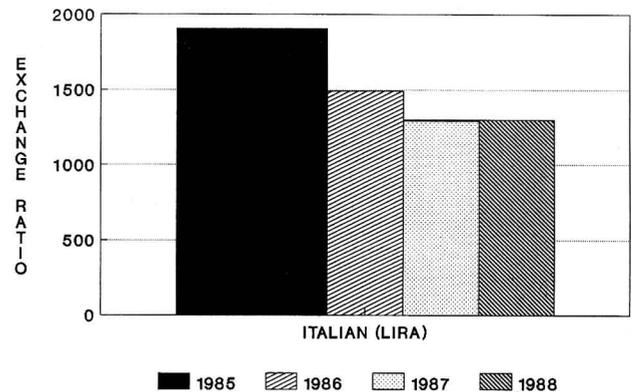


Figure 18: U.S. dollar versus currencies of leading sellers of foreign wine

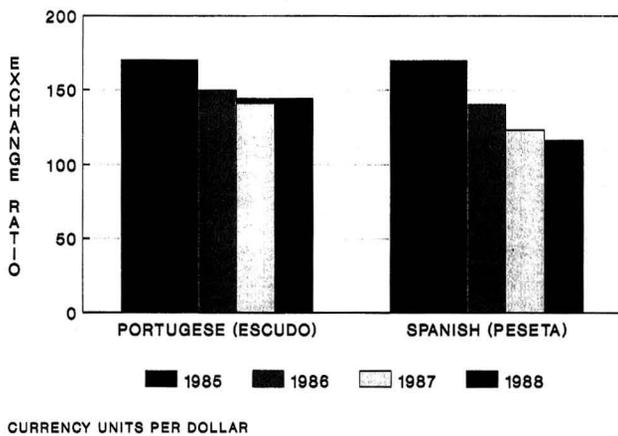


Figure 19: Per liter value of wine imports by country of origin

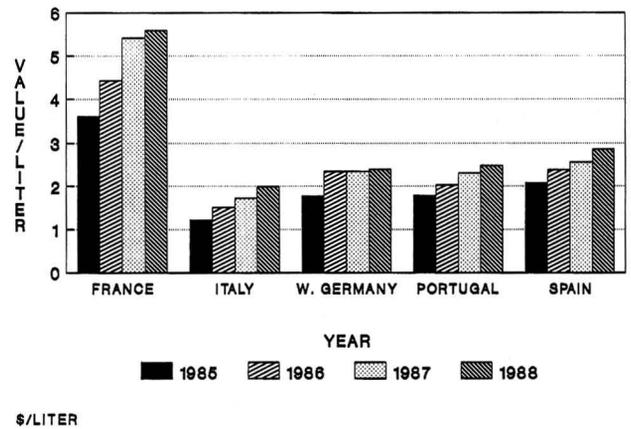


Figure 20: Foreign wine shipments into the U.S. by type, 1988

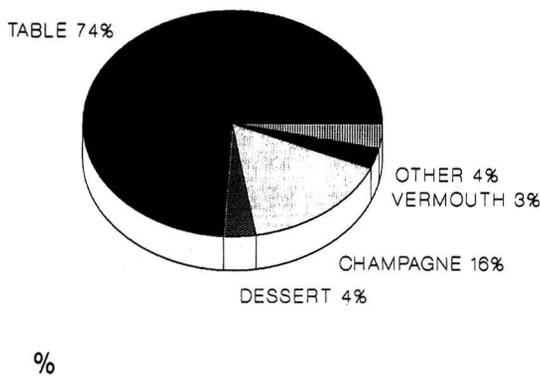
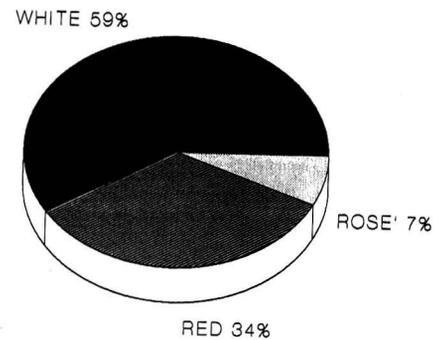


Figure 21: U.S. bottled table wine imports by color, 1988



wine was 58 percent white in 1988 (Figure 21). Red wine imports are twice as important on a relative basis as compared to red table wine from California. The importance of the reds in terms of imports arises from the table wines produced in Italy and France. The major source of rose' wine imports is from Portugal. Imports do not include any significant amount of blush varieties, while they occupy 11 percent of the California table wine market.

The prices of table wines imported into the U.S. vary by country of origin. During 1989, 36.6 percent of the table wine imported from Italy was priced at \$1.06 per liter or less (value at port of exproation). The rest of the imported table wine from Italy was greater than \$1.06 per liter. In contrast, at least 90 percent of the table wine imports from France, West Germany, Portugal, and Spain were priced at \$1.06 per liter or higher. It is this latter category of table wine in terms of price (premium) that is in demand in the U.S. marketplace.

Conclusion

Overall, there is a surplus of wine worldwide and the major producers have become dependent upon foreign markets. In particular, the U.S. has been a major purchaser of these wines. However, starting in 1984 the demand for foreign wines in the U.S. has declined as well as the overall demand for wines in the U.S. The future trends and levels of wine exports to the U.S. by major wine producing countries will depend up-

on a number of factors (Table 1). Major producers of wine should be willing to produce premium table and champagne wines, avoid wine scandals, and be cognizant of the exchange ratios between the currencies. A strong marketing effort will be required to overcome many of the health, social, tax, and trade issues which have had and continue to have a negative impact on the U.S. wine market. ●

Table 1 Factors influencing wine exports to the U.S.

- Alcohol beverage consumption trends
- Changes in tastes and preferences toward premium table wines
- Wine scandals in producing countries
- Wine types produced
- Exchange ratios
- Marketing efforts

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