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Article

State of the international wine market in 2022: New market trends for wines require new strategies

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State of the International Wine Market in 2022: New market trends for wines require new strategies

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Abstract. The objective of this discussion paper is to provide an overview of the state of the global wine sector in 2022 and discuss the effects of recent events on the wine trade's development. First, long-term trends in the global consumption and production of wine and the development of the international wine trade are discussed. The growth trend of global wine consumption ceased in 2008, but the last decade in the global wine trade has been characterised by stagnant volumes but increasing values driven by premiumisation. Several recent events have affected the volume or composition of the global wine trade: the recovery of the wine trade after Covid-19, global cost increases and inflation, the shift of Chinese wine consumption and the effect of the Russian invasion of Ukraine on Russian wine imports. The paper closes with an outlook on how underlying long-term trends might affect the strategies that successful wine business can employ in the future and suggests future areas of research in the wine business and economics.

Keywords: global wine trade, wine consumption trends, inflation, industry strategies.

1. SCOPE AND OBJECTIVE OF THE DISCUSSION PAPER

This discussion paper combines insights from two data sources unique to the wine sector. The Spanish Observatory of Wine Markets (OeMv) collects a singular record of long-term data of the global wine trade. Most of the data series from OeMv presented here was updated only for this paper and has not been published before. On behalf of ProWein, the University of Geisenheim regularly surveys international experts along the wine supply chain about their perceptions and insights and publishes the annual ProWein Business survey.

Current insights from comprehensive trade data and survey opinions are combined to explore the state of the global wine sector at the end of 2022. The paper is limited to descriptive analysis to provide a basis for later hypothesis testing. Long- and short-term developments are described and the effects of current events on the wine trade are discussed. By combining past

developments with current events, the authors draw conclusions about the potential future development of the wine sector and propose recommendations for successful industry strategies. The nature of a discussion paper makes those conclusions rather speculative and not based on hypothesis testing.

The paper is organised as follows. Section two presents the long-term development of wine consumption, wine production and the volume and value of the global wine trade. It also briefly outlines the current status of key markets and main producer countries. The third section examines how the current events of the pandemic and inflation have affected the wine sector and how wine imports to China and Russia have changed. The paper closes with suggestions of potential future trends.

2. LONG-TERM DEVELOPMENT OF PRODUCTION, CONSUMPTION AND TRADE OF WINE

The international wine trade and international wine consumption have not been growing much since 2011 in terms of volume. This steady state was not fundamentally altered by the pandemic, nor the effect of inflation and cost increases, nor the Russian war in Ukraine. Thus far, the international wine trade does not seem to be directly affected by the increasing deglobalisation of the world economy. The relative stability of global wine consumption, around 240 million hectolitres, has been maintained since 2009, which represents a trend lasting for more than 13 years.

2.1 Development of production and consumption

Owing to varying meteorological conditions during the different stages of the production cycle, but also influenced by economic incentives, there are strong annual variations in wine production (Figure 1). Climate change and the end of European Union (EU) subsidies for wine distillation in 2011 seem to have increased the amplitude of variations in recent years with a record low of 246 million litres in 2017 and a record high of 295 million litres in 2018.

On the contrary, global wine consumption is much more stable. After a long and steady increase up to 2007, global wine consumption remained fairly stable until 2017, when it started to decline slightly in line with the reduction of wine imports to China (see section 3.4) and was temporarily affected by reduced wine consumption during the pandemic.

Considering that a certain amount of wine production goes into industrial products, such as vermouth or

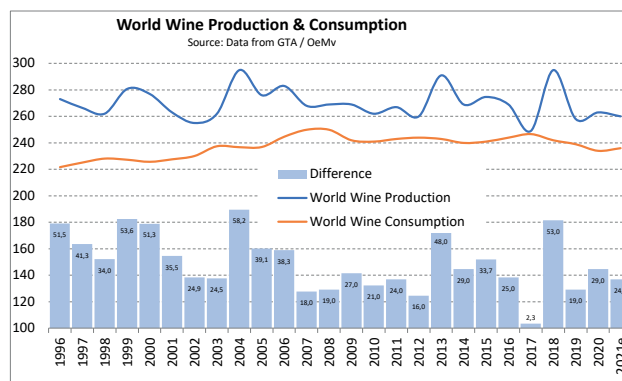


Figure 1. World wine trade by volume in million hectolitres (OeMv, 2023 [1], based on data from GTH / IHS).

vinegar, and that some gets lost in the elaboration process of wine production, an average amount of approximately 30 million litres per year is produced in excess of world consumption. Low harvests lead to scarcity and an increase in bulk wine prices, whereas a series of high harvests reduce prices. The declining trend in wine consumption tends to increase the pressure on wine prices in price sensitive market segments and certain product specifications (see section 4). Generally, production must follow consumption patterns. Otherwise, an increasing oversupply and wine stock will further increase the pressure on wine prices. Managing the economic sector in these conditions is therefore challenging.

2.2 Wine trade by volume has become steady

The first decade of the century was characterised by growth in global wine consumption (Figure 2) and a shift to non-wine-producing countries. After a halt to these two trends, global wine trade is now almost flat in volume terms. Since 2011, the global wine trade has moved between 100 million and 110 million hectolitres annually and grown at a very limited compound annual rate of 0.4%. This is a very low rate compared to 4.3% annual growth in the first 11 years of the century. In absolute numbers, between 2011 and 2022, world trade increased by 400 million hectolitres, while during the previous 11 years, between 2000 and 2011, it had grown by 3.3 billion hectolitres. Future trade volumes will depend on future global wine consumption trends (section 4).

2.3 Wine trade by value and average price increases – premiumisation

While the wine trade in volume terms is constant, it is sharply growing in value terms. Figure 2 shows the

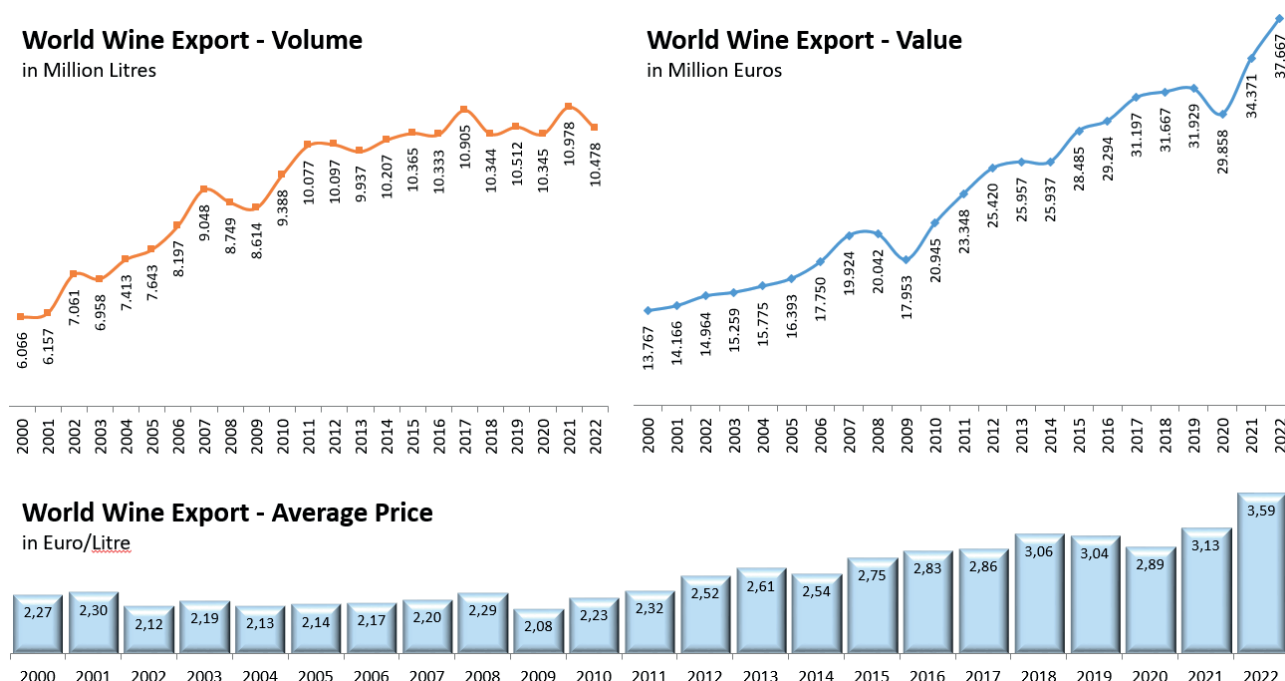


Figure 2. World wine trade by volume, value, and average price (OeMv 2023 [2], based on data from GTH/IHS)

consistent increase in world trade in euros since 2000 with the two exceptions of the financial crisis in 2009 and the Covid-19 crisis in 2020. Both crisis years also saw a decline in average prices. In 22 years, the wine trade has grown from €14 billion to more than €37 billion. Between 2000 and 2010, the growth in value was mainly driven by an increase in volume (Figure 2), while average prices largely remained constant. The average annual price change over that period was -0.2% .

When volume growth stopped, rising average prices drove value growth. Average prices increased from €2.32/litre in 2011 to €3.59/litre in 2022 at an annual growth rate of 4.1% . This increase in the value of traded bottles or litres of wine was due to premiumisation. The long-term growth of trade value was almost even with an average annual rate of 4.3% during the first volume-driven decade of the century and 4.4% since 2011. In absolute terms, world exports increased by €7 billion between 2000 and 2010 and doubled (€14.3 billion) between 2011 and 2022.

The global wine trade reduced sharply during the two crisis years 2009 and 2020. Nevertheless, the recovery after the Covid-19 crisis in 2020 more than compensated for this loss, as was also the case after the 2009 financial crisis. Even in 2022, despite uncertainties caused by the Russian invasion of Ukraine, increasing deglobalisation and generalised inflation, the overall value of world trade increased by 9.3% while the volume

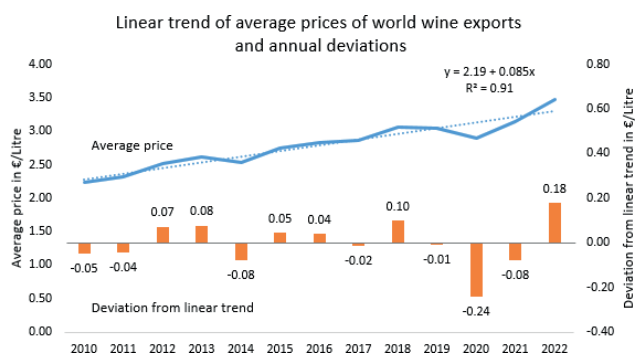


Figure 3. Deviation of average price from linear price trend (2010–2022), based on data in Figure 2.

decreased by -4.5% . As we will see in sections 2.5 and 4, import values did not increase equally across all countries and regions.

The 14.4% increase in average prices in 2022 is exceptionally high and at least partially related to inflation as some producers managed to carry over their higher costs for energy and glass by increasing the wine prices (see section 3.3). The linear trend line across global average wine prices from 2010 to 2022 shows a very good fit to the data (Figure 3). Compared to the trend line, Covid-19 resulted in negative price deviations for 2020 and 2021, while a positive deviation of €0.18/litre in 2022 is likely linked to inflation.

2.4 World trade by type of wine

The overall tendency of steady volume and increasing value does not equally apply to all product categories (Figure 4). Sparkling wines have led the growth in the world wine trade, while bottled non-sparkling wine reflects the general trend of increasing value without growth in volume. Sparkling wine has been increasing at a compound annual growth rate of 7.5% for value (5.6% volume) for the last 12 years. The largest category of bottled wine, on average, increased annually by 3.8% in value (0% in volume) and bulk wine slightly declined in volume (−0.2%) and increased in value annually by 3%. These diverging trends also apply to the development during 2022 (see Figure 9). The rise of sparkling wines, led by Italian Prosecco but also followed by Champagne and Cava, goes hand in hand with the increase in sales of white wines relative to red wines and relates to a positive trend in consumer preferences for fresher wines; see section 4.1 for a detailed discussion.

2.5 Development of key producing countries

Wine exports are strongly concentrated in a few countries, traditionally positioned along the 40th latitude of both hemispheres. France alone represents one third of the total export value (Figure 5). Together with Italy and Spain, they represent 61.6% of value and 54.5% of volume for 2022. The top 11 global exporters of wine account for 86.3% of total value and 87% of volume.

For decades, France, Italy and Spain have remained the three largest world wine exporters. However, their evolution has been quite different. Overall, massive international trade in wine is a very recent phenomenon. Up to the 1970s, less than 15% of total wine consumption was traded among different countries. With few

exceptions (e.g. England), wine was a product to be consumed domestically and close to the place of production. It was only in the 1970s that Italy and then France started to export increasing amounts of wine. Spain came much later because of its late entry to the EU in 1986.

More recently, since 2000 and particularly up to 2012, Spain grew faster by volume than France and Italy and took the lead in global wine trade volume from 2014 to 2021. Spain's exports fluctuate strongly around 21 million hectolitres depending on the size of its crops. Italy also grew strongly between 2003 and 2011, but since then, it has shown less strong fluctuations than Spain. Over the last 20 years, France's exports have been relatively steady at a volume of around 14 million hectolitres with a slightly decreasing tendency.

Consistent with the overall trend, the value of exports has grown strongly for the top three exporting countries, though they have differed in slopes and impacts of the financial crisis in 2009 and the Covid-19 pandemic in 2020. France's export value seems to be most sensitive to economic conditions, showing strong depressions during both crises and steep recoveries thereafter. It grew from less than €6 billion to almost €10 billion in the 10-year period since 2009. Fuelled by inflation, recovery after Covid-19 has been even steeper, increasing from €8.7 billion to more than €12 billion in two years. Italy shows a more stable value increase with weaker sensitivity to economic crises. Spain shows the lowest slope and values have almost remained constant over the last five years. Therefore, France and Italy especially managed to benefit from premiumisation. An interesting research question is what strategies the French and Italian wine businesses used to achieve this success.

Figure 6 shows the absolute export volumes and percentage change for 2022. Italy overtook Spain and took the number one position by a small margin. As expected

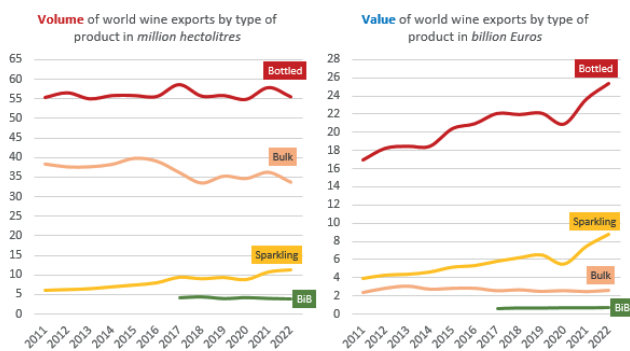


Figure 4. Volume and value of exports by type of product (graphic based on data from OeMv, obtained from GTA/IHS), BiB = Bag in Box.

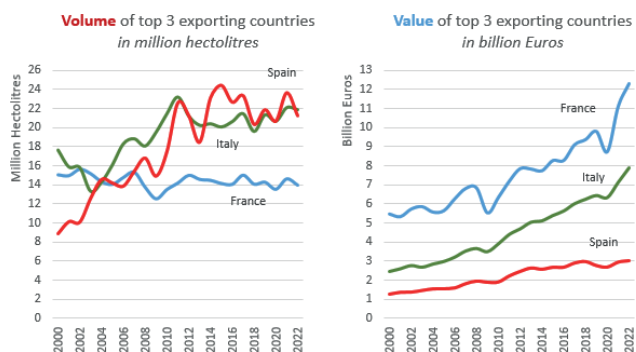


Figure 5. Top three exporting countries by volume and value (graphic based on data from OeMv, obtained from GTA/IHS).

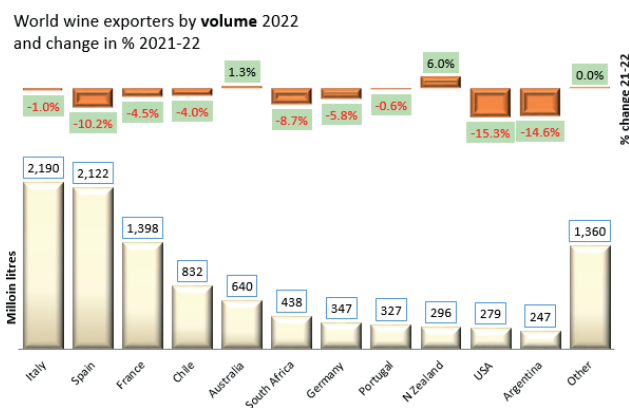


Figure 6. Top wine exporters' change in volume, 2021–2022 (graphic based on data from OeMv 2023 [1], obtained from GTA/IHS).

from the overall trend, most countries lost volume. Out of 11 countries, only two were able to increase export volumes: New Zealand and Australia. After a small harvest in 2021, New Zealand took advantage of the sufficient supply and premiumisation trend. As a relatively small wine producer, exporting slightly less than three million hectolitres, particularly of fresh Sauvignon Blanc, New Zealand exports at a high average price of €4.56 per litre – third after France and the United States (USA). Australia recovered slowly after the harmful trade restrictions imposed by China by diversifying exports to other markets.

On the opposite side, the USA, Argentina and Spain lost more than 10% export volume compared to 2021. The USA was particularly affected by lower imports by the United Kingdom (UK). Wine sales from Argentina fell mostly in the UK, Canada, China and Paraguay and were affected by the market contraction in Germany. Spain suffered from two consecutive small harvests, which were partially related to extreme heat, lower demand for bulk wine and high price sensitivity of the bulk wine market. South Africa reduced shipments particularly to Germany and the USA.

Such changes among the top wine producers and exporters can also be analysed in terms of who has been better able to adapt to recent trends in world wine consumption. France, particularly with its premium wines and Champagne, Italy, with the strong growth of Prosecco and some non-sparkling (often white) Protected Geographical Indication (PGI) premium wines, and New Zealand, with its crisp high-quality white wine, may be considered the three countries leading the market in recent years. As will be discussed in section 4, exporters well placed in both ends of the market – the top high-quality, expensive and famous wines on the higher end and the fresh, competitive and very well distributed

wines on the lower end – seem to be performing better than other producers. There is a need for researchers to substantiate this suggestion.

2.6 Recent trends in key import markets

Wine imports are much more diversified than exports. The top three exporters sell their wines to about 190 markets, which also have developed very differently. By value, the UK was traditionally the largest world importer until the USA took the lead in 2012 with an import value of €3.9 billion (Figure 7). Subsequently, the USA climbed to €7 billion, at an annual average growth rate of 5.9%, while the UK only reached €4.8 billion in 2022, growing at a lower rate of 2.1% per year. Covid-19 had a strong negative impact on the USA's import values but the years before and after show strong growth. Germany remained quite stable during the recent 22-year period, reaching €2.7 billion in 2022. Canada grew faster to become the fourth largest wine importer, spending €2.2 billion last year. Japan, the Netherlands, China, Belgium, Switzerland and Russia complete the top 10 ranking of the world's largest wine importers, which account for two thirds of the total import volume.

On a very different scale, Figure 8 shows six other large wine importers with import values in 2022 above €1 billion. China had impressive development until 2018, but then this started to decrease, long before Covid-19 affected wine consumption (see section 3.4). The Netherlands shows steady growth in wine imports, which, similar to Germany, may also have been partially re-exported to other neighbouring markets. Belgium, Switzerland and France have grown particularly well after the pandemic. Exports to Russia increased to €1.3 billion in 2022 and will be analysed in more detail in section 3.5.

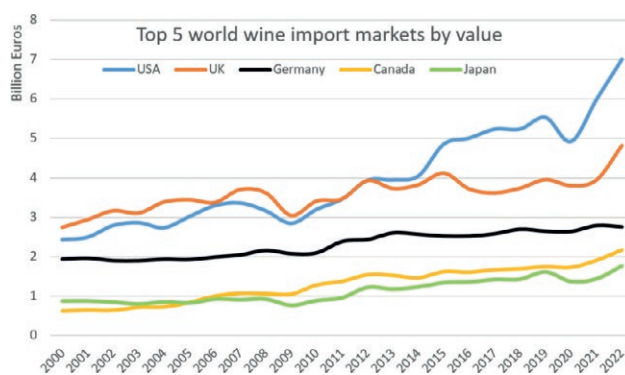


Figure 7. Top 5 world import wine markets by import value in billion euros (graphic based on data from OeMv, obtained from GTA/IHS).



Figure 8. Other major world wine importers by value in billion euros (graphic based on data from OeMv, obtained from GTA/HIS)

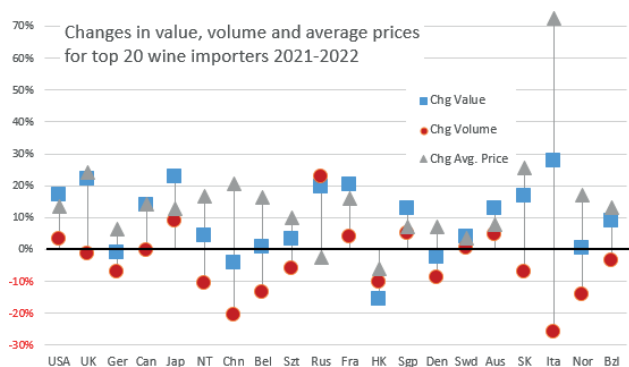


Figure 9. Changes in value, volume and average prices for top 20 wine importers in 2022 (graphic based on data from OeMv, obtained from GTA/IHS).

For 2022, the majority of world import markets show a similar dichotomy between (a) an increase in import values due to higher average prices and (b) a decrease in import volumes (Figure 9). Out of the largest 20 wine import markets, 13 decreased their import volumes. Except for Hong Kong, all markets increased import values. Average prices increased in all countries with the exception of Russia and Hong Kong. Italy stands out with erratic wine imports of cheap bulk wine, mostly from Spain, when their domestic harvest falls short.

3. CURRENT CHALLENGES FOR THE INTERNATIONAL WINE TRADE

This section presents industry expert opinions about current challenges the wine industry is facing. It examines four recent events affecting wine consumption and trade. During Covid-19, the value and volume of the

global wine trade decreased suddenly and recovered quickly in 2021. Cost increases and inflation affected both the supply and demand sides, leading to disparate reactions of price and volume for the different price segments of wine. The dynamics of the change in wine imports into China continue to affect the global wine trade. Preliminary data are presented to depict how the volumes and routes of wine trade with Russia changed after the Russian invasion of the Ukraine.

3.1 Producer and trade perceptions

Since 2017, an international survey has been conducted on behalf of ProWein to explore the perceptions of experts along the complete supply chain for wine. The respondents include producers and exporters, importers, trade and horeca businesses (Loose, 2023[3]). The resulting ProWein Business Report provides an indicator of the development of producer sentiment about the economic situation and perceptions of the threats and challenges to the industry (Figure 10).

The global economic upturn after Covid-19 already led to a greater demand for energy and rising energy prices in 2021. With the war in Ukraine and sudden collapse in energy supplies in 2022, prices in many parts of Europe therefore often more than doubled compared to

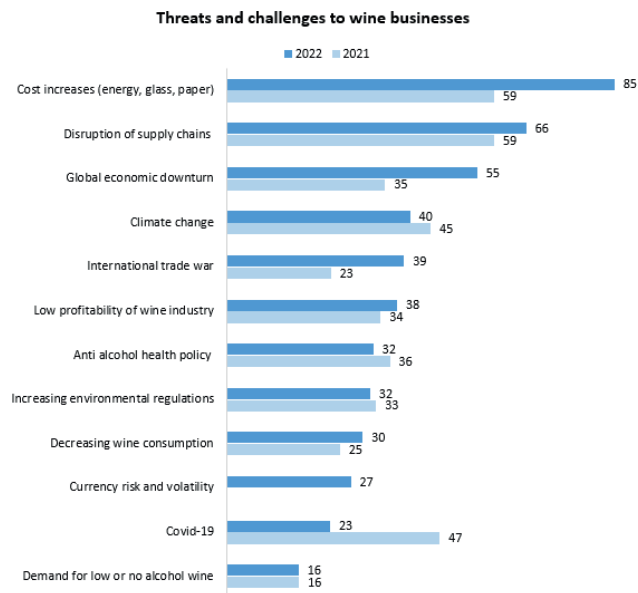


Figure 10. Threats and challenges to wine businesses. Share of respondents who see strong or very strong effects (4 and 5 on a 5-point scale) based on Loose (2022[4], 2023[3]) with n = 2,880 and n = 2,455 respondents, respectively, sorted in descending order by 2022 results.

2020. For 2021 and 2022, rising costs and disruptions to supply chains ranked at the top of the list. However, the degree to which the industry was affected clearly increased in 2022. According to 85% of those polled, the rising costs of energy, glass and paper pose a great or very great threat to their companies. In 2022, almost all producers were affected by transportation issues and supply chain disruptions, which seem to have eased over the first months of 2023.

For 2023, international economic experts at the OECD and World Bank anticipate a further downturn in the global economy, which might cause a reluctance amongst consumers to buy wine. General inflation and particularly high price increases for energy and food have reduced consumers' real incomes. Experts in the wine sector viewed the impact of an economic slow-down as the third largest challenge for the wine industry. Compared to the previous year, the proportion of respondents sharing this view was up from 35% to 55%. The effects of inflation on wine supply and demand are detailed in section 3.3.

The consequences of international trade wars, particularly the intervention on exports to Russia, were perceived as a clear threat to wine producers (39%), particularly in the highly export-oriented countries Portugal (59%) and Spain (57%). From the industry's perspective, the impact of Covid-19 has subsided. Covid-19 is still relevant to the hotel (44%) and food service/hospitality industries (42%). Section 3.2 details the strong recovery

after Covid-19. Climate change has been pushed even further into the background by the economic crisis. Compared to 2021 [5], its importance dropped in 2022 from 45% to 40%, with regional variations.

The industry entered 2022 with positive expectations. Producers and traders hoped for a recovery from the negative impact of Covid-19. These hopes were not or were only partially fulfilled. In general, therefore, the industry is looking to the future with caution.

3.2 Covid-19

In the long-term perspective illustrated in Figure 2, Covid-19 was only a small “dent”. Zooming in with a higher resolution, the effects of Covid-19 have been more accentuated. Global wine exports had already fallen by six million hectolitres in 2019 and then fell by a further two million hectolitres in 2020, the first year of the pandemic. More importantly than the relatively small drop in volume, Covid-19 resulted in a sharp decline in the value of the global wine trade in early 2020. Over the complete year 2020, wine trade lost a total of €1.9 billion or 5.8% of its value and faced strong uncertainty about its future development, like most other industries did during the pandemic.

In 2021, both the volume and value of the global wine trade showed a steep recovery, and by mid-2021, reached pre-Covid values that were soon strongly exceeded. From today's perspective, the decline in

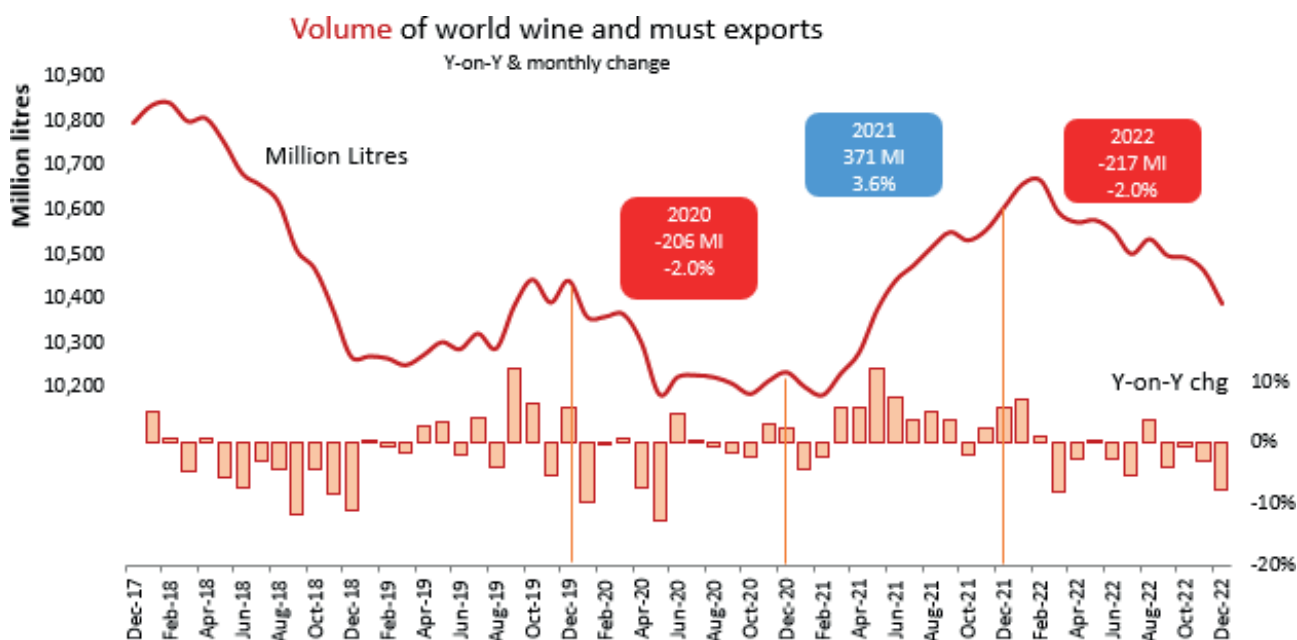


Figure 11. World wine exports, volume (graphic based on data from OeMv, obtained from GTA/IHS).

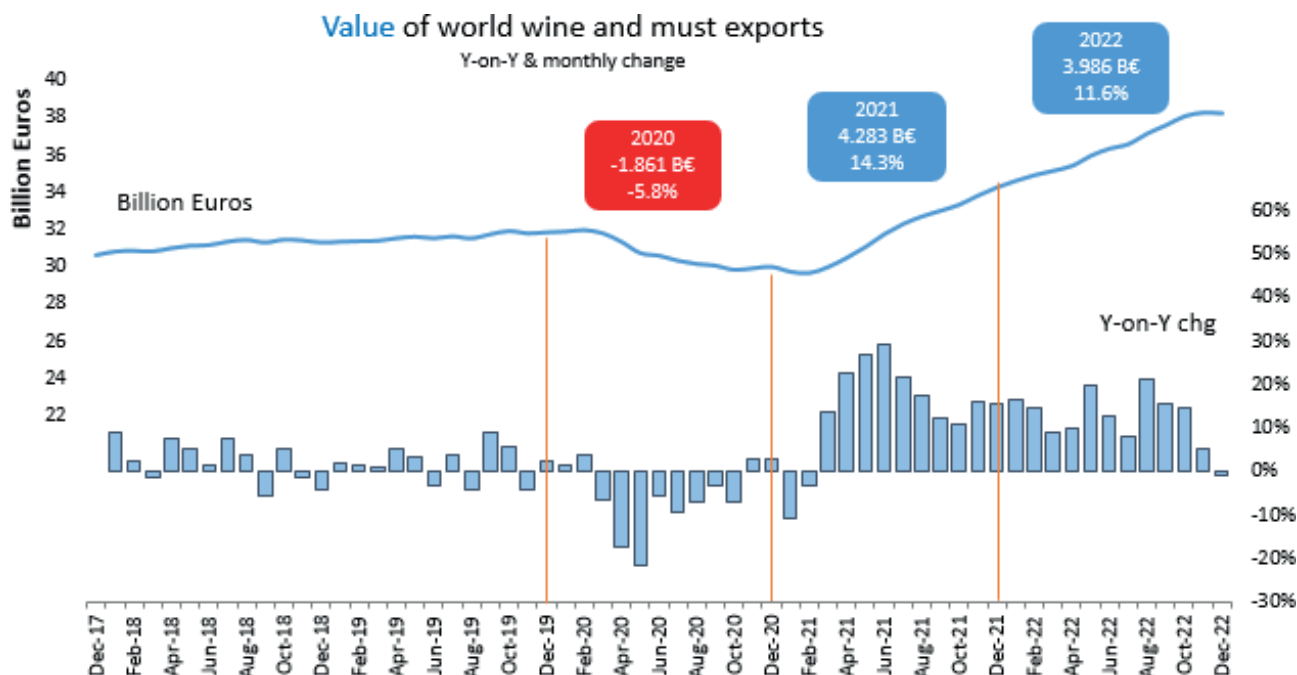


Figure 12. World wine exports, value (graphic based on data from OeMv, obtained from GTA/IHS).

the wine trade during the pandemic can partially be explained by reduced orders and stocks keeping the intermediaries as well as horeca businesses in a period of high uncertainty. Once vaccinations became available in 2021, trade picked up again, and part of the strong recovery relates to the refilling of declined inventories.

The volume of the global wine trade started to decline in early 2022 because of the effects of inflation (section 3.3), while the value continued to increase, although at a declining rate. For the first time since the outbreak of Covid-19, in December 2022, the value started to drop, and the future development for 2023 and beyond is of high interest to the wine sector. It cannot be ruled that over the long term, generalised inflation might also negatively impact the value of the wine trade.

3.3 Cost increases, inflation and economic slowdown

Fuelled by the synchronous economic recovery, costs started to rise in 2021 with increasing freight rates and higher costs for energy and dry goods, such as glass, closures and cartons. Russia's invasion of Ukraine led to a severe energy crisis, and the costs of gas and electricity more than doubled in many European countries. This led to a further increase in prices for energy-intensive products, such as glass and aluminium. Wine producers reported cost increases of approximately 30%. In eco-

nomic terms, the cost shock led to an upwards shift in the supply curve (Figure 13).

For consumers, the increase in energy prices led to a steep increase in inflation. Compared to 2021, inflation tripled in Europe up to 9.2% in 2022, leading to a significant decline in consumers' real incomes [6]. The global inflation rate of 8.8% was similarly high [7]. Lower income households were particularly affected by roughly 20% increases in food prices and gas and electricity prices increasing by 50–100% in many countries [8]. This led to a downward shift of the demand curve for wine. Consequently, the flat price-sensitive section was more strongly affected than the steep slope section of inelastic demand for premium wine by affluent households (Figure 13).

The combined effect of the supply and demand shocks led to a new market equilibrium with a reduction in quantity and an increase in price. The degree of those changes significantly differs for elastic and inelastic demand. For elastic demand, consumers strongly reduce their wine purchases and trade down to lower prices. This effect was particularly visible in Germany, where according to Nielsen Home Scan Data [9], retail wine sales declined by -6.5%, particularly affecting German wine (-8.1%), while imports to Germany for low-priced Spanish wine and European blends increased. For the inelastic demand for premium wine, the price effect considerably outweighs the loss in quantity as the value of wine sales increases. This is particularly the case in the

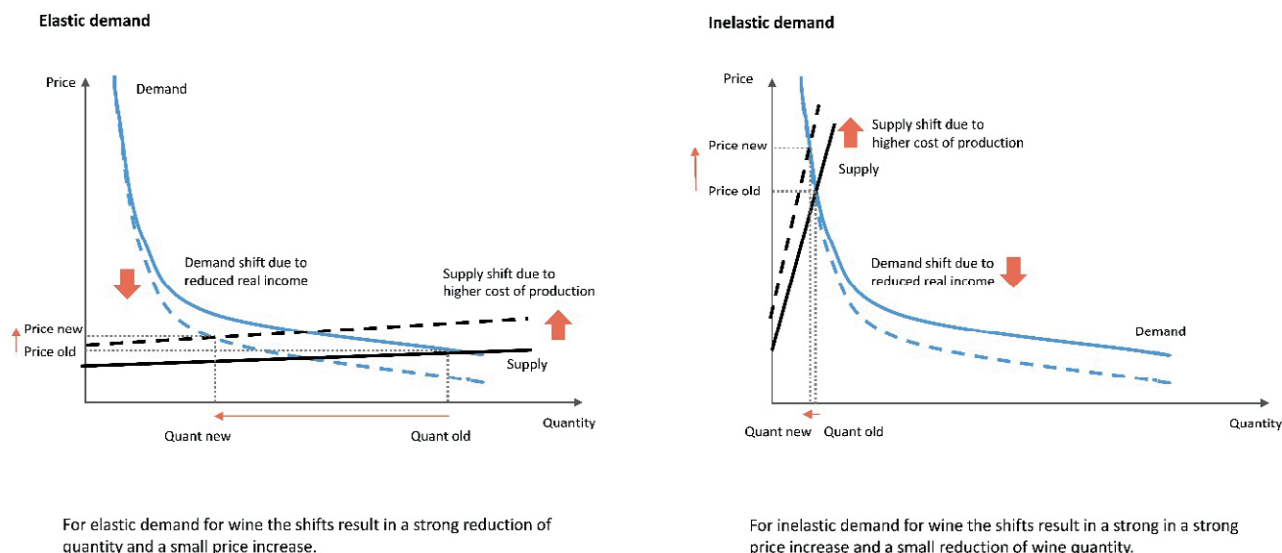


Figure 13. Effects of cost increases and inflation on wine supply and demand for elastic and inelastic market segments.

USA (section 2.5). In addition, for direct-to-consumer sales in Germany for 2022, we could observe higher revenues and only slightly reduced quantity [10].

The overall income and price sensitivities for wine vary by region and state, and so far, there is limited research available on this. The global effect on wine consumption and trade is an aggregate of those regional effects. In this context, wine consumption behaviours at the country level are quite heterogeneous across geographical regions (section 2.6). By the end of 2022, the global wine trade was dominated by imports from countries with low price insensitivity and good economic conditions, most importantly the USA. This agrees with expert opinions in the ProWein Business export [3], where 63% expected minor drops in sales in the premium and luxury segment. Increasingly, therefore, producers and traders are focusing on the high-price segment; this is also because the absolute margin in this segment is significantly higher than in the entry-level wine segment.

Of course, the increasing value of wine sales does not mean increasing profitability, since margins would depend on what grows faster: costs or selling prices. Future developments in costs, economic conditions and price sensitivity will determine how many wine producers can carry over their cost increases to consumers. This will have crucial implications for the economic sustainability of wine producers [11].

3.4 China

The globalisation of wine consumption has for many years compensated the decline in wine consumption

in the most important three wine producer countries, France, Italy and Spain. In particular, China began promoting wine consumption as a healthy alternative to spirits, and wine imports grew strongly until their peak in 2018 (Figure 14). After a change to the rules for gift giving and public spending, Chinese imports started to decrease by about one million hectolitres per year. This negative trend left clearly visible marks in the data on global wine consumption. Covid-19 then accelerated the falling trend slightly, with the steepest decline between January and July 2020.

In 2022, wine imports further decreased (−20.6%), while the decline in the value of imports slowed down to −4.3%. It is hard to predict the future development of wine consumption and imports to China. Current accounts from IWSR (2023 [12]) indicate increased sales of imported spirits with the reopening of on-premise consumption. As wine consumption in China has been closely tied to a positive attitude towards a Western lifestyle, it is uncertain what effects the shift in geopolitics, deglobalisation, the development of domestic production and aging of the Chinese population will have on future wine imports to China.

3.5 Russia

After Russia invaded Ukraine in February 2022, many countries imposed trade restrictions with Russia. According to OIV (2023 [13]), with 5% of global wine consumption, Russia is the sixth most important country by consumption. For the last decade Russia as

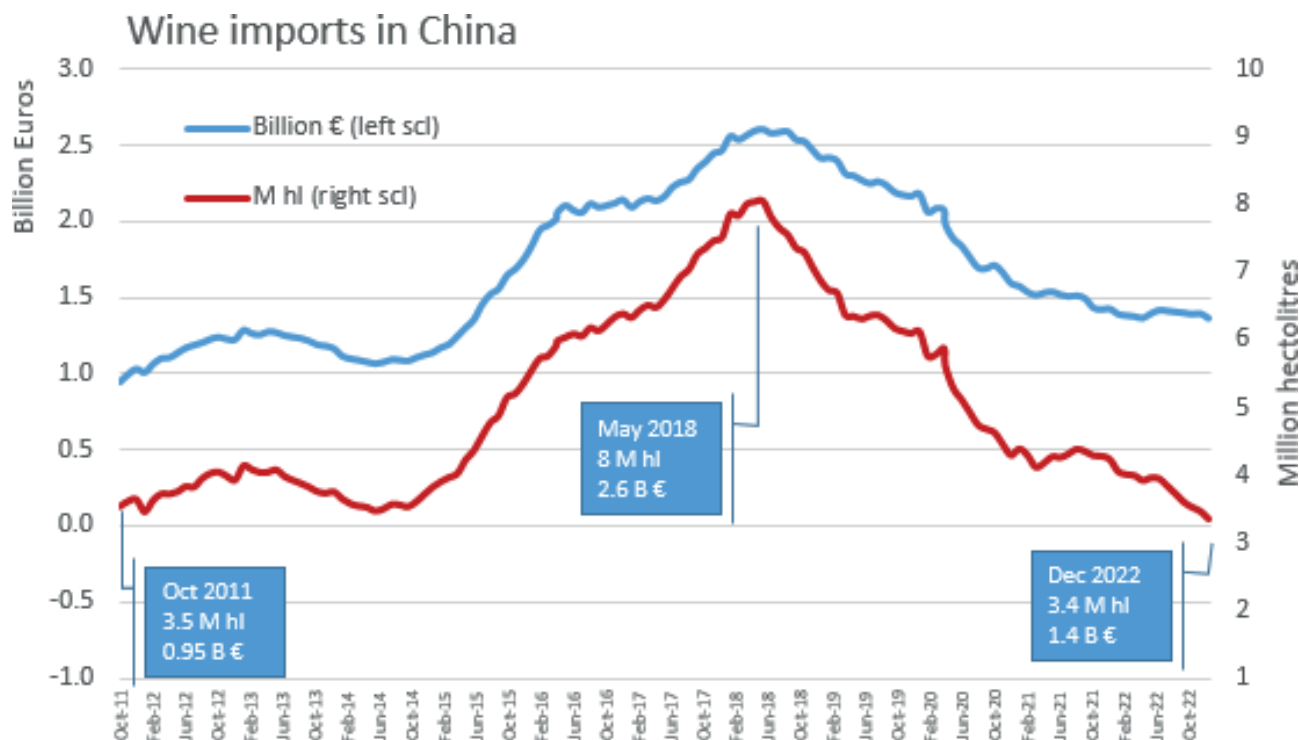


Figure 14. Value and volume of wine Imports in China (graphic based on data from OeMv, obtained from GTA/IHS).

seen as one of the top emerging wine markets [14]. It is therefore of interest to see what effects the war has had on wine imports to Russia. Generally, two sources of data are available. Imports are recorded by Russia and exports to Russia are reported by the exporting countries. Historically, those two data sources largely run parallel with a small gap (Figure 15 and Figure 16). Russia stopped official reports of wine imports in February 2022. Therefore, current data completely rely on export data.

What happened after the start of the war? The dashed lines in and Figure 15 and Figure 16 show that import volume and value, respectively, sharply dropped and rapidly rose again thereafter. Preliminary data thus suggest that the war did not significantly reduce wine consumption in Russia. On the contrary, according to exporters' data, wine sales to Russia strongly increased in 2022. The means of importing and origins of wine imports did change, however, to some extent becoming more indirect through re-exporting countries.

The majority of wine exports to Russia are organised as indirect exports through two Baltic states, Latvia and Lithuania (Figure 17 and Figure 18). Customs data analysed by OeMv [1] suggest that 82% (69%) of imports into Latvia (Lithuania) are re-directed to Russia. Moreover, wine exports from Poland can be con-

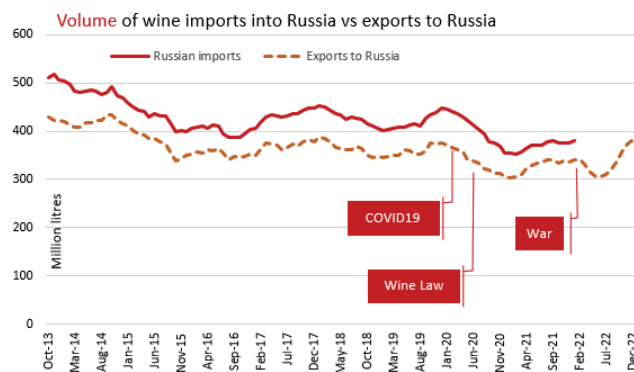


Figure 15. Imports and exports to Russia, volume (graphic based on data from OeMv 2023, obtained from GTA/IHS).

sidered re-exports of wine from other origins, although on a much smaller volume basis. Conversely, Georgia has its own strong production and very limited wine imports. In 2022, particularly exports of Georgian wine to Russia increased strongly (50% in volume and 40% in value). Wine through Latvia increased in value (38%) but less so in volume (16%). Re-exports through Lithuania were hardly affected by the war, and re-exports through Poland declined strongly. The data also show that direct exports from producing countries increased

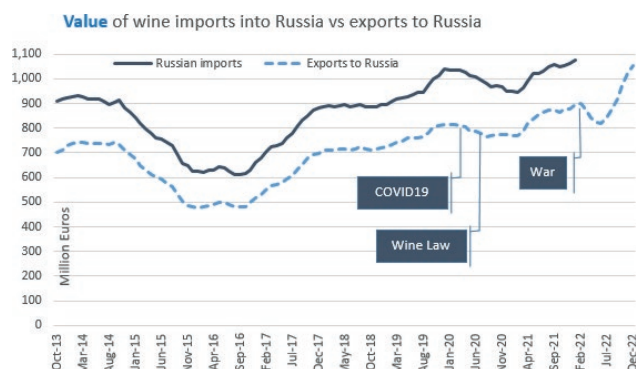


Figure 16. Imports and exports to Russia, value (graphic based on data from OeMv, obtained from GTA/IHS).



Figure 17. Wine exports to Russia 2022, volume (graphic based on data from OeMv, obtained from GTA/IHS).

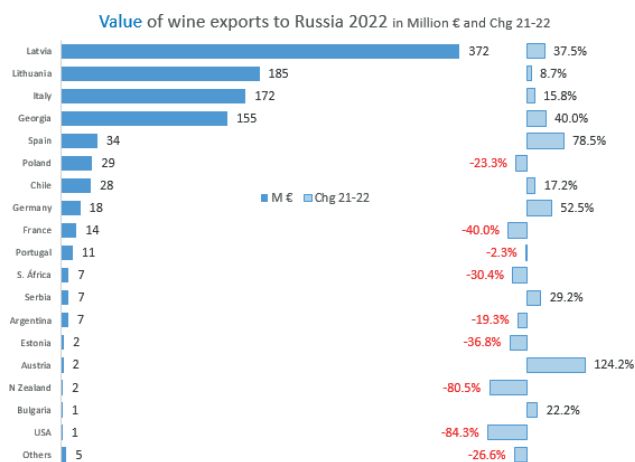


Figure 18. Wine exports to Russia 2022, value (graphic based on data from OeMv 2023, obtained from GTA/IHS).

strongly by volume (Germany 79%, of which some can be re-exports, Spain +49%, France +43%) and by value (Spain 79%, Germany 53%). Exports from New Zealand, South Africa and Argentina declined strongly. Average prices decreased overall (Figure 9). It will be of interest to see how the composition by origin, volume and value of the wine trade with Russia will be affected in the future, particularly after financial restrictions for bank payments may become stricter.

4. POTENTIAL LONG-TERM TRENDS

We close the paper by discussing three major current market trends and contemplate how they might affect future strategies that companies can apply to stay in business successfully. We outline questions for researchers of the wine business and economics to address in the future.

4.1 Shift towards lighter and fresher wines

For a long time, “real wine” had to be red. To be highly rated, for instance, by Robert Parker’s Wine Advocate, only a few years ago, red wine had to be heavy, strong, bold and jammy. Now, we see a major shift globally towards lighter and refreshing wines. In particular, there is rising consumer demand globally for sparkling wines (section 2.4 and Figure 19).

This trend is reflected in many strong market signals. Red wine, particularly red wine targeted to lower segments of the market, is in a surplus globally. Regarding Bordeaux, the classical example of red wine, there was an announcement that vines would be pulled on 10,000 hectares because of structural oversupply. Ciatti bulk wine reports have been indicating falling prices for red wine for the last two years, while white wine has been experiencing strong demand and increasing prices. The formerly successful fruity and strong Australian red grape varieties seem to have been hit the hardest by falling demand for red wines with prices dropping as low as USD 0.33 to 0.47 per litre [15].

The trade success of sparkling and white wines agrees with the expectations for the global wine trade’s future well-performing wine styles for 2023 (Figure 20). Some industry experts see climate change and hotter summers as a driver of consumers preferring lighter and fresher wines [16]. At the same time, climate change makes it harder for wine growers to produce light and fresh wines, which require a change in viticultural procedures and/or grape varieties.

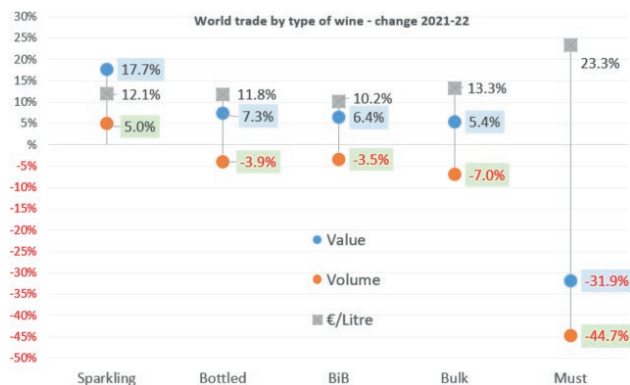


Figure 19. World trade by type of wine change of volume, value and average prices 2021–2022 (graphic based on data from OeMv, obtained from GTA/IHS).

Which wine types do you expect to perform well in 2023?

(Percent of importers, trade, Horeca, n=1,141)

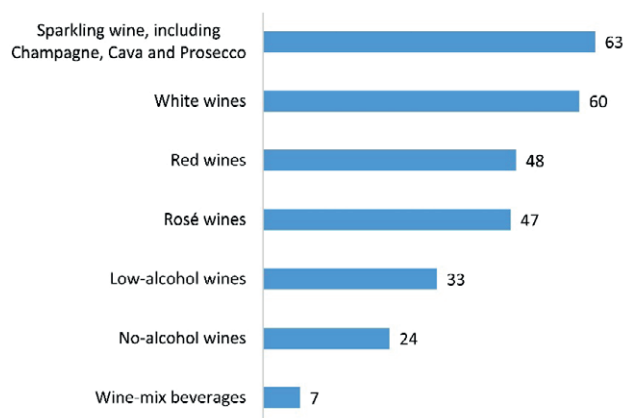


Figure 20. Global wine trade perceptions of well-performing wines for 2023 [17].

The trade perceptions in Figure 20 indicate the trend for no/low- alcohol wines. While the OIV has released a definition of dealcoholized wines (the permitted oenological practices are still in discussion [18]). Low-alcohol wines are not as clearly legally defined yet and cannot be legally called “wines” in many regions. Often, their classification depends on the national rules for wine taxes, if they depend on the level of alcohol, such as in the UK or Scandinavia.

Many traditional wine-producing countries face a trend of particularly younger consumers cutting down on alcohol. No-low products are seen as one way to provide an alternative [17]. One of the big questions will be whether a grape-based alcohol-free beverage has to be produced through dealcoholisation. Successful prod-

ucts, such as the Kylie no alcohol sparkling rosé, provide examples of the potential of technological innovations in the sector that do not necessarily require the two steps of fermentation and subsequent dealcoholisation. For wine producers, the changes in consumer demand pose challenges. Ideally, those changes can be anticipated to include adapting vine plantations that are normally used for 30 to 40 years.

Currently, there is a research gap concerning how long-term cycles in wine demand develop and shift over time. Understanding the underlying drivers of consumer preferences and the consumption context would be helpful for the industry to anticipate changes ahead.

4.2 Shift to new wine consumption regions

Consumption in wine-producing countries has been decreasing for decades, but such decreases have been more than compensated with parallel growth in wine consumption in non-producing countries. Wine was becoming fashionable in societies that had previously shown a preference for beer or other international beverages while it was losing popularity in traditional wine-producing regions. Such differences in wine consumption explained the increase in trade: wine had to be shipped from producing to non-producing countries. Actually, the ratio of total world wine consumption and traded wine has been consistently growing in recent decades, up to around 46% in 2022 [1]. That is, almost every second bottle of wine is consumed in a country other than the one in which it was produced.

However, it seems that these changes in wine consumption in different areas of the world no longer imply increasing trade volumes in more recent years. Positive trends in increasingly consuming countries do not offset negative ones in traditional producers as clearly as they used to. Nevertheless, in areas where wine is not a traditional beverage, like most countries in Latin America or Africa, the value of wine imports continues to grow faster than in more traditional wine regions, such as Europe (Figure 21). Latin America and Africa jointly still represent less than 5% of the value of global wine imports but have the potential to evolve. This dynamic shift in the regional development of wine consumption and trade is likely to continue into the future. This might affect what type of wine is demanded (see section 4.1) and how it is packaged [19].

If wine is increasingly marketed to consumers in non-producing countries, it may very well be that new consumers will approach wine in a different way and may prefer easy-to-drink wines – that is, fresher, probably sweeter and with some bubbles – rather than tra-

World wine imports value 2022 B €, share of total in % and change 21-22

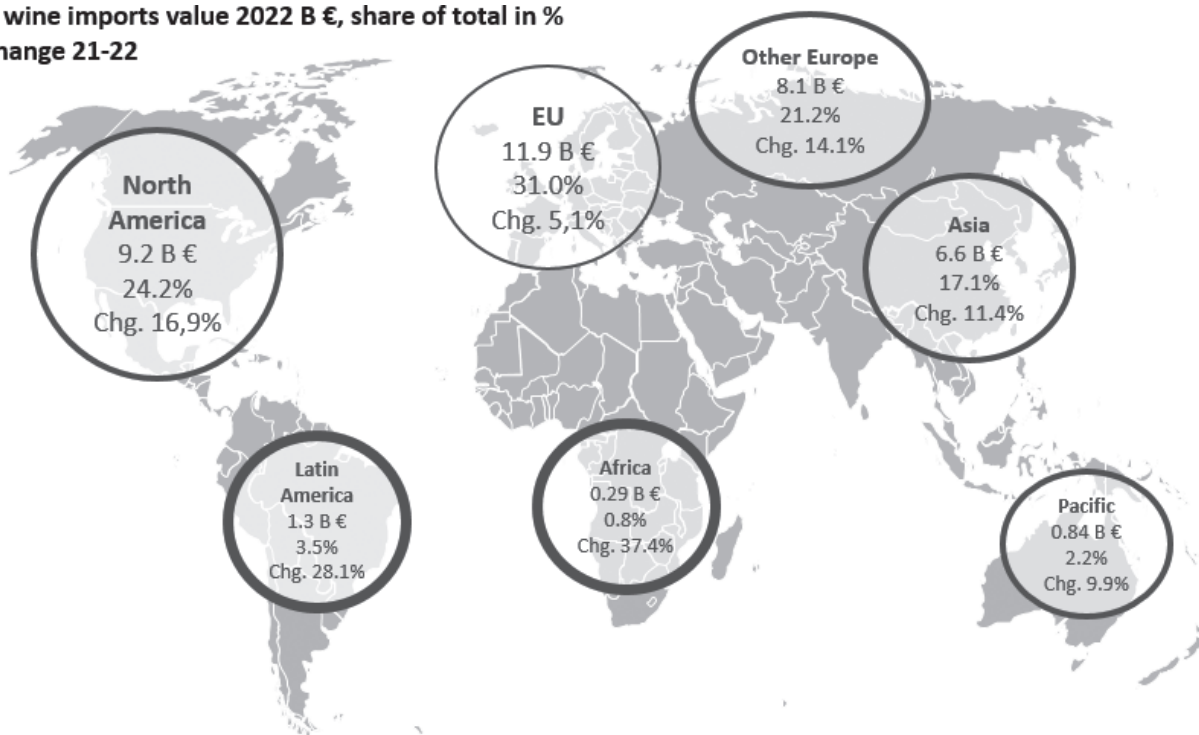


Figure 21. Wine imports by region: value of 2022 and change 2021–2022 (OeMv [2]); border strength indicates growth rate.

ditional reds. The same trend seems to apply to new consumers entering the alcoholic beverage category in traditional markets. Indeed, such a hypothesis does not contradict the remaining and even increasing consumption of traditional and high-quality wines, preferably aged reds, mostly by older, experienced consumers with higher incomes. The relative composition of both preference groups varies by country and will likely change over time, when older age cohorts leave the market and younger consumers enter it.

Following from these two opposing trends, it can be hypothesised that we will enter a period of increasing polarisation between (a) premium and super-premium wines for connoisseurs and more traditional drinkers and (b) easy drinkers increasingly looking at wine as a sort of elegant refreshment. Important implications would follow for wine policy and company strategies if the hypothesised trend is confirmed.

4.3 Diverging segments require different strategies

The different price segments of wine have been impacted quite differently by cost increases and inflation (section 3.3). As suggested in the previous section, a stronger polarisation might be expected in the future.

Different evolutions of different price segments require different strategies from companies.

The small niche of premium and super-premium wines represents a limited wine volume (of possibly 10–15%) but of high value. The small producing estates and companies focusing on high quality, reputation and storytelling have so far been minimally affected by the crisis. They were able to increase their prices because of a price-inelastic demand by their consumers. For some wines, even a positive price elasticity was observed. Potentially owing to the exclusivity of the products, sales volume increased when prices went up.

Yet there is a large segment of highly price-sensitive consumers who favour more popular and easy-to-drink wines (lighter, fresher, sweeter, white, rosé, sparkling, etc.) at very competitive prices. Some of these consumers have reduced their wine consumption and traded down to lower price points, increasing the price competition for producers in this large segment.

In the future, these two different segments will require different strategies. The strategy for the high-quality segment is based on objective and subjective wine quality. It is based on ownership or close relations with high-quality vineyards and regions. The necessary product characteristics must be matched by subjective reputation indicators, such as awards, storytelling and

good distribution in the upper segment of the market. Prices will likely increase further in this segment. It is highly uncertain whether the volume of this high-quality segment will increase significantly in the near future or even decline, making it harder for new entrants.

Cost and price competition are the main drivers of the second segment. Efficiency is the key to production at a low cost. This includes serving food retail with cost-efficient, own-label products. This will increase the pressure on grape producers, and declining volumes will push those stuck in the middle – those with costs too high for price competition but a profile too low for premium – out of the market.

Large companies with a portfolio of well-known brands that are very well distributed will be successful in this segment. For most consumers in this segment, taste is more important than objective quality indicators, such as EU protected designations of origin (PDOs) regulations. This might explain why EU PGIs (Protected Geographical Indications, former table wines with geographical indication) products and wines that are based on grape varieties, which can more flexibly react to changes in taste preferences, are less affected by the current crisis than traditional and strongly regulated PDOs, such as Bordeaux or Rioja.

The dichotomy between premium and value wine segments would explain why premium and super-premium wines from some segments of the supply of famous traditional and strongly regulated European PDOs, such as Bordeaux or Rioja, evolved very well in recent times, even increasing sales after a two-digit increase in prices. At the same time, traditional wines from the same PDOs but targeting a more popular segment of consumption suffer from strong oversupply and are requesting crisis distillation from the European and national authorities. They can hardly compete with wines produced in cheaper producing regions, particularly in a segment of the market for which the region of origin may not be so important and may no longer justify a higher price. For companies as well as regions, being caught in the middle may be a problem. Imposing and selling high-cost wines in the lower price segments no longer seems to work, particularly not if it also requires different tastes. This argument also provides the basis for many companies to enlarge their portfolios, including forming different categories to better fit different and changing segments of the market.

This also has important implications for wine politics and the strategies for PDOs and IGPs. If the segment of high-quality PDO wines is limited and not growing further, it might not be a desirable goal for each wine region to establish PDOs. Instead, cost efficiency, eco-

nomic sustainability and flexibility in the adaptation of product specifications to consumer preferences are key elements of sustainable wine politics. To date, considerable research has focused on quality. More research is required on the cost efficiency of wine production and different taste preferences.

5. CONCLUSION AND DIRECTION FOR FUTURE RESEARCH

We see five main areas of future business and economics research related to the wine trade that are of high importance for the future of the wine sector.

5.1 What strategies permit premiumisation?

Over the last 20 years, the global wine trade has undergone substantial shifts. It changed from volume-driven growth to growth of value due to premiumisation, of which not all wine-producing origins could benefit to the same extent. For the wine sector, it would be important to understand the success strategies of producers, such as France, Italy and New Zealand, which strongly increased sales and the average prices of their products, while others did not succeed to the same degree.

5.2 Understand the drivers of preference shifts and anticipate future shifts

Besides premiumisation, successful growth seems to be driven by a substantial shift in some consumers' preferences. Sales of lighter and fresher wines, including sparkling wine, have increased, while an oversupply of commercial red wines has kept prices low and required supply management. It is important for the future of the wine sector to understand the underlying drivers of this preference shift and, ideally, to be able to anticipate how preferences will change in the future for the industry to react.

5.3 Understand growing wine markets and their product preferences

The US market appears to be the main growth motor for the global wine trade, while prior hopes for a further increase in wine consumption in China have not materialised. Considering the shift in wine consumption of younger generations in the USA, it is uncertain to what degree the value of wine exports to the USA can be sustained into the future. How other growing mar-

kets, such as Canada, South Korea, Australia and Russia, will evolve in the future is of interest. In addition, regions that are new to wine are growing strongly in wine imports, although from a small absolute base. New markets and new consumers might require new product styles and packaging, to which existing producers will have to adapt to be successful in the future. It is important for the wine sector to understand regional and generational differences in wine preferences and how they might evolve in the future. Will young consumers and consumers in new markets evolve and change their preferences towards premium wines or will the current trend of light and fresh wines increase and persist? Or will both evolve in parallel, increasing the current polarisation of the market? New consumers and/or new markets may very well mean new consumption trends. In fact, new trends in the world wine trade may be responsible for the consistent leading role of sparkling and white wines.

5.4 Corporate strategies for a polarised wine demand

In the current major wine markets, we see contrary developments of the small but valuable premium wine segment, where prices increase strongly, and the large but cost-aggressive popular wine segment, where volume declines and prices only increase marginally. In a situation of oversupply and changing wine preferences, this puts wine producers under stronger competitive pressure. Companies must adapt to this suggested polarisation of wine demand that requires either high-quality products or cost-efficient commercial products. While specialisation can be one adaptation approach, particularly for small and medium-sized family businesses, having a portfolio of products targeted to different segments may be an alternative strategy for large international companies.

5.5 Optimal regulation and cost efficiency

The suggested polarisation has major implications for wine politics and the framework this sets for quality versus cost efficiency as well as the flexibility with which producers can react to changes in consumer preferences and climate change. Future research is required on how producers can remain economically sustainable while producing at competitive costs. This includes long-term strategies for regulating oversupply and quality differentiation adapted to consumer preferences.

The medium- and longer-term effects of inflation and a potential longer-term cooling or recovery of the global economy are difficult to foresee currently. What

the analysis of recent data clearly shows is that the world of wine is changing. New consumers in new countries and new trends are forcing companies to adapt their structures and follow new strategies to be economically sustainable in the long run. Closely following up on such trends and consumers' preferences will be a key element to succeed.

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