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Introduction

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The Palgrave Handbook of Wine Industry Economics examines varying models of wine industry in different countries and their relevance. The wine industry can be seen as a microcosm of globalization nowadays. It faces the same evolution as other industries in the 1990s: emergence of New producing and consuming countries and rising competition. Over the last 15 years, the international wine market has changed. New competitors appeared on the international scene and joined the top wine producers and exporters. The relatively new hierarchy of wine-producing countries could remain similar for the ten next years, but a process of convergence seems to be under way.

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1.1 A Global Panorama of Trade Flows from Leading to Emerging Countries

In recent years, growth in world trade has accelerated and competition has increased. The financial and economic crisis had a deep impact on the world wine industry, both in the producing countries and in the consumer markets. The wine market has to face a globalization process like all the other sectors, following the same phases. Initially concentrated in a small number of countries, the wine trade has opened up to the world, bringing in new competitors. In the process of globalization, it is not only the goods that are traded but also the factors of production. The internationalization of the market therefore also affects direct investment abroad and labor.

But if the globalization of the sector is today very advanced, we can wonder how it will evolve and what the consequences for the wine industries are worldwide. What forms could the future panorama of world trade take? Several scenarios have to be considered.

Globalization comes with phases of emergence of new countries beginning to participate in the exchanges. The wine sector is no exception to this dynamic. After the growth of wine trade within a club limited to a few developed countries, a second phase of emergence has seen the New World countries take over. The leaders of the Old World are competing with the outsiders of this New World, mainly in terms of price competitiveness. A third phase of emergence is at work. It mainly concerns China, whose vineyard is one of the largest in the world. The question is to identify when its exports will compete with those from other producing countries.

1.1.1 First Phase: Trade Growth Between the Developed Countries

Since the 1990s, two remarkable facts have to be noticed concerning the international wine trade. First, the strong growth in trade, since global wine exports have globally doubled between 1995 and 2015. Growth is even more pronounced in value than in volume (see Fig. 1.1), reflecting a rise in the average quality of wine exchanged on the market. This increase in trade highlights the globalization of the sector. We can note that global trade has been growing rapidly and steadily since the mid-1950s and faced a significant decline in 2009 for the first time since the beginning of the decade followed by a rebound in the following years.

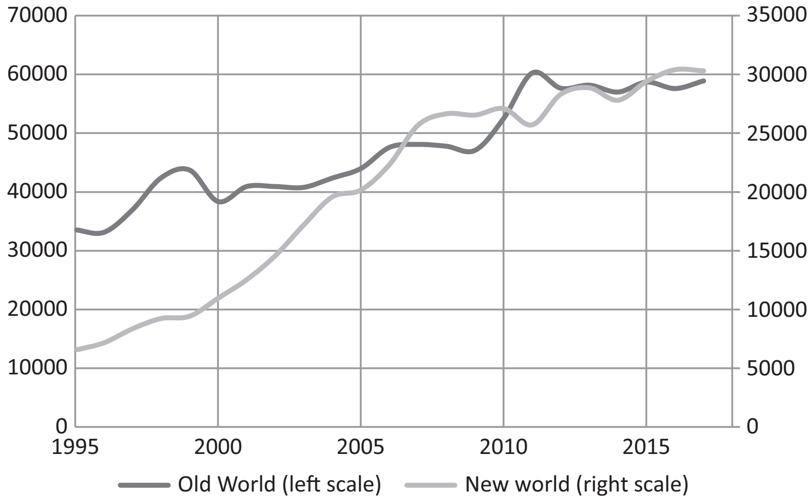

Fig. 1.1 The growth of world wine exports 1995–2017 (volumes in thousands of hL). (Source: OIV stats, http://www.oiv.int/fr/bases-de-donnees-et-statistiques)

Table 1.1 The top ten wine importers and exporters in 2017

Importers				Exporters			
Country	Volume	Value	Euro/ liter	Country	Volume	Value	Euro/ liter
Germany	15.2	2469	1.62	Spain	22.1	2814	1.27
United Kingdom	13.2	3452	2.62	Italy	21.4	5873	2.74
United States	11.8	5190	4.40	France	15.4	8989	5.84
France	7.6	812	1.07	Chile	9.8	1741	1.78
China	7.5	2458	3.28	Australia	8	1727	2.16
Russia	4.5	878	1.95	South Africa	4.5	583	1.3
Netherlands	4.4	1139	2.59	Germany	3.8	926	2.44
Canada	4.1	1653	4.03	United States	3.3	1280	3.88
Belgium	3.1	897	2.89	Portugal	3	752	2.51
Japan	2.6	1388	5.34	New Zealand	2.5	1054	4.22

Note: Volumes are in million hectoliters and values in million Euros
Source: OIV stats, http://www.oiv.int/fr/bases-de-donnees-et-statistiques

Second, the high concentration of trade among six countries is the other feature of wine trade (see Table 1.1). The three largest exporters are traditionally Spain, Italy, and France. In 1995, they accounted for 80% of total exports in volume, just over 66% in 2017. These exports are largely directed to three major consumer countries: the United States, the United Kingdom, and Germany. These countries concentrated 80% of imports in volume in 1995, about 54% in 2017. The international wine trade thus remains very concentrated despite a trend decrease of this degree of concentration.

The disparities in value and volume reflect the positions of the competitors in the wine market. Table 1.1 shows that Spain dominates exports in volume, whereas in value France is in a clear leadership position. These two countries made different strategic choices. Spain has a very aggressive strategy in terms of price on the international market, while France, unable to compete in terms of price, prefers a non-price competitiveness, especially focused on quality, the country, and the region of origin remaining a very important vector of image when a consumer purchases a wine. Italy is halfway between these two competitors in terms of strategic positioning, though it is increasingly moving toward a focus on quality.

The Spanish and French positioning, quite focused on the low or high end, can pose some problems. Of course, a very large diversity of producers exists in all countries, in Spain and France in particular, occupying all segments of the range. It is therefore advisable to remain cautious with the generalizations. Nevertheless, in Spain, the trap would be to devalue the image of the products with prices too low and thus prevent some vineyards to be upgraded. The production of bulk wine at a very low price, which is then exported to countries bottling and marketing it (mainly France), removes for Spain the main part of the added value coming of marketing.

For France, the trap would be to leave the segment of low- and mid-range wines and to promote luxury too much. Obviously, luxury is a segment with very high added value, but gradually abandoning the lower segments would lead to the ruin for many vineyards. Luxury is inherently reserved for a small number of producers. The challenge is to keep a qualitative image for French producers but without offering exclusive wines, which we open only on rare occasions. The large size of the French vineyard indeed requires volume strategies and not only exclusive upmarket strategies moving toward the ultra-premium segments.

From this point of view, and still on a very global scale, the Italian strategy is probably the most balanced between high-volume production with a good added value, as attested, for example, by the international success of Prosecco, and the more exclusive productions from Tuscany and Piedmont.

1.1.2 Second Phase: The Emergence of the New World and the Arrival of Outsiders

Wines from the New World's countries appeared in the international trade of wines at the end of the 1990s. Figure 1.2 reveals the intensity of the increase of exports in volume, while Table 1.1 shows the values of these exports in

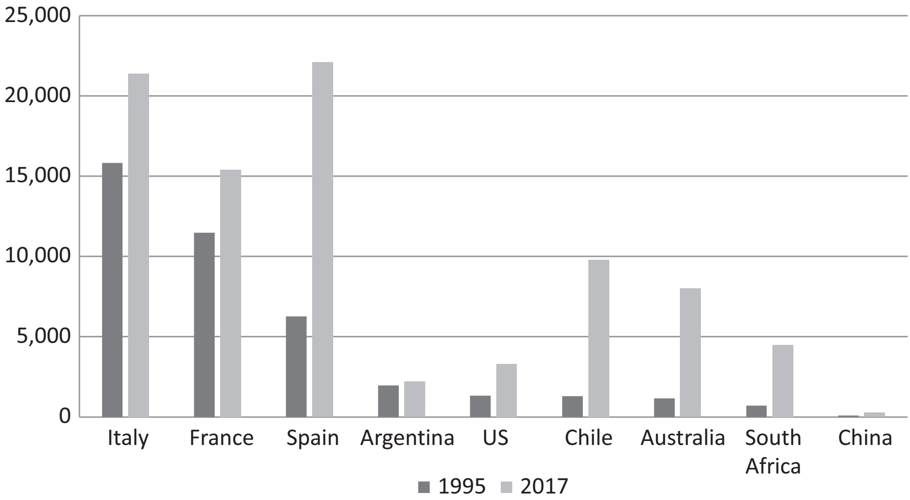

Fig. 1.2 The emergence of the New World in the world wine trade. (Note: Exported volumes in thousands of hectoliters; Source: OIV stats, http://www.oiv.int/fr/bases-de-donnees-et-statistiques)

2015, both in volume and in value. The last column of this table also shows the average price of a liter of wine exported by each country.

The performances of Chile and Australia appear to be the most remarkable. These countries are emerging as the leaders of the New World. Their wine sector is export oriented and very well organized through clusters drawn by leading companies. They have raised their brands to top 10 of the world's leading brands. These countries are at the same time competitive on the costs but with, in addition, products and a marketing strategy very adapted to the Anglo-Saxon consumer. The United States and the United Kingdom are the two main markets targeted by Chile and Australia.

In terms of pure growth, the case of New Zealand is emblematic with exports multiplied by nearly 27 between 1995 and 2015. This performance is all the more remarkable as the average price of wines exported is very high, close to the prices for France. This shows that this wave of emergence induces for the Old World a competition that is not only about volumes. Chardonnays from New Zealand compete with Burgundy wines. This competition is on price but more and more on quality. The example of the United States is also symbolic of this quest for quality and high export prices. This country, and especially California, was the first in the New World to choose constant innovation and a constant search for quality.

The two New World countries that appear slightly behind compared to the others are Argentina and South Africa. In the case of Argentina, it is because the growth of its exports is very low compared to other countries. It is comparable with Germany, a country whose exports of wine are not a priority. Macroeconomic problems in Argentina partly explain these performances. Wine exports contracted considerably during the economic crises of the late 1990s and 2008. In this latter case, restrictions on trade and exchange rate movements are the main reasons for the decline. South Africa is facing a more structural problem. The export performances are good but remain globally associated to rather low-end wines. The price of its exports is struggling to increase and is similar to that of Spain despite lower exports of bulk wine. The trap of low end combined with low added value is very present in this case too.

But the reason why the countries of the New World are particularly remarkable regards their marketing strategies. The creation of strong brands is the main asset of countries like the United States, Australia, and, to a lesser extent, Chile, the three New World countries with the best export performances. These brands capture the added value of marketing while capitalizing on very large volumes and thus achieving massive economies of scale. These brands are therefore a major vector for the competitiveness of these countries. The emergence of major international brands is another indication, together with the emergence of new players, of the entry of the globalization of the wine sector into a phase of maturity.

Argentina and South Africa have so far failed to develop such brands. In addition to quality and price, the sustainability of wine is likely to be a crucial competitive variable that will matter in international trade statistics over time. In this respect, the countries of the New World are clearly ahead of those of the Old World.

1.1.3 Third Phase: The Emergence of a New New World

Other producing countries are gradually becoming part of world wine trade. The countries around the Black Sea in particular, but also China, which increased its exports sevenfold between 1995 and 2015, could be part of the new wave of emergence, that of the "New New World". China is probably the best symbol of the changes at stake on the wine market, being the first country for red wine consumption in the world (the United States being the first one when considering all types of wines).

On one side, the Old Producing countries still count on the global wine market, but they are not dominating this market anymore. They are losing shares and have to make their strategy evolve. On the other side, the big brands are from the United States, Australia, and Chile (New World countries), and compete with the historical champions from the Old World. International trade follows these trends and continues to grow at a steady pace. Wine is also facing a financial globalization by becoming a support for financial investments or even speculation. Wine has finally become a global product since the 2000s.

1.2 Globalization of the Wine Market: Two Models into Question

We often hear about the existence of two main models in the wine industry, Old and New ones (appellation regimes vs. brands and varietals), which are generally discussed and compared with respect to their efficiency. From the three phases described above, we distinguish three groups according to the moment they appeared in the wine industry:

– Old/Traditional producing countries also called the Old World: the countries historically producing wine for centuries as France, Spain, and Italy, plus Portugal, Germany, and Greece if considering the countries still having a significant production (volume and value).
– New producing countries (New World), which have emerged since the 1950s: new producing countries as they began to produce wine far after the countries from the Old World. They had previously no vines and started on the wine market during the second half of the twentieth century. South Africa, Argentina, Australia, the United States, and New Zealand belong to this group.
– New New producing countries (New New World), which appeared on the international wine market in the recent years (twenty-first century) but sometimes had been producing wine for a long time. They include China, India, Brazil, and the countries around the Black Sea. For example, although in Brazil there are a lot of vineyards, only some of them are used for creating wine. The rest produce table grapes, but the share of the wine production is increasing. China has been producing grape wine for a long time, but it wasn't until the late 1890s that the process of true grape winemaking became relevant, and now there are hundreds of varietals produced all over the country.

The book deals with the main ones in each group, respectively France, Italy, and Spain for the Old World; the United States, Australia, Argentina, Chile, and South Africa for the New World; and China for the New New World.

The way the terms Old/New World are commonly used is often close to gross generalizations and also refers to differences in style in the specialized press and media. The differences in Old World and New World wines are described as coming from winemaking practices (tradition) and from the effect of land and climate on the grapes, that is, the terroir. They can also come from rules and regulations that dictate winemaking practices in many Old World regions which could influence a wine's style. Old World is often associated with tradition and history, while New World invokes technology, science, corporations, and marketing. The industrial organization does make a difference as well. The actors involved in the industry, their role along the production process, and the strategies to produce wine in the different countries can also be described as different ones. Considering the actors involved in the chain, in the New wine countries most winemakers are processing and selling wine but do not produce grapes, even if some of them now integrate the grape production to control the supply part of production. The Old World relies more on family estates producing grapes and wines with powerful intermediate bodies to sell the wine on the market. To add value to the wine, they are developing strategies which are often opposed. Old World countries are used to rely on the denomination of origin and appellation regimes, while New World countries focus on developing strong brands and "cepage" or varietal wines. The protected designations of origin (PDO)/protected geographical indication (PGI) system has made the reputation of some famous wine regions as Bordeaux and Burgundy in France with *Grands Crus* and *Châteaux* and a strong reference to the terroir (soil, climate, and know-how).

But the existence of two different and really distinguishable models is very often supposed and implicit. Reality is probably more complex with the coexistence of different strategies within the different producing countries. This is one of the reasons why this book addresses several questions: What are the models of industrial organization in the wine countries? Is it possible to describe them? Are they really different? To go further into the globalization at work for wine production, we intend to describe the industrial organization of the main wine countries according to the international wine trade (France, Italy, Spain, the United States, Australia, Argentina, Chile, South Africa, and China) and analyze the status of these countries. In this competing framework, we wonder about the different strategies and their performance. Regarding the globalization process at work in the wine industry for wine production, we wonder if the different countries will follow a general convergence trend or if different models can and will coexist in the next years. The perspective in this regard is the future challenges that producing countries will face to choose the best strategy for their wine sectors, and this book tends to highlight the key issues that have to be considered.

1.3 Outline

The book is divided into five main parts (apart from the introduction and the conclusion).

Part I aims to identify the different models of wine production in the main wine-producing countries presented above. Based on the description of the industrial organization of each wine country, this part represents a first step to better know and to provide an overall picture of the main features of the wine industry in the nine main wine countries from different regions: the Old World (France, Italy, Spain), the New World (the United States, Australia, Argentina, Chile, South Africa), and the New New World (China). This allows for reasonable comparisons across countries and to discuss the issue of wine industry organization in a context of globalization. The focus is set on the structural features, that is, long-term and not easily changeable characteristics of the sector, rather than on short-term performances. In each chapter, the reader will be able to find many different information on the structural features of the grape-growing/wine-growing sector for the country including geographical distribution of wine-growing farms in the country, proportion of wine-growing farms on the overall agriculture, the average size of wine-growing farms, farm size distribution (small vs. big farms), grape varieties, appellation vs. generic grapes (where applicable), farming techniques (irrigated vs. rainfed, yields, etc.) and related production costs and revenues, land tenure, family vs. corporate farms. The chapters also include information on the structural features of the winemaking sector (average plant size and size distribution of wineries), types of winemaking firms (on-farm winemakers, wine co-operatives, industrial firms (and shares on total production)), and types of products (appellation vs. generic wines, brand vs. appellation wines, marketing strategies, labeling and communication to consumers, number of brands, price positioning, and volume by segment). Then come the distribution and the relationships along the distribution chain with the contractual arrangements along the chain, the role and relative weight of mass retail, specialized shops, HORECA, and exports as final destinations of the production. What this first part overall shows is that, though some general differences in the structures exist between the Old and the New Worlds, they are not always clear-cut. In particular, the main structural diversities concern the wine farm sizes, the degree of concentration of the sector, and the role of co-operatives. But what also emerges is that different models of organization of the chain coexist. Both winemaker-grape growers and winemakers purchasing grapes exist everywhere, though accounting for different shares of the domestic production. The degrees of concentration are quite diverse, but big firms relying on their brands exist in both the New and Old Worlds. The valorization of specific local characteristics (the terroir and appellation typical model of the Old World) is increasingly utilized in the New World, be it through institutional arrangements or informally through the reputation and the labels.

Part II focuses on the political processes structuring and influencing the wine market worldwide, a perspective that shows that actors in the wine sector act and influence rules and standards. In a context of increasing competition between wines from different countries from all over the world, policies governing the sector are no longer determined at the national level and have a strong influence on the structure of wine industries. Therefore, the analysis focuses here on wine regulations at European and international levels. After the introduction (Chap. 11), Chap. 12 analyzes the international wine organizations and plurilateral agreements, and the dialectic between harmonization and mutual recognition of standards. This chapter focuses on the role of the international organizations such as the International Organisation of Vine and Wine (OIV) and the World Wine Trade Group (WWTG). Through detailed analysis, this section highlights their differences in philosophies and goals of action. Then Chap. 13 focuses on the European wine policy, and its regulations and strategies. It explores the history of the EU wine policies through the analysis of budget expenditure that has characterized the public interventions in 45 years (1970–2015). The objective is to analyze the main drivers that have characterized the EU wine policy from the first CMO in 1962 until the last reform. The authors provide an in-depth analysis of the EU wine policies identifying three main public policy orientations and strategies that occurred in those years such as (1) "price and income support", (2) "quality of wine", and (3) "competitiveness". Finally, Chap. 14 focuses on trade barriers on wine markets as international wine trade, like any other trade, is influenced by barriers which are relevant elements of the global wine market's institutional setting. Trade barriers result from customs tariffs or from policy measures that can potentially have an economic effect on international trade quantity and direction of flows. Wine exporters have actively negotiated preferential trade agreements with importing countries to set lower barriers, and the authors discuss their potential discriminatory effects. Considering the current tensions in international relations, they identify a risk for the rising of trade barriers in the next years and the need to empower an international institution to harmonize the definitions and rules in wine production and trade worldwide.

The next three parts are dedicated to the key variables to analyze industrial organization in the wine sector and its performance: regulation, key actors and the governance of the industries, strategies developed by the players as the vertical integration process.

Part III explores the diversity of business models in the wine industry. It focuses on different key actors in the wine value chain in the Old World: grape and wine growers, wine co-operatives, and negociants/wine merchants. The first chapter of this part (Chap. 15) sets a view of the differences observed in the industrial organization of the wine sector from the actors' point of view, including their strategies. In the Old World, wine industries are more fragmented and atomized. So this chapter focuses on the diversity of grape and wine-growing farms and the variability of their performance, and on the downstream actors as negociants and wine co-operatives. The author shows that it is not all about the size but also on the strategies they develop to better face market demand. Then, the authors of Chap. 16 go deeper into the analysis of vineyard and wineries organization. They use a transaction cost framework to examine the organization of vineyards and winemaking, focusing on three important organizational features of worldwide production: limited contracting, small vineyards producing high-quality grapes, and the separation of wineries from vineyards in the nineteenth century. Then, the part focuses on particular and powerful actors of the Old wine industries: wine co-operatives and negociants with French case studies. Chapter 17 presents the French wine co-operatives and their specific status making them different from wineries in the New World. The authors mainly analyze how the strategies they set to survive on the market (mergers) impact the territorial anchoring which was constitutive of their existence at the beginning. Then Chap. 18 introduces the negociants and *la Place de Bordeaux*, embedded in a complex set of social relationships and governed by various institutions. The author explores this so particular model in the wine sector and shows the diversity and shifting power balance between negociants and winegrowers.

Part IV deals with an important driver of the strategies set by the actors whatever the model and the wine country they are coming from. The challenge of vertical integration is particularly strong in the wine sector because of the interdependence of grape growing and winemaking. Wine companies are facing a process of concentration linked to the search for economies of scale, investment capacities, and bargaining power vis-à-vis retailers. In this context, creating value through downstream integration of production can be difficult for firms, whose financial and human resources are generally limited. This part examines this issue from different points of view according to the actors (wine estates but also wine co-operatives and international companies) and according to the scale (a regional one, concerning Burgundy and Bordeaux wines, but also regional, national, or international). After an introducing chapter (Chap. 19) dedicated to a literature overview on this issue in the wine sector, Chap. 20 provides a cluster analysis to identify the main differences among Burgundy wine estates in terms of winemaking outsourcing vs. vertical integration. The authors show that winemaking integration has a positive effect on wine estates' profitability in Burgundy. Then, Chap. 21 focuses on two levels of vertical integration strategies, first in wine estates and then in wine co-operatives, to explore wine companies' performance in relation to their vertical integration level. The results show that such strategies appear as an efficient way to create value for producers (private cellars and co-operatives members) but that it should not stop at the bulk-wine production stage. The next chapter (Chap. 22) analyzes the evolution and the current structure of the Prosecco Superiore industry at the PDO level, giving qualitative and quantitative evidence of the role of the different models of supply chain. The authors highlight the interaction connecting the different supply chains via the intermediate markets of grape and wine. The intense interrelation among different operators seems to be one of the key factors of enduring success. Finally, Chap. 23 goes up to the international level considering the backward vertical strategies in leading companies, especially in the New World.

The last part finally gives clues to analyze the performance and the efficiency of the wine industries.

Part V addresses the question of the efficiency of the wine industry. Are the strategies developed in the different countries successful or not? To answer that question, this part takes different angles to deal with the results the wine industry got from their different strategies. It first focuses on international trade and the characteristics of the wine industries coming back to their status: Old vs. New World and appellations vs. brands with a simple indication of origin (Chap. 24). The next chapter (Chap. 25) also considers the appellations vs. brand debate, but from a microeconomic point of view. Indeed, the results of wine producers have to be considered at firm level, trying to find out the best way for them to manage reputation, and therefore their sales, either individually through a brand or collectively through an appellation. This idea is to overcome the implicit idea widely retained, about the supremacy of branding in the New World. It starts from the collective reputation model, analyzes its effects as well as its failures, to show that such a categorization might be simplistic. Both coexist more and more frequently on the same label. Then, we chose to present diametrically opposed national case studies of economic success in the wine sector to show that different and opposed strategies can be successful (Chaps. 26 and 27). Indeed, Chile and Switzerland have both enjoyed great success in the wine industry, but by following completely different trajectories. These chapters perfectly illustrate the cautious approach one must take when addressing questions of efficiency, performance, and economic models. The major conclusion to be learnt from this part and probably from the whole book is that there is not one single road to success when talking about industrial organization in the wine sector but that different strategies are possible according to the micro- and macroeconomic characteristics governing the country. Different "models" exist and go against the idea of the homogenization of the wine industry worldwide.