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Wine Economics and Policy 3 (2014) 115–126

www.elsevier.com/locate/wep

The New World challenge: Performance trends in wine production in major wine-exporting countries in the 2000s and their implications for the Australian wine industry

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Received 6 August 2014; received in revised form 27 November 2014; accepted 4 December 2014
Available online 13 December 2014

Abstract

Anderson, K., Nelgen, S., 2011. Global Wine Markets, 1961 to 2009: A Statistical Compendium. University of Adelaide Press, Adelaide publication of an index of revealed comparative advantage suggests that the Australian wine industry had come under increased competition from other "New World" producers in the first decade of this century. We examine this influence by comparing the transformation of winegrapes into wine volume and value in the 11 largest wine-exporting countries during the years, 2000–2009. Our focus is on the challenge issued by other New World producers from the Southern Hemisphere to Australian producers, and the continuing challenge to Old World global supremacy by New World producers and its response. Four performance measures are used this study. Two key trends are evident. First, all countries migrated to higher price points, albeit with differing degrees of success: slightly declining productivity in transforming winegrapes into wine output was overwhelmed by price/quality effects, leading to substantial gains in transforming winegrapes into wine value. Second, New World producers plus Portugal and Spain were much more successful in achieving gains in their export value proposition than they were in extracting value in their domestic markets. Results show that Australian wine producers had lost some of their competitive advantage during the 2000s as their pre-existing strategy dominated by the export of high-volume wines by large companies at low to medium price points, and their reliance on a reputation for reliable good quality for the price point was beginning to fail in the face of competition from both New World and Old World producers. Acknowledgement of this outcome has led to a good deal of introspection, and recognition of the need to promote the wine regions of Australia, based on higher-quality wines, and to select and promote quality indicators.

Keywords: Australia; Competitiveness; Export; New World; Value proposition; Wine

1. Introduction

During the final two decades of the 20th century, the internationalisation of wine production and consumption continued apace. Robinson (2006) observed that the broad delineation between the Old World producers of France, Germany, Italy, Portugal and Spain and the Southern Hemisphere New World (SHNW) wine-producing countries – particularly Australia, Argentina, Chile, New Zealand and South Africa – as discrete markets continued to be eroded. New markets developed, traditional markets diversified and the mapping of the international wine trade became increasingly routinised (see, for example, Anderson and Nelgen (2011)).

During these two decades, the Australian wine industry exemplified this internationalisation, in particular the challenge that the SHNW represented to the Old World producers. Silverman et al. (2001) described Australia's achievement during this time as "pioneering wine as a universal first choice lifestyle beverage". However, by the turn of the century, the export strategy first adopted by the Australian wine industry had been followed by other SHNW wine-producing countries, notably Argentina, Chile, New Zealand and South Africa,

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Peer review under responsibility of Wine Economics and Policy.

http://dx.doi.org/10.1016/j.wep.2014.12.002

while the Old World had begun to respond to the challenges of the new. In their recent study comparing the relative performance of the major wine-producing countries for the year 2000, Grant et al. (2015, p. 1) observed the pegging back of Australian *primus inter pares* status amongst New World producers. They concluded that "the hunter became the hunted" in the competition for profitable wine exports.

Was this indeed the case? The changes in export volume and export value for Australia and other SHNW wine-producing countries for the decade 2000–2009 are presented in Table 1. The export value growth rates of New Zealand and Argentina are particularly conspicuous. New Zealand's share of the total export value of the five SHNW countries listed in Table 1 increased from 5 per cent in 2000 to 12 per cent in 2009. Over the same period Argentina's export value share increased from 8 per cent to 12 per cent. These increases came largely at Australia's (and to a lesser extent Chile's) expense. While Australia's share of total export volume of the five SHNW countries listed fell only slightly (around 3 per cent) its export value contribution fell by 11 per cent (from 46 per cent in 2000 to 35 per cent in 2009), suggesting that Australia conceded significant ground to some of its SHNW competitors.

In this study we explore these changes in detail. Following from Grant et al. (2015) and utilising the same performance measures of the transformation of the core input – winegrapes – into wine output volume and value, we compare the performance of the five Old World wine producers (France, Germany, Italy, Portugal and Spain) and their five New World counterparts for the decade 2000–2009 inclusive.

The paper is divided into five parts. In the following section, we set out the rationale for the study. Section 3 provides an account of the adaptation of the method and data following from Grant et al. (2015), distinguishing in particular between efficiency measurement in standard productivity analysis and the performance indices developed by Grant et al. (2015). In Section 4 we examine the relative performance of the wine-exporting countries for the decade 2000–2009, focusing on the salient features of each measure across the cohort of wine-exporting countries. The paper concludes in Section 5 by reflecting on the implications of the findings for the Australian wine industry and reiterating some qualifications of the data utilised.

Table 1
Changes in export volume and value: SHNW producers, 2000–2009.
Source: Anderson and Nelgen (2011, pp. 72, 95).

Country	Volume (million litres) 2000	Volume (million litres) 2009	% Increase	Value (US$m) 2000	Value (US$m) 2009	% Increase
Australia	311	772	248	897	1802	201
New Zealand	20	129	645	90	637	708
Argentina	73	291	399	150	636	424
Chile	297	692	233	577	1374	238
South Africa	155	429	277	243	711	293

2. Rationale for the study

The aims of the study are fourfold. First, to highlight the trend in competitive advantage in international wine trade towards quality away from low cost. Second, to provide a more finely nuanced empirical account of the competitive relationships between the 10 major wine-exporting economies than is revealed by international trade data (see, for example, Anderson and Nelgen (2011)). Third, to offer an explanation for the relative positions of these wine-producing economies in terms of both the performance of their wine production and their relative success in international markets. Fourth, to canvass the implications for the Australian industry noting the limitations of public policy in this regard.

Defining national wine industry performance is central to achieving these aims. Performance by these industries can be judged in different ways according to the policy milieu. The simplest measure is export penetration: the extent to which winegrapes can be transformed into wine that can find a buyer in export markets. Increasingly, being able to compete profitably in export markets depends also on the price points at which the wines can be exported: the higher the price points, the more valuable the exported wine to the industry. The second measure we use, export value proposition, takes this value creation into account and is defined in this context as an affirmation why a foreign wine buyer should purchase a particular wine based on the rationale that this wine will add more value to the buyer's transaction in the export market for which it is destined than would any other wine.

Being competitive in export markets is, however, only a partial measure of an industry's overall performance; it also depends on its ability to defend its domestic market share. Our third measure, productivity, is integral to an industry's ability simultaneously to succeed in both its export markets and domestic market. The fourth and broadest measure of industry performance that we use is its total value proposition, defined as an affirmation why a wine buyer – whether domestic or foreign – should purchase a particular wine based on the rationale that this wine will add more value to the buyer's transaction in the market for which it is destined than would any other wine.

3. Method and data

As indicated above, we compare the relative performance of the major wine-producing countries using the same four performance measures of the transformation of winegrapes into wine output volume and value used by Grant et al. (2015). They are (1) an export market penetration index, defined by the transformation of winegrapes into wine export volume; (2) an export value proposition index, defined as the ability of exporters to capture value from the perceived quality of wine exports; (3) a productivity index, defined as the transformation of winegrapes into total wine output, taking into account the industry servicing both its domestic and export markets; and (4) a global value proposition index, defined as the ability of wine producers to capture value from the perceived quality of