Study on the competitiveness of European wines

FINAL REPORT

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WRITTEN BY COGEA S.R.L.

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Abbreviations

AAGR	Average Annual Growth Rate
AOC	Appellation d'Origine Contrôlée
AOP	Appellation d'Origine Protégée
ARS	Argentine Peso
AUD	Australian Dollar
AVA	American Viticulture Area
BCG	Boston Consulting Group
BIB	Bag-In-Box
CAP	Common Agricultural Policy
CIF	Cost, Insurance and Freight
CMO	Common Market Organisation
DOC/DOCG	Denominazione d'Origine Controllata/ Denominazione d'Origine Controllata e Garantita
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FOB	Free on Board
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GI	Geographical Indication
IBWTI	Index of Bilateral Wine Trade Intensity
ICE	Istituto nazionale per il Commercio Estero (Italy)
ICEX	Instituto Español de Comercio Exterior (Spain)
IMF	International Monetary Fund
IWSR	International Wine and Spirit Research
NWC	New World Countries
OECD	Organisation for Economic Co-operation and Development
OIV	Organisation Internationale de la Vigne et du Vin
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
PPP	Purchasing Power Parities
RDP	Rural Development Programme
TTB	Alcohol and Tobacco Tax and Trade Bureau (USA)
USD	United States Dollar
USDA	United States Department of Agriculture (USA)
VAT	Value Added Tax
v.q.p.r.d	Vins de Quality Produits dans des Régions Determinées
WET	Wine Equalisation Tax
WGI	(wines) Without Geographical Indication
WTO	World Trade Organization
WWTG	World Wine Trade Group

1 INTRODUCTION

This report presents the results of the Study on the competitiveness of European wines.

The aim of the study is to build on the current position of European wines in the key world markets to derive conclusions on how to further advance the policy objective of improving their competitiveness. The study analyses the development of EU wines competitiveness and identifies the key factors of competitiveness in the most important consumer markets where EU wines enter in direct competition with third country wines.

The study focuses on still wines and distinguishes between two business areas: bottled wine and bulk wine. The analysis also distinguishes wines by price/quality segments and wines with Geographical Indication and without, including varietal wines.

The study examines in detail seven case study markets: China (including Hong Kong), Japan, Russia, USA, Denmark, Germany and the United Kingdom.

The main EU competitors considered in the study are New World Countries (NWC): Argentina, Australia, Chile, New Zealand, South Africa and USA.

The study period is up to the horizon 2025. In order to assess past and current development of the competitiveness of European wines, data from 2000 onwards are analysed.

2 OVERALL APPROACH TO THE STUDY

This chapter presents the overall approach to the study based on the work carried out, comprising the development of the theoretical framework, the definition of the empirical approach to the study (i.e. methodologies and analytical tools), the data collection and validation.

The study develops around three Themes:

- Theme 1 – Development of the competitiveness of EU wines (past and prospective)
- Theme 2 – Identification of the key factors of competitiveness (both EU and non-EU wines)
- Theme 3 – How to improve the competitiveness of EU wines.

In consideration of the fact that "*The general aim of this study is to provide the background knowledge on the key factors and mechanisms behind the development of the competitiveness of European wines, and to assess how to further improve it both inside the EU market and in main third country markets vis-à-vis the competition from wine-producing third countries*", the development of the empirical approach to the study has required, first of all, the definition of the theoretical framework, the scope of the study and the field of analysis:

- A definition of what is meant by wine competitiveness that takes into account the overall objectives of the study, the complexity of wine markets at the international level, the implications for the collection of relevant data and implications for analysis in the present study;
- The identification of the main competitors of EU wines on the most important world markets;
- The definition of the different types of wine products on which the study must focus (i.e. product coverage);
- The identification of the most important world markets where EU wines compete with wines of other origin (i.e. main competitors) on which to focus the analysis. In this respect, the overall analysis based on official trade statistics covers the most important markets for EU wine exports (bottled and bulk wine), whereas more in-depth analysis focuses on selected Case Study countries (see following §2.4).

The following sections of the present chapter illustrate these four key elements of the study.

2.1 DEFINITION OF COMPETITIVENESS AND IMPLICATIONS FOR ANALYSIS

Competitiveness is defined as the ability of a system to sustainably produce and sell goods and services on a given market, in such a way that buyers prefer these goods to those offered by competitors.

The goal of competitiveness in a specific market is the consolidation or increase of market share while maintaining an adequate return. In expanding markets the goal is achieved with sales growing at a higher rate than that of the total market and of competitors, and in declining markets with sales decreasing at a lower rate than that of the total market and of competitors. In this sense, competitiveness reflects the ability of the system to respond to a combination of market conditions originating from intermediate market actors (distribution) and final consumer markets.

Furthermore, the analysis of a "specific market" needs to distinguish between:

a. the overall country-market (i.e. the wine market in China, Russia, etc.) and
b. within country-markets, as different segments exist. Each market segment generates an independent competitive system and a specific structure of success factors that differ from segment to segment. The intensity with which firms respond to these success factors helps to define the degree of competitiveness (and therefore the level of market share).

The distinction of different market levels means that the concept of competitiveness (and its improvement) needs to be analysed according to two dimensions:

1. The competitiveness of wines originating from different country-systems competing on a certain market (e.g. competitiveness of EU wines versus Australian wines on the UK market, etc.);

2. The competitiveness of EU wine businesses (production and distribution) in comparison with the competitiveness of non-EU wine businesses, both operating in a certain market or market segment.

In general, the first dimension cannot be separated from the second, as the result of the implementation of strategies and operations of companies seeking to increase their competitiveness on a given market / segment (in essence, to increase their market share) helps to determine the overall competitiveness of country-systems. In conclusion, the growth of market share is the final expression of the objective of improving competitiveness.

It must be taken into account that the globalisation of the wine market, together with the evolution of the industry structure towards increasing concentration, potentially makes the analysis of the competitiveness of EU wines relative to wines of other origin more complex. In fact, the extension of product portfolios (or brand portfolios) by global companies (mainly Australian and American, but also European) and the development of commercial networks that distribute both New World and EU wines are more and more commonly used strategies. For these companies, the goal is acquiring and maintaining presence (market share) in a specific market segment through supply of a wide range of different products and brands - all managed by the same company. Thus, the product origin does not matter as much as the product's ability to enter into the strategic plan of the company (i.e. product/market positioning strategy). In this sense, the focus is on the competitiveness of EU versus New World wine businesses rather than on the competitiveness of EU wines relative to New World wines.

2.2 IDENTIFICATION OF MAIN COMPETITORS OF EU WINES AT THE INTERNATIONAL LEVEL

Following the definition of competitiveness, the next step has consisted in identifying the wine producing / exporting countries whose products enter into direct competition with EU wines on the most important markets worldwide. The main competitors of the EU on international wine markets can be thought of as belonging to the following main groups:

- New World Countries (NWC) This group counts the 8 most important wine producers worldwide (i.e. besides EU member states): Australia, South Africa, New Zealand, Chile, Argentina, the United States, Canada and Uruguay[1] (NWC8). NWC8 are the most important wine exporting countries after the main EU wine producers (i.e. France, Italy and Spain) and their wines represent the main competitors of EU wines on the most important world markets.
- Western Balkans wine producers comprising Serbia, Kosovo[2], Bosnia-Herzegovina, Montenegro, the former Yugoslav Republic of Macedonia (fYRoM) and Albania. The inclusion of these countries in the analysis finds its motivation in their prospects of eventually becoming EU member states and the strengthening of regional cooperation[3]. In particular, fYRoM is the leading producer/exporter of the region (albeit predominantly exporting wine to other Western Balkan countries, in particular, Serbia and Bosnia-Herzegovina). A steady flow of bulk wine from fYRoM is directed towards Germany, however such exports do not represent altogether important volumes nor value.
- Other wine exporting countries that are relevant for certain analysed markets. For example, the inclusion of Caucasus wine producers/exporters in the analysis, in particular Georgia (the leading wine producer / exporter of the region), is only relevant to Russia and finds its motivation in the embargo on Georgian wine imports imposed by Russia in 2006 as a result of conflict between the two countries. The embargo led Russia to import from other countries, including EU Member States. At the same time, Georgia diverted its exports to other consuming countries since 2006. The lifting of the embargo on Georgia's products in the summer of 2013 could change again the composition of Russian wine imports. However, it is argued in the literature that Georgia's wine exports may not be able to reach pre-ban levels as the Russian market has become more competitive since 2006, with stronger presence of local, Western

[1] However, Uruguay and Canada's exports are rather limited and/or highly specialized in specific products (e.g. Ice wine for Canada).

[2] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

[3] In this respect, the Central European Free Trade Agreement (CEFTA), in force since November 2007, aims to attract investments, foster intra-regional trade and integrate the region into global trading. In this way it supplements the trade integration initiated by the SAAs and autonomous trade measures.

European and South American wine brands. Similarly, wine exports from former USSR countries such as the Ukraine and the Republic of Moldova are only relevant for the Russian wine market.

- In the country markets where this is relevant, the analysis also considers domestically produced wines among the main competitors.

2.3 PRODUCT COVERAGE

The observation of statistical data has shown that the competition arena practically only concerns still wines, as for other products (sparkling wines and liquor wines) the EU operates in a quasi-monopolistic regime (over 90% market share) both on domestic markets and on export markets. With regard to these two types of wine, market competition only involves EU countries.

As the aim of the study is to assess the competitiveness of EU wine products compared to products from third countries, the study focuses on still wines intended for human consumption.

Furthermore, the analysis takes into account different product types:

- Quality: wines with geographical indication (PDO and PGI European wines and similar denominations of origin that qualify wines from third countries), wines Without Geographical Indication (WGI) including varietal wines;
- Type of packaging at retail: bottled wines and wines in larger containers such as bag-in-box, brick, etc.;
- Price: price ranges based on IWSR market data (§2.5.3) and on a survey of online wine retailers (Web checks - see §2.5.4) and price/quality segments (Entry level, Medium and Top range) used to collect the informed opinions of key market players interviewed in the case study countries (see §2.5.1).

  The issue of prices / price-based segments' comparability across countries was carefully considered in the analysis, in order to avoid misinterpretation. In fact, wine purchase prices in different countries (and therefore the price range within which a particular wine falls) are influenced to varying extents by the following factors:

  - Differences in logistics costs (i.e., transportation, insurance, etc.);
  - The different magnitude and methods of calculating taxes: import duties, VAT, magnitude and system used for excise duties (whether excise duties are applied and if they are calculated ad valorem or per litre);
  - The different magnitude of profit margins to importers, distributors and retailers.

  In reason of such differences, the same wine could fall into the Entry level in Germany (where no excise duty is applied) and into the Premium segments in the United Kingdom (where excise duty is about 2£/0.75l).

  Nevertheless, preliminary analysis showed that the comparability problem arises in particular for low priced wines (ex-work price), while differences between country markets decrease for increasing ex-work prices.

In the course of the development of the methodological approach and during data collection it was confirmed that it is of paramount importance to clearly distinguish between the two business areas of bottled wine and bulk wine, as described in the following section.

2.3.1 Import markets for bottled versus bulk wine

Two distinct international trade markets for wine exist in which different trade partners and market players are involved and the key factors of competition may significantly differ:

- Wine traded already bottled and labelled;
- Wine traded in bulk.

In most wine importing countries both markets for imported bottled and bulk wine exist. Bottled wine is clearly identifiable in terms of its origin, winemaker, brand, etc. whereas bulk wine is a commodity that can be used in different ways and marketed differently, depending on the import market.

Import of bulk wine has different market implications depending on its destination and use. For example, wine can be imported in bulk for cost-saving purposes and then labelled by the original producer or by food retail chains (retailer labels). In other cases though, bulk wine imports are used by local wine makers for blending with domestic wines. Since the resulting products are labelled and marketed as domestic wines, such imported wines lose their original name and character. In some country markets, however, both cases can be found.

For these reasons, it is important for the analysis to distinguish between wines traded in bottles and in bulk.

2.4 SELECTION OF CASE STUDY COUNTRIES

The execution of the present study required the choice of key consumer markets (EU and non-EU) on which to focus analysis. Besides the five markets which we were explicitely invited to examine (i.e. USA, Russia and China - including Hong Kong, outside the EU; UK and Germany, within the EU), we have analysed Denmark and Japan as additional case studies.

Besides the sheer size of each country market in terms of total wine consumption, the choice of case study markets was based on two specific criteria to assess their relevance as key consumer markets:

- Intensity of competition, measured in terms of changes in market share of EU wines on the most important import markets over the last decade.
- Demand trends, measured in terms of percentage change in total wine imports over time to assess whether consumer demand is on the increase, stable or declining (i.e. to identify markets with growth potential).

These two criteria were then complemented by other available information, such as the results of the recent "Evaluation of Common Agricultural Policy measures applied to the wine sector" (2012)[4].

The choice of Japan and Denmark was also justified by further considerations developed during data collection:

- The Japanese market presents a somewhat dual structure, as it emerges from review of the literature and interviews with key market players. On the one hand, this market is sensitive to quality wines for which image and prestige are very important attributes. Quality wines at the top of the price range are mainly consumed at restaurants and purchased as gifts. The "gift culture" appears to be quite important in this country, as the Japanese exchange presents in many occasions. According to interviews, premium and luxury wines are often used as presents and for this scope French wines are perceived as the most prestigious, followed by other Old World wines. On the other hand, as wine consumption has become more widespread across geographical areas and social classes and increased at home in accompaniment to meals, the market for Entry level and Medium range wines has developed. In these markets (lower price/quality) NWC wines are very competitive.
- Although not a wine producer, Denmark has developed a dynamic wine export business, taking up a role as an important wine trading centre or simply a transit platform for imported wine, both in bulk and bottled. The EU holds a dominant share of the Danish market for imported bottled wine, whereas NWC wines hold a slightly larger share of the bulk import market. Bulk imports comprise wine actually marketed in bulk and directed to packaging facilities (mostly to be packaged into Bag-in-Box - BIB) and wine already packaged in Bag-in-Box (therefore, in containers >2lt). The wine bottling industry is well developed in Denmark (e.g. Globus Wine is one of the largest BIB filling facilities in Northern Europe). The bottling industry serves both foreign producers selling wine in BIB to supermarket chains, and the same supermarket chains that import bulk wine directly. The near totality of re-exports of bottled wine and BIB is directed towards Germany and Scandinavia (within the EU, Sweden and Finland; and Norway).

A consideration was initially made on whether, depending on market size and structure (i.e. demand more or less concentrated and more or less homogeneous in different geographical areas), it would be more

[4] See Chapter 7.3 of the Final Report of the "Evaluation of CAP measures applied of the wine sector" (COGEA - October 2012).

appropriate to concentrate the analysis on representative regional markets in the largest case study countries (USA, China and Russia), as undifferentiated analysis over entire countries may be less significant.

Initial analysis of (a) characteristics of different markets at sub-national level and related wine consumption trends, (b) strategic location of most important import/trading companies and main entry points for imported wine and (c) identification/first contact with key market agents in important regional markets, whom we later interviewed (wine importers; distributors; Off-trade; On-trade), led to identify the geographical areas of interest:

- USA - East-coast states: New York, New Jersey, Massachussets, Maryland, Connecticut, Pennsylvania and Florida; Other areas: states of Illinois, Ohio, Michigan and Texas.

  US demand for imported wine is mainly concentrated in the East-coast states and less in the Central and Mid-west states. Overall, East-coast states from Maine down to Florida account for over 50% of the total. On the West-coast, California is the largest wine market in absolute terms, with however a smaller share of imported wine, as consumer preference is rather orientated towards California wines. In all main US markets, wine consumption is significantly concentrated in the largest metropolitan areas. In this respect, besides East and West-coasts, wine consumption has reached appreciable levels and could potentially further develop in Illinois (Chicago) and, among the Sunbelt states, in Texas;

- China - Eastern regions of Jiangsu, Shanghai, Zhejiang and Fujian; South-eastern province of Guangdong; North-eastern provinces of Liaoning, Hebei and Shandong; Beijing and Hong Kong.

  China's demand for imported wine is concentrated in regions where per capita income is high and distribution networks are better developed. In particular, the largest wine markets are found in the Eastern regions concentrating about 50% of total wine sales, in the South-eastern province of Guangdong (bordering Hong Kong) and in the North-eastern provinces.

- Russia - districts of Moscow and St. Petersburg, exploring also a couple of smaller districts (Rostov, Nizhny Novgorod, or Yekaterinburg).

  Demand for imported wine is very much concentrated in the districts of Moscow and St. Petersburg, accounting together for approximately 85% of total national wine consumption. Overall growth of wine consumption together with the development of distribution channels should foster a more homogeneous geographical distribution of wines, reaching also other smaller urban centres.

Interviews with key economic actors operating in the wine sector were used to collect information about possible regional market differences (current and prospective) with respect to preferences for different types of wines of different origin.

However, no significant regional market differences emerged for the US market. It appears from the interviews that, in terms of wine origin, the range of wines distributed is very similar across the examined States (i.e. European wines, NWC wines and domestic wines reach pretty much all regional markets), then there are broad regional differences in preferences for EU wines versus domestic wines (mainly from California) versus wines of other origin. These broad differences have been reported in the US case study monograph. What probably changes more significantly is the distribution at State level of different brands besides those controlled by the "big players" (e.g. Gallo, The Wine Group, Constellation, etc.).

Similarly, interviews in China and Russia did not identify any specific regional market differences. The main differences concern urban versus rural areas and the largest metropolitan areas versus smaller-size cities and appear to be overall related to the degree of development of the wine market in these countries and to the structure of distribution channels/networks for imported wines.

2.5 DATA SOURCES AND LIMITS

This part of the report is dedicated to illustrate the data sources used to collect all quantitative and qualitative information that constitutes the basis for analysis of the three proposed study Themes. Data were collected from a variety of sources:

- primary data collected through in-depth interviews with key economic actors of wine supply chains in the seven case study countries;
- official statistics (international, EU, national). With respect to trade statistics: Comtrade and Comext;
- commercial databases specific for the wine market in the selected case study countries;

- on-line wine data (wine types, brands, prices, etc.) collected through Web checks in the seven case study countries.
- published market reports from different sources, commercial and non-commercial: national/international wine councils and other bodies, national trade offices, market intelligence, etc.;
- scientific literature (studies, reports) and policy documents (international, EU, national and regional, if available);

The following sections describe in further detail these sources and the type of data collected.

2.5.1 In-depth interviews with key economic actors

Primary information from key economic actors operating in the wine market of the case study countries was collected through in-depth interviews. Interviews have been carried out using guidelines designed to record:

- Spontaneous opinions of key economic agents on a range of topics all related to past, current and future competitiveness of wine products and their suppliers on the examined import markets;
- "Quantitative" judgments (e.g. scores, ranking) on the basis of a concise questionnaire concerning 1) the factors of competitiveness characterising EU and non-EU wines and 2) the factors of competitiveness characterising wine suppliers, and their order of importance in specific markets/segments.

Furthermore, interviewees were asked to express their opinions and judgments distinguishing between different market segments. In order to simplify as much as possible the market segmentation, we considered the following broad three segments:

- Entry level (bottom end of the market, low price/quality wines);
- Medium range (medium price/quality level);
- Top range (top end of the market, luxury wines, high price/quality level).

These broad definitions were given to the interviewees, who were then asked to confirm whether such a segmentation scheme applies to the market they operate in.

Separate guidelines were designed to collect information about wine imported already packaged and wine imported in bulk.

The information, views and opinions collected through the in-depth interviews with key economic actors have been reported in case study monographs and represent key information used for analysis.

2.5.1.1 Key economic actors

Given the focus of the study (i.e. the ability of EU wines to reach consumers in different segments in the key markets in comparison to wines from third countries, and thereby generate value added for the EU wine sector), the analysis is centred on the final stages of the supply chain (trade and distribution, both wholesale and retail). This seems appropriate given that in the wine sector the "global value chain" is more and more a "marketing driven chain".

Therefore, the data collection focused on the economic actors who have (direct or indirect) relationships with the end market, whose interrelationships (of interests and behaviours) drive strategic decisions concerning the products to offer to the consumer, namely EU wines versus NWC wines and wines of other origin.

In each case study country market the interviewed economic agents carry out one or more of the following activities:

- Wine production
- Import of packaged wines
- Import of bulk wine
- Bottling/labelling of imported bulk wine
- Wine trade
- Wine wholesale distribution
- Wine brokerage

- Retail sale (food retail chains, specialist wine stores/chains)
- On-trade sale (restaurants, wine bars, etc.)
- Online sale

A total of 72 interviews were carried out across the seven case study countries (China/Hong Kong, Japan, Russia, USA, Denmark, Germany and the United Kingdom).

2.5.1.2 Limits of in-depth interviews

Information gathered through interviews suffers from the limitation of representing the opinions of interviewed individuals. Again in relation to interviews, we encountered difficulties in finding information about uses and destination of wine imported in bulk. None of the stakeholders (with the exception of Russia and, partly, Japan) wanted to provide information about this part of the industry. It is clear that parties involved in import and use of bulk wine in some countries prefer not to make it official that part of the wine labelled as "Made in X", is actually made from or blended with imported wine of, sometimes, uncertain quality.

The somewhat incomplete information about the market for imported bulk wine represents a limit for the analysis.

2.5.2 Official statistical sources

Different statistical sources were used to collect international trade data. Trade statistics from two main official sources have been used:

- COMEXT database (Eurostat) for data on extra- and intra-EU trade of wine products on the basis of the combined 8-digit HS for code 2204 for the years 2000-2013. In essence, COMEXT data are used to analyse wine imports and transfers of EU member States, and EU wine exports towards the main third country markets;
- COMTRADE database (UN) for data on international wine trade statistics on the basis of the combined 6-digit HS for code 2204 for the years 2000-2012. This database is used to analyse wine imports into third country markets by provenance.

National, EU and international statistical sources (i.e. FAO, OIV) have been consulted for data concerning vineyard areas and wine production in the EU and in NWC, and wine consumption in EU and extra-EU markets.

2.5.2.1 LImits of statistical data from official statistics

With reference to wine production, the available statistical data do not allow to distinguish the domestic production of still wines from the total domestic production. Moreover, it is not possible to distinguish the part of domestic production made from home-grown grapes and that obtained from wine and/or grape must imported in bulk. Again concerning production data, different sources (national statistics, FAO, OIV, etc.) provide different data, questioning the reliability of wine production statistics overall.

United Kingdom

With respect to UK wine exports to Hong Kong, the ratio of export values to export volumes (Comext data) generates abnormal average unit values. The same occurs when using Comtrade data for wine imports from the UK into Hong Kong. This leads to rule out a statistical error at the source, but it is not possible to establish with certainty the reasons for such occurrence.

Japan

Comtrade data of wine volumes imported into Japan for 2000 appear to be incorrect (for all wines of different origin the average price is always $ 2.53/litre for bottled wine and $ 1.03/litre for bulk). Therefore, we have estimated the volume of imports (according to country of origin) by dividing import values recorded in 2000 by the average unit value in 2001 (assuming, therefore, that the average CIF price has not changed between 2000 and 2001).

2.5.3 Market data sources

In addition, statistical analysis is applied at country level to market data from a commercial source that regularly produces wine industry, trade and consumption information. The source identified as the most relevant for the aim of the present study is the IWSR – International Wine and Spirit Research.

The Domestic Database for still wines has been acquired from the IWSR for all seven case study countries and Hong Kong, in addition. The data are based on store-checks and annual interviews with a sample of experts among importers, distributors, producers and retailers. This database includes the following information:

- Wine consumption data (in volume) for the years 2000 to 2013 subdivided in "local wines" and "imported wines". For imported wines, the country of origin is indicated. For all wines the information included covers Brand name, Brand line, Brand owner, Distributor (the latter however is not available for every single brand);
- Wine price data (in local currency for each country) for the years 1998 to 2013 again subdivided in "local wines" and "imported wines". For imported wines, the country of origin is indicated. In addition to the information above (Brand name, Owner, etc.) the size of the bottle/package is provided. Price data are collected through store-checks, therefore they do not cover wines sold in the On-trade sector;
- Still wine forecasts (volumes) 2013 to 2018.

Market data have been used for analysis of the competitiveness of EU still wines within Theme 1. Wine forecast data were used in the analysis of Theme 3.

2.5.3.1 Limits of market data

IWSR data on wine consumption are sub-divided into local and imported wines, then imported wine data are further sub-divided according to country of origin. However, consumption data only includes packaged wines. Therefore, the data relative to consumption of domestic wine (i.e. "local") actually includes wine and/or grape must imported in bulk for blending with wine made from domestic grapes.

Furthermore, IWSR consumption data are limited to volumes, they do not include values. This represents a limit for the analysis (i.e. competitiveness of EU relative to non-EU wines) that can be carried out based on these data.

2.5.4 Web-checks of online wine retailers

The survey of the wine offer from the various websites of online wine retailers allows to estimate the current position of EU wines relative to the competing products in different price segments, in principle correlated to quality positioning.

We completed 7 Web-checks, one for each case study country. The Web-checks have targeted large national or international food retail chains as well as specialist online wine retailers with wide international still wine selection and good geographical coverage of national markets.

The following online wine retailers have been surveyed:

- Edeka (Germany);
- Tesco (United Kingdom);
- Everwines (China);
- Salling/Dansk Supermarked (Denmark);
- Wine.com (USA);
- Enoteca (Japan);
- Wine Butik (Russia).

A range of information has been collected through the Web-checks, including all detail provided by the online retailer:

- Type of wine (Red, Rosé, White);
- Information about Geographical Indication (PDO, PGI), as provided by the retailer;

- Variety (variety indicated on the label);
- Informationon on varietal/s, as provided by the online retailer;
- Wine region / Area of production, as indicated by the online retailer;
- Country of origin (EU and third countries);
- Type of packaging (bottles, BIB, etc.);
- Size of packaging;
- Price per piece;
- Brand / Label (name of the wine as indicated by the retailer);
- Producer's name.

It should be noted that the survey includes the information that is explicitly presented by the online retailer for each product, which is, therefore, considered to be important for the purpose of communication to the consumer.

Price data have been transformed in order to make them homogeneous across countries. In particular:

- Prices expressed in national currency per item (of different size) have been transformed into price per litre;
- Prices per litre in national currencies have been converted into Euro using the official exchange rate at the time of the Web-check (April 2014).

2.6 METHODOLOGICAL APPROACH AND TOOLS OF ANALYSIS

The aim of this section of the report is to provide the overall methodological approach and the main analytical tools applied in the different parts of the analysis developed to study Themes 1 and 2.

Specific methods and analytical tools applied to different parts of the analysis are then detailed at the beginning of the corresponding sections where analysis and results for Theme 1 (Ch.5) and Theme 2 (Ch.6) are presented. This approach is aimed at making the reading and the understanding of the analysis/results less cumbersome and more straightforward for the reader.

2.6.1 Methodological approach and tools of analysis for Theme 1

The analytical approach chosen to assess the competitiveness of EU wines and its developments (Theme 1) entails two main levels of analysis (illustrated in the two following sections):

- The first level of analysis aims to assess the global competitive position of EU still wines compared to non-EU still wines (i.e. main competitors) over time, regardless of the factors determining it;
- The second level of analysis aims to explore the environmental factors (and their interactions) that contribute to influence the behaviour and, therefore, also the competitive position of market players and the competitiveness of their products on the market.

2.6.1.1 Methodology for the assessment of the global competitive position of EU still wines

At this first level, the analysis centres on the following aspects:

1. Assessment of the global competitiveness of EU wines with respect to international trade:
   - At world level, based on EU still wine exports in bottles and in bulk of the EU and the EU's main competitors on the world market, including wine transfers within the EU;
   - For the top ten countries main importers of EU still wines (respectively, the ten most important importers of EU still wine in bottles and the ten most important importers of EU still wine in bulk).

   This part of the analysis is based on trade statistics (Comtrade and Comext).
2. Assessment of price competitiveness of EU wines relative to competitors in international trade (CIF or FOB). The analysis is based on "implicit prices" calculated as ratios between value and volume of

imported (CIF) or exported (FOB) wines (again based on the official trade statistics: Comtrade and Comext).

3. Assessment of the competitiveness of EU still wines compared to competitors in the context of domestic consumption, thus taking into account also "locally produced" wines (where applicable). The analysis was conducted considering packaged wines destined to the final consumer in the seven case study countries. This part of the analysis is based on IWSR market data.
4. Price/quality competitive positioning of EU wines compared to competitors in the consumer market of the seven case study countries. This part of the analysis is based on IWSR market data.
5. Assessment of the competitiveness of EU still wines in the online retail channel. This part of the analysis is based on the data collected through Web-checks of online wine retailers in the case study markets and focuses on product assortment, price segmentation and other factors, such as Geographical Indication and mention of grape variety.

The following sub-section provides the rationale for the methodology chosen to assess the global competitiveness of EU wines with respect to international trade (point 1. above).

2.6.1.1.1 Methodology for the assessment of global competitiveness of EU compared to non-EU wines

The assessment of the global competitiveness of EU wines compared to non-EU wines on the world market as a whole and in the 10 most important export markets distinguishes between still wines traded already packaged (package <2lt) and wines traded in bulk (package >2lt). Analysis is based on:

- Level and evolution of the value and volume of world exports and imports by the 10 most important markets[5] of EU wines compared to wines from non-EU countries;
- Level and evolution of the market shares (in value and volume terms) of European wines compared to wines from non-EU countries.

The need to use two elements for the analysis (and not only market shares) derives from the fact that variation in market share is an effective and sufficient indicator only in cases when demand for imported wines is stable over time. Indeed, in these cases the sale of one additional unit of product by a competitor must be equal to at least an equivalent loss of sales by the competitors. The main objective is to increase market share (resulting from erosion or acquisition of market share from competitors) and market competition becomes more aggressive.

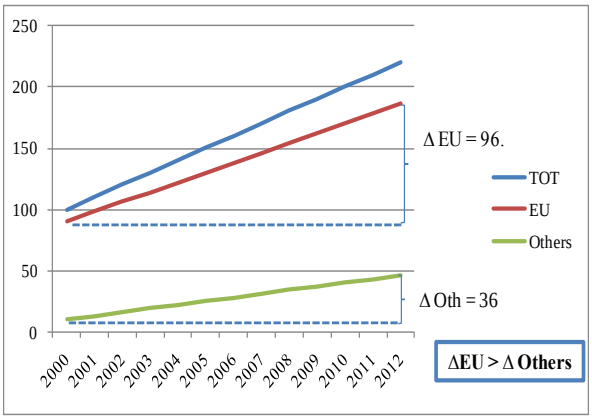
In country markets where demand for imported wines is growing, sales are driven by market growth and all players are winners. In such market conditions, competitors mainly aim at increasing their sales volumes and only secondarily at increasing market share (i.e. sales growth is greater than demand growth).

Thus, in expanding markets the variation in market share may not be an effective and / or sufficient indicator to establish the level of competitiveness of European wines. The graphs in Fig. 1 provide an example to illustrate this concept.

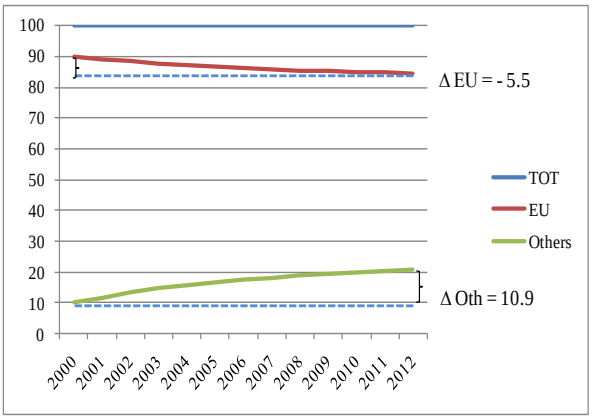
[5] In both cases, the trade flow is from EU and non-EU towards the world market in the first piece of analysis and towards the 10 most important wine import markets (respectively, for bottled and bulk wine) in the second.

Fig. 1: Evolution of wine sales* and market shares of EU and competing wines in an expanding market

Evolution of wine imports



Evolution of import market shares



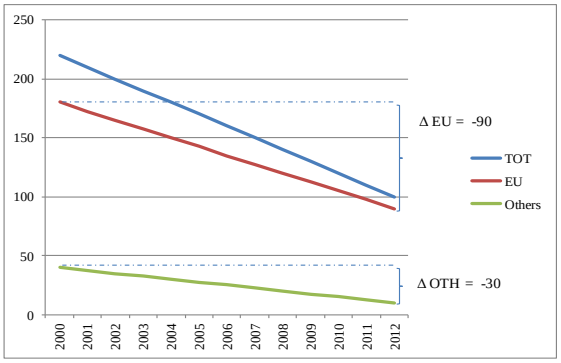
*In volume or in value

In a growing market, the entry of a new competitor or its progressive growth can lead to an erosion of European wines' market share. However, as shown in Fig. 1, if European wine sales increase more than the sales of competing wines (at the end of the period Δ EU > Δ Others), European wines remain competitive in spite of the loss of part of their market share. In other words, the market growth is mainly attributable to the growth of European wine sales, even if their relative market share is lowered. In this case, the strategy of (European) wine businesses is to "follow" the market trend (i.e. sales growth) rather than pursuing a market share growth strategy.

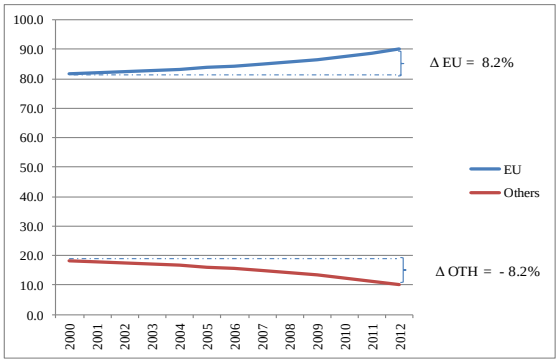
By contrast, in the case of country markets where demand for imported wines is decreasing (i.e. all players are losers), the main objective is to lose less sales compared to competitors (which means, if it occurs, an increase in market share). However, even if sales of one competitor (e.g. the EU) decrease more than sales of another competitor, the market share of the former could still grow. Therefore, in the case of declining markets, the competitiveness of European wines may deteriorate in spite of growth of their market share (see Fig. 2).

Fig. 2: Evolution of wine sales (volume or value) and market shares of EU and competing wines in a declining market

Evolution of wine imports



Evolution of import market shares



The steps of analysis based on the above considerations are illustrated in detail in §5.2.3, right before the analysis of Theme 1 is applied and the results presented and discussed.

2.6.1.2 Methodology to assess the factors influencing the competitiveness of EU and third-country wines: The Porter's Diamond approach

At this second level, the analysis aims to explore the context variables (and their interactions) that contribute to influence the behaviour and, therefore, the competitive position of market players in the various target markets. These are all variables that restrict or prompt or guide domestic demand and choice of wine by origin. According to the general theoretical model of competitiveness proposed by Michael Porter (Porter's Diamond – see also §5.5), here adapted to the specific object of the study, the influencing variables can be thought of as belonging to the following groups:

- Factor conditions in producer countries in the analysis include the evolution of vineyard areas and wine production as well as variables related to country-systems propensity to export (through the Index of Export Propensity) and the intensity with which they trade internationally (through the Index of Bilateral Wine Trade Intensity);
- Demand conditions in consumer countries include analysis of demographic and economic conditions such as population size and growth rates in the case study country markets and per capita GDP level and growth rates;
- Firm strategies (structure and rivalry) includes variables pertaining to wine firms' conduct within the competitive systems they operate in and the influence of their conduct on market structure. The analysis is based on 2013 IWSR market data and focuses on the levels of concentration and product portfolio strategies of wine businesses in the country markets of interest;
- Related and supporting industries entail the presence or absence of financial conditions or related industries able to influence firms' competitiveness. The analysis focuses on private-public funding available for the financing of promotional activities of EU producers and of its main competitors. Technology improvements in wine packaging are also examined, in particular the introduction of the Flexitank for transportation of wine in bulk.
- "Government" factors essentially are the central policies of producer and consumer countries. The analysis considers three aspects that are particularly relevant with regard to wines competitiveness on the international arena: a) policies of taxation of alcoholic beverages in consumer countries (for still wines); b) bilateral trade agreements between producing and consuming countries to facilitate market access; c) institutional strategic policies of producer countries to improve the performance of supply chains, market access and wine competitiveness.
- Chance refers to events, usually beyond the power of firms, that change the political, economic or climate conditions. The analysis here focuses on the evolution of exchange rates.

2.6.2 Methodological approach and tools of analysis for Theme 2

The focus of Theme 2 is the identification of the key factors of competitiveness for EU wines (relative to the main competitors) from all competitive factors relating to the various product / market combinations. Indeed, the goal is to focus the analysis on the essential factors in order to gain in relevance, keeping in mind that this exercise is subsequently functional to the formulation of hypotheses for the construction of future scenarios.

This implies the need to reduce the complexity of the system in cases when a large number of factors emerge from the analysis. From a methodological point of view, this involves implementing a method that allows to identify the cause-effect relationships among the identified factors of competitiveness, and then to rank in order of importance the (relatively few) key factors that explain the system effectively.

The analysis was carried out for the case study countries (China, Japan, Russia, USA, Denmark, Germany, UK), separately for packaged wines and for bulk wines, in two distinct phases:

1- The first phase, based on information collected directly from key market players and from the literature, aims at identifying the factors of competitiveness and defining their current importance in establishing a competitive advantage.

2- The second phase, based on "structural analysis"[6], aims at identifying direct and indirect cause-effect relationships among factors identified in the first phase, therefore establishing which are the key factors able to generate competitive advantage.

Structural analysis was carried out through application of the MicMac method[7]. The methodological approach is described in detail in §6.1. For wine in bulk, the extremely limited number of identified competitive factors prevented the use of this analytical tool.

[6] In other words, analysis of the structure of relations among the factors that characterise the system under study.

[7] The Micmac Forecasting method (Matrice d'Impacts Croisés-Multiplication Appliquée à un Classement) was created by Michel Godet.

2.6.3 Methodological approach and tools of analysis for Theme 3

The analytical approach to Theme 3 is essentially qualitative as it aims at formulating a set of hypotheses about the likely future evolution of the factors influencing the competitiveness of European wines (resulting from the analysis of Theme 1) and of the key factors of competitiveness (resulting from the analysis of Theme 2). The formulation of hypotheses relative to future trends and changes is based on:

- analysis of the IWSR 2013-2018 market forecast data for still wine in volume in the case study countries;
- informed opinions of key economic players interviewed in the case study countries;
- analysis of the available literature.

The last step of the study, i.e. the formulation of prospects to 2025 emerges from critical analysis of the available information and from logical inferences about related causes and effects. Further detail is provided in §7.1.

3 THE EU WINE POLICY FRAMEWORK

3.1 EU WINE POLICY 1962-1999

The common market organisation (CMO) for the wine sector was established in 1962. The CMO was based on instruments aimed at obtaining adequate information about production potential (cadastre, annual declaration of must and wine produced quantities, forecast balance sheet) as well as on quality policy for wines produced in specified regions.

Regulation (EC) No 816/1970 completed the 1962 CMO with: price and intervention regime (private storage, distillation), a regime for trade with third countries (Common Customs Tariff, tax compensation and export refunds), rules concerning production and control of planting development as well as rules concerning oenological practices and processes. Alongside, Regulation (EC) No 817/70 laid down specific provisions for quality wines produced in specified regions (v.q.p.r.d).

The ban on planting new vineyards appeared in 1976 with Regulation (EC) No 1162/76 aimed at adjusting wine-growing potential to market requirements. This temporary ban was then extended by subsequent regulations until 2015.

The following CMO Regulation (EC) No 337/1979 and Regulation (EC) No 822/1987 introduced various amendments without however changing the intervention logic.

3.2 THE 1999 WINE CMO REFORM

In 1999, Regulation (EC) No 1493/1999 introduced major changes by removing the price regime and simplifying distillation measures. Among the intermediate objectives (recital 7 of Regulation (EC) No 1493/1999) the following may be mentioned:

- maintain a better balance between supply and demand on the Community market;
- provide producers with the opportunity to exploit expanding markets;
- enable the sector to become more competitive;
- support the wine market.

To achieve these objectives, the CMO was based on rules concerning production potential, market mechanisms, oenological practices and processes, designations, presentation and protection of products and trade with third countries.

In addition to these provisions, the regulation included the establishment of a classification of authorized wine grape varieties, of a wine inventory and vineyard register.

Production potential

Three measures concerning production potential aimed to achieve a better market equilibrium:

- The temporary prohibition of planting of vines until 31 July 2010, unless derogation was granted;
- Premium for the permanent abandonment of vine-growing;
- Restructuring and conversion of vineyards.

Market mechanisms

The three forms of intervention (aid for private storage, distillation system and aid for specific uses) were aimed to maintain market equilibrium. Four types of distillation were supported:

- Compulsory distillation of by-products of wine-making
- Distillation of wine from dual-purpose grapes (wine and table).
- Distillation for the production of potable alcohol.
- Crisis distillation in case of exceptional market disturbance.

Oenological practices and processes - Description, designation, presentation and protection of certain products

These measures aimed to protect the health and the interests of consumers; to protect the interests of producers; to promote the adequate functioning of the internal market and the development of quality products.

The rules regarding description, designation, presentation and protection of certain products established:

- Compulsory particulars and those authorized under certain conditions;
- Provisions governing the protection and control of certain terms and the use of geographical indications and traditional specific terms;
- measures governing the labelling of imported products.

Quality wines produced in specified regions

Measures regarding the production and control of quality wines (v.q.p.r.d) aimed to contribute to improving market conditions and thereby increase market opportunities.

Trade with third countries

The rules governing trade with third countries aimed to stabilise the Community market. It provided for a system of import duties and export refunds based on the agreements reached in the Uruguay Round negotiations.

3.3 THE 2008 WINE CMO REFORM

The 2008 reform of the wine CMO is part of the 2003 CAP reform introduced by Regulation (EC) No 1782/2003.

Regulation (EC) No 479/2008 (included in 2009 into the Single CMO Regulation (EC) No 1234/2007) substantially altered the 1999 wine CMO by establishing a national aid programme, a three-year grubbing-up scheme, by redesigning the system of designations for quality wines and extending planting rights to 2015/2018. Intervention measures became optional (as integrated into national programmes) or were suppressed (private storage aid, certain aids for the use of grape must and for distillation, and export refunds).

Oenological practices, quality policy and trade with third countries were reformed with the aim of harmonising the existing horizontal regulations, in particular the PDO / PGI system in force since 1992 for other agricultural and food products (EU quality policy).

Among the objectives of the 2008 wine CMO (Recital 5 of Regulation (EC) No 479/2008) the following should be mentioned as particularly relevant for the present study:

- strengthen the competitiveness of wine producers in the European Union;
- establish the reputation of EU quality wines as the best wines in the world;
- recover old markets and win new ones within the EU and worldwide.

The reformed wine CMO included four provisions: support measures (national programmes), regulatory measures, trade with third countries and rules concerning production potential. These are illustrated in the following sub-sections.

3.3.1 Support measures

Support measures consisted of the aid programmes established by each Member State. The objective of these measures was to strengthen competitiveness. Member States could choose the measures financed by their aid programme within 11 possible instruments:

- 6 new measures:
  - Single payment scheme, according to Regulation (EC) No 1782/2003 (art. 9);
  - Promotion on third country markets (art.10). The objective was to improve the competitiveness of

European wines (PDO, PGI and varietal wines) on the concerned markets;

- Investment aid (art.15): Material or immaterial investments in processing facilities, wineries and wine marketing;
- Green harvesting (art.12), with the objective of restoring balance between demand and supply;
- Mutual funds (art.13): The objective was to allow producers to hedge against market fluctuations;
- Crop insurance (art.14): This measure aimed to safeguard farmers' incomes against natural disasters.

- 2 measures extended from the 1999 CMO:
  - Restructuring and conversion of vineyards (art.11), to increase wine competitiveness;
  - By-product distillation (art.16).
- 3 transitional measures were maintained until 31 July 2012 to mitigate the effects of the end of traditional market measures:
  - Potable alcohol distillation (art.17);
  - Crisis distillation (art.18);
  - Use of concentrated grape must and rectified concentrated must to increase the alcoholic strength of products (art.19).

Application of the measure for "Promotion on third country markets"

Promotion on third-country markets is aimed at increasing the competitiveness of EU wines on third country markets. This measure only applies to PDO / PGI wines and to varietal wines (wines with an indication of the grape variety).

Five types of promotional activities can be financed:

- public relations, promotional or advertisement actions, in particular highlighting the advantages of products from the Union, especially in terms of quality, food safety or environmental friendliness;
- participation at events, fairs or exhibitions of international importance;
- information campaigns, in particular on the Union's systems for designations of origin, geographical indications and organic production;
- studies of new markets, necessary for the expansion of market outlets;
- studies to evaluate the results of the information and promotion actions.

The support granted by the EU must not exceed 50% of the eligible expenditure, but it may be supplemented by national support. In such cases, the action must be in line with the rules on State aid. The legislation establishes eligibility conditions, the main ones can be summarised as the following:

- the products covered by the measure must have export opportunities or market outlets in the targeted third countries and display high added value;
- the beneficiaries must have enough capacity and resources to face the specific constraints of trade with the third countries concerned and to ensure that the measure is implemented as effectively as possible;
- the beneficiaries may be private companies as well as professional organisations, producer organisations, inter-branch organisations or (where a Member State so decides) public bodies;
- preference is given to micro, small and medium-sized enterprises within the meaning of Commission Recommendation 2003/361/EC.

3.3.2 Regulatory measures

Regulatory measures consist of five tools: General rules; Oenological practices and restrictions; Designations of origin, geographical indications and traditional terms; Labelling and presentation; Producer and inter-branch organisations.

Concerning designations of origin, geographical indications and traditional terms, the objective of the 2008 reform was to bring together v.q.p.r.d. labelled wines under the PDO label and table wines with geographical indication (GI) under the PGI label.

Similarly to trademarks, Geographical Indications (GIs) are intellectual property instruments. They represent an income creation opportunity depending on price formation systems in markets characterised by monopolistic competition. Control over these labels allows to develop or exploit competitive advantage to be achieved through product differentiation.

Traditional terms provide the consumer with information on the characteristics and quality of wines complementing the information provided by the designation of origin and geographical indication. These may include methods of production, aging, quality, colour, place or a particular event linked to the history of the product.

Regarding labelling, the 2008 reform sought a simplification and a single framework for all types of wines. Wines without GI can bear the mention of grape variety and vintage year, thus Reg. (EC) No 479/2008 created the category of "varietal wines".

3.3.3 Trade with third countries

The 2008 wine reform removed export refunds provided for in the framework of Regulation (EC) 1493/1999. The other measures were maintained.

In the absence of any different provisions (such as additional duties under safeguard measures), the rates of duty in the Common Customs Tariff are applied to wine products and the application of the Common Customs Tariff depends on their entry price. Moreover, the wine CMO foresees the option to require import and export licenses, safeguard measures, the possibility of suspending inward and outward processing arrangements, tariff quotas and additional import duties for certain products.

The Common Customs Tariff is 32 €/hl for wines under codes NC 2204 10 (sparkling wine) and 2204 21 (other wine and grape must whose fermentation has been prevented or arrested by the addition of alcohol). Bilateral agreements were signed by the EU with trade partners on the mutual recognition of protected designations of origin (GIs) and sometimes of authorized oenological practices and processes (Australia in 1994 and renewed in 2008; South Africa in 2002; Chile in 2002; Swiss Confederation in 2002; USA in 2006 updated in 2011; Mexico in 1997; Singapore in 2012).

In addition, interim agreements on trade and accompanying measures have been established between the EU and Serbia (2010), Bosnia and Herzegovina (2008), the Republic of Montenegro (2007), Albania (2006), the former Yugoslav Republic of Macedonia (2001). These agreements establish preferential zero-duty tariff within quotas and the rules of reciprocal protection of designations of origin:

- Zero-duty concessions for imports into the Community: 16,000 hl respectively for Bosnia-Herzegovina and Montenegro, 7,000 hl for Albania, 300,000 hl for the former Yugoslav Republic of Macedonia, 63,000 hl for Serbia (53,000 hl quality sparkling wines and other wines <2lt; 10,000 hl wines >2lt).
- The EU benefits from duty-free quotas for up to 6,000 hl imports into Bosnia and Herzegovina, 1,000 hl into the Republic of Montenegro, 10,000 hl into Albania, 3,000 hl into the former Yugoslav Republic of Macedonia (increased by 300 hl per year) and 25,000 hl into Serbia.

Finally, Regulation (EC) No 2793/1999 opened a duty-free quota of 335,000 hl of still wine and 45,000 hl of sparkling wine in favour of South Africa.

Under a Free Trade Agreement with the EU, entered into force in 2003, Chile's tariffs on most EU wines were phased out over a 5 year period, as well as Chile's use of protected EU geographical terms such as Champagne, Burgundy and Bordeaux.

3.3.4 Production potential

The rules regarding production potential were maintained on a transitional basis in order to limit the potential effects of their removal. In particular:

- The transitional planting right regime established the extension of planting rights until 31st December 2015. Member States may decide to maintain the prohibition on their territory or parts of their territory until 31st December 2018;
- A grubbing-up scheme was introduced until the end of the 2010/2011 campaign.

3.4 HORIZONTAL MEASURES FOR THE PROVISION OF INFORMATION AND PROMOTION ON THE INTERNAL MARKET AND IN THIRD COUNTRIES

In addition to the measure for "Promotion on third country markets" introduced with the 2008 wine CMO reform, Council Regulation (EC) No 3/2008 establishes the rules for the provision of information and the implementation of institutional promotion actions for agricultural products on the internal market and in third countries. This horizontal regulation concerns several sectors, including the wine sector.

Compared to the CMO measure for "Promotion on third country markets" that allows to promote (under certain conditions) individual or collective wine brands, Reg. (EC) No 3/2008 only allows collective information actions to consumers concerning product quality and variety. Given the institutional nature of such promotion policy, actions implemented within the framework of Reg. (EC) No 3/2008 can be used in a complementary way to promotion / advertising directly implemented by enterprises[8].

On November 21st, 2013 the Commission presented the legislative proposal for a better targeted information and promotion policy aimed at developing and opening up new markets for agricultural products within the EU and in third countries, and to increase consumer awareness of products quality (COM(2013) 812 final). The new regulation will enter into force on December 1st, 2015. Compared to current policy, the proposal entails a gradual but significant increase of the budget allocated to information provision and promotion measures for agricultural products (from €61.5 million in the 2013 budget to €200 million in 2020).

As the Union's promotion measures relating to wine are well covered by the aid programmes available to the wine sector under the CAP, the eligibility of wine under the new horizontal promotion policy is proposed only for wine when associated with another agricultural or food product. With regard to both spirits and wine, measures targeting the internal market shall be limited to informing consumers of the European quality schemes relating to geographical indications.

3.5 THE CAP REFORM 2014-2020: WINE PROVISIONS WITHIN THE CMO

The December 2013 reform of the wine provisions within the CMO is part of the wider reform of the CAP for the period 2014-2020. The new norms are contained in Regulation EC No1308/2013 of the European Parliament and the Council establishing a common organisation of the markets in agricultural products and repealing Regulation (EC) No 1234/2007.

The regulatory framework of the 2008 reform is maintained, but some substantial changes were introduced for wine relating to support measures and production potential. In addition, some clarifications were included for regulatory measures concerning designations of origin and geographical indications.

3.5.1 Support measures

Eight support measures for financing (art.39-54) remain, due to the abolition of the single payment scheme[9] and the introduction of the new measure "innovation in the wine sector". In addition, some modifications or extensions were introduced for measures already in place. Briefly:

- The measure for Promotion (art.45) is extended to information and promotional activities within the Member States. However, in contrast with the activities allowed for promotion on third country markets, the measure aims at *"informing consumers about the responsible consumption of wine and about the Union systems covering designations of origin and geographical indications"*[10];
- The measure Restructuring and conversion of vineyards (Art.46) is amended in its objectives through the introduction of "*improvements to vineyard management techniques, in particular the introduction of*

[8] According to analysis carried out within the Evaluation of Common Agricultural Policy measures applied to the wine sector (2012), expenditure for promotion / information for the wine sector within the framework of Reg. (EC) No 3/2008 has been very limited.

[9] The 2014-2020 CAP reform provides for a system of direct payments to replace, from 1st January 2015, the single farm payment.

[10] In essence, this implies a clear differentiation in the terms of intervention in relation to the target market. Therefore, the effects of the extension of the Promotion measure on the competitiveness of European wines on the EU market will depend on the types of actions that it will be possible to accomplish within the EU, according to what will be established by the corresponding regulation for the implementation of the reform.

advanced systems of sustainable production". The change may therefore entail the provision of strategic support to increasing wine competitiveness, by focusing on the factors that determine purchase decisions of consumers who are particularly sensitive to the essential characteristics of the product, production processes and their mention on the label;

- The introduction of a new "Innovation in the wine sector" measure (art.51): "*Support may be granted for tangible or intangible investments aimed at the development of new products, processes and technologies concerning the products referred to in Part II of Annex VII. The support shall be intended to increase the marketability and competitiveness of Union grapevine products and may include an element of knowledge transfer"*.

3.5.2 Production potential

The total ban on the planting of new vineyards is abolished: the transitional planting rights will be replaced, from 2016 to 2030, by a new system of authorizations for vine planting (Articles 61-70), for which *"Member States shall make available each year authorisations for new plantings corresponding to 1% of the total area actually planted with vines in their territory, as measured on 31 July of the previous year"*.

Planting rights granted to producers in accordance with Regulation (EC) No 1234/2007 before 31 December 2015, which have not been used by those producers and are still valid by that date, may be converted into authorisations as from 1 January 2016. Such conversion shall take place upon a request to be submitted by those producers before 31 December 2015. Member States may decide to allow producers to submit requests to convert rights into authorisations until 31 December 2020.

Thus, the essential elements of change introduced by Reg. (EC) No 1308/2013 can be summarized as:

- The principle that the European vineyard cannot grow in an uncontrolled manner is confirmed;
- The reform introduces the possibility of giving flexibility to the production potential, in order to facilitate the adjustment of supply to market trends;
- Planting rights are abolished, which represented personal transferable securities against payment. As a replacement, personal authorizations are granted free of charge, which are no longer transferable to the market.

3.5.3 Regulatory measures

With regard to designations of origin and geographical indications, art. 93 introduced two clarifications to the completion of the corresponding article 118b in Reg. (EC) 1234/2007, specifically:

- For PDO, the requirement that *"the production must take place in the geographical area"* and *"shall cover all the operations involved, from the harvesting of the grapes to the completion of the wine-making processes, with the exception of any post-production processes"* means that post-production activities such as, for example, bottling, can be done outside of that geographical area.
- For PGI, *"the maximum 15% share of grapes which may originate outside the demarcated area shall originate from the Member State or third country in which the demarcated area is situated"*.

4 WINE POLICIES OF EU COMPETITORS

The purpose of this section is to give account of public policies developed in NWC in support of domestic wine and, in particular, policy measures aimed at facilitating or directly supporting trade towards export markets. It is assumed that such policies, similarly to EU wine policy measures, have an impact on the competitiveness of individual NWC wine products on international markets. For this purpose, the main wine policy interventions in USA (California), Argentina, Chile, Australia, New Zealand and South Africa are illustrated in the following sections.

Detailed data regarding support to promotional activities in the EU and non-EU competitors are directly illustrated in the analysis of Theme 1.

4.1 USA: PUBLIC INTERVENTION IN WINE EXPORTS AND PROMOTION

4.1.1 California Wine Export Program

In 1984, the US Congress passed the Wine Equity and Export Act in order to reduce and suppress barriers to trade in wine "*on a basis which assures substantially equivalent competitive opportunities for all wine moving to international trade*". A few months later, the Wine Institute (California) established the California Wine Export Program, aimed at protecting the interests of the industry in international trade and participation in international trade fairs to expand market opportunities for California wines.

The Wine Institute represents about 1,000 wineries and affiliated businesses in California. Members of the Institute account to 95% of Californian wine production and include some of the major wineries. The Institute counts an office in Canada and a network of 16 representatives managing programs in 25 countries. The purpose of the representatives is to assist domestic wineries to promote their wines in foreign countries and to provide critical information about target markets.

The Wine Institute is responsible for administrating the USDA's Market Access Program (MAP) for Californian wine exports. The MAP is the largest market development program of the USDA's Foreign Agricultural Service. According to the USDA, as one of the main beneficiaries of the Market Access Program, the Wine Institute received $US 49,423,105 over the last seventeen years (1996-2012). Among the institutional arrangements, the Wine Institute cooperates closely with the office of the US Trade Representative and with other governmental agencies (USDA, TTB, etc.) to suppress trade barriers and to negotiate free trade agreements (FTA).

In 2010, the US President announced a National Export Initiative in order to renew and revitalize US exports. This initiative involves export promotion, increasing the availability of export financing, and finding new opportunities for US wine companies.

4.1.2 The US Import Duty and Excise Tax Drawback Scheme and its implications

The "drawback" scheme allows for refunds, total or partial, of paid duties and taxes when an imported good is re-exported. The scheme dates back to 1789, but it was only applied to wine (non-sparkling wine of 14% alcohol or less) about a decade ago. The rationale of the program is to stimulate trade or manufacturing, thus encouraging domestic value added. It allows American companies to compete in foreign markets without the handicap of including taxes and duties in the costs.

The scheme allows for a refund up to 99% on duties and excise taxes paid on imported goods, including wine. The main purpose of this program is to facilitate imports of products that later will be re-exported (Sumner et al., 2011, 2012). "Interchangeable" wines (i.e. same colour and within 50% of the import price) must be exported under the same conditions as they were imported within a period of three years[11].

Research by Sumner et al. (2012) indicates that for bottled wines, the drawback is usually worth less than 10% of the import value for bottled wine, whereas it is often close to 50% of the import value for bulk wine. Thus, the scheme has little interest for bottled imports, but it can be of great interest for bulk wine

[11] Wine exported to Mexico or Canada is not eligible as a match for imports in applying for drawback of paid duties and excise tax.

importers[12], who may benefit from a significant net price advantage with respect to competitors. As reported by Sumner et al. (2012), drawbacks on bulk wine have increased from 13 million litres to 121 million litres between 2005 and 2010 (in this latter year, drawbacks were claimed on about two-thirds of the total import volume of wine in bulk). Findings also show that when exports considerably exceed imports, the drawback scheme is analogous to an import subsidy. Wines imported into the US through the free trade agreements with Australia and Chile are of particular interest for this program, as the worth of the drawback increases with reduced import tariffs.

Reasearch results also demonstrate that when imports and exports are in balance the program stimulates both imports and exports. Furthermore, the drawback scheme allows countering the impact of the low American dollar exchange rate value on demand for foreign bulk wine (Rabobank, 2012).

Wineries with significant export volumes can receive a rebate on the cost of imported bulk wines that maintains the attractiveness as a source of supply. Further, firms producing and trading wines find this program easy to implement (Sumner et al., 2011).

4.2 CHILE: PUBLIC INTERVENTION IN WINE EXPORTS AND PROMOTION

4.2.1 The Chilean Wine Cluster: An Institutional Arrangement

The Chilean wine industry is organized as a 'cluster'. Clusters are "*geographic concentrations of interconnected companies and institutions in a particular field*" (Porter, 1998, p.78) and are based on trust, the leadership of the main (wine) firms, the ability to solve collective action problems, and the availability of efficient intermediaries (e.g. grape and wine brokers, distributors, etc.). The Chilean cluster is based on vertical and horizontal relationships and complementarities between buyers, suppliers and other stakeholders aiming at the long-term survival and development of the industry.

In the case of the Chilean wine industry, the leading firms are joint members of a national association of wine producers accounting for over 95% of Chilean wine production. The industry is highly concentrated, with the top four wineries - Concha y Toro, Santa Rita, San Pedro and Santa Carolina - accounting for over 84% of wine sales in the domestic market. The industry is organized as a public-private partnership with the major public agencies providing support to the wine cluster either at regional, national or international level.

Wines of Chile (WoC) is an industry body in charge of promotion activities. WoC established a strategic plan for the industry – Strategic Plan 2020 – with the goal to achieve $US 3 billion dollars in export sales by the year 2020, i.e. corresponding to an average annual growth of about +9.9%.

The economic agency Corfo provides financing for product, process, and organization innovation in the different areas of a cluster. This agency has representative offices in the Chilean regions but also a dedicated branch to attract foreign investors (nurseries, cellars, wineries, etc.) to invest in different areas of the industry, particularly where the industry is less competitive.

At a broader level, Prochile is the government's promotion agency with 15 regional offices and representatives in over 55 foreign locations. The main activities of Prochile involve the expansion of Chilean export basis by engaging new companies in export activities. It also provides support for companies facing competitiveness problems.

Further, the development of Chilean exports at the international level is ensured through reduction or elimination of trade barriers. Over the years, the Chilean government signed many bilateral and multilateral agreements, including a free-trade agreement with the European Union.

4.3 ARGENTINA: PUBLIC INTERVENTION IN WINE EXPORTS AND PROMOTION

Argentina has a long tradition as a wine producer and exporter. Intervention of Argentinian public authorities in vine and wine policies operates at different levels, as described in the following paragraphs.

[12] Also due to the fact that to be cost-ecffective the drawback claim should be made for relatively large volumes, which are more likely for wine traded in bulk than in bottles. Furthermore, importers of bottled wine may not have interest in re-exporting, nor the connections to export markets.

4.3.1 Regulation of the wine market through concentrated grape must: the Mendoza-San Juan Agreement

Argentina is one of the world's most important grape must producers and exporters. In 1994, the regional governments of Mendoza and San Juan established the "Mendoza-San Juan Agreement" which included the two main wine producing provinces. The agreement's main goal was to foster the diversification of the national grape and wine industry, either in terms of products (basic wines, quality wines, musts) and markets (domestic and international). The agreement uses grape must as a way to achieve a balance in wine stocks (i.e. avoid surpluses) and to promote wine exports.

At the same time, the Mendoza law (law 616/94) established a regional fund – Fondo Vitivinicola Mendoza – to promote the wine industry and exports. The Fondo Vitivinicola Mendoza is a public-private organisation financed through a mandatory levy of approximately 0.01 $/kg of processed grapes, starting from the 1995 harvest. However, for that year, the law exempted the companies who processed at least 20% of their total grapes in must. Each year the percentage of grapes processed into must is adjusted and decided through a common agreement between Mendoza and San Juan governments. Thus, the regional governments introduced a regulatory system to balance prices in the wine market and to diversify grape processing. This means that the Fondo plays a key role in the regulation of wine prices in the market. The funds collected through the mandatory levy are used to promote exports of wines, musts, fresh grapes and consumption of wine-related products.

This agreement considerably encouraged grape must production, mainly targeted to export markets (approximately 80% of Argentinian grape must is exported). This policy measure benefitted from the price increase on the international grape must market. In 2012, the Rioja government joined this agreement looking to diversify regional grape production.

One of the main consequences of this new regulatory system is the provision of measures to avoid generating "wine lakes", impacting particularly the low-end of the wine quality range.

4.3.2 A public-private partnership to establish a strategic plan for the wine industry

A second area of public intervention is the joint participation in a strategic plan for the Argentinian wine industry. In 2003, the Corporacion Vitivinicola Argentina was established to manage and coordinate the implementation of the Strategic Plan for the Wine Industry to 2020 (PEVI 2020). The plan includes all wine supply chain stakeholders, regional and national governments, and R&D institutes.

The main goal of the strategic plan is to position the Argentinian wine industry at the forefront of the international wine market by 2020. More precisely, it seeks to achieve total wine sales of approximately $US 2 billion, to reach 10% of world wine exports and to increase consumer awareness of Argentinean wine. The overall system is financed based on a mandatory levy applied to all members of the National Institute of Viticulture (INV). The levy is calculated on the basis of processed wine or must volume (litres).

The plan includes three main strategic goals:

1) Position Argentinian wines in export markets, particularly in the Northern Hemisphere. This goal is implemented through the Wines of Argentina body that is responsible for communication actions and generic promotion in different locations across the world. These activities are financed both by members (wineries) and public organisations in charge of promotion. The annual budget of Wines of Argentina is estimated at $US 4 million (Gennari et al., 2010);
2) Expand the presence of Argentinian wines in Latin American markets and boost sales on the domestic wine market;
3) Provide support to small and medium producers to integrate them in the wine chain. The aim is to upgrade organisational, technological and production processes through investments in machinery, inputs and technical assistance. Within this plan, an agreement with the InterAmerican Development Bank was established to finance the integration of small and medium wine grapes producers. The bank provided $US 50 million to support the project (Gennari et al., 2010).

4.4 AUSTRALIA: PUBLIC INTERVENTION IN WINE EXPORTS AND PROMOTION

The Australian Wine Export Council and the Grape and Wine Research and Development Corporation (GWRDC) were established in 1991 in support to the wine industry expansion at that time. Through the Federal Department of Agriculture, Fisheries & Forestry (DAFF), the Australian government, collects national grape and wine levies that it distributes to the GWRDC for R&D and to the Wine Australia Corporation for promotion. The DAFF collects three types of levies: a) A wine grapes levy from the wineries (AUD 5–9.20/tonne); b) a grape research levy charged to all producers; and c) a wine export charge equal to 0.2% of wine export value (reduced rate for FOB sales over AUD 20m). The latter is entirely allocated to Wine Australia Corporation to promote Australian wines internationally.

Wine Australia Corporation, formerly Australian Wine and Brandy Corporation (AWBC) (1980), is the government authority in charge of ensuring law compliance (i.e. controlling exports of Australian wine, auditing both wine producers and exporters), and promoting Australian wine globally. The agency is responsible for marketing, market development and for information and regulatory issues. Its leading role includes quality and integrity (export licenses and permits on the basis of inspections); knowledge and information services, and market development (international visits program, generic promotion of Australian wine, country specific market programs, Wine Australia Export Partnership, etc.). The institution is financed by a statutory levy and charges fees for the services provided. Wine Australia also cooperates with other partners including Tourism Australia and Austrade for implementing programs to raise awareness of wine quality and diversity.

At the international level, the Australian government works with the Australian Trade Commission (Austrade) to improve market access and trade conditions for Australian wine exporters. In December 2008, the Australian government established an agreement with the European Union on wine trade regarding recognition of oenological practices, labeling requirements and protection of GIs. The agreement entered into force on 1st September 2010.

Austrade's Export Market Development Grants (EMDG) scheme supports a wide range of Australian industry sectors including the wine sector. The scheme aims at encouraging small and medium sized Australian businesses to develop export markets through funding of up to 50% of eligible export promotion expenses (for the year 2013/2014 this is for expenses above AUD 5,000 provided that the total expenses are at least AUD15,000). In addition to the export scheme, the Australian government provides a number of grants to growers and wine makers to help maintain a competitive edge in the expanding market.

Some governments in the main producing regions (Barossa Valley, Riverina/Hunter Valley in New South Wales) established partnerships with the industry in order the reinforce the competitiveness of the wine industry in the domestic and international markets. For example, recently the South Australian Government established a partnership with the South Australian Wine Industry for the period 2010-2015 to strengthen South Australian wines' market position. The partnership entails continuous work and coordination with Wine Australia to promote the region's wines.

4.4.1 Wine Australia: "Directions to 2025"

In recognition that the factors driving expansion of Australian wine sales on foreign markets in the 1980s and 1990s (mostly UK, US and Canada) were no longer successful, since the mid 1990s the governmental agency Wine Australia has been working consistently towards the identification of new sustainable market opportunities through assessment of the wine industry performance on export markets (and on the domestic market) and through market intelligence.

"Strategy 2025" published in 1996 and the following "Directions to 2025" published in 2007 are Australia's blueprints for improving the competitiveness of Australian wine on international markets in terms of sales growth to ensure adequate sustainable returns to grape-growers and wine-makers. "Directions to 2025" focuses in particular on developing strategies to upgrade Australian wines/brands from lower to higher price/quality segments on international markets through re-positioning "by raising awareness and expectation of an Australian wine story founded on an international reputation for regionally distinct and fine wine production." "Directions to 2025" also refocuses efforts on the domestic market "to encourage more Australians to drink better wine more frequently while still observing sensible and moderate consumption patterns".

4.5 NEW ZEALAND: PUBLIC INTERVENTION IN WINE EXPORTS AND PROMOTION

The success of New Zealand on the international wine market is relatively recent. The wine industry has considerably developed over the last few years with a strong expansion of vine plantings and exports. Exports were negligible until the mid-1990s and in 1998 they accounted for approximately 40% of wine consumption in the country. In 2004, for the first time the industry exported more wine than it imported.

The need for coordination and planning in the industry gave rise to the Wine Institute of New Zealand in 1976. The role of the Wine Institute, a self-regulated body, is to promote and represent the national and international interests of the wine industry. In 1976, the government established a funding sheme for The Wine Institute through the Wine Makers Levy Act, which set a statutory basis for collection of levies from the wine industry. The purpose of the funding was to support the Institute to promote (export, trade fairs, etc.), develop and improve grape growing and the winemaking industry. Every winemaker is required to pay a membership fee as well as an annual levy indexed to the quantity of wine sold each year.

A second important national organization in the industry is the Grape Growers Council (GGC), established in 1968. The GGC is governed on a regional basis and not on an output basis like The Wine Institute. The organization is funded through a compulsory levy based on grape sales (Commodity Levies Act, 1990). In March 2002, The Wine Institute jointly with the Grape Growers Council created a unified organisation – New Zealand Winegrowers (NZW) - to address the collective issues facing the wine industry at the national and international level. The organisation is funded by contributions from both institutions. Currently, NZW ensures the management, protection and generic promotion of the 'New Zealand Wine' brand. NZW is funded mainly through collection of compulsory levies under the Commodities Levy Act. The Act constrains the activities that may be funded by the levy – a key prohibition is on commercial activities (PwC, 2011).

4.5.1 International Wine Promotion

Together with the US, New Zealand is one of the NWC investing the most in collective promotion of its wines on international markets (i.e. in € per case, see also §5.5.4). According to industry sources, expenditure in collective promotion did not vary considerably over the last few years. Differently from most European countries, collective promotion of New Zealand wines is undertaken at the national level and not at the regional level.

According to Brodie et al. (2008), positioning "under the generic 'New Zealand Wine' brand has allowed New Zealand wines to achieve average price premiums of 10-20%" in international markets when compared to other international competitors "and even higher (as much as 48% above the industry average) in the UK".

Activities have focused on public relations, promotion and fostering relationships with trade representatives, media, and consumers. NZW concentrates its international market development efforts on China, North America and some countries in Continental Europe. In 2007, NZW re-launched a new generic branding strategy – "New Zealand Wines: Pure Discovery" - focusing on the commitment to quality and excitement found in New Zealand wines and promoting as well the new industry agenda towards innovation and diversification (Brodie et al., 2008).

To sustain export expansion, the Wine Institute has undertaken coordination activities of "generic export promotions". Another important issue on the agenda of the Wine Institute is the introduction of more rigorous production and labelling standards for local and imported products, and related enforcement procedures.

4.5.2 Suppressing barriers to international wine trade

Another area of public intervention is the reduction of tariff and non-tariff barriers to international wine trade and improving access to foreign markets. To this extent, New Zealand Trade and Enterprise, the economic development and trade promotion agency, has recently signed free trade agreements (FTAs) with China (1998) and Taiwan (2013). The FTA with Australia also plays an important role in fostering wine exports between the two countries. Under this FTA, any product containing more than 50 percent Australian content is eligible to enter New Zealand duty free (Kenny, 2009, p. 165).

New Zealand Winegrowers also partnered with New Zealand Trade and Enterprise "to build and launch the New Zealand Wine brand in development markets" (NZWG, 2012). Both institutions "are in the process of

developing and delivering an integrated marketing and communications program in some of the major growth markets – notably China, Germany, Netherlands, and Sweden" (NZWG, 2012).

4.6 SOUTH AFRICA: PUBLIC INTERVENTION IN WINE EXPORTS AND PROMOTION

The South African wine industry has faced considerable changes over the last few years going from deregulation in the 1990s to integration in international value chains.

The Wine & Spirits Board is a statutory body responsible to administer the Wine of Origin Scheme (1973) and for control functions regarding cultivars, vintages, Estate Brandy, and Integrated Production of Wine Schemes (IPW). The Board is appointed by the Minister of Agriculture and funded by the industry.

In 1999, the South African Wine Industry Trust (SAWIT) was established to promote the transformation of the South African wine industry and to boost wine exports. In order to fulfill its mission, SAWIT established the following three bodies: BUSCO (wine industry Business Support Company), DEVCO (wine industry Development Support Company focused on social transformation) and WIECO (Wine Education Fund).

The main purpose of BUSCO is to transform the South African wine industry from a production-driven to a market-driven industry. BUSCO pursues four main objectives: development of capabilities in research and development (R&D) and technological transfer; support to generic export promotion; be an active stakeholder in the liquor industry task group; management of voluntary surplus removal.

In 1999, WineTech developed "Vision 2020", an essential strategic plan for the wine industry attempting to legitimize and explain how to build an innovative and market-driven industry.

Wine industry statutory measures comply with the terms of the Marketing of Agricultural Products Act (1996). SAWIT, WineTech, and WoSA are responsible for the implementation of the statutory measures. The Marketing Agricultural Products Act stipulates that a statutory levy may not exceed 5 percent of the price realized for a specific agricultural product at the first point of sale. In April 2013, the proposed statutory levies ranged between 0.87% for grapes and 3.36% for bulk wine. Generally, measures are implemented for a four-year term. Promotion on export markets absorbes the largest share of funds from levies (in 2013, 38m Rands – about 51% of total levies).

4.6.1 The promotion of South African wines and reduction of trade barriers

Wines of South Africa (WoSA) is a non-profit non-governmental agency. The agency was established in 1999 and is responsible for generic marketing, contributing to the development of 'Brand South Africa'. It represents more than 500 South African wine exporters and promotes wines in the domestic and international markets as well as wine tourism. The agency is recognised by the South African government as Export Council and as such it participates in the dialogue between the wine industry and the government. WoSA is funded through a per litre levy on exported wine.

The Department of Trade and Industry is responsible for the establishment of relevant free trade agreements with key partners in order to improve trade and investment conditions. According to industry sources, the Department spends approximately 1 million Rands per year for the development of the wine industry. In 2002, the EU and South Africa signed an "Agreement on wines and spirits", as part of a broader "Trade, Development and Cooperation Agreement", under which the EU provided a duty-free quota for imports of South African wine that increases by 5% each year from 2002 until 2011.

Recently, the South African government opposed the increasing claims of international bulk wine buyers, asking South African wine exporters to shift their exports from packaged to bulk wines. The government claims that this strategy would lead to considerable job losses in the industry (domestic bottlers, glass makers, etc.) and could eventually damage the country's image and 'Brand South Africa'. According to the estimates of WoSA, for every 100 000 hl shifted from packaged to bulk wine exports the industry would lose 107 jobs (WoSA, 2010). However, in 2012 South African exports of still wines in bulk accounted for 63% of total still wine exports (against 41% in 2010) (OIV, 2013).

5 THEME 1 – DEVELOPMENT OF THE COMPETITIVENESS OF EU WINES

5.1 THE LEVELS OF ANALYSIS

The analysis of the competitiveness of EU wines was conducted on two levels:

1. The first level aims to assess the overall competitive position of EU still wines compared to still wines of competitors (non-EU countries) over time, regardless of the factors determining it. In this context, a first examined aspect concerns the competitiveness with respect to international trade. The analysis aims at evaluating the competitiveness of EU wines relative to demand for imported wine in the different country markets, regardless of which use is made of it and its destination (e.g. satisfaction of domestic demand, industrial blending / bottling and subsequent re-export, etc.)

   Therefore, this first level of analysis does not take into account the role played by "local" wine in the considered country markets, which is made either from locally grown grapes, or from wine imported in bulk and/or grape must and then "nationalised", or through a mix of the two.

   This analysis was carried out distinguishing between two business areas:

   - wine imported (exported) in containers <2lt already branded, destined to the consumer market (on-trade, off-trade and online channels);
   - wine imported (exported) in bulk (containers >2lt), mostly destined (with some exceptions[13]) to the intermediate market (blenders, bottlers). Bulk wine imports have different uses/destinations, depending on the market:
     - wine shipped from the place of production to the place of consumption to be bottled and labeled with the producer's name/brand (for example, in the UK);
     - wine shipped from the place of production to the place of consumption to be bottled and labeled with the name of the retailer (for example, in Germany and Denmark);
     - wine shipped from the place of production to be blended with domestic wine and then sold to the consumer market of the same country, under the brand of the local producer (for example, this occurs in Russia, China and Japan);
     - a mix of the first two cases (i.e. UK) or of all three cases above (i.e. USA).

   A further aspect of analysis at this first level concerns the competitiveness of EU wine compared to wines of competitors in the context of domestic consumption. The analysis was conducted considering wines packaged for the final consumer (on-trade and off-trade) in the case study countries[14]. Thus, this piece of analysis aims at evaluating the competitiveness of EU wine at the level of domestic final demand of the considered countries, taking into account also "locally produced" wines (where applicable). In this case, the analysis concerns domestic sales of bottled wines that bear a label indicating the origin. This includes wines imported in bulk, blended/bottled locally and marketed with an indication of the origin, but it excludes imported bulk wine that is bottled without specifying the origin.

   This analysis presents some limitations, related to the data collection system. Specifically:

   - wines imported in bulk that are blended with wines made from locally grown grapes are included in "local" wines. Therefore, the role of imported wine consumption in the countries considered is systematically underestimated (but it is not possible to determine the extent of underestimation).
   - Wine imported from country X is not necessarily actually produced in country X (in the sense that, it may have been bottled in country X, but imported in bulk from country Y).

[13] In actual facts, part of the wine imports under code NC 220429 is not wine in bulk, but wine packaged in containers >2 liters (Bag in box, large size bottles, etc..) at the origin. This inevitably leads to analytical inaccuracies that at present cannot be solved. In this regard, the recent decision of the World Customs Organization Sub-Committee for the revision of the Harmonized System (HS) seems appropriate, in that it has agreed to the OIV proposal whereby wine in containers between 2 and 10 litres will no longer be considered as "bulk" in terms of customs nomenclature. This will prevent the current analytical errors.

[14] China/Hong Kong, Russia, USA, Japan, Denmark, Germany and United Kingdom.

2. At the second level, analysis aims to explore the factors (and their interactions) that potentially influence the competitive position of EU wines and, in particular, those factors that restrict or trigger or guide domestic demand and choice of wine origin.

   This analysis is based on an adaptation of the analytical-interpretative model of competitiveness suggested by M. Porter (Porter's Diamond) to the specific object of the study.

5.2 GLOBAL COMPETITIVENESS OF EU STILL WINES WITH RESPECT TO INTERNATIONAL TRADE

The analysis of the global competitiveness of the EU still wines with respect to international trade (first level of analysis) was carried out:

- Worldwide on the basis of EU still wine exports (in bottles and bulk) to the world market (including transfers within the EU, to take into account also the competitiveness of EU wine on the internal market) and exports of competitors to the world market;
- For the top 10 countries importing EU still wines (respectively, in bottles and bulk), namely:
  - For bottled wine: Australia, Brazil, Canada, China (including Hong Kong e Macao), Japan, Norway, Russia, Singapore, Switzerland and USA. These 10 countries account for 88.2% of total exports of EU bottled wine to third countries in value and 80.7% in volume (in 2012);
  - For bulk wine: Angola, Canada, China, Côte-d'Ivoire, Japan, Morocco, Norway, Russia, Switzerland and USA. These 10 countries represent 89.3% of total exports of EU bulk wine to third countries in value and 90.4% in volume (in 2012).

For both bottled and bulk wine, the analysis also includes the three EU case study Member States markets (Denmark, Germany, United Kingdom).

In order to put into context the analysis that follows, we first provide an overview of wine trade at world-wide level to represent:

- the position of the different country-systems with respect to world total exports (including intra-EU wine transfers). For the EU, the analysis considers individual exporting Member States (over total intra- and extra-EU markets, in volume and value[15]);
- the position of EU wines on the most important import markets (in terms of market share, volume and value).

This analysis uses 2012 wine trade data (source: Comtrade).

5.2.1 The position of country-systems on the world export market

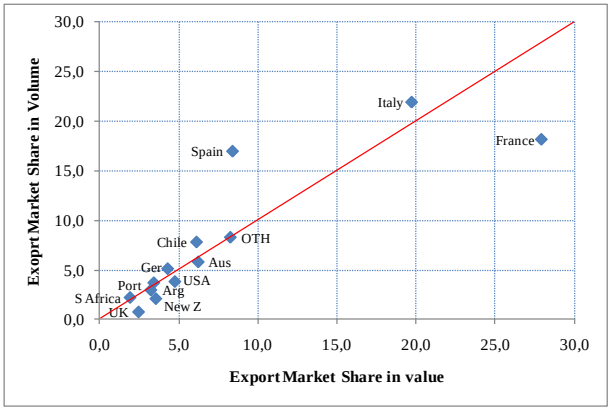
The maps of Fig. 3 show the position of the different country-systems (EU Member States and main non-EU competitors) in terms of export market share calculated on total world exports in value (on the x-axis) and volume (on the y-axis)[16], respectively for the bottled wine market, for the wine market in bulk and for the total still wine market (bottled + bulk).

[15] Data in value, sourced from Comtrade, are espressed in USD.

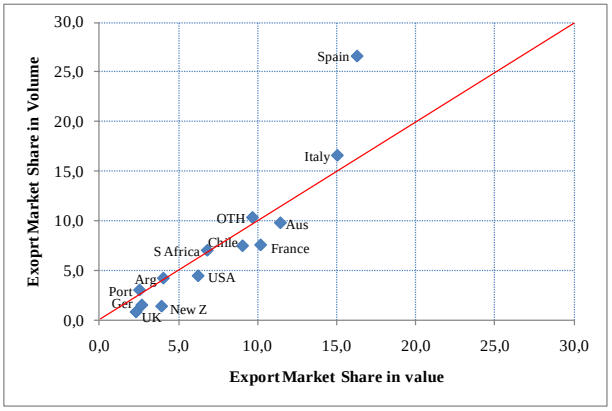
[16] Comtrade data for Argentina relative to export volumes (litres) resulted to be incorrect. Therefore, they have been corrected by applying an average Kg/Lt conversion index to data in kilograms.

Fig. 3: Export market shares of main wine exporting countries in value and volume, 2012 (% over world total export)

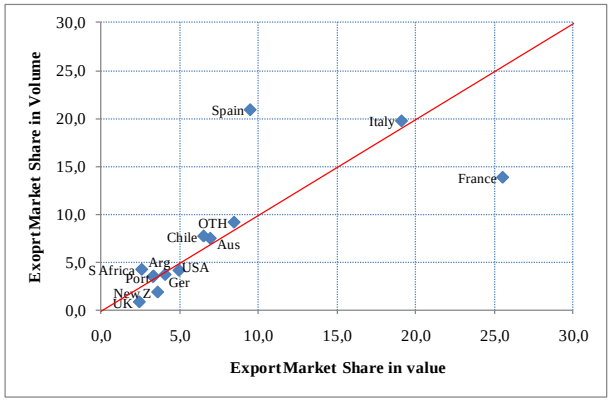
Export market shares for bottled wine



Export market shares for bulk wine



Export market shares for total still wine



Source: based on Comtrade data

EU Member States hold the largest export market shares worldwide, specifically:

- France is the world leader in value and Italy in volume on the export market for bottled wine;
- Spain is the world leader (both in value and volume) on the export market for bulk wine;
- Overall (bottled + bulk), France is the world leader in value and Spain in volume terms.

Again from the comparison of individual country-systems, the main non-EU competitors have far smaller market shares compared to the three main producing Member States. The main competitors (Chile and Australia), have an export market share equal to a quarter of that of France in value and to a third of that of Spain in volume.

We observe that in terms of relationship between export values and volumes:

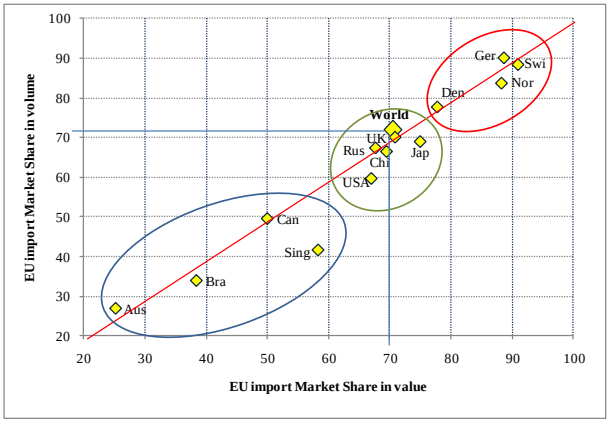
- For France, New Zealand, Australia (although less) and the US value market shares are larger than volume market shares (therefore, these countries achieve, on average, a higher FOB unit value). In particular, New Zealand and France seem to play their competitiveness on high quality wines, both in bottles and bulk;
- Conversely, Italy and Spain have lower market shares in value than in volume (and thus achieve, on average, a lower FOB unit value). Spain, in particular, seems to play its competitiveness on the low range wines, both bottled and bulk.

5.2.2 Import market shares of EU wines on the most important world markets

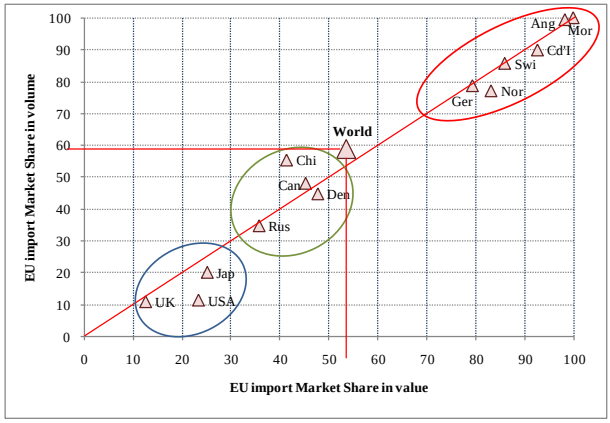
The maps in Fig. 4 show the position of EU wines compared to non-EU wines in terms of import market shares in the top ten markets of interest at world level, respectively for still wines imported in bottles and wines imported in bulk. Again, market shares are calculated on values and volumes.

Fig. 4: Import market shares of EU still wines in value and volume in the most important EU export markets, 2012 (%)

Import market shares for bottled wine



Import market shares for bulk wine



Source: based on Comtrade data

In 2012, all EU wines considered together represented about 70% of the world import market in value and a little more in volume for bottled wines, and about 55% in value and 60% in volume for wine in bulk.

Import market shares of EU wines differ widely across the top 10 import markets plus the markets of the three case study Member States (UK, Germany and Denmark), ranging from:

- a maximum of about 90% (Switzerland, Germany) to a minimum of 25% (Australia) for bottled wines;
- a maximum of 100% (Morocco, Angola) to a minimum of 10-12% (United Kingdom) for bulk wine.

In order to provide an interpretation of this variability, we considered the EU wine importing countries in three groups (see maps above). Based on country-market characteristics it is possible to make assumptions regarding some factors playing for or against the size of import market share of EU wines:

On the positive side, the factors playing for a larger market share of EU wines are assumed to be:

- The market proximity, compared to EU main competitors: Switzerland and Norway (in addition, of course, to Germany and Denmark within the EU);
- The historical relations of importing countries with some Member States (e.g. former colonies such as Angola and Côte-d'Ivoire);
- The existence of characteristics of (some) wine producing Member States that have an impact on the image of EU wines in import markets (symbolic aspects of the products: culture, history) or that play a carry-over effect (cuisines, etc.): Russia, Japan and China;

On the negative side, the factors playing against a larger market share of EU wines are assumed to be:

- The distance from markets relative to competitors: Australia, Brazil, Singapore;
- The existence of economic, political and linguistic ties between supplier countries and consumer countries, very often through global wine companies[17]: UK, USA, Australia.

5.2.3 Analytical approach to analysis of global competitiveness of EU still wines with respect to international trade

The first part of the analysis focuses on the evolution of the global competitiveness of EU wines compared to non-EU wines on the world market as a whole and in the 10 most important wine import markets, distinguishing between still wines traded already packaged (<2lt) and wines traded in bulk (>2lt). With reference to the methodological approach previously illustrated (in §2.6.1.1), the analysis is based on:

- Level and evolution of the value and volume of world exports and of imports by the 10 most important markets for EU wines compared to wines from third countries;

[17] Refer to §5.5.3.3 (market shares of global wine companies in the case study countries).

- Level and evolution of the market shares (in value and volume terms) of European wines compared to wines from third countries.

The following methodology was applied to analyse wine export/import data:

a) To make the data comparable across different countries, at worldwide level and for each country market, total exports/imports of bottled and bulk wine (both in value and volume) were set equal to 100 at the initial year (2000). Exports/imports from EU and non-EU countries (which make up total exports/imports) were calculated in proportion to their weight over the total. In addition, each year exports/imports from EU and non-EU countries (2001 through to 2012; 2013 for EU) were compared to total imports in 2000.

b) First, we calculated the difference (positive or negative) between EU and non-EU exports (or imports) in each year of the interval (2000-2012 for non EU countries; 2000-2013 for EU countries). Then, we calculated the variation (positive or negative) of these differences in each year *tn* (Δ *Exports (or Imports) (EU-Others)*$_{tn}$), $\forall n \rightarrow$ *2001, ..., 2012*) from the initial year *t2000*. Therefore, such variation, defined as *Export* (or *Import) Variation* can be calculated for each year as follows:

$$Export\ Variation_{tn} = (\Delta\ Exports\ (EU\text{-}Others)_{tn}) - \Delta\ Exports\ (EU\text{-}Others)_{t2000},$$

$$Import\ Variation_{tn} = (\Delta\ Imports\ (EU\text{-}Others)_{tn}) - \Delta\ Imports\ (EU\text{-}Others)_{t2000},$$

where the Export Variation / Import Variation for 2000 = 0.

c) Similarly, we calculated the difference (positive or negative) between wine export (or import) market shares of EU and non-EU countries in each year of the interval (2000-2012 for non EU countries; 2000-2013 for EU countries). Then, we calculated the variation (positive or negative) of these differences in each year *tn* (Δ *Market Share (EU -Others)*$_{tn}$), $\forall n \rightarrow$ *2001, ...,2012*) from the initial year *t2000*. Therefore, such variation (defined as *Market Share Variation*) can be calculated for each year as follows:

$$Market\ Share\ Variation_{tn} = (\Delta\ Market\ Share\ (EU\text{-}Others)_{tn}) - \Delta\ Market\ Share\ (EU\text{-}Others)_{t2000}),$$

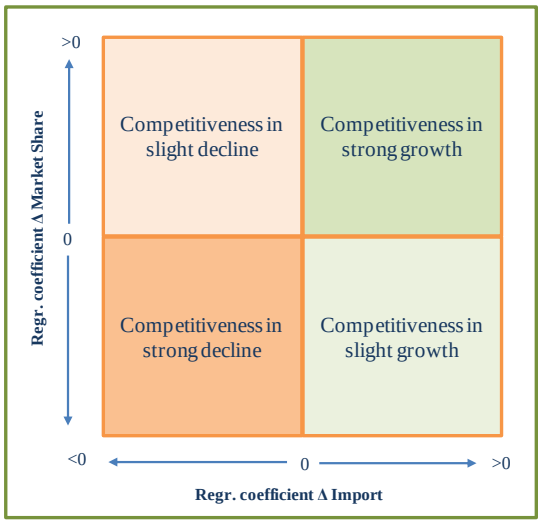
where the Market Share Variation for 2000 = 0.

d) Afterwards, we estimated the log-linear regression coefficient for export, import and market share *Variations* over the considered years 2000-2012 (2013 for EU countries).

e) Finally, for the world market and each import country market we constructed a map in which:
   - the x-axis shows the slope (positive or negative) of the log-linear regression line of the *Export Variation (or Import Variation)*;
   - the y-axis shows the slope (positive or negative) of the log-linear regression line of the *Market Share Variation*.

The combinations of Export - Market Share *Variations* and Import - Market Share *Variations* generate, for each piece of analysis, four quadrants:

- In the first quadrant both regression coefficients are positive: the competitiveness of European wines improves considerably over the considered years;
- In the third quadrant both coefficients are negative: the competitiveness of European wine significantly decreases during the period;
- In the second quadrant the coefficient for exports/imports is positive, whereas the market share coefficient is negative: the competitiveness of European wines improves only slightly, signalling that risks are present for the future;
- In the fourth quadrant, the coefficient for exports/imports is negative, whereas the market share coefficient is positive: the competitiveness of European wine slightly decreases (however, the analysis shows that this does not occur in any of the considered cases).



5.2.4 Global competitiveness of EU still wines in the world market

The analysis of the competitive position of EU still wines in the world market was carried out with respect to total world still wine exports, including also intra-EU trade (i.e. EU wine transfers towards each Member State). This choice is motivated by the need to consider international trade (exports in this case) as a whole including also the EU market, for both EU Member States and third countries.

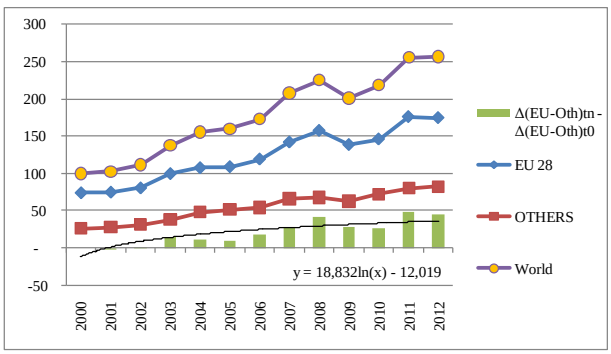
The analysis was conducted for total still wines and separately for packaged and bulk wines.

World exports of still wine have seen remarkable growth, more or less constant throughout the examined time interval: +8.3% on average per year in value and +4.3% in volume. Within such overall evolution, the analysis of the competitive position of EU wines shows that:

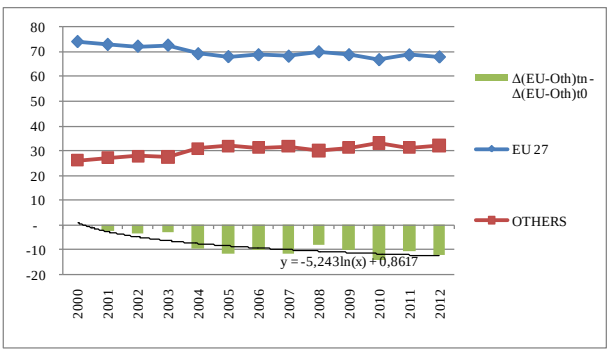
- The growth rate of total exports (value) from the EU is lower than the growth rate of exports from the rest of the world (+7.6% on average per year and +9.9% per year, respectively). However, a lower growth rate applied to a much higher initial value leads to a larger growth of EU exports' value resulting, therefore, into a positive evolution of the Export Variation indicator;
- On the other hand, the growth rate of EU export volumes (3.3% per year) compared to the growth rate of exports from the rest of the world (+6.5% per year) leads to a substantial stability of the Export Variation (slightly negative until 2010 and more stable afterwards);
- Despite growth of the Export Variation in value terms, the market share of EU wines over total world exports has declined between 2000-2005 and stabilised afterwards. In spite of a decrease, the EU market share remains large (about 68% in 2012, compared with 74% in 2000). The substantial stability of the Export Variation in terms of volume has a somewhat larger effect on the evolution of the EU market share (in volume): from 75.2% in 2000 to 65.9% in 2012 (in this case too, the market share decreases until 2007 and subsequently stabilises). Therefore, the Market Share Variation indicator shows a negative trend in both cases, less pronounced for export value and more evident for export volume (see Fig. 5).

Fig. 5: World: Total still wine export value, volumes and market shares, 2000-2012 (World 2000= 100)

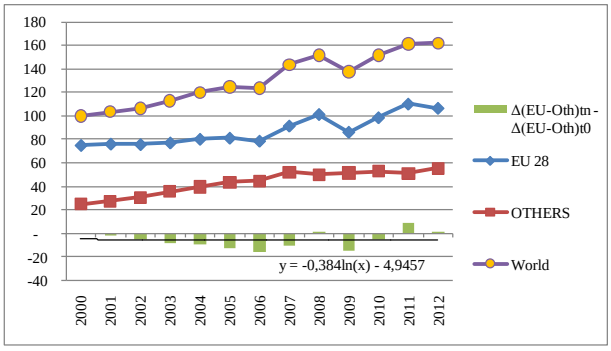
Total wine: Export value



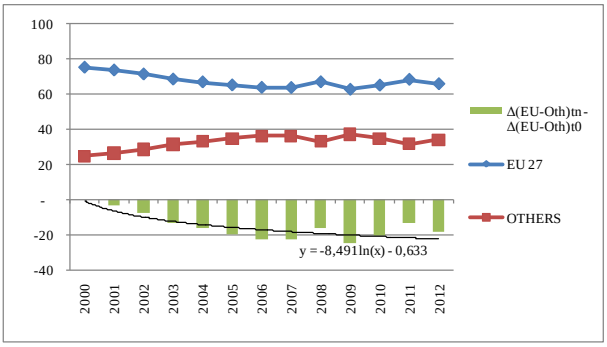
Total wine: Export Value Market Share



Total wine: Export volume



Total wine: Export Volume Market Share



Source: based on Comtrade data

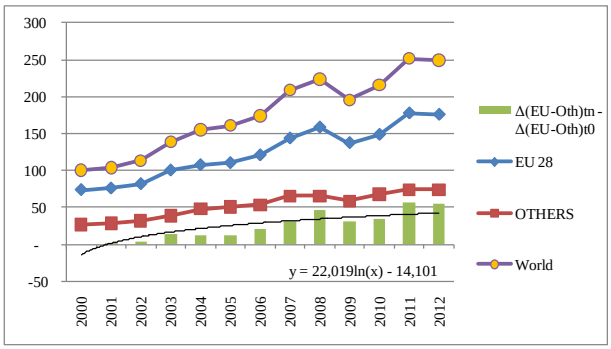
5.2.4.1 Global competitiveness of EU packaged still wines

World exports of still wine in bottles have grown by around 8% on average per year in value and by 3.2% in volume. In this context, the competitive position of EU wines is a little better than that observed for wines in total. In particular:

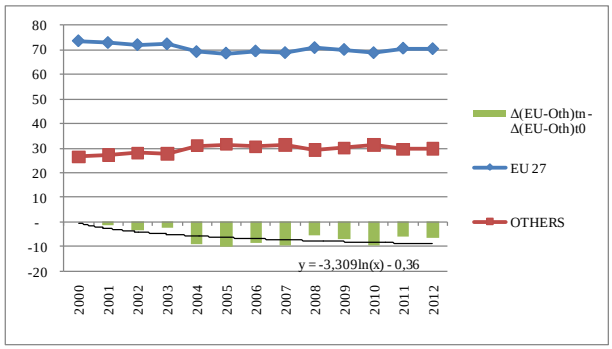
- The growth rate of exports' value of bottled wines from the EU is in this case lower than the growth rate of exports from the rest of the world (+7.6% and +8.9% on average per year, respectively). However, the lower growth rate applied to a much higher initial value leads to larger growth in the value of exports from the EU and, therefore, to a positive evolution of the Export Variation;
- The situation is different with respect to export volumes: the growth of EU exports (+3.1% on average per year) is only slightly lower than the growth rate of exports from the rest of the world (+3.3%). Furthermore, two sub-intervals can be observed: the first, from 2000 to 2006, characterised by slow growth of EU exports and faster increase for exports of all competitors; from 2007 onwards, EU exports see an acceleration compared to a slight decrease of exports for the competitors. The resulting evolution of the Export Variation is from slightly negative until 2009 to positive in the following years;
- Despite the growth of the Export Variation in value terms, the market share of EU bottled wine exports slightly declines between 2000 to 2005 and essentially stabilises afterwards (see Fig. 6). Similarly to what observed for total wine exports, the EU market share remains rather high (just over 70% in the last years of the period, compared to 73% in 2000). On the other hand, the Export Variation in volumes has more mixed effects on the evolution of EU wines market share (in volume), which decreased from 71.7% to 62.5% until 2005, before gradually recovering in subsequent years to reach 70.9% in 2012 (i.e. only slightly less than the market share in 2000). In the face of these trends, the Market Share Variation presents (in both value and volume terms), a negative evolution in the early years of the period, but a recovery in subsequent years, more noticeable in the case of export volumes.

Fig. 6: World: Bottled still wine export value, volumes and export market shares, 2000-2012 (World 2000= 100)

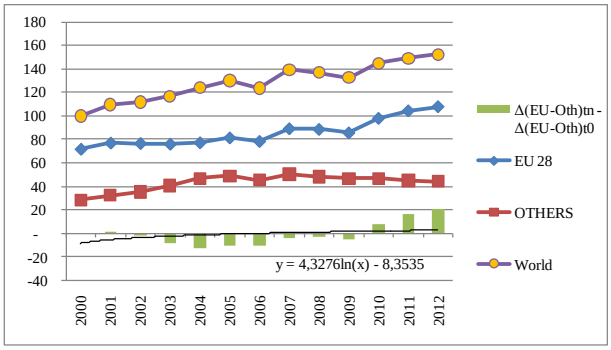
Bottled wine: Export value



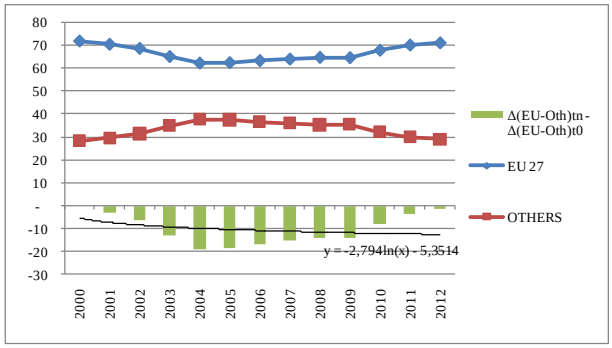
Bottled wine: Export Value Market Share



Bottled wine: Export volume



Bottled wine: Export Volume Market Share



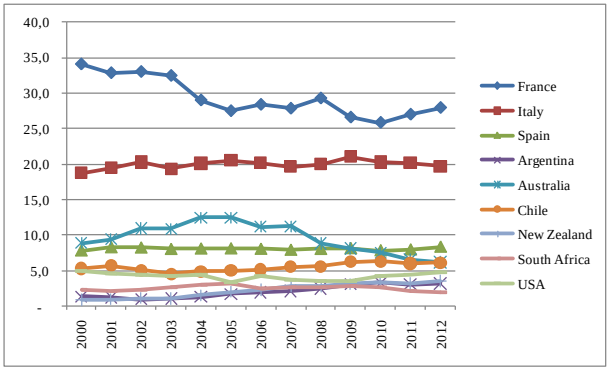
Source: based on Comtrade data

The following underlying trends to changes in the global competitiveness of EU bottled still wine exports can be observed:

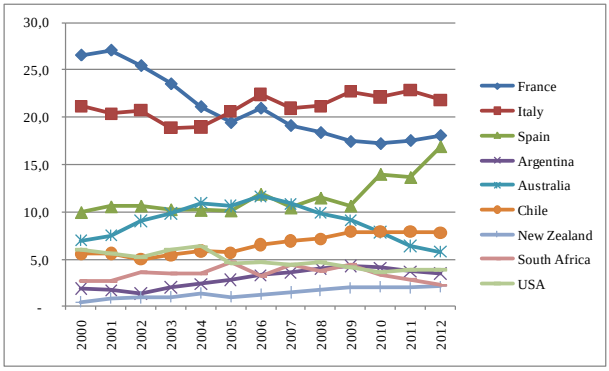
- The recovery of competitiveness of EU wine exported in bottles on the world market is due to an improvement of the competitiveness of wines exported mainly from Italy and Spain (in volume), which however appears to be significantly reduced by a loss of competitiveness of exports from France (not only in terms of volume, but also in value);
- It is worth observing that the growth of the export market share of Spanish wines (in volume), which is however not matched by an equal improvement in value terms, starts in 2010, following the implementation of the CMO wine reform. Therefore, the increase in export volumes hides a significant decrease in the average price[18].
- As far as the EU competitors are concerned, the overall trend is the result of opposing developments (see Fig. 7). Growth is mainly due to exports of Chile that significantly increases its market share (especially in volume), whereas the turnaround in 2006-2007 is almost exclusively due to loss of market share by Australia and to a lesser extent by South Africa.

Fig. 7: Bottled still wine export market shares of main competitors, 2000-2012

Bottled still wine: value



Bottled still wine: volume



Source: based on Comtrade data

5.2.4.2 Global competitiveness of EU bulk still wines

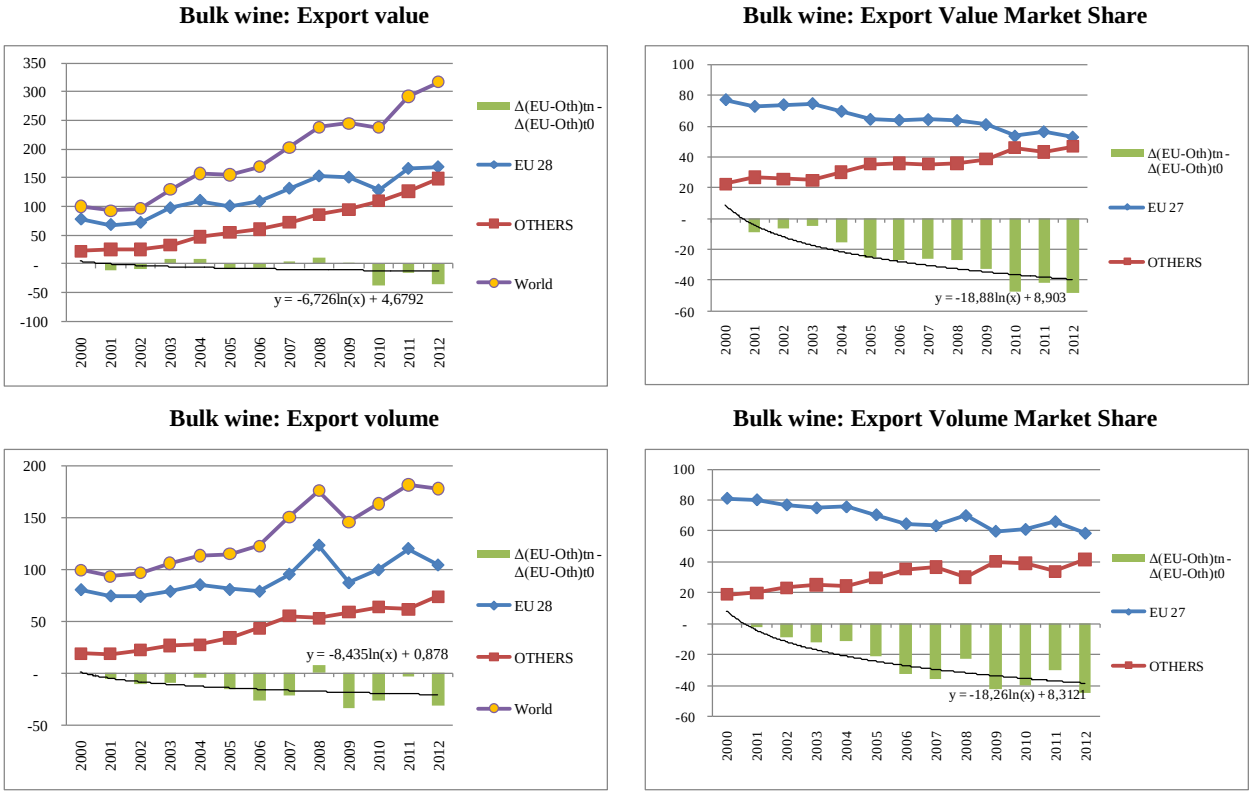
A somewhat different situation arises in the case of still wines exported in bulk as shown in graphs of Fig 8 below.

World exports have witnessed very important growth: 10.6% on average per year and 6.1%, respectively in value and volume. Within this expansion, the analysis of the competitive position of EU wines shows some critical elements. In particular:

[18] Cf. §5.2.8 (price competitiveness)

- The growth rate of the value of exports from the EU is much lower than the growth rate of exports from the rest of the world (+7.5% on average per year and +16.5% per year, respectively). In this case, however, despite a larger initial value for the EU, the growth differential between the EU and the rest of the world leads to a progressive negative evolution of the Export Variation.
- A similar evolution is observed for export volumes: the growth rate of EU exports (+3.4% on average per year) is much lower than the growth rate from the rest of the world (+12.4%). Again, the result is a progressive negative evolution of the Export Variation.
- The decline of the Export Variation in value and in volume has remarkable effects on the market share of EU bulk wines, which plunges from 77.4% in 2000 to 53.2% in 2012 in value, and from 88.1% to 58.5% in volume. Therefore, the Market Share Variation presents an evolution strongly negative in both cases over the entire time interval.

Fig. 8: World: Bulk still wine export value, volumes and export market shares, 2000-2012 (World 2000= 100)



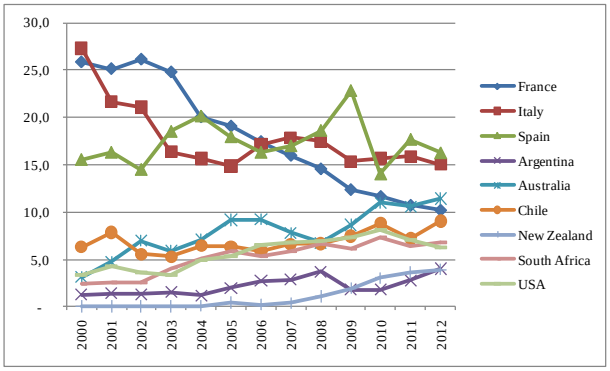
Source: based on Comtrade data

The following trends underlie the observed changes in the global competitiveness of EU exports of still wine in bulk (see Fig. 9):

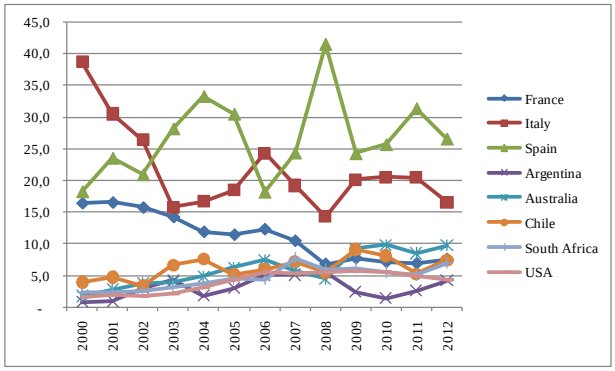
- The loss of competitiveness of EU wines is due in this case to the sharp drop in market share of wine exports from France (both value and volume). Italian and Spanish wines seem to perform a little better. In the case of Spanish wines, we observe an improvement in their market share.
- However, the market share of Italian and Spanish wines shows extremely large fluctuations that mirror one another. One possible interpretation of this occurrence is that both these wines serve more or less the same usage function in the same markets (particularly the markets of EU Member States) with high degree of substitutability between the two. Fluctuations are an effect of the respective market conditions.
- With regard to EU competitors, the overall trend is just the sum of individual country trends: all countries have witnessed a market share increase, although more significant for Australia and Chile and less important for South Africa.

Fig. 9: Bulk still wine export market shares of main competitors, 2000-2012

Bulk still wine: value



Bulk still wine: volume



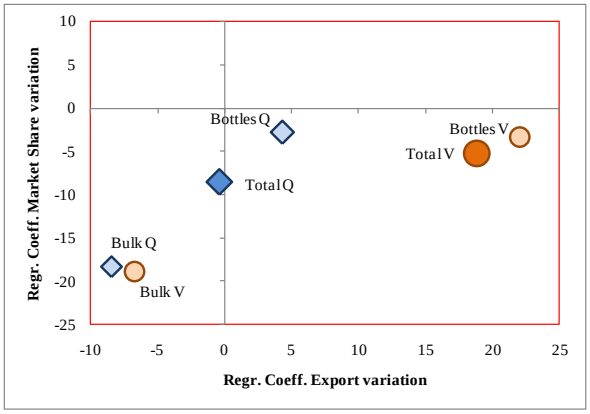
Source: based on Comtrade data

5.2.4.3 Global competitiveness of EU still wines in the world market: Synthesis of results

The map of competitiveness of EU wines (Fig. 10) compared to exported wines of other origin shows that, overall, EU wines improve their competitiveness on the world market in value terms (they are positioned in the second quadrant of the map below), while maintaining their position in volume terms, despite the overall loss of market shares (in value and volume). However, this result is due to two opposite trends:

- The relatively good performance of EU bottled wines (both volumes and values are positioned in the II quadrant), with a slight increase of competitiveness, provides some assurance about the likelihood of maintaining their competitive position in the future, although some risks may be present for the future given the slight loss of market shares.
- The decidedly negative performance of EU bulk wine exports (both values and volumes are shown in the third quadrant), with a significant decrease of competitiveness (in particular, market shares) raises doubts as to the possibility of future recovery of their competitive position.

Fig. 10: Map of competitiveness of EU versus non-EU exported still wines in the world market



Source: Cogea (based on Comtrade data)

5.2.5 EU still wine exports: PDO and non-PDO wines

In this further analysis we have disaggregated EU still wine export data (bottles and bulk) into the PDO (v.q.p.r.d until 2009) and non-PDO (table wines until 2009) wine categories:

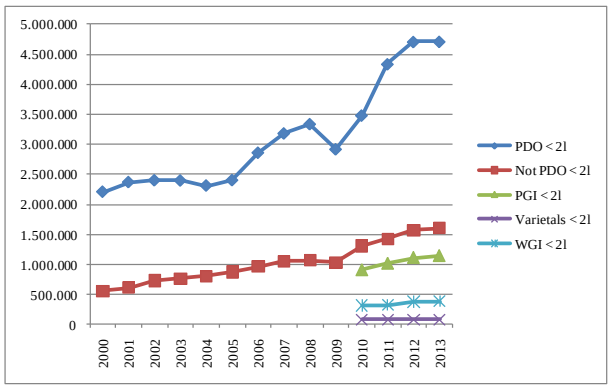
- PDO and non-PDO for the whole interval;
- PDO, PGI, wines without geographical indication (WGI) and varietal wines from 2010 onwards.

For this analysis we have used Comext data as they allow for the required disaggregation (compared to the Comtrade database), albeit limited to EU exports towards the rest of the world.

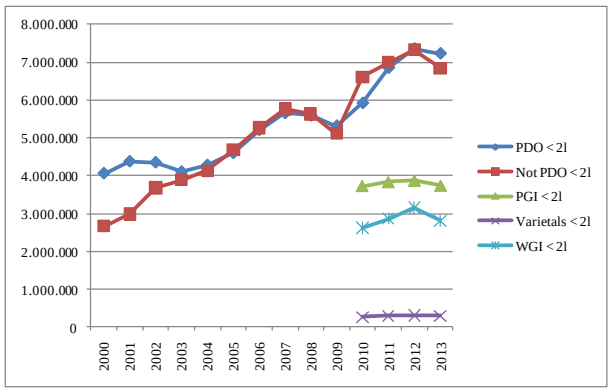
The graphs in Fig. 11 show the evolution of the EU27 exports towards third countries (i.e. intra-Union transfers are excluded from this analysis).

Fig. 11: Evolution of EU still wine exports towards the rest of the world : PDO and non-PDO wines (PGI, WGI, Varietal wines), 2000-2013

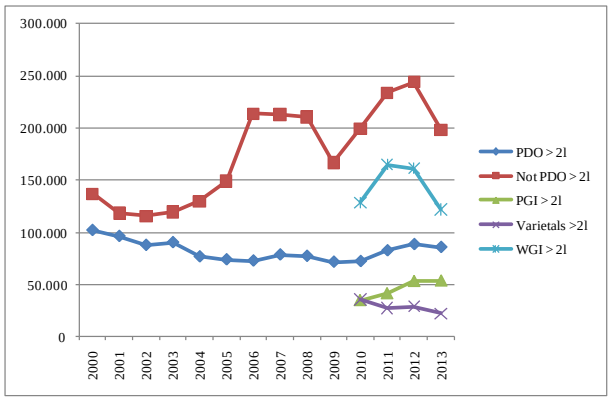
Bottled wine: Export value (1,000 Euros)



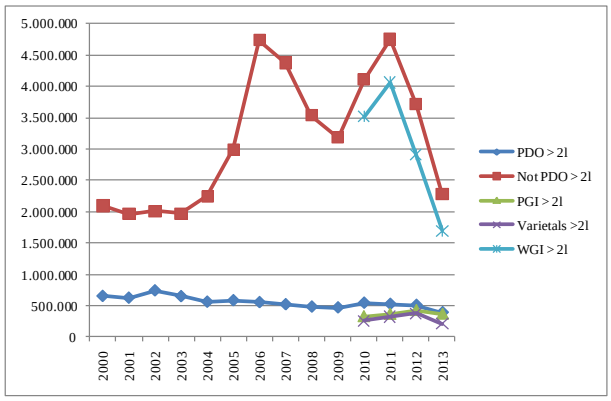
Bottled wine: Volume (hl)



Bulk wine: Export value (1,000 Euros)



Bulk wine: Volume (hl)



Source: Comext data

The following observations emerge from the analysis:

- With regard to bottled wine, the same volumes of PDO and non-PDO wines are exported to third countries, however we observe a striking difference (and with the gap widening over time) in terms of export values.

  Over the last four years of the considered interval (i.e. after the implementation of the 2008 wine CMO reform and the introduction of new wine categories: PGI, varietal wines) we observe that:

  - PGI wines account for a very large proportion of non-PDO wines (approximately 70% in value and 55% in volume on average between 2010-2013);
  - Only a very small proportion of wines WGI is represented by varietal wines (about 19% of the total value and 9% of volume on average between 2010-2013).

- Bulk export volumes of PDO wines represent a small part of total exports: about 33% in value over the entire period and 16% in volume (with a tendency to decrease).

  Over the last four years of the examined interval we observe that:

  - Most non-PDO wines are wines WGI (about 79% in value and 89% in volume on average between 2010-2013);
  - Varietal wines represent only a limited share of wines WGI (about 17% of the total value and 9-10% of volume on average between 2010-2013).

Therefore, we can draw the following conclusions regarding the evolution over the last four years:

- "Quality wines" represent approximately 92% (in value) and 77% (in volume) of exports of EU bottled wine towards third countries. This percentage is substantially stable over the considered years;

- By contrast, "quality wines" only represent 43% (in value) and 22% (in volume) of exports in bulk (with a slight increase over the period). It is thus confirmed that EU exports of wine in bulk consisted mainly of wines intended for markets not very demanding in terms of quality;
- Finally, the new category of varietal wines seems to arouse only little interest on the part of European producers[19] and plays a very marginal role: only 1.4% of total exports of wine bottles in value and 2.1% in volume; 9.6% of total exports of wine in bulk in value and 7.1% in volume.

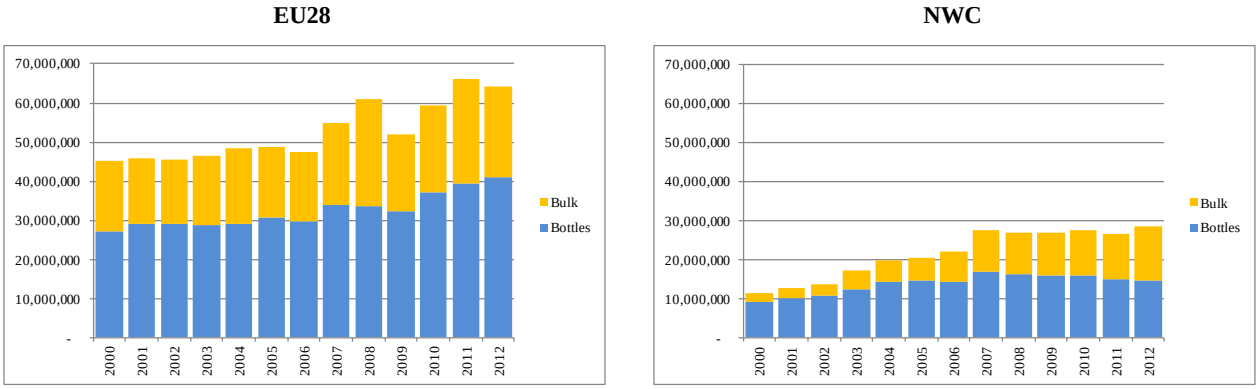
  China, USA and Canada are the main destination markets of the majority of varietal wine exports (42% of varietal wine in bottles and 75% in bulk).

5.2.6 The export market for bottled vs. bulk wines: A change of strategy

The different evolution of the competitive position of the EU in the two business areas of bottled and bulk wine, together with what emerges from the analysis of export trends of different product types (PDO, PGI, etc.) calls for a more in-depth examination and leads, at the same time, to some further considerations.

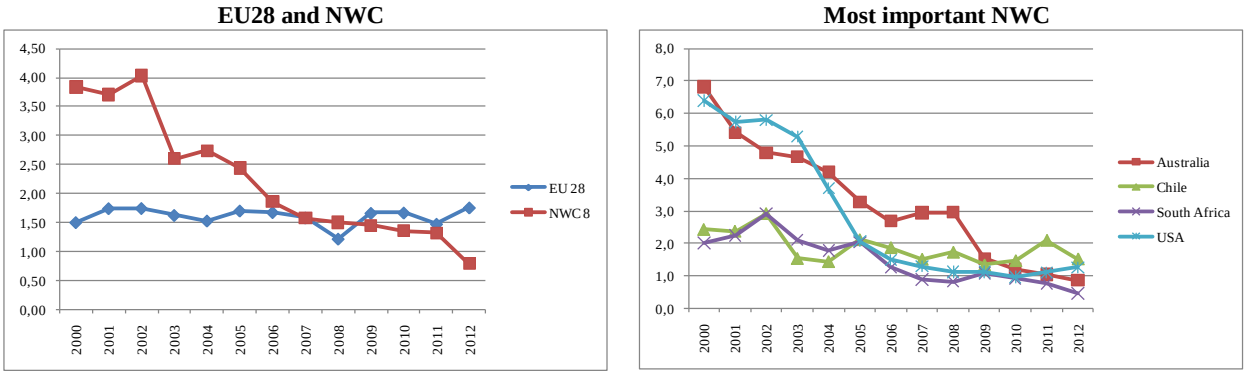
Fig. 12 and Fig. 13 show the cumulative size of export volumes of bottled and bulk wine, respectively from the European Union (intra + extra-EU) and from the group of NWC (the scales of the graphs are identical to ease comparison).

Fig. 12: Cumulative exports of still wine in bottles and bulk, from EU28 (intra + extra EU) and NWC (hl), 2000-2012



Source: based on Comtrade data

Fig. 13: Bottled wine export /Bulk wine export



Source: based on Comtrade data

The analysis leads to the following observations and considerations:

- As previously seen, total EU exports started growing (with some fluctuations) from 2007 onwards. Conversely, after a rapid growth until 2007, NWC exports remain stable in the following years.
- The composition of EU wine exports remained essentially constant throughout the period (the observed fluctuations around the flat trend of the bottled /bulk wine export ratio are quite small).

[19] This, despite being eligible for the "Promotion on third country markets" measure under current EU regulation.

- By contrast, the evolution of NWC exports shows a deterioration of the relationship between bottled and bulk exports, highlighting a change in business/logistics strategy around 2007, when the stability of total exports results from growth of exports in bulk and a reversal in the trend of bottled wine exports. In other words, since 2007 a strategy of gradual substitution of bottled wine with bulk wine exports is in place.
- The main actors of this change of strategy (also influenced by technological innovation - see box below) are Australia, the United States and South Africa. Chile, on the other hand, seems to follow a more similar strategy to that adopted by the EU, keeping the bottled/bulk relationship more or less constant over time.
- At present, a possible change of strategy by the EU (similar to what observed in the above NWC countries) does not seem feasible, since the majority of exports consist of PDO and PGI wines to be marketed in bottles partly because of constraints posed to bottling outside the production area in the PDO/PGI production protocols by producers' organisations (as well as in reason of the image of such products). Therefore, bulk exports are mainly wines WGI.
- Given the cost advantages inherent in marketing/transporting wine in bulk rather than in bottles (see box below), EU quality wines suffer a competitive disadvantage.

The role of technology in the bulk wine market

Technological development has completely changed the competitive structure of wine trade. In particular, the introduction of the Flexitank (big bag-in-box with a capacity of 16.000 to 24.000 litres) has replaced steel containers. The result is that quality does not deteriorate (i.e. no wine oxidation, better preservation of organoleptic characteristics). In this way it is possible to transfer wine in flexitanks from the areas of production and bottle it in the areas of consumption, with significant cut of freight costs. In this way, then, bulk wine is no longer only intended for mixing with local wines, but to be bottled at destination with a brand of origin.

According to the literature, such change has both positive and negative effects.

Positive effects:

- Cost reduction: this system allows to transport wine in a standard 24,000 litres container, instead of 9,900 litres of bottled wine, for which shipping costs are $0.16/lt and $0.34/lt, respectively. This explains the decision of large wine businesses to bottle wines more cheaply at destination.
- Reduction of environmental effects: glass represents most of the weight of a wine bottle. In a standard shipping, 13,200 bottles (9,900 litres) weigh as much as 25,000 litres of bulk wine, which is about the capacity of a flexitank. Therefore, the "carbon footprint" is reduced by about half for a litre of wine in bulk compared to a litre of wine in the bottle.

Negative effects:

- Increase in unemployment: in all producing countries for the loss of activity of the bottling industry (but, conversely, increase in consumer countries). In South Africa, the non-profit association Wines Of South Africa (WOSA) has estimated a loss of 107 units every 10 thousand litres of wine exported in bulk, due also to reduction of bottling operations.
- Consequences for the glass industry: in 2012, Owens-Illinois, the world's largest manufacturer of bottles, closed down 3 of their 12 kilns in Australia; again in 2012, Amcor of Melbourne has seen a 34% decline in orders and Penrice Soda Holdings stopped producing soda ash, which is necessary in glass production.

5.2.7 Global competitiveness of EU still wines in the 10 most important import markets and in 3 EU markets (case study Member States)

This chapter analyses EU still wines' competitive position on the 10 most important third country markets in terms of imports of EU wines in bottles[20] and in bulk[21], respectively (i.e. two distinct groups of countries).

[20] The first ten importers of EU bottled wine are Australia, Brazil, Canada, China (including Hong Kong and Macao), Japan, Norway, Russia, Singapore, Switzerland and USA.

[21] The first ten importers of EU wine in bulk are Angola, Canada, China, Côte-d'Ivoire, Japan, Morocco, Norway, Russia, Switzerland and USA.

We consider the total of EU wine imports of all countries in each group (respectively importers of bottled and bulk wine) in relation to total wine imports in the same countries. In this case, the analysis has not been conducted at the level of total still wines (bulk + bottled), since the two groups do not include the same countries.

However, the maps showing the synthesis of the results, also report results for individual importing countries, as well as for the three case study Member States (Denmark, Germany[22] and the United Kingdom).

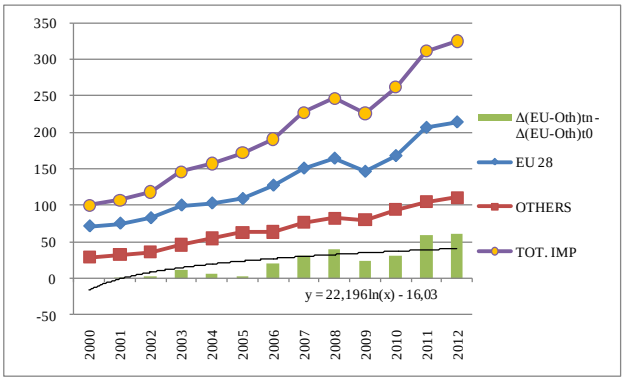
5.2.7.1 Global competitiveness of EU packaged still wines in the most important import markets

For the group of ten most important importing countries of EU bottled wines, total imports of still wines have increased by 9.9% on average per year in value and 5.4% in volume (Fig. 14). In both cases, growth is much faster than growth of total world exports of bottled wine. In this scenario we observe that:

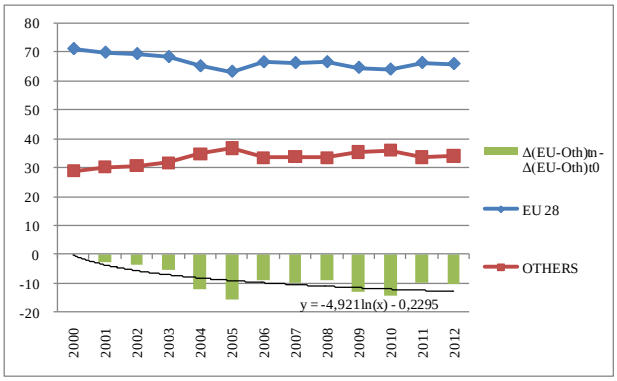
- The growth rate of the value of imports from the EU is lower than that of imports from the rest of the world (9.3% and 11.2% on average per year, respectively). However, the slower growth applied to a higher initial value (about 2.4 times), leads to larger growth in the value of imports from the EU and, therefore, to a positive evolution of the Import Variation.
- Furthermore, the growth rate of imports from the EU in volume (+5.1% annual average) is only slightly lower than that of imports from the rest of the world (+5.9% on average per year). However, we observe two sub-intervals for imports from the rest of the world: the first, from 2000 to 2005, characterised by very rapid growth, followed by a major downturn[23] and then, by a subsequent recovery at a slower speed than that of EU imports. This results in the Import Variation indicator turning from negative to slightly positive towards the end of the period.
- Despite the growth of the Import Variation (import value), the market share of EU wines over total imports of the top 10 partners shows a slight decline between 2000 and 2005, followed by recovery in 2006 and substantial stability thereafter. However, the market share of the EU remains large (over 66% in the last years of the period, compared to 71% in 2000).
- By contrast, the evolution of the Import Variation in volume leads to more mixed effects on the evolution of EU market share: drop from 67% to 48.8% between 2000 and 2005, then gradual recovery in subsequent years to reach 60.3% in 2012. Within these trends, both in value and volume terms, the Market Share Variation presents a downward trend in the early years of the interval, but with a recovery in subsequent years (stronger in the case of import volumes).

Fig. 14: Top 10 third-countries importers of EU bottled still wine: import values, volumes and market shares, 2000-2012

Bottled wine: import value



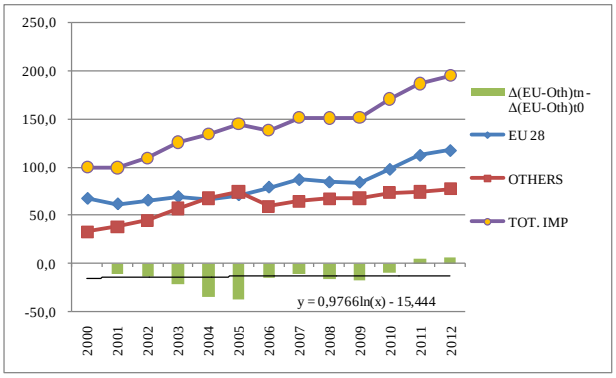
Bottled wine: Value Market Share



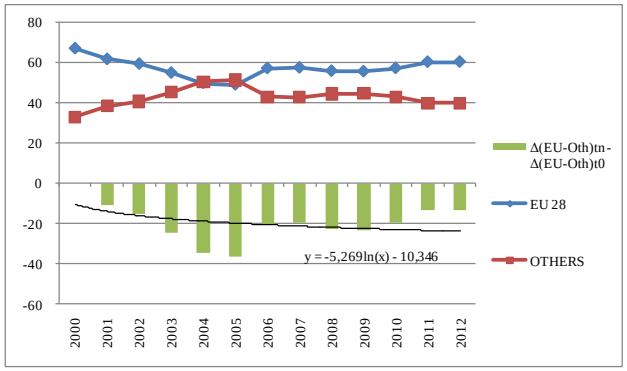
[22] In the case of Germany, the only analysed Member State that is also a wine producer, domestic wines (that are EU wines) are not considered in this part of the analysis, which only examines imported wines.

[23] This was mainly due to the fall in wine imports from other former USSR countries as a result of the embargo imposed by the Russian government to Moldova and then Georgia.

Bottled wine: import volume



Bottled wine: Volume Market Share



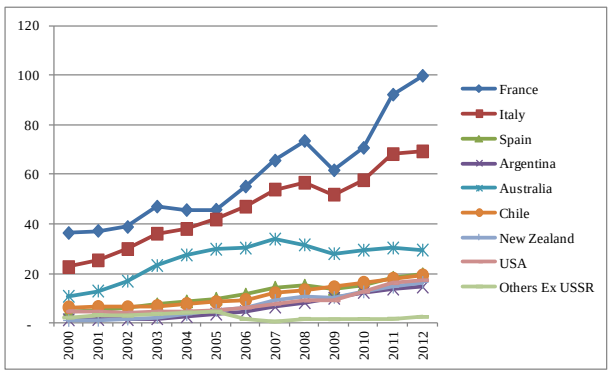
Source: based on Comtrade data

The following underlying trends to changes in the global competitiveness of EU bottled still wine imports can be observed (see Fig. 15):

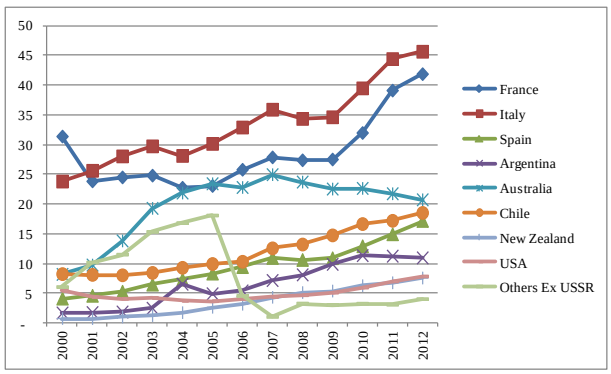
- Growth of imports from the EU in value was mainly due to wines from France and secondarily, from Italy, with a more modest role played by Spain;
- A similar pattern is observed for import volumes, with Italy this time playing a more important role than France, although imports from France increase more vigorously over the last years of the interval. In volume terms, Spanish wines see considerable expansion (again from 2010 onwards, after implementation of the CMO reform), not matched by an equal expansion of import values (resulting thus into a significant decrease of the average unit value);
- As for all other competitors, the overall trend appears negatively affected by the downturn of Australian wine imports in 2007 and the collapse of Russian imports from the former Soviet republics (especially in volume). By contrast, Chilean and Argentinean wines enjoy the largest growth (especially in volume).

Fig. 15: Bottled still wine imports from main competitors, 2000-2012

Imports in value



Imports in volume



Source: based on Comtrade data

5.2.7.2 Global competitiveness of EU still wines in bulk in the most important import markets

A somewhat different situation arises in the case of still wines imported in bulk (see Fig. 16). Across all ten most important import markets for EU wines, total still wine imports have witnessed significant growth: by 12.3% per year in value and 10.9% in volume.

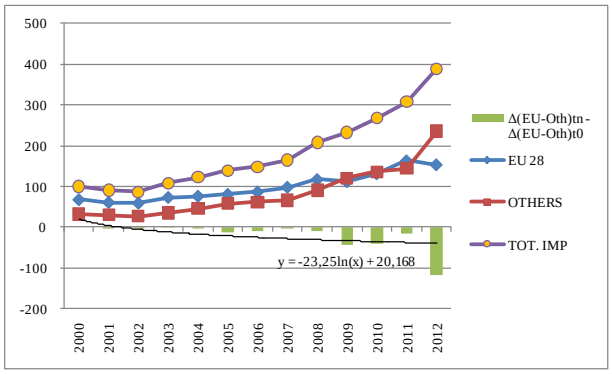
Within this overall trend, the results of the analysis show that:

- The growth rate of the value of EU exports is much lower than the growth rate of exports from the rest of the world (respectively, 8.4% and 17.3% on average per year). This growth differential, although applied to a larger initial value for the EU (about 2.1 times), leads to a gradually negative evolution of the Import Variation, with a dramatic low point in the last considered year.

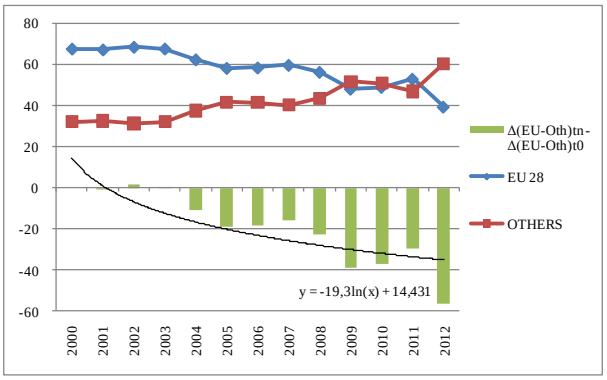
- A similar pattern is observed for export volumes: growth of EU exports (7.2% on average per year) is again much slower than growth of exports from the rest of the world (+15.2% per year). Again, the result is a downward evolution of the Import Variation.
- The decrease of the Import Variation in value and volume has an extreme effect on the market share of EU wines, which plunges from 67.7% in 2000 to 39.5% in 2012 in value and from 67.6% to 39.4% in volume. EU competitors reach 50% of the market share (critical threshold) in 2007 in volume and in 2009 in value. Therefore, the Market Share Variation presents a dramatic decrease over the whole period.

Fig. 16: Top 10 third-countries importers of EU still wine in bulk: import values, volumes and market shares, 2000-2012

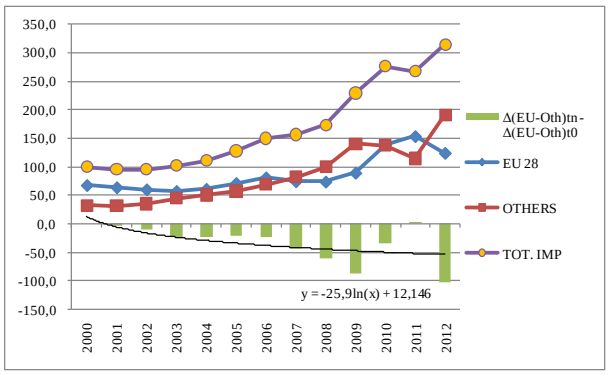
Bulk wine: Import value



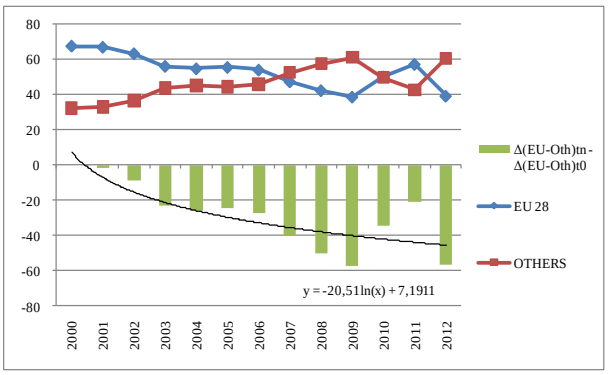
Bulk wine: Value Market Share



Bulk wine: Import volume



Bulk wine: Volume Market Share



Source: based on Comtrade data

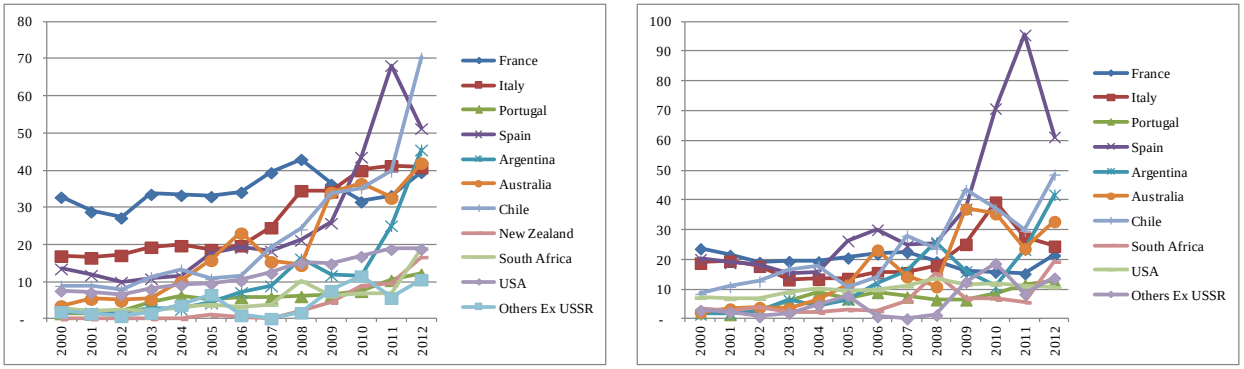
The following trends underlying the changes in the global competitiveness of bulk wine imports from the EU can be observed (Fig. 17):

- The evolution of imports from the EU in value is due to exponential growth of still wine imports from Spain (albeit with a collapse in 2012, which generates an overall fall in imports from the EU in the same year), and more modest import increases from Italy and Portugal[24]. On the other hand, imports in bulk from France fluctuate around an average value only slightly increasing[25].
- The same pattern is more or less reproduced for imports in volume, with an even greater role played by Spain (who became a leader in all 10 examined country markets in 2010) and a reversal of positions between France and Italy starting in 2009.
- With regard to the other competitors, all major producing countries have contributed to the overall growth of the group[26]. However, the most important contribution is given by the tremendous growth of imports from Chile and Australia (in volume terms, but especially in value terms). In 2012 Chile became the absolute leader for all 10 countries with respect to value of imports. In addition, we observe a remarkable growth of wines imported from Argentina starting from 2009-2010.

[24] Portugal accounts for the near totality of Angola's wine imports.
[25] Spain and Portugal are the only Member States increasing their market share, whereas Italy and, in particular, France witness a dramatic reduction of their market share.
[26] All main competitors increase their market share, with the only eception of the USA.

Fig. 17: Bulk still wine imports from main competitors, 2000-2012

Imports in value **Imports in volume**



Source: based on Comtrade data

5.2.7.3 Global competitiveness of EU still wines in the most important import markets: Synthesis of results

The maps of competitiveness of European wines, bottled and in bulk (respectively, in value and volume) on the most important import markets worldwide are presented in Fig. 18 and Fig. 19.

As well as the overall competitive position of EU wines in the top 10 markets (considered together), the maps also show the competitive position of EU wines in individual country markets, including the three Member States examined as case studies (Denmark, Germany, United Kingdom).

With regard to the overall competitive position of EU wines (i.e. considering the top 10 country markets as an aggregate), the results are very similar to those obtained in the analysis of the competitive position of the EU in global exports (Cf. §5.2.4):

- EU wines slightly improved their position in the market for bottled wine, both in value and volume, compared to the group of competitors (both are positioned in the second quadrant, but very close to the line between second and third quadrant), despite the overall loss of market shares;
- The competitive position of EU wines on the bulk wine market significantly deteriorated, both in value and volume (positioned in the third quadrant in both cases, however not very far from the line between second and third quadrant) and very severely in what concerns market shares.

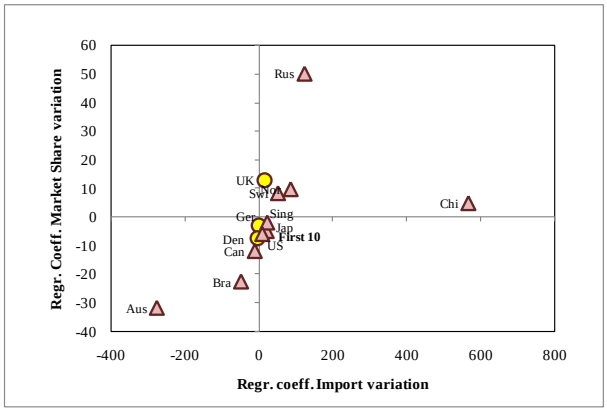
In both cases, the overall result is the consequence of very heterogeneous individual situations (i.e. each country of the two groups of top 10 trade partners respectively for bottled and bulk wine). This heterogeneity is further confirmed by the results of analysis carried out on the three MS markets (Germany, Denmark and UK).

With respect to bottled wines (Fig. 18), the analysis of the competitive position of the EU on individual markets shows that:

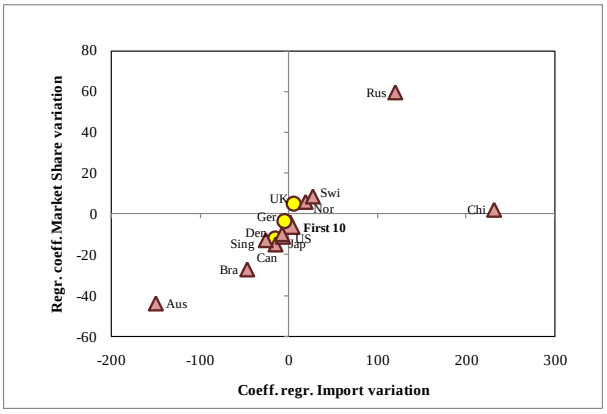
- EU wines greatly improved their competitive position (both in value and volume) on the import markets of Russia and China, but also Switzerland and Norway and, among the EU markets, the United Kingdom (i.e. first quadrant of the map);
- EU bottled wines also improved their competitive position on the import markets of the US (in terms of value and volume), and Japan and Singapore albeit to a lesser extent (only in value terms in these two markets, whereas EU wines position slightly deteriorates with respect to volumes), although some risks may be present for the future in these markets;
- A marked deterioration of EU wines position occurs in the import markets of Australia and Brazil (lying in the third quadrant, both values and volumes). This raises questions about the realistic possibility of future recovery in these markets;
- A slight decline was also recorded on the import markets of Canada and Denmark (but only in volume, whereas EU wines appear to maintain their position in value terms). For these two countries, the future recovery of competitiveness is potentially feasible.
- The competitive position of EU bottled wines on the German market is substantially preserved (both in value and volume).

Fig. 18: Maps of competitiveness of EU versus non-EU bottled still wines in the top 10 third-country markets and in the 3 Member State markets

Bottled still wine in value



Bottled still wine in volume



Source: Cogea (based on Comtrade data for third countries and Comext data for EU countries)

However, some aspects contribute to mitigate this scenario, in particular a more reasoned analysis of the evolution of the Import Variation and the Market Share Variation indicators. We refer, in particular to:

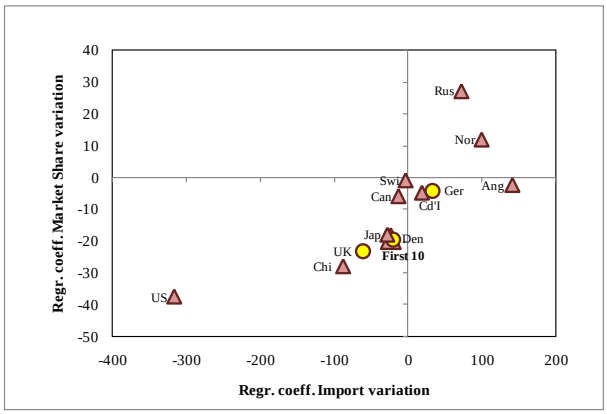
- the Russian import market (in volume), where the important increase of both indicators is the effect of a structural break coinciding with the embargo imposed between 2005 and 2006 to products from Moldova (main trade partner of Russia before that date). In fact, after the sudden growth of wine imports from the EU in 2006 (i.e. substitution effect), Russian imported volumes largely stabilised, including imports from the EU. Therefore, Russia's position on the map should be reconsidered;
- imports of the United States, where "average" results mask a significant upturn in the last years of the interval (both in value and volume), which have contributed to moving the position of EU wines on the second quadrant, very close to the first quadrant.

The analysis of the competitive position of the EU bulk wine (Fig. 19) on individual markets shows that:

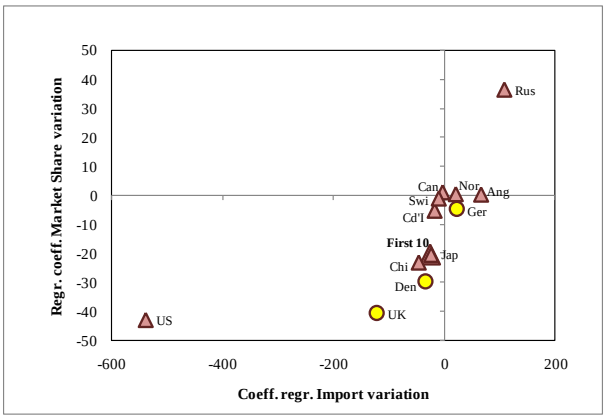
- EU wines greatly improved their competitive position (both in value and volume) on the import markets of Russia and Norway (lying in the first quadrant), and to a lesser extent Angola, Germany, and Côte-d'Ivoire (as shown by positioning in the second quadrant).
- A marked deterioration is observed on the import market of the United States, but also in China and the United Kingdom (all in the third quadrant). A deterioration, although to a lesser extent, is also recorded on the Danish and Japanese markets.
- In other countries (Canada and Switzerland) the competitive position of EU wines has only very slightly worsened.

Fig. 19: Maps of competitiveness of EU versus non-EU bulk still wines in the top 10 third-country markets and in the 3 Member State markets

Bulk still wine in value



Bulk still wine in volume



Source: Cogea (based on Comtrade data for third countries and Comext data for EU Member States)

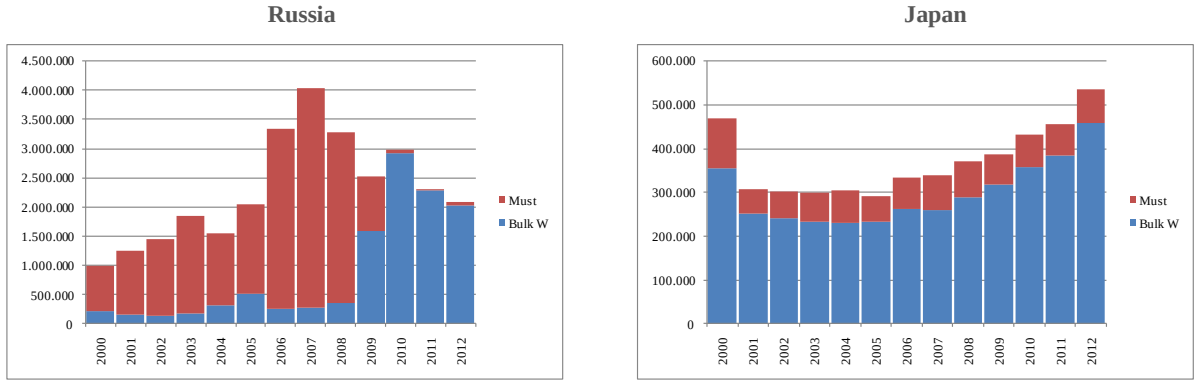
In this case too, certain factors contribute to mitigating the observed competitive scenario. In particular:

- In Denmark, the competitive position of EU wines stabilises after deteriorating between 2000 and 2005. Accordingly, the position moves closer to the origin of the axes;
- In Canada (after 2010) and China (after 2009), the competitive position of EU wines shows an improvement, particularly in China. For both countries, therefore, the position has shifted towards the second quadrant of the map in the last years of the examined period.
- One particular factor concerns Russia, where the improvement of both Import and Market Share Variation indicators actually conceals a phenomenon of substitution between imports (also from Europe) of bulk wine and grape must (see box below), both serving the same function in this country (i.e. blending with local wines). Therefore, the magnitude of the improvement of the competitive position of EU wines must be reconsidered.

Substitution between imports of bulk wine and grape must

Among the examined countries, the phenomenon occurs only in Russia and (to a lesser extent) in Japan (see Fig. 20). For all other major importers of EU wine in bulk, grape must imports are marginal.

Fig. 20: Evolution of bulk wine and grape must imports (hl)



Source: based on Comtrade data

In the light of the results presented so far, it must be stressed that the overall improvement in the competitiveness of EU bottled wines, as well as the overall deterioration of the competitive position of EU wines exported in bulk, occurred in a context of clearly unfavourable evolution of exchange rates (for better detail, please refer to §5.5.6). In fact, the gradual devaluation of the EU main competitors' currencies relative to the Euro has effectively reduced the economic and financial competitiveness of EU wines. Only the evolution of the New Zealand and the Australian dollar exchange rates has been favourable to the Euro.

Indeed, the deterioration of the global competitiveness is due to bulk wine, for which price (and, therefore, the cost structure) represents the most critical factor. It is in this market that changes in currency exchange rates have the largest effects.

5.2.8 Price competitiveness

This part of the analysis focuses on the price competitiveness of EU wines relative to competitors in international trade (CIF or FOB). These prices are calculated as the ratio between value and volume of imported (CIF) or exported (FOB) goods. Therefore, they are "implicit prices" and their reliability depends on the reliability of the value of the goods declared at customs, either at the place of departure or arrival[27].

In spite of this limit, CIF / FOB prices are the closest to the real "unit value" of goods (i.e. the value of production per unit at the origin), because they are not burdened by taxes, excise duties, sales margins, etc. However, these prices (expressed in USD or Euro depending on the source (Comtrade or Comext) are influenced by exchange rates.

[27] The issue of reliability of the declared value of goods is especially important in countries where import duties or other taxes are applied to wine *ad valorem* (e.g. China). In these cases, the real value of goods may be underestimated and, with it, the CIF price.

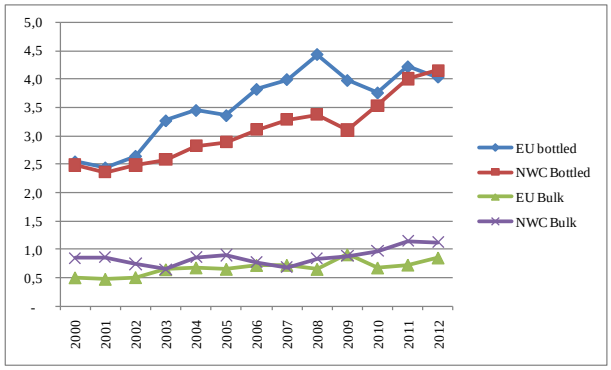
5.2.8.1 Evolution of FOB prices

Graphs in Fig. 21 show the evolution of average FOB prices of EU wines and wines from the group of NWC, in bottles and in bulk. In order to appreciate the role played by exchange rates, prices are expressed in USD and in Euro.

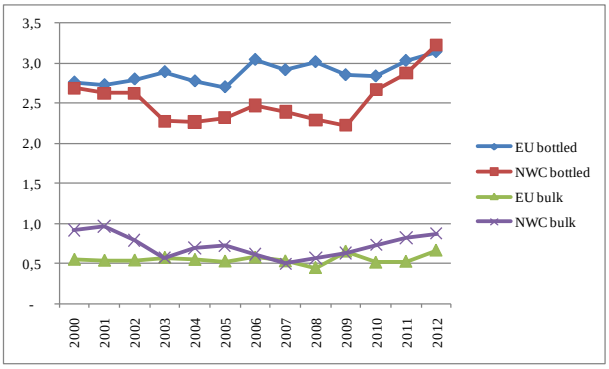
Fig. 22 shows the evolution of the relationship between EU and NWC wine FOB prices.

Fig. 21: Evolution of the FOB unit value of EU and NWC wines in bottles and bulk (USD/lt and Euro/lt), 2000-2012

USD/lt

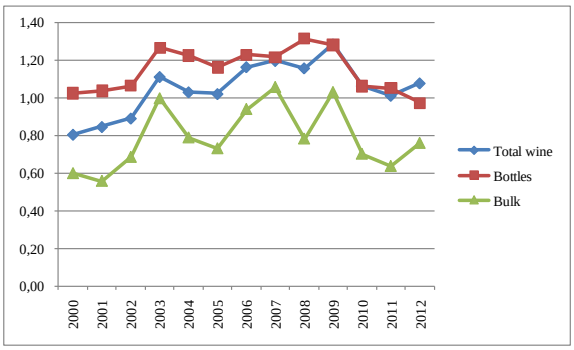


Euro/lt



Source: Comtrade for third countries; Comext for EU Member States

Fig. 22: EU/NWC FOB unit values



Source: Comtrade for third countries; Comext for EU Member States

Examination of the evolution of prices and their relationship shows that the ratio between EU and NWC prices is always greater than 1 for bottled wines (except for the last year of the interval), and less than 1 for bulk wine in almost all years, with the exception of 2003, 2007 and 2009.

If we want to hypothesise a relationship between price and quality, we must therefore conclude that, on average, EU wines traded in bottles should be of higher quality compared to NWC wines (although NWC caught up, evening out the average price towards the end of the period), whereas EU wines traded in bulk should be (again on average) of lower quality.

In addition, the analysis of price trends highlights the presence of two sub-periods:

- The first, from 2000 to 2009, shows widening of the gap between EU and NWC prices. This results in an increase (on average) in the price ratio, which appears to be more stable for bottled wine than for bulk wine;
- The second, from 2009 to 2012 shows a sharp reversal of the previous trend, which is particularly evident for bottled wines (but also for wines in bulk, albeit in a less pronounced manner).

The turnaround observed in the last four years appears to be strongly related to the change in business strategy implemented by some NWC companies (i.e. gradual replacement of wine exported in bottles with wine exported in bulk - see §5.2.6). The effect of this strategy change on average FOB prices is twofold:

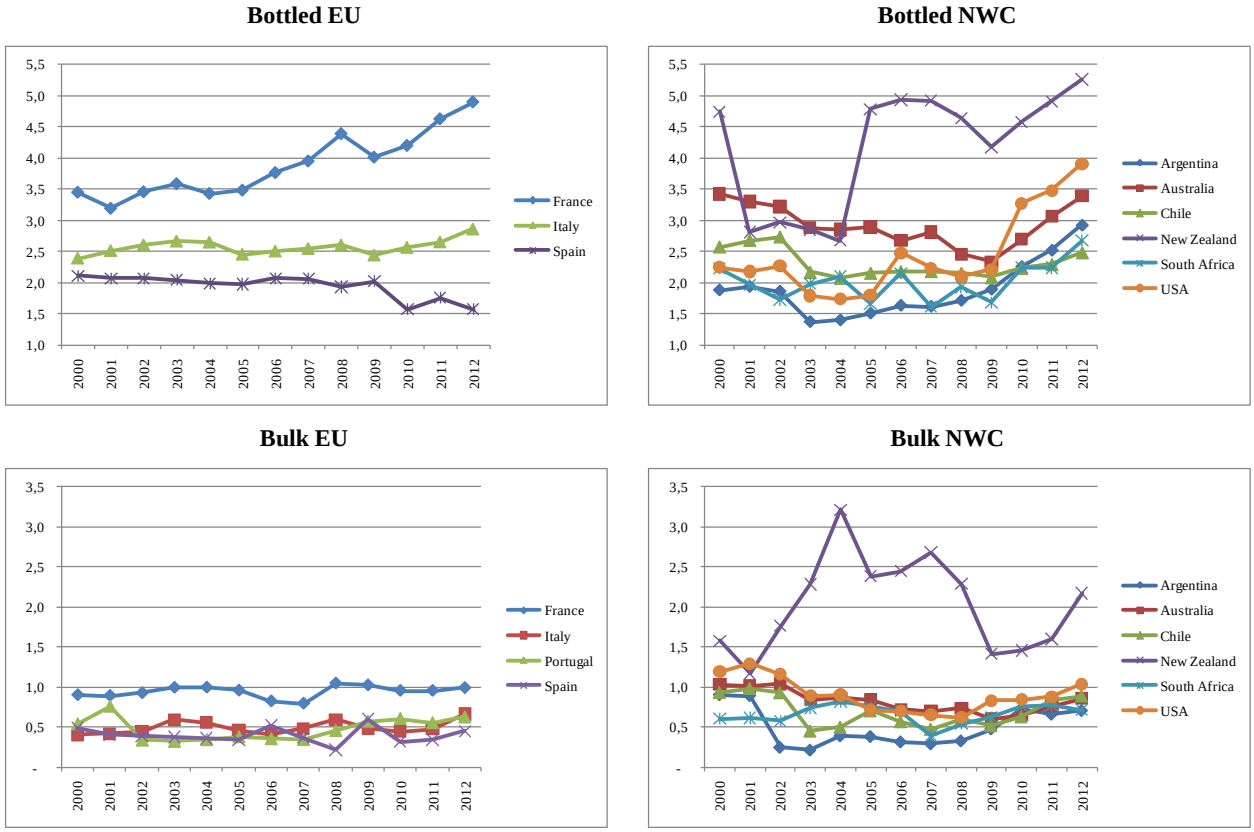
- Increase in the average price of bottled wines: part of average quality wine (and average price) previously exported in bottles is exported in bulk, while the wines of better quality and stronger image (and hence higher price) continue to be exported in bottles. This results in an increase of the average FOB price of wine (of better quality) in bottles;

- Increase in the average price of wines in bulk: part of the average quality wine (and average price), previously exported in bottles, is added to the wine of lesser quality (and lower price) previously exported in bulk. The result is an improvement in the average quality and, therefore, in the average price.

These two effects become even more obvious moving from the aggregate level of analysis to individual countries.

Fig. 23 illustrates the changes in FOB prices (in Euros), respectively for the main EU and NWC wine exporters (the same price scale is used for the two groups of countries in order to facilitate comparison).

Fig. 23: Evolution of FOB Unit Values of still wines exported by EU Members States and main EU competitors (EUR/lt)



Source: Comtrade for third countries; Comext for EU Member States

With regard to NWC, a trend reversal for bottled wine is evident in the countries that have progressively substituted bottled wine with bulk exports (Australia, USA, New Zealand and South Africa). By contrast, the evolution of FOB prices for countries that have not adopted the same strategy (e.g. Chile), does not present discontinuities.

Observation of the graphs in Fig. 23 provides some further insights, in particular:

- In both markets (bottled and bulk wine), New Zealand wines achieve the highest (on average) FOB prices in absolute terms, although they are affected by wide fluctuations (which testify to the responsiveness of price to changes in production[28]). French wines consistently achieve the second highest prices, and constantly increasing (increase that, among other possible causes, may well be due to decreasing market shares of French exports on total exports - see §5.2.4.2).
- FOB prices of Spanish bulk wine, and more so of bottled wine, are the lowest ever (in the last years, even lower than Argentine wine prices). Moreover, in sharp contrast to FOB prices of all other examined countries (EU and NWC), the price of Spanish bottled wines shows a sharp decline

[28] For example, in 2008-2009 the price decrease is due to excess supply (see §5.5.1.1 on evolution of vineyard areas and production).

coinciding with a remarkable growth of export volumes (see §5.2.4.2) commenced after the implementation of the wine CMO reform[29].

- Therefore, we find two completely opposite competitive positioning strategies within the EU: the first, practiced by France, towards the highest price/quality positioning and the second, practiced by Spain, towards a lower price/quality positioning on the market.
- In between these extremes, we find all other competitors, EU and NWC alike, with the only exception of New Zealand that exports only relatively small wine volumes.

5.2.8.2 Evolution of CIF prices

The analysis of the evolution of CIF prices focuses on the top 10 countries importers of EU wines, both bottled and in bulk, plus the three case study Member States (Denmark, Germany and the UK).

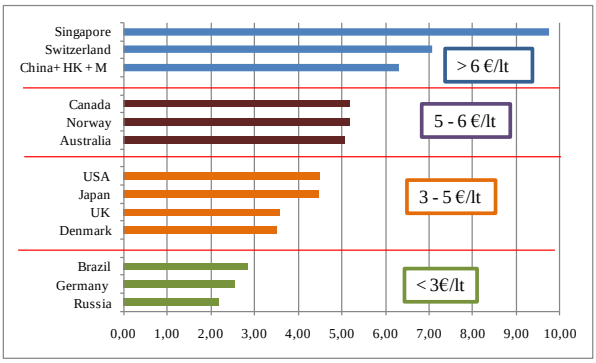
For each of these countries, we have calculated (only for 2012) the weighted average CIF price of imported still wines (from all origins) and we have then grouped the countries by price range, in order to identify country markets more prone (on average) to import high price rather than low price wines. All CIF prices calculated from the Comtrade database (originally in USD) have been converted into Euros.

5.2.8.2.1 CIF prices of bottled wines

Countries importing bottled wines can be sub-divided into four groups: importers of wine priced above 6 Euro/lt (i.e. the most demanding in terms of price/quality); priced between 5-6 €/lt; importers of wine ranging between 3-5 €/lt and countries (classified as the least demanding in terms of price/quality) importing wines priced at 3 €/lt or less.

Fig. 24 shows the output of the analysis.

Fig. 24: Average CIF price of still wine in bottles imported in the most important markets for the EU, 2012 (EUR/lt)



Source: based on Comtrade data

The range of average CIF prices is quite wide, from a minimum of 2.20 €/lt in Russia to a maximum of 9.80 €/lt in Singapore (ratio 4.4:1).

It is clear that the average price depends on the composition of imports according to origin. For example, as it can be seen in Tab. 1 (showing, for each country market in each group, the average CIF price of wine from the main countries of origin), the highest average prices observed in the first group (Singapore, Switzerland and China) can be explained by strong weight of imported wines from France (at higher prices on average, as previously seen).

However, this can only partly explain these differences. In fact, even prices of wines from the same origin are, on average, strongly differentiated. Again with reference to French wines for example, prices range from

[29] Specifically, following the introduction of the Single Payment (SP) together with the abolition of distillation aid. To better understand, we report here the conclusions of the "Evaluation of CAP measures applied of the wine sector" (COGEA - October 2012): *"For growers who used to produce wine for potable alcohol distillation and decided to orientate production towards wines without GI (and therefore receive the market price for this wine), the Single Payment generates an income surplus relative to producers who have historically produced for the wine market and are, therefore, not entitled to the SP. The resulting income difference leads to a distortion of competition between the growers themselves. Those who are beneficiaries of the SP may decide to lower their selling price while maintaining the same or higher income level of growers who do not receive the SP. This helps explain the decrease in production of potable alcohol in Spain, as well as the growth of wine exports of wine without GI and the decrease of export unit values.*"

a maximum of 16.37 €/lt in Singapore to a minimum of 2.75 €/ lt in Russia. Clearly, the price difference can not be explained only by the different distance of the two countries from France (which still affects the formation of the CIF price in terms of transport costs), but by a different price/quality composition of the range of wines exported. Therefore, classification of markets in terms of demand (i.e. higher or lower wine quality) helps to better explain the differences.

Tab. 1: Average CIF price of still wine in bottles imported in the most important markets for the EU, by country of origin, 2012 (€/lt)

First group					
Singapore		**Switzerland**		**China+ HK + M**	
France	16.37	France	12.76	France	6.73
New Zealand	8.51	USA	7.36	Australia	5.29
Australia	8.01	Germany	7.16	Italy	3.88
Italy	7.78	Italy	6.03	Chile	3.42
USA	6.68	Spain	5.38	Spain	2.42
Chile	3.38	Argentina	4.13		
		Chile	4.05		
		Portugal	3.86		

Second group					
Canada		**Norway**		**Australia**	
USA	6.15	France	6.30	France	5.80
France	5.94	Italy	5.61	New Zealand	5.48
Australia	5.09	Spain	4.73	Italy	4.02
Italy	4.89	Germany	4.65	Spain	3.97
Spain	4.84	Chile	2.93		
Argentina	3.94				
Chile	3.72				

Third group							
USA		**Japan**		**UK**		**Denmark**	
France	8.30	France	6.74	France	6.59	France	4.77
New Zealand	6.37	USA	5.94	New Zealand	5.82	Italy	4.09
Italy	4.26	Australia	4.20	Australia	3.61	Chile	2.91
Spain	4.17	Italy	3.68	Argentina	3.25	Germany	2.28
Germany	4.08	Chile	2.52	Germany	2.75	Spain	1.80
Argentina	4.00	Spain	2.14	Chile	2.64		
Chile	3.15			South Africa	2.57		
Australia	3.09			United States	2.51		
				Spain	2.40		
				Italy	2.24		

Fourth group					
Brazil		**Germany**		**Russia**	
France	5.44	France	3.06	Italy	2.94
Spain	3.63	Italy	2.37	France	2.75
Argentina	2.99	Spain	2.29	Chile	2.34
Italy	2.51			Spain	1.67
Chile	2.42			Germany	1.47
				Bulgaria	1.01

Source: based on Comtrade data

5.2.8.2.2 CIF prices of bulk wines

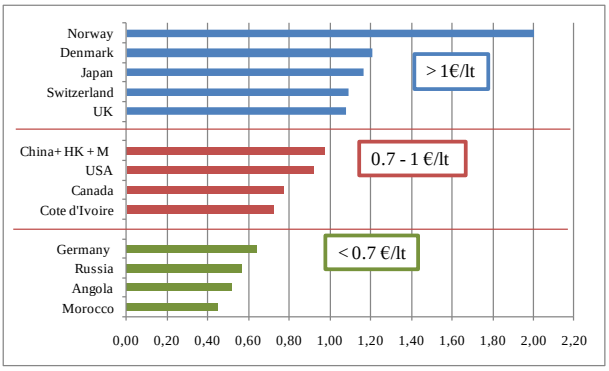
Similarly to bottled wines, we have identified three groups of countries importers of bulk wines: those who import wines priced above 1 €/litre; priced between 0.70-1 €/litre and those priced below 0.70 €/lt (see Fig. 25).

However, imports in bulk can contain different types of wine. In fact, as previously mentioned, the HS category NC 220429 (wines in containers >2 lt) includes not only wines sold in large containers intended for intermediate consumption, but also wines packaged in containers other than bottles (Bag-in-Box, brick, bottles, etc.) intended for final consumption. This is the case for a significant proportion (but not quantifiable) of wine imported "in bulk" into Norway, Switzerland, Denmark and Germany.

In addition, the usage function of imported bulk wine can differ across markets: used for blending with local wines /(Russia, China, Japan and, partly, the United States) or packed as it is and labelled under the original producer brand (United Kingdom, partly in the US, Canada, and also Germany). Clearly, the average price also reflects this diversity.

However, it is interesting to observe that the average CIF price of bulk wine imported into Germany is lower than in Côte-d'Ivoire, and the price in China is (surprisingly) higher than in the US.

Fig. 25: Average CIF price of still wine in bulk imported in the most important markets for the EU, 2012 (EUR/lt)



Source: based on Comtrade data

In this case too, average CIF prices reflect the origin of imported wines. New Zealand and France are (in general) at the top of the price range, whereas wines in bulk from Spain are positioned at the lower end of the price range (Tab. 2).

Tab. 2: Average CIF price of still wine in bulk imported in the most important markets for the EU, bycountry of origin, 2012 (€/lt)

First group									
Norway		Denmark		Japan		Switzerland		UK	
Germany	2.63	France	1.63	Chile	1.14	France	1.35	New Zealand	1.98
France	2.37	Italy	1.33	USA	1.03	Italy	1.14	France	1.51
Italy	2.26	South Africa	1.24	Spain	0.98	Spain	0.57	Italy	1.09
Spain	1.65	Chile	1.20					United States	1.03
		Australia	1.05					Chile	1.01
		United States	0.97					Australia	0.98
								South Africa	0.93
								Spain	0.84

Second group							
China+ HK + M		USA		Canada		Cote d'Ivoire	
France	1.33	New Zealand	2.53	United States	1.23	Spain	0.72
Chile	1.18	Chile	0.92	France	0.97		
Spain	0.56	Australia	0.84	Italy	0.91		
		Argentina	0.82	Australia	0.81		
		Spain	0.75	South Africa	0.51		
				Spain	0.51		

Third group							
Germany		Russia		Angola		Morocco	
Chile	0.96	France	0.71	Portugal	0.59	Spain	0.45
Australia	0.85	Italy	0.66	Spain	0.45		
France	0.77	South Africa	0.61				
South Africa	0.67	Rep. of Mold.	0.59				
Italy	0.53	Ukraine	0.52				
Spain	0.42	Spain	0.52				
		Uruguay	0.52				
		Argentina	0.51				

Source: based on Comtrade data

The results show a certain degree of consistency as to the level of quality demanded by markets where both bulk and bottled wine imports are present: for example, both bulk and bottled wines imported into Switzerland are positioned at the high end of the price/quality range; Germany and Russia consistently import both types of wine at the lower price/quality end; the USA occupy an intermediate position.

5.3 GLOBAL COMPETITIVENESS OF EU STILL WINES WITH RESPECT TO DOMESTIC CONSUMPTION

As already mentioned in §5.1, this section of the study also examines the competitiveness of European wines in the case study countries with respect to domestic consumption (quantity), including (if applicable) “local” wine production.

Our scope here is thus limited to the domestic markets for packaged wine sold to the final consumer.

The analysis in this part of the study is based on IWSR data relative to consumption of packaged wines by country of origin and "domestic" wine in the case study country markets (China+Hong Kong, Russia, Japan, United States among non-EU countries; Denmark, Germany and United Kingdom among EU Member States).

IWSR data refer solely to consumption in terms of volume (data on value are not available).

Once again, it is necessary to stress that "domestic" wine is not necessarily made with local grapes. Production is often the result of blending wines made from local grapes and wines imported in bulk (thus, also imported from other EU countries), or wines that are imported in bulk, then bottled locally and marketed under the bottler's or distributor's name (e.g. large-scale retail chains) without indication of the wine origin.

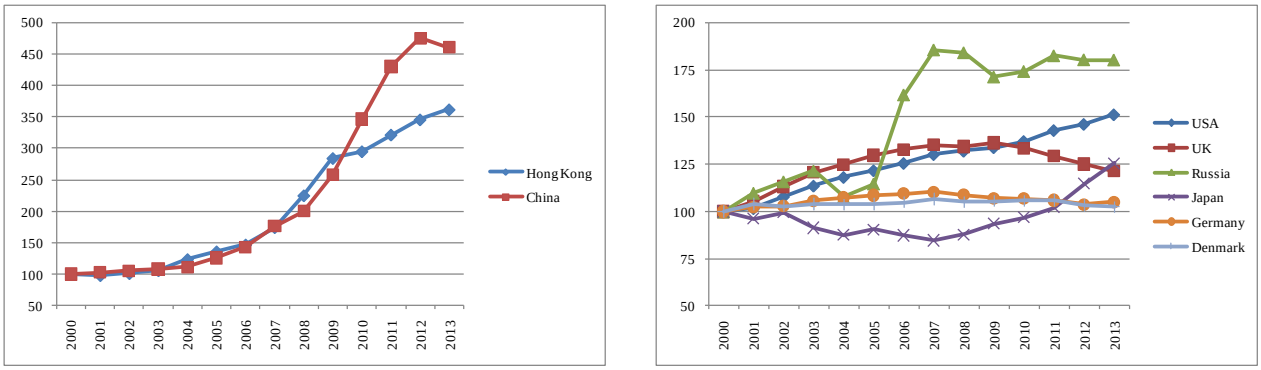
Therefore, the importance of European wines (but also wines of other origin) in the domestic consumption of the examined countries is systematically underestimated.

With regard to Germany and the UK, data on consumption of "local" wine have been considered together with "EU import" data (as these too are EU wines).

5.3.1 Domestic consumption of still wine in the case study markets

Before illustrating the results of the analysis, and with a view to put the results into context, it is necessary to show domestic consumption trends in the analysed countries (Fig. 26). For all countries, the consumption level for the year 2000 was set at 100.

Fig. 26: Packaged still wines consumption trends in the case study markets, 2000=100



Source: IWSR

Domestic consumption trends show:

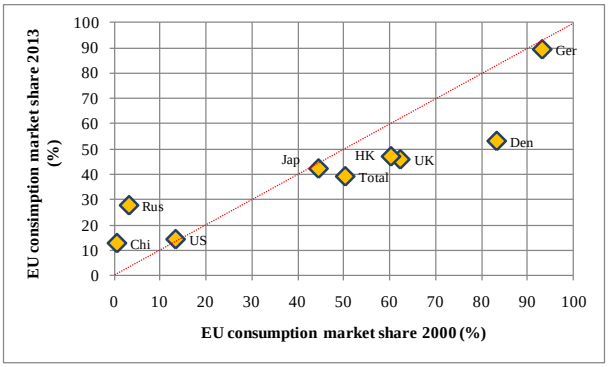
- remarkable growth in wine consumption in China (and Hong Kong), mostly satisfied by an equally remarkable growth of Chinese "domestic" production;
- large growth of consumption in Russia between 2005 and 2007-08, followed by substantial stability;
- steady growth of consumption in the United States;
- substantially stable consumption in Germany and Denmark;
- decline in consumption in the UK since 2008 and recovery of consumption in Japan, after a period of decline, again since 2008.

5.3.2 Consumption market shares of EU wines in the case study markets

The map in Fig. 27 shows the market shares of EU wines in 2000 and 2013 (including wines of all price ranges and all packaging types).

Country markets position above the diagonal indicates an increase in the market share between the two years, and vice versa, positioning below the diagonal indicates a loss of market share in 2013 compared to 2000.

Fig. 27: EU wine market shares, 2000 and 2013 (% on total still wine consumption)



Source: Cogea (based on IWSR data)

The map shows three groups of countries:

- In the lower part of the map a group of countries (China, Russia and United States) where domestic consumption is mostly met by "local" wine production, and the part of consumption satisfied by imports (including EU imports) is generally modest. In greater detail, "local" production satisfies:
  - 99.1% of domestic consumption in 2000, down to 81.2% in 2013, in China;
  - 75.6% in 2000, down to 57% in 2013, in Russia;
  - 80.1% in 2000, down to 74.7% in 2013, in the US.
- At the other extreme we find Germany, where (partly due to consumption of domestic wines) EU wines satisfy the near totality of domestic demand (93.2% in 2000, down to 89.2% in 2013).
- In the centre we find the group of countries that produce little or no wine at all.

Between 2000 and 2013 there was a rise in the market share of EU wines for domestic consumption in China and Russia, with an equivalent fall in Hong Kong, UK and, most of all, Denmark.

In the other countries (USA, Japan and Germany), the situation remained more stable (very slight improvement or deterioration).

5.3.3 Global EU wine competitiveness with respect to domestic consumption in the case study markets

To assess the competitiveness of EU wines in the consumer markets of the case study countries, we applied the same methodology used to analyse competitiveness in export and import markets. In this case, the indicators (calculated in the same way) are defined as "EU consumption variation" and "EU consumption market share variation".

The presence of "local" production in some of the examined country markets required to modify the approach. Specifically, in addition to consumption of wines imported from the EU and from the other international competitors, the graphs in Fig. 28 also include consumption of domestic wine. The "EU consumption variation" and "EU consumption market share variation" indicators were obtained by comparing EU wines with all other wines (local + imported from non-EU countries).

The two graphs in Fig. 28 show the aggregate result for all case study markets considered together.

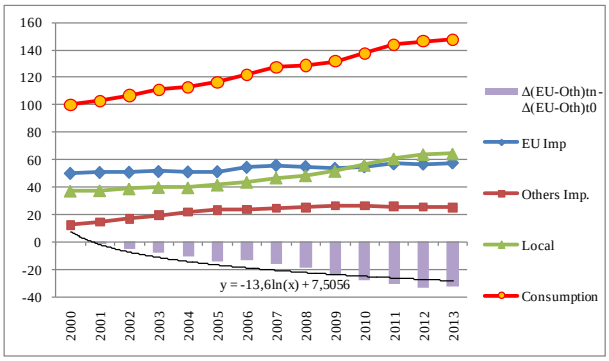
Total consumption of still wines grew on average by +3.1% per year in volume. Within this growth, we observe that:

- The rate of growth in consumption of wines imported from the EU (1.1% per year on average) is lower than that of wine imported from the rest of the world (4.9% per year on average) and lower than consumption of "local" wines (4.7%). These growth rate differences, applied to very similar initial consumption volumes (EU wines on the one hand and local + imports from non-EU countries, on the other) lead to a gradual decrease in Consumption Variation.

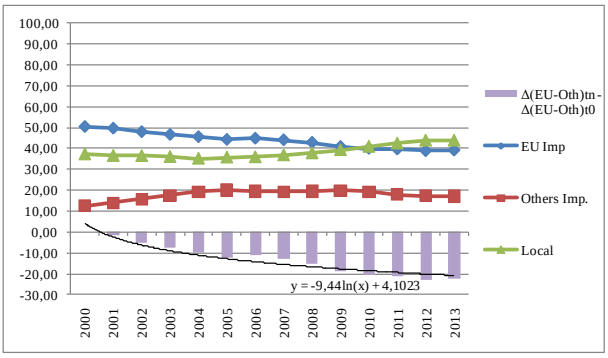
- However, this decrease is mostly caused by growth in the volume of "local" wines, accelerating since 2005[30], while a less important role was played by non-EU imported wines.
- This is shown by the evoloution of market shares. Generally speaking, the market share of EU wines has fallen from 50.3% to 39.1% (-11.2 percentage points). On the other hand, the market share of other imported wines has risen over the entire period from 12.5% to 17.3% (+4.6 percentage points), but actually diminished from 2009 to 2013 (from 19.9% to 17.3%). Domestic wines have become more competitive, growing from an initial 37.2% share of the market to 43.7% in 2013 (+6.5 percentage points).

Fig. 28: All Case Study countries: still wine consumption by origin and evolution of market shares, 2000-2013

Total consumption 2000 = 100



Consumption market share



Source: Cogea (based on IWSR data)

The changes in the competitiveness of European wines in the group of analysed country markets are, in any case, heavily influenced by production and consumption of local wines. In some cases (United States, Germany), the total consumption of wines produced in these countries is the sum of domestic wine consumption plus wines exported to other markets of the group (for China, Japan and Russia, only domestic consumption is considered, as these countries do not export to other countries in the group). It is not surprising, therefore, as shown in Fig. 29, that in such a context, US wines are the most consumed, with a growth (+2.8% per year on average) that is exceeded only by consumption of Chinese wines (+12.2% per year on average).

In contrast, consumption of German wines (local consumption + exports to the other countries) is in slight decline (-0.7% per year on average).

The competitive performance of European wines is related to growth in consumption of Spanish (+6.9% per year on average) and Italian wines (+2.6% per year on average), accompanied by a slight decrease of French wines (-0.3% per year on average).

Finally, the competitive performance of the EU main competitors is due to growth in consumption of all wines[31], with the exception of Australian wines, for which consumption shows a trend reversal (already seen in previous chapters) around 2007: growth by 14.7% per year on average between 2000 and 2007, followed by a -3.4% decline (per year on average) between 2007 and 2013)[32].

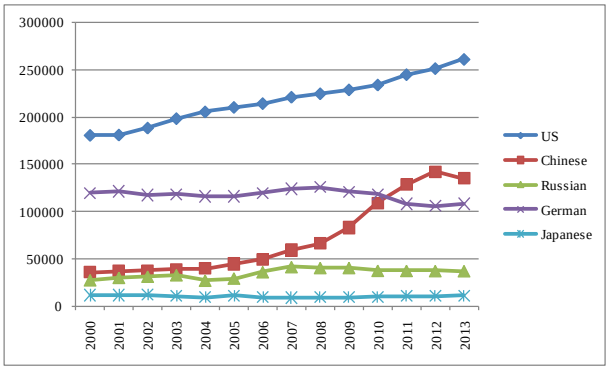
[30] The acceleration (considering all countries together) is mainly due to growth in consumption of local wines in China. Nevertheless, growth of domestic wine consumption in the US and in Russia also played a role, whereas consumption of local wines in Japan and Germany was basically stable.

[31] In particular, Chilean (+5.9%); South African (+6.6%); New Zealand (+15.6%) and Argentinean wines (+11.4%)

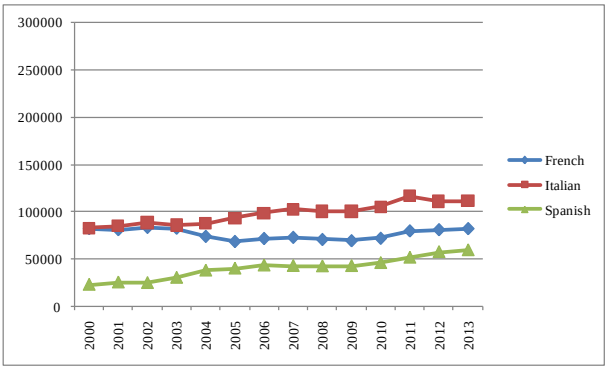
[32] Nevertheless, with regard to Australian wines (whose consumption decreases in the United Kingdom and USA markets), it seems that the observed trends do not take into account the change in export strategy at the time of the decline (from bottled imports to bulk). An unproven hypothesis is that this trend is the result of changes of ownership and acquisitions of Constellation Brands and Accolade during that period (basically, a portion of Australian wine may be sold as wine of the bottler/distributor of the country where the wine is consumed).

Fig. 29: Consumption of still wines from main EU competitors in the group of case study country markets, 2000-2013 (hl)

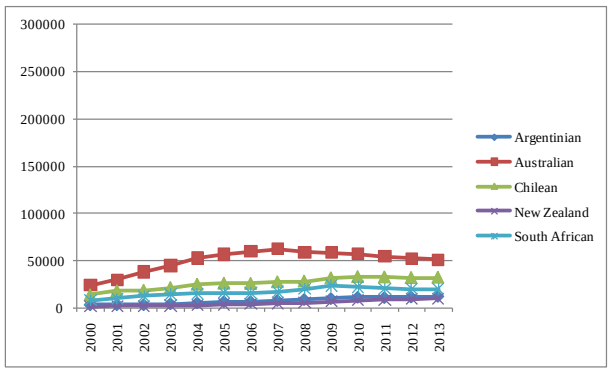
Wine consumption of case study countries that are wine producers



Wine consumption of main EU Member States



Consumption of wines from countries that are main EU competitors



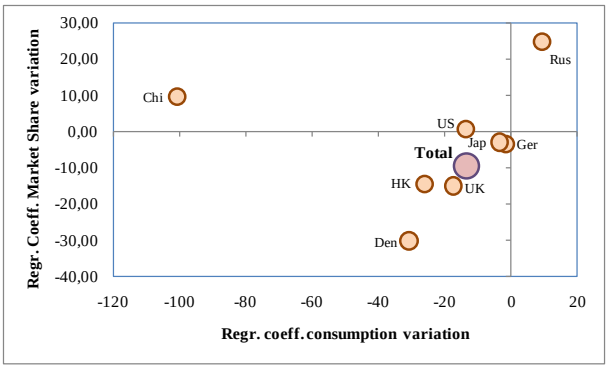
Source: IWSR

5.3.3.1 Synthesis of the results

Fig. 30 shows the competitive position of European wines in the case study consumer markets, overall and by individual market.

The results show that, over the considered years, EU wines find themselves in a rather critical situation with competitiveness having decreased significantly. With the exception of Russia (where the wine embargo imposed to Moldova between 2005 and 2007 generated a sizeable advantage for EU wines), in all other countries the competitive position of EU wines worsened, only slightly in China, USA, Germany and Japan (the first two with slightly positive developments in market share) and more significantly in Denmark, Hong Kong and the UK.

Fig. 30: Map of competitiveness of EU versus non-EU still wines with respect to consumption in the case study markets



Source: Cogea (based on IWSR data)

Nevertheless, in this case too some aspects tend to mitigate this scenario. A more detailed analysis of Consumption variation and Market Share variation trends shows indeed that:

- with regard to Russia (as already reported in §5.2.7.3) the big improvement in the competitive position of EU wines was obtained between 2005 and 2007 and stability afterwards. Therefore, in the last years

of the interval, the position of EU wines on the map with respect to the Russian market ought to move towards the origin of the axes (i.e. indicating reached stability).

- With regard to Denmark, Hong Kong and the United Kingdom, the loss of competitiveness of European wines occurred quite quickly between 2000 and 2008-2009. Subsequently, the competitiveness improved substantially in all three countries in a similar way. Therefore, in the last years of the considered interval, the position of EU wines in these three countries ought to move towards the origin of the axes.

5.3.4 Price/quality competitive positioning of EU wines compared to competitors in the consumer markets

This section of the study aims to assess the competitiveness of price/quality positioning of EU wines in comparison with wines of all other competitors (local and non-EU countries) in the same consumer markets (i.e. case study countries). The analysis is based on IWSR consumer price data (see survey method in the box below).

IWSR methodology for price data collection

Price data are collected through store checks conducted in each of the countries surveyed by the IWSR. Prices are usually collected in the largest supermarkets. In big consumer countries, they are collected in 3 to 5 stores, mostly from super- or hyper-markets, and if need be, from specialist stores. In smaller consumer countries, prices are likely to be collected in 1 or 2 stores.

The IWSR tries to visit the same stores each year to provide some degree of consistency. The provided prices reflect the lowest non-promotional price found for a brand. No pricing information is available for the on-trade sector - due to the very wide range of prices, as well as the problems of collecting them.

Prices are published in local currencies and for the typical wine bottle size used in the country of interest. In all cases, unless otherwise specified, this is 75cl.

It should be noted that consumer prices are subject to significant differences depending on fiscal policy and taxation applied by different country markets (see §5.5.6). These differences have been highlighted through specific price analysis for the same brands in the different country markets. The results of this preliminary analysis help the interpretation of results of subsequent analysis; therefore, they are shown first.

The analysis is carried out in subsequent steps:

a. Prices recorded for each country (and in total) were grouped into five ranges for bottled wine (0.75lt) and four ranges for wines sold in other containers (large bottles, bag-in-box, bricks).

b. The distribution of products across the price ranges was examined.

c. Finally, the frequency of wine products from different countries of origin within each price range was calculated.

With regard to the number of products, we considered all brands present in the country markets between 2010 and 2013, in order to have a broader database than that available for one year only. We calculated the average price for brands appearing in two or more years in the same country market.

The database was thus constructed as shown in Tab. 3:

Tab. 3: Number of products per country market, total and by type of packaging

	Total	Bottles 0,75 lt	Others packages
China	592	589	3
Denmark	431	377	54
Germany	885	801	84
Hong Kong	356	351	5
Japan	293	278	15
Russia	713	631	82
United Kingdom	659	630	29
United States	1,613	1,472	141
Total	5,542	5,129	413

Source: IWSR

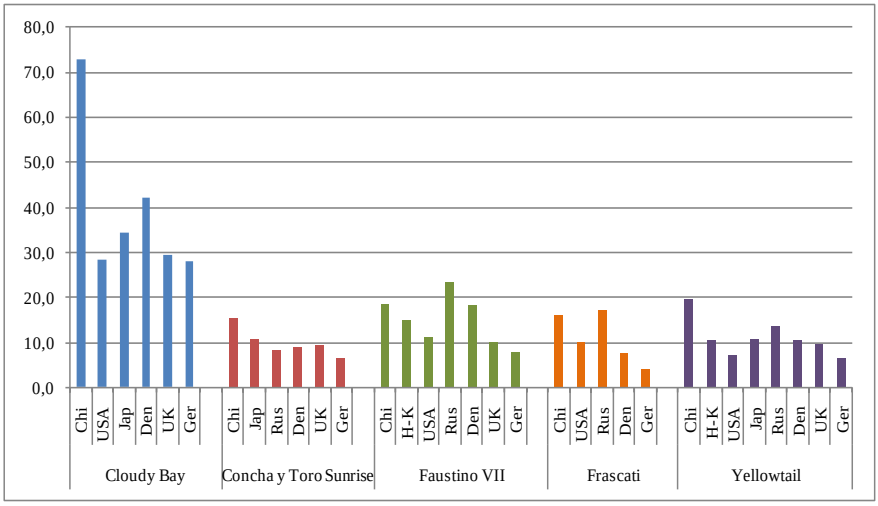
5.3.4.1 Brand prices in the case study markets

From the IWSR database we identified the same brands and types of wine present in all case study markets and sold through retail channels. Consumer prices vary greatly from country to country, in general ranging from the highest prices in China to the lowest in Germany.

The price hierarchy is not always the same, though (Fig. 31). It is evident that price variation depends to a large extent on the application of taxes and duties (high in China, only VAT in Germany), but also on different pricing choices of importers/distributors in different countries (choices influenced by numerous factors – see in following §6.2.5).

Accordingly, segmentation by price range is only possible for individual countries (price ranges are not comparable across markets) and it is not appropriate to aggregate results at "total average" level.

Fig. 31: Prices of selected brands in the case study markets (EUR/lt)



Source: based on IWSR data

5.3.4.2 Price segmentation of wine products

As previously mentioned, the first part of the analysis consisted in calculating product frequencies by price range. All prices were converted into Euro/litre.

With regard to 0.75 lt bottles, we considered the following price ranges:

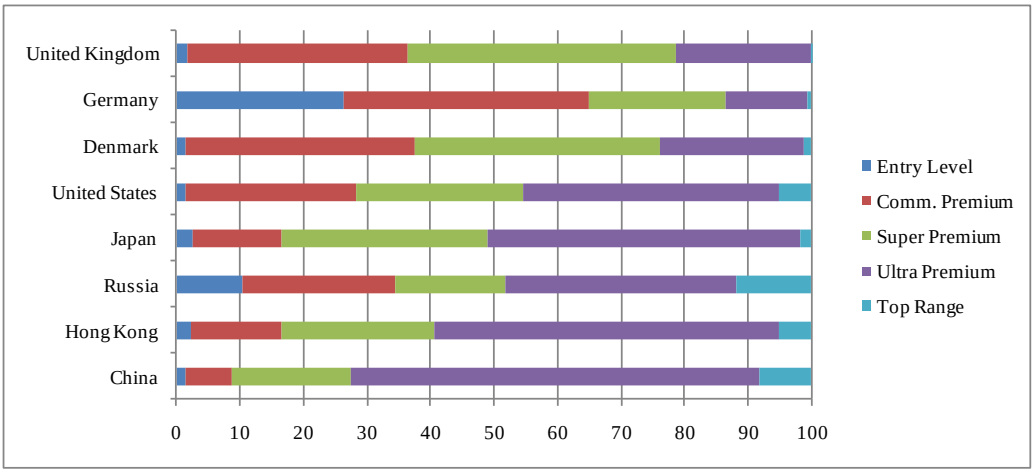
Entry Level	Medium Range			Top Range
	Comm. Premium	Super Premium	Ultra Premium	
≤ 4.99 €/lt	5.00 - 9.99 €/lt	10.00 - 14.99 €/lt	15.00-49.99 €/lt	50.00 €/lt and more

With regard to wines sold in other larger containers (from 1.5lt to 5lt) the following ranges were considered:

less than 3 €/lt
from 3 to 4.9 € /lt
from 5 to 9.9 €/lt
10 €/lt and more

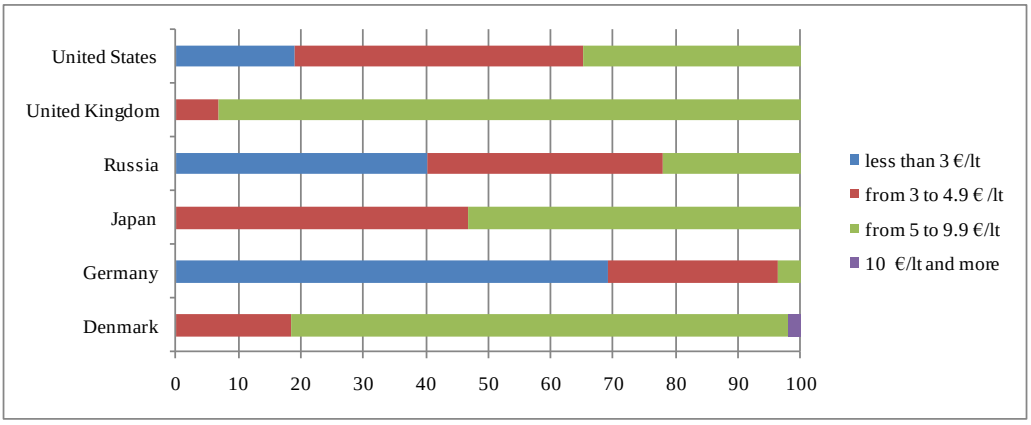
The graphs below show the distribution of products (of all origins) by price range for still wines sold in 0.75lt bottles (Fig. 32) and in other types of container (Fig. 33), by country/market.

Fig. 32: Percentage distribution of wines in 0.75 lt bottles by price range in the case study markets



Source: based on IWSR data

Fig. 33: Percentage distribution of wines packaged in large size bottles, brick and Bag-in-box by price range in the case study markets



Source: based on IWSR data

Bearing in mind the existence of different taxation systems in the examined countries, observation of the distribution of products by price range leads to the following remarks:

- With regard to packaging type, price differences are considerable. For 0.75 lt bottles, 93% of wines are priced above 5 €/lt, while for other types of packaging, over 60% of products are positioned in the ranges below 5 Euro/lt (with 30% below 3 Euro/litre). No product packaged in large size container exceeds 15 Euro/litre. This provides confirmation, therefore, that packaging types other than 0.75 lt bottles play a role in differentiating wines positioning according to price/quality.
- With regard to differences between country markets in the price positioning of bottled wines, two extremes can be observed: on the one end we find China, where over 70% of products are positioned in the higher price ranges (Ultra Premium + Top Range); on the other end is Germany, where the largest number of products are positioned in the lower price ranges (65% at Entry level + Commercial Premium; over 26% in the Entry level range alone).
- With regard to differences between country markets in the price positioning of wines in larger size containers, we find the United Kingdom on one extreme, with 93% of products positioned in the ranges above 5 Euro/lt and again Germany on the other end, where over 96% of products are positioned below 5 Euro/litre[33].

[33] In Germany about 60% of wines are purchased in Hard Discount stores. In addition to very low taxation, this helps explain such low consumer price of wines in this country.

5.3.4.3 Brand distribution of wines in 0.75lt bottles in the case study markets according to price range and origin

For each of the examined case study country market, we derived the distribution of 0.75lt bottled wine brands within the various price ranges by area of origin. Again taking into account the country differences in the level of taxation, Tab. 4 provides a summary of distribution, in which countries of origin have been grouped into four areas: EU, NWC, Wines of local origin and Other countries of origin. With regard to the United States, brands of USA origin are not included in the NWC area (being considered as local). On the other hand, for EU member States (DK, UK and DE) brands of local origin have been included in the EU area.

Segmentation by price range of wines sold in large size bottles in the United States, and in bag-in-box + brick in Denmark, Germany and Russia (i.e. countries where the number of brands makes this analysis possible)[34] was also carried out.

Tab. 4: Brands positioning according to price (0.75lt bottles) by market and area of origin (% over total number of brands)

			Medium Range					
		Entry Level	Comm. Premium	Super Premium	Ultra Premium	Top Range	Total %	Total n.
China	EU	0.0	4.7	15.1	70.1	10.1	100	278
	NWC	0.3	8.4	22.7	62.2	6.3	100	286
	LOCAL	34.8	26.1	8.7	17.4	13.0	100	23
	Others	0.0	0.0	50.0	50.0	0.0	100	2
	Total	**1.5**	**7.3**	**18.7**	**64.2**	**8.3**	**100**	**589**
Hong Kong	EU	2.2	8.6	20.1	58.3	10.8	100	139
	NWC	2.4	17.5	26.5	52.1	1.4	100	211
	Others	0.0	100.0	0.0	0.0	0.0	100	1
	Total	**2.3**	**14.2**	**23.9**	**54.4**	**5.1**	**100**	**351**
Russia	EU	7.5	21.5	18.3	38.4	14.2	100	372
	NWC	1.8	23.9	13.5	47.2	13.5	100	163
	LOCAL	71.4	25.0	3.6	0.0	0.0	100	28
	Others	22.1	38.2	26.5	13.2	0.0	100	68
	Total	**10.5**	**24.1**	**17.3**	**36.3**	**11.9**	**100**	**631**
Japan	EU	1.8	10.8	35.5	49.4	2.4	100	166
	NWC	2.0	17.0	30.0	50.0	1.0	100	100
	LOCAL	18.2	36.4	9.1	36.4	0.0	100	11
	Others	0.0	0.0	0.0	100.0	0.0	100	1
	Total	**2.5**	**14.0**	**32.4**	**49.3**	**1.8**	**100**	**278**
United States	EU	0.3	27.5	28.2	36.9	7.1	100	309
	NWC	1.4	29.0	30.5	34.3	4.8	100	210
	LOCAL	1.7	26.3	24.6	43.1	4.4	100	952
	Others	0.0	0.0	100.0	0.0	0.0	100	1
	Total	**1.4**	**26.9**	**26.2**	**40.5**	**5.0**	**100**	**1,472**
Denmark	EU	1.8	35.0	41.8	20.0	1.4	100	220
	NWC	0.6	37.8	34.0	26.3	1.3	100	156
	Others	0.0	0.0	100.0	0.0	0.0	100	1
	Total	**1.3**	**36.1**	**38.7**	**22.5**	**1.3**	**100**	**377**
Germany	EU	26.5	39.8	22.6	11.0	0.2	100	593
	NWC	25.6	34.2	19.1	18.6	2.5	100	199
	Others	50.0	33.3	8.3	8.3	0.0	100	12
	Total	**26.5**	**38.3**	**21.6**	**12.9**	**0.7**	**100**	**801**
United Kingdom	EU	2.9	40.1	33.0	23.7	0.3	100	312
	NWC	0.3	30.0	51.1	18.6	0.0	100	317
	Others	0.0	0.0	100.0	0.0	0.0	100	2
	Total	**1.6**	**34.9**	**42.2**	**21.1**	**0.2**	**100**	**630**

In red when % is greater than average.

Source: based on IWSR data

The results obtained visibly vary from country to country. Nevertheless, some aspects appear to be common to most countries. In particular:

[34] This analysis is, however, not very reliable as a sizeable percentage of these wines are sold under the retailer's name (usually supermarket chains) without any indication of the origin.

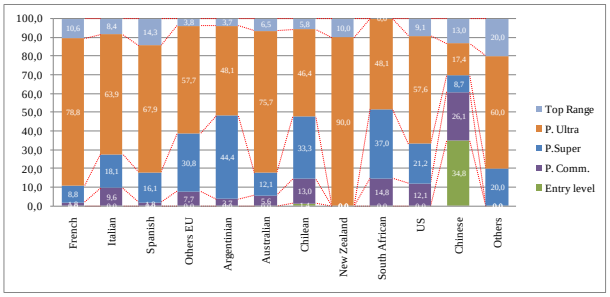
- In wine producer countries, "domestic" wines mainly occupy the first or first two market segments: Entry Level and Commercial premium (China, Russia, Japan). The US are an exception, as domestic wine brands are more concentrated in the Ultra Premium class.
- European wines are more frequently positioned in the higher price segments (Ultra Premium and Top Range) in non-EU markets (with the exception of the US, where brands are more frequently found within the Medium Range). EU brands distribution differs across EU markets (within the Medium Range in UK and Denmark and in the lower price ranges in Germany).
- Positioning of NWC wines is similar to European wines, but with a greater frequency in the Medium Range (in particular, Super Premium and Ultra Premium). An exception is Russia, where NWC wines are positioned more towards the higher price ranges (Ultra Premium and Top Range).
- Wines from other origins (i.e. Others) cannot be analysed due to the small numbers available, with the exception of Russia, where they are positioned in the lower price ranges.

A more detailed analysis was conducted for each country market, in order to identify different positioning strategies for wines of different origins. For this purpose, the analysis considers individual countries of origin.

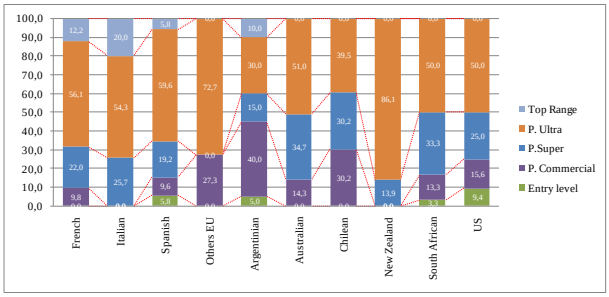
The charts in Fig. 34 show the percentage distribution of wine brands of different countries of origin by price range. The analysis only considers 0.75lt bottles.

Fig. 34: Price positioning of brands (0.75lt bottles) by market and country of origin (% over total number of brands for each country of origin)

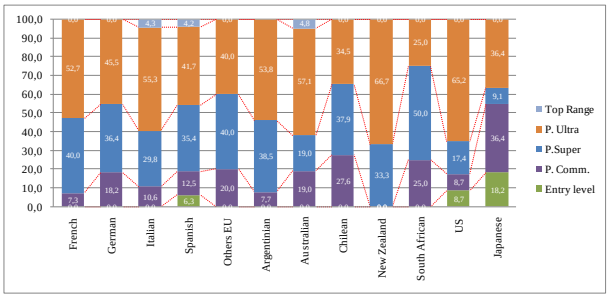
China



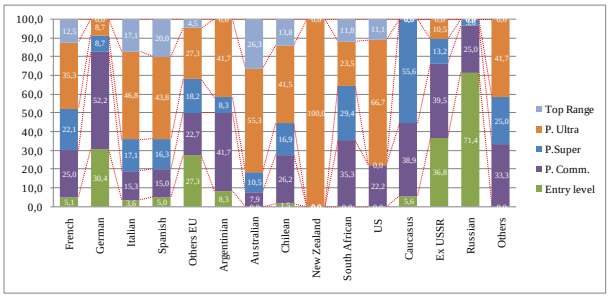
Hong Kong



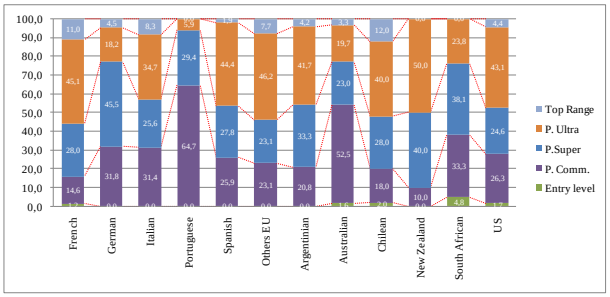
Japan



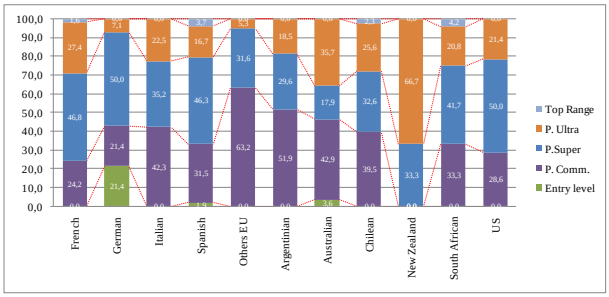
Russia



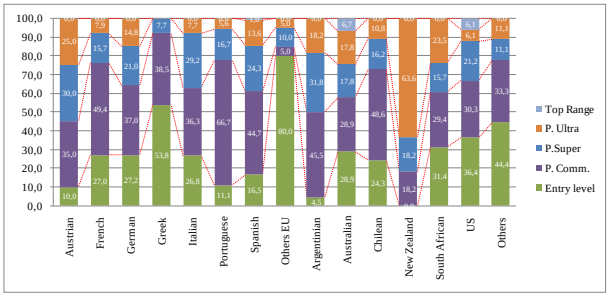
United States



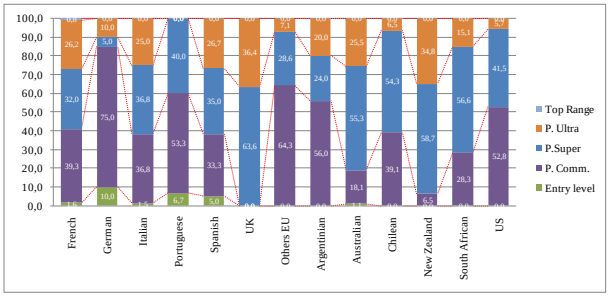
Denmark



Germany



United Kingdom



Source: based on IWSR data

The analysis leads the following remarks:

China: the Ultra Premium is the most crowded price range. Most brands from New Zealand, Australia and France (and to a lesser extent Italy and Spain) are positioned in this price segment, where all competitors are present. On the other hand, Chilean, South African and Argentinian brands adopt a much less focused positioning strategy, favouring instead a balanced presence in all price ranges (therefore, aiming at practically all consumer targets). European brands, together with New Zealand and Chinese brands, are more frequently positioned in the Top Range segment.

Hong Kong: in this market too the Ultra Premium is the most crowded segment, where European and New Zealand wines are mainly positioned. The other NWC countries prefer to adopt a less focused positioning strategy by being present (to varying extents) in all price ranges, but in particular in the three Medium Range segments. Again, only European wines, and Argentinian, are positioned in the Top Range segment.

Japan: most foreign suppliers appear to focus their positioning in two medium-high price ranges, the Super and the Ultra Premium, with the exception of Spain and Chile that supply wines across all price ranges. On the other hand, "domestic" wines are mainly found in the lower price segments (with some presence, however, in the two medium-high price ranges). Once again, New Zealand brands tend to be positioned at the Ultra Premium level.

Russia: the Russian market appears to be the most differentiated market as to positioning strategies. In synthesis, we observe that:

- "local" wines, wines from the former USSR countries, as well as German wines and other EU wines (except for French, Italian and Spanish) are positioned at the lower end of the market (Entry Level and Commercial Premium).
- Australian, American and New Zealand wines are mainly positioned in the higher price ranges (Ultra Premium and Top Range). All New Zealand brands are positioned in the Ultra Premium segment.
- Italian, Spanish and Chilean wines are positioned across all price segments, but primarily in the medium-high and high ranges.
- South African, Argentinian and French wines are also positioned across all segments, but more concentrated in the medium-low price ranges.

United States: price distribution is quite even for wines of different origin (including domestic wines), although in general the highest frequencies are in the Super and Ultra Premium classes. Wines from France and New Zealand are mostly positioned in these price segments. The only exceptions to this general rule are Portuguese and Australian wines, mostly positioned in the Commercial Premium range.

Denmark: most brands are positioned in the medium or medium-low segments (Super and Commercial Premium), albeit with some differences. Exceptions to this are New Zealand wines, all positioned in the Super and Ultra Premium, and German wines quite present at Entry level.

Germany: as already noted elsewhere in this report, and over and beyond the effects of very low taxation, the German market is not very demanding: the average consumer is more sensitive to price than to quality. It should come as no surprise, therefore, that all competitors (with the exception of New Zealand) position their brands, to a greater (Greece, other EU) or lesser degree (Argentina, Austria), in the Entry Level and Commercial Premium price segments. All countries are present in the Super and Ultra Premium segments, but with a relatively small number of brands (with the exception, however, of Argentina, Austria, Spain and

Italy). Finally, the Top Range segment counts a negligible number of wines, exclusively from Australia and the US.

United Kingdom: wine brands from Germany, Portugal, Argentina and United States (and from other European countries excluding France, Italy and Spain) are positioned in the medium-low (Commercial Premium) and/or low (Entry Level) segments. On the other hand, wines from New Zealand, Australia and South Africa are positioned in the medium-high market segments (Super and Ultra Premium). The brands of the main European wine producers (France, Italy and Spain) have adopted a more balanced strategy, being mainly present in the medium range segments. Finally, the Top Range segment is basically absent in the UK market (only one French brand).

To conclude, it appears appropriate to mention two significant cases:

- The first is that of French wines: it appears that the positioning strategy for these wines varies significantly from market to market (positioning in the high price ranges in China and Hong Kong, medium or medium-low ranges in Russia, Denmark and Germany).
- The second relates to New Zealand wines: in all cases these wines are positioned in the Super and Ultra Premium segments, with the only exception of Germany, where they are in the Commercial Premium.

5.3.5 Competitiveness of EU still wines in the online retail channel

This part of the analysis is based on wine market data collected through a survey of online retailers in the case study countries (Web checks – see §2.5.4)

To evaluate the results of this survey, we have to take into account that product assortments vary quite significantly across the examined online stores: from a minimum of 225 still wines in the Chinese Everwines store, to a maximum of over 3,700 wines in the case of the American Wine.com. The range width affects brand positioning in the market: more orientated to a specific consumer target in the first case (Everwines) and more "generalist" in the second case (Wine.com).

However, the online sales channel generally is orientated to a target of consumers in the middle/middle-upper socio-economic classes, relatively demanding in terms of quality and more likely to seek "cultural" or "symbolic" values associated with the product.

It is not surprising, therefore, that the survey results present important differences, compared to the results obtained from other data sources, in particular the IWSR.

However, although web check results are not statistically representative, they do represent the orientation of market players operating in a relatively innovative distribution channel, which is growing in most case study countries according to what indicated by the interviews[35].

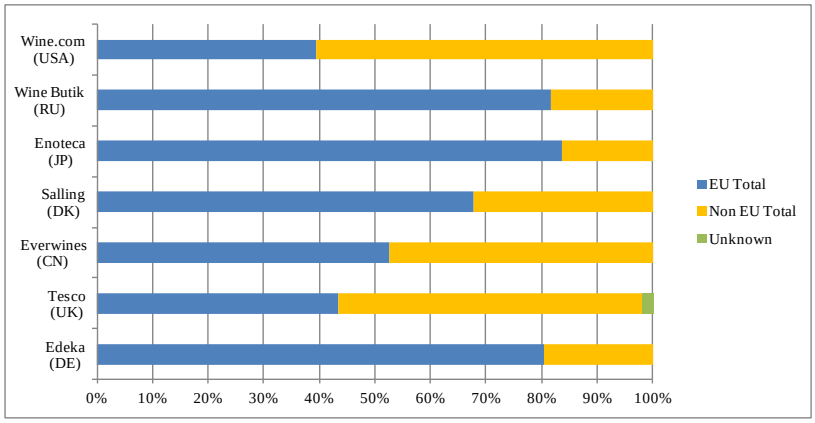
5.3.5.1 Still wine assortment by country of origin in the online stores

Notwithstanding the differences in the size of product assortment across the surveyed online retailers, Fig. 35 shows the composition of the assortment according to wine origin, from the EU and from the rest of the world.

In all cases, European wines exceed 50% of the product assortment, with the only obvious exceptions of the American and the British Web-stores. In the Japanese Enoteca, the Russian Wine Butik and the German Edeka, European wines represents over 80% of the assortment.

[35] See case study monographs.

Fig. 35: Percentage of EU and non-EU still wines in the product assortment of online retailers



Source: Web check

Further detail is provided in the following table.

Tab. 5: Composition of wine assortment by country of origin in the online stores

		Edeka (DE)	Tesco (UK)	Everwines (CN)	Salling (DK)	Enoteca (JP)	Wine Butik (RU)	Wine.com (USA)
EU	Austria	2.7					3.5	0.1
	Bulgaria		0.2					
	Croatia							
	France	10.8	17.4	20.4	36.8	62.9	34.5	19.3
	Germany	41.3	2.3	1.2		1.0	0.8	0.7
	Greece		0.2				0.2	0.1
	Hungary		0.3	0.4			0.3	0.0
	Italy	13.3	12.2	16.5	21.2	17.5	30.9	12.7
	Portugal	0.6	1.1	0.4			1.5	0.3
	Romania						0.1	
	Spain	11.7	8.5	13.7	9.9	2.2	9.9	6.1
	United Kingdom		1.5					
EU Total		80.4	43.6	52.5	67.8	83.7	81.7	39.4
Non EU	Argentina	2.1	2.6	2.4	0.2	1.7	2.0	4.0
	Australia	3.9	20.3	18.0	10.7	1.6	2.8	6.7
	Canada						0.1	
	Caucasus						0.0	
	Chile	4.2	8.0	7.1	5.1	4.4	4.4	4.8
	China			4.7				
	Israel		0.2				0.5	0.2
	Japan					1.0	0.2	
	Lebanon						0.1	
	Mexico							0.5
	New Zealand	1.2	3.9	1.2	6.1	1.7	1.5	1.8
	Russia						0.3	
	South Africa	3.9	9.4	3.5	5.0	0.5	2.6	1.5
	Switzerland	0.6					0.1	
	United States	3.6	10.1	8.6	5.0	5.5	2.5	42.2
	Uruguay			2.0				
	West Balkans						0.3	
Non EU Total		19.6	54.5	47.5	32.2	16.3	18.2	60.6
Unknown			2.0					
Total %		100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total N.		332	615	225	457	1,876	1,794	3,764

In red shares >10%

Source: Web-checks

The results presented in Tab. 5 show that:

- In terms of wine assortment by country of origin, the Danish Salling offers the smallest (wine from 9 countries, of which 3 are European), while the Russian Wine Butik sells wines from 23 countries altogether, 9 of which are European);
- French and Italian wines are those most represented, in all cases exceeding 10% of the total assortment: 62% of wines sold by Enoteca are French, and 30% of wines sold by Wine Butik are Italian;

- Australian wines account for over 10% of the assortment in three stores only (Tesco, Everwines and Salling), while American wines are (obviously) better represented in the US online store (over 42%), but also in Tesco (10%).

5.3.5.2 Price segmentation in the online wine stores

Bottled wine prices collected through Web checks were transformed into Euro/litre and grouped by segment, using the same criteria adopted in §5.3.4.2.

Table 6 shows the results of the analysis.

Tab. 6: Still wines distribution by price segment and country of origin in online stores

	Origin	Entry level	Commercial Premium	Super premium	Ultra premium	Top Range	Total n.
Tesco (UK)	EU	1.2%	31.7%	40.9%	26.2%	0.0%	252
	Non EU	0.0%	26.0%	46.3%	27.6%	0.0%	315
	Unknown	0.0%	45.5%	45.5%	9.1%	0.0%	11
	Total n.	3	167	254	154	0.0%	578
Edeka (Germany)	EU	4.9%	71.2%	16.5%	6.4%	1.1%	267
	Non EU	16.9%	40.1%	30.8%	12.3%	0.0%	65
	Total n.	24	216	64	25	3	332
Everwines (China)	EU	0.0%	0.0%	0.7%	50.7%	48.5%	134
	Non EU	0.0%	0.8%	5.8%	51.2%	42.1%	121
	Total n.	0	1	8	130	116	255
Enoteca (Japan)	EU	0.0%	0.1%	1.7%	32.8%	65.4%	1570
	Non EU	0.0%	0.0%	6.9%	65.4%	27.8%	306
	Total	0	2	47	715	1112	1876
Salling (Denmark)	EU	0.0%	1.6%	11.0%	50.6%	36.8%	310
	Non EU	0.0%	2.7%	21.8%	57.1%	18.4%	147
	Total	0	9	66	241	141	457
Wine.com (USA)	EU	0.0%	2.2%	13.6%	50.1%	34.0%	1482
	Non EU	0.0%	2.7%	18.3%	57.7%	21.3%	2282
	Total	0	94	620	2060	990	3764
Wine Butik (Russia)	EU	0.1%	0.3%	2.3%	39.4%	58.0%	1565
	Non EU	0.3%	0.9%	7.4%	60.7%	30.8%	351
	Total	2	7	62	829	1016	1916

In red shares> 40%

Source: Web-checks

The analysis of the results, keeping in mind that prices are affected by the tax regimes applied in different countries, shows that:

- The distribution of wines by price segment is completely different from the distribution of market prices sourced from IWSR. This confirms what was said previously about online stores being more up-market;
- There is a substantial difference between the the German and British retail chains online stores (Tesco and Edeka) and the other Web stores that only specialise in online sales.

  Wines sold online by Tesco and Edeka are mostly positioned in the lower price ranges (from Entry level to Super premium, in a way quite similar to what found for the UK and Germany in the analysis of IWSR data). Wines sold by the more wine-specialised online stores are mostly positioned at the higher price ranges (Ultra Premium and Top Range).

  Therefore, online stores that are unrelated to the major retail chains are more likely to target higher socio-economic classes. The Chinese Everwines represents an extreme case in this sense, with virtually no wine positioned at the low and medium price ranges (but also with the smallest product assortment).
- In all cases, European wines are the most represented in the Top Range, with a maximum of 65% in the case of Enoteca. Again Tesco and Edeka are exceptions, as they have virtually no wines positioned in the Top range segment;
- In all cases, wines from the rest of the world are the most represented in the Super Premium and Ultra Premium ranges.

5.3.5.3 Other information provided by online wine stores

The web checks have allowed us to identify the additional communication / information elements provided by online wine stores to the consumer. In particular:

- the mention of grape variety on the label;
- information about grape variety/ies provided in the information sheet of the seller;
- information about geographical identification (in particular, PDO and PGI wines) in the information sheet of the seller[36].

Tab. 7 shows the percentage of wines (EU and non-EU) carrying these mentions, out of the total product assortment of each online store.

In all online stores, the percentage of wines with GI is extremely limited, which is also explained by the fact that only European wines use this type of quality labelling.

However, we only report about wines with GI for which the seller provides this specific information in the product information sheet. Obviously, the percentage of European wines carrying GI on the label is larger. However, in most online stores, this information is not explicitly used for communication purposes. Only the Danish Salling and the Russian Wine Butik provide it to a greater extent (information about GI is given for, respectively, 15% and 17% of the wines on sale). In the case of the US store, the percentage falls down to 0.3%.

It is clear, therefore, that online wine stores do not give importance to this indication of quality. In other words, Geographical Indication is not considered as a criterion for choosing the product to be offered to the consumer.

Tab. 7: Geografical indication and mention of variety (% over total still wines assortment) in online stores

		Edeka (DE)	Tesco (UK)	Everwines (CN)	Salling (DK)	Enoteca (JP)	Wine Butik (RU)	Wine.com (USA)
EU wines	GI	6.7	3.4	7.5	15.5	3.3	17.1	0.3
	Variety on the label	70.4	35.8	20.9	17.7	7.1	21.1	18.4
	Variety indicated by retailer	25.5	72	97	97.1	0	0	51.5
non EU wines	GI	0	0	0	0	0	0	0
	Variety on the label	92.3	58.5	82.6	96.6	80.7	70.9	82.5
	Variety indicated by retailer	43.1	83.9	96.7	90.3	0	0	81.6

Source: Web-checks

A different picture emerges with regard to the mention of grape variety. In this case, all Web stores provide clear information about varietals (i.e. clearly visible to the consumer). The indication of the variety, therefore, is considered as a criterion for choosing the product to be offered to the consumer.

The biggest difference here is that the percentage of wines with mention of the variety is, in general, lower for EU wines than for non-EU wines. However, this does not depend on the online store, but it is due to the lower detail of information provided by European producers compared to third country producers.

5.4 SYNTHESIS OF RESULTS OF ANALYSIS OF THE GLOBAL COMPETITIVENESS OF EU STILL WINES

This section brings together the main findings of the different parts of analysis of the overall competitiveness of EU still wines relative to competitors in an attempt to provide a synthesis of key results. We recall that the analysis involved the following elements:

- global competitiveness of European wines with respect to international trade, on the world market as a whole as well as on the most important individual country-markets (separately for bottled and bulk wine) based on trade statistics (Comext and Comtrade);
- global competitiveness of EU wines with respect to domestic consumption based on consumption volumes data (bottled wine) in the case study countries provided by the IWSR;

[36] It was not possible to collect data about mention of GI on the label. In most cases, the quality of the image of the bottle/label on the Web site would not allow to detect it.

- price competitiveness (FOB and CIF implicit prices based on trade values and volumes) as well as the price/quality positioning of EU wines compared to main competitors (based on IWSR store-check data relative to price of wines sold by retail chains);
- competitiveness of European wines in the online retail channel based on Web check data.

Table 8 below provides a synthetic judgment for each examined dimension of competitiveness.

Tab. 8: Synthesis of results of analysis of the overall competitiveness of EU still wines relative to competitors

	Bottles	Bulk
Global competitiveness of EU wines in the world market	+	-
Global competitiveness in the 10 most important import markets	+	-
Price/quality competitive position of EU wines	+	-
Global competitiveness of EU wines with respect to domestic consumption	-	n.a.
Competitiveness of EU wines in the online retail channel	+	n.a.

"+" means competitive advantage for EU wines; "-" means competitive disadvantage for EU wines

Source: Cogea

Global competitiveness of EU still wines with respect to international trade

Between 2000 and 2012/2013 EU wines improved their overall competitive position in the world market in value terms, while maintaining it in volume terms, despite an overall loss of market shares (in value and volume). This result is, however, generated by opposite trends: enhanced competitive performance of bottled wines (both in value and volume terms) versus worsened performance of bulk wine exports. Such trends occurred in a context of unfavourable exchange rates for Europe: gradual devaluation of main competitors' currencies relative to the Euro. As price is a crucial factor for bulk wine trade, exchange rates have had a relatively larger impact on the competitive performance of bulk wines compared to bottled wines.

EU still wines mostly lost market share to main competitors on the world market between 2000-2005/06. Afterwards, the EU market share stabilised around 68% in value and 65% in volume. From 2007 EU total wine exports increased, whereas NWC exports grew until 2007 and stabilised in subsequent years. The analysis shows that from 2007 onwards, a strategy change takes place with gradual substitution of bottled wine with bulk wine exports by some NWC: Australia, USA, South Africa and New Zealand.

Global competitiveness of EU still wines with respect to domestic consumption

The results of this part of the analysis suggest that the competitive position of EU still wines worsened in all considered countries, except Russia[37]. The deterioration of the EU competitive position relative to competitors is only slight in China, the US, Germany and Japan, and more significant in Denmark, Hong Kong and the UK. However, in the latter markets, the competitive position of EU wines improves again after 2008/09.

The apparent contradiction with the results of the previous analysis is caused by use of different types of data: in the first case, trade statistics for bottled and bulk wine; in the second case, market data relative to consumed volumes of bottled wine, which, however, include "local" wines that may contain wine imported in bulk from other countries.

Price/quality competitive positioning of EU still wines

EU price/NWC price is >1 for bottled wine and <1 for bulk wine in nearly all considered years (2000-2012), suggesting that EU bottled wines are better quality than the competitors' (but with NWC almost evening out towards the end of the period) and, vice versa, wines exported in bulk are of lower quality.

New Zealand and France record the highest prices (both bottled and bulk); Spain records one of the lowest price, remarkably decreasing in the case of bottled wine exports in the years following the wine CMO reform. Thus, within the EU different price/quality positioning strategies are implemented.

[37] We recall, however, that in this market EU wines gained competitive advantage between 2005 and 2007 in reason of the embargo imposed by Russia on Moldova.

European wines are more frequently positioned in the higher price segments (Ultra Premium and Top Range) in third-country markets, whereas positioning differs in EU markets (lower price ranges in Germany and within Medium Range in Denmark and UK).

Competitiveness of EU still wines in the online retail channel

French and Italian wines are most represented across all seven markets, always exceeding 10% of total product assortment. Amongst NWC, only Australian and US wines reach or exceed 10% in few countries/retailers. In all cases, European wines are those most represented in the Top Range, non-EU wines are most present in the Super and Ultra Premium ranges.

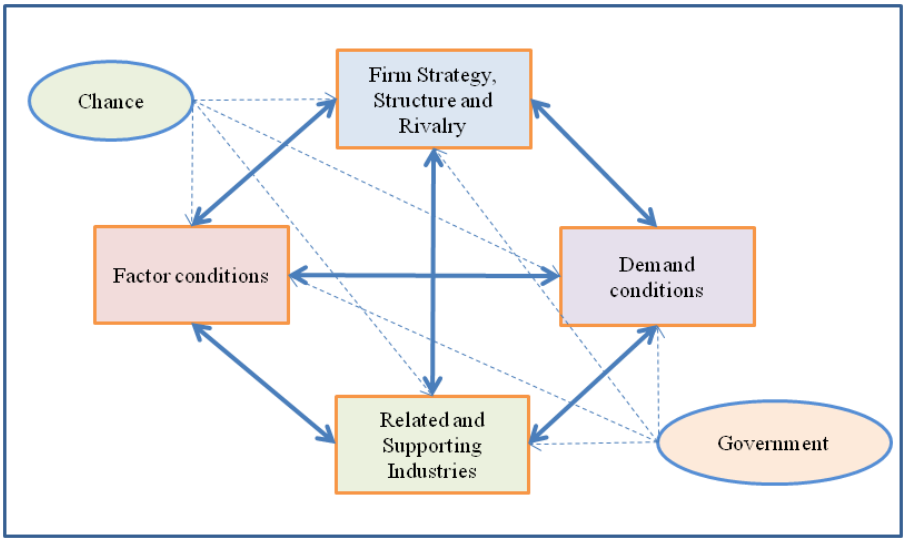
5.5 INFLUENCES ON THE COMPETITIVENESS OF EU WINES AND THIRD COUNTRY WINES: THE PORTER'S DIAMOND

This part of the study aims to explore the factors (and their interactions) that potentially affect the competitive position of EU wines and wines of the EU main competitors at international level. In particular, it seeks to identify the context variables that can contribute to generate the competitive advantage of country systems.

The method used is based on an adaptation of the analytical-interpretative model of competitiveness proposed by M. Porter, the Porter's Diamond. The factors that compose the Diamond system are mutually reinforcing and competitive advantage is achieved as a result of their interactions.

The general theoretical framework of the model is shown in Fig. 36 below.

Fig. 36: Porter's Diamond: Variables (and their interactions) that restrict / facilitate / orientate domestic demand and wine origin (EU/non EU)



Source: M. Porter, 1990.

Compared to the Porter's Diamond general model (which remains unchanged in its structure), the adaptation consists in taking into account variables both related to wine producing countries (i.e. competitors) and to consumer countries (i.e. the markets where international competition is played).

The analysis focuses on the relevant variables in each group of influencing factors of the scheme.

5.5.1 Factor conditions in producer countries

Factor conditions comprise variables relating to production structure and evolution, as well as variables expressing strategic orientation to export.

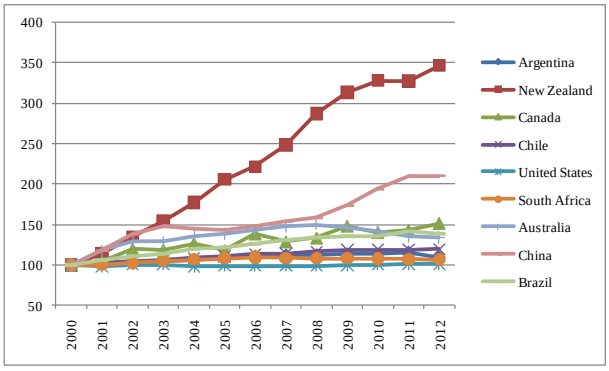
5.5.1.1 Evolution of planted areas and wine production in producer countries

The comparison between the EU and third countries in terms of evolution of vineyard areas and wine production is shown in Fig. 37 (Index: 2000=100). For the EU, the examined time interval was appropriately

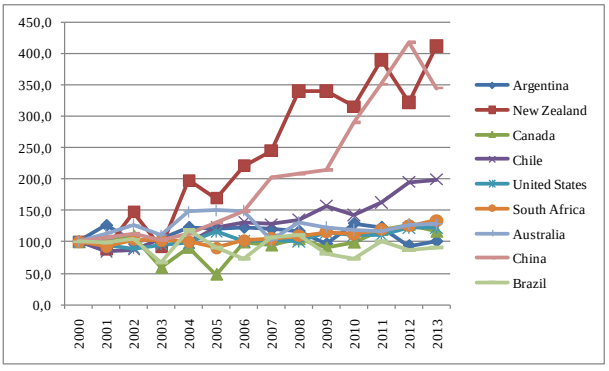
divided into sub-periods to show the successive enlargements of the EU (to 25 and then to 27 Member States). The analysis also considers China and Brazil among wine producers.

Fig. 37: Evolution of vineyard areas and total wine production, 2000-2012/13 (2000 = 100)

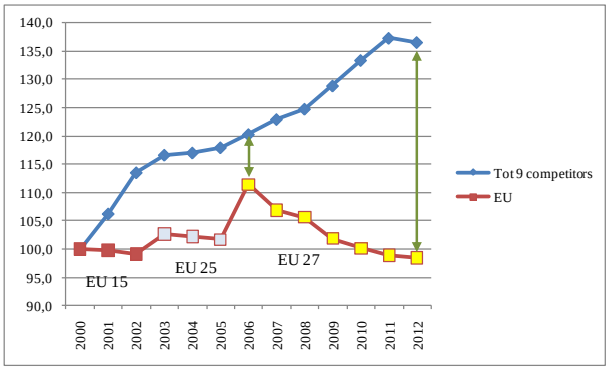
Evolution of vineyard areas in 9 third countries



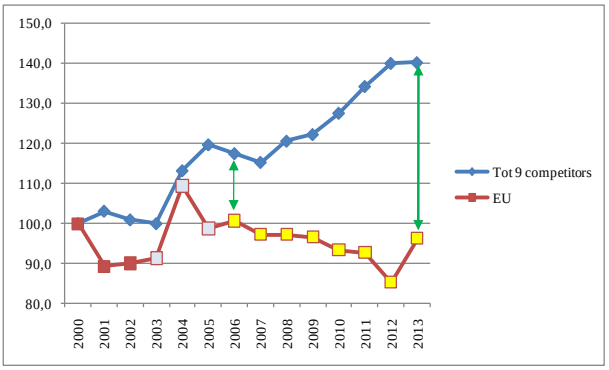
Evolution of wine production in 9 third countries



Evolution of vineyard areas in the EU and 9 third countries



Evolution of wine production in the EU and 9 third countries



Sources : national statistics, FAO, Communications of Members states and DG Agri C.3 for EU

The following considerations emerge from analysis of the trends:

- Despite enlargement to new wine producing MS, both planted area and wine production of the EU decrease. From 2006 onwards (EU 27) planted area decreases at a rate of -2.1% on average per year (from 3.64 to 3.21 million ha) and production by -1.4% (from179 to 171 million hl). The less important decrease in wine production compared to vineyard areas is due to exceptional production in 2013[38]). The reduction of planted areas is also strongly affected by the implementation of the grubbing-up scheme (between 2008 and 2011, about 73% of the decrease in the EU planted area is due to the implementation of this measure)[39];
- In the group of 9 main competitors considered together (Argentina, New Zealand, Canada, Chile, USA, South Africa, Australia, China, Brazil), vineyard area and wine production have been steadily growing at a rate of, respectively, 2.34% (from 1.51 to 1.71 million ha) and 3.07% (from 77.7 to 92.8 million hl) since 2006;
- Therefore, the gap existing between the EU and the 9 competitors (both planted areas and production) at the beginning of the period has progressively reduced over time;
- Among EU competitors, New Zealand and China are the most dynamic (New Zealand has more than tripled areas and quadrupled production);
- Chile appears less dynamic in terms of surface growth, but more in terms of wine production (i.e. considerable growth of yields per hectare);

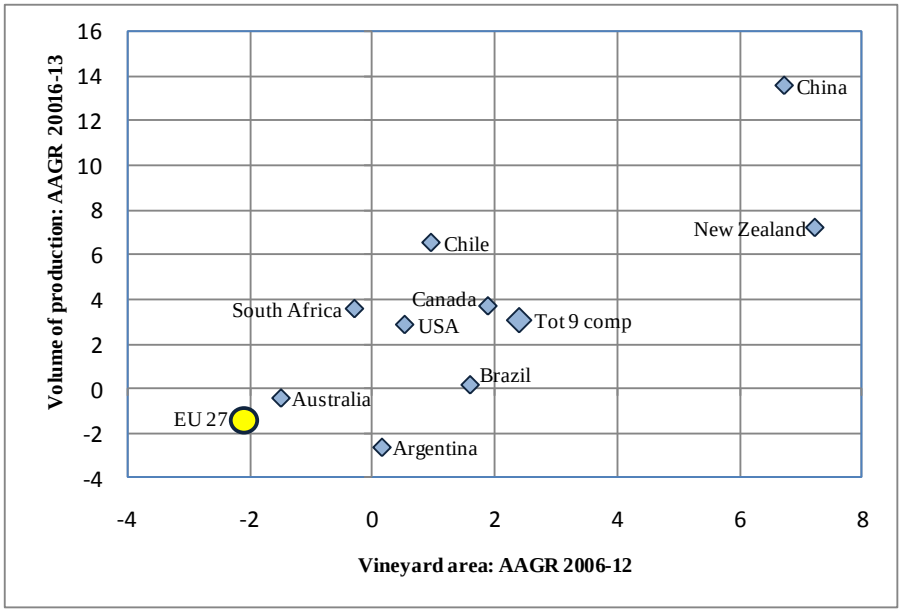
[38] In 2013, the remarkable growth of the EU wine production is mainly due to Spain (from 34 to 50 million hl between 2012 and 2013), also as a result of the restructuring of vineyards (irrigation, transformation of planting systems) implemented thanks to the wine CMO funds.

[39] About 160,000 ha over a total decrease of 219,000 ha (see the "Evaluation of Common Agricultural Policy measures applied to the wine sector" – COGEA, October 2012).

- In contrast, the United States maintains virtually unchanged the planted area existing in 2000, while increasing production by about 20% (2013).

In order to assess the relative position of individual EU competitors and of the EU27 (thus including Romania and Bulgaria, considerable wine producers), we compared (Fig. 38) the average annual rates of change of planted areas and production since 2006 (2006-2012 for planted areas, 2006-2013 for wine production).

Fig. 38: Average annual rate of change of planted areas and wine production in the EU and in competing countries (2006-2012/13)



Sources: National statistics, FAO, Communications of Members States and DG Agri C.3 for EU

The results on the map above show that:

- Only the EU 27 and Australia witness a reduction in both planted area and production, however, to a much lesser extent in Australia and almost exclusively due to adverse climate conditions, while in the EU as a result of policy changes (i.e. wine CMO reform: grubbing-up and vineyard restructuring);
- South Africa decreases planted areas, but increases production (strong increase in yields). Conversely, in Argentina the planted surface increases, but production decreases;
- All other countries witness an increase of both areas and production, more (China, New Zealand) or less (USA, Brazil) importantly. In general, the rise in production is higher than the increase of planted areas (showing growth of productivity). This occurs, in particular, in China and in Chile (not in Brazil though, where production of the new vineyards is probably not yet fully operational) [40].

On the basis of these results, the following considerations can be made for the future:

- From a structural and production perspective, it is likely that in the near future the EU will face pressure from its competitors considered altogether. The growth rates of planted areas, yields per hectare and thus wine production are likely to lead to better satisfaction of domestic demand (China, Brazil) and/or to further erosion of EU market shares (New Zealand, Chile and South Africa);
- Assuming that current trends are maintained, in the future the EU may face less competitive pressure from Argentina[41] and Australia[42]. However, in the case of Argentina, the decline in yields per hectare could be a sign of quality improvement. If this were the case, the competitiveness of Argentinean wines could shift more towards Medium and Top Range wine segments.

[40] However, part of wine production in China and (to a lesser extent) in the U.S. is obtained from wine imported in bulk and blended with wine made from local grapes.

[41] This occurs in spite of favourable exchange rates (see §5.5.6).

[42] Accentuated by possible persistence of unfavourable exchange rates.

5.5.1.2 Index of export propensity

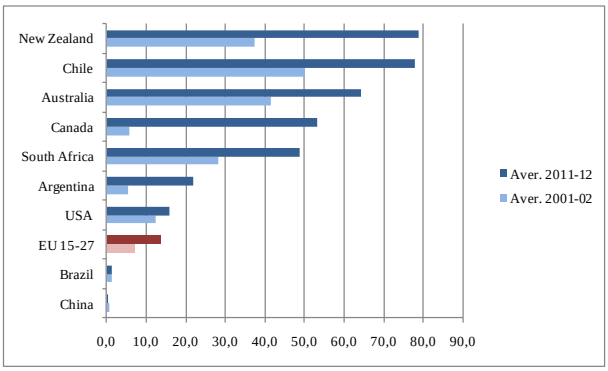
This indicator highlights the existence of an export-oriented production strategy (high value of the index) rather than a strategy aimed primarily (or exclusively) to service the domestic market (low value of the index), for which exports represent a marginal activity. Typically, high and increasing propensity to export is associated with aggressive market penetration (and therefore strong competitive power).

The index of propensity to export is calculated as the percentage ratio between total exports of wine in volume (CN code 2204) in year *t* and total wine production in year *t-1*.

$IPExp = (Exp_t/Prod_{t-1}) * 100$

Fig. 39 shows the values of the index calculated as two-year averages for 2001-02 e 2011-12 (average over two years was used to eliminate fluctuations).

Fig. 39: Index of export propensity of the EU and its main competitors (average 2001-02 and 2011-12)



Sources: National statistics, DG Agri C.3 for EU, Comtrade, Comext

The obtained results allow the following observations:

- New Zealand, Chile, Australia and, to a lesser extent, South Africa[43] have a very high propensity to export, which grew significantly over the considered time period. In these countries, therefore, the growth of production is not geared to satisfy domestic demand, but almost exclusively geared to export;
- China and Brazil lie at the other extreme, where almost all production is aimed at satisfying domestic demand;
- The European Union and the United States find their position in between these two extremes: i.e. production is largely aimed for the domestic market and exports basically are a residual. For these areas, therefore, the international market, although important, is not vital to the survival of the wine industry, and the propensity to export is linked to the evolution of domestic demand. In addition, for these two competitors, growth of export propensity is absolutely modest (and taking into account, for the EU, the enlargement from 15 to 27 Member States).

On the basis of these results, the following considerations can be made for the future:

- New Zealand, Chile, and South Africa (although the latter to a lesser extent) appear to have developed an aggressive competitive strategy, with increase in export propensity linked to growth of planted areas and, even more so, of production. In essence, for these countries, the international market has strategic (or vital) value and therefore all possible competitive levers are put into action. It is likely that the propensity to export of these countries (and thus their aggressive strategies) will grow further;
- Australia appears to be less aggressive, as the high export propensity may decrease in the future due to reduction of planted areas (and production), as well as the persistence of unfavourable exchange rates;
- The EU and the US are the least aggressive in their export strategies, as the export market for these wine producers is important, but not vital. However, there are differences between the two: while in the US domestic consumption is still growing (and therefore, exports are likely to remain less important), in the EU domestic consumption (as well as production) is in decline despite the enlargement.

[43] In South Africa, however, a dramatic increase in the propensity to export between 2000 and 2007 (from 24% to 70%) was subsequently followed by gradual reduction (from 70% to 49%).

- Under these conditions, the EU seems to be suffering the effects of a competitive game that is mainly stimulated by the export-oriented countries.

5.5.1.3 Index of bilateral wine trade intensity

This part of the analysis aims to assess the importance of different consumer markets for wine exporting countries. In essence, it seeks to identify the country markets that are "vital" or at least "important" for each producer/exporter country, where, presumably, the latter focus their competitive strategies designed to preserve the position of relative advantage achieved.

The analysis of the importance of different country markets for the different producer/exporter countries is carried out using the Index of Bilateral Wine Trade Intensity (IBWTI).

The index is calculated in volume or value terms as the share of country *i*'s wine exports towards country *j* [x_{ij}/x_i] divided by the share of country *j*'s imports (m_j) in world wine imports (m_w) net of country *i*'s imports (m_i):

$IBWTI = [x_{ij}/x_i]/[m_j/(m_w - m_i)]$

The index was calculated for each of the major exporting countries belonging to the EU and to the NWC group. It has also been calculated for Western Balkans, Caucasus and former USSR country groups.

The analysis considers the 10 most important importers of EU bottled wine and the 10 most important importers of EU wine in bulk (see §5.2.7). In addition, we considered the markets of the three case study Member States (UK, Germany and Denmark).

The Index of Bilateral Wine Trade Intensity was calculated for the years 2004, 2008 and 2012. Tab. 9 (for bottled wine) and Tab. 10 (for bulk wine) present the results based on 2012 volumes.

Tab. 9: IBWTI for bottled wine in volume (2012)

From	To	Australia	Brazil	Canada	CHINA	Japan	Norway	Singapore	Switzerland	Russian Federation	USA	Denmark	Germany	United Kingdom	World
EU 28	France	0.71	0.23	1.12	4.22	2.48	1.49	1.59	1.13	1.35	0.68	1.07	1.32	1.21	1.00
	Germany	0.26	0.03	0.35	0.30	0.40	1.88	0.63	0.65	1.49	0.73	2.04	-	1.38	1.00
	Italy	0.39	0.64	1.17	0.32	1.02	2.08	0.38	2.84	0.91	2.29	1.61	3.52	1.62	1.00
	Portugal	0.33	4.82	1.02	0.45	0.22	1.63	0.30	1.94	0.20	0.62	0.79	0.62	0.73	1.00
	Spain	0.26	0.29	0.38	0.82	1.26	1.17	0.33	1.85	1.30	0.55	1.45	1.35	1.07	1.00
	United Kingdom	0.10	0.00	0.04	0.48	0.00	0.46	1.05	0.43	-	0.01	4.92	0.00	-	1.00
	Others EU	0.22	0.05	0.25	0.40	0.10	0.55	0.21	0.79	0.46	0.41	0.52	2.33	0.71	1.00
NWC	Argentina	0.23	6.38	2.03	0.40	0.46	0.78	0.87	0.82	0.34	2.43	0.73	0.10	0.41	1.00
	Australia		0.10	2.27	2.39	0.65	0.80	5.95	0.30	0.10	3.26	0.50	0.27	1.06	1.00
	Chile	0.39	8.09	0.90	0.96	2.36	0.65	1.36	0.27	0.68	1.08	1.23	0.26	1.30	1.00
	New Zealand	85.37	0.05	1.29	0.54	0.28	0.29	2.88	0.12	0.06	1.68	0.22	0.09	1.80	1.00
	South Africa	0.62	0.30	0.99	0.56	0.41	0.40	0.80	0.33	0.23	0.40	1.05	0.96	1.01	1.00
	USA	0.15	0.14	5.35	1.60	1.64	0.27	2.02	0.71	0.33	-	0.61	0.99	1.37	1.00
Western Balkans		0.10	-	0.07	0.16	-	0.02	-	0.19	3.14	0.04	0.03	0.10	0.00	1.00
Caucasus		0.01	-	0.08	0.42	0.08	0.00	0.00	0.01	10.21	0.07	-	0.06	0.01	1.00
Others Ex USSR		0.00	-	0.01	0.32	0.01	0.02	0.03	0.00	14.74	0.09	0.00	0.08	0.01	1.00
World		**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

Cells in red highlight IBWTI >1

Source: based on Comtrade data

The results for bottled wine (in volume) suggest the following observations:

- Few markets appear to be absolutely vital (i.e. particularly high value of the Index): the Australian market for New Zealand, the Brazilian market for Argentina and Chile; the Chinese market for France; the US market and Singapore for Australia; the German market for Italy.
- The important markets (i.e. IBWTI >1) are many and geographically dispersed.

However, there are some common factors that can be correlated to the importance of a certain market for a certain exporter. In particular:

- The importance is related to the physical proximity between exporting and importing countries (which in turn is related to transaction costs). For example:
  - The Australian and Singapore markets for New Zealand;
  - Singapore and China for Australia;

- The Brazilian market for Chile and Argentina (but also USA and Canada);
- The Canadian market for the US;
- The Member States markets for the EU;
- The Russian market for West Balkans, Ex USSR e Caucasus wine producers.

- The importance is related to cultural proximity between exporting and importing countries (which is in turn related to language, traditions and history). For example:
  - The Brazilian market for Portugal;
  - The Russian market for West Balkans, Ex-USSR e Caucasus;
  - The US, Canada and the UK for Australia and New Zealand;
  - Canada and the UK for the US.

In this context it is significant the position of some countries, the first of which is France, where most country markets are important (IBWTI >1).

Tab. 10: IBWTI for bulk wine in volume (2012)

From	To	Angola	Canada	CHINA	Côte d'Ivoire	Japan	Morocco	Norway	Switzerland	Russian Federation	USA	Denmark	Germany	United Kingdom	World
EU 28	France	0.00	1.50	1.12	0.10	0.68	0.74	2.15	5.39	0.66	0.35	1.20	1.96	0.39	1.00
	Germany	-	0.61	0.05	-	0.12	-	7.01	0.39	0.05	0.20	2.35	-	1.18	1.00
	Italy	-	1.04	0.77	0.03	0.29	0.00	3.19	3.42	0.57	0.24	0.67	4.14	0.32	1.00
	Portugal	71.28	0.15	0.83	0.01	0.12	-	1.33	2.14	0.00	0.07	0.07	0.46	0.01	1.00
	Spain	3.03	1.30	2.29	31.91	0.47	67.28	0.48	0.94	1.11	0.23	0.87	1.24	0.07	1.00
	United Kingdom	-	0.14	0.01	-	-	-	14.77	0.00	-	0.01	11.69	0.00	-	1.00
	Others EU	0.00	1.89	0.02	-	1.38	-	0.49	0.03	2.77	9.07	0.69	0.09	0.17	1.00
NWC	Argentina	0.00	1.89	0.02	-	1.38	-	0.49	0.03	2.77	9.07	0.69	0.09	0.17	1.00
	Australia	-	1.75	0.69	-	0.33	-	0.42	0.22	0.00	2.61	1.84	0.43	8.07	1.00
	Chile	0.00	0.55	5.64	-	5.09	-	1.02	0.24	0.05	4.03	1.75	0.42	0.60	1.00
	New Zealand	-	0.19	0.00	-	-	-	0.09	0.00	-	2.71	0.36	0.17	3.85	1.00
	South Africa	0.07	1.96	0.04	0.01	0.42	-	0.46	0.91	2.75	0.52	2.67	1.11	2.53	1.00
	USA	0.00	2.16	0.57	0.00	9.64	-	0.99	0.71	0.05	-	1.43	0.72	3.86	1.00
Western Balkans		-	0.68	0.55	-	1.06	-	-	0.00	0.30	-	0.00	2.84	0.00	1.00
Caucasus		-	-	-	-	-	-	-	-	0.18	-	-	0.00	-	1.00
Others Ex USSR		-	-	0.16	-	-	-	0.00	0.00	12.13	-	-	0.00	-	1.00
World		**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

Cells in red highlight IBWTI >1

Source: based on Comtrade data

The results for wine exported in bulk (again in volume) roughly show the same patterns illustrated above for bottled wine (i.e. geographic and/or cultural proximity).

In particular, the three African markets (Angola, Côte-d'Ivoire and Morocco) are vital for Portugal and Spain; the Japanese market is vital for the US and the Russian market for the former USSR countries.

Moreover, the UK market is important for Australia and the US; the US market for Argentina and Chile; Asian markets (China and Japan) for Chile; the German market for Italy and the Norwegian market for Germany.

It should also be noted that the importance achieved by some exporting countries in certain markets is also related to other variables of the Porter's' Diamond. In particular:

- the development of bilateral trade agreements (i.e., Chile with the US, China and Japan) (see §5.5.5.2);
- The favourable evolution of exchange rates (e.g., ARS/USD for Argentina-US) (see §5.5.6);
- Dominant presence of global wine companies in certain markets (e.g., US and Australian companies in the UK market).

5.5.2 Demand conditions in consumer countries

Developments in the demand conditions of consumer countries can represent an opportunity, particularly for producing countries that have achieved relative competitive advantage (with respect to the Factor conditions

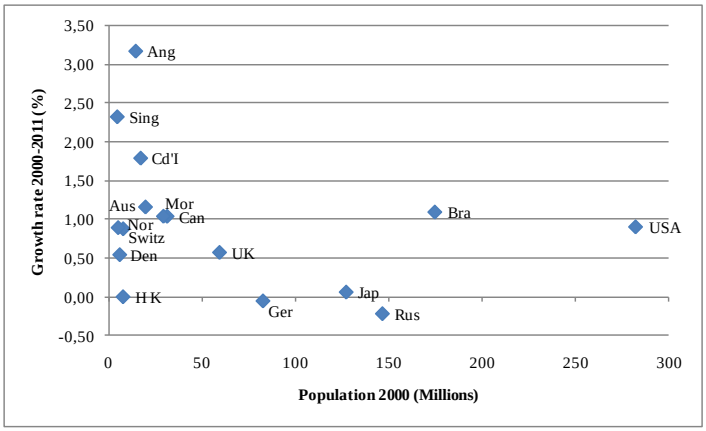
previously analysed: evolution of production, position reached within target markets, the level of market importance).

5.5.2.1 Population size and growth rate

The size of the population and its evolution are obviously the basis for the potential development of the consumption market, assuming that current levels of market penetration are maintained.

Fig. 40 shows the most important country markets for EU wines (both in bottles and in bulk), according to the size of the population in 2000 and its average annual growth rate between 2000 and 2011 (the map does not show China, due to its non-comparable size with the other countries). In any case, China had 1,262 million inhabitants, growing at an AAGR equal to 0.57%.

Fig. 40: Most important country markets for EU wines in bottles and bulk: Population size in 2000 and growth rate 2000-2011 (million, %)



Source: World Bank

The only country markets with negative evolution of the population are Russia and Germany, whereas Japan and Hong Kong show demographic growth very close to zero.

Besides China, where the population increased by about 81.5 million people (basically, the size of the entire population of Germany) between 2000 and 2011, the markets that offer the greatest opportunities seem to be the US and Brazil (between 2000 and 2009, respectively +29 million and +22 million). However, they also are important wine producers (USA) or they may soon become such (Brazil).

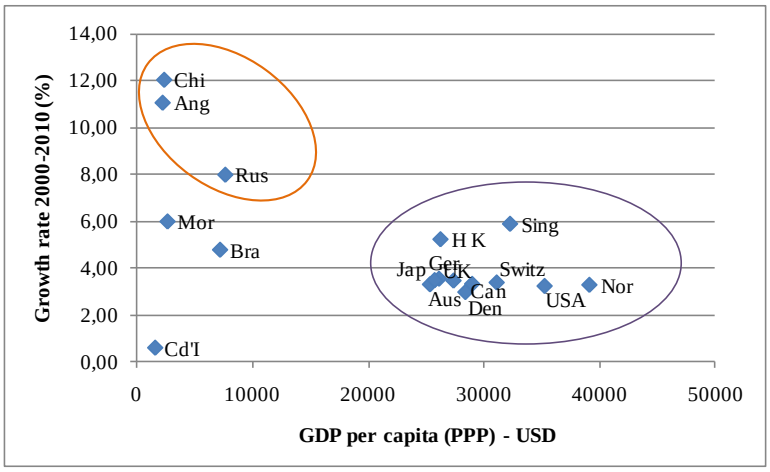
Other markets, albeit with high population growth rates, seem to be less interesting, or they may become such in the long-term (Angola, Côte-d'Ivoire, Singapore). In these markets, EU wines (respectively Portuguese, Spanish and French) are still holding a competitive position.

5.5.2.2 Per capita GDP level and growth rate

According to the literature, consumption of countries that are not important wine producers is positively correlated with average per capita GDP and its growth rate. The level of GDP per capita becomes even more important, the higher the average market price is. Therefore, this is related to the fiscal policy adopted by consumer countries (see §5.5.5.1). Furthermore, the level of per capita GDP can be considered (with due caution) as a proxy of the quality level demanded by a market.

The map in Fig. 41 shows the country markets of interest for EU wines (both in bottles and in bulk), according to the level of GDP per capita in 2000 and the average annual growth rate between 2000 and 2011. GDP per capita is expressed in PPP (Purchasing Power Parities) US dollars, at current values.

Fig. 41: Most important country markets for EU wines in bottles and bulk: GDP per capita (in PPP) in 2000 and GDP average annual growth rate 2000-2011 (USD, %)



Source: International Monetary Fund

The group of developed economies (group on the right in Fig. 41) appears quite homogeneous in terms of GDP growth rate, albeit less in terms of GDP per capita. It is possible that in these countries the levels of wine consumption are not particularly related to these two income parameters, but other factors may play a more important role. Singapore and Hong Kong (expanding economies) are exceptions in this group, as their per capita consumption is still at low levels (and therefore with growth potential as a function of the two macroeconomic parameters).

With less than $10,000 per capita GDP (in PPP), Russia, Angola and China in particular, are placed at the top of the group of growing economies. As far as Russia is concerned, the most credible hypothesis (as detailed in the Case Study monograph) is growth in consumption of wines of higher quality (more expensive imported wines, linked to income and its average growth rate), even in areas other than those which currently focuses on consumption (Regions of Moscow and St. Petersburg), and substituting other alcoholic beverages. As for China, it is worth going into further detail (see following section).

5.5.2.3 The ten most important Chinese regions (per capita GDP>10,000USD in PPP, 2010)

China is a particular country market, therefore, it seems appropriate to observe market demand conditions in more detail at regional level.

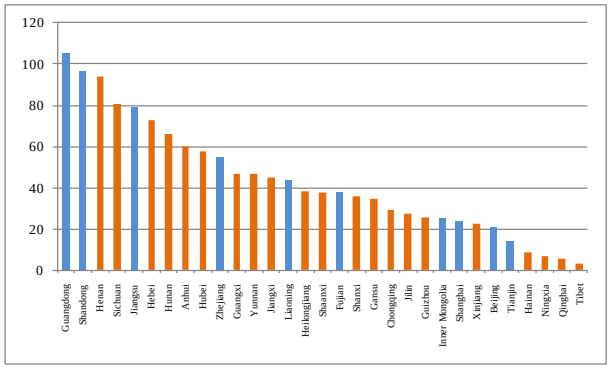
As previously mentioned, China had a population of 1,262 million inhabitants in 2000 with 0.57% average annual growth rate between 2000 and 2011.

The largest Chinese regions (by population) are real “states within in the state”: the first three biggest regions have a population larger than Germany. Furthermore, as shown in Fig. 42, some of the most densely populated regions also recorded impressive per capita GDP growth rates (i.e. the region of Shandong, but also the region of Guangdong, the two most populated). Notwithstanding, it is the regions with lower population (which of course also depends on their physical size and location) that record the highest GDP per capita (it is the case of city-regions such as Beijing and Shanghai) in which the growth rate of GDP has now slowed down.

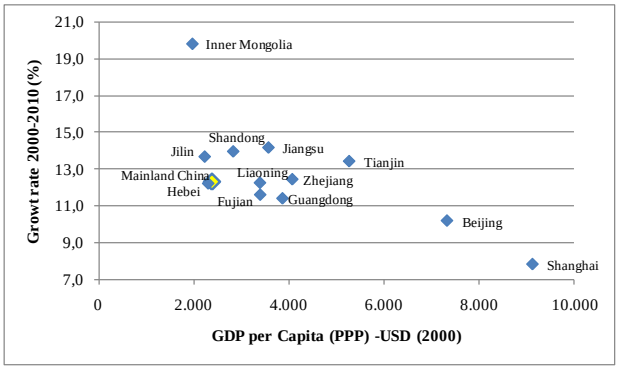
In general, China's demand for imported (bottled) wine is concentrated in regions where per capita income is high and distribution networks are better developed. In particular, the largest wine markets are found in the Eastern regions (Jiangsu, Shanghai, Zhejiang and Fujian) concentrating about 50% of total wine sales, in the South-eastern province of Guangdong (bordering Hong Kong) and in the North-eastern provinces of Liaoning, Hebei and Shandong, and in Beijing. Consumption of imported wines in these regions appear to be highly concentrated in large metropolitan areas (first-tier cities), but with potential for growth in second-tier urban centres (see the China and Hong Kong Case Study monograph).

Fig. 42: China – Population and GDP by province

Population of China by region (2010)



China provinces: per capita GDP and GDP growth rate 2000-2010



In blue the regions with average per capita GDP >10,000 USD (in PPP) in 2010

Source: IMF - International Monetary Fund

In terms of future prospects, the remarkable growth of GDP per capita allows to hypothesise further growth in wine consumption (already occurred at impressive speed in past years), but also a gradual expansion of consumption of better quality wines (imported, but also domestic) at the expenses of wines for the mass-market (i.e. only "domestic" products). Interviews with key market actors in China confirm that, with a growing Chinese middle class, the largest expansion in consumption will probably mostly take place within the Medium Range wine segment in the future, as consumers increasingly specialise and upgrade their wine preferences. In both on- and off-trade, the medium quality segment is expected to grow significantly in volume, with price being an important factor to be considered by existing and new foreign wine suppliers.

5.5.3 Firm strategies (structure and rivalry)

The analysis of the group of variables related to "firm strategies" aims to identify the degree of competitive power of wine businesses belonging to different wine producing country-systems in the case study markets, as well as their role in influencing the structure of the market in these countries.

In principle, the competitive power of wineries (and thus the competitiveness of the products they sell) is the result of the implementation of their strategies (behaviour) within the competitive system they belong to (rivalry).

In turn, firms' behaviour influences the structure of the market (level of concentration of supply, generation of barriers to entry, etc.) and, therefore, the competitive performance of firms (level of profitability, efficiency, etc.).

The analysis is based on 2013 IWSR market data.

5.5.3.1 Number of brands for still wines in consumer markets

The first indicator we present is the number of brands (still wines) sold in the various analysed markets. The number of brands, competing with one another in a given market, provides an idea of the extent of the overall offer on which consumers can make their choices.

The IWSR database provides an overview of the surveyed number of wine brands available to consumers in the case study country markets, distributed according to origin[44].

It should immediately be said that the results give rise to some concerns, since the composition of the number of brands by country does not reflect the distribution of wine consumption according to wine origin (see §5.3.3). It is true, however, that we do not necessarily expect a correspondence between the two (i.e. a large number of brands could attain very low sales volumes). However, the IWSR survey approach may

[44] Obviously, a certain number of brands is found in all case study countries, thus the total number of brands contains repetitions.

produce distortions in the sample relative to the reference population[45]. Given the concerns, we believe that the results of the analysis should be taken with due caution.

Tab. 11 shows the percentage of wine brands in each case study market over the total number of brands, by country of origin. All countries of origin are grouped according to three three areas: EU, NWC and other countries.

Tab. 11: Number of wine brands in the case study country markets by country of origin, 2013 (% over total brands)

	China	Denmark	Germany	Hong Kong	Japan	Russia	UK	USA	Total
Austrian	0.0	0.0	0.9	0.0	0.4	0.0	0.5	0.0	0.3
Bulgarian	0.3	0.5	1.3	0.0	0.0	0.5	0.3	0.0	0.3
Cypriot	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
French	17.6	7.7	10.7	14.9	22.9	11.0	12.7	5.4	13.5
German	1.5	1.6	6.3	1.1	4.5	0.0	1.9	2.1	2.5
Greek	0.3	0.5	3.6	0.0	0.2	0.0	0.5	0.6	0.6
Hungarian	0.0	0.0	1.3	0.0	0.2	0.0	1.2	0.0	0.4
Italian	5.9	6.0	11.2	6.7	14.2	4.8	14.5	10.3	10.3
Portuguese	0.9	2.7	0.9	0.4	2.6	1.4	2.6	1.7	1.8
Romanian	0.3	0.0	1.3	0.0	0.0	0.0	0.3	0.4	0.3
Spanish	6.5	10.9	8.9	6.3	13.8	4.8	11.1	3.8	8.6
Slovenian	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Argentinian	18.2	18.0	13.4	15.7	7.9	13.4	8.0	11.5	12.1
Australian	11.4	9.3	1.3	11.9	6.7	8.1	10.6	5.4	8.2
Canadian	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.4	0.2
Chilean	22.6	24.6	21.9	22.8	12.3	23.9	12.2	8.4	16.3
New Zealand	3.8	1.6	1.3	7.8	2.2	7.2	5.1	2.9	3.9
South African	5.0	8.7	9.8	5.2	4.7	6.7	9.8	5.2	6.7
US	4.1	7.7	3.6	6.3	5.9	8.1	6.6	41.2	12.1
Brazilian	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Chinese	1.2	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.2
Georgian	0.0	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.1
International	0.0	0.0	1.3	0.0	0.0	0.0	0.3	0.0	0.2
Israel	0.0	0.0	0.0	0.0	0.0	1.4	0.0	0.0	0.1
Indian	0.0	0.0	0.0	0.0	0.2	0.0	0.2	0.0	0.1
Japanese	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.2
Lebanese	0.0	0.0	0.4	0.0	0.0	0.0	0.3	0.4	0.2
Mexican	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.1
Moldovan	0.0	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.1
Montenegrin	0.3	0.0	0.4	0.0	0.0	0.5	0.2	0.0	0.1
Moroccan	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Russian	0.0	0.0	0.0	0.0	0.0	3.8	0.0	0.0	0.3
Serbian	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Swiss	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Thai	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Tunisian	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Ukrainian	0.0	0.0	0.0	0.0	0.0	2.4	0.0	0.0	0.2
Total EU	33.1	30.1	46.4	29.5	58.7	22.5	46.0	24.5	38.6
Total NWC	65.4	69.9	51.3	69.8	39.7	67.5	52.6	75.1	59.6
Total Others	1.5	0.0	2.2	0.7	1.6	10.0	1.4	0.4	1.8
TOTAL %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL n.	341	183	226	268	496	209	577	478	2778

Source: IWSR

From the observation of Tab. 11 the following considerations emerge:

- In all case study countries, with the sole exception of Japan, the percentage of NWC wine brands is higher (and in some cases, much higher) than that of EU wines. As mentioned, this first result raises concerns about the IWSR survey system;
- South American wines from Chile and Argentina play a decisive role (large number of wine brands from these two countries). The role played by other NWC brands is more limited, with the (obvious) exception of American wine brands on the US market;
- Chilean wine brands are relatively more numerous in absolute terms in five of the eight considered markets (China, Denmark, Germany, Hong Kong and Russia). Regardless of their market share, then,

[45] The percentage of NWC wine brands over the total per country appears to be very high, especially in countries where NWC's market share is minimal (e.g. Germany).

and considering the available information as reliable, Chilean wines appear to have an important brand presence in most markets, potentially capable of influencing consumer preferences;

- With regard to EU wines, the number of brands is higher for France and Italy, one or the other depending on the country market (French brands in China, Hong Kong, Japan and Russia; Italian brands in Germany, UK and USA). French brands are more numerous in Japan, while Italian brands on the UK market. Finally, again among European brands, Spanish wine brands are relatively more numerous in Denmark;
- Wine brands of other countries represent a very marginal percentage, with a sole exception for Russia where domestic and Ukranian wine brands are not negligible. We also note the low number of Chinese brands on the Chinese market, in spite of the fact that most wine consumed in this country is "local."

5.5.3.2 Concentration of wine companies in the case study consumer markets

IWSR data report total sales of still wines for each wine company (as the sum of sales volume of each controlled brand). This allows to calculate the market share of each wine-company and then the degree of concentration expressed by the C4 indicator (i.e. market share of the top four companies).

Tab. 12 shows the C4 value for each case study market in 2013. The market share of each of the top four wine companies is also reported, as well as the country where they are based.

Tab. 12: Market shares of bottled still wines in volume in the case study markets (C4), by wine company and country, 2013 (%)

	Leaders	MS	Origin
China	Changyu	8.83	China
	Hebei Winery	8.20	China
	Dynasty	1.77	China
	Dragon Seal Wine Co	1.70	China
	C4	**20.51**	
Denmark	Concha y Toro	3.07	Chile/ International
	Winecorp	2.92	South Africa
	Accolade	2.76	Australia/ International
	Val D'Orbieu	1.78	France
	C4	**10.53**	
Germany	Peter Mertes	3.97	Germany/ International
	Rheinberg	2.35	Germany
	ZGM	2.17	Germany
	Andreas Oster	1.74	Germany
	C4	**10.23**	
Hong Kong	Treasury	6.19	Australia
	E & J Gallo	4.41	USA/international
	Constellation	3.14	USA/international
	Baron de Rothschild	1.61	France/ International
	C4	**15.34**	

	Leaders	MS	Origin
Japan	Kirin	10.64	Japan/international
	Beam Suntory	7.20	Japan/international
	Concha y Toro	3.26	Chile/ International
	The Wine Group	2.97	USA
	C4	**24.07**	
Russia	MMVZ	2.05	Russia
	Concha y Toro	1.17	Chile/ International
	Inkerman	1.06	Ukraina
	Magnit	1.05	Russia
	C4	**5.32**	
UK	Accolade	6.37	Australia/ International
	Constellation	5.21	USA/international
	Concha y Toro	4.80	Chile/ International
	Diageo	4.33	USA/international
	C4	**20.71**	
USA	E & J Gallo	19.08	USA/international
	The Wine Group	13.76	USA
	Constellation	11.62	USA/international
	Trinchero	4.73	USA
	C4	**49.19**	

Source: based on IWSR data

The results of the analysis highlight:

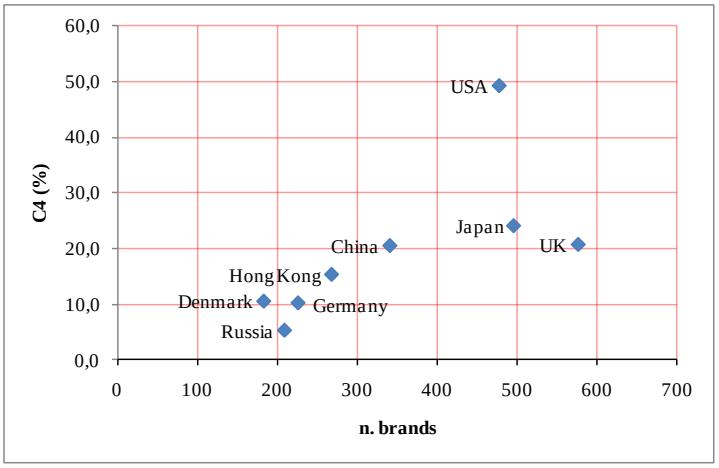
- The existence of two extreme situations: Russia on the one hand, with the lowest concentration (C4 = 5.3%); and the US on the other, with the highest C4 (49.2%);
- In three countries (China, Germany, USA), the first four leading companies are domestic wine companies;
- In all case study countries that are wine producers (China, Germany, Japan, Russia, USA), the market leader is a local wine company (but not necessarily producing all wine from local grapes);
- In six countries, at least one company among the top four is a global wine market player (Denmark, Hong Kong, Japan; Russia, United Kingdom and USA). Moreover, it is interesting to note that in Hong Kong all top four leading companies are “big players”, while in China none is;
- Among “big players”, the Chilean Concha y Toro appears with greatest frequency among the top four wine companies (in Denmark, Japan, Russia and the United Kingdom);
- With the exception of Germany, EU wine businesses (i.e. French) appear among the top four in two countries only (Denmark and Hong Kong).

Overall, EU wine companies appear to have limited total market power.

Contrary to what might be expected, there is not an inverse relationship between the level of C4 and the number of brands. The most significant case is observed for the US (Fig. 43).

An explanation of this phenomenon is that (as it will be discussed later), the major companies have a (more or less) wide brand portfolio.

Fig. 43: C4 of wine companies and number of brands in the examined country markets



Source: analysis of IWSR data

5.5.3.3 Market shares of the "big players" in consumer countries

Beyond the four market leaders (C4), it is useful to broaden the analysis to the market power of all big players in order to interpret the competition dynamics in each examined market. In particular, it is interesting to examine the strategic orientation of such players across the different country markets.

Tab. 13 shows the market share of the major global players, of which six European and six non-European companies, in the case study countries.

Tab. 13: Market shares of the major global wine companies in the case study countries (bottled wine volume; %), 2013

		China	Denmark	Germany	Hong Kong	Japan	Russia	UK	USA
Costellation	(USA)	0.03	0.85	0.06	3.14	0.30	0.41	5.21	11.62
E&J Gallo	(USA)	0.47	0.23	0.40	4.41	2.76	0.27	3.02	19.08
Treasury Wine Estates	(Australia)	0.13	1.55	0.02	6.19	0.33	0.01	4.12	3.86
The Wine Group	(USA)				1.60	2.97	0.07	0.15	13.76
Accolade	(Australia)	0.09	2.76	0.03	0.90	0.59	0.04	6.37	0.23
Concha y Toro	(Chile)	0.29	3.07	0.13	1.55	3.26	1.17	4.80	1.66
Pernod Ricard	(France)	0.13	0.52	0.05	1.23	0.26	0.06	2.36	0.55
Diageo	(UK)	0.01		0.00	0.01	0.15	0.00	4.33	1.15
LVMH	(France)	0.01		0.00	0.57	0.10	0.00	0.04	0.10
Torres	(Spain)	0.03	0.60	0.08	0.15	0.15	0.00	0.29	0.03
Baron de Rothschild	(France)	0.16	0.29	0.17	1.61	0.42	0.15	0.15	0.10
Freixenet Group	(Spain)	0.06	0.00	0.37		1.41		0.05	0.07
Tot 12		1.35	9.87	0.95	21.35	11.28	2.18	30.83	52.13

In red market shares >2%

In the UK, the market share of Pernod Ricard is prevalently from Australian wines (Jakob's Creek) and New Zealand wines. The market share of Diageo is prevalently accounted for by California wines (Blossom Hill).

Source: based on IWSR data

The following observations are based on the obtained results:

- The United States, United Kingdom and Hong Kong are the markets in which the presence of wines produced and / or marketed by global companies, especially American and Australian, is stronger. In the US, the market share of such big companies exceeds 50%, followed at a distance by Japan and Denmark.

- By contrast, in Germany, China and Russia the market share of global players is almost insignificant.
- European wine companies hold marginal market shares in all markets, the only exception being Diageo and Pernod Ricard in the UK market. However, the significant shares of this market are due to new world wines.

Therefore, as already outlined in §5.2.2 (Theme 1), the markets studied seem to belong to two quite distinct groups. The first group concentrates presence and market power of the big players. The markets of the "Anglosphere"[46], where supplier-market relationships are favoured by the existence of established economic, cultural and linguistic ties, belong in this group. The United Kingdom is, of course, the main target market of this group.

The second group represents the rest of the world, where such relationships do not exist, or exist only indirectly (e.g. Denmark[47]).

All this has an impact in terms of international competition: being an enterprise of and/or marketing wines from one of the "Anglosphere" countries may represent a competitive advantage in accessing certain markets.

5.5.3.4 Product portfolio strategies of global wine players

The fact that, as seen in the previous chapter, global players control large market shares in some markets does not mean that these are solely derived from sale of wines from the same country of origin of the company.

Tab. 14 shows the total number of brands and origin of the wines controlled by the same companies already examined in the previous chapter.

Tab. 14: Number of brands by company: total and by wine origin, 2014

		USA	Canada	Australia	New Zeeland	South Africa	South America	China	India	Europe	Others	TOTAL	% EU/Tot
Costellation	(USA)	28	59	3	11		4			7		**112**	6.3
E&J Gallo	(USA)	38		4	2	1	4			10		**59**	16.9
Treasury Wine Estates (1)	(Australia)	12		36			2			2		**52**	3.8
The Wine Group	(USA)	12		2			2			1		**17**	5.9
Accolade (2)	(Australia)	7	1	16	7	3	1			2		**37**	5.4
Concha y Toro	(Chile)	1					10					**11**	0.0
Total non EU big players		**98**	**60**	**81**		**4**	**23**	**0**	**0**	**22**	**0**	**288**	**7.6**
Pernod -Ricard	(France)	1		2	4	1	6			6	2	**22**	27.3
Diageo	(UK)	11				1				1		**13**	7.7
LVMH	(France)	2		2	1		4	1	1	9		**20**	45.0
Torres	(Spain)	1					11			26		**38**	68.4
Baron de Rothschild	(France)	1					4			7		**12**	58.3
Freixenet Group	(Spain)	1		1			2			17	1	**21**	81.0
Total EU big players		17	0	5	5	2	27	1	1	66	3	**126**	**52.4**
TOTAL		**115**	**60**	**86**		**6**	**50**	**1**	**1**	**88**	**3**	**414**	**21.3**

1) In April 2011, 99% of Fosters Group shareholders agreed to split Fosters Group business into separate brewing and wine companies. The scheme of arrangement for the demerger of Treasury Wine Estates from Foster's Group was implemented 20 May 2011.

2) In January 2011 Constellation Brands Inc divested 80% of Constellation Wines Australia along with its sister company, Constellation Europe, to the Australian private equity company, CHAMP. On June 2011 Constellation Wines Australia and Constellation Europe were jointly renamed Accolade Wines.

Fonte: Companies Web Sites

[46] The Merriam-Webster dictionary defines the Anglosphere as "the countries of the world in which the English language and cultural values predominate".

[47] The IBWTI (see §5.5.1.3), shows that the Danish market is key for UK wine exports. As the UK is not a wine producer country, these clearly are re-exports, most probably including wines/brands from the product portfolios of the big players operating in this country.

As shown in Tab. 14:

- All companies (European and non-European) have European brands in their portfolios, with the only exception of the Chilean Concha y Toro;
- Overall, the percentage of European brands on the total number of brands is just over 21%;
- European brands account for almost 8% of the total number of brands of the six non-European wine companies. However, about 17% of the brands controlled by the American E&J Gallo are European;
- European brands represent only about 52% of the total number of brands of the six European wine companies, down to 8% for the British Diageo.

The results, therefore, show that all the major global wine companies develop a portfolio that includes brands from all main production areas of the world, although the incidence of an area rather than another is a function of the company's headquarters (greater relative weight of US wine brands for US companies, greater relative weight of Australian wine brands for Australian companies, etc.)

This strategy allows the big players (non-European and European) to facilitate their access to distribution[48], and cater, to various extents, to the different target markets. The consequence is that the composition of consumption of wines by country of origin in the various markets is also the result of this strategy. In principle, the impact is more significant where the share of the market controlled by the big players is large.

However, most companies do not exploit the power generated by the width of their product portfolios in the same way everywhere. It seems that, depending on the market, they adopt different strategies for selection of brands to be offered to the consumer, most likely in agreement with importers / distributors[49].

Next, we extracted from the IWSR database[50] the number of brands (different countries of origin) of the product portfolios of the big players in the various markets (see Tab. 15).

[48] As it will be pointed out later in §6.2.1, the width of the range on offer is one of the key factors of competitiveness for wine firms.

[49] It will be shown later in the analysis of Theme 2 (§6.2.3 - MicMac) that ability to closely interact with importers/distributors represents a key factor of competitiveness for wine firms.

[50] Once again, keeping in mind the concerns expressed with regard to the IWSR survey approach (§5.5.3.1).

Tab. 15: Number of wine brands by country of origin marketed by the major global wine companies in the case study markets - 2013

	China		Denmark		Germany		Hong Kong		Japan		Russia		UK		USA	
	Origin	N. br	Origin	N. br	Origin	N. br	Origin	N. br	Origin	N. br	Origin	N. br	Origin	N. br	Origin	N. br
Accolade	Aus	8	Aus	2	Aus	2	Aus	2	Aus	6	Aus	1	Aus	7	Aus	4
(Australia)	US	1			Int	1	US	1	US	1			SAfr	2	US	2
	NZee	1							SAfr	1			Chile	1		
													NZee	1		
													Int	1		
Total	3	10	1	2	2	3	2	3	3	8	1	1	5	12	2	6
Constellation	US	4	US	3	US	3	US	4	US	10	US	3	US	10	US	40
(USA)	NZee	1	Ita	1	Ita	1	Ita	1	Ita	1	Ita	1	Ita	1	Ita	1
	Ita	1	NZee	2	NZee	1	NZee	3	NZee	2	NZee	1	NZee	6	NZee	4
	Can	1	SAfr	1			SAfr	1	SAfr	1	SAfr	1	SAfr	1	Can	2
													Can	2	Ger	1
															Arg	1
															Fra	1
Total	4	7	4	7	3	5	4	9	4	14	4	6	5	20	7	50
E & J Gallo	US	4	US	2	US	1	US	3	US	10	US	2	US	4	US	24
(USA)															Ita	3
															Fra	1
															Aus	1
															SAfr	1
															NZee	1
Total	1	4	1	2	1	1	1	3	1	10	1	2	1	4	6	31
Treasury	US	1	US	1	US	1	US	2	US	2	US	1	US	1	US	6
(Australia)	Aus	7	Aus	4	Aus	4	Aus	8	Aus	10	Aus	5	Aus	11	Aus	8
	NZee	1					NZee	1	NZee	3			NZee	1	NZee	1
													SAfr	2	Ita	1
													Ita	1		
Total	3	9	2	5	2	5	3	11	3	15	2	6	5	16	4	16
The Wine Group	US	1					US	2			US	1	US	3	US	10
(USA)											Arg	1	Aus	1	Aus	1
															SAfr	1
															Fra	1
Total	1	1	0	0	0	0	1	2	0	0	2	2	2	4	4	13
Concha y Toro	US	1	US	1	US	1	US	1	US	1	US	1	US	4	US	8
(Chile)	Chile	5	Chile	5	Chile	6	Chile	5	Chile	4	Chile	4	Chile	8	Chile	5
	Arg	2	Arg	1	Arg	1	Arg	2	Arg	2	Arg	1	Arg	3	Arg	2
Total	3	8	3	7	3	8	3	8	3	7	3	6	3	15	3	15
Pernod Ricard	NZee	1	NZee	2	Spa	1	NZee	1	NZee	2	NZee	1	NZee	5	NZee	2
(France)	Spa	2	Spa	2	Aus	2	Aus	2	Spa	2	Spa	1	Spa	9	Spa	2
	Aus	2	Aus	1			SAfr	1	Aus	2	Aus	1	Aus	2	Aus	2
			Arg	1					Arg	2	Arg	2	Arg	3	Arg	2
			Chile	1					US	1	SAfr	1	SAfr	1	SAfr	1
									SAfr	1	Bulg	1	Hung	1	US	2
									Fra	1			Ita	1		
Total	3	5	5	7	2	3	3	4	7	11	6	7	7	22	6	11
Diageo	US	2			Turk	1	US	1	US	3	Arg	2	US	3	US	8
(UK)	Fra	1							Por	1			Fra	1	Arg	2
									Fra	1					Nzea	1
															Ita	1
Total	2	3	0	0	1	1	1	1	3	5	1	2	2	4	4	12
LVMH	Aus	2			NZee	1	Aus	2	Aus	2	NZee	1	Aus	1	Aus	2
(France)	NZee	1			Arg	1	NZee	1	NZee	1	Arg	1	NZee	1	NZee	1
	US	1					US	1	US	1			Arg	1	US	2
	Arg	1					Spa	1	Arg	1					Arg	1
							Arg	1								
Total	4	5	0	0	2	2	5	6	4	5	2	2	3	3	4	6
Torres	Chile	1	Chile	1	Chile	1	Chile	1	Chile	2	Chile	1	Chile	1	Chile	1
(Spain)	Spa	1	Spa	1	Spa	1	Spa	1	Spa	1	Spa	1	Spa	1	Spa	1
Total	2	2	2	2	2	2	2	2	2	3	2	2	2	2	2	2
Baron de Rothshil	Chi	2	Chi	1	Chi	2	Chi	3	Chi	2	Chi	2	Chi	1	Chi	2
(France)	Arg	1	Fra	2	Fra	2	Fra	3	Fra	2	Fra	1	Fra	2	Fra	2
	Fra	2					Arg	1								
Total	3	5	2	3	2	4	3	7	2	4	2	3	2	3	2	4
Freixenet Group	Aus	2	Spa	1	Spa	2			Fra	4			Spa	2	Arg	1
(Spain)	Spa	3	Fra	1					Spa	8			Fra	1	Aus	1
	Fra	2							Aus	2					US	1
	Arg	1							US	1					Spa	3
									Arg	2						
Total	4	8	2	2	1	2	0	0	5	17	0	0	2	3	4	6

EU wines in red

Source: based on IWSR data

We observe that:

- With regard to non-EU wine companies, American and Australian companies offer a wider range of brands in the US and UK markets than in the other markets. The Chilean Concha y Toro is present on all markets with wines from the same countries of origin, but again with a larger number of brands in the UK and the US markets;

- Among European wine businesses, Pernod-Ricard supplies a very wide variety of brands in terms of country of origin in most consumer markets, with the largest number of brands in the UK market. Other companies such as Torres and Baron de Rotschilds are present in practically the same way in all (or most) examined markets.

Finally, it is important to note that the strategy of expansion of product portfolio composition is no longer a prerogative of big players alone, but it is now implemented by smaller size wine companies.

Overall, IWSR data show that, in 2013, 37 companies (out of a total of 879, including the big players) has a product portfolio comprising wines from both EU and non-EU countries (Tab. 16).

Tab. 16: Wine companies marketing EU and non-EU wines, 2013

Accolade	Langguth
Altia	LVMH
Baron de Rothschild	Michel Rolland
Beam Suntory	Off-Piste Wines
Bibendum Wines	Pernod Ricard
Binderer St. Ursula	Peter Mertes
Boisset	PLB
Boutinot	Racke
Castel	Remy Cointreau
Codorniu	Ridge Winery
Constellation	Sogrape
Diageo	The Wine Group
E & J Gallo	Thierry's
Franco Espanolas	Torres
Freixenet	Treasury
Grands Chais De France	United Wineries
Itoyokaido	Waverley Wines & Spirits
Jebsen	10 International
Kirin	

Source: IWSR

5.5.4 Related and supporting industries

With regard to this group of factors, we adapted the Porter's Diamond framework to focus on public co-financing programmes for promotional activities. This aspect is obviously inter-related to the "Government" group of influencing factors (see next section). However, we have placed them in this particular group of influences since it is financial support to businesses at variable rates of public/private co-financing.

This part of the analysis also considers the effects of recent technological developments in wine bulk packaging and transportation on supporting industries, in wine producer as well as in consumer countries.

5.5.4.1 Co-financing programmes for wine companies in producer countries for promotion on consumer markets

The analysis aims to verify the existence and extent of co-financed programmes for promotional activities in the EU and its main competitors.

In the EU these activities are funded under the "Promotion on third-country markets" measure witin the wine CMO reformed in 2008, and the co-financing rate is 50%. Tab. 17 shows the budget used for this measure for the 2009-2013 period and the budget planned for 2014-2018. In addition, for the years 2009-2013 we have estimated the average budget for a 12-bottle case (9 litres) of exported wine.

Tab. 17: European Commission financial support for the wine promotion measure (Financial execution 2009-2013; Financial table 2014-2018, million Euro)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total budget	35.18	87.2	111.65	142.52	145.43	227.22	231.72	232.72	234.59	234.59
Euro/ Case (estimate)	0.20	0.39	0.46	0.59	0.66	n.a.	n.a.	n.a.	n.a.	n.a.

Source: EC-DG Agri, Comext

With regard to the EU main competitors, Tab. 18 summarises the financing of promotional activities in 2009, including the rate of co-financing, where applicable.

Tab. 18: Financing of promotional initiatives by national or regional organisations in NWCs

	Wine Australia	Wine Institute of California	Wines of Argentina	Wines of Chile	Wines of South Africa	NZWG New Zealand
Own offices	8	8	1	3	2	2
Countries Represented	>25	17	6	5	6	4
Financing	Tax on grapes and export (53%) User-pays and sales of services (47%)	Wineries by size and Dept. Of Agriculture	50% Governement (CFI $ Coviar) and 50% User-pays	35% Governement and 65% User-pays	95% tax (Re7/Lbt RE5/Lbu), 5% additional Governement	Tax (€ 1.25 per liter-0.75 per kg)
Total 2009 budget (Millions of USD)	11.9	7.3	7	6	4.1	3.6
Total 2009 budget (USD/ Case)	0.231	0.321	0.293	0.141	0.151	0.351

Source: Vinos de Chile. 2010 based on information from Meininger's WBI, 02/09

Finally, Tab. 19 summarises the evolution of the budget made available to Chilean wineries within the Strategic Plan 2020 and estimated average expenditure for a 12 bottle case of wine under this plan.

Tab. 19: Strategic plan 2020 of Chile: Projected investment in Marketing and promotion - wineries

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total budget (Millions of USD)	7.54	11.18	11.91	11.26	11.72	12.65	14.19	15.02	16.66	17.44	19.02
USD/ Case (estimations)	0.17	0.23	0.23	0.21	0.21	0.21	0.22	0.22	0.23	0.23	0.24

Source: Wines of Chile strategic plan 2020

The observation of Tab. 18 and Tab. 19 shows that, overall, the EU measure for promotion on third country markets entails a significantly larger average expenditure per 12 bottle case than that of each competitor.

Therefore, from the point of view of marketing support to businesses, the EU has a potential competitive advantage that acts directly in consumer markets, both in terms of rivalry between businesses and in terms of orientation of market demand. For the latter, the role played by promotional activities is closely linked with one of the key factors of competitiveness identified, as it will be seen in subsequent analysis of Theme 2.

5.5.4.2 Technological innovation in bulk wine packaging and transportation

Technology improvement in wine packaging, namely the introduction of the Flexitank for transportation of wine in bulk (replacing steel containers), has had key consequences for international wine trade (previously illustrated in §5.2.6). In particular, it has contributed, starting in 2007, to a gradual substitution of bottled wine with bulk wine exports for some of the major wine exporting countries such as Australia, the US and South Africa.

The use of flexitanks has two important positive effects: the flexitank preserves wine quality and lowers costs. For some countries of destination, cost reduction concerns transportation, in addition to a decrease in bottling costs. In other countries, bottling at destination increases costs, however the reduction in transportation costs compensates for such an increase. An important consequence of cost reduction for bulk wine exporters is not so much a reduction in the price to the final consumer, but rather an increase of profit margins for importers-distributors, who are key for gaining access to any market. This may well provide a competitive advantage to bulk exporters.

In addition, use of flexitanks can broaden the spectrum of target markets for exporters and help eliminate constraints of "market proximity".

A further consideration must be made concerning the possible impact of technological innovation on supporting industries of wine producing countries. As discussed in §5.2.6, increased exports of bulk wine in flexitank entails a transfer of bottling operations from wine producer to consumer countries with negative effects on the glass and bottling/packaging industries in the former countries and corresponding positive effects on the latter countries.

5.5.5 Government (Central policies of producer and consumer countries)

Under this group of influence factors, we analyse three aspects that are particularly significant with regard to wines competitiveness on the international arena.

A first aspect concerns the policies of taxation of alcoholic beverages in consumer countries, notably for still wines. A second aspect concerns bilateral trade agreements between producing and consuming countries to facilitate market access. Finally, a third aspect concerns the strategic plans of governments (or other

institutions) of producing countries, aimed at improving the efficiency of the supply chain and the competitiveness of wine products (including a range of policies).

5.5.5.1 Tax regimes in consumer countries

Tab. 20 summarises the tax system applied to wine in the main EU wine import countries, including the three case study Member States.

All monetary values, originally expressed in national currencies, are converted into Euros using the average exchange rate for the year 2013.

Tax regimes are quite differentiated across the examined countries. The reasons for such differences range from protectionism of domestic wine and/or other locally produced alcoholic drinks (beer, spirits, etc.) to prevention of alcoholism, or again environmental reasons (taxation on recycling). Tab. 20 shows import duties and other fees for imported wines and consumer taxes currently applied across countries.

Tab. 20: Fiscal policy and taxation in the most important country markets for EU wine exports

		Import duty	Customs clearance tax / Harbour Maintenance Fees	Merchandise Processing Fees	VAT	Excise duty	Tax on packaging	Note
China	Bottled wine	14%	0		17%	10%		Total tax = ((Import duty+ VAT + Exise duty + (Import Duty*VAT))/(1-Excise Duty)
	Bulk wine	20%	0		17%	10%		
Honk Kong	Bottled wine	0%	0		0%	0%		
Japan	Bottled still wine (2 lt or less)	15% (or 0.96 €/lt, whichever is lower with a minimum of 0.52 €/lt)	0		8%	0.617 €/lt		
	Bottled still wine (2 lt to 150 lt)	15% (or 0.96 €/lt, whichever is lower with a minimum of 0.52 €/lt)	0		8%	0.617 €/lt		
	Bulk wine (> 150)	0,35 €/lt	0		8%	0.617 €/lt		
Russia	Bottled still wine	18.1% on CIF (^)	0,15 % on customs value (*)		18%	0.16 €/lt (°)		(^) in 2013. (*) 0,10% in Rubles and 0,5% in foreign currency. (°) 0.16 €/lt in 2013, 0.19 €/lt in 2014; 0.21 €/lt in 2015 Average exchange rate 2013 R/€ 0.02362
	Mosts and bulk wine	5% on CIF (^)	0,15 % on customs value (*)		18%	0.16 €/lt (°)		
United States	Bottled still wine	from 0.033 €/lt to 0.169 €/lt (°)	0.125% AV	0.21% on FOB min 18.8 €; max 365 €	From 0 to 9.45% (^)	FET: Still wine < 14% : 0.16 € bottle 0.75 lt (=) SET: from 0.04 €/lt to 0.50 €/lt (^)		(°) Customs duties apply according to the nomenclature of the product (^) State excise taxes and Sales taxes on wine vary according to the State (=) Federal Excise Tax ax for still wines varies according to alcohol content. Average exchange rate 2013 $/€ 0.75294
	Bulk wine	0.063 €/lt	0.125% AV					
Singapore	Still wine	0			7%	10% vol : 5.29 €/lt 11% vol: 5.86 €/lt 12% vol: 6.34 €/lt 13% vol: 6.90 €/lt		Average exchange rate 2013 SGD/€ 1.177503
Norway	Still wines 4.75-22% vol				25%	10% vol : 5.82€/lt 11% vol: 6.40 €/lt 12% vol: 6.98 €/lt 13% vol: 7.56 €/lt	Bottles : 0.67 € Bag.in-Box. 1.30 €	Average exchange rate 2013 NOK€ 0.1280949
Australia	Still wines > 1.15 % vol	5% AV		WET: 29% AV (°)	10%	10% vol : 5.58 €/lt 11% vol: 6.14 €/lt 12% vol: 6.70 €/lt 13% vol: 7.26 €/lt		(°) WET is calculated on the taxable value of sales, imports and applications to own use. Generally applies to the last wholesale sale Average exchange rate 2013 AUD/€ 0.7258
Canada	Still wine < 13.7% vol	0.0137 €/lt				0.453 €/lt		Average exchange rate 2013 CAD/€ 0.7258
Denmark	Still wines 6-15% vol				25%	0.824 €/lt	40 to 60 cl: 0,00 € 60 to 110 cl.: 0,21 € 110 to 160 cl.: 0,32€ >160 cl.: 0,43€	
Germany	Still wine				19%	0		
UK	Still wines 5.5-15% vol				20%	3.14 €/lt		Special Tax (excise) based on "The Alcoholic Liquor Duties Act" of 1979 Average exchange rate 2013 £/€ 1.177503

Source: ICEX, ICE, Sud de France Développement, OECD and other national sources

The observation of Tab. 20 shows the following main differences across countries:

- Import duties: Hong Kong and Singapore do not apply any import duties; In addition, low duties are applied by the USA, Canada and Australia; in contrast, very high tariffs are applied in Russia, Japan and China. With regard to types of wine, Russia, USA and Japan apply a lower import duty to bulk wine compared to bottled wine. The opposite is observed for China.
- Excise duty is particularly high in Singapore, Norway, Australia and the UK (but also in Denmark) and is calculated on sales value (not as a percentage). In contrast, no excise duty is applied in Hong Kong and in Germany.
- VAT: Denmark and Norway apply the highest Value Added Tax, in contrast to Japan, USA and Singapore, where VAT is relatively low. Hong Kong does not apply this tax at all.

In theory, the level of taxation applied in the examined countries should not generate competitive advantages for different types of wine and different origin, it should only have an effect on the size of demand at aggregate level[51]. As an example, Tab. 21 shows the consumer price of the same wine in different country markets. The important price differences observed influence demand in terms of targets (socioeconomic groups) and sale volumes (as a result of the first effect).

Tab. 21: Formation of wine market price (€/bottle)

	China		Russia		United Kingdom		Germany	
Ex-works price		2.00		2.00		2.00		2.00
Trasportation cost		1.10		0.50		0.18		0.20
CIF price		3.10		2.50		2.18		2.20
Price + Customs duties	14%	3.53	20%	3.00	0%	2.18	0%	2.20
Price + Excise duties	10%	3.89	0.40 €	3.40	2.42 €	4.60	0%	2.20
Price + VAT	17%	4.55	18%	3.98	20%	5.38	19%	2.57
Price + Importer's margin	25%	5.69	80%	7.16	10%	6.73	10%	3.22
Price + Retailer's margin	50%	8.53	40%	10.02	32%	10.09	32%	4.83

Source: Based on ICEX, 2012, 2013.

In reality, the situation is more complex, with different tax systems de facto generating competitive advantage for certain types of wine.

In countries (such as the UK) where the Excise Duty is not in line with the value of production, but is applied to volume unit, it is not worth buying low-priced wines: the incidence of the excise duty on the consumer price is exaggerated compared to high price/quality wines[52]. Therefore, in these countries, wines of low price/ quality are virtually absent from the market. As a result, this severely limits the access to the market for wines originating from countries/regions[53] specialized in the production of wines for the mass market[54].

A concrete example provided in Tab. 22 for the UK helps to clarify this concept.

Tab. 22: Price formation for wines of different price at origin and final price/price at origin ratio (£)

Consumer cost per bottle	Retailer margin	Excise duty	VAT	Packaging	Logistics	Money for wine	Consumer cost /Money for wine
5.0	1.09	2.05	0.83	0.36	0.20	0.47	10.64
7.5	2.03	2.05	1.25	0.36	0.20	1.61	4.66
10.0	2.85	2.05	1.67	0.36	0.20	2.87	3.48
20.0	6.89	2.05	3.33	0.36	0.20	7.17	2.79

Source: Bibendum, 2014

5.5.5.2 Multilateral and bilateral trade agreements between producer and consumer countries

This part of the analysis aims to assess whether a relationship exists between wine import trends and free trade agreements (FTA) of the top importers of bottled wine at global level (including the country markets analysed as case studies) with the most important exporters (EU, NWC, Western Balkans and Caucasus).

[51] In general, taxation represents an obstacle for market demand growth, especially in the low income segments of the population. However, for the high-income segments that are sensitive to the "status" content of wines, the opposite may be true. In Russia, for example, the elasticity of demand to price is positive for Top Range wines. Paradoxically then, wine demand grows with increasing consumer prices (i.e. Veblen effect. See Russia Case Study monograph).

[52] In other words, the consumer would spend a disproportionate amount in taxes for low quality wines compared to high quality wines, which would make purchase irrational.

[53] For example, low price/quality wines of Italy (Sicily, Apulia), Spain (Castilla-La Mancha) and France (Languedoc-Roussillon).

[54] In this respect, we can recall the differences between the UK market and the German market previously mentioned.

A summary of existing FTAs (bi- and multi-lateral) including wine is presented in Tab. 23.

Tab. 23: Free Trade Agreements with reduced or zero import duties

			Main wine consumer markets										
		→	EU	China	Russia	USA	Japan	Canada	Switzerland	Norway	Australia	Singapore	Brazil
Main market competitors	European Union					•	•	*•	1999 (customs duty 8.5CHF/100 kg gross weight)	Since 1994 Norway is part of EEA (duty free)°°		X	•
	NWC	Argentina	•										1991 (duty free)^
		Australia		•		2004 (tariff phasing-out over 11 years)	2014 (immediate tariff phasing-out for bulk, gradual for bottles)					2003 (immediate tariff abolition on all goods)	
		Chile	2002 (tariff phasing-out over 4 years except denominations protected by EU)	2006 (tariff phasing-out over 10 years to 2015)		2004 (tariff phasing-out over 11 years)	2007 (tariff phasing out over 12 years)	1997 (tariff phasing out - duty free by 2003)	2004 (wine is not included in FTA)°°	2004 (wine enters duty free)°°	2009 (Chilean wines face 5% import tariff. Tariff to be eliminated by 2015)		1996 (duty free)^^
		New Zealand		2008 (wines enter duty free since 2013)	•						1983 (duty free since 1990)	2001 (immediate tariff abolition on all goods)	
		South Africa	1999 (duty free quota)						2008 (immediate duty-free access)°°°	2008 (immediate duty-free access)°°°			
		USA	•					1994 (NAFTA)			2004 (US wines face 5% import tariff)	2004 (duty free)	•
	Western Balkans	Bosnia-Herzegovina	2008 (duty free quota)						X°°	X°°			
		FYROM	2001 (duty free quota)						2002 (MFN duty rate minus 17.50 CHF/100 kg gross for still wine)°°	2002 (Duty free)°°			
		Montenegro	2007 (duty free quota)						2012 (duty free for still wines)°°	2012 (duty free)°°			
		Serbia	2010(duty free quota)		2000 (only 1% customs record keeping tariff for still wine)				2010 (duty free for still wines)°°	2011 (duty free)°°			
	Caucasus	Armenia	X										
		Georgia	X		1994 (Embargo imposed in 2006, lifted in 2013)								
	Former Soviet Republics	Moldova	X°		1993 (Ban on wine imports in Sept 2013)								
		Ukraine	X						2012 (0.3 or 0.4 €/litre for still wines; 7 years phasing-out)°°	2012 (duty free)°°			

* MFN at 0% except for Icewine and 4-5 other wines
• Negotiations for FTA between China and Australia are ongoing
• Negotiations for FTA between USA and EU are ongoing (Transatlantic Trade and Investment Partnership - TTIP)
• Negotiations for FTA between Japan and EU are ongoing
• Negotiations for FTA between Canada and EU are ongoing (Comprehensive Economic and Trade Agreement - CETA)
• Negotiations for FTA between NZ and Russia-Belorus and Kazakhstan started in 2010, then halted in Feb 2014 because of Ukraine-Crimea crisis
• Negotiations for FTA between EU and MERCOSUR are ongoing (Argentina, Brazil)
• Agreement on Trade and Economic Cooperation was signed between USA and Brazil in 2011
° FTA with Moldova including wines will become effective at beginning of 2015
°° FTA through EFTA (often added bilateral agreement on food products)
°°° Bilateral FTA with Southern African Customs Union (SACU)
^ Mercosur
^^ Agreement of Chile with Mercosur
X FTA signed but not yet applied

Sources: EU - DG Trade (Market Access Database), WTO and National Governmental Trade Departments

Horizontal analysis of Tab. 23 shows Chile as the producer country that has developed more bilateral agreements with wine consumer countries (in practice, with all considered countries, except Russia and Singapore). Vertical analysis of Tab. 23 highlights the European Union as the consumer "country" that has developed more bilateral agreements with wine producing countries.

Within existing trade agreements, a distinction needs to be made between those specific to wine (or wine and spirits), such as between the EU and the US (2006) and the EU-Australia (2009) and those that include a number of sectors (agricultural or/and non-agricultural) or cover not only goods, but also services and investments, such as China-Chile and China-New Zealand FTAs. For the latter types, it can be argued that rules for wine may acquire or lose importance (in relative terms) depending on the economic importance of other sectors covered by the agreements, as trade-offs between different types of traded goods (or services) are likely to occur.

Distinction should also be made between trade agreements specifically aimed at tariff reduction and those specific for or including mutual recognition of Geographical Indications (GIs), oenological practices, protection of traditional terms and labelling. Since 1994, the EU has developed various specific agreements for protection of GIs for wines and spirits (see also §3.3.3) with other key producing countries, beginning with Australia (wine 1994, renewed 2008), Chile (wine and spirits, 2002), South Africa (wine and spirits, 2002), Canada (wine and spirits, 2003) and the USA (wine, 2006; updated 2011). The primary purpose of these agreements was to provide for the mutual recognition of specific GIs as well as phase-out the use of specific wine and spirit terms of European origin, which had acquired 'generic' status in the partner countries, in particular Canada and the USA.

At the international level, GIs are legally provided for by the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which defines GIs as "indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin"[55] and establishes a two-tier system for their protection (art.22 provides a basic level of protection for all GIs, while art.23 provides an enhanced level of protection specifically for wines and spirits). This protection system has been under negotiation within the WTO's Doha Development Agenda (DDA).

The EU has also asked for the inclusion of an annex to the TRIPS Agreement establishing a multilateral system of registration of GIs[56]. However, such initiative has not made much progress due to opposition, in particular, from the USA, Australia, Chile, New Zealand, Argentina, Canada and Japan[57]. Until the TRIPS agreement will not offer adequate protection for European GIs, the EU is seeking this objective through different types of bilateral agreements[58]. These include stand-alone agreements for wine and spirits (e.g. EU with Australia, Canada, the US[59], etc.) and as part of agreements for trade in agricultural products (e.g., EU with Switzerland); agreements with countries involved in the EU enlargement (e.g. Western Balkans and Turkey) finalised at aligning their GI systems to the *acquis*; GI specific agreements with neighbouring countries (e.g. Moldova, Ukraine, Georgia); through negotiation of FTAs with key trading partners as part of the Global Europe Strategy launched in 2006[60]; and also through commitments to GI cooperation in Economic Partnership Agreement (EPA) negotiations with African and Caribbean Countries (ACP).

5.5.5.2.1 Effects of bilateral trade agreements on wine trade

For each of the 13 most important wine import markets, we have considered imports of bottled and bulk wine between 2000 and 2012 (source: Comtrade) from the EU and the other main exporters with whom a

[55] "Protection of Geographical Indications" of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), http://www.wto.org/english/docs_e/legal_e/27-trips_03_e.htm

[56] World Trade Organisation, Geographical Indications, Communication from the European Communities, 14 June 2005, http://www.wto.org/english/tratop_e/trips_e/gi_background_e.htm (last negotiations on the multilateral register were held in 2011).

[57] They submitted a Joint Proposal on the register suggesting a mere GI database.

[58] DG AGRI Working Document on international protection of GIs: objectives, outcomes and challenges, 25 June 2012.

[59] However, the 2006 EU-US wine agreement provides for mutual protection of "names of origin" but not specifically of GIs.

[60] European Commission, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Region, Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy, COM(2006) 567, Brussels, 4 October 2006.

trade agreement is in place. The analysis of import trends, in the light of the existing trade agreements that include import tariff reduction or elimination, leads to the following observations[61]:

- In general, the analysis does not reveal obvious structural breaks or "jumps" in imports that can be connected to the implementation of trade agreements;
- However, in a few cases a more pronounced growth of imports starting after implementation of an agreement (growth that is also maintained in the following years, therefore not a market effect of some sort) suggests that trade agreements may have had an impact, as it would be expected. In most of such cases, imports increase appears to be gradual, probably moving in parallel with phasing-out of import tariffs. It is however difficult to know whether other market occurrences and/or policies may have played a simultaneous role. In synthesis, we observe that in:
  - Singapore: FTAs with New Zealand, USA and Australia have probably had some effect in boosting imports of bottled wine from these countries. In particular, Australian wine imports reach the same import levels of EU wines in 2004 and only after 2008 EU wines recover their market leadership;
  - Japan and China: FTAs with Chile has probably had an effect on bottled wine imports, as shown by more pronounced growth starting in the year right after implementation of the agreements (2006 for China and 2007 for Japan). In Japan, the impact is even stronger on bulk wine imports, with Chile overtaking the EU in 2008 and maintaining leadership in this market in subsequent years. We should not forget, though, that both markets show greater preference for European wines and Chinese imports of bottled wines from the EU grow at a much faster pace than imports from Chile and New Zealand (the only other country with which China has a bilateral agreement for wine since 2008);
  - USA: a marked increase in bulk wine imports from Australia is observed in 2005 and 2006, right after a bilateral agreement was signed between these two countries (however, imports of bottled wine stabilise from 2005 onwards after consistent growth in the 5 previous years, suggesting that there was at least partial substitution of bottled wine with bulk). An even larger leap upwards is observed between 2008 and 2009 in bulk imports from both Australia and Chile. Notwithstanding a possible impact of FTAs, this sudden leap in US bulk imports from the two countries is likely to be related to other factors, as US bulk exports (mainly towards the UK and Italy) also considerably increase over the same time interval.
- On the three EU markets (Denmark, Germany and the UK), FTAs of the EU with Chile and South Africa may have had some impact on bulk wine imports. Bulk imports from South Africa, in particular, grow quite consistently especially in the UK (but also in Denmark), however this is also an effect of substitution of bottled imports with bulk imports from this country.

As for impact of trade agreements specific for the protection of GIs between the EU and its main trade partners on wine imports from the EU, we have examined the share of of PDO and PGI wine imports over total still wine imports from the EU in three major markets: the US, Canada and Australia, between 2000 and 2013 (source: Comext).

Overall, the results do not suggest a significant impact of such trade agreements in boosting imports of PDO/PGI wines into the US and Canada. In fact, the share of PDO/PGI wines over total wine imports from the EU decreases for the US (64% on average in 2000-2002; 58% on average in 2011-2013) and remains fairly stable for Canada (60% in 2000-2002; 62% on average in 2011-2013). On the other hand, and notwithstanding year-on-year fluctuations, the share of European GI wines over total EU wines imported into Australia increases from 52% (on average 2000-2002) to 59% (average 2011-2013). This increase occurred in the years after 2008.

5.5.5.3 Support policies and regulatory measures in the EU and in NWC

The aim of this part of the analysis is to provide a synthesis of governmental (or other institutional) strategic policies to improve the performance of supply chains, market access and wine competitiveness.

[61] In the cases where FTAs are in place since the 1990s or earlier, it is impossibile to discern a relationship between import flows (which we consider from 2000 onwards) and trade agreements.

As previously illustrated, the 2008 wine CMO reform has introduced measures specifically aimed at improving competitiveness of EU wines on foreign markets (in particular, the measure "Promotion on third country markets"). However, the EU is not alone in the adoption of policies targeted to assist domestic wine industries promote their wines on international markets and develop export markets so as to improve their competitiveness[62]. In particular during the last decade, the EU's main competitors have developed specific policies to support wine marketing, market access and export initiatives.

Tab. 24: Policy measures developed by the EU and NWCs with potential effects on market access and competitiveness

	EU	USA	Chile	Argentina	Australia	New Zealand	South Africa
Wine export/promotion programmes	x	x	x	x	x	x	x
Duties and tax refunds		x					
Support to generic advertising (country brands)			x	x		x	x
Support to R&D and innovation	x		x		x		x
Control of production potential	x						
Oenological practices, labelling rules	x	x					
Geographical indications, designations of origin	x	x			x		x

Sources: EU-DG Agri, E-Bacchus, National legislation for NWC and various literature

From a vertical reading of Tab. 24, it is clear that the EU has developed measures in virtually all policy areas and more than its competitors. A horizontal examination of Tab. 24 suggests that the most popular measures are those geared to directly support exports through promotional activities (benefitting from public funding or co-funding, see previous §5.5.4), participation of industry in international trade fairs and similar. Therefore, all wine producers (EU and non-EU) compete on a par in this respect.

Some NWCs have also developed national wine brands or other initiatives such as international Wine Awards, used to promote and, thus, increase awareness of national wine products through generic advertising. Examples are the cases of New Zealand ("New Zealand Wine" brand), South Africa ("Brand South Africa") and Argentina (annual "Argentina Wine Awards" organised by Wines of Argentina).

A wine's origin is a key part of its identity, as it implies something about its style and quality. Many names of origin are used on wine labels worldwide. Some of these indicate only the wine's origin, while others combine origin, style and quality.

Examples of the first type include 696 US wines under geographical indication (most of which linked to an American Viticultural Area AVA), Australia's 78 wines under GI (Geographical Indication) and South Africa's 153 wines with geographical indication (Wine of Origin scheme) (source: DG Agri E-Bacchus).

Examples of the second type are found mostly in Europe (i.e. PDO and PGI). Similarly to trademarks, Geographical Indications (GIs) are intellectual property instruments. However, in spite of these being covered by the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), legal recognition of GIs outside Europe often requires the existence of a bilateral agreement between the EU and importing countries, as previously illustrated in §5.5.5.2.

In terms of the potential impact of this type of policy measure on EU wines access to and competitiveness on export markets, PDO and PGI can be considered, *per se*, as an asset for the image of European wines on foreign markets, in particular for wines positioned at the top end of the price/quality range. However, restrictions sometimes imposed by producers' organisations or PDO/PGI consortia in the production protocols, such as prohibition of bottling the wine outside the geographical production area (e.g. Rioja) may produce negative effects in terms of hindering market access to certain European GI wines (e.g. the Spanish wine Rioja, cannot be exported in bulk (i.e. at competitive prices) to be bottled directly at destination, thus risking loss of market share to similar wines from non-EU competitors, as illustrated in the analysis of Theme 3 – see §6.3.2). It should be mentioned, however, that for particular market segments (i.e. Top Range wine consumers with higher interest in and knowledge of high quality wines), PDO wines bottled outside their *terroir* may lose in image.

[62] See Chapters 3 and 4.

Similarly, restrictions adopted in some Member States for the use of grape varietals in labelling (e.g. Italy) may play against foreign market development in countries where the mention of grape variety is considered as a factor of competitiveness (e.g. USA and UK).

In terms of oenological practices and labelling requirements, the EU has always had overall more stringent rules than its competitors (possibly, with the only exception of the US that have a similarly developed system). This can constitute a negative factor for the development of the competitiveness of European wines on international markets (i.e. higher production costs). In some cases, however, mutual recognition of oenological practices and labelling requirements between the EU and its trade partners is in place within trade agreements (see §3.3.3).

Between 1998-1999 the most important non-EU wine producers created the World Wine Trade Group (WWTG) as "an informal group of government representatives with a mutual interest in facilitating the international trade in wine and avoiding the application of obstacles to international trade in wine" and in participating in networking and information sharing to provide better access to international wine markets.

The founding members of the WWTG are: Argentina, Australia, Canada, Chile, New Zealand, South Africa, and the United States. The Republic of Georgia acceded to the WWTG Agreements in 2010. Brazil was also a founding member, regularly attending WWTG meetings. Other countries have also participated in the meetings on a less regular basis: China, Mexico, Paraguay and Uruguay.

Within the WWTG, Australia, Canada, Chile, New Zealand and the US have signed an Agreement on Mutual Acceptance of Oenological Practices (entered into force in December 2002). The same countries with the addition of Argentina have also signed an Agreement on Requirements for Wine Labelling, entered into force in July 2010.

Control of production potential is only implemented by the EU (through restructuring of vineyards and restrictions on planting rights[63]). Given the overall expansion of vineyard areas and wine production in third countries that are the EU's main competitors in world markets (see §5.5.1.1), it could be argued that there is a risk that these measures create a constraint to further export market development for European wines.

Finally, one interesting measure is the Drawback scheme implemented by the US, as described in §4.1.2. This scheme allows for refunds, total or partial, of paid duties and taxes when an imported good is re-exported, thus allowing American companies to compete in foreign markets without the handicap of including taxes and duties in the costs. According to a recent study, under specific market conditions, the drawback scheme is believed to stimulate imports and exports of wine in bulk (Sumner et al., 2011 and 2012). The evidence provided by the analysis of import-export trends observed for US wine in bulk suggests that the drawback scheme may indeed represent a competitive factor for the US.

5.5.6 Chances

"Chances" group influences that cannot be foreseen, such as adverse climatic events that impact on production level or quality, sudden political or policy changes, economic downturns, etc.

A good example is the embargo recently imposed by Russia to EU foods as a response to Euro-American restrictions following Russia-Ukraine political tensions. Unforeseen events also occurred at different times in China, such as:

- Retaliation against European wines following imposition of a EU tax on Chinese solar panels, and investigation on subsidies to the European wine sector (antidumping);
- Measures taken against public officials lavish spending has affected the top end of the wine market: grand crus volumes have plummeted and prices have collapsed (source: IWSR).

Another example of "chance" factors is the Danish government decision to increase excise duty on wine, while lowering it on beer.

With regard to this group of influencing factors, we analyse the evolution of the relationships between exchange rates of the various competitors currencies with the Euro. In previous sections we have seen the

[63] Transitional planting rights will be replaced, from 2016 to 2030, by a new system of authorizations for vine planting (Articles 61-70 of Reg. EC No 1308/2013).

role played by exchange rates in the evolution of imports (exports from) into importing countries (exporting countries).

In fact, as it is known, the evolution of the exchange rate between the Euro and other currencies affects the relationship between the EU internal price and the world price of a certain product (in this case, wine) and, therefore, the commercial performance of European manufacturers. For example, with reference to the exchange rate EUR/USD, an appreciation of the US Dollar translates into an increase of the world price in Euros and, subsequently, an increase of domestic prices in the various markets. Higher prices stimulate supply but discourage market demand, leading to an increase in net exports. A similar mirrored effect would be expected in the case of appreciation of the Euro[64].

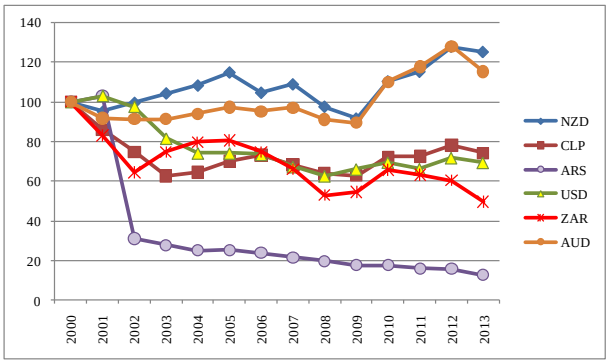
The graphs in Fig. 44 show the evolution of the exchange rate index between the Euro and the currencies of major competitiors and major trading partners (Euros per 1 unit of foreign currency: 2000 = 100).

Fig. 44 show a decidedly unfavorable evolution of exchange rates between the Euro and the currencies of our major competitors, but also the currencies of the main partners. This represents a competitive disadvantage for EU wines compared to wines from almost all new world competitors, with the exception of New Zealand and Australia. In the latter two cases, therefore, the evolution of exchange rates creates a disadvantage for their wines (compared to both EU wines and wines from all other competitors).

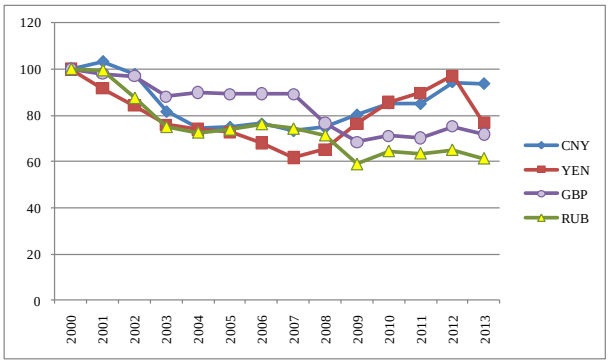
The analysis highlights the particularly dramatic slump of the Argentine Peso against the Euro (but also compared to all other currencies of competitors) between 2001 and 2002. This is due to the Peso/US Dollar parity wanted by the Argentine government, resulting in the country default in those years. In the subsequent years, the Peso/Euro exchange rate has continued to decrease, generating increasing competitive advantage for Argentinian wines.

Fig. 44: Exchange rates of the currencies of competitors and of consumer markets with the Euro (Euros per 1 unit of foreign currency) (Index: 2000=100)

Currencies of competitors / Euro



Currencies of consumer markets / Euro



NZD=New Zealand Dollar; CLP=Chilean Peso; ARS=Argentine Peso; USD=US Dollar; ZAR=South African Rand; AUD=Australian Dollar; CNY=Chinese Yuan; YEN=Japanese Yen; GBP=British Pound; RUB=Russian Ruble,

Source: calculated on the basis of Eurostat data

5.5.7 Synthesis of the results of the Porter's Diamond

In the last part of the analysis based on the Porter's Diamond, we sought to determine whether the elements of each of the six groups of factors facilitate or hinder the competitiveness of European wines compared to competitors, by giving them a score (respectively, 1 and -1, or zero in case of no impact). In addition, we tried to distinguish between wine in bottles and in bulk.

The positive or negative score is obviously "qualitative", as it originates from a subjective "value judgment" based on a synthesis of the results and the considerations (i.e. prevailing assumptions on possible impact) for each set of factors set out in the previous sections. This warning is all the more necessary given country

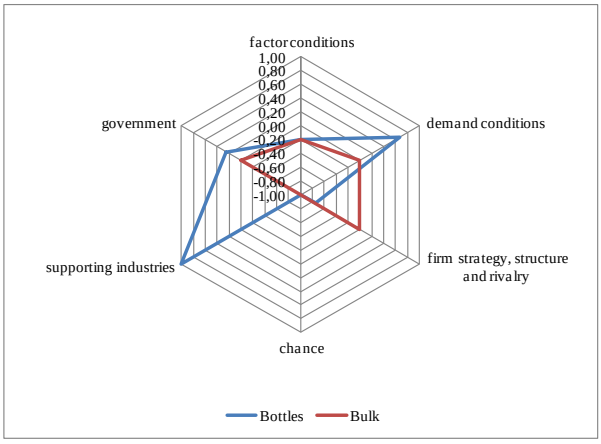
[64] For a discussion of the effects of the evolution of the Euro/US Dollar exchange rate on European agriculture, please refer to the AGMEMOD model. AGMEMOD is an econometric model developed since2001 under the EU 5th Framework Programme. A first version, continuously updated in collaboration with the European Commission (in particular the IPTS, Institute for Prospective Technological Studies) is now available. A second and more complete version (AGMEMOD2020) is being developed under the 6th Framework Programme.

differences (i.e. different context of each country market; different situations in wine producing countries, etc.)

Finally, the value judgment for each of the influencing factors is calculated as a simple arithmetic mean of the single components and represented in Fig. 45, which summarizes the factors which influence positively and negatively the competitiveness of EU wine compared to non-EU wines.

Fig. 45: Porter's Diamond: A synthesis of the results

	Bottles	Bulk
Factor conditions in producer countries		
Growth rate of vineyard planted area and production	-1	-1
Growth rate of production	-1	-1
Structural changes (vineyard restructuring, etc.)	1	1
Export propensity	-1	-1
Bilateral trade intensity	1	1
Average score for factor conditions	***-0.20***	***-0.20***
Demand conditions in consumer countries		
Population size and growth rate	0	0
GDP per capita and growth rate	1	1
Wine demand growth	1	-1
Average score for demand conditions	***0.67***	***0.00***
Firm strategy, structure and rivalry		
Number of brands in consumer country markets	0	n.a
Concentration of wine companies in consumer countries	-1	n.a
Market shares of big players in consumer markets	-1	n.a
Product portfolio of big players	-1	n.a
Average score for firm strategy, structure and rivalry	***-0.75***	***0.00***
Related and supporting industries		
Co-financed promotion programmes	1	n.a
Technology innovation in wine containers	n.a	-1
Average score for supporting industries	***1.00***	***-1.00***
Government		
Tax regimes adopted in consumer countries	0	0
Bilateral and multilateral trade agreements	-1	-1
Rules relating to designations of origin and geographical indications	1	0
Oenological practices and restrictions	1	1
Average score for government	***0.25***	***0.00***
Chance		
Changes in the euro/other currencies exchange rate	**-1**	**-1**
Average score for chance	***-1.00***	***-1.00***



Score=1 means EU wines are more competitive with respect to the factor; Score=-1 means EU wines are less competitive; Score=0 in case of no impact.

Source: Cogea

Factor conditions

In terms of structural factors, given expectations of future growth of wine consumption in the analysed country markets, the negative growth rates of vineyard area and wine production in the EU compared to positive growth rates of all competitors is likely to lead to a further decrease of EU wine market shares.

On the other hand, the restructuring and conversion of vineyards, achieved through implementation of the dedicated measure of the reformed wine CMO, stimulates recovery of EU wines competitiveness relative to competitors (i.e. through planting of varieties best suited to market demand and improved orientation towards quality wines in regions where these products are not exclusive).

In terms of commercial factors, the low propensity to export EU wines makes export activities less vital for the EU compared to its competitors (export is residual with respect to the internal market). Therefore, the EU expresses a less aggressive competitive behaviour on export markets.

By contrast, bilateral trade intensity indices show, overall, a more balanced distribution of EU exports on a larger number of consumer markets, and thus lower dependence from few vital markets (in comparison to competitors). This allows EU wines to better react to unexpected economic downturns and market risks.

Demand conditions in consumer country markets

With regard to population trends in the examined countries, all players should potentially benefit from the same market growth opportunities and, in principle, none of them should be favoured a priori.

On the other hand, significant growth of GDP per capita in countries where EU wines are leader should encourage an increase in consumption. More in general, growth of GDP should encourage consumption of quality wines (i.e. Ultra Premium and Top Range segments) where EU wines are better represented.

The observed evolution of demand is beneficial for both wines in bottle and for wine in bulk. However, changes in the transport system adopted by some New World wine exporters amount to competitive disadvantage for EU wines in bulk and to an advantage for EU wines traded in bottles.

Firm strategy, structure and rivalry (bottled wines)

All factors related to firm strategies on key consumer markets suggest that EU wines are less competitive compared to competitors. Specifically:

- The lower percentage of European brands in the analysed consumer markets translates into lower influence of European wines on consumer preferences (i.e. less choice compared to competitors).
- In terms of market concentration, European major wine companies (i.e. French) do not appear in the top four market leaders in most markets, except for two Member States (Germany, Denmark) and Hong Kong. Therefore, EU companies hold more limited market power compared to competitors.
- Compared to competitors, European wine businesses hold marginal market shares in all markets. Such market shares are in any case attained through marketing of non-EU wine brands.
- European wine companies have a percentage of non-EU wines in their product portfolios much larger than the percentage of EU wines in the portfolios of non-European companies.

Related and supporting industries

EU wines appear to have an advantage over competitors due to larger investments in promotion programmes (i.e. bottled wines) under the "Promotion on third-country markets" measure of the reformed wine CMO.

The use of new technology for transportation of wine in bulk (i.e. flexitank) by certain NWC leads to competitive disadvantage for EU wines. However, this is due to self-imposed constraints by PDO and PGI wine producers to bottling outside the production area.

Government

The different tax regimes applied in consumer countries have a greater or lesser influence on consumer demand, but they apply in the same way to wines of different origin. Therefore, they do not generate competitive advantage or disadvantage to EU wines compared to competitors, except for very few cases in which Excise Duty is calculated on sales value, as it is in the UK.

On the other hand, bilateral trade agreements that lower or abolish tariffs can generate considerable competitive advantage to country-systems. Some countries (Chile, in particular) have consistently developed agreements with a number of wine importing partners. Compared to these countries, the EU finds itself in a position of competitive disadvantage.

Overall, EU wines are in a position of advantage over individual competitors with respect to regulatory measures. In particular, measures such denominations of origin and geographical indications increase the competitiveness of European wines (at least on the EU market). In addition, the alignment of EU oenological practices with the recommendations of the OIV (less restrictive than those historically applied by the EU) can improve the competitiveness of European wines in market segments where competitors have strong presence.

Chance

With regard to exchange rates between the Euro and other currencies, their evolution over time has generated competitive disadvantage for European wines relative to most competitors.

6 THEME 2 – IDENTIFICATION OF THE KEY FACTORS OF COMPETITIVENESS

This part of the analysis aims at identifying and analysing the key factors of competitiveness within the system. By "within the system" we refer to all factors linked to product characteristics, as well as to the behaviour of wine suppliers.

6.1 PROCEDURE AND METHODOLOGY ADOPTED FOR THE ANALYSIS

The analysis was carried out only for case study countries (China, Japan, Russia, USA, Denmark, Germany, UK), separately for packaged wines (for final consumers) and for bulk wines (mainly for intermediate consumption).

The analysis comprises two distinct phases:

1- The first phase, based on information collected directly from key market players and from the literature, aims at identifying the factors of competitiveness and defining their current importance in establishing a competitive advantage. The analysis seeks to discover:

   a. The way in which EU wines currently respond to such factors, compared to wines from NWC and (if applicable) to domestic wines;

   b. A projection of the current importance of competitive factors to 2025 (to assess whether they will be more or less important compared with the current situation).

2- The second phase, based on structural analysis, aims at identifying direct and indirect cause-effect relationships among factors identified in the first phase (therefore establishing the key factors that generate competitive advantage, so-called levers, as well as passive key factors, i.e. factors depending on the activation of other factors).

6.1.1 Identification of factors of competitiveness and assessment of their importance

Survey of factors: the survey was carried out using three methods:

1- By administering a short questionnaire to interviewed key market actors, in which a series of possible factors of competitiveness were suggested. For each of the two business areas (packaged and bulk wines) the questionnaire contained two tables: the first was related to company behaviour, while the second was related to the product. For packaged wines, in the second table, we asked interviewees to express an opinion with respect to three market segments: Entry Level (EL), Medium Range (MR) and Top Range (TR)[65], in order to identify any differences in the hierarchical structure of importance of the factors of competitiveness. The questionnaire was used to collect informed opinions about the following issues:

   - the importance of proposed factors of competitiveness on the basis of an evaluation scale: Extremely important (3); Important (2); Not very important (1), Not a competitive factor (0);
   - the current competitiveness of EU wines compared to NWC and domestic wines. In this case, and only for the proposed factors, interviewees were asked to express their opinion on the basis of an evaluation scale: Better (B); Worse (W); Same (S); Do not know, do not answer (N);
   - the change of factors importance from the present situation to that expected in 2025. In this case too, and only for the proposed factors on which they had expressed an evaluation of importance, interviewees were asked to express their expectations on the basis of an evaluation scale: More important (+); Equally important (=); Less important (-).

2- By means of in-depth interviews. In this case, interviewees were asked to express spontaneous opinions regarding packaged wines, by answering the following questions:

[65] We recall that such segmentation does not represent actual price ranges, but espresses a judgment/opinion relative to price/quality levels (see §2.3).

- What are the most important criteria adopted by importers/distributors/buyers to select and decide which wines and which brands to import and distribute?
- What are the most important factors that companies must meet to distribute to: i) The on-trade business; ii) Specialist wine stores/chains; iii) Food retail chains?
- Given the segmentation of the consumer market in the Entry Level, Medium Range and Top Range, what are the most important factors that a wine must possess to be successful in each segment?

In this case too, in relation to product factors, interviewees were asked to give their views for each of the three market segments.

3- By analysing the available literature concerning the wine market in the case study countries.

Aggregation of factors of competitiveness: in particular for packaged wines, in addition to factors proposed in the questionnaire to interviewees, we obtained a rather long list of factors (for both company behaviour and product), in some cases expressed with only slight differences between them. Therefore, surveyed factors were classified on the basis of "conceptual assonance" in order to reduce their number and avoid useless repetitions.

With regard to packaged wine, the aggregation exercise allowed us to identify 41 factors of competitiveness. Subsequently, we aggregated the factors into five groups that represent the areas in which competitiveness is determined:

- factors related to bargaining power and access to distribution channels
- factors related to product
- factors related to brand
- factors related to marketing service
- factors related to positioning.

Awarding of a "score" to non-suggested factors: in order to define the importance of the factors of competitiveness in case study countries and within market segments, we had to award a "score" to "classified" factors spontaneously mentioned by interviewees and those found in the literature (product- or behaviour-related). Based on experience that spontaneous answers indicate the most important factors, we assigned a value of 3 (Extremely important) to these answers, unless the interviewees gave a different indication.

Furthermore, in the case of packaged wines, the judgement made by interviewees on factors related to the behaviour of suppliers (for both proposed factors and those spontaneously suggested) was considered the same for all three market segments (unless different indications were provided by interviewees).

Scores of factors of competitiveness indicated in analytical tables: in the analytical tables (presented in §6.2), overall scores for each factor represent an average of the scores given by individual interviewees or based on their spontaneous statements. Average values thus calculated were then rounded to the nearest figure (e.g. $\leq$1.49=1; between 1.5-2.49=2; $\geq$2.5=3).

Limitations of the analysis: due to the limited number of interviews, the results are not statistically significant and merely represent a synthesis of individual opinions. Furthermore, the awarding of scores to spontaneously reported factors and to those mentioned in the literature is, to some extent, inevitably arbitrary.

With regard to opinions expressed differentiating between the proposed market segments, we should bear in mind that the concept of Entry Level, Medium Range and Top Range segments may vary in the different market/country contexts. Therefore, the results should also be contextualised and the overall score values for all seven surveyed countries should be treated with caution.

6.1.2 Methodology used to establish cause-effect relationships among factors

In the second phase, we used structural analysis and applied the MicMac method. This method was only used for packaged wines[66]. It comprises the following steps:

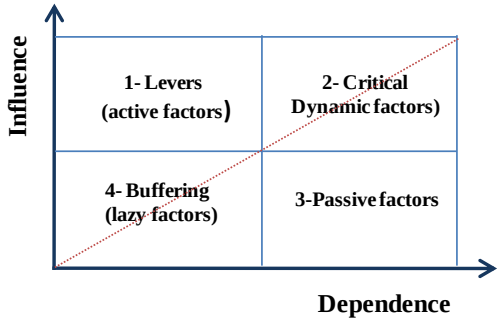
Step 1: description of the direct relations between the factors defined in the preliminary phase. Direct relationships can be represented in a matrix (Tab. 25). In this matrix, the total of the connections in a row indicates the importance of the influence of a factor on the whole system, whereas the total in a column indicates the degree of dependence of a factor. The entries in the matrix are qualitative: 0 if there is no direct relation between factors I and J, and 1 in the opposite case. Alternatively, it is possible to express the intensity of the relationships on a scale (e.g. 0 = null, 1 = weak, 2 = medium, 3 = strong).

Tab. 25: Structural analysis matrix

Effect: of ↓ on →	Fact 1	Fact …	Fact i	Fact j	…	Fact n	Σ
Fact 1							
Fact …							
Fact i				**aij**			**L**
Fact j			**aji**				
…							
Fact n							
Σ			**C**				

Step 2: The values of row and column sums are then transferred onto an Influence-dependence map, where the x-axis shows the dependence and the y-axis shows the influence (Fig. 46).

Fig. 46: Influence-dependence space map



- Sector 1 groups factors with high influence on other factors and low dependence from other factors. These are termed "levers" as they influence the analysed system more than they are influenced by it;
- Sector 2 includes factors that have strong influence on the system and, at the same time, are also strongly influenced by other factors. This means that intervention on such critical factors will be passed on to other factors within the system (i.e. the initial impact is spread and amplified);
- Sector 3 groups so called passive factors with low influence and high dependence. These factors are influenced by the analysed system more than they appear to influence the system;
- Sector 4 includes so called buffering or "lazy" factors: they are independent factors (whatever their objective importance), with no influence or dependence relationship with other factors.

Step 3: application of the MicMac method. This method, applied through a specific software, calculates the indirect relationships between the factors. Indirect relationships of the second, third ... n^{th} degree are calculated through matrix multiplication (exponentiation of the Matrix to M^2, M^3, ... M^n). From each exponentiation a new hierarchy of factors is obtained. The matrix becomes stable after a number of iterations. Therefore, the method makes it possible to prioritise the factors on the basis of their influence or their dependence, and taking into account their inter-relationships. This hierarchy of indirect factors allows us to identify factors that, thanks also to their indirect action, play a major role, which the direct ranking did not allow us to detect.

[66] For wine in bulk, the extremely limited number of competitive factors prevented the application of this analytical tool.

This method also allows us to assess the shift (displacement) of factor coordinates on the map (as well as their hierarchical structure) when moving from direct to indirect relationships.

Finally (for both direct and indirect relationships), the MicMac software allows us to render the relationships between factors into graphs that show the intensity and direction of relationships between factors.

The analysis applied to factors of competitiveness of packaged wines was carried out on two levels:

1- A general level reflecting the hypothetical situation in which all 41 factors identified in the previous survey phase are taken into consideration.

2- For each case study country and market segment (Entry Level, Medium Range and Top Range), in which only significant factors (Extremely important or Important) are taken into consideration (therefore, the number of factors analysed for each country/segment combination is <41).

Limitations of structural analysis depend on the limitations in the identification of competitive factors and on the subjective nature of the assessment of their relationships (existence of a relationship and its importance).

6.2 RESULTS OF THE ANALYSIS FOR PACKAGED WINE

6.2.1 Factors of competitiveness and their importance

Tab. 26 contains the results of our analysis for each case study country. Factors considered as "Extremely important" (score=3) and "Important" (score=2) are highlighted (red and green cells, respectively). Cells related to factors considered scarcely or not at all important (score=1 or 0) have been left empty.

Furthermore, with all possible caution, we calculated for each factor an average score for all seven case-study countries (i.e. total calculated as an average of values obtained for individual countries, rounded to the nearest figure, 2 or 3).

Tab. 26: Overview of the factors of competitiveness, classified according to their importance (total, by market segment and case study country)

		China			Japan			Russia			USA			Denmark			Germany			UK			TOTAL		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Size of the supplier (exporter or domestic)	2	2	2				2	2	2	2	2	2				2	2	2	2	2	2			
	Ability to provide volumes that satisfy demand							3	3	3							3	3	3	3	3	3			
	Ability to manage relationships with importers/distributors				3	3	3	2	2	2	3	3	3	2	2	2	3	3	3	3	3	3	2	2	2
	Intensity of PR activities with importers, buyers, ...	3	3	3							3	3	3	3	3	3	3	3	3				2	2	2
	Ability to select importers/distributors/buyers	3	3	3	3	3	3	2	2	2	3	3	3	2	2	2	3	3	3	3	3	3	3	3	3
	Exclusive sale agreements							3	3	3	3	3	3	3	3	3				3	3	3	2	2	2
	Granting of higher profit margins	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	3	3	2	2	2	2	2	2
	Organisation of customer visits at wineries				2	2	2	3	3	3	2	2	2				2	2	2						
	Brand extension		2	2		2	2	2	3	2	2	2				2	3	2	3					2	2
Factors related to product	Product quality		2	3	2	3	3	3	3	3	2	3	3		2	3	2	3	3	3	3	3	2	3	3
	Taste (Easy to drink)																3	3							
	Taste (complex to drink)																		3						
	Convenience in packaging (screw caps, PET, BIB....)				3												3								
	Label design				2	2	3			3				3	3	3									
	Price	3	3	2	3	3	2	3	3	3	3	3	2	3	3		3	2		3	3	3	3	3	2
	Origin of the product/terroir		3	2	2	2	3	2	2	2	2	2	3		2	2	2	3	3	2	2	3		2	2
	PDO-PGI popularity						3						2					3	3			2			
	Perception of product authenticity		3	3																					
	Type and quality of the packaging (presentation)		2	2	2	3	2	2	3	3	2	3	2	2	2	2	2	2	3	3	3	2	2	2	2
	Indication of grape variety		2	2	2	2	3		2		3	2		2	2	2	2	3	3	3	2	2	2	2	2
	Story to tell						3											3	3						
	Ensuring product safety				3	3	3																		
Factors related to brand	Brand building, branding							3	3	3	3	3	3			3	3	3	3						2
	Presence of brands in specialised trade magazines	2	2	2	2	2	2	2	2	2	2	2	2				2	2	2						
	Brand/Image of the product	2	3	2	2	2	3	3	3	3	3	3	3	2	2	2	2	2	3	2	2	2	2	2	2
Factors related to marketing service	Price stability	2	2	2	3	2	2	2	2	2	3	2	2	3	3	2	3	2		3	3	2	3	2	2
	Flexibility (prices, payment system,…)										3	3	3				3	3	3						
	Quality consistency over time				3	3	3	3	3	3	3	3		3			3			3	3	3	3	2	
	Offer of logistics services				3	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
	Flexible logistics management (Just-in-time)				3	3	3																		
	Width / range of wines selection (type & price)				2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	3	3	2	2	2
	Reliability / Compliance with contractual agreements / Timeliness of delivery				3	3	3	3	3	3	3	3	3	2	2	2	3	3	3	3	3	3	2	2	2
	Advertising, promotion and comunication activities directed to traders	2	2	2	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2				2	2	2
	Ability to innovations (packaging, labels)							3	3	3															
	Reactive adaptation of the product to customers' demand	3	3	3	3	3	3	2	2	2	3	3	3	3	3	3	3	3	3	2	2	2	3	3	3
Factors related to positioning	Encourage the importer to present the wines in specialised magazines										3	3	3												
	Appropriate advertising, promotion and comunication activities directed to consumers				3	3	3	3	3	3	3	3	3	3	3	3	2	2	2	2	2	2	2	2	2
	Status symbol content			3						3															
	Correct price/quality positioning	2	3	3	3	3	2	2	2	2	2	3	3	3	3		2	3	3	2	2	2	2	3	2
	Consistency in the quality/price ratio				3	3											2	2	2						
	High rating in specialised press								3	3			3						3						

"Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Source: questionnaires, interviews to market players, literature

Based on the results obtained through the analysis described above, we draw the following general observations:

- The results are strongly differentiated across countries with presence of certain factors of competitiveness only in some countries/segments, in particular, those deriving from spontaneous answers or obtained from literature. For example, "Ensuring product safety" is only mentioned in Japan and is considered extremely important for wines in all three segments. Similarly, "Flexibility" (of prices, payment systems, etc.) is a factor considered very important in the United States and Germany, but not mentioned in the other countries. On the contrary, the factor "Taste" was mentioned only in Germany ("easy to drink" for Entry Level and Medium Range wines; "complex to drink" for Top Range wines).
- On the other hand, some factors are widely mentioned in all countries. For example, "Appropriate advertising, promotion and communication activities directed to consumers" (a spontaneous answer) was considered extremely important or important in all countries (except China) and for all segments.
- In general, factors related to supplier "behaviour" are more numerous and more frequently cited compared with factors related to "product" features. Therefore, in general, the *modus operandi* of wineries/suppliers represents a critical area of the competitive strategy, although it is rather complex.

The analysis of "average" values for all case studies (notwithstanding the necessary caution in the interpretation of results, as already discussed) allows us to learn some more specific lessons, namely:

- Within factors pertaining to company behaviour, the "Ability to select importers/distributors/buyers" and the "Reactive adaptation of the product to customers' demand" are the most quoted ones and those with the highest level of importance.
- As for factors pertaining to the product, those considered most important are price and quality, as well as other factors in some way related to these two. However, not surprisingly, quality is a critical factor for Medium and especially Top Range wines, while price is a critical factor for Entry level and Medium Range segments. Medium Range wines combine (on average) price and quality factors, therefore the "Correct price/quality positioning" factor acquires an equally critical importance (and it is important, although not critical, for wines of the other two segments).
- Also linked to price and quality, stability ("Price stability" and "Quality consistency over time") is of critical importance especially in the Entry Level segment and, although to a lesser degree, in the Medium Range segment.
- With regard to product brand, on average there are no extremely important factors. However, the "Indication of grape variety" appears to be important in all segments, while "Origin of the product/terroir" is important only for Medium and Top Range wines. On the other hand, the concept of Origin (as often stated by interviewees) refers to the country (e.g. France) or to the region where it is produced (e.g. Tuscany), while the origin linked to geographical indication labels (PDO-PGI) is not, on average, an important factor of competitiveness.

A "vertical" reading of Tab. 27 shows that on average the total number of important + extremely important factors ranges from a minimum of 19 (Entry Level) to a maximum of 21 (Medium and Top Range). However, of these, only 5 (for Entry Level and Medium Range) are extremely important, decreasing to 3 for the Top Range segment. Differences observed across countries depend on the greater or lower differentiation of factors spontaneously cited by interviewees, that in turn depends on the different characteristics and complexities of individual country markets.

Tab. 27: Total number of factors of competitiveness, both "extremely important" and "important", by segment, by country and overall

		China			Japan			Russia			USA			Denmark			Germany			UK			TOTAL		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Total	4	5	5	4	5	5	8	8	8	8	8	7	5	5	5	8	8	8	6	6	6	5	6	6
	EI	*2*	*2*	*2*	*2*	*2*	*2*	*3*	*4*	*3*	*4*	*4*	*4*	*2*	*2*	*2*	*3*	*3*	*4*	*3*	*3*	*3*	*1*	*1*	*1*
	I	*2*	*3*	*3*	*2*	*3*	*3*	*5*	*4*	*5*	*4*	*4*	*3*	*3*	*3*	*3*	*5*	*5*	*4*	*3*	*3*	*3*	*4*	*5*	*5*
Factors related to product	Total	1	5	5	8	7	9	4	5	5	5	5	5	3	6	4	7	8	7	5	5	6	4	5	5
	EI	*1*	*2*	*2*	*3*	*4*	*7*	*2*	*2*	*4*	*2*	*3*	*2*	*2*	*1*	*2*	*3*	*6*	*7*	*3*	*3*	*2*	*1*	*2*	*1*
	I	*0*	*3*	*3*	*5*	*3*	*2*	*2*	*3*	*1*	*3*	*2*	*3*	*1*	*5*	*2*	*4*	*2*	*0*	*2*	*2*	*4*	*3*	*3*	*4*
Factors related to brand	Total	1	2	2	2	2	2	3	3	3	2	2	2	0	1	2	3	3	3	1	1	1	1	1	2
	EI	*0*	*1*	*0*	*0*	*0*	*1*	*2*	*1*	*1*	*2*	*2*	*2*	*0*	*0*	*1*	*1*	*1*	*1*	*0*	*0*	*0*	*0*	*0*	*0*
	I	*1*	*1*	*2*	*2*	*2*	*1*	*1*	*2*	*2*	*0*	*0*	*0*	*0*	*1*	*1*	*2*	*2*	*2*	*1*	*1*	*1*	*1*	*1*	*2*
Factors related to marketing service	Total	3	3	2	8	8	8	8	8	8	7	7	6	7	6	6	8	7	6	6	6	6	7	7	6
	EI	*1*	*1*	*1*	*7*	*6*	*6*	*3*	*3*	*3*	*5*	*4*	*3*	*2*	*1*	*1*	*5*	*3*	*3*	*3*	*3*	*2*	*3*	*1*	*1*
	I	*2*	*2*	*1*	*1*	*2*	*2*	*5*	*5*	*5*	*2*	*3*	*3*	*5*	*5*	*5*	*3*	*4*	*3*	*3*	*3*	*4*	*3*	*1*	*1*
Factors related to positioning	Total	0	1	2	3	3	2	2	3	4	3	3	4	2	2	1	3	3	4	2	2	2	2	2	2
	EI	*0*	*1*	*2*	*3*	*3*	*1*	*1*	*2*	*3*	*1*	*2*	*3*	*2*	*1*	*1*	*0*	*1*	*1*	*0*	*0*	*0*	*0*	*1*	*0*
	I	*0*	*0*	*0*	*0*	*0*	*1*	*1*	*1*	*1*	*2*	*1*	*1*	*0*	*1*	*0*	*3*	*2*	*3*	*2*	*2*	*2*	*2*	*1*	*2*
Total factors	Total	9	16	16	25	25	26	25	27	28	25	25	24	17	20	18	29	29	28	20	20	21	19	21	21
	EI	*4*	*7*	*7*	*15*	*15*	*17*	*11*	*12*	*14*	*14*	*15*	*14*	*8*	*5*	*7*	*12*	*14*	*16*	*9*	*9*	*7*	*5*	*5*	*3*
	I	*5*	*9*	*9*	*10*	*10*	*9*	*14*	*15*	*14*	*11*	*10*	*10*	*9*	*15*	*11*	*17*	*15*	*12*	*11*	*11*	*14*	*14*	*16*	*18*

EL=Entry Level; MR=Medium Range; TR=Top Range.

EI = Extremely important; *I* = Important.

Source: questionnaires, interviews with market players, literature

6.2.2 Degree of response to factors of competitiveness of EU wines compared to NWC and domestic wines, based on opinions of market players

As already mentioned in the methodology, this analysis was carried out only for the factors of competitiveness proposed through the questionnaire during interviews to market players.

In the tables presenting the results (Tab. 28 and Tab. 29), cells highlighted in red refer to factors of competitiveness that were previously considered Extremely important (score=3), cells highlighted in green refer to factors considered as Important (score=2). Empty cells identify factors considered scarcely or not at all important (score=0 or 1) (see also analysis in the previous section).

The results of the comparison between EU and NWC wines are presented in the following table.

Tab. 28: Response of EU packaged wines to factors of competitiveness, compared with NWC wines

		China			Japan			Russia			USA			Denmark			Germany			UK			Total		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Size of the supplier (exporting or domestic company)							B	B	B	B	B	B				S	S	S	W	W	W			
	Ability to manage relationships with importers/distributors				B	B	B	B	B	B	B	B	B	S	S	S	B	B	B	S	S	S	B	B	B
	Ability to select importers/distributors/buyers				B	B	B	B	B	B	B	B	B	S	S	S	W	W	W	B	B	B	B	B	B
	Granting of higher profit margins				B	B	B	W	W	W	S	S	S	S	S	S	S	S	S	W	W	W	S	S	S
	Organisation of customer visits at wineries				W	W	W	B	B	B	B	B	B				B	B	B						
	Brand extension		W	B		B	B	B	B	B	B	W				S	W	W	B					S	B
Factors related to product	Product quality		B	B	B	B	B	B	B	B	B	B	B		W	B	W	B	W	S	B	B	B	B	B
	Price	W	W	S	B	B	B	W	W	B	W	B	B	S	W	B	B	S		S	W	S	W	B	B
	Origin of the product/terroir		B	B	W	B	B	B	B	B	B	B	B		B	B	B	W	B	B	B	B		B	B
	Type and quality of the packaging (presentation)		W	W	W	B	B	B	B	B	W	B	B	S	S	W	W	W	W	W	B	B	S	B	B
	Indication of grape variety		B	W	W	B	B		B		W	B		S	S	S	W	W	W	S	S	S	S	B	S
Factors related to brand	Presence of brands in specialised trade magazines				B	B	B	W	W	W	S	S	S				S	S	S						
	Brand/Image of the product	B	B	B	B	B	B	B	B	B	B	B	B	W	B	W	B	B	B	W	S	B	B	B	B
Factors related to marketing service	Price stability	B	B	W	S	B	B	S	W	B	W	W	W	S	B	S	B	W		B	B	B	W	B	B
	Offer of logistics services				B	B	B	W	W	W	B	B	B	W	W	W	B	B	B	B	B	B	B	B	B
	Width / range of wines selection				B	B	B	B	B	B	W	W	W	S	S	S	S	S	S	W	W	W	B	B	B
	Reliability / Compliance with contractual agreements / Timeliness of delivery				B	B	B	W	W	W	B	B	B	S	S	S	B	B	B	W	W	W	B	B	B
	Advertising, promotion and comunication activities directed to traders				B	B	B	B	B	B	S	S	S	S	S	S	W	W	W				B	B	B
	Reactive adaptation of the product to customers' demand				B	B	B	B	B	B	S	S	S	S	S	S	B	B	B	S	S	S	B	B	B
Factors related to positioning	Appropriate advertising, promotion and comunication activities directed to consumers				B	B	B	B	B	B	W	W	W	S	S	S	W	W	W	S	S	S	B	B	B
	Correct price/quality positioning	S	B	B	B	B	B	S	B	B	W	W	B	B	W		B	S	B	S	S	W	S	B	B
Total Factors		4	9	9	19	20	20	20	21	20	21	21	19	15	17	17	21	21	19	17	17	17	16	18	18
Total Better		2	6	5	14	19	19	13	15	16	10	12	12	1	3	3	10	7	9	4	6	7	10	16	16
Total Worse		1	2	3	4	1	1	5	6	4	7	5	3	3	4	3	7	8	6	6	5	5	2	0	0

B=Better response of EU wines; W=Worse response; S=Same response

"Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Source: questionnaires administered to market players

Total average results (always using the greatest caution) suggest that EU wines (and the behaviour of EU suppliers) respond better to extremely important factors of competitiveness in all market segments, except for price and its stability in the Entry Level segment. Furthermore, again on average, EU wines also appear to respond better to all factors of competitiveness (extremely important + important), with the only exception of few factors for which there is no difference between response of EU and NWC wines.

This general result derives from rather diversified opinions expressed at individual country level.

With regard to "Extremely important" factors of competitiveness, the response for EU wines (and supplier behaviour) was considered clearly better than competitors' in Japan (for almost all factors and segments), while in other countries, although EU wines generally appear to be winners, results are less clear-cut. However, the analysis does not identify any factors for which EU wines show a strength or a weakness across all segments or all countries.

For some "Extremely important" factors, EU wines (and supplier behaviours) are never worse than their competitors (in some cases they are equal): these are, in particular, the "Ability to manage relationships with importers/distributors" and "Brand/Image of the product".

With regard to most important factors of competitiveness considered jointly (Extremely important + Important), the opinions of market players appear to be quite encouraging: in all countries and segments, the number of factors for which EU wines (and supplier behaviour) response is better, is higher than the number for which the response is worse. The only exceptions are Denmark (where for most factors the response is to be considered the same), and the UK, in particular for the Entry Level segment.

With regard to market segments, results show that, in general, EU wines response improves moving from the Entry Level to the Top Range segment (in the latter case, the Better/Total ratio is indeed highest in all countries, with the only exception of China). On the contrary, worse response of EU wines (and EU suppliers) is always found in the Entry Level segment, with the only exception of Germany.

With regard to factors for which the response of EU wines appears to be worse than the competitors', the situation is quite diversified across the examined markets. The most frequent factors are the following: "Granting of higher profit margins" (in Russia and UK); "Price" (mainly in the Entry level and Medium Range segments of China, USA, Russia, Denmark and UK); "Type and quality of packaging" (in some segments, but not always the same ones, in a large number of countries); "Indication of grape variety" (in particular, but not only, in the Entry Level segment); "Reliability / Compliance with contractual agreements / Timeliness of delivery" (in Russia and the UK); "Width / range of wines selection" (in USA and the UK); "Appropriate advertising, promotion and communication activities directed to consumers" (in USA and Germany); "Offer of logistics services" (in Denmark and Germany) and "Reactive adaptation of the products to customers' demand" (USA and UK).

In any case, "Price" and "Type and quality of the packaging" seem to represent the main weaknesses of EU wines (in both cases, the Worse/Total ratio reaches 40%), followed by "Indication of grape variety" (Worse/Total = 35%).

As far as the comparison between EU and domestic wines is concerned, the analysis was carried out only for China, Russia, USA and Germany (countries with significant wine production). Results are summarised in Tab. 29.

Tab. 29: Response to factors of competitiveness of EU packaged wines vs. domestic wines

		China			Russia			USA			Germany		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Size of the supplier (exporting or domestic company)				B	B	B	W	W	W	S	S	S
	Ability to manage relationships with importers/distributors				B	B	B	S	S	S	W	W	W
	Ability to select importers/distributors/buyers				S	S	S	B	B	B	S	S	S
	Granting of higher profit margins				B	B	B	B	B	B	B	B	B
	Organisation of customer visits at wineries				B	B	B	S	S	S	B	B	B
	Brand extension		B	B	B	B	B	B	B		B	B	S
Factors related to product	Product quality		B	B	B	B	B	B	B	B	W	W	W
	Price	W	B	W	B	B	B	B	B	B	S	B	
	Origin of the product/terroir		B	B	B	B	B	B	B	B	W	W	B
	Type and quality of the packaging (presentation)		B	B	B	B	B	W	S	W	S	S	W
	Indication of grape variety		W	W		B		S	S		S	S	S
Factors related to brand	Presence of brands in specialised trade magazines				B	B	B	W	W	W	S	S	S
	Brand/Image of the product	B	B	B	B	B	B	B	W	W	B	W	S
Factors related to marketing service	Price stability	B	B	B	S	W	B	W	W	W	S	B	
	Offer of logistics services				W	W	W	W	W	W	S	S	S
	Width / range of wines selection				B	B	B	W	W	W	S	S	S
	Reliability / Compliance with contractual agreements / Timeliness of delivery				B	B	B	W	W	W	S	S	S
	Advertising, promotion and comunication activities directed to traders				B	B	B	S	S	S	S	S	S
	Reactive adaptation of the product to customers' demand				B	B	B	S	S	S	S	S	S
Factors related to positioning	Appropriate advertising, promotion and comunication activities directed to consumers				B	B	B	W	W	W	S	S	S
	Correct price/quality positioning	W	B	B	B	B	B	W	W	W	B	S	B
Total Factors		4	9	9	20	21	20	21	21	19	21	21	19
Total Better		2	8	7	17	18	18	7	6	5	5	5	4
Total Worse		1	1	2	1	2	1	9	9	10	3	4	3

B=Better response of EU wines; W=Worse response; S=Same response

"Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Source: questionnaires administered to market players

In this case we notice a clear-cut difference between China and Russia, on the one hand, and USA and Germany on the other.

In the first two countries, EU wines respond better to factors of competitiveness compared to domestic wines. Factors for which their performance is worse include: in Russia (quite obviously, we might say) the "Offer of logistics services", and "Price stability" in the Medium Range segment; in China, in addition to "Price stability" (in this case only in the Entry level and Top Range segments), the "Indication of grape variety" and the "Correct price/quality positioning" factors in the Entry level segment.

Generally speaking therefore, Russian and Chinese domestic wines are considered as performing worse than both EU and NWC wines.

In the other two countries, EU wines perform definitely worse than domestic wines in the US and wines from other EU Member States perform more or less similarly to domestic ones in Germany.

In particular, the positive opinion about US wines stated by American market players for all three segments (and particularly for Top Range wines) may appear somewhat contrived. However, US wines appear to be more competitive with regard to factors that are linked to suppliers organisational characteristics and behaviour: the better response of domestic suppliers can be explained by the fact that they "play at home" or by structural factors. We refer, for example, to the "Size of the supplier" (large wineries are mainly US companies), a factor clearly linked to "Width / range of wines selection"; "Presence of brands in specialised trade magazines"; "Offer of logistics services" and "Reliability / Compliance with contractual agreements / Timeliness of delivery".

Finally, US wines apparently respond better to both positioning factors (a realistic finding, since European companies have less knowledge and less ability to control the US market and its internal structure, and therefore have to rely on local distributors).

On the other hand, European wines apparently respond better, compared with local wines, to "Product quality" and "Price" factors, as well as to "Origin of the product/terroir", all three linked to the product.

With regard to Germany, wines from other Member States apparently respond less well to "Product quality" and "Origin of the product/terroir" factors (in the latter case, only for the Entry level and Medium level segments). This seems to be due to the fact that all German wines are PDO or PGI. Furthermore, wine suppliers from other Member States seem to have less "Ability to manage relationships with the customers".

On the other hand, wines (or we should say wineries) from other Member States seem to have a competitive advantage in "Granting of higher profit margins" and for the "Organisation of customer visits at wineries".

6.2.3 Application of structural analysis

As previously mentioned, structural analysis and the application of the MicMac method was carried out for the factors of competitiveness identified and summarised in Tab. 26.

We followed the procedure described below.

First, we built a general square matrix (General Matrix - GM) including the 41x41 identified factors of competitiveness and the direct relationships among factors (with values ranging from 1 to 3 based on the intensity of influence in the case of a direct relationship; 0 when there is no direct relationship. See the methodology illustrated in §6.1.2). We obtained the GM shown in Tab. 30.

Tab. 30: General Matrix of direct relationships between factors

		A1 Size of the supplier (exporting or domestic company)	A2 Ability to provide volumes that satisfy demand	A3 Ability to manage relationships with importers/distributors	A4 Intensity of PR activities with importers, buyers, ...	A5 Ability to select importers/distributors/buyers	A6 Exclusive sale agreements	A7 Granting of higher profit margins	A8 Organisation of customer visits at wineries	A9 Brand extension	B1 Product quality	B2 Taste (Easy to drink)	B3 Taste (complexity to drink)	B4 Convenience in packaging (screw saps, PET, BIB,...)	B5 Label design	B6 Price	B7 Origin of the product/terroir	B8 PDO-PGI popularity	B9 Perception of product authenticity	B10 Type and quality of the packaging (presentation)	B11 Indication of grape variety	B12 Story to tell	B13 Ensuring product safety	C1 Brand building, branding (for Medium and Top Range).	C2 Presence of brands in specialised trade magazines	C3 Brand/Image of the product	D1 Price stability	D2 Flexibility (prices, payment system,...)	D3 Quality consistency over time	D4 Offer of logistics services	D5 Flexible logistics management (Just-in-time)	D6 Width / range of wines selection (type & price)	D7 Reliability / Compliance with contractual agreements / Timeliness of delivery	D8 Advertising, promotion and comunication activities directed to traders	D9 Ability to innovations (packaging, labels)	D10 Reactive adaptation of the product to customers' demand	E1 Encourage the importer to present the wines in specialised magazines	E2 Appropriate advertising, promotion and comunication activities directed to consumers	E3 Status symbol content	E4 Correct price/quality positioning	E5 Consistency in the quality/price ratio	E6 High rating in specialised press	Total
Size of the supplier (exporting or domestic company)	A1	0	2	0	0	0	0	2	3	3	0	0	0	1	0	2	0	0	0	0	0	0	0	2	0	0	1	1	1	1	1	2	1	1	0	1	1	0	0	0	0	0	0	26
Ability to provide volumes that satisfy demand	A2	0	0	0	0	0	1	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	7
Ability to manage relationships with importers/distributors	A3	0	0	0	2	1	2	0	2	0	0	0	0	0	1	1	0	0	0	2	0	0	0	1	0	0	1	2	1	0	0	0	3	2	2	2	2	3	0	3	2	0	35
Intensity of PR activities with importers, buyers, ...	A4	0	0	2	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	2	0	0	0	1	0	0	0	0	0	0	0	0	1	2	2	3	2	2	0	3	1	0	24
Ability to select importers/distributors/buyers	A5	0	0	0	1	0	1	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	2	0	0	2	2	0	2	0	0	13
Exclusive sale agreements	A6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0	2	2	0	2	1	0	10
Granting of higher profit margins	A7	0	0	0	0	0	1	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	5
Organisation of customer visits at wineries	A8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2	0	1	0	0	0	0	0	0	1	0	0	0	1	1	0	0	0	0	8
Brand extension	A9	0	0	1	0	0	1	3	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	2	0	1	1	0	0	0	0	3	0	2	0	0	0	2	0	0	0	0	17
Product quality	B1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	3	3	3	0	0	0	0	0	0	0	0	0	0	0	0	3	2	2	2	21
Taste (Easy to drink)	B2	0	0	0	0	0	0	0	0	0	3	0	0	0	0	2	0	0	0	0	0	0	0	1	0	2	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	9
Taste (complex to drink)	B3	0	0	0	0	0	0	0	0	0	3	0	0	0	0	2	0	0	0	0	0	0	0	1	0	2	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	10
Convenience in packaging (screw caps, PET, BIB,...)	B4	0	0	0	0	0	0	0	0	0	1	0	0	0	0	2	0	0	0	0	2	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	7
Label design	B5	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	3	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	7
Price	B6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2	3	0	2	0	8
Origin of the product/terroir	B7	0	0	0	0	0	0	0	0	0	2	2	2	0	0	2	0	3	3	0	0	3	0	0	0	2	0	0	1	0	0	0	0	0	0	0	0	1	2	0	1	1	25
PDO-PGI popularity	B8	0	0	0	0	0	0	0	0	0	2	2	2	0	0	2	3	0	3	0	0	3	0	2	1	2	0	0	1	0	0	0	0	0	0	0	0	1	2	0	1	1	28
Perception of product authenticity	B9	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1	0	7
Type and quality of the packaging (presentation)	B10	0	0	0	0	0	0	0	0	0	2	0	0	0	0	2	0	0	0	0	0	0	0	1	0	3	0	0	0	0	0	0	0	0	0	0	0	1	2	0	0	1	12
Indication of grape variety	B11	0	0	0	0	0	0	0	0	0	1	3	1	0	0	1	0	0	2	0	0	0	0	1	1	1	0	0	1	0	0	0	0	0	0	1	0	1	0	0	3	0	17
Story to tell	B12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	2	0	2	0	0	0	0	0	0	0	0	0	0	0	1	2	0	0	0	9
Ensuring product safety	B13	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	4
Brand building, branding (for Medium and Top Range).	C1	0	0	0	0	0	0	0	0	0	1	0	0	0	1	1	0	0	0	0	0	0	0	0	2	3	0	0	0	0	0	0	0	3	0	0	1	2	2	3	0	1	20
Presence of brands in specialised trade magazines	C2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	2	9
Brand/Image of the product	C3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	2	2	3	2	0	3	17
Price stability	D1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	0	6
Flexibility (prices, payment system,...)	D2	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Quality consistency over time	D3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	1	3	0	7
Offer of logistics services	D4	0	1	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	2	0	0	0	0	0	0	0	0	0	0	7
Flexible logistics management (Just-in-time)	D5	0	2	0	0	0	2	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	2	0	0	0	0	0	0	0	0	0	10
Width / range of wines selection (type & price)	D6	0	1	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	8
Reliability / Compliance with contractual agreements / Timeliness of delivery	D7	0	1	1	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7
Advertising, promotion and comunication activities directed to traders	D8	0	0	0	1	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
Ability to innovations (packaging, labels)	D9	0	0	0	0	0	0	0	0	0	1	0	0	2	2	0	0	0	0	2	0	0	1	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	13
Reactive adaptation of the product to customers' demand	D10	0	0	0	0	0	0	0	0	0	1	0	0	1	1	1	0	0	0	1	0	0	1	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	9
Encourage the importer to present the wines in specialised magazines	E1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	2	0	1	8
Appropriate advertising, promotion and comunication activities directed to consumers	E2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	0	0	9
Status symbol content	E3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	3	0	7
Correct price/quality positioning	E4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	2	0	3
Consistency in the quality/price ratio	E5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	5
High rating in specialised press	E6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2	3	3	0	11
Total		0	7	4	4	1	7	10	9	3	21	7	5	4	5	53	3	3	8	12	0	6	4	27	12	36	10	6	6	1	4	5	9	13	4	13	18	36	28	35	23	13	

3="Extremely important" factor; =2 "Important" factor; 1="Scarcely important" factor; 0= Not at all important factor. Source: Cogea

From the General Matrix we constructed 21 sub-matrices pertaining to the three market segments in the seven case-study countries. Such sub-matrices were obtained by progressively eliminating factors that in the base table did not obtain a score of 2 or 3 (i.e. we eliminated all scarcely or not at all important factors for each segment/country combination).

Furthermore, in order to reach a more general overview with respect to country/segment combinations, also allowing for a synthetic representation of relationships among factors, we built other three sub-matrices for each segment taken into consideration, but including all the countries together. These are general matrices by segment, representing a situation that is completely theoretical, but allowing us to obtain a clearer understanding of all possible relationships among factors.

Thirdly, we applied the MicMac method to each of the 21 country/segment sub-matrices, as well as to the three general sub-matrices by segment, in order to establish a global effect (direct relationships + indirect relationships among factors and relative hierarchy of importance).

Here we illustrate the overall results derived from the individual 24 analyses.

First of all, in order to better understand the construction and meaning of the analysis that was carried out, it is necessary to illustrate an example of the analytical procedure we followed. The example below (Tab.31) concerns Top Range segment wines in the United Kingdom.

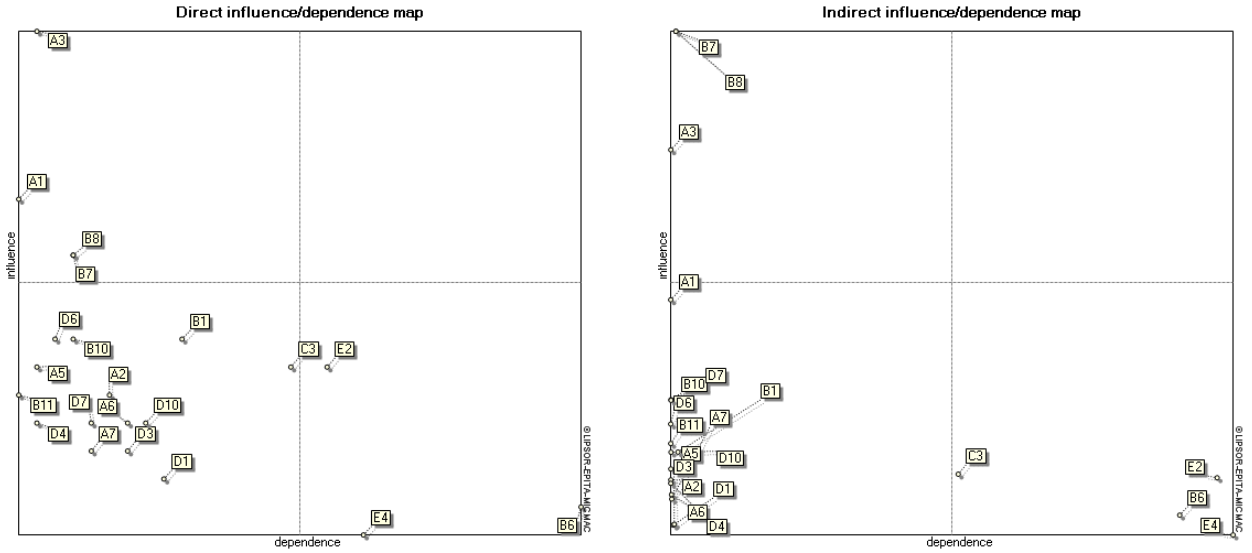
Tab. 31: United Kingdom – General matrix of direct relationships among factors in the Top range segment

		Size of the supplier (exporting or domestic company)	Ability to provide volumes that satisfy demand	Ability to manage relationships with importers/distributors	Ability to select importers/distributors/buyers	Exclusive sale agreements	Granting of higher profit margins	Product quality	Price	Origin of the product/terroir	PDO-PGI popularity	Type and quality of the packaging (presentation)	Indication of grape variety	Brand/Image of the product	Price stability	Quality consistency over time	Offer of logistics services	Width / range of wines selection (type & price)	Reliability / Compliance with contractual agreements / Timeliness of delivery	Reactive adaptation of the product to customers' demand	Appropriate advertising, promotion and comunication activities directed to consumers	Correct price/quality positioning	Total
		A1	A2	A3	A5	A6	A7	B1	B6	B7	B8	B10	B11	C3	D1	D3	D4	D6	D7	D10	E2	E4	
Size of the supplier	A1	0	2	0	0	0	2	0	2	0	0	0	0	0	1	1	1	2	1	1	0	0	13
Ability to provide volumes that satisfy demand	A2	0	0	0	0	1	0	0	2	0	0	0	0	0	1	0	0	0	0	1	0	1	6
Ability to manage relationships with importers/distributors	A3	0	0	0	1	2	0	0	1	0	0	2	0	0	1	1	0	0	3	2	3	3	19
Ability to select importers/distributors/buyers	A5	0	0	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	2	2	7
Exclusive sale agreements	A6	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	2	2	5
Granting of higher profit margins	A7	0	0	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	1	0	4
Product quality	B1	0	0	0	0	0	0	0	3	0	0	0	0	3	0	0	0	0	0	0	0	2	8
Price	B6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	2
Origin of the product/terroir	B7	0	0	0	0	0	0	2	2	0	3	0	0	2	0	1	0	0	0	0	1	0	11
PDO-PGI popularity	B8	0	0	0	0	0	0	2	2	3	0	0	0	2	0	1	0	0	0	0	1	0	11
Type and quality of the packaging (presentation)	B10	0	0	0	0	0	0	2	2	0	0	0	0	3	0	0	0	0	0	0	1	0	8
Indication of grape variety	B11	0	0	0	0	0	0	1	1	0	0	0	0	1	0	1	0	0	0	1	1	0	6
Brand/Image of the product	C3	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	2	2	7
Price stability	D1	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	3
Quality consistency over time	D3	0	0	0	0	0	0	0	1	0	0	0	0	0	2	0	0	0	0	0	0	1	4
Offer of logistics services	D4	0	1	0	0	0	0	1	1	0	0	0	0	0	1	1	0	0	0	0	0	0	5
Width / range of wines selection (type & price)	D6	0	1	0	0	1	0	0	1	0	0	0	0	1	1	0	0	0	0	2	0	1	8
Reliability / Compliance with contractual agreements / Timeliness of delivery	D7	0	1	1	0	0	1	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	5
Reactive adaptation of the product to customers' demand	D10	0	0	0	0	0	0	1	1	0	0	1	0	1	0	0	0	0	0	0	0	1	5
Appropriate advertising, promotion and comunication activities directed to consumers	E2	0	0	0	0	0	0	0	2	0	0	0	0	2	0	0	0	0	0	0	0	3	7
Correct price/quality positioning	E4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Total		0	5	1	1	6	4	9	31	3	3	3	0	15	8	6	1	2	4	7	17	19	

3="Extremely important" factor; =2 "Important" factor; 1="Scarcely important" factor; 0= Not at all important factor. Source: Cogea

In this particular case we have a 21x21 matrix with 308 null values (absence of direct relationships between factors), 52 cells with a value of 1, 28 cells with a value of 2 and 12 with a value of 3. From the pairs of values obtained for each factor (Row Sum and Column Sum) we created the Direct influence/dependence map. By applying the MicMac (matrix multiplication) method we then obtained the Indirect influence/dependence map, in this case after 6 iterations to reach stability. The two maps are shown in Fig. 47.

Fig. 47: UK (Top range) – Direct and indirect influence-dependence maps

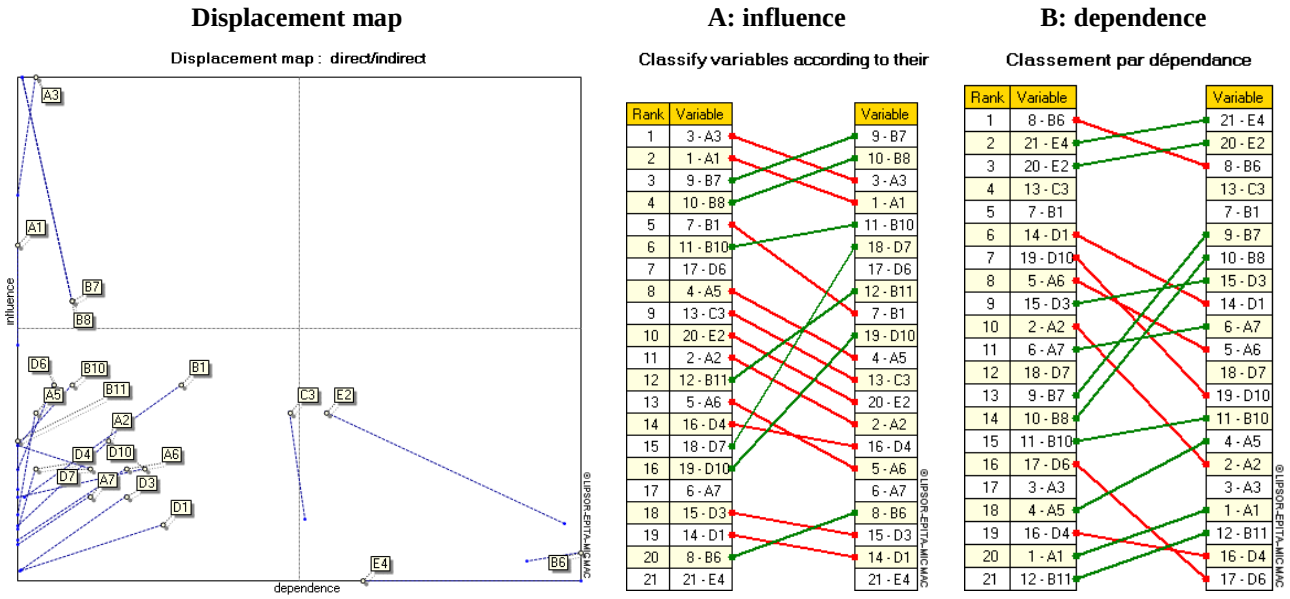


Source: Cogea

The results presented in the two maps of Fig. 47 lead to the following observations:

- In the first and third quadrants there is a limited number of factors representing, respectively, lever factors (i.e. those with a stronger influence) and passive factors (i.e. those subject to stronger dependence). In the second quadrant no factors are found, while the highest concentration of factors can be found in the fourth quadrant. This does not imply scarce importance of these factors, but only that they have limited interaction (i.e. scarce influence on others and/or scarce dependence from others).
- The shift from direct relationships to indirect relationships among factors (after applying the matrix multiplication) generates a rather important change. The most significant aspect is a "polarisation" of the factors, shown by their shift towards the horizontal and vertical axes of the map (the factors lose part of their dependence or influence). This means that the number of significant factors (in terms of influence, but also of dependence) is rather small. This result, revealed by the Displacement map below, applies to nearly all the 21 analyses that were carried out.
- Following the displacement, the hierarchy of the degrees of influence and dependence of factors changes radically from direct to indirect (in some country/segment combinations the change is also very large). The hierarchical changes are summarised in graphs A and B of Fig. 48. In this particular case, for example, factors B7 (Origin of the product/terroir) and B8 (PDO-PGI popularity) show the largest influence, while factors A3 (Ability to manage relationships with importers/distributors) and A1 (Size of the supplier) lose in importance. Higher importance is also gained by factors D7 (Reliability / Compliance with contractual agreements / Timeliness of delivery), moving from the 15th to the 6th position, whereas B1 (Product quality) loses importance, shifting from the 5th to the 9th position.

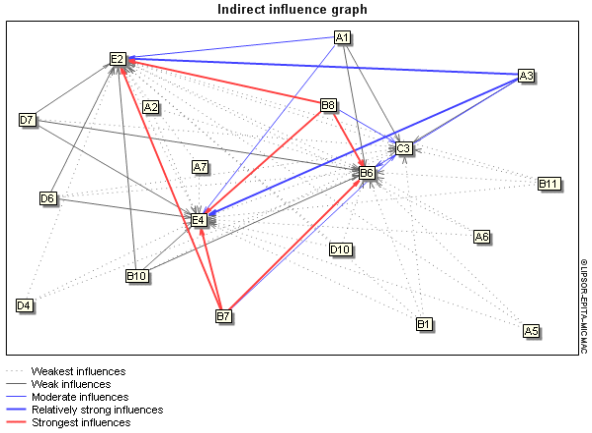
Fig. 48: UK (Top range) – Displacement map and graphs representing factor hierarchy changes, from direct to indirect, for influence (A) and dependence (B)



Source: Cogea

Finally, the indirect influence/dependence graph (Fig. 49) not only highlights the most important factors (those we can refer to as key factors of competitiveness) in terms of influence and dependence, but also the relationships among factors, by degree of intensity.

Fig. 49: UK (Top range) – Indirect influence/dependence graph



Source: Cogea

The analysis of Fig. 49 provides us with interesting indications from a strategic point of view, as it allows to identify the levers (influential factors) on which we can intervene to achieve competitive advantage in dependent factors that are considered important.

In the example presented in Tab.31, in the UK/Top Range combination, the factor "Correct price/quality positioning" (E4) had been considered "Extremely important". Consequently, the results in Fig. 49 show that to obtain competitive advantage for this factor, it is necessary to be effective in all variables that influence it directly or indirectly: variables B7 (Origin of the product/terroir) and B8 (PDO-PGI popularity), but also A3 (Ability to manage relationships with importers/distributors) and, albeit to a lesser extent, A1 (Size of the supplier). Other factors such as B10 (Type and quality of the packaging-presentation), D7 (Reliability / Compliance with contractual agreements / Timeliness of delivery) and D6 (Width / range of wines selection) are less influential, even though they still contribute significantly to the generation of competitive advantage for factor E4.

Furthermore, the relationship graph (Fig. 49) allows us to steer strategic choices based on available resources. In practice, it helps to choose where to concentrate efforts, in order to maximise efficiency and

effectiveness (namely on lever factors that have the greatest number of direct and indirect relationships with other factors of competitiveness that are considered important).

Based on the hierarchical ranking of factors (i.e. the values obtained from matrix multiplication) it is therefore possible to define key factors of competitiveness, classified by importance (in Tab. 32, cell borders are colour-coded based on class of importance – see also Tab.33).

Tab. 32: United Kingdom (Top range) – Hierarchy of factors of competitiveness, by influence and indirect dependence

Label	Indirect influence	Label	Indirect dependence
B7	1694	E4	2911
B8	1694	E2	2829
A3	1310	B6	2635
A1	825	C3	1488
B10	502	B1	37
D7	500	B7	26
D6	423	B8	26
B11	360	D3	18
B1	332	D1	13
D10	331	A7	5
A5	277	A6	3
C3	261	D7	1
E2	249	D10	1
A2	242	B10	1
D4	231	A5	0
A6	194	A2	0
A7	180	A3	0
B6	128	A1	0
D3	98	B11	0
D1	95	D4	0
E4	64	D6	0

Very strong influence
Relatively strong influence
Moderate influence
Very strong dependence
Relatively strong dependence
Moderate influence

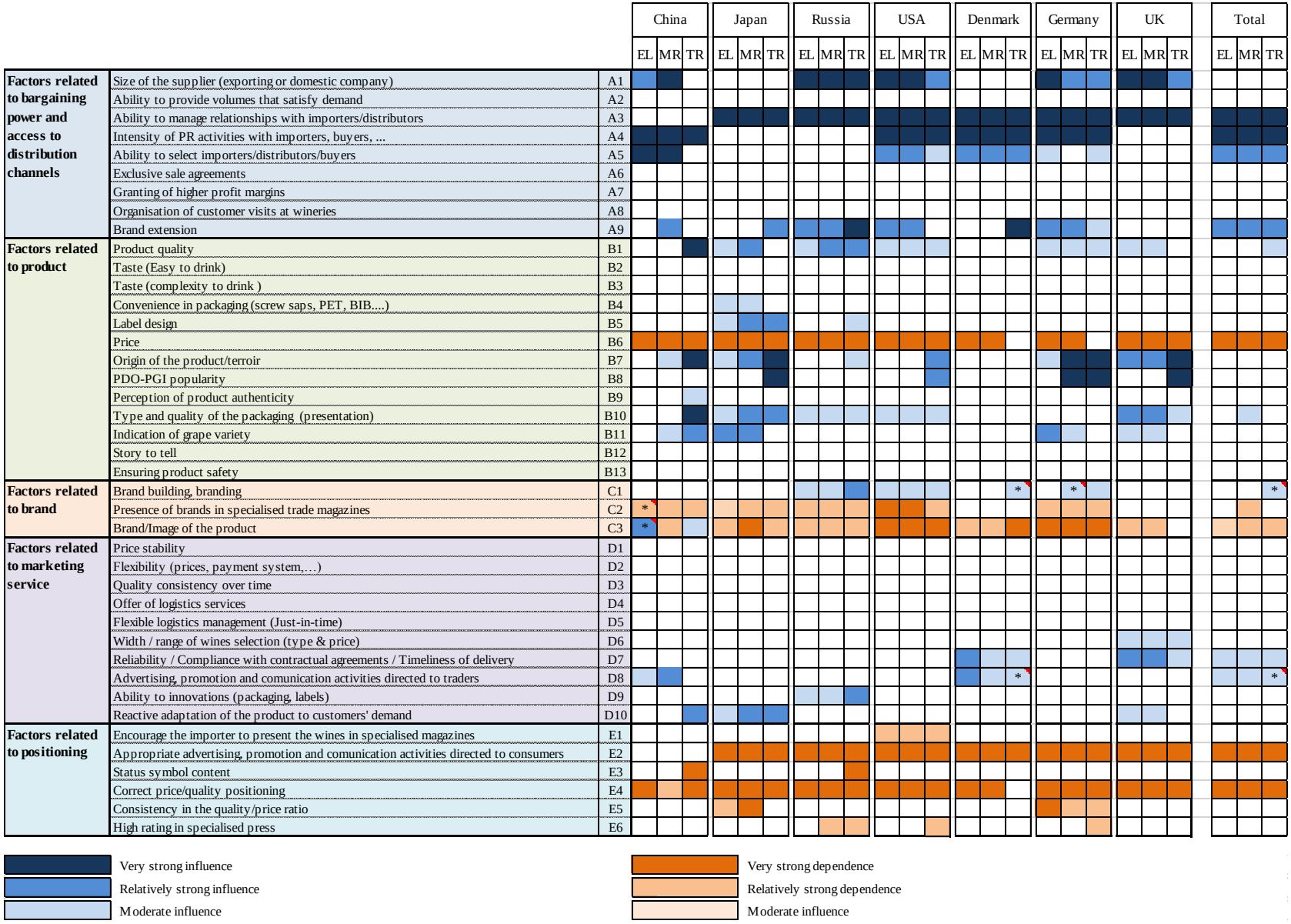
Source: Cogea

This same procedure was applied to obtain the overall results by country and segment.

6.2.4 Overall results obtained with the MicMac method by country/segment combination

Tab. 33 contains a synthetic representation of the results obtained by applying the MicMac method to all three market segments for each case-study country. Furthermore, the method was applied to the "Total" (i.e. a synthesis of results for the seven case study countries together).

Tab. 33: Results of MicMac analysis by country and market segment (°)



(°) Cells marked with * indicate factors that are both more or less equally influential and dependent: these are therefore Dynamic Factors. Source: Cogea

As already mentioned above, there is only a small number of factors that are both significant and frequent in all country/segment combinations:

- With regard to dependence, these are "Price" (B6); "Appropriate advertising, promotion and communication activities directed to consumers" (E2); "Correct price/quality positioning" (E4). Furthermore, a fourth factor that is frequent, but with a lower degree of dependence, is "Brand/Image of the product" (C3).

- With regard to influence, the most important factor in absolute terms is the "Ability to manage relationships with importers/distributors (A3)" followed by "Intensity of PR activities with importers, buyers, etc." (A4) and by the "Ability to select importers/distributors/buyers" (A5). Other factors that are frequent, albeit with a lower degree of influence, are "Product quality" (B1), "Brand extension" (A9) and "Type and quality of the packaging (presentation)" (B10). Furthermore, "Origin of the product/terroir" (B7) is a more or less important factor mainly in the Top Range segment.

It should also be noted that in some country/segment combinations the factors "Brand building, branding" (C1) and "Advertising, promotion and communication activities directed to traders" (D8) are at the same time influential and dependent and should therefore be considered as Dynamic Factors.

6.2.5 Generalisation of results by segment

As previously mentioned, in the final stage of the analysis we applied the same method to the three general sub-matrices (all case-study countries together) by segment, in order to have a synthetic overview also with regard to relationships among factors. These sub-matrices, which reflect a totally theoretical situation, have a much larger size than those pertaining to the individual country/segment combinations (Tab. 34).

Tab. 34: Size of general sub-matrices by segment

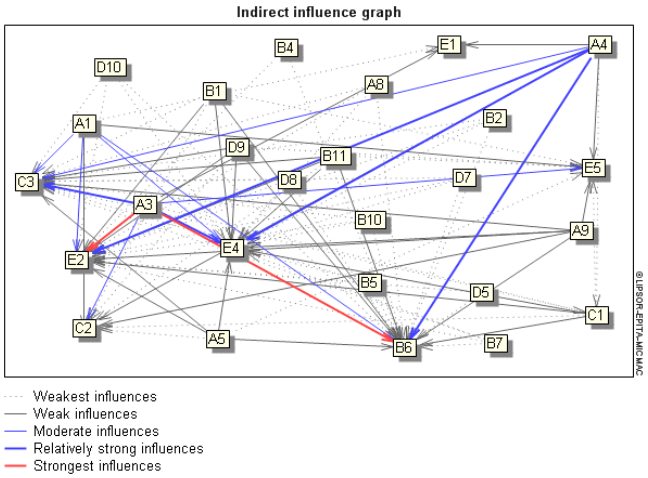
EL	MR	TR
35x35	38x38	39x39

EL=Entry Level; MR=Medium Range; TR=Top Range

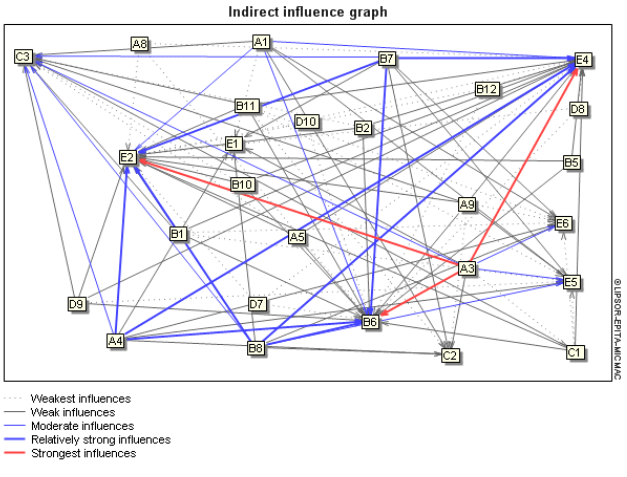
The influence/dependence maps obtained by applying the MicMac method to these sub-matrices are shown in Fig. 50.

Fig. 50: General indirect influence/dependence graphs in the Entry Level, Medium Range and Top Range segments

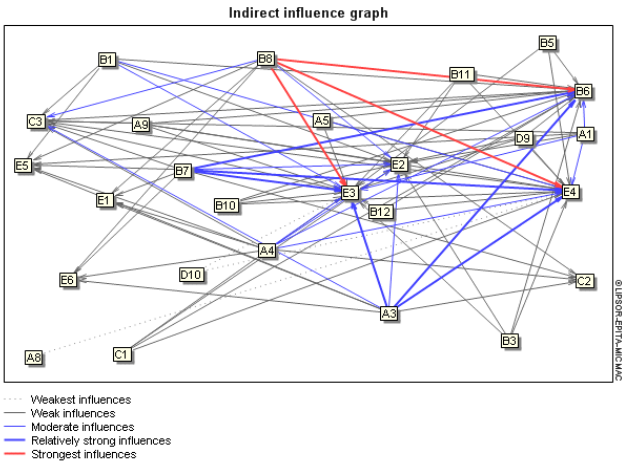
Entry Level



Medium Range



Top Range



Source: Cogea

Finally, starting from the ranking of importance and from relationships among factors, for each segment we focused on the first six factors that show an influence on the first six dependent factors (in both cases, the factors are listed in Fig. 51 in decreasing order of importance).

Fig. 51: First six influential factors and first six dependent factors by segment (in decreasing order of importance)

	Influence		Dependence	
Entry Level	**A3**	Ability to manage relationships with importers/distributors	**B6**	Price
	A4	Intensity of PR activities with importers, buyers, etc.	**E2**	Appropriate advertising, promotion, communication to consumers
	A1	Size of the supplier (exporter or domestic company)	**E4**	Correct price/quality positioning
	A9	Brand extension	**C3**	Brand / Image of the product
	D9	Ability to innovate (packaging, labels, etc.)	**E5**	Consistency in the quality/price ratio
	A5	Ability to select importers/distributors/buyers	**C2**	Presence of brand(s) in specialised magazines
Medium Range	**A3**	Ability to manage relationships with importers/distributors	**E4**	Correct price/quality positioning
	B8	PDO-PGI popularity	**E2**	Appropriate advertising, promotion, communication to consumers
	A4	Intensity of PR activities with importers, buyers, etc.	**B6**	Price
	B7	Origin of the product/terroir	**C3**	Brand / Image of the product
	A1	Size of the supplier (exporter or domestic company)	**E5**	Consistency in the quality/price ratio
	A9	Brand extension	**E6**	High rating in specialised press
Top Range	**B8**	PDO-PGI popularity	**E4**	Correct price/quality positioning
	A3	Ability to manage relationships with importers/distributors	**B6**	Price
	B7	Origin of the product/terroir	**E3**	Status symbol content
	A4	Intensity of PR activities with importers, buyers, etc.	**E2**	Appropriate advertising, promotion, communication to consumers
	A1	Size of the supplier (exporter or domestic company)	**C3**	Brand / Image of the product
	B1	Product quality	**E5**	Consistency in the quality/price ratio

Source: Cogea

Observations:

- Most of the major influencing factors are linked to behaviour (in particular Factors related to bargaining power and access to distribution channels – group A);
- However, when moving upwards from one segment to another, from Entry level to Top range, some of the behavioural factors are replaced by product-related factors (B8, B7 and B1 in the Top Range);
- In a similar way, many dependent factors are related to behaviour, for instance "Appropriate advertising, promotion and communication" (E2), "Correct product positioning" (E4), "Providing consistent price/quality" (E5). The most important product-related dependent factors for all three segments are few: "Price" (B6), "Brand / Image of the product" (C3) and "Status symbol content" (E3).

6.3 RESULTS OF THE ANALYSIS FOR BULK WINE

With regard to bulk wine, very few market players agreed to be interviewed and to fill in the questionnaires. Furthermore, the answers of those who agreed to do the interview were quite poor, vague and incomplete. We were not able to understand the reasons for such reticence. Probably, it can be explained by the fact that wines imported in bulk are "nationalised" through blending with local wines by importers-bottlers (who would not be willing to admit that wines marketed as domestic product are in fact totally or partially produced in other countries). However, in addition to this, our impression is that the industry is not at all transparent.

Due to these considerations, results reported below should be viewed with great caution.

The method used to collect and process information and to prepare the tables is the same already used for packaged wines.

6.3.1 Factors of competitiveness of bulk wines and their importance

Notwithstanding the above-mentioned limitations, the answers we obtained all focus on a very limited number of factors (Tab. 35). There is almost general consensus on the fact that competition in the bulk market is based on two key factors:

- The first, linked to the product, is price;
- The second, linked to the structure of suppliers, is the size of supply volumes (i.e. the operating size of suppliers).

Tab. 35: Overview of factors of competitiveness for bulk wines ranked by importance, by case study country and total

		CN	JP	RU	USA	DK	DE	UK	Total
Factors related to the product	Product quality		2				3	3	
	Price	3	3	3		3	2	3	3
	Price stability		3	2			3	3	2
	Origin of the product/terroir			2					
	Correct price/quality positioning		3	3	3		3	2	3
Factors related to the exporting company	Large supply volumes	3	3	3		3	2	3	3
	Ability to manage relationships with importers/distributors		3	2			2	2	2
	Reactive adaptation of the product to customers' demand		2	2			2	2	2
	Offer of logistics services		3	2			2		2
	Reliability / Compliance with contractual agreements / Timeliness of delivery		3	2	3		2	2	2
	Organisation of customer visits at wineries			3					
	Consistent quality over time	3			3				
	Stability of supplies	3	3						2

"Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Source: questionnaires, interviews with market players

Overall, the other factors play a less important role. Among these, the most often mentioned factors are price stability and a correct price/quality positioning (therefore all factors are in some way related to price).

It should be noted that in the interviews, some market players operating in the UK maintained that there is no significant difference between factors of competitiveness for bulk wines and packaged wines. The reason is that in the UK most suppliers are the same, and imported bulk wines are packaged "as they are" under the brand of the supplier or retail chain label.

6.3.2 Degree of response of EU bulk wines to factors of competitiveness compared to competitors, based on opinions of market players

The very few answers to this question (in some countries no market player answered) prevent us from obtaining sufficiently reliable results (Tab. 36). However, the partial picture obtained is not very encouraging for EU wines.

The few situations in which EU wines appear to have a competitive advantage over competitors are the following:

- In Russia, for all product-related factors (but mainly when compared with wines from neighbouring countries of former USSR, the Caucasus and Serbia).
- In Germany, key factors (price and volume size), quite understandably due to the relative proximity and to well-established relationships with Italian, French and Spanish suppliers (generally large co-ops) for Entry Level wines.

Tab. 36: Response of EU bulk wines to factors of competitiveness compared with wines of competitors

		CN	JP	RU	USA	DK	DE	UK
Factors related to the product	Product quality			B			W	S
	Price		W	B	S		B	S
	Price stability			B			W	W
	Origin of the product/terroir			B			W	S
	Correct price/quality positioning			B			W	S
Factors related to the exporting company	Large supply volumes		W	S			B	S
	Ability to manage relationships with importers/distributors			S			B	S
	Reactive adaptation of the product to customers' demand			S			S	S
	Offer of logistics services			S			W	S
	Reliability / Compliance with contractual agreements / Timeliness of delivery						W	S
	Organisation of customer visits at wineries			B				
	Consistent quality over time							

B=Better response of EU wines; W=Worse response; S=Same response

Factors originally rated as "Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Source: questionnaires, interviews with market players

Finally, it is worth mentioning a critical weakness of EU wines that was indicated in UK interviews: according to some market players, the main weakness of EU wine for bulk imports is the impossibility of importing certain PDO wines in bulk (e.g. the Spanish Rioja, due to restrictions to bottling ouside the production area imposed by the producer organisation in the relative production protocol), leaving a gap for NWC wines of the same quality level. It appears that NWC countries have gained a competitive advantage in this growing segment of the UK market.

7 THEME 3 – HOW TO IMPROVE THE COMPETITIVENESS OF EUROPEAN WINES

7.1 METHODOLOGICAL APPROACH FOR THEME 3

Theme 3 requires analysis (mostly "qualitative") to be developed through the formulation of hypotheses about the most probable evolution (from the current situation to the horizon 2025) of the external factors influencing the competitiveness of European wines (emerging from the analysis of Theme 1) and of the key factors of competitiveness (resulting from the analysis of Theme 2).

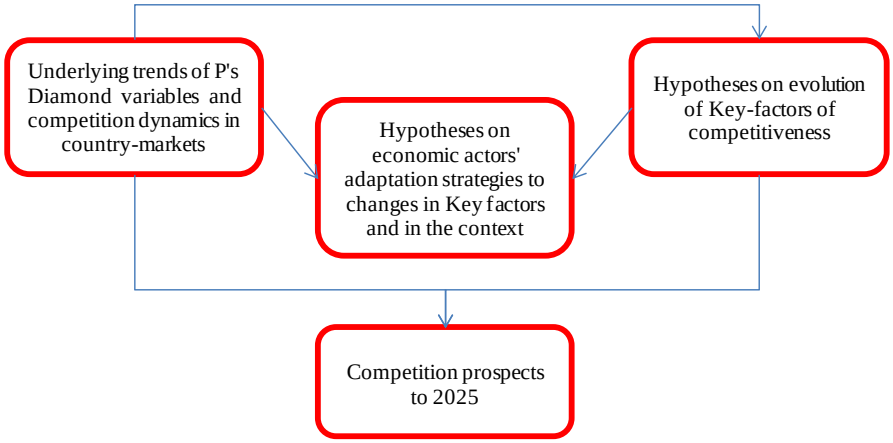
The definition of the competitive outlook for 2025 results from the combined analysis of:

a. expected trends of certain factors of the Porter's Diamond, in particular, Factor conditions and Demand conditions;

b. the likely changes in the competition dynamics characterising the most important country markets;

c. expected changes in the hierarchy of the identified key factors of competitiveness;

d. the possible adaptation strategies developed by economic actors to changes occurred in the competitive arena and in the hierarchy of key factors of competitiveness.



The formulation of hypotheses relative to future trends and changes listed above mainly arise from:

- analysis of the IWSR 2013-2018 forecasts for still wine and outlook reports for the case study countries;
- the informed opinions of key economic players interviewed in the case study countries;
- analysis of the available literature.

The formulation of prospects to 2025 results from a combined critical analysis of the available information and from logical inferences about related causes and effects.

7.2 EVOLUTION OF FACTOR CONDITIONS IN PRODUCER COUNTRIES

7.2.1 Future prospects for vineyard areas, wine production and probable impacts

A simple extrapolation of the trend of the surface (and production) to 2025 provides a disconcerting picture:

- Continuation of the current growth rate could bring the vineyard area of all nine EU main competitors[67] (see §5.5.1.1) from the current 1.77 to 2.19 million hectares (+23.9%), mainly owing to the huge potential of China. Given the current growth trend of yields per hectare, wine production could rise by an even higher percentage.

[67] Argentina, New Zealand, Canada, Chile, USA, South Africa, Australia, China, Brazil.

- By contrast, the downward trend of the EU vineyard area, offset (only partly?) by authorisations for new planting (up to a maximum of 1%) would lead to substantial stability of surfaces, if not to a decrease[68].
- The gap between the EU's area under vine and that of its nine main competitors, currently amounting to about 1.57 million hectares, would drop to 1.15 million hectares (-422 thousand hectares).

In reality (at least according to some interviews), this scenario is likely to be more or less dramatic depending on the occurrence of certain opposed events:

- The first is the likely slowdown in growth of planted areas in some NWC (South Africa, New Zealand) or downturn in others (Australia), who seem to suffer to some extent from more difficult international market conditions and show problems in placing their production on the market (i.e. growing stocks). Environmental problems seem to add to market difficulties, in particular climate change, and the resulting irrigation difficulties which would prevent new planting. This could contribute to mitigating the scenario for European wines described above.
- The second is the likely acceleration in growth of planted areas in countries that more recently appeared on the wine scene, such as Brazil and India[69]. This could contribute to aggravate the scenario.

In a situation where growth of wine production in China will serve to satisfy part of domestic market demand especially, but not exclusively, at the expenses of wine imported in bulk for blending, we can expect an increase of instability of the international market for wine in bulk (e.g. greater difficulty in placing bulk wine on the international market, pressure on prices). The intensification of competition in the international bulk market is expected to reflect also on the market for bottled wine.

7.2.2 Future prospects relative to export propensity

It is reasonable to expect that for countries already strongly export-oriended, the growth of surfaces and production will further increase export propensity, and with it, their aggressive competitive behaviour. For such countries, this will translate into the need to increase market opportunities, both through a strategy of expansion of their "market-portfolio" and through greater complexity of their competitive strategies.

All actions aimed at facilitating access to (new) markets and / or at establishing the conditions to attain competitive advantage (such as preferential trade agreements with consumer countries) are an essential part of this strategy.

In this scenario, Australia and, even more so, Chile appear to be the most aggressive competitors. For Chile, exports are vital to the national economy (high propensity), thus private companies and governmental institutions work in synergy to apply a coherent set of policies: structural (surfaces and production), trade (bilateral agreements for import tariff reduction), promotion (increase of funds made available).

In this context of increasingly aggressive behaviour of competitors, stability (or decrease) of the EU's production potential (despite new planting authorisation rules) may represent a limit for growth (or even for preservation) of its wine shares in international markets.

Given this constraint, the export propensity of the EU to the horizon 2025 will also depend on what happens on the internal market. We can make two hypotheses:

- If the ratio between consumption and production will increase or remain stable (considering also recent EU enlargements), the EU export propensity will decrease (therefore wine export volumes on third country markets will stabilize at lower levels than the current ones).

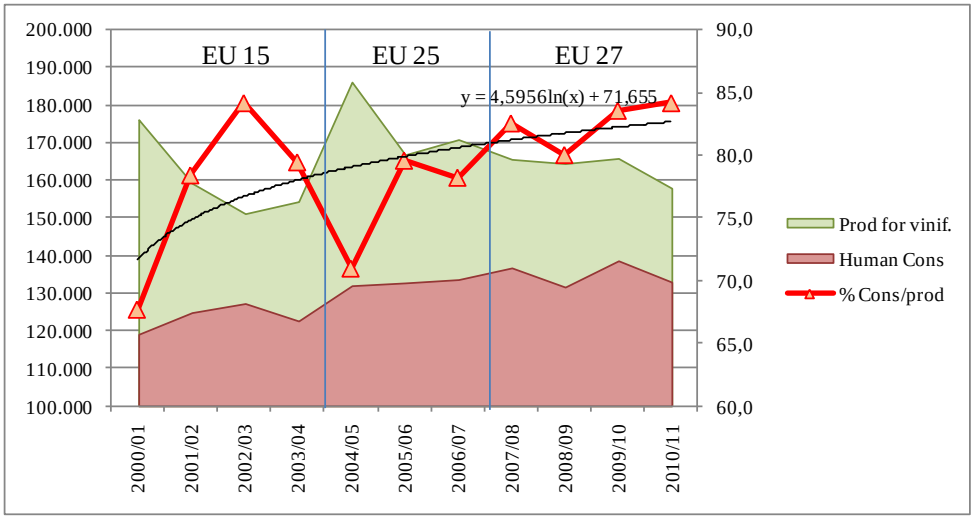
  Based on currently available data, the combination of decreasing wine consumption (i.e. human consumption) in the producing Member States with increasing consumption in all other Member States (also related to EU enlargement) leads to a substantially stable level of consumption in the last two

[68] According to views of some sector representatives, authorisation for new planting at maximum of 1% will not allow to compensate for the downward trend of vineyard areas. According to such views, the production potential of the EU is thus likely to decrease further.

[69] In India, the vineyard area has grown from 40,000 ha to 120,000 ha between 2000 and 2012 (+8.3% average per year) in India and from 59,900 ha to 82,600 ha in Brazil. Overall, India and Brazil have (already in 2012) a surface greater than that of Australia and slightly lower than that of Chile. In 2025 (extrapolation of the trend) India and Brazil together could reach 290,000 ha (i.e. an area second only to that of the United States and of China, among EU competitors).

years in the EU27 (see Fig.52). Given the downward trend of EU wine production (i.e. for vinification), the ratio between consumption and production increases (from about 72% to 82% on the interpolation curve). This translates into diminishing wine volumes potentially available for export.

Fig. 52: EU wine production for vinification, human consumption and their ratio (1,000 hl, %)



Source: based on DG AGRI data

- If the Consumption/production ratio decreases, an increase in the propensity to export may be expected (and therefore a increase in export volumes) driven by the difference between supply and demand on the domestic market. This hypothesis is suggested by DG Agri projections (2012)[70].

  In this second case, however, the possibility of translating the potential in competitive strength will depend on the strategic measures implemented to counteract the increased aggressiveness of competitors.

7.3 EVOLUTION OF DEMAND CONDITIONS IN THE CASE STUDY COUNTRIES

7.3.1 Population and GDP prospective growth

Linking consumption forecasts to the evolution of the population (population growth rate) and to economic development (GDP growth rate) requires some caution, since the evolution of consumption depends to varying degrees on a number of other factors and their joint effects.

- First of all, changes in the cultural environment can influence consumption. The evolution of the cultural environment (new consumption occasions, adoption of foreign consumption models, fashion factors, etc.) influences the consumption behaviour of current and potential consumers, thus also the diffusion rate of the product (which has an impact on average per capita consumption);
- Second, consumption can be "driven" by governments through taxation policy aimed at discouraging alcohol abuse (thus shifting consumption from high to lower alcohol content beverages), or aimed at protecting domestic industries that produce other alcoholic beverages that are wine substitutes.

However, since these factors are not easily foreseeable, in country markets where wine is past the introduction stage of its life cycle, demographic changes together with economic development allow to make an informed guess about the likely evolution (increase or decrease) in consumption. For the case study country markets, we examined the 2013-2018 forecast data published by various official sources concerning evolution of the adult population and GDP growth rates (Tab. 37).

.

[70] EC – DG Agri. Medium term projections for the world wine market 2012-2020 - Meeting of the High Level Group on Wine Planting Rights, July 6, 2012. However, these projections were obtained using total production (not production for vinification) and total apparent consumption (not human consumption).

Tab. 37: Forecast evolution of adult population and growth rates in case study countries, 2013-2018 (Million, %)

	2013	2014	2015	2016	2017	2018	% AAGR 2013-18
Adult Population (Mn)							
China	1,023.1	1,033.4	1,043.1	1,051.7	1,058.9	1,065.2	0.81
Hong Kong	6.0	6.1	6.1	6.1	6.2	6.2	0.63
Russia	115.7	115.3	114.9	114.5	114.0	113.6	-0.37
Japan	104.0	104.1	104.1	104.2	104.2	104.2	0.03
USA	228.0	230.4	232.7	234.9	237.2	239.3	0.98
Denmark	4.4	4.4	4.4	4.5	4.5	4.5	0.50
Germany	66.5	66.5	66.4	66.4	66.4	66.3	-0.06
UK	50.2	50.5	50.8	51.1	51.3	51.6	0.55
% GDP							
China	8.0	8.2	8.5	8.5	8.5	8.5	
Hong Kong	3.0	4.4	4.4	4.5	4.5	4.5	
Russia	3.4	3.8	3.7	3.6	3.6	3.6	
Japan	1.6	1.4	1.1	1.2	1.2	1.1	
USA	1.9	3.0	3.6	3.4	3.3	2.9	
Denmark	0.8	1.3	1.5	1.5	1.5	1.5	
Germany	0.6	1.5	1.3	1.3	1.3	1.2	
UK	0.7	1.5	1.8	1.9	2.1	2.5	

Source: Demographic data – US Census; Economic data – IMF

The USA, China and Hong Kong have the highest average demographic growth rate forecast per year, mirrored by a decrease for Russia (continuing the negative demographic trend of previous years, albeit at a slower rate) and for Germany (due to low birth rates and negative net migration). Substantial stability is expected for Japan.

China is the country that will benefit from the highest GDP growth in the future, albeit at a lower rate compared to previous years (8.4% on average per year). Hong Kong (4.2%) and Russia (3.6%) follow from a distance and about 3.0% growth (on average for all years of the period) should also be seen in the United States.

By contrast, the average annual GDP growth should remain on much lower rates in Japan and in the European countries, ranging between 1.2% in Germany and 1.8% in the UK.

7.3.2 Consumption forecasts for bottled still wine

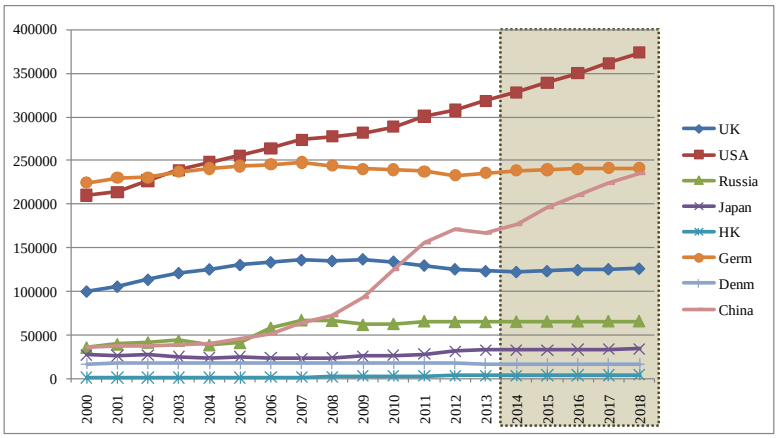
Evolution of demand conditions influences expectations about consumption in the examined country-markets. Consumption forecasts of wine in bottles (expressed in equivalent '000s 9-litre cases between 2013 and 2018) are sourced from IWSR[71].

IWSR forecasts are based on the two parameters in Tab. 37 above, but also on indications generated by analysis of current economic and political issues (e.g. probability that Chinese government announcement of anti-dumping investigation on European wines in 2013 affects imports from the EU; expected effects of the ban on advertising alcoholic drinks introduced by the Russian government in January 2013 on wine consumption). For this reason, IWSR forecasts are preferred over other projections based on simple extrapolation of per capita wine consumption. IWSR consumption data are subdivided according to wine origin (in our case, grouped into "local", EU and Others for convenience).

To allow for a more contextualised reading of forecast data, forecasts were "tied" to the consumption trend observed for the period 2000-2013. Fig. 53 shows the entire evolution of consumption (past and forecast) for the years 2000-2018.

[71] As usual, forecast data must be taken with due caution, as consumption is influenced by country-specific factors. It should also be remembered that IWSR consumption data refer to still packaged wines sold through the Off-trade channel.

Fig. 53: Consumption evolution: 2000-2013 time series and forecasts for 2013-2018 (000s 9-litre cases)



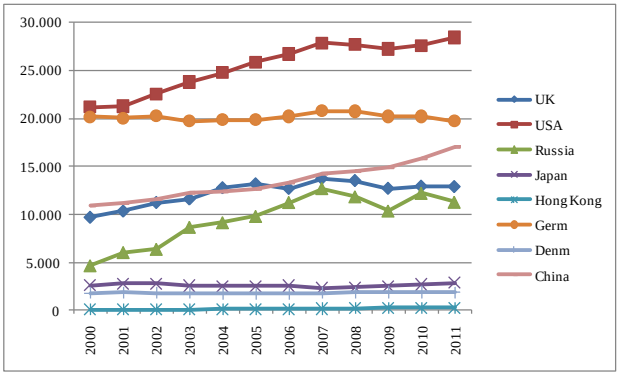
Source: IWSR

Moreover, other sources were taken into consideration for the analysis of wine consumption trends, as reported in the box below.

Evolution of wine consumption in traditional markets: Other data sources

The evolution of consumption (source: IWSR) is substantially confirmed by other sources. As an example, OIV data of total wine consumption (of which still wines represent the largest share) from 2000 to 2011 approximately confirm the same trends (Fig. 54). In particular, OIV data confirm the significant growth of consumption in China and in the United States, and the trend break for Russia in 2007-2008, from strongly positive between 2000 and 2007 to slightly negative afterwards, until 2011.

Fig. 54: Evolution of wine consumption in traditional markets 2000-2011 (million hl)



Source: OIV

To complete the analysis, Tab. 38 reports consumption figures for 2000, 2013 and projections to 2018 (bottled still wine), as well as annual average growth rates of consumption, in total and by origin, for the years 2000-2013 and for the 2013-2018 forecast interval.

Tab. 38: Consumption of bottled still wine and annual average growth rates (2000-2013 and 2013-2018 forecasts), total and by origin – Annual average growth rates of market shares by origin (2013-2018 forecasts)

		Consumption 000s 9 litre cases			% AAGR Consumption			Market Share: % AAGR 2013-18
		2000	2013	2018	2000-13	2013-18	Δ	
China	Total Consumption	**36,109**	**166,307**	**234,849**	**13.91**	**7.03**	**-6.88**	**0.00**
	Others	142	10,022	14,129	37.12	6.89	-30.23	-0.13
	EU	192	21,285	37,720	42.99	11.26	-31.73	3.96
	Chinese	35,775	135,000	183,000	12.21	6.27	-5.94	-0.70
Denmark	Total Consumption	**16,800**	**17,190**	**17,178**	**0.16**	**0.02**	**-0.14**	**0.00**
	Others	2,810	8,065	8,495	8.47	1.04	-7.43	1.02
	EU	13,990	9,125	8,683	-4.00	-0.92	3.08	-0.94
Germany	Total Consumption	**224,552**	**235,511**	**241,471**	**0.24**	**0.56**	**0.32**	**0.00**
	Others	15,301	25,352	24,350	3.05	-1.07	-4.12	-1.62
	EU	209,252	210,159	217,121	0.43	0.76	0.33	0.19
Hong Kong	Total Consumption	**991**	**3,585**	**4,222**	**11.86**	**3.82**	**-8.04**	**0.00**
	Others	389	1,870	2,177	14.26	2.76	-11.50	-1.02
	EU	597	1,685	2,045	9.55	5.03	-4.52	1.16
	Chinese	5	30	55	14.10	12.89	-1.21	8.73
Japan	Total Consumption	**27,316**	**34,317**	**34,247**	**1.27**	**1.03**	**-0.24**	**0.00**
	Others	3,769	9,033	8,696	6.60	1.57	-5.03	0.53
	EU	12,142	14,484	13,651	0.63	-0.07	-0.70	-1.08
	Japanese	11,406	10,800	11,900	-0.80	1.96	2.76	0.92
Russia	Total Consumption	**36,100**	**65,055**	**65,924**	**5.18**	**0.27**	**-4.91**	**0.00**
	Others	7,657	9,922	10,666	11.20	1.46	-9.74	1.19
	EU	1,143	18,033	18,758	22.97	0.79	-22.18	0.52
	Russian	27,300	37,100	36,500	2.67	-0.33	-3.00	-0.59
United Kingdom	Total Consumption	**100,308**	**121,686**	**126,096**	**1.50**	**0.47**	**-1.03**	**0.00**
	Others	37,700	65,688	68,831	3.90	0.65	-3.25	0.18
	EU	62,608	55,998	57,265	-0.80	0.25	1.05	-0.22
United States	Total Consumption	**210,098**	**318,165**	**373,390**	**3.11**	**3.25**	**0.14**	**0.00**
	Others	13,851	34,804	37,743	6.49	1.59	-4.90	-1.60
	EU	27,967	45,581	53,197	3.37	3.14	-0.23	-0.11
	US	168,280	237,780	282,450	2.65	3.50	0.85	0.25

Negative values in red

Source: Cogea, based on IWSR data

Some important aspects emerge from the analysis:

- In all studied country-markets forecasts for 2013-2018 are positive, although growth rates vary considerably, ranging from a minimum of 0.02% in Denmark to a maximum of over 7% per year for China. Looking ahead, China and the US emerge as the most dynamic markets and, therefore, potentially more attractive;
- In all countries, except for the USA and Germany, growth rates suffer a slowdown compared to the previous period, very strong in Hong Kong and China, almost insignificant in Denmark and in Japan;
- In all country-markets, EU wines show positive growth rates, with the exception of Denmark and Japan (showing, however, very small negative change rates).

In addition, the distinction of wine consumption by origin shows that:

- Consumption growth in the USA and Japan is mainly sustained by "local" wine production (which means that growth is satisfied in large part by wine imported in bulk)[72] followed by European wines in the US and wines of other origin in Japan.
- Consumption growth in China is also mainly satisfied by "local" production, but European wine imports show the highest growth rate (suggesting that they should, therefore, increase their market share). In contrast with the two previous countries, growth of domestic wine production should mainly be driven by increase of vineyard areas.
- Consumption growth in Germany and Hong Kong is expected to be mainly satisfied by European wines, in volume terms.

[72] The total US vineyard area is expected to remain stable and wine grape production should only grow thanks to increased productivity (higher yields).

- The weak consumption growth in Russia is supported by both EU wines and wines of other origin, at the expenses of a decrease in "local" production (therefore, probably also by a decrease in bulk wine imports). However, EU wine consumption is expected to grow at a lower rate compared to wines of other origin.
- The expected recovery in consumption in the UK (after marked decrease between 2009 and 2013) is mainly supported by wines from other origins (which should, therefore, increase their market share).
- The substantial stability of consumption in Denmark will see substitution of European wines with wines from other origin.

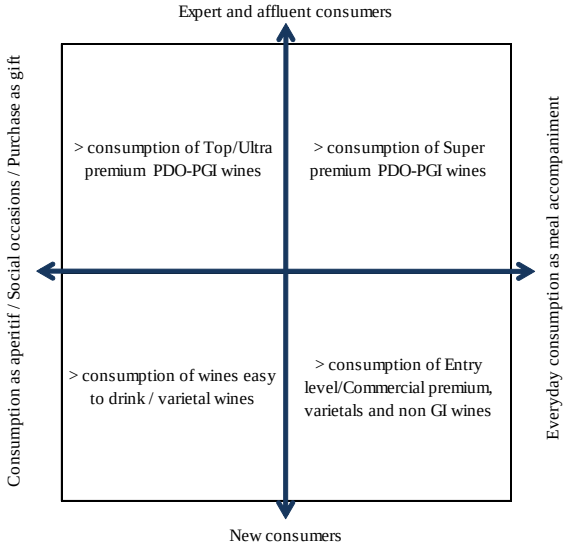
In synthesis, all observed trends may be expected to lead to:

a. Tendency towards increasing EU wines market share in China, Germany, Hong Kong and Russia, although wines of other origin are expected to grow at a slightly higher rate than EU wines in Russia;
b. Tendency towards decreasing EU wines market share in Denmark, Japan, UK and USA.

7.3.3 Expectations about changes in consumer markets and impact on consumption

Besides the increase in consumption (i.e. quantity), it is also necessary to assess in which segments consumption is likely to develop in the future (i.e. towards which wine quality). In addition to the growth of GDP per capita[73], this will be linked to both evolution of the different consumer targets and to growth of the various functions / occasions of wine consumption. The combination of consumer targets and consumption occasions helps to define the direction in which the segments will develop. To illustrate this concept, the map in Fig. 55 shows two consumer targets (Expert and affluent consumers; New consumers) and two functions / occasions of consumption (Consumption as an aperitif/in social occasions/purchased as gift; Daily consumption as meal accompaniment). For each of the four quadrants generated by the combination of these factors, the types of products mainly consumed can be represented.

Fig. 55: Representation of types of wine consumed according to consumer targets and consumption occasions



Source: Cogea

Thus, the direction of development of the factors may indicate which segments may be expanding. For example:

- if the number of expert and affluent consumers who mainly drink wine in social occasions increases, demand growth will interest more wines in the Top range and Ultra premium (including PDO-PGI in Europe, but also regional wines with GI of other competitors);

[73] Correlation exists between growth of GDP per capita and consumption of wines in the higehr price/quality ranges.

- on the contrary, if the number of new consumers (low-income) who mainly consume wine at home in accompaniment to a meal increases, demand growth will be more geared towards Entry level and Commercial premium wines, probably in BiB and/or other convenience packaging.

In addition, all consumer profiles in between the two extremes represented by the map will behave differently according to consumption occasions, which of course are not mutually exclusive but can coexist.

It is not possible to determine what the future market directions will be. However, it is very likely that, in all countries, growth can affect all segments, as a combined effect of higher penetration rates and income growth, but also because of changing habits / lifestyles / consumption occasions[74]. At individual country level, wine demand is likely to be more complex and more sophisticated than at present.

Finally, it may be interesting to develop market opportunities (currently ignored or not adequately explored) expressed by potential consumer targets who, for personal ethical reasons (religion, sports), health (diabetes, pregnant women) or for specific situations (driving) can not consume alcoholic beverages, but would welcome the opportunity to enjoy wine. Existing technology (i.e. partial or total wine de-alcoholisation) already allows to meet this target potential.

7.3.4 Expected future developments of wine demand in the case study markets

The information collected through interviews with key market agents in the case study countries is summarized in Tab.39 to show the main developments in consumer markets and wine demand expected in the near future.

Tab. 39: Expected future developments in the case study consumer markets

	Expected developments in consumer markets	Expected developments in product demand	Expected developments in sales channels
CHINA	• Still high growth rate of wine consumption, but slightly slowing down • Growth of middle classes • Consumers becoming better informed and more experienced • Consumption increase in third and fourth-tier cities	• Growth mostly expected within Medium Range wines • Trading-up from lower to higher price/quality wines • Premium wines (Commercial, Super and Ultra Premium) expected to increase market share	• Growth of wine consumption On-trade • Growth of Off-trade sales
JAPAN	• Moderate future growth, mainly driven by consumption at home • Persisting price sensitivity • Low interest in wine for younger generations • Expansion of wine's "reach" to larger segments of population (i.e. penetration increase)	• Growth mostly expected at Entry Level, partly for Medium Range wines	• Growth of Off-trade sales • Growth of online sales
RUSSIA	• Fairly stable wine consumption overall • Slow growth expected, but depends on growth of middle classes, political stability and better information to consumers • Expected increase of wine consumption outside two main cities	• Expected increase of consumption of imported wine to detriment of "domestic" wine • No acidic wines, preference for taste of tannins	• Development of wine sales On-trade and Off-trade outside two main cities (due to enhancement of distribution network)
USA	• Wine market growth driven by fast population growth • Wine consumption expected to grow especially in younger generations (Millennial) • Lifestyle developments affect positively wine consumption (better knowledge, wine	• Trading-up from lower to higher price/quality wines • Market for higher priced wines expected to develop further • Overall, better future prospects for red wine	• Growth of wine consumption On-trade • Growth of online sales

[74] For example, in Japan, partly as a result of the economic crisis, wine consumption at home is increasing, even as an accompaniment to meals.

	as accompaniment to meals, etc.) • Expected increase in market penetration at geographical level (i.e. States where consumption levels are still low)		
DENMARK	• High per capita wine consumption, market expected to remain stable overall • However, consumption is expected to grow somewhat because of a. Increasingly affluent population of older Danes b. Increasing interest in wine for younger Danes • Persisting price sensitivity	• Overall, better prospects for wines in the lower price ranges However, • Market for higher price wine expected to develop (a.) • Higher sales of small bottles are expected (b.)	• Retail chains expected to retain market leadership in wine sales • Persisting low importance of On-trade for wine sales
GERMANY	• Little market growth due to population ageing trend. However, as population ages, more consumers expected to switch from spirits to wine • Persisting price sensitivity	• Overall, better prospects for wines in the lower price ranges • Persistance of current trends: wine mainly consumed at home; if consumed outside, mainly as aperitif	• Growth of online sales (i.e. largely online stores of big retail chains)
UK	• Market is overall mature, wine consumption expected to remain fairly stable • As a result of economic crisis, the wine market is expected to remain fairly price-driven • However, some scope for market development through ”trading-up” from lower to higher quality/price wines (better knowledge by consumers leads to placing more importance on quality)	• Due to trading-up, premium wines expected to increase market share (both upper Medium Range and Top Range) at the expenses of other types of wine • Further development of market niche of consumers willing to spend more and consume less wine	• Retail chains expected to retain market leadership in wine sales • Developments in On-trade sector may create new ways of wine consumption (e.g. gastro-pubs) • Growth of online sales

Source: COGEA, based on interviews

In general, in markets where trading-up and increase of wine sales in the higher price/quality tiers of the market (Super and Ultra Premium, Top Range) are expected, European wines should benefit from an already established competitive advantage. Strategies of European wine businesses should, thus, be directed to maintaining such competitive edge.

Development of the On-trade sector is also considered to favour EU wines, chiefly Italian and French, because of widespread presence of dedicated restaurants and because European wines are generally considered as more suitable and easier to drink than other wines as accompaniment to meals.

In markets such as Japan, where growth is expected mostly at Entry Level (through increase of sales in the off-trade and online retail channels), European wines will probably find themselves competing more fiercely with NWC wines to develop market shares. Indeed, NWC wines are genereally considered as well positioned in this segment across the examined markets, although European wines also have respectable presence.

It emerges from the interviews in the UK (but mentioned also in the US, Germany and Denmark) that one of the weaker points of European suppliers/wines compared to NWC in market development is in their lower ability to understand the consumer market and to quickly adapt to new market demand trends.

7.3.5 BCG matrix based on 2018 consumption forecasts

Based on forecasts for wine consumption and composition of market shares to 2018 provided by IWSR, we have placed different countries / markets within a “growth- market share” matrix. This matrix was originally conceived by the Boston Consulting Group (BCG) in order to position the products / activities of a company in terms of their ability to generate incoming resources (cash flow) and their need for output resources (i.e. investments), then to help the management make strategic decisions about the future of the product portfolio of the company.

Through a suitable adaptation, the matrix can give useful indications at macro level, in particular for the identification of countries / markets on which it might be more interesting (for both public and private stakeholders in Europe) to focus and to direct economic resources available to the horizon 2025 (hence, from a strategic viewpoint).

The matrix uses two classification parameters (see Fig. 56):

- Growth rate of the still wine market in different countries (the vertical axis). This is a measure of market attractiveness. The boundary (horizontal dividing line) between low and high attractiveness was set to 1% per year between 2013 and 2018 (i.e. <1%: low attractiveness; >1% high attractiveness).

- Relative Market Share of European wines in 2018 (the horizontal axis). It measures the competitive strength of European wines compared to its competitors. The Relative Market Share is calculated as the ratio between the Market share of European wines and the market share of all wines from all other origins (imported or "local"). A logarithmic scale base-10 is used. The boundary (vertical dividing line) between low and high competitive strength has been set equal to 1 annual average (i.e. from 0.1 to 1.0 low competitive strength; 1 to 10, high competitive strength).

The combination of these two parameters identifies 4 categories. For each combination it is possible to make recommendations about strategic behaviour.

The four quadrants in the BCG matrix (Fig. 56), adequately adapted to a macro level of analysis, represent:

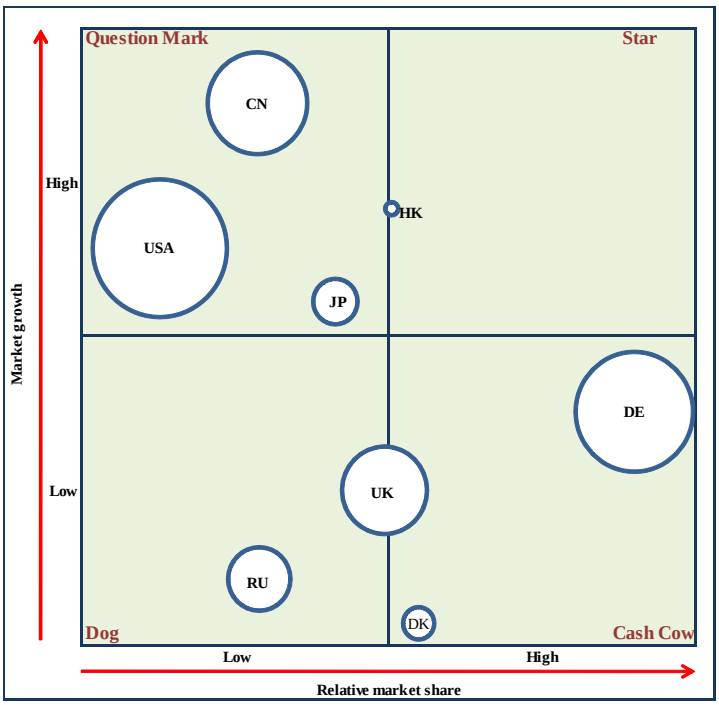
Question Mark: *The term indicates that European wine is in an attractive market (i.e. attractive for all competitors), but does not possess a significant competitive strength. Therefore, there is uncertainty about the possibility of increasing its market share, achievable only through use of higher financial resources than those invested by competitors (Question Mark products generate a weak cash in-flow and require significant resources in output). The recommended behaviour is to develop investments with the aim to progressively move towards the Star box.*

Star: *The term indicates that European wine is strongly competitive in highly attractive markets, able to generate the highest Return on Investments (ROI). Star products require continuous investments (high need for cash) to maintain or further develop the advantage competitive position. The recommended behaviour is to invest to maintain achieved positions until the product moves to a later stages of the life cycle of (ie, up to market maturity).*

Cash Cow: *The term indicates that European wine is in the markets characterised by low growth (and therefore less attractive to potential new entrants), but highly competitive. This position generates high cash flow (through little investments, mainly as defensive strategy) that potentially allow to finance investments in Question Mark countries. The recommended behaviour is to continue to exploit the market (i.e. gain without investing a lot).*

Dog: *The term indicates that European wine has low competitive strength in a market characterised by low growth. Thus, it is possible to generate just enough revenue to reach budget balance, or even incur in losses. A country decision to enter this quadrant makes it necessary to evaluate the following alternatives: reduce investment and / or try to revitalize the market segments potentially sensitive to offered products.*

Fig. 56: Growth-Market Share Matrix for still wine – Case study markets*



* The size of each country circle represents the relative size of the consumer market.

Source: Cogea, based on IWSR data

The results of this exercise highlight the following:

a. The existence of a group of countries (China, USA and Japan) that by 2018 should be positioned in the "Question Mark" box. These markets are characterised by expanding consumption and where an important role is played by "local" products, whose market share could be eroded through adequate aggressive strategy (i.e. adequate investments to maximize response to key factors of competitiveness specific to each individual country-market). In these markets, strategies such as developing communication and advertising to traders and to consumers, Public Relation activities with importers and distributors, organisation of visits to wineries by clients and granting of higher profit margins to distributors/retailers should be considered. In principle, these markets should be given priority when making investment decisions.

b. The position of Hong Kong (not a wine producer) in between "Question mark" and "Star". It seems advisable for EU wines (companies) to insist on an aggressive strategy (thus, invest heavily) in order to move to the "Star" quadrant in view of 2025. This also in reason of the role played by Hong Kong as an international hub in Asia.

c. The existence of a group of countries (Germany and Denmark) that by 2018 should be positioned in the "Cash-cow" box. These are markets characterised by limited development potential, but dominated (in particular Germany) by EU wines, including German wines. Although these markets can be defined as unattractive, it is highly likely that some EU competitors will try to penetrate these markets further (such as Australia and Chile, that need to broaden their market-portfolios). So, ultimately, it is recommended that EU wines (companies) implement a strategy of consolidation of the positions achieved and defense from the likely aggressiveness of competitors (for example, through actions aimed at strengthening customer loyalty).

d. The position of Russia (wine producer country) in the "Dog" quadrant. The expected stagnation of wine consumption and low competitiveness of EU wines generate doubts about the strategic opportunity to allocate resources to this market. However, the low market share of European wines refers to the entire wine market (all segments included). Therefore, focusing on and revitalising market segments expected to be less interested by domestic wines in the future (i.e. Top Range and Ultra Premium) would seem as the most appropriate strategy to maintain presence in this market.

e. Finally, the position of the United Kingdom between "Cash Cow" and "Dog". As this country is not a significant wine producer, European wine presence is most threatened by wines of the competitors, and this very important market could eventually lose interest in the future (in case EU wines should further decrease their competitive strength). It would be necessary, therefore, for European wine companies to implement a strategy to move the position of this market in the "Cash Cow" quadrant (where the UK was, in fact, before the erosion of market shares by the NWCs). The strategic objective would, therefore, be to recover market share, to be achieved through the adoption of the same strategies that have helped NWC wines to achieve success on this market (transport in flexitank, bottling on site and granting of higher margins[75] to retail chains).

7.4 HYPOTHESES ON THE EVOLUTION OF KEY FACTORS OF COMPETITIVENESS

7.4.1 Perceived changes in the importance of factors of competitiveness for packaged wines, from the current situation to 2025

The factors of competitiveness and their hierarchy according to importance have been previously analysed (§6.2). In particular, the current importance of a number of factors of competitiveness was assessed through administration of a short questionnaire to key market players interviewed in the case study countries. The same interviewees were also asked to evaluate whether the importance of the suggested factors would increase, decrease or remain stable by 2025 (i.e. relative to the importance attributed at present).

In Tab. 40, cells highlighted in red refer to factors of competitiveness that are currently considered Extremely important (score=3). In our prospective analysis we also took into consideration the factors of competitiveness that were considered scarcely or not at all important at present (as we could not rule out that what is a scarcely or not at all important today might become important or extremely important in the future).

Tab. 40: Opinions about future evolution of the importance of factors of competitiveness for packaged wines (from the current situation to 2025)

		China			Japan			Russia			USA			Denmark			Germany			UK			Total		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Size of the supplier (exporting or domestic company)				+	+	+	+	+	+	=	=	=	=	=	=	+	+	+	=	=	=	+	+	+
	Ability to manage relationships with importers/distributors	-	-	-	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Ability to select importers/distributors/buyers	=	=	=	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Granting of higher profit margins	-	-	-	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Organisation of customer visits at wineries	+	+	+	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Brand extension	-	+	+	+	+	+	+	+	+	=	=	=	+	+	=	+	+	+	+	+	=	+	+	+
Factors related to product	Product quality	+	+	+	+	+	+	+	+	+	=	=	=	=	+	+	+	=	+	+	+	+	+	+	+
	Price	+	+	-	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Origin of the product/terroir	+	+	+	+	+	+	+	+	+	=	=	=	=	+	=	+	+	+	+	+	+	+	+	+
	Type and quality of the packaging (presentation)	+	+	+	+	+	+	+	+	+	+	+	+	+	=	=	+	+	+	+	+	+	+	+	+
	Indication of grape variety	+	=	=	+	+	+	+	+	=	+	=	=	=	=	=	+	+	+	+	=	-	+	+	+
Factors related to brand	Presence of brands in specialised trade magazines	=	=	=	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Brand/Image of the product	+	+	+	+	+	+	+	+	+	+	+	+	+	=	=	+	+	+	+	=	=	+	+	+
Factors related to marketing service	Price stability	+	+	+	+	+	+	+	+	+	=	=	=	+	+	=	+	+	+	+	+	+	+	+	+
	Offer of logistics services	=	=	=	+	+	+	=	=	=	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Width / range of wines selection	=	=	=	+	+	+	+	+	+	=	=	=	=	=	=	+	+	+	+	+	+	+	+	+
	Reliability / Compliance with contractual agreements / Timeliness of delivery	+	+	+	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
	Advertising, promotion and comunication activities directed to traders	=	=	=	+	+	+	+	+	+	-	-	-	=	=	=	+	+	+	-	-	-	+	+	+
	Reactive adaptation of the product to customers' demand	+	+	+	+	+	+	+	+	+	+	+	+	=	=	=	+	+	+	+	+	+	+	+	+
Factors related to positioning	Appropriate advertising, promotion and comunication activities directed to consumers	=	=	=	+	+	+	+	+	+	-	-	-	=	=	=	+	+	+	=	=	=	+	+	+
	Correct price/quality positioning	+	+	=	+	+	+	=	+	+	+	+	+	+	+	=	+	+	+	+	+	=	+	+	+

"+" More important in the future; "-" Less important in the future; "=" Equally important in the future

Factors originally rated as "Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Influence factors highlighted in yellow; Dependence factors in blue.

Source: questionnaire administered to market players

Tab. 40 shows two extremes, Japan on the one hand, where all factors are predicted to grow in importance, and Denmark on the other, where only a very small number of factors are expected to increase their

[75] "Granting of higher profit margins" is a factor of competitiveness expected to become more important in the future (outlook to 2025) by key market players interviewed in the case study countries, with the only exception of China and Denmark.

importance in the future, while all other factors will remain the same. Furthermore, in all countries (to varying extents) predictions indicate a further importance increase for factors that have already been considered (by the same market players) to be extremely important at present.

We feel that these opinions, probably slightly exaggerated, are generated by the expectation that competition will intensify in the near future. Therefore, in a situation that is perceived as more turbulent, factors contributing to generate a competitive advantage tend to raise their overall importance (i.e., the bar is set higher and higher).

On the other hand, there are very few factors for which a decrease in importance is expected. In particular, "Advertising, promotion and communication activities directed to traders" in USA and UK; "Appropriate advertising, promotion and communication activities directed to consumers" in USA; "Ability to manage relationships with importers/distributors" and "Granting of higher profit margins" in China.

Finally, it is interesting to observe that in some cases forecasts are different for the various market segments. For example:

- In the UK, the importance of "Indication of grape variety" is expected to increase for the Entry Level segment, remain the same for the Medium Range and decrease for the Top range. In the same way, in USA it is likely to increase for Entry Level and remain the same in the other two segments.
- In Denmark, the importance of "Origin of the product/terroir" is expected to increase for Medium Range wines and to remain the same in the other segments.
- In China, the importance of "Price" is expected to increase in the Entry Level and Medium Range segments, while it is expected to decrease for wines in the Top Range.

It seems reasonable to expect that further increase in the importance of most factors of competitiveness will be reflected on the importance of Influence factors and Dependence factors (respectively, in yellow and in blue in Tab. 40) identified through application of the MicMac method (see §6.2.3) but, most likely, not on their impact hierarchy.

Therefore, the analysis suggests that the main results (previously discussed) should be confirmed also for the future:

- Most of the major Influence factors are linked to behaviour (in particular factors related to bargaining power and access to distribution channels);
- However, when moving upwards from one segment to the next, from Entry level to Top range, some of the behavioural factors are replaced by product-related factors;
- In a similar way, many Dependence factors are related to behaviour (in particular factors related to positioning and factors related to brand), except one key factor relating to the product (i.e. price).

We recall that the factors for which an opinion was asked about their likely future importance were given to interviewees in the questionnaire (a total of 21 factors), while those used in the MicMac structural analysis (to assess the current situation only) were 41 in total, including both the suggested ones and those spontaneously mentioned by respondents in the interviews.

One of these spontaneously mentioned factors (i.e. product-related) is "PDO-PGI popularity". This is a key Influence factor, in particular for Top range wines, but also for Medium range wines, that complements the key Influence factor "Origin of the product / terroir".

7.4.2 The competitive position of EU bottled wine by 2025

In order to identify the possible future competitive position of EU wines (and wineries) with respect to NWC and domestic wines in the case study countries, we developed a combination for each factor of competitiveness, between the current leading position of EU wines (i.e. best response to factors of competitiveness compared with NWC and domestic wines) and the factors for which market players forecast an increase in importance by 2025 (in practice, this was done by combining the results in Tables 28 and 29 with the results presented in Table 40: the future advantage position, indicated with "§" in Tab. 41 and Tab. 42) is given by the combination of "B" (i.e. Better response of EU wines to a factor of competitiveness) and "+"(i.e. factors considered to become more important in the future).

The underlying hypothesis is that, *ceteris paribus*, in a situation in which there is an increase in importance of a competitive factor, the market players that already have this competitive advantage will have greater potential of maintaining or increasing it.

This is equivalent to identify expected future strengths and weaknesses of European wines relative to main competitors in the examined markets. At this stage of the analysis, it becomes all the more important to identify the areas in which European wines are expected to underperform compared to competitors, as these "weak" areas are the ones on which to focus strategic countermeasures. The present analysis centres, in particular, on the identified key factors of competitiveness, either characterised as Influence or Dependence factors (respectively, in yellow and in blue in Tab. 41 and Tab. 42).

Tab. 41: Combination between factors that will increase in importance and factors to which EU wines respond better compared to NWC wines

		China			Japan			Russia			USA			Denmark			Germany			UK		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Size of the supplier (exporting or domestic company)							§	§	§												
	Ability to manage relationships with importers/distributors				§	§	§	§	§	§	§	§	§				§	§	§			
	Ability to select importers/distributors/buyers				§	§	§	§	§	§	§	§	§							§	§	§
	Granting of higher profit margins				§	§	§															
	Organisation of customer visits at wineries							§	§	§	§	§	§				§	§	§			
	Brand extension			§		§	§	§	§	§									§			
Factors related to product	Product quality		§	§	§	§	§	§	§	§						§					§	§
	Price				§	§	§			§		§	§				§					
	Origin of the product/terroir		§	§		§	§	§	§	§					§		§		§	§	§	§
	Type and quality of the packaging (presentation)					§	§	§	§	§		§	§								§	§
	Indication of grape variety					§	§		§													
Factors related to brand	Presence of brands in specialised trade magazines				§	§	§															
	Brand/Image of the product	§	§	§	§	§	§	§	§	§	§	§	§				§	§	§			
Factors related to marketing service	Price stability	§	§			§	§			§					§		§			§	§	§
	Offer of logistics services				§	§	§				§	§	§				§	§	§	§	§	§
	Width / range of wines selection				§	§	§	§	§	§												
	Reliability / Compliance with contractual agreements / Timeliness of delivery				§	§	§				§	§	§				§	§	§			
	Advertising, promotion and comunication activities directed to traders				§	§	§	§	§	§												
	Reactive adaptation of the product to customers' demand				§	§	§	§	§	§							§	§	§			
Factors related to positioning	Appropriate advertising, promotion and comunication activities directed to consumers				§	§	§	§	§	§												
	Correct price/quality positioning		§		§	§	§		§	§			§	§			§		§			

"§" factors for which EU wines are expected to have competitive advantage in the future

Factors originally rated as "Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Influence factors highlighted in yellow; Dependence factors in blue.

Source: questionnaires administered to market players

The results presented in Tab. 41 show that, compared with NWC wines, EU wines (wineries) could maintain (or increase) a significant overall competitive advantage in Japan[76] and Russia, but also in Germany and the US. On the other hand, the smaller number of factors to which European wines are expected to respond better than competitors in Denmark, China and the UK suggest a more uncertain future position, even if the factors involved for the former group of markets and for the latter are different.

With respect to factors related to characteristics and behaviour of suppliers, EU suppliers main strengths (compared to NWC) across most examined markets can be identified in their "ability to establish and manage relationships with importers and distributors" (both Influence factors), in particular in Japan, Russia, USA, Germany and UK.

Conversely, EU wines main weaknesses (compared to NWC) expected to persist in the future in most examined markets are relative to "size of the supplier" in all countries but Russia, "brand extension"[77] in Denmark, UK and US (also in China and Germany, but only for Entry level and Medium range wines).

[76] Results for Japan do not appear to confirm forecasts (to 2018) presented in Tab.38, however IWSR data, on which forecasts are based, only consider packaged wines sold through Off-trade channels.

[77] Development of new products using an existing brand name. A company using brand extension aims to leverage its existing customer base and brand loyalty to increase its profits with a new product offering.

With respect to factors related to products, brands and positioning, EU wines' main strengths (compared to NWC wines) expected to be maintained in the future across most markets, in particular in the Top and Medium Range segments, concern "product quality", "origin of the product/terroir" (both Influence factors) and "product/brand image" (Dependence factor).

Conversely, at Entry level, the main weaknesses of European wines (compared to NWC wines) expected to persist are "price" (Dependence factor) (i.e. in general, NWC wines are perceived to offer better value for money in China, Russia, the US, Denmark and the UK) and "price stability" (Japan, US and Denmark).

In markets such as China, Denmark, Germany and UK, "appropriate advertising, communication and promotion to consumers" (Dependence factor) also appear as a weak strategic area for EU wines.

Tab. 42: Combination between factors that will increase in importance and factors to which EU wines respond better compared to domestic wines

		China			Russia			USA			Germany		
		EL	MR	TR	EL	MR	TR	EL	MR	TR	EL	MR	TR
Factors related to bargaining power and access to distribution channels	Size of the supplier (exporting or domestic company)				§	§	§						
	Ability to manage relationships with importers/distributors				§	§	§						
	Ability to select importers/distributors/buyers							§	§	§			
	Granting of higher profit margins				§	§	§	§	§	§	§	§	§
	Organisation of customer visits at wineries				§	§	§				§	§	§
	Brand extension		§	§	§	§	§				§	§	
Factors related to product	Product quality		§	§	§	§	§						
	Price		§		§	§	§	§	§	§		§	
	Origin of the product/terroir		§	§	§	§	§						§
	Type and quality of the packaging (presentation)		§	§	§	§	§						
	Indication of grape variety					§							
Factors related to brand	Presence of brands in specialised trade magazines				§	§	§						
	Brand/Image of the product	§	§	§	§	§	§	§			§		
Factors related to marketing service	Price stability	§	§	§			§					§	
	Offer of logistics services												
	Width / range of wines selection				§	§	§						
	Reliability / Compliance with contractual agreements / Timeliness of delivery				§	§	§						
	Advertising, promotion and comunication activities directed to traders				§	§	§						
	Reactive adaptation of the product to customers' demand				§	§	§						
Factors related to positioning	Appropriate advertising, promotion and comunication activities directed to consumers				§	§	§						
	Correct price/quality positioning		§			§	§				§		§

"§" factors for which EU wines are expected to have competitive advantage in the future

Factors originally rated as "Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Influence factors highlighted in yellow; Dependence factors in blue.

Source: questionnaires administered to market players

Results regarding the prospective competitive position of EU wines relative to domestic wines (Tab.42) in the case study countries that are wine producers appear to be quite clear-cut, showing that competitive advantage of EU wines is expected be maintained in Russia and to an extent in China, but mainly for wines in the Medium and Top Ranges.

The situation appears to be less certain on the US and German markets, as most factors of competitiveness considered as important (relating to both product and supplier behaviour) seem to represent weak points for European wines[78] compared to domestic wines.

With respect to suppliers structure and behaviour, the main weaknesses of European bottled wines (i.e. other European wines in the case of Germany) in most markets (compared to domestic products) can be identified in respect of their "ability to select importers/distributors and "manage relationships with importers/distributors" (both key Influence factors) and in terms of the "size of suppliers". With regard to factors related to positioning, "appropriate communication directed to consumers" (key Dependence factor)

[78] In the case of Germany, by « European wines » we intend « other European wines » besides domestic wines.

also appears as a weakness for EU wines compared to domestic products in the US and China, and for other European wines in the case of Germany.

With respect to product factors, the main weaknesses of EU wines in the US and other European wines in Germany, compared to domestic wines, are found "product quality" (especially in the Medium and Top Range segments) and "origin of the product/terroir" (both Influence factors)[79].

7.4.3 Perceived changes in the importance of factors of competitiveness for bulk wine, from the current situation to 2025

In the case of bulk wines too, we asked market players to express their opinion on the possible variation of importance of factors of competitiveness, from present to the horizon 2025 (Tab.43).

Tab. 43: Opinions about future evolution of the importance of factors of competitiveness for bulk wine (from the current situation to 2025)

		CN	JP	RU	USA	DK	DE	UK
Factors related to the product	Product quality	+	+	+	+		+	
	Price		+	+	+		+	
	Price stability		+	=			+	
	Origin of the product/terroir	-	=	=			=	
	Correct price/quality positioning		+	=	+		+	
Factors related to the exporting company	Large supply volumes		+	=			=	
	Ability to manage relationships with importers/distributors		+	=			+	
	Reactive adaptation of the product to customers' demand		+	=			+	
	Offer of logistics services		+	=			=	
	Reliability / Compliance with contractual agreements / Timeliness of delivery		+	=			+	
	Organisation of customer visits at wineries		=	+			-	
	Consistent quality over time	+						

"+" More important in the future; "-" Less important in the future; "=" Equally important in the future

Factors originally rated as "Extremely important" factors (score=3) are highlighted in red; "Important" factors (score=2) are highlighted in green. Empty cells correspond to factors considered scarcely or not at all important (score=1 or 0)

Source: questionnaires, interviews with market players

Compared with the current situation, there seems to be a certain agreement on the greater importance that product quality will have in the future. This seems to be linked to increasing consumer demand for quality, especially for Entry level wines (for whom imported bulk wines are mainly intended). Furthermore, the price factor might acquire even greater importance, due to expected increase in competition in this segment (in turn, due also to the appearance on the market of new players such as China, India and Brazil).

7.5 POSSIBLE STRATEGIC ADAPTATION OF ECONOMIC ACTORS TO CHANGES IN THE COMPETITIVE SCENARIO AND IN THE HIERARCHY OF KEY FACTORS OF COMPETITIVENESS

What will happen between now and 2025 will be also the result of contrasting strategies (i.e. moves and countermoves) of the main wine producer countries.

In the medium to long term it is likely that the following competitive strategies will develop, which are described in the next four sections.

7.5.1 Strategies of expansion or penetration of export markets

With regard to penetration of export markets, the evidence resulting from the analysis of historical data gives some indication of the strategies that the various competitors are likely to implement in the future.

[79] An explanation of the possible reasons was provided in §6.2.2. The interviews suggests that such responses may, at least partly, be due to national pride. However, US wines appear to be more competitive with respect to suppliers characteristics and behaviour: the better response of domestic suppliers can be explained by the fact that they "play at home" or by structural factors.

To this end, Tab. 44 shows, for each of the main competitors, the share of exports (in volume) accounted for by the top 10 country-markets in 2000 and in 2012, respectively for wine in bottles and in bulk. A negative difference between 2000 and 2012 suggests the adoption of a strategy of expansion into new markets. By contrast, a positive difference highlights a strategy more focused on a smaller number of markets.

Tab. 44: Percentage share of first 10 export markets in 2000 and 2012 (in volume)

	Still wine exported in bottles			Still wine exported in bulk		
	2000	2012	% point diff	2000	2012	% point diff
Argentina	87.4	76.0	-11.4	85.1	97.4	12.3
Australia	93.4	88.8	-4.6	89.8	97.8	8.0
Chile	77.0	69.8	-7.2	84.4	90.8	6.4
New Zealand	95.4	94.1	-1.3	99.9	99.8	-0.1
South Africa	89.3	75.7	-13.6	86.1	86.5	0.4
USA	84.9	79.8	-5.1	93.0	95.0	2.0
EU27*	82.9	80.7	-2.2	89.1	90.4	1.3

*Extra-EU markets only

Sources: Comtrade, Comext

In the wine in bottles, all competitors have adopted strategies of expansion of their market portfolios, albeit in a differentiated manner. Among considered competitors, Argentina and South Africa have implemented this strategy to the largest extent. At the other extreme, New Zealand and the European Union have adopted a more "conservative" strategy[80]. It is interesting to note the position of Chile, starting from an already lower level of market concentration, it has progressed further in its market expansion strategy.

On the contrary, for wine in bulk, all competitors have increased their focus on a smaller number of export markets[81]. Argentina, Australia and Chile have pursued this strategy to the largest extent, mainly as a result of demand growth in the United States (for all three exporters) and in the UK (for Australia). Other competitors (including the EU) show less important changes in their market concentration strategies.

The issue is to be able to assess whether these strategies will continue in the future.

On the basis of the analysis presented in the previous chapters, it is likely that in the medium term, the United Kingdom and the United States will continue to be the markets with the greatest potential for producing countries of the "anglosphere" (i.e. Australia, South Africa, New Zealand), for wine in bulk. However, in the long term the ties may weaken, as signals of fatigue are already perceived in both markets (in particular for Australia[82]).

For Australia (but also for Chile and Argentina), interest to expand exports towards less traditional or completely new markets should, therefore, grow in the future. Indeed, at least for Australia and Chile, such strategic direction is mentioned in recent policy documents (export expansion towards Germany, the Netherlands, Denmark, Japan, Singapore, Norway, Switzerland, South Korea, etc.)[83].

Therefore, on the horizon to 2025, we can expect an increase in the intensity of competition in markets where presence of EU wines is currently quite strong (notably, the nearby markets), at least by Chilean and Australian wines.

Regarding non-traditional markets, according to OIV data (see Fig.57), Algeria, Ghana, Kenya, Mexico, Mozambique, Philippines, Saudi Arabia, South Korea show interesting wine consumption growth figures. For these eight non-traditional export markets, consumption has seen a total increase from 1.23 million hl to approximately 2 million hl between 2005 and 2011 (+7.4% on average per year).

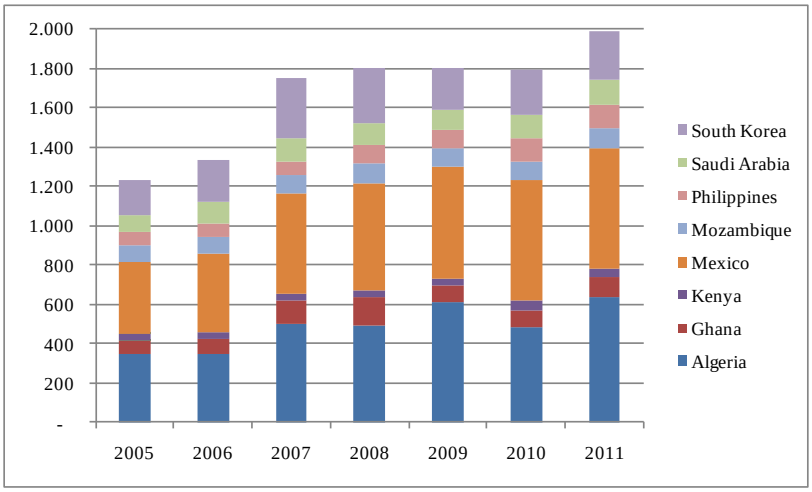
[80] However, we must take into account that each EU Member State is a potential export market for competitors (i.e. the EU comprises some of the largest importers in the world, such as the UK), while for the EU only exports to third countries are considered here.

[81] New Zealand represents the only exception with an extremely small variation), which is also related to very high levels of market concentration both in 2000 and in 2012 (i.e. the first 10 markets concentrate the near totality of NZ bulk exports).

[82] Especially if the unfavourable exchange rate of the Australian Dollar to the US Dollar and the British Pound were to persist.

[83] For Australia through the "Directions to 2025" plan and for Chile through the "Wines of Chile strategic plan 2020 - International market".

Fig. 57: Evolution of wine consumption in non-tradional markets, 2005-2011 (million hl)



Source: OIV

7.5.2 Strategies of expansion for products positioned in the higher price/quality segments

Some NWC[84] have developed strategic plans with the aim of extending their product positioning to the Ultra premium and Top Range segments, more traditionally led by European wines[85].

This occurs with a two-fold objective of (i) counteracting the loss of market share in volume terms and (ii) avoid possible competition from new entrants that are more likely to position their products at the lower and middle segments of the market.

It is very likely that growth in the upper end of the wine market can only be achieved by responding appropriately to the key factors of competitiveness in the corresponding segments. In particular, this could be attained by focusing on Geographical Indications and by associating attributes that express the region of origin and the specific product image. In perspective, then, some NWC will move towards the European model of competition, and their higher range wines will come into direct competition with EU wines. United States and Australia seem to have already started on this path[86].

7.5.3 Strategies of growth of bulk wine exports to the detriment of bottled wine exports, adapted according to product usage function and market segment

Export strategies for wine in bulk (and, therefore, the relationship between bulk and bottled wine exports) will probably be differentiated depending on usage function and target market segments. In particular:

- Imported wine for blending with local wines and/or packaging in BIB under retailer label (in the Entry level / Commercial premium segments). In this case, international demand trends shall be guided by two contrasting variables. The first is the development of local production (ie wine from local grapes) through progressive quantity and quality improvement (for example in China and Russia, with partial replacement of wine imports). The second is growth in the number of new consumers (usually not very demanding) and in everyday wine consumption as an accompaniment to meals (e.g. Japan, with growth prospects for "domestic" wines at Entry level). The balance between these two variables leads to expectation of moderate market growth for the future, but with improving quality level. The expected increase of turbulence and competitive conflict in the wine market will require businesses to explore the possible economies of scale. This could represent an advantage for large size cooperatives (particularly in Europe) and/or the big private companies, whereas opportunities to operate on international markets should gradually decrease for smaller size businesses.

[84] We refer to the above mentioned strategic plans for the future developed by Australia and Chile.

[85] Other NWC, such as New Zealand, already adopt such a strategy.

[86] This, for example, is the strategy envisaged by the plan "Directions to 2025" of Australia, through 110 Geographical Indications and in the United States through the AVA (American Viticulture Areas), which are areas with specific geographical characteristics, decided by the government. In 2012, 206 AVA were recorded.

- Imported wine for bottling in the consumer market under producer brand, positioned at the Super and (partly) at Ultra premium segments. The diffusion of flexitank for bulk wine transportation should consolidate, in the future, the tendency towards bottling wine imported in bulk near the place of consumption, thus expanding the number of markets. In addition to other benefits (maintain quality, reducing environmental impact[87]), the cost reduction related to this form of transport[88] will allow wineries to increase their competitiveness, not so much on the final price (to the consumer), but rather through granting of larger margins to the off-trade. In fact, the expected increase in market turbulence will increase the importance of factors related to market access. In view of further concentration of distribution, and consequent growth of distributors' bargaining power, achieving larger margins is a decisive factor in choosing the wines to distribute[89].
- Imported wine for bottling in the consumer market under producer brand, positioned (partly) at the Ultra premium and Top range segments. For wines of this segment, market activity is already limited, and the prospects are even worse. In fact, the loss of image of a product not bottled at the origin, because the product is intended for a target of affluent consumers and connoisseurs, makes businesses desist. On the other hand, if expectations concerning the growth of the "connoisseur" consumer market were met, we could hypothesise a rise in exports of bottled wines positioned in these segments.

7.5.4 Strategies of (further) industry concentration

It is likely that the process of Mergers & Acquisitions and alliances between large companies and medium-sized enterprises in the sector will continue, even if (perhaps) in a more complex way than in the past. This process of external growth responds to the factor of competitiveness "size of operations", whose importance may be expected to increase in some countries, in parallel with the increase of the concentration of importers/distributors. In addition, an increase in the number of "big players" can be foreseen, due to new players entering world markets. This hypothesis is supported by observation of recent acquisition of new- and old-world brands by Chinese and Russian companies.

In this scenario, European businesses could find themselves at a further disadvantage compared to the current situation (already not very favourable, at least in the markets of the "anglosphere"). In fact, it is conceivable that organisational forms of aggregation of European supply (similar to those used by the big American and Australian companies) would hardly emerge spontaneously (i.e. without external prompting).

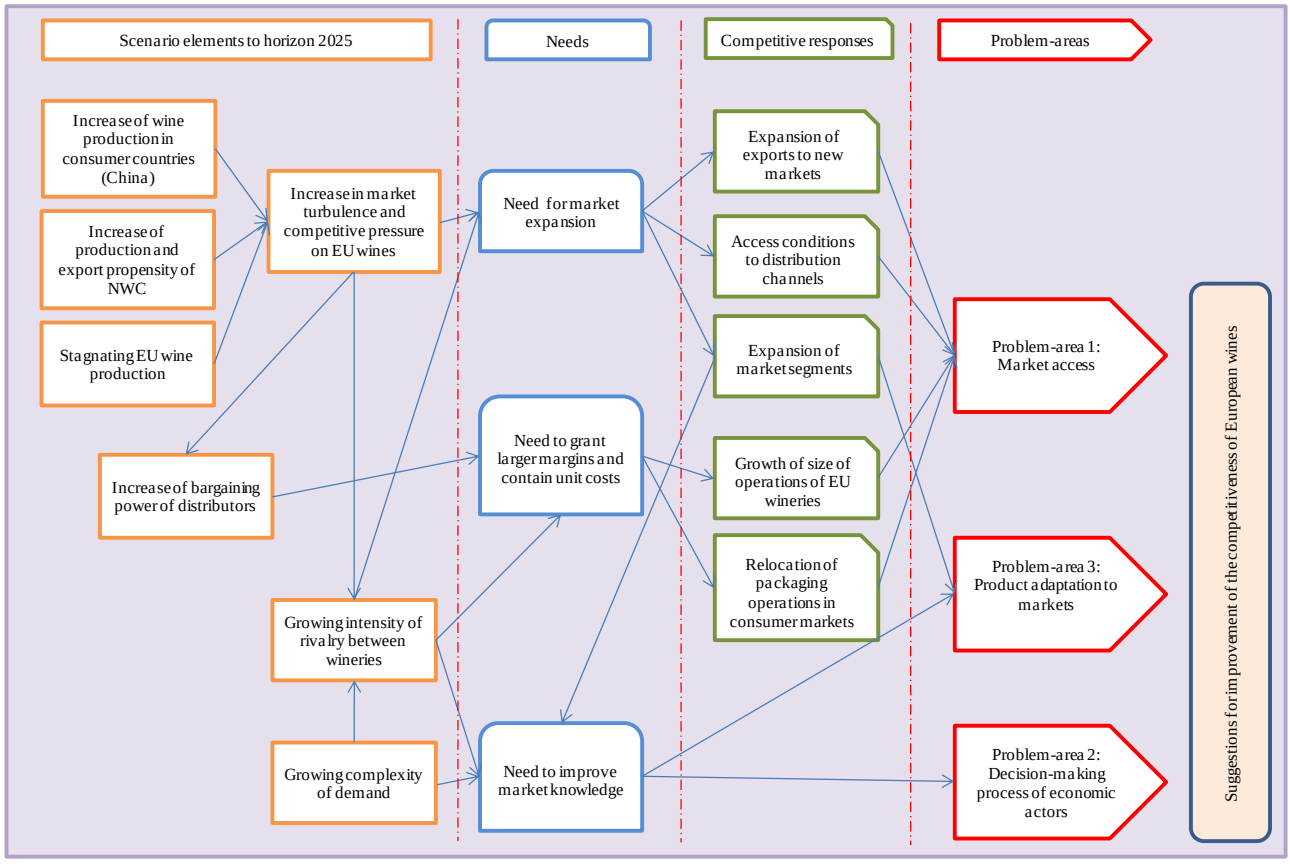
7.6 CONCLUSIONS ABOUT THE IMPROVEMENT OF EU WINES COMPETITIVENESS

This last part of the study aims at assessing the main problem-areas and at providing suggestions for the improvement of the competitive position of European wines. Problem-areas and related suggestions emerge directly from the conclusions drawn as to the current competitive scenario and the likely developments to the horizon 2025 and, indirectly, through logical inference of the authors of the study.

[87] By 2025 all economic sectors should adapt to the norms for reduction of environmental impact, in particular with regard to CO^2 emissions. It is therefore likely that the amount of CO^2 produced in the processing of one litre of wine will have to be stated on the label.

[88] We observe that in some countries of destination (with lower wages compared to exporting countries), the reduction in transport costs would be added to the cost reduction in bottling (for example, export by flexitank to China would reduce transport costs and also bottling costs), but not in other countries with the same level of labour costs. However, in these countries the reduction in transport costs is greater than the increase in costs of bottling.

[89] We previously noted the growing importance foreseen for the factor of competitiveness "Granting of higher profit margins".



The following problem-areas were identified: market access; decision-making process of economic actors; product adaptation to markets.

7.6.1 Market access

The (widely shared) expectation of increase in the turbulence on the international wine market leads to the first issue, that of market access. All types of initiatives (policy, strategic and operational) aimed at facilitating market access generate competitive advantage.

Market access entails different levels:

1. The first strategic level is the extension of the "market-portfolio". Expansion to new markets or to non-traditional markets (e.g. Republic of Korea, Algeria, Philippines, Mexico, etc. – see §7.5.1) would have a three-fold purpose:

    - To reduce the risk associated with sudden economic changes and resulting from implementation of competitive strategies by competitors on their traditional markets, particularly in mature markets;
    - To counter the expansion strategies of some NWC (in particular, Chile and Australia), notably in new markets;
    - To ensure presence (with the highest possible relative market share) in markets where wine is at the introduction or development stage of its life cycle. High market shares and strong growth prospects (though expectations would not be for huge volumes) are likely to generate increasing returns on investments (positioning in the "Question mark" quadrant and then shifting to "Star" of the BCG matrix, as illustrated in the previous chapter).

    The implementation of an expansion strategy implies the availability of adequate financial resources for the necessary investments:

    a. To develop a "push" for EU wines on the market, in particular through promotion to the consumer. In this sense, the increasing availability of funds through the Promotion measure established by Regulation (EU) No 1308/2013 represents a significant opportunity for businesses (which, however, at present, seem to focus too much on traditional markets).

b. To generate structural adjustments in wineries, which are necessary to achieve greater integration into the international market.

Therefore, it would be desirable:

- to encourage more EU businesses to use the funds of the Promotion measure of the wine CMO for penetration of non-traditional markets such as Republic of Korea, Algeria, Philippines and Mexico (for example, through a modulation of the rate of co-financing or other incentives);
- to give priority to the use of RDP measures (EAFRD) and the investment measures of the wine CMO (EAGF) for structural and organizational adaptation of export-oriented wineries, through adequate definition of the selection criteria (scores) for businesses to access funding.

However, a policy of expansion probably involves changing two, partly cultural, aspects. The first concerns the rather "inward" vision of European production, by which wine exports remain marginal relative to the internal market. The second is due to the constraints posed to production potential[90], which, in principle, clash with the objective of increasing penetration of European wines on third country markets.

2. The second level is political-institutional and concerns the signing of bilateral preferential trade agreements with third consumer countries, also (but not only) with a view to expanding the market portfolio. In this respect, as highlighted in §5.5.5.2, the EU seems to be lagging behind compared to some competitors (Chile, in particular), who show a more dynamic behaviour. In the hypothesis that exchange rates between the Euro and other currencies will remain at current levels, and in view of an increase in market turbulence, this delay translates into a potentially increasing competitive disadvantage for EU wines. Therefore:

It would be desirable to speed up / start up bilateral agreements between the EU and partner countries concerning (also) wine. The partners should not only be the traditional ones with which agreements still are not in place (e.g. China, Russia) or negotiations are currently ongoing (e.g. Japan, USA), but also other non-traditional markets (e.g. Philippines). In this sense, it would be desirable for a stronger link between institutional and economic partners, in order to achieve coherence between public and private initiatives (in essence, creation of a system).

3. The third level is access to distribution channels, and therefore it regards influencial key factors of competitiveness for which action may be to some extent stimulated by the public authority[91]. We have identified "Intensity of PR activities with importers, buyers, etc." and "Size of the supplier". We recall that, considered together, these two key factors of competitiveness influence (directly or indirectly) other important factors, specifically:

   - Appropriate advertising, promotion and comunication activities directed to consumers;
   - Correct price/quality positioning;
   - Price.

   In addition, they also have some influence (direct or indirect) on the following dependent factors:

   - Brand / Image of the product;
   - Encourage the importer to present the wines in specialised magazines;
   - Consistency in the price/quality ratio.

[90] We have information of strongly export-oriented wineries who, given the constraints to production potential, covered the gap between demand (fast-growing) and supply (constrained) through partial relocation of agricultural production in North African countries.

[91] Here we do not consider, among the key factors for market access (identified in Theme 2), those that depend only on the degree of responsiveness of firms, which we could only address by recommending adjustments in their individual behaviours.

With regard to the first key factor (i.e. Intensity of PR activities with importers, buyers, etc.), in principle Public Relations may be included among the activities allowed under the Promotion measure, which then becomes functional to create the conditions for a more effective response to this key factor of competitiveness.

> However, it would be desirable to encourage, through appropriate adaptation of the selection criteria (scores), the submission of promotional plans that include incoming activities (i.e. organisation of customer visits at wineries), deemed as important, in particular, in Russia, Japan, USA and Germany.

Concerning the "Size of the supplier", the small size of European businesses represents a not easily overcome constraint in the short- to medium-term. In order to overcome barriers to market access and negative effects on other key factors, the possibility of solving the structural size problem through an organizational solution could be explored, so as to allow organized groups of small businesses to implement appropriate marketing strategies (in terms of effectiveness and efficiency of invested resources). Therefore:

> It would be desirable to develop public initiatives to facilitate the establishment of aggregate business forms and an organised system of collaborative marketing, able to overcome the 'size' barrier, allowing at the same time to reach a critical mass in terms of number of products and of wider / deeper product portfolio as demanded by distributors/retailers (in particular, the Off-trade). This would be desirable for all case study markets, but especially the UK and USA.

4. The fourth level regards wine businesses cost structure and the possibility to grant higher margins to distributors. This directly leads to the possibility (in some markets, and only for wines positioned in the Super and Ultra premium segments) to transfer wine in flexitank and to relocate bottling operations in the consumption markets. The adoption of bulk transportation in flexitank could help European companies extend trade beyond nearby markets, therefore implement strategies for expansion in new markets. However, this possibility implies overcoming the resistance to change (embedded in the culture) that characterises the conservative structure of organisations managing PDO-PGI labels. This resistance, which already is an element of competitive disadvantage at present, will hinder EU wines competitiveness even more in the future, especially wines positioned in the segments mentioned above. In addition, wine transfer in flexitank would require a change in the logistics and operational organisation of EU suppliers in export countries, in order to relocate bottling activities. Therefore:

> There is a need to overcome the self-imposed constraints of many production protocols of European PDO and PGI wines (i.e. obligation to bottle wines within the production area), at least for wines other than those in the Top range.
>
> In addition, ways should be found to encourage technological adaptation, as well as the organisation of logistics in the country of arrival, required to relocate bottling operations. For this purpose, the possibility of extending the scope of the investment measures provided for in the wine CMO could be considered, acknowledging, however, that this would generate complex problems of implementation under current EU rules.

7.6.2 The decision-making process of economic actors

The analysis suggests that in the future wine demand will probably be more complex and sophisticated than at present in the various country-markets, and that increased market turbulence will lead to more intense rivalry between producers of wines of different origins. The ability of European wine businesses to react and adapt to changes in the competitive environment foreseeable to the horizon 2025 also entails an improvement of the conditions that facilitate the decision-making process of the actors.

This is needed, in particular, to better respond to key factors of competitiveness related to positioning and communication (specifically, "Correct price/quality positioning" and "Appropriate advertising, promotion and communication activities directed to consumers" in each segment).

In this respect, the improvement of the level of knowledge of market developments and of the competitive environment that can encourage "Reactive adaptation of the product to customers' demand" is a critical aspect. This gives rise to two needs:

- Improved knowledge of the various consumer target profiles and of consumer behaviours as a function of "local culture" and of their evolution (i.e. changes in lifestyles, emulation of consumption patterns other than local traditional ones, etc.)
- Improved knowledge of competitors' behaviour, in order to identify their moves (attack strategies) and countermoves (defence strategies), both direct and indirect, implemented to achieve competitive advantage.

Therefore:

> It would be appropriate to develop a market intelligence system able to convey to European businesses along the supply chain adequate information about changes occurring in the markets and in the behaviour of competitors.

However, wine businesses should develop the ability to translate this information into business decisions. This may be most effectively achieved through the improvement of skills relating to effective use of business tools[92]. Therefore:

> It would be appropriate to encourage the implementation of training activities in export business targeted to the industry, for example within Measure 1 - Knowledge transfer and information actions of 2014-2020 RDPs, through the involvement of already existing local organisations (e.g., chambers of commerce, chambers of agriculture, etc.)

7.6.3 Product adaptation to markets

This problem-area leads directly to the issue of strategic decisions concerning the product on the different markets. In turn, this involves different and politically sensitive aspects, which can be explained as follows.

A first strategic aspect concerns the identification of the market segments that should be developed (e.g. global niche of excellence, premium wines, wines for the mass-market) and which labels are more effective for marketing to the consumer (in particular, on foreign markets). Specifically:

a. Regarding European PDO/PGI wines, the analysis has highlighted low level of knowledge, but above all lack of use of these labels by distributors/retailers for communication. One important reason is the generation of confusion: European GI wines appear on foreign markets with a multitude of acronyms depending on the language of the Member State of origin (AOP, DOP, PGI, etc.) In addition, the confusion for non-expert consumers (but not only) further increases due to the co-existence of new definitions and relative acronyms (i.e. PDO/PGI) with the old ones (DOC-DOCG wines in Italy, AOC in France, etc.). Finally, a further critical point is the preservation of the difference between *terroir* (PDO wines) and *territoire* (PGI wines). Although the difference is clear in the regulations, it is not as clear for non-expert consumers, thus generating confusion. It is, therefore, no coincidence that major retail chains (in third countries, but also in Member States who are not wine producers) do not place much value on these labels, choosing instead the geographical origin (i.e. the country and the region of production) as a factor of communication/information/orientation of consumers' purchase decisions. In essence, the very articulated regulations concerning GI labels seem to be in place more to meet the needs of producers oriented to the internal market (i.e. the market of wine producer countries) rather than to satisfy the information needs of consumers in non-producer countries (who demand more simplified information, especially concerning premium wines).

   Finally, it is important to remember that the market development strategies adopted by some of the most aggressive EU competitors aim to add value to the geographical indication of their wines, in the sense desired by retail chains (i.e. indication of the production region). Therefore:

[92] Wine exports involve a wide range of actors: wholesalers, exporters, co-operatives but also farmers who are also wine makers, who may not necessarily have developed these skills.

With regard to PDO and PGI labels of wines positioned in the Top range and Ultra premium segments (intended for a more experienced consumer target), it would be appropriate to combine the acronyms used by different Member States in a single acronym to be used worldwide, associated with a mandatory logo (as developed for the organic sector). For these wines it would be appropriate to continue with information and promotion activities, as "PDO-PGI popularity" emerges from the analysis as a key factor of competitiveness for wines in the higher price/quality ranges.

With regard to wines that enter the Commercial and Super premium segments, for which the "Origin of the product" is more important than PDO-PGI labels (consumers who may not be very experienced, but are sensitive to the history, culture and image of the country of origin), it would be appropriate to introduce into EU regulations the indication of the country/region of origin (for example, an umbrella brand covering wines of a member country - e.g. Italy - or region - e.g. Tuscany).

It would thus be appropriate to extend the financing of activities envisaged by the Promotion measure of the wine CMO to this type of wines.

b. With regard to European varietal wines, the analysis shows that they have not been successful. The incidence of these wines on total EU exports is marginal and exports did not pick up over time. It seems clear, therefore, that this is not a strategy for which European producers show much interest, and that it is not favoured by the governments of the producing Member States. However, this lack of success may be partly due to the restrictions adopted in some Member States on eligible varieties, which may play against foreign market development in countries where the mention of grape variety is considered as a factor of competitiveness (e.g. USA and UK).

c. With regard to wines in the lower price/quality ranges, the analysis has shown the existence of foreign markets (e.g. Angola, Côte d'Ivoire) and EU markets (e.g. Germany) that demand large volumes of wine in these segments. While these wines do not enjoy an image of prestige, low margins applied to large volumes are economically attractive for European companies, in particular for large cooperatives. On the other hand, the experience of other (industrial) sectors teaches us that a great production power (such as the EU) produces goods to cover all market segments, whereas focusing on specialist segments is a strategy typically adopted by small producer countries (such as, for example, New Zealand). Therefore:

Taking into account the increasing complexity of segmentation expected in the future, it does not seem prudent to focus only on high quality wines (PDO-PGI), neglecting wines in the lower ranges for everyday consumption by lower-income families.

The adaptation of wine products to market demand also entails exploring the possibility to develop products for which there is demand potential (still not met) expressed by certain target segments, but a developed market does not yet exist. This could be, for example, the demand for wines with low or zero alcohol content by particular target groups who currently are excluded from wine consumption (drivers, consumers with health problems, pregnant women, etc.) However, as for all innovative products on the market, it would be necessary to have in place a definite regulatory framework. Therefore:

Considering the demand potential for low or zero alcohol wines, it would be beneficial to ensure a clear legal framework for such products.

A third more operational aspect concerns the adaptation of product presentation to meet local preferences ("Type and quality of the packaging" is a key factor of competitiveness growing in importance everywhere). Suggestions for this aspect could result from better knowledge of individual markets (therefore, through the development of a market intelligence system), but also through intensification of "PR activities with importers, buyers, etc.". However, implementation would depend on the ability of wine companies to develop and manage innovations demanded by the market. Therefore:

It would be desirable to encourage the investments needed to develop and implement the innovations demanded by different markets. For this purpose, it may be beneficial to use RDP measures (EAFRD) and the investment measures of the wine CMO (EAGF), through appropriate definition of selection criteria (scores).

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