OIV
International Organisation
of Vine and Wine

Observatorio ESPAÑOL del Mercado del VINO

Evolution of World Wine Trade
Any lessons?

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Spanish Observatory of Wine Markets

OIV ECOMAR

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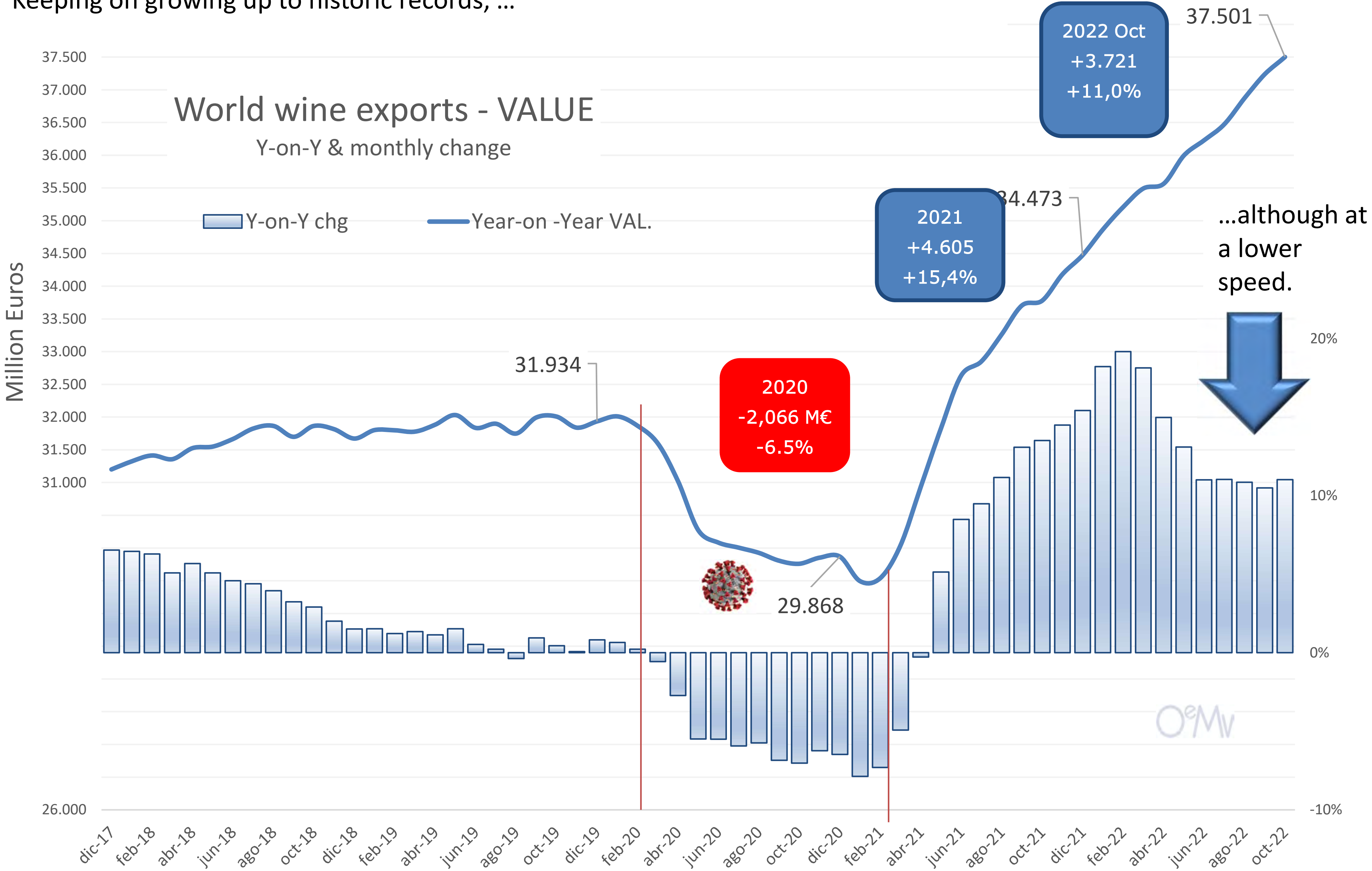
Key questions this year

1. How is wine trade evolving in terms of categories, exporters and markets
2. Issues of special concern this year
    1. What has been the real effect of the Russian war on wine trade
    2. Are wine imports in China showing signs of recovery?
    3. Are higher prices on wine, pushed by inflation or by demand? (temporary effect of cost or premiumisation). In either case, would they be maintained?
3. Any lessons to learn this year?

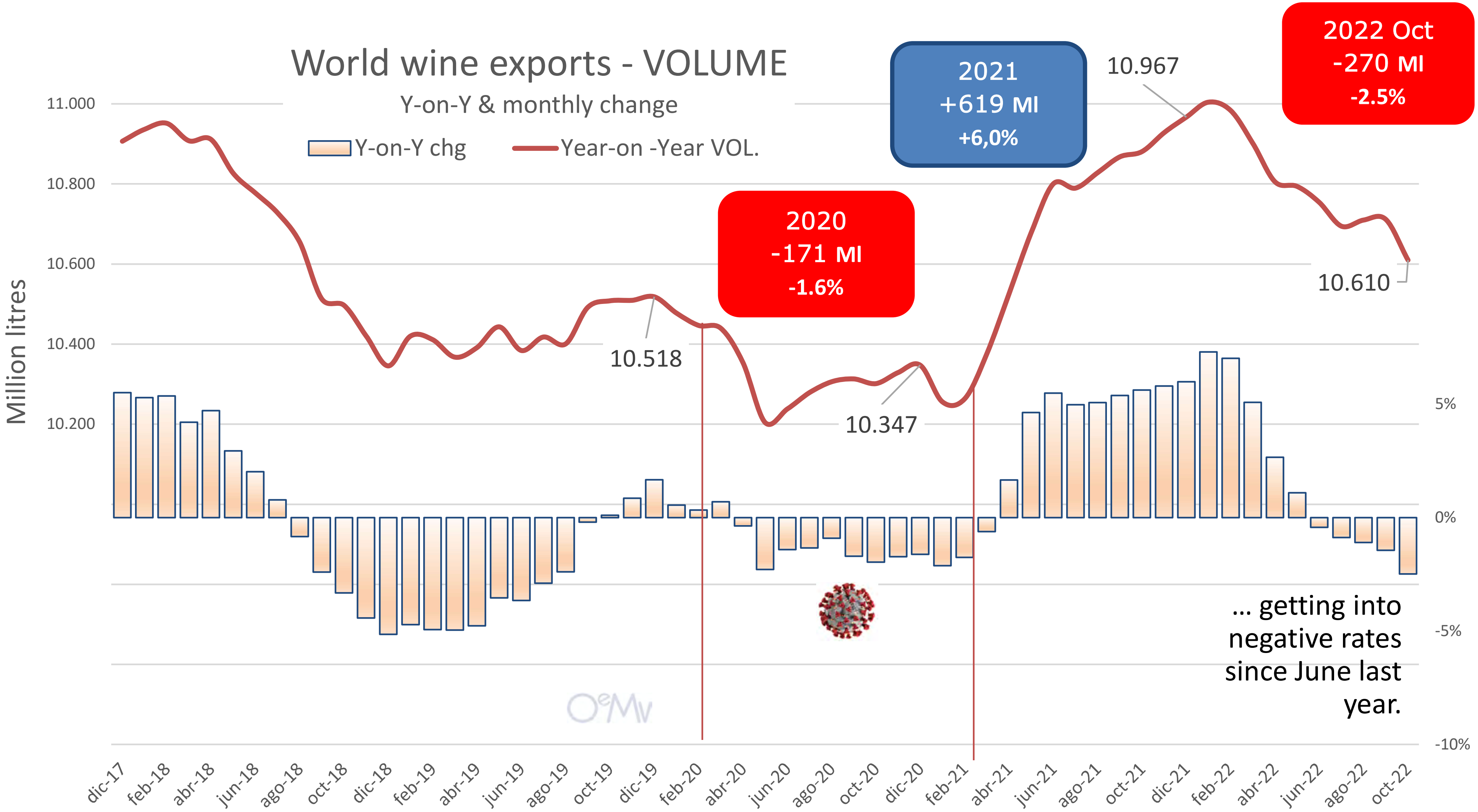
World Wine Exports - value

Keeping on growing up to historic records, …



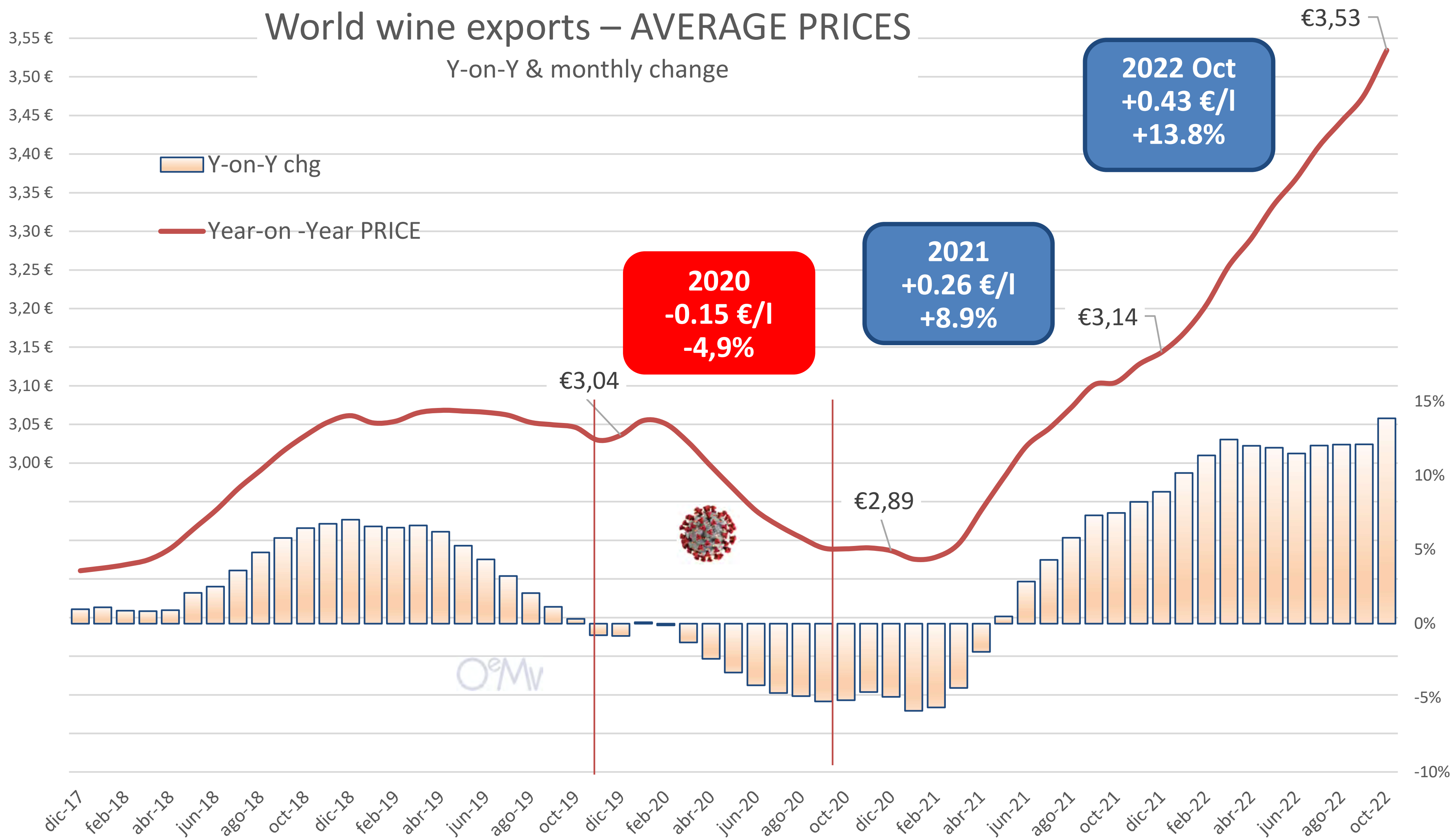
World Wine Exports - volume

In volume terms, strong growth after COVID was substituted by new decline since February 2022 (war?)…

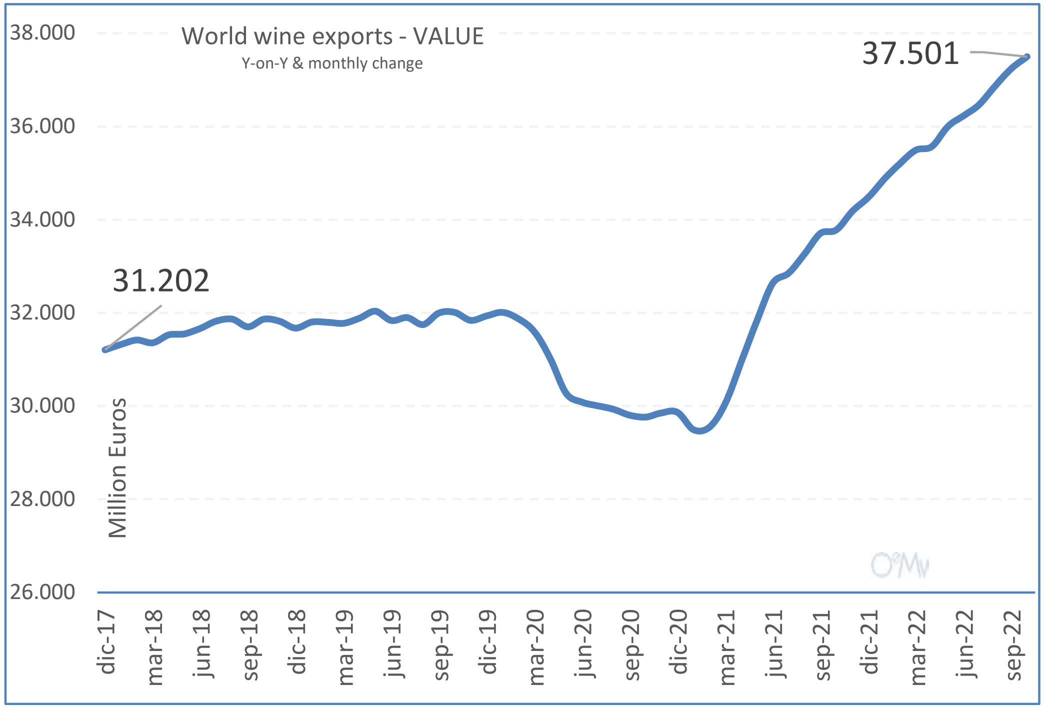


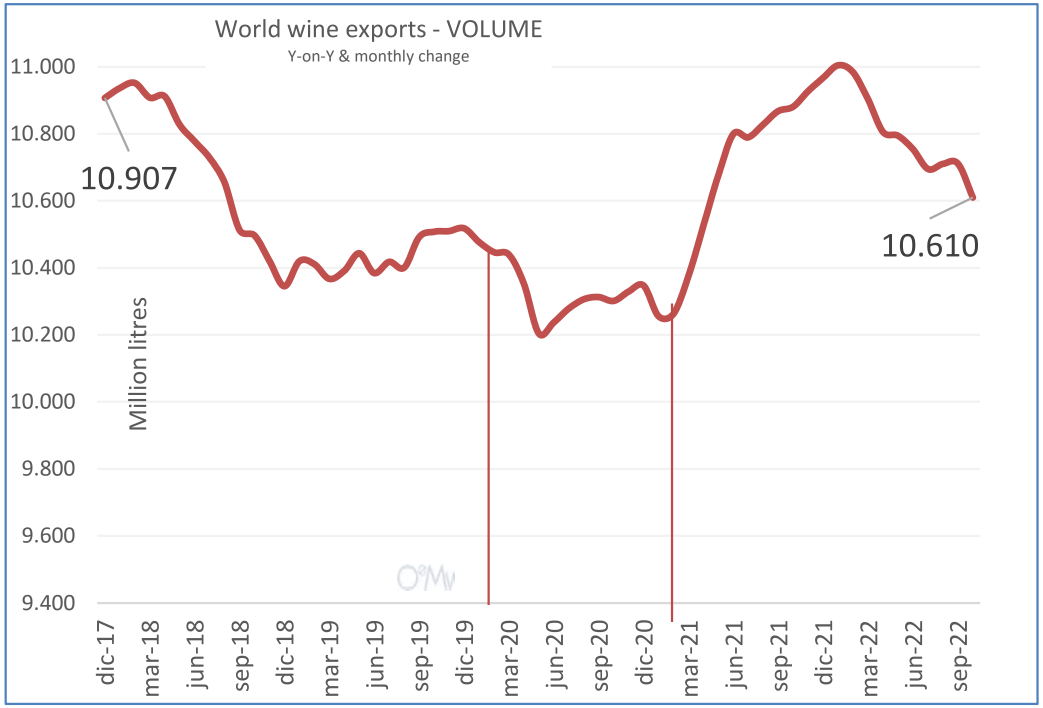
World Wine Exports – average prices

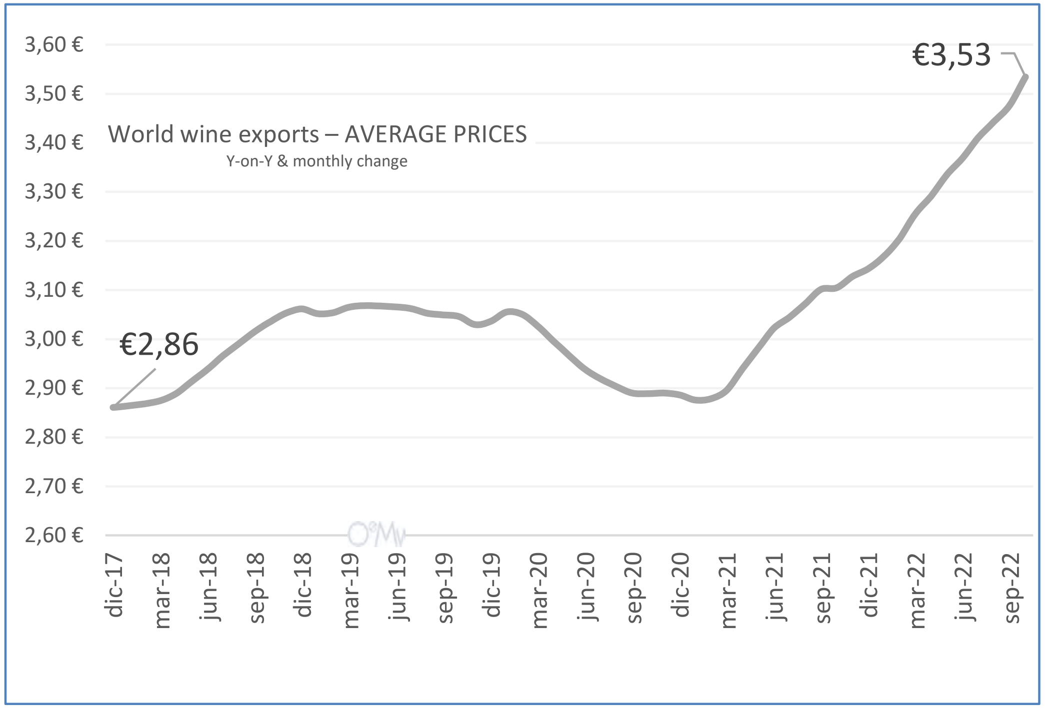
… and average prices increase their trend towards premiumization… or pushed by inflation.



World Wine Exports





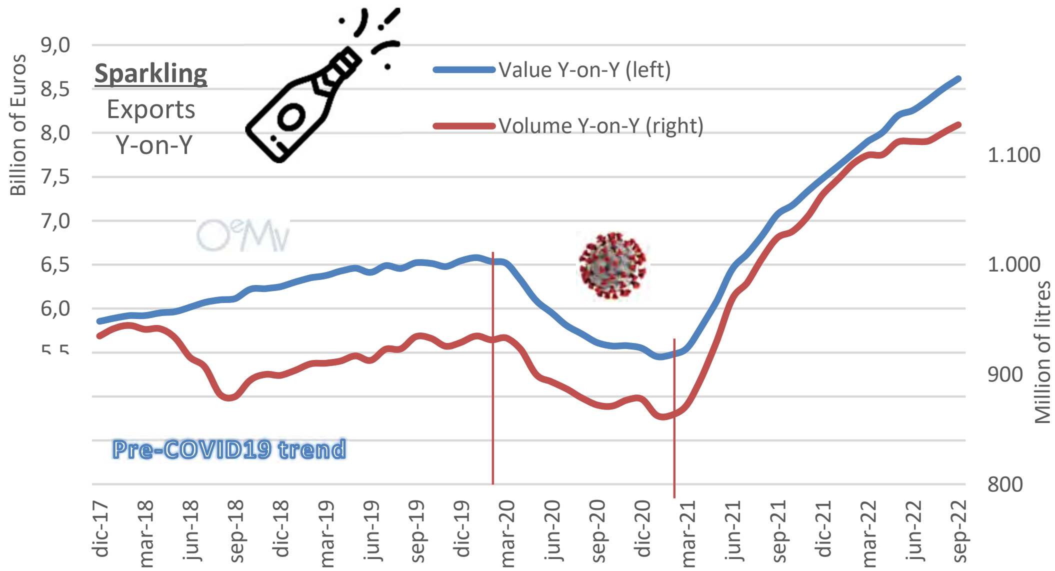


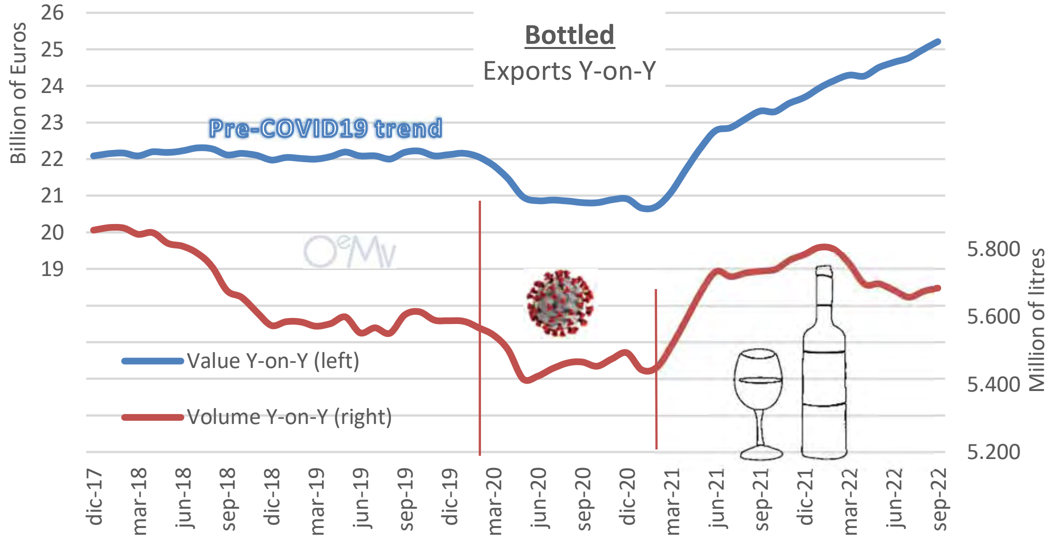
Comparing evolution in value and volume terms a clear trend towards premiumization arises.

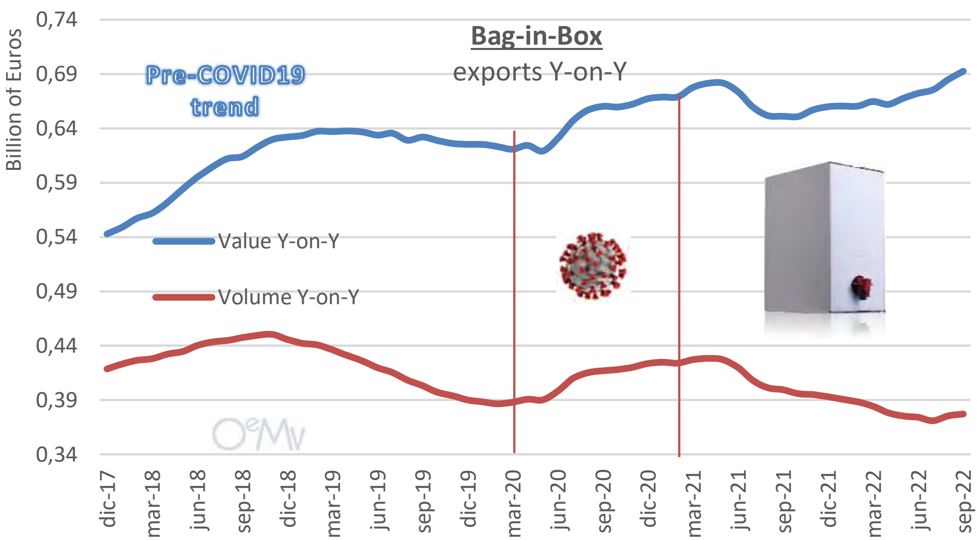
The point is: is current premiumization due to inflation or has it other additional basis?

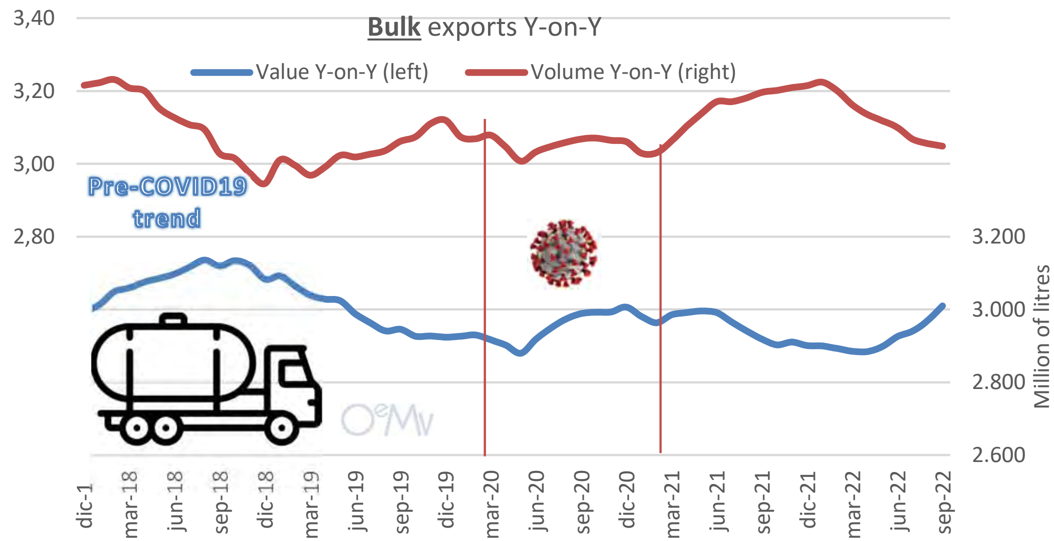
What will lead us to: is it sustainable as a world trend for world wine trade?

Different categories reacting differently to the crisis



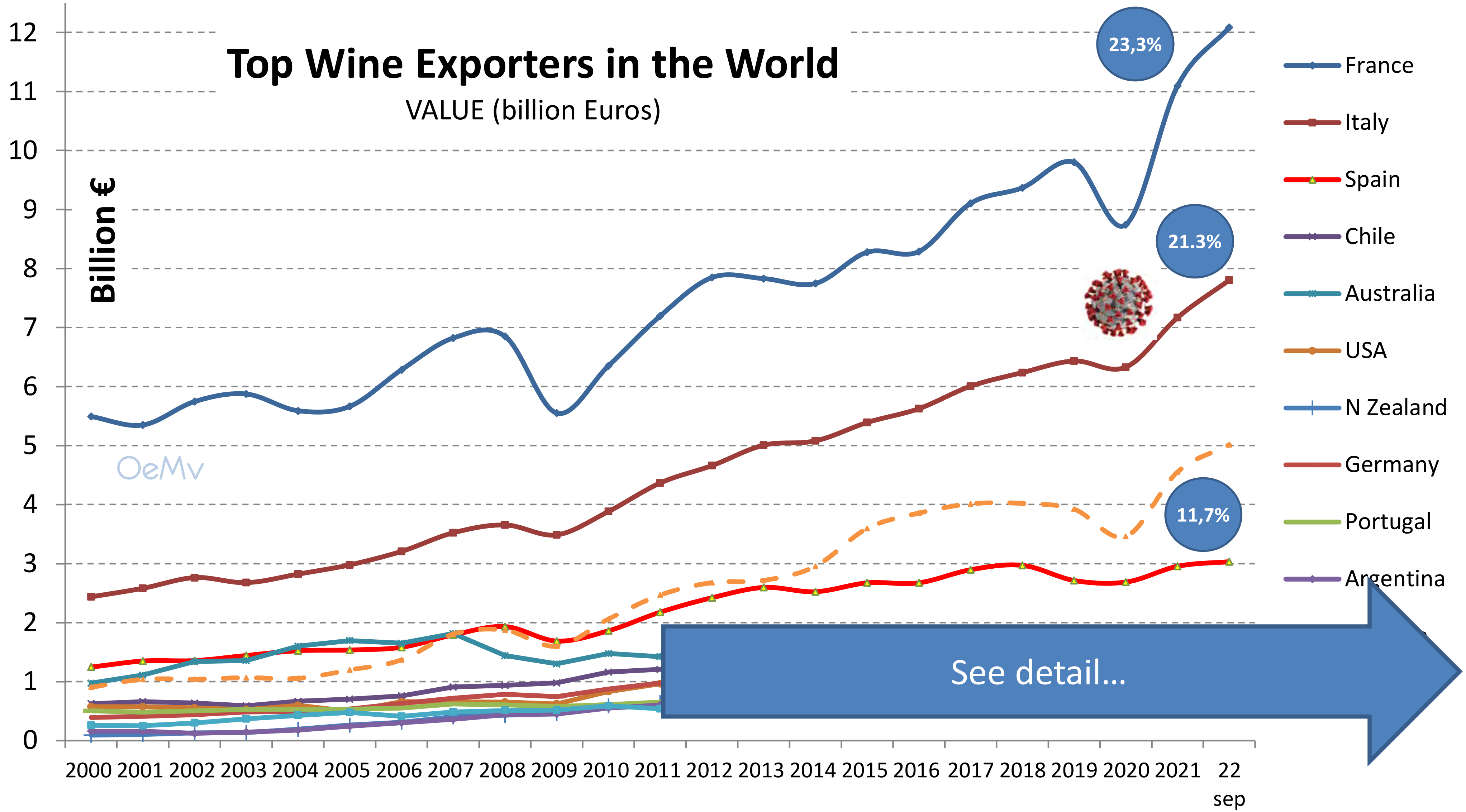






The wine in the world

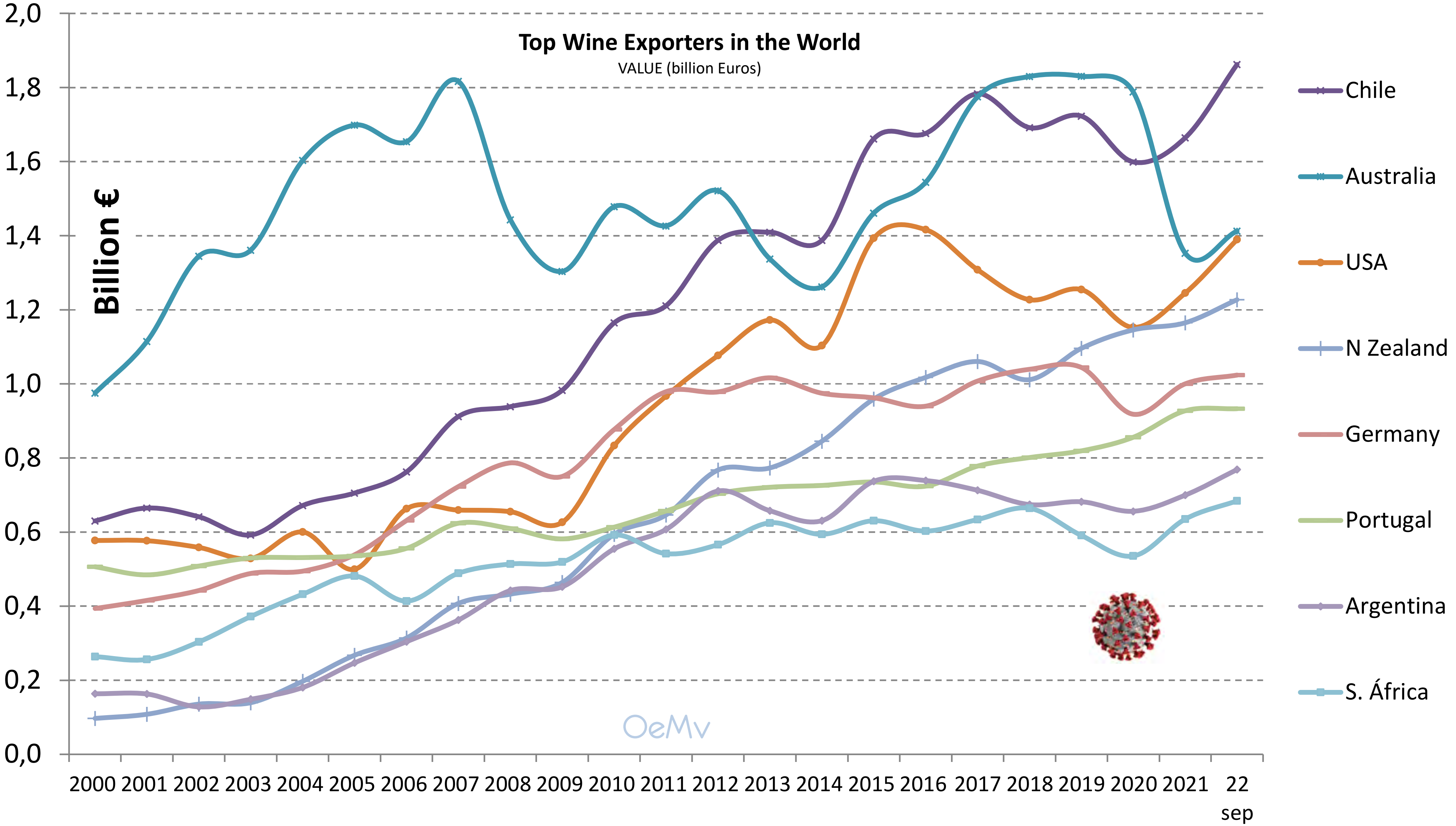
If COVID 19 was particularly harmful for France, its recovery has been extraordinary, jumping to more than 12 billion Euros of turnover. Italy increases 21.3% since 2019 up to more than 7 bl while Spain has a lower post-pandemic growth of 11.7 % up to 3 bl.



The wine in the world

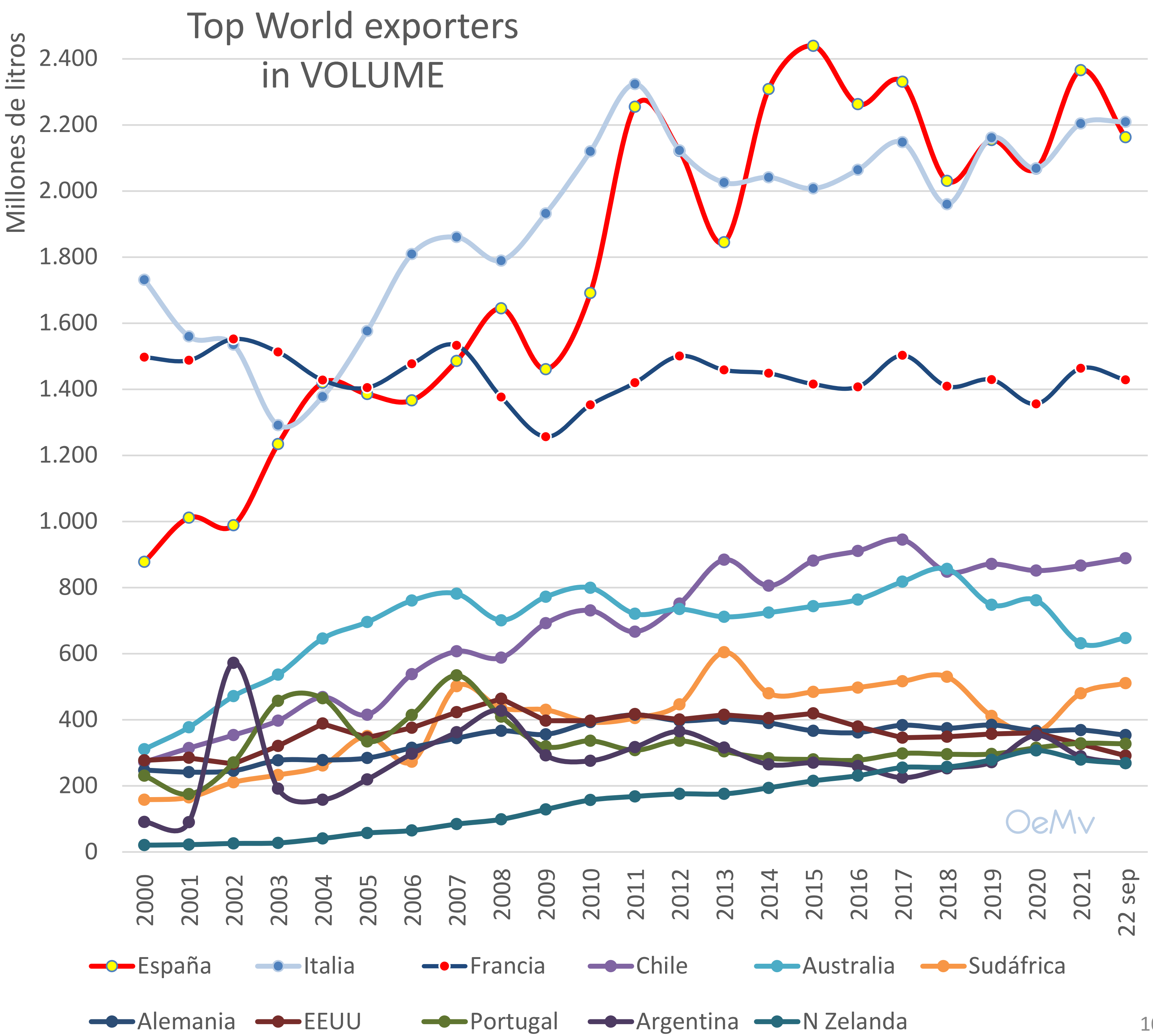
Top world exporters - VALUE

In a completely **different scale**, Australia is suffering form restrictions in China, while Chile and the USA recover sharply from COVID19, while New Zealand and Portugal keep in growing.



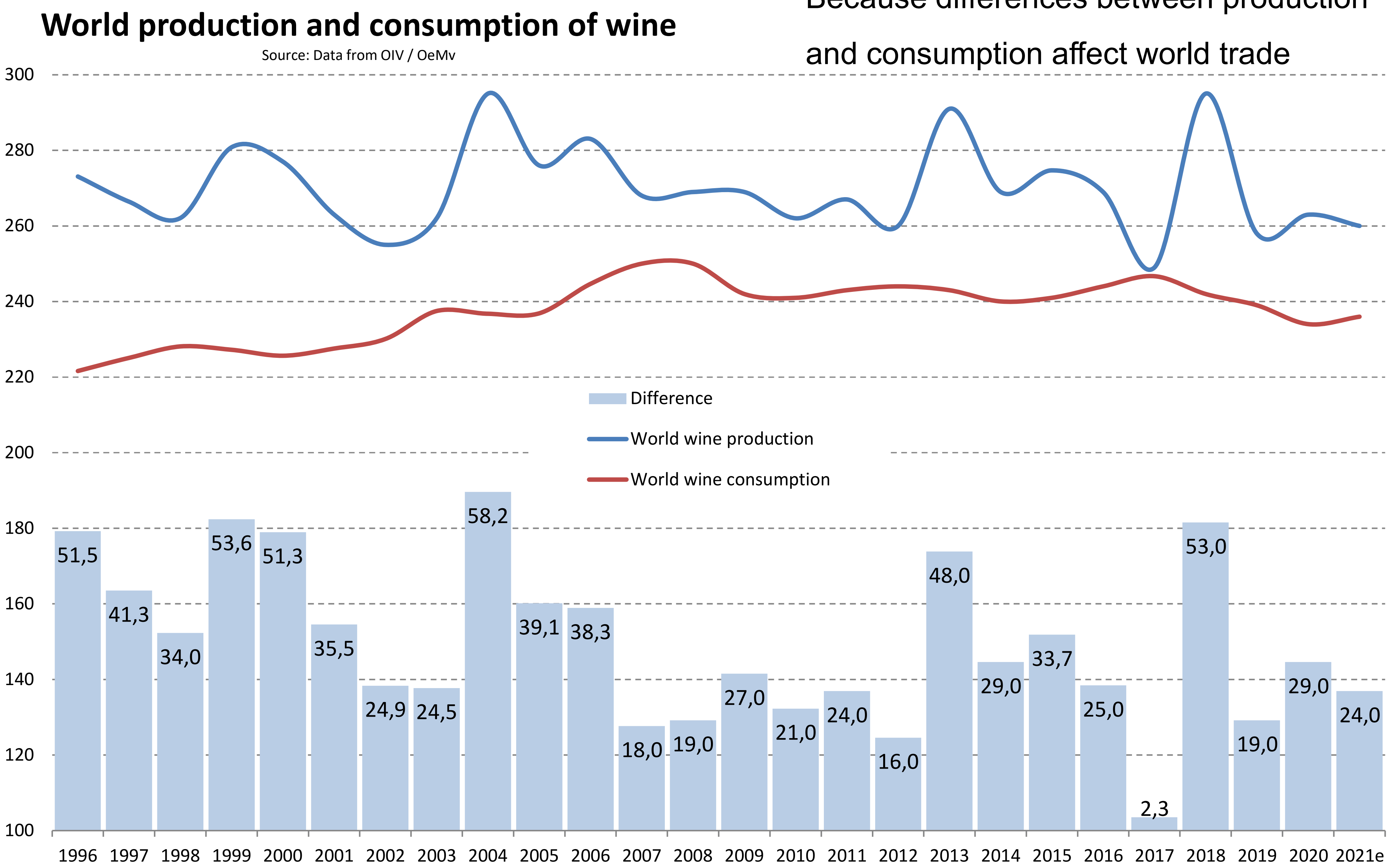
Top world exporters - VOLUME

Much more variable is wine trade in **volume**, with Italy recovering the leading position in 2022, France very stable, Chile slightly up and Australia falling since 2018.

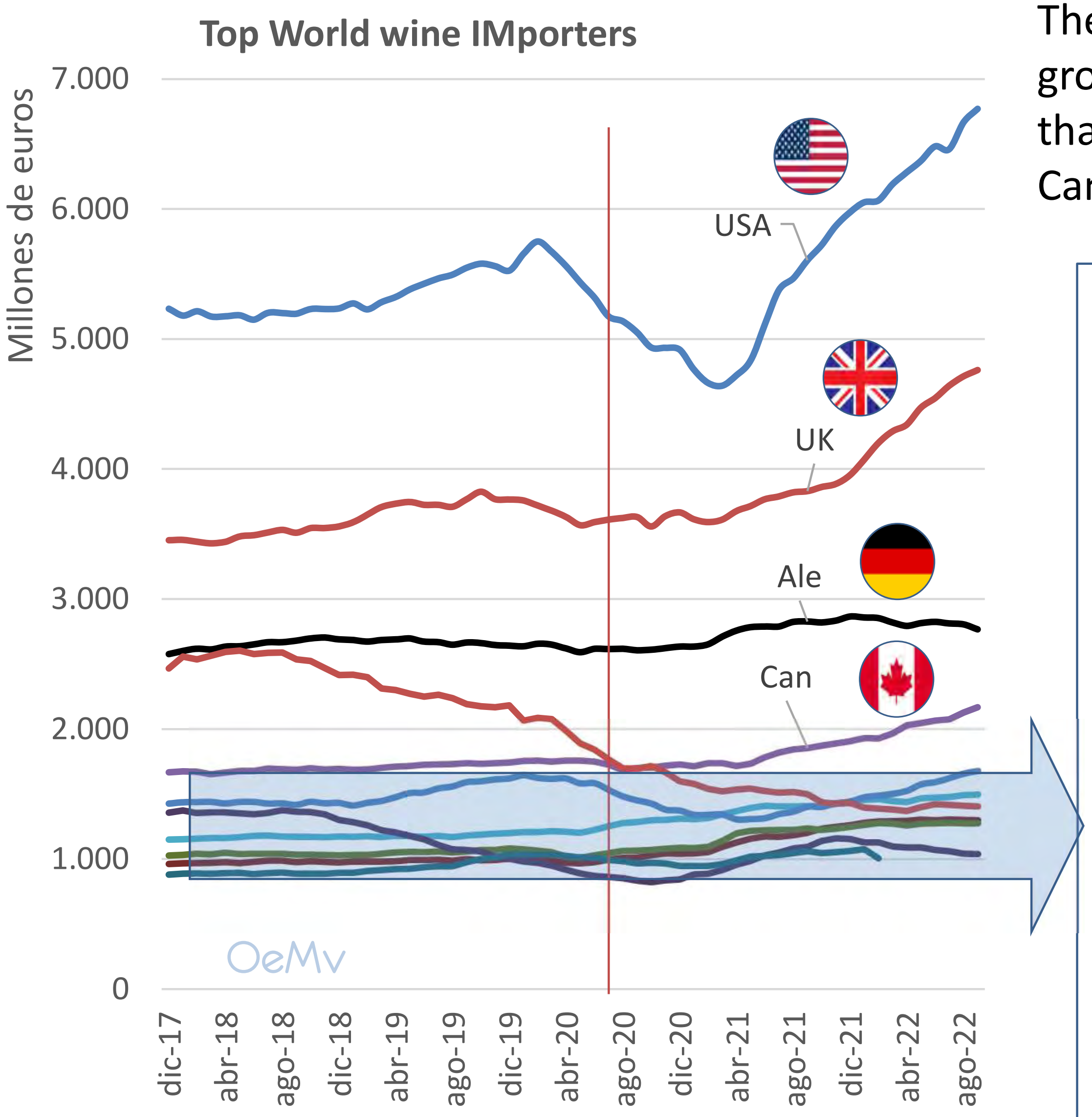


International production & consumption

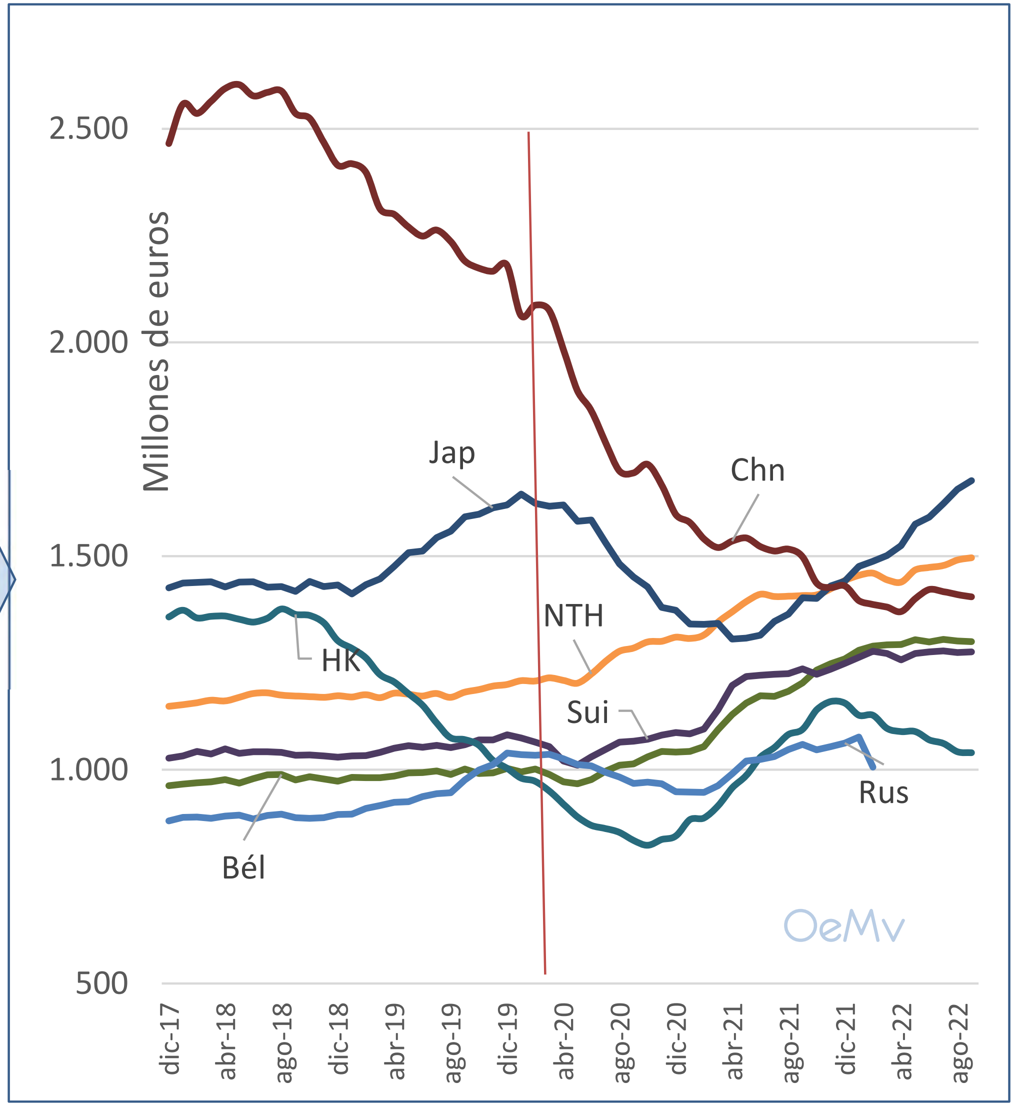
Because differences between production and consumption affect world trade



Top World markets for wine



The US wine market is approaching 7 bl. while UK grows steadily towards 5 bl (much more in value than in volume), Germany remains quite flat and Canada keeps on growing well above 2 bl.



China seems to stabilize in 2022, as opposed to Japan, the Netherlands, Switzerland and Belgium who increase purchase of foreign wines.

Issues of special concern

Apart from others

Has one year of Russian war in Ukraine affected wine trade?

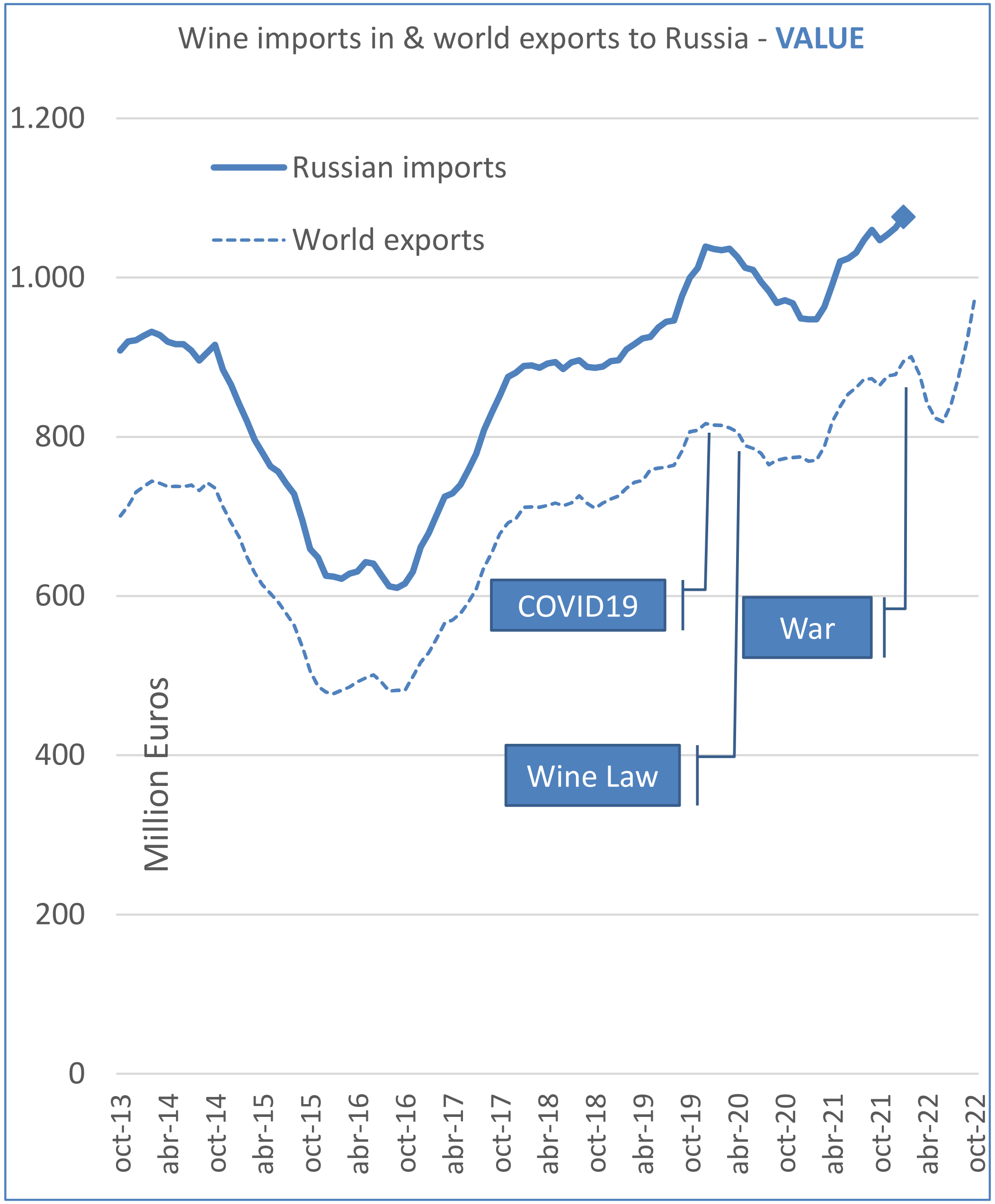
Again, will wine imports in China recover one of these years?

Are higher prices on wine, pushed by inflation or by demand? In either case, would they be maintained?

The effect of the Russian war on wine trade

Russia does not give trade figures since February 2022, …
… but most of the world does.

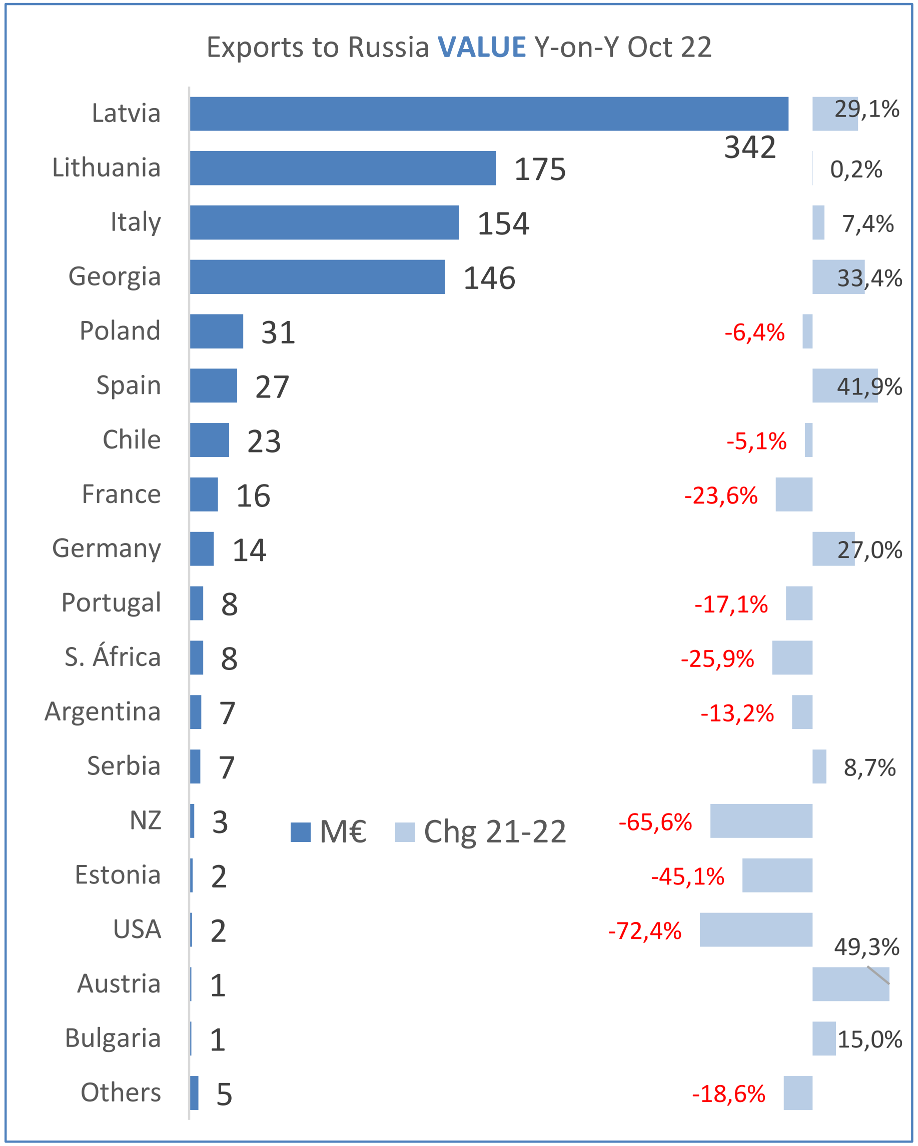
And wine trade has not stopped. It did for few months (Feb to July) but has since then recovered, particularly in value terms

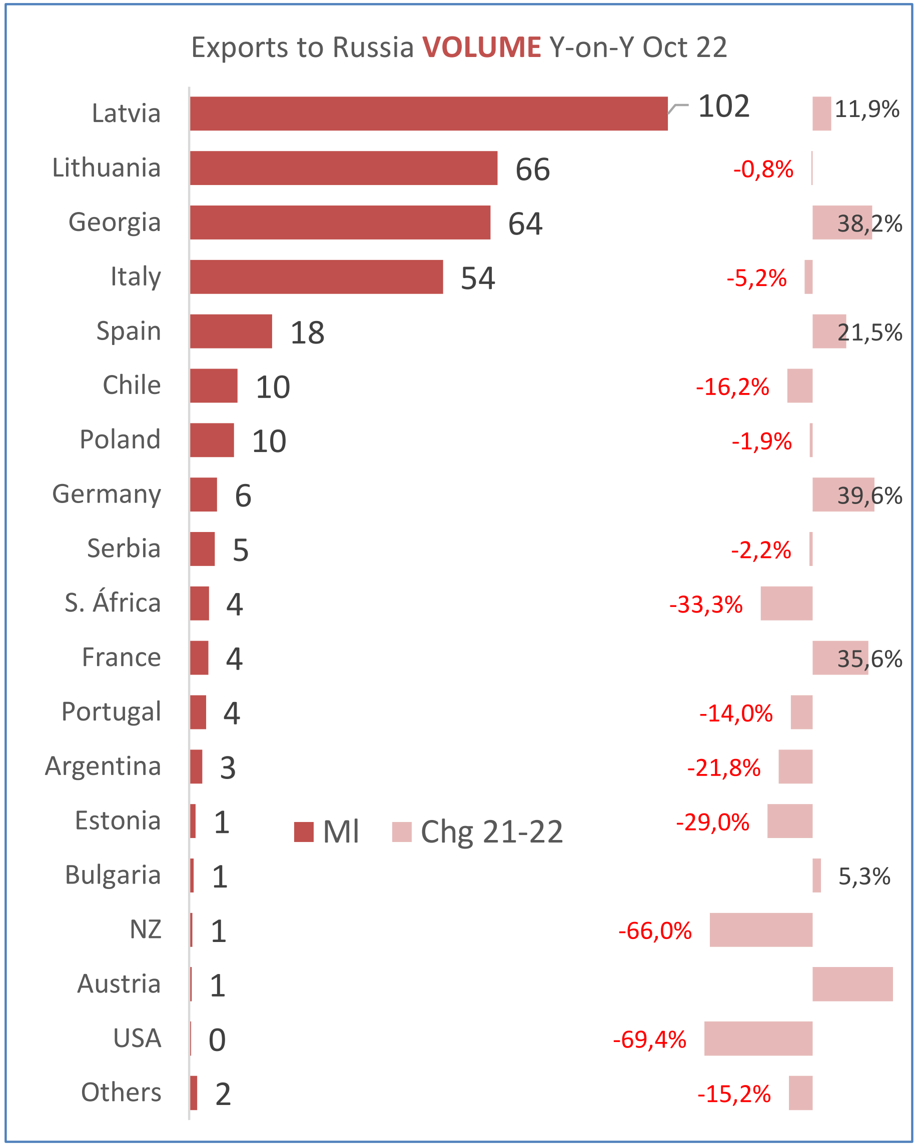


The effect of the Russian war on wine trade

But those **exporting to Russian** are rapidly changing.

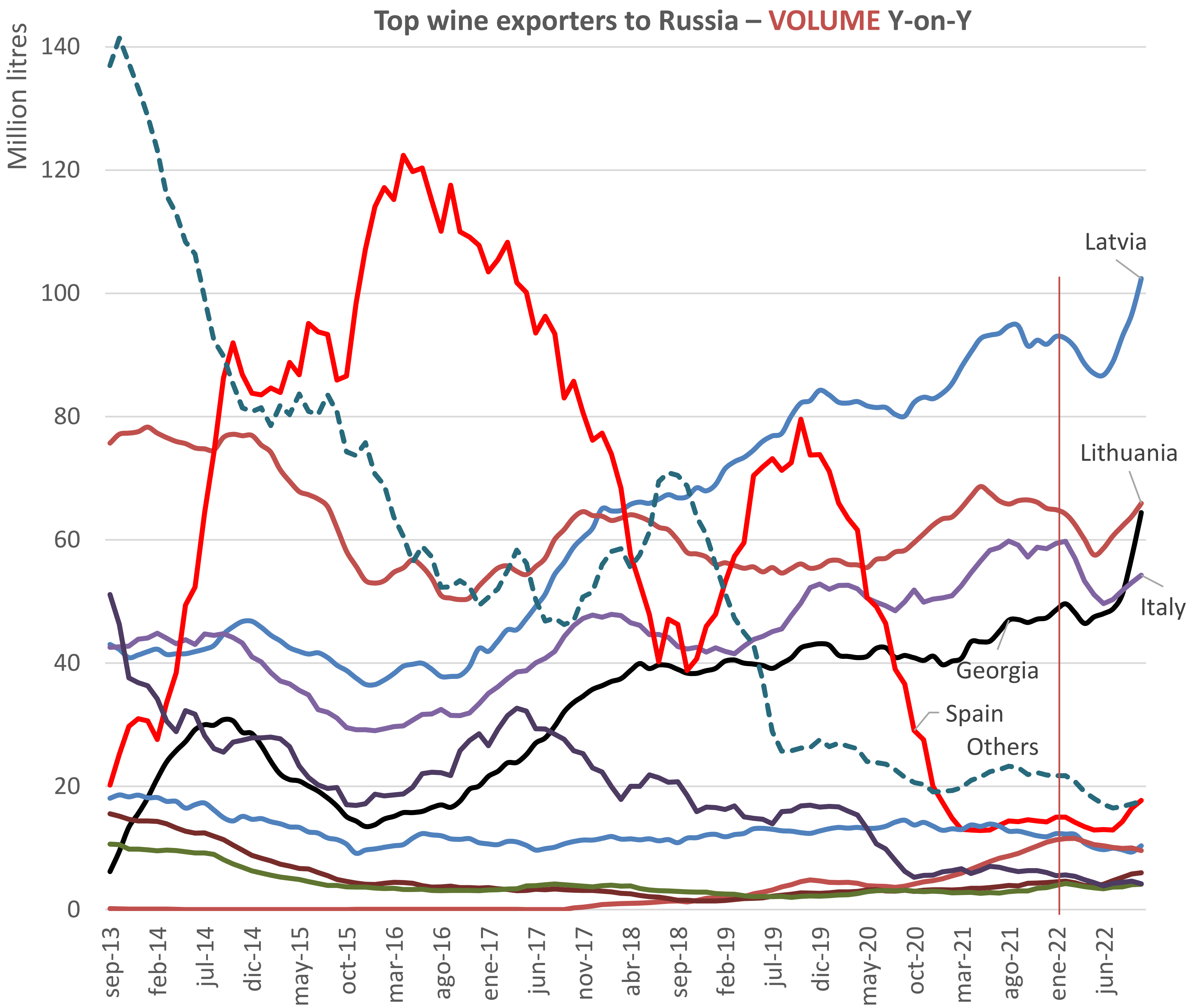
Latvia has become the largest world exporter of wine to Russia, followed by **Lithuania** which are both non-wine producing countries and therefore we may assume **all** wine exported from these countries to Russia is **re-exportation** (whereas very little wine is exported to Georgia and therefore we may assume its exports to Russia may be mostly of Georgian wine).





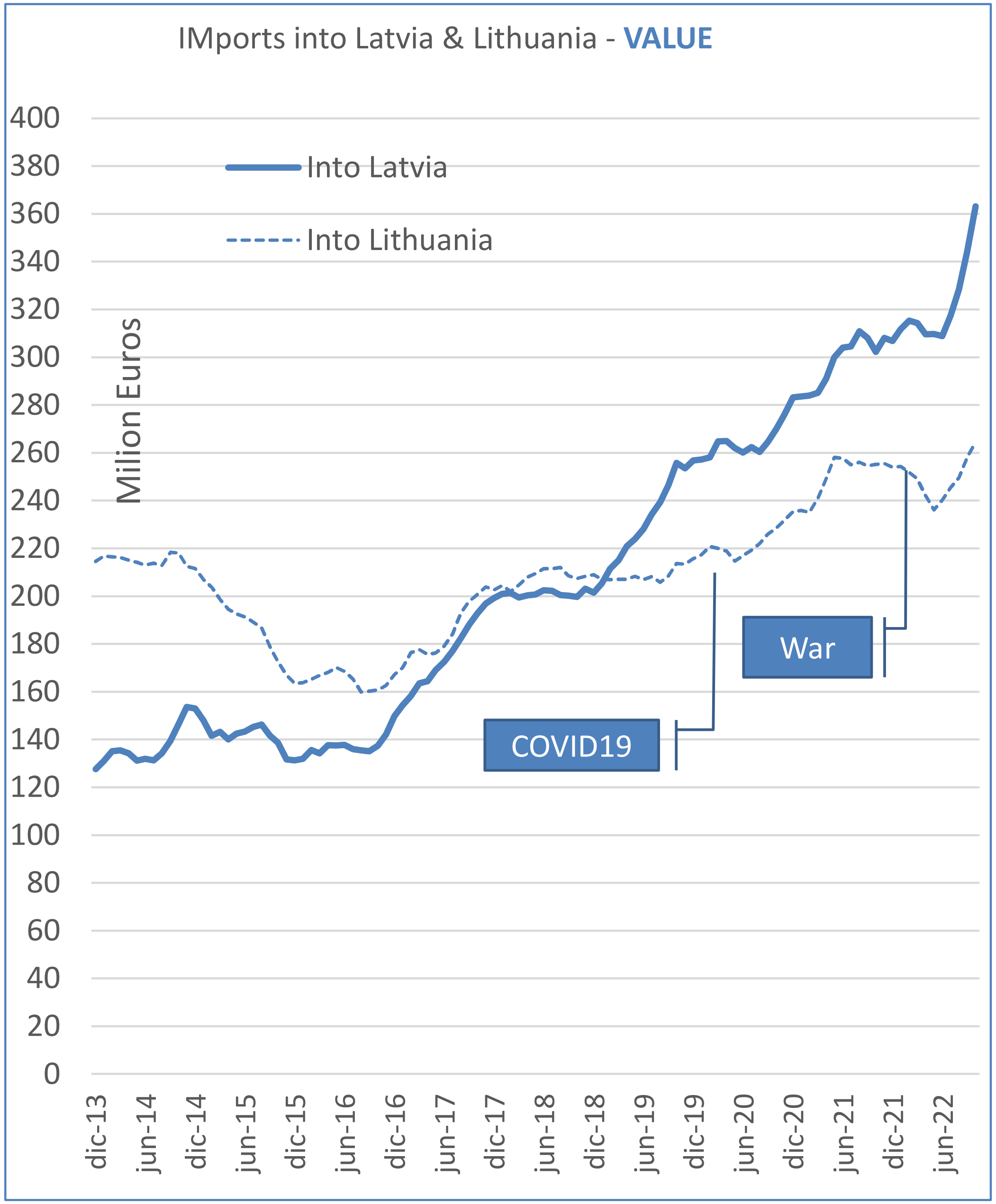
The effect of the Russian war on wine trade

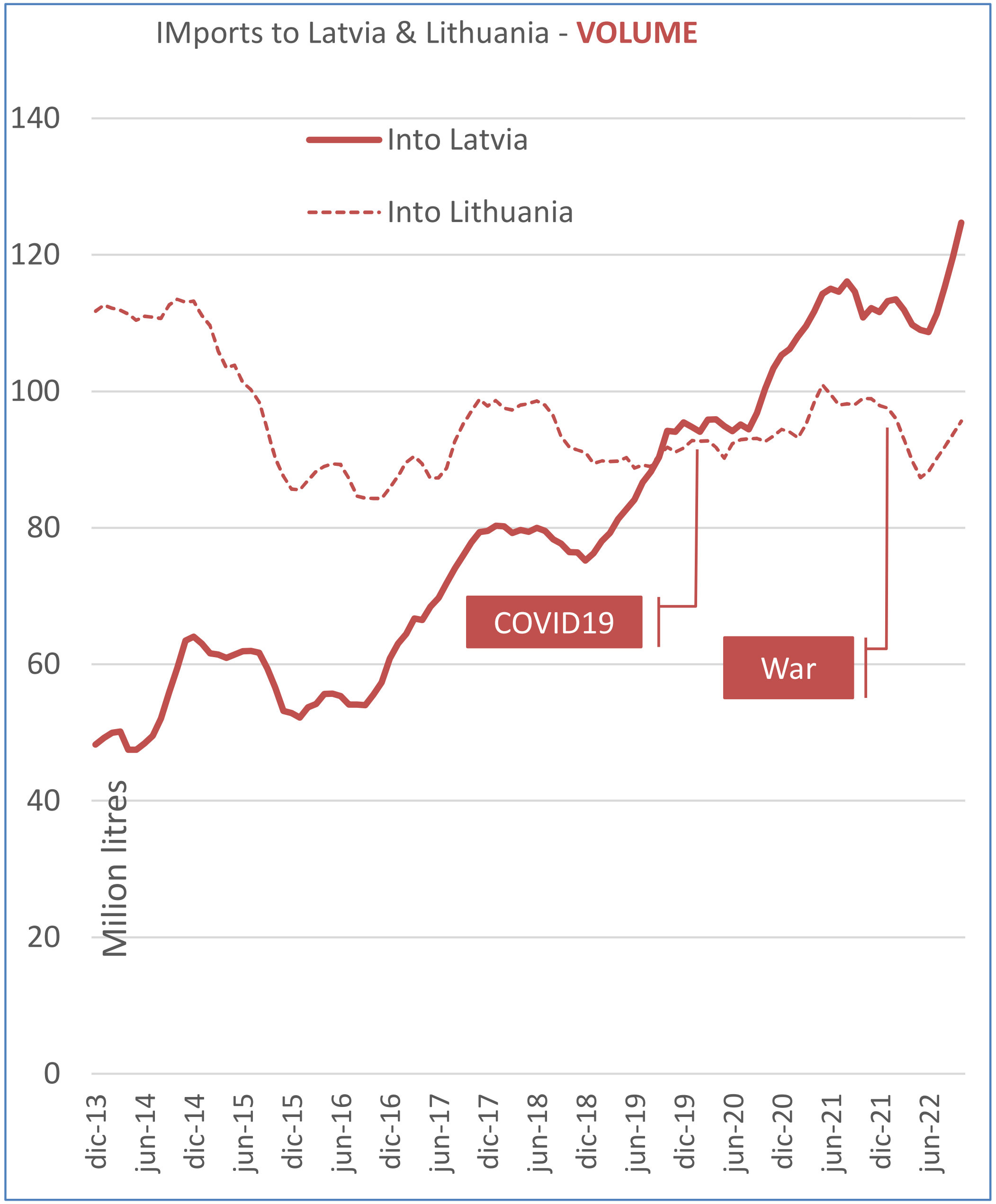
However, wine distribution to Russia through the Baltic countries is **neither due to the war, nor recent**. **Latvian** wine exports to Russia have been growing since 2016. **Lithuanian** exports are much more stable after decline in 2014-2015. **Italian** wine exports have been consistently growing since 2016, with a sharp although sort fall in the first semester of 2022. **Georgia** seems to be the great beneficiary of changes due to the war. And **Spain** was top world exporter to Russia between 2015 and 2018 but then was strongly hit by the pandemic and the new Russian Wine Law limiting imports in bulk.



The effect of the Russian war on wine trade

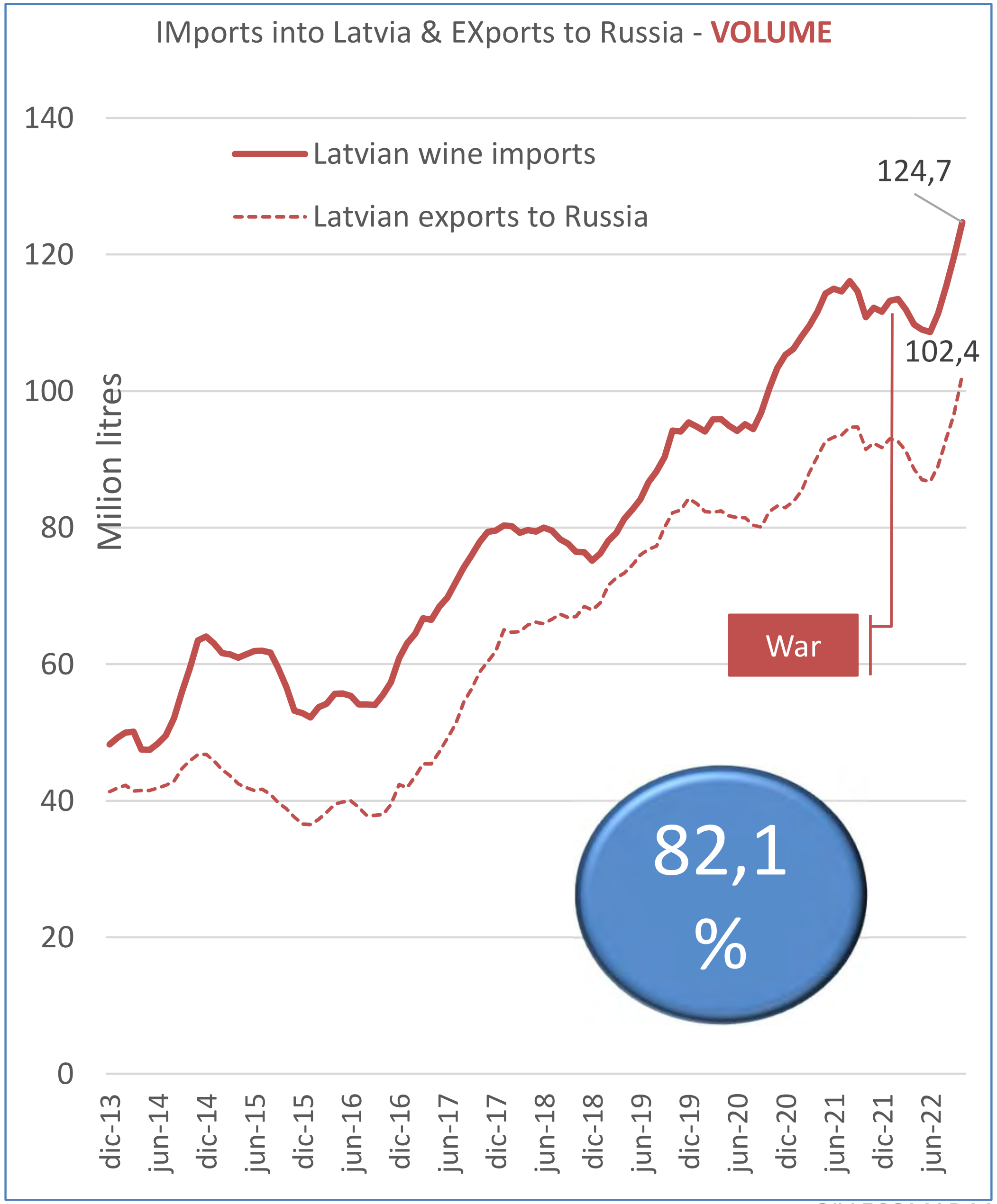
In both, value and volume, **Latvia** seems to be an increasingly strong **destination for wine exports**, particularly after June 2022 and much more than **Lithuania**.



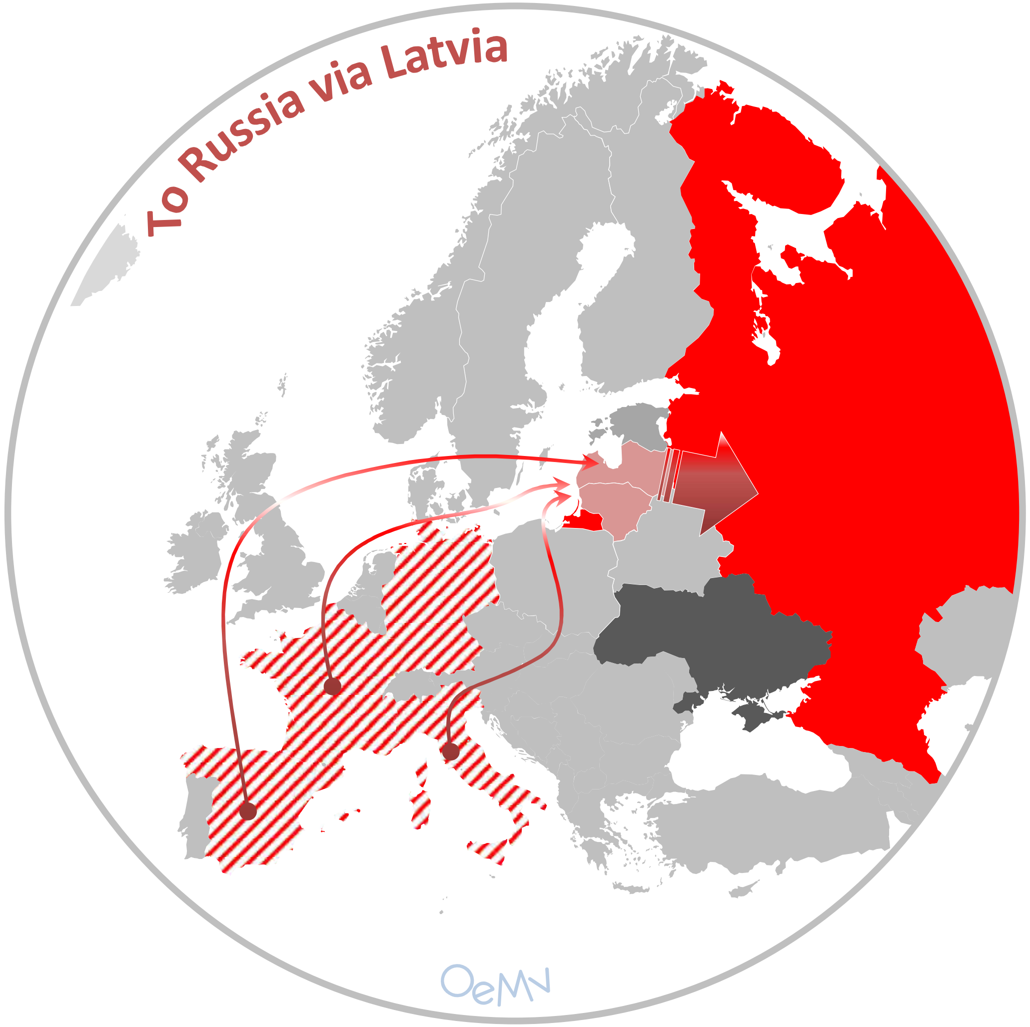


The effect of the Russian war on wine trade

The point is **how much wine entering Latvia & Lithuania finally goes to Russia** and from which origins… in order to have a good estimation of real exports from wine producing countries to Russia before and after the beginning of the war.

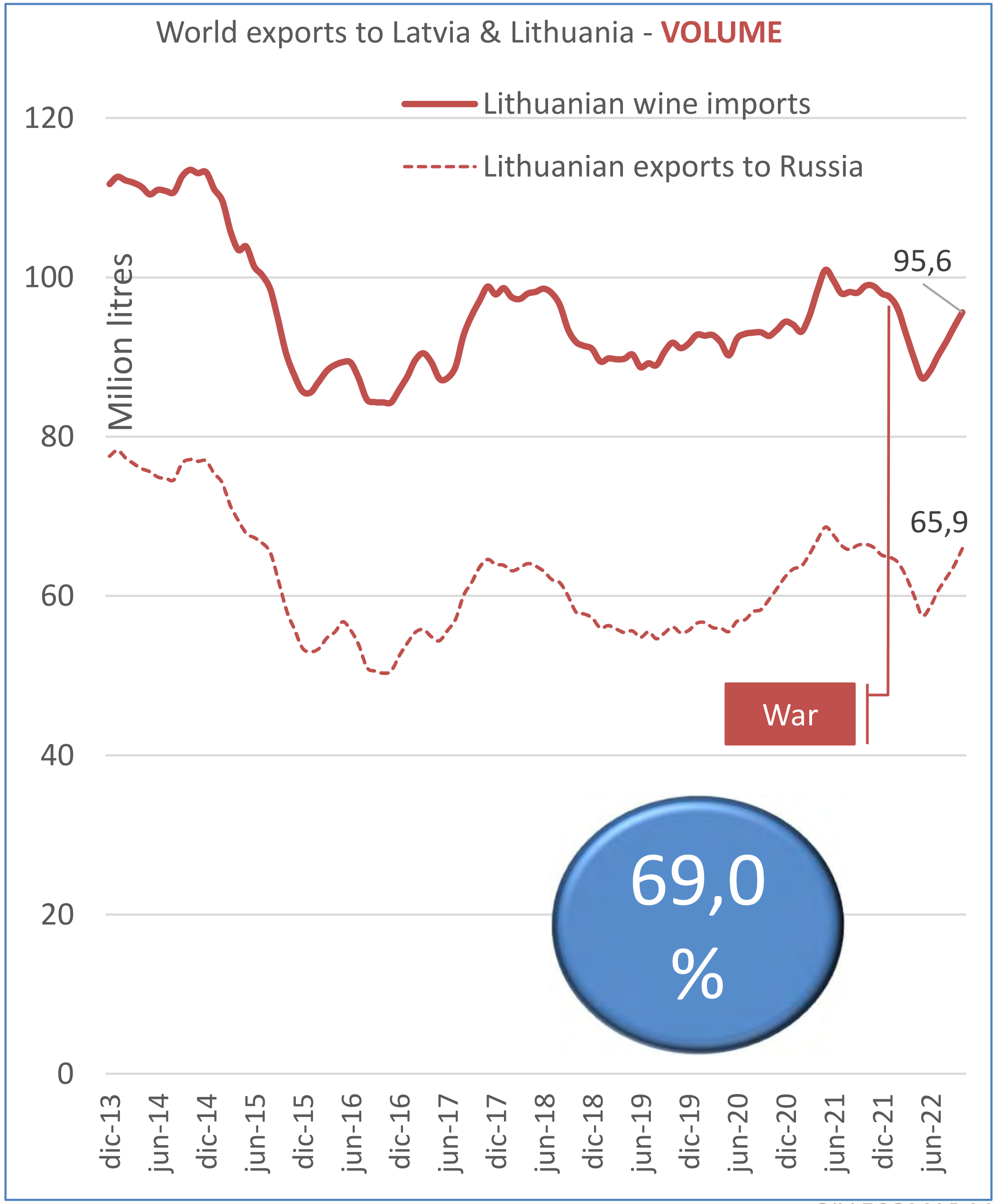


Taking official figures from Latvian customs, **imports and exports**, it comes out that an average of **82.1%** of total imports (y-on-y Oct '22) are re-directed to Russia

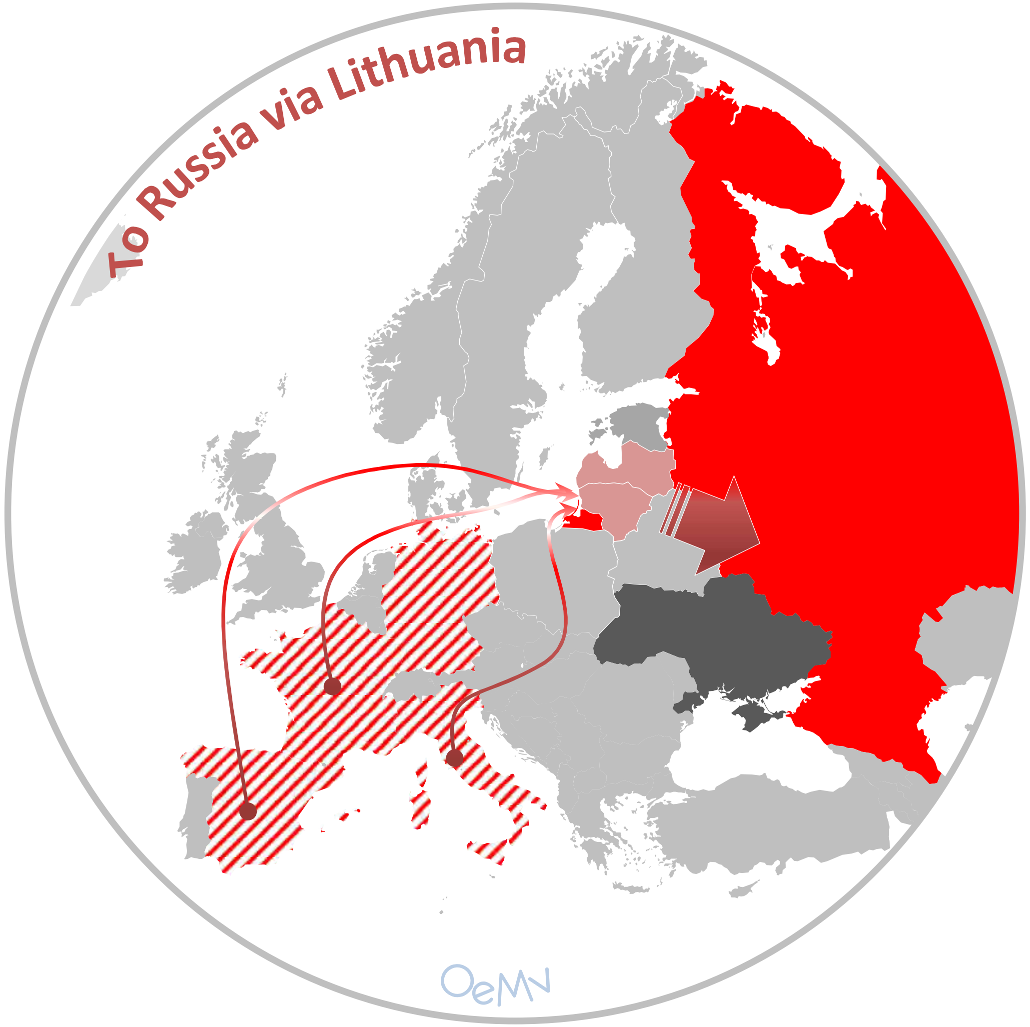


The effect of the Russian war on wine trade

In the case of Lithuania, figures show greater stability, as regards to both wine imports and wine exports to Russia; the latest descending in February last year but also recovering strongly after June '22.



Official figures from Lithuania's custom give a greater portion of the country's imports remaining in the Baltic nation, with "*only*" 69,0% shipped to Russia.



The effect of the Russian war on wine trade

Latvia and Lithuania are, thus, ways to export to Russia and both, direct shipments to Russia and indirect sales through this "*distributing countries*" are growing sharply during the second semester of last year. The remaining question is **who benefits the most from these indirect sales**.

Wine imports into **LATVIA**	
Origin	**M l** (y-on-y Oct '22)
Italy	46,7
Spain	29,6
France	17,9
Portugal	10,9
Germany	5,6
others	14,0
TOTAL	**124,7**

82,1 %

Est. exports from **LATVIA to Russia**	
Origin	**M l** (y-on-y Oct '22)
Italy	38,3
Spain	24,3
France	14,7
Portugal	8,9
Germany	4,6
others	11,5
TOTAL	**102,3**

Wine imports into **LITHUANIA**	
Origin	**M l** (y-on-y Oct '22)
Italy	33,4
Spain	21,4
France	18,3
Portugal	5,8
Germany	5,7
others	11,0
TOTAL	**95,6**

69,0 %

Est. exports from **LITHUANIA to**	
Origin	**M l** (y-on-y Oct '22)
Italy	23,0
Spain	14,8
France	12,6
Portugal	4,0
Germany	3,9
others	7,6
TOTAL	**65,9**

Total wine exports to Russia, direct & indirect

	M l (y-on-y Oct '22)			
Origin	**Direct to Russia**	**vía Latvia**	**Vía Lithuania**	**TOTAL**
Italy	54,3	38,3	23,0	**115,6**
Georgia	64,4			**64,4**
Spain	17,7	24,3	14,8	**56,8**
France	4,1	14,7	12,6	**31,4**
Portugal	3,6	8,9	4,0	**16,5**
Germany	6,0	4,6	3,9	**14,5**
Chile	10,3			**10,3**
Poland	9,6			**9,6**
others	18,3	11,5	7,6	**37,4**
TOTAL	**188,2**	**102,4**	**65,9**	**356,5**

Estimating the same percentage of re-export to Russia for all suppliers to Latvia & Lithuania (not to Georgia), Italy seems to be the greatest beneficiary.

The effect of the Russian war on wine trade

To complete the whole picture **two more countries** should be analysed: Georgia and Poland.

However, **Poland** produces much less wine (1.8 million litres in 2021), which cannot explain exports of 9.6 M l to Russia (nor 5.2 M l to Ukraine). In this case, part of the 162 million litres imported by Poland, mainly from Italy, Spain, Germany and France, may be redirected to such markets, although the **proportion of re-exports as compared to total imports is much less relevant** than for Latvia and Lithuania.

Georgia is the current second largest wine producer supplying to Russia, not considering Latvia & Lithuania, and adding indirect sales to Italy. Growth of wine shipments into Russia has speeded impressively in 2022, but imports into Georgia are very limited (1.6 million litres in 2022 mainly coming from Spain). Thus, we may considered that almost all wine exported from Georgia to Russia may be **Georgian wine**, who produces approximately 210 M litres.

The effect of the Russian war on wine trade

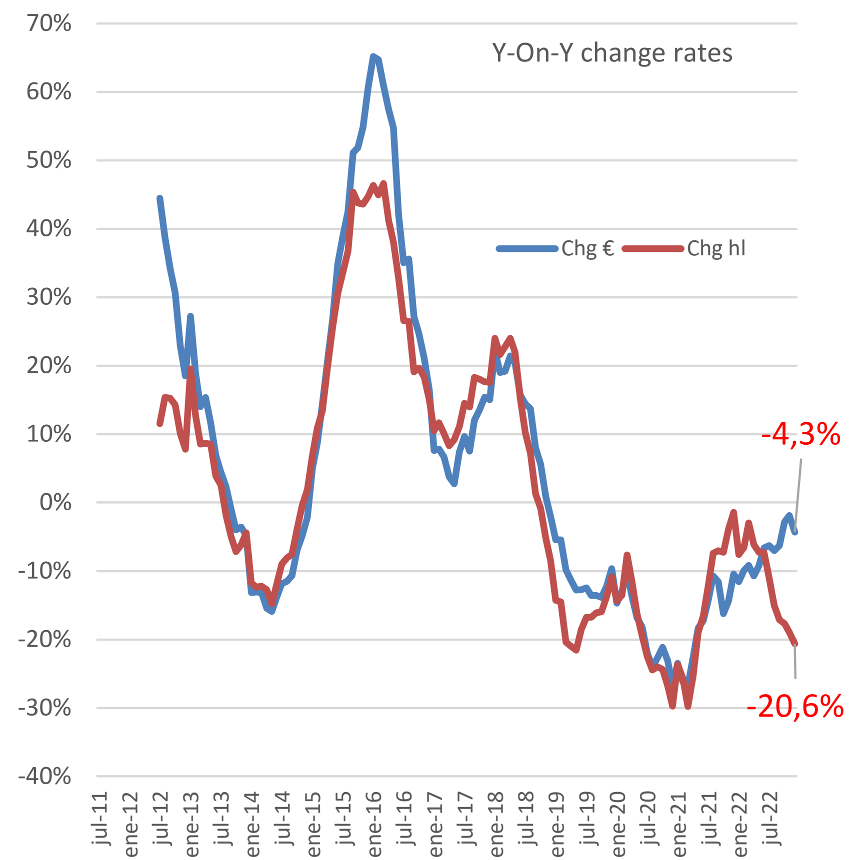
Therefore,

- Despite lack of information from Russia, we still have data of wine exports from most of the world to Russia (no data from Moldova nor from Ukraine since December 2018)
- Export data show, first, a sharp loss after February 2022 – breaking a previous growth since 2016 – but rapidly followed by a new relevant growth since July 2022
- However, looking at the detail of who declares exports to Russia, Latvia and Lithuania lead the ranking, followed by Georgia and Italy, after a sharp decline of Spanish sales since 2016 and even sharper since the end of 2019.
- But most of wine exported from Latvia and Lithuania – as from Poland – can be considered re-export of wines coming from other origins – wine producing countries (not considered in the case of Georgia).
- Looking at Latvia's and Lithuania's imports and exports, a percentage of global re-export can be found: how much can be estimated to rest in the country and how much is re-exported particularly to Russia.
- Applying this general percentage of re-export in each country to all major suppliers to both Baltic States, we may get an estimation of how much wine from each producer country goes into Russia through these indirect ways.
- The estimation of indirect sales to Russia through Latvia and Lithuania, added to direct declared shipments to Russia, gives a further estimation of total real sales from each of the major producing countries to this final destination.
- Under this final estimation of total sales to Russia, Italy seems to be the most benefited in terms of total sales, although in the case of France and to a lesser extent Spain indirect sales through the Baltic are higher than direct shipments.

Are wine imports in China recovering?

Wine imports in China keep on falling at similar pace as they have done since 2018, with or without COVID…

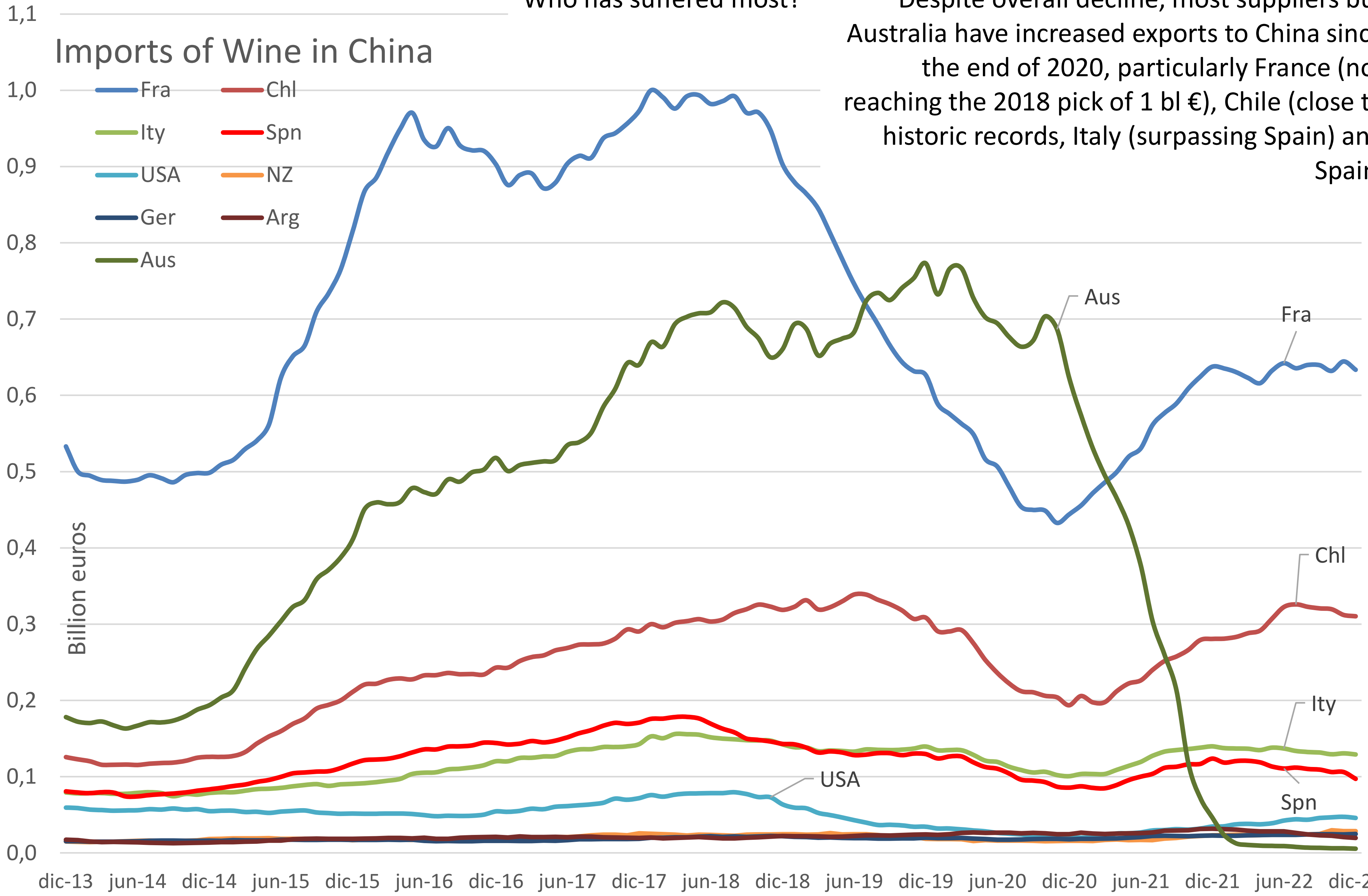
… although, change rates of purchase in value terms (Euros) seem to improve in 2022, almost reaching positive figures (-4.3% in December after close to -30% at the beginning of 2021), while imports in volume do not get better.



Are wine imports in China recovering?

Who has suffered most?

Despite overall decline, most suppliers but Australia have increased exports to China since the end of 2020, particularly France (not reaching the 2018 pick of 1 bl €), Chile (close to historic records, Italy (surpassing Spain) and Spain.



Are higher prices on wine, pushed by inflation or by demand? In either case, would they be maintained?

Different shocks due to different causes at different times

Labour costs

Energy problems

Increase of costs

Generalized inflation

Increase of interest rates

ago-21 | sep-21 | oct-21 | nov-21 | dic-21 | ene-22 | feb-22 | mar-22 | abr-22 | may-22 | jun-22 | jul-22

Boom of demand

Incr. costs

Lack of supplies

Logístics

Broken value chains

Which of these problems will be solved and when?

Temporary Re-adjustment

Durable

Uncertainty

Costs

War

When will it end?

New strategies

Durable

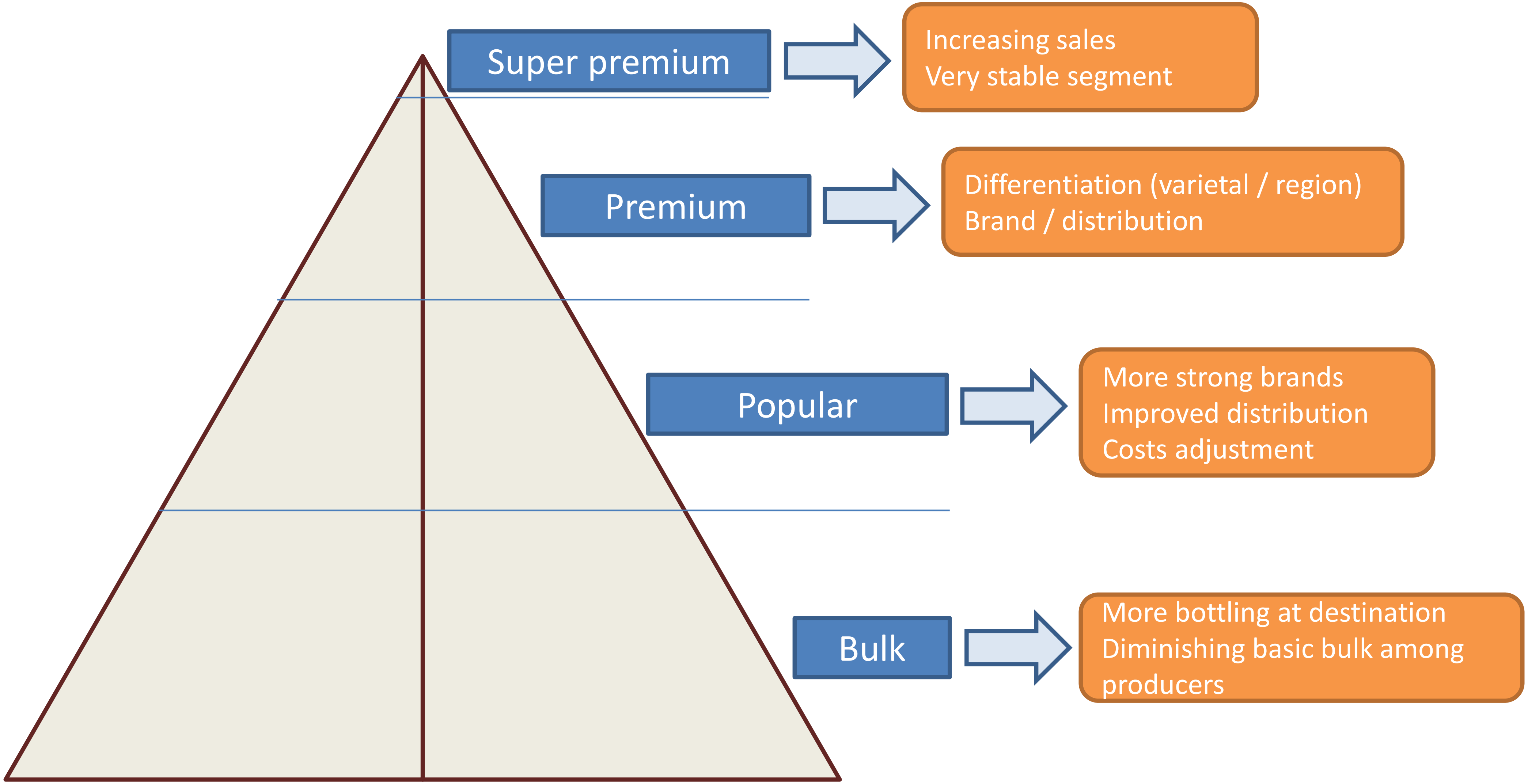
Energy

Armed forces

Monetary policy

Are higher prices on wine, pushed by inflation or by demand? In either case, would they be maintained?

1 How will these factors affect wine trade by price segments?



Are higher prices on wine, pushed by inflation or by demand? In either case, would they be maintained?

2 May they also have an impact on legislation?

When analysing price segmentation in the markets and the impact of many crisis and harmful events, two key points arise:

- Is our legal segmentation in the EU adapted to the market?
- Aren't our wineries in fact developing different segments to deal with the reality of markets?

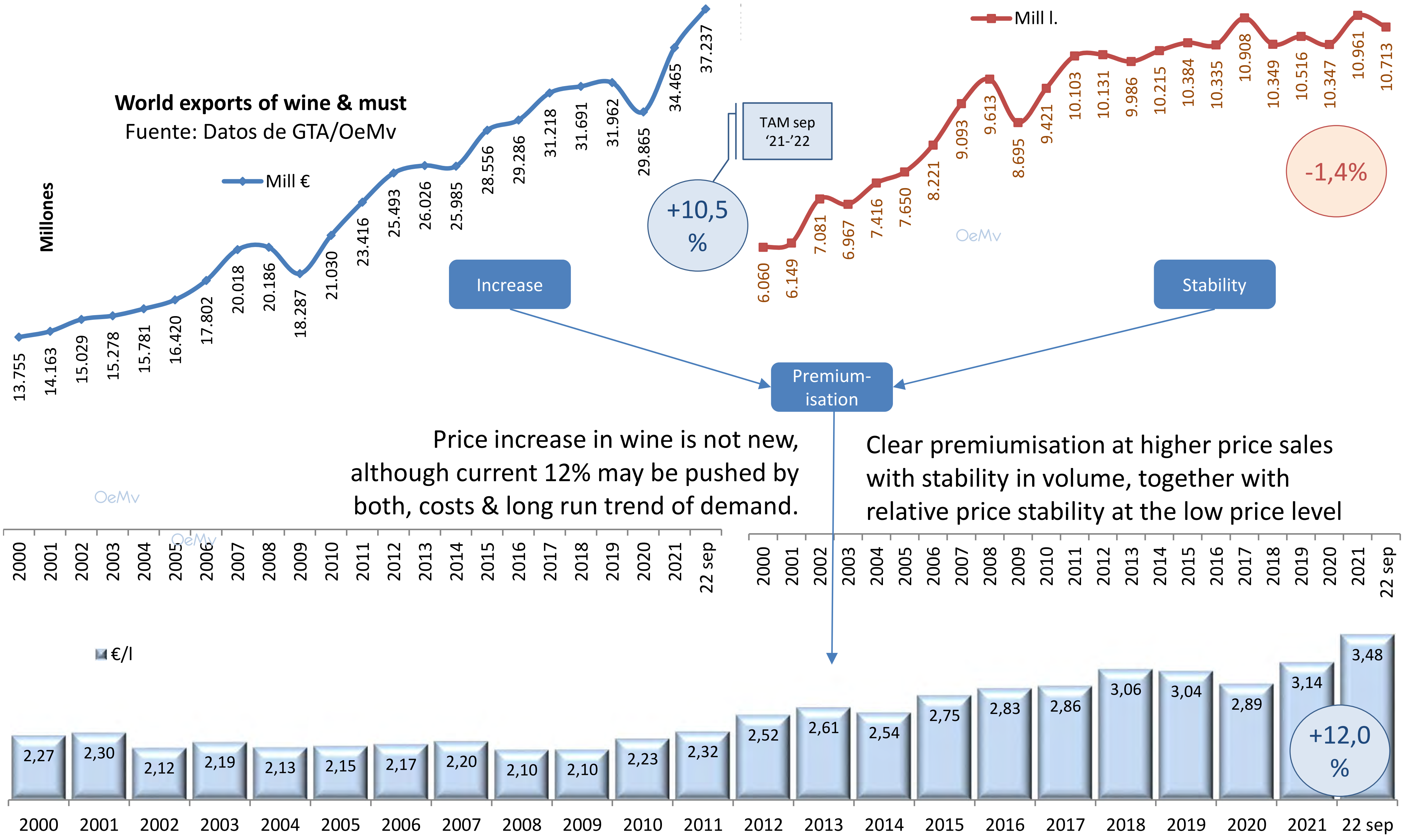
Do we have the correct legal instruments to face the market?

What is the market segmentation?

Isn't it in fact what the wineries are doing?

Are higher prices on wine, pushed by inflation or by demand? In either case, would they be maintained?

3 The underlying long run trends.
Looking at current problems from a long run perspective.



What can we learn from data?

- ✓ Premiumization & polarization
- ✓ Diversification of markets & segments of consumers
- ✓ Segmentation of the portfolio, following the segmentation of the market

Evolution of World Wine Trade

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