PANORAMA

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In front of the globalisation of the wine market, Europe bends but does not break

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European wine consumption has fallen over these past years, like that of France, which is a third of what it was 50 years ago. On the other hand, wine consumption has increased in the rest of the world, driven by the households of the two leading global economies—the United States and China. Moreover, the latter will become the leading global consumer of wine before 2030 (ahead of the United States and France) and will drive global growth over the next 15 years.

However, production has increased for the first time in five years in certain regions. It is the case for some parts of Europe, notably in Spain and to a lesser extent, in Italy. We find the same trend in South Africa, Australia, in the US and even in Chile, countries where the producers of the famous "wines of the new world" are emerging.

In Europe, faced with the growing gap between supply and demand, the European actors are seeking opportunities in the rest of the world, but this new international situation will have different effects depending on the countries. If the French quality is still recognised throughout the world, the Spanish model, based on the massive production compared to farmable land seems vulnerable to international competition.

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In front of the globalisation of the wine market, Europe bends but does not break

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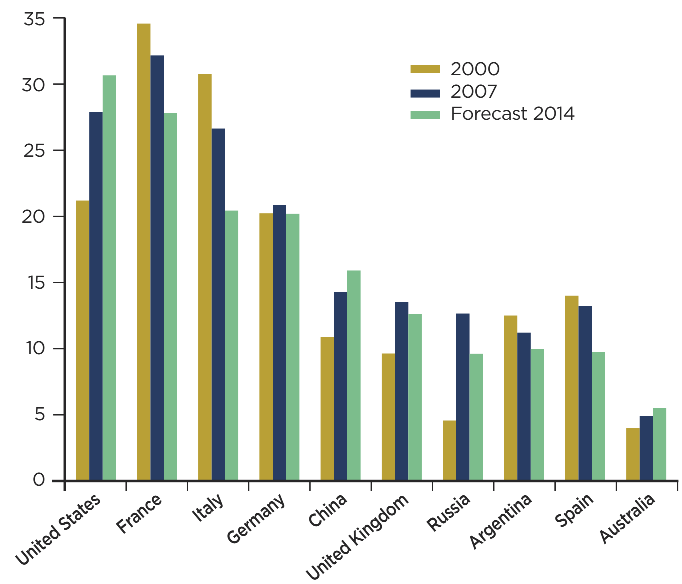
1 THE NEW DEAL OF THE WORLD WINE CONSUMPTION

Fall in European consumption

Wine consumption fell by 16.6% between 2000 and 2014 in Europe [1] because consumption habits have changed. Therefore, the three countries that have most reduced their consumption *(see graph n° 1)* between 2003 and 2013 are also the leading producers on the continent, i.e. Spain (-34%), Italy (-26%), France (-17%). Conversely, the consumption of Germany (+3%) and United Kingdom (+9%) has increased. In total, Europeans have cut their consumption by around 17,000 hectolitres, which represented 60% of French annual consumption in 2013. A study on France, carried out by FranceAgriMer [2] concludes that wine has gone from a part of a meal to a cultural drink. However, the country remains the leading consumer of wine per inhabitant worldwide (43.8 litres drunk per year compared to 28.3 for the European Union-15). These downward trends will continue, due notably to the measures taken to reduce drinking and driving, responsible for 20% of fatal accidents in Germany and 30% in France. Since January 2015, the blood alcohol limit authorised for driving in France for young drivers has fallen from 0.5 grams per litre of blood to 0.2, which should result in a further adjustment of wine consumption in favour of drinks with lower percentages of alcohol.

Graph n° 1
Change in wine consumption of the main consumers (2000-2014/Mhl)



Source: OIV

(1) France, Italy, Spain, Germany, United Kingdom
(2) FranceAgriMer, Filière vin, October 2015

Increase in global consumption

Despite the drop in European consumption, we observed growth of 6% in the global consumption of wine between 2000 and 2014 [3]. At first rapid, the increase in the consumption in volume (+11.5% between 2000 and 2007) was interrupted by the 2008 global financial crisis. After two years of contraction (-4.7% between 2007 and 2009), global consumption stagnated from 2010 at around 240 Mhl/year. In other words, since 2010, the drop in European consumption has been offset by that of the rest of the world. In detail, the growth in the global consumption of wine has been driven by that of the United States and China, which increased by 29% and 37% respectively between 2000 and 2014 *(see graph n° 1, page 2)*. Two other countries have sharply increased in this area since 2000: Russia, whose wine consumption fell in 2014 in line with the contraction in economic activity, but which had previously increased between 2000 and 2007 (+170%); and Australia, which each year increases wine orders at a regular rate (+2.5% on average per year).

The extra demand will come from Asia over the next ten years

In order that wine consumption increases during the next decade in a country, it is necessary that in addition to a change in social and cultural habits, at least one of the following conditions is complied with: an increase in the population, growing urbanisation or growth in economic activity. Asia is the world area which could achieve these three objectives.

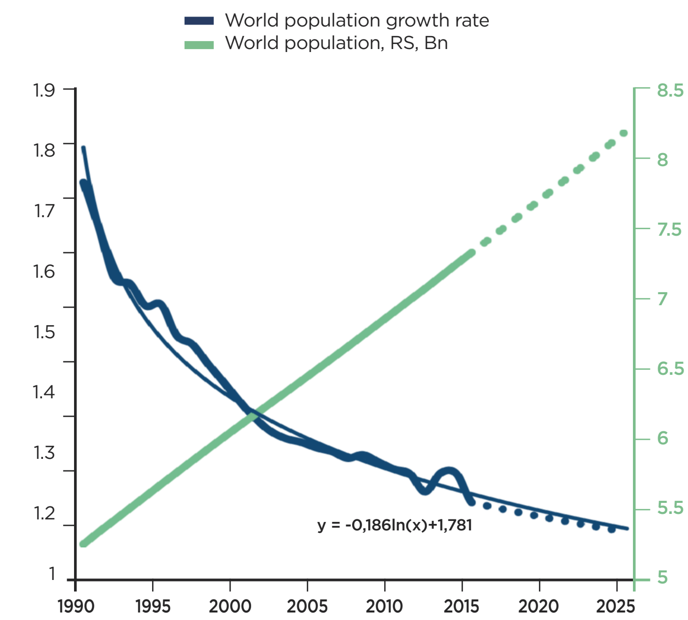
Strong increase of the world population

According to Coface, the world's population will exceed 8 billion inhabitants in 2023, compared to 7.3 billion in 2014 *(see graph n° 2)*. The rate of average annual growth during the next decade (+1.1%) will be similar to that observed over the past ten years (+1.2%). A study by the FAO and the OECD [4] estimates that close to half of the additional inhabitants by 2024 will come from Asia, whereas even within this region, a country like Japan will see its population fall by 3 million inhabitants. This increase in the world's population represents an opportunity for the wine sector, all the more so because it is accompanied by an urbanisation that facilitates the distribution of food products.

Heavy urbanisation

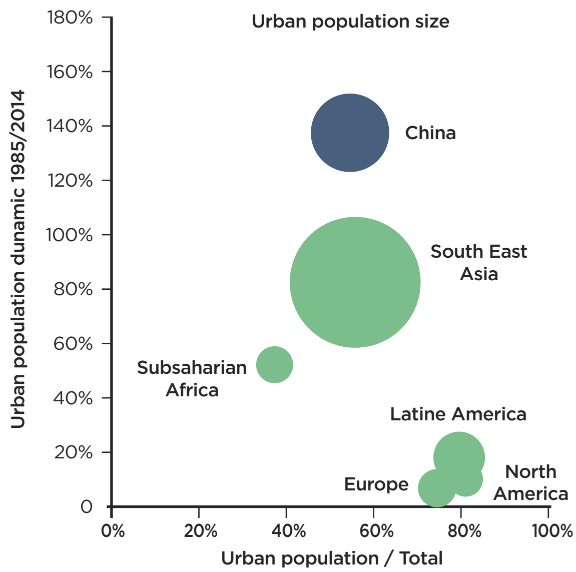
In 2014, 53.4% of the global population lived in an urban area, compared to 46.5% in 2000. The United Nations [5] forecasts that this ratio will be 66% in 2050. This increase is mainly due to the Southeast Asia and sub-Saharan Africa regions which have seen their population migrate massively towards cities *(see graph n° 3)*. In 2014, the share of the urban population was 56% in Asia and 37% in sub-Saharan Africa, compared to 36% and 31% in 2000. Chinese urbanisation follows the trend of the continent. Since 53% of the global urban population lived in Asia in 2014, the prospects are promised. The countries of Europe and Latin America have reached a mature level of urbanisation, 74% and 80% of their inhabitants living in a city (figures relatively stable since 1985). However, they only represent 14% and 13% of the global urban population. Both through its change to come and its size, urbanisation in Asia will modify the eating and purchasing behaviour of populations.

Graph n° 2
Change in the world's population, 1990-2025



Sources: Coface, WB

Graph n°3
Change in urbanisation worldwide between 1985 and 2014 and size of the urban population in 2014.
Southeast Asia had the greatest urban population in 2014, which represents 56% of the total Asia population and which has increased by 82% between 1985 and 2014.



Source: UN

(3) OIV: Organisation International du vin
(4) Agricultural Outlook 2015-2024, OECD-FAO, 2015
(5) World Urbanization Prospects, United Nations, 2014

The middle classes consumption of wine

An Anderson and Wittwer study states that in the 20th century in Asia, wine was only consumed by the elite. The positive change in demand also comes from the increase in riches, which has led, between 2000 and 2010, to the share of wine in Asia's consumption of alcohol to double to total 3% [6]. In this region, as in Africa, growth in activity should be greater during the next decade than in the rest of the world (see table n° 1). While Chinese growth should continue to slowdown to total 5% on average between 2020 and 2025 [7], the increase in the middle class will benefit the sector *(see box page 8)*. In fact, according to a study by OECD , the number of households with an annual income that exceeds 35,000 dollars should triple in China by 2022.

While the potential growth [9] in Asia economies is high, that of developed countries has been time and time again revised downwards by the major institutions since the 2008 financial crisis. In fact, according to the countries, the high debt of private or public agents, the ageing population or the demographic fall result in considering a possible stagnation in the future growth of advanced economies. Table 1 offers a differential reading of the change in activity of these economies during the next ten years. An IMF report [10] on the American economy, states that the potential growth in the United States is situated around 2% until 2025, which is one percentage point more than in Europe (EU 28). According to a European Commission report [11], this could be 1.1%. This difference shows the capacity of American households to retain a favourable dynamic in wine consumption.

Table n° 1

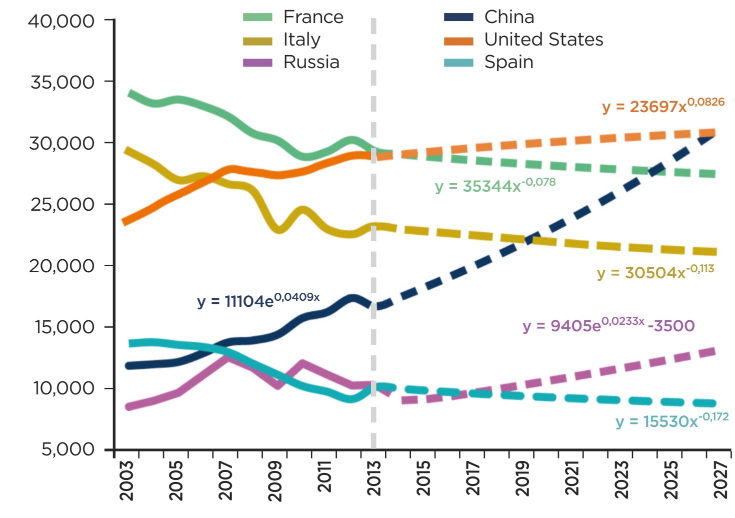
Growth potential of GDP 2020-2025

	Potential growth 2020-2025
Australia	2,60%
Chnia	5%
France	1,30%
Germany	1,10%
Hong Kong	3,50%
Italy	1,20%
Russia	1,50%
Singapore	3,20%
Spain	1,70%
United Kingdom	1,20%
United States	2%

Sources: IMF, EC, DGTresor

Graph n° 4

Change in wine consumption, in thousands of hectolitres.



Sources: OIV, FranceAgriMer

Analysis of the wine consumption dynamic of these markets leads us to conclude that in 2025 China will consume more wine than France *(see graph n° 4)*. In fact, wine consumption per inhabitant remains weak (1.3 litres per inhabitant in 2013, compared to 43.8 in France), which leaves a lot of room for an even more rapid increase in consumption in the event of incentives: advertising, effects of fashion, etc.

Beyond the French case, the cards will therefore be reshuffled by 2027. China should then be the leading global consumer of wine, a little ahead of the United States *(see table n° 2)*. Furthermore, in Russia, while consumption has been undermined since 2014 by the contraction in activity, in the medium term the rate of wine consumption should accelerate to exceed United Kingdom consumption by 2027.

Table n° 2

Rankings of the leading ten countries of wine consumers

	Ranking 2013	Ranking 2027
United States	1	2 (-1)
France	2	3 (-1)
Italy	3	4 (-1)
Germany	4	5 (-1)
China	5	1 (+4)
United Kingdom	6	7 (-1)
Russia	7	6 (+1)
Argentina	8	8
Spain	9	9
Australia	10	10

Sources: OIV, Coface

Therefore, global consumption should continue to grow in the next decade, driven by consumption in Asia, America and to a lesser degree Russia. We estimate that from 2012 to 2027 this growth in consumption will be around 10% [12], i.e. annual growth of 0.65%. This result is obviously a driver for the entire market. This being so, the emergence of new producers and of several production models could call into question the supremacy of the European players in the sector.

(6) K.Anderson & G. Wittwer, "Asia's evolving role in global wine markets", April 2015
(7) Albert, Jude, Rebillard, "Rebalancing and potential growth in China", DGTrésor, 2015
(8) K. Kharas, "the emerging middle class in developing countries", OECD, 2010
(9) Potential growth represents the growth that the economy can maintain in the long term, excluding short-term effects
(10) IMF United States Article IV, July 2015
(11) The 2015 ageing report, European Commission, 2015
(12) Coface calculations based on the change in consumption of the ten leading players

2 DIVERSIFICATION OF EUROPEAN PRODUCTION

While since the start of the 1960s, the share of the main wine producers (13) in global production has fallen by nine points (48% between 2013-2015 compared to 57% at the start of the 1960s), these latter occupy and maintain a dominant position on the market (see graph no. 5). This fall has benefited "new world countries" (NWC) (14), the weight of which in global production has been multiplied by two in 50 years, to the detriment of the production of players in the rest of the world. The latter have seen their share in global production fall from 26% to 17% over the same period, automatically resulting in a concentration of players within the sector.

Fall in European supply

The three leading global producers are European...

Wine production worldwide is dominated by Italy (18%), France (17%) and Spain (13%), which were responsible for 48% of global production in 2015 (15) *(see graph n° 5)*, for European production representing 60% of global production. These countries dominate the other European producers with production levels five to twelve times higher than German, Portuguese, Russian and Romanian productions (compared to Italian production in 2015).

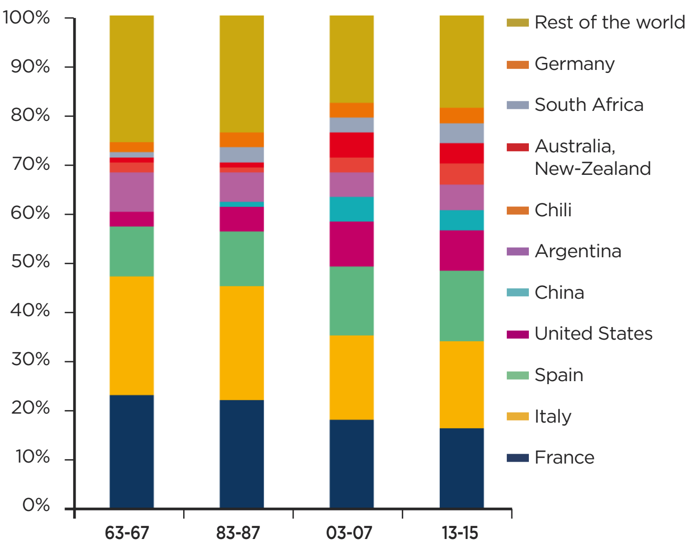
... despite falling production over 30 years, in favour of the NWC.

Even though over the past five years European grape production increased at the same rate as the global output of wine (3%), the latter had not been maintained by European producers over the previous 25 years. In fact, although grape production over the past ten years (2003-2013 average) is 7% higher than the last thirty years (average from 1983 to 2013) for the NWC, that of Europe (for the same comparison) decreased by 10% *(see graph n° 6)*.

The intended drop in European production...

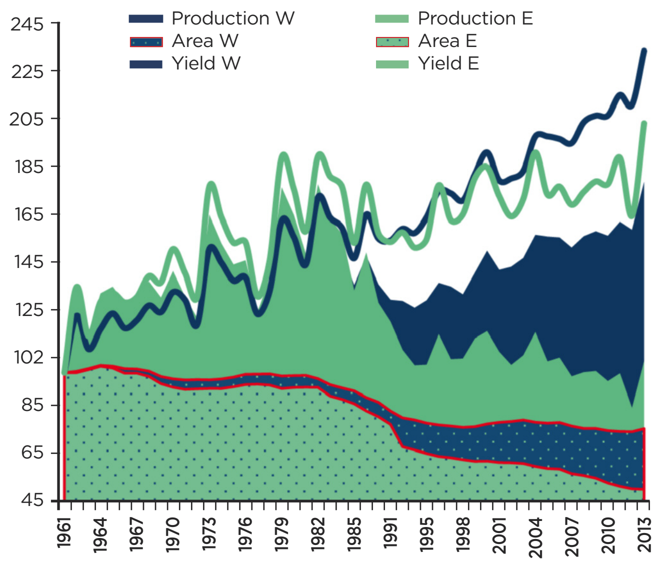
The general drop in production in Europe is visible from the middle of the 1980s, a period when growth in global production intensified. It mainly emanates from the sharp drop in harvested areas (-14.1%) between A1 and M2 (16), which fell three times faster than all of the harvested areas worldwide (-4.2% only). While the growth in yields (+11.9%) is behind the increase in global grape production (+7.7%), the more relative increase from European yields (+4.2%) has not enabled the sharp drop in its production (-10.2%) to be cushioned. In fact, concomitantly to the major restructuring of the European wine sector (17) over the past thirty years due to overproduction linked to the slowdown in consumption, growth in global production has had to be conducted by new producers.

Graph n° 5
Share (average over five years/three years) in the global production of wine from 1963 to 2015 (estimated for 2015)



Sources: FAO Stat, OIV October 2015

Graph n° 6
Production, harvested area and grape yield - World (W) - Europe (E) - (100 base in 1961)



Source: FAO

(13) Italy, France, Spain
(14) New world countries (NWC): US, South Africa, Argentina, Chile, New Zealand, Australia
(15) OIV, October 2015
(16) The figures below are compared on a 2003-2013 average (A1)/1983-2003 average (A2). In reference to graph no. 8, production (P) is represented according to the following function: P (tonnes) = Y (Yields in hg/ha) X HA (Harvested Areas in hectares)
(17) All of the activities of grape growing and wine making

... benefits other players

The areas that experienced the best growth rates in their grape production over these past ten years are Asia (+52%), South America (+45%) and North America (+32%). But Asia is by far the second largest producer in volume in 2013, with 32% of global production compared to 26% in 2003. The gap is closing with European production, since it was six percentage points in 2013, compared to 21 in 2003. Asia thus produces three times more grapes than South America (11%), North America (10%), five times more than Africa and ten times more than Oceania. Growth in grape production has accelerated considerably in recent years in this area, also due to its long-standing wine experience, as it was already the second largest producer of grapes in 1961. Asia's potential is huge, but still not fully realised, since only 13% of its vineyards are dedicated to wine (compared to 42% in the United States and 85.6% for the three main European producers). The drop in European production has gradually left room for other production zones, but restructuring has allowed a European wine model based on a competitive price to be established.

Europe remains a "strong zone" for production where the main producers have a complementary supply

European production remains the leading global production zone...

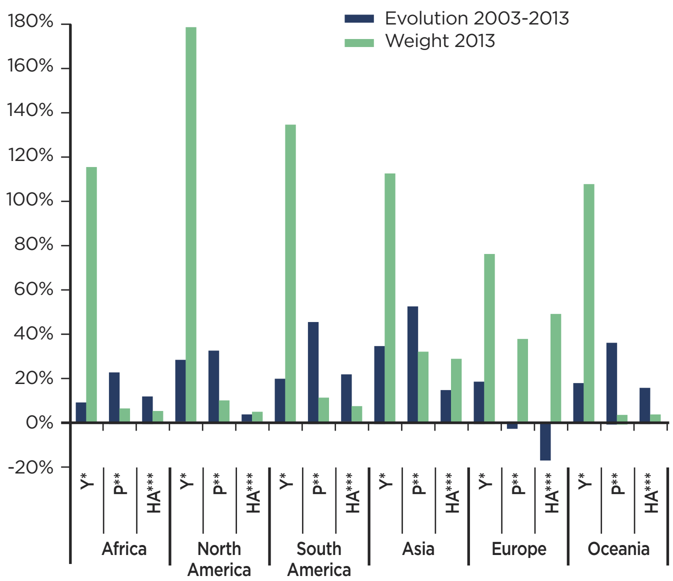
The traditional advantage of production in Europe lies in the number of harvested areas (HA), which represented 50% of the world total in 2013, while all the other areas (excluding Oceania) base the development of their production on the growth of yields *(see graph n° 7)*. In 2013, Europe was the only region where yields were lower (-24%), than the average world yield, despite an 18% rise in European yields in 10 years

If we use the old adage "the higher the yield, the lower the quality", everything would lead us to believe that the restructuring of the European vineyards has made the latter a competitive player, positioned on qualitative production. A report from the European Commission[18] from October 2014 confirms "that between 2000 and 2012, European wines have, overall, improved their competitiveness within the global market in terms of value, while maintaining their position in terms of volumes and this, despite the overall loss in market share (both in value and in volumes)". The restructuring of the European wine-growing area has not called into question the identity of the three main producers. On the contrary it has even contributed to making them more competitive and complementary.

... in which there are several production models

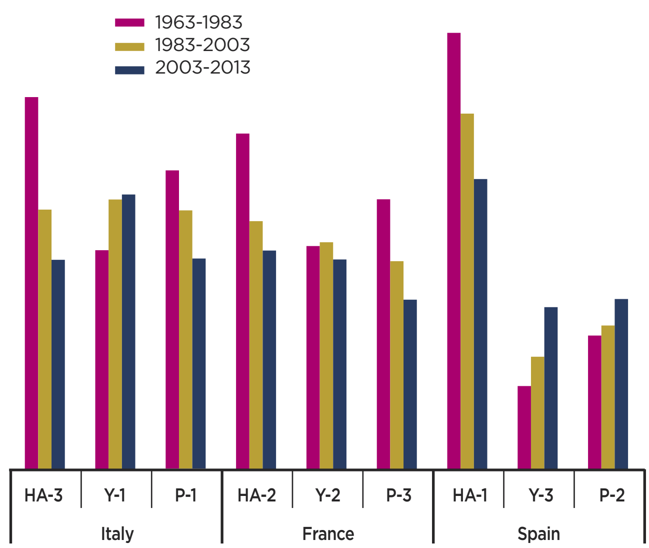
Spain is the sole producer (out of the first three) to have seen its wine production increase over the past 50 years *(see graph no. 8)*. While this increase in Spain and the drop in France and in Italy illustrate at least two production models, analysis of the origins of this fall shows a third model. Firstly, the level of the harvested areas has fallen for all of the producers over 30 years *(see graph n° 8)*, due to the fact of the Common Market Organisation of Wine[19] in particular, introduced in 2008, and a medium for the restructuring of the European wine sector.

Graph n° 7
Evolution (2003-2013) and weighting in % worldwide 2013 - *Yields; **Production; ***Harvested area



Source: FAO

Graph n° 8
Growth index of harvested areas (HA), yields (Y) and grape production (P) of the three main wine producers (100 base - 1961) – with 1-2-3 being the ranking occupied on average (2003-2013).



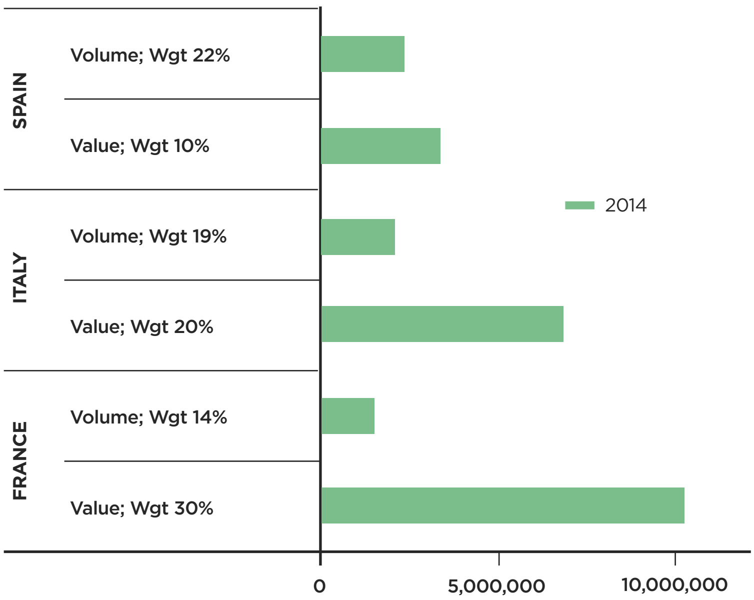
Source: FAO

(18) Study on the competitiveness of European wines
(19) CMO of wine: removal of assistance in distillation and introduction of assistance for definitive uprooting, restructuring and investment in wineries

Nevertheless, the volume of harvested areas in Spain remains on average above 35% of the harvested areas in France and in Italy over the A1 period. Lastly, the harvested areas of Italy (-20%) have fallen more sharply than those of France (-12%) over the same period. On the scale of yields, the very sharply different developments between Spain and its neighbours over the past years, is a sign of the Hispanic willingness to increase its production in volume. The average growth in the grape production of Spain (+18% between A1 and A2) is mainly motivated by an increase in yields (+42%), whereas Italy and France have seen their production collapse by 18% over the same period, due to a low growth in yields in Italy (+2%) and negative in France (-8%).

At the extremes, we find the Spanish (production oriented towards an increase in volumes) and French (production refocused on creating value) models with the Italian model in between. Note, however, that the growth in yields in Italy is much lower over the A1 period (unlike that of yields in Spain), suggesting that the grape production model in Italy tends to approach the French production model. This allows us to define three production models for the main producers, and three positions in different ranges.

Graph n° 9
Wine exports in value (thousands of American dollars) and in volume (tonnes) in 2014, and their Wgt (Weight) in global exports in 2014



Sources: TradeMap, UN Contrade

Double positioning of Europe, both qualitative and quantitative

These models reflect the positioning of complementary products, clearly identifiable through the structure of their exports *(see graph n° 9)*. Like the *quality ratio* (exports in value/exports in volume), France (ratio of 7) is the best positioned qualitatively, followed by Italy (3.3) and Spain (1.5) in 2014. Italy has, to a lesser degree, oriented its production towards a search for quality, with growth in its ratio almost similar to that of France (240%, compared to 250% for France) between 2001 and 2014. Lastly, the quality/quantity ratio of exports in Spain remains sharply identical over the same period, a sign of a policy dedicated to the search for volumes. A study from October 2015 [20] states that on the global level, the competition on volumes is mainly played out on the bulk wine market where a certain number of NWC are positioned, but also Spain (the leading global exporter of wine in 2014) and to a lesser degree Italy over the past three years *(see graph n° 9)*. While the three main European producers have a production supply that is overall complementary, are they all competitive internationally in value and in volume?

Competitiveness of European wines in terms of quality/price ratio

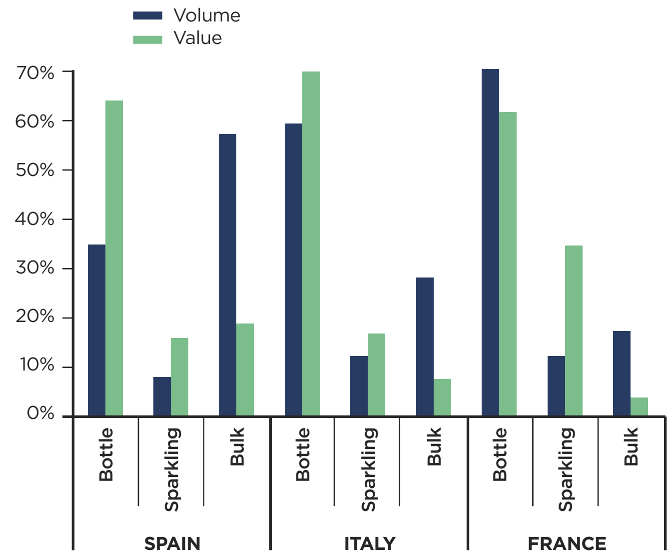
On the global market, and according to a report from the European Commission [21], the European price/NWC price ratio is > 1 for bottled wine and <1 for bulk wine, for the average of the years (2000-2012). As the study shows, "this leads us to believe that European bottled wine is of a better quality than that of the competitors and vice-versa that the bulk wines are of a lesser quality". This is confirmed with *graph n° 10 page 8*, which emphasises that the distribution per product from the three leading global exporters (and producers) is correlated to their respective production models.

There is a significant level of bulk sales for Spain (57%) and to a lesser degree for Italy (28%). We note that the levels in volume are on average three times higher than the values generated and do not belie the "low-end" positioning of European bulk wines.

We also note the high added value released by the sale of sparkling wines, the value of which is two times higher than the volumes produced. Lastly, bottled wines are the majority in volume (55%) and in value (67%) and convey, overall, the quality of European production.

(20) FranceAgrimer
(21) European Commission: Study on the competitiveness of European wines

Graph n° 10
Distribution per products of the wine exports of the three leading global exporters in volume (2014)



Sources: OIV, Avril 2015

Therefore, Europe is overall very well positioned on quality wine production (wine + sparkling). Nevertheless, it appears less competitive with regard to bulk, mid-range and low-end wine production.

Whereas wine consumption in Europe has fallen, the supply from the three main European producers has increased by 2% on average over the past five years. Moreover, this rise is above that of the average annual consumption of 0.65% expected until 2027 *(see the first part)*. If this growth level of production continues, European producers must find growth drivers in export and know how to differentiate themselves in a context of an increase in the overall supply due to the new world countries.

Box n° 1

Sybille Marlin,

co-founder in 2013 of Epicura,

which markets the Louis François brand.

How did you get the idea to create Epicura?

France has high quality wines recognised worldwide. But the current supply of French wines is very fragmented due in particular to a multitude of appellations, domain and chateau names. It is quite difficult to understand for the majority of consumers, French or foreign. It is from this observation, that we decided to launch Louis François. Our goal is to enable consumers of all countries to identify with our brand. This is not only a guarantee of quality but allows a didactic approach to terroir as our local wines are selected for their ability to fully express the terroir where they were grown. In this, the presence of Benjamin Roffet, Best Sommelier of France 2010 and Best Craftsman of France 2011 with us at Epicura is paramount.

What are for you the advantages of foreign competition, particularly from the new world?

The "new world" has generally an uninhibited approach to wine; it is merely intended for consumers by talking mainly about grapes. The concept of brand in the supply of wine from the new world is common and contributes to the clarity of the supply. This inspired us! But we wanted to preserve the key elements of the French wine market: the appellation, vintage... So the Louis François range currently consists of 17 AOC wines from 8 French wine regions. This is a novel approach, combining tradition and modernity.

Why have you targeted China?

Sylvain François, who is at the origin of Epicura, has worked for many years with China. A wine expert, he was able to perceive a Chinese demand for comprehensible quality wine. Moreover, our brand is now marketed in several provinces in China and is also used during wine courses, a sign of the didactic power offered by us. We are confident that the Chinese market will open up numerous opportunities because activity, albeit slowing, continues to post impressive growth figures. The middle class continues to grow and the Chinese are disposed to appreciate wine. Through the tea ceremony, their palate is accustomed to distinguishing between and discovering aromas.

Have the Chinese anti-corruption measures affected you?

Numerous brands of wines and spirits experienced a sharp slowdown during that time. We were at the start of our marketing, and this clearly has not helped. Today, for us, the situation is more fluid.

Do you see other markets with high potential?

Our approach is different and new, many markets have potential for us; it is in fact what we noticed at Vinexpo, at the launch of our brand in June. Today, we also target the African continent, which has seen its consumption of wine increase five times faster than the average global consumption. We are also in a marketing start-up phase in the Ivory Coast. Despite a lower demand than in Asia, we see the opportunity to learn about a future market.

3 THREATS FOR THE EUROPEAN MARKET

The growth of the middle class in emerging countries has resulted in a new demand for wine. Thus, the global foreign trade in wine [22] has increased by 169% in value between 2001 and 2014. With consumption habits tending to converge towards western standards, brands have a preponderant role *(see box page 8)*. In 2015, the biggest reason to drink wine for consumers in China is at39% because "it makes people modern and sophisticated", compared to 31% in 2014 according to *Wine Intelligence*. However, other factors have buoyed the demand for imported wines such as taxation or the exchange rate.

Europe, a leader in the global wine trade...

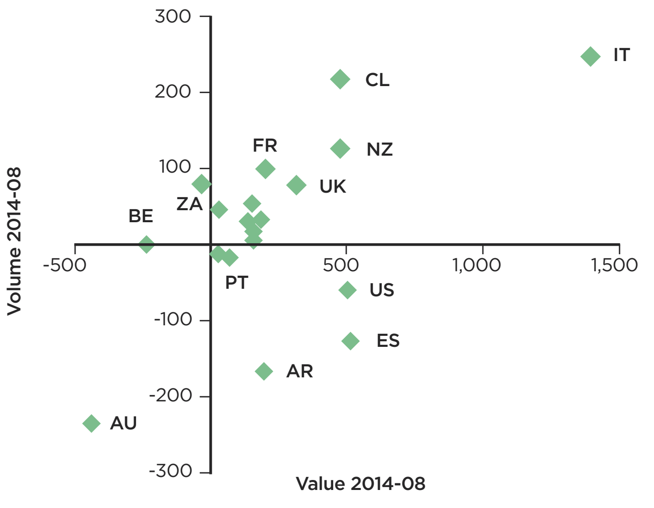
Although since 2005 France has lost its status as the leading exporter in volume to Italy, it nevertheless remains the third largest global exporter, behind Italy and Spain, and the first in value (29.6% of global exports in value in 2014 according to UN COMTRADE). But while the three European champions represent close to two thirds of the foreign wine trade in value (59%) and in volume (54%), their share has decreased over time. Since 2001, 5.7 percentage points in value have been lost faced with the increase in importance of the countries of America, South Africa or Oceania. Over a more recent period, Italy has remained the most dynamic with a 25% increase in its exports in value and 14% in volume between 2008 and 2014 *(see graph n° 11)*.

But the gorwth of Chile (CL) and New Zealand (NZ) is significant. We note that a drop in volume exported together with an increase in value shows an upmarket in exports. This is notably the case for Spain (ES) although the quality/quantity ratio is the weakest of the three largest European exporters *(see page 6)*, Argentina (AR) and the United States (US). Despite a sharp increase in China, it remains a minor player with 3,800 exported tonnes compared to 1,467,000 tonnes in 2014 for France. In fact, by including Hong Kong and Macao, foreign trade in wine remains limited. In value, China has become the 27th ranked player globally, compared to the 29th in 2008, with 57 billion dollars exported.

... but also the main importer

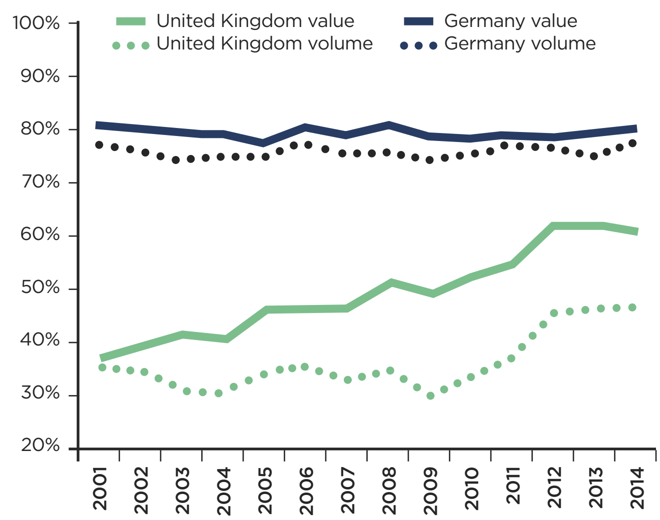
The United Kingdom and Germany are respectively the second and third largest global importers of wines in value, and first and second in volume. They therefore account for 29% of global imports in value and 28% in volume. But the change in these mature markets is not to the detriment of the historic European exporters. The market share of the three leading players (France, Italy and Spain) remains stable in Germany, around 80% in value and 77% in volume, whereas it has risen sharply in the United Kingdom to reach 61% in value and 47% in volume *(see graph n° 12)*. In fact, the growing momentum of the new producers (Chile, South Africa, Australia, United States, etc.) does not seem to constitute a major risk for European exporters on the domestic market.

Graph n° 11
Changes in exports in volume (000 tonnes) and in value (millions of USD) of the 20 leading global players in wine between 2008 and 2014



Source: UN Comtrade

Graphique n° 12
Market share of France, Italy and Spain in total wine imports



Source: UN Comtrade

(22) The data relating to foreign trade are from UN COMTRADE. The wine refers to the "2204: Wines of fresh grapes, included fortified wines, grape must"

Demand for foreign wine is moving, but not only in Asia

Since 2012, the United States has become the leading importer of wines in value but remains in third position in volume, behind Germany and the United Kingdom. While the market share of imports of the three leading European players (France, Italy and Spain) fell up to 2012, it seems to have recovered since then to reach 66% in value and 44% in volume in 2014. Although Southeast Asia remains a market highly coveted by exporters, the "old" markets remain dynamic. Imports to the United States thus increased by 516 million dollars between 2008 and 2014 *(see graph n° 13)*. There is also Germany (DE), Japan (JP) and Canada (CA). However, it is China [23] that has shown a disproportionate appetite: in only six years 1.8 billion dollars and some 238,000 tonnes of additional wine has been imported. But this increase also teaches us another lesson with the rise in the average price. Because if United States imported the same additional volume , the value is 1.5 times higher in China. However, this phenomenon has reversed since 2013.

A standardisation of consumption in China, which is accompanied by risks for the European players

Hong Kong has become the main hub of foreign wine in Southeast Asia since 2008 by having made the choice to remove taxes on imported wine. In November 2015, the Hong Kong government announced a further abolition of taxes on wine exports intended for Beijing, Tianjin, Shanghai, Guangzhou and Shenzhen which should increase its position as a gateway to China. Therefore, Hong Kong re-exported to China 61% of its imports in values in 2014 (80% in volume). This new tax measure will boost the general fall in prices thus ensuring a greater democratisation of foreign wine in Southeast Asia – because Chinese consumption is changing.

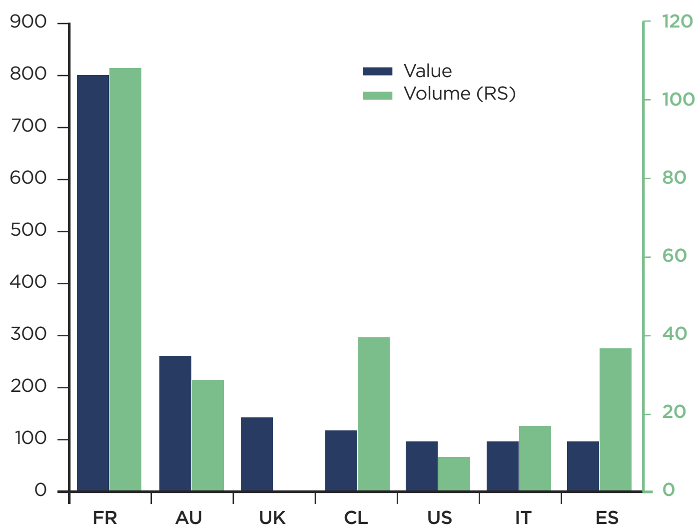
Since his accession to the head of the party in March 2013, Xi Jinping has made the anti-corruption fight a priority. The government aim is to eliminate corruption, which has been carried out by party members providing generous gifts. This campaign has affected the activity of luxury brands. In the wine market, a slowdown in consumption has been observed as well as on high-end products. But this return to normal remains beneficial for the Chinese market which is becoming standardised and thus becomes more competitive: wine consumption is becoming more democratic and the average price is falling. Furthermore, the Chinese government encourages "still" wine consumption, at lower alcohol content than the products usually consumed such as rice alcohol. Because the first reason why the Chinese consume red wine is for its health benefits according to *Wine Intelligence*.

With 40% of Chinese consumers aged between 18 and 29, the competitiveness of imports are based on the price. This is in a context of several bilateral agreements (FTA [24]) being signed with China to exempt wine imports from taxes: New Zealand (gradual exemption from 2005 to 2012), Chile (2005 to 2016) and Australia (2014 to 2018). In fact, the increase in Chilean and Australian exports is boosted by the removal of these taxes *(see graph n° 14)*. Therefore, Australia recorded a 47% rise in value of its wine exports to China at the end of October 2015 over one year according to *Wine Australia*.

Graph n° 13
Changes in imports in volume (000 tonnes) and in value (millions of USD) of the 20 leading global players in wine between 2008 and 2014

Source: UN Comtrade

Graph n° 14
Change in Chinese imports per country in volume (000 tonnes) and in value (millions of USD) of the seven leading partners [25] between 2008 and 2014



Source: UN Comtrade

(23) The China area includes Macao and Hong-Kong, withdrawn from intracommunity trade
(24) Free-trade agreements
(25) The seven leading partners represented 88% of total exports in value and 91% in volume in 2014

Also, the ratification of bilateral agreements significantly increases the competitiveness of wines from Australia, Chile and New Zealand. All the more so that the standardisation of Chinese consumption is accompanied by increased demand for low-end wines.

Furthermore, the competitiveness of exporters is also measured by the exchange rate. Face to internal difficulties linked notably to the drop in the price of metals, the Chilean peso has sharply depreciated since 2013 compared to the dollar. Thus, over 2014, the Chilean currency depreciated by 12.7% compared to the Chinese yuan. Chilean wine exports have benefited from this competitiveness/price gain: the volume of Chilean wines exported to China rose by 39,000 tonnes between 2008 and 2014 *(see graph n° 14 page 10)*. Between January and November 2015, a further depreciation of 13.6% was observed. Over the same period, the South African rand depreciated by 17.0%, which could increase the position of South Africa in China (12th largest exporters of wine to China in 2014).

Despite these pressures, and notably the effects of anti-corruption measures on high-end wine imports, the position of France in China seems to have stabilised in 2014 at 43% of exports to China in value (50% in 2011) and 33.3% in volume (35.2%). It is the country whose exports have increased the most between 2008 and 2014, whether in value or in volume *(see graph n° 13 page 10)*. The market share of the three main European players (France, Italy and Spain) reached 53.2% in value (58.7% in 2011) and 51.9% in volume in 2014 (61.5%).

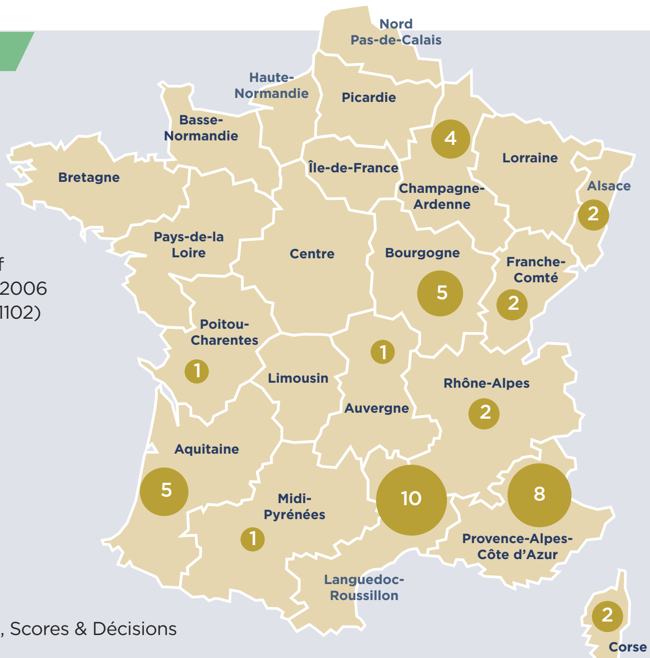
But the increase in Asian consumption can also benefit local producers. In China, domestic production concentrates between 80 and 90% of the market according to estimations. Mainly around three players: *Dynasty, Changyu and Great Wall*. In 2014 close to 1,200 domains of wine production were recorded. Production on the old continent reflects a historic dimension, like the heritage of a culture. Conversely, the development of production in emerging markets illustrates commercial purposes . Therefore, they need to create an audience before increasing their commercial offer. The increase in Chinese wine production is also boosted by the growing use of foreign bulk wines blended with the local wine. In fact, Chinese legislation imposes that only 10% of the content comes from China. While Chinese production has managed to significantly increase in quality and in volume, it will not affect the growth of imported wines before five years according to the Australian university of Adélaïde [26].

A moderate risk for European exporters, but possible long-term weakness

Although growth drivers are in Asia, the historic market remains important. However, traditional exporters such as France, Italy and Spain maintain their domestic market share. In China, the outlook for wine consumption is bright, even if this market appears to be entering a new phase of normalisation. The democratisation of wine is automatically accompanied by a price drop. However, the competitiveness of the players in Europe is suffering from free trade agreements with Australia, Chile and New Zealand, whose wine exports are being, or will gradually be, tax-exempt. To a lesser degree, the depreciation of the exchange rate of exporters such as Chile or South Africa improves their price competitiveness. At this stage, this new competition does not seem to penalise the French players in the sector, for which the insolvency rate remains significantly lower than the national average *(see box n° 2)*.

Box n° 2

Graphique n° 15
Map of France of insolvencies (01-2006 to 10-2015, APE 1102)



Sources : Coface, Scores & Décisions

Wine-making company insolvencies in France

Since 2006, we have counted an average of five insolvencies per year under the 1102 APE code corresponding to winemaking. Moreover, it concerns small organisations with fewer than ten employees. With a stock of 1,434 companies [27] in 2013, the insolvency rate appears low at 0.35% in 2013 compared to 1.41% for all activity sectors combined. This situation reflects the dynamism in the export of French winemakers. The greater presence of company insolvencies in the Southeast or Aquitaine is the result of the larger number of winemakers in these regions.

(26) K. Anderson & G. Wittwer, "Asia's evolving role in global wine markets", April 2015, page 15
(27) "Number of companies and establishments on 1 January 2014 – Total scope", October 2015, INSEE (excluding the French overseas departments and territories)

4 CONCLUSION

If the premium positioning of exporters from the old continent seems unquestioned, the market share of producers oriented towards the medium and low-end will be faced with the rise in prominence of foreign players such as Australia and Chile. These players benefit from a cheaper wine, and price differences sometimes reinforced by free trade agreements. Spanish producers are the most threatened by the emergence of new world wines. Italy, through the change in its export positioning has gone upmarket and will only be slightly affected. Finally, French producers are at low risk as shown by the trend in insolvencies *(box n° 2, page 11)*.

However, growth in new world wines, in addition to their attractive prices, also comes from simplified approaches *(see box 1, page 8)* that they offer to uninformed consumers. While wine consumption grows rapidly in emerging countries, the keys to these markets are perhaps more between the hands of producers from the new world.

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