The Relevance of Wine in the New Zealand's International Trade

Matteo Migheli[1]
University of Eastern Piedmont, Italy.

(*March 2011*, *Final Version: September 2012*)

Abstract

This paper analyses the recent boom of the New Zealand's exports of wine. In particular the flows to some of the main markets currently covered by the European traditional producers are considered. The paper shows that New Zealand's wines are challenging the exports of the traditional producers of wine.

JEL classification: F1, L66.
Keywords: wine; international trade: New Zealand

[1]Corresponding author: matteo.migheli@sp.unipmn.it, University of Eastern Piedmont, Department of Law, Political, Economic and Social Sciences. Via Cavour, 84 15121 Alessandria (AL) - Italy. phone: +39 131 283 873.

1 Introduction

The wine industry has traditionally been relevant for countries like France and Italy, for which wine represents also an important share of the total exports. Furthermore wine contributes to the international image of these two countries and promotes tourism, another relevant source of income for them. Hall and Mitchell (2000) highlight that the large producers of wine in the Mediterranean area offer touristic packages dedicated to wine, organising visits to wine estates and to the region, where the most famous vineyards are grown. Although the wine tourists are generally interested also in other cultural aspects of a region/country and tend to demand and consume a large variety of cultural goods (Charters and Ali-Knight, 2002 and Graham and Brown, 2006), they are mostly attracted by wine, and, therefore, they come for tourism to a certain region, if the wine produced there is well-known (Bruwer, 2003). This means that exporting wine also increases tourism.

However wine remains a relevant export for the main producers, and can amount up to 2 or 3 percentage points of the total exports of commodities (Duncan and Greenaway, 2008). As exported good, then, wine has a peculiarity, which makes it a particularly valuable tradable good. Indeed, while the most of the international trade flows are very sensitive to the economic cycle, the elasticity of the demand for foreign wine is lower than the average for the traded commodities (Labys, 2002). This means that exporting wine contributes to protect the economies from the fluctuations of the cycle. In part this is due to the fact that exported wines are generally top quality and are sold to the upper classes. In other words, the most of the exported wine can be classified as a luxury good from the point of view of the importer, and luxury goods are traditionally less sensitive to the cycle than other goods. However in the last years this has attenuated, and today also wines which are not top wines are traded internationally. As a consequence, several countries, which have always produced modest quantities of wine mostly for domestic consumption, have entered the international market. The new entrants are mainly Australia, Chile, New Zealand and South Africa (Duncan and Greenaway, 2008). It is not casual that three of these countries have strict commercial relationships with the USA (a major importer of wine) and China (an emerging importer). In the case of the USA the recent changes in the laws on trade of alcoholics (that is now easier then before) have enhanced the imports of wines other than only the top, opening the doors to the production of the new exporter countries (Wiseman and Ellig, 2007). Of course, the wine produced there is very good quality, but does not belong to those typically requested in the luxury market (Bordeaux, Brunello di Montalcino, etc.). In the case of China the increasing consumption of wine is linked to the economic boom, which, in a few years, has created an upper class, for which drinking wine is also a status symbol (in addition to be a pleasure).

The new entrants, however, had and still have to compete with the traditional producers: indeed also France, Italy and Spain produce "middle-quality" wines, which can easily be exported to the new consumers in China and the USA, exploiting both the traditional reputation of the countries and the competitive advantage of a secular experience (Hussain et al., 2008). This has induced the so-called producers of the New World to invest in the quality of their wines, which is today comparable to that of most of the French, Italian and Spanish wines. Hence the producers of the New World have become to sell their products also on other markets, typically used to the Mediterranean wines, such Germany and the Netherlands, challenging the traditional exporters such Italy and France.

This paper analyses one of the new entrants in the international trade of wine: New Zealand. Despite the fact that the geographical position of the two main islands allows for a climate that is ideal for many varieties of vineyards, its wine economy has been paid few attention so far. Yet, New Zealand is an emerging producer of high-quality wines and is becoming a major exporter of this commodity. The paper shows that New Zealand's wines strong competitors for the old-world producers' not only in the emerging Chinese market, but also in the mature markets of Central and Northern Europe. This is a relevant result, as, as stated before, wine does not only constitute an important export for France, Italy and Spain, but contributes also to attract tourists.

2 Data and methodology

The data used in the paper come from two sources: the OECD annual statistics on international trade and the annual report of the New Zealand's association of wine producers. From the first dataset are the time series of the total exports of New Zealand to the countries considered here (China, Germany, Japan, the Netherlands, the U.K. and the U.S.A.); the volumes (in US$) of wine exports are from the second dataset. The time series cover a five-year span, from 2005 to 2009 (the last year for which the report on wine production is currently available).

Descriptive statistics are used to highlight two main phenomena: 1) the annual growth of the total exports from New Zealand to the other countries, 2) the growth of the exports of wine only to the same countries and 3) the weight of wine on the total exports of commodities from New Zealand to the other countries. These results are reported either in tables or in graphs, accordingly to their type, in order to render their reading as immediate as possible.

Furthermore, I also report 1) the difference between the growth of the overall exports of commodities and that of the exports of wine and 2) the share of white and red wines on the total exports of wine. These statistics are useful indicators to highlight the increasing importance of the exports of wine for the New Zealand's economy, and the type of New Zealand's wines more appreciated in the international markets. This evidence is particularly relevant for two reasons: on the one side shows the potential of wine for the economy of the country, and on the other side it provides some information about which products from the traditional producers are challenged the most by the New Zealand's wines.

3 Results

Table 1 shows the exports of wine from New Zealand to its major markets of destination. Starting to consider the figures for 2005, we can identify two groups of importers: large and small. In particular, in 2005 China imported wine from New Zealand for less than 1 million US$, while Australia (which is a large producer itself), the U.S.A. and the United Kingdom displayed already large volumes. However the data reported in the table show an amazingly fast growth of the value of wine exports. The total monetary volume exported to the eight major markets passed from slightly less than 400 million US$ in 2005 to more than 900 million US$ in 2009. All the markets of destination contributed to this growth.

Table 1: Total exports of wine to the major partner countries (US$)

	Australia	Canada	China	Germany	Japan	Netherlands	UK	USA
2005	88,033,000	13,907,000	540,000	3,289,000	5,903,000	12,688,000	162,120,000	113,237,000
2006	122,441,000	21,888,000	1,227,000	2,914,000	5,855,000	10,017,000	166,937,000	138,411,000
2007	179,933,000	33,870,000	2,124,000	3,699,000	6,665,000	13,318,000	227,418,000	175,515,000
2008	246,696,000	47,060,000	2,436,000	5,342,000	7,299,000	12,808,000	240,730,000	159,787,000
2009	323,312,000	49,498,000	6,130,000	5,680,000	7,837,000	20,831,000	267,913,000	223,666,000

Table 2 reports the growth rates of the figures presented in the previous table. The average growth rates (reported in the last row of the table) are impressive. The most relevant increase took place in trade with China; the Asian country has almost doubled its imports of New Zealand's wine each year on average. While this figure can notwithstanding be explained by the peculiar economic situation and demography of China and by its relative proximity to New Zealand, the values relative to the mature economies are very remarkable. In particular the evolution of the exports to Europe are interesting. Germany, the Netherlands and the United Kingdom have traditionally imported wine from the Mediterranean Europe, for at least three reasons: membership to the European Union (what means absence of barriers), geographical proximity (at least with respect to New Zealand), and reputation of the countries of origin (mainly France, Italy and, to a lesser extent, Spain). While it is true that the total volumes (as shown in Table 1) remain modest, the growth rates of wine imports from New Zealand are higher than those from the Mediterranean countries of Europe. This suggests that New Zealand's wines are very appreciated in the North of Europe, and that they can seriously challenge the traditional south-European wines. Last, but not least, the same is true (and perhaps to a greater extent) for the U.S.A. and Canada, which are closer to New Zealand than northern Europe.

Table 2: Annual growth rates of wine exports to the major partner countries

	Australia	Canada	China	Germany	Japan	Netherlands	UK	USA
2006	39.09%	57.39%	127.22%	-11.40%	-0.81%	-21.05%	2.97%	22.23%
2007	46.95%	54.74%	73.11%	26.94%	13.83%	32.95%	36.23%	26.81%
2008	37.10%	38.94%	14.69%	44.42%	9.51%	-3.83%	5.85%	-8.96%
2009	31.06%	5.18%	151.64%	6.33%	7.37%	62.64%	11.29%	39.98%
Average	38.55%	39.06%	91.66%	16.57%	7.48%	17.68%	14.09%	20.01%

Table 3 reports the difference between the figures of Table 2 and the annual growth rates of total New Zealand's exports of all the commodities to the eight considered countries. Basically a negative number means that the exports of wine have grown less than the exports of overall commodities (wine included), while a positive figure means the opposite. The results show that the exports of wine have almost always grown at a higher rate than the overall exports of commodities. The relative high volatility in these figures is attributable to the high volatility of the prices of the most of commodities during the last years; nevertheless, the situation depicted in Table 3 is almost stable. Wine is becoming a major resource for the New Zealand's international trade. The results are particularly impressive for China: while the total exports of commodities to this country have grown at an average rate of more than 20% between 2006 and 2009, those of wine have increased, on average, by more than 90% per year. These figures indicate that the weight of wine on the total exports of New Zealand's commodities is becoming more and more relevant, suggesting that the policy makers of the country should pay increasing attention to the sector.

A step further with respect to the results obtained so far is to consider the actual share of exports of commodities represented by wine. The figures in Table 4 suggest that wine still represents a niche export, especially in large markets such China, Japan and the United States. However its weight has increased and there is no reason to think that the actual trend should stop. Rather it is likely that it will continue in time, and that wine will increase its share in the total exports

Table 3: Annual growth rates of wine exports to the major partner countries

	Australia	Canada	China	Germany	Japan	Netherlands	UK	USA
2006	38.50%	63.47%	117.18%	-23.13%	-1.78%	-10.56%	5.60%	23.50%
2007	20.09%	45.25%	54.57%	22.92%	7.47%	16.07%	12.82%	27.09%
2008	14.50%	43.70%	-10.75%	38.05%	1.45%	-78.37%	6.40%	-10.05%
2009	50.39%	17.20%	125.43%	30.76%	34.41%	86.02%	22.27%	58.80%
Average	30.87%	42.41%	71.61%	17.15%	10.39%	3.29%	11.77%	24.84%

of commodities. The large figures in the trade with the United Kingdom and the Netherlands are due to the geographical distance, which discourage trade of several commodities. However these data also show how wine is less sensitive to transportation over large distances than other commodities, and therefore that it is of particular relevance to increase exports. Last but not least the large figure relative to Australia (the most important commercial partner of New Zealand) is particularly notable, and describes the prominent development of the New Zealand's wine industry in the last years.

Table 4: Share of wine on the total exports of all the commodities

	Australia	Canada	China	Germany	Japan	Netherlands	UK	USA
2005	2.14%	3.00%	0.05%	0.44%	0.24%	40.58%	14.80%	3.36%
2006	2.95%	5.03%	0.10%	0.35%	0.23%	35.79%	15.65%	4.16%
2007	3.42%	7.11%	0.15%	0.42%	0.25%	40.71%	17.27%	5.29%
2008	3.83%	10.37%	0.13%	0.57%	0.25%	22.43%	18.38%	4.77%
2009	6.22%	12.40%	0.27%	0.81%	0.37%	47.62%	22.98%	8.22%
Average	3.71%	7.58%	0.14%	0.52%	0.27%	37.43%	17.82%	5.16%

Eventually Table 5 reports the share of red wine in the total exports of wine. Apparently the two Asian markets appreciate the New Zealand red wine, relatively to the white, more than the other markets. This suggest that the traditional producers of wine should spend more effort in contrasting the New Zealand's competition in the sector of white wines. However they should probably differentiate their policies between the Asian and the non-Asian countries, given that the different mixes exported by New Zealand seem to reveal different (relative) preferences for the two macro-types of wine.

4 Conclusions

The evidence presented in this paper allows for a couple of conclusions and a policy recommendation. First we can observe the impressive increase in the New Zealand's exports of wine; secondly we can remark that this larger volumes have flown not only to the Asian markets, but also to the mature countries of Northern Europe. Both these results confirm the on-going process of globalisation of the wine

Table 5: Share of red wine on the total exports of all the commodities

	Australia	Canada	China	Germany	Japan	Netherlands	UK	USA
2005	23.96%	13.87%	n.a.	23.81%	47.86%	12.07%	22.72%	16.36%
2006	17.85%	17.65%	n.a.	24.33%	45.67%	18.16%	22.04%	18.54%
2007	14.87%	17.93%	n.a.	19.44%	43.18%	16.13%	21.44%	19.73%
2008	11.34%	19.54%	n.a.	37.76%	41.76%	19.28%	18.51%	13.54%
2009	16.34%	15.71%	51.91%	34.93%	44.56%	17.33%	16.38%	12.07%
Average	16.87%	16.94%	n.a.	28.05%	44.61%	16.59%	20.22%	16.05%

industry and the emergence of new countries as producers of qualities appreciated by the international markets. As a consequence they highlight the competition between the traditional and the new producers is increasing, and that the former are losing ground to the latter. As the exports of wine are a major promoter also of tourism, this means that New Zealand could challenge also the current positions of France, Italy and Spain in the touristic industry. However, since the wine tourist typically demands also other cultural goods, these European countries should suffer the New Zealand's competition in this sector less than in the wine industry.

In the light of the results of the paper, and although the traditional producers are increasing their exported volumes as a consequence of an ever-growing world demand for wine, France, Italy and Spain should start more aggressive commercial policies to reinforce their competitive position in the international market. On one side these countries could exploit their artistic wealth to attract tourists and make them more familiar with their wines. This would mean a partial reversal of the current touristic policy, which takes wine as a promoter of tourism. However several tourists visit Paris, Roma and Madrid independently from their appreciation of wine, and the stay in these (and other) cities could be an important opportunity to make these tourists know the European wines, to increase exports towards their countries. However a different policy is possible. Given the increasing demand for wine in the world, the old producers could specialise in top-quality wines, inducing the new entrants to specialise in the middle-quality segment. Given the impossibility of replicating a wine in a territory other than its origins, and given the reputation of some great wines of the old producers, this could be a winning strategy (Beverland, 2004). Moreover it could contribute to reinforce the image of unique beauty attached by foreign customers and tourists to some luxury products of France, Italy and Spain and, more in general, to the three countries.

References

Beverland, M.B. (2004). "An Exploration of the Luxury Wine Trade" *International Journal of Wine Marketing*, 16(3): 14-28.

Bruwer, J. (2003). "South African Wine Routes: Some Perspectives on the Wine Tourism Industry's Structural Dimensions and Wine Tourism Product" *Tourism Management*, 24(4): 423-435.

Charters, S. and Ali-Knight, J. (2002). "Who Is the Wine Tourist?" *Tourism Management*, 23(3): 311-319.

Duncan, A. and Greenaway, D. (2008). "The Economics of Wine - Introduction" *The Economic Journal*, 118(529): F137-F141.

Getz, D. and Brown, G. (2006). "Critical Success Factors for Wine Tourism Regions: a Demand Analysis" *Tourism Management*, 27(1): 146-158.

Hall, C.M. and Mitchell, R. (2000). "Wine Tourism in the Mediterranean: a Tool for Restructuring and Development" *Thunderbird International Business Review*, 42(4): 445-465.

Hussain, M., Cholette, S. and Castaldi, R.M. (2008). "An Analysis of Globalisation Forces in the Wine Industry" *Global Marketing*, 21(1): 33-47.

Labys, W.C. (2002). "Macroeconomic Cycles and the Wine Industry" (mimeo).

Wiseman, A.E. and Ellig, J. (2007). "The Politics of Wine: Trade Barriers, Interest Groups, and the Commerce Clause" *The Journal of Politics*, 69(3): 859-875.