VinIntell

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COUNTRY PROFILES
USA

COUNTRY PROFILES USA

Forthcoming profiles of specific states – New York New Jersey Massachusetts Rhode Island Florida Texas North Carolina South Carolina Virginia

Country Profiles is an integral part of the South African wine industry's business intelligence. Based on this, SAWIS has decided to compile, in collaboration with WOSA, a number of country profiles to assist exporters. These profiles cover a wide range of topics, including background to marketing thoughts and topics for strategic, tactical and operational decisionmaking. The comprehensive profile is available on the SAWIS website.

CONTENTS

1. INTRODUCTION

Buoyed by victories in World Wars I and II and the end of the Cold War in 1991, the US remains the world's most powerful nation state and a strong trading partner. Since the end of World War II, the economy has achieved relatively steady growth, low unemployment and inflation, and rapid advances in technology. American wine first gained prominence in the 19th century and Ohio was the first state to successfully grow wine grapes. Spanish missionaries brought grapes to California and Texas but the wine industry has not regained its size prior to prohibition. Wine competes with several substitute beverages in the US, primarily other alcoholic beverages. The American culture historically has seen wine as a luxury beverage, not suitable for consumption on a daily basis.

2. DEMOGRAPHICS

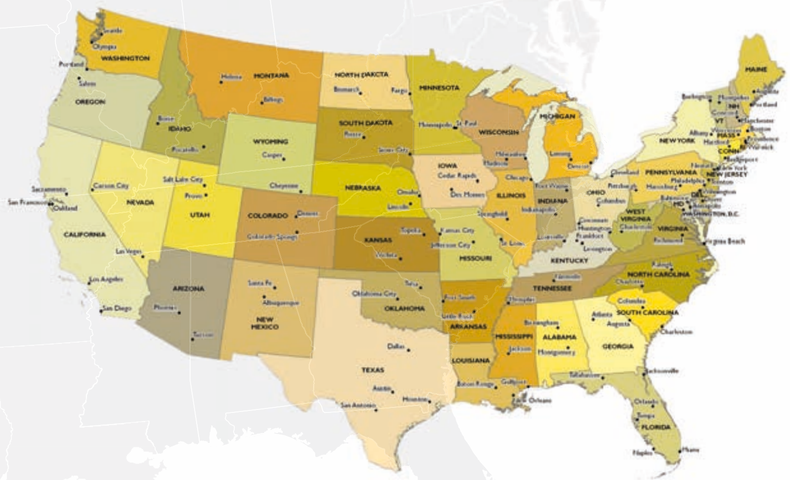
2.1 Geography

Area: 9,826,675 sq. km

Climate: Mostly temperate, but tropical in Hawaii and Florida, arctic in Alaska, semiarid in the great plains west of the Mississippi River, and arid in the Great Basin of the southwest; low winter temperatures in the northwest are ameliorated occasionally in January and February by warm chinook winds from the eastern slopes of the Rocky Mountains.

Terrain: Vast central plain, mountains in west, hills and low mountains in east; rugged mountains and broad river valleys in Alaska; rugged, volcanic topography in Hawaii.

Natural resources: Coal, copper, lead, molybdenum, phosphates, rare earth elements, uranium, bauxite, gold, iron, mercury, nickel, potash, silver, tungsten, zinc, petroleum, natural gas, timber.



2.2 People and Society

Ethnic groups: White 79.96%, Black 12.85%, Asian 4.43%, Amerindian and Alaska native 0.97%, native Hawaiian and other Pacific islander 0.18%, two or more races 1.61% (July 2007 estimate)

Languages: English 82.1%, Spanish 10.7%, other Indo-European 3.8%, Asian and Pacific island 2.7%, other 0.7% (2000 census)

Religions: Protestant 51.3%, Roman Catholic 23.9%, Mormon 1.7%, other Christian 1.6%, Jewish 1.7%, Buddhist 0.7%, Muslim 0.6%, other or unspecified 2.5%, unaffiliated 12.1%, none 4% (2007 est.)

Population: 318,892,103 (July 2014 est.)

Literacy

- Definition:
  age 15 and over can read and write
- Total population: 99%
- Male: 99%
- Female: 99% (2003 est.)

Age structure

- 0-14 years: 19.4%
  (male 31,580,349/female 30,221,106)
- 15-24 years: 13.7%
  (male 22,436,057/female 21,321,861)
- 25-54 years: 39.9%
  (male 63,452,792/female 63,671,631)
- 55-64 years: 12.6%
  (male 19,309,019/female 20,720,284)
- 65 years and over: 13.9%
  (male 20,304,644/female 25,874,360)

(2014 est.)

Urbanisation

- Urban population: 82.4% of total population (2011)
- Rate of urbanization: 1.14% annual rate of change (2010-15 est.)

3. ECONOMIC SITUATION

The US has the largest and most technologically powerful economy in the world, with a per capita GDP of US$49,800. In this market-oriented economy, private individuals and business firms make most of the decisions, and the federal and state governments buy needed goods and services predominantly in the private marketplace. US business firms enjoy greater flexibility than their counterparts in Western Europe and Japan in decisions to expand capital plant, to lay off surplus workers, and to develop new products. At the same time, they face higher barriers to enter their rivals' home markets than foreign firms face entering US markets.

GDP – real growth rate

- 1.6% (2013 est.)
- 2.8% (2012 est.)
- 1.8% (2011 est.)

Inflation rate (consumer prices)

- 0.5% (2013 est.)
- 2.1% (2012 est.)

4. TRADE AGREEMENTS

4.1 South Africa

South Africa is the recipient of unilateral preferential trade agreements. In these arrangements other countries provide access to their markets through lower tariffs and increased or no tariffs. The US provides such market access opportunities to 39 sub Saharan countries, including South Africa, through the Africa Growth and Opportunity Act (AGOA). AGOA builds on existing US trade programs by expanding the duty free benefits previously available only under the Generalised System of Preferences (GSP). Duty free access to the US market under the combine AGOA/GSP program stands at approximately 70,000 product tariff lines. These include items such as wine, selected motor vehicle components, some agricultural products, steel, clothing and footwear, and steel amongst others.

In June 2012, South African and the US signed a Trade and Investment Framework Agreement (TIFA) which amended the TIFA signed in 1999 in order to deepen the US-South Africa trade and investment relationship. The TIFA also provides a forum to address trade issues and will help enhance trade and investment relations between the two countries. Total two-way trade between South Africa and the US was valued at US$22bn in 2011. America's exports to South Africa grew to US$7.3bn in 2011, up 29.5% from 2010. Primary exports include machinery, vehicles, precious stones (gold), mineral fuel, and electrical machinery. US imports from South Africa reached US$9.5bn in 2011, a 15.7% increase from 2010. Primary imports include vehicles, machinery, iron, steel, platinum, diamonds, ores, slag, and ash. Last year, US$4.6bn worth of US imports from South Africa entered duty-free under the African Growth and Opportunity Act (AGOA), an increase from US$1.5bn in 2010. The primary goods imported under AGOA were mineral fuel, machinery, vehicles and parts, iron and steel, and fruits and vegetables. The US-South Africa Council on Trade and Investment meets regularly under the TIFA to establish an on-going dialogue, which will help increase commercial and investment opportunities by identifying and working toward removal of impediments to trade flows.

In addition, the US and the Southern Africa Customs Union (SACU), which includes South Africa, signed a Trade, Investment and Development Cooperative Agreement (TIDCA) in 2008. The TIDCA establishes a forum for consultative discussions, cooperative work, and possible agreements on a wide range of trade issues, with a special focus on customs and trade facilitation, technical barriers to trade, sanitary and phytosanitary (SPS) measures, and trade and investment promotion.

4.2 Other countries and agreements

4.2.1.US/EC Wine Agreement

Future market opportunities may surge following the signature of the Transatlantic Trade and Investment Partnership (TTIP). Trade negotiations are of special importance for US wine makers because the EU and the US are major trade partners; the EU is the world's largest wine producer; and the US is now the largest world wine market. Official talks on a future EU-US trade deal started in July 2013, and the fourth round of negotiations ended in Brussels in March of 2014. Chief negotiators from both parties reaffirmed their commitment to making steady progress in all areas of the negotiations throughout 2014.

Since 1983, the EU has been renewing short-term derogations from their regulations for US wine that were made using practices not approved in Europe. Given the temporary nature of these derogations, the US wine exporters have been facing a great degree of uncertainty. In order to replace these derogations and provide more stable market conditions for wine trade between the US and the EU, the Agreement between the EC and the US on wine trade was signed in 2006. This agreement benefits the EU by enhancing protection of European names and safeguarding the EU's presence in the US market. On the other hand, the agreement gives full recognition of US winemaking practices. This is a significant step given that some of those practices required regular renewal by the Europeans. It is important to recognise that while the US accepts all European winemaking practices, some of those same practices are off limits for US winemakers. For instance, adding sugar is not permitted in California. Despite some obvious mutual benefits, the outcomes of this agreement have been slightly different for European and American winemakers in terms of trade value or quantity. An analysis of wine trade in value reveals that the post agreement gains for European and American exporters were quite similar. More specifically, for the 2009-2010 period, Americans wine exporters experienced a 10% increase in trade value whereas the Europeans saw their value increase by 12%. In the 2011 and 2012, American wine exports continued to increase in value by 18% and 5% respectively. For the Europeans, the increases were of 14% in 2011 and 11% in 2012. In terms of quantity, the results are slightly different and uneven. In 2010, the US and the EU register an increase in quantity of their exports of 10% and 11% respectively. The growth continued in 2011, with an 11% increase for the US and a 9% increase for the EU. Finally, in 2012, the US wine exports decreased by 9% while the EU experienced a 5% growth. Even when the negative impact of the financial crisis on wine consumption is taken into account, statistics seem to confirm that the 2006 Agreement has been beneficial for both wine industries, and has resulted in increases in value and quantity of wine traded.

Transatlantic Trade and Investment Partnership (TTIP)

The Transatlantic Trade and Investment Partnership (TTIP) is a trade agreement that is presently being negotiated between the EU and the US, and seeks to remove trade barriers in a wide range of economic sectors. The ultimate objective of the TTIP is to facilitate the transaction of goods and services between the EU and the US. Because trade tariffs between both parties are already low – 4% on average – the focus of these negotiations has been on existing obstacles and regulations, non-tariff barriers and red tape. According to the US Congressional Research Service (2013), this agreement will:

- Increase market access through the elimination of barriers to trade and investment in goods, services, and agricultural and the further opening of government procurement markets.
- Enhance regulatory coherence and cooperation.
- Develop new rules in areas such as Foreign Direct Investment (FDI), intellectual property rights, labour and the environment.

TTIP impact the wine sector

• Market access

The impact of a new free trade agreement on custom taxes would be limited because those taxes are already low. Obviously, considering the wine trade balance between both partners, Europe will be the main beneficiary from the elimination of trade tariffs.

• Regulatory issues

The main negotiations for the TTP agreement are the regulatory and rule issues, and these were broadly solved for the wine industry in the 2006 agreement.

• Investment

Although there is a generally open investment regime between both economic blocks, this agreement would bring more legal certainty to the investment relationship in the wine industry. Furthermore, the European wine market is characterized by overproduction and mandatory elimination of many vine acres. On the other hand, the US wine market continues to growth in terms of production and consumption. These market conditions coupled with a more harmonious legal environment are likely to result in future investments of larger European producers in the US market.

• Intellectual property rights

Both economic partners maintain strong intellectual property standards (IPR), but in the wine industry, the protection and enforcement of geographical indicators (GI) could be somewhat controversial. The EU supports stronger GI protection because its commercial value to their producers. In the US, GI are protected through trademark laws. Thus, while both trade blocks agree on the importance of GI, they use different means to enforce them.

• Labour and environment

Both partners have high levels of protectionism in these areas, thus no significant impacts are expected in these issues for the wine industry.

4.2.2 Chile

The US-Chile Free Trade Agreement is a free trade agreement between the US and Chile signed in June 2003. The pact came into force on 1 January 2004. On that date, tariffs on 90% of US exports to Chile and 95% of Chilean exports to the US were eliminated. The agreement also established that Chile and the US will establish duty-free trade in all products within a maximum of 12 years (2016). In 2009, bilateral trade between the US and Chile reached US$ 15.4 billion, a 141% increase over bilateral trade levels before the US-Chile FTA took effect. In particular, US exports to Chile in 2009 showed a 248% increase over pre-FTA levels. The National Treatment and Market Access for Goods defines tariffs and customs general regulation, safeguards, and equivalences of nomenclatures for several goods. In terms of the agreement, tariffs on US and Chilean wines are being progressively harmonised down to the lowest wine tariff rate and will be eliminated by 2016.

4.2.3 Australia

The Australia-US Free Trade Agreement entered into force on 1 January 2005 and represents a landmark in improving Australia's trade and investment relationship with the US. In terms of agriculture it meant the following:

- About 66% of agriculture tariffs went to zero immediately, with a further 9% dropped to zero on 1 January 2008.
- Australia got immediate zero tariff treatment for horticulture products such as oranges, mangoes, mandarins, strawberries, tomatoes, cut flowers, and fresh macadamias.
- Australian wine producers will have the benefit, in what is already a major market, of all tariffs reducing to zero in 2015.
- Australia gains the benefit of preferred status as an FTA partner with regard to any future global safeguard actions — that is, Australia will be exempted from safeguard restrictions almost automatically, just as Canada was for steel and lamb.
- The US will waive the Merchandise Processing Fee levied on all imports, a saving to Australian industry of about US$10 million a year

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5. WINE INDUSTRY AND MARKET PLACE

Based on the 2013 statistics wine experts are more optimistic about the 2014 wine market in the US. Although there are still some areas recovering less quickly from the recession (parts of the Midwest and some on-trade wine sales), in general "cellars are sunny but with a few lingering cobwebs." Herewith a brief review of trends in the US wine market for 2014 and highlights of 2013.

According to Impact Databank, US wine volume was 329 million (9 litre) cases in 2013, a 1% increase from 2012. This includes both domestic and imported wine, and makes the US the world's largest wine market with France in second place at 313 million cases. The estimated retail value of 2013 wine shipments is US$36.3 billion, a 5% increase from 2012. This makes the US the largest wine market in terms of revenues. Approximately 34% of sales were from imports, with California comprising 57%, and other states making up the remaining 9%. Wine sales have been growing at a rate of 2 to 3% per year in the US market for the past 21 years following three years of decline. US wine sales should rise 6 to 10% in 2014, according to the Silicon Valley Bank's annual wine industry report. For wineries, "grape costs and flat consumer pricing means lower profitability. The bank said 2014 should be a healthy one for wineries, but predicted "future headwinds" as Baby Boomers retire. 50 and 60-somethings purchase about half of fine wine in the US. As they retire, and their purchasing power declines, the younger generation cannot pick up the slack immediately, due to lower income, and access and the proclivity to purchase more foreign wine. Astute fine wine producers will be adjusting their strategies accordingly.

Table 2: Total US wine consumption[i]

Year	Total Wine per Resident[1]	Total Wine Gallons	Total Table Wine Gallons[2]
2012	2.73 gals	856 million	749 million
2011	2.68 gals	836 million	724 million
2010	2.53 gals	784 million	681 million
2009	2.49 gals	763 million	666 million
2008	2.45 gals	746 million	650 million

1 US gallon – 3.78541 Litre

Overall, in the last few years the wine industry has been healthier than the US economy. This will continue. In past years, wineries had worried about having enough grapes, or even too many. These days, things are more in balance. Fine wine sales growth is predicted to be in the range of 6 to 10% in 2014, which is the first increase in three years. Bottle pricing will remain stable and increased grape and bulk wine costs are not being passed onto the consumer, so therefore winery gross profits will be down. Luxury wines and those priced between US$10 and US$18 a bottle will see greatest growth in demand. Meanwhile, vineyard mergers and acquisitions will continue at a record pace.

Most people involved in the wine industry are increasingly using social media as a brand building and direct-to-consumer traffic generation strategy over the next three years. Growers are focused on increasing both production volumes and grape prices over the short-term and a significant key to winery success is based on operational and financial efficiency.[2] At a time when wine sales are slow in Europe, the US wine market grew for the 20th year in a row in 2013. Total US wine sales were up 3% in volume and 5% in value over 2012.[3]

The US$36.3bn in wine sold in the US in 2013 is more than double the value of wine sold in 1999. Moreover, the average amount of money spent on 750 ml of wine edged over US$8, to US$8.06. This figure includes boxes and jugs; the actual average price for a 750 ml bottle would be higher Americans purchased a record 3.38bn litres of wine in 2013, which is almost double the volume bought in 1993. California wineries were the beneficiary of America's demand in 2013. Sales were up 3% in volume and 4% in value. These were important figures for large California wineries because in 2012 Americans actually bought less California wine, by volume, than the year before for the first time since 2001. California wineries continue to dominate the US wine market, accounting for 57% of sales by volume and 64% by value. In 2013, wineries gradually released the highly acclaimed wines from the large 2012 California harvest, offsetting the slowdown in American wine market growth due to short vintages in 2010 and 2011 and continuing soft economic conditions.

Chardonnay continues to be the most popular type of wine by a large margin, accounting for 20% of all sales in retail stores, according to market analysts Nielsen. Cabernet Sauvignon (13%) and Merlot (9%) are next in the popularity stakes while Moscato, Malbec and red blends all experienced double digit growth. Nearly 99,000 new wine labels were approved by the Tax and Trade Bureau, the majority from foreign producers.[4]

US wine consumer demographic trends

In 2014, the US became the biggest internal market in the world in terms of volume. It stood out with 29.1 Mhl of wines consumed (excluding vermouth and special wines), becoming the biggest internal market in the world in 2013 in terms of volume. Of adult wine drinkers, 15% are High Frequency drinkers (consuming wine at least once a week or more) and 29% are Occasional drinkers. In terms of gender, 55% of American wine consumers are women and 45% are men, with more men adopting wine over the last decade. Baby boomers are still spending the most on wine, with Millennials (ages 21 to 36) in second place while major reasons Americans drink wine: 1) they enjoy the taste, 2) like to pair with food, 3) to socialise with friends, and 4) to relax. Luxury (US$15+ is a major growth segment in the US wine industry with a 11.6% growth in 2012 (down from 16% in 2011).

Trends in wine for 2014

The most popular varietals in off-trade continue to be: 1) Chardonnay, 2) Cabernet Sauvignon, 3) Pinot Grigio, 4) Merlot and 5) Blends. The fastest growing varietals, with double digit growth, are still Moscato, Malbec and blends. Blends include red and white blends in both dry and sweet categories. Expect more growth and experimentation in this segment. The sweet spot for wine pricing is US$9 to US$11.99, but Americans are trading up and spending more on wine. Sparkling wine, especially Prosecco, continues to be popular, with forecasted growth. Dry rosés, often from Provence, are desirable in summer months. Expect new entries from other countries and US wineries while Syrah and white zinfandel continue to decline in popularity. Favourite imported wines by value include: 1) Italy, 2) Australia, 3) Argentina, 4) Chile, and 5) France, but largest value growth in Argentina and New Zealand. Keg wine continues to gain in popularity in on premise settings, including ultra-premium wine in this new style of container while craft beer is growing faster than wine, and experts suggest that the wine industry needs to be more innovative to compete. Creative opportunities for wine include seasonal wines, new types of containers, e.g. mini 6-packs of wine, new varietals, blends, innovative labelling, wine cocktails, and additions, such as flavours, vitamins, energy, etc. People are interacting with wine much more on social media, with 80% of wine drinkers using Facebook; wine is the third most popular subject on Pinterest; and wine drinkers talk about wine online 63 times every minute.

Trends in wine channel distribution

Approximately 80% of wine sold in the US is off-trade with 16% on-trade. Direct to Consumer (DTC) and Direct to Trade make up the remainder. There are 7 946 wineries in the US6 while the number of retail outlets to sell wine has grown to 522, 420.[7] Off-trade remains healthy with significant growth in the US$9 – US$11.99 range showing Americans trading up, with US$9.19 average bottle prices.[8] On-trade volume and value still not back to 2007 levels, but slowly making progress with the average bottle price at US$46 and by the glass at US$10.67.[9] Online wine sales (e-commerce) have grown 17% in the past year, but still only maintain about 1.5% of total wine sales.[10] Within online wine sales, retailer to consumer is 5.9% of off-trade wine sales.[11] Winery to Consumer (DTC) online sales up 9.3% to 3.47 million cases in 2013 with value at US$1.57 billion.[12] The three largest wine corporations in the world, E&J Gallo, Constellation and The Wine Group, are headquartered in the US and own approximately 51% of the market.[13] The leading red wine type, Cabernet Sauvignon, sped up from a 7% growth rate last year to 10% this year among all wines, domestic and imported. Chardonnay slowed by one percentage point to 3% growth. Sparkling wine virtually tied with Pinot Grigio/Gris in terms of sales when sparkling was included with table wines. While the sparkling category grew by 8%, imported sparkling grew by 11% and Italian sparkling grew by 15%. Prosecco was the key to the Italian success, as this type increased by 36%.

5.1 Areas under vines

Total acreage in 2012 was 407 000. The largest area is the Ohio River Valley. Next in size is the Texas Hill Country, which spans an area of about 39,000 km_2, and is larger in size than New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Hawaii, New Jersey, Delaware, or Maryland. The smallest area (Cole Ranch) covers a little less than a quarter square mile.

5.2 Production

According to the latest data (July 2014) of the US Winery Database there are now 7,946 wineries. This is a net increase of 335 over 2013 (4.4% increase). It is interesting to note that buyers are securing long-term grape supply with contract activity strongest in the Coastal Areas. Pricing should remain stable with a few exceptions and ± 30,000 acres were planted in last two years (2012 – 2014). The year 2014 brings crop size and water concerns.

Table 3: US and California grape crush historical totals (In millions of tons)

Year	US (Crush of raisin, table and wine varieties)	California (Crush of raisin, table and wine varieties)	California (Crush of wine varieties only)
2012	4.70	4.39	4.02
2011	4.15	3.87	3.35
2010	4.27	3.99	3.59

Table 4: US Wineries annual production (year to July 2014 in tons)

State	Winery count	Net production	%
California	3,782	313,000,000	89%
Washington	681	13,000,000	4%
New York	320	12,00,000	3%
Oregon	599	3,300,000	1%
Texas	204	1,800,000	0.5%
Michigan	137	1,000,000	0.3%
Illinois	102	850,000	0.2%
Virginia	248	780,000	0.2%
Ohio	143	750,000	0.2%
Pennsylvania	182	750,000	0.2%
All other states	1,419	5,000,000	1.4%
Total US wineries	7,946	353,110,000	100%

California produces on average 90% of the total US wine production (see Table 6).

Table 5: California production versus US production (in gallons)

Year	California*	US*
2012	662,818,311	752,431,183
2011	605,619,613	683,623,267
2010	606,448,660	677,490,922
2009	631,575,325	707,084,113
2008	545,855,584	619,684,922

** Removals of still wine from fermenters. Excludes substandard wine produced as distilling material for the production of brandy. Also excludes increases after amelioration, sweetening, and addition of wine spirits.*[i]

In summary and forecast of future production and supply the following points can be made:

To the extent planting is needed in the industry today to address the smallish volume growth and to cover replants, there is a need to replant North Coast vineyards and increase the supply of fine wine production by planting more grapes in Sonoma, Mendocino and Lake Counties, as well as the states of Washington and to a lesser extent Oregon. Water is fast moving up on the list of risks spanning all growing regions in drought-inclined California. Red blotch diseased plant material in new vineyards in California might contribute to a few less-than-average years of production as those vines are discovered and replanted again. We are at a tenuous position however. A boom in replanting could later produce higher volumes of grapes from existing acreage out five to eight years. The higher production regions will need to be slightly more cautious in their planting decisions.

Recent additional plantings can probably be accommodated but an increase in the pace of planting could tip the scale to overplanting, which would not at all be a welcome event for farmers who survived through some lean years in the 2000s. Experts believe the US is in a position not yet experienced in the business: one where domestic supply should be balanced for an extended period presuming planting remains restrained, demand continues to grow slowly, and the dollar does not strengthen relative to the wine-producing regions in countries such as South Africa, Chile, Argentina and the euro zone. The needed supply in 2014 will come from foreign bulk and bottled supply, and imports will more than likely continue to increase their market share in the US. A more aggressive planting program will only be required if the dollar begins to weaken, or the employment picture and economy rapidly strengthens, neither of which seem imminent.

5.3 Imports and Exports

The US is now one of the world's largest wine importers, having imported nearly US$5.9bn, or 32.3% of the wine consumed domestically in 2012. The majority of these imports originate from Italy, France, Australia, Chile, Argentina and Spain. In the case of Virginia, in 2010, 23.8% of consumed wine was imported.

Imported foreign bulk wine is a permanent feature in the US however as productivity cannot compete with lower labour and land costs in many other large producing countries. First surfacing on a large scale in the late 90s as an alternative to short supply then disappearing just as fast, imported bulk wine is now de rigueur as a mainstay in large-scale domestic wine production. Through October of 2013, there were over 30 million equivalent cases of foreign bulk wine imported into the US over the prior 12-month timeframe with Australia, Chile, Argentina and South Africa leading the way.

On the other hand, in 2012 the US wine exports amounted to US$1.4bn, which represented a new record and a 2.6% increase from the previous year. Nevertheless, the volume of US wine exports declined to 112.2 million gallons – a 4.9% decline from 2011. This indicates an increase in value of US wine exports. For US wineries, the European wine market is both a strategic market and major international competitor. For instance, in 2011, Europe accounted for 66% of the global wine production, while the US produced 19%. Furthermore, in 2012, the EU-27 was the world's leading wine exporter. More specifically, the EU exported 22.3 Mhl valued at US$11.3bn, and imported 13.6 Mhl valued at US$3.2bn. Also in 2012, seven out the top 10 global wine exporters were European (France, Italy, Spain, Germany, Portugal, Romania, and Greece), while the US ranked 4th. Interestingly, the US has been the leading EU-27 wine export market, and in 2012, represented 24% of the total volume and 28% of the total value. The US was also the larger individual export partner for France (US$1.3bn), Italy (US$0.2bn) and Spain (US$0.3bn) (USDA/FAS, 2013).

The wine sector accounts for a significant share of the EU's overall agriculture (almost 17%). In the US the contribution of the wine industry is much more modest with a share of 4.6%.

Table 6: US and EU-27 Wine and Vermouth Exports (2008-2012)

Wine and vermouth	2008	2009	2010	2011	2012	% share in all agricultural
EU exports (1,000€)	2,129,729	1,773,235	1,994,075	2,265,446	2,514,204	16.6%
US exports (1,000€)	321,743	282,580	309,586	364,893	382,091	4.6%

Source: USDA (2013)

In terms of wine exports the US recorded a modest increase (+0.1 Mhl) in its exports in 2012 at 4.3 Mhl. [15]

Table 7: US wine exports by year (90% from California): 2009-2012

Year	Volume (in millions)		Value (in millions of dollars)
	Cases	Litres	Revenue to wineries
2012	47.2	424.6	$1.432
2011	49.6	446.6	$1.395
2010	46.8	421.2	$1.145
2009	46.4	417.9	$912

The table below presents recent developments in the market share of bulk products exported by the leading producer countries.

Table 8: Bulk export share

	2010	2011	2012
South Africa	41%	50%	63%
Australia	44%	48%	53%
Argentina	19%	33%	45%
Chile	40%	29%	37%
Spain	52%	57%	51%
France	19%	19%	20%
Italy	34%	33%	31%
US	51%	47%	43%

5.4 Stock situation

Early in 2012 there were reports of a shortfall in the US wine inventory. Being a little short is preferable to being long at all, as there are better returns for both producers and growers when there is shortage and true shortages of domestic wines can be temporarily sup-planted by imports. The US' 2012 harvest was large and that should improve the record shortages of bulk reported earlier. The US recorded fairly high levels of wine production in 2012 at 20.5 Mhl excluding juice and musts, +6.9% compared with 2011. The US is after France, Italy and Spain the largest wine producing country at 19 Mhl in 2011 (22 Mhl in 2000 (a 13% drop). France produced 50 Mhl in 2011 (58 Mhl in 2000). The largest growth in production was registered by Chile which grew 57% from 7 Mhl in 2000 to 10 Mhl in 2011 and Australia which grew 38% from 8 Mhl in 2000 to 11 Mhl in 2011.

The US is the largest wine consuming country and also registered significant consumption growth (34%) between 2000 and 2011 from 21 Mhl to 29 Mhl. U.S. consumers bought 29.1 million hectolitres of wine in 2013, a rise of 0.5 per cent on 2012, while French consumption fell nearly 7 per cent to 28.1 million hectolitres. France remains the largest consumer country with 53 litres per capita per year. It is clear from the figure below that consumption has tradi-tionally been higher over the period 2000 to 2011 than production which has steadily declined over the same period to a situation in 2011 where there was a shortfall of 10 Mhl (19 versus 29). The growth in consumption over the period was 34%.

Figure 4: Largest wine producing countries

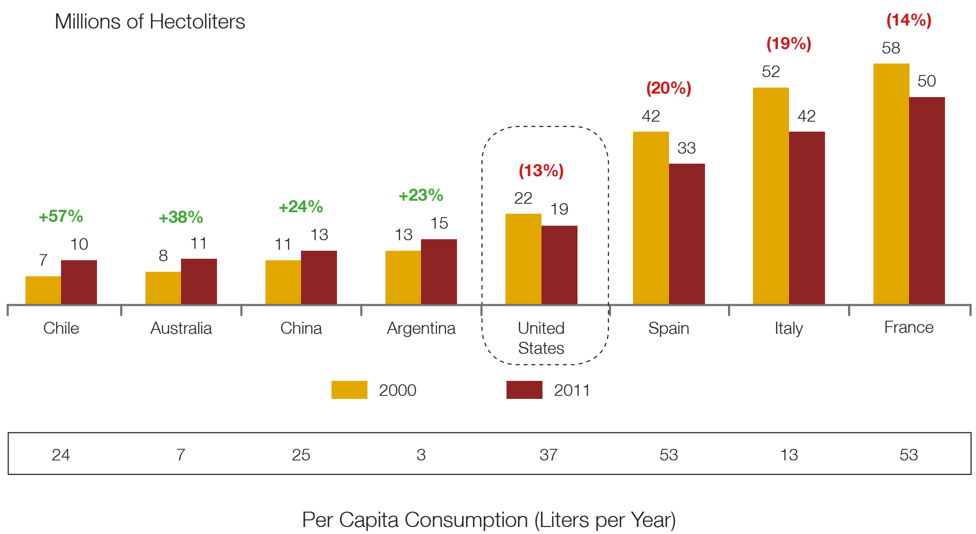
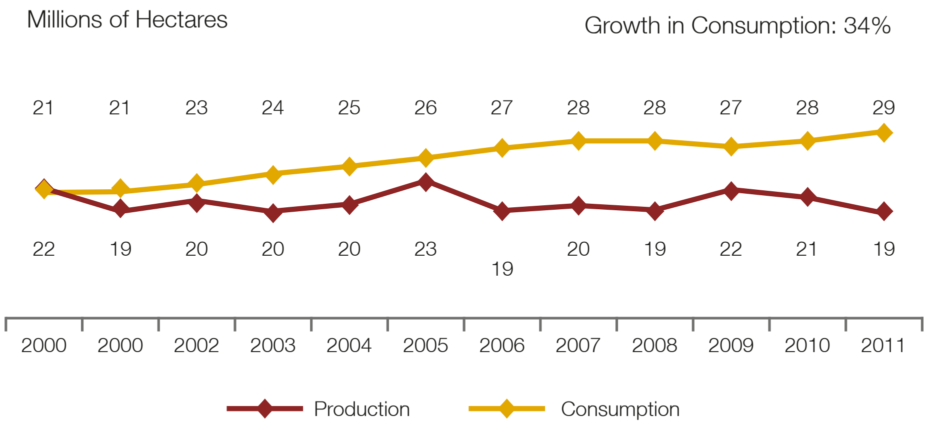


Figure 5: Consumption versus production



Structurally, supply is imbalanced in the US. A decrease in vineyard acreages and a steady increase in demand have led to a structural supply imbalance in the US. This creates opportunities for imports which have cost advantaged models relative to the US in terms of land, labour and water. Following a period of oversupply, many growers replanted to more profitable fruits and nuts specifically pistachios and almonds. Average revenue per acre for almonds and pistachios has grown over 130% and 40% respectively since 2002. While planting activity is expected to have increased in 2012, it will take 3 to 5 years to capture the benefit from these new plantings.

In 2012 wine inventories were closer to being in balance than most believed. In the period 2010 to 2012, the perceived movement of inventory from the cellar has been stable with the exception of slightly long and slightly short responses. Movement is clearly visible in the slightly long and slightly short positions with the weight tipping to shortage (see Figure 6).

In terms of the purchase expectations of wineries looked at production levels. The chart shows that by case volume, wineries in small production and those in the 100,000 - 250,000 case segments seem to be those who believe they will be the shortest on grape supply. At first glance, that may seem contradictory. What is happening is growers are doing the natural thing when they start to get better pricing i.e. they reduce the number of contracts they have on a vineyard to improve the efficiency of their own operations. Those who lose contracts are the smaller wineries. The largest wineries have access to foreign supply, so they are more in balance. The moderate-sized winery between 100,000 – 250,000 cases is more likely to not have access to foreign supply, instead building an appellation based brand. It is much more difficult for them to get the right amount of supply if they are short.

Figure 6: Inventory position year over year

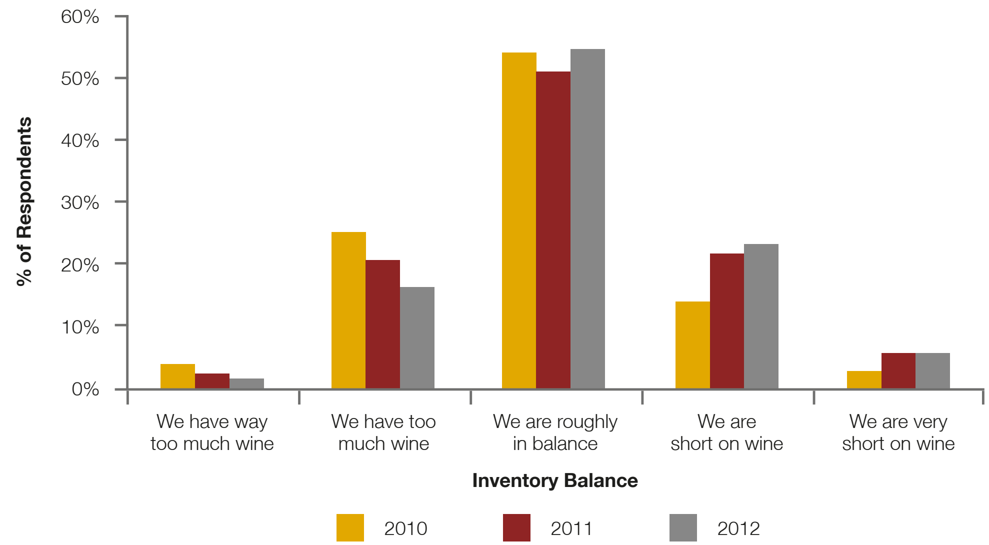
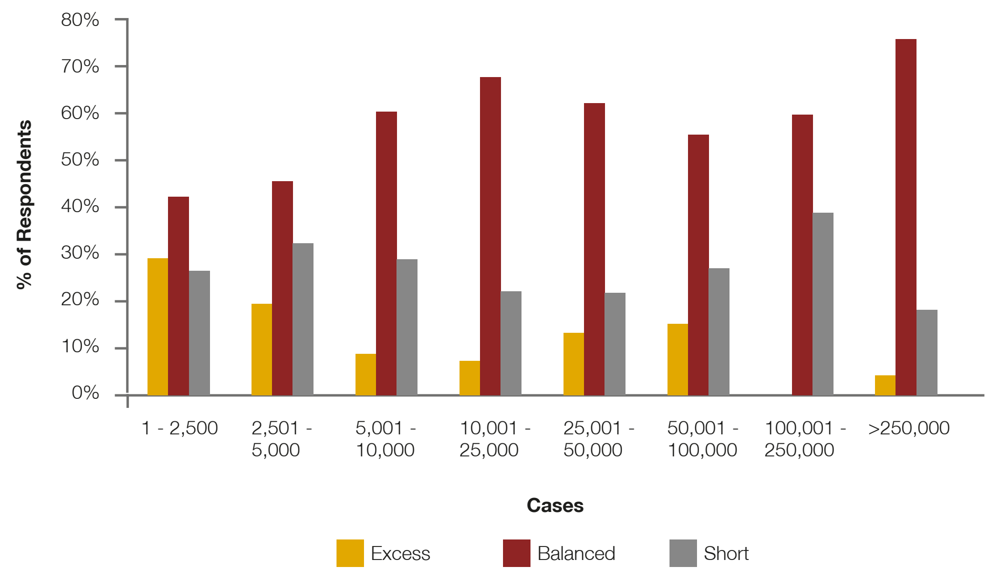


Figure 7: Stock levels, 2012 (excess, balanced and short)



5.5 International position

The global wine market is led by France, Italy and Spain regarding the total amount produced. The US is ranked as the fourth largest production country. Its wine production is mainly concentrated in State of California, which accounted for about 90% of entire US wine production. Over the past few years, wine sales have held a share of about 15% to 17% of total alcohol retail sales in the US. Among consumers, Chardonnay was the preferred wine variety, capturing a share of about 18.4% of sales. Cabernet Sauvignon and Merlot rounded off the top three. Average wine consumption per US resident was 2.73 gallons in 2012, up from 2.34 gallons in 2005. Americans enjoyed drinking wine more at home than elsewhere: expenditure figures show that US consumers spent US$12.7bn on the wine they consumed at home, compared to US$4bn paid for wine at full-service restaurants.

5.6 Wine industry structure

The US wine industry has a high degree of concentration. In 1990, the largest four wineries accounted for 49.2% of the entire wine storage capacity in the US. The situation changed a little in 2001, with the largest four wineries accounting for 48% of the storage capacity even though there were a significant number of new wineries. An analysis using Markov chains indicates that the concentration will decrease in equilibrium, but will still remain high in the US. Wineries of 126 000 cases of 12-750 ml bottles or less are expected to increase in number relative to the number of larger wineries. The relative number or proportion of wineries larger than 126 000 cases is expected to decrease, while the number or proportion of smaller wineries will increase. The upward trend in the number of smaller wineries in the US, which tend to concentrate on premium table wines, is in agreement with the demand trends in the market by wine type. The premium table wine market segment in the USA has been the only market segment with sustained demand growth.[16]

No other section of the supermarket offers as many choices as the wine aisle. A typical retailer is likely to have hundreds of unique wines on its shelves. Just three firms, however, account for more than half of the wine sales in the US. Despite this incredible degree of choice on the shelves, wine sales are dominated by a much smaller number brands, and an even smaller number of firms.

Table 8: US wineries per state (2014)

State	Winery count	Percentage
California	3 782	48
Washington	681	9
Oregon	599	8
New York	320	4
Virginia	248	3
Texas	204	3
Pennsylvania	182	2
Ohio	143	2
Michigan	137	2
North Carolina	129	2
Missouri	119	1
Colorado	111	1
Illinois	102	1
All other states	1 189	15

Table 9: US wineries by size (2014)

Winery size	Winery count	Percentage
Large (500,000+)	56	1
Medium (50,000 – 499,000	249	3
Small (5,000-49,000)	1 455	18
Very small	3 284	41
Limited production (<1000)	2 902	37
Total US wineries	7 946	100

Table 10: US wineries by average bottle price (2014)

Average bottle price (US$)	Winery count	Percentage
1-10.99	269	3
11-19.99	2,735	34
20-29.99	2,552	32
30-39.99	1,118	14
40-59.99	819	10
60 – 99.99	348	4
100 and more	105	1
Total US wineries	7.946	100

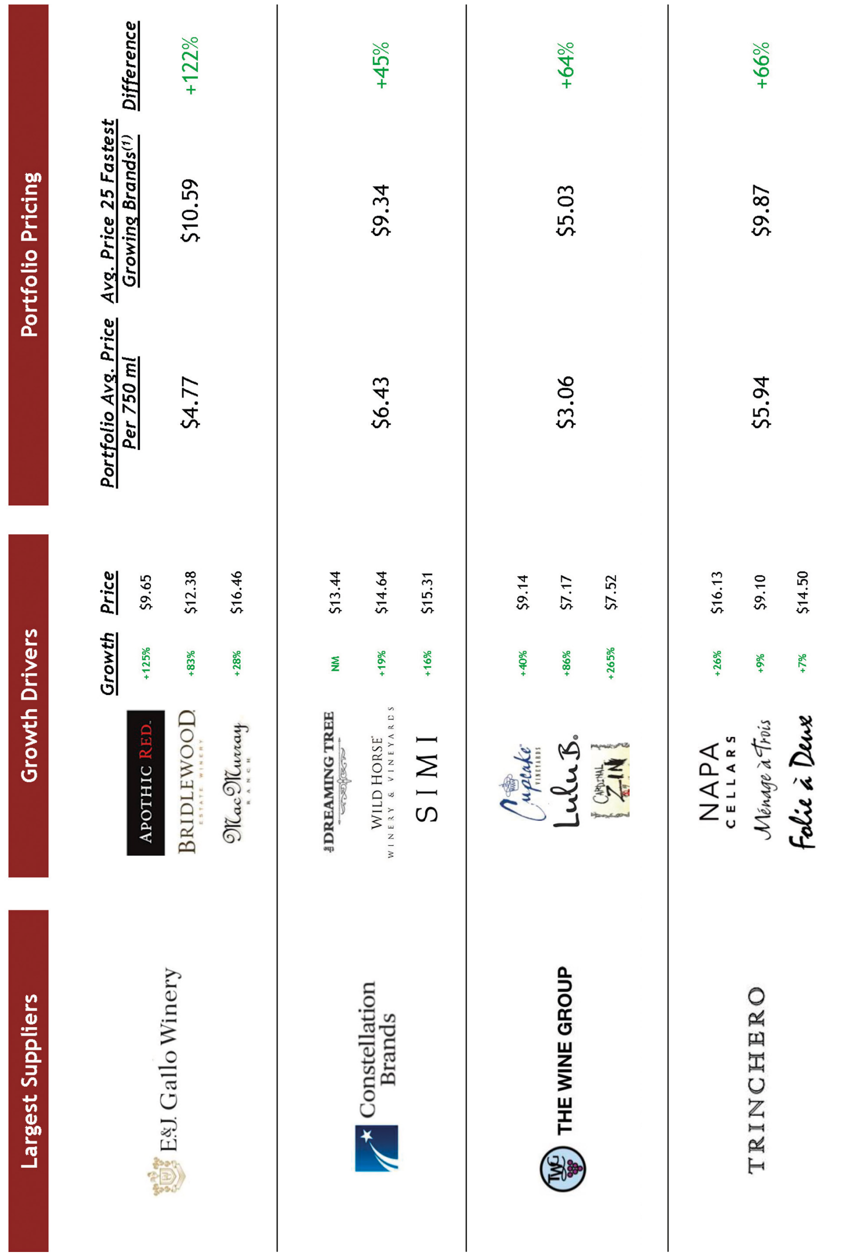
Note: Winery production includes all wine produced at a location including custom production for other wineries. When summary totals are reported geographically, these custom amounts are netted to prevent double counting.[i]

Industry growth is primarily driven by the top 4 suppliers

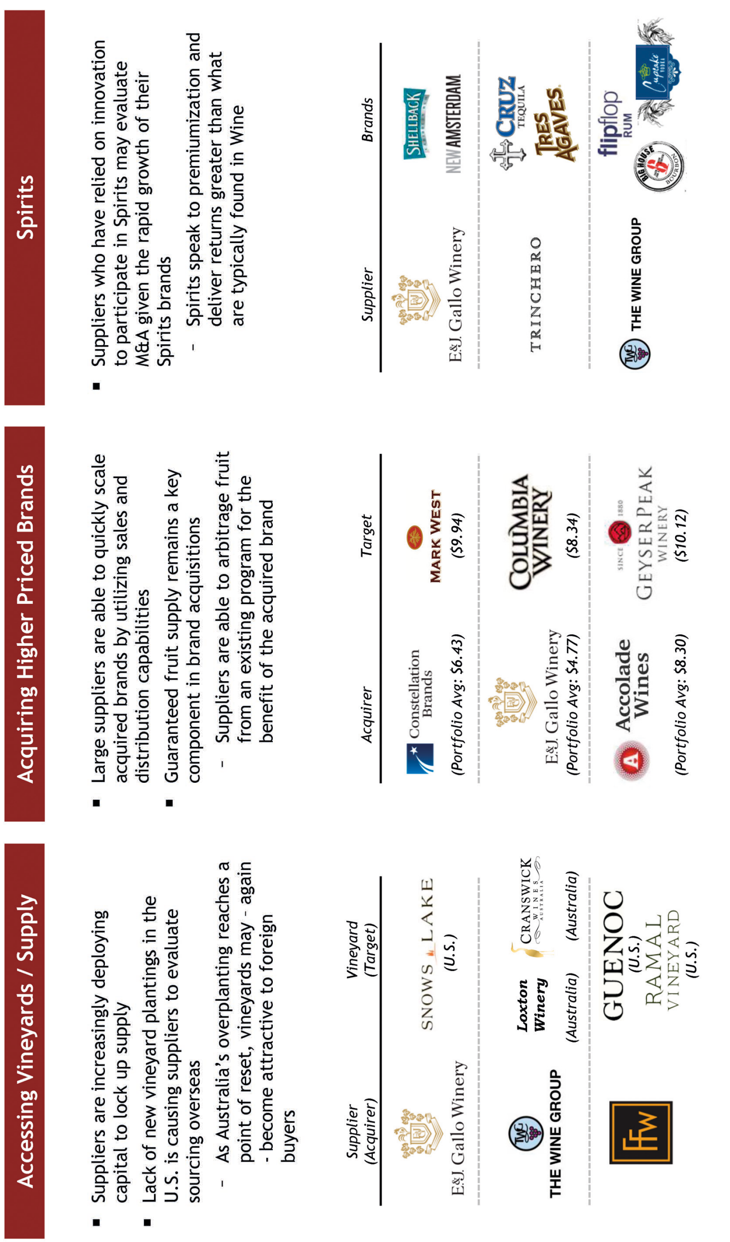
In 2012, the top four suppliers, i.e. E&J Gallo Winery (27%), Constellation Brands (21%), The Wine Group (10%) and Trinchero Family Estates (8%) provided for nearly 70% of the industry's dollar growth. Other suppliers provided for the other 34% growth.

Larger producers aspire to emulate the Kendall Jackson Model. Jackson Family Wines is the only Top 8 supplier with an average price per bottle of more than US$10. Other top brand suppliers are focusing on moving their centre of gravity to <US$ per bottle. It is de-emphasizing the <US$10 segment there imports have significant cost advantages. Premiumisation relies on a 2-progned approach of brand innovation and M&A. Supply is critical in both strategies as the top 8 suppliers target more than one million case brands. This translates into more California appellate wines. Suppliers will arbitrage existing fruit from lower margin products into higher margin products. They proactively phase out unproductive SKUs while retaining shelf life.

Figure 12: Top suppliers successfully innovating at >$10 per bottle



Source: Demeter Group, 2013



Source: Demeter Group, 2013

Figure 12: Innovation, premiumisation and supply key themes driving M&A18

Sweet red and white varietals are growing faster than the overall average for wine. Large win companies are developing new brands targeted to female consumers) e.g. Strut and Butterfly Kiss. Gallo with Barefoot and Trinchero with Sutter Home are examples of line extensions into sweet wine.

6. CONCLUSION

In 2013, the US became the world's biggest market for wine, beating France into second place for the first time as consumption slides in the country long seen as its natural home and Americans develop a greater taste for it. US consumers bought nearly 30 million hectoliters of wine in 2013. This is a rise of 0.5 percent on 2012, while French consumption fell nearly 7% to 28.1 million hectolitres (OIV, 2014). According to the Wine Spectator, American wine drinkers will have a significant influence on the global wine industry in the immediate future. The US is the most important market for wine at present. The large millennial generation (ages 21 to 34) will shape wine's future. Americans are also experimenting more with grape varieties. The sales growth of domestic red blends, 21.6% off-trade in 2011, suggests willingness to move away from the comfort of easy-to-understand single grape wines. With consumers increasingly willing to try new things, the wine industry must continue to adapt with them. While beer sales by volume have declined in the past decade and wine sales have grown, similar to South Africa, craft beer sales are steadily rising. In terms of exporting South African wine to the US, there is potential for growth.

ENDNOTES

1 Sources include the Wine Marketing Council, Nielson, Silicon Valley Bank, Impact, Rabobank, Euromonitor, ShipCompliant, GuestMetrics, OIV, Wine Institute, Constellation Brands, Wine.com and Frederickson at the Unified Wine Symposium.
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12 ShipCompliant, 201.
13 http://lizthach.wordpress.com/2014/03/26/trends-in-the-us-wine-industry-for-2014-sunny-cellars-with-some-cobwebs/
14 Wine Institute from TTB data. History Revised.
15 www.wineinstitute.org/files/US_Wine_Exports_By_Year_86-12.pdf; Wine Institute using data from US Dept. of Commerce, Trade Data & Analysis. Statistics may not convert exactly due to rounding
16 www.tandfonline.com/doi/abs/10.1080/0957126032000114964#.VA1oGjKSySo
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18 http://demetergroup.net/sites/default/files/news/attachment/State-of-the-Wine-Industry-2013.pd

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