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Introduction: Does a National Model Exist Which Favors Trade Performance?

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The previous parts (Parts I and III) reveal the multiplicity of organization models existing in the wine sector. Choosing the degree of vertical integration therefore appears as a crucial factor for these organization models (Part IV). At present we need to appraise the efficiency of these models. The key question to be asked revolves around the existence of a model which will dominate the others in terms of efficiency and economic performance, a model toward which all wine companies should eventually converge. This question is particularly relevant in Europe where the global model is heavily based upon the collective management of the company's reputation through the Protected Designation of Origin (PDO), small-scale properties and upstream rather than downstream integration. This model has been, in part, challenged by New World competition which relies on strong brands free of PDO constraints, large estates which are able to exploit economies of scale and tight control of sales via downstream rather than upstream integration. We therefore introduce the hypothesis that a difference exists here, on average, between the Old and the New World concerning the elements just specified above. The New World's commercial success since the 2000s has led to the Europeans questioning their organization model. However, is the Manichean opposition occasionally made between the two models founded? Must the Old World move toward a brand model to preserve its world-leader status in the wine sector?

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Answering these questions is not easy as the concept of economic performance is multifaceted. It differs especially according to the focus of analysis: are we speaking about companies, sectors, a region or a country? At the company level, the traditional ratios of financial profitability remain predominant for measuring performance, but they are increasingly challenged in favor of nonmonetary value creation linked to the mind-set of corporate social responsibility. For example, we can oppose a company's environmental performance with its financial performance. At the sectorial level, the same questions can be asked regarding performance indicators: from simply aggregating the financial performances of companies within this sector to considering nonfinancial factors such as its territorial impact (local employment, landscape function, tourist impact, etc.). To measure the economic performance of a sector we will also take account of its contribution to the country's trade position. On a national scale, the economic performance of a sector will, essentially, be seen from this trade-balance angle. A high-performing sector is one which runs a positive trade balance, involving a net currency surplus entering the country.

There therefore exists a wide panel of approaches to performance ranging from the microeconomic, at the company level, to the macroeconomic, on a sectorial and national scale. Given that notions of performance and efficiency are difficult to grasp, our study cannot claim to be exhaustive, yet we will strive to address these two aspects in this part. The present chapter focuses on international trade. It addresses the question of the trade performance of wine-producing countries according to two of their strongest characteristics: Old or New World and a system directed toward PDOs or one toward brands with a simple indication of origin. The following chapter will also consider the PDO versus brand debate, but from an angle which is clearly more microeconomic. It will discuss the best way for wine producers to manage reputation and therefore their future sales, either individually through a brand or collectively through a PDO. This approach will go beyond the Manichean and partisan framework which frequently encroaches upon the public debate of such issues. Finally, the last two chapters of this part will present diametrically opposed national case studies of economic success in the wine sector. Indeed, Chile and Switzerland have both enjoyed great success but by following completely different trajectories. These chapters perfectly illustrate the cautious approach one must take when addressing questions of efficiency, performance and economic models. The major lesson to be learnt from this part is that there is no miracle recipe for success in this sector at a national level but that different strategies are possible according to the micro- and macroeconomic characteristics governing the country.

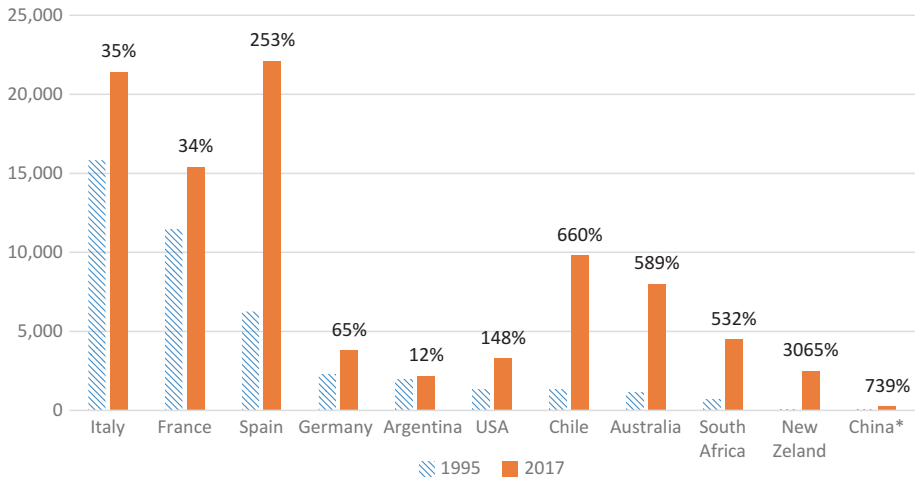


Fig. 24.1 Change in exports in volume between 1995 and 2017. (Source: OIV [Wine International Organization] statistics. Note: the percentages reported correspond to growth rates between 1995 and 2017. (*) For China, the data are from 1995 to 2014)

Table 24.1 Average export price in 2017 (in € per liter)

Country	Average export price €/l
France	5.84
New Zealand	4.22
USA	3.88
Argentina	3.24
Italy	2.74
Portugal	2.69
Germany	2.52
Australia	2.16
Chile	1.78
South Africa	1.30
Spain	1.27

Source: OIV statistics

A simple analysis of major wine-producing countries' export figures reveals a significant rise in the volume of exports between 1995 and 2017, for both Old and New World countries. Figure 24.1 highlights two major pieces of information. The first is that the Old World still leads wine exchanges. This is all the more true when we consider the value of exports where France remains the leader with nearly €9 billion of exports in 2017. In Old World countries, only Spain has had difficulties to increase the average price of its exports (Table 24.1) and it is ranked last in this classification of major exporters. This clearly shows that there is no opposition between the New and the Old World

as regards value creation, according to which the New World exports high volumes of low-value wine while the Old World exports high-value wines.

The second piece of information from Fig. 24.1 is that the New World is catching up given the strong increase of its countries between 1995 and 2017. The growth of exports in volume from Chile or Australia is spectacular. The export growth rate is even more impressive from countries which were only minor exporters in 1995. This is especially the case for New Zealand which has, in the space of two decades, established itself as a significant exporter on the same level as Argentina or the USA. Moreover, New Zealand exports high-value wines. The average price of its exports places it in second position behind France’s (see Table 24.1). The cases of Chile (New World leader in volume) and New Zealand (leader in average price) are clearly the most significant to indicate how the New World is catching up with the Old.

A flat analysis of the wine-producing countries’ export statistics therefore provides a contrasted outcome and does not allow us to identify one model as more efficient than another. Indeed, a weaker progression in volume was in part compensated by increased added value (i.e. average price) of the wines exported.

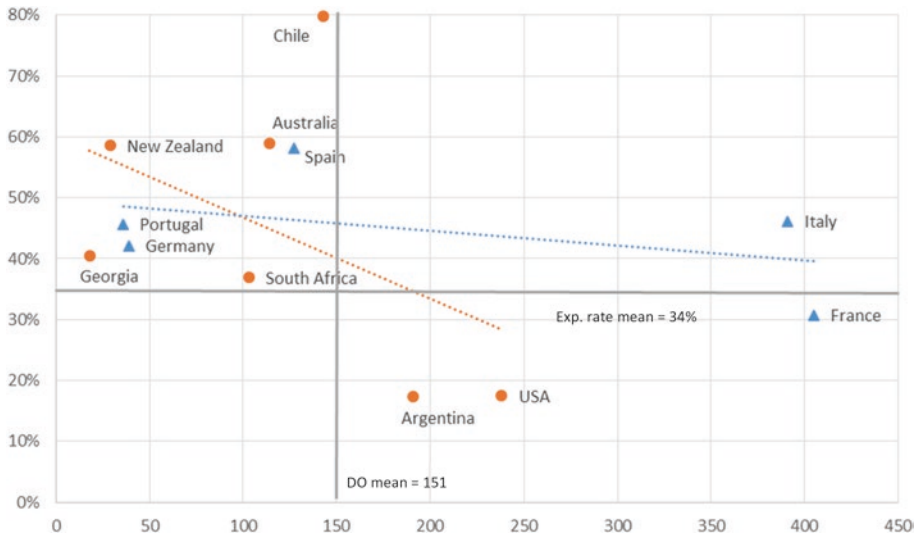


Fig. 24.2 Exportation rate in 2014 in function of origin indicators. (Source: OIV statistics. Note: on the x-axis we find the number of PDOs (for the European countries) or that of simple origin indicators (DO for New World countries). The triangles indicate European countries (except Georgia) and the circles represent New World countries (including Georgia))

To go deeper into the analysis of trade performance, Fig. 24.2 presents the exportation rate of the major producers (a country's exports in volume divided by its production volume). This exportation rate is cross-referenced with the number of origin indicators per country recorded by the OIV. These are the PDOs for the European countries and simple Denominations of Origin (DO) for the New World. The PDO system is historically linked to the European agricultural regulation (Meloni and Swinnen 2014). Most of the other countries and notably those of the New World use a simple origin indicator which is nonrestrictive from the technical point of view. A linear trend can be added for each of the two groups of countries (European and New World) which shows the global link between the origin indicators and the exportation rate.

Figure 24.2 provides different information to the previous graph. Indeed, this time, the New World countries dominate the Old World. The leading country is Chile which exports 80% of its production. Next come Australia and New Zealand with an exportation rate close to 60%. The European countries, with the exception of Spain, lag behind on this measure with the majority of their production being sold on their national market, even if the latter has continued to shrink since the 1960s. Regarding the linear trends expressed by dotted lines on Fig. 24.2, the other lesson concerns the negative relation between the origin indicators and the exportation rate, although the low number of points does not allow us to draw a statistically significant conclusion. The vertical and horizontal lines appearing in Fig. 24.2 represent, respectively, the averages of the number of DOs (151) and of the exportation rate (34%). These lines allow us to isolate four quadrants. Among the major wine-producing countries, those having the lowest number of DOs (lower than the average on the left side) have the highest exportation rate (higher than the average at the top). With the exception of Italy, all the countries are in fact located either in the northwest or in the southeast of these quadrants. However, the Old World and New World countries fall into each of these two quadrants and are therefore not polarized. Once again we need to note, however, that this type of analysis does in no way lead us to a conclusion concerning the causality between these variables.

Figure 24.3 provides supplementary information. It no longer simply considers the exportation rate but the trade balance relative to national production, still cross-referenced with the number of PDOs and DOs. It also shows changes in this ratio between 1995 and 2014. Between these two dates we can observe a significant progression of the New World countries with the exception of the USA. New Zealand's performance appears the most impressive. On the contrary, Germany is the country whose trade performance has worsened the most followed by the USA. As above, it is not possible to isolate a

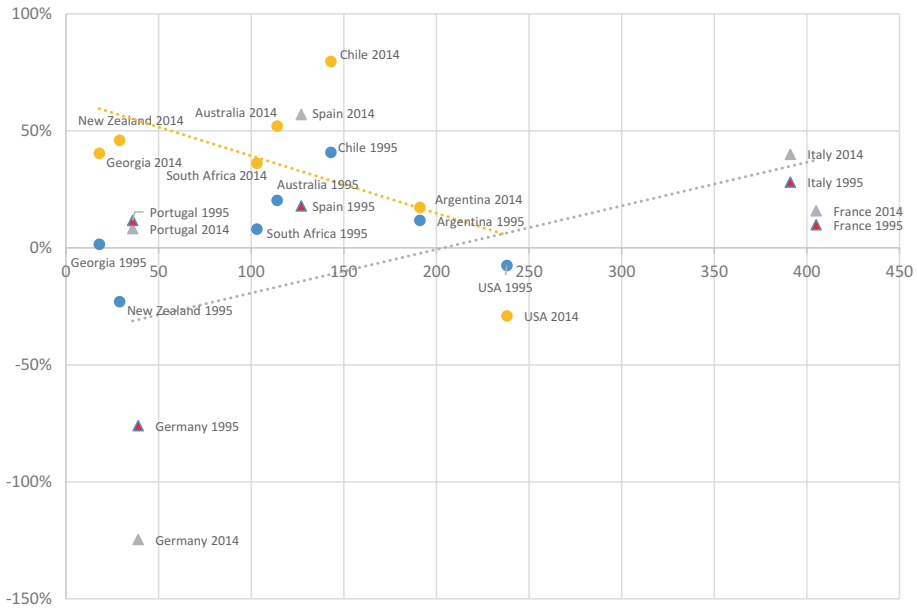


Fig. 24.3 Trade balance relative to production volume (y-axis) in function of the number of PDOs and DOs (x-axis) for a selection of countries between 1995 and 2014. (Source: OIV statistics. Note: the ratio is calculated on the basis of the trade balance divided by the production of each country, with all the variables expressed in volume. On the x-axis we find the number of PDOs (for the European countries) or that of simple origin indicators (DO for New World countries). The triangles indicate European countries (except Georgia) and the circles represent New World countries (including Georgia). Linear trends are given for the year 2014)

model which seems more efficient than another. Old and New World countries have had very diverse trajectories within each group of countries. Similarly, there is no clear relation between the number of origin indicators and trade performance.

This simple statistical analysis of international trade in wine points therefore appears to conclude that there is no link between business models—approximated by belonging to the Old or New World or by the number of origin indicators—and trade performance, approximated by very simple indicators of exportation and trade balance. We must remain cautious given the limits of this study which remains highly descriptive. Nevertheless, this work probably invalidates the Manichean idea, according to which the New World is outperforming the Old in terms of export performance. In the same way, as regards the average price of exported wines, it is difficult to support the idea that the Old World remains the bastion of value creation compared to the

New. This analysis of the statistics of international exchange sends us back a complex and contrasting image. This image will be confirmed in the following chapters.

Reference

Meloni, G., and J. Swinnen. 2014. The rise and fall of the world's largest wine exporter-and its institutional legacy. *Journal of Wine Economics* 9 (1): 3–33.