

## WHOSE GLOBAL EXCESS?



*As does every editor, Joel B. Payne also enjoys a good bottle – and finds that good wine has never been so cheap.*

Although global wine consumption continues to rise, supply and demand are still not in balance. While wine production is falling in Europe, global production volumes are increasing due to growth elsewhere. As a result, wine production continues to outstrip consumption, resulting in a downward spiral on prices and, from a consumer's point of view, unending value.

According to Neil Hendry from Datamonitor, 24.7bn litres of wine were consumed in 2007, almost four litres per man, woman and child on the planet. However, the dynamics are shifting. While consumption in Western Europe, after years of decline, is at best stable, and in some cases still falling, Eastern Europe and the emerging Asian markets are growing with breathtaking speed.

With a healthier image than other alcoholic drinks and growing consumer interest in fine dining, Datamonitor predicts consumption will top 26bn litres by 2010. That would be 1.5bn litres a year more than in 2005, about what Argentina produces in a year.

While this growth has many producers praying to the East, it is unclear who will profit from this development. The rising tide of consumption in unconventional markets is democratising wine, providing savvy producers with a greater target customer base than ever before. In addition, with younger age groups more attracted by branded wines of consistent quality, New World producers continue to build on their strengths in once classical markets. This has brought with it a change in the retail landscape, with traditional distribution channels losing ground to convenience stores and supermarkets.

### *Lull before the storm?*

These structural changes, combined with the uprooted vines in California, the severe drought in Australia and the short 2007 crop in Europe have temporarily allayed many analysts' worst fears. Global excess fell to 'only' 1.5bn litres last year, in line with the expected rise in consumption by 2010; but this may only be the lull before the storm.

While wine production is falling in the still dominant European countries, global production volumes are increasing due to growth elsewhere. The result? Wine production continues to outstrip consumption, resulting in a downward spiral on prices in many developed markets. There are shortages in the excess, with Prosecco and Pinot Grigio being two obvious examples, but the trend is ominous.

It is true that environmental factors are impacting wine production in some regions, especially Australia, and long term effects may

reduce output. On the other hand, a faltering global economy may well inhibit further gains, in particular in countries like the United States, where wine consumption is closely related to GDP growth.

Much as cheap money lured institutional investors to leverage their bets on the sub-prime mortgages that are now wreaking havoc in the financial world, state subsidies have long fuelled the global excess and made investments in wine by the private sector difficult if not impossible to calculate. Although they exist everywhere in some form, Europe is certainly the greatest culprit. The restructuring scheme in Spain, which doubled production and excess, added insult to the injury of crisis distillation.

### *Consumers have never had it so good*

The global population, which only cracked the one billion barrier in the middle of the nineteenth century, now stands at over six and is heading towards seven; but the luxury the developed world enjoys may only be possible as long as it remains a minority. Will the earth be able to sustain seven billion inhabitants who all have the same wants and desires as the egregious tourist strolling down the Champs Elysées? Demand in India and China has already spiked the prices for natural resources. Even food crops are becoming profitable. Will the same happen with wine?

Probably not. Many analysts believe that there will never again be so much vineyard area planted as there is today. What will happen if the Chinese one day view wine as a passing Western fad and return to the core values of their age old traditions? And even if the emerging markets take wine to their hearts and one day drink as much as Europe does, they might well become net exporters. China and Brazil are already on the path that Chile, Australia and New Zealand laid.

For hedonistic consumers, the bottom line is a no brainer. Lay back and enjoy the great wines being dumped onto the market at low prices due to global surplus for as long as you can. You may never again have it so good. Europeans should even feel a sense of entitlement. After all, their taxes have helped finance the excess. ■

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