New challenges and opportunities for Italian exports of table wines and high quality wines

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Abstract

Competition in international wine market has recently become more intense because of several factors and, in particular, the progressive reduction in world-wide consumption, the addition of new producing countries such as Australia, Chile, the USA and South Africa (the so called New World wine producers) and the increasing trade liberalization.

In order to achieve a competitive advantage in the international marketplace, it is very important to identify which markets are characterized by bigger attractiveness. In particular, the ability of a producer, a region or a country to provide effective communication and promotion actions towards more profitable local markets is strategic in international trade.

Italy, one of the first wine producing country in the world, exports its wines to almost all countries of the five continents. However, the five greater importing countries account for 70 percent of Italy's total wine exports (the USA, Germany, the United Kingdom, Switzerland, and Canada) and so Italy shows only a moderate market diversification.

In this paper, an econometric model able to explain the size of wine export flows from Italy to its main importing countries was elaborated and estimated. This model provides useful information that can help to identify the main growing markets where all participants in the wine supply-chain, such as private wineries, joint-ventures, regional and national agencies, and producers' associations, can unite to concentrate product communication and promotional efforts.

The model is an extended version of the "gravity model" that many economists believe a very powerful tool for international trade analysis. In fact, at the empirical level, the gravity model gives very robust estimates and provides a good fit to the observed data. The basic concept of the gravity model for trade analysis borrows the gravity equation from physics: the

volume of trade between two countries is proportional to their economic "mass" and inversely proportional to their respective distance.

In this work, the investigation about the features of Italian wine export flows is conducted through the estimation of two different econometric models; the first one is related to QWPDR and second one is related to table wine category. Both models derive from an extended version of the basic gravity model where dummies for groups of countries have been added.

An important result is that Italy should increase the production of high quality wine because there are favorable conditions in place which would increase exportation. At the same time, Italy should decrease the production of table wine because its international demand is declining.

Moreover, estimation results show that both QWPDR and table wine exportations are income elastic. Hence, if Italian wine producers intend to expand their exportations, it is natural to look at those countries where income growth is high but also constant and solid. It is interesting to highlight that, among countries with the highest income growth rates, there are three very big countries, China, Russia and India, where expansion possibilities for Italian wine exports are very attractive. Currently, these countries import less than 1% of total exports of Italian wine. At the same time, it is important to highlight that the main countries importing Italian wine (the United States, Germany, the United Kingdom, Switzerland, Canada, Japan and almost all western European countries) show a moderate but stable income growth and therefore it would be strategic to defend and consolidate Italian market shares against any possible aggressions by the new wine producing countries.

The recent enlargement of the EU could represent a great opportunity for the exporters of Italian wine. In particular, it is interesting to note that all new EU members and, in particular, the Baltic Republics (Latvia, Estonia, Lithuania) show high income growth rates. In addition, as widely known, there are no customs barriers within the European Union but instead there is a common external tariff applied to imports from non-EU countries. Therefore, these countries represent very interesting, and as yet untapped, markets even if, in the next years, there are real possibilities to expand mainly table wine exports because the income, although rapidly increasing, remains still moderate.