

Analysis of the Jerez-Xérès-Sherry and Manzanilla de Sanlúcar de Barrameda Wines Market in the Period 1982-2012

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1. INTRODUCTION

Jerez wine is one of the most emblematic agro-alimentary realities in Andalusia and Spain. The "Jerez" brand, together with its version in the Anglo-Saxon world "Sherry", constitutes a fundamental patrimony of our agriculture, our agri-food industry and our culture. Due to its innate characteristics, Sherry wines are unique and unrepeatable products. Its geographical setting, a privileged region of lower Andalusia, its rich historical roots, so deep that they merge with its own earth ancient history, and its genuine elaboration procedures, as outcome of the conjunction of natural factors and traditional processes, lead to several varieties of quite singular wines.

One of the most relevant characteristics of Sherry wines is its exporting vocation, with foreign markets being the main destination. Export is a key factor in the economic development of any country or region; in the case of Jerez, and until very recently, its economy has been closely related to wine exports. Therefore, what happened in the Jerez production framework is a paradigmatic study case of how agri-food restructuring processes have operated for more than three decades, and also of the overall impact of globalization, and in particular of wine market globalization, and how it changed viticulture industries from the eighties to nowadays in a definite southern peripheral area of the European Union (EU).

Sherry exports means more than 70% of its production, with the United Kingdom, The Netherlands, Germany, Belgium, Denmark, Philippines, France, Sweden, Canada, USA, Japan and Switzerland in the top list markets of more than one hundred of export destination countries.



Map 1. Geographical location of vineyards and wineries for Jerez-Xérès-Sherry and Manzanilla de Sanlúcar de Barrameda wines.



Source: Regulatory Council of designation of origin Jerez-Xérès-Sherry and Manzanilla from Sanlúcar de Barrameda.

2. METHODOLOGY, OBJECTIVES AND INFORMATION SOURCES

The methodology used in this work is based on a descriptive analysis of the total exports of Sherry wines in the period 1982-2012, and of its different wine varieties in the main international markets: the British, the Dutch and the German markets.

In this article we define the following objectives:

1. Quantify and analyze the exports trends of Sherry wines and their varieties in different markets during the last three decades (1982-2012).
2. Describe the significance of each market and its evolution.
3. Explain the main causes of the growth / shrinkage of exports in each market.
4. Finally, analyze the causes of the crisis of Sherry wine markets and the actions taken during the last three decades to overcome the fall in exports (restructuring plans).

The sources used for the reconstruction of the exports historical series during the period 1982-2012 have been the activity reports, published by the Regulatory Council of the designation of origin of Sherry wines.

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3. RESULTS

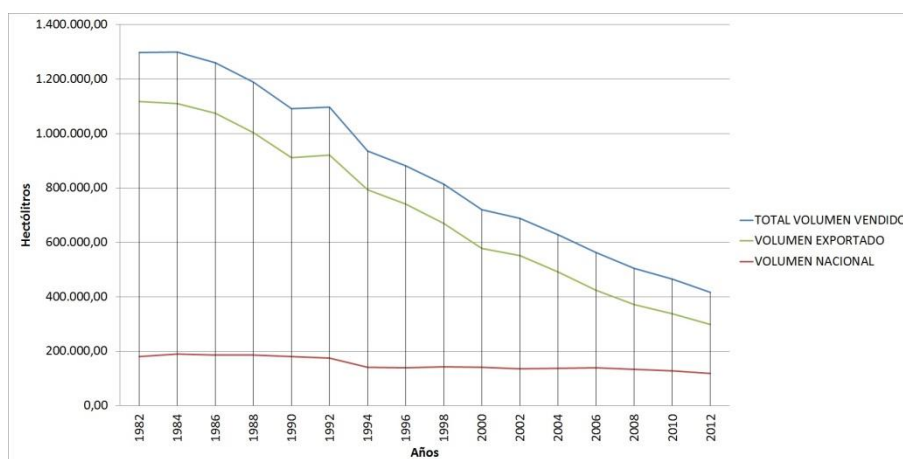
From the analysis of Figures 1, 2, 3 and 4 we draw the following observations:

1. The commercialization of Sherry wines has experienced a very significant decrease during the last three decades: in 1982 the sales volume amounted to 1,297,010 hl., experiencing a major drop of 880,897 hl., reaching only 416,113 hl. in 2012, representing a global decrease of 68% and an annual average decay rate of -3.60%, due to the sharp decline in exports mainly due to shrinking of international markets.

2. Sherry wines have always been wines with a great exporting vocation, with foreign market accounting for more than 85% of the total. Foreign markets share reached 86.15% in 1982, compared to 13.85% in the domestic market. Throughout this period, the domestic market has gained share thought decreasing. After three decades, by 2012, foreign market accounted for 71.59%, while national market accounted by a share of 28.41%.

3. The evolution of exports in the British market in the period 1983 to 2012 shows a decrease of 50.8%, from 245,096 hl. to 120,545 hl., which represents an annual average decay rate of -3.48%; In the Dutch market the wine sales volume moved from 234,220 hl to 79,637 hl., falling 66% and recording a loss of 154,583 hl., which an annual average decay rate of -5.25%. And in the German market the trend is even more regressive, moving from 151,768 hl. to 38,629 hl., with a fall of 113,139 hl., what means a 74.55% decrease.

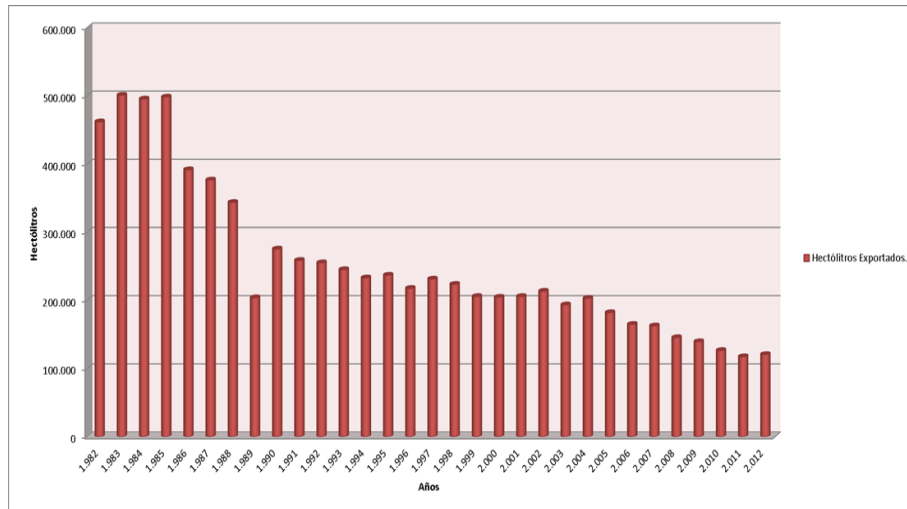
Figure 1. Evolution of sherry wine sales in the period 1982-2012 (in hl).



Source: Own Elaboration from the memories of the Regulatory Council of designation of origin Jerez-Xérès-Sherry and Manzanilla from Sanlúcar de Barrameda.

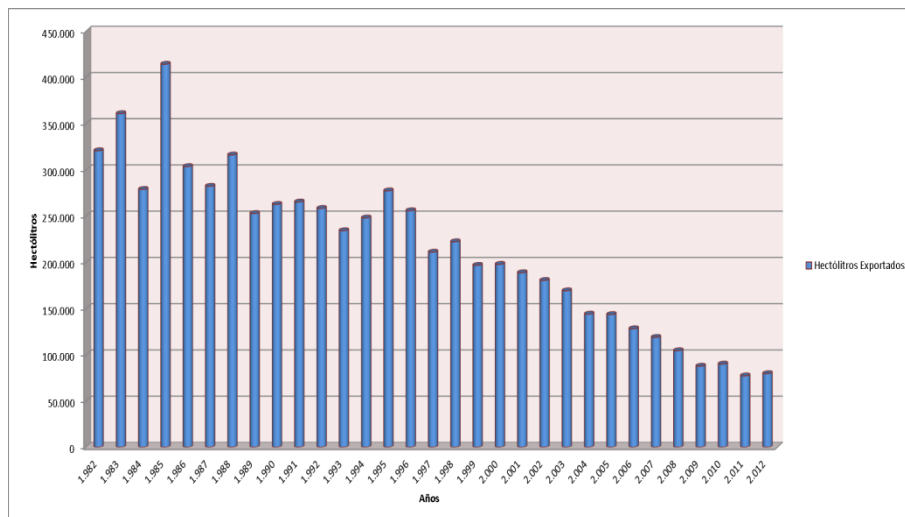


Figure 2. Evolution of sherry wine exports to the British market in the period 1982-2012 (in hl).



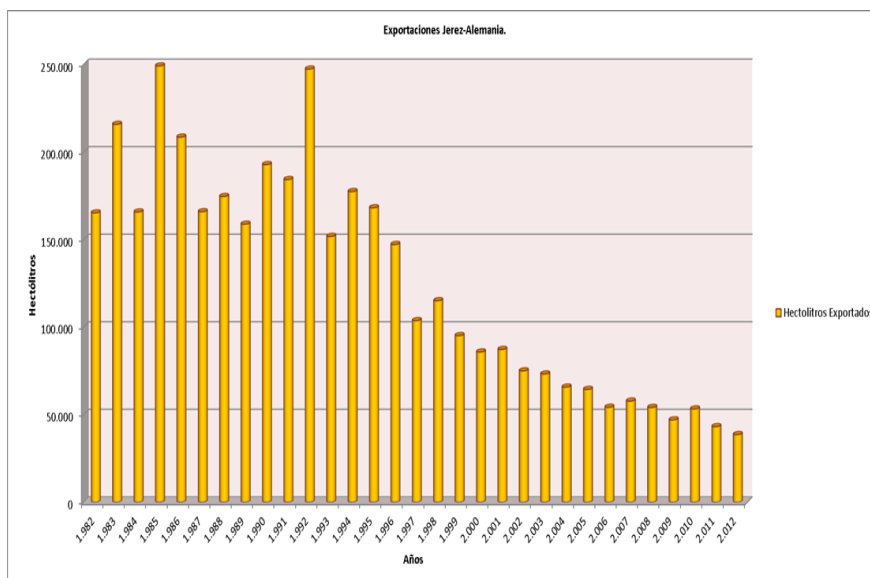
Source: Own Elaboration from the memories of the Regulatory Council of designation of origin Jerez-Xères-Sherry and Manzanilla from Sanlúcar de Barrameda.

Figure 3. Evolution of sherry wine exports to the Dutch market in the period 1982-2012 (in hl)



Source: Own Elaboration from the memories of the Regulatory Council of designation of origin Jerez-Xères-Sherry and Manzanilla from Sanlúcar de Barrameda.

Figure 4. Evolution of sherry wine exports to the German market in the period 1982-2012 (in hl).



Source: Own Elaboration from the memories of the Regulatory Council of designation of origin Jerez-Xérès-Sherry and Manzanilla from Sanlúcar de Barrameda.

4. CONCLUSIONS

The year 1986 marks the starting point for an unstoppable decline in sherry wines exports that reaches nowadays. This change in trend was mainly due to the fall in sales in the United Kingdom, the Netherlands and Germany, the main destinations for exports, initiating a period of decline and of permanent structural crisis. Exports moved from 1,074,316 hl. by 1986 to 243,253 in 2015, representing a decrease of 77% and an annual average decay rate of -4.83%, turning back to the exports volume recorded in 1955.

Before that, in the mid-80s, Sherry wine industrial sector was over-sized, with a huge excess of vineyard area, a growing increase in the accumulated stocks, and a drop in demand that plunged profits producing to winemakers an economic-financial unbalance. The increase in exports in the 60s and 70s created enormous expectations in the sector, which, guided by euphoria, carried out large investments in vineyards and cellars in order to increase its export capacity. In such way, the sector increased the area of vineyard by 180%, producing a huge growth in grape and must production. This led to sherry wine producers to low instant capital liquidity and, at the same time of high production costs inherent to the traditional aging, pushing the industry to lower prices as a main effort for trying to recover sales, favoring sales in bulk and introducing white brands (BOB), at the expense of attention to maintaining high quality. All this brought about a moderate lowering of the traditional excellence of products, resulting in a deterioration of the international prestige of Sherries as a brand.



Another Sherry wine company movement due to crisis was to look for concentration to gain bigger dimension. Thus in the late 70s and early 80s some of the medium or even large enterprises changed ownership or passed on to RUMASA (a new huge and aggressive emerging company settled in the area), in a direct way or through trustees, thus maintaining and feeding a continuous struggle for concentration and corporate gigantism. The crisis was particularly hard for very sizeable companies with weak commercial structures, which at the time had heavily suffered because of financial costs of investments and growing of immobilized, such as the cases of Terry, Garvey and Domecq wineries.

The emergence of multinationals companies in the 70s and 80s, the expropriation and further nefarious re-privatization of RUMASA (1983 to 1986), the fall of sales abroad as a result of the globalization of the international wine market, the arrival of new wine producers to the area who wear far positioned from its cultural traditions (such as Marco Eguizabal and others, who bought part of the RUMASA holdings), and the implementation of the first Restructuring Plan to balance supply with demand, conditioned the sherry business in the 80s. The different Reconversion Plans in which the production framework of Sherry wines was involved, the first of them adopted by 1983, had as a fundamental aim limiting the production according to the demand. This crisis went in deep in the 90's, due to the continuous drop in exports, leading to the closing of wine warehouses due to lack of demand, poor economic-financial profitability, and to an increasing social and labor stress.

At present, after three and a half decades, and despite the efforts made throughout five successive restructuring plans, the situation blasted in the mid-80s continues, with overproduction and an steeply decline in exports, which means that the wine sector in Jerez stays in a permanent crisis,

The consequences of the crisis and the impact of globalization on the international wine markets have led to the emergence of a new more flexible winemaking in the Jerez production framework, whose territorial link weakens as wine is incorporated to the global liquor business. This more flexible winemaking approach involves moving from the domain of the wineries, to the domain of commercial distribution; from a modernized family viticulture to the mechanized business viticulture for efficient wine production; from a traditional oenology to a new oenology introducing international grape varieties. In globalization, the international wine markets are saturated and strategic power is held by the big commercial distributors, who look for young wines of flexible production and adapted to increasingly fragmented markets both in tastes and purchasing power. This process explains an accelerated business concentration process, and a rethinking in the strategies and the commercialization of sherry, focused on very few companies with very big economic and commercial dimension. Smaller careful

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productions looking for the recovery of old traditions, and for high quality unique products are also emerging as a new alternative, though it doesn't yet mean a significant share for the sector.

