Winescape®

A publication of American AgCredit

FALL 2026

This issue:

- *Examines the slight progress in wine sales in the first half of 2026*
- *Shares an update on the grape crop and the pros of a small harvest*
- *Spotlights import competition and how the U.S. could regain market share*

IN THIS ISSUE

All Eyes on Imports

Rising imports have become a more pressing issue for the U.S. wine market, but regaining domestic market share isn't a simple matter.

The trajectory of the wine market improved slightly in the first half of 2026, though this was mostly due to a strong first quarter. U.S. wine sales are still declining, albeit at a slower rate, and the pace of decline in exports has moderated.

In the three-tier channel, the premium segment continues to hold up best and the white and sparkling wine categories are still outperforming (see Page 4). Direct-to-consumer sales were flat in the first half despite declining visitor and club member counts.

I'm not expecting further progress this year, as the economic backdrop is likely to remain challenging. However, the economy and consumer look to be on reasonably firm footing, and inflation should begin to abate after the Strait of Hormuz reopens, so there could be modest improvement in wine sales in 2027.

The California grape crop is light, but the shortfall hasn't stimulated a great deal of activity. There should still be enough fruit to go around, though buyers should act soon. A small crop will help to reduce the wine inventory overhang, supporting stronger grape demand next year.

The Trending Topic focuses on import competition (see Page 9). Imports now represent about 35% of the U.S. wine market, up from 21% in 2000.

While imports have been gaining market share for decades, the issue has taken on more urgency in recent years. Bulk imports, in particular, have become a hot-button topic. However, my analysis shows that they aren't the only issue and that competition is just as fierce in the premium segment of the market.

Imports' rise has come at the expense of U.S. wine and grape producers to some extent, though it's more complicated than a simple one-to-one replacement. Moreover, some U.S. wineries directly benefit from imports. Nonetheless, regaining market share represents an opportunity to boost domestic wine and grape sales.

A loss of cost competitiveness is the primary challenge. Rapidly rising domestic production costs are largely to blame, though foreign subsidies exacerbate the situation and U.S. regulations could be incentivizing imports. These issues should be addressed in a careful manner that minimizes the risk of unintended consequences.

The economics are daunting for entry-level wines, and I believe there is more potential to regain market share in the premium segment.

ABOUT THE AUTHOR

Chris Bitter, Ph.D., is Terrain's senior wine and grape analyst, focusing on generating research and insights in the areas that impact the business of vineyards and wineries. With more than 20 years of experience as an economist and market analyst, Chris is a former faculty member of the University of Washington's Runstad Center for Real Estate Studies. In 2016, he left his academic position to launch Vintage Economics, a market research and consulting firm focused on the wine industry.

Chris earned his Ph.D. in economic geography with a minor in agricultural and resource economics from the University of Arizona. His research has been published in a variety of national and international publications, including the Journal of Wine Economics, and he has delivered presentations at wine industry conferences around the globe.

A Softer Slide for Wine and a Light Crop

The first half of 2026 marked a slight improvement for wine sales as the U.S. economy held up reasonably well. Meanwhile, a small harvest this year would have a silver lining.

REPORT SNAPSHOT

Situation: The wine market showed modest improvement in the first half of 2026, with sales still declining but at a slower pace across all channels. Still, most gains came early in the year, and inflation continues to squeeze consumer budgets. Harvest is running well ahead of schedule, and yields look to be light by as much as 50% in some areas.

Outlook: Wine sales are unlikely to improve much in the second half of 2026. Modest improvement is possible in 2027 if inflation abates as we expect.

Impact: Wineries needing fruit should move sooner rather than later, especially for higher-quality vineyards. A smaller crop should help reduce the wine inventory overhang and move the grape market closer to balance next year.

The trajectory of the wine market improved slightly in the first half of 2026. Sales are still declining, in both the three-tier and direct-to-consumer (DtC) channels, but at a slower rate. The pace of decline in exports has also moderated.

However, most of the improvement occurred in the first quarter, and I'm not expecting further progress during the second half of 2026. The economic backdrop is likely to remain challenging due to sticky inflation, stagnant real wages, and consumer pessimism. However, the economy and consumer look to be on reasonably firm footing, and inflation should begin to abate after the Strait of Hormuz reopens, so there could be modest improvement in wine sales in 2027.

Sales Trends by Channel and Price Segment

For more on the dashboard, see the Appendix on Page 20.

		Year-Over-Year Change	Trend
$$$	Retail: Value	↓	–
$$$	Retail: Premium	→	–
$$+	Retail: Super-Premium	↘	–
$$$	Retail: Luxury	→	^
	Direct-to-Consumer	↘	^
	Export	↓	^

The California grape crop is light, and the 2026 crush could be smaller than last year. Nonetheless, the shortfall hasn't stimulated a great deal of additional activity and there should still be enough fruit to satisfy demand. The silver lining in a small crop this year is that it will help to reduce the wine inventory overhang, paving the way for stronger grape demand next year.

Wine Market Update: Rate of Decline in Three-Tier Channel Moderates

Based on my analysis of NIQ data, the pace of the decline in retail sales moderated in the first half of 2026.

Based on my analysis of NIQ data, the pace of the decline in retail sales moderated in the first half of 2026. Sales in NIQ outlets slipped by 3% in value and 4% in volume in the first half year over year (YOY). This compares with a 5% decline in value and a 6% decline in volume during the second half of 2025. However, the improvement was wholly due to a stronger first-quarter performance; the slump re-intensified in the second quarter.

The three-tier market continues to be distinctly bifurcated by price.

The rate of decline in distributor depletions also moderated in the first half, though they are still falling at a faster rate than retail sales. SipSource data indicate distributor depletions fell 4% in value and 8% in volume YOY during the first six months of 2026. This compares with a drop of 6% in value and 9% in volume in the second half of 2025. The second-quarter figures were on par with those from the first quarter.

The sparkling wine category performed even better than the white wine category during the first half of 2026.

The three-tier market continues to be distinctly bifurcated by price.

Sales of wines priced below $15 are falling steadily and haven't seen a material improvement thus far in 2026. Conversely, sales of brands priced at $15 and above increased slightly in the first half in both value and volume. This was mainly attributable to a solid performance in the premium market segment. On a positive note, the luxury segment looks to be stabilizing. However, the improvement is coming at a cost, as it looks like discounts are being employed to stimulate volume.

White wine sales continue to hold up better than red wine sales due largely to growing Sauvignon Blanc sales. The sparkling wine category performed even better than the white wine category during the first half of 2026, recording only a narrow decline. Sales of wine-based cocktails are still increasing, albeit at a slowing rate.

DtC sales also improved a touch in the first half of 2026.

DTC SALES STABLE IN FIRST HALF DESPITE FEWER VISITORS AND CLUB MEMBERS

DtC sales also improved a touch in the first half of 2026. Total DtC sales were roughly flat during the first six months of the year versus the same period last year, according to figures from Community Benchmark and Enolytics. Moreover, the second-quarter figures were slightly better than the first.

On the other hand, DtC shipment figures from Sovos/ShipCompliant and Wine Business Analytics show weaker revenue growth and suggest that sales volume is contracting at an alarming rate (down 15% YOY in the first half of 2026). I tend to put less weight on these data because they only capture sales that are physically shipped to consumers, and I believe they substantially overstate the decline in overall DtC sales volume.

On a less optimistic note, Community Benchmark and Enolytics data indicate that tasting room visitor counts haven't improved (down around 5% YOY in first-half 2026). However, the decline in visitors was partially offset by growth in revenue per visitor. Both data sources also indicate that wine club membership continued to contract during the first six months of 2026.

EXPORTS STILL DROPPING, ALBEIT AT A SLOWER RATE

U.S. wine exports dropped by 14% in value and 13% in volume YOY during the first half of 2026. Still, this represents a substantial improvement compared with the steep slide in the second half of 2025, and exports were essentially flat YOY in the second quarter.

While Canada is mostly responsible for the severe slump in wine exports over the past 18 months, the problem is broader.

The stronger second-quarter figure was mainly attributable to a slight rebound in Canadian exports relative to the near total collapse that occurred in Q2 2025. Canadian exports have edged back up since Alberta and Saskatchewan lifted their bans on American alcohol, but they're still tracking about 80% below their level from two years ago.

While Canada is mostly responsible for the severe slump in wine exports over the past 18 months, the problem is broader. Excluding Canada, exports were still down 8% in value and 9% in volume YOY during the first six months of 2026.

Key Economic Indicators

Indicator	Q2 2026	Q1 2026
Change in GDP (real)	1.5%	2.1%
Unemployment Rate	4.2%	4.3%
Change in Consumer Prices	6.1%	3.2%
Change in Consumer Spending (real)	3.2%	0.5%
Consumer Sentiment Index	49.5	53.3
Change in Employment	0.7%	0.3%
Change in Average Hourly Earnings	2.6%	3.3%
Household Loan Delinquency Rate	5.0%	5.1%

Note: Change indicators are compound annual rates of growth.
Sources: FRED, Federal Reserve Bank of New York, University of Michigan, Terrain

Wine Market Outlook: Economy Holds Up Reasonably Well in First Half Despite Inflation

The U.S. economy continues to hold up reasonably well despite the ongoing war with Iran and near total closure of the Strait of Hormuz.

Real GDP came in at 1.5% in Q2 2026, a soft reading but not alarmingly so. The labor market was also solid in the second quarter. Employment growth accelerated relative to the first quarter, though it remains weak by historical standards. Nonetheless, the unemployment rate ticked down as labor force growth stalled. Wage growth slowed but remains positive.

However, more recent data indicate that employment fell in July, though I'm not reading too much into this because the monthly figures can be volatile and are subject to revision. In addition, unemployment ticked down another notch in July to 4.1%, a very respectable reading by historical standards.

The combination of higher prices and softening wage growth is beginning to squeeze consumer budgets.

On the negative side of the equation, inflation remains stubbornly high. The Consumer Price Index (CPI) surged in the second quarter, mainly due to rising energy costs. The CPI has moderated a touch over the last couple of months on a YOY basis. Even so, the 3.3% YOY figure for July is still well above the Federal Reserve's 2% target.

The combination of higher prices and softening wage growth is beginning to squeeze consumer budgets. Inflation-adjusted earnings — which have risen steadily over the last several years — have declined in recent months.

Given this, it's not surprising that consumers continue to feel dour. Consumer sentiment softened in the second quarter, and while the most recent reading is a bit higher, it's still hovering near an all-time low.

Despite the wage squeeze and lack of consumer confidence, consumer spending remains solid. Personal consumption expenditures grew 3.2% annualized in the second quarter, a substantial improvement from the first quarter. However, necessities like gas and groceries sucked up most of the additional spending and consumers are saving less (or borrowing) to augment their spending power. The personal savings rate fell to 2.7% in June, its lowest level in four years.

NEAR-TERM ECONOMIC OUTLOOK REMAINS MUTED, BUT 2027 COULD BE BETTER

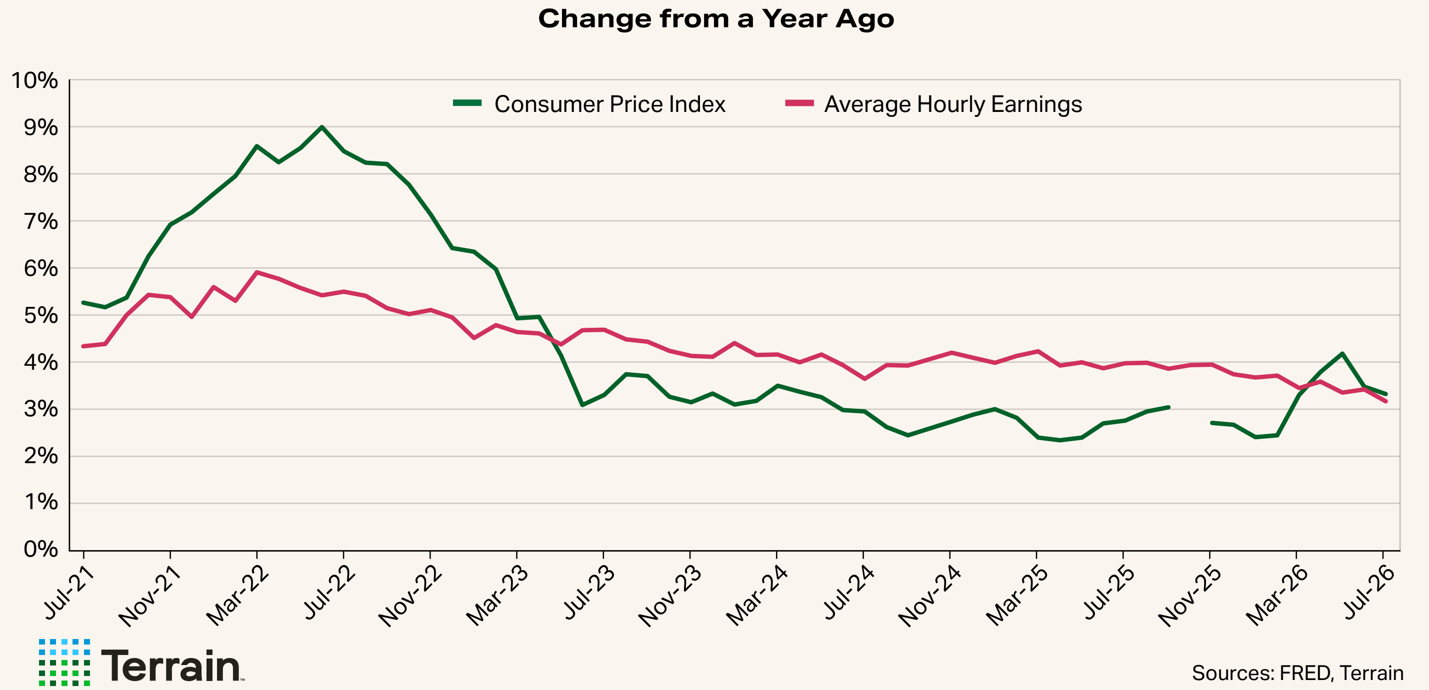
The Terrain team isn't expecting a great deal of change in the economic picture during the second half of 2026.

The AI investment boom and associated productivity advances should continue to propel modest economic growth and support a healthy labor market, though some softening is possible. The relatively benign July CPI reading and soft job report have also taken some pressure off of the Fed to raise interest rates this fall.

We are optimistic that the economic backdrop will brighten a bit in 2027.

On the other hand, with no clear end in sight to the Iran war and its disruptions to the oil and energy markets, inflation is likely to remain elevated through at least the end of the year and will continue to squeeze budgets and depress sentiment. But household balance sheets are in reasonably good shape, particularly for affluent households, whose wealth has been boosted by a surging stock market.

Inflation Is Squeezing Consumers



Thus, we're only expecting modest softening in consumer spending. That said, consumers are apt to remain cautious with their discretionary spending.

We are optimistic that the economic backdrop will brighten a bit in 2027. Underlying price pressures appear to be muted, so inflation should begin to gradually abate once the Strait of Hormuz is reopened and energy supply chains normalize. This in turn would pave the way for some relief on interest rates, which would stimulate the housing market, consumer spending and business investment.

Consequently, consumers should become more optimistic and more willing to open their wallets for discretionary purchases.

I'M NOT EXPECTING MUCH NEAR-TERM CHANGE IN THE WINE MARKET

Given the subdued near-term economic outlook, I'm not expecting to see much change in the trajectory of wine sales in the second half of 2026.

Modest improvement in the wine sales picture is possible in 2027 if inflation abates as we expect.

Three-tier wine sales are likely to continue to decline at a modest pace, with the premium and luxury segments continuing to hold up better than the lower end. DtC sales, too, should hold up relatively well, though I'm not expecting any improvement. A stock market bust, which isn't out of the question, could alter this picture, as it would hit the high end of the market harder than the low end.

Modest improvement in the wine sales picture is possible in 2027 if inflation abates as we expect.

The recent collapse in trade negotiations with Canada and ensuing escalation in tariffs doesn't bode well for wine exports. Provincial bans against American alcohol are likely to remain in place for some time.

Grape Market Update:
The 2026 California grape crop is shaping up to be both the earliest and lightest in decades.

A spring heat wave accelerated vineyard development and led to widespread shatter that lightened crop loads. In consequence, harvest is running two to five weeks ahead of schedule depending on the region and yields look to be light by as much as 50% in some areas. While there is considerable variability by region and varietal, yields generally look lighter on the coast than in the interior.

Lower yields, coupled with vineyard removals and mothballing, will result in what could well be the smallest grape crop of the 21st century. Nonetheless, it still looks like there will be at least enough fruit to satisfy demand.

Indeed, the smaller crop hasn't stimulated a great deal of additional activity thus far, and a large quantity of uncontracted fruit is still available for sale. Activity has picked up a bit, just not as much as would normally be expected with a crop this light. That said, many of the choicest vineyards have already been cherry-picked. For this reason, and because the compressed harvest will narrow windows of opportunity, wineries who need grapes should act sooner rather than later.

Among the white varieties, Sauvignon Blanc is receiving more attention than Chardonnay, as yields look much lighter. Activity has also picked up on Pinot Gris. Among the reds, Cabernet Sauvignon continues to receive more activity than Pinot Noir. Red varieties, including Zinfandel, are receiving a little more interest in the interior than they have in recent years.

The lack of a stronger uptick in demand isn't too surprising given the large overhang of available bulk wine, surplus winery inventories, and persistent decline in California wine sales.

Bulk wine availability remains stubbornly high, as bulk sales activity has been sluggish in 2026 as well. However, as Ciatti and Turrentine have emphasized, much of it is concentrated in older vintages.

The silver lining in a small harvest, which would be the third in a row, is that it should put a sizable dent in the wine inventory overhang.

While it's too early to predict how large the 2026 crush will be, I'd say the odds are better than even that it will be smaller than last year's, which was the lightest in 25 years. And it is a near certainty that less unsold fruit will be left hanging on the vine this year than last.

The silver lining in a small harvest, which would be the third in a row, is that it should put a sizable dent in the wine inventory overhang. This will set the stage for stronger grape demand next year. Ongoing vineyard removals are also reducing productive capacity, so the grape market should be closer to balance next year.

Sizing Up the Competition

Imports now constitute about 35% of all wine consumed in the U.S. Regaining domestic market share represents an opportunity amid slumping wine sales.

REPORT SNAPSHOT

Situation: Imports now account for about 35% of all wine consumed in the U.S., near an all-time high and up meaningfully from 2020. The rise has gained more attention as overall U.S. wine sales have slowed.

Finding: Import substitution represents an enticing opportunity to stimulate domestic wine and grape sales in today's challenging environment. But efforts to improve competitiveness must be thoughtful and not create unintended consequences for wineries that rely on imports.

Outlook: Regaining market share will be difficult in the entry-level segment, where imports have a clear cost advantage. The better opportunity likely lies in the popular-premium and premium segments, where U.S. producers can compete more effectively on quality.

The Import Challenge

Imports have captured a growing share of the U.S. market over time while exports have steadily declined.

The U.S. has a notable trade deficit in wine. Imports have captured a growing share of the U.S. market over time while exports have steadily declined.

The equivalent of 115 million cases of wine, valued at nearly $6.2 billion, was imported in 2025. Conversely, U.S. wineries exported fewer than 22 million cases, valued at just $800 million, last year. Imports now constitute about 35% of all wine consumed in the U.S., up from 29% in 2020 and 21% in 2000.

While imports have been gaining market share for decades, the import competition issue has taken on more urgency since U.S. wine sales began to slump in 2022. Bulk imports, in particular, have become a hot-button topic in the wine industry in recent years.

The rise in import market share has come at the expense of U.S. wine and grape producers to some extent, though it's more complicated than a simple one-to-one replacement. Moreover, some U.S. wineries directly benefit from imported bulk wine. Nonetheless, regaining lost market share represents an opportunity to boost domestic wine and grape sales at a time when a boost is sorely needed.

My objectives are to:

1. Provide context on import competition to better frame the debate
2. Discuss how the U.S. wine industry could improve its position and potentially regain market share

The drivers of rising import penetration are varied, but a loss of cost competitiveness is at the heart of the matter.

While cheap bulk imports from the Southern Hemisphere are receiving most of the attention today, the challenge is broader, with packaged wines from Europe responsible for the recent gains in market share. On the other hand, imports tend to be concentrated in a few key categories, including crisp whites and sparkling wines. The competition isn't just an issue in the value segment of the market; imports also achieve high penetration in the premium segment.

The drivers of rising import penetration are varied, but a loss of cost competitiveness is at the heart of the matter. Rapidly rising domestic production costs are largely to blame, though foreign subsidies exacerbate the situation and U.S. regulations could be incentivizing imports.

Thus, anything that can be done to reduce domestic production costs or level the playing field with imports should help to stimulate domestic market share. However, efforts to address the latter must be thoughtful to prevent unintended consequences.

I believe there is more potential to regain market share in the premium segment of the market.

That said, the economics are daunting for entry-level wines, and it may not be feasible to take back market share here. The U.S. wine industry's future lies in competing on quality — not cost — and I believe there is more potential to regain market share in the premium segment of the market.

Wine Imports in Perspective

To set the stage and frame the import competition issue, I'd like to highlight a few key observations regarding the trajectory of imports over time and the role they play in the U.S. wine market today.

(See the Behind the Report section for more details about the wine import data.)

IMPORTS HAVE GAINED CONSIDERABLE MARKET SHARE IN THE U.S.

Imports have gained considerable traction in the U.S. wine market over the last quarter-century. While the volume has declined in recent years, the market share stands near an all-time high.

Most of the gains in market share came early on. Foreign wines constituted just 21% of all wine consumed in the U.S. in 2000 by volume. But imports boomed during the first dozen years of the 21st century, growing from 50 million cases in 2000 to 128 million in 2012, and their market share surged to 34%.

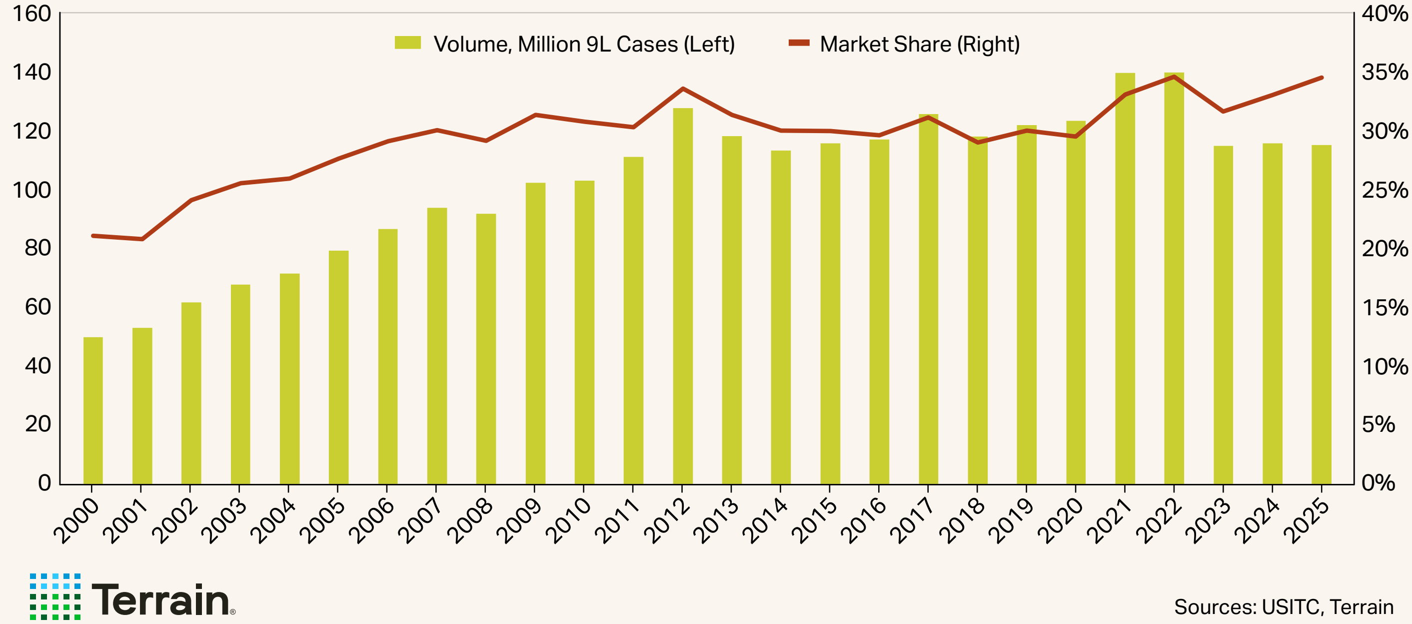
Import penetration fell back to 30% in 2014 and remained within a narrow range through 2020. A surge during the pandemic in 2021 and 2022 drove imports up to a record 140 million cases, and their market share in the U.S. reached nearly 35%.

Import volumes have fallen substantially since then, averaging 115 million cases over the past three years. However, imports have gained share over the past two years as the U.S. wine market has continued to shrink. At 34.5%, imports' market share is 5 percentage points higher than in 2020 and stands just a touch below the high-water mark set in 2022.

THE IMPORT CHALLENGE IS BROADER THAN BULK

While bulk wine imports are in the spotlight today, they've contracted in recent years and compose a relatively modest share of total imports. Packaged wines capture a much larger share of the U.S. wine market and account for all the increase in market share since 2020.

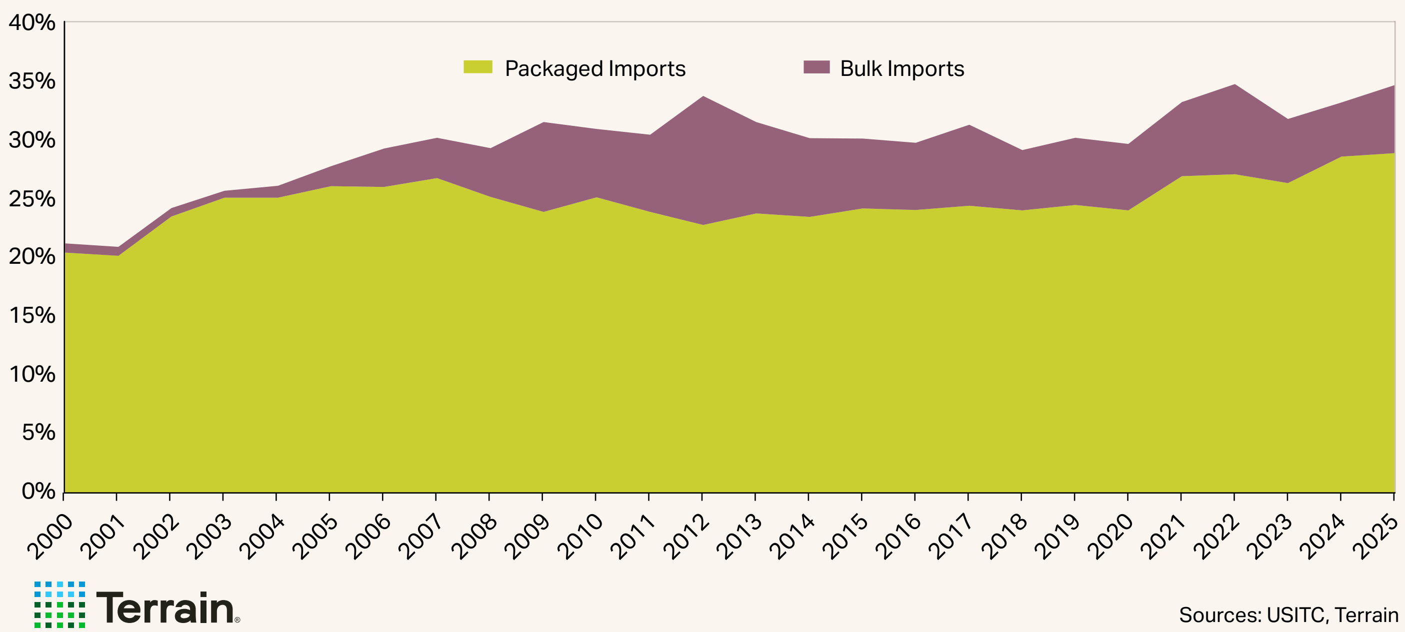
Imports Are Down, but Their Share of the U.S. Market Is Up



Sources: USITC, Terrain

Packaged Imports Are Taking Share in the U.S. Market

Share of U.S. Wine Sales by Volume



Sources: USITC, Terrain

Bulk imports were negligible at the turn of the 21st century, but advances in shipping technology propelled shipments to a record 41.5 million-case equivalents in 2012. Bulk imports moderated to an average of 24 million cases between 2016 and 2020, before surging to 31 million in 2022. They've since fallen to an average of 18 million cases over the last three years.

At their peak, bulk imports represented a third of total imports by volume. Over the last three years, they've made up less than a sixth. In 2025, they formed just 6% of all wine sold in the U.S. while packaged imports accounted for 29%.

This doesn't mean that bulk imports are inconsequential. Just over 19 million cases were imported in 2025. This represents a grape equivalent of around 275,000 tons. Moreover, bulk imports tend to ebb and flow with the state of the U.S. bulk and grape markets. Lower volumes in recent years are due largely to an oversupply of domestic bulk wine and grapes, and bulk imports are likely to increase once excess supply is absorbed.

European wines have steadily gained market share since 2009 and now constitute 22% of U.S. wine consumption by volume.

ITALY AND FRANCE ARE OUR TOP COMPETITORS

Most imported wine comes from Europe, primarily as packaged wine, and European wines have gained substantial ground in the U.S. market over the last 15 years.

Over the past five years, European wines composed about 80% of total import value and nearly 65% of volume. France and Italy alone accounted for more than 70% of value and 50% of volume. European wines have steadily gained market share since 2009 and now constitute 22% of U.S. wine consumption by volume.

European imports arrive primarily in packaged form, tend to be of higher value, and are destined primarily for the popular-premium and higher price tiers of the market. The five-year average customs value (price paid for the product alone) of imported French wine was $13.60 per liter, and Italian wines came in at $5.82.

Bulk wines are sourced almost exclusively from nations in the Southern Hemisphere, which account for more than 90% of the total imported bulk by volume. Chile, Australia and New Zealand are the three most important originating nations. They've accounted for more than 80% of all bulk wine imported into the U.S. over the past five years.

Australian and Chilean bulk is cheap, with an average value of around 85 cents per liter, and destined primarily for entry-level bottles in the U.S. New Zealand bulk is more expensive, averaging close to $3 per liter over the past five years.

(See the Table on Page 14 for more detailed statistics on country-level imports.)

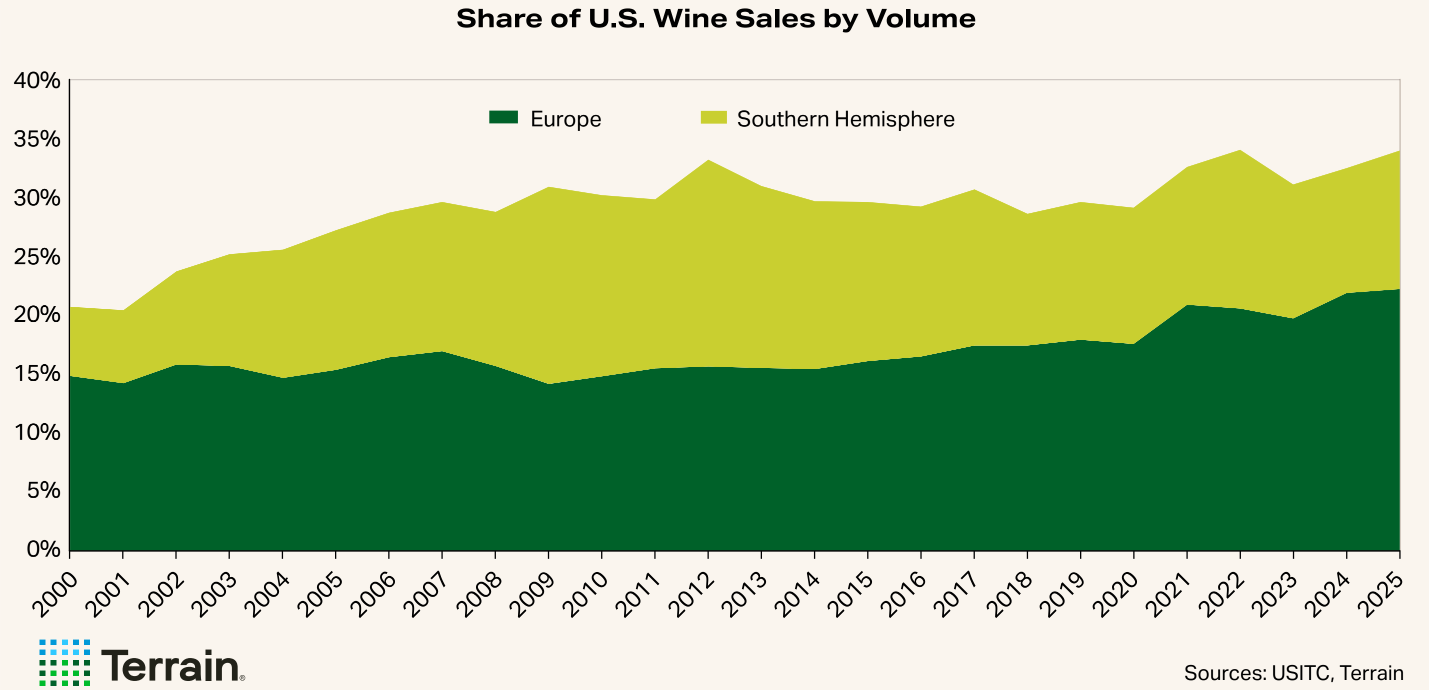
IMPORTED WINES EXCEL IN A FEW KEY CATEGORIES

SipSource depletions data provide a window into where imported wines achieve the greatest penetration in the three-tier market. Overall, wines with a foreign appellation on the label represented 30% of depletions by volume and 36% by value in 2025. They captured a larger share of the on-premise market, at 39% of volume and 44% of value, versus the off-premise channel, at 29% of volume and 34% of value.

Imports excel in two key categories: crisp whites and sparkling wines.

Note that these figures don't account for imported bulk wine that is blended with American wine and sold with an American appellation on the label, which permits up to 25% foreign content. So, they understate imports' true market penetration.

Europe Has Gained Considerable Ground in the U.S. Wine Market



Imports excel in two key categories: crisp whites and sparkling wines. Indeed, sparkling wine, Sauvignon Blanc and Pinot Grigio alone accounted for nearly half of all imported wine depletions by volume and 57% by value in 2025.

Led by Italian Prosecco and French Champagne, imports command a 75% share of U.S. sparkling wine sales by value and more than 60% by volume. They constitute nearly 60% of Sauvignon Blanc sales, due largely to the success of New Zealand in this category. The concentration has favored imports in recent years as consumer preferences have shifted toward these categories.

Conversely, imports capture a lower share of the red wine market. They make up approximately 10% of Cabernet Sauvignon, Pinot Noir and Merlot depletions.

IMPORT COMPETITION ISN'T JUST INTENSE IN THE VALUE SEGMENT

While bulk imports destined for the value tier of the U.S. market have garnered most of the attention, imports also achieve a high level of penetration in the premium and popular-premium segments of the market.

SipSource data indicate that wines with a foreign appellation captured 26% of sales in the under-$9 table wine price tier in 2025. However, given that a good portion of imported bulk wine is blended into wines sold under the American appellation, imports' true market share in the value segment is substantially higher.

However, imports also capture a sizable share of sales in the middle market. They took 32% of table wine sales by volume in the $9 to $15.99 price tier and 26% in the $16 to $29.99 tier.

Domestic producers of super-premium and luxury table wines are relatively sheltered from imports, which captured just 17% of sales in the $30-and-over segment in the three-tier channel. Moreover, a substantial portion of domestic wine in this price range is sold through the direct-to-consumer channel and isn't directly exposed to import competition.

Wine Imports by Country (Annual Average 2021 to 2025)

Total Imports

Rank/Country	Volume: Cases (thousands)	Volume: Share of Total	Customs Value: Dollars (millions)	Customs Value: Share of Total	Value: Per Liter
1. Italy	44,565	36%	11,672	34%	5.82
2. France	20,308	16%	12,428	36%	13.60
3. Australia	13,859	11%	1,321	4%	2.12
4. Chile	12,036	10%	925	3%	1.71
5. New Zealand	10,694	9%	2,717	8%	5.65
6. Spain	7,749	6%	1,901	6%	5.45
7. Argentina	5,810	5%	1,321	3%	4.33
8. Portugal	2,708	2%	606	2%	4.97
9. South Africa	2,213	2%	263	1%	2.64
10. Germany	1,850	1%	394	1%	4.73
All Others	3,126	3%	846	2%	6.01

Packaged Imports

Rank/Country	Cases (thousands)	Share of Total	Dollars (millions)	Share of Total	Per Liter
1. Italy	43,554	42%	11,583	35%	5.91
2. France	19,696	19%	12,290	37%	13.87
3. Spain	7,458	7%	1,885	6%	5.62
4. New Zealand	7,123	7%	2,256	7%	7.04
5. Australia	7,120	7%	1,060	3%	3.31
6. Argentina	4,846	5%	1,083	3%	4.97
7. Chile	4,364	4%	642	2%	3.27
8. Portugal	2,628	3%	599	2%	5.07
9. Germany	1,839	2%	393	1%	4.74
10. South Africa	875	1%	211	1%	5.36
All Others	3,153	3%	866	3%	6.10

Bulk Imports

Rank/Country	Cases (thousands)	Share of Total	Dollars (millions)	Share of Total	Per Liter
1. Chile	7,672	34%	283	21%	0.82
2. Australia	6,739	30%	262	19%	0.86
3. New Zealand	3,571	16%	461	34%	2.87
4. South Africa	1,338	6%	52	4%	0.86
5. Italy	1,010	5%	89	7%	1.96
6. Argentina	965	4%	49	4%	1.14
7. France	612	3%	138	10%	5.01
8. Spain	291	1%	16	1%	1.24
9. Portugal	80	<1%	7	<1%	1.83
10. Austria	14	<1%	2	<1%	2.50
All Others	37	<1%	4	<1%	2.45

Terrain

Sources: USITC, Terrain

Imports' Share of the U.S. Three-Tier Market by Category

	Volume	Value
Champagne/ Sparkling	61%	75%
Table Wine-Pink	24%	43%
Table Wine-White	33%	36%
All Others	20%	30%
Table Wine-Red	22%	20%
Sauvignon Blanc	57%	59%
Pinot Grigio/Gris	36%	46%
Red Blends	27%	32%
Chardonnay	21%	13%
Pinot Noir	10%	8%
Cabernet Sauvignon	13%	6%

	Volume	Value
Table <$5	25%	26%
Table $5 to $8.99	27%	29%
Table $9 to $15.99	32%	32%
Table $16 to $29.99	26%	27%
Table $30+	17%	19%
Sparkling <$10	40%	42%
Sparkling $10 to $39.99	59%	64%
Sparkling $40+	99%	>99%
On-premise	39%	44%
Off-premise	29%	34%
Grand Total	30%	36%

Terrain

Sources: SipSource and Terrain

On the other hand, imports command a larger share of premium and luxury sparkling wine sales than they do at the entry level. They account for the lion's share of sparkling wine depletions in the $10 to $39.99 price segment and virtually all sparkling wine sales priced at $40 and above.

The Import Substitution Opportunity

Regaining market share from imports represents an opportunity for the U.S. wine industry in a time of slumping wine sales. Indeed, imports command a higher share of the U.S. market than they do in other affluent wine-producing nations, including France where imports capture just 24%, Australia (17%) and Italy (11%), according to data from the International Organisation of Vine and Wine.

There is potentially a lot to gain.

Assuming constant total U.S. wine sales, a 5-percentage point higher domestic market share (where it stood in 2020) would have resulted in an additional 16.6 million cases of domestic wine sales in 2025. This in turn would have required an additional 250,000 tons of domestic grapes. A 10-percentage point gain (to approximately France's domestic market share) doubles these figures to 32.3 million cases and 500,000 tons of grapes.

If imported wines disappeared from store shelves, overall wine sales would surely decline.

However, the reality is more complicated. Wine is a highly differentiated product, and American wines aren't perfect substitutes for foreign wines, particularly in the premium and luxury segments of the market. And while the U.S. has diverse range of terroirs that enable it to produce a wide range of grape varieties and wine styles, geographic diversity is part of the appeal to many wine consumers. Thus, if imported wines disappeared from store shelves, overall wine sales would surely decline.

In addition, many large U.S. wineries directly benefit from the sale of imported wine, and imported bulk wine plays an important role in helping to smooth out fluctuations in domestic grape and bulk wine supply. Thus, any efforts to disincentivize bulk imports would impose costs on some segments of the industry. This complicates matters further.

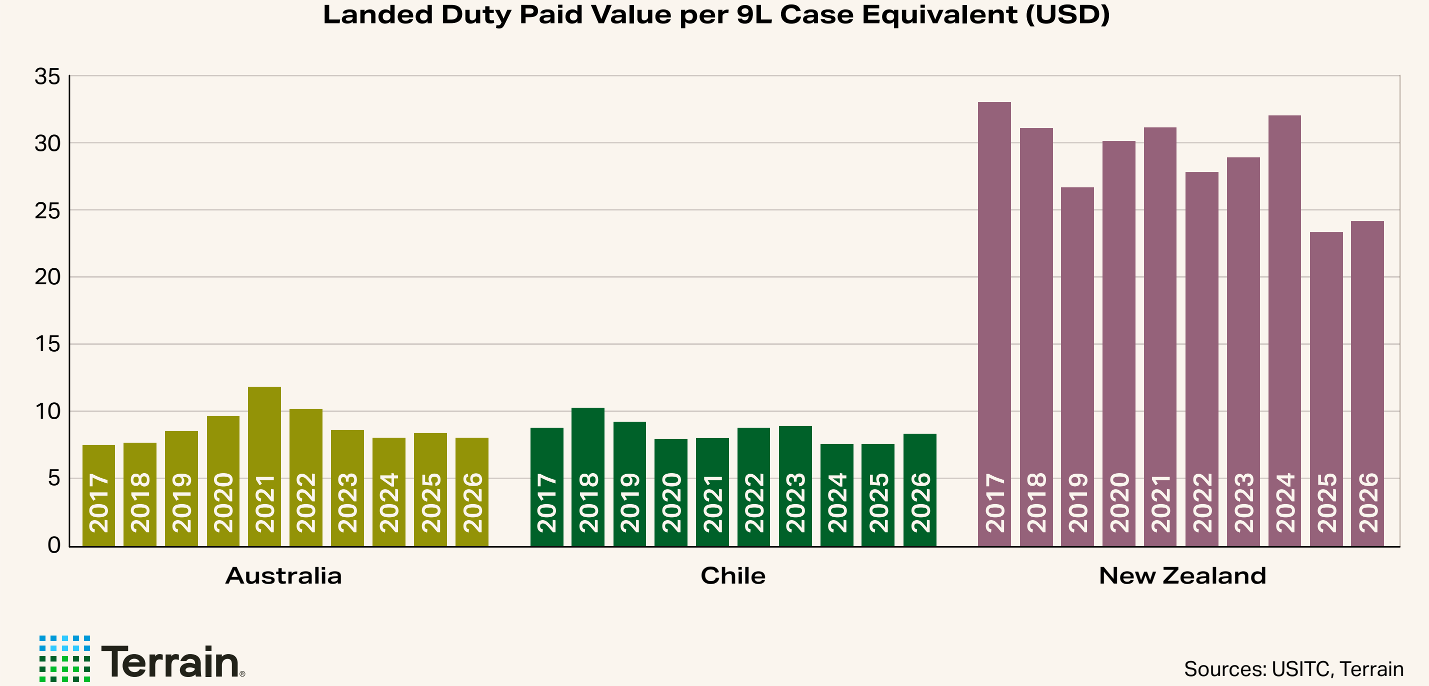
Nonetheless, import substitution represents an enticing opportunity to stimulate domestic wine and grape sales in today's challenging market environment.

The Economics Are Daunting

The increase in imported wine's market share has multiple drivers. For example, technological improvements in bulk wine shipping drove the early advance. The slump in global wine consumption, which began in the late 2010s, also drew an influx of foreign competitors seeking opportunities for growth to the U.S., the world's fastest-growing wine market at the time. More recently, consumer preferences have shifted toward categories where imports over-index.

But the heart of the matter boils down to economics. Domestic wines have lost cost competitiveness compared with imports over the past decade, particularly in the value segment of the market. Wine production costs have nearly doubled in California over the past decade, but the cost to import bulk wine from the three most important originating nations (Chile, Australia and New Zealand) is about the same today as it was in 2017.

Imported Bulk Wine Prices Haven't Moved Much Over the Past Decade



Sources: USITC, Terrain

I'll illustrate the cost advantage of imported bulk wine using entry-level Chardonnay as an example. This represents a ballpark estimate based on conversations I've had with several market participants and is intended to be illustrative, not definitive.

The cost to import Australian bulk wine — including duties, insurance and freight — has hovered around 92 cents per liter in recent years. Assume that entry-level Chardonnay comes in at this price, which equates to $8.30 per case. I also assume it costs an additional 40 cents per case to bring the wine from the port into the importing winery's tanks. The fully loaded cost to bring in imported bulk Chardonnay is $8.75 per case.

Next, I assume it costs $300 per ton for a California winery to process grapes into entry-level bulk wine, or $4.40 per case at a yield of 68 cases per ton. A producer making wine from California grapes could only afford to pay $4.35 per case ($8.75 - $4.40) for the grapes to match the economics of the Australian bulk. This equates to $295 per ton.

It isn't feasible to produce grapes in the Central Valley of California at this price. Farming costs alone are in the range of $3,750 per acre, so it costs about $375 per ton to produce Chardonnay grapes, at a yield of 10 tons per acre. This figure doesn't consider the costs of the land or replanting, or a return to the grower.

California wine simply can't match the cost structure of imported bulk. Thus, the production of entry-level wine doesn't pencil unless consumers are willing to pay a premium, which doesn't appear to be the case today.

The duty drawback provision sweetens the deal for bulk importers, though it can be argued that it stimulates exports, which generate demand for California grapes, too. The provision refunds nearly all duties and excise taxes paid by wineries that can offset the imported wine with qualifying exports. Even so, as the illustration above demonstrates, the cost advantage is compelling even before duty drawback comes into play.

The economics of domestic wine production become more favorable at higher price points, as most imported wines in these segments come from higher-cost countries.

What Can Be Done to Improve Cost Competitiveness in the Bulk Category?

Stagnant imported bulk wine prices are partly attributable to cyclical factors, including a systemic oversupply of bulk wine and grapes. Prices will eventually rise as supply-side adjustments bring these markets back into balance. The U.S. dollar has also been relatively strong over the past decade, and a weaker dollar would help to narrow the cost differential.

But the loss in cost competitiveness is also due to factors that are more structural in nature. These include skyrocketing domestic production costs, particularly in California, subsidies that many competing nations provide to their wine industries, and U.S. regulations that may be incentivizing imports.

Efforts to improve domestic production's cost competitiveness should focus on three key areas:

1. Reducing domestic production costs
2. Addressing unfair foreign trade practices
3. Thoughtfully evaluating U.S. federal laws that may be incentivizing imports

The growing regulatory burden is perhaps the most important contributor to rising production costs in California.

REDUCING DOMESTIC PRODUCTION COSTS

The cost differential for entry-level wines is largely attributable to higher production costs in the U.S. compared with those in competing nations like Chile, where labor and regulatory costs are lower. The cost differential has widened over time as domestic wine and grape production costs have skyrocketed, particularly in California.

Thus, anything that can be done to reduce domestic production costs will help. The growing regulatory burden is perhaps the most important contributor to rising production costs in California. So, reevaluating and streamlining onerous regulations is an obvious first step.

The application of technology to enhance operational efficiency is also part of the solution. This is an area where the U.S. has an advantage over most foreign competitors.

ADDRESSING UNFAIR FOREIGN TRADE PRACTICES

Many competing foreign nations, particularly those in Europe, directly subsidize their wine industries. This includes crisis distillation programs, marketing support, vineyard removal subsidies and vineyard planting subsidies (yes, they subsidize both removals and replanting). Lodi Wine Growers suggests these subsidies amount to more than $2 billion annually. Australia, too, provides considerable support to its domestic wine industry.

Tariffs represent a potential means of leveling the playing field. As an economist, I don't support the use of tariffs unless there is a clear violation of international trade policy. Nonetheless, they can be an appropriate and effective tool to combat unfair trade practices, so long as they are implemented in a thoughtful and targeted manner.

THOUGHTFULLY EVALUATING U.S. LAWS THAT MAY BE INCENTIVIZING IMPORTS

The duty drawback provision has received a great deal of attention from the grower community in recent years. I don't believe it's the main problem, as the economics of imported bulk are compelling even before the provision comes into play.

It makes sense to reevaluate the provision, however, to ensure it's being administered in a manner in line with its intended objectives. Any changes would need to be carefully considered to minimize unintended consequences. For example, restrictions to duty drawback could potentially harm some domestic producers and disincentivize wine exports, which also create demand for domestic grapes.

I don't see a scenario where the cost gap can be eliminated entirely for entry-level wines.

Similarly, reevaluating federal appellation-labeling regulations that permit up to 25% foreign wine content in bottles labeled with the "American" appellation is worth pursuing. This, too, needs to be done with careful consideration to mitigate harm to producers who use the label and ensure it doesn't result in lower domestic grape content in entry-level wines, as would be the case if it compels producers to switch brands entirely to foreign appellations.

Cost Cutting Can Improve Competitiveness, but Quality Is Key

While these measures could help to improve cost competitiveness, I don't see a scenario where the cost gap can be eliminated entirely for entry-level wines. It simply costs less to produce wine in nations like Chile or South Africa, where labor and regulatory costs are far lower. The U.S. will never be the low-cost supplier. Thus, I don't see a great deal of potential to regain lost market share in the entry-level market segment.

I don't mean to imply that we should or will cede this segment to imports entirely, because there are still advantages to producing in the U.S. even if costs are higher. For example, domestic production affords greater control over the product and reduces risk of supply shortfalls stemming from supply chain disruptions and trade disputes.

Wineries should focus on creating more compelling brands in key categories.

But I do believe that our best bet to regain market share lies in the popular-premium and premium segments. The U.S. is better positioned to compete on quality, and imports in these segments generally come from nations where production cost structures are higher.

Realizing this opportunity will require more than just enhancing cost competitiveness. Improving grape quality will be just as important as cutting costs for growers to position their grapes for use in higher-quality bottles and justify higher grape prices.

The California wine industry also needs to focus on enhancing its brand and convincing consumers that California wine is deserving of a premium. Wineries should focus on creating more compelling brands in key categories such as crisp white table wines and sparkling wines, where imports dominate the market.

Appendix

Data and Methods

INFORMATION SOURCES

There is no single, comprehensive source of information on the U.S. wine and grape markets. Rather, there are many different sources that capture specific slices of these markets. The analysis in this report represents a synthesis based on the review of multiple points of data and information.

These include statistical data from private data vendors, reports from industry service providers, U.S. government data, and internal data collected by American AgCredit's appraisal and underwriting teams. I assess the relevance and reliability of each source and weight it accordingly in the analysis.

The report also incorporates anecdotal information gleaned from conversations with market participants, including wineries, growers and various market intermediaries.

This approach enables "Winescape" to deliver a relevant and nuanced perspective on wine and grape market trends as well as an informed outlook.

THE WINE SALES DASHBOARD

The dashboard provides a directional view of wine sales trends, reflecting the fact that none of the market segments and sales channels are measured with precision.

The year-over-year change column is a directional indicator of the percentage change in wine sales for the most recent six-month period relative to the same period a year earlier. I focus on the six-month period because the quarterly data can be volatile.

Year-Over-Year Change	
	↑ Substantial increase
	↗ Modest increase
	→ Little to no change
	↘ Modest decline
	↓ Substantial decline

The trend column provides an indication of whether the rate of change in sales has improved or deteriorated over the past 12 months. For example, if sales in the value segment are falling on a year-over-year basis, but at a slower rate than in the past, the trend is improving and an up arrow is assigned.

Trend			
	Improving	Stable	Deteriorating

The retail price segments are defined as follows:

Retail Price Segments			
	$$$	Value	Less than $15
	$$$	Premium	$15 to $29.99
	$$+	Super-Premium	$30 to $49.99
	$$$	Luxury	$50 and up

WINE IMPORTS DATA NOTES:

The wine import totals include all products brought in under Harmonized Tariff Schedule (HTS) codes 2204 and 2205, except for bulk wine from Canada. This is excluded because it isn't table wine or a grape-based product, though a trade agreement allows it to be classified as such. Canadian bulk imports may, however, be displacing domestic wine grapes from lower-value non-table wine uses such as distilling material.

I exclude products imported HTS code 2206 heading because I believe most are not grape-based or have lower grape content than standard wine. This exclusion results in a slight understatement of wine imports and their U.S. market share.

In figures depicting data prior to 2017, bulk wine is defined as products shipped in containers larger than 4 liters. This slightly overstates the bulk wine totals and understates packaged wine shipments. For figures portraying only data from 2017 on, bulk wine is defined as product shipped in containers larger than 10 liters.