The wine industry in Spain: responses to domestic and global market forces, 1850-2010

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Spain played a crucial role in the emergence of a global wine market in the mid-nineteenth century when its production and exports greatly expanded following the devastation of the French vineyards by the phylloxera. Increasing demand of heavy, high colored wines from France led growers in Spain to expand production. Since then, foreign demand of Spanish wines has greatly depended on European markets, especially France. The wine industry in Europe and Spain was characterized by a highly fragmented supply with a large number of small scale wine growers and bodegas producing a high variety of wines. Moreover, three other actors have also played an important role in the sector: the merchants, the ‘industrial’ alcohol producers and the State.

Incentives to modernize the wine industry and improve quality have been small until recently. Modernization efforts concentrated mostly on replanting after the phylloxera and expanding production thereafter. Although sherry producers and some bodegas in la Rioja produced fine wines, most of the output consisted of ordinary wines, highly demanded in the domestic market until the 1980s. The wine industry was also shaped by fluctuations in foreign demand that cyclically created problems of overproduction and falling prices. Exports have historically depended on the size of harvests in France and Algeria, and suffered the consequences of various waves of protectionist policies in European importing countries.

Cyclic episodes of falling prices created increasing unrest in the sector. Until the 1930s, the State responded to this discontent by controlling fraudulent practices in an attempt to reduce the quantity of wines sold in markets. When overproduction crisis became more severe in the 1950s, the government began to regulate wine markets through guaranteed prices, removal of poor quality wines, regulation of the alcohol industry and legislation to encourage appellations. Private agents responded with the founding of co-operatives for the processing of grapes and the storage of wines, and the creation of
various appellations all over the country, while private brands were only important in Sherries and Riojas. However, cooperatives expanded mainly for the storage of poor quality wines, while Spain’s appellations (as contrary to those in France) imposed low quality controls.

Although exports have substantially increased in the last decades, a significant part of wines exported continues to be sold in bulk, while export opportunities in new markets are limited because the Spain’s specialization in cheap table wines. Nevertheless, restrictions on production and quality controls began to be gradually applied in Spain’s appellations from the 1970s, as the international demand for cheap wines and domestic consumption declined sharply.

In this paper we explore two factors explaining the slow modernization of Spain’s wine sector and the small investments in quality wines. Firstly, we look at the effects of the regulation of markets by the State which might have introduced incentives to expand production of ordinary wines. Secondly, it will be considered that the specialization of Spain’s wine industry was encouraged by the rising domestic and international demand for alcohol and cheap wines, as well as the high barriers to entry to the global market for quality wines, dominated by French appellations.