The Viability of an International Wine Futures Exchange
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Abstract
The purpose of this paper is to examine the viability of an international wine futures exchange and determine whether there is demand for such an exchange through the various factors including the profitability of wine as an investment product, the factors driving wine prices, the demand inside and outside of the industry for an international wine futures exchange, the depth and breadth that such an exchange would take on, and the effects that an international wine futures exchange would have on the global wine industry. As opposed to this paper’s predecessors, this research directly asks the question from wine producers and investment professionals themselves whether wine is a good investment product and whether there is an actual demand for a wine futures exchange after the failure of the Winefex exchange for Bordeaux wine futures. This paper also attempts to take an international look at the subject, instead of a Franco-centric approach, by incorporating not only stakeholders throughout the rest of Europe, but also North America, Africa, Asia, and Australia.

The research was conducted through the analysis of a questionnaire distributed to various prospective stakeholders of such a wine futures exchange including investment professionals, wine investment professionals, wine producers, wine professionals, wine sales people, and wine wholesalers in Britain, the United States, Portugal, France, Germany, China, Singapore, Australia, South Africa, and Italy. Because of the size and scope of the wine industry, it is inevitable that the amount of opinions registered by the survey is only an extremely small fraction of those in the international wine industry. Also, since the survey was conducted in English, those wine and investment professionals without proficient English language skills were excluded as participants.

This research has shown that there are still considerable hurdles to be cleared before another wine futures exchange could be successfully launched. Wine futures are still seen as only a marginally attractive investment product, and although wine producers feel that a wine futures exchange would aid their business planning, it is unclear as to how much wine futures would
appeal to prospective investors. This is especially true when taking into account that prospective investors and stakeholders seem to view wine as a more attractive long term investment, and thereby, potentially limiting the liquidity that a wine futures exchange would have. Also, the research shows that there is limited demand for investing in wines from regions other than Burgundy or Bordeaux. This would present a significant hurdle to the establishment of a wine futures exchange, as past research has shown that investment in wine from a particular region or country can carry systemic risk and produce highly volatile returns. Another significant hurdle to the establishment of a wine futures exchange is the issue of settlement. When asked about whether an option of cash settlement was preferable for a wine futures contract, the majority of both wine producers and prospective investors agreed that it is preferable that the contract include this. As previous researchers have indicated, any prospective wine futures exchange would need a futures contract that is carefully worded and takes into account the needs of all stakeholders.