



## TESTING FOR A POTENTIAL MARKET POWER OF THE CHILEAN WINE EXPORTS: A PRICING-TO-MARKET APPROACH

RICARDO CRESPO

MASTER OF SCIENCE (M.Sc.) IN INTERNATIONAL AGRIBUSINESS  
FACULTY OF AGRICULTURAL SCIENCES

### ABSTRACT

Over the past two decades, the Chilean wine industry has shown a remarkable performance. Exports have risen from less than US\$ 80 million, at the end of the 80's, to US\$ 570 million in 2000. Nevertheless, and due to Chile is far from enjoying the reputation of the leading wine producing countries (France, Italy and Spain), and contributes with only 5 percent of the world exports; it is generally considered that Chilean wine exporters have no market power in the international context, behaving just as "price takers". Nonetheless, as there is some evidence that the wine industry corresponds to a case of monopolistic competition, a potential Chilean market power is tested. This study uses for that purpose the Pricing-to-Market approach, which has dominated the empirical literature in this field over the last decades. The analysis of this approach focuses on how export prices vary with respect to exchange rate fluctuations. If Chile behaves as a "price taker" in the international wine market, then its wine export price in local currency becomes unresponsive vis-à-vis exchange rate variations, and no Pricing-to-Market behavior is detected. A potential market power of Chilean wine exports is tested on five destination countries: Canada, Germany, United States, United Kingdom and Mexico. Results indicate that Pricing-to-Market behavior is present in all the selected countries, but Germany. Thus, Chilean exports would be able to adjust their markups by controlling the wine export price. This behavior is not possible consequently in the German market. The results are expected to provide to Chilean exporters and policy makers with valuable information as a means of collaborating with their marketing and pricing strategies.

**Keywords** : Monopolistic competition, price taker, export prices, exchange rate variations, pricing-to-market.

