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Report Highlights: Italy's 2000 Italian wine production decreased 11% to 51.7 million hectoliters from 1999, due to a very hot late summer. This heat, however, resulted in a vintage of very good quality on average. Wine exports rose sharply in CY 1999 to 18.3 million hectoliters, mainly due to expanded shipments of table wines, which still account for over two thirds of total Italian exports. U.S. wine exports to Italy recovered in both 1999 and 2000 despite the strong dollar.

Includes PSD changes: Yes
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SECTION I. SITUATION AND OUTLOOK	Page 1 of 15
SECTION II. STATISTICAL TABLES	Page 2 of 15
WINE	Page 2 of 15
ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN .	Page 3 of 15
ITALIAN IMPORTS OF WINE, MUST AND MUST	Page 4 of 15
ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION	
.....	Page 5 of 15
ITALIAN EXPORTS OF WINE & MUST	Page 6 of 15
PRODUCTION	Page 7 of 15
General	Page 7 of 15
Planted Area	Page 10 of 15
Distillation	Page 10 of 15
Prices	Page 11 of 15
Production Policy	Page 11 of 15
CONSUMPTION	Page 11 of 15
STOCKS	Page 13 of 15
INTERNATIONAL TRADE	Page 13 of 15
FOREIGN MARKET DEVELOPMENT	Page 14 of 15

SECTION I. SITUATION AND OUTLOOK

Italian wine production in 2000 is preliminarily estimated at 51.7 million hectoliters, or 11 percent less than last year. Weather conditions have generally been unusual, with alternating hot/dry and cold/wet periods. High temperatures reported in August-September accelerated plant development, improving wine quality but cutting yields per hectare. As a result, the average quality of the 2000 vintage is classified as very good, with peaks of excellent in north-western and some central regions. Controlled appellation wines still represent a minority, or no more than 20 percent of total wine production, but are produced in much higher proportion in the north and in Tuscany, with minimal production in the south.

Wine grape area, after the remarkable drop reported in the last two decades, has now stabilized at about 830,000 hectares, and total vine area is not expected to change dramatically in the near future. In addition, current EU farm policy programs reinforce a general prohibition of new vine planting through 2010, allowing only a limited derogation of vine re-planting for use in producing high quality wines (12,933 hectares for Italy).

The EU distillation programs, aimed at supporting growers' incomes, had been attracting much less wine in recent years compared to the past. In 1999/2000 total distilled wine volume was about 4 million hectoliters, entirely under the "preventive" distillation program, with a similar volume expected in 2000/01 as well.

The new CAP for the wine sector, passed in the spring of 1999, was fully implemented by the start of the current marketing year. The major change to the program, compared to the previous program, has been the removal of the old distillation programs and the introduction of a voluntary crisis distillation. The new CAP, however, is not expected to produce major changes for the Italian wine industry.

Domestic wine consumption, after the dramatic drop reported in the recent past, now looks more stable. Bulk wine still accounts for the largest part of consumption, with appellation of origin wine representing no more than 20 to 25 percent of the total.

Italian wine exports increased significantly in 1999 to 18.3 million hectoliters, or 21 percent more than in 1998, thanks mainly to expanded shipments of table wines (+30 percent), which last year represented over two thirds of the total. The main destinations, as usual, were Germany (34 percent of the total), France (23 percent), the United States (8 percent in volume but 18 percent in value) and the United Kingdom (6 percent). Significant volumes were also exported to Switzerland, Japan, Canada and some eastern European countries.

U.S. wine exports to Italy, although marginal in terms of direct import into Italian ports, showed encouraging signs of recovery in both 1999 and the first half of 2000. Large in-country inventories held by some importers helped mitigate the dollar's high value on the market. Official trade statistics greatly underestimate U.S. wine exports to Italy, with the bulk of the wines being transhipped from Northern European ports.

SECTION II. STATISTICAL TABLES

WINE

PSD Table						
Country	Italy					
Commodity	Wine				(1000 MT)	(1000 HL)
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
TOTAL Grape Crush	73921	74593	75000	75030	0	67000
Begin Stock (Ctrl App)	10196	10196	10000	11252	0	11500
Begin Stock (Other)	17332	17332	16644	18885	0	21274
TOTAL Beginning Stocks	27528	27528	26644	30137	25744	32774
Prod. from Wine Grapes	56431	57140	57400	58072	0	51700
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	56431	57140	57400	58072	0	51700
Intra-EU Imports	670	670	630	560	0	590
Other Imports	79	79	70	55	0	60
TOTAL Imports	749	749	700	615	0	650
TOTAL SUPPLY	84708	85417	84744	88824	25744	85124
Intra-EU Exports	14514	14514	14600	13500	0	13000
Other Exports	3400	3400	3400	4050	0	4000
TOTAL Exports	17914	17914	18000	17550	0	17000
Dom.Consump(Cntrl App)	6700	7144	6750	7300	0	7400
Dom.Consump(Other)	33450	30222	34250	31200	0	30000
TOTAL Dom.Consumption	40150	37366	41000	38500	0	37400
End Stocks (Cntrl App)	10000	11252	9900	11500	0	10500
End Stocks (Other)	16644	18885	15844	21274	0	20,224
TOTAL Ending Stocks	26644	30137	25744	32774	0	30724
TOTAL DISTRIBUTION	84708	85417	84744	88824	0	85124

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN						
	Quantity (1000 Hectoliters)			Value (Billion Lire)		
	1997	1998	1999	1997	1998	1999
Grand Total	644	863	456	271	340	357
France	227	374	292	206	276	307
Germany	10	16	26	4	5	7
Greece	36	78	24	2	5	3
Spain	287	304	13	26	20	6
Portugal	48	42	31	23	23	18
Other EU countries	4	8	3	3	3	2
Total EU	612	822	389	264	332	343
*U.S.	2	1	2	1	1	2
Australia	1	0	1	1	0	0
Other countries	29	40	64	5	7	12

Source: ISTAT

* Italian trade data does not include imports of U.S. wine transhipped from other European ports. It is estimated that total imports could be as high as double that reported by official statistics.

1 Billion Lire = \$ 587,000 in 1997
 \$ 575,000 in 1998
 \$ 550,000 in 1999

ITALIAN IMPORTS OF WINE AND MUST

ITALIAN IMPORTS OF WINE AND MUST						
	QUANTITY (1.000 Hectoliters)			VALUE (Billion Lire)		
	1997	1998	1999	1997	1998	1999
Total Wines	644	863	456	271	340	357
- in bottles	114	86	97	52	55	64
- in bulk	453	678	261	40	59	35
- sparkling	18	19	12	8	9	5
- champagne	52	62	66	167	212	245
- other spumanti	7	18	19	4	6	7
Must	509	209	171	25	11	9
Grand total	1153	1072	627	296	351	366

Sources: ISTAT, ISMEA

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ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION						
	Quantity (1000 Hectoliters)			Value (Billion Lire)		
	1997	1998	1999	1997	1998	1999
Grand Total	13935	15191	18320	3572	4100	4467
France	2553	2562	4181	212	224	328
Germany	5536	5448	6277	1254	1322	1437
U.K.	994	1093	1157	342	392	419
Belgium	236	251	292	62	68	75
Netherlands	250	274	280	81	83	94
Denmark	128	134	154	57	63	72
Spain	26	695	1137	8	77	104
Portugal	39	429	598	15	57	70
Austria	481	400	312	93	129	98
Other EU countries	277	270	303	87	91	101
Total EU	10520	11555	14691	2211	2506	2798
U.S.	1492	1386	1492	686	730	865
Switzerland	514	489	560	215	236	262
Canada	261	337	354	107	142	160
Japan	241	527	284	143	289	172
Russia	50	22	12	25	13	6
Poland	187	226	296	15	17	23
Czech Rep.	217	148	150	13	10	9
Other countries	453	501	481	157	157	172

Source: ISTAT

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ITALIAN EXPORTS OF WINE & MUST

ITALIAN EXPORTS OF WINE & MUST						
	QUANTITY (1.000 Hectoliters)			VALUE (Billion Lire)		
	1997	1998	1999	1997	1998	1999
DOC Wines	4019	4141	4221	1822	2047	2107
- in bottles	3665	3783	3862	1744	1956	2033
- in bulk	354	358	359	78	91	74
Sparkling wines	866	874	945	229	241	272
Other wines	8259	9420	12261	1142	1428	1656
Spumanti	791	756	893	379	384	432
Total wines	13935	15191	18320	3572	4100	4467
Must	384	379	338	70	75	64
Grand total	14319	15570	18658	3642	4175	4531

Sources: ISTAT, ISMEA

1 Billion Lire = \$ 587,000 in 1997
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PRODUCTION

General

Italian wine production this year is still preliminarily estimated at 51.7 million hectoliters (MHL), or 11 percent less than last year's crop. According to most observers, this year's vintage has been the earliest, the shortest (in terms of length of the harvesting operations) and one of the lowest (in terms of volume) in recent decades. Weather conditions have generally been unusual, compared to normal patterns: hot and dry in late spring, rainy and relatively cold in first part of the summer, followed by extremely dry and hot weather all of August and most of September. This last development, in particular, accelerated plant development and allowed a general increase in the sugar content of the grapes, but also sharply cut the yields per hectare. The weather also resulted in earlier harvesting, generally 10 to 20 days earlier than in normal years, with some areas harvesting up to a month earlier.

Average yields, both in terms of grape production per hectare and of wine output from grape processing, are lower than both last year's harvest and the average over the last five years. As a result, the 2000 vintage is one of the lowest of the last 40 years. Despite the low quantity, most experts rate the average quality as "very good" (on a scale which includes "poor", "medium", "good", "very good", and "excellent"), with peaks of excellent in some areas, with normal variations in quality within regions and wine types.

In Piedmont, in particular, quality was reported as very good to excellent for most of its red wines (especially Barbera and Nebbiolo). In Lombardy, however, heavy hailstorms during September, as well as some disease problems, caused a sharp production cut in the traditional hilly areas of "Oltrepo pavese". A very good vintage was reported in Trentino- Alto Adige for both red and white wines, as well as spumanti. In Veneto and Friuli (north-east of Italy) the average quality was between good and very good, while in Emilia and most of central Italy (Latium and Tuscany in particular) this year's vintage was reported as very good. Good quality is also reported in some areas of Lombardy, Trentino and Veneto, again in northern Italy. In Tuscany the quality was very good for some wines including "Chianti" and "Vernaccia di San Gimignano". In most of the remaining regions of southern Italy, as well as the islands, quality is also classified between good and very good, and in limited cases excellent.

Wine grapes are produced in all the twenty Italian regions. The following table shows the breakdown of wine production by region for the three most recent years for which official data are available.

			(1,000 hectoliters)
	1997	1998	1999
Piedmont	3,405	3,171	3,267
Lombardia	1,665	1,452	1,488
Trentino Alto Adige	1,001	1,204	1,226
Veneto	6,785	8,276	9,265
Friuli Venezia Giulia	1,018	1,224	1,155
Emilia Romagna	4,733	6,494	7,143
Other North	187	183	189
Total North	18,794	22,004	23,733
Tuscany	2,156	2,554	2,665
Umbria	740	838	979
Marche	1,815	1,805	1,686
Latium	2,940	3,305	3,689
Total Center	7,651	8,502	9,019
Abruzzi	4,184	4,256	4,225
Campania	1,971	2,249	2,164
Apulia	7,236	8,294	8,235
Other South	1,594	1,550	1,589
Total South	14,985	16,349	16,213
Sicily	8,073	9,200	8,160
Sardinia	1,062	1,085	947
Total Islands	9,135	10,285	9,107
Grand total	50,565	57,140	58,072

Sources: ISTAT ISMEA

As can be seen from the above table, in terms of volume, in 1999, Veneto became the leading producing region, followed by Apulia, Sicily and Emilia-Romagna. These four regions account, on average, for more than half of total Italian wine production. Controlled Appellation wines (DOC wines) come from carefully delineated areas, have specific quality characteristics, and are subject to EU regulations. Currently, there are 291 DOC wines in Italy (up from 290 DOC wines in 1999) and 20 DOCG wines (Guaranteed Appellation of Origin), or the same number as last year.

Many of the most valuable Italian wines are DOCG (i.e. Asti Spumante, Barolo, Barbaresco, Chianti, Brunello di Montalcino). While normal DOC wines can be sold at the retail level in containers of up to 60 liters, DOCG wines can only be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. The share of the DOC and DOCG wine production over total domestic output remains small, accounting for slightly more than 20 percent in 1997 (the most recent year for which data are available). This share, however, varies considerably by producing regions, with peaks in Trentino Alto Adige (79 percent), Friuli Venezia Giulia (60 percent), Piedmont (56 percent) and Tuscany (55 percent). Minimal levels of these quality wines are produced in the South, where most production is classified as table wine. The percentage share of these high quality wines is expected to increase in 2000, as the lower production reported this year mainly affected table wines, with yields of quality wine being more stable.

Planted Area

As already reported in past years, Italian vine area has declined continuously over the last two decades, from the peak of 1.35 million hectares in the late 80's to the current level of about 830,000 hectares. The regions with the largest drops have been Sicily, Tuscany, Sardinia and Apulia, while in the north the decline reported for table wine area has been partially offset by an increase of area planted to DOC and DOCG vines. A major reason for this declining trend has been the implementation of EU legislation, favoring vine uprooting in response to the huge surpluses reported during the 80's. The situation is now more stable and total vine area is not expected to change dramatically in the near future. In addition, the new CAP (Common Agricultural Policy) for the wine sector, passed in the spring of 1999, reinforced a general prohibition of new vine planting through 2010, although it does allow a special, limited derogation for vine re-planting by 2003, aimed at the production of high quality wines. For Italy the permitted area has been established at 12,933 hectares.

Distillation

As a result of the massive unsold stocks through the early 90's, the EU implemented large distillation programs to support domestic growers' incomes. In the most recent years, however, a sharp EU wide decline in domestic supplies, along with a relatively improved market situation, has resulted in a reduction in the total amount of wine being distilled. The following table shows the quantity, in 1,000 hectoliters, of wine distilled in Italy under these programs during the last few years.

	1994/95	1995/96	1996/97	1997/98	1998/99
Support Dist.	3,305	916	4,022	4,328	3,286
Compulsory Dist.	333	185	630	21	0
Total	3,638	1,101	4,653	4,349	3,286

Source: ISMEA

As can be seen over the last several years, compulsory distillation (which interested over 7.2 MHL in 1993/94) has declined to minimal levels (this program was canceled by the new CAP program beginning with the 2000/01 marketing year). In 1999/2000, the distillation programs attracted about 4 MHL, out of the ceiling of 4.36 MHL authorized for Italy by the EU. Despite the removal of the compulsory distillation program, similar levels of wine are expected to be distilled in 2000/01 under a voluntary distillation program. Total volume of distillation remains steady on average, despite recent drop in production as seen this year, because the majority of the wine distilled are table wines which come from southern producers, who produce more based on quantity than quality.

Prices

Domestic wine prices during most of 2000 generally remained depressed due to both large domestic supplies from the 1999 vintage and relatively lower export demand compared to 1999. According to ISMEA, grower prices in January-October 2000 averaged some 10 percent lower than in the same period of 1999 for white table wines and 8 percent less for red table wines, while DOC/DOCG wines averaged 2 percent less and 7 percent more, respectively for white and red wines. The increase for the red wines reflected a new trend in both domestic and export markets which favors high quality red wines. Furthermore, domestic consumption of low quality wines, in particular white, continues to decline with prices of white table wines dropping a further 7 to 9 percent in November compared to the same period last year. Red wine prices, however, have remained more stable or increased slightly, as in the case of high gradation wines. The average higher quality of the 2000 vintage, however, is expected to improve the marketing prospects for the Italian growers, although most of the export demand is still represented by low quality wines.

Production Policy

The CAP reform for the wine sector, approved by the EU last year, was fully implemented with the beginning of current marketing year (the details of the new regulations were included in last year's report). The main measure of the program affecting the market has been the removal of the "old" distillation programs (compulsory, preventive, etc.), and the introduction of a voluntary "crisis" distillation. Considering the trend of the most recent years, however, most observers believe that the new regulations are not expected to result in any major changes to the Italian wine industry, whose major goal is to improve its overall quality of its production.

CONSUMPTION

Domestic wine consumption has averaged in the most recent years between 33 and 35 MHL (this takes into account a period of dramatic decline and excludes those quantities utilized for distillation and other industrial uses). Only between 20 to 25 percent of total domestically consumed wines is controlled appellation wines in any given year, with the bulk still represented by table wines. However, Italian consumers are becoming more and more oriented towards quality wines than in the past. Evolving life styles, on the other hand, have dramatically altered domestic food habits and begun limiting wine consumption mainly to special events, as well as dinners rather than luncheons. On a per capita basis, wine consumption is larger in central and northern Italy and lower in the south, partly due to different climatic conditions. Per capita wine consumption, which was over 90 liters per year in the late 70's has continuously dropped to a current level estimated at about 51-52 liters. Beer consumption, on the contrary, has grown in the same period from 15 to 27 liters per year. Per capita consumption of all types of alcoholic beverages, expressed in pure alcohol, has declined in the last 20 years from 12.7 to 7.7 liters.

STOCKS

Wine ending stocks in both 1998/99 and 1999/2000 have increased in line with relatively large domestic supplies, but are expected to decline at the end of current 2000/01, due mainly to the sharp reduction of domestic crop.

INTERNATIONAL TRADE

Italian wine exports, after a dramatic drop in 1996, have shown strong growth since 1997 with significant increases in 1999 in terms of both volume (+21 percent) and value (+9 percent). Last year's growth was mainly due to a more than 30% increase in shipments of table wines which represented about 67 percent in volume and about 37 percent in value of total Italian wine exports. Exports of bottled DOC and DOCG wines, which rose in 1999 by only 2 percent in volume and 4 percent in value, still represented over 45 percent of total Italian wine export value. Exports of Spumanti, following a few years of decline due to lower demand from eastern European countries, rose 18 percent in 1999, thanks to increased shipment to both northern EU countries and the United States.

In sum, 1999 was considered to be a good year for the Italian wine export business, thanks in part to the strong U.S. dollar which made Italian wines more competitive in the U.S. as well as in other third countries. Another factor favoring the Italian market was reduced wine production in 1998 in France, Spain, and Germany, in particular of cheap, lower quality table wines, which resulted in increased imports of Italian table wines.

In 1999, Germany confirmed its leading position as the major destination for Italian wines, with about 34 percent and 32 percent respectively in volume and value of total Italian shipments. Almost half (in volume) of total exports to Germany are bulk wines, but bottled wines account for over 60 percent of the total in value terms. Exports to France (the second destination in volume terms, with 23 percent of the total), rose in 1999 by 63 percent and are almost exclusively represented by very cheap bulk wines. These exports were favored by the need of the French bottlers to have large quantities available of relatively higher gradation wines, due to the cut of domestic supplies reported in 1998/99. Exports to the United States, the third largest export market in terms of quantity, increased by 8 percent in quantity, but 18 percent in value, favored, as explained above, by the strong dollar. In value terms, the U.S. was again the second largest outlet for Italian wines, absorbing about 19 percent of the total, with about half of Italian shipments to the U.S. are represented by more expensive DOC wines.

Export prospects for 2000, however, are less encouraging for the Italian wine industry. Larger supplies of domestic wine from the 1999 vintage in other EU countries have slowed the Italian export trend. According to ISMEA, Italian shipments totaled 8.0 MHL during January-July 2000, or 10 percent less than in the same period of 1999. While table wine exports dropped by 16 percent, shipments of DOC/DOCG wines rose by almost 6 percent, supported by the strong export demand to the United States (+21 percent). In value terms, total exports rose by 3 percent.

Wine imports into Italy (which account for a negligible share of the total Italian wine market), usually are represented by prestige products (e.g. Champagne, Port and Sherry) from other EU countries. In 1999, imports dropped by 48 percent from 1998, reflecting mainly lower arrivals of bulk wines from France and Spain, in line with the higher local production trends. The lower crop in 2000, however, has favored a small recovery in imports. According to ISMEA during January-July 2000 Italian wine imports totaled 248,000 hectoliters, or 14 percent more than in the same period of 1999.

Shipments from the United States remain minimal, with official figures reporting imports of 1,696 hectoliters in 1999, a significant gain of 22 percent despite a continued strengthening of the dollar. In value terms, imports totaled 2,196 million lire (\$1,207,000), or 78 percent more than in 1998. According to preliminary statistics, imports from the U.S. during the first half of 2000 continued to grow, reaching 996 hectoliters (double the volume of the first half of 1999) with a value of 1,327,000 million lire (over \$600,000 at current rate of exchange). This trend shows how the reputation of quality U.S. wines is growing in Italy, and reflects an aggressive marketing campaign by some of the larger U.S. wineries, particularly in some of the major Italian supermarket chain outlets. At the same time, such companies are successfully targeting the "high end" market of top restaurants and hotels. However, prospects for U.S. wine exports to Italy remain limited, given the very strong competition from domestic wine production, as well as the continued strength of the dollar. (Note: Trade contacts estimate that total imports of U.S. wines are at least double that reported by official trade statistics. Many Italian distributors of U.S. wines receive their shipments from their European distributors located near the major northern European ports. As a result of these transshipments, much of the wine delivered to Italy is not covered in Italian customs statistics. End note.)

FOREIGN MARKET DEVELOPMENT

The Italian Trade Commission (ICE), an agency of the Ministry of Foreign Trade, has traditionally been the main public institution to provide export and promotion assistance in foreign markets. Up to few years ago, the funds used to promote Italian food and agricultural products, including wines, was provided to ICE from the Ministries of Agriculture and Foreign Trade. Current legislation, however, now also gives authority for export promotion to the 20 Italian regions. Most of these regions, however, still use ICE as the main means to promote their products abroad, because of their better contacts and understanding of international markets.

Under current legislation there is no specific export promotion program for wine. Instead it is included in the more general promotional programs of Italian foods and beverages. In particular, the Ministry of Agriculture allocated about 15 billion lire (\$6.8 million) in March 2000/February 2001 for Appellation of origin products, of which approximately one third is spent to promote wines. The major events include workshops, wine tastings, or point of sale promotions. The main target countries are the U.S., Canada, Japan, and northern European countries. The Ministry of Foreign Trade allocation for the overall agrifood export promotion in 2001 is 8.5 billion lire (\$3.9 million). This money is spent almost entirely at fairs, where national pavilions are co-sponsored with private companies on a 50/50 cost sharing basis.

The only specific wine program is provided by the Ministry of Foreign Trade which allocated 1 billion lire (about \$455,000) in 2000/01 for wine promotion abroad. With this limited funding, ICE is restricting its activities to financing trade teams to Italy, especially reporters from the food and beverage press (often co-sponsored by the local industry), organizing wine tastings and, when possible, participating in trade shows.