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Wine

Wine Annual Report

2009

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Report Highlights:

The EU remains the world's largest wine producer, consumer, exporter and importer. Total EU-27 wine production in 2008/09 dropped one percent due to adverse weather, mainly in France and Spain. The drop in production in France and Spain was not completely offset by increases in production in other countries. Wine consumption is expected to decline in 2009 primarily to the general economic crisis. EU exports in 2008 declined 5 percent in volume, but grew 11 percent in value. Total EU imports decreased 4 percent in 2008, while shipments from the U.S. remain fairly stable and are increasingly represented by bulk wine bottled locally for distribution within the EU. The final implementation of the new EU reform of the wine sector is expected in August 2009.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Rome [IT1]
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INTRODUCTION

This report presents the outlook for wine production, trade, consumption and stocks for the EU-27. Unless specifically stated otherwise, data in this report are based on the views of Foreign Agricultural Service analysts in the EU and are not official USDA data.

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MHL = Million Hectoliters

HL = Hectoliter = 100 liters

MY = Marketing Year. The EU local marketing year used in this report is August to July

VPQRD = Wines of Quality Produced in Determined Regions

PSD Table - EU/27

(1,000 Hectoliters – Marketing Years August-July)

	2007/08	2008/09	2009/10
Beginning stocks	168,864	160,847	151,047
Production	161,756	160,200	162,000
Imports	12,531	12,000	11,500
TOTAL SUPPLY	343,151	330,047	324,547
Exports	17,893	17,000	16,500
Total consumption	164,411	162,000	160,000
- human	139,821	137,000	135,000
- other	24,590	25,000	25,000
Ending stocks	160,847	151,047	148,047
TOTAL DISTRIBUTION	343,151	330,047	324,547

PRODUCTION

The European Union continues to be the world leader in terms of vine growing area (almost half of the total) and wine production volume (about two thirds of the overall world crop, on average). Within the EU, the production of France, Italy and Spain represents, on average, 75 to 80 percent of the total. Other important producers include Germany, Portugal, Romania, Greece and Hungary, but the wine sector also has a considerable role in other countries, such as Austria, Bulgaria and Slovenia. There is also production in the Czech Republic, Slovakia, Cyprus and Luxembourg, however it is minor when compared to the overall production. The following table shows production trends in the leading EU wine producing countries during the most recent years.

WINE PRODUCTION TREND IN SELECTED EU COUNTRIES

(1,000 HECTOLITERS)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
France	55,389	50,352	46,360	57,386	52,105	53,025	46,548
Italy	52,293	44,604	44,087	53,135	50,462	49,633	42,514
Spain	30,547	33,578	41,843	43,168	36,158	38,290	36,781
Germany	8,980	9,984	8,191	10,107	9,256	9,000	10,261
Portugal	7,790	6,677	7,283	7,481	7,254	7,532	6,049
Greece	3,475	3,095	3,804	4,282	3,989	3,899	3,487
Romania	5,090	5,461	5,555	6,166	2,602	5,014	5,215
Hungary	5,450	3,500	3,900	5,272	3,103	3,144	3,168

Source: EU Commission and FAS Europe Offices

Total EU-27 wine production in 2008/09 is still preliminarily estimated at 160.2 MHL, or 1 percent less than in 2007/08. While there were limited crop increases in Italy, Germany, Greece, Austria, Hungary and Romania, those gains were almost completely offset by reductions due to adverse weather mainly in France, and Spain. According to OIV, the above volume is the lowest since 1991.

The latest estimates confirm that in the current marketing year, **Italy** has become the leading wine producer in the world, although this is mainly due to the continued crop declines reported in France, rather than an actual increasing trend. Italian wine production in 2008/09 reached 45.5 MHL, or 7 percent more than the extremely poor 2007/08 crop. However, while expectations are for a much larger figure, more in line with production potential of this country, unfavorable weather has severely affected wine production. This has been especially true in northern Italy, with a peak in Piedmont, where the continued rainy and cold conditions reported during last May and June, often accompanied by hail storms and strong winds, caused a production drop of over 15 percent from the previous year. Other major reductions are reported in most of the north, although with some important exceptions. On the contrary, in central and southern Italy wine production has substantially recovered after the very poor 1997 vintage.

Over 30 percent of Italy's wine production is represented by Controlled Appellation wines, and most of them are produced in northern and, to a lesser extent, central regions. The bulk of the wine produced in the south is still primarily table wine. On average, about half of Italian wines are white, and the remaining half are red, with a small amount of rosé. Italian

production area continues to decline, although at a much lower rate than in past decades. In 2007/08, production area was officially reported at 712,000 hectares, or less than half of the area in the early 80's.

France is now the second largest wine producer in the world. Production in the current marketing year is estimated at 43.6 MHL, or 6 percent less than in the previous year. Appellations of origin (AOC) wines are reported at 21.6 MHL, about 7 percent below the 2007/2008 level, while table and country wines should reach 15.5 MHL, and cognac production 6.5 MHL. Poor weather conditions, along with a decrease in the planted area, are the main reasons for the decrease in production. The current year production level is some 24 percent lower than the one reported in 2004/05. In most of the wine growing regions, an unusually mild winter did not allow the vines to have their usual resting period. This was followed by a late spring frost which was particularly harmful in the Loire Valley and Bordeaux. Moreover, excessive humidity throughout the spring and summer fostered the proliferation of mildew and other pests. Champagne, Burgundy and Alsace, or the later ripening regions, were affected less by the bad weather than Languedoc-Roussillon. According to most recent survey, in France there are approximately 113,000 wine growers, cultivating 824,000 hectares of vineyards for wine production. About 58 percent of French vineyards are devoted to VQPRD wines. In 2007, there were 1907 organic wine growers, producing on about 22,500 hectares, approximately a 16 percent increase over 2006. Organic production represents 2.6 percent of the total planted area for wine.

Spain has the largest area of vineyards in the world, about 1.2 million hectares. However, in terms of production, it is third following France and Italy, primarily due to low yields per hectare, because some vineyards are cultivated on marginal lands with reduced water supply. Production in 2008/09 is estimated at 36 MHL, or marginally (-2 percent) lower than in the previous year, as a result of several different trends reported in the main producing regions. Production of controlled appellation wines in Spain has remained fairly stable during the most recent years, as has production of red and rosé wines. On the other hand, production of white wines is declining.

In **Portugal** wine production in 2008/09 is now estimated at 6 MHL, or virtually unchanged compared to the poor crop reached in 2007/08. Weather has remained adverse especially in the southern regions, in particular during the vine flowering period. The 2008/09 **German** wine production, estimated at 10.2MHL compared to 10.3 million hl in 2007/08, is reported to be good to excellent. The German wine production area amounts to 102,000 hectares. In 2008, 63 percent of the grapes produced in Germany were white wine varieties; compared to 82 percent 15 years ago. However, during the past three years the conversion to red grape varieties has stagnated and area planted to Riesling and Pinot varieties is increasing again. Wine production in **Austria** is estimated at 2.8 MHL and, with a total area of about 51,000 hectares. About 70 percent are white wines. Despite the relatively large 2008/09 crop, in general the average quality was negatively affected by hailstorms and an extensive mold infection. In **Hungary**, the 2008/09 wine production is estimated at 3.5 MHL, or 10 percent larger than in the previous year. A slight decrease in wine both area and production is expected for the next couple of years. About 70 percent of wine produced in Hungary is white, 28 percent red, and less than 2 percent is rosé. Finally, a relatively strong increase in production (+20 percent) is reported in **Romania**, where the crop is estimated at 6.3 MHL. This increase is primarily due to favorable weather, which has also resulted in good quality.

CONSUMPTION

Consumption of wine in the EU is currently influenced by two factors - the anti-alcohol campaigns conducted in some leading countries, primarily France and Italy, and the general economic crisis. With regard to the former, the first current anti-alcohol abuse policies have made advertising of wine difficult or nearly impossible. The local wine industry, especially in France, considers this policy as a move toward a neo-prohibitionist attitude. However, health concerns and concerns over drinking and driving have elevated worries among the Europeans in general, and especially among the local authorities. Moreover, the economic recession which started in the second half of 2008 is increasingly affecting wine consumption. Furthermore, expectations for the immediate future indicate an even greater reduction of domestic consumption. In recent months many families have decreased their use of products and beverages not considered basic necessities. In addition, since there is a large variance in wine pricing, we can expect an adjustment of consumer preferences towards cheaper wines. The following summarizes consumption trends in the leading European countries.

Per capita wine consumption in the countries with the highest consumption, France and Italy, declined dramatically in recent decades. In the 1960s, it was over 100 liters for both France and Italy and then stabilized in the mid 2000's.

PER CAPITA WINE CONSUMPTION IN SELECTED EU COUNTRIES

(Liters)

Country	1998	2001	2005	2007
France	61.8	55.7	55.8	50,6
Italy	52.0	51.9	48.2	43,7
Portugal	50.7	44.3	46.7	45,8
Slovenia	40.1	29.8	43.8	
Spain	36.6	35.2	34.5	25,7
Hungary	29.2	32.1	33.1	
Denmark	30.1	32.5	31.4	29,2
Austria	30.6	28.0	28.8	32.3
Romania	24.0	21.1	26.9	
Belgium	n.a.	23.1	26.0	28,8
Germany	23.1	24.3	24.5	24.3
Greece	27.2	27.5	22.9	
Netherlands	14.0	20.2	21.1	21,4
U.K.	14.2	16.2	19.0	19,6
Bulgaria	7.9	20.8	19.0	

Sources: OIV and Veille Concurrentielle Viniflor

In **Italy**, the per capita consumption is estimated to have declined further in 2008, especially for table and, to a lesser extent, sparkling wines. These changes reflect lower volumes bought by families and a reduction in the frequency of purchases. At the same time, sales of VQPRD wines have remained fairly stable, even showing some slight increases.

Despite a continuing decline in French wine consumption, **France** remains the largest European wine consumer. During 2007 calendar year, sales of wine in super/hypermarkets totaled about 9.5 MHL for a value of 3.2 billion Euros. These sales represent 60 percent of

total wine sales, and were virtually unchanged in terms of volumes, but increased in value compared with 2006. Purchases within the food service sector, such as traditional restaurants, cafeterias and company restaurants, continued a decreasing trend following implementation of stricter safety laws and regulations against alcohol. Many French restaurants now offer wine by the glass to boost consumption.

In both **Spain** and **Portugal**, consumption of table wines is decreasing as consumers preferences are shifting to wines under geographical indications. In general, it is anticipated that the economic crisis will negatively affect wine consumption, especially in the HRI sector.

In **Germany**, per capita consumption of still wine has slowly, but continuously, increased to 20.6 liters in CY2007. Nearly two-thirds of the wine consumed in Germany is red and rosé. The German Wine Institute reports a noticeable increase in production and demand for domestic red wine in CY2008. However, most recent consumer trends indicate that the demand for white wine is recovering after years of decline. In general, demand for young fresh and lower alcohol wine is increasing. The targeted alcohol level for white wines ranges between 12 and 13 percent. Recent consumer tests conducted on the so-called light white wines, with 10.5 to 11.0 percent alcohol, received surprisingly positive responses. The German Wine Institute also reports an increasing demand for domestic wines, at the expense of imported wine in general. This development may be attributed in part to the preference of purchasing regional products and the trend of favoring younger wines. The critical discussion of different oenological practices applied outside Germany during the past several years may also have an influence on purchasing decisions.

Over the last decade the **UK** the wine market has experienced a remarkable expansion, reaching almost 14 million hectoliters in 2008 (Euromonitor). However, the rage of growth has slowed in recent years. The UK economy is in deep recession and imported goods are more expensive. There are signs that consumers are cutting back on non-essentials, or at the very least choosing less expensive products. In the last year, the government has dramatically increased excise duties on alcohol. Current taxes on wines rose up to Euros 2.65 and 3.39 Euros per liters, respectively for still and sparkling wines. In addition, government concerns about excessive alcohol consumption and its affect on health have led to ongoing debate about a reduction in glass and bottle sizes. According to Nielsen retail data, US wine sales surpassed France in 2008, making the US the number two supplier to British supermarkets after Australia. This notable event is mainly due to the rise in popularity of rosé or White Zinfandel style wines. Over 50 percent of rosé wine sold in the UK are of US origin. White wine is the most popular in the UK, representing 46.8 percent of all wine sold in 2008, followed by red wine at 44 percent of the market, and rosé at 9.2 percent. The expected future trend is for a continued erosion of the red wine market share to lighter, sweeter wines. Sparkling wine is also a beneficiary of this movement, with sales increasing by 28 percent in the last five years. Despite a gloomy economic picture, UK wine sales are forecast by Vinexpo to achieve a 6 percent growth in the next six years.

Following a drop at the beginning of the last decade Austrian wine consumption has shown signs of recovery. The current financial crisis has not yet seemed to affect the sector. Austrians consume about 73% of their own production, and consumption of domestic wines, especially in restaurants, is increasing. Over the last few years, wine consumption in **Hungary** has been relatively stable, halting a decade-long slide. This trend has been favorable influenced by increases in beer prices. While the deepening economic crisis may negatively impact commercial wine consumption, home-made wine consumption may rise. It is estimated that 20 percent of total Hungarian wine consumption is from home-made wines (untaxed home produced/sold wines).

POLICY

In April 2008, the EU Council of Ministers finally passed the reform of the Common Market Organization (CMO) for wine. The reform aimed at the reduction of overproduction, phasing out of expensive market intervention measures and the goal to make EU wine more competitive. Most of the new rules were effective as of August 1, 2008, but a few rules related to winemaking practices and labeling will become effective from August 1, 2009.

The European Commission claims that because EU wine producers are smaller than their major competitors', and their production is not adequate to the needs of large-scale retailers, they are disadvantaged. According to the Commission, current marketing strategies are not dynamic enough and there are too many regulatory constraints. These handicaps have contributed to a large loss of market share for EU wines, both in the domestic and export markets.

The reform of the CMO aims to maintain a better market balance between supply and demand in the presence of challenges which include: increasing production and competition from the New World, a systematic recourse to crisis distillation, an overly cautious grubbing-up policy, exaggerated use of enrichment practices, confusing labeling rules and rigid oenological practices. The Commission is still discussing the "second path" of the wine reform, which will lay down the rules for wine making practices, labeling and GIs.

Grubbing-up: In the wine reform the EU targeted an area of 175,000 hectares to be grubbed up over a three year period. For 2009, the 14 eligible Member States (MS) submitted applications for grubbing up nearly 160,000 hectares, representing 4 percent of the total EU wine grape planted area. After applying a reduction coefficient, the actual area was scaled down to over 73,000 hectares. The 2009 budget for Grubbing-up comes out of Pillar I money and is set at Euro 464 million.

The allocated sums are distributed among the interested Member States (MS), which will then prioritize how to spend that money. For example, a MS could decide to accept all applications giving each only half of the original sum or the MS could establish priorities, such as old farmers or small farmers, etc. In order to avoid abandonments, specific areas can be exempted for environmental reasons from the grubbing-up scheme. The Commission is currently waiting for MS inputs before notifying what applications they have accepted.

Planting rights: The current restrictive planting rights regime in the EU will end on January 1, 2016. Some national restrictions will remain until 2018.

Single Payment: In order to bring the sector in line with the reformed Common Agricultural Policy (CAP), all areas formerly under vine can claim the status of areas eligible for decoupled single payments.

National Envelopes: Each Member State has a national envelope to adapt measures to its particular situation, to be used to finance restructuring and conversion of vineyards, modernization of the production chain, including innovation and marketing, support for green harvesting, and new crisis management measures. This is financed by Pillar I money.

Distillation scheme: The distillation scheme will be a gradually phased-out. The emergency distillation scheme has a four-year phase out scheme until 2012, going from a maximum of 20 percent of national funding to a maximum of 5 percent in the last year.

Labeling: As of August 1, 2009, labeling of EU wines will be based on protected geographical indications/designation of origin. However, well-established traditional national quality-labeling schemes (such as AOC and AO-VDQS in France or DOC and DOCG in Italy), which are already registered by that date, will be kept. Simplified labeling rules will also allow EU wines to be labeled for grape variety and vintage.

Labeling of wine originating in the US: The wine labeling protocol of the U.S.-EU Wine Agreement allowed for two more years in the use of the traditional terms "chateau", "classic", "clos", "cream", "crusted/crusting", "fine", "late bottled vintage", "noble", "ruby", "superior", "sur lie", "tawny", "vintage" and "vintage character." Extensions were granted automatically for an additional subsequent two-year period, unless a Party to the Agreement provided written notification to the other Party that the period should not be extended. On September 8, 2008, the Commission notified the U.S. that the period should not be extended beyond March 10, 2009. [Commission Regulation 113/2009](#) introduces a transitional provision: U.S. wines using the above mentioned traditional terms on their labels imported into the EU before March 10, 2009, may be put into circulation until stocks are exhausted.

The financial allocations connected to the implementation of the CMO for the wine sector, broken down by individual measure and Member State, are included in the following tables:

http://ec.europa.eu/agriculture/markets/wine/facts/annex2_en.pdf

TRADE

Intra-EU trade continues to represent a major share of the total world volume. According to recent EU Commission data, during 2007/08 intra-EU wine trade totaled 44 MHL, or about half of the global volume of wine traded. A large share of this trade involves the shipments of bulk wines, used mainly for blending purposes, from both Italy to Germany (about 2.5 MHL in January-November 2008) and France (0.6 MHL) and from Spain to France (2.7 MHL in the same period) and Italy (0.6 MHL).

Total Italian exports to the EU/27 in January-November 2008 were 11.4 MHL, or 7 percent less than in the same period of 2007, due mainly to reduced shipments to Germany and France of bulk table wines, used locally for blending, as mentioned above. Spanish exports to the rest of the EU in January-November 2008 reached 10.2 MHL (over two thirds of total Spanish wine exports), or 9 percent more than in the same period of 2007, mainly directed to France and Germany, with a large proportion also used for blending purposes. French shipments to EU destinations in January-November 2008 were 10.5 MHL (5 percent more than in the previous year), directed to virtually all the major European markets.

Aside from the intra-EU trade noted above, wine exports from the European Union to third countries in 2008, accounting for about 38 percent of total world trade, declined by 5 percent in volume, but rose by 11 percent in U.S. dollar value. This discrepancy can partially be explained by an average 7 percent drop (between 2007 and 2008) of the dollar exchange rate compared to the Euro, as well as lower shipments of cheaper wine to certain destinations, primarily Russia. The following table shows exports from the EU-27 during the three most recent years.

EU/27 WINE EXPORTS

Quantity in 1,000 hectoliters
Value in million dollars

Country of Destination	2006		2007		2008	
	Quantity	Value	Quantity	Value	Quantity	Value
U.S.	4,394	2,811	4,765	3,119	4,610	3,106
Russia	4,104	377	4,184	517	3,281	572
Switzerland	1,564	749	1,610	901	1,563	1,113
Canada	1,512	683	1,515	776	1,524	864
Japan	1,139	745	1,082	780	1,132	873
Angola	938	71	886	87	847	103
China	464	83	373	153	517	208
Norway	453	174	505	239	496	273
Nigeria	506	16	206	33	359	66
Brazil	201	76	232	99	226	113
TOTAL WORLD	17,637	6,960	18,461	8,281	17,588	9,152

Source: Global Trade Atlas

The U.S. remains the leading export destination market (26 percent of the total in volume and 34 percent in value), for both French (1.2 billion dollars in 2007 and 1.1 billion in January-November 2008) and Italian (1.1 billion dollars in both 2007 and January-November 2008) wines. In volume terms, Italian exports to the U.S. are more than double French shipments. Russia is the second largest importer of EU wines (based on volume), although shipments to Russia declined remarkably in 2008 (-22 percent), and are mainly represented by inexpensive Bulgarian and Spanish wines. Exports to other principle destinations, as shown in the above table, have been fairly stable in 2008.

The EU is not only the largest wine exporter in the world, but also the largest importer. After deducting intra-EU trade, the EU's 2008 imports from third countries accounted for about one third of the total world wine trade. The main countries of origin remain, as can be seen from the table below, Australia, Chile and South Africa. Total imports, in any case, after the record high level reported in 2007, declined slightly (-4 percent) in 2008, and are not expected to recover in 2009, due to the downward consumption trend.

EU/27 WINE IMPORTS

Quantity in 1,000 hectoliters
Value in million dollars

Country of Origin	2006		2007		2008	
	Quantity	Value	Quantity	Value	Quantity	Value
Australia	3,275	1,093	3,640	1,302	3,107	1,133
Chile	2,237	550	2,898	747	2,738	757
South Africa	2,194	506	2,320	583	2,672	615
U.S.	2,075	445	2,224	475	2,119	467
Argentina	595	145	661	172	706	198

Macedonia	443	22	494	41	386	26
New Zealand	254	174	321	243	332	240
Moldova	548	35	105	18	111	21
TOTAL WORLD	11,941	3,077	13,004	3,731	12,441	3,602

Source: Global Trade Atlas

U.S. exports to the European Union, after growing gradually in the recent past, have remained fairly stable during the last three years. A large share of these U.S. exports (almost two thirds) are represented by bulk Californian wine, which is bottled in Europe for local consumption. Beginning in 2004, this bulk trade assisted the competitiveness of Californian wine by reducing tariff, transportation and bottling costs. In particular, the bulk exports to Italy in January-November 2008 were over 500,000 hectoliters. Once bottled, this product is sold within the EU, mainly in the UK market. These sales have tended to result in a statistical overestimate of Italian imports of US wines and under represent the UK imports. Also the majority (about three fourth) of the U.S. wine imported into Germany, is shipped as bulk wine, bottled locally, and sold in leading German supermarket chains and discount food stores.

The UK is the world's largest importer of wine and the number one export market for US wine. According to Nielsen retail data, which includes U.S. wines transshipped through other EU countries, US wine sales surpassed France in 2008, making the US the second largest supplier to British supermarkets after Australia. This notable event is mainly due to the rise in popularity of rosé or White Zinfandel style wines. Over 50 percent of rosé wine sold in the UK is of US origin. White wine is most popular in the UK representing 46.8 percent of all wine sold in 2008, followed by red wine at 44 percent and rosé at 9.2 percent. The trend toward the erosion of the red wine market share to lighter, sweeter wines continues. Sparkling wine has also benefited from this movement, with sales increasing by 28 percent in the last five years to 2008.

TRADE TABLES FOR SELECTED COUNTRIES

ITALIAN WINE EXPORTS

Quantity in 1,000 hectoliters

Value in million dollars

Country of Destination	2006		2007		Jan-Nov 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
Germany	6,403	902	6,085	1,003	5,029	1,020
France	1,498	105	1,260	114	867	110
UK	2,071	487	2,270	629	2,200	678
Denmark	281	114	275	130	247	127
Czech Republic	555	30	571	37	509	43
Austria	456	86	436	96	309	90
Switzerland	594	247	611	300	558	306

U.S.	2,348	1,016	2,534	1,136	2,280	1,088
Canada	559	240	574	271	540	276
Japan	285	125	280	137	272	139
TOTAL WORLD	18,093	4,039	18,266	4,760	15,891	4,871

Source: Global Trade Atlas

FRENCH WINE EXPORTS

Quantity in 1,000 hectoliters

Value in million dollars

Country of Destination	2006		2007		Jan-Nov 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
UK	2,876	1,686	3,014	2,007	2,365	1,920
Germany	2,428	756	2,607	868	2,184	864
Belgium	1,719	695	1,790	1,061	1,522	1,048
Netherlands	1,415	421	1,379	472	1,151	440
U.S.	1,107	1,297	1,084	1,233	932	1,059
Russia	810	89	737	89	196	67
Japan	635	503	588	529	540	547
Canada	585	323	586	367	522	400
Switzerland	537	335	534	384	410	470
TOTAL WORLD	14,704	7,895	15,248	9,368	12,449	9,242

Source: Global Trade Atlas

SPANISH WINE EXPORTS

Quantity in 1,000 hectoliters

Value in million dollars

Country of Destination	2006		2007		Jan-Nov 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
UK	1,197	353	1,271	423	1,150	383
Germany	2,062	341	2,376	392	2,287	430
France	2,263	117	2,639	147	2,830	186
Netherlands	460	98	415	102	398	106
Italy	472	30	530	118	668	159
Switzerland	312	103	339	135	344	167
Russia	1,689	78	1,535	82	1,257	86
U.S.	451	220	536	265	457	251
Angola	353	19	339	19	290	17

TOTAL WORLD	13,687	1,988	14,841	2,459	14,845	2,639
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Source: Global Trade Atlas

UNITED KINGDOM WINE IMPORTS

Quantity in 1,000 hectoliters

Value in million dollars

Country of Origin	2006		2007		Jan-Nov 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
France	2,609	1,519	2,621	1,831	2,417	1,856
Italy	1,735	408	1,559	449	1,533	494
Spain	997	292	1,013	347	880	319
Germany	745	166	641	167	591	172
Portugal	160	83	180	103	156	79
Australia	2,095	789	2,267	928	1,940	773
Chile	755	223	994	341	836	309
U.S.	757	216	795	217	764	198
South Africa	821	223	750	245	841	226
New Zealand	212	145	267	203	266	192
Argentina	189	48	210	58	177	54
TOTAL WORLD	11,374	4,226	11,677	5,045	10,747	4,820

Source: Global Trade Atlas

GERMAN WINE IMPORTS

Quantity in 1,000 hectoliters

Value in million dollars

Country of Origin	2006		2007		Jan-Nov 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
Italy	5,978	818	6,070	964	4,632	926
France	2,469	788	2,510	856	2,113	839
Spain	2,081	363	2,282	372	2,175	362
Austria	322	47	368	65	332	70
Portugal	142	31	148	37	149	46
Macedonia	343	16	380	20	340	22
South Africa	361	65	556	87	619	91
Australia	327	55	400	65	233	52
U.S.	372	54	415	69	379	64
Chile	363	52	535	70	442	64

TOTAL WORLD	13,734	2,493	14,509	2,795	12,100	2,700

Source: Global Trade Atlas

MARKETING

EU wine promotion abroad

The promotional activities of the EU wines follow the different programs implemented by each leading wine producer and exporter, and are carried out both within the EU and in the most important world markets.

In **France**, the Government and inter-professional organizations underwrite assistance for the domestic and international promotion of wines for the French market promotion agency (SOPEXA) which actively promotes French wines in the EU and overseas markets. VINIFLHOR (the French Association for Horticultural and Wine Products) receives funding from SOPEXA for foreign promotions, mainly in Europe, the Americas, and Asia. Promotional activities are focused on advertising campaigns, POS, in-store promotions in hotels, restaurants, specialized outlets, trade shows and fairs. The budget for these promotional activities is not publicly available. VINIFLHOR also administers EU subsidies allocated to the French wine sector including export refunds and assistance earmarked for vineyard reconstruction, distillation, and grape juice fortification.

In **Germany** the German Wine Institute is spending €1.5 million to promote Riesling wines in the United States for the period 2008-2010. Media presence will be intensified and a Riesling-Week will be organized in restaurants in New York, Chicago, Las Vegas and San Francisco. International promotion of German wines will primarily focus on Riesling and Late Burgundy wines

In **Austria** 2008 promotional activities concentrated on Germany, Great Britain, Belgium, the Czech Republic, Sweden, Italy, Norway, and Poland. Targeted non-EU countries are Switzerland and the United States. The new EU sales promotion program for third country export markets has enabled access to previously difficult markets like Russia and the entire Asian region. Austrian wine promotion is carried out by the Austrian Wine Marketing Board (AWMB). The purpose of the AWMB is the implementation of marketing measures for Austrian wine. It received its budget from marketing contributions of the Austrian wine industry (3 million Euros in 2007), the federal states (2.5 million Euros in 2007) and the Austrian federal budget (1.5 million Euros in 2007).

In **Hungary** an amount of HUF 5 (USD 0.03) is now collected as check off for a wine marketing fund. The check off program funds Hungary's new 2008 wine export promotion program targeting China, Canada, and the United States. The first promotional events in New York and Chicago were opened by the Hungarian Minister of Agriculture and Rural Development during his trip to the United States last May.

In **Spain** wine producers are assisted in their promotional efforts by the Ministry of Agriculture, as well as by the governmental agency ICEX (Spanish Foreign Trade Institute), which invests substantial efforts to investigate, analyze, and publish information about the wine sector within many foreign export markets. The Spanish Government recently launched

"Strategy Wine 2010," encouraging and helping wine producers to become more competitive in European and third-country markets. Recently the Spanish have ramped up marketing efforts in the United States, UK, Germany Sweden, Switzerland and the Netherlands, and then extended to Russia, Canada, Mexico, Hong Kong and China.

In **Italy** the Italian Trade Commission (ICE), an agency of the Ministry of Economic Development, continues to be the main public institution providing export and promotion assistance in foreign markets. Funds used by ICE to promote Italian food and agricultural products, including wines, are provided by the Government, as well as the 20 Italian regions, which use ICE as their primary means for promoting their products. Furthermore, some leading trade and farmer associations and many private companies, along with cooperatives and consortia, give ICE contributions to carry out promotion abroad. It is estimated that total expenditures to promote Italian wines abroad, both within the EU and in third countries, will reach about € 5 million in 2009. Major promotional events include workshops, wine tastings, and point of sale promotions, mainly targeting the U.S., U.K., Canada, Switzerland and Japan. However, the focus is increasingly shifting to some growing markets, both in Asia and Eastern Europe. The Ministry of Economic Development's allocation is spent almost entirely at fairs and shows, where the cost of national pavilions is shared with private companies. Other activities include financing trade teams to Italy, and organizing wine tastings.

U.S. and competitors' promotional activities in the EU

In the UK, the promotion of US wine is spear-headed by the Wine Institute of California's UK office. Their strategy is to demonstrate the quality and diversity of California wines at all price levels, but they have a particular emphasis on the \$10-20 sector. California is widely recognized by the trade as a reliable supplier of well-supported brands and bulk wine, and at the other end of the spectrum as notable suppliers of expensive boutique wines. Promotion of quality and value attributes within the middle range is a good long term strategy to ward off associations with being too cheap or too expensive. The Napa Valley Vintners' trade body has a promotional program in the UK, administered through a Public Relations agency – Emma Wellings PR. In addition, the Washington Wine Coalition and Oregon Wine Board are represented in the UK by a trade consultant – Hilltop Wines. Outreach efforts by the latter have generated real interest in these lesser-known wines. Competitor countries with sizeable marketing efforts in the UK include Australia, France, Spain, Germany, South Africa, Chile and Argentina.

The retail sector (or off-trade as it is known in the UK) accounts for 80 percent of UK wine sales, and with the economic downturn price discounting or multi-buy offers are dominating marketing activity. Consumers are increasingly looking for brands, rather than country of origin when making purchasing decisions. Nearly all major brands are frequently found on promotion and most consumers appear content with the variety offered by their local supermarket. Consumer education to impart a greater understanding and appreciation of different wines and grape varieties will remain key to encouraging growth. The "on-trade" or hotel and restaurant sector have historically accounted for around 50 percent of total value sales. However, this trade is being affected by the UK's current economic climate with a sharp increase in the number of restaurant and bar closures, and a marked decrease in sales value as outlets decrease prices or offer lesser quality wines.

American wines have an excellent reputation with German consumers. However, the price seems to have become a leading factor for the competition between New World suppliers. Another important factor for success is the branding of the product. Imported wine is increasingly represented through the brand and the grape variety. According to the wine

press, importers are also increasingly demanding that the taste impression needs to be typical for the labeled grape variety.

Most American wines sold in France are Cabernet Sauvignon, Chardonnay, Zinfandel and Pinot Noir from California, and are purchased by restaurants. U.S. wines in France face strong competition from domestic producers, leading EU suppliers, as well as Chile, Australia, South Africa and Morocco. Central and eastern European wine producers are potential competitors. E&J Gallo wine has been sold in France since 1998 and they have contracts with major French retailers (Carrefour, Auchan, etc.). Gallo also sells to restaurants and wine stores. Mondavi wines have been sold in France since 2000.

Excises and other taxes

Details on wine excises and Value Added Tax (VAT) in the different EU countries can be found in the following document:

http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_I_alcohol-en.pdf

Excise taxes vary considerably among member countries, ranging between zero in many producing countries to different levels in the non-producing countries. VAT rate (ad valorem) rates also vary among the different countries, with a maximum rate of 25 percent in Denmark and Sweden.

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