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Report Highlights:

France is the world's number one wine producer with 58.8 million hectoliters (MHL) in 2004 and a 2005 vintage currently estimated at 54.7 MHL. Frustrated by overproduction, shrinking exports, advertising restrictions, an aggressive anti-alcohol abuse campaign, and changing domestic drinking habits, French wine makers are pleading for government assistance at all levels of the industry. In 2004, domestic wine consumption continued to decline, while French exports dropped 6.2 percent in volume, as France continues to lose market share to New World wines.

On September 14, 2005, the U.S. and the European Commission initialed a wine agreement, marking the end of a first phase in ongoing trade discussions, which began in 1983. The Agreement addresses several key issues, and sets a framework to facilitate future wine trade between the United States and Europe.

Includes PSD Changes: No
Includes Trade Matrix: No
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Note: Official Exchange Rates used in this report:

Average exchange rates:

Calendar Year 2003: USD 1.00 = 0.884 Euros

Calendar Year 2004: USD 1.00 = 0.806 Euros

Calendar Year 2005: USD 1.00 = 0.804 Euros

(Source: Paris Stock Exchange/European Central Bank)

EXECUTIVE SUMMARY

As a producer, France ranks first in the world with production of 58.8 million hectoliters (MHL) in 2004 and a 2005 vintage currently estimated to be 54.7 million hectoliters (MHL), a decrease of 6.8 percent compared to 2004, but up 6.3 percent compared to the average during crop years 2000-2004. Twenty four percent of French wine production is exported within the European Union (the United Kingdom, Germany, Belgium and the Netherlands). Exports outside the EU are primarily to the United States, Japan, Canada, and Switzerland.

As a consumer, however, France continued its long-term decline in domestic consumption last year. Based on a recent study conducted by a French consumer-polling panel, this trend is expected to continue in the future. Total bottled wine sales in hyper/supermarkets (without hard discounts) in 2004 dropped 3 percent, compared to 2003. This poll also reported that volumes purchased by the food service sector (traditional restaurants, cafeterias and company restaurants) decreased 5 percent in both value and volume in 2004, compared to 2003, although the average for prices remained stagnant. Quality wines produced in determined regions or areas (VQPRD) comprise the lion's share of food service sector purchases.

Exports: French wine exports in CY 2004 dropped 6.2 percent in volume, compared to CY 2003, to about 14.2 MHL or 5.6 billion Euros (\$6.9 billion) in value. France continues to lose market share among its major clients to "New World wines". For the period January-October 2005, French wine exports decreased 3 percent in volume and 2 percent in value to 4.4 billion Euros (\$5.5 billion). During this period, volume exported to the United States remained practically stable compared to January-October 2004. During calendar year 2004, among France's major clients, Germany, the United Kingdom, Belgium, the Netherlands, the United States, and Switzerland purchased 653,000 fewer hectoliters than in 2003.

Imports: Total wine imports in CY 2004 increased 12 percent in volume to reach 5.5 MHL valued at 482 billion Euros (\$598 million). Although the United States represents only two percent of total French wine imports, French imports of U.S. wines have been growing steadily from 15,000 HL in 1994 to 105,000 HL in 2004. In 2004, French imports from the United States increased 5 percent in volume and increased 14 percent in value to reach 16 million Euros (\$20 million).

Trade: Growth in world trade, compounded with the EU's expansion to Central and Eastern European countries, has intensified competition for exporters to the EU and among European producers themselves. French winemakers pressured by overproduction, shrinking exports, advertising restrictions, an aggressive anti-alcohol abuse campaign and changing drinking habits, are pleading for government help at all levels of the industry. The Government of France (GOF) has urged French growers to address consumer demands as a means of competing more effectively with emerging third-country competitors and gaining share in new markets. The budget for financing international promotional campaigns for wines in 2004 amounted to 15 million Euros (\$19 million).

The September 14, 2005, wine agreement between the US and the European Commission addresses several key issues, and sets a framework to facilitate future wine trade between the United States and Europe (See Marketing section for more details).

DEFINITIONS AND PRODUCTION RULES:**Wine Definitions:**

1. Appellation of Origin (AOC) wines: Certifies the wine's regional origin, manufacturing process, character, and alcoholic content. AOC wines must undergo taste tests by the French Institute of Appellations of Origin (INAO). Nearly 45 percent of French wines and spirits are designated AOC.
2. Superior Quality Wines (VDQS): Although less restrictive in taste tests than AOC wines, this also certifies origin, yields. VDQS wines are also subject to taste tests.
3. Quality Wines Produced in Determined Regions or Areas (VQPRD): This is a European classification that combines French AOC wines and VDQS wines.
4. Table Wines: Wines other than AOC and VDQS. These wines include country wines (*vins de pays*), which are regionally produced and are often of higher quality than ordinary table wines. They follow certain rules including analytical tasting, various specified controls, and no mixing of wines from different regions.

Wine Plantations and Production Rules:

Each of the above wine categories is subject to both strict European Union and French planting and production rules.

1. Planting Rules:
 - Control of vine planting (uprooting, new planting),
 - Ban of new planting, except in case of vineyard restructuring, experimentation or family consumption,
 - Possibility of replanting under special conditions to replace old vines,
 - Control of vine planting according to wine produced,
 - Control of cultivation practices and treatments of vineyards.
2. Production Rules:
 - Obligation to declare wine production to the French Customs,
 - Follow specific production criteria,
 - Follow an official procedure of agreement to guarantee wine origin, production and organoleptic controls,
 - Tracability control.

SECTION I. SITUATION AND OUTLOOK

Note: Marketing Year (MY) 2000/2001, was the period August/July. Thus, MY 2001/2002 was the period August 1, 2001 to July 31, 2002, MY 2002/2003 was the period August 1, 2002 to July 31, 2003.

The 2004 wine crop (MY 2004/2005) was 58.8 million hectoliters (MHL), 23.7 percent higher than the 2003 level (MY 2003/2004). Of the 2004 total production, 25.7 MHL were VQPRD wines, 22.9 MHL table wines, and 10.2 MHL wines for cognac production.

During MY 2004/2005, total ending stocks were 64.5 MHL. Current data reflects that as of July 31, 2005, ending stocks were 72.5 MHL, an increase of 12 percent, compared to the

previous year. VQPRD wines ending stocks increased 13 percent to 53.4 MHL.

During CY 2004, total French wine and spirit exports decreased 3.7 percent in value to 7.7 billion Euros (\$9.6 billion) compared to CY 2003. Wine exports decreased 5.4 percent in value from the 2003 level to 5.6 billion Euros (\$6.9 billion), with an exported volume of 14.2 million hectoliters. In 2004, twenty-four percent of French wine production was exported to the European Union. France continued to lose market share in 2004 to the advantage of New World wines. France's top traditional export markets remained, by value, the United Kingdom, the United States, and Germany, and by volume, the United Kingdom, Germany, Belgium, the Netherlands and the United States.

Total French wine imports during calendar year 2004 increased 14.8 percent in volume to 5.5 million hectoliters, valued at 483 million Euros (\$599 million). Table wines represented 84 percent of total French wine imports by volume, most imported from other EU countries, and in particular from Italy and Spain. In 2004, French wine imports from the U.S. increased by 5 percent in volume and rose 14 percent in value compared to the previous year. Total U.S. market share in 2004 was only 2 percent by volume but French import of US wines have shown steady growth since 1994 from 15,000 HL to 105,297 HL in 2004.

Alternatively, French wine consumption has been decreasing since 1999. A study conducted by the French Agricultural Research Center (INRA) and the French Office for Wines and Vines (ONIVINS) regarding French wine consumption indicated that this trend should continue and result in a 25 percent decline in wine consumption by 2010 compared to 1999.

MY 2004/2005 was the fourth marketing year in which the new Common Organization of the Wine Market (COM) (as defined by the European Commission regulation 1493/1999) applied various technical adjustments in the wine production and market conditions. This marketing year, the low European Union crop level permitted a decline in the regulatory distillation process and no crisis distillation was necessary. However, several subjects were raised during this campaign such as the labeling in regard to designation, denomination, presentation and protection of wines, and the possibility of a COM reform to include priorities raised by a 25-Member Europe.

In Calendar Year 2004, France (ONIVINS and SOPEXA) had a total budget of 15.3 million Euros (\$19 million) for export promotions of French wines in different countries, including the United States. Domestic advertising focused on regional wines while international advertising promoted VQPRD wines.

The French Ministry of Agriculture forecasts the 2005 wine crop to be 54.7 MHL, down 7 percent from the 2004 wine crop; an average crop in quantity with a good quality for most of the French wine regions. In addition, the French Health Ministry is vigorously enforcing wine labeling requirements that warn pregnant women and other consumers about the negative health effects of over consumption. French customs officials indicated that during the period January-October 2005, total French wine exports decreased 3 percent in volume and 2 percent in value, compared to the same period in 2004. For Jan-October 2005, total French wine exports amounted to 4.4 billion Euros (\$5.5 billion).

Champagne and sparkling wines are still in demand, while VQPRD and table wine exports have significantly decreased during the period January-October 2005, compared to the same period in 2004. The French industry is struggling to change marketing practices to face "New World" competition but feel an urgency to "rehabilitate" the international credibility of French wines before they lose too much market share.

During the period January-October 2005, France's major clients remained the United

Kingdom, Germany, Belgium, the Netherlands and the United States, representing 68 percent of total export volume.

SECTION II. STATISTICAL TABLES

1. Trade Matrices

Export Trade Matrix

Country	France		
Commodity	Wine		
Time Period	Jan-Dec	Units:	1,000 HL
Exports for:	2003		2004
U.S.	981	U.S.	949
Others	Others		
United Kingd.	3293	United Kingd.	3086
Germany	2862	Germany	2639
Belgium/Lux.	1723	Belgium/Lux.	1657
Netherlands	1525	Netherlands	1422
Canada	606	Canada	570
Switzerland	597	Japan	636
Japan	590	Switzerland	569
Denmark	563	Denmark	415
Russia	458	Russia	307
Total for Others	12217		11301
Others not Listed	1974		1960
Grand Total	15172		14210

Import Trade Matrix

Country	France		
Commodity	Wine		
Time Period	Jan-Dec	Units:	1,000 HL
Imports for:	2003		2004
U.S.	100	U.S.	105
Others	Others		
Spain	2120	Spain	2699
Italy	980	Italy	1047
Portugal	897	Portugal	757
Chile	165	Chile	231
Germany	99	Germany	118
Morocco	94	Australia	102
Australia	82		
South Africa	75		
United Kingd.	49		
Argentina	34		
Total for Others	4595		4954
Others not Listed	197		455
Grand Total	4892		5514

Source: French Customs

2. PSD Table:

Country	France					
Commodity	Wine					
	2003	Revised	2004	Estimate	(1000 MT)(1000 HL)	Forecast
	USDA	Post	USDA		2005	
	Official [Old]	Estimate[New]	Official	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin	08/2003		08/2004		08/2005	
TOTAL Grape Crush	6756	6240	6240	7605	0	0
Begin Stock (Ctrl App)	26219	26545	26545	25542	28552	28552
Begin Stock (Other)	3589	2751	2751	2298	4993	4993
TOTAL Beginning Stocks	85781	42249	93291	46598	97640	64469
Prod. from Wine Grapes	51966	47519	47519	58800	54700	54700
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	51966	47519	47519	58800	54700	54700
Intra-EU Imports	3872	4171	4171	4362	4362	4550
Other Imports	709	721	721	1152	1152	1350
TOTAL Imports	4581	4892	4892	5514	5514	5900
TOTAL SUPPLY	142328	94660	145702	110912	157854	125069
Intra-EU Exports	10922	10961	10961	10122	10122	11500
Other Exports	4554	4211	4211	4088	4088	5500
TOTAL Exports	15476	15172	15172	14210	14210	17000
Dom.Consump(Cntrl App)	16144	15821	15821	15505	18700	18700
Dom.Consump(Other)	17417	17069	17069	16728	16900	16900
TOTAL Dom.Consumption	33561	32890	32890	32233	35600	35600
End Stocks (Cntrl App)	58512	32661	57661	47500	47500	53400
End Stocks (Other)	34779	13937	39979	16969	16969	19069
TOTAL Ending Stocks	93291	46598	97640	64469	64469	72469
TOTAL DISTRIBUTION	142328	94660	145702	110912	114279	125069

3. Price Table:

**Wine Price Evolution and Retail Sale Prices
From 2000 to 2004**

Wholesale Prices Index

Retail Price
in USD/liter

Years	Table Wines	VQPRD Wines	Sparkling Wines	Total	Alcoholic content of 11% by volume	Alcoholic Content of 12% by volume
2000	104.2	100.8	110.4	102.2	1.13	N/A
2001	105.6	102.3	112.0	103.9	1.25	N/A
2002	93.4	100.6	101.3	103.9	1.25	N/A
2003	107.5	100.6	N/A	125.8	1.27	N/A
2004	107.7	100.5	N/A	125.9	1.27	N/A

Note: All above indices are current

N/A = Not Available

Source: French Institute for Statistics (INSEE)

4. Tariff Table:

Taxes on Wines Imported into France from Outside the EU

HTS Codes (*)	Types of Wines	EU Customs Duties (EURO/HL)	French Transportation Tax (EURO/HL)	French Value Added Tax (TVA)
22 04 10	Sparkling wines	32.00	8.40	19.6%
22 04 21	Volume of still wines with alcoholic content not exceeding 13%: - in containers holding 2 liters or less - In containers holding more than 2 liters	13.10 9.90	3.40 3.40	19.6% 19.6%
22 04 29	Volume of still wines with alcoholic content above 13% but not exceeding 15%: - In containers holding 2 liters or less - In containers holding more than 2 liters	15.40 12.10	3.40 3.40	19.6% 19.6%

Footnotes: (*) Harmonized Tariff Schedule

HL = Hectoliters

EU customs duties are calculated as a percentage of the ad valorem value of the product. The current duty rates are 32 Euros per hectoliters for sparkling wines and between 9.90-13.10 Euros per hectoliter for still wines under 13 percent alcohol content, and 12.10-15.40 Euros per hectoliter for still wines over 13 percent alcohol content, depending on how the product is bottled.

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY AND MARKETING**1. General Production**

Based on data published by the French Customs Office (DGDDI) in 2004, France registered 111,775 wine growers cultivating a total area of 829,100 hectares of vineyards for wine production. About 63 percent of French vineyards are devoted to VQPRD wines. France represents 26 percent of the European Union's vineyard area and 12 percent of the world's vineyard area. In the European Union, Spain had the largest area under vines, followed by France and Italy.

In 2004, France was the largest European producer followed by Italy and Spain. France's

share of total world wine production was approximately 22 percent while the United States represented about 8 percent of the total world production.

The three largest French wine producing regions--Languedoc-Roussillon, Aquitaine, and Provence/Alpes/Cote d'Azur (PACA) -accounted for 62 percent of total French wine production in 2004. Vineyards comprised 17 percent of all harvested agricultural areas in France, compared to 15.8 percent in Spain and 11.9 percent in Italy.

The GOF has provided financial assistance to the growers of ordinary table wines in an effort to improve the quality of their vineyards. As of MY 2001/2002, the new European Community Market Organization (COM) assumed this task.

The EU Regulation on wine production was modified in 2002 by the Commission and implemented by the French Government (GOF). These implementations involved:

- Vine plantings (the goal being to control new vine plantings)
- Production condition for table wines (the goal being to control production and maintain quality)
- Assistance in the restructuring of vineyards including bonus for uprooting marginal vines.
- Prevention distillation (permits to decrease wine stocks).

Note that MY 2004/2005 was the fourth marketing year where new COM was applied with various technical adjustments to production and market conditions. Prevention distillation decreased during that period and no crisis distillation was necessary.

With the European Union expansion to 25 Member States, new wine COM reform will be necessary with the need for the new Commission to determine priorities.

2. Crop Area and Yields

In 2004, French production averaged 79 hl/ha. from a total planted area of 846,859 hectares.

3. Production Policy and Government Support

- EU Export Subsidies and World Trade Organization (WTO) Agreements on Wines

Table wines and liquor wines without appellation, as well as concentrated grape juice, can benefit from EU export subsidies. These subsidies, however, are granted only for export to certain countries and the wines involved are subject to specific analysis and agreements. During CY 2004, the volume of French non-AOC wine exported with EU export subsidies was 126,252 HL, and subsidized by 0.92 million Euros (\$1.14 million).

The EU agreements under the WTO implemented on July 1, 1995 required a reduction in the volume of subsidized wine exported and in the value of wine subsidized for a period of six years. This agreement has been continued for an indefinite time to be determined by future negotiations. The current duty rates are 32 Euros per hectoliters for sparkling wines, and between 9.90-13.10 Euros per hectoliters for still wines fewer than 13 percent alcohol content, and 12.10-15.40 Euros per hectoliters for still wines over 13 percent alcohol content, depending on how the product is bottled.

--Organic Wines and sustainable agriculture

In 2002, ONIVINS began financially supporting the French Interprofessional Federation of Organic Wines (FNIVAB) in development of its organic marketing activities. After two years ONIVINS stopped its contribution to FNIVAB, but continued to finance some promotions of organic wines, such as "Printemps Bio. The French Food Labels and Certification Committee now authorizes the use of the "AB" (agriculture biologique) logo on wine labels.

The French wine industry has participated in French's sustainable agriculture movement since 1999. These efforts encourage environmentally friendly cultivation (which are not as restrictive as organic cultivation).

Consumption

French Wine Consumption by Category
For Marketing Years 2002/03, 2003/04 and 2004/2005
(In 1,000 HL)

Wine Category	2002/03	2003/04	2004/05
VQPRD Wines	16,144	15,821	15,505
Table Wines	17,417	17,069	16,728
TOTAL	33,561	32,890	32,233

Source: DGI/DGDDI (General Customs Office, Excise Taxes)

Per Capita French Wine Consumption by Category
For Marketing Years 2002/03, 2003/04 and 2004/2005
(liters)

Category of Wines	2002/03	2003/04	2004/05 (F)
VQPRD Wines	27.1	26.5	25.7
Table Wines	29.2	28.5	27.8
TOTAL	56.3	55.0	53.5

(F) Forecast

(G) Source: DGI/DGDDI (General Customs Office, Excise Taxes)

French per capita wine consumption has been decreased from 103 liters in 1980 to 54 liters in 2004. A study commissioned by ONIVINS and conducted by the French Consumer Panel (SECODIP) indicates that among alcoholic beverages, seniors prefer wine, while younger drinkers prefer more exotic drinks.

Another recent study, conducted by ONIVINS and the French Institute for Agricultural Research (INRA), indicated that for consumers under 35 years old, which as a group comprise 23 percent of total French households, at least 88 percent bought a still wine and 48 percent bought a sparkling wine, in the last year. This age group buys smaller amounts than seniors.

Consumers from 35 to 49 years old (30 percent of French households) make 25 percent of total wine purchases. They purchase still white and sparkling wines (except champagne) in larger quantities than any other age group. The group from 50-64 years old group is the leading buyer of wine in all categories, with a preference for red wines. Consumers 65 years and over represent, combined with the 50-64 year olds, 47 percent of the total French

households and are the leading buyers of still wines consisting mostly of table wines. Consumers 50 years and over are the major buyers of champagne consuming 11 percent above the average consumption level.

Trade

1. Exports

In 2004, the total value of French wine exports decreased by 5.4 percent from 2003 to 5.6 billion Euros (\$6.9 billion). French wine exports for 2004 reached 14.2 MHL, representing 24 percent of the total French wine production, a decrease of 6.2 percent in export volume compared to the previous year. The trade surplus in wine for calendar year 2004 was 5.1 billion Euros (\$6.3 billion), a decrease of 5.5 percent from the previous year. The decrease in wine export values is mainly due to a fall in sales of the Bordeaux AOC wines.

VQPRD wine exports in 2004 decreased in volume (-9.1 percent) and 12.4 percent in value, compared to 2003. Globally, 2004 French wine exports decreased 6.2 percent in volume and 5.4 percent in value. This export volume decrease was mainly accounted for by Poland, Russia, Denmark and to a lesser extent the United States. The volume of wine exports to Italy, Japan and Asia increased significantly.

French wine exports are very concentrated. In value, the three largest French markets represent 48 percent of the total French exports in value and 52 percent in volume. Due to the fact that twenty four percent of French wine production is exported, the economic health of its destination markets is very important to the well being of the French wine industry.

The EU's share of all French exports is 71 percent in volume and 60 percent in value, a decrease of three percent over the last five years. Within the EU, France's major clients are the United Kingdom, Germany, Belgium and the Netherlands. Major non-EU export markets for VQPRD wines are led by the United States followed by Japan, Switzerland and Canada.

During the period January-October 2005, French exports of wines increased to Russia (40 percent in volume and 16 percent in value), Italy (9 percent in volume and 13 percent in value), and Asia, mainly Taiwan, Singapore, China and Vietnam, compared to January-October 2004. During the same period French exports to the United States increased 2 percent in volume and 3 percent in value, compared to the previous year. Within the EU, French wine exports decreased to Denmark, and Japan, respectively three percent and eight percent in volume and one percent in value.

Globally, during the period January-October 2005, French wine exports to foreign countries decreased 2 percent in value and 3 percent in volume; this decrease being more significant for table wines than for VQPRD wines, Champagne and sparkling wines.

Over the last six years, French exports have dropped by 12 percent while production of New World producers has increased by 83 percent. France's wine industry, which employs half a million people, states that the value of its exports fell by 9.6 percent and 3.5 percent in volume, over the period Jan-August 2003. In 2004, French wines became number three in the United States import market, with a 13 percent market share, while Italy represented 31 percent and Australia 30 percent of total U.S. imports. The French wine industry sees itself in crisis and is seeking government assistance to restructure its marketing strategies so that it can meet head on the challenge posed by the New World wines.

As of December 12, 2003, French exporters of wine and spirits to the United States must

comply with the U.S. Bioterrorism Act (BTA). The information on the requirements of the BTA was widely disseminated among the French exporters by the former French Center for Exterior Trade (CFCE) now UBI-France and the French Association of Wine and Spirits Exporters (FEVS).

2. Imports

The value of French wine imports in 2004 amounted to 483 million Euros (\$599 million). In 2004, total French wine imports increased by 14.8 percent in volume compared to the previous year. France's top EU suppliers remain Spain, Italy and Portugal. Outside the EU, Chile (230,000 HL imported), USA (105,297 HL), and Australia are the top suppliers.

In 2004, French imports from the United States reached 105,297 HL, an increase of 5 percent in volume over calendar year 2003. It is interesting to note that the French imports of U.S. wines have increased 55 percent in volume over the period 1999-2004. This increase can be attributed to the presence of Gallo Winery in this market since 1998. Gallo is very active in winning space on store shelves in the retail sector and restaurant menus in the food service sector.

3. Domestic Support and Impact on Trade

The GOF subsidizes the wine sector through the French Office for Wines and Vines (ONIVINS). ONIVINS's allocated budget in CY 2004 for promotional activities in foreign markets was 10.3 million Euros (\$12.8 million); from this amount an additional budget of 5 million Euros (\$6 million) was allocated during the year to enhance the image of French wines abroad. Promotional activities conducted by ONIVINS were mainly in Europe (49 percent), in the Americas (39 percent) and in Asia (12 percent). ONIVINS's budget for promotions in the United States during calendar year 2004 amounted to 4 million Euros (\$5 million). In 2005, ONIVINS's export promotional budget was reduced to 7.5 million Euros (\$9.3 million), and funding for promotions in the United States fell to 2.2 million Euros (\$2.7 million).

ONIVINS also administers EU subsidies allocated to the French wine sector including export refunds and assistance earmarked for vineyard reconstruction, distillations, and grape juice fortification. For MY 2004/2005, a total European budget of 450 million Euros (\$557 million) was allocated for the reconstruction of a total of 61,688 Ha throughout EU. From this amount France received 107 million Euros (\$132 million) for 13,541 HA. A total of 14 Member States including newcomers, such as Czech Republic, Cyprus, Hungary, Malta, Slovenia and Slovakia, benefited from this support.

4. European Community Market Organization (COM) and French Aid for Vineyard Improvements

The EU Wine Community Market Organization Reform (COM) was authorized by the European Union Agricultural Ministers in March 1999 under "Agenda 2000" and implemented by Regulation No. 1493/1999 of May 17, 1999. The current COM coordinates EU wine practices and production and carries out wine reforms to help the EU wine industry adapt to new market conditions. This project will simplify former legislation by:

- Replacing current distillations (preventive, mandatory or support) with a more flexible system that will address such "crises" as overproduction. The preventive distillation will be replaced by a certain distillation that will supply alcohol and products made from wine (vinegars and aromatized wines).
- Modifying the EU's system of planting and uprooting vines.

- Having the EU reimburse wine growers for losses resulting from reconstructions, uprooting or planting. However, purchases of new equipment will be financed both by Brussels and the producer.

The EU Regulation that supports vine uprooting (originally Regulation 1442/88 CEE) has been maintained under certain conditions with no annual quotas per Member State. As a consequence, each marketing year, France determines areas and vines which can benefit from the uprooting support.

MARKETING

1. Infrastructure and Distribution

Wholesalers and importers make up France's wine distribution system. Wholesalers frequently sell to specialized wine stores, food stores, restaurants and institutions. Importers sell to supermarkets. Mail order sales are generally made directly by the producer. Supermarket wine sales in France make up 78 percent of household wine purchases (17 percent for hard discounters), while 22 percent come from specialized wine sales (wine stores, direct sales, etc.).

According to a consumer panel, Infoscan IRI France, in 2004, total still wine sales in French supermarkets, including foreign wine sales, were estimated to be 3.1 billion euros (\$3.8 billion), from which VQPRD wines were 2.3 billion Euros (\$2.8 billion). Total wine consumption in 2004 reached 32 MHL, of which restaurants, hotels and cafes accounted for 10 MHL, and homes 22 MHL. Of the 22 MHL of wine consumed in homes, 9.5 MHL were purchased in supermarkets and the rest in specialized stores or directly from wine growers.

As per the consumer panel, wines purchased for the food service sector in 2004 decreased 5 percent in volume, with the bulk of purchases being red VQPRD wines.

In 2004, total sales of foreign wines in super/hypermarkets increased 9 percent compared to 2003. Foreign wine market in France is a branded market representing sales in supermarkets of over 56 million Euros (\$69 million). Foreign wines selling the best are from North Africa, Spain, Italy and "New World" wines (Chile, Australia, South Africa and the U.S., particularly California).

2. Policy: Safety Laws, Labeling and Restrictions affecting U.S. Wine Exports

-- The Impact on French Wine Consumption of the Evin Law, and other Regulations Against Alcohol

In 1992, the GOF instituted regulations that limited radio and TV advertisements promoting alcohol. These regulations were called Loi Evin (the name of the French Minister for Social Affairs at that time). These regulations were followed by two additional decrees in 1993 which regulated advertising at point of sale and event sponsorship. These regulations are still in force and the French wine industry continues to lobby for modifications to the Evin law. In addition, ONIVINS has conducted several studies to better understand the effects of moderate wine consumption on health. These studies show that moderate consumption has health benefits.

-- Import Rules

On September 14, 2005, the U.S. and the EU initialed a wine agreement which provides for

mutual acceptance of wine-making practices, and addresses a number of labeling issues. The EU will now accept existing US wine-making practices, and will make procedural provisions for approval of new practices. Under the terms of the agreement, the EU will also simplify wine certification requirements for US wine. The US agrees to seek legislative changes to limit the use of 16 semi-generic names, as well as *retsina*, used on wine labels. At the same time, the EU will permit the use of certain terms (chateau, classic, clos, cream, crusted/crusting, fine, late bottled vintage, noble, ruby, superior, sur lie, tawny, vintage, vintage character) under specified conditions in the EU market.

With this new agreement, US wineries can market their wine in the EU under the name of a single variety of grape, or a name of origin, provided that 75 percent of the wine is derived from grapes of that variety or from the name place. The US and the EU agreed not to require labeling of wine-making processes, treatments, or techniques that do not relate to health and safety. While the US and the EU agreed to recognize certain of each other's names of origin in specified ways, this agreement does not address the use of geographical indications. For EU wines sold in the US market, the conditions are consistent with current US regulations. For more information, visit the following website: www.useu.be/agri/usda.html.

-- Labeling Regulations

Labels on U.S. wines exported to France must include:

- Net contents of the bottle, in milliliters, centiliters or liters.
- Name and address of the French importer preferably printed on the main label. However, small stick-on labels can also be applied by the French importer.
- The wine's alcohol content.
- Indication of manufacturing lot.
- Indication of country of origin.

EU labeling regulations allow the US government-authorized indication of two vine varieties for table wines provided the wines are exclusively from those vines. All varieties should be listed using the same print and field of vision, the most important variety topping the list. The label must indicate geographic origin.

New Labeling Rules

In May 2002, the European Commission adopted new rules for the labeling of wine (Commission Regulation 753/2002). The rules lay down what information must be shown on wine labels and regulate the use of certain optional terms such as production methods, traditional expressions, names of the vineyard and vintage year. The new regulation introduces arrangements for the protection of certain traditional expressions linked to an EU geographical origin, e.g., "ruby" for port from Portugal. It also reserves certain bottle types for certain types of wine. Title V of the new regulation outlines provisions applying to third country wines. Third country wines may include geographical indications on the label but only under certain conditions.

In August 2002, the U.S. Government commented on the EU's notification of the new rules to the WTO (G/TBT/N/EEC/15). Comments related mainly to the provisions on geographical indications and traditional terms, which appear to be in conflict with several articles of the TRIPs Agreement (Trade-Related Aspects of Intellectual Property Rights).

On February 23, 2004, the European Commission published a set of amendments (Commission Regulation 316/2004) to respond to a number of concerns raised by the U.S. and other non-EU wine producing countries. In an effort to conform with its international

commitments under the TRIPs Agreement, the EU has adopted new conditions for the use of traditional expressions on wine labels by third countries. Regulation 753/2002 established a system of two categories of traditional expressions to designate quality wines. The first category contained expressions that could be used by third countries under certain conditions while the second category included expressions exclusively reserved for EU wines. Regulation 316/2004 simplifies this system by merging the two categories into one single category and third countries will be allowed to use them under very strict conditions. Requests by third countries to use traditional expressions will be considered by the EU and the member states and the right of use will be granted if all the conditions are fulfilled.

September 15, 2005, the European Commission published an updated list of vine varieties and their synonyms that include a geographical indication and that may appear on wine labels in accordance with article 19.2 of regulation 753./2002.

In November 2003, the EU published Directive 2003/89/EC making the indication of allergenic substances on food labels mandatory. The EU's new allergen labeling rules also extend to alcoholic beverages. The presence of sulphites in wine must be indicated on the label. Alcoholic beverages not complying with the new rules are prohibited as of November 25, 2005.

For more information on new wine rules, please visit:

www.useu.be/agri

3. France Market Development Activities

Public assistance for domestic and international promotion of wines and spirits comes from the French national market promotion agency (SOPEXA) which actively promotes French food products and wines in EU and overseas markets.

During CY 2004, ONIVINS had a total budget of 15.3 million Euros, or about US \$19 million for promoting French wines. The GOF and inter-professional organizations underwrite this budget.

Promotional activities funded by ONIVINS focused on advertising campaigns, promotional materials, in-store promotions in specialized outlets, hotels, restaurants, as well as fairs and trade shows. New promotional activities were also conducted in 2004, aimed at reinforcing advertising and promotional campaigns conducted by regional trade associations in foreign countries. In Japan and the United States, a three-year program was initiated and presented by a French wine region in cooperation with a German region.

4. Competitor Programs/Activities

Nearly all of the other EU countries conduct some form of market promotion in France. Wine is commonly promoted through participation in trade shows as well as public and trade advertising and supermarket promotions. Countries that do not have export promotion agencies often use their local embassies or French importers to conduct their promotion. Non-EU countries promoting wines in France include South Africa, Chile, Argentina, the United States, Australia, and more recently New Zealand and Bulgaria.

5. U.S. Market Opportunities

Most of the American wines sold in France are Cabernet Sauvignon, Chardonnay, Zinfandel and Pinot Noir from California. U.S. wines in France face strong competition from domestic producers, and from France's leading EU suppliers (Italy, Spain and Portugal), as well as

Australia, South Africa, Argentina and Chile. Central and Far Eastern wine producers are now emerging and should be considered as future competitors. However, there are market opportunities for U.S. wines in France, thanks in part to the "exoticism" and quality of U.S. wines, and also to the promotional efforts of Office of Agricultural Affairs at the American Embassy and the many American restaurants in Paris.

E&J Gallo has been present in France since 1998 and has contracts with most major French retailers (Carrefour, Auchan, etc.). Gallo is also selling to restaurants in France and Europe as well as in wine stores. Since May 2000, Mondavi wines were also introduced in France through a leading importer/distributor.