USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 12/9/2004

GAIN Report Number: SP4031

Spain

Wine

Annual

2004

Approved by:
Stephen Hammond
U.S. Embassy

Prepared by:
Diego Perez

Report Highlights: Two consecutive large vintages coupled with declining domestic consumption have facilitated Spain's wine producers to achieve record exports, 14 million hectoliters in 2003/04, and about the same level for 2004/05. Even with the record exports, producers are building stocks, resulting in depressed wine prices. DPA30SH3.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Madrid [SP1]
[PO]

Executive Summary

Spanish wine exports in MY 2003/04 reached a 14 million hectoliters (hls) record level, 3 milllion hls, more than in the preceding year. In terms of value, however they only increased moderately, reflecting increased bulk table wine exports to other EU countries, France, Italy and Portugal in particular.

Despite the increasing exportable supply, we are not forecasting a large increase in wine exports during MY 2004/05 due to increased competition from other producing regions. EU wine production is up this year, for the first time since 2001. EU Member States account for about 80 percent of Spain's wine exports. Consequently, local producers will need to build inventories to an estimated 36 million hls. by the beginning of MY 2005/06. While this level is very high, it is inferior to stocks held during the early nineties.

Spanish production of two, back-to-back large vintages of about 40 million hectoliters each are mostly responsible for the record exports and building stocks. For 2005, we are forecasting a more average vintage of about 36.6 million hectoliters. As we have seen in the past two years, however, production can vary dramatically depending upon weather conditions.

Increased domestic sales of quality and sparking wines that are taking place during 2004 will not be sufficient to reverse persistent downward total wine consumption, because table-wine sales continue to decline.

Although still small, wine imports into Spain continue to grow, amounting to 289,000 hls, worth €91 million last year. French champagne, table, quality and Port wines are the main wine types imported. U.S. wine imports into Spain amounted to 300 hls, worth €386,000 last year.

The vineyard restructuring, distillation, and marketing programs are the main components of the EU wine support scheme. The restructuring program, which will be in place until 2006, has so far permitted the planting of more profitable varieties on 113,000 hectares, representing 10 percent of total vineyards, most of which are in central Spain.

The EU Agriculture Council approved a two-year extension to the U.S. derogation on winemaking practices, until December 31, 2005, or until a bilateral agreement is achieved. U.S. wines can still be sold in Spain during the period of the derogation.

FYI--We have added an additional out-year to this report's PSD table.

PSD Table

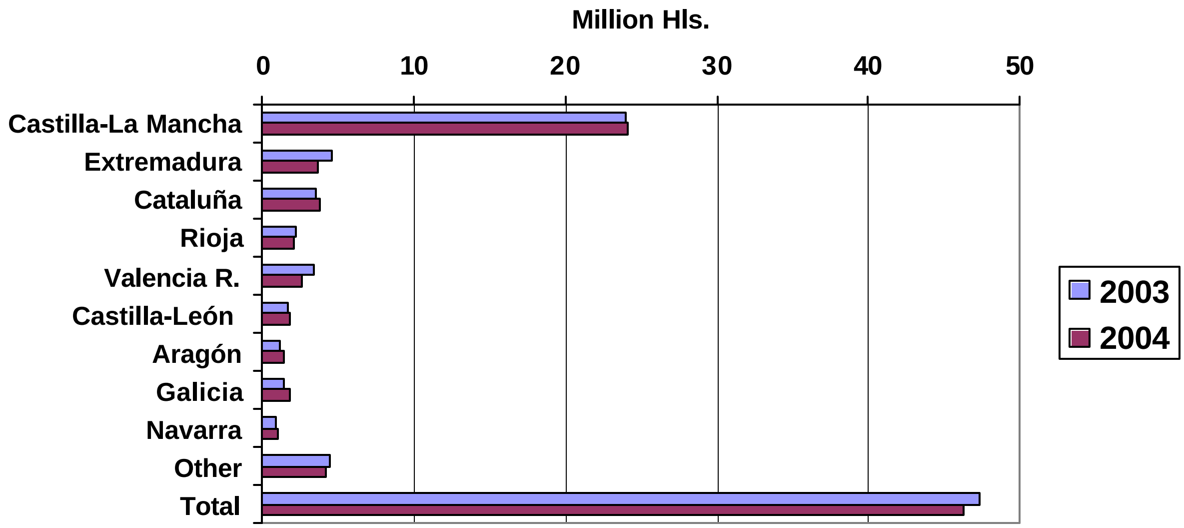
Country Spain
Commodity Wine

(1000 MT)(1000 HL)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [New]	
Market Year Begin		08/2003		08/2004		08/2005	MM/YYYY
TOTAL Grape Crush	0	6550	0	6500	0	5900	(1000 MT)
Begin Stock (Ctrl App)	0	21200	0	20800	0	21000	(1000 HL)
Begin Stock (Other)	0	9900	0	11985	0	15000	(1000 HL)
TOTAL Beginning Stocks	0	31100	0	32785	0	36000	(1000 HL)
Prod. from Wine Grapes	0	40200	0	40100	0	36400	(1000 HL)
Prod. from Tabl Grapes	0	200	0	200	0	200	(1000 HL)
TOTAL PRODUCTION	0	40400	0	40300	0	36600	(1000 HL)
Intra-EU Imports	0	280	0	320	0	330	(1000 HL)
Other Imports	0	20	0	25	0	28	(1000 HL)
TOTAL Imports	0	300	0	345	0	358	(1000 HL)
TOTAL SUPPLY	0	71800	0	73430	0	72958	(1000 HL)
Intra-EU Exports	0	11200	0	11100	0	10200	(1000 HL)
Other Exports	0	2900	0	2900	0	2800	(1000 HL)
TOTAL Exports	0	14100	0	14000	0	13000	(1000 HL)
Dom.Consump(Cntrl App	0	8900	0	9500	0	9700	(1000 HL)
Dom.Consump(Other)	0	16015	0	13930	0	14358	(1000 HL)
TOTAL Dom.Consumptio	0	24915	0	23430	0	24058	(1000 HL)
End Stocks (Cntrl App)	0	20800	0	21000	0	21000	(1000 HL)
End Stocks (Other)	0	11985	0	15000	0	14900	(1000 HL)
TOTAL Ending Stocks	0	32785	0	36000	0	35900	(1000 HL)
TOTAL DISTRIBUTION	0	71800	0	73430	0	72958	(1000 HL)

Production Narrative

Favorable weather has led to the production of large vintages in both years 2003 and 2004. A breakdown of "wine and must" production by areas in the last two years follows:



Of the total production, must/grape juice ranges between 6 and 7 million hls.

The area planted to vineyards in Spain, about 1.1 million hectares, is the largest in the EU. Quality wines are primarily produced under the so-called appellations of origins (AOs), which accounts for over a half of the total vineyard area. There are over 60 different AOs throughout the country. AOs control both vineyards and wines produced in their particular region. "Table" wine is, however, the main wine type produced. Below is a Spanish Wine Appellation of Origin Map.

The EU's wine program (EU Regulation 1493/99) aims to enhance wine quality, to provide a greater market orientation and to renew old vineyards.

The EU wine regime includes a special distillation scheme to secure alcohol to producers of fortified wines and brandy. During MY 2003/04, about 7.5 million hectoliters of "table" wine were used in Spain for the production of the so-called "edible" alcohol. The regime also includes the so-called "crisis" distillation" for years with surges in wine stocks or severe quality reductions. Subsidies paid for crisis distillation are very low, generally well under wine market prices. As was the case in the two preceding years, no crisis distillation was done in Spain in MY 2003/04.

EU regulation 493/99 sets the scheme for the restructuring of vineyards. Below are data on the restructuring (change to more commercially-oriented red grapes or to more modern prunning systems) since the beginning of the program in MY 2000/01. Restructing is mainly taking place in central Spain, Castilla-La Mancha and Extremadura in particular. Local high yielding white varieties are being converted into less productive but more market-oriented varieties such as native red Tempranillo in particular, but also to other Spanish varieties and foreign varieties such as Carbernet Sauvignon and Merlot.

In MY 2004/05, six new member states are for the first time entitled to receive EU subsidies for vineyard restructuring.

	Indicative **MY 2004/05**		Cumulated MY 2000/01-2003/04	
	Hectares	∈Million	Hectares	∈Million
Spain	19,379	145	112,700	667
TOTAL EU	61,688	450	279,071	1,705

As shown in the table below, the support scheme also includes storage and export subsidies.

Viticulture Sector Support Scheme (€million)			
	2003	2004 E	2005 F
Distillation	174	150	150
Storage	27	23	25
Restructuring	167	150	140
Export subsidies	13	13	13
Must/grape juice, alcohol	52	40	40
Total	433	376	368

EU export subsidies are eligible for certain "table" wine types and musts to certain destinations.

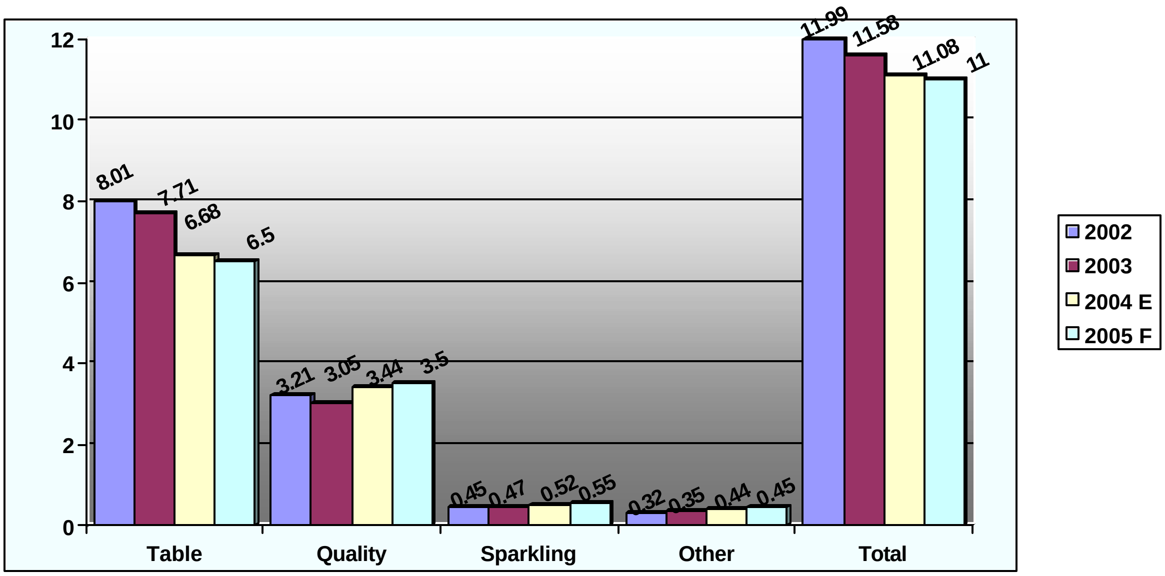
Export subsidies 2003			
	(Million hls.)	(€ milion)	Main Destinations
Wine	1.0	9.3	Ivory Coast, Eq. Guinea, Czeck R., Senegal, Angola
Must	0.4	3.3	Corea, China, Taiwan
Total	1.4	12.6	

The attempts made late last year for the renewal of the United States-EU wine accord continue. At issue are wine making practices and the protection of geographic names. Spain is seeking protection for its generic names “Sherry” and “Malaga”. With a new EU derogation granted in last December, negotiators have two more years for talks.

CONSUMPTION

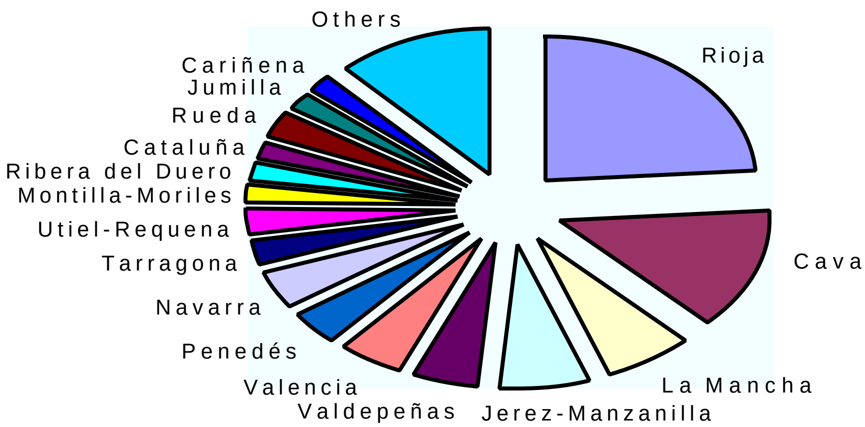
The long-lasting downward trend in wine consumption continues. However, during 2004, the use of quality, sparking and other wine types are showing robust growth but do not offset a declining table wine use.

Bottled/Packed Wine Sales (Million Hls.)



Per capita bottled wine consumption in Spain declined to 28.1 liters in 2003, half a liter less than in 2002 and 4.6 liters less than in 2000.

Quality (A.O.) Wine Sales 2002/03, Market Shares



TRADE

	CY 2001	CY 2002	CY 2003	CY 2001	CY 2002	CY 2003
			IMPORTS			
	(1000 Hectoliters)			(€Million)		
-Sparkling	17	18	21	27	31	38
-- Champagne	14	15	17	25	30	36
-- CA&otherU.S.	0	0	0.05	0	0	0.05
-Effervescent	0.5	0.9	1	4	5	9
-Quality, still	26	38	43	10	12	14
-- Bordeaux	1.2	1.8	2.3	1	2	2
-- Tuscany	1.7	1.8	2	1	1	1
-- CA&otherU.S.	0.12	0.06	0.09	0.15	0.08	0.06
-"Table", still	134	126	133	19	18	18
-- CA&otherU.S.	0.2	0.2	0.14	0.39	0.34	0.28
-Fortified	15	14	13	6	6	6
-- Port	11	13	11	5	6	6
-Other (1)	59.5	65.1	78	5	8	6
TOTAL	252	262	289	71	80	91
			EXPORTS			
	(1000 Hectoliters)			(€Million)		
-Sparkling	796	873	1,036	245	253	266
-Effervescent	67	59	136	4	3	6
-Quality, still	3,088	3,139	3,260	713	735	746
- Rioja, W&R	646	711	647	250	268	259
- Navarra, R	174	122	133	34	29	30
- Penedés, W&R	100	104	99	27	29	27
- Valdepeñas, R	198	193	173	52	50	45
- Valencia, W	75	69	82	8	7	9
-"Table", still	5,819	5,474	7,616	286	260	337
-Fortified	344	353	309	103	105	87
- Sherry	273	258	218	90	91	72
-Other (1)	494	678	695	67	45	44
TOTAL	10,608	10,576	13,052	1,418	1,401	1,486

(1) grape must, vermouth, sangria and other flavored wines
W whites, R reds & roses

Import Trade Matrix

Country Spain

Commodit Wine

Time Period	CY	Units:	CY
Imports for:	2002	1000 HL	**2003**
U.S.	0.5	U.S.	0.3
Others		Others	
EU countries	247	EU countries	272
Chile	7	Chile	9
Argentina	3	Argentina	4
Switzerland	1	China	1.4
Japan	0.6	Australia	0.6
Australia	0.4	Hungary	0.6
Norway	0.4	Switzerland	0.2
South Africa	0.3	South Africa	0.1
Hungary	0.4	Israel	0.1
N. Zealand	0.2		
Total for Others	260.3		288
Others not Liste	1.2		0.7
Grand Total	262		289

Export Trade Matrix

Country Spain

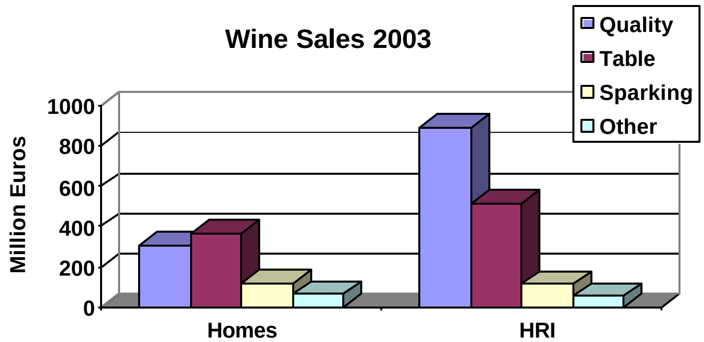
Commodit Wine

Time Period	CY	Units:	CY
Exports for:	2002	1000 HL	**2003**
U.S.	281	U.S.	314
Others		Others	
EU countries	7,898	EU countries	10,380
Ivory Coast	276	Ivory Coast	317
Switzerland	273	Switzerland	238
Czech R.	187	Russia	175
Angola	149	Czech R.	149
Russia	136	Eq. Guinea	130
Senegal	90	Canada	106
Japan	89	Latvia	97
Canada	84	Japan	95
Norway	80	Senegal	83
Total for Others	9262		11770
Others not Liste	1033		968
Grand Total	10576		13052

MARKETING

Hotels, restaurants and institutions (HRI) are the main channel for quality wines, representing about 71 percent of all quality wine sales, volume basis, last year, versus 29 percent of quality wines consumed at homes. The remaining wine types are more consumed at homes.

Value basis, as shown the chart below, the HRI channel, is even more important, representing 75 and 58 percent of quality and table wine sales, respectively.



Total bottled/packed domestic wine sales in 2003 amounted to €2,422 million, €39 million less than in 2002.

Average wine prices for 2003 (€/liter)	Channel	
	Home	HRI
Quality	3.41	4.14
Table	0.99	1.28
Sparkling	4.90	4.98
Other	2.93	3.95

Market Opportunities

Spain should be considered as only a specialty market for wine imports. Some U.S. brands already have in-country distribution made by distributors based either in Spain or elsewhere in the EU.