Required Report - public distribution

Date: 12/17/2004

GAIN Report Number: IT4038

Italy

Wine

Annual

2004

Approved by:
Ann Murphy
U.S. Embassy

Prepared by:
Sandro Perini

Report Highlights:

Italy's 2004 wine production rose 20 percent from 2003 to 53 million hectoliters, thanks to more favorable weather. Quality of this year's vintage is reported as very good, with peaks of excellence. Wine exports in CY 2003 dropped significantly in volume, due to reduced shipments of bulk table wine to Germany and France, but are expected to partially recover in 2004. Exports to the U.S. (now Italy's leading export market in terms of value), although growing marginally, are affected by stronger competition from other exporters, such as Australia. U.S. wine exports to Italy are estimated to have increased remarkably in 2004, but represent a very small share of Italian wine consumption.

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

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SECTION I. SITUATION AND OUTLOOK

Italian wine production in 2004 is preliminarily estimated at 53 million hectoliters, or 20 percent more than last year, which, along with 2002, were the smallest crops in the last 50 years. Weather conditions were generally favorable during most of 2004, especially in September. In terms of quality, the 2004 vintage is rated as very good, with peaks of excellence for certain white wines. Production of controlled appellation wines, still representing a minority (about 30 percent of the total volume), is growing and is mainly concentrated in the north and in Tuscany.

Wine grape area, has continued the downward trend of the previous two decades, although at a much lesser rate.

The EU distillation programs, aimed at supporting grower incomes, are now attracting much lower volumes, after the peaks reached in the early 90's. However, in 2003/04 total Italian distilled wine volume was almost 2 million hectoliters and could reach an even larger quantity in 2004/05, given current market difficulties.

Domestic wine consumption, after the sharp decline reported in past decades, has now stabilized, although the number of regular consumers is falling, as wine is increasingly consumed during of special events and periodically.

Italian wine exports in 2003 dropped 16 percent in volume and 3 percent in value, mainly as a result of decreased shipment of bulk table wine to France and Germany. The U.S. has become the leading export market for Italian wines in value terms (27 percent of the total) surpassing for the first time Germany, while the U.K. is third. Strong competition from other producing countries (such as Australia), however, is displacing Italian exports in both North America and some northern European countries, while the Euro strength is not helping, either.

U.S. wine exports to Italy, although still marginal if compared to total consumption, are growing, especially in 2004, when unofficial data report a value six time larger than last year.

SECTION II. STATISTICAL TABLES

WINE

PSD Table

Country	Italy					
Commodity	Wine				(1000 MT)(1000 HL)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [N
Market Year Begin		08/2002		08/2003		08/2004
TOTAL Grape Crush	58000	60946	0	61564	0	72577
Begin Stock (Ctrl App)	11200	12714	0	12046	0	12000
Begin Stock (Other)	23615	22163	0	20794	0	18298
TOTAL Beginning Stocks	34815	34877	31206	32840	0	30298
Prod. from Wine Grapes	43241	44604	0	44096	0	53000
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	43241	44604	0	44096	0	53000
Intra-EU Imports	1200	1306	0	1571	0	900
Other Imports	300	60	0	91	0	100
TOTAL Imports	1500	1366	0	1662	0	1000
TOTAL SUPPLY	79556	80847	31206	78598	0	84298
Intra-EU Exports	9500	9683	0	9155	0	9200
Other Exports	4500	4302	0	4645	0	4500
TOTAL Exports	14000	13985	0	13800	0	13700
Dom.Consump(Cntrl App)	7350	9593	0	9200	0	9100
Dom.Consump(Other)	27000	24429	0	25300	0	27500
TOTAL Dom.Consumptio	34350	34022	0	34500	0	36600
End Stocks (Cntrl App)	10800	12046	0	12000	0	13000
End Stocks (Other)	20406	20794	0	18298	0	20998
TOTAL Ending Stocks	31206	32840	0	30298	0	33998
TOTAL DISTRIBUTION	79556	80847	0	78598	0	84298

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN	Quantity (1000 Hectoliters)			Value (Million Euros)		
	2001	2002	2003	2001	2002	2003
Grand Total	**680**	**822**	**1447**	**178**	**204**	**232**
France	244	361	407	135	163	168
Germany	16	21	25	3	3	3
Greece	5	6	6	1	1	1
Spain	261	233	843	11	12	35
			75			12

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN	Quantity (1000 Hectoliters)			Value (Million Euros)		
Portugal	37	82		10	11	
Other EU countries	14	21	32	7	5	4
Total EU	577	724	1388	167	195	223
U.S.	3	2	3	1	1	1
Australia	2	3	3	1	1	1
South Africa	2	1	1	0	0	0
Slovakia	2	2	0	0	0	0
Argentina	2	3	3	1	1	1
Chile	5	4	12	2	1	2
Hungary	10	21	16	1	1	1
Romania	33	24	2	1	1	0
Other Countries	40	41	19	5	4	3

Source: ISTAT
1 Euro = $0.896 in 2001
1 Euro = $0.946 in 2002
1 Euro = $1.131 in 2003

ITALIAN IMPORTS OF WINE AND MUST

ITALIAN IMPORTS OF WINE AND MUST	QUANTITY (1.000 Hectoliters)			VALUE (Million Euros)		
	2001	2002	2003	2001	2002	2003
Total Wines	565	680	1447	200	178	232
- in bottles	122	108	137	40	41	43
- in bulk	327	479	1210	20	21	56
- sparkling	13	16	12	5	4	3
- champagne	79	58	61	130	109	113
- other spumanti	24	19	27	5	3	17
			90			3

ITALIAN IMPORTS OF WINE AND MUST QUANTITY (1.000 Hectoliters)				VALUE (Million Euros)		
Must	48	42		0	2	
Grand total	**613**	**722**	**1537**	**200**	**180**	**235**

Source: ISTAT
1 Euro = $0.896 in 2001
1 Euro = $0.946 in 2002
1 Euro = $0.131 in 2003

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION	Quantity (1000 Hectoliters)			Value (Million Euros)		
	2001	2002	2003	2001	2002	2003
Grand Total	**15,371**	**15,187**	**12,802**	**2,555**	**2,729**	**2,640**
France	2,469	1,830	976	107	89	73
Germany	5,387	5,453	4,577	744	732	678
U.K.	1,206	1,362	1,323	244	271	280
Belgium	227	229	200	37	40	40
Netherlands	280	278	256	49	55	52
Denmark	192	234	214	48	59	57
Spain	90	78	99	13	14	17
Sweden	357	327	285	66	66	63
Austria	356	363	326	68	68	66
Other EU Countries	768	488	337	55	55	45
Total EU	11,052	10,752	8,593	1,406	1,449	1,371
U.S.	1,785	2,001	2,035	611	718	710
Switzerland	592	599	536	167	172	174
Canada	404	443	447	113	127	127
Japan	354	354	305	112	115	110
Russia	23	31	58	8	12	18
Poland	134	80	49	9	7	7
Czech Rep.	270	273	232	9	10	10
Other Countries	757	654	547	120	119	113

Source: ISTAT
1 Euro = $0.896 in 2001
1 Euro = $0.946 in 2002
1 Euro = $1.131 in 2003

ITALIAN EXPORTS OF WINE & MUST

ITALIAN EXPORTS OF WINE & MUST	QUANTITY (1.000 Hectoliters)			VALUE (Million Euros)		
	2001	2002	2003	2001	2002	2003
DOC Wines	4,708	4,496	3972	1,399	1,429	1285
- in bottles	4,378	4,176	3688	1,359	1,388	1245
- in bulk	330	320	284	40	41	38
Sparkling wines	1,057	1,103	1086	155	165	172
Table wines	8,806	8,716	6900	800	920	957
Spumanti	800	872	844	201	215	228
Total wines	15,371	15,187	12802	2,555	2,729	2640
Must	243	446	357	25	22	22
Grand total	**15,614**	**15,633**	**13159**	**2,580**	**2,751**	**2662**

Source: ISTAT
1 Euro = $0.896 in 2001
1 Euro = $0.946 in 2002
1 Euro = $1.131 in 2003

PRODUCTION

General

After two consecutive years of extremely low crops, preliminary estimates by ISTAT (the Official Institute of Statistics) place Italian 2004 wine production at 53 million hectoliters (MHL), or 20 percent more than the 2003 crop. As a matter of fact, both the 2002 and 2003 outputs were reported as the lowest of the last 50 years, although for opposite reasons (excess of rains in 2002 and continued drought in 2003). Weather conditions this year were, on the contrary, fairly favorable to the crop development. The plentiful rains of last winter allowed the water reservoirs impoverished by the previous drought to replenish, enabling a normal recovery of the vines. In the spring, the continued rains and relatively low temperatures delayed plant flowering, but with no dramatic effect on the crop. The summer of 2004 was also characterized by mild temperatures. The favorable weather conditions in September, which was generally sunny, confirmed or even further increased the general expectation of a good crop from both the quantity and quality standpoints.

While 2004 Italian wine production is estimated to be 20 percent greater than in 2003, the increase is not uniform up and down the peninsula. Sicily and Latium, for example, are looking at 5 and 10 percent increases, respectively, while the output in the Marche region is expected to be up 30 percent. Veneto will again be the leading producing region and its output should be 25 percent greater than in 2003. Even from the quality standpoint, the 2004 vintage is classified as “very good”. For most white wines it is reported as one of the best of the last 20 years, while for the red wines the 2004 label will be, in many cases, close to 1997, which was rated as excellent.

Wine grapes are produced in all the twenty Italian regions. The following table shows the breakdown of wine production by region during the most recent years.

Italian wine production *(1,000 hectoliters)*

Regions	Average 1995-1999	2000	2001	2002	2003
Piedmont	3,132	2,938	3,324	2,329	2,282
Valle d'Aosta	31	27	18	16	18
Lombardy	1,525	1,360	1,286	1,123	856
Trentino Alto Adige	1,127	1,177	1,230	1,063	1,076
-of which					
Bolzano	406	*387*	*399*	*358*	333
Trento	721	*790*	*830*	*705*	743
Veneto	7,628	8,825	8,668	6,847	7,369
Friuli Venezia Giulia	1,137	1,152	1,111	1,006	1,113
Liguria	154	169	104	93	106
Emilia Romagna	6,249	6,915	7,116	5,682	5,305
Tuscany	2,611	2,540	2,220	2,319	2,274
Umbria	889	966	879	776	812
Marche	1,800	1,609	1,683	1,258	940
Latium	3,282	3,733	3,008	2,859	2,441
Abruzzo	4,192	3,689	3,441	3,808	3,319
Molise	364	310	342	307	274
Campania	2,113	2,013	1,717	1,761	1,655
Apulia	8,706	7,782	6,877	5,580	6,089
Basilicata	511	473	391	309	284
Calabria	811	613	884	531	476
Sicily	8,968	7,106	7,149	6,209	6,553
Sardinia	875	693	845	729	856
Grand Total	**56,104**	**54,088**	**52,293**	**44,604**	**44,096**

Source: ISTAT

As can be seen from the above table, in terms of volume, in 2003 Veneto was confirmed as the leading producing region, followed by Sicily, Apulia and Emilia- Romagna. These four regions account, on average, for more than half of total Italian wine production. About half of total wine production is represented by white wines, and the remaining half by red and, to a much lesser extent, rose' wines.

An increasing share of total production is represented by DOC and DOCG wines. Controlled Appellation wines (DOC wines) come from carefully delineated areas, have specific requirements regarding the maximum grape yields per hectare, the minimum alcohol content and other quality characteristics, and are subject to EU regulations. Currently, in Italy there are 306 DOC wines (vs 303 last year), while the number of DOCG wines (Guaranteed Appellation of Origin) rose from 27 of one year ago to 30.

Many of the most valuable, well-known 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 be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. DOC & DOCG wines' share of total domestic output keeps growing, rising from about 23 percent of the total in 2002 to 30 percent in 2004. The bulk of Italian production is still table wines. Most of the DOC & DOCG wine production comes from the north of the country (especially Trentino Alto

Adige, Friuli Venezia Giulia, and Piedmont, which account for over two thirds of the total) and Tuscany.

Planted Area

After the sharp declines reported in the 80's and 90's, Italian vine area in the most recent years has continued to fall, although at a much slower rate. This year's area is officially reported at 786,000 hectares, or slightly more than half of the area of the early 80's.

Current CAP (Common Agricultural Policy) for the wine sector calls for a general prohibition of new vine planting through 2010. At the same time, it provides a special fund to be spent on reconversion and restructuring of vineyards, aimed at obtaining better quality wines. The EU allocations for Italy and its main producing regions during the last three marketing years have been as follows:

	2001/02		2002/03		2003/04	
	hect.	Mill.Euros	hect.	Mill.Euros	hect	Mill.Euros
Piedmont	1,198	8.8	1,493	10.6	1,340	5.8
Veneto	1,531	11.2	1,531	10.8	1,503	12.0
Emilia-Romagna	1,262	9.3	1,505	10.6	1,255	8.1
Tuscany	1,364	10.0	1,460	10.3	1,421	10.1
Apulia	2,127	15.6	2,409	17.0	2,036	13.7
Sicily	2,521	18.5	2,975	21.5	2,866	42.0
Other regions	5,907	43,2	6,143	43,1	6,451	46.4
TOTAL ITALY	15,910	116.6	17,516	123.9	16,872	138.1

As can be seen from the above table, most of the allocations are spent in southern Italy, where quality wines are still rarer than in the northern part of the country.

Distillation

Current CAP provides two different, voluntary distillation programs optional distillation (automatically opened at the beginning of each marketing year), and "crisis" distillation (aimed at supporting the market in case prices for a certain type of wine or in a delimited producing region show a significant worsening for a certain period of time). During 2003/04 contracts approved under optional distillation involved 1,985,000 hectoliters, or a volume significantly larger than the one in the previous year (1,260,000 hectoliters), due mainly to the less favorable market situation, especially for table red wines. During these two marketing years (02/03 and 03/04), however, there was no "crisis" distillation, as domestic prices always remained over the distillation prices, mainly as a result of the very low domestic production. Prospects for the 2004/05 marketing year, on the other hand, indicate a substantial increase of the volumes to be distilled, as a consequence of both larger domestic supplies and further declining prices. Optional distillation, according to trade contacts, could exceed 3.5 MHL, while some wine quantities could be again distilled under the "crisis" distillation, if the current downward market price trend is not reversed.

Prices

After the strong increase reported in 2003/04, due mainly to the reduced domestic supply, wine prices in 2004 started to weaken, due to stagnant domestic consumption and declining exports. According to ISMEA, grower prices averaged some 2.5 percent less than in the previous year for red table wines and 1 percent less for quality red wines (DOC/DOCG). Prices of white wines, on the contrary, rose: +5% for table wines and +6% for quality wines. These increases, however, reflect more the very tight domestic production than an actual growth in domestic and export demand. On the contrary, weakening consumption, joined to the expanded domestic production, is affecting the wine market in 2004/05. During the first four months of the current marketing year (August-November 2004) grower prices of red table wines dropped, on average, by 18 percent compared to the same period of the previous year, while those of table white wines decreased by 12 percent. Significant reductions are also reported for quality wine prices: -5 percent for red wines and –10 percent for white wines.

Production Policy

Current CAP for the wine sector was fully implemented in 2000/01 and is not likely to be substantially changed in the coming years. Facing present market difficulties, (weaker domestic demand, lower exports, strong Euro, and increasing competition from other countries both in the European and in the U.S. markets) the Italian wine sector is urging the local authorities to adopt measures to support wine consumption. One of these measures is the request recently submitted to the government to reduce current IVA (Value Added Tax) rate from 20 percent to 10 percent, arguing that wine is traditional part of the Italian menu, and cannot be treated differently than other key ingredients of the Italian diet. The obvious implications in terms of tax revenues for the Italian government make this proposal difficult to implement.

CONSUMPTION

Domestic wine consumption, which in 1975 was 104 liters per capita per annum, has steadily declined and stabilized at about 50 liters. According to a recent survey made by Assobirra (the Bier Producer Association), however, the number of wine regular consumers (people who drink wine practically every day) continues to decrease, while the importance of periodic drinkers (persons who consume wine during meetings with friends, the holidays, meals at restaurants, or particular events is growing). Furthermore, as the table below shows, this new consumption trend is favoring mainly non-alcoholic beverages (mineral water and soft drinks), rather than beer and wine, in connection to both changed life styles and health and dietetic concerns. The strong increase of retail prices of wines, moreover, has in the most recent years further pushed many traditional consumers to either buy cheaper wines (with generic geographical indication rather than DOC/DOCG) or switch to other beverages.

Per capita consumption of beverages in Italy (liters)

	1998	1999	2000	2001	2002
Bier	26.9	27.1	28.1	28.9	28.2
Mineral water	144.2	148.1	165.0	172.0	182.9
Soft drinks	57.0	58.0	54.9	56.1	65.6
Cold tea	3.9	4.0	4.4	4.7	4.5
Wine	52.0	51.5	51.0	50.0	51.0
Fruit juices	9.6	10.1	10.8	11.2	10.9
Spirits	1.4	1.3	1.2	1.1	0.9
Total	**295.0**	**300.1**	**315.4**	**324.0**	**344.0**

STOCKS

Wine ending stocks declined slightly in both 2002/03 and 2003/04, in line with the very low production in those two years. Preliminary expectations for 2004/05, on the contrary, indicate a substantial stock expansion, due to both increased output and stagnant or declining demand (both domestic and export). The extent of this possible stock increase will depend on the actual volumes distilled, which are included in our PSD table in the "domestic consumption, other" line.

INTERNATIONAL TRADE

Italian wine exports in 2003 dropped by 16 percent in volume but only 3 percent in value, because of the decline in bulk, cheaper table wine shipments. These declined by 36 percent in volume and 19 percent in value. As in the previous year, in 2003 the only wines whose exports rose were bottled table wines (+3 percent in volume and +11 percent in value). This situation reflects, basically, a further increased interest from the foreign buyers for these kind of wines, cheaper than DOC/DOCG wines, but in any case of good enough quality to attract a rising number of foreign consumers. Sales of DOC/DOCG wines in 2003 dropped by 12 percent in volume and 10 percent in value, consequent to increased competition in the world market. These wines, on the other hand, represent only 30 percent of the total export quantity, although they account for about half of total export value. Slight decreases are reported also for exports of sparkling wines (-2 percent in volume) and spumanti (-3 percent in volume), but with increases in value (+9 percent and + 6 percent, respectively).

Considering export data by destination, the 2003 figures show as the U.S. became, in terms of value, the leading market for Italian wines (about 27 percent of the total figure), surpassing Germany for the first time, while the U.K. is third. In terms of volume, Germany, despite the strong decrease reported in 2003, remains the primary export market, but the U.S., with over 2 MHL, overtook the U.K. and France. Exports to France, in particular, mainly represented by bulk table wines, dropped by 47 percent in 2003 (in volume), after the 26 percent drop reported in 2002, due again to the strong competition from cheap Spanish wine. The very strong Euro compared to the U.S. dollar is affecting Italian exports to the U.S., as is competition from other countries, primarily Australia. Slight export decreases to the U.S. have been also reported for both spumanti and sparkling wines (-4 percent each).

Italian wine exports are showing a slight improvement during 2004. According to ICE, the value of Italian shipments in January-August 2004 rose by 5 percent from the same period of 2003, thanks mainly to the increased export value to the U.K., Switzerland, Canada and some northern European countries, while shipments to the U.S. are virtually unchanged, in value terms. The main concerns of the Italian wine industry are represented by the growing competition on the world market from "new" wine producers, such as Australia, Chile, Argentina and South Africa, able to offer good products at competitive prices. The strong Euro, as well, is a limiting factor for exports outside the Euro area, (mainly North America and Japan, but also the U.K.).

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 2003, however, imports rose by 76 percent in volume, reflecting mainly larger arrivals of bulk table wines (+153 percent), which accounted for about 84 percent of the total, mainly coming from Spain and, at a lesser extent, France.

Shipments from the United States, although very small when compared to total Italian wine consumption, recovered substantially in 2003, after the drop reported in the previous year. The official Italian figures report imports of 2,778 hectoliters in 2003, a significant increase of 48 percent. In value terms, however, the same Italian sources indicate that imports totaled 1,090,000 euros ($1,233,000), or 6 percent less than in 2002, mainly reflecting the cheaper dollar. According to ICE, however, imports from the U.S. during January-August 2004 totaled 3.6 million Euro, or almost six times the same period of 2003. This development confirms the reputation for good quality of U.S. wines in the Italian market, not only, as in past years, in top restaurants and hotels, but also with Italian consumers in general.

FOREIGN MARKET DEVELOPMENT

The Italian Trade Commission (ICE), an agency of the Ministry of Production Activities continues to remain the main public institution to provide export and promotion assistance in foreign markets. Funds used by ICE to promote Italian food and agricultural products, including wines, are provided by the Ministries of Production Activities and Agriculture, as well as the 20 Italian regions, which are in fact using ICE as their main promotional means.

Currently there is no specific export promotion program for wine, which is included in the general promotional programs of Italian foods and beverages. The 2005 promotional plan of ICE is still under discussion with the Italian Parliament, as part of the budget law. In general, however, ICE' s yearly expenditures for foods and beverages are almost 30 million euros ($ 40 million) of which 4.5 million euros are allocated to the budget of the Ministry of Production Activities, 4.9 million euros for the budget of the Ministry of Agriculture (to be spent for the most valuable Italian food products, like those having recognized appellation of origin), and the remaining about 20 million euros for the Italian regions. Out of the total, it is estimated that about one fourth to third is spent to promote wine. The major events include workshops, wine tastings, or point of sale promotions. The main target countries are the U.S., U.K., Canada, Switzerland and Japan. Focus is increasingly given to some growing markets, such as the Far East (not only Japan, but also South Korea, Taiwan, Hong Kong, Singapore, as well as China). The Ministry of Production Activities allocation is spent almost entirely at fairs and shows, where the cost of national pavilions is shared with private companies on differing bases according to the market, with a higher private share in "mature" markets (like western Europe and the U.S.), and a larger public share in emerging markets (especially China and other far eastern markets). Other activities include financing trade teams to Italy, especially reporters from the food and beverage press (often co-sponsored by the local industry), and organizing wine tastings. Private contributions to the ICE programs sponsored directed by the federal administration total about €8.7 million

($11.5 million), while the contributions to the activities sponsored by the regions are roughly estimated at €5 to 6 million.