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Spain

Wine

Competition Annual

2001

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Report Highlights:

Three consecutive large vintages coupled with declining consumption are resulting in large inventories and reduced prices. Spanish wine exports in 2000 rose to 9.3 million Hls. but decreased in terms of value and are growing this year. Wine imports declined dramatically but U.S. imports increased. The negotiations for the renewal of the U.S.-EU wine accord has not progressed.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Madrid [SP1], SP

Executive Summary

Spain's 2001 wine vintage is currently estimated at about 31 million hectoliters (one hl. equals 100 liters), down 22 percent from last year’s levels. Dryness and frosts prevented a larger crop. Three consecutive large crops have resulted in large stocks and dramatic declines in grape prices. Quality this year is in general terms fairly good.

The long lasting tendency of declining wine consumption continues, included quality wines which were growing in the past to reach a record level in 1998. Thus, bottled wine sales in the distribution system in Spain decreased to 13.1 million hectoliters in 2000, a 4.4 percent decline from previous year levels. During the first semester of 2001, consumption of quality and table (ordinary) wines has continued to decline.

Spanish wine exports in 2000 rose nearly 3 percent in terms of volume to 9.3 million hectoliters but declined 1.3 percent in terms of value to Pts. 214 billion ($1.18 billion). The main destinations, value basis, were the rest of the EU (71 percent), the United States (8 percent) Switzerland (5 percent), and Japan (2 percent). Wine imports in 2000 were almost halved to 0.64 million hectoliters but in terms of value only decreased 14 percent to Pts.15 billion ($81million). United States wine imports into Spain last year increased to 700 HL worth $0.59 million During the first half of 2001, Spanish wine exports increased 22 percent over the comparable period of a year earlier.

For the next couple of years, Spanish wine exports are expected to continue to grow due to the high competitiveness of Spanish wines coupled with current large inventories. For a longer term, however, forecasts are difficult to make as Spanish grape harvests are very vulnerable to adverse weather.

This is the second year of application of the new EU wine regime. The new scheme seeks the enhancement of quality, a greater market orientation, and the renewal of old vineyards. This is mainly done with a vineyard restructuring program which is expected to renew or modernize about 100,000 hectares of vineyards in Spain. A "crisis distillation" was implemented last year in Spain due to the 2000 bumper vintage.

The negotiations for the renewal of the United States-EU wine accord have not progressed. While the United States is seeking a system of mutual recognition for practices approved in either countries, the EU seeks the protection of EU semigeneric/geographic names, traditional EU expressions (such as "vintage", "reserve", "aged five years"), labeling and certification, and tariff disparity.

PSD Table						
Country	Spain					
Commodity	Wine				(1000 MT)(1000 HL)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
TOTAL Grape Crush	5051	5051	5474	6300	0	4900
Begin Stock (Ctrl App)	14000	15400	13000	13000	0	21900
Begin Stock (Other)	7000	8300	6700	6700	0	12600
TOTAL Beginning Stocks	21000	23700	19700	27500	22500	34500
Prod. from Wine Grapes	400	33100	440	500	0	400
Prod. from Tabl Grapes	32600	400	35560	39500	0	30600
TOTAL PRODUCTION	33000	33500	36000	40000	0	31000
Intra-EU Imports	500	700	500	500	0	600
Other Imports	200	10	200	10	0	10
TOTAL Imports	700	710	700	510	0	610
TOTAL SUPPLY	54700	57910	56400	68010	22500	66110
Intra-EU Exports	8500	7000	9000	8400	0	8500
Other Exports	2500	2100	3000	2400	0	2500
TOTAL Exports	11000	9100	12000	10800	0	11000
Dom.Consump(Cntrl App)	6100	7300	6300	7200	0	7400
Dom.Consump(Other)	17900	14010	15600	15510	0	15810
TOTAL Dom.Consumption	24000	21310	21900	22710	0	23210
End Stocks (Cntrl App)	13000	17900	15000	21900	0	19500
End Stocks (Other)	6700	9600	7500	12600	0	12400
TOTAL Ending Stocks	19700	27500	22500	34500	0	31900
TOTAL DISTRIBUTION	54700	57910	56400	68010	0	66110

PRODUCT NARRATIVE

Production

Despite a recent major reduction in Spanish vineyards, the area planted to vineyards in Spain continues to be the largest in the EU, accounting for about one third of the EU vineyard area, followed by France and Italy. Nevertheless, total Spanish wine production ranks behind French and Italian production, mainly due to limited rainfall, poor soils in certain areas, and restrictive measures on vineyard irrigation.

The area planted to vineyards in Spain has dramatically decreased since the EU vineyard uprooting program has been mainly applied in Spain. The latest estimate on the wine grape area is about 1.1 million hectares, compared with 1.5 million hectares in 1985, when Spain joined the EU. Despite this acreage reduction, production levels, however, have not diminished significantly. Greater marketing in the EU has lead to increased grape growers's returns that have been invested in modernizing their vineyards, increasing mechanization and irrigations. Moreover, the new EU vineyard uprooting program will certainly contribute to a further boost to Spanish wine competitiveness in the future and increase exports.

Due to the diversity of Spanish soils and climates, there are numerous Spanish wine areas which produce an broad range of wine types. There are currently more than 50 different Appellation of Origins (AO) throughout the country. Of the 17 Autonomous regions, only two– Asturias and Cantabria– do not have any AO. The area planted to AO vineyards in 99/00 MY was 624.000 hectares, representing about 55 percent of the total Spanish vineyard area. Castilla-La Mancha (31 percent), Rioja (9 percent), Utiel Requena (6 percent) and Valdepenas (5 percent) are the regions with more AO vineyards. In terms of marketing, however, Cava and Rioja are the leading AO wines.

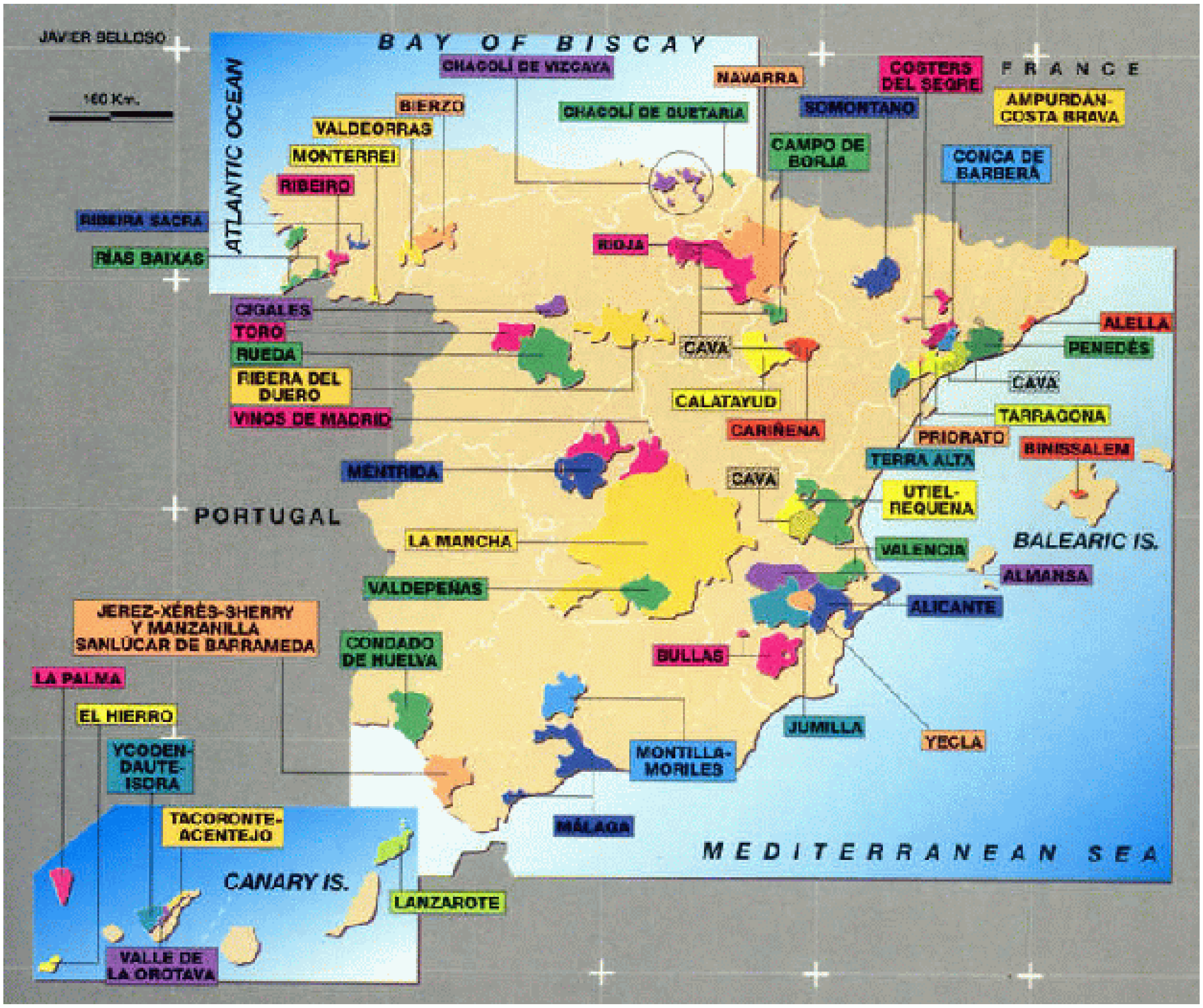
Although much smaller than in the preceding year, wine production in 2001 is estimated to be about an average vintage year output. Dryness conditions and frosts in most wine areas prevented a larger crop this year. Quality this year is variable depending on regions, but in general terms is fairly good.

Prices for grapes in leading wine producing areas have notably decreased in the last two years Thus, grape prices in Rioja which were 375 pesetas per kilogram in 1999 have dropped to about 125 pesetas in 2000 and to 80 pesetas this year.

Breakdown of "wine and must" production by areas in the last two years are as follows:

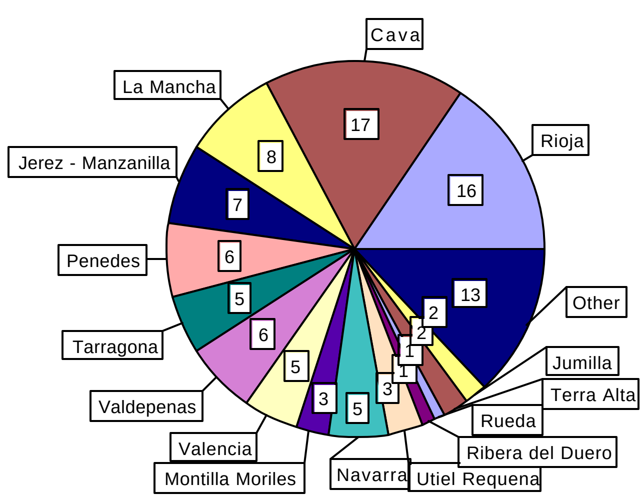
	2000	2001
	(1000 Hectoliters)	
Castilla-La Mancha	24,500	17,000
Extremadura	3,700	2,800
Cataluna	3,100	3,000
Rioja	2,600	2,000
Andalucia	1,900	1,800
Valencia region	2,300	2,200
Castilla-Leon	1,700	1,400
Aragon	1,000	1,000
Galicia	1,000	1,500
Navarra	1,700	900
Pais Vasco	700	600
Murcia	600	600
Madrid	300	300
Canary Islands	200	-
Others	300	0
- TOTAL WINES AND MUSTS	45,600	35,100

Below is a map of the Apellation of Origin Wines and their market shares.



Quality Wine Sales 1999/00, Market Shares

10 Million Hls



The new EU wine regime is being applied since the 2000/01 MY. The new scheme seeks the enhancement of quality, a greater market orientation, and the renewal of old vineyards. This is mostly done with EU regulation 493/99 on restructuring of vineyards which is mainly applied in Spain. About 100,000 hectares will be restructured in Spain during this ten-year program. Restructuring means either change to better varieties – especially surplus white grapes to more comercially-oriented red grapes) or the change of the pruning system from vase to the more modern spalliers. The EU share for the financing of restructuring programs is 50 percent, and in the least developed areas can be up to 75 percent. Castilla-La Mancha is by far the principal recipient of these aids in Spain. Farmers group such as cooperatives get a higher aid rate for restructuring than individual farmers.

The current vineyard planting ban was extended through July 31, 2010. A reserve of planting rights of no more than one percent of the total vineyard area would permit in each member state transfers of planting rights between regions, with young farmers to be the main beneficiaries of such a reserve. This makes the Spanish vineyard area potential to 1.22 million hectares.

The current EU wine regime includes a special distillation scheme to secure alcohol to producers of fortified wines and brandy, as well as a "crisis" distillation scheme for potential surges in wine stocks or severe quality reductions would also be created. During the MY 2000/01, about 7.3 million hls. of "table" wine were used for the production of the so-called edible alcohol and 2.3 million hls. of wine were distilled under the "crisis" scheme. Castilla-La Mancha wines is the main source of wines used for the distillation scheme. Under this scheme, prices received by wine producers – about 286 pts./hectograde (ranging between U.S. cents16 and 19 per liter) – were well below market prices.

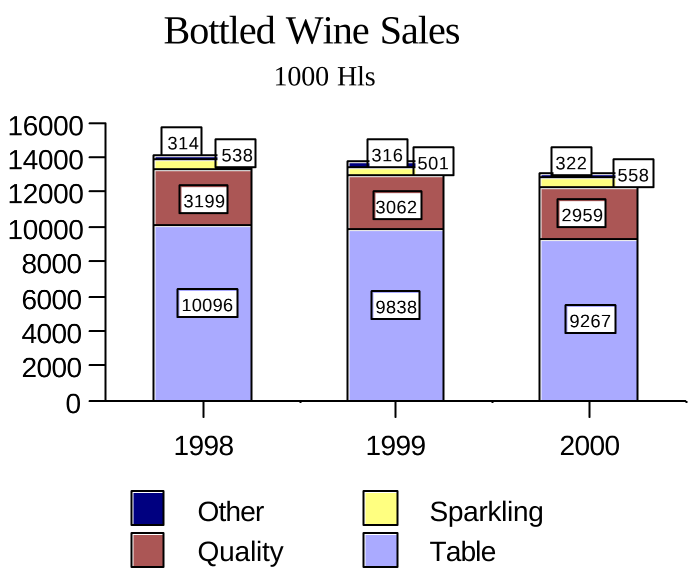
Wine producers can also benefit of wine storage aid. The new wine regime maintains the enological practices, including the chaptalization, the practice of adding sugar to wine during the fermentation process to increase the alcohol content. This is a very contentious issue between Northern and Southern European countries. The former use chaptalization because the sugar content of northern grape varieties is low and the latter, as is the case of Spain, believe that only grape must or concentrated juice should be used to enhance the alcohol content of wines. The EU budget for the entire EU wine sector is being increased from 1.29 billion Euros in 2001 to 1.33 billion Euros in 2003.

The negotiations for the renewal of the United States-EU wine accord have stalled in the last decade due to disagreements about several issues regarding wine trade between the United States and the EU. Discussions are focused primarily on differences in enological (wine making) practices and the procedures to approve new practices. The United States has been proposing that there be mutual recognition of approval systems. The major EU argument against mutual recognition centers on its desire to control "good wine making practices." The EU wants to use a positive list of practices and the United States wants a systems of mutual recognition for practices approved in either countries. Other topics of the negotiations include the protection of EU semigeneric/geographic names, traditional EU expressions (such as "vintage", "reserve", "aged five years") that the EU is seeking, as well as labeling, certification and tariff disparity. In December 1998, the EU granted a five year derogation for United States wine making practices and certification, thereby allowing formal negotiations toward a new agreement to begin.

Consumption

Domestic bottled wine sales have declined in the last two years due largely to increased prices. Domestic sales of quality wine have curbed from the record level reached in 1998. Domestic sales of table wines have continued its long declining tendency. During the first semester of 2000, the tendency of declining consumption of quality wines as well as of table (ordinary) wines have continued.

Below are data on bottled wine sales in the distribution system in 2000 (note that PSD data also include industrial use, losses and distillation).

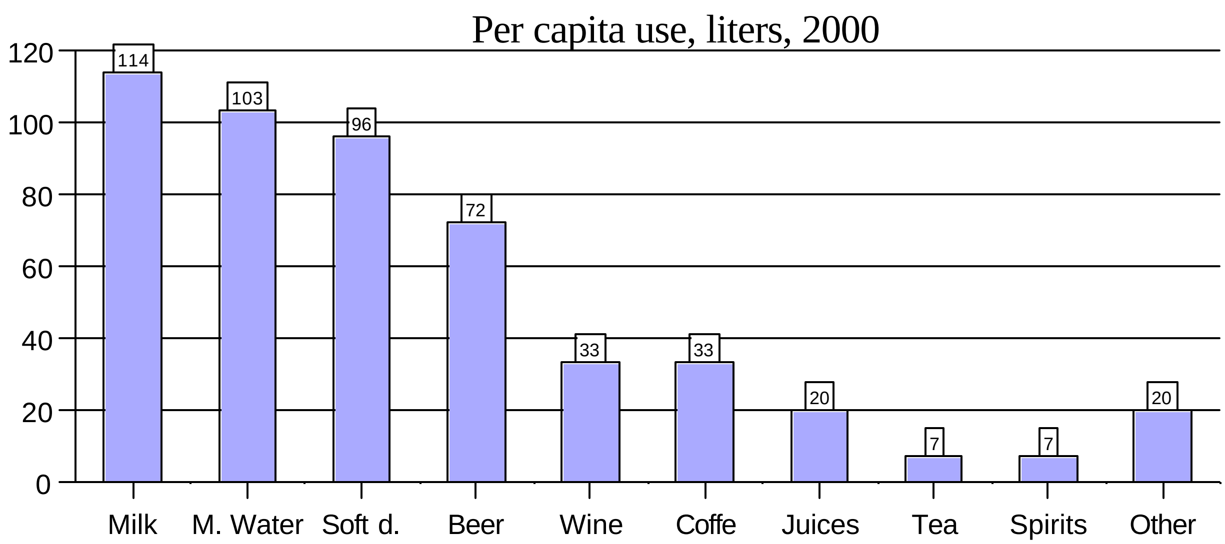


Per capita wine consumption in Spain decreased in 2000 to about 32.7 liters, nearly 2 liters less than in 1999. This current low level contrasts with 70 liters per capita in early seventies and with current consumption levels in France or Italy which almost double the figure for Spain.

Table (ordinary) wines which are the most consumed in Spain are mostly sold in tetra-brick packs, followed by 3/4 liter bottles and returnable containers and are mostly consumed in homes.

In the quality wine market, reds are the most sold, accounting for nearly 60 percent of sales. Whites and roses account for about 20 percent of sales, each. Rioja is the leading quality wine type sold , followed by Valdepenas, Penedes, Navarra, and Ribera del Duero.

During the last decade, while the domestic consumption of wine has declined (except quality wine), mineral water is the packed beverage which has grown dramatically in that period of time. Beer consumption has remained, however, stable.



TRADE

Trade Flows

	CY 1998	CY 1999	CY 2000
VOLUME OF WINE IMPORTS (1000 Hectoliters)			
-Intra EU Imports	916	1,041	632
-Extra EU Imports	6	290	10
TOTAL	922	1,331	642
CIF VALUE OF WINE IMPORTS (Billion pesetas)			
-Extra EU Imports	13	16	14
-Extra EU Imports	1	1	1
TOTAL	14	17	15
VOLUME OF WINE EXPORTS (1000 Hectoliters)			
-Intra EU Exports	8,381	6,858	7,099
-Extra EU Exports	2,843	2,216	2,218
TOTAL	11,224	9,074	9,317
FOB VALUE OF WINE EXPORTS (Billion pesetas)			
-Intra EU Exports	151	158	151
-Extra EU Exports	55	59	63
TOTAL	206	217	214

Import Market Profile

	CY 1998	CY 1999	CY 2000
	VOLUME OF WINE IMPORTS (1000 Hectoliters)		
Wines	885	1,260	585
-Sparkling	13	17	17
-Quality, still	32	32	27
-Table, still	829	1,198	487
-Fortified	11	13	54
Other: grape must, vermouth, sangria, other flavored wines	38	71	57
TOTAL	923	1,331	642
	CIF VALUE OF WINE IMPORTS (Billion pesetas)		
Wines	13	16	13
-Sparkling	3	4	5
-Quality, still	1	1	-
-Table, still	8	10	6
-Fortified	1	1	2
Other: grape must, vermouth, sangria, other flavored wines	1	1	2
TOTAL	14	17	15

Export Market Profile

VOLUME OF WINE EXPORTS
(1000 Hectoliters)

	CY 1998	CY 1999	CY 2000
Wines	10,653	8,463	8,700
-Sparkling	709	1,010	717
-Quality, still	3,309	1,440	842
-Table, still	6,090	5,402	5,737
-Fortified	545	611	1,404
Other: grape must, vermouth, sangria, other flavored wines	571	611	617
TOTAL	11,224	9,074	9,317

FOB VALUE OF WINE EXPORTS
(Billion pesetas)

	CY 1998	CY 1999	CY 2000
Wines	198	210	206
-Sparkling	34	50	38
-Quality, still	96	108	16
-Table, still	47	16	113
-Fortified	21	27	39
Other: grape must, vermouth, sangria, other flavored wines	8	16	8
TOTAL	206	217	214

Import Trade Matrix			
Country	Spain		
Commodity	Wine		
Time period	CY	Units:	CY
Imports for:	1999	1000 HL	2000
U.S.	0.5	U.S.	0.7
Others		Others	
EU countries	1041	EU countries	632
Chile	34	Chile	3
Argentina	15	Argentina	3
Switzerland	6	Switzerland	1
Hungary	3	South Africa	0.8
China	3		
Israel	2		
Australia	1		
Total for Others	1105		639.8
Others not Listed	25.5		2.5
Grand Total	1131		643

Export Trade Matrix			
Country	Spain		
Commodity	Wine		
Time period	CY	Units:	CY
Exports for:	1999	1000 HL	2000
U.S.	229	U.S.	211
Others		Others	
EU countries	6858	EU countries	7099
Switzerland	279	Switzerland	270
China	241	China	210
Japan	109	Ivory Coast	174
Norway	73	Angola	131
Canada	63	Japan	94
Andorra	44	Czech R.	88
Russia	40	Norway	71
Mexico	32	Canada	65
		Russia	62
Total for Others	7739		8264
Others not Listed	1106		842
Grand Total	9074		9317

Peseta/US$ exchanges rates: 1997 - 146.41; 1998 - 149.40; 1999 - 156.33; 2000 - 180.68;
Average expected for 2001: 185
Source: Spanish Customs Office.

Spanish wine exports in 2000 rose nearly 3 percent in terms of volume to 9.3 million hectoliters but declined 1.3 percent in terms of value to Pts. 214 billion ($1.18 billion). The main destinations, value basis, were the rest of the EU (71 percent), the United States (8 percent) Switzerland (5 percent), and Japan (2 percent). During the first half of 2001, Spanish wine exports increased 22 percent over the comparable period of a year earlier.

Spain's wine imports are basically bulk "table" wines in addition to a few narrow market segments of quality wines. Wine imports in 2000 were almost halved to 0.64 million hectoliters but in terms of value only decreased 14 percent to Pts.15 billion ($81 million). Although United States wine imports into Spain last year increased to 700 hectoliters worth $0.59 million.

For the next couple of years, Spanish wine exports are expected to continue to grow due to the high competitiveness of Spanish wines coupled with current large inventories. For a longer term, however, forecasts are difficult to make as Spanish grape harvests are very vulnerable to dryness and freezes.

Market Access

1. Import Tariffs: Current import tariffs are as follows:

	(Euros/100 liters)
Bottled wine, still	13.10*
Sparkling wine	32.00

*At the current Euro/United States dollar rate of 0.8596, it makes 11 United States cents per liter or 8.44 United States cents for a regular 75 CL wine bottle.

2. Excise taxes: no excise taxes apply to domestic or imported wines in Spain.
3. Value Added Tax: Like domestic wines, imported wines are subject to a 16 percent VAT.

Market Opportunities

Spain's wine imports are basically limited to a few narrow market segments. Thus, Spain should be considered as only a specialty market for wine imports. Some high priced United States brands already have in-country distribution, and there are also some marketing opportunities for medium priced wines.

Import Requirements:

Importers may be any individual or company located in Spain or in any other EU country. Spanish importers with an address in Spain have to have a fiscal I.D. from the Ministry of Finance (Ministerio de Economia y Hacienda). For wine shipments larger than 3,000 liters, an import certificate– called AGRIM– is required. A deposit, with rates depending on the type of the wine, must be made. However, deposits not exceeding 120 Euros are exempted. The import certificate has to be requested prior to the shipment, with a validity for the rest of the month in which it was issued plus 4 months, i.e. a certificate issued on November 24 will be valid through March 31. The certificate is valid for the entire EU.

The following documentation is required for customs clearance of wines:

1) Bill of lading
2) Certificate of Origin
3) An original Commercial Invoice with a copy
4) An import declaration

As indicated above, wine imports into Spain are subject to the EU import duty rates shown on the table as well as to a 16 percent VAT.

Wines are also subject to sanitary inspection at Customs. Importers have to be registered at the Public Health Unit of the Autonomous Region's Government where they are located. Importers based in other EU countries not having a domicile in Spain, however, should be registered with the Central Government's Ministry of Health at the following address:

Registro Sanitario de Alimentos
Direccion General de la Salud Publica
Subdireccion General de Higiene de los Alimentos
Ministerio de Sanidad y Consumo
Paseo de Prado, 18-20
28071 Madrid
Phone: (34) 91 596-1966 and 91 596-1950
Fax: (34) 91 596-4487

Please note that importers must have a sanitary registration number which, along with their names and addresses, must appear on the label.

As in other EU countries, product labeling must comply with stringent information requirements including net content, alcoholic degree, lot marking, country of origin and importer's name, address and sanitary registration number. Label information must be in Spanish. Stickers are allowed.

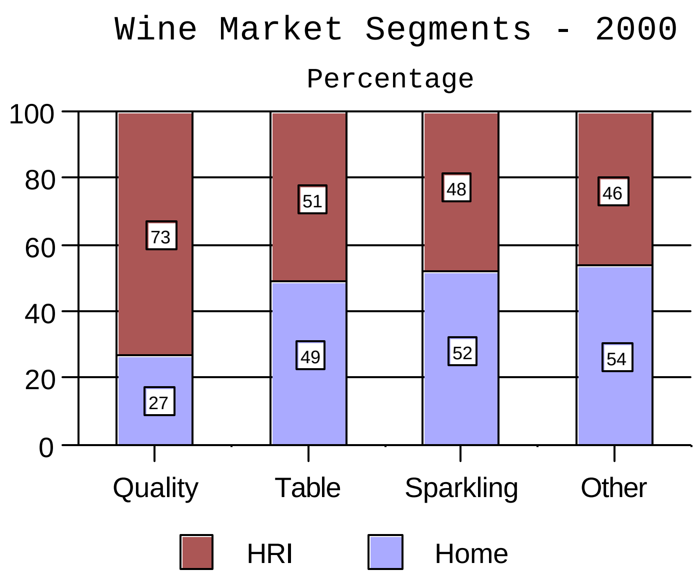
There is some labeling information which is mandatory in the United States but prohibited in the EU, as follows: The government warning statement and the sulfite declaration. In addition, generic or semigeneric designations having geographic significance such as Sherry or Champagne, or the terms “Method Champanoise”, “table wine”, and “reserve” are prohibited in the EU.

A customs agent or broker is normally involved in clearing products at customs. Import declarations are made at the State Secretariat of Commerce or its branch delegations in major port cities throughout the country. Declarations must use the exact terminology of the tariff classification under which the goods are being imported. A three-month grace period is allowed for United States-origin goods arriving without proper documentation, subject to a written guarantee by the customs agent.

MARKETING

Distribution

In country distribution is normally made through wineries' distributors. As shown in the table below, sales of still wines – quality in particular – are mainly done in hotels, restaurants and institutions (HRI). Sales of sparkling wines in HRI increased notably last year.



HRI markets are supplied mainly by distributors (80 percent). The balance is met by wholesalers (8 percent), supermarkets (6 percent) and cash&carries (4 percent).

Concerning exports, the most common way for Spanish wineries is to sell directly to an importer located in the destination country. Lack of industry concentration and organization on the part of Spanish wine producers usually enables distributors to fully extract price concessions in the domestic and foreign markets. Only a very few large producers are able to implement their own marketing criteria. There are about 3,800 wine companies in Spain, of which about 50 account for 80 percent of total wine exports. Some industry consolidation is taking place, i.e. the Allied Domecq group acquired the leading Bodegas y Bebidas wine group.

Foreign Market Development

The Spanish Foreign Trade Institute (ICEX), an Agency of the Ministry of Industry, Commerce and Tourism, is responsible for diversified government-funded foreign market promotion programs for food products as well as other non-food items such as industrial products, consumer goods, and fashion.

ICEX food product promotional activities are focused on EU markets and include sponsorship and participation in trade fairs, point-of-sales promotions, market research, trade missions, training and direct assistance to exporters. The Institute's promotional activities abroad are supported by eleven promotional centers, seven of which are food/beverage-related and located in New York, Toronto, Dusseldorf, The Hague, London, Paris and Milan, and by 80 trade offices around the world. Five trade offices are located in the United States (Chicago, Los Angeles, Miami, New York, and Washington). There is also an office in San Juan, Puerto Rico.

Competitor's market promotion activities are mainly conducted by the Port Wines Institute, the Italian Institute for Foreign Trade, and the French SOPEXA. Market development efforts for wine in Spain are for the most part focused on participation in Intervin, a wine and spirit show associated with ALIMENTARIA, which is held biannually in Barcelona. ALIMENTARIA is the third largest such event held in Europe, after ANUGA and SIAL. 666 exhibitors participated at Intervin last year. The next Intervin show is scheduled for March 2002. For more information on Intervin, please visit the following internet address:

http://www.alimentaria.com/cas02/conozca/pag02104.htm

Government Support

Under the current limits of the WTO, EU export refunds are available for table wines and certain fortified wines to certain destinations. Spanish wine exports with EU export refunds primarily consist of bulk reds and roses destined to African markets. Other destination includes Asian markets Eastern European markets (bulk whites).

Subsidizes wine exports amounted to1.3 million hls. of wine in 1999/00 MY. Export refunds on those exports are declining to Pts. 2.62 billion in 2000.

Export Regulations

The Spanish Vineyard, Wine and Alcohol Act of 1971 is the legal framework for the production, marketing and imports and exports of Spanish wines.