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**Report Highlights: Italy's 2001 Italian wine production decreased 5% to 51.5 million hectoliters from 2000, due to the cold spring and a very hot and dry late summer. This heat, however, resulted in a vintage of good to very good quality on average. Wine exports in CY 2000 dropped in volume but rose in value, due to reduced shipments of table wines, which still account for almost two thirds of total Italian exports. U.S. wine exports to Italy further recovered in 2000 despite the strong dollar.**

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Annual Report

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## SECTION I. SITUATION AND OUTLOOK

Italian wine production in 2001 is preliminarily estimated at 51.5 million hectoliters, or 5 percent less than last year. Weather conditions have generally been adverse in terms of yields, but more favorable for the vintage quality. A cold spring (especially in April), was followed by a generally hot and dry summer, which cut yields per hectare, but improved quality, classified as good to very good, with peaks of excellent quality in limited areas. Controlled appellation wines still represent a minority, or no more than 20 to 25 percent of total wine production, but are produced in much higher proportion in the north and in Tuscany, with minimal production in the south.

Wine grape area, after the remarkable drop reported in the last two decades, has now stabilized at about 830,000 hectares, and total vine area is not expected to change dramatically in the near future. In addition, current EU farm policy programs reinforce a general prohibition of new vine planting through 2010, allowing only a limited derogation of vine re-planting for use in producing high quality wines (slightly over 18,000 hectares for Italy in 2001).

The EU distillation programs, aimed at supporting growers' incomes, have attracted more stable volumes, after the peaks reached in the early 90's. However, in 2000/01 total distilled wine volume was about 6.2 million hectoliters, or almost two million hectoliters more than in 1999/2000, due to the continued market difficulties reported for table wines. For 2001/02 general expectations indicate a volume of about 5.5 million hectoliters.

Domestic wine consumption, after the dramatic drop reported in the recent past, now looks more stable. Bulk wine still accounts for the largest part of consumption, with appellation of origin wine representing no more than 25 percent of the total.

Italian wine exports, after the significant rise reported in 1999, showed different trends in 2000: a decline in volume (-7 percent) and a rise in value (+5 percent). This situation reflects a drop in exports of table wines and a larger share of bottled Appellation of origin wines. The main destinations, as usual, were Germany (35 percent of the total), France (20 percent), the United States (10 percent in volume but 23 percent in value) and the United Kingdom (7 percent). Significant volumes were also exported to Switzerland, Japan, Canada and some eastern European countries.

U.S. wine exports to Italy, although marginal in terms of direct import into Italian ports, showed further signs of recovery in 2000, thanks mainly to an aggressive marketing campaign by some leading U.S. wineries.

## SECTION II. STATISTICAL TABLES

## WINE

PSD Table						
Country	Italy					
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	75030	75030	67000	73458	0	69800
Begin Stock (Ctrl App)	11252	11252	11500	10800	0	10500
Begin Stock (Other)	18885	18885	21274	20072	0	15310
TOTAL Beginning Stocks	30137	30137	32774	30872	30724	25810
Prod. from Wine Grapes	58072	58073	51700	54090	0	51500
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	58072	58073	51700	54090	0	51500
Intra-EU Imports	560	513	590	609	0	635
Other Imports	55	49	60	57	0	65
TOTAL Imports	615	562	650	666	0	700
TOTAL SUPPLY	88824	88772	85124	85628	30724	78010
Intra-EU Exports	13500	13618	13000	12970	0	12200
Other Exports	4050	4089	4000	4648	0	4800
TOTAL Exports	17550	17707	17000	17618	0	17000
Dom.Consump(Cntrl App)	7300	7300	7400	7400	0	7400
Dom.Consump(Other)	31200	32893	30000	34800	0	31600
TOTAL Dom.Consumption	38500	40193	37400	42200	0	39000
End Stocks (Cntrl App)	11500	10800	10500	10500	0	10400
End Stocks (Other)	21274	20072	20224	15310	0	11610
TOTAL Ending Stocks	32774	30872	30724	25810	0	22010
TOTAL DISTRIBUTION	88824	88772	85124	85628	0	78010

## ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN						
	Quantity (1000 Hectoliters)			Value (Billion Lire)		
	1998	1999	2000	1998	1999	2000
Grand Total	863	456	565	340	357	322
France	374	292	323	276	307	322
Germany	16	26	24	5	7	6
Greece	78	24	22	5	3	3
Spain	304	134	87	20	6	13
Portugal	42	31	34	23	18	19
Other EU countries	8	3	10	3	2	6
Total EU	822	389	500	332	343	369
*U.S.	1	2	2	1	2	3
Australia	0	1	1	0	0	1
Other countries	40	64	62	7	12	13

Source: ISTAT

\* Italian trade data do not include imports of U.S. wine transhipped from other European ports. It is estimated that total imports could be as high as double that reported by official statistics.

1 Billion Lire = \$ 575,000 in 1998

\$ 550,000 in 1999

\$476,000 in 2000

ITALIAN IMPORTS OF WINE AND MUST

<b>ITALIAN IMPORTS OF WINE AND MUST</b> <b>QUANTITY</b> <b>(1.000 Hectoliters)</b>							<b>VALUE</b> <b>(Billion Lire)</b>
	1998	1999	2000	1998	1999	2000	
Total Wines	863	456	565	340	357	387	
- in bottles	86	97	122	55	64	77	
- in bulk	678	261	327	59	35	40	
- sparkling	19	12	13	9	5	6	
- champagne	62	66	79	212	245	258	
- other spumanti	18	19	24	6	7	7	
Must	209	171	48	11	9	2	
Grand total	1072	627	613	351	366	389	

Sources: ISTAT, ISMEA

1 Billion Lire = \$ 575,000 in 1998

\$ 550,000 in 1999

\$476,000 in 2000

#### ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION

<b>ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION</b>						
	<b>Quantity (1000 Hectoliters)</b>			<b>Value (Billion Lire)</b>		
	1998	1999	2000	1998	1999	2000
Grand Total	15191	18320	17060	4100	4467	4649
France	2562	4181	3386	224	328	261
Germany	5448	6277	5991	1322	1437	1408
U.K.	1093	1157	1163	392	419	417
Belgium	251	292	247	68	75	69
Netherlands	274	280	278	83	94	84
Denmark	134	154	189	63	72	85
Spain	695	1137	445	77	104	55
Portugal	429	598	274	57	70	38
Austria	400	312	332	129	98	105
Other EU countries	270	303	635	91	101	143
Total EU	11555	14691	12940	2506	2798	2665
U.S.	1386	1492	1625	730	865	1051
Switzerland	489	560	562	236	262	266
Canada	337	354	402	142	160	205
Japan	527	284	317	289	172	195
Russia	22	12	114	13	6	15
Poland	226	296	233	17	23	20
Czech Rep.	148	150	187	10	9	13
Other countries	501	481	680	157	172	219

Source: ISTAT

1 Billion Lire = \$575,000 in 1998  
 \$ 550,000 in 1999  
 \$ 476,000 in 2000

ITALIAN EXPORTS OF WINE & MUST

<b>ITALIAN EXPORTS OF WINE &amp; MUST</b> <b>QUANTITY</b> <b>(1.000 Hectoliters)</b>							<b>VALUE</b> <b>(Billion Lire)</b>		
	1998	1999	2000	1998	1999	2000			
DOC Wines	4141	4221	4507	2047	2107	2342			
- in bottles	3783	3862	4138	1956	2033	2260			
- in bulk	358	359	369	91	74	82			
Sparkling wines	874	945	963	241	272	274			
Other wines	9420	12261	10884	1428	1656	1686			
Spumanti	756	7893	706	384	432	347			
Total wines	15191	18320	17060	4100	4467	4649			
Must	379	338	317	75	64	62			
Grand total	15570	18658	17377	4175	4531	4711			

Sources: ISTAT

1 Billion Lire = \$ 587,000 in 1197  
 \$ 575,000 in 1998  
 \$ 550,000 in 1999



## PRODUCTION

### General

Italian wine production this year is still preliminarily estimated at 51.5 million hectoliters (MHL), or 5 percent less than in 2000, and one of the lowest crops of the last 40 years. Excluding 1997 (when production totaled only 50.6 MHL), this year's crop appears to be the smallest since 1957. Weather conditions have generally been adverse in terms of yields, but more favorable from a quality standpoint. A cold spring, especially during April, when unusual frosts and hails adversely hit the vines, was followed by a generally very dry and hot summer. This development accelerated plant growth and allowed a general increase in the sugar content of the grapes, but also sharply cut the yields per hectare. The weather also resulted in earlier harvesting (generally 7 to 10 days) than in normal years starting in the southern regions and for the early varieties, at the beginning of August.

Average yields, both in terms of grape production per hectare and of wine output from grape processing, are therefore lower than in normal years. As a result, the 2001 vintage is some 13 percent lower than the average of last decade. Breaking down production by region, the latest estimates indicate a substantial steadiness in the north-east (Veneto and Friuli Venezia Giulia), while the most significant decreases (about 15 percent from 2000) are reported in five regions (Tuscany, Marche, Abruzzo, Apulia, and Sardinia), while in Sicily production is anticipated some 10 percent less than last year's. The situation, again in terms of volumes of production, was better in the rest of northern Italy, particularly in Piedmont, where the crop recovered about 15 percent after the dramatic drop reported last year.

Concerning quality, most experts rate this year vintage, on average, good to very good (on a scale which includes "poor", "medium", "good", "very good", and "excellent"), with peaks of excellent in some areas, but also with wide variations within regions and wine types. The best quality wines this year are reported in six regions (Lombardy, Marche, Latium, Abruzzo, Sicily and Sardinia), rated as "very good", while in the rest of Italy quality is classified between good and very good.

Wine grapes are produced in all the twenty Italian regions. The following table shows the breakdown of wine production by region for the three most recent years for which official data are available.

### ITALY: WINE PRODUCTION BY REGION

<b>ITALY: wine production by region (1,000 hectoliters)</b>			
	1998	1999	2000
Piedmont	3,171	3,267	2,938
Lombardy	1,452	1,488	1,360
Trentino Alto Adige	1,204	1,226	1,177
Veneto	8,276	9,265	8,825
Friuli Venezia Giulia	1,224	1,155	1,152
Emilia Romagna	6,494	7,143	6,915
Other North	183	189	196
Total North	22,004	23,733	22,563
Tuscany	2,554	2,665	2,540
Umbria	838	979	966
Marche	1,805	1,686	1,609
Latium	3,305	3,689	3,733
Total Center	8,502	9,019	8,848
Abruzzi	4,256	4,225	3,689
Campania	2,249	2,164	2,013
Apulia	8,294	8,235	7,782
Other South	1,550	1,589	1,396
Total South	16,349	16,213	14,880
Sicily	9,200	8,160	7,106
Sardinia	1,085	947	693
Total Islands	10,285	9,107	7,799
<b>GRAND TOTAL</b>	<b>57,140</b>	<b>58,072</b>	<b>54,090</b>

Source: ISTAT

As can be seen from the above table, in terms of volume, in 2000 Veneto was confirmed as the leading producing region, followed by Apulia, Sicily and Emilia-Romagna. These four regions account, on average, for more than half of total Italian wine production. Controlled Appellation wines (DOC wines) come from carefully delineated areas, have specific quality characteristics, and are subject to EU regulations. Currently, there are about 300 DOC wines in Italy and 20 DOCG wines (Guaranteed Appellation of Origin).

Many of the most valuable 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 only be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. The share of the DOC and DOCG wine production over total domestic output remains relatively small, accounting for 20 to 25 percent. This share, however, varies considerably by producing regions, with peaks in Trentino Alto Adige (almost 80 percent), Friuli Venezia Giulia (60 percent), Piedmont (56 percent) and Tuscany (55 percent). Minimal levels of these quality wines are produced in the South, where most production is classified as table wine. The percentage share of these high quality wines is expected to increase in 2001, as the production decrease reported this year mainly affected table wines, while yields of quality wines are more stable.

#### Planted Area

As already reported in past years, Italian vine area is in steady decline, dropping from the peak of 1.35 million hectares in the late 80's to the current level of slightly over 830,000 hectares. The regions with the largest drops were Sicily, Tuscany, Sardinia and Apulia, while in the north the decline reported for table wine area has been partially offset by an increase of area planted to Controlled Appellation vines. A major impulse to this trend has been EU legislation favoring vine uprooting in response to the huge wine surpluses reported during the 80's. The situation looks more stable now and total vine area is not expected to change dramatically in the near future.

The current CAP (Common Agricultural Policy) for the wine sector, passed in 1999, reinforced a general prohibition of new vine planting through 2010. At the same time, it allowed a special, limited derogation for vine re-planting by 2003, aimed at the production of high quality wines. For Italy the permitted area for 2001 was initially established at 13,691 hectares. This area, however, could be increased to an actual amount of 18,113 hectares, thanks to adjustments in the breakdown of total area among the different member countries. Total EU expenditures for Italy, again in 2001, under this program are 115 million Euro (about \$102 million), and 60 percent of this amount is going to be spent in four leading producing regions (Tuscany, Piedmont, Apulia and Sicily).

#### Distillation

After the very large levels reached through the early 90's, the volumes of Italian wines distilled

under EU programs have stabilized at about 3 to 4 MHL per year. In 1999/2000, the last year of effectiveness of the previous CAP for the wine sector, wine distilled under the "support" distillation program totaled 4,357,000 hectoliters. The current CAP has established two different, voluntary distillation programs: the optional distillation (automatically opened at the beginning of each marketing year,) and the "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 time). During 2000/01, contracts approved under the optional distillation involved about 4.9 MHL, while wines distilled under the "crisis" distillation totaled about 1.2 MHL, thus making the total about 6.2 MHL. The increase over 1999/00 reflects the continued market difficulties reported for table wines (see the price section). Lower domestic crop in 2001 should favor a decline of the quantities distilled during current marketing year to an anticipated volume of about 5.5 MHL.

### Prices

Domestic wine prices during most of 2001 has generally been affected by export demand, which showed different trends for table wines and DOC/DOCG wines. According to ISMEA, grower prices in January-October 2001 averaged some 3 percent lower than in the same period of 2000 for white table wines and 2 percent less for red table wines, while DOC/DOCG wines averaged 5 percent more for both white and red wines. In only three years (1998-2001), prices of both red and white table wines declined by 18-19 percent, following the continued decrease in exports and domestic consumption, and more and more emphasis on better quality wines. The average high quality of the 2001 vintage, however, is expected to improve the marketing prospects for the Italian growers, although most of the export demand is still represented by low quality wines.

### Production Policy

The CAP reform for the wine sector, as said above, was fully implemented in 2000/01, and its main measure has been the removal of the "old" distillation programs and the introduction of the "crisis" distillation. The new CAP, however, is not expected, according to most observers, to produce major changes to the Italian wine industry, whose major goal is to improve the overall quality of its production.

### CONSUMPTION

Domestic wine for human consumption (thus excluding losses, distillation and other industrial uses) has continued to decrease during last decade, declining from the 40/41 MHL of the late 80's to about 31.5 MHL in 1999/00. The share of controlled appellation wines, in the same period, has risen from about 15 percent to over 25 percent of total consumption. Italian consumers, as in most developed countries, are increasingly oriented towards quality wines; at the same time, evolving life styles have dramatically altered the traditional food habits, limiting wine consumption mainly to special events, as well as dinners rather than luncheons. On a per capita basis, wine consumption is larger in central and northern Italy and lower in the south, partly due to

different climatic conditions.

## STOCKS

Wine ending stocks decreased significantly in 2000/01, in line with reduced domestic crop and expanded distillation, and are expected to drop further in current 2001/02, due to the production trend.

## INTERNATIONAL TRADE

Italian wine exports, after the sharp recovery reported in 1999, showed different trends in 2000: a decline in volume (-7 percent from the previous year) and a rise in value (+5 percent). This situation reflects, basically, the export drop reported for table wines (-11 percent), whose share of total shipments decreased from 69 percent in 1999 to 64 percent in 2000, while exports of the most valuable bottled DOC/DOCG wines rose by 7 percent in volume and 11 percent in value. These wines, moreover, although representing only 24 percent of the total export quantity, account for almost half of total export value. Exports of Spumanti, after the strong rise reported in 1999, dropped by 21 percent in 2000, due to decreased shipment to both northern EU countries and the United States, as well as Japan.

In sum, 2000 was considered to be a good year for the Italian wine export business, as the drop reported in total volume has been more than offset in value terms by the significant increase of the shipments of the best quality wines. This trend has been favored by the strong U.S. dollar which made Italian wines more competitive in the U.S. as well as in other third countries. On the other hand, the reduced shipments of table wines to other EU countries (mainly France, Germany and Spain) are explained by the larger domestic crops in these countries.

In 2000, Germany confirmed its leading position as the major destination for Italian wines, with about 35 percent and 30 percent respectively in volume and value of total Italian shipments. Almost half (in volume) of total exports to Germany are bulk wines, but bottled wines account for about 64 percent of the total in value terms. Exports to France (the second destination in volume terms, with 20 percent of the total), dropped in 2000 by 19 percent (after the very high level reached in 1999 consequent to the reduced domestic supplies) and are almost exclusively represented by very cheap bulk wines. Exports to the United States, the third largest export market in terms of quantity, increased by 9 percent in quantity, but 22 percent in value, favored, as explained above, by the strong dollar. In value terms, the U.S. was again the second largest outlet for Italian wines, absorbing about 23 percent of the total, while about half of Italian shipments to the U.S. are represented by more expensive DOC wines.

Preliminary data for 2001 indicate a further confirmation of the above trends. According to ISMEA, Italian shipments totaled 8.9 MHL during January-July 2001, or 7 percent less than in the same period of 2000. While table wine exports dropped by 16 percent, shipments of DOC/DOCG wines rose by over 7 percent. As a result, despite the volume drop, the export value further rose

by 10 percent. The major increases, in terms of value, are reported for the U.K. (+25 percent from the same period of 2000), Switzerland (+21 percent), and the U.S. (+11 percent).

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 2000, imports recovered by 24 percent, after the dramatic decline reported in 1999 (down 48 percent from 1998), reflecting mainly larger arrivals of bulk wines from France and Spain, in line with the higher local production trends. According to ISMEA during January-July 2001 Italian wine imports totaled 264,000 hectoliters, or almost unchanged from the same period of 2000.

Shipments from the United States, although growing, remain minimal, with official figures reporting imports of 2,087 hectoliters in 2000, a significant gain of 23 percent despite the continued strong dollar. In value terms, imports totaled 3,437 million lire (\$1,634,000), or 57 percent more than in 1999. This trend shows how the reputation of quality U.S. wines is growing in Italy, and reflects an aggressive marketing campaign by some of the larger U.S. wineries, particularly in some of the major Italian supermarket chain outlets, as well as in top restaurants and hotels. However, prospects for U.S. wine exports to Italy remain limited, given the very strong competition from domestic wine production. As mentioned last year, trade contacts estimate that total imports of U.S. wines are larger than reported by official trade statistics, due to transshipments through other EU countries, not reported by the Italian customs statistics.

## FOREIGN MARKET DEVELOPMENT

The Italian Trade Commission (ICE), an agency of the former Ministry of Foreign Trade (recently become part of the wider Ministry of Production Activities), has traditionally been the main public institution to provide export and promotion assistance in foreign markets. Up to a few years ago, the funds used to promote Italian food and agricultural products, including wines, was provided to ICE from the Ministries of Agriculture and Foreign Trade. Current legislation, however, now also gives authority for export promotion to the 20 Italian regions, which, although still using ICE as their main promotional means, could proceed through other ways. This makes the overall picture of the promotional activities for any specific product, including wine, confused.

Under current legislation there is no specific export promotion program for wine. Instead, it is included in the general promotional programs of Italian foods and beverages. Total yearly expenditures for foods and beverages currently distributed by ICE are about 50 billion lire (\$23 million), of which half comes from private companies and associations to the specific promotional activities. Of the remaining half (25 billion lire, or \$ 11.5 million), about 10 billion lire come from the budgets of the various regions, 10 billion from the Ministry of Production Activities and 5 billion from the Ministry of Agriculture. Out of the total, it is estimated that about one 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. (almost 40 percent of total expenditures for wine), U.K., Canada, Switzerland and Japan. Focus is increasingly given to some emerging

markets, such as Scandinavian countries, the Far East and China. The Ministry of Production Activities allocation is spent almost entirely at fairs, where national pavilions are co-sponsored with private companies on a 50/50 cost sharing basis, as well as financing trade teams to Italy, especially reporters from the food and beverage press (often co-sponsored by the local industry), and organizing wine tastings.