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GAIN Report

Global Agricultural Information Network

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UK Wine Market Report 2016

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Approved By:

Stanley S. Phillips

Prepared By:

Jennifer Wilson

Report Highlights:

The UK wine market is a vibrant, ever-changing, and competitively challenging environment. Given the low margins in the main-stream sectors, most opportunities for U.S. wine are to be found with importers who service the high-end independent stores and the less price-conscious foodservice sector. White wine is consumed in slightly greater volume overall than red wine, while rosé continues to be around 10 percent of the market. Fruit flavored wine and lower alcohol wine are new style products with growth potential. Balancing the negative effect on consumption of the health agenda, the upturn in the UK economy will encourage consumers to drink wine more frequently, particularly in foodservice channels.

Executive Summary

The UK is a key market for the global wine trade, particularly in terms of sales value. International Wine & Spirit Research (IWSR) predicts that by 2018, the top still wine markets by value will be the U.S. and UK, worth USD 33 billion and USD 26 billion respectively.

Health concerns, along with changing lifestyles and demographics, mean that the volume of wine consumed/per capita wine consumption is reducing. Under discussion are potential tax policies to incentivize lower alcohol products, labeling changes to indicate calories (energy) per 100 grams, units of alcohol per glass or container, and health warnings.

The majority of UK wine sales (over 80 percent) are through retail outlets. The remaining sales take place in bars, restaurants, hotels and other foodservice venues. Although the volume of UK still wine bought from retail stores is declining (it fell one percent from 2014 to 2015), the value of the market remains broadly stable (growth of one percent from 2014 to 2015). Over the same time period, the foodservice market was steady in volume terms and increased two percent by value.

The UK wine market is fiercely competitive and mostly price-focused. Most opportunities for U.S. wine are to be found with importers who service the high-end independent stores and the less price-conscious foodservice sector. Consumers are now more aware of wine varietals and (for the major varietals) know their preference. Sauvignon Blanc and Pinot Grigio/Gris continue to take market share from Chardonnay. Pinot Noir is increasing in exposure and understanding in the red category, as is Zinfandel. Red wine from lesser-known grapes and regions in Europe are also gaining in popularity. Promoting a varietal with a regional story that reflects the diversity of wine producers is generally more readily understood.

White wine is favored slightly over red wine consumption. Sparkling wine is the category exhibiting the most growth, mainly from Italian Prosecco and Spanish Cava that are perceived to be better value for money than Champagne. Fruit flavored wine and lower alcohol wine are new style products with growth potential.

In general terms, the upturn in the UK economy will encourage consumers to drink wine more frequently, particularly in foodservice channels. Nevertheless, the performance expected in the wine market is set to be only marginally superior to that of the last few years as the UK population is drinking less wine than it did in the past.

Production

Historically a cottage industry, wine production in England and Wales is increasing from a small base. In 2014, production reached 4.7 million liters – the equivalent of 6.3 million bottles, up 42 percent on the record-breaking 2013 production. This was predominantly due to favorable weather conditions in 2014. Revenue is reported to have been BPS 78 million in 2014, and it is expected to have reached BPS 100 million in 2015.

According to the English Wine Producers organization, there are 470 registered vineyards in England and Wales (22 in Wales and 448 in England), for 135 wineries and 1,884 hectares under vine. In the past seven years, English vineyard area has more than doubled.

Around two thirds of the wine made in England and Wales is sparkling, and comparisons are often drawn between English sparkling wine and Champagne – particularly as the climate and chalky soil in the South East of England are similar to the Champagne region of France. The two most popular grapes grown in England are the Champagne grapes, Chardonnay and Pinot Noir, followed by Bacchus in third place. (Source: [Decanter Magazine](#))

UK bottling capacity is also increasing and a recent Harpers report found that four out of every 10 bottles consumed in the market are bottled locally. Trade sources predict a continued upward trend and it is thought that the UK has the potential capacity of bottle 60 percent of wine market consumption.

The UK also produces a small quantity of “made wine”, which is made from imported concentrated grape must, mainly from Italy.

Currently, the lack of significant production volume in the UK means that it has a negligible effect on market figures (it is less than one percent of total wine market size).

Consumption

The UK was the sixth biggest wine consuming country in the world in 2014. The United States remains the number one wine consuming nation followed by France, Italy, Germany and China. International Wine & Spirit Research (IWSR) predicts that by 2018, the top still wine markets by value will be the U.S. and UK, worth USD 33 billion and USD 26 billion respectively.

UK total alcohol consumption has declined by 20 percent in the last ten years (Her Majesty’s Customs and Excise data). Health concerns are the main driver, along with changing lifestyles and demographics.

The UK’s Office for National Statistics reports that consumer spending on alcoholic drinks increased by 13 percent since 2007. At the peak of the financial crisis, consumer spend reduced between 2007 and 2009, but has increased yearly thereafter. While UK consumers may be “trading up” in their purchases, much of the increased expenditure is increased tax in the form of excise duty. The UK has one of the most punitive excise duty regimes in the European Union. This forms part of the government’s strategy to reduce alcohol consumption per capita.

In the UK, wine drinking is no longer just for connoisseurs. A recent survey by the Wine & Spirit Trade Association (WSTA) shows it is now the preferred alcoholic drink for 60 percent of UK adults, compared

to all other alcohol products. The UK has over 30 million regular wine consumers across all regions, ages and social classes. UK per capita wine consumption was 10 liters per person in 2014.

Retail Distribution

The majority of UK wine sales (over 80 percent) are through retail outlets (known as the “off-trade” in the UK). The remaining sales take place in bars, restaurants, hotels and other foodservice venues (“on-trade”).

UK Retail Market Size for Alcoholic Beverages, 12 months to December 9, 2015

Product	HL ('000)	% change	BPS millions	% change	Price per Liter	% change
Beer	17,289	0	3,718	0	£2.15	0
Wine	7,495	-2	5,371	-2	£7.17	0
Cider/Perry	4,956	-3	1,038	-3	£2.10	1
Spirits	2,033	2	3,928	3	£19.33	1
Sparkling wine	728	27	658	26	£9.04	-1
“Ready to drinks”	475	-6	232	-5	£4.88	1
Fortified wine	339	-1	291	1	£8.60	2
Champagne	124	1	324	2	£26.26	0
Total Alcoholic Beverages	33,732	0	15,700	1		

1 Hectoliter = 100 Liters; Approximate Exchange Rate during 2015 £1 = USD 1.50

Source: Wine & Spirits Trade Association/Nielsen

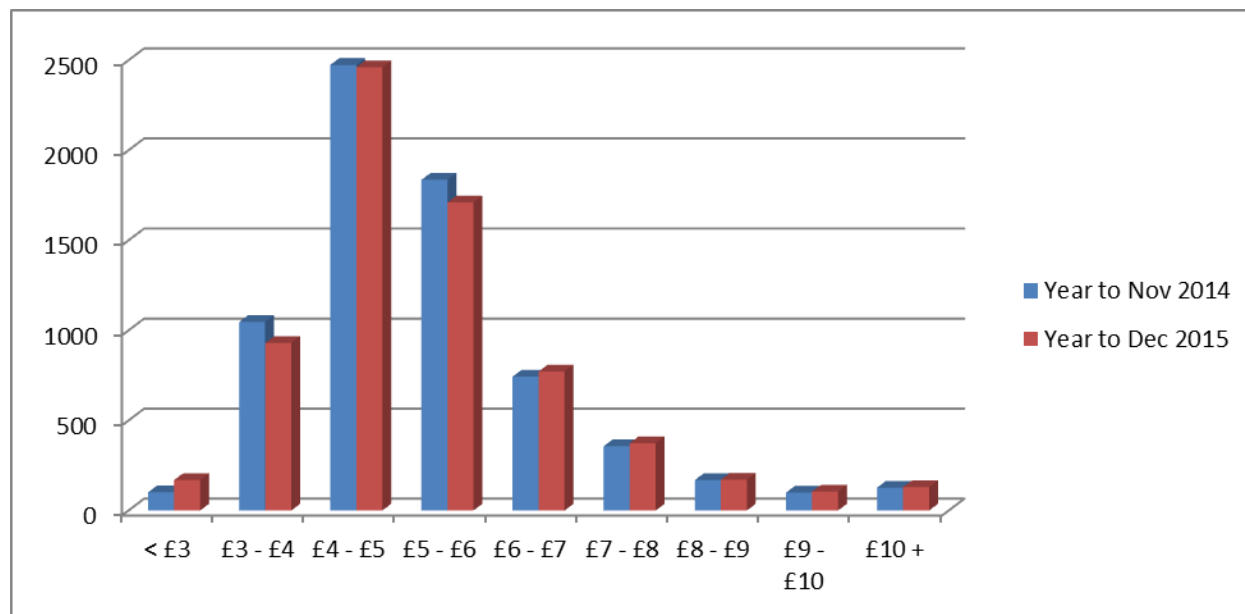
As can be seen in the table above, sparkling wine is bucking the downward trend with an increase of 27 percent in the year to December 2015. Market growth for sparkling wine is coming particularly from consumers under the age of 35. After the financial crisis of 2008, Italian Prosecco became the celebratory drink of choice for many consumers as Champagne seemed unaffordable for many. Although Champagne has returned to marginally positive total volume growth, UK consumers are still hugely in favor of Prosecco because of the value for money that it offers, while Spanish Cava has become increasingly popular as well.

Although the volume of UK still wine consumption bought from retail stores is declining (it fell one percent from 2014 to 2015), the value of the market remains broadly stable (growth of one percent from 2014 to 2015). This is due to the growth in volume of higher price band wine. UK consumers are increasingly looking for ‘value’ for money at grocery stores. However, this does not always mean the cheapest offering.

That said, UK consumers are generally very price-sensitive when it comes to wine, particularly those who shop for wine in supermarkets as consumers will often only trade up to mid-priced/premium brands when the brand is heavily discounted. In addition, price-marked packs (PMPs) are a new marketing strategy that is increasingly employed.

Private label is important in wine, considerably more so than in any other alcoholic drinks category, with grocery retailers offering consumers a wide selection across still light grape wine and sparkling wine in particular. With UK consumers expecting to pay relatively low prices for wine, private label players are well placed to take advantage by filling the gap between economy and mid-priced wine brands.

Volume (000s Hectoliters) of wine sold at key retail price points, 2014 and 2015



1 Hectoliter = 100 Liters; Approximate Exchange Rate during 2015 £1 = USD 1.50
 Source: Wine & Spirits Trade Association/Nielsen

The major suppliers to the UK wine retail market: Australia, Italy and USA together account for nearly 50 percent of volume and value sales.

Top Ten Suppliers to the UK Retail Market in 2015 (year to December 9, 2015)

Country of Origin	000s Hectoliters	% change (YOY)	£ million	% change (YOY)	£ per 75cl	% change (YOY)
Australia	1,686	+4	1,172	+3	£5.21	-1

Italy	1,123	-6	745	-5	£4.98	+1
USA	898	-6	651	-5	£5.44	+1
France	805	-10	701	-7	£6.54	+3
South Africa	787	-7	502	-6	£4.79	0
Spain	754	+1	501	-1	£4.98	-2
Chile	650	+2	461	+3	£5.32	0
New Zealand	356	+10	347	+10	£7.33	+1
Argentina	151	+26	116	+25	£5.74	-2
Germany	127	-13	78	-13	£4.62	+1

1 Hectoliter = 100 Liters; Approximate Exchange Rate during 2015 £1 = USD 1.50
Source: Wine & Spirits Trade Association/Nielsen

Retail purchases of wine are skewed towards white wine (47 percent of all sales in 2015). Women in the UK are more likely to drink wine than men. Red wine accounted for 42 percent and Rosé 11 percent. Chardonnay sales were stable year on year, while Sauvignon Blanc and Pinot Grigio are the white wine varietals that demonstrated the most growth. Aromatic whites such as Albariño, Grüner Veltliner and Riesling are also widening their appeal. Merlot, Shiraz and Tempranillo are increasingly popular reds. Malbec too is becoming more main-stream. Cabernet Sauvignon is the third largest red varietal consumed behind Merlot and Shiraz. Rosé volume and value has experienced decline in the last two years. Within the category, Provence rosé is leading the trend to paler, lighter, fresher rosés. New fruit-flavored wines are seen as direct competitors to still rosé wine (particularly for women aged between 18 and 34) and this could further intensify the decline of still rosé wine.

Sweet wines are increasing in prominence from all over the world including France (Sauternes, Barsac and Beaumes de Venise), Germany (Eiswein), Canada (Ice Wine), Australia (Muscat) and Hungary (Tokaj) as well as South Africa, Chile and Spain. Most sweet wines, such as Muscat or Moscatelle, are sold in the UK as dessert wine and many are now available in half bottles or half liters. However, many consumers are not familiar either with the wines or their usage, even though most supermarkets and specialists stock one or two.

The retail sector has been shaken-up by the growth of non-traditional grocery stores such as discount chains Aldi and Lidl. Cash-conscious consumers are their main customers but their success is also down to main-stream consumers seeking value on their purchases.

In addition, there has been an increase in trade through independent wine merchants. More UK consumers are turning to top-end retailers for special occasion shopping and a desire for quality.

This polarization within the retail sector has led to a squeeze on market share held by supermarket chains such as Tesco, Sainsburys and Asda (Walmart). As result there have been radical reductions in the number of wine product listings in-store. In fact, as an industry, there continues to be wide-spread company consolidation and rationalization across the supply chain.

Foodservice Distribution

UK Foodservice Market Size for Alcoholic Beverages, 12 months to October 4, 2015

Product	HL ('000)	% change	BPS millions	% change	Price per Liter	% change
Beer	20,234	-3	11,999	0	£5.93	+3
Cider/Perry	2,794	-1	1,759	-2	£6.29	+2
Wine	1,721	-2	3,364	-3	£19.55	+3
Spirits	540	-1	5,650	3	£104.71	+6
“Ready to drinks”	258	-16	242	26	£9.39	+2
Sparkling wine	89	+41	316	-5	£35.32	+3
Champagne	54	0	426	1	£78.98	+13
Fortified wine	7	+11	41	2	£57.67	+4
Total Alcoholic Beverages	25,702	0	23,833	+2		

1 Hectoliter = 100 Liters; Approximate Exchange Rate during 2015 £1 = USD 1.50
 Source: Wine & Spirits Trade Association/Nielsen

Food-led occasions at which to serve alcohol have become increasingly important to the foodservice sector. Casual dining venues are now 60 percent of the market versus 40 percent back in 2002. Since casual dining means shorter ‘dwell’ time, wine ranges available ‘by the glass’ are becoming increasingly important. Cafes are also becoming more common-place again in restaurants. As traditional mealtimes become less significant, health-conscious consumers are less inclined to drink with a late lunch than they would be with dinner.

Traditional beverage-led venues such as public houses (pubs/bars) and clubs are in decline. Those venues that are thriving are increasingly specialized destinations such as innovative cocktail lounges, new wave wine bars or pubs with a high quality range of craft beers. The latter is a rival product for traditional wine consumers as innovative new product development aims to entice the female consumer to experiment with beer.

The foodservice sector is dominated by French and Italian wine followed by Australia, USA, Chile, and Spain. White is an even more dominant choice in foodservice than in retail, with 53 percent share in the year to October 2015, 37 percent sold is red wine and 10 percent rosé.

Top Red Varietals: Merlot, Shiraz, Cabernet Sauvignon, Zinfandel, Pinot Noir

Top White Varietals: Chardonnay, Pinot Grigio, Sauvignon Blanc, Chenin Blanc, Semillon

New Product Development

Capitalizing on the UK's obsession with health, wines are now available in diet/low-calorie versions (one in conjunction with Weight Watchers). Low alcohol by volume wines are expected to record slow but steady growth in the next 5 years. There are also an increasing number of organic wines in the UK market. However, as it is difficult to determine whether most wines are truly organic, the premium

prices charged have resulted in the retailers concentrating more on the quality of their range rather than going organic. In addition, the Co-op has introduced fair trade wines from Chile. In terms of packaging, many brands are now appearing in single-serve bottles or with screw-tops. In fact screw-tops are now normal for most entry level wine. There are also a large number of gift packs now available for special occasions. Online sales of wine are in the ascendancy, led by outlets such as Majestic, Virgin Wines and many of the major supermarket chains.

Looking ahead

According to Euromonitor, the outlook for wine is quite mixed. Sparkling wine, fruit wine and port are all expected to deliver positive growth rates, but this is expected to be offset by a decline in volume sales for the larger wine categories such as still red wine and still rosé wine. In general terms, the upturn in the UK economy will encourage consumers to drink wine more frequently, particularly in foodservice channels. Nevertheless, the performance expected in the wine market is set to be only marginally superior to that of the last few years as the UK population is drinking less wine than it did in the past.

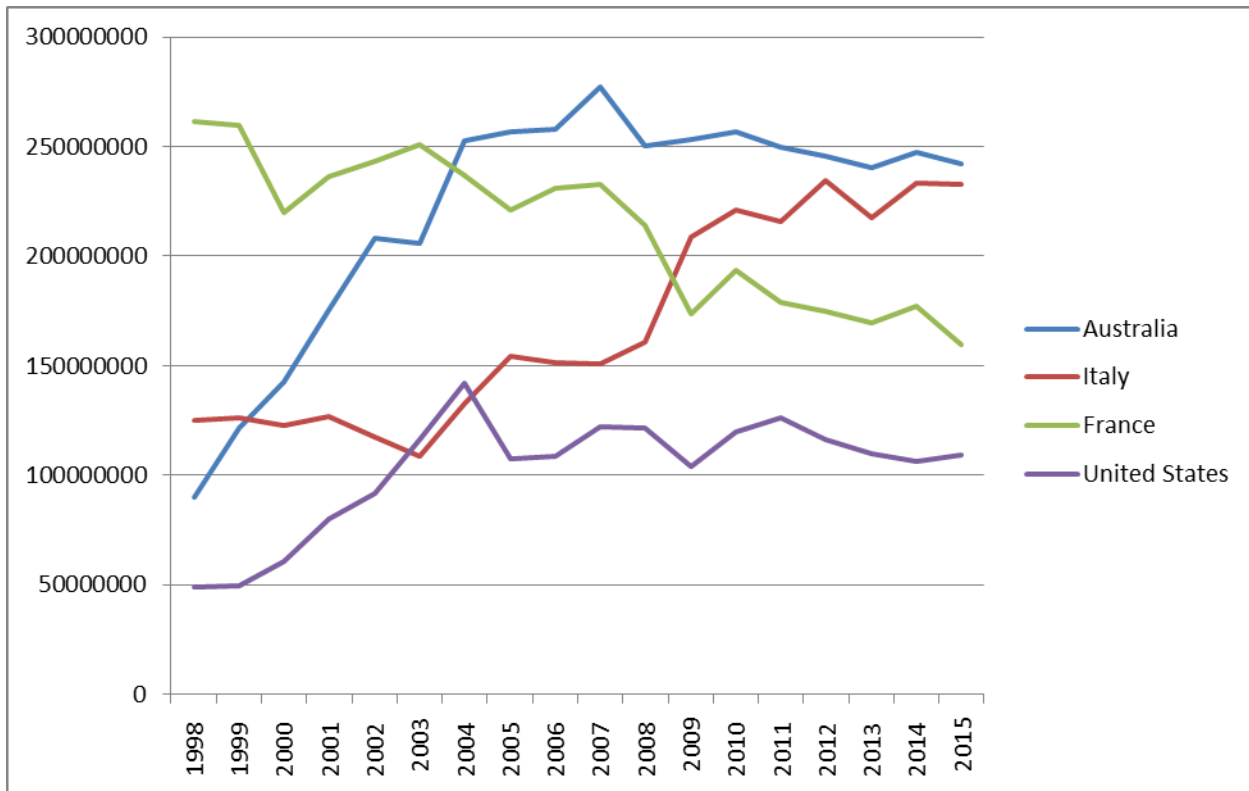
Trade

As still light grape wine is not produced extensively in the UK from domestic grapes, the country relies on imports to fulfil demand. Australia, Italy, France, South Africa and the USA are some of the key source countries for wine imports to the UK. With still light grape wine very rarely being sold during its year of production as the taste of wine will usually improve with maturity, the volume of wine imports in any given year do not necessarily reflect what was sold to consumers during the same year.

As demonstrated in the next chart, the UK market has changed dramatically since the late 1990s. Once dominated by French wine, Australia became the number one supplier of still light wine to the UK in 2004. Around the same time the chart shows that shipments from the U.S. peaked and then fell, while those from Italy grew rapidly. This period saw a considerable portion of U.S. wine diverted to Italy for bottling there for the EU market. It is not possible to know for certain how much of the Italian imports into the UK are actually of U.S. origin but knowledge of this dynamic explains the tailing off of U.S. imports since 2005.

It is reported that as much as 85 percent of all Australian still wine imported into the UK arrives in bulk for bottling locally. This situation is being repeated across the EU so it is now impossible to track the exact origin of wine traded in the UK through trade statistics.

Volume (liters) of still light wine shipped to the UK by selected key suppliers 1998 - 2015



The major barrier for U.S. wine exports to the EU is the higher cost of U.S. wine generally compared to EU producers. Re-packaging is also an issue that adds cost since the UK industry is moving to cases of 6 x 75cl bottles instead of 12. Ensuring compliance with EU labeling rules may also mean that re-labeling is necessary. As regards customs rules, U.S. wine imports face the same scrutiny as EU imports. The only difference is that third country wine is liable for import duty (Common Customs Tariff). This is approximately 75 cents to one dollar per case of 6 x 75cl bottles of light still wine.

Imports to the UK of still wine from top suppliers in 2015
 (commodity codes: 220421, 220429, 220430)

Supplier	Volume millions liters	Value	millions	U.S. Dollars
Total Imports	1,273			3,606
Australia	242			346
Italy	233			611
France	160			940
United States	109			235
Chile	107			267
Germany	70			177
New Zealand	59			301
Argentina	28			94

Source: Global Trade Atlas, Her Majesty's Customs & Excise

Imports to the UK of sparkling wine from top suppliers in 2015 (commodity code: 220410)

Supplier	Volume millions liters	Value	millions	U.S. Dollars
Total Imports	136.4			952.5
Italy	80.4			275.7
France	28.1			577.6
Spain	20.2			57.9
Germany	3.5			11.6
Australia	1.8			7.1
South Africa	0.7			3.3
New Zealand	0.5			4.3
Netherlands	0.3			4.5
United States	0.2			1.5

Source: Global Trade Atlas, Her Majesty's Customs & Excise

Marketing and Regulation

On March 10, 2006, the United States and European Community (EC) signed an [Agreement between the United States and the European Community on Trade in Wine](#). This allows for recognition of each

other's existing current winemaking practices and (importantly for trade) allows U.S. exporters to submit a simplified certification and analysis document in place of the VI-1 form, for wine exports to the EC. More information: http://www.ttb.gov/agreements/us_ec_wine_agreement.shtml

UK government resources for wine trade regulations can be accessed through this portal: <https://www.gov.uk/guidance/wine-trade-regulations>

Wine standards and regulation falls under the remit of the UK's Food Standards Agency. Their website provides helpful guidance on compliance with UK/EU import regulations.

A guide to wine law: <https://www.food.gov.uk/business-industry/winestandards/lawguide>

Guidance on importing wine: <https://www.food.gov.uk/business-industry/winestandards/wine-imports>

Guidance on wine labeling: <https://www.food.gov.uk/business-industry/winestandards/wine-labelling>. This includes labeling wine produced in the UK, European Union (EU) and non-EU countries, allergen labelling and the display of bottler's details.

Traditional Terms

There are ongoing discussions with the European Union as regards their position on exclusive EU use of "traditional terms," such as "tawny," "ruby," "clos," and "chateau," on wine labels. U.S. wines with a trademark granted before 2005 can use the terms, but more recent products cannot. The EU has approved two (Classic and Cream) of the 13 applications submitted by industry in June 2010. They have yet to act on the applications for these remaining 11 terms:

- Chateau
- Clos
- Ruby
- Tawny
- Crusted
- Crusting
- Noble
- Solera
- Sur lie
- Vintage
- Vintage character

Tariffs

Third Countries, such as the United States, must pay import duty (tariffs) on exports to the UK, while European Union Member States are exempt.

The following table is provided to give examples of tariffs, full information on commodity codes and tariffs are available on the following website: <https://www.gov.uk/trade-tariff>

Wine Type	Commodity Code	Tariff/Import Duty
Sparkling wine	2204109800	32.00 Euros per hectoliter (100L)
Still white wine not > 13% abv	2204219511	13.10 Euros per hectoliter (100L)
Still red wine 13-15% abv	2204219621	15.40 Euros per hectoliter (100L)

abv = alcoholic strength by volume

Tariff quotas, which offer a reduced rate of duty, exist for a range of specified wine varieties from countries such as Israel, Morocco, Algeria and Cyprus.

Market access may be denied by Customs & Excise if documentation forms are incomplete. If the labeling is incorrect, then the wine will be allowed into bond but will not be released until the labels have been corrected. In either case, storage charges may be considerable so it is vital that the correct documentation/labels are provided.

In addition to tariff (import) duty, all wine is subject to excise duty and a Value Added Tax (VAT or sales tax). VAT is currently 20 percent. The table below shows excise duty on a range of wine types, as of March 2015. These may change annually each March following the UK Treasury's budget.

Alcohol type	Rate per hectolitre (100L) of product
Wine and made-wine: Exceeding 1.2% - not exceeding 4% abv	£84.21
Wine and made-wine: Exceeding 4% - not exceeding 5.5% abv	£115.80
Still wine and made-wine: Exceeding 5.5% - not exceeding 15% abv	£273.31
Wine and made-wine: Exceeding 15% - not exceeding 22% abv	£364.37
Sparkling wine and made-wine: Exceeding 5.5% - less than 8.5% abv	£264.61
Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv	£350.07
Wine and made-wine: Exceeding 22% abv	£27.66

Several U.S. wine promotion bodies are active in the UK. The largest program is undertaken by the Wine Institute of California. Others include State initiatives by Oregon, New York and Virginia.

All major supplier countries carry out marketing activities in the UK. These are increasingly regional in nature as the level of understanding and education on wine styles increases at the consumer level.

Policy

Public debates on what are appropriate policy levers to tackle alcohol abuse, as well as hidden calories in food as part of the UK's anti-obesity strategy, are very front and center stage right now. The large numbers of alcohol-related and other dietary health problems manifested in British consumers are putting the UK's National Health Service under strain.

The UK government supports greater coherence in existing EU alcohol (abuse) policies, particularly a 'health in all policies' approach to ideally be reflected throughout EU policy on food labeling, cross-border marketing and taxation. See UK political debate on EU Alcohol Strategy here:

<http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu-home-affairs-subcommittee/news-parliament-2015/alcohol-strategy-debate/>

Under discussion are potential tax policies to incentivize lower alcohol products; labeling changes to indicate calories (energy) per 100 grams, units of alcohol per glass or container, and health warnings. A warning about drinking when pregnant is voluntary in the UK, but these policies are promulgating throughout the EU. France has legislated for a warning on alcoholic drinks for pregnant women and Ireland has recently published a Public Health (Alcohol) Bill that makes it an offence to sell an alcohol product without:

- a. A warning that is intended to inform the public of the danger of alcohol consumption,
- b. a warning that is intended to inform the public of the danger of alcohol consumption when pregnant
- c. the quantity in grams of alcohol contained in the container concerned
- d. the energy value expressed in kilojoules and kilocalories contained in the container concerned, and
- e. details of a website, to be established and maintained by the Executive, providing public health information in relation to alcohol consumption

Further information on the Irish legislation can be found here:

<http://health.gov.ie/blog/publications/public-health-alcohol-bill-2015/>

Scotland (an area of the UK most affected by excess alcohol consumption in the population) attempted to introduce Minimum Unit Pricing as a mechanism to increase the price of cheap alcoholic products. However, the European Court of Justice ruled in December 2015 that the Scottish government's plan was in breach of EU free-trade laws. Increases in excise duty are suggested as potential alternative policy levers.

In January 2016, the UK government changed the recommended weekly allowance of alcohol unit consumption for men from 21 to 14 per week. The 14 units per week guidance for women has been left unchanged. Further information can be found here:

<https://www.gov.uk/government/consultations/health-risks-from-alcohol-new-guidelines>

UK excise duty rates are already much greater than most EU countries and particularly that of its nearest neighbor across the English Channel – France. The UK's Wine & Spirit Association (WSA) research

reports that cross-border wine sales have risen steadily and may account for as much as 15 to 20 percent of the total UK wine market. UK consumer cross-channel purchases are very often event-driven, as the purchasing of large quantities offers the largest saving.

Contacts

Further information on regulatory requirements can be obtained from all of the below contact points. FAS London can also provide importer listings:

Food Standards Agency

Aviation House, 125 Kingsway
London WC2B 6NH

Contact: Graham Finch

Wine Standards Board

Technical Inspector

Tel: (0) 1732 824661

E-mail:

graham.finch@foodstandards.gsi.gov.uk

or imported.food@foodstandards.gsi.gov.uk

Web: <http://www.food.gov.uk>

HM Revenue and Customs

CITEX Written Enquiry Team

Local Compliance S0000

Newcastle

NE98 1ZZ

+44 2920 501261

Web:

<https://www.gov.uk/government/organisations/hm-revenue-customs/contact>

Tel:

United States Mission to the European Union, Office of Agricultural Affairs

27 Boulevard du Regent

1000 Brussels

Belgium

Tel: (32-2)508-2760

Fax: (32-2) 511-0918

E-mail: AgUSEUBrussels@usda.gov

U.S. Embassy, London Agricultural Service (FAS)

24 Grosvenor Square

Box 48

London, W1K 6AH

United Kingdom

Tel: +44 (0) 20 7894 0464

Fax: +44 (0) 20 7894 0031

E-mail: AgLondon@usda.gov

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