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EU-27

Wine Annual

Wine Annual Report and Statistics

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Report Highlights:

The European Union (EU) is the world's largest wine producer, consumer, exporter, and importer. Total EU-27 MY 2010/11 wine production is still preliminarily estimated at 156 Mhl, down 3.5 percent from the previous marketing year. Sharp production decreases in Germany, Romania, and Hungary and small decreases in France, Italy, and Spain were only partly offset by significantly higher production in Portugal. Domestic EU wine consumption continues to decline due to the continued general economic crisis and are forecast to stagnate in MY 2010/2011. EU-27 wine exports partially recovered in MY 2009/2010 and are expected to further increase in MY 2010/2011 thanks to growing demand both from developed countries (United States, Canada, Japan) and BRIC economies (such as Russia and China). The United States remains the leading export market (24.6 percent of the total in volume and 30.7 percent in value) for the EU-27. EU wine imports

slightly declined in MY 2009/2010 but are expected to increase in current marketing year.

Executive Summary:

This report presents the outlook for wine production, trade, consumption and stocks for the EU-27. Unless specifically stated otherwise, data in this report are based on the views of Foreign Agricultural Service analysts in the EU and are not official USDA data.

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HL = Hectoliter = 100 liters
Mhl = Million Hectoliters
MY = Marketing Year. The EU local marketing year used in this report is August to July
Harmonized System (HS) code: Grape wine (HS2204)

EU-27 Production, Supply and Demand (‘000 Hectolitres, MY Aug-Jul)

	2009/2010	2010/2011	2011/2012
Beginning stocks	174,626	170,336	164,000
Production	161,633	155,935	158,000
Imports	12,957	14,000	16,000
TOTAL SUPPLY	**349,216**	**340,271**	**338,000**
Exports	18,157	22,000	23,000
Total consumption	160,723	154,271	155,000
- human	131,182	128,000	127,000
- other	29,541	26,271	28,000
Ending stocks	170,336	164,000	160,000
TOTAL DISTRIBUTION	**349,216**	**340,271**	**338,000**

Commodities:

Wine

Production:

The European Union (EU) is the world leader in wine production, with almost half of the world's total vine-growing area and 60 percent of production wine volume. Within the EU, France, Italy, and Spain represents about 80 percent of total production. Other important EU producers include Germany, Portugal, Romania, Greece, and Hungary. Wine is also an important sector in Austria, Bulgaria, and Slovenia. The following table shows production trends in the leading EU wine-producing countries during recent years.

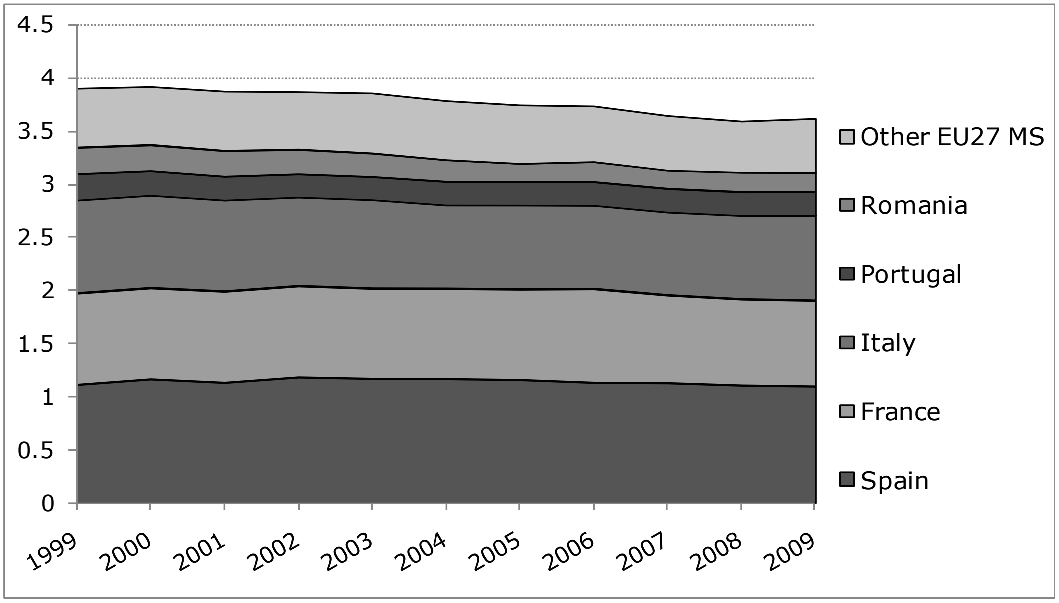
Table 1 – Wine production* trend in the EU-27 ('000 Hectolitres)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
France	52,105	52,127	45,672	41,640	46,269	45,662
Italy	50,566	49,633	42,514	46,245	45,800	45,500
Spain	36,158	38,290	36,408	35,913	36,097	35,900
Portugal	7,266	7,542	6,074	5,620	5,872	7,120
Germany	9,153	8,916	10,261	9,991	9,228	6,900
Romania	2,602	5,014	5,289	5,159	6,703	4,700
Greece	4,027	3,938	3,511	3,873	3,080	3,100
Hungary	3,103	3,271	3,222	3,460	3,198	2,700
Other EU-27 countries	5,595	5,545	6,481	6,597	5,386	4,353
EU27	**170,575**	**174,276**	**159,432**	**158,498**	**161,633**	**155,935**

*Production of wine and of must intended for wine production (juices and other musts excluded)
2009/2010 (provisional) – 2010/2011 (estimates)
Source: OIV, Eurostat, FAS Europe Offices.

EU vine-growing area has been declining for the past few years due to shrinking margins and the implementation of the new Common Market Organization grubbing-up scheme (see the Policy section for details). The grubbing-up scheme involves voluntary withdrawal from vine growing by decreasing subsidies over three years to reduce production of uncompetitive wines, cut surpluses, and compensate producers by offering them alternatives. Thus far, 175,000 hectares have been taken out of production, with additional reductions expected in 2011 – the third and final year of the scheme.

EU-27 total vineyards area* trend (mil ha)



*Area harvested (wine grapes+ table grapes)
Source: FAOstat.

Total EU-27 MY 2010/11 wine production is still preliminarily estimated at 156 Mhl, down 3.5 percent from the previous marketing year. Sharp production decreases in Germany, Romania, and Hungary and small decreases in France, Italy, and Spain were only partly offset by significantly higher production in Portugal.

Despite this negative trend (production has been declining for the last ten years), **France** is ranked as the world's largest wine producer this year with 17 percent of the world market share, followed closely by Italy. France's MY 2010/2011 production is expected to show a 1.3 percent drop, partially due to the gradual reduction of French land under vines connected to the grubbing-up scheme. Compensation for producers to up root their vines has resulted in a reduction of almost 18,500 hectares for each of the last three years. Based on estimates from the Ministry of Agriculture, France had 786,804 hectares of vineyards for wine production in 2009. 59 percent of French vineyards were devoted to VQPRD wines. Due to the continuing program of reducing the planted area of lower quality production, planted area is expected to fall to about 750,000 hectares by the end of 2011. In 2009, there were more than 3,000 organic wine growers on about 39,000 hectares, up 38.9 percent, compared to 2008, representing 4.6 percent of the total planted area for wine.

Italy's MY 2010/2011 wine production is estimated at 45.5 Mhl, which is about the same as the previous marketing year but slight below Italy's 5-year average. The situation is not homogeneous among the different Italian producing regions or even within them, due to diverse weather problems. Italy's central and northern regions were cold and rainy, while the south was hot. These diverse weather conditions caused both increases or decreases in both quantity and quality and delayed the harvest by 10-to-15 days. Significant decreases occurred in the south, especially in Sicily, which recorded a production decrease of 30 percent compared to MY 2009/2010. As a result, many Sicilian growers applied to the grubbing-up and green-harvesting schemes (i.e., the total destruction or removal of grape bunches while still in their immature stage, thereby reducing the yield of the relevant area to zero per EC Reg 479/2008). About one-third of Italy's wine production is Controlled Appellation wines (DOC and DOCG), most of which are produced in northern and, to a lesser extent, central regions. MY 2009/2010 production area was officially reported at 702.550 hectares.

Despite having the largest area of vineyards in the world, **Spain** ranks 3rd in the EU-27 production behind France and Italy, primarily due to low yields because some vineyards are cultivated on marginal lands with reduced water supply. MY 2010/2011 production is estimated at 35.9 Mhl, quite close to the previous year's level but still lower than the 5- year average. Spanish vine area has been decreasing due to the uprooting of vineyards in the frame of the CMO reforms. The production of controlled appellation wine in Spain has been constant over the past years. However, total wine production, especially wine not under regulatory controls, has tended slightly downward. According to national data, production of red and rosé wine is relatively stable, while white wine production is declining.

German wine production for MY 2010/11 is estimated at 6.9 Mhl, which is 25 percent less than in the previous MY. This decline is the result of low fruit set caused by very cold weather during blossoming time. In addition, cold and rainy August weather required strict quality control at harvest, which further reduced grape production. additionally, some regions suffered from hail. In Germany, a little over 100,000 ha are currently planted with grapes for wine production: 63 percent of which are for white wine varieties, and 36 percent for red varieties. However, in terms of wine production, 60 percent of German production consists of white wines and 40 percent are red wines as red varieties generally have a slightly higher yield. The top five varieties in the white section are: Riesling, Mueller-Thurgau, Silvaner, Pinot Grigio, and Pinot Blanc. Pinot Noir, Dornfelder, Portugieser, Trollinger, and Black Riesling are the major reds.

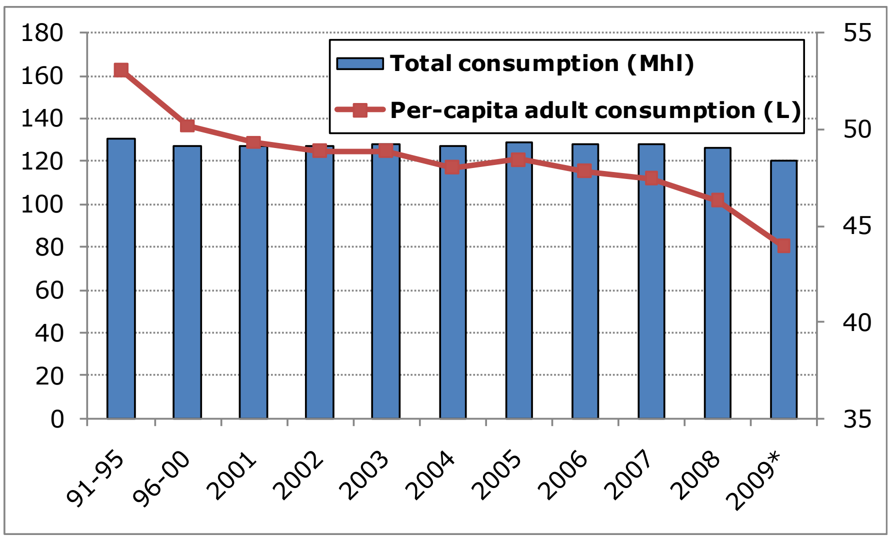
MY 2010/2011 wine production in **Portugal** is estimated at 7.1 Mhl, 21.3 percent above MY 2009/2010. Around 71 percent of total production is red/rosè while the remainder 29 percent is white with *Vinho Verde Branco* representing one third of it.

Hungary's MY 2010/11 grape wine production is estimated at 2.4 Mhl, which is significantly below MY 2009/10 production (3.4 Mhl) and the 5-year average (3.6 Mhl). A slow decrease of wine production along with the shrinking vineyard area is expected for the next couple of years in Hungary. About 70 percent of wine produced in Hungary is white, 28 percent red, and less than 2 percent is rosé.

Consumption:

Domestic EU wine consumption continues to decline, despite a slight economic recovery. Per capita wine consumption has been falling for decades, especially in southern European countries, where changing consumption habits (increased outdoor drinking, substitution of other beverages, changing tastes) affect overall demand. Another important factor is the anti-alcohol drinking campaigns, especially aimed at youth, conducted in some countries, primarily France and Italy, which has made advertising wine virtually impossible. In addition, health concerns and concerns about drinking and driving have pushed local authorities to implement more stringent legislations, which further dampened alcohol consumption.

EU-15 total and per capita wine consumption trend

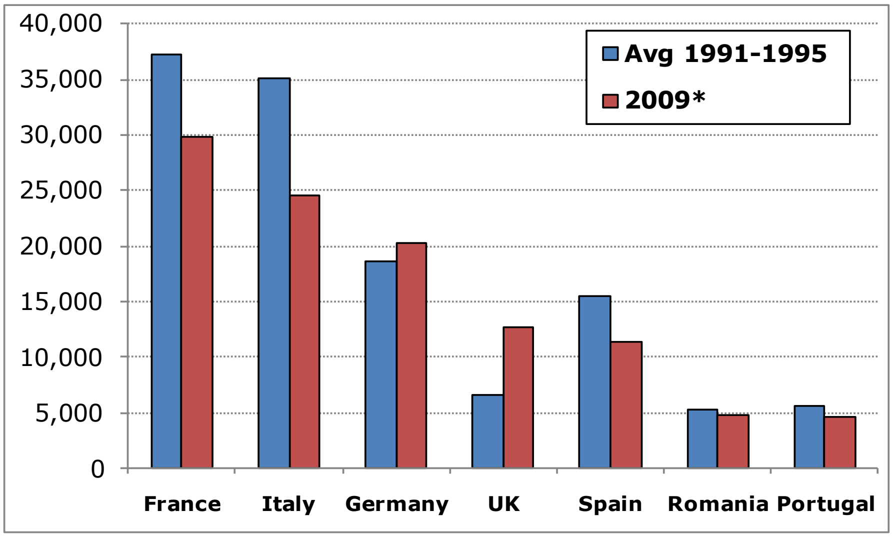


Adult: >15 years old

*Provisional figures

Source: OIV, Eurostat.

EU-27 MS wine consumption trend ('000 Hectolitres)



*Provisional figures

Source: OIV, Eurostat.

France remains the largest European wine consumer despite a continuing decline in wine consumption. In MY2009/10 per capita consumption was 46.4 liters (56.8 liters per capita for the population older than 14 years). Various regulations against alcohol in France, along with a weak economy, have had a negative impact on French wine consumption. Moreover, younger generations show stronger preference for other alcoholic beverages. The bulk of wine consumers are aged 50-60. Regular wine consumers are aged about 70 years old and the occasional consumers between 30 and 40 years old. The consumption of VQPRD wines has been stable for the last fifteen years (26.7 liters per capita), table wines and country wines consumption is lower due to their perceived lower quality (20.7 l/per capita in MY 2009/10 against 34 l/per capita in MY 1994/95).

Wine consumption has been declining in **Italy** for decades. The recent economic downturn, which cut household purchasing power, and the enforcement of a stricter driving legislation have reinforced the trend. According to industry estimates, per capita wine consumption (currently around 43 liters) will fall below 40 liters by 2015—considerably down from 120 liters in the 70s. Recent Italian wine consumer surveys show that Italian origin combined with knowledge of the winery are main elements in determining the consumer's choice. However, in 2009, 90 percent of wines with appellation of origin were sold at a price lower than €5 ($7) and 60% lower than €3 ($4). In general, an increasing number of consumers are willing to try new wines, to learn how to taste and understand the product, to find out its origin, and how it is processed. Moreover, wine is increasingly consumed outdoor.

Under a barrage of challenges, including a recession, an escalating excise duty rate, a weak currency and government pressure on anti-social drinking, sales of wine in the **UK** have held up remarkably well. UK total wine sales grew by 2 percent in both volume and value in 2010, mainly due to the continued growth in sales of rosé wine (12 percent by value). In the still wine category, white wine continues to be the most popular, representing just over 50 percent of total still wine sales in value terms. White wine sales increased by nearly 2 percent in value in 2010, while red wine sales experienced a negligible decline, losing some share to rosé. Currently the most popular grape varietals in the UK are Cabernet Sauvignon and Shiraz (red wine), Chardonnay (white wine) and Zinfandel (rosé). The popularity of 'New World' wines continues to increase at the expense of the traditional EU producers. South Africa, Chile and New Zealand are showing strong growth, spurred on by branded promotions in retail outlets. Growth in U.S. sales is mainly driven by rosé, and again brands are dominant. The lack of branding and/or instant grape varietal identification in many wines from France and Germany mean that the UK consumer is unable to understand the product and unlikely to repeat the purchase. Italian wine sales are benefiting from an increasing UK consumer appreciation of Pinot Grigio and Prosecco. During the recession, supermarket wine sales have been increasingly discount driven with deals such as three for £10 ($16) driving volume sales. While consumers have partly been trading down to less expensive wines, many have chosen to limit volume consumption, and opt for better-quality wines. Sales of the fastest-growing red and white wines were in the above £5 ($8) price range. Champagne sales recovered somewhat in the UK in 2010. However, consumers are increasingly choosing cheaper but high-quality sparkling wine alternatives, such as Cava and Prosecco. Champagne sales in the "on-trade" (foodservice/bar sector) have been particularly hit by the recession to the extent that sales decreased 7 percent by volume and 3 percent by value in 2010. Heavy promotional campaigning in the "off-trade" (retail sector) encouraged champagne sales in that sector to grow 4 percent in volume and 3 percent in value during the same time period. As consumers become more environmentally responsible, manufacturers, retailers and producers are responding to the 'green' packaging sustainable trend. Plastic bottles are increasingly replacing glass, especially in the 25cl bottle. Screw caps are also becoming more prevalent as consumers embrace the consistency and convenience that they offer. 2011 is likely to be a difficult year for UK wine sales as the recession continues and consumers trade down or reduce their consumption. Total UK wine sales are expected to return to growth in 2012 as the grip of the recession fades. However, looking further ahead the UK market is unlikely to experience the level of growth seen before 2007.

The wine sector in **Spain** is suffering the effects of the global and domestic economic downturn, with lower consumption rates and lower sales, continuing the trend that began in 2000. The negative economic scenario, like the high rate of unemployment, along with other factors such as the no-alcohol traffic campaigns and the changes in consumer preferences in favor of beer and other drinks are having a significant impact in the per capita consumption. The brand new anti-tobacco law, implemented in January 2011, might also have a negative impact in the consumption of wine in bars and restaurants. 2010 figures (Jan-Nov) show a slight increase of 2.5 percent in the consumption of wine at home, compared to the same period of previous year. Hotels and restaurants consumption figures (Jan-Sep) show a 12.3 percent decrease in quantity and a 9.2 percent in price, compared to the same period of previous year. This means a reduction of € 871.6 million and 224.1 million liters. On the same period, table wines continue a steep downward trend (18.3 percent decrease in volume and almost 20 percent decrease in value). Consumption of wines with Designation of Origin decreases 6 and 6.5 percent in value and volume respectively.

Total **German** consumption in recent years fluctuated between 19.3 and 20.0 Mhl. Similarly, per capita consumption varied between 23.3 and 24.4 liters. As a comparison, per capita consumption of beer has been steadily decreasing and currently amounts top 111 liters. In 2009, German households spent 11.1 billion Euro on alcoholic beverages. Within this category, wine and sparkling wine together accounted for 41 percent of expenditures, followed by beer (29 percent) and spirits with 25 percent. When looking at imported wine, German households tend to favour red wines over white wine. In 2009, 63 percent of household purchases at retailers consisted of red wine, 29 percent of white wines and 8 percent of rosé wines.

In MY 2008/09 (latest available statistics) **Austrian** human consumption totaled 2.4 Mhl. During, the same period, Austrian per capita consumption of wine was 29.2 liters. Austrians consume about 73 percent of their own production. The consumption of domestic wines especially at restaurants is increasing. About 50,000 hectoliters of Austrian wine is used industrially. Austrian consumers generally prefer locally grown light white wines. The latest trend by Austrian wine-growers is the production of full bodied high alcohol content red wines. This development favors new world wines, which are known for their high alcohol content. There is especially demand for good quality, inexpensive U.S. wine priced from $5 to $10 a bottle.

In **Hungary**, the decades-long decline in wine consumption has slowed during the past several years due to a stronger demand for quality wine and imported wines as well as to the increase in beer prices growth in 2007-2008, which temporarily resulted in increased wine consumption. Homemade wine is estimated to be about 20 percent of total consumption in Hungary. The deepening economic crisis may increase the consumption and sales of homemade wine (which is not taxed).

Trade:

Intra-EU trade, still representing the major share of the total world volume, which totaled 43Mhl in MY 2009/10, according to recent EU Commission data. A large portion of this trade involves the shipments of bulk wines, used mainly for blending purposes, from both Italy to Germany (about 3.4 Mhl) and France (0.8 Mhl), and from Spain to France (2.7 Mhl in the same period), Portugal (1.3 Mhl), and Germany (1.2 Mhl).

Total **Italian** wine exports to the EU-27 in MY 2009/2010 were 14 Mhl, or 4 percent more than MY 2008/2009, due to increased shipments to Germany of bulk table wines, used locally for blending, as mentioned above but also to increasing imports of bottled wines from Germany and the United States.

Spanish exports to the rest of the EU in MY 2009/2010 reached 10.9 Mhl (around 70 percent of Spanish wine exports), increasing by 3 percent from the previous MY. According to the latest export data in the first quarter of MY 2010/2011, total Spanish wine exports have gone up 19 percent and 6 percent in quantity and value respectively, compared to the same period in the previous year. This is due to the fact that the increase has been pushed by exports of bottled wine without Designation of Origin (DO). The sales of bulk wine also continue at a good pace, due to the recovery of markets like Russia, China and Italy. The negative tendency is for the bottled wine with DO, which are unlikely to recover in the near future. Spanish wine producers and associations are trying to give a boost to the export market for their products in order to fight the falling sales in the domestic market and the crisis in prices. Spain is interested in changing their strategy and focusing on exports under geographical indications, with higher quality and more added value wines.

French shipments to EU destinations in MY 2009/2010 were 8.5 Mhl (1 percent higher than in the previous year), directed to virtually all the major European markets.

Excluding intra-EU trade, wine exports from the European Union to third countries in MY 2009/2010 significantly recovered from the previous year both in quantity and value and first MY 2010/2011 estimates show a 30 percent increase in volume and 18 percent in U.S. dollar value. The recovering economy and the increasing demand both from developed and BRIC countries are the major reasons of this surge. Furthermore, the weaker increase reported in terms of value than in volume can be explained by both by the decline of the wine prices recently occurred and the stronger preference from the consumers in the importing countries towards cheaper wines.

EU-27 wine exports by category

	000 HL		% var. Aug-Dec 10/11-09/10	$ mil		% var. Aug-Dec 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
Sparkling wine	1,599	1,699	23%	1,527	1,656	14%
Bottled	11,114	12,346	24%	5,715	6,217	19%
Bulk	3,496	4,014	52%	361	353	30%
Wine total	**16,209**	**18,059**	**30%**	**7,603**	**8,226**	**18%**

Source: Global Trade Atlas (GTA).

EU-27 wine exports by trading partner

	000 HL		% var. Aug-Dec 10/11-09/10	$ mil		% var. Aug-Dec 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
United States	4,406	4,456	11%	2,555	2,533	6%
Switzerland	1,580	1,705	-1%	920	946	2%
Canada	1,474	1,503	28%	739	765	22%
Japan	1,186	1,157	10%	737	699	10%
Hong Kong	133	195	50%	347	569	75%
Russia	2,463	3,126	63%	405	433	40%
China	555	1,169	98%	211	386	77%
Norway	495	522	16%	239	264	4%
Singapore	100	121	2%	219	250	10%
Australia	145	175	2%	100	123	8%
World	**16,209**	**18,059**	**30%**	**7,603**	**8,226**	**18%**

Source: GTA.

The United States remains the leading export market (24.6 percent of the total in volume and 30.7 percent in value) for the EU-27 as a whole. In MY 2009/2010, the United States was the largest extra-EU export partner for both Italy ($1.1 billion) and France ($0.9 billion).

In volume terms, Italian exports to the United States are two and half times compared to French shipments. Russia is the second largest importer of EU wines (based on volume), with shipments remarkably increasing in first quarter MY 2010/2011 (+63 percent), although they are mainly represented by inexpensive Bulgarian and Spanish wines. Exports to China more than doubled in MY 2009/2010 in terms of quantity and are forecast to keep on following the same trend even in MY 2010/2011. The EU is not only the largest wine exporter in the world, but also the largest importer. The main countries of origin remain, as can be seen from the table below, Australia, Chile, South Africa, and the United States. Total imports, in any case, after the slight decrease reported in MY 2009/2010, in the next MY should recover (a 10% increase has been reported for the first quarter). In value terms, however, imports are falling by 6 percent, consequent to the lower demand for the more expensive wines.

EU-27 wine imports by category

	000 HL		% var. Aug-Dec 10/11-09/10	$ mil		% var. Aug-Dec 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
Sparkling wine	146	163	-3%	77	89	-14%

Bottled	6,864	6,472	-6%	2,589	2,447	-9%
Bulk	6,279	6,320	29%	683	666	9%
Wine total	**13,289**	**12,955**	**10%**	**3,349**	**3,201**	**-6%**

Source: GTA.

EU-27 wine imports by trading partner

	000 HL		% var. Aug-Dec 10/11-09/10	$ mil		% var. Aug-Dec 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
Australia	3,305	3,233	19%	969	817	-20%
Chile	2,935	2,983	2%	778	772	-7%
South Africa	2,948	2,938	-7%	594	614	-16%
United States	2,138	2,067	26%	418	397	7%
New Zealand	413	508	37%	229	262	23%
Argentina	717	596	1%	198	175	11%
Switzerland	15	15	-14%	44	64	23%
Moldova	107	112	-5%	20	21	-16%
Macedonia	483	312	296%	31	19	177%
Morocco	44	36	29%	7	7	-8%
World	**13,289**	**12,955**	**10%**	**3,349**	**3,201**	**-6%**

Source: GTA.

U.S. exports to the European Union, after growing gradually in the recent past, have remained stable during the last few years in quantity, but declined in dollar value. A large share of these U.S. exports (over 70 percent) are represented by bulk Californian wine, which is bottled in Europe for local consumption. Beginning in 2004, this bulk trade assisted the competitiveness of Californian wine by reducing tariff, transportation and bottling costs. In particular, the bulk exports to Italy in MY 2009/2010 were more than 600,000 hectoliters (99% of the U.S. exports to Italy). Once bottled, this product is sold within the EU, mainly in the UK market. These sales have tended to result in a statistical overestimate of Italian imports of US wines and under represent the UK imports. Also 70 percent of the U.S. wine imported into Germany, is shipped as bulk wine, bottled locally, and sold in leading German supermarket chains and discount food stores.

TRADE TABLES FOR SELECTED EU COUNTRIES

Italian wine exports

	000 HL		% var. Aug-Nov 10/11-09/10	$ mil		% var. Aug-Nov 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
Germany	6,279	6,621	3%	1,086	1,128	-3%
United States	2,380	2,542	2%	1,003	1,075	-1%
UK	2,591	2,625	-8%	627	613	-13%
Switzerland	637	670	-3%	298	335	4%

Canada	594	602	25%	267	287	32%
Denmark	296	330	20%	135	161	15%
Japan	310	320	-2%	132	137	-7%
Netherlands	393	438	13%	126	129	7%
France	1,199	1,085	-10%	122	114	2%
Sweden	332	334	-12%	112	113	-4%
World	**18,658**	**19,744**	**13%**	**4,748**	**4,998**	**4%**

Source: GTA.

French wine exports

	000 HL		% var. Aug-Dec 10/11-09/10	$ mil		% var. Aug-Dec 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
United Kingdom	2,139	2,041	15%	1,547	1,515	0%
United States	965	908	10%	901	948	8%
Germany	2,247	2,362	10%	846	877	-6%
Belgium	1,487	1,520	12%	836	744	-6%
Japan	573	551	13%	485	444	11%
Netherlands	1,172	1,158	6%	427	426	-14%
Switzerland	441	475	1%	403	375	3%
Canada	525	518	10%	337	335	13%
Hong Kong	88	120	71%	154	296	98%
China	337	639	40%	151	284	65%
World	**12,275**	**12,749**	**14%**	**7,896**	**8,135**	**6%**

Source: GTA.

Spanish wine exports

	000 HL		% var. Aug-Nov 10/11-09/10	$ mil		% var. Aug-Nov 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
France	2,992	3,140	17%	172	448	4%
Germany	2,344	2,328	22%	413	403	2%
United Kingdom	1,242	1,307	6%	370	355	8%
United States	463	501	21%	238	248	11%
Switzerland	350	381	0%	132	142	-8%
Netherlands	390	422	-20%	96	106	-28%
Belgium	298	300	4%	93	97	-6%
Portugal	1,833	1,870	-14%	92	90	-24%
Sweden	242	231	4%	66	69	-2%
Japan	236	218	15%	68	67	27%
World	**14,558**	**15,691**	**19%**	**2,374**	**2,659**	**6%**

Source: GTA.

United Kingdom wine imports

	000 HL		% var. Aug-Nov 10/11-09/10	$ mil		% var. Aug-Nov 10/11-09/10
	2008/2009	2009/2010		2008/2009	2009/2010	
France	2,080	2,069	16%	1,486	1,478	6%
Italy	1,895	2,279	6%	534	637	2%
Australia	2,255	2,138	23%	682	511	-17%
Spain	990	949	21%	324	349	9%

Chile	1,033	1,095	24%	331	325	2%
South Africa	1,100	1,071	0%	230	229	-23%
New Zealand	351	428	37%	188	214	20%
Germany	668	620	4%	163	167	11%
United States	850	755	78%	178	143	20%
Portugal	170	171	-22%	77	97	-25%
World	**11,936**	**11,995**	**18%**	**4,374**	**4,320**	**2%**

Source: GTA.

German wine imports

	000 HL		% var. Aug-Nov 10/11-09/10	$ mil		% var. Aug-Nov 10/11-09/10
	2008/2009	**2009/2010**		**2008/2009**	**2009/2010**	
Italy	6,038	6,445	-16%	1,019	1,038	-18%
France	2,308	2,360	3%	840	828	-8%
Spain	2,172	2,087	6%	350	339	-8%
South Africa	691	734	-1%	91	107	-7%
Austria	405	438	-18%	76	87	-19%
United States	385	407	10%	61	75	36%
Chile	453	474	16%	69	67	22%
Australia	301	352	14%	53	59	-5%
Denmark	249	239	-52%	49	52	-37%
Portugal	191	185	-5%	53	48	-4%
World	**14,355**	**14,550**	**-6%**	**2,844**	**2,839**	**-11%**

Source: GTA.

Policy:

In April 2008, the EU Council of Ministers reformed the Common Market Organization (CMO) for wine. The reform aimed to reduce overproduction, phase out expensive market intervention measures and to make EU wine more competitive on the world market.

The European Commission claims that EU wine producers are disadvantaged because they are smaller than major competitors' in other countries and their production is not adequate to the needs of large-scale retailers. EU wine is losing market share because of regulatory constraints and ineffective market strategies.

Other issues officials hope the CMO will address: increasing production and competition from the New World, a systematic recourse to crisis distillation, an overly cautious grubbing-up policy, exaggerated use of enrichment practices, confusing labeling rules, and rigid oenological practices.

Grubbing-up: wine grape growers receive a financial incentive to uproots grape vines. In the wine reform the EU targeted an area of 175,000 hectares to be grubbed up over a three year period. For 2010 there was a substantial oversubscription and the Commission set a "reduction coefficient" (to accommodate oversubscription for the scheme) of 45.9. The budget for 2010 was €334 million. The budget for 2011, which is the final year for the grubbing-up scheme, is €276 million. The reasons for the oversubscription of the grubbing-up program are low wine prices, labor intense practices, and financial difficulties.

Implementation of the Grubbing Up scheme

		2008/2009	2009/2010	2010/2011	Total
Available Resources (million €)		464	334	276	1,074
Requested by Member States	Amounts (million €)	1,011	666	463	2,140
	Areas ('000 ha)	159.9	108.1	83.2	351.2
Acceptance (%)		45.875	50.125	59.622	50.000
Estimated areas to be Grubbed-up ('000 ha)		73.4	54.2	49.6	177.2

Source: European Commission.

The sums are allocated to interested Member States (MS), which then decide how to distribute the amount. For example, a MS could distribute its allocations to all applicants providing only partial compensation or it could prioritize which applicants are accepted. In order to avoid abandonments, specific areas can be exempted from the grubbing-up scheme for environmental reasons.

Planting rights: Planting rights refers to the right of a wine producer to plant vine. There is currently a prohibition of new plantings in place until December 31, 2015. Replanting is allowed only where producers grub up equivalent areas planted with vines. After this current restrictive planting rights regime in the EU ends, MS may decide to extend the prohibition in their territories until 2018.

Single Payment: In order to bring the sector in line with the reformed Common Agricultural Policy (CAP), all areas formerly under vine can claim the status of areas eligible for decoupled single payments. The reasons of this measure are to gain the beneficial effects on the environment, due to the application of the cross-compliance rules.

National Envelopes: The term "National Envelope" is used to refer to a funding allocation to Member States giving them flexibility to distribute according to their own priorities. Article 7 of the

Wine CMO outlines 11 measures that MS can chooses from to support its wine industry. In 2010, MS plan to use about one third of the funds for wine sector restructuring and conversion. MS plan to use 15 percent for distillation of potable alcohol which will be phased out by July 31, 2012. Restructuring and conversion of the wine yards is done to improve competitiveness and can include relocation and improvements to vineyard techniques.

Promotion in third-country markets: in the wine CMO there is a possibility for MS to promote wine in third country markets with funding from the National Envelopes. The Community contribution for this may not exceed 50 percent of the eligible expenditure. However, the Commission is not placing a priority on promotion during the recession so funding has been minimal, around 5 percent of the budget.

Crises Distillation scheme: crises distillation of wine is one way for the EU to get rid of surplus production. The distillation scheme of surplus wine will be a gradually phased–out. The emergency distillation scheme has a four-year phase out scheme until 2012, going from a maximum of 20 percent of national funding in 2009, 15 percent in 2010, 10 percent in 2011 and to a maximum of 5 percent in 2012. MS are allowed to increase the available funds for crisis distillation by contribution of national funds. Distilled alcohol must be used in the industrial sector.

Rural Development (RD) Funding: all RD measures are jointly funded between the EU and national authorities. The rate of EU co-financing varies between 50 and 80 percent depending on what the funding is for and the region. The MS or local authority pays the reminder. Only three MS have allocated budget for using RD funds for the wine sector: Spain, France and Italy. The total budget for these MS increased from about €40 million in 2009 to €80 million in 2010 and €120 million annually for 2011 and onwards. The largest part of this money is used to improve the quality of the wine. Some of this money is also used for environmental purposes, for example to keep vineyards on slopes where other types of agriculture are difficult, and where there is risk of abandonment of land and the cultural environment is important for the region.

Marketing:

Health Issues: Alcohol is a key public health and social concern across the EU. Europe has the highest proportion of drinkers in the world, the highest levels of alcohol consumption per capita, and a high level of alcohol-related harm. Nonetheless, effective alcohol policies to address health-related issues will require EU-level support and coordination. Targeted measures aimed at limiting the availability of alcohol, reduced exposure to commercial communication, drunk-driving countermeasures, and improved education and information are currently lacking.

EU wine promotion abroad

The promotional activities for EU wines are implemented differently by each leading wine producer and exporter, and are carried out both within the EU and in the most important world markets.

In **France** the GOF and inter-professional organizations underwrite assistance for domestic and international promotion of wines and spirits for the French market promotion agency (SOPEXA) which actively promotes French wines in EU and overseas markets. FRANCE AGRIMER (the new French Association for Horticultural and Wine Products) receives funding from SOPEXA for foreign promotions, mainly in Europe, the Americas, and in Asia. Promotional activities are focused on advertising campaigns, POS, in-store promotions in hotels, restaurants, specialized outlets, trade shows and fairs. For help with promotion to third country, the total amount of EU funds allocated is 250 million dollars over 5 years.

The 'Activity Plan 2011', carried out by the **Spanish** Institute of Foreign Trade (ICEX), includes a list of promotional activities to push Spanish wines in foreign markets. This activity plan includes a wide range of activities and actions in more than 30 countries, such as trade shows, seminars, meetings with journalists, wine tastings, advertising, and promotional events.

Most of the generic marketing for **German** wines, both domestically and abroad, is carried out by the German Wine Institute (Deutsches Weininstitut, DWI). The DWI is funded through a mandatory check-off program. In addition, the German Ministry of Food, Agriculture (BMELV) supports pavilions on selected trade shows abroad. With this program, 60 German wineries participated in VINEXPO Asia Pacific in May 2010. For June 2011, BMELV offers participation in the VINEXPO, Bordeaux.

Austrian wine promotion is carried out by the Austrian Wine Marketing Board (AWMB). The purpose of the AWMB is the implementation of marketing measures for Austrian wine and receives its budget form marketing contributions of the Austrian wine industry (about 3 million Euros), the federal states (about 2.5 million Euros) and the Austrian federal budget (about 1.5 million).

In **Italy** the Italian Trade Commission (ICE), an agency of the Ministry of Economic Development, continues to be the main public institution providing export and promotion assistance in foreign markets. Funds from the EU wine Common Market Organization will be available for Italian wine companies in the next three years. MY 2010/2011 funds totaled € 48 million and will gradually increase to € 82 million and € 102 million in MYs 2011/2012 and 2012/2013 respectively. Funds are targeted to promote events (mainly fairs, shows, workshops and wine tastings) in specific countries.

In the **UK**, the most extensive program for US wine promotion is carried out by the Wine Institute of California. Their long term strategy focuses on demonstrating the breadth and quality of California wine to ensure that heavy discounting of branded wine does not taint the image of the origin. The Wine Institute works hard to maintain the reliability of developed brands and the quality of high end boutique wines, as well as developing the profile and availability of the mid-price ($10-20) sector. The UK continues to be the most important export market for the Napa

Valley Vintners. Their trade body has a promotional program in the UK, administered through a Public Relations agency, Emma Wellings PR. Their program focuses on moving consumers from lower priced wines into the mid and upper tier, through a combination of their annual trade events and trade and consumer education. The Washington Wine Coalition and the Oregon Wine Board are represented in the UK by trade consultant – Hilltop Wines. Their priority is to establish a clear identity in terms of quality and value for the Pacific Northwest wines. Their marketing strategy includes attendance at trade shows, tastings and media/buyer tours.

Wine imported in **Hungary** from the USA needs to be covered by an analytical report (certificate) from an accredited laboratory in the US. If the wine (from the US) has been imported by another MS it can be sold in Hungary without further administrative measures. A sticker in Hungarian is required if the label is in a foreign language. The label of wine bottles in Hungary usually contains the name of the region (appellation/and or micro region) of production (e.g. Badacsony, Eger etc.) and the kind of grape the wine made of (e.g. Riesling, Cabernet Franc etc. or Cuvee of certain grape varieties).

Sales of U.S. wines to **Poland** increase every year. Direct sales of U.S. wines to Poland are valued at nearly 3 mln. Total value of U.S. exports (direct and in-direct through EU counties) is valued at USD 25 mln. Californian wines comprise about 16% of the Polish wine market, making California the single largest supplier of wines in Poland. Every second year sales to the Polish market are supported by a Wine Institute of California Event.

Allergen Labeling: Commission Directive 2007/68/EC sets out a list of ingredients and substances that are likely to trigger allergic reactions. A temporary derogation from the mandatory indication on wine labels of the use of casein and ovalbumin as clarification processing aids was granted until December 31, 2010. Commission Regulation 1266/2010 extends this derogation until June 30, 2012.

Excises and Other Taxes

Details on wine excises and Value Added Tax (VAT) in the different EU countries can be found in the following document:

http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_i_alcohol_en.pdf

Excise taxes vary considerably among member countries, ranging between zero in many producing countries to different levels in the non-producing countries. VAT rate (ad valorem) rates also vary among the different countries, with a maximum rate of 25 percent in Denmark, Sweden and Hungary.

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