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EU-27

Wine Annual

Wine Annual Report and Statistics

Approved By:
Jim Dever

Prepared By:
Stefano Baldi

Report Highlights:
Total EU-27 CY 2011 wine production is still preliminarily estimated at 156 Mhl, up 1 percent from the previous year. Sharp production decreases in Italy together with smaller decreases in Portugal and Greece were offset by higher production in France, Germany, Romania, and Hungary. EU wine consumption continues to stagnate due to the continued general economic crisis and is not forecast to change in CY 2012. Wine exports to extra-EU countries reached a record high in 2011 with an 11 percent increase in volume and 26 percent in U.S. dollar value. The recovering economy, the weakening euro, and the increasing demand both from developed and BRIC countries are the major reasons of this surge. The United States remains the leading export market for the EU-27 as a whole. Total imports, stagnated in CY 2011 and are expected to remain quite stable even in CY 2012.

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.

This report has been made possible due to the expert contributions of the following Foreign Agricultural Service analysts:

Stefano Baldi from FAS Rome covering Italy

Hilde Brans and Karin Bendz from U.S. Mission to the EU/FAS Brussels

Ornella Bettini from FAS Rome covering Greece

Mila Boshnakova from FAS Sofia covering Bulgaria

Monica Dobrescu from FAS Bucharest covering Romania

Laurent Journo from FAS Paris covering France

Roswitha Krautgartner from FAS Vienna covering Austria and Slovenia

Sabine Lieberz from FAS Berlin covering Germany

Diogo Machado Mendes from FAS Madrid covering Spain and Portugal

Ferenc Nemes from FAS Budapest covering Hungary

Jennifer Wilson from FAS London covering the United Kingdom

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

	2010/2011	2011/2012	2012/2013
Beginning stocks	169.750	163.750	160.000
Production	154.343	155.881	157.500
Imports	13.654	13.450	13.500
TOTAL SUPPLY	**337.747**	**333.081**	**331.000**
Exports	22.089	23.600	24.200
Total domestic use	151.908	149.481	147.800
Human consumption	125.713	126.000	125.000
Other	26.195	23.481	22.800
Ending stocks	163.750	160.000	159.000
TOTAL DISTRIBUTION	**337.747**	**333.081**	**331.000**

Commodities:

Wine

Production:

The European Union (EU-27) is the world leader in wine production, with almost half of the world's total vine-growing area and about 60 percent of production wine volume. Within the EU, France, Italy, and Spain represent around 80 percent of total production. Other important EU producers include Germany, Portugal, Romania, Hungary, and Greece. 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 Hectoliters)

	2006	2007	2008	2009	2010	2011
France	52.127	45.672	41.640	46.269	45.669	50.044
Italy	49.633	42.514	46.245	45.800	46.737	40.118
Spain	38.290	36.408	35.913	36.097	35.353	34.400
Germany	8.916	10.261	9.991	9.228	6.906	9.300
Portugal	7.542	6.074	5.620	5.872	7.133	5.925
Romania	5.014	5.289	5.159	6.703	3.287	5.400
Hungary	3.271	3.222	3.460	3.198	1.966	2.720
Greece	3.938	3.511	3.869	3.366	2.950	2.450
Other EU-27 countries	5.545	6.481	6.597	5.386	4.342	5.567
EU27	**174.276**	**159.432**	**158.494**	**161.918**	**154.343**	**155.924**

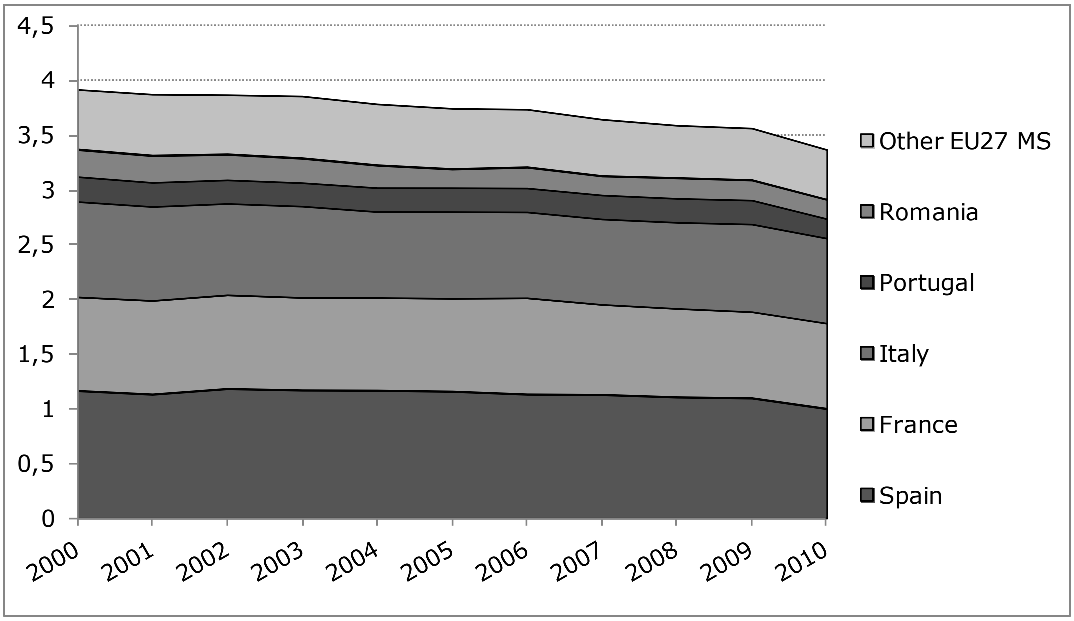
*Volume of product removed from fermenters after the first natural fermentation of the must of fresh grapes (juices and other musts excluded)

2010 (provisional) – 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 (CMO) 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. According to the EU Commission, 175,000 hectares have been taken out of production from 2009 to 2011, the last year of the program.

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



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

Total EU-27 CY 2011 wine production is still preliminarily estimated at 156 Mhl, up 1 percent from the previous year. The sharp production decrease occurred in Italy together with smaller decreases in Portugal and Greece were offset by significantly higher production in France, Germany, Romania and Hungary.

France ranks as the world's largest wine producer this year with 17 percent of the world market share, followed by Italy and Spain. After few years of poor harvests, France's 2011 production is expected to show a 9 percent increase, which is considered the average production level for France. Based on estimates from the Ministry of Agriculture, France had 773,393 hectares of vineyards for wine production in 2010. About 67 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 2012. In 2010, there were more than 3,000 organic wine growers on about 50,300 hectares, representing 6.5 percent of the total planted area for wine.

Italy's 2011 wine grape harvest has been the poorest in the last 60 years due to the drought and to the high temperatures that hit the crop at the end of the summer. As a result, wine production dropped by 14 percent to 40.1 million hectoliters. Despite the good weather conditions over the flowering and fruit set period, a 20-percent decrease in national average rainfall together with the August-September overheating – which made summer 2011 the hottest since 1800 in the north of Italy – negatively affected yields. Moreover, the EU financial incentives to the grubbing-up and green harvesting (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) schemes triggered a decline of the Italian wine-growing area further contributing to reduce the domestic wine production. The most significant drop occurred in the south of Italy where Sicily, Apulia, and Abruzzo regions lost respectively 25, 20 and 20 percent compared to previous year.

The harvest started in mid-August and ended in mid October with the bulk reaching the peak in mid September. Reportedly, quality is quite good on average due to limited fungi attacks and to a higher alcoholic content. About 30 percent of Italy's wine production is VQPRD wines (DOC and DOCG), most of which are produced in northern and, to a lesser extent, central regions. CY 2011 production area was officially reported at 693.863 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. CY 2011 production is estimated at 34.4 Mhl, quite close to the previous year's level but still lower than the 5-year average. Spanish vine area has been decreasing for the last three years by 94,000 ha (2.5 percent of total EU-27 wine growing area) due to the uprooting of vineyards in the frame of the CMO reforms. Most wine produced in Spain is either wine with Protected Denomination of Origin (PDO) or wine with Protected Geographic Indication (PGI). Production of red and rosé wine moved from 49 percent of the total in CY 2009 to 58 percent in CY 2011 while production of white wine had an opposite trend from 51 percent to 42 percent of total production in the same period of time.

German CY 2011 wine production is estimated at 9.3 Mhl. This is a 35 percent increase over the exceptionally low production in the previous year and qualifies as an average production compared to the last ten years. The quality of the 2011 wines is exceptionally good, due to the extremely warm and sunny fall weather. Nearly 70 percent of the harvested grapes qualify for "Praedikatswein" (premium wine) compared to 41 percent in 2010. More than 99 percent qualify for controlled appellation wines. In Germany, 102,186 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, when looking at the wine production, the relation is 60 percent white and 40 percent 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. Together these five varieties account for 77% of the white wine area. Pinot Noir, Dornfelder, Portugieser, Trollinger, and Black Riesling are the most popular red varieties and account for 78 percent of the red wine area.

Portugal is the fifth wine producer in the EU-27 with total production estimated at about 5.9 Mhl in 2011. This marks a return to normal levels after an extraordinarily high production in the previous year. The EU Commission estimated that the Portuguese grape growing area have declined by 4.3 percent – from an initial 238,831 ha – for the three year period of duration of the grubbing-up scheme. This means that 234,985 hl less of wine were produced over that period. The majority of wines produced in Portugal are either wines with PDO or wines with PGI. Production of red and rosé wine stood at 71 percent in 2010 while that of white wine accounted for the remainder 29 percent.

The climatic conditions in 2011 have been favorable to grapes production in **Romania**. The late summer heat helped sugar accumulation, creating premises for high-quality wine production, while the significant temperature differences between day and night helped with the aroma enriching. In terms of wine volume, the 2011 wine production is expected to grow by more than 60 percent compared to the previous year's low harvest. The vineyard area has been on a downward trend for the last three years from approximately 184,000 ha in 2008 to 160,000 ha in 2011. However, organic vineyards still occupy a very small percentage in total vineyard area. More specifically, according to the official statistical data published for 2009, white varieties occupy about 85 percent of total vineyard area, while red varieties account for the remainder 15 percent. The local white varieties, Feteasca Alba and Feteasca Regala, are the top two on the market, followed by Riesling, Aligote, Sauvignon, and Muscat. Top two red varieties are Merlot and Cabernet Sauvignon, the former occupying about 40 percent of the total vineyard area. Wines with PDO represented in 2010 about 10 percent of all wines, while wines with PGI represented about 18 percent. Wineries can apply to reconversion programs funded by the EU (€ 42 million) to replace the hybrid vineyard with noble vineyard.

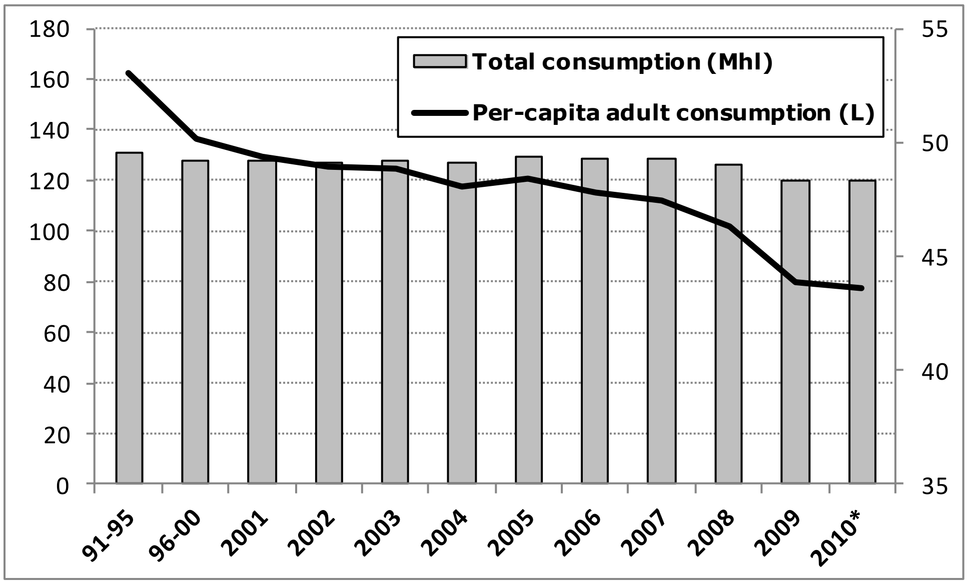
Hungary's 2011 grape wine production is estimated at 2.7 Mhl, which is 38 percent higher than the 2010 production (2 Mhl) but still lower than the 5-year average (3 Mhl). A slow decrease of wine production along with the shrinking vineyard area is expected for the next couple of years in Hungary. About 70 percent of wine produced in Hungary is white, 28 percent red, and less than 2 percent is rosé.

CY 2011 wine production in **Bulgaria** is expected to be at almost 1.3 Mhl, slightly higher than the previous year's, despite no official figures have been released yet. In general, the weather was favorable with high but not extreme temperatures and good rains during vegetation. According to the Executive Vine and Wine Agency (EVWA) total vineyard area in 2011 was at 75,591 ha. Total Bulgarian viniculture area has been decreasing since 2000 and this trend has not bottomed yet. As a result, over the last 10 years, total vineyard area declined by 48 percent. The fragmentation in production and the high number of small vineyards and farms lead to substantial problems with investment and marketing. Red varieties (mainly Merlot, Cabernet, and Pamid) account for 63 percent of total area with the remainder 37 percent planted with white varieties (mainly Red Misket, Muskat Ottonel, and Rkatsiteli).

Consumption:

Domestic EU-27 wine consumption stagnated in CY 2011 and is not expected to increase significantly during CY 2012. 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. On the other hand, consumption is stagnating or even slightly increasing in northern MSs such as Germany, UK.

EU-15 total and per capita wine consumption trend



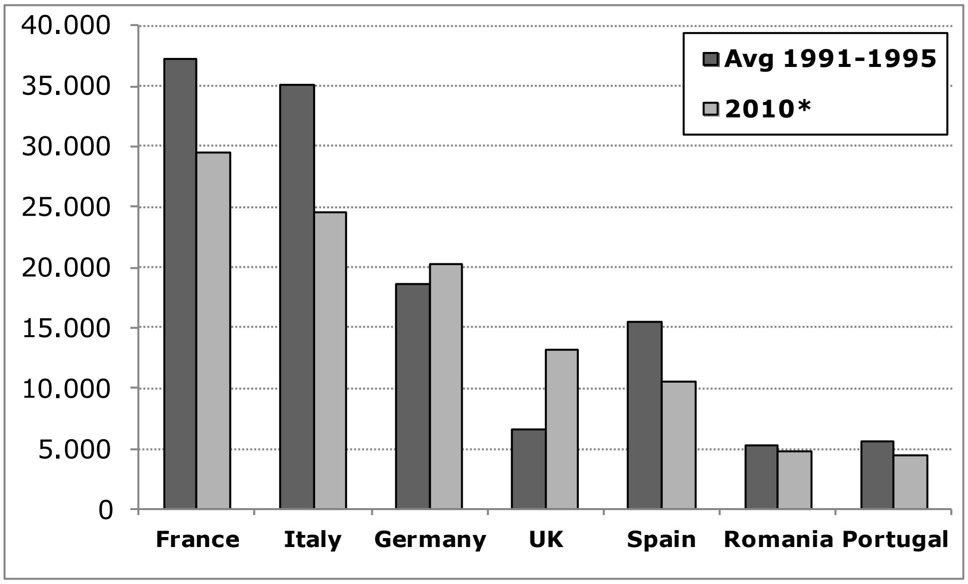
Adult: >15 years old

*Provisional figures

Source: OIV, Eurostat.

France remains the largest European wine consumer despite a continuing decline in wine consumption. While per-capita wine consumption was about 100 litres in the 60s, 2010 consumption was recorded at 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 liters in 2009 against 34 liters in 1994). According to a study led by Viniflhor, a French wine organization, between 2005 and 2015, wine is expected to lose only 1 percent of its consumers but one third of its regular users (3.2 million).

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



*Provisional figures
Source: OIV, Eurostat.

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. Estimates show that domestic consumption decreased by 1 percent in 2011 for bottled wine (mainly aged red wines) while sparkling (and rosè) wine sales increased by 2 percent. Recent wine consumer surveys show that Italian origin and knowledge of the winery are main elements in determining the consumer's choice. 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. In general, Italian wine consumers cope with the economic austerity climate, by seeking for higher quality wine at fair price. According to a recent ISTAT survey, 65.7 percent of the Italian population consumes alcoholic drinks at least once a year while 26.3 percent does it daily. However, despite the longstanding Italian wine tradition, consumers' preferences are gradually shifting to other alcoholic beverages such as beer, liqueurs and spirits. In fact, while wine is consumed by 53.3 percent of the Italian population, on a decreasing trend since 1998, Italians are increasingly consuming beer and spirits with 45 percent and 40 percent of the population, respectively. This trend is more relevant on occasional, out-of-home consumption while wine is still the most consumed on a daily basis, during meals. Figures indeed show that around 24 percent of the Italian population consumes wine every day and only 1 percent consumes beer daily.

Total wine sales volume in the **UK** fell by 0.7 percent in 2011, while value increased by 4.5 percent, with the latter predominantly due to excise duty increases. Austerity has replaced recession, and consumer spending is likely to remain under severe pressure throughout 2012. While consumers have partly been trading down to less expensive wines, many have chosen to limit volume consumption, and opt for better-quality wines. The fastest-growing red and white wines were in the above £5 ($8) price range. In addition to the economic gloom, government campaigns have been stepped up on youth anti-social drinking, as well as the health implications of daily recreational wine drinking by the middle aged and middle classes. 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. Red wine sales have experienced a negligible decline, losing some share to rosé. Currently the most popular grape varietals in the UK are Chardonnay, Sauvignon Blanc, and Pinot Grigio (white wine); Cabernet Sauvignon and Shiraz (red wine); and Zinfandel (rosé). The United States is the largest supplier to the rosé sector, which is expected to grow further, especially if there is a warm late spring or extended summer. Australia, once the clear consumer choice, in terms of mass market still wine, is facing stiff competition from Italian, French and U.S. product with a lighter style. British and Irish consumers are now generally looking for less oak and less alcohol content. During the recession, supermarket wine sales were increasingly discount driven with deals such as three for £10 ($16) driving volume sales. Suppliers that have pursued this type of marketing over a sustained period of time have suffered from a lack of consumer loyalty. Consumers become conditioned to buying on-promotion, and the perception of certain origins and brands have been degraded. Supermarkets continue to be the main distribution sector in the UK, as consumers reduce expenditure on drinking and eating out. Champagne sales have suffered in the economic gloom, as consumers continue to choose cheaper but high-quality alternatives of sparkling wine, such as Cava and Prosecco. With a per capita consumption figure two thirds the size of traditional EU wine producing nations, the UK still shows potential for growth generally, and for wines from the United States specifically. The largest export market for U.S. wine by value, the UK market remains challenging, but sales of wine have held up better than expected. Total UK wine sales are expected to return to growth in 2012 as the austerity focus fades. However, looking further ahead the UK market is unlikely to experience the level of growth seen before 2007.

The **Spanish** human consumption of wine has been decreasing for the last few years and it is estimated this trend will continue into 2012. The current annual per capita consumption is 24 liters and the total human domestic consumption is 10.2 Mhl. Consumption figures released by the Ministry of Agriculture, Food and Environmental Affairs (MAAM) show that sparkling wines, such as Cava and Champaign, is the only wine category whose consumption is increasing. Total domestic use is expected to continue falling after the end of the aid measures related to potable alcohol-distillation and as producers keep increasing sales of wine to export markets. There continues to be however a market for vinous alcohol, be it for the fortification of generous wines like Jerez, for the making of brandies, or to export to other Member States. The extent to which alcohol sales will eventually recover is a matter to be accompanied in the coming years.

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 litres. As a comparison, per capita consumption of beer has been steadily decreasing and currently amounts top 107 litres. In 2010, German households spent € 11 billion on alcoholic beverages. Within this category, wine and sparkling wine together accounted for 40 percent of expenditures, followed by beer (29 percent) and spirits with 26 percent. When looking at imported wine, German households tend to favour red wines over white wine. In 2009, 62 percent of household purchases at retailers consisted of red wine, 29 percent of white wines and 9 percent of rosé wines. For German wines the situation was reversed with 48 percent white wines, 40 percent red, and 12 percent rosé wines.

Portuguese human consumption has been stable for the last years at 4.7 Mhl. Portugal's annual per capita consumption stands at 44 liters, one of the highest in the EU. Total consumption is estimated to decrease to levels close to human consumption in CY 2012 as payments to potable alcohol-distillation come to a term and producers redirect production to increase exports of wine.

According to the latest available statistics, **Austrian** human consumption totaled 2.7 Mhl in 2009/2010. During the same period, Austrian per capita consumption of wine was 31.8 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.

Economic challenges and consumers' power deterioration have put their fingerprint on the wine consumption in **Romania**. Per capita consumption declined in 2011 to 21 liters from 23 liters in 2010 and it is forecast to remain stagnant in 2012. Premium wines registered a drop in sales, while medium and low-end wines maintained.

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 due to the growing tax burden. 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:

The EU is the world leading wine exporter and importer, exporting 22.6 Mhl valued at $11.2 billion while importing 13.6 Mhl valued at $3.3 billion imported in 2011. However, while bottled wines represent the largest share of exports, the majority of imports are comprised of bulk wine to be bottled and then traded again. Intra-EU trade, still representing the major share of the total world volume, totaled 44 Mhl in 2010, 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 3.6 Mhl) and France (0.7 Mhl), and from Spain to France (2.9 Mhl in the same period), Portugal (1.3 Mhl), and Germany (1.1 Mhl). Excluding intra-EU trade, wine exports from the European Union to third countries performed a record high in 2011 with an 11 percent increase in volume and 26 percent in U.S. dollar value. The recovering economy, the weakening euro, and the increasing demand both from developed and BRIC countries are the major reasons of this surge.

Total **Italian** wine exports performed very well in CY 2011 with an expected record high over $ 6 billion and 23.5 Mhl. Italian wine producers are trying to offset the decline in domestic consumption by exporting wine to foreign countries. CY 2011 Italian wine exports increased both in EU MS, mainly Germany and UK and in extra-EU countries such as the United States, Canada, Japan, and China. In particular, Italy is increasing shipments to Germany and Hungary of bulk table wines, used locally for blending, as mentioned above, but also sparkling and bottled wines to the United States and Russia. Despite the 2011 poor harvest, experts expect a further increase in exports in CY 2012, especially towards BRIC countries.

Spanish wine exports are projected to continue growing in CY 2012 and reach 23 Mhl of which 9 Mhl destined to extra EU countries. In value terms, the most important destinations for the Spanish wines are Germany, United Kingdom, United States, and France. Total wine export value is estimated at 3.1 billion U.S. dollars in 2011.

French shipments to EU destinations in CY 2011 were at 9 Mhl – keeping constant from the previous year – directed to virtually all the major European markets. The United States is after the United Kingdom, the first market for French wine exports, ahead of Germany, China, and Belgium. CY 2011 marked a 5 percent and 18 percent increase in exported quantity and value respectively, with a 7 and 25 percent more to the United States. The countries that marked the best growth are China, Hong-Kong, and Taiwan. In 2005 China was the twenty-sixth partner country for French exports while now it ranks fourth.

EU-27 wine exports by category

	000 HL			$ mil		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
Sparkling wine	1.540	1.899	2.230	1.431	1.771	2.243
Bottled	11.047	13.521	14.918	5.771	6.722	8.499
Bulk	3.701	4.856	5.479	346	396	483
Wine total	**16.288**	**20.276**	**22.627**	**7.548**	**8.888**	**11.225**

Source: Global Trade Atlas (GTA).

EU-27 wine exports by trading partner

	000 HL			$ mil		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
United States	4.237	4.652	5.195	2.450	2.605	3.102
Hong Kong	156	236	302	427	737	1.083
Switzerland	1.667	1.695	1.695	932	954	1.069
China	721	1.596	2.366	283	514	960
Canada	1.489	1.674	1.822	735	837	956
Japan	1.143	1.205	1.311	687	724	845
Russia	2.710	3.951	4.042	378	516	640
Singapore	96	122	155	196	260	347
Norway	493	552	615	248	269	345
Brazil	193	289	320	96	134	164
World	**16.288**	**20.276**	**22.627**	**7.548**	**8.888**	**11.225**

Source: GTA.

The United States remains the leading export market (23 percent of the total in volume and 28 percent in value) for the EU-27 as a whole. In CY 2011, the United States was also the largest extra-EU export partner for Italy (over $1.3 billion), France ($1.2 billion) and Spain ($0.3 billion).

Russia is the second largest importer of EU wines (based on quantities). Moreover, the Russian market is gradually replacing low quality wines imported from Bulgaria and Moldova with higher quality products imported from Spain, Italy, and France. Exports to China recorded a 50 percent increase in terms of quantity and are forecast to keep on following the same trend even in CY 2012.

The EU is not only the largest wine exporter in the world, but also the largest importer. The main countries of origin are Chile, Australia, South Africa, and the United States. Total imports, stagnated in CY 2011 and are expected to remain quite stable even in CY 2012. Furthermore, the EU-27 has increasingly imported bulk wines from third countries while bottled wines imports have been decreasing for the last five years.

EU-27 wine imports by category

	000 HL			$ mil		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
Sparkling wine	152	163	126	79	84	66
Bottled	6.659	6.392	5.529	2.512	2.367	2.307
Bulk	6.234	7.019	7.894	687	689	933
Wine total	**13.045**	**13.575**	**13.550**	**3.279**	**3.140**	**3.306**

Source: GTA.

EU-27 wine imports by trading partner

	000 HL			$ mil		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
Chile	2.960	3.030	2.779	791	757	784
Australia	3.245	3.526	3.485	901	756	748
South Africa	2.980	2.878	2.689	623	567	539
United States	2.038	2.282	2.527	392	410	507
New Zealand	447	584	657	233	290	331
Argentina	631	602	548	182	185	188
Switzerland	15	15	17	44	69	85
Macedonia	401	347	455	26	21	26
Moldova	104	110	131	20	19	20
Morocco	45	37	48	8	7	9
World	**13.045**	**13.575**	**13.550**	**3.279**	**3.140**	**3.306**

Source: GTA.

U.S. exports to the European Union have gradually increased for the last three years both in quantity and 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 CY 2011 were more than 530,000 hectoliters (99% of the U.S. exports to Italy). Once bottled, this product is sold within the EU, mainly in the UK and German market. These sales have tended to result in a statistical overestimate of Italian imports of US wines and under represent the UK imports.

TRADE TABLES FOR SELECTED EU COUNTRIES

Italian wine exports

	000 HL		% var. Jan-Nov 2011/2010	$ mil		% var. Jan-Nov 2011/2010
	2009	2010		2009	2010	
EU-27	13,947	14,842	14%	2,748	2,778	18%
Germany	6,602	6,768	5%	1,135	1,121	16%
United Kingdom	2,673	2,672	14%	642	609	16%
Denmark	311	363	12%	147	176	14%
Netherlands	414	468	9%	126	134	20%
France	1,286	1,056	2%	125	114	29%
Extra EU-27	5,372	6,358	5%	2,134	2,378	21%
United States	2,393	2,603	14%	1,032	1,085	22%
Switzerland	687	666	1%	320	341	8%
Canada	607	663	5%	267	325	10%
Japan	311	317	18%	134	132	26%
Russia	651	1,087	-27%	93	138	22%
World	**19,319**	**21,199**	**12%**	**4,882**	**5,156**	**19%**

Source: GTA.

French wine exports

	000 HL			$ mil		
	2009	2010	2011	2009	2010	2011
EU-27	8.223	9.006	9.014	4.508	4.452	4.792
United Kingdom	2.022	2.184	2.153	1.515	1.525	1.675
Germany	2.283	2.466	2.586	874	851	971
Belgium	1.452	1.601	1.498	770	728	715
Netherlands	1.127	1.191	1.135	424	399	400
Extra EU-27	3.860	4.506	5.126	3.262	3.944	5.137
United States	890	947	1.011	900	982	1.225
China	481	754	1.169	210	367	704
Hong Kong	101	154	205	201	408	595
Japan	537	584	590	441	468	531
Switzerland	443	475	446	382	381	439
Canada	521	541	569	331	354	421
World	**12.083**	**13.511**	**14.140**	**7.770**	**8.395**	**9.929**

Source: GTA.

Spanish wine exports

	000 HL		% var. Jan-Nov 2011/2010	$ mil		% var. Jan-Nov 2011/2010
	2009	2010		2009	2010	

EU-27	10,583	11,408	28%	1,810	1,540	18%
Germany	2,326	2,518	19%	400	411	16%
United Kingdom	1,221	1,233	12%	382	399	6%
France	2,954	3,341	30%	450	170	34%
Netherlands	410	420	22%	106	104	17%
Belgium	309	313	12%	100	97	9%
Extra EU-27	4,008	5,538	23%	825	957	27%
United States	470	561	37%	240	263	15%
Switzerland	374	375	2%	140	137	9%
China	107	506	47%	20	51	108%
Canada	197	294	41%	61	74	27%
Russia	930	1,275	32%	44	55	56%
World	**14,590**	**16,946**	**26%**	**2,635**	**2,497**	**21%**

Source: GTA.

United Kingdom wine imports

	000 HL		% var. Jan-Nov 2011/2010	$ mil		% var. Jan-Nov 2011/2010
	2009	2010		2009	2010	
EU-27	6,094	6,593	9%	2,706	2,859	15%
France	1,956	2,173	-4%	1,422	1,511	17%
Italy	2,166	2,334	8%	615	646	10%
Spain	913	1,033	47%	331	355	17%
Germany	609	637	7%	159	175	24%
Portugal	174	155	4%	89	86	2%
Extra EU-27	5,750	6,269	-2%	1,633	1,457	4%
Australia	2,171	2,412	-1%	603	469	0%
Chile	1,106	1,172	-9%	352	310	0%
New Zealand	383	490	9%	190	233	13%
United States	749	973	25%	153	153	44%
South Africa	1,147	1,042	-21%	256	193	-19%
World	**11,844**	**12,861**	**4%**	**4,339**	**4,316**	**11%**

Source: GTA.

German wine imports

	000 HL		% var. Jan-Nov 2011/2010	$ mil		% var. Jan-Nov 2011/2010
	2009	2010		2009	2010	
EU-27	12,164	12,291	3%	2,544	2,400	14%
Italy	6,301	6,411	-1%	1,061	1,006	11%
France	2,350	2,428	4%	837	797	15%
Spain	2,081	2,183	26%	343	328	31%
Austria	435	409	-44%	84	82	-13%
Portugal	189	201	-11%	53	49	-4%
Denmark	284	192	-18%	56	44	-5%
Extra EU-27	2,387	2,419	5%	346	372	14%
South Africa	698	707	10%	96	100	15%
United States	395	428	11%	63	87	17%
Chile	451	492	-15%	68	72	3%
Australia	335	383	19%	58	59	21%
World	**14,552**	**14,710**	**4%**	**2,890**	**2,772**	**14%**

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. The reason for this measure was to reduce rapidly wine production, preferably on a voluntary basis. During the wine reform process, the EU targeted an area of 175,000 hectares to be grubbed up over a three-year period 2008/2009- 2010/2011, and allocated a budget of €1,074 million for the program. During all three years there was a substantial oversubscription to the scheme, and the acceptance level was on average only 50 percent. The reasons for the oversubscription of the grubbing-up program are low wine prices, labor intense practices, and financial difficulties. Sums were allocated to interested Member States (MS), which then decided 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 were accepted. The two largest priority groups were older people and people who leave wine production completely.

Planting rights: "Planting rights" refers to the right of a wine producer to plant vines. 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 or if the region has replanting rights stocks available. After this current restrictive planting rights regime in the EU ends, MS may decide to extend the prohibition in their territories until 2018. However, many wine producing MS consider the planting right to be a tool that keeps stability on the wine market and 12 of the largest wine producing countries have joined together to try and make the Commission change this. On January 20, 2012, Commissioner Ciolos formed a high level group to into this matter, and allow planting rights to be kept after 2015.

Single Payment: In order to bring the sector in line with the reformed Common Agricultural Policy (CAP), all areas formerly under vines can claim the status of areas eligible for decoupled single payments. One reason for making these areas eligible for the single payment scheme is that the environmental benefits from these areas have to meet cross-compliance rules.

National Envelopes: The term "National Envelope" refers 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 choose from to support its wine industry, including restructuring and conversion of vineyards, green harvesting and crises distillation.

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, thus far, 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 gradually phased–out. The emergency distillation scheme has a four-year phase out scheme until 2012, ranging 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. The largest portion of this money is used for education 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.

Organic Wine: Until now there has been no EU legislation on organic wine. The only wine available has been "wine made from organic". On February 8, 2012, the Standing Committee on Organic Farming (SCOF) agreed EU rules for organic wine. These rules will be published in the Official Journal (OJ) in the coming weeks and will apply from the 2012 harvest. The new regulation, which will apply from the 2012 harvest, will allow organic wine growers to use the term "organic wine" on their labels. The main purpose of the new rules is to improve transparency and better consumer recognition while also facilitating trade with other wine producing countries (USA, Chile, Australia, South Africa) that have already established standards for organic wines. The most complicated issue in drafting this legislation was that of sulfite reduction. In the new rule the maximum sulphite content is set at 100 mg per liter for red wine (150 mg/l for conventional) and 150mg/l for white/rosé (200 mg/l for conventional), with a 30mg/l differential where the residual sugar content is more than 2g per liter.

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.
Rules on oenological practices, designations of origin and labeling, originally established by Council Regulation 479/2008, have been incorporated into the EU's Single Common Market Organization (Council Regulation 1234/2007).

Oenological Practices: Commission Regulation 606/2009, amended by Commission Regulation 53/2011, lays down detailed rules for permitted oenological practices. Annex I A sets out the oenological practices authorized in the EU and the conditions for their use. For experimental purposes, Member States may authorize the use of certain oenological practices not provided for in the relevant EU regulations for a maximum of three years. Annex I B sets out the maximum allowed sulphur dioxide contents: 150 mg per liter for red wines, 200 mg per liter for white and rosé wines.

Labeling: Commission Regulation 607/2009 lays down detailed rules on protected designations of origin and geographical indications, traditional terms and labeling. Chapter II of Regulation 607/2009 establishes the application procedure for a designation of origin or a geographical

indication. Designation of origin or geographical indications which have been accepted are entered in a "Register of protected designations of origin and protected geographical indications" maintained by the European Commission. The register is available through the Commission's online "E-Bacchus" database. Chapter III of Regulation 607/2009 sets out rules on the use of traditional terms, while Chapter IV sets out rules for the indication of compulsory and optional information on wine labels.
For detailed information see GAIN REPORT E49061 "New EU wine labeling rules".

Allergen Labeling: Ingredients, which may trigger an allergic reaction (see Annex IIIa to European Parliament and Council Directive 2000/13/EC), must be indicated on the label preceded by the word "contains". Alcoholic beverages with sulphite concentrations of more than 10 mg/liter must use one of the following terms: "sulphites", "sulfites", "sulphur dioxide" or "sulfur dioxide". The indication of sulphites may be accompanied by the pictogram included in Annex X to Regulation 607/2009. Replacing the word "sulphites" by "SO2" or the E-number (E220) is not allowed. The list of authorized languages for allergen labeling can be consulted in GAIN report E36066. A temporary derogation from the EU requirement that wines fined with egg and milk derivatives must be labeled for allergens was set to expire on December 31, 2010 but has been extended until June 30, 2012. As of July 1, 2012, wines fined with casein and ovalbumin must be labeled for allergens (Commission Regulation 1266/2010).

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 27 percent in Hungary.

US-EU Wine Agreement: in March 2006, the U.S. and the EU and the U.S. signed the "Agreement between the United States and the European Community on Trade in Wine". This Agreement is the first phase and addresses a number of issues, such as labeling and certification. Other important issues such as geographical indications and the use of traditional terms will be addressed in a second phase of the negotiations. The Agreement covers wine with an actual alcohol content of not less than 7 percent and not more than 22 percent. All U.S. wine imports must be accompanied by certification and analysis documentation using the format specified in Annex III (a) to the Agreement. More information on the simplified EU import certificate form can be obtained from the Alcohol and Tobacco Tax and Trade Bureau at http://www.ttb.gov/industry_circulars/archives/2007/07-02.html. The Agreement's "Protocol on Wine Labeling" sets conditions for the use of optional particulars on wine labels. Commission Regulation 1416/2006, as amended by Commission Implementing Regulation 1212/2011, concerns the protection of U.S. names of origin in the EU. Information on the US-EU Wine Agreement can also be obtained from the U.S. Dept. of the Treasury - Alcohol and Tobacco Tax and Trade Bureau (http://www.ttb.gov/itd/index.shtml).

Documents accompanying consignments of wine, grape juice and must: Commission Regulation 555/2008 regulates trade in grapevine products with third countries. This regulation stipulates that shipments of wine, grape must and grape juice must be accompanied by a "VI-1 document" certifying that these grapevine products were made in accordance with EU authorized oenological practices. The VI-1 certificate requires specific chemical analysis of the product such as citric acidity and sulfur dioxide. The US-EU Wine Agreement allows U.S. exporters of wine to submit a simplified certification and analysis document instead of the VI-1 certificate. Grape must and grape juice are not covered by the US-EU Wine Agreement, which means that exports of these products still need to be accompanied by a VI-1 certificate. As grape juice exported to the EU is pasteurized and can therefore not be used for the production of wine, the VI-1 certificate requirement creates an unnecessary administrative burden for U.S. exporters of grape juice.

Wine promotion in the EU

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 Government 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. FRANCE AGRIMER also administers EU subsidies allocated to the French wine sector including export refunds and assistance earmarked for vineyard reconstruction, distillation, and grape juice fortification. In 2012, domestic credit for wines is around $17 million, less $3 million in comparison with last year. In addition, since January 2012, the credit program also integrates the cider producers.

The **German** Wine Institute (Deutsches Weininstitut, DWI) carries out most of the generic marketing for German wines both domestically and abroad. 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. For June 2012, BMELV offers participation in the VINEXPO, Hong Kong.

Three general quality designations are recognized in **Austria**: "Tafelwein" (table wine), "Qualitaetswein" (quality wine), and "Praedikatswein" (premium wine). The categories are determined by sugar content of the grape must. More than 50 percent of Austrian wine production represents quality wine. In addition, the number of denomination of origin areas, which feature wines defined by a specific taste profile (DAC = Districtus Austriae Controllatus) is increasing and totaled seven in 2010.

In **Italy,** funds for promotion from the EU wine Common Market Organization will be available for Italian wine companies in the next two years. These funds totaled € 49 million in CY 2011 and will gradually increase in the next two years to € 82 million and € 102 million, respectively. Funds are targeted to promote events (mainly fairs, shows, workshops and wine tastings) in specific countries. Moreover, the Italian major wine trade show (Vinitaly) will keep promoting Italian wines in foreign markets through the Vinitaly World Tour (VWT) – CY 2012 will be the third year. VWT will arrange promotional events in the most important cities of India, United States, Russia, Sweden, Hong Kong, Japan, and Korea.

In the **UK**, the Wine Institute of California carries out the most extensive program for US wine promotion. 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 United States) 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).

Wineries in **Romania** have been developing plans to foster the market and increase consumers' appetite. Developing side attractions and creating "wine roads" have been ways to attract more consumers. Apart from the retail chains, wineries have started to build their own sales stores network. Moreover, the "Bag-in-box" segment expanded as an effort to adjust to economic challenges.

In late 2011, the regional Thracian (**Bulgaria**) vine and wine chamber and the Romanian chamber APVPVD won the first EU funded project to promote their products in Russia and China. This joint program has a budget of 3.2 million Euro of which the EU subsidy is 1.6 million Euro. The rest is funded by the industry organizations and national budgets. The project will last for 3 years and include expositions and wine tastings in Russia and China. In 2011, the MinAg tried to support Bulgarian wine presence at largest European and Russian trade shows. Such an example was the partnership with the hunting exposition "El Salon de Cazadores" Venatoria 2011, Madrid, Spain and PRODEXPO Moscow.

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The above reports can be accessed through the FAS website
http://www.fas.usda.gov/scriptsw/attacherep/default.asp

Abbreviations and definitions used in this report

Harmonized System (HS) codes:
Grape wine total: 2204
Sparkling wine: 220410
Bottled wine: 220421
Bulk wine: 220429

HL = Hectoliter = 100 liters
Mhl = Million Hectoliters
Ha = Hectares
CY = Calendar Year; wine production of a specific CY refers to the wine made from the wine grapes harvested in that CY. I.e. 2011 production refers to wines made from grapes harvested in Fall 2011.
VQPRD = Vin de Qualité Produit dans des Régions Déterminées
PDO = Protected Denomination of Origin
PGI = Protected Geographical Indication

CMO = Common Market Organization
MS = EU-27 Member State