

**UNITED STATES DEPARTMENT OF
AGRICULTURE**



World Wine Situation and Outlook

COMMODITY AND MARKETING PROGRAMS – PROCESSED PRODUCTS DIVISION
INTERNATIONAL STRATEGIC MARKETING GROUP
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Table of Contents

Executive Summary	3
World Wine Production	4
U.S. Wine Production	5
U.S. Wine Consumption	7
U.S. Wine Exports	8
Competitive Environment	9
Largest U.S. Wine Export Markets.....	10
United Kingdom.....	10
Canada.....	11
Netherlands	12
Japan.....	14
Germany.....	15
Competitor Countries for U.S. Wine	17
France.....	17
Italy	18
Spain.....	20
Australia	21
Argentina.....	22
South Africa	24
Chile	25
Appendix	27
Additional Information	27
Data Updates.....	27
Sources.....	28

Executive Summary

The wine trade continued to be very robust during 2004. U.S. wine exports reached a record high of \$794 million. Major markets for U.S. wine exports include the United Kingdom, Japan, Canada, the Netherlands, and Germany. Major U.S. wine competitors include France, Italy, Australia, Spain, South Africa, Argentina, and Chile. In 2004, U.S. wine imports have also reached a record high of \$3.4 billion.

The European Union's 2004 wine production increased for the first time since 2001, though production is not expected to increase significantly in the near term due to policy controls. Production increases are also projected for Australia.

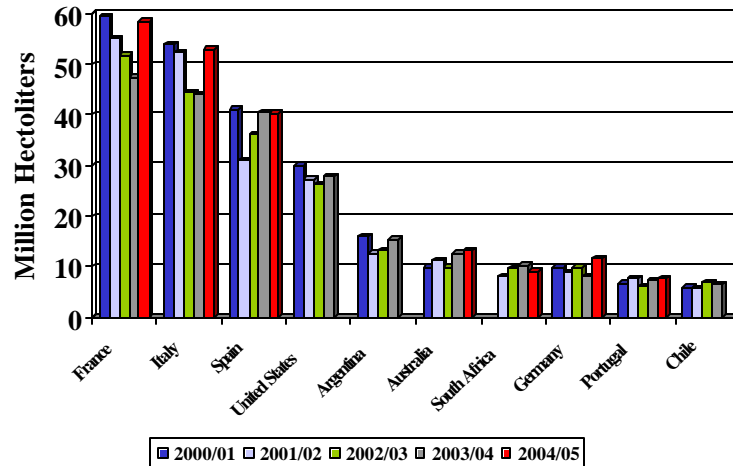
According to Wine Institute estimates, wine sales in the United States were up over 7 percent in value and 4 percent in quantity in 2004. The estimated retail value of wine shipments from all sources to the United States in 2004 is \$23.2 billion. Wine consumption in the United States has been rising slowly and consistently over the last 10 years.

The greatest competition to the market share for U.S. wines comes from the European Union-25 nations and some of the New World (non-European) producers, particularly Australia.

A weaker U.S. dollar against the currencies of key trading partners, a general improvement in the global economy, and strong marketing strategies bode well for increased sales of U.S. wines in 2005. The Foreign Agricultural Service of the USDA predicts possible value and quantity increases of U.S. wine exports of more than 10 percent. This situation must be tempered, however, with the fact that per capita wine consumption is decreasing in some countries, such as Italy, France, and Spain.

World Wine Production¹

Figure 1. Major Wine Producing Countries



Source: Global Agricultural Information Network reports, USDA, official marketing year for France, Italy, Spain, and Portugal is August/July beginning 2001/2002, marketing year for Southern Hemisphere countries is January/December. Estimates for 2004/05 are not available for the United States, Argentina, and Chile. One hectoliter equals 26.42 U.S. gallons, or 11 cases. One case contains twelve 750 ml bottles.

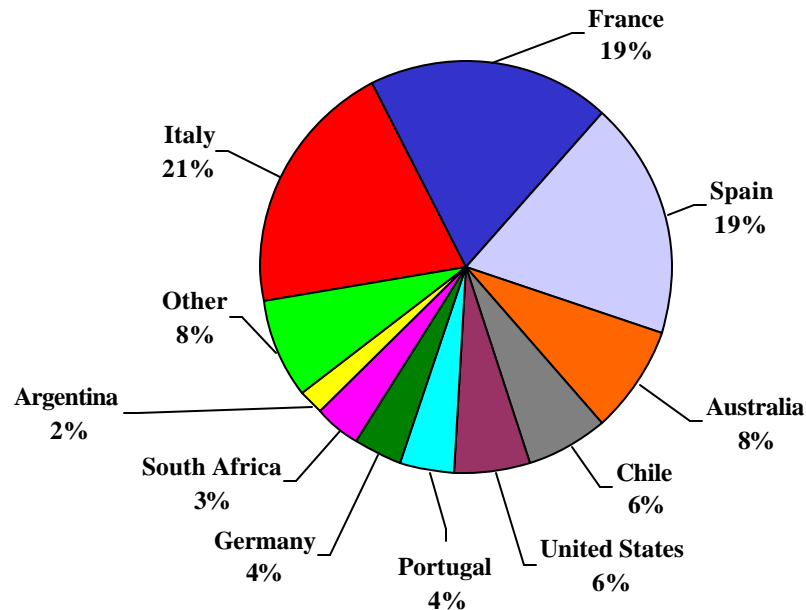
Although the 2004 European Union (EU) wine harvest fell below initial forecasts, for the first time since 2001 European production is increasing. Under the EU's wine regime, the planting of vines is strictly regulated and controlled in terms of acreage and allowed varieties. Controls remain in place to encourage the production of quality wines while discouraging the production of poor quality. New plantings of wine grapes are prohibited until July 21, 2010 except under certain circumstances (for example, in some areas old wines are being taken out and new, more marketable vines are being planted). For more information, see Global Agricultural Information Network (GAIN)² reports #E23063 and #E34070. Some New World (non-European) wine producers were expecting a slightly smaller output or an output consistent with recent years, with the exception of Australia. Australian wine production for 2004 is forecasted to reach a record level, driven by increasing wine grape bearing area.

¹ This report draws from a variety of sources, including Foreign Agricultural Service Post analysis, trade databases, industry associations, and other commercial analysis, and was compiled by Dorsey Luchok, Agricultural Economist, under the supervision of International Strategic Marketing Group Team Leader Wayne Batwin. The Foreign Agricultural Service, Processed Products Division, is responsible for the forecasts in this report unless otherwise stated. Additional information is available from the Processed Products Division. Telephone: (202) 720-6343, Internet:

<http://www.fas.usda.gov/agx/Processed/Processed.html>

² GAIN reports can be viewed at <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>. To view by country and subject and date(s), select option 1. Option 2 allows the viewer to pick by subject. Option 3 allows the viewer to enter a particular report number.

Figure 2. Major Wine Producing Countries, Export Quantity Market Share 2004



Source: Global Trade Atlas

Some smaller wine producing nations have not yet reported their wine exports to Global Trade Atlas for 2004. In general, it appears that the major European wine producing nations of Italy, France, Spain, Portugal, and Germany have 67 percent of the wine export quantity market. The United States has 6 percent. The remaining countries have 27 percent of the wine export market.

U.S. Wine Production

According to the USDA's National Agricultural Statistics Service (NASS) Non-citrus Fruits and Nuts Preliminary Summary, utilized grape production³ for 2004 totaled 5.4 million metric tons⁴, down nearly 7 percent from the 2003 crop.

The California crop, which accounted for 90 percent (up from 89 percent during 2003) of the 2004 U.S. utilized grape production, was down 6 percent from the previous year. Also for California, wine-type production decreased 7 percent from 2003, raisin-type production decreased 8 percent, but table-type production was up 8 percent. The 2004 growing season throughout much of California was characterized by a warm March with a mild summer except for some heat spikes in the late summer. Harvest was earlier than

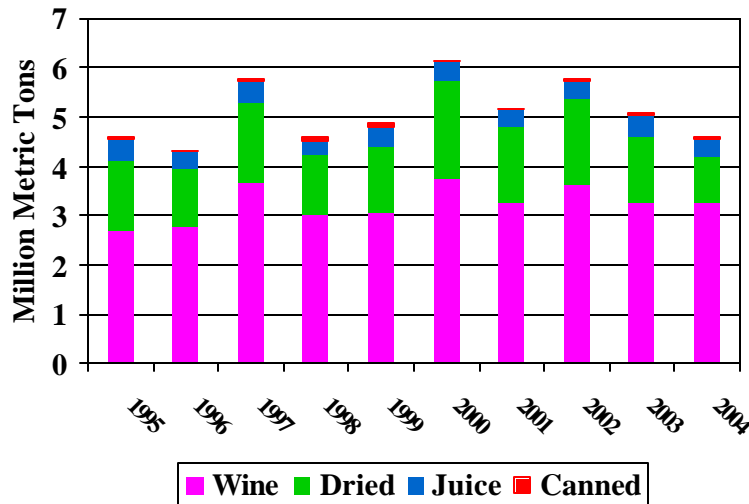
³ Utilized production is the amount sold plus the quantities used at home or held in storage. Utilized production does not include grapes unharvested or harvested and not sold (National Agricultural Statistics Service).

⁴ Report numbers have been converted from short tons to metric tons.

usual. The average price during 2004 for California grapes grown to produce wine was \$498.96 per metric ton, up \$14.52 from 2003. Utilized production increased from 2003 in Arkansas, Georgia, Missouri, North Carolina, Pennsylvania, and Texas.

The following chart shows processed utilization for the United States. Processed utilization is utilized production minus fresh utilization. To download the full Non-citrus Fruits and Nuts Preliminary Summary, go to <http://usda.mannlib.cornell.edu/reports/nassr/fruit/pnf-bb/ncit0105.pdf>. The final report will be published in July 2005.

Figure 3. U.S. Grapes: Processed Utilization



Source: National Agricultural Statistics Service, USDA

The following table shows the California grape crush for 2003 and 2004, with the percent changes over that time period.

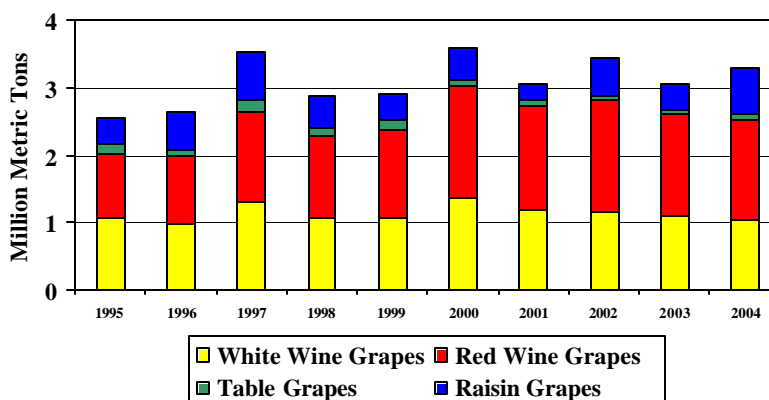
Table 1. 2003-2004 California Grape Crush, In Million Metric Tons

Grape Type	2003 Crush	2004 Crush	Percent Change
Red wine	1.482	1.486	0
White wine	1.115	1.030	-8
Raisin	0.382	0.659	+72
Table	0.076	0.102	+35
Total	3.057	3.279	+7

Source: Final Grape Crush Report, 2004 Crop, March 10, 2005, California Department of Food and Agriculture. Report numbers have been converted from short tons to metric tons.

California grape growers received prices in 2004 for raisin, table, and white wine and red wine grapes that were, on average, above the 2003 prices. Average per ton prices for the 2004 crop by type were as follows: red wine grapes, \$568.53, up 3 percent from 2003; white wine grapes, \$442.23, up 14 percent from 2003; raisin grapes, \$180.10, up 110 percent from 2003; and table grapes, \$181.31, up 117 percent from 2003. These price levels have not been adjusted for inflation. To download the full report, go to <ftp://www.nass.usda.gov/pub/nass/ca/Crush/Final/2004/200403gcbtb00.pdf>.

Figure 4. California Grape Crush, 1995-2004



Source: California Agricultural Statistics Service

U.S. Wine Consumption

Wine consumption in the United States has been rising slowly and consistently over the last 10 years. About 25 percent of American adults consume wine. The core wine drinkers (people who drink wine at least once per week) make up half of this group. The rest are marginal wine drinkers. U.S. yearly per capita consumption of wine is about 12 liters, derived from the 2000 Census Bureau estimates of the legal drinking age population and Wine Institute sales figures for 2003. While French wine remains popular, market share has been lost to lower-priced wines from other countries. Americans are drinking more imported wines from countries such as Italy, Australia, Chile, Spain, New Zealand, Portugal, and South Africa.

According to Wine Institute estimates, wine sales in the United States from all sources grew four percent to 668 million gallons (25.28 million hectoliters) in 2004. The estimated retail value of wine shipments from all sources to the United States is \$23.2 billion.⁵ During 2004, price discounting was still important in the face of the continuing world wine surplus and growing imports. However, the surplus is coming into balance

⁵ "Strong Sales Growth in 2004 for California Wine As Shipments Reached New High," The Wine Institute, 4 April 2005, <http://www.wineinstitute.org/communications/statistics/Sales2004.htm>

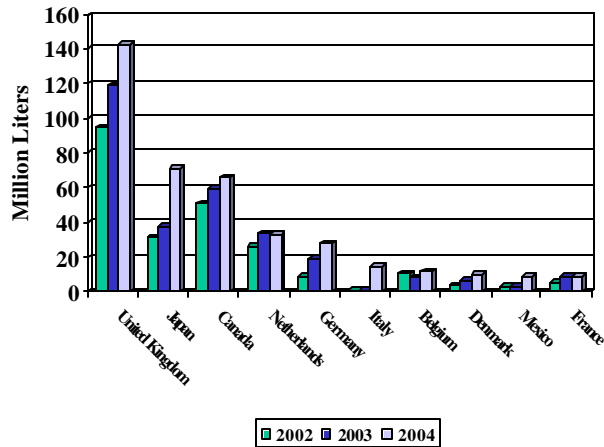
over time and price pressures and discounting on domestic wine may not be as significant in 2005 as they were in earlier years.

U.S. Wine Exports

The United States exported 4.49 million hectoliters of wine during 2004, a 28 percent increase. The United States exported \$794 million of wine and wine products (including cider, fermented beverages, and wine must) during 2004, which also represented an increase of 28 percent.

By quantity, the top market for the United States, the United Kingdom, increased at 20 percent above the year before. The United Kingdom is now nearly 32 percent of the United States' total wine export market. Canada, the second highest export market for the United States, also showed strength, increasing by almost 11 percent in quantity. Japan ranks as the United States' third top market after purchases increased 88 percent during 2004. The Netherlands continues to rank fourth and decreased nearly 2 percent from the previous year. The Netherlands is a major transshipment point and much of the wine purchased is not consumed there. Germany ranks fifth and increased nearly 44 percent over 2003.

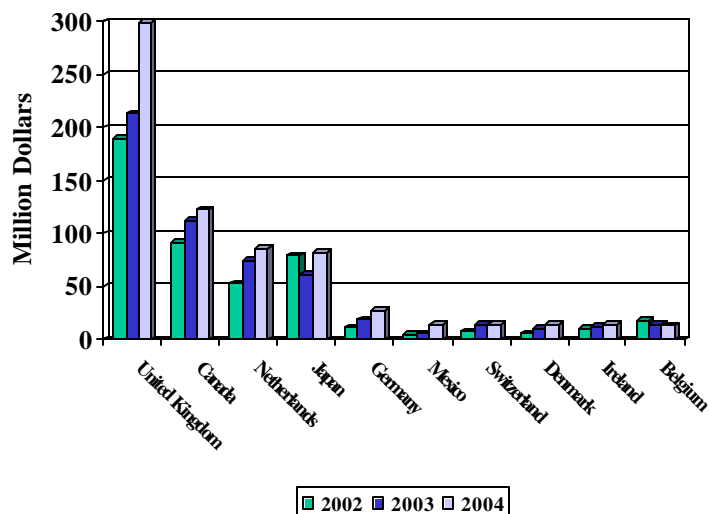
Figure 5. U.S. Wine Exports by Quantity



Source: U.S. Department of Commerce

Nations in the EU-25 represent 61 percent of the U.S. wine exports in value and nearly 58 percent of the U.S. wine exports in quantity. Canada represents nearly 15 percent of U.S. wine exports in value and nearly 15 percent in quantity, and Japan represents 10 percent of U.S. wine exports in value and nearly 16 percent in quantity.

Figure 6. U.S. Wine Exports by Value



Source: U.S. Department of Commerce

U.S. wine exports grew 32 percent in value during the first five months of fiscal year (FY) 2005 (October 2004 through February 2005), compared to the same time period in FY 2004. U.S. wine exports grew nearly 19 percent in quantity during the first five months of FY 2005 compare to the same time period in FY 2004. For all of FY 2005, FAS projects that value and quantity increases of U.S. wine exports of well over 10 percent are possible.

Competitive Environment

The greatest competition to the market share for U.S. wines comes from the EU-25 nations and some of the New World producers, particularly Australia. Discussion of some of the largest competitor nations begins on page 17.

Government assistance to the wine industry in Australia can mostly be found in the form of export promotion. Wine producing EU nations receive financial assistance through their individual governments and through the EU agricultural budget. The EU wine regime, begun during Marketing Year (MY) 2000/01, seeks the enhancement of quality, a greater market orientation, and the renewal of old vineyards. Appropriations for the wine sector are as follows: 2004, €1.215 billion (\$1.57 billion)⁶, 2005 €1.228 billion (\$1.59 billion). Products of the wine-growing sector receive 2.3 percent of the total EU agricultural budget in 2005. Appropriations for wine increased by 10.4 percent compared to 2004. This budget increase mostly covers the enlargement of the EU with six new wine producing member states (Czech Republic, Cyprus, Hungary, Malta, Slovenia, and Slovakia). The EU budget includes appropriations for export refunds on products of the wine-growing sector, storage of wine and grape must, distillation of wine, storage

⁶ Based on exchange rate of April 26, 2005.

measures for alcohol, aid for the use of must, permanent abandonment premiums for areas under vines, and restructuring and conversion of vineyards. For more information, see GAIN reports #E35005, #E34076, and #E35053. EU countries account for about 71 percent of global wine exports.

Largest U.S. Wine Export Markets

United Kingdom

Production: 9.3 thousand hectoliters (hl) (Marketing Year [MY] 2002)

Total imports: \$4.2 billion, 12.3 million hl (2004)

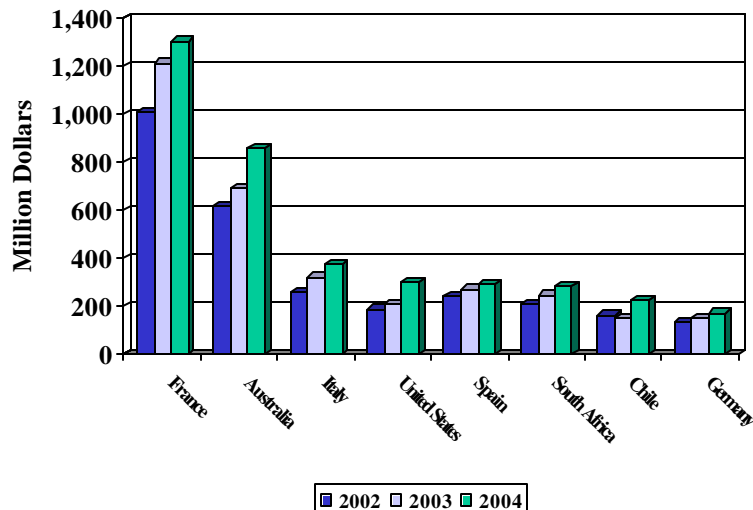
Total exports: \$234 million, 332 thousand hl (2004)

Sources: GAIN report, Global Trade Atlas

Wine production in the United Kingdom is minimal due to the variable climate. Historically, it has been a cottage industry but is slowly becoming a profitable enterprise. Output is predominately white wine (92 percent). The production total for the 2002 harvest was 9.3 thousand hectoliters, a marked decrease over the previous year's harvest of 15.8 thousand hectoliters.

UK wine consumption continues to grow, with beer as its strongest competition. Factors contributing to growth include the increased availability of affordable, good quality wine and increasing British consumer affluence. Despite rising sales, it is widely reported that the total number of British wine drinkers is falling. Existing consumers, particularly those in the 35-64 age range, are simply drinking more. Per capita wine consumption in the United Kingdom was 24.02 liters in 2003, growing from 15.15 liters in 1993.

Figure 7. U.K. Wine Imports by Value



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

U.S. wine exports to the United Kingdom increased 40 percent in value over 2003. Composition of U.S. wine exports by value in the UK market in 2004 were nearly 86

percent bottled wine, nearly 14 percent bulk wine, and a small amount of sparkling wines, vermouth, and others. The strengthening of the euro helped to make U.S. wines more competitive in the United Kingdom.

The United Kingdom is the world's largest importer of wine and the largest market for U.S. wines. By value, the United States is the fourth largest supplier of wine to the UK market. The top three suppliers by value are France, Australia, and Italy. Australia, the United States, and other New World wine countries have enjoyed good growth in the UK market.

The May 1, 2004 ascension of 10 new countries into the European Union may affect UK wine imports. While UK wine imports from Bulgaria, Hungary, and Romania are currently very low, trade sources report that wines from Eastern Europe could soon have an impact, although this will probably be at the lower end of the market and may not affect U.S. market share significantly. For more information on marketing wine in the United Kingdom, see GAIN report #UK4024.

Canada

Domestic Wine Sales: 1.05 million hl (2003-does not include sales of imports)

Total imports: \$939.6 million, 2.75 million hl (2004)

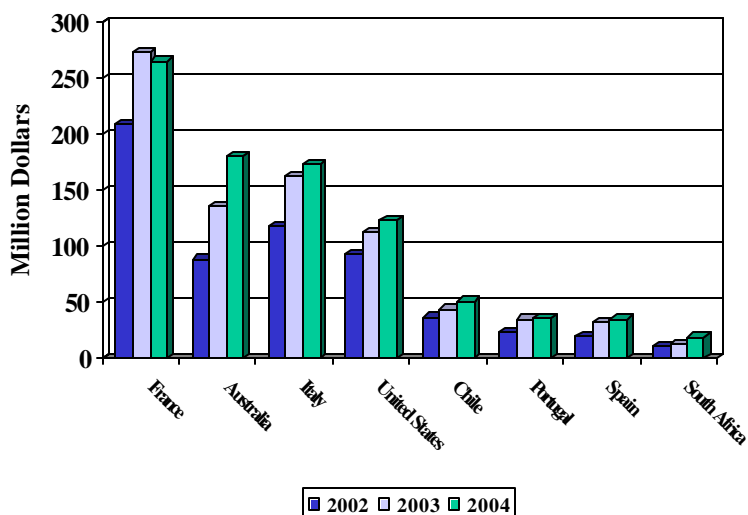
Total exports: \$35.2 million, 136 thousand hl (2004)

Sources: *Agriculture and Agri-Food Canada, Global Trade Atlas*

Despite the growing quantity of imported wine available on the Canadian market, Canada's domestic wine sector continues to expand. According to *Euromonitor International*, wine in Canada is mainly produced in British Columbia in western Canada and Ontario in central Canada, with 35 percent and 36 percent of total shipments respectively. Nova Scotia and Quebec are also developing wine sectors. Trade sources state that British Columbia had a hot summer, with rain in August and September, and a warm October, which aided wine grape production. Ontario had warm weather in September and October and was expecting a harvest at least 50 percent higher than 2003. Both regions had favorable conditions in December for the production of icewine grapes. The industry is building a strong partnership with the tourism sector, which is facilitating the marketing of Canadian wine. According to *Euromonitor International*, per capita consumption of wine in Canada was 10.6 liters in 2004, up from 8.2 liters in 1997.

The United States is the fourth largest supplier of wine to the Canadian market by value. Canada continued to be the number two export market for U.S. wine by value. During 2004, the United States exported about \$123 million in wine to Canada, up almost \$12 million from 2003. About 77 percent of the wine shipped from the United States went in the form of bottled product, 11 percent as bulk, 10 percent as other fermented beverage products, and 2 percent as sparkling wine.

Figure 8. Canada Wine Imports by Value



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

For Canadian wine, there are four main export markets: the United States, Taiwan, Japan, and France. The United States is Canada's largest export market, however, U.S. imports of Canadian wine have fallen from \$41.3 million in 2003 to \$24.3 million in 2004, a drop of nearly 41 percent.

Euromonitor International reports that wine can be sold in supermarkets in Quebec only, the other provinces sell wine through government stores or licensed retail agents. The Canadian wine industry receives generic government support. Canadian associations promoting international wine sales are the Canadian Vintners Association, and the two regional wine associations: the Wine Council of Ontario and the British Columbia Wine Institute. For more information on wine relating to Canada, see GAIN reports #CA2100, #CA2098, #CA2026, #CA2021, and #CA2037.

Netherlands

Production: None

Total imports: \$808.9 million, 3.18 million hl (2004)

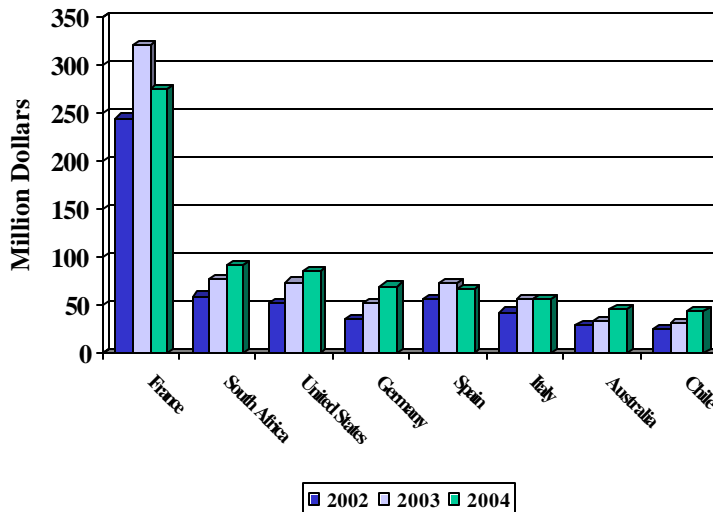
Total exports: \$101.8 million, 323.9 thousand hl (2004)

Sources: GAIN report, Global Trade Atlas

Wine is not produced in the Netherlands. According to *Euromonitor International*, Dutch drinkers consumed 21.6 liters of wine per capita in 2004, up from 18 liters in 2000. Reportedly, Dutch women are leading the growth in consumption. Red wine is the most popular variety, but there is an increasing preference for white wine, particularly in the summer months. *Euromonitor* notes that the Netherlands is in the early stages of

developing a wine culture. Continued consumption growth should be aided by greater availability of wine in supermarkets.

Figure 9. Netherlands Wine Imports by Value



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

The United States is the third largest supplier of wine to the Dutch market by value. The Netherlands is the number three export market for U.S. wine by value. U.S. wine shipments to the Netherlands increased nearly 9-fold from 1996 to 1999. However, sales in the following three years declined significantly, with a recovery beginning in 2003. In 2004, sales of U.S. wine were over 2000 levels, with sales of \$85.6 million, a nearly 15 percent increase from 2003. By value, 97 percent of the wine shipped from the United States went in the form of bottled product, nearly 3 percent as bulk, with small amounts of sparkling wine and must. Wine re-exports are significant, with Germany being the primary destination. U.S. industry sources believe as much as 50 to 75 percent of U.S. wine products shipped to the Netherlands are trans-shipped to other destinations, particularly other countries within the EU.

For the Netherlands, there are five main export markets: Germany, Belgium, Japan, France and the United Kingdom. The United States is the sixth largest market for wine from the Netherlands. Wine is not produced in the Netherlands, so these are re-exports are from another country of origin.

There are no GAIN reports from the Netherlands specifically covering wine, but the wine sector is mentioned in GAIN reports #NL5005 and #NL4026.

Japan

Production: 938 thousand hl (MY 2003)

Total imports: \$1.1 billion, 2.34 million hl (2004)

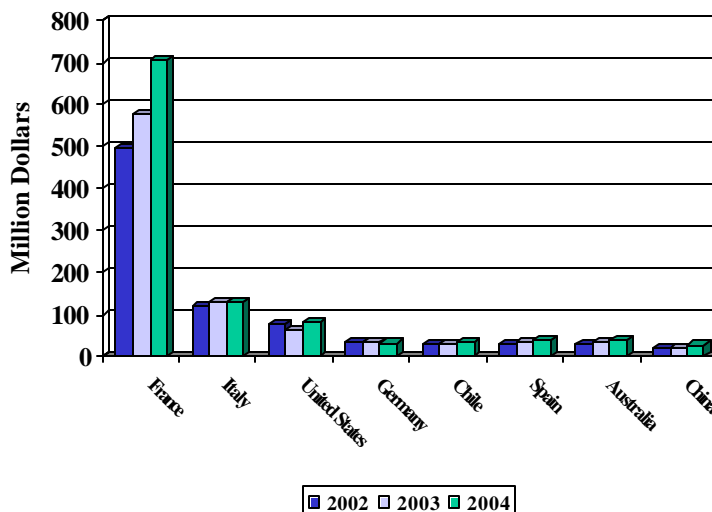
Total exports: \$46.1 million, 98 thousand hl (2004)

Sources: GAIN report, Global Trade Atlas

In Japan, two types of wine are classified as domestic. These include wines that are produced with more than 50 percent domestic grapes and wines that are fermented in Japan. Some wine labeled domestic is actually a blend of domestic and imported wine, and some is made from imported grape must and fermented in Japan. Domestic wine production has been falling since 1998. Domestic wines target the low-end of the market. Competition in the low-end of the market has become intense, since several low-price brands from California, Chile, and Australia are present in this part of the market as well.

Wine consumption has risen in Japan since the 1960s, with several booms and busts. The most recent red wine boom of 1997/8 saw consumption double compared to earlier years. Per capita consumption fell off after the wine boom and has been hovering around the same level for the past few years. According to *Euromonitor International*, per capita wine consumption in Japan was 9.1 liters in 2004, down from 11.2 liters in 1997.

Figure 10. Japan Wine Imports by Value



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

The United States is the third largest supplier of wine to the Japanese market by value. Japan is the number four export market for U.S. wine by value. Recovering from the stagnation that followed the wine boom of 1998, U.S. exports to Japan are enjoying expanding sales in terms of quantity and value. Shipments in 2004 to Japan increased 88 percent to 712.6 thousand hectoliters. Much of the growth in 2004 can be attributed to the wine cooler, cider, and others sub-category of the wine category, reflecting Japanese

consumers increasing preference for low alcohol, light, sweet, and easy-to-drink type liquors. The hot summer of 2004 also played a role in consumption of these types of products. By value, 48 percent of the wine shipped from the United States went in the form of bottled product, 32 percent as other fermented beverage products, 9 percent as bulk, 5 percent as sparkling wine, 5 percent as vermouth, and 1 percent as must.

For Japanese wine, there are four main export markets: the United States, Taiwan, Hong Kong, and Canada. The United States is Japan's largest export market. U.S. imports of Japanese wine (mainly sake or rice wine) have risen from \$16.6 million in 2003 to \$21.7 million in 2004, an increase of 31 percent.

Deregulation of alcohol retailing in Japan, which took effect in September 2003, presents new opportunities as supermarkets and convenience stores find it easier to sell wine. The Wine Institute has been actively promoting California wines in Japan for over 15 years. Activities are primarily trade-oriented and include trade tastings, retail display programs, and the Wine Institute's groundbreaking Wine by the Glass campaign, which supports restaurants and wine bars to conduct promotions of individual glass sales of California wines. Other wine producing states, including Washington and Oregon, are also attracting market interest. For more information, see GAIN report #JA4542.

Germany

Production: 8.1 million hl (MY 2003)

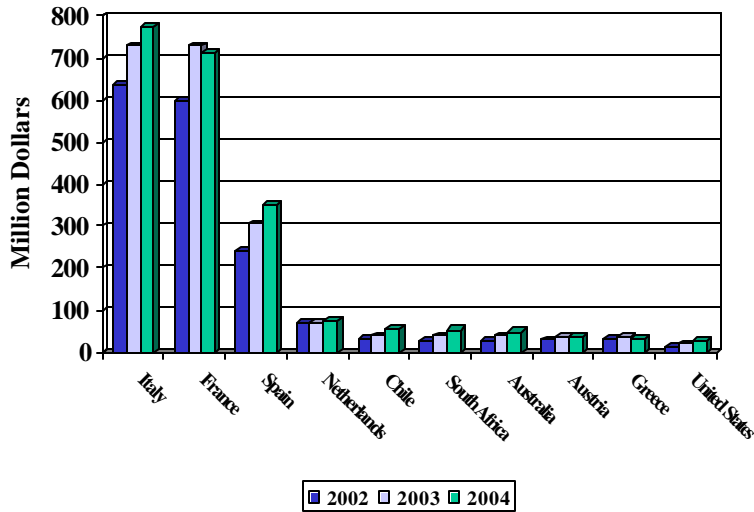
Total imports: \$2.3 billion, 13.8 million hl (2004)

Total exports: \$641 million, 3.05 million hl (2004)

Sources: GAIN report, Global Trade Atlas

Wine production in Germany is forecasted to reach 11.5 million hectoliters in 2004. Grapes for wine are found in 13 different growing areas. The most prominent wine growing regions are in the states of Rheinland-Pfatz, Baden-Wuerttemberg, and Hessen. Due to climate and geography, German wine production can vary significantly in quality and quantity from year to year. Germany is predominately a white wine region with 65.7 percent white wine grape areas. Red wine grapes account for the rest of the production area, but red wine grape plantings are increasing. Per capita consumption of wine in Germany was 23.5 liters in 2002/03, compared to 22.9 liters in 1996/97.

Figure 11. Germany Wine Imports by Value



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

The United States is the tenth largest supplier of wine to the German market by value. Germany is the number five export market for U.S. wine by value. During 2004, the United States exported nearly \$27 million in wine to Germany, up almost \$7.5 million from 2003. About 86 percent of the wine shipped from the United States went in the form of bottled product, 12 percent as bulk, 1 percent as must, with small amounts of other fermented beverage products and sparkling wine. California wines have an excellent reputation in the German market, and this goodwill should affect other American wine exporters as well.

For German wine, there are five main export markets: the United Kingdom, the United States, the Netherlands, Japan, and France. The United States is Germany's second largest export market. U.S. imports of German wine have risen from \$70.4 million in 2003 to \$80.1 million in 2004, an increase of nearly 14 percent.

Generic marketing for the German wine industry is conducted by the German Wine Institute, charged with marketing and promoting German wine within Germany and around the world. As a member of the EU, Germany is participating in the vineyard restructuring program, in which the EU subsidizes the uprooting of unwanted grape varieties in Germany and the subsequent replanting with modern varieties. For more information, see GAIN report #GM4047.

Competitor Countries for U.S. Wine

France

Production: 47.5 million hl (MY 2003)

Total imports: \$666.8 million, 5.9 million hl (2004)

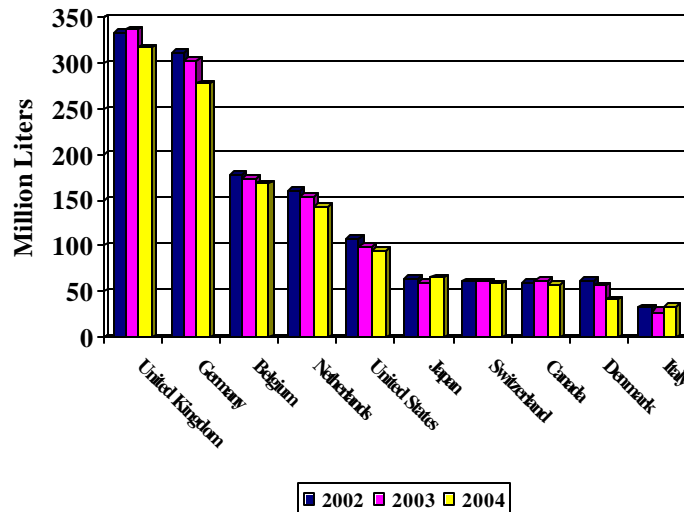
Total exports: \$6.9 billion, 15.6 million hl (2004)

Sources: GAIN report, Global Trade Atlas

France is the world's number one wine producer with 47.5 million hectoliters in 2003 and a 2004 vintage currently estimated at 58.5 million hectoliters. A dry and cold winter, a warm summer with significant rains brought an early vintage but a reduced expected crop. The 2004 crop is a 23 percent increase over the 2003 crop, but is down 14 percent compared to the average for 1999-2003.

The long-term trend toward declining domestic wine consumption continued last year. This trend is expected to continue in the coming years. French per capita wine consumption has decreased from 103 liters in 1980 to 56 liters in 2003.

Figure 12. France Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

According to Global Trade Atlas, French wine export quantities decreased nearly 6 percent in CY 2004. In terms of value, French wine exports increased almost 4 percent. Major destinations for French wine continue to be the United Kingdom, Germany, Belgium-Luxembourg, the Netherlands, and the United States. The United States represents 6.5 percent in quantity and 14.7 percent in value of France's export market. The United States imported 8 percent less wine from France in value and nearly 6 percent less in quantity in 2004.

Although wines from the United States represent less than 2 percent of French wine imports, French imports of U.S. wines have been growing steadily. These imports were 17.6 thousand hectoliters in 1995 and now are 89.5 thousand hectoliters in 2004, an increase of over 400 percent.

Frustrated by overproduction, shrinking exports, advertising restrictions, an aggressive anti-alcohol abuse campaign, and changing domestic drinking habits, French wine makers are pleading for government assistance. The French office of Wines and Vines (ONIVINS) had a budget in calendar year (CY) 2003 of €10.3 million (\$13.3 million) for financing international promotional campaigns. On January 31, 2005, the French government announced a €66.5 million (\$86.2 million) aid package for the wine industry. On April 18, 2005, the French government announced an additional €30 million (\$38.9 million) to aid the wine sector. For more information, see GAIN report #FR4074.

Italy

Production: 44 million hl (MY 2003)

Total imports: \$329.6 million, 1.8 million hl

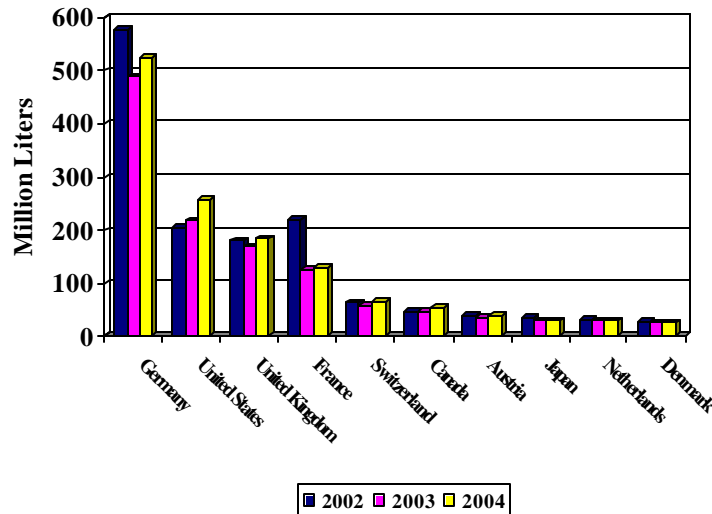
Total exports: \$3.7 billion, 15.8 million hl

Sources: GAIN report, Global Trade Atlas

Italy's 2004 wine production rose by 20 percent from 2003 to 53 million hectoliters, thanks to more favorable weather. There were plentiful rains in the winter, and mild temperatures in the spring and summer, with a sunny September. Wine grape area has continued the downward trend of the previous two decades, although at a much lesser rate. This year's area is officially reported at 786 thousand hectares, or slightly more than half of the area of the early 1980s.

Domestic wine consumption has stabilized after years of sharp declines. However, the number of regular wine consumers is falling. Wine consumption has stabilized at about 50 liters per capita, down from 104 liters per capita in 1975. Per capita consumption of beverage trends favor low-alcohol or no alcohol drinks.

Figure 13. Italy Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

According to Global Trade Atlas, Italy's wine export quantities increased 9 percent in CY 2004. In terms of value, Italy's wine exports increased 15 percent. Major destinations for Italian wine are Germany, the United States, the United Kingdom, France, and Switzerland. The United States represents 16 percent in quantity and 25 percent in value of Italy's export market. The United States imported 4 percent more wine from Italy in value but nearly 6 percent less wine in quantity during 2004. Italy has been the top wine supplier to the United States in terms of quantity for many years.

U.S. exports of wine to Italy increased remarkably in 2004, with increases of over 1,000 percent in value to \$12.5 million and of over 2,000 percent in quantity to 20.8 thousand hectoliters. Both bulk and bottled wines experienced increases. However, wine from the United States represents a very small portion of imported wine consumption in Italy, around 6 to 7 percent by quantity for 2004.

EU allocations for Italy are mostly spent in southern Italy, where quality wines are still more rare than in the northern part of the country. The Italian Trade Commission (ICE), an agency of the Ministry of Production Activities, remains the main public institution to provide export and promotion assistance in foreign markets. There is currently no specific export promotion program for wine, which is included in the general promotion programs of Italian foods and beverages. For more information, see GAIN report #IT4038.

Spain

Production: 40.4 million hl (MY 2003)

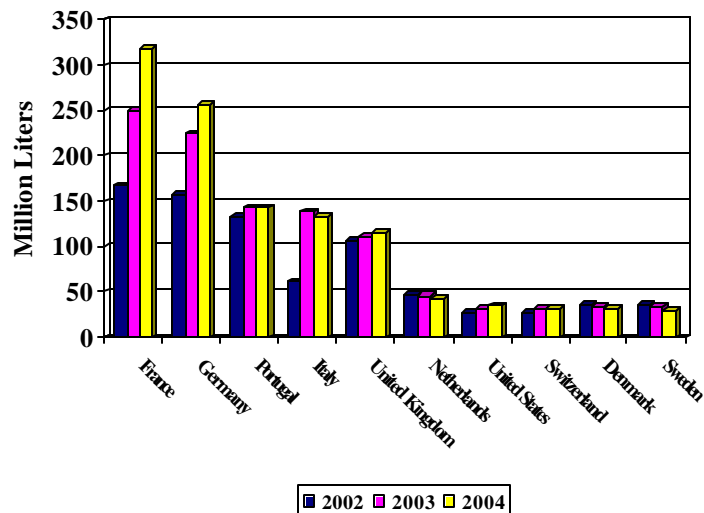
Total imports: \$122.3 million, 390.3 thousand hl (2004)

Total exports: \$1.89 billion, 14.3 million hl (2004)

Sources: GAIN report, Global Trade Atlas

Spain's 2004 wine vintage is currently estimated at about 40 million hectoliters, constant with 2003. Favorable weather led to the production of large vintages in 2003 and 2004. Spain continues to have the most area under vines in the world. However, Spain's production ranks third following France and Italy, and is more variable, since it must contend with poor rainfall and soil. The downward trend in wine consumption continues, though in 2004 quality wines, sparkling wines, and other wine types showed increased growth. However, this growth did not offset declining table wine sales. According to *Euromonitor International*, per capita wine consumption in Spain declined to 31.2 liters in 2003, down from 34 liters in 1997.

Figure 14. Spain Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

According to Global Trade Atlas, Spanish wine export quantities increased 9 percent in CY 2004. In terms of value, Spanish wine exports increased almost 12 percent. Major destinations for Spanish wine are France, Germany, Portugal, Italy, and the United Kingdom. The United States represents about 2.6 percent in quantity and nearly 10 percent in value of Spain's export market.

U.S. wine imports from Spain rank fifth after Italy, Australia, France and Chile in terms of quantity and fourth after France, Italy, and Australia in terms of value. The 2004 import quantity of 353.7 thousand hectoliters was up 14 percent and import value of \$185 million was up 17 percent over 2003.

U.S. exports of wine to Spain rose in 2004, with increases of 570 percent in value to \$918 thousand and of 122 percent in quantity to 3.4 thousand hectoliters. Most of the gains were in bulk wine with a small increase in bottled wine and a decrease in must. However, wine from the United States represents well under 1 percent of total Spanish imports of wine. Spain should be considered only as a specialty market for U.S. wine imports.

The Spanish Foreign Trade Institute (ICEX) an agency of the Ministry of Industry, Commerce, and Tourism, is responsible for diversified, government-funded foreign market promotion programs. The Spanish government recently announced a €50 million (\$64.8 million) budget for the promotion of Spanish premium wines over the next five years. For more information, see GAIN report #SP4031.

Australia

Production: 12.5 million hl (MY 2003)

Total imports: \$143.6 million, 274 thousand hl (2004)

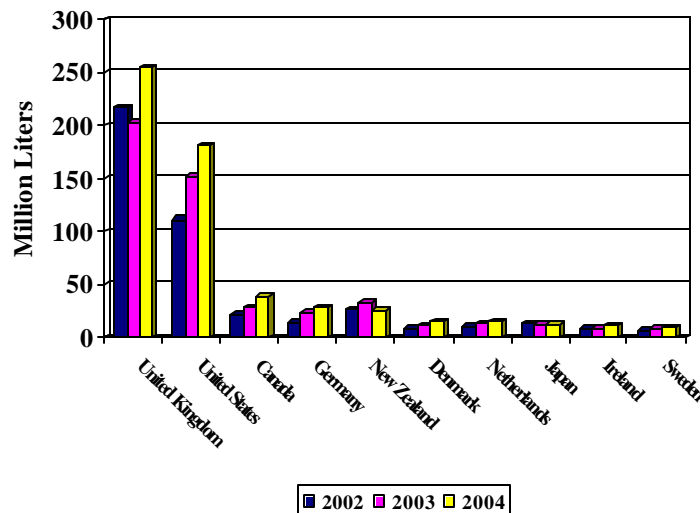
Total exports: \$1.99 billion, 6.5 million hl (2004)

Sources: GAIN report, Global Trade Atlas

Australian wine production during 2004/05 is expected to increase by nearly 4 percent at 13 million hectoliters, driven by increased grape bearing area and more normal weather following a drought two years ago. Favorable rainfall across most wine grape growing regions allowed production to rebound sharply. Improved climatic conditions have also provided a steady improvement in irrigation water availability.

Per capita wine consumption in Australia for 2002 was just below 20 liters. According to *Euromonitor International* per capita wine consumption was 18.8 liters per capita in 1997. Up-to-date official consumption estimates are unavailable.

Figure 15. Australia Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

According to Global Trade Atlas, Australian wine export quantities increased nearly 20 percent in CY 2004. In terms of value, Australian wine exports increased almost 29 percent. Major destinations for Australian wine are the United Kingdom, the United States, Canada, Germany, and New Zealand. The United States represents nearly 29 percent in quantity and about 33 percent in value of Australia's export market. The United States imported 16 percent more wine from Australia in value and nearly 20 percent more in quantity in 2004.

U.S. exports of wine to Australia rose in 2004, with increases of 72 percent in value to \$3.7 million and of over 126 percent in quantity to 37.7 thousand hectoliters. Most of the gains were in bottled wine with small increases in sparkling wine and must. However, wines from the United States represent only about 2 percent of total Australian imports of wine. In 2004, the United States and Australia completed a free trade agreement. The agreement went into effect on January 1, 2005. For U.S. wine exports to Australia, all tariffs were immediately eliminated. For Australian wine imports to the United States, tariffs will be eliminated over an 11-year period.

The Australian Wine Export Council (AWEC), a subsidiary of the Australian Wine and Brandy Corporation (AWBC) is the export promotion arm of the AWBC. AWEC conducts wine promotion programs in many countries and works closely with the government's export promotion arm, Austrade. The Winemakers Federation of Australia is the main industry body representing the interests of Australia's winemakers, representing about 90 percent of Australia's wine production and about 98 percent of exports. There are also state and territory wine associations. For more information, see GAIN report #AS4018.

Argentina

Production: 15.46 million hl (MY 2003)

Total imports: \$1.5 million, 34.4 thousand hl (2004)

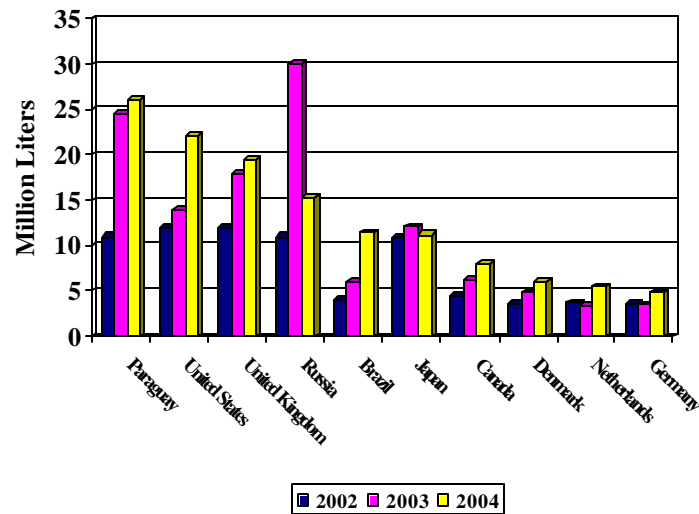
Total exports: \$230.1 million, 1.6 million hl (2004)

Sources: GAIN report, Global Trade Atlas

Good weather conditions combined with improved agronomic techniques resulted in the third consecutive good harvest in Argentina. Total wine production was 15.46 million hectoliters in 2003/2004.

Argentina's wine sector still holds a great deal of promise and is expected to grow in CY 2004. Foreign companies continue to invest cautiously in their already-existing operations and are looking to expand their landholdings. Low land prices, the effect of a devalued currency, and the good quality of its wine makes Argentina attractive to investors. Per capita consumption in Argentina was 33.7 liters in 2003 down from 36.3 in 2001.

Figure 16. Argentina Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

According to Global Trade Atlas, Argentina's wine export quantities decreased 17 percent in CY 2004. In terms of value, Argentina's wine exports increased 31 percent. Major destinations for Argentine wine are Paraguay, United States, United Kingdom, Russia, and Brazil. The United States represents almost 15 percent in quantity and nearly 31 percent in value of Argentina's export market. The United States imported almost 27 percent more wine from Argentina in value and nearly 58 percent more in quantity in 2004.

The United States sells a very small amount of wine to Argentina. Imports are discouraged by the devalued currency. U.S. exports of wine to Argentina fell in 2004, with decreases of almost 13 percent in value to \$276 thousand and of nearly 95 percent in quantity to 91 hectoliters. Most of the U.S. product sold in Argentina is bottled wine.

The Strategic Plan for Argentine Wine 2020 (SPWA) provides for the utilization of \$15 million in marketing and export promotion. The goal of this program is to reach sales of \$2 billion and an international market share of 10 percent by CY 2020. For more information, see GAIN report #AR40321.

South Africa

Production: 10.18 million hl (MY 2003)

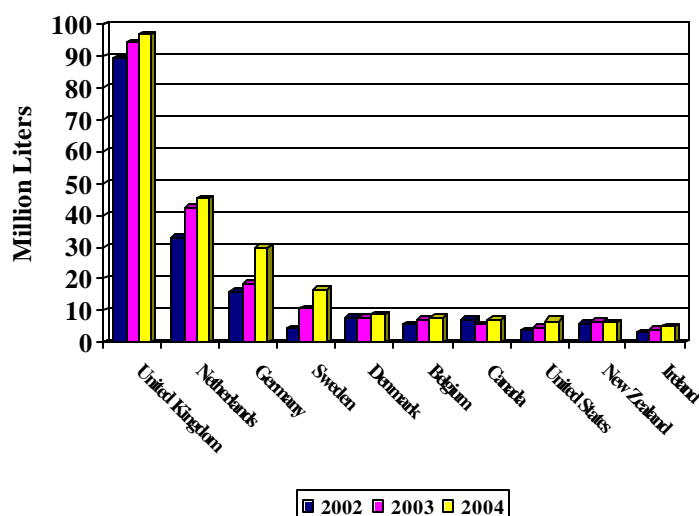
Total imports: \$9.4 million, 17.5 thousand hl (2004)

Total exports: \$541.5 million, 2.6 million hl (2004)

Sources: GAIN report, Global Trade Atlas

Total wine production in South Africa is estimated at 10.18 million hectoliters for 2004. However, the 2005 wine production is expected to reach 8.97 million hectoliters due to a drought in the Western Cape that has continued for two years. Per capita consumption of wine in South Africa was 8.95 liters in 2002, down from 9.75 liters in 1997.

Figure 17. South Africa Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

According to Global Trade Atlas, South African wine export quantities increased nearly 12 percent in CY 2004. In terms of value, South African wine exports increased almost 26 percent. Major destinations for South African wine are the United Kingdom, the Netherlands, Germany, Sweden, and Denmark. The United States represents 2.6 percent in quantity and 5 percent in value of South Africa's export market. The United States imported 50 percent more wine from South Africa in value and 28 percent more in quantity in 2004.

The United States sells a very small amount of wine to South Africa. U.S. exports of wine to South Africa rose in 2004, with increases of 302 percent in value to \$145 thousand and of nearly 180 percent in quantity to 957 hectoliters. Most of the U.S. product sold in South Africa is vermouth, wine must, and fermented beverages.

South Africa benefits from a duty-free treatment for its wine exports to the United States under the African Growth and Opportunity Act (AGOA). The South African government is encouraging all private industries to include a Black Economic Empowerment (BEE)

strategic plan within their sectors. The South African wine industry has adopted such a plan, the South African Wine Industry Strategy Plan (WIP). The plan was accepted by the Minister of Agriculture as the strategic framework for cooperation and action in the South African wine industry in October 2003. For more information, see GAIN reports #SF4024 and #SF5013.

Chile

Production: 6.3 million hl (MY 2003)

Total imports: \$1.5 million, 5.2 thousand hl (2004)

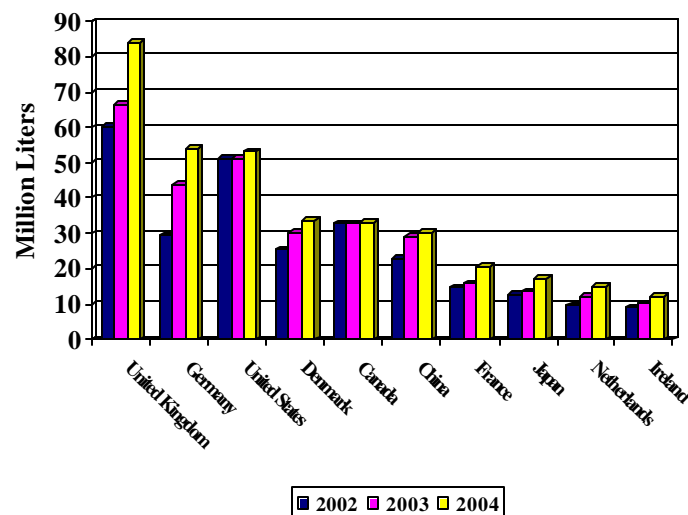
Total exports: \$845.2 million, 4.7 million hl (2004)

Sources: GAIN report, Global Trade Atlas

Chile's 2004 wine production is expected to be smaller than last year, in spite of newly planted areas and the replacement of existing vines with improved varieties, which are coming into production. Abnormal weather in some production areas (frost and rain) affected the 2004 harvest in quantity but not in quality.

The Chilean wine industry has expressed some concerns about the explosive increase in the planted area of wine grapes, which has increased 70 percent in the last seven years. Industry sources indicate that once new areas come into production, wineries will have to invest in new processing and storage facilities to absorb additional output. Per capita consumption of wine in Chile was 17 liters in 2003, up from 16 liters in 1997.

Figure 18. Chile Wine Exports by Quantity



Sources: Global Trade Atlas, U.S. Department of Commerce (for U.S. statistics)

Over 60 percent of Chile's total yearly wine production is exported. According to Global Trade Atlas, Chile's wine export quantities increased 18 percent in CY 2004. In terms of value, Chile's wine exports increased 24 percent. Major destinations for Chilean wine

are the United Kingdom, Germany, the United States, Denmark, and Canada. The United States represents 12 percent in quantity and 17 percent in value of Chile's export market. The United States imported 8 percent more wine from Chile in value and 4 percent more in quantity in 2004.

The United States sells a very small amount of wine to Chile. U.S. exports of wine to Chile rose in 2004, with increases of 544 percent in value to \$361 thousand and of nearly 600 percent in quantity to 1.3 thousand hectoliters. Most of the U.S. product sold in Chile is vermouth, bulk wine, and a small amount of sparkling wine.

The Chilean government provides no direct subsidies to support wine production or to subsidize exports. The Free Trade Agreement with the United States is expected to have only limited effect on wine export volumes to the United States as the duty of 6.3 cents per liter is scheduled to be phased-out over 12 years. For more information, see GAIN report #CI4015.

Appendix

Additional Information

Harmonized System (HS) codes are used for tracking imports and exports. The industry consensus is that wine products include three categories when described by the 4-digit and seven categories when described by the 6-digit HS Code.

HS 4	HS 4 description	HS 6	HS 6 description
2204	Grape wines	220410	Grape wines, sparkling
		220421	Grape wines, nes ⁷ , fortified wine or must, pack<2L
		220429	Grape wines, alcoholic grape must nes
		220430	Grape must, unfermented, except as fruit juice
2205	Vermouth/grape wines	220510	Vermouth and other flavored grape wines - pack<2L
		220590	Vermouth and other flavored grape wines – pack>2L
2206	Fermented beverages	220600	Fermented beverages nes (e.g. cider, perry, mead)

<http://www.census.gov/foreign-trade/schedules/b/>

For a complete selection of FAS worldwide reporting, visit <http://www.fas.usda.gov>. Regular wine reports are published on Argentina, Australia, Chile, South Africa, France, Germany, Italy, Japan, Mexico, Spain, Sweden, and the United Kingdom. Periodic worldwide voluntary reports are also available, most recently from Costa Rica, Brazil, South China and Shanghai, Mexico, Russian Federation, Korea, the Czech Republic, Turkey, and Croatia.

For information on U.S. imports and exports, please visit our trade database online at <http://www.fas.gov/ustrade>. For country and regional tariff and tax information, please refer to http://www.ita.doc.gov/td/tic/tariff/country_tariff.htm. For information on production and trade, contact Dorsey Luchok at 202-720-3083. For information on marketing, contact Angela Thomas at 202-720-1533.

Check out the wine webpage at <http://www.fas.usda.gov/agx/processed/Wine/wine.html>.

Data Updates

Each year the Department of Commerce, U.S. Census Bureau, Foreign Trade Division releases a 13th month file approximately three months after the release of the December data. The 13th Month file includes corrections (errata) made at the request of outside sources and verified with exporters or importers by the Foreign Trade Division. The 13th

⁷ “nes” stands for “not elsewhere specified.”

month data also includes late shipments. Late shipments are Shippers Export Declarations or Import Entry Summary Forms that are received too late to be included within the normal monthly trade release. Any adjustments to U.S. wine trade data for 2004 will be incorporated during June or July 2005 into the U.S. Trade system at <http://www.fas.gov/ustrade>.

Sources

- USDA FAS GAIN Reports (and other communications with the FAS Posts)
<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>
- USDA National Agricultural Statistics Service
<http://www.usda.gov/nass/>
- California Agricultural Statistics Service
<http://www.nass.usda.gov/ca/>
- U.S. Trade Database
<http://www.fas.usda.gov/ustrade/>
- Global Trade Atlas
<http://www.gtis.com/gta/>
- Euromonitor International
<http://euromonitor.com>
- The Wine Institute
<http://www.wineinstitute.org>
- Agriculture and Agri-Food Canada
<http://www.agr.gc.ca/>