

World Wine Situation and Outlook

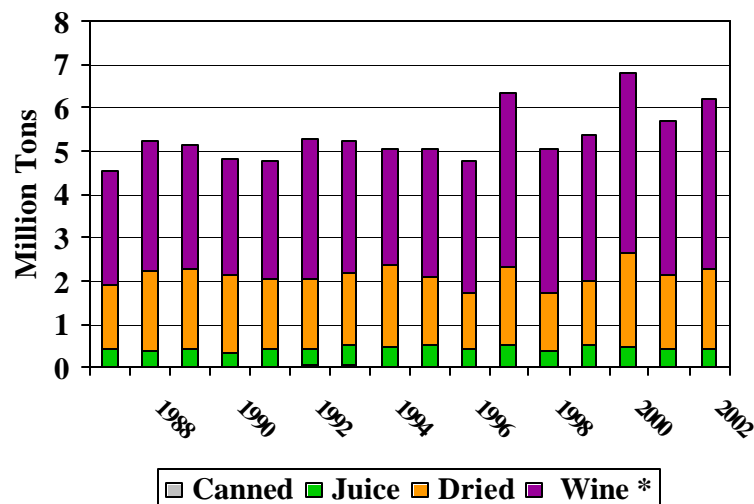
SUMMARY

Total U.S. wine exports have leveled off after the large increases seen during the 1990s. Bottled wine imports surpassed the \$2 billion level as the wine trade gap widens. Bottled wine exports are only one-fifth of imports. Competition for global market share continues to be strong, with new world wine producers expanding wine production and aggressively marketing their products. The more traditional wine-producing countries of the European Union (EU) strive to cut production, improve quality, and struggle to maintain market share.

United States

On January 24, 2003, NASS released the Non-citrus Fruits and Nuts Preliminary Summary. According to the report, total utilized grape production for 2002 totaled 6.48 million metric tons, up nearly 8 percent from the 2001 crop. The value of utilized production was \$2.9 billion, down more than \$16 million from 2001. Utilized production increased from the previous year in seven of the fifteen reported states. These states include Arkansas, Michigan, Missouri, New York, North Carolina, Virginia, and Washington. Grape utilization for wine in the United States increased 11 percent, while the price per ton on average declined from \$562 last year to \$497 during 2002.

U.S. Grapes: Processed Utilization

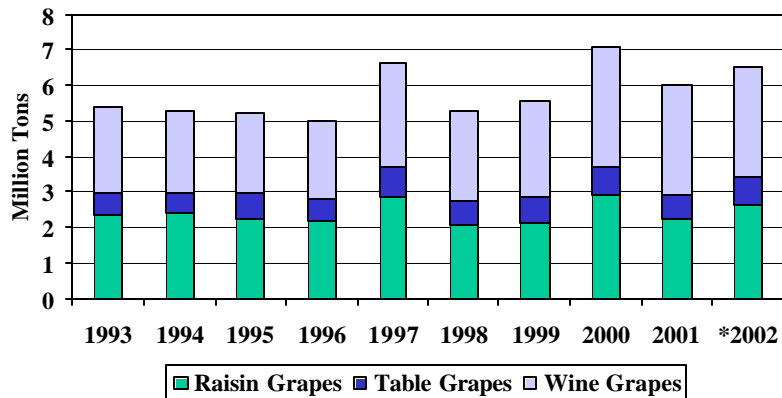


* Estimates in 2001 and 2002 include Texas and Virginia.
Source: National Agricultural Statistics Service, USDA

The California crop, which accounts for 91 percent of the U.S. grape production, was up 9 percent from the previous year. California wine-type production also increased 2 percent from 2001, while raisin-type production rose 20 percent, and table-type production increased 5 percent. These increases are attributed to additional acreage planted to grapes and excellent growing conditions.

California Grape Production

(91 Percent of U.S. Grape Production)



Source: National Agricultural Statistics Service, USDA

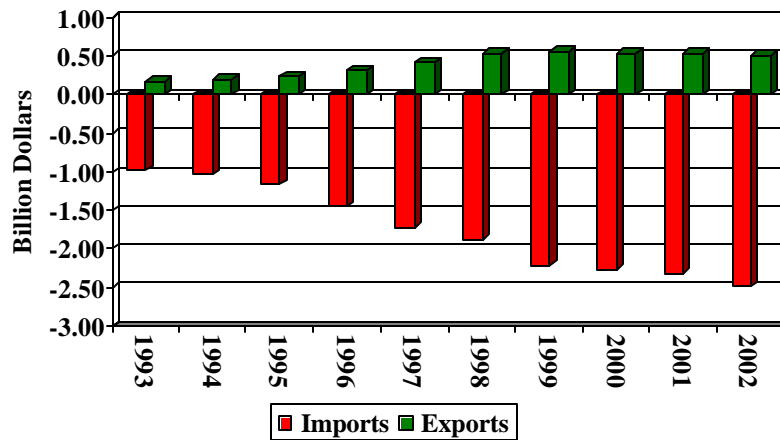
According to the February 10, 2003, California Grape Crush Report, the 2002

crush totaled 3,784,797 tons, up 12 percent from the 2001 crush, but still below the record crush of 2000. Red wine varieties accounted for the largest share of all grapes crushed, at 1,816,243 tons, up 6 percent from 2001. The 2002 white wine variety crush totaled 1,285,996 tons, down 1 percent from 2001. Tons crushed of raisin type varieties totaled 621,928, up 138 percent from 2001, while tons crushed of table type varieties totaled 60,629, down 40 percent from 2001. California grape growers received prices in 2002 for raisin, table, white and red wine grapes that were, on average, less than the 2001 prices. The 2002 average price of all varieties was \$460.27, down 17 percent from 2001. Average prices for the 2002 crop by type were as follows: red wine grapes, \$612.83, down 10 percent from 2001; white wine grapes, \$428.18, down 13 percent from 2001; raisin grapes, \$75.51, down 12 percent; and table grapes, \$80.49, down 8 percent. These price levels have not been adjusted for inflation. To download the full report go to <http://www.nass.usda.gov/ca/bul/crush/indexgcb.htm>.

Domestic wine consumption has been rising slowly and consistently over the last 10 years. Only about 25 percent of American adults consume wine. The core wine drinkers make up less than half of this group. The rest are the marginal wine drinkers. These Americans are drinking more imported wines from countries such as Italy, Australia, Chile, and Spain. French wine remains considerably popular. However, market share has been lost to some of the more inexpensively-priced wines from other countries. This dynamic has led, in part, to the widening gap in wine trade.

Exports of U.S. wine posted some strong increases during 2001 to our top market, the United Kingdom. However, growth to our second top market, Canada, waned again last year while shipments to our third top market, the Netherlands, were off nearly 25 percent. Export values to Japan showed marked improvement last year, reaching levels not seen since 1999. Overall, export values of wine and wine products (including cider, fermented beverages, and must) last year posted a modest 2-percent increase, while export volume declined 7 percent to 2.78 million hectoliters.

U.S. Trade Balance in Wine



Source: U.S. Department of Commerce, Bureau of the Census

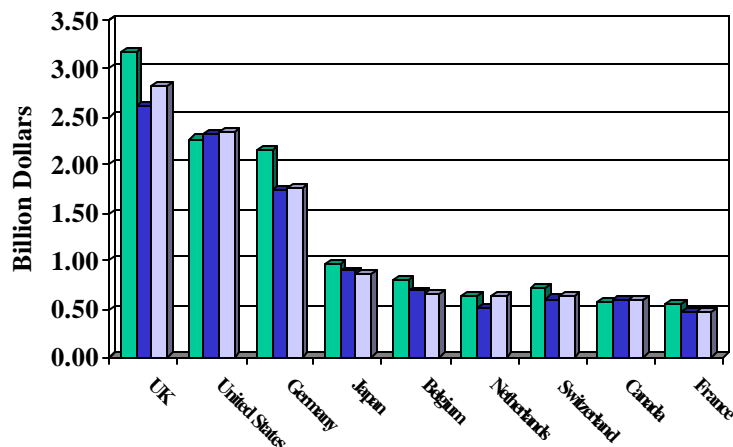
Largest U.S. Wine Export Markets

United Kingdom (UK)

The United Kingdom is the world's largest importer of wine and the largest market for U.S. wines. During 2001, U.S. exports of wine to the United Kingdom increased 31 percent in quantity at a value of \$28 million. During 2002, U.S. export values

March 2003

World Wine Imports



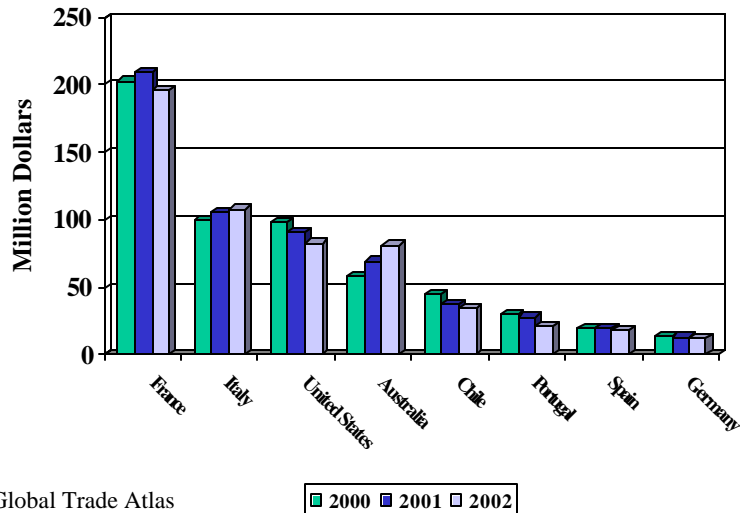
increased 12 percent to a total of \$189 million. Exports of still wine in containers of less than 2 liters make up about 85 percent of shipments to the United Kingdom and posted about a 4-percent increase over 2001. Effervescent wine exports continued to decline. However, there are reports of market growth for sparkling wine as United Kingdom consumers increase usage for more informal occasions. Wine shipped in bulk also declined. Less than 3 percent of exports to the UK go in bulk form. France is expected to show a third year of declines in market share due to competition from the new world wine producers such as the United States, Australia, and Chile in products with consistent quality and more affordable prices. Australia is proving to be a major competitor for the United States in this market. Trade figures for 2001 indicate that over 45 percent of the wine imported into the United Kingdom is from new world (non-European) producers. This trend is also causing some steep competition for smaller producers such as Bulgaria, Hungary (despite their reduced rate of duty) and Portugal. Despite the brand and price sensitivity of the UK market, there is potential for niche markets where wines from the Pacific Northwest, New York, Virginia, and Texas could do very well.

The United Kingdom does produce a very small quantity of mostly white wine. United Kingdom consumers are buying more wine, often at the expense of beer. This trend is expected to grow with consumers learning more about wine and trading up to more expensive wines. The largest consumer group for wine consists of those 35-49 years of age in the middle and upper-middle class. Red wine is showing the most growth, boosted by continued news reports of health benefits. Continuous circulation of positive reports on wine and health is a benefit to the wine industry. For more information on marketing wine in the United Kingdom, review GAIN #UK2029

Canada

Canada is the number two export market for U.S. wine. During 2002, the United States exported about \$92 million of wine to Canada, down 3 percent from the previous year. About 89 percent of the wine shipped went in the form of bottled product, 10 percent as bulk, and only 2 percent as sparkling wine.

Canada – Wine Imports



Source: Global Trade Atlas

Canadians are developing an increasing taste for imported wines and currently 62 percent of purchases are

of imported wines. Sales of U.S. wines are facing increasing marketing challenges due to growing competition, particularly from Italy, Australia, and Chile. Despite the growing volume of wine available on the Canadian market, Canada's domestic wine sector continues to expand. Vineyard plantings, now almost exclusively vitis vinifera, have increased about 50 percent over the past 3 years to approximately 6,000 hectares and these are expected to double in the next 8 to 10 years. The industry is building a strong partnership with the tourism sector, which is facilitating the marketing of Canadian wine. The United States is Canada's largest export market and U.S. imports of Canadian wine have jumped over the last five years going from \$3.5 million in sales during 1998 to \$66.9 million during 2002, up 6 percent from last year.

Canada has four main markets: the United States, Taiwan, Japan, and the United Kingdom. Main targets for exports in 2002 included these countries in addition to Hong Kong. The Canadian wine industry received generic 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: #CA2098, #CA2021, #CA2026, and #CA 2037.

Netherlands

Netherlands Trade Balance in Wine



1 kiloliter = 1000 liters = 264 gallons
Source: Global Trade Atlas

U.S. wine shipments to the Netherlands increased nearly 9-fold from 1996 to 2000. However, sales during 2002 posted a 23-percent decline from 2001, totaling only \$53 million. According to the Global Trade Atlas, wine imports from all countries into the Netherlands declined nearly 35 percent in value during 2002.

Part of the decline may be explained by wine coming to the Netherlands increasingly via Spain and Italy, rather than directly entering the Port of Rotterdam. U.S. Industry sources believe that, as much as 50 to 75 percent of U.S. product shipped to the Netherlands is trans-shipped to other destinations. Wine is not produced in the Netherlands, and wine re-exports are significant, with Germany being the primary destination.

Per capita consumption of lighter alcoholic drinks continues to increase, and red wine is said to be the most popular style. Dutch meals frequently feature meat (or cheese and sausage), which, combined with the cold

climate, support consumer preferences for a more hearty wine type. Younger wine drinkers are more willing to experiment with different beverages, particularly new world wines. However, French wine continues to dominate the Dutch market, accounting for \$155 million (34 percent of the total Dutch import market) in 2002.

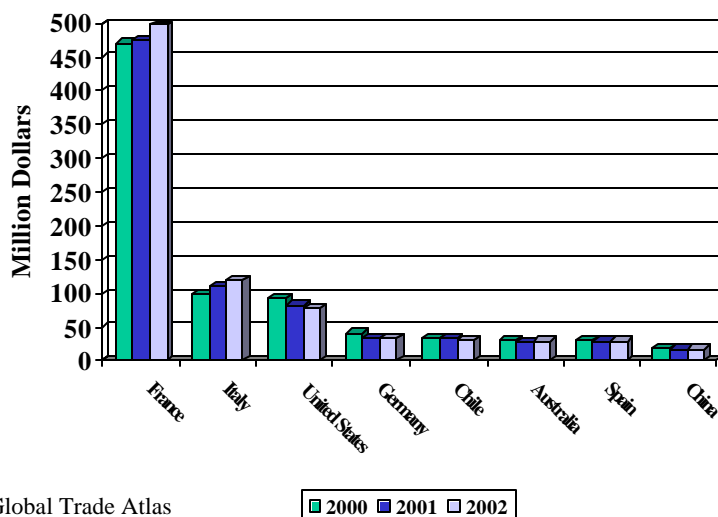
On September 30, 2002, a U.S. Premium Food and Wine Promotion was held in the Netherlands. The objective was to increase awareness of U.S. premium food and wine of chefs and restaurateurs and sommeliers. The focus was on the medium to higher quality wines. For more on this show please see GAIN #NL2062.

Japan

Export quantities of U.S. wine to Japan since 1998 posted year-over-year declines through 2002. However, shipments in 2002 to Japan were down less than 1 percent to 311,000 hectoliters. Exports last

year consisted of 87 percent bottled product and 10 percent bulk. During 2001, the ratio was 74 percent bottled and 21 percent bulk. In 2000, 80 percent bottled and 21 percent bulk. Much of the bulk wine is bottled in country and marketed under a Japanese domestic brand name. Because of the import tariff level on bottled wine, Japanese manufacturers have a significant price advantage in re-bottling

Japan – Wine Imports



Source: Global Trade Atlas

the bulk wine that is assessed at a lower tariff level. It appears that with abundant supplies of U.S. wine available, more bottled wines at better prices are making it into the Japanese market, perhaps at the expense of the domestic wine market. For more information on marketing wine in Japan see GAIN #A2554. The Wine Institute (WI) has been actively promoting California wines for over 15 years. Activities are primarily trade-oriented and include trade tastings, retail display programs, and the WI's groundbreaking Wine-By-The-Glass (WBTG) promotion. The WBTG supports restaurants and wine bars to conduct promotions of individual glass sales of California wines.

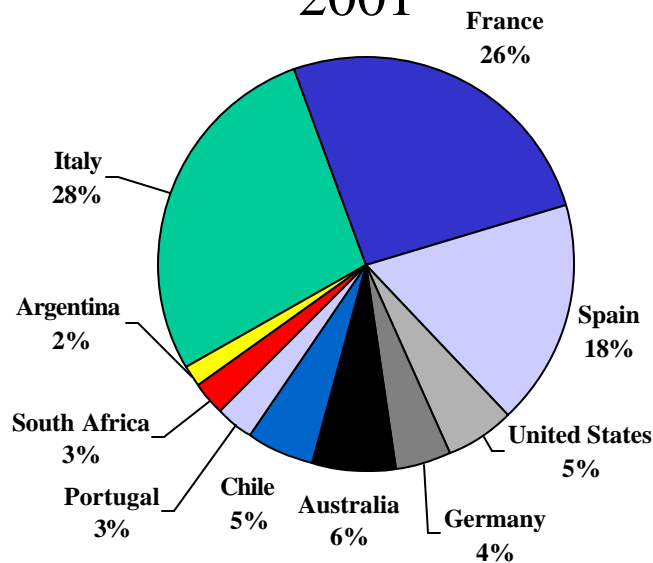
Industry is optimistic that wine will become more appealing to the younger generations as the spirits beverage sector loses market share. The Japanese are showing an inclination towards drinking beverages that are lower in alcohol content due to greater awareness of health issues. Beer continues to be the most consumed alcoholic beverage. Because per capita wine consumption is well below that of Europe or the United States, substantial growth potential exists in the wine sector.

World Competition for U.S. Wine

The new EU wine regime, begun during Marketing Year 2000/01 seeks the enhancement of quality, a greater market orientation, and the renewal of old vineyards. The new EU Budget for the wine sector is being increased 3.3 percent, from 1.292 billion euros in 2001 to 1.335 billion euros (\$1.178 billion) by 2003. The top three EU countries account for about 75 percent of global trade.

Wine Export Market Share

2001



France

Wine production in France for marketing year 2002/03 is forecast to increase 3 percent from this year's 55.3 million hectoliters. According to the Global Trade Atlas, French wine export quantities declined nearly 7 percent. Some of the largest market declines were to Germany, Denmark, Canada, and Switzerland. In terms of value, French wine exports remained relatively steady, increasing just under 2 percent. French wine exports face strong competition from new world wines. Major destinations for French wine continue

to be the United Kingdom, Germany, Belgium-Luxemburg, the Netherlands, and the United States. The U.S. market represents about 7 percent of France's export market.

The French Office of Wines and Vines (ONIVINS) had a budget in calendar year (CY) 2001 of 9.4 million Euros (\$8.4 million) for financing domestic and international promotional campaigns. About 44 percent of this budget is overseas generic promotions to make French wine known or reinforce its image. For more information see GAIN #FR2090.

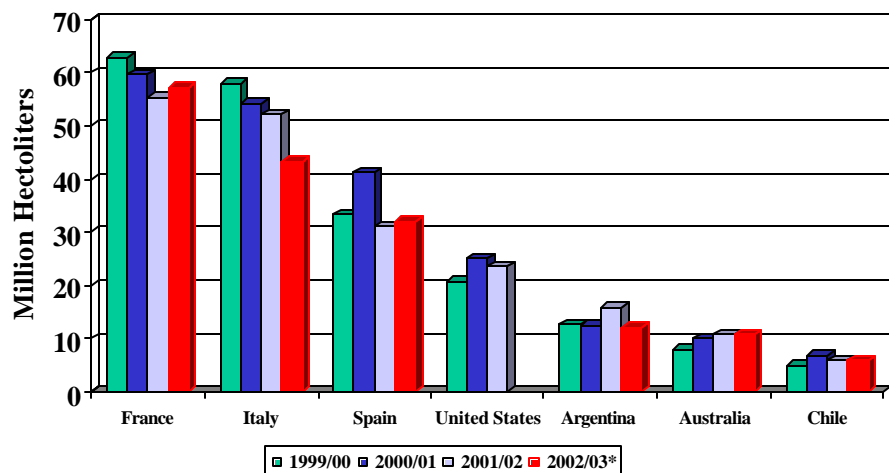
Italy

Italy's 2002 wine production decreased 17 percent from 2001 to 43 million hectoliters, and is said to be the lightest crop in the last 50 years, in part due to recent inclement weather, but also due to the uprooting of vines over the past several years. Area planted to grapes, however, has begun to stabilize. According to the Global Trade Atlas, Italian wine exports declined 11 percent in value and 26 percent in volume during 2002. Germany and France remain the top two export markets for Italian wine, while the U.S. market accounts for 12 percent of Italian exports. The United States imported 23 percent more wine from Italy in value and 15 percent in volume during 2002, with the strong dollar perpetuating this trend. Italy has been the top wine supplier to the United States for many years.

Shipments of U.S. wine to Italy continue to be minimal, and were down 45 percent in terms of quantity during 2002. Declining wine consumption is a reality in modern Italy as lifestyles change. Consumers are not drinking wine as frequently at lunch as in the past and when they do consume it, they tend to favor higher quality wines. Italy imports nearly 70 percent of its wine from France and Spain. For more information see GAIN #IT2027.

World Wine Production

*August - July Marketing Year**



* Official Marketing year for France, Italy, and Spain Aug/Jul beginning 2001/2002

1 hectoliter = 11 cases, 1 case = 12 - 750 ml bottles

Source: U.S. Department of Agriculture. FAS Attaché Annual Reports

Spain

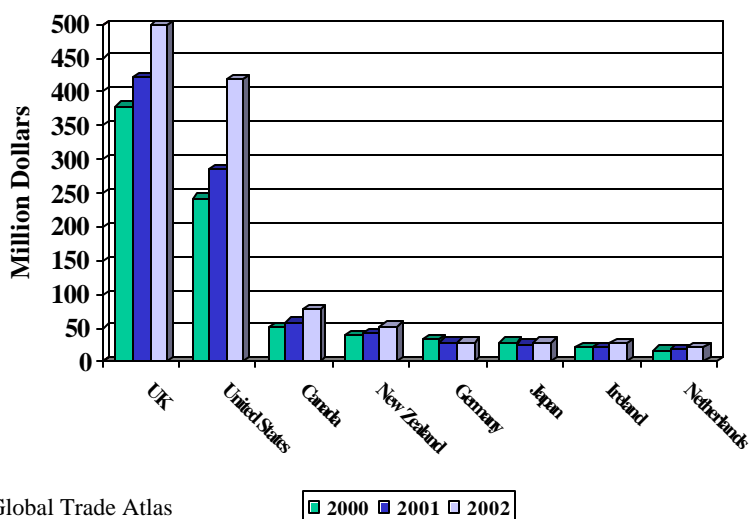
Spain continues to have the most area under vines in the world, accounting for one third of vineyards in the European Union. However, Spain's production ranks third following France and Italy and is more variable, since it must contend with poor rainfall and soil.

U.S. wine imports from Spain rank fifth after Italy, France, Australia, and Chile in terms of value and volume shipped. Both volume and value import figures were up 20 percent during 2002, in part with Spain shipping higher value wines. However, the 2002/03 crop is expected to bring lower quality wine, following very unfavorable weather this past year. Wine consumption in Spain is declining due to consumer habits, anti-alcohol campaigns, and increased competition from other beverages including bottled waters and beer. For more information see GAIN #SP2049

Australia

Australian wine production during 2002/03 is expected to be unchanged at 10.6 million hectoliters. This production is estimated to be about 32 percent white wine and 57 percent red. Grape prices have been under pressure with the larger output over the past several years. Consumption patterns within Australia indicate that consumers are drinking more wine and willing to pay more for the wine they drink.

Australia – Wine Exports



Source: Global Trade Atlas

U.S. imports of Australian wine ballooned during 2002, up 33 percent for the year in terms of value and over 50 percent in terms of volume. Large Australian stocks encouraged movement into export markets despite the Australian dollar strengthening in value. Australia has become a major competitor with the United States in our primary market, the United Kingdom.

Large companies dominate the Australian wine export industry. It is widely reported that the ten leading exporters account for over 85 percent of the value of all exports. Australian companies are buying wineries and seeking acquisitions and partnerships abroad to take advantage of growth projected for markets overseas. For example, The Foster's Brewing Group (Foster's Group), Australia's dominant beer maker, bought Beringer Estates of California 2 years ago and is investing heavily in the wine sector. During 2002, Australia continued to maintain about 15 percent of the total U.S. import market despite increased volume.

Chile

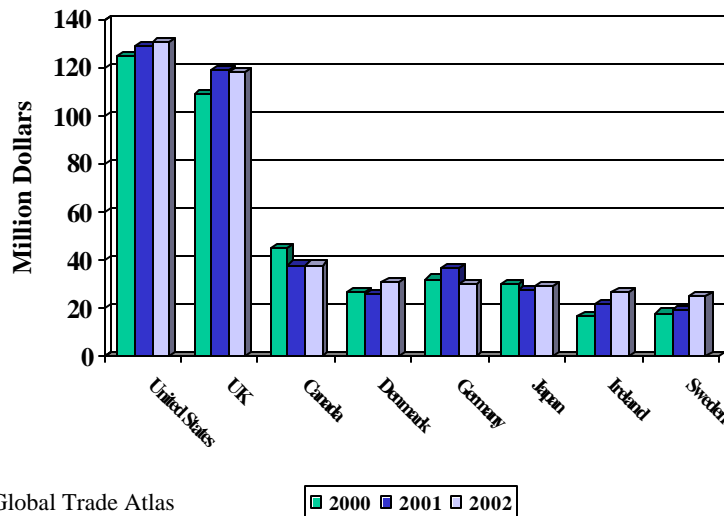
The Chileans continue their drive to improve the quality of their wine. Production remained stable during 2002. Chile has large plantings of quality vines from strains introduced to the country in the 1900s from pre-phyllloxeric seed plants. Recent advances in grape and wine growing technology and the modernization of equipment and facilities have helped to put Chile on a par with countries that have a more developed potential for production and exportation of fine wines. During 2002, Chile exported 55 percent of its wine production.

Chile continues to be the fourth-largest wine supplier to the U.S. market, supplying about 8 percent of U.S. imports during 2002, down from the 10 percent seen during 2001.

The EU and Chile concluded the negotiations of an Association Agreement in April 2002 and formally signed the

Agreement on November 18, 2002. The EU-Chile Agreement also includes a Wines and Spirits Agreement that grants mutual respect of protected geographical indications, traditional expressions or complementary quality mentions, and wine-making practices and product specifications. The provisions on trade, the institutional framework, government procurement, competition and the dispute settlement mechanism will enter into force once the Chilean Congress has ratified the Agreement, expected early 2003. The provisions related to political dialogue, services, capital movements, intellectual property and cooperation require the ratification by both the European Parliament and the EU member states' national parliaments

Chile – Wine Exports



Source: Global Trade Atlas

before they can enter into force.

The Wines and Spirits Agreement is available on-line at

http://europa.eu.int/comm/external_relations/chile/assoc_agr/9anx_v.pdf. For more information see GAIN #E22128.

WINE: U.S. EXPORTS 1/

Destination	1997	1998	1999	2000	2001	2002	Jan-Dec '02/'01
	---Hectoliters---						-- % Change
							--
United Kingdom	482,808	635,998	623,903	683,816	895,344	953,874	7%
Canada	383,718	455,212	512,859	549,056	524,430	501,581	-4%
Netherlands	96,396	194,935	326,705	332,418	359,981	263,407	-27%
Japan	254,392	516,050	457,806	417,341	312,758	311,433	0%
Belgium - Lux	47,872	55,777	65,444	73,945	166,408	108,840	-35%
Germany	105,308	93,367	76,771	84,824	92,648	85,347	-8%
Ireland	33,484	42,400	56,919	52,891	60,235	53,795	-11%
France	53,781	53,896	55,059	53,653	50,847	53,313	5%
Mexico	24,657	27,027	33,266	32,080	39,104	26,894	-31%
Denmark	54,272	50,954	70,253	44,928	39,097	39,296	1%
All Others	685,858	563,084	584,478	559,120	441,814	377,314	-15%
Total	2,222,546	2,688,700	2,863,463	2,884,072	2,982,666	2,775,094	-7%

1/ Calendar year.

SOURCES: U.S. Agricultural Attaché Reports and Bureau of the Census

WINE: U.S. IMPORTS 1/

Origin	1997	1998	1999	2000	2001	2002	Jan-Dec '02/'01
	---Hectoliters---						-- % Change
							--
Italy	1,549,076	1,464,862	1,507,737	1,659,046	1,781,430	2,049,816	15%
France	1,393,533	1,142,240	1,063,415	1,079,342	1,036,398	1,089,961	5%
Australia	256,366	314,037	410,033	565,123	734,827	1,112,205	51%
Chile	601,655	483,016	447,883	527,626	518,871	509,703	-2%
Canada	16,811	24,480	133,498	290,278	370,830	369,225	0%
Spain	205,350	218,993	243,781	213,120	228,210	275,505	21%
Germany	103,101	101,321	108,670	131,738	130,982	143,019	9%
Argentina	74,688	125,474	92,261	113,222	123,428	120,471	-2%
Portugal	76,709	77,623	81,146	82,260	84,914	90,993	7%
United Kingdom	29,239	42,290	35,034	28,513	55,628	24,433	-56%
All Others	237,784	158,958	163,625	186,704	205,880	254,745	24%

March 2003

11

FAS/USDA

Horticultural & Tropical Products Division

Total	4,544,312	4,153,294	4,287,083	4,876,972	5,271,398	6,040,076	15%
--------------	------------------	------------------	------------------	------------------	------------------	------------------	------------

1/ Calendar year.

SOURCES: U.S. Agricultural Attaché Reports and Bureau of the Census.

For a complete selection on 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. Also, please visit our trade database on line at <http://www.fas.usda.gov/ustrade>. Check out the wine webpage at <http://www.fas.usda.gov/htp/horticulture/wine.html>. For information on production and trade, contact Heather Velthuis at 202-720-9792. For information on marketing contact Yvette Wedderburn Bomersheim at 202-720-0911.