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Report Highlights:

Italy's 2003 wine production rose 6 percent from 2002 to 47.2 million hectoliters, but remained well below the average level of the previous years. Drought and heat affected both quantity and quality of the crop. The vintage is rated as good, with different ratings at local levels. Wine exports in CY 2002 dropped in volume but rose in value, due to reduced shipments of bulk table wine, and are expected to further decline in 2003. Exports to the U.S. (now the second leading export market in terms of value) keep growing. U.S. wine exports to Italy, on the contrary, declined significantly in 2002, and remain marginal.

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SECTION I. SITUATION AND OUTLOOK

Italian wine production in 2003 is preliminarily estimated at 47.2 million hectoliters, or 6 percent more than last year, when, the lowest crop in the last 50 years had been reported. Weather conditions have been again adverse, but for opposite reasons compared to last year. Extreme drought and heat prevailed during most of the spring and the whole summer, thus cutting the yields. In terms of quality the 2003 vintage, although better than in 2002, is not rated among the best, even if the situation is mixed among the different producing areas, and even within them. Production of controlled appellation wines, still representing a minority (about 23 percent of the total volume), is growing and is obtained in much higher proportion in the north and in Tuscany, with minimal production in the south.

Wine grape area, after the remarkable drop reported in the previous two decades, has now stabilized at about 800,000 hectares, and total vine area is not expected to change dramatically in the near future.

The EU distillation programs, aimed at supporting grower incomes, have attracted more stable volumes, after the peaks reached in the early 90's. However, in 2002/03 total distilled wine volume was only 1,260,000 , compared to almost 7 million hectoliters in the previous year, thanks to both reduced domestic supply and relatively high prices. For 2003/04 general expectations indicate a volume close to last year.

While total domestic wine consumption keeps declining, although at a lower rate than in the past, Italian consumers are increasingly oriented towards quality wine, consumed mainly at special events.

Italian wine exports in 2002 confirmed the 2000 trend: a decline in volume (-1 percent) and a rise in value (+7 percent). This situation reflects the further drop in exports of bulk table wines and a larger share of bottled wines. The main destinations were Germany (30 percent of the total volume), the United States (13 percent by volume but 26 percent in value), and France (12 percent by volume). Significant volumes were also exported to the U.K., Switzerland, Japan, Canada and some eastern European countries.

U.S. wine exports to Italy remain marginal and declined by 26 percent in 2002. In the first part of 2003, however, Italian imports of U.S. wine recovered some 9 percent.

SECTION II. STATISTICAL TABLES

WINE

PSD Table

Country Commodity	Italy		(1000 MT)(1000 HL)			
	Wine		2001	2002	2003	Forecast
Market Year Begin	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Estimate [D]	USDA Official [Estimate [D]	USDA Official [Estimate [D]
	08/2001	08/2001	08/2002	08/2002	08/2003	08/2003
TOTAL Grape Crush	11000	70828	58000	60946	0	64423
Begin Stock (Ctrl App)	11100	11100	11200	12714	0	12000
Begin Stock (Other)	22366	22366	23615	22163	0	22862
TOTAL Beginning Stocks	33466	33466	34815	34877	31206	34862
Prod. from Wine Grapes	52293	52293	43241	44604	0	47184
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	52293	52293	43241	44604	0	47184
Intra-EU Imports	764	764	1200	1305	0	1100
Other Imports	143	143	300	61	0	100
TOTAL Imports	907	907	1500	1366	0	1200
TOTAL SUPPLY	86666	86666	79556	80847	31206	83246
Intra-EU Exports	11289	11289	9500	9683	0	9500
Other Exports	4562	4562	4500	4302	0	4500
TOTAL Exports	15851	15851	14000	13985	0	14000
Dom.Consump(Cntrl App)	7300	7800	7350	8000	0	8100
Dom.Consump(Other)	28700	28138	27000	24000	0	28200
TOTAL Dom.Consumptio	36000	35938	34350	32000	0	36300
End Stocks (Cntrl App)	11200	12714	10800	12000	0	12300
End Stocks (Other)	23615	22163	20406	22862	0	20646
TOTAL Ending Stocks	34815	34877	31206	34862	0	32946
TOTAL DISTRIBUTION	86666	86666	79556	80847	0	83246

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN						
	Quantity (1000 Hectoliters)			Value (Million Euros)		
	2000	2001	2002	2000	2001	2002
Grand Total	565	680	822	200	178	204
France	323	244	361	167	135	163
Germany	24	16	21	3	3	3
Greece	22	5	6	1	1	1
Spain	87	261	233	7	11	12
Portugal	34	37	82	10	10	11
Other EU countries	10	14	21	3	7	5
Total EU	500	577	724	191	167	195
U.S.	2	3	2	2	1	1
Australia	1	2	3	0	1	1
South Africa	7	2	1	1	0	0
Slovakia	3	2	2	0	0	0
Tunisia	7	6	0	1	0	0
Chile	6	5	4	1	2	1
Hungary	11	10	21	1	1	1
Romania	0	33	24	0	1	1
Other Countries	28	40	41	3	5	4

Source: ISTAT

1 Euro = \$0.924 in 2000

1 Euro = \$0.896 in 2001

1 Euro = \$0.946 in 2002

ITALIAN IMPORTS OF WINE AND MUST

ITALIAN IMPORTS OF WINE AND MUST						
	QUANTITY (1.000 Hectoliters)			VALUE (Million Euros)		
	1999	2000	2001	1999	2000	2001
Total Wines	455	565	680	184	200	178
- in bottles	97	122	108	30	40	41
- in bulk	261	327	479	20	20	21
- sparkling	12	13	16	2	5	4
- champagne	66	79	58	130	130	109
- other spumanti	19	24	19	2	5	3
Must	171	48	42	6	0	2
Grand total	626	613	722	190	200	180

Source: ISTAT

1 Euro = \$0.924 in 2000

1 Euro = \$0.896 in 2001

1 Euro = \$0.946 in 2002

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION						
	Quantity (1000 Hectoliters)			Value (Million Euros)		
	2000	2001	2002	2000	2001	2002
Grand Total	17,060	15,371	15,187	2,401	2,555	2,729
France	3,386	2,469	1,830	135	107	89
Germany	5,991	5,387	5,453	727	744	732
U.K.	1,163	1,206	1,362	215	244	271
Belgium	247	227	229	36	37	40
Netherlands	278	280	278	44	49	55
Denmark	189	192	234	44	48	59
Spain	445	90	78	29	13	14
Sweden	213	357	327	50	66	66
Austria	332	356	363	54	68	68
Other EU Countries	635	768	488	74	55	55
Total EU	12,940	11,052	10,752	1,377	1,406	1,449
U.S.	1,625	1,785	2,001	543	611	718
Switzerland	562	592	599	138	167	172
Canada	402	404	443	106	113	127
Japan	317	354	354	101	112	115
Russia	114	23	31	8	8	12
Poland	233	134	80	10	9	7
Czech Rep.	187	270	273	7	9	10
Other Countries	680	757	654	111	120	119

Source: ISTAT

1 Euro = \$0.924 in 2000

1 Euro = \$0.896 in 2001

1 Euro = \$0.946 in 2002

ITALIAN EXPORTS OF WINE & MUST

	ITALIAN EXPORTS OF WINE & MUST QUANTITY (1.000 Hectoliters)			VALUE (Million Euros)		
	2000	2001	2002	2000	2001	2002
DOC Wines	4,507	4,708	4,496	1,210	1,399	1,429
- in bottles	4,138	4,378	4,176	1,170	1,359	1,388
- in bulk	369	330	320	40	40	41
Sparkling wines	963	1,057	1,103	140	155	165
Table wines	10,884	8,806	8,716	871	800	920
Spumanti	706	800	872	180	201	215
Total wines	17,060	15,371	15,187	2,401	2,555	2,729
Must	317	243	446	29	25	22
Grand total	17,377	15,614	15,633	2,430	2,580	2,751

Source: ISTAT

1 Euro = \$0.924 in 2000

1 Euro = \$0.896 in 2001

1 Euro = \$0.946 in 2002

PRODUCTION

General

Italian wine production this year is still preliminarily estimated by ISTAT (the Official Institute of Statistics) at 47.2 million hectoliters (MHL), or 6 percent more than the very poor 2001 crop, which was reported as the lowest of the last 50 years. Some private sources indicate that this year will yield an even lower production level, down to 45 MHL, or virtually unchanged from 2002. Unlike last year, however, when weather was mainly rainy and cold during the whole summer, the 2003 drought and heat prevailed from late April throughout the harvesting period. The extremely high temperatures reported all over Italy stimulated vine development and grape ripening, determining an early harvesting, 15 to 20 days earlier than normal years. Harvesting operations, as a result, were concentrated during September, while in normal years they typically last through mid-October. Even from a quality standpoint, although better than in 2002, the 2003 vintage will not be classified as excellent, as usually happens in dry and sunny years, like 1997. The absolute lack of rain determined problems in the areas deficient of irrigation support, as the grape liquid content was reported in some cases lower than appropriate for processing needs, thus causing a decline of the processing yields from grapes into wine. On average, the 2003 vintage is rated as good, with peaks of excellent in certain areas and for certain wines.

The volume comparison with 2002, as said above, is not particularly significant, given the record low level obtained last year. When compared with the previous years, on the other hand, this year's crop presents the following percentage variations:

	%variation 2003 vs 2002	% variation 2003 vs 1999-2001 average
Piedmont	+15	-16
Veneto	+1	-22
Emilia-Romagna	-3	-22
Tuscany	-8	-13
Apulia	+19	-13
Sicily	+2	=
Total Italy	+6	-14

Quality expectations of the crop, as well, have been sharply influenced by the weather development: they were excellent through June, then became very good in July and finally only good, with a wide differentiation among the different wines, at the harvesting period. The best white wines, in particular, are those produced in areas which could be properly irrigated, while very good red wines could be obtained in the producing regions where some rains fell during the crucial month of September. So, the best quality wines for the 2003 vintage are reported in Piedmont (especially Barolo, Barbera and Barbaresco), and Tuscany, particularly for the longer aging red wines.

Wine grapes are produced in all the twenty Italian regions. The following table shows the breakdown of wine production by region for the three most recent years for which official data are available.

ITALY: WINE PRODUCTION BY REGION

ITALY: wine production by region (1,000 hectoliters)			
	2000	2001	2002
Piedmont	2,938	3,324	2,329
Lombardy	1,360	1,286	1,123
Trentino Alto Adige	1,177	1,230	1,063
Veneto	8,825	8,668	6,847
Friuli Venezia Giulia	1,152	1,111	1,006
Emilia Romagna	6,915	7,116	5,682
Other North	196	122	109
Total North	22,563	22,857	18,159
Tuscany	2,540	2,220	2,319
Umbria	966	879	776
Marche	1,609	1,683	1,258
Latium	3,733	3,008	2,859
Total Center	8,848	7,790	7,212
Abruzzi	3,689	3,441	3,808
Campania	2,013	1,717	1,761
Apulia	7,782	6,877	5,580
Other South	1,396	1,017	1,147
Total South	14,880	19,652	12,296
Sicily	7,106	7,149	6,209
Sardinia	693	845	729
Total Islands	7,799	7,994	6,938
Grand Total	54,090	52,293	44,605

Source: ISTAT

As can be seen from the above table, in terms of volume, in 2002 Veneto was confirmed as the leading producing region, followed (as in the previous years) by Sicily, Emilia- Romagna and Apulia. These four regions account, on average, for more than half of total Italian wine production. About half of total wine production is represented by white wines, and the remaining half by red and, to a much lesser extent, rose' wines.

An increasing share of total production is represented DOC and DOCG wines. Controlled Appellation wines (DOC wines) come from carefully delineated areas, have specific quality characteristics, and are subject to EU regulations. Currently, in Italy there are 303 DOC wines (vs 301 last year), while the number of DOCG wines (Guaranteed Appellation of Origin) rose from 23 of one year ago to 27.

Many of the most valuable, well known Italian wines are DOCG (i.e. Asti Spumante, Barolo, Barbaresco, Chianti, Brunello di Montalcino). This year, however, out of the 4 new entries in the DOCG list, three are produced in southern Italy, and this represents an interesting development in the attempt of the Italian wine industry to better qualify its production. While normal DOC wines can be sold at the retail level in containers of up to 60 liters, DOCG wines can be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. DOC and DOCG wine production's share of total domestic output keeps growing, although remaining relatively small, accounting (average 1999-2001 vintages) for over 23 percent. This share, however, varies considerably by producing regions, with peaks in Trentino Alto Adige (78 percent), Friuli Venezia Giulia (66 percent), Piedmont (61 percent) and Tuscany (52 percent). Minimal levels (below 10 percent of the total) of these quality wines are produced in the South, where most production is still classified as "table wine."

Planted Area

After the strong decline reported during the 80's (when it totaled 1.35 million hectares) and the 90's, Italian vine area has recently stabilized at about 800,000 hectares. The latest (2000) agricultural census reported a dramatic decline (-35%) during the previous decade of total wine grape farms, now totaling 770,000 units, of which 109,000 producing DOC/DOCG wines.

The current CAP (Common Agricultural Policy) for the wine sector, passed in 1999, calls for a general prohibition of new vine planting through 2010. At the same time, it granted a special fund to be spent to the reconversion and restructuring of the vines, aimed at obtaining better quality wines. The EU allocations for Italy and its main producing regions during the last three marketing years have been as follows:

	2000/01		2001/02		2002/03	
	hect.	Mill.Euros	hect.	Mill.Euros	hect	Mill.Euros
Piedmont	1,101	8.1	1,198	8.8	1,493	10.6
Veneto	1,277	9.4	1,531	11.2	1,531	10.8
Emilia-Romagna	1,067	7.8	1,262	9.3	1,505	10.6
Tuscany	1,110	8.1	1,364	10.0	1,460	10.3
Apulia	1,672	12,3	2,127	15.6	2,409	17.0
Sicily	2,167	15.9	2,521	18.5	2,975	21.5
Other regions	5,297	38.7	5,907	43,2	6,143	43,1
TOTAL ITALY	13,691	100.3	15,910	116.6	17,516	123.9

Distillation

The current CAP has established two different, voluntary distillation programs: the optional distillation (automatically opened at the beginning of each marketing year), and the "crisis" distillation (aimed at supporting the market in case prices for a certain type of wine or in a delimited producing region show a significant worsening for a certain time). During 2001/02, contracts approved under optional distillation involved almost 3 MHL, while wines distilled under the "crisis" distillation totaled about 4 MHL. In 2002/03, on the other hand, there was no crisis distillation, as domestic prices always remained over the distillation prices, due to the reduced domestic production. Optional distillation involved 1,260,000 hectoliters, or a volume significantly lower than in the previous years, consequent again to the profitable prices obtained by the producers for table wines. A similar situation is expected to remain even during the 2003/04 marketing year, although distillation might interest larger volumes than in the previous year.

Prices

After the disappointing 2001/02 marketing year, prices of table wines strongly recovered in 2002/03, due mainly to the reduced domestic supply, as exports, particularly to France, remained on the low side. According to ISMEA, grower prices averaged some 25 percent more than in the previous year for red table wines and 31 percent more for white table wines. This trend follows a negative situation in force in the four previous years, when prices of both red and white table wines declined by over 20 percent, consequent to the continued decrease in exports and domestic consumption, both more and more focused on better quality wines. During the first months of 2003/04 prices remained very high, further increasing from last year, in line with still reduced domestic supplies.

Unlike table wines, prices of quality wines (DOC/DOCG) have not changed dramatically in 2002/03, averaging some 5 percent more for white wines and 2 percent less for red wines, consequent mainly to reduced export demand.

Production Policy

Although current CAP for the wine sector was recently introduced, (fully implemented in 2000/01), some sectors of the Italian wine industry are asking its partial revision. In particular, considering that in 2002/03 no crisis distillation was implemented, and that the same thing could happen again in 2003/03, the industry asked for the possibility to utilize the unused funds allocated for this program for other purposes, such as the vine reconversion and restructuring. No action on this point, however, is expected to take place before the European Parliament elections of next spring.

CONSUMPTION

Domestic wine consumption has continued to decrease even in 2002, affected by the very high retail prices. According to a recent survey, family wine consumption dropped in 2002 by almost 4 percent from the previous year, while the value of these purchases rose by 1.5 percent. Bulk wine sales declined 8 percent in volume and 6 percent in value, while bottle wine sales dropped 3 percent in volume, but rose 4 percent in value. Purchases of bottled DOC/DOCG wines, in particular, increased 3 percent in volume and 9 percent in value, thus confirming the long term trend towards quality wines. Total family expenditures for the purchase of wine (including Spumanti) in 2002 reached 1.6 billion Euros. Another survey

highlights that the major share of the above amount (almost one billion euros) is spent by the Italian families at the large retail distribution, where quality wines are primarily sold.

STOCKS

Wine ending stocks remained virtually unchanged in 2002/03, as shorter domestic production has been offset by increased imports, declined exports, and reduced volumes of distilled wine. A certain stock reduction can be expected at the end of the 2003/04 marketing year, in line with the possible increase of the "consumption" figure, which includes distillation.

INTERNATIONAL TRADE

For the third consecutive year, Italian wine exports in 2002 confirmed the previous trend: a decline in volume (-1 percent from 2001) and a rise in value (+7 percent). This situation reflects, basically, the further export drop reported for bulk table wines (-11 percent in volume and -8 percent in value), whose share of total shipments decreased to 34 percent in volume and 8 percent in value. The larger value of Italian exports, on the other hand, is mainly due to increased shipments of bottled table wines, which rose by 15 percent in volume and 21 percent in value. This could imply an increased interest by the foreign buyers for these kind of wines, cheaper than DOC/DOCG wines, but in any case of enough good quality to attract a rising number of foreign consumers. Sales of DOC/DOCG wines, as a matter of fact, in 2002 dropped by 5 percent in volume, while rose 2 percent in value, consequent to increased export prices. These wines, however, still represent only 30 percent of the total export quantity and account for over half of total export value. There have been good export results for sparkling wines (+4 percent in volume and +7 percent in value) and for spumanti (+9 percent in volume and +7 percent in value), thanks to the significant growth of shipments to both the U.K. and the United States.

Considering export data by destination, the 2002 figures show as the U.S. has almost reached Germany, in terms of value, as the leading market for Italian wines, coming before the U.K. (third, again in value terms). In terms of volume, instead, Germany remains definitely the first export market, but the U.S., with over 2 MHL, overtakes France. Exports to France, in particular, mainly represented by bulk table wines, dropped by 26 percent in 2002 (in volume), due to the strong competition of cheap Spanish wine. Exports to the United States, the second, largest export market in terms of both quantity and value, increased by 12 percent in quantity and 18 percent in value, thanks mainly to expanded sales of bottled table wines (+35 percent in volume), which last year represented over one third of the total. Strong export increases to the U.S. have been also reported for both spumanti (+55 percent) and sparkling wines (+14 percent).

The situation, however, changes drastically in 2003, stressing some of the above negative factors already appeared in 2002. According to ISMEA, Italian shipments totaled only 8.3 MHL during January-August 2003, or 18 percent less than in the same period of 2002, while the export value declined by 2 percent. This is mainly due to the strong export drop of bulk table wine, mainly directed to France and Germany, consequent again to the competition of the cheap Spanish wine into those markets. Total Italian wine exports during that period declined by 19 percent in volume and 7 percent in value to Germany, and by 50 percent in volume and 21 percent in value to France. Exports to the U.S., on the contrary, further rose by 7 percent in volume and 4 percent in value, thus making the U.S. the leading export market (in value terms) for Italian wines. This was particularly significant, in view of the increasing exchange rate of the Euro compared to the U.S. dollar.

Wine imports into Italy (which account for a negligible share of the total Italian wine market), usually are represented by prestige products (e.g. Champagne, Port and Sherry) from other EU countries. In 2002, imports rose by 21 percent in volume, reflecting mainly larger arrivals of bulk table wines (+19 percent), which represented about two thirds of the total, mainly coming from western EU countries. A similar trend has been confirmed in 2003. According to ISMEA, during January-August 2003, Italian wine imports totaled 908,000 hectoliters, or almost the double of the same period of 2002, again due to strongly expanded shipments of bulk wine, mainly from Spain.

Shipments from the United States remain minimal, with official Italian figures reporting imports of 1,871 hectoliters in 2002, a significant decline of 26 percent. In value terms, however, the same Italian sources indicate that imports totaled 1,157,000 euros (\$1,095,000), or 1.6 percent more than in 2001. The Italian statistics show for January-August 2003 a slight recovery in volume (+9), but a substantial steadiness in value. When analyzing these data, however, one should consider the possibility of transshipments of U.S. wine within the E.U. The reputation of quality U.S. wines, in any case, is growing in Italy, particularly in top restaurants and hotels. However, prospects for U.S. wine exports to Italy remain limited, given the very strong competition from domestic wine production.

FOREIGN MARKET DEVELOPMENT

The Italian Trade Commission (ICE), an agency of the Ministry of Production Activities is the main public institution to provide export and promotion assistance in foreign markets. While in the past the funds used to promote Italian food and agricultural products, including wines, were provided to ICE by the Ministries of Agriculture and Foreign Trade, current legislation gives authority, too, for export promotion to the 20 Italian regions, which are still using ICE as their main promotional means.

Under current legislation there is no specific export promotion program for wine, which is included in the general promotional programs of Italian foods and beverages. Current ICE's yearly expenditures for foods and beverages are about 29 million euros (\$ 35 million) of which 5.8 million euros are allocated by the budget of the Ministry of Production Activities, 5.2 million euros come from a joint Ministry of Agriculture/Ministry of Production Activity budget (to be spent for the most valuable Italian food products, like those having recognized appellation of origin), and the remaining 18 million euros from the Italian regions. Out of the total, it is estimated that about one fourth to third is spent to promote wine. The major events include workshops, wine tastings, or point of sale promotions. The main target countries are the U.S., U.K., Canada, Switzerland and Japan. Focus is increasingly given to some growing markets, such as Scandinavian countries, the Far East and China. The Ministry of Production Activities allocation is spent almost entirely at fairs, where national pavilions are co-sponsored with private companies on different sharing basis according to the markets, with a higher private share in "mature" markets (like western Europe and the U.S.), and a larger public share in emerging markets (especially China and other far eastern markets). Other activities include financing trade teams to Italy, especially reporters from the food and beverage press (often co-sponsored by the local industry), and organizing wine tastings. Private contributions to the ICE programs sponsored by the regions (whose role, as the figures show, is becoming more and more important) is instead lower, averaging about 20 percent of the ICE expenditures.