World Wine Situation and Outlook

Total U.S. wine exports are beginning to level off after years of large increases. Competition for market share heats up on a global scale with new world wine producers expanding wine production and aggressively marketing their products. The more traditional wine-producing countries of the European Union strive to cut production, improve quality, and struggle to maintain market share.

Largest U.S. Wine Export Markets

United Kingdom (UK)

The UK is the world's largest importer of wine and the largest market for U.S. wines. During January through October 2001, U.S. exports of wine to the UK increased 22 percent in value and 35 percent in quantity from the same period in 2000. Exports of still wine in containers of less than 2 liters make up over 90 percent of shipments to the UK and are expected to post about a 20-percent increase over 2000. Effervescent wines showed some promise at more than a 77- percent increase over last year. Less than 3 percent of exports to the UK go in bulk form. The total value of U.S. wine exports to the UK could reach over $170 million during 2001. France has begun to lose some of its market share due to competition from the United States and Australia in products with consistent quality and more affordable prices. Nearly one third of the wine consumed in the UK 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 UK does produce a very small quantity of mostly white wine. UK 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.

Canada

Canada is the number two export market for U.S. wine. Last year the United States exported about $73 million of wine to Canada and expectations point to a total of about $66 million for the year 2001. Actual quantities shipped show a 5-percent decline for the first 10 months of 2001.

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 three years to approximately 6,000 hectares and this is 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 been posting increases of about 20 percent for the last 2 years. Taiwan, Japan, and Hong Kong are also important markets for Canada.

On December 18, 2001, the Canadian Government, along with the United States, Australia, New Zealand, and Chile, signed a Mutual Acceptance Agreement of Oenological Practices. Signatories accept the principle that, for countries with mechanisms in place to regulate wine-making, the mutual acceptance of each country's wine-making regulations will facilitate international trade in wine.

Ontario's winters enable wine-makers to produce an abundant Icewine crop each year of high quality and consistency. Icewine is currently produced by more that 45 wineries in Ontario. The annual production for 1999 was over 300,000 liters; the production for 2000 was 328,000 liters.

Netherlands

U.S. wine shipments to the Netherlands increased nearly 9-fold from 1996 to 2000. Exports through October of this year are not as strong as last year in dollar terms in the face of growing competition from other new world wine producing countries. Per capita consumption for lighter alcoholic drinks continues to increase and red wine is said to be the most popular style. The Dutch meals frequently feature meat (or cheese and sausage) and this 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, the general perception is that new world wines may be inferior to wines from France, Italy, Spain, or Germany. One new world wine producer, South Africa, has a unique advantage when marketing wines. South African wines often have Dutch names, which helps the Dutch consumer to identify with the product. Supermarkets make up about 68 percent of all wine retail sales, but do not sell the higher-end wines. Liquor stores generally sell more expensive wines than supermarkets.

There is some concern that the conversion to the euro will hurt U.S. wine sales in the short term. As European consumers are sensitized to the changes in currency values, they may be less inclined to spend money on non-basic items such as wine. Given the strong U.S. dollar, other competing countries such as Australia, New Zealand, and South Africa are not so adversely affected by the change.

The Netherlands produces very little wine of its own. French wine continues to dominate the Dutch market in terms of availability. The Netherlands has become a transhipping point for large U.S. companies eager to expand market share in Western Europe and quantities shipped have increased every year in recent history, with U.S. sales up 3.5 percent during January-October 2001, compared to January-October 2000. A large volume of imported U.S. wine is re-exported to Germany, Belgium, Luxembourg, Denmark, Finland and Sweden.

California wine promotions are said to have done a very good job associating wine with "sun and success." More room exists in the Netherlands for wine market development, despite a current stabilization in consumption growth. Some exporting countries continue efforts to provide consistent supply of their product. Large U.S. wine exporters, when faced with shortages in a developing market often seek to avoid price increases by cutting sales to domestic market outlets to protect their market share.

Japan

Despite recent declines in value and volume of wine shipped, Japan continues to rank third in volume as a U.S. export market. A total of 417,341 hectoliters were shipped during 2000. About 27 percent of the wine shipped to Japan during 2001 was in bulk form (containers holding over 2 liters). Much of this 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 the bulk wine that is assessed at a lower tariff level.

During 2000, the U.S. ranked fourth in Japan's list of bulk wine suppliers in value but about eleventh in volume. U.S. bulk wine shipments to Japan through October of 2001 have declined 32 percent, while bottled wines (in containers holding 2 liters or less) have declined 13 percent compared to the same period in 2000. These large declines are a result of a domestic oversupply over the last 2 years combined with the lost market share due to various pricing disadvantages. The over-supply situation is expected to turn around in the short term, but U.S. wines will continue to experience competition from France, Italy, Spain, Germany and other new world wine producers.

The Market Access Program (MAP), administered by the USDA's Foreign Agricultural Service, has allocated funding during the 2001/02 marketing year (MY) to improve U.S. market share in Japan. Activities include things such as a retail display program, a newsletter, trade relations, regional programs, trade missions, and trade shows.

There is optimism 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.

Greatest Northern Hemisphere 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.

France

The French Ministry of Agriculture reports the 2001 wine crop at 56.2 million hectoliters, down about 6 percent from the previous level. French exports during the first half of 2001 posted some strong increases to two primary markets; Japan (ranked eighth during 2000) up 28 percent, and the UK (ranked second during 2000), up 39 percent. Other major markets for French wine include Germany, Luxemburg, the Netherlands and the United States.

The United States imported about the same amount of wine from France during 2000 as in 1999. Wine imports during 2001 are expected to be down about 3 percent from the previous year. The value of the wine imported over the last 2 years has declined 11 percent. Value declines can be attributed to less quantities of champagne (post millennium) and smaller shipments of higher-value red wine.

During 2000, demand from French consumers for new world wines was reported to have increased 45 percent. In 2001, the Government of France raised ONIVINS' (French Office for Wines and Vines) promotional budget 21 percent to $10.5 million to improve the promotion of French wines in foreign markets.

Italy

Italy's 2001 wine production decreased 5 percent to 51.5 million hectoliters from year 2000, possibly the lowest in 40 years. The year's weather factors combined with ongoing EU incentives to uproot vines have brought about the current trend. Most recently, acreage cutbacks have stabilized and Italy is still second only to France in terms of production. Italy is focused on creating higher quality wines by limiting yields. Current laws, dating from April 1992, are concerned with addressing the development in production techniques. The quality standards enable producers within already prescribed quality-designated areas to also acquire a designation of a smaller area or even vineyard of quality. This system helps to promote quality and uniqueness of the wines and improve their position on the market. The Italian wine industry is very fragmented in terms of size of winery. This adds an additional challenge in presenting a unified Italian wine marketing strategy. Currently, the larger producers are taking the lead role in redefining the quality of their wines as they are more able to afford this kind of investment. The small and mid-size wineries are lagging in this effort, due to the financial challenges and resistance to change and outside investment. It will be harder for the smaller operations to find new markets. Declining consumption is a fact in modern Italy as life styles 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.

Export data for the first half of 2001 indicated a historical change of direction, with more bottled wine being exported than bulk product . Italy's top export market in 2000 was Germany, followed by France, the United States and the United Kingdom. The largest increases in terms of higher-value wine have been going to the UK, Switzerland, and the United States.

Imports into the United States from Italy showed a 3-percent decline during January to October 2001 compared to the same period the previous year. Most of the decline can be attributed to smaller shipments of sparkling wine. Italy did ship 3 percent more higher-value white wine over the same 10-month period of 2000. High-value red wine shipments remained relatively stable.
Exports of U.S. wine to Italy declined an estimated 10 percent during 2001. However, wine that is transhipped via other EU countries is not captured in U.S. trade statistics. Actual trade levels may be higher than reported. Competition from growing domestic quality and new world wines does put pressure on efforts to expand the Italian market for U.S. wines.

Spain

Spain continues to have the most area under vines in the world. Spain continues to have large inventories of wine despite a 14-percent decline from last year's large production levels, which is expected to contribute to increased exports during 2001/02. In November 2001, according to *El Mundo*, Spain requested from the EU that 7.8 million hectoliters be distilled under the program. During January through October 2001, Spain supplied approximately 4 percent of total imported wine to the United States.

Greatest Southern Hemisphere Competition for U.S. Wine

Australia

Australian wine production during 2001/02 is expected to increase 6 percent to 9.6 million hectoliters. This production is estimated to be made up of about 34 percent white wine, 53 percent red, and 2 percent miscellaneous wines.

According to Australian Wine and Bandy Corporation (AWEC) figures: Australian wine exports reached new value and volume records in calendar 2001. The UK and United States continue to be the principal markets, accounting for more than 80 percent of the increase and 70 percent of the total volume and value of overseas sales.

AWEC is a committee of the export promotion arm of the Australian Wine and Brandy Corporation, which was formed in 1991 and conducts generic promotional programs in key overseas markets. This includes the UK, Ireland, Netherlands, Germany, Switzerland, Sweden, Denmark, Norway, Finland, the United States, and Canada. AWEC also provides export advice, statistical information and promotion material.

The Australian wine export industry is dominated by large companies. 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 Bering Estates of California last year and is investing heavily in the wine sector. During January - October of 2001, Australia maintained about 15 percent of the total U.S. import market.

Chile

The Chileans are keeping production stable at the moment and are focusing on improving the quality of their wine. Chile has large plantings of quality vines from strains introduced to the county in the 1900s from pre-phylloxeric 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 2001, Chile exported 27.4 percent of its wine to the United States, Canada, and Mexico. The largest destination was the EU with 54 percent. Only 9.4 percent and 8.8 percent of wine exports went to other Latin American countries and Asia, respectively. Chile ranks fourth in terms of wine suppliers to the U.S. market, supplying about 11 percent of U.S. imports during 2000.

Chile has projected an image of economic and political stability, keeping it attractive for both domestic and foreign investments in grape and wine growing. The government provides no funds to support wine production or subsidize exports. On December 18, 2001, the Chilean Government, along with the United States, Australia, New Zealand, and Canada, signed a Mutual Acceptance Agreement of Oenological Practices (as explained above).

United States

On January 25, 2002, NASS will release the Non-citrus Fruits and Nuts Preliminary Summary, which will provide information on 1) raisin and table grape production, use and prices, 2) acreage breakout across wine, table and raisin grapes plus yield per acre 3) unutilized production by state in quantity.

Total exports January - October 2001 declined less than a 1 percent in value to $457 million but increased 6.5 percent in volume, to 2.58 million hectoliters.

Final 2000 U.S. import and export numbers will be available at this link and also via the U.S. Trade online Database on February 21, 2002.

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Check out the wine webpage at http://www.fas.usda.gov/htp/horticulture/wine.html. For information on production and trade, contact Heather Page Velthuis at 202-720-9792. For information on marketing contact Yvette Wedderburn Bomersheim at 202-720-0911.