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Lower wine production in Spain

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Report Highlights:

A dry and hot year is coming to an end with the wine harvest in Spain. Its effects can be seen in a lower production of wine and musts for wine making in the marketing year 2012/13. Based on information from the industry, we estimate that the official production (wine and musts) will drop by over 13 percent to 33,500 Million hl in MY2012/13.

General Information:

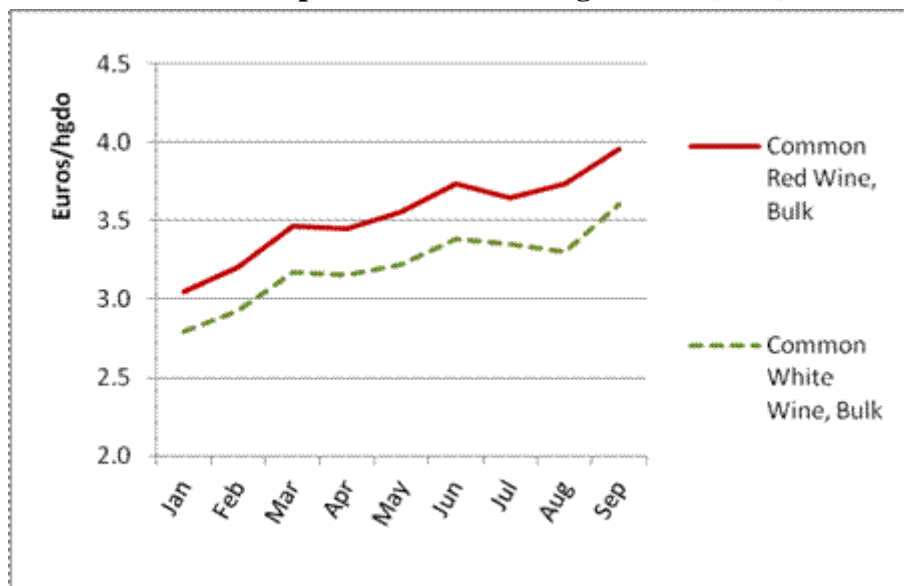
After completing a 3 year EU voluntary program known as the “grubbing-up scheme” - aimed at reducing the EU annual wine surplus - Spain is still the country with the largest wine area in the world with 966,419 planted hectares in 2011. It is however only the third wine producer in volume, after France and Italy, as the high altitude and accidental terrain contribute to lower than average yields. Spain has more than 55 D.O. regions where a variety of quality wines are produced.

Production

A dry and hot year is coming to an end with the wine harvest in Spain. Its effects can be seen in a lower production of wine and musts for wine making in the marketing year 2012/13. Based on information from the industry, we estimate that the official production (wine and musts) will drop by over 13 percent to 33,500 Million hl in MY2012/13. Of this, 3,500 Million hl are estimated to be wine musts leaving the production of wine at 30,000 million hl. This important drop in production was felt mainly in the Center of the country (Extremadura, Castilla-La Mancha and Valencia) although it also affected some zones in the north and south. The immediate effect on the market was a pronounced rise in average prices (Chart 1) affecting common wines more, and thereby reducing exports of bulk wine or its use for the production of vinous alcohol in the country.

In the north of the country, where production is more directed to quality markets, the more widespread use of irrigation helped compensate for the effects of drought and the drop in production was not as important. Industry contacts also point out that the stocks from previous years are higher in this part of the country which will go some way to curb the increase in prices.

Chart 1. – Spain National Average Prices (2012)

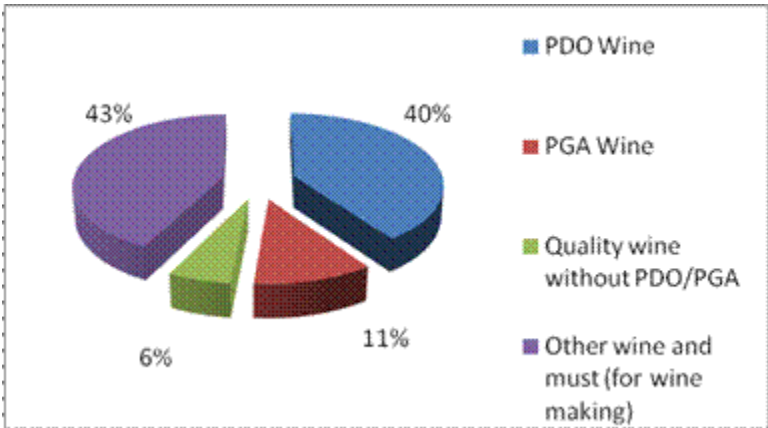


Source: Spanish Ministry of Agriculture, Food, and Environment (MAGRAMA)

A dry and hot 2012 summer prevented the spread of diseases and pests with good effects on the general quality of the wines. However, this same dry and hot weather caused some imbalances to the ripening of grapes, especially in the Center South, which will probably have to be corrected by enologists. The alcohol degree is expected to be lower as there is generally a lower sugar content in grapes. As an example, industry contacts point out that white wines that usually contain 11.5 to 12.0 degrees alcohol are expected to have 10.5 – 11.0 degrees this year.

The MY 2012/13 production of Origin Denominated (DOP) wine is estimated at 13 Million hl and that of Geographical Indication (IGP) wine at 2.5 Million hl. The remainder is common wine, previously known as table wine. Most wine produced in Spain is either Wine with Protected Denomination of Origin or wine with Protected Geographic Indication (Chart.2). Production of Red and Rosé wine passed from 49 percent of the total in 2009 to 58 percent in 2011 while production of White wine had an opposite evolution from 51 percent to 42 percent of total production in the same period of time.

Chart.2 Wine quality production share in Spain



Source: DG AGRI (MY 2011/12)

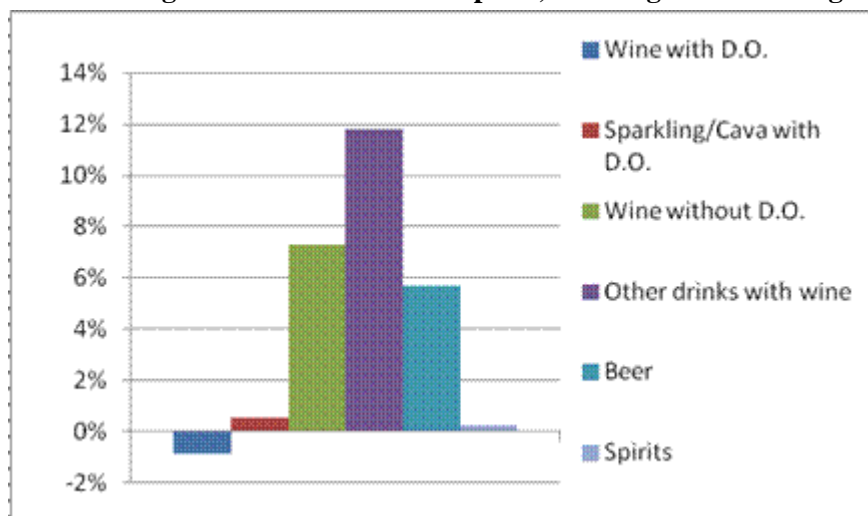
Consumption

The gross human apparent annual consumption of wine has been decreasing in the last few years and stands currently at 24 liters per capita. The total domestic use is expected to continue falling after the end of the aid measures related to potable alcohol-distillation and as producers keep increasing sales of wine to export markets.

Data released by the Ministry of Agriculture, Food and Environmental Affairs (MAGRAMA) – based on a panel comprised of 12,000 households – indicates that the consumption of wine in households increased by 4 percent in the year to August 2012, year-on-year. The greatest increases are on lower value products such as wine without any denomination of origin, other drinks with wine, and beer (Chart 3). According to industry specialists this means people are buying more wine in supermarkets as the unfolding economic crisis makes them choose to eat out fewer times and turn to consume wine inside the household. The net balance of the decrease in consumption in hotels and restaurants and the

increase in consumption in households is thought to be negative. However the sector is more than compensating for this with higher exports.

Chart 3. Change in Household Consumption, Jan-Aug 2012/Jan-Aug 2012



Source: Ministry of Agriculture, Food and Environmental Affairs (MAGRAMA), adapted

Trade

With lower beginning stocks followed by lower production in Spain the total wine imports increased by 30 percent to 549 Million hl in MY 2011-12. This is mostly the effect of higher imports of wine from Argentina (1,000%), and Chile (790%), and, in the EU, Portugal (55%), and Germany (38%). Although the percentual increase is high it starts from a low basis and is not comparable to the much larger dimension of Spanish exports. Wine imports were valued at 187 million U.S. dollars in MY2011/12.

Exports have grown by 9 percent to 22,449 Million hl in MY2011/12 and are projected to stabilize or fall in volume terms in MY2012/13 as a consequence of lower exports of bulk wine to other EU countries like France, Germany, and Italy. Total wine exports were valued at 3.14 billion U.S. dollars in MY 2011/12. The most important destinations for the Spanish wines are Germany, the United Kingdom, United States, and France.

United States

Imports of wine from the United States jumped to 309 hl in the months to August 2012, a 217 percent increase in volume terms. These were worth 580,000 U.S. dollars, which is a 21 percent increase from last year. At the same time exports of Spanish wine to the United States increased by 24 percent to 578,000 hl. These were valued at 197 million U.S. dollars, a 7 percent increase from the same period of the previous year.