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POLICY

Voluntary _ Public

Date: 2/20/2013

GAIN Report Number: SP1301

Spain

Post: Madrid

Spain Wine Standing Report

Report Categories:

Wine

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Report Highlights:

The effects of a dry and hot 2012 can be seen by the 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 10 percent to 33,500 Million hl in MY2012/13. 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.

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 949,551 planted hectares of wine grapes 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.

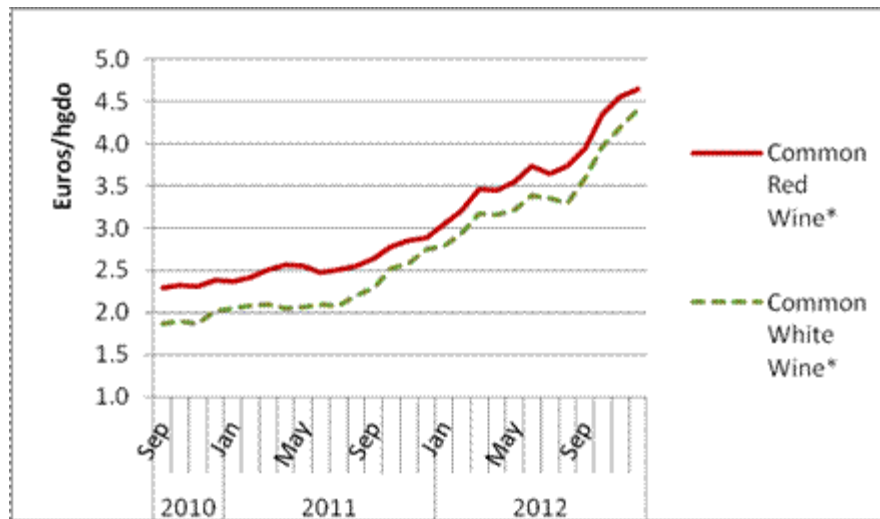
Production

The effects of a dry and hot 2012 can be seen by the lower production of wine and musts for wine making in the marketing year 2012/13. Based on information from the industry and on official projections, we estimate that production dropped by 10 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. – Average Producer Prices, Spain



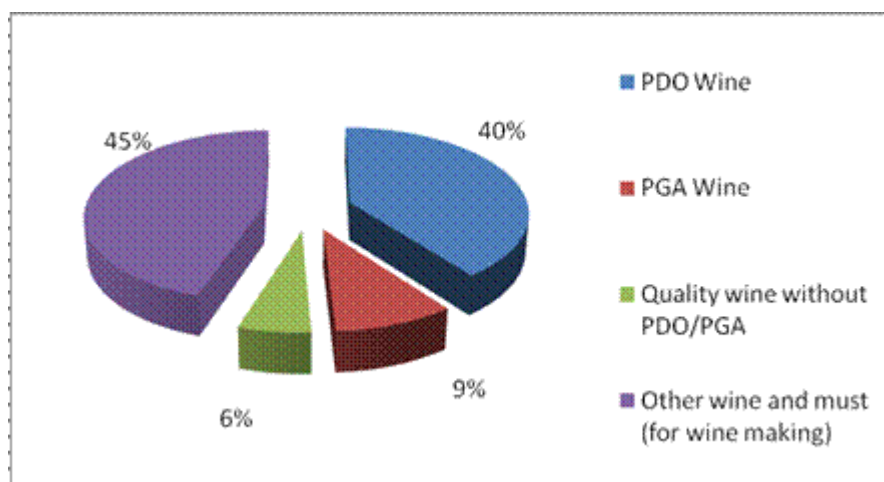
* Regulation (EC) 1282/2001

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

A dry and hot 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. The alcohol degree is expected to be lower as there is generally a lower sugar content in grapes.

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



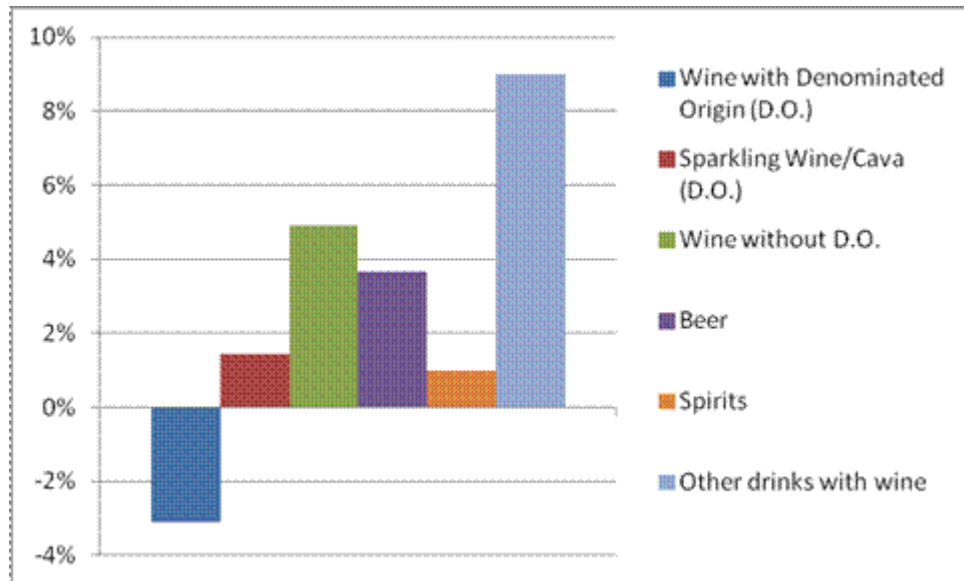
Source: DG AGRI (MY 2012/13)

Consumption

The gross human apparent annual consumption of wine has been decreasing in the last few years and stands currently at 22 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.

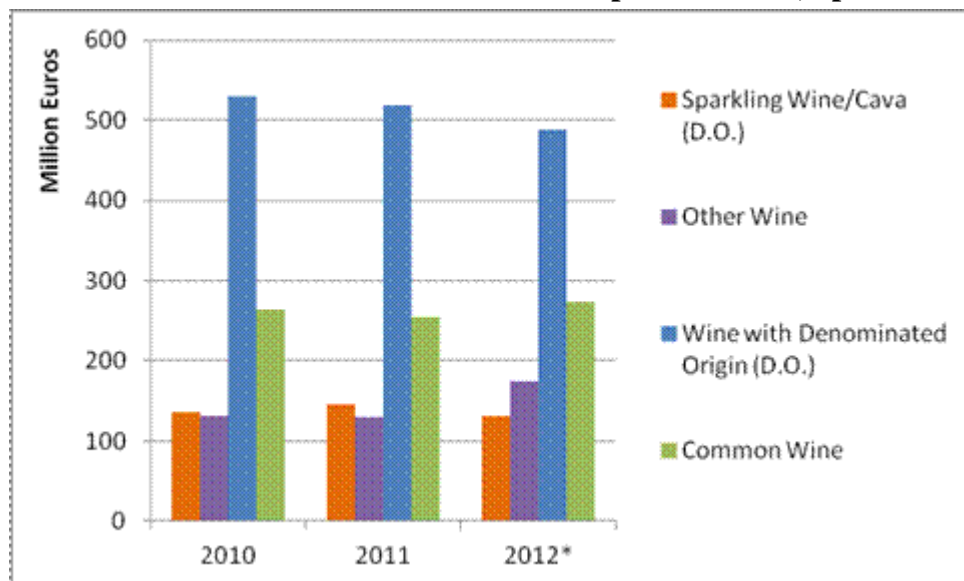
Data released by the Ministry of Agriculture, Food and Environmental Affairs (MAGRAMA) – based on a panel comprised of 12,000 households – indicates that the consumption of wine in households increased by 7 percent in the year to November 2012, year-on-year. However total household expenditure with the same products increased only by 2 percent. 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. It also means consumers are more price-sensitive and prefer less expensive products (Chart 4). 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. Consumption by Households, Spain (2012/2011, est.)



Source: FAS-Madrid based on MAGRAMA data

Chart 4. Value of Household Consumption of Wine, Spain



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 are estimated up by over 40 percent to 618 Million hl in CY 2012. This is mostly the effect of higher imports of wine from Argentina, Chile, and in the EU, Portugal, and Germany. 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 are estimated at 183 million U.S. dollars in CY 2012.

Although exports of Cava and other bottled wine grew by 2 and 3 percent respectively, total exports are estimated down 5 percent in 2012 due to lower availability. Total wine exports are valued at an estimated 3.10 billion U.S. dollars in MY 2012. The most important destinations for the Spanish wines are Germany, the United Kingdom, United States, and France.

Table 1. Spain Wine Production, Supply and Demand

Wine, Spain	CY 2011	CY 2012	CY 2013
	Year Begin: Jan 2011	Year Begin: Jan 2012	Year Begin: Jan 2013
	Post Estimate	Post Estimate	Post Projection
Beginning Stocks	36,446	34,169	28,677
Production	39,985	37,199	33,500
Intra EU-27 Imports	415	508	520
Extra EU-27 Imports	19	110	120
Total Imports	434	618	640
Total Supply	76,865	71,986	62,817
Intra EU-27 Exports	15,868	15,657	15,000
Extra EU-27 Exports	6,701	5,763	5,500
Total Exports	22,569	21,420	20,500
Human Dom. Consumption	10,193	10,000	9,900
Other Use, Losses	9,934	11,889	7,417
Total Dom. Consumption	20,127	21,889	17,317
Total Use	42,696	43,309	37,817
Ending Stocks	34,169	28,677	25,000
Total Distribution	76,865	71,986	62,817
1000 HL			

Source: FAS-Madrid estimates and GTA

Policy

In the current discussion on the new CAP the government of Spain has been favorable to the keeping of planting rights as an instrument for the regulation of supply and demand, serving the goals of stabilizing the sector and valorizing production. The Spanish Minister of Agriculture showed its support to the conclusions of the High Level Group on wine planting rights, presented in December 2012, that affirm the “need to maintain a regulatory framework for wine planting in the EU for all categories of wine (Protected Denominations of Origin, Protected Geographical Indications and wines without geographical indications) after the end of the current regime of wine planting rights”.

From the EU list of eligible measures of support ([Council Regulation \(EC\) No 479/2008](#)) Spain chose to adopt in its **national support program** for the period 2008/09 to 2012/13 the following:

- *Single Payment Scheme and support to vine-growers.* This measure started to be applied by Spain in MY2010. It implies the continuation of this scheme in subsequent years and the commensurate reduction of funds available for other measures in the national support program.
- *Promoting wines on third-country markets.* Support covers information or promotion measures concerning Community wines in third countries, thereby improving their competitiveness in those countries. Eligible wines are those with a protected designation of origin or geographical indication or wines with an indication of the wine grape variety;
- *Restructuring and reconversion of vineyards.* The objective of this measure is to increase the competitiveness of wine producers and covers the activities (a) varietal conversion, including by means of grafting; (b) relocation of vineyards; and (c) improvements to vineyards. It may take the form of compensation to producers for the loss of revenue due to the implementation of the measure (up to 100%) or of a contribution to the costs of restructuring and conversion.
- *Distillation of by-products of winemaking.* The amount of aid is fixed by % volume and per hl of alcohol produced. The alcohol resulting from the supported distillation shall be used exclusively for industrial or energy purposes so as to avoid distortion of competition;
- *Potable alcohol-distillation.* This is a per hectare aid that could be granted until July 31, 2012 in the EU but for which Spain chose to accept applications only until MY2009/10. The relevant contracts concerning the distillation of wine as well as the proofs of delivery for distillation must be submitted before support is granted;
- *Crisis distillation to dispose of surplus wine.* Support could be granted until July 31, 2012 for voluntary or obligatory distillation of surplus wine decided upon by the Member State in justified cases of crisis so as to reduce or eliminate the surplus and at the same time supply continuity from one harvest to the next. The alcohol resulting from the supported distillation shall be used exclusively for industrial or energy purposes so as to avoid distortion of competition. The share of the available budget for this measure shall not exceed 20% in 2009, 15% in 2010, 10% in 2011, and 5% in 2012. Although making part of the national support program this measure was never activated in Spain.

Table 2 shows the financial allocation for the different measures of Spain's national support program, as published by the EU Commission.

Table 2. Financial table of the national support program

Wine CMO : Submission of financial table of the national support program						
Council Regulation EC 479/2008 Article 6(e)						
Commission Regulation EC 555/2008 Annex IV						
Situation at 2 July 2012 (1000 Euros)						
Spain						
Measure	2009	2010	2011	2012	2013	Total
1. Single Payment Scheme support in accordance with Article 9	-	19,507	142,749	142,749	142,749	447,754
2. Promotion in accordance with Article 10	10,836	28,000	38,000	40,000	40,000	156,836
3a. Restructuring and conversion of vineyard in accordance with Article 11	20,066	59,412	54,789	86,951	81,725	302,943
3b. Ongoing plans in accordance with Regulation EC n 1493/1999	37,265	11,300	11,500	500	500	61,065
4. Green harvesting in accordance with Article 12	-	-	-	-	-	-
5. Mutual funds in accordance with Article 13	-	-	-	-	-	-
6. Harvest insurance in accordance with Article 14	-	-	-	-	-	-
7. Investments in enterprises in accordance with Article 15	-	-	-	56,000	56,000	112,000
8. By-product distillation in accordance with Article 16	31,521	31,000	31,300	31,800	31,800	157,421
9. Potable alcohol distillation in accordance with Article 17	114,132	135,000	700	-	-	249,832
10. Crisis distillation in accordance with Article 18	-	-	-	-	-	-
11. Use of concentrated grape must in accordance with Article 19	-	-	-	-	-	-
TOTAL	213,820	284,219	279,038	358,000	352,774	1,487,851

Source: EU Commission, DG AGRI