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WINE MARKET INFORMATION

NEWSLETTER

Issue I, July '09

AgBiz Accomplishments



Macedonian Oenologists at the Oak Aging Technology Training



Macedonian Wineries Exhibiting at "ProWein,09" in Dusseldorf, Germany



Macedonian Wineries Exhibiting at the London International Wine Fair, UK

AgBiz Wine Value Chain Activities

Dear Colleagues and Partners,

It is with great pleasure that I introduce the first Wine Value Chain Newsletter from USAID's AgBiz Program. This Newsletter, to be published bi-monthly, will provide insights into AgBiz Wine Value Chains activities, describe the results and impact of our work and present recent market trends and demands of interest to our customers and partners. In this inaugural edition, we focus on presenting general wine market trends, EU market demand as well information from market research to help Macedonian wineries develop their marketing strategies. AgBiz has been helping Macedonian agribusinesses enhance their export competitiveness for more than two years. We are encouraging Macedonian agribusinesses to utilize demand pull marketing by supporting them to attend international trade shows where they can understand in depth the requirements of a broad range of geographic markets and market channels, and learn how to market their products to customers more successfully. Recent examples of such AgBiz supported international trade shows include "ProWein" in Germany, where four wineries participated and there wineries exhibited on "London International Wine Fair". The lessons learned and business developed from both fairs was very substantial.



Goran Damovski, AgBiz Wine Value Chain Coordinator

The European Wine Market

The EU is not only the largest wine exporter in the world, but also the largest importer. After deducting intra-EU trade, the EU's 2008 imports from third countries accounted for about one third of world wine trade. As can be seen from the table below, the main countries of origin are Australia, Chile and South Africa. Total imports, after the record high level reported in 2007, declined slightly (- 4 %) in 2008, and are not expected to recover in 2009, due to the downward consumption trend in the EU.

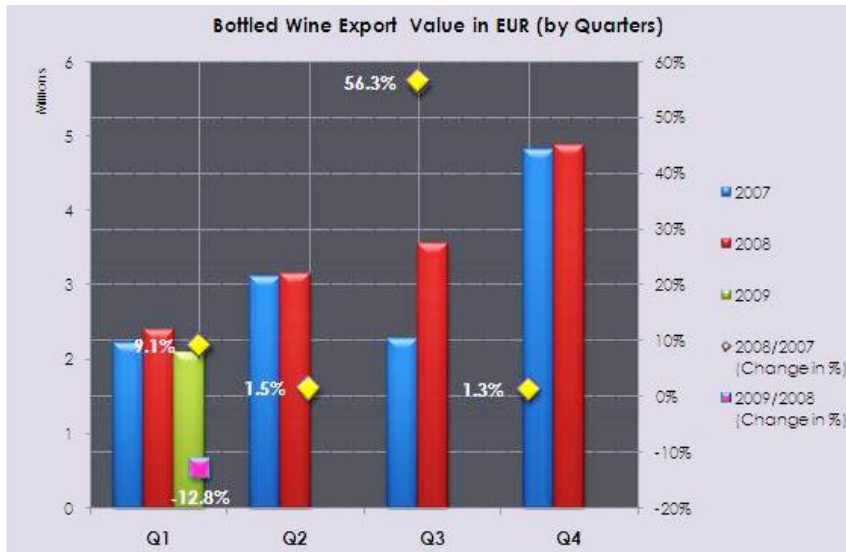
EU/27 WINE IMPORTS
Quantity in 1,000 hectoliters
Value in million dollars

Country of Origin	2006		2007		2008	
	Quantity	Value	Quantity	Value	Quantity	Value
Australia	3,275	1,093	3,640	1,302	3,107	1,133
Chile	2,237	550	2,898	747	2,738	757
South Africa	2,194	506	2,320	583	2,672	615
U.S	2,075	445	2,224	475	2,119	467
Argentina	595	145	661	172	706	198
Macedonia	443	22	494	41	386	26
New Zealand	254	174	321	243	332	240
Moldova	548	35	105	18	111	21
TOTAL WORLD	11,941	3,077	13,004	3,731	12,441	3,602

The UK is the world's largest importer of wine. According to Nielsen retail data, which includes U.S. wine transshipped through EU countries, US wine sales to the UK surpassed those of France in 2008, making the US the second largest supplier to British supermarkets after Australia. This is mainly due to the rise in popularity of rose or White Zinfandel style wines. Over 50% of rose wine sold in the UK is of US origin. White wine is the most popular in the UK representing 46.8% of 2008 sales, followed by red wine at 44% and rose at 9.2%. The trend toward erosion of the red wine market share toward lighter, sweeter wines continued. Sparkling wine benefited from this movement, with sales increasing by 28% over the last five years. Macedonia wineries should take these trends into account when developing their EU marketing plans.

Market Information on Macedonian Wine Exports

Value (in EUR) of the Bottled Wine Exports by Quarter in 2007, 2008 and 2009



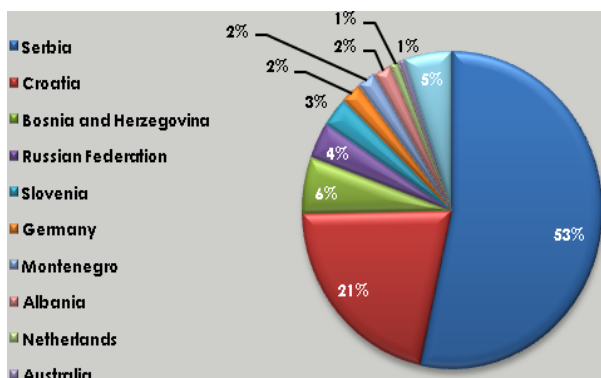
Source: State Statistical Office

The 2008 value of total wine exports decreased by 10% compared to 2007. However, the value of bottled wine exports increased 14.8% (€14 million versus €12.2 million), while the value of bulk wine decreased by 9.6% compared to 2007 (€39.4 million versus €43.6 million). The good news is that the value share of bottled wine increased from 28% to 36% between 2007 and 2008.

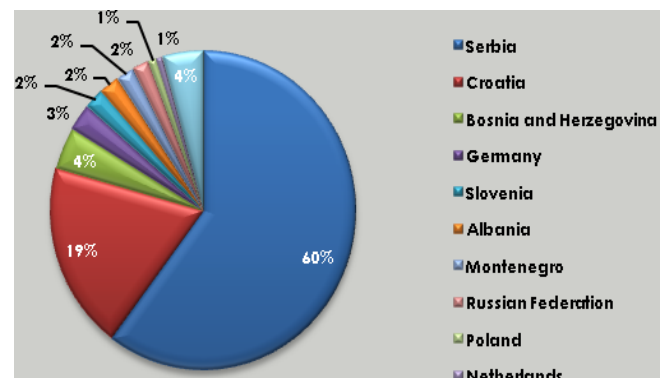
In the first quarter of 2009, 94% of the quantity of wine exported from Macedonia was in bulk, representing a volume of around 21M liters. The value of total wine exports in the first quarter of 2009 was 10.1 million Euros.

Twenty-one percent of total value exported was bottled wine, i.e., 1.3 M liters valued at 2.1 M Euro. Compared to the first quarter of 2008, there was a 12.8% decrease in value of bottled wine exported in the first quarter of 2009. However, the average price per liter of bottled wine exported reached 1.56 € which is 15.6% higher than the average price in the first quarter of 2008 (1.35 €).

Top 10 Importing Countries of Macedonian Bottled Wine (by Value in EUR)



2007

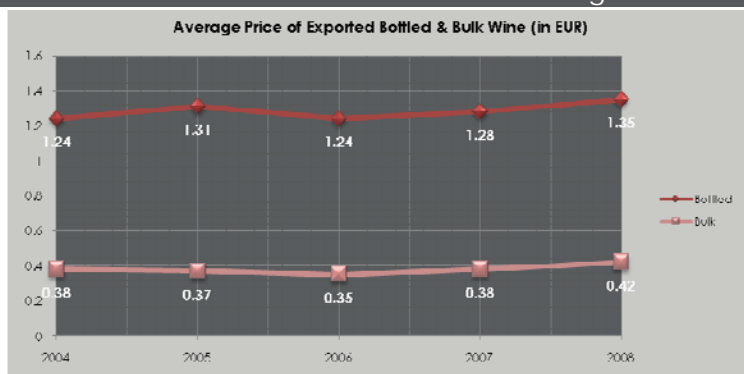


2008

Source: State Statistical Office

Serbia continues to be the top importer of Macedonian bottled wine with purchases of 7.0 M liters in 2008 valued at over €8.4 M, and representing 60% of the value of 2008 bottled wine exports. Croatia was the second largest destination for Macedonian bottled wine, importing 1.5 M liters worth €2.7 M equating to 19% of the total value of Macedonian bottled wine exports. Bosnia and Herzegovina followed with over €94,500 worth of exports. Unfortunately, market concentration increased between 2007 and 2008 with the value share of exports to Serbia (including Kosovo) increasing from 53% to 60%. However, the share of exports to Croatia decreased from 21% to 19%. This is unfortunate because the average price for bottled wine exports to Serbia in 2008 was €1.21 while for exports to Croatia the average price was €1.82.

Average Price of Exported Wine



Source: State Statistical Office

Over the last five years there was an average annual increase of 2.2% in the price per liter of bottled wine, while the price per liter average increase for bulk wine was 2.6% per year. These increases are probably less than inflation, so the real value per liter of both bottled and bulk wine exports did not increase, or maybe even decreased, over the last five years.

The difference in price between bulk and bottled is more than three times, which suggests that there is an opportunity for significant improvement in income generation if significant quantities of bulk are shifted to bottled wine. This implies improvements in the quality of wine, and substantial marketing efforts for exporting branded bottled wine. Success in these efforts will allow enhancing the perception and image of Macedonian wine on the international market, and an increased share.

If bottled wine exports could be increased from the current 15% to 30% of the volume of exports, even at current prices, the total value of Macedonian wine exports would increase by nearly 25%. If a 10% average price increase for this new volume of bottled wine could be achieved, the total value of Macedonian wine exports would increase by 32%. Helping Macedonian wineries to increase bottled wine exports and average prices are key AgBiz objectives.

General Wine Market Trends

CHINESE WINE SALES WILL REACH TOP 10 IN THE WORLD

In 2006 the Chinese wine industry was in a period of steady development, with total output of wine being 495.1 thousand kiloliters, up 14.1% compared with 2005. Sales income reached 12.952 billion Yuan, up 25%. Total profit was 1.353 billion yuan, up 19.6%. During the first three quarters of 2007, the Chinese wine industry kept on developing quickly with profit of 850 million yuan, up 33.8% over the same period in 2006. Experts predicted that output and consumption of Chinese wine would keep growing rapidly. It's predicted that Chinese wine consumption will increase by 70% between 2006 and 2011. By the end of 2012, China is anticipated to exceed Romania and Russia to be the eighth biggest wine consuming country in the world. In 2008, a new wine standard was implemented which improved the international quality and image of Chinese wine.

www.wines-info.com

LABELING

As of August 1, 2009, labeling of EU wines will be based on protected geographical indications/designation of origin. However, well-established traditional national quality-labeling schemes (such as AOC and AO-VDQS in France or DOC and DOCG in Italy), which are already registered by that date, will be kept. Simplified labeling rules will also allow EU wines to be labeled for grape variety and vintage.

MARKETING— EU Wine Promotion

In **Germany** the German Wine Institute is spending €1.5 million to promote Riesling wines in the United States. Media presence will be intensified and a Riesling Week will be organized in restaurants in New York, Chicago, Las Vegas and San Francisco. International promotion of German wines will primarily focus on Riesling and Late Burgundy wines.

In **Austria** 2008 promotional activities concentrated on Germany, Great Britain, Belgium, the Czech Republic, Sweden, Italy, Norway, and Poland. Targeted non-EU countries were Switzerland and the United States. This EU sales promotion program for third country export markets has enabled access to previously difficult markets like Russia and the entire Asian region. Austrian wine promotion is carried out by the Austrian Wine Marketing Board (AWMB). The 2007 international marketing budget included contributions from the Austrian wine industry (3 million Euros), the federal states (2.5 million Euros) and the Austrian federal budget (1.5 million Euros).

In **Hungary** the equivalent of US\$0.03 is now collected as a check off for a wine marketing fund. The check off program funded Hungary's 2008 wine export promotion program that targeted China, Canada and the United States. Promotional events in New York and Chicago were opened by the Hungarian Minister of Agriculture and Rural Development during his trip to the United States.

Europe Opts for Blended Rosé U-turn

The European Commission says it is responding to industry concerns by dropping proposed amendments that would have allowed rosé to be produced by blending red and white table wines.

Mariann Fischer Boel, Europe's agriculture and rural development commissioner, says that proposals to drop laws preventing blending red and white wines first announced back in 2008, will not be adopted following consultation with producers.

"It's become clear over recent weeks that a majority in our wine sector believe that ending the ban on blending could undermine the image of traditional rosé," she states. "I am always prepared to listen to good arguments, and that's why I am making this change." Some professional wine organisations have objected to the production amendments, which were accepted by the European Commission back in March and had been set to come into place on 1 August. *"The implementing regulation, to be voted on by Member States later this month, will maintain the status quo for rosé wine,"* states Fischer Boel.

Blending rules

The initial decision was made in an attempt to bring European manufacturers in line with the approved practices of Organisation of Vine and Wine (OIV), which already allow producers from outside the EU to export their own blended products into the bloc.

This would have also led to adopting a new standard for wine labelling, creating two separate designations for rosé. According to the EC, these would have required products to be labelled either as a 'traditional rose' or 'rose by blending' for products that are derived from red and white wines.

Niche rose champagne was one such example of a product sometimes produced from blending together wines, while a derogation had also existed allowing Spanish table wine to be blended and marketed up until 2004, said the Commission.

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2009 UK Wine Survey – findings

Q1: Which wine bottle closure is best? cork, artificial cork or screw cap?

- Screw cap: 41%
- Synthetic cork: 3%
- Cork: 9%
- Combination: 41%
- Don't know/no comment: 6%

Q2: Which wine-producing countries/regions will make the greatest impression in the UK over the next 12 months?

- South Africa: mentioned by 45% of respondents (2008: 8%)
- New Zealand: 24% (7%)
- Chile: 21% (46%)
- Argentina: 21% (26%)

Q3: How do you think the current economic downturn will change consumer trends over the next 12 months?

Responses did not provoke the completely gloomy response that might have been expected, with a number of people suggesting that the current recession could even be good for the retail wine market. The logic is that more and more people are choosing to drink at home, a long-term consumer trend which has accelerated with the onset of the economic crisis. Agency Hatch Mansfield is one of many to detect a growing consumer appetite for quality products to enjoy at home, rather than splashing out on a restaurant meal. But this doesn't make selling wine in retail easy, warns Percy Fox MD Nick Hyde.

"Brands will need to work hard to secure consumer loyalty in the grocery sector too, however, when wine drinkers are increasingly conscious of their weekly shopping budgets," he says. "Brands need to be prepared to be flexible and reactive to consumer demands."

And, with margins under increasing threat, there is a growing risk that suppliers will cut investment to make at least some return. *"Usher in a new age of austerity where value is the primary concern, and brands will have to respond innovatively to an even more demanding consumer,"* argues the AWBC's Paul Henry.

www.just-drinks.com

Relevant Wine Trade Fairs

- ProWein <http://www.prowein.com/>
- Vinitaly http://www.vinitaly.com/index_en.asp
- London International <http://www.londonwinefair.com/>
- China (Shenzhen) International Wine Fair 2009 (CIWF), Shenzhen, China December 10-12, 2009 For more information: Website: www.lscma.org.cn or www.szflp.org.cn