

1. Overview of a growing global wine market

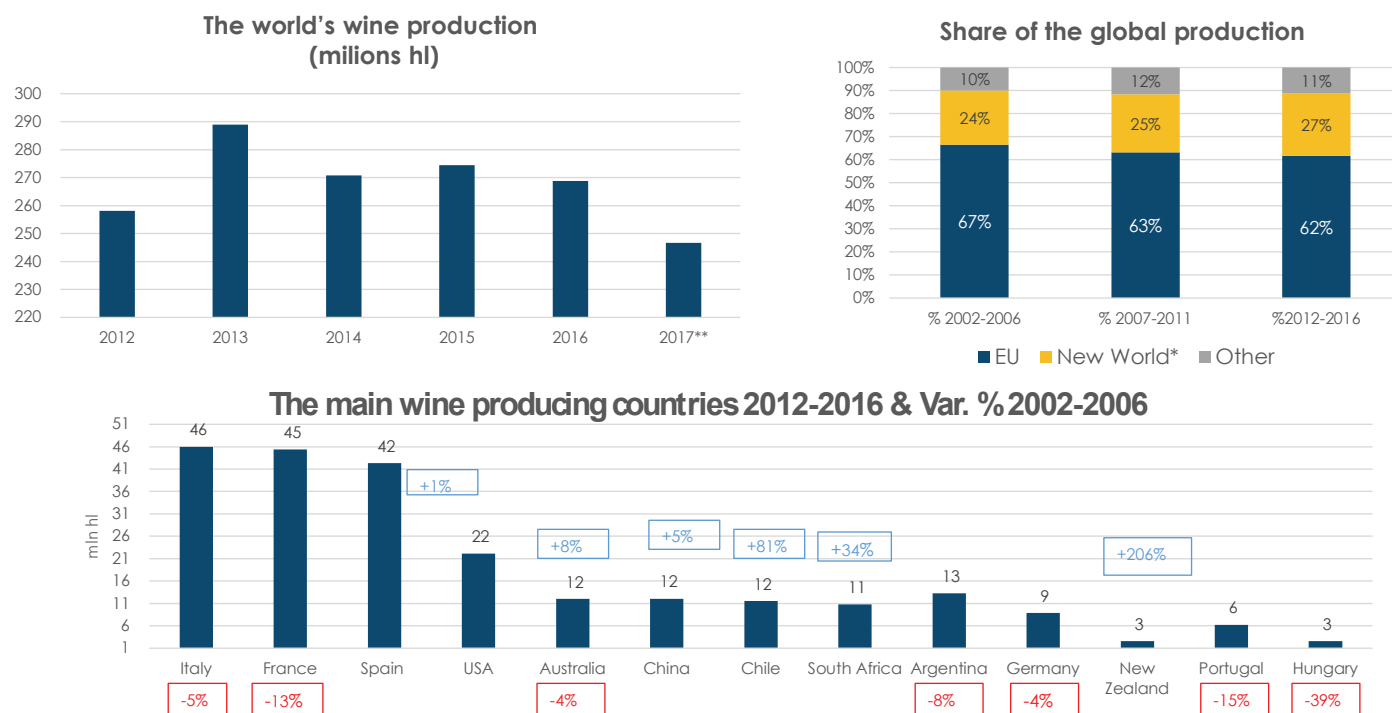
Wine is one of the most globalised products. The wine market has been enjoying a period of continuous growth and a strong creation of value unseen in other agricultural sectors.

In the last fifteen years, global consumption has gone from 228 to 242 million hectoliters. This has been supported by the development of an emerging middle class in South American and Asian countries. China has become an important player in both consumption and production of wine, while Russia and the United States are among the most profitable markets.

The EU remains the leading player on this market. Despite variability on the supply side linked mainly to climate factors, Europe remains the world's first producer with a share in the production that fell from 67% in the early 2000 to 62% in average over the last period. "New World"¹ wine countries' share has improved slightly from 24% to 27% over the same period. In the last fifteen years, the EU production of wine has been quite stable (+ 1%) while it has declined in Italy (-5%) and France (-13%) – this decline is inferior to the decline in domestic consumption. These drops in production can be explained by the fact that wine making producers have shifted their focus to higher quality wines with higher average prices (greater added value) which are the most sought after by new domestic and foreign consumers.

For 2017, the OIV² estimates world production below 250 million hectoliters: 8% less on an annual basis. This result is mainly because of -14% of production the EU, driven by extreme climatic conditions.

GLOBAL WINE PRODUCTION

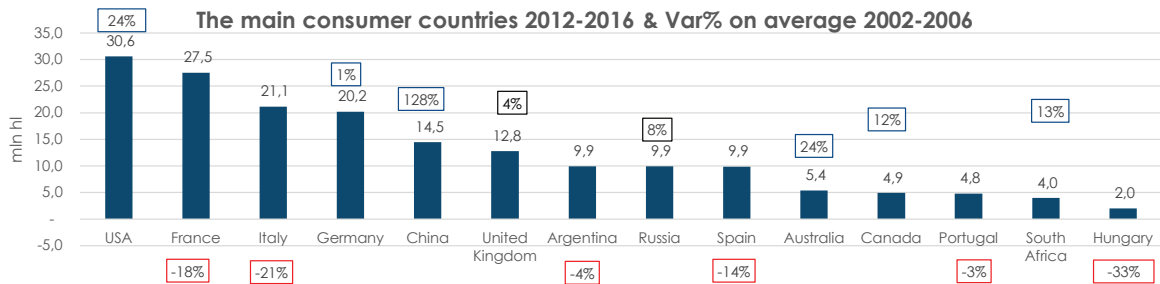
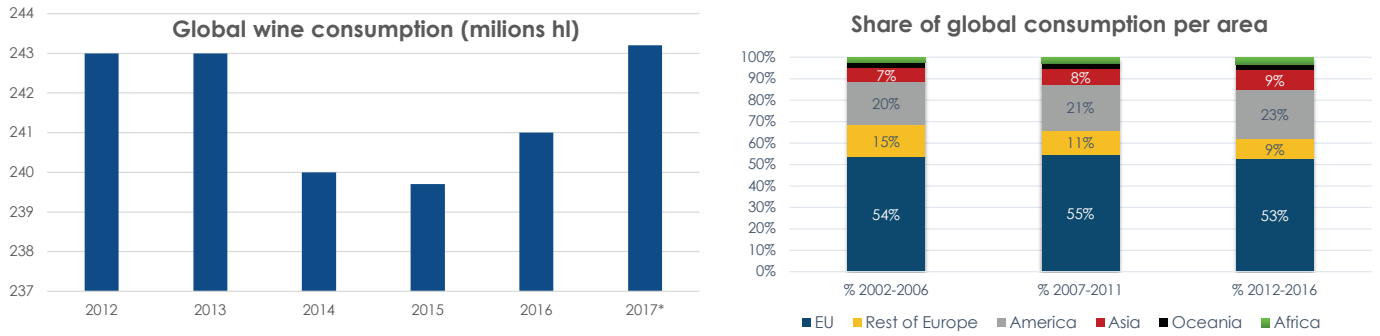


Source: ISMEA based on OIV; *United States, Argentina, Australia, Chile, South Africa, New Zealand; **Estimate October 2017

1 | New World: Argentina, Australia, Chile, New Zealand, South Africa and the United States

2 | Organisation Internationale de la Vigne et du vin - www.oiv.int/fr

GLOBAL WINE CONSUMPTION

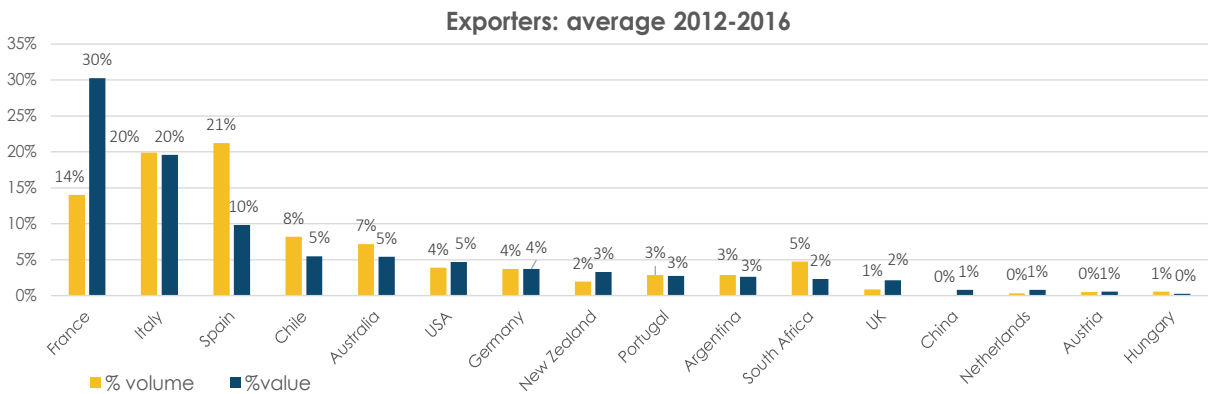
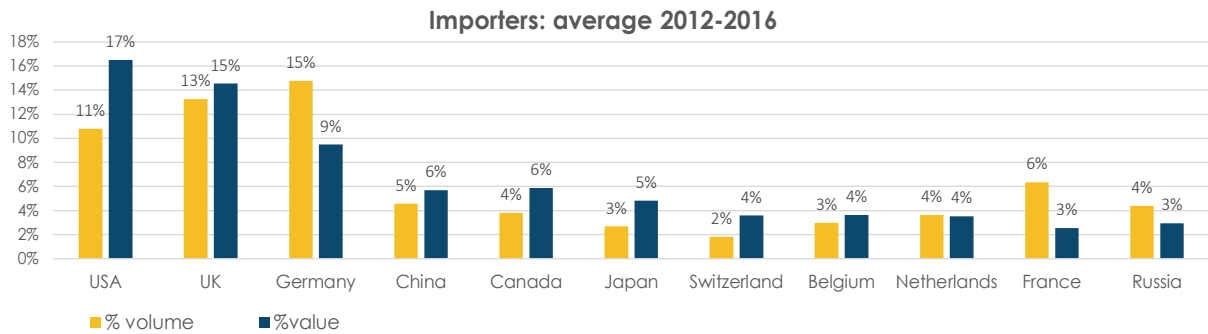


Source: ISMEA based on OIV; *Estimate October 2017

The shift in consumption from traditionally-producing countries to those of “new consumption” has increased international trade, which is now steadily above 100 million hectoliters, with values ranging from 15 to 28 billion euros in only fifteen years.

Between 2012 and 2016, the EU has seen its share of export go down from 75% to 73% in terms of value. However, the EU remains the clear leader, France dominating with 30% in value of the world market, followed by Italy with 20% and Spain with 10%.

LEADING COUNTRIES IN THE WINE TRADE



Source: ISMEA based on dati IHS-GTA

The analysis shows that the growth of New World wine producers follows a different path from European ones, revealing a clear strategy of conquering new international markets with dynamics disconnected from domestic consumption and a strong dependency on exports.

EXPORT PRICES

Price (euro/liter)	Average price 2011-2013	Average price 2014-2016	Var. %
France	5,22	5,68	9,0%
Italy	2,20	2,64	20,0%
Spain	1,19	1,13	-5,0%
Chile	1,77	1,82	3,0%
Argentina	1,98	2,65	33,8%
South Africa	1,31	1,25	-4,3%
Portugal	2,20	2,60	18,4%
Germany	2,46	2,58	4,9%
Hungary	1,11	1,15	3,9%
Australia	1,98	1,91	-3,5%
EU as a whole	2,61	2,79	6,9%

By comparing overseas sales in quantity and value, it is clear that quality and export prices play a strategic role in global competition. A comparison of average prices, over the last 5 years, underlines the positive impact of Italy's intermediate strategy with a price of € 2.6/l between the French premium price of €5.7/l and the Spanish low price of €1.1/l. In the last decade, the Italian product recorded an increase in export prices of + 20%, compared with + 9% in France and -5% in Spain.

Interestingly, our analysis shows that the wine sector continues to be able to create more value for its products with the regular increase of the value of exports.

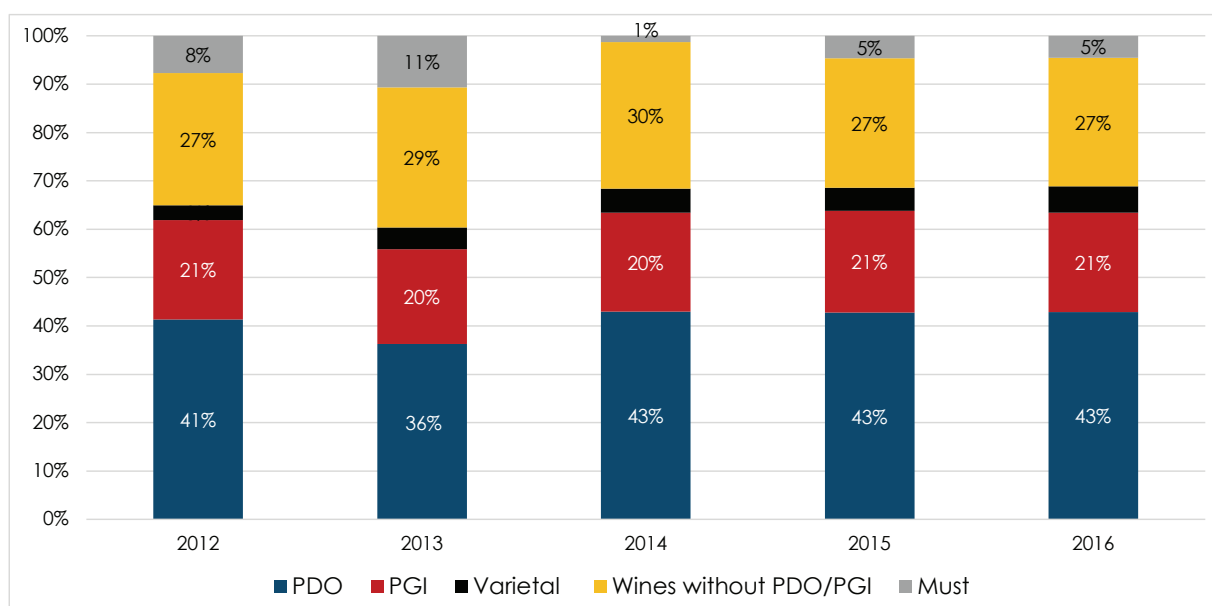
Source: ISMEA based on IHS-GTA

2. A healthy European GI sector

Within the wine world, GI wines which have always been an expression of traditional viticulture play a major role. There are currently 1,582 GI wines in the EU, of which 1,144 Protected Denomination of Origin (PDOs) and 438 Protected Geographical Indications (PGIs). These quality wines represents the lion's share of the total EU wine market.

WINE PRODUCTION PER CATEGORY

Evolution on the weight of GI wines in the total EU-28 production (%)



Source: ISMEA based on European Commission

Our analysis shows that the performance of the European wine sector in general, and more specifically of the GI wines sector, is very strong, in particular vis-à-vis other agri-food sectors.

A comparison of the evolution of production prices between 2011 and 2015 shows that the price for wines grew on an annual average of 4%, while there was a general slowdown for the other agriculture products³. PDO wines performed even better in this context with a growth of more than 5%.

PERFORMANCE OF THE WINE SECTOR IN THE EU AGRI-FOOD SECTOR: BASIC PRICE

Basic price EU-28

EU 28	Share % 2011	Share % 2012	Share % 2015	Milions € 2015	AAGR* 2011/2015
TOTAL AGRICULTURE	100,0%	100,0%	100,0%	414.044	-0,5%
- CROPS	52,8%	51,9%	51,7%	214.098	-0,9%
Wine (includes PGI, table and varietals wines)	4,6%	4,5%	5,4%	22.364	3,7%
PDO wine*	3,5%	3,3%	4,3%	17.853	5,3%
Fruits, vegetables and potatoes	14,5%	14,1%	15,9%	65.994	2,1%
Sugar beet	1,0%	4,7%	0,8%	3.160	-8,1%
- LIVESTOCK	39,2%	40,1%	39,7%	164.365	-0,4%
Meat	23,2%	24,2%	24,1%	99.747	0,2%
Livestock products	16,0%	15,9%	15,6%	64.617	-1,4%
Milk	13,4%	12,6%	12,6%	52.196	-2,2%

* average annual growth rate

Source: ISMEA based on EUROSTAT; *the indicator «production at basic price» considers only PDO wines & does not distinguish PGI wines from table wines

On the export side, the performance of GI wines has been very positive and superior to the overall wine results. They grew by 4.2% in terms of export on average per year, that is slightly lower than the growth of the overall agri-food sector, but higher than other sectors such as meat or milk.

PERFORMANCE OF THE WINE SECTOR IN THE EU AGRI-FOOD SECTOR: EXPORTS

EU-28 wine exports to third countries in value

EU 28	Share % 2012	Share % 2015	Share % 2016	Milions € 2016	AAGR* 2012/2016
Total agri-food	100,0%	100,0%	100,0%	130.243	5,1%
Beverages & alcoholic beverages	22,4%	21,7%	21,4%	27.899	4,4%
- Wine (includes table and varietal wines)	8,0%	7,7%	7,8%	10.113	4,1%
- - GI wine	7,0%	6,9%	6,9%	8.987	4,2%
Meat	7,4%	6,7%	7,8%	10.170	4,0%
Milk and milk products	7,8%	7,3%	7,0%	9.092	2,3%
Fresh and processed vegetables	4,8%	4,7%	5,0%	6.528	5,0%
Fresh and processed fruit	4,8%	4,2%	4,1%	5.288	1,8%
Sugar & sugar confectionary	2,2%	1,7%	1,8%	2.409	1,7%

* average annual growth rate

Source: ISMEA based on IHS-GTA

³The basic price is the amount received by the producer from the purchaser for a unit of good or service produced as output. It includes subsidies on products and other taxes on production. It excludes taxes on products, other subsidies on production, suppliers' retail and wholesale margins, and separately in-voiced transport and insurance charges. Basic prices are the prices most relevant for decision making by suppliers.

Wine is the second sector in value for exports behind the fruit and vegetable sector, with a very positive trade balance (very limited imports of wine).

PERFORMANCE OF THE WINE SECTOR IN THE EU AGRIFOOD SECTOR: TRADE BALANCE

EU-28 trade balance with third countries

EU 28	Millions € 2012	Millions € 2016	AAGR* 2012/2016
Total agri-food	-5.567	- 2.481	↑ -20,6%
Beverages & alcoholic beverages	19.624	21.982	↑ 4,6%
- Wine (includes table and varietal wines)	6.368	7.472	↑ 4,7%
- - GI wine	7.735	8.918	↑ 4,4%
Meat	4.548	6.230	↑ 6,0%
Milk and milk products	8.078	8.510	↑ 2,7%
Fresh and processed vegetables	566	495	↓ 7,3%
Fresh and processed fruit	- 12.290	-18.767	↓ 10,9%
Sugar & sugar confectionary	- 383	173	↑

* average annual growth rate

Source: ISMEA based on IHS-GTA

3. Consideration on the EU wine policy

The EU's wine sector benefits from a far-reaching legislative framework, mainly governed by the Common Market Organisation (Reg. EU 1308/2013 and subsequent implementing regulations). It includes, inter alia, five-year support programmes defined by each Member State on the basis of their own requirements, while respecting the constraints imposed by the CMO.

The EU policy has focused mainly on reducing surpluses with supporting measures aimed at containing production (specific regulatory framework allowing for a measured increase of the planted vine area, grubbing-up scheme, the progressive dismantling of market measures etc.). On the other hand, special focus has been paid to quality production with the measure of restructuring and conversion and the increase of competitiveness on third countries markets through the promotion measure. The latter has assumed an increasingly important role in the National Support Programmes, especially in countries traditionally focused on export. **In this regulatory environment, the structural decline of EU vine surface and, at the same time, of production should not appear neither abnormal nor negative.**

ISMEA forecasts further growth of the wine market in the medium term, both in terms of world consumption and international trade. Based on our predictions, if current growth rates are confirmed, the scenario would be more advantageous for the GI wine segment, confirming the effectiveness of the relation wine-terroir and its progressive appreciation in a competitive worldstage.