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2. The Austrian Wine Industry

2.1 Economic Importance of the Wine Industry in Austria

(Based on a lecture by Univ. Prof. Dr. Matthias Schneider, WIFO Lectures No. 84, 10 April 2000, Austrian Institute for Economic Research).

In 1999 agriculture and forestry once again markedly increased their production and value added as measured by volume. Both figures set new records. In value, however, agricultural gross return was somewhat lower than in the previous year because of lower prices. Total income from the agricultural sector also fell in 1999 following losses in the three preceding years. The drop in gross returns was due primarily to a slump on the hog market 1998/99, which has still not been overcome. The planned end to degressive compensation payments in 1998 further depressed the 1999 results. Good harvests in plant cultivation, the higher income of dairy farmers as well as economies in the purchase of operating resources and the resulting reduced burden of indirect taxes softened the slump, but only partially compensated for the losses. As usual, development in 1999 was variable, depending on the product group. In the 1999 agricultural sector, plant production remained unchanged in comparison with 1998. Compared with the previous year, the gross return in viticulture rose by ATS 296 million, or 7.4%.

Nominal Final Output (Gross Return) of Agriculture and Forestry by Product Groups
excl. VAT

	1996	**1997**	**1998**	**1999 ***
Plant production	16.304	17.120	18.344	18.341
(wine-industry share)	**(3.174)**	**(2.905)**	**(4.021)**	**(4.317)**
Animal production	32.790	32.993	31.213	30.463
Final output agriculture	49.094	50.113	49.557	48.804
Final output forestry	12.444	13.457	13.517	13.637
Final output agriculture and forestry	**61.538**	**63.570**	**63.074**	**62.441**

(Figures in millions of ATS)
* preliminary figures

The gross value added of the wine industry in 1999 was the highest of the decade. It was ATS 296 million higher than in the previous year.

1990	*ATS*	*3,897*	*bn.*
1991	*ATS*	*3,674*	*bn.*
1992	*ATS*	*3,170*	*bn.*
1993	*ATS*	*2,566*	*bn.*
1994	*ATS*	*3,617*	*bn.*
1995	*ATS*	*3,151*	*bn.*
1996	*ATS*	*3,174*	*bn.*
1997	*ATS*	*2,905*	*bn.*
1998	*ATS*	*4,021*	*bn.*
1999	*ATS*	*4,317*	*bn. (preliminary)*

2.2 Grape Harvests 1960-1999

Grape Harvest						
Year	**Total**	**Average**	**NÖ**	**BGLD**	**STMK**	**WIEN**
	in hl	**in hl/ha**	**in hl**	**in hl**	**in hl**	**in hl**
1960	897,500	29.1	no figure	no figure	no figure	no figure
1970	3,096,100	74.0	no figure	no figure	no figure	no figure
1978	3,366,278	69.2	1,851,104	1,390,224	91,268	33,682
1979	2,773,006	57.0	1,773,316	875,799	89,469	34,395
1980	3,086,422	57.2	1,984,465	967,130	101,795	33,032
1981	2,085,168	38.0	1,093,085	903,104	67,107	21,872
1982	4,905,651	88.1	3,050,837	1,663,511	143,979	47,324
1983	3,697,925	66.4	2,316,795	1,248,601	98,039	34,490
1984	2,518,918	45.6	1,461,392	927,553	109,057	20,916
1985	1,125,655	21.0	438,409	603,623	68,018	15,605
1986	2,229,845	40.8	1,144,972	936,186	124,925	23,709
1987	2,183,623	40.6	1,131,654	748,259	98,965	22,659
1988	3,502,457	65.1	1,967,369	1,398,647	110,289	25,936
1989	2,580,861	47.7	1,520,179	930,467	109,652	20,395
1990	3,166,290	57.6	1,717,299	1,291,974	133,571	23,230
1991	3,093,259	56.2	1,858,737	1,070,231	135,127	28,967
1992	2,588,215	48.3	1,599,132	842,682	125,865	20,087
1993	1,865,479	37.0	1,238,341	452,249	150,668	23,909
1994	2,646,635	53.0	1,665,645	800,098	150,211	23,089
1995	2,228,969	45.9	1,359,105	739,084	111,077	19,056
1996	2,110,332	43.5	1,394,962	547,433	133,481	28,377
1997	1,801,430	37.8	921,032	713.351	148,546	18,501
1998	2,703,170	56.4	1,609,853	932,430	137,238	23,268
1999	2,803,383	58.5	1,865,223	781,120	139,361	17,281

Source: ÖSTAT, BMLFUW

The following is a comparison of harvest development since 1960:

Share in %	**1960**	**1970**	**1980**	**1990**	**1994**	**1997**	**1999**
White wine	**87.1**	**88.0**	**84.1**	**80.9**	**81.4**	**70.9**	**74.7**
Red wine	**9.2**	**11.2**	**15.8**	**19.1**	**18.6**	**28.5**	**25.3**

Source: ÖSTAT
from: Green Report 1998

Grape Harvest 1999

Province	Total Wine 1999 yield in hl	White Wine 1999 yield in hl	Red and Rosé Wine 1999 yield in hl
Burgenland	781,120	482,741	298,379
Niederösterreich	1,865,223	1,495,625	369,598
Steiermark	139,361	100,207	39,154
Wien	17,284	14,541	2,743
Other Provinces	395	242	153
Austria 1999	**2,803,383**	**2,093,356**	**710,027**
Austria 1998	2,703,170	1,932,907	770,263

Source: ÖSTAT,
Preliminary results Feb. 2000, final results 1999
*) share according to Vineyard Survey, 1992

Vineyard Area from 1960 - 1999

Year	Vineyard Area	
	Total	In Production
1960	35,048	30,868
1970	46,921	41,821
1980	59,545	53,981
1990	58,188	54,942
1994	56,979	49,285
1999	48,558	47,946

2.3 *Qualitätswein* in Austria

Statistics – State Inspection Numbers
1999.01 – 1999.12

Number of state inspection numbers issued:		26,219
Number of rejections, refusals, reversals:		4,278
Number of withdrawals:		12
Number of applications 1999.01 – 1999.12:		30,591
Growth rate of applications (basis 1998.01 – 1998.12):		-3.92%
Number of wine-growers making application:	5,688	
Cost of inspection according to tariff:	23,490,634	
Inspection costs passed on:	11,514,229	49.01%

Breakdown of State Inspection Numbers by Volume (in hl)

In the 1999 calendar year state inspection numbers were issued for a total of 1,027,706 hl of wine. White wine accounted for 660,510 hl or 64.3% of the total, red wine for 344,494 hl (33.5%) and rosé wine for 22,702 hl (2.2%).

Breakdown according to Wine-growing Regions and Wine-growing Areas

	Volume in hl	%*)
Weinland	***959,929***	***93.4***
Burgenland	*28,654*	***2.8***
Mittelburgenland	93,940	9.1
Neusiedlersee	179,016	17.4
Neusiedlersee-Hügelland	106,886	10.4
Südburgenland	5,141	0.5
Niederösterreich	*17,235*	***1.7***
Carnuntum	10,225	1.0
Donauland	35,013	3.4
Kamptal	58,105	5.7
Kremstal	85,536	8.3
Thermenregion	25,719	2.5
Traisental	12,803	1.2
Wachau	49,599	4.8
Weinviertel	252,057	24.5
Steiermark		
Südoststeiermark	14,684	1.4
Südsteiermark	38,833	3.8
Weststeiermark	8,682	0.8
Wien	***5,323***	***0.5***
Bergland	***26***	
Total in hl	***1,027,706***	

*) rounded
Source: Federal Institute for Viticulture, Eisenstadt, 2000

Breakdown by Quality Levels

	Volume in hl	% *)
Qualitätswein	932,870	90.7
Kabinettwein	69,039	6.7
Prädikatswein		
Spätlese	13,676	1.3
Auslese	4,559	0.4
Beerenauslese	3,249	0.3
Ausbruch	647	0.06
Eiswein	1,243	0.1
Strohwein	60	0.006
Trockenbeerenauslese	2,371	0.2

*) rounded
Source: Federal Institute for Viticulture, Eisenstadt, 2000

Breakdown by Variety

	Volume in hl	% *)
White-wine varieties	***687,370***	**64.5**
Gemischter Satz (mixed grapes from the same vineyard	2,574	0.2
Grüner Veltliner	431,003	40.4
Müller-Thurgau	22,588	2.1
Muskat-Ottonel	6,601	0.6
Neuburger	11,833	1.1
Weisser Burgunder	38,383	3.6
Rhine Riesling	37,062	3.5
Welschriesling	69,218	6.5
Zierfandler and Rotgipfler	2,494	0.2
Other white-wine varieties	65,614	6.1
Red-wine varieties	***378,641***	**35.5**
Blauburger	8,921	0.8
Blauer Burgunder	8,037	0.8
Blauer Portugieser	33,073	3.1
Blauer Wildbacher (Schilcher)	11,570	1.1
Blauer Zweigelt	161,853	15.2
Blaufränkisch	137,371	12.9
St. Laurent	12,477	1.2
Other red-wine varieties	5,339	0.5

*) rounded
Source: Federal Institute for Viticulture, Eisenstadt, 2000

2.4 Austria's Wine Supply and Storage Capacity

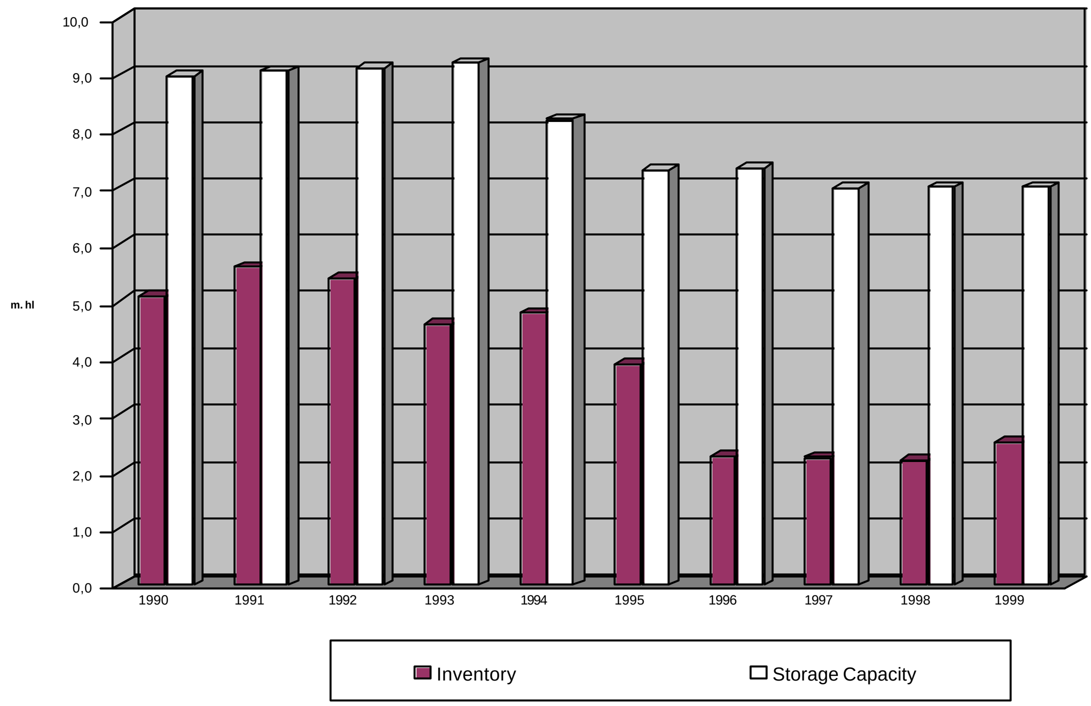
Inventory (key date: 31/8/1999)

The 1999 stock of 2,485,500 hl (+14%) of wine compensated for the low level reached in 1998 as a result of the small harvests of 1996 and 1997. Broken down by quality levels the growth may be expressed in the following percentages: *Tafelwein*: +14%, *Landwein*: +8%, *Qualitätswein*: +26%, *Prädikatswein*: +4% and *Schaumwein* +75%.

Inventory in hl

	Austria 1998	**Austria 1999**	**Bgld. 1999**	**NÖ. 1999**	**Stmk. 1999**	**Wien 1999**	**O. states 1999**
Tafelwein	286,393	325,524	46,327	232,477	18,133	18,044	10,543
Landwein	305,884	329,367	51,332	218,041	42,353	6,101	11,539
Qualitätswein	1,342,122	1,688,086	517,765	1,049,319	57,920	27,658	35,423
Prädikatswein	74,871	78,014	47,160	29,316	46	822	671
Schaumwein	121,558	30,488	3,496	12,237	8,416	1,114	71
Grape must concentrate, rectified	5,638	4,390	571	3,659	37	26	98
Other products	22,190	24,815	4,501	10,216	2,099	3,737	4,263
Third-country wines	17,157	4,820	464	1,146	697	889	1,624
Total	2,175,813	**2,485,504**	**671,615**	**1,556,411**	**129,700**	**58,390**	**69,387**

Source: BMLFUW/ÖSTAT 2/00



Key date 31.8.1999: inventory 2,485,500 hl, storage capacity: 7,076,100 hl
Chart: ÖWM / Source: ÖSTAT 2000

Since the beginning of the 1990s, storage volume has generally been falling. Even the larger harvest of 1999 appears unlikely to raise the inventory on the key date 31 August 2000 (this figure was unavailable as this document went to press) to the levels of 1995. The storage volume is expected to remain relatively constant at between 2.5 million hl and 3.5 million hl and not to rise again to between 4.3 million and 6.5 hl as was the case in the 1980s.

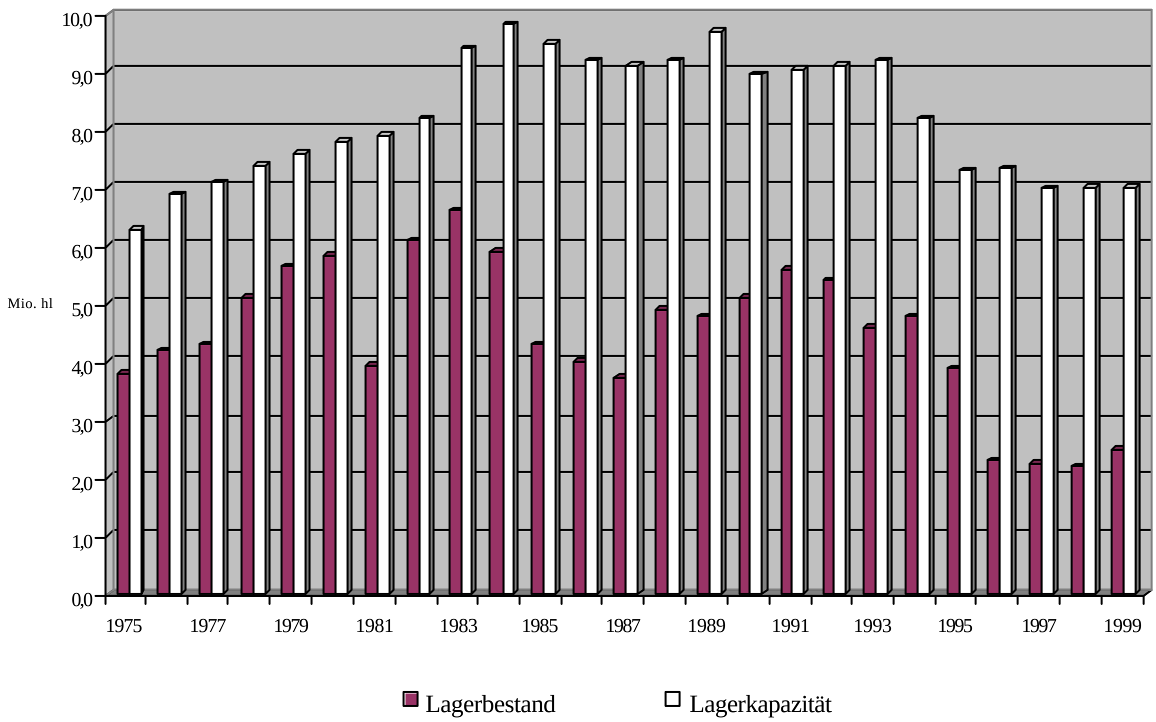


Chart: ÖWM
Source: ÖSTAT 2000

2.5 Wine-growers in Austria – A Current Overall View

Basic Survey of the Area under Vines (1999)
(areas in hectares)

	Vineyards	
	No. of Wine-growers	**Area**
Size		
under 0.10 ha	2,478	162.03
0.10 to less than 0.25 ha	6,658	1,130.84
0.25 to less than 1 ha	11,896	6,241.37
1 to less than 2 ha	4,177	5,942.60
2 to less than 3 ha	2,052	5,057.85
3 to less than 4 ha	1,322	4,582.84
4 to less than 5 ha	975	4,361.35
5 ha or more	2,486	21,017.25
Total	**32,044**	**48,496.13**
Provinces		
Niederösterreich *Burgenland* Weinland	*18,038* *9,654* 27,692	*29,974.66* *14,539.49* 44,514.15
Steiermark	3,821	3,282.67
Wien	497	678.30
Bergland	34	21.01

Source: ÖSTAT 1999

2.6 Prospects for the Future

2.6.1 Austria's Wine Industry – Structural Change

In the last 15 years the small world of Austrian wine has markedly changed and opened. The widely varied nature of the image of Austrian wines, even in Austria itself, is clearly documented in Chapter 2.8 and other places as well.

There are almost 32,000 wine-growers in Austria, although many of them practise viticulture as a secondary occupation. Only about 2,500 wine-growers own vineyards of 5 ha or more. We will later examine whether the small size of agricultural production entails more advantages or disadvantages. Fundamentally, however, grape production throughout the EU is essentially the work of small farmers.

On a ten-year average, Austria's annual production has been 2.5 million hl of wine grown on an area of c. 48,000 ha. The quantity produced in the years 1995, 1996 and 1997 was far below this average. Production in 1998 and 1999, however, was above average.

A comparison with the EU clearly illustrates Austria's position: within the Community there are c. 3.5 million ha of active vineyards, resulting in an average annual production of 160-170 million hl of wine. The position of the biggest producers in the Community – France (914,000 ha, average annual production 53 million hl) and Italy (899,000 ha, 54 million hl) – is best described as "world-market dominance". While Spain has the largest viticultural area in the Community (1.2 million ha), because of its low average yield per ha it produces "only" around 30 million hl of wine annually (source: OIV, 1998).

At present, Austria's vineyards are planted with c. 75% white-wine vines and c. 25% red-wine varieties, although the tendency is towards a higher percentage of red-wine vines. This development is expected to continue. With the 1997 and 1999 vintages, Austrian red wines attained a level that holds up to comparison with the finest international wines. The Zweigelt has attained a definite position of leadership among the red-wine varieties, while another indigenous variety, the Blaufränkisch, has retained its position.

On the white-wine sector in Styria, the years 1999 and 1997 demonstrated that the Sauvignon Blanc grape is perfect for this wine-growing area. Because of this, its success is expected to spread to the other Austrian regions as Chardonnay slowly subsides.

Among the trend-setting wine-growers, production of the white "Burgundy family" is being stepped up in Burgenland, while Niederösterreich (Lower Austria) continues to produce more Grüner Veltliner and Riesling. The latter proved itself in the 1998 vintage, which (despite difficult harvest conditions) was a very good year for Veltliner.

Among the c. 7,000 wine-growers who bottle their wines, a society of several classes has become established on the Austrian market. Roughly speaking, it can be divided into a "three-class society". In the "upper class" as it were are the top wine-growers who consistently win awards at the numerous wine competitions and good marks in the various wine guides. They can easily sell their products even in average vintage years. Within this elite, marketing has become diversified. Some of the top producers have gradually halted the practice of direct marketing, which used to predominate. In addition, several wine-growers from the "middle class" have managed to move up – often via the "Salon of Austrian Wine". This "middle class" is composed of producers who consistently market their own wines but nevertheless also (have to) sell some of them in one- or two-litre bottles.

The "lower class" is composed of producers, who sell wine almost exclusively in two-litre bottles and part of their production in bulk. Things became difficult after the 1998 and 1999 harvests for those wine-growers who sell exclusively in bulk and for grape vendors who have no wineries of their own. Both groups saw new confirmation of the necessity for a close and permanent relationship with wine co-operatives or the wine trade in order to obtain reasonable prices in the long term. A brief commentary on the trend for Austrian barrel-wine prices follows.

The small harvests of 1995, 1996 and 1997 led to a supply shortage and loss of market share for Austrian wine on the domestic market. The barrel-wine prices in the spring of 1998 – around ATS 10 for white wine and ATS 15 for red – may have set a new record. As a consequence the *Tafelwein* segment came almost completely into foreign hands. By April/May 1998, barrel-wine prices dropped slightly as a consequence. This trend strengthened in the summer of 1998 in expectation of a bigger harvest that autumn.

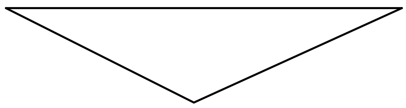
The normal harvests of 1998 and 1999 resulted in a decline in barrel-wine prices. For lower levels of *Qualitätswein* this situation has still not changed – the lowest prices for white wine were around ATS 4 (August 2000). The anticipated normal harvest volume in 2000 is already putting pressure on grape prices. The Bouvier grapes harvested early were selling in August 2000 for c. ATS 4/kg. But there are possibilities for specialisation even when there is a surplus on the barrel-wine market. In August 2000 the Austrian sparkling-wine industry bought Welschriesling in the Weinviertel from wineries under contract at prices between ATS 5 and ATS 7.

There is fundamental concern about the fact that some barrel-wine prices and expected grape prices for the harvest 2000 are too low in comparison with the rest of Europe. Alongside the planned conversion of vineyards supported by the EU and distillation, the only thing that in the long term can improve this situation, which is hardly satisfactory to any of the affected parties, is a clear restructuring of the barrel-wine supply (DAC wine, *Qualitätswein* with designated origin, *Landwein* and *Tafelwein*). This will be a priority responsibility for the regional inter-professional committees.

*Given this background, the analysis of the **Austrian wine industry** in the **Bacchus Study 2000** (completed in 1994) still has a certain validity. There remains a considerable need for structural adjustment.*
At present, the domestic wine industry finds it difficult to compete on an international level. Austrian wineries suffer from considerable competitive disadvantages at all value-added levels compared with their foreign competitors.

The problems of the Austrian wine industry are clearly depicted in the Bacchus Study in the form of a "problem triangle":

Structure *Marketing*



Political Structural Conditions
(These have distinctly improved since repeal of the tax on alcoholic beverages.)

Structural deficits are created by:
- *the low average business size of the wine producers and marketers*
- *the high share of barrel-wine sales without contractual relationships with marketers*
- *the large fluctuation in the size of harvests*

The problems that are found in the structural area of the domestic wine industry can be solved primarily by shifting vineyards to areas less susceptible to frost, shutting down some wineries, merging vineyards, or farming them as a secondary occupation. Some of the challenges set by the new common organisation of the market in wine (COMW) are aimed in this direction.

Marketing weakness is expressed in:
- *product and producer brands that are lacking in prominence*
- *low access to efficient international sales channels*
- *lack of international companies in the Austrian wine industry*

In assessing the problems mentioned here and the development thus far, it is especially important to take into account the interdependence of individual weaknesses as illustrated in the "problem triangle".

Source: BACCHUS STUDY 2000, Vienna, 1994

This fundamentally correct analysis in the Bacchus Study stands in contrast to the small Austrian "wine miracle". Primarily this has been the result of the determination of many Austrian wine-growers to consistently produce wines of high quality. The development has been further strengthened by the fact that a succession of generations has taken place in many wine-growing areas, giving young wine-growers trained at viticultural schools responsibility for the vineyards and cellars. Where the succession of generations has taken place without problems, reputation and prices have often risen hand in hand. Because of the present situation on the Austrian barrel-wine market, however, the achievements of the top wineries (including higher prices) represent an even greater contrast to the low-priced Austrian *Qualitätswein* found in domestic and German supermarkets. Chapter 2.7 (The Value of Designated Origin) will point out a possible path for Austria to take in creating common brands for products and origins.

2.6.2 The EU Organisation of the Market in Wine – An Opportunity for Austria

The common organisation of the market in wine (COMW), which originally set Community policy for the industry, was created in the early 1960s. This policy was repeatedly adapted over the years in order to assist the sector in adjusting to changes in production and in the market and in creating a better balance between supply and demand. The framework of regulations that has now expired was created in 1987 as a response to the constant surpluses of the 1980s.

The COMW measures designed to regulate the market generally applied to *Tafelwein* (table wine), which was one of the two recognised categories under regulation. The second was *Qualitätswein bestimmter Anbaugebiete* (quality wine produced in a specific region); this was marked with controlled a designation of origin and was usually easier to position on the market.

The COMW provided two kinds of measures for creating a balanced market:

- Market intervention essentially occurred by distilling certain wines, but also by providing financial aid for the storage of *Tafelwein* and juices, and the use of grape juice for purposes other than wine-making.
- Control and management of wine-growing (planting, replanting and grubbing) occurred by prohibiting new planting and restricting the rights to replant by providing financial aid for the grubbing or final closure of vineyards.

With these measures, the area under vines in the EU was considerably reduced (from 4.5 million ha in 1976 to 4 million ha in 1987 and 3.4 million ha in 1997). However, the ageing of many vineyards and thus a decrease in the potential yield as well as certain climatic changes have also contributed to this decline. Production has developed in a similar manner: it dropped from 210 million hl at the beginning of the last decade to an average of 158 million hl in recent years. Over the past three years the problem of surpluses has not been completely solved, but it has at least been mitigated.

The most important instrument of market intervention was the distillation of *Tafelwein*, of so-called “other wines”, such as those used, for example, for the production of Cognac, and of by-products of wine production (marc, wine lees). Thus if there was a considerable imbalance between supply and demand, “compulsory distillation of *Tafelwein*” was carried out. “Preventive distillation” takes place, on the other hand, on a voluntary basis at the beginning of a business year, when a surplus is expected or the product quality is to be improved.

Distillation was unquestionably an effective market-support instrument. But it has been less effective in creating a comprehensive and more long-term balance between supply and demand, because it also stimulates production.

2.6.2.1. The Principles of the New EU Wine Market Organisation

On 1 August 2000 the EU's new organisation of the market in wine came into effect.
Essentially it takes the altered market conditions into account. The structural surpluses of the 1980s have been reduced; instead there are now tendencies towards a liberalisation of the world market.

The seven main goals of the new organisation of the market in wine are:

- Preservation of the traditional products: spirits and by-products of wine production
- Preservation of the relative balance achieved in recent years between supply and demand
- Improvement of competitiveness

  Of particular importance to European wine-growers, including those in Austria, is the proposed financial aid for making market adjustments in wine-growing.
  These market adjustments are to be achieved by
  * converting to other varieties
  * shifting location of vineyards
  * improving vineyard technology.

  Over the next five years Austrian wine-growers will have available around ATS 80 million in order to adjust their supply to market conditions (75.23 million in the first year; the amounts have not yet been set for the following years, but they are to rise to c. 80 million in the second year and c. 90 million in the third). In designing the conversion programme, it is especially important – alongside conversion to varieties that better meet demand – to create conditions for efficient and competitive farming.

- Repeal of financial aid that creates artificial sales potential

- Preservation of regional diversity

  A prohibition on new planting remains in effect, but ambitious wine-growers have the possibility of new planting on a very small scale. In order to prevent replanting rights in Austria from being forfeited, they will be added to a "reserve". This could be important to Austria because at the moment there are around 11,000 hectares of potential planting rights that are not being exercised.

- Recognition of the role of producer organisations and industry associations

  Regional authority in the case of *Qualitätswein* should be further promoted. In future, regional industry associations, as long as they are sufficiently representative, should be able to determine a regional type of *Qualitätswein* and also develop their own ideas about the marketing of these specialities. These regulations are also important for the domestic discussion about creating regionally typical wines of designated origin. The industry associations are ideal for assuming this responsibility.

- Simplification of legal requirements

For the implementation of the wine-market organisation that came into effect on 1 August 2000, two areas are of special importance:

1. Grubbing
2. Conversion and restructuring in viticulture

- Promotion of grubbing:
  Financial aid for grubbing of € 6,300 (= c. ATS 86,000) per ha will not be granted in every instance but only in those areas, fields, vineyards etc. that have been named as so-called “promotable” grubbing areas by order of the district administration and thus are to be removed from wine production. This responsibility granted to the district authority is to be exercised after hearing the relevant district farmers’ and district wine-growers’ associations. But this goes hand in hand with an important decision on the part of the wine-growers themselves: farmers who take advantage of the grubbing subsidy exclude themselves from aid for conversion (restructuring).

- Conversion and restructuring:
  Proposed financial aid for conversion and restructuring in viticulture within the framework of the COMW is a form of start-up aid for businesses that see their future in wine production. This financial support is intended to make it easier for wine-growers to convert to other varieties, change their farming techniques, introduce irrigation, combine vineyards, revitalise hillsides and steep slopes used for viticulture etc. Start-up aid is available in significant amounts.

2.6.2.2 The Austrian Programme for Vineyard Conversion

Conversion within the framework of the new COMW includes numerous vineyard activities (but provides no measures related to wine-making technology). Every wine-grower can choose from among the following measures in designing optimal conversion; any combination of measures is possible:

- Vineyard conversion (with regard to the variety or farming technique)
  As a result of changing consumer habits (especially with regard to varieties) as well as the development of new, more progressive wine-growing techniques, numerous Austrian vineyards face the necessity of adjusting to changing market conditions. This measure includes all the steps necessary for planting a new vineyard from the beginning. Specifically, this includes preparing the soil, applying fertilisers, planting the new vines, protecting the plants from disease and damage caused by browsing animals, cultivating the vines, and erecting suitable supports.

The following aspects of farming technique are especially important: the width of rows, the type of cultivation, the support, the arrangement of rows (parallel or perpendicular to the slope), correction of the terrain etc. Changing the density of planting is considered to be an aspect of farming technique if the area per vine in the newly planted vineyard is no greater than 2.8 m². Since this puts less strain on the individual vine and thus raises the quality of the wine, higher financial aid is available.

For the newly planted vineyard a *Qualitätswein* grape variety must be used (listed in the Austrian Regulation on *Qualitätswein* Varieties).

Planting vineyards on hillsides or steep slopes significantly reduces the danger of frost damage; the intense sunshine produces grapes of high quality. Depending on the slope gradient of the converted vineyard, there are two additional special cases for vineyard conversion (with varying financial aid):

* vineyard conversion on hillsides: at least two thirds of the newly planted vineyard is on a hillside (slope gradient of more than 16% and up to a maximum of 26%)
* vineyard conversion on steep slopes: at least two thirds of the newly planted vineyard is on a steep slope (slope gradient of more than 26%).

- Agricultural consolidation in the plain
  Consolidation of fragmented holdings results in a clear improvement of cultivation management, which is the reason that viticultural consolidation should be promoted (agricultural consolidation is reparcellation and regrouping of lands as defined by the agricultural authorities based on the 1951 Law on the Principles of Farmland and the state laws passed as a result). This measure includes all the necessary steps for the new planting of a vineyard within the framework of agricultural consolidation. The newly planted area have a maximum slope gradient no more than 16%. A *Qualitätswein* grape variety must be used in the newly planted vineyard (from the Austrian Regulation on *Qualitätswein* Varieties).

- Terraced Sites
  Prevention of erosion is one of viticulture's important responsibilities. Thus within the context of this measure (if need be, in addition to the new planting of a vineyard) terraced sites (sloped and stone-wall terraces) can be newly erected or severely damaged terraces can be recultivated, especially for the prevention of erosion. A sloped terrace, as understood in this measure, must have a slope gradient of more than 16%. If the vineyard is newly planted vineyard, a *Qualitätswein* grape variety must be used.

  Irrigation
  In many dry areas, the building of sprinkler irrigation systems (consisting of a well, pumping station, distribution lines, perforated pipes, control units etc.) is a suitable instrument for ensuring and raising quality. Thus it is a measure that can be promoted within the framework of the conversion process. In determining the amount of aid, a distinction is made between stone terraces and steep slopes (>26% slope gradient), sloped terraces and hillsides (16% to 26% slope gradient) and other situations.

- Grubbing
  If a vineyard is grubbed in connection with a conversion measure, greater financial aid is available. The right to replant that results from grubbing must be exercised as part of the conversion.

2.7 The Value of Designated Origin

2.7.1 Districtus Austria Controllatus (DAC) – A Strategy for the Future

It is an important goal to emphasise the unmistakable character of Austrian wine, creating an identity that is, first of all, independent of price. Only a clearly positioned product (in every possible price category) is capable in the long term of maintaining its position nationally and internationally against growing competition (not only from Europe, but also increasingly from overseas).

This goal can be achieved, however, only if consumers are provided with clear messages and information about the product itself. It is useless to produce even the finest wine if those who are intended to buy and drink it are unable to clearly distinguish and recognise it by its taste. The current discussion about designation of origin should carefully take into account the initial situation and any possible changes; no one should have anything forced upon them, and certainly not from above. The Austrian Wine Marketing Board (ÖWM) is concerned with providing impetus to a comprehensive discussion of all the conditions that will enable the Austrian wine industry – in 2000 and for many years to come – to successfully market the first-class product called “wine from Austria”. That also means: at acceptable prices in the best-selling market segments.

The diversity of the Austrian wine landscape – with its small wine-growing areas, broad palette of grape varieties that in part are hard known internationally, large number of quality levels and also a particularly wide variety of wine types from one and the same area – makes it difficult to export Austrian wine. At the same time this state of affairs provides no clear orientation for the average, domestic wine consumer. This situation has developed despite the fact that Austria’s wine industry has traditionally been oriented towards designated origins. It was not until the 1950s that Austria adopted the German model of categorising wines by grape varieties and by quality levels based on the sugar content of the must. Due to these considerations, the ÖWM in 1996 launched a discussion on placing greater emphasis on designated origin in Austrian wine law. At the heart of this strategy is the concept of *appellation*. This is a concept that has long been familiar to the Latin wine-growing countries: limiting the designation of origin of a wine-growing area to a few characteristic wine types, while all other varieties or quality levels are sold under names of the provincial wine-growing regions.

Under Section 39a of the Austrian Wine Law the minister of agriculture is empowered to issue a regulation containing guidelines for creating an inter-trade committee on the model of the French *comité interprofessionnel*. A regulation to that effect was expected in the autumn of 2000. This would give Austria the opportunity of organising the Austrian wine-growing areas in a manner similar to that which has been practised successfully for decades not only in France but also in Italy and Spain. (see also Chapter 2.7.2)

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It is expected that in 2001 most of the **current 18 growing areas** will found inter-trade committees (legal persons). There are currently two ICs in Burgenland and two in Styria (Steiermark), while several are planned in Lower Austria (Niederösterreich). They unite representatives of the producers and/or marketers and/or processors. Within these ICs, the following goals can be discussed and defined:

- Better co-ordination of sales of *Qualitätswein*, especially through market research and studies;
- Development of opportunities for providing designations of origin and geographical information, especially in defining regional *Qualitätswein*;
- Development of conditions, processes and production methods for *Qualitätswein* typical of the area (DAC) paying close attention to product quality integrated production.

In other words – considering the structural weaknesses and related price fluctuations – it is important in Austria to achieve a market that is better segmented. Prominent wines of designated origin– independent of prominent winery names– should be able to maintain their price level even when harvests are bigger. If purposeful measures are implemented by the regional inter-trade committees, not only can these goals be achieved but the foundations of the Austrian wine industry can also be strengthened in the long term. Based on market data from surveys, ICs analyse how much wine is actually sold under the respective designation of origin. For future harvests the respective IC can regulate the market volume of regional *Qualitätswein* through additional qualitative norms that extend beyond the legal requirements (for example: barrel-wine sales of regional *Qualitätswein* with inspection number, no sales of grapes for regional *Qualitätswein* without a fixed bottling contract with the buyer). This will also ensure reasonable barrel-wine prices. Price fluctuations should then be possible only in the case of *Tafelwein*, *Landwein* and provincial *Qualitätswein*, which would provide an outlet for any surpluses.

In the wine-growing areas in which a majority of the wine-growers seek to improve their strategic position, the ICs may apply for DAC status for their area. This means that wine characteristics typical of the region will be determined for the DAC wines. A *Qualitätswein* made from a variety of grapes will take the name of the province as its designation of origin.

THE DAC MODEL

As described earlier, it is up to each individual IC in the numerous growing areas to decide whether or not it will produce wines typical of the area within the framework of self-determination (an exception to self-determination is made only in the case of *Qualitätswein* designated as coming from the province). In order to achieve DAC status, the following criteria (prescribed in the Wine Law) must be met, or the *Qualitätswein* (DAC wine) typical of its area must meet the following minimum requirements:

The wine type must be characteristic of the respective wine-growing area and reflect the typical qualities which a consumer normally associates with the respective growing area. It must be capable of being produced in such a volume that marketing measures appear appropriate to ensure a steady market supply.

The following must be determined for each type of area: the variety or varieties of grape and the identifying taste characteristics (e.g. residual sugar, type of *Prädikatswein*, type of ageing etc.) as well as the qualities and measures necessary to create these identifying taste characteristics (e.g. minimum density of must, chaptalisation, pressing process, ripeness and storage etc.). In addition, other determinations can be made (smaller geographic units, the right to create names etc.).

QUALITY LEVELS (Wine Law 2000)

When a growing area attains DAC status, it will still not be logically possible for all the wines produced to date in this region to be marketed under the name of the area. In order for wines that are not "typical of the area" to retain the level of a *Qualitätswein*, they can now be marketed as coming from the geographically bigger *Qualitätswein* areas (Niederösterreich and Burgenland). The creation of these new areas also offers an opportunity to produce larger volumes of Austrian *Qualitätswein*.

The following quality levels are permitted under the 2000 Wine Law:

1. TAFELWEIN

Austrian table wine or an EU blend (both without indication of vintage year or variety).

2. LANDWEIN (origin within a single wine-growing region):

Weinland Austria: Niederösterreich (Lower Austria) and Burgenland; Bergland Austria: Kärnten (Carinthia), Oberösterreich (Upper Austria), Salzburg, Tirol, Vorarlberg; Steiermark (Styria) and Wien (Vienna); otherwise unchanged.

3. QUALITÄTSWEIN (origin within a wine-growing area):

All the previous regulations with regard to viticulture, wine-making and designation remain in effect. Alongside the previous 16 wine-growing areas, the **new wine-growing areas of Niederösterreich and Burgenland have been created.**

At the level of the 16 previous wine-growing areas, production criteria are to be set and the decision concerning DAC status is to be made by the newly formed regional committee within the framework of self-determination. Thus in future the following types of *Qualitätswein* may exist:

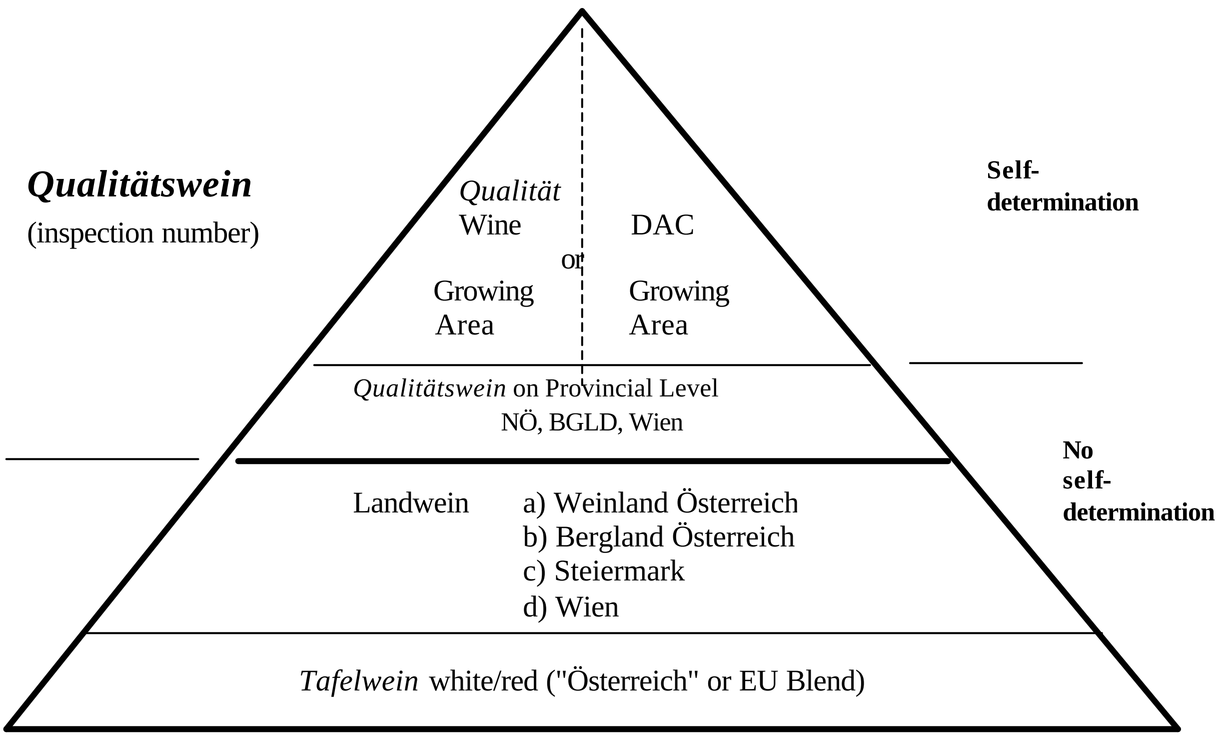
***Qualitätswein* on the Provincial Level (Niederösterreich and Burgenland):**

This wine is produced in accordance with the criteria currently stipulated in the Wine Law. It is designated as "*Qualitätswein*" (or a higher status), and name of the federal state is listed as the designation of origin. A more limited origin, such as the local area or vineyard, may also be specified (depending on the relevant regulations determined by the regional committee for a DAC wine).

- ***Qualitätswein* on the Level of the Wine-growing Area** (dependent on the decision of the regional committee whether of DAC status or not)**:**

  - ***Qualitätswein*:** The production criteria are to be determined by the regional committee (equal to or more stringent than the requirements of the Wine Law). The wine is designated as "*Qualitätswein*" (or a higher status); the wine-growing area is specified as the designated origin. A more limited origin, such as the community or vineyard, may also be specified as stipulated by the regional committee.

  - **DAC:** The production criteria (both obligatory and independent) are to be determined by the regional committee (equal to or more stringent than the requirements of the Wine Law). The wine is designated as "DAC" or "Districtus Austria Controllatus", which is stated along with the name of the wine-growing area. A more limited origin, such as the community or vineyard, may also be stipulated by the regional committee. The *Prädikat* levels (*Qualitätswein*, *Kabinett*, *Spätlese*, ... *Trockenbeerenauslese*) may no longer be used, but a certain *Prädikat* can be determined to be typical of the area.



2.7.2 A Proven System

The tried and tested practice in France, Italy and Spain can provide a good basis for a decision-making in Austria. Here we briefly outline the French model:

France as a Model for Registered Designation of Origin

One of the cornerstones of the AOC system in France (*appellation d'origine contrôlée* = controlled name of origin) is provided by the *comités interprofessionnels* (inter-trade committees). They are responsible for regulating production and marketing in their AOC regions. Abbreviations such as CIVB, BIVB or CIVC stand for the councils, bureaux or committees in which the wine-growers and trading houses of the French wine-growing regions have organised. These associations concentrate their efforts on the AOC system, seeing their responsibility in protecting and promoting quality wines with registered designation of origin. They are responsible for promoting the image of wines from with the respective appellation, protecting the registered designation of origin from abuse representing the special character of these wines to the public.

The work of every *comité interprofessionnel* may be broken down into **three areas**:

* *Business* (collecting all data related to production and sales by wineries and wine-trading houses, conducting market studies, observing the competition consumer behaviour)

* *Technology* (research, development and quality control) and

* *Information and communication* (dialogue with members, sales promotion, publicity and public relations).

As a translation of the term "*interprofessionnel*" inter-trade implies the working together of a wide variety of interest groups involved in wine production and marketing: *wine-growers, wine-trading houses and wine co-operatives.*

Determination of association policy and its implementation in individual measures is made within the associations with equal participation by the individual professional groups. The decisions of the *comités* must be reached unanimously and are binding for all members.

Setting the tone for the work of the respective *comités interprofessionnels* is the general assembly (*assemblée générale*), which, depending on the association, may meet up to three times a year. It determines the goals, strategies and activities of the association as well as the membership fees and the budget.

The founding of a *comité interprofessionnel* is a voluntary undertaking. Following the founding, however, membership is compulsory for all those who want to produce wine bearing the registered designation of origin AOC in the respective region. Given the considerable differences of interests among the various professional groups, the members of the inter-trade associations do not constitute a homogeneous organisation. The wine-growers who sell their grapes to a co-operative or wholesaler, for example, are interesting in achieving the highest possible price. The buyers of the grapes, on the other hand, want to keep this price as low as possible. Setting grape prices, an activity in which the inter-trade group is usually actively involved, demonstrates the ability of this organisation to reconcile serious conflicts of interest.