2 The Austrian Wine Industry

2.1 Economic Importance of the Wine Industry in Austria

The organization Statistik Austria is responsible for the Federal Agriculture and Forestry financial balance (Land- und Forstwirtschaftliche Gesamtrechnung) as of 2003. Due to a fundamental change in the calculation, the statistics cannot be directly compared to the statistics of the Economic Research Institute (Wirtschaftforschungsinstitut) from previous years.

The development of the national incomes from agriculture and forestry in the past years can be seen in the table below:

Production Value and Factor Income for Agriculture in the Year 2003				
	2001	2002	2003	2003/02
	Million €			%
Output of horticulture and crops at production cost	**2.623**	**2.592**	**2.612**	0,7
Grain[2)]	758	724	732	1,2
Commercial plants[3)]	261	251	245	-2,2
Vegetable and garden produce[4)]	369	388	368	-5,3
Fruit	258	265	314	18,6
Wine	428	446	473	6
Other[5)]	549	518	479	-7,5
Output of livestock and livestock products at production cost	**2.745**	**2.582**	**2.528**	-2,1
Livestock	*1.643*	*1.523*	*1.521*	-0,1
Cattle, calves	697	746	768	3
Hogs	767	605	580	-4,1
Poultry	118	118	122	3
Other animals[6)]	62	54	51	-5,7
Livestock products	*1.102*	*1.058*	*1.007*	-4,9

Dairy	937	887	832	-6,2
Eggs	123	129	134	4,3
Other livestock products 7)	43	43	41	-4,8
Agricultural services	**512**			
Non-separable farm-related income	**5.880**	**5.724**	**5.671**	-0,9
Output value of agriculture at production cost	2.981	2.973	2.949	-0,8
- Advance payments	**2.899**	**2.751**	**2.722**	-1,1
= Gross value added at production cost	1.346	1.348	1.351	0,2
- Cash expenses	**1.553**	**1.403**	**1.371**	-2,3
= Net value added at production cost	77	91	92	0,3
- Other production expenses	1.116	1.154	1.174	1,7
+ Direct government payments and other subsidies	**2.591**	**2.465**	**2.453**	-0,5
= Net factor income for agriculture	**5.880**	**5.724**	**5.671**	-0,9
1) net- 2) all grains including corn - 3) oil crops, protein crops, sugar crops, tobacco, other commercial plants. - 4) vegetables, nursery plants, flowers und decorative plants, cultivation. - 5) feed crops, potatoes, and other crops. - 6) sheep and goats, hoofed animals, game. - 7) honey, wool Source: Statistik Austria, preliminary values				

The Definition of the Agricultural Income in the Federal Agriculture and Forestry Financial Balance

The agricultural income as defined by the Federal Agriculture and Forestry financial balance is the farm and farm-related income derived from activities within a specified accounting period, even if this income is received at a later time. This therefore does not reflect the actual received income within the accounting period. Because the Federal Agriculture and Forestry financial balance data includes farm and farm-related income only and not income from other off-farm sources (non-agricultural earnings, wages, welfare, social security, interest, dividends, etc.), statements over the development of the total income or disposable income of farm households cannot be made.

The central income parameters of the federal agriculture and forestry financial balance are the net values at factor cost (factor income) and the index of real factor income of agriculture per annual labour unit (called *indicator A* by Eurostat).

The factor income is calculated by taking the value of agricultural output at production cost minus advance payments, cash expenses, and other production expenses, plus direct government payments and other subsidies. Farm inputs such as real estate, capital, labour, and materials are absent from the calculation and thus the value represented is the sum of the value of the commodities produced on farms.

The *indicator A* represents the real (deflated) net value of the agricultural economy at production cost per annual labour unit. Deflation of commodities is calculated according to the Eurostat Handbook with market prices using the implicit GNP price index.

	Farm output
-	Advance payments
=	Gross value added at production cost
-	Cash expenses
=	Net value added at production cost
+	Direct government payments and other subsidies
-	Other production expenses
=	**Net value at factor cost / factor income** deflated with relation to the annual labour unit **Indicator A**

Annual Labour Unit

The Calculation of Farm Labour in the Framework of the Federal Agriculture and Forestry financial balance:

In order to reflect labour in agriculture, including part-time and season labour, annual labour units are calculated. One annual labour unit is the equivalent of the farm labour of one person working full-time an entire year. In the calculation of the annual labour unit, it is differentiated between paid and unpaid labour and the average of the two comprise the annual labour unit.

Source: Statistik Austria / www.statistik.gv.at

2.2 Grape Harvests 1960-2003

Grape Harvest 1960-2003						
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
2000	2,338,410	44.1	1,491,605	678,372	156,250	11,478
2001	2,530,576	54.8	1,545,328	777,925	186,025	20,584
2002	2,599,483	56.5	1,665,325	734,677	179,317	19,515
2003	**2,529,894**	**60.1**	**1,512,916**	**839,027**	**163,131**	**13,529**

Source: Statistic Austria, Federal Ministry for Land and Forestry, Environment, and Technology (BMLFUW), Fast Report 2004

* calculated on the basis of the productive vineyard area in ha

The following is a comparison of harvest development since 1960 **(Share in %):**

	1960	**1970**	**1980**	**1990**	**1994**	**1997**
White wine	87.1	88.0	84.1	80.9	81.4	70.9
Red wine	9.2	11.2	15.8	19.1	18.6	28.5
	1999	**2000**	**2001**	**2002**	**2003**	
White wine	74.7	71.2	69.5	72.0	63.5	
Red wine	25.3	28.8	30.5	28.0	37.5	

* rounded

Source: Statistics Austria and BMLFUW, Fast Report 2004

Grape Harvest 2003

Feder State	Number of wine-growers	Productive Vineyard Area in ha	Tafelwein		Landwein		Qualitäts- and Prädikatswein		Other products *)		Total	
			White	Red	White	Red	White	Red	White	Red	White	Red
Bgld.	7.286	12.421	40.022	26.028	10.681	6.372	300.499	439.333	13084	3008	364.286	474.741
NÖ	14.220	26.170	133.788	13.121	39.850	11.930	921.427	372.289	17004	3507	1.112.069	400.847
Stmk.	3.184	3.186	4.202	1.581	9.409	3.813	102.490	37.290	2536	1810	118.637	44.494
Wien	222	314	435	65	1.185	240	8.323	2.955	294	32	10.237	3.292
Kärnten	7	1	4	1	4	5	10	15	0	0	18	21
ÖÖ	16	12	13	6	11	43	499	87	0	6	523	142
Tirol	3	7	0	0	0	0	110	263	0	0	110	263
Vbg.	8	4	0	0	7	21	56	32	0	0	63	53
Sbg.	3	2	0	0	0	0	48	50	0	0	48	50
Gesamt	24.949	42.117	178.464	40.802	61.147	22.424	1.333.462	852.314	32918	8363	1.605.991	923.903
			219.266		**83.571**		**2.185.776**		**41.281**		**2.529.894**	

*) incl. Grape must concentrate, rectified
Source: BMLFUW and Statistics Austria; fast report February 2004

The 2003 vintage of 2,529,894 hectolitres was 2.7% less than the previous year's and very close to the longstanding annual average of 2.5 million hectolitres. White wine comprised 63.5% of the total harvest at 1,605,991 hectolitres, while red and rosé wine came to 923,903 hectolitres (36.5%).

The harvest reports of 2003 were based on a new and more precise method of data collection resulting in even higher accuracy than previous years. This is also a partial explanation for the differences in the vintage statistics of 2003 compared to those of previous years.

Burgenland is clearly Austria's largest red wine producer, for the first time now producing more red wine than white. Lower Austria continues to produce ¾ white wine, similarly Styria and Vienna.

2.3 Qualitätswein (Quality wine) in Austria 2003

Statistics – State Inspection Numbers (1/2003 – 12/2003)

Number of state inspection numbers issued:	32,381	
Number of rejections, refusals, reversals:	5,415	
Number of withdrawals:	4	
Number of applications in 2003:	39,744	
Growth rate of applications (basis 1.1.2002-31.12.2002):	14.2 %	
Number of wine-growers making application:	6,036	
Cost of inspection according to tariff (in €):	2,136,438.69	
Inspection costs passed on (in €):	1,166,015.73	54.57

Breakdown of State Inspection Numbers by Volume (in hl)

In the 2003 calendar year state inspection numbers were issued for a total of 1,378,866 hl of wine. White wine accounted for 893,741 hl (64.8 %), red wine for 465,908 hl (33.8 %) and rosé wine for 19,217 hl (1.4 %).

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

	Volume hl 2003	% *) 2003	Volume in hl 2002
Weinland			
Burgenland	221,871	16.09	201,901
Mittelburgenland	61,067	4.43	61,062
Neusiedlersee	96,475	7.00	93,516
Neusiedlersee-Hügelland	33,773	2.45	34,202
Südburgenland	7,583	0.55	7,178
Niederösterreich	228,558	16.58	137,951
Carnuntum	15,578	1.13	12,068
Donauland	43,691	3.17	44,782
Kamptal	76,611	5.56	66,170
Kremstal	76,780	5.57	91,693
Thermenregion	31,419	2.28	31,299
Traisental	9,057	0.66	7,357
Wachau	59,979	4.35	70,650
Weinviertel	298,121	21.62	263,450
Steirerland			
Steiermark	8,505	0,62	1,356
Südoststeiermark	22,917	1,66	22,623
Südsteiermark	67,993	4,93	65,890
Weststeiermark	11,709	0,85	9,735
Wien	6,945	0.50	6,533
Salzburg	0	0	n/a
Oberösterreich	37	0.003	n/a
Kärnten	18	0.001	n/a
Tirol	0	0	n/a
Vorarlberg	178	0,013	n/a
Total in hl	**1,378,866**		**1,148,268**

*) rounded, n/a not available

Breakdown by Wine Regions

	Volume hl 2003	% 2003	Volume in hl 2002
Weinland	1,260,564	91.42	1,123,279
Bergland	234	0.02	182
Steirerland	111,124	8.06	99,604
Wien	6,945	0.50	6,533

Breakdown by Quality Levels

		2003	2002
		Menge in hl	Menge in hl
Qualitätswein	White	790,449	1,132,053
	Red	461,685	
	Rosé	16,744	
Kabinett	White	75,746	71,976
	Red	2,912	
	Rosé	2,087	
Spätlese	White	18,995	15,544
	Red	1,181	
	Rosé	311	
Auslese	White	3,112	3,259
	Red	65.0	
	Rosé	20.0	
Beerenauslese	White	2,152	2,778
	Red	19.5	
	Rosé	25.6	
Ausbruch	White	334	517
	Red	10.2	
	Rosé	0	
Eiswein	White	1,134	1,337
	Red	1.7	
	Rosé	23.9	
Strohwein	White	18.9	76
	Red	27.5	
	Rosé	0	
Trockenbeerenauslese	White	1,801	2,071
	Red	640	
	Rosé	450	

*) rounded

Statistic 2002: not available for white, red, rosé, but rather for the various categories Qualitätswein, Kabinett, Spätlese, etc.

Breakdown by Variety

Grape Variety	Volume in l	Grape Variety	Volume in l
Blauburger	1,349,460	Müller Thurgau	4,119,280
Blauer Burgunder	875,346	Neuburger	1,174,330
Blauer Portugieser	2,904,147	Rathay	880
Blauer Wildbacher	856,313	Riesling	4,160,968
Blaufränkisch	10,384,199	Roesler	5,060
Bouvier	144,274	Roter Muskateller	4,700
Cabernet Franc	24,204	Roter Traminer	4,380
Cabernet Sauvignon	806,662	Roter Veltliner	273,119
Chardonnay	4,293,661	Rotgipfler	154,163
Frühroter Veltliner	453,805	Sauvignon Blanc	1,682,319
Furmint	11,060	Scheurebe	75,910
Gemischter Satz	111,912	St. Laurent	1,476,345
Gewürztraminer	4,822,580	Syrah	75,482
Goldburger	48,245	Sämling 88	601,047
Grauer Burgunder	463,811	Weißer Burgunder	4,607,957
Grüner Veltliner	61,759,630	Welschriesling	9,255,464
Jubiläumsrebe	4,465	Zierfandler	11,550
Merlot	200,045	Zweigelt	26,096,764
Muskat Ottonel	536,014	Sortenverschnitt Rot	6,985,797
Muskateller	685,898	Sortenverschnitt Weiß	990,355

Source: Federal Institute for Viticulture. Eisenstadt. 2004

Rejection analysis for federal inspection numbers for the reported year based on notification date

Total rejections: 5,411
Quantity in litres: 19,861,128
Sensory rejections from total: 4,942
Quantity in litres: 19,340,485

2.4 Austria's Wine Supply and Storage Capacity 2003

The accumulation of stored stock of wine from the previous year in Austria could be reduced back to the average of 2.8 million hectolitres. Only a slight shift in the composition of the total could be observed with the stock of table wine, land wine, and quality wine slightly decreasing and the stock of predicate wine increasing by 10% as compared to 2002. This results in the total stock being comprised of 79% quality wine, 12% land wine, and 8% table wine. As of 2003 sparkling wine is no longer accounted for separately, but rather together with miscellaneous wine products. The collection of wine storage capacity data is no longer undertaken.

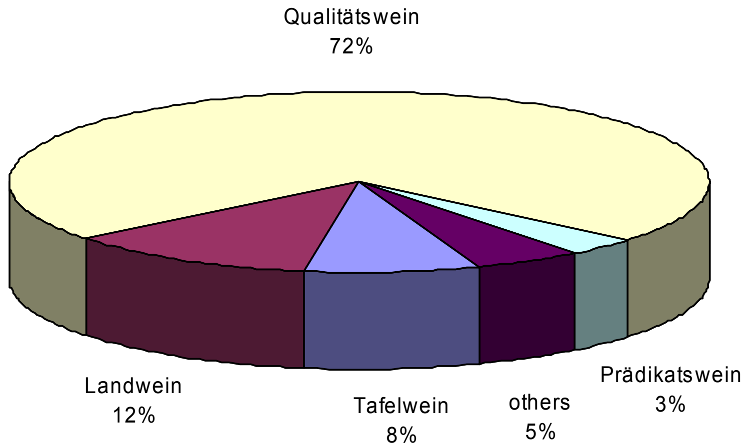
Federal States	Tafelwein	Landwein	Qualitäts-wein	Prädikats-wein	Grape must concentrated
Burgenland	24,724	46,023	475,644	56,115	889
Carinthia	12	73	228	4	-
Lower Austria	136,380	221,147	1,363,648	33,982	1,758
Upper Austria	2,556	2,216	9,366	235	-
Salzburg	-	10	81	-	-
Styria	9,950	41,051	116,780	2,463	109
Tyrol	2,521	4,884	12,609	140	-
Vorarlberg	2,669	2,015	8,280	7	-
Vienna	49,602	5,723	43,180	360	60
Austria 2003	**228,414**	**323,143**	**2,029,817**	**93,307**	**2,817**
Austria 2002	288,438	377,222	2,125,288	85,495	2,008

Federal States	Grape must concentrated... rectified	Other products	Third-country wine	Total
Burgenland	259	10,454	1,380	615,489
Carinthia	-	86	2	404
Lower Austria	569	35,189	2,783	1,795,455
Upper Austria	-	2,847	11	17,232
Salzburg	-	-	-	91
Styria	66	8,135	166	178,720
Tyrol	-	1,487	861	22,502
Vorarlberg	2	529	233	13,735
Vienna	12	71,620	1,600	172,158
Austria 2003	**908**	**130,347**	**7,035**	**2,815,786**
Austria 2002	671	131,447	7,520	3,018,088

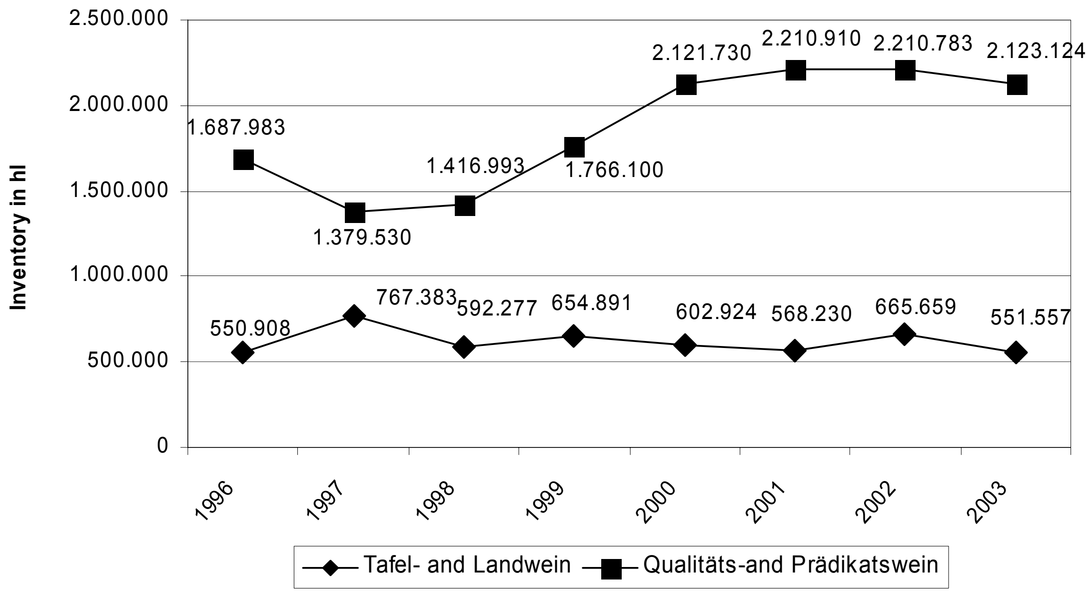
Volume in hl

Source: Wine Inventory Report of the Provinical Governments (key date: 31/7/2003)

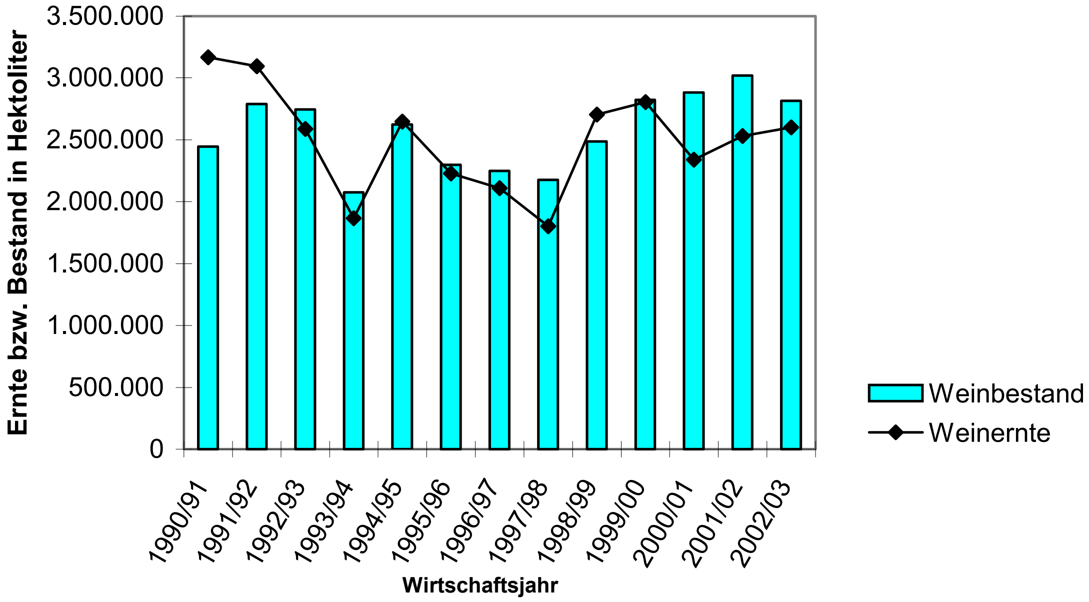
Share of products in the wine inventory 2003



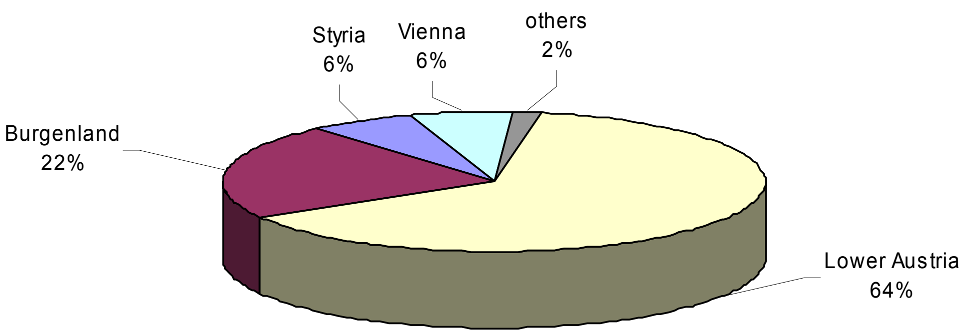
Inventory development of Tafel/Landwein
and Qualitäts/Prädikatswein 1996 - 2003in hl



Inventory in hl 1991 – 2003 compared to vintage 1990 - 2002



Inventory 2003– realative breakdown by Federal States



2.5 Development of Grape and Wine Prices

	1998		1999		2000		2001		2002		2003	
	Price in € *	**Index** 1997 = 100	**Price in € ***	**Index** 1998 = 100	**Price in € ***	**Index** 1999 = 100	**Price in € ***	**Index** 2000 = 100	**Price in € ***	**Index** 2001 = 100	**Price in € ***	**Index** 2002 = 100
Grapes. white. mixed**; kg	0.2980	66.0	0.2282	76.6	0.2529	110.8	0.25	98.9	0.30	120.0	0.27	90.0
Grapes. red. mixed**; kg	0.3634	67.9	0.2558	70.4	0.3648	142.6	0.49	134.3	0.48	98.0	0.50	104.2
Barrel wine. white. mixed**; litre	0.6155	95.1	0.3466	56.3	0.2863	82.6	0.27	94.3	0.26	96.3	0.26	100.0
Barrel wine. red. mixed**; litre	0.7580	97.7	0.4382	57.8	0.4869	111.1	0.58	119.1	0.69	119.0	0.67	97.1
Barrel: *Qualitätswein*. white	**)		0.4041	**)	0.3503	86.7	0.33	94.2	0.33	100.0	0.39	118.2
Barrel: *Qualitätswein*. red	**)		0.5312	**)	0.6061	114.1	0.79	130.3	0.84	106.3	0.85	101.2
2-litre bottle. white. mixed**; litre	1.5298	104.8	1.6569	108.3	1.6555	99.9	1.73	104.5	1.76	101.7	1.75	99.4
2-litre bottle. red. mixed**; litre	1.5312	102.4	1.7122	111.8	1.7267	100.9	1.83	106.0	1.84	100.5	1.88	102.2
Bottles. white; 0.75 litre	2.8793	100.4	2.9374	102.0	3.0370	103.4	3.14	103.4	3.31	105.4	3.40	102.7
Bottles. red; 0.75 litre	2.9585	103.1	2.9062	98.2	3.1053	106.9	3.26	105.0	3.43	105.2	3.57	104.1

*) in EUR excluding VAT
**) mixed grapes from the same vineyard
***) no data available

source: Statistics Austria

Austrian wine market

Average prices – barrel-wine (September 2004)

Land	€ price per litre (net)
NIEDERÖSTERREICH	
Qualitätswein (white)	0.29 – 0.34
Qualitätswein (red)	0.42 – 0.58
BURGENLAND	
Qualitätswein (white)	0.30
Qualitätswein (red)	0.45 – 0.56

Source: Der Winzer 9/2004

2.6 General regulations for wine production

Austria's Wine Industry – Structural Change

In the last 20 years the small world of Austrian wine has markedly changed and opened. Various wines and origins have differing images. not only in Austria. but also abroad (see Nielsen Brand Tracking Statistics).

According to structural statistics from 1999 there are currently 32.000 farms with vineyards in Austria. Only around 2.500 of these grape growers have 5 ha of vineyards or more. The advantages and disadvantages of this incremented structure will be analysed later. A small-structured wine grape production can generally be documented in the entire EU although the acquisition of data through market organizations varies among the different countries.

On a ten-year average. Austria's annual production has been 2.5 million hl of wine grown on an area of approximately 48.000 ha. The quantity produced in the years 1995. 1996 and 1997 was far below this average. The 1998 and 1999 harvests were significantly larger than the yearly average. The 2001 harvest was just under the average.

A comparison with the EU clearly illustrates Austria's position: within the Community there are approximately 3.5 million ha of active vineyards. resulting in an average annual production of 170 million hl of wine. The position of the biggest producers in the Community – France (914.000 ha. average annual production 60 million hl) and Italy (909.000 ha. 58 million hl) – is best described as "world-market dominance". While Spain has the largest viticultural area in the Community (1.18 million ha). because of its low average yield per ha it produces "only" around 33 million hl of wine annually (source: OIV. 1999).

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. 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.

In the white-wine sector. Styria demonstrated in the 1990`s 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 accelerated in Burgenland. while Niederösterreich (Lower Austria) continues to produce more Grüner Veltliner and Riesling.

Among the appr. 6.000 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.

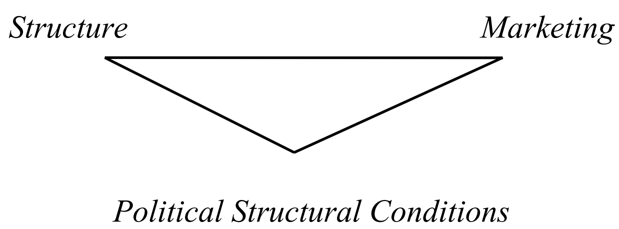
The "lower class" is composed of producers. who sell wine almost exclusively in two-litre bottles and (part of) their production in bulk. Things have become difficult since the 1998 harvest for those wine-growers who sell exclusively in bulk and for grape vendors who have no wineries of their own. Both 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. In the spring of 1998 the barrel-wine prices were around EUR 0.73 for white wine and EUR 1.1 for red.

The following normal harvests of 1998. 1999. 2000. 2001 and 2002 resulted in a decline in barrel-wine prices. For lower levels of white *Qualitätswein. Landwein and Tafelwein* this situation has still not changed – the lowest prices for white wine are around EUR 0.25 (August 2003). But there are possibilities for specialisation even when there is a surplus on the barrel-wine market. Selected *Qualitätswein* of the varieties Rhine Riesling. Sauvignon Blanc. Chardonnay as well as Grüner Veltliner of the best origins can be sold for markedly higher prices. Austrian red wine. even of the simplest quality. fetches prices of more than EUR 0.70 – 0.80.

Alongside the conversion of vineyards supported by the EU (see Variety adjustment programme) 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 wine committees.

T*he **Bacchus Study 2000.**which is a concrete analysis of the **Austrian wine industry** from the year 1994. clearly depicts the problems of the Austrian wine industry in form of "problem-triangle".*



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*

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*

Source: BACCHUS STUDY 2000. Vienna. 1994

Even though the findings of the Bacchus Study 2000 still retain a certain validity. positive tendencies can be clearly seen in a number of areas.

- Political structural conditions
  The repeal of the tax on alcoholic beverages has to a great extent evened out competitive conditions within the wine industry.
- Structure
  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. The Austrian programme of vineyard conversion addresses these problems in a number of ways (see also Chapter 1.3)
- Marketing
  The establishment of regional Wine Committees will permit the definition of common brands for origins. After their establishment. they will help to even out the existing lack of profile with respect to brands for products and producers.

2.7 EU-Measures for the Restructure and Adjustment of Vineyards

Under the EU measures for "Adjustment of Production to Demand" or the EU measures for "Improvement of the Vineyard Area Cultivation Technique" (in Austria often simply referred to as "Adjustment Measures"), 8,000 applications for more than 6,700 vineyard hectares as well as 2,100 ha of irrigation, 97,000 meters of embankment enforcement, 39,000 m² of walled terraces and 4,300 ha of pulled vines, together comprising a total worth of 53 million euros were accepted. This means that 10% of the Austrian vineyard area has already profited from these improvement measures. According to cautious estimates 95%-100% of the funds allotted Austria have thus been utilized, but because adjustment measures will continue to be a permanent part of GMO wine, it can be expected that future funds will be budgeted.

Analysis of the grape variety balance (vines planted minus vines pulled) of all vineyard adjustment applications to date show that the Austrian vineyard area dedicated to red wine varieties has increased by 4,000 ha (Zweigelt +2,100 ha, Blaufränkisch +580 ha, St. Laurent +340 ha, Merlot +330 ha). The white grape varieties show a slight decrease of -460 ha with -800 ha Grüner Veltliner and -250 ha Müller Thurgau, and increases in Chardonnay (+250 ha), Sauvignon Blanc (+240 ha), and Riesling (+160 ha). The quantity of Welschriesling remains virtually unchanged, while 810 ha of mixed vineyards (Gemischter Satz) were pulled.

Red wine demand: For years Austria has produce red wine and white wine in a percentile ratio of 25 to 75, yet consumption has shown a ratio of 45 to 55 Mathematically calculated, there has been the demand for an increase of 5,000 to 7,000 ha of vines dedicated to red wine production, a demand which has successfully been met through adjustment measures. At the end of the adjustment measures in 2005 the production ratio of red wine to white wine will be at least 30 to 70.

More information can be obtained from Dr. Rudolf Schmid, BMLFUW, Tel. +43 01 71100

2.8 The Austrian Wine Committees

The establishment of interprofessional committees has a long tradition in many of the classic wine countries. particularly in France. All sectors of the wine branch in each region work together on a committee for an optimal economic solution. After extensive discussions and assessment procedures. the Austrian Federal Minister for Agriculture. Forestry. Environment. and Water Supply signed the decree for the establishment of interprofessional committees in the wine branch. This decree meets the long-time wish of the Austrian wine branch for the instalment of such organizations

The fundamental level of the organization of interprofessional wine committees is regional.

<u>Regional Wine Committees</u>

Regional wine committees are made up of representatives of the essential sectors of each respective region's wine branch. Not only are the interests of merchants. grape growers. and bulk wine producers represented. but also those of small vintners and large well-marketed wineries. Together it is their responsibility to fulfil the following tasks:

- The primary task is to analyse the specific areas and enhance the coordination of sales. This can include general contract agreements like supply or operational contracts.

- Marketing measures for specific regional needs can be agreed upon with the Austrian Wine Marketing Board. The Austrian Wine Marketing Board's budget has been drastically increased to support regional advertising.

- If a regional committee agrees that it distinguishes the regional identity. D.A.C. specifications can be established for typical quality wines with geographic origins according to federal outlines.

National Wine Committee

The National Wine Committee serves as an administrative filter between the resolutions of Regional Wine Committees and the Federal Ministry for Agriculture. Forestry. Environment. and Water Supply. Specific responsibilities of the national wine committee include:

- The national wine committee must verify that the proportion of the nominated members of each regional committee reflects the market significance of the diverse regional branch sectors.

- The national wine committee must ensure that the regional committees' establishment of D.A.C. wines and other resolutions are in the general interest of the Austrian wine industry.

The national wine committee is appointed by the Federal Minister for five years and consist of:

- Nine members from the wine production sector as nominated by the President Conference of the Agricultural Commerce Chamber. whereby at least two members must be representatives from wine producing cooperatives.

- Nine members of the wine trade sector as nominated by the Federal Chamber of Commerce. whereby at least two members must be representatives from the sparkling wine production.

- In addition there are members with consulting functions without voting rights that advise members and carry out committee resolutions in their various positions. These consulting members consist of one expert from each of the wine producing provinces from the Ministry of Agriculture. one expert each from the Agricultural Commerce Chamber and the Federal Chamber of Commerce. as well as the director of the Austrian Wine Marketing Board Ltd.

It is essential that the National Wine Committee has a balanced membership from all sectors of the wine branch. The committee should serve as a platform for listing and discussing all appropriate options for improving and enhancing the marketing of Austrian wine. Although quality wines are the main focus. Austrian land wine and sparkling base wines are also a responsibility.

The central element of the interprofessional committees remains with the Regional Wine Committees. The Regional Wine Committees play the most significant role in the decision making process and work autonomously. Only resolutions that have legal consequences require the National Wine Committee's approval. Because it is vital for each region to exploit

its potential. all competent members of the wine branch have the duty to assist their respective regional committee.

<u>Establishment of Regional Wine Committees</u>

The regulations for the establishment of Regional Wine Committees are anchored a decree from the Federal Minister for Agriculture. Forestry. Environment. and Water Supply on the March 30th. 2001. Presently. the following regional wine committees have been designated:

A Regional Wine Committee shall undertake the following specific tasks:

1. Enhance awareness and transparency as regards the production and marketing of *Qualitätswein* with the aim of achieving a better co-ordination of sales.

2. Conduct market research and implement marketing measures in co-operation with the Austrian Wine Marketing Board. These marketing measures must be in keeping with the image of Austrian wines as a whole.

3. Develop procedures and technologies aimed at improving product quality.

4. Draw up standard agreements. such as supply contracts and cultivation agreements.

5. Define the conditions for the production and marketing of regionally typical *Qualitätswein* with a distinctive profile of origin.

The Committees are designated "Regional Wine Committees" combined with the name of their local area of jurisdiction. The goal is to set up one Wine Committee per wine-growing region. This principle may be departed from in justified cases.

The Regional Wine Committees are composed of local representatives of the wine industry in each area. Examples of representatives of the wine industry are:

- Grape growers
- Wine producers
- Wine merchants
- Representatives of co-operatives
- Producers of sparkling wines
- Brokers etc.

The composition of the Regional Wine Committees must at any rate reflect the specific features of their particular area. This means that the number of members comprising local representatives of the wine industry will be weighted according to the amount of wine actually marketed. At the same time. the number of grape growers. wine producers. members of co-operatives. wine merchants etc. must also be taken into account. However. provided that the market participants agree. the above-mentioned weighting may take into consideration not only the current position. but also the possible future situation (i.e. the target) of the market.

A Regional Wine Committee shall consist of at least five members.
The number of members may not exceed the following limits:

In a wine-growing region.

1.	with less than 1.000 ha of vineyards:	7 members
2.	with between 1.000 and 5.000 ha of vineyards:	15 members
3.	with more than 5.000 ha of vineyards:	21 members

The members of the Regional Wine Committees are recommended by the Presidential Conference of the Austrian Agricultural Chamber and the Austrian Chamber of Commerce through their respective local and regional organisations and are then appointed by the Federal Minister for Agriculture and Forestry. the Environment and Water Management for a period of five years. This recommendation requires the approval of the National Wine Committee.

Presently. the following regional wine committees have been designated:
(in parenthesis are the dates of decision notification of the National Committee resolution)

1.	Carnuntum	(5.9.2001)
2.	Thermenregion	(5.9.2001)
3.	Traisental	(5.9.2001)
4.	Wachau	(5.9.2001)
5.	Burgenland	(28.11.2001)
6.	Weinviertel	(28.11.2001)
7.	Kremstal	(18.3.2002)
8.	Wien	(12.6.2002)
9.	Kamptal	(12.11.2003)
10.	Wagram	(23.4.2003)
11.	Klosterneuburg	(23.4.2003)

2.9 The Value of Origin

An important goal will be to emphasise the unmistakable quality of Austrian wines. i.e. the creation of a unique identity. independent of price. In the long term. only clearly positioned products (in all price categories) will be able to maintain their edge on both national and international markets in the wake of increasingly fierce competition.

This goal can be achieved only if the consumer is given clear messages and information via the product itself. The best wine in the world is of no value if a potential buyer cannot recognise it clearly and distinctly.

The diversity of Austria’s wine landscape. which is characterised by small wine-growing regions. a wide variety of grapes (some of which are hardly known internationally). a large number of quality grades and. above all. a broad range of different types of wine in one and the same region. makes Austrian wines difficult to export on the one hand and. on the other. does not provide much guidance for domestic consumers who do not profess to be wine experts.

Traditionally. Austria’s wine industry has always been oriented to origin. It was only in the 1950s that. based on the German model. wines in this country became classified according to grape varieties and quality grades. which in turn were determined by the must sugar content. Based on these considerations. some six years ago the Austrian Wine Marketing Board embarked on discussions aimed at placing a stronger emphasis on origin in Austrian wine legislation. The core of this strategy. in line with the appellation policy that has been used by southern wine-producing countries since time immemorial. is to limit the designation of origin from a wine-growing area to just a few characteristic wine types. while all other varieties or quality grades are sold under the label of the new provincial wine-growing regions such as Niederösterreich und Burgenland (Lower Austria and Burgenland).
In other words: given the structural weaknesses and concomitant price fluctuations prevailing in Austria’s wine industry. the range of products should be better segmented. Independent of the names of prominent wine estates. wines with a prominent designation of origin can thus maintain their price levels even when harvests are large.

The specific work undertaken by the Regional Wine Committees should not only ensure that these goals are achieved. but should also serve to strengthen the foundations of the Austrian wine industry in the long term. Based on the market data received. the Wine Committees ascertain how much wine is actually sold under the respective label of origin. For future harvests. the relevant Wine Committee could regulate the amount of regional quality wines offered by introducing additional quality standards to supplement the legal provisions (e.g. selling regional quality wines with inspection numbers by the barrel or by not selling grapes for regional quality wines without first concluding a specific vineyard agreement with the buyer). This should also ensure that wine sold by the barrel maintains reasonable prices. Price fluctuations would then be possible only in the case of *Tafelwein*. *Landwein* and *Qualitätswein-Bundesland*. which would absorb any “surplus”.

2.10 DAC: The logical key to Austrian wine

The first geographically indicated wine (DAC) comes from the Weinviertel area

Geography rather than grape variety is given more profile in the Austrian wine hierarchy with the introduction of the new geographic indication system (DAC stands for „Districtus Austriae Controllatus). Austria’s largest demarcated wine growing area, Weinviertel, is the first to label under the new system. “Weinviertel DAC” represents a Grüner Veltliner of typical regional character with a clearly defined taste profile.

Wines with geographic indications coupled with clearly defined taste profiles are introduced for the first time in Austria by the new DAC system. This new system promises future consumers exacter information with the goal of making purchasing decisions easier. In the short term not only consumers, but also merchants and the hospitality trade in the domestic and foreign markets will profit from easily recognizable and identifiable, regionally typical, taste profiles.

Strategic Improvement for Export

The new DAC system brings not only advantages on the domestic market, but also in export. Up until recently Austrian wine exports have not only suffered from the diversity in varieties, regions, and single vineyards, but also because of the extremely small-fractured production structure. Only few wineries are in the position to deliver a continuous supply of wines to international markets because quantities produced are simply too small. With the DAC model, it is now possible to characterize one regionally typical and defined wine style from several different producers. This advantage is expected to bring doubled export statistics for bottled wines.

Creation of a unique regional profile

Austria enters the established marketing system of the classic wine production countries represented by the DOC of Italy, the AOC of France, and the DO of Spain, where regional names become a brand (i.e. Chianti, Rioja or Chablis) and the grape varieties become secondary. In this way specific regions succeed in creating unique and clearly defined, unique identities which are closely entwined with local culture and climate. Grape varieties have proved themselves to be exchangeable, while origin is not.

Weinviertel as role model

Austria’s first DAC wine has been on the market for only a short period. More than 500 vintners from Austria’s largest wine growing area located adjacent to Vienna produce wines with the geographic indication “Weinviertel DAC”. All of these wines are produced from the autochthon grape variety Grüner Veltliner, which comprises approximately 50% of the total vineyard area of the Weinviertel wine area. These wines are defined by their spicy, peppery aroma with delicate fruit and pale yellow to greenish yellow colour. These wines must fulfil the federal regulations for quality wines and are further subjected to strict sensory control. In this way a high level of quality can be attained and that the wines fulfil expectations for regional and varietal character guaranteed.

Regional committees define DAC character

In order to plan the DAC system, regional wine committees were formed with representatives from both wine merchandising and production sectors. These interprofessional committess were given the responsibility of creating marketing and production strategies with one of the main tasks being the clear definition of a regional image and a geographic indication that can then be marketed under the name of a demarcated wine growing area together with the DAC label. The goal of defining DACs is being discussed by all regional committees and the DAC system continues to be an evolutionary process. The next wine growing area that is likely to define a DAC is Burgenland. Whether this will be a large and diversified DAC with various sensory styles or one with various sub-districts each with its own distinct style is yet to be decided. In the second example, Burgenland could become a large geographic indication which is labelled on all quality wines from the region with sub-districts showing only on the labels of those wines with corresponding defined taste profiles. Dynamic discussions around this subject are underway in all of Austria's wine growing areas.

Logic has priority – a system for consumers

As is with all geographic indications, Austria's DAC is focused on regional origin with the goal of making purchasing decisions for consumers easier in a logical and simple way. In the long term, consumers should be able to associate a **clearly defined taste profile** with a geographic name. Because the association will be made with place of origin rather than with DAC, a hierarchy that would include a DACE or DACG would not be logical and is not planned. This type of system has proven to be confusing for consumers making purchasing decisions more complicated. The goal is to encourage consumers to buy wines from specific geographic origins that can be associated with a clearly defined taste profile rather than because of the DAC abbreviation on a quality seal.

This is to be interpreted differently with **price segmenting**. The introduction of supplementary terms for higher quality wines, for example with the word "Reserve", is meaningful. This type of supplementary labelling is easily understood by the consumer and communicates a wine of higher quality and value clearly. The best way to further communicate this system is to refrain from the use of **village or single vineyard names** on the labels of simple quality wines, reserving this privilege only for wines of higher value. In this way the use of further terms, such as "Klassik" or "Selektion", which can lead to consumer confusion, can be spared. The prerequisite for this policy is a familiar geographic indication with a clearly defined taste profile.

The message remains simple: the smaller or more specific the geographic origin is labelled, the higher the quality and value of the wine. In this way, Austria takes on a logical and internationally proven **basic principle of geographic origin marketing**. The message that the smaller or more specific the geographic origin is labelled, the better the quality and the more unique its regional character, is widely understood by consumers.

2.11 Questions and Answers – a Guide

1. What does DAC mean?
DAC is the abbreviation for Districtus Austria Controllatus. directly translated: Controlled District of Austria. As of March 2003. DAC may appear on Austrian wine label and denotes a typical quality wine of controlled geographic origin.

2. Why is DAC necessary?
The DAC concept is the logical conclusion to the quality improvements undertaken in the Austrian wine branch over the last decades. Austrian vintners and their wines have achieved international recognition for their high level of quality. It is the quality of the product that has made it competitive on an international level. It is now time for marketing to take assertive steps to keep up with international standards. In view of the current market situation. it has become clear that in order for small-fractured wine economies (like Austria and Burgundy) to retain their market value and sustain themselves amongst competitive big brands. generic appellations are necessary.

3. What is a DAC wine?
A DAC wine is essentially not a new wine at all. The DAC label is based on the same wine quality system as before and will basically denote wine that has a typical regional style and flavour profile. These wines will continue to be allowed to carry their wine area of origin on their labels. The DAC follows the lead of other renowned appellation systems of wine areas in Italy (Chianti and Soave for example). France (Bordeaux. Burgundy. and Chablis representative). or Spain (Rioja. etc). In these countries the appellation systems are abbreviated as DOC/DOCG. AOC/AC. or DOC/DO.

4. What does Weinviertel-DAC represent?
DAC wines will represent regionally typical wines from a demarcated wine area. The Regional Wine Committee of the Weinviertel wine area has chosen the Grüner Veltiner as their DAC wine. Not only because the variety Grüner Veltliner. which comprises 50% of the wine produced in the area. is an outstanding regional specialty. but also because of current demand. It can be stated without exaggeration that Grüner Veltliner has positioned itself on the international marketplace as the flagship varietal of Austrian wine.

The "Weinviertel-DAC" represents a Grüner Veltliner that is fruity. spicy. and peppery. has a pale yellow or green-yellow colour. shows no oak flavour or wood influence. and is dry. The alcohol content must be at least 12% and. like all quality wines from Austria. can be sold only in glass bottles (.75 l size or multiples of the 0.75 l size).

5. What is the difference between DAC wines and other wines?
The difference to other wines is simply that a DAC wine represents a quality wine that is typical for a demarcated area. In the case of the Weinviertel wine area. this is a Grüner Veltliner. Other high quality Austrian wines will. of course. continue to carry the "Qualitätswein" guarantee. The only difference in DAC wines to other quality wines will be that they represent and are marketed as typical wine specialties of a particular wine area.

6. Are DAC wines better than normal quality wines?
No. both wines are quality wines according to the established Austrian quality system. In addition to its proven quality. a DAC wine represents a typical wine specialty from a particular wine area with a specified style and flavour profile. A wine area will lend its name to DAC wines. for example "Weinviertel- DAC". with the name of a specified geographic area representing a particular type of wine.

It is not the purpose of the DAC concept to create a new quality category. but rather to support the present quality categories with a marketing concept to enhance international success. The quality initiatives of the Austrian branch in the last decades have positioned Austrian wine among the international elite. It is now of key importance to strategically market this high quality. It is particularly necessary for small-structured wine economies like Austria to adapt their marketing structures to international demands with generic appellations according to successful international role model. This is the aim of the DAC concept.

7. What is the goal of the DAC concept?

The DAC concept is focused on national and international consumers. A solution for the easy recognition of a particular wine with a clearly defined style and flavour profile is offered. National and international consumers know how Chianti. Rioja. Chablis or Sauternes taste and what they can expect from a wine from these wine areas. These geographic areas have established themselves as clearly identifiable “brands” in the eyes of consumers. This is exactly the goal of the DAC concept. DAC should assist consumers in their wine purchase by giving a clearly defined message of a typical regional wine with a specific style and flavour profile as well as consistent high quality.

Only in this context will it be possible for the Austrian wine branch to position itself successfully long-term on the international marketplace. Developments in the international wine market (lead by California. Chile. and Australia) over the last 15 years have resulted in increasing economic pressure and disadvantages for small-fractured wine regions. Wine regions with no clear marketing concept or no recognizable brand identity will be destined a minor roll on the future wine market.

From the viewpoint of the Regional Wine Committees and the Austrian Wine Marketing Board. the efficient implementation of the DAC concept is a logical and necessary step.

8. What is a Regional Wine Committee?

The fundamental concept of a Regional Wine Committees is the idea that vintners and wine merchants know what is necessary and best for the wines of their region. An interprofessional committee made up of branch professionals has intimate knowledge of the various advantages and disadvantages of the local wine branch and is capable of considering all aspects. from production to international and national marketing. in order to develop and implement promising solutions.

Meanwhile nearly every Austrian wine area has its own Regional Wine Committee. Representatives from both production and trade are all integrated to guarantee that all aspects of the modern wine economy are considered. It is the responsibility of each Regional Wine Committee to govern and influence positively the production and marketing of the wine in “their” wine area. This. of course. includes the development of clearly defined regional wine profiles. The regional wine committees work together closely with the Austrian Wine Marketing Board for the development of marketing strategies.

9. Will every regional Committee create a DAC wine?

Yes. this is the current plan. Just as the Regional Wine Committee Weinviertel created the Weinviertel- DAC to represent their Grüner Veltliner. other Regional Wine Committees will also choose typical regional wines as their DAC wines. One DAC wine per wine area would be ideal from a strategic marketing viewpoint.

10. Doesn't the DAC concept simply copy old longstanding ideas? Shouldn't unique Austrian concepts be developed?

It is correct that the appellation system is an old longstanding concept. This is simultaneously proof that this is a functioning model demanded and developed by the wine branch itself. The DAC concept is an Austrian interpretation of the appellation system that weaves the uniqueness of Austrian wine into the positive aspects of an appellation system.

11. When will the first DAC wines be available?

Austria's first DAC wine is the "Weinviertel-DAC". This wine has been available since March 1st. 2003. March 1st will remain the release date each year for the next vintages. The other regional wine committees will follow successively with their DAC wines beginning 2004.

12. The last years have been very successful for the Austrian wine economy. especially in the export sector. What is the purpose of risking such an advantageous poition with changes braought by the new DAC concept?

It is exactly because the national wine economy is so successful and Austrian wine has reached such a high international standard that this is the perfect time for offensive marketing strategies for securing continued middle and long term success with the current level of quality and quantity. The national wine branch and Austrian wine have achieved an excellent international reputation in the past years. The Austrian Wine Marketing Board sees this as the perfect time to use a most advantageous position.

13. What will happen if the DAC concept does not work as planned?

Without wanting to appear arrogant. the Austrian wine branch and the Austrian Wine Marketing Board views the DAC system as a certain success. Because the DAC concept is conceived for middle to long-term advantages. the effectiveness should be noticeable within the next one to three years. The success of the concept is guaranteed because the already high quality of Austrian wine will be further improved and the national and international marketing will make it possible for Austrian "brand" wines to compete with already established international peers.

14. What quantities will be affected by the DAC concept?

The DAC system is to be understood as a middle to long term oriented concept for the Austrian wine branch. Estimates are that in the year 2003 approximately one million bottles of DAC wine (this means only Weinviertel-DAC) will be marketed. Three million bottles are estimated for 2005. A special focus has been given the export potential of DAC wines and it is predicted that long term. i.e. by 2010. the export of bottled Austrian wines will multiply.

15. How will DAC wines be controlled in the future? Will this be different than controls for other quality wines?

The fundamentals of control for quality wines and DAC wines are identical. The DAC wines are quality wines and must fulfil the same standards. All quality wines must pass controls and professional tastings. Only once these multiple criteria have been successfully met does wine receive its seal of quality and quality control number. The process is the same for DAC wines with an additional tasting to secure that the wine meets the style and flavour profile and other criteria set by the Regional Wine Committee. Should the wine fail to fulfil all criteria for a typical regional DAC wine. it has already passed qualification as a quality wine and will remain as such. The qualification as a DAC wine. like that for a quality wine. must be passed for each new vintage.

16. How will the price for DAC wine be structured?
The price for a 0.75 l bottle of Grüner Veltliner quality wine from the Weinviertel wine area currently starts at 2 Euros. Because of its heigh quality standard the price for a bottle of DAC-Weinviertel wine will begin at 5 Euros in the future.

17. What will vintners that produce no DAC wine do in the future?
Nothing will change for these vintners. The quality categories of the past remain unchanged and intact and will continue to be marketed in the future. It is only the seal of geographica origin that may change. but according to marketing and communication experts this should have no impact on consumer acceptance.