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APPELLATIONS OF ORIGIN IN THE VITICULTURAL SECTOR  
THE VISION OF THE WINE PRODUCERS

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### I. ACKNOWLEDGEMENTS

I would like to begin by thanking WIPO, represented by Mr. Höpperger, Head of the Geographical Indications and Special Projects Section, for the opportunity given to my company, which I am representing in addressing you today on such an all-embracing subject

asthatofgeographicalindications.Believe me,IamnotexaggeratingwhenIusetheword “all-embracing”to refer to the subject of our meeting here in Montevideo.

## II. BRIEF HISTORICAL OUTLINE OF CASATORRES

“Miguel Torres, S.A.” is a company set up to carry on the business activity in the wine and brandy sector begun by its founder, then now late Miguel Torres Carbó who, in turn, had continued the activity of his father, Juan Torres Casals, just as the latter had followed in the footsteps of his own father, Jaime Torres Vendrell.

The President of the Administrative Council of Miguel Torres S.A., Miguel Agustín Torres Riera, comes from the fourth generation which has continuously devoted itself to this business, while keeping the company's business capital entirely within the hands of the Torres family. The members of the fifth generation are recurrently actively involved in the company's future and, having completed their intellectual training, are learning, from the bottom up, the secrets of the business.

The foundation of the viticultural activity of TORRES dates back to the beginning of the seventeenth century, when the first Torres started their commercial activity, although the activity really took off in 1870, at the time when its export activity began. Many years have passed since then and, thanks to the continuous effort of four generations, the company “Miguel Torres, S.A.” is currently one of the leaders in the sector and its prestige is recognized throughout the world.

Very few companies have received such honors. The work done over time to promote Spanish wines was recognized by His Majesty King Juan Carlos I who visited the Torres family cellar on July 17, 1995, during the events held to commemorate the 125<sup>th</sup> anniversary. Our King therefore followed a tradition which was begun by his grandfather, His Majesty King Alfonso XIII, who visited the cellar in 1904.

Since the beginning, the Torres family has always had a great vocation for exports. In the Museum Foundation of the Torres family, a wine cask bill of lading is kept, dated 1873. TORRES products are therefore recurrently present on five continents, in specific terms in twenty-five countries.

In addition to the cellar in Spain, the Torres family owns cellars in California, the Russian River Valley, and the central Curicó valley in Chile. However, in the wine business it is not sufficient to have a vineyard and produce good wine, but a key element in achieving success is to have an excellent distribution system. For that reason, TORRES has invested in the business capital of its local distributors in the United Kingdom, Mexico and the Philippines, and has set up its own companies in Cuba, India, Peru and Sweden. Lastly, in April 1997 Torres signed an agreement with the company “China Zhangjiakou Great Wall Winery Co. Ltd.,” which established the Joint Venture “Torres Zhangjiakou Great Wall Torres Winery Co. Ltd..”

The TORRES family currently owns 2000 hectares of its own vineyards in Spain, 400 hectares in Chile and 40 in California. During the past year, 2000, a total of 39 million bottles were consumed throughout the world, all bearing the mark TORRES.

This is because TORRES is the family mark, as a symbol of prestige and quality acquired over a period of more than 125 years on the market. In view of the above, you will surely agree that my company's most important asset is none other than its mark: TORRES.

### III. GEOGRAPHICAL INDICATIONS: ORIGIN AS AN ELEMENT IDENTIFYING THE PRODUCT

Although the concept and increased importance of geographical indications are directly linked to the present century, their roots and main repercussions point to times gone by. Since trade was first undertaken, man has sought to identify, i.e. to single out, products by their origin. Ancient Greek historians already noted the virtue of the *swords of Calceide*, with a short blade and a long hilt, which took their name from their place of origin and were used by the armies of Alexander the Great in his epic journey to the East.

Why does this link exist between the product and the place in which it is produced? To my mind, there is a fundamental reason. From the beginning of our era until trade began during the Renaissance, the economy operated in terms of local guilds. For that reason, products were therefore known by the guild which had made them and their place of origin. The place of origin was what helped to distinguish certain products from others similar ones. Since the concept of "mark" did not exist, the concept of origin achieved its full potential.

The system was maintained until the advent of the Industrial Revolution, at the end of the first third of the nineteenth century. The development of prior art and the establishment of the means of mass production led to the disappearance of the guild system. This implied a sudden change in the system of product identification. It was not so important to identify the products by their origin, since just as many had been made by the craftsmen of a particular place, but for the new industry to begin to identify its products with its marks. A logical corollary to the above was the foundation and rapid development of the Industrial Property Law, the cornerstone of which was the Law on Marks.

The new world order did not, however, neglect its origins. Thus, the increased use of marks to identify the product and its enterprise origin did not prevent the consolidation, and hence the protection, of geographical indications.

Thus, the Paris Convention, signed in 1883, defined the object of industrial property protection, constituting part thereof, as:

“...trademarks, service marks, ... *indications of source or appellations of origin* ...”

In other words, since the pioneer countries of the old Europe (including France and Spain) were aware of the importance of appellations of origin as part of the national heritage, they hurriedly devised a system of protection for such appellations. The main foundation of such a system was the Paris Convention referred to above, which established the obligation of signatory States to adopt measures against the direct or indirect use of false indications concerning the source of the goods (Article 10). In essence, Europe was beginning to increase the “Strength of Appellations of Origin.”

Yes, STRENGTH, and I believe that such an affirmation cannot be disputed. At the end of the nineteenth century, which geographical indications or appellations of origin existed.

The response is simple. Only European ones. Only those from countries such as France, Germany, Italy or Spain had a tradition for such a system of identifying their products.

In view of the above, and before focusing the following part of my paper on the appellations of origin of wines, I believe this is the moment to state that TORRES, my company, and I myself believe by tradition, the geographical environment to which we belong and its usefulness, in the system of identifying the product by place of origin, especially if such products come from the earth. As I will have the opportunity to describe them in the course of this paper, the appellation of origin "perse" is an instrument of "differentiation" of the utmost importance, in a global market where the market place of any company you care to mention is the world. To my way of thinking, I would suggest that the key to the success of the old Europe consists in producing a number of strong marks within a few intelligible appellations of origin, as fundamental instruments of a shock marketing strategy against producers from the new world. The system of appellations of origin must be intelligible so as to be able to transmit to the consumer the values concentrated therein. I do not believe that, with more than three thousand viticultural appellations of origin, the consumer is currently able to understand the differentiation message which the system seeks to convey.

#### IV. APPELLATIONS OF ORIGIN IN THE EUROPEAN UNION

Earlier, we noted the importance of appellations of origin for Europe. Thus, such appellations form part of European cultural assets, since they are considered in countries such as France and Spain to be the National Heritage. It is easy to imagine the level of protection which such a legal construct provides.

A few figures will perhaps help you to understand the principle underpinning this protection framework:

Total wine production in Europe stood at 330 million hectoliters in 2000. The largest wine producer in the world is France with 62.2 million hectoliters, followed in second place by Italy with a production level of 58 million hectoliters. We should stress that we are referring to still wine and that the figures do not reflect the sparkling wine produced in the European Union.

In my country, Spain, which ranks third, according to data provided by the Ministry of Agriculture during the last harvest in 2001 production increased to around 37.4 million hectoliters, about 25 percent less than the 2000 harvest.

126,839 winemakers are employed in the sector and the volume of direct sales exceeds US\$4,000 million.

It is no surprise that faced with such a large volume of business, protection is sought for the sector on the part of governments. However, it is not only the numbers which makes such a policy expedient. As we have seen in relation to the number of winemakers registered in Spain, appellations of origin for wines and food products generate wealth in rural areas and therefore contribute to the settlement of people in such an environment; in short, this helps towards the territorial and demographic structuring of countries.

Thus, the most strictly regulated winemaking at the global level is that in the European Union. These regulations comprise a complex standard-setting system which covers aspects

such as the monitoring of winemaking potential, oenological practices, standards relating to market regulation, presentation and description, and exchange with third countries, where by a system for assessing the common features of production linked to geographical origin has been developed.

Within this complex system of standards, special attention should be devoted to the protection granted to appellations of origin which we will now consider.

## V. HISTORY AND CURRENT LEGAL FRAMEWORK OF EUROPEAN WINEMAKING

In 1970, with the introduction of Council Regulation (EEC) 729/70, for the first time the European Economic Community of the time regulated the financing of the Common Agricultural Policy, a large part of the resources of which was devoted to the winemaking sector. Since that date, the Commission legislature has undertaken almost obsessive efforts to regulate the wine making sector on the territory of the Union.

Such a proliferation of standards already the Community authorities to compile them, in the form of Council Regulation (EEC) 337/79. This text was the first compilation of the fundamental provisions on the common organization of the market in wine (hereinafter COMW). In other words, it is now more than 30 years since the standard -setting regulatory foundations of our sector were established in the European Union.

In the course of my paper, I am merely seeking to put forward a point of view for discussion. In a world where economic models change at the speed of lightning, our sector, which is one of the most important within overall agricultural production, continues to be governed by standards which were devised to regulate an economic situation diametrically opposed to the current one.

Thus, the basic principles underlying the COMW at the beginning of the 1970s continue to be fully relevant today, thirty years later. A principle based on sound logic leads us to think, at the same time, that the system is in some way defective.

## VI. PRINCIPLES UNDERLYING THE COMW

From the very beginning, the COMW has been inspired by an original principle: the maintenance of sectoral profits. It is understood that in view of the diversity of winemaking products, the impact of this activity on local economies – which generally lack another alternative – involving fluctuations in production, difficulties in finding markets and the long term nature of wine -making investments require a constant effort of general disciplines to guarantee a sustainable future.

Since the beginning of the 1960s, from this point of view the COMW has based and continues to base itself on two fundamental principles:

- (1) *intervention* in the market to guarantee equilibrium by means of aid for the private storage of wine and related products, and assistance with the use of winemaking for purposes other than fermentation; and,

- (2) *monitoring of winemaking potential in order to direct supply through* h:
- (i) the prohibition of new plantations and stimulus measures combined with a subsidy for abandoning vines; and,
  - (ii) the establishment of significant restrictions with a view to controlling the output of vineyards in Member States.

This is all placed in the context of the promotion of a wine with an appellation of origin for table wine, without a geographical indication, whereby such wine is subject to compulsory distillation (a percentage of the country harvest was to be handed over to the respective authorities of the Member States for distillation with a view to producing alcohol for consumption purposes, such products being purchased at fixed prices set in Brussels, which were obviously much lower than market prices).

These principles were once again present in the second COMW, which was established in Council Regulation (EEC) 822/87. As a central unit, this Regulation, combined with a whole series of implementing regulations and the development thereof, have constituted the “bible of the European viticultural legal order.”

- (a) Council Regulation (EEC) 823/87 laying down special provisions relating to quality wines produced in specific regions, amended by Council Regulation (EEC) 2043/89;
- (b) Council Regulation (EEC) 2392/89 laying down detailed rules for the description and presentation of wines and grape musts, with the important amendment by Council Regulation (EEC) 3897/91 (Isay “important” because such an amendment entailed new wording for Article 40 of Regulation 2392/89, which regulated relations between appellations of origin and wine product marks, thereby preventing the disappearance of the mother mark of my company, TORRES, as a result of the dispute that arose with the Portuguese appellation of origin, at the time of the new creation TORRESVE DRAS);
- (c) Council Regulation (EEC) 3201/90 laying down detailed rules for the description and presentation of wines and grape musts.

Up to the year 2000, the standards detailed here represented the main part of wine making regulations, although we are all aware that almost every day a standard is published in the Official Journal of the European Union, which amends, corrects or adds some other standard which impacts, directly or indirectly, on our sector. Consequently, the European winemaking sector is the most strictly regulated in the world.

Just like the phoenix, the system once again emerges from the ashes and its survival has been guaranteed, following the publication of Council Regulation (EEC) 1493/99, of May 17, on the new common organization of the market in wine, which seeks, according to the explanation of reasons underpinning the Regulation, to lead our sector into the twenty-first century. Just to point out that this Regulation is a compendium of previous legislation and retains the principles underlying the system, which have acted as implementing regulations since August 1, 2000.

The Commission is currently working on a new labeling Regulation which, to my mind, is more restrictive than the previous one. The draft Regulation in question is at a very advanced stage, having been discussed in the Steering Committee on Agriculture meeting, held last October. It will therefore be published soon. It goes beyond the bounds of this paper to begin discussing in detail the principles contained in such a Regulation. I will merely point out that the inequalities, as a result of which the wines produced in the European Union are in worse condition than those from third countries, have been maintained. Thus for example, the year, varieties used and certain traditional terms may be used only for table wines with a geographical indication or wines with an appellation of origin. I will return to this subject at the end of my paper.

## VII. EMBODIMENT OF THE REGULATORY PRINCIPLES

As indicated, in 1970, when consideration was given to establishing the basis of the COMW, the situation was one of surplus wine stocks, which, rightly in my opinion, led the Community legislature to set the foundations of a policy based on the restructuring of vineyards, and whose main aim was no less than to try to reverse this trend.

On the territory of the Member States, production was based on quantity rather than quality and the general overview was completed by a very old area of vineyards containing varieties which did not sell well.

The result of this scenario was the establishment of strict control over the sector, based on two fundamental principles which we have already referred to above:

- (a) the restructuring of vineyards within the framework of maintaining producers' profits. This led to the removal of 1,358,000 hectares of vineyards between 1971 and 1999;
- (b) the strengthening of the quality of European wines, which impacted on the distinctions made between them.

Wines were therefore restructured into three categories, with which we are all familiar:

- (a) quality wine produced in a specific region (QWPSR).
- (b) table wine, itself divided into two categories:
  - (i) table wine with geographical indication;
  - (ii) table wine without any identification of the origin.

Such a vision was enshrined in Council Regulation (EEC) 2392/89.

In short, this is based on the principle of including quality European wine at the highest point of the wine-making system, thereby giving priority to appellations of origin.

To provide an outlet for other wines, since there was no room in the system of appellations of origin, the second category of table wines was created, in the dual sense of such wines with and without a geographical indication.

Once the final product categories had been structured, standards were developed to facilitate the transformation of the winemaking environment. The standards in question were based on:

(a) monitoring of winemaking potential, the basic result of which was *the prohibition of new plantations*, thereby trying to prevent an increase in the area covered by vines on the territory of the Union;

(b) subsidies for removing vineyards, seeking the abandonment of vines in those places where vineyards were not considered competitive. It is not appropriate to comment here on the effects of such a measure but I believe that no one will be offended when I say that the measure led to an exponential increase in speculation in our sector;

(c) monitoring of winemaking potential, by controlling production, establishing maximum yields per hectare of vineyard and prohibiting the practices that might impact on such a parameter, for example *the irrigation of vineyards*.

The previous structural measures were completed with the strengthening of the system of appellations of origin. This strengthening involved using a concept such as a marketing element distinguishing European wines from new world wines, in particular those from Argentina, Australia, California or Chile. By means of the standard -setting measures, the European legislature granted an extremely high level of protection to wines with an appellation of origin, leaving all other wine -related products to be marketed under the category of table wines, although the traditional term that had been used to describe a wine since time immemorial became overnight the exclusive preserve of wines with an appellation of origin.

#### VIII. CONSEQUENCES OF THE SYSTEM; CURRENT SITUATION FROM THE SPANISH PERSPECTIVE

If you will allow me, I wish to emphasize once again that the principles underpinning the COMW at the beginning of the 1960s were maintained by the Community legislature until 1999, when Council Regulation (EEC) 1493/99 was published and, as I have said, led to the new COMW which will regulate our sector until the year 2010. However, the principles have not only been maintained but the new COMW extends the validity of the principles until the date in question.

Thus, according to the European Commission's Agriculture Directorate -General, the essential aspects of the reform are as follows:

(a) *pursuing the trend toward quality and meeting demand, by means of measures for restructuring and reconvert ing vineyards* ;

(b) *trying to maintain the balance between demand and production by extending the prohibition on planting vines* ;

(c) *maintaining the measures for removing vineyards*;



(d) *stimulating* the competitiveness of European winemaking and helping the sector to face up to the increasing openness of international markets.

In short, as I have already pointed out but I shall emphasize the concept, the European Commission is once again extending the validity of the control measures over our sector for at least another ten years. I emphasize once again that measures taken in the sixties, in an economic and geopolitical situation diametrically opposed to the current one, continue to be maintained.

As a Spaniard and a representative of the one of the most widely recognized Spanish cellars in the world, I cannot but question the policy adopted by the Community legislature, for two reasons:

(a) firstly, one of sound logic, as I have already repeated, since it is not viable to maintain the same principles for regulating a sector for more than 40 years;

(b) the other, which is the result of the analysis of the consequences of such a Community policy for the Spanish winemaking sector.

Disregarding the first argument, let us analyze the sector in Spain.

Spain has the largest area of vineyards in the world, which cover a total of 1,142,000 hectares, i.e. 34 percent of the area of vineyard in the European Union.

Notwithstanding the above, and for reasons of geographical allocation, Spain is the third largest country in production terms, behind France and Italy, with 16.5 percent of total European Union production.

The explanation for this lies in the location of my country in the Mediterranean Basin where rainfall is scarce and yields per hectare are therefore minimal. In Germany, by contrast, a country with an area of vineyards representing three percent of the European Union total (104,000 hectares), the overall production volume is ten percent of the European Union figure.

In my opinion, Spain is the country in the Union, which has felt the effects of vineyard restructuring most keenly. Thus, since 1986, the date of four incorporation in the European Union, more than 250,000 hectares of vineyard have been abandoned in my country.

The "quality" Spanish vineyard, allow me to place the term quality in inverted commas, is structured in terms of 54 appellations of origin extending over 623,954 hectares with qualified wine production of 9,152,505 hectoliters in 2000.

The figures are clear: in those terms, Spain does not produce sufficient wine to meet the needs of world markets. Such excessive demand has led to an *uncontrolled increase in the prices of the original grapes*. The corollary of such a policy is nothing less than the significant decrease in the market quota of Spanish wines on international markets. In other words, markets have not assimilated the transition from the increase in the price of grapes to the final product.

The above information clearly shows the statistics for the sale of Spanish wines in the market where we have traditionally maintained a dominant position, for example in Sweden.

In 1999, Spain's share decreased by 0.7 percent, as compared to the 1998 Swedish market quota, according to the statistics published by Systembolaget, a State agency that controls the wine trade in that country. For its part, France maintained its quota, while Germany lost 0.5 percent of its share.

This information would be no more than an anecdotal, were it not for the fact that the lost market share has been occupied by our most direct competitors, the producers from the new world. Thus, Chile increased its quota by a spectacular 1.2 percent during the same period, a quota increase followed by South Africa (0.6 percent) and Australia (0.5 percent).

What gives still greater cause for concern is the fact that, while wine consumption increased by about six percent during the reference period, the consumption of beer increased by about 15.2 percent.

The result is similar in the remainder of the traditional markets for Spanish wines. I have cited the example of the Swedish markets since our products have maintained a dominant position therein.

However, Spain is not the only country to have seen its market quotas reduced. The whole of the European winemaking sector has been affected. Thus, while in 1993, 12,175,075 hectoliters of wine were exported from the European Union to third countries, in 2000 the figure stood at 11,517,592.

On the other hand, in 1993, 2,752,223 hectoliters were imported, at a value of 370,660 Euros, while in 2000 the total was 7,470,861 hectoliters, at a value of 1,823,049 Euros.

For its part, French wine has lost its leadership in one of its traditional markets, i.e. the United Kingdom. Thus, Australia has undergone an increase of 35 percent in the past few years, thereby dislodging French wines from their leading position in such a market. I would like to refer to an article published in the *Revue Vinicole Internationale* (*International Wine Review*) in June 2000, which analyzed the causes of the fall in sales and where solutions were to be found. I refer to this article as I believe that, since the analysis of the state of affairs was carried out by a media source with the prestige and recognition of the *Revue Vinicole Internationale*<sup>1</sup>, its conclusions should be taken into account by operators. As I have already suggested, the article advocates a much clearer communication policy for the system of appellations of origin and, in turn, the provision of existing appellations with the means to allow them to compete with the new world.

In view of the above, it should be asked whether it is possible to fulfill the aim stated by the Commission through the new COMW (to stimulate the competitiveness of European winemaking). While our winemaking industry is not endowed with instruments allowing greater flexibility, and as regards regulatory excesses, we will not be able to compete with our competitors. In view of the information provided, those competitors have already begun to attack the European stronghold with their products.

In short, the major issue is to determine the accuracy of the established principle of quality-limitation and political control of production. At least, this principle does not hold true when our competitors launch exceptional quality wines onto the market at more than

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<sup>1</sup>June 2001, *Revue Vinicole Internationale*

competitive prices, with unrestricted marketing, in relation to the terms used in the labeling of their products.

As I have already pointed out, given that the European system has been based on the appellation of origin concept, the remainder of unclassified wines lie within an appellation or have been forced *to seek refuge* within the category of table wine with a geographical indication, or table wine pure and simple. It is high time that the mystery of the appellation of origin concept was explained. Such a concept does not guarantee equality; as its name implies, it guarantees only "origin." Owing to the outdated regulations governing the system of appellations of origin, illustrious European wine producers have therefore been forced to market their wines without the traditional terms that have accompanied European wine in a secular sense. For example, in the case of Spain the terms CRIANZA, RESERVA and GRAN RESERVA are limited to wine with an appellation of origin. Is it true that an unclassified wine has not been able to lie in a cask for the period required to merit having such terms included in its labels?

In my opinion, the most obvious case relates to table wine, pure and simple. I have already said that this product is allowed to indicate on its label only that it is a wine, and little more than that, in accordance with Article 3 of Council Regulation (EEC) 2392/89. Its label may not include either the name of the variety used or the year in which it was harvested. Is it true that with the current prior art, it is impossible to demonstrate the varieties of which a wine consists? Is it impossible to verify that a wine was produced in a particular year?

In short, in its policy of hyperprotection of appellations of origin the European legislature has marginalized, as outcasts, all other wines which, irrespective of their quality, have not yielded to participate in the restricted system in force.

Personally speaking, I am not convinced by this policy of interventionist bias for one fundamental reason: it does not fulfill the desired aim, as has been demonstrated by the past thirty years' history. However, I am aware that there are people who are fully in agreement and support the policy, such as our Australian, Chilean, North American or South African colleagues who are its most ardent defenders. As long as the COMW is in existence, the presence of its wines throughout the world will increase.

The questions are on the table and the solutions are in the hands of the European winemaking sector, and only within its hands. We must begin to work to provide our sector with powerful instruments which will allow us to compete and, allow me to emphasize this point, on equal terms. In Germany, the concept is so clear that there is even a word to define it: "KAMPFPARITÄT," or equality of struggle. At stake here is something as important as the traditional leadership which European wine has enjoyed in the markets of third countries.

#### IX. WHAT IS THE CURRENT STATUS OF THE EUROPEAN WINEMAKING SECTOR? WHAT DIFFERENCES EXIST WITH THE NEW WORLD?

The differences between the winemaking sectors in the old and new worlds are obvious. Professor A. L. Spawton of the Australian Center for Wine Business Management, School of Marketing, University of South Australia (Adelaide) summarized them in terms of the following parameters.

TABLE OF STRATEGIES COMPARING TRADITIONAL AND EMERGING WINE EXPORTERS

TRADITIONAL	EMERGING
<p><u>Regulatory Environment</u></p> <p>Highly regulated and in which each part of the logistics chain is strictly controlled. This has led to a situation where governments are connected to the development of industry and industry is dependent on government support strategies to protect certain sectors of market variations.</p>	<p>Moderately regulated, mainly so as to guarantee product and consumer integrity. The strictest regulations are imposed owing to the fact that wine forms part of the alcohol industry. Government involvement in the industry is limited to providing an organization that allows easy adjustment to market variations.</p>
<p><u>Concentration of Industry</u></p> <p>High fragmentation of small properties with a multitude of small appellations. Opportunities for cooperation and development of the “critical mass” are difficult.</p>	<p>Highly concentrated, ownership of production assets is in the hands of a relatively small number of large producers. Authorized to deploy the benefit of the “critical mass” not only to attract investments but also to deploy production assets and use the “experience curve” based on production philosophies.</p>
<p><u>Business Trends</u></p> <p>When we refer to small producers, of primary importance are considerations relating to lifestyle, where income is considered as the means of subsistence. The financial, logistics and marketing functions are usually delegated (or not assumed). The large organizations within traditional countries subscribe to the same managerial practices as those in emerging countries, although complete application is usually very difficult as a result of traditional ownership. Management of these traditional companies is commonly assumed by family members, promoted wine technocrats and shareholder producers in the case of cooperatives. Little value is attached to managerial education. Concerned with the recovery of basic market values, exports constitute a survival mechanism in a domestic market environment in decline.</p>	<p>Fully integrated into agricultural management practices, added value and all levels of the distribution chain (management of gross profits, logistics and assets management, production efficiency and defects at zero level, as well as quality management).</p> <p>This trend is the result of the previous or current ownership of assets in the wine sector, packaging (refreshment, food and tobacco) sector companies, and the use of functional executives (with experience in these sectors), or ownership of organizations with experience of these external influences. Managerial education is highly valued. Concern with the development of market assets. Trend toward the foreign market as a growth mechanism in addition to the domestic market.</p>
<p><u>Product/Market Trends</u></p> <p>Directed by the producer or production, little interest in the changes in consumers, and in their preferences and tastes. The classification of wines governs quality, rather than the “perceived values” of wine consumers. Decisions are determined by production.</p>	<p>Directed by the market, wine adjusts to the changes and requirements thereof. New categories of products emerge while others are abandoned. Consumer perceptions and values are constantly monitored, and production factors and the Marketing Mix are readjusted in accordance therewith. Decisions are taken by virtue of marketing. Control over the marketing and distribution functions is essential. Industry governs relations at all levels of the logistics chain so as to create a feeling of belonging to the “wine industry sector” of suppliers, producers, distributors and consumers.</p>

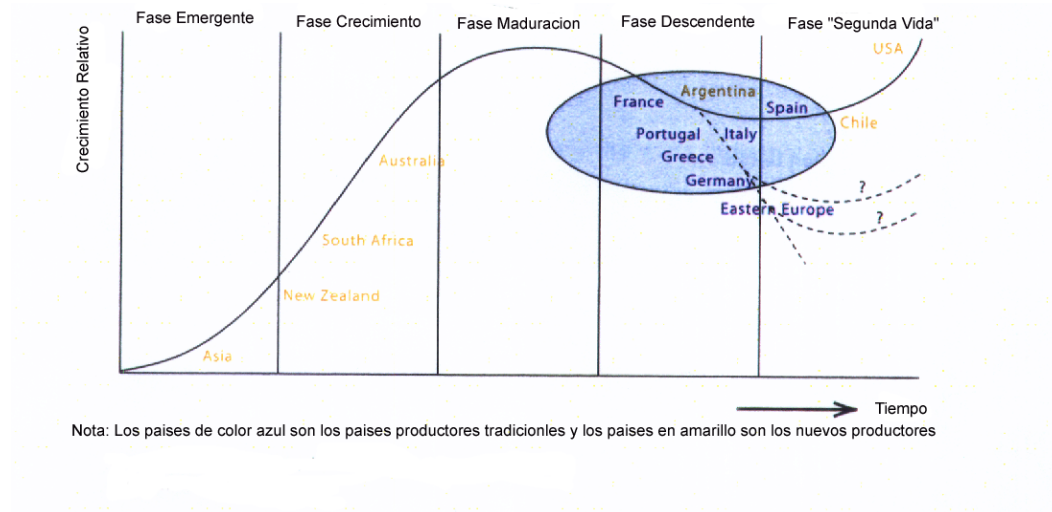
The result of the above is nothing less than the size of the companies from both worlds. Below is the ranking of the 14 biggest wine producing companies in the world.

COMPANIES	WINE SALES 1998	
	MILLION CASES	MILLION US\$
1 LVMH	7.3	1,462
2 E&J Gallo	66.1	1,428
3 Castel Frères	37.5	700
4 Henkell & Co	19.5	521
5 Mildare Blass/Beringer	12	500**
6 Vald'Obrieu	6.5	400
7 Grands Chais de France	21.7	390
8 Southcorp	15	376
9 R. Mondavi	6.1 (7.6*)	325
10 Freixenet	10	318
11 Allied Domecq	7	300E
12 BRL Hardy	17	279
13 Brown-Foreman Bev.	5.9	260

Source: Robobank International \*fiscal year 1999\*\*after Beringer takeover September 2000

It may be observed that only five European companies are included in the table, and only one Spanish company (FREIXENET). It can therefore be stated that in the new world companies are consolidated to a much greater degree. Champagne -producing companies (e.g. LVMH which is first in the ranking) and companies in Australia and the United States are consolidated to a much higher degree, while European companies endeavor to survive in a small domestic market which, as a logical corollary, is small in size.

Extrapolating the above to the country level, in its report the World Wine Business the RABOBANK Group defined, in descriptive terms, the cycle of change in producer countries.



As may be seen, the picture is sufficiently descriptive in terms of where the European winemaking industry is going. The marked trend in the graph should obviously be extended. Europe should be bold and recover the leadership it should never have lost.

## X. WHAT HAVE WE DONE TO ALLOW OUR COMPETITORS TO TAKE OVER THE LEADERSHIP?

Let us look at a few examples of the presentation of wines. As we can see, presentation is based in the first series of examples on the marketing of varieties, while in the second series support is shown for the mark, in addition to the variety. We will see that in the new world the origin is beginning to have an impact.

<b>LINEAS VARIETALES PURAS</b>				
<b>EMPRESA</b>	<b>LINEA DE PRODUCTOS</b>	<b>MARCA</b>	<b>IMPORTANCIA VARIETAL*</b>	<b>POSICIONAMIENTO</b>
<b>GALLO</b>	SONOMA SELECTION	ERNEST & JULIO GALLO	NORMAL	UP
	WINE CELLARS	ERNEST & JULIO GALLO	NORMAL	
<b>BERINGER</b>	CALIFORNIA WINES	BERINGER	NORMAL	P
	BLACK OPAL VARIETALS	BLACK OPAL	NORMAL	SP
<b>SOUTH CORP</b>	LINDEMANS IN RANGE	LINDEMANS	NORMAL	SP
	ROSEMOUNT PREMIUM VARIETALS	ROSEMOUNT ESTATE	GRANDE	SP
	ROSEMOUNT BLENDED VARIETALS	ROSEMOUNT ESTATE	GRANDE	SP
<b>ROBERT MONDAVI</b>	RMMINERY NAPA VALLEY	RMMINERY	GRANDE	UP
	LAFAMGLIADRM	LAFAMGLIADRM	GRANDE	UP
	BYRON	BYRON	NORMAL	UP
	VICHON	VICHON	NORMAL	P
<b>BARON PHILIPPE</b>	PAYS D'OC VARIETALS	BARON PHILIPPE	GRANDE	P
	PAYS D'OC VARIETALS	LABARONNIE	NORMAL	P
<b>KWW</b>	KWW VARIETALES	KWW	NORMAL	
<b>CODIGO:</b> GRANDE: El varietal es tan o mas grande que la marca				
NORMAL: El varietal es algo mas pequeño que la marca o el origen de la marca tiene poca importancia				

<b>LINEA VARIETAL CON MARCA</b>				
<b>EMPRESA</b>	<b>LINEA DE PRODUCTOS</b>	<b>CODIGO*</b>	<b>IMPORTANCIA VARIETAL*</b>	<b>POSICIONAMIENTO</b>
<b>GALLO</b>	COPPERIDGE	ERNEST&JULIO GALLO+COPPERIDGE+V.	NORMAL	
	TURNING LEAF	ERNEST&JULIO GALLO+TURNING LEAF+V.	NORMAL	SP
<b>BERINGER</b>	STONECELLARS	STONECELLARS+BERINGER+V.	NORMAL	P
<b>ANTINORI</b>	CASTELLODELLASALLA	CASTELLODELLASALLA+ANTINORI+V.	NORMAL	SP
<b>SOUTH CORP</b>	CAWARRA	LINEVANS+CAWARRA+V.	NORMAL	SP
	WYNNS	WYNNS+COONAWARRA ESTATE+V.	NORMAL	ICONO
	ROSE MOUNT HILL OF GOLD	HILL OF GOLD+ROSE MOUNT+V.		
	ROSE MOUNT FLAGSHIPS	ROSE MOUNT+V+MARCAS+V.	NORMAL	ICONO
<b>R MONDAVI</b>	R MOND COASTAL	COASTAL+R MONDAVI+V.	NORMAL	SP
	DANZANTE	DANZANTE+VARIETAL+R MONDAVI & FRESCO BALDI	NORMAL	SP
	WOODBRIDGE	WOODBRIDGE+BY R MONDAVI+V.		
	SPOTLIGHT WINES	PROCEDENCIA+VARIETAL+R MONDAVI	NORMAL	
<b>CONCHAYTORO</b>	TRIO	TRIO+V.+CONCHAYTORO	NORMAL	SP
	CASILLERO DEL DIABLO	CONCHAYTORO+CASILLERO...+V.	DISCRETO	SP
	SUNRISE	SUNRISE+V.+CONCHAYTORO	NORMAL	P
	FRONTERA	CONCHAYTORO+FRONTERA+V.	DISCRETO	P
<b>CODIGO:</b> Aparecen en orden, de mayor a menor importancia, los diversos elementos relevantes de la etiqueta				

Allow me once again to return to the figures, although on this occasion I will use a PowerPoint presentation to cast a glance at the current situation and to present the strategy of Miguel Torres, S.A. with a view to achieving excellence in the twenty-first century.

## XI. STRATEGIC PLAN DEVISED BY THE SPANISH WINE FEDERATION

What I have said up to now has been developed by the Spanish Wine Federation, which group together more than 90 percent of "quality" wine producers. After initiating a debate on the present and future of Spanish wine, a strategic plan has been drawn up, the aim of which is as follows:

"To make Spanish wines competitive so as to increase export sales, until global leadership of exports is achieved, by improving the profitability of all wines and respecting the environment and social characteristics of vineyards in the rural milieu."

[End of document]