

AUSTRIAN WINE: DEVELOPMENTS AFTER THE WINE SCANDAL OF 1985 AND ITS CURRENT SITUATION

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Abstract

Austria, a relatively small wine producing country, holds its place in the global wine market by focussing on factors including: country of origin effect, highest quality standards, cellar door sales and modern architecture. The dramatic changes resulting from the Austrian wine scandal of 1985 have seen no other European country experience the “wine mania” occurring there since the early nineties. Although the domestic wine consumption is decreasing as in all other European wine countries, the image of Austrian wines is better than ever and consumers are eager to pay higher prices for better quality. Furthermore, Austria is not only taking advantage of new markets opening in Eastern Europe and elsewhere, its reputation is also being enhanced by its gastronomic culture.

This paper begins by considering the historical background of Austria as a wine producing country and then goes on to look at a number of factors which have contributed to the recent changes seen in the wine industry’s practices and their consequent successes. The findings are based on a conceptual model with a focus on five important aspects of Austria’s current wine industry: the situation of domestic wine consumption compared with exports, attitudes of Austrian wine consumers towards choice of brand, specific activity of a number of wine makers (such as the wine makers of the region Weinviertel who market the country’s first geographically demarcated quality wine), cellar door sales and other positive outcomes regarding wine sales arising from influences of the hospitality and tourism sector and lastly, changes arising directly from legislative revisions introduced following the glycol scandal. Paradoxically, it was this last factor which can be seen to have been the major cause of the positive trend reversal witnessed in Austria’s wine industry and which has resulted in the strong situation this sector finds itself in today.

The method used in the paper at hand is based on an extensive literature review. Data from the Austrian AC Nielsen wine brandtrack as well as statistical resources such as the statistical yearbook of the *Austrian Wine Marketing Board* (ÖWM) and of *Statistik Austria* were taken into consideration. While trends in wine consumption have been highlighted by figures and depicted in graphs and tables, image and brand loyalty as well as “the mood” in Austria concerning its wine and connected industries are explained within the text and through illustrations. This work also tries to reflect the situation and enthusiasm of Austria’s wine industry as well as its achievements and successes in a sector which is today characterised by strong competition and an annual overproduction which exceeds the Austrian wine production four fold.

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Introduction

Austrian vineyards cover an area of approximately 48,000 hectares. Production on a ten year average amounts to approximately 2.5 million hectolitres (Krautstoffel, Thurner, 2005). Whereas Switzerland produces 1.2 million hl on 15,000 hectares and Germany 9.5 million hl on 104,000 hectares (Dominé, 2000), white wine covers 75% and red wine 25% of Austria's vineyards. Annual wine consumption is estimated at circa 30 litres per capita (Switzerland around 40 litres, Germany around 20 litres) totaling 2.4 million hl. In 2003 Austria exported 0.8 million hl and imported 0.5 million hl of (mainly red) wine (Krautstoffel, Thurner, 2005).

There are many different soil types in Austria's vineyards. Loess dominates in the Weinviertel and the Donautal. Primary rock (granite and weathered granite) are a characteristic component of the soils around Krems, Langenlois and in the Wachau, the Thermenregion has more chalky soils. The soils of Burgenland vary greatly. The range extends from slate over loam, gravel, marl and loess, to pure sandy soils. Brown earth and volcanic soils are found mostly in Styria. The wine growing areas of Austria are situated in a temperate climatic zone without great extremes, between 47 and 48 degrees latitude, like Burgundy in France. The vegetation period from budding in spring to the falling of leaves in autumn can take up to 200 days, depending on the varietal. Warm, sunny summers and long, mild autumn days with cool nights are typical for most Austrian wine-growing regions as the country's climate is dominated by the interplay of Pannonian influences. The annual precipitation in the easterly areas can be as little as 400mm, rising to 800mm in Styria. With its capacity for reflecting warmth and balancing out temperature extremes the Danube is another important influence on the microclimatic conditions of individual wine growing areas. The sandy shores along the large expanse of Lake Neusiedl offer ideal conditions for the ripening of nobly-sweet wines. The height above sea level is another important factor: around 200 meters, rising to 400 meters in Lower Austria and, in extreme cases, to 560 meters in some Styrian villages. (Dominé, 2000)

1. History

Wine growing in Austria dates back to the Celts who cultivated *vitis vinifera* for their rituals and also for daily consumption. When the Romans conquered the area they spread the cultivation of wine as they did in their other provinces. This influence remained until they abandoned Noricum towards the end of the fifth century AD (it would be divided, conquered and reconquered by the Franks, the Avars, the Slavs, and other peoples) when wine growing and wine making ceased almost completely amid the migrations and wars that characterized these restless times. It fell to Charlemagne (742-814) to revive viticulture in this area, along with other parts of his empire. During the Middle Ages there were vineyards throughout the country, even in Salzburg, and in Carinthia and Tyrol, areas now known better for their skiing than for wine. Several hundred thousand hectares were under vines during this period in Austria. As in other European countries, monasteries played the most important role in wine growing and production. During the following centuries, wine growing in Austria increased in importance and its wines were exported across Europe. With commerce came a greater emphasis on quality. The town of Rust, by the shores of Lake Neusiedl, became famous for its sweet wines. The first official Trockenbeerenauslese, a wine made exclusively from grapes shrivelled and concentrated by the noble rot *botrytis*, was made there in 1526. In 1784 the emperor Joseph II decreed that farmers, including wine growers, were allowed to sell their

own produce directly for consumption on their premises. Anyone willing to sell wine, cheese, bread, meat and other produce in this manner was to indicate this by hanging a bushel of pine branches above his gate. The famous Austrian “Heurigen” (local wine tavern) was born. The nineteenth century proved catastrophic for wine growers across Europe: a sudden cooling of the climate, vine infections such as oidium and peronospora which were brought into Europe from America and the explosive spread of the phylloxera, a tiny aphid that devastated vineyards from Spain to Hungary, took their toll in Austria as elsewhere. One response to this series of disasters, and to the change of mentality during the century, was the establishment of several wine growing schools and laboratories, most famously the Weinbauschule Klosterneuburg in 1860 (Robinson, Smart, Dinsmore Webb, Williams, 1999). The Second World War left its mark on Austrian cellars mainly through the adoption of a German-style wine classification and by the fact that supplies of older wines were mostly destroyed during the war, echoing the time when Napoleon’s armies had drunk the cellars dry more than a century earlier. The post Second World War “Wirtschaftswunder” (economic miracle) also took place within the wine industry. High productivity and mechanisation were implemented to meet the demand; quality was secondary.

2. The collapse 1985

The early 1980s had been marked by a succession of vintages in which favourable climatic conditions and intensive viticulture combined to produce extremely high yields. A substantial amount of wine was made which was of such poor quality as to be virtually unsaleable. Much Austrian wine was at this time sold to the German market in bulk, but this market demanded riper and thus sweeter wines than these low-end products, which were light, dilute, and acidic. A cunning chemist discovered that adding a small amount of diethylene-glycol to wines such as these added a certain body and sweetness to them, and rendered them more palatable. Diethylene-glycol - an automobile antifreeze - was considered safe, and was very difficult to detect by the authorities. Tankerloads of doctored wine were shipped off to Germany masquerading as quality wine, with forged documentation supporting its supposed provenance. Apart from “grading up” simple table wines to Auslese- (late harvest) Wines, some “inventive” wineries created wines without grapes. The confession of an accused, lists the following ingredients he used to produce perfect “wine”: (Brüders, 1999)

- 18,000 l water
- 5,500 kg sugar
- 80 kg diethylene-glycol
- 80 kg dry syrup
- 80 kg acidity of wine
- 30 kg salts of hartshorn
- 40-50 l glycerin
- 3 kg malic acid
- 15 kg epsom salt
- 40 kg potash
- potassium sulphate
- magnesium sulphate
- The amount of yeast necessary depends on atmospheric conditions

This “recipe” produces about 20,000 litres of artificial wine (Brüders, 1999).

One has to question the intelligence of those perpetrating the fraud, however, as when the scandal came to light it emerged that some of the companies involved claimed for the cost of the diethylene glycol on their income tax return. The resulting publicity sent shockwaves through the world of Austrian wine, tarnishing its reputation on an international scale. Some countries banned its import altogether. As a result more than 30 producers were jailed and some 300 people denounced to the authorities. 800 wineries were searched for suspect chemicals. 280,000 hectolitres of manipulated wine were confiscated. (Brüders, 1999) Bottles were pulled from store shelves all over Europe and the U.S. In August of 1985 Austrian wines were on the front pages all around the world. Exports in some areas in Burgenland and Lower Austria slumped by 95% overnight. In German cities, containers for contaminated Austrian wines were provided for citizens to get rid of glycol wines without harming the environment by avoiding pouring the substances into the sewers. As a result of the scandal, “Glycol” was elected as “word of the year 1985” in Germany. Table 1 shows the development of Austrian wine exports before and after 1985. The average export rate in the five years before the scandal (1980-1984) was as high as 445,600 hl, in the five years after the scandal (1986-1990) the average export fell by 78% to 57,000 hl.

Table 1: Export figures since 1974

Year	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Export in 1000 hl	220	205	175	180	230	440	460	500	470	395	403	275	45	45	35	45
Value in Million EUR	24.0	28.9	24.3	24.0	30.5	41.8	45.8	56.7	56.0	35.6	36.3	29.4	6.9	8.0	6.9	8.0
Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Export in 1000 hl	115	130	100	105	130	204	235	166	211	269	353	509	742	825	733	
Value in Million EUR	12.0	14.9	14.7	17.8	20.3	22.0	25.1	25.4	31.7	33.1	38.2	49.0	58.0	67.0	81.0	

Source: “Dokumentation Österreichischer Wein 2005/2006” ÖWM, Krautstoffel, Thurner, 2005

In March 1986, just one year after the Austrian affair, the Italian methanol scandal broke, when a series of deaths were attributed to methanol poisoning. The investigation which followed found that starting in December 1985 around 30 northwestern Italian wine producers had blended their wines with lethal amounts of methanol, a compound which was used to increase the alcohol level. Dozens of people were hospitalized for methanol poisoning, and 26 deaths were attributed to drinking the tainted wines. Italy’s wine industry was faced with a similar situation to that experienced by Austrian producers with exports plunging dramatically after the scandal.

3. Developments after the scandal

Following the Austrian scandal, the Ministry of Agriculture and Forestry imposed strict new laws to regulate the industry, with the intention of preventing further malpractice, restoring confidence in Austrian wine, and repairing the damage done to export markets – especially Germany, Austria's largest customer. These new laws, reinforced by later amendments stipulating upper limits to yields, today define the Austrian wine classification system. With the benefit of hindsight, the scandal is seen by many today as a catalyst for change and – although a catastrophe at the time – as a positive event. Those responsible were mostly middle-men; this part of the Austrian wine trade has nearly disappeared, and nowadays many more growers deal directly with customers. However, more important has been the effect on quality; the strict new laws, plus other regional classification systems were inspired by the need for change and the desire to improve quality in the wake of the scandal. It is important to

remember that the scandal itself was a symptom of the poor quality culture that already pertained in some parts of the trade before 1985, and this issue too has been addressed as today winemaking styles have changed, away from flabby sweet wines made in imitation of sweet German wines, towards the dry whites so highly praised today, and a greater proportion of quality reds (Wohlfahrt, 1991). The success of Austrian wines in recent years has proved the strategy right. Surprising medals, awards and ratings were achieved by internationally unknown winemakers from small Austrian regions and villages. Sweden's top Sommelier Andreas Larsson (former best Sommelier of Sweden, Scandinavia and Europe) recommended two autochthonous Austrian wines, a Blaufränkisch and a Grüner Veltliner, in the finals of the "International Sommelier of the Year 2005" competition - and won (Gellie, 2005). In blind tastings the Austrian autochthonous Grüner Veltliner as well as Rieslings and of course Austria's famous sweet wines outscored world famous precious Burgundies and high priced New World wines. Jancis Robinson, one of the world's leading authorities on wine, states on her webpage (www.jancisrobinson.com) in "Chardonnay v Grüner Veltliner, a knockout contest": "...I was asked by the Austrian Wine Marketing Board if I would like to arrange a comparative tasting to see where Austria was standing internationally. The stunning result is that six of the seven Grüner Veltliners came in amongst the top eight wines of the tasting." The degustation included prestigious French and New World Chardonnays; among others "Montrachet", "Meursault", "Corton Charlemagne" and "Monte Bello". The jury consisted of 39 wine journalists and other experienced tasters from 13 different countries (Robinson, 2002)

Despite the Austrian "Weinwunder" the domestic consumption of Austrian and foreign wine has been constantly decreasing in Austria since the 1990s. The rate of consumption of domestic wine fell from 92.2% of the production in 1998 to 73.2% in 2004. As shown in table 2, the total per capita consumption of wine decreased from 33.7 l in 1991 to 29.8 l per capita in 2005. This data also shows a fall in beer consumption during the same period.

Table 2: Production and consumption of wine in Austria

Year	WINE			BEER	Year	WINE			BEER
	Production in hl	Consumption in hl	Consumption per capita in l	Cons. per capita in l		Production in hl	Consumption in hl	Consumption per capita in l	Cons. per capita in l
1979	3,366,278	2,683,880	35.8	103.1	1993	2,588,215	2,604,317	32.7	120.4
1980	2,773,006	2,686,859	35.8	104.2	1994	1,865,479	2,483,102	31.0	114.4
1981	3,086,422	2,635,389	35.1	105.4	1995	2,646,635	2,567,448	31.5	114.4
1982	2,085,168	2,631,575	34.9	107.5	1996	2,228,969	2,544,524	31.0	112.4
1983	4,905,651	2,823,525	37.4	109.9	1997	2,110,332	2,420,328	30.1	111.7
1984	3,697,925	2,750,855	36.4	112.1	1998	1,801,747	2,498,490	30.5	113.2
1985	2,518,918	2,588,095	34.3	109.8	1999	2,703,170	2,469,566	30.7	113.3
1986	1,125,655	2,476,437	32.8	117.8	2000	2,803,383	2,505,291	30.9	114.1
1987	2,229,845	2,565,651	33.9	114.1	2001	2,338,410	2,476,616	30.5	108.7
1988	2,183,623	2,595,399	34.2	116.0	2002	2,530,576	2,450,654	28.4	111.0
1989	3,502,457	2,681,468	35.2	118.6	2003	2,599,483	2,402,987	29.7	111.6
1990	2,580,861	2,689,330	35.0	121.5	2004	2,529,846	2,262,683	27.8	112.3
1991	3,166,290	2,619,022	33.7	120.2	2005	2,734,561	2,442,753	29.8	108.3
1992	3,093,259	2,608,332	33.1	124.5	2006				

Source: Statistik Austria „Versorgungsbilanz für Wein und Bier“

Reasons for decreasing wine (and beer) consumption – a development which is also taking place in every other classical wine producing country in Europe such as France, Italy and Spain – can be attributed to the strict anti “drink and drive” policy of the Austrian government, the changes in lifestyle and food patterns as well as health aspects. An additional factor for this trend might be found in the discrepancy between Austrian wine production and consumption. The changes which have occurred during the last two decades in white wine consumption over red has meant a shortfall resulted during this time in meeting the needs of red wine production. Whereas the ratio of the consumption (including imported wine) of white and red wines is 55:45, production is 75:25. Analyses carried out by the Austrian Ministry of Agriculture and Forestry claim that there is a theoretical demand for 5,000 to 7,000 additional hectares of red wine in Austria. The proportion of white to red wine was 80:20 in the early 1990s. A masterplan by the Ministry envisages a shift in the proportion of white to red wine from the current 75:25 to 70:30 by 2010 to counter decreasing consumption of local wines (Schmid, 2005).

Table 3: Proportion of red and white wine in production and consumption

Austrian production 2003/2004 in hl	2,734,561
White wine	75%
Red wine	25%
Total consumption 2003/2004 in hl	2,262,683
White wine	55%
Red wine	45%

Source: Austrian Ministry of Agriculture and Forestry, “Annual Report 2005”

The general trend to drink more red than white wine nowadays also effects Austria’s wine exports. In Germany red wine consumption is increasing steadily. For the first time in history Germany’s red wine consumption (51.8%) exceeded the consumption of white wine. These market developments create new challenges for Austrian producers, who are now on their way to establishing Austria’s image also as a red wine producing country.

4. The current situation on the domestic market

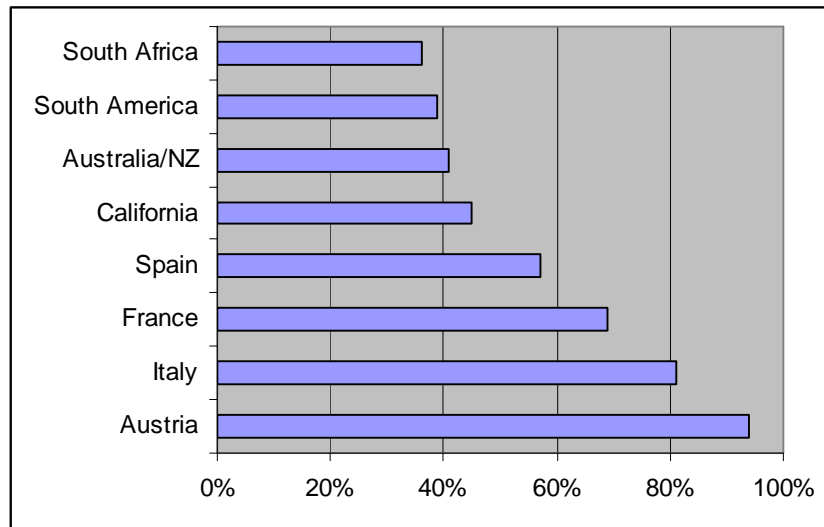
Austrian wine has a strong position in the domestic market. The latest brand track carried out in April and May 2005 by AC-Nielsen, one of the world's leading market research companies, brought interesting results. The methodology used for the brand track was a mail survey carried out nationwide by using changing addresses (no panel). The sample consisted of 1,234 people, 14 years and older, representing the domestic profile of the average Austrian population. Austrian citizens are allowed to purchase and drink wine from 16 years onwards. The sampling method combined random and quota techniques. The original title and conceptual formulation was “Position of Austrian wine compared to imported wine on the domestic market.” Incentives in the form of prizes were provided by the Austrian wine industry. The census for the brand track is carried out twice a year. Differences in the results between alpine regions in western Austria, where viticulture is not prosecuted and the eastern – wine growing – part were not significant.

4.1. Familiarity with wines of different provenances

To achieve profound knowledge about the preferences of Austrians concerning wine it was firstly necessary to find out whether or not the respondent is familiar with different provenances of wine and secondly whether or not they have ever purchased one of the brands

(by country of origin) investigated. In Figure 1 the different scales of familiarity with wines from the most common provenances available in Austrian food retailing, specialized trade and gastronomy are depicted. Here it is interesting to note that although overseas wines are available almost everywhere in Austria, the familiarity of wine of European provenance outweighs that of New World wines. Of the imported wines, those of Italian provenance were familiar to 81% of the respondents, ahead of French (69%) and Spanish (57%) wines, whereas Californian wines head the table of overseas provenances (45%) followed by Australian and New Zealand wines (41%). Austrians are least familiar with wines from South America (39%) and South Africa (36%).

Figure 1: Familiarity with wines of different provenances



Source: AC-Nielsen, published in "Dokumentation Österreichischer Wein 2005/2006" ÖWM, Krautstoffel, Thurner, 2005

4.2. Purchase rates of wines of different provenances

The purchase rate of wines of different provenances provides information about the preferences of Austrian consumers and their wine buying habits. In figures 2 to 9 the purchase rates of the most important European and overseas imported wines as well as purchase rates concerning domestic produce is shown. The strong position of homegrown wine as mentioned earlier is displayed in figures 1, 2 and 10. 57% of the respondents claim to purchase Austrian wine regularly; 34% sometimes; only 6% are not familiar with Austrian wine. Wines of Italian provenance are second favourite (16% buy regularly, 58% sometimes) followed by French (4% buy regularly, 51% sometimes) and then Spanish (4% buy regularly, 41% sometimes). This study indicates that the percentage of Austrians who buy overseas wines regularly is less than 2%. Californian, Australian, New Zealand, South American and South African wines are mostly bought for special occasions by those who are familiar with specific provenances.

Figure 2: Purchase rate of Austrian wine

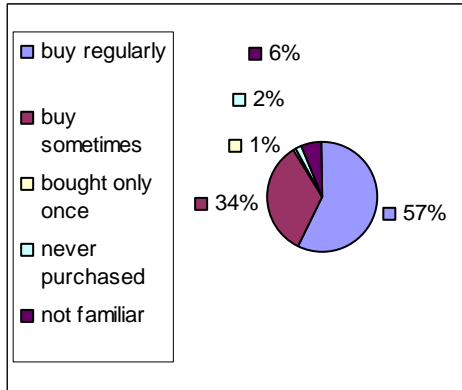


Figure 3: Purchase rate of Californian wine

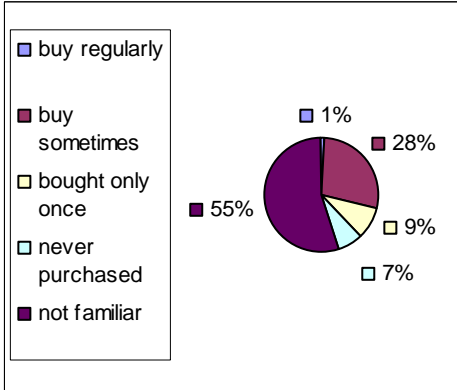


Figure 4: Purchase rate of Italian wine

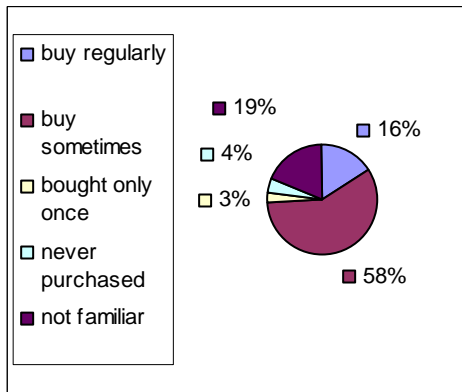


Figure 5: Purchase rate of South African wine

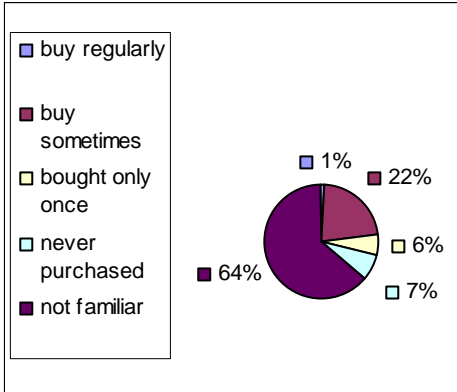


Figure 6: Purchase rate of French wine

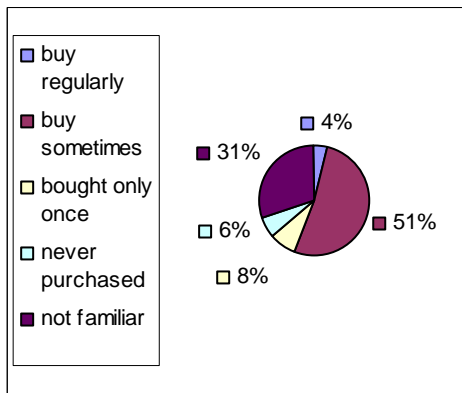


Figure 7: Purchase rate of AU/NZ wine

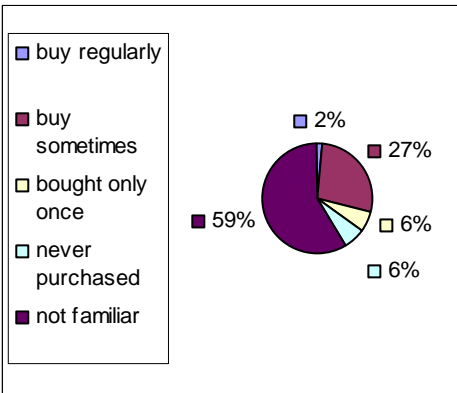


Figure 8: Purchase rate of Spanish wine

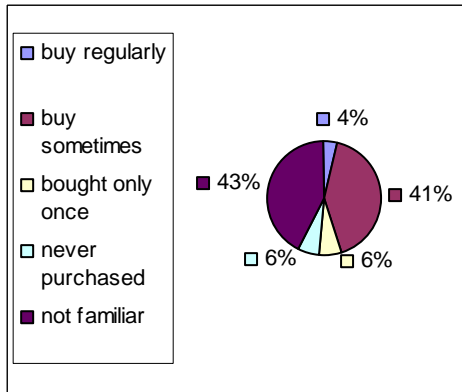
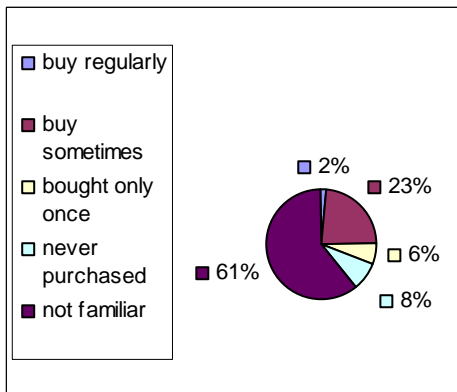


Figure 9: Purchase rate of South American wine

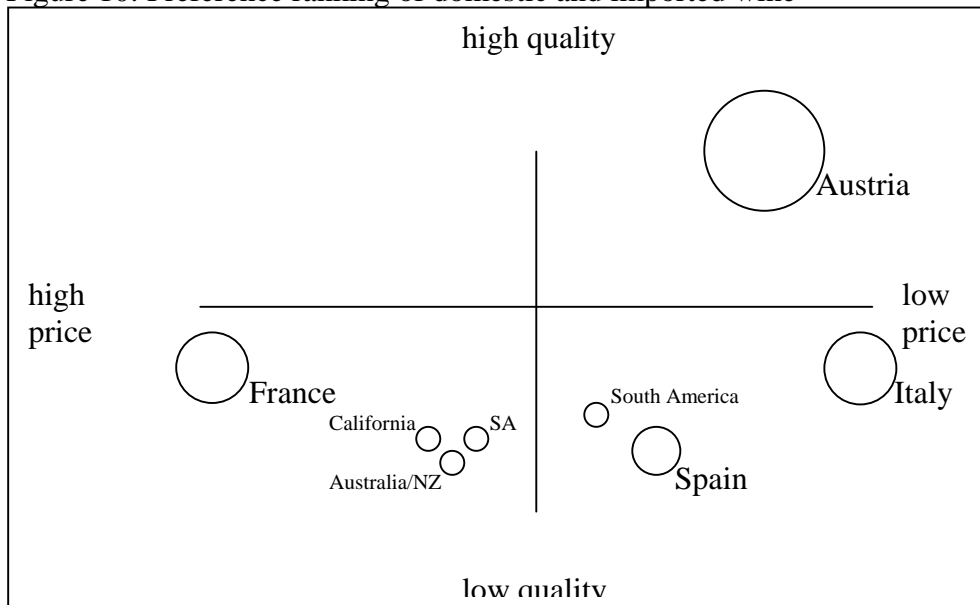


Source: AC-Nielsen, published in "Dokumentation Österreichischer Wein 2005/2006" ÖWM, Krautstoffel, Thurner, 2005

4.3. Preferences and brand loyalty of Austrian consumers

In addition to familiarity and purchase rate of a brand (defined by country of origin) the brand loyalty and image perception of the population plays an important role for the marketer. These parameters were consequently of central interest for the AC-Nielsen brandtrack about Austrian and imported wine and their position on the domestic market. Therefore, another task of the survey consisted of judging wine brands (by country of origin) on the criteria price and quality. The results of this research are depicted in figure 10. The radius of the circle indicates the respondents' familiarity with the brand (country of origin). After this the rating of price and quality was completed on a five point interval scale echoing the Austrian school grade system. Figure 10 also shows the resulting preference rankings of the respondents.

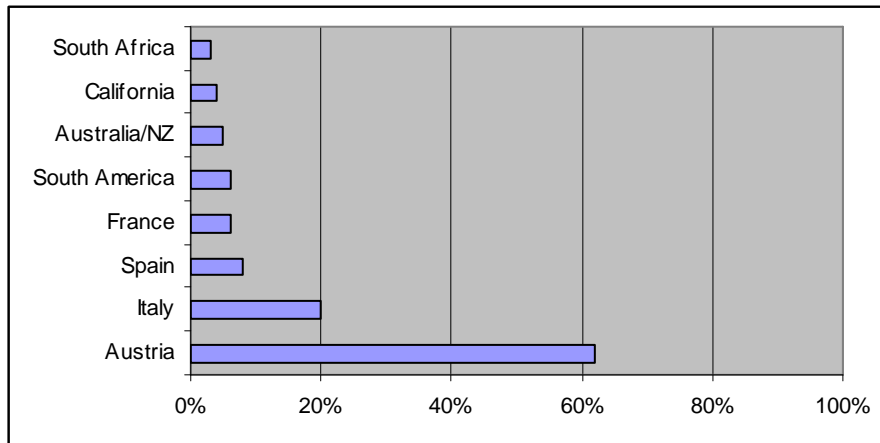
Figure 10: Preference ranking of domestic and imported wine



Source: AC-Nielsen, published in "Dokumentation Österreichischer Wein 2005/2006" ÖWM, Krautstoffel, Thurner, 2005

A remarkable result shown in this graph is not only the high familiarity with home grown wine but also its obvious high image amongst Austrian consumers. All imported wines, on the other hand, indicate a poorer image and were rated as low quality wines all together. Italy and France, however, seem to have a higher brand recognition and reputation than Spanish and New World products. France is believed to produce high priced wines, whereas Italian wines are positioned in the very low price sector. All countries producing in the New World are perceived as low quality wines. The AC Nielsen brand track showed that Austrians prefer native wines followed by those of Italian and French origin. The high rate of familiarity - 94% of the sample were familiar with Austrian wine – plays an important role in this preference ranking. The brand loyalty was calculated by factoring the number of trial purchases into the number of respondents who often or sometimes purchase a brand (by country of origin). In total figures the brand loyalty for Austrian wines accounts for 62%, for Italian wines 20%, for Spanish 8% and for French wines 6%. Those consumers who are familiar with foreign wines seem to purchase these for special occasions. Especially wine of French, Italian and Spanish origin (52%, 59% and 41% respectively) are bought "sometimes". The brand loyalty for overseas produce is highest for South American wines (6%) followed by Australian/NZ (5%), Californian (4%) and South African (3%) provenances.

Figure 11: Brand loyalty towards wines of different provenances



Source: AC-Nielsen, published in “Dokumentation Österreichischer Wein 2005/2006” ÖWM, Krautstoffel, Thurner, 2005

Although available in supermarkets, discounters, wineshops/vinotheques, online-shops and restaurants all around the country, less than 50% of the sample are familiar with South African, Australian, New Zealand, South American and Californian wines. An explanation for this phenomenon lies undoubtedly in the relatively new appearance of overseas wines on the European market. Another point may be the negative press overseas winemaking techniques receive which further hinder their image.

5. Trends in the export of Austrian wine

Although most Austrian wine produced is sold and consumed within its borders, figures show positive signs for exports in recent years. One reason why the Austrian wine industry puts more efforts into augmenting the export rate is the decreasing home consumption as outlined in chapter 3. In 2004, Germany retained first position as the major importer of Austrian wine (amounting to sales of € 48,244,000). Its position as the number one export market (58% of the total export volume as well as on a value basis) can be qualified as predominant. Despite a slight fall in the quantity of exports between 2003 and 2004, the value and consequently the turnover increased by 20%. That means Austria is exporting less wine but at higher prices, which can be seen as a reflection of the higher average quality.

Table 4: Total production and export of Austrian wine

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total production in 1000 hl	3,086	2,085	4,905	3,698	2,519	1,125	2,229	2,183	3,502	2,58	3,166	3,093	2,588
Export in 1000 hl	460	500	470	395	403	275	45	45	35	45	115	130	100
Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total production in 1000 hl	1,865	2,646	2,228	2,11	1,801	2,703	2,803	2,338	2,53	2,599	2,529	2,734	2,264
Export in 1000 hl	105	130	204	235	166	211	269	353	509	742	825	733	

Source: “Dokumentation Österreichischer Wein 2005/2006” ÖWM, Krautstoffel, Thurner, 2005

Table 5: Value of exports

Year	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Value in Million EUR	24.0	28.9	24.3	24.0	30.5	41.8	45.8	56.7	56.0	35.6	36.3	29.4	6.9	8.0	6.9	8.0
Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Value in Million EUR	12.0	14.9	14.7	17.8	20.3	22.0	25.1	25.4	31.7	33.1	38.2	49.0	58.0	67.0	81.0	

Source: “Dokumentation Österreichischer Wein 2005/2006” ÖWM, Krautstoffel, Thurner, 2005

In recent years, amongst the top ten importers of Austrian wine a number of Eastern European countries have been emerging. In 2004 Czech, Slovakian and Polish imports of Austrian wine valued € 10,074,000. (Krautstoffel, Thurner, 2005) Despite the scandal and the collapse of the export market Austrians themselves never gave up drinking homegrown wine. The average percentage of Austrian wine consumed within its borders since 1980 is as high as 91.6%. In the years following the glycol scandal nearly the entire wine production was consumed in Austria itself (98% of the total production in 1986 and 99% in 1988). As depicted in table 6, today both the import and export of wine is steadily increasing and growing in importance.

Table 6: Imports and Exports since 1985/86

Fiscal Year	1985/1986	1986/1987	1987/1988	1988/1989	1989/1990	1990/1991	1991/1992	1992/1993	1993/1994	1994/1995
Imports (hl)	274.321	346.308	367.01	243.552	244.191	214.506	199.196	195.318	185.819	240.663
Exports (hl)	45.223	45.83	35.179	44.853	104.115	157.3	223.599	118.999	128.694	218.927
Fiscal Year	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
Imports (hl)	282.552	517.675	664.124	564.901	517.249	518.265	572.858	497.453	610.691	
Exports (hl)	173.95	217.002	208.101	227.395	365.025	308.025	563.493	804.083	764.18	

Source: “Dokumentation Österreichischer Wein 2005/2006” ÖWM, Krautstoffel, Thurner, 2005

Like the Italian wine industry, which was able to recover from its methanol scandal by implementing tougher controls and laws, Austria’s producers have achieved improved export figures lately. In both countries, Italy and Austria, the respective scandals are often seen as a new beginning which sped up the orientation towards yield reduction, sustainable methods in wine growing and the aim for quality. In the global wine market of today these image building aspects mark advantages over competitors and provide a boost for the increasing importance of exporting and marketing wine.

Cross-country comparisons to estimate the country-of-origin effects in the US market showed that French, Italian and Austrian imports benefit the most from this bias. It is worth noting how stable these country-of-origin estimates have been across different model specifications developed at the University of California. A study called “Products and Prejudice: Measuring Country-of-Origin Bias in U.S. Wine Imports” outlines a hedonic pricing framework that had been used to control for vintage, blind-tasted quality, varietals, production costs and quantities. Cross-country comparisons of price residuals suggest that "Product of ..." on the label can raise the price of a bottle by more than fifty percent. Contrary to traditional views of exporting, country-of-origin bias truly matters (Brooks, 2003).

6. Specifics of the domestic market

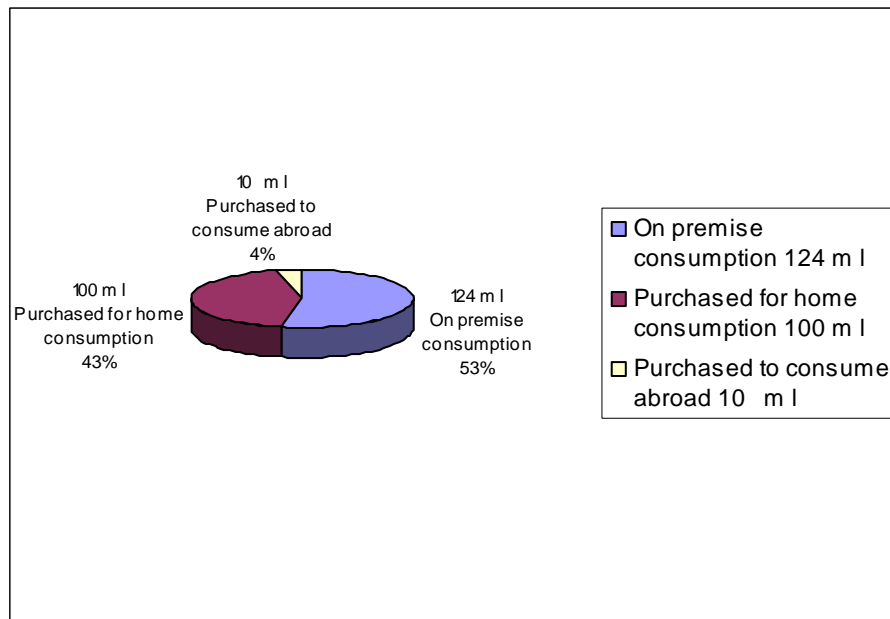
6.1. Austria's wine law

Austria's tough wine law – one reason for the success achieved over the past ten years - is nevertheless still based on the complicated “German System”. This means that there are numerous quality categories defined by grape sugar content. Table wine must have a minimum of 11° KMW (equals 52,6° Oechsle), Landwein – Vin de Pays – 13° KMW, Quality Wine 15° KMW (73° Oechsle), Spätlese 19° KMW, Auslese 21° KMW, Beerenauslese 25° KMW, Eiswein 25° KMW, Strohwein 25° KMW, Ausbruch 27° KMW, Trockenbeerenauslese 30° KMW (156° Oechsle). [Conversion formula: x degrees KMW = (0,022 * x + 4,54) * x degrees Oechsle]. Thus higher “potential alcohol” (sugar) means higher quality. A wine is therefore supposed to be better with 19° KMW (19 Grammes of sugar per liter) at the time of harvest than a wine that has 17° KMW (17 Grammes of sugar per liter). (Dominé, 2000) The “Latin System” applied in France, Italy and Spain on the other hand, specifies the region or area for table-, quality or superior wines. Unfortunately, that neither the former nor the latter system can guarantee real quality is an obvious fact. In France, Spain and Italy poor quality wines classified as AOC or DOC (Appellation d'Origine Contrôlée, Denominazione di Origine Controllata) or even “Crus” because of their provenance cause the same problem as Spätlese or Auslese wines in Germany and Austria which are – despite their grape sugar content – not superior at all: they “undermine” the wine law, destroy the image of its “brand” and make it unreliable for customers. Official vineyard classifications do not exist in Austria, but since no one wants to pretend that all plots are equally well sited, unofficial classification and vineyard names of specific “Rieden” are often named on the labels (Sevenich, 2003).

6.2. The role of Austrian gastronomy and wine retailers

Austrian gastronomy is playing a significant role in the “boom” of domestic wine. Restaurants, bars, wine-taverns (Heurigen), hotels and clubs are all contributing to a driving force in improving Austrian wine culture. Today, most of them offer a greater range of wines and provide better services through awareness of oenology and viticulture. This approach is evoking interest from their guests and enhancing the desire for combining good food and fine wines. The effort made by restaurateurs and hoteliers is also resulting in a change of attitude by foreign tourists who are beginning to appreciate the Austrian wine culture. Another driving force in upgrading the Austrian wine scene is the country's number one retailer for fine wine “Wein&Co”. Through their activities since the early nineties the chain has achieved major changes in customer behaviour towards Austrian wine. Whereas it was fashionable to order mainly imported wines from France and Italy in the seventies and eighties, “Wein&Co” has contributed to making Austrian wine the preferred choice of today. The fourteen “Wein&Co” stores – often connected with a wine bar – are located in the country's major cities and offer a wide range of facilities, events, tastings and a broad range of products, where 50% of the approximately 2200 different wines of their assortment are of Austrian origin. Its success has resulted in other wine retailers taking similar measures and thereby benefiting the wine industry as a whole.

Figure 12: Market segmentation for wine in Austria



Source: GfK, published in “Dokumentation Österreichischer Wein 2005/2006”
ÖWM, Krautstoffel, Thurner, 2005

6.3. Cellar door sales, wine routes and wine architecture

Cellar door sales and wine tourism play an important role in Austria’s wine industry. Although recent years have seen a decrease in cellar door sales, today they represent 28% of all purchases of Austrian wine. In 2000, cellar door sales represented 44% of the market. In the meantime supermarket chains and department stores have reacted to the new awareness of Austrian wine culture. Austria’s leading retailers established wine information services (like scanning systems) and broadened their wine range. (Krautstoffel, Thurner, 2005) By establishing new wine tourism attractions and tourism concepts such as “bike & wine” or “golf & wine” packages as well as the combination of wellness and “wining and dining”, clients should be attracted to visiting viticulture areas and buying directly from the producer. Although very small in size, Austria’s wine growing areas have a system of 17 wine routes. In comparison, the A.R.E.V (Assemblée des Régions Européennes Viticoles) lists only 15 wine routes in France and 16 in Spain. Altogether 215 wine routes exist in Europe, most of which are situated in Italy.

A recent phenomenon in Austria is wine architecture. A new style has developed in the last ten years combining the practical and aesthetic elements of wine making. Extensive EU and state funding has made it possible for wineries to construct buildings which fit their requirements for the production of high quality wine with the latest technology. In the east and south of Austria a unique new scene has consistently drawn attention to a symbiosis between contemporary architecture and wine-making. A new architectural language has developed along with this newly defined brief, one that moves between sensitive approaches to traditional forms of building and self-confident interpretations of contemporary demands. The Architekturzentrum Wien – the centre for architecture in Vienna - devoted a major exhibition to this phenomenon. (Sailer, Gust, Eue, 2005)

6.4. The Pioneers of the Wachau region: *Vinea Wachau Nobilis Districtus*

In the Wachau – a steep Danube valley west of Vienna – the regional wine committee decided as early as 1983 to develop their own wine categories. By introducing the trademarks Steinfeder, Federspiel and Smaragd, the Wachau vintners have created and designed an "Appellation Wachau", based on the region's particular conditions. None of the categories Steinfeder, Federspiel or Smaragd may be chaptalised or produced from sweetened must. Yields are regulated and low, only typical grape varieties – Grüner Veltliner and above all Riesling – are accredited. Smaragd wines equate to Grand Crus. They come from small "Rieden" – single vineyards with a distinct terroir (Dominé, 2000).

6.5. DAC – *Districtus Austriae Controllatus*

This Appellation System was created in order to create an easy to understand combination of the "German" and the "Latin" systems of wine classification. Austria's biggest wine region – the Weinviertel – was the first to apply the new system. The DAC-project was started there in 2003 and attempts to create a link between regional style and a controlled appellation of origin. Weinviertel DAC wines are Quality Wines which are made of grapes from the only permitted grape variety "Grüner Veltliner" which come from the region Weinviertel where the autochthonous Austrian grape covers more than 8,500 ha. Its yields as well as sugar content, alcohol, price and characteristics are strictly defined. The Regional Wine Growers Association is responsible for control and selection. In 2004 Weinviertel producers presented 1837 sample wines to become DAC. Only 564 wines could meet the restrictive requirements. 1273 samples were rejected. Nevertheless, Weinviertel winemakers reacted exceedingly positively to the new appellation system. Those wines accepted sold extremely well although the price of a DAC is higher than that of an average "Grüner Veltliner". The minimum price of a Weinviertel DAC is also defined and amounts to €5. In 2004, 1.7 million bottles of Weinviertel DAC were sold. (Krautstoffel, Thurner, 2005) The goal for the next few years is to establish strong brands of single vineyard wines under the roof of the DAC classification and control system.

7. Conclusion

The strong position of Austrian wines within its borders and internationally is the result of numerous factors. The most recent chapter of Austrian viticulture has been marked by a concerted legislative initiative to circumscribe and promote quality, and by the introduction of a more international outlook by the Austrian wine industry. A new, more widely travelled and internationally trained generation of Austrian wine makers is now at the helm of many traditional establishments. They have revolutionised the work in the vineyard and in the cellars, combining an international outlook with an unwavering devotion to indigenous grape varieties and wine styles. Their dedication and efforts have allowed the wines of Austria to make another leap in quality and worldwide recognition, leading to the opening of markets abroad, and to a renewed interest in this old wine country and its new wines. The exemplary Austrian wine boom and its ways to create new interest in wine especially for younger people could become an orientation for other wine regions suffering from problems as the Austrian wine industry did in the 1980s.

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Appendix 1: Questionnaire of the brand track by AC-Nielsen, published in "Dokumentation Österreichischer Wein 2005/2006" ÖWM, Krautstoffel, Thurner, 2005

Die folgenden Fragen betreffen **Bekanntheit, Verwendung und Ihre Meinung von verschiedenen Weinen**. Bitte tragen Sie bei jedem Herkunftsland bzw. Anbaugebiet ein, ob Sie dieses kennen oder nicht. Wenn Sie in der ersten Spalte angegeben haben, eine bestimmte Weinsorte nicht zu kennen, gehen Sie direkt zur nächsten. Für jedes Gebiet, das Sie kennen, fahren Sie bitte in der gleichen Zeile fort und markieren Sie die eine Antwort, die am besten Ihre Verwendung beschreibt, sowie Ihre Meinung über Preis und Qualität des Weines aus dem jeweiligen Gebiet.

Diese Fragen nur beantworten falls Sie die Produkte kennen.

1. Ihre Verwendung des Produktes.

Ein Produkt, das ich persönlich ...
(Bitte nur eine Antwort pro Sorte)

noch probiert, normaler- aus-
nie aber nicht weise manch- schließ-
pro- mehr ver- nicht mal häufig lich
biert wendet ver- ver- ver-
habe habe wende wende wende

2. Ihre Meinung über den Preis im Verhältnis zu den übrigen Produkten

(Bitte nur eine Antwort pro Sorte)

sehr hoch eher hoch weder eher niedrig sehr niedrig weiß nicht sehr gut eher gut weder noch

3. Ihre Meinung über die Qualität im

Verhältnis zu den übrigen Produkten

(Bitte nur eine Antwort pro Sorte)

eher sehr schl- schl- weiß ja, eher weder eher
echt echt nicht absolut ja noch nein

Trend

4. Würden Sie sagen, dass Weine aus diesem Gebiet im Trend liegen/es IN ist, diese Weine zu trinken?

(Falls nicht bekannt gehen Sie bitte weiter zur nächsten Sorte)

W e i n :

Herkunftsland

	nicht be- kannt	be- kannt	pro- biert habe	aber nicht mehr ver- wendet habe	weiße nicht ver- wende	manch- mal ver- wende	häufig ver- wende	aus- schließ- lich ver- wende	sehr hoch	eher hoch	weder noch	eher niedrig	sehr niedrig	weiß nicht	sehr gut	eher gut	weder noch	eher schl- echt	sehr schl- echt	weiß nicht	ja, absolut	eher ja	weder noch	eher nein	über- haupt nicht	weiß nicht
Österreichischer Wein	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Italienischer Wein	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Französischer Wein	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Spanischer Wein	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wein aus Australien/Neuseeland	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wein aus Californien	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wein aus Südamerika (Chile, Argentinien)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wein aus Südafrika	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0