PERCEPTIONS OF AMERICAN WINES IN THE UNITED KINGDOM AND UK TREND ANALYSIS

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By

Jordan Sauvain

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Advisor: William Amspacher

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Chapter 1

INTRODUCTION

Though the United Kingdom is not an established wine producing country, it is an established importer for the wine industry, increasing its numbers drastically in the last twenty or more years. The United Kingdom is recognized mainly for being a beer producing and consuming country but has recently become an important market for wine makers and exporters. Because the United Kingdom is surrounded by Old World producing countries like France, Italy, and Spain, a great deal of its wine shares come from these countries. However, the world is recognizing the importance and increasing number of New World wine producing countries such as Australia, South Africa, and the United States. The United States has an excellent opportunity to market its wines to wine consumers in the United Kingdom and raise the appreciation of the country as a wine-producing nation.

The United Kingdom is a market that needs to be thoroughly researched and understood before the United States can continue to tap the market and become a leading exporter to the country above all other. Wine consumers of the United Kingdom may be different from those in the United States; they could have specific tastes and expectations for the wines they consume. Consumers' wine education levels may be another factor marketers and wineries need to consider before trying to enter the overseas market. The United Kingdom is an important market that any winery in America would want to enter and sell to. With a large population, bustling cities, and influential consumers, the United Kingdom wine markets may be what American wines need in order to achieve the level of attentiveness they deserve.

Problem Statement

Based on price and quality of American wines in the United Kingdom, what purchasing and consumption trends have been seen in the last 20 years?

Hypothesis

Even with an increasing amount of wine consumption over the last 20 years in the United Kingdom, American wines are not purchased and consumed as frequently as wines from other countries.

Objectives of the Study

1.) To understand the United Kingdom wine markets.

2.) To analyze wine consumption trends in the United Kingdom

3.) To determine what factors may discourage the United Kingdom from purchasing and consuming American wines.

Significance of the Study

The United Kingdom is a great place for American wines to gain exposure, because it is a popular tourist destination where people from all over the world consume wine. There has been an increase in the interest of wine over the last thirty years in the United Kingdom. Because of this interest, wine consumption is on the rise and many countries are exporting there. After determining why (or why not) the United Kingdom may be hesitant to purchase and consume American wines, wineries in the United States could use this information to determine what efforts need to be done in order to flourish overseas. This study will mainly be done in order to help American wineries develop better marketing strategies when trying to sell wine to the United Kingdom and its populace. For the purpose of this study, research will begin in 1989 in order to examine the last 20 years of data.

Chapter 2

REVIEW OF LITERATURE

World Wine Production and UK Consumption Trends 1989-2008

American wines first began to gain worldwide recognition in the late 1970's after the Paris Wine Tasting of 1976, where both a California red and white wine won for top-quality above French wines. The taste of the American wines shocked the French. At this point, most British people were consuming French, Italian, and German wines. Most British people assumed that quality wines only came from other European nations where this history of winemaking was rich and longstanding. A second reason why the British were consuming European wines was because they cost less than American wines. The price difference was not extensive but it was enough to detour them.

The European Union has remained a leader in World wine production from 1989 to 2008. While production has fluctuated over the last 20 years, it continues to dominate. The European Union consists of some of the top Old World wine producing countries including France, Germany, Italy, Portugal, and Spain. According to a 2008 USDA GAIN report, the European Union continues to be the world's largest wine producer, consumer (including the United Kingdom), exporter, and importer. It encompasses 45 percent of the world's wine growing areas and 62 percent of the world's wine production. However, in the last 20 years, the European Union has reduced the area with which wine grapes are grown by 10 percent, making way for

New World countries to increase production including the United States whose production has increased by 21 percent (USDA 2008).

From 1994 to 2008, wine production of the six largest producing countries, which include Italy, France, Spain, USA, Argentina, and Australia, has varied. In 2008, the USA was fourth among the top six countries, behind Italy, France, and Spain, but has been "up" in production on average for the last two years. The report titled ***Market Insight Report: Global Wine Supply Monitor January 2009*** (2009) also states that in the last few years, Italy has peaked past France and is now the leader of wine production in the world. The United States produced less than 2 billion liters in 1994 and nearly 2.5 billion in 2008 (see Appendix 2, Figure 1). This report indicates which countries in the world are producing the most wines in order to determine which countries wines are being consumed the most.

Consumption of American wines in the United Kingdom began to increase in the mid to late 1980s after being recognized as world-class wines. The mid 1980's were the point at which the British began to understand the importance of the quality of the wine rather then judging a wine solely based on its price. At this time, some wine educators would suggest that British people should consume American wines along with the European wines they were use to drinking (Seal 1987).

The wine market in the United Kingdom was growing by 1989. The United Kingdom was third for U.S wine exports in the world, behind Canada and Japan. U.S wine exports were at nearly 12,000,000 liters in 1989 (See Appendix 1, Table 1). This indicates that the United Kingdom was becoming a major wine consuming country and that its numbers were increasing rather rapidly. Wine exports were growing rapidly and the next few years would prove to be crucial when examining the increasing trends in wine consumption in the United Kingdom (Toaspern 1990).

Per capita wine consumption in the United Kingdom increased dramatically from 1989 to 2007. According to the Institute of Alcohol Studies in Great Britain, pure alcohol consumption from wine had increased from 1.78 liters in the years 1988 to 1989 to 3.80 liters in the years 2007 to 2008 (see Appendix 1, Table 2). A USDA Annual Wine Report also indicates that in the year 2007, per capita wine consumption was up to 19.6 liters (refer to Appendix 1, Table 3).

Sixty percent of the U.S. total wine exports were shipped to the European Union in 2008. A total of 2,577,939 hectoliters were exported to the European Union, equaling about 63 percent of all exports, see Appendix 2, Figure 2 (USDA World 2008). Compared to 1989, United Kingdom imports of U.S wines were down from 12 million liters to 7.64 million liters, see Appendix 1, Table 4 (USDA EU-27 Wine 2009). However, the United States wine and beer export aspect to the United Kingdom was still a 272 million dollar industry in 2008, see Appendix 1, Table 5 (USDA United 2008). The United States growth in production and exports over the last twenty years may have been increasing, but other countries production and exports were increasing along with it. In the year 2008, United States was 7th for United Kingdom imports behind France, Australia, Italy, Spain, South Africa, and Chile. The United Kingdom may have seen a return to consuming Old World wines, with purchasing decisions being driven by the high prices of American wines.

The United Kingdom is concerned about the price of wines that they buy on-premise and off-premise. Restaurants and wine bars in the entire United Kingdom (and in some of the leading wine bars in major cities, like London) sell up to 30 or 40 wines by the glass, not a single one of which is from the United States (Low 2002). The main reason why American wines are not being bought and sold in the United Kingdom is because the prices are too high. The cost to export American wines has driven on and off-premise prices up, causing consumers to purchase the lower priced wines that tend to come from other European Union countries. Wine sellers are concerned and do not want to buy expensive wines that they cannot sell. Another problem is that the majority of American wines that are sold in the United Kingdom are considered "cheaper", lower quality wines in the United States. This is relevant because it would appear by this article that the British people do not think too highly of American wines and are less likely to consume it if it is available and offered in either stores or restaurants (Low 2002).

The recession in the United States has not only affected shoppers within this country but in the United Kingdom as well. In recent times, mainly in the last year, the recession has fueled the focus of savvy shopping and getting more for the money being spent. Not only that, but also most people are consuming wine at home rather than going out for a drink or drinking wine while at a restaurant with a meal. Another trend involves the purchase of more rose and sparkling wines but sparkling wines that are not from the Champagne region of France where prices maybe higher than sparkling wines from other regions (Woodward 2009).

Possible Reasons for Poor Perceptions

Most United Kingdom consumers do not have a developed knowledge of what to look for in a wine based solely on it's labeling. Wine education is not frequent and it is not a wine producing country. Occupants of typical wine producing countries may have more knowledge than others. Confusion can be attributed to multiple factors including an increase of available information and the environments in which consumers are purchasing their wines; mainly grocery stores. Many of the UK consumers are aware of their confusions and wine retailers are trying to make consumers feel less stressed when shopping for wines. One particular method UK supermarkets would use is a loyalty card program which presents a discount on wines to consumers but will promote specific wines that wine experts employed by grocery stores have selected. Exporters need to market their wines in a way that will not be overwhelmingly confusing to potential customers. The residents of the United Kingdom are willing and eager to purchase wines, but steps need to be made to reduce consumer confusion (Casini, Cavicchi, Corsi 2009).

Marketing Strategies

Wineries, specifically smaller wineries in the United States, need to look for different ways to market to other countries especially since wine consumption trends are different within the United States. Smaller, less established wineries should look into marketing in the faster growing cities through out California, the United States, and the rest of the world (Quinnan 2006).

Chapter 3

METHODOLOGY

Procedures for Data Collection

This area may be the most difficult part of the project. Data may be scarce or hard to come by based on the fact that analysis will be done on the United Kingdom rather than the United States. The first objective will be to better understand the United Kingdom wine markets that could be beneficial for American wineries. The United Kingdom is a significant country to the wine industry because of the diverse cultures that exist in the country. If a wine is well received in the United Kingdom, sales of the wine may be altered for the better. The first step will be to determine the size of the market in the country and see how their influence may affect sales of the product. Statistics from the country itself will need to be gathered in order to determine population, average earnings, United Kingdom trade, international travel, and other factors that determine wine consumption. These statistics can be obtained from the government of the United Kingdom via Internet or library databases. Similar data may need to be collected on the United States in order to determine similarities and differences between the two countries.

The second objective will be to analyze wine consumption trends in the United Kingdom. All research that will be looked over and analyzed will all be secondary research that has already been made available.

The final objective is to determine what factors may discourage the United Kingdom from purchasing and consuming American wines. Export data from the United States and import data from the United Kingdom may be a useful tool here. By looking at this information, it can be determined which countries wines may be more popular in the country.

The majority of the data that will be collected will be information that has already been collected and the researcher will be analyzing and making estimations on what may happen with wine consumption trends in the United Kingdom in the future.

Procedures for Data Analysis

By looking at the types of consumers that exist in the country, conclusions on who is most likely to purchase wine in the country can be made. This will help to determine how and what marketing strategies will need to be used for this specific group of people.

It is important to look at the import data of the United Kingdom to see the amount of wine that is coming into the country as well as what wines are actually being sold to the final consumer. If the number of American wines being imported is low, the reasons for these low numbers can be discussed. Are prices of American wines to high for consumers in the United Kingdom? By looking at this issue, American wineries and exporters will better be able to make decisions as to what wines they need to be selling to the United Kingdom as well as make marketing decisions that may make their wines seem more attractive to potential British buyers. By looking at the past trends of wine imports in the United Kingdom, wine exports from the United States as well as other European countries, as well as wine consumption in the United Kingdom, conjectures can be made about possible future wine consumption trends in the country.

Assumptions

This study assumes that wine consumption as of 1989 was considered “normal.” The year 1989 will the held as a constant and any years following 1989 will determine weather or not the trends indicate and increase or decrease in wine imports and consumption. Information collected and analyzed will be from the years following events that would indicate an increase in awareness of American wine quality.

Limitations

The assumptions for the increase or decrease in imports and consumption for wines from specific countries do not include other factors that may determine why imports and consumption was high or low. For example: the study is not taking into account whether or not wine crops were impacted because of weather or other factors for a specific year. The average numbers for countries year-by-year crop yields will not be taken into consideration.

Chapter 4

DEVELOPMENT OF THE STUDY

Data Collection

The market in the United Kingdom for American wines is vast. According to the Office for National Statistics in the United Kingdom, there was an estimated 61,383,000 people living in the country as of mid-2008 (see Appendix 3, Figure 1). Four out of every five citizens are above the age of 16, with the drinking age in the United Kingdom being 18. However, the drinking age in the United Kingdom is not as heavily regulated as it is in other countries including the United States.

A 2008 marketing study of the United Kingdom by the New Zealand Trade and Enterprise states that the country is the fifth largest wine market internationally and "wine is consumed by almost two thirds of the UK population and that the two main factors are increases in personal disposable income and influences in Europe". On average, wine consumption in the UK is around 34 bottles per person per year. The study also concludes that the wine market value in the United Kingdom was 19.9 billion U.S dollars (see Appendix 4, Table 1).

The United States has a great opportunity to market its wines in the United Kingdom especially with the increase in disposable income that customers have seen in the last few years. However with this increase in disposable income, the global economic downturn has forced United Kingdom consumers to value quality of wine more so than before (New Zealand 2009). Any winery from the United States looking to market its wines in the United Kingdom must not only price there wines as low as possible even with export costs, but make sure that the wine is of the value and quality that shoppers oversees would find with other European wines.

Not only are prices for American wines higher in the United Kingdom because of the price to export, but also they are also more expensive because of duty rates and taxes that the United Kingdom enforces for any import of wines, which is more than other European Union producing countries. A duty is a kind of tax, often associated with customs. The Wine and Spirit Trade Association in the United Kingdom determined for the year 2009 that the excise rate for Low Alcohol beverages (wine and mad wines up to 4.0%) are taxed £65.94 per 100 liters and £214.02 per 100 liters for higher alcohol table wines (see Appendix 4, Table 2). This breaks down to £1.61 in taxes per bottle of wine imported from the United States (see Appendix 4, Table 3); £1.61 equals about $3.00 U.S. All of these taxes are factors of the higher prices of American wines in the United Kingdom. Price is one factor that any wine consumer, not just in the United Kingdom, considers when making a purchase. If not for export expenses and taxes, American wines would be cheaper to purchase in the United Kingdom, and more wines would be sold. But, because those expenses and taxes are unavoidable, American wineries must do all they can to market the value and quality of the wine, as well as what makes it different and better than other European wines.

Analysis

The New Zealand Trade and Enterprise, with the help of the U.S Department of Agriculture determined that influences in Europe are one of the main factors for increased wine consumption in the country. These influences manly deal with “brand” loyalty to wines of the

European Union as well as marketing efforts, and the amount of European wines available in the country. While price of American wines in the United Kingdom was most likely a main factor at one point in recent years, with the increase in disposable income, customers many have had more opportunities than before to consume higher priced American wines. However, these influences from Europe may have lead to the belief that UK consumers should purchase and support European wine efforts more so than American wines. While United States exports to the United Kingdom have increased in the last 20 years, the influences of the surrounding European nations have kept the United States behind leading Old World wine exporters.

United Kingdom wine consumers are remaining loyal to other European wines not only because of the influences throughout the continent, but because of a form of brand recognition as well. Because UK consumers are valuing quality in these harsh economic times, they are probably less likely to seek new opportunities with wine from other countries, and are sticking with brands and countries they know are already producing great wines. The habit of purchasing European wines is less likely to change especially now with the global economy being so poor.

One strategy American wineries can do when marketing to customers in the United Kingdom (especially if they are European style wines) is try to distinguish themselves from European wines by enlightening customers on the American winemaking techniques, while promoting them as European style wines (for example: Tolosa Winery only makes wine with grapes found in the Burgundy region of France). UK customers may be more inclined to by a bottle of American wine if they know it is a European style wine. If the wine is higher priced then others, another strategy would be to highlight the value of the wine for the money that is being spent. If disposable income is higher and the quality of the American wine is higher and better marketed, more purchasing by UK wine consumers will be one outcome.

Chapter 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

In summary, it has been determined that the United Kingdom wine market is large and there are many opportunities that American wineries could explore when trying to enter this market. About two thirds of the population in the United Kingdom are wine drinkers and there are many people that could be reached through proper marketing strategies by American wineries. Wine consumption trends in the UK show that more and more people are consuming wine and there has been a large increase in the drinking population in the last 20 years. However, while imports of American wines have increased from 1989, so have imports from other European nations and New World wine producing countries. Consumption of American's is still less than consumption of wines from France, Italy, and Australia.

Factor's that may be causing United Kingdom wine consumers to not purchase American wines is not only the price of the wines, but the perceived quality for the price, brand loyalty to European wines, and influences from other European nations. Whether it be one factor or multiple factors, the quantity of American wines being purchased and consumed in the United Kingdom could be significantly larger considering the size of the market and number of drinkers in the country.

Conclusions

New marketing strategies are key when getting more United Kingdom wine consumers to purchase American wines. Because of the decline of the global economy, more British consumers are looking to purchase based on quality as well as previous experience with the wine. These consumers want good wine for their money and they know that is what they are going to get when purchasing a European wine, but they may not know that is what they are getting with the purchase of an American wine. While American wines may not be purchased and consumed as much as wines from other wine producing countries, it is not necessarily based on quality and the taste of these wines, but rather the price points and brand recognition that UK consumers have with wines from other European countries.

Recommendations

In order to see an increase in purchasing and consumption of American wines, wineries must differentiate their wines from all others, emphasizing the quality of the wine and the American winemaking techniques, while reminding consumers that they are European style wines. Since the higher prices of American wines in the United Kingdom is unavoidable due to export expenses and taxes, American wineries can enhance their marketing strategies to make their wines more relatable to British consumers.

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USDA. 2009. *World Markets and Trade May 2008*. United States Department of Agriculture Foreign Agricultural Service. Pp. 2

APPENDIX 1

Table 1. U.S. Wine Exports 1989

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are needed to see this picture.

Source: Toaspern, John. 1990. “Wine Market in the United Kingdom.” Horticultural Products Review. U.S Agricultural Trade Review Office. 5-90. Pp. 19-20

Table 2. Liter of pure alcohol per adult – Great Britain

QuickTime™ and a
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are needed to see this picture.

Source: Institute of Alcohol Studies. 2008. IAS: Drinking in Great Britain IAS Factsteet. St. Ives, Cambs. Pp.5

Table 3. Per Capita wine consumption in Selected EU Countries (Liters)

Country	1998	2001	2005	2007
France	61.8	55.7	55.8	50,6
Italy	52.0	51.9	48.2	43,7
Portugal	50.7	44.3	46.7	45,8
Slovenia	40.1	29.8	43.8	
Spain	36.6	35.2	34.5	25,7
Hungary	29.2	32.1	33.1	
Denmark	30.1	32.5	31.4	29,2
Austria	30.6	28.0	28.8	32.3
Romania	24.0	21.1	26.9	
Belgium	n.a.	23.1	26.0	28,8
Germany	23.1	24.3	24.5	24.3
Greece	27.2	27.5	22.9	
Netherlands	14.0	20.2	21.1	21,4
U.K.	14.2	16.2	19.0	19,6
Bulgaria	7.9	20.8	19.0	

Source: USDA. 2009. GAIN Report: EU-27 Wine, Wine Annual Report 2009. USDA Foreign Agricultural Service. Pp.5

Table 4. United Kingdom Wine Imports (Quantity in 1000 hectoliters, Value in million Dollars)

Country of Origin	2006		2007		Jan-Nov 2008	
	Quantity	Value	Quantity	Value	Quantity	Value
France	2,609	1,519	2,621	1,831	2,417	1,856
Italy	1,735	408	1,559	449	1,533	494
Spain	997	292	1,013	347	880	319
Germany	745	166	641	167	591	172
Portugal	160	83	180	103	156	79
Australia	2,095	789	2,267	928	1,940	773
Chile	755	223	994	341	836	309
U.S.	757	216	795	217	764	198
South Africa	821	223	750	245	841	226
New Zealand	212	145	267	203	266	192
Argentina	189	48	210	58	177	54
TOTAL WORLD	**11,374**	**4,226**	**11.677**	**5,045**	**10,747**	**4,820**

Source: USDA. 2009. GAIN Report: EU-27 Wine, Wine Annual Report 2009. USDA Foreign Agricultural Service. Pp.12

Table 5. Trends in Imports from United States of Consumer-Oriented Foods

Product Category	Growth 2003 –2007 (%)	US Exports to UK 2007 ($m)
Wine & Beer	+27	272
Fresh Fruit	+56	103
Processed Fruit & Vegetables	+16	102
Other Consumer-Oriented Products	+33	88
Tree Nuts	+61	78
Salmon, Canned	+36	74
Snack Foods (excl nuts)	+31	43
Dairy Products	+130	30
Eggs & Products	+158	27
Fresh Vegetables	+57	24
Rice	-19	21
Fruit & Vegetable Juices	+158	13
Pet Foods (Dog & Cat Food)	+6	12
Red Meats, Fresh/Chilled/Frozen	+0.2	10
Breakfast Cereals & Pancake Mix	+10	5
Nursery Products & Cut Flowers	+112	3
Poultry Meat	+1,339	3
Red Meats, Prepared/Preserved	+55	2

Source: USDA. 2008. GAIN Report: United Kingdom Exporter Guide UK Exporter Guide 2008. USDA Foreign Agricultural Service. Pp.4

APPENDIX 2

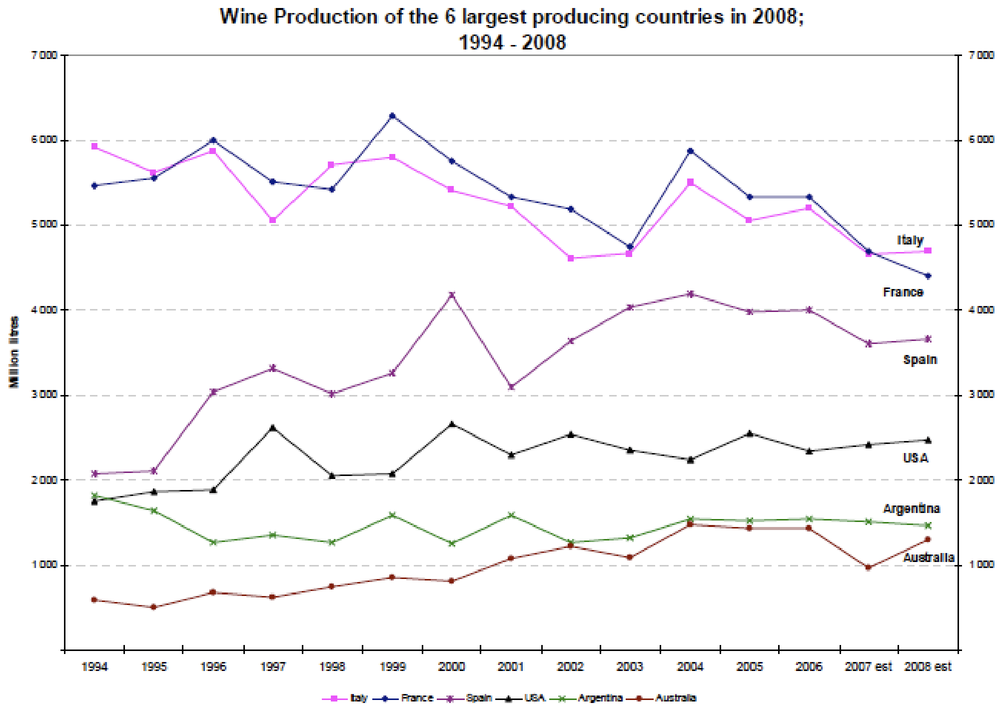

Figure 1. Wine Production of the 6 largest producing countries in 2008; 1994-2008

Source: Australian Wine and Brandy Corporation. Australian Government. Market Insight Report: Global Wine Supply Monitor January 2009. Pp. 3

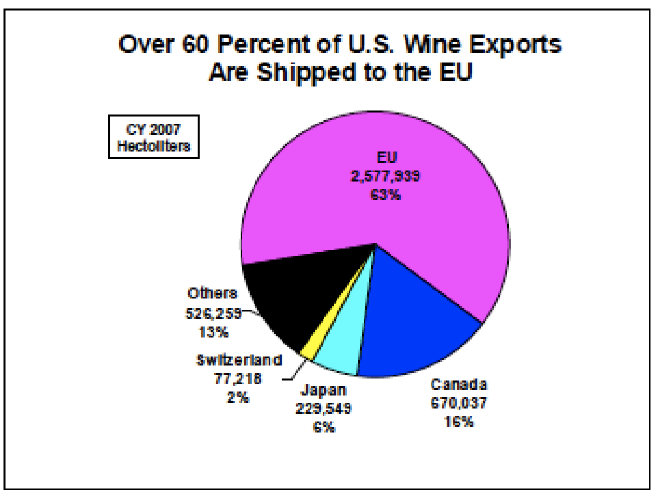

Figure 2. U.S World Wine Exports

Source: USDA. 2009. World Markets and Trade May 2008. United States Department of Agriculture Foreign Agricultural Service. Pp. 2

APPENDIX 3

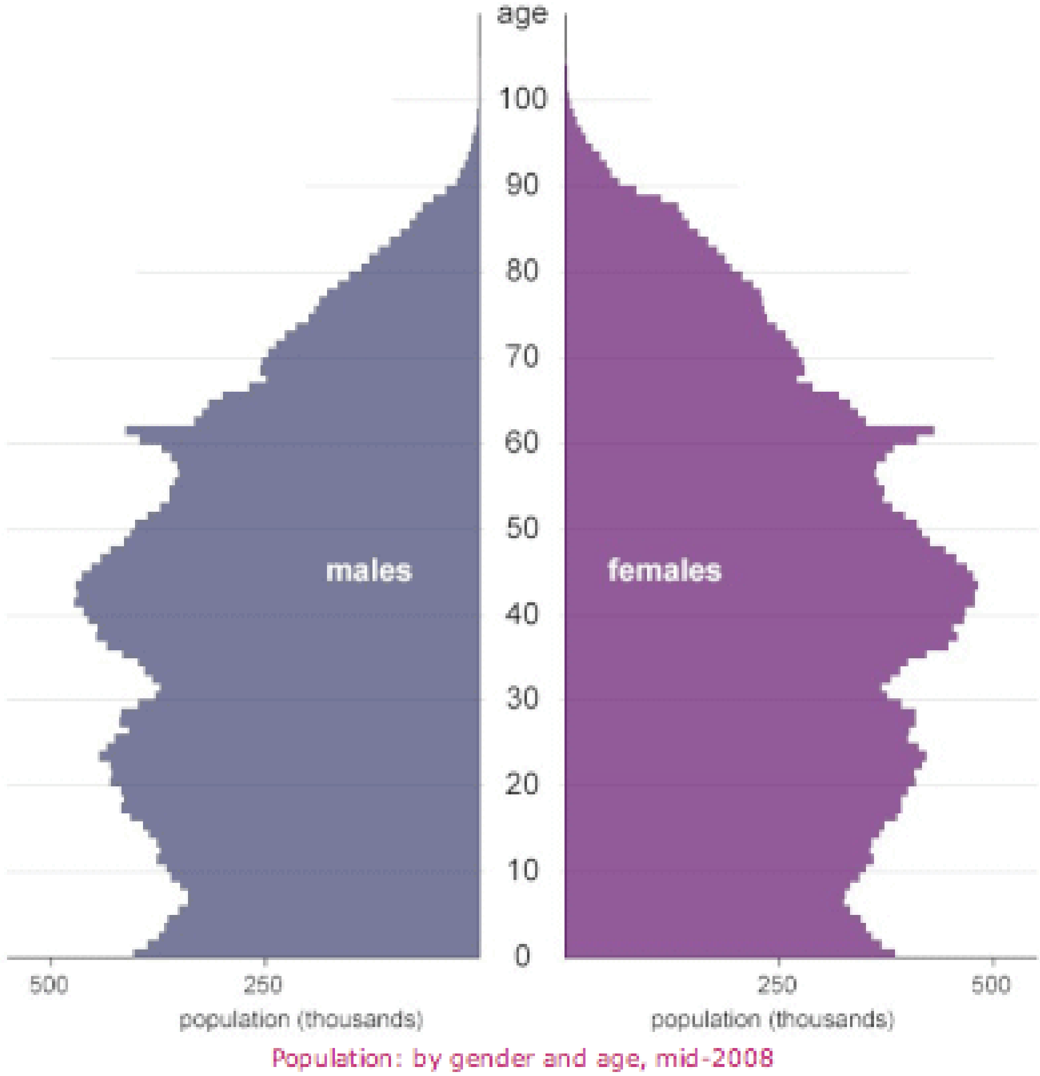

Figure 1. Population Estimates: UK population grows to 61.4 million

Source: "Population Estimates: UK population grows to 61.4 million" 2008. Office for National Statistics. United Kingdom.

APPENDIX 4

Table 1. Wine and alcohol market value and expenditure per capita United Kingdom, 2004-2008

$US	Wine and Alcohol	2004	2005	2006	2007	2008
UK population (60.975) million	All Alcohol Market Value ($US in billions)	89.35	91.28	92.45	92.84	91.32
	All Alcohol expenditure per capita ($US)	1482.52	1510.34	1525.45	1527.64	1498.52
	Wine Market Value ($US in billions)	18.34	19.05	19.64	20.20	19.9
	Wine expenditure per capita ($US)	304.41	315.3	324.1	332.38	327.68

Source: New Zealand Trade & Enterprise. 2009. Market Profile for Wine in the United Kingdom. New Zealand Trade and Enterprise. Pp. 1-5

Table 2. Rates of Excise (from 23.04.09, set by the April 2009 Budget)

Rates of Excise (from 23.04.09, set by the April 2009 Budget)
(Figures are approximate due to rounding up)

Low Alcohol beverages, wine and made wines (1) **up to 4.0%** £65.94per 100 litres
Low Alcohol beverages, wine and made wines (1) **exceeding 4.0% but under 5.5%** £90.68 per 100litres
Cider and Perry of up to 7.5% £31.83per 100 litres
Beer £16.47 for every 1% of strength per 100 litres
Wine £214.02 per 100 litres
Sparkling Wine of 8.5% volume and above £274.13 per 100 litres
"Intermediate products" (like port and sherry) £285.33 per 100 litres
Spirits and spirit based - "RTDs (Ready to Drink Products)" (2) £22.64 for every 1% of strength per 100 litres
(1) Excluding spirit based drinks - see below
(2) - ie "made products containing distilled alcohol
In the 2002 budget, the Chancellor created a new fiscal category by linking spirit based "RTD's" to the duty on Spirits. Previously spirit based "RTD's" had been dutied at the same rate as wine and cider based RTD's.

Source: "Duty Rates, UK Excise Duty: Beer, Wines and Spirits Set by 2009 budget." 2009. The Wine and Spirit Trade Association. London, United Kingdom.

Table 3. What this means per bottle (in each case, excluding VAT @15%) 2009

What this means per bottle (in each case, excluding VAT @ 15%) 2009
(Figures are approximate due to rounding up)

Low Alcohol beverages (1) (**27.5cl@5.5%**) £0.25
Cider (33cl) £0.11
Beer (33cl @4%) £0.22
Wine (75cl) £1.61
Sparkling Wine of 8.5% or more (75cl) £2.06
"Intermediate Products" (75cl) £2.14
Spirits and Spirit based RTD's (2) (27.5cl @5.5%) £0.34
Liqueurs and Spirits (70cl @37.5% volume) £5.94

(1) Excluding spirit based drinks - see below
(2) - ie "made" products containing distilled alcohol
In the 2002 budget, the Chancellor created a new fiscal category by linking spirit based RTDs to the duty on Spirits. Previously spirit based RTDs had been dutied at the same rate as wine and cider-based RTDs.

Source: “Duty Rates, UK Excise Duty: Beer, Wines and Spirits Set by 2009 budget.” 2009. The Wine and Spirit Trade Association. London, United Kingdom.