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Approved by:

Christine M Sloop, Agricultural Attaché
Office of Agricultural Affairs

Prepared by:

Luis Hennicke, Agricultural Specialist

Report Highlights:

A slightly smaller, but good quality wine production is expected in 2006, with similar volumes in exports. Table grapes will still be used in wine production in MY2006, as wineries report a shortage in white wine production, destined mainly for the domestic market. Industry sources have indicated that once the new areas come into production, wineries will have to invest in new processing and storage facilities to absorb the annual additional output.

Includes PSD Changes: Yes
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Executive Summary

Chile's wine production is expected to be similar or slightly smaller than last year in MY 2006, in spite of newly planted area coming into production and excellent weather conditions. Wineries reduced prices significantly for grapes and wine paid to farmers as well as increased pruning of grape bunches in an effort to reduce production. A bumper crop in 2005, together with lower exports, increased stocks to an all time record volume.

Chile has an estimated 8,000 producers of wine grapes. Planted area has increased over 70 percent during the last 8 years. Industry sources believe that once the new areas come into production, wineries will have to invest in new processing and storage facilities to absorb the annual additional output.

Planted Area

Based on the excellent prices obtained by farmers during the last few years for wine production, new vineyards were established, and existing operations expanded and/or replanted to varieties in higher demand. As a result the Ministry of Agriculture's new estimate of total planted area of vines for wine is now 115,000 hectares. Out of the total planted area, around 76 percent are red varieties (20 red varieties, of which almost half are Cabernet Sauvignon). Also, close to 75 percent of all planted area is irrigated. As a result, Chile's total volume of exportable wine is expected to continue to expand in the coming years.

Production

Wine production in MY 2005 (Jan-Dec, 2005) increased significantly when compared to both the previous year and our last forecast, mainly as a result of favorable weather conditions in all production areas together with significant new planted area coming into production. Some rain during harvest and good temperatures during spring had a positive effect on final volumes of production. For MY 2006, because another significant increase in production was expected, due to favorable weather conditions and a significant number of orchards coming into production, wine makers took some actions like increasing pruning to lower total output. Pruning also increases the quality of the production. Additionally wineries reduced close to 40 percent the prices they paid to farmers for grapes and wine. Last year's bumper crop, together with a fall in exports of wine, increased stocks to an all time record volume. As a result of the lower prices offered and the pruning the current forecasts for MY2006 are for similar or slightly lower volumes compared to last year's production. In spite of the large crop expected, the industry still produces a significant volume of wine from table grapes, as there is reportedly a shortage of white wines for the domestic market.

Production Factors

Over 46 percent of wine storage containers at wineries are made of stainless steel in the Chilean wine industry, which shows a high technological development standard for the industry. Additionally, 39 percent of the wineries use oak barrels, French or American, for an average of 3 to 5 years. Over 70 percent of Chilean wine makers believe that they have sufficient storage capacity for their production, while only 12 percent believe they need to expand.

Table - Wine Production, Consumption and Exports					
				Exports	
	Area Planted (Th. Has)	Production (Mill. Ltr.)	Per Capita Consumption	Mill. Ltr.	Mill. US\$
1982	105	603	52	8	11
1990	65	398	25	43	52
1992	62	370	17	74	119
1994	53	411	13	111	143
1996	56	481	16	185	294
1998	75	547	17	251	540
2000	104	679	15	276	585
2002	109	574	15	356	610
2003	110	687	16	402	680
2004	112	655	16	474	845
2005	113	805	16	421	885
2006 1/	115	775	17	430	904
1/ FAS Forecast					
Source: National Agricultural Society (SNA) and Central Bank.					

Consumption

Total domestic wine consumption in Chile is more or less stagnant. Statistics shows that average per capita consumption fell over 70 percent from a high of 52 liters per person in 1982 to a low of only 13 liters in 1994. Beer consumption has been substantially exceeding 27 liters per capita. Since 1994, per capita consumption of wine slowly has been expanding again and presently is 16 liters per person. This compares to 55 liters consumed in France and 40 liters in Argentina. To increase domestic wine consumption, the Wines of Chile Association has conducted a promotional program during the last 10 years. Their annual budget is approximately \$700,00 to \$1 million dollars. Their main promotional program is an activity called "Wine Show and Tasting". This activity takes place in different parts of the country. It consists of seminars and wine tasting in Malls, at Art centers and special wine tasting events.

Trade

After many years of expansion, Chile's wine exports in volume fell for the first time in MY 2005. Due to a fall in operational margins as a result of the revaluation of the peso against the dollar, most wineries had to increase the prices of their export wines. This price increase lowered the competitiveness of Chilean wines against other producers (countries), thus reducing demand. Industry sources do not expect this to continue during MY 2006 and exports should recuperate to a level similar to last year. Industry sources indicate that Chile has become the tenth largest wine producer and fifth largest exporter in the world. New developing markets, like China, are expected to be an important factor for further expansion of exports. Improvements in quality and a good price/quality relationship are expected to spur overseas demand.

Chile traditionally exports both bottled and bulk wine. An increasing number of wineries are making a big effort to increase premium-bottled wine exports; as a result bottled wine grew faster than bulk wine in 2005. Currently, there are more than 70 Chilean wineries exporting. Over 60 percent of Chile's total yearly production is exported, supplying more than 100 countries.

Kind / Year	2003	2004	2005
Sparkling	7,934	11,323	13,747
Bottled	2,402,569	2,759,664	2,811,321
Bulk	1,610,733	1,974,820	1,390,119
TOTAL	4,021,236	4,745,807	4,215,187

Although wine export volumes fell in 2005, the value of exports rose as the average price obtained for all exports rose almost 18 percent. Industry sources believe the increase in the average export price reflects an improvement in the quality of the wine being exported.

Kind / Year	2003	2004	2005
Sparkling	2,094	3,007	3,776
Bottled	589,868	713,269	754,735
Bulk	88,070	128,894	126,132
TOTAL	680,032	845,170	884,643

Kind / Year	2003	2004	2005
Sparkling	264	266	275
Bottled	246	258	268
Bulk	55	65	91
Average	169	178	210

Chile's main export market for wine continues to be the EU and US. The industry currently is focusing its marketing activities on expanding exports to the Asian markets. However, less than 10 percent of total exports go to that market, according to "Wines of Chile", a public-private organization created to promote Chilean wine exports (see policy section).

Table - Wine Exports by Country of Destination						
	Quantity (1000 Hectoliters)			Value (Thousand US dollars)		
	2003	2004	2005	2003	2004	2005
U.K.	665.9	840.1	787,1	127,835	159,262	153,210
U.S.	529.7	578.6	561,1	126,012	145,003	147,456
Germany	440.8	539.3	465,7	41,134	55,060	64,525
Canada	329,8	331,0	262,3	43,800	48,865	53,378
Denmark	303.0	336.2	293,5	42,300	50,850	49,921
Ireland	101,6	120,8	117,4	30,156	36,517	37,426
Netherlands	121,6	150,7	151,0	26,111	32,843	36,397
Japan	136.0	173.9	134,2	28,108	39,021	29,332
Brazil	76,3	116,4	116,3	17,047	25,386	27,868
Belgium	66,0	101,6	107,8	6,595	10,158	25,425
Sweden	112,4	104,9	92,4	24,310	10,485	23,413
Others	1138,1	1352,3	1126,4	166,624	231,720	236,292
TOTAL	4021.2	4745.8	4215,2	680,032	845,170	884,643

Wine is mainly imported from Argentina in tetra pack cartons and/or bulk to supply the domestic demand for in expensive wine. U.S. wine is also available, usually in premium outlets. However, demand is dampened by prices well above the local market average. The current tariff rate for all U.S. wine imports into Chile is 6 percent ad valorem. There is also a 19 percent value-added tax and a 15 percent liquor tax applied to all wines sold in Chile. In the short term, the US-Chile Free Trade Agreement will have a limited effect on Chilean wine export volumes to the US, as the duty for most wine is 6.3 cents per liter and is scheduled to be phased out over 12 years (2016). In the case of US wine exports to Chile, the 6% tariff will remain at base rate until 2010. Beginning January 2011 duties will be reduced by 3.3%. In January 2012, duties will be reduced by 21.7 %. In 2013, duties will be reduced by 40.0 %. In 2014, duties will be reduced by 58.3 %. In 2015, duties will be reduced by 76.7 %. U.S. wine can enter Chile duty free in 2016.

Stocks

Stock figures in the PS&D table include wine that is in the aging process for both the domestic and export market. A significant increase in production in MY 2005, together with a fall in exports, explains the increase in wine stocks. As a result, most large wineries have reduced significantly the farm gate wine prices in an effort to lower wine production and stop the increase in stocks.

Table - Real Domestic Farm Gate Wine Prices (CH\$ Per Liter) /1							
1981	1985	1990	1995	2003	2004	2005	2006 /2
207	111	116	171	210	274	385	232
Exchange rate: US\$1.00 = CH\$580							
1/ Prices are in April 2006 Chilean pesos.							
2/ Average prices for first 4 months of 2006 only.							
Source: ODEPA (Ministry of Agriculture).							

Policy

Wine production and exports are regulated and certified by the Agriculture and Livestock Service (SAG) of the Ministry of Agriculture. All wine produced in Chile for both the domestic and export market is periodically sampled by SAG. SAG also issues the export certificates that include the wine's origin and quality.

The government provides no direct subsidies to support wine production or subsidize exports. Although Chile does have a successful market promotion campaign called "tastes of Chile" that includes wine. Promotions are managed by an organization called "Wines of Chile" which is co funded by both of the wine producers associations in Chile, Vinos de Chile and Chilevid. The Wines of Chile campaign has an annual budget of \$6 million, which is less than 1 percent of the total value of Chile's bottled wine exports last year. The marketing funds are used for generic promotion. The Government contributes 15 percent of the total amount, through its export promotion agency called ProChile. Wines of Chile spend most of its allocated budget on promotional activities in Canada, England, Germany, Ireland and the United States. Activities include the "Tastes of Chile" campaign that promotes fruits and wine. The images used build on the natural beauty of Chile and the quality of the products. Another promotional program is the activity called "Wine Show and Tasting". This activity takes place normally once a year. It consists of seminars and wine tasting. ProChile contributes with logistics and market information and the wineries pay the costs. With this strategy the wine industry is promoting wines in markets like Russia, Netherlands, Denmark, Sweden, Czech Republic, Brazil, Mexico, Venezuela, Taiwan and Hong Kong.

PSD Table							
Country	Chile						
Commodity	Wine				(1000 MT)(1000 HL)		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
TOTAL Grape Crush	0	0	0	0	0	0	(1000 MT)
Begin Stock (Ctrl App)	0	0	0	0	0	0	(1000 HL)
Begin Stock (Other)	6001	6001	5246	5264	0	6499	(1000 HL)
TOTAL Beginning Stocks	6001	6001	5246	5264	4982	6499	(1000 HL)
Prod. from Wine Grapes	6284	6296	6912	7511	0	7700	(1000 HL)
Prod. from Tabl Grapes	249	249	400	535	0	300	(1000 HL)
TOTAL PRODUCTION	6533	6545	7312	8046	0	8000	(1000 HL)
Intra-EU Imports	0	0	0	0	0	0	(1000 HL)
Other Imports	5	5	5	6	0	5	(1000 HL)
TOTAL Imports	5	5	5	6	0	5	(1000 HL)
TOTAL SUPPLY	12539	12551	12563	13316	4982	14504	(1000 HL)
Intra-EU Exports	0	0	0	0	0	0	(1000 HL)
Other Exports	4746	4740	4983	4209	0	4300	(1000 HL)
TOTAL Exports	4746	4740	4983	4209	0	4300	(1000 HL)
Dom.Consump(Cntrl App)	0	0	0	0	0	0	(1000 HL)
Dom.Consump(Other)	2547	2547	2598	2608	0	2700	(1000 HL)
TOTAL Dom.Consumption	2547	2547	2598	2608	0	2700	(1000 HL)
End Stocks (Cntrl App)	0	0	0	0	0	0	(1000 HL)
End Stocks (Other)	5246	5264	4982	6499	0	7504	(1000 HL)
TOTAL Ending Stocks	5246	5264	4982	6499	0	7504	(1000 HL)
TOTAL DISTRIBUTION	12539	12551	12563	13316	0	14504	(1000 HL)

Export Trade Matrix			
Country	Chile		
Commodity	Wine		
Time Period	Jan-Dec	Units:	H.L.
Exports for:	2004		2005
U.S.	578583	U.S.	561067
Others		Others	
U.K.	840156	U.K.	787143
Germany	539312	Germany	465729
Denmark	336204	Denmark	293498
Canada	331029	Canada	262309
China	304152	France	187766
France	206070	Netherlands	150999
Japan	173886	Japan	134166
Netherlands	150663	Ireland	117408
Ireland	120800	Brazil	116319
Brazil	116449	Belgium	107773
Total for Others	3118721		2623110
Others not Listed	1042900		1025230
Grand Total	4740204		4209407