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Report Highlights:
Calendar Year (CY) 2010 grape production is forecast to increase to 2.85 million metric tons (MT) due to a larger area planted to vines and higher yields of young vineyards reaching maturity. Wine production in CY 2010 is estimated to rebound to 15 million hectoliters (HL). Wine annual domestic consumption is expected to increase slightly to 29.5 liters per capita, and exports are expected to increase to 4.3 million HL. The United States is expected to continue to be the largest export market, in value terms, for Argentine high-quality wine. Imports will continue to be negligible.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[AR]

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Situation and Outlook

Executive Summary

Post forecasts an increase in grape production for CY 2010 to a total of 2.85 million MT, compared to 2.7 million MT the previous year, due to a larger area planted to vines and higher yields of young vineyards that have not yet fully reached their growth potential. CY 2010 wine production is estimated to rebound to 15 million HL, which is the level at which the government caps production. Wine exports are expected to increase to 4.3 million HL, as the impact of the global economic crisis on export markets is estimated to moderate gradually, and domestic consumption, which totaled 10.7 million HL in CY 2008, is forecast to increase slightly to 29.5 liters per capita per year.

Production Area

Argentina's wine production area ranges from the northern province of Salta to the southern region known as Patagonia (i.e., the provinces of Neuquen, Rio Negro, and Chubut). This 4,800 mile-long strip of irrigated desert along the Andes Range has proved to be highly suitable for growing grapes of different varieties. Even though the Malbec variety has become the signature for Argentine wine, almost all world varieties thrive in Argentina.

The provinces of Mendoza and San Juan cover 90 percent of the total area planted to grapes in Argentina, and are the traditional wine producing areas. Dry conditions give the vines good health in terms of cryptogamic diseases (fungi, bacteria and virus). According to local wine makers, there is no such a thing as a best region to produce wine in Argentina, but regions where the same variety tastes differently. Mendoza province offers the best combination of climate, soil and logistics, making it the most important wine territory in Argentina.

The three northern provinces of Salta, La Rioja and Catamarca cover 6 percent of the planted area. The Torrontes variety is mainly produced in this region. Another region that is gaining importance as a wine grape producer is composed of the valleys of Neuquen and Rio Negro located in southern Argentina (Patagonia), which cover 2 percent of the planted area. The remaining 2 percent is shared by the provinces of Misiones, Buenos Aires, Cordoba, Santiago del Estero, San Luis, Chubut, Tucuman, and La Pampa.

Area Planted to Vineyards by Province (hectares)

Province	Vineyards		Planted Area	
	Amount	Percentage	Hectares	Percentage
Mendoza	17,415	65.87	159,384	70.57
San Juan	5,418	20.73	48,627	21.8
La Rioja	1,392	5.33	8,372	3.75
Catamarca	1,204	4.61	2,881	1.29
Rio Negro	434	1.66	2,447	1.1
Salta	274	1.05	2,046	0.92
Neuquen	59	0.23	1,443	0.65
Cordoba	179	0.68	304	0.14
La Pampa	14	0.05	218	0.10
Tucuman	23	0.09	43	0.02
Buenos Aires	4	0.02	37	0.02
Chubut	1	0.00	20	0.01
S. del Estero	1	0.00	9	0.00
San Luis	2	0.01	6	0.00

Entre Rios	2	0.01	5	0.00
Misiones	6	0.02	4	0.00
Jujuy	12	0.05	2	0.00
	26,440	100	225,847	100

Source: National Wine Institute (INV, www.inv.gov.ar)

Planted Area

Area Planted to Vineyards by Use (hectares)				
	2000	2005	2006	2007
Processing	188,398	205,021	208,936	211,231
Table grapes	8,754	9,812	10,278	10,711
Raisins	3,483	3,497	3,574	3,681
Other	478	259	246	223
Total	201,113	218,590	223,034	225,847

Source: National Wine Institute (INV, www.inv.gov.ar) - Data based on end of 2008 harvest

Total area planted to grapes in Argentina totaled around 226,000 hectares in CY 2008. In the past 3 years, area planted to grapes has increased at an average annual rate of 1.5 percent. Compared to 1990, the red grape area increased from 42,000 hectares to 100,200 hectares, the white grape area decreased from 60,400 hectares to 48,200 hectares, and the rose grape area fell from 99,400 hectares to 63,000 hectares.

Changes in Area Planted to Vineyards by Variety (hectares)				
	2000	2005	2006	2007
Red	70,048	92,993	97,489	100,174
White	49,432	47,640	47,970	48,161
Rose	68,918	67,389	63,477	62,896
Total	188,398	205,022	208,936	211,231

Source: National Wine Institute (INV, www.inv.gov.ar) - Data based on end of 2008 harvest

This trend is consistent with a shift in the consumer market, where domestic consumption of table white and rose wine has decreased, and domestic consumption and exports of red wines (especially the Malbec variety) have increased significantly in the past 20 years.

High-quality red varieties account for most of the increase. For example, the area planted to the Malbec variety went from 10,000 hectares in 1990 to 26,000 hectares in 2008. Similar increases were noted among the following varieties: Bonarda (12,000 to 19,000 ha); Cabernet Sauvignon (2,000 to 18,000 ha); Shiraz (700 to 13,000 ha); and Merlot (1,000 to 7,300 ha).

Planted Area by Main Grape Varieties - 2008
(%)

Red Wine Grapes	%
Malbec	25.88
Bonarda	18.58

Cabernet Sauvignon	17.89
Shiraz	12.75
Merlot	7.28
Tempranillo	6.48
Sangiovese	2.34
Aspirant Bouchet	1.76
Pinot Negro	1.44
Bequignol	0.94
White wine grapes	
Pedro Gimenez	30.79
Torrontes Riojano	18.25
Chardonnay	13.73
Moscatel de Alejandria	9.49
Chenin	6.50
Torrontes Sanjuanino	5.81
Ugni Blanc	5.59
Sauvignon	4.36
Gibi	2.43
Semillon	2.16
Rose wine grapes	
Cereza	47.57
Criolla Grande	34.74
Moscatel Rosado	14.69
Valencia	1.15
Criolla Chica	0.87
Pinot Gris	0.46
Buonamico	0.36
Ferral	0.06
Garnacha	0.04
Traminer	0.03

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar) - Data based on end of 2008 harvest

During the past 20 years, production of high-quality grape varieties increased significantly. In CY 2008, almost 62 percent of the grapes destined for wine production were high-quality grapes. Red grape varieties accounted for over 70 percent of the total production of high-quality grapes; and white grape varieties, about 30 percent.

High Quality Red Grape Varieties – 2008

Variety	Hectares	%
Malbec	25,930	27
Bonarda	18,611	20
Cabernet Sauvignon	17,918	19
Shiraz	12,770	14
Merlot	7,296	8

Tempranillo	6,491	7
Pinot Negro	1,441	2
Barbera	799	1
Cabernet Franc	548	1
Tannat	543	1

High Quality White Grape Varieties – 2008

Variety	Hectares	%
Pedro Gimenez	13,907	35
Torrontes Riojano	8,243	22
Chardonnay	6,201	16
Chenin	2,935	8
Ugni Blanc	2,525	7
Sauvignon	1,968	5
Semillon	977	3
Viognier	683	2
Sauvignonasse	660	2
Pinot Blanco	29	0

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar) - Data based on end of 2008 harvest

Grape Production

CY 2010 grape production is forecast to increase to 2.85 million MT, compared to 2.7 million MT the previous year, due to a larger area planted to vines and higher yields of young vineyards reaching maturity. Also, weather conditions are expected to be more favorable than the previous season. CY 2009 grape production decreased as a result of hail damage and an early frost in April 2008.

Grape production of CY 2008 totaled 2.8 million MT, down 170,000 MT from CY 2007, as a result of unfavorable weather conditions, namely higher rainfall levels than normal, which caused crop damage due to cryptogamic diseases. Grapes devoted for wine production accounted for approximately 96 percent (roughly 2.7 million MT) of the total area planted to vineyards; fresh table grapes, 1.55 percent (40,000 MT); and raisins, 2.45 percent (60,000 MT). Production of grapes that had high capability to produce good quality wine accounted for 980,000 MT (red varieties), and 520,000 MT (white varieties). Main red grape varieties were: Malbec, Bonarda, Cabernet Sauvignon, and Shiraz. Main white grape varieties: Pedro Gimenez, Torrontes Riojano, Chardonnay, Chenin, and Ugni Blanc. According to the National Wine Institute, production of these types of grapes has been increasing since CY 2000 at an annual rate of 26 percent.

Grape Production (1,000 MT)					
Type / Year	**CY 2006**	**CY 2007**	**CY 2008**	**CY 2009**	**CY 2010**
Red	1,000	1,145	1,050	1,020	1,050
White	820	724	650	620	650
Rose	1,000	1,100	1,000	970	1,000
Others*	80	1	100	90	100
Total	**2,900**	**2,970**	**2,800**	**2,700**	**2,850**

Source: FAS Buenos Aires based on data from the Wine Institute (INV, www.inv.gov.ar) and private sources

* Table grapes and raisins

Wine Production

Wine production in CY 2010 is estimated to rebound to 15 million HL, which is the level at which the government caps production. Wine production in CY 2009 is expected to decrease to 14 million HL due to unfavorable weather conditions which affected the grape crop. During CY 2008, wine production accounted for 14.7 million HL, slightly below regular levels, as a consequence of too much rain during the previous year.

Every year, the governments of the grape producing provinces in Argentina establish the volume of grapes which will be used for must (grape juice) production. In CY 2009, 24 percent of the grape harvest was devoted for must production (in CY 2008, 20 percent).

Wine Production (1,000 HL)					
Type / Year	**CY 2006**	**CY 2007**	**CY 2008**	**CY 2009**	**CY 2010**
Red	--	--	8,100	7,700	8,205
White	6,500	5,500	6,400	6,110	6,600
Colored*	8,500	9,546	200	190	195
Total	15,000	15,046	14,700	14,000	15,000

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar) and private sources

* For CY 2006 and 2007, the “Colored” category included red and rose wine.

Consumption

Wine domestic consumption in CY 2010 is expected to increase slightly to 29.5 liters per capita per year, compared to the previous year, as high-quality wine production is forecast to continue growing to supply both the domestic and export market. Wine consumption in CY 2009 will decrease to 29 liters per capita per year, compared to CY 2008, due to recession of the local economy and the impact of the global economic crisis. In CY 2008, wine domestic consumption totaled 10.7 million HL, according to INV official data.

Wine consumption in Argentina had been falling at an annual rate of between 1 and 2 liters per person per year during the 20 years prior to CY 2006, when the downward trend changed. According to industry sources, the marketing promotional campaigns carried out by wine associations began to pay off. Also, the success of Argentine wine in many high-value international markets has echoed in the domestic market where, during the past few years, a lot of specialty wine stores have opened in larger Argentine cities. However, it should be noted that many of those wine stores and also restaurants are closing down as a consequence of recession of the local economy, and the global financial crisis affecting consumption patterns in most countries in the world. As a result, wine sales in the HRI (hotel, restaurant, and institutional) sector decreased by 40 percent during the past few months.

Wine Domestic Consumption (in liters per capita per year)

Year	CY 2007	CY 2008	CY 2009	CY 2010
Wine (Lt/capita)	30.00	30.25	29	29.5

Source: FAS Buenos Aires based on data by the National Wine Institute (INV – www.inv.gov.ar) and private sources

According to a market study by The Nielsen Company, high-quality wine consumption in Argentine hyper and supermarkets increased by 3.2 percent in CY 2008. The fine/premium wine segments which mostly grew had prices ranging between $3-6 (increased over 19 percent); $17-28 (over 40 percent); and over $28 (more than $27 percent).

Trade

Exports of Argentine wines in CY 2010 are estimated to increase, but at a slower pace, to 4.3 million HL, as the impact of the global economic crisis on export markets is expected to begin to moderate. Wine exports in CY 2009 are expected to remain stable, compared to the previous year. Wine consumers in high-value markets are not expected to stop buying wine, although they may buy more relatively inexpensive brands.

The U.S. is expected to continue to be the largest export market, in value terms, for Argentine high-quality wine, since the price/quality ratio is forecast to continue to be favorable. Also, the Malbec and Torrontes varieties, which have become Argentina's signature wines, are expected to continue to expand their market in the U.S.

According to Global Trade Atlas data, in CY 2008, Argentine wine exports to the U.S. accounted for almost 800,000 HL valued at $164 million. The largest market in volume was Russia, with imports of 955,000 HL for a value of $41 million. Exports to Russia are expected to decrease, as this market is currently sourcing larger quantities of wines from South Africa and Australia.

In CY 2008, Argentina exported around 1,300 brands to 128 countries. About 25 wineries contributed approximately 70 percent of total exports. While total wine exports in CY 2008 were valued at $640 million, fine/premium wine exports totaled roughly $480 million, with an average FOB price of $4 per liter.

Total Wine Exports				
Year	CY 2007	CY 2008	CY 2009	CY 2010
Volume (1,000 HL)	3,600	4,200	4,200	4,300
Value (million $)	500	640	640	670

Source: FAS Buenos Aires based on Global Trade Atlas data

Argentina's primary wine export destinations in CY 2008 are illustrated below:

Country	Volume (1,000 HL)	Country	Value (million $)
Russia	955	U.S.	164
U.S.	790	Canada	56
Paraguay	290	United Kingdom	48
Canada	270	Brazil	42
China	265	Russia	41
United Kingdom	210	Netherlands	36

Brazil	150	Denmark	22
Netherlands	135	Paraguay	22
Japan	130	Japan	21

Source: FAS Buenos Aires based on Global Trade Atlas

Wine imports have remained negligible since the peso devaluation of January 2002. In CY 2008, imports were mainly of sparkling wine from France, valued at $1.8 million. The primary countries of origin were: France (with a market share of 52 percent), Spain (24 percent), Chile (4.5 percent), and Italy (4 percent).

Wine Import Tariff and Export Taxes		%
Import Tariff	**Outside Mercosur area**	20
Statistical tax		0.5
Export tax		5
Export Rebate		6

Source: National Wine Institute (INV, www.inv.org.ar)

In March 2009, the President of Argentina announced that export taxes for wine and must will be reduced by 50 percent, with a rebate that will remain at 6 percent. To date, this measure was not published in the Official Bulletin.

Factors Affecting Industry Structure

Prices

FOB prices increased 9 percent in 2007. Domestic prices also increased due to higher costs, mainly transportation and labor. Retail prices range from $2 and over $40.

Investments

According to private sources, land prices reached a plateau by mid-2007. Foreign investors are still interested in buying vineyards but the political and economic environment, combined with high land prices and the business uncertainty as a consequence of the global financial crisis are hampering the process. One hectare with high-quality vineyards costs between $35,000-40,000, while bare land is sold at US$10,000 per hectare.

Marketing

The Argentine wine association, Wines of Argentina, represents more than 90 percent of the wineries that have presence in the international market. They hired a consulting company in order to do research on the best way to promote Argentine Wines. The company presented the results of the study in August 2007 and Wines of Argentina has begun to implement its recommendations. According to the aforementioned study, Argentina should use symbols that foreigners recognize when they hear the word Argentina. Among them, tango and “Latin passion” are the most widely mentioned in the study. In addition, Wines of Argentina has hired Gustavo Santaolalla, an Argentine musician who is very prestigious in Hollywood, and named him as the “Wine Ambassador of Argentina” in order to promote Argentine wine in the United States and the rest of the world.

The Argentine wine sector, including the government, the industry and producers, have created the Wine Strategic Plan with the ultimate objective of positioning Argentina among the leading wine producing countries in both the export and domestic market. The goal is that, by the year 2020, Argentine wine exports will be valued at $2 billion, and will have a world market share of 10 percent (currently, only 4.5 percent).

The specific goals of the Wine Strategic Plan are as follows:

- Better position Argentine high-quality wines in the Northern Hemisphere markets,
- Develop the Latin American wine market and promote wine consumption in the domestic market, and
- Support the development of small grape producers, and incorporate them into the wine business.

Useful Web Sites

www.inv.gov.ar (Instituto Nacional de Vitivinicultura)
www.bodegasdeargentina.org (Bodegas de Argentina)
www.idr.org.ar (Instituto de Desarrollo Rural de Mendoza)
www.fondovitivinicola.com.ar (Fondo Vitivinicola de Mendoza)
www.areadelvino.com (Area del Vino)
www.vitivinicultura2020.com.ar (Corporacion Vitivinicola Argentina)
www.argentinewines.com (ArgentineWines.com)