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Wine

Annual

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Approved by:
Joseph Lopez, Agricultural Attaché
Office of Agricultural Affairs

Prepared by:
Luis Hennicke, Agricultural Specialist

Report Highlights:
Wine production is expected to expand again in 2008 mainly due to favorable weather conditions. Exports are also expected to expand in volume. In the coming years, industry sources have indicated that as new areas come into production, output will keep expanding and wineries will have to invest in new processing and storage facilities to absorb the annual additional output.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Santiago [CI1]
[CI]

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Executive Summary

After a slight fall in MY2007, Chile's wine production is expected to expend again in MY 2008, as weather has been excellent in most growing areas and additional new planted areas are coming into production.

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 additional annual output.

Planted Area

Good prices obtained by farmers during the last few years for wine resulted in additional plantings of vineyards and existing operations expanded 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 117,000 hectares. Out of the total planted area, around 76 percent are red varieties. 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 CY2007 fell slightly to 8.3 million HL (million hectoliters) when compared to last year's production when Chile reached an all time record figure of 8.5 million HL (million hectoliters). Unfavorable weather conditions characterized mainly by lower temperatures during spring and summer, in most production areas, were not offset by new planted area coming into production. For CY2008, an increase in production is expected again as weather has been excellent in most wine producing areas and additional newly planted areas are coming into production. Large crops during the last few years have been increasing stocks to record volumes. As a result prices for grapes and or wine (domestic Farm Gate prices) paid by large wineries fell significantly again in CY2007.

Table - Real Domestic Farm Gate Wine Prices
(CH$ Per Liter) /1

1981	1985	1990	1995	2000	2005	2006	2007
243	122	126	187	429	421	201	162
Exchange rate: US$1.00 = CH$480.90							
1/ Prices are in Jan 2008 Chilean pesos.							
Source: ODEPA (Ministry of Agriculture).							

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
2004	112	655	16	474	845
2005	113	805	16	421	885
2006	115	845	15	520	965
2007	117	828	16	613	1,262
2008 1/	118	830	16	620	1,285

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. However, beginning in 1994, per capita consumption of wine slowly began expanding again and presently is of 16 liters per person. Chile has the lowest per capita wine consumption for all mayor wine producing and exporting country. Chile's per capita wine consumption compares to 55 liters consumed in France and 40 liters in Argentina. To increase domestic wine consumption, over the past 10 years, Chile's Wine Associations has been conducting promotional programs. Their annual budget is approximately $700,000 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

Chilean wine exports expanded again in CY2007 and are expected to keep growing as a larger volume of good quality and lower priced wine is produced by an increasing number of wineries. Industry sources indicate that Chile is the tenth largest wine producer and fifth largest exporter in the world. New developing markets, like China, will play an important role in 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 2006. 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.

Table - Wine Export Volumes (HL)			
Kind / Year	**2005**	**2006**	**2007**
Sparkling	13,.747	15,565	19,405
Bottled	2,811,321	3,507,669	3,645,246
Bulk	1,390,119	1,681,360	3,052,497
TOTAL	4,215,187	5,204,594	6,127,154

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.

Table - Wine Export Values (Thous.US$ FOB)			
Kind / Year	**2005**	**2006**	**2007**
Sparkling	3,776	4,594	5,754
Bottled	754,735	839,075	1,090,195
Bulk	126,132	124,357	165,850
TOTAL	884,643	968,026	1,261,799

Table - Wine Export Prices (FOB current US$ per HL)			
Kind / Year	**2005**	**2006**	**2007**
Sparkling	275	295	297
Bottled	268	239	299
Bulk	91	74	54
Average	210	186	206

Chile's main export market for wine continues to be the EU and The US was displaced by China who became the second largest export market for Chilean wine in volume, but not in value as China imports mainly bulk wine. The industry continues its focus on 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.

Table - Wine Exports by Country of Destination						
	Quantity (1000 Hectoliters)			**Value (Thousand US dollars)**		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
U.K.	787.1	1,018.1	1,016.8	153,210	163,303	230,584
China	66.3	393.0	705.7	9,107	21,119	40,196
U.S.	561.1	535.5	612.2	147,456	149,721	185,770
Germany	465.7	399.7	590.9	64,525	53,167	70,886
Canada	262.3	449.6	298.2	53,378	56,150	67,905
Denmark	293.5	256.8	286.1	49,921	42,429	55,624
Netherlands	151.0	177.4	224.7	36,397	42,106	54,233
France	187.8	164.4	196.7	19,449	20,131	21,979
Brazil	116.3	143.5	189.0	27,868	37,028	50,947
Russia	73.0	236.8	184.1	16,718	26,069	30,636
Venezuela	92.0	153.6	179.2	17,744	25,252	33,298
Others	1,159.1	1,292.0	1,643.6	288,870	331,551	193,112
TOTAL	4,215.2	5,204.6	6,127.2	884,643	968,026	1,035,170

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. The US-Chile Free Trade Agreement had no effect on Chilean wine export volumes to the US, as the duty for most wine is 6.3 cents per liter and will be phased out over a total of 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. In agreements signed with other trading partners, Chilean exports will have a zero tariff in 2011 in all Mercosur member countries, a zero tariff in 2009 with South Korea and has already free access in Canada, Mexico and the European Union. The present duty of 11.2 percent in China will be reduced to zero in 2015. The recent agreement signed with Japan calls for a 12 year phase out period from the present 15 percent duty.

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 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.

TABLE: **CHILE – Production, Consumption, Trade and Stocks** (Thousand HL)			
	CY2007	**CY2008**	**CY2009**
PRODUCTION	8,280	8,300	8,500
CONSUMPTION	2,400	2,450	2,450
EXPORTS	6,127	6,200	6,500
IMPORTS	66	65	65