



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 1/31/2005

GAIN Report Number: BR5004

Brazil

Wine

Market update

2005

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Report Highlights:

Although the Brazilian wine industry is gradually producing more good quality wine, Brazil depends on imports for most of its better wines. Argentina, Chile, France, Italy, Spain and Portugal are leading exporters. Higher income consumers, who are willing to pay for a higher quality wine, consume these wines. Due to historical ties to Europe and proximity to Argentinean and Chilean suppliers, consumers are less familiar with U.S. high quality wines. U.S. wines can carve out an increased market share, but the competition from locally produced varieties, other South American, EU and New World producers will remain a considerable challenge.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Sao Paulo [BR3]
[BR]

I. BRAZILIAN ECONOMIC OVERVIEW

Economic Indicators

Although there was no economic growth in 2003, 2004 saw the Brazilian economy expand by close to 5%. Brazil's President Lula who took office in January 2003 has a very capable economic team in place whose policies to date can be viewed as a continuation of those of the preceding Fernando Henrique Cardoso Administration. Brazilian exports reached a record level of \$96.5 billion in 2004 and the trade surplus set a record of about \$33 billion. At the same time, the inflation rate climbed to 7%, and the legacy of wealth mis-distribution continues to limit the percentage of Brazilian consumers who can afford to purchase value-added products on a regular basis. On the other hand, the Real gained in strength vis-à-vis the US Dollar in the course of 2004, so for those who can buy dollar-denominated goods, these imports have become more affordable.

The following table shows, inflation has remained in check, the country continues to run a solid trade surplus and interest rates, though still high by international standards, have declined somewhat.

	2000	2001	2002	2003	2004*	2005*
GDP Growth (%)	4.4	1.3	1.9	-0.2	5.1	3.5
Inflation-IPCA (%) ⁽¹⁾	6.0	7.7	12.5	9.3	7.6	4.5
Interest Rate-Selic (%) ⁽²⁾	16.1	19.0	25.0	16.5	17.75	16.0
Total Exports (US\$ billion)	55.0	58.2	60.4	73.1	96.5	100.3
Total Imports (US\$billion)	55.7	55.6	47.3	48.3	62.3	73.3
Trade Balance (US\$billion)	-0.7	2.6	13.1	24.8	33.0	22.6
Current account (US\$billion)	-24.2	-23.2	-7.6	4.0	10.7	3.0
Average Exchange Rate (R\$-US\$)	1.83	2.35	3.53	2.89	2.94	2.95

Source: Brazilian Institute of Geography and Statistics (IBGE), Brazilian Central Bank, Secretariat of Foreign Trade (SECEX), Getulio Vargas Foundation (FGV), Research Institute for Applied Economics (IPEA)

⁽¹⁾ IPCA is calculated by the Brazilian Institute of Geography and Statistics (IBGE). It is the Government of Brazil's target measure of inflation and measures price variation for products and services consumed by families with earnings from 1 to 40 minimum wage salaries in metropolitan areas of Porto Alegre, Belo Horizonte, Recife, Sao Paulo, Belem, Fortaleza, Salvador, Curitiba, Distrito Federal and Goiania.

⁽²⁾ SELIC refers to the Brazilian Central Bank interest rate.

^(*) Brazilian Central Bank forecast

Alcoholic Beverage Sector

Due to high interest rates, unemployment and continued exorbitant per capita taxation, the purchasing power of Brazilian consumers has been negatively affected. Growth in overall consumption of alcoholic beverages is expected to remain low in 2005.

According to IBGE, 87.1% of the Brazilian working-age population is employed either legitimately or under-the-table. Out of this total, 27.1% earns up to one official monthly minimum wage and, 26.3% earns between 1 and 2 times the monthly minimum, 12.3% between 2 and 3 times the monthly minimum, 10% between 3 and 5 times the monthly minimum and only 11.5% earns more than 5 minimum wages. The Brazilian monthly minimum wage is R\$260 (equivalent to about US\$95).

At the other extreme, 1% of the wealthiest citizens have income equivalent to earnings of the poorest 50% of the population. Ten percent of the wealthiest Brazilians earn 18 times more than the poorest 40%.

Because of this income inequality, a large portion of the population consumes homemade, black market or cheap alcoholic beverages such as cachaça (sugar cane spirits) and cider. The wealthiest 10% of the population are the consumers of the premium, imported and high-quality alcoholic beverages.

Middle and mid-lower income Brazilians usually purchase standard lager, spirits and wine.

In Brazil, most adults usually consume alcoholic beverages during the after work “happy hour” or at weekend social gatherings. These events are important venue for alcohol consumption in Brazil. Brazilians are highly sociable people and enjoy spending time chatting with friends in small bars, restaurants or open-air venues by the beach.

Brazil's tropical climate engenders the consumption of colder alcoholic beverages particularly beer and flavored alcoholic beverages, which are becoming more popular. The volume of sales is higher during the summertime (December to February)

Consumer Expenditure on Alcoholic Beverages 1997-2002 (R\$ million)

	1997	1998	1999	2000	2001	2002
Spirits	1,292.2	1,334.7	1,568.9	1,817.1	2,003.9	2,018.6
Wine	449.4	520.4	614.3	760.6	890.2	935.2
Beer	644.9	698.23	727.5	843.4	905.7	880.6
TOTAL	2,386.5	2,553.3	2,910.7	3,421.2	3,799.8	3,834.4

Source: Euromonitor International

Sales of Alcoholic Beverages by Sector: Total Volume (Million liters)

	1999	2000	2001	2002	2003	2004	2005
Beer	7,876.3	8,259.7	8,450.0	8,408.0	8,191.0	8,200.0	8,378.2
Cider/Pear Cider	26.0	23.8	24.0	22.6	22.6	22.8	22.9
Flavoured Alcoholic Beverages	28.2	27.8	36.2	42.1	37.4	37.9	38.2
Wine	326.9	348.0	343.2	338.8	326.5	337.7	341.9
Spirits	1,521.0	1,557.6	1,545.0	1,575.8	1,603.1	1,632.6	1,654.2
Total	9,778.4	10,216.9	10,398.4	10,387.3	10,180.6	10,230.9	10,435.4

Source: Euromonitor International

Sales of Alcoholic Beverages by Sector: Total Value Retail Selling Price (US\$ million, average annual exchange rate)

	1999	2000	2001	2002	2003	2004	2005
Beer	10,626.8	11,586.0	10,244.5	9,082.0	9,648.5	11,008.4	12,205.3
Cider/Pear Cider	49.3	47.0	38.6	32.4	33.7	37.4	39.9
Flavoured Alcoholic Beverages	97.4	100.2	143.2	181.2	155.9	148.4	159.0
Wine	1,712.5	1,812.1	1,413.9	1,165.5	1,270.4	1,570.7	1,688.0
Spirits	7,447.2	8,528.5	7,131.1	6,189.0	6,598.0	7,863.0	8,478.7
Total	19,933.2	22,073.8	18,971.3	16,650.1	17,706.4	20,627.8	22,571.0

Source: Euromonitor International

II. DOMESTIC PRODUCTION – GRAPES & WINES

A - Grapes

Brazilian domestic production of grapes began in the first half of the 19th century, mainly in the South and Southeast regions of the country because of the geo-climatic conditions and European colonization. These areas share some similarities with good grape-growing areas found in Europe, for example. Plantations started with the wine grapes brought from Portugal and Spain by the colonists in the 16th century. Those grapes were later replaced by North American grapes, which led to the introduction of several species of fungi that caused Brazilian grape production to fall. The "Isabel grape" was planted in different regions of the country on a commercial basis and established the foundation for viticulture and viniculture in the states of Rio Grande do Sul and Sao Paulo. Later, in the 20th century, with Brazilian Government support, the American hybrids "Niagara" and "Seibel 2" replaced the "Isabel" grape. In 1970 a significant increase in planted areas came about with the arrival of foreign companies to the "Serras Gauchas" (high altitude mountains in the southern region).

During the 1980's, the tropical Brazilian viticulture was effectively developed in the Sao Francisco River Valley, located in the semi-arid Northeastern region of Brazil, in the states of Bahia and Pernambuco. With a very efficient irrigation system, this region is now producing grapes that can be compared to those produced in the best regions of Europe. The region benefits from an average of three thousand hours of sunlight per year and is able to produce up to 2 1/2 crops a year. Currently, there are about 8 wineries established in region producing 6 million liters of wine from approximately 600 hectares (ha) planted area. According to the Sao Francisco River Valley Producers and Exporter Association (VALEXPORT), in the next four years, as two new wineries (Uruguay and Spanish origin) establish themselves in the region, the production of wine will reach 12 million liters from 1,000 ha of planted area.

According to the Brazilian Union for Wine Production (UVIBRA), planted areas located between the 30°S parallel in the state of Rio Grande do Sul and 9° S parallel in the Northeast region account for 63,816 hectares. Due to weather differences, there are two viticulture areas that have characteristics of temperate weather regions. One area is located in the subtropical region, where the grape vines are cultivated with two annual cycles. These are defined by periods of low temperatures. The other area of tropical viticulture, where successive prunings are performed, has two and half to three vegetative cycles per year.

The American hybrid and other hybrid grapes represent more than 88% of the 2003 wine production in the State of Rio Grande do Sul. The "Isabel" cultivar still leads production, followed by the " Bordo", "Niagra Branco", "Cynthiana", "Courdec" and "Jacquez".

According to industry specialists, 2004 production was an exceptional crop. The 2004 crop was 578.8 metric tons comprising all qualities of grapes. During the January-March harvest season, there were 521 hours of sunlight and only 11 days of rain, an average of 231 liters per square meter of rain.

Brazilian Grape Production

(ton kg)	1999	2000	2001	2002	2003	2004
Varietal grapes	58,678	74,259	49,806	47,766	43,368	62,594
American / hybrid grapes	368,588	447,498	386,292	426,633	339,744	516,396
Total	427,266	521,757	436,098	474,399	383,112	578,990

Source: Brazilian Union for Wine Production (UVIBRA)

The State of Rio Grande do Sul's production represents 90% of Brazil's total grape production. The following tables provide details on Rio Grande do Sul's processed grapes.

Varietal Grapes

Red (thousand liters)	1999	2000	2001	2002	2003
Alicante Bouschet	102	160	161	216	321
Ancelota	-	26	47	64	219
Aramon	-	-	-	-	-
Barbera	149	397	143	108	87
Bonarda	89	67	47	23	18
Cabernet Franc	2,911	4,420	2,990	2,857	3,022
Cabernet Sauvignon	4,490	4,592	3,834	4,752	6,044
Campanario	-	-	-	-	-
Canaiolo	2	5	47	1	0
Carignan	-	-	21	-	-
Carmenere	15	26	4	49	132
Cinsaut	15	-	-	-	-
Durif	-	-	-	-	-
Freisa	-	-	-	-	-
Egiodola	189	326	373	513	626
Gamay St Romain	570	87	55	47	40
Gamay Beaujolais	215	557	352	230	343
Grand Noir	-	-	-	0	1
Grenache	-	0	-	-	-
Lambrusco	67	46	83	143	157
Malbec	43	106	45	66	69
Marzemina	-	8	12	25	12
Merlot	5,072	6,223	4,962	5,837	6,826
Moscato de Hamburgo	-	-	-	-	-
Napa Gamay	217	291	248	137	39
Nebbiolo	-	0	-	-	4
Petite Sirah	110	178	110	106	N/A
Piemonte	-	-	-	-	1,181
Pinotage	935	1,851	1,432	1,112	-
Pinot Noir	471	622	479	497	444
Pinot Saint George	196	256	121	114	11
Ruby Cabernet	25	43	76	178	264
Sangiovese	-	1	1	16	33
Sira (falsa)	-	-	1	-	1
Tannat	2,078	3,487	2,052	1,893	2,285
Tempranillo	-	-	-	-	12
Tinta Madeira	-	-	-	1	-
Tintoria	-	-	-	-	-
Trousseau	-	-	-	-	-
Zinfandel	84	190	140	74	61
Other	8	11	15	1	-
Total	18,051	23,976	17,853	19,060	22,253

Source: Brazilian Union for Wine Production (UVIBRA)
EMBRAPA/CNPUV

White / Rose (thousand liters)	1999	2000	2001	2002	2003
Aliatico	-	-	-	-	-
Aligote	-	-	-	0	-
Altesse	-	-	-	-	-
Arriloba	26	-	37	35	33
Auxerrois	-	-	-	-	-
Burger	14	13	7	-	-
Chardonnay	1,502	2,874	2,198	1,604	1,568
Chasselas	268	180	90	114	53
Chenin Blanc	492	497	344	232	45
Clairette ¹	-	-	-	-	-
Colombard	283	343	276	209	153
Flora	497	582	452	216	323
Gewurztraminer	294	475	291	161	92
Malvasia	1,184	-	-	-	-
Malvasia Amarela	176	401	327	228	160
Malvasia Bianca	-	1,792	786	638	407
Malvasia Verde	174	61	244	202	166
Malvasia di Candia	-	403	273	136	134
Moscato	19,637	19,536	12,038	13,809	9,789
Moscato Canelli	-	-	8	20	1
Moscato Giallo	1	18	116	357	350
Moscato Nazareno	-	-	287	402	504
Moscato Rosado	-	31	2	13	-
Muller Thurgau	19	22	13	8	4
Muscadelle	-	-	-	-	-
Palomino	19	28	19	8	6
Peverella	225	556	325	283	159
Pinot Blanc	229	487	227	171	64
Pinot Gris	0	-	-	-	-
Prosecco	229	456	366	360	341
Red Veltliner	-	-	-	-	-
Riesling Italico	6,574	8,855	5,573	3,822	3,135
Riesling Renano	480	380	213	155	95
Sauvignon Blanc ²	841	1,157	805	545	442
Seara Nova	10	19	9	-	1
Semillon	2,711	4,311	2,779	2,038	1,130
Sylvaner	84	129	51	55	14
Tocai Friulano	1	-	-	-	-
Trebbiano	4,189	5,413	3,158	2,431	1,454
Verdea	-	-	-	0	-
Verdelho	-	-	-	-	-
Verdiso	2	1	1	-	-
Vermentino	13	18	12	9	8
Vernaccia	316	502	259	126	128
Other ³	0	73	23	241	259
Total	40,487	49,614	31,609	28,624	21,018

Source: Brazilian Union for Wine Production (UVIBRA)
EMBRAPA/CNPUV

¹ Includes Clairette de Provence and Clairette Noir.

² Most of the production is Seyve Villard 5276.

³ Tempranilha, Cereza, Criolla Grande, gargarena, Criolla Chica, Mondeuse, Petit Verdot, Tinta Cao, CG 531, Moscatel Nazereno, Maria Gomes, Perdea, Gros Manseg + A41, Maccabeo, Trousseau e Ariloba, Coleções, Dut Chess, Gross Manseng.

American / Hybrid Grapes

Red (thousand liters)	1999	2000	2001	2002	2003
Bacarina	-	-	-	18	16
Bailey	-	-	426	12	8
Bordo	40,736	52,382	42,099	54,990	39,213
Bourdin (S)	-	-	-	-	-
Champagnon (Champanheta)	-	-	-	6	27
Coleções	-	-	-	0	-
Cynthiana ⁴	502	655	788	741	810
Concord	21,226	30,978	32,949	34,686	27,455
Couderc	15,236	18,483	17,623	20,200	22,396
Herbemont	25,010	25,933	17,763	15,343	17,060
IAC 13822	-	-	-	-	-
Isabel	195,025	237,507	188,548	211,737	151,317
Jacquez	1,736	-	-	24,008	20,945
Landot	-	0	2	-	-
Oberlin	-	4	-	3	2
Othello	71	81	155	-	-
Rúbea	-	7	32	69	74
Seibel	27,946	31,254	20,843	4	3
Seibel 2 (seibeleteo)	-	-	2,843	6,693	6,423
Seyve Willard (Tinta)	-	680	862	763	1,003
Total	327,487	397,964	324,933	369,275	286,752

Source: Brazilian Union for Wine Production (UVIBRA)
EMBRAPA/CNPUV

⁴ Also known as Santiago e Zeperina.

White / Rose (thousand liters)	1999	2000	2001	2002	2003
Baco	0	-	-	0	-
Bacarina	-	-	27	-	-
Couderc 13	4,524	6,123	7,809	7,606	8,908
Delaware	-	-	-	5	-
Dona Zillá	-	90	252	83	106
Dut Chess	16	-	-	-	-
Goethe	319	502	379	463	246
Martha	5	10	16	16	9
Moscato Embrapa	52	74	876	1,150	1,446
Niagara	1,468	-	-	-	-
Niagara Branca	26,743	29,969	34,145	36,196	31,186
Niagara Rosada	5,387	10,126	16,150	10,417	9,528
Seyve Villard	1,742	983	727	423	994
Seyve Villard 12375	427	1,447	937	867	-
Tardia de Caxias	-	-	26	20	23
Other ⁵	338	58	16	69	711
Total	41,020	49,382	61,359	57,316	53,157

Source: Brazilian Union for Wine Production (UVIBRA)
EMBRAPA/CNPUV

⁵ Seibel 2, Dut Chess, Seyve Villard 5276.

B - Wines

The Brazilian wine industry based in the southern part of the country accounts for 90% of the domestic wine production. The other 10% is mainly produced in the Northeast. Currently, the Brazilian Wine Institute (IBRAVIN) does not collect statistics on wine production for states other than Rio Grande do Sul.

In the 70's, the growing domestic market, eager for higher quality wines, motivated investments in the region such as irrigation systems and modernization of industrial wineries. In this same period, Brazilian wine and grape juice became recognized, due to increasing quality, and started to become known in international markets. Although this modernization process happened very fast, the viticulture sector still is not prepared to take advantage of these opportunities. The quality of the grapes still shows inferior enological potential, when compared to Brazil's main competitors (Chile and Argentina).

The technology utilized in the production process of high quality wines in Brazil is comparable to that existing in traditional wine producing countries. As a consequence of this process, Brazilian high quality wines have shown a significant qualitative evolution, recognized both domestically and internationally. According to Uvibra, Brazil exported more than 21,000 liters of high quality wines in 2003, and 2004 exports are estimated to have skyrocketed up to 135,000 liters.

CERTIFICATION OF ORIGIN - To differentiate the wines produced from grapes planted in the Southern region from those produced from the same variety of grapes planted in the Northeast region (tropical area), the Brazilian Intellectual Property Law (law 9276 from 05/14/96) allows producers to identify on the label the origin of the product. The first region in Brazil with the registered appellation is Bento Gonçalves region and the first identification labels can be found on the 2001 vintage wines.

Sparkling wine production in Brazil has developed significantly, showing an average annual growth of 24.7% in sales volume in recent years. This is due to an increase in domestic consumption as well as the international reputation of Brazilian sparkling wine.

Domestic Production X Imports of Varietal Wines (in million liters)

Origin	1999	2000	2001	2002	2003	2004*
Brazilian production	36.9	34.1	28.7	25.4	23.3	18.9
Imported	25.3	28.7	27.4	23.6	25.4	63.6
TOTAL	62.2	62.8	56.1	49.0	48.7	82.5

Source: **Brazilian Wine and Viticulture Association (Uvibra)**
Secretariat of Foreign Trade

* Estimate

The average prices of principal mid-to-high quality wine varieties produced in Brazil in a representative Sao Paulo supermarket are:

Red	R\$	White	R\$
Merlot	10.00 – 30.00	Chardonnay	14.00 – 28.00
Cabernet Sauvignon	16.00 – 31.00	Gewuztraminer	18.00 – 30.00
Tannat	17.00 – 32.00	Riesling	14.00 – 25.00
Pinot Noir	22.00 – 32.00		
Cabernet Franc	15.00 – 35.00		
Shiraz(S. Francisco Valley)	20.00 – 45.00	Muskadel (S. Francisco Valley)	20.00 – 40.00

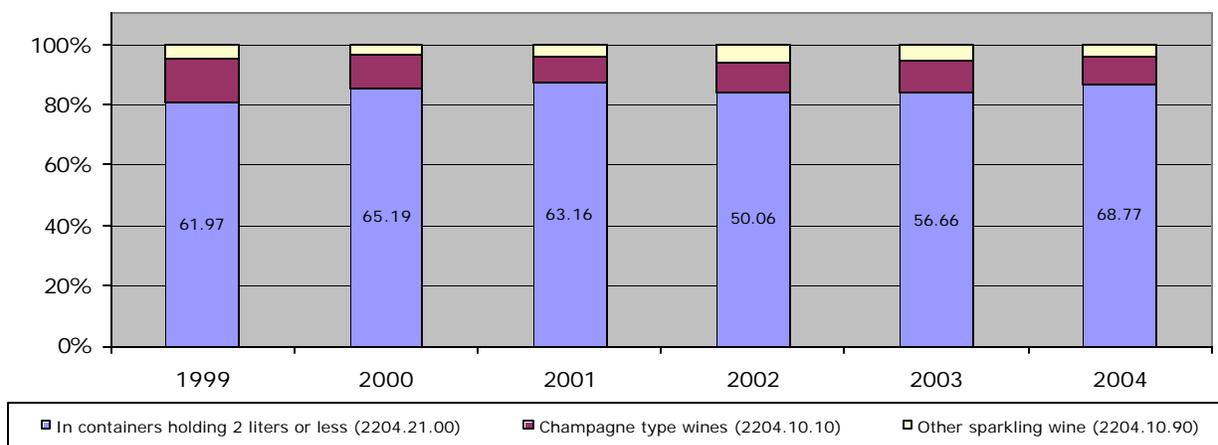
Note: Exchange Rate on Jan. 29, 2005, \$1 = R\$2.66

The average prices quoted in Reais of mid-to-high quality imported wines are as follows:

Country	Mid Quality	High Quality
France	55.00 – 80.00	200.00 – 400.00
Chile	30.00 – 66.00	100.00 – 300.00
Argentina	32.00 – 50.00	100.00 – 250.00
Portugal	40.00 – 70.00	150.00 – 350.00
US	48.00 – 80.00	200.00 – 400.00
Spain	30.00 – 70.00	150.00 – 350.00

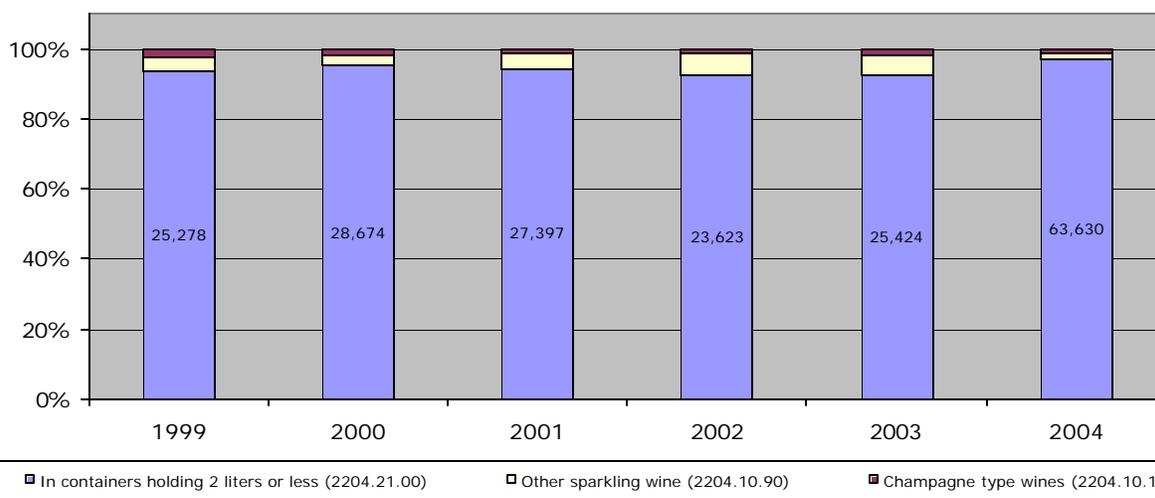
Brazilian Imports of Wine

Millions of U.S. dollars	1999	2000	2001	2002	2003	2004
In containers holding 2 liters or less (2204.21.00)	61.97	65.19	63.16	50.06	56.66	68.77
Champagne type wines (2204.10.10)	11.14	8.52	6.03	5.82	7.29	7.38
Other sparkling wine (2204.10.90)	3.68	2.89	3.3	3.82	3.76	3.23
Other wine (2204.29.00)	0.32	0.14	0.36	0.13	0.71	1.04
Other grape must (2204.30.00)	-	0.33	0.03	0.00	0.02	0.01
Total	77.10	77.07	72.97	59.83	68.44	80.43



Source of Data: Secretariat of Foreign Trade
2004 estimated by ATO

Thousand of Liters	1999	2000	2001	2002	2003	2004
In containers holding 2 liters or less (2204.21.00)	25,278	28,674	27,397	23,623	25,424	63,630
Other sparkling wine (2204.10.90)	1,018	944	1,317	1,490	1,583	1,127
Champagne type wines (2204.10.10)	616	473	348	351	462	892
Other wine (2204.29.00)	98	57	102	81	566	678
Other grape must (2204.30.00)	-	203	9	0	9	5
Total	27,010	30,352	29,173	25,545	28,044	66,332



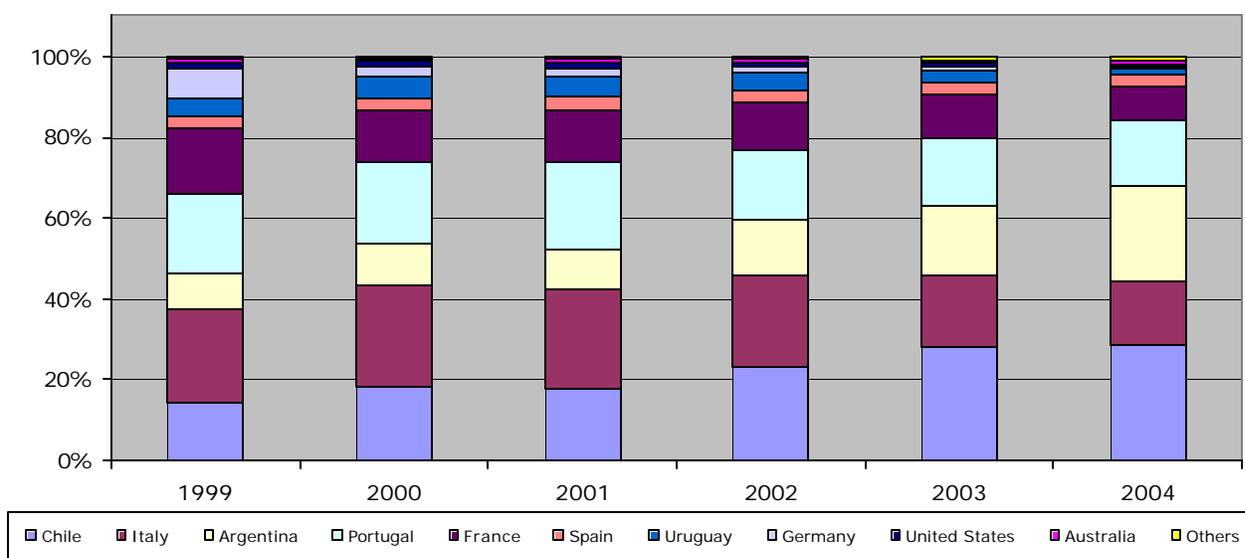
Source of Data: Secretariat of Foreign Trade
2004 estimated by ATO

Although Brazilian wine imports are concentrated in the HS code 2204.21.00 (in bottles holding 2 liters or less), champagne-type wines have higher mark up price. In value terms, around 80% of wine imports are in bottles holding 2 liters or less but in volume terms, more than 95% falls under this category. Champagne-type wines represent only 2% of the imported volume but account for 11.14% of the imported value.

According to trade contacts, due to the Tax on Manufactured Goods (IPI), wine imports are concentrated in the price range of less than US\$ 50 per bottle because these wines are only assessed a IPI of R\$.83/bottle. Wines with prices higher than US\$ 50 will have a higher IPI rate, starting at R\$1.01/bottle.

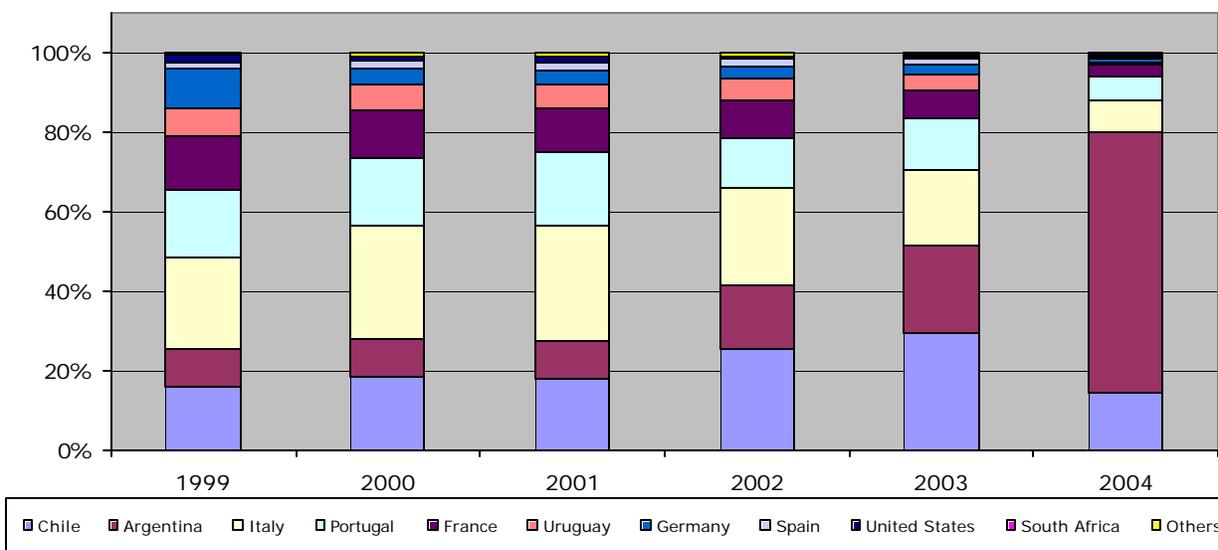
Top 10 Brazilian suppliers and their respective market shares:

Millions of US Dollars	1999	2000	2001	2002	2003	2004
Chile	8.76	12.10	11.12	11.63	15.89	19.78
Italy	14.54	16.34	15.57	11.35	10.21	10.65
Argentina	5.28	6.56	6.20	6.89	9.65	16.27
Portugal	12.21	13.14	13.74	8.54	9.56	11.30
France	10.10	8.44	7.95	6.05	6.08	5.61
Spain	1.89	1.67	2.28	1.50	1.68	2.01
Uruguay	2.76	3.62	3.12	2.08	1.63	1.05
Germany	4.54	1.67	1.17	0.83	0.63	0.47
United States	0.99	0.90	1.04	0.36	0.45	0.29
Australia	0.66	0.45	0.64	0.45	0.34	0.54
Others	0.24	0.32	0.33	0.38	0.53	0.79
Total	61.97	65.19	63.16	50.06	56.66	68.77



Source of Data: Secretariat of Foreign Trade
2004 estimated by ATO

Thousand of liters	1999	2000	2001	2002	2003	2004
Chile	3,976	5,322	4,896	5,978	7,506	9,227
Argentina	2,400	2,653	2,570	3,812	5,553	41,640
Italy	5,949	8,160	7,997	5,788	4,885	5,148
Portugal	4,272	4,962	5,051	3,005	3,227	3,767
France	3,415	3,397	3,085	2,228	1,827	1,807
Uruguay	1,699	1,872	1,682	1,248	1,051	599
Germany	2,575	1,159	914	760	569	359
Spain	422	530	583	424	381	573
United States	422	398	356	136	139	81
South Africa	-	19	42	34	130	225
Others	148	203	221	210	157	205
Total	25,278	28,674	27,397	23,623	25,424	63,630



Source of Data: Secretariat of Foreign Trade
2004 estimated by ATO

What is truly striking in the 2004 data officially reported is the incredible jump in imports from Argentina. There are no quotas and no tariffs on wine imports from MERCOSUL (Brazil, Argentina, Uruguay and Paraguay) suppliers and the Brazilian Real and Argentinean Peso have been at near parity, so an increase in wine imports from Brazil’s southern neighbor should not come as a great surprise. Nevertheless, Brazilian wine producers were vocal in their accusations of Argentinean dumping of wine in the Brazilian marketplace.

III. CONSUMPTION TRENDS

According to the 2003 Consumer Expenditure Survey (POF) of the Brazilian Geography and Statistics Institute (IBGE), the per capita consumption of wine in Brazil is estimated in 0.647 liters per year. However, geographical conditions should be taken into consideration because the highest incomes and consumption are in the South and Southeast regions and the Federal District, compared to the poorer North and Northeast regions. Regional per capita consumption in Brazil in liters is estimated as follows:

Brazil	North	Northeast	Southeast	South	Central West
0.647	0.345	0.293	0.623	1.582	0.581

Source: 2003 POF, IBGE

Red wines are more popular among Brazilian consumers due to a large campaign promoting the health benefits of consuming red wine. According to some trade sources, Brazil’s consumption is 60 percent red wine and 40 percent white wine.

Consumption of table wines is very popular in the southern states of Brazil, as a result of strong European influence in the country. However, there is a significant growth in consumption of high quality wines, most of them imported from Europe and from the New World. These wines are mostly marketed in the HRI sector, which is growing rapidly in Brazil.

Price is still the leading factor for most food and beverage purchasing decisions. However, higher income consumers are willing to pay higher prices for quality wines. According to trade sources, there is strong market potential for U.S. high quality wines, which are becoming more popular in the country. Preferred varieties are Cabernet Sauvignon, Merlot

and Zinfandel for the reds, and the Chardonnay for the whites. The so called "cult wines" or "garage wines" are also becoming a focus for the local media. In addition to facing stiff price competition from European and South American wines, U.S. wines are competing against the quality image of European wines. Consumers are not particularly educated about the high quality of U.S. wines and given the choice, will choose a well-known European brand instead, due to a perceived higher quality and more attractive prices.

IV. DISTRIBUTION CHANNELS

Wine is available to most consumers through supermarkets, hypermarkets, convenience and specialized stores, catalogues, and the HRI sector. Local sources estimate that over 70 percent of the wines are sold to consumers in the retail sector and the other 30 percent through the HRI segment. Supermarkets and smaller importers usually buy their wines from larger, well-established importers to sell at the retail level. Franchising is also becoming popular among the major wine importers in Brazil.

Differences in price and quality are evident between the types/brands of wines sold in specialty stores and those available in supermarkets. In specialty stores, good quality Brazilian and imported wines can be found for higher prices, and supermarkets often sell lower quality wines for lower prices.

U.S. exporters interested in entering the Brazilian market should establish a relationship with a Brazilian importer who is familiar with importing procedures and distribution channels for high quality wines. The Brazilian importer must also have good access to the food retail sector and the HRI segment.

V. MARKET PENETRATION - RECOMMENDATIONS FOR EXPORTERS

Quality, availability, brand name familiarity, and price are important factors that Brazilian consumers consider when choosing a product. In that regard, exporters should consider the following:

QUALITY - Brazilian consumers of high-quality wines are relatively sophisticated and able to judge wines accordingly. Due to higher prices, U.S. wines will be popular with consumers who are more interested in quality and less concerned about prices. When trying to access this end of the market, exporters should present their best wines and focus their marketing activities towards the higher income population.

AVAILABILITY - The majority of the Brazilian consumers of high quality wines are faithful to their local commercial establishments. It's important that the U.S. wine is well placed in those establishments, including national supermarket chains and high quality restaurants.

BRAND - U.S. wine is a relatively new high value product to the Brazilian consumer. Exporters should work on brand construction and educational activities, such as in-store promotions, cooking shows, local trade shows, and joint activities with the HRI segment, in hotels and restaurants. Personal participation in these activities by a representative of the winery is highly desirable. Face-to-face meetings are usually more productive than fax or e-mail correspondence.

PRICE - U.S. wine faces stiff price competition, especially from Chilean and Argentine wines. Those countries benefit from factors such as shorter shipping distances and lower-to-zero import tariffs, which makes competition difficult for U.S. wine. While considering price competitiveness, exporters should work on building an image of the U.S. wine as a high quality product.

U.S. Wineries Already present in the Market

Currently, the following wineries are already represented in the Brazilian market:

Arrowood Vineyards & Winery	Jackson Family Farms
Bacio Divino	Kendall Jackson
Buena Vista Winery	Kenwood Vineyards
Canyon Oaks Vineyards	Laurel Glen
Caymus Vineyards	M. Trincherro Vineyards
Chateau Montelena	Niebaum-Coppola
Concannon Vineyards	Robert Mondavi & Baron Philippe Rothschild
Crane Lake Vineyards	Robert Mondavi & Eduardo Chadwick
Delicato Vineyards	Robert Mondavi Winery
Domaine Drouhin	Sea Ridge Vineyards
Dominus Estate	Seghesio
Dry Creek Vineyards	Seven Peaks
E & J Gallo Winery	Silver Oak Cellars
Far Niente	Spottswode
Fetzer Vineyards	Stag's Leap Wine Cellars
Geyser Peak	Sutter Home
Haywood Winery	Wente Vineyards
J. Lohr Vineyards	

Hints from Brazilian Importers

According to local sources, as just mentioned, U.S. wine already faces stiff price competition, caused by higher import tariffs, compared to Mercosul countries. However, some importers have reported a very high entry-level price established by the majority of U.S. wineries.

While countries like Portugal, Spain, Chile, and Argentina offer their entry level wines for US\$ 0.90 to US\$ 2.00 for a bottle, most American wineries are not willing to offer their wines for less than US\$ 10.00. In addition wines coming from the U.S. will have higher freight costs and a longer transit time, which forces importers to work with other suppliers. On the other hand, Brazil is still strongly influenced by the European winery culture and is willing to pay a higher price for a product with which consumers are familiar.

According to some local importers, the U.S. is offering wines that are qualitatively inferior, compared to some other countries, and for a higher price. As a result, consumers can find a few middle-quality U.S. wines for prices that range from US\$ 100 to US\$ 200 in specialty stores. For this same price, there are Argentinean, Chilean, Portuguese and Spanish wines that can be considered the "top wines".

Once the decision is made to export to Brazil, it is highly advisable that the U.S. exporter and the Brazilian importer work together on aggressive marketing/educational campaigns to build the reputation and familiarize Brazilian consumers with the brand.

Virtual Wine Tasting

ATO Brazil has promoted two Virtual Wine Tastings in 2004. This is a new marketing tool used to catch the attention of the wine experts and consumers. Events like these work best if the product is already being offered in the market. The producer/importer provides the wines to be tasted and a wine expert from the winery will make comments by videoconference.

VI. IMPORT TARIFFS

There is no tariff for wine imports from MERCOSUL countries; Chilean imports pay a duty of 21 percent, and all other countries are assessed a **27** percent tariff for wines classified under the International Harmonized System code 2204.21.00. Here is a hypothetical cost scenario:

	World	Chile	Mercosul
Price case (US\$)	200.00	200.00	200.00
Units per case	12	12	12
Price per unit (US\$)	16.67	16.67	16.67
Exchange rate	3.00	3.00	3.00
FOB price of product unit (R\$)	50.00	50.00	50.00
Ocean freight cost per unit (US\$)	0.33	0.33	0.10
Ocean freight cost per unit (R\$)	1.00	1.00	0.30
CIF price of product unit (R\$)	51.00	50.99	50.30
Import Tax (II)	13.77	9.64	-
Tax on Manufacture (IPI)	0.83	0.68	0.56
Sales Tax (ICMS) 27%	10.78	10.08	8.36
Social Contributions (PIS/Cofins) 9.25%	7.13	6.79	6.42
Other landing costs	1.02	1.02	1.01
Total tariff costs	33.53	28.21	16.35
Price of product unit after customs (R\$)	84.53	79.21	66.65
Price of product unit after customs (US\$)	28.18	26.40	22.22
FOB price / price after customs	69.1%	58.4%	33.3%

VII. IMPORT REGULATIONS

To enter Brazil, the winery as well as the wine to be imported must be registered with the Agricultural Protection Office - SDA - of the Brazilian Ministry of Agriculture (MAPA). The Brazilian importer normally handles the process. Documents such as certification of legal existence of the establishment, description of the facility and its equipment, official certificate of analysis issued by a laboratory in the country of origin, and certification of origin, among others, will be requested. Brazilian customs law is very strict regarding proper submission of customs documentation. Errors in documentation may cause confiscation of the merchandise. It is highly advisable that exporters work with competent and reputable Brazilian importers who are familiar with Brazilian import regulations for wines.

Once the product reaches Brazil, in order to clear customs, imported wines are subject to chemical analysis to verify that they meet international requirements. Port authorities working for the Ministry of Agriculture will take one sample for analysis. The Brazilian importer will deposit the imported merchandise in storage and await the laboratory test results. Exceptions are made for wines of "exceptional quality", with prices ranging from US\$ 1,000 to US\$ 2,000 per bottle.

As a reference, the following list provides info on Brazilian legislation related to wine:

Legislation	Date	Reference
Law 7,628	Nov 13, 1997	Regulates grapes minimum prices
Law 7,678	Nov 8, 1988	Wine Law: regulates production and commercialization of wine and by-products
Law 10,989	Aug 13, 1997	Rio Grande do Sul State law that regulates the circulation and commercialization of grapes and wine and creates the wine Development Fund for the State of Rio Grande do Sul (FUNDOVITIS)
Decree 99,066	Mar 8, 1988	Implements Law 7,678
Decree 113	May 6, 1991	Changes Decree 99,066
Decree 37,732	Sep 8, 1997	Adapts the Sales Tax regulation to Law 10,989
Decree 38,988	Oct 29, 1998	Implements Law 10,989
Decree 4,996	Feb 20, 2004	Regulates grapes minimum prices for the 2003/2004 harvest
Ministerial Directive 330	Nov 27, 1984	Refers to the transportation of grapes
Ministerial Directive 229	Oct 25, 1988	Approves the identification and quality standards for wine
Ministerial Directive 270	Nov 17, 1988	Grape Classification
Ministerial Directive 1	Jan 5, 1996	Establishes the procedures for wine samples collection for analysis
Ministerial Directive 245	Jun 4, 1998	Creates the Brazilian Committee for wine and grapes
Ministerial Directive 283	Jun 18, 1998	Approves the registration procedures for wineries
Ministerial Directive 410	Aug 20, 1998	Changes the Ministerial Directive 330
Ministerial Directive 35	Jul 15, 2003	Changes the Tax on Manufacture for wine
Normative Instruction 64	Dec 9, 2002	Establishes the procedures for imported wine inspection
Normative Instruction 55	Oct 18, 2002	Approves the label regulation for wine

Law 10,970 of Nov 12, 2004 changed part of the previous Wine Regulation approved by the Law 7,678/88.

VIII. LABELING REGULATIONS

The regulations cited above also include the labeling requirements. It is common practice in Brazil for importers, agents, or distributors to affix to the wine bottle an additional small adhesive label in Portuguese, with the name and address of the importer, and the company's tax registration number. The following information obtained from the U.S. exporter must also appear on the label:

- Name of product
- Ingredients
- Country of Origin
- Special storage instructions (if necessary)
- Net contents (in metric unit)
- Date of production
- Validity date (shelf life)

IX. KEY CONTACTS AND FURTHER INFORMATION:**U.S. Agricultural Trade Office**

AMCONGEN, São Paulo
Unit 3502
APO AA 34030-3502

Rua Henri Dunant, 700
04709-110 São Paulo, SP
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E-mail: agbrasil@usda.gov

USDA Brazil Home Page:
www.usdabrazil.org.br

To obtain a copy of Brazilian importer lists, to be included in the U.S. Suppliers List or for other USDA services available to U.S. food and beverage exporters, please contact:

**Processed Products Division
Foreign Agricultural Service**

U.S. Department of Agriculture
1400 Independence Ave., SW
Washington, DC 20250
Phone: (202) 690-3576; Fax: (202) 690-0193
E-mail: AGXDIV@fas.usda.gov
Home Page: www.fas.usda.gov

Other sources of information include:

a) Brazilian Government:

Ministério da Agricultura, do Abastecimento e da Pecuária - MAPA
Esplanada dos Ministérios, Bloco D - Anexo B
Tel.: (55 61) 218-2443
Fax: (55 61) 224-8961
Website: www.agricultura.gov.br

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Rua Livramento, 515
95700-000 - Bento Gonçalves - RS
Tel: (55 54) 455-8000
E-mail: sac@cnpuv.embrapa.br
Web page: www.cnpuv.embrapa.br

b) Brazilian wine associations:

UVIBRA - União Brasileira de Vitivinicultura
Av. Osvaldo Aranha, 1075 - sala 502
95700-000 - Bento Gonçalves - RS - Brasil
Tel/Fax (55 54) 451-1062
E-mail: uvibra@italnet.com.br
Web page: www.uvibra.com.br

IBRAVIN - Instituto Brasileiro do Vinho
Rua Marechal Floriano, 234
95700-000 - Bento Gonçalves - RS
Tel/Fax: (55 54) 454.1566
Web page: www.ibravin.org.br

c) Specialized publications:

Vinho Brasil

Market Press Editora
Rua Hugo Carotini, 455
São Paulo - SP
Tel.: (5511) 3721-1950
Fax: (5511) 3721-5558

d) Wine trade shows:

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