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Mexican Consumers Are Thirsty for U.S. Wines

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Report Highlights:
Mexico is an emerging market for U.S.-origin wine. Currently Mexican, Chilean and European (Spanish and French) wines dominate the market. However, U.S. wines (and in particular California wines) have great potential to increase market share, especially in the middle income consumer segment, with more market promotion activities. Most Mexican wine consumers are familiar with California wines but these wines rank in the middle of the pack for awareness, trial, purchase interest and imagery compared to other major competitors.

General Information:

SECTION I. MARKET OVERVIEW

In calendar year (CY) 2008, Mexico was the seventeenth largest market for U.S. wines with the United Kingdom, Canada, Japan, Italy, Germany and France taking the top spots. U.S. wine exports to Mexico decreased 9.2% from $10.4 million in 2007 to $9.59 million in 2008 - a 7.5% decrease in volume. Currently Mexican, Chilean and European (Spain and France) wines dominate the market although U.S. wines (and in particular California wines) have great potential to increase market share with more market promotion activities. Most Mexican wine consumers are aware that California wines are held in high regard but these wines rank in the middle of the pack for awareness, trial, purchase interest and imagery.

On March 18, 2009, the Secretariat of Economy (SE) published an announcement in the Mexican Federal Register increasing import tariffs on 36 U.S. agricultural products. These modified tariffs were part of the retaliation over the dissolution of the U.S. - Mexico Cross-Border Trucking Demonstration Project. (See GAIN Report MX9010). Among the various agricultural products affected by the tariff increases, the announcement stated that as of March 19, 2009, U.S.-origin wine would be subject to a 20 percent duty.

Table 1. Mexico: Total Imports of U.S. Wines of Fresh Grapes, in Million USD

Country	Jan-Dec 2006	Jan-Dec 2007	Jan-Dec 2008
World	835.57	905.70	964.07
United Kingdom	268.54	281.37	260.66
Canada	175.49	217.61	243.61
Japan	65.95	56.57	59.82
Italy	46.79	49.67	57.28
Germany	41.80	46.88	48.57
France	19.50	16.53	29.48
Hong Kong	5.58	7.42	25.41
Netherlands	38.61	21.33	24.11
China	9.28	16.10	21.56
Switzerland	14.06	24,80	17.22
Denmark	20.64	15,76	15.33
Austria	7.53	10,47	13.64
Sweden	19.12	11.24	12.59
Korea, South	11.16	17.03	12.18
Singapore	5.56	8.62	10
Macau	1.01	5.65	9.72
Mexico	**7.25**	**10.43**	**9.59**

Source: World Trade Atlas

Table 2. Mexico: Current Advantages & Challenges Facing U.S. Wine Exports

Advantages	Challenges
NAFTA implementation has maintained import duties at zero.	20 percent tariff applied to U.S.-origin wines in retaliation over the dissolution of the U.S.- Mexico Cross-Border Trucking Demonstration.
Quality of U.S. wine is key factor that could drive Mexican consumers' preferences.	In 2008, wine imports from Chile reached 19.2% of total imports. Chilean wines have entered Mexico duty free since 1996. Aggressive marketing campaigns and lower prices have given Chilean wines an edge in the Mexican market.
Imported wine represents 2/3 of the total consumption of wine in Mexico.	The peso-dollar exchange rate has had a negative impact on the consumption of U.S. wine. Argentinean and Chilean wines have benefitted the most as a result.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Mexico has a free market economy which contains a mixture of modern and old fashioned industry and agriculture increasingly dominated by the private sector. Recent administrations have expanded competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution, and airports. As an export-oriented economy, more than 90% of Mexican trade is under free trade agreements with more than 40 countries (NAFTA with Canada and the United States).

Mexico is the second largest national economy in Latin America. Mexico's Gross Domestic Product (GDP) is worth 1.09 billion dollars or 1.75% of the world economy.

According to The Economist magazine, indicators of consumer and business confidence in Mexico, although severely depressed, have shown the first signs of recovery suggesting that the worst of the contraction in real GDP is now over. Consumer confidence continued to decline compared with a year earlier but the pace of deterioration slowed in June to 10.7%, from 16-17% in April-May and levels of 20-25% in the first quarter of 2009. The consumer confidence index was four points higher than in May, with all components showing monthly gains. However, it remains by some distance at its weakest level, since the series began in 2001.

The Mexican government has been quick to claim evidence of an imminent economic recovery due to its policy of monetary and fiscal stimulus and a slowdown in the pace of economic contraction in the United States. Reflecting this sentiment, Mexican Finance Minister Agustin Carstens announced in July 2009 that although the government expects real GDP to decline by 5.5% in 2009, the economy is on a solid footing to experience a reasonably strong recovery in 2010, expanding by 3%.

Due to the weakening of the Mexican economy, consumers have been shifting their purchases to less expensive alcoholic drinks like beer and basic food and drinks in 2008 and 2009. If the economy continues to deteriorate, it could lead to a reduction in consumer expenditure and consumers may be driven to continue shifting their consumption from wine to lower price drinks.

Although imported wine accounts for two-thirds of national consumption, the devaluation of the peso has affected the prices of imported alcoholic beverages. As a result, Mexican wine sales have moderately increased along with Argentinean and Chilean wines. Chile accounted for the greatest portion of volume sales with a 15% share of total followed closely by Spain which reported the largest value share of imports according to the national statistics published for 2007. In 2008 the Chilean peso appreciated against the Mexican peso making imports from Chile more expensive for Mexican consumers. This effect is very similar to the appreciating Euro and could curtail imports from Chile in the future.

According to Euromonitor International, wine unit prices grew considerably due a stronger Euro, higher production costs, and an increasingly competitive environment that stimulated producers to absorb part of the cost in 2008. Both on-trade and off-trade unit prices increased at a similar rate of 13%. The most consumed wine product, still red wine, presented the highest unit price increase in 2008 at 19%. Price increases in the on-trade were slightly higher due to the rising cost of food and drinks in 2008.

A growing perception regarding health benefits associated with red wine consumption, improved still red wine sales in 2008 despite the economic slowdown. Also, trendy young Mexicans enjoy consuming wine at lunch. Nevertheless, during the first 9 months of 2009, consumers have shifted purchases to less expensive wine labels.

Market Size, Structure, Trends

According to the Mexican National Association of Viticulturists, Mexican wine production is growing rapidly (up 12% in 2008) compared to previous years. 2008 production levels were the highest seen in over 10 years. According to the SE, wine imports represented 80% of total wine volume sales in 2008.

The Mexican wine sector is marketing their wine as excellent quality for price. This sector will continue to invest in marketing in the future in hopes of getting a larger share of the domestic market through well-planned campaigns. Producers and distributors are working overtime to build a wine culture in Mexico targeting young adults that will bring loyalty and secure future wine sales.

The most important Mexican wine producers include the following:

- Casa Pedro Domecq Mexico, SA de C V

- Vinicola LA Cetto, SA de CV

- Digrans, SA de CV

- Bodegas Santo Tomas, SA de CV

- Valle Redondo, SA de CV

- Monte Xanic, SA de CV

- Casa Madero, SA de CV

Casa Pedro Domecq Mexico SA de CV led wine sales in 2008 (by volume) due to its strong portfolio of brands covering a wide range of prices to meet different consumer demands. However, in 2008, Casa Pedro lost 2 percentage points in total wine volume share to reasonably priced Chilean and Argentinean wines as they invaded store shelves and on-trade outlets.

According to Digrans, SA de CV, wine tastings are the best way to promote a new brand as these events give the people the opportunity to directly experience their products.

Advertising has been increasingly growing as new wine brands try to enter the market and existing brands try to maintain their market share. The majority of the advertising takes place in magazines and billboards but the food section of leading newspapers has been used by wine companies to communicate the health benefits of wine as well. Cooking shows are becoming increasingly popular in Mexico, which has become an important outlet for promoting wine. Due to the increasing interest in domestic wines, Casa Pedro Domecq, SA de CV has implemented a program to train future sommeliers.

According to Euromonitor International, the potential launch of imported brands will be postponed if the slowing economy and worsening terms of trade put pressure on prices. However, most Mexicans, especially from middle and higher income brackets, perceive imported wines as being of better quality than domestic brands.

The packaging format for wine continues to be glass bottles, although the use of cartons for economy brands is steadily growing.

SECTION III. COSTS AND PRICES

According to Euromonitor International, in 2008, an estimated 49% of still red wine volume sales fell into the $7-$11.55 USD category, represented by popular brands such as XA Domecq and La Cetto.

55% of volume sales of still white wine fell into the lower price bracket $5-$10.78 USD price range. Gallo white wine can be found in this range.

An estimated 30% of off-trade volume sales of still rose wine fell between the $7-10.78 USD price range where Concha y Toro (Digrans, SA de CV) enjoys a good position.

Vermouth was the fastest growing segment of grape wines in 2008. However, sales were very small accounting for only 1% of total grape wine volume sales. Still red wine showed the second fastest total volume growth at 10%.

Off-trade unit prices of other sparkling wines tended to be significantly higher in the range of $15.39-$19.99 USD.

Due to recent slow economic growth, consumers have tended to move away from on-trade to off-trade purchases since fewer people visit restaurants in order to cut back on expenses. In 2008 still rose wine enjoyed the largest on-trade share with foodservice volume sales accounting for 64% of total segment volume sales.

SECTION IV. MARKET ACCESS

Below you will find the general requirements mandatory taxes applied to U.S.-origin wine in Mexico:

- 20% import tax
- .008% customs processing fee
- 15% IVA, Value Added Tax
- 161 pesos (approximately USD $12.40) electronic data pre-validation
- IEPS, Special Tax on Products and Services. This tax is levied according to the alcohol content of the product:
    - With alcohol content up to 14 degrees Gay Lussac, IEPS= 25%
    - With alcohol content from 14-20 degrees Gay Lussac, IEPS= 30%
    - With alcohol content above 20 degrees Gay Lussac, IEPS= 50%

The basic Mexican import document required is called the “Pedimento de Importación” (customs entry document), which must be presented to Mexican Customs along with the commercial invoice in Spanish and a bill of lading. Products qualifying as "North American" must be accompanied by the NAFTA certificate of origin to receive preferential treatment. This is issued by the exporter and does not have to be validated or formalized.

Mexican Customs Law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of merchandise as contraband. Exporters are advised to employ competent, reputable Mexican importers or custom brokers.

All imported products destined for retail sale in Mexico must be labeled according to Mexican government specifications as outlined in NOM-142-SSA1-1995 ETIQUETADO EN BEBIDAS ALCOHOLICAS.

At a minimum, a label must be affixed to each package of the imported product prior to entering the country. All the information on the label must be in Spanish and must include at least the following mandatory commercial information: [1]

-Commercial/brand name
ct name
mation according to NOM-030-SCFI-1993 (net content in milliliters
per container)
-Producer's name and address
-Exporter's name and address
-Country of origin (i.e., Product from/de EE.UU.)
-Importer's name, address and RFC number (taxation number)
-Product description in Spanish
-Product description in English
-Preparation and handling instructions
-Date of expiration
-Ingredients
-In the case of beer and wine coolers, the labels should contain name, address
and taxation code of the importer
-Special warnings*

*Effective January 7, 2004, all labels with special information must be translated by specialized translators authorized by the Secretariat of Health for such purposes. A list of these translators may be obtained through the (write out this organization) COFEPRIS. The translator must receive the original label (not translated) including the product's contents list and its formula. Based on this, the translated label will be amended based on the COFEPRIS' definition if the product is or not a food supplement.

Sanitary information:
-All alcoholic beverages should read "EL ABUSO EN EL CONSUMO DE ESTE PRODUCTO, ES NOCIVO PARA LA SALUD" (The abuse in the consumption of this product is hazardous to your health)
-Alcohol content
-Indicate the alcohol content in volume at 20 degrees centigrade displayed as follows: (Number) % Alc. Vol.
-Lot number
-Alcoholic beverages with aspartame should read: "Fenilcetonuricos: contiene fenilalanina"
-Those beverages that represent more than 50 grams or more in the daily consumption of orbital should read: Contiene sorbitol: el abuso de este educolorante puede causar efectos laxantes; (Contains sorbitol: the abuse of this sweetener may cause laxative effects)
-Alcoholic beverages classified as "bajo en calorias" (light) "sin calorias" (without calories) should include only these legends according to the reduction of calories. Beverages with at least 24 percent less calories than the original product are considered as "light." Those with less than 35 percent calories than the original beverage can be considered as "without calories"
-Only prepared drinks and cocktails should include a list of ingredients, which should be listed under the heading "Ingredientes," and they should be listed in the decreasing order of their percentage of the product's total composition.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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[1] **1** For a detailed study of Mexican Regulations for Exporting/Border Crossing, Import Requirements and additional information on Labeling NOMS, see following Gain Reports MX8313 Mexico Exporter Guide, MX8314 FAIRS Report and MX1223 Labeling Regulations at http://www.fas.usda.gov/scriptsw/attacherep/default.asp