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## **Chile**

## **Wine Annual**

## **Enter a Descriptive Report Name**

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**Report Highlights:**

Wine production in 2010 is expected to be smaller than the previous year as freezing weather conditions affected large areas. Exports are expected to expand slightly in volume as the world economy is expected to recuperate which will have a positive effect on the market.

Chile's wine production expanded again in CY2009, as weather has been good in most growing areas and additional new planted areas are coming into production. A smaller output is expected for CY2010 as unusual freezing weather affected vineyards in most production area.

## Commodities:

**Production:**

Wine production in CY2009 increased as a result of excellent weather in most wine producing areas. As a result of large crops during the last few years which have increased stocks to record volumes, prices paid to producers for wine in CY2009 fell significantly.

For CY2010 wine production is expected to fall close to 10 percent when compared to last years output. Freezing weather last spring in most production areas is the main reason for the projected fall in production. In some areas like Casablanca valley which is one of the hardest hit by freezing weather production of white wine varieties are expected to fall over 40 percent. Most red wine varieties were not affected as much, in average production is expected to be affected only 5 percent.

For the coming years, no significant expansion in production is expected as over 95 percent of the planted area is in the full production stage. Consequently, production increases will depend on weather and management of the vineyards and on future expansion or replacement of lower producing vineyards.

Table - Real Domestic Farm Gate Wine Prices (CH\$ Per Liter) /1							
1981	1985	1990	1995	2000	2007	2008	2009
239	129	133	198	454	181	262	204
Exchange rate: US\$1.00 = CH\$501.45							

1/ Prices are in Dec 2009 Chilean pesos.

Source: ODEPA (Ministry of Agriculture).

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.

<b>Table - Wine Production, Consumption and Exports</b>					
				<b>Exports</b>	
	<b>Area Planted (Th. Has)</b>	<b>Production (Mill. Ltr.)</b>	<b>Per Capita Consumption</b>	<b>Mill. Ltr.</b>	<b>Mill. US\$</b>
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
2006	115	845	15	520	965
2007	117	828	16	613	1,262
2008	118	869	16	591	1,384
2009	118	987	16	695	1,390
2010 1/	119	888	16	700	1,400

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 from a high of 52 liters per person in 1982 to only 13 liters in 1994. Since then per capita consumption has been recuperating slowly. But Beer consumption has increased substantially exceeding 27 liters per capita during the same time period. Chile has the lowest per capita wine consumption for all major wine producing and exporting country. Chile's per capita wine consumption compares to 55 liters consumed in France and 40 liters in Argentina.

### **Trade:**

Chilean wine exports increased more in volume than value during CY2009 when compared to the previous year. Lower prices obtained mainly for bottled and bulk wine explain the lower returns for exports in CY2009. Industry sources indicate that Chile is the tenth largest wine producer and fifth largest exporter in the world. In spite of the economic crisis which affected the world, had a minor effect on the wine industry in Chile, exports in CY2009 increased in volume and value when compared to CY2008. Improvements in quality and a good price/quality relationship helped to keep exports levels.

Chile traditionally exports both bottled and bulk wine. In spite that a large number of wineries are making a big effort to increase premium-bottled wine exports; bottled wine expanded less than bulk wine in CY2009. 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	2007	2008	2009
<b>Sparkling</b>	19,405	27,279	24,382
<b>Bottled</b>	3,645,246	3,705,824	3,955,988
<b>Bulk</b>	3,052,497	2,180,703	2,984,758
<b>TOTAL</b>	6,127,154	5,913,806	6,965,128

**Table - Wine Export Values (Thous.US\$ FOB)**

Kind / Year	2007	2008	2009
<b>Sparkling</b>	5,754	9,885	9,566
<b>Bottled</b>	1,090,195	1,174,379	1,151,565
<b>Bulk</b>	165,850	199,730	229,314
<b>TOTAL</b>	968,026	1,261,799	1,390,446

**Table - Wine Export Prices (FOB current US\$ per HL)**

Kind / Year	2007	2008	2009
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<b>Sparkling</b>	297	362	392
<b>Bottled</b>	299	317	289
<b>Bulk</b>	54	92	77
<b>Average</b>	206	234	200

Chile's main export market for wine continues to be the EU followed by the US. China is the third largest export market. 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.

<b>Table - Wine Exports by Country of Destination</b>						
	<b>Quantity (1000 Hectoliters)</b>			<b>Value (Thousand US dollars)</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>U.S.</b>	612.2	698.9	1,390.8	185,770	199,788	241,914
<b>U.K.</b>	1,016.8	967.1	1,134.2	230,584	223,046	216,364
<b>China</b>	705.7	479.8	555.9	40,196	51,357	54,306
<b>Germany</b>	590.9	473.5	463.1	70,886	65,091	65,752
<b>Canada</b>	298.2	321.6	380.7	67,905	80,572	77,789
<b>Denmark</b>	286.1	300.7	295.1	55,624	69,829	61,882
<b>Japan</b>	186.8	226.0	273.3	42,376	54,861	64,036
<b>Netherlands</b>	224.7	253.1	271.3	54,233	67,492	72,028
<b>Brazil</b>	189.0	182.7	218.6	50,947	52,210	62,572
<b>France</b>	196.7	168.9	183.4	21,979	21,984	21,859
<b>Russia</b>	184.1	150.0	145.3	30,636	30,555	27,601
<b>Others</b>	1,636.0	1,691.4	1,653.4	184,034	667,161	424,344
<b>TOTAL</b>	6,127.2	5,913.7	6,965.1	1,035,170	1,383,946	1,390,446

Source: ODEPA (Ministry of Agriculture).

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. Chile has already a 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 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, Exports and Imports (Thousand HL)			
	<b>CY2008</b>	<b>CY2009</b>	<b>CY2010</b>
PRODUCTION	8,690	9,870	8,883
CONSUMPTION	2,680	2,700	2,760
EXPORTS	5,910	6,950	6,250
IMPORTS	42	34	40