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Chile

Wine Annual

Annual Report

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Report Highlights:
Wine production in 2013 will be similar or slightly larger than the previous year. Good weather is the main factors for this expansion. Exports are likely to expand as production in 2012 reached an all time record level.

Executive Summary:

Chile's wine production increased in CY2012, as weather conditions in most growing areas were excellent. For CY2013 another slight increase is expected.

Chile has an estimated 8,000 producers of wine grapes. Planted area has increased over 70 percent during the last 8 years.

Commodities:

Wine

Production:

Wine production in CY2012 expanded another 20 percent when compared to the previous year reaching an all time record level of 1,255 million liters. Excellent weather during the winter, spring and during the harvest (no rain in the summer months) resulted in a significant production expansion. According to an industry contact, with the 2012 production volume Chile became the seventh largest wine producer in the world. Prices paid to wine producers in 2012 increased another 20 percent. Larger wineries buy either wine or grapes to smaller producers who normally do not crush the grapes into wine or have a very small operation and do not bottle wine; instead they sell their wine in bulk to larger processors. The large price increase for grapes and or wine, for the last two years is another positive factor in total output, as was indicated by an industry analyst. As a result of higher prices for bulk wine paid to a significant number of small farmers induced them to improve the work done to the vines (like pruning, watering and other labor) resulting in an increase of yields and production. Out of the total wine production, Cabernet Sauvignon represents 33 percent of the total, Sauvignon Blanc a 13.5 percent, followed by Merlot with 11.9 percent. Other varieties like Chardonnay, Carménere and Syrah represent less than 10 percent each. An 81 percent of total wine production in 2012 is with Denomination of Origin (DO) type and 14 percent without DO type. A 69 percent of total production is of the red varieties.

For CY2013 wine production is expected to be similar or slightly larger than last year, as weather again has been favorable in most production areas. Rain during last spring (December 2012) which had a bad effect on most fresh fruit production, did not affect wine production.

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	2010	2011	2012
315	155	156	265	682	392	440	389

Exchange Rate: US$1.00 = CH$477.13

1/ Prices are in Dec 2012 Chilean pesos.

Source: ODEPA (Ministry of Agriculture).

Planted Area

The fall of the dollar value against the peso has also being affecting the wine business. It has become tighter during the last few years with a fall in economic returns. As sales are in dollars and costs are in pesos, the wine industry is going through same deterioration process as the rest of the fresh fruit industry. Nevertheless, farmers are increasing planted area, most of them are replanting old vineyards to varieties in higher demand and planting new areas as well. Latest figures published by the Ministry of Agriculture of total planted area of vines for wine are now 126,000 hectares. Out of the total planted area, around 74 percent are red varieties. Also, close to 75 percent of all planted area is irrigated.

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. Liter)	Per Capita Consumption	Mill. Liter	Mill. US$
1982	105	603	52	8	11
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
2008	118	869	16	591	1,384
2009	118	1,009	16	696	1,390
2010	117	915	16	733	1,554
2011	126	1,046	17	668	1,703
2012	126	1,255	17	754	1,808

2013 1/	126	1,260	17	765	1,834
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 has been recuperating slowly from a low of 13 liters in 1994 to a little over 17 liters last year. 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 mainly in volume and fell slightly in value during CY2012 when compared to the previous year. Higher prices were obtained only for sparkling wine in CY2012. The exported volume of bulk wine increased over 36 percent in 2012, which made the value of bulk wine increase 32 percent in 2012. The United States is Chile's main wine export market, followed by the UK. Exports of bottled wine to China increased almost 83 percent in 2012 which made China the third largest wine export market in volume and value. Constant improvements in quality and a good price/quality relationship have helped to keep or increase exports levels.

Chile traditionally exports both bottled and bulk wine. A large number of wineries are making a big effort to increase premium-bottled wine exports. Currently, there are more than 70 Chilean wineries exporting. Over 60 percent of Chile's total yearly production is exported, supplying more than 150 countries.

Table - Wine Export Volumes (Thous liters)			
Kind / Year	**2010**	**2011**	**2012**
Sparkling	3,306	3,797	4,001
Bottled	431,156	446,094	452,431
Bulk	298,611	217,863	297,617
TOTAL	733,082	667,754	754,049

Table - Wine Export Values (Thous.US$ FOB)			
Kind / Year	**2010**	**2011**	**2012**
Sparkling	12,871	14,653	15,927
Bottled	1,276,548	1,420,193	1,436,457
Bulk	264,754	268,314	355,371
TOTAL	1,554,173	1,703,160	1,807,754

Table - Wine Export Prices (FOB current US$ per Liters)			
Kind / Year	**2010**	**2011**	**2012**
Sparkling	2.89	3.86	3.98
Bottled	2.67	3.18	3.18
Bulk	1.48	1.23	1.19
Average	1.90	2.55	2.40

Although Chile's main export market for wine continues to be the US followed by the EU (United Kingdom), 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 Liters)			Value (Thousand US dollars)		
	2010	2011	2012	2010	2011	2012
U.S.	118,682	129,989	156,032	241,699	273,258	300,599
U.K.	123,234	107,474	101,744	236,219	234,548	228,072
China	60,529	35,339	64,091	82,574	91,800	144,808
Japan	35,428	39,945	48,478	80,929	100,140	127,190
Spain	1,178	748	44,729	4,248	3,456	27,045
Germany	53,886	41,440	34,785	74,525	71,779	63,256
Netherlands	30,408	34,047	34,338	81,058	97,937	95,289
Brazil	24,605	27,927	31,107	70,887	89,902	95,252
Canada	30,461	26,364	24,066	89,543	93,765	93,129
Denmark	26,881	23,471	20,967	60,870	61,437	52,911
Others	227,790	201,011	193,712	531,620	585,138	580,203
TOTAL	733,082	667,755	754,049	1,554,172	1,703,160	1,807,754
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 (imported or domestic). 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 remained at base rate until 2010. In January of 2011, duties were reduced by 3.3%. In January 2012, duties are 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 have a zero tariff since 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 "taste 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, 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 "Taste 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.