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Argentina

Wine

Competition Annual

2002

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Report Highlights:
Exports of Argentine wine will continue increasing in CY 2002 as the peso devaluation has improved the competitiveness of the industry. Imports will continue falling as the higher rate of exchange makes imported products expensive in the current economic environment. Domestic consumption of wine is forecast to drop as inflation in forcing prices up and purchasing power of Argentines continues shrinking. Good weather conditions combined with improved management techniques introduced in the 1990s have produced an excellent harvest in CY 2002.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Buenos Aires [AR1], AR

Section I: Situation and Outlook

Production

Wine production in calendar year (CY) 2002 is expected to reach 12,150,000 hectoliters, lower than in CY 2001 because of a drop in the wine grape output and greater volumes of grapes destined to the production of must (grape juice). Wine grapes output in CY 2002 has been estimated at 2,157.000 tons, 10% lower than in CY 2001 because of unfavorable weather conditions in southern Mendoza Province.

Grape quality in CY 2002 was superb. The perfect combination of climatic factors together with the right management of the vineyards have rendered a well balanced alcoholic level, ripeness and acidity. The amount of sun accumulated during the ripening stage and the adequate difference of temperature between the day and night contributed to the excellent CY 2002 season. Industry sources have indicated that the CY 2002 harvest is the best in the last 60 years. Also, the modernization of the industry during the 1990s has had much to do.

The Argentine wine industry underwent a profound restructuring process during the last ten years. Foreign and national investors introduced modern management techniques, new varieties and developed new production areas. Argentina, compared with two of its most important competitors in the world, Chile and Australia, now has a wider range of premium varieties. Sources indicate that Argentina has a better irrigation system than Australia with unlimited amounts of irrigation water of excellent quality. Compared with France, the Argentine wine industry has less controls and regulations, which is one of the main attractions to French investors.

Organic Production

Organic wine production in Salta has a capacity of 600,000 liters. Cost of production is 50% higher than conventional wines but yields higher returns. Organic wines in La Rioja province are produced by the Cooperative La Riojana, which started to produce in CY 2000 for export. Grapes used to produce this wine are certified organic and exports in CY 2002 are expected to reach 500,000 liters (650,000 bottles). Organic wines are exported to England under the brand La Nature. With 90 hectares under production in the region of Chilecito and Fatima Valley, La Riojana grows Torrontes, Barbera and Syrah varieties. In CY 2003 the winery is planning to expand to more than100 hectares.

Boutique wineries

Since the early 1990s a new concept of "boutique wineries" was introduced in Argentina. Small farms which once had been abandoned because they were unprofitable, were renovated and put under production with handcraft production techniques. There are 30 o so of them and they produce from 20,000 to 200,000 bottles a year. Their vineyards are generally not bigger than 20 hectares and employ a few workers. Production is integrated, so that everything, from plantating to labeling, is done at the winery. While some have focused their efforts on the New York and Paris markets, others only sell their wines on farm. Prices go from 18 to 30 pesos a bottle.

Production areas

The line that joins all the Argentine wine production regions is known as "the wine road". From the north down, the Calchaquies Valleys (province of Salta and Catamarca) with an average altitude between 3300 and 6600 feet above see level (f.a.s.l.) have 80 % of their land destined to the production of white wine varieties mainly Torrontes. Despite that, 80% of wine exports of this region are red Malbec and Cabernet Sauvignon varieties. Due to this export trend, wineries in the region are grafting red grape varieties on their old white grape rootstocks. They are striving to convert their vineyards into 60 % white varieties and 40% red ones.

The Chilecito region in La Rioja province, with an average altitude between 3300 and 5000 f.a.s.l., produces white and rose wines. The most typical varieties are: Torrontes Riojano, Moscatel de Alejandria and Torrontes Sanjuanino. In El Pedernal region (province of San Juan), with an average altitude of 4600 f.a.s.l., the main varieties grown are: Chardonnay, Sauvignon Blanc, Pinot Noir, Cabernet Sauvignon, Malbec, Merlot and Syrah.

Mendoza province is the most important wine production area in Argentina with 60% of the national wine output. It is divided in five zones: The Northern zone (Maipu, Guaymallen, La Heras and San Martin), with an average altitude of 2300 f.a.s.l. and varieties such as Chenin, Pedro Gimenez, Ugni Blanc, and mild red ones with a strong varietal taste. The Uco Valley, with an average altitude between 3000 and 4000 f.a.s.l. and the following varieties: Semillon, Malbec, Chardonnay, Merlot, Syrah and Cabernet Sauvignon. The Mendoza River zone with an average altitude between 2000 and 3600 f.a.s.l. and varieties such as Merlot, Cabernet Sauvignon, Syrah and Sangiovinese. The Eastern zone, with altitudes of 1600 - 2300 f.a.s.l. The Southern zone, with altitudes between 1500 -2600 f.a.s.l., produces the following varieties: Chenin, Chardonnay, Malbec, Cabernet Sauvignon.

In the extreme south of Argentina, the Patagonia Valleys (Provinces of La Pampa, Rio Negro and Neuquen), on the rivers Limay and Neuquen have vineyards that produce varieties such as Malbec, Merlot, Syrah, Pinot Noir, Cabernet Sauvignon, Bonarda, Torrontes Riojano, Semillon and Chenin.

Factors affecting the industry

Investments:

As a result of the recent economic crisis, including the country's US$ 140 billion default, investment in the country has slowed down dramatically. However, the wine sector is one of the few exceptions as both local and foreign companies continue to expand and increase their operations. Even new wineries are being installed.

In the beginning of the1990s, the Argentine wine industry had outdated technology and domestic market oriented. Local consumption of wine throughout the decade fell as a result of changes in consumption habits. New generations started to drink more beer and non alcoholic beverages. The wine business needed a change. Many wineries realized that the export market was the only way to remain in business. Firms with enough financial capacity hired international consultants to improve all aspects of the business. New agronomic and manufacturing techniques changed dramatically the way of making wine in Argentina, especially improving quality. In the last 10 years many traditional Argentine wineries which were unable to change were bought by foreign investors from all over the world. Dutch, Portuguese, Canadian, British, French, Japanese, American, Spanish and Austrian firms invested nearly one billion dollars in the Argentine wine industry during the last decade.

As mentioned above, despite the current unfavorable economic environment, foreign interest in the Argentine wine industry remains strong. A German firm has recently invested 5 million dollars in a new winery. Also, a US$ 50 million French investment in Valle de Uco in Mendoza, will install seven different wineries with a common goal: the export market. Only 20 % of the production will be marketed domestically. The objective is to introduce their Argentine wines in France, the U.S., Britain, Chile and Switzerland. Prices will range between 6 and 30 US$ per bottle. The first shipments are expected to be ready by the end of CY 2002.

Local investment, although at a lesser scale, is also active. Small Argentine firms have invested between two and four million in CY 2001 in their own companies. Investment groups from other sectors are also entering into the business. This is a sign that the sector is promising and still has great potential.

Product prices:
Domestic prices have slumped in dollar terms since the peso devaluation and liberalization in January 2002. The domestic economy is running slow and the wine industry in not an exception. In the meantime, FOB prices for the two categories that Argentina exports most, table and premium wines, have fallen marginally with respect to CY 2001. The following table shows Argentine average FOB prices per type of wine.

Table 1: FOB prices in US$ per hectoliter (100 liters)

Year	CY 2000					CY 2001					CY 2002				
	Table	Prem.	Spark.	Others	Averag	Table	Prem.	Spark.	Others	Average	Table	Prem	Spark.	Others	Averag
Jan	$64	$183	$464	$51	$141	$64	$231	$557	$82	$198	$50	$227	$1,035	$241	$180
Feb	$61	$184	$427	$76	$143	$109	$231	$510	$51	$182	$73	$221	$538	$167	$204
Mar	$58	$194	$403	$33	$135	$56	$247	$517	$639	$178	$44	$253	$666	-	$226
Apr	$58	$187	$513	$76	$166	$53	$240	$832	$542	$176	$38	$230	$743	$49	$178
May	$60	$224	$424	$122	$171	$58	$239	$697	$542	$168	-	-	-	-	-
Jun	$64	$193	$341	-	$140	$65	$220	$841	$287	$141	-	-	-	-	-
Jul	$73	$184	$501	$247	$156	$62	$264	$584	$99	$156	-	-	-	-	-
Aug	$66	$187	$361	$75	$146	$54	$234	$610	$96	$172	-	-	-	-	-
Sep	$69	$196	$381	$173	$170	$59	$233	$525	$640	$186	-	-	-	-	-
Oct	$59	$212	$382	$181	$148	$54	$245	$576	-	$162	-	-	-	-	-
Nov	$56	$218	$249	$105	$132	$50	$227	$559	$1,662	$167	-	-	-	-	-
Dec	$55	$209	$372	$50	$137	$61	$252	$569	-	$166	-	-	-	-	-
Total	$61	$196	$396	$67	$148	$61	$238	$597	$76	$169	$47	$233	$674	$52	$195

Source: The National Wine Institue (Instituto Nacional de Vitivinicultura)

Quality:
The most striking change of the recent years was the development of new high altitude production areas. In these

cooler areas winemakers seek to strike a natural balance between the sugar content and the acidity of grapes. Foreign winemakers were brought in to improve overall quality. Wineries which produce with their own grapes, strive to produce smaller fruits in order to achieve a more intense flavor. They do that by different management techniques such as cluster pruning and induced hydric stress.

New varieties:
The most recent introduction to the Argentine wine market has been the red variety Tannat which is well known in Uruguay, where for many years it was called Harriegue. It produces a wine rich in tannins. Argentina is producing a very good Pinot Noir, a variety that Argentine wine producers had found hard to grow so far. Sauvignon Blanc cultivation has also improved, resultin in a more freshly flavored wine. It is well known that the best place to grow Malbec grapes is in Argentina, which together with the white grape variety Torrontes, produce the most distinctive wines from Argentine. The Torrontes variety gives a very fruity flavored white wine. Three different varieties of Torrontes are found in Argentina. They are grown in La Rioja, Mendoza and San Juan.

Exchange rate:
Through the1990s the Argentine peso was pegged to the dollar at a 1:1 rate in what was known as convertibility. In those days, Argentine wines, although superior in quality, seemed to be expensive compared with Chilean product. The peso devaluation of January 2002 was meant to foster exports and put an end to a three year recession. In this new economic environment, the price of grapes, which are the main industrial input, have remained nearly the same in peso terms. Therefore, the total cost of production of wine measured in dollar terms has dropped 55 percent. However, owing to the imposition of a five percent export tax and the temporary elimination of a six percent export rebate, the net benefit attained by the devaluation is 44 percent. On the other hand, the negative side of the devaluation is that it increased the value of imported inputs. When possible, wineries are substituting them for nationally produced ones.

Policies that affect production:
Despite the benefits created by the peso devaluation, many of the 700 local wineries are going through financial problems because of their lack of export capacity. This has made them heavily dependent on the currently depressed domestic market. Only 60 wineries have export capacity, and just eight percent of the national wine production is exported. The Argentine wine industry accounts for just one percent of the British market. Only one winery has developed a reputation in England. Companies that either are not able to export yet or did not attract foreign investment will find it difficult to afford imported inputs needed to produce with the current technology. Even many of those with export capacity will have a hard time overcoming this crisis. Norton, the local winery that exports the most, exports 40 percent of its production and imports 38 percent of its inputs.

Domestic policy to support wine grape growers and wine makers:
There is no national policy to support production or the export of wine. However, the government has implemented a plan to reduce some taxes to help the wine sector. Wine pays no internal tax while beer and other alcoholic beverages pay between four and 12 percent. The government of Mendoza, the largest wine producing province, has established the concept of "Mendoza brand" through the promotion of tourism and regional products, especially premium wines.

Imports tariffs of 21.5 percent and tax rebates of six percent have been imposed as a means of protectin and supporting the industry. However, in an effort to raise revenue, the government imposed export taxes on a wide range of agricultural and non agricultural products in March 2002. The export tax on wine was set at 5%.
Table 2: Taxes, Tariffs and rebates on wine

Import Tariffs	Export Taxes	Export Rebates*	Statistics Tax
21.5 %	5 %	6 %	0.5 %

*Temporarily suspended

Trade

Exportable supply

In CY 2002 Argentine wineries will put all their effort to expanding international markets. Industry sources state that exports could increase by 20% as the result of the peso devaluation, but whether the national export policy will allow it or not remains unclear. Individually, some firms have plans for CY 2002 to double their exports.

While the production of grapes and wines have experienced cyclical changes over the last ten years, exports have increased in a considerable manner during the same period. In 1994, wine exports totaled 220.000 hectoliters. In the last two years, total exports of Argentine wine have been stable at around 850,000 hectoliters. Free on board (FOB) values also showed a straight growing trend in the 1990s. In 1990 sales totaled US$ 15 million while in 2001 wine exports were US$ 149 million. Industry sources assure that this trend will continue in the next five years, since the Argentine wine industry is prepared to double their exports of premium wine.

In CY 2001, Argentina exported more wine to the US than to Britain which had been the top destination for a long time. Argentine traders had, until CY 2000, preferred Britain as a market for their wines because of its prestige and influence on its neighbors, especially Nordic countries. However, the U.S. has become more attractive in the last two years. Argentina's target consumer group is different in the U.S. than in Britain. Wine prices for the U.S. market range between six and 10 US$ per bottle, while wine shipped to England are closer to 30 US$ per bottle.

Argentina is the 11th largest wine exporter in the world and according to industry experts, it still has potential and capacity enough to double its exports. However, it is also true that to gain a new market is not only a matter of price but consumer acceptance which can not be built in one year.

Although Argentine wine exports are projected to increase in CY 2002, they fell 23 percent in the first four months of the year. The main factors affecting exports were: 1) economic uncertainty due to political instability; 2) new export taxes; 3) lack of credit; 4) increased costs of imported inputs; 5) longer payment.

Imports

Until 2001, (when US$ and peso were at 1:1 parity) most imports of wine came from the EU, especially France, Spain and Italy and Chile. Sparkling wine from France and Spain wineries will probably continue coming to satisfy a very exclusive demand.

Consumption

During the 1990s wine consumption per capita plunged from 54.15 to 37.7 liters per year. However premium wine consumption in the same period grew from 6.2 to 9.3 liters per capita. Historically, the working class used to drink table wine at lunch and dinner. During the last decade, consumers shifted primarily to beer while demand for table wine declined. During the same period, premium wine consumption increased as a consequence of the rediscovery of good quality wines by the middle and upper class. Knowledge of fine wine continues to grow in Argentina and although people are still concerned about prices, quality is a key factor in the choice of wine. After the peso devaluation in January 2002, Argentine's purchasing power fell and wine prices increased dur to inflation. This has resulted in a drop of 10 percent in wine consumption in the first part of CY 2002. People that drank high quality wine in the past are now more careful about prices, buying wines ranging between six and nine pesos per bottle.

In the premium category, red wine is the most popular and among them Cabernet Sauvignon is at the top of the list. Malbec follows at a distance but its consumption doubled during the last five years. In 2000, the Tempranillo crop was excellent and its wine was well accepted by Argentine consumers. However, in CY 2001 the "stars" were Syrah, Tannat and Bonarda.

Table 3: Argentine per capita wine consumption per category (in liters)

Years	Table	Premium	Others	Total
1998	28.8	9.95	0.80	38.83
1999	27.64	10.24	0.86	38.74
2000	26.89	10.16	0.69	37.75
2001	26.29	9.4	0.58	36.30

Source: The National Wine Institue (Instituto Nacional de Vitivinicultura)

Brand Names
Traditional wine brands dominate the domestic market in Argentina. Thus, Luigi Bosca, Navarro Correas, Lagarde, Chateau Vieux and Bianchi are some of the most popular brands of high quality wine.

In the high price range (more than 15 pesos/bottle), the Leoncio Arizu winery controls 43 percent of the market with its red wine Luigi Bosca. In the intermediate range, (9-15 pesos/bottle) Navarro Correas, controls 33 percent of the market, but other three wineries, Chandon (Valmont Insignia, Clos du Moulin y Terrazas), Lopez (Chateau Vieux) and Trapiche (Fond de Cave) share 47 percent. In the lower range, (6-9 pesos/bottle) Chandon leads the sales with Valmont, competing with Bianchi, San Felipe (Catena Investment group) and Rincon Famoso from Lopez winery. An exception to the rule of the prevalence in the domestic market of traditional brands, is the two year old Terrazas from Chandon, which today is second in sales in its price range.

Price categories
The following table shows total domestic sales per price range:

Table 4: Price ranges

CY 2001	
Price range (pesos)	Revenues (pesos)
5-8	115,000,000
8-12	30,000,000
more than 12	12,000,000

Marketing

In order to promote Argentine red wines, the Fondo Vitivinicola Mendoza -an Argentine Wine Institution - together with the University of Biochemistry of Buenos Aires, the National Research Institute - INTA, and the College of Agriculture of the province of Mendoza, have tested the antioxidant characteristic of 100 Argentine red wines and its benefit on human health. They suggest that tannin in red wines contains some molecules capable of stopping or at least delaying the aging process of human cells. They compared Argentine wines with those form Spain, France, Italy and Chile and found that local red wines had a higher concentration of "healthy tannin". This new property will be probably used as a marketing tool to promote Argentine wines.

As a first step in the marketing strategy almost all wineries promote their products in top restaurants. When the new wine becomes known they then send it to supermarkets. Wineries usually pay for space given to their products in restaurants and supermarkets. In order to enter a restaurant the winery has to give some free cases to the restaurant and sometimes pay the reprinting of the wine menu. This system is common to everyone in the industry. Even though the biggest wineries have a better negotiating position than smaller ones, they still pay slotting fees. As a way of promoting their products, nearly all companies have adapted their winery into a show room to receive guests, promote events and hold receptions.

Thirty-eight Argentine wineries participated in the 21st annual London Wine show in May 2002. However, the main problem Argentine wine producers will face in CY 2002 is the high cost of promoting products through wine tasting shows around the world. Firms which have little international presence will be looking to expand their marketing in foreign markets. They will take advantage of having competitive prices to gain new markets.

According to industry sources some wineries are willing to sell part of their company in order to finance their market promotion activities to reach among others, the U.S. market. They see this strategy as the only way to overcome the current recession.

Wine organizations in Argentina
Instituto Nacional de Vitivinicultura
Instituto Nacional de Tecnologia Agropecuaria

Asociacion Vitivinicola Argentina and Centro de Bodegueros de Mendoza formed Bodegas Argentinas, responsible for 80% of the exports of Argentine premium wines.)
Camara de Comercio Franco-Argentina
Fondo Vitivinicola de Mendoza
Centro de Licenciados en Enologia e Industria Frutihorticola de Mendoza.
Comision Nacional de Promocion Vinos de Argentina: Works on the promotion of Argentine wines in the world. Its members are:
-Bodegas Argentinas Exportadoras de Vinos Finos
-Fundacion Pro-Mendoza
-Fundacion Export.Ar
-Fondo Vitivinicola de Mendoza

Effectiveness of U.S. industry promotion activities

So far, no generic promotion activities have been undertaken in Argentina to boost American wine. American wine is sold through big supermarket chains, and through importers and distributors in exclusive wine shops. The most popular U.S. wines in Argentina are those from California's Napa Valley, since their prestige has reached these latitudes. However, because of their high price in the local market, Californian wines are still not competitive and can only be consumed by the upper class. In CY 2001, imports of U.S. wine to Argentina were limited. As a consequence of the acumulated 70 precent devaluation, imported products, including wines, will drop significantly in 2002.

Major labeling requirements

Wine in Argentina are identified by two labels:
1. Main label; Must be affixed on the bottle and show the brand of the product and give precise information on origin and manufacturing techniques.
2. Secondary labels, collars and/or corks which complement the identification of the product.

The main required statements are: legal denomination, color, alcoholic graduation, trade mark, net content, and country of origin. These statements may be located on any of the labels as long as they are placed in the same visual field, so that they can be read without turning the bottle. Data from the bottler, acronym and sugar content can be stated on any of the labels. Optional information regarding production year and variety can also be included.

Foreign wines can carry labels written in their original language but in order to be marketed within Argentina, they must carry an additional label stating the same information as required for local wines. In addition foreign wines must carry name, address and registration number of the importer.
Argentine wines for export are allowed to carry labels according to the requirements of the importing country.

Section II: Statistical tables

PSD Table						
Country	Argentina					
Commodity	Wine				(1000 MT)(1000 HL)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
TOTAL Grape Crush	0	2117	0	2398	0	2157
Begin Stock (Ctrl App)	0	0	0	0	0	0
Begin Stock (Other)	19554	19554	19351	18369	0	21284
TOTAL Beginning Stocks	19554	19554	19351	18369	21652	21284
Prod. from Wine Grapes	13800	12537	15796	15835	0	12150
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	13800	12537	15796	15835	0	12150
Intra-EU Imports	0	0	0	0	0	0
Other Imports	97	59	59	22	0	10
TOTAL Imports	97	59	59	22	0	10
TOTAL SUPPLY	33451	32150	35206	34226	21652	33444
Intra-EU Exports	0	0	0	0	0	0
Other Exports	1100	840	882	867	0	1030
TOTAL Exports	1100	840	882	867	0	1030
Dom.Consump(Cntrl App)	0	0	0	0	0	0
Dom.Consump(Other)	13000	12941	12672	12075	0	11500
TOTAL Dom.Consumption	13000	12941	12672	12075	0	11500
End Stocks (Cntrl App)	0	0	0	0	0	0
End Stocks (Other)	19351	18369	21652	21284	0	20914
TOTAL Ending Stocks	19351	18369	21652	21284	0	20914
TOTAL DISTRIBUTION	33451	32150	35206	34226	0	33444

Export Trade Matrix			
Country	Argentina		
Commodity	Wine		
Time period	CY	Units:	HL
Exports for:	2000		2001
U.S.	123953	U.S.	179979
Others		Others	
Paraguay	143526	Paraguay	216820
United Kingdom	124046	United Kingdom	130751
Uruguay	74756	Japan	51357
Japan	58223	Germany	39338
Chile	36349	Netherlands	37222
Germany	36118	Canada	30041
Brazil	32037	Brazil	28263
Netherlands	29808	Denmark	24696
Canada	25267	France	18064
Denmark	25574	Irland	7199
Total for Others	585704		583751
Others not Listed	130197		103203
Grand Total	839854		866933

Import Trade Matrix			
Country	Argentina		
Commodity	Wine		
Time period	CY	Units:	HL
Imports for:	2000		2001
U.S.	583	U.S.	78
Others		Others	
Chile	36999	Chile	15124
France	8403	France	2455
Spain	5911	Spain	1474
Germany	3078	Germany	1174
Italy	2679	Italy	525
Brazil	317	Israel	288
Israel	271	Australia	264
Belgium	207	Portugal	96
South Africa	198	Uruguay	55
Portugal	178		
Total for Others	58241		21455
Others not Listed	278		0
Grand Total	59102		21533

Prices Table			
Country	Argentina		
Commodity	Wine		
Prices in	US$ FOB	per uom	HL
Year	2000	2001	% Change
Jan	141	198	40.43%
Feb	143	182	27.27%
Mar	135	178	31.85%
Apr	166	176	6.02%
May	171	168	-1.75%
Jun	140	141	0.71%
Jul	156	156	0.00%
Aug	146	172	17.81%
Sep	170	186	9.41%
Oct	148	162	9.46%
Nov	162	167	3.09%
Dec	137	166	21.17%
Exchange Rate	1Peso/1US$	Local currency/US $	