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Wine Annual

Argentina Wine Annual Report

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Report Highlights:

Argentina's 2013 grape production is estimated to rebound to 2.66 million metric tons (MMT). This increase in production comes after the decrease in 2012 grape production to 2.24 MMT due to hail storms and late frosts. Given the increased grape production, wine production in 2013 is projected to increase to 1.41 billion liters, 20 percent up from 1.17 billion liters produced in 2012. Wine exports in 2013 and 2014 are estimated to increase 10 percent respectively compared to 2012. However, given the inflationary problems and exchange rate issues, lower quality wines have lost export sales. At the same time, bulk exports increased 64 percent, while bottled wine exports decreased 6 percent in volume. Domestic consumption is forecast to remain stable. (All data in Calendar years unless otherwise specified)

Executive Summary:

Post forecasts an increase in grape production for CY 2014 to rebound to 2011 levels to a total of 2.89 million MT and for CY 2013 to 2.66 million MT. Production for CY 2013 is expected to increase an 18 percent from the poor crop in CY 2012. Hail storms in late February in the province of Mendoza, as well as high temperatures in the province of San Juan affected the grape crop which decreased from initial estimates.

CY 2014 wine production is estimated to rebound to 15.5 billion liters, close to 2011 level. As a result of an increase in the grape crop, wine production in CY 2013 is projected to increase to 14.1 billion liters compared to 11.7 billion liters produced in CY 2012.

Lower quality wines have lost export sales and are losing competitiveness as a result of high inflation which impacts in production costs, exchange rate issues, and an array of trade restrictive measures taken by the government which are adversely affecting imports. At the same time, bulk exports increased 64 percent, while bottled wine exports decreased 6 percent in volume. However, it is expected that wine exports will continue their growth in 2013 and 2014 increasing 10 percent respectively given the favorable price-quality relationship of the Argentine wines versus the European wines in the American and Canadian market, both the largest export markets for the Argentine wines.

Domestic consumption of wine, which had seen steady growth since 2006, is expected to remain stable at 2012 levels in 2013 due to high inflation rates and increased retail prices.

Commodities:

Wine

Production:**Planted Area**

Argentina's wine production areas range from the northern province of Salta to the southern region known as Patagonia (i.e., the provinces of Neuquén, Rio Negro, and Chubut). This 4,800 mile-long strip of irrigated desert along the Andes Range has proved to be highly suitable for growing grapes of different varieties. During the past few years, wine production has been growing in non-traditional wine producing areas, such as the Provinces of Buenos Aires, Entre Rios, Cordoba, and Jujuy. Even though the Malbec variety has become the signature for Argentine wine, almost all world varieties grow in Argentina.

Total area planted to wine grapes in Argentina totaled 221,471 hectares (ha) with approximately 25,156 vineyards by the end of 2012. The provinces of Mendoza and San Juan cover about 92 percent of the total area planted to wine grapes in Argentina, and are the most traditional wine producing areas in Argentina. Dry conditions give the vines good health in terms of fighting cryptogamic diseases (fungi,

bacteria and virus). According to local wine makers, there is no such a thing as a best region to produce wine in Argentina, but the climatic and soil differences in regions result in the same variety tasting differently. Mendoza province offers the best combination of climate, soil and logistics, making it the most important wine territory in Argentina.

The three northern provinces of La Rioja, Catamarca, and Salta cover about five percent of the wine grape planted area. The white Torrontés variety is mainly produced in this region. Another region that is gaining importance as a wine grape producer is composed of the valleys of Neuquén and Río Negro, located in the Patagonia region of southern Argentina which covers about two percent of the planted area. The remaining one percent is shared by the provinces of Córdoba, La Pampa, Buenos Aires, Tucumán, San Luis, Chubut, and Entre Ríos.

Grape Production

Post estimates CY 2014 grape production to rebound to 2011 levels at 2.89 MMT under normal weather conditions and maintaining the current good sanitary conditions of the vineyards.

Post forecasts CY2013 grape production at 2.66 MMT, up 18 percent compared to CY 2012. This is the result of relatively good weather conditions (especially timely rainfall and very little frost and-or hail) during the period of December – January, but with some severe hail storms at the end of February especially in the East of the province of Mendoza, and very high temperatures in the province of San Juan which made initial crop estimates fall about 9 percent. Another factor which contributed to the increase in grape production compared to CY 2012 was the recuperation of several vineyards that were severely affected by hailstorms and frost the previous year.

CY 2012 grape production declined to 2.20 MMT, compared to 2.89 MMT in 2011 due to unfavorable weather conditions. Hail storms primarily in the east of Mendoza and San Juan Provinces, and late frosts affected volume (grapes for basic wines and must to a larger extent) but not quality. Another factor which contributed to the decrease in grape production was high temperatures. Rose grapes were the most affected variety, followed by white and red grapes.

In 2012, grapes devoted for wine production accounted for 96.8 percent (roughly 2.16 MMT) of total grape production; raisins, 1.81 percent (40,714 MT); and fresh table grapes, 1.32 percent (29,651 MT). Production of grapes that had high capability to produce good quality wine accounted for approximately 908,035MT (red varieties), and 381,747 MT (white varieties). Main red varieties were: Malbec, Bonarda, Shiraz, and Cabernet Sauvignon. Main white grape varieties were: Pedro Gimenez, Torrontes Riojano, and Chardonnay.

Grape Production (1,000 MT)

Type/Year	2009	2010	2011	2012	2013*	2014*
Red	900	1,000	1,149	880	1,076	1,149
White	500	550	677	510	616	677
Rose	700	940	1,061	808	965	1,061
Other	100	110	3	2	3	3
Total	2,200	2,600	2,890	2,240	2,660	2,890

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar) and private sources
 *FAS Buenos Aires estimates based on data from the National Wine Institute and private sources

In CY 2012 the high quality red grapes declined 16 percent in volume compared to 2011. In CY 2012, 31 percent of the total production corresponds to the Malbec variety, which declined 6 percent compared to CY 2011. The second variety in importance is Bonarda, which presented a 25 percent decline compared to CY2011. CY 2012 production of white varieties show a decline of 24 percent compared to CY 2011. Declines are noted among the most important varieties: Pedro Giménez, Torrontés Riojano, and Chardonnay declined 29 percent, 24 percent, and 13 percent respectively.

High Quality Red Grape Varieties – 2011 (*)

Variety	MT	%
Malbec	283,103	31.17
Bonarda	200,702	22.10
Shiraz	138,711	15.27
Cabernet Sauvignon	122,470	13.48
Tempranillo	62,222	6.85
Merlot	52,270	5.75
Pinot Negro	17,217	1.89
Sangiovesse	15,323	1.68
Tannat	6,807	0.74
Barbera	4,953	0.54
Cabernet Franc	4,253	0.46
TOTAL	908,035	100.00

High Quality White Grape Varieties – 2011 (*)

Variety	MT	%
Pedro Gimenez	128,886	33.76
Torrontes Riojano	99,219	25.99
Chardonnay	60,755	15.92
Chenin	31,696	8.30
Sauvignon	22,427	5.88
Ugni Blanc	19,770	5.17
Semillon	7,676	2.01
Viognier	6,715	1.75
Sauvignonasse	4,137	1.08
Pinot Blanco	104	0.02
TOTAL	381,747	100.00

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar)

(*) Data based on end of 2012 harvest

Wine Production

Post estimates CY 2014 wine to rebound to 1.55 billion liters as a result of larger grape production. Wine production in CY 2013 is projected to increase to 1.41 billion liters compared to the previous year,

as a result of the increase in grape production. Wine production in CY 2012 declined to 1.17 billion liters as a result of unfavorable weather conditions that affected the grape crop.

Every year since 1994, the governments of the two main grape producing provinces in Argentina (Mendoza and San Juan, and very recently La Rioja joined) establish the volume of grapes which will be used for must (grape juice) production to mitigate the negative effects on the domestic and export market due to oversupply of raw material, to regulate price distortion, and also to protect smaller producers' interests. In 2013, 32 percent of the grape harvest will be devoted for must production (30 percent in 2012) but it may be reduced when final harvest estimates are completed.

Wine Production (1,000 liters)						
Type/Year	2009	2010	2011	2012	2013	2014
Red	730,000	750,000	960,000	767,000	846,000	933,000
White	464,000	600,000	535,000	386,400	519,000	572,000
Rose	16,000	30,000	52,000	24,500	42,300	46,000
Other	NA	20,000	3,000	2,600	3,000	3,000
Total	1,210,000	1,400,000	1,550,000	1,178,000	1,410,000	1,555,000

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar) and private sources

The largest challenges that the wine sector face in 2013 are high inflation, with the relatively stable value of the local currency vis-a-vis the dollar, and an increase in production costs, which is already causing wineries to lose competitiveness in export markets. In bottled wine, grapes account for 30-40 percent of production costs. Other inputs, such as bottles, corks, labels, labor, fuel, freight, etc. account for the balance, and the price increase is tied to inflation rates. The Argentine wine sector is also concerned about the numerous trade restrictions and requirements affecting imports which have been instituted by the Argentine government. These policies hamper producers in acquiring needed production and processing inputs (see Policy Section below)

Investment

According to private sources, land prices for vineyards reached a plateau by mid-2007. Foreign investors are still interested in buying vineyards but the political and economic restrictions are hampering the process.

During the past 7 years, there has been a rapidly growing trend towards the investment, primarily by foreigners, in "wine resorts", which are a combination of retreats and vineyards. The price of the best land in Mendoza for these types of operations, such as Valle de Uco, has increased in the past four years from about \$135,000/ha to \$180,000/ha.

As a result of the GOA's decision to extend until 2014 a tax exemption to sparkling wine producers (see Policy Section below), it is estimated that new investments totaling about \$50 million will be made during 2013.

Consumption:

Domestic consumption for CY 2013 is forecast to remain stable at 2012 levels, that is 1,004 million liters. As a result of high inflation rates, wine retail prices increased substantially preventing an increase in consumption. According to INV official data, in CY2012 consumption increased marginally (2.38 percent increase compared to 2011). Sparkling wine consumption increased 20 percent compared to 2011. This trend is the result of the development of promotional campaigns throughout the country. Per capita wine annual consumption is estimated between 25-28 liters. The varieties most consumed in the domestic market are Malbec, Bonarda and Torrontes.

Given the current international economic scenario and somewhat sluggish export market, local wineries are focusing on the local domestic wine market, causing increased competition, oversupply of some variety wines, and saturation in some price ranges.

Wine consumption in Argentina had been falling at an annual rate of between 1 and 2 liters per person per year during the 20 years prior to 2006, when the downward trend changed. According to industry sources, marketing promotional campaigns carried out by wine associations began to pay off and wine consumption started to move up. Also, the success of Argentine wines in many high-value international markets has echoed in the domestic market where, during the past few years, a lot of specialty wine stores have opened in larger Argentine cities.

Currently, there are 973 wineries and approximately 4,000 labels in Argentina. The ten largest wineries account for 70 percent of the market and, in the sparkling wine subsector, the concentration is even larger. According to a market research carried out by The Nielsen Company, about 84 percent of the wine sold in Argentina is red wine, 15 percent is white wine, and the balance is rose wine.

Wine distribution channels in Argentina are as follows: hyper and supermarkets, which have about 20 percent market share; wholesalers and self-service stores (25-30 percent); the HRI (hotels, restaurants, and institutions) sector (30 percent); and wine stores, the balance.

Trade:

The volume of Argentine wine exports is expected to continue to rise 10 percent in CY 2013 that is, from 365 million liters exported in CY2012 to approximately 401 million liters in CY2013. However, given the high inflation which impacts in production costs and exchange rate issues, lower quality wines have lost export sales and are losing competitiveness. Meanwhile, on a volume basis, total exports in CY2012 experienced an increase of 13% compared to CY 2011. This growth was propelled mainly by bulk wine that grew 64%, while bottled wine exports dropped by 6% in volume.

World consumption is not expanding significantly, and competition by the main international wine producers, such as Australia, France, the U.S., Portugal, South Africa, Chile, and Italy, is strong. Wine exports in 2012 increased to 365 million liters, up 48 million liters from CY 2011 as a result of successful promotional campaigns in export markets, and also due to the favorable price-quality relationship of the Argentine wines versus the European wines in the U.S. and Canadian markets, both the largest export markets for the Argentine wines.

In 2012, the Malbec variety accounted for 45 percent of the total exports of bottled wine. Also, the Malbec and Torrontés varieties, which have become Argentina's signature wines, are expected to continue to expand their market especially in the U.S. According to the Global Trade Atlas in 2012

exports to the U.S. totaled about 171 million liters and were valued at \$372 million (compared to 136.6 million liters and \$321 million the previous calendar year), and exports to Canada reached around 28 million liters and were valued at \$90 million. Argentine wines are positioned very well in the \$10-\$20-bottle segment of the U.S. market, and wineries have been actively promoting wines of Argentine labels with excellent results. Exports to the U.S. for medium to high priced wine continue strong. However, given the high inflation which impacts in production costs and exchange rate issues, lower quality wines have lost export sales and are losing competitiveness.

In addition to the North America market, Brazil continues to be a significant export market for Argentine bottled wines given the relative high value of the Brazilian real compared to the Argentine peso, the country's economic growth, and the expansion of the Brazilian middle class with increasing purchasing power.

In 2012, China became the 8th largest export market for Argentine wines, from being 18th a few years earlier. One hundred and thirty local wineries sold wine to China in 2012 compared to 76 wineries in 2009. As opposed to other export markets, China does not import large quantities of Malbec but Cabernet Sauvignon and blends.

In 2012, Argentina exported over 2,300 brands to more than 100 countries. The twenty largest exporters accounted for about 30 percent of total exports, showing the low concentration of the wine sector although there is a growing trend towards greater concentration.

Total Wine Exports					
Year	2009	2010	2011	2012	2013
Volume (1,000 liters)	294,500	279,123	317,102	364,680	401,500
Value (million \$)	637	742	848	913	1005

Source: FAS Buenos Aires based on Global Trade Atlas data

Argentina's primary wine export destinations in 2012 are illustrated below:

Country	Volume (million liters)	Country	Value (million \$)
U.S.	171.1	U.S.	372
Canada	28.1	Canada	90
Russia	22.8	Brazil	59
Paraguay	16.8	U.K.	50
U.K.	15.8	Netherlands	35
Brazil	15.3	Japan	25
Netherlands	10.4	Paraguay	21
Japan	10.4	China	20
Denmark	5.3	Mexico	17
Germany	5.1	Russia	16

Source: FAS Buenos Aires based on Global Trade Atlas

Argentine wine imports continue to be negligible and have significantly declined from 2011, when 8.3million liters were imported compared to 725,263 liters imported in 2012. This is as result of sufficient domestic supply but mainly, due to the strong government import restrictions.

In 2012, Spain accounted for 51 percent of total wine imports. Other countries of origin, which supplied high-quality wines, were: France (with a market share of 12 percent), Italy and Chile (about 8 percent and 6 percent respectively), among others. Even during times when the Argentine import market was open, the U.S. share was small due price sensitiveness and lack of marketing campaigns promoting the virtues of U.S. wine. Given those restraints and the current government import restrictions, the outlook for U.S. wine in Argentina in the mid-term is dim.

Wine Import Tariff and Export Taxes (HS 2204)		%
Import Tariff	Outside Mercosur Area	20
Statistical tax		0.5
Export tax		5
Export Rebate		6

Source: National Wine Institute (INV, www.inv.org.ar)

Prices

The average wine FOB price in 2012 was \$2.46 /liter, compared to \$2.85 /liter in 2011 due to higher costs, mainly transportation and labor. These higher costs translated into increase retail prices of between 15 and 50 percent. Lower quality, inexpensive wines have had the most difficulty in absorbing the increased costs. Retail prices of most wines range from \$6 to over \$120. Prices of exclusive wines of limited production vary from \$180 to \$600.

Stocks:

In 2012, wine stocks were limited compared to the previous year due to a reduced grape production. In 2011 due to an increase in grape production, wine stocks recovered (especially red wines).

Policy:

The wine industry is significantly affected by the trade restrictive measures taken by the government which are adversely affecting imports, since 90 percent of the winemaking accessories (including ingredients, processing and bottling equipment, and oak barrels) are imported. The GOA is expected to continue to closely monitor imports as a means of trying to maintain a surplus trade balance by restricting imports and promoting exports. These measures also require preapproval for imports weeks before beginning the importation process. Additional obstacles include the imposition of strict limits on foreign exchange transactions and restrictions against the payment of dividends and repatriation of profits, more widespread usage of non-automatic import licenses, and difficulties in obtaining certificates of country-of-origin for products to be imported. While part of the goal of these regulations is to protect Argentine industries, another motive is a desire to increase Central Bank dollar reserves.

In addition, On January 22, 2012, Argentina issued Decree 25/2013 increasing import duties under the Common External Tariff (CET) of Mercosur for 100 products including over a dozen agricultural products. This list includes processed corks and oak staves, which are used for wines within the low and mid range. The increase goes from 10 percent to 35 percent and threatens an already hit segment of the industry.

At the end of 2011, Argentina passed a land tenure law limiting land ownership by foreigners. The "Land law", which was published in the Official Bulletin on February 29, 2012, limits foreign owners to

1,000 hectares of land, and caps at 15 percent the total productive agriculture area that can be owned by foreigners. The law is not retroactive, such that land already owned by foreigners is not affected. While much of the Argentine wine sector's rise over the past decades was financed by international investment the effect of this law on future wine investments is unknown at this time.

All these policies that restrict imports and land ownership have the potential of dampening growth in the sector and further investment. However, the government of Argentina has focused on supporting small scale wine grape producers and promoting increased production of sparkling wine.

In February 2012, the Ministry of Agriculture, Livestock and Fisheries supplied equipment to about 230 small wine producers from Mendoza and San Juan, valued at over \$1.1 million. The goal of this financial assistance was to improve the competitiveness of small producers.

In June 2010, the Government of Argentina (GOA) established a \$14 million support fund for the wine sector. The fund is financed with 50 percent of the five-percent export tax paid for wine and is reimbursed to the sector to promote the development of cooperatives of small and medium-sized producers and processors. It benefits about 5,000 producers who own less than 20 hectares. The fund has several objectives such as the implementation of integrated plans of businesses within the wine sector and the support and promotion of new technologies that contribute to the value added of the wine production chain.

In addition, wine producers who own up to 20 hectares planted to vineyards benefit by an on-going \$50 million loan from the Inter American Development Bank (IDB). They do not receive financial assistance individually but are required to form integrated business program groups. The ultimate goal of the program is to assist these 60 groups which represent 1,800 primary producers and 60 of the leading wineries. Production by these groups totals about 10,000 planted hectares.

In order to promote investments within an emerging wine subsector, the GOA also decided to extend for one more year (until 2014) a tax exemption originally implemented in 2005, which benefits over 100 sparkling wine producers. Producers are exempted from paying a 12.5 percent sales tax and, in return, they must commit to invest 25 percent over the amount of the tax savings.

Marketing:

At the end of 2004, the Argentine wine sector; including the government, the industry, and producers created the Wine Strategic Plan with the ultimate objective of positioning Argentina among the leading wine producing countries in both the export and domestic market. The goal is that, by the year 2020, Argentine wine exports will be valued at \$2 billion, and will have a world market share of 10 percent (currently, only 5 percent). So far, the Plan has been very successful in positioning Argentina as the eight largest wine producer in the world.

The primary goals of the Wine Strategic Plan are as follows:

- better position Argentine high-quality wines in the Northern Hemisphere markets,
- develop the Latin American wine market and promote wine consumption in the domestic market, and
- support the development of small grape producers, and incorporate them into the wine business.

In October 2010, the President of Argentina proclaimed wine as the “National Beverage” by official decree. Although wineries and grape producers did not expect that this measure would impact directly on an increase of wine exports or domestic consumption, they considered it an acknowledgement of the joint effort made by both the public and private sector towards the expansion of the local tradition of wine production and consumption.

In 2010, in continuation with its market promotion policy “ProMendoza”, the Government of Mendoza opened an office in Shanghai. In a press release they tout the location as highly strategic, since it is close to the Waigaoqiao Free Trade Zone, which is the port of entry for 90 percent of total wine sales in China.

The Argentine wine export association, Wines of Argentina, represents more than 90 percent of the wineries that have a presence in international markets. In 2007, they hired a consulting company to do research on the best way to promote Argentine Wines. The market study concluded that Argentina should use symbols that foreigners recognize when they hear the word “Argentina”. Among them, tango and “Latin passion” are the most widely mentioned in the study. In addition, Wines of Argentina hired Gustavo Santaolalla, an Argentine musician who is known in Hollywood, and named him as the “Wine Ambassador of Argentina” in order to promote Argentine wine in the United States and the rest of the world. Through the organization of various promotional activities in 36 countries and over 72 cities throughout the world, Wines of Argentina continues to actively promote local high-quality wines with excellent sales results. At the beginning of January 2012, they inaugurated an office in Beijing to initially focus on the Chinese market and, from there, on other Asian markets.

Author Defined:

www.inv.gov.ar (Instituto Nacional de Vitivinicultura)

www.bodegasdeargentina.org (Bodegas de Argentina)

www.idr.org.ar (Instituto de Desarrollo Rural de Mendoza)

www.fondovitivicola.com.ar (Fondo Vitivinícola de Mendoza)

www.areadelvino.com (Area del Vino)

www.vitivinicultura2020.com.ar (Corporación Vitivinícola Argentina)

www.argentinewines.com (ArgentineWines.com)