

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 3/1/2011

GAIN Report Number:

Argentina

Wine Annual

2011

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Report Highlights:

Calendar Year (CY) 2012 grape production is forecast to remain stable at 2.75 million metric tons (MMT), compared to the previous year. In CY 2011, it is expected to increase to 2.75 million MT, compared to CY 2010, although it will still remain down from average harvest levels, since production did not fully recover from unfavorable weather conditions the two previous years. CY 2012 wine production is estimated to remain stable at 1.5 billion liters and, in CY 2011, it is expected to increase to 1.5 billion liters, compared to CY 2010. Wine exports in CY 2011 and 2012 are estimated to increase marginally to 290 and 295 million liters, respectively, and domestic consumption is forecast to recover gradually.

Executive Summary:

Post forecasts grape production to remain stable in CY 2012 at 2.75 MMT, compared to the previous year, and it is expected to increase to 2.75 MMT in CY2011, compared to CY 2010. Production will still remain below normal harvest levels, as production did not fully recover from unfavorable weather conditions in CY 2009 and 2010. CY 2012 wine production is estimated to remain stable at 1.5 billion liters. In CY 2011, it is projected to increase from 1.4, in CY 2010, to 1.5 billion liters, despite unfavorable weather conditions which affected the crop. Wine exports in CY 2011 and 2012 are forecast to increase marginally to 290 and 295 million liters, respectively, as world consumption is not expanding significantly, and competition by the main international wine producers is strong while domestic consumption remains at relatively low levels. Domestic consumption in Argentina, which totaled 980 million liters in CY 2010, is expected to recover marginally as a result of an increase in consumption of medium-priced wines. Per capita wine annual consumption is estimated between 25-28 liters.

Commodities:

Wine

Production:

Production Area

Argentina's wine production area ranges from the northern province of Salta to the southern region known as Patagonia (i.e., the provinces of Neuquen, 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. Even though the Malbec variety has become the signature for Argentine wine, almost all world varieties grow in Argentina.

The provinces of Mendoza and San Juan cover about 90 percent of the total area planted to grapes in Argentina, and are the traditional wine producing areas. Dry conditions give the vines good health in terms of 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 regions where the same variety tastes 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 6 percent of the planted area. The Torrontes variety is mainly produced in this region. Another region that is gaining importance as a wine grape producer is composed of the valleys of Neuquen and Rio Negro, located in southern Argentina (Patagonia), which covers about 2 percent of the planted area. The remaining 2 percent is shared by the provinces of Cordoba, La Pampa, Buenos Aires, Tucuman, San Luis, Chubut, Entre Rios, Santiago del Estero, Misiones, and Jujuy.

Number of Vineyards and Area Planted to Vineyards by Province 2009 (*) (hectares)				
Province	Vineyards		Planted Area	
	Number	%	Hectares	%
Mendoza	16,983	64.88	160,704.2932	70.20
San Juan	5,524	21.10	49,492.1766	21.76
La Rioja	1,403	5.36	8,518.7624	3.75
Catamarca	1,237	4.73	2,636.0070	1.10
Rio Negro	415	1.59	2,583.5939	1.24
Salta	289	1.10	2,296.2936	0.98
Neuquen	66	0.25	1,631.7079	0.71
Cordoba	183	0.70	313.9703	0.14
La Pampa	14	0.05	216.9081	0.09
Buenos Aires	6	0.02	55.3065	0.02
Tucuman	25	0.10	48.5137	0.02
San Luis	1	0.00	26.1000	0.01
Chubut	1	0.00	20.0000	0.01
Entre Rios	7	0.03	14.3096	0.01
Santiago del Estero	1	0.00	8.8000	0.00
Misiones	7	0.03	5.2500	0.00
Jujuy	13	0.05	2.6948	0.00
TOTAL	26,175	100.00	228,574.6876	100.00

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

(*) Data based on end of 2010 harvest

Planted Area

Area Planted to Vineyards by Use (ha)				
	1990 (*)	2000 (**)	2008	2009 (***)
Processing	202,146	188,398	211,261	213,034
Table grapes	3,352	8,754	11,161	11,496
Raisins	4,166	3,483	3,804	3,850
Other	707	478	224	194
Total	210,371	201,113	226,450	228,575

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

(*) Fifth National Viticultural Census

(**) Vineyard Registry Update (Resolution C 27/00)

(***) Data based on end of 2010 harvest

Total area planted to grapes in Argentina totaled 228,575 hectares (ha) by the end of the CY 2010 harvest. In the past couple of years, area planted to grapes increased slightly by 0.94 percent in CY 2009, compared to CY 2008. However, compared to CY 1990, the red grape area more than doubled from 42,381 ha to 103,397 ha in CY 2009; the white grape area, during the same period, decreased from 60,398 ha to 48,078 ha; and the rose grape area fell from 99,367 ha to 61,560 ha.

Area Planted to Vineyards by Color of Grape Variety (ha)			
Color	2000 (*)	2008	2009 (**)
Red	70,048	101,317	103,397
White	49,432	48,004	48,078
Rose	68,918	61,941	61,560
Total	188,398	211,261	213,034

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

(*) Vineyard Registry Update (Resolution C 27/00)

(**) Data based on end of 2010 harvest

This trend is consistent with a shift in the consumer market, where domestic consumption of table white and rose wine has decreased, and domestic consumption and exports of red wine (especially the Malbec variety) have increased significantly in the past 20 years.

During the past 20 years, production of high-quality grape varieties increased significantly. In CY 2010, about 64 percent of the grapes destined for wine production were high-quality grapes. Red grape varieties accounted for about 72 percent of the total; and white grape varieties, about 28 percent.

The area planted to the Malbec variety went from 10,457 ha in 1990 to 28,532 ha in CY 2010. Increases were also noted among the following varieties: Bonarda (12,186 to 18,759 ha); Cabernet Sauvignon (2,347 to 17,738 ha); Shiraz (687 to 13,102 ha); and Merlot (1,160 to 6,985 ha).

High Quality Red Grape Varieties – 2009 (*)

Variety	Hectares	%
Malbec	28,532	29.25
Bonarda	18,759	19.23
Cabernet Sauvignon	17,806	18.19
Shiraz	13,112	13.43
Merlot	6,985	7.16
Tempranillo	6,568	6.73
Sangiovesse	2,259	2.32
Pinot Negro	1,681	1.72
Barbera	741	0.76
Cabernet Franc	589	0.60
Tannat	575	0.59

High Quality White Grape Varieties – 2009 (*)

Variety	Hectares	%
Pedro Gimenez	13,476	35.06
Torrontes Riojano	8,443	21.97
Chardonnay	6,578	17.11
Chenin	2,857	7.43
Ugni Blanc	2,431	6.32
Sauvignon	2,278	5.93
Semillon	956	2.49
Viognier	748	1.95
Sauvignonasse	640	1.67
Pinot Blanco	27	0.07

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

(*) Data based on end of 2010 harvest

Grape Production

CY 2012 grape production is forecast to remain stable at 2.75 MMT, compared to CY 2011, as snowstorms in the Andes mountains are expected to occur more frequently than in the previous year, when the hydric shortage was very significant. Some investments are being made on spray irrigation but they are still insufficient.

CY 2011 grape production is estimated to increase to 2.75 MMT, compared to 2.6 MMT in CY 2010, although it will still remain down from normal harvest levels, as production did not fully recover from unfavorable weather conditions in CY 2009 and 2010, namely hydric shortage and hailstorms in the main growing regions.

CY 2010 grape production increased to 2.6 MMT, compared to CY 2009, despite unfavorable weather conditions, such as high temperatures and low humidity in January and hail storms in February 2010. In CY 2010, grapes devoted for wine

production accounted for 96.9 percent (roughly 2.5 million MT) of total grape production; raisins, 1.72 percent (45,110 MT); and fresh table grapes, 1.36 percent (35,656 MT). Production of grapes that had high capability to produce good quality wine accounted for approximately 957,851 MT (red varieties), and 452,094 (white varieties). Main red varieties were: Bonarda, Malbec, Shiraz, and Cabernet Sauvignon. Main white grape varieties were: Pedro Gimenez, Torrontes Riojano, and Chardonnay.

Grape Production (1,000 MT)					
Type/Year	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012
Red	1,050	900	1,000	1,040	1,040
White	650	500	550	660	655
Rose	1,000	700	940	930	930
Other*	100	100	110	120	125
Total	2,800	2,200	2,600	2,750	2,750

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

* Table grapes and raisins

Wine Production

Wine production in CY 2012 is projected to remain stable, compared to the previous year. Wine production in CY 2011 is estimated to increase to 1.5 billion liters, despite unfavorable weather conditions which affected the grape crop. In CY 2010 production increased to 1.4 billion liters, up from previous estimates.

Every year, the governments of the two main grape producing provinces in Argentina (Mendoza and San Juan) establish the volume of grapes which will be used for must (grape juice) production. In CY 2011, 30 percent of the grape harvest will be devoted for must production (in CY 2010, 20 percent).

Wine Production (1,000 liters)					
Type/Year	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012
Red	810,000	730,000	750,000	800,000	800,000
White	640,000	464,000	600,000	630,000	630,000
Rose	20,000	16,000	30,000	40,000	40,000
Other *	NA	NA	20,000	30,000	30,000
Total	1,470,000	1,210,000	1,400,000	1,500,000	1,500,000

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

* Regional, sweet, and sparkling wine

The largest challenges that the wine sector will have to face in CY 2011 are high inflation, with the relatively stable value of the local currency vis-a-vis the dollar, and an increase in production costs. In bottled wine, grapes account for 30-40 percent of production costs. Other inputs, such as bottles, corks, labels, labor, etc. account for the balance, and their price increase is tied to inflation rates.

Investment

According to private sources, land prices reached a plateau by mid-2007. Foreign investors are still interested in buying vineyards but the political and economic environment, combined with high land prices, are hampering the process. One hectare with high-quality vineyards costs between \$35,000-40,000, while bare land is sold at US\$10,000 per hectare.

Consumption:

According to INV official data, wine domestic consumption decreased to 980 million liters in CY 2010, compared to 1.03 billion liters in CY 2009, primarily due to a decrease of table wine consumption which was replaced by more inexpensive substitute drinks such as beer (due to smaller grape production, table wine domestic prices increased between 30 and 50 percent last year, depending on whether they were bottled or table wines). In CY 2011, consumption is expected to recover

marginally as a result of an increase in consumption of medium-priced wines after the development of promotional campaigns throughout the country. Per capita wine annual consumption is estimated between 25-28 liters.

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 CY 2006, when the downward trend changed. According to industry sources, the 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. Some of these stores have, however, closed down due to slower growth in the local economy.

Currently, there are 1,341 wineries and about 10,000 labels in Argentina. A greater concentration of both is expected in the near future. The wine segment which continued to grow in CY 2010 was medium-high priced wines (between \$3 and \$8), where the consumer perceived a very favorable price-quality relation. Table wines still account for the largest market share, which is about 60 percent in volume.

Wine distribution channels in Argentina are as follows: hyper and supermarkets, which have a 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. Wines with retail prices up to \$3.00 account for sixty percent of sales carried out by supermarkets.

Trade:

Exports of Argentine wines in CY 2011 and 2012 are expected to increase marginally, in volume, to 290 and 295 million liters. World consumption is not expanding significantly, and competition by the main international wine producers is strong while domestic consumption remains at relatively low levels.

Wine exports in CY 2010 decreased in volume to 280 million liters but increased to the record value of \$650 million. The U.S. and Canada are expected to continue to be the largest export markets for Argentine high-quality wine, since the price-quality relation is forecast to continue to be favorable. The Malbec variety accounted for 40 percent of the total exports of bottled wine. Also, the Malbec and Torrontes varieties, which have become Argentina’s signature wines, are expected to continue to expand their market in the U.S. According to the Global Trade Atlas, during January-November 2010, exports to the U.S. totaled about 80.4 million liters and were valued at \$223 million, and exports to Canada reached around 24.1 million liters and were valued at \$80 million.

Brazil is becoming a significant export market for Argentine bottled wines as a result of the relative high value of the real compared to the Argentine peso, the country’s economic growth, and the expansion of the Brazilian medium stratum of the society with a relatively high purchasing power. In CY 2010, Brazil became the third largest export market for local wines in value terms, replacing the U.K. In addition, sales to Brazil have doubled during the past five years.

Reduced grape production in CY 2010, followed by increased prices, resulted in a decrease of bulk wine exports in volume terms, mainly because of a significantly smaller demand from Russia. However, bottled wine exports continued to increase, primarily to the main export markets: the U.S. (about 23 percent in value terms, compared to 2009), and Canada (19 percent).

Local wines have 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. Several wine labels have also received high marks in prestigious U.S. specialized magazines, which contributed to promoting Argentine wines.

In CY 2010, Argentina exported over 2,300 brands to 125 markets from around 400 different wineries. The first twenty largest exporters accounted for 30 percent of total exports, which showed the reduced concentration of the wine sector.

Total Wine Exports				
Year	CY 2009	CY 2010	CY 2011	CY 2012
Volume (1,000 liters)	294,500	280,000	290,000	295,000
Value (million \$)	637	650	700	750

Source: FAS Buenos Aires based on Global Trade Atlas data

Argentina's primary wine export destinations in January-November 2010 are illustrated below:

Country	Volume (million liters)	Country	Value (million \$)
U.S.	80.4	U.S.	223
Paraguay	24.5	Canada	80
Canada	24.1	Brazil	51
Brazil	16.3	U.K.	40
U.K.	14.1	Netherlands	36
Netherlands	12.8	Paraguay	27
Japan	9.1	Japan	20
Denmark	7.0	Denmark	17
Russia	5.4	Mexico	14
Sweden	4.3	Sweden	14

Source: FAS Buenos Aires based on Global Trade Atlas

Although wine imports continue to be negligible, they have increased significantly from 12.2 million liters in CY 2009 to 35.5 million liters in CY 2010 (preliminary estimate). These volumes of generic/table wines were imported primarily from Chile to supply export markets due to reduced grape production and high domestic prices. Imports from Chile (market share 82 percent) were valued at \$18 million. Other countries of origin, which supplied high-quality wines, were: France (with a market share of 8 percent), Spain (3 percent), and Germany (1 percent), among others.

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 January-November of CY 2010 was \$2.65, compared to \$2.17 in CY 2009. Domestic prices also increased due to higher costs, mainly transportation and labor, and less fruit availability. Private sources estimate that, in CY 2010, domestic prices increased between 15 and 50 percent, being more inexpensive wines the most affected by higher increases. Retail prices range from \$4 and over \$85. Prices of exclusive wines of limited production vary from \$160 to \$400.

Stocks:

In CY 2011, wine stocks are expected to recover as a result of an increase in grape production, compared with the two previous grape harvests.

Due to reduced grape production in CY 2009 and 2010, wine stocks (especially red wines) were very limited and wineries were forced to import table wine, primarily from Chile. According to INV official data, during the second half of CY 2010, red wine stocks recovered fully.

Policy:

In June 2010, the Government of Argentina (GOA), by second consecutive year, established a \$14 million support fund for the wine sector. The fund is financed with 50 percent of the export taxes paid for wine and will be reimbursed to the sector to promote the development of cooperatives of small and medium-sized producers and processors. It is estimated that it will benefit 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, the strengthening of institutions, 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 will benefit under a \$50 million loan from the Inter American Development Bank (IDB). They will not receive financial assistance individually but will be required to associate into integrated business program groups. The ultimate goal of the program is to assist 60 associated groups, integrated by 1,800 primary producers and at least 60 leading establishments, totaling about 10,000 planted hectares.

In order to promote investments, the GOA also decided to extend for two more years (until 2012) a tax exemption originally implemented in 2005, which benefits over 100 sparkling wine producers. Producers are exempted from paying a 12.5 percent domestic tax and, in return, they must commit to invest 25 percent over the amount of the tax savings. According to official data, in CY 2009, production of sparkling wines totaled about 27 million liters.

Through an agreement signed between the Ministry of Agriculture, Livestock, and Fisheries, the Argentine Wine Corporation, and the Argentine Nation Bank, a subsidized financing system was created to assist small and medium-sized wineries which are committed to an IDB program that integrates wine and grape producers. This \$25-million fund is oriented towards the renewal and incorporation of technology and infrastructure, and improvements in the quality standards of wine making.

Marketing:

The Argentine wine sector, including the government, the industry and producers, have 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).

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 do not expect that this measure will impact directly on an increase of wine exports, they considered it a recognition to the joint effort made by both the public and private sector towards the expansion of the local tradition of wine production and consumption.

In CY 2010, in continuation with its market access policy to the Chinese market, the Government of Mendoza contracted an exclusive area for wine promotion and sale in the largest free-trade zone of China, which is the port of entry for 90 percent of total wine sales in the country.

The Argentine wine association, Wines of Argentina, represents more than 90 percent of the wineries that have a presence in the international market. 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.

Author Defined:

Useful Websites

- 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.fondovitivinicola.com.ar (Fondo Vitivinicola de Mendoza)
- www.areadelvino.com (Area del Vino)
- www.vitivinicultura2020.com.ar (Corporacion Vitivinicola Argentina)

www.argentinewines.com (ArgentineWines.com)