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Argentina

Wine Annual

Argentina Wine Annual Report

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Report Highlights:

The calendar year (CY) 2014 grape crop is estimated to be 2.09 million metric tons (MMT), down 27 percent from CY2013. CY2014 will be one of the worst in the last 15 years as a result of the exceptional bad weather during the crop season in the main production provinces of Mendoza and San Juan. However, quality is reported to be very good. Given the decrease in grape production, wine production in CY2014 is projected to decrease to 920 million liters compared to 1.26 billion liters produced in CY2013. It is expected that 2014 wine exports will remain stable at 2013 levels, and will increase 10 percent in 2015. However, continued high inflation put upward pressure on prices.

While price increase were somewhat mitigated by the recent 25 percent peso devaluation in January 2014 lower quality wines have lost export sales. While 2014 exports and domestic consumption are forecast to remain at 2013 levels, must production might decline to make up for the production shortfall. (All data in calendar years unless otherwise specified).

Executive Summary:

Post forecasts an increase in grape production for CY 2015 to rebound to 2013 levels to a total of 2.87 million MMT. Production for CY 2014 is expected to decrease to 2.09 MMT, down 27 percent compared to CY2013. It is estimated that CY2014 will be one of the poorest crops at least in the last 15 years as a result of extremely bad weather that affected the provinces of Mendoza and San Juan, where 92 percent of the total grape crop is produced. CY 2015 wine production is estimated to rebound to 1.25 billion liters, similar to 2013 level. As a result of the decrease in the grape crop, wine production in CY 2014 is projected to decrease to 920 million liters compared to 1.26 billion liters produced in CY 2013.

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 of inputs needed for production. Bulk exports decreased 31 percent, while bottled wine exports of lower quality wines decreased 33 percent, while those in the \$29-40 range increased 8 percent in volume. However, it is expected that wine exports will remain stable in 2014 at 2013 levels, and will increase 10 percent in 2015 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 2013 levels in 2014 due to high inflation rates and increased retail prices.

While 2014 exports and domestic consumption are forecasted to remain at 2013 levels, must production might decline to make up for the production shortfall.

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 are produced in Argentina.

Total area planted to wine grapes in Argentina totaled 224,063 hectares (ha) with approximately 25,500 vineyards by the end of 2013. The provinces of Mendoza and San Juan account for nearly 92 percent of the total area planted to wine grapes in Argentina and 87 percent of the total vineyards 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, while there are many good regions to produce wine in Argentina, the climatic and soil differences in regions result in the same variety tasting differently. Mendoza province offers the best combination of climate, soil and infrastructure, 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 increasing production is the valley 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 2015 grape production to rebound to CY2013 levels at 2.87 MMT under normal weather conditions and maintaining the current good sanitary conditions of the vineyards.

Post forecasts CY2014 grape production at 2.09 MMT, down 27 percent compared to CY 2013. This is the result of the most unfavorable weather conditions in the last fifteen years in the provinces of Mendoza and San Juan. Bad weather conditions included late frost, hot and dry wind during the blossom period (regionally called Zonda wind), very high temperatures during two weeks in January (above 96F/35C degrees even during the night) and excessive rainfall in February (150mm in two weeks when the annual average is 100mm). It is estimated that these conditions affected volume (early grapes to a larger extent) but not quality. Early varieties such as Chardonay, Chenin and Sauvignon Blanc were the most affected varieties.

CY 2013 grape production increased to 2.87 MMT, as a result of good weather conditions (especially timely rainfall and very little frost and –or hail). 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.

In 2013, grapes devoted for wine production accounted for 96.8 percent (roughly 2.78 MMT) of total grape production; raisins, 1.81 percent (49,582 MT); and fresh table grapes, 1.32 percent (37,404 MT). Production of grapes that had high capability to produce good quality wine accounted for approximately 1,116,674MT (red varieties), and 491,322 MT (white varieties). Main red varieties were: Malbec, Bonarda, Shiraz, and Cabernet Sauvignon. Main white grape varieties were: Pedro Gimenez, Torrontes, and Chardonnay.

Grape Production (1,000 MT)

| Type/Year | 2009 | 2010 | 2011 | 2012 | 2013* | 2014* |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Red | 900 | 1,000 | 1,149 | 880 | 1,390 | 1,217 |
| White | 500 | 550 | 677 | 510 | 701 | 304 |
| Rose | 700 | 940 | 1,061 | 808 | 686 | 508 |
| Other | 100 | 110 | 3 | 2 | 3 | 3 |
| Total | 2,200 | 2,600 | 2,890 | 2,240 | 2,780 | 2,032 |

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 2013, 32.6 percent of the total production corresponds to the Malbec variety. The second variety in importance is Bonarda, which represents 23 percent of total production. Most important white varieties in CY 2013 were Pedro Gimenez and Torrontes, which accounted for 35 and 30 percent of total production respectively.

High Quality Red Grape Varieties – 2013 (*)

| Variety | MT | % |
|--------------------|------------------|---------------|
| Malbec | 364,949 | 32.69 |
| Bonarda | 256,440 | 22.97 |
| Shiraz | 156,196 | 14.00 |
| Cabernet Sauvignon | 139,240 | 12.47 |
| Tempranillo | 78,691 | 7.05 |
| Merlot | 57,986 | 5.20 |
| Pinot Negro | 20,774 | 1.86 |
| Other varieties | 42,418 | 3.76 |
| TOTAL | 1,116,674 | 100.00 |

High Quality White Grape Varieties – 2013 (*)

| Variety | MT | % |
|---------|----|---|
|---------|----|---|

| | | |
|-----------------|----------------|---------------|
| Pedro Gimenez | 173,003 | 35.22 |
| Torrontes | 150,598 | 30.66 |
| Chardonnay | 74,917 | 15.25 |
| Chenin | 33,985 | 6.92 |
| Sauvignon | 26,645 | 5.43 |
| Other varieties | 19,770 | 6.52 |
| TOTAL | 491,322 | 100.00 |

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

(*) Data based on end of 2013 harvest (from INV and private sources)

Wine Production

Post estimates CY 2015 wine to rebound to 1.25 billion liters as a result of a normal grape production. Wine production in CY 2014 is projected to decline to 920 million liters compared to the previous year, as a result of the decrease in grape production. Wine production in CY 2013 increased to 1.26 billion liters (12 percent higher than CY2012) as a result of the relatively favorable weather conditions.

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 2014, 18 percent of the grape harvest will be devoted for must production (32 percent in 2013) 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 | 821,450 | 709,000 |
| White | 464,000 | 600,000 | 535,000 | 386,400 | 412,500 | 190,000 |
| Rose | 16,000 | 30,000 | 52,000 | 24,500 | 26,250 | 19,000 |
| Other | NA | 20,000 | 3,000 | 2,600 | 2,800 | 2,000 |
| Total | 1,210,000 | 1,400,000 | 1,550,000 | 1,178,000 | 1,263,000 | 920,000 |

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 National Wine Institute and private sources.

After a devaluation of the peso in January 2014, the largest challenges that the wine sector are high inflation and an increase in production costs, which are 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, boxes, 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. **(See Policy Section below).**

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.

Consumption:

Domestic consumption for CY 2014 is forecast to remain stable at 2013 levels. As a result of high inflation rates, wine retail prices increased substantially preventing an increase in consumption. According to INV official data, in CY2013 consumption increased marginally (2.38 percent increase compared to 2012). Sparkling wine consumption increased 10 percent compared to 2012. 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 increased exports by Europe combined with a 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 1,250 wineries registered and approximately 4,000 labels in Argentina. The six 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 with the balance.

Trade:

The volume of Argentine wine exports in CY2014 is estimated to remain stable at 2013 levels, and is expected to increase 10 percent in 2015 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.

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.

World consumption is not expanding significantly, and competition by the main international wine producers, such as Spain, Australia, France, the U.S., Portugal, South Africa, Chile, and Italy is strong. Wine exports in 2013 declined to 315 million liters, down 50 million liters from CY 2012 as a result of a decrease in bulk exports which decreased 31 percent compared to 2012, and mainly due the loss of competitiveness of lower quality wines, which decreased 33 percent compared to CY2012. 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) exports of bottled wines priced \$ 29 -40 increased 11 percent .

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. In CY2013 the Malbec variety accounted for 45 percent of the total exports of bottled wine. According to the Global Trade Atlas in CY2013 exports to the U.S. totaled about 129 million liters and were valued at \$340.5 million (compared to 171 million liters and \$372 million the previous calendar year), and exports to Canada reached around 24.6 million liters and were valued at \$83.5 million. Argentine wines are positioned very well in the \$20-\$40-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. CY2013 exports to Brazil totaled \$52.8 million and 13.5 million liters.

China continues to be the 8th largest export market for Argentine wines in value terms, from being 18th a few years earlier. According to the Global Trade Atlas in 2013 exports to China totaled about 4.1 million liters and were valued at \$18.5 million. As opposed to other export markets, China does not import large quantities of Malbec but Cabernet Sauvignon and blends.

In 2013, 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(1,000lt) | 294,500 | 279,123 | 315,277 | 364,548 | 315,432 |
| Value (million\$) | 637 | 742 | 844 | 913 | 874 |

Source: FAS Buenos Aires based on Global Trade Atlas data

Argentina’s primary wine export destinations in 2013 are illustrated below:

| Country | Volume (million liters) | Country | Value (million \$) |
|----------------|--------------------------------|----------------|---------------------------|
| U.S. | 129.5 | U.S. | 340.5 |
| Canada | 24.6 | Canada | 84 |
| U.K. | 18.3 | U.K. | 58 |
| Russia | 15.6 | Brazil | 53 |
| Brazil | 13.6 | Netherlands | 34 |
| Japan | 10.5 | Japan | 28 |
| Netherlands | 10.3 | Mexico | 20 |
| Paraguay | 9.7 | China | 18 |
| Spain | 9.6 | Denmark | 17 |
| Denmark | 6.9 | Switzerland | 16 |

Source: FAS Buenos Aires based on Global Trade Atlas

Argentine wine imports continue to be negligible and have slightly increased from 2012, when 725,263 liters were imported compared to 876,696 liters imported in 2013. The

small increase corresponds to sparkling wine imported from France. However, small imports are the result of sufficient domestic supply but mainly, due to the strong government import restrictions.

In 2013, Spain accounted for 52.8 percent of total wine imports. Other countries of origin, which supplied high-quality wines, were: France (with a market share of 9 percent), Italy and Chile (about 2 percent and 7 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 continues to be 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 2013 was \$2.73 /liter, compared to \$2.45 /liter in 2012, due to higher costs in accessories and bottling equipment, 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 \$12 to over \$180. Prices of exclusive wines of limited production vary from \$200 to \$700.

Stocks:

In 2013, due to the increase in grape production, wine stocks recovered (especially red wines) compared to the limited stocks from the previous year.

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 2014 the Minister of Interior signed an agreement with the province of Mendoza to provide special rates on freight for train transportation from Mendoza to the port of Buenos Aires. While logistical details are still being discussed, once implemented, the agreement will significantly decrease freight cost and will improve export competitiveness for small wineries.

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, and in a specially difficult year for the Argentine wine industry, the GOA also decided to extend for one more year (until 2015) 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. 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.

In February 2014, an Argentine Malbec “Famiglia Bianchi Reserve” was elected as the best red wine in the world by Vinalies Internationales in Paris, France. According to FAS contacts in the sector, this prestigious award will help boost the Argentine wines around the world.

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.fondovitivinicola.com.ar (Fondo Vitivinícola de Mendoza)

www.areadelvino.com (Area del Vino)

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

www.argentinewines.com (ArgentineWines.com)