

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Chile

Wine Annual

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Report Highlights:

Wine production in 2012 will be similar or slightly less than the previous year. Freezing weather delayed pruning and a severe drought in most production areas are being mentioned as the main adverse factors for an expansion. Exports are likely to expand as production in 2011 reached an all time record level.

Executive Summary:

Chile's wine production increased in CY2011, in spite of adverse weather conditions in some growing areas during the spring for a few red varieties. For CY2012 a similar or slightly smaller than last year output is expected. Lower than usual temperatures affected vineyards in most production area together with a severe drought in critical production regions.

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

Commodities:

Wine

Production:

The fall in value of the U.S. dollar against the Chilean peso has caused margins to become tighter in the Chilean wine business. As sales are in dollars and costs are in pesos, the export oriented wine industry is tightening their belts and cutting costs wherever possible. For example, farmers are not increasing the planted area, only some of them are replanting old vineyards to varieties in higher demand. The Ministry of Agriculture's estimates total planted area of vines for wine to be 117,000 hectares. Out of the total planted area, around 76 percent are red varieties. Close to 75 percent of all planted area is irrigated.

Although wine production in CY2011 expanded over 14 percent when compared to the previous year reaching an all time record level of 1,046 million liters, an industry contact said that they expected an even larger expansion which did not occur mainly due to a drought which affected the Cabernet Sauvignon variety coupled with unusually cold spring weather in the Maule area (Region VII) home to almost 60 percent of the production area. The colder weather affected the size and numbers of bunches in each plant. As a result of a fall in stocks during 2010, prices paid to wine producers in 2011 increased another 14 percent in CY2011. Larger wineries buy wine and grapes from smaller producers who normally do not crush the grapes into wine or have a very small operation and do not bottle wine; instead they sell their wine in bulk to larger processors for blending.

CY2012 wine production is expected to be similar or slightly smaller than last year. Most production in Regions IV, V and VI are being affected by a severe drought. The mountains in the northern areas had little or no precipitation during the last two years, as a result there is little or no snow melting and some rivers are running dry. This is affecting agricultural production in Regions IV (Coquimbo), Region V (Valparaiso, north and west of the Metropolitan Region, Santiago) and Region VI and VII (from Rancagua to Talca). Industry sources have reported that additionally to a production decrease in almost all wine production regions due to a lack of water availability, production will also be affected by a shortage of labor. Wine producers fear that a harvest right on time, for a good quality wine might be affected as migration of the labor force to the higher paying and long term employment of the mining sector will start affecting labor availability for the agriculture sector in general and specifically to the temporary labor of fresh fruit and wine sector. Wine producers claim that the labor cost has increased 25 percent in some areas since last season. Lower than normal temperatures in almost all production

areas this delayed pruning to avoid frost damage during last winter. This delayed the growth of the vines and will affect to production.

For the coming years no significant expansion in production is expected as over 95 percent of the planted area is in the full production stage. Consequently, production increases will depend on weather and management of the vineyards and on future expansion or replacement of lower producing vineyards.

Table - Real Domestic Farm Gate Wine Prices (CH\$ Per Liter)*							
1981	1985	1990	1995	2000	2009	2010	2011
259	141	146	214	490	219	364	398
Exchange Rate: US\$1.00 = CH\$517.17							
* Prices are in Dec 2011 Chilean pesos							
Source: ODEPA (Ministry of Agriculture)							

Over 46 percent of wine storage containers at Chilean wineries are made of stainless steel. This shows a high technological development standard for the industry. Additionally, 39 percent of the wineries use oak barrels, French or American, for an average of 3 to 5 years. Over 70 percent of Chilean wine makers believe that they have sufficient storage capacity for their production, while only 12 percent believe they need to expand.

Table - Wine Production, Consumption and Exports					
				Exports	
	Area Planted (Th. Has)	Production (Mill. Liter)	Per Capita Consumption	Mill. Liter	Mill. US\$
1982	105	603	52	8	11
1990	65	398	25	43	52
1992	62	370	17	74	119
1994	53	411	13	111	143
1996	56	481	16	185	294
1998	75	547	17	251	540
2000	104	679	15	276	585
2002	109	574	15	356	610
2004	112	655	16	474	845
2006	115	845	15	520	965
2008	118	869	16	591	1,384
2009	118	1,009	16	696	1,390
2010	117	915	16	733	1,554
2011	117	1,046	17	667	1,703
2012 1/	117	1,030	18	700	1,787
1/ FAS Forecast					
Source: National Agricultural Society (SNA) and Central Bank.					

Consumption:

Domestic wine consumption in Chile is more or less stagnant. Statistics shows that average per capita has been recuperating slowly from a low of 13 liters in 1994 to a little over 17 liters last year. Beer consumption has increased substantially, exceeding 27 liters per capita during the same time period. Chile has the lowest per capita wine consumption for all major wine producing and exporting country. Chile's per capita wine consumption suffers in comparison to 55 liters consumed in France and 40 liters in Argentina.

Trade:

Chilean wine exports fell in volume and increased in value during CY2011 when compared to the previous year. Higher prices obtained mainly bottled wine with denomination of origin (DO) explains the higher returns for exports in CY2011. The value of the bottled exported wine increased a little over 11 percent in 2011 and the value of bulk wine increased less than 1.5 percent. The United States has become Chile's main wine export market, followed by the UK. Exports of bottled wine to China increased almost 71 percent in 2011. China is now Chile's fifth largest total wine export market in volume and sixth in value. Industry sources indicate that Chile is the tenth largest wine producer and fifth largest exporter in the world. Improvements in quality and a good price/quality relationship help to keep or increase exports levels.

Chile traditionally exports both bottled and bulk wine. A large number of wineries are making a big effort to increase premium-bottled wine exports; bottled wine expanded more than bulk wine in CY2010. Currently, there are more than 70 Chilean wineries exporting. Over 60 percent of Chile's total yearly production is exported, supplying more than 100 countries.

Kind / Year	2009	2010	2011
Sparkling	2,438	3,306	3,797
Bottled	395,598	431,156	446,094
Bulk	298,476	298,611	589,544
TOTAL	696,513	733,082	667,754

Kind / Year	2009	2010	2011
Sparkling	9,885	12,871	14,653
Bottled	1,151,565	1,276,548	1,420,193
Bulk	229,314	264,754	268,314
TOTAL	1,261,799	1,554,173	1,703,160

Kind / Year	2009	2010	2011
Sparkling	4.05	2.89	3.86
Bottled	2.91	2.67	3.18
Bulk	.77	1.48	.46
Average	1.81	1.90	2.55

Chile's main export market for wine continues to be the US followed by the EU (United Kingdom). The industry continues its focus on the Asian markets. However, less than 10 percent of total exports go to that market, according to "Wines of Chile", a public-private organization created to promote Chilean wine exports.

Table - Wine Exports by Country of Destination						
	Quantity (1000 Liters)			Value (Thousand US dollars)		
	2009	2010	2011	2009	2010	2011
U.S.	139,080	118,682	129,989	241,914	241,699	273,258
U.K.	113,420	123,234	107,474	216,364	236,219	234,548
Germany	46,313	53,886	41,440	65,752	74,525	71,779
Japan	27,330	35,428	39,945	64,036	80,929	100,140
China	55,587	60,529	35,339	54,306	82,574	91,800
Netherlands	27,132	30,408	34,047	72,028	81,058	97,937
Brazil	21,855	24,605	27,927	62,572	70,887	89,902
Canada	38,069	30,461	26,364	77,789	89,543	93,765
Denmark	29,513	26,881	23,471	61,882	60,870	61,437
Sweden	12,713	12,916	13,876	77,789	38,050	40,881
Others	185,501	216,052	187,883	396,014	497,818	547,713
TOTAL	696,513	733,082	667,755	1,390,446	1,554,172	1,703,160

Source: ODEPA (Ministry of Agriculture).

Wine is mainly imported from Argentina in tetra pack cartons and/or bulk to supply the domestic demand for in-expensive wine. U.S. wine is also available, usually in premium outlets. However, demand is dampened by prices well above the local market average. The current tariff rate for all U.S. wine imports into Chile is 6 percent ad valorem. There is also a 19 percent value-added tax and a 15 percent liquor tax applied to all wines sold in Chile (imported or domestic). The US-Chile Free Trade Agreement had no effect on Chilean wine export volumes to the US, as the duty for most wine is 6.3 cents per liter and will be phased out over a total of 12 years (2016). In the case of US wine exports to Chile, the 6% tariff remained at base rate until 2010. In January of 2011, duties will were reduced by 3.3%. In January 2012, duties were reduced by 21.7 %. In 2013, duties will be reduced by 40.0 %. In 2014, duties will be reduced by 58.3 %. In 2015, duties will be reduced by 76.7 %. U.S. wine can enter Chile duty free in 2016. In agreements signed with other trading partners, Chilean exports have a zero tariff since 2011 in all Mercosur member countries. Chile has already a free access in Canada, Mexico and the European Union. The present duty of 11.2 percent in China will be reduced to zero in 2015. The recent agreement signed with Japan calls for a 12 year phase out period from the present 15 percent duty.

Policy:

Wine production and exports are regulated and certified by the Agriculture and Livestock Service (SAG) of the Ministry of Agriculture. All wine produced in Chile for both the domestic and export market is periodically sampled by SAG. SAG also issues the export certificates that include the wine's origin and quality.

The government provides no direct subsidies to support wine production or subsidize exports. Although Chile does have a successful market promotion campaign called "tastes of Chile" that includes wine. Promotions are managed by an organization called "Wines of Chile" which is co funded by both of the wine producers associations in Chile, Vinos de Chile and Chilevid. The marketing funds are used for generic promotion. The Government contributes 15 percent of the total amount, through its export promotion agency called ProChile. Wines of Chile spend most of its allocated budget on promotional

activities in Canada, England, Germany and the United States. Activities include the “Tastes of Chile” campaign that promotes fruits and wine. The images used build on the natural beauty of Chile and the quality of the products. Another promotional program is the activity called “Wine Show and Tasting”. This activity takes place normally once a year. It consists of seminars and wine tasting. ProChile contributes with logistics and market information and the wineries pay the costs. With this strategy the wine industry is promoting wines in markets like Russia, Netherlands, Denmark, Sweden, Czech Republic, Brazil, Mexico, Venezuela, Taiwan and Hong Kong.