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Wine Annual

Argentina Wine Annual Report

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Report Highlights:
Post forecasts Calendar Year (CY) 2016 grape production at 2.67 million metric tons (MMT) under normal weather conditions and maintaining the current good sanitary conditions of the vineyards. CY 2015 grape crop is estimated to be 2.65 million metric tons (MMT). Quality is reported to be very good. Wine production in CY 2015 is projected to slightly increase to 1.53 billion liters, compared to 1.51 billion liters produced in CY 2014. Inflation and an overvalued local currency continue to make exports from Argentina less competitive, generally making only exports of higher value wines viable.

Executive Summary:

Post forecasts CY 2016 grape production at 2.67 million metric tons (MMT) under normal weather conditions and maintaining the current good sanitary conditions of the vineyards. That is an average crop and very similar to CY 2015 figures.

Post estimates CY2015 grape production at 2.65 MMT, one percent increase compared to CY 2014 (2.63MMT total grape production). Overall weather conditions in the provinces of Mendoza and San Juan (where 94 percent of the total grape crop is produced) have not caused significant problems, especially with timely rainfall and very little frost and/or hail. Thus final yield figures are expected to be slightly higher than average.

CY 2015 wine production is estimated to rebound to 1.53 billion liters, slightly higher the 1.51 billion liters reported for CY 2014.

Lower quality wines have lost export sales and are losing competitiveness as a result of high inflation which results in high production costs, exchange rate issues, and an array of trade restrictive measures taken by the government. These measures are adversely affecting the importation of inputs needed for production. Argentine wine exports decreased 16 percent in volume and four percent in value in CY 2014 compared to CY 2013. The same trend is expected for CY 2015, assuming similar inflation rates.

Domestic consumption of wine, which had seen a small but steady growth since 2006, decreased four percent in 2014 also due to high inflation rates and reduced consumer purchasing power. The downward trend is expected to continue for 2015.

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 expanding 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 223,580 hectares (ha) with approximately 25,500 vineyards by the end of 2014. The provinces of Mendoza and San Juan account for nearly 94 percent of the total area planted to wine grapes in Argentina and 87 percent of the total vineyards 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 forecasts CY 2016 grape production at 2.67 MMT under normal weather conditions and maintaining the current good sanitary conditions of the vineyards. That would be an average crop and very similar to CY 2015.

Post estimates CY 2015 grape production at 2.65 MMT, a one percent increase compared to CY 2014 (2.63MMT total grape production). Overall weather conditions in the provinces of Mendoza and San Juan have not caused significant problems (especially with timely rainfall and very little frost and/or hail). Thus final yield figures are expected to be slightly higher than average.

In CY 2014, grapes for wine production accounted for 98.2 percent (roughly 2.58 MMT) of total grape production; raisins, 1.29 percent (33,926 MT); and fresh table grapes, 1.55 percent (12,512 MT). The production of grapes with the ideal characteristics for high quality wine accounted for approximately

1,056,421 MT (red varieties), and 464,811 MT (white varieties). Main red varieties were: Malbec, Bonarda Argentina, 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**	**2015***
Red	900	1,000	1,149	880	1,390	1,317	1,327
White	500	550	677	510	701	664	670
Rose	700	940	1,061	808	686	651	655
Other	100	110	3	2	3	3	3
Total	**2,200**	**2,600**	**2,890**	**2,240**	**2,780**	**2,635**	**2,655**

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 2014, almost 33 percent of the total production went to the Malbec variety. The second most important variety is Bonarda Argentina, which represents 23 percent of total production. The 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 – 2014*

Variety	**MT**	**%**
Malbec	348,618	33.00
Bonarda Arg.	242,976	23.00
Shiraz	147,898	14.00
Cabernet Sauvignon	126,770	12.00
Tempranillo	73,949	7.00
Merlot	52,823	5.00
Pinot Negro	21,128	2.00
Other varieties	42,259	4.00
TOTAL	**1,056,421**	100.00

High Quality White Grape Varieties – 2014*

Variety	**MT**	**%**
Pedro Gimenez	162,683	35.00
Torrontes	139,443	30.00
Chardonnay	69,721	15.00
Chenin	32,536	7.00
Sauvignon	23,240	5.00
Other varieties	37,184	8.00
TOTAL	**464,811**	**100.00**

Source: FAS Buenos Aires based on data from the National Wine Institute (INV, www.inv.gov.ar)
* Data based on end of 2014 harvest (from INV and private sources)

Wine Production

Post estimates CY 2016 wine production to remain at 1.53 billion liters as a result of an average grape production. Wine production in CY 2015 is projected to slightly rebound to 1.53 billion liters compared to the previous year, as a result of the increase in grape production. Wine production in CY 2014 slightly increased to 1.51 billion liters (almost two percent higher than CY2013) 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 2015, 35 percent of the grape harvest will be devoted for must production (18 percent in 2014) but it may be reduced when final harvest estimates are completed.

Wine Production (1,000 liters)

Type/Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015***
Red	750,000	960,000	767,000	975,800	988,500	998,000
White	600,000	535,000	386,400	489,000	496,000	501,000
Rose	30,000	52,000	24,500	31,000	32,000	32,000
Other	20,000	3,000	2,600	3,000	3,245	3,245
Total	**1,400,000**	**1,550,000**	**1,178,000**	**1,498,800**	**1,519,745**	**1,534,245**

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.

An overvalued peso and the high inflation (which increases production costs) are 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 from 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, and from 2007 to 2013/14, there was 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 from about $135,000/ha to $180,000/ha. However, under the current economic scenario and with the decrease in both the domestic and the export markets, there is no investment planned for the near future.

Consumption:

CY 2014 domestic consumption decreased four percent compared to CY 2013. According to INV official data current per capita wine consumption is 25 liters. CY 2015 is forecast to remain stable at CY 2014 levels.

Wine consumption has been declining in Argentina for decades (falling at an annual rate of between 1 and 2 liters per person per year), with a slight recovery in the 2006 – 2013 time period. According to industry sources, during that period 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.

However, as a result of high inflation rates, wine retail prices increased substantially cutting household purchasing power. Also, the enforcement of a stricter driving legislation precipitated a return to the previous declining trend.

The varieties most consumed in the domestic market are Malbec, Bonarda and Torrontes.

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 remainder 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 remainder.

Trade:

Argentine wines have lost competitiveness in the export markets. The Argentine wine exports decreased 16 percent in volume and four percent in value in CY 2014 compared to CY 2013. Given the high inflation which increases production costs, and the overvalued local currency, 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 United States, Portugal, South Africa, Chile, and Italy is strong.

Exports to The United States and Canada, traditionally the largest export markets for the Argentine wines, have also decreased in value (11 percent less the United States and four percent less Canada. Exported volumes decreased 22 percent and four percent respectively each country.

CY 2015 exports are estimated to remain stable at CY 2014 levels, and are expected to increase ten percent in CY 2016 if high inflation is controlled and exchange rate issues are solved.

According to the Global Trade Atlas CY 2013 exports to the U.S. totaled about 100 million liters and were valued at $302 million (compared to 129 million liters and $340 million the previous calendar year), and exports to Canada reached approximately 23.5 million liters and were valued at $80 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. Despite the negative figures shown, exports to the U.S. for medium to high priced wine continue strong. The Malbec and Torrontés varieties, which have become Argentina’s signature wines, are expected to continue to expand their market especially in the United States. In CY 2014 the Malbec variety accounted for 45 percent of the total exports of bottled wine. However, lower quality wines have lost export sales and are losing competitiveness.

In addition to the North American market, the United Kingdom continues to be a significant export market for Argentine bottled wines. CY 2014 exports to the UK totaled $61 million and 21 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 2014 exports to China were valued at $18 million. As opposed to other export markets, China does not import large quantities of Malbec but rather Cabernet Sauvignon and blends.

In 2014, 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**	**2014**
Volume(1,000lt)	294,500	279,123	315,277	364,548	315,432	264,773
Value (million$)	637	742	844	913	874	836

Source: FAS Buenos Aires based on Global Trade Atlas data

Argentina's primary wine export destinations in CY2014 are illustrated below:

Country	Volume (million liters)	Country	Value (million $)
U.S.	100.0	U.S.	302
Canada	23.5	Canada	80
U.K.	21.0	U.K.	69
Brazil	13.7	Brazil	55
Netherlands	10.7	Netherlands	35
Japan	9.71	Japan	24
Paraguay	6.6	Mexico	20
Denmark	6.5	China	18
Russia	6.5	Denmark	18
Germany	6.1	Germany	16

Source: FAS Buenos Aires based on Global Trade Atlas

Argentine wine imports continue to be negligible and have decreased from CY 2013, when 876,696 liters were imported compared to 378,113 liters being imported in CY2014. These figures are the result of sufficient domestic supply but mainly due to the strong government import restrictions.

In 2014, Spain accounted for 37.4 percent of total wine imports. Other countries of origin, which supplied high-quality wines, were: France (with a market share of 23 percent), Chile and Italy (about 17 percent and two percent respectively), among others. Even during times when the Argentine import market was open, the United States share was small due price sensitiveness and lack of marketing campaigns promoting the qualities 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 2014 was $3.00/liter, compared to $2.73 /liter in 2013, due to higher costs in accessories and bottling equipment, transportation and labor. These higher costs translated into increased retail prices in the range of 15 -50 percent. Lower quality, inexpensive wines have had the most difficulty in absorbing the increased costs. Retail prices of most wines range from $15 to over $180. Prices of exclusive wines of limited production vary from $200 to $700.

Stocks:

There is currently an over stock of 200 million liters, as a result of the decrease in domestic consumption and the loss of export markets.

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 foreign 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 tariff increased ranges from 10 percent to 35 percent and threatens an already struggling 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 by a portion 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 are benefitting from an on-going $50 million loan from the Inter-American Development Bank (IDB). The first tranche of this loan concluded in 2014 and it is expected that a second tranche will be established in the near future. 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 an especially difficult year for the Argentine wine industry, the GOA also decided to extend for one more year (until 2016) 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 eighth 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 result directly in 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 the continuation of 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 Waigaogiao 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.

Other helpful information sources:

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)