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Argentina

Wine

Competition Annual

2003

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Report Highlights:
For the second consecutive year grape production in Argentina has been excellent. Good weather conditions in spring 2002 accounted for the superb quality of the CY 2003 grape harvest. Despite financial constraints, an exceptional commercial outlook is forecast for CY 2003. Export volumes for all wine categories are being boosted by a favorable exchange rate and steady international demand. As a result, for the first time in history, wine reserves are likely to remain low as early as May 2004. Export values are not expected to grow as much as volumes due to low international prices. Imports are not expected to recover due to the high exchange rate and the economic recession in Argentina.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Buenos Aires [AR1], AR

Section I: Situation and Outlook

Production

Grape Production

The calendar year (CY) 2003 grape production is estimated at 2,301,000 metric tons (MT), up 2.5% from the CY 2002 crop. Insufficient rainfall during the summer months, a critical season for the development of pests, limited yields but allowed for an excellent grape quality and alcoholic grade which will bring about a supreme wine production in 2003. A total amount of 2,219,300 MT was sent to produce wine and must in CY 2003.

The CY 2002 grape crop yielded 2,244,370 MT, a 9% drop with respect to CY 2001 due to unfavorable whether conditions in October when high humidity caused a fungi attack on clusters. However, local varieties commonly called Criollas were the most affected while high value varieties were not heavily affected.

In CY 2002, 96% of the grape crop, or 2,154,600 MT, went to produce wine and must, the rest went to table grapes and to raisins (2% each). From those grapes delivered to wineries and must manufacturers, 69.6% or 1,500,000 MT were grapes suitable to produce fine wine.

Table 1: Grape production in MT

	CY 2000	CY 2001	CY 2002
Red Grapes	397,398	548,302	642,953
White Grapes	700,617	704,364	598,311
Total	1100015	1254667	1243266

Source: The National Wine Institute

Wine and Must Production

April 2003 production estimates are at 12,695,000 hectoliters (HL) for wine and 4,429,000 HL for must. In Mendoza and San Juan, the two most important producer provinces, 21% and 31% of the grapes went to the production of must. CY 2002 ended with a total wine and must production of 12,695,145 HL and 4,428,300 HL respectively.

Wine growing areas

Although many new production areas are being developed, the perfect dry, sunny climate, soils, and good water for irrigation from the Andes have made Mendoza, in Western Argentina, the main wine-producing area of the country. 70% of the Argentine vineyard area is located in this area. San Juan follows with 31% of the Argentine vine planted area. In 2003, the Province of Mendoza produced 71%, and the Province of San Juan 24%. La Rioja, Salta and Neuquen altogether make up the remaining 6% of the grape production for wine. From the 1,196 wineries registered at the National Wine Institute (Instituto Nacional de Vitivinicultura) only 877 have declared to be currently producing wine.

Consumption

Table wine domestic consumption has continued a declining trend that started in the early 1980's. Domestic consumption of fine wine has been around 9-10 liters/person/year for the last 5 years. Average consumption for all categories increased 30 percent in the first three months of 2003 with respect to the same period in CY 2002.

Table : Argentine per capita wine consumption per category (in liters)

Table 2: Per capita domestic consumption				
Years	Table	Fine	Others	Total
1999	27.64	10.24	0.86	38.74
2000	26.89	10.16	0.69	37.75
2001	26.29	9.4	0.58	36.30
2002	26.21	9.39	0.49	36.09

Source: The National Wine Institute (Instituto Nacional de Vitivinicultura)

In the fine wine segment, red wines are the choice of the Argentine consumer and make up 65% of the total fine wine consumption. Cabernet Sauvignon has been at the top of the list for a long time, but Malvec, a typical Argentine red wine, is being well accepted. Rosé wines are among the least chosen, although Traminer has gained acceptability in Argentina. White wine consumption reached 35% of the total fine wine consumption in CY 2002. Chenin, Chardonnay, Riesling and the local Torrontes are the most popular labels. In the table wine segment, 75% corresponds to white wine, while red and rosé do not exceed 23% and 2% of the consumption respectively.

Sparkling wine consumption has grown in the last years and now makes up approximately18% of the total wine sales with an average $90 million a year market. Also, the wine locally named "Frizante" has performed well among the young population.

Trade

Domestic sales of wines produced in CY 2003 were authorized on June 10, 2003, some days earlier than July 1st, which is the date that has traditionally been imposed by the National Wine Institute. Wine stocks were estimated at 5,515,000 HL in April 2003. Sources in the industry indicate that if the strong demand continues, there is a risk that San Juan province will run out of wine by July 2004. Although Mendoza's production will probably fill San Juan's deficit, there will be little margin if the domestic consumption or the export market expands.

Most of the wineries in Argentina are small, family owned businesses and only about 60 export significant amounts of wine. Argentina is the fifth-largest producer of wine but it did not export high volumes until the 1990s. Most of the production, which reached 90 liters in 1970's, was domestically consumed. While wine exports barely reached $2 million in the early1990s, and the largest Argentine wine producers association estimates exports will reach $130 million in CY 2003.

Export volumes in the period from Jan-May of 2003 grew 130% to 647,500 HL with respect to the same period in CY 2002. This is due to the 355% increase in table wine exports to Russia, South Africa and Paraguay. Fine wine volumes also went up 49% in the first five months of CY 2003. Export volumes are expected to continue to increase in

CY 2003. Reportedly, wine exports are to increase 18% to 1,450,000 HL in CY 2003. Due to the lower price paid for table wine and lower international prices in general, export values did not exceed a 13% ($7,000,000) increase in the period Jan-May 2003.

Table 3: Exports of wine form January to May				
	Jan-May 2002		Jan-May 2003	
Type of wine	Volume (HL)	Value ($)	Volume (HL)	Value ($)
Table	76,059	3,856,130	335,563	7,980,750
Fine	198,223	43,192570	294,595	48,716,140
Sparkling	7,353	4,952,830	6,425	2,245,490
Others	372	1,927	563	103,150
Total	281,635	52,003,457	637,146	59,045,530

South Africa is the main customer for Argentine wine in terms of volume but not in value since most of the shipments to South Africa correspond to inexpensive table wine.

Table 4: Argentine exports volumes (HL) January - May 2003				
Main Importer Countries	Table	Fine	Sparkling	Total
South Africa	89,714	21,982	0	111,696
Paraguay	73,298	0	0	73,298
United Kingdom	0	61,965	1,412	63,377
United States	638	59,341	4,027	64,006
Russia	61,042	18,150	0	79,192
Angola	48,517	0	0	48,517
Japan	17,792	5,996	336	24,124
total	291,001	167,434	5,775	464,210
Others not listed	44,562	127,163	650	172,375
Grand total	335,563	294,597	6,425	636,585

The United States is by far the largest importer of Argentine high value fine and sparkling wines.

Table 5: Argentine wine exports values (U.S. Dollar) January-May 2003				
Main Importer Countries	Table	Fine	Sparkling	Total
United States	301,380	13,452,430	1,583,140	15,336,950
United Kingdom	37,700	9,161,330	245,450	9,444,480
Japan	817,960	940,770	57,040	1,815,770
South Africa	1,226,190	350,400	0	1,576,590
Paraguay	1,421,160	144,010	0	1,565,170
Angola	1,007,140	0	0	1,007,140
Russia	430,810	522,990	0	953,800
Totals	5,242,340	2,457,1930	1,885,630	31,699,900
Others not listed	2,642,820	24,144,210	359860	27,146,890
Grand total	7,885,160	48,716,140	2,245,490	58,846,790

In CY 2002 exports of wine increased 40% to 1,232,131 HL compared with the 877,849 HL exported in CY 2001.

Export values in the same period went down by $20,000,000 as a result of lower international prices and due to the fact that the increase in volume only corresponded to cheap table wine.

Table 6: Exports volumes (HL) of wine calendar year				
Year	2001		2002	
Type of wine	Volume (HL)	Value ($)	Volume (HL)	Value ($)
Table	362,025	21,987,690	643,950	17,748,690
Fine	504,908	120,108,370	574,705	103,393,260
Sparkling	10,917	6,513,500	13,476	7,099,550
Total	877,849	148,609,560	1,232,131	128,241,500

Must Exports also went up in the first five months of CY 2003.

Table 7: Exports volumes of must (HL) calendar year				
	Jan-May 2002		Jan-May 2003	
Type of Musts	Volume (MT)	Value ($)	Volume (MT)	Value ($)
With alcohol	235,521	17,702,000	280,928	19,086,000
Without alcohol	16,759	1,549,000	23,812	1,784,000
Concentrated	252,280	19,252,000	304,740	20,870,000
Sulfate	3,240	47,000	900	9000
Total	507,800	38,550,000	610,380	41,749,000

Imports

Imports in 2003 are expected to continue low due to the unfavorable rate of exchange. Total wine imports decreased abruptly by 93% in 2002 as a result of the 70% peso devaluation in January 2002. Just 2,371 HL of wine were imported in CY 2002. Fine wine and sparkling imports dropped 96% and 95% respectively while must imports went down 97%, making the total imported volume in CY 2002 only 218 HL.

Marketing

The New World Wines Fair will be held on October 1, 2003 in Mendoza. There, wineries from the whole region, including Mexico, Uruguay and Brazil will be present. Bodegas Argentinas, a wine promoting organization that brings together the largest Argentine wineries, is organizing this event.

However, Argentine wine producers, with some exceptions, are inexperienced in international marketing and trade compared with their main competitors. They have not created an affective marketing campaign to increase the brand recognition of Argentine wines. Another factor playing against the worldwide acknowledgment of the Argentine wines is the family nature of the business combined with Argentine's deep-seated individualism which has resulted in weak producer associations. Finally, Argentine wineries spend a small fraction of income on marketing compared with the amount companies in Argentina spend on marketing of soft drinks or beer.

There have been some good examples of small wineries banding together to promote their products jointly. But Argentine wine has only successfully penetrated a few new markets, such as the case of Russia, where the Argentine white wine Torrontes from the province of Salta, has been widely accepted.

In 2002, wineries, farmers, research institutes and universities met to formulate a long-term plan for the sector which was called *Argentina Vitivinicola 2020*. This plan takes into account all the measures needed to enhance exports up to $2,000 million a year, or 10% of the global market by 2020. In this plan the wine business is split in two parts. First, the development of new international markets for typical Argentine varietal wines such as Malvec, Tempranillo and Torrontes. The idea is that in this way, Argentine wine will be distinguished from the rest of new world wine producer countries. Second, the plan encourages the production of new types of wine rich in flavor and oriented to the young population, mainly for the Latin American market. The plan contemplates the domestic market as well. To maintain the quality of the wine marketed domestically will be key in order to keep local consumption high. The development of a larger grape juice export market is also a goal in order to continue to be the biggest grape juice exporter in the world. This will integrate the 8,000 grape producers who do not own wineries.

Another attempt to promote Argentine wine has been the standardization of production. Thus, following a European model, a new marketing strategy proposed by some Argentine wine producers from the region of Lujan de Cuyo in Mendoza, involves promoting the typically Argentine variety Malvec as a market developer. They will utilize the acronym OCD - Origin Controlled Denomination (DOC - Denominacion de Origen Controlada) on the label, and they plan to print the region name over the variety. Wineries in the region of Lujan de Cuyo that want to adopt OCD commit themselves to producing the wine following strict standards: 1) no more than 550 plants per hectare, 2) less than 10 MT of grape production per hectare, 3) the wine must be aged no less than a year in wooden barrels and another in a bottle, 4) the distance among plants must follow specific distances, and 5) the wine must be produced and bottled in the region in which the grapes were grown. Other regions in Mendoza such as San Rafael also have their own OCD.

Two years ago, a law that established a system for protection and registration of the different names of the geographic regions, was given the name "OCD". Three categories were created: Origin Identification (OI) used only for table or regional wines, Geographic Identification (GI), for high quality wines and the OCD for premium wines. According to the National Institute for the Agricultural Research (INTA), there are 11 regions and 18 sub-regions in Argentina where it is possible to establish OCDs.

Prices

Buenos Aires FOB prices in general went down in CY 2003 due to hard competition at international level. Also, importers abroad have insisted on sharing the benefits from the peso devaluation, making the Argentine exporter lower their price expectation in order to maintain foreign markets.

Table 8: wine FOB Buenos Aires prices

Year	2001					2002					2003				
	Table	Prem.	Spark.	Others	Aver.	Table	Prem	Spark.	Others	Aver.	Table	Prem	Spark	Others	Aver.
Jan	$64	$231	$557	$82	$198	$50	$227	$1,03	$241	$388	$24	$168	$334	$0	$132
Feb	$109	$231	$510	$51	$182	$73	$221	$538	$167	$250	$17	$150	$377	$30	$143
Mar	$56	$247	$517	$639	$178	$44	$253	$666	$0	$241	$28	$202	$287	$40	$139
Apr	$53	$240	$832	$542	$176	$38	$230	$743	$49	$265	$23	$151	$399	$256	$207
May	$58	$239	$697	$542	$168	$60	$186	$673	$0	$230	$26	$157	$299	$38	$130
Jun	$65	$220	$841	$287	$141	$50	$202	$349	$82	$171					
Jul	$62	$264	$584	$99	$156	$40	$181	$226	$223	$167					
Aug	$54	$234	$610	$96	$172	$15	$193	$476	$79	$191					
Sep	$59	1906	$525	$640	$186	$17	$134	$310	$73	$134					
Oct	$54	$245	$576	$0	$162	$26	$141	$299	$54	$130					
Nov	$50	$227	$559	$1,66	$167	$32	$167	$337	$41	$145					
Dec	$61	$252	$569	$0	$166	$21	$144	$357	$78	$150					

Investments

Industry sources reported a 25 million dollar total investment in CY 2003. The main foreign companies in the Argentine wine industry include the following: the Austrian design house Swarkovsky, British drinks conglomerates Allied Domecq and Diageo, the French Pernod Ricard and LVMH Chandon, the Chilean firm Concha y Toro, and Kendall Jackson from the U.S. These firms invested in technology that has helped transform the sector from a producer of cheap table wines to higher quality varietals such as Argentina's signature red wine, Malvec.

Argentina's wine sector still holds a great deal of promise and is expected to grow in CY 2003. Foreign companies continue to invest cautiously in their already-existing operations and are looking to expand their landholdings. The French and British firms are using their foreign marketing and distribution machinery to penetrate the international market with their Argentine wines.

Varieties

The excellent weather conditions in Argentina have allowed for the production of more than 50 grape varieties. Among them, Cabernet Sauvignon, Malvec, Merlot, Bonarda, Syrah and Tempranillo are the most planted in the red range and Chardonnay, Chenin, Torrontes Riojano, Ugni Blanc, Pedro Gimenez, for white wine. Table wine varieties represent 29% of the processing grapes. They are Criolla Grande, Cereza, Muscatel Rosado, Gibi and Bequignol.

Other wines

Premium Wine

Premium wine is produced in so called boutique wineries. Although the definition of a boutique winery is unclear, the winery's production scale in terms of the number of bottles a winery produces a year seems to be the key factor for a wine to be called premium. The idea behind this is that the lesser volume a winery produces the better the production process can be controlled. Some wineries say that to be a boutique winery, production can not be larger than 30,000 bottles a year. However, others think that the maximum limit could reach the 200,000 bottles a year. Nearly 100 Boutique wineries exported $75 million in 2002. In CY 2003, 25 new boutique wineries are expected to join this kind of production.

Sparkling wine

Sparkling wine in Argentina has a $180 million market. This market is shared by 12 or so wineries but only a handful own the super-premium and premium segment.

Table 9: Sparkling wine market			
Type	Number of bottles (2002)	Price ($)	Main wineries
Super-premium	320,000	6	Chandon 87%
Premium	6,500,000	3-6	Chandon 70%-Allied Domecq 15%
Standard	14,900,000	3	A number of wineries share this segment of the market.

Kosher wine

The Borbone winery, under the brand Ikvei Shelomo, and under supervision of the Kosher supervision Unit, produced 250 HL of Kosher wine with Bonarda grapes. This 23º brix wine is produced in stainless containers. This is the first year this kind of wine is produced in Argentina and it is expected to be a success. Many other wineries are willing to follow Borbone in the coming year.

Youth-oriented wine

In the mid 1990's wine consumption was dropping at a rate of 5% per year and beer became the most popular drink amongst the young Argentine population. In 1996 the Bianchi family started a project to offset that trend. *New Age* was the name given to the first "Frizante" wine produced in Argentina. This white sparkling wine is sweet and fruit-flavored and it is popular with many young Argentines. *New Age* sales have been growing at 30% a year, and it covers 60% in volume of this market segment which has a total market of 30,000 HL worth $9 million. Other wineries followed the idea and now Chandon, Catena, Peñaflor, Trapiche and Flichman produce a similar wine to compete with New Age. Young professionals and women of all ages in Argentina are the main consumers of this kind of wine, and its market has grown at 10% a year. In 1998, "Frizante" wines covered only 4.6% of the market within the segment of the white fine wines of $2-3 a bottle. Today its participation has reached 14% within that segment of the market.

Policy

Argentina's 60-70% peso devaluation in early 2002 benefitted only those 60 or so wineries who were already in the export business making their income increase by threefold in the beginning of 2002. Although imported inputs such us corks and pesticides pull the equation downwards, main production cost components such as labor have remained unchanged. This favorable situation slowly changed at the end of 2003 as transportation and labor costs started to increase. Another economic measure that benefitted the sector was the "pesification" which turned all debts that had originally been taken in dollars into pesos. As a consequence, banks and suppliers were the great losers of this governmental move.

Unfortunately, the positive effects brought about by the devaluation and the pesification of the debts were upset by two strong negative effects, namely recession and lack of credit. For those who did not have export capacity and served the domestic market, the outcome of the economic changes was terribly negative. Furthermore, as credit from either banks or suppliers was interrupted for everyone, small producers were the most affected . For this type of the producer, high value imported inputs impacted heavily on their production cost while income remained at the same level. At time of this report's release, 18 months after the crisis began, many wineries still do not have access to trade financing or other forms of credit. As a result, some high quality wines went to market with no labels in early 2002.

Import and Export regulations

Argentina's tax system is another factor that hinders exports of wine. A five percent export tax was imposed in February 2002. Although the government has called this is a temporary measure, industrial sources believe otherwise. This tax must be paid in cash upon embarkation, and is an incentive to under-invoice. Exporters who pay value added tax (VAT) on all purchases from suppliers are supposed to have those payments reimbursed upon export. However, the government has delayed these reimbursements for nearly a year.

Imports tariffs remain at 21.5%. In addition, the restrictive effect of the peso devaluation (that took the dollar from one Argentine peso to 2.8, at present) on imports of wine has resulted in the abrupt reduction of foreign wine on supermarket and wine shops shelves. The 0.5% statistical tax is still effective.

Labeling

Labels of imported wines can be the same as the country of origin label, but additional information must be on a different label with the following statements on it:

- Type of wine according to the Argentine regulations such as fine, table, sparkling, etc (this requirement will expire in January 2004).
- Wine color (red, white, rose)
- For sparkling wines sugar content must be specified as follows:
    - Natural (up to 3 grams of sugar per liter)
    - Extra Brut (between 3 and 8 grams per liter)
    - Brut (between 8 and 20 grams per liter)
    - Sec (between 15 and 20 grams per liter)
    - Demi Sec (between 20 and 60 grams per liter)
    - Sweet (more than 60 grams per liter)
    - Country of origin
- Name and address of the importer
- Importer registration number at the National Wine Institute (INV) Register.
- Container (bottle) capacity expressed in centiliters, milliliters or cubic centimeters.
- Alcoholic grade expressed in percentage of the volume.
- Number of the analyses of free sale. This can be requested in advance in order to allow the printing out in origin.
- The following health statement must be printed on the label: "drink with moderation"(Beber con moderación) "Sale prohibited to minors under 18 years old"(Prohibida su venta a menores de 18 años).

Section II: Statistical tables

PSD Table						
Country	Argentina					
Commodity	Wine				(1000 MT)(1000 HL)	
	2000	Revised	2001	Estimate	2002	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2001		01/2002		01/2003
TOTAL Grape Crush	2398	2398	2157	2155		2219
Begin Stock (Ctrl App)	0	0	0	0		0
Begin Stock (Other)	18369	18369	21284	21284		21270
TOTAL Beginning Stocks	18369	18369	21284	21284	20914	21270
Prod. from Wine Grapes	15835	15835	12150	12695		12695
Prod. from Tabl Grapes	0	0	0	0		0
TOTAL PRODUCTION	15835	15835	12150	12695	0	12695
Intra-EU Imports	0	0	0	0	0	0
Other Imports	22	22	10	23		20
TOTAL Imports	22	22	10	23	0	20
TOTAL SUPPLY	34226	34226	33444	34002	20914	33985
Intra-EU Exports	0	0	0	0	0	0
Other Exports	867	867	1030	1232		1450
TOTAL Exports	867	867	1030	1232	0	1450
Dom.Consump(Cntrl App)	0	0	0	0	0	0
Dom.Consump(Other)	12075	12075	11500	11500		12500
TOTAL Dom.Consumption	12075	12075	11500	11500	0	12500
End Stocks (Cntrl App)	0	0	0	0	0	0
End Stocks (Other)	21284	21284	20914	21270	0	20035
TOTAL Ending Stocks	21284	21284	20914	21270	0	20035
TOTAL DISTRIBUTION	34226	34226	33444	34002	0	33985

Export Trade Matrix			
Country	Argentina		
Commodity	Wine		
Time period	CY	Units:	HL
Exports for:	2001		2002
U.S.	124689	U.S.	138383
Others		Others	
South Africa	0	South Africa	367522
United Kingdom	130751	United Kingdom	120673
Russia	4228	Russia	94977
Paraguay	216820	Paraguay	86442
Japan	51357	Japan	45447
Brazil	24696	Brazil	39576
Germany	39338	Germany	37321
Netherlands	37222	Netherlands	36142
Denmark	24696	Denmark	32222
Canada	30042	Canada	26817
Total for Others	559150		887139
Others not Listed	194010		206609
Grand Total	877849		1232131

Import Trade Matrix			
Country	Argentina		
Commodity	Wine		
Time period	CY	Units:	HL
Imports for:	2001		2002
U.S.	78	U.S.	0
Others		Others	
Spain	2913	Spain	740
Germany	3383	Germany	406
Chile	44485	Chile	577
Portugal	270	Portugal	193
France	11703	France	135
Italy	1499	Italy	21
Total for Others	64253		2072
Others not Listed	811		300
Grand Total	65142		2372

Prices Table			
Country	Argentina		
Commodity	Wine		
Prices in	Dollar FOB	per uom	HL
Year	2001	2002	% Change
Jan	198	388	95.96%
Feb	182	250	37.36%
Mar	178	241	35.39%
Apr	176	265	50.57%
May	168	230	36.90%
Jun	141	171	21.28%
Jul	156	167	7.05%
Aug	172	191	11.05%
Sep	186	134	-27.96%
Oct	162	130	-19.75%
Nov	167	145	-13.17%
Dec	166	150	-9.64%
Exchange Rate	2.8	Local currency/US $	