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Chile

Wine

Annual

2004

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Report Highlights:
A smaller but excellent quality wine production is expected in 2004, with another expansion in exports. Wine producers expect to increase both foreign and domestic sales as a result of a second year in a row of good quality production. Fewer table grapes will be used in wine production, as larger amounts of grapes for premium wine become more available.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Santiago [CI1]
[CI]

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Executive Summary

Chile's wine production is expected to be smaller then last year, in spite of large newly planted areas and the replacement of existing vines with improved varieties, which are coming into production. Abnormal weather in some production areas (frost and rain) affected the 2004 harvest in quantity but not in quality. The quality of both red and white wines is expected to be excellent.

Chile has an estimated 8,000 producers of wine grapes. The wine industry has expressed some concerns about the explosive increase in the planted area during the last few years. Total planted area has increased over 70 percent in the last 7 years. Industry sources indicate that once the new areas come into production, wineries will have to invest in new processing and storage facilities to absorb the annual additional output.

Planted Area

Chile's Ministry of Agriculture's new estimate of total planted area of vines for wine is 111,000 hectares. Out of the total planted area, around 76 percent are red varieties (20 red varieties, of which almost half are Cabernet Sauvignon). Also, close to 75 percent of all planted area is irrigated. New vineyards are still being established, and existing operations continue to expand and/or replant to varieties in high demand. As a result, Chile's total volume of exportable wine is expected to continue to expand in the coming years.

The number of wineries has increased from 25 to over 120 in the last ten years. The established wineries are increasingly concerned that growth in planted area in Chile and in other countries will lead to a fall in international prices due to excess-production. The industry's strategy, therefore, is to develop premium quality and reserve wine exports, while reducing sales of bulk wine. This strategy has begun to be implemented with the replanting of vineyards with distinctive varieties suited to local climatic and soil conditions. Chile's wineries also are expected to reduce the use of surplus table grapes, as their own production of wine grapes increases.

Production

Wine production in MY 2003 (Jan-Dec, 2003) increased significantly when compared to last year, as a result of a significant increase in the harvested area and excellent weather conditions. Good weather was also responsible for the excellent quality of grapes harvested in most areas for white wines. Some rain in the summer and fall, allowed an ample temperature variation that also resulted in an excellent harvest for the red varieties.

Wine production in MY2004 (Jan-Dec, 2004) also is expected to be of high caliber in terms of quality. Chile's grape harvest was earlier and reportedly smaller than usual this year, but the weather was excellent in most growing areas. There are high expectations for top quality wine production, because the grapes reached maturity earlier than usual this year. A hot dry summer made the grapes ripens faster than normally, reportedly producing a smaller, thick-skinned fruit with a more concentrated flavor. Winemakers say that 2004 will be a vintage to remember for its quality.

As production of higher quality wine increases, as a result of an expansion in planted area of improved wine varieties, the use of table grapes for wine production is expected to continue to decline.

Table 1: Chile - Wine Production, Consumption and Exports					
				Exports	
	Area Planted (Th. Has)	Production (Mill. Ltr.)	Per Capita Consumption	Mill. Ltr.	Mill. US$
1982	105	603	52	8	11
1988	66	423	35	17	22
1989	66	390	30	29	35
1990	65	398	25	43	52
1991	62	292	22	65	85
1992	62	370	17	74	119
1993	62	486	13	87	128
1994	53	411	13	111	143
1995	54	385	15	130	182
1996	56	481	16	185	294
1997	63	536	16	224	428
1998	75	547	17	251	540
1999	85	481	19	240	534
2000	104	679	15	276	585
2001	107	580	15	299	600
2002	109	574	15	356	610
2003	109	687	16	402	680
2004 1/	111	633	17	442	750
1/ FAS Forecast					
Source: National Agricultural Society (SNA) and Central Bank.					

Trade

Chile's wine exports for MY 2004 are projected to continue to grow, as foreign demand for good quality, low priced wine remains strong. According to industry sources, new markets, such as China and India, are expected to be an important factor for further expansion of exports. Improvements in quality and continued low prices also are expected to spur overseas demand.

Chile traditionally exports both bottled and bulk wine. Although an increasing number of wineries are making a big effort to increase premium bottled wine exports, low quality bulk wine grew nearly three times as fast as bottled wine in 2003. Nevertheless, bottled wine represented 60 percent of total wine exports. 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.

High wine stocks together with a fall in domestic wine prices are the main reason for a continuous decline in wine imports. Wine imports from Argentina are mainly lower quality wine in tetra pack cartons and/or bulk. U.S. wine is also available, usually in premium outlets. However, demand is dampened by prices well above the local market average. The tariff rate for U.S. and other wine imports 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. The FTA agreement with the US is expected to only have a limited effect on wine export volumes to the US, as the duty for most wine is 6.3 cents per liter and is scheduled to be phased out over 12 years.

Table 2: Chile - Wine Export Prices
(FOB current US$ per Hectoliter)

Years	**Sparkling Wine**	**Bottled Wine**	**Other**	**Average**
1990	236	143	42	111
1992	239	184	76	161
1994	246	172	49	129
1996	252	239	79	159
1997	262	261	108	191
1998	269	282	119	215
1999	233	290	108	223
2000	247	289	91	228
2001	247	286	63	189
2002	260	241	51	171
2003	264	246	55	169

Source: Central Bank of Chile

Table 3: Chile - Real Domestic Farm Gate Wine Prices (CH$ Per Liter)							
1981	1985	1990	1995	2000	2001	2002	2003 1/
194	104	108	161	368	110	148	196
Exchange rate: US$1.00 = CH$608							
1/ Price are in April 2004 Chilean pesos.							
Source: ODEPA (Ministry of Agriculture).							

Stocks

Stock figures in the PS&D include wine, which is in the aging process for both the domestic and export market. Stocks have been increasing in recent years, as domestic sales and exports have not kept pace with the increase in production due to an explosive increase in planted area. A small decline in stocks is expected in 2004, as the rate of production will expand less than the rate of increase in exports and domestic consumption.

Policy

Wine production and exports are regulated and certified by the Agric ulture 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 "Flavors of Chile" that includes wine.

PSD Table							
Country	**Chile**						
Commodity	**Wine**						
	2001	**Revised**	**2002**	**Estimate**	**2003**	**Forecast**	**UOM**
	USDA Official [Old]	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
TOTAL Grape Crush	0	0	0	0	0	0	(1000 MT)
Begin Stock (Ctrl App)	0	0	0	0	0	0	(1000 HL)
Begin Stock (Other)	5652	5652	5708	5709	0	5902	(1000 HL)
TOTAL Beginning Stocks	5653	5653	5709	5709	5524	6012	(1000 HL)
Prod. from Wine Grapes	5385	5385	5500	6595	0	6060	(1000 HL)
Prod. from Tabl Grapes	358	358	340	274	0	270	(1000 HL)
TOTAL PRODUCTION	5743	5743	5840	6869	0	6330	(1000 HL)
Intra-EU Imports	0	0	0	0	0	0	(1000 HL)
Other Imports	26	26	25	7	0	7	(1000 HL)
TOTAL Imports	26	26	25	7	0	7	(1000 HL)
TOTAL SUPPLY	11422	11422	11574	12585	5524	12352	(1000 HL)
Intra-EU Exports	0	0	0	0	0	0	(1000 HL)
Other Exports	3561	3561	3800	4021	0	4420	(1000 HL)
TOTAL Exports	3561	3561	3800	4021	0	4420	(1000 HL)
Dom.Consump(Cntrl App)	0	0	0	0	0	0	(1000 HL)
Dom.Consump(Other)	2152	2152	2250	2552	0	2685	(1000 HL)
TOTAL Dom.Consumption	2152	2152	2250	2552	0	2685	(1000 HL)
End Stocks (Cntrl App)	0	0	0	0	0	0	(1000 HL)
End Stocks (Other)	5709	5709	5524	6012	0	5244	(1000 HL)
TOTAL Ending Stocks	5709	5709	5524	6012	0	5244	(1000 HL)
TOTAL DISTRIBUTION	11422	11422	11574	12585	0	12352	(1000 HL)

Export Trade Matrix			
Country	**Chile**		
Commodity	**Wine**		
Time Period	Jan-Dec	**Units:**	HL
Exports for:	**2002**		**2003**
U.S.	313119	U.S.	529711
Others		Others	
U.K.	602944	U.K.	665934
Canada	306562	Germany	440766
Germany	292381	Canada	329785
Argentina	260833	Denmark	302985
Denmark	253474	China	291125
China	231820	France	160080
France	148984	Japan	136038
Sweden	127958	Netherlands	121574
Japan	121702	Sweden	112421
Netherlands	95736	Ireland	101554
Total for Others	2442394		2662262
Others not Listed	805006		829263
Grand Total	3560519		4021236