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Report Highlights:

A larger and good quality wine production is expected in 2005, with another expansion in exports. Wine producers expect to increase foreign and domestic sales as a result of a larger and good quality production. An increased number of table grapes will be used in wine production again in MY2005, as wineries intend to increase total wine production to reverse diminishing stocks. Industry sources have indicated 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.

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Executive Summary

Chile's wine production is expected to rebound in MY 2005 after a 5 percent fall observed in 2004. Unfavorable weather together with restrictive measures taken by the largest wineries affected total wine output in MY2004. Rising wine prices, strong export demand and good weather in most growing areas are responsible for a forecasted record grape and wine production in MY 2005.

Chile has an estimated 8,000 producers of wine grapes. The explosive expansion in the planted area during the last few years resulted in an expansion of over 70 percent in the planted area during the last 7 years. Industry sources have indicated 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

Due to the excellent prices obtained by farmers during the last two years for their wine production, new vineyards are being established, and existing operations continue to expand and/or replant to varieties in high demand. As a result the Ministry of Agriculture's new estimate of total planted area of vines for wine is now 113,000 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. 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 wine industry in Chile is concerned that growth in planted area in other countries and in Chile will eventually lead to a fall in international prices due to excess-production. As a result, the industry's strategy is to develop premium quality and reserve wine for 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 2004 (Jan-Dec, 2004) fell, mainly as a result of unfavorable weather conditions in the most important production areas together with restrictive measures applied by the largest wine makers. Lower than normal temperatures during spring together with a lack of sunny days (low luminosity) produced a delay in budding and flowering that affected final volumes of production. Additionally, most wine makers, in an effort to reduce production to improve quality, increased pruning of grape bunches which reduced production. The reduction in production is expected to reduce stocks and improve prices in the coming years. For MY 2005, a significant increase in production is expected, as weather has been more favorable than last year and wine makers have stopped pruning grape bunches. As a result total output is expected to exceed record volumes harvested in 2003. Some rain early this fall reportedly will not affect the quality or volume of this year's output.

Industry sources believe that as production of higher quality wine increases, due to an expansion in planted area of improved wine varieties, the use of table grapes for wine production will decline. However, in MY 2005, the industry reportedly processed considerably larger amounts than last year of table grapes for wine production in an effort replenish their stocks.

Production Factors

A recent study done by the Chilean Wine Corporation was released describing the stage of development of the Chilean wine industry. Over 46 percent of wine storage containers at wineries are made of stainless steel, which shows a high technological development standard for the wine industry. Additionally 39 percent of the wineries use oak barrels, French or American, for an average of 3 to 5 years, which is the normal time used generally by the industry. 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. An estimated 16 percent of the industry did not answer the inquiries.

Table - 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
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
2001	107	580	15	299	600
2002	109	574	15	356	610
2003	109	687	16	402	680
2004	111	653	16	475	845
2005 1/	113	731	17	523	930
1/ FAS Forecast					
Source: National Agricultural Society (SNA) and Central Bank.					

Organic Wine

Organic wine production in Chile is in the early but growing stage of development, according to industry sources. Presently, less than 2,000 out of a total 113,000 hectares of vines are planted for organic wine production. The development of organic production is as a response

to a potential market that exists mainly in Europe and the US. There are two categories of organic wine produced in Chile, the so-called "organic wine" for which organically produced grapes are used and the wine making process follows the organic regulations, and "wine produced with organic grapes" for which organic grapes are used but the wine making process is conventional. A larger number of red rather than white varieties are used for organic wine production. There are presently 32 companies producing organic wine in all of the wine production regions in Chile. Some market studies show that although organic wine may receive a higher price, it generally does not exceed 10 percent of the price of conventional wines. Thus this modest price differential could be a limiting factor for further expansion of organic wine production. Although the organic wine market is still undeveloped, in the domestic market it can be purchased in specialty wine stores, supermarkets and restaurants.

Consumption

Total domestic wine consumption in Chile is more or less stagnant. Statistics shows that average per capita consumption fell over 70 percent from a high of 52 liters per person in 1982 to only 13 liters in 1994. However, since then, per capita consumption has been slowly expanding, it is presently 16 liters per person. There are no statistics available that show if a larger availability of low priced premium wines is helping to increase domestic consumption.

Trade

Chile's wine exports for MY 2005 are projected to continue to grow, as foreign demand for good quality, low priced wine remains strong. According to industry sources, Chile has become the tenth largest wine producer and fifth largest exporter in the world. New developing markets, like China, 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, bulk wine grew faster almost 50 percent faster than bottled wine in 2004. Nevertheless, bottled wine represented close to 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.

Table - Wine Export Volumes (HL)			
Kind / Year	2002	2003	2004
Sparkling	7,856	7,934	11,323
Bottled	2,248,624	2,402,569	2,759,664
Bulk	1,304,038	1,610,733	1,974,820
TOTAL	3,560,518	4,021,236	4,745,807

Overall wine export volumes continue to rise and they reached a record figure of 4.7 million HL in 2004, an 18 percent increase over the previous year. In value, the expansion exceeded 24 percent, reflecting an overall 5 percent increase in average export prices from 2003 to 2004. Industry sources believe the increase in the average export price reflects an improvement in the quality of the wine being exported.

Table - Wine Export Values (Thous.US\$ FOB)			
Kind / Year	2002	2003	2004
Sparkling	2,044	2,094	3,007
Bottled	541,791	589,868	713,269
Bulk	66,205	88,070	128,894
TOTAL	610,040	680,032	845,170

Table - Wine Export Prices (FOB current US\$ per HL)			
Kind / Year	2002	2003	2004
Sparkling	260	264	266
Bottled	241	246	258
Bulk	51	55	65
Average	171	169	178

Chile's main export market for wine continues to be the EU, US and China. The industry has decided to focus its marketing activities, on expanding exports to the Asian markets. Less than 10 percent of total exports go to that market, but deliveries to this market grew close to 40 percent last year, according to "Wines of Chile", a public-private organization created to promote Chilean wine exports (see policy section).

Table - Wine Exports by Country of Destination						
	Quantity (1000 Hectoliters)			Value (Thousand US dollars)		
	2002	2003	2004	2002	2003	2004
U.K.	602.9	665.9	840.1	118,002	127,835	159,262
U.S.	548.5	529.7	578.6	130,460	126,012	145,003
Germany	292.4	440.8	539.3	30,107	41,134	55,060
Denmark	253.5	303.0	336.2	31,008	42,300	50,850
Canada	328.9	329.8	331.0	38,029	43,800	48,865
China	231.8	291.1	304.2	10,713	13,427	19,744
France	149.0	160.1	206.1	14,305	16,035	17,960
Japan	121.7	136.0	173.9	28,258	28,108	39,021
Netherlands	95.7	121.6	150.7	20,766	26,111	32,843
Ireland	91.0	101.6	120.8	26,776	30,156	36,517
Brazil	62.5	76.3	116.4	12,005	17,047	25,386
Others	800.6	865.3	1048.5	149,611	168,067	265,509
TOTAL	3560.5	4021.2	4745.8	610,040	680,032	845,170

Wine is mainly imported from Argentina in tetra pack cartons and/or bulk to supply the domestic demand for lower quality wine. 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 all 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 Chilean 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. In the case of US wine exports to Chile, the 6% tariff will remain at base rate until 2010. Beginning January 2011 duties will be reduced by 3.3%. Beginning January 2012, duties will be reduced by 21.7 %. Beginning January 2013, duties will be reduced by 40.0 %. Beginning January 2014, duties will be reduced by 58.3 %. Beginning January 2015, duties will be reduced by 76.7 % . Wine can enter duty free in 2016.

Stocks

Stock figures in the PS&D table include wine that is in the aging process for both the domestic and export market. A significant fall in production in MY 2004, together with increased exports, explains the drop in wine stocks. Most large wineries have increased the farm gate wine prices in an effort to increase wine production among small producers and

reverse a further fall in stocks. Another decline in stocks is expected in 2005, as the rate of production will expand less than the rate of increase in exports.

Table - Real Domestic Farm Gate Wine Prices (CH\$ Per Liter)							
1981	1985	1990	1995	2000	2002	2003	2004 /1
199	107	111	165	379	153	202	264
Exchange rate: US\$1.00 = CH\$580							
1/ Prices are in April 2005 Chilean pesos.							
Source: ODEPA (Ministry of Agriculture).							

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 composed of both the Wine Producers Associations in Chile, Vinos de Chile and Chilevid. Their annual budget is \$6 million, which is less than 1 percent of the total value of Chile's bottled wine exports last year. 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 their offices and activities in London, Germany and the US. The remainder is spent on promotional activities in Canada, Ireland, Korea and Japan. 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.

PSD Table							
Country	Chile						
Commodity	Wine				(1000 MT)(1000 HL)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	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)	5708	5709	0	6001	0	5244	(1000 HL)
TOTAL Beginning Stocks	5709	5709	5524	6001	0	5246	(1000 HL)
Prod. from Wine Grapes	5500	6595	0	6284	0	6912	(1000 HL)
Prod. from Tabl Grapes	340	274	0	249	0	400	(1000 HL)
TOTAL PRODUCTION	5840	6869	0	6533	0	7312	(1000 HL)
Intra-EU Imports	0	0	0	0	0	0	(1000 HL)
Other Imports	25	6	0	5	0	5	(1000 HL)
TOTAL Imports	25	6	0	5	0	5	(1000 HL)
TOTAL SUPPLY	11574	12584	5524	12539	0	12563	(1000 HL)
Intra-EU Exports	0	0	0	0	0	0	(1000 HL)
Other Exports	3800	4021	0	4746	0	4983	(1000 HL)
TOTAL Exports	3800	4021	0	4746	0	4983	(1000 HL)
Dom.Consump(Cntrl App)	0	0	0	0	0	0	(1000 HL)
Dom.Consump(Other)	2250	2562	0	2547	0	2598	(1000 HL)
TOTAL Dom.Consumption	2250	2562	0	2547	0	2598	(1000 HL)
End Stocks (Cntrl App)	0	0	0	0	0	0	(1000 HL)
End Stocks (Other)	5524	6001	0	5246	0	4982	(1000 HL)
TOTAL Ending Stocks	5524	6001	0	5246	0	4982	(1000 HL)
TOTAL DISTRIBUTION	11574	12584	0	12539	0	12563	(1000 HL)

Export Trade Matrix			
Country	Chile		
Commodity	Wine		
Time Period	Jan-Dec	Units:	HL
Exports for:	2003		2004
U.S.	529711	U.S.	578583
Others		Others	
U.K.	665934	U.K.	840156
Germany	440766	Germany	539312
Canada	329785	Denmark	336204
Denmark	302985	Canada	331029
China	291125	China	304152
France	160080	France	206070
Japan	136038	Japan	173886
Netherlands	121574	Netherlands	150663
Sweden	112421	Ireland	120800
Ireland	101554	Brazil	116449
Total for Others	2662262		3118721
Others not Listed	829263		1048504
Grand Total	4021236		4745808