A NEW LATITUDE APPROACH TO WINE

Brazil's emerging economy, the world's tenth largest, is an exciting place to be. While many European producers eye the country's 190 million inhabitants as a potential market, Brazil has created a wine industry with the potential to become a major player, and perhaps even a net exporter, finds Alfredo Herviás y Mendizábal.

The Brazilian viticultural industry is centred in the country's southern state of Rio Grande do Sul (RS), home to just over 90% of domestic production. The remaining 10% is divided among nine other states, mostly in the northeast. There, and in particular in the Vale do São Francisco, along with a few municipalities of Minas Gerais, estates are able to harvest two crops a year.

Production in RS is in the hands of 12,829 properties growing vines on nearly 40,000 hectares and 620 winemaking companies. The largest include Bacardi Martini of Brazil, Cia Vinícola Aurora, Cave de Amadeu, Miolo, Salton and Casa Valduga.

Total grape production in 2005 was 493m kilos, 422m of which were essentially table grapes, with only 70m kilos coming from vineyards planted with vinifera stock. Overall wine production totalled 325m litres, of which 271m litres were wine, light wine and liqueur wine. Those numbers clearly indicate that the production of high quality grapes remains far below Brazil's production capacity and needs. Winemaking is still in its infancy, but growing fast.

The municipality of Flores de Cunha tallied the highest production in 2005, with a total of 91m litres, followed by Bento Gonçalves with 55m, Caxias do Sul with 28m and São Marcos with 19m litres. These are the four major wine producing regions in the state.

Wine market

In 2003, when the last statistics were made available, Brazilians consumed an average of 1.75 litres of wine per head, with the states of São Paulo and Rio de Janeiro accounting for 50% of the entire volume. Most wine is bought and drunk in the two capitals. So, although there is no official data, actual wine consumption in the cities of Rio de Janeiro and São Paulo, excluding the surrounding country, is estimated to be closer to 10 or 12 litres per inhabitant.

1 Benchmark Data	www.br
Inhabitants:	190m
GDP nominal:	$1,067 billion
Currency:	Real (100 BRL = $52.23/€37.68)
Per head consumption:	1.75 litres
Total consumption:	297m litres
Vineyard area:	77,987 hectares
Total production:	270m litres
Legal drinking age:	18

Although there is no concrete data, it is estimated that approximately 80% to 85% of all wine sold in Brazil is red and not white, as one might expect in such a warm, tropical country, which is principally due to campaigns that have promoted the overall health benefits of red wine consumption.

In Brazil, peak demand occurs in the winter months from May to July, at Easter and during the Christmas period. The latter two periods of Christmas and Easter account for 30% and 35% of total volume, respectively.

While the profile of the traditional wine consumer is a person between 30 and 65 years of age, younger consumers between the ages of 25 and 30 belonging to the upper class drink more imported wine and this group's consumption is rising.

Higher quality imports

Overall, more men drink still wine with women preferring sparkling and Champagne. Even so, 65% of the purchases made at large retail outlets are done by women. Further, as Brazilian consumers become more interested in higher quality, imported wine is showing real potential for significant growth. With a stable foreign exchange rate and further economic growth predicted, analysts expect the base of wine consumers in Brazil will consolidate and the number of new consumers increase.

As elsewhere, price is the decisive factor. The uncertainty resulting from a lack of product knowledge also leads most consumers to prefer brands. Nonetheless, because wine is largely associated with tradition, the origin and source is still very important.

Consumer decisions are, not surprisingly, greatly influenced by the occasion. Special festivities such as anniversaries, weddings or even weekends are often celebrated with wine. In São Paulo, wine consumption reaches its peak on Sunday. That is the day the city's inhabitants traditionally eat pizza at Italian restaurants. Sommeliers also play an important role as opinion makers.

Internal production is not sufficient to meet consumer demand and imported wine is a rapidly growing part of the market. In 2006, Brazilian table wine imports rose by 25.8% in volume and 39.8% in value, due largely to the dollar's slide against the real and the performance of imports in the month of December.

Chile tops the charts

Brazil imported 45.3m litres of table wine worth $118m in 2006. The main suppliers were Chile, Argentina, Portugal, Italy and France, which together accounted for 95% of all imports in both value and volume, up from 92.7% in 2005.

Over the years, Chile has consolidated its position as the main supplier of table wine to Brazil. Further, there is more commitment by consumers to higher quality wine segments. In 2006, Chilean exports rose 31.8% in volume and 44.2% in value over 2005, reaching 14.59m litres worth $36.64m and a market share of some 32%.

Argentina remains in second place. While volume rose 10.8% from 10.6m litres in 2005 to 11.7m litres in 2006, value increased by 19.7%. At the same

WINE PRODUCTION IN BRAZIL

by Andrew Catchpole

While keeping an eye out for the alligators that occasionally shimmy out of the river and nip at vineyard workers, I'm struck yet again by the complexities of making quality wine in Brazil. This is the Sâo Francisco Valley in the parched sub-tropical interior of the Pernambuco region in the northeast, where vinifera grapes deliver five vintages every two years unless controlled through strict cycles of irrigation. The winemakers I meet say it's a region of exiting new possibilities compared with the Rio Grande do Sul in the deep south, where 90% of Brazil's wine is traditionally made.

There is much talk about Brazil being a New Latitude country, not least by international companies like Chandon Estates (Moët), Cinzano-Martini, Seagram, Remy Martin and others that invested here recently. But 'New Latitude' doesn't begin to describe either the diversity of Brazil's climatic regions, nor the paucity of areas suitable for vinifera cultivation. This is a country approaching the size of China, stretching from 5° north of the equator to 33° south. Brazil encompasses the tropical Amazon basin, the desert plains of the sertao and the huge average rainfalls of the verdant south. But nowhere does it have a Mediterranean climate or dry rain shadow zone of the type that produces results in Argentina or Chila.

Nonetheless, Brazil's population has traditionally been a thirsty one and since 1532, when the first cuttings brought from Madeira were planted at Santos, it has developed viticulture. From the old Jesuit Missionaries who cultivated vines in the Missoes or mission region in the south, by way of large Portuguese immigration in the 1700s, to the Italian settlers of the 1800s and, later, the significant German arrivals to the south, a trade was built up to satisfy the domestic market and, more recently, exports to the United States and Europe.

Foreign expertise, such as the multinational joint projects, plus a growth in modern know-how among indigenous producers, along with greater understanding of how to deal with vines growing under Brazil's various conditions, have borne fruit. Labels such as Miolo and the sparkling Amadeu show the quality that can be achieved, as do the fruit-driven, £5 entry level Rio Sol Shiraz and Cabernet Sauvignon wines produced in Pernambuco. In fairness, work has also only just begun in the vineyards, but now is an exciting time to watch what can be achieved.

1 Evolution of exports to Brazil from 2004 to 2006

	Jan-Dec 2004		Jan-Dec 2005		Jan-Dec 2006				Change 06-05	
	US$ FOB	'0000 Litres	US$ FOB	'0000 Litres	US$ FOB	Value Share	'0000 Litres	Volume Share	Value	Volume
Chile	22,121	10,730	25,414	11,072	36,643	31.0 %	14,593	32.2 %	44.2 %	31.8 %
Argentina	17,142	10,203	21,523	10,597	25,764	21.8 %	11,745	25.9 %	19.7 %	10.8 %
Portugal	11,778	4,090	14,512	5,005	18,846	16.0 %	5,865	12.9 %	29.9 %	17.2 %
Italy	11,853	5,832	11,136	5,798	16,994	14.4 %	7,985	17.6 %	52.6 %	37.7 %
France	6,168	2,089	5,731	1,605	10,442	8.8 %	2,485	5.5 %	82.2 %	54.8 %
Spain	2,090	603	2,487	493	4,280	3.6 %	950	2.1 %	72.1 %	92.7 %
Uruguay	1,089	661	924	474	1,440	1.2 %	693	1.5 %	55.8 %	46.2 %
South Africa	661	303	775	343	1,164	1.0 %	328	0.7 %	50.2 %	-4.4 %
Australia	561	193	901	253	1,060	0.9 %	227	0.5 %	17.6 %	-10.3 %
Germany	551	420	383	254	635	0.5 %	315	0.7 %	65.8 %	24.0 %
Total	74,014	35,124	84,458	36,002	118,037	99.3 %	45,322	99.7 %	39.7 %	25.8 %

SOURCE: MINISTÉRIO DO DESENVOLVIMENTO, INDÚSTRIA E COMÉRCIO EXTERIOR time, the average price rose from $2.03 in 2005 to $2.19 in 2006. However, Argentina surprisingly lost market share, dropping from 29.4% to 25.9% in volume and sliding from 25.5% to 21.8% in value.

Portugal, probably because of the common language, is in third place among Brazil's top wine suppliers, but first among the European suppliers, overtaking Italy in 2005. In 2006, Portugal exported 5.86m litres of wine worth $18.8m, a growth of 17.2% in volume and 29.87% in value over 2005. Its market share during this period grew to 12.9% in volume, still behind Italy, and 16% in value.

Italy now ranks fourth in the charts. Exports grew in 2006 by 52.6% in value, rising from the $11.1m registered in 2005 to $17m. During this period Italian market share climbed from 16.1% to 17.5% in volume and from 13.2% to 14.4% in value.

France, following a poor showing in 2005, saw its table wine exports rise significantly in 2006. Although it accounts for only 5.5% of volume, France's market share was a healthy 8.85% in value.

Distribution channels

While supermarkets and hypermarkets account for 70% of the import volume, hotels and restaurants account for another 20% and shops the remaining 10%. Of the imported wines, 43% is purchased directly from the supplier and 57% through distributors. Of direct imports, the most prominent players are the groups Pão de Açúcar, Carrefour, Sonae, Sendas and Casa Santa Luzia. Most of the major specialised importing companies, such as Expand, Mistral or Interfood, are based in São Paulo. Expand is the largest wine importer in Brazil and currently represents 2,500 labels.

Still, while imports continue to grow, and foreign producers naturally look closely at the consumption habits of Brazil's 190m inhabitants, the unanswered question is whether the country, with its low wages and multiple harvests, might not soon be a net exporter of wine.

QUOTE UNQUOTE

»We once sold more port on the Brazilian market than we do now, but I prefer being with the right importer at the expense of volume.«

Dirk van der Niepoort

Dirk van der Niepoort is the owner of the port wine company of the same name in Portugal. While many think that Portugal might enjoy a privileged position in Brazil due to the language, neighbouring Chile and Argentina sell more wine. Amoung the Europeans, only Italy sells more volume than Portugal, but with less value. France, although even further behind in the charts, has the highest average export price. From a small base, Spain's growth is impressive.

2 Wine consumption by state

State	Population	Per head	Litres	Share	Total
São Paulo	36,966,527	2.75	101,657,949	34.18%	34.18%
Rio de Janeiro	14,367,225	3.39	48,704,893	16.38%	50.56%
Rio Grande do Sul	10,179,801	3.82	38,886,840	13.08%	63.63%
Paraná	9,558,126	2.76	26,380,428	8.87%	72.50%
Minas Gerais	17,835,488	0.94	16,765,359	5.64%	78.14%
Bahia	13,066,764	0.85	11,106,749	3.73%	81.87%
Santa Catarina	5,333,284	1.96	10,453,237	3.51%	85.39%
Espirito Santo	3,093,171	2.60	8,042,245	2.70%	88.09%
Pernambuco	7,910,992	0.88	6,961,673	2.34%	90.43%
Paraíba	3,436,718	1.97	6,770,334	2.28%	92.71%
Goiás	4,994,897	1.01	5,044,846	1.70%	94,41%
Federal District	2,043,169	1.66	3,391,661	1.14%	95.55%
Mato Grosso	2,498,150	1.17	2,922,836	0.98%	96.53%
Other (14 states)	38,260,091	4.87	10,320,448	3.47%	100.00%
Brazil	169,544,403	1.75	297,409,497	100.00%	

SOURCE: AGAVI 200

2 Wine production in Brazil

Although Brazil's vineyards are still home to more hybrid vines than vinifera and too much of the wine still falls short of international standards, the country is making enormous progress, in particular in vineyard management.

Some companies, such as Casa Valduga, enjoy a growing reputation, not only domestically, but also in exports. The Miolo Wine Group sold 200,000 bottles off-shore in 2006, including ten containers to the supermarket French chain Casino. Amadeu, the country's most admired sparkling wines, and produced by ex-Moet winemaker Mario Geisse, is promoted by Laithwaite's in Britain.

Rio Sol, though, is probably the most well-known Brazilian wine internationally and is currently exported to more than 17 countries, including Dubai.