

CHILE: LIVING ON THE EDGE

By Ana María Barahona

Although optimists, the large wineries acknowledge the need for an adjustment period following several years of inflated prices, catastrophic omens predicted that Chile would soon be swimming in wine.

In the end, the 2006 harvest left no one indifferent, especially after SAG, Chile's Agriculture and Livestock Service, released the year's production figures in July. Total yield was 8,448,778 hectolitres—7.1% more than in 2005. On a positive note, most of the increase was seen in the production of quality wines from the individual Denominación, up 13.6% over the previous year to 7,163,042 hectolitres; a drop of 17.8% was registered in bulk wine production.

The phantom of overproduction hovers over most wine producing countries - and Chile is no exception. The 2005 surplus, added to the figures announced for 2006, result in some 250 million hectolitres with no clear market. "Chile is clearly out of balance," explains Rafael Guisilasti, the director of Viñas de Chile, the association of the country's largest wineries. "There is an excess in red wine supply, which is nothing to be alarmed about, but simply the product of the excellent 2006 harvest," He adds, "prices have been skyrocketing since 2004, which has knocked us out of a number of markets. In my opinion, there is now a solid demand for high-quality Chilean wine, but the situation is more complicated for mass wines."

Another factor to consider is the appreciation of the Chilean peso to the dollar, which has many small and medium-sized wineries "treading water in the deep end." Klaus Schröder, the president of the Chilean Enologists' Association, says that producers of grapes for bulk wines "are becoming desperate because current prices don't even cover their costs."

Everyone does breathe easier, however, when it comes to the overall quality of the 2006 vintage. Sauvignon Blanc and unoaked Chardonnays are already available. They show good fruit, although perhaps not as expressive as it was in the stupendous 2005 vintage. Despite a particularly long, hot summer, 2006 is considered a cold, dry vintage, with a significant delay in phenolic maturation in the grapes. Winemakers are pleased that the red wines display attractive freshness with delicate finishes. Still no one is touting this as the vintage of the century, as they did in 2005.

ARGENTINA: PLENTY AND GOOD

By Daniel López Roca

The Argentinean producers are absolutely elated with the results of the 2006 harvest, which ended on the 30th of April. 2.855 million kilos of grapes produced 1.360 million litres of wine and 611 million litres of must according to the National Institute of Viticulture. This represents a slight increase over 2005 which brought in 2.800 million kilos, producing 1.350 million litres of wine.

Mendoza again headed the field with 1.910 million kilos producing 987 million litres of wine and 338 of must; San Juan followed with 778 million kilos of grapes producing 281 litres of wine and 251 of must. The average alcoholic maturity from the two most important producing provinces in the country is estimated at 13.3% in Mendoza and 13.2% in San Juan.

In terms of quality most oenologists think that 2006 will be one of the finest vintages of the last decade. The only worry for buyers is volumes. Exports are booming, which is putting pressure on prices, but most agree that the market could easily support slight increases should they come. In the first half of this year almost 40% more volume was shipped than in the same period in

2005, putting the country on track to set new export records. It is estimated that Argentina will export 40 million litres this year to the United States alone. This represents almost a quarter of total exports of approximately 170 million litres, but still only a small part of the average annual production. The USA continues to be by far the main destination for Argentinean wine, followed by the United Kingdom with some 10% and both Brazil and Canada with about 7% each. To date 115 million litres of wine have been sold for \$168 million (\$131m). This represents a 38.6% increase in volume but only 30.5% increase in value compared to 2005, pointing to a slight fall in average price.

For that reason a Viticulture Association has been established, uniting the various bodies involved in wine production. Their board acts as a platform to deal with both economic and political issues of viticulture and is presently trying to buttress pricing. To this end they have requested that the state provide an export incentive of \$0.03 per litre of wine and hope to move 50 million litres of bulk at a price under \$0.20 per litre. If this initial volume moves, another 50 million litres could follow, indicating that there is still sufficient wine in the market - and that such excess stocks are responsible for the 19% fall in the price of bulk wine. While prices for bag-in-box are essentially stable, bottled wines are showing a slight increase.

So far this year 275 Argentinean cellars have exported some 1.207 different wines. The list by turnover is headed by Trapiche, while Uvita (RPB) heads the bulk exportation. A slight increase in domestic consumption, which in spite of inflation is slowly recuperating at the rate of 2%, should ease pressure as well. The large investments made in vineyards and cellars in the 1990s are beginning to bear fruits for the industry. The worry of producers is that internal costs, which continue to rise with inflation, will diminish their margins.

SOUTH AFRICA: EXPORTS STILL RISING

By Michael Fridjohn

It is not often that a beleaguered wine industry gets the vintage it hoped for, but most of South Africa's growers had every reason to be delighted with the bounty of 2006. The crop was slightly less than the average of the past four years - 963m litres - 5% up on 2005, 5% down on 2004. Its quality was generally very good, with some exceptional wine being produced in the better-reputed regions. Stellenbosch for example, widely regarded as the source of most of the Cape's best wines, enjoyed a long, cool and very even ripening season which brought slightly more wine into its tanks than at any time in the past decade.

Sales, however, are pretty flat. The domestic market has seen a little over a 1% decline over the past 12 months while exports are almost 2% up. Taken together the 12 month wine trend is 99.84. The industry statistics office has calculated a 15% reduction in the total wine stock at private and producer cellars as of the 31st of December 2005. With the last really patchy vintage four years ago in 2002, the Cape has arguably more good wine than ever before, and less pressure to sell it than 12 months ago.

This however does not mean that a sense of euphoria prevails in the South African winelands. With the Rand off its 4 year high, but still substantially stronger than in the boom year of 2001, grape prices have fallen precipitously. Prices paid for premium reds by co-ops and producers to their members have dropped to less than half of the 1999 averages. Since over 60% of the country's red wine vineyard is less than 10 years old, and many of the plantings were predicated on the prices ruling at the end of the 1990s, the grape growers find themselves in an appalling predicament. Current prices don't even cover the annual

farming costs, while rising bank rates have lifted the cost of servicing the debt on replanted vineyards. So far the banks have avoided widespread foreclosures - reasoning, it would appear, that their best security lies in keeping farms running as going concerns.

For the wholesalers and exporters the situation is better now than it has been at any time since mid-2002. With low cost, high quality grapes lying as wine in their cellars and the Rand softer since the May 2006 emerging market 're-alignment,' exports have again become viable. The biggest threat to this incipient recovery is the world wide tidal wave of cheap wine which threatens to engulf South Africa's best export markets.

AUSTRALIA: THREE IN A ROW

By James Halliday

Only the wine producers of the world can dread bountiful harvests. All other agricultural businesses dream of ideal seasons and large crops. Australia is no exception: large areas of the inland are in the grip of drought causing great pain for farmers and graziers, while the wine industry has had three large vintages in a row, beginning in 2004.

The graph below gives some perspective, showing the increase in plantings and exports since 1998. For the time being, Australia's helter skelter race up the world wine charts has stalled. Up to an estimated 100,000 tonnes of grapes were left unharvested in 2006 - no one is quite sure of the figure because there is no government financial support for growers - and prices fell sharply, albeit unevenly.

Some growers faced picking costs not far below the price being offered for their crop, which was as little as AUD 150 per tonne. Constellation has announced it will spend AUD 32 million (19mn Euro, \$ 25mn) in buying out unwanted supply contracts of Hardys.

The greatest impact was on Cabernet, particularly that grown in the warmer, irrigated parts of Australia. Even the seemingly unstoppable growth in Shiraz faltered slightly. On the other side of the coin, Chardonnay intake increased with Sauvignon blanc and Pinot Gris tonnages soaring, the latter up 76%, albeit from a very small base. The Pinot Gris crush was 9,000 tonnes.

What the graphs don't show is the radical change in the balance between red and white grapes. In 1998 62% of the intake was white, 38% red. By 2003 white grapes accounted for only 42% of the total crush, simply because the new plantings between 1996 and 2002 were overwhelmingly red. Now the pendulum has started to move back to a mix of 45% white, 55% red.

The silver lining for Australia has been the unambiguously high quality of the last three vintages, with 2004 and 2006 outstanding through the eastern half of the country. Moreover, official forecasts suggest there will be minimal change in supply between now and 2011; in the shorter term, a cold winter plus a natural regression in yield after three prolific vintages, suggest a significantly reduced crop in 2007.

When the lower cost of goods feeds through into the system and results in better wine at any given price point, supply and demand may come into balance more quickly than most critical observers have predicted.

AUSTRALIA		
	PLANTINGS (hectares)	EXPORTS (million litres)
1998	98,612	192.4
1999	122,915	200.8
2000	139,861	284.9
2001	148,257	338.2
2002	158,594	418.3
2003	157,492	518.6
2004	164,181	584.4
2005	166,665	669.7
2006	167,000	738.1

NEW ZEALAND: PINOT NOIR SURGES

By Bob Campbell

The New Zealand grape harvest increased by one-third in 2006 to a record high, raising fears of oversupply that have since proven misplaced. Wine exports show no sign of slowing and have risen 18% in value on the previous year to June, reaching a new high of NZ\$500 million (250 million Euros, \$ 315 million). New Zealand now exports more than half its entire wine production.

Sales to the United Kingdom, the country's largest wine market, rose by 4% in the year to June, while sales to the United States showed a healthier 11% increase. The US now buys one quarter of New Zealand's wine exports. Sales to Australia, the third largest market, grew by 35%.

New Zealand is becoming increasingly dependant on Sauvignon Blanc for export revenue. The variety, whose quality appears excellent in 2006, now accounts for 72 out of every 100 bottles sold offshore. While the market for Sauvignon Blanc remains remarkably buoyant, with exports growing by 18%, local winemakers are keen to gain recognition for their other wine styles. Pinot Noir has overtaken Chardonnay as the second most exported variety with an impressive surge of 55% on last year's figures. Despite a decline in fashion on the local market Merlot and Cabernet-Merlot blends enjoyed export growth of 26%.

The steadily declining value of the New Zealand dollar has made exporters cautiously optimistic. Exports are projected to reach NZ\$700 million (350 million Euros, \$ 475 million) next year and NZ\$1 billion (500 million Euros, \$ 635 million) by 2010. That growth in export will be needed to sell the harvest from a vineyard area that is expected to increase by 2,000 hectares (5,000 acres) a year to reach a total of 30,000 hectares (75,000 acres) by 2010.