STRONG PESO LEADS TO LOSSES

Powered by strong exports, Chile has doubled production over the past 15 years. But since 2005 wine producers are in the red. The Chilean peso has made gains on the American dollar. As a result, the wineries income in dollars often no longer even covers their costs in pesos. Jürgen Mathäß and Ana Maria Barahona report.

If you ask Andres Barros from Santa Rita what is happening to the Chilean wine industry, his view is: "The rise in the peso is the result of the sheer volume of currency flowing into Chile, especially because of copper exports. On top of that, the 2005 harvest was extremely expensive. The result was pricing chaos. Our costs are in pesos and our sales in dollars, which erodes our margins. The financial crisis is forcing us to cut volumes, to put up prices or to pursue premium price strategies. Lots of companies are turning in losses with their current products and prices. As a result we're witnessing a lot of businesses being sold and a breakdown in export growth." Douglas Murray from Montes summarises the problem in one simple sentence: "If the dollar falls below 580 pesos, almost all cellars can forget about turning a profit." In 2004 the dollar stood at 680 pesos, having peaked at 750. By February 2006 the dollar plunged to 510. Things are not looking better in the short term either, as the Chilean peso goes from strength to strength on the world copper market. And nobody is holding their breath expecting an international revival of the dollar.

As little as two years ago the only thing traders had to keep their eye on was the strength of the dollar on international markets compared to currencies such as the euro. When the dollar was doing well, European customers sold less because the exchange rate pushed their import prices in euros upwards. Now things are different. With the dollar so weak producers in Chile would lose money even if the Europeans were to buy in extremely large quantities. If on the other hand producers price their wines in dollars to match their expenditures in pesos buyers balk at the higher costs. A case in point: last year a sharp price rise on high-demand bulk wines had dire consequences. Prices rose 42%, sales volumes slumped by 28%.

The currency shifts may eclipse other factors in key countries, but they are not the only issues worth keeping tabs on. While volumes in the first six months of 2006 were plummeting in the US, Germany and Denmark, exports to the UK, Netherlands and Brazil rose by double digit figures. In the US the negative trend of recent years continued, something the Chilean export organisation "Wines of Chile" is keen to stop, especially through a higher advertising spend. Germany used to be a key buyer of low price wines, but the market is now crumbling as the spot markets no longer provide sufficient margins. Due to the high levels of re-exports and re-imports in Denmark it is difficult, even for the expert eye, to understand exactly what is happening there. According to Andres Barros, the work carried out by the "Wines of Chile" bureau in the UK is now bearing fruit. Not only have the bigger brands seen a boost in their sales, the image of Chile has improved: it is now perceived as "best value". Overall, Chile has gained market share there at the expense of other countries.

Brazil's economy is currently flourishing and the wine market is expanding rapidly. As one of its immediate neighbours and long-standing trading partners, Chile is reaping the benefits. Almost all Chilean wine producers actively trading in Brazil are witnessing double-figure growth rates in sales.

BULK & BOTTLE BY COUNTRY FIRST HALF 2006

COUNTRY	BULK IN 1,000 LITRES	AVERAGE PRICE PER LITRE IN US $	BOTTLES IN 1,000 LITRES	AVERAGE PRICE PER LITRE IN US$
UK	7,885	1.00	29,249	2.24
USA	504	1.17	24,967	2.79
GERMANY	11,056	0.62	5,335	2.88
DENMARK	6,358	0.72	4,615	3.28
CANADA	3,764	0.66	5,492	3.97

HECTARES AND EXPORT

YEAR	VINEYARS IN HECTAR	EXPORT IN 1,000 LITRES
1982	95,764	8,059
1990	65,200	43,050
1995	54,393	128,973
2000	103,876	266,512
2005	113,962	417,903

SOURCE: WINES OF CHILE

TOTAL EXPORT

	JULY 2005 - JUNE 2006			CHANGE %	
BY COMPANY	LITRES	US$ FOB	AVERAGE PRICE	LITRES	US$ FOB
CONCHA Y TORO	69,492,874	163,819.409	2.36	1.0	1.6
SAN PEDRO	34,791,488	62,269,674	1.79	-13.3	-7.2
SANTA RITA	10,700,471	41,633,979	3.89	-3.7	-5.1
CONO SUR	17,958,667	38,091,032	2.12	5.6	6.4
MONTES	3.889,034	23,661,078	6.08	21.3	37.1
ERRÁZURIZ S.A.	6,162,260	22,659,298	3.68	-28.1	-5.5
UNDURRAGA	7,687,530	21,772,855	2.83	-3,4	-5.4
SANTA CAROLINA	8,696,250	20,744,586	2.39	-3,9	-0.1
SANTA HELENA	9,665,982	20,627,679	2.13	-13,6	-3.4
VIA WINES	15,043,466	20,381,117	1.35	9,0	27.2

EXPORT BY COUNTRY

	2005 TOTAL					2005 BULK	
COUNTRY	VALUE FOB MIO. US$	VOLUME MIO. LITER	PRICE PER LITRE US$	CHANGE IN VALUE IN %	CHANGE IN VOLUME IN %	VOLUME MIO. LITER	CHANGE VOLUME IN %
GREAT BRITAIN	152,3	77,6	1,96	-4,4	- 7,6	*20,9*	*+ 0,9*
UNITED STATES	148,3	56,8	2,61	+ 2,2	-1,9	*1,0*	*0*
GERMANY	63,6	45,4	1,39	+ 11,6	-16,1	*29,4*	*- 27,3*
DENMARK	47,9	27,6	1,73	- 5,7	- 17,6	*16,8*	*- 19,2*
CANADA	54,0	25,5	2,12	+ 10,4	- 23,0	*13,7*	*- 30,7*
IRELAND	37,4	11,7	3,20	+ 2,5	- 3,3	*0*	*0*
HOLLAND	38,3	16,1	2,38	+ 16,8	+ 7,3	*4,3*	*- 5,8*
JAPAN	30,0	13,7	2,19	- 8,2	- 21,3	*6,4*	*- 31,2*
BRAZIL	27,7	11,5	2,41	+ 9,1	- 0,9	*0*	*0*
BELGIUM	25,1	10,5	2,39	+ 17,3	+ 4,0	*4,2*	*-5,7*
TOTAL	877,2	417,9	2,10	+ 5,0	-10,6	*125,7*	*- 28,4*
TOTAL FIRST HALF 2006	422,6	198,0	2,13	+4,2	+0,7	*58,3*	*-3,8*

SOURCE: WINES OF CHILE

The Netherlands are strongly influenced by distribution chains such as Albert Heijn or Gall & Gall and it is here that wine producers are making gains, especially if they are selling direct. Here, too, we find three leading brands more or less dominating the market.

“Overall the future is looking good for the Chilean wine industry,” says Douglas Murray. “We just have to ride out the storm. To succeed in the long term, you need a clear concept.”

Many Chilean wine producers would welcome a return to more peaceful times, when production and export were in better balance. As far as many are concerned, the upswing over the past 10 years occurred far too quickly. Between 1995 and 2001 the vineyard area expanded from 54,400 to 107,000 hectares, which put perilous price pressure on supply.

With the majority of all new vines now in production the future is less clear. For years growth in demand for bulk wine exceeded supply, which last year led to substantial price increases. If now, some five years after the last surge in planting, growth in wine exports were to return to single figures, this might be seen as the logical outcome of the end in the rise of grape availability. However, for the first time ever, Chilean wine production last year topped 7 million hectolitres. So the dip in overall exports – more than 10% year on year – was not yet caused by wine shortages.

These calmer times can also be witnessed in the wine growing regions. The huge construction boom of recent years has not yet come to a complete halt, but the number of extravagant new projects can now be counted on the fingers of one hand. Even in San Antonio, the most recent area to join the planting spree, things are calm. Leyda has set up two new vineyards, but the four estates in this cool, dry region have no new neighbours.

While the overall construction and investment boom has eased somewhat, both individual regions and bodegas are still concentrating on fine-tuning. Cool areas and corresponding grapes such as Sauvignon Blanc, but especially Pinot Noir, are back in fashion. Organic wine-growing too has been embraced by a number of bodegas not just for its market niche potential, but also as a reflection of the growing trend towards environmentalism in their own country, which for years was besmirched by slash and burn cultivation in the south.

There is currently also a conspicuous push to establish agro tourism infrastructures. The Casablanca and Colchagua valleys are already setting the industry pace. Many wineries there receive tourists each day of the week, providing tours and selling their wines through their own shops, very much in the fashion of their idols in the Napa Valley. Producers such as Morandé, Santa Rita, Matetic or Viu Manent also run their own in-house restaurants, all of very good quality. Weekend visitors flock in from far-flung places, and not just from Chile, to wander through the vineyards. Indeed, more and more Europeans and North Americans come here each year to enjoy the warm summer sunshine from December to February. ■