

TAKING THE BULL BY THE HORNS

Argentinian wine producers are over the moon about last year. Producers rave that the 2006 harvest was of very good quality, and that their sales in both domestic and export markets had increased. If this trend continues, Argentina's performance on the international market can only improve, predict Daniel Lopez Roca and Jürgen Mathäß.

As of 3 April 2005, there were 1,272 wine producers registered at the National Institute of Viticulture, of which 933 are active. The majority are situated in the province of Mendoza (893 producers registered; 671 active), and to a lesser extent in the province of San Juan (262 producers registered; 169 active).

During the last fifteen years Argentinian viticulture has undergone a revolution, triggered by the decline of wine consumption in the domestic market and the explosion of neighbouring Chile's exports of modern, internationally styled wines. New vineyards, modern production facilities and better wines have improved export prospects. Investment in technology by some wineries forced others, who could not follow, to sell their cellars and vineyards. This attracted new local and international players who have made investments amounting, unofficially, to \$1.5 billion.

International groups, such as Pernod Ricard and Donaldson and Lufkin & Jenrette, began to arrive, as did foreign investors. From France came Edonia (Alta Vista), LVMH (Chandon y Terrazas de Los Andes), J&F Lurton, Clos de los Siete, Catherine de Péré Vergé (Monteviejo), Laurent Dassault (Cuvelier Los Andes), Baroness Nadine de Rothschild (Flecha de Los Andes); from Austria came Swarovski (Bodega Norton); from Spain came Freixenet, Codorníu (Séptima), Ortega Gil-Fournier, Belasco de Baquedano, Berberana (Martins); from Portugal came Sogrape (Finca Flichmna); from Chile came Patricio Reich (Bodega Renacer), Holding de Bebidas CCU (Finca La Celia), Grupo Claro (DoñaPaula), Concha y Toro (Trivento); from Holland came Mijndert Pon (Salentein, Callia, El Portillo); from America came Paul Hobbs (Viña Cobos), Ward Lay (Andeluna); from Switzerland came Thomas Schmidheiny (Bodega Landelia) and Donald Hess (Bodega Colomé); and from Itlay came the Boscaini family (Masi). In addition to these, Japanese, Russian, and Brazilian companies

also entered the fray. Several firms nevertheless remained in Argentinian hands, such as the Familia Arizu, Valentín Bianchi, La Agrícola, Grupo Catena, Bodegas López, and Goyenechea, among others.

According to a survey carried out by the Consejo Empresario Mendocino (Business Council of Mendoza) between 1999 and

2005, the viticulture sector saw investments of 1,800 million pesos. The prevailing stable conditions have allowed the continuation of planned investments, which are anticipated to be in the order of 600 million pesos between 2006 and 2010. These funds will be made up of 45% Argentinian, 37% European and 14% Chilean capital. Forty-one percent of the investments will be concentrated in Gran Mendoza, 26% in the Uco valley, 24% in the eastern zone and 2% in the southern part of the province.

Argentinian wines continuing success has also impacted positively on related industries. Oenological tourism, developed in 16% of the wine cellars in Mendoza, enabled 85% of the approximate 2 million tourists to Mendoza in 2006 to visit wine cellars, 10% of the travellers having arrived in the province exclusively for this purpose. Schools for sommeliers have been established in the provinces, specialised

publications have appeared, and there are courses, fairs, and congresses complementing what is on offer.

Grape vines in Argentina sustain three very different businesses: grapes and raisins for consumption; must (concentrated sulphite and juice); and wine. The market for fresh table grapes follows the laws of supply and demand, and Argentina can rely on the advantage of being in the opposite season to the northern hemisphere, which represents its principal market. However Argentina's location, far from the consuming markets, makes it difficult to control the prices, as transportation is expensive and refrigeration facilities can be scarce.

1	Benchmark Data	www.ar
Inhabitants:		40.1 million
GDP:	US\$548.75 billion (€422.12 billion)	
Currency:		ARS (ARS100 = €24.90)
Per capita wine consumption:		29 litres
Total wine consumption:		11.65 million hectolitres
Legal drinking age:		18
Vineyard area:		218,589 hectares
Total production:		15.22 million hectolitres
Exports:		2.14 million hectolitres



Must is an important business, accounting for about a third of the exportation of wines, and has increased significantly in recent years. A law obliges wine producers to assign a variable percentage of each harvest to the production of must. In 2006 an obligatory percentage of 24% was established, and for 2007 this will be 30%. This simple method guarantees that the best grapes are used for the production of wines, improving the average quality and controlling the stocks. The possibilities for the distribution of must and its price obey the rules of a market that has nothing to do with wine, being generally that of natural sweeteners and fruit juices.

For bulk wines, Argentina relies on the large players for production and sales. This market is sometimes seen to benefit from problems in other producing countries, which purchase bulk containers in order to meet their needs, as was the case in Spain in 1995. In other cases, there are large sales to bottling firms and international distributors. The five largest exporters of bulk wine account for almost 44% of the total, with the remaining 56% spread over 73 firms. Bulk exports don't appear to affect the market for bottled wines, as they are distributed to different customers and generally aren't labelled as Argentinean wines.

The rise of Malbec

Malbec is, without doubt, Argentina's USP on most important export markets. "Malbec is an Argentinean variety that was once cultivated without success in France," says Malbec producer Ricardo Santos, in a joking manner typical of his compatriots. And there is some truth in this: although it took a long time for the Argentineans themselves to notice its importance, today Malbec represents the most cultivated and exported variety.

The revolution of the industry in the 1990s was accompanied by an increase in the export of wines and a significant decline in local consumption. In 1970 domestic consumption

was about 90 litres per capita; today it barely approaches one-third of that volume. However, the domestic market has seen a boom of boutique wineries in all of Argentina's growing regions, and new labels fill the shelves of sprouting wine shops and wine bars, a phenomenon that has overstimulated the consumer. While this boom set off a healthy process of educating the Argentinean consumer, who is now knowledgeable, choosy and opinionated about wines, the over-supply can frustrate him so that he returns to traditional, familiar brands whose distribution is efficient. In the coming years, according to market analysts, there will be a marked simplification of brands and wineries, and consumption will probably be concentrated on those with ample national distribution and consistent quality.

In a sense the process has already begun. According to a study commissioned by the Mendoza Viniculture Foundation and carried out by consultant group CCR, it is estimated that sales of bottled wines presently amount to 2,400 million pesos in the domestic market. And from a total of 2,500 existing wines, the study concludes that sales are concentrated on only 30, which account for 33% of the turnover. Twenty-four of these 30 wines are produced by only seven groups: Peñaflores (Trapiche Malbec, Frizze, Hereford Tinto, Michel Torino Selección Tinto, Santa Ana Selección Blanco y Tinto; Pernod Ricard (Colón Malbec, Colón Cabernet Sauvignon, Colón Borgoña, Etchart Privado Torrontés); Diageo (Los Árboles Tinto, San Telmo Malbec, San Telmo Cabernet Sauvignon, Cuesta del Madero Tinto); Chandon (Latitud 33º, Comte de Valmont); Nicolás Catena (Valderrobes Borgoña, Finca Los Quiroga Cabernet Sauvignon, Carcassone Tinto); Valentín Bianchi (Don Valentín Lacrado, New Age); and Nieto Senetiner (Benjamín Nieto Malbec and Benjamín Nieto Cabernet Sauvignon).

The 100 best-selling wines, barely 4% of all existing labels, account for half of the income from the market and 56% of the

2 Crush by red Grape Variety					
	2000	2002	2004	2006	
1 Bonarda	1,336,215	1,878,701	2,408,346	2,726,874	
2 Malbec	572,110	1,221,704	1,762,486	2,023,147	
3 Syrah	365,053	791,820	1,165,938	1,477,951	
4 Cabernet Sauvignon	418,849	877,169	1,162,297	1,423,833	
5 Merlot	233,044	474,535	607,747	726,704	
6 Tempranillo	353,798	466,235	536,837	649,402	
7 Sangiovese	320,504	324,083	300,117	293,290	
8 Pinot	65,523	73,995	100,892	131,075	
9 Barbera	118,328	130,977	107,197	102,914	
10 Tannat	3,293	10,575	25,303	43,350	
Total Red	3,794,992	6,255,071	8,196,020	9,626,474	

3 Crush by white Grape Variety					
	2000	2002	2004	2006	
1 Pedro Gimenez	2,077,653	1,868,999	2,077,777	2,072,760	
2 Torrontés Riojano	1,486,768	1,100,638	1,167,129	1,261,748	
3 Chardonnay	281,818	393,016	483,790	596,634	
4 Chenin	537,432	468,385	468,352	457,985	
5 Ugni Blanc	484,339	494,449	477,986	431,691	
6 Sauvignon	74,027	89,678	111,540	134,355	
7 Semillón	96,854	110,572	94,173	109,462	
8 Sauvignonasse	97,787	94,766	85,412	81,524	
9 Viognier	4,799	13,640	21,817	36,658	
10 Pinot Blanco	7,380	1,997	2,306	3,483	
Total White	5,148,857	4,636,140	4,990,282	5,186,299	

Table 2 shows grape varieties in quintales (100 kilogrammes)

Table 3 shows grape varieties in quintales (100 kilogrammes)

SOURCE: CAUCASIA WINE THINKING, 2006

REGIONAL ANALYSIS

total volume commercialised. At the other extreme, 1,850 wines represent only 10% of total turnover and 8.5% of total volume. Only four wines in Tetra brick (Peñaflor's Uvita and Termidor; Fecovita's Toro and Resero) among the existing 259 command 29% of the market, which is estimated at 1,600 million pesos annually.

For the past 25 years the wine business lost clients to competitors such as beer, and low-price wines were most affected. However, a change can be detected, since this year sales of wines in Tetra brick increased by 6.7% in volume.

Wineries, and especially the larger groups, have resorted to diversifying wine ranges in order to compete in a larger number of segments and prices. In the table below the dynamics of the principal markets where Argentina sells wines can be seen. As the chart makes clear, the leader in the United States - the market in which the largest increase in sales in the world has been registered - is Bodegas Esmeralda, with Alamos. In the United Kingdom the leader is Peñaflor, with Fincas las Moras.

United States

Argentina has seen the largest increase in sales in the United States of all producing countries. The systematic effort of several producers, in particular Catena, has significantly elevated their reputation in that country. Total imports into the United States from the ten principal wine-producing countries in the third quarter of 2006 increased only 2.9% in value (\$1.15 billion) and suffered a decrease of 1.3% in volume (202 million litres) in the same period. The average price per nine-litre case (\$51.30) is 5.7% lower than the previous quarter (\$54.27). At the same time, Argentinean exports increased 29.2% in value (from \$15.7 million to \$20.3 million) and suffered a decline of 11.6% in volume in the third quarter (from 5.9 million litres to 5.2 million litres). This indicates a continuous "Flight to Quality" policy, whereby the average price per litre has increased from \$1.88 in the first quarter, to \$3.57 in

the second quarter, to \$ 3.88 in the third quarter, putting it now in eighth place ahead of Australia (\$3.43) and Chile (\$3).

United Kingdom

England is a strategic market for Argentina. For this reason, Wines of Argentina (WofA) launched a generic promotional campaign several months ago to associate the wines with major Argentinean themes such as polo, tango, the favourable terrain for the production of great wines, and, naturally, the scenery. Also in 2006, WofA opened an office in England, which has allowed a great development of the wines in that country. According to a study by Mintel, the average price of a bottle of Argentinean wine in the off-licence sector of the English market was €5.17 in 2005. Meanwhile, another study carried out by the French Interprofessional bureau for fruits, vegetables, wines, and horticulture (ONIVINS) indicates that the average price for a bottle of still wine in the UK is €3.27 for French wine, €2.34 for Italian wine, €3.09 for Australian wine, €2.24 for Chilean wine, and €2.19 for South African wine. In order to take full advantage of this situation, Wines of Argentina is organizing the Argentina Wine Awards on 19-22 February 2007, a contest of Argentinean wines exported to the United Kingdom that will take place in Mendoza and will be judged by an international jury including Jancis Robinson MW, Oz Clarke, Peter Richards, Robert Joseph, Adrian Atkinson and Henri Chapon.

Brazil

The other important market for Argentina is Brazil. It is the only place where Argentina is the leader, having surpassed Chile in sales last year. Argentinean wine is seen as good quality by the Brazilian consumer, who prefers it to those of other origins, despite prices three times higher than in Argentina. All hope that the consolidation of MERCOSUR will lead to more accommodating prices for the consumers in the member countries.

4 Wines of Argentina			
	1995	2000	2005
Production million litres	1,634	1,894	1,522
Area planted in hectares	210,391	205,000	218,589
Per capita consumption	42,3	37,73	29,18
Exports in million litres	197	84	215
Exports in million US\$	61	125	303
Exports US\$ per litre	1.51	1.40	1.39
Export as share of total	13,1	7	17

Although production volume has not changed dramatically over the past ten years, exports have risen exponentially, reaching 269 million litres with a value of almost 350 millions dollars in 2006. At the same time, domestic consumption has fallen, making exports ever more important.

5 Brand Leaders in the major Export Markets						
Destination Market	Exporting wine cellars			Wines		
	Number	Concentration*	Leader	Number	Concentration*	Leader
USA	223	11	Esmeralda	721	25	Alamos
UK	108	5	Peñaflor	376	25	Fincas Las Moras
Brazil	174	10	Allied Domecq Argentina	633	30	Cuvée Mumm
Canada	96	2	Peñaflor	241	6	Trapiche
Holland	59	4	Norton	216	7	Norton
Denmark	71	4	Esmeralda	230	11	Trivent
Paraguay	33	1	RPB	136	2	Uvito
Russia	39	5	Vinalia	98	9	Toso
Sweden	27	4	Peñaflor	73	6	Trapiche Reserva
Mexico	75	7	Trivento	229	18	Trivento
Total	347	10	Peñaflor	1640	49	Trapiche

* Concentration is defined as the number of producers or wines from the total that account for 50% market share.

Matías Bauza Moreno, export manager at the Salentein Family of Wines (SFW) began exporting its Bodegas Salentein range and Finca el Portillo in 2001, to which were added, in 2004, the wines from Bodega Callia and, in 2005, the new portfolio from Bodega el Portillo. Today Bodega Salentein exports to 45 countries and its external sales have increased in volume from 2004 to 2005 by 115.5%. From November 2005 to November 2006, exports grew in volume by 182%.

According to Manuel Lanús, export manager at Diageo, with Navarro Correas and San Telmo he is closing the year 2006 with growth of 40% due to increases in the United States and Latin American. “Navarro Correas, in contrast to other wineries, always had the Caribbean, Central and South America as a priority, whereas other wineries and brands put enormous effort into breaking into the European market,” he explains. “Today we are reaping the benefit of this decision, since America is waking up when it comes to wine consumption and Argentina is one of the two first choices of the consumer. In the United Kingdom or Germany and other continental European markets, Argentina is the eighth choice for the majority of consumers.” Lanús is also troubled by the “absence of commercial agreements with potential consuming countries. “Argentina does not have, nor is it working to obtain, accords that would make our wines arrive at competitive prices,” he says. “In this aspect we have much to learn from Chile and its vocation to export.”

Where is Argentina going?

While Argentina might have been the last of the larger wine-producing countries to focus on exports, it finally seems as if more and more companies are concentrating on more than just production. Undoubtedly the possibilities are there, not least of which are a desert climate producing aromatic, concentrated, fruity wines in a more masculine style than Chile’s, and the decision to promote Argentina’s wines on the

QUOTE UNQUOTE

» I had the good fortune in contributing to Malbec’s renaissance. «

Michel Rolland



Much has changed since I first came to Argentina that 18 years ago,” says consultant Michel Rolland. “The very concept of wine has changed. There used to be a lot of ordinary wine, and both the viticulture and wine cellars came from another era, which bore little relationship to those of today. Argentina now has an important place in the world market in terms of quality and image. Furthermore, there has been an enormous development in the image of Malbec, a variety that had been forgotten and in whose renaissance I had the good fortune to participate.”

most important markets. Wines of Argentina will be able to promote in some key markets, and so creating a “brand Argentina” should not be too difficult.

Argentina is becoming a reliable supplier looking to confirm itself in the markets in which it is contending. Its producers have set themselves the long-term goal of gradually increasing their exports to \$2 billion in 20 years. For this the Strategic Argentina Wine Production Plan 2020 (PEVI 2020) was drawn up with the following objectives: to create the trademark “Argentina”; to consolidate the image of the country as a producer; to integrate the wine producers; to expand technology; and to reposition basic wines within the internal market. While these goals have been criticised in some quarters as being unrealistic, everybody in Argentina’s wine industry is willing to wait and see. ■

SOURCE: CAUCASIA WINE THINKING, 2006

6 Export by Country and Volume				
Market		2004	2005	2006
1	Russia	14,378	22,725	71,780
2	USA	23,638	31,910	36,226
3	Paraguay	22,835	23,056	24,181
4	Canada	7,848	16,066	18,451
5	UK	20,686	23,207	18,440
6	Brazil	11,638	12,019	12,635
7	Netherlands	5,631	9,260	9,416
8	Denmark	6,317	7,780	8,502
9	Germany	4,892	6,249	5,384
10	Mexico	1,244	2,921	4,462
	Others	38,218	62,808	60,307
	Total	157,323	217,994	269,782

7 Export by Country and Value				
Market		2004	2005	2006
1	Russia	6,153	10,769	23,692
2	USA	44,501	61,940	74,415
3	Paraguay	11,649	12,495	13,345
4	Canada	13,289	23,093	26,123
5	UK	32,849	37,677	33,307
6	Brazil	21,560	25,418	28,719
7	Netherlands	13,048	17,962	19,195
8	Denmark	11,486	14,727	17,152
9	Germany	6,587	8,673	8,567
10	Mexico	3,265	4,734	7,425
	Others	60,811	85,739	94,335
	Total	225,198	303,227	346,276

8 Average Price per Litre (in US\$)				
Market		2004	2005	2006
1	Russia	0.43	0.47	0.33
2	USA	1.88	1.94	2.05
3	Paraguay	0.51	0.54	0.55
4	Canada	1.69	1.44	1.42
5	UK	1.59	1.62	1.81
6	Brazil	1.85	2.11	2.27
7	Netherlands	2.32	1.94	2.04
8	Denmark	1.82	1.89	2.02
9	Germany	1.35	1.39	1.59
10	Mexico	2.63	1.62	1.66
	Others	1.59	1.37	1.56
	Total	1.43	1.39	1.28

Exportation of wines in 2004, 2005 and January to November 2006; Table 6: Volume in '000 of litres; Table 7: value in US\$