

# ARGENTINA LOOKS FOR SILVER LINING

While producers in other export nations are fearful, many Argentines believe they can profit from the global financial crisis, as the structural changes that have been made to their wine industry in recent times could give them a competitive advantage. Daniel López Roca looks at the impact of cash flow and credit issues, as well as the upcoming harvest.

With consumption falling in US and Europe, China experiencing an export slowdown and Brazil taking a financial hit, Argentina cannot avoid the effects of the global financial crisis. Despite its distance from the centre of the crisis, Argentina's exports will inevitably be affected

tion of wine producers, said the international financial crisis found the sector solid and united, and described activity as not going 'so badly' as yet. It helps that Argentina consumes more than 80% of the 1,100m litres it produces, a fact that differentiates it from other New World producers. The priority now, producers say, is to stop and watch how the markets evolve, without making either abrupt changes or getting discouraged.

The last report from the Instituto Nacional de Vitivinicultura (INV) detailed that wine exports, up to August-September 2008, were growing by 18% for bottled wines, and by 50% for bulk wines. In addition, the Corporación Vitivinícola Argentina (COVIAR) is running a TV campaign to stimulate domestic wine consumption. The ad's

slogan is simple: 'Argentine wine. Good wine'. So far, and despite the crisis between the government and producers in early 2008, which had been expected to have a negative effect on consumption, figures are down by only 3.38%. Despite figures that show annual

domestic wine consumption dropping over the last 30 years - from 90 litres per adult to less than 30 litres - the demand for quality wines has risen, and consumption in this sector continues to grow.

## Credit problems

On the downside, the rising cost of commercial credit is causing difficulties, particularly as banks become more selective about whom they lend to. Until confidence in the banking system has recovered, credit will be scarce and that will mean less economic activity and lower investment rates. For now, Argentinean winery owners are trying to avoid accumulating too much stock, while avoiding extra costs.

Carlos Alberto Pulenta has spent his life in the wine business. He is a member of a pioneering wine family and has managed a number of wineries, including Peñaflores and Carlos Pulenta Wines. Pulenta has a strategic agreement with the Constellation Group to make Diseño wines, a super-premium Malbec varietal grown in the Mendoza region. Diseño is distributed, marketed and sold by Cellar Door, a division of Constellation Brand's VineOne business unit.



José Manuel Gil-Fournier, owner of O. Fournier winery.

if both the US and Europe go into recession. And already export markets are showing decreased demand and payments are being delayed.

Rising dollar values are also increasing prices of corks, bottles, labels and agricultural supplies such as fertiliser, which has jumped in price by 150% compared to last year. In addition, internal inflation is also driving prices higher. Fuel is up almost 100%, and manual labour is up 30% on average. For now, however, Argentina's wine business is remaining calm. This time, wine producers say, the crisis finds them more secure, with fewer debts.

## Argentina united

Representatives of the Corporación Vitivinícola Argentina, the main organisa-

## SUMMARY BOX

- Many producers see the financial crisis as an opportunity to break into the \$10-20 segment in the US market.
- Argentina is also somewhat protected by its internal market which consumes 80% of its wines.
- For the moment, however, most winery investments are frozen as people wait to see how the situation evolves.
- The upcoming harvest, expected to be large in volume, is currently the main challenge for Argentinean wine growers, given that it will take place in a tight credit climate.

Asked about the consequences of the current financial climate for Argentine wines, Pulenta said both businesses and consumers across the board would be affected "because the depth of the crisis has no precedent," he said. "Nevertheless, I believe Argentinean wines will be less affected than other goods." Pulenta agreed that the image Argentina has abroad, of a good quality, sensibly priced wine producer, means the effects might be lessened. "Conditions may be less adverse [for us] as we are not positioned in the top segments of the international market, and we have wines with good price/quality ratios below \$25 retail."

*The effect of the harvest*

Pulenta sounded a warning, however, about the credit problems producers will face with the next harvest. "The flowering

making predictions was inevitably tricky in such unstable conditions.

José Alberto Zuccardi, the owner of Familia Zuccardi winery, agreed: "The effects of the financial crisis are still not predictable, but personally, I believe consumers will continue drinking wine and will be oriented towards maximising their spending, and here Argentina is strong, offering consumers a rich product range of wines below \$25 per bottle."

José Manuel Ortega Gil-Fournier, a former investment banker and owner of the O. Fournier winery in Argentina, as well as wineries in several other countries, said he believed the crisis was having numerous different effects. On one hand, he said there is a reduction in export credit capacity, together with a significant rise in credit rates, both of which are complicating export

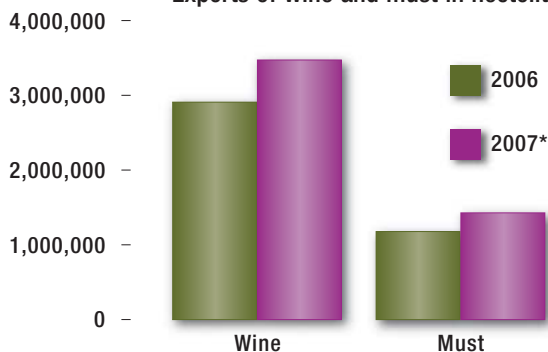
focus on presenting both unbeatable quality and reasonable prices. He also said that for the short term all planned investments had been frozen, until there was a clearer picture of both the Argentinean, and the worldwide, situation.

*Expansion*

Argentina's wine industry has seen solid export expansion in the last three years. Exports grew, and will still grow this year, by about 25%. An 'Argentina brand' exists in the mind of consumers in many important markets. The Malbec varietal has also caught the attention of consumers.

But Argentina is more than Malbec. Other internationally known varieties, as well as some unique varieties, such as Torrontés, Bonarda, and Tempranillo, are contributing to improving Argentina's international profile.

Exports of wine and must in hectolitres



\* Provisional data

Vineyard production area

Province	2006		2007	
	Vineyards	Hectares	Vineyards	Hectares
Mendoza	17,108	156,570	17,118	157,894
San Juan	5,418	223,034	26,130	229,501
<b>Total area</b>	<b>26,133</b>	<b>223,034</b>	<b>26,130</b>	<b>229,501</b>

SOURCES: INSTITUTO NACIONAL DE VITIVINICULTURA

has been very good and the number of buds also. Everything seems to indicate that next harvest will be generous, but that has its disadvantages." Good quality grape volumes will not change, he said, but there will be greater volumes of lesser quality grapes, and financing the harvest will be difficult. "In this scenario, with little to zero liquidity, the important thing is not to pay high costs. That is what we are going to analyse with Constellation: how to solve the lack of cash."

Alberto Arizu, manager director of Bodega Luigi Bosca, said glimpses of volatility, distrust and imminent economic recession in some markets, will hit wine consumption. "The lack of credit, or the deterioration of certain credit mechanisms, will be added to deficiencies Argentina already has," Arizu said. He added that

and production capacities. On the other, Ortega believes Argentina has competitive prices at different quality levels, and can benefit from current circumstances.

Falling demand, he predicted, would mainly hit higher priced wines. "There will be many consumers that will not want to pay abusive prices for European, mainly French, wines and they will probably decide to taste wines from other countries with a better relation between price and quality," Ortega said. He added that the most interesting part would be to see if these consumers returned to their old wines when the economy improves, or continue with the new ones.

Besides cutting costs, Ortega said he is combating the crisis is by making a deeper commercial effort. Wineries, he said must

Arizu said unfortunately the current crisis is a brake on Argentina's momentum. "But I believe this is a great opportunity for our business, since our country offers a great wine diversity, excellent quality and suitable prices, and without doubt the market will go in that direction."

He said however that Argentina's international position is still small compared to its enormous potential, and that there were business opportunities to be explored. Argentina, he said, is the fifth biggest wine producing country in the world, but its international market share is about 3.5%, far below its production share. Promotional actions by the export association, Wines of Argentina, as well as individual winery promotions, are however showing positive results.

The outlook for grape must is less positive. The international market is very tense, and prices have fallen from \$1,200 to \$1,000 a ton. Must is in effect a commodity, and commodities are generally harder hit by currency fluctuations. The price of must is also linked to the price of the sugar cane, and the outlook for cane is not encouraging. Currently the US buys more than 50% of Argentina's exported grape must. If the current situation continues, producers say they will not be able to sell the 200,000 tons that were projected. The same situation applies to both fresh grapes and raisins. Adding to the difficulties is the fact that concentrated must prices have been driven down by a worldwide overproduction of concentrated apple juice.

### Currency movements

Currency fluctuations also play havoc with bulk wine sales. Half of Argentina's wine exports are bulk, and experts predict the crisis will hit bulk wine badly as much of it goes to Russia, one of the countries hit

immediately fit their prices to the loss, whereas with a gradual change, wine producers usually adjust the difference in their favour.

### Fiercer competition

As far as the situation goes relative to competitors, Arizu believes Chile and Australia will continue to be Argentina's main competitors, with the added factor that both markets have devalued their currencies. He said the south of France and Spain also represent a competitive threat.

Ortega agreed that Spain was a significant competitor for Argentina, thanks to renewed interest in their wines because of their quality and good prices.

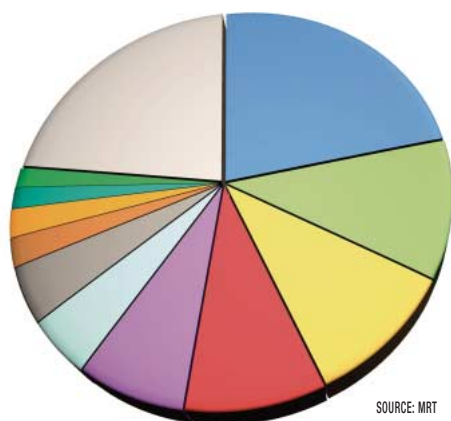
The Chilean wine industry was praised by Pulenta, but he also said Chile had a very different image to Argentina. "Chile has done a good job," he said. "Chileans managed to adjust an industry that was [in debt] almost 80%. Now their peso is depreciated, their wine industry turns to be competitive having already done the hard work." But he

increasingly being sought by buyers all over the world. The key success of Urban, he says, is an exceptional quality/price ratio that clients appreciate.

### Internal factors

Through 2008, Argentinean wineries have had to deal with disruptions caused by strikes, seriously harming the image of the country and its capacity to export wines on time. Producers have also had to face several other difficulties including bottle shortages, increasing prices and rising financial costs. But Argentine wineries have worked hard to control the situation, and to make this year an important one in growth terms, but development investment is now lacking.

"Perhaps the credit shortage has been a decisive factor that will delay the investments necessary to continue expanding our



by the crisis. Bulk wine exporters say prices of \$0.30 a litre for bulk wine no longer work in Russia, because it equals Spanish prices, who can offer lower transportation costs. "The Argentine peso appreciation in relation to the euro or to the Chilean peso is going to seriously harm bulk wine exporters in Argentina," said Ortega.

Pulenta said the peso exchange policy followed by Argentina at the moment, is erratic and has a tendency towards slow devaluation. He believes this is good for the industry, however, because abrupt devaluations, like the one of 2002, mean importers

said the image the markets have of Argentinean wines is that of a wine country with identity, quality and good volumes. Chilean wines, on the other hand, have always been criticised for their lack of extra distinction, he said.

In big brand terms, Argentina is not a major player in the external market. Arizu considers this to be an advantage because it is of the diversity of regions and styles that exist. Ortega, for his part, says his Urban brand and wines such as Diseño, (the Constellation Pulenta partnership), are growing in volume every year and are



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**Alberto Arizu, managing director,  
Bodega Luigi Bosca**

wine industry," said Arizu. On top of other issues, this is a major disadvantage relative to competitors, he said. "We still need infrastructure investment, logistics and almost 40,000 new hectares to keep up with the increasing demand."

He says that, while 2008 will not end on a note of euphoria, "it will not be a failure either. Despite all the conflicts that we had, 2008 has been an extremely successful year," he said, arguing that Argentina has grown in the \$10-20 segment, where it needs to be. "In that segment, I think, we are a little better armoured." ■