FROM GRAPES TO WINE: AN OVERVIEW OF THE CHILEAN SUCCESS STORY

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Outline of the Presentation

- Introduction:
  - A Bit of History
  - Social Market Economy (1974 to-date)
  - Support Policies
  - Agricultural Sector in Chile
  - Vineyards and Wine

- Wine: Land, Exports and Consumption
- Wine: Organic Production
- Concluding Remarks

A Bit of History

- From an economic development perspective: contribution that various non-traditional products can make towards agricultural diversification, employment and foreign exchange earnings in less developed countries is very important.

- Products characterized by a relatively high income elasticity of demand are of particular relevance.

- Consumer preferences shifting in favor of fresh fruits and vegetables as a reaction to the rising concern with health and nutrition (Islam, 1990).

A Bit of History

- Wine, particularly red wine, attracting increasing attention as a functional food, a rapidly expanding market (e.g., Barreiro-Hurle, Colombo and Cantos-Villar, 2008).

- Taking advantage of these trends, Chile has pursued an aggressive policy of agricultural diversification through the expansion of fruit and wine production for export.

- However, the beginning of the Chilean fruit sector dates back to the arrival of the Spaniards. At that time, the encomienda and then the hacienda or latifundio system emerged (Garcia Elizalde, 1986).
A Bit of History

- Wine making originated in the early days of the conquest. European *Vitis vinifera* vines were brought to Chile by Spanish conquistadors and missionaries in the 1550s. Local legend has it that the conquistador Francisco de Aguirre himself planted the first vines (Johnson and Robinson, 2005).

- Following the Cuban revolution and the Charter of Punta del Este, Chile undertook an agrarian reform process, from 1962 to 1973, as an attempt to change the latifundio system to improve production and productivity, and the living standards of the peasantry (Thome, 1986).

A Bit of History

- Arguably, agrarian reform opened up the land market bringing a new group of entrepreneurs into the agricultural sector (Cruz (1988)).

- The subdivision of large farms increased the availability of medium sized properties suitable for fruit enterprises.

- Several analysts contend that the major expansion in fruit production, including grapes, over the past four decades would not have taken place in the absence of these structural reforms (e.g., Gomez and Echeñique, 1988; Cereceda and Dahse, 1980).

A Bit of History

- In 1973, Pinochet's military government began reversing agrarian reform policies by restoring land considered to have been expropriated illegally to former owners. These restorations accounted for approximately 28% of the land originally expropriated (Jarvis, 1986).

- The impact of agrarian reform remains very controversial among economists (e.g., Quiroz, Barahona and Valdes, 1988; Jarvis, 1990; Barahona, Quiroz, and Valdes, 1990).

A Bit of History

- Land reform gains reversed under Pinochet, but other measures taken after 1973 accelerated the modernization of Chilean Ag. Key, the liberalization of the land market enabling ag. reform beneficiaries to sell their land (Cereceda&Dahse, 1980).

- Also, Chile has several natural advantages for fruit production. A variety of climates makes it possible to produce a large number of products at different times of the year. Geographical isolation (Atacama Desert-N, Andes Mountains-E, the Pacific Ocean-W, Antarctica-S). This isolation renders excellent natural protection from pests and diseases.
Social Market Economy (1974 to-date)

- The Chilean Government set out to re-build the economy, re-establishing the basic principles of a market economy.
  - Private property and the market system are restored.
  - Incentives for private investment are provided.
  - Foreign capital is welcome and legislation is passed to provide security (favorable taxes and repatriation of profits).
  - The shares of the companies that had been expropriated are sold to the public via subsidized loans, in a mechanism called “popular capitalism”, similar to that employed in post-war Germany by Adenauer.
  - The land in State farms is sold to peasants under private property.

- The Central Bank is given a new statute, making it independent from the government and with the mission of formulating the monetary policy and ensuring the value of money.
- The Great Copper mining industry remains on the hands of the State, but administered by a newly created corporation called Codelco.
- The inflow of foreign capital is encouraged to exploit new mining sites.
- The economy is gradually opened to foreign trade. Currently the average tariff is below 4%.

Support Policies Commercial Agreements

- The commercial agreement policy began in 1990
- Chile has 21 Free Trade Agreements, including 58 countries, 4.2 billion consumers, 62.5% of world population & 86.3% of world GDP
- Chilean Embassies have agricultural attachés in major trading countries: e.g., Mexico, Canada, USA, UE, India, China, South Korea
- The aim of the agricultural attachés is to explore new markets and products

Specific Support Policies for Agriculture

- Provision of financing to the agricultural sector directly by state agencies (INDAP, BancoEstado, CORFO) or public funds are intermediated by private banks.
- Two key agencies that have promoted the development of viticulture are:
  1. CORFO
  2. ProChile
Specific Support Policies for Viticulture

1. CORFO
   - Fondo de Asistencia Técnica (FAT): Used for specialized consulting services in areas such as: clean production; the implementation of management systems; design of productive processes, and marketing.
   - Cobertura de Préstamos Bancarios a Exportadores (COBEX): Insurance covering defaults of loans given to small and medium size exporters by banks

Specific Support Policies for Agriculture

2. ProChile
   - Fund to promote the export of forestry and agricultural products:
     (a) Market Research and Development
     (b) Development of the exporting capabilities of private sector firms
     (c) Support for the competitive insertion into international markets

Agricultural Sector in Chile

<table>
<thead>
<tr>
<th>Orchard Types</th>
<th>1997 Area (Hectares)</th>
<th>2007 Area (Hectares)</th>
<th>Percentage Change (1997-2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uva de mesa</td>
<td>43,865</td>
<td>61,316</td>
<td>40.78%</td>
</tr>
<tr>
<td>Palmas</td>
<td>17,061</td>
<td>30,812</td>
<td>131.53%</td>
</tr>
<tr>
<td>Manzanos</td>
<td>39,973</td>
<td>36,245</td>
<td>-9.34%</td>
</tr>
<tr>
<td>Citrus</td>
<td>17,418</td>
<td>17,536</td>
<td>11.64%</td>
</tr>
<tr>
<td>Duraznos</td>
<td>16,041</td>
<td>16,041</td>
<td>0%</td>
</tr>
<tr>
<td>Olivos</td>
<td>10,416</td>
<td>15,582</td>
<td>50.36%</td>
</tr>
<tr>
<td>Nogales</td>
<td>7,642</td>
<td>14,200</td>
<td>81.82%</td>
</tr>
<tr>
<td>Cerezos</td>
<td>5,006</td>
<td>13,695</td>
<td>173.59%</td>
</tr>
<tr>
<td>Frutillas</td>
<td>1,473</td>
<td>5,975</td>
<td>378.27%</td>
</tr>
<tr>
<td>Almendros</td>
<td>7,741</td>
<td>5,955</td>
<td>-22.77%</td>
</tr>
<tr>
<td>Naranjos</td>
<td>7,287</td>
<td>8,850</td>
<td>21.88%</td>
</tr>
<tr>
<td>Limon</td>
<td>7,766</td>
<td>7,495</td>
<td>-3.56%</td>
</tr>
<tr>
<td>Frambuesas</td>
<td>7,255</td>
<td>7,196</td>
<td>-0.81%</td>
</tr>
<tr>
<td>Almendros</td>
<td>5,893</td>
<td>7,634</td>
<td>35.39%</td>
</tr>
<tr>
<td>Perales</td>
<td>11,887</td>
<td>6,650</td>
<td>-43.40%</td>
</tr>
<tr>
<td>Nectarinos</td>
<td>6,322</td>
<td>4,981</td>
<td>-21.14%</td>
</tr>
<tr>
<td>Mandarinos</td>
<td>1,245</td>
<td>3,943</td>
<td>220.46%</td>
</tr>
<tr>
<td>Damascos</td>
<td>2,334</td>
<td>1,873</td>
<td>-16.94%</td>
</tr>
<tr>
<td>Frutillas</td>
<td>723</td>
<td>1,574</td>
<td>117.70%</td>
</tr>
<tr>
<td>Ayllones</td>
<td>145</td>
<td>1,326</td>
<td>923.10%</td>
</tr>
<tr>
<td>Otras frutas</td>
<td>11,427</td>
<td>27,833</td>
<td>141.82%</td>
</tr>
<tr>
<td><strong>Total area planted</strong></td>
<td><strong>133,418</strong></td>
<td><strong>360,286</strong></td>
<td><strong>173.54%</strong></td>
</tr>
</tbody>
</table>
Wine: Total Exports

Wine: Domestic Consumption

Organic Wine

<table>
<thead>
<tr>
<th>Category</th>
<th>US$/box 12 bottles FOB</th>
<th>Selling</th>
<th>Price Difference (organic v/s conventional)</th>
<th>Annual growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Icono</td>
<td>300</td>
<td>Low</td>
<td>0</td>
<td>&lt;10%</td>
</tr>
<tr>
<td>Ultra Premium</td>
<td>120</td>
<td>Low</td>
<td>0</td>
<td>&lt;10%</td>
</tr>
<tr>
<td>Premium</td>
<td>80 - 90</td>
<td>Middle</td>
<td>0</td>
<td>10%</td>
</tr>
<tr>
<td>Gran Reserva</td>
<td>40 – 50</td>
<td>Middle</td>
<td>+10%</td>
<td>10%</td>
</tr>
<tr>
<td>Reserva</td>
<td>35</td>
<td>High</td>
<td>+20%</td>
<td>15%</td>
</tr>
<tr>
<td>Varietal plus</td>
<td>28 – 30</td>
<td>High</td>
<td>+20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Cuadro 3.3.6. Precios y ventas de vinos chilenos certificados hechos con uvas orgánicas por categoría.
Conclusions

- Over the last three decades, agriculture has become an increasingly important contributor to export earnings in Chile and wine has played a rising role.

- The evolution in Chilean agriculture is the outcome of significant structural reforms, particularly land reform, initiated in the early 1960s, along with macroeconomic policies introduced after 1973.

- The fast growth in demand for horticultural products and wine in the developed world has also been a major factor in the Chilean success story.

Conclusions

- The path followed by the Chilean wine industry is consistent with the evolution of market demand, which continues to shift toward higher quality wines, produced in a friendly environment.

- This preference means focusing on the "terroir", i.e., the expression of the full potential of wine, so that it reflects the characteristics of the area and the grower that produces it.

- Exploiting the terroir concept along with innovative high quality products including organic wines is likely to be a rewarding course for future action.
Wine: organic market

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