The impact of the Argentine wine industry crisis on the different links of the production chain

Carlos Abihaggle by Universidad Nacional de Cuyo (carlosabizam@gmail.com)
Leonardo González Luque by IDEAL Foundation (gonzalezluque@hotmail.com)
Alfredo Aciar by IDEAL Foundation (alfaci@gmail.com)

The Argentine wine industry is again in a crisis. However, this crisis does not affect all links of the production chain in equal measure, since the effects decrease as we approach the final consumer, and as the size of the company increases.

Regarding the viticulture sector, a decrease in real prices of the grape and viniculture products have posed serious challenges to most of producers to the extent that many of them are asking themselves whether it is at all economically worth it to harvest in 2015.

The study shows that around 75% of the viticulture observations presented economic losses during 2014. Furthermore, the forecasts indicate a significant increase of this proportion (to more than 90%) for the upcoming season.

The research states that within the wine-making link (wineries that grind grapes and convert them into wine) profitability was practically zero during 2014, a situation that would continue during the present year since the increase in costs will be absorbed through an increase of the percentage that producers pay for elaboration.

Large wine bottling establishments are the only ones that display a positive, yet low, profitability. However, this link presents a clear tendency to concentration since the scale of production seems to be the key to survive the increasing market power of big distribution companies.

Regarding the mass consumer market of wine, the study reveals a price difference of 75-80% between the price paid by distribution chains and the one paid (VAT excluded) by final consumers. This difference breaks down into the following way: 30-35% goes to the distribution chain and 45-50% to supermarkets, stores, etc. These percentages are not profitability rates since costs are not being considered; however, the situation has raised the interest of the rest of the production chain for spillover strategies of this difference in prices. Still, the complexity of the distribution channels, the diversity of the wine industry products and the market competition with other drinks has raised yellow and red flags over this path since it could diminish consumption.
Finally, the research shows that the most relevant variable in determining the price that producers and wine-makers pay is the wine stock at wineries. When this variable is below 4.5 (that is below 4.5 months of commercialization) real prices go up and vice versa. Therefore we recommend that whatever intervention policy the Government implements to improve the profitability of producers and wine-makers, this one should be directed to reduce the production surpluses and sustain them over time.