Wine regulations in Argentina: how they have influenced the industry’s performance and insights for the future

ALEJANDRO GENNARI\textsuperscript{a}, JIMENA ESTRELLA ORREGO\textsuperscript{b} and LEONARDO SANTONI\textsuperscript{c}

\textsuperscript{abc} Department of Economics, Policy and Rural Management, National University of Cuyo, Almirante Brown 500, Luján de Cuyo, Mendoza, Argentina

\textsuperscript{a} agennari@fca.uncu.edu.ar, \textsuperscript{b} jestrella@fca.uncu.edu.ar, \textsuperscript{c} leojsantoni@gmail.com

Wine regulations in Argentina can be traced to 1880, with the early productions of wine by Italian and Spanish immigrants in the provinces of Mendoza and San Juan. Initiatives to promote and to discourage grape and wine production have gone hand by hand with the growth or crisis periods. Tax-breaks programs have been widely employed, typically generating oversupply. Noble vines that were planted decades before were ripped out and replaced by \textit{uva criolla}, a variety able to produce very high yields. To solve this oversupply and the ulterior price crisis, different initiatives were taken such as: temporary plantation prohibition, tax-exempt programs for specific vine varieties, regulations for sales quantity, public acquisition of grapes and wine for ulterior elimination or distillation, among others. Most of these initiatives only had a short term effect and the oversupply problem rapidly returned, requiring new measures. When consumption started to decreased, this oversupply situation led to an unprecedented crisis. After one century, it was the end of the “table wine model for the domestic market”. Consequences were disastrous: more than 130 thousand hectares were ripped out and almost 5,000 grape growers and numerous wineries were left bankrupt. Perhaps the greatest regret refers to the loss of thousand hectares of the now emblematic and revaluated Malbec grapes: from 72,000 hectares in 1978 to only 10,000 ha in 1990.

A new strategic approach was required to overcome the crisis. Consensus raised on the need to produce high quality wine for the domestic and export market. A process of high investment rates
and vines ‘reconversion’ began in the ‘90s. The particular macroeconomic situation of the period\(^1\) aided this modernization of agricultural and industrial activities. Specifically, the must regulation was crucial for the successful adoption of this strategy and it helped the general equilibrium of the wine industry. Mendoza and San Juan agreed on yearly devoting a share of total grape production to must production. In a context of high commodity prices, this production has allowed producers a smooth transition from low-quality grape varieties to high-quality ones. For wineries, this regulation has offered a longer time frame for modernizing facilities and for the adaptation to the new quality-based model. Malbec surface has grown accordingly, up to 31,000 ha in 2010. Both transitions are still taking place and the must regulation constitutes a central tool for this. In order to enhance the path for high quality wine, the must regulation needs adjustments such as the modification of grape varieties subject to the regulation.

The Strategic Plan for the Argentinian Wine Industry launched in 2004 was defined for ‘sustainably turn Argentina’s wine industry into one of the most distinguished in the word, by 2020’. In this path, measures were taken to change the ‘low-quality wine for the domestic market’ model for a cost leadership model of table wine and must and to promote a ‘high quality wine’ model for the domestic and export market, complement by the eno-tourism business. The plan’s first decade has almost gone, leaving important lessons and insights for the future. The quality of governance of the system represents a main achievement and it can be considered the key asset for the future success of the industry.

New challenges are today present for the wine industry. Differentiation through sustainable practices and through geographical indications is certainly the new trend in the highly competitive wine market. An upgrading public-private consensus needs to be achieved on these subjects to allow the positioning of Argentina in the world wine market.

\(^1\) Overvalued Argentinean currency; conversion box 1 dollar 1 peso; economic deregulation; openness to foreign trade.