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Keywords
Argentina, Policy, Wine, Grape Juice, Diversification, Reconversion

Research Question
Which has been and which should be the role of Mendoza-San Juan Agreement?

Methods
Two methods were used: interviews with selected respondents, made in 2016 to fifteen industry and government leaders; and statistical analysis of collected data.

Results
The agreement has not always been applied correctly, and has limitations on its influence in lowering wine stocks, having some years with problems of over stocks.

Abstract
Mendoza-San Juan Agreement is a regulation created by the provinces of Mendoza and San Juan in Argentina with the main goal of product and market diversification. It was first signed in 1994 and ratified later on that year by two twin laws in both provinces. Due to the importance of those two provinces in the Argentinean wine industry, this agreement has had a national scope.
The agreement established a mandatory contribution per kilogram of grape used for wine production. However, the payment of that contribution could be avoided by making an annually fixed percentage of grape juice instead of wine. Grape juice is usually cheaper than wine, but lower stocks in the domestic wine market would make the price of wine higher and consequently profitability would increase.
Each of the signatory provinces has different distinctive characteristics. Because of its productive system, San Juan does not have problems in accomplishing the percentage of grape juice diversification determined each year in the agreement. Despite there are wineries that do not produce grape juice at all, the overall grape juice production of the province is always higher than the agreed. On the other hand, Mendoza grape juice production is usually lower than the agreed.
After more than twenty two years, the alternatives for avoiding the mandatory contribution in Mendoza are four. Producing grape must continue to be one of those. A second alternative is exporting wine. A third is to access to quotas that are given to wineries which have not elaborated the Cereza, Criolla and Moscatel varieties and have bottled at least half of their production or have exported at least 10% of their production all in the previous year. A fourth alternative is to use wine for the production of vinegar or distillates.
Since the agreement, important changes had happened in the Argentinean grape and wine business. In the domestic market, per capita wine consumption has substantially decreased. Despite the Argentinean population has increase; wine consumption has decreased in a formidable way. In fact, in 2015 wine consumption volume was a 28% smaller than in 1994. Also, consumers demand more red wine and less white wine, and more enological quality than before.

Other important change has been a formidable increase in exports. In 1994 wine exports were of 22,631 thousand liters, while in 2015 they were of 267,493 thousand liters, reaching a maximum of 414,055 thousand liters in 2008. Furthermore, a similar phenomenon has happened with concentrated grape juice. Its exports have increased from 11,118 T in 1994 to 124,997 T in 2015, reaching 197,831 T in 2007.

Regarding the Argentinean production, the surface, as well as the harvested volume has slightly increased. The main difference has been a substantial change in grape varieties, with a decrease in the surface of low enological quality grapes and an increase in high enological quality grapes.

With the goal of assessing the impact the agreement has have in the last decade, three research questions have been formulated:

1- Has there been wine over stocks?
2- Has the agreement been applied correctly?
3- Has the agreement really influenced in lowering wine stocks?

In order to address those questions, two methods were used: interviews with selected respondents, and statistical analysis of data. Fifteen interviews where done in 2016. Respondents were people who work or have worked on important positions in the government or in the different associations related with the grape and wine business. Statistical analysis was done with public data collected, and also information which was conceded by public institutions. The analyzed period was 2006 to 2015.

In regards to the first question, all respondents agree there have been years with over stocks. In addition, the statistical analysis of data shows exactly the same.

The second question is focused on determining if the percentage fixed each year has been correctly selected. There are different points of view between respondents. Nevertheless, they agree that this percentage should be selected in order to avoid over stocks. By using data which was available each year at the time of fixing the percentage, it was determined if that percentage has been selected in accordance with technical aspects. Results suggest political considerations have influenced the decision in some years.

Regarding the third question, the majority of the respondents consider the influence the agreement has on increasing wine exports is extremely small. However, there are extremely different opinions on the influence the annually fixed percentage has on the percentage of grape juice produced. The results of the statistical analysis of data suggest that the percentage of grape juice which is annually done is far more influenced by market forces than by the percentage which is annually fixed in the agreement.

While there are extremely diverse points of view about the role and influence of the agreement, there is consensus on the problem over supply usually is. A varietal reconversion is suggested by all respondents as a way to relieve part of that problem.

Despite a decrease in the surface of low enological quality grapes and an increase in high enological quality grapes over the last decades, there is still an important gap between supply and demand. There is an excess of low enological quality grapes, with white varieties like Pedro Jimenez and Ugni Blanc, and rosé varieties like Cereza, Criolla Grande and Moscadel Rosado. While an important part of those varieties is devoted to the production of grape juice, another is used for producing white table wine. Domestic market is over supplied with this kind of product, and its exports are considerably low. Moreover, an important part of the wine from these grapes is mixed with the one of varieties like Aspirant in order to convert it in red wine.

Red varietal wines have usually considerably higher prices than white table wines in the domestic market and have a higher sale potential in the foreign market. Thus, a strong varietal reconversion could be an alternative for helping to fix an important part of the wine overstock problem considering over supply is currently more significant in white table wine.

Even though there is consensus on the need for the varietal reconversion, there are extremely diverse opinions regarding what should be done with the agreement. There are those who sustain it should not be changed and those who believe some changes should be done. Also, there are those who believe the Agreement should not exist anymore.