

# ARGENTINA ERUPT

HOW SOUTH AMERICA'S LARGEST  
WINE-PRODUCING COUNTRY BECAME  
AN EXPORT GIANT

BY MICHAEL SCHACHNER

**Y**ou've heard the sayings before: From misfortune comes opportunity; every dark cloud has a silver lining; when one door closes, another opens. Apply any of these well-worn adages to Argentina's wine industry in the 21st century and you will be onto something.

Exactly eight years ago Argentina experienced the mother of all economic crises. After a decade or so of smooth sailing and economic growth under the rule of President Carlos Menem, a period when Argentineans basked in the glory of relative wealth and toasted their good fortune with liters upon liters of domestic wine, Argentina's economy abruptly tanked. The peso, which had been worth one American dollar, was devalued to a fixed rate of three pesos to the dollar. Subsequently, and in a very short span of time, billions of dollars in loans were defaulted on (sound familiar?) as millions of Argentineans went from rich to not so rich; from middle class to poor; and from poor to destitute. In simple terms that we understand better today than ever before: the bubble had burst.

As a result, a country that had been producing more wine than any other place on earth besides France, Italy, Spain and the U.S.—and one that consumed a higher percentage of its own vinous product (about 90%) than any other wine-producing country—was broke and not

nearly as thirsty for a jug of Bonarda, a Tetra Pak® of Malbec or a quaff of Torrontés. Almost overnight, Argentineans did not have the disposable cash to spend on wine, and this despite the fact that the country's wine-drinking and wine-producing roots run deeper than any place in the so-called New World.

Naturally, such a dramatic change in domestic demand for wine had an immediate and huge impact on Argentina's wineries, which to their benefit had taken advantage of the happy 1990s to build and upgrade infrastructure, purchase new barrels, buy raw land, plant vineyards, invest in human talent and take unprecedented efforts to improve the quality of their wines. Yet with all this new investment—about \$1 billion in total, much of it from European, Chilean and other foreign entities—resulting in the best wines Argentina had ever produced, where would these bodegas sell their wines if the domestic market was now as dry as the Mendoza desert?

Like a lightning bolt from over the Andes, the answer came to Argentina's wineries en masse and out of necessity: the new focus would become the global market, i.e. the same American, British, Canadian and Scandinavian consumers who had helped transform Chile and Australia into big-time players on the international wine scene. And with Argentinean wine about to cost two-thirds less than it did the vintage before, it made sense that this new model might work, assuming that

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consumers would take to Argentine wine—Malbec in particular—the way they had with Cabernet Sauvignon from Chile, Shiraz and Chardonnay from Australia, and Sauvignon Blanc from New Zealand.

And so it was written into the business code for these new and difficult times: Argentina would begin to embrace wine exports in a way it never had before, and certainly not since the 1980s when five wineries led by Trapiche-Peñaflor and a young executive named Carlos Pulenta broke into the U.S. market as a joint-venture export entity called Vinos Argentinos.

Vinos Argentinos failed, but since then Trapiche has remained Argentina's export leader, posting growth every year for more than 20 years. And during the 1990s, Bodega Catena Zapata started to achieve the solid market share and brand awareness that it enjoys today. But they are the exceptions; most other wineries didn't fully explore the export market until the currency debacle of 2001.

And while Trapiche and Catena battled hard for any market they could grab back in the 1980s and '90s, in the new wave of foreign exploration Argentina would crack and conquer export markets through a combination of value-for-money and heretofore unseen quality, what Laura Catena, vice president of her family's winery, sees as her country's advantage over the playing field.

"Our production costs are low, our terroir is good, and our wines are better values than most of what we compete against. Our \$10 wines compete with \$20 wines from elsewhere, and our \$30 wines are better and more consistent than the wines that cost \$50 or more from France and California," Catena said in an interview from Argentina.

Given the export and sales figures that have been coming out in recent years, one cannot argue with Catena's logic or Argentina's new-

"In 2004, if we had 100 floor displays, one or maybe two were Argentinean Malbecs. Now it's four or five, and I'm selling a case per day," says a New York retailer.

found success with exports. Eight years since the economic downturn and the Argentine Tiger is growling and showing its claws and teeth like few observers might have reasonably expected: Exports of Argentinean wine to the U.S. have jumped from \$28.5 million (freight on board or FOB) in 2002 to approximately \$146 million in 2008.

With these numbers in the bag and with the Argentine economy slowly recovering despite domestic inflation, nothing points to any slowdown in exports in the near future. "We are still exporting barely 30% of our production," notes José Zuccardi, president of Familia Zuccardi in Maipú, Mendoza. "If you look at Argentina's production and share of the international market, there is huge potential for continued growth, but also a commitment to revitalizing the domestic market. Together this gives us an extremely interesting and positive perspective. The domestic market is smaller than before, but like the rest of

the world it wants better-quality wines, which creates positive pressures and increased demand for good wines."

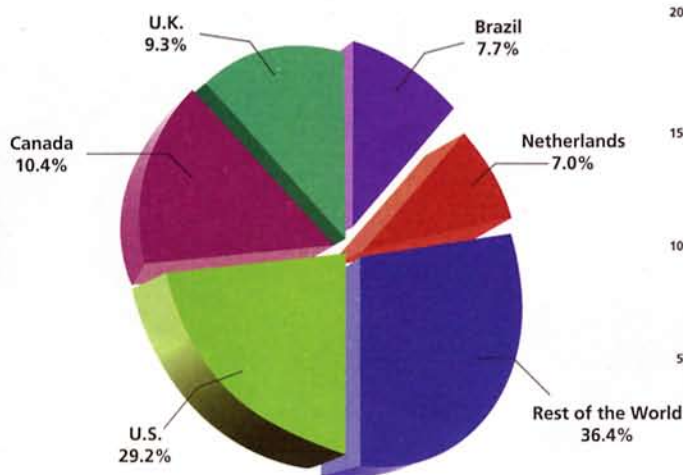
Lending credence to Zuccardi's words, Argentina still lags behind neighboring Chile when it comes to gross wine exports even though Argentina produces far more wine than Chile. In 2008 for example, Chile sent an estimated 7 million cases of wine to the U.S. alone, the value of which totals about \$215 million.

### Malbec paves the way

In the same way that Australia hitched its wagon to the international acceptance of Shiraz, Malbec has been the horse that has been pulling the cart for Argentina.

Blessed with high-altitude vineyards, dry weather, ample water from the Andes and a willingness among wineries and growers to cut back on

TOP EXPORT MARKETS FOR ARGENTINEAN WINE (2008)



ARGENTINA GLOBAL WINE EXPORTS



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yields, Malbec has morphed from a generic workhorse grape and bulk filler into something far more world-class in stature.

"In 2004, if we had 100 floor displays, one or maybe two wines were Argentinean Malbecs. Now it's four or five, and I'm selling a case of Malbec per day compared to maybe a case per month back then," says Karen Rozansky, general manager of Best Cellars, a value-oriented store that started on New York's Upper East Side and is now a chain owned by A&P supermarkets. "Malbec from Argentina is by far the number one wine among the younger demographic of shopper."

Laura Catena, who lives most of the year in San Francisco and makes her own Argentine wine under the Luca label, but has clearly learned plenty from her legendary father, Nicolas—an undisputed pioneer in the exporting of Argentinean wine to the United States—says Malbec's popularity here in the United States is easy to explain.

"For starters, it's a friendly wine. Our terroir features altitude and cool nights, which results in wines with concentration, soft tannins, normal sugars and lots of flavor. Isn't that what everyone wants?"

She also attributes Malbec's soaring popularity to the "gatekeepers" in the business, meaning the wine press, retailers and sommeliers who have been singing Malbec's praises. "Just look at the ratings for Argentinean Malbec. Consumers are savvy, and wine journalists are even more savvy. The American consumer is sophisticated and you can't have success with any kind of wine or varietal in the U.S. unless it's good and well respected. Especially if the supply is great, which is the case with Malbec."

Yet it's not just Americans who are relying on a plethora of 90-point scores to find a bevy of plump and tasty Malbecs. It's the whole world.

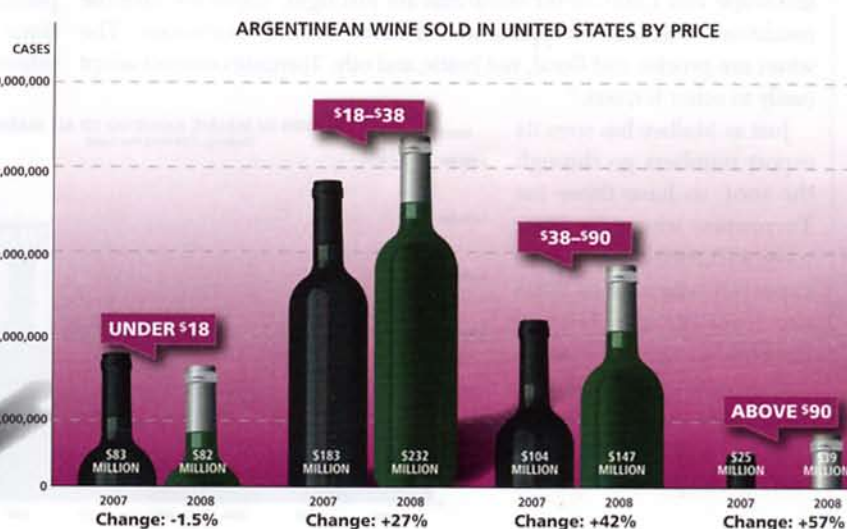


Laura Catena says Malbec is a "friendly wine" that everyone wants; Carlos Pulenta was an early exporter in Argentina—in the 1980s—who predicted that his country would someday explode on the world scene.

Back in 2002, Argentina's wineries shipped about 860,000 cases of Malbec to worldwide markets including the U.S., U.K., Brazil, Holland, Russia and beyond; the value of that wine in FOB terms was about \$27.5 million. Last year, the quantity was 5.4 million cases of Malbec valued at \$35.5 million, up nearly 30% over six years ago.

"Malbec is Argentina's locomotive and will stay so forever," boldly predicts Hervé Birnie-Scott, a director with Terrazas de los Andes, a major Argentinean brand owned and operated by Louis Vuitton-Moët Hennessy. "It's Argentina's wine DNA. It's our singularity, it's our difference. And it's the perfect fit for our terroir-climate, which is not something that's as common as you might think."

Alberto Arizu, chairman of the venerable Luigi Bosca winery in





José Zuccardi of Familia Zuccardi insists that Argentina's export potential is untapped. Middle, Malbec, the lifeblood of Argentina. Right, Torrontés, an emerging aromatic white grape with growing sales numbers.

Luján de Cuyo, Mendoza, agrees that Malbec is largely responsible for Argentina's 21st-century success, but he says there's more to the picture than just Malbec.

"Malbec has been an extraordinary vehicle that has allowed Argentina to insert itself into the world's consciousness. But how many countries have as much regional diversity as Argentina?" he asks, noting that the country has vineyards spanning more than a thousand miles from north to south. "We have a veritable fan of excellent varieties and blends from various distinct zones."

### Torrontés tries to follow

One of these "other" wines that appears to be on the rise is Torrontés, an aromatic white with a Spanish pedigree and Muscat-like aromas and flavors. Accepting the reality that being a one-trick pony can be limiting and potentially disastrous if global interest in Malbec were to wane, Argentinean wineries have begun marketing Torrontés with vigor while at the same time making Torrontés that's better than ever before.

"Torrontés can't come from anywhere," says Birnie-Scott. "It should come only from the best place, and that's Cafayate in Salta, where the landscape and 1,800-meter elevations are just right. These are extreme conditions that lead to typical and delicate varietal expression. The wines are precise and floral, not rustic and oily. Torrontés doesn't adapt easily to other terroirs."

Just as Malbec has seen its export numbers go through the roof, so have those for Torrontés, where in 2002 only 140,000 cases were exported whereas in 2008 the number had leaped threefold to 450,000 cases.

"Torrontés from Cafayate and Pinot Noir from Rio Negro in Patagonia are both great possibilities for

Argentina," says Carlos Pulenta, founder and chairman of Carlos Pulenta Wines in the Vistalba subzone of Mendoza and a former executive with Trapiche and later Bodegas Salentein. "Even with all our history, Argentina is still in the process of identifying itself as a wine-producing country. We have known that here, but the world is just learning about us. If the past five years have been all about export growth, the next ten years will be a time for all the new wineries and newcomers to consolidate and achieve consistency."

In the meantime, American consumers should expect to have access to only more Argentinean wines, and at all price points. Figures indicate that it is not the bottom end of the market that is growing fastest, but the higher end. For example, in 2008 the volume of Argentinean wine priced below \$18 retail in the U.S. fell 2.9% from 2007, while the \$18-\$38 range saw an increase of 24%; the \$38-\$90 range increased 41%; and the above-\$90 range, albeit small in quantity, jumped by 56% to more than 250,000 cases.

"It will always be more profitable to sell the lower end domestically and export the best wines that claim higher prices," concludes Laura Catena. "We still have the water, the weather, the old vines and the new plantings that are maturing. If we continue with quality, we should continue to grow. If quality falls, which sometimes happens with growing international markets, it'll be a different story." **WE**



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