The Wrath of Grapes: Globalization, Economics, and the Rapid Rise of the Chilean Wine Industry

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It is well to remember that there are five reasons for drinking: the arrival of a friend; one's present or future thirst; the excellence of the wine; or any other reason.

- Latin saying

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Acknowledgements

It’s been an interesting eighteen months. I started this project in January of 2010 with a vague idea and an unsure timeline to finish it. The fact that something resembling an academic paper follows this page is much more a credit to others than it is to me. First and foremost, I’d like to thank Dr. Douglass Sullivan-González for agreeing to advise me throughout this project. He has been more of a coach than an advisor; his motivation, strategies, and (justified) threats gave me the push that I needed to finish. Dr. William Schenck has helped me through my blunders and put up with my organizational flaws, and Dr. KeesGispen has given me insightful and useful commentary and criticisms. Dr. Moen too deserves credit, his willingness to step in and help saved the project.

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In vino veritas
In wine, there is truth – Latin proverb

Introduction

Wine has a mystique. There are few products in the history of the world that can rival its imagery, its role in culture, and its symbolism. It is at once ubiquitous and exclusive, and has played a role in societies both ancient and modern. With all of its history, there are very few countries with the climate to produce wines. Of these countries with wine-producing capacity, even fewer have a history of the technological capacity to consistently produce wines on a large scale. With these factors taken into consideration, the global market for wine becomes increasingly concentrated.

Globalization changed everything. Over the past twenty years, the opening of international markets, population growth, and rapid changes in communication created new markets and lowered barriers to entry in the global wine market. The internet, for instance, allowed for a market where consumers could research products quickly, thoroughly, and easily. The opening of international markets, especially in countries transitioning to democracy, allowed for new entrants into the global marketplace. Population growth created new customers around the world.

These changes affected every industry in the world, and the Chilean wine industry is no exception. The industry, and especially its export market, grew tremendously from 1990 until the present.No one specific factor caused this growth—it was due to an emerging New World wine industry, smart entrepreneurial decisions on the part of Chilean wine producers, a series of supportive government policies, and increased global opportunity.

Chile produces wine in several regions throughout the country. Because of the nation's length, the majority of regions where vineyards can thrive are located in the middle half of the country. To the north of these regions lies the Atacama, the world's highest and driest desert; to the south the country breaks up into the rugged, rainy, and remote archipelagos of Patagonia. Unsurprisingly, these two extremes are not conducive to wine production. A map of the Chilean wine regions is below:

(Source: Virgin Wines www.virginwines.co.uk)

Then ten valleys shown above are the principal wine producing regions in the country. Of the ten above, the Casablanca, Maipo, Colchagua, and Maule regions are the most populated. The larger Chilean wine firms are located in these regions—Concha y Toro, for instance, is in the Maipo Valley, while Cono Sur is further south in the Colchagua valley. Large producers such as Concha y Toro and Cono Sur are major players in the global wine industry—indicative of the changes that occurred over the past twenty years.

Over that same time period, new countries began to export wines on a large scale, challenging the traditional hegemony of European wine production. This thesis is structured as an overview of the causes that led to the growth in the Chilean wine industry over the past twenty years. To that end, the thesis will first look at the changes brought on by the entry of these new producers into the market. Through a discussion of the differences in firm structure between the new producers and the traditional model, the schism between newer and older producers becomes apparent. In addition, the changing market shares between these two groups also provide insight into the large-scale changes in the industry.

Secondly, this thesis will investigate strategies with which Chilean winemakers were able to achieve their successes through an analysis of the effects of country of origin appellation on the perception of a brand—that is, the way in which consumers perceive a particular country's wine. In this same vein, the thesis will analyze the branding and perception of Chilean wine as a "value wine," and determine whether or not that perception is accurate or beneficial.

Next, the thesis will analyze the ways in which Chilean winemakers attempt to differentiate themselves from competitors. To help in this discussion, I interviewed Diego Garay and Felipe Feliú of Almaviva winery at their vineyards in Puente Alto, Chile. The interview was conducted in Spanish, but translated to English for this thesis. Additional analysis of the perceptions of Chilean wines and their global positioning was drawn from current industry publications, such *Wine Spectator* magazine and the *Financial Times* of London.

Next, this thesis determines the role played by the Chilean government in the wine industry's growth. To determine the extent of involvement and its success, this thesis looks at the overall economic policies of the past twenty years, how they have affected the export market, and how they have affected the wine industry. The thesis will also focus on the destination of the exports—namely the correlation between free trade policies in specific countries and wine exports to these countries. International agreements on the wine industry and their effects will also be discussed. This section will rely on raw data from Chilean industry organizations, as well as the secondary sources of economic histories and current trade policy analyses.

Finally, the thesis will examine the role that emerging economies play in the global wine market. As their populations and economies grow, these emergent countries are becoming large importers of wine. The importance of these new markets and the Chilean winemakers' attempts to gain a foothold in them will be discussed.

Through this thesis, I hope to provide an overview into the causes of the growth of the Chilean wine industry. The shrewd business decisions, beneficial government policy, and global changes provide insight into a large, competitive, and complex industry, and the successes of Chile can provide lessons for businesses in the wine industry and beyond.

A German wine label is one of the things life's too short for, a daunting testimony to that peculiar nation's love of detail and organization. - Kingsley Amis, *Everyday Drinking*

CHAPTER I: A New Versus Old World Perspective

Historically, wine culture has been centered in Western Europe, especially the countries of Spain, Italy, Portugal, France, and Germany. Wine has played a large part in the cultural development of these countries. For many of these countries, especially Italy and France, wine is a matter of national pride. For most of history, these five countries held a virtual monopoly on wine production and consumption—largely in part because they were the only countries that had the technology and the knowledge to produce it. These countries spread the same wine-producing technologies that allowed their industries to flourish. As the European powers spread their influence throughout the world, they discovered that the same techniques used to make wine in France or Spain also worked in Chile, South Africa, or Australia. The production in these non-European countries, however, remained a rather insignificant part of the global wine industry.

Largely spurred by the rapid globalization of the late twentieth century, societal attitudes towards wine have changed over the past thirty years. Wine became a more accepted part of daily life in countries that do not have a traditional wine culture, and more importantly, wine became more accessible to the average person.The increased interconnectedness between countries, businesses, and individuals provided a market in which wine producers from non-traditional wine producing regions could flourish. These countries, known as "New World" wine countries, took advantage of the opportunities presented by globalization and experienced tremendous growth in production, consumption, and exports. Beginning with the growth of California's Napa Valley in the 1970s, Australia, Chile, South Africa, Argentina, New Zealand, and the United States—the New World countries—enjoyed the growing wealth associated with wine production. These New World wine countries challenged the Old World market monopoly through the opportunities created by globalization and increased consumption.

This New World growth has had serious implications for the way in which wine is perceived, marketed, and ultimately sold. Traditionally, the European "Old World" countries would label their wine based on traditional ideas of *terroir*—the belief that a wine's characteristics are derived from a very specific set of traits from the ground in which the grapes are grown, especially acidity of the soil, rainfall, sunlight, and climate. This idea of *terroir* and *appellation d'origine*—labeling that reflects the region of origin—has given way to labeling and selling based on broader concepts of grape variety and national origin.[1]

The repercussions of this shift in thought have been seen throughout the world wine market. New World wine labeling practices based on variety and country of origin changed the way in which wine is perceived.[2] For example, wine has changed from being thought of by the average consumer as a "Burgundy" or a "Piedmont" to being thought of as a California chardonnay or a Chilean cabernet sauvignon—a shift from regional appellation to a standardized country of origin and variety. Of course, this perception shift is not the only factor that plays into wine-buying decisions, and there is still significant room for firms to maneuver within the parameters of country/ variety thought.

[1]Walter C. Labys, et al. "Trends versus cycles in global wine export shares." *The Australian Journal of Agricultural and Research Economics*50 (2006): 528.
[2] Günter Schamel. "Geography versus Brands in a Global Wine Market."*Agribusiness* 22 (2006):366

Even with the entry of New World wine countries and firms, the wine industry remains highly concentrated. The top ten wine exporting countries account for over ninety percent of the world's wine trade. The production is split about evenly between Old and New World countries, however. In terms of volume produced, France remains the world leader with 18.5 percent of the world's production. Chile is in fifth place with 6.0 percent behind Spain, Italy, and Australia. Since 1990 though, the shares of the respective countries have changed. Since then, France has lost 13.4 percent of its market share, while the combined exports for Chile, Argentina, South Africa, and the United States increased from 3.8 to 16.7 percent. Of the four countries, Chile's growth was the most pronounced.[3]

The growth of the New World countries threatens the established order of the wine industry.The globalization of the industry and the ensuing market shake-up challenged the historic competitive advantages—especially reputation—enjoyed by Old World producers.[4] The Old World countries—the traditional European bastions of the wine industry—havemost strongly felt the effects of the change.[5]The same strategies that enabled the Old World countries to maintain their hold on the traditional market ultimately hurt the countries in the modern market. These countries were the first to define taste and quality standards, which gave them an advantage in global perceptions of their wines, marketing, and ultimately sales.[6] The Old World countries used these measures of quality and taste—which they created—to define their wines

[3]Labys, et al, 530
[4]Christian Felzenstein, et al. "The Effects of Country of Origin on UK Consumers' Perception of Imported Wines."*Journal of Food Products Marketing* 11 (2005): 110.
[5]Mahmood Hussein, et al. "An Analysis of Globalization Forces in the Wine Industry: Implications and Recommendations for Wineries." *Journal of Global Marketing* 21(2007):34.
[6]Hussain, et al., 40

through appellations.This branding protected the quality of specific regions such as Champagne or Burgundy, but proved to be too complex of a system for modern consumers to navigate.[7]

The industry, too, became increasingly complex. In the Old World countries, the industry is controlled mostly by regional, family-owned businesses. These tend to place a higher emphasis on the traditional methods of production and are more reluctant to change their business practices. These small firms lead to a fragmented industry; the top four French firms accounted for less than twenty percent of the wines produced in 2003.[8]

The Old World, too, traditionally relies on the domestic market to support its wine production. History and culture explain the strong domestic market; wine is an expected part of meals, celebrations, and family gatherings in countries like Italy, France, and Spain.[9] This reliance on the domestic market has faltered as domestic consumption has tapered off. Wine consumption in Italy and France has halved since 1980, and the drop-off is more pronounced in younger demographics.The growing status of beer and soft drinks in part caused the decline in wine consumption in Old World countries.Many French and Italian consumers are switching to beer; imports and microbrews make it appear more exotic than their traditional domestic wines. The same is true with soft drinks. Large firms such as Coca-Cola and Pepsi portray their products as more youthful drinks and as a better alternative to wine with meals.[10] By and large, consumers in the Old World are expanding their options, leaving Old World wine producers struggling to adapt.

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[7]HervéRemaud, et al. "Wine Business Practices: A New Versus Old Wine World Perspective." *Agribusiness* 22 (2006):406.
[8]Remaud, et al., 406
[9]Hussain, et al., 40
[10] Gwyn Campbell et al. "Introduction: Old World Strategies against New World competition in a globalizing wine industry." *British Food Journal* 108 (2005): 233.

The behavior of firms in the Old World contrasts the behavior of their New World competitors. These American, Argentine, New Zealand, Australian, and Chilean firms, and especially the smaller firms, tend to adopt more aggressive business strategies than their European counterparts. As HervéRemaud writes in his study of business practices between New World and French small-scale wine producers,

> *small firms from [New World countries] tend to adopt a more entrepreneurial attitude than their French counterparts: more aggressive towards their export markets and more innovative. On the other hand, small French wine companies tend to be more* terroir *oriented (a focus on the specific grape growing site and wine making practices of the region) with more conservative strategic behavior.*[11]

This aggressive business strategy benefits the New World countries, and especially allows them to make up for differences in domestic consumption. Even with its recent decline, the Old World still consumes much more wine per capita than the New World. In 2004, Chile accounted for only one percent of the wine consumed in the world, with a per capita consumption of 14.3 liters per year. Of course, Chile's small size factors into the low consumption percentage, but its per capita consumption ranks higher than both the United States and South Africa, among others. While it still lags behind Old World consumption, overall, consumption has been increasing in New World countries.[12]

The area in which New World producers, especially Chile, are most successful is the export market. In large part due to the smaller domestic market of New World countries, exports have become the main focus of New World producers. Chile has had a

[11]Remaud, et al., 408
[12]Hussain, et al., 34-35

tremendous growth in exports since 1988, increasing from 45 million liters exported in that year to 325 million liters exported in 2004. This growth is represented in the following graph:

Figure 1.1: Chilean Wine Export Growth, 1988-2000

(Source: Christian Felzenstein, et al."The Effects of Country of Origin on UK Consumers' Perception of Imported Wines."*Journal of Food Products Marketing* 11 (2005).)

The Chilean export growth has been continuous since the 1980s, and has continued into the 2000s. In 2004, the country exported 470 million liters, totaling six percent of the world's exports. It was a seventy-three percent increase since 2000, and places Chile in fifth place on a list of the world's wine exporters by volume.[13]

The New World's business practices, too, give it a strong competitive advantage and increase its potential for growth. New World countries, especially Australia and Chile, benefit from "adaptive, large-scale producers" that provide a great lure for foreign investment.[14] This foreign investment, combined with the use of vertical and horizontal integration, greater standardization, a willingness to try new technologies (especially in the relatively new field of blended wine), and a strong emphasis on marketing have enabled large wine producers to grow closer to their goal of an economy of scale.[15] The overall industry is more controlled in the New World, too.For example the four largest Chilean wineries (Concha y Toro, San Pedro, Santa Rita, and Santa Carolina) contribute 45% of Chilean wine exports.[16]For example, the top four Australian wine companies account for more than 80% of the production in the country. All are publicly held corporations traded on either the Australian or another stock market. This highly organized corporate structure stands in stark contrast to the family-run, unwieldy Old World model.[17]

New World marketing strategies developed new ways to market their products, which in turn led to their success in the export market. Many of these new marketing strategies include wide price ranges and simplified and attractive labels that minimized intimidation of wine purchasing in customers without significant knowledge of the

[13]Hussain, et al.,35.
[14]Hussain, et al., 41
[15] Collette, 234
[16]Evert-Jan Visser. "A Chilean Wine Cluster? Governance and Upgrading in the Phase of Internationalization."*DesarrolloProductivo* 156(2004):24.
[17]Remaud, et al., 406

market.[18] Their pioneering use of creative and colorful wine bottles and labels for their products plays a large role in the perceptions of New World wines compared to European wines. These simplified labels proved to have a positive effect on wine sales. On the following page, a sample of wine labels from popular New World brands and Old World brands highlights the difference:

1. (Source: wines.com)

2. (Source: wines.com)

[18] Collette, 234

Winesone and two, a Côtes-du-Rhône from France and a Rioja from Spain, are both popular and moderately priced wines, retailing for $10 to $15 in various online stores. Their labels present them otherwise. Both are named and sold based off of the region in which the grapes originate, and both can be intimidating in their lack of easily accessible information on the label. In contrast, the two New World wines presented below are much more visually appealing:

3. 

(Source: wines.com)

4. 

(Source: wines.com)

The labels of wines three and four, a Chilean Carménère and an Australian Shiraz, are a marked contrast to the rather staid labels of the Old World. Both are inexpensive wines considered to be good values, and both are very successful in the American market. The labels are noticeably different: the Australian and Chilean labels are much more colorful, have simple names, and clearly follow the standard New World labeling practices of denoting the grape variety and the country of origin. The Frontera bottle harkens to a relaxing, pastoral scene, while The Little Penguin bottle projects a youthful, fun ambience. Neither of the labels has any connection to the quality of the wine contained within, so in a large part the marketing strategy for these New World firms relies on consumers judging a book by its cover, or in this case a wine by its bottle. And the sales of these New World brands show that for a consumer who may not be wellversed in wine knowledge, the label may be enough to persuade him to purchase the bottle.The strategy does not work, though, unless the wine itself is worth the price.

It is worth noting that these examples do not cover the entire spectrum of New and Old World wine producers. Some Old World producers, notably Fat Bastard and Red Biciclette in France, have adopted a New World-style strategy of simple, brightly colored labels and a more corporate business structure. These two brands have been successful with this approach, too. Red Biciclette, which is "essentially a French jug wine" that successfully marketed a "friendly label" of a "cartoon Frenchman in a beret riding a red bicycle with a dog following him" uses a decidedly New World approach to its labeling.[19]Fat Bastard also enjoyed success, selling 425,000 cases in 2005.[20]Likewise, certain New World firms, for instance the Don Melchor division of Concha y Toro, the

[19] "Winnning Back Joe Corkscrew." *Bloomberg Businessweek*. 24 April 2006. http://www.businessweek.com/magazine/content/06_17/b3981099.htm. Accessed 17 February 2011.
[20] . Ibid.

largest Chilean wine firm, adopt a more European style to provide their bottles with the appearance of Old World craftsmanship, tradition, and quality.

A large part of the New World's export successes are due to its clever marketing strategies. The majority of these New World exports are going to a select few countries. In 2004, half of all imports (as a percentage of world exports) were purchased by the UK (20.7%), the US (16.9%), and Germany (12.5%).[21] Each of these markets is extremely important for wine-exporting countries. New World wines have a 77% market share in the United States, a number that includes domestically produced American wines, but also includes a large number of imports. Europe only commands a 15% market share.[22]In the United Kingdom, traditionally a bellwether for the wine importing tendencies of the global market, Australia has surpassed France as the largest importer to the country.[23] This shift in taste preferences and import success is an astounding fact considering the geographic proximity of France and the UK and the historical British penchant for French wines. To the west, the same pattern is holding true. In Ireland, New World wines have increased their market share from 6% in 1990 to 75% in 2004.[24]

The success of New World producers in Ireland highlights the success that New World producers are having in developing exports to new markets. Increased exports to the USA—which became the world's largest wine consumer this year—andto China, whose 100 million white collar workers are beginning to drink wine in a large part due to its symbolic significance

[21]Labys, et al., 530
[22]Schamel
[23]Hussain, et al., 42
[24] Joe Breen. "Cheap, Cheerful Chile goes mid-market." *Irish Times*. 17 September 2006

of class and prestige, could cement the New World as the primary region for wine production worldwide.[25][26]

[25]Ryan Flinn, "U.S. Passes France as World's Biggest Wine-Consuming Nation," *Bloomberg*, March 15, 2011.
[26]Collette, 234.

It's a naive domestic Burgundy without any breeding, but I think you'll be amused by its presumption. - James Thurbercaption for cartoon in *The New Yorker*

CHAPTER II: Chile as a Brand: Appellation and the Country of Origin Effect

In the past twenty years, Chile followed a two-prong strategy to corner a significant portion of the wine export market. First, Chilean winemakers established themselves based on a country of origin appellation. Secondly, the same winemakers produced good value wines and branded them as such. Smart entrepreneurial decisions and increasing global opportunity made these two strategies successful over the past two decades.

The “place of origin”—especially in the case of agricultural products with strong cultural connections to their respective countries and regions—has long been used as a differentiating feature that can provide a significant competitive advantage. Consumers understand this style of marketing and product differentiation, and see its use in Kobe beef, Colombian coffee, or Mississippi catfish. The importance of place of origin dominates the wine industry. Its effects are seen on a daily basis—hearing the words “French wine” and “Austrian wine” creates very different connotations, even though both are wine-producing countries in Europe, and some Austrian vintages are undoubtedly better on a purely empirical level than some French vintages. Consumers respond to these perceptions of quality distinctions and differentiations and will pay a higher price for a wine that is perceived to be from a country with a higher quality. This phenomenon has been enhanced by marketing strategies in which several companies participate to enhance the image of their country’s production.[27]

[27]Felzenstein, et al., 111

The relative comparative advantages in the wine industry can be measured through the use of the comparative advantage index. This index explains the share of a country's exports in total merchandise exports divided by the share of world wine exports in total world merchandise exports. Between 1990 and 2004, this index decreased from 6.09 to 5.49 for the core Old World wine producers. Chile's comparative advantage index score increased from 2.65 to 11.85.[28] Cyclical factors can also play a role in the comparative advantage index, and when these factors are taken into consideration—local climate conditions, trade policies, exchange rates, and the global economy, especially—the resulting spikes or drops affect many of the Old World producers. However, the growth trend for Chile appears to remain constant. The chart below examines the relationship between export growth, comparative advantage, and the potential for specialization advantages enjoyed by the New World countries.

Table 2.1 Export Performance: bottled, bulk, and sparkling wines.(Spkg= Sparkling, Comp.=competitive)

	Export Growth			Comp. Advantage			Specialization		
	Bottle	**Bulk**	**Spkg**	**Bottle**	**Bulk**	**Spkg**	**Bottle**	**Bulk**	**Spkg**
Old World Average	-2.08	5.28	2.71	6.05	6.12	5.39	0.89	0.51	0.44
New World Average	16.95	21.26	29.04	8.10	8.25	0.50	0.64	0.73	0.24
Chilean Total	13.16	20.91	37.47	15.17	19.12	034	1.00	0.99	0.72

(Source: Labys, et al. 535)

[28]Labys, et al., 531

In the above chart, the values given for Export Growth and Competitive advantage are index values. Higher numbers correspond to higher increases in export growth and a higher competitive advantage. Values given for specialization are representative of the Trade Specialization Index, where the degree of specialization between countries' products is measured. This index is on a 0.00 to 1.00 scale, with 1.00 being the highest degree of specialization.[29] These values correspond with the previously stated statistics, namely that New World countries are better positioned in the global market than Old World countries. Chile has a much higher comparative advantage than either the New or Old World average, and also has a much higher level of specialization.

Chile also draws an advantage from the perceived value of its wines. As a general rule, Chilean wines are not viewed as high-end fine wines, but rather as good quality for the price. This strategy has been effective for Chilean winemakers, and the increase in their export sales have largely been due to this strategy. Wines of Chile—the country's largest trade organization, representing some 75% of Chilean wineries—actively promotes this perception through educational and promotional programs targeted at consumers, distributors, and journalists. The goal of the organization is to "increase and strengthen the image of Chilean wine by positioning Chile as a quality producer with great value wines that over-deliver in every price bracket, especially in the USD $12–25 retail segment."[30] This strategy to actively enhance the reputation of Chile as a value wine has proven successful, and the industry is focusing on maintaining its growth at higher price points.According to Jean Smollen, director of the Wines of Chile promotional group in Dublin, "[The opportunity for increased growth] is expected to continue for the foreseeable future. We must now focus on the mid-price range and create increased

[29]Labys, et al., 536
[30]"Our Vision."Wines of Chile.http://www.winesofchile.org/about-wines-of-chile/goals/. Accessed 2 May 2010.

awareness of the quality and diversity of wine in the future."[31] The stated message that the Wines of Chile organization wants to send is that "Chile offers a diverse range of natural and high-quality wines that consistently deliver great value for the price."[32]

The success or failure of this new, more mid-market strategy remains to be seen, but the perceptions of Chile as a "value wine" remain. Wine consumers, in general, can be divided into four groups: connoisseurs, aspirational drinkers, beverage wine consumers, and new wine drinkers.These groups have been used to categorize market segmentation in the wine industry since 1991 and are listed below, according to Hall and Winchester's usage:[33]

1. Connoisseurs: This is the wine knowledgeable segment, the primary purchasers of fine wines. These people consume wine on a regular (daily) basis. They have a broad spectrum of tastes and like to experiment, although adoption of new tastes may be slow. They are brand loyal, have strong preferences and make their decisions in advance of purchase. They prefer to purchase from specialist wine merchants, auctions, or directly from the wineries. These consumers see wine education as a hobby, read wine journals avidly, and are not price sensitive.

2. Aspirational drinkers: Members of this segment are concerned with the social aspects of wine drinking. They purchase fashionable wine styles and are attracted to the more fashionable brands and labels. Brands act as symbols of status and for reassurance. These buyers are highly risk-averse and will spend considerable time in the search process. They will often need the confidence of the retail assistant and will therefore choose outlets dependent on convenience and their confidence in the retail stall. Aspirational drinkers are strongly influenced by wine writers, journalists, and opinion leaders. They are likely to attend wine appreciation courses.

3. Beverage Wine Consumers: These are avid wine consumers with little desire to appreciate wine. They are loyal to a wine style and are not prepared to experiment. They buy wines in an impersonal supermarket environment. They are brand-loyal to a range of "safe brands", where choice is dependent on a consistent taste, price and price-related promotions.

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[31] Breen, 1
[32] Wines of Chile
[33] Hall, John and Winchester, Maxwell. "EMPIRICAL ANALYSIS OF SPAWTON'S (1991) SEGMENTATION OF THE AUSTRALIAN WINE MARKET", in Asia Pacific Advances in Consumer Research Volume 4. Pages: 319-327. 2001.

4. New Wine Drinkers: These are the young who are attracted to wine based on the behaviour of their parents or peer group. Preferences are not yet established but sparkling wine and coolers may feature strongly in the choice of product consumed. Wine is purchased at social occasions and often "on premises" at pubs, discos, parties and restaurants. They are strongly influenced by the occasion where wine may be consumed. They are unsophisticated and have limited parameters for choice, but often use price as a determinant for purchase".

These groups are not specific to any specific market, but they are the criteria by which wine drinkers are classified worldwide. Since the UK market is a large importer of wine and has a large economy, these metrics are useful to compare to other countries without significant wine industries but a large thirst for consumption. These groups could be used to gain a future insight into the actions of developing countries that will become large wine importers in the future.

Each of these groups has different factors that influence its purchasing decisions. "Value for Money" and "Price" are the leaders in the UK market, followed by "Country of Origin" and "grape variety."[34]The males in Felzenstein's study of British consumers and their preferences outnumbered their female counterparts by a two to one margin, and 55% were between the ages of eighteen and thirty. A further twenty-five percent were aged thirty-one to forty. The group was well-educated, with over seventy percent having a university education. Moreover, forty percent spent between £4.50 to £5.99 ($8.53 to $11.36 US) per bottle, and twenty-seven percent spent between £6.00 and £9.99 ($11.37 to $18.94 US). Australia, Chile, and New Zealand—all New World countries—were the three most preferred countries of origin. Interestingly, a participant's level of education had a large impact on the countries whose products he or she preferred. Those with the highest level of education preferred Australian and American options. Those with the lowest education levels, however, preferred the French.[35] This conclusion is not as damning of an assertion as it seems; the levels of education of a consumer do not necessarily

[34]Felzenstein, et al., 111-12
[35]Felzenstein, et al., 113

reflect the consumer's wine knowledge, but it does seem to indicate that French wines are perceived more on the merits of their country of origin than any other factors.

Chilean wines are perceived as providing the best value for money—furthering the argument that the country's export successes are largely due to the value for the dollar of the wines produced—the "bang for the buck."[36]Felzenstein and Dinnie trace the success of New World wines, especially Chilean wine, to a combination of a price-sensitive market and proactive managerial practices. "With the absence of a proactive strategy," Felzenstein writes, "traditional producers can lose out to more enterprising competitor countries and regions." New producers, in contrast, can develop their market with a specialized international marketing strategy, especially one that takes into account the marketing implications based on the country of origin.

For Chile, the concept of Country of Origin marketing may be a very good strategy. Günter Schamel, a researcher in agricultural economics at Humboldt University in Berlin, analyzed the wine offerings of particular countries and regions based off of the number of wines reviewed by *Wine Spectator* magazine in 2002-2003, their ratings (on a scale of 0-100), and their prices. The majority of the *Wine Spectator* rankings, for perspective, fall between 80 and 94. Anything above 95 is considered to be a "classic" wine, while anything below a 60 is considered undrinkable.Schamel's study was incredibly detailed, encompassing some 5,420 total brands, varieties, and vintages. Overall, the average score for these wines on the *Wine Spectator* scale is 86.7 points with extremes of 61 and 100. The price average is $30.37 USD with a low of $4 and a high of $520. Approximately two-thirds of the wines studied were red varietals, with whites comprising the remainder.[37]

[36]Felzenstein, et al., 114
[37]Schamel, 367

Schamel averages the scores and the prices of the wines from the regions of California, New Zealand, Australia, South Africa, Chile, Argentina, France, Germany, Italy, Portugal, and Spain. The numbers of wines submitted by each region vary in number, from California's 2,017 to Portugal's 54. Taken alone, the average price and average score are an interesting indicator of the quality of wines produced by a country or a region and the role that each plays in the global market. They are as follows:

Table 2.2: Average *Wine Spectator* scores and prices, Old and New World Countries

Old World:

	France	Portugal	Italy	Spain	Germany
Average Score	87.73	85.20	87.33	86.3	90.2
Average Price	$38.71	$16.85	$33.55	$26.11	$26.89

New World:

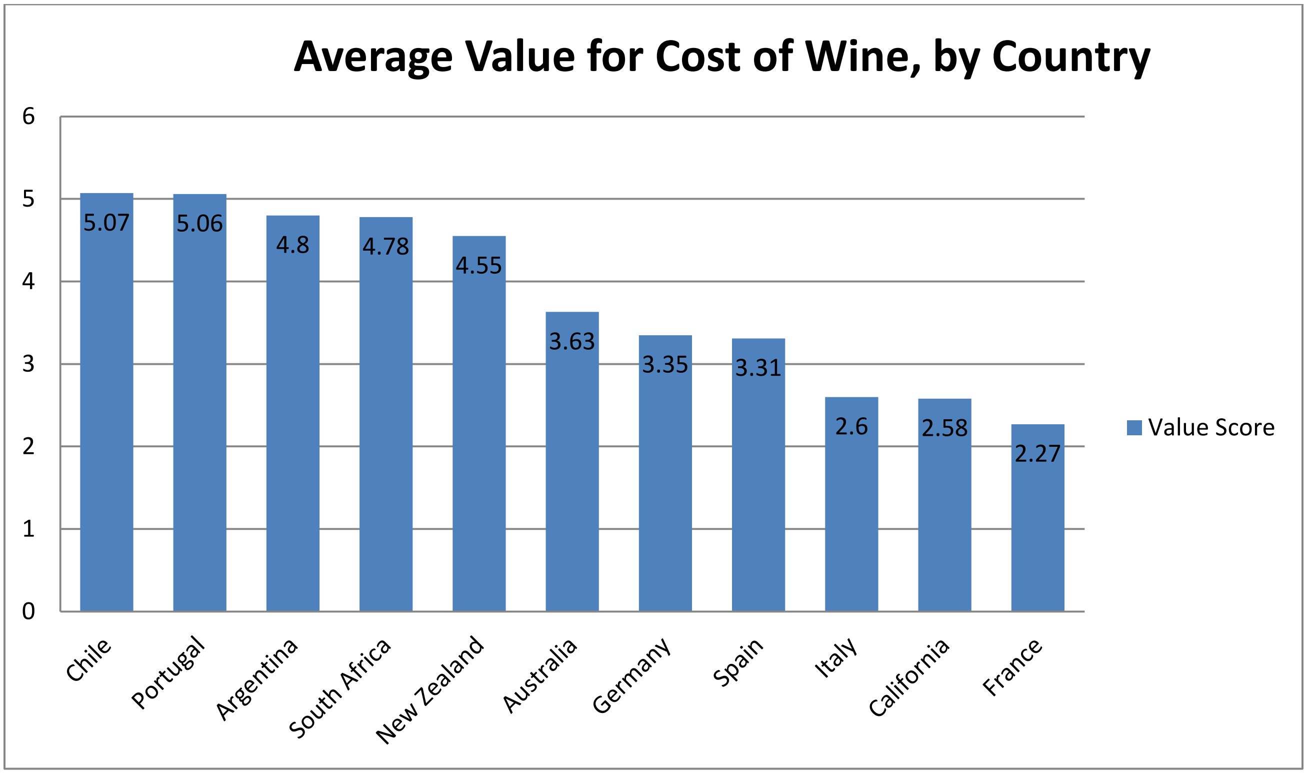
	Australia	New Zealand	South Africa	California	Chile	Argentina
Average Score	86.50	87.00	84.90	86.40	84.40	83.80
Average Price	$23.84	$19.13	$17.77	$33.48	$16.65	$17.45

(Source: Schamel, 368)

The Old World countries—with the exception of Portugal—generally score higher. These countries also have higher prices. Portugal's bucking of the overall trend could be due to the low number of Portuguese wines included in the study, only 54—half as many as the next lowest entrant—or to the typically lower prices of the popular Portuguese dessert wines. The New World wines tend to have lower scores but lower prices, with the exception of California. California's higher prices could in part be due to the California winemakers' wide variety of selections, especially those at the high end of the price spectrum, which skews the price average upwards. The average scores and the average prices can provide insight as to why the New World wines are gaining global market share, but they do not accurately reflect the value of the wines themselves.

By dividing a country's average *Wine Spectator* score by its average price, the relationship between price and quality can be determined on a numerical level. The higher numbers for a country correspond to a better value for money of a particular country's wine.When this is analyzed with the countries and regions used in Schamel's study, the results are as follows:

Figure 2.1: Wine Values by Country



Using this scale (average score/ average price = value score), a clearer picture of the value of a country's wines emerges. With the exceptions of California and Portugal for the aforementioned reasons, New World wines provide a much better value than the Old World wines. Chilean wines especially shine in this regard—on average, they provide almost twice the value of French or Italian wines. The average score for Chilean wines—84.40—is only slightly below the global average of 86.7. The average price, however, is about half of the global average. This follows the trend shown by consumers in the United Kingdom who select wines based on value for money and the overall price of the wine more than the taste, and it confirms the perception of Chilean wine as a "good value for the money."[38]

[38]Felzenstein, et al., 113

The discovery of a wine is of greater moment than the discovery of a constellation. The universe is too full of stars. - Benjamin Franklin

CHAPTER III: Perception of Chilean Wine and Its Global Positioning

Partnerships with European or American firms are an interesting part of the Chilean wine industry, and a part that is often underreported. Generally, these are effectively investments made by established firms into newer ones—the European or American companies provide capital, technology, experience, and business acumen, while the Chilean side provides the land, the labor, and the label. This usually works as a venture capitalist type system; the idea is that both sides profit. These partnerships exist for a variety of reasons, ranging from a company's desire to expand market presence to a want to reposition itself in the market, to a simple desire to make more money. While the partnerships between Chilean winemakers and foreign winemakers led to growth and diversification in the industry, the Chilean wine industry still faces questions about its global market positioning.

Foreign firms are drawn to Chile because of its unique soil and climate, stable macroeconomic environment, a regulatory structure that allows for easy purchase of new land, and relatively low costs. Miguel Torres, the Spanish winemaker, was the first to invest in the Chilean industry in 1980. Since then, foreign direct investment in the wine industry has grown, reaching a level of 101 million US dollars in 2001.[39] Now, there are over twenty of these international wine ventures.[40]

[39]Visser, Evert-Jan, 25-26.
[40] Kristin Bieler. "Chile Hits Fast Forward." *Beverage Media,* April 2011

One such partnership exists between the largest and most famous Chilean wine company, Concha y Toro, and one of the more renowned French firms, Baron de Rothschild. On the surface, these two companies may seem like strange bedfellows—Concha y Toro grew to be a publicly traded, multi-billion dollar company on the New York Stock Exchange by following the Chilean model of good quality and good price, while Rothschild is the kind of wine that James Bond orders.[41] The stated rationale for this partnership is to create a high-quality Chilean wine, one that could stand shoulder to shoulder with the best wines from Europe or the United States. This partnership resulted in Almaviva, an offshoot and semi-autonomous vineyard operated near the Concha y Toro vineyards in the Maipo valley south of Santiago.

Alamaviva's advantage and the presumed motive for the partnership according to the company's website, is that "Chile offers its soil, its climate and its vineyards, while France contributes its winemaking savoir-faire and traditions."[42] Savoir-faire is difficult to quantify, but the presumption is evident: Chile has the raw materials, and France has the know-how and the panache to make something better than the Chileans could if left to their own devices. According to Diego Garay, the commercial manager for Almaviva, it seems likely that there will be an increase in foreign investment and more partnerships created between U.S. and European companies and Chilean companies. To emphasize his point, Garay highlights the partnership between Robert Mondavi in the US and Errazuriz in Chile that created Sena, a red wine blend

[41] "Rothschild *is*a claret."—Sean Connery as James Bond. *Diamonds are Forever*. Directed by Guy Hamilton. 1971; Los Angeles, California.
[42]Almaviva Winery."The Wine: a Felicitous Encounter" www.almavivawinery.com Accessed 16 February 2011.

similar to Almaviva. "But," Garay is quick to point out, "on our side, between Concha y Toro and Baron de Rothschild, there aren't plans for another project."[43]

Almaviva has been an integral part of the Chilean industry's overall push away from lower-end value wines to more mid-market and higher end fare.Almaviva's challenge has been indicative of the challenges faced by the industry as a whole. Felipe Feliú, the United States export director for the company, believes that the perception of Chilean wine is highly related to the particular export market. In less-educated markets—markets without a wine-drinking tradition or a history of wine production, such as China or Brazil—Chilean wine doesn't suffer under the "low-budget" label.Feliú readily admits, however, that in the US market, Chilean wines fall firmly in the lower-end category.Garay agrees: "…within the $10-25 range, it's a good reputation. But above this, it's not as strong. With a few other wines, we can switch the knowledge and belief of what a Chilean wine is. Since our first harvest in 1996, we have achieved and changed the position for the quality required of a high-end price point."

Almaviva appears to have achieved its goal of becoming a world class wine—*Wine Spectator* rated its 1999 vintage at a 92/100, meaning that it was one of the best wines released that year.[44] It takes time to create a reputation that matches up with one's product, however, and that is seen in the continuing global perception of Chilean wines. Wine perception and reputation becomes even more important when compared to Chile's traditional rival and fellow new-world producer, Argentina.

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[43] All of the following quotes from or references to Diego Garay or Felipe Feliú of Almaviva winery come from an in-person interview at the winery's vineyards and bodega in Puente Alto, Chile. These conversations all took place in October of 2010.

[44] "Almaviva Rothschild Concha y Toro Chile." http://www.snooth.com/wine/almaviva-rothschild-concha-y-toro-chile-2002/?t=reviews&r=524395

There isn't much love lost between the two countries of Argentina and Chile—their rivalry extends through sports, economic policies, politics, and culture. Argentines' stereotypical opinion of Chile is as a culturally vacant backwater, while Chileans view Argentines as arrogant Italians who talk funny.[45] This enmity also appears in their respective wine industries; both Chile and Argentina try to differentiate themselves from the other.

Argentina has a stronger advantage in this quest for differentiation. The country has a well-known varietal in Malbec and a well-known wine producing region in the Mendoza area. The growth and popularity of Malbec is burgeoning, and it is far and away the best-known Argentine wine. In 2010, Malbec counted for 40.1% of the bottled wine (the style most commonly used for home and restaurant consumption) exports from Argentina—an increase from 34% in 2009. Six out of ten new bottles exported went to the United States or Brazil. Of exports to the United States, Malbec accounted for over sixty percent of sales.[46] Argentine industry insiders also seem to agree on the potential for continued growth of the Malbec. Andrés Rosberg, the president of the Argentine Sommelier Association (ASA), feels that "after evaluating its performance around the world, it is logical to think that [Malbec] will keep on growing." The differential aspects between Chile and Argentina also play a role; Rosberg believes that Argentina as a nation has a strong potential for brand recognition derived from "meat, gauchos, football, or tango."[47]

Country recognition as a brand is a double-edged sword. Its success depends in a large part on the market to which a country exports. To paraphrase Feliú's aforementioned statement,

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[45] Obliviously, these beliefs don't hold true for all Chileans or all Argentines. However, these are opinions that have been expressed to me by natives during my time in both countries. There is no real way to quantify feelings of one country for another, but anecdotally, these opinions don't stray too far from the norm.
[46]"Argentinean Wine Exports Record." www.winenewsreport.com 14 Feb 2011.(Accessed 20 Feb 2011.)
[47] Mariano Zalazar. "Andrés Rosberg, sommelier, judge of the AWA 2011: Malbec is increasingly consolidating its international position." *WineSur*. 26 Jan 2011. www.winesur.com

the success of a wine brand, a wine varietal, or a wine region depends on the education of the market. The Chilean export market, for instance, enjoys a much higher respect in the UK market than in the US market—American wine drinkers are generally unprepared to look for Chilean wines for anything other than value or budget products. The opposite is true for the Argentine market and its popular Malbec varietal.Malbec's success in the US market so far has not translated to the UK market or to other major markets—Chilean wine accounts for nine percent of UK sales, but Argentine wine only accounts for slightly over one percent. In the US market both account for the same sales by volume, although Argentina has a slight edge in value.[48]

Argentina currently has an edge over Chile in terms of product cachet. Chile does not have a wine-producing region that is well enough known to casual wine drinkers or to people not at all concerned with the wine industry, such as California's Napa Valley or France's Bordeaux. Argentina has this region in the Andean foothills surrounding Mendoza; the country has an accessible and marketable wine region for its production, for tourism, and for the creation of its story. Relative to the rest of the New World wine producing countries, Argentina has a well-known history and a recognizable culture. On a global scale Argentina is certainly less well-known than a large developed country like France or Spain, but the images and thoughts associated with the country are more manageable than a competing New World country such as South Africa or New Zealand.

What is more problematic is the one-dimensional perception—and many would argue, reality—of the Argentine wine industry. Generally speaking, when an American thinks of Argentine wine, he or she thinks of Malbec, not Torrontés or Chardonnay, both of which are produced in the same region for the export market. Argentina currently is a "red wine country

[48]Jancis Robinson. "Grape Wars: Chile vs. Argentina." *Financial Times*. 24 September 2010.

arguably dangerously dependent on one grape variety—and one giant wine region, Mendoza."[49] Depending on one's perspective, this lack of diversification can either be viewed as bold or reckless. One could argue that Argentina has realized the potential and the growth of Malbec, and its wine producers are shifting their resources more and more to its production. Indeed, the growth of the industry seems to show the success of that plan. The Argentine wine producer's logic seems like something out of Aesop—if you have a goose that lays golden eggs, keep the eggs and by all means don't kill the goose.

On the other hand, once could argue that Argentine wine producers are investing too heavily in one product and one market—that by putting all of their grapes into Malbec, they are effectively putting all of their eggs in one basket. Its lack of diversification undeniably leaves the Argentine wine producers with a higher risk. First off, its compact nature and use of the same species of grape leaves the Mendoza region at a much higher risk for environmental damage. A change in weather patterns or the presence of a new predator or parasite could have long-term disastrous effects on the region. Another difficult potential challenge lies with the whims of the American consumer. Cultural forces, media, or price changes can drastically shift the overall tastes of the American consumer. It can be something as seemingly insignificant as a movie—for instance the film *Sideways* shifted American preference from Merlot to Pinot Noir, almost entirely based on quotes given by the main character when he waxes poetic over the virtues of Pinot Noir and complains about Merlot ("If anyone orders Merlot I'm leaving. I'm NOT drinking f—ing Merlot!").[50] This "*Sideways* effect," as it came to be known, lowered sales of

[49] Robinson, 2
[50]Paul Giamatti as Miles Raymond.*Sideways*.Directed by Alexander Payne. Los Angeles, California, 2004: Fox Searchlight Pictures.

Merlot and increased both price and demand of Pinot Noir.[51] As of now, all of the potential downsides are speculative—Hollywood has yet to release a film with Malbec as a punch line, and shrewd marketing may help to stem the tide or soften the blow of any changes in consumer taste.

If Argentina—for better or for worse—is tied with Malbec, Chile has the opposite problem. The one truly Chilean wine varietal, Carménère, is not as well-known as Malbec in the American market. Moreover, Chile has roughly a dozen wine producing valleys and regions scattered throughout the length of the country, but has no region with any globally acknowledged cachet of which to speak. Of this current difference between Chile and Argentina, Alamaviva's Diego Garay is quick to point out the Chilean advantage: "Chile has much more diversity of *terroir*. We can create an excellent Sauvignon Blanc, an excellent Chardonay. In Argentina there is only a focus on Malbec. It's because of Chile's geographic advantage." Felipe Feliú also agrees with Garay, saying that the only real advantage for Argentina today is due to the very strong position of Malbec in the US market.

Both countries face challenges with the perception of their respective wines. Both challenges are unique; Argentina struggles with its reputation as a country lacking in diversity, while Chile has yet to find a varietal that can set it apart as something other than a good value wine. This lack of narrative could prove to be a challenge for both Chilean and Argentine winemakers. Both countries, it appears, would like to have a narrative like California's Napa Valley.

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[51] Steven Cuellar, et al. "The Sideways Effect: A Test for Changes in the Demand for Merlot and Pinot Noir Wines." *The American Association of Wine Economics*. 2008.

California winemakers point to 1976 as the year of Napa Valley's coming-out party. In June of that year, Napa Valley wines beat French wines—both reds and whites—in a blind taste test in Paris, sending shockwaves throughout the wine world. The victory was a vindication for American winemakers, who had argued that world-class wines could be produced outside of France.[52] As the California wine industry grew, its winemakers used its newfound proof of quality to fight competition from France and the Old World, and later from upstart New World countries. Napa Valley winemakers could use its narrative to sell their product and drive its success.

In advertising, narrative is the story behind the product. It is the reason that certain products have a certain reputation.*Wine Spectator's* Matt Kramer says that narrative is not just a story, but "a story that sticks." He uses the example of French Champagne, saying that one "see[s] the world differently through a glass of Champagne. Somehow it, well, sparkles. It's not the wine, it's the narrative."[53] French wines have had a narrative for centuries, Kramer argues, in Bordeaux's perceived exclusivity and quality, and Burgundy's ideal of a close pastoral connection to the earth. California's Napa Valley, though is the ideal narrative for a wine region. According to Kramer, Napa combines the distinctly Californian images of sunshine and beauty with American ideas of democracyand creates the idea of a place where anyone can come and follow their dreams to create a world-class wine.[54] The beauty of narrative is that the truth of the story is of minimal importance. One can buy sparkling wines of a high quality from many countries, it is extremely challenging to open a winery in Napa Valley, Ferrari may not make the best sports cars in the world, and Tiffany & Co. in New York has many peers in the world of

[52] W. Blake Gray, "The Story Behind the Story That Made Wine History," *San Francisco Chronicle*, June 16, 2005.
[53] Matt Kramer. "Drinking Out Loud: The Most Important Word In Wine Today." *Wine Spectator*. 1 February 2011.
[54]Ibid.

luxury jewelry. But what matters is the significance—a red Ferrari signifies that one has "made it," and a blue box from Tiffany's instantly makes one think of Audrey Hepburn, romance, and luxury.

Tiffany's, Ferrari, and Napa Valley have what Chile lacks—a story, a narrative, some kind of intrinsic characteristic with which they are connected. Chilean producers seem to be addressing this issue.Almaviva, for instance, uses a significant amount of Mapuche imagery in both its label and its adopted history. The label, for example, uses a stylized version of a traditional image symbolizing the interaction between the cosmos and the earth that was often used by that Chilean indigenous group.[55]Almaviva'sFeliú believes that the Chilean government is helping promote the country as a brand, but "it must be more than it currently is." Feliú points to uniquely Chilean features—Patagonia, for instance—that could be used to market the wines on a national level.

Wines of Chile, the Chilean industry organization, has definitely helped in this process. With offices in Santiago, London, and New York, the organization promotes Chilean wine on a global scale, as well as conducts industry research and reports. Seventy-five percent of Chilean wineries are a part of this organization, including Concha y Toro and most other large-scale Chilean producers.[56] Wines of Chile also enjoys success with younger generations of wine purchasers—the organization has over 6000 Facebook fans and 12,000 followers on Twitter, roughly double that of most other countries' industry organizations.[57] Through its successful use of social media, Wines of Chile can directly interact with its consumers, promote its wines, and increase the name recognition of the country and its wine companies.

[55]Almaviva Winery. "History: the Label." www.almavivawinery.com
[56]Wines of Chile. "The Wineries" http://www.winesofchile.org/the-wines/wineries/
[57] Kristin Bieler, April 2011.

Chile is a country largely unknown for its consumer goods; its wine industry is largely its most recognizable product. The reasons for that are simple—most people will go a lifetime without purchasing copper by the ton, but it is fairly common to buy a bottle of wine. The possibility exists for the wine industry to expand the profile of Chile as a producer of consumer goods.[58]Increased success of the Chilean wine industry will largely depend on concerted marketing and promotional efforts based on the reality of the wines and the wine regions, not the desire to change the image of the product.

Chilean winemakers remain confident in the image of their country. When told that the American market views Argentine wines as better than their Chilean competitors, Almaviva's Diego Garay quickly to responds with a laugh. "That may be so," he says, slowly, building up emphasis, "but it's an *image*."

[58]Evert-Jan Visser, p. 31.

never has one goblet contained you,
one song, one man,
you are choral, gregarious,
at the least, you must be shared. – Pablo Neruda, “Ode to Wine”

Chapter IV: The Chilean Government’s Role in Wine Industry Growth

The Chilean wine industry’s success was not solely due to the winemakers’ actions. Beginning in the late 1980s, the Chilean government enacted policies which greatly benefited the export market. The Chilean state’s involvement in the economy helped the wine industry grow. Moreover, the government’s trade agreements and monetary policies enabled Chilean wine producers to depend on a willing government to advance their cause.

The year 1973 is a turning point in Chilean culture—it is a year from which modern Chilean history begins to be measured.That year, as any Chilean or student of the country will tell you, is the year of the coup. Forces from all four branches of the Chilean military—the Army, the Navy, the Air Force, and the *Carabineros* (national police)—led by General Augusto Pinochet overthrew the democratically-elected socialist president, Salvador Allende. Allende died during the coup, and the new military government under Pinochet enacted swift and wide ranging changes to the social, political, and economic structure of the country. The coup leaders justified their actions by focusing on a mixture of economic uncertainty, political and social instability, and the fear of the spread of communism. Pinochet was responsible for a cornucopia of human rights abuses, including the death or disappearance of roughly three thousand political dissidents. Pinochet and the coup itself remain intrinsic parts of the Chilean national identity, and it is difficult to separate the policies of the Pinochet era from its social, political, and economic climate.

The economic policies implemented under Pinochet were themselves a reaction to the Socialist government of Allende. As a result, the policies under the new military junta were much more conservative than had been seen in the country. To move away from Allende's structuralist economic policies, the Pinochet regime brought in a group of economists known as the "Chicago Boys," so-called because the proponents of the policies tended to work and study at the University of Chicago's School of Economics.These economists, some of whom were Chilean and some of whom were American, loosely followed the ideas of classical liberal economists, especially Milton Friedman—himself of the University of Chicago—andFriedrich von Hayek of Austria.This new group of Chicago Boys grew to advocate a new economic philosophy known as "neoliberalism." While very similar in many respects, classic liberalism advocates a laissez-faire approach and complete reliance on market forces, while neoliberalism argues that the state should play a role ensuring the "smooth functioning of markets."[59]

The Chilean state was eventually to play a small financial role—mostly working to guarantee the rules.Under the Chicago Boys, the government would work for a stable exchange rate and monetary policy, maintain fiscal policies that would minimize inflation, encourage foreign and domestic capital flows, andprotect property rights.[60]

This new neoliberal policy did not mark a sea change in every industry, because as Anil Hira points out in his *Ideas and Economic Policy in Latin America: Regional, National, and Organizational Case Studies*, "some economic institutions are always favored by inherited advantages, such as historical knowledge, economies of scale, barriers to entry, such as technological knowledge, and manipulation of the rules to change the playing field, such as

[59]Anil Hira. 1998. *Ideas and Economic Policy in Latin America: Regional, National, and Organizational Case Studies*. Westport, CT: Praeger Publishers: 75
[60]Hira, 76

oligopolistic control of the domestic market."[61]Large companies used these advantages and the new pro-business neoliberal policies to maintain a high level of economic power.

While the shift from the traditional structuralist economy caused some initial shocks in the Chilean market, by 1980 the policies of the Chicago Boys were—on a purely macroeconomic level—highly successful. Growth rates remained high, both traditional and nontraditional export levels improved, and inflation was under control. However, the country suffered serious banking issues—buoyed by the praise of organizations such as the World Bank and the International Monetary Fund (IMF) labeling it a miracle, the Chilean government took on a huge foreign debt, 84% of which was borrowed from foreign banks.[62] This debt and untenable banking situation eventually led to what became known as the "Crisis of 1982."

In 1981, the sugar monopoly CompañíaRefineríaAzucar de Viñadel Mar (CRAV) collapsed due to a bad bet on sugar futures. When the price did not rise as expected, CRAV defaulted on its loans. CRAV was a tipping point for the failure of the Chilean banking system, and ultimately, its economy. The large banks lost money, and defaulted on2.3 percent of all loans. In order to maintain stability, the Chilean government was forced to take over many commercial and investment banks in addition to private financial intermediaries. By the summer of 1983, the government took over an astonishing number of financial institutions. The high water mark was reached midway through that year, when twelve of nineteen commercial banks and fourteen of twenty-two investment banks and financial intermediaries were under government control.[63] In addition, a locked and overvalued exchange rate allowed exports to flood the market, leading to a balance-of-payments problem. To combat this, the government

[61] Ibid
[62]Hira, 84
[63]Hira, 84-85

devalued its currency, leading to a rise in interest rates, and consequentially a rise in bankruptcies. Unemployment levels rose to over 30%, with a more serious and concentrated impact in lower income levels.[64] With such high levels of unemployment, it became a political necessity for Pinochet and his ruling junta to make drastic changes to the economy.

One of the Pinochet junta's most successful moves was the appointment of HernanBüchi as the new finance minister in 1985.He took a pragmatic approach to the financial crisis:Büchi regulated the banking and business sectors of the economy and implemented government price support apparatuses. Perhaps his most enduring legacy was the move towards an export-based economy—before 1985 it had been a minor thought in Chilean economic policy. With the diversified export market, and with an increase in foreign investment, Büchi was able to refinance the Chilean economy and move towards a policy of controlled economic growth.[65] This system that evolved out of the 1982 crisis became known as "pragmatic neoliberalism" and would have a significant impact in the economic policy of Chile for the next two decades.[66]

Buchi resigned his position as finance minister in 1989 to run for president in the 1990 elections. He lost to Patricio Aylwin, of the center-left Concert of Parties for Democracy (Concertación) party. For twenty years until the 2009 election, the Concertación remained the ruling party in Chile and the dominant force in its political life and economic policies.

The structure of Chile's government is still based in a large part on the Constitution of 1980—a constitution that was designed in the Pinochet era and contains provisions protecting the

[64]Hira, 85
[65]Hira, 86-87
[66] Eduardo Silva. 1996. *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics*. Boulder, CO: Westview Press: 205.

entrenched conservative business classes.[67] The Concertación was, and remains, a center-left party, and several of their immediate plans included restructurings of the Chilean welfare state and labor reforms. The main goal of the Concertación was to provide more stable and long term benefits to the bottom tiers of society—especially in the areas of unemployment benefits, minimum wage increases, and medical care.[68] Predictably, this increased social commitment of government worried the entrenched business elite, who had become used to pro-industrial policies beginning with the rise of the Chicago Boys and continuing through the pragmatic neoliberals of the late 1980s.

The Aylwin administration and the Concertación assuaged these fears by promising the maintenance of an export-oriented market economy, the continuation of macroeconomic stability, and restraint in fiscal policy and wage-setting. In order to maintain these promises, the Concertación had to limit the scope and scale of the reforms that they had initially sought, but the party was able to maintain a positive business climate in the country.[69]Even when the two sides' goals were not in sync, the Concertación was willing to reach out to the powerful business elites. Over time, this led to more and more trust between government leaders and business leaders.

One business leader of the time remarked that "We may have our differences with this government, but… [politicians and bureaucrats] in the ministries of finance and economy are all very reasonable. It gives us confidence in this government."[70] Chile's government maintains a broad definition of property rights, and an unfavorable view on high taxation rates.[71] Because of the twin aspects of constitutional powers based on the 1980 Constitution and the willingness of

[67]Silv, 230
[68] Silva, 229
[69] Silva, 231
[70]Ibid
[71] Silva, 231-32

the Aylwin government—and future Concertación governments—to work with the organized business sector, the pragmatic neoliberal economic policies of the late Pinochet era continued. While its willingness to negotiate with conservative and business interests ultimately harmed the Concertación's social reform plans, its flexibility and the creation of a pro-business environment had positive effects on the overall Chilean economy and especially on the political stability of the country.[72]

Chile's economic growth and stability—especially relative to other countries in the region—has been due in a large part to the outstanding success of its export market. While Chile has always been known internationally for its copper mines and copper exports, export markets for fruits, fish, forestry products and lumber and wine have grown tremendously over the past twenty years.[73] Certainly Chile has some natural advantages in these areas: the fruit industry, for instance, benefits from Chile's geographic location in a different hemisphere from large importers in North America, Europe, and Asia; when it is winter in the United States, it is summer in Chile, making it possible to ship fresh fruit products such as strawberries or avocados to snowbound grocery stores in Chicago, Munich, or Seoul. The fishing industry benefits from a coastline stretching for 1200 miles alongside the Humboldt Current and the abundance of lakes in the southern part of the country.

In addition, Chile has steadily liberalized its trade, both unilaterally with its own policies and bilaterally and multilaterally with the signing of free trade agreements with many countries. Chile has bilateral trade agreements with Bolivia, Colombia, Venezuela, Ecuador, and MERCOSUR as well as the countries of the Central American Common Market (CACM) and

[72]Silva, 236.
[73] Carmen Zechner. 2001. *Expanding NAFTA: Economic Effects on Chile of Free Trade with the United States.* Hamburg, Germany: Lit VerlagMünster, Hamburg: 2.

the North American Free Trade Association (NAFTA) countries. Chile is also a member of the Asia Pacific Economic Cooperation (APEC) and negotiates with Free Trade Area of the Americas (FTAA).[74] In 2004, the United States and Chile entered into a bilateral free trade agreement (US-Chile FTA).

Starting in that year, 95% of Chilean exports to the United States and 90% of U.S. exports to Chile became duty-free. The tariffs on the remaining goods will gradually decrease until 2016, when duty-free trade in all products will be officially established.[75] Tariffs on wine did not fall under the 95% of Chilean exports who immediately became duty free. As of 2000, wine that was under 14% alcohol in bottles no larger than two liters—by definition, every variety of bottled wine—was taxed with a tariff rate of 1.3%, presumably to maintain a semblance of industry protection.[76]Wine was not an afterthought in the trade agreements between the two countries, however. Instead Chile, the United States and the other New World wine producing countries worked to form a common trade agreement that would mutually benefit all parties.

Initiated in 2000 in Santiago, Chile and signed in 2001 in Canada, the Agreement on Mutual Acceptance of Oenological Practices is an agreement between the countries of the United States, Chile, Australia, Argentina, New Zealand, South Africa and Canada to remove barriers to trade within their international wine import and export markets. The rationale for this is relatively simple—countries often require specific labeling or difficult-to-meet import standards as a way to protect their wine industry, and this treaty simply prohibits that.More important are the new branding opportunities created: instead of a protecting a specific wine varietal, this agreement ensures that a Cabernet Sauvignon from California and a Cabernet Sauvignon from

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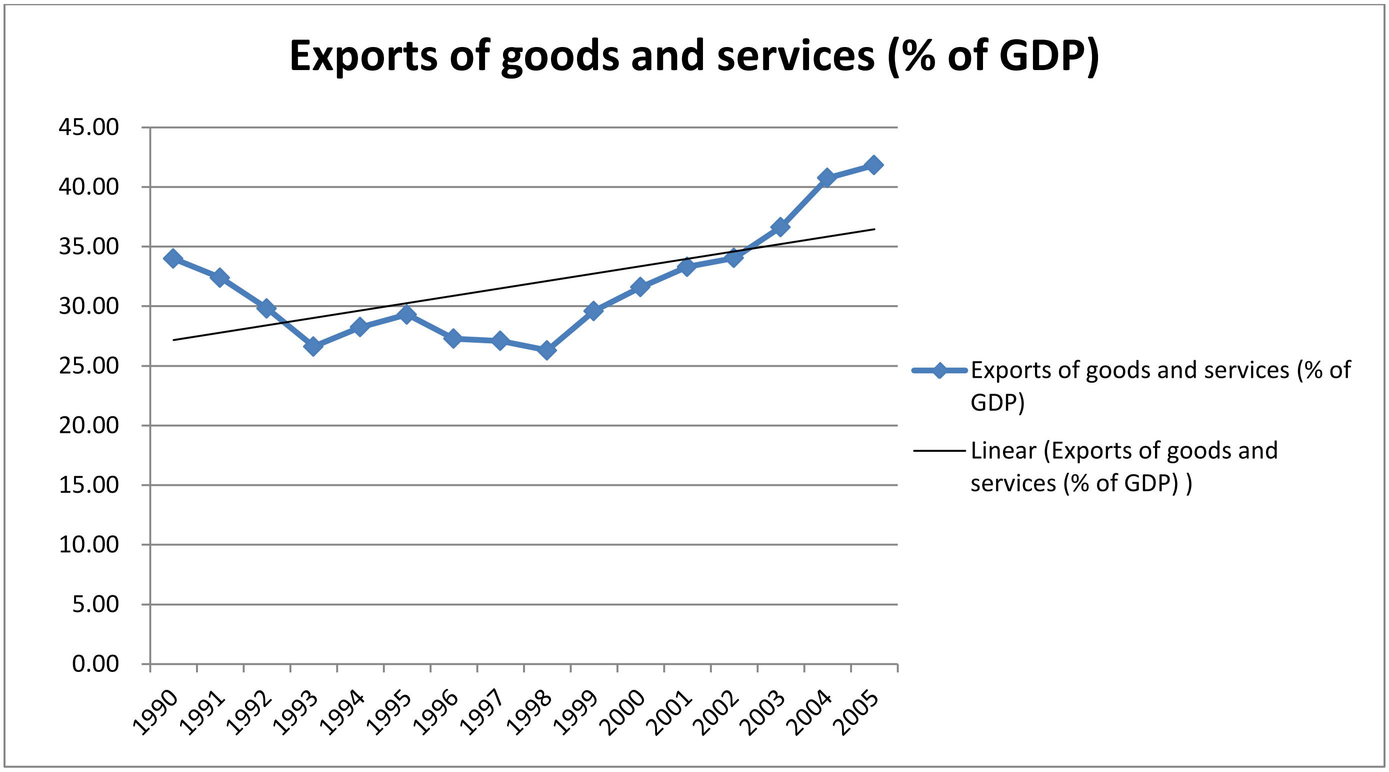
[74]Zechner, 2.
[75]The United States Chile Free Trade Agreement.http://www.ustr.gov/trade-agreements/free-trade-agreements/chile-fta
[76]Zechner, Appendix 9, 229.

Chile can both be called a Cabernet Sauvignon, thus avoiding disputes with appellation. In addition, the agreement makes an explicit acceptance of the inherent differences in wine production between the countries. By admitting and accepting the differences, the countries also make an implicit acceptance of the others as equals in the wine industry; that is to say that no one country believes that its methods of production are at a comparatively high enough level to justify protective trade measurements. The stated goal of the Agreement on Mutual Acceptance of Oenological Practices is to facilitate trade in wine among the participating parties.[77] To that end, it has been a success.

As emphasized in the aforementioned trade agreement, the policies of the Concertación have been successful in promoting export growth. As is shown in the chart on the following page, exports are consistently an important part of the Chilean economy:

[77] *Agreement on Mutual Acceptance of Oenological Practices*.http://www.ita.doc.gov/td/ocg/wwtg.htm Accessed 27 Feb 2011.

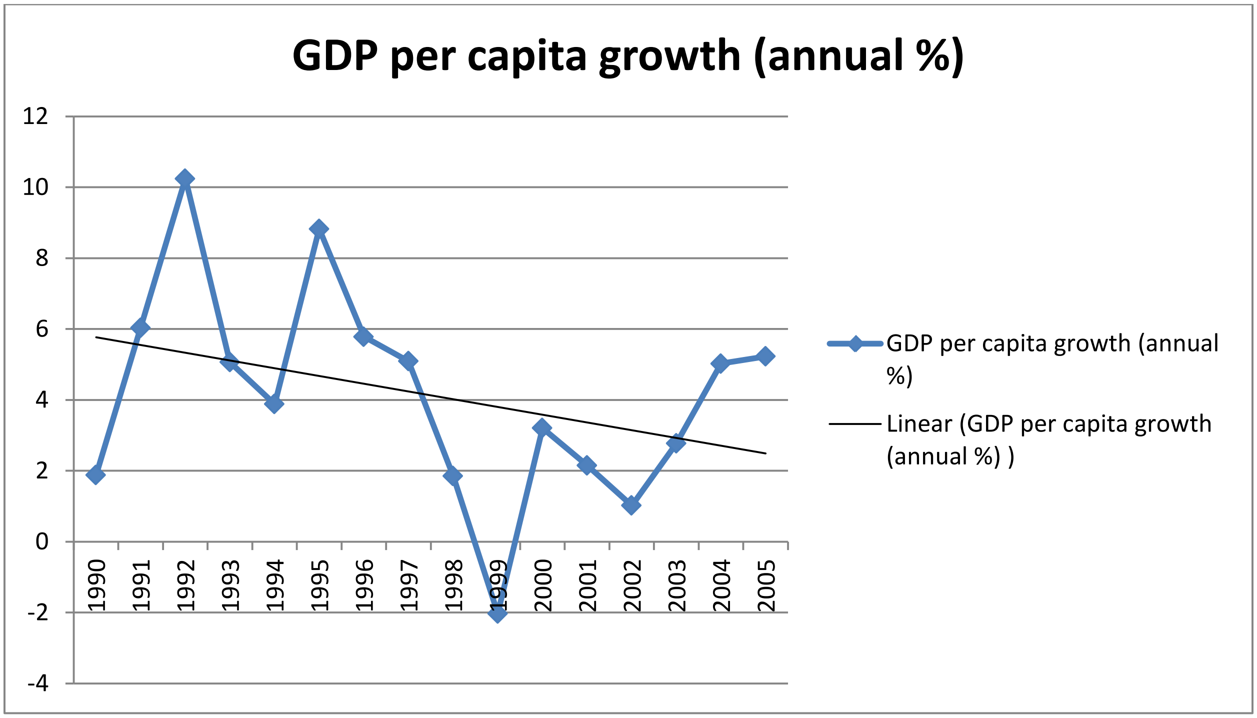
Figure 4.1: Role of exports in the Chilean economy, 1990-2005



(Source: World Bank World Economic Indicators 2007)

From the time theConcertación took power in 1990 until 2005—the last year for which World Bank economic data is available—the relative importance of export growth increased. There are certainly periods of decline—the decreases in the early and late 1990s are due to economic troubles in the United States and the Asian financial crisis, respectively. Even with these periods of decline, the importance of exports as a part of the Gross Domestic Product has steadily increased. In fact, when compared to the per capita GDP of the country over the same time period, the strength of the export market seems even more impressive:

Figure 4.2: Chile's GDP per Capita Growth, 1990-2005

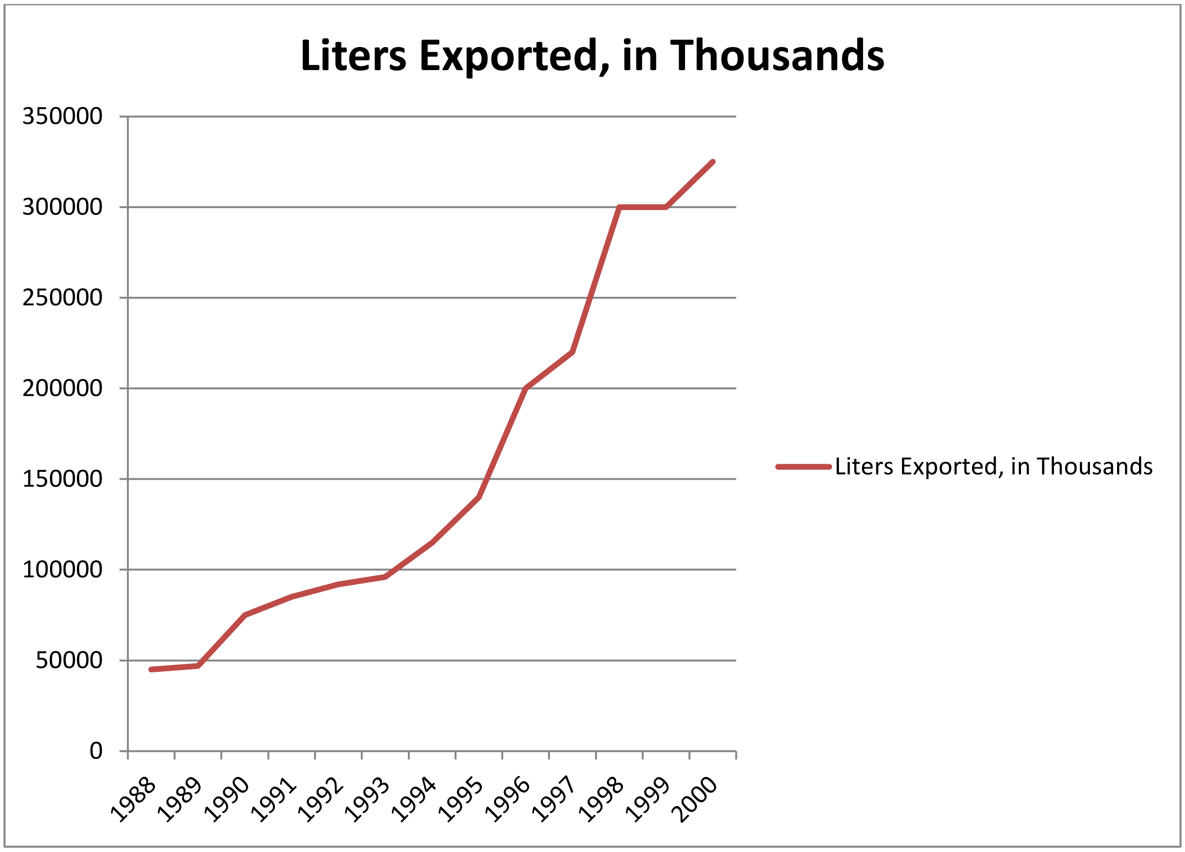


(Source: World Bank World Economic Indicators 2007)

While it has not grown at a steady rate, the Chilean economy has only experienced negative growth over one two-year period from 1997 to 1999. The Asian financial crisis of the late 1990s caused this drop—the same crisis that caused the drop in exports as a percentage of GDP in the same period.

These graphs show the importance of exports as a part of the overall economy. Where then, does the wine export market fit into this larger picture of Chilean exports? Over roughly the same time frame, the Chilean wine export industry has grown at a much higher rate than overall Chilean exports, as seen on the following page:

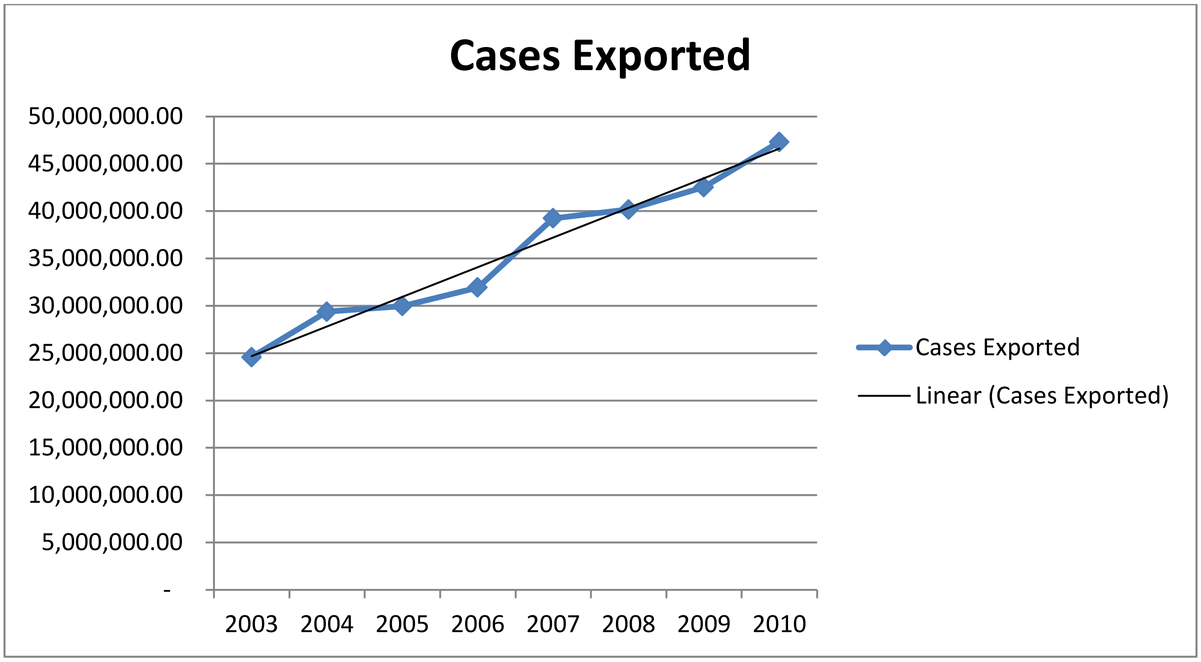
Figure 1.1/4.3: Chilean Wine Export Growth, 1988-2000



(Source: Felzenstein, et al.)

The rate of growth from 2003-2010 also confirms this; namely that the wine industry has outperformed the export market as a whole. The trend continues through the 2000s, as the following chart demonstrates:

Figure 4.4: Chilean Wine Exports by Case, 2003-2010



(Source: Vinos de Chile Estadísticas Anuales)

As shown in the above graph, the growth rate for Chilean wine exports continues at a high pace.It is important to note that the two graphs use different measurements to note the same thing. The graph on the previous page measures wine exports by the liter, while the above graph measures the same export by case. Each case is, by definition, nine liters, and is the most common measurement currently used in the industry. While each graph measures something slightly different, the overall result is the same: Chilean wine exports continue to grow.[78]

The amount of wine exported is undeniably a valuable marker for the growth in an export industry, but the total value of exports and the average value of each case exported are also important in determining the relative success of an industry:

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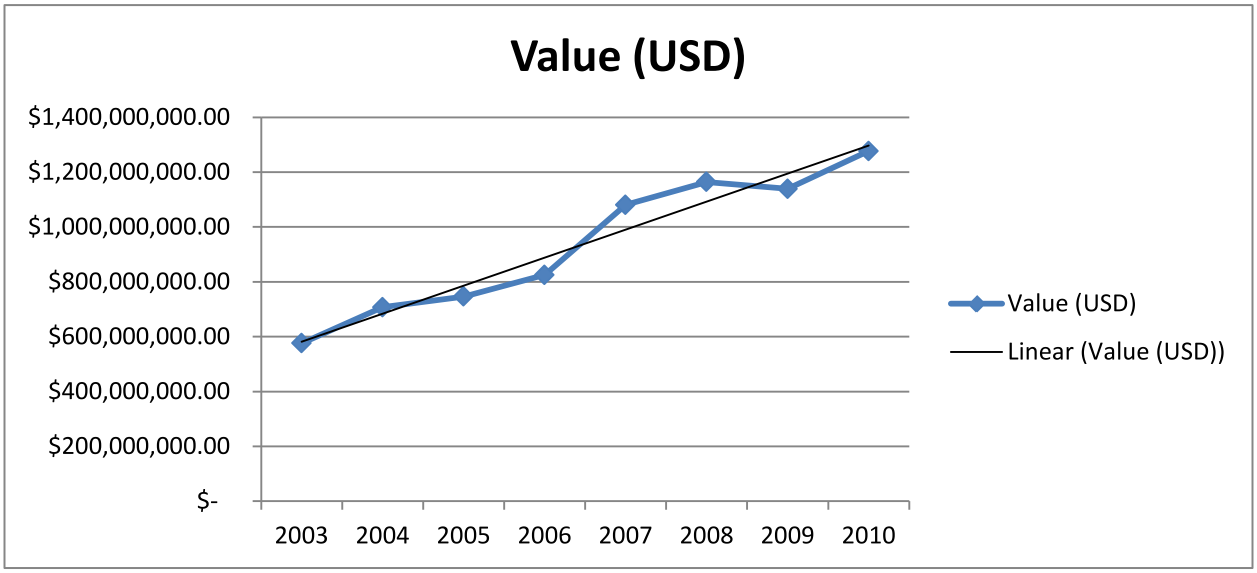
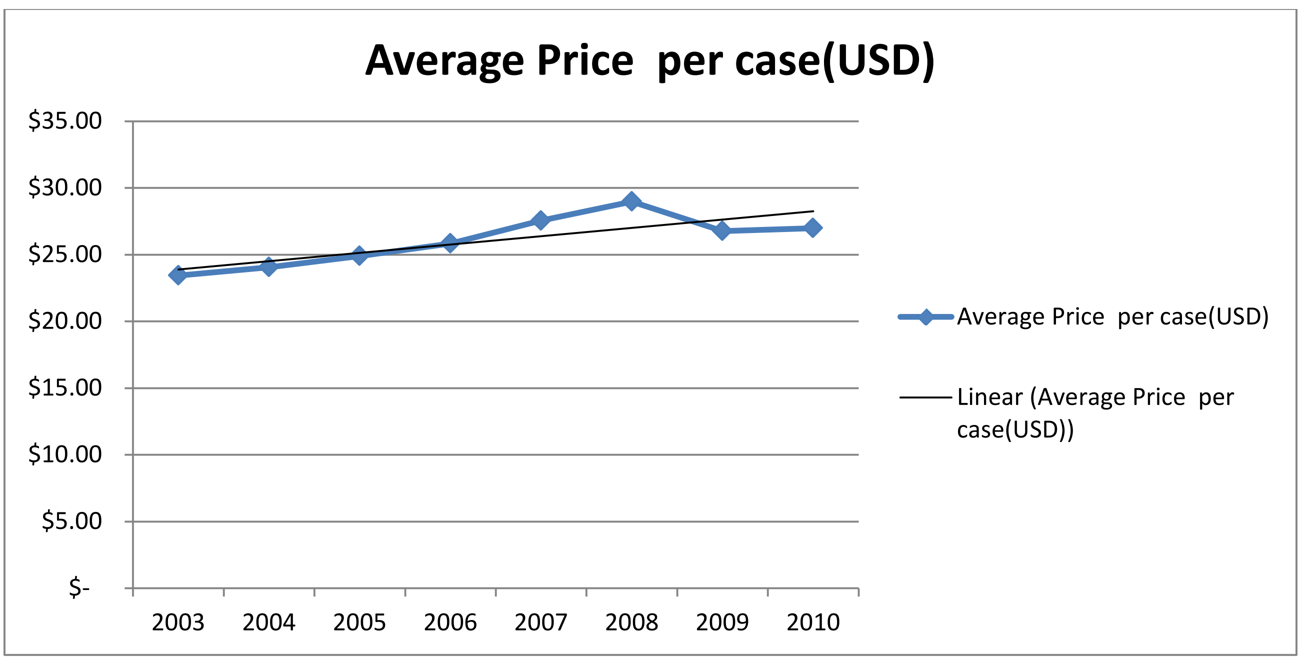
[78] Vinos de Chile Estadísticas Anuales. http://www.vinasdechile.com/pagina/informacion-y-estadisticas/estadisticas-anuales/82

Figure 4.5: Value of Chilean Wine Exports, 2003-2010



(Source: Vinos de Chile Estadísticas Anuales)

Figure 4.6: Average Price per Case of Chilean Wine Exports, 2003-2010



(Source: Vinos de Chile Estadísticas Anuales)

As one would expect, the total value of wine exports grows along with the number of cases exported. The industry breaks the $1 billion U.S. dollar mark for the first time in 2007, and the export value shrinks slightly from 2008 to 2009. Largely due to the Chilean winemakers' gradual push away from value wines towards more mid-market wines, the average value per case increases every year until 2008. From 2008 to 2009 the overall value of wine exports and the average price per case both fall, but the drop is more pronounced in the average price of wine exported.

From 2008 to 2009, the value of Chilean wine exports to Europe fell 6.4% while exports to Latin America and the Caribbean fell 1.4%.Surprisingly, the value of wine exports actually increased by 2.8% in the United States and Canada and by 5.4% in Asia and Oceania. The average price fell across the board, with drops of 3.6% in the U.S. and Canada, 11.0% in Europe, 5.3% in Latin America and the Caribbean, and 4.5% in Asia and Oceania.[79] These four geographic areas account for slightly over 99% of the Chilean export market each year, and are used by the industry to measure the geographic areas of its exports.

External market changes affect Chile's export-driven economy.For instance, the drop in export value from 2008-2009 is attributed to the overall economic recession in the United States and Europe during that time period. The effects of that recession were twofold—first, since wine is a luxury good, people simply purchased less; second, the people that continued to purchase wine purchased less expensive wines in an effort to save money. The shift towards less-expensive wines brought on by the recession is the most important for the Chilean industry—

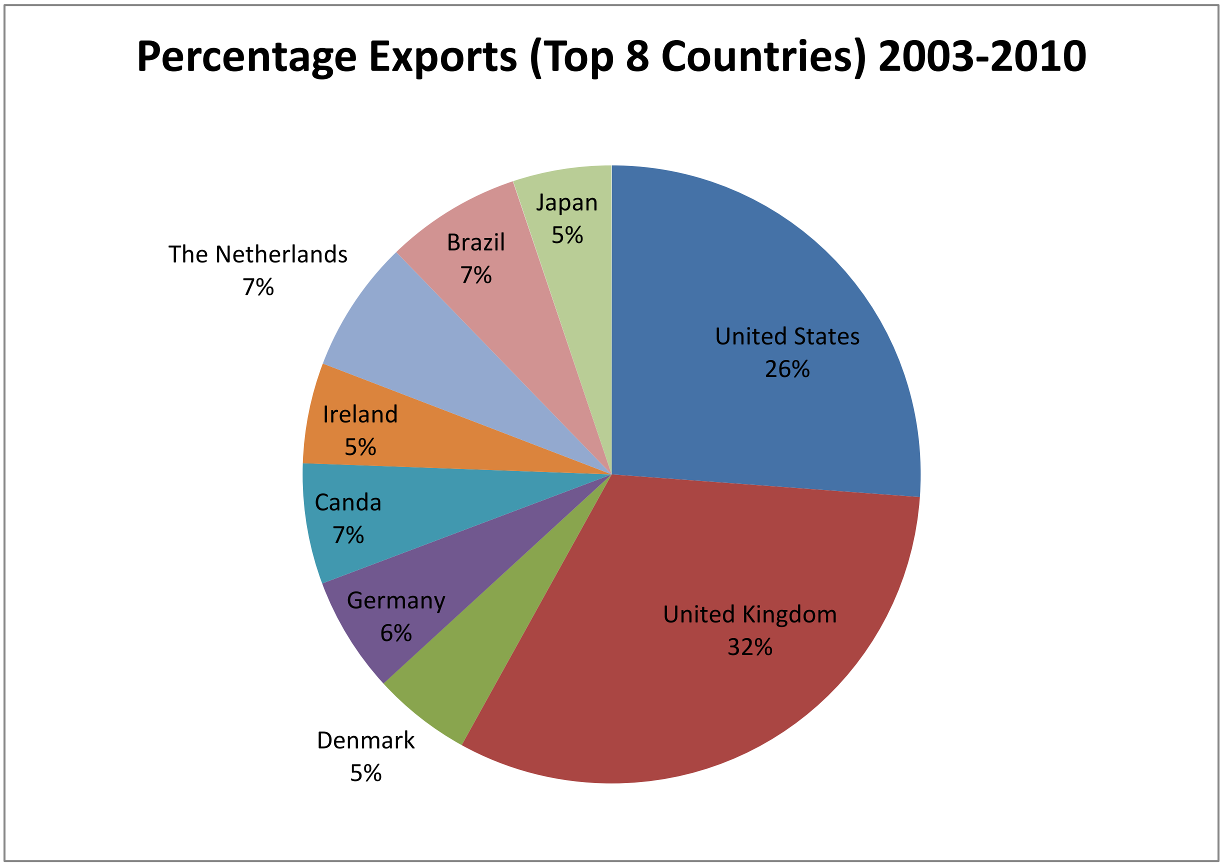
[79] Vinos de Chile: Vino Embotellado- Exportaciones por are geografica, acumulado en 12 meses. http://www.vinasdechile.com/pagina/informacion-y-estadisticas/estadisticas-anuales/2009/226

from 2009 to 2010 the number of cases exported increased by about 11%, but the average value of the cases only increased by 0.8%.[80]

The effects of recessions in specific countries show the role that destination countries' stability and economies play in the success of the industry. While Chilean wine growers export to a large number of countries, the eight most popular are the United Kingdom, the United States, Denmark, Germany, Canada, Ireland, the Netherlands, Brazil, and Japan. The exports to each particular country vary year to year, and several countries such as Mexico, Belgium, and China have on occasion imported more Chilean wine than some of the countries in the following chart.

[80] Vinos de Chile: Vino Embotellado – Exportaciones por AreaGeografica 2010. http://www.vinasdechile.com/pagina/informacion-y-estadisticas/estadisticas-anuales/2010/254

Figure 4.7: Top 8 Importers of Chilean Wine by Percentage, 2003-2010



(Source: Vinos de Chile Estadísticas Anuales)

Over the past seven years, fifty-six percent of all Chilean wine exports were destined for the United States or the United Kingdom. With the exception of Brazil, 93% of the top importing countries are developed nations. Moreover, the Chilean government has Free Trade Agreements with the all of the top eight nations, save Brazil. Wine exports benefit from the Free Trade Agreements that the Chilean government uses to boost its export market. Developed, industrialized countries import Chilean raw materials, minerals, and foods at a higher level than they export Chilean wine, but industrialized, developed nations are the largest consumers of wine in the world. All benefit from this arrangement—Chilean winemakers can export at a lower cost, consumers can purchase wines at a lower cost, and the Chilean government can both increase its international trade and benefit from the reputation of its wines abroad.

While the Chilean government has promoted policies to help its wine industry abroad, lingering domestic issues remain. One of the largest challenges faced by the Chilean wine industry lies in the nature of its labor force. Traditionally, the industry relies on a three-tiered approach to labor. At the top are the managers, the owners, export specialists and salespeople whose job it is to run the business. Below them are the wine specialists—the employees with the technical know-how to produce the wine. At the bottom are the field workers—the laborers who physically handle the grapes. The top two levels tend to have specialized training in their fields; for the bottom level, however, the situation is different. Laborers tend to be hired on a temporary basis through intermediaries and lack formalized training.[81]Over time, this lack of structure on the most basic level of the industry could create a problem for winemakers from a labor relations or quality control standpoint.

From the later years of the Pinochet era, through twenty years of the Concertación's pragmatic neoliberalism, and, it appears, into the new conservative government under Piñeira, the Chilean government has pursued economic policies that have benefitted their export market. The wine industry has also benefitted from these policies, especially with new Free Trade Agreements opening up export markets and international treaties, such as the Agreement on Oenological Practices, which facilitate the interactions needed for a global wine economy. The wine industry is still a small part of the overall Chilean export market, but the policies of the Chilean government have helped it grow.

[81]Evert-Jan Visser, 32

"…wine maketh merry, but money answereth all things." – Ecclesiastes 10:19 (King James Version)

Conclusions

I had the pleasure of living in Viña del Mar, Chile, for six months in 2010. The father of a Chilean friend of mine was about sixty years old and a gregarious drinker in the best sense of the word. Whenever I would tell him about this thesis, his eyes would light up and he would unfailingly say that "no hay vinos malos en Chile." He would then pour another glass of pisco or a cheap domestic lager into his glass.

My friend Gonzalo was wrong—there are bad wines in Chile. Chile—just like any other country in the world produces and boxes its own version of Trader Joe's perennial college favorite "Two-Buck Chuck." But like any good raconteur, Gonzalo never let the facts get in the way of a good story. And aside from its lack of veracity, the saying highlights an even more important fact: Chileans are proud of their wine industry.

It's easy to quantify the economic value that an industry plays in a country—we can measure employment, we can measure export growth, and we can measure profits. What we cannot measure are the intangible effects of an industry on a country. People take pride in what they produce, and this is even more pronounced in the agricultural products of an area. The culture of any one place is tied not only to its language and history, but also to its music, its food, and its drinks. In Chile, the wine industry has changed the culture.

The wine industry has always been around, but never on its current scale. The industry has grown tremendously since Chile's return to democracy in 1990—growth occurred in every measurable facet of the foreign and domestic wine market. There are myriad causes for this increase; no one aspect of the industry provided the impetus for growth. The Chilean winemakers benefitted from natural advantages, from shrewd marketing and production strategies, and from a supportive government; through a combination of all three of these aspects the industry was able to flourish.

The natural advantages that Chile enjoys are numerous and diverse. The geography of the country plays a large role—Chile's length along the Pacific coast of South America means that the country contains almost every type of non-tropical climate, from arid deserts to temperate rainforests, and coastal beaches to snow-capped mountains. This geographic diversity allows for the production of different varieties of wine, whether it is red, white, or rosé. Additionally, the costs incurred by Chilean wine producers are lower than their competitors in Europe or North America. It is cheaper to buy farmland to start a vineyard in Chile than in France, Italy, or the Napa Valley. Moreover, employees' wages are lower in Chile than in Europe or the United States, also creating an advantage for producers. Lastly, Chile's relative isolation—buffered on all sides by an ocean, mountains, or deserts—provides an advantage. Chile has avoided many of the parasites that have plagued other wine regions, especially phylloxera. Its natural characteristics provide an undeniable advantage to the country's wine regions, but they would be useless without a concerted effort on the part of the winemakers.

The Chilean winemakers are responsible for the growth of their industry through their adoption of new production and marketing strategies. The Chilean wine producers were able to capitalize on the New World marketing strategies based on country of origin and establish a strong national reputation based on value wines. Winemakers were also able to adopt new labeling strategies based on the variety of grape instead of the region of production, new strategies which lessened the intimidation of wine purchasing and changed the way that people thought about wine, talked about wine, and eventually bought wine. Additionally, the Chilean wine companies were unafraid to experiment—they partnered with European and American firms to produce new brands and try new technologies such as blended wines. The winemakers themselves worked to create and grow an industry, but they also received support from the Chilean government.

Since 1990, the Chilean government maintained an economic policy focusing on the growth of the export industry. While the wine industry remains a small part of the overall economy of the state, policies which benefitted larger industries such as mining and fishing also helped its growth. The government has consistently pursued free trade agreements with large, developed nations that need its raw material exports. Luckily for the wine industry, large, developed nations are populated with a higher percentage of wine drinkers—a serendipitous fact for the wine industry. Chile's government has also pursued trade agreements with fast-growing developing nations such as Brazil and China.

The developing world is a major player in the global economy—as traditional powers like the U.S. and Europe slog through recessions, developing countries with their exploding populations are growing economically. These countries, especially Brazil and China, are developing a healthy thirst for wine. In a large sense, wine drinking alludes to a level of wealth and sophistication. The burgeoning middle classes of these countries are beginning to desire the trappings of wealth and success, and wine drinking is a large part of that perception. The growth of the wine industry in these countries may be due to the affectations of its "yuppie" classes; fortunately for Chilean wine exporters, bottles purchased from a true love of the product and bottles purchased for appearance cost the same. As wine consumption plateaus and even drops in traditional wine-loving countries such as France and Italy, Chilean wine exporters look to countries with increasing consumption such as the United States, China, and Brazil to pick up the slack. It will prove to be difficult to convince the French to drink more wine, but increased consumption is an achievable goal in the developing world, and it is a goal necessary for the continued growth of the industry.

For its continued success, the Chilean wine industry must not become complacent. The market today is as competitive as it has ever been. The growth of the New World changed the traditional dialogues, perceptions, and parameters that guided the industry. Wine is now marketed and sold differently than in the past, and people all over the world are becoming more knowledgeable about the options that are available to them. On a national level, the Chilean wine industry's strongest advantage is its diversity. Now, the country is known for its Cabernets and its Carménères, but it has the geographic diversity and the production capabilities to create many other varietals of an international quality. Its diversity will serve it well in the future—the industry will be able to adapt to the changing tastes of the global market, while maintaining its reputation of good quality wines at affordable prices. Especially in today's market—when people worldwide are looking for value—Chile's reputation and its diversity may prove to be its biggest asset. To be successful, the industry must be like a shark—it needs to keep swimming or it will die.

On a simplistic level, the Chilean wine industry achieved its success because it continually produced quality wines at a good price. It must continue to do so. But it must also focus on its diversity, focus on the different wine varietals that it produces, and focus on emerging markets to augment its exports. Today, the Chilean wine industry is in a strong position, and it is poised to continue its growth. Gonzalo—my friend's father who believed that there are no bad wines in Chile—was mistaken. To correct himself, he needs only to slightly alter his saying; there are bad wines in Chile, but there is no bad wine industry.

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