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## Argentina

### Solid Wood Products

### American Oak Wood - Opportunities in Argentina

2005

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**Report Highlights:**

Argentina's exports and domestic sales of fine and premium wine are forecast to continue to grow steadily in the next few years. Therefore, wineries will need to import large quantities of wood barrels and accessories, primarily staves. Market opportunities are great, since together with the production expansion, wineries need to replace wood products periodically. French oak is largely used in barrels, while American oak is the prime wood for staves, chips and powder.

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Includes PSD Changes: No  
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Unscheduled Report  
Buenos Aires [AR1]  
[AR]

## *American Oak Market*

### *A Brief History on the Argentine Wine Industry*

The Argentine wine industry has been undergoing significant changes over the past decade. With the strong decline in domestic table wine consumption in the 1990s, most local wineries began a rapid reconversion to produce higher quality wine, and began to develop the export market. During this period, there was significant local and foreign investment, with more than US\$600 million directed to the local wine industry. Most of it was used primarily for acquisitions and/or improvement in product quality and marketing.

About 50 local wineries have adopted new and modern technology, on a par with leading world wineries. Most of them replaced practically all the equipment used in the different stages in wine production. Therefore, modern cooling equipment was incorporated, together with pneumatic presses, crushers, pumps, stainless steel tanks, filters, fractioning and bottling equipment, and thousands of oak barrels and oak accessories (staves, chips, blocks, powder). New land was put into production, while many old vineyards were replanted with varieties of fine grape, for higher quality wine. New technology and improved management in the field was widely adopted. Many high-end wineries expanded vertically, to ensure the quality of grape for their wines, especially those destined for the export market.

Argentina in 2004 produced approximately 15.5 million hectoliters of wine, of which roughly 30 percent was fine wine. The fine wine segment is divided in two parts: inexpensive products, with roughly 35 operating wineries, and medium/high end products, produced by approximately 50 wineries.

The sharp devaluation in 2002 benefited the local wine sector by making it very competitive internationally. Production costs in dollar terms are low compared to other producing countries, and product quality, considered very good, continues to improve. As a result, most fine wine producers are focusing on exports (primarily in the medium-price segment) and the medium/high-end domestic market, and are earning good profit.

Argentine exports of fine wines in 2004 totaled \$195 million, 75 percent higher than five years ago. Exports in the first semester of 2005 are running 30 percent higher than the same period last year. The main markets are the United States and the United Kingdom, which take primarily medium quality wine (average \$10 per bottle at retail).

Projections for the next 5-10 years indicate that Argentina will continue to increase its production of fine wine and expand exports. The number of wineries is forecast to remain fairly stable.

### ***The Argentine White Oak Market***

In the early 1900s, white oak was used primarily in flooring. By 1950, and with the expansion of the local wine industry, there were several importations of large French oak wine barrels. However, as Argentina focused primarily on table wine production, purchases of white oak products for high quality wine were insignificant.

In the late 1980s and early 1990s the first serious steps to export Argentine fine wine were taken. By then, French oak barrels were imported by the few wineries focusing on a more demanding world market. By mid-1990s, many wineries shifted their production to higher quality products, which together with several new investments increased the need for imports of a larger number of white oak barrels. Several wineries began purchasing barrels made of American white oak.

At present, some private sources estimate that in Argentina there are roughly 80,000 oak barrels. Based on post's findings and interviews, it is calculated that 25-30 percent of the total are barrels made of American white oak, and the balance are made with French oak. Barrels made of U.S. wood are coming from the United States, Spain and Chile. In these latter two countries, there are a few local cooperages which import the wood from the U.S. and manufacture good quality end products. Based on price checks, American oak barrels currently cost about half the price of a French oak barrel. Barrels coming from Spain and Chile (in both cases using American white oak) are marginally less expensive than barrels coming directly from the U.S. As oak barrels are only used 3-4 years, trade sources estimate that roughly 25,000-30,000 new units, for a total of US\$15 million, have to be imported every year. This volume is expected to increase 5-10 percent annually as a reflection of a continued expansion in high-end fine wine production.

Oak barrels are only used for top quality wine, as the cost of wood per liter is very high. In this case, most local wineries use the two types of oak for the same wine, but in general, a greater proportion of French wood is used.

Since most Argentine exports are targeted at the medium-priced wine segment, many wineries use wood accessories which have a significant lower cost. Several sources agree in that there is a large market potential for these accessories. The two main reasons are the lower cost and the type of wine Argentina is focusing on. The trend in the market is for the use of staves in wines for the export market and the use of chips and powder for inexpensive fine wines directed to the domestic market.

Trade sources indicate that about 120 tons of chips, at an average price of US\$ 5-8 per kilo, and 80 tons of oak powder, at an average price of US\$6-9 per kilo, are imported annually. Imports of these two accessories are projected to increase 15 percent annually in the near future. Imports of staves currently total approximately US\$1.8 million, with a projected growth rate of 20 percent annually in the next few years. Staves and other accessories are of intensive use and need to be replaced every year.

Contacts estimate that about 70 percent of accessories imported are made of American oak. The main reason for this is that wood from the U.S. is better for commercial use as it provides aromatic notes in a shorter period than French oak. Several local winemakers indicate that Malbec wine, Argentina's emblematic wine, ages very well in American oak.

***Recommendations to Enter the Market***

Based on discussions with several local wineries and a few wood traders/importers the following are some suggestions on how to enter this market:

- Make personal contacts with winemakers. Most of those with whom we visited showed great interest and were very open to providing us with information and to trying whatever products (from barrels to powder) the supplier wants to market.
- Once products are tested at the winery, and if results are good, then the commercial stage begins, most likely with the placement of an order. This information will then be transmitted informally and rapidly within the industry.
- Any American oak product has potential. Beginning with staves could be easier (and less expensive) for all parties.
- The more information the product has, the better and the easier to market. Wineries prefer to receive samples with product specifications (e.g. level of toasting, temperature, etc.).
- Investing in marketing (participating in shows or trade mission), market research, etc. are all good tools for more effective business.

As shown above, the market today is very good and its potential is even better, with an almost captive market due to the nature of the business which demands permanent renewal of wood products. However, there is strong competition from French products and from Chilean and Spanish cooperages (using primarily American oak). Therefore, the market has to be approached seriously and with sufficient investment to be really effective.

Imports of oak products for the wine industry are duty free. Only a 0.5 percent of statistical tax has to be paid. Some other costs are involved in the importation, but the importer is responsible for.