Brazil's wine imports threatened

23 Mar 2012 by Paul Medder

Conflicts between Brazil's largest wine producers and wine importers have come to a head, as Paul Medder, Wine Intelligence's man in Brazil, reports.

Despite the positive headlines recently about Brazil becoming the sixth largest economy in the world and regular reports noting the importance of the BRICs in the expansion of the global wine market, foreign wine producers seeking to export to Brazil market face an uncertain few months.

Last Thursday 15 March the Brazilian Ministry for Development Industry and Trade (MDIC) publicly opened a consultation about the possibility of introducing 'safeguarding' measures to protect national wine production from the waves of imported wine 'attacking the Brazilian market' *(Diário Oficial da União, Circular n° 9/2012, 15 março 2012, pp76-79*).

The 'safeguards' include a number of possible measures, all of which would have a detrimental effect on the market for imported wines:

- Raising the already high tariff on imported wines from 27% to 55% - a frightening, but possibly rather toothless proposition, given that the two biggest sources of imported wine, Argentina and Chile, would not be affected due to their membership or associate membership of the MERCOSUR economic community;
- Introducing country-by-country quotas (again excluding producers from MERCOSUR affiliated countries);
- Imposing a minimum price on imported wines;
- Making it compulsory to have a front-label in Portuguese on all bottles. With the exception of producers from Portugal, this effectively implies creating a label exclusively for the Brazilian market (something only feasible or worthwhile for larger foreign producers);
- Making it illegal to use such terms as 'organic' or 'biodynamic' on wine labels, even if these terms have been certified by an accredited international organisation, unless they have been certified by a Brazilian agency.

The circular has been lobbied by the Brazilian Wine Institute (IBRAVIN), the Brazilian Union of Vitiviniculturists (Uvibra), the Federation of Wine Cooperatives (Fecovinho) and the Wine Industry Syndicate of Rio Grande do Sul (Sindivinho) on behalf of large Brazilian producers and cooperatives such as Miolo, Salton*, Aurora, Aliança, Don Giovanni, Garibaldi, Casa Valduga and Dal Pizzol.

The claims in the circular that imported wines 'are causing serious damage to the national wine industry' are based on analyses of sales and production data covering the period January 2006 to December 2010. However, as the sources of data used in the circular are not stated, I am unable to verify the conclusions drawn or provide comparable analyses.

While some of the arguments made using this data may be factually true (the market for imported wines has indeed increased significantly in the last five years), the blinkered scope of the analysis does not take into consideration any positive knock-on effects that increased interest in imported wines may be having on the consumption of quality domestic wines, or the sometimes healthy influence that competition can provide. The wine world is full of examples where domestic production flourishes in the face of stronger imports. In New Zealand for example, the sizable influx of Australian red wines over the last 30 years has not prevented New Zealand from becoming a source of renowned Pinot Noirs. Nor has the strength of Champagne proved an insurmountable barrier for producers of English sparkling wine.

The petition is applied only against vinifera-based still wines (it does not consider the boom in consumption for domestic sparkling wines over the past five years). It compares domestic wines alongside imports, stating that they are 'similar or directly concurrent'. Once again, the conclusions are built upon a narrow interpretation, using only technical definitions such as 'wines made from fermented, freshly pressed grapes, which may be matured in barrels or aged in bottles'. While this may be correct at the most basic level, I am yet to come across a Brazilian Pinot Noir that tastes remotely like a Gevrey-Chambertin, a Brazilian Riesling comparable to those of the Mosel or Rheingau, or a Brazilian Sauvignon Blanc with the zest of a good example from Marlborough. It also makes no consideration of the diverse array of wines not produced in Brazil, be they Nebbiolo, Mourvèdre or Zinfandel.

Furthermore, the circular claims that the large increase in imports entering Brazil in the year ending 2010 was driven by the international financial crisis, with producers in all quarters of the globe seeking to re-direct their sales to Brazil as other traditional markets fell into crisis. While this may be partly true, the circular does not mention that many Brazilian importers were also rushing to import wines into Brazil to head off a soon-to-be-introduced fiscal seal, earmarked for launch in January 2011. This seal, which came into effect belatedly early in 2012, was the product of earlier lobbying from these same large producers and cooperatives, proof that they have a government receptive to their complaints.

One of the motives for introducing such 'safeguards' discussed in section 10 of the circular is to allow time and revenue for a 'competitive restructuring' of national wine production. Making their objective clear, the large producers and cooperatives wish to push production from traditional vineyard areas into new, relatively flat areas which will allow for the intensification of plantings, the possibility of optimising machinery, installing irrigation systems and anti-hail screens, leading to an overall reduction in production costs of 35%. The notable absence of the phrase 'improve quality' anywhere in this section of the circular is a concern. It is not only a worry for Brazilian consumers who enjoy a greater range of imported wines today than in the past, but also for the smaller, quality-driven Brazilian producers who are trying to overcome years of stigma associated with cheap non-vinifera domestic wines which gave '*vinho nacional*' a bad name.

These quality-oriented producers may deserve the support of their government, but this need not be through the punitive protectionist measures such as those proposed. Value-added tax (ICMS) on all wines, regardless of their origin, is currently levied at 25% in some states of Brazil, and a tax break for these producers would be a more suitable alternative.

Predictably, the announcement of the consultation has had a strong response among Brazil's community of importers, retailers and oenophiles. Ciro de Campos Lilla, President of leading importers Mistral and Vinci, claims that the adoption of such measures, 'would return Brazil to a market seen 20 years ago with fewer options for consumers, many of which are of questionable quality. We will lose all of the effort, work and improvement obtained in the interim'.

Many have called for a boycott of wines produced by those responsible for the circular. Roberta Sudbrack, one of Brazil's most renowned chefs, claimed on her Facebook page that she has taken Casa Valduga and Dal Pizzol off the wine list at her eponymously-named restaurant in Rio de Janeiro in support of the protests.

For the future development of the Brazilian wine market, one can only hope that sufficient pressure is applied to the government, both from within Brazil and from concerned producers and wine lovers abroad, to head off such short-sighted protectionist measures. Interested parties have until mid-April to present alternative arguments (in Portuguese) to the MDIC.

*Apparently Salton has just withdrawn from these demands in response to the outcry - JR