

Proposal for paper presentation. Suggested topic area. Business and marketing strategy for wineries

“THE UK FAIRTRADE NICHE”
Pros & Cons for Argentine wine producers

Author: Gadea, M. Cecilia

Home office reference
Vidal 3422 (1429)
Buenos Aires, Argentina
Tel: +54 11 47 02 21 24
+54 9 11 50 10 85 22
cgadea2000@yahoo.com

KEY WORDS: fair trade, social capital, governance structure, path dependency, consumer preferences, ethical consumption

Author's academic credentials

- Master's Degree Candidate in Food and Agribusiness, University of Buenos Aires (UBA) - Argentina, 2005-present
- UADE University: Research Project “Biogenic Amines in Argentine wines” A barrier to argentine exports? Argentina 2005
- Argentine School of Sommeliers, part time professor, Argentina, 2003-present
- International Sommelier ASI/ Wine expert, Argentine School of Sommeliers / Universidad Católica de Cuyo, Escola de Restauració i Hostalatge de Barcelona, 2001
- ESEADE, “The Wine Business in Argentina” seminar, external lecturer, 2001-present
- Master in Economics and Business Administration, ESEADE, Buenos Aires, Argentina 1999
- Graphic Designer degree, University of Buenos Aires (UBA)- Argentina 1986-1990

A) ABSTRACT

Wine grape growing in Argentina is labor-intensive and performed by a poor social-capital working force. Wages are much lower than in other new world wine countries such as Australia or USA. Proceeds from the commercialization of wines hardly reach the pocket of Argentine vineyard workers keeping their living standards at subsistence levels in most cases.

In addition, many grape growers only see in the “quality concept” an obligation to abandon high yield field practices reducing considerably their annual income from bulk sales. For these actors, the premium paid by some wineries for quality grapes, is not a transparent incentive. The high level of opportunism in the industry would seem to be the consequence of some sector variables. Among these, the lack of a formal standardization of grape qualities, the way prices are formed and the incomplete nature of supply and elaboration contracts¹ between grape growers and wineries are some of the most relevant, which additionally generate asymmetries in the information flow along the supply chain.

Moreover, institutional, organizational and technical restrictions complicate the adaptability of small and medium size farmers to the new (market) consumer-oriented viticulture model. These restrictions are even stronger for non associated grape growers due to the oligopsony power of the demand of grapes for table wines.

Based on a strong path dependency pattern², still nowadays more than 35% of the grape growers still prefer to adopt “market style” governance structures. For them the new paradigm that enforces “quality & specialization” towards “volume and commodity” is still far away in their agenda.

These asymmetries along the supply chain, have been the concern of some alternative trade organizations such as FAIRTRADE. This movement is focused to help small farmers and wage workers in emerging markets who have been restrained in their economic and/or social development by trade conditions.

This paper explores the FAIRTRADE as a general marketing and commercial strategy for argentine grape growers and wineries. In addition, analyses its implementation within the UK wine market. It also addresses the profile of FAIRTRADE consumers and suppliers, explores the advantages and disadvantages of FAIRTRADE and outlines possible synergies with the main targets of the Argentine Viticulture Strategic Plan 2020.

Based on the argentine wine market dynamics, the author describes several governance structures detected in the local marketplace. It also envisions two governance structures and one organizational form as the most appealing constructions to pursue a FAIRTRADE strategy.

Would argentine grape growers and wineries be eligible producers under a FAIRTRADE framework? In case they would... How could they achieve the certification? Which would be their major constrains? Would FAIRTRADE be a feasible and sustainable strategy to access the UK wine market? Is this niche worthy? This paper intends to answer these questions.

¹ It is important to notice the difference with the vertically integrated farmers or vertically coordinated through supply (sale) agreements with wineries where premium prices for quality grapes exceed 4x market prices of common grapes

² Big local market with consumers of table wines with limited access to imported wines before 1990..

B) OBJECTIVES

This paper is aimed to:

- a) Extend the FAIRTRADE concept in order to analyze the FAIRTRADE wine niche in the UK market place.
- b) Understand the profile of certain consumers strongly influenced by ethics in commerce.
- c) Evaluate the feasibility to certify argentine wine as a FAIRTRADE product
- d) Explore the advantages and disadvantages of argentine wine producers in accessing the UK market through a FAIRTRADE niche strategy
- e) Outline the synergy between a FAIRTRADE strategy and the main targets of the Argentine Viticulture Strategic Plan 2020 (PEVI).

C) PROCEDURES

This paper firstly defines the FAIRTRADE concept, its markets and its consumer preferences. Secondly, it describes the argentine wine market, wine exports and the dynamics of the UK wine market. Available information from the INV³, OIV⁴ and other sources was used for these purposes.

Thirdly, it analyses the viability of a FAIRTRADE strategy for argentine wine producers. A multidimensional analysis of the primary grape growing and wine making activities is performed applying the new institutional economy approach. SWOT, Porter's and Joskow's tools were also applied in the study.

Formal aspects of the FAIRTRADE certification such standards and requirements are addressed and potential synergies between a FAIRTRADE strategy and the main targets of the Argentine Viticulture Strategic Plan are outlined.

Finally, several conclusions are disclosed

D) DEVELOPMENT OF THE FAIRTRADE CONCEPT

i) What is FAIRTRADE?

At present, the FAIRTRADE is a global alternative trade movement. More than a million small scale producers and workers from 50 developing countries in the Southern hemisphere are organized in as many as 3,000 grassroots organizations and their umbrella structures. FAIRTRADE reinforces the establishment of equitable trade relations with the South, in order to allow direct producers in such areas, to appropriate a fairer part of the benefits coming from the sale of their products in the Northern Hemisphere. It is important to be noticed, that even when the FAIRTRADE only holds a tiny stake of the global trade, many supermarket chains and other retailers have started to offer a limited range of FAIRTRADE products as a way to improve their corporate image.

The FAIRTRADE aims at raising the awareness among consumers about the asymmetries caused by conventional trade. An improvement of the information flow on production, producers and their conditions of living is a cornerstone of the movement. Its purchasing policy aims to achieve:

- A fair price/wage for producers
- A relationship of partnership and co-operation
- Clear benefits to the producer
- Safe and non-exploitative working conditions

³ Instituto Nacional de Vitivinicultura.

⁴ Organisation internationale de la vigne et vin

ii) FAIRTRADE producer countries include

- Africa (South Africa, Egypt, Zambia, Ghana)
- Asia (Thailand, India)
- Latin America (Colombia, Costa Rica, Ecuador, Brazil, Peru, Nicaragua, Dominican Republic, Chile, Mexico)

Small farmers in these countries have to deal not only with the lack of resources (financial, human and technological) but also with high volatility of local prices as a consequence of strong variations on demand. Deficiencies on the information flow based on asymmetries, scarce understanding of the supply chain, markets and trade dynamics are their main barriers.

iii) FAIRTRADE consumer countries include

- Europe (UK, Netherlands, Denmark, Germany, Spain, Sweden, Norway)
- North America (USA, Canada)

Almost without exception they are Northern developed countries with high levels of GDP per capita, and a highly educated population that shares principles of social awareness.

iv) FAIRTRADE consumers

Organic products represent one of the most relevant consumer trends (Prata Neves (2001)).

Consumer interests on these products are mainly based on people concerns about the environment health and food safety. The FAIRTRADE consumers however, recognize these attributes but are also strongly committed to:

- Globalization and poverty reduction
- The whole truth (labels and packaging)
- Food integrity
- Animal welfare & animal testing
- Development of local communities

In the same way that companies embrace the consumer and quality oriented marketing need to pay attention on the environmental marketing (Kotler, P 1989); those committed to FAIRTRADE strategies need to be prepared to meet the increasing consumer demands on trade ethics. Changes on consumer behavior have impacted on the attributes perceived by them during recent decades. The evolution of these preferences is summarized below:

Table 1: Evolution of attributes/ preferences by type of consumer

Traditional	Green	FAIRTRADE
Quality	Quality	Quality
Price	Friendly environmental	Equitable trade Transparency
Convenience	Price	Friendly environmental
	Convenience	Price
		Convenience

Source: own analysis based on Fava Neves and IFAT, FLO and Co-op data

v) Profile of UK consumers of FAIRTRADE products

A survey conducted by Gallup⁵ in 1994 and updated by NOP in 2004 among 28,500 UK consumers revealed their attitudes to the ethics in the food industry. Its purpose was to establish whether people's attitudes had changed over the last 10 years and, if so, how. The

⁵ performed between December 1994 and march 1995 on 30,000 buyers

survey showed that consumers were hungry for good food, not only that looks and tastes well but also food they could trust in. Some of the results are as follows:

- 6 in 10 are more concerned about ethics in the food industry and trade (+12% vs 1994)
- 8 in 10 said they find it difficult to trust the Food they buy
 - Growing need to know what's behind the product (raise ethical standards in the Food industry and improve the industry behavior)
- 8 in 10 expressed they are willing to pay a premium for products that met higher ethical standards (+35% vs. 1994)
- 6 in 10 said they are ready to boycott a shop or products on ethical grounds

With regard to the poverty reduction through the empowering of a fair deal with growers in developing countries:

- 43% voted this in their top 3 priorities
- 13% said this was the #1 issue
- 80% showed support to the growers in developing countries (+45% vs. 1994)

vi) FAIRTRADE products and value added

FAIRTRADE products are highly differentiated and appeal to the social awareness of their consumers that trust on a more equitable trade along the supply chain.

At present, there are a more than 1000 FAIRTRADE products (Food and non Food) in the UK market. Coffee is the most representative and concentrates more than 50% of FAIRTRADE retail sales in the UK. Main food product categories are: coffee, tea, chocolate, honey, fresh fruits, chutney & preserves, sugar, juices, cereals & bars, alcoholic beverages (spirits/beer/wine)

vii) Distribution channels

Distribution of FAIRTRADE products is totally decentralized, being performed in small scale with clear communication campaigns that promotes the differential attributes of the products. Premium prices are paid as compared to their conventional peers. FAIRTRADE sales in general and FAIRTRADE wine in particular are channeled through:

- Specialized stores
 - FAIRTRADE stores (world stores/ Tradecraft)
 - Green/Organic stores
 - conventional wine stores
- Retailers aligned with the FAIRTRADE culture (United Co-op)
- Supermarket chains (Tesco, Waitrose, Booze Buster, Morrison's, Sainsbury's, Simply Drinks, Somerfield)
- On line sales
- Specialized restaurants, bars and hotels

E) THE ARGENTINE WINE

i) Argentine wine market

Argentina is the 5th wine producer and the 6th consumer country worldwide. Its main viticulture areas are located between 25° and 40° South latitude, along the Andean mountain range. Argentina's 212,659 ha. of vines, represent the 10th surface in the world being the parral-pergola widely used.

The INV⁶, the national regulating body, supervises 25,793 vineyards and 1,150 wineries among other grape processing facilities. 1 to 5 ha vineyards represent 44% of the total surface,

⁶ The Instituto nacional de vitivinicultura is the regulator body in argentina

while 35% is concentrated among vineyards ranging from 5 to 50ha. Rainfall is not enough in the viticulture areas, therefore irrigation is required. Flood irrigation is the traditional system while dripping has been widely adopted in modern plots.

Due to soil and climate conditions, vines grow almost organic without the need of frequent anti cryptogrammic treatments when compared to other more humid regions such as Bordeaux or Piedmont.

Wine making demands 96/97% of the national grape harvest which accounts to 23million qq⁷. In 2005, Argentina elaborated more than 15million hectoliters of wine. The province of Mendoza concentrated 72% of total, followed by San Juan 21%, La Rioja 4%, Catamarca - Salta 2%, and Rio Negro- Neuquén 1%.⁸ Out of the 15 million hectoliters of wine, approximately 70% correspond to local dispatches⁹ amounting to US\$570 million. However, per capita consumption drop 20% between 2000 and 2004 to 29.8 liters and local consumption is sinking. Only the fine wine segment aligned with global trends have grown over recent years.

ii) Argentine exports

Exports amounted to US\$231 million (or 1.5million hectoliter) in 2004; varietal wine concentrated 74% of this total. In the past 5 years, between 60% and 80% of exports value was concentrated by USA, UK, Canada, Brazil, Netherlands, Denmark, Belgium and Germany. During the first 11 months of 2005, argentine wine exports accounted to US\$240.6 million (or 1.6 million hectoliters), a 26% rise as compared to the same period of 2004. Exports of varietal wine between January and October 2005 reported US\$183.2 million, a 2% increase in the stake of total exports. Wine FOB average prices between 2004 and 2005 remained relatively stable.

Argentina is the only wine producer country that has not reached any special commerce agreement with the EU, its second most important export market. A stable agreement with this economic block could turn argentine wine more competitive in terms of retail prices. At present Argentine wines pay higher export duties to the EU as compared to Chile, Australia and USA which have all agreed on a progressive tariff reduction schedule.

When exporting to UK, argentine wines are subject to the CCT (common customs tariff) and the Duty Excise. CCT paid by argentine wines accounts at present to approximately £0.94 per case of 12 bottles (9lt) while Chilean wines only pay £0.19 (no CCT as of 2007); therefore, argentine wines have to be at least £0.75¹⁰ (US\$1.41 per case) cheaper than their Chilean competitors to have uniform retail prices.

In addition the new value set up for the Duty Excise is £15.09 per case.

iii) UK wine market

Wine holds approximately a 30% stake of the alcoholic beverage market in the UK. The British wine market is one of the biggest and more dynamic of the world (US\$17,000) with annual growth estimates of 4-5%.

The off trade dominates the market concentrating 81% of total retail sales (mainly through supermarket chains like Tesco 32%, Sainsbury's 22%, Asda 13% and Safeway 12%).

Remaining 19% correspond to the highly atomized on-trade, with more than 133,000 selling

⁷ INV official figures as of 2003

⁸ Source: INV 2005 figures

⁹ 11 million hectoliter dispatched in 2004 vs. 9.8 million hectoliter in the first 11 months of 2005 (nov. 2005, estimates)

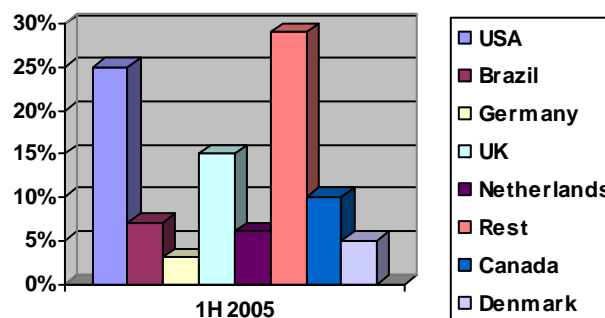
¹⁰ as of may 20 1 GBP = 1.87794 USD

points among pubs, restaurants, hotels and clubs. Australian wines lead the sales while Chilean and South African ones continue boosting their market shares. Wines from the “old world” as France, Italy and Spain are moving back up.

iv) Argentine wine in the UK market

Argentine wine holds a humble 1.6% of the UK market (volume) slightly ahead of Portugal and New Zealand. Argentine wine in the supermarket chains is positioned in the “under £6 pounds” segment (or under US\$11 approx.). No Argentine label is listed among the TOP 20 new world wines in the British market. On the contrary, Chilean Concha y Toro’s traditional brand Casillero del Diablo is ranked #19. 11% of Argentine wine exports are dispatched to the British market, representing approximately 13% of total exports in value terms. In the first half of 2005, more than 90 thousand liters of Argentine wine were sold to the UK with revenues of US\$15.4million. Given the high value added demanded by the British market, 92% of the exports were varietal wines (representing 15% of the total exports of the segment) The average UK drinker of Argentine wine is between 25 and 54 years old and is likely to enjoy a high annual income. This consumer buys Argentine wine at a price ranging between £4.5 and £5 (US\$8-9) for informal occasions, while leaves higher price labels –in the region of £7 (US\$12.5) - only for special occasions. It does not show any loyalty to any Argentine label or Argentine region of origin in particular.

Chart 1: Argentine exports of varietal wine. Stake by importer country



F) WINE & FAIRTRADE

i) Certified FAIRTRADE wine

FAIRTRADE and other competitive alternatives as organics, quality certified or Free Foods emerged in the global markets as a response to ethic requirements and superior needs of some specific consumers, those whose social awareness leads their purchasing decisions. Any food product in developed countries that addresses these values does not constitute per se a product to cover basic human needs but those like self-realization, identification with ethics (poverty reduction, equity trade, biodiversity, animal welfare, environmental protection, social uplift, etc). A FAIRTRADE certified wine is, therefore, a highly differentiated product. Grape growers (integrated or coordinated) and wineries’ strategies addressing FAIRTRADE must be clearly oriented to deal with specialties in order to capture the consumer surplus in developed countries.

Although there are not standards set up yet for wine making, FAIRTRADE wines reached the category through the certification of the grapes they are elaborated with. A list of prohibited pesticides includes some herbicides, nematicides, insecticides and fungicides.

Product specific standards¹¹ for wine grapes were set up based on the first case of a South African FAIRTRADE wine. FAIRTRADE wine can be traded as steel or sparkling, red, white or rose in bulk or bottled. The required quality standards for all forms of wine are agreed between the buyer and seller with reference to customary international trade standards. However, not all wines in the niche have a Fairtrade Labeling Organizations FLO seal being commercialized as “fairly traded” products by FAIRTRADE independent organizations like TRADCRAFT¹².

Chart 2: FLO certification seal



Based on local market prices, FLO establishes a floor price for kg/grape. This way, it guarantees to cover the producers living and production costs. Additionally and subject to sales performance, FAIRTRADE pays a premium to producer associations which should be invested to improve the productivity or social-economic status of its members. FAIRTRADE consumers are willing to finance these structures, through the payment of premiums over the market prices of its peer generics. Therefore, the economics of FAIRTRADE points to capture the consumer surplus in developed countries.

ii) Standards, requirements and certification costs

As mentioned below there are not specific product or trade standards for wine but for wine grape. Generic standards establish that not only small farmers but also farm workers may be part of FAIRTRADE practices.

Small farmers are entitled to do so, if they have formed organizations (in co-operatives, associations or other organizational forms) which are able to contribute to the social and economic development of their members and their communities and are democratically controlled by their members.

Workers can participate in FAIRTRADE if they are organized, normally in unions, and if the company they work for is prepared to promote worker's development and to share with the workers the additional revenues generated by FAIRTRADE.

FLO fees and expenses are charged to the certification applicants. The economic range of expenses is directly related to the size and structure of the requiring organization. 1st degree organizations lower charges than a 2nd and 3rd degree ones. Charges breakdown are mainly composed by a one time payment fee in the first year and maintenance fees in the following years. Maintenance fees are divided into a renewal certification fee and follow up fee (only if necessary) The applicant will have to pay extras for new products or in case to own a processing facility (i.e.: winery). Estimated expenses for a 1st degree organization range between US\$3,000 and US\$4,900 on the first year and from US\$500 to US\$3,700 as from the second year onwards.

iii) FAIRTRADE benefits for producers in developing countries

- Stability on demand / Less volatility on prices
- Minimum price assured¹³

¹¹ extracted from FAIRTRADE STANDARDS for wine grapes-FLO Version August 2004

¹² UK's leading organization dedicated to fighting poverty through trade. Associated to Co-op for the certification of some fairly traded wines in the UK market

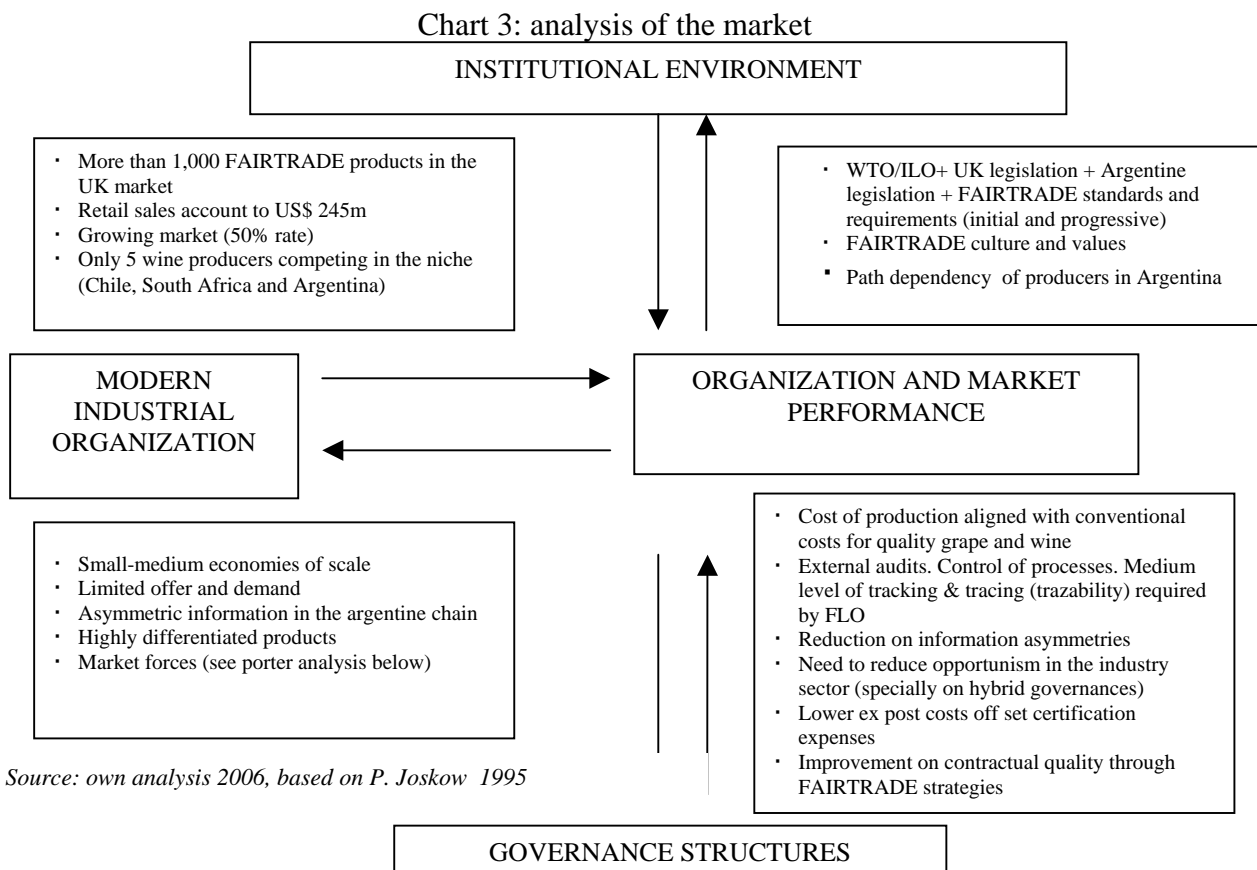
- Premium (bonus fair trade)¹⁴
- Access to FAIRTRADE importers, distributors and retailers in developed countries (Tesco/ Sainsbury's/Coop Group through the Fair Trade Foundation)
- Quality assurance / International standards / Continuous improvement

iv) The UK FAIRTRADE wine niche

“Thandi” from South Africa was the first FAIRTRADE wine in the UK. It was launched to the market at beginning of 2004. After that, the United Coop chain launched 3 Chilean varieties under its own label. Retail sales in the British FAIRTRADE wine niche are expected to reach US\$9-9.5million¹⁵ in 2005 although no official figures have been revealed yet. This merely represents 0.06% of the conventional UK wine market. However it’s important to mention that available labels in the niche have been expanded from a bunch of 5 in 2004 to more than 21 labels from 5 different producers as of January 2006. Available wines are currently coming from Los Robles in Chile, La Riojana in Argentina and Thandi, Cilmor and Citrusdale in South Africa (see annex 1)

v) Analysis of the FAIRTRADE wine market

Chart 3 summarizes the main characteristics of the UK FAIRTRADE niche. It also integrates some features of the Argentine producers as potential suppliers.



Source: own analysis 2006, based on P. Joskow 1995

13 Based on the poor information of documented cases (Chilean and south African wines), minimum prices guaranteed for Argentine grape growers would be in the region of US\$0.25 / US\$0.31 per grape/kg with a premium of US\$0.06 per grape/kg and a differential of US\$0.03 per grape/kg for organic certified plots.

14 farmers involved in FAIRTRADE are estimated to be beneficiaries of approximately US\$30,000 per annum to invest in productivity, social uplift and communitarian projects (schools, training programs, etc)

15 Based on retail sales

i. Institutional environment

Certification seals and labels (as organics, AOCs etc) have proved to be a fundamental device for the consumer to recognize the underlying attributes of some products. FAIRTRADE products are also endorsed by specialized associations such as the Fair Trade Foundation. Its International Labeling Organizations (FLO) certifies only those products that meet their strict international standards of fair trade through a unified seal. (see chart 2). Although there are many FAIRTRADE marks in the global markets, the unification under the aforementioned seal seems to be a reality in the short term.

The legal framework for fair trade activities starts at the ITO and ILO levels, followed by the local legislation of the country where the FAIRTRADE product comes from. Finally, the standards and requirements (some times stronger than country laws) of the FLO are applied. It is important to mention that there are no standards set up yet for the wine making process. All fairly traded wines reached the category through the certification of the grapes which they are made from. Due to this, some retailers have jointly worked with Traidcraft, the bigger independent FAIRTRADE organization in UK, to establish assistance programs for the producers, almost all grouped in cooperatives (Los Robles in Chile, La Riojana in Argentina and Citrusdale Cellars in South Africa). Nevertheless, FLO expects to set up new standards for wine making by 2006.

In Argentina, the INV regulates the viticulture activities. Legal framework is mainly composed by National Laws 14,878 and 24,566. National law 25,163 of origin denomination although sanctioned, is not in force yet. Due to this any DO / AOC seal of an Argentine product is not covered by national legislation but by provincial ones.

The FAIRTRADE culture is part of the informal institutional environment. The need to strengthen ties based on commitment and trust along the supply chain is considered a must on this matter. Also, it has to be taken into consideration some “path dependency”¹⁶ aspects of the Argentine farmer or grape growers associations, generally comprised by low social capital individuals focused in general on “commodity models”.

ii. Industrialized modern organization

FAIRTRADE market in the UK is embryonic with a limited offer of products and small demand. Retail sales only amounted to US\$245 million in 2004. However, it is expected that the FAIRTRADE movement continues to grow, promoting a better coordination of the supply chains of the producer countries, which at last should attract more actors to the market.

iii. Governance structures

Three basic governance structures are currently present in the wine argentine market.

Market: Non specialized grape growers of cereza and criolla (low oenological value varieties) supply the raw material to big scale wineries with table-wine-oriented technological models.

Grapes are commercialized in bulk at low prices per kilogram (US\$0.13/0.20). These farmers are subject to strong demand variations and consequently are exposed to high volatility in prices. Their competitive strategy is commonly price-oriented.

Hybrid: Is the structure widely adopted by medium and big size wineries.

¹⁶ Path dependency. Glossary NENA

Wineries acquire quality grapes from local farmers through sale and/ or wine making contracts.

On the first case (sale contracts), prices paid for fine grapes as Malbec, Cabernet sauvignon, merlot and chardonnay among others are significantly higher than market prices. Quality premiums can exceed 3.5x the prices of table wine grapes. Premiums vary depending on grape variety, origin, vine age, vine yield, etc.

The so called “vine follow up agreements”¹⁷ celebrated between the winery and producers are a regular practice. Under these agreements, the winery brings its know how and puts its technical staff to assist the farmer on vineyard activities (clones selection, irrigation, training, pruning, leafing and harvesting) to assure the final quality of the producers’ grapes.

On the second case, the farmer delivers its grapes to the winery and buys from it a service to elaborate its own wine; this will be made by the winery on behalf of the farmer.

This kind of contracts present in Argentina strong restraints based on the opportunism and the asymmetry of information handled by both parties. Incomplete contracts and the lack of proven trazability during the whole wine making process (from the grape delivery to the bottling (passing through wine making and aging) made of this practice a good business for the industry but not for the farmer.

Competitive strategies of organizations adopting hybrid structures are differentiation-oriented ones and generally focused on the premium and ultra premium segments.

Firm: Adopted by wineries integrated backwards with the primary production of grapes or farmers integrated forward through processing facilities (winery).

With strategies based on differentiation these companies are focused on the premium, ultra premium and icon wines making. Most of them export almost all of its production.

Pure firm structures are generally adopted by small sized organizations and boutiques.

iv. Agri-cooperatives in Argentina

120.000 farmers in Argentina are organized and associated to agro-cooperatives. Their labor force comprises 300.000 workers between temps and permanent employees.

Total agro coops revenues accounted to US\$2.5 billion in 2005 (\$7.5billion pesos¹⁸) while exports reached US\$ 1 billion (\$3billion pesos). At present agro-coops generates 6% of the argentine GDP which represents approximately 9% of the national agribusiness complex.

In addition, agro-coops hold a 5.6% share of total agro-business exports

Coops in Argentina commercialize approximately 22% of the national agro production. 13% of total wine sales are performed by coops.

Wine coops in Argentina

There are more than 5.000 grape growers associated into 38¹⁹ vertically integrated 1st grade cooperatives in Argentina. The Province of Mendoza concentrates 94% of the total, with 37 registered coops which harvested more than 2.5 million qq²⁰ of grapes in 2005.

98% of the harvest was allocated to vinification while remaining 2% was sold for fresh consumption.

30% of the wine elaborated by coops is concentrated in five companies²¹ and 80% of the total is sold to Fecovita²². 75% of wine sold by coops was dispatched to the local market while the rest was exported, primary to USA and Russia

17 Acuerdos de seguimiento de finca

18 Source: CONIAGRO (Confederación Intercooperativa Agropecuaria Cooperativa Limitada)

19 associated to ACOVI (Asociacion de cooperativas vitivinícolas)

20 2.500.000 qq on 2005 as informed by ACOVI. 1qq=100kg

21 California, Ing. Giagnoni, Sierra Pintada, Algarrobo Bonito and Norte Mendocino

22 Fecovita is one of the major players of the argentine wine industry. It is a 2nd grade coop with approximately 31 1st grade coops associated.

The nature of the Argentine grape market

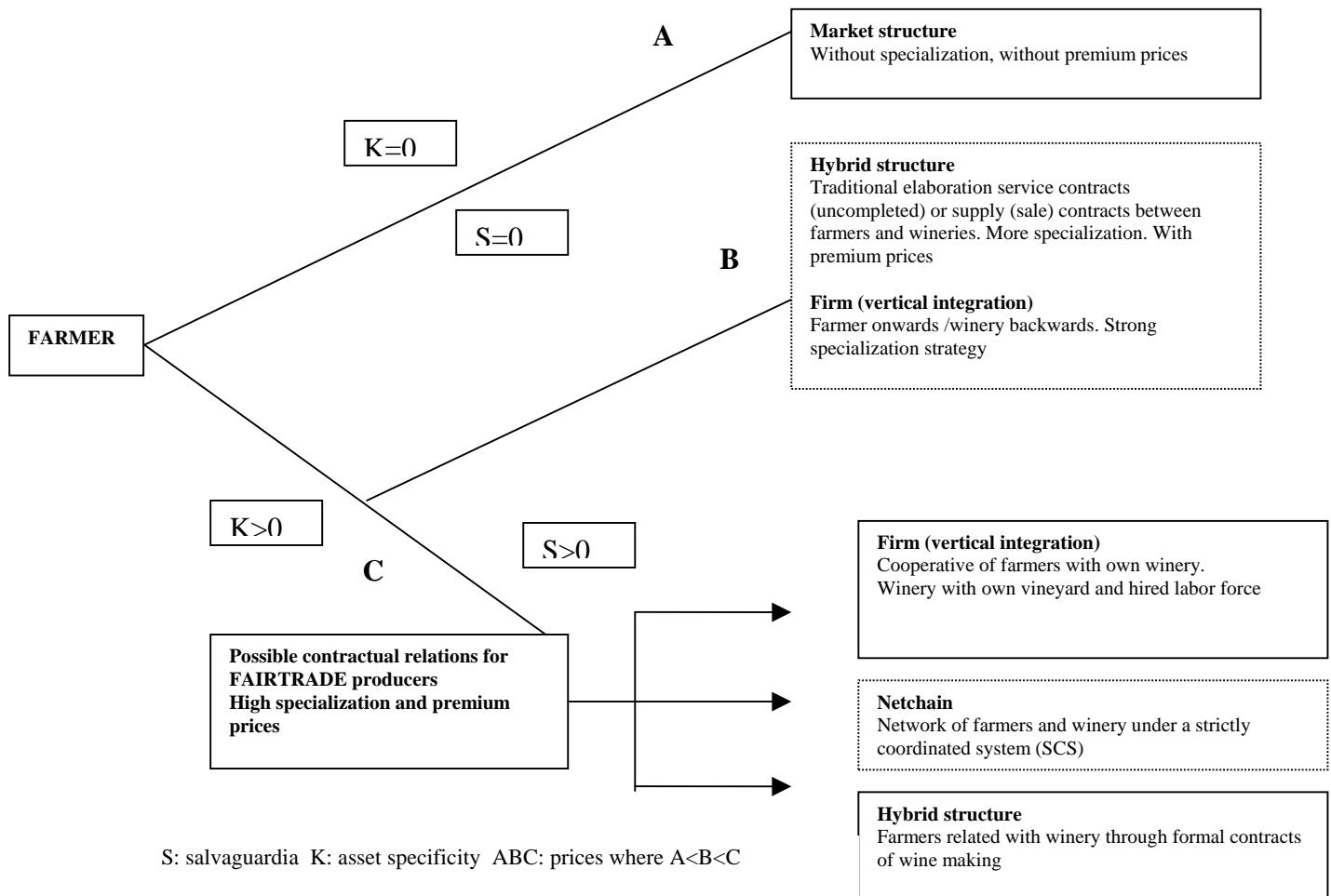
Institutional, organizational and technical restrictions between local coops and the wine industry complicate their adaptation and survival in the new market/consumer-oriented viticulture model.

These restrictions are even deeper for non associated grape growers due to the nature of the demand. As opposite to the offer, grape demand for table wines is highly concentrated in Argentina. Only five players concentrate (directly and indirectly) 76% of this market, among which there's a cooperative of 2nd grade, Fecovita, with a 14% stake. The oligopsony sets up grape prices each year since high volume transactions are reported to the market acting as "prices of reference" for other minor transactions. However since grape varieties are not classified for these matters, there is no clear and formal information that formally match prices, volumes and qualities. This, among other factors generates asymmetries in the information, weakening even more the farmers competitiveness.

Despite this scenario, the weight of the cooperative system as an important supplier for the wine industry makes difficult to envision its extinction.

However, small farmers and cooperatives should continue developing vertical and horizontal integrated structures in order to reach economies of scale -continuity of the offer-, improve production planning (reconversion of varieties and new technology), increase quality and strengthen their negotiation power. Under this scenario, cooperatives would be able to adopt governance structures better aligned with the production and commercialization of "specialties" instead of the current market model with a strong "commodity" focus.

Chart 4: Possible contractual relations



products attributes can not be perceived at first sight, they require a third party certification.

As in organics, processes along the chain involve some high asset specificity as price premium depends on the realization of transactions among several vertically related agents (Farina and Zylbersztajn 2003). Due to this, market governance is discarded as a possible contractual relation form under a FAIRTRADE strategy. Chart 4 exposes the 3 basic governance structures that cohabit in the Argentine market and the possible contractual relations for FAIRTRADE producers.

Deficiencies or unfulfillment of FAIRTRADE standards will revoke the certification and re-direct the product to more conventional markets (see chart 4). The universe of possible contractual relations is then limited to the “firm” and some “variations of hybrid” governance structures.

vi) Market forces

As mentioned before, FAIRTRADE responds to a growing social awareness of the consumer related to ethics on food production and trade. For such reason, the power of buyers is analyzed under the final consumer point of view. FAIRTRADE consumers dictate WHAT should be produced and offered in the niche.

The power of suppliers is analyzed under the point of view of the farmer/winery. Table 2 shows both views.

i. Entrance and exit barriers

Considering current situation of the viticulture sector in Argentina and the dynamics of the UK FAIRTRADE niche, the entrance barriers detected by the author are listed in Table 3. No relevant exit barriers were detected. Although the FAIRTRADE certification is an asset of high specificity, some procedures and quality processes adopted by FAIRTRADE producers can be capitalized in other structures such as vertical coordination (wineries looking for good quality suppliers) or vertical integration (see chart 4)

ii. Real, potential, direct and indirect competitors

FAIRTRADE products do not compete with generics peers. Direct competition is developed among product families or different labels of the same product category. A FAIRTRADE wine directly competes against other FAIRTRADE wine and in minor terms against other FAIRTRADE beverages like beer, juices and spirits. However, the lack of more labels and the incipient degree of the niche, have allowed some retailers to offer a mix of same-category-products, for example, a 12 bottles box containing FAIRTRADE wine from Chile, Argentina and South Africa.

Since the first FAIRTRADE wine emerged in early 2004, the market has grown up to a twenty of labels available nowadays. However the number of players has remained limited to only 5.

Future consumer preferences could reinforce the growth of the non alcoholic or low alcohol beverages product range. If this happens, the FAIRTRADE niche will become more and competitive. Other ethic-food products such as the Slow Food Bastions could become direct competitors in the near term although its growth is not expected to be so relevant.

Indirectly, some other certified products could be an option for the buyer facing a shortage of any FAIRTRADE product on the shelf. This would be the case of organic/green, DO, quality certified, kosher and Freedom Foods, for which the animal welfare and the food intolerance (gluten, dairy, eggs, chocolate, etc.) are its cornerstone (i.e. Freedom Foods Organic Shiraz Grape Juice)

Table 2: Power of suppliers and buyers

	Low negotiation power	High negotiation power
POWER OF BUYERS (FAIRTRADE consumers in developed markets)	Limited offer of FAIRTRADE products	Relatively low cost of exchange (no additional costs detected by moving from FAIRTRADE to other products like free food)
	Highly differentiated product	Identification with ethics on trade and FAIRTRADE values. Power to push.
	Atomization of demand (no clubs or groups of buyers for FAIRTRADE products)	Dictates WHAT should be produced and the attributes of the FAIRTRADE products
	Low stake of FAIRTRADE products in total purchasing	High elasticity of demand (f/ethics)
	High concern to maintain their supply sources of FAIRTRADE products (continuity, trust)	Boycott possibility
	High level of ethic benefits reported by the consumption of FAIRTRADE products	
	Low elasticity of demand (f/price) compared to generics	
	No possibility of backward integration for the buyer-consumer	
POWER OF SUPPLIERS (Argentine producer in developing country)	Low % of income from FAIRTADE sales	Constitution of farmer networks with high value added Cooperatives or grape growers networks strictly coordinated (netchain) or vertically coordinated (formal contracts)
	No understanding of markets	Concentration of the offer (only fair-trade qualified producers in developing countries)
	Tendency to adopt market governance structures (high volume/poor value added) Or traditional hybrid ones (uncompleted contracts with wineries)	Capitalization of the 3rd world origin
	Path dependency	Coordination and alignment with the offer
		Few competitors in the FAIRTRADE wine niche
		Higher specialization / better handle of the Know how and Know what
		No strong substitutes
		High asset specificity does not invalidate other contractual relations with the industry Redirection of products to other markets without losing 100% of premium
Possibility of future forward integration		
Appropriation of the consumer surplus		

Source: own analysis 2006 based on M. Porter

Table 3: Entrance barriers to the FAIRTRADE wine niche

	high	medium	low
In Argentina as supplier country			
Eligibility of the supplier country (should be considered in competitive disadvantage)			
Status of the formal institutional environment in the supplier country			
Need to reach economies of scale			
Frequency of supply			
Path dependency and opportunism in the producer country			
Learning process of producers			
Coordination of Chain/ information management			
Lack of national law of origin denomination			
Access to extra Premium for the organic status of the grapes			
Trazability (specially on hybrid structures)			
In UK as consumer country			
Brand building in UK			
Access to importers/distribution channels (data and fairtrade orgs. Contacts)			
Size of the offer and product mix			
Direct competitors			
Indirect competitors			
Substitutes			
Argentina country image			
Variability of demand			
Elasticity of demand (f/price)			

Source: own analysis 2006 based on M. Porter

iii. Substitute products

As mentioned before, there are few cases of FAIRTRADE wine in the UK. Given the high level of specificity of the asset, no substitutes are considered on the market place in the short term. The possibility of new alternative trade forms and therefore new ethic products could represent a threat in future although it is difficult to anticipate it.

Table 4: FAIRTRADE wine competitors

	DIRECT COMPETITORS	INDIRECT COMPETITORS
Real	FAIRTRADE beer, juices and spirits	Organics/green products
		Quality certified food
	SLOW FOOD Bastions	DO/AOC products
		Kosher
		Freedom Foods
Potential	FAIRTRADE low alcohol beverages	Others (whole foods)

Source: own analyses 2006 based on M. Porter

iv. Table 5: SWOT analysis

S	Eligibility of argentine producers “competitive disadvantaged” Medium-low difficulty to meet FLO standards/quality vines in Argentina are almost organic High quality product / Flagship variety (Malbec) and diversity Low costs of certification
W	No stable agreement with the EU for argentine wines / Exports withholdings Lack of government support to the sustainable development of agro communities Low level of social capital in rural cooperatives and farmers associations Short experience on auditing and due diligence processes
O	Incipient stage of the niche / Excellent timing to enter in order to position brands later on High growth rate (+70% in value terms) / Few players / “All win” competitive scenario Growing global demand for FAIRTRADE products Increasing social awareness of consumers / High income level on the market
T	Massive invasion of new world competitors. Rapidly growth rate of direct competitors Strong discount campaigns performed by supermarket chains (pressure on quality-social by price-quality) Irruption of multinationals adopting FAIRTRADE to clean their corporate images Possible saturation of the niche in the medium term Changes on consumer preferences in developed countries

G) Synergy between a FAIR TRADE strategy and the main targets of the Argentine Viticulture Strategic Plan (PEVI)

By the end of 2003, Argentina launched its viticulture master plan, commonly known as PEVI, which envisions total wine exports reaching US\$2bn by 2020 (10% of world market exports).

Not only public but also private interests contributed and participated on the PEVI project such as wineries and growers associations, universities and national agencies like the National Institute of Viticulture (INV) and the National Institute of Agriculture Technology (INTA) among others.

The Strategic Plan is financed through a special fund created with the contributions²³ of the whole viticultural community. Use of proceeds are managed by the COVIAR to cover market research, promotion, advertising, trade shows, education programs, technical assistance and others in order to reinforce the coordination between wineries and growers and improve its performance in the long term.

The three main strategic points outlined in the PEVI are as follows:

- Position argentine fine wines in the northern markets (increase and sustain the stake of argentine premium and ultra premium wines in developed countries)
- Develop of the Latin American market place (and reactivation of local market)
- Support to small farmers (integration of grape growers)

Based on the FAIR TRADE culture and market dynamics, the PEVI’s first and third projects seem to be strongly aligned with a FAIR TRADE niche strategy pursued by an argentine winery or a pool of argentine producers.

²³ Elaboration contribution: US\$0.006 per lt wine in 2004 (\$0.01691) or US\$0.0005 per kg/fresh grape (\$0.014)

Plus dispatches contribution of : US\$0.001/lt of fine wine (\$0.002334) or US\$0.0005/lt of table wine (\$0.001425)

Among the first point, strong synergies are detected on some targets such as the creation of the image “Argentina”, the promotion of argentine flagship Malbec, and the tailor made response to the needs of international consumers among others.

In the case of the third point, stronger synergies also emerge. Among others, the construction of a collective process to organize and integrate small grape growers, the improvement of the technological environment, the continuous education of the labor force and the transformation of integrated grape producers into focus of agro-social development are mere examples of potential synergies.

H) CONCLUSIONS

The FAIRTRADE niche is viable for Argentine grape growers and wineries.

No special restrictions (in addition to the ones existing on the conventional wine market) are detected in the formal institutional environment. On the informal institutional environment, the low level of the social capital in the primary sector with medium-high path dependency should be taken into consideration when analyzing a FAIRTRADE strategy.

In order to reduce opportunism in the industrial sector and moderate transaction costs between grape growers and wineries, the most convenient governance structures for FAIRTRADE grape growers and wine producers seem to be the firm and some hybrid forms.

On the first group, integrated cooperatives of grape growers are the most appealing organizations. Other types such as integrated wineries with hired labor force are not discarded, although they will have to demonstrate strong social commitment towards their workers.

On the second group, grape growers should tend to develop strictly coordinated structures. Farmers vertically coordinated with wineries through elaboration contracts are avoidable structures due to the high costs these contracts tend to generate in the argentine wine market. In case these structures are adopted, accurate traceability must be demanded by the farmer.

Local wine producers are likely to meet FAIRTRADE standards and certification expenses are affordable.

A redirection of a FAIRTRADE wine to other markets will not necessary end in the conventional bulk sector. Expertise gained by FAIRTRADE farmers would have helped them to develop stable supply contracts with local wineries, diminishing premium loses.

FAIRTRADE wine in UK is an embryonic niche with appealing growth projections. Low price elasticity of demand increases the power of FAIRTRADE wine producers. The power of consumers on the other hand is strengthen through the high ethics elasticity of demand. Therefore, the unfulfilment of their expectations could cause potential consumers boycott. In global terms, opportunities burst threats being the supermarkets’ discount wars and the irruption of multinationals the most alarming issues.

Even when FAIRTRADE wine sales do not report additional profits to wine producers, as compared to other strategies, an early access to the niche is expected to report competitive advantages in the short term, empowering the coverage in the UK market and opening new markets such as Denmark, Norway, USA, Canada and others.

A FAIRTRADE strategy is aligned with at least two of the main strategic targets of the PEVI: the penetration of new markets in developed countries and the integration of small grape growers to the wine business.

References

- Cetrágo, H; Fernández, S; Quagliano, J; Zelenay, V; Muratore, N; Lettieri, F; (2002) El Negocio de los vinos finos en la argentina. Buenos Aires: Editorial Facultad de Agronomía.
- Fair Trade Federation; (2003) Annual Report: Fair Trade Trends in US, Canada & the Pacific Rim
- Farina, E; Zylbersztajn, D; (2002) Economics of networks and patterns of competition in Food and agribusiness
- Fava Neves, M; Thome e Castro, L; Ribeiro Giordano, S., Tornavoi de Carvalho, D; Alcantara, R.L.C; Furquim de Azevedo, P; et al. (2003) Marketing e Meio Ambiente. In Marketing e Estratégia em Agronegócios e Alimentos (pp. 311-347). Sao Paulo: Editora Atlas S.A.
- Halstead, L; (2005) Innovation in understanding the UK wine consumer
- Joskow, P; (1995) The New Institutional Economics: Alternative Approaches. Journal of Institutional and Theoretical Economics.
- Merino, J; (2005); Los desafíos de la vitivinicultura argentina, in Argentine wine forum, Buenos Aires
- Ordóñez, H; (1998) Nueva Economía y Negocios Agroalimentarios. Glosario NENA.
- Ordoñez, H; (2002) Una teoría, Tres Modelos y Tres casos, Buenos Aires
- Perez Criado, C; (2005) Penetración del mercado británico in Argentine wine forum, Buenos Aires
- Porter, M; (1990) Estrategia Competitiva
- United Coop; (2004) Shopping with attitude. UK
- Williamson, O; (1996) The mechanism of governance. Oxford University Press

- Zylbersztajn, D; Miele, M; (2001) Stability of contracts in the brazilian wine industry: improving quality attributes through chain coordination

Articles

- Bruni, F; November 30, 2005. Having your ethics and eating them, too. The New York Times. Dinning In.
- Burros, M; January 4, 2006. In Oregon, Thinking Local. The New York Times. Dinning In.
- Burros, M; January 11, 2006. Serving good intentions by the bowlful. The New York Times. Dinning In.
- Carvajal, D; May 7, 2005. Third world helps to help itself. International Herald Tribune.
- Murray, R; January 21, 2004. Ethical quaffers. The Scotsman. Retrieved January 2006, from <http://thescotsman.scotsman.com/s2.cfm?id=120332004>
- Severson, K; November 9, 2005. An organic cash cow. The New York Times. Dinning In.
- Singer, P; May 20, 2006. Las razones del consumo ético. Diario Clarín. Revista Ñ. Retrieved May 2006 from <http://www.clarin.com/suplementos/cultura/2006/05/20/u-01198025.htm>
- Tagliabue, J; December 14, 2005. In its busy season, foie gras battles its image problem. The New York Times. Dinning In.
- Woodard, R; June 21, 2005. Fair trade wine. Wine International.

Electronic sources:

- <http://www.acovi.com.ar/inicio.htm>
- <http://www.bodegasdeargentina.org>
- <http://www.coninagro.org.ar>

- <http://www.coop.co.uk>
- <http://www.co-op.co.uk>
- <http://www.co-opfairtrade.co.uk>
- <http://www.ead.fea.usp.br/WPapers/2003/03-027.pdf#search='Farina%20%20Zylbersztajn%20Economics%20of%20networks%20and%20patterns%20of%20competition%20in%20Food%20and%20agribusiness'>
- <http://www.fairtradefederation.com>
- http://www.fairtradefederation.com/2003_trends_report.pdf#search='Fair%20Trade%20Trends%20in%20US%2C%20Canada%20%26%20the%20Pacific%20Rim'
- <http://www.fairtrade.net>
- <http://www.fairtrade.org.uk>
- <http://www.fairtraderesource.org>
- <http://www.globalexchange.org>
- <http://www.globalissues.org>
- <http://www.ifat.org>
- <http://www.intracen.org>
- <http://www.inv.gov.ar>
- <http://www.maketradefair.com>
- http://news.bbc.co.uk/2/hi/uk_news/4303147.stm
- <http://www.somerfield.co.uk>
- <http://www.tesco.com>
- <http://www.traidcraft.co.uk>
- <http://www.traidcraftshop.co.uk>
- <http://www.transfairusa.org>
- <http://www.uva-ra.com.ar>

- http://www.vitivinicultura2020.com.ar/pdf/libro_pevi.pdf
- <http://www.waitrose.com>
- <http://www.worldbank.org>