Chilean grape glut prompts farmers to rip up vines

By Gideon Long

SANTA CRUZ, Chile, March 16 (Reuters) - Chilean wine is more popular than ever but its grape farmers face their worst crisis in 20 years with some saying they will leave their fruit to rot on the vine this year and then rip up their vineyards.

Years of over-planting and a bumper harvest have led to a grape glut in Chile, Latin America's biggest wine exporter.

A buyer's market has developed, dominated by big producers like Concha y Toro, San Pedro and Santa Rita, which use thousands of tonnes of grapes each year.

Farmers say they are being driven out of business.

"At the moment, the big wine companies are paying us the ridiculously low sum of 50 pesos (9 cents) for a kilo (2.2 pounds) of grapes," said Aquiles Toledo, who leads a growers' association in the Colchagua valley, a celebrated wine-producing area about 110 miles (180 km) south of Santiago.

"With a single 100-peso coin they can buy two kilos and make more than two bottles of wine," he told Reuters at Colchagua's annual wine festival last weekend.

As tourists and locals sampled wine in the main square of Santa Cruz, a picturesque town in the heart of the valley, Toledo and a small band of fellow farmers staged a protest to highlight their plight, waving black flags in mourning and handing out leaflets.

"If the grape dies, Colchagua dies," read the leaflets. "We're in no mood for parties!!!"

The protest highlighted a problem that has hit virtually every big wine-producing area in the world over the years, from France to Australia to California. In Chile, as elsewhere, a production glut has sent the price of grapes tumbling.

"Last year they paid us 70 pesos a kilo and the year before that 200," Toledo said. "This year, we're down to 50."

With the cost of picking grapes estimated at 120 pesos a kilo, many farmers say they might as well let them rot.

The crisis is so acute that the government offered last week to pay farmers to rip up 5,000 hectares (12,355 acres) of vineyards, pledging 7.5 billion pesos ($13.9 million) in compensation.

But even if the plan is successful, it will still leave Chile with 110,000 hectares of vineyards, far more than it needs. Some experts say it needs to cull 30,000 hectares.

The problem dates from the 1990s, when Chilean wine made a name for itself abroad. Exports soared six-fold from 74 million liters in 1992 to 467 million liters in 2004.

The boom led farmers to plant more vines to supply the big vineyards but exports have since leveled off, partly because the peso currency's strength against the dollar has made Chilean goods more expensive abroad.

Wine exports dropped sharply in 2005 before recovering to 473 million liters last year.

Mario Paulo Silva, president of the Colchagua Valley winemakers' association, says the government should do more to boost exports rather than pay farmers to destroy vines.

"The key is the international market," he said after sampling the first press of the new harvest in a colorful ceremony in the town square. "The way to deal with this problem is to improve the image of Chilean wine abroad."

Silva said neighboring Argentina was spending three times as much as Chile on promoting its wines abroad, consequently increasing its market share.

Argentina's wine exports have sky-rocketed in recent years, helped by its currency devaluation in 2002.

The main beneficiaries of Chile's grape glut are the big producers, who are enjoying vintage prices for their principal raw material.

Concha y Toro and San Pedro declined to discuss the crisis while Santa Rita did not return calls from Reuters. It remains unclear whether the companies will pass on their savings to consumers in the form of cheaper wine.