Politecnico di Milano
Master of Science in
Management Engineering

POLO REGIONALE DI COMO

Possibility to export Italian wines to Colombia Project

Supervisor: Lucia Tajoli
Submitted by: Esteban Zapata Mejía. 764337

Como, July 2012

Table of Contents

LIST OF TABLES

LIST OF FIGURES

SUMMARY

During the development of this project, the trade between Italy and Colombia was analyzed, having a special focus in the wine sector. Wine has always been part of Italian culture and now is one of the most important sectors in Italian economy, being the first producer in the world, in terms of quantity. In this time of crisis, European countries have to start searching for new markets, in order to make their economies grow and the free trade agreement with Colombia and Peru is a good opportunity for this.

About Colombian wine market, it is clear that it is expanding from the last years, becoming and important opportunity for wine producers. Most of Colombian wine market is dominated by Chile, followed by Argentina, Spain and France. Italy is still not a player in the market exporting low quantities but this can change if the producers start making alliances with importers that will help them to complete all the requisites demanded by Colombian authorities to sell alcoholic beverages.

The wine market in Colombia will change in 2012 with the entry into force of the free trade agreement with the United States, and the will change again with the entry into force of the treaty with the European Union. After this it will achieve a relative stability given by the final offer of products, and starting from this point the companies who know better the market and their evolution will be the dominants. It is for this that Italian producers have to start investing in the market if they want to be main players in the future.

WINE SECTOR IN ITALY

Brief history of wine in Italy

Wine has always been an important part of Italian culture. This has happened thanks to the role that has played during the different time frames and the evolution of the civilizations that inhabited the country since the Greeks, who first conquered and then introduced different manners to grew and cultivate the different species of vines that originally did not existed in Italy. This mix of cultures, vines, methods, soils and 3000 years of evolution, present us what we see today.

The Greeks conquered and gave the name of *Enotria* (land of wine) to what it is now Italy around the year 1000 B.C. and started growing the local and their own vines in Sicily and Calabria (figure a). In the VII century B.C., thanks to different factors like the ease of commerce between all the regions around the Mediterranean Sea, the increase of the production of wine, and the natural expansion of the vines, these were being grown and cultivated in what it is now the region of Tuscany (figure b), and by the III century B.C. when the Carthaginian commander Hannibal conquered Rome the north part of the actual country was planted in vines. After this with the Roman Empire the diffusion of the plant goes further across the Alps expanding through whole Europe (figure c).

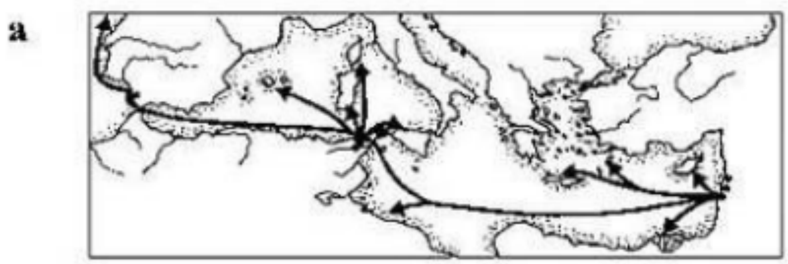

Figure 1 Year 1000 B.C.

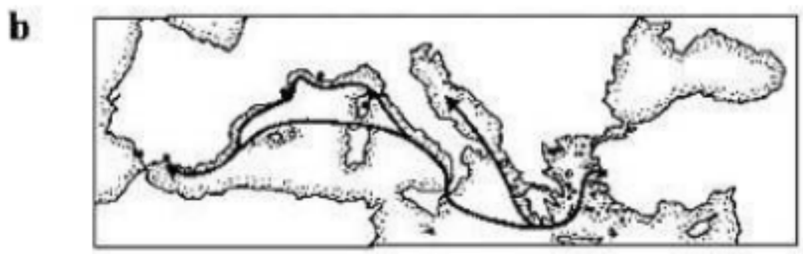

Figure 2 Year 700 B.C.

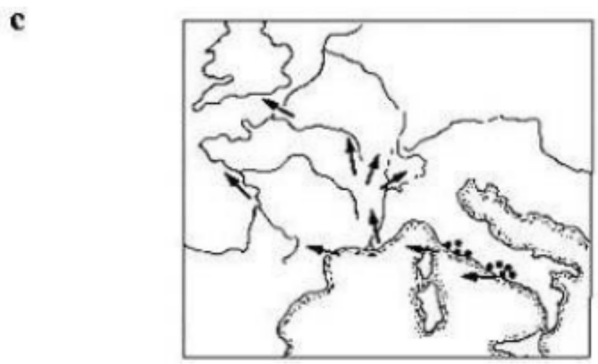

Figure 3 Year 200 B.C.

In the following years, a succession of barbarian invasions and the fall of the Roman Empire brought the sector to a dangerous point, due to the destruction of part of the vines and the use of remaining part especially for the Catholic Church, who made it only available for its members, nobles and merchant class. As the wine was necessary for the mass celebration of the Catholic Church, the Benedictine monks became main producers of wine across Europe, since they always took the vines to their new monasteries, and the habitants of the towns always helped them to grow, recollect and process the product. This practice later became a mayor business and an important link in Europe's economy chain. As an example of this, Dom Perignon, who gave his name to the famous Champagne, was one of these monks.

After the Middle Ages there was the Renaissance and with it, the explosion in literature, painting, education, politics, etc. Along with these sectors, the wine was reborn giving birth to some of most important wine houses, which yet survive. This period is characterized for the important basis that was left for the future of Italy. The Renaissance finished after 300 years with the fall of the Medici Faily, bringing a new period of political instability and wars. This conditions also weakened the wine production, since in the following years, Italian territory was ruled by Spaniards and Austrians, who were only temporary rulers, not caring that decisions made were meant for the short term and did not have an important impact for the wine sector and its stability.

The sector was reborn again in the second half of the XIX century, after the phylloxera, a plague brought from the Americas, finished almost every vine in Europe, having to plant and grow again different kinds of plants immune to this plague. After the plague and when the vines and wine sector was recovering, the two world wars occurred devastating the country and destroying the little that had been recovered so far.

Finally after this events, Italy started with the reconstruction of the country, and the vines started to expand across the country, situation that led to an important increase in wine production, becoming the biggest producer in the world with 13% of the world total, thanks to the industrialization of the processes first in Tuscany, following in Piedmont and in Friuli, that later expanded to the whole country.

EU countries, the *"Old world"*[1], identify their high quality wines by using the Origin Denomination system, in which a product differentiation is generated and supported by specific characteristics of the land, the grapes used and the processing method to obtain the final product. The *"New world"* makes difference between the wines especially with the varietal, i.e. the main grape from which the wine is made. In this way, it is possible to differentiate wines when referring to a precise market segment, distinguishing between popular wine consumers and those who prefer better wines or wines that are well-known as Quality Wines Produced in Determined Regions (QWPDR). (De Blasi, Seccia, Carlucci, & Santeramo, 2007) These denomination in Italy, starts in table wines (vini di

[1] *Old World* are the traditional European wine producers, while New World are those countries that

tavola), IGT (*Indicazione Geografica Tipica*), then DOC (Denominazione d'Origine Controllata) and finishes in DOCG (Denominazione d'Origine Controllata e Garantita), which are the highest quality. Based on this the producers have started to decrease the total amount of vines per hectare, rising the quality and improving the image of the Italian wine around the world.

ACTUAL SITUATION OF WINE SECTOR IN ITALY

Qualitative Analysis

The Italian economy has changed dramatically since the end of World War II. From an agriculturally based economy, it has developed into an industrial state ranked as the world's eighth-largest market economy with an estimated GDP for 2011 of USD. 2.246 trillion. Italy belongs to the Group of Eight (G-8) industrialized nations; it is a member of the European Union and the Organization for Economic Cooperation and Development (OECD).

According to World Bank's data Italy's economic growth averaged only 0.8% in the period 2001-2008. GDP contracted as the Euro zone and world economies slowed, decreasing 1.2% in 2008 and 5.1% in 2009 largely due to the global economic crisis and its impact on exports and domestic demand. GDP recovered only part of the ground lost, growing 1.5% in 2010. In 2011 the GDP grew 0.6%.[2]

Referring specially to the wine sector Italy has approximately 652.000 ha of which 272.000 ha were exclusively for DOC/DOCG wines, 193.000 ha for IGC and 186.000 ha for common wines. The last 10 years have been characterized by the increasing quality in the vines and in the processes used to pick the grapes. This obviously has repercussions in the quality of the final product. In the following table are stated all the special denominations of the wines per region. The following translations in descendent order of quality are made:

---

[2] See http://www.state.gov/r/pa/ei/bgn/4033.htm

- AOCG: Appellation of Origin Controlled and Guaranteed meaning Denominazione d'Origine Controllata e Garantita or DOCG.
- AOC: Appellation of Origin Controlled meaning Denominazione d'Origine Controllata or DOC
- TGI: Typical Geographic Indications meaning Indicazione Geografica Tipica.

REGIONS	AOC	AOCG	TGI	Total amount per region
Valle d'Aosta	1	-	-	**1**
Piemonte	44	12	-	**56**
Liguria	8	-	3	**11**
Lombardia	15	4	15	**34**
Veneto	25	4	10	**39**
Friuli VG	9	2	3	**14**
Trentino A.A.	8	-	4	**12**
Emilia Romagna	20	1	10	**31**
NORTH	**130**	**23**	**45**	**198**
Toscana	36	7	6	**49**
Marche	15	2	1	**18**
Umbria	11	2	6	**19**
Lazio	26	-	4	**30**
CENTRE	**88**	**11**	**17**	**116**
Abruzzo	4	1	10	**15**
Molise	3	-	2	**5**
Campania	17	3	9	**29**
Basilicata	3	-	2	**5**
Puglia	26	-	6	**32**
Calabria	12	-	13	**25**
SOUTH	**65**	**4**	**42**	**111**
Sicilia	22	1	6	**29**
Sardegna	19	1	15	**35**
ISLANDS	**41**	**2**	**21**	**64**
ITALY	**324**	**40**	**125**	**489**

Source: ISMEA

Table 1 Regions of Italy and Appellations of Origin

Table 1 shows that the number (324) of AOC (Appellation of Origin Controlled) is more considerable and represents almost the 66% of the total amount of the denominations; while the number of AOCG (Appellation of Origin Controlled and Guarantied) is equal to 9%, with 40 denominations, and the number of TGI (Typical Geographic Indications) is of 125, which means the 25%. Italian quality wine production highlights a predominant role played by the Northern regions, which have much more AOC, AOCG and TGI wine denominations. In fact, compared with the 489 quality labels, 198 are those classifying wine produced in the North. In percentage terms, they represents the 40.5% of the total one of the denominations, while the Centre and the South correspond respectively to the 23.7% and the 22.7%, followed by the Islands (Sicily and Sardinia) with the 13%. On the contrary, Southern area and the Islands have more TGI denominations. Clearly, there is a strong concentration of AOC and AOCG labels in the North of Italy and this high number is not related to the surface of the regions. Besides, for what concerns regional distribution of quality wine, Piedmont is on the top, with an amount of 56 denominations, followed by Tuscany (49), Veneto (39), Sardinia (35) and Lombardy (34). (Asero & Pati, 2009)

The Italian region with the higher quantity of cultivated area is Sicily, having around 115.000 ha accounting for the 17% of the total vines in the country. (ISMEA, 2011) The total amount of hectares cultivated in Italy has been decreasing in the last years due to the permanent abandonment system, which consist basically in incentives from the governments of the European Union countries to the producers, to remove the bad quality vines, in order to increase the average quality of the wines.

Another factor that has influenced this, is that with the new denominations of the wines and their classification according to the quality, the winemakers have to follow some rigorous rules, regarding to the amount of vines per hectare, the type of the vine, among others.

Quantitative analysis

World Production

The world production for 2010 was 263,9 millions of hectoliters (hL), showing a negative tendency from the last years due to the reasons explained before in the quantitative part, since the countries belonging to the EU account for the 66.5% of total world production. The amount of Italian, French and Spaniard wine production suggest that in the near future the countries from the New World, despite from its growth, do not represent a treat, and will take a long time to reach levels in which they can compete with these three countries. Italy, specially, in 2010 produced 48.6 millions of hL, followed by France with 45,4 and Spain with 36,1, as shown in the next figure.

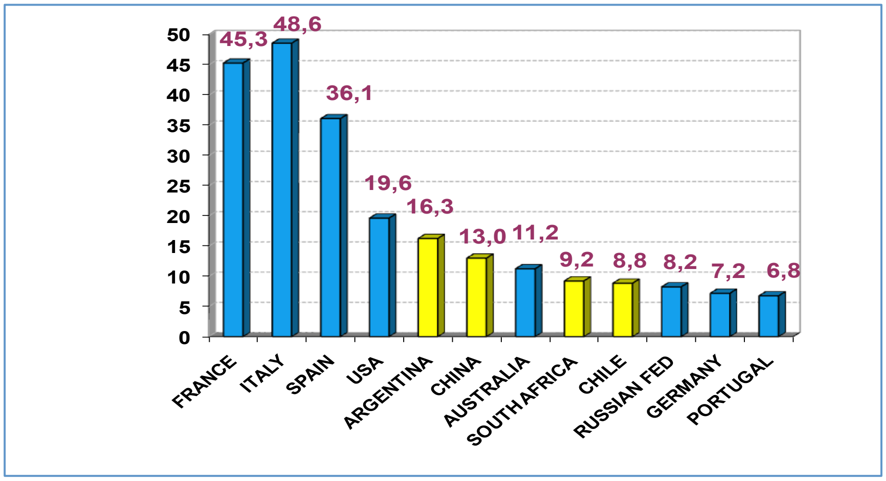

Figure 4 World Production of wine. Data: OVI

World consumption

The world consumption in 2010 was estimated in 238 millions of hL, being France the country with the highest consumption, followed by the USA, market which is growing at interesting rates. Germany growth 10% in respect with 2010, thanks in most part to the sparkling wines, and China is raising its consumption based mostly in the imports of French wines. Consumption per capita, is still low outside Europe, giving the opportunity to grow in external markets that will help to face the actual economic crisis.

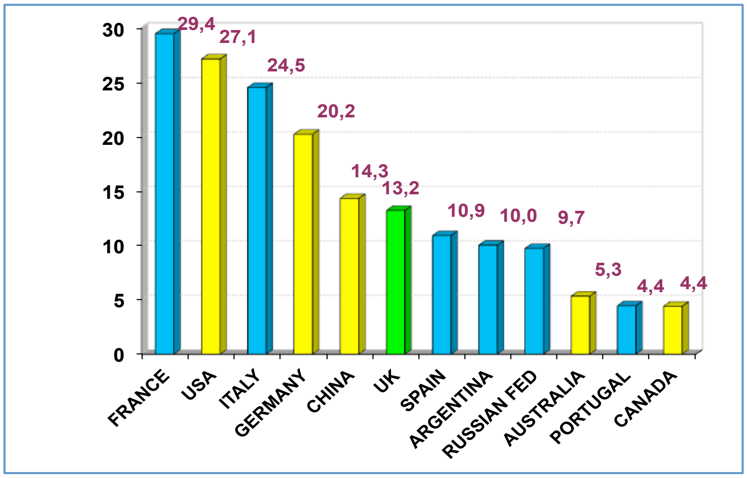

Figure 5 World consumption of wine. Data: OVI

World wine trade

Without regarding of the economic crisis, the year 2011 was the year with the highest quantity of international traded wine in the history, almost reaching the 100 millions of hL Italy's market share is around 20% exporting a total amount of 19.4 millions of hL, followed by Spain with 14,6 millions of hL and France with 12,6 millions of hL.

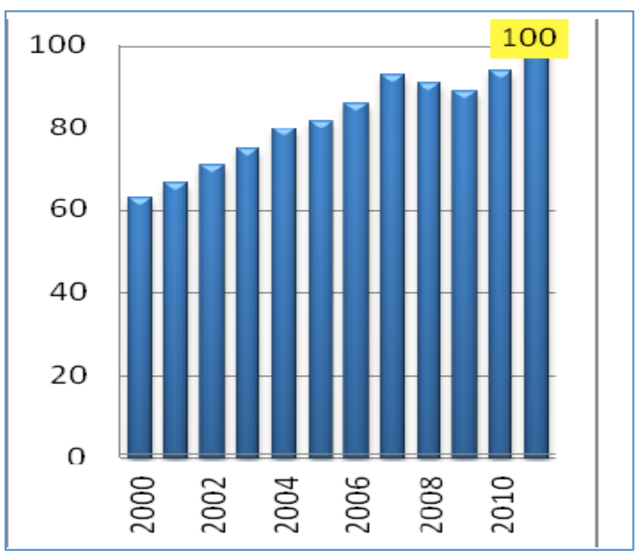

Figure 6 World Production of wine in Millions of hL. Data: GTI

Trade is thus continuing to grow at a markedly faster rate than the upturn in global consumption, to such an extent that now more than 4 out of 10 liters consumed throughout the world have been imported. (OIV, 2012)

For the international trade of wines 3 categories are taken in account:

1. Bulk wines (Sfuso): sold in barrels/large quantities packaging to be bottled in the country of destination. The commerce of this kind of wine has grown since 2009 in 10%. Due that it is cheaper to transport, has logistic advantages and it can be bottled in the country of destination without changing the characteristics of the wine, it is a great opportunity in the actual time of crisis. The final consolidation of this subsector will only be know in a couple of years, when the market decides if it is a viable way of trading wines or it is just generated by the crisis.
2. Bottled still wines (confezionato): ready to consume, packaged in presentation that do not exceed the 1.5 liters.
3. Sparkling and juices (spumanti e mosti): This wines had an important grow between 2010 an 2011 of approx. 12% in volume generating revenues for about 1 billion euros. (Sarnari, 2012)

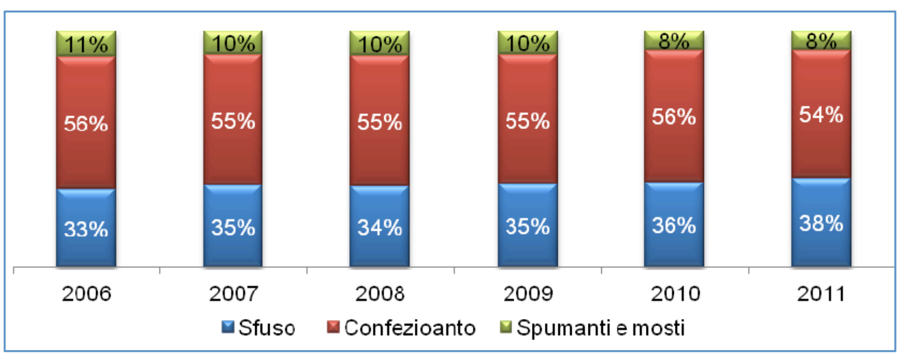

Figure 7 wine trade divided by type

Focusing on Italy, in the past year the industry revenue was €10,600 millions which means the 0,52% of the GDP. Exports of wine had been a strong part of the economy, for the country and for the European Union, being one of the few sectors that has achieved to actually grow in times of crisis. In 2011 the value of the exports of wine were €4,400 millions, with an increase of 12,4% compared to 2010. In volume terms, the quantity of exported wine grew 9,4% compared with 2010 to reach 23,5 millions of hL, having around the 22% of the global market share. The following figure illustrates the main exporters of wine worldwide

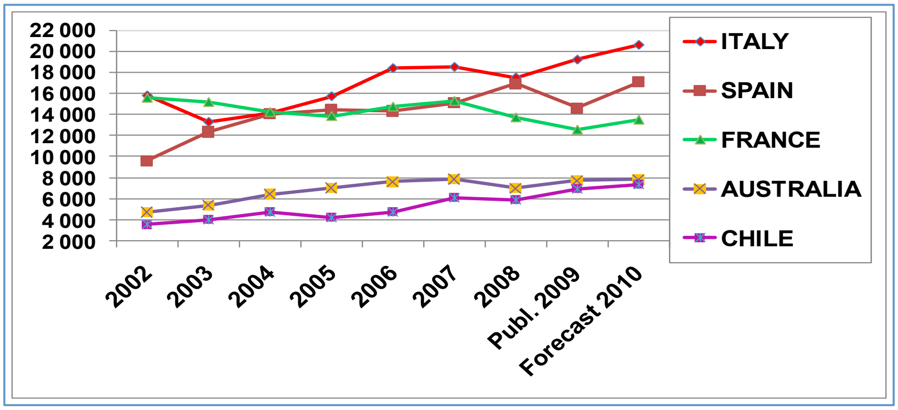

Figure 8 Wine exporters by volume in thousands of hL. Data: OIV

The main destinations of Italian wine are shown in the following table

	Ettolitri				Migliaia di euro			
	2010	2011	Var.% 2011/2010	Quota 2011	2010	2011	Var.% 2011/2010	Quota 2011
Totale Paesi	**21.481.502**	**23.499.823**	**9,4**	**100,0**	**3.917.579**	**4.403.092**	**12,4**	**100,0**
Stati Uniti	2.635.751	2.973.334	12,8	12,7	827.005	948.016	14,6	21,5
Germania	6.890.103	7.021.722	1,9	29,9	849.702	919.059	8,2	20,9
Regno Unito	2.695.279	3.059.630	13,5	13,0	461.605	509.018	10,3	11,6
Svizzera	699.903	701.463	0,2	3,0	258.892	268.412	3,7	6,1
Canada	668.840	693.163	3,6	2,9	245.379	254.686	3,8	5,8
Danimarca	363.520	403.995	11,1	1,7	132.481	141.363	6,7	3,2
Giappone	326.680	383.099	17,3	1,6	102.298	121.298	18,6	2,8
Russia	1.086.848	757.880	-30,3	3,2	103.887	118.307	13,9	2,7
Paesi Bassi	468.511	507.973	8,4	2,2	101.411	114.790	13,2	2,6
Francia	1.059.896	1.109.563	4,7	4,7	86.666	108.924	25,7	2,5
Svezia	328.124	354.608	8,1	1,5	85.117	97.796	14,9	2,2
Austria	579.585	630.113	8,7	2,7	87.778	93.701	6,7	2,1
Belgio	283.126	341.761	20,7	1,5	69.500	81.107	16,7	1,8
Cina	228.607	308.755	35,1	1,3	40.715	66.962	64,5	1,5
Norvegia	178.525	190.644	6,8	0,8	59.664	65.770	10,2	1,5
Repubblica ceca	618.693	681.097	10,1	2,9	36.797	42.326	15,0	1,0
Brasile	137.072	137.524	0,3	0,6	30.511	35.475	16,3	0,8
Spagna	302.794	280.299	-7,4	1,2	36.035	34.826	-3,4	0,8
Altri	1.929.646	2.963.200	53,6	12,6	302.135	381.257	26,2	8,7

Fonte: elaborazioni Ismea su dati Istat

Table 2 Main wine export destinations of Italian wine

In general the Italian wine market is growing either in quantity as in value. One thing that is important to highlight is the "Altri". The rest of the world grew by 53% in exports, meaning that Italian producers are opening new markets that did not exist before. This markets represent almost 9% of total exports in value, and since the grow rates in these markets are high, the opportunity for Italian producers to expand their markets is very good.

The USA market is the main destination for Italian wines, growing by 12,8% from 2010 in volume and 14,6% in value. In this country the still bottled wines grew by 9% in volume pushing up the grow rate. The sparkling wines grew around 35% compared with 2010.

The negative grow rate in Russia come from the change of -69% in the bulk wines, but the sparkling have grown at an average rate of 34%.
In United Kingdom the growth has been pushed by the increase quantity of 14% of non-sparkling bottled wines.

TRADING HISTORY BETWEEN COLOMBIA AND THE EUROPEAN UNION

History of the relations between Colombia and the European Union

What it is known today as the European Union (EU) was born originally as the European Community (EC) 1957, with the signature of the Treaties of Rome by 6 countries who decided to start an economical integration, in order to maintain the unity, peace and help each other in the economical growth, after the Second World War. These countries were France, Belgium, Democratic Germany, Italy, Luxemburg, and Holland.
By then, great concern arose in Latin-American countries, since they believed that this union was protectionist and it was excluding countries from an economical point of view, since they did not have the same preferences as other countries such as the European colonies.
The history of relationships between Colombia and the European Union goes back to the 60's decade, when the Andean community (CAN) was created to promote the integration and development in the area with the signature of the Cartagena treaties. The CAN was the first Latin-American entity that tried to make an approach to the European Community in order to develop a treaty in which both regions could benefit.
By 1973 United Kingdom, Denmark and Ireland joined the European Community, giving more power to the rising union. This fact leads the CAN to designate an exclusive ambassador for the relations between the two commercial areas. (León, 1989)
The main problem for these relationships was that the real interest from the European Union to the Latin-American sector has been low, since till the year 2000 the actual trade

between the two regions was similar to that with Africa or even with Switzerland. (Arce, 2003)

The conversations for a treaty that could benefit the relations in between was going well under the administration of the Colombian president Julio César Turbay Ayala, in 1979, who had achieved to create a working group, which could solve the natural problems due to the closing of two different commercial entities. But in 1982 Argentina invaded the Falkland Islands that were under British sovereignty, starting a war that last for 74 days. After the surrender of Argentina, the European Community decided to take economical retaliations against that country, and as a sign of solidarity with Argentina the Latin-American countries decided to stop the dialogue indefinitely.

This situation lasted until 1983 when the president of Colombia in that time, Belisario Betancur, signed an agreement between the Andean and European unions, starting the formal dialogues once again. As a result of this approach, the Cartagena treaty was signed, stating the following: "*economical cooperation, cooperation for the development of the regions, commercial cooperation, regime of the most privileged region and the creation of a bi-lateral cooperation committee"* (León, 1989). Unfortunately for the region, the countries that were part of this treaty, did not take it that seriously and took too much time to achieve the ratification inside their own countries, resulting in the entry into force in 1987. This treaty allows the regions to work in several aspects such as human rights, democratic principles, and multilateralism in countries as Colombia.[3]

With the entry of Spain and Portugal in 1986, strong support to the Latin American, especially from Spain, was expected. Such thing never happened, leaving the general relations as they were before.

Then in 1990 the ex-president Virgilio Barco, presented officially a Special Cooperation Plan, which was aimed to fight the negative impact in the economic and social environments caused by the narcotrafic. In this moment Colombia started to receive economic help to support the internal fight against the illegal armed forces and a new economical treaty was created, the Generalized System of Preferences (GSP), by which tariffs preferences were given to countries such as Colombia, Peru, Ecuador, Bolivia and

[3] http://eeas.europa.eu/delegations/colombia/eu_colombia/political_relations/index_es.htm

Venezuela. This system varies according to the product, the country, and the kind of SPG signed.

On October 28th of 1992, Colombia and the European Commission signed an agreement by which a diplomatic representation of Europe was established permanently in Colombia, being opened in Bogota on June 15th of 1993. Its objective was to reinforce the relationships between the two entities to help to resolve all the problems generated in the economical and social aspects, due to the approach of the two entities.

Until the end of the decade the parts achieved no further advances. In 2001 Colombia signed the "Plan Colombia" with the United States of America that is basically an anti-narcotics agreement in which the USA supports Colombia with money and military help. Due to this USA reaffirmed its predominance in military, economical and political issues in Latin America and in Colombia. This generated a negative interest from the European Union, who criticized the agreement since they thought it was focused mainly in the military help and because they only had acknowledge of the treaty after the plan had been accorded and signed. After this the European Union decided no to take a counter measure because it is opposite to the European conception of democracy (Grabendorff, 2004).

Since this event, the European Union took a closer look to the Colombian situation. In that time the government was in peace conversations with the FARC[4], and they decided to support this process serving as hosts for representatives from the government and from the revolutionaries groups in 2001. These countries were France, Norway, Spain, Italy, Sweden and Switzerland. The conversations were broken in February of 2002, with the election as president of Alvaro Uribe Vélez and it was seen as a failure from the European Union strategy to support the country; as a consequence the attitude towards Colombia changed substantially (Barajas, 2005). From this moment the European Union considered that the FARC was using activities that went against the human rights and declared them as terrorist, status that, in the long term, has help the Colombian government to fight and decrease the quantity of insurgents that take part in this senseless war.

In the following years the EU was in expansion, since it was increasing its members from 15 to 27, and this means that all the efforts were driven to the allowance and the

[4] Fuerzas Armadas Revolucionarias de Colombia

integration of the new members, since it has to create new common politics and laws to work properly in the institutional way. This took all the efforts leaving the relations between the EU and Colombia in a stand by mode, until the recent negotiation of the free trade agreement, which will be discussed in a further way in one of the following chapters.

Current trading between the European Union and Colombia

Colombia has suffered a transformation worth of international recognition since Alvaro Uribe Vélez was elected president of the Republic in 2002. Since then the security, political and economical situation have been improving constantly, being considered among the CIVETS[5], a series of emerging economic countries that were in the center of attention of the investors, because they have reasonably sophisticated financial systems, controlled inflation, and soaring young populations. In the actuality, the revolution of Egypt has to be taken into account, because of this the economical and political stability has been compromised. In the next figures it is shown the yearly inflation and GDP growth for Colombia.

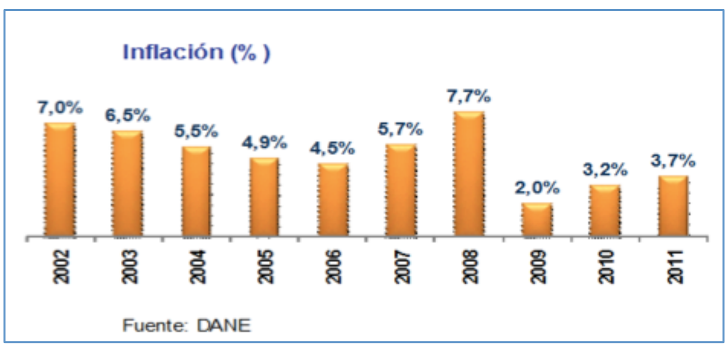

Figure 9 Colombian Inflation

Inflation in Colombia has been in decreasing constantly, thanks to the measures taken by the economic authorities during the past years, and to the long term planning.

[5] Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa

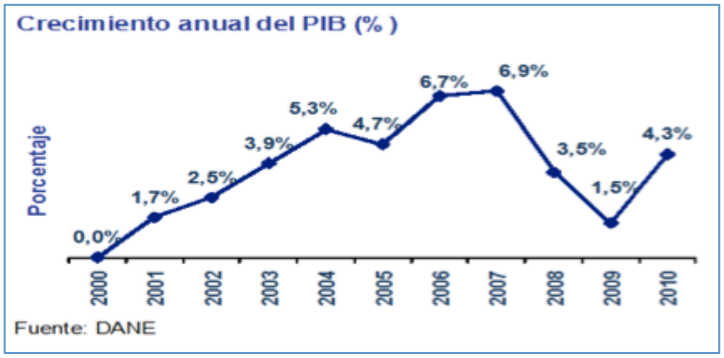

Figure 10 Annual growth of PIB in %

It can be seen that despite of the world crisis in 2009, the economy of the country was protected against this kind of events. For this year the GDP grew by 1,5%, that comparing with the growth in other parts of the world is still very good. For the subsequent years the GDP growth recuperated the tendency and grew 4,3% in 2010, and 5,9% for 2011.

These factors give foreign investors a whole range of possibilities to take their money to Colombia, as the increase quantity in Foreign Direct Investments (FDI) show in the last years. For example, the FDI each year is bringing an average of US $5.669 Millions per year, rising since 2002 when companies started to look the country as a real good opportunity to invest. For 2011 the FDI was expected to be above US $10.000, level that was expected to be in 2013.

FLUJOS DE INVERSIÓN EXTRANJERA DIRECTA (US $ millones)

AÑO	Del mundo en Colombia	
	Total	No petrolera*
2000	2.436	3.266
2001	2.542	1.673
2002	2.134	1.681
2003pr	1.720	1.198
2004pr	3.016	1.967
2005p	10.252	8.140
2006p	6.656	3.174
2007 p	9.049	3.745
2008 p	10.596	4.891
2009 p	7.137	2.598
2010 p	6.914	1.164

* No incluye reinversión de utilidades.
pr: Provisional. p: Preliminar
Fuente: Banco de la República.

Table 3 FDI flows to Colombia

The EU has been an important investor with 16% in 2008, 10% in 2009 and 14% in 2010 of the total FDI that has arrived to Colombia, becoming one of the principal investor in the country, having also repercussions in the trade balance. Some European companies present in Colombia are Casino (France), Reanult (France), Bticino (Italy), Parmalat (Italy), Pirelli (Italy), Banco Santander (Spain), BBVA bank (Spain).

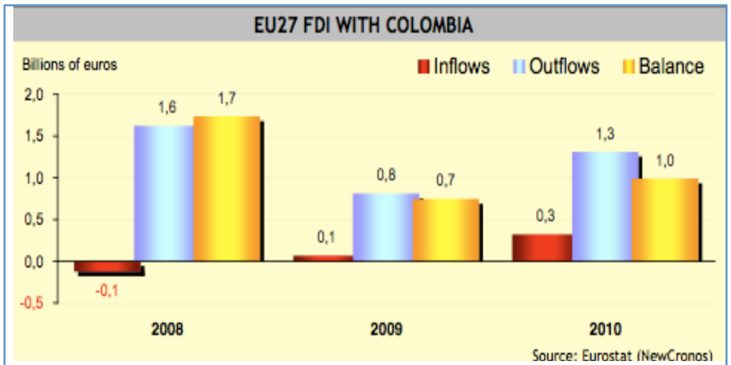

Figure 11 European FDI in Colombia

Since 2006 the EU is the second commercial partner of Colombia, being surpassed only by USA. After the EU, in the third place is China and then Mexico in the fourth place.

COLOMBIA'S TRADE WITH MAIN PARTNERS (2010)

The Major Imports Partners				The Major Export Partners				The Major Trade Partners			
Rk	Partners	Mio euro	%	Rk	Partners	Mio euro	%	Rk	Partners	Mio euro	%
	World (all countrie	30 499,7	100,0%		World (all countrie	29 756,4	100,0%		World (all countrie	60 256,1	100,0%
1	United States	7 940,0	26,0%	1	United States	12 833,2	43,1%	1	United States	20 773,2	34,5%
2	EU27	4 289,3	14,1%	2	EU27	3 759,8	12,6%	2	EU27	8 049,1	13,4%
3	China	4 158,3	13,6%	3	China	1 502,8	5,1%	3	China	5 661,1	9,4%
4	Mexico	2 919,4	9,6%	4	Ecuador	1 378,1	4,6%	4	Mexico	3 403,9	5,6%
5	Brazil	1 789,7	5,9%	5	Venezuela	1 074,3	3,6%	5	Brazil	2 574,3	4,3%
6	Argentina	1 140,5	3,7%	6	Peru	854,9	2,9%	6	Ecuador	2 009,0	3,3%
7	Japan	879,8	2,9%	7	Brazil	784,6	2,6%	7	Peru	1 449,0	2,4%
8	South Korea	711,6	2,3%	8	Chile	683,4	2,3%	8	Venezuela	1 304,6	2,2%
9	Ecuador	630,9	2,1%	9	Panama	678,8	2,3%	9	Japan	1 266,9	2,1%
10	Canada	620,4	2,0%	10	Switzerland	643,7	2,2%	10	Chile	1 241,4	2,1%

Table 4 Colombia's trade partners. Source Mincomercio

COLOMBIA'S TRADE BALANCE

COLOMBIA, Trade with the European Union — millions of euro, %

Period	Imports	Variation (%, y-o-y)	EU Share of total Imports (%)	Exports	Variation (%, y-o-y)	EU Share of total Exports (%)	Balance	Trade
2007	2 978	7,2	12,5	3 325	19,3	15,3	348	6 303
2008	3 634	22,1	13,6	3 280	-1,4	12,9	-354	6 915
2009	3 647	0,3	15,6	3 386	3,2	14,4	-260	7 033
2010	4 289	17,6	14,1	3 760	11,0	12,6	-529	8 049
2011	-	-	-	-	-	-	-	-

Table 5 Colombia's trade balance. Source: Mincomercio

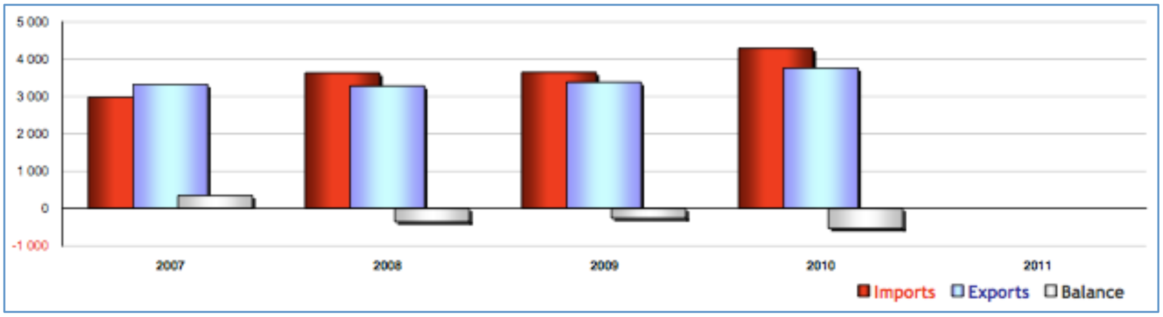

Figure 12 Colombian Trade Balance. Source: Mincomercio

Until 2007 Colombia had a positive balance with the EU, meaning that the Colombian market was not interesting for the European companies in the past. Thanks to the internal changes that Colombia has suffered in the recent past, the Colombian market is becoming more attractive year after year, as it can be seen in the balance between the two regions from 2008 till 2010. In 2009 the European crisis begun so, as expected, the commercial trade stood stable.

In 2011 the main exports from the EU to Colombia were transport and machinery equipment, chemical products and related and manufactured goods. These sectors are characterized for its high added value, while the primary goods have low importance for the EU exports to Colombia. These 3 sectors totalize the 81.8% of the total exports to the Latin American country. For the purpose of this project, wine is considered in SITC 1 (Beverages and Tobacco), sector that only exported €48 millions to Colombia, and comparing with only the wine exports of Italy in 2011 for €4.400 millions, it is still very low, having high opportunity to grow if the market if properly managed.

SITC Codes	SITC Sections	Value (millions of euro)	Share of Total (%)	Share of total EU Exports
	European Union, Exports to... Colombia			
	TOTAL	4 986	100,0%	0,3%
SITC 7	Machinery and transport equipment	2 393	48,0%	0,4%
SITC 5	Chemicals and related prod, n.e.s.	1 120	22,5%	0,4%
SITC 6	Manufactured goods classified chiefly by material	561	11,3%	0,3%
SITC 8	Miscellaneous manufactured articles	451	9,0%	0,3%
SITC 9	Commodities and transactions n.c.e.	92	1,9%	0,2%
SITC 3	Mineral fuels, lubricants and related materials	91	1,8%	0,1%
SITC 0	Food and live animals	68	1,4%	0,1%
SITC 2	Crude materials, inedible, except fuels	55	1,1%	0,1%
SITC 1	Beverages and tobacco	48	1,0%	0,2%
SITC 4	Animal and vegetable oils, fats and waxes	16	0,3%	0,4%

Table 6 Main EU exports to Colombia. Source: Mincomercio

As for the imports the situation changes. The SITC 0 and 3 sectors totalize the 87,2% of the total imports of the EU from Colombia. These sectors are characterized by the low added value and include oils and mineral imports. This situation is not convenient for Colombia since the country is exporting cheap raw materials and then buys high priced finished products. The FTA between the two regions can improve this situation in the future.

SITC Codes	SITC Sections	Value (Millions of euro)	Share of Total (%)	Share of total EU Imports
	European Union, Imports from... Colombia			
	TOTAL	6 897	100,0%	0,4%
SITC 3	Mineral fuels, lubricants and related materials	4 528	65,6%	0,9%
SITC 0	Food and live animals	1 489	21,6%	1,8%
SITC 6	Manufactured goods classified chiefly by material	330	4,8%	0,2%
SITC 2	Crude materials, inedible, except fuels	178	2,6%	0,2%
SITC 4	Animal and vegetable oils, fats and waxes	112	1,6%	1,3%
SITC 9	Commodities and transactions n.c.e.	85	1,2%	0,3%
SITC 5	Chemicals and related prod, n.e.s.	61	0,9%	0,0%
SITC 8	Miscellaneous manufactured articles	54	0,8%	0,0%
SITC 7	Machinery and transport equipment	40	0,6%	0,0%
SITC 1	Beverages and tobacco	15	0,2%	0,2%

Table 7 Main EU imports from Colombia

A factor that has helped Colombia in the past to export products to the EU is the GSP (Generalized System of Preferences), which permits to have a relative equilibrium in the trade balance. The GSP includes 4.037 sensitive[6] and 2.563 non-sensitive[7] Colombian products to enter with 0% tariff to the European market; among these products the strongest are flowers, tuna, clothing, tobacco, fish, cat and dog food.

The next figure compiles all the trade between Colombia and the EU, with the rank among the whole world for 2011. This state of trade for sure, will change with the FTA signed by the two parties.

RANK OF COLOMBIA IN EUROPEAN UNION TRADE (2011)*

	EU Imports				EU Exports				EU Balance
SITC Rev.3 (UN, WTO/ITS) & AMA/NAMA** (WTO) Product Groups	Rank	Value (in millions of euro)	Share of Product in Total (%)	Share of Partner in EU Imports (%)	Rank	Value (in millions of euro)	Share of Product in Total (%)	Share of Partner in EU Exports (%)	Value (in millions of euro)
TOTAL	40	6 897,5	100,0%	0,4%	40	4 986,1	100,0%	0,3%	-1 911,4
1000 - Primary products	26	6 325,8	91,7%	0,9%	70	301,2	6,0%	0,1%	-6 024,6
1100 - Agricultural products (Food (incl. Fish) & Raw Materials)	24	1 733,5	25,1%	1,3%	71	171,5	3,4%	0,2%	-1 562,0
1110 - Food	22	1 615,6	23,4%	1,5%	77	132,2	2,7%	0,1%	-1 483,4
1111 - Fish	34	92,0	1,3%	0,5%	97	0,8	0,0%	0,0%	-91,2
1112 - Other food products and live animals	19	1 523,6	22,1%	1,7%	76	131,4	2,6%	0,1%	-1 392,1
1120 - Raw materials	38	117,9	1,7%	0,4%	46	39,3	0,8%	0,2%	-78,6
1200 - Fuels and mining products	22	4 592,3	66,6%	0,8%	66	129,7	2,6%	0,1%	-4 462,6
1210 - Ores and other minerals	53	60,0	0,9%	0,1%	46	16,2	0,3%	0,1%	-43,8
1220 - Fuels	16	4 528,1	65,6%	0,9%	58	91,3	1,8%	0,1%	-4 436,9
1221 - Petroleum and petroleum products	30	1 082,8	15,7%	0,3%	58	90,8	1,8%	0,1%	-992,0
1222 - Other fuels	8	3 445,4	50,0%	2,9%	68	0,5	0,0%	0,0%	-3 444,9
1230 - Non ferrous metals	70	4,1	0,1%	0,0%	52	22,2	0,4%	0,1%	18,1
2000 - Manufactures	53	480,9	7,0%	0,1%	37	4 498,1	90,2%	0,4%	4 017,2
2100 - Iron and steel	20	222,0	3,2%	0,7%	44	127,3	2,6%	0,3%	-94,7
2200 - Chemicals	58	61,4	0,9%	0,0%	33	1 119,7	22,5%	0,4%	1 058,3
2210 - Pharmaceuticals	48	3,0	0,0%	0,0%	29	487,9	9,8%	0,5%	484,8
2220 - Plastics	35	24,7	0,4%	0,1%	37	136,6	2,7%	0,4%	111,9
2230 - Other chemicals	55	33,7	0,5%	0,0%	34	495,2	9,9%	0,4%	461,6
2300 - Other semi-manufactures	47	87,0	1,3%	0,1%	43	343,6	6,9%	0,3%	256,6
2400 - Machinery and transport equipment	67	39,8	0,6%	0,0%	39	2 392,7	48,0%	0,4%	2 352,9
2410 - Office and telecommunication equipment	39	9,8	0,1%	0,0%	46	160,0	3,2%	0,2%	150,2
2411 - Electronic data processing and office equipment	57	0,7	0,0%	0,0%	58	30,3	0,6%	0,1%	29,7
2412 - Telecommunications equipment	36	9,0	0,1%	0,0%	41	127,1	2,5%	0,3%	118,1
2413 - Integrated circuits and electronic components	62	0,1	0,0%	0,0%	52	2,6	0,1%	0,0%	2,4
2420 - Transport equipment	66	7,5	0,1%	0,0%	31	1 018,8	20,4%	0,4%	1 011,3
2421 - Automotive products	65	0,6	0,0%	0,0%	37	430,2	8,6%	0,3%	429,5
2422 - Other transport equipment	60	6,9	0,1%	0,0%	26	588,7	11,8%	0,7%	581,8
2430 - Other machinery	60	22,5	0,3%	0,0%	41	1 213,5	24,3%	0,4%	1 191,1
2431 - Power generating machinery	52	7,4	0,1%	0,0%	45	137,6	2,8%	0,3%	130,2
2432 - Non electrical machinery	48	8,4	0,1%	0,0%	37	889,5	17,8%	0,4%	881,1
2433 - Electrical machinery	47	6,6	0,1%	0,0%	45	186,4	3,7%	0,3%	179,8
2500 - Textiles	42	16,5	0,2%	0,1%	40	68,2	1,4%	0,4%	51,7
2600 - Clothing	43	28,9	0,4%	0,0%	35	57,5	1,2%	0,3%	28,6
2700 - Other manufactures	51	25,3	0,4%	0,0%	39	389,1	7,8%	0,3%	363,8
2710 - Personal and household goods	44	6,5	0,1%	0,0%	49	35,0	0,7%	0,1%	28,6
2720 - Scientific and controlling instruments	48	6,6	0,1%	0,0%	30	181,4	3,6%	0,4%	174,8
2730 - Miscellaneous manufactures	48	12,3	0,2%	0,0%	42	172,7	3,5%	0,3%	160,4
3000 - Other products	27	84,6	1,2%	0,3%	31	96,7	1,9%	0,2%	12,2
Agricultural Products (AMA)	18	1 642,8	23,8%	1,7%	70	163,0	3,3%	0,2%	-1 479,8
Non-Agricultural Products (NAMA)	40	5 239,2	76,0%	0,3%	38	4 669,3	93,6%	0,3%	-569,9
Other Products	-	15,5	0,2%	0,1%	-	153,8	3,1%	0,9%	138,3

Table 8 Colombian Rank among partners. Source: Mincomercio

[6] Products with competition in the EU
[7] No competition from products in the EU

To conclude this section of the project, it can be said the interest for the Colombian products is still very low in Europe, driven by the past situation of the country. In favor of Colombia is the GSP, which allows exporting products to the EU with low tariffs. A disadvantage is that the Colombian products still do not have high level of aggregated value, which leads to a general low price sale. This condition can be improved with the FTA and the FDI that, among other consequences, increases the transfer of knowledge and technology, giving the possibility to Colombia to develop new branches of the economy and develop new products that can be exported at higher value. For the EU the biggest opportunity in the near future is the entrance in operation of the FTA, which means that the European products will be more price-competitive in the Colombian market. For the purpose of this project, regarding the wine sector, the trade is still low and the possibility og growth that the entry into force of the FTA will give to the sector is high. Regarding the wine sector, from the first year the tariff will decrease to 0 immediately, which is expected to boost the exports in an important degree.

CURRENT TRADE BETWEEN ITALY AND COLOMBIA

The small trade numbers shown by both countries characterizes the commercial relations between Italy and Colombia. In total in 2011 the total bilateral trade was US $1.4 billions, having a great opportunity to grow in the future, with the entrance in force of the FTA and in the short future having the opportunity to increase the Italian FDI in Colombia, which is at the moment very low, representing only the 0,2% on the total FDI that Colombia receives.

The 3 important banks from USA have already given the investment grade to Colombia in the long-term debt, opening new opportunities for FDI. This only happened in 2011, but before the FDI was growing at higher rates than expected. The grade given by the banks is a sign that supports the good moment that Colombia economy is passing. This action is expected to generate a higher flow on FDI to Colombia, but the result will only be known at the end of 2012.

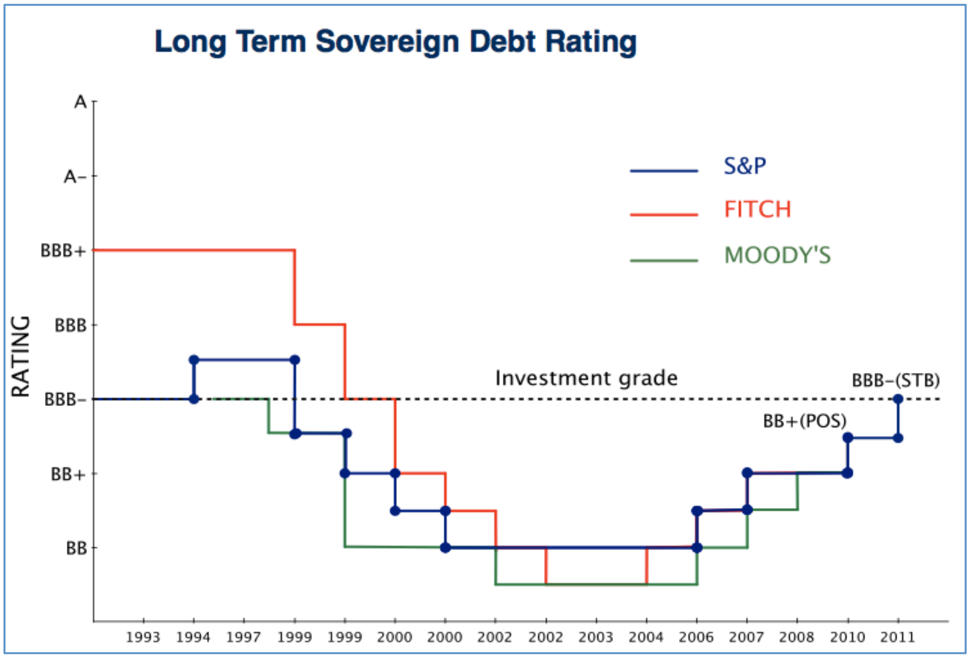

Figure 13 Long-term sovereign debt rating. Source: Ministry of trade, commerce and tourism

For the last ten years the Italian imports from Colombia have been growing, very slow, which is due to the low interest of the European Union in general for most of Colombian products. One of the reasons for this is that even when Colombia has a Generalized system of Preferences (GSP), usually the products that generate more value are excluded from this agreement since the sectors are somehow protected or the imports manipulated in order exclude them from the agreement.

In the year 2009, the crisis brought down the imports by 19% and the exports by 21,4%, situation that destroyed the entire advance that both countries had gained from the past relationships. In 2010 the tendency was exactly as opposite to that of 2009; the exports grew at higher rates correcting the negative slope generated in 2009 and for 2011 is still showing a growing tendency, meaning that Italian companies have seen Colombian market as a solution to overcome the crisis and generate new markets, which can bring benefits to companies.

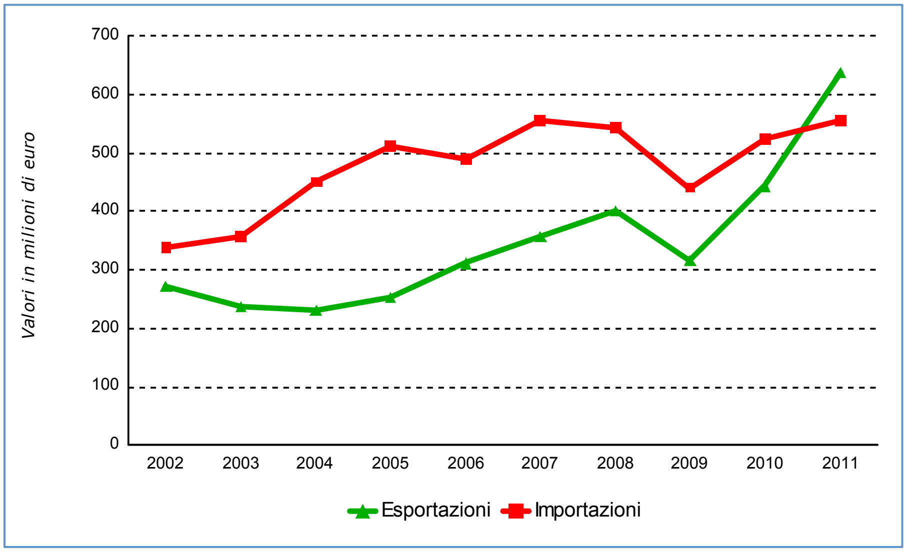

Figure 14 Italian Exports-Imports from Colombia. Source: ICE

Italy has not seen in Colombia a good trading partner and the result of this is the almost non-existing relations between the countries. Recently, in the month of March 2012, the Colombian Minister of Trade, Industry and Tourism, Sergio Diaz-Granados, presented in Milano and Rome, the opportunities that Colombia represents for the growth of the Italian economy and the chance to diversify the commercial relations bringing benefits for both parties.

A commercial chamber for the commerce between the two countries also exists, called "Cámara de comercio Italiana para Colombia" (Italian commercial chamber for Colombia). It is a non –profit organization founded in 1956 by a group of Italian people living in Colombia, who wanted to create and develop their own businesses. Their mission is *to serve as strategical link between the affiliates, promote the commercial and productive trade between the two parties and facilitate the access to both markets.*[8]

This chamber pretty much supports Italians who want to make any kind of business in Colombia, and they assure that the same treatment is given by the Colombia country Italian nationals, and that they have the same benefits as if they where living in their motherland.

[8] http://www.ccicolombia.com/?modulo=cms&seccion=mision

The main Italians exports to Colombia have high level of aggregated value such as machinery and parts and pharmaceutical products. The figure 3 shows the trade balance of Italy with Colombia in all the sectors developed in Italy. The biggest sectors is Machinery and parts that accounts for 48% of total exports, followed by metallurgic products with 8,4%, pharmaceutical sector for 5,6 and chemical with 5,5%.

The Italian exports to Colombia account for the 1,4% of the total Colombian exports. These kinds of imports of Colombia are considerably higher from other parts of the world compared to those from Italy, mainly because of the agreements that Colombia has with others trade regions. One another reason for this is the FDI which allows foreign companies to make products in Colombia, which could be a great option for Italian companies considering that Colombia is located strategically in the American continent. From this it can be said that the opportunities for Italian producers are very high, if the Italian government decides to promote and invest in the Colombian market, such as other countries have done.

Colombian exports to Italy, 2011

Coal	27,4%
Petroleum	21,2%
Basic Chemicals	13,7%
Bananas	11,3%
Ferronickle	7,4%
Coffee	6,0%
Machinery and equipment	2,7%
Agribusiness	1,2%
Mining	1,1%
Products of plastic	0,6%
Other	7,5%

A total of 1.3% of Colombian exports go to Italy.

Italian exports to Colombia, 2011

Machinery and equipment	50,0%
Basic Chemicals	21,0%
Metalurgy	5,6%
Textiles	3,9%
Automotive industry	3,1%
Products of plastic	2,0%
Paper	1,8%
Soaps, cosmetics, other	1,3%
Apparel	0,9%
Footwear	0,5%
Other	9,9%

A total of 1.4% of Colombian imports are from Italy.

Table 9 Commerce between Colombia and Italy. Source Mincomercio

The main Italian companies present now in Colombia have been in the Colombian national business for quite long and now they are recognized as important and serious companies in the country. The most representative companies are Ferrero, Parmalat, Pirelli, Bticino and Petrex.

The trade between Italy and Colombia is still very low. This has been driven by the past situation of the country and the low interest by the two parties to improve the general relations. Italy's main partners are mainly located in the EU and North America, and the new markets in which the country is focusing are located mostly in Asia. As a sample of this and regarding the world of wine, Vinitaly, the largest wine fair in the world is making a tour visiting places in India, US, Russia, Sweden, Hong Kong, Japan and Korea, to facilitate collaboration and communication between Italian producers and the key players of the wine sector.

With a 1.7 billion Euros credit balance in exports in 2010, up 20% in 2011, technological know-how applied to winemaking is confirmed as a strategic asset for the Italian economy, together with wine, which is expected to export products for more than 4.2 billion Euros in 2011.

CURRENT WINE TRADING BETWEEN ITALY AND COLOMBIA

Despite Italy is one of the higher producers of wine; Colombia is not a main destination for this product. The main reason is because Colombia has never been characterized as a wine drinking country till now. As said before, the wine consumption in Colombia is increasing quickly, bringing new opportunities for wine producers.
The quantity of Italian wines in Colombia is low because as Italians producers are not interested in the market they do not develop strong relationships with Colombian importers. The main scope of Italians producers is to sell FOB, and in this way the Colombian importer is the one who carries with all the marketing responsibilities for the

marketing of the product. As the risk is going completely to the side of the importers, these tend to minimize theirs cost, investing in marketing activities just the necessary so they can recover their investment and margins. This added to the fact that wine culture in Colombia is not developed, sommeliers are still young and their knowledge of wines is not yet the best, the promotion for the wines is not developed in the correct way, generating a negative impact on the image of the wines.
Furthermore Italian wines have great chances to enter the country, since Chilean and Argentinian wines dominate the market, the consumers are always looking for different wines that adapt better to their taste.

At this moment, all wines coming from the EU to Colombia have 15% taxes that added to the costs of transportation, custom, warehousing, importers margin and internal taxes, raise significantly the final price. But as the diversity of Italians wines is too wide, and the quality/price relation is very good, there are wines that can have great impact in the Colombian market.

In the next table, the wine trading between the two countries is shown.

WINE EXPORTS FROM ITALY TO COLOMBIA					
HS code		2009	2010	2011	2012 (Jan - Mar)
220410	***Sparkling wines***	€ 16.554	€ 57.908	€ 57.641	€ 26.141
220421	***Still wines***	€ 229.218	€ 435.976	€ 487.976	€ 120.152
220429	***Bulk wine***	€ 33.029	€ 19.325	€ 3.327	€ 9.749

Table 10 Wine trade between Italy in Colombia. Source: ISTAT

In the year 2010 there is an important growth in the exports of Italian growth to Colombia. For sparkling wines the growth was 249,8% while for still wines was 90,2%. This shows the growth market potential in the Colombian market. As for the bulk wine, there is a negative tendency from 2009 till 2011, since importers want to buy already bottled wines, since they are ready for consumption and do not need any extra invest. For the year 2011, the sparkling wines held at the same level of 2010, while for still wines there was an increase of 11,9%, confirming the growing tendency. In the first three months of 2012, imports have shown and dynamic behavior reaching almost the 50% of amount traded in 2011, and the 25% for still wines. If the tendency continues stable, the year 2012 will boost the consumption of Italian sparkling wine in Colombia, while the still wines will stay at the same level.

In order to improve the wine trading between the two countries, it is necessary from the producers to share the risk of selling wine in new markets. Sending a responsible from Italy, who explains the characteristics of the wine and help the importers to develop the marketing plan, can do this. If Italian producers want to develop a long term relationship with Colombia partners, they have to start investing in the market, since right now, with the entry into force of the FTA with the United States, the wines coming from California will start gaining consumers and in the future it will be harder to gain a considerable part of the market share. This scenario is a problem for Italians wines, since the taste of Colombian consumer is highly satisfied by this kind of wines, and the entry price will be low due to the FTA with the USA.

DESCRIPTION ABOUT WINE SECTOR IN COLOMBIA

In Colombia, 20 years before, the wine sector practically did not exist. It was nearly impossible to gather 10 people to get around a bottle of wine, since this drink did not exist in the minds of the regular Colombian people. This was driven since the country has always produce spirits and rums from sugar cane, and this kind of drinks have the top of mind when Colombians think about any kind of alcoholic beverage.
This trend has changed in the past 10 years. Although the consumption is still very low, it has grown 200% to reach 1.5 liters per capita[9] since the year 2001 when it was barely 0,5 liter.

In Colombia the main wine consumers are located in the main cities, which are Bogotá, Medellín and Cali, cities that show the higher growth in terms of wine consumption per capita. The sector has evolved in the last years thanks to a combination of facts that has

[9] FENALCO. 2001

benefited wine importers, dealers and consumers. These factors are marketing, education, change of taste and affordability.

Marketing

In the recent past years, importers and dealers understood that to create a wine culture it is necessary to spend money in marketing. Thanks to their relation with producing houses more and more marketing campaigns are being directed to final the costumer, who is always looking for a new experience. The impact on sales in main retail stores has been so important that the area dedicated exclusively to wine in points of sale has changed from 8m2 to 40m2 in average, changing the available single reference of wines from 300 to 1000. These kind of responses from costumers are the result of years of marketing and support to wine culture in Colombia, and now that the results are visible, more companies are willing to invest in this area of the company, since the results are important and visible.

One example of this are the fashion luxury brands that have arrived in Colombia, like Dolce & Gabbana, Versace, Channel, Bvlgary and Armani; these brands often offer gala dinners or events which are associated with important champagne brands.

Education

Along with marketing, education is the main driver of the increase in wine consumption in Colombia. Many people from a professional point of view, have decided to start courses to be sommeliers, something seen as crazy 10 years before. And the increasing number of sommeliers graduated means that the demand for this kind of expert is also increasing. The reason for this is that thanks to the marketing investing, consumers have had the possibility to know about wine, about the different kind of grapes, their difference in taste, color, smell, etc. and have decided to explore different kind of wines, from reds to sparkling, in restaurants and in their own places. As a consequence, the fear that Colombians had to wine in the past has been slightly overcome and they have permitted the wine to participate in their daily lives in a more active way.

Change of taste

As said before Colombia has been inclined to drink spirits and rum (produced locally from sugar cane), followed by beer, vodka and whisky. The wine was associated either with extremely wealth, since it was very difficult to find a wine in the past – there were not specialized shops – or with poorness since the wine sold in Colombia in the past, was sold in boxes at a price for one liter almost even to that one of a beer, giving some trust issues regarding the quality of the product. But thanks to the growth that Colombia had in the last 10 years, the increase in international travel from the country to United States, Chile, Argentina and the European Union and the FTA signed with different commercial areas of the world, Colombian consumer has seen the offer of wines increase in an exponential way.

Before this, Colombians categorized wines in reds, whites and sparkling. Now, thanks to the above reasons, now Colombians have the opportunity to distinguish between Cabernet Sauvignon, Merlot, Malbec and Syrah for reds, and Chardonnay, Sauvignon Blanc and Torrontes for white.

Also with the growth of diversity, the tendency of taste has been found, and has been identified by experts in the wine sector as sweet young wines with a medium level of tannins.

Affordability

The affordability has played an important part in the wine revolution in Colombia. Thanks to the FTA signed with Chile and Argentina, price of bottled wine in Colombia has decreased. Now the price has made its own differentiation of the sectors. The sectors are from 0USD to 10USD where good young wines can be found, sector that is addressed to the middle class. Then, from 10USD to 20USD, the aged wines, for those who can distinguish between wines, and understand the relation between price and value. From 20USD to 40USD is the Premium sector, which its target is the mid-high class, people who knows about wines, same that Super premium that can cost up to 40USD.

Now that the FTA with the United States is in force, North American wines will star growing at higher rates that the normal market, since the relation price/value is high especially in white still wines.

These factors have modified the taste of the consumers at that point that the importers have had to adapt to the trends. At the beginning of the wine boom in Colombia the 90% of the imported wines were came from the Cabernet Sauvignon grape, but then they had to modify the variety of imports to adapt properly to the change of the market. In this moment the wines coming made from Pinot Noir, mainly produced in Argentina are experimenting a strong increase in sales. All this knowledge acquired by the final costumer has transformed the portfolio of the importing companies, which have been obligated to find better wines at lower prices to offer to all kind of costumers. For 2011 the imports of liquors and wines were 1’922.487 boxes, of which 1’139.036 were boxes of wine. From this around 592.000 boxes came from Chile and 270.000 from Argentina, confirming the supremacy that these two countries have over the rest of wine imports in Colombia, thanks to the FTA. As an example of the supremacy of the Chilean wines, in a survey made by the Exito group (mass retailers), from the total of wine drinkers, 60.32% said they preferred Chilean wines.

The wine market in Colombia grew between 2010 and 2011 23.8%, changing from USD 31.5 millions to USD 39 millions. Chile has 59% of the market share, followed by Argentina with 25% and Spain with 7% of the market (Negocios, 2012). Chile and Argentina have the competitive advantages versus other wines because of the FTA between the Andean Community and MERCOSUR, but this balance will change in the near future since the entry into force of the FTA with United States and the EU. This will help to develop the wine sector since the competence will be higher resulting in a decrease of prices and the natural depuration of the bad quality wines. All this will be a gain for final consumer who will be able to choose from a wider diversity of wines.

The importers will also have to adapt their strategies to the change of the sector. Now it is known that there are 135 firms importing wine, and that these import around 90% of the total, leaving the rest to the mass retailers who are the main actors educating the consumers in the country. The mass retailers understood that they have to invest in marketing, education and promotion if they want to raise the sales in their businesses, since the 60% of the total wine sales are made trhough this channel. As a result

Expovinos was born in 2006, intended for people who want to learn about wines, and wants to get closer to the enological world. In 2011, the fair had 24.000 visitors and in 2012 this number is expected to be around 32.000. The main objective of the fair is to maintain the quality in the relationships between importers and producers, since this at the end, is the reason for the increase in the price of the wine for the final consumer. *Expovinos 2012* has already confirmed participants from Chile, Argentina, USA and Spain in a space close to 12.000 m2

The wine market has to be segmented among groups, being internally similar but with different demand profiles. The reason of this is that different marketing strategies have to be developed for the different segments. For the purpose of this project, and since the wine market is not highly developed, as those such as Argentina or Chile, the segmentation of the market will be done in three parts (simulating a pyramid).

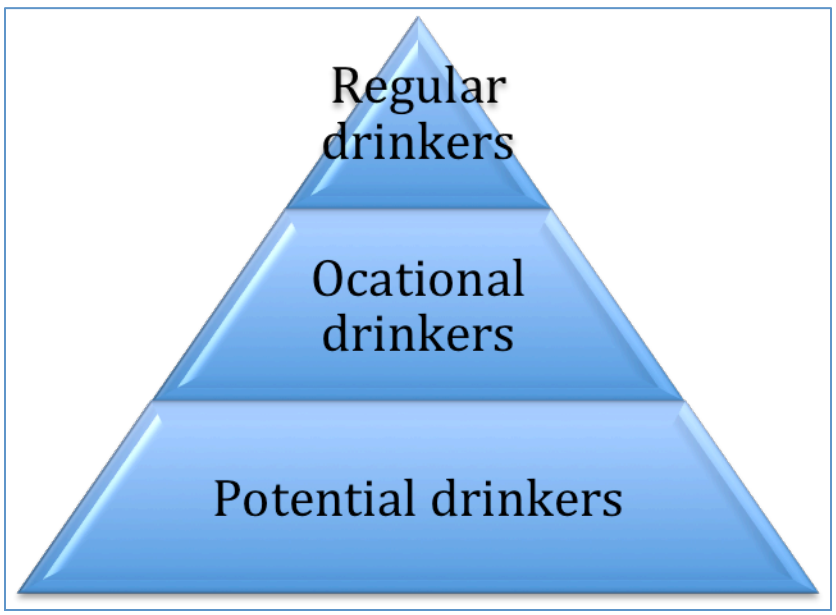

Figure 15 Wine market composition

In the base of the pyramid are those potential wine drinkers, who still do not know about wine; in another words these are beginners, which the intention of learn about the world of wine. Those who already drink wine compose the middle of the pyramid, and who are willing to learn more, since they realized that wine is not only red and white. They spend

more that the first sector, and take in account the grape, year and origin of the wine. They realize that the more they spend, the higher the expected quality of the wine they will get. In the top of the pyramid are those who already drink wine in their regular basis, such as in dinners or with friends. This sector can talk about wine as they can speak of another things, being normal to talk about different varieties, characteristics, and structures. This consumer is really willing to educate itself, relating wine with culture, welfare and status.
The importers and dealers, have to direct their efforts to educate those from the top and the bottom parts of the pyramid. This because the top part will drag the middle one, since, as said before, knowledge about wine is related with status and since the middle part is avid to improve and be always better they will tend to this. The bottom part acts like a supplier for the middle class, so in the beginning the top part will be narrow, but as the time goes on, it will begin getting bigger and bigger. All this scenario is supported by a growth (being conservative) of the 10% in the future years, as it have been growing in the past years. All of this without having into account the opportunities that the FTA with USA and EU will bring for wine importers.
Some important characteristics of these sectors is that, as the market is not very good developed, they can be measured and accessed since their early stages, being less difficult to develop actions in the future, when the market grows. If importers/dealers (obviously in relation with producers) start considering this, in the future the marketing efforts will have considerably higher impact and the risk will be mitigated in the long term, since the relationship with the costumer the longer the better.

One important factor that supports the wine sector in Colombia is that at this moment there is no national product to protect, so the sector is completely open to competition, giving space for new brands and qualities. As a consequence of this each time more and more people is opening specialized stores, wine houses and specialized stores increasing the diversity and quantity of wines.

Referring to internal taxation in Colombia there are two kinds of taxes: VAT of 16% and a consumption tax that at this moment is around 0,10€ per alcoholic degree of the beverage. In essence if the imported wine has 10% volume of alcohol the tax will be around 1€.

Other costs existing when exporting wine to Colombia are:

- Customs to nationalize the product.
- Internal transportation to warehouses.
- Cost for sea transport and insurance (since all the sales are FOB)
- Marks/stamps to guarantee the legality of the product.
- Some extra costs of warehousing and security of the transportation may be present.
- Invima – National agency that controls foods and beverages. Certification of the product for human consumption.
- Special marks in the label of the product according to Colombian law.

FREE TRADE AGREEMENTS

Colombian economy before and after the economic opening

The first step towards the actual Colombian economy was made in the beginning of the 90's by the former president Cesar Gaviria when he adopted the model of the economic opening.

Before this, the country was under a protectionist model, which in the long term was saturating the market with high price /low quality product, due to the lack of competition. This situation forced the government to take the decision and liberalize the economy. As new foreign products were able to enter, some companies and sectors disappear because they were not able to hold the competence against other foreign firms, generating pressure in the unemployment rate and in general in the social stability of the country.

The logic of opening the market is that when a new foreign competitive product is introduced into the economy, the competence, in order to survive, has to achieve the same level of quality and price trough innovation and invests, and in the long run the benefits will be for the final consumer.

Under the comparative advantage model, proposed by classic economy (Hill, 2009), it is logic to suppose than a country has a comparative advantage to produce a given product in comparison to another, and as they trade each country will specialize in this product that will trade with the other countries in order to cover the demand generated by internal consumers. This model will maximize the offer of both products, compared against a single country producing all the products requested by internal consumers, since it would have to split all the resources to make products in which the yield is lower than other countries.

A high number of economic studies have been made, in order to demonstrate the relation between trade and economic growth. (Sachs & Warner, 1995), (Frankel & Romer, 1999), and they state that the countries that adopt a more open orientation towards change have higher economical growth. Jeffrey Sachs and Andrew Warner, who took a sample of 100 countries, both developed and in developing process demonstrated the relationship with the following conclusions: *"within the group of developing countries, the open economies grew at 4.49% per year, and the closed at 0.69% per year. Within the group of developed the open economies grew at 2.29% while the closed did at 0.74%"*.

Later, an update to this study until the 1990, made by Wacziarg and Welch, demonstrated that countries that liberalized their economies experienced, on average, a growth of 1.5% higher than the periods before liberalization.

As a consequence of economic opening, trade agreements between countries are created. These agreements are signed between a reduced numbers of countries, so the flows of products can be somehow controlled. The reasons leading to the sign of these kinds of special agreements are wide, such as political cooperation, economic opportunities, support to new growing economies, and increase competition and quality. In the long term the treaty will benefit both parties, because, thanks to the sum of the markets, some economy of scales can be achieved, having more products at a lower cost, and these impact on price will impact the final consumer, who will have a higher purchase power, and a higher life quality.

Current Colombian agreements

Specifically Colombia, has signed several agreements with important partners, making the economy of the country stronger, since the competition against foreign companies has had as a result the strengthening of the Colombian ones.

At the date, Colombia has agreements with the following economic unions or countries:

COLOMBIAN AGREEMENTS			
Existent	***Type***	**In negotiation**	***Type***
Chile	*FTA*	South Korea	*FTA*
G-3 Venezuela - Mexico - Colombia	*FTA*	Panama	
El Salvador - Guatemala - Honduras		Israel	
Canada	*FTA*	Turkey	*FTA*
United States	*FTA*	Pacific Alliance (Mex - Bra - Per - Col)	*Union*
CAN Andean Community			
MERCOSUR (Brazil, Argentina, Paraguay, Uruguay)			
EFTA			
Cuba			
European Union - Waiting for ratification from Parliament	*FTA*		

Table 11 Current Agreements. Source: Mincomercio

For this project, is important to say that the most critical treaties are those with Argentina, Chile, United States and the European Union.

Chile - Argentina

As said before Chile and Argentina do not pay taxes to export their wines to Colombia and this is the main reason why they have the higher shares of the market, with 59% and 25% respectively. They export mainly red wines that are sold in mass retailing and in restaurants and hotels. Chilean wines arrive at a lower cost than Argentinian wines, since the transport is easier when departing from the pacific sea, while Argentina has to ship their products from the Atlantic sea, which makes longer the trip to the Cartagena's port. This is a competitive advantage that has been exploited by Chile to position their product as leader in the sector.

United States

For United States, the trade will increase in the present year, since the entry into force of the FTA. The benefits for Colombia of the treaty are mainly the number of jobs created, higher income and more consumer choices (Loeff, 2011). According to the Commerce ministry of Colombia, the trade between the two countries is expected rise slightly since most of the products that Colombia exports to USA have tax benefits, but the imports are expected to grow at a higher pace since all the products that Colombia imports from United States have taxation. Specifically for wine, as there is not Colombian national product to protect, it was classified as “A type”, meaning that from the moment of the entry into force of the treaty, the tax will drop to 0%. The results of course, will not be given until the next following years, but it is expected to increase from the actual USD $1,2 millions (Institute, 2010). Important advantages that have the North American wines are that there is not *Appellation of origin* so new wines can be made according to the will of the producers. This creates a whole new world of wines that can only be produced by a single company so in case that the quality is high, it will be unique and will not have any competition. As a matter of fact, some Food and Wine magazine online, mentions in *How to make great American wine: a few lessons from the French* that several wine producers have moved to USA because they can innovate at will, without having the restrictions that most European producers have to make a certain kind of wine. This opportunity to innovate and the fact of the 0% taxation, mixed with the high growth rates in Colombian wine consumption make the perfect conditions for the market exploitation. The result of this is the satisfaction of the costumers who will find different wines from those of South America, and the difficulty to gain that market segment in the future.

European Union

The Free Trade agreement signed with the European Union is expected to entry into force by 2013, according to the Minister of Commerce, Industry and Tourism, which will boost the Colombia economy in the future. From the European side there has been an interesting response in the last weeks, since German Chancellor Angela Merkel called for the pending free trade agreement between the European Union, Peru and Colombia to be entered into force immediately to help stimulate economic growth in Europe. These two declarations demonstrate the confidence in the treaty from both parts.

In the moment that the FTA entries into force, the wine taxes will drop immediately to 0%, being equal to Chile, Argentina and USA. This situation for sure, will increase the wine flow towards Colombia made in the European countries. For the year 2011, the origin of the wine imports in Colombia, had as first European country Spain with 7,5% of the USD $39 millions, followed by France with 3,4%. For the present year, the market share will change considerably, due to the US wine, but for 2013, the market will change again since the European wines, which are perceived as high quality items, will enter at a lower price. This situation presents an interesting scenario for the wine industry in Colombia, because by then, with the high offer the wines that present higher aggregated value, will be those who will remain in time. This is the reason why European and specifically Italian producers, have to start thinking their strategies to market their products and developing long lasting relationships with their partners in Colombia. The threats for the European wines, is that the treaty has always been delay, due to one reason or another. The only consequence of this is, that other producers or importers deal with wines from different parts of the world, generating new relationships that at the end will close the doors to Europe, or will make producers do an extra effort to reach the desired sales level.

Anyway the process is still long, and the results are still not clear, since the market can change dramatically, due to the economic recession of the most powerful countries in the world. This will be highly tied to the commercial trade between Colombia – Peru and the European Union and will decide the future of the wine sector in Colombia, since major players are tied to this.

CONCLUSIONS

As seen trough the developing of the project, Italian wines have a great opportunity to raise their market share in the Colombian market due to the FTA. Italian producers would have to start collecting information about the different tastes and its evolution, in order the make a general idea of how their wines are positioned in the present and where do they want to take them in the future.

An competitive advantage of the Italian wines is the relation between price and quality, compared to other countries of the European Union, since really good wines can be found under the range of 10€, and these will enter to Colombia at a reasonable price for the final consumer.

The weakness of Italian wines is the lack of associations or clusters present in the wine sector (Migone & Howlett, 2010). The big majority of the producers are small, meaning that they cannot expend large quantities of money marketing their product, so what they do is sell it locally. If some kind of cluster is created by region, there is an opportunity to gather all wines producers and choose which marketing strategy is the most appropriated to sell their product to new markets. The leaders of this strategy is France, increasing the benefits for its producers, and in general for all the sectors involved in the business, since they can charge higher prices, because of their marketing campaigns tending to export to more places than Italians do. The best example of this is the Champagne.

New world wine producers are raising their production year by year, becoming each time a greater treat. The advantage of these wines is that they do not have such strict rules for production, leaving an open door for innovation, creativity and different mixes. As an effect of this, Italians have to seek for different ways to position their brands as different and better, to maintain their market share, in a highly globalized world.

Colombia is still a new market for wine. Different tastes are currently developing, so it is important for producers to be there to understand the changes of the market. All this has to be in company with an importer, who will support the producer's brand. For the future years the changes will be important because of the FTA's, so the one who knows and understands the trend of the markets will be the leader of the sector.

Another opportunity for Italian wines, is to invest in Colombia in order to be able to bottle wines locally, exporting bulk wine instead of bottled. In this way Colombia will be a hub for Italy. If everything is done properly and the raw materials, bottles, corks and labels, are Colombian there is a possibility for the product to be considered as *Colombian* so it can be exported to most of the American countries without taxes, thanks to the agreements that Colombia has actually.

Bibliography

- Arce, R. d. (2003). Las relaciones de la Union Europea con Latinoamerica. 7.
- Asero, V., & Pati, S. (2009). FROM WINE PRODUCTION TO WINE TOURISM EXPERIENCE: THE CASE OF ITALY .
- Barajas, C. (2005, Enero). Las relaciones Unión Europea-Colombia: poca uniformidad y coherencia.
- De Blasi, G., Seccia, A., Carlucci, D., & Santeramo, F. (2007). *Analysis of Italian High Quality Wine Exports using the Gravity Model Approach.*
- Frankel, J., & Romer, D. (1999). Does trade cause growth? *American economic review 89* , 379-99.
- Grabendorff, W. (2004). *La estrategia birregional y sus limitaciones en un mundo unipolar.*
- Hill, C. W. (2009). *International Business: Competing in the global marketplace* (7th ed.). McGraw-Hill.
- ISMEA. (2011). Il ruolo dell'Italia in un mercato de vino che cambia.
- Institute, W. (2010). *International trade barrier reports for U.S.*
- León, J. L. (1989). *Las relaciones económicas de Colombia con la Comunidad Europea (1978-1988).*
- Loeff, P. (2011). *Peru and Colombia: the Impact of a FTA with the US.* Eastern Michigan University.
- Migone, A., & Howlett, M. (2010). *Comparative networks and clusters in the wine industry.* American Assosiation of Wine Economics.
- Negocios, R. d. (2012, 06 21). *Portafolio.* Retrieved 06 21, 2012, from Portafolio: http://www.portafolio.co/negocios/colombia-importo-us39-millones-vino-durante-2011
- OIV. (2012). *Global Economic survey.* Organisation Internationale de la Vigne e du Vin.
- Sachs, J., & Warner, A. (1995). Economic reform and the process of global integration. *Brookings papers on economic activity* , 1-96.
- Sarnari, T. (2012). *Gli scambi internazionali e nazionali nel 2011.* ISMEA.