

Wine and wine grapes

Outlook to 2014-15

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Australian wine grape prices are expected to remain low in real terms over the medium term. Low prices, in combination with the cancellation of contracts by many wineries, are projected to lead to a contraction in national production toward the end of the outlook period, as an increasing number of vineyards are taken out of production. The decline in national production is projected to lead to a gradual recovery in domestic wine grape prices in real terms toward 2014-15, although prices in real terms will remain low in historical terms.

Total wine grape production in 2009-10 is estimated to be 1.6 million tonnes, which is a 4 per cent fall relative to 2008-09, as the prolonged heatwave in November 2009 affected later bearing varieties in parts of south-eastern Australia. Assuming favourable seasonal conditions over the outlook period, wine grape production is projected to increase over the next three seasons before gradually falling toward 2014-15. The projected turnaround in the latter half of the outlook period reflects the assumption of a gradual contraction in national bearing area.

Despite the downward trend in wine grape prices over the past decade, national bearing area for the top 10 varieties, as collected by the 2009 ABS *Vineyards Estimates*, has increased. Since 2004-05, the bearing area of the top 10 wine grape varieties has risen by almost 13 per cent to 139 000 hectares. At the same time, there are industry reports of increasing financial difficulties among grape growers and a growing incidence of vineyard abandonment. However, the effect on national production will depend on the extent to which this adjustment takes place.

Australian wine production, sales and wine grape prices



Wine Restructure Action Agenda (WRAA)

In 2009, four wine and wine grape industry bodies—Wine Grape Growers Australia (WGGA), Winemakers' Federation of Australia (WFA), Grape and Wine Research and Development Corporation (GWRDC) and Australian Wine and Brandy Corporation (AWBC)—jointly released a statement to growers and wineries to communicate the extent of the oversupply issue facing the wine industry. Specifically, the joint statement, titled the Wine Restructure Action Agenda (WRAA), provides an estimate of the amount of wine grape production being sold below the cost of production. It notes that Australia is currently producing a surplus of 20 to 40 million cases of wine a year (equivalent to 270 000 to 500 000 tonnes of grapes), with inventories currently exceeding 100 million cases. The WRAA suggests that if the current rates of production continue, inventories will more than double in the next two years. It estimates that 20 per cent of bearing vines in Australia are unprofitable, and that a restructure of the industry is required to both reduce capacity and to change the production mix. The WRAA suggests that without a significant restructure, inventories will continue to increase and there will be continued downward pressure on Australian wine and wine grape prices, given wine consumption in overseas markets and the industry's decreasing competitiveness.

In late 2009, four industry groups jointly released a statement titled the Wine Restructure Action Agreement (WRAA; see the accompanying box). This statement detailed the extent of the wine supply problem for both wine grape growers and wineries. The WRAA estimates that 20 per cent of bearing vines in Australia are unprofitable and, without a significant restructuring of the industry, wine grape prices will continue to face downward pressure.

Although total sales of Australian wine are expected to increase over the outlook period, wine grape prices are projected to remain subdued in the next few years, before rising gradually in real terms toward the end of the outlook period. By 2014-15, wine grape prices are projected to average around \$547 a tonne (in 2009-10 dollars), which is still around 24 per cent lower than the average price for the five years to 2008-09.

Spring heat wave hits warm climate regional yields

According to the ABS *Vineyards Estimates*, wine grape production in 2008-09 was around 1.7 million tonnes, which was a reduction of 8 per cent from the previous year. The fall in production was the result of reduced yields brought about by irrigation water shortages in some regions and high temperatures in late January and early February 2009, particularly in South Australia. The bearing area for the top 10 wine grape varieties increased by 2 per cent to 139 000 hectares in 2008-09. Most of the increase occurred in the cool climate regions of South Australia, north-east Victoria, Gippsland and Port Phillip. In the warm climate regions, particularly in Murray Darling–Swan Hill, the bearing area of wine grapes contracted.

In 2009-10, wine grape production is forecast to be around 1.6 million tonnes, which is a fall of about 4 per cent from 2008-09. The majority of this forecast reduction is expected to occur in warm climate regions as a result of a prolonged heatwave in late 2009 that affected the flowering and early fruit setting of later bearing varieties, particularly cabernet sauvignon. Varieties such as merlot and chardonnay were also adversely affected. While the heat wave covered most of south-eastern Australia, favourable seasonal conditions over the summer months resulted in better yields in many of the cool climate regions.

Wine and wine grapes

Prior to the heatwave, good spring rains in the second half of 2009 provided grape growers across the southern Murray-Darling Basin with improved access to water supplies. In October 2009, water allocations for 2009-10 were increased from an initial announcement of zero allocation to between 30 per cent and 50 per cent for New South Wales, Victoria and South Australia. The improved water availability reduced the average price of water, which allowed producers to better manage their vineyards.

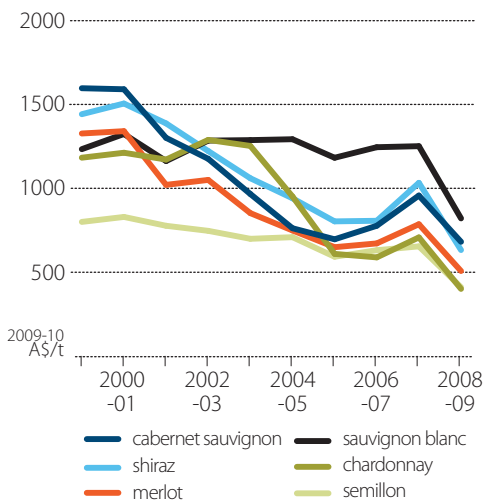
Assuming more favourable seasonal conditions, wine grape production is forecast to continue to increase in the next three seasons, as vines that were planted over the past three seasons come into production. The increase in production is expected to mainly occur in the cool climate regions. However, from 2013-14 onward, the national bearing area is projected to decline as the industry reacts to the adjustment pressure. Production is expected to fall more sharply in the warm climate regions, which historically have produced more than 60 per cent of Australia's total wine grapes.

Wine grape price to remain low

Despite the general downward trend of grape prices over the past decade, there has been considerable variability between varieties. The average price of shiraz grapes has been the

highest of the top red wine grape varieties, with the price of cabernet sauvignon grapes about 9 per cent lower, on average. For white wine grapes, there has been a marked divergence in prices, particularly between sauvignon blanc and chardonnay. While the average price of sauvignon blanc remained largely unchanged (in real terms) between 2002-03 and 2006-07, the price for chardonnay grapes fell by 50 per cent over the same period.

Wine grape prices by variety



The global financial crisis has dampened international demand for wine, placing significant downward pressure on all wine grape prices. With the assumed world economic recovery, demand for wine is expected to strengthen gradually over the short to medium term. However, the abundant world supply of wine and the increasing proportion of bulk wine shipments globally are unlikely to lead to a significant increase in international wine prices. Given this

backdrop, wine grape prices in Australia are expected to remain subdued in the next few years, before a gradual recovery toward the end of the projection period.

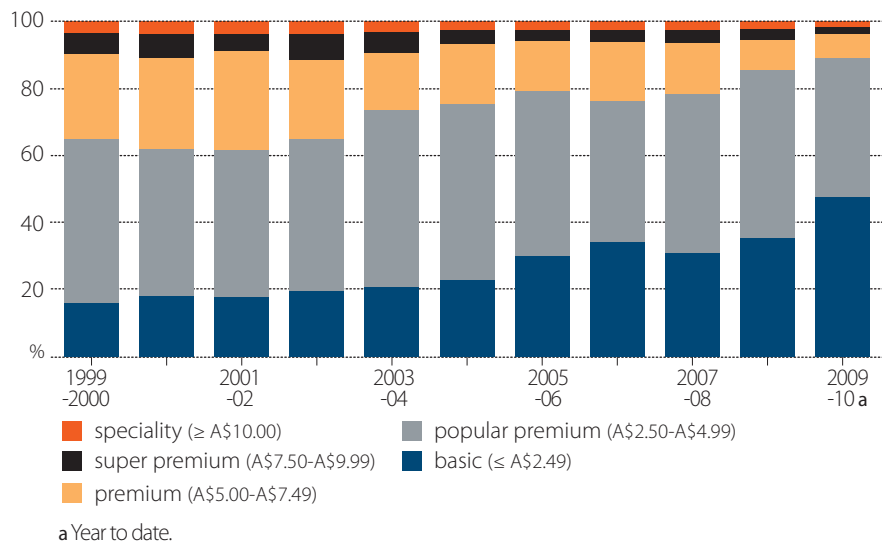
In 2008-09, the large supplies of wine grapes led many wine companies to offer lower prices for fruit. There are also reports that many growers have been informed that their contracts for wine grapes will not be renewed once they expire. Without a contract, the growers will have to supply their grapes to the spot market, which could potentially subject them to even lower wine grape prices.

Lower export returns owing to a shift in demand

There has been a shift of demand for Australian wine exports into the lower price brackets, although the total volume of Australian wine exports continues to grow. For 2008-09 as a whole, the average unit export price of wine fell by 17 per cent relative to 2007-08, to average \$3.61 a litre for reds and \$2.57 a litre for whites. Approximately 85 per cent of wine exports in 2008-09 were categorised into the two lowest price ranges, 'basic' (up to \$2.49 a litre) and 'popular premium' (between \$2.50 and \$4.99 a litre). By volume, the proportion of 'basic' wine increased to 35 per cent in 2008-09 from 31 per cent a year earlier, while the share of 'popular premium' wine increased by 3 percentage points to 50 per cent.

In the short term, demand for Australian wines in the higher price brackets is expected to be weak as the economic recovery in the United States and Western Europe is likely to be modest. In the second half of 2009, the share of 'basic' and 'popular premium' wine was 89 per cent of total wine exports, while the demand for premium wine exports declined further.

Volume of exports by price category



Bulk wine supporting export growth

In volume terms, Australian wine exports rose by 6 per cent in 2008-09 to 750 million litres. This growth was assisted by an increase of 35 per cent in bulk red wine exports and growth of 113 per cent in bulk white wine exports. For the first time since 2001-02, both red and white bulk exports were roughly equivalent, at 127 million litres each. Shipments of red and white bottled table wine fell by 11 per cent in 2008-09.

In value terms, Australian wine exports declined by more than 9 per cent in 2008-09, to \$2.43 billion, which was the lowest value since 2001-02 (in 2009-10 dollars), largely as a result of the growth in demand for lower value wines.

Wine and wine grapes

Nearly three-quarters of Australia's wine exports are shipped to the United Kingdom, the United States and Canada. In 2008-09, shipments of Australian wine to the United Kingdom and Canada fell by 1 per cent and 3 per cent, respectively. However, export earnings from these markets fell more steeply, by more than 20 per cent in each market. In 2008-09, the share of bulk wine exports to the United Kingdom increased to 39 per cent of all table wine exports, compared with 25 per cent the previous year. Shipments of bottled wine to the United Kingdom also fell by 20 per cent. Shipments to the United States increased by 29 per cent in 2008-09; however, export earnings declined by 4 per cent in the year.

The only major market where export earnings increased in 2008-09 was China. In the past five years, China has become increasingly important for the Australian wine sector, becoming the fourth largest export market by value (see the accompanying box).

Although the shipments of wine are expected to increase in 2009-10, total export earnings are forecast to decline by 2 per cent to \$2.39 billion. Over the medium term, continued economic recovery in Australia's key export markets is projected to lead to a gradual strengthening in demand for higher valued wines. However, the increasing competition of bulk wine exports from all major wine exporting countries, including the European Union, Chile and New Zealand, is likely to put downward pressure on the rate at which the higher value wines regain a foothold in world markets. In addition, an assumed relatively high value of the Australian dollar against both the euro and the US dollar over the outlook period could constrain any significant increase in export earnings.

New Zealand sauvignon blanc popular in Australia

Australian wine imports increased by 14 per cent in 2008-09 to 62.2 million litres. Imports now constitute 14 per cent of domestic wine sales, compared with 5 per cent a decade ago. Imports from New Zealand continue to increase, making up almost 60 per cent of total wine imports in 2008-09, compared with 44 per cent a year earlier. The increased market share by imports from New Zealand was assisted by strong demand for sauvignon blanc.

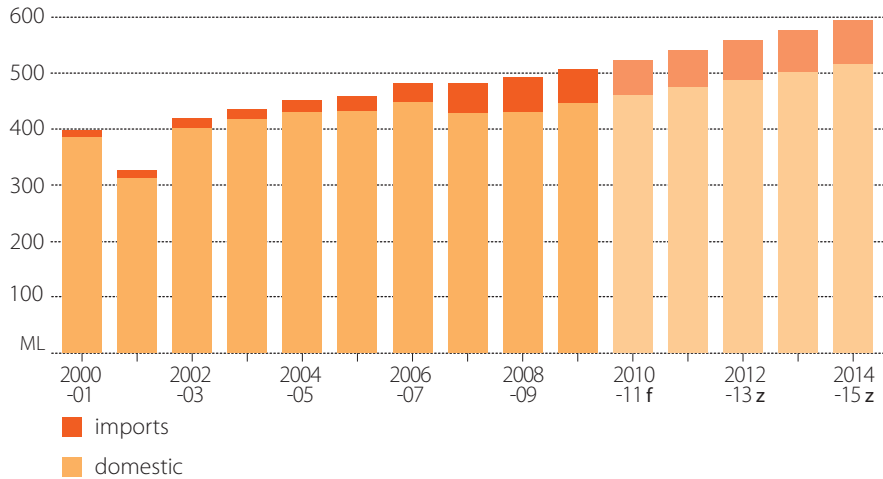
In contrast, the volume of total Australian imports fell by 4 per cent in the second half of 2009 compared with the same period in 2008. Because of an 8 per cent fall in import unit prices, the value of wine imports declined by 12 per cent over the same period, from \$279 million to \$247 million. In the second half of 2009, the value of wine imported from the European Union and Chile fell by 24 per cent.

Over the medium term, wine imports are projected to increase, although at a slower rate than over the past five years. While an increase in imports of New Zealand wine is expected over the medium term, it is projected to be at a slower rate than in recent years.

Bulk wine driving growth in total Australian sales

Total sales of wine in Australia (which include table wine, sparkling, carbonated and fortified wines) increased by 4 per cent in 2008-09, following a 9 per cent decline in the previous year. Most of this increase was because of growth in imported wines, particularly from New Zealand.

Total Australian wine sales



Sales of Australian wine in the domestic market increased by 1 per cent, to 430 million litres, supported by growth in bottled white wine sales. Sales of bottled wine in Australia have been increasing over the past 10 years and now account for 53 per cent of total Australian domestic sales of table wine.

Over the medium term, Australian consumers are expected to favour bottled table wine over other wine packages. Growth in total table wine sales, in both bottled and soft packs, is expected to continue. By the end of the outlook period, total domestic sales, including domestically produced wine and imports, are projected to reach 600 million litres. Australian per person consumption is projected to increase by about 1.5 per cent a year, increasing to around 24.5 litres a person by 2014-15.

Australian wine exports to China

Although the value of wine exports to China accounts for only 4 per cent of total Australian wine exports, China has become Australia's fourth largest export market. Australian wine exports to China have grown markedly in recent years, reaching 25 million litres (or \$93.8 million) in 2008-09, compared with 12 million litres (or \$20.8 million) in 2005-06.

In 2008-09 bottled wine accounted for 53 per cent of total Australian wine shipments to China (13.4 million litres), with more than 90 per cent of bottled wine made up of red wine. Bulk wine shipments were around 10.5 million litres in 2008-09, with white wine accounting for 54 per cent.

The increasing demand for Australian wine in China reflects continued strong income growth in that country and a shift in consumer preferences toward western diets. China has the potential to become a major market for Australian wine exports in the future.

The significant increase in demand for Australian wine in China has been of benefit to wine producers facing strong competition in traditional markets. Over the past decade, the average export unit value of Australian wine to its three largest markets, the United Kingdom, the United States and Canada, has fallen by 48 per cent.

Australian wine exports to China
by container type



Note: 'Other' includes containers for fortified, sparkling and carbonated wines.

The recent decline in average export unit values has, to a large extent, been the result of increased bulk exports, which command a lower price than bottled exports. However, apart from the bulk exports, there are some bottled wine shipments that are receiving a significantly higher export unit price. These bottled wine exports are labelled with the region from which they originate. While bulk shipments do not have a region associated with them (or Geographical Indication (GI)), almost 70 per cent of both red and white bottled exports do.

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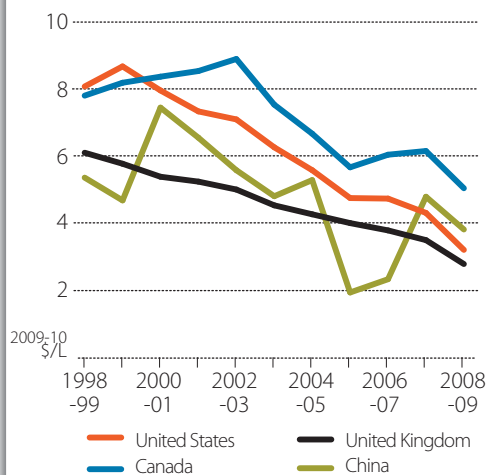
Australian wine exports to China *continued*

In 2008-09, 17 of the 129 Australian GI regions exported one-third of regionally labelled bottled red wine exports to China. Of the top six GI regions (those that exported more than 100 000 litres), five were in South Australia. Despite the volume of wine exported, the unit value of wine from the Barossa Valley and McLaren Vale regions was more than double the average unit value of bottled red wine exports to China, of \$6.00 a litre.

GI regions exporting more than 100 000 litres of bottled red wine in 2008-09

	Value \$'000	Quantity '000L	\$/L	state
McLaren Vale	3 735	313	\$11.94	SA
Coonawarra	3 248	385	\$8.43	SA
Barossa Valley	2 889	219	\$13.18	SA
Langhorne Creek	1 601	189	\$8.45	SA
Hunter Valley	1 339	192	\$6.98	NSW
Limestone Coast	953	129	\$7.39	SA

Export unit values



For white wine, which accounts for only 10 per cent of total bottled exports to China, approximately 62 per cent of bottles either had no label claim or were labelled as originating from south-eastern Australia. Only eight GI regions exported more than 10 000 litres of bottled white wine. While the Riverina exported the largest volume, 46 623 litres in 2008-09, it also benefited from an above-average unit value of \$7.93 a litre. Similarly, the Yarra Valley, which exported 12 659 litres, earned the highest unit value of the eight GI regions, of \$11.44 a litre.

GI regions exporting more than 10 000 litres of bottled white wine in 2008-09

	Value \$'000	Quantity '000L	\$/L	state
Riverina	370	47	\$7.93	NSW
McLaren Vale	260	36	\$7.32	SA
Margaret River	248	22	\$11.19	WA
Adelaide Hills	149	17	\$8.96	SA
Yarra Valley	145	13	\$11.44	VIC
Hunter Valley	135	17	\$7.85	NSW
Barossa	66	16	\$4.22	SA
Strathbogie Ranges	65	11	\$5.69	VIC

Wine outlook

	unit	2007 -08	2008 -09	2009 -10 f	2010 -11 f	2011 -12 z	2012 -13 z	2013 -14 z	2014 -15 z
Bearing area	'000 ha	166	157	159	160	161	163	160	158
Wine grape production s									
Red wine	kt	984	888	900	934	934	945	926	906
White wine	kt	796	796	717	849	852	864	843	823
Total a	kt	1 837	1 684	1 617	1 783	1 785	1 810	1 769	1 730
Wine exports									
Volume	ML	709	750	777	810	850	890	930	980
Value									
– nominal	A\$m	2 683	2 428	2 388	2 496	2 650	2 830	3 070	3 380
– real b	A\$m	2 832	2 485	2 388	2 439	2 527	2 633	2 787	2 993
Australian wine grape price									
– nominal	A\$/t	787	527	520	517	531	552	579	618
– real b	A\$/t	831	539	520	506	507	514	526	547

a From 2008-09, total production excludes multipurpose grapes. b In 2009-10 Australian dollars. s ABARE estimate. f ABARE forecast. z ABARE projection.

Sources: ABS; Australian Wine Export Council; Australian Wine and Brandy Corporation, *Approved Wine Shipments*, Adelaide; ABS, *Australian Wine and Grape Industry*, cat. no. 1329.0; ABARE.