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## New Zealand

### Wine

# New Zealand Wine Industry Situation and Outlook 2000

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**Report Highlights:** New Zealand's wine exports grew exponentially over the 1990's and exports are expected to triple to US \$140 million by 2003. Increased plantings of vineyards are expected with 13,000 hectares predicted by 2003. For the 2000 vintage, good qualities and quantities of Hawke's Bay Chardonnay and Pinot Noir are predicted, although wet weather has reduced the size of the Marlborough Sauvignon blanc harvest (but quality is expected to be one of the best).

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Wellington [NZ1], NZ



In the past decade New Zealand wine exports have grown more than 1000 percent, totalling NZ \$127 million (US \$67.5 million) in 1999. While New Zealand contributes less than 2 percent to global wine production the industry is going through a period of enormous change and growth. New Zealand may have been a late starter in the global wine stakes, but as part of the New World Wine Producers, being fresh and new and creating a high-end marketing niche is paying big export dividends.

Britain is one of the world's largest wine importers, and a British wine expert has stated that the New World wine producers (Australia, New Zealand, Chile, Argentina, South Africa, Uruguay, Canada and the United States) are taking an increasingly bigger share of the wine that Britain imports. In the 1999 calendar year, New World wines accounted for 34 percent of Britains imports, compared with barely 10 percent a decade ago.

### ***New Zealand's Wine Industry Growth***

In 1990 there were 131 vineyards in New Zealand, by 1999 that had grown to 334. The growth in winemaker numbers is overwhelmingly in the industry's small category (sales less than 200,000 litres per annum), although there has also been a steady growth in the number of wineries in the medium category (sales 200,000 to two million liters). Only four winemakers in New Zealand have annual sales of more than 2 million liters.

The total vineyard area in production has increased from 5800 hectares in 1990, to 9097 hectares in 1999. Announcements by major companies of further plantings and substantial investments by new wineries suggest this vineyard growth will continue. If current trends and expected plantings continue, a producing vineyard of circa 13,000 hectares by 2003 appears a real prospect.

In the period from 1990-1999, the value of wine exported rose from NZ\$18.4 million to NZ\$127.5 million. At the same time the industry has managed to maintain the high quality of the wine exported. In 1990, New Zealand wine exports had a mean value of NZ \$4.59/ litre, while in 1999 they topped \$7.50/ litre. The 1999 season experienced some of the most rapid growth, with exports amounting to 17.9 million liters. This is a rise of 9.8 percent in volume, and a 25 percent rise in value compared to the 1998 calendar year.

### ***International Markets***

Thirty percent of New Zealand wine sales were exported during 1999. This is expected to rise to just under 50 percent by 2003, and 66 percent by 2010 according to the Wine Institute of New Zealand.

For the year ended June 1999, the United Kingdom remained the New Zealand wine industry's largest export market. Over nine million liters (54.4 percent of New Zealand's wine exports) were exported in total with an average per litre price of NZ \$7.54. This had a total value of NZ \$68 million. Almost 2.3 million liters were sold to Australia which equates to 13.8 percent of the total export volume. Over 1.5 million liters was white wine. Exports to Australia sold for an average of NZ \$7.06/litre (total NZ \$16 million). Other major export markets include the United States, Japan, Belgium and Sweden. U.S. wine imports from New Zealand rose from US \$7.8 million in 1998, to US \$12.1 million in 1999.

Last year New Zealand sold 1.9 million liters of red wine overseas for an average price of NZ \$8.93/

litre. This compared with an overall average price of NZ \$7.34/ litre for exported white wine. Sparkling exports fetched NZ \$8.49/litre and fortified wine NZ \$2.30 /litre.

Industry projections reveal export growth will continue apace, almost tripling the 1998 total by the year 2003. Export earnings are expected to surpass NZ \$265 million (US \$140 million) in the same time frame, although wine sales are expected to slow globally as consumers opt for quality rather than volume.

### ***Vintage 1999***

Vintage 1999 benefitted from excellent weather in most grape growing regions through the growing and ripening seasons. In many localities harvest was the earliest recorded, following on from an early bud break. Wines appearing in the market reflect overall vintage conditions - they show good balance and structure, coupled with excellent fruit flavors.

The size of the 1999 crop was slightly below industry expectations. The crop of 79,700 tons is 1400 tons or 1.8 % larger than the record 1998 harvest of 78,300 tons. Chardonnay and Sauvignon blanc together constituted 48.7 percent of the 1999 vintage (1998 - 43.5 %). By contrast Muller Thurgau (ten years ago the industry's most important variety) accounted for less than 10,000 tons or just 11.6 percent of the total vintage. Given the continuing extraction of Muller theurgy vines, this percentage is expected to decline markedly in future vintages.

### ***Vintage 2000***

New Zealand's 2000 vintage is expected to harvest a yield of 80,000-90,000 tonnes. If this quantity is picked it will exceed last year's record 79,000 tons. Expectations for a larger harvest reflect the additional area of vines in production.

However, a cool wet flowering period in Marlborough (New Zealand's largest wine producing area, and leader in Sauvignon blanc wines), has produced a poor fruit set in the Sauvignon blanc harvest, and the harvest of this variety is expected to be 30-35 percent below forecasts. The crop losses are expected to deprive the market of 4,000 tonnes of Sauvignon blanc grapes worth around NZ\$7 million if early estimates prove correct.

New Zealand's wine exports are predicted to be affected by the shortage. Sauvignon blanc accounts for around 40 percent of New Zealand's exports. Demand for export Sauvignon blanc already exceeds the country's ability to supply the variety. Lower than expected crops this year would deprive the export market of an estimated NZ \$20 million revenue if winemakers chose to ration export rather than domestic sales. However, it seems more likely that the New Zealand domestic market will bear the brunt of any wine shortage.

A brighter note to the smaller Marlborough crop is that the quality of this year's Sauvignon blanc will be equal if not better to the 1991 vintage. The lower yields tend to increase both flavor concentration and wine quality.

Fortunately for the rest of the wine industry, harvests have been exceptional. The Hawke's Bay has

had good weather conditions for the harvest, and wine experts are predicting some good quality and quantities of Chardonnay and Pinot noir varieties.

### ***Market Trends***

#### **Varieties**

Since New Zealand became a wine exporter, it has been the country's Sauvignon blanc that has been the most successful internationally. Recently, however, Pinot noir has begun to experience similar popularity. From plantings of 862 hectares last year in Pinot noir, the area is expected to increase to 1433 hectares in the next 2 years, an increase of well over 70 percent. International wine experts have indicated that New Zealand Pinot noir has huge potential for growth internationally. Production of Pinot noir outside of France's Burgundy region is small, so New Zealand could still penetrate the market despite producing only small volumes. World consumption of red wine is also increasing. In Britain, consumption of red wine has grown by more than 70 percent since 1993, and it has now overtaken white wine, commanding 52 percent of the market.

#### **New Zealand's Domestic Market**

Internationally, New Zealand wines are very popular and in much demand, however at home in New Zealand, locals are choosing to drink imported wine. While New Zealand wine exports rose 10 percent by volume in 1999, wine imports were up by 28 percent.

Some of the import growth is explained by New Zealand companies bringing in bulk wine to package in their own casks, but imported wines now make up 36 percent of the market, having grown at 20 percent a year since 1989. New Zealand's domestic market is becoming more and more competitive and New Zealand growers can expect to sell less of their wine domestically than they have done previously.

Largely to blame are cheaper wines from bigger producers in countries such as Chile, South Africa and Australia, whose economies of scale allow mass production at prices New Zealand wine companies struggle to match. U.S wine exports to New Zealand are small, but rose from US \$155,000 in 1998 to US \$265,000 in 1999.

#### **International Domination in the New Zealand Wine Industry**

Industry sources report that New Zealand's wine industry could be dominated by overseas players by the end of the year, with three of the country's four largest winemakers headed for offshore ownership. The shake-up among the large players is also likely to force similar mergers, takeovers and acquisitions among many medium-sized New Zealand wine makers, most of which are still privately owned.

In the middle of May, giant Australian wine company BRL Hardy lifted its stake in New Zealand winemaker Nobile (New Zealand's third largest wine producer) to 40 percent and signaled it may seek 100 percent. A share raid by Australian brewer Lion Nathan secured it a 20 percent in Montana, New Zealand's largest winemaker. And DB Group confirmed it will sell second-ranked winemaker Corbans almost certainly into overseas ownership.

The latest moves are being driven by a high cost structure, leaving the relatively small local wine industry

vulnerable to larger overseas players in the crucial export market. Local winemakers are also under pressure from cheap imported wine on the domestic front. Australia, where land prices are lower and wine makers are much bigger, is applying particular pressure. Last year the New Zealand wine industry crushed just under 80,000 tons of grapes. That compares with more than 200,000 tonnes crushed by Australia's second largest wine company BRL Hardy, now the major shareholder in Nobilo.

Higher land and production costs in New Zealand mean that New Zealand wines are more expensive than Australian wines in overseas markets like Britain. Hence, export success is dependent on overseas buyers being prepared to pay a premium for New Zealand wines.