

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Wine Annual

2010

Approved By:

Grant Pettrie, Agricultural Counselor

Prepared By:

Grant Pettrie, Agricultural Counselor

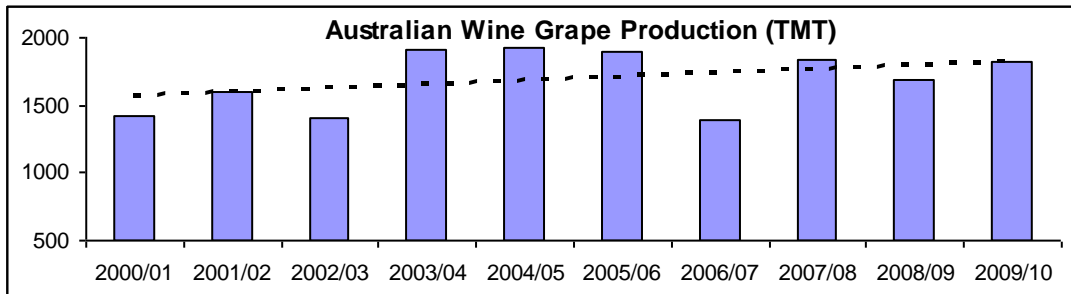
Report Highlights:

Australian and world overproduction, large inventories, increased bulk wine exports, and low prices to wine grape growers are the major topics of discussion in the Australian wine industry.

Production:

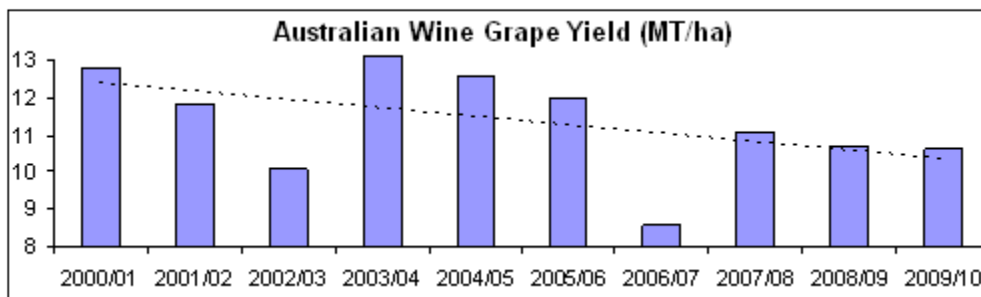
Post forecasts wine grape production for the 2009/10 vintage at 1.61 MMT. As of early March, harvest is about half complete. A sharp heat wave in November 2009 reportedly impacted fruit set and is the main negative factor associated with this cropping year. The heat wave reportedly caused the most damage in the Riverina area of New South Wales and parts of the state of Victoria. It has yet to be determined the level of effects of the unusual rains in mid-February across much of New South Wales on total production and quality. To reduce costs, some wine grape growers reduced their level of inputs this growing season, particularly fertilizer, which also accounts for some of the lower-than-expected crop yield. About 90 percent of Australia’s wine grape plantings are irrigated and growers reported generally sufficient water availability to meet irrigation needs.

Assuming a 2009/10 vintage of 1.61 MMT, production would be below average since 2004/05 and below the 2009 harvest. Even with this decline in production, Australia is forecast to continue with high ending stock levels of wine.



Source: ABARE Australian Commodity Statistics 2009

With the Australian total wine grape production for the 2009/10 vintage forecast of 1.61 MMT, wine production is forecast at 11,270 thousand hectoliters (THL) using a conversion factor of 0.7. Current ABARE reports forecast the area of grape bearing vines in 2009/10 to have risen slightly to 171,000 hectares. Industry sources believe this estimate to be too high and don’t take into account area reductions because of government programs and the impact of contract re-negotiations. Post forecasts yields to have declined from an estimated 10.7 tons per hectare in 2008/09 to 10.0 tons per hectare in 2009/10. The November heat wave, declining input use, and the mid-February rains account for the majority of the decline in yields. Producers’ leaving their product on the vine because of the lack of contracts is also reported to have played a yet-to-be determined role in the reduction in yields.



ABARE 2009 Australian Commodities

Exports

Post forecasts total wine exports for the 2009/10 marketing year at 7,250 THL (725.0 million liters) which if achieved would be the third largest by volume. AWBC and ABARE data report Australia's wine exports in 2008/09 as 7,500 THL (750.0 million liters), a sharp increase compared to earlier forecasts

(http://www.wineaustralia.com/australia/LinkClick.aspx?link=winefacts%2f_FREE%2fExports%2fwebwearJune09.pdf&tabid=204&mid=1906). Significant increases in bulk wine exports in MY 2008/09 drove the rise in overall exports. While bulk wine exports are likely to continue strong in 2009/10, declines in the level of bulk wine Chardonnay exports, particularly to the United States are expected, according to industry sources. AWBC 2009 calendar year data on bulk wine exports show that white wine bulk exports, particularly Chardonnay, rose 63 million liters and red wine bulk exports rose 56 million liters. The United States and the United Kingdom accounted for 80 percent of the increase in Australia's bulk wine exports and 87 percent of the decline in bottled wine exports in CY 2009.



Source: ABARE Australian Commodity Statistics 2009

The large increase in bulk wine exports has been driven by several factors including the strong Australian dollar, large Australian wine inventories, declining consumer purchasing power in key importing markets, the Global Financial Crisis, and third country competition. AWBC reports estimate that bottling of "branded wines" in third country markets reduces the estimated value of exports by roughly AUS\$12 per case equivalent quantity of wine (approximately US\$10.70 at today's exchange rate).

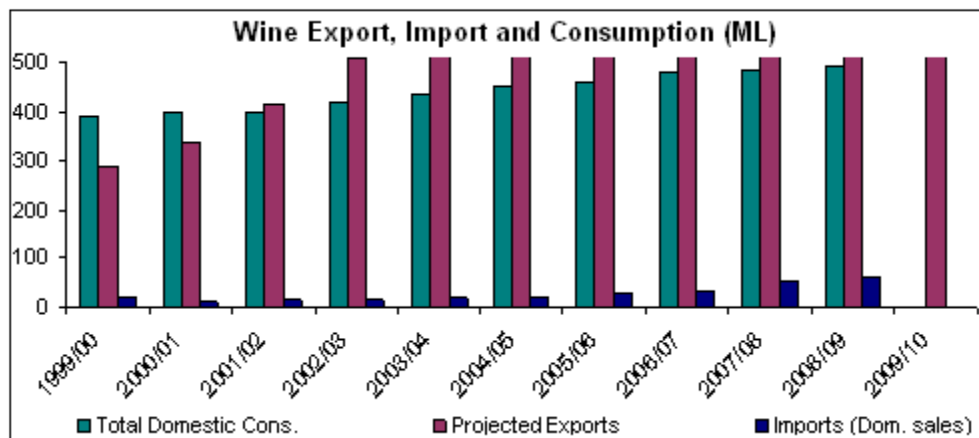
Australian Wine and Brandy Corporation (AWBC) 2009 export data show that the United Kingdom remained Australia's largest volume export market (34 percent), followed by the United States (32 percent) and Canada (6 percent). China showed the strongest growth with exports to that destination growing by 77 percent making it now Australia's fourth largest export market. Major markets for Australian wine exports showed important declines in the per liter value of imports, even though the overall volume of wine exports rose. The value per liter of exports declined sharply by -15.8 percent to all of Australia's exports markets in calendar year 2009 compared to the previous year including to China (-35 percent), the United Kingdom (-21 percent), Germany (-20 percent), and the United States (-18 percent).

A review of seasonal AWBC Australian wine export data shows that the volume of wine exports tends to peak in the June-September period. There is though a wide variation from one month to another.

Bottled red wines still dominate exports with a 38 percent share in 2009 (291 million liters) while bottled whites represented 20 percent of market exports (152 million liters).



Source: AWBC 2009



Source: ABARE Australian Commodity Statistics

Domestic Wine Industry Restructuring

An industry restructuring plan, called the Wine Restructuring Action Agenda (WRAA) (<http://www.wgga.com.au/industry/ES09/WRAA%20Supporting%20101109.pdf>) was developed in November 2009 by the four key industry bodies (Winemaker’s Federation of Australia, the Wine Grape Growers of Australia, the Australian Wine and Brandy Corporation, and the Grape and Wine Research and Development Corporation). It has as its stated goal the facilitation and acceleration of the Australian wine sector. The WRAA advocates a reduction in planted/harvested area to ensure that the remaining area is economically viable in good years and bad. According to the report’s economic analysis, at least 20 percent of Australia’s bearing vines are surplus to requirements, with little long-term outlook for a turn around.

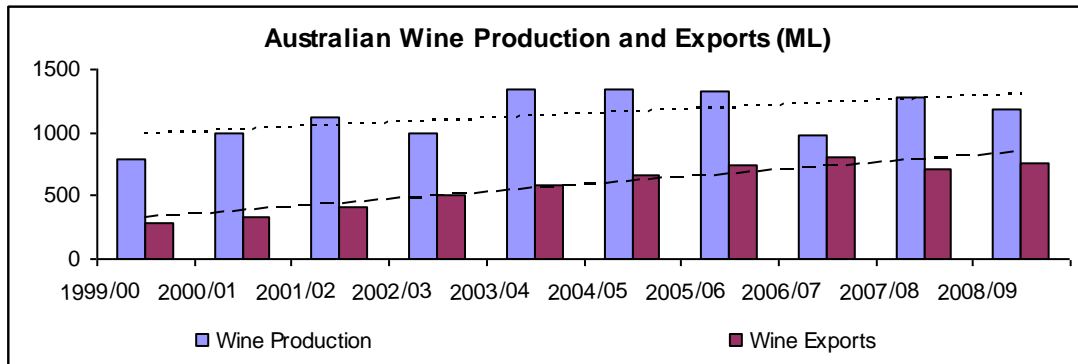
Outreach to producer groups and individuals has begun with outreach efforts already made in several of Australia’s states. The remaining states will be briefed by July 2010. Fundamental to the WRAA restructuring plan is an outreach program that works with individual producers using economic modeling to demonstrate long term economic viability. With that information in hand, it is hoped that wine grape producers will then make their own decisions on next steps.

The economic viability will depend upon a number of factors including but not limited to individual producer debt levels, current varieties planted, farm location (some regions are more in demand domestically and internationally), and other factors.

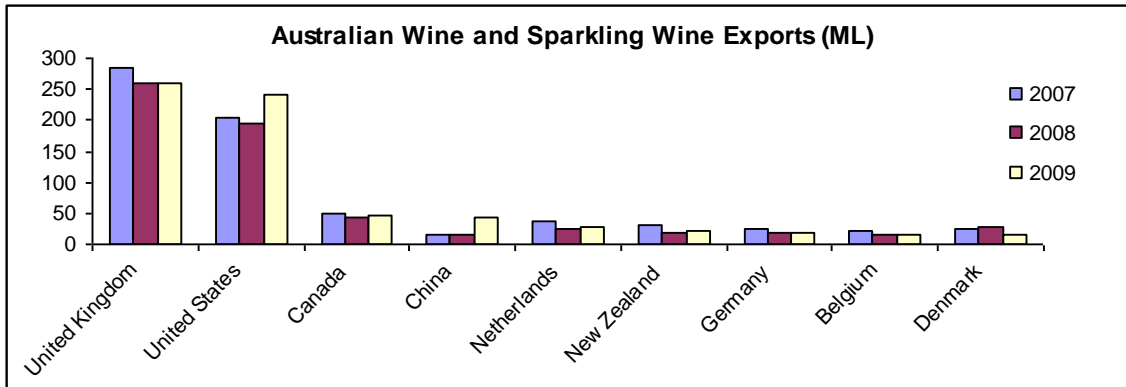
The industry is not requesting a government subsidized buy out or crop reduction package as was done in the early 1990s.

With the strong recovery in the value of the Australian dollar, against the U.S. dollar and the Euro, since March 2009, exporters are saying their margins have been cut to the bone.

The relationship between vintners and wine grape growers has grown ever more tenuous in recent years. Prices paid to wine grape growers have been declining for several years. The global financial crisis, combined with the world oversupply of wine and the strengthening of the Australian dollar contributed to the continued price decline in the 2008/09 growing season. Industry contacts report that the 2009/10 growing season has become more difficult as vintners, especially many large ones, have looked to re-negotiate existing contracts and not re-new long term contracts. This is happening not only in lower-end wine grape growing areas, but also in higher-end producing regions. Some contracts set tonnage level ceilings with wine grape producers not permitted to sell their "over-production" wine grapes. Industry contacts are divided over whether this situation will result in a significant reduction in planted or vine bearing acreage in the near term. One producer association reported that some money-losing wine grape producers would begin ripping out vines after the 2010 vintage. Nonetheless, producers are very loathe pulling out vines as some are "under water" and owe money on their investment for putting the vines in as recent as 5-10 years ago.



Source: ABARE – Australian Commodity Statistics 2009 – production in ML derived from MT using 0.7 conversion



Source: World Trade Atlas Data

Bulk Wine Exports

In CY 2009, Australia significantly increased its level of bulk wine exports previously. The off shore movement of "branded labeling" of Australian wine, particularly for the United Kingdom market, and companies offloading excess inventories account for this increase in bulk wine exports. According to AWBC statistics, with 39 percent of all Australian wine is now exported as bulk wine, Australia has joined the ranks of other major bulk wine exporters including Spain (53 percent), South Africa (50 percent) Chile (40 percent), Italy (33 percent), and the United States (47 percent). The offshore movement of branded bottling is reportedly rising in order to reduce transportation costs, and take advantage of apparent tax benefits. AWBC analysis of the subject is located at

http://www.wineaustralia.com/australia/LinkClick.aspx?link=winefacts%2f_FREE%2fExports%2fWewearDec09.pdf&tabid=204&mid=1906. Industry contacts expect that Australia will continue to have high levels of bulk wine exports (30-40 percent) over the next few years for the reasons cited above.

Exporters time and again reported the critical role several large retailers in the UK play in reducing profit margins for their exports to the UK. This, combined with the sharply higher Australian dollar compared to the UK Pound has exacerbated what is normally described as a highly price sensitive market for Australian exporters.

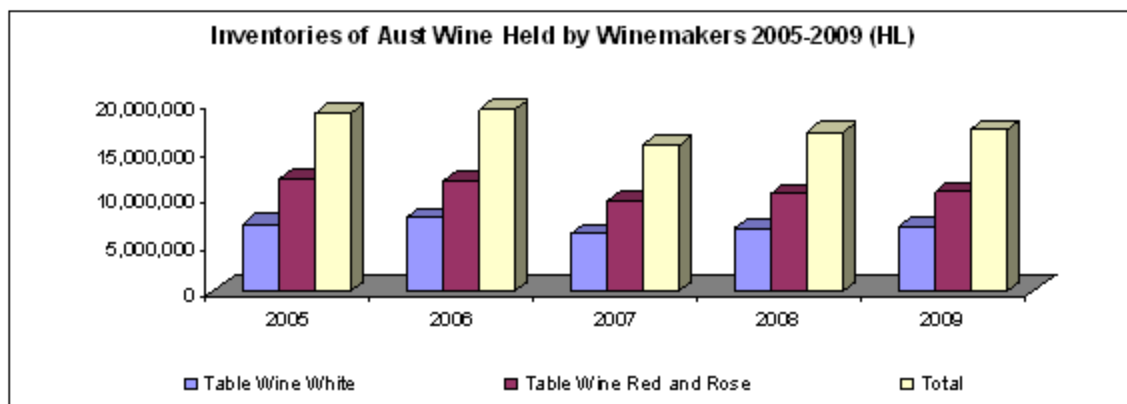


*Fermentation Wine Tanks near Yenda NSW –
Photo by Grant Pettrie*

Stocks

Most industry sources expect Australian stock levels to remain very high given the downward stickiness in wine grape planted area and production. Some analysts believe that the sharp increase in bulk wine exports has helped reduce the level of wine stocks overhanging the Australian market. There is however, disagreement over how stocks have been reduced. Nonetheless, all analysts agree that Australia still maintains very high stock levels that are expected to be an important element of the Australian wine picture for at least 3-5 years to come.

The WRRRA plan states that Australia is producing an estimated 20-40 million cases a year of wine more than it is selling and that this surplus already exceeds 100 million cases of wine. The WRRRA forecasted that if Australia does not succeed in reducing production or increasing exports soon, than the level of stocks could hit 200 million cases of wine within two years.



Source: ABS Australian Grape Crush & Wine Production 2008-2009

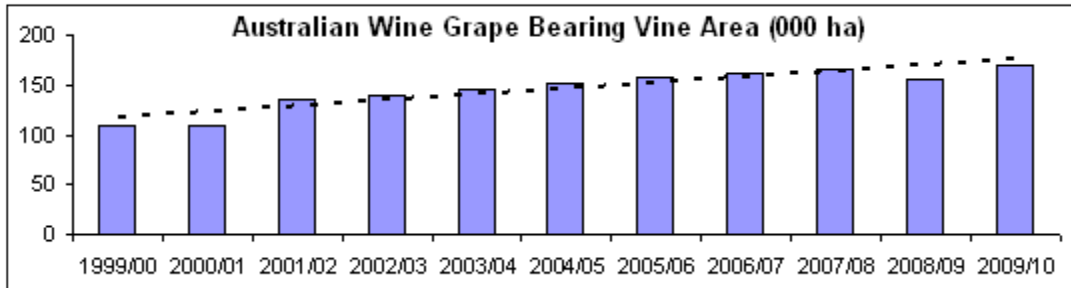
Wine Grape Production 2009/2010

Industry and government sources describe wine grape growing conditions for the 2009/2010 growing season as quite good with final production likely to be similar to that of the 2008/09 season. Water availability in 2009/10 has been better than in recent years and water prices for those producers needing to purchase irrigation water have dropped significantly compared to the past two years. One industry source, claimed water prices are 50 percent lower this growing season than they were two years ago at the height of water shortages.

Planted/Harvested area

For the 2009/10 growing season, Post estimates wine grape bearing area at 161,000 hectares. Estimates of bearing area vary among analysts and government offices. Complicating this is a change in census methodology by the Australian Bureau of Statistics for the 2008/09 crop year. Some industry sources report that the official Australian government estimate by ABARE (December 2009) of 171,000 hectares as not having taken into account some 5-10,000 hectares that were idled because of the collapse of several Managed Investment Schemes wine grape farms

and planted area removed as part of an irrigators' reduction program. Nonetheless, wine grape producers have yet to reduce planted area to the degree where it will have a major impact on long term production levels. While the wine grape industry has developed a well thought-out outreach program for producers to identify economic viability of individual wine grape growers, any significant resulting reduction is several years off. In 2009/10, reductions in harvested area could be more driven by contracting issues more than growing conditions.



Source: ABARE Australian Commodity Statistics 2009

The outlook for increased planting area in Australia looks very unlikely. Media reports and industry sources have sharply reduced their lending for vineyard acquisitions. Nonetheless, some companies are purchasing existing facilities at prices well below those seen only a year or two ago. One media report said that land values have dropped roughly 30 percent in good quality areas and 50 percent in lesser wine growing areas. Major wine companies are not immune to this situation, with one of Australia's largest producers reportedly selling over half of its vineyards.



A vineyard near the town of Yenda, NSW - Photo by Grant Pettrie

Marketing

Wine and all alcoholic beverages are highly taxed in Australia. Under current law, government taxation has a higher tax for ready-to-drink spirits popular with younger consumers. A government tax review, called the Henry tax inquiry, will announce its recommendations in March 2010. A proposed flat tax fixed on the full-strength of full-strength packaged beer rate of AUS \$41.68 a liter of pure alcohol would reportedly bring down prices of spirits and ready to consume beverages that are taxed at the highest rate of any beverage. Prices paid for low, mid strength, and tap beer, which are a taxed at a lower rate would rise. Analysts for the wine industry report that if passed, this reported change would negatively affect wine with consumers potentially paying AUS \$1.5 billion more in annual taxes. Wine is presently taxed on value rather than the alcohol content. Under this flat (referred to as a volumetric tax), the price of cheaper wines, particularly boxed wines would sharply rise. The wine industry is opposing this proposed tax saying it would cost the industry 12,000 jobs and that wine consumption is far different than beer and spirits and should be taxed differently.

Export Market Promotion Efforts

Industry sources report that the industry intends on focusing its market development efforts on promoting the different wine producing regions (e.g. the Margaret River, Clare Valley, the Barossa Valley, the Hunter Valley, etc) of Australia compared to previous, more generic "brand Australia" efforts. By increasing international consumer knowledge of the Australian wine regions and focusing on mid-price wine market (\$15-40 price range), the industry goal is to change the international impression of Australia being mostly a supplier of low price wines.

The Australian wine industry has also looked to promote its long wine making heritage through the "First Families of Wine" campaign that highlights a number of long-established premium wineries. These efforts to improve the image of "brand Australia" highlight not only the history of wine production in Australia but also the award winning wines of these "wine families."

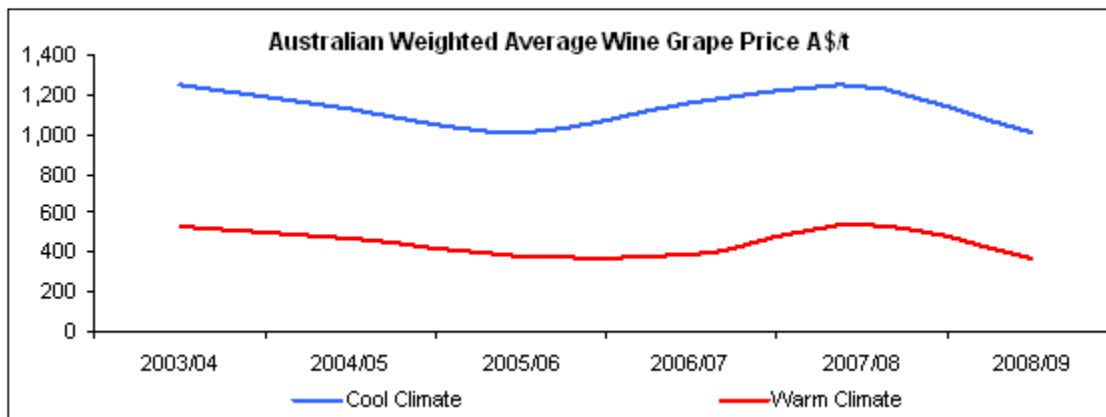
While the United States, the United Kingdom, and Canada account for a very high percentage of total Australian wine exports, China has been growing in importance. In CY 2009, this was again the case as volume exports to China rose 171 percent and in value rose 77 percent to AUS \$130 million. Bulk wine exports to China account for most of the increase; some industry sources report that some of the Australian bulk wine was blended with local Chinese wine and sold as locally produced wine. Australian companies and the industry identify China as showing excellent long-term growth potential for Australian wine and have devoted marketing resources to that end. Nonetheless, industry sources have told us they recognize that China is "no panacea" to help sop up the high level of Australian wine stocks, particularly in the short term. One contact noted that even if Chinese wine imports were to double overnight, Australia would still have 3-5 years worth of excess stocks.

Imports

Australia imported an estimated 406 THL (40.6 million liters) of wine in 2008/09, up on the 350 THL (35.0 million liters) estimated for 2007/08, according to Global Trade Atlas data. Post forecasts imports to grow slightly in 2009/10 to 420 THL assuming the continued strength of the Australian dollar further supports Australians willingness to try foreign wines. Imports of wine have grown significantly over the past three years due to relatively high per capita consumption levels and a sharply stronger Australian dollar. Imports of wine from New Zealand (up 28 percent in volume), principally white wines reportedly accounted for much of the increase. Imports are expected to remain strong in the 2008/09 period as the currencies between the two countries have both devalued roughly in tandem.

Pricing

Wine grape producers continue to express concerns regarding the low prices currently being received. ABARE forecasts that growers will receive an average price of AUS \$690 per metric ton, compared to AUS \$787 per metric ton in the 2007/08 vintage. Low prices combined with world demand uncertainty could lead to an increase in grapes not being harvested this year. ABARE has forecast wine grape prices to continue falling out to 2012/13. Falling prices have seen the total value of Australian wine production contract from the peak reached in 2003/04.



Source: ABARE Australian Commodity Stats 2009

Related Links to Wine Reports and Articles:

<http://theland.farmonline.com.au/news/nationalrural/viticulture/general/flood-of-cheap-wine-sours-local-industry/1713907.aspx> Discussion of low prices and contract cuts to wine grape producers.

http://www.wfa.org.au/vintage_reports.aspx WFA Wine Federation Vintage reports – five years worth of data.

<http://theland.farmonline.com.au/blogs/the-punter/mad-for-a-new-vintage/1709417.aspx> Article on impact on Australian wineries and their share prices.

<http://theland.farmonline.com.au/news/nationalrural/viticulture/general/fosters-warns-of-grape-price-cut/1704747.aspx> Article on wine glut reducing prices to grape growers and impact

http://www.weeklytimesnow.com.au/article/2009/12/08/140215_horticulture.html Fighting for UK market share and low prices.

http://www.weeklytimesnow.com.au/article/2009/11/16/131991_horticulture.html NZ wine imports and the impact in Australia.

<http://theland.farmonline.com.au/news/state/viticulture/general/winemakers-to-promote-their-green-credentials/1699187.aspx> Going green certification process.

http://www.wfa.org.au/resources/1/Winescope/Winescope_Summer0910.pdf

[http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/39C5E35BC346E716CA25765B00152BA5/\\$File/1329055002_2008-09.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/39C5E35BC346E716CA25765B00152BA5/$File/1329055002_2008-09.pdf) ABS Vineyard Survey Report

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/1329.0.55.003/> ABS Grape and Wine Production report from ABS . Released in October 2009.

http://www.rabobank.com.au/Research/Documents/Agribusiness_review/Rabobank_Agribusiness_Review_December_09.pdf Rabobank Monthly Report.

http://www.wineaustralia.com/australia/LinkClick.aspx?link=winefacts%2f_FREE%2fExports%2fWebwearSep09.pdf&tabid=204&mid=1906 AWBC September Quarterly analysis.

http://www.wineaustralia.com/australia/LinkClick.aspx?link=winefacts%2f_FREE%2fExports%2fWebwearDec09.pdf&tabid=204&mid=1906 AWBC December 2009 report

<http://theland.farmonline.com.au/news/nationalrural/viticulture/general/rip-out-vines-wine-industry-told/1718843.aspx> Industry leaders advocate reduction in wine grape area.

<http://sj.farmonline.com.au/news/nationalrural/viticulture/general/orlando-makes-32m-writeoff-as-grapes-turn-sour/1719764.aspx> Article highlights difficult international market and resulting write offs and losses to the vintners.

<http://theland.farmonline.com.au/news/nationalrural/viticulture/general/casella-adds-voice-to-call-for-cull-of-vineyards/1722796.aspx> Another industry leader advocates vine removal.

http://www.weeklytimesnow.com.au/article/2010/02/10/156861_horticulture.html

A description of the localized effect that the Australian and worldwide wine glut is having on vintners and growers.

<http://www.wgga.com.au/industry/ES09/WRAA%20Supporting%20101109.pdf> The Wine Industry Restructuring Plan

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: <http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS1006	Livestock and Products Semi-annual 2010	03/01/10
AS1005	Government announces Ag Research Initiative to Increase Productivity & Cut Carbon Emissions by 50 percent	02/18/10
AS1004	Australian Container exports rise	02/02/10
AS1003	Grain & Feed Lock-Up – February 2010	02/01/10
AS1001	Commercial Cultivation of GM Canola Approved in 3rd Australian State	01/27/10
AS9042	Fresh Deciduous Fruit Annual 2009	12/24/09
AS9041	Australian Emissions Trading Scheme Excludes Agriculture	11/19/09
AS9039	Citrus Annual 2009	11/09/09
AS9038	Grain & Feed Lock-Up – November 2009	10/29/09
AS9037	Dairy and Products Annual 2009	10/20/09
AS9036	Ord River Irrigation Offers Huge Potential and Ongoing Challenges	10/13/09
AS9035	Sugar Semi-Annual 2009	09/30/09
AS9033	FAIRS Export Certificate Report	09/02/09
AS9032	Livestock and Products Annual	09/01/09
AS9031	Exporter Guide	08/31/09
AS9030	U.S. Distillers Grains Promoted at Australian Grains Conference	08/18/09
AS9029	Grain and Feed Quarterly Lock-up Report	07/31/09
AS9028	FAIRS Country Report	07/27/09
AS9027	Agricultural Biotechnology Report	06/14/09
AS9025	Australia Gains Improved Access for Citrus & Mangos to China	06/17/09
AS9024	Global Biosecurity Conference to be held in Australia: Call for Abstracts	06/11/09