

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Wine Annual

2011

Approved By:

Grant Pettrie, Agricultural Counselor

Prepared By:

Grant Pettrie, Agricultural Counselor

Report Highlights:

In a major shift from years of drought to heavy rains and floods for this year's vintage, wine grape producers in eastern Australia have had to face increased costs of production and disease issues as well as world overproduction, large inventories, increased bulk wine exports, and low prices. While Australian wine production is forecast down for the 2010/11 vintage mostly because of weather related issues, the overall area of bearing vines remains high.

Commodities:

Wine

Production:

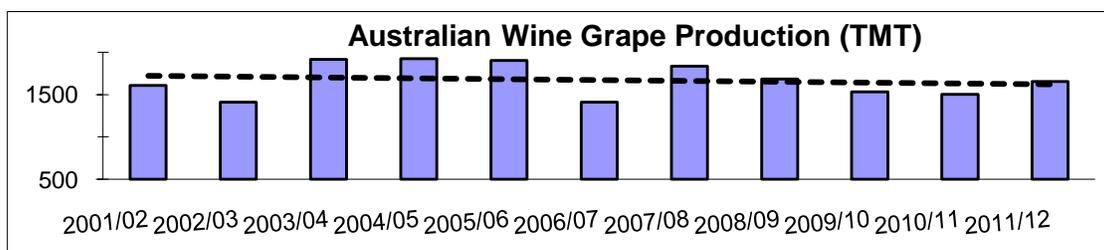
Post forecasts wine grape production for the 2010/11 vintage at 1.45 MMT, down roughly 10 percent from the previous year. As of early March, harvest is running some three to four weeks behind the pace of harvest in recent years and may only be about 25 percent complete. The eastern Australia states of New South Wales and Victoria as well as South Australia experienced the wettest spring and summer in more than thirty years. While this has been very helpful in lifting those areas out of drought for the first time in almost a decade, floods and disease issues have contributed to the forecast drop in production.

There have been widespread outbreaks of powdery mildew and bunch rot. As a result, growers have had to increase their level of spraying for disease thereby increasing costs of production at a time when prices to wine grape growers remain flat at best. In addition, some growers encountered chemical shortages to treat fungal diseases at critical times and could not enter their field with machinery for long periods because of continual rain. Wine industry groups have reported that there have been cuts to the wine grape crop in several areas including Mudgee in New South Wales and Bendigo, Victoria. While locally important, these cuts in production have been somewhat offset by larger grape size elsewhere.

Conversely, Western Australia, a major wine producing area, has experienced its most severe drought in decades. The dry weather was accompanied by frequent periods of temperatures above 95F degrees. Nonetheless, industry sources report that the size of the crop in Western Australia is about the same as in 2010. Sufficient irrigation and close attention to the water needs of the grapes accounts for keeping production up in the face of the dry weather.

So while the 2010/11 vintage is forecast to be lower than the levels of recent years, the structural capacity of Australian wine grape growers remains intact according to industry sources. They claim that only through continued vine removals will Australian wine grape production move into balance with demand.

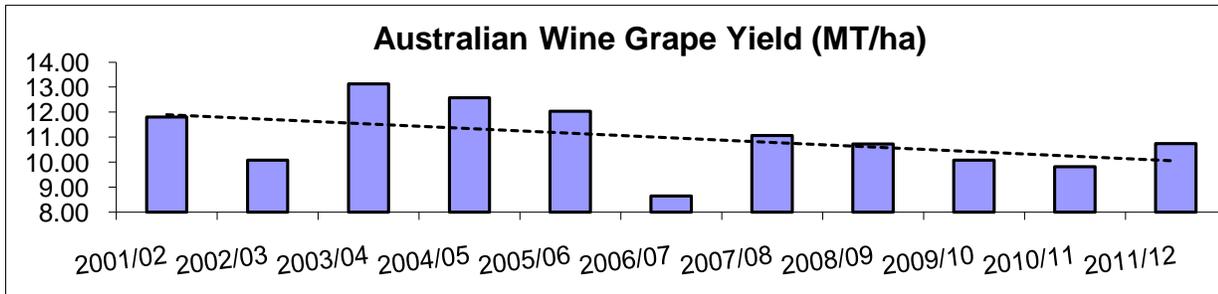
The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) forecasts a 2010/11 vintage of 1.502 MMT which would be the lowest level since 2006/07 and slightly below the 2010 harvest. ABARES forecasts an increase in 2011/12 wine grape production based on adequate water supplies, a return to more normal yields, and virtually no changes to bearing area vines.



Source: ABARE Data

With ABARES forecast of Australian total wine grape production for the 2010/11 vintage forecast of 1.5 MMT, they have wine production forecast at 10,514 thousand hectoliters (THL) using a conversion factor of 0.7. This represents a decline from the 2009/10 wine production level of 10,731 thousand hectoliters. Current ABARE reports forecast the area of grape bearing vines in 2010/11 to have stayed mostly flat at 153,000 hectares. Some industry sources believe this estimate to be too high and don't take into account area reductions because of contract

renegotiations. As noted previously, disease has also reduced the area harvested in 2010/11. ABARES forecasts yields to have declined from an estimated 10.1 tons per hectare in 2009/10 to 9.8 tons per hectare in 2010/11, mostly due to disease issues. Post concurs with ABARES' direction of a declining yield per hectare for the 2010/11 crop and that it could possibly be lowered as final harvest data become available.



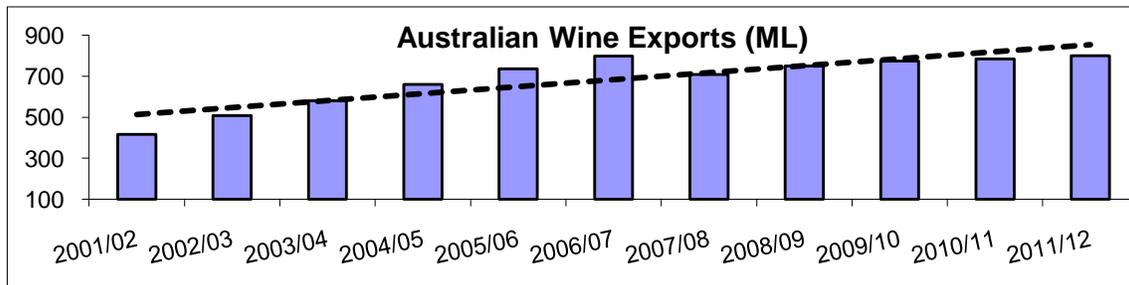
ABARE Data

Source:

Exports

Post forecasts total wine exports for the 2010/11 marketing year at 7,840 THL (784.0 million liters) in line with ABARES' forecast. If achieved, this would be the largest volume level of exports since MY 2006/07. According to Wine Australia data (formerly the Australian Wine and Brand Corporation), bulk wine exports increased from 39 percent of all wine exports in 2009 to 46 percent in CY 2010. (<http://www.wineaustralia.com/Australia/Default.aspx?tabid=204>).

The significant increase in bulk wine exports helped drive the rise in overall exports and reduce overhanging stocks. Bulk wine exports are likely to continue strong in 2010/11. 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.

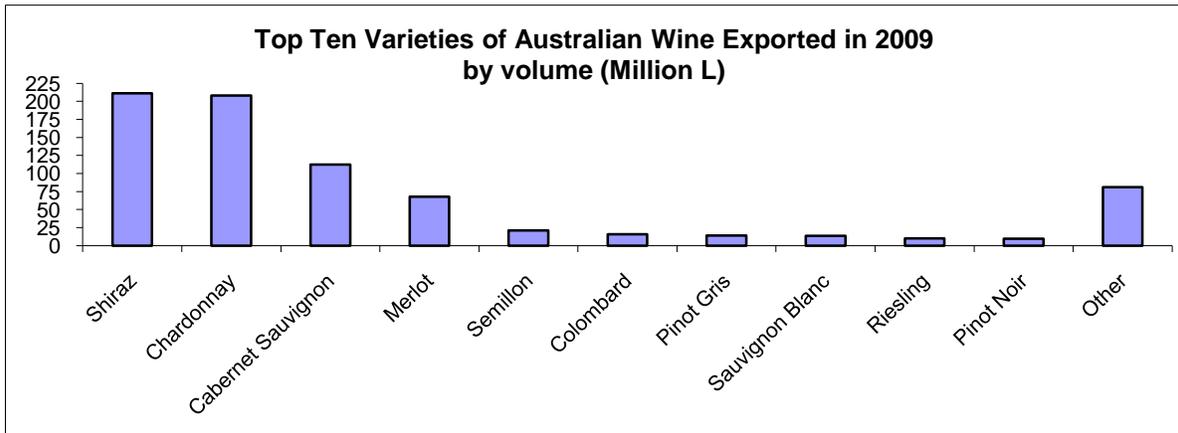


Source: ABARE Data

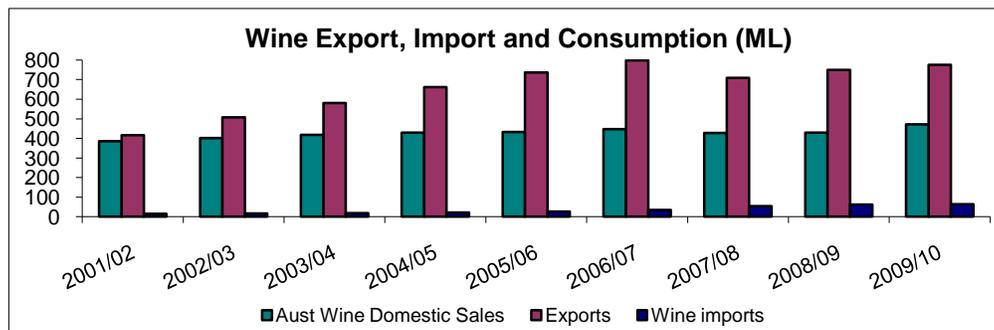
The continued strong level of bulk wine exports has been driven by several factors including the very strong Australian dollar, large Australian wine inventories, declining consumer purchasing power in key importing markets, the Global Financial Crisis, and third country competition. According to WA data, Australia's top five export markets by volume were, in order, the UK (up 4 percent to 272 million liters), the United States (down 15 percent to 206 million liters), Canada (up 19 percent to 56 million liters), China (up 36 percent to 55 million liters) and Germany (up 22 percent to 36 million liters).

A review of seasonal WA 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.

Red wines still dominate exports with a 60 percent market share in 2010 (291 million liters) while whites represented 37 percent of market exports (152 million liters).



Source: AWBC 2009



Source: ABARE Data

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). Its goal is 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. In a December 2010 report, http://wgga.com.au/news/united_grower/WGGAUnitedGrower_JanFeb2011.pdf, industry groups reiterated the need to reduce planted area and that “a combination of unrealistic expectations, non-commercial motives, and short term opportunism continues to motivate many operators to resist change.

Fundamental to the WRRRA restructuring plan is an outreach program that works with individual producers using economic modeling to demonstrate long term economic viability. 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.

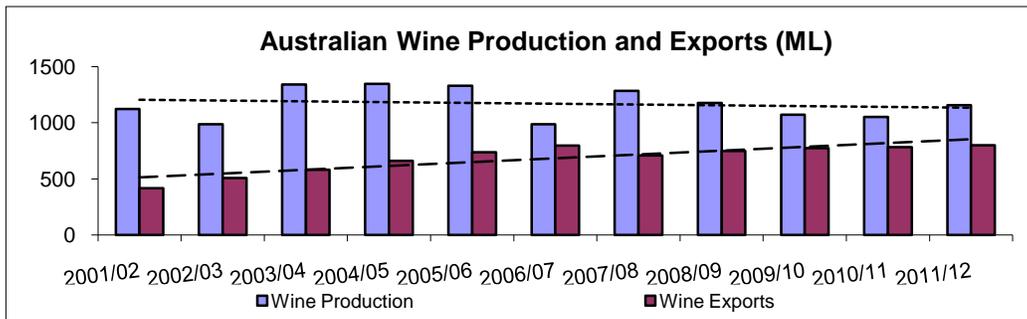
Numerous industry contacts have voiced the opinion that many larger, export oriented wineries are looking closely at their business plans and reduced their planted area in 2009. Nonetheless, within Australia, there are a large number of smaller growers that went into business in the 1990s and early 2000s, particularly in cooler climate areas. They report that even though the international market is tough, local and regional domestic sales are keeping them afloat financially. The growing "wine tourism" market in Australia combined with good cellar door sales and innovative wine club marketing different than similar efforts in the United States is keeping many of these wineries in business and as a result they are not reducing their number of planted vines. Wine tourism in Australia has expanded significantly in the past 15 years with wineries in coastal regions to the highlands.

Photos by Grant Pettrie

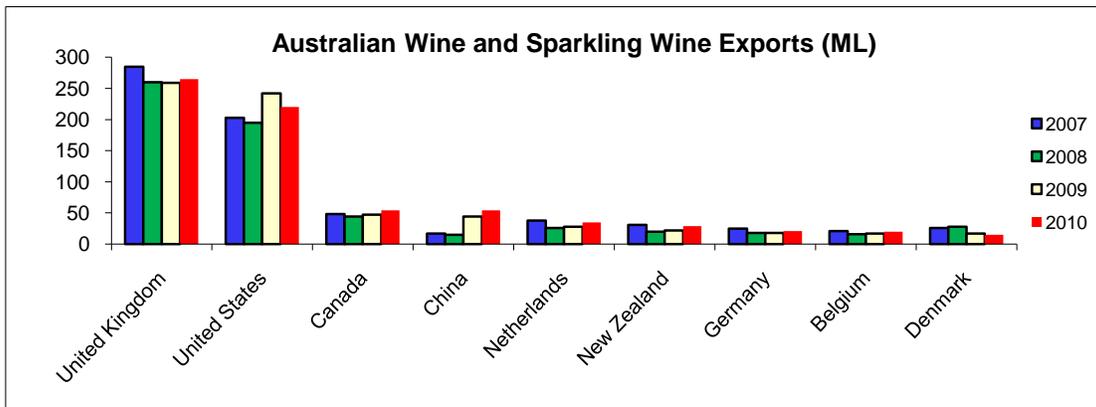


With the strong recovery in the value of the Australian dollar, against the U.S. dollar and the Euro, since March 2009, exporters are saying their margins have been cut to the bone. There has been an acceleration of restructuring of major wine Australian and international wine companies with Australian wineries in their portfolios. Several major groups have reported 2010 earnings drops of over 50 percent compared to 2009 earnings. Several of the largest international companies have sold off wineries reducing their Australian wine portfolio. Industry sources report that most Australian wine exporters have not raised their prices in the United States in order to keep market share.

The very tenuous relationship between vintners and wine grape continued in 2010/11. Prices paid to wine grape growers have been declining for several years. Over the past several years, vintners, especially many large ones, have looked to re-negotiate existing contracts and not renew 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. This situation combined with rising costs of production in an effort to control disease is covered well in a recent industry report http://wgga.com.au/news/united_grower/WGGAUnitedGrower_JanFeb2011.pdf.



Source: ABARE - Data - production in ML derived from MT using 0.7 conversion

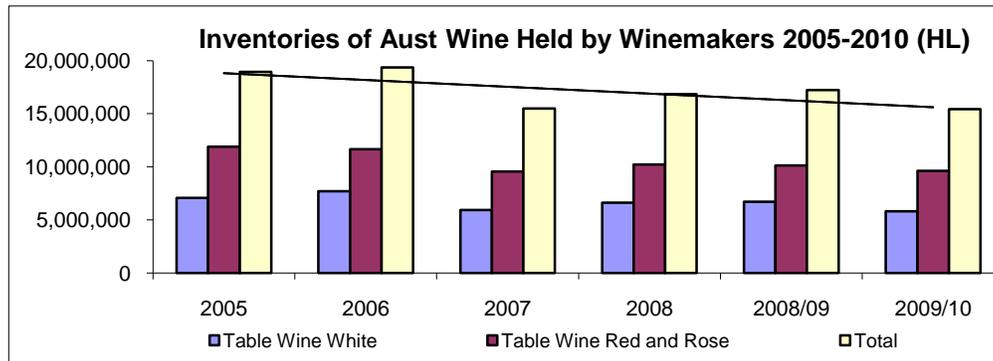


Source: WTA updated March 2011

Stocks

Most industry sources expect Australian stock levels to decline somewhat over the next 12 months as a result of lower Australian wine production and the strong volume of export levels. Industry sources are optimistic this will help reduce the large level of wine stocks overhanging the Australian market. There is however, disagreement over how much stocks will be 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.



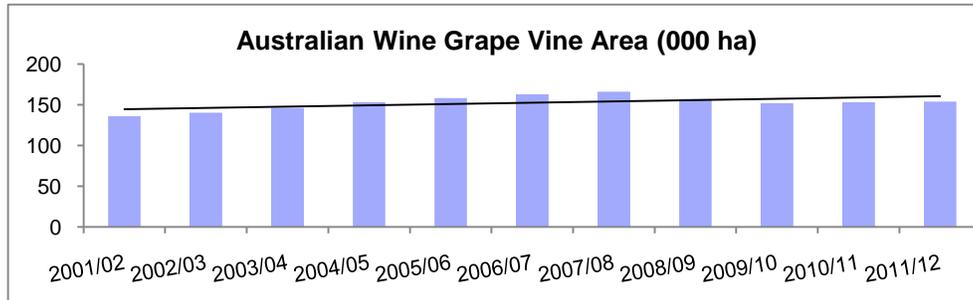
Source: ABS Australian Grape Crush & Wine Production 2010

Wine Grape Production 2010/2011

As noted earlier, industry and government sources describe wine grape growing conditions for the 2010/2011 as being substantially different than growing conditions in recent years. High precipitation caused disease related problems in the east while drought in Western Australia appeared to have little effect on total production in that state. Overall yields are forecast, at 9.8 MMT per hectare, which will be the lowest level since the hard hit drought year of 2006/07 according to ABARES' data. With the breaking of the drought in eastern Australia, water supply levels appear assured for several future growing seasons which is expected to support continued strong wine grape production in Australia.

Planted/Harvested area

For the 2010/11 growing season, Post estimates wine grape bearing area at 153,000 hectares, in line with ABARES' forecast. Estimates of bearing area vary among analysts and government offices. ABARES' estimate of wine grape area in 2008/09 was finalized at 157,000 hectares, some 14,000 hectares lower than their previous forecast a year ago. Post is comfortable with the current estimate for 209/10 and the new 2010/11 forecast believing that it takes full account of production and economic factors. Nonetheless in spite of the reduction in area over the past two years, industry experts continue to say that wine grape producers have yet to reduce planted area to the degree where it will have a major impact on long term production levels.



Source: ABARE Data



Photo by Grant Pettrie

Taxation Policies

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. The wine industry successfully fought against increases in taxes on wine in 2010. Industry sources reported that the proposed new taxes would have negatively affected 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 have sharply risen. The wine industry opposed the 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.

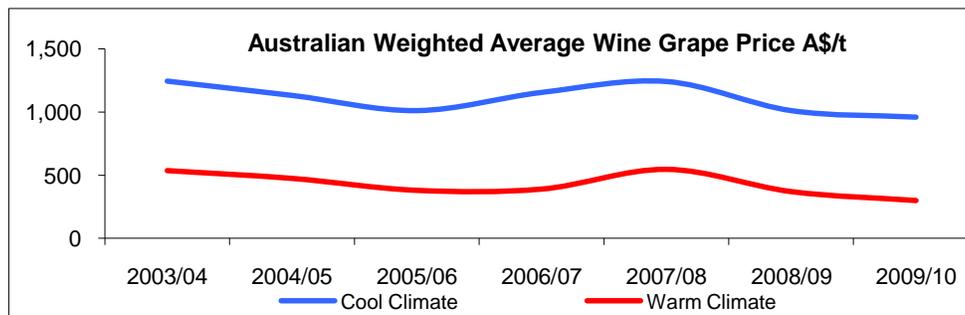
The increasing importance of China to the Australian wine industry cannot be understated. Only a marginal export destination for Australian wines as recently as 2008, it is now the fourth largest market with the likelihood of surpassing Canada to move into third place in 2011. The Australian wine industry has focused increasing attention and market development money on China in 2010. For example, one major winery hosted over 600 Chinese retailers to visit the Barossa Valley. Also, the State of New South Wales has sponsored several subsidized trade missions to China.

Imports

Australia imported an estimated 68.9 million liters of wine in 2009/10, up on the 62.7 million liters estimated for 2008/09, according to Global Trade Atlas data. Post forecasts imports to grow slightly in 2009/10 to 71 million liters 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 21 percent in volume in CY 2010), principally white wines, accounted for much of the increase.

Pricing

Wine grape producers continue to express concerns regarding the low prices currently being received. ABARES forecasts that growers will receive an average price of AUS \$490 per metric ton for the 2010/11 vintage compared to AUS \$464 per metric ton in the 2009/10 vintage. ABARES has forecast wine grape prices to rise slightly in 2011/12. Falling prices have seen the total value of Australian wine production contract from the peak reached in 2002/03.



Source: ABARE Data

Related Links to Wine Reports and Articles:

<http://www.wineaustralia.com/Australia/Default.aspx?tabid=204> A more detailed review of quarterly wine exports.

http://www.rabobank.com.au/Research/Documents/Agribusiness_review/Rabobank_Agribusiness_Review_Feb11.pdf Rabobank Monthly Report.

http://www.weeklytimesnow.com.au/article/2010/12/22/274291_horticulture.html Media Report on wine grape grower concerns over wine grape prices.

<http://theland.farmonline.com.au/news/state/agribusiness-and-general/general/champing-at-wines-future-prospects/2071382.aspx> Media Report on Wine Industry Restructuring.

http://www.abare-brs.gov.au/publications_remote_content/recent-20?sq_content_src=%2BdXJsPWh0dHAlM0EIMkYIMkYxNDMuMTg4LjE3LjIwJTJGYW5yZGwIMkZEQUZGU2VydmljZSUyRmRpc3BsYXkucGhwJTNGZmlkJTNEcGVfYWJhcmVzOTkwMDE3OTAueG1sJmFsbD0x ABARES March 1, 2011 Australian Commodities Report.

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>.

Title of Report	Date
Public Attitudes Towards Agricultural Biotechnology in Australia	03/08/11
Review of Food Labeling & Policy	02/24/11
Grain & Feed Lock-Up - February 2011	01/31/11
Citrus Annual 2010	12/15/10
Ag DownUnder - Issue 7 2010	12/10/10
Winter crop harvest under way as rain continues in eastern Australia	11/30/10
Australia Moves toward Phasing Out the Use of Sow Gestation Stalls	11/24/10
Dairy and Products Annual 2010	11/23/10