

Australian Wine Grape Outlook

June 2008



Australian Government
**Grape and Wine Research and
Development Corporation**



Australian Government
**Department of Agriculture,
Fisheries and Forestry**



Overview

For the first half of this decade the wine industry has experienced difficult times due to a combination of factors:

- three large vintages,
- a stronger exchange rate

Production growth has outstripped growth in sales which has lead to stock holdings higher than industry norms.

Winemakers responded to this pressure by increasing sales of bulk wine.

This in turn has placed downward pressure on grape prices.

Overview (cont'd)

Exacerbating this was excessive planting of grapes in higher cost “cool” regions relative to what became the longer term market opportunity. Market growth has been in the commercial sectors that require (cheaper) grapes typically sourced from the warm inland areas.

There emerged a structural surplus of grapes from these areas which has seen returns for grape-growers in some of these regions below viable levels in recent years.

The effects of drought and frost lead to a 2007 crop of 1.4 million tonnes, some 500,000 tonnes less than v2006. The 2008 vintage has also been affected by restrictions on water particularly affecting Murray irrigators and is estimated to be around 1.6MT.

Overview cont'd

This has resulted in a decline in stocks of sufficient magnitude that wine sales too have started to decline.

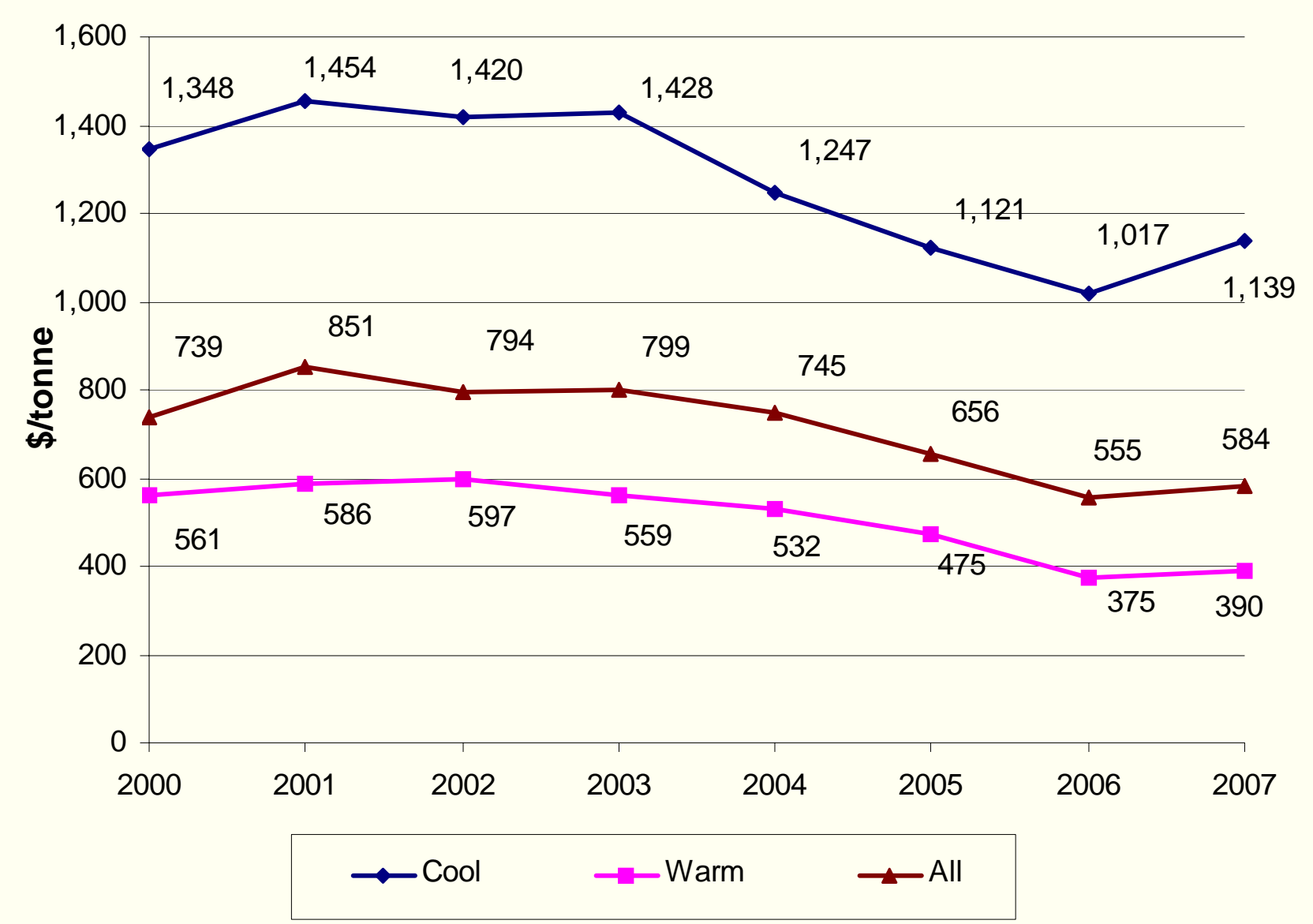
Industry faces a number of challenges and uncertainty including:

- Escalating exchange rate
- Possible US recession
- Anti-alcohol tax policies

In light of these uncertainties the questions we need to ask are

- will industry be in supply demand balance once there is a return to “normal” yields?
- What is the longer term position regarding the relativities between warm and cool regions?
- What are the signals with regard to grape variety composition?

Average Purchase Values



Current Situation

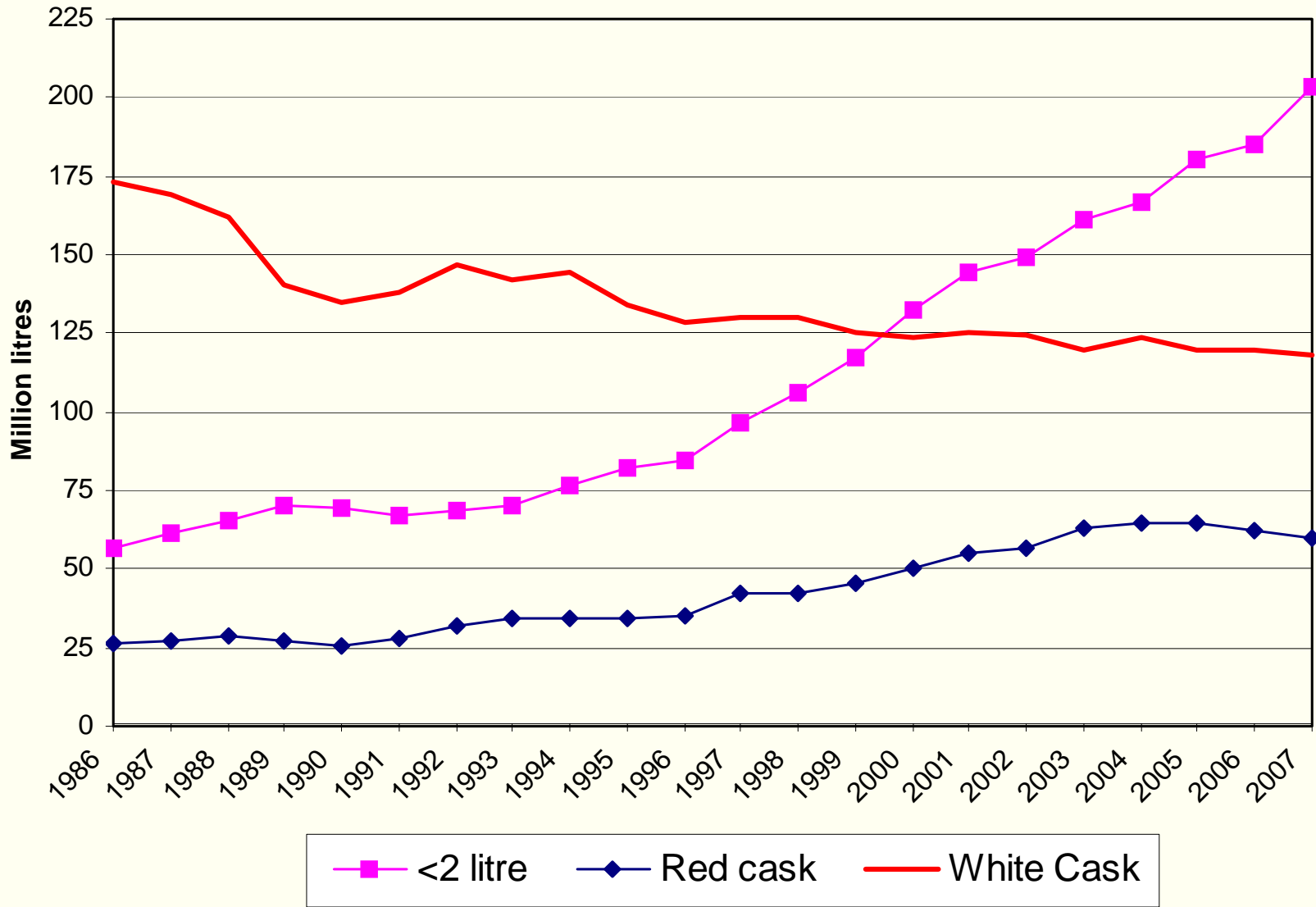
Domestic Sales (y/e June 2007)

	12 mths to June 05	12 mths to June 06	Incr	12 mths to June 07	Incr
	MI	MI		MI	%
White <2 ltr	89	93	4%	101	8%
White Soft Pack & Other	120	120	0%	118	-1%
<i>Total White Table</i>	209	213	2%	219	3%
Red <2ltr	91	92	1%	103	12%
Red Soft Pack & Other	64	62	-3%	60	-4%
<i>Total Red Table</i>	155	154	-1%	163	6%
Total Table Wine	365	367	1%	382	4%
Sparkling & Carbonated	43	44	3%	47	7%
Other	23	22	-5%	21	-5%
<i>Total Aust Domestic (A)</i>	430	432	1%	449	4%
Imports	22	24	10%	34	41%
Total Domestic Sales	452	457	1%	483	6%
<i>Exports-Total (ML) (B)</i>	670	722	8%	789	9%
Total Australian Sales (A+B)	1,100	1,154	5%	1,238	7%

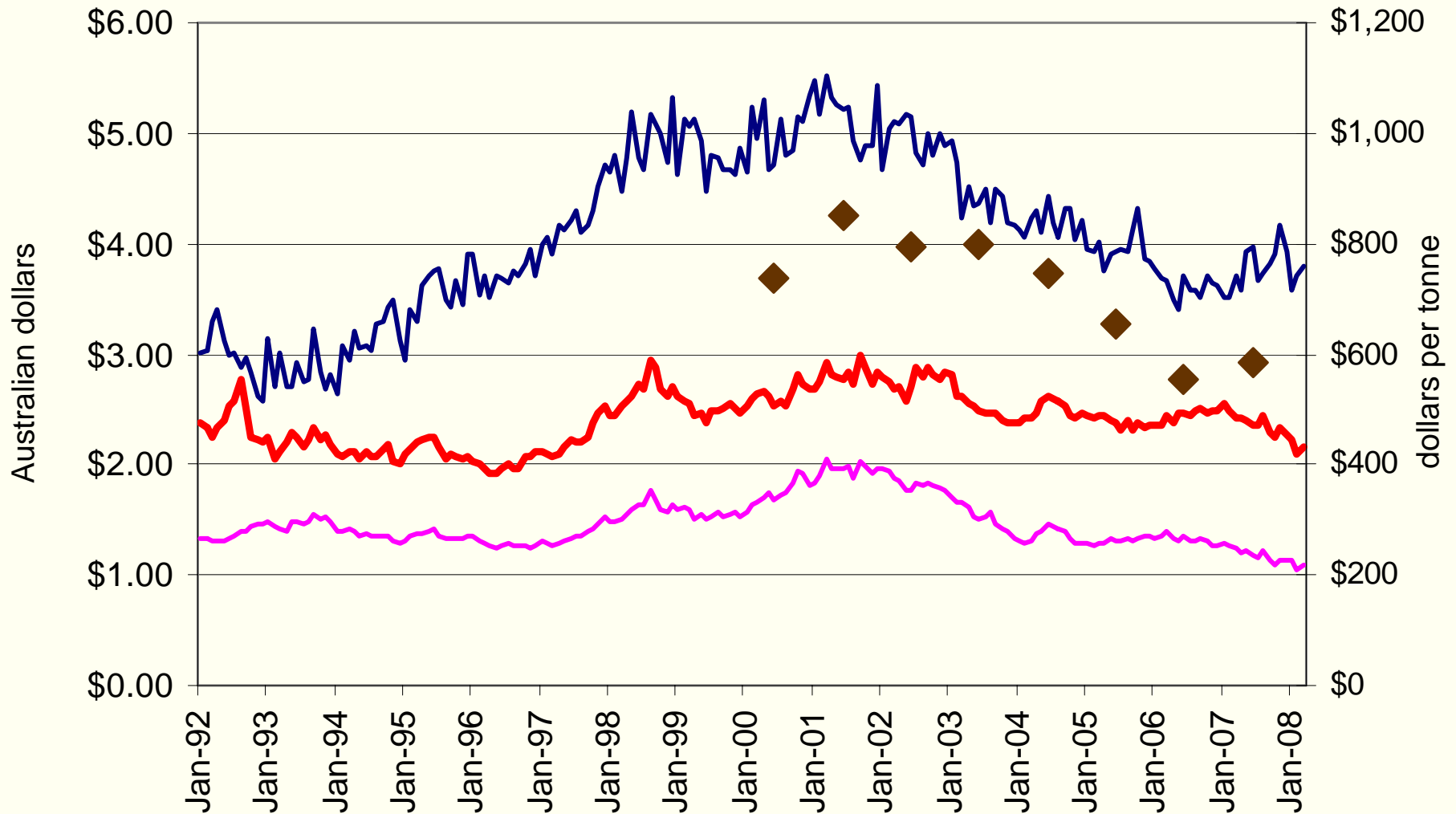
Domestic Sales (y/e March 2008)

	12 mths to Mar 06	12 mths to Mar 07	Incr	12 mths to Mar 08	Incr
	MI	MI		MI	%
White <2 ltr	92	100	9%	93	-7%
White Soft Pack & Other	119	120	0%	115	-4%
<i>Total White Table</i>	<i>211</i>	<i>220</i>	<i>4%</i>	<i>208</i>	<i>-5%</i>
Red <2ltr	93	100	7%	95	-5%
Red Soft Pack & Other	64	60	-6%	60	-1%
<i>Total Red Table</i>	<i>157</i>	<i>160</i>	<i>2%</i>	<i>154</i>	<i>-4%</i>
Total Table Wine	368	380	3%	362	-5%
Sparkling & Carbonated	44	46	5%	46	-1%
Other	22	21	-5%	21	1%
<i>Total Aust Domestic (A)</i>	434	446	3%	429	-4%
Imports	26	33	26%	47	43%
Total Domestic Sales	460	479	4%	476	-1%
<i>Exports-Total (ML) (B)</i>	705	791	12%	738	-7%
Total Australian Sales A+B)	1,139	1,238	9%	1,167	-6%

Domestic Table Wine Sales

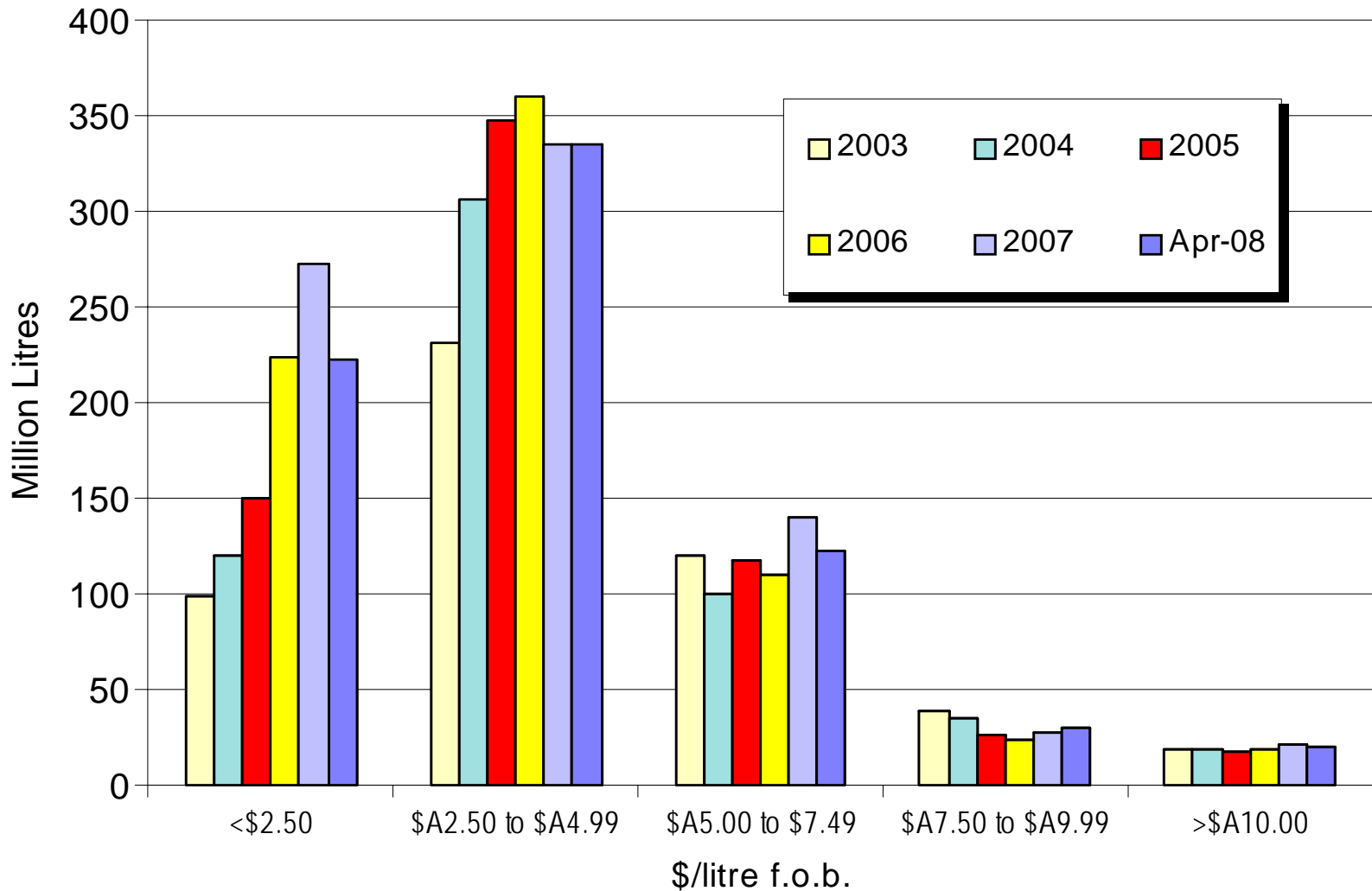


Effect of Exchange rates



— Exports \$/litre — \$1US=\$A? — stg1=\$A? —◆— grape prices

Exports by Price category



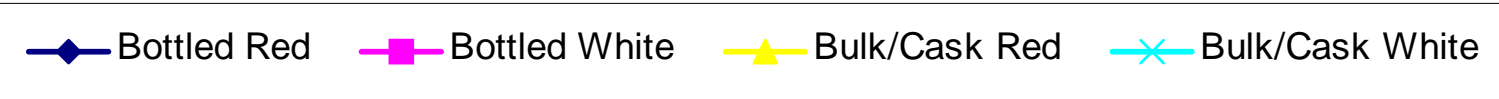
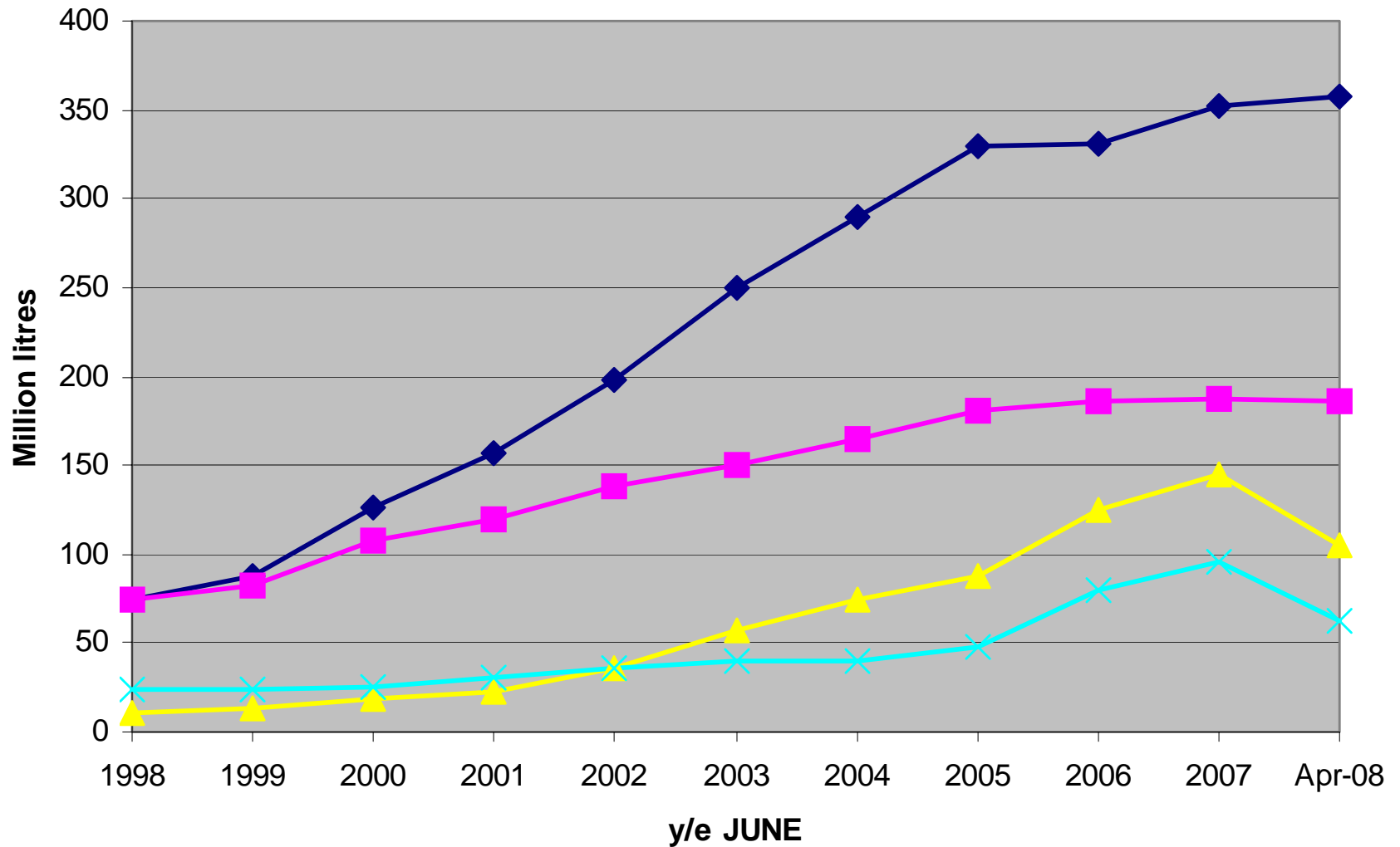
Greatest decline is under \$2.50/l from fall in bulk sales.

Exports by Price Category (ML)

	2003	2004	2005	2006	2007	Apr-08
<\$2.50/l	99	120	151	223	272	222
\$A2.50 to \$A4.99/l	231	305	348	360	335	335
\$A5.00 to \$7.49/l	120	100	118	111	140	123
\$A7.50 to \$A9.99/l	39	36	27	25	28	30
>\$A10.00/l	20	19	18	19	22	20
Total	508	581	661	738	798	730
Over \$2.50/l	409	461	510	514	525	508
% over \$2.50/l	81%	79%	77%	70%	66%	70%

Wineries largely holding onto higher value volumes.

Exports by container type



Exports by container type (ML)

	2003	2004	2005	2006	2007	Apr-08
Bottled Red	250	289	330	331	352	358
Bottled White	151	165	181	186	187	186
Bulk/Cask Red	57	75	88	125	145	104
Bulk/Cask White	40	39	48	80	96	62
Other wine	10	12	14	16	18	20
TOTAL WINE	508	581	661	738	798	730
Total bulk/cask	97	114	136	205	241	167
% Bulk/cask	20%	20%	21%	28%	31%	23%

Wineries protecting bottle sales

Supply/Demand Balance

Two issues of balance

1. In the last few years we have monitored total demand for grapes vs. supply ("Gross balance")
2. Also the supply/demand balance between cool and warm regions ("Regional balance")
3. Reduced production in 2007 lead to a reduction in stock levels as indicated in the ABS figures.
4. The response has been a reduction in sales predominantly bulk exports, thereby bringing stocks to sales ratios back to more comfortable levels.
5. Has the situation of surplus cool region fruit relative to demand that existed prior to 2007 changed as a result of the shorter 07 and anticipated 08 vintages?

Production outlook

- ABS data on plantings indicates bearing area continues to increase, but the non-bearing area is declining as a proportion so grape production should peak
- Figures used in this analysis is for a crush of 1.8MT in 2008 (new WFA), 1.8MT in 2009 and 2.0MT in 2010 (ABARE).
- The 1.4MT grapes crushed in 2007 produced 950 ML of wine. Sales in 2006-07 were 1,238 ML.
- Stocks as measured by ABS fell 385ML in the year to June 07 (there are losses inherent in the system).
- The impact on Red/White wine positions differ

Red Wine Stocks to Sales at 30 June 07

	Domestic		Exports	Total Sales	Stocks to current sales	
	<2 litre	other				
	ML	ML	ML	ML	ML	(years)
1996	266	34	35	55	123	2.2
1997	292	41	43	69	152	1.9
1998	364	47	42	86	175	2.1
1999	482	54	45	101	200	2.4
2000	587	63	51	143	257	2.3
2001	787	71	55	180	306	2.6
2002	950	74	57	230	361	2.6
2003	981	80	63	313	456	2.2
2004	1,158	83	64	365	512	2.3
2005	1,244	91	64	421	576	2.2
2006	1,270	92	62	445	600	2.1
2007	1,002	103	60	493	656	1.5
2008	954	103	60	493	656	1.5

Red Wine Stocks to Sales update

	Domestic		Exports	Total Sales	Stocks to current sales	
	<2 litre	other				
	ML	ML	ML	ML	ML	(years)
1996	266	34	35	55	123	2.2
1997	292	41	43	69	152	1.9
1998	364	47	42	86	175	2.1
1999	482	54	45	101	200	2.4
2000	587	63	51	143	257	2.3
2001	787	71	55	180	306	2.6
2002	950	74	57	230	361	2.6
2003	981	80	63	313	456	2.2
2004	1,158	83	64	365	512	2.3
2005	1,244	91	64	421	576	2.2
2006	1,270	92	62	445	600	2.1
2007	1,002	103	60	493	656	1.5
2008	1,060	99	58	453	610	1.7
2009	1,119	99	58	453	610	1.8
2010	1,230	99	58	453	610	2.0

White (inc Spklg) Stocks to Sales @ June07

	Domestic			Exports	Total Sales	Stocks to current sales (years)
	<2 litre	other				
	ML	ML	ML	ML	ML	
1996	429	81	128	72	280	1.5
1997	441	88	130	82	300	1.5
1998	454	90	130	104	324	1.4
1999	528	96	125	112	333	1.6
2000	529	102	124	139	364	1.5
2001	559	105	125	155	384	1.5
2002	604	105	124	184	414	1.5
2003	605	113	120	202	435	1.4
2004	706	119	124	216	459	1.5
2005	828	128	120	246	494	1.7
2006	897	133	120	273	525	1.7
2007	779	143	118	292	554	1.4
2008	735	143	118	292	554	1.3

White (inc Spklg) Stocks to Sales update

	Domestic			Exports	Total Sales	Stocks to current sales (years)
	<2 litre	other				
	ML	ML	ML	ML	ML	
1996	429	81	128	72	280	1.5
1997	441	88	130	82	300	1.5
1998	454	90	130	104	324	1.4
1999	528	96	125	112	333	1.6
2000	529	102	124	139	364	1.5
2001	559	105	125	155	384	1.5
2002	604	105	124	184	414	1.5
2003	605	113	120	202	435	1.4
2004	706	119	124	216	459	1.5
2005	828	128	120	246	494	1.7
2006	897	133	120	273	525	1.7
2007	779	143	118	292	554	1.4
2008	841	136	112	257	506	1.7
2009	862	136	112	257	506	1.7
2010	987	136	112	257	506	2.0

Gross balance - summary

- The 2007 vintage of 1.4MT saw both red (1.5 years) and white wine (1.4 years) stocks move to historically low levels. A cutting of sales (particularly bulk exports) indicates that these levels were below comfort levels.
- Winemakers approached the 2008 vintage with expectations of a constrained grape production.
- However a 2008 vintage higher than expectations of 1.8MT sees the white S/S ratio revert to 2006 (excessive) levels, while reds still appear below comfort levels.
- At current sales levels and forecast production, white grapes would move further into over-supply unless sales once more start to increase.
- Red grapes appear to be still moving from shortage towards balance.

Supply/Demand Outlook – sector analysis

Supply/Demand Balance All Grapes

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Total Red				
2008	884	958	-74	-8%
2009	968	999	-31	-3%
2010	1,040	1,029	11	1%
2011	996	1,035	-39	-4%
2012	1,012	1,052	-40	-4%
Total White				
2008	784	854	-70	-8%
2009	812	913	-101	-11%
2010	958	940	18	2%
2011	950	956	-6	-1%
2012	982	967	14	1%
Total Grapes				
2008	1,668	1,812	-143	-8%
2009	1,780	1,912	-133	-7%
2010	1,998	1,969	29	1%
2011	1,947	1,991	-45	-2%
2012	1,994	2,019	-25	-1%

Supply/Demand Balance White Grapes

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland White				
2008	526	612	-86	-14%
2009	552	661	-108	-16%
2010	687	679	8	1%
2011	687	692	-5	-1%
2012	710	699	12	2%
Cool White				
2008	258	242	16	7%
2009	259	252	7	3%
2010	270	260	10	4%
2011	263	264	-1	0%
2012	271	268	3	1%
Total White				
2008	784	854	-70	-8%
2009	812	913	-101	-11%
2010	958	940	18	2%
2011	950	956	-6	-1%
2012	982	967	14	1%

Supply/Demand Balance Red Grapes

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Red				
2008	416	545	-130	-24%
2009	460	578	-118	-20%
2010	533	601	-67	-11%
2011	528	606	-78	-13%
2012	539	618	-79	-13%
Cool Red				
2008	469	413	56	14%
2009	508	421	87	21%
2010	507	429	79	18%
2011	468	429	39	9%
2012	473	434	39	9%
Total Red				
2008	884	958	-74	-8%
2009	968	999	-31	-3%
2010	1,040	1,029	11	1%
2011	996	1,035	-39	-4%
2012	1,012	1,052	-40	-4%

Supply/Demand Balance Cabernet

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Cabernet				
2008	111	155	-44	-29%
2009	120	163	-43	-27%
2010	132	174	-42	-24%
2011	124	174	-50	-29%
2012	125	177	-52	-29%
Cool Cabernet				
2008	144	121	23	19%
2009	154	124	31	25%
2010	154	125	30	24%
2011	137	124	14	11%
2012	138	125	13	11%
Total				
2008	255	276	-21	-8%
2009	274	287	-13	-4%
2010	286	299	-13	-4%
2011	262	298	-36	-12%
2012	263	301	-38	-13%

Supply/Demand Balance Chardonnay

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Chardonnay				
2008	284	289	-6	-2%
2009	291	306	-15	-5%
2010	344	318	26	8%
2011	336	323	13	4%
2012	340	327	14	4%
Cool Chardonnay				
2008	129	102	27	27%
2009	127	104	24	23%
2010	133	106	27	26%
2011	123	107	16	15%
2012	124	108	15	14%
Total				
2008	413	391	22	6%
2009	419	410	9	2%
2010	477	424	53	13%
2011	459	430	29	7%
2012	464	435	29	7%

Supply/Demand Balance Colombard

	Supply (KT)	Demand (KT)	Surplus (+) or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Colombard				
2008	50	73	-23	-32%
2009	51	82	-31	-38%
2010	72	84	-12	-15%
2011	72	85	-13	-16%
2012	72	85	-13	-15%

Supply/Demand Balance Merlot

		Supply (KT)	Demand (KT)	Surplus (+) or shortfall (-)	Supply/ Demand as a % of demand
		(S)	(D)	(S) – (D)	(S)><(D)%
Inland Merlot					
	2008	58	82	-24	-29%
	2009	65	85	-20	-23%
	2010	77	84	-8	-9%
	2011	80	86	-6	-7%
	2012	84	89	-5	-6%
Cool Merlot					
	2008	56	44	12	27%
	2009	60	44	16	37%
	2010	62	44	18	40%
	2011	59	44	15	33%
	2012	59	45	14	32%
Total Merlot					
	2008	114	126	-12	-9%
	2009	125	129	-3	-3%
	2010	138	128	10	8%
	2011	139	131	8	6%
	2012	143	134	9	7%

Supply/Demand Balance Muscat Gordo

	Supply (KT)	Demand (KT)	Surplus (+) or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Muscat Gordo				
2008	40	60	-19	-32%
2009	42	63	-21	-33%
2010	62	63	-1	-1%
2011	67	66	1	2%
2012	73	67	6	9%

Supply/Demand Balance Petit Verdot

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Petit Verdot				
2008	12	13	0	-3%
2009	13	12	1	10%
2010	15	11	4	33%
2011	15	12	4	32%
2012	16	12	3	29%
Cool Petit Verdot				
2008	5	3	3	104%
2009	5	2	3	110%
2010	5	2	3	116%
2011	5	2	2	95%
2012	5	3	2	94%
Total Petit Verdot				
2008	17	15	2	15%
2009	18	14	4	28%
2010	20	14	7	48%
2011	20	14	6	43%
2012	20	15	6	40%

Supply/Demand Balance Pinot Gris

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Pinot Gris				
2008	14	20	-5	-27%
2009	19	29	-10	-34%
2010	26	32	-6	-20%
2011	20	34	-14	-41%
2012	22	34	-12	-35%
Cool Pinot Gris				
2008	6	14	-7	-54%
2009	7	17	-10	-57%
2010	8	18	-10	-55%
2011	10	19	-10	-51%
2012	12	20	-8	-42%
Total Pinot Gris				
2008	21	33	-13	-38%
2009	27	46	-20	-42%
2010	34	50	-16	-32%
2011	29	53	-24	-45%
2012	34	53	-20	-37%

Supply/Demand Balance Pinot Noir

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Pinot Noir				
2008	9	18	-9	-48%
2009	10	19	-9	-49%
2010	11	20	-9	-44%
2011	12	20	-8	-41%
2012	12	20	-8	-39%
Cool Pinot Noir				
2008	26	33	-7	-21%
2009	27	35	-7	-22%
2010	28	36	-8	-22%
2011	28	36	-8	-21%
2012	29	36	-7	-20%
Total Pinot Noir				
2008	36	51	-16	-30%
2009	37	54	-17	-31%
2010	39	56	-17	-30%
2011	40	56	-16	-28%
2012	41	56	-15	-27%

Supply/Demand Balance Riesling

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Riesling				
2008	10	12	-2	-18%
2009	10	12	-2	-20%
2010	12	12	-1	-6%
2011	12	12	-1	-7%
2012	12	12	-1	-5%
Cool Riesling				
2008	29	25	4	17%
2009	29	25	4	17%
2010	31	25	5	21%
2011	30	25	5	22%
2012	30	25	5	22%
Total Riesling				
2008	39	36	2	6%
2009	39	37	2	5%
2010	42	38	4	12%
2011	41	37	5	12%
2012	42	37	5	13%

Supply/Demand Balance Sauvignon Blanc

	Supply (KT)	Demand (KT)	Surplus (+) or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Sauv Blanc				
2008	16	31	-15	-48%
2009	17	36	-19	-52%
2010	28	38	-10	-27%
2011	31	40	-9	-23%
2012	36	41	-5	-13%
Cool Sauv Blanc				
2008	34	43	-10	-22%
2009	34	46	-12	-26%
2010	35	48	-13	-26%
2011	38	49	-11	-23%
2012	40	50	-9	-19%
Total Sauv Blanc				
2008	49	74	-25	-33%
2009	51	82	-31	-38%
2010	63	86	-23	-27%
2011	69	89	-20	-23%
2012	76	91	-15	-16%

Supply/Demand Balance Semillon

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Semillon				
2008	55	58	-3	-5%
2009	61	63	-3	-4%
2010	68	65	3	5%
2011	71	66	4	7%
2012	73	67	7	10%
Cool Semillon				
2008	33	35	-2	-6%
2009	34	36	-2	-7%
2010	34	37	-3	-7%
2011	35	38	-3	-7%
2012	37	39	-2	-5%
Total Semillon				
2008	88	94	-5	-5%
2009	94	99	-5	-5%
2010	103	102	1	1%
2011	106	104	2	2%
2012	110	105	-3	-5%

Supply/Demand Balance Shiraz

	Supply (KT)	Demand (KT)	Surplus (+)or shortfall (-)	Supply/ Demand as a % of demand
	(S)	(D)	(S) – (D)	(S)><(D)%
Inland Shiraz				
2008	183	236	-53	-22%
2009	207	255	-48	-19%
2010	244	266	-22	-8%
2011	241	270	-30	-11%
2012	245	277	-32	-12%
Cool Shiraz				
2008	205	183	22	12%
2009	227	186	41	22%
2010	223	191	33	17%
2011	205	191	15	8%
2012	208	194	14	7%
Total Shiraz				
2008	388	419	-31	-7%
2009	434	441	-7	-2%
2010	467	457	11	2%
2011	446	461	-15	-3%
2012	453	470	-18	-4%

Regional imbalance - summary

- The supply shortages that arose from the 2007 impacted on stock levels which had been above comfortable levels but which then fell to below comfortable levels.
- There was been a reduction of sales mainly of lower value bulk wine for exports.
- A 2008 vintage of 1.8MT delivers a sharp upward correction for stocks with white stocks ratio reverting to pre-2007 levels – above comfort levels - while red wine stocks appear to remain below comfort levels.
- The imbalance between warm and cool regions leading into 2008 is less evident than in previous years, however the higher than expected 2008 vintage may see winemaker demand moderate. Chardonnay appears to be the main problem variety.

New 2008 Crush Estimate

	2006-07	ABARE 2008	WFA 2008	Revision	Inc from 07
Cabernet	186	255	254	0%	37%
Merlot	95	114	129	14%	36%
Petit Verdot	15	17	24	37%	56%
Pinot Noir	28	36	47	32%	68%
Ruby Cabernet	15	16	15	-6%	0%
Shiraz	286	388	436	12%	52%
Other red	48	59	59	0%	22%
Total Red	674	884	964	9%	43%
Chardonnay	381	413	444	8%	17%
Colombard	57	51	62	22%	8%
Pinot Gris	14	21	30	43%	112%
Riesling	32	39	37	-4%	15%
Sauv Blanc	40	49	66	34%	67%
Semillon	77	88	99	12%	29%
Verdelho	15	17	21	23%	42%
Multipurpose	65	58	50	-14%	-23%
Other White	42	48	55	13%	29%
Total White	723	784	864	10%	19%
total	1,397	1,668	1,828	10%	31%

California growers wrestle with need to plant - shortage of California grapes looms, but costs may be prohibitive

- Increasing anecdotal and numeric evidence for selective shortages of grapes
- Non-bearing at 5% below sustainability
- Merlot and Syrah in surplus, but Pinot and Chardonnay short
- Land cost pressures, water shortages and environmental constraints make planting decisions difficult to justify, particularly family enterprises.
- California growers need to plant more grapes, however if locals don't plant there will be more imports

Australian Wine Grape Outlook

June 2008



Australian Government
**Grape and Wine Research and
Development Corporation**



Australian Government
**Department of Agriculture,
Fisheries and Forestry**



Export Sales (y/e June 2007)

	12 mths to Jun 05	12 mths to Jun 06	Incr	12 mths to Jun 07	Incr
	MI	MI		MI	%
Exports-white (ML)	234	259	11%	280	8%
Exports-red (ML)	421	445	6%	493	11%
Exports-other (ML)	15	18	16%	16	-11%
Exports-Total (ML) (B)	670	722	8%	789	9%
Exports-Total (\$B)	2.72	2.76	1%	2.89	5%
	\$ 4.05	\$ 3.82	-6%	\$ 3.66	-4%

Export Sales (y/e March 2008)

	12 mths to Mar 06	12 mths to Mar 07	Incr	12 mths to Mar 08	Incr
	MI	MI		MI	%
Exports-white (ML)	256	279	9%	250	-10%
Exports-red (ML)	432	496	15%	468	-6%
Exports-other (ML)	17	16	-1%	19	17%
Exports-Total (ML) (B)	705	791	12%	738	-7%
Exports-Total (\$B)	2.753	2.838	3%	2.815	-1%
	\$ 3.91	\$ 3.59	-8%	\$ 3.82	6%