



Australian Government

Australian Wine and Brandy Corporation



Murray Valley Winegrowers' Inc What's Going on?

June 2009

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National industry organisations ...

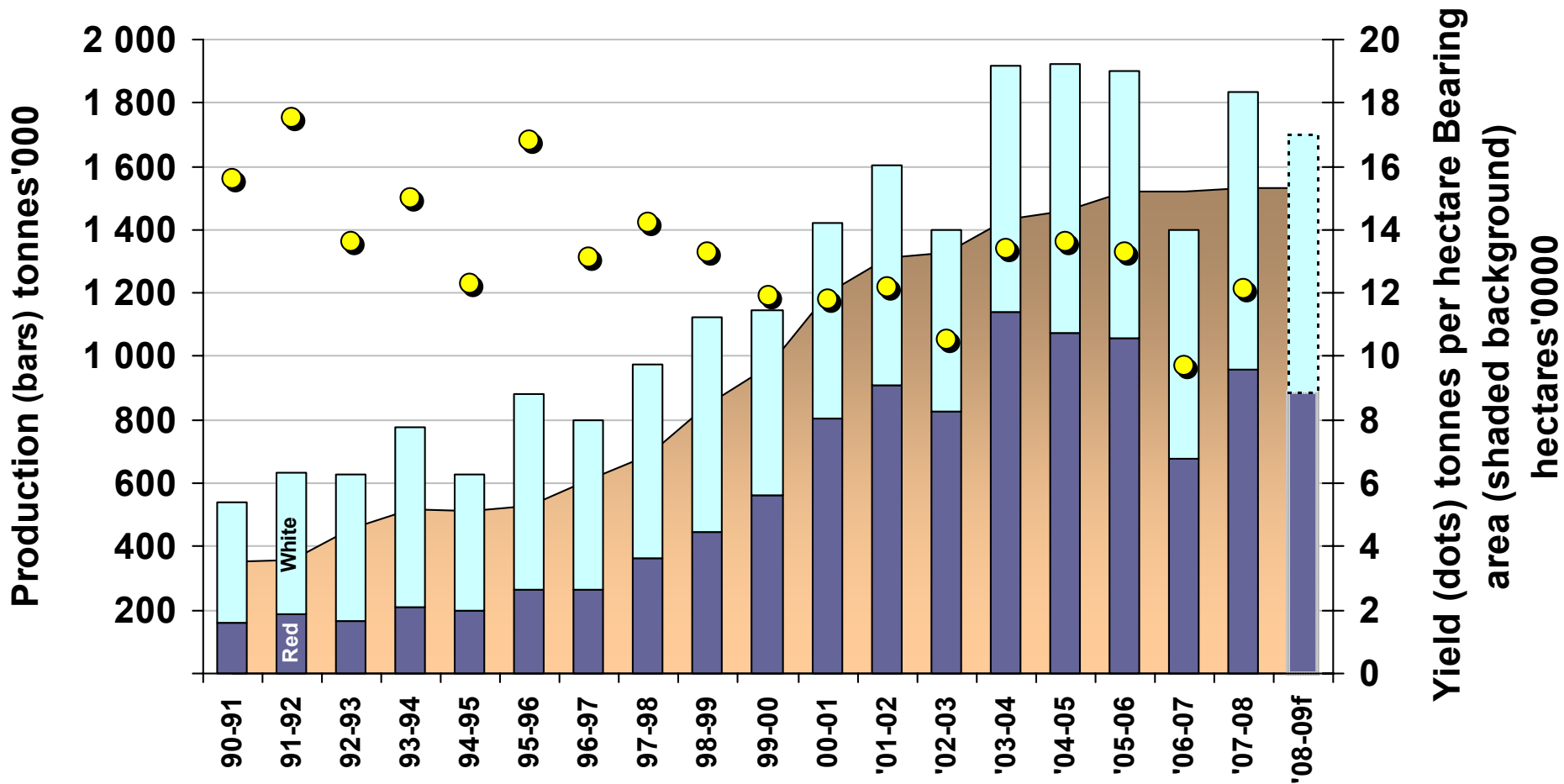
- Winemakers' Federation of Australia
 - *winemakers advocacy group*
- Wine Grape Growers Australia
 - *independent grape growers advocacy group*
- Australian Wine and Brandy Corporation
 - statutory, industry services body
- Grape & Wine Research & Development Corp
 - *manager of industry research funds*

1. Production trends
2. Sales trends and influences
3. Oversupply? Where? How much?
4. Planting trends (for the brave)

Sales trends in 2007, 2008 and so far in 2009, largely reflect the following sequence of events -

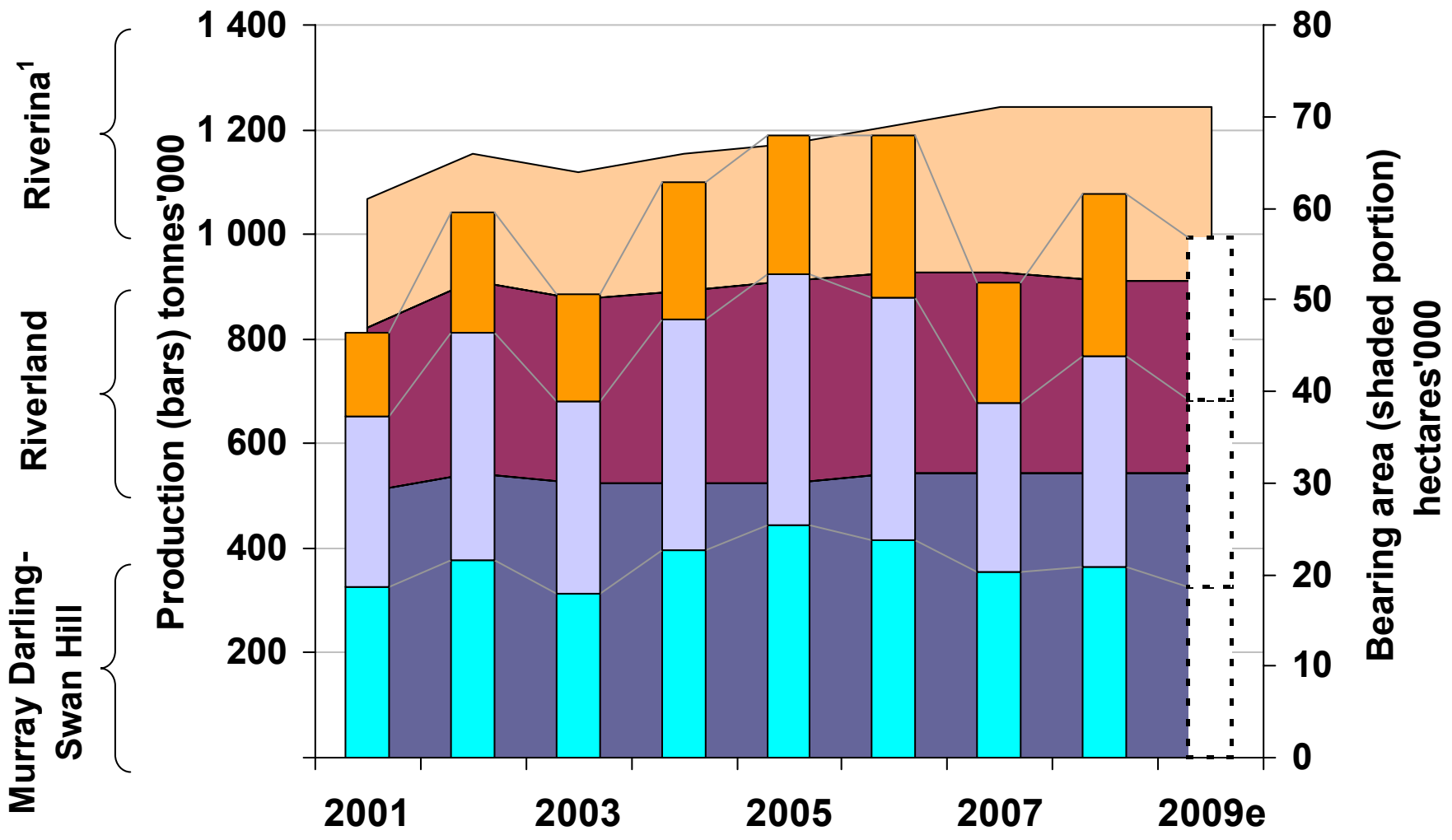
1. A low 2007 harvest, followed by
2. a higher-than-expected 2008 harvest, combined with
3. downward impetus from a strong AUD during the early to mid-stages of 2008, and then
4. the global economic meltdown commencing in the latter stages of 2008.
5. Harvest 2009 again appears to be a harvest that's bigger than required.

Harvests 2004 to 2006 were three above-average seasons in a row, 2007 a 30-year low in yields per hectare, 2008 should have been less than 2007. 2009 also bigger than desirable?



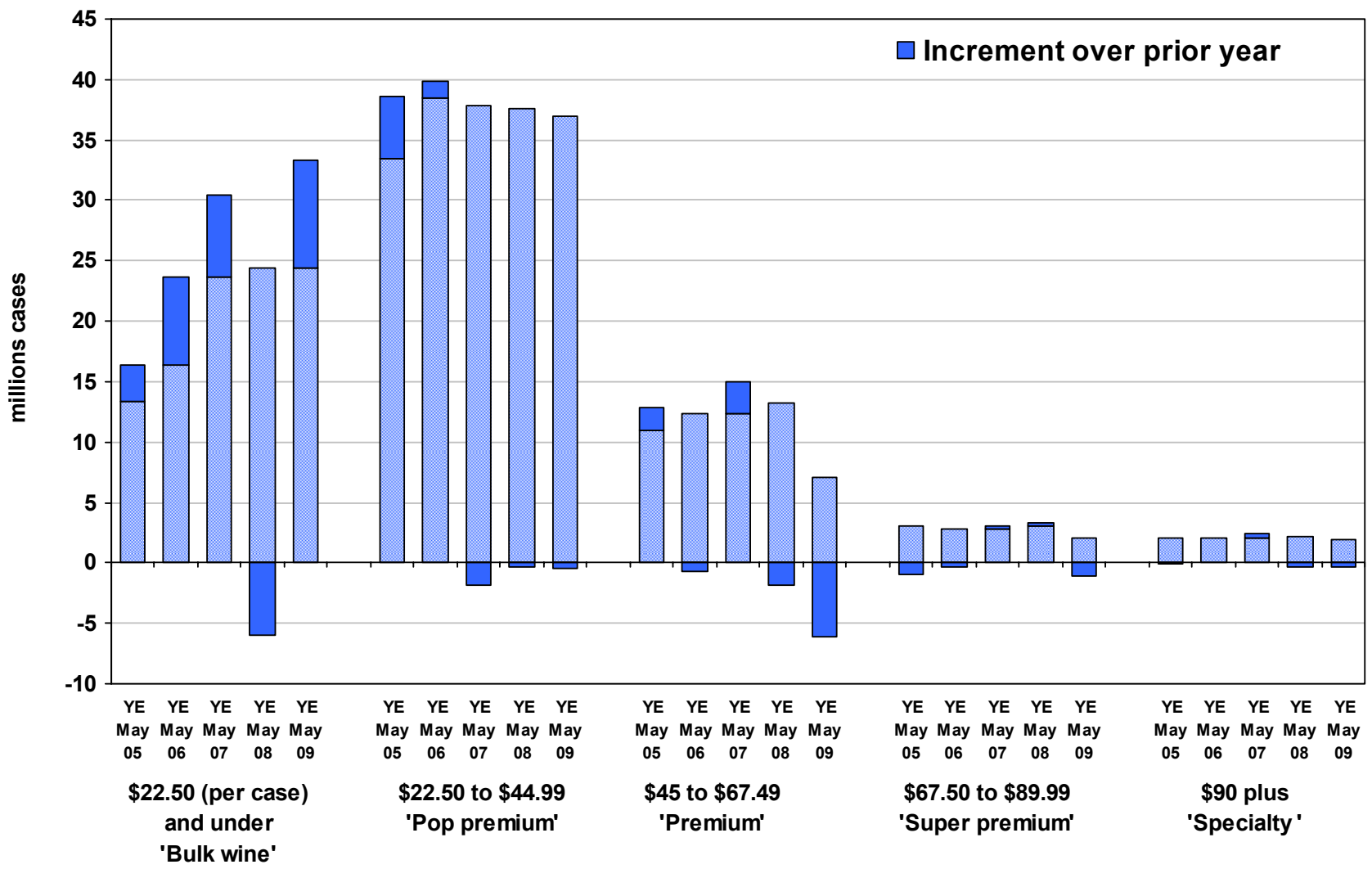
Note: The bars represent the tonnages crushed while yields from 2004-05 onwards include grapes left on the vine and dropped at harvest.

MD-SH and Riverland bearing areas contract slightly while Riverina expands (off a smaller base). 2008 a near-normal harvest?



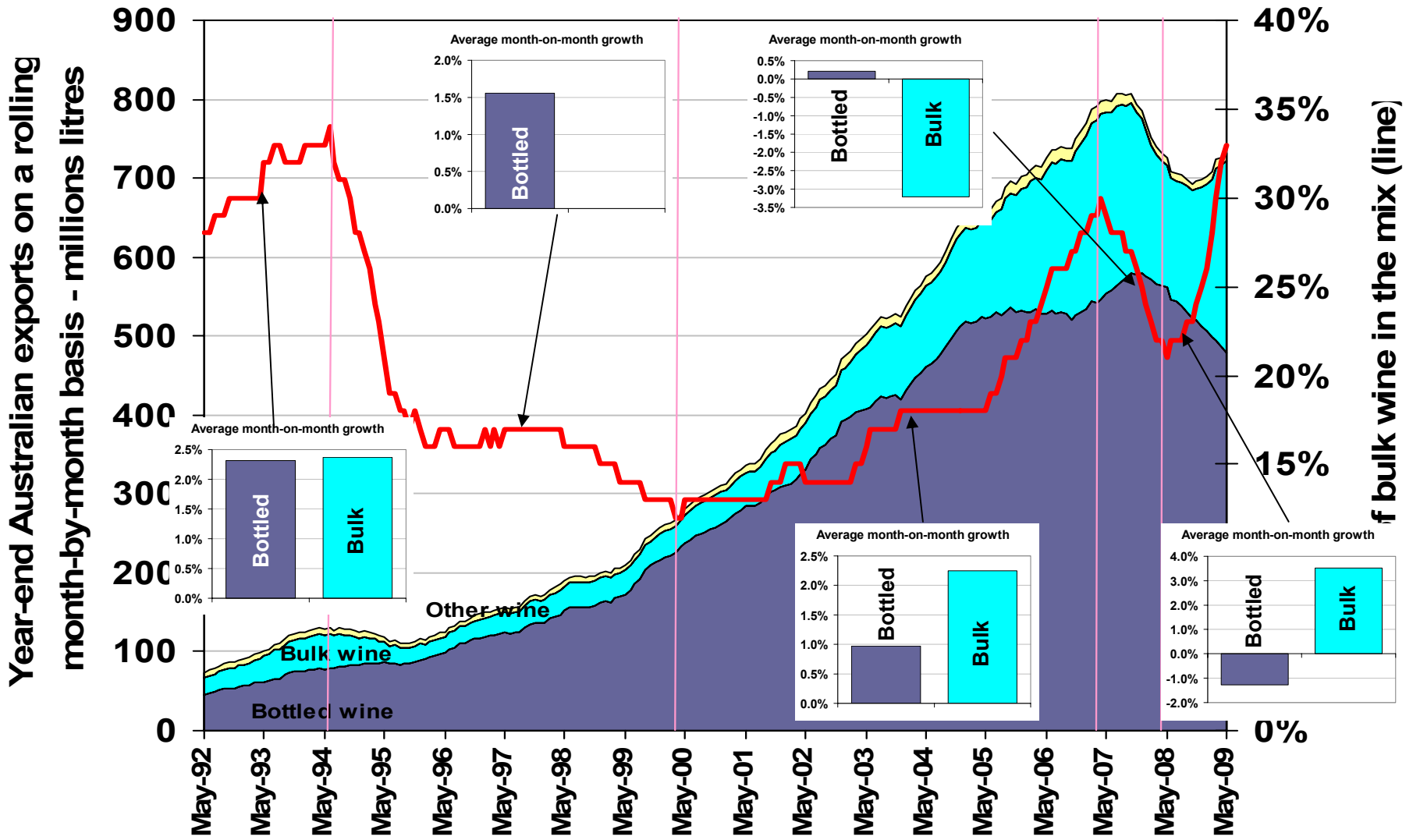
Sources: Vineyard Survey (area), Australian Regional Winegrape Crush Survey (tonnes) Notes: 1. Riverina includes Pericoota, 2009 crush an estimate, 2009 area assumed to be the same as year before

Current export performances shows a softening in higher-priced wine and a revival of lower price-point shipments. Consumers are heading to lower price points and bottling Aus wine overseas is boosting the bulk category.



Source: AWBC Export Approval Database Note: Prices are FOB shipment values per case. Labels on price points are terms of convenience only

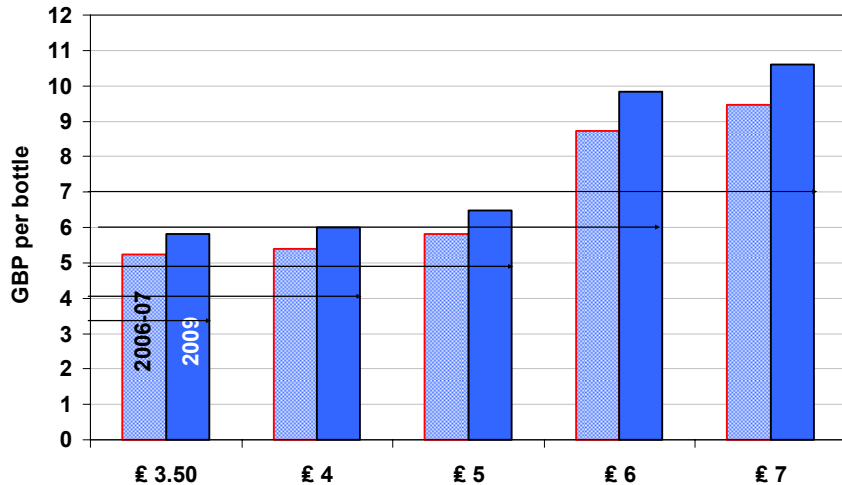
Some history and reflections on oversupply - tying it all together...



Source: AWBC Export Approval Database

While consumers head to lower price points, Aus is having difficulty accessing the same price points. Taxes and retail dominance make key UK price splits hard to approach, US price points are easier (subject to ER) ...

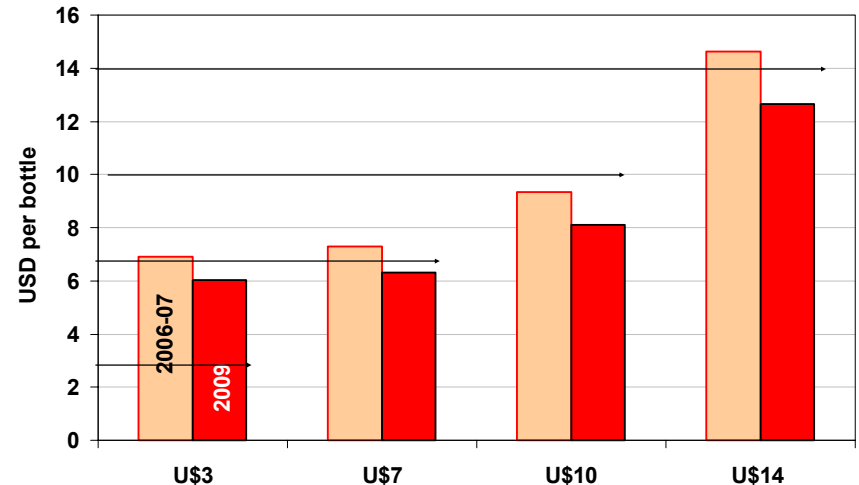
UNITED KINGDOM



Margins available for given shelf price target and producer size

Producer size	Majors	Large	Medium	Small	Micro
2006-07					
under £3.50 per bottle	14%				
under £4 per bottle	33%	11%			
under £5 per bottle	38%	15%			
under £6 per bottle	29%	12%			
under £7 per bottle	21%	7%			
2009					
under £3.50 per bottle					
under £4 per bottle	10%				
under £5 per bottle	16%				
under £6 per bottle	11%				
under £7 per bottle	13%				

UNITED STATES



Margins available for given shelf price target and producer size

Producer size	Majors	Large	Medium	Small	Micro
2006-07					
under U\$3 per bottle					
U\$3-7 per bottle	47%	25%			
U\$7-10 per bottle	50%	39%			
U\$10-14 per bottle	47%	36%	17%		
2009					
under U\$3 per bottle					
U\$3-7 per bottle	50%	37%			
U\$7-10 per bottle	50%	47%	8%		
U\$10-14 per bottle	50%	46%	29%	13%	

Mrs Annie - Smovshée Albersen 't



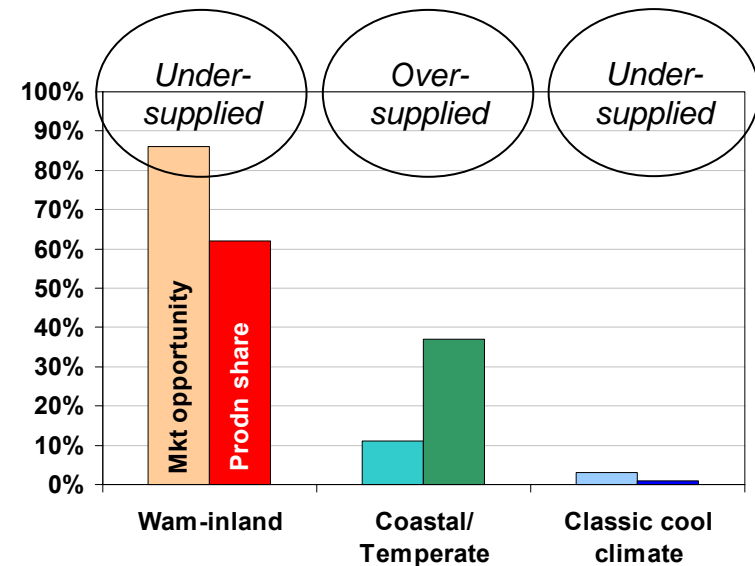
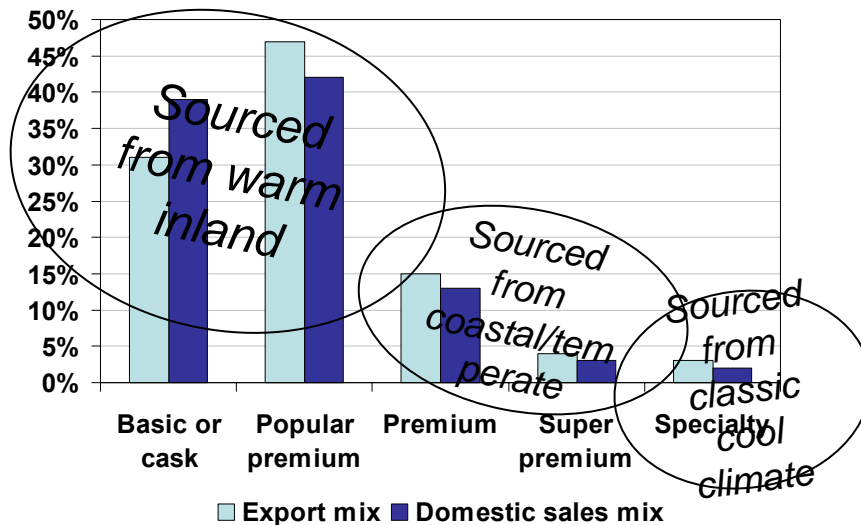
‘Oversupply’ is different in different regions but everyone shares the problem – coastal-temperate fruit is just plain old over-produced while the market for Australia’s warm-inland fruit is contracting, leaving oversupply.

MARKET OPPORTUNITY

There is a 80:17:3 split in the market for warm: coastal-temperate:classic cool climate production based on sales

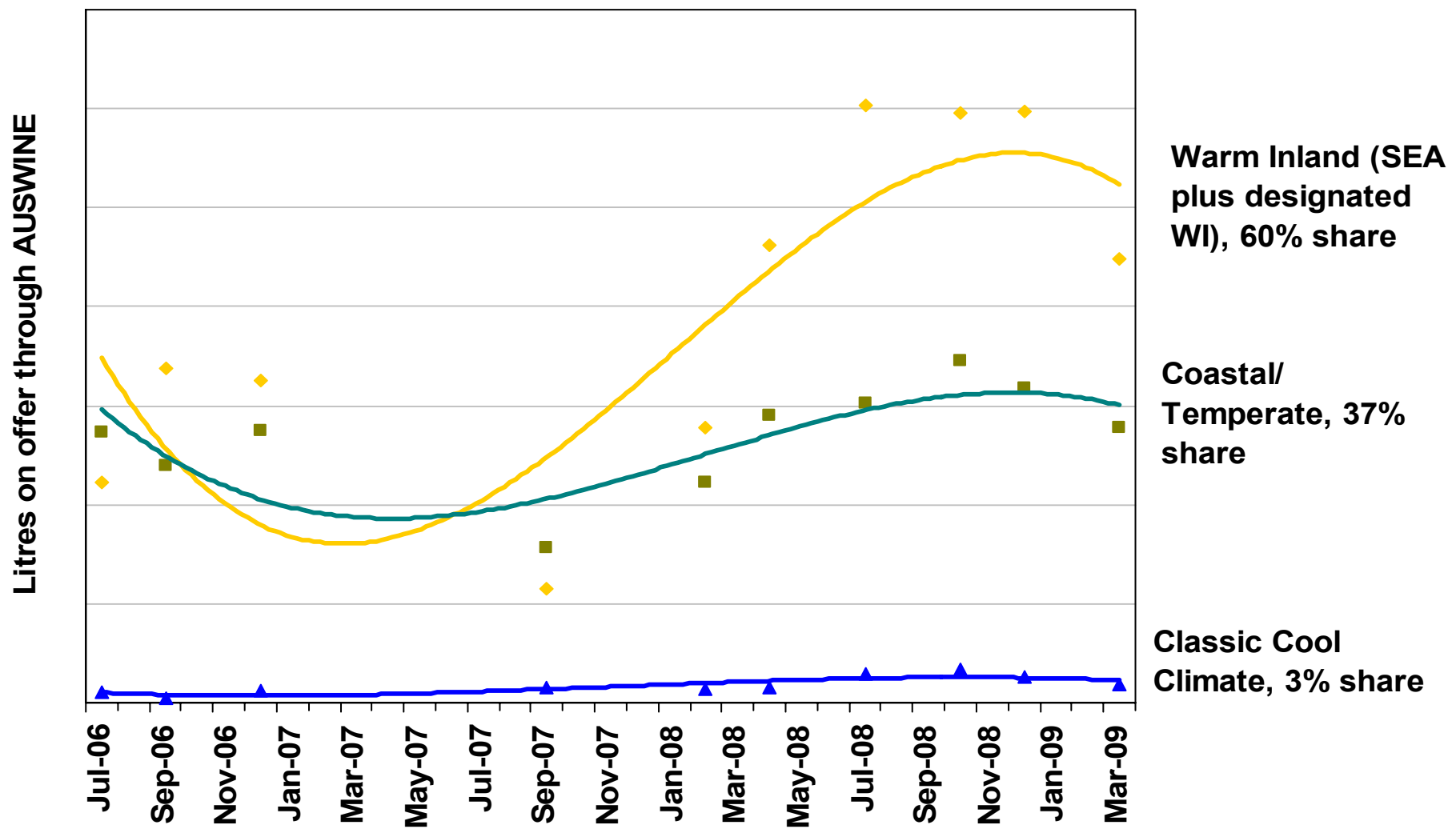
THE MARKET vs SUPPLY

The market at 80:17:3 lines up against a supply base of 62:37:1



Note: **Warm Inland** is the Riverland, Murray-Darling/Swan Hill and Riverina - **Classic Cool Climate** includes regions like Yarra Valley, Tasmania, Mornington Peninsula, Macedon Ranges and Adelaide Hills – **Coastal/ Temperate** are the remainder, the most prominent of which are the Barossa, McLaren Vale, Langhorne Creek, Limestone Coast.

Volumes of wine on offer through bulk wine brokers certainly suggests that all areas share the problem – the amounts on offer are in proportion to the production shares from each area.

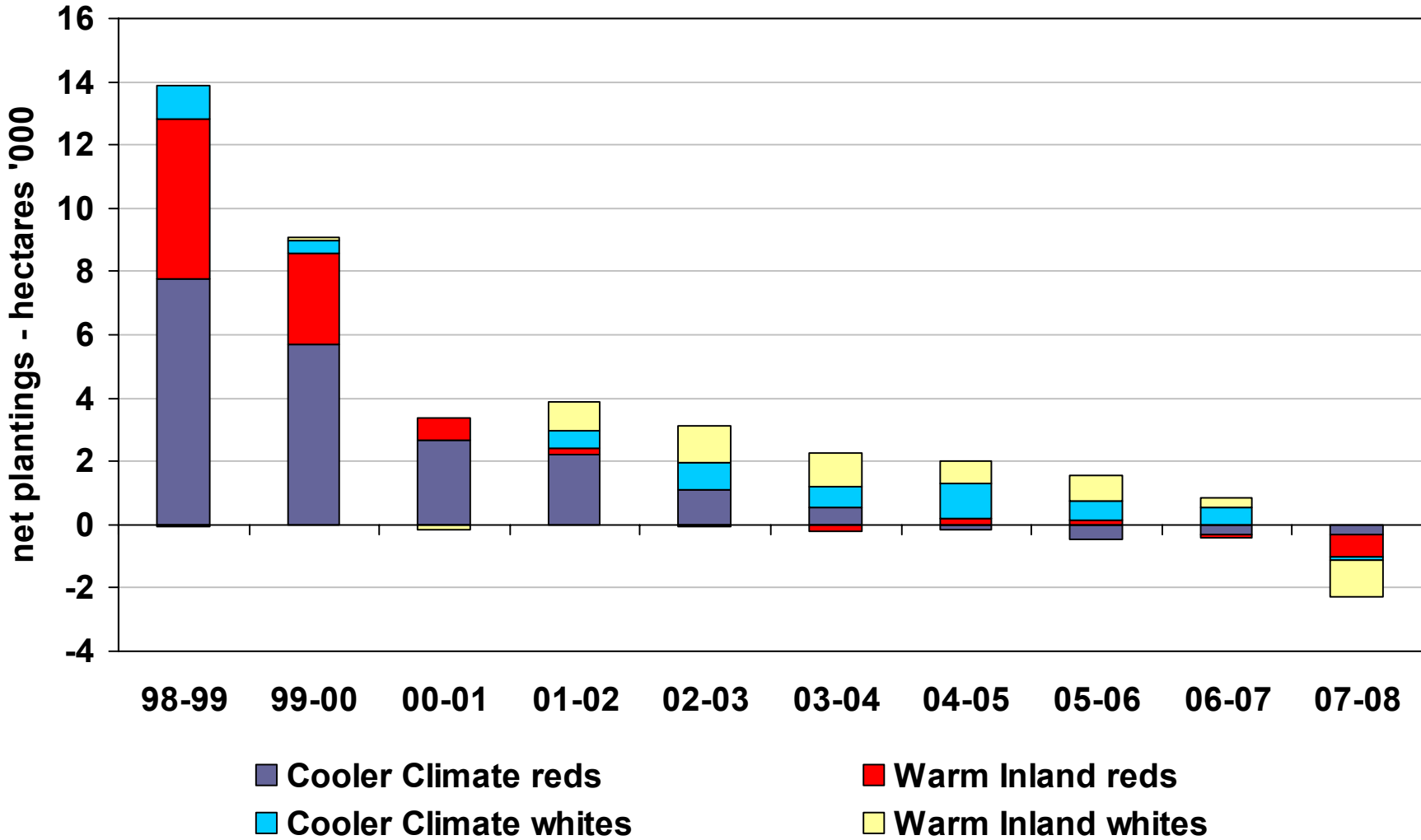


Source: AUSWINE, AWBC estimates

So how much oversupply is there? Let's look at the 'replacement of sales' method ...

	Production required to replace sustainable sales <i>tonnes'000</i>	Production <i>tonnes'000</i>	Production surplus to replacing sales <i>tonnes'000</i> %		Comment	Area equivalent of surplus production (in-year) <i>hectare'000</i>
1999-00					Balance is assumed	
2000-01	1 041	1 424	383	37%	Surpluses over requirement to replace sales – stock are therefore building-up. Note that the surplus is overstated because sales are growing. Surplus stock peaks in 2005-06.	31
2001-02	1 134	1 606	472	42%		38
2002-03	1 249	1 399	149	12%		12
2003-04	1 400	1 917	517	37%		41
2004-05	1 505	1 925	420	28%		34
2005-06	1 545	1 902	356	23%		28
2006-07	1 724	1 397	- 326	-19%	Surplus stocks are drawn down but not completely (not even by half)	- 26
2007-08	1 658	1 831	172	10%	Surplus stocks grow again - but not to the 2005-06 peak.	14
2008-09est	1 656	1 700	44	3%	Surplus stocks are grow again	4
Average						19

The response? Net removal of vines started to bite in Spring 2007 with warm-inland removals dominating – particularly whites ...



Source: Vineyard Survey

Net planting in 2007 points to the lighter styles (but not Merlot) being 'in' – cool climate Shiraz is 'in' but all else is 'out' (particularly Chardonnay and Cabernet Sauvignon) ...

	2007 vineyard activity ¹		
	Warm	Cool	Total
1. Planting and removal data from the national Vineyard Survey			
Sauvignon Blanc	152	171	323
Pinot Gris	92	88	180
Pinot Noir	45	29	74
Riesling	- 47	- 28	- 74
Semillon	- 16	- 64	- 81
Colombard	- 90	- 2	- 91
Ruby Cabernet	- 97	- 4	- 100
Shiraz	- 189	79	- 110
Merlot	- 9	- 130	- 139
Muscat Gordo Blanco	- 166	- 1	- 167
Cabernet Sauvignon	- 173	- 220	- 392
Chardonnay	- 241	- 215	- 456

Interest in cuttings confirms the 'in' status of Shiraz and Sauvignon Blanc (although slowing) while Cabernet continues to be confused ...

	2007 vineyard activity ¹		2008 cuttings ²	
	Warm	Cool	Share ³	Change
Sauvignon Blanc	Plant	Plant	11%	-15%
Pinot Gris	Plant	Plant	6%	34%
Pinot Noir	Plant	Replace	6%	5%
Riesling	Remove	(Replace)	2%	2%
Semillon	(Replace)	Remove	0%	-93%
Colombard	Remove	na	0%	-71%
Ruby Cabernet	Remove	na	na	na
Shiraz	Remove	Replace	20%	76%
Merlot	(Replace)	Remove	5%	93%
Muscat Gordo Blanco	Remove	na	na	na
Cabernet Sauvignon	Remove	Remove	12%	79%
Chardonnay	Remove	Remove	8%	-19%

1. 'Replace' indicates roughly similar numbers for planting and removals while 'Planting' and 'Removal' indicate the dominant activity. Unbracketted 'Replace' indicates net positive replacement activity and vice versa 2. Cuttings sales from the Riverland Vine Improvement Committee 3. Green indicates variety is in the top 15 purchases. Untabled varieties in the top 15 are: Tempranillo, Albarino, Graciano, Montepulciano, Viognier, Muscat blanc, Traminer.

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AUSTRALIAN WINE AND BRANDY CORPORATION

In sum ...

1. Supply persistence strengthens the assertion that the industry is in structural oversupply - not seasonally induced oversupply.
2. Current economic volatility is not helping but it doesn't change the story – *structural* oversupply is *enduring* oversupply and will outlast the current economic difficulties.
3. Coastal-temperate fruit is just plain old over-produced.
4. Warm-inland markets are becoming inaccessible to Australian wine.

Resources ...

	Item	Original source	Data	Location	Comment
Viticulture	Vineyard Survey	ABS	Vineyard areas and production	AWBC <i>winefacts</i> , ABS	Changes
Winegrape Crush	Regional Winegrape Crush Survey	PGIBSA	SA winegrape crush and average prices	PGIBSA	Changes
	Price Dispersion Report	AWBC	Winegrape prices by segment	AWBC <i>Levypayers area</i>	Continue, 2009
Domestic sales	Monthly Monitor	ABS	Ex-warehouse shipments	AWBC <i>winefacts</i> , ABS	Changes
	Monthly Scantrack	Nielsen	Off-trade depletions	AWBC <i>Levypayers area</i>	Continue, 2009
Exports	Wine Export Approval Report	AWBC export approvals	Wine Export Approval Report	AWBC website (excerpts) and <i>winefacts</i>	No change (?)
	On-line report-builder	AWBC export approvals	Exports by region or by variety (both for total volumes or by label claim)	AWBC <i>winefacts</i>	No change