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Viticulture

International Winegrape Cost of Production

June 2010

OVERVIEW



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Australia - Murray Valley, Riverland and Riverina

Chile - Central Valley

Argentina - Mendoza

South Africa - Breede River Valley, Klein Karoo

USA - California Central Valley

Spain - La Mancha

France - Languedoc-Roussillon

PRODUCTION DATA FROM WARM 'COMMERCIAL' AREAS



Country	Area (ha)	Tonnes (t)	Ave Yield (t/ha)	Red varieties	White varieties
Australia (Murray Valley, Riverland, Riverina)	61,122	1.08 million (09) 52% white	15-20 (R) 20-25 (W) Up to 30-35	Shiraz Cabernet Sauv. Merlot	Chardonnay Colombard M. Gordo Blanco
Chile (Central Valley)	95,631	1.3 million (09) Majority red	10-15 (R & W)	Cabernet Sauv. Merlot Carmenere	Chardonnay S.Blanc
Argentina (Mendoza)	156,822	1.6 million (08) Majority red	7-18 (R & W)	Malbec Bonarda Cabernet Sauv.	Pedro Ximenes Chardonnay
South Africa (Breede River Valley, Klein Karoo)	37,706	622,538 (09) Majority white	15-20 (R & W)	Cabernet Sauv. Shiraz Ruby Cabernet	Colombard Chardonnay Chenin Blanc
USA (California Central valley)	69,065	2 million (09) 60% red	16-20 (R & W) Up to 30-35	Zinfandel Cabernet Sauv. Rubired	Chardonnay Fr.Colombard S.Blanc
Spain (La Mancha)	529,119	2.9 million (08) 58% white	3.5 (R) 4.8 (W) Up to 12	Tempranillo Grenache Cabernet Sauv.	Airen Macebeo o Viura S.Blanc
France (Languedoc-Roussillon)	225,439	1.9 million (08) 83% red	6 (R) 8.5 (W)	Carignane Shiraz Grenache	Chardonnay S.Blanc

VITICULTURAL PRACTICE IN WARM 'COMMERCIAL' AREAS



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Irrigation:

- Majority drip irrigation in Australia, S.Africa, California, increasingly so in Spain and France where irrigation permitted
- Continue to use flood and furrow in Chile and Argentina as water abundant but modern vineyards adopting drip

Trellis:

- Two wire vertical in Australia and elsewhere a mix of VSP, bush vines, sprawl and single or multiple cordons

Mechanisation:

- High – Australia, California (Central Valley)
- Moderate - South Africa, Spain, France
- Low – Chile, Argentina

VINEYARD COSTS OF PRODUCTION



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Direct Vineyard Operating Expenses

- Labour
- Materials e.g. fertiliser, chemicals, power, fuel, repairs and maintenance
- **DOES NOT** include cost of capital, debt, water purchase, rates, taxes, general overheads, administrative costs etc

VINEYARD COSTS OF PRODUCTION



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Country	Direct Operating Cost/ha A\$	Direct Operating Cost/tonne A\$	Labour cost
Australia (Murray Valley, Riverland, Riverina)	5,750	319 (R) 250 (W)	A\$18/hr
Chile (Central Valley)	2,480	191	A\$13-18/day
Argentina (Mendoza)	2,354	174	A\$21/day
South Africa (Breede River Valley, Klein Karoo)	2,051 – 2,251	103-131	A\$1.48-1.63/hr
USA (California Central Valley)	5,419	339 (R) 270 (W)	A\$10-13/hr
Spain (La Mancha)	3,109	268	A\$85/day
France (Languedoc-Roussillon)	7,562	1,260 (R) 890 (W)	Unknown

VINEYARD COSTS OF PRODUCTION



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- Despite different labour costs, labour is the highest cost in most countries (40-60% of direct costs of production)
- Although labour costs are relatively low in Chile and Argentina, more activities are undertaken by hand due to ready availability of willing labour

VINEYARD INCOME AND GROSS MARGIN



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- **Gross Margin (GM)** per hectare is calculated by deducting the average Direct Operating Costs per hectare from the average Gross Income per hectare
- **GM takes no account of overhead costs**
- **Overhead costs** include debt servicing, water purchase, rates taxes, insurance, leasing and administrative costs etc

VINEYARD INCOME AND GROSS MARGIN



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Country	Ave Production t/ha	Ave Gross Income A\$/t	Ave Gross Income A\$/ha	Direct Op Costs A\$/ha	Gross Margin A\$/ha	Comments
Australia (Murray Valley, Riverland, Riverina)	18 (R) 23 (W)	381-403 314-320	6,840-7,254 7,222-7,360	5,750	1,090-1,504 1,472-1,610	Grape prices have been up to 30% lower in 2010, GM likely to be lower

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Chile (Central Valley)	13 (R) 13 (W)	342 358	4,446 4,654	2,480	1,966 2,174	

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Argentina (Mendoza)	13.5 (R) 13.5 (W)	339 219	4,577 2,957	2,354	2,223 603	

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South Africa (Breede River Valley, Klein Karoo)	16-20 (R) 16-20 (W)	515-880 472-872	8,240-17,600 7,552-14,891	2,051-2251	6,149-15,549 5,461-15,389	GM is misleadingly high – significant enterprise overhead expenses with farm worker support

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USA (California Central Valley)	16 (R) 20 (W)	254-458 283-464	4,064-7,328 5,660-9,280	5,419	-1,355-1,909 241-3,861	GM may not reflect southern Central Valley where tonnes higher, production costs maybe lower

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Spain (La Mancha)	11.6 (R) 11.6 (W)	269 247	3,120 2,865	3,109	11 -244	Two styles of viticulture. Low production per hectare and low grape prices result in minimal GM

CONCLUDING COMMENTS



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- Australia has no real advantage despite high degree of mechanisation, relatively high yields and management efficiency of large areas
- Grape pricing and yield is the main influence on financial performance of vineyards in all countries
- Poor grape pricing is contributing to major challenges for Australian, South African and Californian industries in particular
- **Note: all costs have been presented as A\$, having been converted from the currency of the relevant country, according to the exchange rate on March 9th, 2010**

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