



**Australian Government**

**Australian Wine and Brandy Corporation**



# What's Going On? Mildura June 2006

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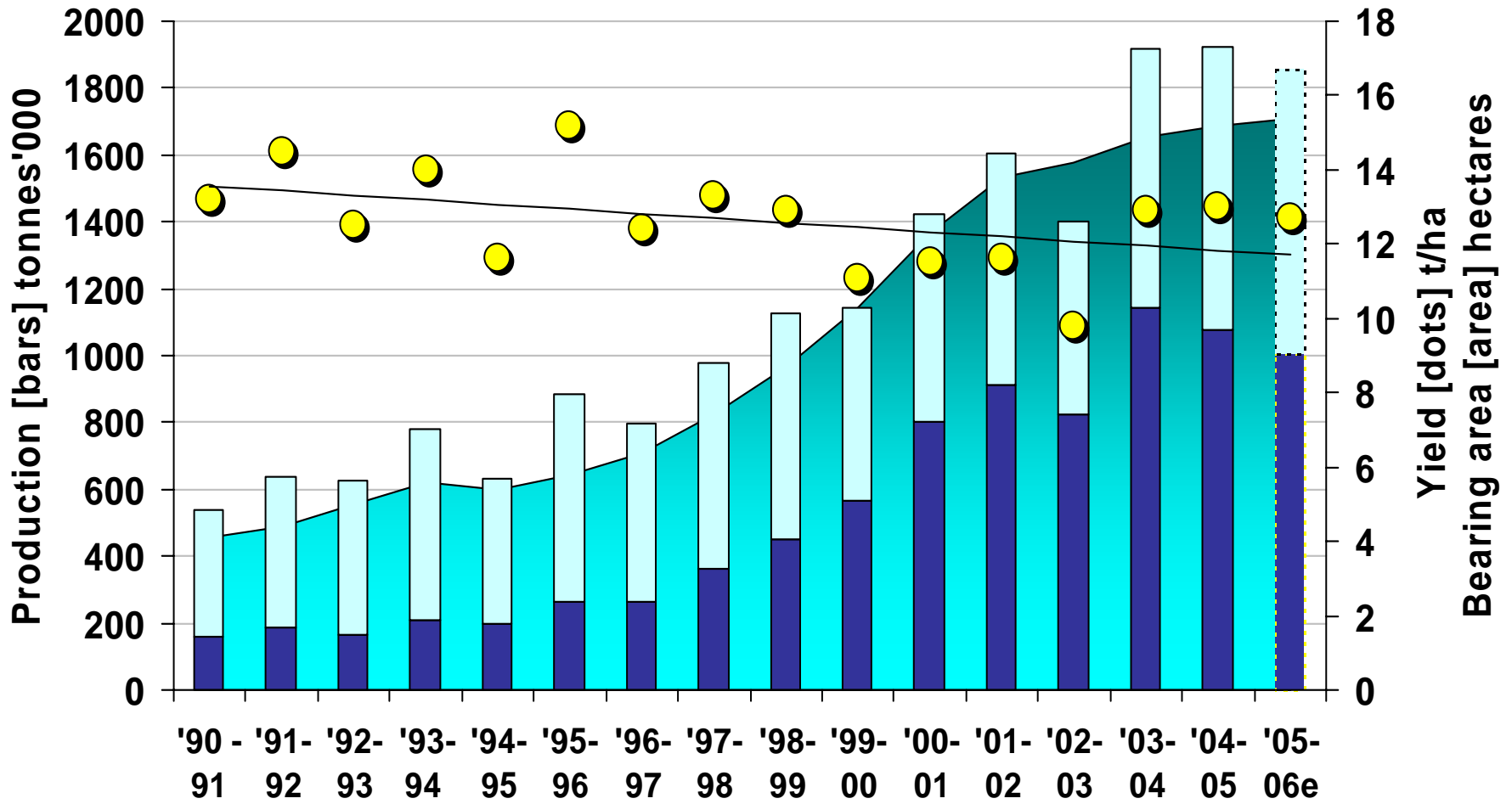
# *Australian Wine & Brandy Corporation ...*

- Compliance
  - *to protect the quality and integrity of Australian wine*
- Market development
  - *achieve category status for Australian wine*
- Knowledge development
  - *assist decision-making in the industry*

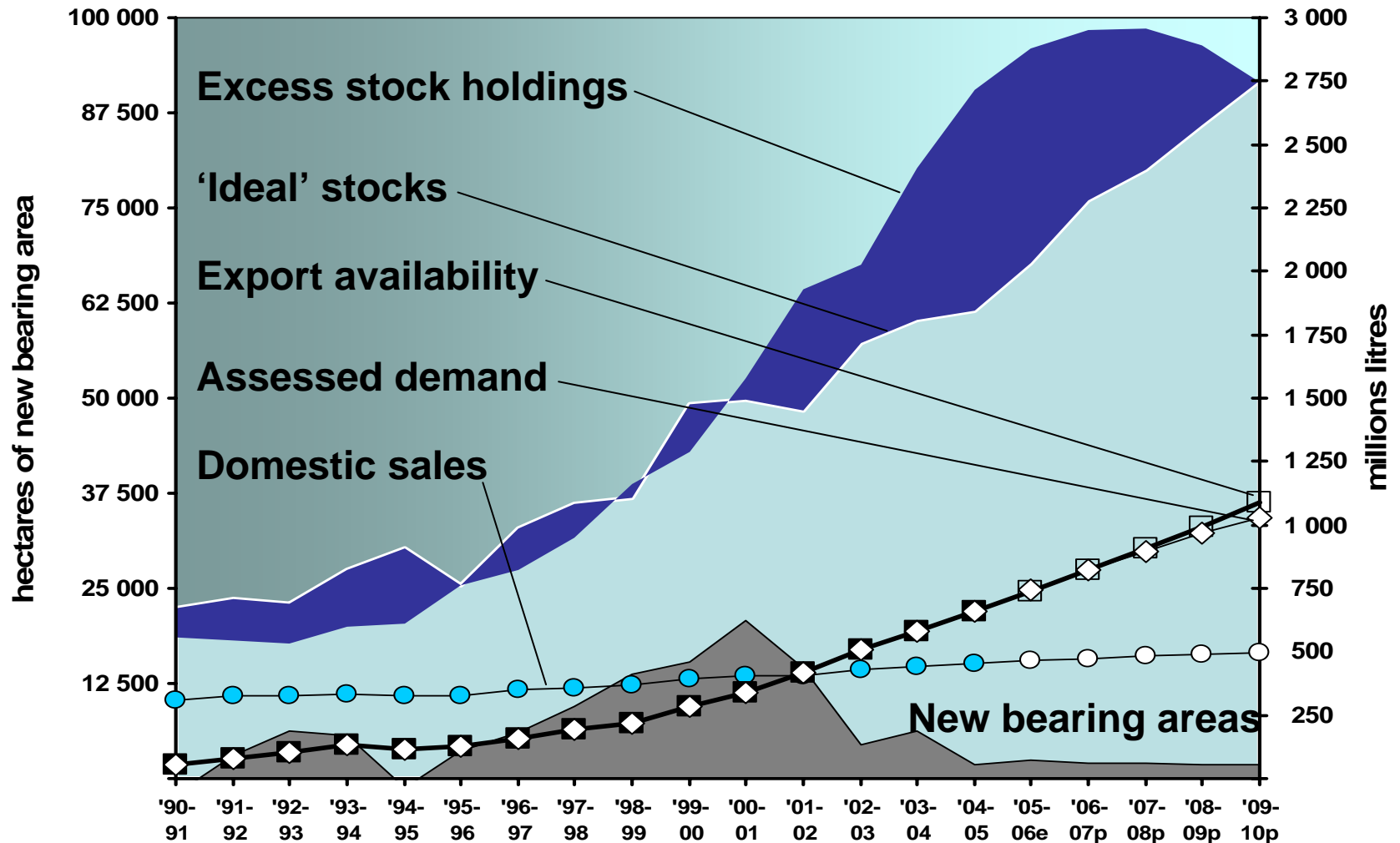
# Overview ...

- Harvest 2006 and an industry overview
- How will balance be achieved?
- Oops, what about yields?
- Market prospects

# Another big harvest in 2006, but not as big...



# An overview of industry prospects ...



NOTES: \* "Ideal" stocks are based on current desirable stocks-to-sales ratios \*\*Additional bearing areas over preceding year 'Surplus stock' is judged against in-year stock holdings and sales - estimates made against forward sales may differ. The stock-to-sales ratio determining an ideal stock holding is taken to be 1.58 with adjustments made to reflect changes in the red/white mix.

*Stocks will be drawn down if ...*

**Growth of sales**

*- is greater than -*

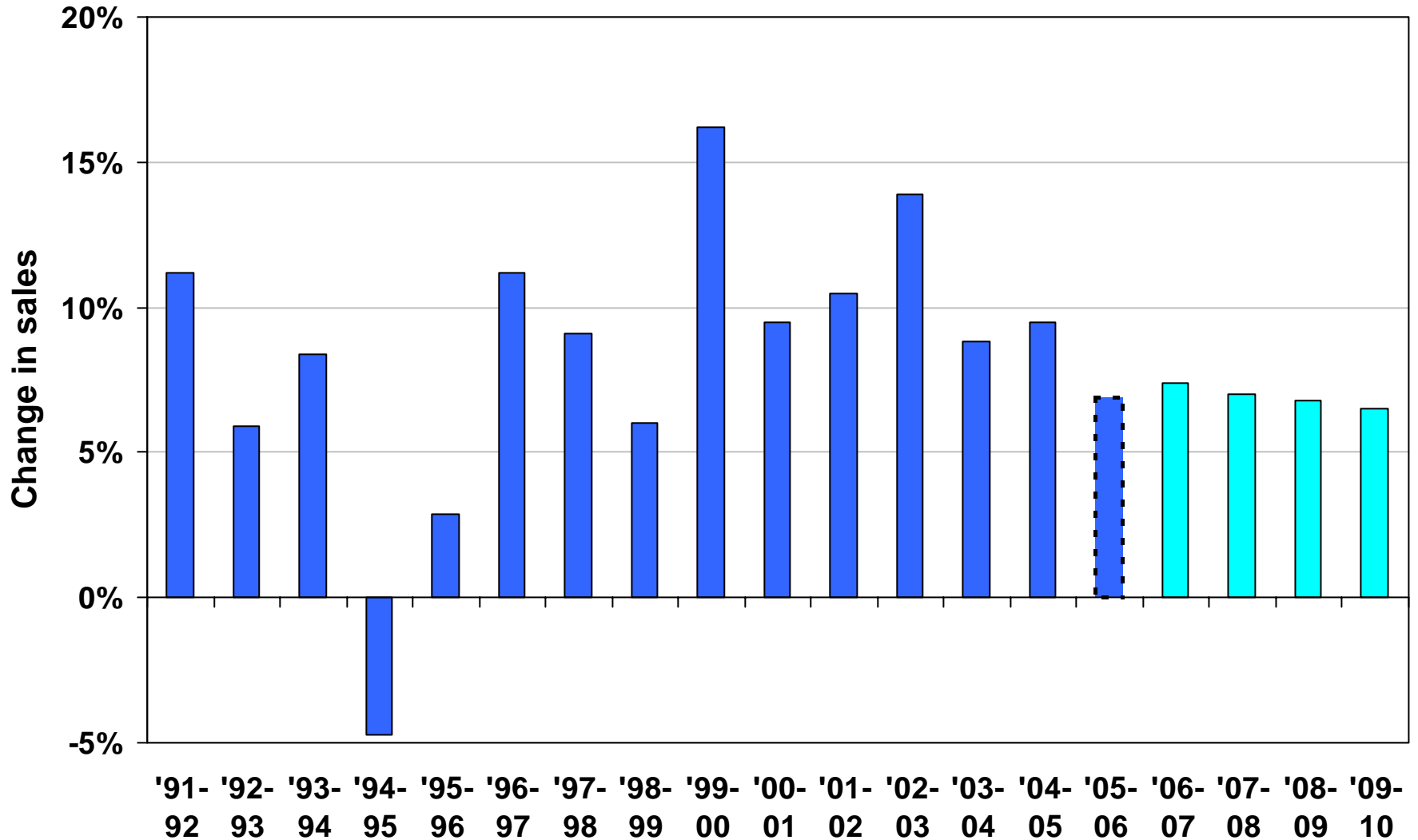
**Growth in production**

*The current situation -*

***Sales*** (across both domestic and export) @ 7%

***Production*** (based on new areas and assuming average yields) @ 1.5%

# How are sales performing? ...



# *What about production ...*

*First things first,*

*Production*

is going to be a function of

[Area] by [Yield (tonnes per hectare)]

*and,*

*Change in production*

will be

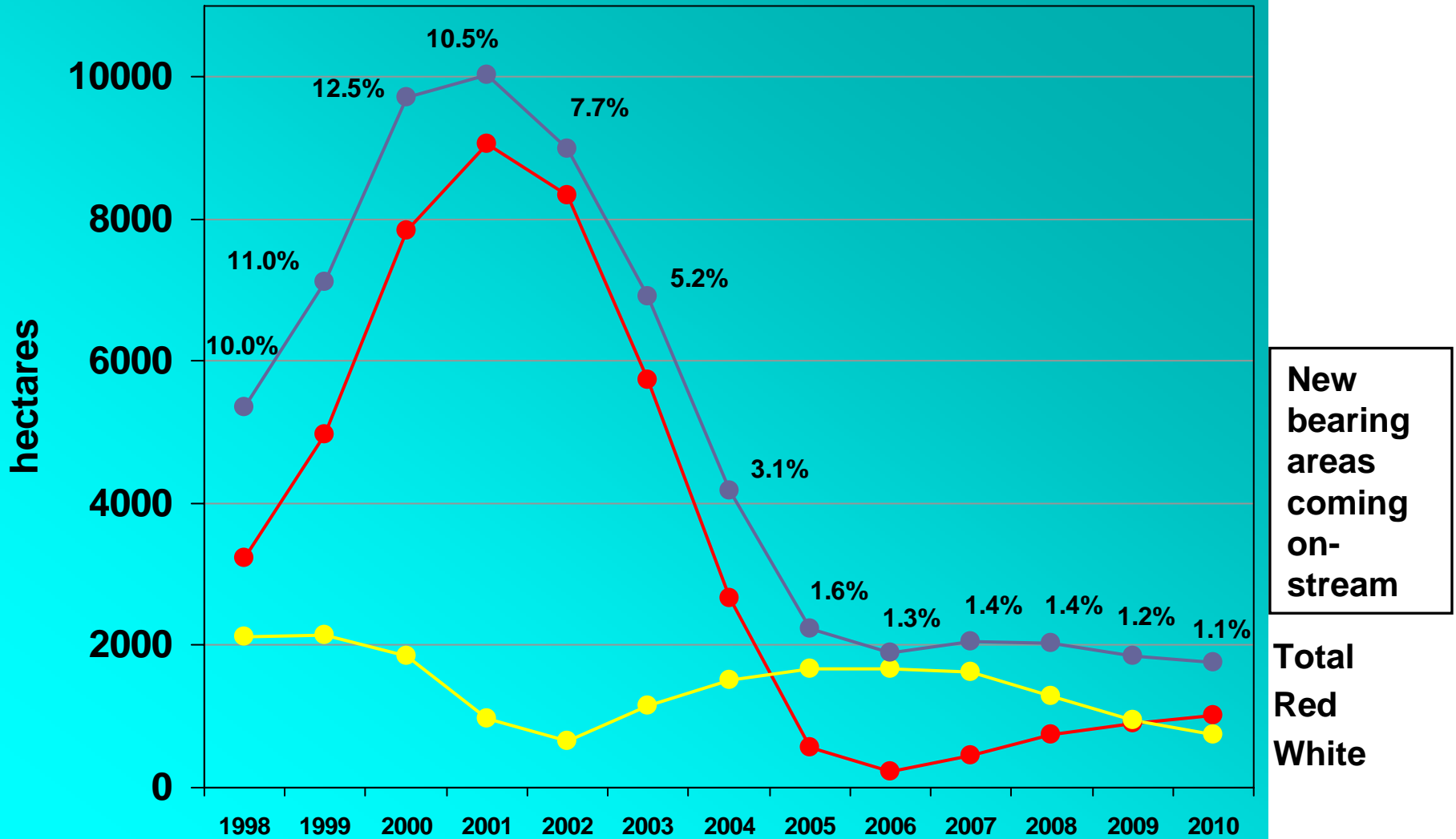
[Change in area] plus [change in yield]

# *The assumptions for future production ...*

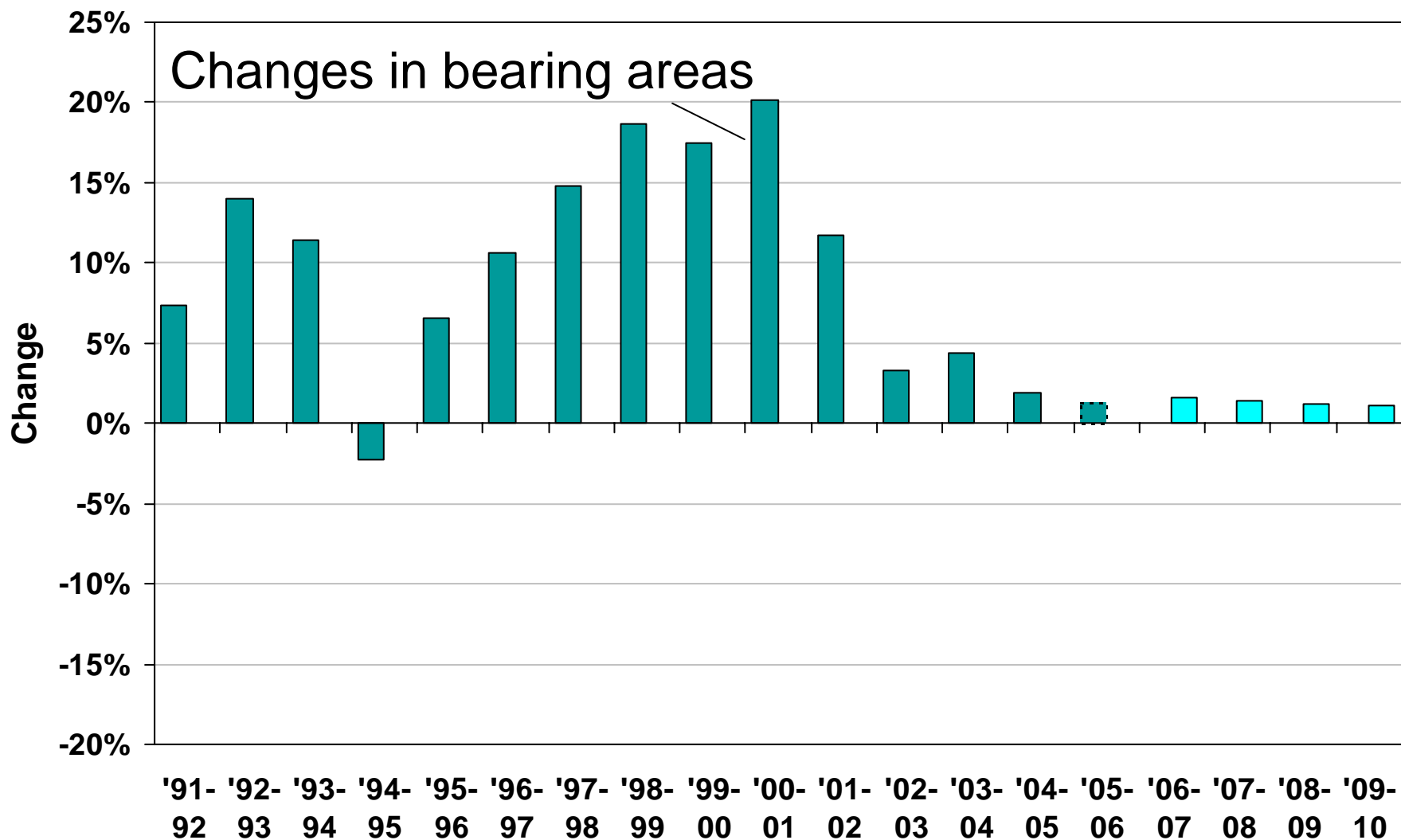
## Areas

... these are based on planting history and assumptions ....

# Marginal increases in bearing areas expected ...



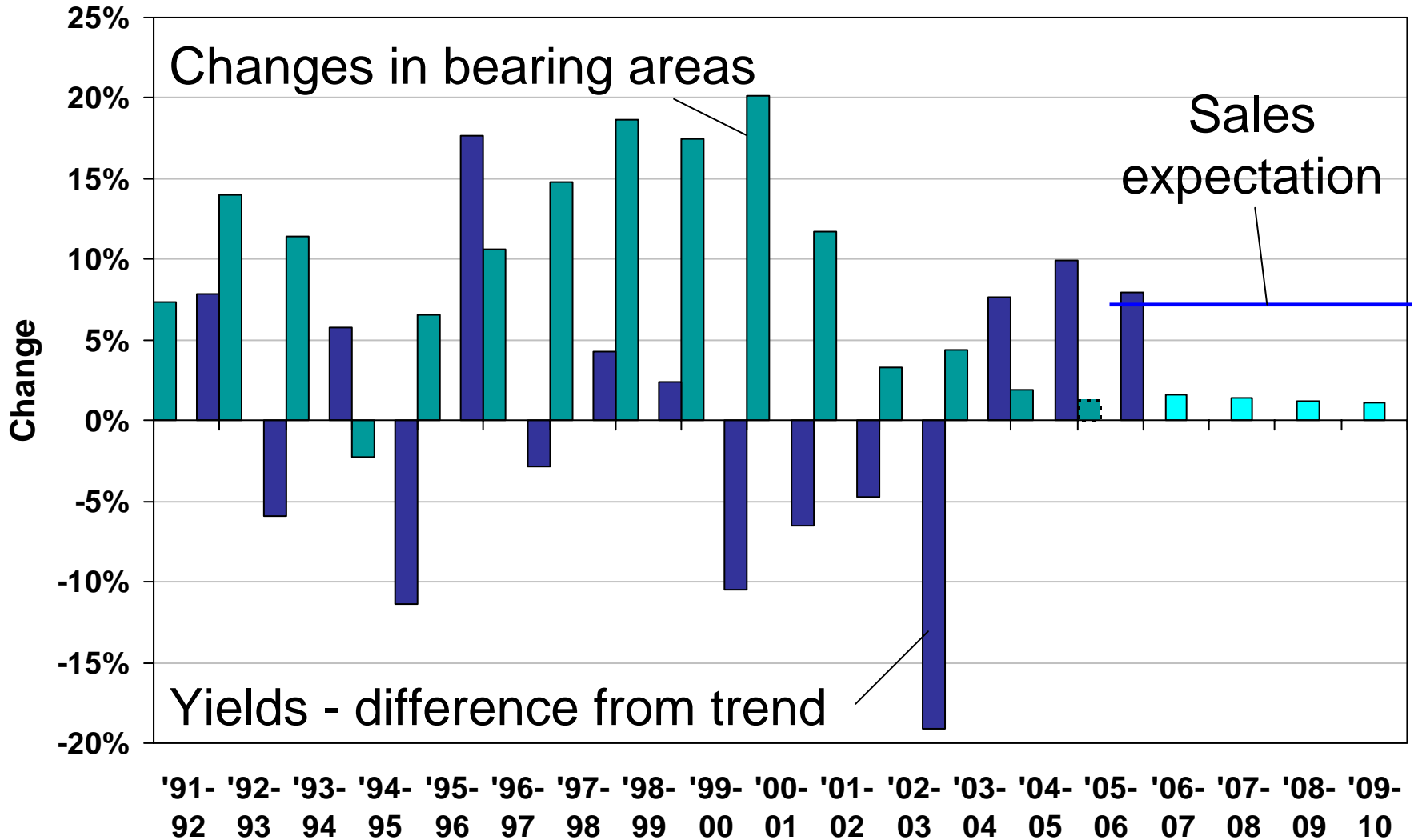
# How is production performing? ...



# *Future yields are assumed to be average ...*

If yields were only determined by the  
season,  
average yields is a reasonable assumption,  
there will be up-seasons and down-  
seasons,  
*BUT* ... let's look at it

# How is production performing? ...



# *The 'average/trend yield' assumption ...*

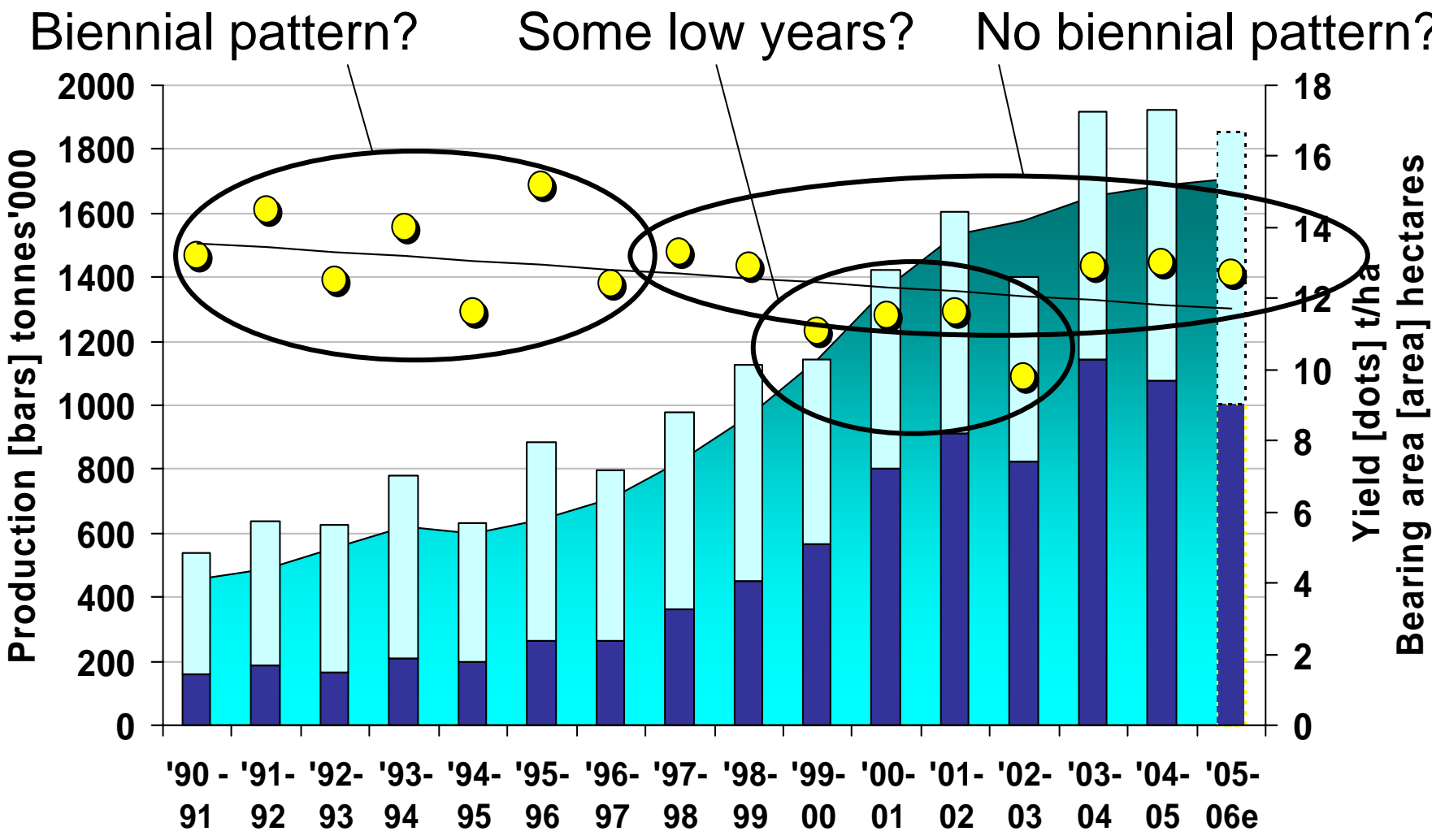
... doesn't seem to apply very well at the moment.

We need to take a closer look.

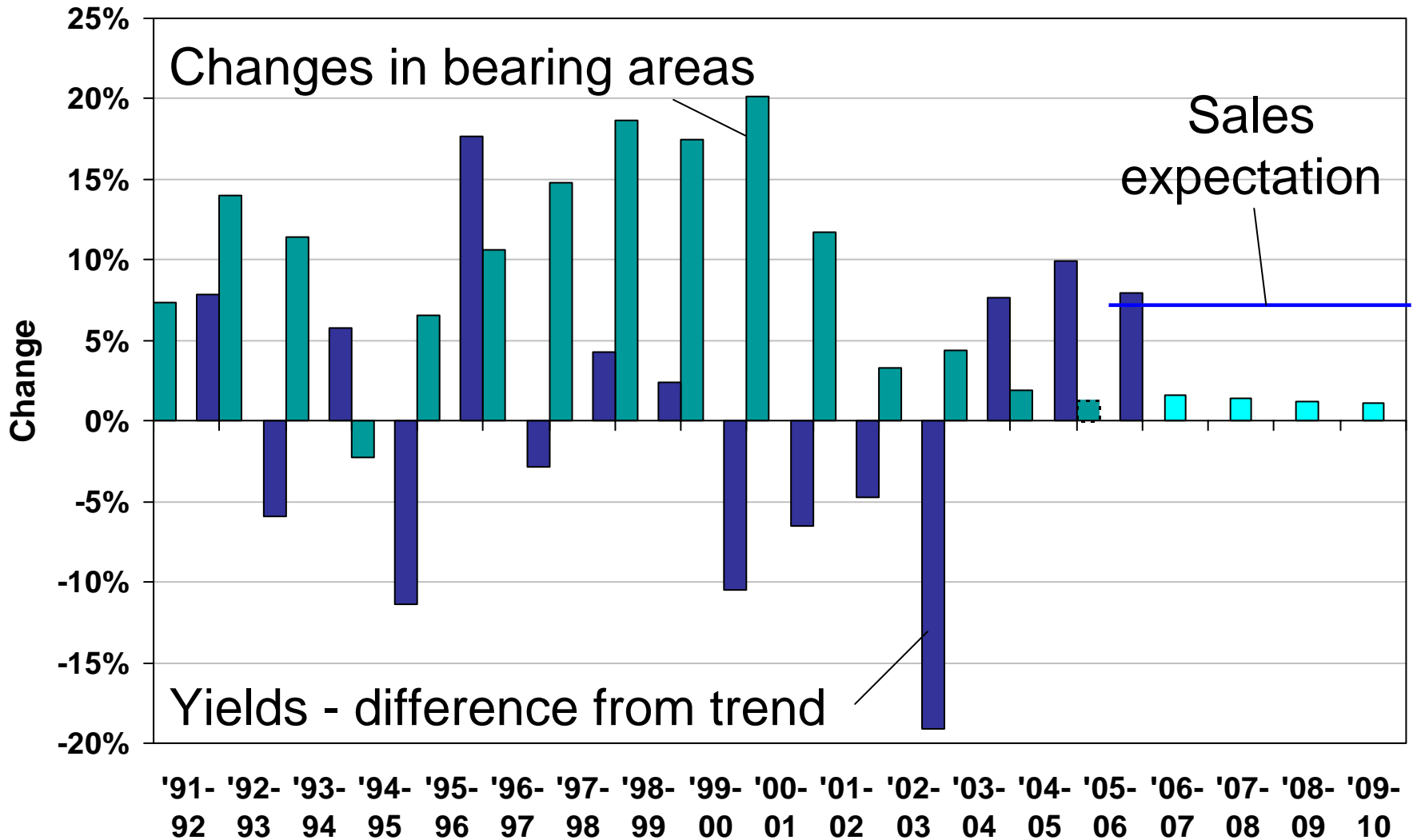
# *Influences on yield per hectare ...*

1. Things that have raised yields but they'll come back to average or trend rates
  - Seasons
  - Maintaining revenue-per-hectare
  - Seasons that favour whites
  - Younger vines in the mix
2. Things that may hold it up there
  - Precision vineyard management
  - More whites in the mix
3. Things that'll bring it down
  - Yield caps in contracts
  - Grapes left on the vine or dropped

# Let's look at yield history again...



# How is production performing? ...

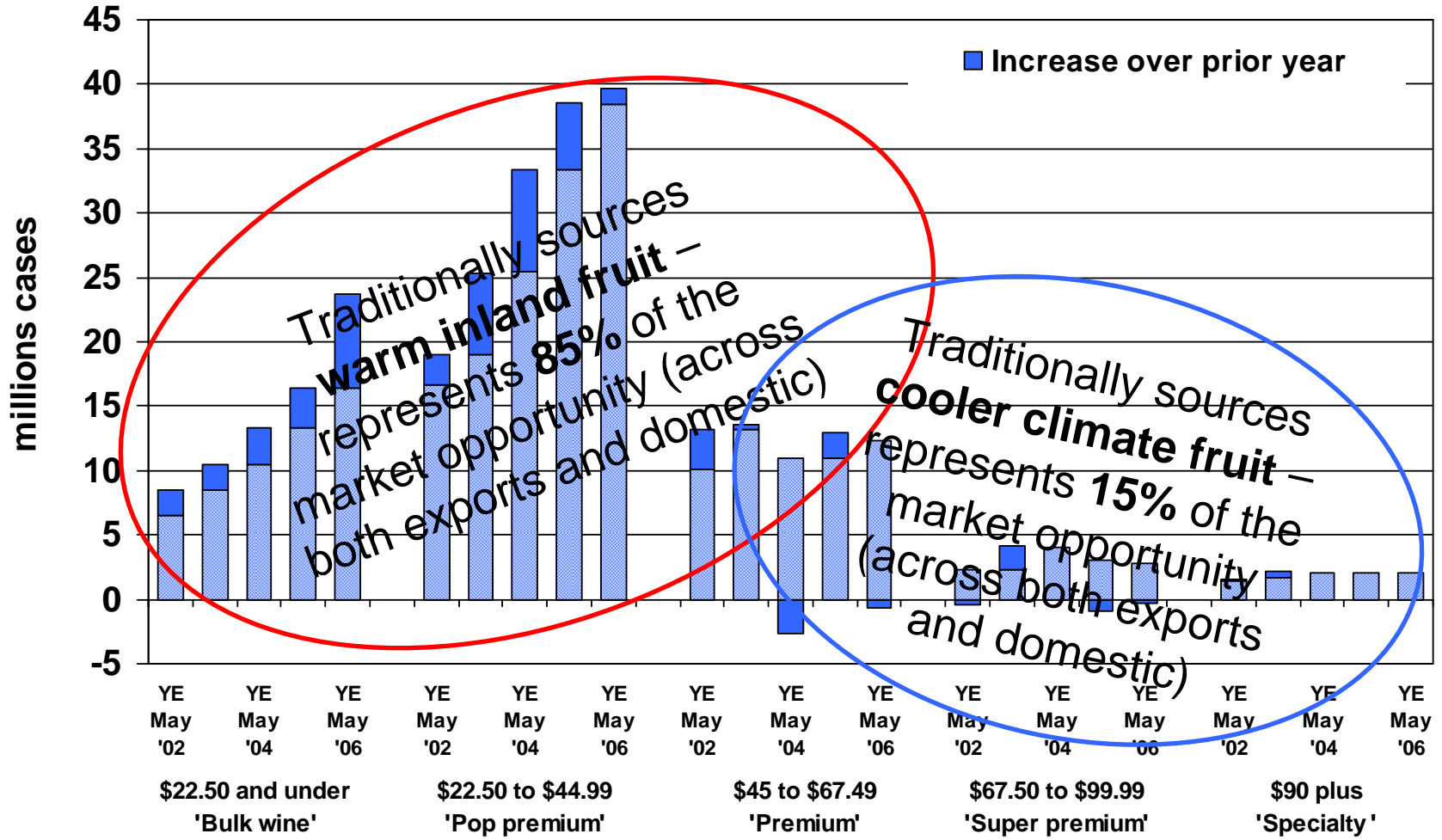


## *Conclusion on yields ...*

- We may have to factor in higher yields for the future, and therefore production, than we previously thought.
- This reinforces that recovery is on a longer timeline rather than ‘just around the corner’
- ‘Hanging-on’ until recovery occurs is probably not appropriate for borderline operations – it’s time to decide.

*Some comments about the  
market opportunity ...*

# Current market performance ...

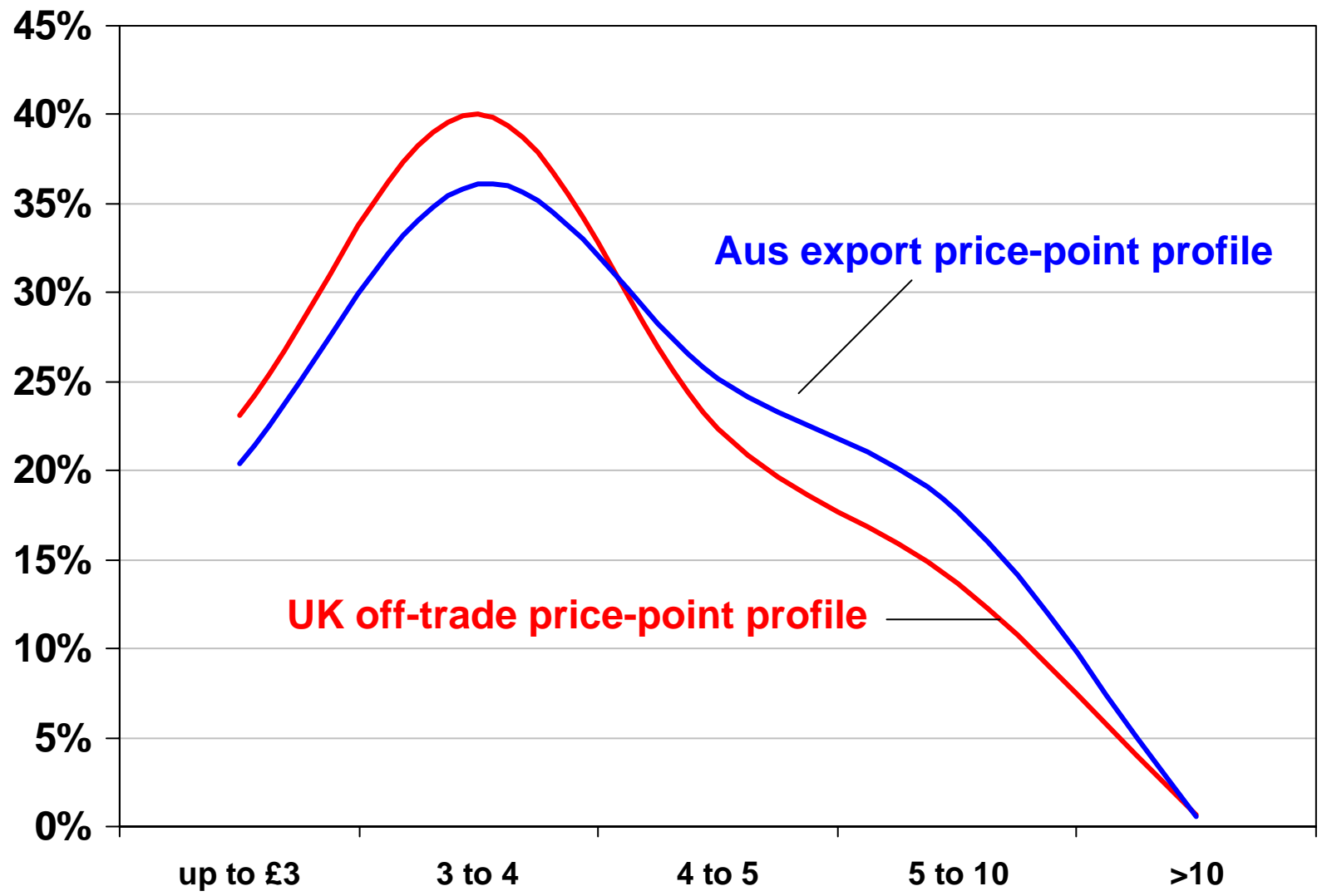


Note: labels on price points are terms of convenience only

# *Implications of the current market ...*

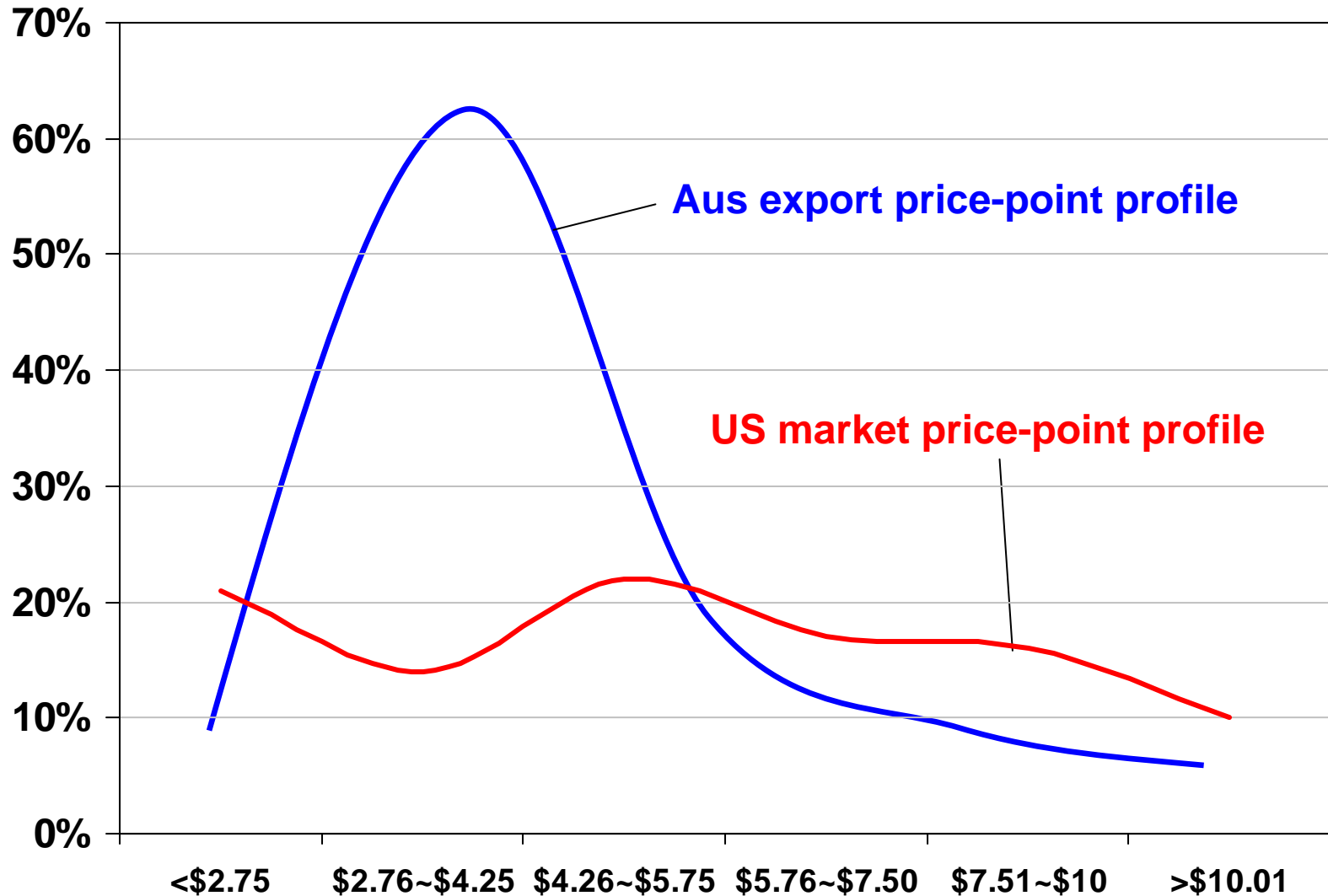
	Warm inland	Cooler Climate
Market opportunity	85%	15%
Share of winegrape production	60%	40%
Oversupply	No	Yes
Price pressures	Yes	(Yes)
Margin pressures	(Yes)	Yes

# UK off-trade is a lower-price point opportunity ...



Sources: AC Nielsen, UK

# US has opportunities at higher prices ...



Sources: Adams Handbook and the AWBC Export Approval Database

# Key conclusions ...

- In the next 5 years the dominant influence on the industry's fortunes will be a stock overhang.
- More and more evidence reinforces that recovery is on a longer timeline rather than 'just around the corner'
- 'Hanging-on' until recovery occurs is probably not appropriate for borderline operations – it's time to decide.
- New planting, even on a counter-cyclical basis, is not seen to be required for some years yet – the exceptions will be for specific varieties by region with emerging demand.
- Assessments of demand suggest the challenge of regaining overall 'balance' is achievable but will require a more targeted, focussed and dedicated marketing program.
- While 'circumstantial' advantages have abandoned the Australian wine sector, the underlying and fundamental value of Australian wine continues to underwrite its claim to future success.