

AUSTRALIAN WINEGRAPE OUTLOOK

2007 - 2011

PREPARED BY McGrath-Kerr Business Consultants Pty Ltd

FOR



Australian Government

**Grape and Wine Research and
Development Corporation**

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INTRODUCTION

This Report paper was prepared by McGrath-Kerr Business Consultants Pty Ltd for Wine Grape Growers' Australia (WGGA) using funding from the Grape and Wine Research and Development Corporation (GWRDC).

The Report provides grapegrowers and others with an overview of the winegrape supply/demand position within the Australian wine industry and in particular, the outlook for the industry over the next five years. Similar overviews have been produced each year since 1994 as part of the process of growers and winemakers meeting to discuss industry prospects, and more recently, as the Report of the Australian Winegrape Conference which has been held in Mildura in November of 2003, 2004 and 2005.

This year WGGA is not conducting a single Australian Winegrape Outlook Conference, opting instead to produce the Outlook Report and use this as the basis of a program of more targeted regional briefings. This overview has been produced based on the realisation of a significantly reduced crop in 2007 and a flow-on effect for 2008. For the purposes of this Report it is assumed that the industry returns to "normal" yields in vintage 2009, in line with the current Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts. However, depending on the timing of a return to more normal rainfall patterns in southern Australia and the availability of irrigation water from the Murray-Darling system prior to vintage 2008, there may be an enduring drought impact on the 2008 vintage and some carryover of these drought impacts on the 2009 vintage.

The Report draws on statistics and market analysis provided by regional, State and National industry bodies, the Australian Bureau of Statistics (ABS), the Australian Wine and Brandy Corporation (AWBC), and the ABARE.

Collection of the ABS and ABARE data was funded by the GWRDC. Regional winegrape utilisation surveys were funded by the Murray Valley Wine Grape Industry Development Committee, the Wine Grapes Marketing Board (Riverina), the New South Wales Wine Industry Association, and the Phylloxera & Grape Industry Board of SA.

A note on the new methodology

This year information on grape supply was obtained from ABARE forecasts rather than from winemakers through the Australian Regional Wine Grape Crush Survey. Under the revised arrangements winemakers were asked to specify their **Committed intake** (fruit from their own vineyards and contract purchases), and their **Required intake** (demand). This has been compared with grape supply forecasts prepared independently by ABARE to determine grape supply-demand balances.

For this first year using the new methodology ABARE has only been able to provide supply forecasts to the zone level meaning that some regional analyses done in the past are not possible for this year. The regions previously analysed of Riverina, Murray Valley and Riverland are slightly expanded as a result of the use of zones.. However this is expected to be rectified in the coming year so that a more forensic analysis of the two sets of data can be undertaken.

This paper is presented in three parts:

- Part 1 is a summary to date of the Australian wine market for both domestic and exports, future production and sales, and stocks.
- Part 2 is an analysis of the supply and demand position for the broad warm/cool groupings for 2007 to 2011. Warm regions are defined to encompass the zones of Big Rivers, Murray Darling-Swan Hill and Lower Murray and the cool regions are the rest.
- Part 3 is a Summary Statement of the winegrape outlook for cool and inland (warm climate) regions.

Abbreviations and terms used in this document:

| | | | |
|-----|-----------------------|----|-------------------|
| t | = tonnes | MT | = million tonnes |
| MAT | = moving annual total | KT | = thousand tonnes |
| KT | = thousand tonnes | ML | = million litres |
| fob | = free on board | ha | = hectares |

Reference to bottled wine is to wine sold in containers under 2L. Data is sourced from ABS collections where possible. Some detail on exports has been obtained from the AWBC and there may be differences between the two sources.

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A note on drought impacts

A combination of widespread frosts, drought-induced water restrictions, drought affected bunch development and smaller berry size during the 2006-07 growing season has resulted in a marked reduction in grape supply in 2007 which is expected to carry through to the 2008 vintage. Projections used in this paper put the 2007 crush at 1.3MT and 2008 at 1.5MT before assuming a return to a "normal" harvest of 1.9MT by 2009. These projections have been provided by ABARE, but may be optimistic if drought conditions and irrigation water restrictions persist.

While the Report's general supply-demand settings for the industry over the next five years would remain valid, a deeper than forecast drought impact on 2008 and 2009 vintage yields would result in:

- a) wine stocks remaining well within industry comfort levels over the longer-term,**
- b) deepening of the forecast shortages of warm inland fruit,**
- c) extension of the period of substitution of warm inland grape requirements with cool zone fruit, the delaying of the reappearance of the structural oversupply of grapes in cool zones, and the delaying of consequent downward pressure on cool zone grape prices until the end of the forecast period.**

OVERVIEW

For the three vintages 2004-06 Australian wineries crushed in excess of 1.8MT of grapes for wine. The volume of wine produced relative to wine sales for those years saw stocks build to beyond industry accepted comfort levels.

In stark contrast, for at least the next two years the industry will be short of grapes relative to current sales levels. Australian wine sales are currently running at a shade under 1,200ML annually. Under normal winegrape juice extraction rates a 1.3MT vintage will produce around 950ML of wine, which would yield 250ML less wine than was sold in the last calendar year. However, production reports from the 2007 vintage have indicated a significant reduction in extraction rates due to reduced berry size. The effect of the much lower national crush and lower extraction rates will be an immediate reduction in stock levels compared with the same time last year – of at least 250ML. If wine sales in 2007 remain at levels similar to 2006 (ie zero growth in domestic and export sales due to supply constraints), a 2008 vintage of 1.5MT would produce around 1,100ML of wine which would see a further run down in stocks in 2008. If reduced irrigation water supplies further constrain production in the 2008 vintage (below the 1.5MT ABARE projection) the clearance of wine stocks will occur even more rapidly.

This raises a number of questions as to how the industry and the market will respond to this prospect:

- Will there be an increase in the import of bulk wine for the cask market as in the past?
- Will exports of bulk wine fall back?
- Will exports cease to grow (or even fall) in the medium-term?
- Will there be a return to wineries contracting growers to secure fruit supply?

The reduced vintages in 2007 and 2008 should see all grapes taken up. The imbalance of grape production between the higher cost (cool) regions and the lower cost (warm inland) regions will be put on hold for two years while grape production recovers. Excess demand for grapes in 2008 should see grape prices increase for that year across most varieties.

However based on the most recent surveys of winemaker demand from the Australian Regional Winegrape Crush survey conducted in mid-2006, a return to normal yields by 2009 would see the imbalance between warm and cool grapes once more express itself. Winemakers are indicating a preference for warm region fruit in the longer-term, while cool region fruit will be oversupplied by around 25%. Depending upon how short Australian winegrape production is and how world markets respond to shortages in Australian wine over the next two years, this could result once more in a softening of grape prices in 2009.

The supply/demand balances between warm and cool regions is discussed in detail in Part 2 of the Paper.

Winemaker demand will be re-surveyed during 2007 and the results will be once again compared with ABARE forecasts to review supply/demand balances. It is expected that this revised analysis will be published before the 2008 vintage.

WGGA
2007

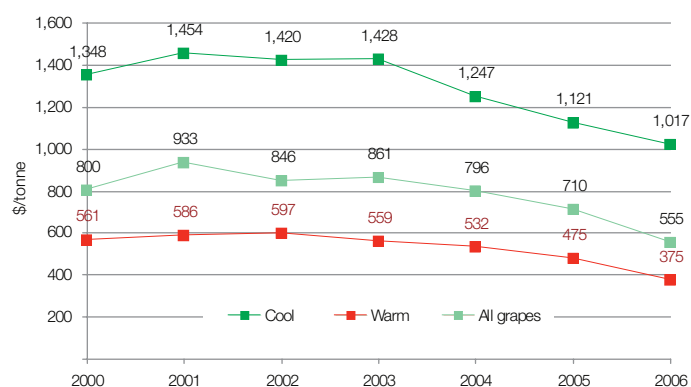


Figure 1: Average purchase values.

SOURCE: AWBC.

PART 1: THE MARKET FOR AUSTRALIAN WINE

Part 1: 2005-06 In Review

The year that passed gave little comfort to grapegrowers. Grape production once again exceeded 1.9MT although not all production was taken up by wineries in 2006, with up to another 200KT harvested to the ground or left on vines.

There were further sharp falls in average grape returns across all regions in 2006 as Figure 1 shows. There is a significant differential between average grape prices from warm regions and cool regions. For a number of years average returns from warm regions have been around 42% of the average returns from cool regions. In 2006 this percentage fell to 37%.

For cool regions average purchase values peaked in 2001 and remained relatively steady for the next two years. A poor production year in 2003 had the effect of maintaining some scarcity. For warm inland regions prices peaked in 2002 partly driven by shortages in the cool regions, but have declined steadily over the past four years. In 2006 average returns fell \$100/tonne. Since their peak average returns have fallen 30% in cool regions and 37% in the warm regions. In 2006 average purchase values fell 21% in warm regions and 9% in cool regions.

While exports continued to grow in 2005-06 most growth was in bulk wine at low unit prices. Overall volume growth was 8% in the last financial year (15% a year earlier)¹, while domestic sales of Australian wine showed no volume growth. Fierce discounting and competition for market share have not added one dollar of value to the industry overall, nor any growth in demand. Imports of wine increased 23% to 27ML with the growth being predominantly in consumption of New Zealand wine.

The table below summarises the result for the last calendar year:

Table 1: Wine Sales Summary (December 12 month MAT).

| | 12 mths to | 12 mths to | 12 mths to | | |
|-------------------------------------|------------|------------|--------------|------------|--------------|
| | Jun '04 | Jun '05 | Incr | Jun '06 | Incr |
| | MI | MI | % | MI | % |
| White <2 litre | 84 | 89 | 6.2% | 92 | 3.2% |
| White Soft Pack and Other | 124 | 120 | -3.1% | 120 | -0.2% |
| Total White Table | 208 | 209 | 0.7% | 212 | 1.2% |
| Red <2 litre | 83 | 91 | 10.0% | 91 | 0.0% |
| Red Soft Pack and Other | 64 | 64 | 0.2% | 62 | -2.9% |
| Total Red Table | 147 | 155 | 5.7% | 154 | -1.2% |
| Total Table Wine | 355 | 365 | 2.8% | 366 | 0.2% |
| Sparkling and Carbonated | 38 | 43 | 11.7% | 44 | 3.4% |
| Other | 24 | 23 | -3.5% | 22 | -7.8% |
| Total Aust Domestic (A) | 417 | 431 | 3.2% | 431 | 0.1% |
| Imports | 19 | 22 | 18.2% | 27 | 22.7% |
| Total Domestic Sales | 436 | 453 | 3.9% | 458 | 1.2% |
| Exports – White (ML) | | | | | |
| Exports – Red (ML) | 206 | 234 | 13.3% | 259 | 10.6% |
| Exports – Other (ML) | 365 | 421 | 15.3% | 445 | 5.9% |
| Exports – Total (ML) (B) | 13 | 15 | 15.5% | 18 | 16.1% |
| Total Australian Sales (A+B) | 584 | 670 | 14.6% | 722 | 7.8% |
| Exports – Total (\$B) | 1,002 | 1,101 | 9.9% | 1,153 | 4.8% |

* Sparkling, fortified etc. Source: ABS no 8504.0.

DOMESTIC WINE SALES

Domestic wine sales of 458ML (Australian produced wine plus imports) was 5ML (or 1%) higher than the year before. A 3ML increase in Australian bottled white table wine sales was largely offset by a 2ML decrease in cask red wine sales. Fierce discounting of Australian wines has not resulted in any volume growth and has stripped millions of dollars from brand value. During this period there was a 23% growth in imports, mainly New Zealand Sauvignon Blanc, which generally retails in the 'premium' price bracket of \$15-20 retail per bottle.

In terms of composition, the volume of bottled table wine sold now slightly exceeds cask sales which have remained relatively static in recent years. To a large extent sales of cheap bottled wine has displaced some cask sales.

Australian table wine accounts for 81% of domestic wine sales. In the last year the shares of bottle sales and cask sales slightly subsided with the growth in the share of imports and now each comprise 40% of total domestic wine sales. Imports are now 6% of the domestic market.

¹ ABS figures – there are differences between the rate of export growth as reported by approvals through the AWBC which show growth at 12%.

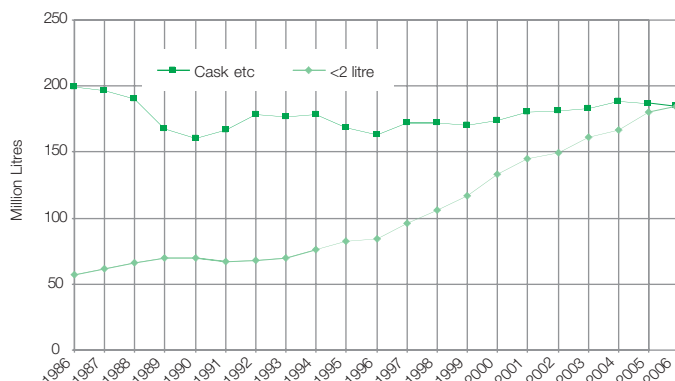


Figure 2: Domestic Sales of Australian Table Wine.

White Wine

White wine sales in 2006 were 212ML, equal to the peak level in 1986. However there has been significant compositional changes and while cask wine accounted for more than 80% of all sales in 1986 it now represents 56% in 2006. Bottled white wine was 92ML in 2004-05, a 3% increase in the year.

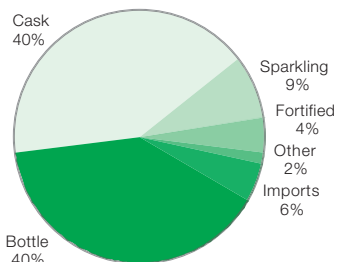


Figure 3: Domestic Wine Sales 2005-06.

Red wine

Domestic sales of Australian red wine decreased in the past 12 months, with cask sales bearing the loss. Bottled red wine sales were steady at 91ML. This follows a strong 10% growth in bottled red sales. Red soft pack sales fell 3% and make up 40% of the sector.

Sparkling

While sales of Australian sparkling wine have shown strong growth over the past three years, that growth too has tapered and now stands at 44ML, a 3% increase in the past year. This follows the 12% growth in the previous year.

Fortified

Sales of fortified wine in 2005-06 fell 7% in the last year and now stand at 18.5ML.

Imports

Imports generally only represent a small proportion of domestic wine sales, historically around 5% (currently 6%). In two periods, in 1996 and again in 1998 following the relatively short vintages of 1995 and 1997, the level of imports surged due to relatively large imports of bulk wine used mainly in the cask market. More recently there has been strong growth in imports driven by increase interest in wines from New Zealand. In 2005-06, 27ML of wine was imported, of which New Zealand contributed just under half (49%). Three years earlier New Zealand's share was 29%.

AUSTRALIAN WINE EXPORTS

Australian table wine exports have been the mainstay of industry growth over the past decade and a half and remain the industry's main hope for a soft landing over the next couple of years. The rapid expansion in grape supply, particularly red grapes in the late 1990s has placed enormous strain on the industry's capacity to maintain balanced growth.

Figure 4 shows the pattern of domestic and export sales growth. Exports account for 63% of Australian wine sales, and are increasing as a proportion. Within exports, red table wine makes up 62% of all exports, with white table and other wine comprising the balance.

Table Wine

For a period in the early years of this decade the Australian dollar weakened relative to the \$US and Pound, delaying the market signals regarding potential supply imbalance. The strengthening of the Australian dollar in the last two years forced wineries to slash prices or move bulk wine off-shore in order to generate volume growth to dispose of the rapid production increases.

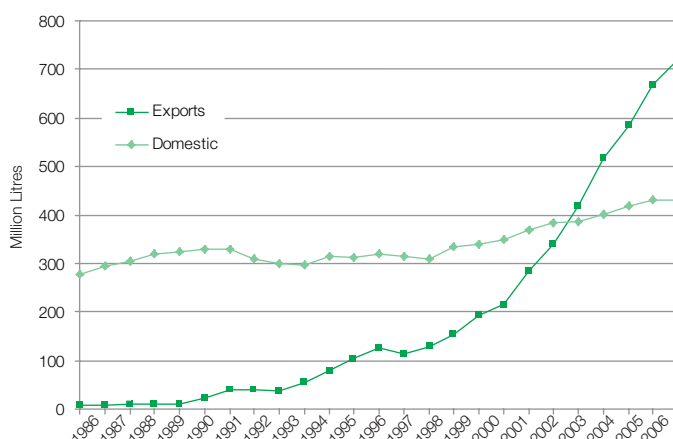


Figure 4: Sales of Australian table wine.



Figure 5: Exports by price points.

Export sales over the past three years have been insufficient to prevent a rapid build up of stocks which were reported at record levels in 2006. The increase in stocks has led to declining grape prices and in some instances, grapes not even being sold. Some industry sources estimate this figure to be as high as 200KT in 2006.

Major growth in export is in the sub-\$5/L f.o.b. category, the "popular premium" segment, as the following figure and table illustrate:

Almost 80% of wine exports are sold for less than \$5/L. This proportion has grown steadily since 2002 and should further increase if the current pattern of growth continues.

In volume terms wine exports increased 76ML in the last year (AWBC figures). Of that, the sub-\$5/L segment increased 85ML while volumes in the higher segments fell 12ML, once again highlighting the difficulty high-cost grape producers have in competing in these markets.

A development of concern to grapegrowers is the growth in the sub-\$2.50/L sector where the volume of exports grew 72ML. This was very largely driven by bulk wine sales which increased by 65ML. Bulk wine now makes up 28% of all exports but yields on average \$1.12/L.

Table 2 shows the proportion of wine sold at various price points. For a number of years up to 2001 the share of premium wine exports (broadly speaking above \$5/L) increased, before sharply declining with the appreciation of the exchange rate and the growth in the popular premium wine sector.

Table 2 Exports by price point (% share).

| Y/e June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------|------|------|------|------|------|------|------|
| <\$2.50 | 16% | 18% | 19% | 19% | 21% | 23% | 30% |
| \$A2.50 to \$A4.99 | 49% | 44% | 42% | 45% | 53% | 53% | 49% |
| \$A5.00 to \$7.49 | 25% | 27% | 28% | 24% | 17% | 18% | 15% |
| \$A7.50 to \$A9.99 | 6% | 7% | 5% | 8% | 6% | 4% | 3% |
| >\$A10.00 | 4% | 4% | 5% | 4% | 3% | 3% | 3% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Sub-\$5/l category | 65% | 62% | 61% | 65% | 73% | 75% | 79% |

SOURCE: AWBC.

Australia's major volume markets are the UK, US, New Zealand and Canada. Table 3 below shows the regional distribution of Australian wine exports by value over the past four years.

Table 3: Exports of Australian Wine, by principal market, by value.

| | 2002-03 | | 2003-04 | | 2004-05 | | 2005-06 | |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | \$M | % share | \$M | % share | \$M | % share | \$M | % share |
| UK | 860 | 36% | 860 | 34% | 967 | 35% | 960 | 34% |
| US | 828 | 35% | 906 | 35% | 897 | 33% | 902 | 32% |
| New Zealand | 99 | 4% | 98 | 4% | 94 | 3% | 92 | 3% |
| Canada | 174 | 7% | 205 | 8% | 247 | 9% | 249 | 9% |
| Germany | 58 | 2% | 77 | 3% | 72 | 3% | 76 | 3% |
| Others | 368 | 15% | 406 | 16% | 472 | 17% | 523 | 19% |
| TOTAL | 2,386 | 100% | 2,552 | 100% | 2,748 | 100% | 2,801 | 100% |

SOURCE: AWBC.

The UK is still the largest market for Australian wine in terms of value. The US and UK combined make up 66% of export earnings. While the UK is again the largest market by volume (36% of total), strongest growth in recent years has been in the US. Exports to the US grew 27ML in the last financial year. The following table shows the composition of Australian wine exports by volume for the principal markets as well as unit values:

Table 4: Exports of Australian Wine, by principal market, by volume¹.

| | 2002-03 | | 2003-04 | | 2004-05 | | 2005-06 | |
|-------------|---------|--------|---------|--------|---------|--------|---------|--------|
| | ML | \$/l | ML | \$/l | ML | \$/l | ML | \$/l |
| UK | 209 | \$4.12 | 225 | \$3.82 | 263 | \$3.68 | 269 | \$3.57 |
| US | 142 | \$5.83 | 172 | \$5.27 | 187 | \$4.81 | 214 | \$4.21 |
| New Zealand | 33 | \$3.02 | 27 | \$3.63 | 25 | \$3.77 | 27 | \$3.36 |
| Canada | 25 | \$7.09 | 33 | \$6.22 | 44 | \$5.61 | 51 | \$4.88 |
| Others | 100 | \$3.67 | 124 | \$3.28 | 143 | \$3.30 | 176 | \$2.97 |
| TOTAL | 508 | \$4.70 | 581 | \$4.39 | 661 | \$4.16 | 738 | \$3.80 |

Source: AWBC.

Average returns are highest per litre in the North American markets (US and Canada), although that return has declined somewhat due to a strengthening Australian dollar and a greater proportion of popular premium wines.

The following table shows the volume of exports by principal wine category. The impact of the growth in bulk/cask wine sales in 2005-06 can be clearly seen with that proportion increasing to 28%.

Table 5: Exports of wine by container type (ML).

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Bottled Red | 88 | 127 | 157 | 198 | 250 | 289 | 330 | 331 |
| Bulk/soft Pack Red | 13 | 18 | 23 | 36 | 57 | 75 | 88 | 125 |
| TOTAL RED | 101 | 145 | 180 | 234 | 307 | 364 | 418 | 456 |
| Bottled White | 83 | 107 | 120 | 138 | 151 | 165 | 181 | 186 |
| Bulk/soft pack white | 23 | 25 | 30 | 36 | 40 | 39 | 48 | 80 |
| TOTAL WHITE | 106 | 132 | 150 | 174 | 191 | 205 | 229 | 266 |
| TOTAL TABLE WINE | 207 | 277 | 330 | 408 | 498 | 569 | 647 | 722 |
| OTHER WINE | 9 | 10 | 9 | 10 | 10 | 12 | 14 | 76 |
| TOTAL WINE | 216 | 288 | 339 | 417 | 508 | 581 | 661 | 738 |
| Inc % | 12% | 33% | 18% | 23% | 22% | 14% | 14% | 12% |
| Inc ML | 23 | 71 | 51 | 78 | 91 | 73 | 80 | 77 |
| % Bulk/cask etc | 18% | 16% | 16% | 17% | 20% | 20% | 21% | 28% |

SOURCE: AWBC.

PART 2: FUTURE PRODUCTION AND SALES PROSPECTS

Grape Production

Rapid investment in grape plantings in the 1990s has seen the area of grapes (wine, table and drying) increase from 67,000ha in 1993-94 to over 166,000ha at harvest 2005. Official ABS figures show there were 68,632ha of white grapes (for all uses) and 98,033ha of red grapes planted as at harvest 2005. This is 1.5% up on the previous year. Intended plantings of red grapes were 878ha after 2005 and 1,575ha of white grapes. Just 5% of all red grape plantings were non-bearing at harvest 2005 while for white grapes the figure is 12%. Of the white grapes, Chardonnay is the dominant variety with 16% of plantings not yet bearing (last year the figure was 20%) indicating that there are still

some further production increases in this variety. Sauvignon Blanc had 23% of its planted area non-bearing in 2005, while 7% of Shiraz plantings were non-bearing.

Based on the ABS data it is expected there could be only minor increases in bearing area over the next three years, and depending on the rate of removals, overall bearing area could decrease. Based on normal conditions around 1.9MT of grapes would be available for wine production.

However unseasonal conditions leading into 2007 are now expected to limit the available crop and ABARE is projecting a grape availability of around 1.3MT and 1.5MT for 2008. Using the truncated production projections, red and white wine production has been calculated and applied to the stocks model. The outlook for the industry under certain sales assumptions can then be assessed.

Wine Stocks

Winemakers seek to maintain levels of stock appropriate to meet the needs for future growth but at the same time reflecting the need to contain costs. The stock level also will reflect winery risk strategy – what would be the impact on my business of an X% reduction in available grapes in the following vintage? Historically wineries have aimed to hold around 1.5-1.7 years of white wine stock (relative to current sales), while for red wine the figure was been around 2.0-2.2 years. The historic 'comfort' level for all wine stocks has been a 1.8 year stock to sales ratio.

With the shift in the export mix towards a greater proportion of "popular premium" wines, it could be argued the overall desired stockholding period will be at the bottom of the range. However wineries which operate in the bulk trade (and this is increasing at present) may be encouraged to assume a higher stock position on the expectation that this stock can be sold cheaply and quickly. Low grape prices to a large degree offset holding costs. The desirable level of stocks could therefore fall within a range – a "comfort zone" – based on a number of factors including expectation of future sales growth, and current and future grape availability and prices.

For a number of years there have been industry concerns that the level of inventories as measured by the ABS may have been understated. In the past the ABS has only collected data from winemakers who crush more than 400t annually and who have domestic sales in excess of 250,000L. Inventories owned by winemakers with a lower crush, or lower domestic sales and who predominantly have wine export sales or who mainly undertake contract crushing were not included.

The ABS has addressed this issue in 2006 by surveying those wineries who crush more than 400tonnes of grapes but who do not have domestic sales greater than 250,000L. As a result of this an additional 148ML of inventory was identified. The ABS believes that its figures are now close to the mark. By carrying through the pattern of adjustment for the previously unidentified stock, a clearer view of the stocks to sales ratio emerges.

The following table shows the relationship between production, sales and stocks and the stocks-to-sales ratio. Adjustments made to ABS inventory figures for the years 2001 to 2004 are shown in brackets next to the stocks figure.

In order to show just the impact of the reduced crop in 2007 and 2008 the analysis assumes zero sales growth in 2007-08 and 2008-09.

The first point to note is that the aggregate level of stocks is well below the levels previously believed by industry to be the case. That AWBC has reduced its estimate of stocks exceeding the industry 'comfort' level of 1.8 years from 900ML to 460ML between 2006 and 2007 is consistent with this.

The table shows that for the past 11 years the stocks to sales ratio has been within the narrow band 1.7-2.0. At 1.7 wineries actively sought grapes, while at 2.0 grapes were in over-supply. In 2006 the ratio was 2.0 years, around 0.2 years (or 250ML) higher than ideal levels.

The impact of reduced 2007 and 2008 vintages can be clearly seen with the ratio falling to 1.6. Even assuming zero sales growth and a return to normal production by 2009 sees little change in the ratio. Clearly the implications of 2007 and 2008 will be felt for a number of years beyond that².

Cool/warm imbalance

Of great concern to growers are the low prices currently being paid for grapes from all zones. The longer-term outlook for depressed grape prices from cool/premium/ higher cost grape regions is of particular concern to many growers. This is a result of a number of factors including over-investment in some regions relative to the growth of the market segments able to absorb that production and give a return appropriate to the cost of growing.

The effect of this imbalance which has been felt across all sectors has been diminished in 2007 because of the effects of drought, and the expectation of a reduced 2008 vintage is likely to keep demand firm for all fruit.

However a return to normal yields by 2009 will see the demand (preference) imbalance between warm and cool regions re-emerge. To the extent that winemakers will be prepared to offer prices that keep cool region producers viable will depend upon how much winemakers value that fruit for their product mix and the reaction of world markets to Australian wine shortages in the next two years.

² If sales fall then there will be an increase in the ratio for any given stock level.

Table 6: Production, Sales and Stocks reconciliation.

| Year ending June | Sales | | | Grapes crushed | Wine produced | Stocks | S/S Ratio* | Overall sales growth | Export sales growth |
|------------------|----------|--------|------------------|----------------|---------------|------------|------------|----------------------|---------------------|
| | Domestic | Export | Total Australian | | | | | | |
| | ML | ML | ML | KT | ML | ML | | | |
| 1996 | 309 | 130 | 439 | 863 | 606 | 782 | 1.8 | 3% | 14% |
| 1997 | 334 | 154 | 488 | 779 | 567 | 818 | 1.7 | 11% | 19% |
| 1998 | 339 | 193 | 532 | 954 | 680 | 900 | 1.7 | 9% | 25% |
| 1999 | 348 | 216 | 564 | 1,100 | 793 | 1,090 | 1.9 | 6% | 12% |
| 2000 | 369 | 285 | 654 | 1,119 | 806 | 1,191 | 1.8 | 16% | 32% |
| 2001 | 384 | 338 | 722 | 1,398 | 1,037 | (40) 1,417 | 2.0 | 10% | 19% |
| 2002 | 386 | 418 | 805 | 1,574 | 1,174 | (55) 1,625 | 2.0 | 11% | 24% |
| 2003 | 402 | 519 | 921 | 1,368 | 1,014 | (70) 1,652 | 1.8 | 14% | 24% |
| 2004 | 417 | 584 | 1,002 | 1,883 | 1,401 | (85) 1,940 | 1.9 | 9% | 13% |
| 2005 | 430 | 670 | 1,100 | 1,894 | 1,421 | 2,153 | 2.0 | 10% | 15% |
| 2006 | 431 | 722 | 1,153 | 1,867 | 1,377 | 2,249 | 2.0 | 5% | 8% |
| 2007 | 437 | 779 | 1,216 | 1,264 | 931 | 1,928 | 1.6 | 5% | 8% |
| 2008 | 440 | 779 | 1,219 | 1,503 | 1,108 | 1,787 | 1.5 | 0% | 0% |
| 2009 | 443 | 779 | 1,222 | 1,925 | 1,420 | 1,959 | 1.6 | 0% | 0% |

* Ratio of stocks to current sales. SOURCE: ABARE, ABS and McGrath-Kerr Business Consultants.

The figures bracketed beside the Stocks volume column represent the upward adjustment of historical stocks using the new ABS collection methodology.

Figures assume an historical extraction rate of 730l/t and a production loss rate of 3%.

PART 2: SUPPLY DEMAND BALANCES FOR MAJOR VARIETIES

IMPORTANT INFORMATION

The demand figures for 2007 to 2011 were compiled from winemaker surveys conducted in mid-2006. The Supply forecasts were compiled by ABARE during vintage 2007 and reflect to the extent possible the reduction in grape supply experienced in 2007 and expected for 2008. The forecasts assume a return to "normal" yields by vintage 2009.

The reduced crop in 2007 may have an impact on future winemaker demand which will be surveyed later this year and the results published before the 2008 vintage.

Introduction

The following tables compare physical forecasts of grape supply sourced from an independent source (ABARE) with winemakers' estimates of grape production from their own vineyards, their committed grape intake through contracts, and their overall grape requirements (demand) and preferences.

The "total inland" grouping comprises the three zones of Big Rivers (New South Wales), Murray Valley (New South Wales and Victoria) and Lower Murray (South Australia). This grouping incorporates the regions Riverina, Murray Darling-Swan Hill and the Riverland.

The ABARE supply forecasts are based on vineyard area and production data collected by the ABS from information provided by grapegrowers. Demand for grapes continues to be collected through the survey of wineries conducted under the Australian Regional Winegrape Crush Survey (ARWCS). Differences between supply and demand are discussed in the next section.

Other information collected from wineries under the ARWCS includes how much of their expected intake is "committed", ie sourced from their own vineyards or under contract. This information is shown in the attached tables. In some cases committed intake may exceed demand, suggesting a lack of preference for that variety.

It should be observed that the winery estimates of own grown grapes and contract purchases will be overstated relative to supply in the short-term due to the unforeseen reduction in yields since the survey was completed.

Key points

Three things stand out in the following analysis of supply/demand balances:

- 1 The reduction in crop for 2007 and 2008 suggests that there are no immediate surpluses of fruit in the short-term in either the cool or warm inland regions for either red or white grapes.
- 2 That in the medium to longer-term (2009 and beyond) overall supply and demand for both red and white grapes is in broad balance.
- 3 That with a return to normal yields by 2009 the structural imbalance between a shortage of (preference for) inland fruit and surpluses of cool region fruit continues. To the extent that this demand is satisfied by cool region fruit suggests that cool region prices will continue to be depressed in the longer-term.

Summary of National Position – Red Grapes

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Surplus (+) or shortfall (-) on the open market (KT) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|--|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 78 | 431 | 509 | 523 | 388 | -135 | -26% | Shortages early revert to broad balance in the medium-term. |
| | 2008 | 81 | 406 | 487 | 583 | 448 | -135 | -23% | |
| | 2009 | 84 | 368 | 452 | 618 | 559 | -59 | -10% | |
| | 2010 | 84 | 323 | 407 | 606 | 562 | -44 | -7% | |
| | 2011 | 86 | 305 | 391 | 612 | 565 | -47 | -8% | |
| Cool | 2007 | 173 | 250 | 423 | 331 | 235 | -96 | -29% | Shortages early revert to surplus in the medium-term. |
| | 2008 | 175 | 210 | 385 | 345 | 332 | -13 | -4% | |
| | 2009 | 178 | 176 | 354 | 349 | 454 | 105 | 30% | |
| | 2010 | 181 | 167 | 348 | 363 | 457 | 94 | 26% | |
| | 2011 | 183 | 147 | 330 | 361 | 458 | 97 | 27% | |
| Total | 2007 | 251 | 681 | 931 | 854 | 623 | -230 | -27% | In aggregate shortages early revert to surplus in the medium-term. |
| | 2008 | 256 | 616 | 872 | 928 | 780 | -148 | -16% | |
| | 2009 | 262 | 544 | 806 | 967 | 1,013 | 46 | 5% | |
| | 2010 | 265 | 490 | 755 | 969 | 1,019 | 50 | 5% | |
| | 2011 | 269 | 452 | 722 | 973 | 1,024 | 50 | 5% | |

The shortages arising in the short-term due to drought impacts disappear with a return to normal yields by 2009. Winemakers are indicating a preference for inland red grapes but the aggregate position is one of broad balance in the longer-term. Medium-term supply of cool region red grapes exceeds demand by around 25%.

It is important to note that the "Total required intake" (demand) figure is an indication of preference and any shortages of supply may well be met from other regions.

Summary of National Position – White Grapes

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Surplus (+) or shortfall (-) on the open market (KT) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|--|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 84 | 486 | 569 | 586 | 499 | -88 | -15% | Shortages early revert to broad balance in the medium-term. |
| | 2008 | 92 | 485 | 577 | 641 | 529 | -112 | -17% | |
| | 2009 | 98 | 436 | 534 | 664 | 663 | -1 | 0% | |
| | 2010 | 99 | 391 | 489 | 685 | 674 | -11 | -2% | |
| | 2011 | 98 | 367 | 464 | 680 | 677 | -2 | 0% | |
| Cool | 2007 | 93 | 118 | 211 | 193 | 143 | -50 | -26% | Shortages early revert to surplus in the medium-term. |
| | 2008 | 97 | 105 | 202 | 200 | 194 | -6 | -3% | |
| | 2009 | 99 | 94 | 193 | 202 | 249 | 47 | 23% | |
| | 2010 | 101 | 89 | 190 | 206 | 256 | 50 | 24% | |
| | 2011 | 102 | 82 | 184 | 202 | 260 | 58 | 28% | |
| Total | 2007 | 177 | 604 | 781 | 779 | 641 | -138 | -18% | In aggregate shortages early revert to surplus in the medium-term. |
| | 2008 | 189 | 590 | 778 | 841 | 723 | -118 | -14% | |
| | 2009 | 197 | 530 | 727 | 866 | 912 | 46 | 5% | |
| | 2010 | 199 | 480 | 679 | 891 | 930 | 39 | 4% | |
| | 2011 | 200 | 448 | 648 | 882 | 937 | 55 | 6% | |

As with red grapes, shortages arising in the short-term due to drought impacts disappear with a return to normal yields by 2009. Winemakers are indicating a preference for inland white grapes but the aggregate position is one of broad balance in the longer-term. Again, it is important to note that the "Total required intake" (demand) figure is an indication

of preference and any shortages of supply may well be met from other regions, depending upon their relative availability. Similar to red grapes, cool region white grapes are oversupplied by around 25%.

The situation with major varieties is discussed below.

CABERNET SAUVIGNON

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 23 | 118 | 141 | 154 | 110 | -44 | -28% | Significant short-term shortage of inland fruit reverts to balance in medium-term. |
| | 2008 | 23 | 107 | 129 | 159 | 122 | -37 | -23% | |
| | 2009 | 24 | 91 | 115 | 163 | 147 | -16 | -10% | |
| | 2010 | 24 | 74 | 98 | 157 | 147 | -10 | -6% | |
| | 2011 | 26 | 68 | 94 | 158 | 147 | -11 | -7% | |
| Cool | 2007 | 58 | 74 | 132 | 99 | 68 | -30 | -31% | Shortage only in 2007, quickly moving back into significant surplus in the medium-term. |
| | 2008 | 59 | 62 | 121 | 105 | 98 | -7 | -7% | |
| | 2009 | 59 | 51 | 110 | 106 | 142 | 36 | 34% | |
| | 2010 | 59 | 47 | 106 | 110 | 142 | 32 | 29% | |
| | 2011 | 60 | 39 | 99 | 109 | 142 | 33 | 31% | |
| Total | 2007 | 81 | 193 | 273 | 253 | 179 | -74 | -29% | Overall shortage of Cabernet for next two years then back to slight surplus. |
| | 2008 | 82 | 168 | 250 | 264 | 220 | -44 | -17% | |
| | 2009 | 83 | 142 | 224 | 268 | 288 | 20 | 8% | |
| | 2010 | 83 | 121 | 204 | 267 | 289 | 22 | 8% | |
| | 2011 | 86 | 107 | 193 | 267 | 289 | 23 | 9% | |

The short vintage sees excess demand for Cabernet in both cool and inland regions which is quickly offset with the return to normal yields by 2009. Longer-term shortages of inland region fruit are more than offset

by surpluses in cool regions. Winemakers are indicating a preference for warm region Cabernet Sauvignon.

CHARDONNAY

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|--|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 42 | 251 | 293 | 268 | 245 | -23 | -9% | Slight inland shortages return to surplus with normal yields. |
| | 2008 | 47 | 252 | 299 | 304 | 274 | -30 | -10% | |
| | 2009 | 49 | 223 | 272 | 312 | 350 | 38 | 12% | |
| | 2010 | 49 | 193 | 243 | 322 | 351 | 29 | 9% | |
| | 2011 | 49 | 180 | 228 | 319 | 352 | 33 | 10% | |
| Cool | 2007 | 44 | 59 | 103 | 88 | 68 | -19 | -22% | Cool region shortages return to significant surplus in the medium-term with normal yields. |
| | 2008 | 45 | 50 | 95 | 89 | 95 | 6 | 6% | |
| | 2009 | 46 | 42 | 88 | 88 | 124 | 36 | 41% | |
| | 2010 | 46 | 39 | 85 | 90 | 126 | 36 | 40% | |
| | 2011 | 48 | 35 | 83 | 91 | 127 | 36 | 40% | |
| Total | 2007 | 85 | 310 | 395 | 356 | 313 | -42 | -12% | Overall shortage of Chardonnay for next two years then back to significant surplus in medium-term. |
| | 2008 | 92 | 302 | 394 | 393 | 369 | -24 | -6% | |
| | 2009 | 95 | 265 | 360 | 400 | 474 | 74 | 19% | |
| | 2010 | 96 | 232 | 328 | 412 | 477 | 65 | 16% | |
| | 2011 | 96 | 215 | 311 | 410 | 479 | 69 | 17% | |

Chardonnay is Australia's most widely planted white grape comprising over 50% of all production. Shortages in the short-term revert to surpluses (Particularly in the cool regions) in the longer-term.

COLOMBARD

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 5 | 66 | 70 | 80 | 56 | -24 | -30% | The significant shortage in 2007 2008 continues into the medium-term. |
| | 2008 | 5 | 63 | 68 | 86 | 58 | -28 | -33% | |
| | 2009 | 5 | 53 | 59 | 94 | 76 | -18 | -19% | |
| | 2010 | 5 | 47 | 52 | 97 | 76 | -21 | -22% | |
| | 2011 | 5 | 43 | 48 | 96 | 76 | -20 | -21% | |

Colombard is almost exclusively grown in the inland regions. Colombard is indicated to remain in shortage in the medium-term.

MERLOT

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|--|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 11 | 57 | 68 | 74 | 54 | -20 | -27% | Shortage early reverts to balance in the medium-term. |
| | 2008 | 12 | 57 | 69 | 81 | 61 | -20 | -25% | |
| | 2009 | 12 | 53 | 65 | 85 | 78 | -6 | -8% | |
| | 2010 | 12 | 45 | 58 | 82 | 79 | -3 | -4% | |
| | 2011 | 12 | 43 | 55 | 82 | 79 | -3 | -4% | |
| Cool | 2007 | 21 | 27 | 47 | 35 | 29 | -6 | -17% | Shortage in 2007 reverts to surplus by 2008. |
| | 2008 | 21 | 24 | 45 | 36 | 41 | 5 | 13% | |
| | 2009 | 21 | 20 | 41 | 35 | 55 | 20 | 58% | |
| | 2010 | 21 | 19 | 41 | 36 | 56 | 19 | 53% | |
| | 2011 | 22 | 16 | 38 | 35 | 56 | 21 | 60% | |
| Total | 2007 | 31 | 84 | 115 | 108 | 83 | -25 | -23% | In aggregate early shortage reverts to surplus in the medium-term. |
| | 2008 | 32 | 81 | 114 | 117 | 101 | -16 | -13% | |
| | 2009 | 33 | 73 | 106 | 120 | 133 | 14 | 12% | |
| | 2010 | 34 | 65 | 98 | 118 | 134 | 16 | 14% | |
| | 2011 | 34 | 59 | 93 | 117 | 135 | 17 | 15% | |

Merlot in aggregate remains in over-supply in the medium-term. Inland position is one of medium-term balance while there are significant surpluses in the cool regions.

PETIT VERDOT

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 3 | 16 | 19 | 14 | 17 | 2 | 17% | Despite the 2007 shortage remains in surplus. Significant surpluses in medium-term. |
| | 2008 | 3 | 14 | 17 | 14 | 17 | 3 | 18% | |
| | 2009 | 3 | 14 | 17 | 14 | 22 | 8 | 59% | |
| | 2010 | 3 | 13 | 16 | 14 | 22 | 9 | 62% | |
| | 2011 | 3 | 13 | 16 | 14 | 22 | 9 | 63% | |

Again a variety predominantly sourced from the warm inland areas, Petit Verdot remains a non-preferred variety in both the short and medium-terms.

PINOT NOIR

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|--|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 1 | 11 | 12 | 20 | 8 | -12 | -62% | Inland Pinot remains in significant shortage throughout the period. |
| | 2008 | 1 | 11 | 12 | 21 | 8 | -13 | -64% | |
| | 2009 | 1 | 10 | 11 | 21 | 11 | -10 | -48% | |
| | 2010 | 1 | 10 | 11 | 21 | 11 | -11 | -50% | |
| | 2011 | 1 | 9 | 11 | 21 | 11 | -11 | -50% | |
| Cool | 2007 | 12 | 11 | 23 | 21 | 12 | -9 | -42% | Excess demand for cool region Pinot tends to surplus in the medium-term. |
| | 2008 | 13 | 8 | 21 | 19 | 19 | 1 | 3% | |
| | 2009 | 13 | 7 | 20 | 19 | 24 | 5 | 25% | |
| | 2010 | 13 | 7 | 20 | 20 | 24 | 5 | 25% | |
| | 2011 | 12 | 7 | 19 | 18 | 25 | 7 | 37% | |
| Total | 2007 | 13 | 21 | 35 | 41 | 20 | -21 | -52% | Overall demand for Pinot exceeds available supply. |
| | 2008 | 14 | 19 | 33 | 40 | 27 | -13 | -32% | |
| | 2009 | 14 | 18 | 32 | 40 | 35 | -5 | -13% | |
| | 2010 | 14 | 17 | 31 | 41 | 35 | -6 | -14% | |
| | 2011 | 14 | 16 | 30 | 39 | 35 | -4 | -10% | |

The survey is indicating a strong preference for warm region Pinot in the longer-term which may be satisfied in part by cool region fruit.

RIESLING

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 2 | 9 | 11 | 12 | 8 | -4 | -34% | Inland Riesling remains in shortage in the medium-term. |
| | 2008 | 2 | 8 | 10 | 13 | 8 | -5 | -37% | |
| | 2009 | 3 | 8 | 11 | 13 | 11 | -2 | -13% | |
| | 2010 | 3 | 8 | 11 | 13 | 11 | -2 | -14% | |
| | 2011 | 3 | 8 | 11 | 13 | 11 | -2 | -14% | |
| Cool | 2007 | 15 | 16 | 32 | 24 | 15 | -10 | -40% | Early shortages revert to surpluses in the medium-term. |
| | 2008 | 16 | 16 | 32 | 26 | 23 | -3 | -13% | |
| | 2009 | 16 | 15 | 31 | 27 | 30 | 3 | 11% | |
| | 2010 | 16 | 15 | 31 | 28 | 31 | 3 | 12% | |
| | 2011 | 16 | 13 | 29 | 27 | 31 | 5 | 17% | |
| Total | 2007 | 18 | 25 | 43 | 37 | 23 | -14 | -38% | Very short early, overall supply demand is in balance in the medium-term. |
| | 2008 | 18 | 24 | 42 | 39 | 31 | -8 | -21% | |
| | 2009 | 19 | 23 | 42 | 40 | 41 | 1 | 4% | |
| | 2010 | 19 | 23 | 42 | 41 | 42 | 1 | 4% | |
| | 2011 | 19 | 21 | 40 | 40 | 43 | 3 | 7% | |

Riesling is a minor variety comprising just 2% of inland white grape production. Indications are that cool regions are in surplus overall once the effect of the drought is taken into account. Shortages of inland Riesling can be topped up from the cool regions.

RUBY CABERNET

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|--|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 5 | 15 | 20 | 13 | 19 | 6 | 50% | Significant surplus despite the effects of the 2007 vintage. |
| | 2008 | 5 | 13 | 18 | 13 | 20 | 7 | 52% | |
| | 2009 | 5 | 11 | 16 | 13 | 25 | 13 | 100% | |
| | 2010 | 5 | 11 | 16 | 12 | 25 | 13 | 103% | |
| | 2011 | 5 | 11 | 15 | 12 | 25 | 13 | 104% | |

Significant surpluses of Ruby Cabernet are indicated over the forecast period. It is noteworthy that committed intake exceeds demand by a

significant amount, suggesting that the only factor keeping this variety in the ground is the existence of contracts.

SAUVIGNON BLANC

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 6 | 11 | 17 | 26 | 12 | -14 | -54% | Inland Sauv Blanc remains in significant shortage throughout the period. |
| | 2008 | 8 | 12 | 20 | 28 | 12 | -16 | -58% | |
| | 2009 | 9 | 11 | 20 | 29 | 20 | -9 | -32% | |
| | 2010 | 9 | 10 | 19 | 29 | 20 | -9 | -30% | |
| | 2011 | 9 | 10 | 18 | 29 | 21 | -8 | -28% | |
| Cool | 2007 | 11 | 14 | 25 | 29 | 16 | -13 | -44% | Excess demand for cool region Sauv Blanc tends to surplus in the longer-term. |
| | 2008 | 11 | 13 | 24 | 30 | 24 | -6 | -21% | |
| | 2009 | 12 | 12 | 24 | 31 | 31 | 0 | 0% | |
| | 2010 | 12 | 12 | 24 | 31 | 33 | 2 | 7% | |
| | 2011 | 12 | 11 | 23 | 30 | 35 | 5 | 18% | |
| Total | 2007 | 17 | 25 | 42 | 56 | 29 | -27 | -49% | Overall demand for Sauv Blanc exceeds available supply in the medium-term. |
| | 2008 | 19 | 25 | 44 | 58 | 36 | -22 | -39% | |
| | 2009 | 21 | 23 | 44 | 60 | 51 | -10 | -16% | |
| | 2010 | 21 | 22 | 43 | 60 | 54 | -7 | -11% | |
| | 2011 | 21 | 21 | 42 | 56 | -3 | -5% | | |

Sauvignon Blanc is indicated to be in acute shortage in the short-term for both warm and cool regions, but in aggregate moves to balance in the medium-term with a return to normal yields. It is worth noting that

while demand is relatively static, supply is forecast to increase through the medium to longer-term for cool regions, pointing to a possible surplus of cool region fruit in the longer-term.

SEMILLON

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 15 | 44 | 59 | 64 | 55 | -9 | -14% | Shortage early reverts to balance in the medium-term. |
| | 2008 | 16 | 44 | 59 | 65 | 54 | -12 | -18% | |
| | 2009 | 16 | 42 | 58 | 66 | 67 | 0 | 0% | |
| | 2010 | 16 | 41 | 56 | 65 | 67 | 3 | 4% | |
| | 2011 | 15 | 40 | 55 | 65 | 68 | 4 | 6% | |
| Cool | 2007 | 10 | 16 | 26 | 25 | 22 | -3 | -11% | Early shortages revert to surpluses in the medium-term. |
| | 2008 | 10 | 14 | 23 | 26 | 28 | 2 | 7% | |
| | 2009 | 10 | 13 | 22 | 26 | 34 | 7 | 28% | |
| | 2010 | 10 | 13 | 23 | 27 | 35 | 8 | 28% | |
| | 2011 | 10 | 13 | 22 | 26 | 35 | 9 | 35% | |
| Total | 2007 | 25 | 60 | 85 | 89 | 77 | -12 | -13% | In aggregate early shortages revert to surpluses in the medium to longer-term |
| | 2008 | 25 | 57 | 83 | 91 | 81 | -10 | -11% | |
| | 2009 | 25 | 55 | 80 | 93 | 100 | 8 | 8% | |
| | 2010 | 26 | 53 | 79 | 92 | 102 | 10 | 11% | |
| | 2011 | 25 | 53 | 78 | 91 | 103 | 13 | 14% | |

Again, the pattern for Semillon in aggregate follows that of other white varieties with shortages (drought related) in the short-term but a longer-

term surplus indicated. Most of the surplus is accounted for from the cool regions.

SHIRAZ

| | | Winery grapes (KT) | Contract purchases (KT) | Total committed intake (KT) | Total required intake (demand) (KT) | Supply (KT) | Supply/demand balance surplus (+) or shortfall (-) | Supply/demand balance as a % of demand | Comment |
|---------------|------|--------------------|-------------------------|-----------------------------|-------------------------------------|-------------|--|--|---|
| | | (A) | (B) | (C)=(A)+(B) | (D) | (S) | (S) - (D) | (S)><(D)% | |
| Inland | 2007 | 29 | 193 | 222 | 224 | 153 | -70 | -31% | Inland Shiraz indicated to remain in shortage throughout the period. |
| | 2008 | 30 | 184 | 214 | 263 | 189 | -74 | -28% | |
| | 2009 | 31 | 170 | 201 | 291 | 241 | -50 | -17% | |
| | 2010 | 31 | 153 | 184 | 286 | 243 | -43 | -15% | |
| | 2011 | 31 | 146 | 177 | 291 | 245 | -46 | -16% | |
| Cool | 2007 | 67 | 123 | 190 | 154 | 105 | -48 | -31% | Early shortages revert to surpluses in the medium-term. |
| | 2008 | 68 | 104 | 172 | 161 | 149 | -13 | -8% | |
| | 2009 | 71 | 87 | 157 | 165 | 201 | 35 | 21% | |
| | 2010 | 73 | 82 | 155 | 173 | 202 | 29 | 17% | |
| | 2011 | 75 | 75 | 149 | 176 | 203 | 28 | 16% | |
| Total | 2007 | 96 | 316 | 412 | 378 | 259 | -119 | -31% | Very short early, overall supply demand is in balance in the medium-term. |
| | 2008 | 99 | 287 | 386 | 424 | 338 | -86 | -20% | |
| | 2009 | 102 | 257 | 359 | 456 | 441 | -15 | -3% | |
| | 2010 | 104 | 235 | 339 | 459 | 445 | -14 | -3% | |
| | 2011 | 105 | 220 | 326 | 467 | 448 | -19 | -4% | |

The most significant Australian red grape variety contributing 43% of red grape production nationally. The supply forecasts for the inland regions suggest little increase in available supply beyond that affected by the drought while there is a steady increase in forecast demand.

For cool region Shiraz the shortages in the medium-term revert to surpluses suggesting a preference for more warm region Shiraz in the overall mix. In aggregate in the medium to longer-term demand and supply are in balance.

PART 3: BALANCE OF SUPPLY AND DEMAND

Inland Regions

VINTAGE 2007 AND LONGER-TERM POSITION

| Variety | % of category in 2006 | Supply position for vintage 2007 | Expected supply position for vintage 2009 | Expected supply position for vintage 2011 | Comment |
|---------------------|-----------------------|----------------------------------|---|---|--|
| WHITE GRAPES | | | % | % | |
| Chardonnay | 50% | 9% under | 12% over | 10% over | Slight early shortages revert to surplus in medium-term |
| Colombard | 13% | 30% under | 19% under | 21% under | A significant shortage in the short-term continues in the longer-term |
| Muscat Gordo | 10% | Assumed balance | Assumed balance | Assumed balance | Wineries generally able to balance demand with available supply |
| Riesling | 2% | 34% under | 13% under | 14% under | Inland Riesling continues to be in shortage into the medium-term |
| Sauvignon Blanc | 3% | 54% under | 32% under | 28% under | Inland Sauv Blanc remains in significant shortage throughout the period. |
| Semillon | 11% | 14% under | balanced | 6% over | Shortage early reverts to balance in the medium-term. |
| RED GRAPES | | | | | |
| Cabernet Sauvignon | 28% | 28% under | 10% under | 7% under | Significant short-term shortage of inland fruit reverts to balance in medium-term. |
| Merlot | 14% | 27% under | 8% under | 4% under | Shortage early reverts to balance in the medium-term. |
| Petit Verdot | 4% | 17% over | 59% over | 63% over | Remains in surplus throughout the period. Non-preferred variety. |
| Pinot Noir | 2% | 62% under | 48% under | 50% under | Inland Pinot remains in significant shortage throughout the period. |
| Ruby Cabernet | 5% | 50% over | 100% over | 104% over | Significant surplus despite the effects of the 2007 vintage. |
| Shiraz | 41% | 31% under | 17% under | 15% under | Inland Shiraz indicated to remain in shortage throughout the period. |

SOURCE: Data compiled from the results of the Australian Regional Winegrape Crush Survey 2006 and ABARE supply forecasts.

Preference signals for warm regions need to be considered in light of availability of fruit from all regions.

Before grubbing, planting or altering varieties contact your winemaker.

Cool Regions

VINTAGE 2007 AND LONGER-TERM POSITION

| Variety | % of category in 2006 | Supply position for vintage 2007 | Expected supply position for vintage 2009 | Expected supply position for vintage 2011 | Comment |
|---------------------|-----------------------|----------------------------------|---|---|--|
| WHITE GRAPES | | % | | % | |
| Chardonnay | 50% | 22% under | 41% over | 40% over | Cool region shortages return to significant surplus in the medium-term with normal yields. |
| Riesling | 2% | 40% under | 11% under | 17% over | Early shortages revert to surpluses in the medium-term |
| Sauvignon Blanc | 3% | 44% under | Balanced | 18% over | Excess demand for cool region Sauv Blanc tends to surplus in the longer-term. |
| Semillon | 11% | 11% under | 28% over | 35% over | Early shortages revert to surpluses in the medium-term |
| RED GRAPES | | | | | |
| Cabernet Sauvignon | 28% | 31% under | 34% over | 31% over | Shortage only in 2007, quickly moving back into significant surplus in the medium-term |
| Merlot | 14% | 17% under | 58% over | 60% over | Shortage in 2007 reverts to surplus by 2008 |
| Pinot Noir | 2% | 42% under | 25% over | 37% over | Excess demand for cool region Pinot tends to surplus in the medium-term. |
| Shiraz | 41% | 31% under | 21% over | 16% over | Early shortages revert to surpluses in the medium-term |

SOURCE: Data compiled from the results of the Australian Regional Winegrape Crush Survey 2006 and ABARE supply forecasts.

Preference signals for cool regions need to be considered in light of availability of fruit from all regions.

Before grubbing, planting or altering varieties contact your winemaker.

ATTACHMENT: 2006 VINTAGE INTAKE & PRICES, INLAND AREAS

| VARIETY | RIVERLAND | | RIVERINA | | MURRAY DARLING & SWAN HILL | | TOTAL |
|---------------------|-----------------|--|-----------------|--|----------------------------|--|-----------------|
| | Total Crush (t) | Calculated average purchase value (\$/t) | Total Crush (t) | Calculated average purchase value (\$/t) | Total Crush (t) | Calculated average purchase value (\$/t) | Total Crush (t) |
| RED | | | | | | | |
| Cabernet Sauvignon | 66,951 | 324 | 23,626 | 384 | 66,634 | 362 | 157,211 |
| Durif | | | 5,262 | 388 | 137 | 316 | 5,399 |
| Grenache | 9,120 | 283 | | | 1,117 | 356 | 10,237 |
| Mataro | 6,504 | 297 | 1,506 | 306 | 380 | 261 | 8,390 |
| Merlot | 29,770 | 377 | 15,650 | 372 | 31,428 | 385 | 76,848 |
| Other Red | 3,302 | 280 | 5,131 | 326 | 2,866 | 521 | 11,299 |
| Petit Verdot | 14,726 | 315 | 3,568 | 338 | 3,469 | 321 | 21,763 |
| Pinot Noir | 5,736 | 495 | 2,747 | 459 | 2,550 | 448 | 11,033 |
| Ruby Cabernet | 9,742 | 264 | 12,431 | 326 | 4,272 | 270 | 26,445 |
| Sangiovese | 829 | 269 | 306 | 594 | 1,721 | 269 | 2,856 |
| Shiraz | 104,735 | 425 | 63,553 | 386 | 65,515 | 399 | 233,803 |
| Total Red | 251,415 | 370 | 133,780 | 376 | 180,089 | 379 | 565,284 |
| WHITE | | | | | | | |
| Chardonnay | 111,377 | 421 | 59,898 | 425 | 136,030 | 382 | 307,305 |
| Chenin Blanc | 4,585 | 290 | 1,200 | 313 | 1,042 | 337 | 6,827 |
| Colombard | 34,565 | 279 | 17,170 | 288 | 26,764 | 301 | 78,499 |
| Muscat Gordo Blanco | 24,961 | 362 | 5,057 | 337 | 30,439 | 350 | 60,457 |
| Other White | 5,603 | 324 | 2,892 | 399 | 2,889 | 481 | 11,384 |
| Pinot Gris | 11 | 498 | 3,227 | 671 | 2,023 | 667 | 5,261 |
| Riesling | 4,001 | 380 | 5,143 | 331 | 2,382 | 395 | 11,526 |
| Sauvignon Blanc | 5,828 | 553 | 3,945 | 470 | 5,789 | 502 | 15,562 |
| Semillon | 11,672 | 361 | 45,935 | 351 | 12,308 | 378 | 69,915 |
| Sultana | 3,029 | 230 | | | 13,216 | 263 | 16,245 |
| Traminer | 2,889 | 531 | 5,219 | 349 | | | 8,108 |
| Trebbiano | | | 3,874 | 276 | | | 3,874 |
| Verdelho | 3,037 | 375 | 6,309 | 314 | 1,308 | 328 | 10,654 |
| Viognier | 1,395 | 703 | 1,320 | 438 | 1,658 | 542 | 4,373 |
| Total White | 212,953 | 385 | 161,189 | 378 | 235,848 | 369 | 609,990 |
| TOTAL | 464,368 | 377 | 294,969 | 377 | 415,937 | 373 | 1,175,274 |

SOURCE: Riverland figures provided by the Phylloxera and Grape Industry Board of SA.

SOURCE: Riverina figures from the Wine Grapes Marketing Board.

SOURCE: Murray Valley figures provided by the Murray Valley Winegrape Industry Development Committee.