
Australian Winegrape Conference

20 NOVEMBER 2003

MILDURA

REPORT

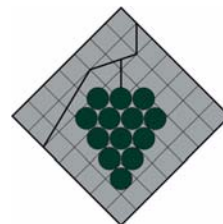
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prepared by:
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for the Winegrape Growers' Council of Australia Inc



Grape and Wine
Research and
Development Corporation

Introduction

This paper is an overview of the Australian wine industry presented at the Australian Winegrape Conference in Mildura on 20 November 2003. The Australian Winegrape Conference is presented by the Winegrape Growers Council of Australia to consider the future of the wine industry, and in particular, the sustainability of grapegrowing.

This overview 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, and the Australian Bureau of Agricultural and Resource Economics (ABARE).

The Conference has developed from the National Winegrape Outlook Conference which allowed grapegrowers and winemakers from the three major inland grapegrowing regions of Australia (the SA Riverland, the NSW/Vic Sunraysia and the NSW Riverina) to meet to exchange information on the market for winegrapes. The AWC's focus is not limited to consideration of the inland regions.

Collection of the ABS data, ABARE analysis and a discussion paper prepared for the meeting were funded by the Grape and Wine Research and Development Corporation (GWRDC). Regional wine grape utilisation surveys were funded by the Murray Valley Wine Grape Industry Development Committee (Sunraysia), The Department of Primary Industries (Victoria), Wine Grapes Marketing Board (Riverina), the New South Wales Wine Industry Association, the Phylloxera & Grape Industry Board of SA and Primary Industries & Resources SA.

This paper is presented in three parts:

- Part 1 is a summary of the Australian wine market for both domestic and exports, and future production and sales prospects.
- Part 2 is an analysis of the expected and preferred intake of individual varieties at the national level, 2003-03 to 2007-08, broken down into "inland" and "cool" (ie the rest of Australia).
- Part 3 is an outlook statement for the inland regions of Riverland, Sunraysia and Riverina for vintage 2004.

The paper was prepared on behalf of the Winegrape Growers' Council of Australia using funding from the Grape and Wine Research and Development Corporation by

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Abbreviations and terms used in this document:

ML	= million litres
MAT	= moving annual total
KT	= thousand tonnes
t	= tonnes
fob	= free on board

Reference to bottled wine is to wine sold in containers under 2 litres.

Data is preferably sourced from ABS collections where possible. Some detail on exports has been obtained from AWEC and there may be differences between the two sources

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PART 1: THE MARKET FOR AUSTRALIAN WINE

2002- 03 IN REVIEW

Concerns over a continuation of the red wine glut arising from the bumper 2002 vintage were allayed somewhat during the last financial year with national grape production showing its first fall in several years, and red wine exports achieving a 36% growth.

Grapes crushed for wine were 1.36 million tonnes (ABS figure for winemakers crushing more than 400t), around 180KT less than expected a year ago. Exports grew 24% overall, the same rate on average as a year earlier. However compositionally, red wine exports grew more strongly while white growth eased to just over 10%..

Total domestic sales also showed modest growth increasing 5% overall. Bottled wine sales grew by more than 8% for red and white, and red soft pack increased 11%. White soft pack sales declined by 3.4%.

Highlights for the 2002-03 year include:

- Domestic wine sales (Australian wine plus imports) reached 420ML during the year, a 5% increase over the previous year's record figure.
- Export growth of 24% was the same as the previous year, while unit values fell 7% to \$4.67/litre.
- Domestic sales of bottled red wine grew by 8.3% and bottled white by 8.0%. These rates of growth were well up on the rates of increase a year earlier.
- At 183ML, sale of wine in soft pack and other containers was once again virtually the same as the previous year. Growth in varietal soft pack sales has more than offset the decline in the generic cask market, and this is reflected in a decline in interest in neutral white grapes.
- Imports of wine were slightly higher at 17ML. The average import price rose from \$7.98/litre to \$8.14/litre.

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

Table 1: Wine Sales Summary (June 12 month MAT)

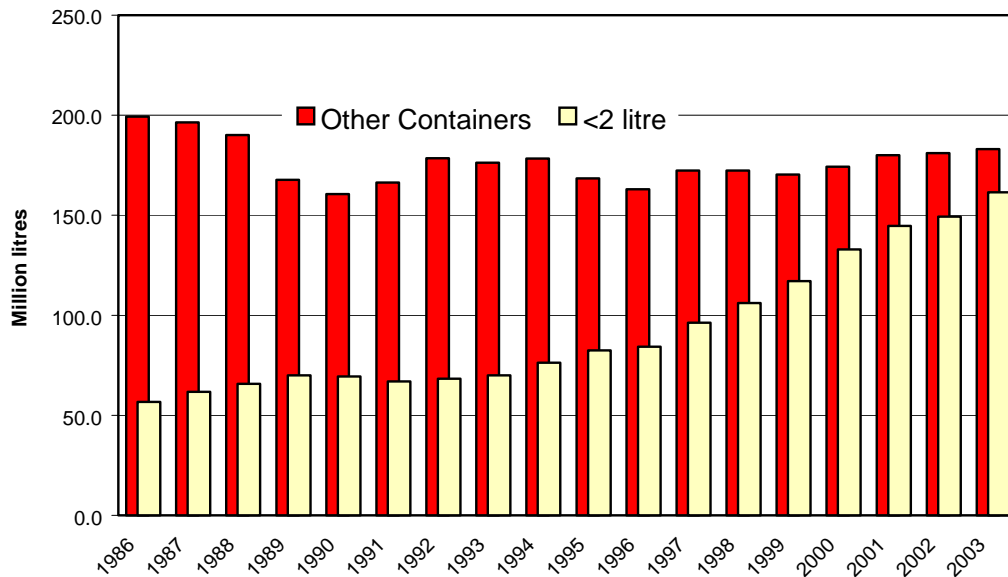
	12 mths to Jun 01	12 mths to Jun 02	Incr	12 mths to Jun 03	Incr
	MI	MI		MI	%
White <2 ltr	74	76	2.1%	82	8.0%
White Soft Pack & Other	125	124	-0.6%	120	-3.4%
<i>Total White Table</i>	<i>199</i>	<i>200</i>	<i>0.4%</i>	<i>202</i>	<i>0.9%</i>
Red <2ltr	71	74	4.4%	80	8.3%
Red Soft Pack & Other	55	57	3.1%	63	11.1%
<i>Total Red Table</i>	<i>126</i>	<i>130</i>	<i>3.8%</i>	<i>143</i>	<i>9.5%</i>
Total Table Wine	325	330	1.7%	344	4.3%
Other	60	55	-7.5%	58	5.4%
<i>Total Aust Domestic</i>	<i>384</i>	<i>385</i>	<i>0.3%</i>	<i>402</i>	<i>4.5%</i>
Imports	13	14	13.3%	17	18.2%
Total Domestic Sales	397	400	0.7%	420	5.0%
Exports-white	148	176	18.5%	194	10.2%
Exports-red	180	230	27.8%	313	35.7%
Exports-other	10	12	26.1%	12	-1.7%
<i>Exports-Total</i>	<i>338</i>	<i>418</i>	<i>23.7%</i>	<i>518</i>	<i>23.9%</i>
Total Australian Sales	722	804	11.3%	921	14.6%

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

Domestic Wine Sales

Domestic wine sales of 420ML (Australian produced wine plus imports) was 20ML higher than the year before. The overall increase was made up of a 12ML increase in red table wine sales (both soft pack and bottles), a 2ML increase in white wine sales, a 3ML increase in imports and a 3ML increase in other wine.

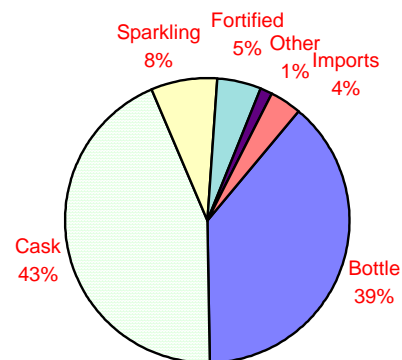
Figure 1: Domestic Sales of Australian Table Wine



In terms of composition, the bottled table wine sector continues to grow while cask sales have remained relatively static in recent years.

Australian table wine accounts for 82% of domestic wine sales. However within that category, the share of bottle sales increased from 37% to 39% while sales in other containers (mainly casks) fell from 46% to 43%. It should be noted that cask sales increased 2ML overall.

Figure 2: Domestic Wine Sales 2002-03



White Wine

Since peaking at 212 ML in 1986, domestic sales of Australian white wine had held between 180-200ML for the past decade, finally passing 200ML in 2002-03. Sales of bottled white wine have experienced steady growth throughout the period rising from 39ML in 1985-86 to 82ML in 2002-03. Other white wine sales (principally soft pack) have shown the most volatility peaking at 173ML in 1985-86. Last year sales declined 4ML and now stand at 120ML.

Red wine

Domestic sales of Australian red wine increased steadily during the 1980s, rising by 9.5% overall last year. Both the bottle and cask sectors have grown strongly over the past decade. Red soft pack sales grew 11.1% in the last year while bottle sales grew 8.3%.

Sparkling

At 31.6ML sparkling wine sales increased by 6.5% in the past year, the first increase in sales since 1998-99.

Fortified

Sales of fortified wine in 2002-03 increased by 0.5ML to 20.8ML, the first increase in more than 15 years.

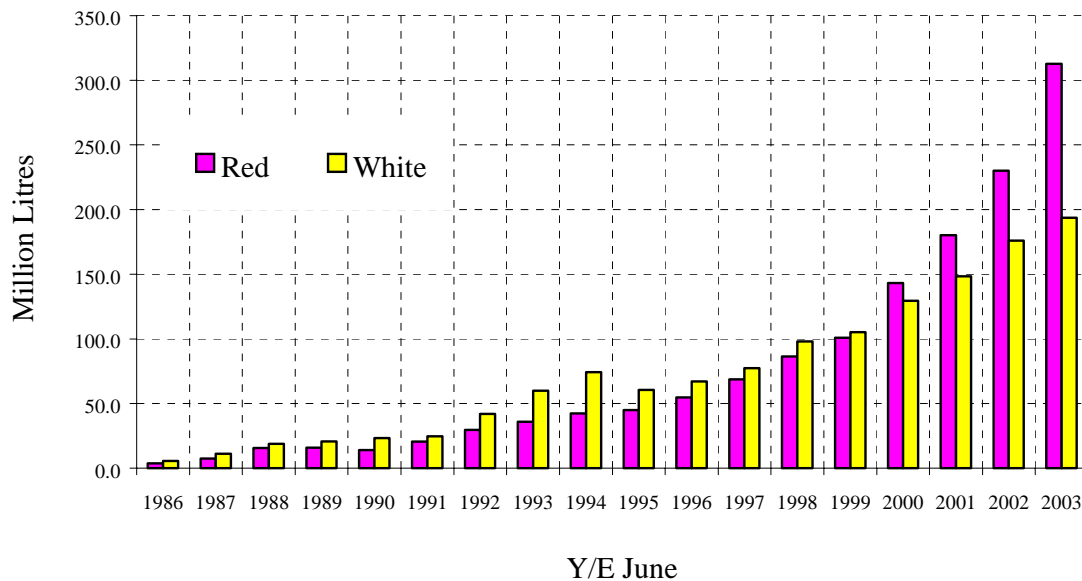
Imports

In the late eighties and early nineties imports represented only a small proportion of domestic wine sales. However, 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. Imports of 17.1ML in 2002-03 represent the base level.

Australian Table Wine Exports

Australian wine exports have driven the wine industry's growth over the past decade. While for many years growth has been constrained by grape availability, rapid expansion in grape supply, particularly red grapes, has posed some difficulties for the industry to process, store and sell the available product. The 2002 vintage highlighted the industry's capacity limits, and it is largely as a result of the shorter 2003 harvest that the industry was not again put to the test.

Figure 3: Exports of Australian Table Wine



Despite fears over the past two years that red grape supply would outstrip sales, the industry has demonstrated a capacity to very quickly take up the challenge, with monthly export approvals running at record levels in the past year.

However there are some concerns emerging. The strengthening Australian dollar and increasing international competition are seeing export margins eroded. Investment in new vineyards has also slowed since the late 1990s, suggesting that future growth will be constrained as a result. The optimism of a year ago has now been dented, and that is being reflected in winemaker demand for fruit from the relatively cheaper inland areas in preference to the cooler areas.

White wine exports have increased from 6ML in 1985-86 to 194 ML in 2002-03, increasing by 18ML or 10.2% in the last year.

Red wine exports grew 82ML or 35.7% in 2002-03. In 1986 red wine exports at 4ML were 9% of red wine sales. In 2002-03 the export volume had risen to 313ML representing 69% of annual red wine sales. Total sales of Australian red wine (domestic plus exports) have also increased enormously, growing from 48ML in 1985-86 to 456ML in 2002-03 including a 95ML increase in the last year.

Australia's major volume markets are the United Kingdom, United States, New Zealand and Canada, with the United States the largest market by value. The following table shows the regional distribution of Australian wine exports over the past four years, and rates of growth for those markets.

Table 2: Exports of Australian Wine, by principal market including rates of growth

	1999-2000		2000-01		2001-02		2002-03	
	ML	% inc	ML	% inc	ML	% inc	ML	% inc
United Kingdom	140	36%	165	18%	202	23%	209	3%
United States	50	34%	68	35%	95	40%	142	50%
New Zealand	20	-6%	21	6%	25	18%	33	30%
Canada	13	37%	15	19%	19	25%	25	31%
Other Asia exc Japan	8	168%	8	10%	10	17%	11	12%
Germany	9	59%	12	26%	12	1%	21	78%
Ireland	7	45%	7	1%	8	7%	7	-5%
Japan	6	17%	5	-10%	5	5%	5	0%
Netherlands	9	105%	10	15%	8	-16%	11	29%
Sweden	6	54%	5	-23%	6	28%	9	53%
Others	21	9%	23	10%	27	18%	36	31%
TOTAL	288	33%	339	18%	417	23%	508	22%

While the UK remains the largest market by volume (41% of total), strongest growth is in the United States market which grew by 50% in the last year. Importantly, the United States also yields a higher per litre return, and has recently surpassed the United Kingdom as the largest market by value.

The following table shows the composition of Australian wine exports by value for principal markets:

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

	1999-2000		2000-01		2001-02		2002-03	
	\$M	% share	\$M	% share	\$M	% share	\$M	% share
United Kingdom	590	44%	690	43%	844	42%	860	36%
United States	317	23%	417	26%	583	29%	828	35%
New Zealand	65	5%	77	5%	85	4%	99	4%
Canada	74	5%	91	6%	124	6%	174	7%
Germany	41	3%	50	3%	48	2%	58	2%
Others	265	20%	288	18%	317	16%	426	18%
TOTAL	1352	100%	1,614	100%	2,000	100%	2,386	100%

The United States has since June surpassed the United Kingdom as the largest market in terms of value.

Table 4: Exports of Australian Wine, by principal market by average return

	1999-2000		2000-01		2001-02		2002-03	
	ML	\$/l	ML	\$/l	ML	\$/l	ML	\$/l
United Kingdom	140	\$4.22	165	\$4.18	202	\$4.18	209	\$4.12
United States	50	\$6.34	68	\$6.14	95	\$6.14	142	\$5.83
New Zealand	20	\$3.27	21	\$3.68	25	\$3.39	33	\$3.02
Canada	13	\$5.67	15	\$6.08	19	\$6.50	25	\$7.09
Others	65	\$4.08	70	\$4.12	76	\$4.18	100	\$4.25
TOTAL	288	\$4.70	339	\$4.76	417	\$4.80	508	\$4.70

Average returns are highest per litre in the North American markets:

Within wine categories, bottled red wine provides the highest returns. The following table shows export returns by principal wine category:

Table 5: Australian Wine Exports Wine Type¹

	2000-01		2001-02		2002-03	
	ML	\$/L	ML	\$/L	ML	\$/L
Bottled Red	157	5.97	198	5.95	250	5.87
Soft pack red	5	2.52	7	2.54	7	2.54
Bulk red	18	1.95	29	1.67	50	1.32
TOTAL RED	180	5.47	234	5.32	307	5.06
Bottled White	120	4.52	138	4.71	151	4.75
Soft pack White	5	1.96	7	2.14	6	2.28
Bulk white	25	1.17	28	1.20	34	1.29
TOTAL WHITE	150	3.87	174	4.03	191	4.05
TOTAL STILL WINE	330	4.75	408	4.77	498	4.67
Other Wine	9	5.36	10	5.86	10	6.00
TOTAL	339	4.76	417	4.79	508	4.70

Red wine overall achieved \$5.06/litre in the last financial year, the slight fall mainly the result of compositional changes which saw bulk wine exports increase from 14% to 17% of the total.

Stocks of Wine at 30 June 2003

At last year's National Winegrape Outlook Conference industry identified rates of export growth that would return overall stocks to within the broad bands of the comfort zone, which for white wine was around 1.5 years stocks and for red wine around 2.5 years stocks as at 30 June 2003.

To achieve this, white wine exports would need to grow by 12% and red wine exports by 25%, an increase of 75ML overall. Actual growth achieved in 2002-03 was 10% for white wine and 36% for red wine.

It should be noted there are issues with the accuracy of the stocks figures as measured by the Australian Bureau of Statistics, and the figures used in this analysis have been adjusted by an editorial committee to reflect what it believes is the actual position.

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 67,000 hectares in 1993-94 to 159,362 hectares in 2002-03. Initial growth in plantings was in white grapes (principally Chardonnay), but by the latter half of the decade the emphasis shifted to red grapes (Shiraz, then Cabernet Sauvignon and Merlot).

Official ABS figures show intended plantings of red grapes of 1,546 hectares after 2003 and 2,701 hectares of white grapes. While overall planted area barely increased in the past year, there has been a slight swing towards white grape plantings in the last three years. Just 7% of all red grape plantings were non-bearing in 2002-03 while for white grapes the figure is also 13%. There were 62,123 hectares of white grapes (for all uses) and 97,239 hectares of red grapes planted as at harvest 2003. This is virtually the same as last year.

The following table are the ABARE grape supply projections underpinning the presentation given to the Conference. It is assumed that winemakers will take up the available supply, and this has been used to calculate wine production for 2004 to 2006.

Table 6: Grape Production Forecasts (KT)

	Grapes			
	crushed(a)	Projected Production(b)		
		2002-03	2003-04	2004-05
White	583	672	752	789
Red	779	980	1,054	1,067
Total	1,362	1,652	1,807	1,855

(a) ABS figure for enterprises crushing >400tonnes

(b) ABARE forecast adjusted for enterprises crushing >400tonnes

¹ Source: Australian Wine and Brandy Corporation. Figures differ from ABS for methodological reasons.

Domestic wine sales

Since its peak in the mid 1980s, for almost a decade domestic wine consumption (Australian wine plus imports) had hovered around the 320-330ML mark. However 1996-97 saw a resurgence of domestic growth which continued for six years. For the purpose of the Conference it is assumed that domestic wine sales will continue to grow at modest rates of around 1% in the medium term with white wine growth 0.5% and red wine at 1.5%.

Stocks & the “comfort zone”

Much of the analysis of the health of the Australian wine industry has centred around stock levels in relation to sales. At recent National Winegrape Outlook Conferences it has been agreed that the ideal range for the stocks-to-sales ratio was 1.50-1.75 (ie years of stock measured at 30 June). Outside this range the industry becomes unstable – if the ratio is low there are grape shortages and higher prices – if the ratio is higher, grape supply exceeds sales and prices will tend to fall.

Each broad market sector (red and white wine sales of cask, bottle and exports) has its own stock requirements, and over the years there have been significant changes to the mix, both in the proportion of red and white wine sold, to the relative growth of exports, and the shift domestically from cask to bottled product.

Generally cask wine has the lowest stock-holding period, while white bottles are sold earlier than red bottles. Exports of red wine in any given vintage will be later than for white wine.

The impact of the shifts in the market mix has been towards sectors with longer stock-holding periods, increasing the industry’s holding of stocks for any given level of sales. This translates into a gradual increase in the stocks to sales ratio over the past few years.

Maintaining a viable stock position

The Conference outputs are based on an expectation that winemakers will aim to maintain red wine stocks at no more than 2.5 years of sales measured at June 30, and that white wine stocks will be maintained at around 1.5 years of stock.

Using this as a guide, forecasts of grape production and domestic sales are used to calculate the rates of export growth that will allow the wine industry to achieve balanced growth. On that basis the wine following sales projections has been developed:

Table 7: Wine sales assumptions

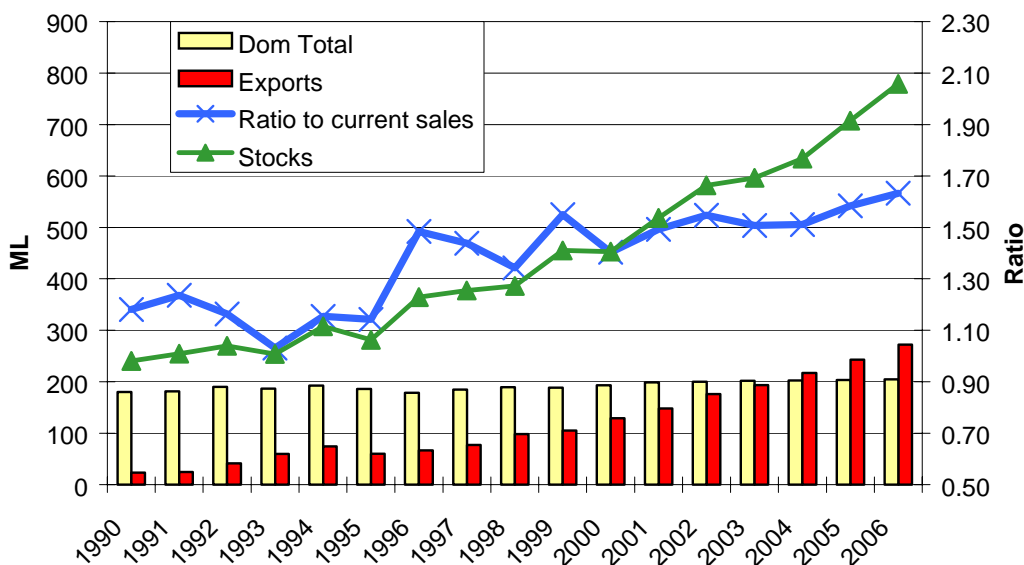
	White Wine		Red Wine	
	Domestic	Export growth	Domestic	Export growth
2004	0.5%	12%	1.5%	25%
2005	0.5%	12%	1.5%	20%
2006	0.5%	12%	1.5%	15%

It should be emphasised that the rates of export growth are not projections of expected demand, but rather refer to rates of growth that will allow industry to continue to enjoy relatively balanced growth and avoid an unmanageable stock position.

The following tables shows White and Red Wine sales and stocks projections based on the above assumptions.

Table 8: White Wine Sales and Stocks Projections

	Stocks	Sales				Stock Ratio to current sales
		Domestic		Exports	Total	
		<2 litre	other			
	ML	ML	ML	ML	ML	
1993	254	44	142	60	246	1.03
1994	308	48	144	74	267	1.15
1995	282	52	134	61	247	1.14
1996	365	51	128	67	246	1.48
1997	377	55	130	77	262	1.44
1998	386	59	130	98	288	1.34
1999	455	63	125	105	294	1.55
2000	453	69	124	130	323	1.40
2001	518	74	125	148	347	1.49
2002	582	76	124	176	376	1.55
2003	596	82	120	194	395	1.51
2004	634	82	121	217	420	1.51
2005	707	82	121	243	447	1.58
2006	779	83	122	272	477	1.63

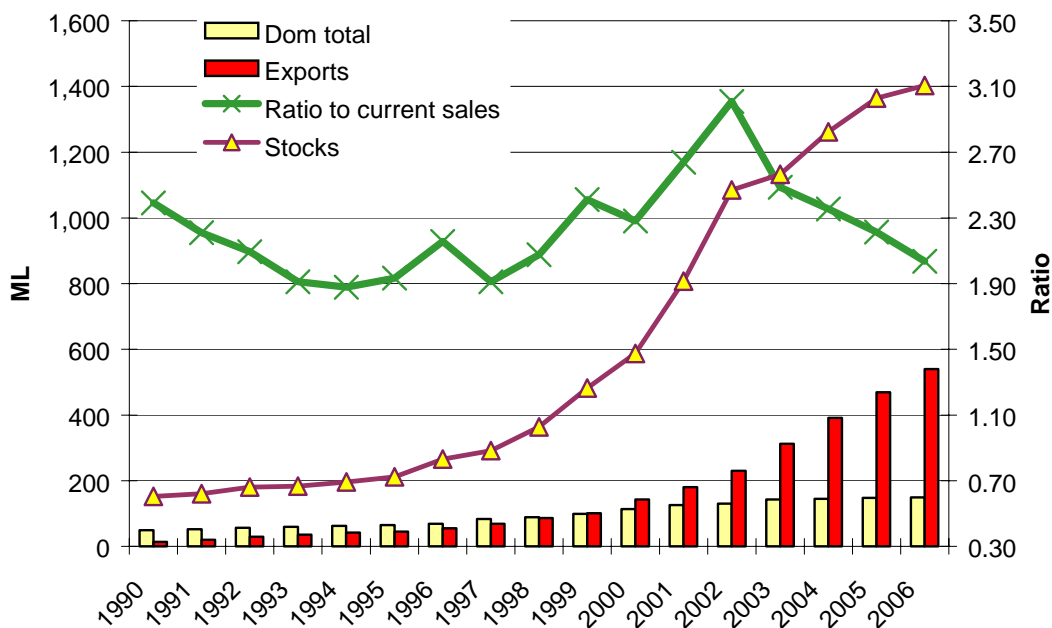
Figure 4: White Wine Sales and Stocks Projections

The modelling suggests that under the assumptions White Wine growth will be balanced, with the Stocks to Sales ratio within the comfort zone of 1.5 to 1.75 years of stock.

Table 9: Red Wine Sales and Stocks Projections

	Stocks	Sales				Stock Ratio to current sales
		Domestic		Exports	Total	
		<2 litre	other	ML	ML	
1993	183	26	34	36	96	1.91
1994	196	28	34	42	105	1.88
1995	212	31	34	45	110	1.93
1996	266	34	35	55	123	2.16
1997	292	41	43	69	152	1.91
1998	364	47	42	86	175	2.08
1999	482	54	45	101	200	2.41
2000	587	63	51	143	257	2.28
2001	807	71	55	180	306	2.64
2002	1,085	74	57	230	361	3.01
2003	1,133	80	63	313	456	2.49
2004	1,262	81	64	391	536	2.35
2005	1,364	82	65	469	616	2.21
2006	1,403	83	66	540	689	2.04

Figure 5: Sales and stocks projections for Red Wine



Under the assumptions for Red Wine the modelling suggests a sharp erosion of stocks over the next couple of years. Depending on how the vintages progress it is probable there will be a further easing of the rates of growth that can be achieved if the industry is not to become short of stock.

PART 2: ANALYSIS OF INDIVIDUAL VARIETIES - NATIONAL

DISCLAIMER

The analysis that follows is based on information collected from the Australian Regional Winegrape Crush Surveys conducted during 2003. These surveys seek information from winemakers regarding their expected intake of grapes over the following five years, as well as their preferred intake over the period.

It should be noted that the expected intake figures used in the following analysis, and the production forecasts used in Part 1 of this report may not agree due to timing and methodology. The analysis which follows is intended to provide growers and winemakers with a broad indication of winemaker sentiment regarding the availability and demand for the varieties at the time of the utilisation surveys based on a consistent set of data.

Growers or new investors considering planting grapes should speak to their winemaker as the supply demand position will vary for individual enterprises and regions.

National Position

NATIONAL RED	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	792	955	976	988	989	980
Preferred (KT)	801	904	977	1,014	1,044	1,059
Expected - Preferred(KT)	-9	50	-1	-26	-54	-79
Diff/Preferred (%)	-1.1%	5.6%	-0.1%	-2.6%	-5.2%	-7.4%
NATIONAL WHITE	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	602	726	782	825	840	836
Preferred (KT)	669	760	815	860	882	894
Expected - Preferred(KT)	-67	-34	-33	-35	-43	-58
Diff/Preferred (%)	-10.0%	-4.5%	-4.0%	-4.1%	-4.8%	-6.4%
NATIONAL TOTAL	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	1,394	1,681	1,758	1,813	1,829	1,816
Preferred (KT)	1,470	1,664	1,791	1,875	1,926	1,953
Expected - Preferred(KT)	-76	16	-34	-61	-97	-136
Diff/Preferred (%)	-5.2%	1.0%	-1.9%	-3.3%	-5.0%	-7.0%

Red Grape Summary

NATIONAL RED	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	792	955	976	988	989	980
Preferred (KT)	801	904	977	1,014	1,044	1,059
Expected - Preferred(KT)	-9	50	-1	-26	-54	-79
Diff/Preferred (%)	-1.1%	5.6%	-0.1%	-2.6%	-5.2%	-7.4%
COOL RED	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	331	424	438	445	452	449
Preferred (KT)	316	359	399	424	449	457
Expected - Preferred(KT)	15	65	39	21	3	-8
Diff/Preferred (%)	4.7%	18.0%	9.8%	4.9%	0.7%	-1.8%
INLAND RED	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	461	531	538	543	538	531
Preferred (KT)	484	545	578	590	595	602
Expected - Preferred(KT)	-24	-14	-40	-47	-57	-71
Diff/Preferred (%)	-4.9%	-2.6%	-7.0%	-8.0%	-9.6%	-11.8%

White Grape Summary

NATIONAL WHITE	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	602	726	782	825	840	836
Preferred (KT)	669	760	815	860	882	894
Expected - Preferred(KT)	-67	-34	-33	-35	-43	-58
Diff/Preferred (%)	-10.0%	-4.5%	-4.0%	-4.1%	-4.8%	-6.4%
COOL WHITE	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	185	213	225	237	244	242
Preferred (KT)	173	209	224	241	253	260
Expected - Preferred(KT)	11	4	1	-4	-9	-19
Diff/Preferred (%)	6.5%	1.8%	0.4%	-1.5%	-3.7%	-7.1%
INLAND WHITE	2003	2004	2005	2006	2007	2008
Expected Intake (KT)	417	513	557	588	596	594
Preferred (KT)	495	551	591	620	629	633
Expected - Preferred(KT)	-78	-38	-34	-32	-33	-39
Diff/Preferred (%)	-15.8%	-6.9%	-5.7%	-5.1%	-5.3%	-6.2%

Major Varieties

Cabernet Sauvignon

This variety continues to be in surplus in the immediate term (particularly in the cool regions) but heading to balance in both cool and inland regions.

NAT Cabernet	2003	2004	2005	2006	2007	2008
Expected (KT)	237	304	305	303	299	299
Preferred (KT)	226	262	287	295	303	305
Intake - Preferred(KT)	11	41	18	8	-4	-6
Diff/Preferred (%)	5%	16%	6%	3%	-1%	-2%
COOL Cabernet	2003	2004	2005	2006	2007	2008
Expected (KT)	116	153	155	155	155	154
Preferred (KT)	113	126	139	145	154	155
Expected - Preferred(KT)	3	28	17	9	1	-1
Diff/Preferred (%)	3%	22%	12%	6%	0%	-1%
Inland Cabernet	2003	2004	2005	2006	2007	2008
Expected (KT)	122	150	150	148	145	145
Preferred (KT)	113	136	148	149	149	150
Expected - Preferred(KT)	8	14	2	-1	-4	-5
Diff/Preferred (%)	7%	10%	1%	-1%	-3%	-3%

Chardonnay

A slight shortage in the inland regions heading to balance, while a balanced position early heading to shortage in the Cool regions over the period.

NAT Chardonnay	2003	2004	2005	2006	2007	2008
Expected (KT)	254	326	373	416	437	441
Preferred (KT)	295	350	393	431	451	460
Intake - Preferred(KT)	-41	-25	-20	-15	-15	-19
Diff/Preferred (%)	-14%	-7%	-5%	-4%	-3%	-4%
COOL Chardonnay	2003	2004	2005	2006	2007	2008
Expected (KT)	88	106	116	125	129	131
Preferred (KT)	89	112	123	135	143	148
Expected - Preferred(KT)	0	-6	-7	-10	-14	-17
Diff/Preferred (%)	0%	-5%	-6%	-7%	-9%	-12%
Inland Chardonnay	2003	2004	2005	2006	2007	2008
Expected (KT)	165	220	257	291	307	311
Preferred (KT)	206	239	270	296	308	312
Exp - Pref(KT)	-41	-19	-13	-6	-1	-2
Diff/Preferred (%)	-20%	-8%	-5%	-2%	0%	0%

Colombard

Short and medium position is one of balance. Variety predominately grown in the inland regions.

Inland Colombard	2003	2004	2005	2006	2007	2008
Expected (KT)	57	76	78	78	77	75
Preferred (KT)	63	77	80	81	81	81
Exp - Pref(KT)	-6	-1	-2	-4	-4	-6
Diff/Preferred (%)	-9%	-1%	-2%	-4%	-5%	-7%

Merlot

A surplus of Merlot is indicated for the cool regions, while there is a growing gap between expected and preferred intake indicating a shortage for the inland regions over the period.

NAT Merlot	2003	2004	2005	2006	2007	2008
Expected (KT)	98	110	115	117	119	118
Preferred (KT)	104	116	123	129	133	137
Intake - Preferred(KT)	-5	-6	-9	-12	-15	-19
Diff/Preferred (%)	-5%	-5%	-7%	-9%	-11%	-14%
COOL Merlot	2003	2004	2005	2006	2007	2008
Expected (KT)	40	44	47	49	51	52
Preferred (KT)	34	39	43	46	48	49
Expected - Preferred(KT)	6	6	4	3	3	2
Diff/Preferred (%)	18%	15%	10%	7%	6%	4%
Inland Merlot	2003	2004	2005	2006	2007	2008
Expected (KT)	58	65	68	68	68	66
Preferred (KT)	70	77	81	83	85	87
Exp - Pref(KT)	-11	-12	-13	-15	-18	-21
Diff/Preferred (%)	-16%	-15%	-16%	-18%	-21%	-24%

Muscat Gordo

Mostly grown in the inland regions, the variety is in slight shortage, although preferred intake shows no growth, reflecting the static demand for generic white wine casks and demand for concentrate.

Inland Muscat Gordo	2003	2004	2005	2006	2007	2008
Expected (KT)	51	55	56	55	54	52
Preferred (KT)	60	63	64	63	63	62
Exp - Pref(KT)	-9	-8	-7	-8	-9	-10
Diff/Preferred (%)	-14%	-13%	-11%	-13%	-14%	-16%

Pinot Noir

A slight surplus for 2004 in the cool regions, otherwise planned and preferred intake are in balance for the cool and inland regions into the medium term.

NAT Pinot Noir	2003	2004	2005	2006	2007	2008
Expected (KT)	30	31	32	31	31	30
Preferred (KT)	24	28	30	31	31	31
Intake - Preferred(KT)	5	2	2	0	0	-1
Diff/Preferred (%)	22%	8%	5%	1%	0%	-2%
COOL Pinot Noir	2003	2004	2005	2006	2007	2008
Expected (KT)	22	20	20	20	20	19
Preferred (KT)	17	18	19	20	20	20
Expected - Preferred(KT)	5	2	1	0	-1	-1
Diff/Preferred (%)	31%	11%	6%	-1%	-3%	-7%
Inland Pinot Noir	2003	2004	2005	2006	2007	2008
Expected (KT)	7	10	11	12	12	12
Preferred (KT)	7	10	11	11	11	11
Exp - Pref(KT)	0	0	1	1	1	1
Diff/Preferred (%)	1%	4%	5%	5%	5%	5%

Riesling

Expected and preferred intake is in balance in the cool regions, however a shortage is indicated for the inland regions over the period. The shortages in the cool regions from previous years appear to have worked themselves out.

NAT Riesling	2003	2004	2005	2006	2007	2008
Expected (KT)	30	34	36	38	39	39
Preferred (KT)	30	34	37	39	41	42
Intake - Preferred(KT)	0	-1	-1	-1	-2	-3
Diff/Preferred (%)	-1%	-2%	-2%	-3%	-4%	-8%
COOL Riesling	2003	2004	2005	2006	2007	2008
Expected (KT)	19	23	25	27	28	27
Preferred (KT)	18	21	24	26	28	28
Expected - Preferred(KT)	1	1	1	1	0	-1
Diff/Preferred (%)	6%	6%	6%	4%	2%	-3%
Inland Riesling	2003	2004	2005	2006	2007	2008
Expected (KT)	11	11	11	11	11	11
Preferred (KT)	12	13	13	14	14	14
Exp - Pref(KT)	-1	-2	-2	-2	-2	-2
Diff/Preferred (%)	-10%	-15%	-17%	-17%	-17%	-17%

Ruby Cabernet

Almost entirely found in the inland areas, expected intake is declining but still well above the preferred intake figure. This variety remains in surplus over the period.

Inland Ruby Cabernet	2003	2004	2005	2006	2007	2008
Expected (KT)	36	36	33	33	32	30
Preferred (KT)	17	16	16	16	16	15
Intake - Preferred(KT)	19	20	18	17	16	15
Diff/Preferred (%)	114%	129%	111%	107%	103%	96%

Sauvignon Blanc

A slight shortage in both cool and inland regions but from a small base.

NAT Sauvignon Blanc	2003	2004	2005	2006	2007	2008
Expected (KT)	22	29	31	33	34	34
Preferred (KT)	27	31	33	35	37	38
Intake - Preferred(KT)	-5	-2	-2	-2	-3	-3
Diff/Preferred (%)	-18%	-5%	-6%	-6%	-8%	-9%
COOL Sauvignon Blanc	2003	2004	2005	2006	2007	2008
Expected (KT)	15	20	21	22	23	23
Preferred (KT)	19	21	23	24	26	26
Expected - Preferred(KT)	-4	-1	-1	-2	-2	-3
Diff/Preferred (%)	-21%	-5%	-6%	-7%	-9%	-11%
Inland Sauvignon Blanc	2003	2004	2005	2006	2007	2008
Expected (KT)	7	9	10	11	11	11
Preferred (KT)	8	9	10	11	12	12
Exp - Pref(KT)	-1	0	-1	-1	-1	-1
Diff/Preferred (%)	-11%	-5%	-7%	-6%	-5%	-4%

Semillon

Expected and preferred intake is static and in balance in the cool regions. In the inland areas there is a significant short to medium term shortage of Semillon.

NAT Semillon	2003	2004	2005	2006	2007	2008
Expected (KT)	80	87	84	83	83	82
Preferred (KT)	78	89	91	94	95	96
Intake - Preferred(KT)	2	-2	-7	-10	-12	-14
Diff/Preferred (%)	3%	-3%	-7%	-11%	-12%	-15%
COOL Semillon	2003	2004	2005	2006	2007	2008
Expected (KT)	31	30	30	29	29	28
Preferred (KT)	22	25	26	27	27	28
Expected - Preferred(KT)	8	5	4	3	2	1
Diff/Preferred (%)	36%	20%	15%	11%	6%	2%
Inland Semillon	2003	2004	2005	2006	2007	2008
Expected (KT)	50	57	55	54	54	54
Preferred (KT)	56	64	65	67	67	68
Exp - Pref(KT)	-6	-7	-11	-13	-13	-15
Diff/Preferred (%)	-11%	-11%	-16%	-20%	-20%	-21%

Shiraz

Growth of preferred intake is stronger than expected intake Variety broadly in balance in the short to medium term.

NAT Shiraz	2003	2004	2005	2006	2007	2008
Expected (KT)	334	411	423	436	440	437
Preferred (KT)	369	417	451	472	488	499
Intake - Preferred(KT)	-36	-6	-28	-36	-48	-61
Diff/Preferred (%)	-10%	-1%	-6%	-8%	-10%	-12%
COOL Shiraz	2,003	2,004	2,005	2,006	2,007	2,008
Expected (KT)	146	193	200	206	212	211
Preferred (KT)	147	167	186	200	212	218
Expected - Preferred(KT)	-2	26	14	7	0	-8
Diff/Preferred (%)	-1%	16%	8%	3%	0%	-4%
Inland Shiraz	2003	2004	2005	2006	2007	2008
Expected (KT)	188	218	223	230	228	227
Preferred (KT)	222	249	265	272	276	280
Exp - Pref(KT)	-34	-32	-42	-43	-48	-54
Diff/Preferred (%)	-15%	-13%	-16%	-16%	-17%	-19%

Sultana

The declining prominence of Sultana over the past couple of years reflects the declining popularity of generic white wine casks. Variety only sourced from the inland areas.

Inland Sultana	2003	2004	2005	2006	2007	2008
Expected (KT)	35	40	39	37	30	30
Preferred (KT)	47	42	39	37	35	35
Intake - Preferred(KT)	-12	-2	-1	0	-5	-5
Diff/Preferred (%)	-25%	-4%	-2%	1%	-13%	-14%

Figure 6: Expected and preferred grape intake gap analysis, by broad region - RED (%)

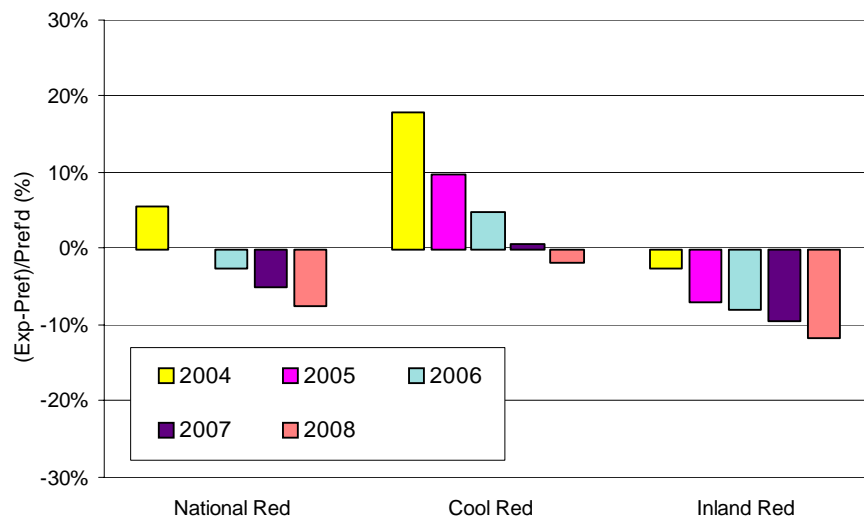
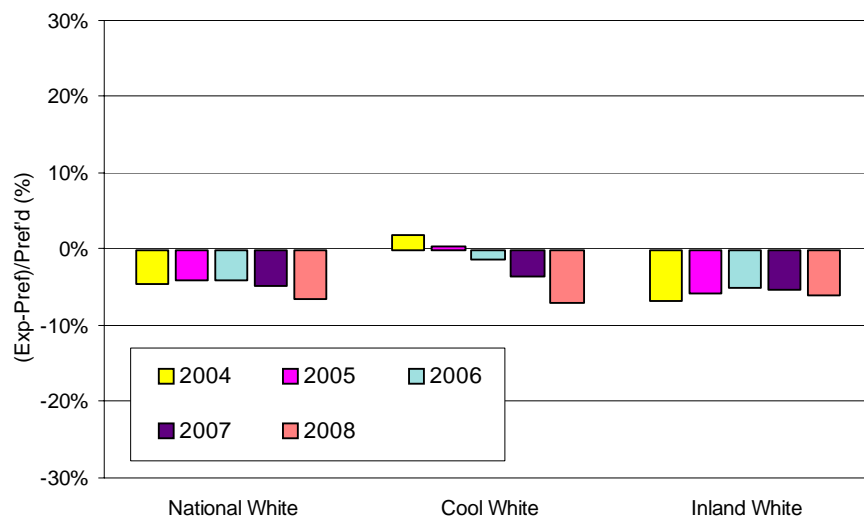


Figure 7: Expected and preferred grape intake gap analysis, by broad region - WHITE(%)



PART 3: WINEGRAPE OUTLOOK FOR THE RIVERLAND, SUNRAYSLIA AND RIVERINA

2004 VINTAGE

The following vintage outlook for 2004 and the longer term position has been prepared by the Winegrape Growers Council of Australia for the information of growers in the inland regions of the SA Riverland, the NSW/Victoria Sunraysia and NSW Riverina as a guide to growers for the negotiation of short and long term grape supply contracts. This is the first year the Council has issued such a statement; previously this was produced following discussions between winemaker and grapegrower representatives at the National Winegrape Outlook Conference each year.

National Outlook

- Some late frosts in some regions, otherwise relatively favourable growing season is expected to help to improve yields in 2004. Yields are expected to be higher than last year, but only around the long term average in most regions.
- The overall outlook for the Australian wine industry remains positive, with continuing demand for Australian wine in overseas markets, particularly the United States. However with the strengthening of the Australian dollar coupled with growing international competition means the industry faces a more challenging marketing environment in the coming year.
- As a result of the drought grape production fell in vintage 2003. This factor, and a 36% growth in the volume of red wine exports, has seen red wine stocks returning to more normal levels.
- Export growth has been strongest in the “popular premium” category. This is resulting in a shift in grape demand towards the lower cost inland/warm regions, and a structural over-supply of red grapes from cool regions in the short term.
- An apparent moderate level of demand for white grapes across the board is being driven by an overall shortage of Chardonnay and to a lesser extent Semillon and the inter-changeability of some white grapes in some products and blends. Generally speaking the growth in supply is matching demand.
- Demand for additional red grape plantings in the warm areas is not established at this stage although greatest interest appears to be in Shiraz and Merlot.

The attached table summarises the supply/demand position for the inland regions based on the results of the pricing and utilisation surveys for those regions. The percentages in the attached table refer to the extent to which expected grape intake exceeds (or falls short of) preferred intake. For example, “5% over” means that expected intake (supply) exceeds preferred intake (demand) by 5%, while “17% under” means that expected intake is 17% less than preferred intake. Generally speaking, percentages greater than 10% are considered significant, especially for major varieties.

The percentages in the first column reflect the expected supply position for the 2004 vintage. The longer term indicators relate to the expected supply position 5 years hence.

The overall expectation of the meeting was for continued moderate growth in demand for some white varieties, while Ruby Cabernet remains in significant long term over-supply. Given the position of Ruby Cabernet and growers looking for a more profitable alternative, it is suggested they consult with their winery before replacing this variety. The over-supply position of Cabernet Sauvignon has moderated since last year and appears to be heading to balance in the medium term.

It should be stressed that the view presented in the attached table is an overall view for the three inland regions, and there may be variations between the regions for some varieties.

Growers considering planting or redevelopment are strongly advised to do so only having a secure outlet for fruit.

BALANCE OF SUPPLY FOR WINE GRAPES IN INLAND REGIONS

VINTAGE 2004 AND LONGER TERM POSITION

Variety	Expected Supply Position for Vintage 2004	Expected Supply Position for Vintage 2008	
WHITE WINE	%	%	
Chardonnay	8% under	Balanced	Short term shortage tending to balance. Planting growth matching demand growth.
Chenin Blanc	3% under	7% under	Minor variety, balanced
Colombard	1% under	7% under	Slight shortage emerging
Muscat Gordo	13% under	16% under	Reflecting overall demand for white grapes and concentrate.
Riesling	15% under	17% under	Suggests some further plantings needed
Sauvignon Blanc	5% under	4% under	Broadly in balance over the period
Semillon	11% under	21% under	Demand driven by increased Chardonnay requirement and the blending flexibility of this variety.
Sultana	4% under	14% under	Reflecting overall demand for white grapes.
Verdelho	10% over	9% over	Non-preferred
RED WINE			
Cabernet Sauvignon	10% over	3% under	Short term surplus tending to balance
Grenache	14% under	22% under	Minor variety
Mataro	17% under	21% under	Minor variety
Merlot	15% under	24% under	There appears to be an increasing shortage of warm climate Merlot
Ruby Cabernet	129% over	96% over	Variety is non-preferred and in long term over-supply
Shiraz	13% under	19% under	There is both short term and longer term demand for Warm Climate Shiraz

SOURCE: Data compiled from the results of the Australian Regional Winegrape Crush Survey 2003 for Riverland, Sunraysia and the Riverina.

More information on the expected and preferred intake data for the inland regions upon which this table is based can be found at www.murrayvalleywinegrapes.com.au or www.winesa.asn.au

Before grubbing, planting or altering varieties contact your winemaker.

2003 VINTAGE PRODUCTION & PRICES, INLAND AREAS

VARIETY	RIVERLAND		RIVERINA		SUNRAYSLIA		TOTAL
	Total Crush (t)	Weighted Ave (\$/t)	Total Crush (t)	Weighted Ave (\$/t)	Total Crush (t)	Weighted Ave (\$/t)	
WHITE				\$/t		\$/t	
Chardonnay	59,842	891	29,154	865	76,498	867	165,494
Chenin Blanc	4,792	345	956	332	1,330	374	7,078
Colombard	23,942	378	10,811	358	22,413	366	57,166
Marsanne	4	420	1,043	315	-	-	1,047
Muscat Blanc	449	352	1,128	384	19	383	1,596
Muscat Gordo	25,298	351	5,025	360	21,151	353	51,474
Riesling	4,877	526	3,887	490	2,162	505	10,926
Sauvignon Blanc	2,358	535	2,517	391	2,308	523	7,183
Semillon	8,746	446	32,277	388	8,608	483	49,631
Sultana	2,473	322	5	280	32,792	309	35,270
Traminer	1,436	589	3,212	480	13	610	4,661
Trebbiano	270	267	5,657	312	-	-	5,927
Verdelho	2,843	424	4,216	335	1,029	416	8,088
Other White	6,583	320	1,249	403	3,635	553	11,467
<i>Total White</i>	143,913	596	101,137	500	171,958	491	417,008
RED							
Cab Sauvignon	62641	549	14,808	449	44,166	538	121,615
Durif	44	497	3,397	431	52	472	3,493
Grenache	9198	426	297	311	988	448	10,483
Mataro	7640	398	1,773	282	453	320	9,866
Merlot	20694	583	10,360	418	27,355	596	58,409
Petit Verdot	10040	473	1,465	471	2,265	465	13,770
Pinot Noir	3333	569	2,403	419	1,464	509	7,200
Ruby Cabernet	16781	421	8,566	387	10,611	513	35,958
Shiraz	90572	651	48,298	466	49,152	657	188,022
Other Red	4,262	418	3,680	318	4,049	528	11,991
<i>Total Red</i>	225,205	568	95,047	439	140,555	586	460,807
TOTAL	369,118		196,184		312,513		877,815

Riverland figures provided by the Phylloxera and Grape Industry Board of SA. Riverina figures from the Wine Grapes Marketing Board. Sunraysia figures provided by the Murray Valley Wine Grape Industry Development Committee.