Australia’s evolving role in the world’s wine markets

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Symptoms of current challenges in Australia’s wine industry

- **Profits of wineries** have nose-dived
  - => fire sales of some winery and vineyard assets

- **Winegrape prices** in irrigated areas fell 30% in 2009, a further 25% in 2010, & no better in 2011

- 48% of **exports sold in bulk** in 12 months to 04/11, compared with 15% in 1996-2003
  - 52% of exports in <$22.50/case category (<$1.40/litre), and only 11% is >$45/case

- **Import share of domestic wine sales** has risen five-fold, from 3% in 2001 to 15%
  - NZ (68% of vol.), but also from France (13%) and Italy (10%)
Key questions

1. How did the industry get to this situation?
   - From crisis to boom and back to crisis over the past 25 years
     • Is this any different from earlier boom-bust wine cycles?

2. What is Australia’s likely future place in the world of wine?
   - Prospects for the next two decades
1. How did the industry get to the present over-supply situation?  
... and is this any different from its earlier boom-bust wine cycles?
Surges in Australian vineyard area, 1850-2004

- Up 6,200 hectares (8-fold increase)
- Up 18,400 hectares (4-fold increase)
- Up 21,000 hectares (doubled)
- Up 15,000 hectares (25% increase)
- Up 110,000 hectares (3-fold increase)
The latest is Australia’s 5th boom

<table>
<thead>
<tr>
<th>Wine booms in Aust:</th>
<th>No. of boom (flat) years</th>
<th>Vine area growth (% pa)</th>
<th>Wine export growth (% pa)</th>
<th>Share of prodn exported (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1854-71</td>
<td>17(10)</td>
<td>16</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>1881-96</td>
<td>15(19)</td>
<td>10</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>1915-25</td>
<td>10(43)</td>
<td>7</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>1968-75</td>
<td>7(12)</td>
<td>3</td>
<td>-1</td>
<td>3</td>
</tr>
<tr>
<td>1987-04</td>
<td>17(??)</td>
<td>18</td>
<td>22</td>
<td>32 (now&gt;65%)</td>
</tr>
</tbody>
</table>
Domestic and export sales of Aust wine, 1947 to 2007
Aust av. export price peaked in 2001
**Why such a dramatic boom?**

Stars were aligned:

- Change in UK liquor retail laws in 1970s, then rapid UK income growth (Thatcher’s economic reforms)
  
  =>$ new market for commercial-premium wines

- Devaluation of AUD in mid-1980s, plus flexible production structures, allowed Aust to fill niche
  
  • Labor’s new 20% wine cons’m tax also encouraged exports

Strong industry leadership motivated investors during 1990s, particularly once WFA launched, in 1995, its *Strategy 2025*
Why the crisis now?

- **Excessive exuberance of investors**, fueled by tax incentives, led to 30-year targets as of 1995 being achieved in ¼th of that time
  - Too much fruit from young vines for marketers to sell

- **Other New World producers** copied Australia
  - grew their exports even faster in 2000s than Aust in 1990s

- **Exchange rate appreciation**, due to mining boom
  - in contrast to, eg, Argentina

- **Fashion swing** against Oz wine abroad
  - and at home, from NZ initially but now also Italy and France

- **Drought**
  - Limited water availability and associated high water prices
... plus several factors affecting all countries’ vingerons

- Policy-induced **chronic oversupply in Europe** of non-premium winegrapes
- **Climate change**: effects will differ across regions & winegrape varieties
- **Supermarket revolution**: increasing concentration in many countries
- **Environmental concerns** of European consumers
  - ‘buy local’, ‘buy organic/biodynamic’,
- Alcohol consumption **regulations and taxes** under pressure from health lobbies
Despite export growth, Old World prodn. continues to exceed sales (ML)
New World’s wine export value (US$m)
### Old and New World’s shares of global wine production (%)

<table>
<thead>
<tr>
<th></th>
<th>1980-84 volume</th>
<th>2009 volume</th>
<th>2009 value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old World 5</td>
<td>58</td>
<td>53</td>
<td>50</td>
</tr>
<tr>
<td>New World 6</td>
<td>18</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Rest of world</td>
<td>34</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
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</tbody>
</table>
### Old and New World’s wine exports as % of production volume

<table>
<thead>
<tr>
<th>Category</th>
<th>1980-84</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old World 5</td>
<td>18</td>
<td>37</td>
</tr>
<tr>
<td>New World 6</td>
<td>2</td>
<td>23</td>
</tr>
<tr>
<td>Rest of world</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL WORLD</strong></td>
<td><strong>14</strong></td>
<td><strong>34</strong></td>
</tr>
</tbody>
</table>
### Aust. shares of global wine markets (%)

<table>
<thead>
<tr>
<th></th>
<th>1980-84</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vine area</td>
<td>0.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Wine prod’n</td>
<td>1.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Wine cons’m</td>
<td>1.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Wine exports</td>
<td>0.2</td>
<td>8.8</td>
</tr>
<tr>
<td><strong>Exports/ prod’n</strong></td>
<td><strong>2%</strong></td>
<td><strong>66%</strong></td>
</tr>
<tr>
<td><strong>Imports/ cons’m</strong></td>
<td><strong>3%</strong></td>
<td><strong>14%</strong></td>
</tr>
</tbody>
</table>
Old World and New World shares of value of global wine exports (%)
Old World and New World shares of volume of global wine exports (%)
Rising share of New World exports in bulk (%)
Aust. exports: slowing in all but lowest prices

- $2.49 and under
- $2.50 to $4.99
- $5.00 to $7.49
- $7.50 to $9.99
- $10.00 and over

Million litres
Consequences of concentration of wineries and retail outlets

- Biggest wineries have best chance to match the increasing buying power of supermarkets.
- Commercial-premium branded wine (either winery’s or supermarket’s brand) is gradually replacing non-premium wine globally …
  - … with location of grape production becoming less relevant than consistent style and value for money.
  - Hence region and even country of grape origin may become less important for commercial-premium wines.
- Thus small and medium firms will increasingly have to focus on super-premium grapes and wines.
  - And growers of lesser-quality grapes will face increasing int’l competition as suppliers to large multinational wineries.
2. What is Australia’s likely future place in the world of wine?
Australian producers are well-placed to meet current challenges

- Water reforms are advancing, making access to and prices of that resource less uncertain
- R&D is well under way in response to climate change
  - Australians are quick to take up worthy new technologies
  - Potential to draw on currently minor varieties suited to hot, dry conditions (e.g. from Southern Europe)
- Historically its exports have been concentrated in just four English-speaking markets (>70% to UK, US, Can. and NZ)
  - So lots of scope to diversify to emerging markets
- Still <5% of global wine prod’n and <9% of world exports
- Dominant supplier of Shiraz (>25% of global Sh. vine area)
Positive signs are emerging for Australian & other exporters

- Cautious signs of economic recovery in EU and US
  - Masked by on-going nervousness in financial & oil markets
- Growers in EU-27 being paid to grub vines by end-2011
  - Could reduce vine area by 5% and wine prod’n by 3%
- Asian market promises to grow steadily, from low base
  - Incomes rising rapidly, as is adult middle-class population
  - Joint venture options in China (and India), plus direct imports
  - Wine from grapes currently accounts for just 3% of volume of Asia’s alcohol consumption (4% in China)
  - Domestic grape production is growing slower than consumption, esp. for premium wines, hence import growth
- Chinese are investing in vineyard/winery assets in Aust.
China’s wine prod’n & cons’m (ML)
China & New World wine prod’n (ML)

- USA
- Argentina
- Australia
- South Africa
- Chile
- China
- New Zealand

Comparative chart showing wine production in ML for 2004 and 2009.
Adjustments already under way in marketing Australian wine

- Aust already has **6 of the world’s top 15 most-recognized still wine labels** (Intangible Business 2010), some of which are adding a regional reserve range
  - Higher quality, more-differentiated wines of place, including by large wineries
- Greater emphasis being given to environmental stewardship at all stages along value chain
- Wine Australia: Brand Champions, Regional Heroes; and its new website allowing fine wine producers to tell their story
  - [www.australiaplus.com](http://www.australiaplus.com)
- First Families of Wine
Innovations in marketing
Australian wine

- Both generic and brand marketing in Asia is being stepped up
- Australia now a close 2\textsuperscript{nd} to France as wine importer into China by volume (but only half as big by value)
  - India too, but it’s 1/100\textsuperscript{th} the size of China’s wine market
- Share of Aust exports to China is 3.2 times China’s share of global wine import value (France: 2.0 times)
### Whose exporting to China (2009)?

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume, ML (and share, %)</th>
<th>Value, US$m (and share, %)</th>
<th>Unit value (US$/litre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>48 (24)</td>
<td>306 (38)</td>
<td>4.29</td>
</tr>
<tr>
<td>Australia</td>
<td>44 (22)</td>
<td>102 (19)</td>
<td>2.34</td>
</tr>
<tr>
<td>Chile</td>
<td>56 (28)</td>
<td>54 (10)</td>
<td>0.97</td>
</tr>
<tr>
<td>United States</td>
<td>12 (6)</td>
<td>35 (7)</td>
<td>3.08</td>
</tr>
<tr>
<td>Italy</td>
<td>8 (4)</td>
<td>27 (5)</td>
<td>3.42</td>
</tr>
<tr>
<td>South Africa</td>
<td>8 (4)</td>
<td>7 (1)</td>
<td>0.88</td>
</tr>
<tr>
<td><strong>All exporters</strong></td>
<td><strong>202 (100)</strong></td>
<td><strong>538 (100)</strong></td>
<td><strong>2.66</strong></td>
</tr>
</tbody>
</table>
### Aust wine exports to East Asia, 12 months to 03/11

<table>
<thead>
<tr>
<th>地理</th>
<th>市场份额 (%)</th>
<th>平均价值 (A$/liter)</th>
<th>2005-06至2008-09间价值变化 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>中国 (大陆)</td>
<td>8.5 (4th)</td>
<td>3.14</td>
<td>350 (bottles 5.28)</td>
</tr>
<tr>
<td>香港</td>
<td>2.4 (7th)</td>
<td>7.94</td>
<td>72</td>
</tr>
<tr>
<td>日本</td>
<td>2.0 (9th)</td>
<td>4.66</td>
<td>20</td>
</tr>
<tr>
<td>新加坡</td>
<td>2.0 (10th)</td>
<td>7.82</td>
<td>13</td>
</tr>
<tr>
<td>马来西亚</td>
<td>1.2 (14th)</td>
<td>9.34</td>
<td>9</td>
</tr>
<tr>
<td>所有五个东亚国家</td>
<td>16.4</td>
<td>4.22</td>
<td>72</td>
</tr>
<tr>
<td>五个关键市场 (UK, US, CA, GE, NZ)</td>
<td>66.9</td>
<td>2.37</td>
<td>-20</td>
</tr>
</tbody>
</table>
China dominates wine sales vol in Asia (ML)
Adjustments to production in Aust.

Savvy firms are moving more toward finer wines in cooler parts of Australia, in response to:

- increased competition from lower-cost producers in Sthn. Hemisphere
- higher costs for Australian irrigators, especially with global warming and higher-priced/less-reliable water
- prospect of wine consumer tax switching from an *ad valorem* to a volumetric basis
More needs to be invested in R&D

- Benefits could be huge (yet unwillingness to pay?)
  - Very high payoff from past grape & wine R&D
  - Needed even more now, with climate change, variable water prices/availability, increasing buyer interest in sustainable practices, and stiffer competition from rest of world
  - Include more collaboration internationally (2-way spillovers)

- Output of research papers per litre of wine produced has slipped over past 2 decades, relative to other key producing countries
Take-home messages

- Boom-bust-slow recovery cycles are normal for the wine industry
  - But this one involved a more sudden and severe downturn than expected due to GFC, drought, and strong A$
- Vine-grubbing in Aust and EU is easing the over-supply, as will growth in Asian wine imports
- Climate change requires altering varietal mix and/or moving to higher latitudes and altitudes
- If we switch to volumetric tax, expect quality upgrading
  - but climate change & tax change will hurt irrigated areas most, as is growing competition from lower-cost exporting countries
- Foreign investment could put a floor on asset values
- More investment in innovation vital (R&D + promotion)
- “Only first 200 years are tough”, so we’ll be OK by 2050
Thanks!

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www.adelaide.edu.au/wine-econ