The Southern Hemisphere and Global Wine Markets to 2030: Case study of Australia

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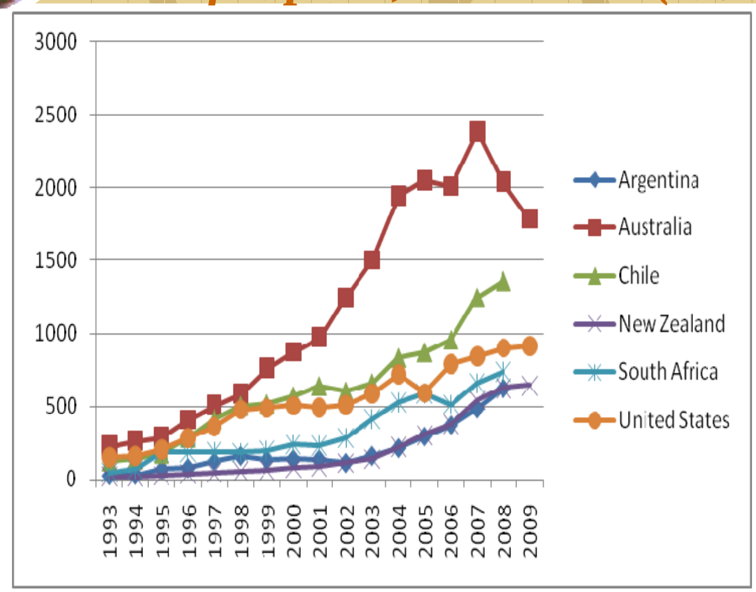
No shortage of challenges for both hemispheres…

- **Europe**: chronic oversupply of non-premium fruit and increased export competition from New World
- **Sthn hemisphere exporters**: fall in US and EU wine import demand, due to recession each side of North Atlantic
  - including fall in value of US$ and Euro in past year
- **Everywhere**, but with differing effects**:**
  - climate change
  - supermarket concentration
  - consumer health and environmental concerns
  - changing demographics: age and ethnic profiles within countries
- Additional challenges for **Australian** wineries include:
  - Exchange rate appreciation (mining boom)
  - Surge in supplies and stocks (from planting boom – also in NZ)
  - Fashion swing against Oz wine abroad, and even at home
  - Major reforms to Australia's water institutions and policies

Outline

- Southern hemisphere's emerging significance
- **Lessons** from Aust. growth of the past two decades
  - ... because it led the export boom
- Current **challenges** for southern hemisphere producers, and **prospects** for the next two decades

Value of exports, 1993-2009 (US$m)



1. Southern hemisphere's emerging significance

Changes since the 1980s

- Focus on:
  - **Old World 5** (France, Italy, Spain, Portugal, and Germany)
  - **USA**
  - **Southern Hemisphere 5** (Argentina, Australia, Chile, NZ and South Africa)
  - **Rest of world**

Old and New World's shares of global wine production (%)

	1980-84	2009
Old World 5	58	53
USA	5	8
Southern Hemisphere 5	***12***	***18***
Rest of world	35	21
TOTAL WORLD	**100**	**100**
(World total, mhl	*344*	*266*

Old and New World's shares of global wine prod'n and cons'm (%)

	Production		Consumption	
	1980-84	**2009**	**1980-84**	**2009**
Old World 5	58	53	53	38
USA	5	8	7	11
Sthn Hemisphere 5	***12***	***18***	***12***	***9***
Rest of world	35	21	28	41
TOTAL WORLD	**100**	**100**	**100**	**100**
(World total, mhl	*344*	*266*	*272*	237)

Wine exports as % of wine prod'n, Old and New World

	1980-84	2009
Old World 5	18	37
USA	2	19
Southern Hemisphere 5	***3***	***50***
Rest of world	11	13
TOTAL WORLD	**14**	**32**

Old and New World's shares of global wine exports (%)

	1980-84	2009
Old World 5	76	60
USA	1	5
Southern Hemisphere 5	***1***	***27***
Rest of world	22	8
TOTAL WORLD	**100**	**100**
(World total, mhl	*48*	*86)*

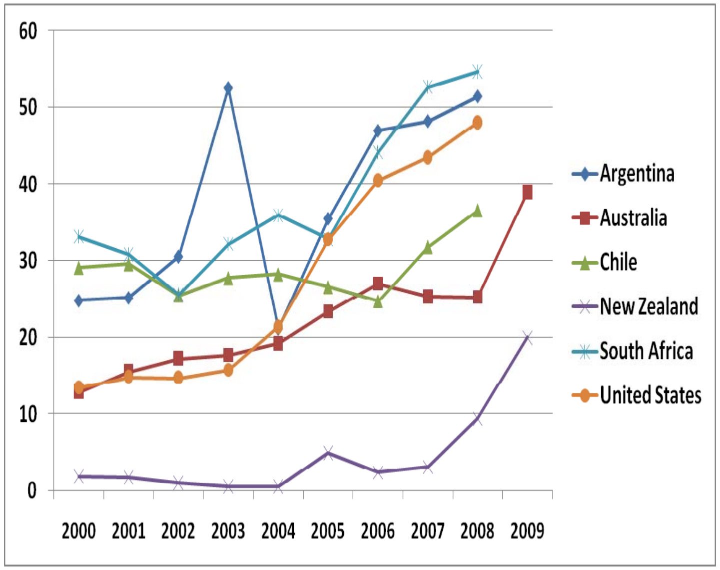
Share of four largest wineries in sales (%), Southern hemisphere (*Source:* Euromonitor 2010)

	Arg	Aust	Chile	NZ	RSA	USA
Largest firm	27	23	31	24	34	21
2nd-4th	32	39	51	24	4	35
Rest	41	38	18	52	62	44

Share of four largest wineries in sales (%), Europe (*Source:* Euromonitor 2010)

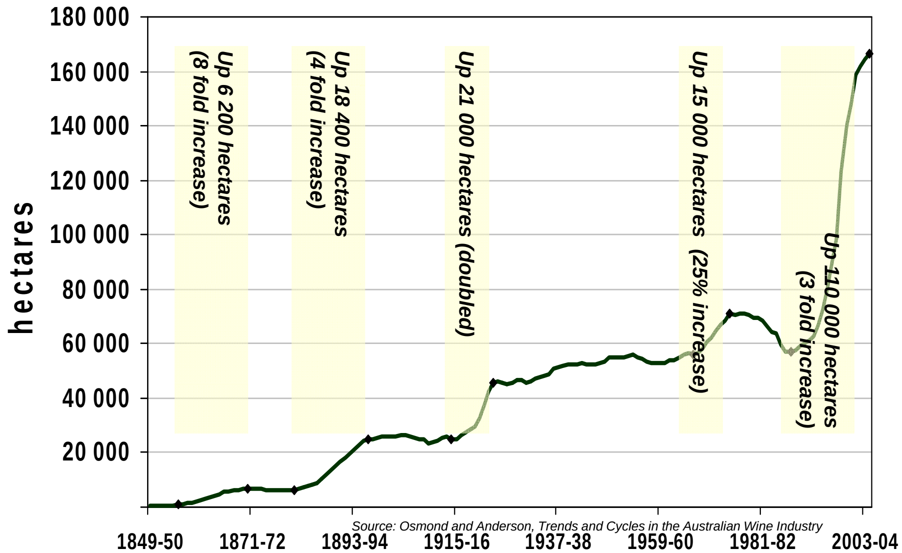
	Aus.	France	Germ.	Italy	Port	Spain
Largest firm	5	11	1	6	62	11
2nd-4th	7	5	3	4	23	10
Rest	88	84	96	90	15	79

Surplus indicator: rising share of bulk wine in value of export (%)



2. Lessons from Australia's growth over the past two decades

Surges in Australian vineyard area since 1850

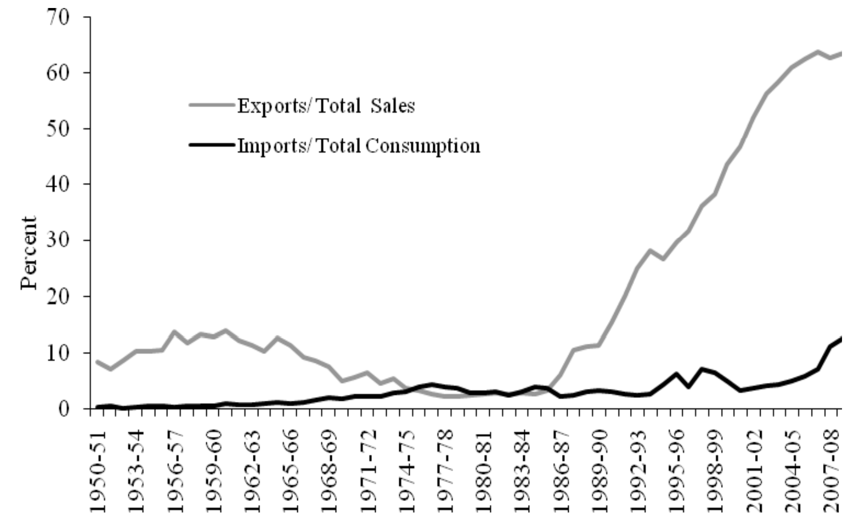


Recent Australian boom

- **Longest** boom in terms of years of rising grape prices
- And by far the most **export focused**

Wine booms in Aust:	No. of boom (flat) years	Vine area growth (%pa)	Wine prodn growth (%pa)	Wine export growth (%pa)	Share of prodn exported (%)
1854-71	17(10)	16	18	14	2
1881-96	15(19)	10	8	23	10
1915-25	10(43)	7	13	5	9
1968-75	7(12)	3	6	-1	3
1987-04	17(??)	18	11	22	32 (now>65%)

Export-led growth: *Aust. was slight net importer in mid-1980s, now major export focus*



Recent Australian boom (continued)

- Over-delivering in terms of value for money: Oz export price rose 3x more than the global average
  - helped by sophisticated generic and brand marketing in 1990s, relative to other wine-exporting countries

Aust. shares of global wine markets (%)

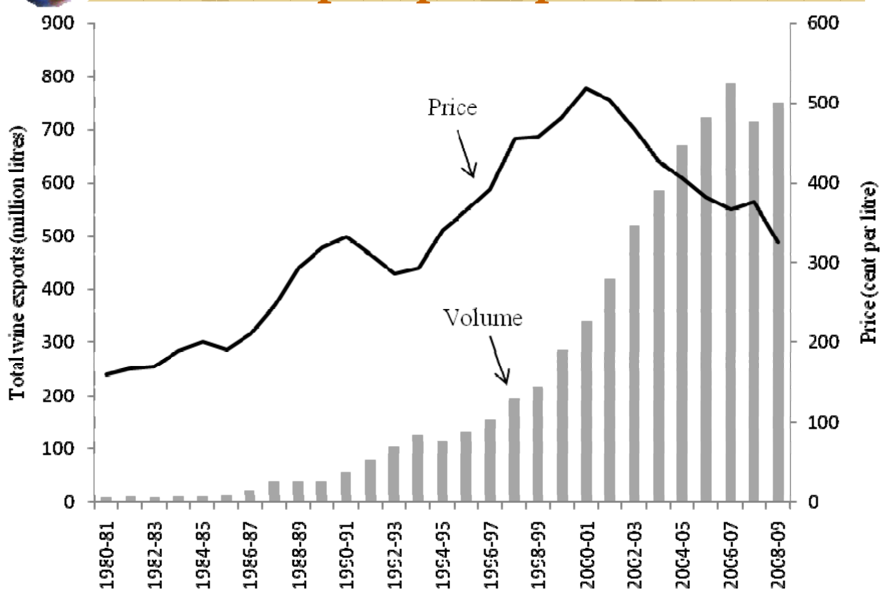
	1981-85	2009(p)
Vine area	0.7	2.3
Wine prod'n	1.2	4.4
Wine cons'm	1.1	2.1
Wine exports	0.2	8.8

3. Current challenges and prospects

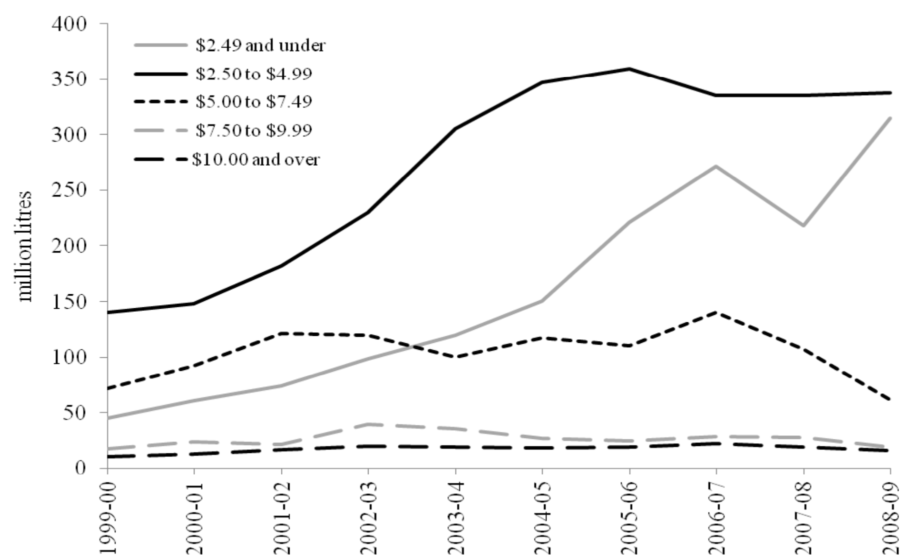
Some symptoms of current challenges in Australia

- Profits of wineries halved last year, or worse
  - => fire sales of some winery and vineyard assets
- Winegrape prices in irrigated areas fell 30% in 2009, and were down a further 30% in 2010 vintage
- Almost 40% of exports were sold in bulk in 2009, compared with 15% in 1996-2003
  - Only partly because of bottling re-location decisions
- Import share of domestic wine sales has risen from 3% in 2001 to >14% and still rising (NZ Sav. Blanc)

Aust av. export price peaked in 2001



Aust. exports: slowing in all but lowest f.o.b. prices



Additional challenges for Australian wineries:

- Exchange rate appreciation (mining boom)
- Surge in domestic wine stocks
  - post-1990s planting boom + US/EU recession + greater competition from Argentina & Sth Africa + fashion swing against Oz wine abroad and at home
    - Heavy discounting in UK; one dominant low-priced brand in US
    - NZ sav blanc export surge, plus access to Aust. WET rebate from 2005
  - Hence the need to revert to bulk sales (as also for NZ)
    - Although partly a result of supermarket own-brand developments and re-location of bottling to the importing country to reduce carbon footprint
- Major reforms to water & (maybe) wine tax policies
  - which, with climate change, will harm hot irrigated areas most

But, positive signs are emerging

- Cautious signs of economic recovery in EU and US
  - Masked by on-going nervousness in financial markets
- Offer to pay growers in EU-27 to grub vines by 2011
  - expected to reduce vine area 5% and wine prod'n 3%
    - However, less distillation subsidies, and Vin de France labelling challenge
- Asian market promises to grow steadily
  - Incomes rising rapidly, as is adult middle-class population whose tastes are westernizing
  - Joint venture options in China and India, plus direct imports
  - Wine from grapes currently accounts for just 2% of volume of China's alcohol consumption, but for 8% of value

Australian producers are well-placed to rise above current challenges

- Water reforms are well advanced, making access to and prices of that now-tradable 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 (>75% to UK, US, Can. and NZ)
- Still <5% of global wine prodn and only 9% of world exports, yet much exporting experience including in Asia (close ties)
- Dominant supplier of shiraz (>25% of global winegrape area)

Adjustments already under way in marketing Oz wine

- First Families of Wine
  - www.australiasfirstfamiliesofwine.com.au
- AWBC: Brand Champions, Regional Heroes; and its new website allowing fine wine producers to tell their story
  - www.australiaplus.com
- Aust has 6 of the world's top 15 most-recognized labels (Intangible Business 2010), some of which are adding a regional reserve range to help consumers go up-market
  - Higher quality, more-differentiated wines of place
  - Greater emphasis too on environmental stewardship at all stages along the value chain (anticipating buyer demand)
- Marketing in Asia is being stepped up
  - Aust now a close 2nd to France in importing into China

Aust wine exports to East Asia

	Share of Australian export value (& ranking), 2008-09	Unit value of exports (A$ per litre), 2008-09	% change in value of exports, 2005-06 to 2008-09
China (mainland)	3.9 (4th)	3.73	350
Hong Kong	1.8(11th)	7.17	72
Japan	2.2 (7th)	4.89	20
Malaysia	0.9(15th)	9.45	13
Singapore	1.7(12th)	8.22	9
All 5 E. Asians	**10.5**	**5.78**	**72**
Four traditional markets (UK, US, Canada and NZ)	***69.1***	***3.34***	***-20***

Where will New World and Old World producers be in 2030?

	% of global volume of wine: production		exports		% of prod'n volume exported	
	2009	**2030**	**2009**	**2030**	**2009**	**2030**
Old World 5	53	**?**	60	**?**	37	**?**
USA	8	**?**	5	**?**	19	**?**
S. Hemisphere 5	18	?	27	?	50	?
Rest of world	21	**?**	8	**?**	13	**?**
TOTAL WORLD	**100**	**100**	**100**	**100**	**32**	**?**

Thanks!

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