

8 JULY 2011

WINE INDUSTRY NEWS FLASH 2011 VINTAGE

OVERVIEW

On 9 June 2011 the Winemakers' Federation of Australia ("WFA") released its 2011 Vintage Report which suggests the 2011 vintage harvest will be 1.62 million tonnes, a 1 per cent increase on the 2010 vintage.

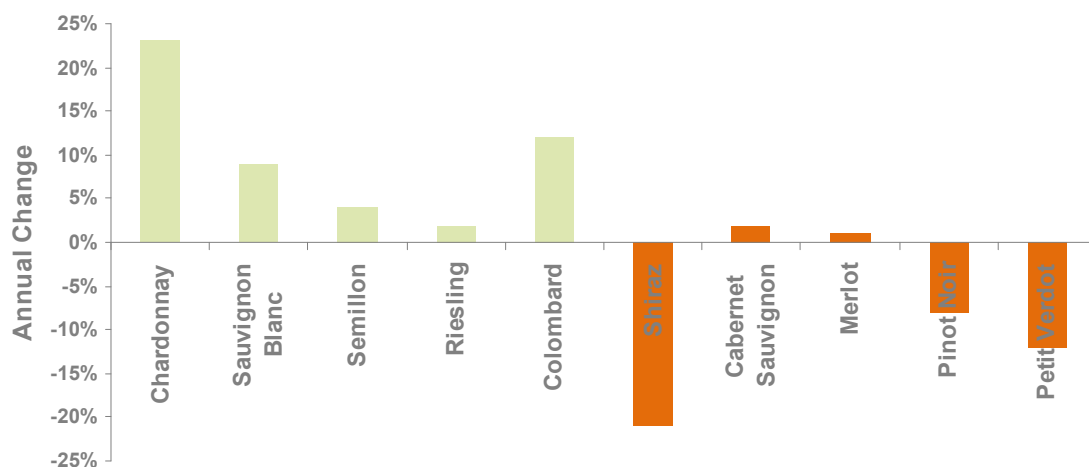
During the 2011 vintage many Australian growers experienced another challenging year due to difficult growing conditions including high rainfall, humidity and an outbreak of powdery and downy mildew in many regions, except Western Australia. Consequently some growers lost up to 80 per cent of their crop. Costs of production were also significantly higher with some growers having to spray crops up to 10 times during the season to stave off disease. Due to the minimum quality requirements, large amounts of low grade fruit were rejected by wineries. It is uncertain as to what percentage of the increased harvest will become wine.

KEY STATISTICS

- white grapes (52 per cent) overtook red grapes (48 per cent) for the first time since 2007;
- estimated white crush to increase 13 per cent;
- estimated red crush to fall 9 per cent;
- Chardonnay production up 23 per cent; and
- Shiraz down 21 per cent.

2011 vs. 2010 VINTAGE

Change in Crush by Major Variety 2010/11



Source: WFA Vintage Report June 2011

The 2011 vintage was particularly challenging for red grape varieties, which dropped 9 per cent. Out of the top five red varieties, Shiraz was the most affected red grape variety, down 21 per cent, followed by Petit Verdot and Pinot Noir, down 12 per cent and 8 per cent respectively.

White grapes fared better due to their earlier ripening cycle. Out of the top four white varieties, Chardonnay was the largest mover, up 23 per cent and is now the leading grape variety overall.

Due to the cooler ripening period, grapes were generally picked later and at lower Baume levels. Cool climate regions such as the Yarra Valley and the Barossa Valley were generally down, while warm climate regions such as Riverland and Riverina experienced an increase in wine grape production.

Although these difficult conditions adversely affected some regions, other regions were able to take advantage of the extended ripening periods that provided fruit with good acidity levels, therefore allowing winemakers to refine their wines and create elegant wines that showcase the individual regional characteristics. Overall the WFA is predicting the 2011 vintage to be of good quality.

EXPORT SALES 12 MONTHS TO MARCH 2011

Wine Australia has released its Wine Export Approval Report for the 12 months ended 31 March 2011. Australian wine exports decreased 3 per cent to 755 million litres, generating income of \$2.02 billion. The report highlighted a number of key points, including:

- the share of bulk wine exports increased 7 per cent to 46 per cent while the share of bottled wine fell to 52 per cent from 60 per cent the previous year;
- volume to the two main export markets, the United Kingdom (“UK”) and the United States (“US”), fell 4 per cent to 261 million litres (bottled wine value down 33 per cent) and 16 per cent to 193 million litres (bottled wine value down 19 per cent) respectively;
- when comparing the top four export destinations, China recorded the fastest growth in the value of exports with bottled wine up 24 per cent to \$141 million and bulk wine up 48 per cent to \$29 million;
- bottled export volumes exceeded the declining value, resulting in an increase of 1 per cent in the average value per litre to \$4.19;
- the value of bottled wines sold above \$10 a bottle increased by 3 per cent; and
- the high-end wine market experienced solid growth with the sale of wine between \$20 and \$50 per bottle increasing by 15 per cent and bottles over \$50 increasing by 13 per cent.

Australian wine continues to lose market share in established markets and the high Australian dollar is heavily impacting bottled wine sales as producers pull out of the UK and US markets. The UK market is also being impacted by increases in taxes on wine and the competitive retail environment. Bulk wine exports continue to grow but at a low average price of 0.97 cents a litre, which is not providing an economic return to growers. An increasing percentage of bulk wine is being exported for inland bottling, particularly in the UK and China.

BIGGER ISN'T ALWAYS BETTER

In their Vintage Report, the WFA commented that this year's vintage was “*too big*” and was “*out of step with the realities of sustainable production and the market opportunities for premium*”

Australian wine". Accordingly, the increased harvest will likely have a negative impact on the industry as it will place further pressure on grape prices and growers.

The WFA and the Wine Grape Growers Association are continuing to call for urgent action on the removal of vines across all regions in an effort to move grape supply towards a more balanced number, which is considered to be around 1.2 million tonnes.

TAYLOR WOODINGS' VIEW

The estimated increased grape harvest highlights the skilful management practices of Australian wine growers as they overcome very difficult growing conditions and produce a harvest which has exceeded expectations and, by all reports, will produce wine of good quality.

Even though the industry is faced with continual pressures, the latest export figures record an increase in the sale of bottled wine above \$10 a bottle, consistent with the industry's attempts to re-position Australian wine as one of quality with regional diversity.

The increase in wine sales to China has led people to believe that China holds the key to turning around the Australian wine industry; however wine sales to China need to be converted from bulk wine to bottled wine at price points above \$10 in order for this to occur.

Time will tell if this increase in the sale of high-priced wine is a result of recent industry initiatives or simply reflects the high Australian dollar and recent wine tax increases in the UK market.

Taylor Woodings' last wine update, [Decision Time for Wine Growers](#), noted that wine growers will be faced with continual financial and operational pressures if the harvest levels remain above optimal levels. The WFA's Vintage Report highlights that this trend is likely to continue and growers will feel the pressure over the year to come as increased grape crops will add to the oversupply of wine in the industry, further pushing grape and bottled wine prices below the cost of production.

Taylor Woodings can assist businesses operating in the wine industry by reviewing:

- operating performance and management capabilities;
- the level of gearing and future viability;
- strategic and business planning;
- financial modelling; and
- product profitability and providing costing analysis.

For a confidential discussion about any matter raised in this news flash please contact one of the Taylor Woodings' Agriculture team listed below.

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