

July 2015



# Vintage Report



## WFA winegrape crush and 2016 outlook

### Overview

This year's Vintage Report includes some positive signs for the industry. Along with shifts in the macro-economic climate – including favorable shifts in exchange rates, the signing of key Free Trade Agreements and strengthening consumer demand in some key market segments – the outlook for the industry has improved from last year. However, the Report also indicates an industry under sustained profit pressure and the persistence of a structural mismatch between the supply and demand for our wine at profitable price points.

The 2015 Vintage of 1.67 million tonnes which is marginally lower than “average” and while average grape prices have strengthened, this is off a low base.

Favorable changes in seasonal market conditions and the macro-economic environment will not be enough to restore the Australian wine sector's lost share and margin. We need to take pro-active steps with the support of government to boost demand and our resourcing of promotional activities. On the supply side, better informed decision making is required with the aid of improved data, analysis and price signaling. This Report is part of that data set.

### 2015 winegrape crush

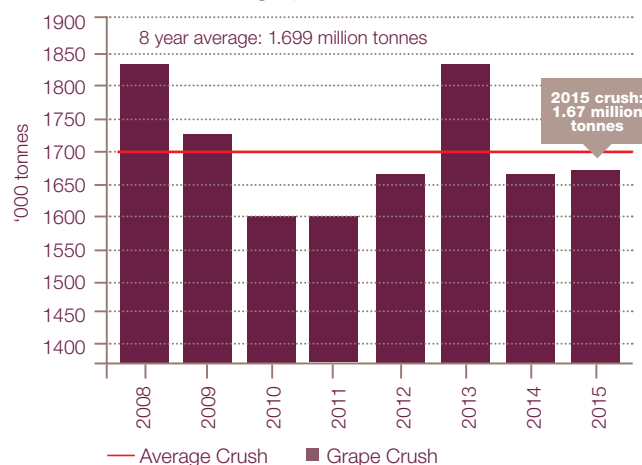
The 2015 Australian grape crush is 1.67 million tonnes – just a 0.4% increase from last year's Levies Finance 2014 recorded crush of 1.66 million tonnes<sup>1</sup>. This figure is just below the 8-year average of 1.70 million tonnes and around 7,000 tonnes higher than last year's crush. The slight increase in overall crush is attributable to Riverina's increase in yields, offset by lower yields in Murray Darling and most cooler temperate regions.

Crush by industry structure suggests that the largest 22 respondents accounted for around 85% of the total crush. In terms of crush by state/regions, Murray Darling-Swan Hill accounted for 382,000 tonnes or 25% of the total crush, New South Wales (excluding Murray Darling-Swan Hill) at 332,000 tonnes or 22%, Victoria (excluding Murray Darling-Swan Hill) at 60,000 or 4%, South Australia at 717,000 tonnes or 47%, Western Australia at 30,000 or 2% of total crush. See page 3 for more detail.

The 2012 Expert Review analysis on production profitability has been further expanded to include 2015 data. Increasing 2012 cost of production by 1.5%, profitable production across 15 representative regions decreased from 7% in 2014 to 6% this reporting period. Low profitability and breakeven during this time were unchanged, while unprofitable production increased to 85%. See pages 5 and 6 for discussion.

<sup>1</sup> This is based on Levies Finance 2014 recorded crush at 1,662,791 tonnes. See survey methodology for further details.

Total Winegrape Crush in Australia



Sources: Historical crush figures – Levies Revenue Service (LRS), ABS and WFA

This year the WFA Vintage Survey was combined with the Wine Australia Price Dispersion Survey, the South Australian Grape Crush Survey and the Murray-Darling / Swan Hill Wine Grape Crush Report into a single collection process known as the Australian Wine Sector Survey 2015. See details of the Australian Wine Sector Survey 2015 methodology on page 8.

The Wine Australia Price Dispersion Survey shows that, overall, the national average winegrape purchase price in 2015 was \$463 per tonne – up 5% from the 2014 average of \$441 per tonne. See summary of Wine Australia's Price Dispersion Survey on page 4.

The 2016 vintage will continue to present challenges to the industry since we have not seen significant structural shifts. The potential benefits from recent Free Trade Agreements and favorable currency movements should be seized by the industry. The Federation's submissions to government recommend an increase in funding to assist industry reap the benefits of these economic opportunities and to recapture share and margin in our global markets. Unlocking trade opportunities and addressing the challenges requires a coordinated effort, including from the industry, groups of stakeholders, and individual companies. See discussion on page 7.

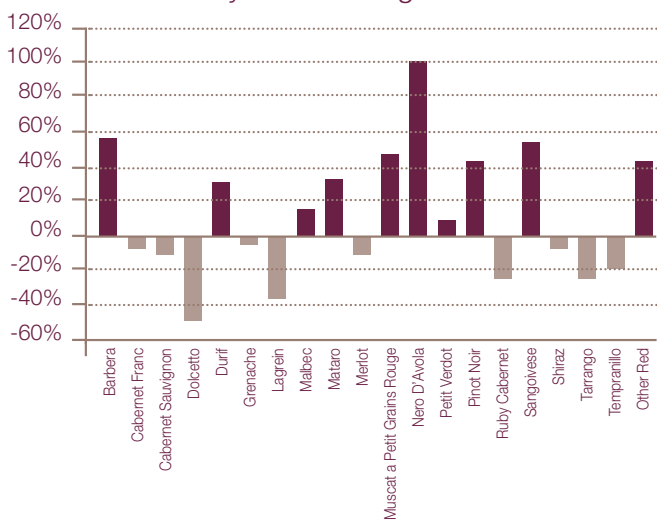
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## Crush by variety

The 2015 red crush stands at 835,500 tonnes and the white crush stands at 834,000 tonnes. Compared to last vintage, the 2015 red crush has decreased by 4% or 30,751 tonnes and the white crush has increased by 5% or 37,524 tonnes.

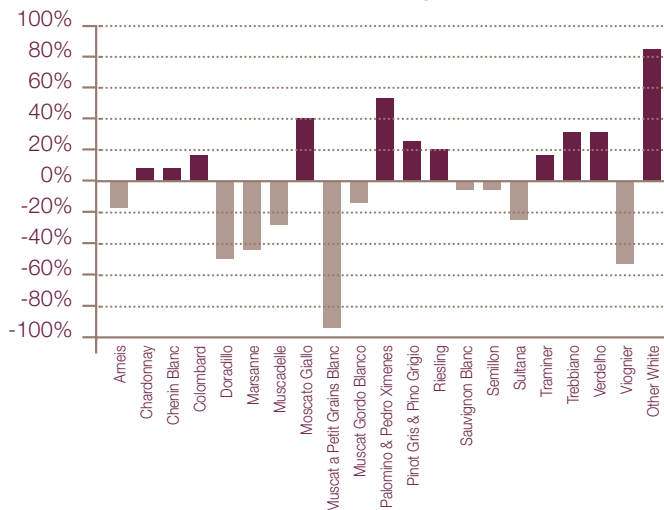
The top three red varieties by crush were Shiraz, Cabernet Sauvignon and Merlot, together accounting for 85% of the total red crush. Shiraz continues to dominate with 47% of the total red crush though with a 6% decrease from last year. Largest decreases were Dolcetto (-50% or -640 tonnes), Lagrein (-35% or -90 tonnes), Ruby Cabernet (-25% or -4,052 tonnes) and Tarrango (-23% or -109 tonnes).

Red variety crush change 2014-2015



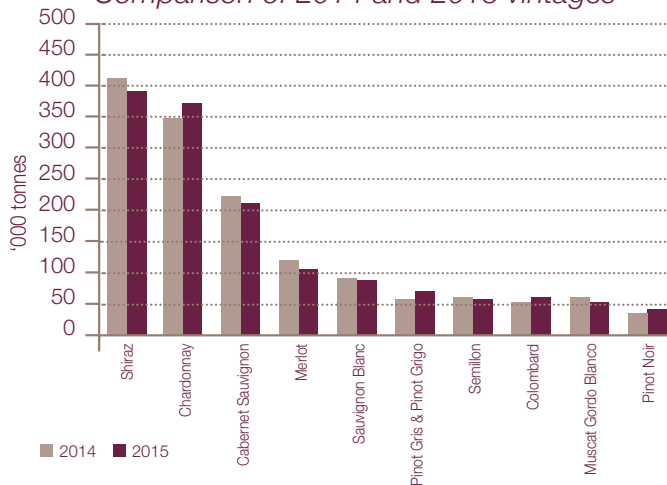
In the whites, Chardonnay still dominates the white crush at 45% – an increase of 28,726 tonnes from last year. Sauvignon Blanc remains in second place with 11%, followed by Pinot Gris and Pinot Grigio accounting for 9% of total white crush. Largest increases are Other white (+85% or +17,731 tonnes), Palomino & Pedro Ximenes (+51% or +91 tonnes), Muscadelle (+41% or +152 tonnes) and Verdelho +29% or +2,308 tonnes). Largest decreases are Muscat a Petit Grains Blanc (-95% or -13,881 tonnes), Viognier (-52% or -7,488 tonnes), Doradillo (-51% or -580 tonnes) and Marsanne (-44% or -1,767 tonnes).

White variety crush change 2014-2015



There was no change in the composition of the Top 10 varieties from last year, but some of the rankings have changed – Pinot Gris & Pinot Grigio ranked 6th (previously 8th), Semillon ranked 7th (previously 6th), Colombard ranked 8th (previously 9th) and Muscat Gordo Blanco now ranked 9th (previously 7th).

Top 10 Varieties Comparison of 2014 and 2015 vintages



Variety	2014	2015	Change 2014-2015 (tonnes)	% change 2014-2015	% of grape crush
<b>Red Varieties</b>					
Barbera	266	417	151	56%	0.02%
Cabernet Franc	1,119	1,070	(49)	-4%	0.06%
Cabernet Sauvignon	226,386	209,588	(16,798)	-7%	12.55%
Dolcetto	1,273	633	(640)	-50%	0.04%
Durif	4,535	5,858	1,323	29%	0.35%
Grenache	13,045	12,614	(431)	-3%	0.76%
Lagrein	259	169	(90)	-35%	0.01%
Malbec	2,674	3,123	449	17%	0.19%
Mataro	5,006	6,554	1,548	31%	0.39%
Merlot	114,413	107,280	(7,133)	-6%	6.43%
Muscat a Petit Grains Rouge	769	1,133	364	47%	0.07%
Nero D'Avola	412	825	413	100%	0.05%
Petit Verdot	19,534	20,861	1,327	7%	1.25%
Pinot Noir	30,260	43,488	13,228	44%	2.60%
Ruby Cabernet	16,125	12,073	(4,052)	-25%	0.72%
Sangiovese	2,991	4,554	1,563	52%	0.27%
Shiraz	415,138	391,649	(23,489)	-6%	23.46%
Tarrango	481	372	(109)	-23%	0.02%
Tempranillo	5,364	4,280	(1,084)	-20%	0.26%
Other red	6,221	8,983	2,762	44%	0.54%
<b>Total Red Varieties</b>	<b>866,274</b>	<b>835,523</b>	<b>(30,751)</b>	<b>-4%</b>	<b>50.04%</b>

**White Varieties**

Arneis	213	175	(38)	-18%	0.01%
Chardonnay	347,613	376,339	28,726	8%	22.54%
Chenin Blanc	5,458	5,880	422	8%	0.35%
Colombard	54,503	63,093	8,590	16%	3.78%
Doradillo	1,142	562	(580)	-51%	0.03%
Marsanne	3,999	2,232	(1,767)	-44%	0.13%
Moscato Giallo	3,708	2,518	(1,190)	-32%	0.15%
Muscadelle	375	527	152	41%	0.03%
Muscat a Petit Grains Blanc	14,674	793	(13,881)	-95%	0.05%
Muscat Gordo Blanco	64,051	55,303	(8,748)	-14%	3.31%
Palomino & Pedro Ximenes	177	268	91	51%	0.02%
Pinot Gris & Pinot Grigio	60,303	74,867	14,564	24%	4.48%
Riesling	22,200	26,735	4,535	20%	1.60%
Sauvignon Blanc	93,364	89,125	(4,239)	-5%	5.34%
Semillon	69,766	66,572	(3,194)	-5%	3.99%
Sultana	703	527	(176)	-25%	0.03%
Traminer	10,870	12,484	1,614	15%	0.75%
Trebbiano	319	410	91	29%	0.02%
Verdelho	7,996	10,304	2,308	29%	0.62%
Viognier	14,299	6,811	(7,488)	-52%	0.41%
Other white	20,784	38,515	17,731	85%	2.31%
<b>Total White Grapes</b>	<b>796,517</b>	<b>834,041</b>	<b>37,524</b>	<b>5%</b>	<b>49.96%</b>
<b>Total All Varieties</b>	<b>1,662,791</b>	<b>1,669,564</b>	<b>6,773</b>	<b>0.4%</b>	<b>100%</b>

**Crush by wine industry structure**

The Australian wine industry is made up of a small number of large wineries and a large number of small wineries. The crush survey results demonstrates this – the largest 20 crush respondents accounted for 85% of the total crush and largest 30 accounted for 90%.

The respondents to the 2015 Vintage Survey resemble this:

Size of reported crush	# of respondents
10,000 tonnes +	22
5,000-10,000 tonnes	11
1,000-5,000 tonnes	37
500-1,000 tonnes	42
50-500 tonnes	166
Under 50 tonnes	245
<b>Total</b>	<b>523</b>

**Crush by state and region**

Looking at the raw crush data by state/regions, Murray Darling-Swan Hill accounted for 382,000 tonnes or 25% of the total crush, New South Wales at 332,000 tonnes or 22%, Victoria at 60,000 or 4%, South Australia at 717,000 tonnes or 47%, Western Australia at 30,000 or 2% – ACT, Queensland and Tasmania contribute under 1% of the total crush.

State/regions 2015 Raw Crush Data Tonnes

<b>Australian Capital Territory</b>	<b>21</b>
<b>Murray Darling-Swan Hill</b>	<b>381,732</b>
<b>New South Wales</b>	<b>332,092</b>
- Hunter Valley	4,904
- Mudgee	2,887
- Riverina	291,405
<b>Victoria</b>	<b>60,258</b>
- Mornington Peninsula	1,883
- Rutherglen	2,116
- Yarra Valley	10,462
<b>South Australia</b>	<b>716,592</b>
- Barossa Valley	38,094
- McLaren Vale	28,416
- Riverland	454,019
<b>Western Australia</b>	<b>30,069</b>
- Great Southern	4,852
- Margaret River	16,993
- Pemberton	1,852
<b>Queensland</b>	<b>610</b>
<b>Tasmania</b>	<b>7,197</b>
<b>Total Raw Crush Data</b>	<b>1,528,571</b>

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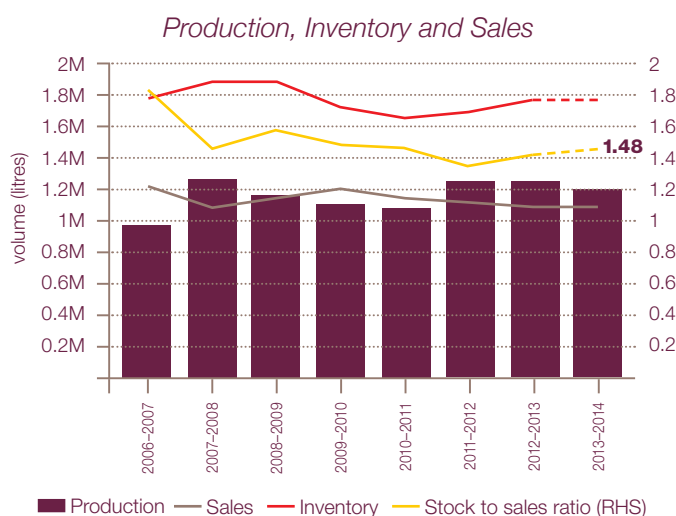
## Inventory

At the time of writing, production, inventory and sales figures for year ended June 2015 are not yet available. However, if we take last year's analysis and given that we have an average winegrape crush for 2015, it is WFA's view that inventories and the corresponding stock-to-sales ratio for 2014-15 would be similar to 2013-14 at 1.48.

An extract of the last year's analysis follows:

*The estimated 2014 beverage wine production decreased at a lower rate than the crush estimate (-2% vs -7%) suggesting an increase in extraction rates (litres per tonne). The implied 2014 extraction rate of 708 litres per tonne is marginally higher than the 8-year average of 700 litres per tonne.*

*In interpreting production levels, inventory and sales levels need to be considered. Beverage wine inventory for 2012-13 (1,776 million litres) was up 5% from the previous year while sales (domestic sales plus export sales) decreased 2% to 1,151 million litres. Consequently, the stock-to-sales ratio for 2012-13 increased 4% bringing it to 1.44 from 1.38 the previous year. If we (conservatively) assume that inventories remain the same as last year and given this year's sales decreased 1% (1,142 million litres), then stock-to-sales ratio will increase to an estimate of 1.48.*



Sources: ABS cat no 1329 and 8504, Wine Australia Wine Export Approval Database and WFA Vintage Survey

## 2015 Wine Australia Price Dispersion Summary

The winegrape purchases collected in the 2015 survey totalled 1,094,197 tonnes valued at \$506 million equating to an average purchase price of \$463 per tonne, up 5% on the average of \$441 per tonne recorded in the equivalent survey in 2014 (see figure 1). Over 36,000 separate transactions were collected and form the basis of the reporting.

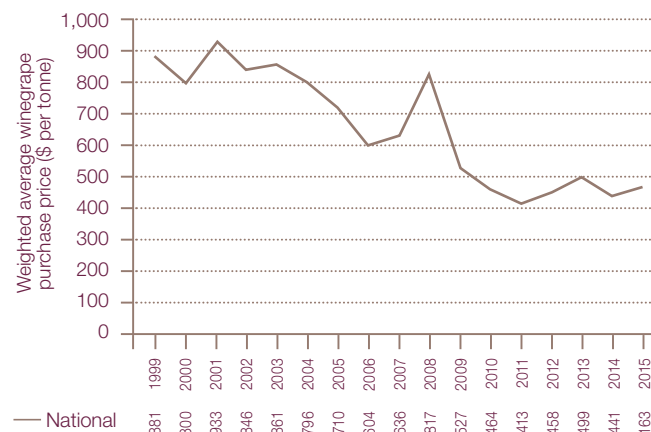


Figure 1: Winegrape average purchase prices over time.

Overall, red wine grapes recorded a stronger price increase compared to white wine grapes. The price paid for red wine grapes increased by 6% to \$575 per tonne while white wine grapes increased by 3% to \$356 per tonne.

A summary of the price outcomes for 2015 by key variety are illustrated in figure 2. Of the varieties shown in the table, there were mixed results. Among the reds, the average purchase price increased for Shiraz, Pinot Noir, and Grenache. For the whites, the price increased for Chardonnay, Pinot Gris, Sauvignon Blanc, Colombard and Riesling.

	2015	2014	Change
Shiraz	600	564	6%
Chardonnay	316	304	4%
Cabernet Sauvignon	559	563	-1%
Pinot Gris	597	518	15%
Sauvignon Blanc	514	482	7%
Merlot	415	417	-0.4%
Pinot Noir	856	696	23%
Semillon	310	371	-17%
Muscat Gordo Blanco	236	239	-13%
Colombard	196	192	2%
Riesling	768	611	26%
Grenache	719	577	25%

Figure 2: National Winegrape Average Purchase Prices by Variety (\$ per tonne).

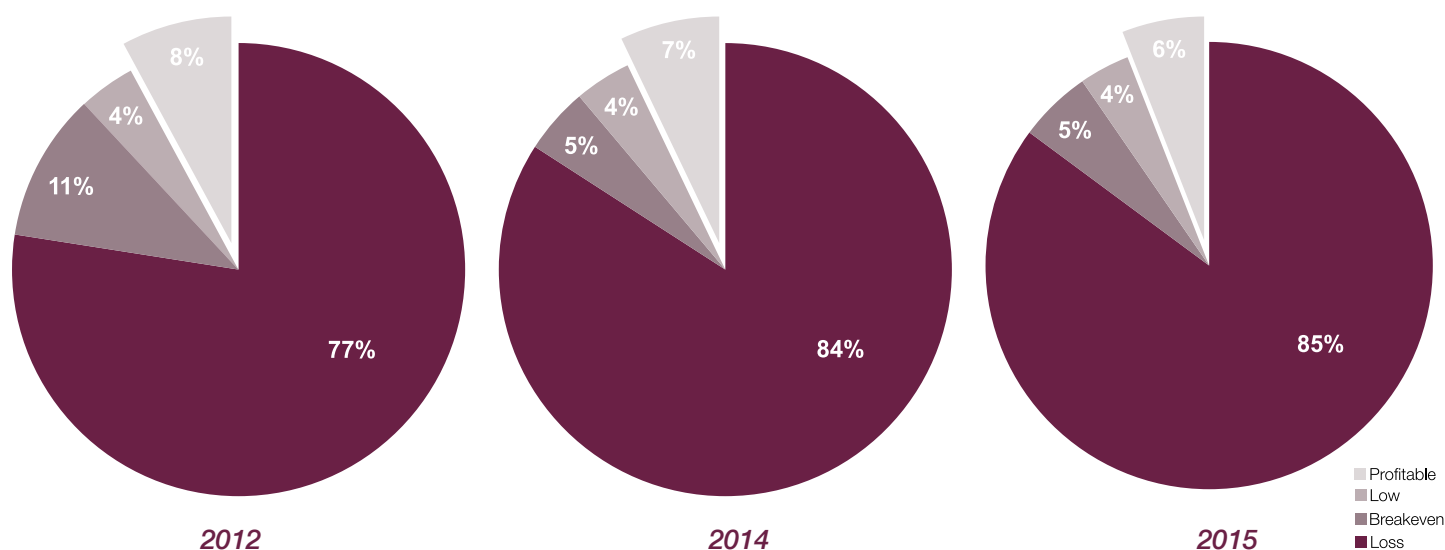
For the complete Price Dispersion Report, see Wine Australia's website at [www.wineaustralia.com/winefacts](http://www.wineaustralia.com/winefacts).



## 2015 Production profitability analysis<sup>2</sup>

2015 production profitability analysis illustrates that when compared to 2014, profitable production (profit of greater than \$300 per tonne) decreased to 6%, low profitability (profit between \$100 and \$300 per tonne) and breakeven production (profit between 0 to \$100 per tonne) remained constant and unprofitable production increased to 85%. Although, the overall production profitability analysis would indicate a higher proportion of unprofitable production, there were some regions which successfully grew their proportion of profitable production.

### 2012-2015 Production Profitability Analysis



Extending the analysis to similar regions discussed in the 2012 and 2014 production profitability analysis<sup>3</sup>, Barossa Valley, Riverland and Hunter Valley increased profitable production, while Margaret River increased its unprofitable production.

The production profitability analysis for the Barossa Valley illustrates that the proportion of profitable production increased by 10,335 tonnes. This increase is predominantly from the increase of grapes purchased above \$2,000 per tonne. This year's report shows the lowest proportion of unprofitable production compared to 2012 and 2014 reports.

The Hunter Valley increased its profitable production to 3% and low profitability to 2% in 2015 compared to 2012 and 2014. Similarly, its 2015 unprofitable production is lower than the previous analyses. Purchases between \$1,500-\$2,000 per tonne exhibited most improvement where 52% are profitable, while in 2014 this figure was 17%.

The Riverland exhibited 8% breakeven and profitable production in 2015 – a 2% increase from the 2014 analysis. Unprofitable production of 92% is lower than last year's 94%, but still higher than the 2012 figure of 84%. Purchases between \$300-\$600 per tonne exhibited most improvement – the proportion of breakeven and profitable production increased from 7% in 2014 to 13% this vintage.

Margaret River maintained its 2014 profitable production at 30% in 2015, but increased its unprofitable production to 50%. Purchases between \$600-\$1,500 exhibited most change since the proportion of breakeven and profitable purchases within this range decreased from 36% in 2014 to 30% this vintage.

More regional analysis can be obtained from the WFA website at [wfa.org.au](http://wfa.org.au).

*Continued on page 6.*

2. See section on methodology for detailed discussion.

3. We have conducted the analysis for 15 regions but in keeping with the Expert Review, discussed only 4 in this report. Analysis for the remaining regions can be obtained from the WFA website.

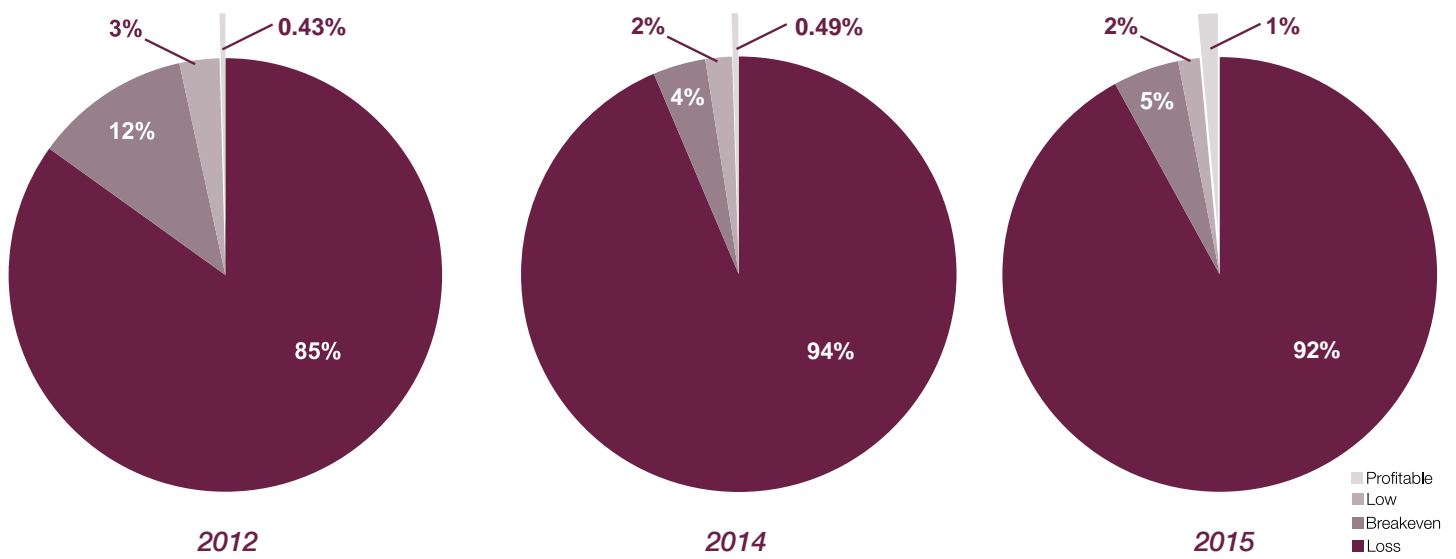
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## 2015 Production profitability analysis

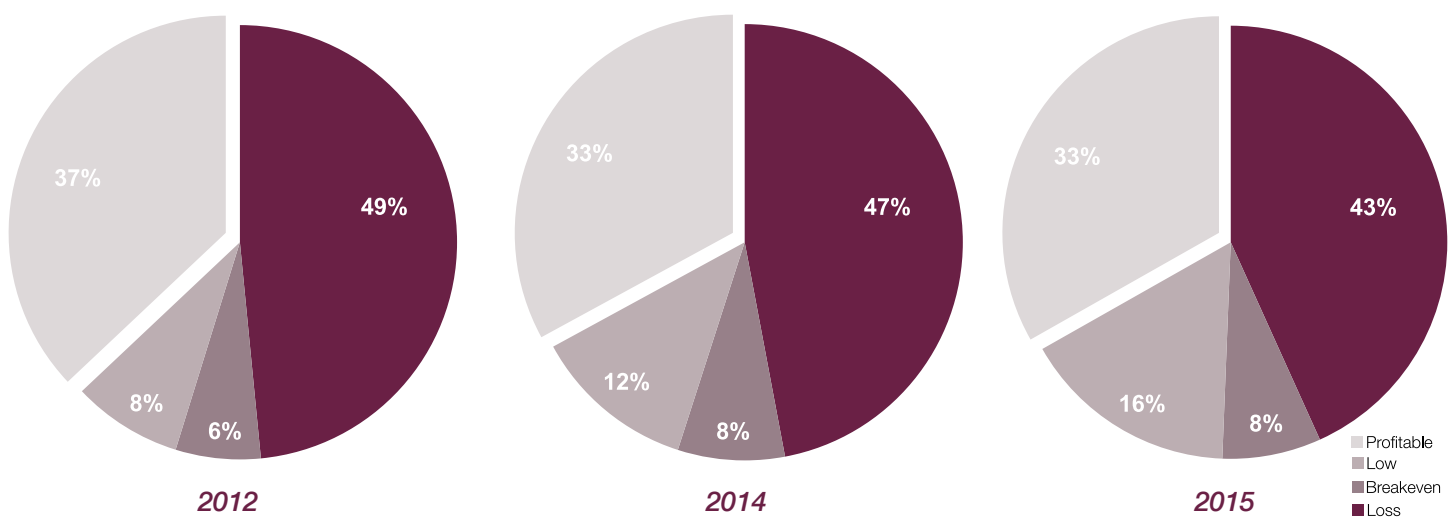
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Looking at the data in terms of warm inland and cool climate, we see similarities in results for 2015 – unprofitable production decreased while the proportion of breakeven and profitable production increased. The main difference between the results of warm inland and cool climate is that the cool climate's proportion of purchases breaking even has increased to 57%.

### Warm Inland



### Cool Climate





## Winemakers' Federation 2016 Vintage Outlook

There are positive indicators for the Australian wine industry with a 5% increase in average winegrape price and an increase in volume and value of wine exports reported for 2014-15. This is despite the winegrape crush remaining relatively unchanged this vintage, a modest 1% increase in overall unprofitable production and yet-to-be realised structural shifts that could see further sustained upside potential across numerous indicators.

Looking at Wine Australia's export approvals data, there are some signs that Australia's export performance has strengthened, with growth in volume and value in 2014-15 – the first time we've seen an increase in total value since 2006-07. The majority of exporters recorded growth and the number of products (SKUs) exported hit a record 17,562. Growth is strongest at the highest price points and contributed to the average value of bottled exports hitting its highest level since 2004.

WFA continues to work towards securing additional funding to help Wine Australia unlock the longer-term structural opportunities presented by favorable economic developments. These include the weaker Australian dollar, the Free Trade Agreements with Japan, South Korea and China, a rebound from austerity measures in China, improved economic conditions in the UK and the US, favourable response to Wine Australia promotional activities such as ProWein and the Vancouver International Wine Festival, and the growing positivity towards Australian wine around the world.

The WFA continues to advocate for an additional \$25 million over four years from government to help boost the international promotion and marketing of our wine in key markets. This initiative, along with a number of other recommended industry actions can be found at [www.wfa.org.au](http://www.wfa.org.au).

### United States

The US remains a substantial but largely unrealised opportunity for Australian premium wine. The US is the largest premium wine market in the world and it continues to grow. Australia is seeing some recovery at the premium end of the market but has a significant way to go. Our image as a low-cost value producer continues, which is understandable given 95% of Australian exports to the US are below A\$5 per litre.

To change perceptions and unlock the opportunity in the US requires a substantial increase in marketing investment. However, Australia faces enormous challenges from France, Italy and other European producers targeting the US who have access to substantial promotional funds through the European Commission's National Support Programmes (NSP). The export market (outside of the EU) promotion spend through the NSPs is to double from €522 million in 2009-13 to €1.156 billion (A\$1.7 billion) over 2014-18.

### Asia

Asia is the stand-out growth region for Australian wine exports.

China is our major Asian market and volumes are on the rise after austerity measures caused a slowdown in the imported wine market in the previous 18 months. China remains the number one destination for Australian exports priced at over A\$7.50 per litre.

Opportunities do exist across the broader Asian market outside China, with different levels of maturity and accessibility across our focus markets of Japan, Hong Kong, Singapore, South Korea and Taiwan. These countries display relatively high wine consumption for Asia and this translates into a greater expertise in wine and potential for genuine appreciation of Australia's wine offer. The average value per litre across these markets is considerably higher than the average value for Australian exports to all destinations, with Hong Kong and Singapore being number one and number three respectively in dollars per litre. In some of these markets, the market position of Australian wine is high (for example, number 2 in Hong Kong and Singapore) and will need defending.

### United Kingdom and Europe

The United Kingdom is our biggest export market. For year ended March 2015, exports to the UK grew by 2% to 251 million litres valued at A\$371 million. The strongest growth to the UK is coming at above A\$10 per litre. The UK can be regarded as a "defend" market for Australia as we have been the number one category in the UK off-trade market for over a decade.

Europe accounts for more than half the volume of Australian wine exports and growth to the region has been solid – exports to Europe (excluding UK) grew 10% from 111 million litres in 2013-14 to 123 million litres in 2014-15. Wine Australia's strategy in Europe is to target key markets where it can deliver an educational message in addition to trade and consumer tastings.

### Domestic sales

While exports are vital to the future of the Australian wine sector, the domestic market remains the largest for Australian wine, accounting for 40% of sales. However, the volume of Australian sales in the domestic market has been relatively flat over the past four years. The Australian category has faced increasing pressure from imports, particularly from New Zealand but also from France, Italy and Spain.

An increase in export performance will help relieve some of the competitive pressure on the domestic market and the lower exchange rate may see a decline in imports.

## Methodology – 2015 Vintage Survey

This year the WFA Vintage Survey was combined with the Wine Australia Price Dispersion Survey, the South Australian Grape Crush Survey and the Murray-Darling / Swan Hill Wine Grape Crush Report into a single collection process known as the Australian Wine Sector Survey 2015. All Wine Australia levy payers (approximately 2,700 businesses) were surveyed. Respondents were asked to provide individual transaction data by variety and region for grape purchases and a summary of their own grown fruit by variety and region. This enables accurate reporting of production and price dispersion data by variety and GI region as well as at a national and state level. Contract processed fruit was excluded as was any “internal valuation” pricing for own grown fruit.

The response rate was over 25% of the total businesses by number, including 100% of wineries known to crush (or to have crushed on their behalf) over 10,000 tonnes. The total tonnage collected through the survey was 1.53 million tonnes and it is estimated that this accounted for 92% of the total crush.

To estimate the total crush, a calculation was made of the change in crush size for those businesses that reported their crush in both the 2014 Wine Australia Vintage Survey and the 2015 Wine Sector Survey. This percentage change was applied to the 2014 crush figure provided by Levies Finance, which collects levies based on crush and is the most accurate crush estimate available when finalised later in the year.

Please direct any question on methodology and data to Peter Bailey of Wine Australia at [peter.bailey@wineaustralia.com](mailto:peter.bailey@wineaustralia.com).

### 2015 Production profitability analysis: an update from the Expert Review.

The analysis estimated 2015 growing costs by region and by grade, and compared with actual prices paid. Growing costs per tonne by grade were estimated using the following data sources:

- 2015 price dispersion data from Wine Australia. Limitations of the price dispersion data include: 1) Price dispersion data is based on winegrape purchases only and therefore does not account for winery-owned fruit; 2) Tonnages purchased and reported at the aggregate level are estimated to represent around 90% of the total purchases
- Average yield by region was based on 2006/08/10/12/14/15
- Estimated cost per hectare figures from consultations with Wine Grape Growers Australia and CPI movement
- Definitions of profitability levels are as follows:
  - Loss: growing costs (per tonne) are greater than purchase price (per tonne)
  - Breakeven: profit per tonne is between \$0-100
  - Low: profit per tonne is between \$100-300
  - Profitable: profit per tonne is above \$300

For more information about the Vintage Report, please contact WFA on (08) 8133 4300 or [wfa@wfa.org.au](mailto:wfa@wfa.org.au).



### Winemakers' Federation of Australia

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