

The Australian Wine Sector – Predicting and crafting the future we want through advocacy





Sector update

- ▶ The current state of the wine sector
- ▶ Global supply and demand;
- ▶ The geo-political situation;
- ▶ The domestic situation
- ▶ The big issues.



The big economic picture

- ▶ According to the IMF, Global growth is projected at 6 percent in 2021, moderating to 4.4 percent in 2022.
- ▶ New virus mutations and the accumulating human toll raise concerns, even as growing vaccine coverage lifts sentiment.
- ▶ Economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support. The outlook depends how effectively economic policies deployed under high uncertainty can limit lasting damage from this unprecedented crisis.



The recovery drivers

- ▶ As the health crisis comes under control, countries must begin to transition from wholesale crisis emergency support measures to those that target support to viable firms and eventually allow a handover to private-led growth.
- ▶ How efficiently that happens will depend on the strength of labor market institutions, safety nets, banking system oversight, and insolvency procedures for a smooth reallocation of resources.



The big economic picture

- ▶ This COVID recovery will also impact on the ability of the Australian wine sector to export to new and developing markets and on to grape prices.
- ▶ Because of threats from new COVID-19 strains, countries will have to weigh the many trade-offs between continued efforts to mitigate spread of the virus—which will likely require maintaining economic support to households and firms—and normalizing policies and rebuilding economic resilience.
- ▶ Securing adequate vaccines is only a first step.



State of the wine sector

The vintage report for 2021 was released in July.

It's a bumper vintage – our largest ever vintage – estimated at 2.03 million tonnes.

- Comes off the back of two smaller vintages.
- Ten year average is about 1.74 million tonnes

National makeup:

- SA = 52 per cent
- NSW = 29 per cent
- Vic = 17 per cent

While both reds and whites increased in tonnage, the increase in reds was significantly higher .

- Eg – Shiraz alone was up by 41 per cent to well over half a million tonnes.



Winegrape prices

- ▶ Strong overall in 2021 – increasing by about 1 per cent to around \$700 per tonne.
 - After two smaller vintages, we saw a significant amount of demand for grapes.
 - Prices for reds came off at the end of the season
 - White grapes continued to be in high demand
 - We need to recognise that the loss of the China market, and the size of vintage, may well have an impact on prices.
- ▶ Over time, we'll get a clearer picture of the market environment
 - We will soon have a better understanding of what looks to be significantly smaller vintages in the US, France and NZ.
- ▶ Critical that winemakers and grape growers continue to talk to each other, to assess the data that is out there and work together to understand what their relationship looks like next vintage.
- ▶ Although there are a lot of unknowns at this point, we know we cannot find a home for all the wine produced in 2021 in the short term at similar prices to what was offered by China.



Current market situation

- ▶ Australian wine exports declined by 4 per cent in value to \$2.77 billion in the 12 months to March 2021, compared with the previous corresponding period, driven principally by the toll taken by high Chinese tariffs.
- ▶ Export volume declined by 1 per cent to 724 million litres (80 million 9 litre case equivalents) while the average price per litre for wine exports declined by 3 per cent to \$3.82 free on board (FOB).
- ▶ Exports to China for the December 2020 to March 2021 period were just \$12 million compared to \$325 million in the comparable period a year ago.



Current market situation

- ▶ There has been significant growth in exports to Europe (including the UK), which was up 23 per cent to \$710 million, the highest value in a decade.
- ▶ There was also growth to North America, up 5 per cent to \$628 million, and Oceania, up 7 per cent to \$112 million.
- ▶ The increase in unpackaged shipments to markets such as the UK, and the fall in bottled wine exports to China resulted in a drop in the share of bottled exports in the export mix, from 46 per cent of total volume in the 12 months ended March 2020 to 41 per cent in the same period in 2021.
- ▶ This led to the decline in the overall average value of exports.



Major export markets

- ▶ The top five markets by value are:
 - ▶ **Mainland China, down 24 per cent to \$869 million**
 - ▶ **United Kingdom (UK), up 33 per cent to \$461 million**
 - ▶ **United States of America (USA), up 4 per cent to \$432 million**
 - ▶ **Canada, up 9 per cent to \$195 million, and**
 - ▶ **Hong Kong, up 55 per cent to \$148 million.**

- ▶ The top five destinations by volume were:
 - ▶ **UK, up 21 per cent to 264 million litres**
 - ▶ **USA, down 1 per cent to 135 million litres**
 - ▶ **Mainland China, down 40 per cent to 78 million litres**
 - ▶ **Canada, up 4 per cent to 54 million litres, and**
 - ▶ **Germany, up 22 per cent to 36 million litres.**



Global market dynamics

- ▶ Globally, we know that some of key competitor nations have had below average vintages this year:
 - France down 30 per cent (estimate, but this equates to more than Australia's total production) and the US, with California struck by drought and fires, also a long way down. New Zealand was also below its long term average.
 - But these lower vintages could open up some opportunities.
 - Argentina and Chile, in particular, are starting to take up the market share we once had in China.
 - The US-EU long-running tariff dispute over Airbus subsidies has been paused.



Key markets

- ▶ Wine Exports to Asia were negatively impacted by the global pandemic, especially in countries with largely on-premise consumption and less-developed retail channels.
- ▶ Countries with well-developed retail channels benefitted from increased home consumption with Korea showing the strong growth along with Taiwan and Singapore.
- ▶ Exports to Japan have showed the influence of COVID-19, particularly in on-premise sales, which support the penetration and growth of premium wine business. The negative effects of COVID-19 restrictions remain, but leading hospitality business leaders predict a strong comeback and expect the 2022 turnovers to exceed the pre-pandemic 2019 results.
- ▶ The US market remains under pressure, with IWSR forecasting that consumption of premium-and-above wine will not reach 2019 levels until 2022.



China update?

China's Ministry of Commerce made its final determinations on the Countervailing Duties and Anti-Dumping Investigations on 26 March 2021.

- ▶ Countervailing duties of 6.3–6.4% (varying by company)
- ▶ Anti-Dumping duties of 116.2 - 218.4% (varying by company)

The duties are apply for five years from 28 March 2021. This effectively closes the market for most Australian produced bottled wine in container less than 2 Litres.



Australia's response

- ▶ WTO dispute action was announced in June 2021.
- ▶ This is not a silver bullet, but provides the opportunity for an "exit-ramp" if relationships improve at the political level.



What are the options from here

The key area of priority for the Australian wine sector is **market diversification**.

- ▶ Market diversification is not easy and takes time.
- ▶ Luckily Australian wine exports are already quite well diversified.
- ▶ Australian wine is already exported to over 100 markets.
- ▶ Our geographic closeness, strong trade relations and existing footprint mean we are well positioned for diversification into Asia.
- ▶ Key will be growing those markets or our market share.



Possible impact on supply and grape prices

- ▶ The impact on Australia's supply situation of any lost trade to China from a volume perspective needs to be put in context – 100 million litres out of a production base of between 1.1 to 1.3 billion litres.
- ▶ The volume of wine exported to China is roughly equivalent to decline in Australia's wine production from 2019 to 2020. However, given China's skew to the premium-end, the impact on supply is likely to be felt more acutely in premium producing regions.
- ▶ And at the commercial end, we may see product that was destined for China hit the bulk market in Australia and elsewhere, putting pressure on prices.



Continued...

- ▶ The domestic market, particularly at the cellar door will remain strong in the next couple of years as domestic travel remains strong.
- ▶ As an industry association, we're working really hard with the Australian Government and our members to open up new markets, and promote growth in existing markets overseas.
- ▶ There is a lot of opportunity in markets like North America, Japan and Korea, the UK, SE Asia in the short to medium term.
- ▶ In the long term, we see India as a real opportunity. It's not without its challenges, but we're really keen to see some more collaboration and dialogue with India, and hopefully some movement on a free trade agreement in the relatively near term.
- ▶ It's going to be really important for grape growers and winemakers to keep talking, keep working together to navigate the short term challenges facing the sector.
- ▶ We're a resilient industry and we'll get through it, but there's no question that some businesses – both grape growers and winemakers are going to face some very difficult times ahead.



Geopolitics in an unstable world

- ▶ United States and China relationship.
- ▶ Taiwan as a flashpoint.
- ▶ Where does India fit in?



The big issues

- ▶ EU and United Kingdom Free Trade Agreements
 - Risks and opportunities
- ▶ Future FTAs (Taiwan, Israel, CTPP expansion....)
- ▶ International push for climate change abatement measures
- ▶ International Health responses by WHO and OECD
- ▶ COVID-19
- ▶ Domestic issues

Climate change is big battleground

- ▶ On 14 July, the European Commission adopted a package of proposals to make the EU's climate, energy, land use, transport and taxation **policies fit for reducing net greenhouse gas emissions by at least 55% by 2030**, compared to 1990 levels.
- ▶ **This includes a new Carbon Border Adjustment Mechanism, that will put a carbon price on imports** of a targeted selection of products to ensure that climate action in Europe does not lead to 'carbon leakage'. It aims to "encourage industry outside the EU and our international partners to take steps in the same direction".



Free Trade Agreements

- ▶ Very aggressive from the European Union
 - Prosecco
 - Oenological practices
 - Difficult to get insurance against environmental regulation
- ▶ On 1 February 2021, the United Kingdom (UK) formally requested accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and on 2 June 2021, the [CPTPP Commission](#) agreed to formally commence accession negotiations with the United Kingdom.



WHO and OECD

- ▶ The World Health Organization (WHO) is busy with continuing work on the COVID crisis and the OECD is busy with continuing to work on tax proposals ranging from a global corporate minimum tax and taxing the largest 100 global corporations as opposed to the DST, nevertheless, both are large organizations and are continuing to work on alcohol and health policies.
- ▶ WHO are running a web-based consultation on the first draft of the global alcohol action plan 2022-2030 to strengthen implementation of the Global Strategy to Reduce the Harmful Use of Alcohol from mid-July to mid-August.



WHO and OECD

- ▶ Both international organizations have spent decades researching and studying alcohol harm; additionally, the WHO successfully completed negotiating the Framework Convention on Tobacco Control (FCTC), the first treaty undertaken by WHO, and signed by 168 countries.
- ▶ WHO's perspective on alcohol control reflects many of the FCTC approaches.



WHO and OECD

- ▶ The WHO maintains a dedicated research and policy program on the harm associated with alcohol beverage consumption which essentially is premised on the policy:

Alcohol is a toxic and psychoactive substance with dependence producing properties. In many of today's societies, alcoholic beverages are a routine part of the social landscape for many in the population. This is particularly true for those in social environments with high visibility and societal influence, nationally and internationally, where alcohol frequently accompanies socializing. In this context, it is easy to overlook or discount the health and social damage caused or contributed to by drinking.

- ▶ One outcome of today's global trade economy is the adoption of an alcohol public policy in one part of the world spilling over to other parts.



Domestic issues

- ▶ Review of the Food Standards Australia and New Zealand provides risks and opportunities
- ▶ The recent decision to extend the rebate for spirits and beer has locked in the WET rebate for wine.
- ▶ Ongoing reviews of added sugar and labelling for calories have potential unintended consequences.
- ▶ We are working with the government to bring more information to be available to growers and wine makers to improve pricing transparency.
- ▶ Pressure will come from the government in the medium term to increase revenue through other means than income tax to pay for the COVID-19 response.
- ▶ Climate change politics will come to the fore in the next 12 months.



The last word

- ▶ A large and quality vintage has brought promise but also requires a realistic appraisal of supply and demand.
- ▶ Market diversification proceeds well, but cannot compensate for the loss of the Chinese market in the short and medium term.
- ▶ Externally, challenges around the health initiatives being run out of the WHO and OECD; European Union unilateral environmental initiatives need careful management.
- ▶ In Australia, regulatory creep requires close attention.



THE END



Thank you

Tony Battaglione
Chief Executive

tony@agw.org.au

Mob: 0413014807