

BRAND AUSTRALIA PAST, PRESENT & FUTURE

Australia is currently the victim of its own success. While clinging to its status as the dominant supplier to the United Kingdom and perhaps soon to the United States, the average export value per litre has steadily fallen over the past two years, exacerbated by bulk sales. James Halliday looks for the silver lining.

It is a little known fact that between 1924 and 1940 Australia exported more wine to the United Kingdom than did France. It was fortified wine, which arrived in barrels, and due to bacterial spoilage, was nothing to be proud of. When trade resumed after the Second World War, Australia was nowhere to be seen, and its efforts between 1945 and 1980 were best forgotten. Likewise, its exports to other parts of the world were insignificant, barely changing over the 35 year period, hovering under 2%. In 1985 Australia imported 13 million litres, and exported 8.7 million litres.

Today, Australia exports 738 million litres each year, earning \$A2.8 billion (€1.67b), and imports 22.1 million litres at a cost of \$A188.2 million (€112.3m). Appropriately enough, it all started in the United Kingdom, spreading in due course to the United States. The drivers of change were many and various: the 1984 trip to Australia by the Institute of Masters of Wine; the ground breaking efforts of Bob Oatley and Chris Hancock of Rosemount; the willingness of Australian winemakers, rather than marketers, to follow their product to market; and, arguably the most important, the role played by Hazel Murphy in 'putting the glass in the hand of consumers' as a low budget marketing campaign by the Australian Wine Bureau in London.

The initial reaction to the highly flavoured, luscious wines, especially chardonnay, was one of shock and awe, but High Street merchants and supermarkets soon found that, regardless of the critics, consumers returned en masse to buy ever more wine. Brand Australia, built on sunshine-in-a-bottle, was born, and rapidly built upon its own image. It was the era of the varietal wine, and the chardonnay-shiraz-cabernet sauvignon trio reigned supreme. What mattered was that they were from Australia, not from which region.

It would be ultimate folly for all too clever marketers to walk away from Brand Australia - and the recent decision by Lindemans to make wine in other countries is deeply worrying. It was fine when French coops in the Midi employed Australian Flying Winemakers and sold their wine in the UK with "made

in the Australian fashion" emblazoned on their labels, but that was moving the people, not the place.

The Lindeman move devalues the sense of place, the uniqueness of that place, at the very time the urgent challenge - and opportunity - for Australia is to focus attention on the 62 regions officially demarcated as Geographic Indications. These offer an equivalent number of combinations of soil and climate,

terroir, if you will, ranging from very cool (as cool as Champagne or the Mosel Valley) to very warm (as warm as Montpellier, Jerez or Lodi).

There are the clearest possible links between terroir and variety: Hunter Valley Semillon; Clare and Eden Valley Riesling; Margaret River and Yarra Valley Chardonnay; Adelaide Hills Sauvignon Blanc; Coonawarra Cabernet Sauvignon; McLaren Vale Grenache; Tasmania, Yarra Valley and Mornington Peninsula Pinot Noir; Margaret River Cabernet Merlot; Tasmania Sparkling wine; Rutherglen Muscat and Tokay, fortified wines with generic name changes under way. Shiraz, and Chardonnay, are the odd men out, particularly the former, which thrives in almost every region, albeit with different expressions.

Australia must unlock elusive marketing money and time to take the best of these wines at \$10 or more ex cellars to its customers around the world. If I were a wine dictator, I would repeatedly stage blind tastings against the other varietal leaders, the other world styles, and let the results speak for themselves. Getting there to do it is the problem.

A brief history

The Australian wine industry has been through three phases in the past 50 years: stable total production between 1956 and 1966, with the red to white wine split being more or less equal. Next, doubling of production by 1976, all on the back of the first red wine boom; then another plateau to 1986, but with the red wine share commencing a decline, hitting in percentage terms its all time low back to the 19th century in 1996; then soaring production from 1986 to 2005, with red wine once again on the

1	Benchmark Data	www.au
Inhabitants:		20.6 million
GNP:		\$ 679.4 billion (€ 535 billion)
Currency:		AUD (1 AUD = € 0.59)
Per capita wine consumption:		26.9 litres
Total wine consumption:		550 million litres
Legal drinking age:		18



THE KEY PLAYERS IN AUSTRALIA

<p>1 Fosters Wine Group Crush 2005: 410,327 tonnes</p> <p>Foster's Group Limited, GPO Box 753 Melbourne Victoria 3001, Australia, Phone: +61 3 9633 2000, www.fosters.co.au</p> <p>Corporate form: listed on Australian Stock Exchange Major brands: Penfolds, Rosemount, Lindemanns, Wolf Blass, Wynns, Seppelt</p> <p>This merger of Southcorp and Beringer Blass brings together an unparalleled number of over 50 brands, offering wines of every price, style, variety and place. Penfolds alone is a unique proposition, covering all the ground between Grange at the top through to Rawsons Retreat near the bottom. Wolf Blass and Beringer are not far behind, supported by Rosemount, Wynns and Seppelt in the major league, with boutique icons such as Coldstream Hills (Yarra Valley) and Devils Lair (Margaret River) on the side.</p>	<p>6 De Bortoli Wines Crush 2005: 95,200 tonnes</p> <p>De Bortoli, De Bortoli Road, PO Box 21 Bilbul, NSW, Australia, 2680, Phone: +61 2 6966 0100, dbwExport@debortoli.com.au, www.debortoli.com</p> <p>Corporate form: family owned Major brands: de Bortoli</p> <p>The main business of De Bortoli is in the Riverland, where it makes a large range of well-priced varietal wines serving its worldwide export markets; it also makes Noble One, Australia's best botrytised semillon, a remarkable wine. Another limb is the 400,000 case De Bortoli Yarra Valley business, run by daughter Leanne De Bortoli and husband-winemaker Steve Webber. The largest producer in the Yarra, it is an object lesson in how to make and market high quality wines in the UK, as well as in Australia.</p>
<p>2 Hardy Wine Company Crush 2005: 363,550 tonnes</p> <p>Hardy Wine Company - Corporate Headquarters Hardys Reynella Winery, Reynell Road, Reynella SA 5161, Australia, Phone: +61 8 8392 2222, corporate@hardywines.com.au</p> <p>Corporate form: owned by Constellation Brands Major brands: Hardys, Houghton, Leasingham, Banrock Station</p> <p>A quick look at the top selling brands in the United Kingdom will tell you that, via its parent Constellation, Hardys has a dominant position. But Constellation itself is under pressure to improve its margins - hence profits - in its wine division after a prodigious string of acquisitions made it by far the largest wine group in the world. All its wine subsidiaries will be under pressure, and divestments of non-core assets are underway, such as the relatively new Kamberra Winery in the Australian Capital Territory. Financial results not published.</p>	<p>7 McWilliam's Wines Crush 2005: 42,000 tonnes</p> <p>Mc Williams Wines, Phone: +61 2 9722 1200, www.mcwilliams Wines.com</p> <p>Corporate form: family owned Major brands: McWilliams, Hanwood Estate</p> <p>A quiet achiever. While home base is the Riverina, it has long had its legendary Mount Pleasant winery and vineyard in the Hunter Valley, and has added Brands Laira in Coonawarra, and Barwang in the Hilltops region of New South Wales, supplemented by grape purchases as far afield as the Clare Valley in South Australia and Margaret River in Western Australia. Gallo has been reported as having a 10% shareholding, and has a worldwide distribution joint venture with McWilliam's, primarily focussing on the big volume Hanwood brand providing multi region wines.</p>
<p>3 McGuigan Simeon Crush 2005: 250,000 tonnes</p> <p>McGuigan Simeon, McGuigan Simeon, Level 2, 170 Greenhill Road, Parkside, SA, Australia 5063, Phone: +61 08 8172 8333</p> <p>Corporate form: listed on Australian Stock Exchange Major brands: Mc Guigan, Temps Two</p> <p>Built in no small measure on the perpetual motion, 12 hours a day, seven days a week brash salesmanship of the now-retired and departed shareholder Brian McGuigan, with wife Faye in close attendance, McGuigan Simeon hit a brick wall in 2006, falling from substantial profit to a loss of \$11.5 million. Even worse was a badly managed on again, off again, on again abrogation of numerous long term grape purchase contracts. It is still a substantial business, but fire-sale wine stock disposals have not helped its image, and it will take a long time to regain the trust of its grapegrowers.</p>	<p>8 Yalumba Crush 2005: 34,000 tonnes</p> <p>Yalumba, PO Box 10, Angaston SA 5353, Australia, Phone: +61 8 8561 3200, info@yalumba.com</p> <p>Corporate form: family owned Major brands: Yalumba, Oxford Landing, Hill Smith Estate</p> <p>The immaculately mannered Robert Hill Smith has guided Yalumba, which was established by his forefathers in 1849, through some stormy periods. The company has emerged more diverse and successful than ever. Their brands include Yalumba, Hill Smith Estate, Pewsey Vale, Smith & Hooper, The Menzies and the very large Riverland estate Oxford Landing, its biggest selling brand. It has a thriving import business - distributing both Domaine de la Romanee-Conti and Guigal among many great names - and a complex, interlocking export and import business across many countries.</p>
<p>4 Orlando Wyndham Crush 2005: 156,216 tonnes</p> <p>Orlando Wines, GPO Box 2246 Adelaide SA 5001, Australia, Phone: +61 8 8208 2444, www.orlandowyndhamgroup.com</p> <p>Corporate form: belongs to Pernod Ricard Major brands: Jacob's Creek, Orlando, Wyndham Estate, Gramps, Morris</p> <p>Owned by Pernod Ricard, and virtually a one-brand business: Jacob's Creek. Extension horizontally (across varieties) and vertically (Jacob's Creek, Jacob's Creek Reserve, and Jacob's Creek Limited Release) has steadily broadened the offer, but Jacob's Creek - with its core Cabernet-Shiraz - no longer holds the number one position it once claimed in the UK and elsewhere. Interestingly, the group has just decided to put its entire UK range under screw cap, confident that consumers there now prefer this closure over cork.</p>	<p>9 Angove's Crush 2005: 19,100 tonnes</p> <p>Angove's Pty. Ltd., PO Box 12, Renmark South Australia 5341, Phone: +61 8 8580 3100, www.angoves.com.au</p> <p>Corporate form: family owned Major brands: Angove's</p> <p>Angove's is a tightly-held, highly-focussed family company concentrating on producing clean, fresh varietal wines at enticingly low prices. Behind the scenes, as it were, it has spent millions on its vast Nanya Estate Vineyard, ripping out large sections and replanting with opposite row orientation to that which previously existed, and taking the opportunity to switch some varietals to match market trends. The family has come a long way from Chateau Downunda, which it unsuccessfully tried as a brand name 40 years ago. Total production is estimated at just over one million cases.</p>
<p>5 Casella Wines Crush 2005: 126,209 tonnes</p> <p>Casella Wines, PO Box 281, Yenda, 2681 NSW, Australia, Phone: +61 2 6961 3000, www.casellawines.com</p> <p>Corporate form: private ownership Major brands: Yellow Tail, Yendah, Malee Point, Crate 31</p> <p>When then Southcorp CEO Keith Lambert pulled the distribution of Lindemans Bin 65 Chardonnay from W.J. Deutsch, he opened Pandora's Box in a way few could have envisaged. It led directly to the creation of [yellow tail], and to the meteoric rise of Casella Wines, with W.J. Deutsch said to have a shareholding in Casella. The extent of the financial success is a matter of conjecture; what is not is the spectacular and ongoing expansion of the winery, the efficiency and sophistication of the design bringing unstinting praise from its competitors in the region and elsewhere.</p>	<p>10 Brown Brothers Crush 2005: 15,160 tonnes</p> <p>Brown Brothers Milawa Vineyard Pty Ltd., PO Box 44 Milawa, Victoria 3678 Australia, Phone: +61 3 5720 5547, www.brown-brothers.com.au</p> <p>Corporate form: family owned Major brands:</p> <p>Brown Brothers had defied the pundits by managing to fund ever-increasing vineyards in areas as diverse as the home Milawa estate to Whitlands at the highest point of the King Valley - as cool as Milawa is warm - and more recently into the prime viticultural real estate of Heathcote, on the 500 million year old vivid red Cambrian soils. It was also the first to seriously trial numerous new varieties 20 years in front of its time. All this has been achieved by organic growth; the Brown family, with Ross now at the helm, has sole ownership and control.</p>

2 Export Development

Country	MAT to September 2002		MAT to September 2003		MAT to September 2004		MAT to September 2005		MAT to September 2006	
	Litres	Value	Litres	Value	Litres	Value	Litres	Value	Litres	Value
UK	206,412,315	861,046,088	208,320,628	843,483,824	233,324,335	888,995,605	272,072,863	975,740,775	265,706,093	946,042,592
USA	104,760,736	613,986,090	150,574,601	868,904,756	181,007,657	913,241,957	194,957,875	911,251,404	211,520,681	891,965,217
Canada	20,725,426	139,996,221	25,512,563	178,353,832	35,819,532	214,478,262	46,013,189	256,576,749	50,858,497	244,859,789
Germany	13,633,039	50,707,348	22,391,874	56,109,745	30,767,519	74,464,557	33,499,622	75,102,755	36,495,039	71,904,769
New Zealand	25,733,338	87,917,811	34,818,333	101,263,267	24,919,814	95,413,967	24,564,363	91,041,797	29,104,087	91,368,905

SOURCE: AUSTRALIAN WINE AND BRANDY CORPORATION

3 Export in value per litre

	Volume		Value		Value per litre	
	MAT September 06 in litres	Change in %	MAT September 06 in A\$	Change in %	MAT September 06 in A\$/L	Change in %
UK	272,484,901	2.5%	968,102,508	0.3%	\$3.55	-2.2%
USA	208,761,333	9.0%	891,450,030	-1.8%	\$4.27	-9.9%
Canada	49,775,279	10.6%	243,911,644	-2.2%	\$4.90	-11.6%
Germany	36,971,208	15.0%	73,407,379	1.1%	\$1.99	-12.1%
New Zealand	28,515,010	17.3%	92,528,358	4.2%	\$3.24	-11.2%
Total	738,046,178	7.1%	2,780,308,048	-0.6%	\$3.77	-7.2%

SOURCE: WINE INDUSTRY DIRECTORY

4 Volume of exports by price point

Volume (millions of litres)	United Kingdom	USA	Canada	Germany	New Zealand	World
< \$2.50	82.00	42.00	12.04	26.00	12.08	231.17
\$2.50 - \$4.99	140.00	123.00	14.84	8.32	11.18	354.00
\$5.00 - \$7.49	35.00	31.00	18.53	1.72	3.96	109.41
\$7.50 - \$9.99	5.95	8.80	3.42	0.47	1.22	24.48
> \$10	2.89	7.04	2.03	0.34	0.65	19.24
Total	266.00	212.00	51.00	37.00	29.10	738.05
Per cent change	United Kingdom	USA	Canada	Germany	New Zealand	World
< \$2.50	4%	103%	42%	29%	64%	36%
\$2.50 - \$4.99	-6%	1%	75%	-29%	-1%	-1%
\$5.00 - \$7.49	-7%	-16%	-11%	22%	3%	-7%
\$7.50 - \$9.99	27%	4%	-43%	55%	-23%	-5%
> \$10	-2%	1%	-10%	23%	31%	4%
Total	-2%	8%	11%	9%	18%	7%
Shares by country	United Kingdom	USA	Canada	Germany	New Zealand	World
< \$2.50	31%	20%	24%	70%	41%	31%
\$2.50 - \$4.99	53%	58%	29%	23%	38%	48%
\$5.00 - \$7.49	13%	15%	36%	5%	14%	15%
\$7.50 - \$9.99	2%	4%	7%	1%	4%	3%
> \$10	1%	3%	4%	1%	2%	3%
Total	100%	100%	100%	100%	100%	100%

SOURCE: AUSTRALIAN WINE AND BRANDY CORPORATION, 2006

ascendant. These figures show a highly dynamic industry, responding rapidly to market forces with minimal government interference other than the imposition of punitive taxes on domestic sales, which are effectively over 40%.

Whether the largest producers are rated by wine grape intake, by vineyard holdings, by sales of branded wines or by size of processing facilities, the outcome is much the same: the top 20 producers account for over 90% of the country's production, the more than 2100 other wineries sharing the remainder. Granted, some producers are virtual businesses, owning neither vineyards nor wineries.

The 1900 or so small wineries are sharing the pain of an oversupplied market, but in varying degrees. If the base of the pyramid slips downwards, the point at the top must follow. The discount phenomenon, and the concentration of power in the supermarket chains, is the bedrock of retailing in both Australia and the United Kingdom. The routes to market for the small producer are becoming ever more congested; in the domestic market the independent retailers, restaurants, the internet and – most importantly – cellar door trade are increasingly vital. For the smaller wineries, a 26% wine equalisation tax refund from the Federal government on the first \$1 million of sales has been of great assistance. Exports have been a boon for some, a fool's paradise for others.

The acquisition of the Hardy Wine Company by Constellation, and the more recent takeover of Southcorp by Beringer Blass, has continued a pattern of rationalisation which has had several phases of peak activity since the late 1960s. The pot of gold stemming from production, distribution and marketing efficiencies has been elusive to say the least. Stripping off balance sheet items such as wineries and vineyards, but retaining the brand and using creative accounting to revalue wine stocks downward, has been a repetitive strategy. The longer term outcome has been the steady erosion of market share held by once proud brands.

Throughout this 35 year period one item of common wisdom has been held dear: that the medium-sized, family owned and run companies will be squeezed out of existence by the pressure from the big companies above them, and the rapidly increasing number of small, quality oriented wineries underneath them. The three companies at the epicentre of this assumed, though probably real enough pressure were Yalumba, Brown Brothers and Tyrrell's. Rather than succumbing, they have prospered, and have been joined by Angove's, Kingston Estate, Grant Burge and Taylors and others, all of which remain family owned. Standing conspicuously to one side is Casella, a fairy tale story, producer of [yellow tail], which crushed 150,000 tonnes in 2006, compared to only 126,000 tonnes in 2005. So far as outsiders can see, it is turning the oversupply and tough times to its advantage, but its growth cannot go on forever.

Plantings

The seven-year decline in the share of white wine production, from 61.85% in 1998 to 41.48% in 2004, has been halted, with a rise to 44.46% in 2005. The unlikely hero, in some people's eyes, is chardonnay, which continues its long march, up from

QUOTE UNQUOTE

»» We have transformed Foster's into one of the world's leading premium wine producers. ««

Jamie Odell

After holding numerous leading roles with Allied Domecq, Jamie Odell became Managing Director of Foster's operations in Australia, Asia and Pacific in August 2006.



311,000 tonnes in 2004 to 378,000 tonnes in 2005. If you look back to 1998, the chardonnay crush was only 148 000 tonnes. Whatever café talk may be, the ABC of chardonnay is „always bring cash“, not „anything but chardonnay“. On the other side of the ledger, the decline in cabernet sauvignon from 320,000 to 284,000 tonnes comes as no surprise. With both chardonnay and cabernet sauvignon, the change in tonnage is also reflected in the hectares planted. Shiraz is the unexpected odd man out, its tonnage fell, a surprise in itself, from 437,000 to 415,000 tonnes, while plantings continued their steady increase since 2000. So did any major red variety hold the line? Yes, merlot did so; although new plantings have come to a halt, yield from plantings made between 2001 and 2004 lifted total tonnage from 124,000 to 133,000 tonnes.

Although it is very useful as a blend component with cabernet sauvignon, merlot has fallen from favour as a varietal wine with wine judges and some winemakers. It is also true to say it has been planted in areas where the climate is too warm - and there is an element of shooting the messenger when it comes to regions to which it is in fact suited. The question is whether ABM will mean „anything but merlot“, or „always buy merlot“. The pundits have been wrong about chardonnay, and it is possible the same will apply here. Nonetheless, I think we will see merlot drift downwards in the years ahead. On the other hand, petit verdot, the only statistically important variety captured in the 'other red' category will likely see its 2005 crush of 25 000 tonnes increase.

Export markets

The figures for the top five export markets for Australian wine (see table 2) show continuous growth in volume for the past five years. However, with the exception of Canada, and to a lesser extent Germany, value growth began to falter in 2004. For all that, the overall average price per litre is still second only to New Zealand. Moreover, if the surge in bulk exports diminishes, the value will rise again. The key bulk market may well remain China, where much of the Australian wine will disappear into an opaque oriental labyrinth.

United Kingdom: After the dramatic rise in exports between 1985 and 1995, many observers declared the growth rates could not be sustained, and that Australia's market share would not

continue to increase. In fact, the growth continued unabated until 2004. What was overlooked was the increase in per capita consumption: the market was growing year-on-year, in stark contrast to continental Europe, and Australia's share was also rising. It may be temporary, but by 2006 growth in consumption had stagnated, the 20 year honeymoon with wine apparently over. Moreover, while Australia is clearly number one, France still dominates on-premise – and particularly white tablecloth restaurants. It is an area in which Australia has an opportunity to gain share, and at higher prices and margins. Little more need be said about this ultra-competitive, discount and supermarket dominated market.

United States of America: Partly due to the high prices of Californian wines, led by the Napa Valley, partly to the three-tier distribution system, and transiently to the weakness of the Australian dollar, the United States has been a more profitable market than the UK if the average price per litre is taken at face value. However, the three-tier system is under sustained legal attack, which will reduce the interstate marketing costs but increase the supermarket (Costco, Wal-Mart, etc) power, and with it, discounting. Moreover, the average price has been sustained by the high-priced, flamboyant red wines which are losing their novelty attraction. Finally, low-priced, “little critter” wines have taken prime position, all factors contributing to a continuing fall in the per litre value.

Canada has surpassed the US in value per litre, and has continued to grow in size, but, here too, prices are falling. It nonetheless remains the third most important market, with a genuine interest in and appetite for Australian wine across all price points, with almost 50% above \$A5 per litre, compared to 16% for the UK and 22.6% for the US.

Germany: This has remained an elusive market for Australia, particularly given that it is the largest importing country in the world, with a particular focus on red wine. The reasons are the fragmented regional markets, the opposite of the UK with London to all intents and purposes the “single desk”, and the low prices the market is prepared to pay. Its \$1.99 is third only to France (\$1.75) and China (\$1.56). Germany's purchase of \$5 and above is a derisory 7%.

New Zealand: The plusses are its geographic closeness to Australia, a free trade agreement, and – like Germany – a need for red wine. Unlike Germany, it all works to overcome the tiny population: on a per capita basis it consumes more Australian wine than any other export country. The above \$5 take is 21%.

Cloud or silver lining?

The most important driver of growth in the Australian industry for the past 20 years has been exports, which now put it in fourth place in value terms after France, Italy and Spain. However, since a high point in value per litre in 2001 of \$4.76, the highest of all exporters other than New Zealand, there has been an accelerating decline on a year-by-year basis.

ABARE forecasts that volume growth will continue at a lower annual rate of 14% to reach just below one billion litres by 2008, with a continued decrease in average value of around 7% to \$3.66 per litre. Further, the impact that exchange rate fluctuations have and will continue to play on FOB earnings should not be underestimated. This apart, the major reason for the decrease in the value per litre is the increase in the volume of bulk wines.

Australia had largely vacated the bulk market in the end of the 1980s after Sweden, in particular, recovered from the Chernobyl scare, and turned back more to its traditional markets. It has been forced to return to bulk exports for two reasons: first, to sell unbranded surplus wine at low prices to third party purchasers; and second, to reduce shipping costs and time cost of packaging expenses of branded wines.

Growth in bottled table wine sales has almost ground to a halt; all of the growth has been in bulk or, in the case of red wine, soft packs. Bulk wine accounted for 87% of the overall growth in volume in the 12 months to June 2006. The cloud is, of course, the decline in value per litre and the near-stagnation of bottled wine sales increases. The silver lining for those who wish to see it is the re-entry of Australia into the bottom tier of the UK market, in particular, capturing new wine entrants at the lowest price point. The same can be said of the nascent Chinese market. The alternative view sees the lack of product control and the loss of aspirational positioning as great dangers.

5 Development of plantings and crush				1956 - 2005		
Tonnes	1956	1966	1976	1986	1996	2005
Total White	45,750	64,200	74,800	116,500	516,358	808,443
Total Red	41,400	49,600	177,100	136,600	246,043	1,009,983
Total	87,150	113,800	251,900	253,100	762,401	1,818,426
White in %	52.5%	56.4%	29.7%	46%	67.7%	44.5%
Red in %	47.5%	43.6%	70.3%	54%	32.3%	55.5%
Hectares	54,554	56,707	70,448	59,834	77,681	166,665

As table 5 shows, the volume of grapes crushed doubled over the period of ten years from 1966 to 1976. Within the decade from 1986 to 1996 production tripled, and grew by factor seven within twenty years from 1986 to 2005. Over the same time, the number of hectares only doubled.

6 Number of wineries by size of crush			2000	2006
< 20 tonnes			337	601
20 - 49 tonnes			259	481
50 - 99 tonnes			180	303
100 - 249 tonnes			157	242
500 - 999 tonnes			118	200
1,000 - 2,499 tonnes			45	69
5,000 - 9,999 tonnes			49	55
> 10,000 tonnes			41	41
Unknown			11	16
Total			1,197	2,008

In a press release of March 2006 Casella Wines announced that it had recently exported its 25th millionth case of [yellow tail], from a standing start three years earlier. Indeed, while hard figures are difficult to come by, it would seem that it was the sole factor preventing a significant decline in bottled wine exports. On the other side of the coin, it has reinforced the cheap-and-cheerful, sunshine-in-a-bottle image of Australian wine, selling for around £5.49 in the UK and well under \$A10 domestically. While grape prices continue in real terms at all time lows Casella will continue to expand off the back of real profits, and presumably has plans in place to deal with the recovery of balance between grape supply and demand.

Grape supply and prices

The Australian wine industry formulated a ground breaking 30 year plan in 1995. It assumed a steady increase in grape plantings over the 25 years to 2020; in fact those plantings took less than 10 years, driven by a mix of optimism, modest taxation breaks in the ability to offset establishment losses against other income, and soaring exports. By the end of the 1990s, the return per hectare in the irrigated Riverland and Murray River regions exceeded all other broad acre agricultural or pastoral activities. Grape growing is no different to those other activities when it comes to cycles of prosperity and of severe economic hardship. Once might argue the only thing surprising about the surplus was that it took as long as it did to materialise.

Australian grape growers are a pragmatic lot, though; rather than blow up wine tankers, they are looking at vine removal or low-cost maintenance regimes, effectively mothballing vineyards until prices recover. While spot market prices of \$A200 a tonne, less than cost, were paid in 2006, fewer such instances will occur in the future. Moreover, frost damage may radically change the balance of supply and demand.

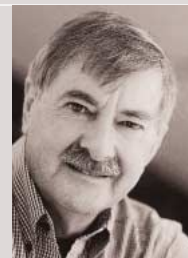
To one degree or another, the endless blue skies between 1993 and 2003 are now obscured by clouds, and in some quarters, thunderheads. McGuigan Simeon and Evans & Tate are substantial public listed companies which have had no option

QUOTE UNQUOTE

»» The Australian future lies in effectively marketed, regionally based wines. ««

Brian Croser

Brian Croser was the leader of a chorus that warned against complacency, exhorting winemakers to produce ever better regionally based wines and emphasising the importance of marketing those products across the world.



but to disclose their economic woes, and to savagely write down the value of stock on hand. Smaller listed companies such as Cheviot Bridge, which acquired the Long Flat brand from Tyrrell's for a cool \$A10 million figure, Simon Gilbert Wines, with former Southcorp executives in control, Palandri, which is listed in both Australia and London, but with trading in its shares halted on September 20, and Dromana Estate have all had poor results for the 2006 financial year, with only Cheviot Bridge clinging on to a small profit. The sharks are circling.

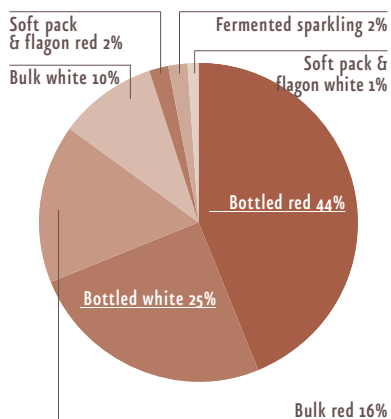
The China Conundrum

In the decades ahead, the Asian market from India to Taiwan and South Korea, will become of prime importance to Australia, at some point challenging the United Kingdom and United States. China will be the centrepiece, but no one should build a short term business model on that proposition. Exports to China in September 2006 have soared on a moving annual total basis up 519% by volume and 133% in value. But while it takes in seventh place among Australia's overseas markets, 80% of the wine was bulk at an average price of 61 cents a litre, and its average for all wine, including bottled products, was only \$1.61, the lowest of all export markets. Profitless prosperity indeed!

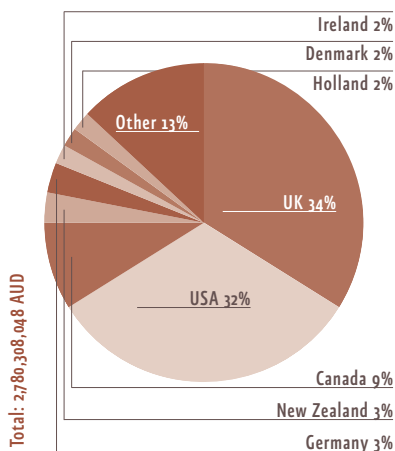
This is an excerpt from a longer article.
Read the full text at www.wine-business-international.com

SOURCE: AUSTRALIAN WINE & BRANDY CORPORATION AND WINEMAKERS' FEDERATION OF AUSTRALIA

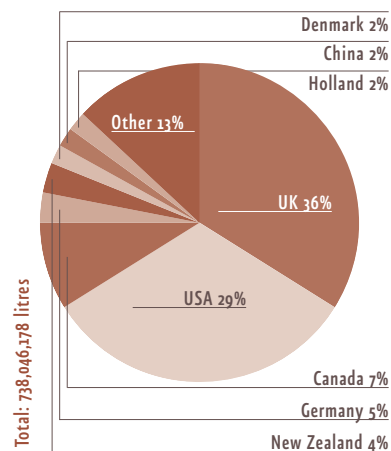
7 Share of exports by wine type



8 Export value to 09 2006



9 Export volume to 09 2006



SOURCE: AUSTRALIAN WINE AND BRANDY CORPORATION, 2006