

DEMAND KEEPS KIWI ENGINE HUMMING

The exceptional growth of New Zealand's vineyard plantings has many analysts worried that the overheated market may soon come under intense pressure. In less than ten years the total area under vine has more than tripled; but for the moment increased demand has kept pricing firm. By Bob Campbell MW.

The production of New Zealand wine has experienced heady growth over the past decade thanks to the worldwide demand for Marlborough Sauvignon Blanc. Other wines have to some extent coat-tailed on that cess, with the exception of Pinot Noir, which - although the amount produced in 2006 was less than one-quarter of the volume of Sauvignon Blanc - is enjoying even more dramatic growth.

Divided into 10 regions, about one-third of New Zealand's vineyards are on the North Island, the balance on the cooler South Island. Although the first grapevines were planted in Marlborough only a little over 30 years ago, the region is now the country's largest viticultural area with nearly half of the nation's vineyards. Marlborough's rapid vineyard growth of 320% in the past decade has been fuelled principally by demand for Sauvignon Blanc.

Although vineyard area has steadily risen, annual grape production has experienced something of a roller-coaster ride either due to crop losses through frost or when adverse weather resulted in poor flowering. If the country experiences normal weather conditions in 2007, the grape harvest will for the first time exceed 200,000 tonnes thanks to expanded vineyard plantings.

In 2006 Sauvignon Blanc represented 53% of the total grape harvest, with Chardonnay in a distant second place (15%) and Pinot Noir third (12%), followed by Merlot (6%), Riesling (4%), Pinot Gris (2%), Semillon (1.5%) and Cabernet Sauvignon (1.5%). White grape varieties represent 78% of the total.

Although per capita wine consumption now averages 20.8 litres per year, only 58% of that total is domestic wine. The relatively high share of imported wine is inflated by the large amount of bulk that is imported to satisfy domestic demand for lower priced wines that are bottled and marketed locally by the large wineries such as Montana, Nobile or Villa Maria. As there are few wines made from local grapes sold at below NZ\$15 (€7.75) per bottle, these wines occupy a different market segment and have, to date, had little impact on the domestic sales of

local wines. In the year to June 2006 38% of all wine imports were in bulk. Australia provided the lion's share (62%) followed by South Africa (25%), Chile (6%), Argentina (4%) and Italy (3%).

Based on an analysis of 2005 white and 2004 red wines, Pinot Noir has the highest average domestic price of NZ\$32.68 (€16.85). Syrah is a close second at NZ\$ 32.51 (€16.75). Not surprisingly, red wines show a higher average price than whites.

However, Pinot Gris, Chardonnay and even Riesling outpace Sauvignon Blanc, indicating that New Zealand's key varietal may be becoming somewhat of a commodity.

Although no exact data exists to document this assertion, experts estimate that 70 to 80% of New Zealand wine is made by companies with offshore owners. NZ Winegrowers, which represents all local winemakers and grape-growers, lists 530 winemaker members as of June 2006. Six of those companies each produce more than two million litres of wine annually, another 42 produce more than 200,000 litres, 482 estates make less than that.

Pernod Ricard is by far the country's largest wine producer with a domestic market share that approaches 50% and a somewhat smaller part of export sales. The Nobile Group, once known principally for White Cloud and now part of the world's largest wine company, Constellation Brands Inc, is in second place. Other large producers include locally-owned Villa Maria and its associated companies Vidal and Esk Valley, Delegats Wines NZ Ltd with Oyster Bay, Matua Valley, which is owned by the Australian Foster group and Kim Crawford, now also part of Constellation Brands Inc. Cloudy Bay, perhaps New Zealand's highest profile and most successful winery, is part of the LVMH group.

Montana is the battle horse of the local arm of Pernod Ricard, which has a number of other brands including Corban's, Stoneleigh and Lindauer. That has resulted partly from acquisitions, partly from the fragmented state of the market, with liquor stores and restaurants refusing to buy wines that are sold in supermarkets and some restaurants

1 Benchmark Data		www.nz
Inhabitants:		4.15 million
GNP:	US\$ 108.6 billion (€ 85.5 billion)	
Currency:	NZ\$ (1 NZ\$ = € 0.52)	
Per capita wine consumption:		20.8 litres
Total wine consumption:		86.35 million litres
Legal drinking age:		18



refusing wines stocked and discounted by liquor stores. As a consequence, different brands are targeted toward each outlet type. Add to that some brands that are especially designed for certain export markets.

Small producers add rich diversity

New Zealand's large number of small producers adds a rich diversity to the country's wine production as well as making a valuable contribution to wine tourism. However, winemaking is becoming a crowded industry. The number of small producers has more than doubled in the past decade. Small winemakers have an almost inevitably strong focus on making rather than selling wine, placing an increasing financial pressure on those who lack a secure outlet for the wares they produce. The average vineyard size in the Northland regions including Auckland, for example, is just 5.9 hectares, revealing the very marginal nature of the many small producers in that area. There have already been a few company failures and more are expected as wine volumes increase.

Judy Finn and her husband Tim founded Neudorf Vineyards in Nelson in 1977. Although the winery is, even by New Zealand standards, still relatively small, their wines have developed almost cult status „Quite a number of the country's new wine producers simply don't need to make a profit to survive“, explained Judy Finn. „They are often owned by professional people who continue to work in their highly paid jobs, treating their winemaking activities as an immensely satisfying and absorbing hobby. Most new entrants lack an understanding of the culture and complexity that is needed to be successful in the wine industry. We were certainly in that boat when we first started. However, to survive it is necessary to be profitable. The successful wine producers are either driven to make better wine or to make more money. Both are valid, even necessary, forces.“

QUOTE UNQUOTE

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Judy Finn

The wines of Judy Finn' Neudorf Vineyards in Nelson have developed almost cult status.



This kind of growth is most clearly seen in Central Otago on the southern Island, which has attracted mostly small „life style“ investors or mid-sized companies – though still small by international standards – owned by investment groups. One or two smaller wineries from outside the region have invested in vineyards there, but – although some do buy grapes from local growers – there is a noticeable lack of large company interest in owning vineyards. This is a cottage industry with a mix of local and offshore investors, mainly from the States, Singapore or Britain. Big money has placed its bets on Marlborough and, to a lesser extent, Hawke's Bay.

Promoting Brand New Zealand

One of the strengths of the wine industry has been the high degree of collaboration between the producers to promote „brand New Zealand“ in export markets. New Zealand wine is a small, niche and high-priced category that responds well to aggressive marketing. Regional promotions are also a popular way to stimulate not only wine sales but also tourism. Although the winemakers of Central Otago, the most aggressive promoters, have conducted regional tastings for

2 Vintage 2006			
	Tonnes	vineyards in hectares	Wine exports in litres
Sauvignon Blanc	96,686	7,886	42,804,227
Chardonnay	26,944	3,813	4,011,066
Riesling	6,745	828	765,375
Pinot Gris	3,675	715	254,967
White wines total	142,970	14,770	47,371,842
Pinot Noir	22,062	3,894	4,150,853
Syrah	1,057	238	18,368
Merlot	11,206	1,525	903,522
Cabernet Sauvignon	2,659	567	5,633
Red wines total	39,915	7,337	7,074,589
Total	182,885	22,107	59,426,849

3 Top Five export				
		1996	2001	2006
UK	volume in 1,000 litres	7,440	9,918	21,907
	value in 1,000 NZ\$	40,626	92,728	166,937
USA	volume in 1,000 litres	188	3,132	14,411
	value in 1,000 NZ\$	1,545	4,815	138,411
Australia	volume in 1,000 litres	1,163	2,373	13,180
	value in 1,000 NZ\$	6,055	26,059	122,441
Holland	volume in 1,000 litres	153	903	1,217
	value in 1,000 NZ\$	1,189	7,656	10,017
Canada	volume in 1,000 litres	334	612	2,061
	value in 1,000 NZ\$	1,617	6,312	21,888
Others	volume in 1,000 litres	1,735	2,307	5,015
	value in 1,000 NZ\$	9,237	24,534	52,669
Total	volume in 1,000 litres	11,013	19,245	57,791
	value in 1,000 NZ\$	60,269	198,104	512,362

wine writers from certain overseas markets, these are mostly confined to the domestic initiatives.

While total wine consumption for New Zealand's 4.1 million inhabitants has risen from 14 litres per capita in 1990 to the present level of 20.8 litres, the local wine share fell from 85% to 58% largely as a result of bulk wine imports. Legislation approving the sale of wine through supermarkets was passed in 1989, opening up the previously restricted sales of alcohol at the retail level. 81% of red wine, 85% of white wine, 92% of rosé now has a retail price of less than NZ\$15 (€7,75). A fair portion of this is sold as three litre wine casks that fetch \$20 to \$22 domestically, much less than half the price of the least expensive local wines when calculated per bottle.

The domestic market is dominated by supermarkets, which now account for more than 70% of retail sales. The balance is sold by small independent liquor retailers, liquor chains, from the winery door and increasingly over the Internet. Imported wines are largely sold to wine stores and restaurants by the importers and distributors.

Export focus is changing

The United Kingdom has always been New Zealand's largest export market. In 2006 the UK bought 40% of the countries total exports by volume and 33% by value. Although sales to the UK are still rising steadily, the faster growing American market, currently in second place, appears likely to overtake the UK in the value by the end of 2007 and in volume by 2009, according to NZ Winegrowers global marketing director, Chris Yorke. The average earnings per litre of total exports in 2006 was NZ\$ 8.87 (€4.56). While the UK averaged \$NZ 7.62 (€3.92), the US was a rather higher \$NZ 9.60 (€4.94).

Other export markets include Australia with 23% share by volume, Canada (4%), Netherlands (2%), Ireland (1.5%), Japan (1%) and Germany (0.5%). Sauvignon Blanc currently has a commanding 72% share of exports followed by Pinot Noir (7%),

Chardonnay (6.7%), sparkling wine (3.9%) and Cabernet or Merlot blends (1.6%). Sparkling wine is the only category dominated by a single brand, Lindauer.

Screw caps are the norm

US, UK and Australia will continue to account for around 80% of New Zealand's wine exports, which NZ Winegrowers expect to reach \$NZ 1 billion (€5.5 million) by 2010. Although Pinot Noir grows steadily, Sauvignon Blanc, much of which is now bottled with screw caps, is predicted to remain the largest varietal wine exported. OI New Zealand, the company that supplies 85% of all wine bottles, currently makes and sells 80% of its bottles with a screw cap neck. A spokesman for the company, Mike Needham, estimates that 80% of the country's wine is now in screw caps.

„New Zealand's grape and wine industry continues to gather momentum“, says chairman of NZ Winegrowers, Brian Viecele in his 2006 annual report. „The growth is even more impressive given the challenges the industry faces in the form of currency fluctuations, inexorably climbing taxes, a tough retail environment and rising input costs. Despite these pressures, industry projections and surveys show confidence that sales will continue to grow, driven by exports of Sauvignon Blanc.“

„Demand continues to be strong in all major markets. Despite a slight downturn in total wine consumption, UK consumers bought 4% more New Zealand wine this year. The United States now accounts for a quarter of all wine sold offshore, with export volumes up 11%. Shipments to Australia grew very positively, up 35%.“

„To fulfil forecasts, the industry will need to accelerate efforts in marketing and innovation without losing sight of the integrity and quality that sustain the New Zealand wine proposition. On this basis the New Zealand grape and wine industry can keep building the momentum to achieve \$NZ1 billion in sales at profitable prices by 2010.“

4 Summary New Zealand Wine (1996 - 2006)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Wineries	238	262	293	334	358	382	398	421	463	516	530
Producing Area (hectares)	6,610	7,410	7,580	9,000	10,197	11,648	13,797	15,900	17,809	21,002	22,107
Average Yield (tonnes per hectare)	11.4	8.1	10.3	8.9	7.8	3.1	8.6	4.8	9.1	6.9	8.4
Average Grape Price (\$ per tonne)	829	842	1,005	1,054	1,153	1,441	1,634	1,929	1,876	1,792	n/a
Tonnes Crushed (thousands)	75.3	60.0	78.3	79.4	80.1	71.0	118.7	76.4	165.0	142.0	195.0
Total Production (millions of litres)	57.3	45.8	60.6	60.2	60.2	53.3	99.0	55.0	119.2	102.0	133.2
Domestic Sales of NZ Wine (m of litres)	35.6	38.8	38.2	38.4	41.3	36.2	32.6	35.3	35.5	45.0	50.0
Consumption per Capita (litres of NZ wine)	9.9	10.4	10.1	10.1	10.6	9.3	8.3	9.8	8.8	11.2	12.1
Export Volume (millions of litres)	11	13.1	15.2	16.6	19.2	19.2	23	27.1	31.1	51.4	57.8
Export Value (millions of NZ\$FOB)	60.3	75.9	97.6	125.3	168.6	198.1	246.4	281.9	302.6	434.9	512.4