

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Wine Annual

2015 Wine Annual

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Report Highlights:

Australia is one of the world's leading wine producers and exporters. Production for the 2015 wine vintage is forecast to rise to 1.6 million tons of grapes, which equates to 1.2 billion liters of wine. Yield is expected to increase due to improved seasonal conditions. In recent years, wine producers have suffered from declining profitability, industry fragmentation and overcapacity. The recent depreciation of the Australian dollar should provide a significant boost to exports into major markets in the United States, Europe and Asia, while Australian wine imports are likely to stabilize. U.S. wine exports to Australia remain disadvantaged by the current Wine Equalization Tax (WET) system, and the resulting negative impact on U.S. export sales will likely be reinforced by the stronger U.S. dollar.

Commodities:

Wine

OVERVIEW

Australia is one of the world's leading wine producers and exporters. It is the world's fourth-largest exporter of wine by value and the fifth-largest exporter by volume. Australian wine exports account for around 60 per cent of production and account for 9 percent of world trade. Exports have grown from below 40 million liters in the late 1980s to over 700 million liters in 2014. This expansion occurred at a time of increasing supply and falling returns. Over the last decade, the share of bulk wine rose in exports from one third to almost 60 per cent and average unit wine values declined by over 30 percent.

Australia's main wine producing regions are in the cooler southeast but there are sixty wine-producing regions throughout the country. Vineyards in South Australia (such as Barossa Valley, Clare Valley, Coonawarra), Victoria (Swan Hill, Yarra Valley, Rutherglen) and New South Wales (Hunter Valley, Mudgee, Riverina) produce most of Australia's wine, with Tasmania, Queensland (South Burnett, Stanthorpe) and southwest Western Australia (Margaret River, Swan District) also contributing. All major wine types are produced. The wine industry is dependent on irrigated vineyards with two thirds of the grape harvest supplied from the irrigated regions of the Murray Darling in NSW and Victoria, the Riverland region in South Australia and the Riverina in NSW.

PRODUCTION

Production for Australia's 2015 wine vintage is forecast to rise to 1.6 million tons of grapes which equates to 1.2 billion liters of wine. Yield is expected to increase to 10.9 MT/ha due to improved seasonal conditions for most of the over 6,000 wine grape growers in Australia. Better seasonal conditions in most regions influenced the grape crop and boosted the volume of expected wine production. In New South Wales, many producers were not affected by drought, or frost or heat spikes and the harvest began two weeks earlier than usual. In South Australia there is likely to be an above average quality harvest despite some weather difficulties, while in Western Australia, harvest commenced in late January rather than early February, under very favorable conditions.

Table 1: Summary of the Australian Wine Industry to 2015

Indicator	2011	2012	2013	2014	2015
Vine area ('000 ha)	154	145	133	138	140
Yield (tons/ha)	10.4	10.9	11.6	10.6	10.9
Grape production ('000)	1,598	1,582	1,642	1,560	1,600
Wine production (ML)	1,119	1,107	1,187	1,092	1,200
Value of wine production (A\$M)	712	725	846	733	770
Value of exports (A\$M)	2,009	1,910	1,867	1,847	2,000
Exports (ML)	748	737	717	724	750
Imports (ML)	84	86	86	85	85
Domestic sales (ML)	464	457	453	458	460
Consumption per capita (L)	21	20	20	20	20

Source: ABARES and Post estimates.

In 2014, the largest twenty winemakers in Australia produced over 80 percent of total domestic wine production by volume with production in the remaining 2,250 wineries being comparatively small. Lower margins on exports and domestic production have affected most of the industry and one survey suggested that only one fifth of wine

producers have been profitable in recent years. Comparatively low wine prices in Australia and overseas have led domestic producers to gradually increase their stocks of wine relative to sales. Industry surveys have found that a significant volume of domestic and export sales are of lower priced wines that have lower profit margins. Consequently, the stocks-to-sales ratio has increased to an estimated 1.5. Over 2015, the current depreciation of the Australian dollar is expected to increase the competitiveness of Australian wine exports to major markets.

Table 2: Australian Wine Grape Production by Variety ('000 tons)

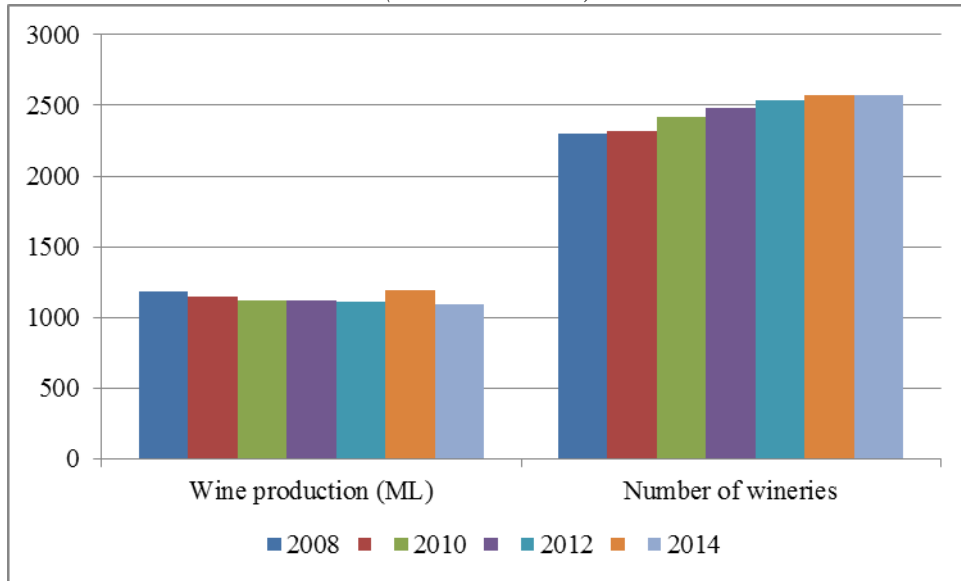
Indicator	2011	2012	2012	2013	2014
<i>Red varieties</i>					
Shiraz	326	380	378	425	424
Cabernet Sauvignon	231	221	219	247	231
Merlot	110	127	125	131	117
Pinot Noir	35	33	34	39	31
Petit Verdot	17	20	19	22	20
Other red varieties	61	55	55	71	61
Total red varieties	780	836	830	935	884
<i>White varieties</i>					
Chardonnay	398	374	372	401	355
Sauvignon Blanc	87	87	88	97	95
Semillon	82	80	82	76	71
Muscat Gordo Blanco	48	62	61	68	65
Colombard	57	61	61	67	56
Other white varieties	151	161	164	189	171
Total white varieties	823	825	828	898	813
<i>Total grape production</i>	1,602	1,660	1,658	1,833	1,697

Source: Winemakers' Federation of Australia and Post estimates.

Note on Production Statistics

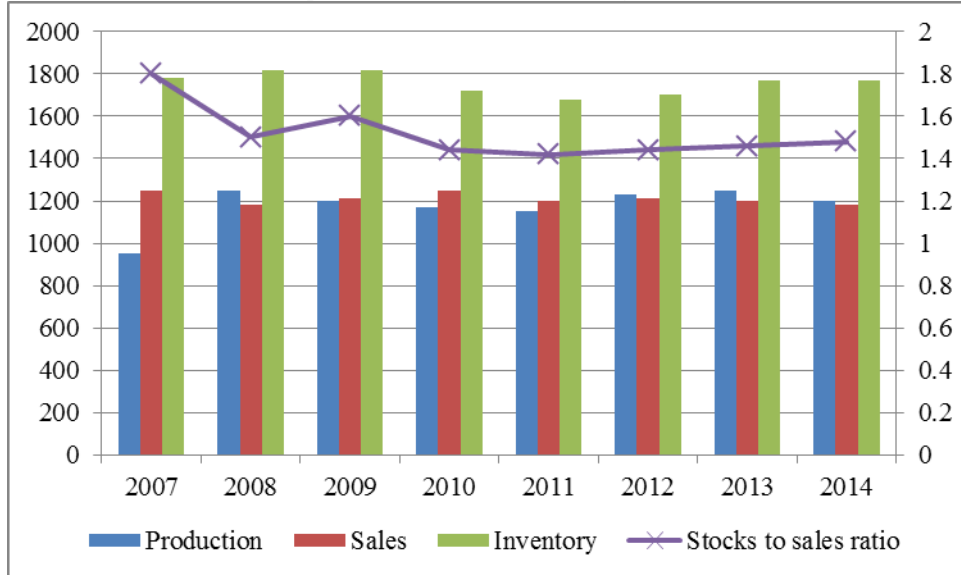
It should be noted that cuts to the funding for the Australian Bureau of Statistics resulted in the cessation of viticulture data collections from mid-2014. These included the Vineyards Survey, which had been conducted by the ABS for over a decade and the annual wine statistics collections of wine grape crush, wine production, wine inventories and domestic wine sales. As a result, it has become more difficult to estimate changes in Australian wine grape and wine production.

Chart 1: Australian wine production and the number of wineries, 2008-2014 (ML and number)



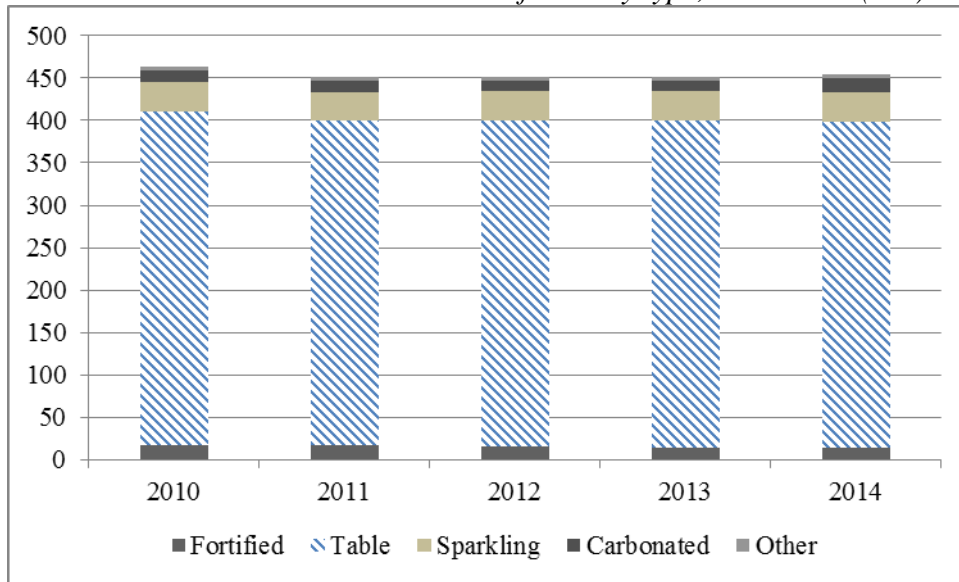
Source: Winemakers' Federation of Australia and Post estimates

Chart 2: Australian wine production, sales, inventory and stocks to sales (ML, %)



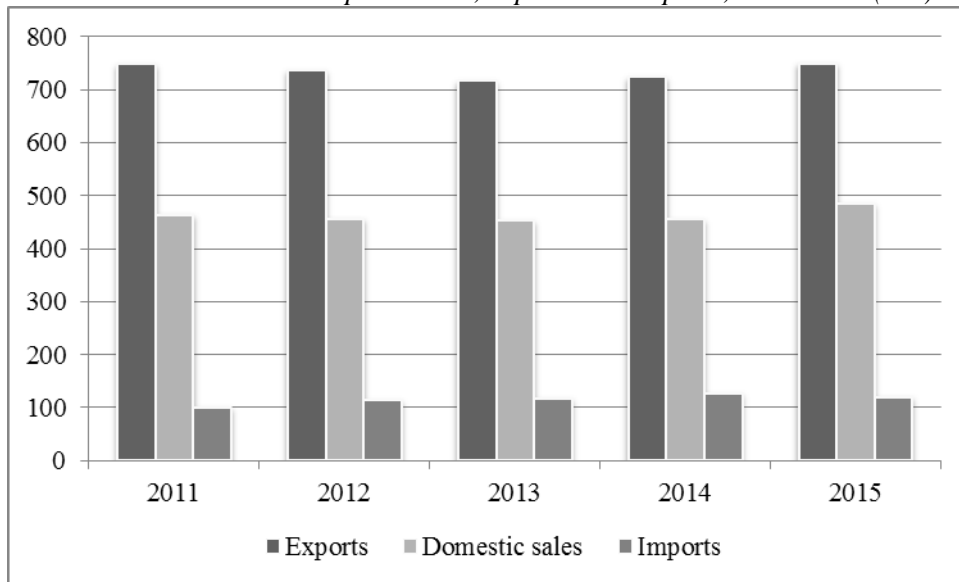
Source: Australian Bureau of Statistics, Australian Grapes and Wine Association and Wine Federation of Australia.

Chart 3: Australian domestic sales of wine by type, 2010-2014 (ML)



Source: Wine Makers Federation of Australia and Post estimates.

Chart 4: Australian wine production, exports and imports, 2010-2014 (ML)



Source: Wine Makers Federation of Australia and Post estimates.

TRADE

Exports

Australia is the world's fourth-largest wine exporter by value and the fifth-largest exporter by volume. Around 60 percent of Australian wine production is exported, representing around 9 percent of global exports. Australia's wine exports have grown from under 40 million liters in the late 1980s to over 700 million liters in 2014 due to a significant expansion in domestic wine grape production and wine manufacture, which has been ahead of world demand. Australia expanded the volume and value of wine exports in 2014 by around two percent. In recent years, demand for Australian wine has weakened because of the strong Australian dollar, but its depreciation from 2014 should significantly boost overseas demand for both Australian premium and bulk wines.

Over the decade to 2014, the volume of Australian wine exports increased by 7 percent to 717 million liters but export values declined by nearly 50 percent to A\$1.9 billion, according to ABARES. In 2014, around 60 percent of total wine exports were shipped in bulk, up from one third in 2009, with the average unit value of A\$3 a liter representing a 45 percent fall in real returns to exporters over this period. Exports of Australian red wine have grown strongly in recent years and represented almost 70 percent of exports by value in 2014 and almost 60 percent of exports by volume. Sparkling wines represented two percent of wine exports while fortified wines accounted for below one percent of overall exports.

The Australian Grape and Wine Authority (AGWA) reported that exports of wine valued at over A\$50 a liter (the 'ultra-premium' category) grew by over 70 percent in 2014, to reach 114 million liters with a value of over A\$100 million. Premium wines accounted for 8 percent of total exports by value, but only a half a percent of the total volume of Australian wine exports. The Australian wine industry is seeking to move towards a greater proportion of bottled and premium grade wine and away from its traditional reliance on lower margin bulk wine exports.

In 2014, the United States market was the most important for Australian wine exporters, followed by the United Kingdom, China and Hong Kong. Australian wine exports to North America are traditionally dominated by higher-priced bottled wine. By contrast, over 80 percent of Australian wine exports to the UK and Europe are of lower priced bulk wine with premium bottled exports accounting for the remainder of exports. Australian wine exports to China have grown rapidly in recent years and bottled wine account for around 90 percent of exports.

Marketing of Australian Wine in the United States

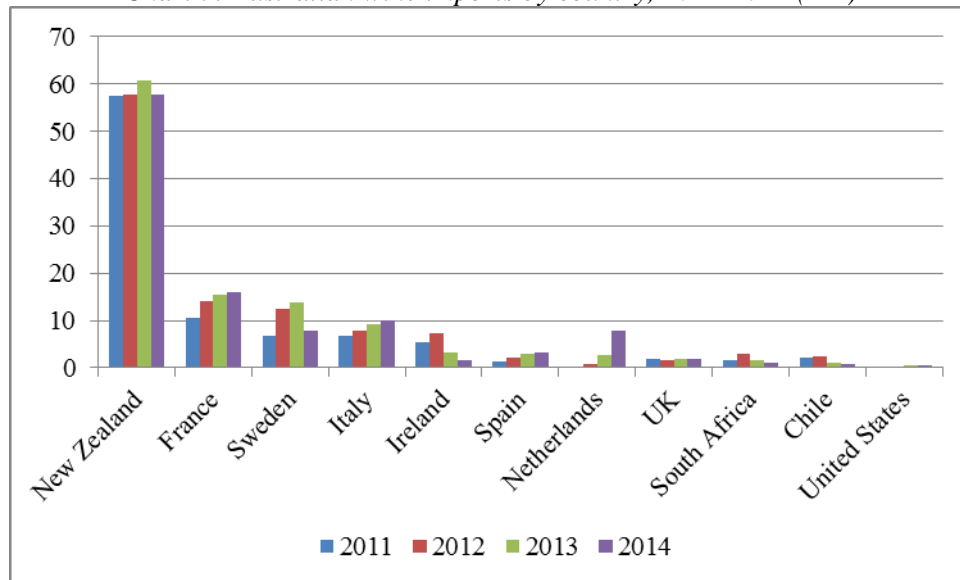
The United States is been Australia's largest export market by value for the last five years, but exporters are seeking to expand their share of this market. Research by the Australian wine industry suggests the number of consumers of Australian wine in this market has fallen from 40 percent of the wine drinking population in 2008 to less than 30 percent in 2013, partly because of the higher Australian dollar. Further, the quality perception of Australian wines among US consumers has declined. One reason is that most Australian wines sold in the US market retail for less than US\$10 per bottle and Australia's market share in more premium wine categories has been below average.

Imports

Over the last decade, the volume of wine imports in the Australian market has trended upwards from 23 million liters to around 85 million liters, accounting for almost one fifth of the market. Over half of wine imports into Australia are sourced from New Zealand, which specializes in lower cost white varieties such as sauvignon blanc. New Zealand is the largest source of wine imports into the Australian market, with an average value of A\$5.60 per liter, while France is the next most important source with an average value of A\$15.50 per liter. Over the last decade, the average unit price of New Zealand wine imports into Australia fell from A\$10 to A\$6 per liter. The

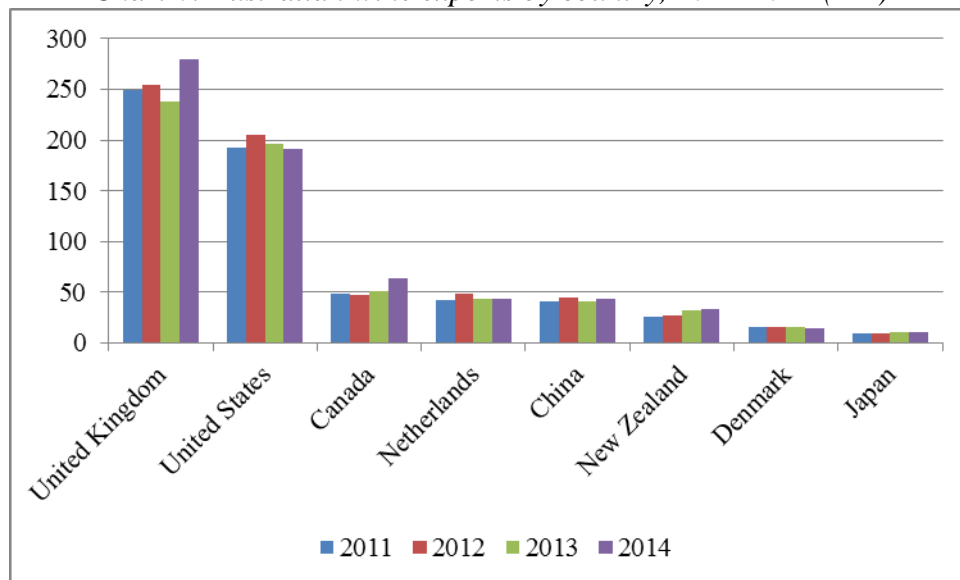
United States is only a small supplier of wine to the Australian market, with imports valued at around US\$4 million in 2014. However, Post actively promotes the expansion of this market share through a number of events such as the *Six Nations Wine Challenge*.

Chart 5: Australian wine imports by country, 2011-2014 (ML)



Source: Global Trade Atlas.

Chart 6: Australian wine exports by country, 2011-2014 (ML)



Source: Global Trade Atlas.

The Impact of Australia's Recent Free Trade Agreements

Over 2014, Australia signed bilateral free trade agreements with Korea, Japan and China which removed impediments to the export of Australian wine to these markets. The Japan-Australia Economic Partnership Agreement (JAEPA) was implemented from mid-2015 and Australian wine exporters will benefit from two rounds of tariff cuts in the first half of 2015. The second round of tariff cuts will take place at the beginning of April. The agreement eliminates Japan's 15 percent tariff on bottled Australian wine over seven years and immediately removed the bulk wine tariff. Japan is a high-value market for Australian exporters, with bottled wine representing around 70 percent of volumes.

The China-Australia Free Trade Agreement (CHAFTA) will reduce the current import tariff of 14 percent for bottled wine and 20 percent for bulk wine to zero over four years. The trade agreement is expected to improve the price competitiveness of Australian wine in the fast-growing Chinese market. In 2014, Australian wine exports to China grew by 8 percent to 40 million liters; despite lower overall demand in that market because of the austerity drive of the Chinese government.

The Korea-Australia Free Trade Agreement (KAFTA) immediately removed the 15 percent tariff on Australian sparkling, red and white wines to the South Korean market. This change matches the duty free access already available to wine from the United States, the EU and Chile. Australian wine exports to South Korea were 30 percent lower in 2012 than in 2007 and duty free access and the lower Australian dollar are expected to improve the competitiveness of Australian wine exports.

CONSUMPTION

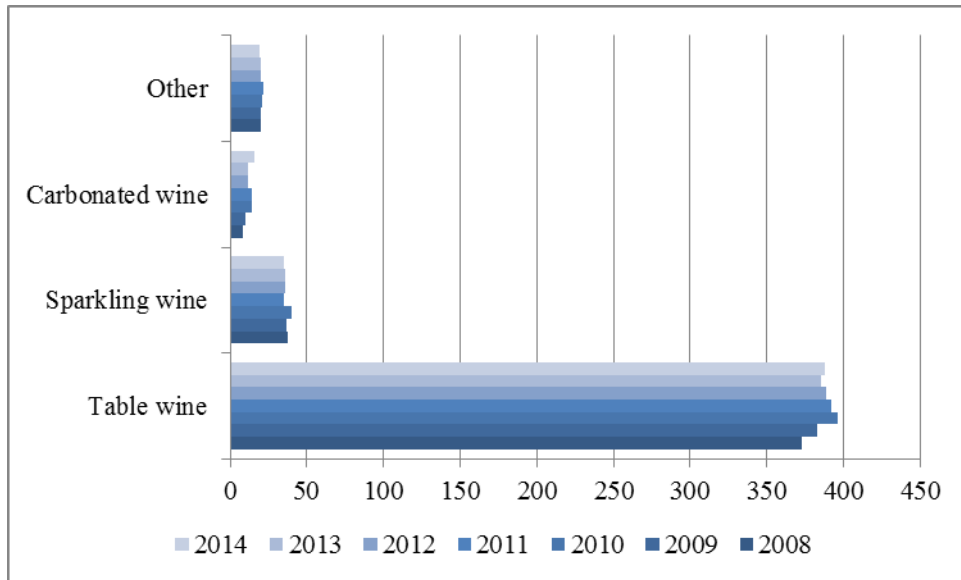
Around one third of Australia's wine production is consumed domestically, with the rest exported. Domestic consumption of wine (table, sparkling, carbonated and fortified) has been comparatively stable in recent years, at around 460 million liters, especially compared to the decline in beer consumption. Australians drink an average of about 20 liters of wine annually and consumer wine preferences have shifted from bulk wine towards premium wine products and increased online liquor sales. The domestic retail market for wine is dominated by the two largest supermarket chains; Coles and Woolworths, which sell an estimated 70 percent of all domestic sales. The domestic market share of private labels of both major retailers is around 15 percent. Online wine retailers have increasingly stocked premium, niche and independent wine labels which are not available from the major retailers.

Table 3: Australian domestic wine sales by type, 2010-2014 ('000 liters)

Year	Type	Glass containers less than 2L	Soft pack	Other containers
2014	White	116,613	80,923	16,750
	Red	119,201	41,042	16,524
2013	White	118,454	83,286	14,098
	Red	118,895	40,998	13,451
2012	White	107,922	85,011	15,366
	Red	112,796	42,860	20,504
2011	White	110,516	96,244	11,724
	Red	104,442	47,330	12,487
2010	White	100,315	101,678	15,768
	Red	102,893	50,508	22,267

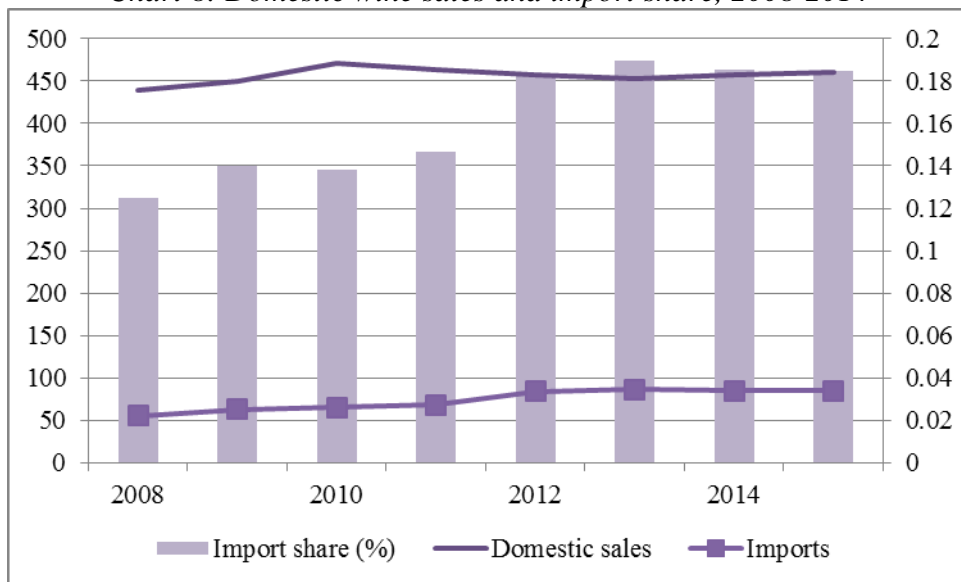
Source: Wine Makers Federation of Australia and Post estimates.

Chart 7: Australian domestic wine sales by type (ML)



Source: Australian Winemakers Federation and ABARES.

Chart 8: Domestic wine sales and import share, 2008-2014



Source: Australian Winemakers Federation and ABARES.

AUSTRALIAN REGULATIONS ON WINE

The Australian Grape and Wine Authority

The [Australian Grape and Wine Authority](#) (AGWA) is a statutory body established in 2014 to provide strategic support to the Australian wine sector. Its responsibilities include: (a) Export regulation and compliance; (b) Domestic and international wine promotion; (c) Wine sector information and analysis; (d) Maintaining the integrity of Australia's wine labels and winemaking practices; (e) Defining the boundaries of Australia's wine producing areas; and (f) Assisting with negotiations with other countries to reduce trade barriers. The regulations administered by the AGWA are given on the [Comlaw](#) website and in the [Australia New Zealand Food Standards Code](#).

Labelling Requirements

The objective of the Australian Grape and Wine Authority's [Label Integrity Program](#) is 'to help to ensure the truth and the reputation for truthfulness, of statements made on wine labels, or made for commercial purposes in other ways, about the vintage, variety or the geographical indication of wine manufactured in Australia'. The program applies to wine grape growers; manufacturers of wine goods; persons who supply or receive wine goods; and agents who take possession of wine goods. A label claim is a written claim about a wine goods' vintage, variety or geographical indication on wine labels, records, commercial documents or in advertisements. The AGWA have published a [Guide to Labelling with Geographical Indications](#) to assist wine manufacturers to comply with the new requirements.

Wine labels are governed by the Australian Grape and Wine Authority Act 2013 and Regulations, the Food Standards Code, the National Measurement Act and the Competition and Consumer Act 2010. Details of labeling requirements for wine in Australia is available from [Food Standards Australia New Zealand](#). Detailed guidance for food regulations is also available in the [Food and Agriculture Import Regulations and Standards](#) (FAIRS) report for Australia.

Tariffs and Excise

In general, the tariff on wine entering Australia is 5 percent and 4 percent for developing countries under Chapter 22 of the Australian Customs Tariff. The US-Australia Free Trade Agreement (AUSFTA) removed tariffs from imports of US wine. However, a 29 percent Wine Equalization Tax applies to imports, except for New Zealand. A ten percent Goods and Services Tax (GST) applies to domestic wine production and to wine imports.

The Wine Equalization Tax (WET)

The Wine Equalization Tax (WET) is a value based tax on the last wholesale sale of wine. Wine producers, importers and wholesalers normally have to pay WET. As the tax is usually included in the price retailers pay for the product, retailers typically do not pay the tax. WET applies to wines with an alcohol content of over 1.15 percent. The tax covers grape wine, fruit or vegetable wine, cider, perry, mead and sake and applies to both bulk and packaged wine. The scheme entitles domestic producers to a tax rebate of 29 percent of the wholesale value up to A\$500,000 in domestic sales, a policy that could discourage industry consolidation as the rebate is an important revenue source for small and medium winemakers.

Under the current system, some New Zealand winemakers selling wine in Australia are eligible for a rebate on the Wine Equalization Tax (WET). The Australian Winemakers Federation has called for the WET rebate not to apply for New Zealand producers. It also called for the rebate to be removed from bulk, unbranded and retailer 'own brand' wine so as to improve brand recognition and profit margins in the industry (AWMF, *Submission to the White Paper on Agricultural Competitiveness*, December 2014).

It should be noted that exporters of U.S. wine to Australia remain disadvantaged by the current Wine Equalization Tax (WET) system. While US exports face a zero rate of import duty under the Australia-United States Free Trade Agreement (AUSFTA), US wine exporters must pay an unrebated excise on wine sold in Australia equivalent to 29 percent of the wholesale price. Domestic wine producers must also pay this tax, but unlike companies that export U.S. wines, domestic winemakers are eligible for a rebate of the tax. This rebate is provided for some New Zealand wine exports to Australia as well. When combined with a much stronger U.S. dollar relative to the Australian currency in 2015, wine exports from the United States to Australia are likely to be severely and negatively impacted.