SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

21 February 2008

Grape and Wine Research
and Development Corporation
PO Box 221
GOODWOOD SA 5034

RE: SAW05/01 South Australian Cool Climate Regions Outlook Study

I am pleased to report that the objectives of the above project have been achieved.

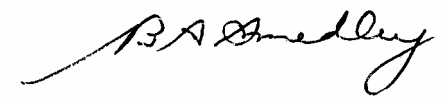
For each of the years covered by the project, information was collated from warm and cool climate regions in South Australia and a workshop held each December to present the information to both grapegrowers and winemakers. The resultant meeting statements have been circulated to the industry and media.

The project funding was disbursed against the initial budget and budget variations. Changes to the process for gathering data and statistical information resulted in a significant reduction in the funds required for the project in the second and third years. The funding contributed in-kind has been received from the participating organisations.

The project continues to provide the only platform for South Australian grapegrowers and winemakers to exchange factual information about supply and demand forecasts and also time critical issues such as the effects of frost and drought. Such information can then be taken into account by grapegrowers and winemakers to deal with future supply/demand.

Grapegrowers and winemakers obtain considerable value from this project and are keen to retain the inclusion of all South Australian regions and emerging regions in future meetings.

Yours sincerely,



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SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

Australian Government
Grape and Wine Research and Development Corporation

SOUTH AUSTRALIAN COOL CLIMATE REGIONS OUTLOOK STUDY



FINAL REPORT to

GRAPE AND WINE RESEARCH & DEVELOPMENT CORPORATION

Project Number: **SAW 05/01**

Principal Investigator: **PETER LESKE**

Research Organisation: **SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION INC**

Date: **20 FEBRUARY 2008**

ABSTRACT 2
EXECUTIVE SUMMARY 2
BACKGROUND 2
PROJECT AIMS AND PERFORMANCE TARGETS 3
PROJECT METHOD 3
RESULTS/DISCUSSION 4
OUTCOME/CONCLUSION 4
APPENDIX 1: COMMUNICATION 4

ABSTRACT

This project seeks to collate and interpret data from the cool and warm climate wine regions in South Australia, bring together grapegrower representatives from all the South Australian regions with winemaker representatives to discuss the data and formulate a supply/demand meeting statement for circulation to the wine industry and interested parties. This statement is used to guide growers and winemakers in the determination of current and future requirements.

EXECUTIVE SUMMARY

This project collates and interprets data from the cool and warm climate wine regions in South Australia, bringing together grapegrower representatives from all the South Australian regions with winemaker representatives to discuss the data and formulate a supply/demand meeting statement for circulation to the wine industry and interested parties. This statement is used to guide growers and winemakers in the determination of current and future requirements

This project was first undertaken for the 2000-01 vintage. Its aim was to analyse and interpret grape supply and demand information for selected cool regions of South Australia to assist growers and winemakers with better business planning and commercial negotiation.

Subsequent projects have evolved to encompass both cool and warm climate regions in South Australia as well as the Riverland regions, presenting a whole of state perspective to the information.

The results of the data collection are presented to a meeting of winemakers and grapegrowers in December of each year where further discussion of the outlook is undertaken. The meeting produces a statement that contains vital information for growers and winemakers to manage the impact of the current situation on their business and for investors to determine effective strategy to complement the situation.

The project involves representation from the major wineries and grapegrowing regions which ensures the process has industry ownership as well as receiving widespread coverage and adoption. Growers are strong supporters of the project with the meeting statement providing valuable information to assist longer term vineyard planning. Support is also provided by industry organisations who provide background on markets, market activity and projected demand.

BACKGROUND

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The results of the data collection are presented to a meeting of winemakers and grapegrowers in December where further discussion of the grape outlook is undertaken. The meeting produces a statement that contains vital information for growers and winemakers to manage the impact of the current situation on their business and for investors to determine effective strategy to complement the situation.

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PROJECT AIMS AND PERFORMANCE TARGETS

Outputs	Performance Targets	2005/06	2006/07	2007/08
Assemble background industry data from regions of South Australia	Information circulated to selected winery and grapegrower representatives in the regions.	Complete	Complete	Complete
Verbal presentation and interpretation of information gathered	December – Verbal presentation to representative grapegrowers and winemakers.	Complete	Complete	Complete
Production of agreed meeting statement	Meeting statement produced at December meeting.	Complete	Complete	Complete
Dissemination of meeting statement	Circulated to wine industry via email and posted to SAWIA website	Complete	Complete	Complete

PROJECT METHOD

Representatives from relevant wine industry organisations have collated and presented data for South Australia.

The Australian Wine and Brandy Corporation presents information on national wine sales, stocks and grapes crushed, export data and grape production forecasts.

The Phylloxera and Grape Industry Board of South Australia present individual data for each region.

Regional grapegrower representatives provide 'on the ground' information about their region.

Winemaker representatives indicate their requirements by region and varietal.

RESULTS/DISCUSSION

- The 2005/06 statement recognised that Australia is currently producing too many grapes relative to sales which was resulting in excessive stock levels and there was too much cool climate grape production relative to sustainable sales opportunities.

- The 2006/07 statement made reference to the changing global marketplace and its effects on wine exports and the need to re position the offer to higher, more sustainable price points. The results of the widespread severe frosts and drought were expected to significantly reduce crops in the forthcoming and future vintages.

- The 2007/08 statement noted the recovery of vines from the previous years frosts, but concern concentrated on the continuing drought and increasing lack of water for irrigation.

OUTCOME/CONCLUSION

Growers and winemakers are better informed of the issues affecting supply and demand in the forthcoming vintage and can commence planning for future requirements. Affects of seasonal occurrences are discussed and the potential immediate and longer term effects can be gauged. It is a valuable forum that provides grapegrowers and winemakers with the forum to discuss data and formulate a statement that is considered by the industry to provide a sound basis on which to form business strategies.

APPENDIX 1: COMMUNICATION

The three meeting statements produced throughout the project are attached.

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

OUTLOOK FOR SOUTH AUSTRALIAN WINE REGIONS

STATEMENT ISSUED FOLLOWING THE ANNUAL SUPPLY DEMAND MEETING OF SOUTH AUSTRALIAN WINEGRAPE GROWERS AND WINEMAKERS

CONDUCTED UNDER THE AUSPICE OF THE WINEGRAPES INDUSTRY ACT 1991

At the 12 December 2005 South Australian Wine Outlook Meeting it was recognised that:

1. Australia is currently producing too many grapes relative to sales which is giving rise to excessive stock levels, and
2. There is currently too much cool climate grape production relative to sustainable sales opportunities.

Wine market growth is driven by exports, which grew at almost 15% in the last financial year. It should be noted that on a moving annual total basis growth had slowed to 9% at the time of this meeting.

Growth was once again greatest in the generic commercial/popular premium sector[1]. Winemakers now have a preference for warm region fruit as it meets the price points and flavour profiles of the popular premium wine market. Future growth in demand for Australian wine is expected to occur mainly in the popular premium segment. Little growth in demand for cool region fruit is expected in the medium term which is where most of the over-supply will occur.

The growth of generic brands means that in times of over-supply, any shortages of grapes in one region may be made up from surpluses in others. This substitutability between regions means that competitive forces in the grape market transcend regional and State boundaries. However, substitutability between cool and warm regions is not considered sustainable in the long term, either for growers or for wineries because of the mismatch in price and quality specifications between the required popular premium product and the cool climate fruit.

A return to more balanced trading conditions nationally depends to a very large extent on how quickly the current stock overhang is acquitted. If current rates of export growth hold (around 10% per annum), little inroad will made into stocks over the next few years. The wine industry is holding surplus stocks equivalent to 6 months current sales – or at least 500ML.

Cool regions are still producing 40% of all wine grapes but account for an estimated 20% of sales. The balance of production is currently sold to meet demand in the popular premium market or held as stock at prices reflecting returns for the inland regions.

Some winemakers are not renewing contracts as they expire, and this will lead to a growing proportion of fruit available on the spot market. The ability of cool region growers to continue to sell their fruit will depend on the capacity of winemakers to take up all available production and just how quickly the overall supply/demand position reverts to balance. There is a strong possibility that not all grape production will be taken up in 2006. Growers are encouraged to reduce yields and think carefully about the means by which they dispose of excess fruit so as not to exacerbate the oversupply situation and slow down the recovery to a balanced position.

While the 2005 utilisation surveys suggested that the cool region grape over-supply may correct itself within three years, with the exception of Cabernet Sauvignon which is still likely to be in oversupply by around 30,000 tonnes, current rates of market growth raise doubts that this is achievable within that time frame. Growers in cool areas should therefore immediately take stock of their individual positions in light of the market outlook and make whatever changes in their production regimes or businesses they consider appropriate.

[1] That is, wines that sell on the domestic market for under $10 per bottle or export for less than $45/case f.o.b.

Winemakers noted there is still a requirement for icon/super premium wine, and while this is a relatively limited opportunity, wineries are having difficulty sourcing sufficient quantities of fruit at the quality levels needed to meet this market. And there is some demand for varieties such as sauvignon blanc and pinot gris from all regions.

The terms and conditions of payment to grapegrowers, as gazetted previously, were endorsed for the 2006 vintage. To remind winemakers of their obligations in this regard, those terms are reprinted below:

Terms and Conditions of Payment for Wine Grapes

The following terms and conditions are fixed in respect of wine grapes harvested in 2004 or any subsequent year and are implied in every contract for the sale of such grapes to a processor:

If the grapes are delivered to the processor prior to 1 April in a year, the processor must pay to the producer 33 1/3 per cent of the total amount payable for the grapes by the end of the month following he month during which the grapes are delivered, 50 per cent of the remaining balance by 30 June in that year and the balance by 30 September in that year.

If the grapes are delivered to the processor on or after 1 April but prior to 1 May in a year, the processor must pay to the producer 33 1/3 per cent of the total amount payable for the grapes by the 31 May in that year, 50 per cent of the remaining balance by 30 June in that year and the balance by 30 September in that year.

If the grapes are delivered to the processor on or after 1 May in a year, the processor must pay to the producer 33 1/3 per cent of the total amount payable for the grapes by the 30 June in that year, 50 per cent of the remaining balance by 30 June in that year and the balance by 30 September in that year.

If a processor defaults in making a payment within the time fixed above, the processor must pay to the producer an amount equal to interest on any amount remaining in default calculated at the Commonwealth Bank standard overdraft interest rate (as at the beginning of the month during which the default occurred) plus 1 per cent per annum until the following 31 December and thereafter at the Commonwealth Bank standard overdraft interest rate (as at 1 September in the year during which the default occurred) plus 5 per cent per annum.

This statement and survey reports can be found on the South Australian Wine Industry Association's website www.winesa.asn.au.

LINDA BOWES
Chief Executive

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BACKGROUND INFORMATION

ABOUT THE MEETING

Traditionally each year the South Australian Wine Industry Association has called grapegrower and winemaker representatives to meet under the auspices of the Wine Grapes Industry Act and the chairmanship of a representative from Primary Industries and Resources South Australia to discuss the supply demand position in relation to the forthcoming vintage and to set terms and conditions relating to the payment of winegrapes. The meeting involves all South Australian wine regions.

The meeting noted that with Australian wine sales now over 60%, export winemakers' planning environment is less certain, and winemakers' ability to forecast demand for fruit has become more and more difficult. As a result of calls from industry, changes are being made to the information collected through the Australian Regional Winegrape Crush Surveys aimed at improving the reliability of statistical information underpinning industry planning.

NATIONAL OVERVIEW

With little growth in bearing area expected in the next few years for red grapes, and only marginal increases for white grapes (and then mostly Chardonnay in the inland regions) grape production should stay within a band of 1.9 – 2.0 million tonnes.

Wine market growth is driven by exports, which grew at almost 15% in the last year (domestic sales are increasing by 2-3%). This growth was once again greatest in the commercial/popular premium sector[2] and is expected to continue to be so. The over-production of grapes from cool climate/ premium regions that became acute following big production years in 2004 and 2005 has not eased, and will continue to maintain downward pressure on grape prices in the medium term.

With more and more grape production destined to meet demand for generic brands, any shortages of grapes that may be apparent in some regions may be readily made up from other regions. Because of this any return to regional balance must be preceded by a return to gross balance.

The Australian Regional Winegrape Crush Survey (ARWCS) data for 2006 –2010 indicates steady growth in preferred grape intake and little growth in expected intake (which is supported by the production forecasts). Through the ARWCS winemakers are saying that by 2008 preferred intake of grapes will exceed their expected intake across red and whites and across cool and warm inland regions. This may suggest a timetable for a return to more balanced supply/demand conditions.

But is this picture too optimistic?

Vintage 2005 saw a record 1.92MT of grapes being crushed. This followed a similarly high crush in 2004. Of that crush, cool regions accounted for 38% of the total. Significantly, cool region red grapes account for 45% of the national total while white grapes contribute just 30%.

This 1.92 MT yielded 1,426ML of wine. With sales in the last year taking 1,103ML the balance of around 300ML was added to stock. The industry is now holding record stock levels relative to sales.

At the same time export volumes grew at just under 15%, an improvement from the 13% in 2003-04 but well below the 24% of 2002-03. Successive record vintages plus the slowdown in export growth has seen a further growth in stocks relative to sales, especially for red wine, with industry holding excess stocks equivalent to around 6 months of sales.

Most growth in export volumes was under $45/case (17% increase) while above that price point the volume growth was a more modest 5%. The following table shows the relative shares of exports of each price segment and illustrates clearly the relative shift in the mix.

Proportion of exports by price point (%)

Y/e June -	2000	2001	2002	2003	2004	2005
<$2.50/l	16%	18%	19%	19%	21%	23%
$A2.50 to $A4.99/l	49%	44%	42%	45%	53%	53%
$A5.00 to $7.49/l	25%	27%	28%	24%	17%	18%
$A7.50 to $A9.99/l	6%	7%	5%	8%	6%	4%
>$A10.00/l	4%	4%	5%	4%	3%	3%
Total	100%	100%	100%	100%	100%	100%
Sub-$5/l category	65%	62%	61%	65%	73%	75%

Source: AWBC. Prices are $/litre f.o.b.

[2] That is, wines that sell on the domestic market for under $10 per bottle or export for less than $45/case f.o.b.

In 2001-02, 39% of all sales were above $5/litre ($45/case). Within two years this fell to 27%, then 25%, and should fall further in 2005-06. As the table below shows, sub-$5/litre sales increased by 73ML in 2004-05 while $5/litre and over sales increased by just 8ML. It also shows that the *volume* of sales in the over $5/litre category in 2004-05 is still less than that achieved in 2001-02 and 2002-03.

Exports by price point (ML)

Y/e June -	2000	2001	2002	2003	2004	2005
Sales under $5/litre	187	209	254	329	425	498
Sales $5/litre and over	101	130	164	179	155	163
Total Sales	288	339	417	508	581	661

Source: AWBC. Prices are $/litre f.o.b.

In the past two years grape and wine production has exceeded the industry's capacity to comfortably process, store and sell, leading to a significant stocks overhang. With production growth now expected to level out, the industry will only return to gross production balance if there is a continuation of relatively strong sales (particularly export) growth.

PRODUCTION AND SALES AND THE PATH TO BALANCE

Cool regions (ie broadly the rest of Australia excluding the three large inland irrigated regions) currently produce around 40% of all grapes but have viable outlets for around 20% of sales. Fruit that does not meet sales needs is sold into the popular premium market at prices that reflect the returns for grapes in the inland regions. Broadly speaking, cool regions need to achieve price points greater than $10/bottle domestic market and above $45/case fob export, with inland regions with their lower cost structure supplying the rest.

The following table contrasts the position of cool regions compared with inland regions in regard to table wine sales relative to production: Wine production data has been modelled based on preliminary ABARE production forecasts. Wine sales have been segmented as follows: - inland regions includes all cask wine, domestic bottles retailing for less than $10, and exports at under $45/case; cool regions make up the balance of sales. It has been assumed that exports maintain their current growth rate of around 10% pa.

Table Wine Production and Sales, 2005 – 2008

2004-05	Red (cool)	White (cool)	Red (inland)	White (inland)	Total Aust
Opening stocks (ML)					2,093
Production 2005 (ML)	317	147	454	415	1,333
*Total disposals 2004-05** (ML)	*161*	*102*	*441*	*359*	1,064
Net contribution to Stocks (ML)	156	45	13	56	270
***Closing stock* (ML)**					**2,363**
				s/s ratio	**2.3**
2005-06					
Production 2006 (ML)	314	145	425	436	1,320
Total disposals 2005-06 (ML)	*169*	*105*	*487*	*387*	1,148
Net contribution to Stocks (ML)	145	40	-62	49	172
***Closing stock* (ML)**					**2,535**
				s/s ratio	**2.3**
2006-07					
Production 2007 (ML)	321	152	435	459	1,368
Total disposals 2006-07 (ML)	*177*	*110*	*532*	*416*	1,235
Net contribution to Stocks (ML)	144	42	-97	44	133
***Closing stock* (ML)**					**2,668**
				s/s ratio	**2.3**
2007-08					
Production 2008 (ML)	325	157	445	477	1,403
Total disposals 2007-08 (ML)	*184*	*115*	*582*	*447*	1,328
Net contribution to Stocks (ML)	141	42	-137	30	76
***Closing stock* (ML)**					**2,744**
				s/s ratio	**2.2**

*includes an estimate for stock "losses" .
Table prepared by McGrath-Kerr Business Consultants P/L.

The table shows that cool regions produce much more wine relative to sales while fundamentally the inland regions are in balance. However until such time as gross production balance is achieved there will be spill-over impacts into the inland regions caused by the surpluses in the cool regions.

Winemakers aim to hold stocks of around 1.8 years of current sales. Current levels as measured by the stocks to sales ratio, are much higher as the table shows. At 10% export growth no inroads are made into the overall stock position. This is unsustainable - either exports must grow at a more rapid rate than 10%, or grapes will not be taken.

While there are no expectations of production growth from the cool regions over the next few years, sales growth expectations remain strongest in the popular premium sector. This suggests even if industry returns to gross production balance quicker than the above table suggests, the cool region imbalance will be more prolonged.

The following table shows how the ratio changes based on a range of export growth rates (domestic sales assumed to increase +3% pa):

Changes to the stocks to sales ratio under varying assumptions

Export Growth=	5% pa	10% pa	**15% pa**	20% pa
2005 ratio	2.3	2.3	**2.3**	2.3
Net change - 2006	+0.1	0.0	**-0.1**	-0.2
2007	+0.1	0.0	**-0.2**	-0.3
2008	+0.1	-0.1	**-0.2**	-0.3
2008 ratio	2.6	2.2	**1.8**	1.5

The table suggests an export growth rate in the order of 15% is needed before the industry can return to gross balance.

The foregoing summary outlook for South Australia in the context of the outlook for Australian wine industry has been prepared using resources of the Phylloxera and Grape Industry Board of South Australia, the National Utilisation Project, and the Grape and Wine Research and Development Corporation. The primary source of data for the regional analysis is the Australian Regional Winegrape Crush Survey for South Australia.

More detailed information on the planned and preferred intake positions of the various South Australian wine regions can be obtained from the Phylloxera Board.

Part funding of this project by the Grape and Wine Research and Development Corporation is duly acknowledged.

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SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

OUTLOOK FOR SOUTH AUSTRALIAN WINE REGIONS

STATEMENT ISSUED FOLLOWING THE ANNUAL SUPPLY DEMAND MEETING OF SOUTH AUSTRALIAN WINEGRAPE GROWERS AND WINEMAKERS, DECEMBER 2006

CONDUCTED UNDER THE AUSPICE OF THE WINEGRAPES INDUSTRY ACT 1991

The 2006 South Australian Wine Outlook Meeting was held on 14th December. A total of 30 grapegrowers, winemakers and government representatives attended the meeting and discussed the current outlook for grape supply and demand in South Australia, with reference to the global market for Australian wine, national winegrape supply and demand, and current conditions in South Australia.

The current growing season is marked by unprecedented uncertainty and difficulty. Frost and drought will cause hardship for individuals and communities, whose income will be significantly reduced by crop losses or reductions. The dramatic shift in the fortunes of these people illustrates the ongoing difficulty in accurately forecasting the future for this fundamentally agricultural industry.

The unprecedented nature of the current climatic conditions means that the decision-making environment is less certain than is historically the case.

The importance of exports

The Australian wine industry's export growth performance over the past 20 years has been tremendous, and we are now a market-driven, export focussed industry with a significant share of the world's trade in wine. As a result of that recent and rapid reorientation towards export, with many new plantings established and coming into bearing at a rate greater than sales volumes, the industry currently faces a surplus of grapes and wine.

The Australian Wine and Brandy Corporation's outlook indicates that this imbalance will be corrected in time; their most recent forecasts are for modest growth (5.9% annual compounding) in exports, which, given 'normal' vineyard yields, would see supply more closely match demand – and surplus wine stocks consumed – within approximately 5 years.

These and other assumptions were fundamental to the discussions held at the Meeting, and have been used in framing this statement. However, the 2007 and 2008 vintages will be smaller than expected due to the ongoing likelihood of low allocations of water in irrigated districts, and damage to vines by severe, repeated frosts in September and October 2006. Each of these factors is discussed in more detail below.

Drought

The Murray-Darling basin system contains significant water reserves in major dams, but with the unprecedented low rainfall and resultant low inflows to the system over the winter of 2006, those reserves will be largely depleted by the end of the 2006/07 irrigation season.

Most irrigators have had their allocations reduced in all three states in recent months, and face the prospect of even lower allocations at the commencement of the 2007/08 season. Even above-average rainfall in the winter of 2007 will not significantly improve what is a serious situation, and which is likely to result in very low allocations of water for the irrigation of permanent crops.

What is certain is that many growers will have insufficient water for post-harvest irrigation, with the resultant likelihood of impaired vine condition and reduced yield expectations.

Outside the Murray-Darling system, the drought will have a highly variable effect, depending on the specific water supplies of each region and site, as surface and underground water supplies are depleted.

Frost

While the frosts of 2006 resulted in the loss of tens of thousands of tonnes of fruit in the 2007 vintage, their severity and frequency means that some effects will also be seen in 2008.

All regions have been affected to some extent. The most significant losses are in the wider Limestone Coast zone, where the average estimated loss of 50% hides the fact that many growers have lost their entire crop.

The Outlook

The cumulative effect of these factors means that, while under normal environmental conditions the expected Australian grape crop in 2007 (and probably also 2008) would be larger than that required by winemakers, the likely harvest in both years has been reduced significantly.

As noted above, the current AWBC forecasts indicate that the existing surplus wine stocks will be consumed over a five year period assuming 'normal' grape intake over that time. If it is assumed that the 2007 and 2008 vintages are both reduced by 20%, that stock consumption would occur at a greater rate, and supply and demand would return to balance by 2008 or 2009. It is probable that the reduced volume in each of these vintages will exceed 20%.

However, it is clear that the effect of reduced vintages will be a temporary correction, and will not provide ongoing relief from over-supply in the medium term, nor address the ongoing imbalance between fruit grown under high cost conditions, and lower cost fruit. Existing plantings will be sufficient to meet demand for the medium term, and in the longer term the risk of imbalance between supply and demand will continue. The Phylloxera and Grape Industry Board estimates that under normal growing conditions production in South Australia will exceed 1 million tonnes in 2011, with winery demand being approximately 850,000 tonnes.

Some participants at the meeting questioned the suitability of the existing wine stocks for specific markets. In order to resolve this issue, it was recommended that future wine stock survey activity request winemakers to report the vintage year of stocks.

While the reduced vintages in 2007 and 2008 will probably result in a proportion of the current excess stocks being sold, the outlook for continued over-supply of high cost fruit (generally grown in cooler regions) is likely to continue. The viability of high cost vineyards remains in question without an increase in the average per-litre price of Australian wine, which is affected by wider, global competition.

The surplus high cost fruit is currently suppressing demand for lower cost fruit (generally grown in warm, inland regions), as buyers substitute one for the other. As the cost structures of many growers mean that their crop is inappropriate for wines in the 'popular premium' sector of the market, a proportion of the high cost fruit may not be required. This fundamental imbalance is unsustainable, and growers should be working with buyers to ascertain the future demand for their fruit.

Profitability – of all sectors; grapegrowing and wine production – will remain negatively affected by the ongoing supply/demand imbalance for the foreseeable future. It was considered important that the recent focus on volume growth is at least matched by an emphasis on adequate returns to all involved in the industry.

The effect on grape prices will be primarily through the removal of a proportion of sales which have occurred at unsustainable prices, below the cost of production. This may in turn affect the weighted average price. However, intense price pressure from export customers and international competition will limit real or sustained price increases.

Subject to regional variation, the varieties noted to be moving toward balanced supply and demand are Cabernet Sauvignon and Merlot, especially from 'warm' regions; the supply of Chardonnay and Shiraz is adequate or in excess of demand. Limited under-supply was noted for Sauvignon Blanc, Pinot Noir and Pinot Gris, but only for relatively low-cost fruit, and in small quantities. Planting and reworking undertaken in the Spring of 2006, since the post-vintage data were collected, may have already accounted for some of that demand. Caution is therefore urged in interpreting any apparent demand signals.

The Meeting re-iterated the need for wineries to act in accordance with the payment terms and conditions set out in the Act. Copies of these specific conditions are available from SAWIA.

Summary

Notwithstanding the current uncertainty and variation in demand for specific varieties from different regions, the projections available and experience of the attendees of the meeting led to the following conclusions:

- no additional high-cost plantings are required in the medium to long term, with the exceptions possibly being small volumes of the undersupplied varieties Sauvignon Blanc, Pinot Noir and Pinot Gris. Some individual buyers may seek extra supply of some varieties from low-cost regions;
- substitution of grape supply exists between regions and States within Australia, and increasingly internationally, as the global wine market includes brands with no specific regional association;
- the current over-supply of high cost fruit is forecast to continue. The substitution of these grapes for lower cost fruit is suppressing prices in warmer regions. The viability of high cost vineyards remains in doubt;
- selective removal of non-viable or unrequired blocks of vines is likely, especially in high cost regions, after close consultation between buyers and growers; and
- the smaller than forecast vintages in 2007 and 2008 will not lead to longer-term balance between supply and demand.

Finally, the meeting noted with concern several broader issues, including:

- in the event of small vintages, reduced volume-related income for research and development, and marketing;
- the potential risk associated with the heavy reliance of 'Brand Australia' on two principal, English-speaking markets – the UK and USA;
- the ongoing rationalisation of distribution and transfer of influence from consumers to the distribution chain; and
- the long lead-times required for the industry to change varieties and/or regional plantings in response to market signals.

This statement can be found on the South Australian Wine Industry Association's website www.winesa.asn.au.

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Chief Executive

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ABOUT THE MEETING

Traditionally each year the South Australian Wine Industry Association has called grapegrower and winemaker representatives to meet under the auspices of the Wine Grapes Industry Act and the chairmanship of a representative from Primary Industries and Resources South Australia to discuss the supply demand position in relation to the forthcoming vintage and to set terms and conditions relating to the payment of winegrapes. The meeting involves all South Australian wine regions.

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

OUTLOOK FOR SOUTH AUSTRALIAN WINE REGIONS

STATEMENT ISSUED FOLLOWING THE ANNUAL SUPPLY–DEMAND MEETING OF SOUTH AUSTRALIAN WINEGRAPE GROWERS AND WINEMAKERS

DECEMBER 2007

CONDUCTED UNDER THE AUSPICE OF THE WINEGRAPES INDUSTRY ACT 1991

The 2007 South Australian Wine Outlook Meeting was held on 13th December. A total of 30 grapegrowers, winemakers and government representatives attended the meeting and discussed the current outlook for grape supply and demand in South Australia, with reference to the global market for Australian wine, national winegrape supply and demand, and current conditions in South Australia.

Unlike the same period last year, the spring of 2007 has been relatively kind to the grape and wine industry. Few damaging frosts were reported by industry members, and these isolated events resulted in only minimal crop losses. Further, after many regions received good rains in late autumn and early spring, soils had good moisture reserves at budburst. Since then, reasonably regular rainfall events in most regions throughout spring have led to consistent reports of good canopy growth and relatively high fruitfulness.

However, as in 2006, the industry faces extreme uncertainty regarding fruit supply. The ongoing severe drought means that growers depending on the Murray-Darling system (the source of well over half of Australia's winegrapes) face much reduced water allocations. In addition to reduced volume, declining water quality looms as a medium-term issue for those at the lower end of the river, especially in the Langhorne and Currency Creek regions. There are also many concerned growers in the Limestone Coast, where immediate and staged long-term reductions in water availability will require careful management if the industry's future is to be protected.

In this climate, confident crop estimates are difficult to make, and are subject to month-by-month revision. While some growers have leased very expensive water to increase their security, constrained water supplies mean that there is a greater than normal risk that extreme heat between now and harvest may reduce the expected intake. The reduced tonnage and the need to cover the increased cost of water has seen necessary increases in indicative grape prices for low-cost fruit for the 2008 vintage; this situation is also likely to persist through the 2009 season.

While yields on a per-area basis are currently considered in many cases to be near the long-term average, the effect of drought means that the total bearing area is reduced, which will lead to an aggregate crop below the national vineyard's total production capacity.

Drought & Frost

It is likely that the Murray-Darling basin's water reserves will be all but exhausted by the end of the current irrigation season, despite very low allocations. Growers await news of water allocations and expected water quality in 2008/09 with great concern.

Some vineyards have been 'mothballed' or removed as growers seek to optimise their use of scarce water resources. However, the area so affected is unknown, and it is still difficult to predict the long-term effect of the current drought.

The widespread frosts of 2006 were expected to reduce the yield of some vineyards in the current season. However, this has not been observed, and the majority of vines affected in 2006 have recovered in 2007.

The Outlook

The meeting was conducted with a spirit of optimism that was notably absent in 2006. However, it was acknowledged that the industry still faces uncertainty due to environmental factors noted above; the current very high value of the Australian dollar; and global competition.

While the much reduced intake in 2007 and likely reduced vintage expected in 2008 have contributed to increased indicative grape prices and the draw-down of excess wine stocks held by some producers, the longer-term supply-demand situation is very uncertain.

The effect of reduced vintages is probably temporary, and will not provide ongoing relief from over-supply in the medium term, nor address the ongoing imbalance between fruit grown under high cost conditions, and lower cost fruit. The issue of over-supply of fruit at a cost level that challenges its suitability for sale into a crowded and highly competitive export market is ongoing. It is essential that fruit is produced and wine made at a cost that matches the market opportunity, while offering all involved a worthwhile margin.

In most cases the supply and demand of most varieties was described as moving toward balance in the short-term. Subject to regional variation, Chardonnay was described as being in possible over-supply, although some doubts exist regarding the size of the crop due to factors such as variable berry set and the capacity of some vines to support the crop to maturity over summer.

Limited demand was noted for small quantities of Sauvignon Blanc, Pinot Noir, Pinot Gris, and Frontignac, at various price points and from various regions. *Growers considering future investment are strongly urged to consult their prospective buyers and obtain a clear indication of stable, on-going demand before making any decisions to rework or establish new plantings.*

Future issues

The ongoing supply of adequate supplies of suitable-quality water is an issue of great concern in many regions, including the Riverland, Langhorne and Currency Creeks, and the wider Limestone Coast.

While the industry has demonstrated its capacity to adapt to the extreme conditions of the past two years, there is still a need for communication about water supply issues to be improved. Specifically, growers and winemakers noted the need for greater regard for industry conditions with respect to water allocation policy by regulators (especially the timing of announcements and their impact on water pricing); and the need for better two-way communication between growers and their customers regarding the impact on yields of adaptation measures such as the purchase of water.

There is little doubt that the quantity and quality of the 2009 season are heavily dependent on the hoped-for rains of winter, 2008.

Summary

Notwithstanding the current uncertainty and variation in demand for specific varieties from different regions, the projections available and experience of the attendees of the meeting led to the following conclusions:

- the likely crop of 2008 will be significantly lower than total potential production. This comes at an obvious cost to those growers whose income will be affected by reduced output;
- while the expected relatively small forthcoming vintage will continue to see wine stocks reduced and has led to increases in indicative grape prices, this may come at the cost of international competitiveness if other factors, such as exchange rates, work against the national industry; and
- the smaller than forecast vintages in 2007 and 2008 will not lead to longer-term balance between supply and demand.

This statement can be found on the South Australian Wine Industry Association's website www.winesa.asn.au.

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About the meeting

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