



2008/09 SA GRAPE AND WINE SCORECARD REPORT

To track the performance in the mining, forestry, agri-food and wine sectors, PIRSA conducts detailed economic analyses across the value chain spectrum of production, processing, export and consumption for each key product. The result is a series of Industry ScoreCards that measure volume, price and values changes across these segments.

1. OVERVIEW – GRAPE & WINE SCORECARD RESULTS FOR 2008/09

The South Australian grape and wine industry is presently experiencing several challenges with negative impacts measured across all aggregates. The challenges of domestic and global oversupply of grapes and wine; drought; global economic crisis; increased competition in global markets; volatile foreign exchange rates, particularly in the key markets of the UK and US; increased input costs and reduced water allocations have asserted a compounding affect.

Consequently, a significant decline in both production volumes and values across the value chain aggregates are demonstrated in tables 1 and 2.

Table 1: SA Wine ScoreCard - Change over Year to 2008/09, Value \$million

	Farm Gate Value of Grape Production	Wholesale Value of Wine Made	Overseas Exports	Net Interstate Sales + Change in Stocks	Retail & Hospitality Consumption	Gross Wine Revenue (Sum of 3 to 5)
2008/09	\$487m	\$1,962m	\$1,576m	\$60m	\$517m	\$2,153m
Change over year	-\$278m	-\$567m	-\$279m	-\$253m	-\$39m	-\$561m
% Change over year	-36%	-22%	-15%	-81%	-7%	-21%

Table 2: SA Wine ScoreCard Change over the Year to 2008/09

	Grape Production (tonnes)	Wine Making (million litres)	Overseas Exports (million litres)	Interstate Trade & Change in Stocks (m litres)
2008/09	730,904	506	449	15
Growth over year	- 85,965	- 67	- 14	- 56
% Growth over year	- 11 %	- 12%	- 3%	- 79%

Grape production values declined by 36.4% to \$487m with grape production volumes decreasing 11% to 730,904t. Average prices deteriorated significantly to \$666/tonne, a decline of 29%.

Wholesale value of wine making declined by 22% to \$1.96 billion, with volume down 12% to 506m litres.

Exports declined by 3% in volume to 449m litres and declined by 15% in value to \$1.58 billion¹. The greater decrease in value over volume highlights the challenges presently faced by industry in the global wine market.

2. GROSS WINE REVENUE– down 21% to \$2.2 billion

In 2008/09, the *Gross Wine Revenue* was valued at \$2.15 billion - a decline of \$561m (21%) over the 2007/08 result.

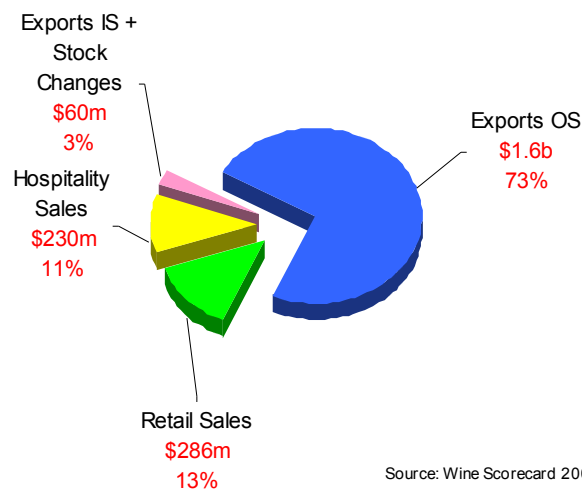
¹ Export values are based on ABS Trade data (unpublished) using detailed 8 digit AHECC data. Note: slight differences in values between the ABS wine export data and other sources may be possible from time to time.

Gross Wine Revenue captures the ‘final’ values of grape and wine production. It is the sum of SA retail and hospitality sales, overseas and interstate exports, and changes in wine stocks (estimated as a combined figure).

This compares with *Gross Food Revenue* of \$12.4 billion, delivering a combined \$14.6 billion of food and wine value to the State. The wine industry comprised 15% of this total, equivalent to all other horticulture in the State.

Figure 1 outlines the composition of *Gross Wine Revenue* for 2008/09 showing that 73% of the total value was generated through wine exports.

Figure 1: 2008/09 Gross Wine Revenue: \$2.15 billion



Source: Wine Scorecard 2009

3. GRAPE PRODUCTION – SA produced 730,904 tonnes of grapes worth \$487m

Production values declined 36% (\$278m) over the year. In contrast volumes of grapes sold declined 11%. The current harvest represents approximately 80% of the average five year harvest.

The oversupply of wine grapes meant that some growers without contracts were selling grapes at prices lower than the cost to produce the grapes.

Grape production in the Riverland declined less than 1% in 2008/09 and less than 4% against the five year average. The Critical Water Allocation (“CWA”) policy, provided to enable growers to keep perennial plantings alive in the Riverland, ensured production in the region remained strong.

The extreme hot weather event in February 2009 had a substantial impact on production in the cooler climate regions. For example, McLaren Vale, grape production declined 33% on 2007/08 volumes.

It is probable that in the absence of the extreme hot weather event, and restricted water allocations, SA grape production would have been significantly higher. SA’s grape production potential is still increasing from year to year with plantings from the early 2000’s coming to maturity. In SA there are currently over 78,000 hectares of wine grape producing vines. Based on a 5 year average yield by region, the possible wine grape production for SA, under average conditions, is in excess of 900,000t.

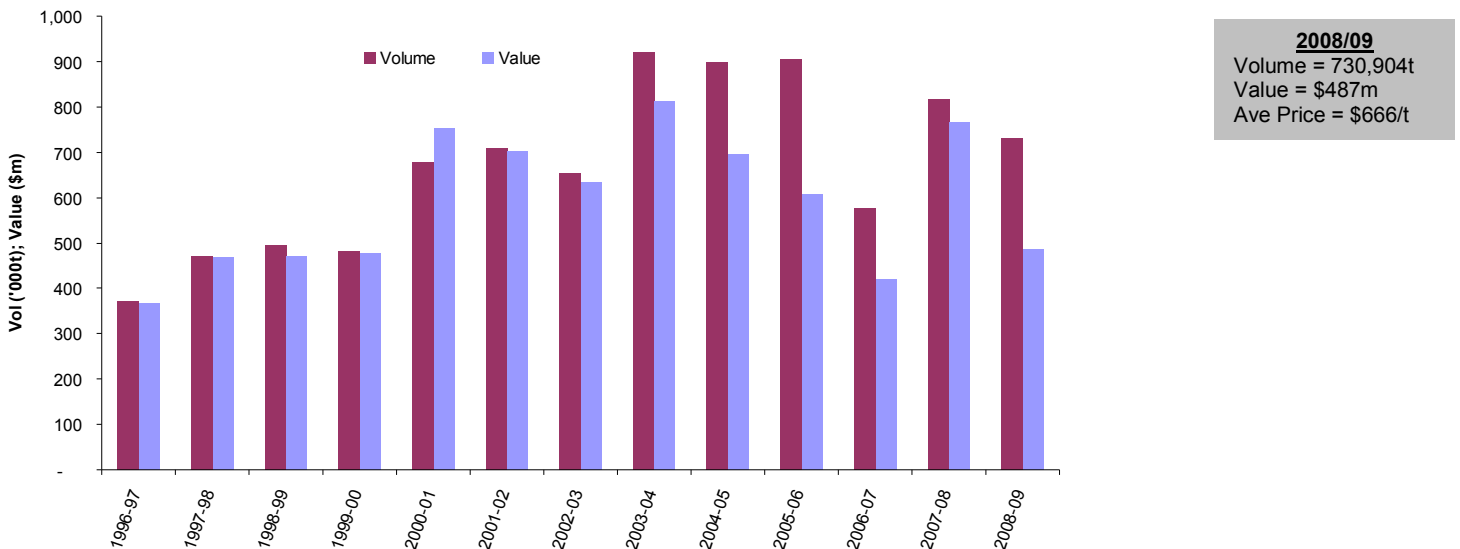
The average grape price (weighbridge) in 2008/09 was \$666/tonne,² down \$271/tonne (or 29%) from 2007/08. The 2008/09 average grape price was the lowest average price since the ScoreCard began in

² Average Grape prices are derived from the SA Winegrape Utilisation and Pricing Surveys. The Survey notes that these prices exclude any bonuses or adjustments applied beyond the weighbridge, and therefore represents a conservative estimate of total crop value. According to the 2006 SA Winegrape Utilisation and Pricing Survey: “There is considerable variation in the pricing arrangements made by different wineries. For example, some wineries make adjustment payments based on the average value per tonne reported in the survey and some pay quality bonuses based on the end use of the product. These additional payments are not made in the reported figures. The average price does not include any indication of the distribution of prices, or variables that go into individual contracts. Therefore the average price should not be compared directly with any individual grower’s arrangements.”

1996/97. Consequently, the value of production is significantly below the ten year average of \$636m, with the value of wine grape production in 2008/09 totalling \$487m.

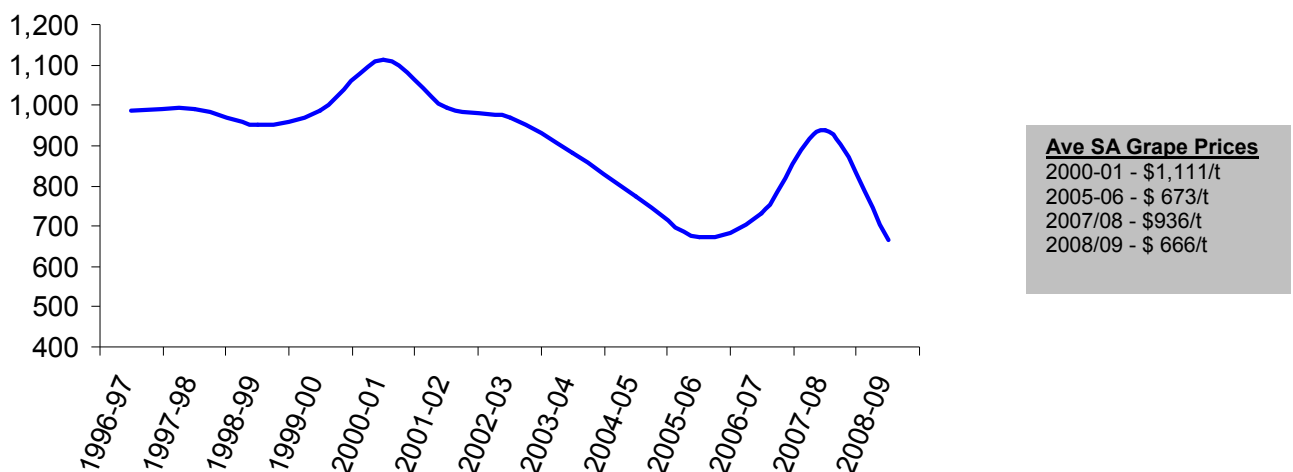
Figure 2 illustrates the volume and value of wine grape production since 1996/97. In SA the value of wine grape production has increased over the past decade and a half from \$367m to \$487m in 2008/09. However, the 2008/09 wine grape production value is considerably less than the peak of \$813m in 2003-04³.

Figure 2: Volume and Value of SA Wine Grape Production, 1996/97 to 2008/09



The average price of wine grapes has experienced a downward trend since reaching a peak value of \$1,111/t in 2000/01 (figure 3). The average price of wine grapes in 2008/09 (\$666/t) was slightly lower than 2005/06 and represents the lowest level of the trend since 1996/97.

Figure 3: Grape Prices \$/tonne, 1996/97 to 2008/09



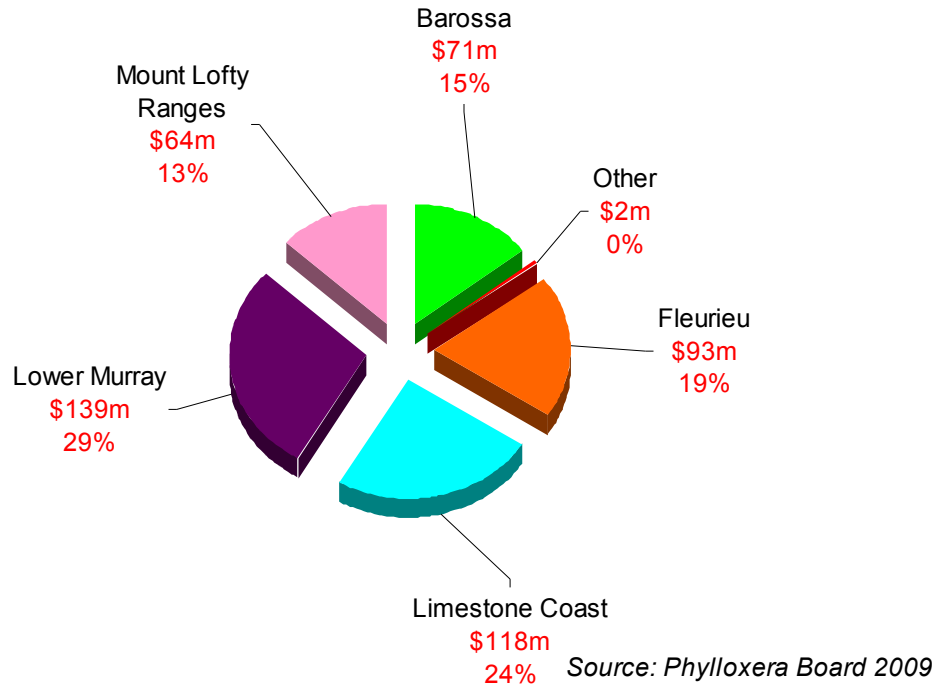
South Australia’s wine grape production is divided between seven Geographical Indicator (GI) zones. The majority of production occurs in five zones ranging from the Lower Murray with 29% of the total production value to the Mount Lofty Ranges with 13%.

³ Grape Production volumes & values are sourced from the SA Wine grape Utilisation & Pricing Survey, Phylloxera & Grape Industry Board SA.



Decreases in the value of production over the year were significant in all zones, the most significant were in the Fleurieu Zone (down 45%), Lower Murray Zone (down 39%) and Barossa Zone (down 36%). Grape productions by volume also declined however these declines were less severe in percentage terms than the declines in value of production. For example, the Fleurieu Zone was down 24%, Barossa Zone was down 22% and the Mount Lofty Zone was down 15%. These declines in production were a consequence of the extreme hot weather event in early 2009.

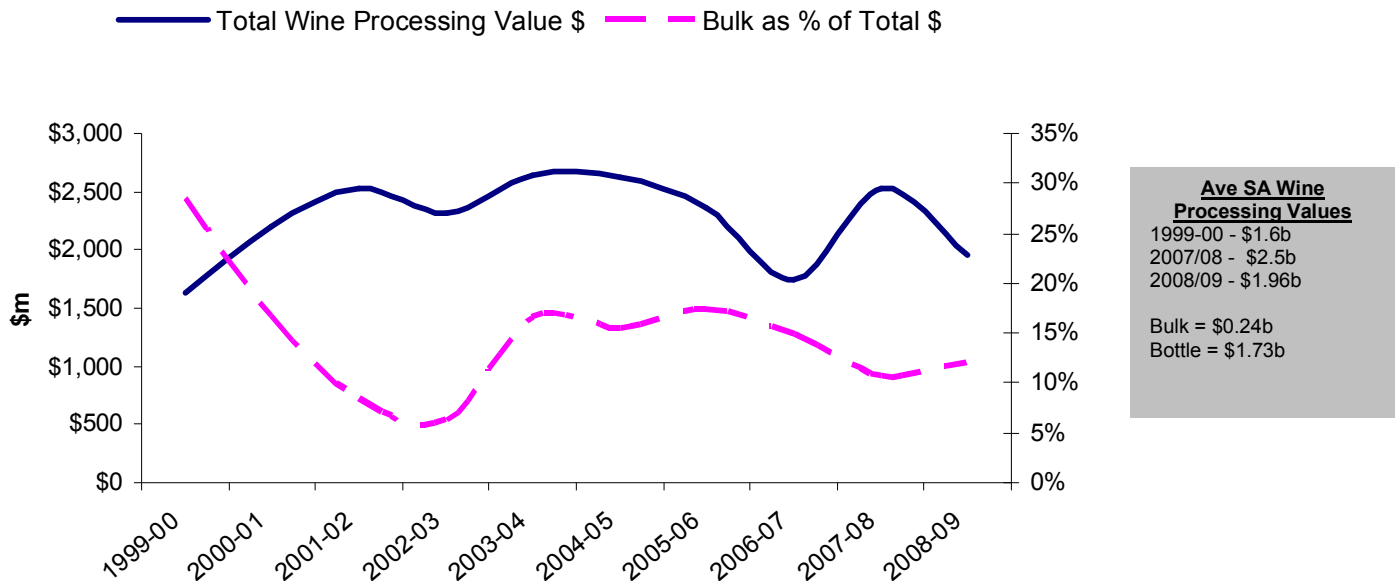
Figure 4: 2008/09 SA Wine Production by Region



4. WINE MAKING - declined by 22% to \$2.0 billion

The Wine ScoreCard values processing figures by estimating the wholesale value of wine produced during each season.⁴ Following trends in grape production, Figure 5 shows the trends in wholesale value for wine produced in South Australia since 1999/2000. In 2008/09 wine processing decreased to \$1.96 billion, a decrease of \$567m (22%) over the year. The volume of wine produced, approximately 506m litres, represents a decline of 67m litres (12%).

Figure 5: Value of SA Wine Processing, \$m, 1999/00 to 2008/09



Fluctuations in the bulk-to-bottled wine ratio are highlighted in figure 5. During 2008/09 around 30% of all SA grapes were used for bulk wine, producing approximately 152m litres of wine with an estimated value of \$236m (12% of the total value). The majority of grapes (70%) are used in bottled wine, valued at \$1.73b wholesale representing 88% of South Australia's total wine production value. The significance of value-adding in the wine sector is illustrated by the value-adding ratio (measured by the ratio of wholesale processed value divided by the value of production returns), showing the grape-wine sector with a value adding ratio of over 4 (for every \$1 worth of grapes, \$4.00 of wine is produced), this is over three times the average of 1.4 for the agri-food sector.

5. EXPORTS OVERSEAS – fall by 15% to \$1.6 billion

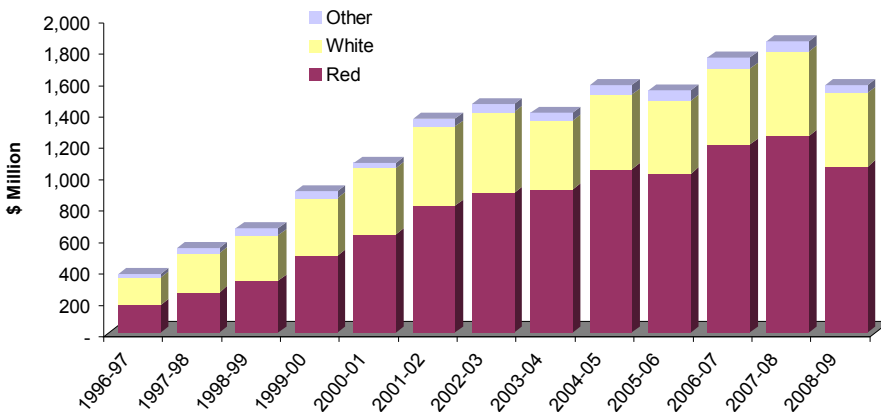
South Australia's export of wine remained relatively strong in 2008/09 despite reduced values and volumes. Wine export volumes were 449m litres, the third highest volume ever, while values still managed to exceed \$1.5 billion for the fifth consecutive year.

In 2008/09 the red wine export sales comprised 67% of total value, white wine 30% and other wine making up the remainder (Figure 6).

The value of South Australia's wine exports declined 15% and volume by 3% in 2008/09. Consequently, the average price per litre of wine exported fell to a record low \$3.51 per litre.

⁴ The value of wine processed (measured in wholesale prices) has been estimated by calculating the share of grapes going into bottled and bulk categories and then estimating separate per-litre values based on input grapes and cost inputs. Wine costs have been derived from various Deloitte's 'benchmark' estimates for different scale wineries.

Figure 6: Value of SA Wine Exports, \$m, 1996-97 to 2008/09

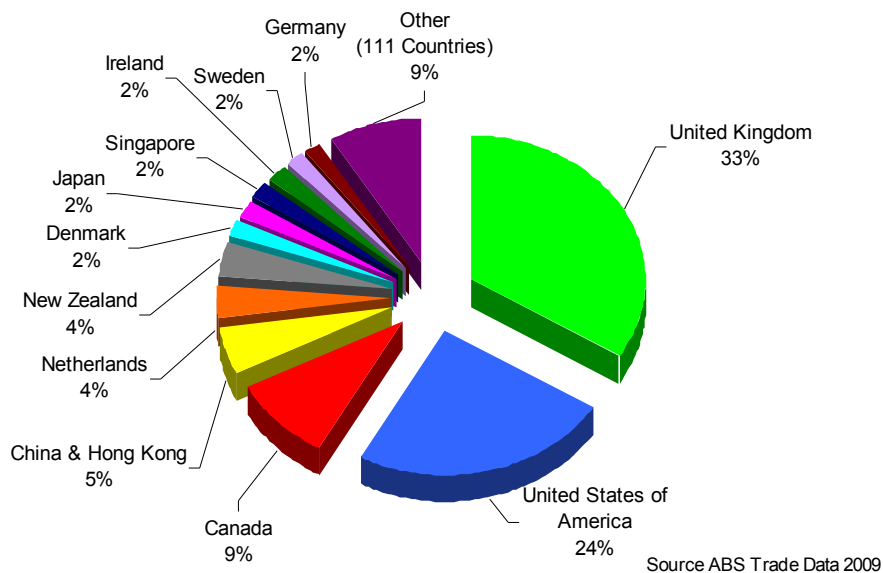


SA Wine Exports Value \$m
 1996-97 - \$374m
 2008/09 - \$1,576m
 Ave Growth = 13%
 Red = 67%
 White = 30%
 Other = 3%

South Australia’s wine exports were sent to over 120 different countries in 2008/09. In 1996/97 SA exported to 90 different countries. The main destinations of wine exports from SA over 2008/09 are shown in figure 7. It is unambiguous that the United Kingdom (UK) and the United States of America (US) continue to account for more than half (57%) SA wine exports by value.

Wine exports in 2008/09 to the UK and US declined in value by 25% and 14% respectively. However, exports to the US increased in volume by 23% while exports to the UK declined in volume by 16%. The average price per litre declined in UK exports by \$0.36 per litre to \$3.11 (down from \$3.47) and in US exports the average price per litre declined by \$1.48 per litre to \$3.46 (down from \$4.94).

Figure 7: SA Wine Exports by Destination, 2008/09 % Share of \$1.56 billion



In 2008/09 the greatest growing export market was China and Hong Kong (“China”), which increased in 2008/09 to be SA’s fourth biggest export market (representing over 5% of the total share). In 2008/09 the value of wine exports to China increased 56% to over \$80m, up from \$52m in 2007/08. However, the volume of exports to China increased approximately 500%. This is reflected in the average price per litre of wine exports to China declining in 2008/09 to \$1.53 from \$5.83 in 2007/08.



6. SOUTH AUSTRALIAN CONSUMPTION – declines 5% to \$517 million

Despite the small share of SA wine production that remains onshore, domestic consumption of wine remains an important component of gross wine revenue. Domestic consumption decreased in value in 2008/09 to \$517 million, a decrease from \$522m in 2007/08. However, the volume of domestic consumption was slightly higher than 2007/08 increasing by 3.3m litres (7.7%) to 46.5m litres. The oversupply of wine grapes has led to wholesalers and retailers reducing prices to remove excess stock.

7. SUMMARY

All key indicators for the SA wine industry experienced negative growth in 2008/09, highlighting the challenging period the industry is presently experiencing.

The challenges of excess grape production both domestically and globally, drought, low water allocations, the deleterious global economy, increased competition and volatile exchange rates all compounded the difficulties of maintaining growth.

Recent decisions by companies of varying size and structure to sell vineyards and wineries in warm and cool climate regions across Australia confirm that business sustainability is not solely a matter of company size or market share.

The wine industry recognises the requirement for long-term market adjustment of supply and demand and the invigoration of market development to maintain and improve its position in the global marketplace.

Whilst the year ahead will again test the resilience of the industry, many of the challenges presented in 2008/09 are abating. Increases in water allocations, improvements in the drought with good rains across the wine regions and early indications of a global economic recovery are positive signs.

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