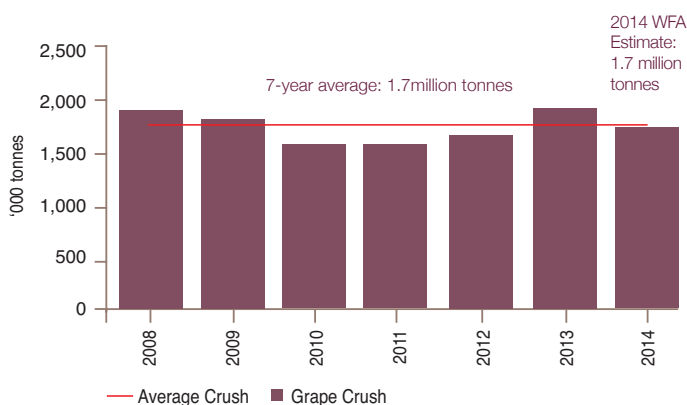




## WFA winegrape crush survey and 2015 outlook

The 2014 Australian grape crush is estimated at 1.70 million tonnes, a 7% decrease from last year's crush<sup>1</sup>. This figure is on par with the 7-year average and 136,000 tonnes lower than last year's crush estimate. The decrease in overall crush is attributable to generally lower yields per hectare in some of the cooler temperate regions, offset by higher yields in the warm inland regions.

Total Winegrape Crush ('000 tonnes) in Australia 2008-2014



Sources: Historical crush figures - Levies Revenue Service (LRS), ABS and WFA

The 2014 beverage wine production estimate is 1,202 million litres, a decrease of around 2% on last year. An analysis of sales and inventory levels suggests that if 2013-14 inventories remain the same as last year's, the industry's stock-to-sales ratio will further increase to 1.48 due to a decrease in the volume of export sales. See page 3 for discussion.

The 2012 Expert Review analysis on production profitability has been extended to include 2014 data. Accounting for a 3% increase in the cost of production, profitable production across all regions decreased to 7% of total production and unprofitable production increased to 84%. Results are due to factors such as an approximate 11% decrease in the average winegrape purchase price from 2012 to 2014, decrease in average yields for the cooler temperate regions and an increase in yields for the warm inland regions. See page 4 for discussion.

<sup>1</sup> This is based on Winemakers' Federation of Australia's 2013 crush estimate at 1.83 million tonnes. See survey methodology for further details.

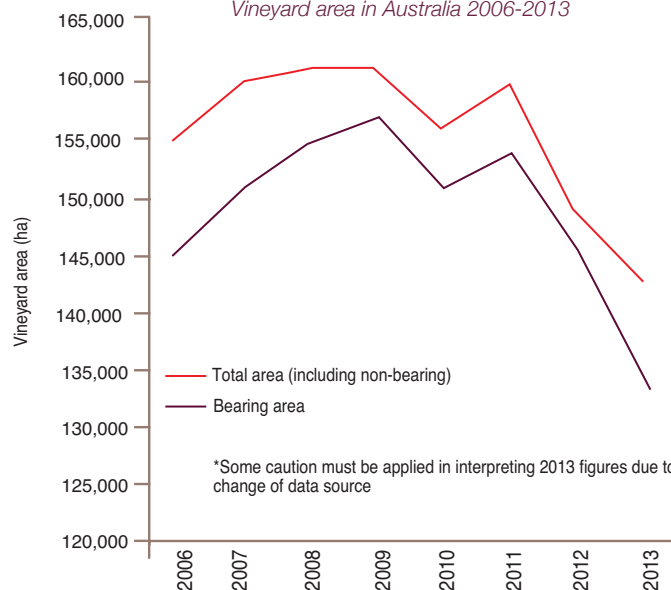
Complementing the WFA Vintage Survey, the Australian Grape and Wine Authority (AGWA) has completed its annual Winegrape Purchases Price Dispersion Report. It shows that, overall, the national average winegrape purchase price in 2014 was \$441 per tonne, down 12% on the 2013 average. See discussion on page 5.

The 2015 vintage will continue to present challenges to the industry. Unless the industry takes proactive action to grow the demand opportunity and accelerate the correction in the supply base, the industry will continue to see seasonal pricing fluctuations around an already low base. This should be a further incentive for the industry to pursue the necessary initiatives outlined in WFA's Actions for Industry Profitability. See discussion on page 6.

### Vineyard area

In 2009, total bearing area of vines in Australia was around 157,000 hectares according to ABS Vineyard estimates. Since then, it has declined and in 2013 total bearing area was around 133,000 hectares<sup>2</sup>.

Vineyard area in Australia 2006-2013



\*Some caution must be applied in interpreting 2013 figures due to change of data source

Sources: ABS Vineyard survey and ABS cat no 7121 Agricultural commodities for 2013 figures

<sup>2</sup> 2013 figures should be interpreted with caution since data was sourced from ABS cat no 7121. 2006-2012 data was from ABS Vineyard estimates.

## 02 Vintage Report

### Crush by variety

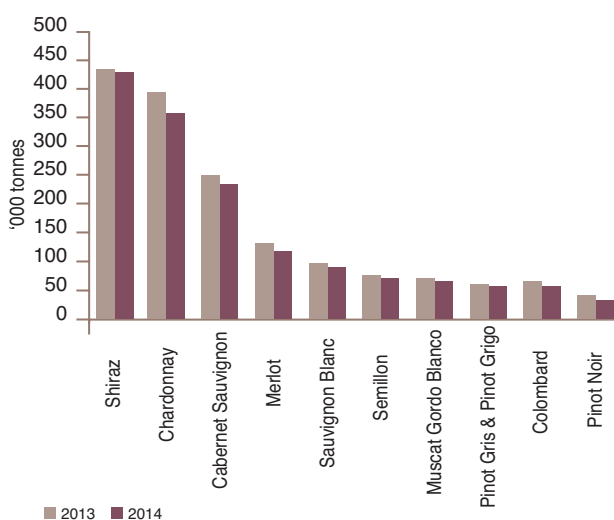
The crush of red and white varieties decreased in 2014 compared with 2013 - reds down by 5% and whites down by 9%. The red crush was around 884,000 tonnes or 52% of total crush, while whites accounted for 813,000 tonnes or 48% of total crush.

The top three red varieties were Shiraz, Cabernet Sauvignon and Merlot, together accounting for 87% of the total red crush. Shiraz continues to dominate with 48% of the total red crush - a 3% increase from last year. Most varieties decreased in tonnage except for Ruby Cabernet (+1%), Lagrein (+10%), Malbec (+12%), Tempranillo (+22%) and Dolcetto (+43%). The largest decreases, in terms of tonnages, were Cabernet Sauvignon (-15,729 tonnes), Merlot (-13,752 tonnes) and Pinot Noir (-8,514 tonnes).

In the whites, Chardonnay still dominates the white crush at 44% despite decreasing 46,521 tonnes from last year. Sauvignon Blanc remains in second place with 12% although tonnage has marginally decreased, followed by Semillon accounting for 9% of total white crush even though tonnage decreased by 4,514 from last year. Most of the white varieties decreased with Viognier (-83%), Sultana (-53%) and Moscato Giallo (-37%) recording the biggest reductions. The biggest relative increases were for Marsanne (+158%), Doradillo (+118%) and Palomino & Pedro Ximenes (50%).

There was no change in the composition of the Top 10 varieties from last year, except for Pinot Gris/Pinot Grigio which is now ranked 8th while Colombard dropped to 9th place.

Top 10 Varieties -  
Comparison of 2013 and 2014 Vintages



Variety	2013	2014	Change 2013-2014 (tonnes)	% 2013-2014	% of grape crush
<b>Red Varieties</b>					
Barbera	377	272	(105)	-28%	0.02%
Cabernet Franc	1,322	1,142	(180)	-14%	0.07%
Cabernet Sauvignon	246,829	231,100	(15,729)	-6%	13.62%
Dolcetto	912	1,300	388	43%	0.08%
Durif	5,146	4,630	(516)	-10%	0.27%
Grenache	15,033	13,317	(1,716)	-11%	0.78%
Lagrein	242	265	23	10%	0.02%
Malbec	2,446	2,730	284	12%	0.16%
Mataro	6,390	5,110	(1,280)	-20%	0.30%
Merlot	130,548	116,795	(13,752)	-11%	6.88%
Muscat a Petit Grains Rouge	880	785	(95)	-11%	0.05%
Nero D'Avola	633	421	(212)	-33%	0.02%
Petit Verdot	22,430	19,941	(2,489)	-11%	1.17%
Pinot Noir	39,404	30,890	(8,514)	-22%	1.82%
Ruby Cabernet	16,295	16,461	167	1%	0.97%
Sangiovese	4,560	3,054	(1,506)	-33%	0.18%
Shiraz	424,999	423,783	(1,217)	0%	24.97%
Tarrango	714	491	(223)	-31%	0.03%
Tempranillo	4,472	5,476	1,004	22%	0.32%
Other red	11,836	6,351	(5,485)	-46%	0.37%
<b>Total Red Varieties</b>	<b>935,464</b>	<b>884,312</b>	<b>(51,152)</b>	<b>-5%</b>	<b>52.10%</b>

Variety	2013	2014	Change 2013-2014 (tonnes)	% 2013-2014	% of grape crush
<b>White Varieties</b>					
Arneis	192	217	25	13%	0.01%
Chardonnay	401,372	354,851	(46,521)	-12%	20.91%
Chenin Blanc	6,177	5,571	(606)	-10%	0.33%
Colombard	67,240	55,638	(11,602)	-17%	3.28%
Doradillo	535	1,166	630	118%	0.07%
Marsanne	1,580	4,082	2,502	158%	0.24%
Moscato Giallo	6,031	3,785	(2,245)	-37%	0.22%
Muscadelle	446	383	(62)	-14%	0.02%
Muscat a Petit Grains Blanc	13,690	14,979	1,289	9%	0.88%
Muscat Gordo Blanco	68,385	65,385	(3,000)	-4%	3.85%
Palomino & Pedro Ximenes	121	181	60	50%	0.01%
Pinot Gris & Pinot Grigio	63,881	61,559	(2,322)	-4%	3.63%
Riesling	29,388	22,662	(6,727)	-23%	1.34%
Sauvignon Blanc	96,561	95,308	(1,253)	-1%	5.62%
Semillon	75,733	71,219	(4,514)	-6%	4.20%
Sultana	1,516	718	(798)	-53%	0.04%
Traminer	9,994	11,096	1,102	11%	0.65%
Trebbiano	408	326	(82)	-20%	0.02%
Verdelho	11,425	8,163	(3,262)	-29%	0.48%
Viognier	13,697	2,356	(11,341)	-83%	0.14%
Other white	29,363	33,396	4,032	14%	1.97%
<b>Total White grapes</b>	<b>897,735</b>	<b>813,040</b>	<b>(84,694)</b>	<b>-9%</b>	<b>47.90%</b>
<b>Total All Varieties</b>	<b>1,833,199</b>	<b>1,697,352</b>	<b>(135,846)</b>	<b>-7%</b>	<b>100%</b>

## Crush by industry structure

The Australian wine industry is made up of a small number of very large processors and a large number of small processors. The respondents to the 2014 WFA Vintage Survey resemble this:

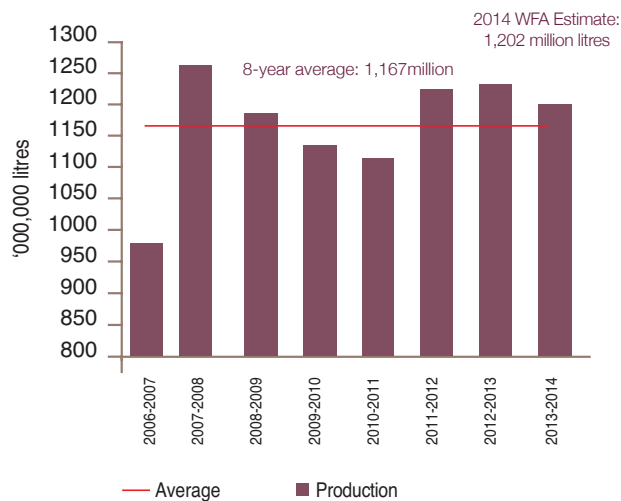
Size of reported crush	# of respondents
10,000 tonnes +	25
5,000 - 10,000 tonnes	8
1,000 - 5,000 tonnes	37
500 - 1,000 tonnes	18
50 - 500 tonnes	50
Under 50 tonnes	33
<b>Total</b>	<b>171</b>

The crush survey results also suggest the largest 10 crush respondents accounted for 70% of the total crush, largest 20 accounted for 85% and largest 30 accounted for 91%. Survey crush results relate to physical processing, not necessarily ownership. There is no differentiation in the survey between wineries and contract processing facilities.

## Beverage wine production

The 2014 WFA Vintage Survey also collected for the first time beverage wine production data to address the gap in this year's industry foundation data collection. This year's beverage wine production estimate is 1,202 million litres, a decrease of around 2% from last year's beverage wine production<sup>3</sup>. This is higher than the 8-year average of 1,167 million litres by around 35 million litres.

Beverage Wine Production (litres)

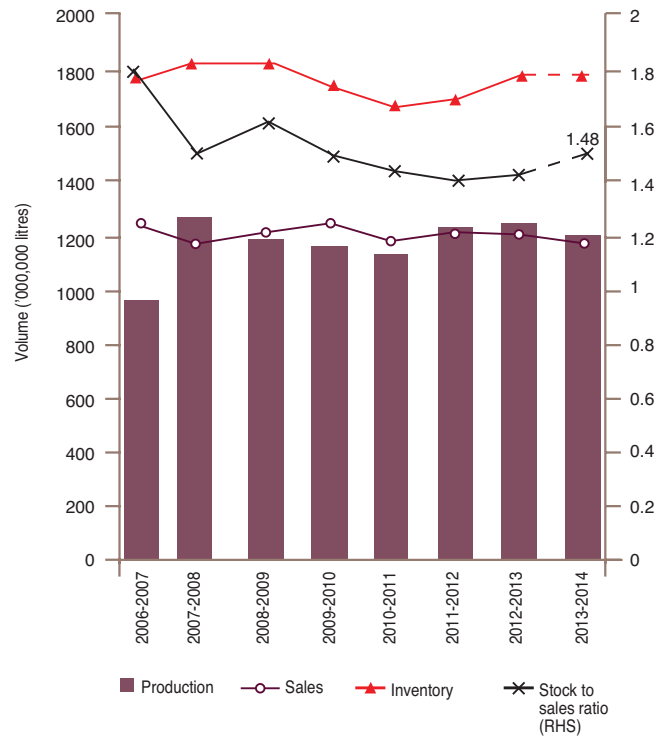


Source: ABS cat no 1329

The estimated 2014 beverage wine production decreased at a lower rate than the crush estimate (-2% vs -7%) suggesting an increase in extraction rates (litres per tonne). The implied 2014 extraction rate of 708 litres per tonne is marginally higher than the 8-year average of 700 litres per tonne.

In interpreting production levels, inventory and sales levels need to be considered. Beverage wine inventory for 2012-13 (1,776 million litres) was up 5% from the previous year while sales (domestic sales plus export sales) decreased 2% to 1,151 million litres. Consequently, the stock-to-sales ratio for 2012-13 increased 4% bringing it to 1.44 from 1.38 the previous year. If we (conservatively) assume that inventories remain the same as last year and given this year's sales decreased 1% (1,142 million litres), then stock-to-sales ratio will increase to an estimate of 1.48.

Production, Inventory and Sales



Source: ABS cat no 1329 and 8504, AGWA Wine Export Approval Database and WFA Vintage Survey

<sup>3</sup> 2014 beverage wine production estimate is based on ABS cat no 1329 Australian Wine and Grape Industry's figure of 1,231 million litres

## Regional commentaries

Regional commentaries around the 2014 vintage are generally centered on great fruit quality, despite tough weather conditions during the growing season. For example:



Hunter Valley<sup>4</sup> - 2014 presented perfect ripening conditions following the heavy November rains, and then lots of sunshine without any 40 degree plus days.

Little rain throughout January and February allowed winemakers to harvest the fruits at optimum ripeness, rather than being dictated by the possibility of inclement weather. All Hunter Valley varieties have been praised as some of the region's best. Tyrrell's Managing Director, Bruce Tyrrell said, "My father Murray was famous for regularly declaring a 'vintage of the century,' well this is possibly the best of both this, and last century."



Yarra Valley<sup>5</sup> - After a warm January, the Yarra Valley experienced near perfect conditions for the latter part of ripening. Moderate days and cool nights resulted in fruit which achieved optimum ripeness and flavours at lower sugars. Early varieties such as Pinot Noir and Chardonnay experienced reduced yields but look balanced with great concentration and flavour. Shiraz and Cabernet Sauvignon have benefited from a warm, dry finish to the season. All exhibit the hallmark combination of finesse and elegance that is the Yarra Valley.



Riverland<sup>6</sup> - Despite tough weather conditions during the lead up to vintage, vines in the Riverland still delivered quality fruit. Riverland Wine executive officer Chris Byrne said if there had been an earthquake this vintage it wouldn't have surprised Riverland grapegrowers who earlier battled through hailstorms, bushfires, frost, disease, pests and record rains. They overcame it all to produce what winemakers have described as an "above average quality harvest" and early signs are some very good wines are being made.



Margaret River<sup>7</sup> - Harvest for most producers commenced in late January, rather than the early February that is the norm. There was a run of daytime temperatures in the low 30s, with fresh, cool evenings. Unusually, some varietals ripened out of order, with Semillon beating Sauvignon Blanc to the finish in some cases. By the second week in March, temperatures were perfect for finishing off the reds. In summary, the 2014 vintage was warm and dry with cool evenings enabling the fruit to ripen consistently and retain excellent freshness. Baumés at harvest were generally lower than previous years and, the fruit has retained excellent natural acidity and displays vibrant flavours with great varietal expression.

<sup>4</sup> Extracted from Hunter Valley Wine and Tourism Association Media Release 12 March 2014.

<sup>5</sup> Extracted from Richard Howden, 2014 Wine Victoria Regional Council Vintage Reports.

<sup>6</sup> Extracted from Chris Byrne, "Vintage Promises Quality But Not Quantity", Grapegrower & Winemaker May 2014 issue.

<sup>7</sup> Commentary from Voyager Estate's Steve James, Manager of Winemaking and Viticulture and Glen Ryan, Vineyard Manager.

## Production profitability analysis<sup>8</sup>

Extending the 2012 Expert Review analysis on production profitability to 2014 data (assuming cost of production remains the same), the level of profitable production were unchanged, breakeven production decreased to 8% and unprofitable production increased to 80%.

However, when we account for a 3% increase in the cost of production, profitable production decreased to 7%, low profitability was unchanged, breakeven decreased to 5% and unprofitable production increased to 84%. It is WFA's view these results are due to factors such as an approximate 11% decrease in the average winegrape purchase price from 2012 to 2014, decrease in average yields for the cooler temperate regions and increase in yields for the warm inland regions.

Regions were affected by changes in purchase prices and yields differently—Barossa Valley and Hunter Valley increased profitable production; while Riverland and Margaret River increased unprofitable production. Following are some regional examples from the 2014 production profitability analysis:

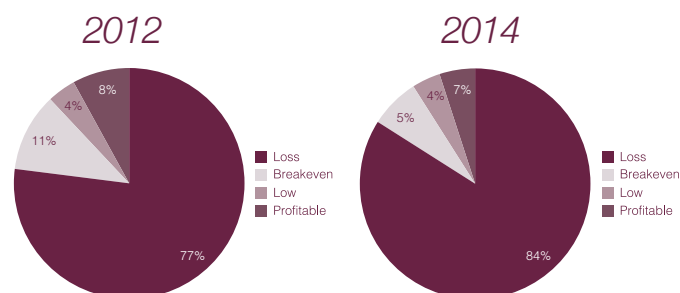
The production profitability analysis for the Barossa Valley illustrates that the proportion of profitable and breakeven production all increased and the proportion of unprofitable production decreased. This can be explained by several factors such as a 33% increase on the average purchase price and a 9% decrease in average yield.

The Hunter Valley marginally increased its profitable production, and decreased its unprofitable production. Of the 11,301 tonnes collected, 61 tonnes (purchases above \$1,900 per tonne) were profitable, and 543 tonnes (purchases between \$1,600-1,900) were low/breakeven. Comparing this to 2012, 345 tonnes (3%) of the sample was breaking even and the 10,090 (97%) was unprofitable.

The Riverland's profitable production increased to 1%, low profitability was unchanged, breakeven decreased to 3% and unprofitable production increased to 94%. This can be attributed to factors such as 11% decrease of average purchase price and 2% increase in average yields. The profitable 1% was purchased between \$700-1,025 per tonne.

Margaret River decreased its profitable, low and breakeven proportions, and increased its unprofitable production to 46%. Purchases from \$600-1,500 per tonne exhibited most changes compared to 2012 – a decrease of 3,134 tonnes of profitable production, decrease of 1,639 tonnes of low profitability, increase of 4,134 tonnes of breakeven, and increase of 4,401 tonnes of unprofitable production.

Production Profitability  
(assuming cost of production increased by 3%)



<sup>8</sup> See section on methodology for detailed discussion.

<sup>9</sup> We have conducted the analysis for 13 regions but similar to the Expert Review, discussed only 4 in this report. Analysis for the remaining regions can be obtained from the WFA website.

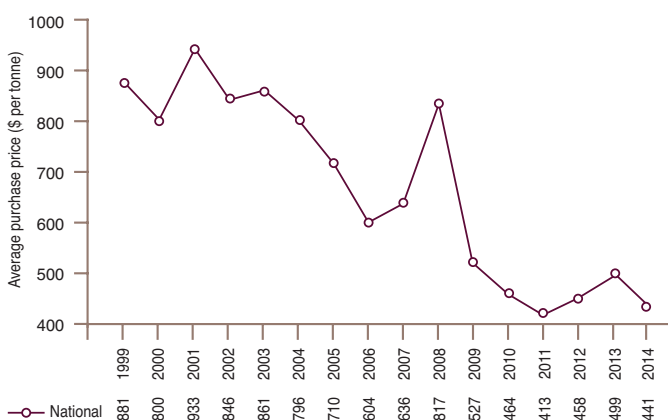


## 2014 winegrape purchases price dispersion report summary

The Australian Grape and Wine Authority (AGWA) recently released the 2014 Australian Winegrape Purchases Price Dispersion report. The report presents tonnages purchased in 2014, as they are distributed across the price spectrum. The data has been collected from a relatively small sample of major winegrape purchasers and others that are significant in key regions but covers an estimated 80% of winegrape purchases. Over 35,000 separate transactions were collected and form the basis of the report. The reporting provides price dispersion read-outs and average purchase prices for varieties-by-region.

The winegrapes purchases collected in the 2014 survey totalled 1,067,733 tonnes valued at \$471 million equating to an average purchase price of \$441 per tonne, down 12% on the average of \$499 per tonne recorded in the equivalent survey in 2013. However, the average purchase price was the higher than the low recorded in 2011 (see figure 1).

Figure 1: Winegrape average purchase prices over time



Source: Australian Regional Winegrape Crush Survey, Australian Winegrape Purchases Price Dispersion Report.

A summary of the price outcomes for 2014 by key variety are illustrated in figure 2. Of the varieties shown in the table, price increases were recorded only by Riesling and Semillon.

Overall, red wine grapes recorded a slightly stronger price decline compared to white wine grapes. The price paid for red wine grapes declined by 13% to \$541 per tonne while for white wine grapes declined by 11% to \$344 per tonne.

Figure 2: National Winegrape Average Purchase Prices by Variety (\$ per tonne)

	2014	2013	Change
Chardonnay	304	372	-18%
Shiraz	564	637	-11%
Cabernet Sauvignon	563	664	-15%
Merlot	417	473	-12%
Sauvignon Blanc	482	497	-3%
Riesling	611	594	3%
Colombard	192	226	-15%
Muscat Gordo Blanco	275	371	-26%
Grenache	577	583	-1%
Semillon	371	337	10%
Pinot Noir	696	870	-20%
Pinot Gris	518	553	-6%

Source: Australian Winegrape Purchases Price Dispersion Report.

## 2015 vintage outlook

This year's resilient winegrape crush, decrease in average winegrape prices, increase in stock-to-sales ratio, increase in unprofitable production and relatively flat demand projections suggest the 2015 vintage will not see a fundamental change in industry dynamics or profitability unless action is taken. Further, expected above average vintages in Spain, Italy and France will continue to put pressure on global commodity wine prices.

Looking at AGWA's export approvals data, Australian wine (in terms of volume and value) continues to fall short of pre-GFC levels. We are still not regaining volume share in the US market and have lost volume in China (as have most other competitors) due to austerity measures imposed by the Chinese government. Unless the industry takes proactive action to grow the demand opportunity and accelerate the correction in the supply base, the industry will continue to see seasonal pricing fluctuations around an already low base. This should be a further incentive for the industry to pursue the necessary initiatives outlined in WFA's Actions for Industry Profitability.

WFA, together with AGWA believe there are opportunities to build demand. Although we have not reached pre-GFC volumes in the US market, the above A\$7.50 per litre fob categories continue to improve.

Similarly, the UK and Canadian markets also present growth opportunities. Australia is still under-represented at the higher end of the UK market and in the independent retail sector, but there are some positive signs with growth in exports above A\$7.50 per litre fob. Further, Canadian

agents (importers) report recent Australian premium sales success and sense that "things are starting to turn around" at higher price points. Australia is the themed country at the Vancouver International Wine Festival to be held in February 2015 and this event is an example of how category promotion can support the growth strategies of individual companies in specific markets.

Austerity measures introduced by the Chinese Government to curb spending by Government officials on luxury goods such as wine have had a negative impact on the growth of imported wines to China. However, there are signs of recovery and Australia is well-placed to resume growth, particularly in the above A\$7.50 per litre fob categories.

In the Australian domestic market, Australian wine category holds an 85% share while imports continue to gain share particularly through New Zealand Sauvignon Blanc and Champagne. However, Australian wines are continuing to grow at all price points above A\$12 per bottle, with the strongest growth coming at above A\$25 per bottle, albeit off a relatively small base. The on-premise represents an opportunity as Australia is likely under-represented in this channel.

The WFA is currently advocating for an additional \$25 million over four years from government to help boost the international promotion and marketing of our wine in key markets. This initiative, along with a number of other recommended industry actions, can be found at [www.wfa.org.au](http://www.wfa.org.au).

## 2014 vintage survey methodology

There were two changes for this year's Vintage Survey. We included questions on beverage wine production (litres) to temporarily address the gap in the industry's data collection<sup>10</sup>. We also used an online survey form to improve efficiencies.

The survey was initially sent to 1,500 wineries in Australian (at least 95% of the total crush). 171 responses were received from wineries with processing facilities. 2014 crush respondents represented 91.4% of WFA's 2013 crush estimate, while wine beverage production respondents represented 77.3% of ABS's 2012-13 beverage wine production figure.

The following definitions were used in the survey:

**Beverage wine production (litres)**

- Include table, sparkling and fortified wine produced for direct consumption and not for distillation
- Include quantities produced by you on a contract or commission basis for another winery/group
- Include production from unfermented or concentrated grape juice and must purchased, transferred in or produced by you
- Include fortified wine made from wine of the current vintage
- Exclude quantities produced for you on a contract or commission basis by another winery/group
- Exclude wastage, spoilage and losses incurred after the wine making process is complete

**Crush - red and white varieties (tonnes)**

- Include all grapes processed by your winery or winery group
- Include grapes contract processed by your winery on behalf of other wineries

- Exclude grapes you owned that were processed by another processing facility

### Production profitability analysis: an update from the Expert Review

The analysis estimated 2014 growing costs by region and by grade, and compared with actual prices paid. Growing costs per tonne by grade were estimated using the following data sources:

- 2014 prices dispersion data from Australian Wine and Grape Authority (note that price dispersion data including bonuses would only be available in Oct/Nov<sup>11</sup>). Limitations of the price dispersion data include: 1) Price dispersion data is based on winegrape purchases only and therefore does not account for winery-owned fruit; 2) Tonnages purchased and reported at the aggregate level are estimated to represent an estimated 80% of the total purchases
- Average yield by region was based on 2006/08/10/12/14. 2014 yield estimates were from SA Winegrape Crush Survey (PGIBSA) and consultations with WGGA
- Estimated cost per hectare figures from consultations with WGGA and CPI movement
- Definitions of profitability levels are as follows:
  - o Loss- growing costs (per tonne) are greater than purchase price (per tonne)
  - o Breakeven- profit per tonne is between \$0-100
  - o Low- profit per tonne is between \$100-300
  - o Profitable- profit per tonne is above \$300

<sup>10</sup> Beverage wine inventories and total area were also asked but received low response.

<sup>11</sup> An updated production profitability analysis accounting for bonuses will be made available in the WFA website.