International Wine Industry Review

The wine industry sobers up...

Key points

- Rapid growth is not necessarily a good thing - there is a global, and domestic, glut of wine and wine grapes.
- The wine industry proves that not all global agricultural commodities enjoy strong consumption growth.

Summary

The Australian wine industry developed an enviable aura from the eighties to early-noughties. It seemed, all of a sudden, that everything to do with wine was fashionable. Be that producing it, selling it, or drinking it.

Wine consumption in Australia has grown strongly, while beer consumption has been flat. The Australian drinker, who started out by having the odd glass of cask-Chardonnay every now and again, was suddenly head-over-heels for Shiraz, Pinot or Sauvignon Blanc. Wine's share of Australia's bar-tab lifted from 17% from 37% between 1974/75 to 2009/10. Beer's share dropped from 70% to 44%. Increasing cultural diversity, a changing drinking culture (i.e. fewer 5pm pub-stops), wine's perceived health benefits, and rising household incomes help explain the rise of wine and the demise of beer.

Although wine consumption in Australia has been strong over the past few decades, domestic wine production growth has been exceptional, and surplus to local requirements. Australia's wine grape area exploded during the nineties, aided by high grape prices and the corporatisation of the Australian industry. Between 1994 and 2004, Australia's wine grape production surged 2.5-times to 1.92 million tonnes, equating to a staggering average annual growth of nearly 10%. Australia's growth in wine production outstripped local consumption needs, driving an export industry that grew by 11% per annum in the past decade alone. Exports now account for 63% of total disposals of Australian wine, and 42% of the industries total revenue.

In itself, the growth in Australia's wine export volumes is a good thing. But, the problem is, the global wine market is now saturated. There is a global wine glut, and export competition has become more intense. The wine industry has proved that not all agricultural commodities enjoy strong consumption growth. Between 1980 and 2000, world wine consumption <u>declined</u> by 1.4% per annum, and during the 2000s, global wine consumption only expanded in-line with population growth, with per capita consumption remaining flat. Global per capita wine consumption is unlikely to lift strongly in the foreseeable future. Against this backdrop, wine production in new-world countries such as South Africa and Chile has risen strongly. And the exportable surplus for traditional, old-world producers such as France and Italy has risen as their domestic consumption has declined. Global wine prices have consequently fallen, and global demand for Australian wine is under pressure.

Australia's wine grape vine area is now recognised as excess to requirements. In 2009, local wine industry bodies indicated that 20%, or 30,000 hectares, of Australia's vine area exceeded requirements, and that Australia is producing 20 to 40 million more cases of wine than it is selling. Wine grape prices are under significant pressure. Over the past 10 years, local warm-climate red grape prices have fallen by an average 67% in inflation-adjusted terms. Australia's grape producers responded to declining grape prices by removing an estimated 8,000 hectares from production in 2009/10. More vine removals are still needed to bring the market back into balance. Yet, according to ABARES, Australia's wine grape output will lift 11% from 2010/11 to 2012/13 because of an <u>increase</u> in bearing vine area, and an assumed improvement in seasonal conditions. Increased production will exacerbate the industry's structural oversupply and keep grape prices under pressure.

In addition to rationing supply, the outlook for the Australian wine industry will depend on its ability to produce, and market, products that are desired both globally and domestically. The industry's ability to do this, in an environment of increasing exportable supplies in other new-world producers, combined with an elevated Australian dollar, will, to say the least, prove challenging. That enviable aura of the past few decades, at least from a producer's perspective, is currently a mere memory.

Report Structure

This report details the size, structure and dynamics within the global and Australian wine industries. Global consumption trends are analysed from page 2, and developments in global production and trade are outlined from page 3. The Australian industry is reviewed from page 5, including trends in grape production. Australian alcohol and wine consumption trends are evaluated from page 8, while Australia's international wine trade is analysed from page 10.

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International Wine Industry Review

Global wine consumption trends

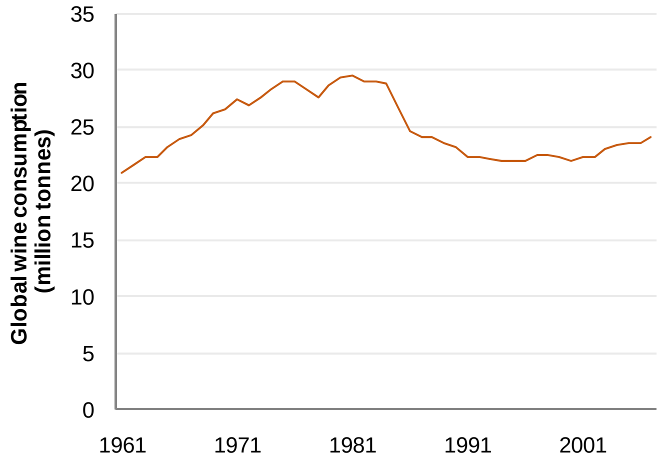
Global wine consumption

The wine industry proves that not all agricultural commodities enjoy strong consumption growth.

From 2000 to 2007, global wine consumption only expanded in-line with population growth (1.3%), with per capita consumption remaining flat at 3.65kg/person/year. While this relatively sluggish consumption growth over the past decade may appear disappointing, it remains far superior to the growth rates observed in the two-decades to 2000. Over that period, per capita wine consumption fell 3% per annum, while total world wine consumption fell 1.4% per annum from 29.4 million tonnes to 22.0 million tonnes.

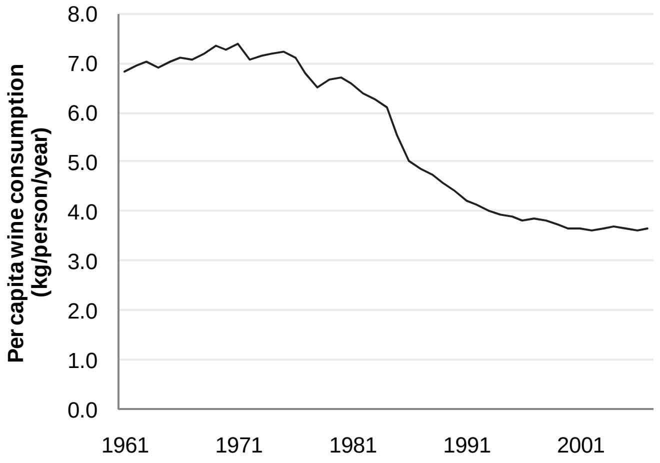
The decline in global wine consumption from 1980 to 2000 is the consequence of global population growth being biased towards non-wine-consuming regions (i.e. Africa, Middle East and Asia) and a changing alcohol consumption pattern in traditional wine consuming regions. For example, total alcohol consumption in Europe has declined over the past few decades while beer and spirits have increased market penetration.

Figure 1: Global wine consumption



Source: UN FAO and CBA

Figure 2: Per capita wine consumption



Source: UN FAO and CBA

Top 10 wine consumers

Unsurprisingly, the Europeans dominate global wine consumption. The French consumed nearly 54L/person in 2006, followed by the Italian's with 47.2L/person/year. In total, the French consume 3.3 billion litres of wine per year, or 14% of the world total, followed by Italy with 2.7 billion litres.

Figure 3: Top 10 Global Wine Consumers

	TOTAL USE				PER CAPITA USE		
	Total Use, 2006 (ML)	Prop'n of world total (2006)	CHG, 1995 to 2006 (ML)	CHG, 1995 to 2006 (% pa)	Per capita use, 2006 (L/person/yr)	CHG, 1995 to 2006 (L/person/yr)	CHG, 1995 to 2006 (% pa)
France	3,300	14%	-397	-1.0%	53.90	-9.3	-1.4%
Italy	2,733	12%	-461	-1.4%	47.20	-8.8	-1.5%
United States of America	2,590	11%	760	3.2%	8.50	1.6	1.9%
Germany	1,994	9%	189	0.9%	24.20	2.1	0.8%
Spain	1,351	6%	83	0.6%	31.60	0.3	0.1%
United Kingdom	1,170	5%	468	4.8%	19.50	7.4	4.4%
Argentina	1,110	5%	-220	-1.6%	28.10	-10.1	-2.8%
Russia	1,066	5%	414	4.6%	7.60	3.2	5.1%
Other Central Eastern Europe	706	3%	-64	-0.8%	5.50	-0.6	-0.9%
China	601	3%	357	8.5%	0.40	0.2	6.5%
Top 10	16,622	71%	1,128	0.6%	~	~	~
Total	23,408	100%	2,258	0.9%	~	~	~

Source: Australian Wine and Brandy Corporation, CBA

Changing of the guard

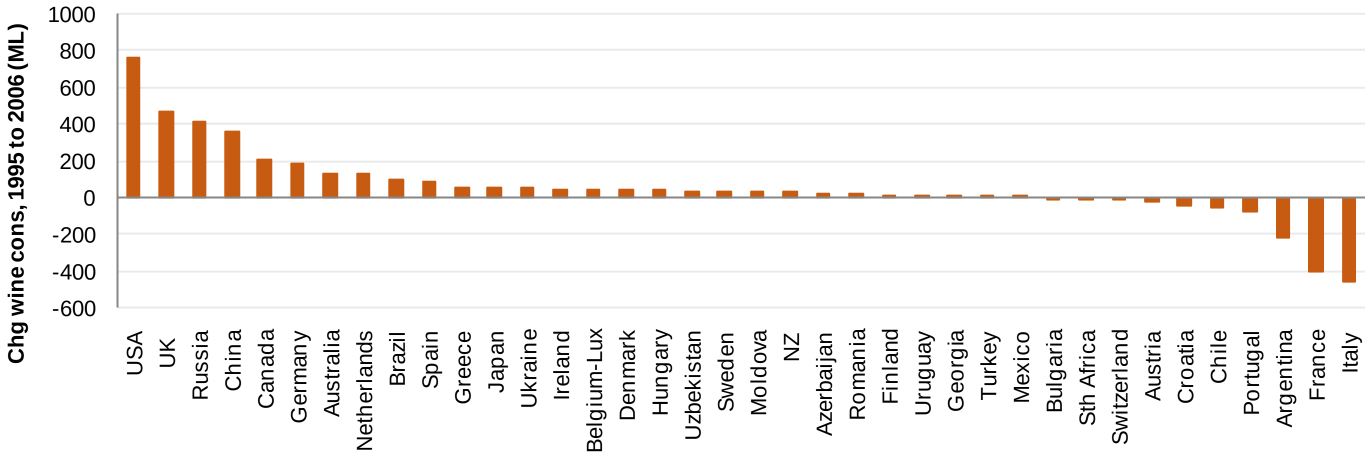
Despite dominating world league-tables, wine consumption in the traditional old-world countries is falling, both in total and per capita terms. For example, in the 11 years to 2006, French wine consumption fell by over 9L/person/year, and total French wine consumption fell nearly 400 million litres. Italian wine consumption fell 461 million litres over the period.

There is somewhat of a changing of the guard in the world of wine. New-world consumers are picking-up the slack created by falling consumption in the traditional old-world countries. In the 11 years to 2006, US wine consumption grew 3.2% per annum (760 million litres) to 2.6 billion litres, UK consumption grew 4.8% per annum (470 million litres), Russian consumption grew 4.6% (414 million litres) and Chinese wine consumption expanded 8.5% per annum (357 million litres) to 601 million litres.

Despite the strong growth of these new-world consumers, only the UK has displayed a sharp lift in per capita wine consumption. UK per capita wine consumption rose 7.4L/person to 19.5L/person/year from 1995 to 2006, while US consumption rose 1.6L to 8.5L/person/year and Russian consumption grew to 7.6L/person/year. Meanwhile, per capita wine consumption in China grew 6.5% per annum over the period, but still remains at just 0.4L/person/year. Further growth in new-world per capita wine consumption, particularly in countries such as China and the US, will be an important driver of future global wine consumption. But the extent to which declining old-world consumption offsets this new-world growth warrants continued monitoring.

Wine consumption in Australia grew by a solid 3.1% pa between 1995 and 2006, with per capita consumption lifting nearly 2% per annum to 22.4L/person/year. By 2006, Australians were the 16th most important consumers on a per capita basis and the 13th largest consumer on total consumption basis. Australia was the 7th fastest global growth market from 1995 to 2006.

Figure 4: Change in total wine consumption by country, 1995 to 2006 (million litres)



Source: UN FAO and CBA

Global wine production trends

Global production

Global grape area[1] slumped 22% to 7.2 million hectares in the 18 years to 1998, driven by vine removal in the traditional old-world wine producing regions of France and Italy. But since falling to these record low levels, global grape area rose by 5% to 7.6 million acres by 2009. Global grape yields rose steadily from 1980 to 2009, averaging 0.7% yield growth per annum.

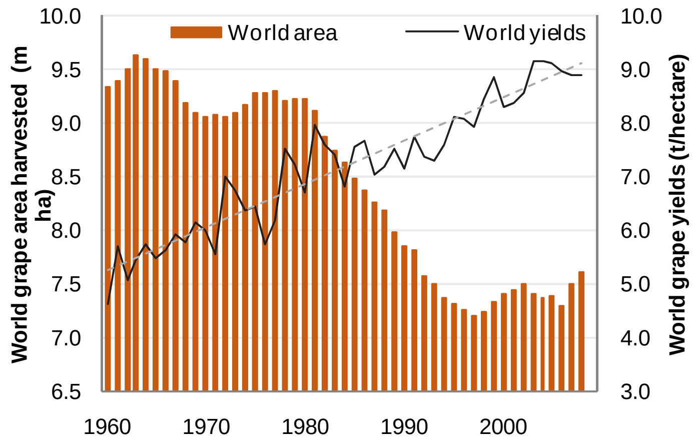
According to the UN FAO database, world wine production in 2009 was 27.2 million tonnes, some 8 million tonnes (or 23%) below 1980 output. This is despite global wine production trending higher from the mid-1990s to 2009.

The sharp decline in global wine production through the 1980s and 1990s, followed by the modest

[1] Which includes both wine and non-wine grapes.

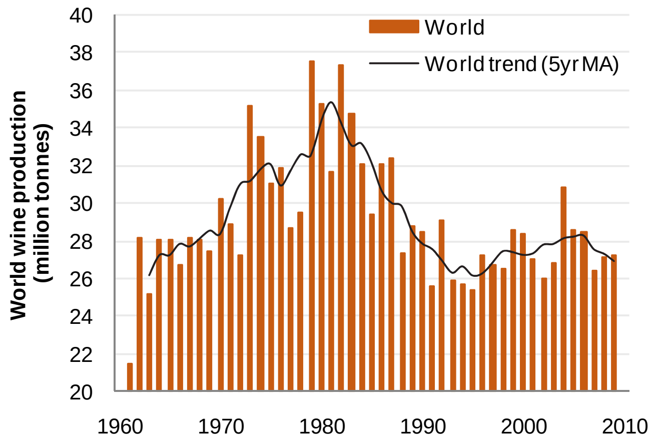
recovery from 2000, tracks the developments in global wine consumption. Modest growth in global wine production is probable over the coming decade, largely influenced by future consumption growth in new-world regions. However the rate of growth is likely to be constrained because of current poor returns and relatively high start-up costs in the grape and wine industry.

Figure 5: World grape area and yields



Source: UN FAO and CBA

Figure 6: World wine production



Source: UN FAO and CBA

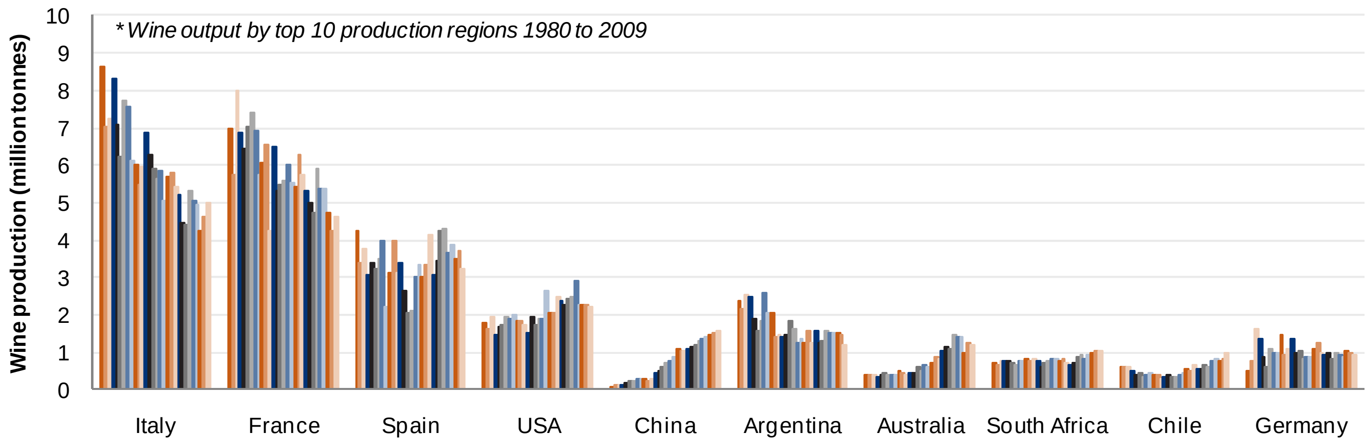
Wine production by country

As with wine consumption, global wine production has shown significant variation between regions. Reflecting falling consumption, wine production in Italy and France fell 42% and 34% respectively (3.66 and 2.34 million tonnes) from 1980 to 2009. Yet despite this large fall in output, France and Italy still dominate global wine production with a combined 35% market share.

Wine production growth from 1980 to 2009 has been most significant in China (1.5 million tonnes), followed by Australia (764 thousand tonnes), Russia (500 thousand tonnes), Germany (463 thousand tonnes) and the USA (431 thousand tonnes).

The level of consolidation in global wine production is significant with the top-10 producers accounting for over 80% of the market.

Figure 7: Wine production by region (1980 to 2009)



World wine trade

Global wine trade virtually doubled from 1990 to 2008 according to UN FAO data, rising from 4.14 million tonnes to 8.14 million tonnes. The average annual rate of growth of 3.8% from 1990 to 2008 easily outstripped the 0.7% per annum average growth rate of observed from 1970 to 1990.

An increase in wine consumption in non-traditional wine consuming regions such as the US and Germany fuelled strong demand for global wine imports. Meanwhile, falling consumption in old-world producers, such as France and Italy, and a sharp increase in production in low-population, net-exporting countries, such as Australia and Chile, allowed that import demand to be fulfilled.

- Wine importers

The dominant wine importers are those countries that have only relatively recently adopted a wine drinking culture. This includes those countries that have traditionally consumed other alcoholic beverages, or those that have only relatively recently begun to consume alcohol of any kind.

Accordingly, Germany is the world's largest wine importer and the fourth fastest growing wine importer since 1990, largely because wine's share of the German alcohol market is increasing at the expense of beer. Similarly, UK drinkers are moving away from beer and into wine. And, as such, the UK is now the second largest wine importer with 13% market share. Finally, US consumers have broadening their alcohol consumption and have subsequently emerged as the fastest growing importer market since 1990. Total US wine imports have increased 590 thousand tonnes, or 7% per annum, over the period.

More recently, Russia and China have emerged as key growth markets. Russia has been the third fastest import growth market from 2000, rising by 255 thousand tonnes (12.5% per annum), while China was the sixth largest growth market, expanding by 140 thousand tonnes, or 20% per annum.

Further growth in US, Russian and Chinese wine imports should to support future global trade flows as consumers in those regions lift their per capita wine consumption.

- Wine exporters

The old-world producers of Italy, France and Spain still dominate global wine exports, and their respective exportable surpluses have increased because of decreasing domestic consumption. However the dominance of these old-world exporters is waning because of rapid emergence of new-world producers, led largely by Australia.

In 1990 Italy and France captured a combined 58% of the export market, but by 2008 this share had fallen to just 34%. Over that period, Spanish wine exports increased their market share from 11% to 19%, while Australian wine exports increased its market share from just 1% to 8%. In total, Spanish wine exports rose by 1.26 million tonnes (7.8% pa) from 1980 to 2008, Australian exports rose 695 thousand tonnes (18.5% pa) and Chilean wine exports rose by 567 thousand tonnes (14% pa).

Argentina and South Africa recently have emerged as key exporters, competing aggressively with Italy, Spain, France, Australia and Chile for market share. From 2000, Argentina was the third fastest wine exporter and South Africa was the fifth fastest growing exporter.

Figure 8: Global wine trade (volumes)

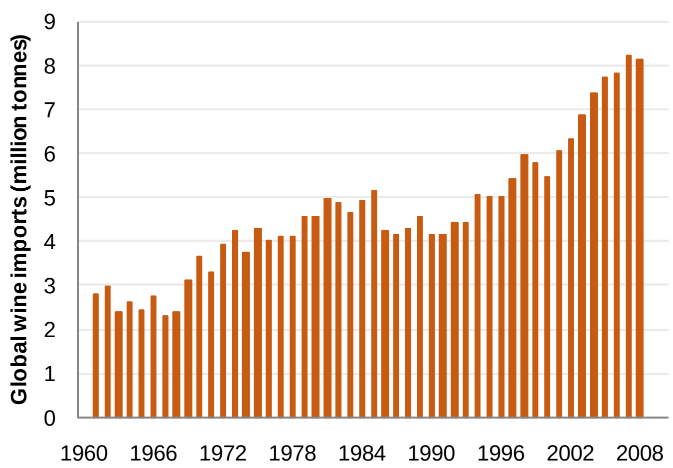
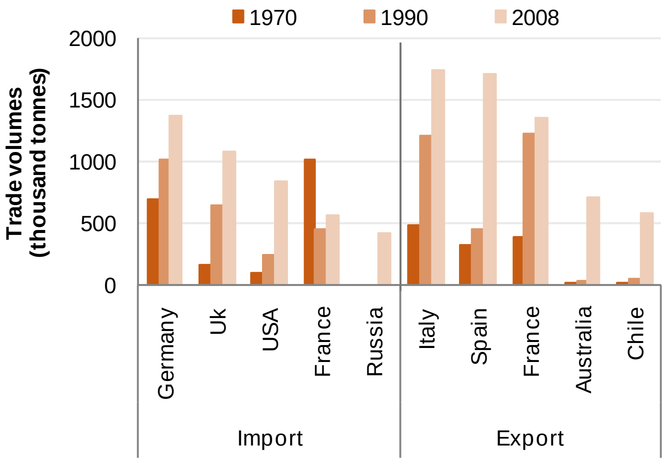


Figure 9: Key wine importers and exporters



Australian Wine Industry

Wine grape and wine production

Total production

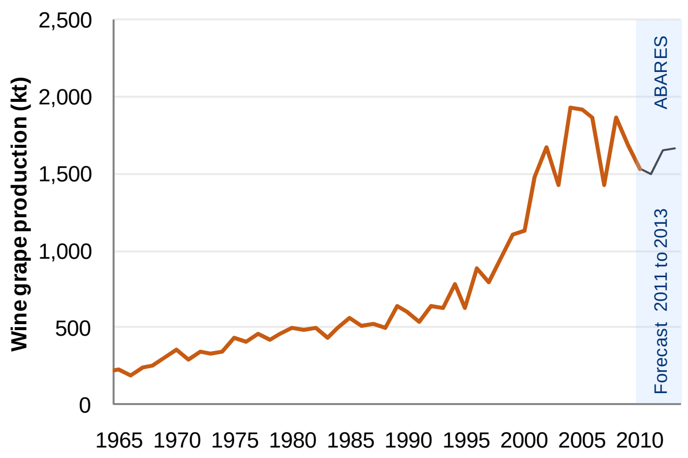
Australia's total vineyards area in 2009/10 was estimated at 156,632 hectares, of which 97% was fruit bearing. Of the total fruit-bearing vines in Australia, 60% were red varieties, while 40% were white. Australia's wine grape area exploded during the 1990s, supported by high grape prices and the corporatisation of Australia's industry. From 1994 to 2004, Australian wine grape production surged 2.5-times to 1.92 million tonnes, equating to average annual growth of nearly 10%.

But since 2005, local wine grape production has proved volatile. Drought across eastern Australia in 2006/07, 2008/09 and early 2009/10 resulted in reduced irrigation and production. And seasonal conditions for the 2010/11 vintage have also been challenging. Wet, humid conditions during spring and summer resulted in high incidence of disease, split/burst fruit and flooding related production losses[2]. As a result, Australian wine grape production in 2010/11 is forecast at only 1.5 million tonnes, down 2.4% year-on-year, or nearly 22% below 2004/05 production.

In addition to the string of challenging seasons, a decline in vine area has contributed to lower wine grape production over the past few years. Based on ABS data, Australia's area of grape bearing vines fell by a net 5,500 hectares to 151,789 hectares in 2009/10, with 8,164 hectares actually removed. But, according to most industry analysts, more vine removals are required. In 2009, local wine industry bodies[3] indicated that 20% of Australia's vine area exceeded requirements, and that Australia is producing 20 to 40 million more cases of wine than it is selling. A 20% fall in Australia's vine bearing area implies a further 30,000 hectares of bearing vines should be removed from 2009/10 levels. Yet, according to ABARES, an additional 3,600 hectares of bearing vines will come into production over the coming three years, largely reflecting plantings from 2005 to 2010.

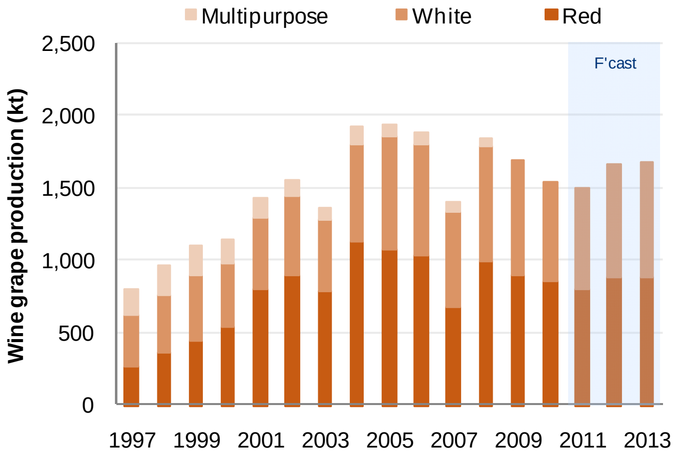
Because of an increase in bearing vine area, and an assumed lift in seasonal conditions, ABARES is forecasting Australia's wine grape output will lift 11% from 2010/11 to 2012/13. Increased output will exacerbate the structural oversupply within the industry and keep grape prices under pressure.

Figure 10: Australian wine grape production (total)



Source: ABARES and CBA

Figure 11: Australian vine area (bearing)



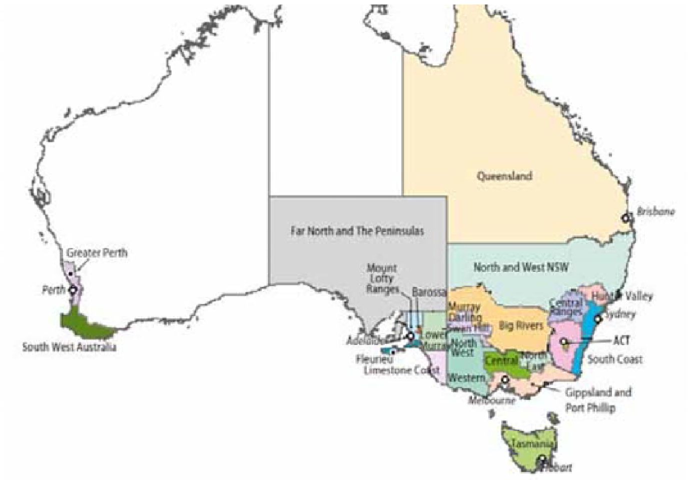
Source: ABARES and CBA

Regions

Australian wine grape production is concentrated in the south-eastern states. South Australia accounts for nearly half of Australia's total vine area, followed by NSW (27%) and Victoria (17%). South Australia's industry is dominated by red wine grape varieties (70% of total SA production), and 54% of Australia's red wine vines are located in South Australia. In the other states, the split between red and white grape varieties is more balanced. In NSW and Western Australia the split between red and white varieties is 50:50, while in Victoria 58% are red varieties, with 42% white.

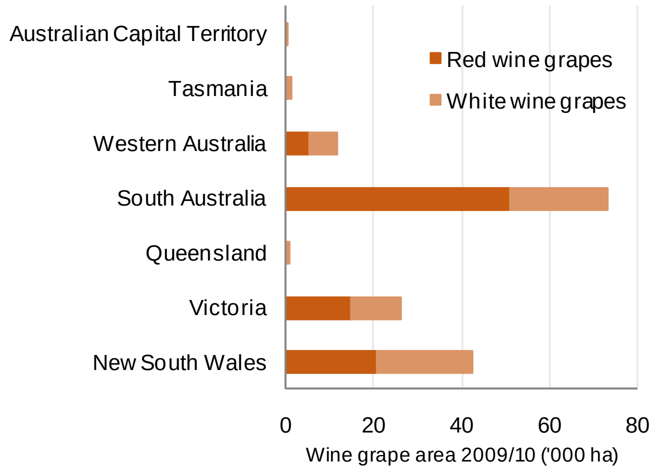
[2] Result was lower production, lower quality fruit and higher costs of production (increased spraying program increased total costs while reduced production volume lifted costs per unit).
[3] Including the Winemakers' Federation of Australia, Wine Grape Growers' Australia, the Australian Wine and Brandy Corporation and the Grape and Wine Research and Development Corporation.

Figure 12: Australian wine production regions



Source: ABARES

Figure 13: Australian wine area by state (2009/10)



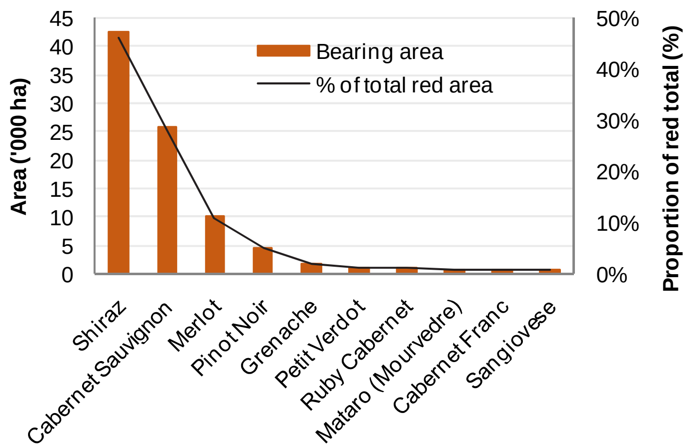
Source: ABS and CBA

Type

There are more than 40 commercial varieties of wine grapes produced in Australia. However, the top three varieties contribute around two-thirds of total production.

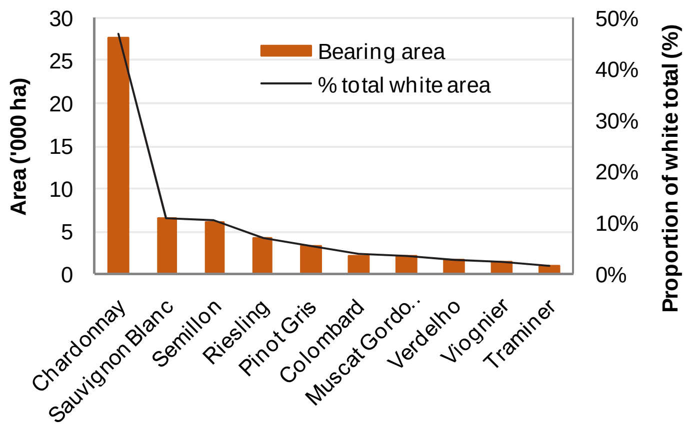
Shiraz is the most commonly produced wine grape in Australia with around 30% the total wine grape area in Australia, and 46% of the red wine vine area. Chardonnay is the second most common variety at 27.8 thousand hectares, equating to 18% of the total vine area and 47% of the total white wine area. Cabernet Sauvignon is the third most commonly produced wine grape, accounting for 17% of the total Australian vine area, and 28% of the total red wine vine area.

Figure 14: Australia's top 10 red wine varieties (2009/10)



Source: ABS and CBA

Figure 15: Australia's top 10 white wine varieties (2009/10)



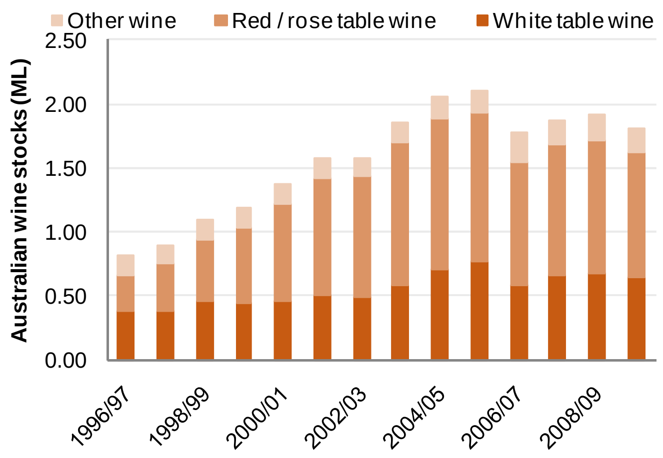
Source: ABS and CBA

Wine overcapacity, falling grape values and vine removal

The Australian wine industry is currently suffering the consequences of the hasty growth observed throughout the 1990s. The rapid accumulation of wine inventories from 1996/97 to 2005/06, which saw red wine inventories increase 4-fold from 300 thousand litres to 1.2 million litres, indicates that more wine was being produced than was demanded by domestic and international consumers.

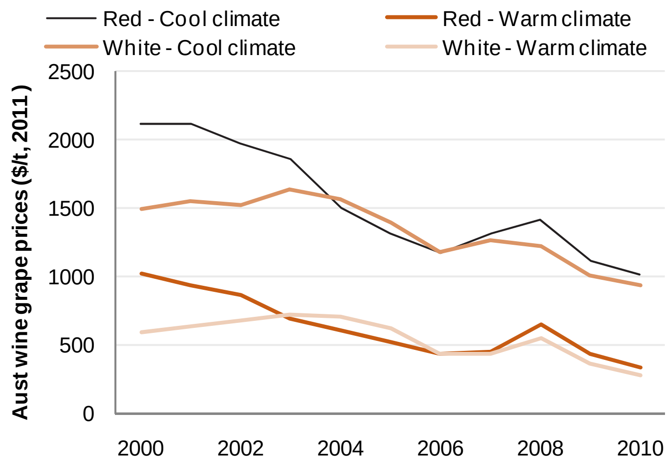
Grape prices have declined steadily over the past decade because of the excess supply. ABARES indicates that Australian wine grape prices have slumped between 37% and 67% in real terms from 2000, depending on the variety. The most significant price declines have been observed in warm-climate red grape varieties which lost 67% in the 10 years to 2010, declining to $334/t. On the other hand, cool-climate white grape varieties fell by an average 37% over the same period to $940/t.

Figure 16: Australian wine stocks (million litres)



Source: ABARES and CBA

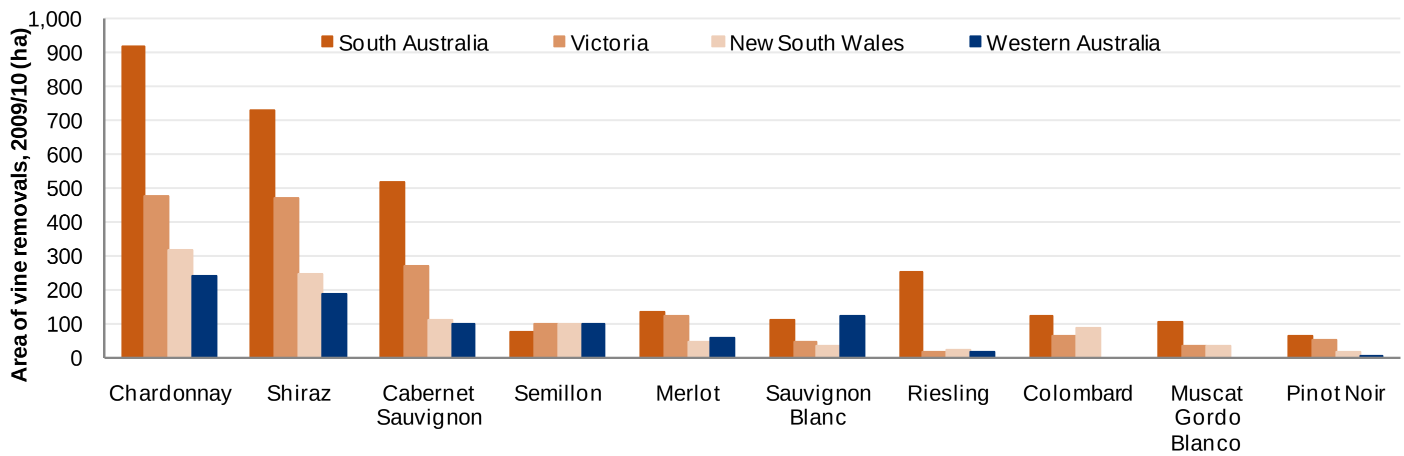
Figure 17: Australian wine grape prices (average)



Source: ABARES and CBA

The response of Australia's wine grape producers to the structural overcapacity and rapidly falling grape values has been relatively sluggish, although this has seemingly intensified since 2009/10. During the 2009/10 season, more than 8,000 hectares of vines were removed from production in Australia. South Australia producers removed 3,650 hectares of vines (45% of the national total), followed by Victoria with 2,190 hectares. In terms of varieties, the removal of Chardonnay vines has contributed a quarter of total removals, followed by Shiraz (21%) and Cabernet Sauvignon (13%).

Figure 18: Removal of wine grape vines by state (2009/10)



Source: ABS and CBA

Wine consumption in Australia

Alcohol consumption in Australia

Total alcohol consumption in Australia has grown by 1% per annum over the past 35 years, to now stand at 186.1 million litres[4]. But on a per capita basis, alcohol consumption in 2009/10, at 10.4 L/person/yr, was 21% below the 1974/75 alcohol consumption of 13.1L/person/year. While this may be good news for the waistlines of the population, it is not good news for the bottom-lines' of alcohol manufactures.

Beer goes flat while wine sparkles

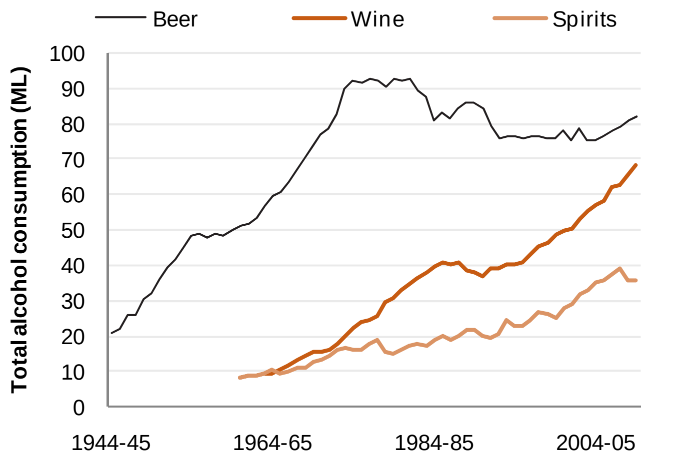
Wine competes against beer and spirits in the Australian and international alcohol markets. The recent trends for relative consumption of alcoholic beverages are somewhat encouraging for the wine industry. Australian alcohol drinkers appear to have turned their collective noses up at beer, instead appear to be turning to wine. Per capita beer consumption[5] slumped 51%, or 2% per annum, to 4.6 L/person/yr over the past 35 years. While on the other hand, wine consumption has

[4] Litres of pure alcohol.
[5] Measured in terms of total pure alcohol consumption delivered by means of the relevant alcoholic beverage

risen by 1.5% per annum to 3.8 L/person/yr over the same period. As a result, the market share of beer has dropped from 70% to 44% since the mid-1970s. In contrast, wine's market share has surged from 17% to 37% over the same period.

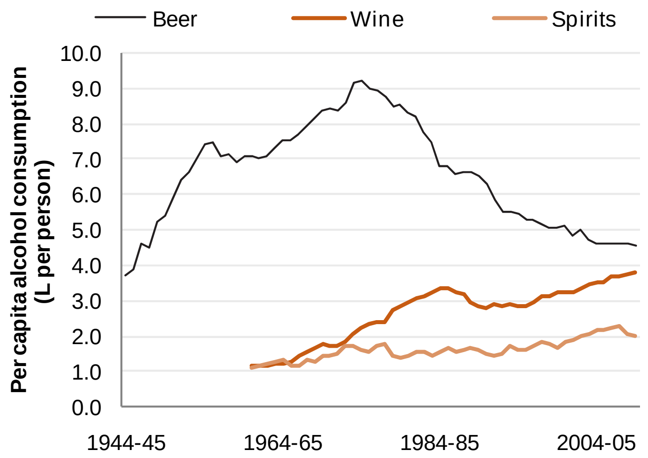
Helping to explain the rise of wine and the demise of beer is the increased cultural diversity of the Australian population, a changing lifestyle and drinking culture (i.e. fewer 5pm pub-stops and more glasses of wine over dinner), wine's perceived health benefits', and rising household incomes.

Figure 19: Total alcohol consumption in Australia



Source: ABS and CBA

Figure 20: Per capital consumption of alcohol in Australia



Source: ABS and CBA

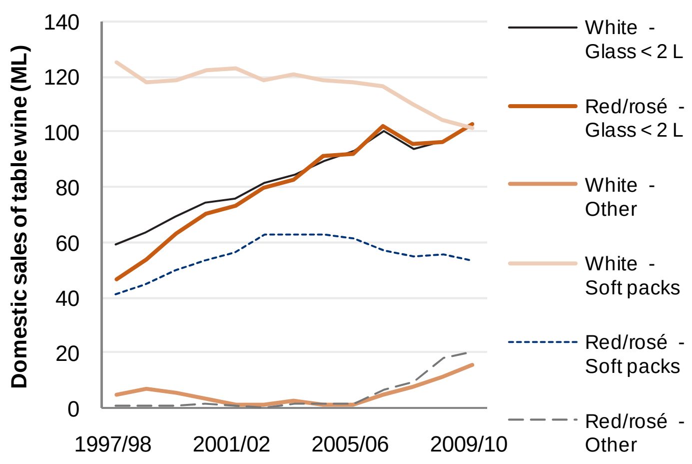
Type of wines consumed in Australia

White wine remains the most commonly consumed class of wine in Australia with 48% market share (1.8 L/person/yr), while red wine consumption has just 37% market share. However the growth in red wine consumption has been superior over the past decade, with annual growth of 4.7%, while white wine consumption has grown by 3.3% per annum.

The trends in purchases of table wine by container type indicate that Australian wine drinkers have become less attached to soft-pack wines, and fonder of bottled wines. Over the past decade, the soft-pack market share has slipped from 54% to 39%. Bottled wine has lifted its share from 44% to 52%, indicative of increased incomes and the changing image of the Australian wine consumer.

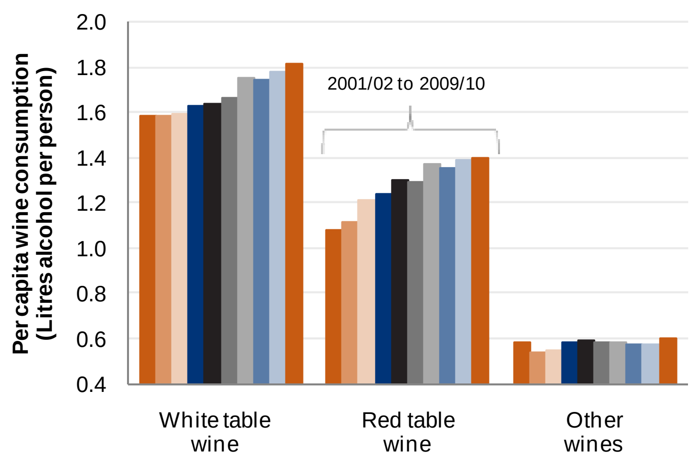
Unsurprisingly, soft-pack white wine sales have suffered substantially. Sales have fallen by 2% per annum between 2000/01 and 2009/10. In contrast, Bottled red wine sales lifted by 4.3% per annum over the same period.

Figure 21: Domestic sales of table wine by container type



Source: ABS and CBA

Figure 22: Wine consumption in Australia (L alcohol pp)



Source: ABS and CBA

■ Supermarkets lift their alcohol intake

The landscape for wine distribution in Australia is evolving. It is being influenced by the emergence of the major supermarket chains.

Woolworths and Wesfarmers have aggressively entered the liquor retailing market over the past five years. IBISWorld[6] estimates that the supermarket giants have lifted their share of the liquor retailing market to 58%. This penetration has been the result of the supermarkets' ownership of traditional liquor retailers such as Liquorland and Dan Murphy's, and the rollout of own-label stores such as Woolworths' Liquor. IBSIWorld indicates that the supermarkets' share of the Australian liquor retailing market should rise further, particularly considering an additional 270 stores (including own-label and traditional outlets) are earmarked to be opened in the coming few years.

The expanded market share of the major supermarkets has lifted their respective purchasing power. This is likely to have contributed to the upstream price pressures in the wine industry. Furthermore, the duopoly is expanding their range of own-brand wines, thereby reducing the shelf-space for other products. IBISWorld forecasts that own-brand wines currently account for only 8% of domestic wine sales, but is expected to lift to 10% by 2013.

Further consolidation in liquor retailing in Australia is likely to contribute to further upstream price pressures in the wine industry.

Australian wine trade

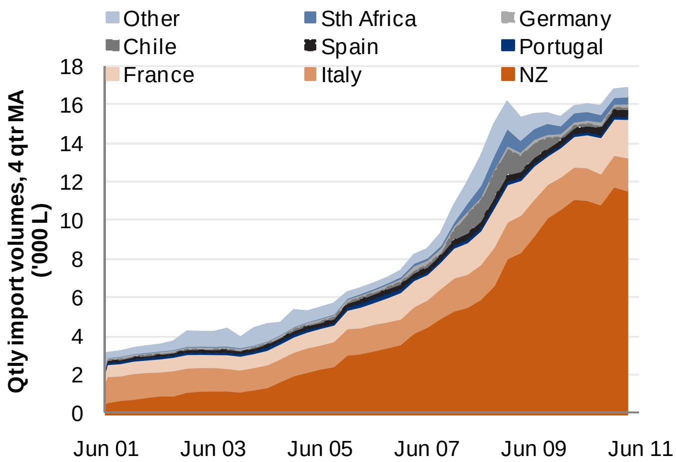
■ Imports

Despite exporting nearly two-thirds of total wine production, Australia's wine imports have swollen by 51.5 thousand litres, or 20% per annum, in the 9 years to June 2010. By 2009/10, imported wine accounted for 12% of domestic wine consumption, up from just 3% in 2000/01.

Imports from New Zealand account for the overwhelming majority of this growth, expanding by an astonishing 42 thousand litres, or 38% per annum, since 2000/01. New Zealand now account for nearly 70% of all Australian wine imports, of which the lion's share are Sauvignon Blanc wines. New Zealand's ability to identify, and successfully satisfy, a gap within the Australian market is laudable.

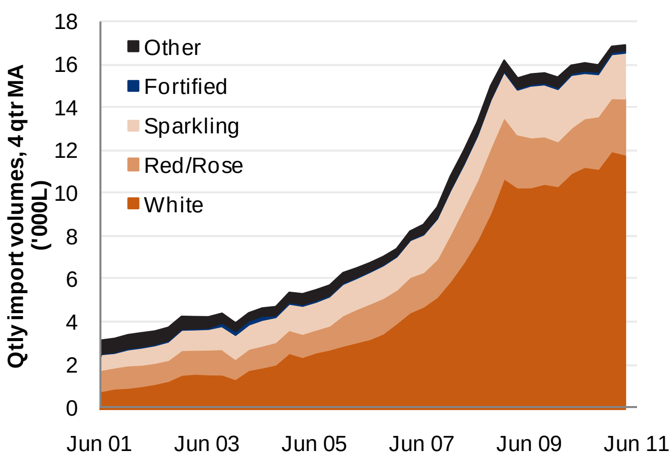
White table wines have contributed 81% of the total growth in wine imports, equating to total growth of 41.6 thousand litres, with red wine imports growing by a comparatively minuscule 5 thousand litres from 2000/01 to 2009/10. Sparkling wine imports grew 5.4 million litres over the period.

Fig 23: Quarterly import volumes by origin (thousand litres)



Source: ABS and CBA

Figure 24: Quarterly import volumes by type (thousand litres)



Source: ABS and CBA

[6] IBSWorld (2011) Wine Manufacturing in Australia May 2011.

Australian wine exports

Rapid export growth has fuelled the expansion of the Australian grape and wine industry, with exports accounting for 42% of industry revenues[7]. According to the ABS, Australian wine exports in 2009/10 were valued at $2.17 billion.

The Australian's industry focus on the export market is evidenced by the fact that, in the past decade, Australian wine exports have risen 11% per annum to 788 million litres. Exports now contribute 63% of total wine disposals, up from 47% in 2000/01. Wine Australia indicates that bulk wine exports contribute 46% to total exports in the 12 months to March 2011, while the share of bottled wine exports sits at 52%.

The UK and US are the dominant foreign markets for Australian wine, taking a combined 63% of total exports (2009/10). Canada is the next largest market, by volume, with 6.5% market share, followed by China with 6.1% and New Zealand with 3.5% market share. China has been a key growth market for Australian bulk wine exports over the past 3 years. Total sales to China have increased by 34.7 million litres, or 260% between 2007/08 and 2009/10. China's appetite for wine is slowly growing, and this a source of great optimism for global wine exporters.

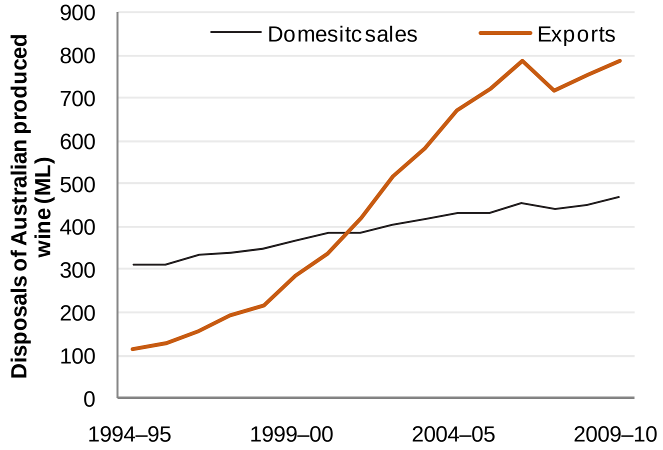
Although the past performance of Australia's wine exporters has been strong, and increasing Asian consumption is a source of longer-term optimism, the near-term outlook for Australian wine exporters is challenging. Indeed, despite a 10% lift in wine export volumes between 2007/08 and 2009/10, the value of those exports dropped 19% from $2.68 billion to $2.17 billion. The average per unit value of Australian wine exports fell 27% to $2.75/L, influenced by the weak global economic environment, excess global wine supply and the strong Australian dollar.

Increasing export competition is proving to be a headwind for the Australian wine industry. Other new-world wine producing nations, such as Chile, South Africa and New Zealand, have adopted Australia's export-orientated growth model. The rapid increase in low-cost global exportable supplies has contributed to the current global wine glut.

Australian wine exporters are also struggling because of changing consumer tastes. Over the past decade wine consumers have favoured lighter wines, rather than Australia's traditional full-bodied shiraz and chardonnay wines. And globally, many Australian wines are perceived as standard, bulk, commoditised wines rather than high-valued premium products. Other new-world exporters such as New Zealand have been more successful in capitalising on evolving consumer tastes.

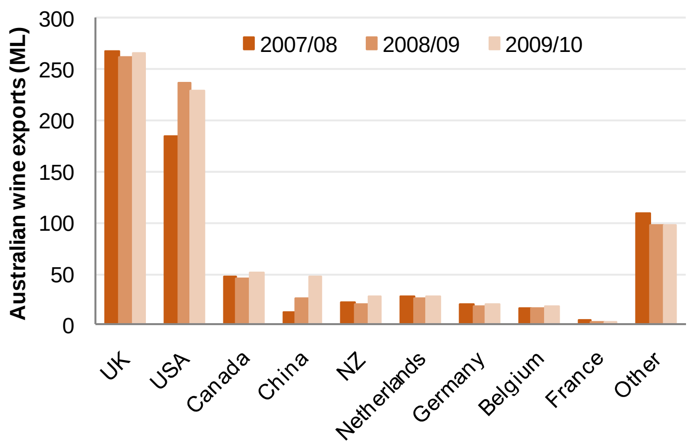
The outlook for the Australian wine industry will depend on its ability to produce, and successfully market, products that commanded both globally and domestically. The industry's ability to do this, in an environment of increasing exportable supplies in other new-world producers, combined with an elevated Australian dollar, will, to say the least, prove challenging.

Figure 25: Disposal of Australian produced wine (ML)



Source: ABS and CBA

Figure 26: Australian wine export destinations (ML)



Source: ABS and CBA

[7] IBSWorld (2011) Wine Manufacturing in Australia May 2011.

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).

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