

## 2018 WFA Industry Briefing

### Catching the Wave

The Winemakers' Federation of Australia (WFA) held an Industry Briefing on Wednesday 22 August in Adelaide. With a limited capacity for 60 industry stakeholders, the briefing provided an opportunity for industry leaders to collaborate and deliver updates and forecasts on their respective areas in the sector. For those in attendance it was an opportunity to hear firsthand what the outlook for the Australian Wine industry will look like over the short to medium term.

#### **Guest Speakers:**

Wine Australia - Peter Bailey: *Wine sector Supply & Demand, including announcement of 2018 Vintage Report.*

Vinehealth Australia - Inca Pearce: *Biosecurity Threats to Australian Wine sector - How ready we are to respond to these threats and what we need to do.*

Winemakers' Federation of Australia - Tony Battaglene: *Political, Policy & Regulatory Environment - An analysis on policy, regulatory and political developments and their potential impacts on the sector's growth.*

Wine Australia - Andreas Clark: *The Wave – Demand opportunities and responses (The \$50m Package and beyond) - Maximising the available resources to help your business take advantage of the Package.*

#### **Q&A Panel Session:**

*Tony Battaglene, Inca Pearce, Andreas Clark, Peter Bailey*

**Wine Australia - Peter Bailey: Wine sector Supply & Demand, including announcement of 2018 Vintage Report**  
Peter Bailey, Manager Market Insights for Wine Australia began the industry briefing with an overview of the 2018 National Vintage, including Tonnages and prices by variety and by region.

The top-line results for 2018 include the annual Crush of 1.79 million tonnes – 10% down on the record 2018 crush. Average purchase prices up 8% to \$609 per tonne. Red tonnes down 15% while whites were down by 4%. Red prices up 11% to \$768 per tonne while white prices up 5% to \$444 per tonne. Shiraz tonnes down 17%, Cabernet down 14 per cent, Merlot down 19% and Chardonnay up 9%. Warm inland regions crush down 5%, while cool/temperate crush down 20%. 25 producers account for 86% of the crush.

The crush of 1.79 million tonnes is 10% lower than the record 2017 crush and 3% lower than the average of the last three years (2015-2017), but it is 1.8% above the 10 year average of 1.76 million tonnes.

These results reflect a return to more normal cropping levels after an exceptionally large crop last year.

Lower yields were widely reported across most regions, as a result of a dry winter, lower cropping after a big crop in 2017, and some seasonal events such as hailstorms and January heatwaves.

The national average winegrape purchase price was \$609 per tonne, up 8% on 2017. It is the highest figure since 2008 and is the fourth consecutive vintage where the average purchase for winegrapes increased.

Since hitting a low in 2011, the overall average grape price has increased by a compound average rate of 6% over the past 7 years.

The divergence between the red and white average price has increased steadily since 2011 driven by strengthening relative demand for red wine.

There is a strong correlation between export prices and grape prices. Over the last 7 years (2011-2018), the average export price has increased by 3% pa while the average grape price increased by 6% pa. In the seven years prior to that (2004-2011), export prices declined by 7% pa and grape prices by 9% pa.

This demonstrates export demand and growing the premium paid for Australian wine is crucial to prosperity of the Australian wine and grape community.

The decline in tonnages was greatest in percentage terms from the cool/temperate regions, which were down by 20% overall. In comparison, the warm inland regions (Riverina, Murray Darling-Swan Hill and Riverland) were down by 5% but off a much bigger base. This led to an increase in the warm regions' share of the crush from 69% in 2017 to 72% in 2018.

The average purchase price increased in both the warm inland regions and the cool/temperate regions but the increase was stronger in the warm inland, up 15% to \$396/t compared to a 9% increase to \$1342/t across the cool/temperate regions.

Most regions recorded a decrease in tonnes crushed, with regions in the Limestone Coast (Padthaway and Wrattenbully) as well as Currency Creek being the hardest hit in percentage terms out of the largest 20 regions.

Of the top 20, only Tasmania, Yarra Valley and Gundagai showed an increase in tonnes while the Adelaide Hills had a very similar crop to 2017.

While the tonnages declined for most regions, most recorded an increase in the overall average price paid for winegrapes, with the exception of the Barossa and Margaret River which saw small price declines and Adelaide Hills where prices were static along with tonnages.

The full report and infographic are freely available on the [Wine Australia website](#).

***Vinehealth Australia - Inca Pearce: Biosecurity Threats to Australian Wine sector - How ready we are to respond to these threats and what we need to do***

Inca Pearce, Vinehealth Australia CEO moved the conversation away from the facts and figures of what our greatest assets – the Grape Vines – produce for us, and looked at these assets from a biosecurity lens. The view from this perspective generated a lot of discussion around ‘how are we protecting our greatest assets?’

From a South Australian vineyard owner survey, the responses were alarming:

80% don't provide farm-gate hygiene training for staff and contractors; 83% don't keep a visitor register; 61% don't check machinery and equipment coming onto their property; and 87% don't disinfect shoes of visitors that enter their vineyard.

The wine industry's main disease threats are *Xylella fastidiosa* (Pierce's disease), where the bacterium clogs the xylem of grapevines causing death in 1-2 years (Pierce's disease has been estimated to cost the Californian industry \$104.4 million per year); Phylloxera, which continues to be one of the industry's greatest biosecurity threats; the Brown Marmorated Stink Bug, where there have been 3 post border incursions in last 2 years. BMSB has the potential to taint wine with release of stress compounds (E)-2-Decenal and Tridecane; and a new virus that growers need to understand and manage - the Grapevine Pinot Gris Virus, which was first detected in late 2016, and is now categorised as established and present in NSW, SA and Victoria.

With the increasing volumes of international freight and people coming to Australia, we need to be ahead of the biosecurity threats that these increased activities can bring with them. Enforcement of compliance with State Plant Quarantine Standards is vital to ensure we attempt to mitigate biosecurity risk.

As an industry we need greater recognition of biosecurity as a significant disruptor to business continuity and regional communities. Harnessing the wine industry's technical strength and innovative mindset will ensure biosecurity is a key enabler for our success.

For up to date information on biosecurity alerts and campaigns, visit the [Vinehealth Website](#).

**Winemakers' Federation of Australia - Tony Battaglione: *Political, Policy & Regulatory Environment - An analysis on policy, regulatory and political developments and their potential impacts on the sector's growth***  
Tony Battaglione WFA Chief Executive, followed on from Peter Bailey's overview of the 2018 Vintage, by discussing how the demand and supply factors fit within the big picture, and the sorts of things we need to consider in those markets, before we paddle into the wave.

Aspects of trade harmonization; the agro-political environment; key trade market access issues in 2018; potential outcomes and what WFA is doing about it - these largely operational issues need to be viewed in the context of a complex political decision-making landscape of a federated system also experiencing instability at the national level. In response, WFA has been working with all major and minor parties at the Federal level to ensure that all Parliamentarians clearly understand the impact of regulation and policy change on the Australian wine industry.

There is a lot of work being undertaken to harmonise market access requirements and remove barriers to trade. In recent years Australia has had a lot of success in reducing or removing tariffs through its very strong trade agenda. We've seen just how effective it can be in providing us a market advantage over international competitors and China is a prime example of this.

Non-tariff barriers are typically addressed outside of FTAs, through mutual acceptance and bilateral negotiations. We are also working on ways of incorporating removing technical barriers through our FTAs, through the inclusion of wine Annexes that address technical barriers to trade. The recently agreed TPP11 is the first example of this and something WFA is advocating for in all of Australia's future FTAs.

In 2018 we are operating in rather uncertain & unpredictable trading environments. Our Biggest wine markets by volume and value are some of the most heavily politically influenced and uncertain environments. US - Trump trade wars; EU and UK – Brexit + Australia-EU FTA negotiations; China – rapidly changing; Canada & Australia – WTO Challenge; Global issues of Alcohol related harm and Anti-Alcohol.

Trump is popular. 87 per cent of Republicans approve of his presidency. They hated Hillary Clinton who called them ‘deplorables’, and the media who said voters for Trump were ‘angry white men’. Obama’s \$65 million book deal and \$50 million Netflix deal, his photo-op vacations on Branson’s island and Geffen’s yacht and Tahiti, his design for tearing up the Chicago Olmsted Park to lay down the Obama Presidential Library, which will host a yoga center – not a lot of appeal to the Republicans. Trump is edgy and oddly appealing (to some!).

The UK is one of our largest markets by volume and has been typically used as our gateway to broader Europe. Brexit however, has created a lot of uncertainty in the UK market, and it is very hard to get a clear picture of what may happen in the future.

There are still many questions but we do know Brexit is happening (March 2019). The expected interim outcome will be a roll over of EU regulations and Wine Agreement. WFA is working closely with the Wine & Spirit Trade Association (WSTA) and the Australian Government, to ensure minimal disruption to trade. The potential outcome remains uncertain, however it is likely that in the interim years, Australia may be no better or worse off with the rollover arrangements. There will then be potential in approximately 2 years to seek to review these interim arrangements. This will provide an opportunity to improve the Wine Agreement. Any future arrangements between the UK and EU will also be an important factor for us, but what this looks like we don’t know.

As we know Australian wine has built a strong competitive advantage in China, however it is another market that can change rapidly. There has been a recent media storm and numerous reports of “longer than usual” delays at Chinese Customs. There were also media reports on the deterioration of relations between Australia and China – there is an element of truth to this. However what is more likely is the culmination of multiple factors such as increased volume of wine, adjustment to ChAFTA Certificate of Origin, China National Institutional Reforms commenced in March, a major reshuffle of Ministries and government agencies - particularly customs. The potential outcome is that it is likely to continue, but we are already seeing it easing. WFA is working on greater relations and understanding between Australian wine industry and Chinese Government; we have commenced a program of direct engagement with Chinese officials and like-minded food exporters to strengthen relationships.

Canada – Australia WTO challenge. In January 2018 Australia launched WTO action against Canada. US, NZ, EU, Argentina and Chile joined. Stage 1 WTO Consultation didn’t achieve much action, but the Stage 2 Panel Stage now has legal proceedings with WTO to act as adjudicator. The potential outcome would be that a positive WTO result will streamline trade and create a level playing field for Australian wine to compete in Canada. We anticipate this will take approximately 2-3 years (2020/2021).

European Union (EU) Australia FTA negotiations. The EU is highly invested in protecting Geographical Indications (GIs). They are using FTA negotiations (including Australia’s) and GI protection to restrict trade and use of grape variety names - Prosecco, Montepulciano, Nero d’Avola, Dolcetto, Barbera, Fiano, Alicante Bouschet and others. Unfortunately Prosecco is the “Thin edge of the wedge”. If Prosecco is protected, we can’t label the variety and it sets a precedent for further restrictions of other varieties globally. As for the AU-EU FTA – At a minimum we want Australian producers’ rights to Prosecco to be maintained.

The anti-alcohol lobby remains one, if not the biggest, threat to the long-term sustainability of the wine industry. They are extremely well-funded, active and refuse to partner with industry in any meaningful way. WFA and the broader alcohol beverage industry have clearly demonstrated we are prepared to act to promote responsible consumption and to target actions at specific problem areas including through DrinkWise, pregnancy warning labelling, the Responsible Winery Initiative, and new activities working with the Government on the national FASD strategy. National alcohol consumption is at its lowest in 50 years and we need to promote continually the evidence and facts about modern Australia's drinking culture that has significantly changed, especially over the last decade.

The Take Home - Understand the conditions of The Wave. Understand the political environment, regulations, laws and policies in export market before paddling in. Diversification of markets is a good strategy as it can help to spread risk but you also have to consider if this add complexity in differing compliance requirements. Keep an eye on the [WFA Website](#) - it is always being updated with relevant industry information.

***Wine Australia - Andreas Clark: The Wave – Demand opportunities and responses (The \$50m Package and beyond) - Maximising the available resources to help your business take advantage of the Package.***

Andreas Clark, Wine Australia CEO brought the session home with an overview of the latest Export Report for Australian wine, and an overview of Wine Australia's marketing activities, highlighting some of the extra activities supported by the \$50m Package, plus an update on the \$10m Wine Tourism and Cellar Door Grant.

Wine Australia's key priorities are to increase demand and the premium paid for all Australian wine, and increase competitiveness.

The June export figures highlight these trends: The total FOB value of exports up 20% in the year to \$2.76 billion, growing at twice the rate of volume. We have had an increase in average value of 9%, and strong growth in almost all price points. Four of the top five markets in growth.

Bottled wine imports have been growing at a consistent rate over the last 3 years. Value of these imports have seen a recent increase despite the exchange remaining steady at an average of USD 0.77. For year ending March 2018, bottled wine imports to China totalled 582 million litres (or 64.7 million 9 litres cases), up 19% on the previous 12 month period. Value also increased, up by 21% AUD. The Chinese Yuan exchange averaged at 5.05CNY for year ending May 2018.

Australia's share of bottled import volume was 20%, and ranked second behind France with a share of 38%. While France has experienced exponential growth in bottled wine imports to China since year ending March 2010, this has slowed in recent years with annual growth from Australia outpacing overall imports, France, and other new world markets such as Chile.

***\$50m Package highlights 2018–19:***

Australian Wine Made Our Way campaign - \$5.5m investment in multi-market, multi-channel campaign. Consumer website and activations in China and the USA. Social media and e-commerce platforms – Tmall (MoU with Alibaba), WeChat, Weibo. Wine Spectator investment in the USA with ad placement and advertorial series. Documentary content series showcasing people, place and process.

Australian Wine Month (China) - January 2019 multi-channel and multi-city consumer activation across 3-4 cities in China. Consumer tasting pop-up in major cities. Retailer promotional opportunities in key chains. Billionaire VIP influencer dinners in multiple cities. Tmall/Alibaba collaboration to drive occasion and usage.

Aussie Wine Week 2018 and Aussie Wine Month 2019 (USA) - Consumer/VIP media and trade tasting functions in New York City. Social media campaign in USA (Australian Wine Made Our Way messaging). > 100 Australian wineries participating in Aussie Wine Month September 2019, including Australia Decanted on the east coast.

Australian Wine Discovered (education program) - world-leading education program for trade and consumers with more than 20 courses to raise profile of/demand for Australian wine.

International wine tourism – continuing major co-investment with Tourism Australia to drive tourist visits to our stunning world class wine regions.

Grants - 21 international tourism projects commence with a total project value of \$7.5m. Projects cover more than 20 regions. Also national implementation of >\$10m investment in state-based international wine tourism strategies, research and infrastructure through the state grants program.

Cider - delivery of a brand proposition for Australian craft cider category. Start go-to-market strategy.

Growing Exports and Growing Wine Tourism - two new programs for wine producers and wineries. Workshops, online resources and detailed market analysis, designed to build skills so people can capture market opportunities.

Growing Wine Exports will focus on preparedness to export, how to choose a market and how to grow exports. Wine Tourism will focus on understanding the visitor economy, stepping into tourism experiences, and international readiness.

#### *\$10m Wine Tourism and Cellar Door Grant*

The \$10m Cellar Door Grant is an Australian Government initiative, which will be administered by Wine Australia. Wine producers who have met the eligibility criteria in the preceding financial year will be able to access an annual grant of up to \$100,000 (GST exclusive) for eligible cellar door sales. Total funding will be capped at \$10 million each financial year.

Instructions on how to apply will be available on the Wine Australia website at [www.wineaustralia.com](http://www.wineaustralia.com) as they become available. Producers must be eligible for the WET rebate on the wine for which the grant is being claimed. Applications for the first round for this financial year will open on 1 July 2019 and will close at 5pm ACST 30 September 2019.

The Take Home - Read the guidelines and make sure you collect the information that demonstrates you meet the eligibility criteria.

For more information on any of the above presentations, please find the following contact details:

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