

Bulk Wine Review



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What is the profile of Australia's bulk wine inventory? In this article, I will examine some of its key distinguishing features and major characteristics.

Overview

I think that there may be somewhere between 200-300 million litres of tradeable bulk wine in the market place at present. To put this into perspective, this represents about 3.5 - 5 months of Australia's total wine export volumes at the current rate of 693 million litres per annum.⁽¹⁾ Austwine's total bulk wine inventory runs to just over 100 million litres,⁽²⁾ and it is the profile of this bulk wine that I will be examining in this article. A key assumption in this analysis is that Austwine's inventory profile approximates the industry's overall profile.

Analysis by Variety

The biggest variety in Austwine's bulk wine inventory is Shiraz, weighing in at 27% of the total volume. No real surprises here, since Shiraz is Australia's most widely planted wine grape variety. Next is Cabernet Sauvignon at 20%, which has fallen behind Shiraz during the past year. I expect Cabernet Sauvignon to fall further and settle into third position (behind Chardonnay) to reflect its ranking as Australia's third most widely planted variety.

Both Shiraz and Cabernet Sauvignon have basically bumbled at the bottom of the market during the last year or so. The main change during this time has been the continued shrinkage of the pricing premium that both these varieties have historically achieved when made from grapes grown in cooler climates,⁽³⁾ compared with wine made from grapes grown in warm inland areas. Shiraz has typically fared better than Cabernet Sauvignon, but there are many bargains to be had and these will continue for some time yet, particularly if the 2006 crop is abundant. Internationally, we are very competitive with these varieties, although it does not seem to prevent our customers from asking for just one more price break!

Chardonnay and Merlot bulk stocks are currently 13% and 11% of total inventory, respectively. Together the top 4 varieties account for about 71% of our total bulk wine inventory. Of the 29% balance, a number of common varieties and blends each account for 2-3% of total volume (see Figure 1). Then there is a plethora of minor varieties, individually not material, but as a group representing 15% of total bulk inventory volume.

Austwine Bulk Wine Inventory by Variety

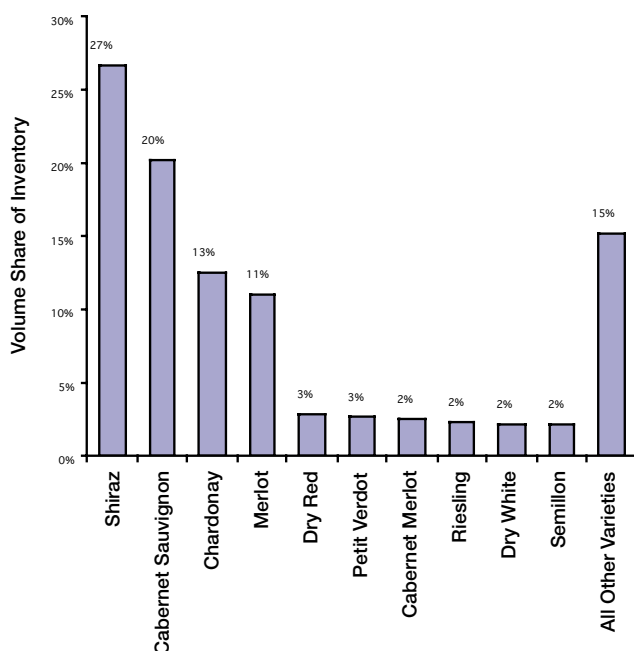


Fig. 1.

Chardonnay – A note on the paradigm market shift

The strong growth in Chardonnay production during the past three years to over 400,000 tonnes in 2005 has caused our

Vintage Crush v Bulk Wine Inventory

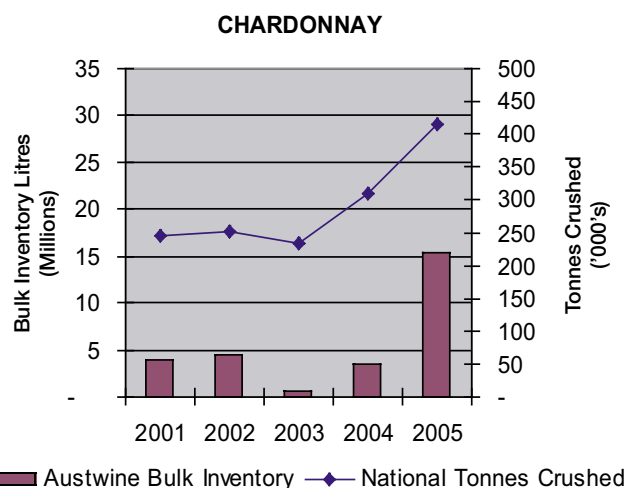


Fig. 2.

Chardonnay inventory to rise rapidly, quadrupling over the past year.

The key message here is to expect further price falls in Chardonnay grape and bulk wine prices in 2006, and probably also in 2007, as winemakers try to adjust to the new found abundance of this variety. Figure 2 Illustrates well the supply dynamic behind the rapidly changing Chardonnay market.

Pinot Noir – Who would have given it a sideways glance?



Pinot Noir Dry Red, a tiny cousin of the big three reds, Shiraz, Cabernet Sauvignon and Merlot, is suddenly in demand and doing well.

Sideways,⁽⁴⁾ a movie released in early 2005 about two friends on a week-long road trip through California's wine country, seems to be

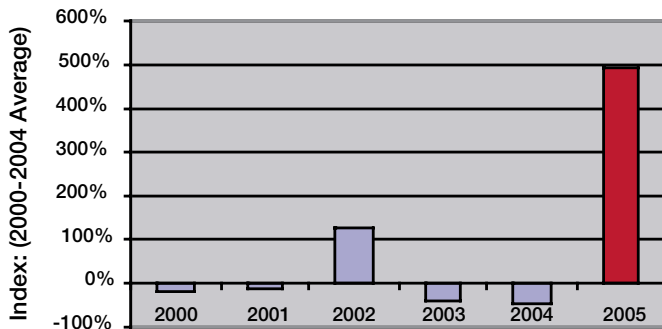


Fig. 3. Year

responsible. The main characters are Miles and Jack. Miles is an unpublished writer, eighth-grade English teacher and oenophile who is crazy about Pinot Noir and Jack is a soon-to-be-married actor friend who wants to cut loose during the trip before his imminent wedding.

I have attempted to illustrate the impact of this movie on Australian Pinot Noir by plotting the volume of bulk Pinot Noir Dry Red that we have transacted during 2005, compared to the previous 5 years (see Figure 3). I have excluded all Pinot Noir used for sparkling wine and the index is the 5-year average before *Sideways*: the volume increase during 2005 is dramatic. Our movie heroes, Miles and Jack, (pictured), seem to be dumbfounded by their impact on this market!

In recent years, many growers called us during each vintage looking for advice on what to do with their surplus Pinot Noir. Our advice was **not** to make it into dry red. Apart from the obvious surplus of red wine, Pinot Noir styles are generally too idiosyncratic, the market is too thin (Pinot Noir is only 2% of the national crush, and that includes Pinot Noir used for sparkling wine), and the variety is generally too miserly on flavour to be used as a blend enhancer. So it was always a difficult sell.

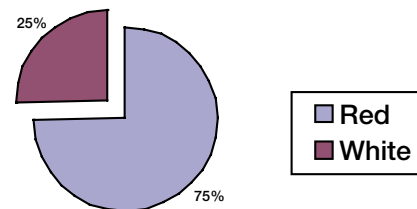
Since the release of *Sideways*, that advice is now bunk. The impact of this movie has changed the fundamentals of this market to the extent that a betting person may wish to gamble on a speculative 2006 make of this wine style. Wow - it has been quite some time since we have been able to say that about a red wine!

A few of words of caution though: Firstly, the impact of popular culture such as a film is likely to affect the popular premium segment of the market more than the super or ultra premium segments. This means that your wine needs to be able to meet the appropriate popular premium price points. Secondly, consumer tastes are fickle and should the impact of *Sideways* suddenly fade from the market, the next best use for Pinot Noir Dry Red may be plain old-fashioned mixed Dry Red. In today's market of red over supply, this may bring a significant reduction in your per litre return.

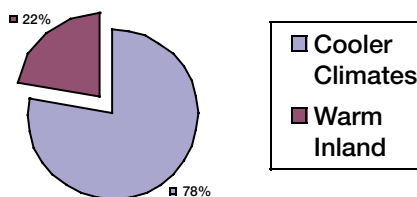
Analysis by colour and region type

Exactly three-quarters of our bulk wine inventory is red wine and one quarter is white wine. No surprises here, since the planting boom of the late 1990's was dominated by red varieties and this is a well published fact. Almost the same amount (78%) of our inventory is from cooler climates, which, again, should not cause any major surprise because that is where the planting boom was concentrated.

Austwine Bulk Wine Inventory by Wine Colour



Austwine Bulk Wine Inventory by Region Type



Market readiness – A note to sellers of cooler climate wines

An indicator of market readiness is whether sellers of wine have committed to an asking price when listing their wines with us.

From our current inventory of 102 million litres, about 40 million do not have prices and a staggering 91% of this volume comes from cooler climates. Anecdotally, we also observe that sellers of cooler climate wine tend to be less receptive to bearish market signals (or receive fewer signals because their operations are usually smaller) than their warm inland counterparts.

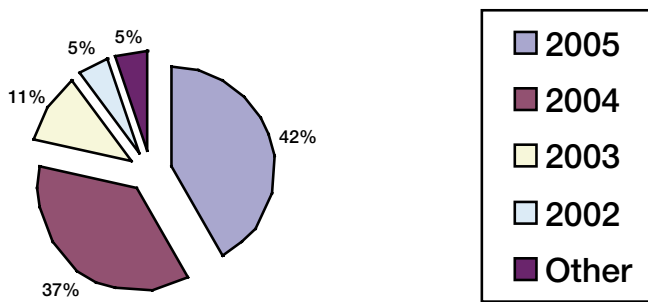
There may be many reasons for listing a wine without an asking price – a wine may be subject to another deal, it may be nominally allocated to a branded product, or a seller may simply be testing the water before committing to an asking price.

This is all terribly sensible, but if you want to have your wine at the head of the selling queue (and we have about 1,900 wines listed in total), then you need to commit to an asking price at, or around, the prevailing market price. Otherwise, your wine is much less likely to sell and you are likely to be left owning your stock for longer than desired.

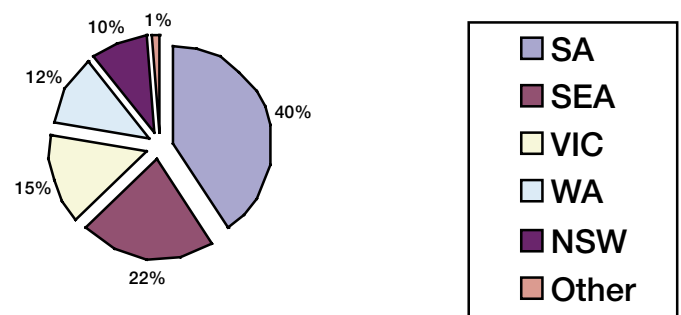
Analysis by vintage

The impact of the two giant crops in 2004 (1.815 million tonnes) and 2005 (1.924 million tonnes) is clearly reflected in our inventory. 42% of our inventory is 2005 vintage and 37% is 2004 vintage and together these two vintages make up 79% of our total inventory volume of 102 million litres.

Austwine Bulk Wine Inventory by Vintage



Austwine Bulk Wine Inventory by Appellation (State/SEA)



It is interesting to note that the 2004 and 2005 volumes are about equal, indicating that a lot of 2004 has yet to be sold through. A casual look at the relatively old vintage dates on market leading, drink now, commercial red wines in a couple of local liquor stores seems to confirm this.

Thus, it would appear reasonable to assume that if the 2006 crop is similar in size to the previous two vintages, a similar volume of 2006 wine will find its way into our inventory by this time next year.

Analysis by State

This appears to be a relatively benign analysis, until one takes a closer look at Western Australia. This state represents about 4.8%⁽⁵⁾ of the national wine grape crush, yet accounts for 2.5 times this amount (about 12.0%) of our bulk wine inventory.

Western Australia has experienced an almost 600% increase in wine grape crush during the last 10 years, from 12,000 tonnes in 1995 to 82,000 tonnes in 2004. Compare this to a more modest, but still impressive, 150% rise in the overall national crush over the same period,⁽⁵⁾ and the relative supply fundamentals become obvious. Furthermore, the cost of bulk wine land transport is anywhere from 15 – 30 cents per litre from Western Australia to a South Eastern Australian destination. Therefore the prospect for lower bulk wine returns out of Western Australia seems inevitable, since the abundance of bulk wine means that buyers based in South East Australia will seek price reductions to cover the extra cost of land transport of wine from Western Australia.

As an aside, in many cases the cost of transporting Western Australian bulk wine by road to a South East Australian

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destination exceeds the cost of bulk wine ocean freight to Europe! So it may be that a lot of this wine will end up going to Europe in bulk.

Summary and conclusions

If one accepts our key assumption that the profile of our bulk inventory approximates Australia's bulk wine position, then the above discussion can be neatly summarised into a few key points thus:

- **Variety:** The big four varieties of Shiraz, Cabernet Sauvignon, Merlot & Chardonnay dominate bulk wine inventory.
- **Chardonnay:** Recent strong supply growth has led to downward pricing pressure.
- **Pinot Noir:** A tiny variety, and its fortunes have been transformed by an American movie.
- **Region & colour:** Cooler climate wines and red varieties dominate.
- **Market readiness:** Sellers of cooler climate bulk wine seem to be the least market ready.
- **Vintage:** 2004 and 2005 vintages dominate.

- **State:** Western Australia has the longest supply position of any State.

References:

(1) AWBC Wine Export Approval Report, November 2005.

(2) Approx. 102,000,000 litres - Austwine Bulk Wine Availability Database, December 2005.

(3) I have used the same classification and nomenclature employed by AWBC: "warm inland" is defined as the growing districts along Australia's major rivers (SA Riverland, River Murray Valley in NSW & Vic and NSW Riverina) and "cooler climates" is defined as all other regions.

(4) Sideways is a comedy/drama film, co written and directed by Alexander Payne. It is based on a novel of the same name by Rex Pickett.

(5) Australian Wine and Brandy Corporation Annual Report 2004 – 2005.

About the author:

Jim Moularadellis is the principal of Austwine, Australia's largest bulk wine broker, and leads a team of 6 bulk wine brokers servicing both domestic and international markets. Jim is a Certified Practising Accountant and holds an Honours Degree in Law from the University of Adelaide. He can be contacted on +61 (0)8 8363 5188.

WorkSafe turns up the heat on sun protection for workers

WorkSafe will begin enforcing sun protection on construction sites, following the recent launch of Working Safely in the Sun, a joint initiative with SunSmart, a program of the Cancer Council Victoria.

Launched at the MCG construction site as part of National Skin Cancer Action Week, Working Safely in the Sun will see WorkSafe inspectors visiting more than 300 worksites to ensure construction workers are adequately protected against sun damage.

"We set out to change the culture of the construction industry from one of stripping off when the sun comes out, to one of covering up," said WorkSafe's construction and utilities director, Geoff Thomas.

"WorkSafe now expects all employers of outdoor workers to have sun protection measures in place during the months when UV radiation is at a harmful level."

Data from the Cancer Council Australia's National Sun Survey indicates many outdoor worksites are hearing the SunSmart message.

A total of 50% of surveyed outdoor workers indicated there was a sun protection policy at their workplace, and over 40% were provided with hats and sunscreen.

Thomas said that while these results were encouraging, "it's time to get tough on workplaces which are failing to put sun protection measures in place".

"Industry has had several years advance notice of this campaign – they have had time to get the message that it's not acceptable to be exposed to high levels of UV radiation," he said.

"From this summer on, WorkSafe will enforce sun protection measures. Failure to comply could lead to WorkSafe court action," said Thomas.



SunSmart program manager, Kylie Strong, agreed that sun protection of outdoor workers must be taken seriously.

"Skin cancer is an almost-entirely preventable disease, and yet affects one in two Australians during their lifetimes," said Strong.

"Because they are generally outside during peak UV radiation times, construction workers are a particularly high-risk group for contracting skin cancer.

"Employers can play a vital role in protecting their workers against sun damage.

"By encouraging workers to wear sun protective clothing such as long pants and a long-sleeved shirt, a broad-brimmed hat and sunglasses, and re-applying broad-spectrum SPF30+ sunscreen every two hours, employers dramatically reduce their staff's UV exposure levels."

Over the past two years, 26% of construction workers who volunteered for free WorkSafe-funded medical checks were found to have sun damage requiring referral for further medical attention.

For more information on sun damage and how to be SunSmart, visit www.sunsmart.com.au.