



Australian Bulk Wine Spring 2022 Market Update

...IN A FEW SIMPLE CHARTS

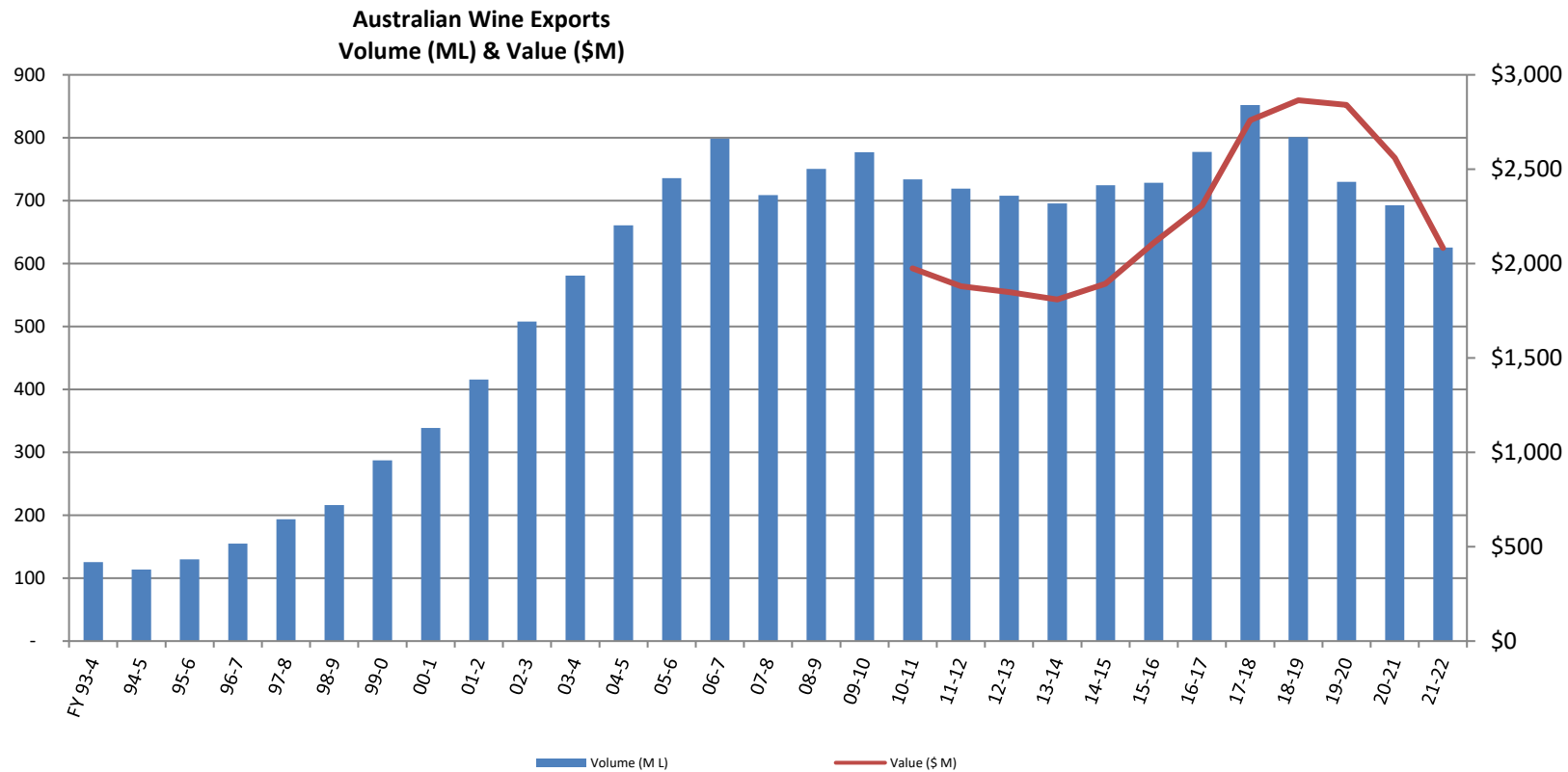
JIM MOULARADELLIS, 6 SEPTEMBER 2022

Key Events

- ▶ What are the Key Events that are moving Australian Grape & Bulk Wine markets?

Loss of wine export markets in China:

This key event has triggered a lot of adjustment pain, throughout the production chain, with more to come.

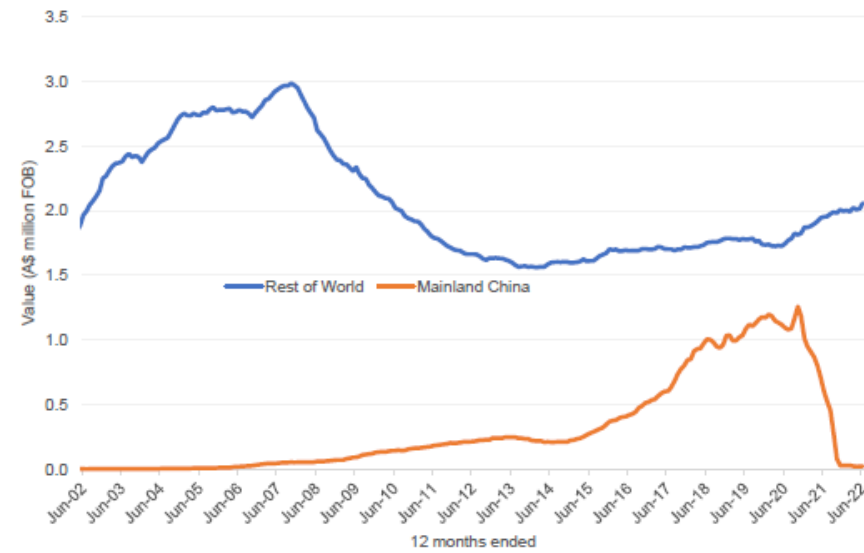


Loss of wine export markets in China:

China is no longer a significant market for Australian wine; this market is now effectively closed to Australian wine.

Wine Australia

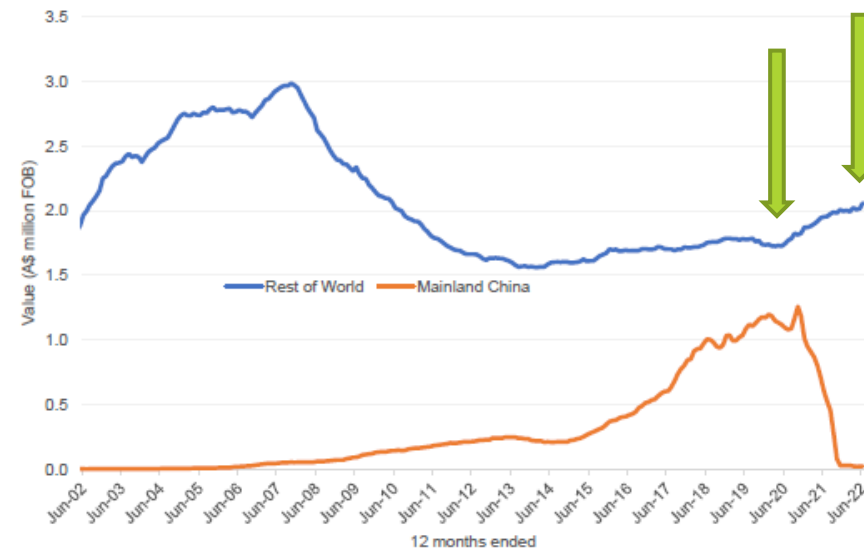
Figure 1: Value of Australian exports over time – mainland China v Rest of the World



Loss of wine export markets in China:
It will be a long, hard slog to rebuild, but not without some success so far.

Wine Australia

Figure 1: Value of Australian exports over time – mainland China v Rest of the World



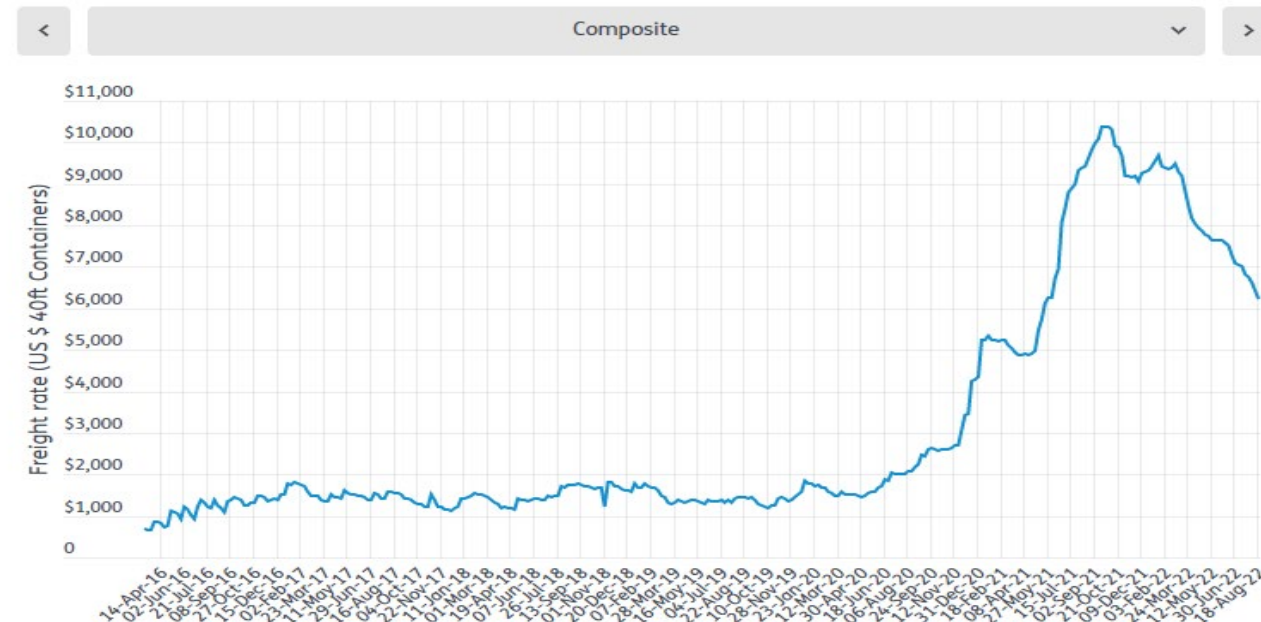
Shipping: Costs are easing.

6

- ▶ Shipping costs are easing, but still remain at historically high levels.

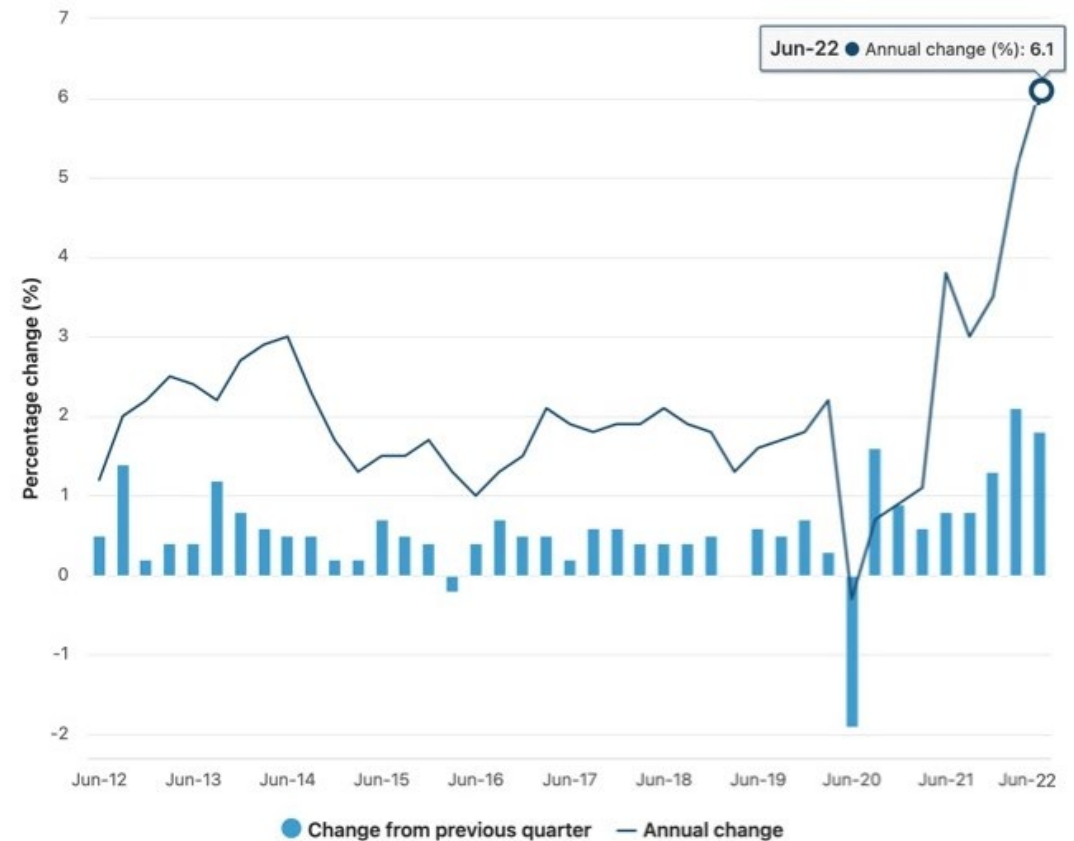
World Container Index assessed by Drewry

Weekly weighted freight rate assessment of eight major east-west trades



Other Challenges: High price inflation.

- ▶ Supply chain bottle necks have led to significant price inflation during the past 12 months.
- ▶ This is evident in Australia (see CPI chart opposite) and also abroad.



The Australian Consumer Price Index, June 2022. (Source: ABS)

Other Challenges:

Labour shortages.

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- For the first time on record, there are more job openings than unemployed people to fill the vacant positions.

There are more job openings than unemployed people

Seasonally adjusted

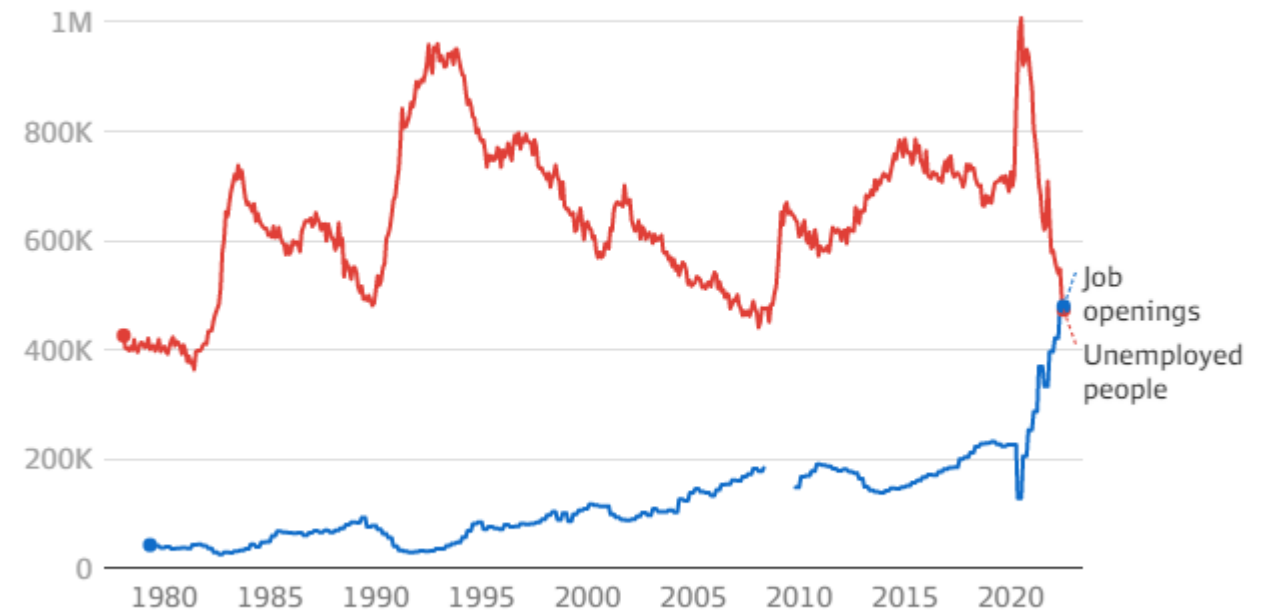


Chart: Michael Read • Source: Australian Bureau of Statistics

Covid-19:

Fading from public view.

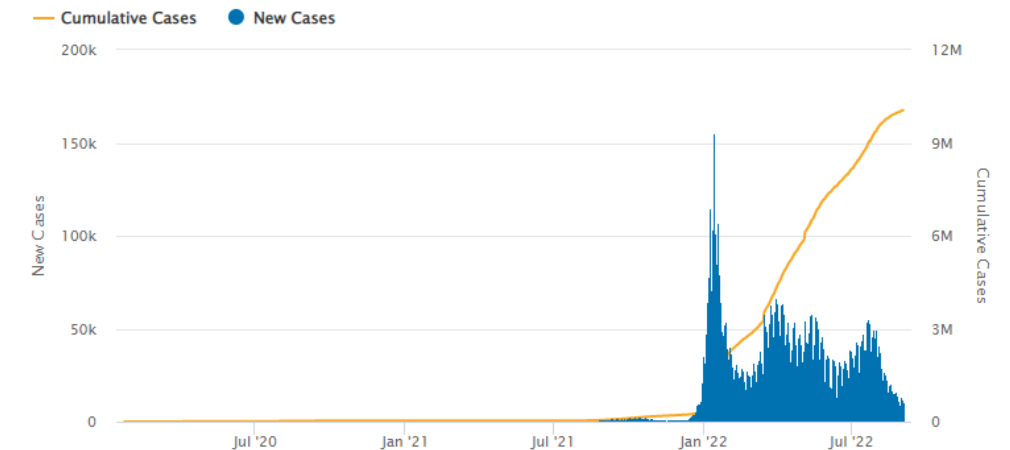
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- ▶ Covid-19's influence on daily lives is falling and it is now gradually fading from public view.

New and cumulative number of reported COVID-19 cases in Australia

This graph shows the total number of new COVID-19 cases in Australia reported by states and territories and the cumulative number of confirmed COVID-19 cases reported over time.

Source: Department of Health, States & Territories Report 2 Sep. 2022



Data as at:

1 September 2022

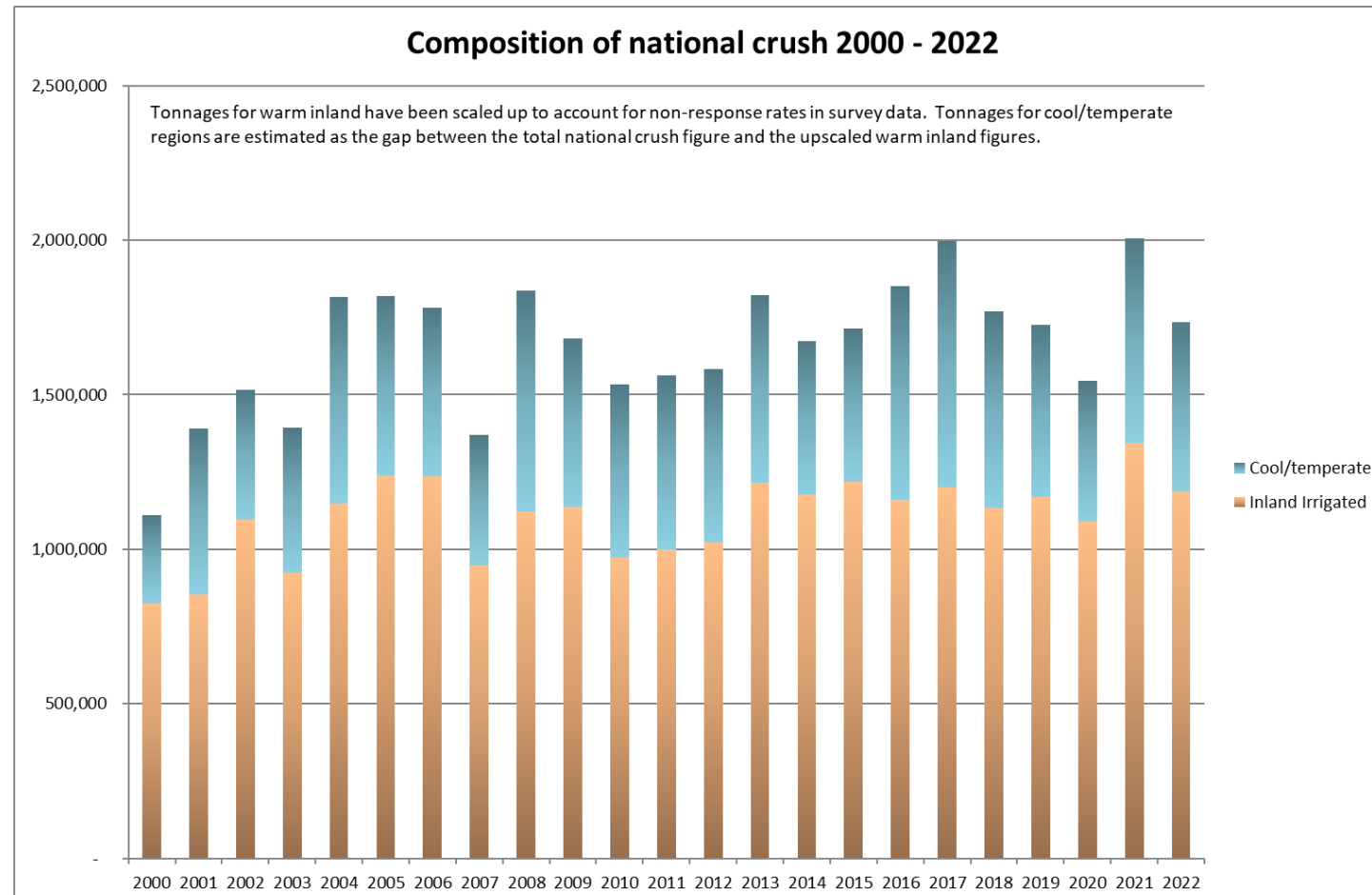
- ▶ How are markets reacting to these Key Events?

2022 Vintage Outcomes

Overall

11

- ▶ 2022 was an average sized crush, after last year's super sized vintage.
- ▶ Some grapes were left on vines during 2022, for the first time in several years.

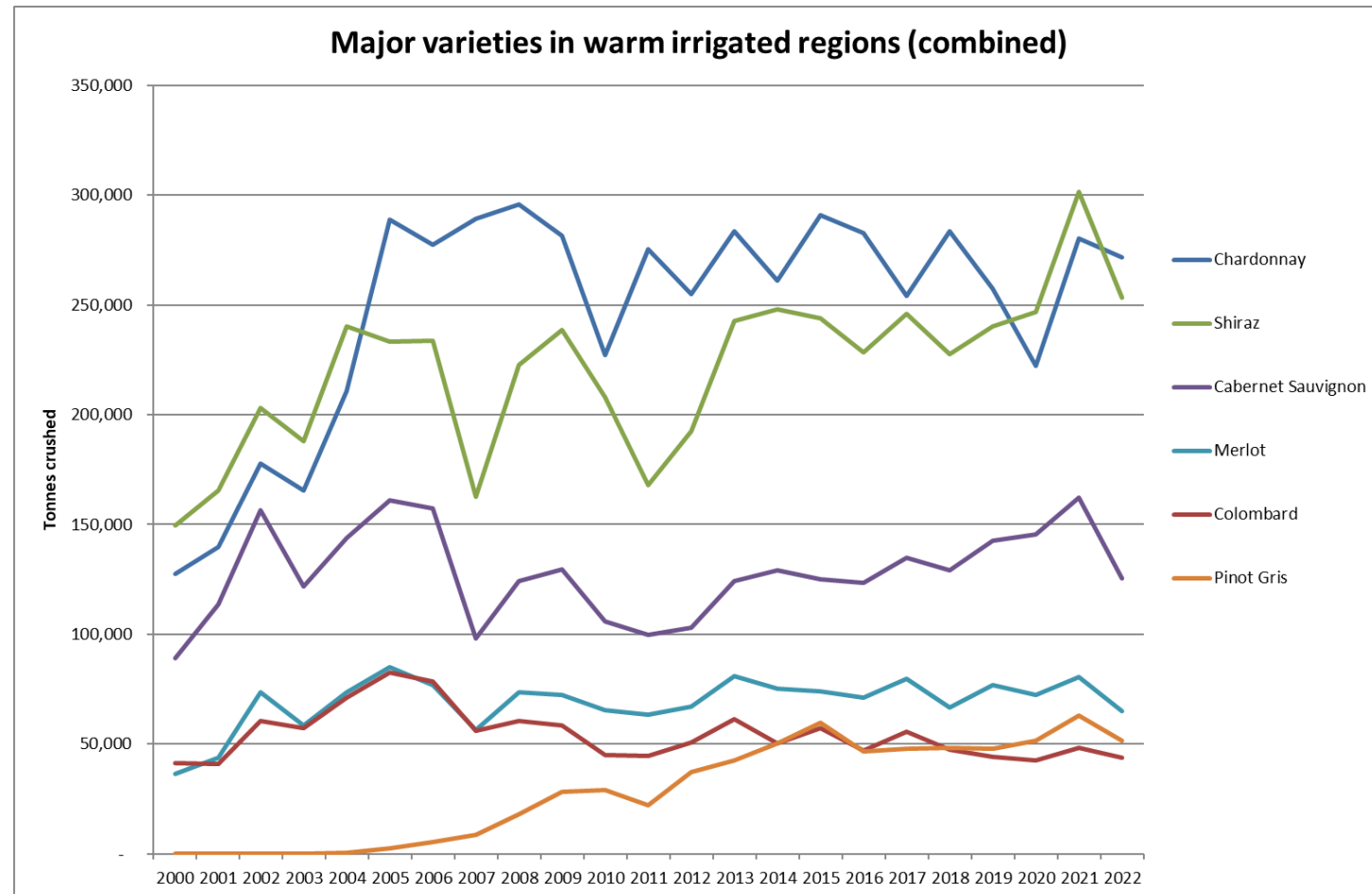


2022 Vintage Outcomes

South East Australia / Inland

12

- Chardonnay & Shiraz continue to dominate the varietal crush profile for South East Australian regions.

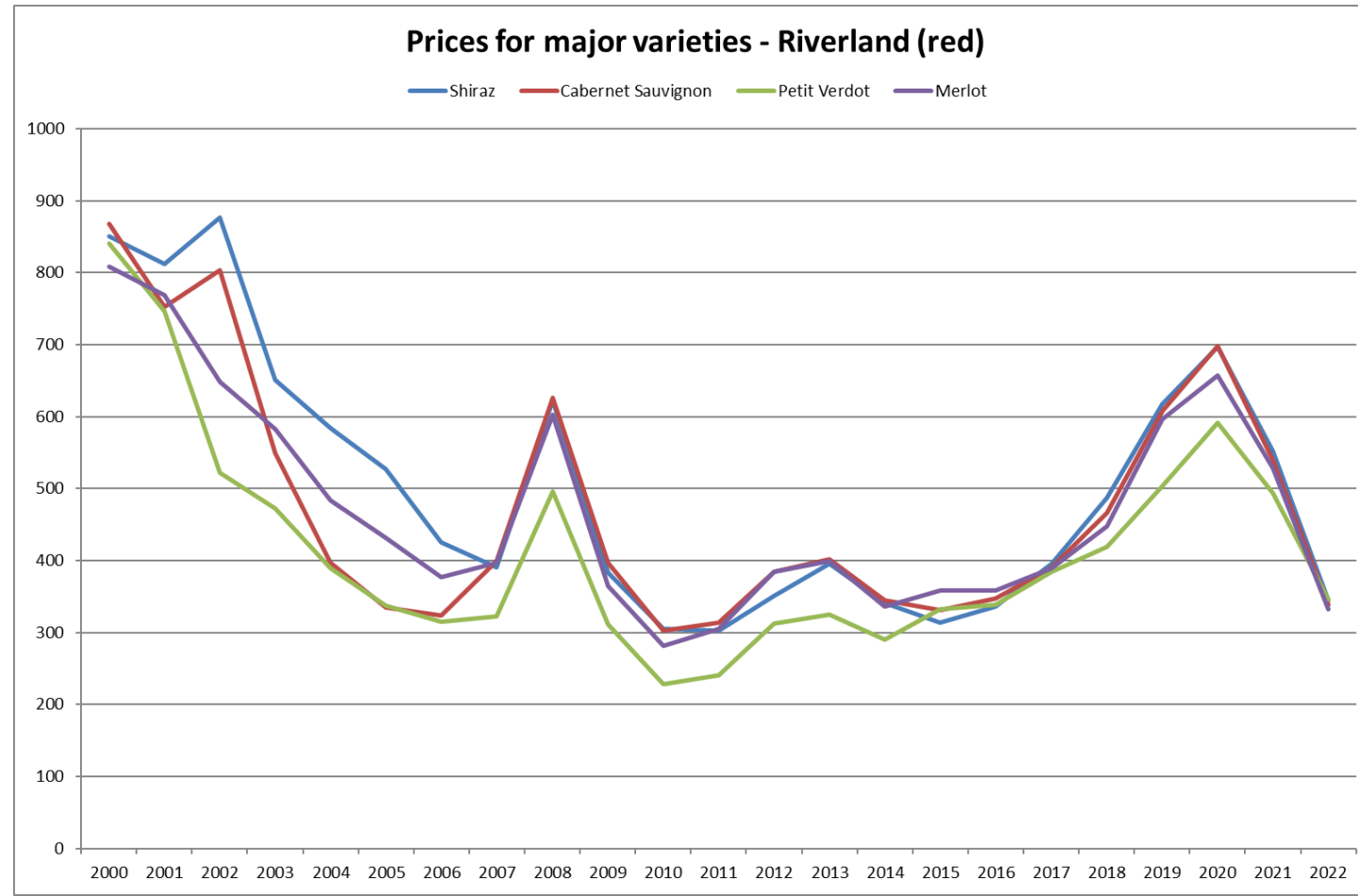


2022 Vintage Outcomes

South East Australia / Inland

13

- ▶ Prices of all red grape varieties were clearly down in 2022.
- ▶ This continues the price trend observed over the past two years.

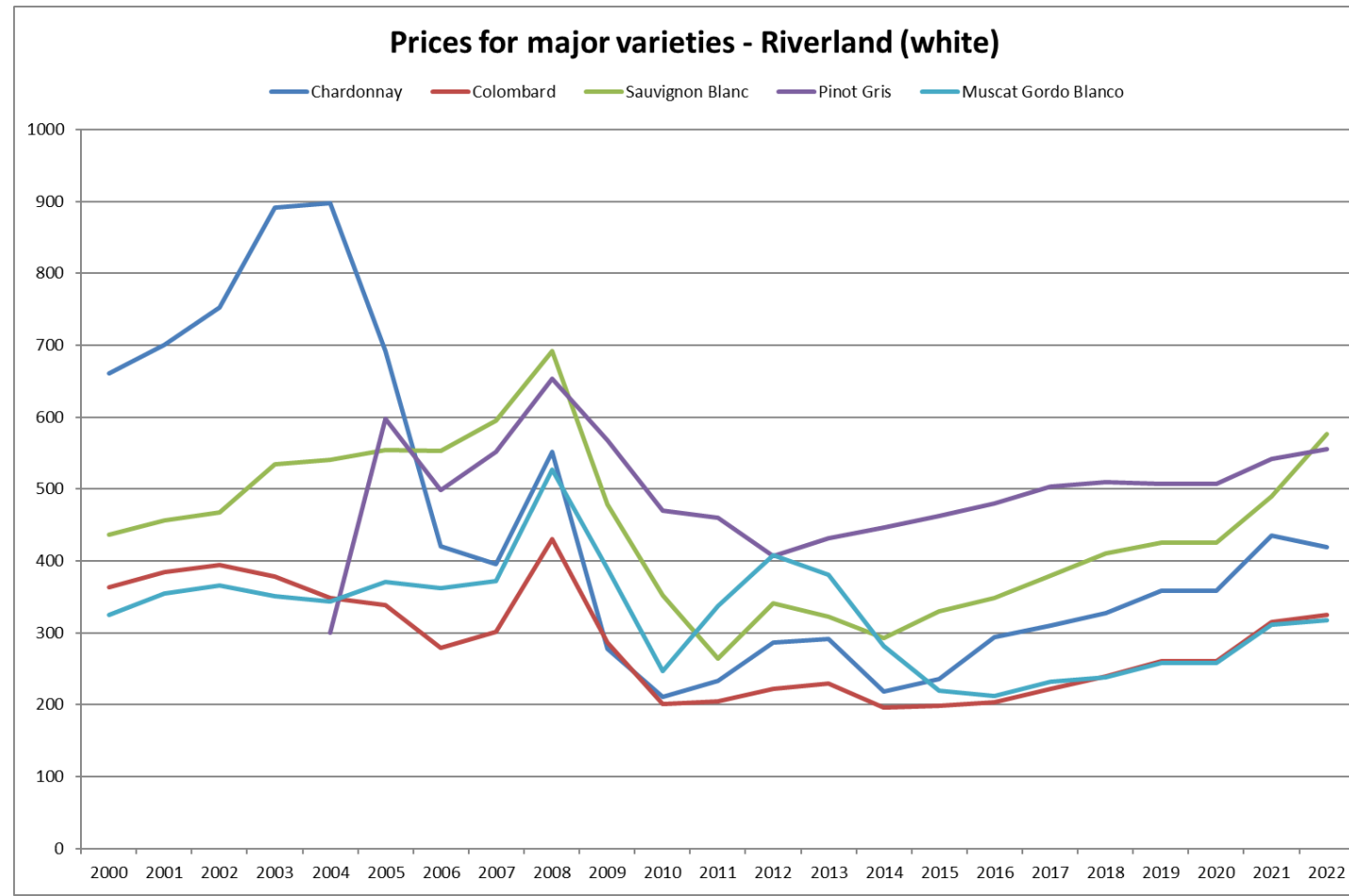


2022 Vintage Outcomes

South East Australia / Inland

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- ▶ Prices of white varieties were generally up, and have been trending upwards for several years.
- ▶ Sauvignon Blanc grape prices were clearly up.
- ▶ Overall, white varieties are short-to-balanced and, the order of shortfall ranking is:
 - ▶ Sauvignon Blanc
 - ▶ Pinot Grigio
 - ▶ Chardonnay

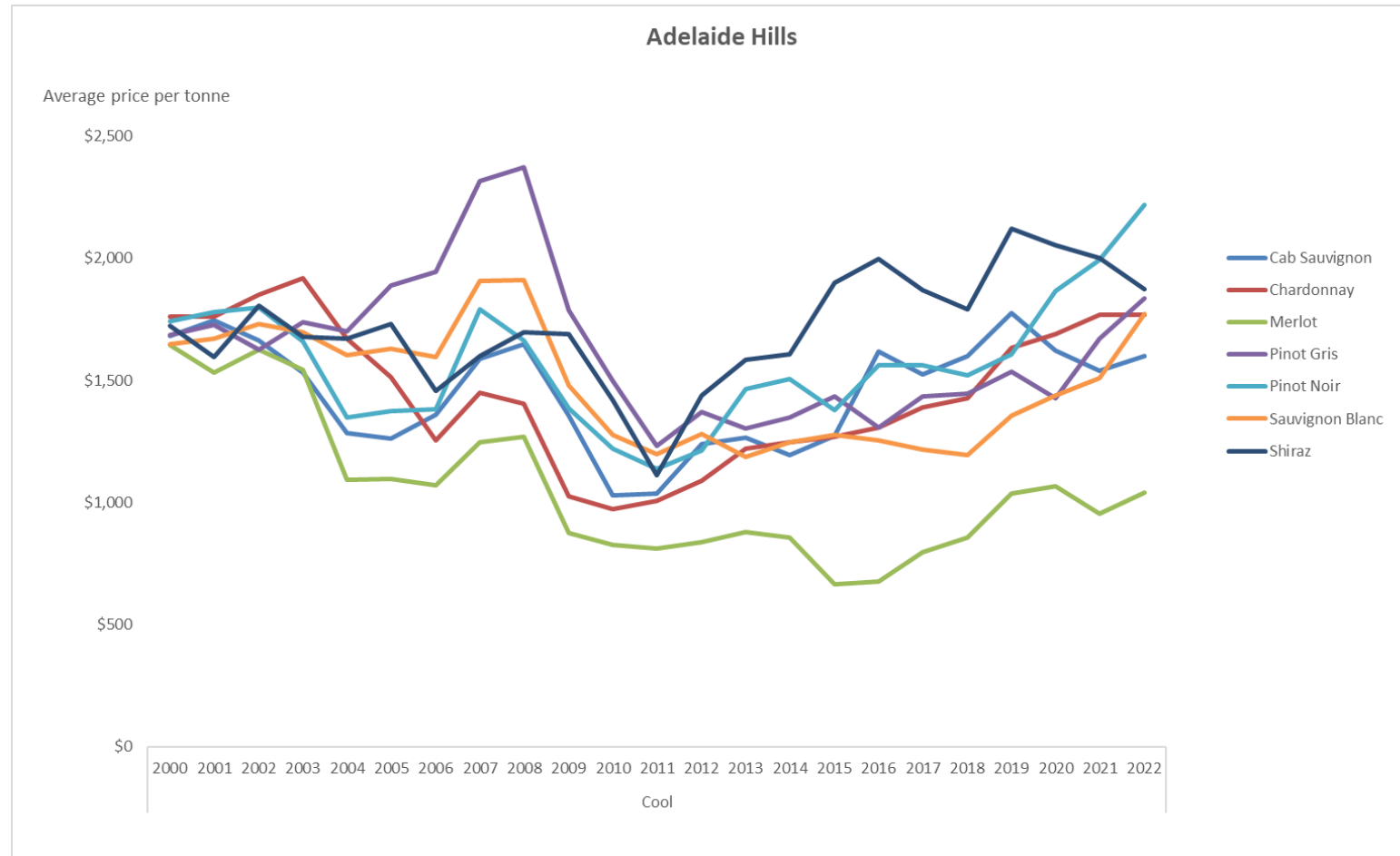


2022 Vintage Outcomes

Appellations of Specific Origin.

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- ▶ For specialist white wine regions, such as Adelaide Hills, grape prices of flagship varieties are all trending up.
- ▶ Sauvignon Blanc and Chardonnay are both up.
- ▶ Pinot Noir, Pinot Gris are also up.
- ▶ Shiraz is down, unable to escape the downdraft caused by the loss of Chinese wine markets.

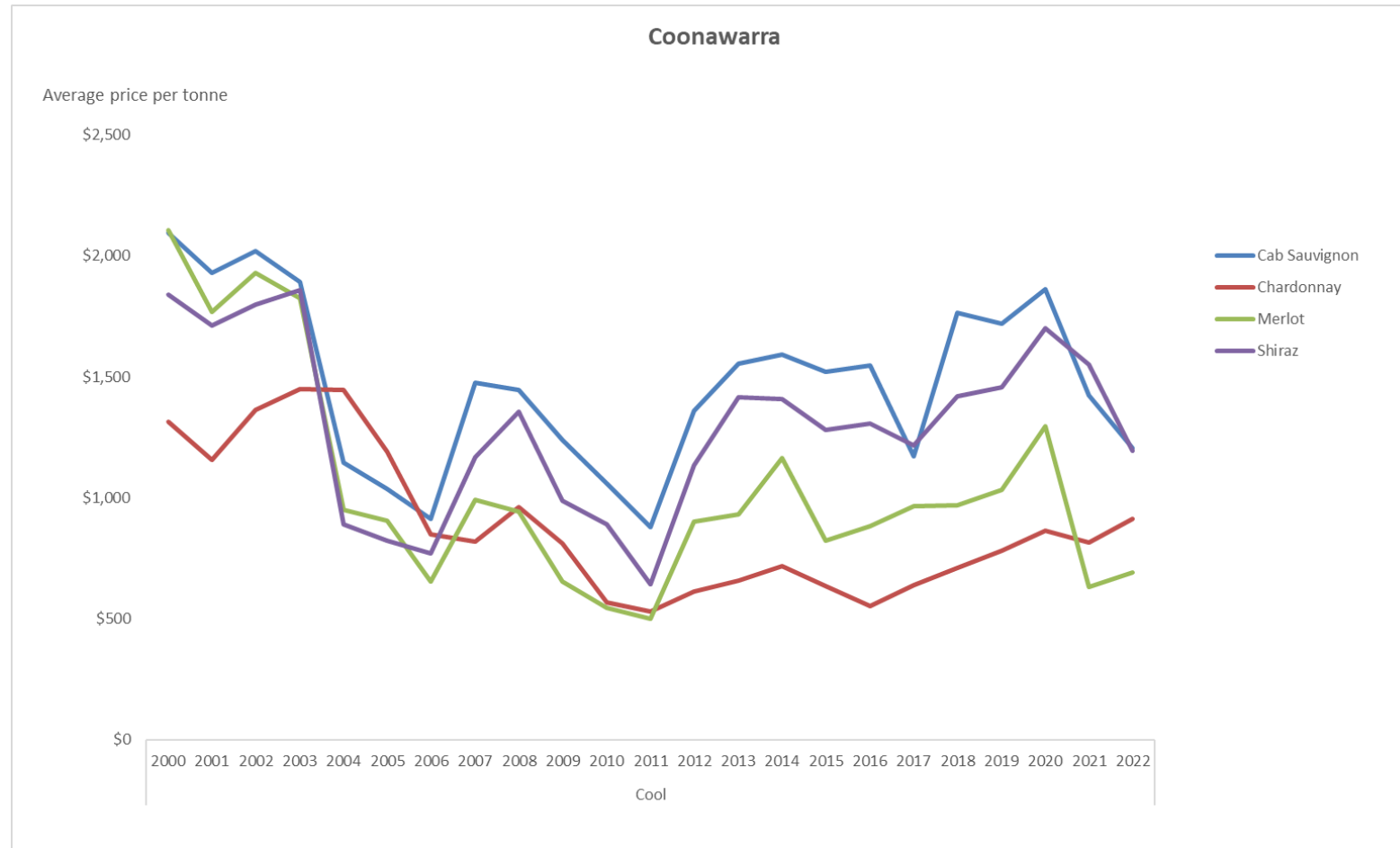


2022 Vintage Outcomes

Appellations of Specific Origin.

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- ▶ For specialist red wine regions, such as Coonawarra, grape prices of flagship varieties are trending down.
- ▶ Shiraz, Cabernet Sauvignon & Merlot have all experienced large price drops during the last two years.

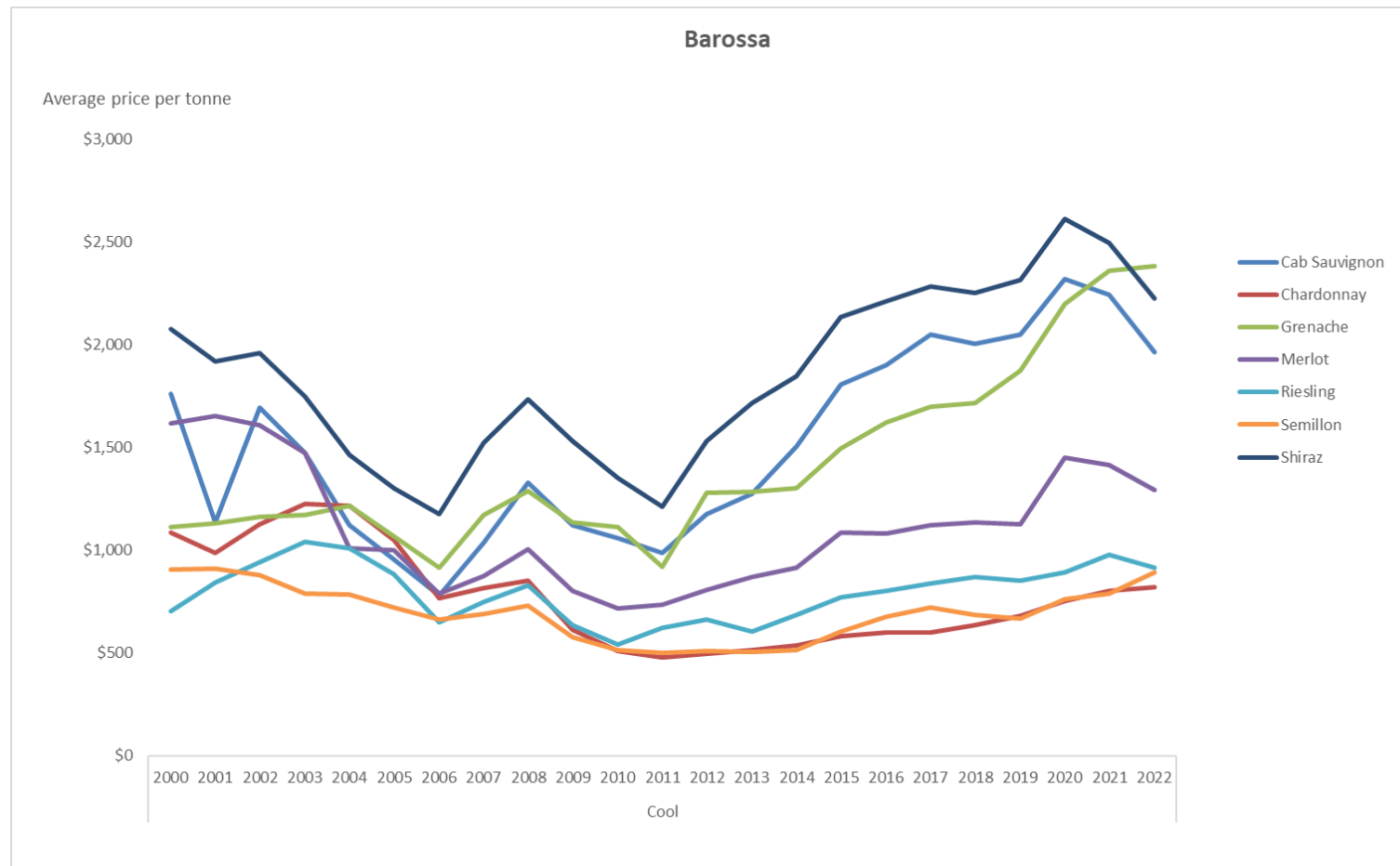


2022 Vintage Outcomes

Appellations of Specific Origin.

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- ▶ Even the most celebrated & premier regions, such as Barossa, have experienced significant price drops for red grapes.
- ▶ Grenache is an exception.
- ▶ A pricing floor has yet to be established for red grapes, although Shiraz & Cabernet Sauvignon still command relatively high prices.



Grape Market Reaction:

A difficult market continues. Why?

Buyers

- ▶ Wineries are clearly overstocked and are continuing to shed uncontracted supply of red grapes, except perhaps Pinot Noir and Grenache.
- ▶ This includes wineries that had little direct exposure to China, since the loss of this previously high value market has impacted almost all market players.
- ▶ Red wine surpluses have been made worse by protracted shipping delays.
- ▶ Wineries are focusing on clearing tanks of existing stock and have little appetite to buy.

Sellers

- ▶ Grape prices received by growers were down in 2022, for a second year in a row.
- ▶ Broadly speaking, 2021 grape price falls were modest, so many growers lived in a bubble, not realising how tough things were, until they tried selling any uncontracted grapes ahead of the 2022 harvest.
- ▶ Further falls in red grape prices likely in 2023 as wineries continue to reduce intake.

Bulk Market Reaction:

Reds - A difficult market for both SEA & Appellation of Origin wines.

Buyers

- ▶ Except for Pinot Noir & Grenache, buyers have been unsure of where the bottom of the market is for SEA red wine.
- ▶ Some buyers have bought a bit shorter, and more often, during the last 12-18 months.
- ▶ This pattern was first observed in the early days of Covid during 2020, and has continued in some cases.
- ▶ Falling prices for Appellation of Origin red wines has piqued buyer's interest to start new programs & promotions for these wines.

Sellers

- ▶ Sellers are holding more stock as vintage changeover dates are pushed out.
- ▶ Sellers want to exit high priced stock from 2021 and earlier vintages.
- ▶ They are looking to sell off older vintages, and recalibrate intake to closer match current sales rates.
- ▶ In other words, they would like to "re-set" inventories to better align to current sales patterns.

Bulk Market Reaction:

Reds - nearing the bottom for SEA Red Wines.

Overall

- ▶ We are likely near the bottom for red South East Australian/Inland prices. **How do we know this?**
- ▶ Over the last 2-3 years buyers have been testing their regular suppliers by asking them to match unsustainable clearance offers received from alternative, but potentially unstable, suppliers desperate for sales.
- ▶ After 2-3 year of matching falling prices, some of those regular **suppliers have now begun to decline supply at those ultra-low prices.**
- ▶ Equally, some of those buyers have begun recognising the plight of their regular suppliers and **some buyers have begun accepting the regular supplier's asking price.**
- ▶ So the trajectory of the price reductions for SE Aust/Inland prices is slowing.
- ▶ But this does not mean a price recovery anytime soon or, relief from likely lower grape prices in 2023 as wineries try to stop their losses.

Bulk Market Reaction:

Whites – A much better selling environment for both SEA & Appellation of Origin wines.

Buyers

- ▶ Export buyers have been keen to continue programs for most SEA white wines. Some have used their white purchases to extract the best deals possible for their red wine purchases.
- ▶ Those buyers that can take red wine have a clear competitive advantage.
- ▶ Domestic buyers have been keen to top up supply of whites especially Sauvignon Blanc, Pinot Gris and to a slightly lesser extent, Chardonnay. Few domestic buyers can absorb additional red volumes.
- ▶ Overall prices for both SEA and Appellation of Origin white wines are generally stable.

Sellers

- ▶ Sellers are using whites to try and sell reds. Results have been very mixed, highly dependant on buyer's requirements and markets served.
- ▶ Sauvignon Blanc asking prices have firmed slightly and supply is very tight.
- ▶ Pinot Gris pricing and availability remain tight.
- ▶ Chardonnay pricing and availability is more balanced.

► Cognitive Dissonance

Cognitive Dissonance Definition

The American Psychological Association defines cognitive dissonance as "an unpleasant psychological state resulting from inconsistency between two or more elements in a cognitive system."^[1]

Cognitive Dissonance: Bad news in the Newspapers.

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OPTION 1. REPLACE REDS FOR WHITES OPTION 2. DON'T DELIVER YOUR GRAPES

DESPERATE MEASURES

ECHOES of the 1980s vine-pull scheme are reverberating across the Riverland, thanks to a crippling oversupply of red wine grapes.

Amid forecasts of a restructure, including grower exits, some contracted locals are being encouraged to replace red wine varieties for white wine varieties or accept drastically reduced payments for the non-delivery of certain varieties for the 2023 vintage.

The news update coincided with a senior industry figure advising

that economic difficulties could force a restructure of the local industry ahead of the 2023 vintage.

Inland Wine Regions Alliance chair Jim Caddy expects an oversupply of unsold wine from previous years to have major impacts on the viability of growing red grape varieties.

"There will be some (grapes) that cannot be sold," Mr Caddy said.

"There will be some growers who will try and get out of the industry if they can."

PAGE 3 FULL STORY

Family walks away after 100 years

FINALLY overwhelmed by falling prices and rising input costs, a third-generation Riverland grape grower is walking away from 100 years of history – and holds grave fears for the local industry's future.

PAGE 2

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OPINION

EDITORIAL

No false alarm for grape growers

AESOP'S Fables included The Boy Who Cried Wolf, a cautionary tale about the folly and potential fallout of raising false alarms.

Cynics have, over the years, occasionally pondered whether certain members of the Riverland wine scene have been guilty of such a charge, given the industry's survival and occasional periods of relative health, including a couple of boom periods.

However, alarm bells are well and truly warranted for the latest set of circumstances facing Riverland growers, many of whom would consider it the most serious threat to their livelihoods yet.

A perfect storm of factors have converged to make the outlook particularly grim for some, especially certain red wine grape growers across the region.

Wine chief's Riverland warning: Next two years 'hardest ever'

HUGH SCHUITMAKER

TWO senior wine industry figures have echoed recent concerns surrounding the 2023 vintage, with oversupply issues set to limit demand for two of the Riverland's most widely-grown red varieties.

Finlaysons Lawyers last week held the 30th annual Wine Roadshow conference at the Renmark Club, focused on inter-generational succession in family-operated wine businesses.

Australian Grape and Wine chief executive Tony Battaglene – who presented at the event – said it was vital for Riverland grape growers and wineries to begin discussions about the 2023 vintage.

"There's a lot of future in the industry, but I think the next two years are probably going to be the hardest I've seen in my almost 25 years in the business," Mr Battaglene said.

"The domestic problem is the

big problem I don't think people have really come to grips with. A lot of the small producers I talk to don't think we're going to have a problem in the next 12 months, because it's been so good in the last 24.

"You don't get perfect solutions... there's not going to be a silver bullet for the industry.

"India is going to be good in the long-term, but it's never going to be another China."

Finlaysons Lawyers partner Will Taylor said a lack of export markets for red wine would eliminate any demand for Riverland shiraz and cabernet grapes next year.

"It's very much a shiraz and cabernet issue," Mr Taylor said.

"China was an outlet for a lot of that material, and that's now disappeared.

"Shiraz and cabernet are very difficult."

However, Mr Taylor said an

increasing demand for white varieties could provide some economic relief for local growers.

"White wines are still going very well, which is very important for the Riverland because there's plenty of good whites made up there," he said.

Mr Battaglene expected pressure on the global supply chain to continue impacting the Riverland wine industry throughout 2023.

"What we're seeing is an over-supplied world, being disguised by the fact you've got subsidised product, storage (and) exports," Mr Battaglene said.

"That means we're not going to be able to trade out of this quickly, because the world is in over-supply."

"This is not a blip... next year is not going to be better, next year is going to be worse."

"The fact we're not being out-competed in some markets is because nobody else can get freight either."



Australian Grape and Wine chief executive Tony Battaglene presenting at the 2022 Finlaysons Wine Roadshow, held last week at the Renmark Club. PHOTO: Hugh Schuitmaker

Replace reds for whites, don't deliver your grapes...

Desperate times, desperate measures

HUGH SCHUITMAKER

SOME wine grape growers will be encouraged to replace vines, or take payments for the non-delivery of certain varieties, as a senior figure expects economic difficulty to force a restructure of the local industry ahead of the 2023 vintage.

Riverland Wine last Thursday hosted its Outlook for the Grape and Wine Sector session at the Loxton Research Centre, focused on discussing current industry challenges.

Inland Wine Regions Alliance chair Jim Caddy said he expected an oversupply of unsold wine from previous years to have major impacts on the viability of growing red grape varieties.

"There will be some (grapes) that cannot be sold," Mr Caddy said.

"There will be some growers who will try and get

out of the industry if they can."

A CCW Vintage 2023 Update – given anonymously to The Murray Pioneer – also indicated to growers that shiraz and cabernet were in oversupply.

In response, a red to white grape redevelopment program has been offered to CCW's growers, based on 300 hectares of shiraz and 200 hectares of cabernet vines being removed, and being replaced by 400 hectares of sauvignon blanc, and 100 hectares of pinot grigio.

It is understood that patches of red grape vines nominated for this offer would be undeliverable for the 2023 vintage.

The pricing payment structure on grapes from these patches would then be paid a 10 per cent premium on the negotiated variety prices in the 2024 and 2025 vintages.

fixed-price option.

Mr Caddy said it was necessary for Riverland growers to consider their long-term economic positions.

"That is a decision that each grower has to make in consultation with their winemaker," he said.

"It is a very expensive decision to change varieties, or change to another product."

"Any change needs to be done after discussion with their winery representative."

Under the Accolade plan, it is understood that growers can also elect to receive a non-delivery payment of \$750 per hectare for nominated patches of shiraz and cabernet for the 2023 vintage.

Deliveries from these nominated patches would then be paid a 10 per cent premium on the negotiated variety prices in the 2024 and 2025 vintages.

www.murraypioneer.com.au Wednesday, August 3, 2022 NEWS 3



Riverland Wine independent chair Dr Darren Demcke presenting at the Outlook for the Grape and Wine Sector session, held at the Loxton Research Centre, last Thursday. PHOTO: Hugh Schuitmaker

However, the CCW update also said all other varieties would be required and would follow normal business routines through the year for pricing.

Mr Caddy said a growing demand for white varieties could provide some

economic stability for Riverland growers.

"The Riverland is the largest wine region in Australia of both red and white," he said.

"Price increases will depend on the other factors affecting the industry such as the increased freight prices."

about \$0.50.

"The demand for whites is expected to continue the slow growth over the next few years."

"Price increases will depend on the other factors affecting the industry such as the increased freight prices."

Accolade and CCW working together for growers

THE Riverland's largest co-operative group and its biggest winery are working together

on new programs to assist the region's wine producers through a "significant disruption" of the local industry.

A CCW Vintage 2023 Update sent last week indicated local grape growers would be encouraged to replace patches of shiraz and

and supply.

"In addition, the introduction of a new initiative will reward growers for the yield management of red wine hectares which will also minimise overall costs and maximise return for growers, while reducing

CCW and growers to support these changes.

"Accolade will also be adopting these approaches for vintage 2023 across all our vineyards and our other grower vineyards in the Riverland."

Mr Nicol said ensuring Riverland wine production remained sustainable through current industry challenges – including an oversupply of wine from previous vintages – was a priority for both Accolade Wines and

disruption to the entire supply chain and changes in consumer behaviour and trends he said.

"In addition, the five-year tariff increase from China, combined with large vintages in 2021 and 2022, has resulted in an oversupply of red wine in the Australian market, increasing competition for growers and wine companies."

"As the biggest wine grower co-opera-

Cognitive Dissonance: But perfectly manicured vineyards.

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Cognitive Dissonance:

What does this tell us?

Despite the bad news, growers have still tended their vineyards with their usual care so far this season.

Why is this so?

- ▶ Grape growers have sufficient financial reserves and the wherewithal to continue farming.
- ▶ They have both the **intention** to keep farming and the **ability** to keep farming: "I may as well prune this winter and see what happens ahead of vintage."
- ▶ Widespread despondency has not set in about future grape growing prospects.

Cognitive Dissonance:

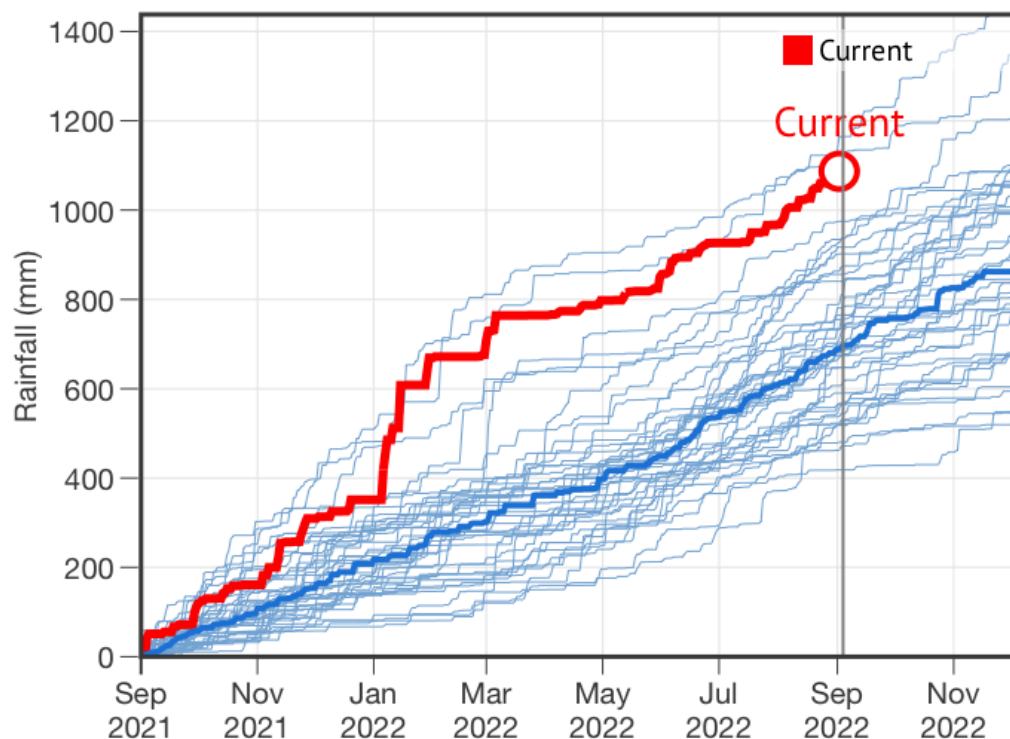
But where are all these grapes going to go?

- ▶ Uncontracted red grapes are unlikely to be picked in 2023.
- ▶ Some contracted red grapes are likely to have yield limitations or some other mechanism to reduce intake.
- ▶ Despondency about future grape growing prospects may appear after vintage 2023.

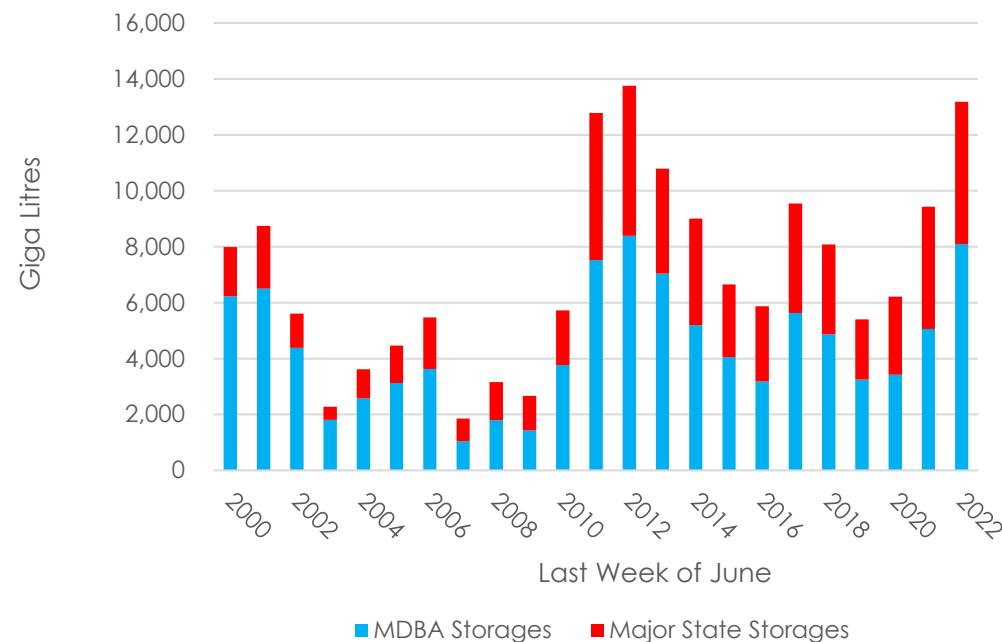
2023 Vintage Outlook: Water in Abundance

Back-to-back La Niña events over the last two summers and possibly a third event heading into 2023 vintage. High rainfall resulting in abundant water in storages, giving rise to water storage levels not seen since 2011-12.

Rainfall Sep 2021-Sep 2022 (HUME RESERVOIR)

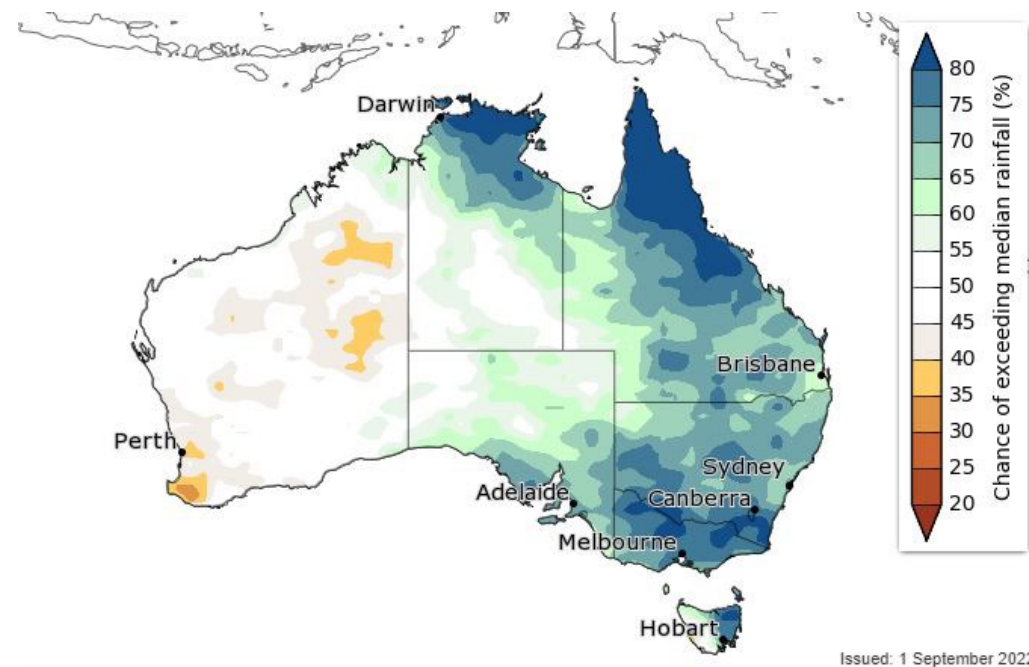
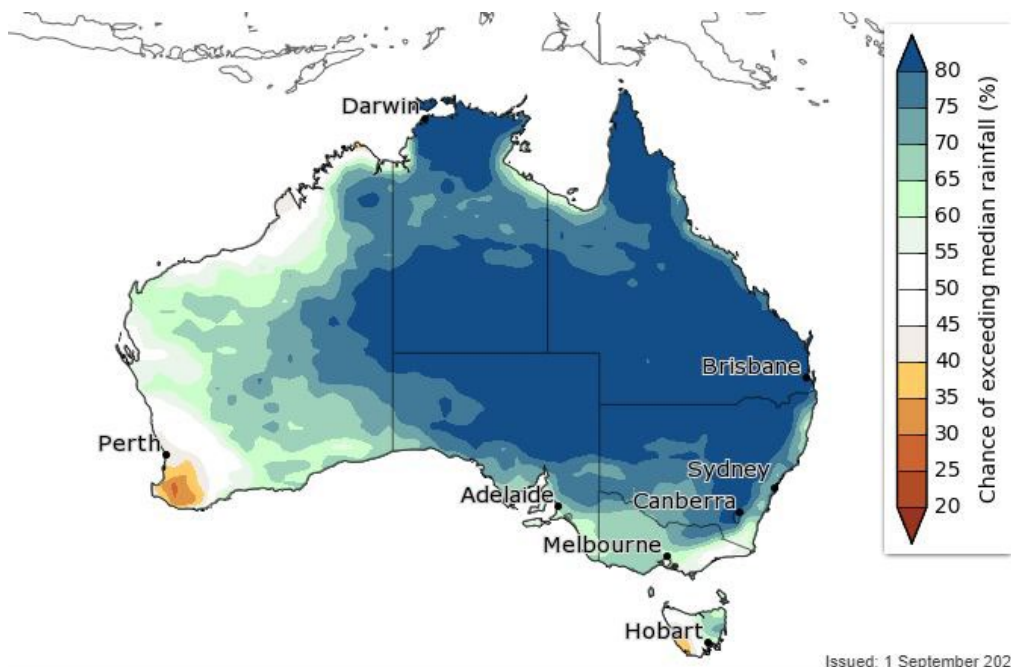


Water In Storage in the Murray Darling Basin (Excl. Dead Storage)



2023 Vintage Outlook: Water in Abundance

A very wet September is forecast (below, left chart), followed by above average rainfall for October – December (below, right chart) for most of South Eastern Australia.



2023 Vintage Outlook:

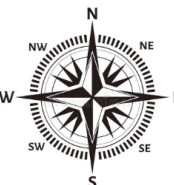
Its going to be difficult for red grapes & wine: what to do?

The following simple compass may be a useful guide.

Four questions to ask yourself and of your business:

1. Do you believe in Australian agriculture, overall?
2. Do you believe in Australian viticulture, specifically?
3. Do you believe in viticulture in your chosen region eg. Griffith, Clare, Tumbarumba, etc?
4. Do you believe that your business model is the right one, long term?

If you can answer yes to all four questions, grit your teeth and rock on if you can.



2023 Vintage Outlook:

A world of opportunity awaits.

Despite all the challenges, Australian wines represent an exceptional value proposition with unique and diverse terroirs spanning an entire continent.

The Terroir Paradox:

But we will only have people clamouring for our slice of terroir, and the wines from it, if we are willing to walk past our farm gate, leave our land, and find customers to tell them about its virtues.

Our borders are now open: more of us need to get on more planes and visit more customers and tell them about our unique gift that is Australian wine.

