Wine Industry ScoreCard

November 2007

ScoreCard Paper 07-B8

Government of South Australia
Primary Industries and Resources SA

PIRSA WINE SCORECARD 2006-07

SOUTH AUSTRALIAN WINE INDUSTRY OVERVIEW 2006-07

To track the advances in the South Australian resource and agri-food (including wine) sectors, Primary Industries and Resources SA (PIRSA) conducts detailed value-chain analyses for each sector. The result is a series of Industry ScoreCards that measure the value adding components of each sector – in the case of grapes and wine, we measure how the value of grapes increases from the vine to the bottle and further via export or through to the table of South Australians. This involves looking at each of the stages of the wine-chain from production to winemaking and through to final consumption. This economic analysis enables us to estimate the value of production; exports; imports; inter-State trade and changes to stocks; retail sales; and the contribution made by the hospitality sector[1].

Table 1 shows the values contributed to the State by the grape and wine sectors along the value-chain from production through to export and domestic consumption in 2006-07. (In Table 1, Gross Wine Revenue equals OS Exports + Interstate Trade & Change in Stocks + Retail & Hospitality Consumption.)

Table 1: SA Wine ScoreCard 2006-07, $million

Farm Gate	Wine Making	OS Exports	InterState Trade & Change in Stocks	Retail & Hospitality Consumption	Gross Wine Revenue
$420m	$1,744m	$1,747m	$-146m	$474m	*$2,076m*

GROSS WINE REVENUE - $2.1 billion

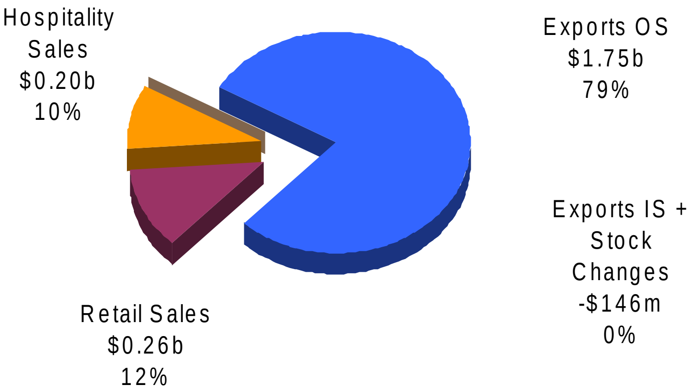
Gross wine revenue captures the 'final' values that grapes and wine production make to the State economy at their final point of value adding prior to local consumption or export. In 2006-07 the 'headline' gross value of wine revenue[2] was valued at $2.076 billion. This compares with gross food revenue of $10 b, delivering a combined $12b of food and wine value to the State. The wine industry contributed around one-fifth (17 percent) to this total, a share equivalent to the field crops and livestock food industry groups.

Overseas wine exports remain the major contributor to wine revenue. Figure 1 outlines the composition of gross wine revenue for 2006-07 showing that over three quarters (79 per cent at $1.75b[3]) of total value was generated through wine exports. Figure 1 shows that the other contributor to Gross wine revenue was local SA consumption worth $0.47b. However, for the first time since the development of the wine ScoreCard, falling grape production has resulted in a significant decline in wine stocks[4] over the year. The result is a negative value of $146m for the combined figure of Net Interstate Trade and Change in Stocks. (By way of comparison, the contribution made by this combined figure was $899m in 2005-06).

1 The Food and Wine South Australia Scorecards calculate the value of Food and Wine Revenue as the sum of the value of overseas exports (free on board value), interstate exports and stock changes (at wholesale prices), retail sales and hospitality service sales.
2 The Gross Value of Wine measure comprises total exports (Inter-State and Overseas) the value of inter temporal Stock changes and SA consumption measured at both the retail and hospitality ends
3 Export values are based on ABS Trade data (unpublished) using detailed 8 digit AHECC data. Note: slight differences in values between the ABS Wine export data and other sources may be possible from time to time.
4 Net interstate sales and wine stock changes are calculated as a residual or balance item between wine production and local consumption for a given period, taking overseas trade into consideration.

Despite significant growth in gross wine revenue between 1999-00 and 2003-4 (at an average growth of 9.3% per annum), the past 3 years have shown a distinct plateauing in value, culminating in a significant decline over the last year. Over 2006-07, gross wine revenue fell $796m (down 28 percent). The decline in value over the year was a direct consequence of declining grape production and resulting wine making (down 30.1 percent).

Figure 1: Gross Wine Revenue by value chain for 2006-07, Share of ($2.1 billion)



GRAPE PRODUCTION - SA produced 575,800 tonnes of grapes worth $420 million (farm gate)

Following low rainfall and reduced water availability across SA, grape production fell significantly over the year, with volumes of production down by 328,260 t (36.2%) to 575,800 tonnes. An increase in the average price per tonne of grapes (up from $670 to $730/t) [5] was insufficient to offset the decline in the value of the SA grape harvest, down $188m (or 31%) to $420m in 2006-07.[6]

[Please note footnote 5 on the derivation of prices and values – Values shown represent average 'weighbridge' prices and do not include any additional payments or penalties to growers. It is unclear how the use of bonuses or penalties may affect actual returns to growers, although anecdotal evidence suggests that the use of 'beyond weighbridge' adjustments may have increased over time.]

Figure 2 shows how the production (farm gate level) value of wine in South Australia has grown from $367m in 1996-97 to a peak of $813m in 2003-04[7]. During this period the volume of production has grown from 372,000 tonnes to 912,000 tonnes in 2003-04. Since then the level and value of grape production remained around 900,000 tonnes until 2006-07, with falling grape prices resulted in declining farm gate returns.

The Australian wine industry has experienced rapid growth over the past decade driven predominately by a focus on export opportunities. Despite the significant decline in production over the year, South

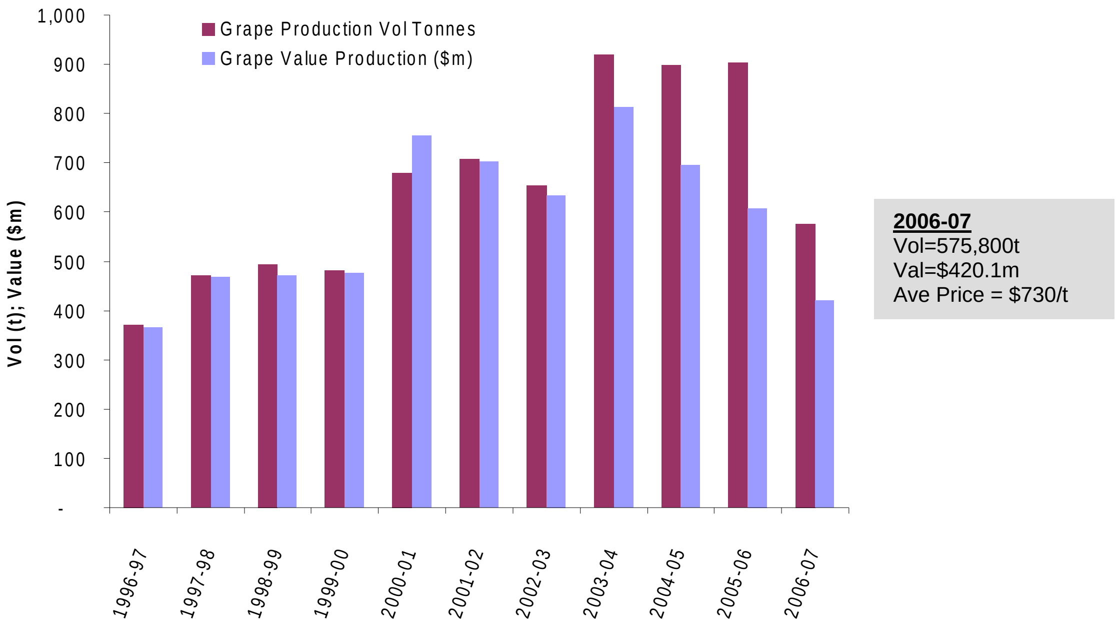
[5] Average Grape prices are derived from the SA Winegape Utilisation and Pricing Surveys. The Survey notes that these prices exclude any bonuses or adjustments applied beyond the weighbridge, and therefore represent a conservative estimate of total crop value. According to the 2006 SA Winegrape Utilisation and Pricing Survey: *"There is considerable variation in the pricing arrangements made by different wineries. For example, some wineries make adjustment payments based on the average value per tonne reported in the survey and some pay quality bonuses based on the end use of the product. These additional payments are not made in the reported figures. The average price does not include any indication of the distribution of prices, or variables that go into individual contracts. Therefore the average price should not be compared directly with any individual grower's arrangements."*

[6] Production value is a measure of the returns to producers, as measured at the point of sale (i.e. weighbridge) excluding costs of freight. This value is calculated by multiplying the volume of production by the price received and, therefore, represents the value of production to the producer.

[7] Grape Production volumes and values are sourced from the SA Wine grape Utilisation and Pricing Survey, Phylloxera and Grape Industry Board of SA

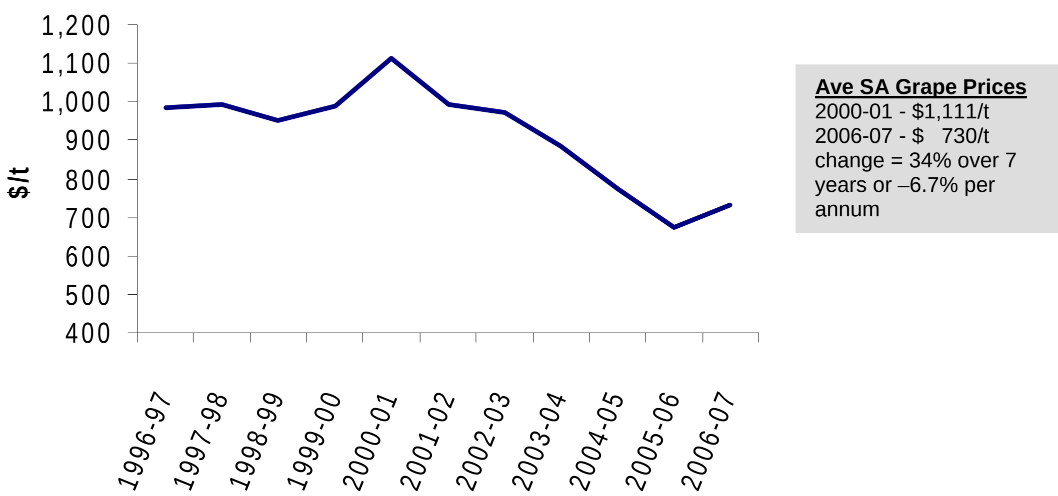
Australia remains the principal grape and wine producing State, with its grape production contribution currently 38 percent of total Australian production[8].

Figure 2: Volume and Value of South Australian Grape Production, 1996-97 to 2006-07



Despite the recent increase in average grape prices, the gap between production volumes and values evident in Figure 3 is a consequence of declining average grape prices since 2000-01. Figure 3 shows that the decline in prices since then has been around 34% (from $1,111/t in 2000-01 to $730/t in 2006-07. On average, grape prices have declined by 6.7% per annum or around $70/tonne over this period. By way of comparison, over the year to 2006-07 average grape prices (farm gate) grew by $58 or 8.7%.

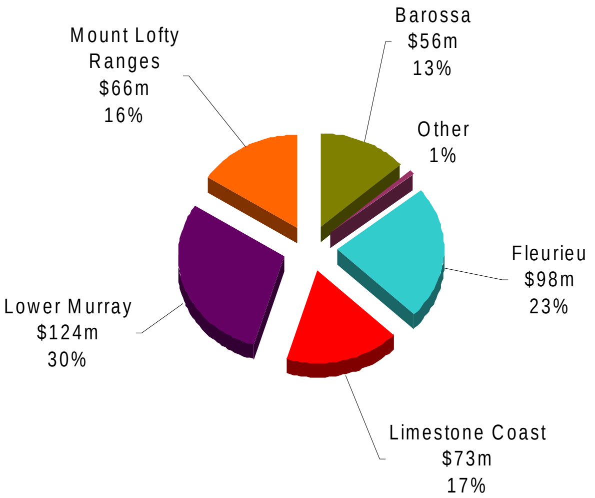
Figure 3: Grape Prices (Farm Gate), $/tonne, 1996-97 to 2006-07.



[8] ABS Catalogue Number 1329.0.55 - Preliminary Vineyard Estimates, Australia, Preliminary 2006-07

South Australia's wine grape production is divided between seven Geographic Indicator (GI) zones. Figure 4 (below) shows that the majority of production occurs in five zones ranging from Lower Murray with 30 percent of total production value to the Mount Lofty Ranges with 16 percent. Despite substantial growth in plantings over this time the regional shares of grape production value have remained largely consistent over the past 5 years.

Figure 4: Value of Wine Grape Production by Geographic Indicator Zone, 2006-07.

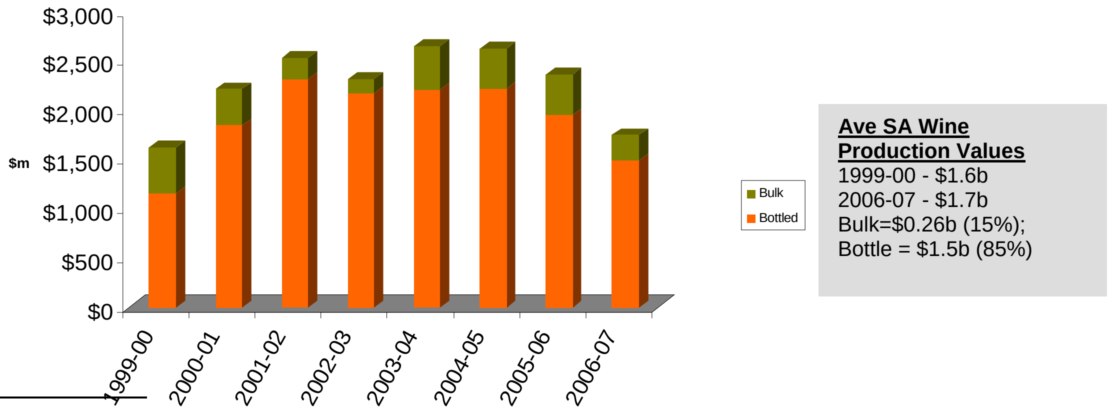


Declines in production over the year were most significant in the Barossa and Limestone Coast (both down by 38% in value), with the Mount Lofty Zone least affected with production value declines of 13% over the year.

WINE MAKING – SA produced 457 million litres of wine worth $1.7 billion

The wine *ScoreCard* values processing by estimating the wholesale value of wine produced during each season[9]. Following trends in grape production, Figure 5 (overpage) shows the trends in wholesale value for wine produced in South Australia since 1999-2000. After rising sharply in the later part of last century, prices have remained fairly constant over the past 4 years, falling significantly in 2006-07.

Figure 5: Value of South Australian Wine Production, $m, 1999-00 to 2006-07



[9] The value of wine processed (measured in wholesale prices) has been estimated by calculating the distribution of grapes into bottled and bulk categories and estimating separate values based on input grapes and cost inputs. Wine costs have been derived from various Deloittes 'benchmark' estimates for different scale wineries.

In 2006-07 around 457 million litres of wine was produced in the State, valued at a wholesale $1.7b. This represents a fall in value of wine produced of $752m (or a 30% decline over the year). The volume of wine produced has fallen even more sharply, (down by 260 million litres or 36%) with a rise in the average price of wine following reduced supply, likely to dampen the impact of the decline in value.

Figure 5 shows that the share of bulk/bottled wine fluctuates, depending on season. During 2006-07 more than one-third (36%) of all SA grapes were used for bulk wine, producing around 165 million litres of wine worth an estimated $260m (or 15% of the total value). The majority of grapes (64%) are used in bottled wine, valued at $1.5b wholesale (or 85% of SA's total wine production value).

The significance of value-adding in the wine sector is illustrated by the value-adding ratio (measured by the ratio of wholesale processed value divided by the value of production returns), showing the grape-wine sector at over 4 (for every $1 worth of grapes, $4 of wine is produced), is more than double the average for the agri-food sector at 1.6.

EXPORTS OVERSEAS– SA exported 454 million litres of wine worth $1.75 billion

Contrary to declines in grape production and wine making, SA's overseas exports of wine continued to grow (up $207m or 13.4%) to reach a record $1.75 billion over 2006-07. Wine exports remain the most significant driver of the contributions made by the sector to the State's economy, accounting for around two-thirds of the 5 year average SA wine production, and over three quarters of the total contribution (84%) to gross wine revenue. Wine accounts for around one-fifth (19.9%) of SA's total merchandise trade valued at $8.8b in 2006-07.

Figure 6 below shows that in 2006-07 the value of wine exports exceeded $1.5b for the third consecutive year, with the volume of overseas wine sales at a record 454 million litres – this equates to over one and a half million bottles of SA wine consumed per day. Red wine export sales make up two-thirds (68%) of total value, with white wine (28%) and other wine (fortified wines) making up the remainder.

The share of bulk wine exported has increased significantly over the past 5 years, from around 15 percent of total volume in 1999-00 to almost one-third (29.5%) in 2006-07. Given the lower per litre value of bulk wine exports, their value, however, contributes around 7.8 percent ($136m) of the total export value.

Figure 6: Value of SA Wine Exports, $million, 1996-97 to 2006-07

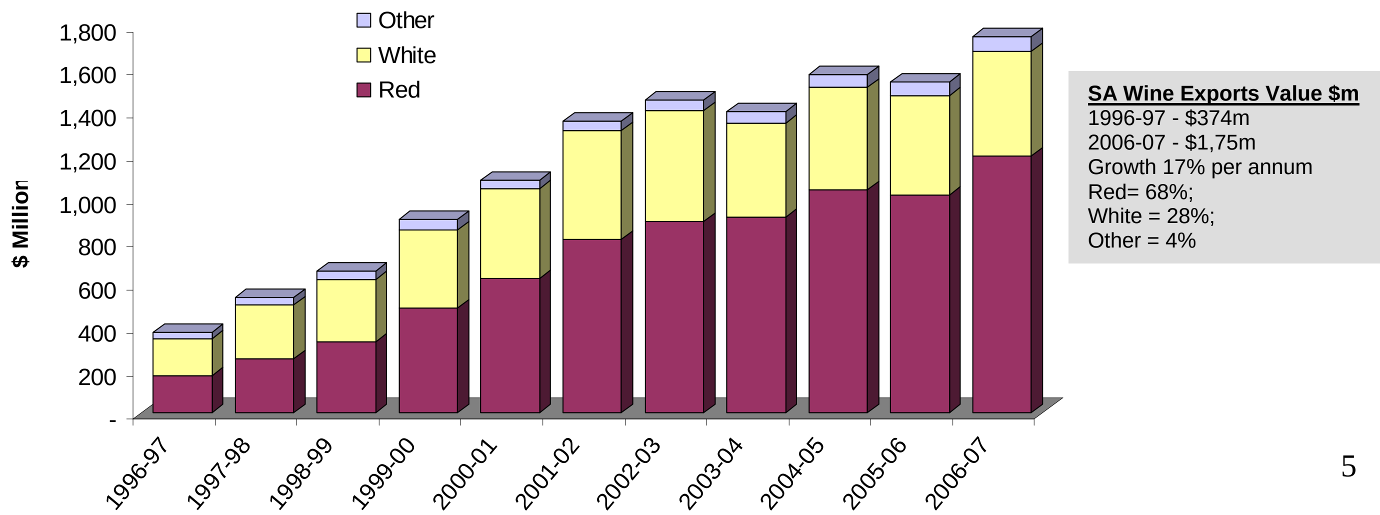


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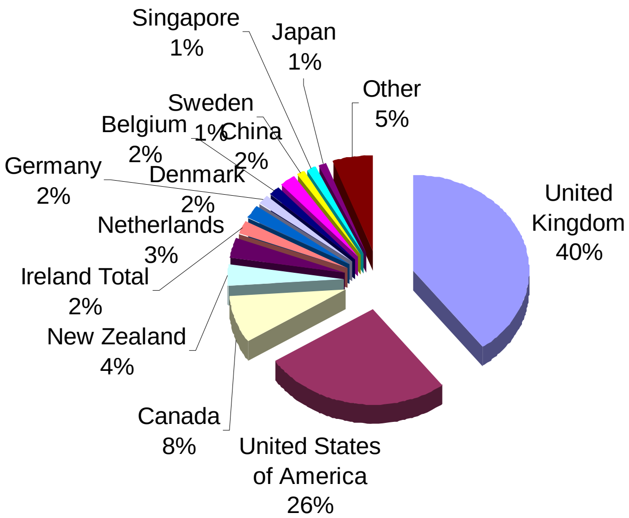
Figure 6 shows that growth between 1996-97 and today has been significant, averaging 16.7 per cent per annum. Despite strong average growth over the timeframe, two distinct growth periods are evident: from 1996-97 to 2001-02 export sales growth averaged almost 30% per annum; while since 2002-03, export growth has moderated, principally as a result of increased global competition associated with a combination of rising Australian dollar and improving technology and management in other countries (both New and Old World). Volumes of wine sales, however, continue impressive growth, averaging 10.2% per annum over the past 5 years (since 2001-02), reaching a record high in 2006-07 of 454 million litres.

The significance of the growth in wine exports (up 13.4% over the year) is even more impressive given the continuing rise in the Australian dollar (up 5% over the period). Indeed, wine export growth represented the highest growth since 2001/02, and the first rise in average wine price/litre (up 16c or 4.3% to $3.85 / litre).

Figure 7 shows the main destinations of wine exports from South Australia over 2006-07. South Australia's wine exports were sent to over 116 different countries in 2006-07. By way of comparison, in 1996-97 SA exported to 90 different countries. Figure 7 shows that the United Kingdom (UK) and United States of America (USA) currently make up two-thirds (66 percent) of South Australian wine exports, with annual exports to UK and USA having grown by $442m and $375m respectively between 1996-97 and 2006-07. Of the other destinations, exports to China and Hong Kong, while representing less than 2% of the total share, have expanded by over $10m (or over 40%) over the year.

Figure 7: South Australian wine exports by destination, 2006-07, % Share of $1.75 billion



Domestic Consumption - Increases to $474m

Despite the small share of SA wine production that remains onshore (around one-third of production), domestic consumption of wine remains an important component of the grape-wine value-chain. A small increase in population growth combined with increasing average rates of wine consumption (now at around 28.1 litres per person) have resulted in a small increase in the value of local (SA) based consumption.

Over the year, retail and hospitality sales have increased by an estimated $42m (8 per cent) to reach $474 million over 2006-07. The relatively high local sales value is a product of substantial value-adding as it moves along the value-chain from processing to consumption. Indeed, by way of comparison the average value of a bottle of wine exported at $5.13 compares to the value of a bottle of wine consumed in South Australia at around $14.60.

Interstate Trade, changes to Wine Stocks[10] falls by $146m

The remainder of domestic wine not consumed in the State is either traded interstate or used to change the volume of wine kept in stock. As wine produced in any one year is normally consumed over the following few years, a key measure used in the wine ScoreCard to compare wine production with consumption or exports over time, is the change to interstate trade and wine stocks.

The wine ScoreCard estimated that the value of interstate trade/ changes to stocks was negative, with a fall of 38m litres of wine, valued at $146m in 2006/07, reflecting the significant decline in wine production over the year. The magnitude of change in this measure over the year represented a change of over $1b when compared with last year.

PIRSA Wine ScoreCard
Industry Strategy and Scorecard Team
Corporate Strategy and Policy Branch

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[10] Limited empirical data is available to provide accurate estimates of the value of interstate trade or changes to net stocks. For our purposes these values are derived using an average wholesale processed price used with the remaining volumes of wine production that is neither estimated to be consumed locally nor exported overseas. Local consumption is estimated using the average Australian apparent consumption of wine (28 litres per person) multiplied by estimates of our local population size (1.54million)