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Tony Devitt

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Development of the export wine industry

By Tony Devitt, Manager Horticulture Industries, South Perth

In 1936-37, Australia exported 18.6 million litres of wine, a level not achieved again for 50 years. World War II, the price, quality and style of Australian wine all contributed to the demise of our wine export markets.

Australia's 'new' wine industry, which surfaced in the 1960s, has re-established our position as a significant exporter of high quality wines that are competitively priced and perceived to be 'pure and of integrity'.

The export of 77.5 million litres of wine worth $233.9 million in 1991-92, and a projected export value of $750 million by 1997, has not happened by chance. The wine industry is one of the nation's most buoyant export industries. It is internationally competitive, technically advanced, highly organised and produces a product with a high value added component (about seven times the value of the raw material).

Provided the industry continues on this path, the Australian Wine Export Council's stated aim of $1000 million of wine exports by the year 2000 has a reasonable chance of success.

Western Australia is well placed to have a significant role in the expansion of Australia's wine exports.

The ban on wine imports into Great Britain...

"... the admission of large quantities of Algerian wine into Great Britain, shipped it is said as ballast on ships from North Africa, has caused considerable heartburning ... as to lead to the possible neglect of the Empire wine interests."

"The wine industry, like all other industries in the Commonwealth, will be as profoundly affected by the winning of the peace ..."

Annual Report. Federal Viticultural Council of Australia, October 1943
The Western Australian Industry

Grapevines have been grown in Western Australia since the first days of settlement. The original grapevines were collected in South Africa and were said to include the main premium varieties grown in Europe.

The local industry had a colourful history moulded by bushrangers, the impact of the gold rush, the development of pioneering ethnic communities, the crafting of uniquely Western Australian wine styles, and the need to market our wines out of State owing to a small, isolated population.

The pioneering spirit and ability to adapt to change have remained with the industry up to recent times. The traditional industry was focused on the Swan Valley for most of 20th century. However, scientific studies by Dr John Gladstones; and the foresight by visiting scholars (for example Professor Harold Olmo from California) and the comments of doyen winemakers (Maurice O'Shea from McWilliams Wines in the Hunter Valley and our own Jack Mann from Houghton Wines), drew attention to the potential of the south-west of the State for premium wine production.

A large area of land on the south or west coast of a continent boasting a typical Mediterranean type climate strongly under a maritime influence, and soils suitable for vine growth, mirrors the characteristics of the world's acknowledged premium wine producing regions. The first plantings by the Department of Agriculture and private individuals immediately demonstrated considerable potential for the future of wine grape growing and winemaking in the region.

The pioneers of the new industry keenly took up the challenge and established new vineyards initially at Margaret River, Frankland River and Mount Barker. Premium wine grape varieties, especially Cabernet Sauvignon and Riesling, were chosen. This was in itself innovative because these varieties played a very minor part in our vineyards at the time. Future plantings included Chardonnay, Semillon, Shiraz, Sauvignon Blanc, Pinot Noir, Merlot and Cabernet Franc, a collection of most of the world's best varieties.

The combination of new regions and varieties, and the application of advanced wine making techniques, led to the production of new wine styles that could be understood and appreciated on the major wine markets of the world. Many of the advances seen in the south-west of Western Australia were quickly adopted in our traditional winemaking regions like the Swan Valley. This meant that the whole Western Australian industry quickly moved towards producing well made, internationally accepted wine styles from well known varieties. However, the world was not aware of our wines.

The Australian export push

Australia's last major impact on the world's wine was before World War II. Even in 1937, of the 18.6 million litres worth $3 million exported (Western Australia's share was 136,000 litres, $10,000) more than 16.3 million litres was fortified wine sold in bulk. Only 123,000 litres of still table wine was sold in bottle. We were net exporters of wine, a situation not achieved again until 1985-86 (see Table I).
Our changing fortunes on export markets was the result of:

- the weakness of the Australian dollar, making our wines cheaper for overseas buyers;
- European and USA currencies being relatively strong; and
- the price of quality wines from Europe (and the USA) rising sharply in comparison.

At the same time several Australian companies identified considerable opportunities overseas. Wine stocks were at a high level. Although domestic sales were buoyant, the relatively small local market could only drink so much wine. Structural and organisational changes also started in the industry.

Our new-found overseas clients seeking value for money in Australian wines also recognised their inherent quality. Even a strengthening currency did not dissuade the market. Top quality European wine was still considered expensive and Australia was becoming 'flavour of the month'.

Australia recognised it needed to develop export markets. The Australian Wine and Brandy Corporation, the statutory export watchdog and source of much export market information, took on a bigger role alongside individual wine companies and industry organisations. Together, they mounted a concerted promotional campaign.

Success and hard work saw wine exports increase dramatically. The product was sound, appealing and competitively priced. Australian wines had considerable success in international competitions and were well received at wine fairs and exhibitions held in the major wine markets.

Our wines were being marketed under the acronym of PIQE — purity, integrity, quality and economy.

To successfully export wine, companies have developed marketing plans and stuck to them. For successful long term exports both importer and exporter must fully understand each other's objectives and abilities to meet those objectives.

The European Community — a major target
The European Community (EC) is a major market for Australian wine and has considerable potential for further development. It is estimated that about half the industry's export target will be sold in the EC.

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<td>635</td>
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<td><strong>12,359</strong></td>
<td><strong>7667</strong></td>
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<td><strong>9737</strong></td>
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Source: Australian Bureau of Statistics

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<td>Champagne</td>
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<td><strong>Total</strong></td>
<td><strong>10,829</strong></td>
<td><strong>21,285</strong></td>
<td><strong>39,001</strong></td>
<td><strong>41,478</strong></td>
<td><strong>41,708</strong></td>
<td><strong>57,039</strong></td>
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Net | -1530 | 13,618 | 30,855 | 31,741 | 31,255 | 48,040 | 69,254 |

Source: Australian Wine and Brandy Corporation

Australia has recently negotiated a major bilateral trade agreement for wine with the EC. The agreement will provide for mutual protection of each party's geographical indications and traditional expressions and the mutual recognition of each party's winemaking practices and standards. It will result in Australian wines having improved market access to the EC, in return for which Australia has agreed to phase out, over a period of years, the use of European geographical indications and EC-traditional terms that are in generic use.

Some of the provisions of the agreement are as follows:

- Phasing out of use by Australian winemakers several terms including beaujolais, chianti, burgundy (including white burgundy), chablis, champagne, claret, moselle, port, sherry, sauterne.

- Australia retaining the right to use the term Hermitage as a synonym for Shiraz outside the EC, pending discussion on a proposed phase-out period.

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The agreement will allow the use of tartaric, lactic or malic acid provided the initial acidity content is not raised by more than 4 grams per litre expressed as tartaric acid.

- EC acceptance of the display of capital city show awards provided they make no reference to a European geographical region, for example best champagne style.

- For single variety/single region wines, 85 per cent of the wine must be from the variety/region claimed.

- Australian wines will undergo three analyses (actual alcoholic strength, total acidity, total sulphur dioxide) instead of the present eight.

The agreement also covers other matters relating to winemaking practices, health and labelling.

**Characteristics of some of our major export markets**

**United Kingdom**

The United Kingdom is our major wine market (see Tables 2 and 3). The average price paid for a bottle of wine in the United Kingdom (UK) is $2.96; the average price paid for Australian wine is $4.06. In the UK wine consumption is 11 litres per head, the rest of Europe is 23 litres per head, while in Australia it is 17.6 litres per head. The major supermarkets are trading mainly in wines below $5. Less than 1 per cent of the wine sold in the UK retails above $5.99, with some stores delisting wines priced above $10. An Australian wine company receiving $5 per bottle for wine will see it retail in the UK for $6.50.

The UK is in recession. The £ Sterling is low, pricing is competitive, competition is increasing, discounting is common and hopefully, short term, and prices for French wines, though still high, may come down.

On the positive side wine sellers make better margins on Australian wines. Those in a job have more disposable income than before; our market share is 4.9 per cent and growing; supermarkets are selling their own brands of wine and are trying to push the price above $4.99; and we have a good image in the UK through positive promotional activities.

To successfully sell our wines, agents like to develop relationships built on trust. They like continuity of supply, tasting samples and support in promotional activities. They are mainly interested in Chardonnay (with oak), Semillon, Cabernet Sauvignon and Shiraz.

In the 12 months to March 1993, the growth in wine shipments to the UK has increased 83.3 per cent to 35.47 million litres worth $120 million (fob). In the first three months of 1993, export growth increased 101.8 per cent, suggesting that the present demand for Australian wine is likely to continue.

**USA**

The USA is a complex and exciting market. It is also highly regulated and responds to heavy promotion. Each State should be considered as a separate market.

Pricing is extremely competitive with popular wines selling from, $4.50 to $10.50, premium wines from $10.50 to $21.00 and super premiums above $21.00. The premium segment of the market is increasing and seeks out Chardonnay, Cabernet Sauvignon, Merlot and Sauvignon Blanc. USA consumers enjoy Australia’s full soft reds and fruity wooded white wines. Riesling, unfortunately, is not favoured.

Shipments to the US increased 44.7 per cent to just over 10 million litres in the 12 months to March 1993. Sales of Australian wine increased 78 per cent in January 1993 compared with the same month last year.

**Japan**

Wine is a status symbol in Japan and there are great opportunities for good quality wines that are competitively priced. Consumption in Japan is 1.1 litres per head. The Japanese prefer premium varietal wines presented in a way that creates a positive image. Gimmickry is not well accepted. More than 1 million Japanese tourists visit Australia annually and more are including winery visits on their itinerary. It is important to remove the mystique of wine when dealing with the Japanese; wine should be promoted as something enjoyable. Promotion of wine in Japan is important and expensive.

The volume of Australian wine shipped to Japan in the 12 months to March 1993 declined 9.5 per cent compared with the previous year, reflecting the downturn in demand for Australian ‘nouveau’ products and the difficult task to secure a share of the Japanese market.
Shipments for the first quarter of 1993 are down 56.2 per cent on the same period in the previous year. The industry is making an effort to reverse this trend.

Other countries
Other major importers of Australian wine include Sweden, the largest importer of Australian bulk wine; Canada, where each province has an all powerful Liquor Control Board that must be negotiated before wine can even be listed for sale; and New Zealand, which is also enjoying an expansion in wine exports. More Australian wine is being shipped to New Zealand to satisfy its domestic market. Exports increased 63.5 per cent in the past 12 months, with exports in the first quarter of 1993 increasing 128.4 per cent over the same period last year.

Future of our wine exports
Western Australia produces about $60 million of wine, valued at wholesale prices, annually. More than 70 per cent is sold outside the State and up to $10 million could be exported. Export figures for Western Australia are not available separately.

If Australia is to export wine worth $1000 million by the year 2000, a further 200,000 t of grapes (20,000 ha of additional plantings) will be needed. The wine industry will need to invest more than $500 million to establish vineyards and processing facilities.

How much of this wine will come from Western Australia?
If only 5 per cent of the predicted increase in wine comes from Western Australia, our wine grape production will double and require an investment of more than $50 million. These figures reflect our relatively high costs of establishment and production, which flow on to our wine prices.

It is more likely that Western Australian producers will make a proportionately smaller but still significant contribution to the export expansion. Most of the increase in Australia's wine exports is likely to come from larger, more mechanised developments with more cost effective production facilities. There are, however, opportunities for this type of development in the south-west of our State.

Western Australia's role in the expanded market will have considerable positive effects on our industry and the flow-on to tourism, regional development and employment.

It will lead to improved efficiency in the State's industry as producers adopt new technologies, particularly reflected in lower costs of production in the vineyard. Our wine styles, already highly regarded nationally and internationally, will be further refined.

The outlook appears bright. Producers, industry organisations and Government are all working together to bring the prediction to fruition. There are, however, the inevitable unknowns and all those with a stake in the wine industry's future must ensure that our reputation is maintained and enhanced. Any loss of credibility for our wines will create an enormous headache (no pun intended); attaining a $1000 million export market is one matter, sustaining it is another. It is a lot of wine to dispose of.

The Australian wine production continued to expand in 1992. Exports increased by 28.4% in volume and 12.8% in value. The United Kingdom, the leading destination for Australian wine, accounted for 30% of total exports by volume and 33% by value.

Tony Devitt can be contacted on (09) 368 3221

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