

WINE

12



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New Zealand’s wine industry has achieved international success over the last decade.

The challenge for the wine industry in the next two to three years is to profitably sell increasing volumes of wine into constrained overseas markets. Currently, some wine companies are exporting our flagship wine, Marlborough Sauvignon Blanc, in bulk rather than bottled in an effort to clear large wine stocks. Continuing down this path may affect the long-term future of the industry.

New Zealand wine has occupied a niche at the upper end of the wine market spectrum and, like all other market segments, has been affected by the recession.

Consumers in all our main markets are becoming more price sensitive in their wine purchases as they respond to turbulent economic conditions. As a result, lower prices are expected in New Zealand’s export markets for the duration of the recession.

The ongoing success of New Zealand’s flagship wine brand, Marlborough Sauvignon Blanc, has prompted a dramatic rise in vineyard development in recent years. This trend, combined with excellent growing conditions, culminated in a record vintage in 2008 and a potentially larger one in 2009.

»»» NEW WORLD TRADE EXPANDS

Globally, vineyard area and production for 2008 were both down marginally compared with recent years. Some countries like France have been actively removing vines while new members of the EU have

»»» TABLE 12.1: WINE EXPORT PRICES, VOLUMES AND VALUE, 2006–2013

YEAR TO 31 MARCH	ACTUAL				FORECAST			
	2006	2007	2008	2009	2010	2011	2012	2013
Export volume (mil litres)	57	72	85	105	120	125	135	140
FOB ¹ price (\$/litre)	8.5	9.1	9.0	9.0	7.9	8.0	8.2	8.5
Export value (\$ mil)	483	659	764	945	948	1 000	1 107	1 190

Note

1. Free on board – the value of the goods delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.

Sources Statistics New Zealand and MAF.

MANAGING SUPPLY

Soon after the 2008 crop was harvested, wineries and growers took swift action to moderate the prospect of a sizeable growth in wine stocks. New Zealand Winegrowers assisted by providing both wineries and growers with information on 2008 production as well as export growth and yield potential for 2009. Wineries and growers then evaluated ways to better match supply and market demand, including the use of crop management strategies to constrain the 2009 vintage. This allowed wineries to plan a more co-ordinated sale of stock arising from the 2008 vintage. Also, wineries have the benefit of quality fruit arising from the 2009 vintage and premium wine brands to position themselves well for today's tougher market environment.

restructured their vineyards. In contrast, Oceania (representing Australia and New Zealand) has seen its share of world trade in wine jump from 1 percent in the late 1980s to a forecast of 9 percent in 2008. This contrasts with traditional grape-growing countries like France and Italy, whose combined share of world trade has dropped in the same period from 58 percent to 38 percent.

While the global recession is causing some erosion in market price, the weak New Zealand dollar has helped hold up export prices per litre. MAF expects the industry to go through a supply correction as prices to growers and producers drop. A return to more attractive prices is expected by 2013.

»» EXPORTS

New Zealand exported 105 million litres of wine valued at around \$945 million in the year ended 31 March 2009. Our major export markets continue to be the UK, Australia and the US, and they collectively account for 85 percent of exports by volume. Sauvignon Blanc makes up more than 80 percent of wine exported. Total exports to date of this variety are up 35 percent on last year, although the proportion of the 2008 vintage exported to date is below levels achieved in recent years.

The Australian market continues to achieve remarkable growth, now accounting for 35 percent of total New Zealand wine exports, compared with just over 2 million litres or 14 percent of wine exports 10 years ago. The Australian consumer's rising preference for New Zealand wines was demonstrated last year when a New Zealand Sauvignon Blanc took the number one position in the Australian market for white wine sales. The UK market has also performed well as British consumers consider New Zealand wine as great value for money. The demand in this market for traditional favourites from France, Italy, Spain and Germany has declined as the strength of the Euro makes these wines more expensive.

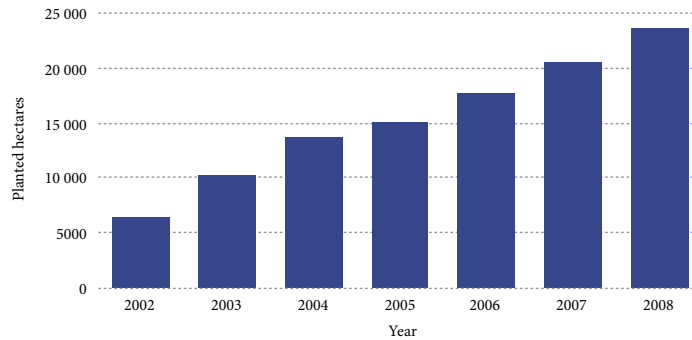
VITICULTURE



Source AgriBase.



FIGURE 12.1: RECENT GROWTH IN VINEYARD PLANTED AREA FOR MARLBOROUGH, NEW ZEALAND



Sources Marlborough District Council 2008 and MAF.

However, a concerning feature of exports over the last year is a dramatic rise in the proportion of wine exported in bulk compared with shipments of bottled wine. The large 2008 vintage exacerbated this trend, with the proportion of bulk shipments trending upwards from an average of 4 percent in recent years. For the month of May 2009, bulk exports reached a record high of over 30 percent. This is lowering overall demand for New Zealand bottled wine as consumers choose the cheaper wine option. Consequently although export value is trending upwards to \$1 billion, free on board returns per litre on a month-by-month basis are declining.

»» PRODUCTION

New Zealand's productive vineyard area stands at about 30 000 hectares. This area is projected to expand to about 35 000 hectares by 2012, based on vines already in the ground. However, given recent deterioration in market conditions, a mothballing or removal of some plantings is likely over the next two to three years.

Most of the recent growth in plantings and production is due to development in the Marlborough region, and almost exclusively the Sauvignon Blanc variety. In fact, this region has experienced the most sustained and significant horticultural land development in New Zealand's history.

