

'New World' Wine Exports Surged Again in 1996

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The following article compares the growth and increase in wine exports for Australia, the United States and Chile since 1990, with particular emphasis on their 1996 performance. All dollars quoted are US dollars.

Once again 1996 was a very strong year for leading 'New World' wine exporters. Last year combined export revenues for Australia, the United States and Chile surged over 30% ahead of 1995 to over \$1 billion and combined volume increased by 25% to 495 million litres.

To fully appreciate this growth we need to recognize where exports were seven years ago (Figure 1). Combined export revenues for the three countries were \$264 million for 180 million litres sold in 1990. In the six years since 1990 export revenues have increased fourfold and volume almost threefold (Figure 2). The major factors contributing to such extraordinary performance vary for each exporting country, but fundamentally it is wine consumers who are responsible by demonstrating their growing preference for the less complicated varietal wines of the 'New World' against 'Old World' regional wines and technical improvements in wine quality and flavour, most of which originated in the 'New World'.



As the largest wine exporter of the three, Australia has increased export revenues fourfold since 1990 to over \$400 million in 1996 (Figure 3). Volume has grown at the same rate to almost 150 million litres with a 20% increase in value per litre exported to \$2.86. During the same period US exports, of which California accounts for 90%, performed well by more than doubling revenues to over \$300 million with an impressive increase in value per litre of 47% to \$1.85. Although developing from a smaller base in 1990, the strongest growth has been

from Chile with 1996 revenues of \$292 million or five times their 1990 revenue base with an increase of almost 40% in their price per litre exported to \$1.59. Of the three countries, Chile now exports the largest volume of wine and in 1996 sold more than four times their 1990 volume.

Australia started exporting wine seriously in the mid-1980s and since then revenues have increased by a factor of twenty. Ten years ago export volume accounted for less than 3% of total; in 1996 exports were just under 30% of total wine volume. The domestic market has been growing slowly, however, total export revenues increased by 20% in 1996. Increased plantings have in part fueled this growth and a major increase in production is planned over the next five years. Volume also grew by 20% to 148 million litres for an average export price of \$2.86 per litre, highest of the three 'New World' players. The UK is the largest market, representing 46% of total revenues, and continues to grow at over 30% per year. The US ranks second and although growing almost as fast as the UK, is still only one quarter the volume. Other major markets are New Zealand, Canada and Sweden. The top five markets represented 80% of Australia's wine export revenue and volume. With the short harvest in 1997, red wines will continue to be a supply problem and whites do not come back into balance with market demand before 1998/99.

Generally low production costs and availability of supply, a high level of concentration in a few major markets (the UK particularly) and enormous growth potential in new markets (Asia) make Australia one of the foremost wine exporting countries in the world and places them well for continued growth in the next five years.

In 1996 US wine exports were ahead of 1995 by \$60 million or 25%, for total revenues of \$302 million (Figure 4). Volume grew by 16% to 163 million litres for an average export price of \$1.85 per litre. The five major markets accounted for 69% of revenues and 66% of volume.

The influential UK maintains the lead market position with a 26% share of total revenues and an increasing per litre price (+19% over 1995) to \$2.10/litre. Shipment volume increased a substantial 15% ahead of 1995. Canada maintained second place position, a solid 24% ahead of 1995 in value and 10% in volume as a shift takes place towards higher quality US wines. Other markets in the top five for US wine exports were Japan (+14%), Germany that bolted ahead by 256% in value and Switzerland (+8%).

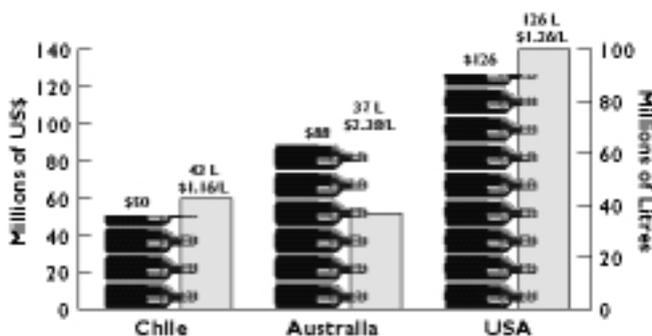


Figure 1. 1990 'New World' exporters, wine shipments.

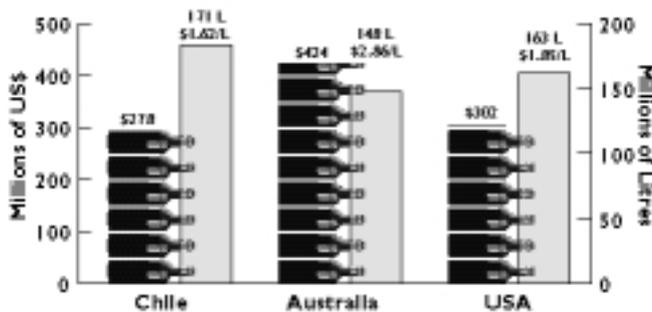


Figure 2. 1996 'New World' exporters, wine shipments.

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Strong domestic US market growth in 1996 (+6% to over 208 million cases), short crops in the last two years and current low industry inventories will place pressure on producers to increase export prices in the immediate short term to levels that may slow sales in key export markets. The latest statistics available for table wine sales in US supermarkets indicate that the 1996 rate of growth has slowed due to price increases. Total domestic volume declined by 3% for the month ending 2 March and on a 52 week basis for the second consecutive month total table wine sales in US supermarkets were flat. This decline was against an increase in supermarket sales of imported wines, with strong growth from Chile (+29%) and Australia (+34%).

However, future California wine supply is guaranteed to increase substantially and recent estimates indicate that new vineyard plantings may grow total acreage from 354,000 acres in 1995 to 425,000 acres by 1998. If domestic market growth continues to flatten as these new vineyard plantings come into production, producers will adjust prices to re-gain momentum and the foundation laid in recent years to develop the export market for US wines will be maintained.

Although many wine producers are now exporting, Gallo remains firmly in the lead increasing share of total California packaged exports to over 50% at close to 6 million cases shipped in 1996.

Last year was the turning point for Chilean exports when shipments exceeded both Australia and the United States. Revenue from exports for all wine types grew to \$292 million or by a staggering 68%, for a total volume of 184 million litres (47% ahead of 1995) and an average price of \$1.59/litre (Figure 5). Two major factors contributed to this remarkable growth in Chilean wine exports. Recent short crops in the US (California and Washington) forced many US wineries to search the world for varietal wines.

Chilean bulk shipments to the US grew from almost zero the previous year to 15 million litres in 1996. In an abrupt display to many Californians of what their reality as competitors in the international wine market has become, the average bulk wine cost to US producers FOB Chilean port was \$1.06 per litre in 1996. In terms of the global wine market development, we are quickly learning to understand that things will never be the same as traditional barriers are eliminated through marketing innovation and world growth of varietal wine consumption. Last year's cost to some US wineries of Chilean and other varietals from overseas appears frighteningly low to California growers who supply the domestic 'fighting varietal' market. They are quickly being forced to compete on quality and price against a wave of international varietal supply. Last year combined bulk and packaged wine shipments from Chile to the US increased by 116% to almost 6 million case equivalents and revenues grew by 107%.

The second factor contributing to Chile's growth in 1996 was the almost doubling of volume (+79%) and revenues (+73%) to the UK market. After a hesitant start early in the 1990's due to their concern over quality, UK buyers have now embraced Chile with their improvements and all the major grocery chains and independents are aggressively promoting Chilean wines. Impressive gains were also made from a smaller base in other major markets in Canada (+45%), Denmark (+100%) and Holland (+42%). Last year the share of the five largest markets increased to 62% of revenues and 65% of volume.

As Chile continues development of major northern hemisphere markets and competes against other 'New World' and 'Old World' producers, they can rely on a substantial and traditional local export market in Latin America that has a 14% share of bottled revenues and 15% share of volume.

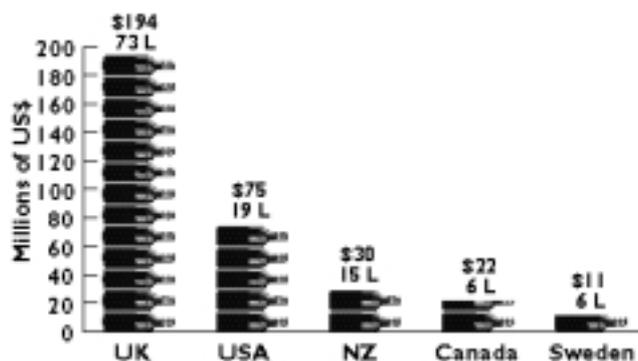


Figure 3. 1996 Australian wine exports major markets.

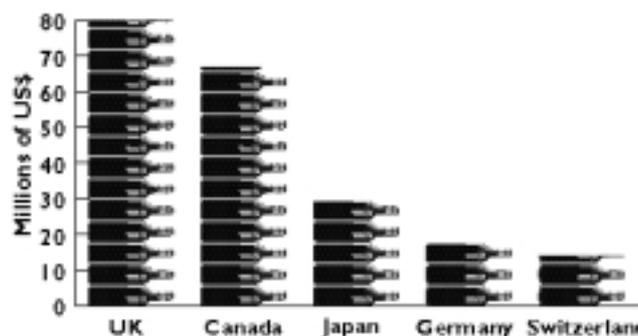


Figure 4. 1996 USA wine exports major markets.

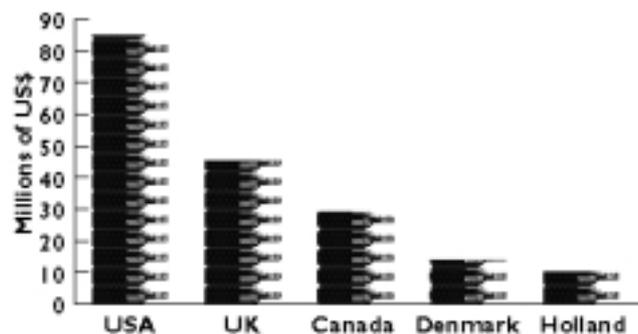


Figure 5. 1996 Chilean wine exports major markets.

The largest Chilean exporter, the Concha y Toro group of companies, accounted for 26% of export revenues and volume. The leading five wine companies generated 55% of revenues and sold almost 50% of volume.

Based on this export market growth and new vineyard acreage that at conservative yields will bring an additional 70 million litres of Chilean varietal wine to the market by 2000, the Chilean industry is now questioning whether they have enough acreage planted to keep up with world demand for their products. And based on export growth of 59 million litres last year they are right to be concerned. But in the wine industry we have a way of balancing supply and demand and no doubt Chile will do just that! □

Sources: Chilean Exporters Association, California Wine Institute, The Gomberg-Fredrickson Report & Australian Wine Export Council.