

ACROSS THE DITCH



New Zealand — the 85% rule

Misha Wilkinson

New Zealand may well be just across the ditch from Australia but its wine industry is certainly not in the proverbial ditch if you look at some of the key performance indicators. And when you compare many aspects to the Australian wine industry, New Zealand is a sea apart. That's not to say it's all smooth sailing across New Zealand and there continues to be many small producers struggling to keep afloat. Some of the positive factors including surging exports, strong price points globally and an 85% focus on varieties and markets all seem to indicate New Zealand is on the right course.

The varietal mix

Wine is one of New Zealand's fastest growing exports and worth NZ\$1.18 billion (YE June 2012). In 2006 exports were just NZ\$512.36 million – so that's 130% growth in six years. And nearly 85% of New Zealand's wine exports are now shipped to its three top export markets. It's probably no surprise that New Zealand produces a lot of Sauvignon Blanc but it may be surprising to know that it comprises almost 85% of New Zealand's wine

exports. It has certainly been a beachhead in terms of putting New Zealand on the map as a wine producing nation. How else could a country that produces less than 0.8% of the world's wine make an impact without that single-minded focus?

New Zealand's second most exported variety is Pinot Noir at just 6% of exports and Chardonnay represents 3%, so the core of New Zealand's exports is undeniably Sauvignon Blanc. Australia has more of a 'hedge your bets' approach as it's split in the middle in terms of red and white wine production with Shiraz and Chardonnay the predominant varieties, each representing around 23% of all grapes harvested. The next biggest variety is Cabernet Sauvignon at just over 13%, Merlot at almost 8% and although Sauvignon Blanc is the second most produced white variety in Australia it represents only 5% of grapes crushed. The two countries have radically different variety mixes.

Export focus

New Zealand is now the world's 10th largest exporter by value and 11th exporter by volume and its three biggest export markets (by value) are

Australia, the UK and the USA. New Zealand's exports have continued to increase in spite of tricky economic conditions, growing by 8% in value and 16% in volume in the last financial year (YE June 2012). Increased bulk wine exports have played a major role along with the strong New Zealand dollar. Yes the FOB price per litre has declined by 7% to NZ\$6.58 per litre (A\$5.23) if you're looking at the average value of all exported wine, however from July to October 2012, this has crept back up to NZ\$6.88 (A\$5.47) per litre.

Fortunately bottled wine comprises the bulk of New Zealand's exports and it accounts for nearly NZ\$1 billion of the NZ\$1.18 billion in exports. Looking at just the bottled wine data, prices are down only 3% and averages NZ \$8.45 per litre (A\$6.72). If you compare this to Australia, bulk wine accounts for 49% of export volumes and averages A\$1.01 per litre, with bottled wine exports at A\$4.40 (YE June 2012). Australia has seen an overall drop in wine exports both by value and volume over the 12 months to March 2012, according to Wine Australia, who says this was driven by a decline in bottled wine exports

offsetting an increase in bulk wine exports. For Australia, the key export markets have the UK at the top of the list with 36% of wine exports followed by the US, Canada, China and Germany – and sadly all have declined with the exception of Germany, but that's where Australia gets its lowest price per litre at A\$1.30 (CY 2011, Wine Australia)

Australia

Australia is New Zealand's premier market for wine exports and accounts for >32% of total export value – the Aussies just love Kiwi wine. According to Nielsen Data (YE June 2012), the average price for a bottle of New Zealand wine in Australia is A\$12.83 versus an average of A\$11.05 for an Australian bottle or an import from somewhere else at A\$10.67. Overall New Zealand only has 8.7% share of the Australian market in volume, but 13.7% share in value terms. If you look exclusively at the Sauvignon Blanc category, New Zealand wine sales account for nearly 68% by volume and just over 73% by value. Surprisingly with Pinot Noir, New Zealand also has a 31% share (by volume) and 35% share (by value) with a whopping 36% growth of Pinot Noir over the year. New Zealand Pinot Gris is another success story with 46% annual growth in the Australian market and now has 21% share (by volume) and 26% share (by value).

What this all means is that New Zealand wines account for three out of four Sauvignon Blanc bottles sold in Australia, one out of three Pinot Noir and one out of four Pinot Gris. So it's clear: not only do the Aussies love our wine and are prepared to pay more for it, but their thirst for our wine is increasing. And long may that continue. And if there are any Australians reading this that take umbrage at these facts, let's be totally clear about the size of Australia's share of the New Zealand wine market – 24%! That's right. Out of New Zealand's total wine consumption of 91.3 million litres, 21.9 million of it comes from Australia (YE June 2012) versus New Zealand's meagre 8.7% of the Australian market. Enough said.

UK

New Zealand exports a greater volume of wine to the United Kingdom than Australia, but the overall export value is lower due to the weak pound and the larger proportion of bulk wine exports. Unfortunately the reality is bulk wine has now become the norm for popular premium wine imports from all countries into the UK. Despite this, according to the latest Nielsen statistics (December 2012) in the off-trade, New Zealand has maintained its position as the country with the highest average retail price at \$6.38 per 750ml with the average

French wine price in second place at \$5.85, Argentina is next at \$5.47 and Australian wines is in fourth place at \$5.13 – just ahead of the \$5.06 average for all wines sold in the UK.

What’s even more amazing is these high New Zealand price points are predominantly due to white wine sales given Sauvignon Blanc represents 84% of New Zealand’s varietal mix in the UK. In fact half of all Sauvignon Blanc sold in the UK off-trade is from New Zealand – and that’s increased 9% over the past year. The nearest competitor is Chile, which has 25% volume share of the Sauvignon Blanc category and that’s after a 10% decline in annual volumes. The good news is that as a varietal category Sauvignon Blanc continues to grow and New Zealand continues to take market share.

In terms of value, New Zealand was again the strongest performing New World country in UK wine sales with a 13% increase in value and an 11% increase in volume – against a 2% loss of value for Australia and a 5% drop in volume. New Zealand now has a 6.3% share of the market in value and a 4.9% share in volume – not bad for a country producing less than 1% of the world’s wine.

USA

The market in the USA also continues to perform strongly for New Zealand with the latest export figures to the end of November 2012 showing over 21% volume growth over the preceding 12 months. Jon Fredrikson from US research firm Gombert Fredrikson says the price of New Zealand wines in the US is nearly twice that of all other New World imports and second only to those from France for all imports. While New Zealand represents only about

1% of all wine sales in the US, Fredrikson says that New Zealand still has 22% of all Sauvignon Blanc sales. He also points out how dramatically the New Zealand share of Sauvignon Blanc sales has grown since 2004. “California production and plantings of New Zealand’s primary varieties, Sauvignon Blanc and Pinot Noir, have been decreasing, despite increasing consumer demand, putting New Zealand in an enviable position,” he says.

For both Australia and New Zealand, the strength of the currency has made exports tougher. Both countries have also felt the impact of the GFC and the subsequent movement of the markets to more value-based wine purchases. However New Zealand seems to have been able to navigate around some of these financial obstacles and has continued to grow market share and preserve their premium price points. Perhaps New Zealand’s enviable position is due to a lack of scale (given Australia crushes over six times more than New Zealand) which gives them a ‘boutique’ or niche positioning, or is it just the focused effort to achieve success in the three biggest markets? Maybe it’s the lack of kangaroos on the labels? Or could it be all that attention around a single variety for which New Zealand is acknowledged as setting a benchmark globally? Whatever the cynics may say about New Zealand’s 85% focus on Sauvignon Blanc, the indicators show continued growth of the category not just in the established markets but also in many emerging markets and there’s plenty of opportunity for New Zealand to increase its share. The forecast looks bright.

MISHA WILKINSON owns Misha’s Vineyard in NZ. Email misha@mishasvineyard.com.

C.J. DeVITO Pty Ltd
Grapegrowers & Wine Storage

- BULK WINE STORAGE – TANKS AND SHEDS AVAILABLE FOR RENTAL
- STAINLESS STEEL WINE TANKS
- 10 MILLION LITRES OF STORAGE AVAILABLE,
- STORAGE RANGING IN SIZE FROM 45,000 TO 230,000 LITRES.
- MAJORITY OF TANKS ARE INSULATED
- LONG TERM CONTRACTS AVAILABLE

80 HARDY’S ROAD | PO Box 156 WAIKERIE SA 5330 | 08 8541 2937 | CJDEVITO@IINET.NET.AU