The big crush

Bulk booms as brokers fall off in US but take up China and Canada

Chris Herden

The rapid growth of bulk wine exports is best explained by new burdens confronting the dominant corporate operators.

Australian grapegrowers were pummelled by Mother Nature during the past season. To the many grapegrowers who spiritedly held fast as the scourge of mildew and bunch-rot diminished yields across the eastern and southern states, a national crush estimate of 1.6 million tonnes for 2010-11 is a surprise.

The 1.6 million tonne estimate won't, however, translate into wine at the same volume as previous years because some of the harvest was converted to concentrate and distilled to provide boosted sugar levels in low Baume fruit, which was harvested early to avoid disease damage. The high crush can also be attributed to 2010's above average rainfall in the Riverland and Riverina regions, delivering plentiful soil moisture during the vigorous vegetative growth cycle of the vines and also proving favourable during the cellular developmental stage of the berries.

"There were larger canopies ripening larger crops and this produced lots of bunches of fat berries," said Seamus O'Fathartaigh, viticulturist and commercial manager of Fuse Wine Trading, a bulk wine brokerage which also serves as the commercial arm of a diverse group of McLaren Valley wine companies.

"Cropping levels were high even though there was damage. We may have been looking down the barrel of a 2 million tonne crush if not for the disease problems.

"The major companies rejected a lot of crop, which was then converted into wine by the growers. We know this because most of the contract facilities around the Riverland and Sunraysia areas were at full crushing capacity and growers had decided to take a punt and make wine irrespective of the disease pressure."

Bulk wine sustainability

According to Wine Grape Growers' Australia (WGGA), a more realistic 2011 harvest assessment (pertaining to the profitable production of wine) is a crush of between 1.1 and 1.3 million tonnes; the remaining tonnage likely to have been reserved by winemakers to produce concentrate or to serve the burgeoning global bulk wine market.

"For a relatively higher-cost nation like Australia, competing in that [bulk] market is only possible by acquiring fruit at less than the cost of production, meaning growers are severely disadvantaged," said WGGA executive director Lawrie Stanford, in a response to the WFA Vintage Report released in June. "Bulk wine opportunism is not a long-term business proposition and it serves only to maintain the oversupply and drag down the image of Australian wine overseas."

The WGGA concedes bulk wine production is, however, here to stay and both the grapegrowing and winemaking sectors need to make hard decisions if the industry is to survive as a cost-effective supplier of both the high volume commodity and "differentiated wine with a personality".

"The first step for the grower or producer is to decide which business model they want to be in," Stanford said. "Commodity wine is a fast moving consumer good – it competes and sells mainly on price and its cost-sensitivity will be its key production characteristic."

Sales trends

Australia's export picture continues to be dominated by increased bulk sales and falling bottle sales and a similar trend is occurring across the Tasman. In 2009, New Zealand's Ministry of Agriculture and Forestry warned the value of the premium Marlborough Sauvignon Blanc brand was at risk due to the marked increase in the proportion of wine exported in bulk (4-30% in just a few years) and the lowered overall demand for NZ bottled wine.

The past two decades saw large wine corporates leading the charge in seeking lower costs along the supply chain. High-volume, low-margin operators are now confronted with the challenges of a strengthening Australian dollar and the growing prominence of New World wine producers.

"The underlying issue with bulk is the Australian dollar and the pressure it puts us under," O'Fatartaigh said.

"Our exports have increased in value but dropped in quantity. Even the price point of the entry level, 'sunshine in the bottle' wines, will come under pressure if the exchange rate stays as it is."

Offshore facilities

Some wine producers have already succumbed to the pressure. This was painfully evident when, in 2009, the owners of the Wolf Blass portfolio, Foster's Group, shed 300 jobs. Accolade Wines, formely Constellation Wines and the owner BRL Hardy Wine, laid off hundreds of domestic staff and moved its core bottling facilities in a major cost-saving restructure in 2007. In March last year another 40 of Hardy's South Australian process workers were cut loose as further production was moved to Britain in order to cope with the downturn in the global wine industry and fluctuating exchange rates. And so a significant proportion of bulk wine shipments is for the offshore packaging of Australian brands by Australian producers rather than trade in bulk wine for other purposes.

A significant proportion of Australian wines sold in UK are proprietary brands, for company's such as Tesco's. "Winemakers are a resilient bunch but the break-up of the wine industry has been a disaster," Malesco Wine Broker director Mark Cohen said.

"I think when Foster's and Rosemount and others were competing with each other there was a hungrier, more aggressive market. We had a brilliant industry five to 10 years ago with a lot of leaders flying the flag – but now it's all under one umbrella."

The broker and China

Cohen agrees with O'Fatartaigh's analysis 2011 would have been a bumper year for wine production and sales if not for the battering from the weather and the rising Australian dollar. Malesco hasn't engaged in any high volume clearances of late and though the brokerage is sustaining business with clients in South-East Asia and Europe, exports to the US have plummeted from 40,000 cases last year to zero this year.

"Canada is our biggest overseas market because their dollar moved up with ours," he said. "Exports have slowed but China has picked up a hell of a lot of the bulk. Every man and his dog and his label are in China at the moment."

Although wine is by no means the most popular tipple in China, it is quickly gaining favour with millions of urban workers who, due to the prosperity and higher disposable incomes associated with the country's prolonged economic growth, are seeking out the aspirational qualities and perceived health benefits of wine.

O'Fatartaigh says Fuse Wine Trading, like everyone else in the brokerage business, is keeping a close eye on the Chinese market.

"We're not overly active there at the moment as we've got enough going on domestically and it's not financially viable to be in the US," he said. GW

MEMORANDUM OF COOPERATION

There is a new and improved process in place to protect the integrity of Australia's wine reputation and product on a bulk wine front, says Wine Australia.

Wine Australia chief executive Andrew Cheesman says the Memorandum of Cooperation between Australia and the China Quality Certification (CQC) Centre, which came into effect in April this year, was signed to further protect the quality and integrity of Australian wine in China.

"Previous controls relied on auditing to a generic standard, whereas CQC auditors have been trained in a process specific to Australia's needs," he said.

"We now have the ability to despatch auditors who are fully aware of Australia's standards, into Chinese bottling facilities. It will ensure that the risk to Australia's wine reputation as a result of uncontrolled bottling in international markets is minimised."

This initiative is about protecting Australia's wine reputation internationally, says Cheesman.

"While Australia has stringent controls in place to manage the image and reputation of all wine leaving our shores, often it is hard to track and manage bulk wine that is not bottled in Australia – regardless of the market," he said.

"This initiative means that any facility bottling bulk wine from Australia will need to be an approved facility and will be regularly audited."

Wine Australia believes the initiative provides the wine sector with further protection and a vote of confidence about the process and systems in place for monitoring any bulk wine from Australia.