

Wine
Australia
for
Australian
Wine

State of the Sector report

Uniquely Australian:
Fresh
Authentic
Exciting

January 2018

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Introduction

Australia produces unique wines that are fresh, authentic and exciting. Australia offers distinguished sites, the wealth of some of the oldest vines on the planet and multi-generational families whose long-standing dedication provides inspiration and leadership while offering custodial care of Australia's most precious vines and wines.

There are distinct parallels between Australian wine and Australian music. Australian music and wine are unique expressions of a diverse Australian culture and landscape. Both are distinctly Australian while also universal. Like wine, Australia has a rich musical history that has played a huge part in shaping Australian culture. Music and song are inseparable in Indigenous cultures and part of unbroken traditions dating back tens of thousands of years. Folk music, like grapevines, has existed in Australia since our colonial days. Rock and popular music have an almost limitless number of genres — including alternative, country, electronic, funk, grunge, indie, hip hop, pop, progressive rock, punk, R&B, rock, ska, and soul — just as there are more than 100 grape varieties grown commercially. These multiple genres and varieties provide a niche for every taste and every type of music and wine lover.

This report looks at the parallel and shared history of wine and music in Australia, and how both have evolved into something uniquely Australian, appreciated by millions of people around the globe. The wine sector has been through a particularly turbulent decade since 2007, but our commitment to innovation and quality, diversity, creativity and authenticity means we are primed for a new era of prosperity. The latest market performances for Australia suggest that we are well on the way.

Hiroshi Ishida, Japan's leading sommelier said 'There is no other wine-producing country like Australia, which is never afraid of changes. Australia is the most dynamic and diverse wine producing country.'

'So, you look into the land and it will tell you a story'

Great Southern Land, Icehouse

History, evolution, revolution



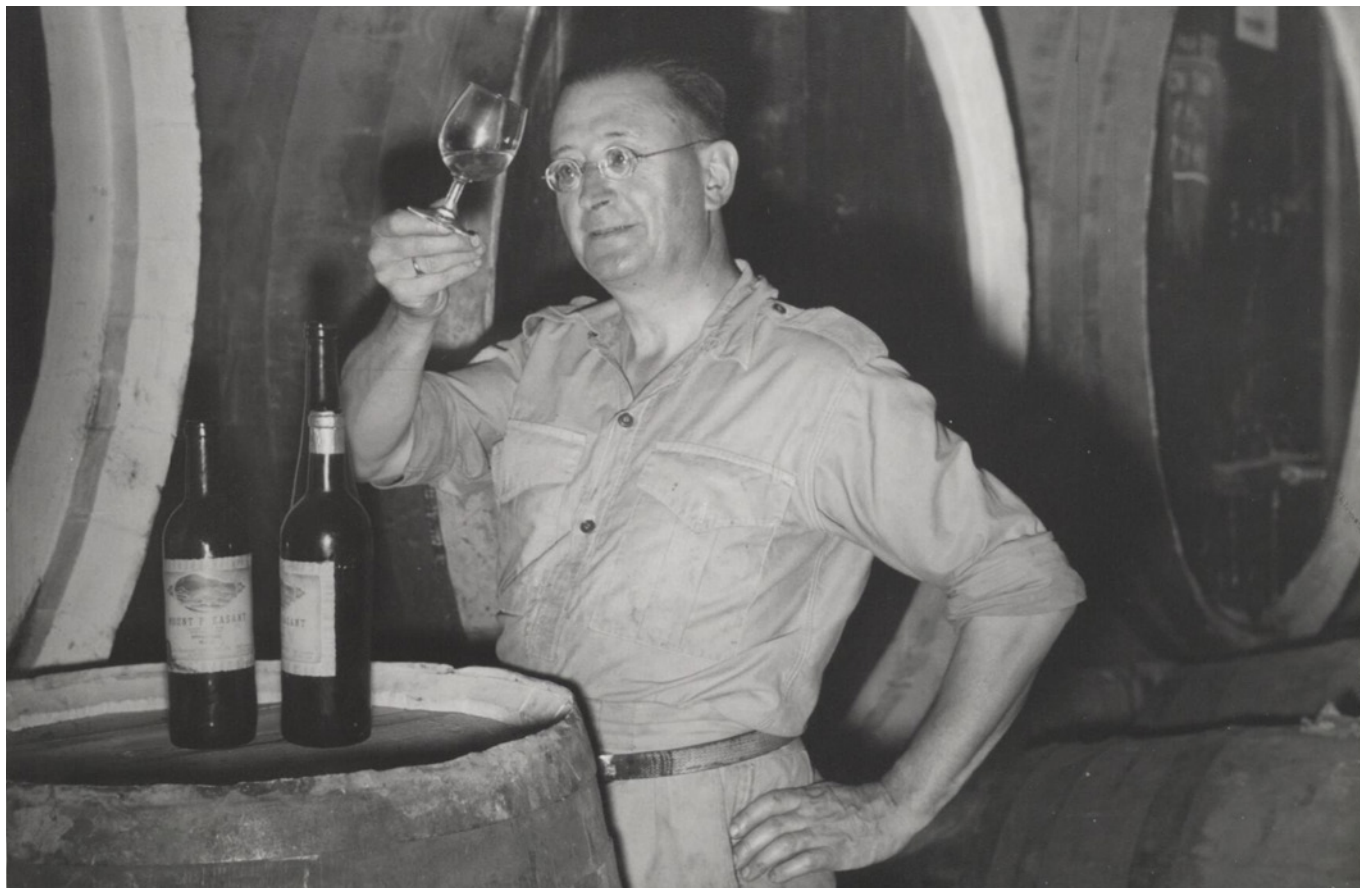
History of innovation

Musical exploration and innovation in Australia can be traced back to the goldfields, where improvisation was a significant part of music in the colonies. In the early 20th century, Percy Grainger (the pianist and composer) emerged as Australia's first world renowned musical innovator. In his long career, he made many adaptations of other composers' works but much of his work was experimental and quite unusual. Perhaps his best-known music experiment was 'Free Music' from the 1930s that challenged conformity with the traditional rules of set scales, rhythms and harmonic procedures. Grainger believed his Australian origin naturally led to innovation and experiment in his music.

This innovation continues today with Australian musicians interpreting old classics and creating new classics. Two examples illustrate this. On the back of a ground-breaking video, Gotye's *Somebody That I Used to Know* became a global hit in 2011. The song samples Luiz Bonfá's 1967 song *Seville* and has sold more than 13 million copies worldwide, becoming one of the best-selling digital singles of all time. In the classical arena, Australian violinist, conductor and composer, Richard Tognetti has established an international reputation for his compelling performances and artistic individualism. He was made a National Living Treasure in 1999.



Percy Grainger



Maurice O'Shea tasting wine at the Mt Pleasant Winery

'I think I hear the sounds of then'

Sounds of Then, GANGgajang

Innovation and exploration have also always been at the forefront of the Australian wine and grape community. Australian growers and winemakers are curious and willing to experiment; we challenge convention. Whether it's innovative techniques in the vineyards, pushing winemaking boundaries or experimentation with non-traditional varieties, there is a trend to throw out old rules and step forward with a generational shift in attitude and approach. For example, Maurice O'Shea hunted for the best vineyards and wines in the Hunter Valley and across Australia for his stunning expressions of style or place. Max Schubert pushed boundaries in winemaking, taking the latest in winemaking research to create Australia's most famous wine — Penfold's Grange.

The desire to embrace the funky and gritty art of winemaking has led to wines that are truly exciting and capture a revolution in the glass.

One of the reasons for the success of Australian wine is that, as a collaborative community, it has innovated. Over the last 50 years the emergence of an Australian fine wine dimension owes a lot to individuals and institutions who have experimented, tried new things, and come up with novel solutions for problems. These innovations haven't just benefited Australian wine, they've spread throughout the wine world.

Innovation has helped the Australian wine scene develop into the dynamic and diverse state it is in today.



Emergence of the table wine culture

The influx of immigrants at the end of the Second World War had a profound impact on Australian music. The unique sounds of Australian rock, pop, folk, and jazz reflect the arrival of people from all around the globe, particularly from Europe in the 1950s and 60s. However, the most influential event occurred in 1964 when the biggest band in pop history arrived on our shores for its only visit, causing scenes of fan frenzy that have never been repeated in Australia. The huge crowds that turned out to welcome The Beatles (300,000 in Adelaide) signalled a new dawn for our pop music culture.

There was an explosion of new bands in the wake of The Beatles such as The Missing Links, The Twilights, the Masters Apprentices, The Loved Ones and the Bee Gees. The Easybeats were the most successful and influential act of the era. The band had a string of local hits including *She's So Fine*, *I'll Make You Happy*, *Wedding Ring* and *Sorry* before moving to England and releasing the worldwide hit *Friday on My Mind* in late 1966.



The Easybeats

The post-war influx of European immigrants and returning soldiers into Australia, also brought with them new skills in wine production. As new techniques were introduced and developed, and as Australians gained a taste for the newer, finer wines, the table wine culture emerged in the 1960s. Until then, sweet and fortified wines dominated the Australian wine landscape.

While the renaissance of table wines occurred in the 1960s, the quality of Australian table wines was recognised in the 19th century. During a blind taste at the 1873 Vienna Exhibition, French judges praised some wines from Victoria; however, they withdrew their laudatory remarks when they discovered that the wines were Australian and not French. The judges protested on the grounds that 'wines of that quality must clearly be French.'

Australian wines may have garnered some insulting remarks at the Vienna Exhibition, but the sector continued to win wine awards and receive global praise. In 1878, a Shiraz from Victoria competing in the Paris Exhibition was likened to the French Chateau Margaux and was described as a 'trinity of perfection.' One Australian wine won a gold medal at the 1882 Bordeaux International Exhibition and another received a gold medal at the 1889 Paris International Exhibition.

'I drank the wine they had left on my table'

Just Like Fire Would, The Saints



The red wine boom

In the 1970s, Australian music found its own voice, moving beyond English and American influences and creating a uniquely Australian sound. Skyhooks' landmark debut album *Living in the 70s*, released by Mushroom Records in 1974, became the highest selling Australian album in history to that point. This influential album proved to Australians that it was possible to be both alternative and popular and that it was OK to sing about local places and experiences. Such was its impact that six tracks from the album were banned on commercial radio in Australia.

As punk music emerged in the mid-70s, The Saints and Radio Birdman flew the flag of a more rebellious, do-it-yourself rock attitude. September 1976 marked a watershed moment in Australian music history. The Saints, at the time an unknown band from the suburbs of Brisbane, released their self-produced debut single (*I'm*) *Stranded*. Amazingly, the record earned rave reviews in England, and was dubbed the 'single of this and every week' in the UK's *Sounds* magazine. With its central theme of alienation, it became an anthem for a generation of young people at a time when Australia shared its national anthem with Britain. But arguably more influential than the song itself was the Saints' fierce independence. There were no venues to play in Brisbane, so the band hired out suburban halls. No local record company was interested in what they were doing, so they hired out a local studio, paid for the recording themselves and put out the song on their own label, Fatal Records. Today, this same attitude can be observed in Australia's young winemakers.

The 1970s also saw Australia give birth to something uniquely big and bold in music — Aussie pub rock, where AC/DC, The Angels, Cold Chisel, and Rose Tattoo, among others, created a new hybrid of blues-oriented rock music in the nation's pubs and clubs that influenced musicians here and overseas for generations.



Living in the 70s by The Skyhooks

Uniquely big and bold can also describe Australian wines in the 1970s. The table wine culture of Australia continued to expand, led by a boom in red wine sales, particularly bold and flavoursome red blends such as Cabernet Sauvignon/Shiraz. Sales of Australian red wine in the domestic market increased from 10 million litres in 1964–65 to 36 million litres in 1974–75, an annual average increase of 14 per cent per annum over the decade. In 1959, 69 tonnes of Cabernet Sauvignon were crushed in Australia — by 1979 the crush had grown to 25,000 tonnes. Over the same period, the Shiraz crush grew from 18,200 tonnes to 72,000 tonnes.

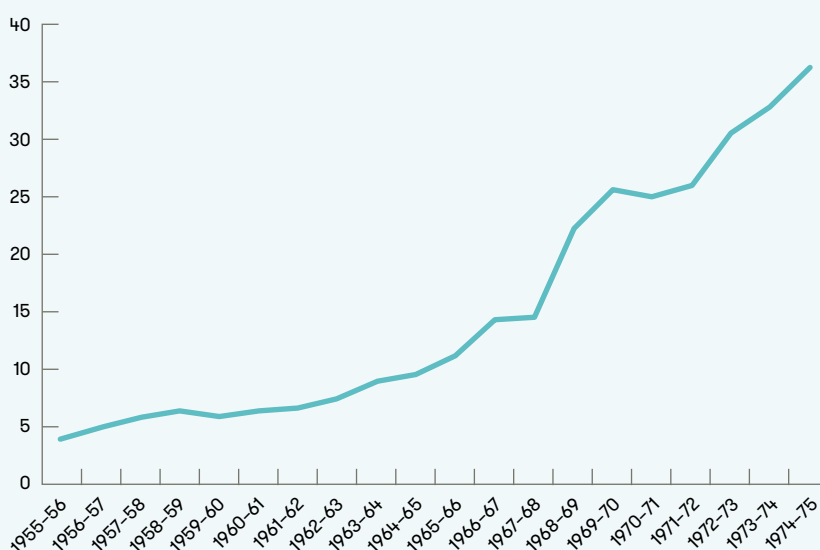
'Now listen, oh we're steppin' out'

Eagle Rock, Daddy Cool

In the 1970s, red wine consumption overtook sherry in Australia and the fruit-forward styles that emerged began to capture international attention. The end of this decade brought a preference for dry table wines and the emergence of Chardonnay.

Wine regions expanded and were replanted, while others were established by new generation pioneers in Yarra Valley, Beechworth, Canberra District, Orange, Mudgee, Margaret River and more. A generation of Australian winemakers experimented with new winemaking processes and sophisticated blending techniques.

Figure 1: Red wine sales in Australia (million litres) – 1955–1975



Source: Australian Bureau of Statistics



Sunshine in a bottle – Chardonnay boom

Australian music really flourished in the 1980s. The Sunnyboys, Hunters and Collectors, Paul Kelly, The Birthday Party, Australian Crawl, Divinyls, the Church, Hoodoo Gurus and The Stems led the way.

Some bands, like AC/DC, Men at Work, INXS, and Midnight Oil, achieved international success. AC/DC's *Back In Black* released in 1980 is the second biggest-selling album of all time after Michael Jackson's *Thriller*.

Men At Work's album *Business As Usual* was a massive global hit in 1982. In the USA, it spent an unprecedented 15 weeks at number 1 on the USA Billboard 200, led by the ubiquitous single, *Down Under*. It was arguably the musical equivalent of *Yellow Tail*.

The global success of Midnight Oil's *Diesel and Dust* in 1987 is remarkable. It is a concept album about the struggles of Indigenous Australians and environmental issues. In 1989, *Rolling Stone* magazine ranked it No.13 on their list of the 100 best albums of the 1980s.



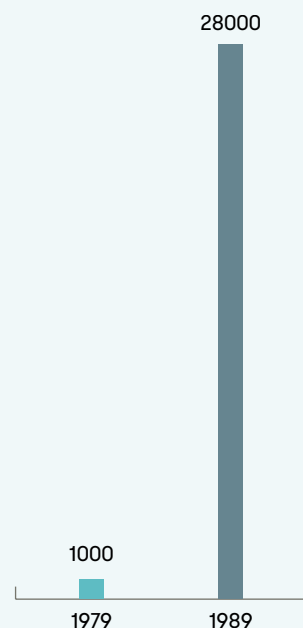
Diesel and Dust by Midnight Oil

The evolution of Australian wine continued in the 1980s with a swing to white wine led by the rich and oak-driven Chardonnay styles. Everything was big in the 80s — expense accounts, shoulder pads and Chardonnay. With generous oak exposure, Chardonnays of the era were deep yellow, with butter on the palate and toffee on the nose. The popularity of Australian Chardonnay with consumers led to an explosion in plantings — during the decade the Chardonnay crush increased from 1,000 tonnes to 28,000 tonnes.

The growth in white wines, especially Chardonnay, was driven by a continuing change in social attitudes to table wine consumption as well as the rapid rise of the soft-packs (or casks). Soft-packs broadened the consumption base in Australia as beer or spirits drinkers became wine drinkers.

Australian wine was also finding success overseas, particularly in the UK. Varietal wines replaced generic terms like claret and hock. While big brand names dominated, a boutique winery culture also emerged. Australian wines became established in the traditional markets of Europe. The world was embracing clean and fresh Australian wines with fruit-driven white styles and robust reds.

Figure 2: Chardonnay tonnes crushed – 1979 v 1989



Source: Australian Bureau of Statistics

Australia broke new ground by reaching out to consumers to actively help them understand what was in the bottle — varietally led, and with taste descriptors on back labels. Australia made wine readily understandable and 'accessible', by changing the language of wine of the time.

'Something shimmering and white'

Under The Milky Way, The Church



Period of extraordinary export growth

A wave of Australian musicians emerged in the 1990s who changed Australia's musical landscape and looked towards Australian culture for inspiration. Acts such as Powderfinger, Silverchair, You Am I, Died Pretty, Tumbleweed, Clouds, Magic Dirt, Spiderbait, Custard and The Cruel Sea took alternative music to the local masses aided by the success of local music festivals such as the Big Day Out.

Australia stood out from many other countries in the 1990s as many bands created new sounds by blending different styles of music. In 1991, *Treaty*, Yothu Yindi's song of reconciliation, became the first track recorded by predominantly Indigenous performers to make the charts. The song was sung almost entirely in the Aboriginal language Gumatj. It was a true collaboration, written by Paul Kelly, Yothu Yindi and Midnight Oil's Peter Garrett. The dance-oriented Filthy Lucre remix peaked at number 11 on the Australian charts, spending 22 weeks in the charts.

Regurgitator is arguably the best example of an Australian band of the era, blurring genres to produce unique music. Formed in Brisbane in 1993, Regurgitator is one of the most original bands Australia has ever produced and it defies categorisation. National broadcaster Triple J has described Regurgitator as a 'machine that absorbs popular music in all its dizzying permutations, then spews it back out. This technicolour approach means that Regurgitator are free to play whatever they want — as long as it's delivered with a nod and a wink.'



Regurgitator

'Do you remember, nothing stopped us in the field, in our day'

Flame Trees, Cold Chisel

This could describe Australia's winemakers — they are free to produce unique and artisan wines that express the wine's terroir as well as their own creativity.

The 1990s showed the world that Australia was adept at blockbuster, full-flavoured, densely packed, powerful red wines. Robert Parker Jr, the famous USA-based critic, with praise and high scores for the wines of this style, bolstered the image and supported Australian winemakers into reinforcing this and related styles. Intense, concentrated examples of Shiraz, Grenache and red blends dominated the Australian fine wine story.

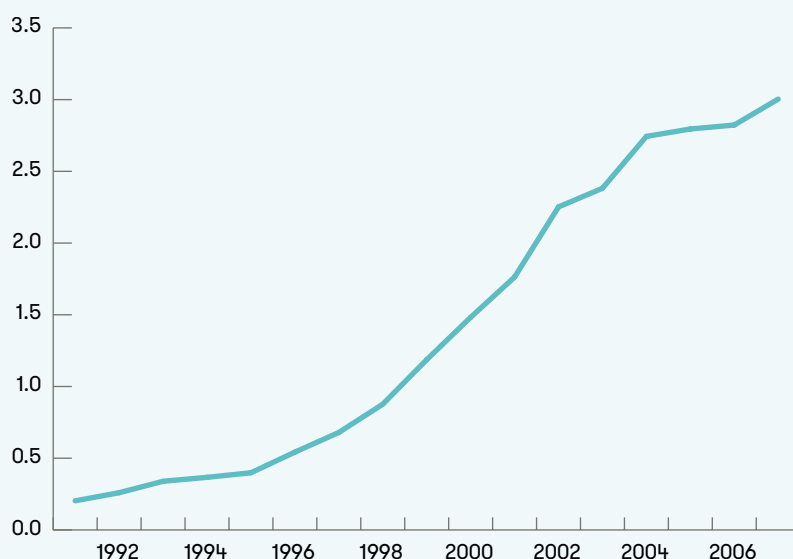
Global demand for Australian wine created a boom in new vineyard plantings in the late 1990s. Australian exports grew at extraordinary rates through to a peak in 2007. From 1991 to

2007, the Australian wine sector more than tripled production from less than 400 million litres to 1.2 billion litres and it achieved total revenues of \$5 billion in 2007. The value of exports grew from \$212 million to \$3 billion.

The sector built an enviable global reputation for producing quality wine and created strong export markets particularly in the UK, USA and Canada. Australia had conquered the mainstream consumer market through showcasing world-class wines that expressed the vast diversity of talented winemakers and their unique regional aspects. Australian wines were marked for their elegance and longevity and established a reputation for winemaking excellence that cannot be duplicated anywhere in the world.

However, a storm was coming over the horizon.

Figure 3: Australian exports – 1991 to 2007 (A\$ billion FOB)



Source: Wine Australia



The perfect storm

The dawn of the new millenium saw the emergence of two things that had a profound impact on Australia's talented musical artists — the advent of reality television and the demise of live music venues.

The advent of reality television in the 2000s affected the ability of young and upcoming independent acts to gain a recording contract and airplay. The first of the music reality programs, *Popstars Live*, aired in Australia on 8 February 2000 and forever changed the musical landscape in Australia. Thousands of young musicians/singers from all over Australia competed for a record contract through stages of elimination. The first series of *Popstars* was one of the year's highest rating TV programs, at its peak attracting an audience of over 2.5 million viewers. The pop group *Bardot*, created from the *Popstars* television program, achieved a number one hit single, two additional gold singles and a number one album in Australia. *Popstars* was the precursor of other global reality music programs such as the *Australian Idol*, *The Voice*, *X Factor* and *Australia's Got Talent*.

At the same time as reality TV was taking over our television screens, there was a steady decline in live music venues in Australia, once the lifeblood of Australian musicians. Until the 2000s, hundreds of local artists were playing in venues across the country, driving a booming local industry and birthing Australian icons like *AC/DC*, *INXS* and *Midnight Oil*.



Midnight Oil performing live

‘We can lock away the bad memories together, close the doors to the past forever’

Alone With You, The Sunnyboys

However, a combination of government regulation, insatiable industry profiteering and disregard for the value of music started to strangle Australia's live music industry, leaving a vibrant and diverse culture gasping for breath. Musicians found themselves victims of a financial squeeze caused by the progressive impact of regulations imposed on venues. Stricter drink-driving laws combined with the home entertainment boom saw patron numbers slump. Already desperate to counter this decline, venues were instead smashed when increased residential development brought a new issue: noise complaints. Inundated by angry residents seeking quieter nights, councils succumbed to lobbying and introduced noise restrictions on inner-city venues. Owners were confronted with a financial dilemma: soundproof their businesses at an astronomical cost, restrict live music, or shut their doors.

As a result, live music venues began a steady decline. For example, there has been a 40 per cent decrease in revenue from live performance venues in the Sydney CBD lockout areas, according to data by music body APRA AMCOS. The figures, collected from 1 February 2013 to 31 January 2015, show a decline in ticket sales, spending on live music and attendance at dance venues with a recorded music licence.

This is not a uniquely Australian phenomenon: it's happening worldwide.

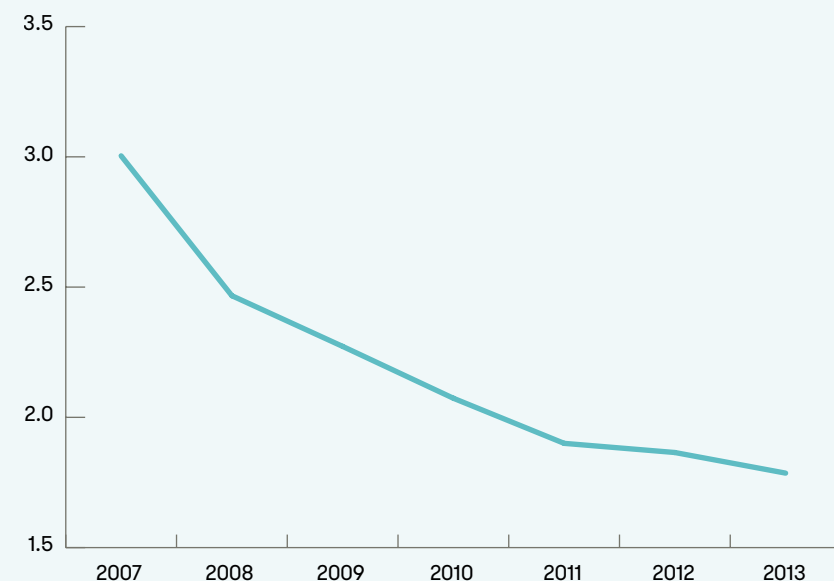
As the Australian wine sector reached its peak in sales volume (and, in recent history, profitability) a ‘perfect storm’ began. From 2007, forces combined to hit the sector, which saw profitability fundamentally lowered for many participants over the next six years. The factors included:

- The global financial crisis (GFC) that hit world markets starting in August 2007 and accelerated through 2008 — coinciding with a significant fall in Australian wine exports. Export volumes recovered through 2009, only to fall again in 2010 and 2011.
- Fall in demand for Australian wine in key markets, especially the USA, UK and Canada, from 2007 to 2012.
- From 2004, the Australian dollar rose steadily from 80 US cents to almost parity in July 2008. A sharp fall to 62 US cents in August 2008 preceded a steady climb to parity in November 2010.

Domestic retail consolidation, supplier management and vertical integration accelerated through the period. Woolworths accelerated its growth of Dan Murphy’s and acquired Langton’s in 2009 and Cellarmasters in 2011. Wesfarmers acquired Coles in 2007 and began to transform its management, strategy and performance — including its liquor business.

The situation was not helped by low domestic demand growth and increasing imports.

Figure 4: Australian exports – 2007 to 2013 (A\$ billion FOB)



Source: Wine Australia

The ‘storm’ intensified due to the oversupply of wines that resulted from excess planting and winemaking capacity given the unexpected fall in export demand and rise in the Australian dollar. This created a series of responses with negative implications. A market for uneconomic grapes and wine developed ensuring supply was slow to respond to the fall in demand and profitability. This put further price and volume pressure on wine producers and educated the market to expect lower priced wine, damaging the Australian wine brand and the demand for exports. As a result:

- Retailers were able to source cheap wine to support their private label and promotional strategies.
- There was a flood of cheap Australian wine onto export markets, much of it in bulk or packaged without proper branding support.
- Winemakers accessed cheap fruit to maintain or increase wine production to amortise fixed costs — this provided a market for uneconomic grapes, and put further price and volume pressure on winemakers.
- There was an increased focus by some participants on ‘leveraging’ the Wine Equalisation Tax rebate.

From 2007 to 2013, export volumes fell by 100 million litres from 786 million to 686 million litres and value declined by \$1.2 billion from \$3 billion to \$1.8 billion. Exports to the USA were hardest hit over this period. From a peak of \$960 million in 2007, Australian exports to the USA fell to \$360 million in 2013.



Emerging from the storm

On the musical front, the last decade has seen the biggest changes in Australian music, not just in the broadening styles and their popularity but in the way music is recorded, listened to and distributed. Digital downloading and music streaming have fundamentally changed the way people listen to and access music. Jon Rose, acclaimed improvising violinist and instrument maker, explains the impact from his perspective, 'Even an obscure artist like myself can find a dozen websites my material can be downloaded from for free, or for a few dollars. I don't have the time or the resources to go chasing after these people — it's how it is. We accept, we adapt, or we try to get a real job'.

While the technology has changed, Australians continue to produce amazing music. We've had international acclaim for acts across many genres, including Pnau, Vance Joy, Chet Faker, Tame Impala, DMA's, Meg Mac, Birds of Tokyo, Flume, The Presets and Gang of Youths, to name a few.

Over the last decade, Australian hip-hop found its voice through Hilltop Hoods, The Herd, Bliss n Eso, Urthboy, Tkay Maidza, 360 and, most significantly, A.B. Original. Both members of A.B. Original are Indigenous Australians. Their music is overtly political and has been described as 'angry, polemical, brutally frank and meant to inspire a response, good or bad'.

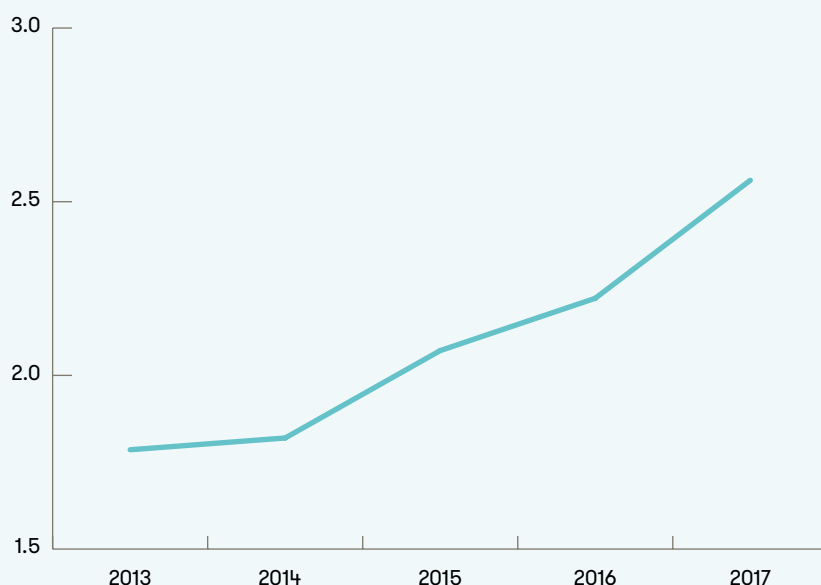


A.B. Original

'Time for a cool change, I know that it's time for a cool change'

Cool Change, Little River Band

Figure 5: Australian exports – 2013 to 2017 (A\$ billion FOB)



Source: Wine Australia, 12 months ended September 2017

The Australian wine sector has also seen significant change. We once led the world but 'the perfect storm' saw the Australian grape and wine community retreat into defend or survival mode. However, it was during these tough times that a counter culture began to arise. Conversations shifted to Australia's often-overlooked cool climate wine regions. Whole bunch fermentation, lower alcohol, earlier picking, brighter red wines styles and a knack for seeking out the best from old vines, unique sites, unsung regions and a mesh of new, interesting grape varieties outside of the noble varieties emerged.

A new generation of experimental winemakers began to emerge, with artisan production and organic/biodynamic credentials being explored.

Today, there's a particularly strong focus on freshness, natural acidity, and regional distinction. Australian wine has never been more exciting, diverse or focused on improving its own culture.

This focus is resonating around the world. Since falling to a low in 2013, Australian exports have steadily grown. In 2017, the value of Australian wine exports grew by 15 per cent to \$2.56 billion and volume increased by 8 per cent to 811 million litres. The average value of exports grew by 7 per cent to \$3.16 per litre FOB, the highest since the equivalent period in 2009.

Reasons to believe

Despite the challenges faced by the music industry through the digital age and the decline in live music venues, Australian music has never been more diverse or exciting with many artists from a wide range of genres finding success locally and internationally. From the commercial pop of Sia to the blissed-out psychedelic rock of Tame Impala, Australian musicians today are continuing to build on the past while remaining authentically and uniquely Australian.

The Australian grape and wine community has endured a tough period but has emerged stronger than ever, ready for a new, sustained period of prosperity. With grapegrowers and winemakers focused on wines that are an authentic representation of their place, the Australian dollar expected to remain relatively low and perceptions of Australian wine improving (among trade and consumers), it's time for the world to embrace Australia's unique and exceptional premium wines.

There can be no doubting our credentials:

- Australia is home to talented artisanal winemakers attuned to their vines and place and skilled in their craft.
- Australia is home to distinctive terroirs, exceptional vineyards, talented winemakers, expressive wines and a new generation improving and carrying on the legacy of their predecessors.
- Australia's food and wine offering is world class. Research undertaken by Tourism Australia shows that people who have visited Australia rank us as number two in the world for our food and wine experiences, behind France and ahead of Italy (third).

'There's no time like the right time, and that's now'

The Right Time, Hoodoo Gurus



‘Playing in the dirt, we find the seeds of fun’

Kiss The Dirt, INXS



Diverse and authentic

Songwriters are often the unsung heroes of the Australian music industry. They are the Australians who make the world sing while staying behind the scenes. There’s a rich history of Australians who’ve made their fortunes being the person putting words into a singer’s mouth. Often songwriters are happy to let those stars take the glory, happy to stay out of the limelight. They love to make music and find the right voice to lift their song to the next level. The songwriters may not be household names but their songs are.

One example is Mike Chapman, who dominated the glam rock scene of the early 1970s either writing or producing hits for Suzi Quatro, The Sweet, Racey, Mud and Smokie with musical partner Nicky Chinn. He later produced classic albums for Blondie, The Knack, Australian Crawl and Baby Animals, as well as hits for Toni Basil, Pat Benatar and Tina Turner in the 1980s. His list of hits is extraordinary, including *Mickey* (1982), *Love Is A Battlefield* (1983), *Can the Can* (1973), *The Ballroom Blitz* (1973), *Living Next Door to Alice* (1976), *Lay Your Love on Me* (1979) and *The Best* (1989). Yet Chapman is not in the Australian Recording Industry Hall of Fame.

The songwriters of the Australian wine sector are the growers whose grapes underpin Australia’s rock star wines. Australian wines express the diversity of the people who craft them and the unique regional characteristics of their origins. Australia’s climate, unspoilt land and ancient geology is truly unique and as a result produces an incredibly diverse range of wine.



Coonawarra soil

Australia has some of the oldest grape vines in the world, dating back to the 1840s. Australia was one of only two countries in the world whose vines were not destroyed by phylloxera in the nineteenth century. In the right grower’s hands, old vines give concentration of flavour, depth and complexity. Linked to lower yields, old vines give a profound expression of the place where they are grown.

We now grow more than 100 different grape varieties in 65 wine regions across the country. Australia has some of the most diverse climates for grape growing in the world. These include ultra-cool to moderate-cold regions, high elevations, warm climate subtropical regions, coastal and inland wine-growing regions.

Australia has some of the oldest and most varied soil profiles on Earth, from rich and fertile through to rugged and desert-like, with high mineral content and arid areas.

Combine the world’s best viticulture and oenology teaching with a diverse landscape and it’s no surprise that Australians craft wines that are truly an expression of place.

The evolution of Australian wine can be seen through the abundance of varieties available and a wide spectrum of different wine styles from the classic to the contemporary.

Australia has distinctive terroirs and our winemakers embrace their differences to produce unique styles and varieties.

While production is dominated by the likes of Chardonnay, Shiraz, Cabernet Sauvignon, Grenache and Semillon, there’s been a recent surge of interest in ‘alternative’ varieties that are often well suited to Australia’s climate; these include varieties like Fiano, Nero d’Avola and Grüner Veltliner.

The imagination of Australian winemakers and curiosity of Australian grapegrowers means that many Southern Mediterranean varieties have been very successful and plantings of emerging varieties are increasing.

Australia’s wine regions are scattered with multi-generational families whose long-standing dedication provides inspiration, leadership and custodial care of some of the country’s most precious vines and wines.



Creative

Australian musicians are among the most creative in the world, taking influences from around the world and producing something unique. A perfect example of this is *Since I Left You*, the debut album from the Avalanches. Released in 2000, the album contains over 900 individual samples, from long-forgotten R&B records to golf instructionals to Madonna's 'Holiday'. But what really makes this album brilliant is not so much the number or quality of the samples used as the way that they're employed. The Avalanches have managed to build a totally unique context for all these sounds, while still allowing each to retain its own distinct flavour. As a result, *Since I Left You* sounds like nothing else in the world, past or present. It was critically and commercially successful, peaking in the top 30 on the Australian Albums Chart, number 12 in Norway, number 8 on the UK Album Charts and, in the USA, at number 10 on the Top Electronic Albums chart and in the top 40 on the Top Heatseekers chart.

Like *Since I Left You*, wine is also greater than the sum of its parts. There's nothing like Australian wine because there's nothing like the people and the places of Australia. There's freedom, creativity and a desire for excellence in the Australian wine community.

The Australian grape and wine community is open to new and old ideas. Our winemakers 'push the envelope'. They are innovative, defying stereotypes and challenging the norms from varietal composition and winemaking techniques through to packaging.

Australian winemaking techniques have adapted over time and are continually evolving.

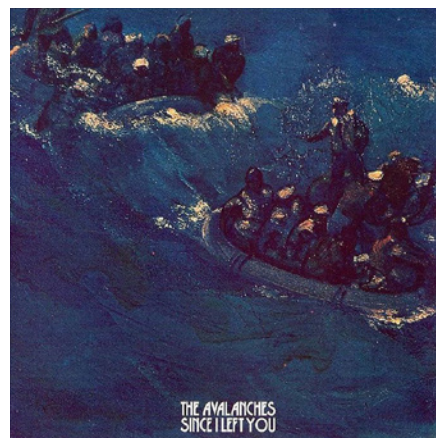
Australia is an innovative wine country unafraid to make adjustments to enhance quality and make great wine that people enjoy drinking. Australian wines are emerging with a strong focus on freshness, natural acidity, balance and regional distinction.

Australia is recognised as a world leader in many aspects of grape and wine production driven by a significant and sustained investment in research and innovation. Our research funding is different to other approaches used around the world. The Australian wine sector combines their resources into a collective R&D investment pool, which is matched dollar for dollar by the Australian Government. This collective and cooperative investment in innovation is one of the reasons Australia is now established as a leading wine producing nation. We have internationally recognised grape and wine research organisations and researchers, including the Australian Wine Research Institute (AWRI), the Commonwealth Science and Industrial Research Organisation (CSIRO) and the South Australian Research and Development Institute (SARDI), and a strong focus on innovation. Our commitment to R&D has seen our vineyards become more drought-tolerant and pest and disease resistant

while winery productivity and wine quality have continued to improve. We lead the world in innovation.

The vast majority of carefully tended vineyards and nurtured fine wines in this country are the consequence of a huge investment in capital and human commitment to knowledge and its application in eliciting the very finest expressions of the noble grape varieties from the unique Australian terroirs to which they are naturally suited.

To quote esteemed Japanese wine journalist Makiko Morita, 'In Australia, producers with different backgrounds are aiming for "wines that only I can make" without being restrained by traditions or law, nor concerned about competition or Mr Parker's reviews. This is such a pleasure, almost like borderless music. There's the punk that destroys stereotype, the rock full of rebellion, the exciting pop and rather sexy funk. There is also the classic that interprets the tradition freely, as well as hip-hop that takes anything fun.'



Since I Left You by The Avalanches

'There's a warmth in the eyes and a clearness of thought'

The Deepest Sighs, The Frankest Shadows, Gang of Youths



Award winning

While musicians don't make music to receive accolades, international awards do highlight the global reach of Australian artists and they can help generate more airplay and sales, especially in the USA.

In 2012, Gotye became the second Australian artist ever to win the Grammy for Record of the Year for *Somebody That I Used to Know* — the first being Olivia Newton-John in 1974 for *I Honestly Love You*. In 2006, Wolfmother won the Grammy for best hard rock performance while in 2017, Flume won the Grammy for best dance/electronic album. In 2017, Sia picked up two nominations in the Best Pop Duo/Group Performance category for *Cheap Thrills*, as well as Best Pop Vocal Album for her seventh studio album, *This Is Acting*. Staying on the dance scene, a remix of local songwriter Ry X's *Only* by USA producer Kaskade and Melbourne's Lipless scored a nomination in the Best Remixed Recording category in 2017.

Winemakers also don't make wine to receive awards, however the results of two recent international wine competitions — the Decanter World Wine Awards 2017 and the Sommelier Wine Awards 2017 — highlight the growing positivity about Australian wine around the world.

'Time was right because you told it to, I really like you'

Lock It, Falling Joys

Decanter World Wine Awards 2017

The Decanter World Wine Awards is the world's largest and one of the most influential wine competitions. In 2017, more than 17,000 wines were judged and awards given.

The world's biggest three producers — France, Italy and Spain — walked away with the most awards. However, Australia outperformed all three plus competitors from Chile, Argentina, the USA and South Africa in the share of gold and above awards.

Of the 981 awards Australian wines received, 6.7 per cent were gold and above (see Figure 6). In comparison, of the 3,781 awards France received, 3.6 per cent were gold and above. Italy received 2,802 awards, 2.7 per cent of which were gold and above.

By variety for Australia, the most gold and above awards were achieved by:

- Shiraz (18)
- Chardonnay (12)
- Cabernet Sauvignon (11)
- Riesling (4)

Sommelier Wine Awards 2017

The Sommelier Wine Awards (SWA) is the only competition aimed solely at the UK on-trade.

While Australian wine has been clearly number one in the UK off-trade for 15 years, Australia trails France and Italy in the on-trade. Hence the SWA is an important platform to help boost the Australian category in the UK on-trade market. The results of the 2017 SWA have just been released.

The following medals are awarded:

- Gold
- Silver
- Bronze
- Commended.

In the 2017 SWA awards, France, Italy and Spain received the most SWA medals, no doubt due in part to the fact that they produce far more wine than other countries and entered more wines in the competition. However, like the Decanter Awards, Australia outperformed all key competitors in its share of gold medals (see Figure 7).

Of the 172 medals Australia received, 18 per cent were gold medals, placing Australia ahead of France (17.4 per cent), Italy (16.4 per cent) and South Africa (15.8 per cent).

Fifteen wines received Food Match medals of which Australian wines won three, behind only Italy with five.

Shiraz achieved the most golds for Australia with eight, ahead of Chardonnay with five and Cabernet Sauvignon with three.

Figure 6: Share of gold and above awards at the Decanter World Wine Awards 2017

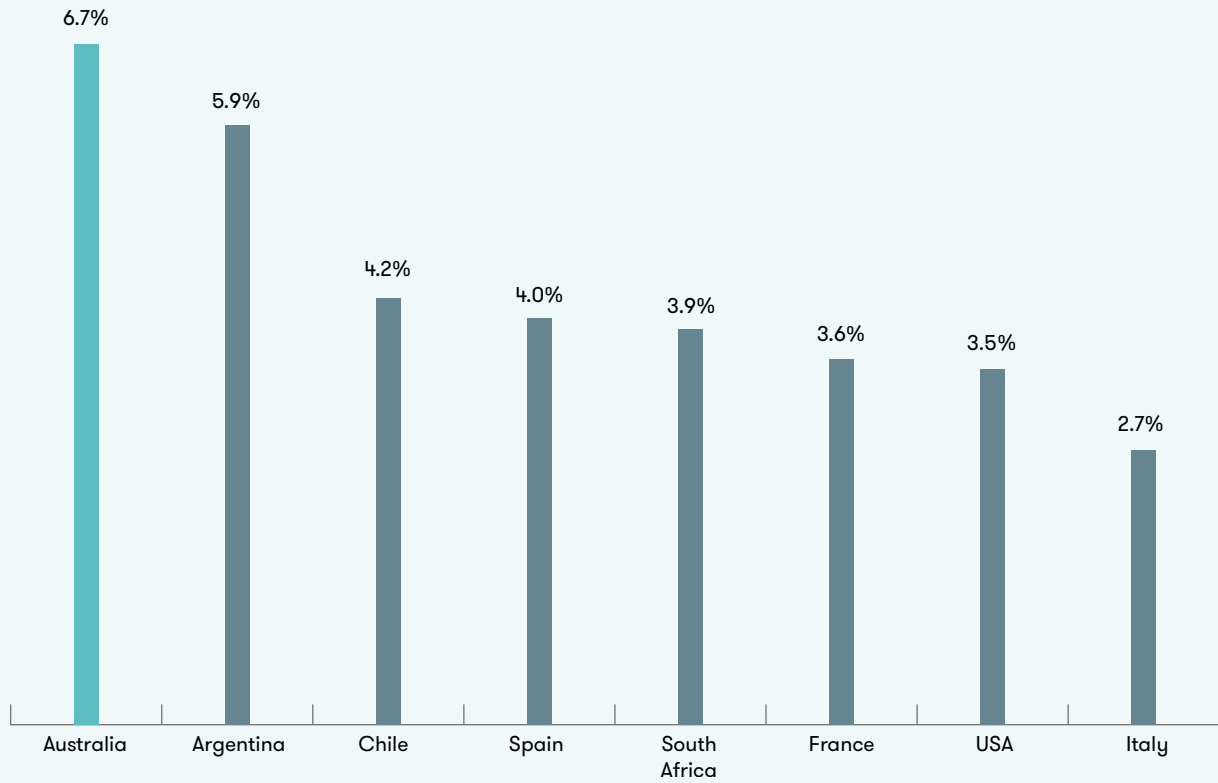
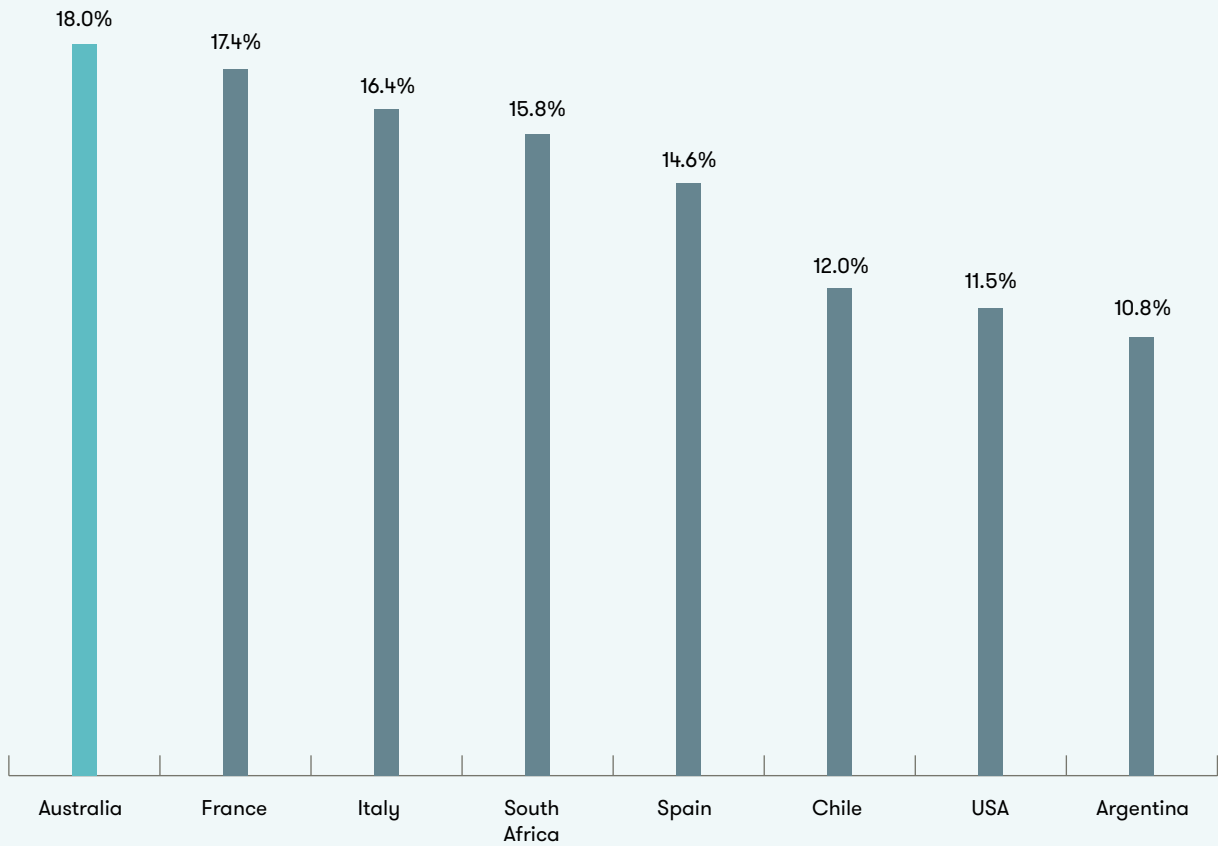


Figure 7: Share of gold medals at the Sommelier Wine Awards 2017





Influential

As with anything unusual and exciting, Australian music has influenced musicians around the world looking for a different angle for their own music. From Grainger through to The Avalanches and beyond, Australian music has continued to assert itself into the world music scene.

The great Norwegian composer Edvard Grieg once wrote of Percy Grainger: 'Even among the very greatest pianists, I do not know one that I could compare with him. He has actually realised my ideals of pianism.' In the 1950s, Johnny O'Keefe earned global acceptance for the Australian version of rock 'n' roll, his influence spawning the Iggy Pop cover of Real Wild Child (Wild One). In the 1960s, The Easybeats, in contrast to some of their English and American contemporaries, provided positivity to the international music scene, like colour TV in an age of black and white. AC/DC followed in their footsteps, becoming the most influential Australian rock band ever. There is no end to the artists who quote AC/DC as an influence. Chrissy Amphlett, frontwoman of the Divinyls, was a powerhouse performer and paved the way for generations of female artists who followed.

While international commercial success has eluded many Australian artists, they have had a profound influence on musicians around the globe. Influential groups of the 1980s, like The Go-Betweens, The Triffids and Nick Cave and the Bad Seeds, were less commercially successful but were critically lauded in the UK and the USA. Robert Christgau, critic for the New York-based *Village Voice*, once wrote that Grant McLennan and Robert Foster of The Go-Betweens were the greatest songwriting partnership working at the time. McLennan's song, *Cattle and Cane*, about growing up in Queensland, was named in the Australasian Performing Rights Association's top



The Go-Betweens

30 greatest Australian songs. The song was also selected by NME writers in their '100 Best Indie Singles Ever' in 1992.

Perth band, The Scientists, formed in 1980, were pioneers, creating a genre that changed the global musical landscape forever in the early 1990s — grunge. The Scientists were much more influential than their minimal commercial success would indicate. Their sound predated Nirvana by a decade.

Australian musicians continue to influence the global music scene. For example, Perth's Tame Impala, like many Australian bands in history, is producing music that is ahead of the curve. Ingenuity and experimentation with different effects pedals has led to its songwriter, producer and performer, Kevin Parker, creating new and unique sounds. This, combined with a strong sense of melody in his music, has made Tame Impala one of the most influential musical acts working today.

Australian ingenuity in winemaking has, and continues, to influence the world of wine. Penfolds Grange is arguably Australia's most famous wine and the story of its creation by legendary winemaker Max Schubert with the help of brilliant research chemist Ray Beckwith is a modern tale of imagination, a battle against the odds and redemption.

Max Schubert reminisced about the influence of Grange in a presentation to the first Australian National University Wine Symposium in Canberra in 1979. He said, 'I would like to express the hope that the production and acceptance of Grange... as a great Australian wine have proved that we in Australia are capable of producing wines equal to the best in the world. But we must not be afraid to put into effect the strength of our own convictions, continue to use our imagination in winemaking generally, and be prepared to experiment in order to gain something extra, different and unique in the world of wine.'

'Change in mood, I can sense it, changing everyday',

Change In Mood, Kids in the Kitchen

Australia has produced world class wine for much of its post-European history, but we haven't always been widely recognised on the global stage. The huge success of a handful of major brands often obscured to the everyday consumer what the smaller wineries were doing. However, the global consumer is beginning to discover that there is much more depth to Australian wine than they had perceived before. Consumer research shows Australian wine shines brightly as value for money and our reputation as an expensive/fine wine is on the rise.

Globally, perceptions of Australian wine have improved measurably. Research from Wine Intelligence shows that among existing consumers of Australian wine, quality perceptions have increased three per cent in the last five years. Furthermore, our consumers are converting their friends, as perception of quality among non-regular Australian wine consumers has climbed by an impressive nine per cent over the same period.

Perceptions are shifting in large parts thanks to Australia leading with our best wines. Now more than ever consumers regard Australia as one of the key countries for consideration when selecting an expensive or fine wine.

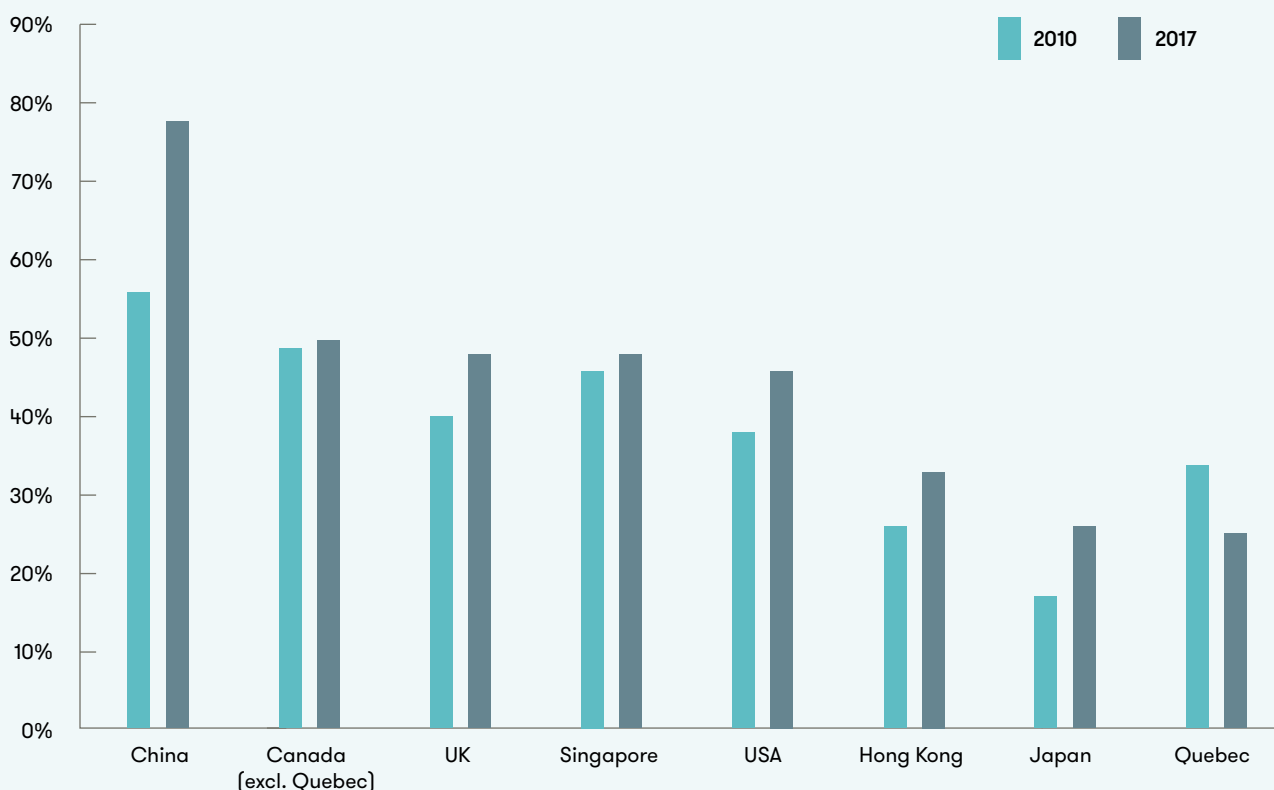
Over the last seven years, the share of wine consumers viewing Australia as a valid choice has climbed 16 per cent for existing consumers, and again, the news is getting through to non-consumers of Australian wine, with the share of non-regular consumers climbing a whopping 57 per cent. More encouragingly, the shift has been even more pronounced in Australia's traditional major markets of UK and USA where Australia has often been pigeon-holed only as 'value for money'.

Australian chefs, baristas and food producers have been playing a more prominent role in global cuisine trends. Although Australia's multicultural history does not lend itself to a particular style of food, the mixing of cultures has also brought with it a fusion of food from across the globe that can be perfectly matched with Australian wine.

Consumers are recognising this fact, with the share of consumers believing this up 11 per cent in the last 7 years to 83 per cent, while the lift among non-consumers increased at even greater rates (up 40 per cent).

Our wines have always been viewed as value for money, punching well above their weight for quality in any price range. In 2010, three quarters of Australia's consumers viewed our wines as such. As of 2017, this had improved a further to 83 per cent with a larger lift among non-consumers. Maintaining the perception of good value for money while our consumers move up the quality scale is reassuring for consumers and producers alike.

Figure 8: Share of regular wine drinkers viewing Australia as an expensive/fine wine



Source: Wine Intelligence

‘Going up and down and back again’

Up & Down & Back Again, Powderfinger



Clarity Records, Adelaide



Resilient

One of the great tragedies of the digital age has been the demise of the independent record store, the last refuge of the music-obsessed freak. A real place run by real people where you can peruse the racks and touch and see an album and the artwork. Who doesn't love the smell of vinyl in the morning? While record stores are an endangered species they are not yet extinct. The annual Record Store Day, first held in the USA in April 2008, is now a global phenomenon and has helped record stores survive. There is a vinyl revival — sales of vinyl increased for the sixth consecutive year in 2016 to reach a 25-year high. This was also the first year that spending on vinyl outstripped that spent on digital downloads. The boost in vinyl sales is part of a wider shift in the fortunes of the music industry back towards making a profit.

Australian wine production is on the rise while global wine supply has tightened, providing an opportunity for Australian wine to support the increasing global demand for premium wines.

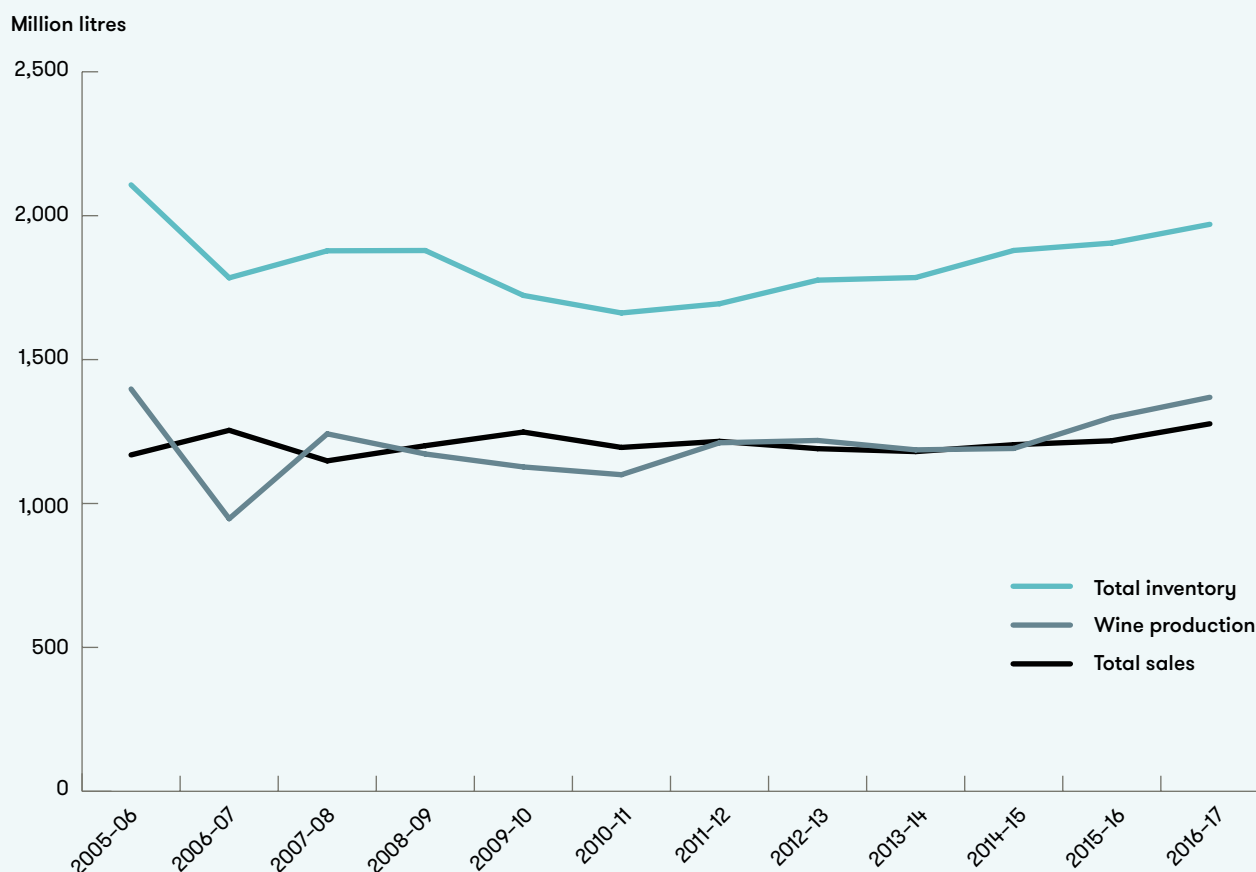
World wine production in 2017 is expected to be 24.6 billion litres — 2 billion litres (8 per cent) below 2016 and the lowest since 1961, according to the recent announcement by the International Organisation of Vine and Wine (OIV). This equates to 222 million cases of wine not being available. To put this in perspective, Australia's total production in 2016 was 1.3 billion litres or 144 million cases.

The OIV reports that there were falls in the three top producing countries — Italy, France and Spain — which recorded historic low harvests, while Chile had another small year compounding an existing short supply. Argentina recorded significant growth from a very low crop in 2016, but 2017 is still well below the long-term average. The USA's harvest is slightly down on 2016.

This drop in global production comes at a time when consumption is on the rise after a period of decline following the Global Financial Crisis. The OIV estimates that consumption will be between 24.1 and 24.6 billion litres in 2017 — which will bring it equal to, or above, production for the first time ever, putting pressure on existing global stocks and prices.

The lowest global harvest since 1961, combined with the increase in global consumption, presents a window of opportunity for Australia. This supply pressure in the market may provide a launching pad to establish new products firmly in the market, which may then have an advantage over products trying to re-enter.

Figure 9: Australian wine stocks, production and sales over time



In 2017, Australia had its largest harvest for at least 10 years and moved ahead of Chile and Argentina to be the 5th largest wine producer in the world. Australia is well positioned to take advantage of the opportunity, with stocks at reasonably high levels and well-established routes to market in the four largest wine markets in the world: the UK, China, Germany and the USA. All are significant net importers of wine and rely heavily on Italy, France and Spain. Higher inventory levels are required to support growing sales. Production growth has been matched by sales growth in the past three years. The Australian Government's \$50 million Export and Regional Wine Support Package will further enhance the sector's ability to develop new export opportunities.

Australia was the only major wine producing country to record an above-average harvest in 2017. In a continuing upward trend, the 2017 Australian national crush is estimated to be 1.98 million tonnes — an increase of 8 per cent from the 2016 vintage.

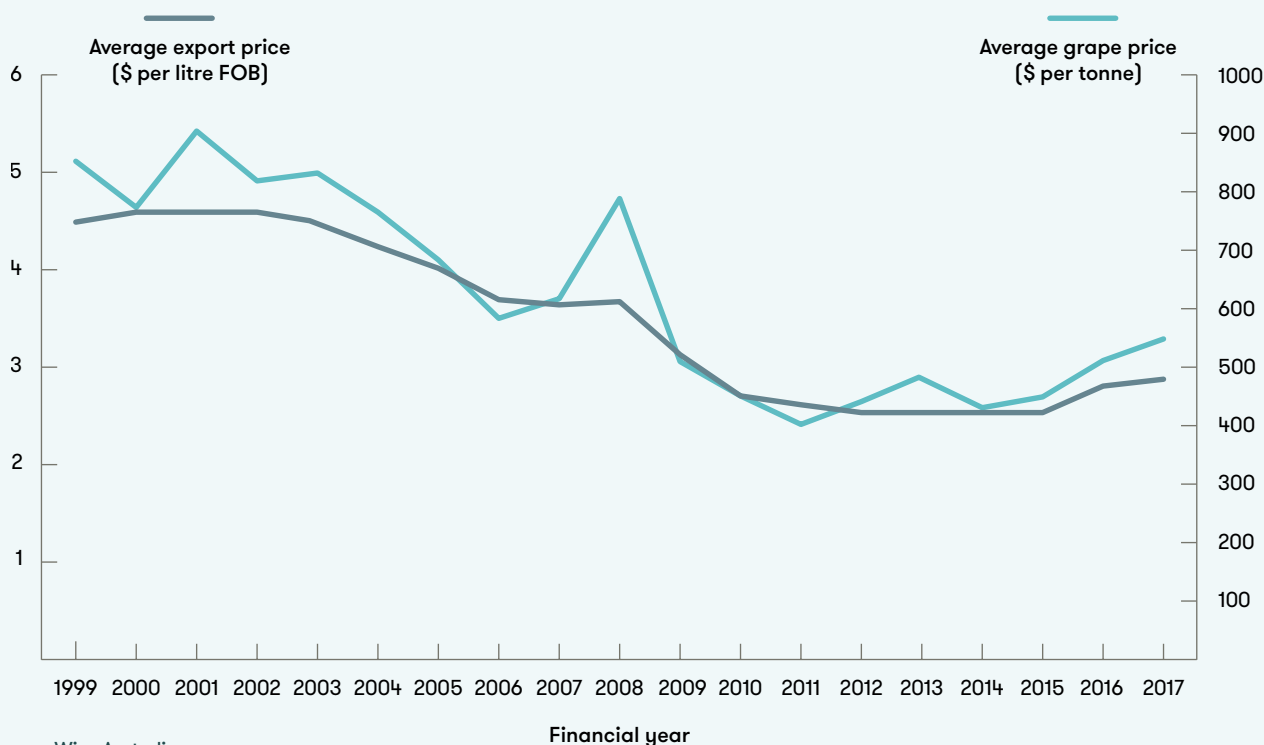
The increase in the crush reflects the excellent seasonal conditions in many regions and will help meet the growing demand for Australian wine, both in export and domestic markets.

Australia can meet the growing demand for premium wine. The supply would most likely come from A/B/C quality grade grapes that are priced at >\$600 per tonne and from a wide range of regions. Over the past decade, much of the independent grower tonnage from cool/temperate regions has been sold as commodity grapes (or bulk wine) for blending, well below its potential value, due to a lack of export demand at >\$10/bottle. As demand grows, this fruit would move into more profitable segments.

However, the opportunities for Australia are not entirely predictable. It's not necessarily a matter of replacing French Syrah, Italian Pinot Gris or Chilean Merlot, with the same variety from Australia — particularly at higher price points.

The main driver is lower supply. This means that sellers are under less pressure to discount, which increases the average price and reduces competition among suppliers. Compound this with lack of availability, and suddenly buyers may look more favourably at a different product to fill a gap on the shelf or the menu. For example, an Australian Chardonnay may replace an Italian Pinot Gris, if it fills a similar style and price point specification. 'The last time we had an opportunity like this was in 1986 after Chernobyl', says Jim Moularadellis, Austwine's Chief Enthusiasm Officer. 'Australia was seen as clean-and-green, which opened the door for us and led to sustained export growth for many years.'

Figure 10: Average export price and average winegrape purchase price trends 1999–2017



Source: Wine Australia



Sustainable

Australian Recording Industry Association (ARIA) wholesale figures for 2016 indicate that music sales revenue in Australia is up and streaming is continuing to rise at a rapid pace. ARIA has noted a 5.5 per cent growth in revenue since 2015, generating \$352.2 million for the Australian music industry, while streaming now accounts for 38.5 per cent of the overall market by value, and grew by just over 90 per cent over the year.

‘We’re gonna rise up singing’

Randwick Bells, Paul Kelly and the Coloured Girls

The growth in streaming resulted in an overall 17.6 per cent increase in the total digital market, with sales now accounting for approximately 70 per cent of the total market.

Innovation remains crucial to revenue growth. ARIA Chairman and Chairman & CEO of Sony Music Entertainment, Denis Handlin, said of the improved performance, ‘This is a reflection of the industry’s innovative marketing and high level of artist development, as well as the further consumer take up of quality digital retail services. Although our industry is now on a pathway to recovery, it is absolutely critical that Australia retains a strong copyright framework to ensure that artists and labels can continue to invest, innovate and protect their work and earn their fair share in the growing digital market.’

Revenue is also on the rise for the Australian grape and wine community. The 2017 Australian vintage was the largest crop since 2006, but pricing firmed regardless, helped by favourable global supply and demand conditions. The national average purchase price increased by 7 per cent to \$565 per tonne, the highest since 2008. It is the third consecutive vintage where the average purchase price for winegrapes increased.

The chart shows that winegrape prices have been on an upward trend since 2011. Prior to that, grape prices were on a downward trend from 1999. It also shows that export prices and winegrape prices have tracked very closely over time.

All but two of the top ten varieties showed increases in the national average purchase price. Shiraz and Colombard had the greatest increases followed by Muscat Gordo Blanco, Pinot Gris/Grigio and Chardonnay. The two exceptions were Cabernet Sauvignon and Pinot Noir, which saw prices fall by 1 per cent or less.

There was an increase in the proportion of A and B grades purchased (i.e. \$1500 and above per tonne) from 6.4 per cent to 7.4 per cent, which has contributed to the overall increase in the national average purchase price. This reflects the growing demand for premium Australian wines.

Shiraz was the biggest driver of the overall increase in the average purchase price as the share of Shiraz purchased at A and B grades increased from 13.3 per cent in 2016 to 15.5 per cent in 2017, which is double the proportion from 5 years ago.




Globally competitive

The evolution of music consumption has developed fairly quickly over the last few decades. From the first portable music system such as the cassette-playing Sony Walkman in the late 1970s, to the first iPod of the early 2000s, consumers went from purchasing cassettes, to CDs, to paying for individual MP3s.

Fast forward to 2017, and we have today's streaming services, which allow consumers to play music without downloading individual files. In an era when music has become so accessible and easy to download, the average music fan's preferred listening method is nevertheless streaming. Streaming eliminates one of the hassles with data storage, offers personalisation, and allows the convenience of seamlessly changing between artists and genres.

While streaming presents challenges to artist revenues, streaming of music also means Australian musical acts can gain access to more listeners across the world than ever before. Platforms like Bandcamp also mean that artists can by-pass traditional forms of distribution and go directly to the consumer.



'It's a wide open road, and now you can go to any place, that you want to go'

Wide Open Road, The Triffids

Market access has also been a critical issue for the Australian wine sector. Since the beginning of 2015, a trifecta of free trade agreements (FTAs) with Japan, South Korea and China has improved market access and helped increase the competitiveness of Australian wine exporters.

China

The China-Australia Free Trade Agreement (ChAFTA) will see tariffs on Australian wine exports gradually reduce to zero by 2019, allowing Australia to be more competitive in the growing Chinese wine market. ChAFTA will help put Australia on the same footing as Chile and New Zealand and provide a significant competitive advantage over France, Italy, the USA, Argentina and South Africa, which each face a 14 per cent tariff on bottled wine and 20 per cent on bulk wine.

South Korea

Under the Korea-Australia Free Trade Agreement, the tariff applying to Australian wine sold in South Korea has been reduced to zero.

Japan

The Japan-Australia Economic Partnership Agreement (JAEPA) immediately eliminated the tariff on bulk wine, while the 15 per cent tariff on bottled and sparkling wine will be eliminated over 7 years, reducing to zero by 2022. JAEPA will help to lift Australia's competitiveness and put Australia back on a level playing field with Chile, which entered into an economic partnership with Japan in 2007 that saw a gradual removal of tariffs on its wine. Chile is currently the second largest importer of wine to Japan but imports declined by 6 per cent in value in 2016-17, while Australia grew by 6 per cent over the same timeframe.



Affirmative

Research conducted by the University of Sydney's Women, Work and Leadership Research Group suggests that, despite the huge success of artists like Sia and Tina Arena, Australian women still earn less than males in the music industry, and currently they face gender inequality in two key ways. One is who 'makes it' as a performing artist — the other is who 'makes the decisions' that affect the industry.

'Whether it be radio playlists, festival line-ups, industry awards or major industry boards, male artists and voices overwhelmingly dominate the Australian music industry', says the report's lead author, Associate Professor Rae Cooper.

The report also found that female artists receive significantly fewer industry awards than their male peers, and they are still underrepresented on triple j's Hottest 100. The ARIA Hall of Fame also has only 11 female artists among its 75 inductees.

However, the situation is changing with a new wave of female singer-songwriters emerging in the wake of the enormous success of Missy Higgins' *Sound Of White* in 2004. Women such as Jen Cloher, Mia Dyson, Sarah Blasko, Liz Stringer, Adalita, Abbe May, Sia Furler, Jess Cornelius, Sally Seltmann, Holly Throsby and many more started the wave a decade ago that has now become a 'tsumani', according to Jen Cloher.



Courtney Barnett

Today, young independent female artists such as Amy Shark, Tash Sultana, Jess Locke and Alex Leahy are finding local and international success. Perhaps no one embodies this changing landscape more than Melbourne singer-songwriter Courtney Barnett. To quote Cloher, '...[a] quite incredible thing started to happen. Something I had never seen before. An Australian woman became famous around the world for her songwriting. Not her dance moves, or extensive wardrobe, but for writing great songs.' Barnett's debut album, *Sometimes I Sit and Think*, was met with rave critical acclaim, with numerous publications listing it as one of the best albums of 2015, including *Rolling Stone*, *The Guardian*, *The Times*, *Pitchfork* and the *Chicago Tribune*. At the end of 2015, Barnett was nominated for a Grammy Award in the Best New Artist category. She was later nominated for Best International Female in 2016 in the Brit awards.

According to Cloher, 'There has never been a better time to be a woman in independent music.'

'Yours is the future, don't run away'

Shout and Deliver, The Reels



Australian Women in Wine Awards in London

In September, Wine Australia co-hosted the 2017 Australian Women in Wine Awards, celebrating women in wine while showcasing the quality and diversity of Australian wine. The Women in Wine event, held at Australia House in London, was the world's largest gathering of Australian female winemakers and winery owners and the first time the event has been held outside of Australia.

Winners included Virginia Willcock of Vasse Felix (Winemaker of the Year), Sue Hodder of Wynns (Woman of Inspiration) and wine writer Sarah Ahmed who was named Honorary Australian Woman in Wine in the UK. The array of talent across so many categories was remarkable, and shows how far the sector has come in the past few decades. In the 1990s, it would have been hard to find a senior female winemaker or viticulturist, with a few notable exceptions such as Prue Henschke, Pam Dunsford, Vanya Cullen and Jane Mitchell.

The latest census data from the Australian Bureau of Statistics (ABS) reflects the changing demographics in the Australian wine sector, including mixed results in terms of the participation of women.

Six years ago, according to the 2011 census, there were around 22,000 people employed in wine manufacturing and grape growing occupations. Women made up 35 per cent of the workforce in wine manufacturing, while in grape growing, 28 per cent of employees and business owners were female.

The 2016 census figures show that the proportion of women employed in wine manufacturing has increased from 35 per cent to 38 per cent, and is above the overall average for beverage manufacturing (34 per cent) and for all manufacturing (28 per cent). Female employment has increased across all occupational categories in wine manufacturing, from labourers and machinery operators to managers and professionals. More than half of the people employed in sales roles are female. Among 15–19 year olds, the proportion of females has increased from just over one third in 2011 to just under 50 per cent in 2016.

On the other hand, in grape growing, there has been a 17 per cent decline in employment numbers, with female numbers declining by more than males. The representation of women has declined from 28 per cent to 27 per cent, with the biggest declines among managers and sales workers. It is also disappointing that the number of young workers, both female and male, has declined significantly between the 2011 and 2016 censuses, meaning there are fewer new entrants and an overall ageing workforce. Only 20 per cent of 15–19 year olds in grapegrowing businesses are female.

Overall, employment of women in the wine sector is still well below 50 per cent. In leadership and senior roles, female representation has been estimated at 8–10 per cent, meaning there is still a long way to go for the sector to reflect the broader population. However, there are positive signs of change, particularly in wine manufacturing roles, while out in the vineyard, challenges remain.

Markets – performance and outlook

‘Go forward, with a head full of steam’

Head Full of Steam, The Go-Betweens

Wine Australia works closely with the Australian grape and wine community to increase demand and the premium paid for all Australian wine. Over the next two and a half years, we have the added responsibility of delivering the Australian Government’s \$50 million Export and Regional Wine Support Package. The \$50 million Package aims to grow the Australian wine sector by showcasing the nation’s wine tourism offering and driving demand for Australian wine exports.

The \$50 million Package funding to grow exports is focused in Australia’s two most valuable export markets — China and the USA — which has also allowed Wine Australia to increase engagement in Australia’s other important export markets in the UK and Europe, Canada and Asia.

Recent performances in key markets point to a positive outlook for the Australian grape and wine community.



Rootstock, Sydney 2017



Domestic Australian market

The outlook for the domestic market, where approximately 40 per cent of Australia wine is sold, is optimistic, with many positive signs for winemakers after a long period of flat sales and strong competition from imports.

Australian wine sales in the domestic off-trade market grew by 4 per cent in value and 1 per cent in volume in the 12 months to 12 November 2017 (IRI Market Edge Liquor), the equivalent of an additional 333,000 cases of wine.

This growth is reflected in data from the International Wine and Spirit Record (IWSR), which shows that adult per capita wine consumption in Australia increased to 29.6 litres per annum in 2016, after 5 years in decline. This places Australia 16th internationally for annual per capita consumption, contrasting with French consumption of 49 litres per adult per year, the highest in the world even though it has been declining for many years.

The IWSR has forecast that wine sales in the domestic market will continue to grow by 1.4 per cent per annum over the next 5 years.

‘Such a perfect island, tucked away in the sea’

Australia, Gyroscope

Another positive indicator is the trend towards drinking higher priced wines. Australian wine sales at below \$10 per bottle (off-trade) declined by 1 per cent, while sales \$10 per bottle and above increased by 4 per cent in the 12 months ended 12 November 2017, (IRI Market Edge Liquor). This trend is particularly apparent for Shiraz, where 68 per cent of volume growth was at \$10 per bottle and above, compared with Sauvignon Blanc, where 93 per cent of growth was wines below \$10 per bottle.

Chardonnay is also on the way back in the domestic market after a decade in decline. IRI Market Edge Liquor data shows that in the 12 months ended 12 November 2017, the value of bottled Chardonnay sales in the domestic off-trade market increased by 3 per cent, with Chardonnay sales at above \$15 per bottle up 7 per cent, while those below \$15 were flat.

There is also growth for Chardonnay in the on-trade. Matt Dunne, group sommelier for Solotel was quoted in March 2017 in *Luxury* magazine saying, ‘In Aria Restaurant in Sydney, it’s [Chardonnay] overtaken Sauvignon Blanc as the top selling varietal in the last 12 months’.

Wine Intelligence has identified a number of wine consumer trends in its most recent *Australian Wine Market Landscape* report. The report forecasts continuing strong growth in lighter style wines, the rosé category (particularly among the younger generations) and the sparkling wine category. Australian wine consumers are also increasingly looking for diversity in wine offerings and becoming familiar with alternative varieties, which represents another opportunity for local producers.



China (mainland)

Mainland China is one of the world's largest and fastest growing markets for imported wine. With a population of 1.38 billion, a burgeoning middle class and modernising consumers, it presents enormous opportunities for Australian wine brands and businesses. China is rapidly changing and it's important to keep abreast of the latest trends and insights to grow and harness its market potential.

Australian wine has experienced extraordinary growth in exports to mainland China over the last decade. The implementation of the China-Australia Free Trade Agreement in 2015 gave impetus to an already strong market. The export figures for 2017 suggest Australia is well-placed for this trend to continue. The value of exports increased by 63 per cent to \$848 million and volume by 54 per cent to 153 million litres. The average price increased by 6 per cent to \$5.55 per litre FOB. Mainland China is the number one destination for Australian wine exports by value.

Australia is outpacing key competitors in the growth of wine exports to mainland China. It is ranked second behind France in market share, but number one in the average price of bottled wine among the five biggest exporters. In October 2017, Australia overtook France in the value of wine exported to China for the month for the first time.

There was growth in exports to mainland China across all price points, from entry level/commercial wines through to Australia's fine wines.

Exports are heavily weighted to more premium wines. Mainland China is by far the biggest destination for exports of \$10 or more per litre FOB (¥110 or more per bottle retail), accounting for more than half of all Australia's exports at this price point. These exports grew by 75 per cent to \$377 million in the last year and the growth accelerated as exports in this price segment increased by 47 per cent in 2016.

There has also been solid growth in entry level/commercial wines at \$5 per litre and below (less than ¥60 per bottle retail). This reflects the increasing accessibility of imported wine in China and it moving to personal, everyday consumption. Wine is becoming a mainstream beverage enjoyed by a much broader base of consumers, and a beverage of choice for informal meals and relaxing at home.

Like the overall China market, red wine dominates Australia's exports to mainland China, accounting for 95 per cent of the export value. The growth in red wine exports has been strong, up 65 per cent to \$804 million. Another important trend is the increasing acceptance of white wine in what is predominantly a red wine market. This is principally due to an increased number of younger Chinese people drinking wine who are more open to trying new styles. Australian white wines are part of this trend, with exports up 33 per cent to \$30 million. Chardonnay is the number one white wine and exports increased by 32 per cent to \$14 million. Other whites that grew include Riesling (up 77 per cent to \$3 million) and Semillon (up 29 per cent to \$2 million).

Wine Australia's Head of Market, China Willa Yang said, 'China is one of the most dynamic and exciting wine markets in the world and is providing enormous opportunities for premium Australian wines to find new markets and customers, who are seeking products of exceptional quality.'

'Chinese consumers are attracted to foreign brands as they aspire to Western life and strongly associate quality with imported products. This is especially true for Australian products that Chinese consumers perceive are high quality, healthy and authentic. The growth in this trend can also be seen across other categories such as Australian beef, seafood and horticulture.'

Australian wine is well-regarded in China. Research conducted by Wine Intelligence on behalf of Wine Australia shows that the number of Australian wine drinkers in China has doubled since 2013. Australia is second only to France in wine of origin usage. Australian wine also has a very positive image among Chinese wine consumers:

- 90 per cent like the grape varieties we produce
- 86 per cent would be proud to serve wines from Australia
- 85 per cent believe Australia has distinctive wine producing regions
- 84 per cent see Australian wine as being food friendly, and
- 78 per cent view Australian wine as an expensive/fine wine.

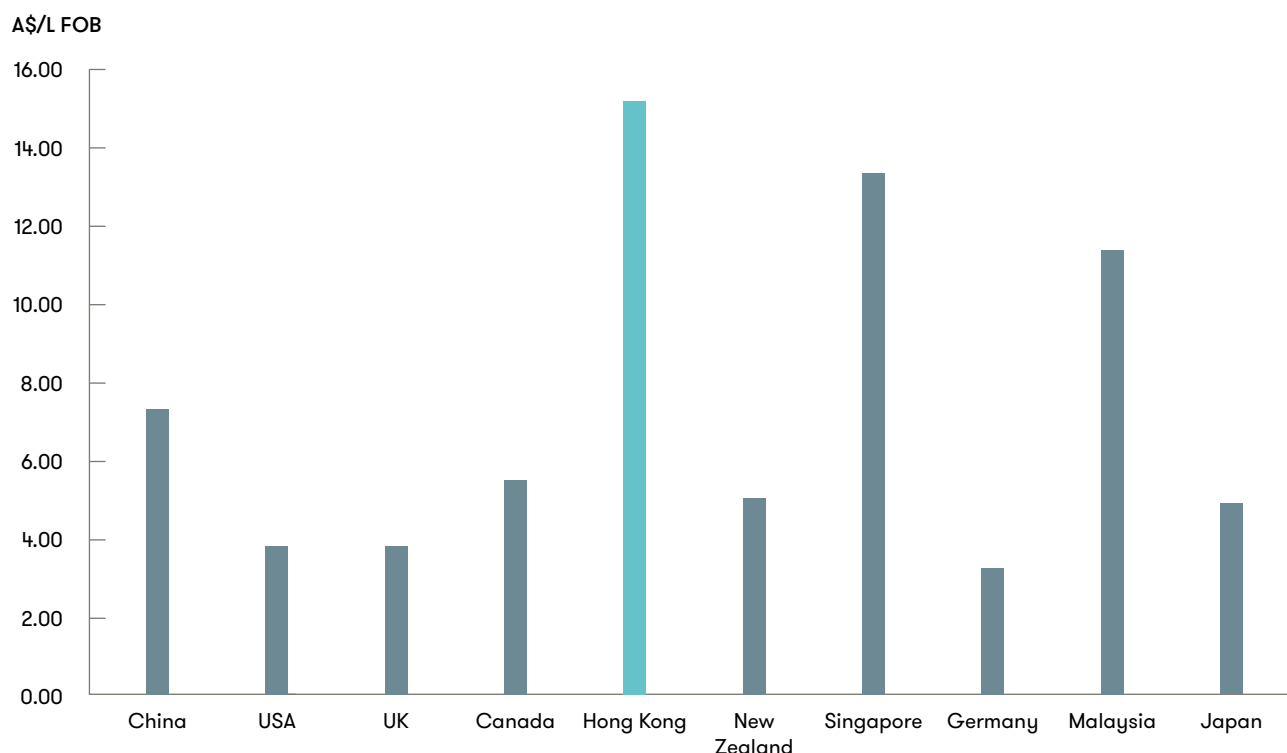
Chinese tourists offer a significant opportunity for Australian wine producers to grow wine sales and providing tourism opportunities in wine regions is a focus of the \$50m Package. The number of Chinese visitors to Australia has more than doubled over the past five years to 1.33 million in the year to September 2017.

For China, the opportunity lies in growing penetration of premium Australian wine through both on- and off-trade channels. For imported wines, 60 per cent of the volume of sales are through the off-trade and 40 per cent through the on-trade. Australia is well-placed in both the on-trade and off-trade. According to the IWSR, in 2016 Australia held a 15 per cent share of imported sales in the on-trade and 16 per cent share of the off-trade. There is also the opportunity to increase awareness of Australian wine by talking to consumers and educating them on usage occasion.

'I tell you folks, it's harder than it looks, it's a long way to the top'

It's A Long Way To The Top, AC/DC

Figure 11: Average bottled export value for Australia's top ten export destinations



China (Hong Kong)

The Hong Kong wine market is an important market and quite different to the wine markets in other parts of China. Hong Kong is a vital trading hub and an important point of access to mainland China. Not all Australian wine exported to Hong Kong is consumed in the territory. Of the imported wines not consumed in Hong Kong, some 95 per cent is sent to other parts of China, principally mainland China and Macao.

The Hong Kong wine market has been forecast by the IWSR to grow by 2 per cent per annum over the 4 years to reach 4.1 million cases by 2021. At 5.1 litres per adult, per capita wine consumption in Hong Kong is significantly higher than in mainland China (1.2 litres per capita). According to Wine Intelligence, there were 1.9 million drinkers of imported wine in Hong Kong, with 680,000 people drinking Australian wine.

Australian wine is well-placed in Hong Kong, ranked second behind French wine sales in 2017.

Hong Kong is the fifth most valuable Australian wine export destination. In 2017, the value of exports to Hong Kong increased by 7 per cent to \$118 million and volume increased by 4 per cent to 8 million litres.

The average value of exports to Hong Kong increased by 3 per cent to \$14.06 per litre. Hong Kong has the highest average value among the top 30 destinations to which Australia exports and more than three-quarters of exports to Hong Kong are valued at \$10 or more per litre. This indicates the success and popularity of some of Australia's finest wines in that market, where there is zero tax on wine. Australian fine wine exports to Hong Kong have steadily grown over the last decade and the territory is now the second largest destination for Australian wine exports above \$10 per litre, behind mainland China. Like mainland China, red wine dominates Australian exports at this price segment, with a 96 per cent value share.

Australian wine will take centre stage at Vinexpo Hong Kong 2018, as Australia has been selected as the Country of Honour for the exhibition in May. Vinexpo Hong Kong is the key trade-only wine and spirits exhibition in the Asia-Pacific region. The invite-only event attracts top decision-making importers, buyers and sommeliers, and provides a forum for education and trade networking. This event will provide a platform for Australian wine to expand its already strong position in Hong Kong and the wider Asia region.

'You've done it once, you can do it again'

Pleasure and Pain, Divinyls



United States of America

With a complex wine market and lingering perceptions amongst some consumers that Australian wine is a one-dimensional category, the United States of America (USA) remains a challenging market for many Australian wineries. While key trade and opinion leaders have been praising Australia's dynamic and diverse wine scene for several years, there is still a long way to go in terms of representation in the premium market.

The tide may be turning though with the 2017 export figures showing some optimistic signs in key premium wine segments. There is also promising research that identifies signs of a bright future for Australian wine in the USA.

Currently, Australian wine exports to the USA are heavily weighted to the commercial end with 95 per cent of the volume priced at below \$5 per litre (less than US\$8 per bottle retail). Australian exports in this segment declined by 2 per cent to \$368 million. This is reflected in the retail figures. Australia holds a 13 per cent share of the off-trade market at US\$4-7.99 per bottle according to IRI figures for the 12 months ended September 2017. This price point is the biggest segment of the USA off-trade market with just over a third share but it is in decline.

In sharp contrast, the positive trend towards Australian premium wines in the USA continues. Exports at \$10 per litre or more (US\$14 or more per bottle retail) increased by 8 per cent to \$45 million. The growth in premium wine exports to the USA is also evident in retail figures. Off-trade sales figures from IRI show at US\$11 or more per bottle, Australian sales grew by 32 per cent while the total sales in this segment increased by 7 per cent.

'With exports above A\$10 FOB per litre seeing solid growth for the period, momentum is building behind wines that underpin the category's premiumisation trend. Australia is building strength and sustainable positioning at premium price points through an increasingly diverse offering of regions and varieties. It all bodes well for the next 12 months and beyond', Aaron Ridgeway, Head of Market, Wine Australia

The critical issue for the Australian wine category is that it lacks penetration in the premium market — Australia holds only 1 per cent of the market at US\$11 or more per bottle. Australia is also under-represented in the USA on-trade market. According to Nieslen/CGA Strategy, the USA on-trade market was valued at US\$17 billion in the 12 months ended 15 July 2017. Australia was ranked seventh with sales of US\$283 million, representing a market share of 1.7 per cent. If we matched our off-trade value share of 3.6 per cent, this would see Australian sales in the on-trade increase to over US\$600 million, more than double our existing sales value.

However, this suggests there is significant upside for premium Australian wines in the USA. Recent research conducted by Wine Intelligence on behalf of Wine Australia suggests that the perceptions of Australian wine are gradually improving.

The quality rating of Australian wine among regular wine consumers in the USA has increased from 7.82/10 to 8.13/10 in 2017. Furthermore, the percentage of regular wine consumers in the USA who recognised Australia for its expensive/fine wines increased from 37 per cent in 2010 to 46 per cent in 2017. In contrast, reflecting Australia's strong position at the commercial end of the market, 91 per cent of regular wine consumers viewed Australian wines as good value for money.

There's no question that there is still much work to be done in the USA market to ensure this short-term trend towards premium Australian wine becomes a significant and sustainable phenomenon. Hard work and challenges are much easier to face when there are prospects for success in the end.

Current positive economic conditions in the USA suggest disposable income is growing, creating an opportunity for increased expenditure on wine. The decline in the Australian dollar over recent years has created further opportunity for Australian wine. Three of Australia's four major banks expect the Australian dollar to be below 75c at the end of 2018, with the only exception being the Commonwealth Bank, which forecasts 85c. Wine Intelligence research identifies the USA as the world's most attractive wine market.

Millennials (people aged 21-36) are arguably the most important group among regular USA wine drinkers. According to Wine Intelligence, they represent a third of the USA wine drinking population and are growing in size. They are frequent and high-spending wine consumers and are driving the premiumisation trend in wine sales in the USA. However, they lack awareness of Australian wine, particularly those in the 25-34 age bracket.

'People should drink Australian wine because it's probably not what they think it is. There's this whole new wave of producers and a whole new wave of wine styles.' Joe Czerwinski, Managing Editor of Robert Parker Wine Advocate.

In the USA, the opportunity is to re-ignite the Australian wine category at the higher value end of the market, for wines retailing at US\$11-\$25 per bottle and in the on-trade.



Canada

Canada is Australia's fourth biggest market by value but has been a challenging market in recent times. In 2017, the value of exports to Canada declined 3 per cent to \$187 million and volume increased 2 per cent to 62 million litres. An increase in bulk wine exports and a decline in bottled exports was the principal factor in the decline in value. Bottled exports fell by 7 per cent to \$151 million, more than offsetting an 18 per cent increase in bulk exports to \$33 million.

Canada is a particularly strong market for Australia's premium white wines. Canada is Australia's number one market by value for white wines at A\$5 or more per litre (C\$12 or more per bottle retail).

Five provinces accounted for 98 per cent of Australian wine exports to Canada:

- Ontario (38 per cent share)
- British Columbia (24 per cent)
- Quebec (22 per cent)
- Alberta (9 per cent), and
- Nova Scotia (5 per cent).

Exports to Quebec increased marginally and were stable to Alberta but declined to Ontario British Columbia and Nova Scotia.

Data from the Canadian Vintners Association shows that Quebec, at 18 million cases sold, is the biggest provincial wine market in Canada ahead of Ontario (15 million cases). As a French-speaking province, it is not surprising that France is the number one country of origin with a 23 per cent volume share, ahead of Italy (19 per cent), Canada (12 per cent) and the USA (10 per cent). Australian wine is ranked fifth with a 10 per cent share. The volume of Australian wines sales in Quebec in the 12 months ended November 2017 grew 3 per cent, matching the overall market growth rate and taking share from wines from the USA, which declined by 10 per cent.

Wine Australia General Manager Marketing Stu Barclay said, 'Wine Australia is committed to investing in the Canadian market over the next three years, and has allocated an additional full-time team member into the Ontario market to support our existing team based in British Columbia. Our Canadian team are investing increased funds in category thematic, retail staff training and activating to bring key buyers into Australia to support the provincial liquor boards. Increased engagement for promotional support across all provincial liquor boards as well as within key activities, such as Vancouver International Wine Festival, will grow the awareness of the premium Australian wine category with key influencers in this strategically important wine market.'

Australian Wine Week, New York 2017



United Kingdom

More Australian wine is shipped to the UK than to any other market. In 2017, 223 million litres were exported to the UK placing it ahead of the USA (172 million litres) and mainland China (153 million litres). However, 80 per cent of this wine is shipped in bulk and bottled in market, which pulls down the reported value of exports as Wine Australia reports the value when it leaves Australia, rather than its value in market.

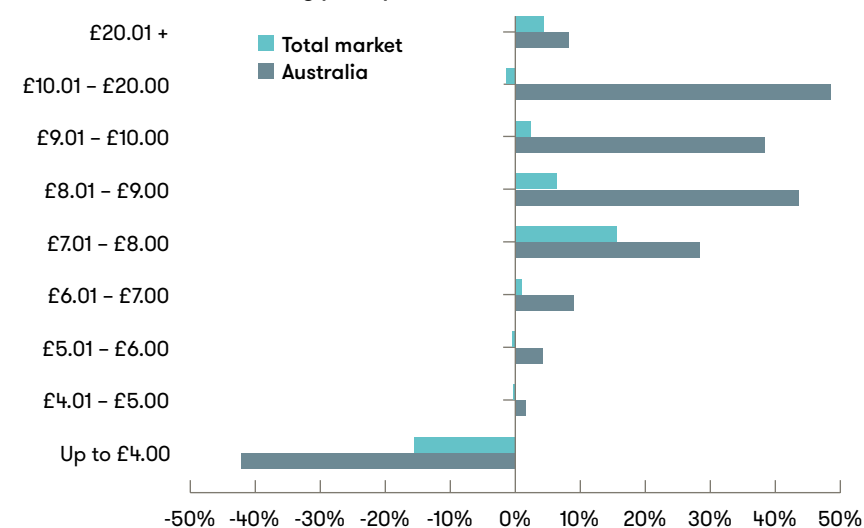
Australia remains the number one country of origin in the off-trade market, but is third in the on-trade behind France and Italy. Of the top 14 brands in the UK off-trade by value, 6 are Australian (IRI).

Australian wine exports to the UK declined in value by 2 per cent to \$348 million and in volume by 5 per cent. However, the overall value decline was due to an 8 per cent decline in bulk wine exports to \$169 million, which more than offset a 5 per cent increase in bottled exports to \$179 million.

This reflects the market trends that have seen wine sales in the UK off-trade grow at above £5 per bottle, while sales under £5 per bottle are declining. Figure 12 illustrates that there has been particularly strong growth in the UK off-trade at the premium end of the market. The big volume commercial end of the UK market has seen retail consolidation resulting in reduced product ranges. Brexit negotiations are also causing uncertainty and while the subsequent appreciation of the Australian dollar has negatively impacted on exports, the British pound (GBP) has recovered to a degree. However, the excise duty on alcohol is increasing faster than inflation and this has had a bigger impact on the commercial end of the market compared to the premium end, resulting in some price bracket creep.

Figure 12:

UK off-trade wine market by price point, 12 months ended 11 November 2017



Source: IRI

‘I’m in London still’

London Still, The Waifs

These factors contributed to a 2 per cent decline in Australian exports of commercial wines at \$2.50–4.99 per litre to \$95 million (less than £9 per bottle retail). The decline in this segment was a major influence on the overall decline in exports to the UK.

At the other end of the price spectrum, there was solid growth in exports at \$7.50–9.99 per litre (£11–12.99 per bottle retail), up by 3 per cent to \$13 million.

There was strong growth in exports of Australia’s three biggest varieties. Shiraz exports increased by 15 per cent to \$45 million and Chardonnay also by 15 per cent to \$34 million.

There was also growth in a range of more alternative varieties and blends, highlighting the richness and diversity of Australian wine. While they are relatively small categories, they are big on unique expression, innovation and consumer appeal. Some of the alternative varieties and blends on the rise in the UK include Malbec, Viognier/Roussanne, Viognier/Chardonnay, Durif, Verdelho, Tempranillo, and Montepulciano.

The growth in these varieties reinforces the UK market as a leader in innovation and very open to new products.

This is supported by recent research published on the UK market by Wine Intelligence. They reported that while traditional varieties are still the top sellers, other varieties are growing. For example, for whites, the proportion of consumers saying they had drunk Viognier in the last 6 months increased from 9 per cent in 2013 to 11 per cent in 2016.

The key growth opportunity for Australian wines in the UK market is at above £10 per bottle, where the category is under-represented. The on-trade and independent channels also offer upside for Australia. Sarah Knowles MW, The Wine Society’s Australian Wine Buyer suggests, ‘For me, Australian wine offers exceptional value between £15–25, where you can really try some very fine wines at approachable prices.’



Europe (excluding UK)

The 2017 export figures offer encouraging signs of growth across a number of markets in Europe, but particularly for Germany (up 26 per cent to \$57 million), the Netherlands (up 16 per cent to \$36 million) and Belgium (up 13 per cent to \$16 million). Like the UK, wine sales are dominated by off-trade sales through the supermarkets. There is upside for Australia in each market: Australia ranks seventh in Germany, eighth in the Netherlands and ninth in Belgium for wine imports.

Elsewhere there are heartening growth figures for Australian wine exports:

- Finland grew 11 per cent to \$17 million
- Norway grew 15 per cent to \$7 million
- Switzerland grew 2 per cent to \$7 million
- Russia grew 18 per cent to \$5 million, and
- Poland grew 15 per cent to \$4 million.

Germany

Germany is the world's biggest imported wine market and fourth largest wine market overall. According to the Global Trade Atlas, Germany imported 1.45 billion litres of wine in 2016–17. This puts Germany ahead of the UK (1.37 billion litres) and the USA (1.16 billion litres). It is also one of the world's most developed wine markets, with two-thirds of the adult population being wine drinkers. At 30 litres per head, Germans are ranked 15th in the world for average wine consumption. Consumption has been in decline for much of the last decade, but it is now stabilising.

More than three-quarters of the wine Germany imports is from the big three European producers — Italy, France and Spain. All three countries recorded historically low harvests in 2017,

presenting opportunities for Australian wine producers. Australian exports are ranked seventh, behind the big three, as well as South Africa, Chile and the USA. Chilean wines have been rising steadily, while French wines are in long-term decline, according to the IWSR.

Germany is Australia's eighth largest market by value and fifth biggest by volume. The lower value ranking is due to more than 80 per cent of Australian wine being shipped in bulk containers.

Australia exported 40 million litres to Germany at a value of \$57 million in 2017. Value increased by 26 per cent and volume by 13 per cent.

Reflecting the bulk shipments, exports below \$2.50 per litre (under €3 per bottle retail) increased by 25 per cent to \$37 million, with much of this wine destined for German supermarkets. There was also growth at the premium end, with exports at \$10 or more per litre (€11 or more per bottle retail) increasing by 26 per cent to \$4 million. Since 2011, the value of exports at \$10 or more per litre to Germany has grown by an average of 11 per cent per annum. This suggests that while Germans are very price conscious, there is a market for Australia's finer wines.

The Nordics

The Nordic wine market is an attractive opportunity for many wine producers. Sweden, Norway, Finland and Denmark are known for their wealth, open-mindedness and high standard of living. Each have well-developed wine cultures. The growing popularity of organic wine is now giving this region an added point of interest.

As with many developed nations, in Sweden there is a trend towards natural and organic products. Systembolaget, the Swedish alcohol monopoly, announced in 2013 that it aimed to have certified organic products make up 10 per cent of its offering by 2020. It has already achieved this goal. In 2016, Systembolaget's organic wine sales increased by 21 per cent to 40 million litres. Sweden is Australia's number one destination for organic wine; making up one third of export value.

While Denmark, Norway and Finland are smaller markets, they are experiencing similar market trends to Sweden: their total wine consumption growth rates are relatively steady and organic wines are making headway. According to Euromonitor International, organic wines in Denmark are growing well, with the Irma supermarket chain reporting a 20 per cent increase in organic wine sales. There are similar movements in the Norwegian and Finnish markets, although less pronounced.

While Australian exports to Sweden and Denmark declined in 2017, exports to Finland increased by 11 per cent to \$17 million and to Norway by 15 per cent to \$7 million.

After Sweden, Finland is the next Nordic country to receive the most organic Australian wine. In fact, the value of organic wine shipped to Finland has nearly doubled in the past year to \$1.3 million. Norway emerged from receiving no organic exports in 2016 to now receiving over \$200,000 worth.

'I cherish my intercontinental friendships, over continental breakfasts',

Continental Breakfast, Courtney Barnett and Kurt Vile

‘From little things, big things grow’

From Little Things, Big Things Grow, Kev Carmody and Paul Kelly



Australian Grand Tasting, Tokyo 2017



Asia (excluding China)

While the growth to China has been extraordinary, the value of exports to the rest of Asia, excluding China, has increased by 1 per cent to \$247 million and volume has increased by 13 per cent to 38 million litres. Half of the exports to the region are wines priced at \$10 or more per litre.

There are eight destinations with exports of \$5 million or more and there were mixed results among them:

- Singapore grew by 9 per cent to \$75 million
- Malaysia fell by 7 per cent to \$50 million
- Japan grew by 3 per cent to \$47 million
- Thailand grew by 9 per cent to \$20 million
- South Korea grew by 5 per cent to \$14 million
- Taiwan fell by 22 per cent to \$13 million
- Philippines grew by 33 per cent to \$9 million, and
- India grew by 51 per cent to \$5 million.

Australian wine is well-placed in these key Asian markets, with market shares of more than 10 per cent and ranked among the top four countries of origin in all but Japan and South Korea, where Australia is ranked sixth, but the introduction of a free trade agreements with each country may provide some impetus for Australia to gain market share.

Japan

Japan is the tenth biggest destination for Australian wine exports. Since the Japan–Australia Economic Partnership Agreement (JAEPA) came into force on 15 January 2015, Australian wine exports to Japan have increased from \$39 million to \$47 million.

Under the Japan–Australia Economic Partnership Agreement (JAEPA), the tariff on bulk wine was immediately cut to zero and this has contributed to bulk wine exports increasing by 51 per cent to \$4 million in 2017. The tariff on bottled exports will reduce to zero by 2022. The tariff reduction to date has provided a boost to the volume of bottled exports, up 4 per cent to 8 million litres, the largest volume of bottled exports in a decade. This has come at the expense of price, with the average value of bottled exports down 5 per cent to \$4.96 per litre FOB. This is not unexpected as demand for commercial wines is more price sensitive than for premium wines. Consequently, the value of bottled exports to Japan declined by 1 per cent to \$38 million.

An interesting trend in Australian exports to Japan has been very strong growth in soft-packs and alternative packaging. Exports of wines in soft-packs grew by 7 per cent to \$3 million and in alternative packaging such as cans by 6 per cent to \$2 million. Japan is the largest destination for Australian wine exports in soft-packs and alternative packaging with a 21 per cent share of soft-pack exports and a 36 per cent share of alternative packaging exports. Importantly, exports in alternative packaging to Japan achieved a relatively high average price of \$6.97 per litre compared to the bottled average price of \$4.96 per litre.

More than 80 per cent of the alternative packaging exports to Japan are cans. Cans are extremely popular in Japan. Practically all types of beverage are available in cans in Japan. Wine in alternative packaging such as cans or pre-packaged by the glass is targeted at the younger consumer in Japan. Research from Wine Intelligence suggests that younger Japanese consumers tend to drink less than the older generation. Cans and glasses offer the ability for younger consumers to enjoy one or two glasses rather than a full bottle.

Japan is by far the second biggest wine market in Asia behind mainland China. IWSR reports that 39.5 million cases of wine were sold in Japan in 2016, compared to 157 million cases in mainland China and 3.8 million cases in third-placed Hong Kong. After growing by 6 per cent per annum between 2007 and 2015, wine sales in Japan declined by 4 per cent in 2016. The IWSR expects the market to be flat over the next five years.

Imported wines account for 71 per cent of the Japanese wine market. Australia, with 1.2 million cases sold, ranks sixth behind Chile, France, Italy, Spain and the USA. All but Chile recorded a decline in sales in 2016.

The positive news is that the IWSR expects Australia to be one of the few imported wine countries to increase sales in Japan over the next five years, predicting a growth rate of two per cent per annum through to 2021. A key factor is JAEPA. This will make Australian wines more competitive.

The IWSR predicts that Australian sales will grow at 4 per cent per annum in the premium to super premium segments (¥1000–¥3000 per bottle, which roughly equates to \$5–\$30 per litre FOB). Australia currently holds a 4 per cent share of this market; if the growth predictions are realised, this will grow to 5 per cent.

South Korea

The Korea–Australia Free Trade Agreement (KAFTA) came in to force on 12 December 2014, removing a 15 per cent tariff on Australian wine and helping bring Australia to an even playing field with its competitors.

Since the introduction of KAFTA, exports to South Korea have increased from \$8 million to \$14 million. The excitement generated at trade events such as the Australian Wine Grand Tasting Seoul in September 2017 offers optimism for future growth prospects and has contributed to a 5 per cent increase in Australian wine exports in 2017.

South Korea is the fourth biggest still wine market in Asia with 3.4 million cases sold in 2016, according to the IWSR. This equates to 0.8 litres per adult per year. In other words, a little over one bottle of wine per year per person.

Australian wine is the sixth ranked imported wine in South Korea behind wines from Chile, Spain, France, the USA and Italy. However, Australian wine exports to South Korea have flourished over the past two and half years since the introduction of KAFTA.

The IWSR expects the recent strong growth for Australian wine in South Korea to continue, forecasting Australian wine sales to grow by 11 per cent annum in the five years to 2021 compared to growth of 4 per cent per annum for Chile and 1 per cent per annum for Spain, while they are predicting declines for wines from France (down 1 per cent per annum) and the USA and Italy (each down 3 per cent per annum).

Wine
Australia
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Wine