

Export market update

- **UK and Europe**
- **North America**
- **China**
- **Asia**

Friday 4 November

We begin at 1pm (AEDT) 12.30pm (ACDT) 11am (W.S.T)



Wine Australia Heads of Market



WINE COMMUNICATORS
OF AUSTRALIA
PROFESSIONALS WORKING IN WINE



Laura Jewell
MW
EMEA



Aaron
Ridgway
North America



Willa Yang
China



Hiro Tejima
Asia



Nick Carne
Host

Connect with us:

Twitter: @WineComAust , #WCAWeb or email: comms@winecommunicators.com.au

Wine
Australia
for
Australian
Wine

UK and
Europe

Laura Jewell MW
Head of Market

May 2016



- UK wine market stable.
- Decline finally slowed.
- GBP – AUD 1.95
- Per capita consumption at 24.9 ltr.
- Buoyant English wine production.
- 121M 9l cases wine consumed.
- Clear signs of trading up.

The aftermath



- The biggest disruption to parliament in years
 - New departments needed.
 - Talented staff needed for negotiations
 - Timetable for action
 - New Prime Minister and Cabinet
- Currency
- Panic and uncertainty:
 - Economy
 - Shares
 - Housing
 - Immigration /Border controls
 - Foreign Workers
 - Brain Drain especially in finance sector
- Priority is to get the most complete and open agreement with the EU.

Currency impact

GBP to AUD Chart

25 Oct 2015 00:00 UTC - 24 Oct 2016 13:32 UTC GBP/AUD close: 1.60447 low: 1.58868 high: 2.16750



- GBP plummeted against AUD.

Currency impact

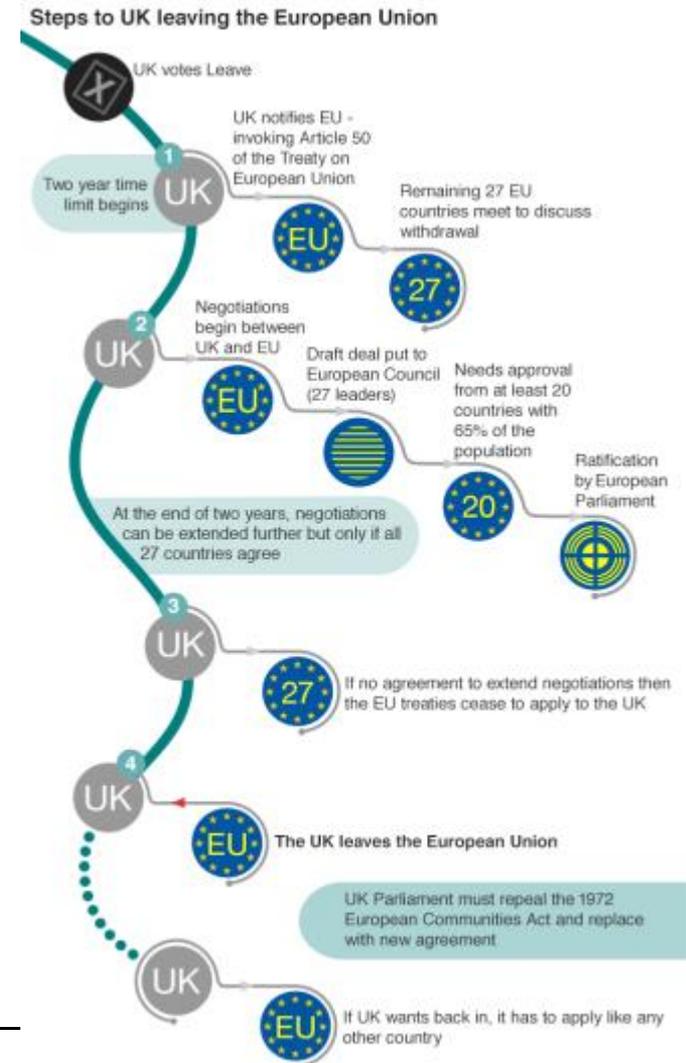
- Implications:
 - Cost of manufacturing.
 - Companies with hedging deals over 3 – 6 months now coming to an end.
 - Prices will have to go up to retailers but when?
 - Naked wines putting up prices now to customers.
 - Marmitegate
 - Global fluctuations on a daily basis – how can you plan?
 - FOB v GBP pricing – who takes the pain?
 - WSTA claims increase of 29p per bottle EU/22p non EU



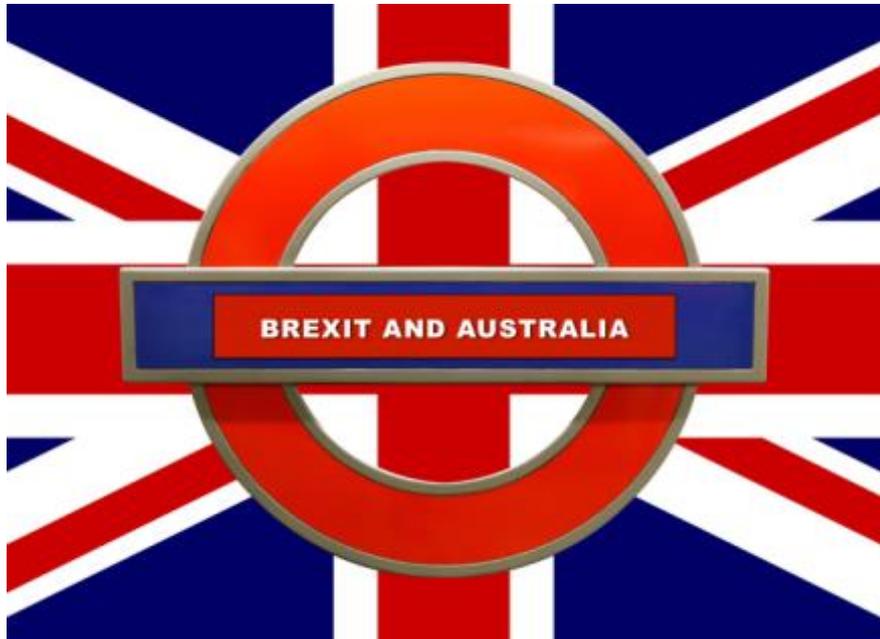
'The importers are having to meet the increased costs, which is already having a significant impact on profitability,' said Patrick McGrath, MD of importer Hatch Mansfield. 'In the immediate aftermath of the [UK's EU] referendum we were covered forward for foreign currency. However this "cushion" has now run out. This will mean that we will be forced to increase our selling prices.'

Timing – what next?

- Article 50 to be invoked by March 2017
- European elections in France, Italy and Germany in 2017.
- 2 year negotiation with EU
- Exit by March 2019
- General election May 2020
- (US election Nov 9th)



Australia's role



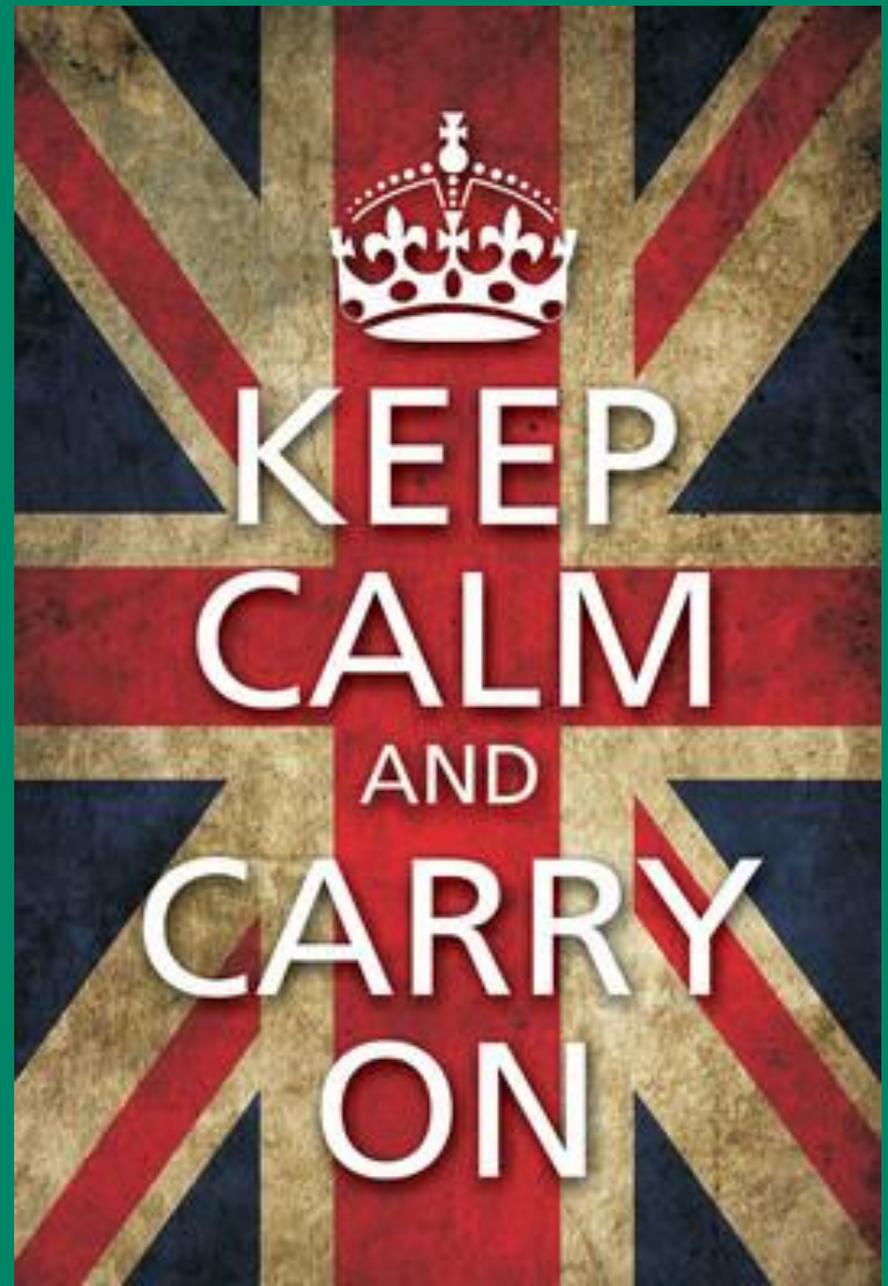
- Key FTA focus for wine as well as other areas such as beef or wool.
- Model for FTA's with other countries.
- Remo Moretta – DFAT
 - Identify what MOU's and Trade Agreements exist and scope out what is needed to be negotiated.
 - Cabinet meeting 21st November.

Implications



- Chance to renegotiate:
 - Recognition of qualifications.
 - Potential tariff relief.
 - Change to legislation on blending, creation of sparkling in market, sweetening with concentrate in market.
 - Opportunity to influence developments in the UK's regulatory framework

**The way
forward?**

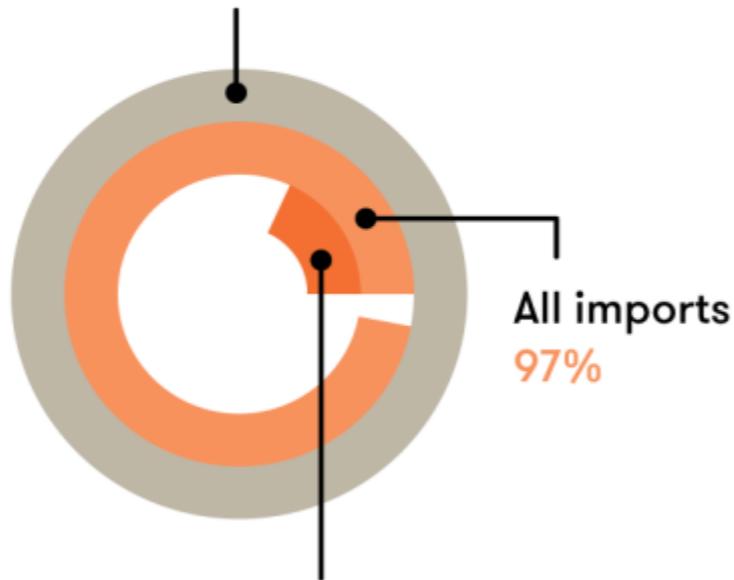


United Kingdom

Total market 2015

US\$23b

1.3 billion litres (down 0.3%)



Australian exports 2016

A\$361m

down 3%

18% market share

Growth trends

Total market



- Wines above £6



- Shiraz, Merlot from solid base
- Sauvignon Blanc, Pinot Grigio, Pinot Noir from, lower bases

Growth trends

Australian exports



- Shiraz at higher price points



- Sauvignon Blanc blends
- Merlot
- Chardonnay

UK

- Decline in wine consumption slowing.
- Consolidation of supply base
- Reduction of ranges in retailers.
- Changes to promotion formats – confusing for customers
- Experiential marketing
 - Tesco
 - Lidl
 - Waitrose
 - Majestic
- On – trade – smaller lists.
- Hybrid on/off trade independents.

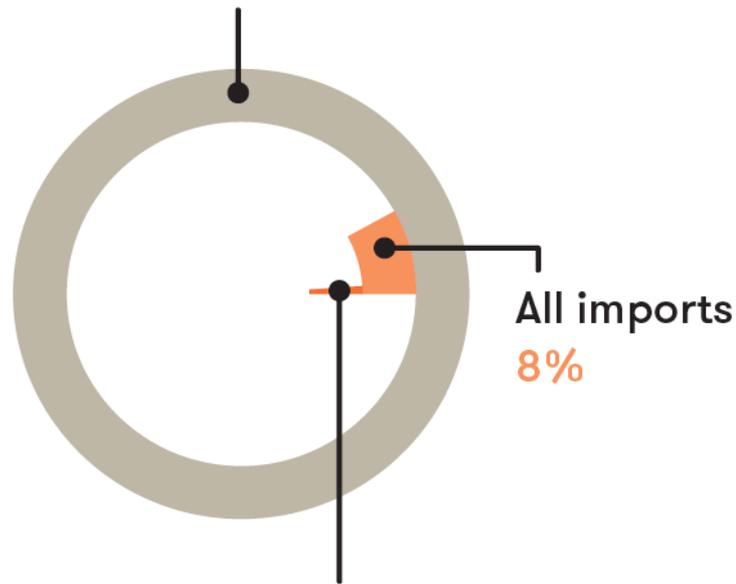


Europe other

Total market 2015

US\$113b

13 billion litres (up 0.4%)



Australian exports 2016

A\$210 m

down 3%

1% market share

Growth trends

Total market



- Grenache
- Blaufränkisch
- Tempranillo
- Prosecco

Growth trends

Australian exports



- Shiraz \$2.50-\$5
- Chardonnay \$2.50-\$5
- Pinot Grigio \$2.50-\$5
- Shiraz/Cabernet \$5-\$7.50

Norway

- Vinmonopolet:
- Growth at higher price points
- Reduction of large bulk tenders
- Sugar levels in wine – hot topic
- Reduction in Bag in Box

Finland

- Alko:
- Launch of on-line in November.
- Increase to 10,000 products.
- Store ranges on size and sales profile.
- Growth of non alcoholic and organic
- Ranged by taste profiles.
- Packaging important in tenders.



Sweden

- Systembolaget:
- Growth of low and no alcohol.
- New buyer – Marie Hultin.
- 50% BiB, decline flattened out.
- Organic 20 – 25%

Denmark

- 85% duopoly between Coop and Dansk
- Cross border trade with Germany.
- On-trade booming in Copenhagen.
- Beer consumption dropped dramatically.
- Rise of sweet Moscato styles, Organic, Biodynamic and unusual grape varieties.
- Fragmented supply base outside major retailers.



Germany

- Stable market – large consumption (37.3l pc)
- 57% imported
- Provenance and drink local big influence.
- Fragmented across regions.
- Dominated by Edeka (Hamburg) (7,000+ outlets) and Rewe (Cologne), followed by the discounters.

Benelux

- Consolidation of retailers.
- Dominance of Ahold through Albert Heijn (850 stores) and Gall & Gall (500 mult specialists)
- Jumbo in Holland has 580 stores.
- Increase in alcohol taxes.
- Terrorism threat – effect on tourism.



Poland

- Increase in rosé consumption.
- Fruit flavoured wines growth.
- Prosecco and Aperol Spritz growth.
- Emerging market with low per capita consumption of wine, but trading up.
- New buyer at Biedronka, largest discounter.

Other Europe

- Russia – buyers travel to ProWein.
- Fewer drinking occasions – night clubs closing.
- Big emigration of youth from Eastern bloc.
- Innovative packaging.
- Health conscious decisions.
- Rising use of technology.



Laura Jewell

MW

**Head of Market
Europe, Middle
East & Africa**



Wine
Australia
for
Australian
Wine

North
America

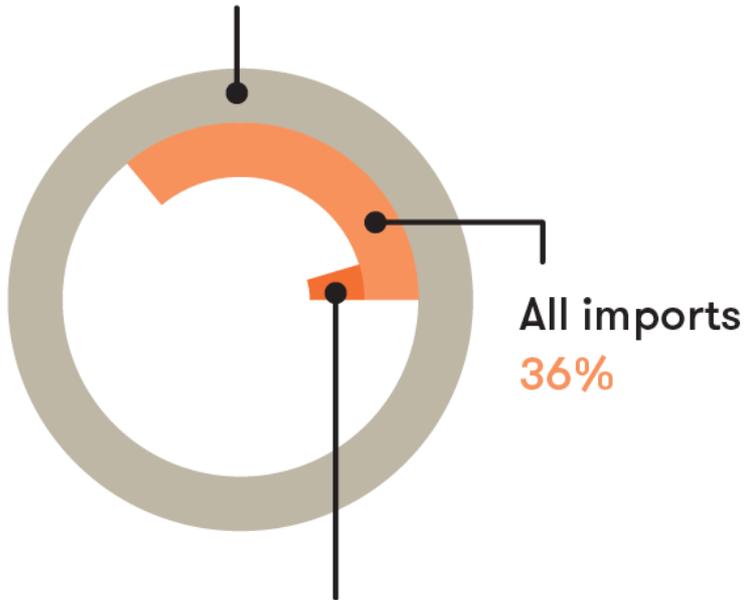
Aaron Ridgway
Head of Market

USA

Total market 2015

US\$42b

3 billion litres (up 2%)



Australian exports 2016

A\$448m

up 4%

5% market share

Growth trends

Total market



• Chardonnay US\$ 20+

• Cabernet 8%, esp. mid-price



• Pinot Noir, Sauvignon Blanc 10%+

Growth trends

Australian exports



• Moscato, Chardonnay, Pinot Grigio, Shiraz blends \$2.50-\$5



• Premium Shiraz



ABOUT WINE IN THE U.S.



IMPORTER



SUPPLIER/
BRANDS

DISTRIBUTOR/
WHOLESALER

RETAILER

CONSUMER

At Least..

35,673
wine items
11,771
table wine brands

Top 10 =
almost **75%**
of all wholesalers

545,000
359K on
187K off

120MM (52%) several x per year
85MM (37%) monthly
46MM (20%) weekly
28MM (12%) several x per week

Source: Nielsen off premise (2015/16)

Source: Industry Estimates (2016)

Source: Nielsen TDLinX (Dec 2015)

Source: Nielsen (Harris) - Average responses consumer surveys conducted in 2015 4



AU NEAR THE TOP – BUT LAGGING IMPORT GROWTH



Sales Share		Table Wine Country of Origin	Value % Change	Volume % Change	Avg Price/ 750 ml
Value	Volume				
26.4%	25.0%	Total Imported	+3.4%	+0.4%	\$7.37
8.2	6.3	- Italy	+6.6	+4.4	\$9.00  +\$.19
5.4	7.8	- Australia	-3.2	-3.1	\$4.86
3.1	3.0	- Argentina	-3.7	-5.9	\$7.05  +\$.16
2.4	1.3	- France	+13.7	+10.7	\$12.42  +\$.34
2.1	1.7	- New Zealand	+16.6	+15.1	\$11.28  +\$.15
2.1	2.5	- Chile	-2.8	-3.2	\$5.83
1.2	1.3	- Spain	+2.3	+0.3	\$6.56  +\$.13
0.7	0.6	- Germany	-3.4	-4.5	\$8.66  +\$.10
0.2	0.2	- S. Africa	+4.6	+1.0	\$9.40  +\$.33
0.2	0.2	- Portugal	+12.0	+11.2	\$7.14

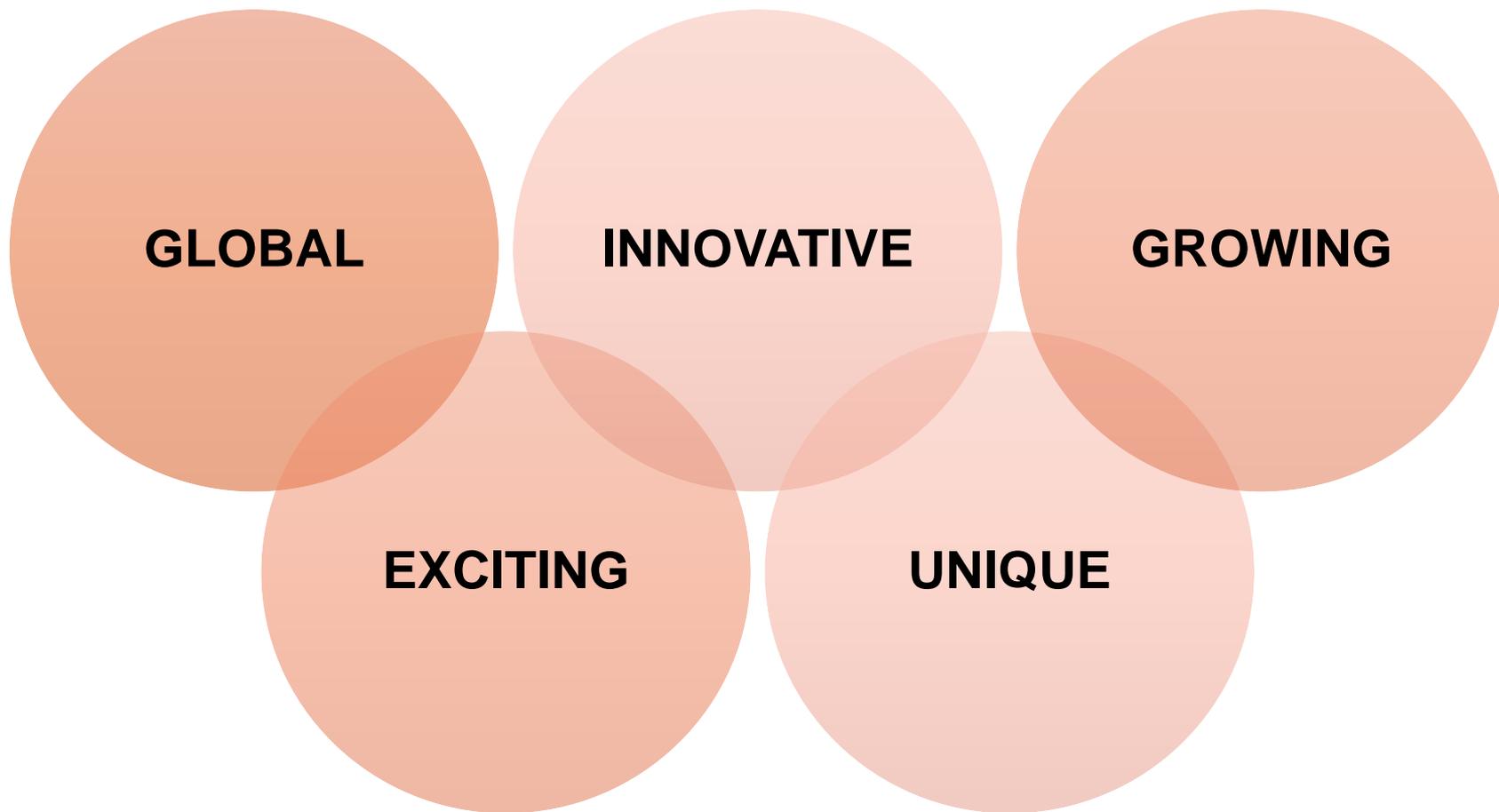


nielsen

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); 52 w/e 6-18-2016

The issues...

- Perspective
 - \$US14m (<\$8) exported to the US through September (+10%)
 - Premium Shiraz is 4% of sales...but controls reputation
- Major hurdles
 - Perception
 - Convincing accounts
 - Convincing distributors
 - Competition: domestic, emerging, craft beer, spirits, marijuana
- Major opportunities
 - Currency advantage
 - Relative lack of awareness
 - Increasing interest and support from stakeholders
 - Brand Australia?



**Wine
Australia**

**Aaron
Ridgway**

**Head of Market
North America**



**Wine
Australia
for
Australian
Wine**

China

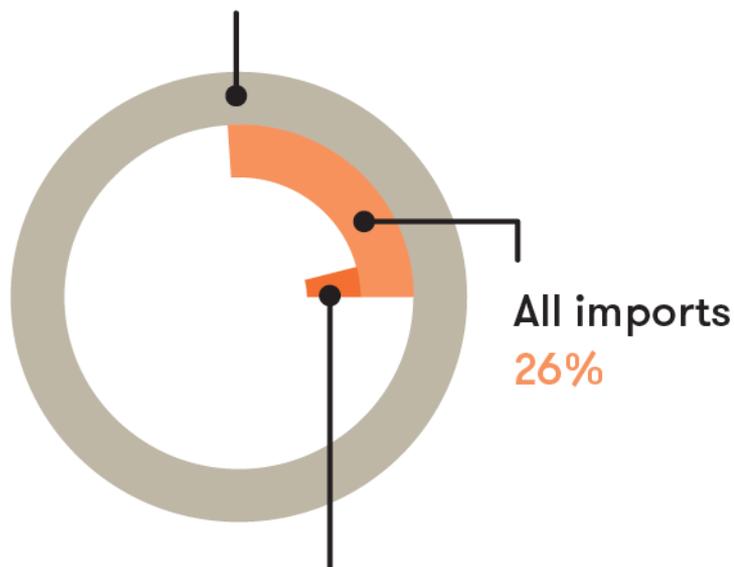
**Willa Yang
Head of Market**

China

Total market 2015

US\$23b

2.1 billion litres (up 10%)



Australian exports 2016

A\$474m

up 51%

4% market share

Growth trends

Total market



• Reds RMB 90+



• Merlot

• Cabernet Franc

Growth trends

Australian exports



• Shiraz \$10+

• Cabernet \$10+



• Shiraz and blends

• Cabernet and blends

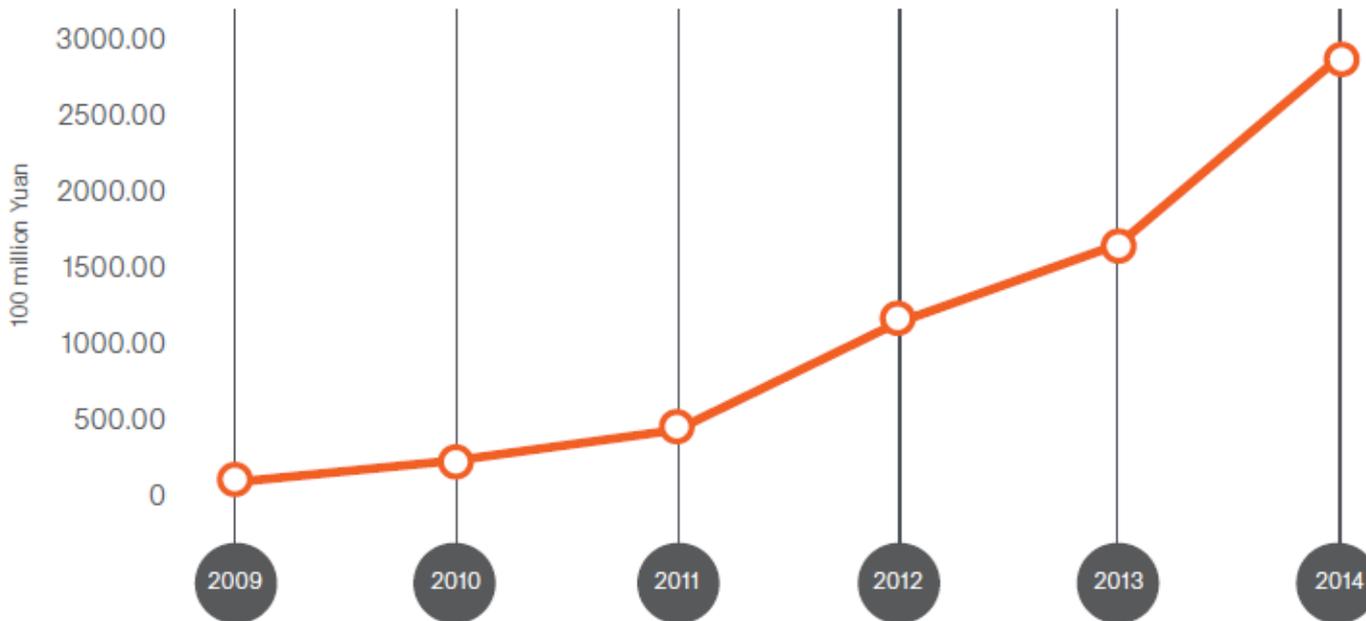
The China market

- Australian wines surge
 - 51% up in value to A\$474m
 - 52% up in volume to 90m litres
 - 7.3% up in average value per litre (A\$6.59)
 - 63% up for exports priced \$10 and more per litre FOB (A\$190m)
- Online business surges
 - Singles' Day, massive online sales on 11 Nov
 - T-mall, the largest online platform in China, reported RMB91.2 billion sales on that day, 37% up than same day last year
 - Yesmywine, the largest online wine retailer in China, reported RMB40.5 million on that day, 100% up than last year
- The China Australia Free Trade Agreement brings confidence towards Australia in many areas.
- Wine consumption per capita per year: just over 1 bottle



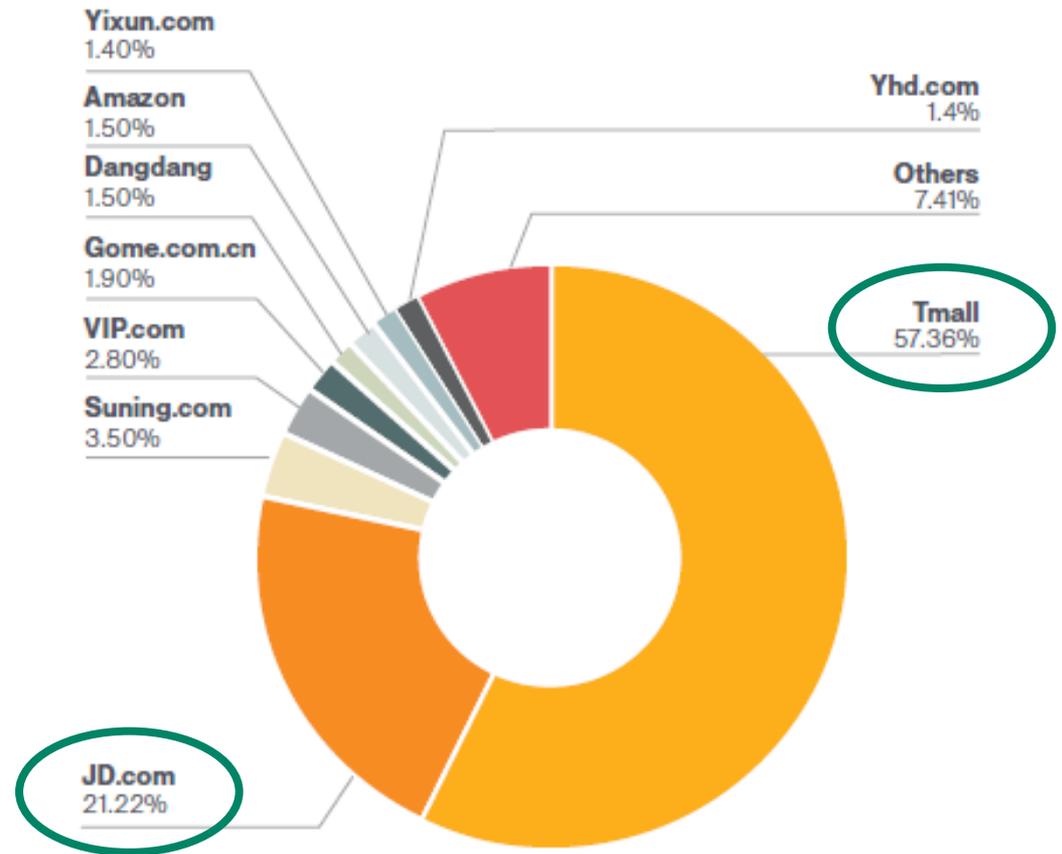
The e-commerce market in China

Figure 1: China e-commerce total sales value



Source: National Bureau of Statistics *Annual Online Retail Sales*, January 2015

China's top B2C websites Q2, 2014



Challenges in China

- Still an immature market, limited knowledge on wine
- Language and culture barrier
- Traditional + non-traditional distribution
- Pricing structure is still not reasonable
- The great unknown – who is drinking your wine?
- Rapidly evolving trends

Opportunities in China

- Red wine still dominates the market but white wine, moscato and sparkling are growing
- The growing number of mid-class consumers – 100million; Emergence of younger generation
- E-commerce growing rapidly
 - Online marketplaces
 - Cross border sales
- Promotion via social media and live stream
- Retail distribution is still important.
- On-trade is more for branding.
- Australia is stronger in the price point range of RMB150 to RMB500 retail.
- Branding of Australia and Region is as important as individual branding

Willa Yang

**Head of Market
China**



**Wine
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for
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Asia

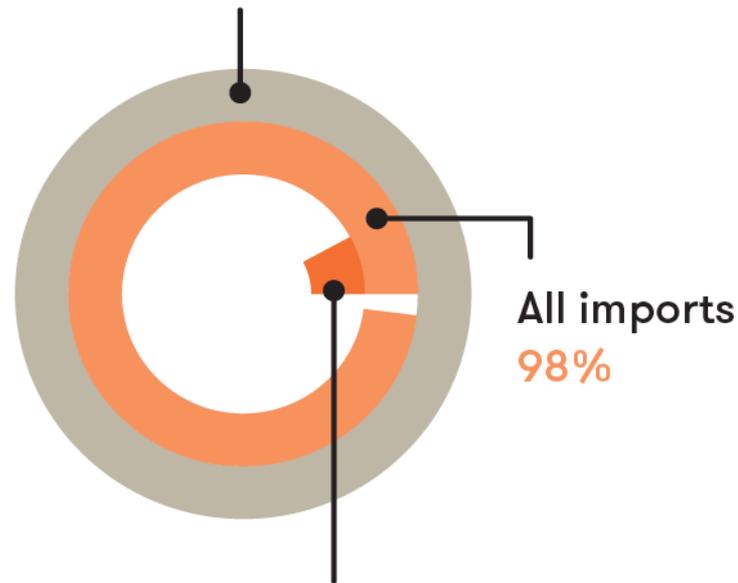
**Hiro Tejima
Head of Market**

Asia other

Total market 2015

US\$14b

564 million litres (up 4%)



Australian exports 2016

A\$362m

up 9%

8% market share

Growth trends

Total market



• Cabernet Sauvignon

• Shiraz

• Merlot

• Chardonnay

Growth trends

Australian exports



• Cabernet/Shiraz blends \$10+

• Cabernet \$10+

• Chardonnay/Pinot Noir \$10+

• Chardonnay \$10+

South Korea



- Population: 50.9 million* (2016 est.)
- GDP per capita: US\$36,500* (2015)
 - *c.f.* Australia \$65,400
 - Hong Kong \$56,700
 - United States \$55,800
 - Japan \$38,100
 - China \$14,100
- Technically still at war, with ceasefire in place since 1953
- Compulsory 2-year military service for men
- Currently at a slow economic growth (2-3% pa) due to sluggish domestic consumption and investment

What South Korea means to Australian wine export

- Value \$21m; Volume 240k 9L c/s; Average price \$6.52/L
- For Australia, South Korea is ranked #19 in value, #21 in volume; #8 in Average price*
- Upside – we are 6th in imports
- 83 exporters in the last 12 months
*c.f. 203 to Japan; 395 to Hong Kong;
To South Korea: 81 in 2010; 38 in 2003-04*
- Growth in value
 - 4% in the year before the FTA
 - 42% in the last 12 months

KAFTA – what it is and how it works

- The Korea-Australia Free Trade Agreement (KAFTA) entered into force on 12 December 2014
- KAFTA has eliminated the 15% import tariff on Australian wines

Import Tariff – nil

Liquor Tax – 30% of DDP (CIF + Tariff)

Education Tax – 10% of Liquor Tax

Value Added Tax (VAT) – 10% of the

sum

- Australia now at a level playing field as Chile, US and EU wines

KAFTA details

HOW TO USE KAFTA WHEN EXPORTING PRODUCTS TO KOREA

Preferential KAFTA tariffs are not applied automatically in Korea; follow the steps below to take advantage of KAFTA.

1. Read through the DFAT [Guide to using KAFTA to export and import goods](#) and the Austrade [Food and Beverage Market Entry Guide: Opportunities under the Korea-Australia Free Trade Agreement](#).
2. Identify the correct HS codes for your product and cross-check with your freight forwarder.
3. Search the DFAT Free Trade Agreement Portal (ftaportal.dfat.gov.au) to check how your products will be treated under KAFTA in terms of tariff reduction, any tariff quota, and that they meet the criteria for 'Australian Origin'.
4. Prior to signing any contract with an importer or partner, you can cross-check your tariff reduction with them and seek legal advice if required. If necessary,

cross-check the HS codes and get an advanced ruling from Korea Customs Service (customs.go.kr) with the assistance of your importer.

5. Prepare FTA certification of origin for your products. You must have origin documents to claim FTA benefits.

KAFTA allows Australian exporters to self-certify the origin of their goods by preparing an Origin Certification Document (OCD).

You can also certify origin by obtaining a Certificate of Origin (COO) from the Australian Chamber of Commerce and Industry (ACCI) and Australian Industry Group (AIG), the accredited certifiers in Australia.

ACCI: accli.asn.au

AIG: aigroup.com.au

For details, please email exports@wineaustralia.com or ring 08 8228 2000

The screenshot shows the Australian Government Department of Foreign Affairs and Trade website. The main heading is 'KOREA-AUSTRALIA FREE TRADE AGREEMENT'. Below the heading, there is a navigation menu with options like 'Countries and regions', 'International relations', 'Trade and investment', 'Aid', 'People-to-people', 'About Australia', and 'Travel'. The page content includes a section for 'Korea-Australia FTA' with a sub-section for 'FTA information and factsheets' and a link to 'Guidance for Australian business'. There is also a small image of a group of people in a meeting.

DFAT FTA Website dfat.gov.au/trade/agreements

The screenshot shows the Austrade Infosheet on Wine and Beer to Korea. The main heading is 'KOREA-AUSTRALIA FREE TRADE AGREEMENT'. Below the heading, there is a section for 'WINE AND BEER TO KOREA' with a sub-section for 'KAFTA BENEFITS FOR WINE AND BEER'. There is a small image of a woman and a man in a meeting.

WINE AND BEER TO KOREA

KAFTA BENEFITS FOR WINE AND BEER

The Korea-Australia Free Trade Agreement (KAFTA) came into force in December 2014, bringing significant benefits for Australian exporters. When KAFTA is fully implemented, tariffs on 99.7 per cent of exports to Korea will be eliminated. The agreement helps level the

Under KAFTA, the tariff on wine was immediately eliminated on entry into force and the tariff on beer will reduce from 171 per cent to 12.6 per cent on 1 January 2020, and will be completely eliminated by 1 January 2020.

These tariff cuts help improve Australia's competitiveness and make it an ideal time for exporters to enter Korea. Korean consumers have an appetite for imported premium products, and Australian companies offering high-quality wine and beer with distinctive packaging and branding will find a growing market for their goods.

Korean wine consumers associate Australia with good-quality full-bodied red wines, but they know little else about other varieties. There is considerable scope to change this perception and to educate Korean consumers on the diverse range of regional Australian wines.

Austrade Infosheet on Wine and Beer to Korea

What makes South Korea unique?

- Design/brand conscious, sensitive and open to new trends
- Wine market feels about 10-12 years behind Japan, according to the local wine professionals
- Price sensitivity
 - General feeling of resentment towards big conglomerates
 - Dominance of hypermarkets
 - Chilean wine has set a standard of affordable, fruity wine
- Importers are often unsure of the position of Australian, especially premium wine

Our opportunities

- We are creating a renewed interest in Australian wine!
- The rise of young and vibrant wine professionals
- General openness and willingness to discover, experiment and learn about new styles and origins of wine
- Premiumisation at hypermarkets

Our market activity responses

Lifting the image,
deepening the
understanding



- Education/Masterclasses
- Foundations Program
- AYSA tasting group

Facilitate existing
business and introduce
new businesses



- Australian Wine Grand Tasting
- New to market Tasting

Changing perceptions
through real Australian
experience



Visit Program to Australia

Also...

- Working with key trade and general (e.g., Wine21.com, Wine Review, business magazines)
- Key retail and restaurant promotion

Action points

Communicate / understand / educate / win trust!

- Visit the market
- Be sensitive to the cultural differences*
- Focus on relationships
- Be patient
- Work with us and Austrade in market as needed

Polish the Australian message and presentation

- Focus on the premium message**
- Make it easy to understand but not simplistic
- Position Australian wine in an international context – what is the USPs in comparison with other countries of origin?

Target younger generation / invest to excite them

- Know what interests them
- Disrupt them
- Enjoy!

Hiro Tejima

**Head of Market
Asia**



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Host

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Our next webinar



WINE COMMUNICATORS
OF AUSTRALIA
PROFESSIONALS WORKING IN WINE

Content Marketing 101

Ken Chan
Senior Digital Strategist
Dig + Fish

Free to WCA members
Registrations open soon

**DIG +
FISH**

Save the date

Tuesday 29

November

1-2pm (AEDT)

Export market update

- UK and Europe
- North America
- China
- Asia

Thanks for joining
us

