

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **New Zealand**

## **Wine Annual**

## **New Zealand Wine Report 2011**

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**Report Highlights:**

New Zealand's 2011 grape harvest is forecast at 305,000 tons, nearly 15% more than last year. Relatively good growing conditions have underpinned both good fruit yields and quality. Total 2011 wine production is forecast at a record 216.5 million liters, up 14% from the 190 million liters produced in 2010.

## **Executive Summary**

New Zealand's 2011 grape harvest is forecast at 305,000 tons, nearly 15% more than last year. Relatively good growing conditions have underpinned both good fruit yields and quality. Total wine production is forecast at a record 216.5 million liters, up 14% from the 190 million liters produced in 2010.

The increase comes at a time when the industry is still recovering from the record 285,000 ton harvest in 2008, which, in the face of the global economic downturn, led to an over-supply situation characterized by a decline in grape prices, a surge in bulk wine shipments, excess inventories, and a decline in the average export price. While much of the accumulated inventory has reportedly been cleared, the record production forecast has pushed prices down, further straining the profitability of wineries.

Small by international standards, the New Zealand wine industry has expanded significantly over the past decade. Grape producing area has tripled from just 10,197 hectares in 2000 to 33,428 hectares in 2010. Vineyards now cover more than twice the surface area of any other horticultural crop in New Zealand. Reflecting the industry's reputation as a provider of super premium, cool climate wines, exports have jumped from just US \$88 million in 2000 to US \$788 million in 2010, a nine-fold increase.

While the sector is still dominated by small wineries and relatively small growers, there has been a significant amount of international investment. The six largest companies account for approximately 55% of total wine production and 19% of total grape production.

A key question going forward is whether or not the New Zealand wine industry can continue to command a premium in the market place, especially in view of the increase in exports of bulk wine, which accounted for 28% of total exports in 2010, up from 22% in 2009 and just 9% in 2008.

While the New Zealand wine market is small, there is scope for increased exports of U.S. wines to the New Zealand market, particularly varietals such as Zinfandel and Pinot Noir.

The New Zealand wine industry aims to be the first in the world to be 100% sustainable. The Sustainable Winegrowers New Zealand (SWNZ) program now covers 94% of vineyard area and 90% of wineries.

## **Production**

NEW ZEALAND WINE PRODUCTION: A SNAPSHOT												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Wine Companies	358	380	398	421	463	516	530	543	585	643	672	NA
Producing Area (Hectares)	10,197	11,648	13,787	15,800	18,112	21,002	22,616	25,335	29,310	31,964	33,428*	33,000*
Average Yield (Tons per hectare)	7.8	6.1	8.6	4.8	9.1	6.9	8.2	8.1	9.7	8.9	8.0	8.0*
Average Grape Price (NZ\$ per ton)	1,153	1,441	1,634	1,929	1,876	1,792	2,022	1,981	2,161	1,629	1,293	NA
Tons Crushed	80,100	71,000	118,700	76,400	165,500	142,000	185,000	205,000	285,000	285,000	266,000	305,000*
Total Production (Millions of Liters)	60.2	53.3	89.0	55.0	119.2	102.0	133.2	147.6	205.2	205.2	190.0	216.5*

Source: New Zealand Wine Growers

\*Estimate

**Producing Area:** Grape producing area has more than tripled from just 10,197 hectares in 2000 to an estimated 33,428 hectares in 2010. Because of the oversupply situation, which has resulted in lower prices to growers and reduced profitability for wineries, there have been no new plantings since 2008. Total planted area for 2011 is estimated at 33,000 hectares as approximately 500 hectares of vines have been pulled out.

Sauvignon Blanc constitutes the single most important varietal produced in New Zealand accounting for just over half of the total producing area in 2010, up from 35% in 2005. Area planted to Sauvignon Blanc is forecast to hold relatively steady in the near term. While known for Sauvignon Blanc, New Zealand is increasingly producing a range of varietals, including pinot noir from both the North and South Islands.

## NEW ZEALAND PRODUCING VINEYARD AREA BY GRAPE VARIETY

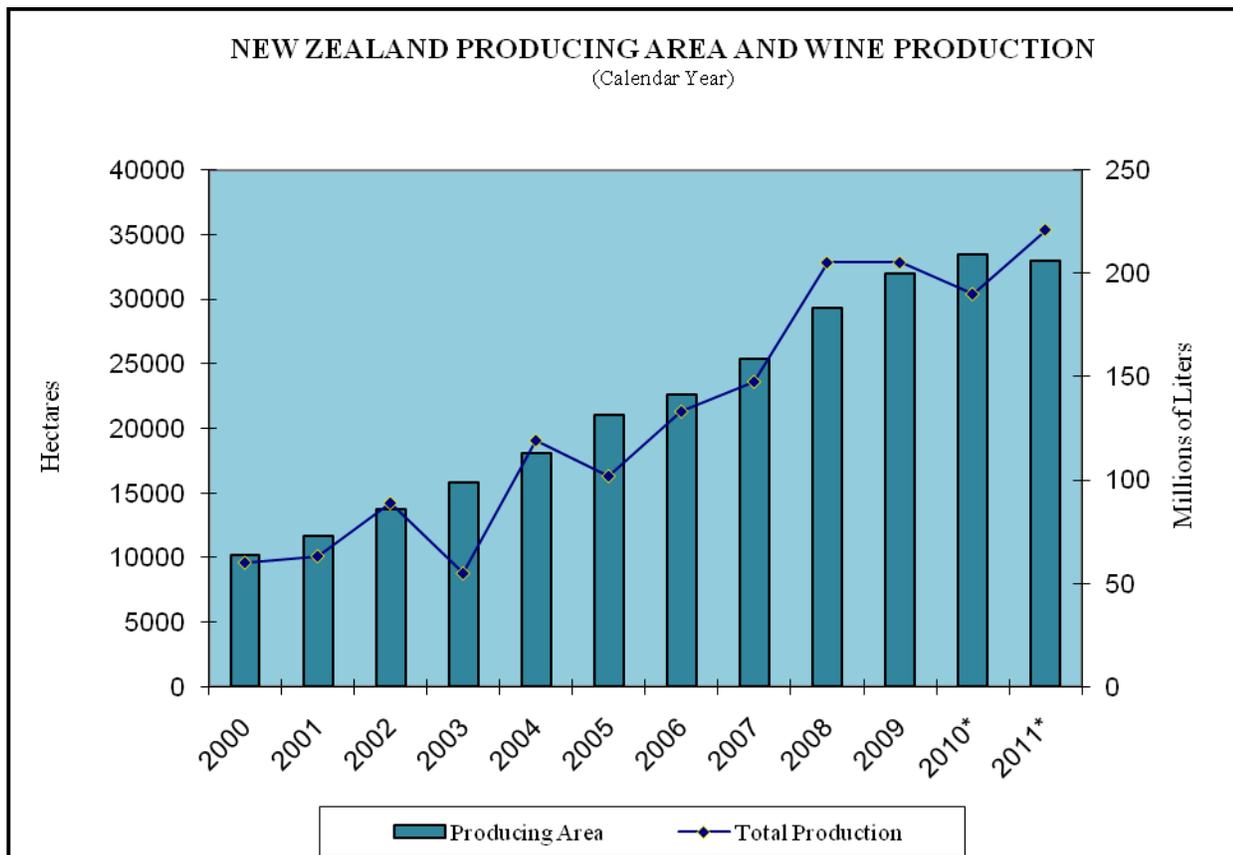
(Hectares)

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*	2012*
Sauvignon Blanc	3685	4516	5897	7277	8860	10491	13988	16205	16910	16758	17297
Pinot Noir	2029	2624	3239	3757	4063	4441	4650	4777	4773	4803	4828
Chardonnay	3427	3515	3617	3804	3779	3918	3881	3911	3865	3823	3792
Merlot	1077	1249	1487	1492	1420	1447	1383	1369	1371	1386	1403
Riesling	529	653	666	811	853	868	917	979	986	993	1009
Pinot Gris	232	316	381	489	762	1146	1383	1501	1763	1725	1764
Cabernet Sauvignon	745	741	687	614	531	524	516	517	519	519	521
Other	2063	2186	2138	2758	2348	2520	2592				
<b>Total</b>	<b>13787</b>	<b>15800</b>	<b>18112</b>	<b>21002</b>	<b>22616</b>	<b>25355</b>	<b>29310</b>	<b>31964</b>	<b>33428</b>	<b>33600</b>	<b>33600</b>

\*Estimates

Source: New Zealand Wine Growers

**Grape Harvest:** The nation's 2011 grape harvest is estimated at 305,000 tons, up from 266,000 in 2010. While there has been some wet weather, the prospects for the vintage are reportedly good.



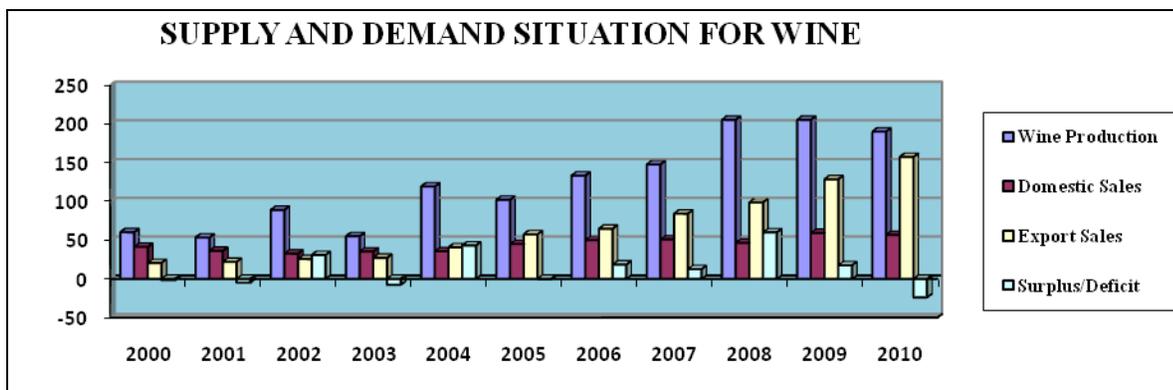
Source:

New Zealand Wine Growers

\* Denotes forecast

**Prices:** The average grape price has fallen from a record NZ \$2,161 in 2008 to NZ \$1,293 in 2010. Prices have reportedly fallen further in 2011 with Sauvignon Blanc being the grape variety most impacted by the drop in prices. Some Marlborough growers have suggested that the breakeven point for many growers is NZ \$1,200 per ton with a yield cap of 12 tons per hectare.

**Wine Production:** Total 2011 wine production is forecast at a record 216.5 million liters, up 14% from the 190 million liters produced in 2010.



Source: New Zealand Winegrowers

The over-supply situation the industry has been facing seems to have improved markedly as inventories have been drawn down and the 2010 vintage has been sold. However, given the record production forecast, many in the market place are still factoring in a surplus, which is reflected in prices. As a result, profitability continues to be a significant issue.

Going forward, a major challenge facing the industry is the ability to maintain a premium price in the international market place, especially in view of the amount of bulk wine on the market. Since 2008, there has been a relatively significant increase in bulk wine exports. Bulk wine accounted for 28% of total exports in 2010, up from 22% in 2009 and 9% in 2008. As reported in a recent Rabobank report, in the case of short-term oversupply, a rise in bulk wine sales can have considerable benefits to the industry. It cleans out tanks, reduces inventory accumulation, provides important cash flow for wineries and may open up new market channels. However, the sustained availability of large amounts of bulk wine can also have damaging effects, putting further downward pressure on wine and grape prices and eroding the brand value of New Zealand wine.

## Consumption

Total domestic wine sales fell slightly to 92.1 million liters in 2010 after hitting a record 92.7 million liters in 2009. Consumption of domestically produced wine accounted for 62% of all wine consumed in 2010. Per capita consumption in 2010 was 13 liters, down slightly from 13.9 liters the previous year.

Estimated US per capita consumption is 11.5 liters.

NEW ZEALAND WINE CONSUMPTION											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Domestic sales of NZ wine ( <i>millions of liters</i> )	41.3	36.2	32.6	35.3	35.5	45	50	51	46.5	59.3	56.7
Total sales of all wine in NZ ( <i>millions of liters</i> )	66.2	66.6	68.3	74.5	79.7	81.7	86	91.8	87.4	92.7	92.1
NZ wine as a percentage of domestic sales	62%	54%	48%	47%	46%	55%	58%	56%	53%	65%	62%
Consumption per capita of NZ wine ( <i>liters</i> )	10.8	9.3	8.2	8.8	8.8	11.2	12.1	12.2	11.1	13.9	13.0
Consumption per capita of all wines in NZ ( <i>liters</i> )	17.3	17.3	17.4	18.5	19.6	19.8	20.6	21.7	20.8	21.5	21.1

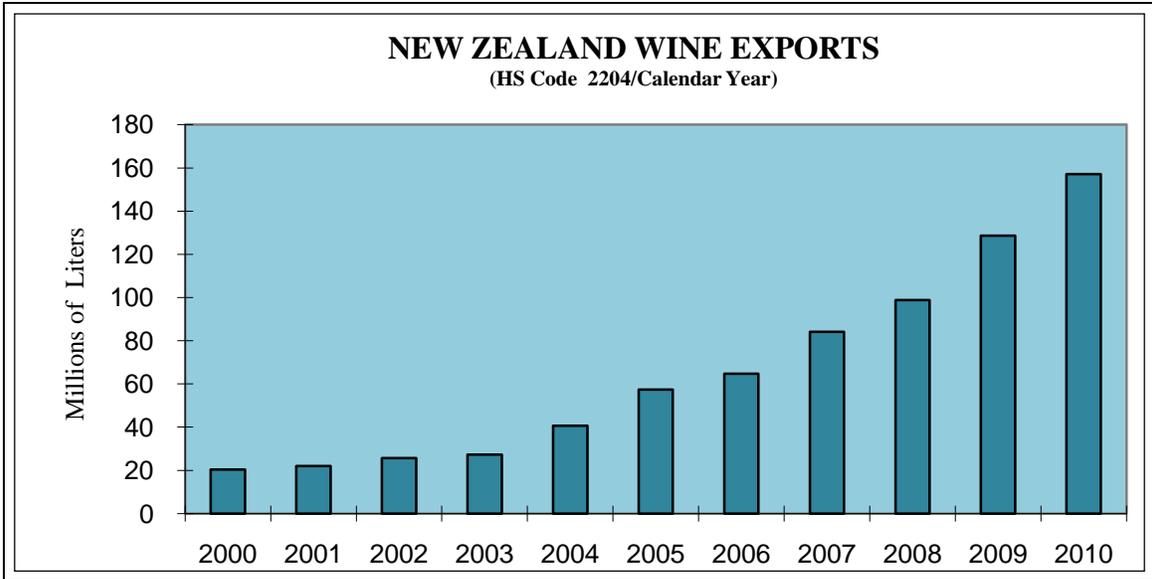
Source: New Zealand Winegrowers

## Trade

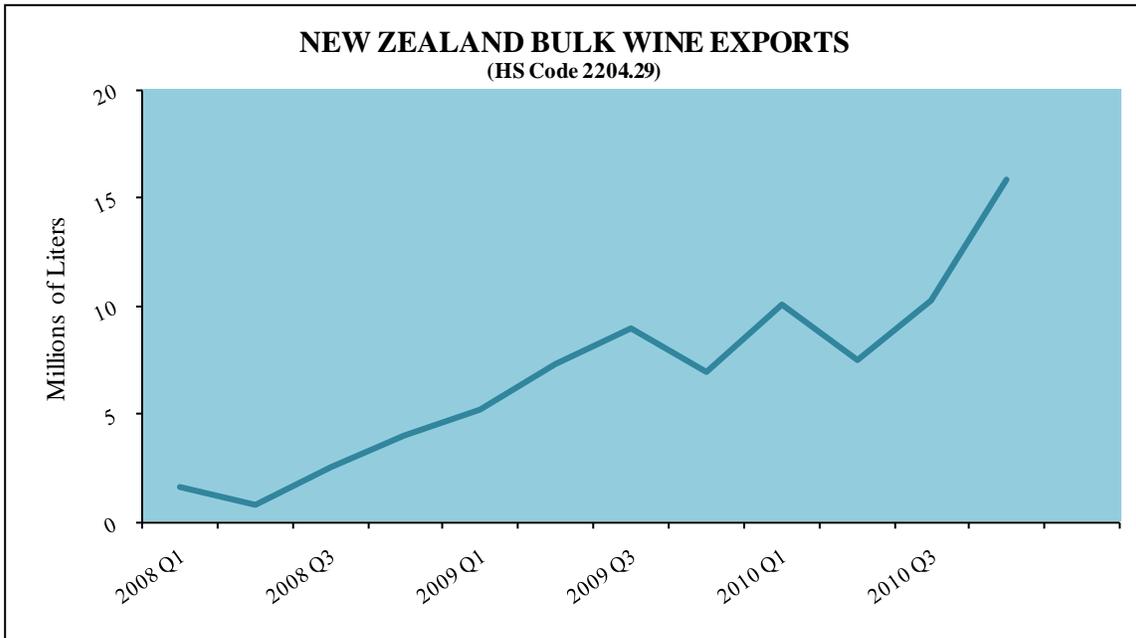
### Export Highlights

Wine is one of New Zealand's fastest growing exports up 22% in 2010 and 30% in 2009. This growth is particularly impressive given the current state of the global economic environment and the strong NZ dollar, which has risen strongly against both the currencies of importing countries and competing exporters.

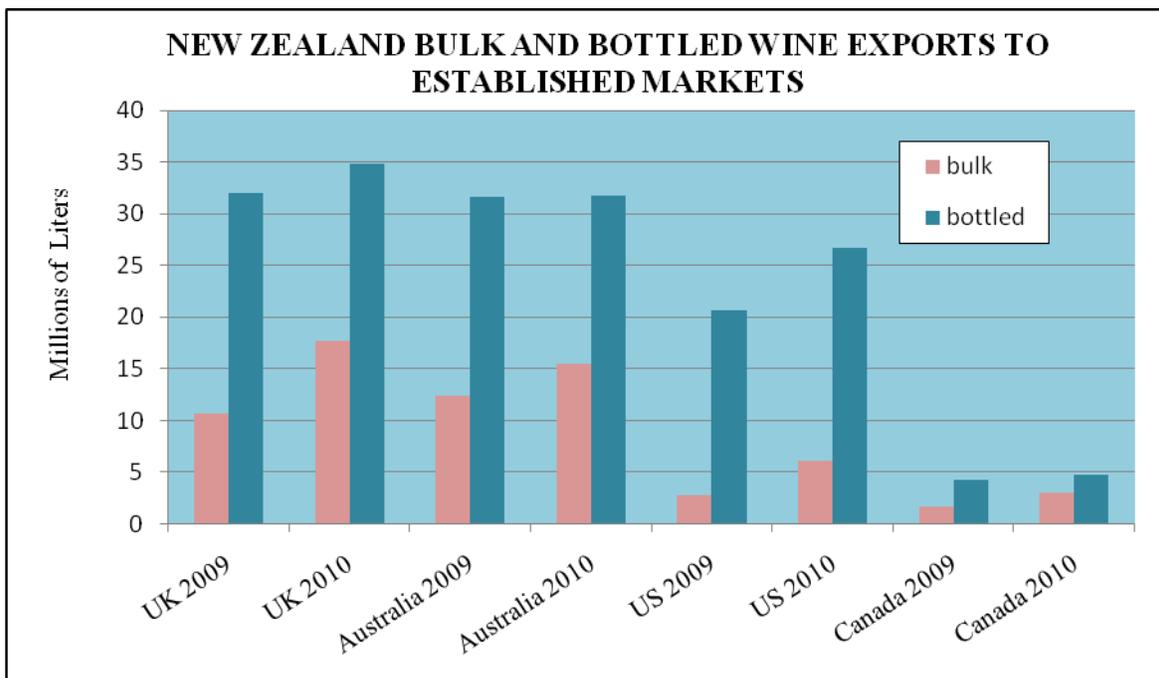
Bulk wine exports reached 28% of total exports in 2010, up from 22% the previous year. Much of the bulk wine exports are destined for New Zealand's top export destinations – the United Kingdom, Australia, and the United States. In 2010, bulk wine sales accounted for 34% of total wine exports to the United Kingdom, 33% to Australia and 19% to the United States. An estimated one-third of the total is bulk wine exported by wineries for bottling under their own labels overseas. The remainder is destined for other uses, such as supermarket private label brands.



Source: Global Trade Atlas



Source: Global Trade Atlas

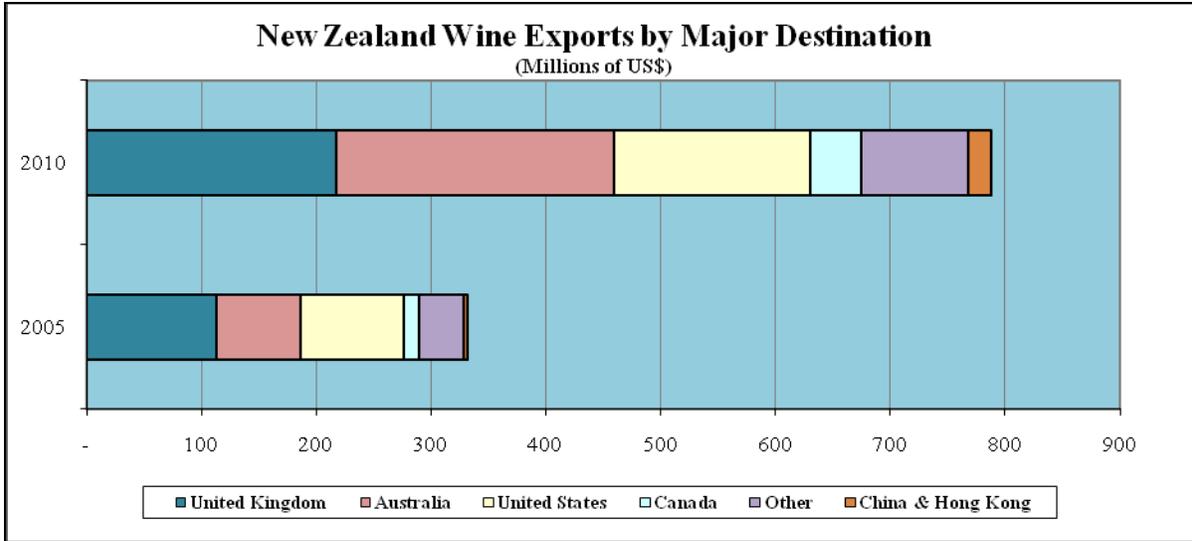


Source: Global Trade Atlas

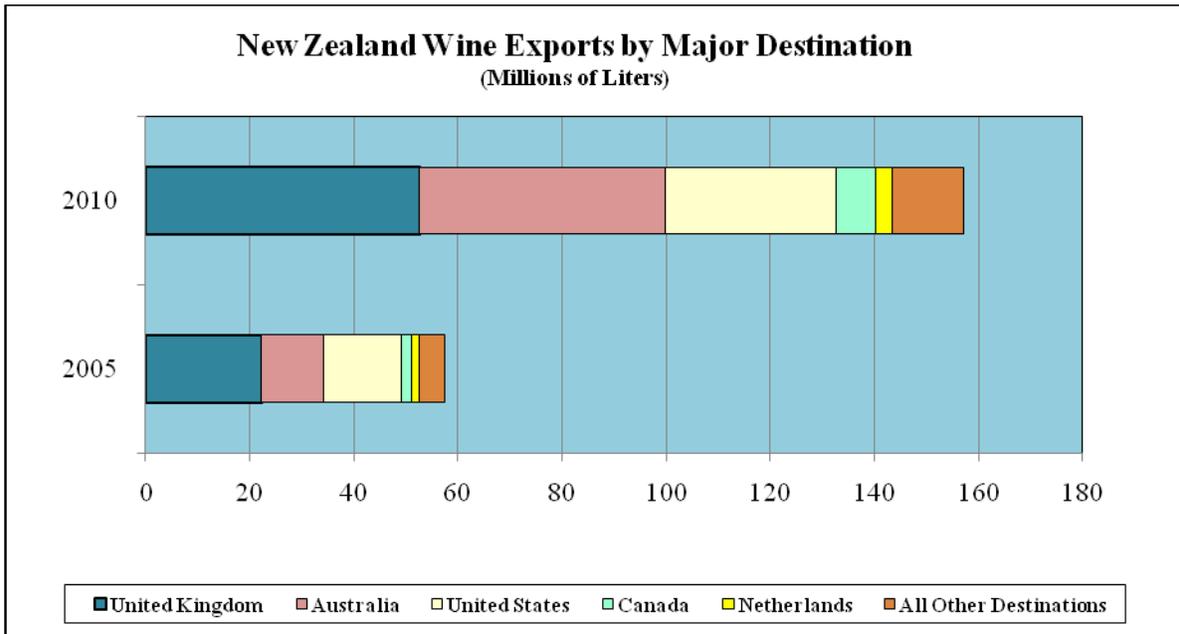
Jumping 23% on a quantity basis, the United Kingdom surpassed Australia as the leading destination for New Zealand wines in 2010 accounting for 33%. The United Kingdom, together with Australia (30%), the United States (21%) and Canada (5%), account for 89% of New Zealand's wine exports. The Netherlands, Ireland, Singapore, China, Hong Kong, and Denmark round out the top ten markets.

While exports to Asia are still relatively small, Asian markets, particularly China, have become a key focus for many New Zealand wineries as they seek to expand their exports beyond the traditional markets. Sales into Hong Kong, Singapore and Japan, on a quantity basis, were up 39%, 27% and 48%, respectively, in 2010. After jumping 158% in 2009, sales into China crept up at just 2% in 2010. (The marginal increase is likely due to a buildup in inventories.) Many New Zealand wineries see significant potential for increased sales to the Chinese market, particularly red wine, over the next several years. New Zealand sales in the Chinese market are supported by a bilateral free trade agreement that will eliminate duties on New Zealand wines by 2012. (See Policy Section below for additional information on the China-NZ FTA.)

Sauvignon Blanc is New Zealand's most important export varietal followed by Pinot Noir and Chardonnay.



Source: Global Trade Atlas



Source: Global Trade Atlas

## Import Highlights

New Zealand wine imports rebounded to US \$103 million in 2010, but did not reach the peak of US \$127 million in 2008. Australia is the largest supplier to the New Zealand market with a 65% market share followed by France (31%), South Africa (5%) and Italy (4%). The United States is the 11th largest supplier to the New Zealand market. There is scope for increased exports of U.S. wines, particularly varietals such as Zinfandel and Cabernet Sauvignon.

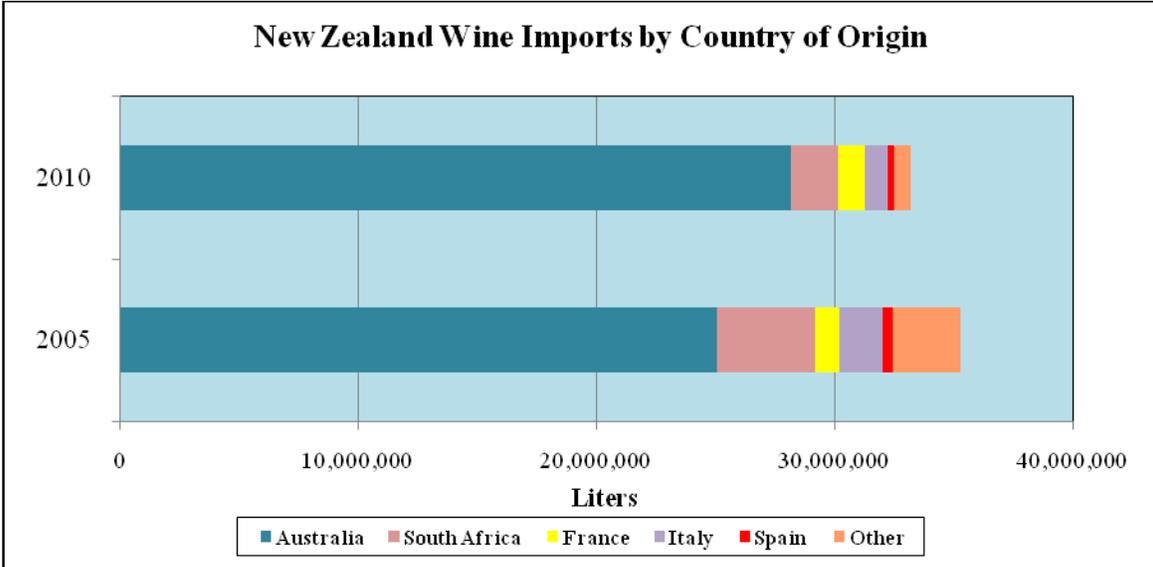
Value of New Zealand Wine Exports per Liter Wine Of Fresh Grapes (2204)											
Partner Country	US\$ per Liter										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average Price all Exports	4.36	4.42	5.08	5.83	6.05	5.78	6.12	6.65	6.41	5.07	5.01
Australia	4.66	4.46	5.38	5.95	6.28	6.15	6.45	7.22	6.51	4.87	5.12
United Kingdom	4.04	4.02	4.59	5.22	5.43	5.09	5.35	6.03	5.79	4.27	4.13
United States	5.20	5.59	5.82	6.53	6.70	6.03	6.53	6.27	6.48	5.78	5.23
Canada	4.47	4.34	5.10	6.00	6.31	6.75	6.93	8.20	6.55	5.92	5.82
China	5.78	6.15	6.10	6.89	6.19	7.55	6.30	7.57	7.95	8.35	7.94
Hong Kong	4.54	5.19	6.14	6.27	6.55	6.79	6.62	7.16	8.53	8.55	9.51

Source: Global Trade Atlas

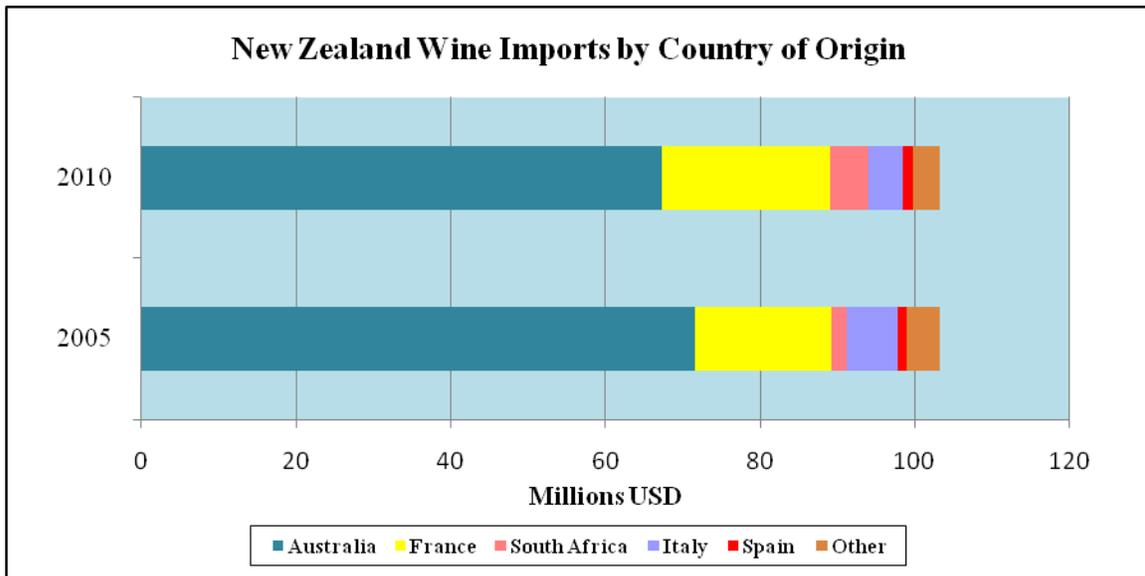


Global Trade Atlas

Source:



Source: Global Trade Atlas



Source: Global Trade Atlas

## Policy Issues

**China FTA:** The New Zealand and China Free Trade Agreement came into force on October 1, 2008. Tariffs on wine from New Zealand will be eliminated by 2012. By contrast, U.S. wine exports to China will continue to be assessed the base rate shown below. China and Hong Kong combined rank as New Zealand's fifth largest market for wine exports.

Tariff Rates for New Zealand Exports to China								
HS Code	Description	Base Rate	2008	2009	2010	2011	2012	2013
22042900	Wine (not sparkling); grape must with alcohol in:≥2l containers	20	16	12	8	4	free	free
22042100	Wine (not sparkling); grape must with by alcohol in:≤2l containers	14	11.2	8.4	5.6	2.8	free	free
22041000	Champagne & sparkling wine	14	11.2	8.4	5.6	2.8	free	free
22043000	Other grape must, nes	30	20	16	12	8	4	free

Source: New Zealand Government

**TransPacific Partnership Agreement:** The Obama Administration announced on November 14, 2009 that the United States will engage with the Trans-Pacific Partnership (TPP) countries “with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21st century trade agreement”. New Zealand Winegrowers, the industry organization that provides the strategic leadership for New Zealand grape growers and wine makers, is supportive of the TPP. New Zealand wine exports to the United States are currently valued at US \$171 million. The United States is New Zealand's third largest export market after Australia and the United Kingdom. Wine is New Zealand's fourth biggest export to the United States and New Zealand is the seventh largest supplier of imported wine to the U.S. market. With an average customs import value of US \$6.24 per liter, as compared to an average of US \$4.52 for all imported wine, New Zealand wine is in the higher price bracket of imported wine sold in the United States.

The United States applies an import duty of 6.3 cents per liter to wine (of alcoholic strength by volume not over 14%/HS 2204.21.40). New Zealand will likely seek a reduction or elimination of this tariff in the TPP negotiations, especially because New Zealand's competitors – Australia and Chile – have already signed FTAs with the United States. In addition to a reduction in the tariff, New Zealand Winegrowers have called for steps to streamline customs and import procedures for New Zealand products. Generally, the New Zealand Winegrowers see the TPP as potentially giving New Zealand wines preferential access to the U.S. market and a potential platform for enhancing the non-tariff market access conditions for New Zealand goods into the United States.

**Sustainability:** The New Zealand wine industry aims to be the first in the world to be 100% sustainable by 2012. The Sustainable Winegrowers New Zealand (SWNZ) program, a framework of industry standards, was introduced in 1995. Approximately 90% of wineries have signed on to the SWNZ program and practice industry-accredited sustainable cultivation and production procedures.

SWNZ provides a framework for companies to improve their performance in terms of environment, social, and economic sustainability, in both the vineyard and the winery. Members of the program must adhere to "best practice" in the vineyard and winery and all wine must be produced under independently-audited schemes. Only wineries that comply with the program are able to participate in key industry events like the London Annual Trade Tasting and the Air New Zealand Wine Awards.

## Marketing

**Opportunities:** As the New Zealand wine industry has grown, so has the interest of domestic consumers. Traditionally a beer drinking culture, New Zealanders are becoming increasingly interested in a wine and food lifestyle. Most New Zealand wine consumers purchase wine at the local supermarket and are largely driven by price. However, some consumers are becoming more adventurous and are beginning to take a serious look at offshore wines, including US wines. US varietals with potential in the New Zealand market include Zinfandel and Pinot Noir. As the exchange rate is a major factor determining the competitiveness of US wines, the strong Kiwi dollar makes it an opportune time to consider building a US brand in the New Zealand market, particularly one based on quality and value for money.

Major sales channels for imported wine include supermarkets, liquor franchises and independent retailers, with supermarkets accounting for the bulk of sales. In a price-driven market like New Zealand, to be successful in supermarkets, imported wine must be competitively priced and offer good value for money. The biggest selling imported wines in New Zealand supermarkets are from Australia. If an imported wine can compete with Australian wine on price, quality and drinkability, it will have potential in New Zealand supermarkets. According to industry contacts, the average Kiwi consumer expects to pay NZ \$15, or less, for a bottle of wine. To cater to this price point and offer a diverse range of imported wine, supermarket chains import some wines on their own, which gives them the option of heavily discounting to offer imported wine at a competitive price. (This practice partially accounts for the increase in South African wines into the New Zealand market.) An estimated 60% of wine sales in supermarkets, if not more, are sold on a promotional basis with price discounting.

Independent retailers tend to offer higher end wines at higher price points but volumes are small. Independents report that US wines, particularly Zinfandel and Pinot Noir, priced between NZ \$40 and NZ \$80 have potential, but, once again, volumes would be small. There are at most one or two wineries in New Zealand that produce Zinfandel and, while the varietal is unique, it is developing a following. While New Zealand is riding the crest of a wave in terms of its world profile for Pinot Noir, there is interest in US Pinot Noirs, particularly if they offer good value for money. Independent retailers that minimize layers in the distribution chain, especially by importing directly, will be better placed to offer imported US wine at a competitive price.

**New Zealand Wine Promotional Activities in the US Market:** The New Zealand wine industry sponsors a range of promotional events in the US market. Activities planned for 2011 include a series of new release tastings to be held in Chicago, Los Angeles, San Francisco and New York. These events are used to launch new release wines to influential media, key buyers, sommeliers and educators showcasing New Zealand's diversity by region and varietal. Building on a successful partnership with Bay Area Radio Station KGO in August 2009, the second annual New Zealand Wine Discovery was

held in San Francisco on April 17, 2010. The event was attended by 1,050 people making this New Zealand's single largest consumer event in the United States. In addition to the US market, the New Zealand wine industry conducts promotional activities in a range of markets including Australia, Canada, Japan, China and Europe.

## **Composition and Labeling Requirements**

All wine sold in New Zealand, including imported wine, must meet the labeling and composition requirements set out in the Australia New Zealand Food Standards Code, commonly referred to as “the Code”. (Click here for information on the code:

<http://www.foodstandards.gov.au/foodstandards/foodstandardscode/>)

In addition to the regulations in the Code, New Zealand has rules for grape wine label statements about variety, vintage, or country or area of origin. These rules are collectively known as ‘the 85% rule’. If a label states the wine is from a particular grape variety, vintage, or area, then at least 85% of that wine must be from that variety, vintage or area. The 85% rule applies to wine labeled for retail sale. It does not apply to wine sold in bulk. As statements about grape variety, vintage or area of origin are not mandatory on a wine label in New Zealand, any label that does not have this information is not subject to the 85% rule.

While there are no specific requirements for information that goes on front or back wine labels in New Zealand, front labels tend to be fairly simple. They typically contain the name of the winery, the region, the varietal, and the vintage year. This universal approach affords New Zealand’s export-oriented wine sector with the flexibility and cost-advantage of printing up back labels with the specific information required by the competent authority in New Zealand’s many export markets.

New Zealand and the United States have an agreement in place that recognizes the respective wine making practices of the two countries. However, there are some differences in labeling requirements. For instance, New Zealand regulations require specific information on the label regarding how many “standard drinks” are contained in the wine bottle. There is also a requirement for allergen labeling, which does not exist in the United States. (For instance, if the wine was fined with egg whites, that must be printed on the label.) New Zealand also requires the “supplier” to be printed on the label, which could be the manufacturer, importer or distributor. (Most exporting companies tend to put the name of the importer on the back label.) Unlike the United States, New Zealand does not require a government health warning on the label.

For a list of composition and labeling requirements, please see Annex 1 of this report.



## TARIFFS AND TAXES

Description	HS Code	Tariff as of January 2011	Excise Equivalent	ALAC Levy*
Sparkling Wine	2204.10	5%	\$2.6021 per liter	4.1892 cents per liter
Wine of Fresh Grapes	2204.10	5%	\$2.6021 per liter	4.1892 cents per liter
Wine for Further Manufacture	2204.29	5%	\$0	4.1892 cents per liter

Source: New Zealand Customs Working Tariff Document

Note: The excise equivalent for imports is equal to the tax levied on domestically produced wine. Taxes listed here are a guide only. See Appendix II for the New Zealand Customs website. Product for further manufacture has an excise tax placed on it when the final product is sold to retailers.

\* Alcoholic and Liquor Advisory Council (ALAC) Levy

**Excise Equivalent:** The excise equivalent is charged to the importer or wholesaler when the product is sold to the retailer. Imported product that is moved to a licensed manufacturing area for further

manufacture is not assessed the excise tax until after the manufacturing process is completed and it is sold to the retailer in a consumer packaged form.

**Goods and Services Tax (GST):** With few exceptions, goods imported and sold in New Zealand are liable for a Goods and Services Tax (GST) of 15%. GST is payable on the sum of the Customs value of the goods, the import duty, the ALAC levy, and freight and insurance costs.

**Import Entry Transaction Fee:** An import transaction fee of NZ\$25.30 is payable on every import entry and import declaration for goods. A biosecurity risk screening levy of \$12.77 is also collected by Customs on behalf of MAF Biosecurity New Zealand.

The total NZ\$38.07 is collected at the time goods are cleared and any duty and/or GST payable is collected. This is charged and shown separately on Deferred Payment and Cash Statements. The fee is included with the duty and GST amount shown on the "Cleared Entry Message" received by importers and Customs brokers who lodge electronic import entries.