

## ACROSS THE DITCH

## A BLANC CHECK

Misha Wilkinson

**A**nother bountiful harvest has finished across New Zealand, but was it a case of too much of a good thing? Where is New Zealand in terms of its balance sheet? Are we producing too much, too little, or is our production versus demand just right?

Any analysis of the market balance really needs to be a Sauvignon Blanc check since the ubiquitous New Zealand varietal represents more than eight out of 10 bottles exported. There are also murmurs about an overproduction of premium Pinot Noir, but even though it sits in second place on the export ladder it still represents less than 6% of NZ exports.

NZ certainly has a reliance on one variety but as Steve Green, principal of boutique Central Otago winery Carrick (and deputy chair of New Zealand Winegrowers) says, "It is what made New Zealand a player on the world wine stage and the predictions are that it is still going to be the most sought after varietal."

Early this year most of NZ's medium and large wineries were predicting bigger crops than last year and there were concerns about the impact that a

large 2011 harvest would have on the industry. The outlook was for the continuing degradation of price points and therefore a potentially higher attrition of vineyards due to yet another year of reducing profitability. Estimates for the 2011 harvest at that stage were 300,000 tonnes – a predicted increase of 13% over the 2010 harvest of 266,000 tonnes. There was a collective and audible 'sucking in of air' as many players in the industry pondered the consequences of a bigger harvest.

In March, New Zealand Winegrowers issued a positive statement about the state of the industry, saying there had been a boost in optimism fuelled by stronger than expected sales performance and also stating that there were high expectations for the quality of the 2011 harvest. Then they dropped the bombshell – the official forecast from the pre-vintage survey was in fact 310,000 tonnes – more than 16% over the prior year. With positive New Zealand Winegrowers' spin, the bumper vintage was pitched as "a similar size to expected June-year-end 2011 sales" and therefore a perfect

versus demand. The explanation given for the industry's bigger vintage forecast was simply that it was a response to stronger sales and lower stocks.

But not everything smells of ripe gooseberries and Gregan did point out the challenges ahead for the industry with profitability as the biggest issue facing growers and wineries. He admitted that lower prices and retailer-owned brands have been part of the export growth and "as a prerequisite to sustainable growth" (i.e. in order to stop wineries going under), the industry needed to remain focused on profitability.

So what's really happening on the ground? Neal Ibbotson, owner of Saint Clair, thinks the NZ wine industry is in great shape but just suffering from what he describes as "a small bubble of oversupply at the moment". Saint Clair is one of a handful of NZ wineries designated as 'large' which means it has annual wine sales exceeding 4,000,000 litres with 70% of its exports comprising Sauvignon Blanc. He's incredibly positive about NZ's wine industry explaining that it has had over 20 years of success with growth averaging 25% annually and says there's no issue with the supply/demand balance.

Ibbotson concedes that price points have come down, but he sees positives in that. "It has introduced new wine drinkers around the world to NZ Sauvignon Blanc – and these new drinkers introduce it to their friends and so on," he said. Saint Clair is continuing to expand and while the number of new markets to be added has slowed down a little, they are now exporting to 55 countries, adding Poland recently.

Clive Weston, managing director of Negotiants New Zealand and general manager of Nautilus Estate of Marlborough, agrees we are not in trouble as an industry but warns that "players shallow on finance will find the going tough as margin erosion dictated by prolonged oversupply continues". He laments the size of the 2011 vintage – "a smaller harvest would have suited the industry better."

Weston says that while the lower priced Sauvignon Blanc will reach more consumer palates, it's a double-edged sword. "These are not wines by which the ability of NZ's viti/vini teams should be judged," he says, adding the industry will need to work harder to explain the quality hierarchy key opinion formers from the international media



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and trade. As everyone bemoans, the price of Sauvignon Blanc has been on an escalator ride down for three years now, which is not to say that all producers have lowered prices on established brands, but plenty of newcomers and third and fourth tier brands have appeared at new price levels. This is not something that's unique to Marlborough Sauvignon Blanc as it happens to all varieties all around the world. Lower-end Sauvignon Blanc simply sells at lower price points but, as Ibbotson points out, the quality of these lower end wines are getting better and better and are opening the market, making it possible for more and more people to try NZ's celebrity varietal.

There has been much consternation over the increase in bulk wine and the impact this has had on price points. Green says that we just need to recognise that there is a new and valid sector in the market. "Lower-priced Sauvignon sells and businesses are making a profit growing and making it," he says. "It's distinct from the traditional high value/high quality sector and we may need to better define the difference in a way that consumers understand." He likens the situation to Bordeaux and Burgundy where there are a lot of cheaper wines from those regions which don't detrimentally impact on the regions' image. Ibbotson also sees

some positives in the bulk market and says that much of the criticism of bulk wine is ill-informed, but says it's just a fact of life. In fact he says if it wasn't for bulk wine, the NZ wine industry wouldn't be in as good a shape as it is. However Weston takes a different view, explaining that "we will always be outgunned if we try to compete as a volume producer on the world stage" and he's insistent that "mediocrity in the glass must not be tolerated".

The positive news is that it seems all the surplus Sauvignon Blanc produced in 2008 has been selling through and not simply building up in tanks, with Ibbotson confirming the reduction in the amount of bulk wine available saying a few fellow wineries he knows in Marlborough are now running out.

Since the ample 2008 harvest there has been some finger-pointing towards the larger corporations who are believed to be at blame because of their flagrant disregard of pleas to lower yields and only produce as much wine as could be sold at reasonable prices. These companies (including those which are foreign owned), have been seen as only wanting to joy-ride the buoyant wave of Sauvignon Blanc rather than taking a long-term view in protecting the varietal plunging into the depths of a commodity slide.

Again, the glass-half-full Ibbotson doesn't see the corporations as being a problem. He says every

winery, regardless of being a corporation or a family-owned winery has to be focused on three things – quality, pricing and market access. "Large companies are profit-driven but they are in no different position to small companies – if you're not profit-driven you're not going to be in business for very long!" Ibbotson says.

Of recent times we hear that Australia has moved on from NZ Sauvignon Blanc and now drinking Australia-made Sauvignon Blanc from their own cool climate areas. Ibbotson says he certainly hears talk from Australian wineries, writers and retailers that the love affair with NZ Sauvignon Blanc is over, but he says the figures don't appear to back that up. "Australia has been a great success story for Marlborough Sauvignon Blanc, having had that product for over 25 years. It would be amazing to me if consumers in Australia all of a sudden say, 'hey, we no longer rate Marlborough Sauvignon Blanc' after all this time,' especially when consumers all over the world are continuing to drink and enjoy it," he says, adding that his sales are growing in Australia!

Weston also agrees there's still room for growth across the ditch. "They love our Sauvignon Blanc and have not yet found a challenger," he says confidently. He says the risk of course is taking the market for granted. "Kiwis have to be prepared to

hop across the ditch and work the Aussie market as hard as we would any other export market we are serious about," he says. In fact it seems everyone's sales are growing in Australia with NZ wines showing a 23% increase in volume in 2010 over the previous year. Across the globe Saint Clair is reporting their Sauvignon Blanc sales are growing – everywhere except Ireland! Ibbotson says that in Europe his Netherlands-based importer who services several European markets, recorded sales that were up 100% for the January to March quarter over the previous year and he's also seeing growth across all price points in his range including significant growth in the top level of his wines. And both Green and Weston confirm they're maintaining price points across their ranges.

"Thank goodness for Sauvignon Blanc," says Weston. "It's our unique stand-out variety for the world and, in reality, millions of potential consumers are yet to taste Kiwi Sauvignon Blanc and when they do, they will love it."

All in all it seems New Zealand still has plenty of cheques to bank when it comes to selling Sauvignon Blanc.

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