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## For Australian Winemakers, More Turns Out to Be Less

By MERAIAH FOLEY

SYDNEY, Australia — Just a few years ago, Australia was being hailed as the great international success story of the wine business, challenging the dominance of France, Italy and Spain. From 1999 to 2007, foreign sales grew more than threefold, making Australia the world's fourth-largest exporter.

But even as its star appeared to be rising, the [Australian wine](#) industry was sliding, selling a greater volume of wine at increasingly lower prices. Last year, the average price per liter of Australian wine sold overseas was about 25 percent lower than it was a decade ago, a level many say is unsustainable.

The industry is also facing increased competition from lower-cost rivals and changing consumer tastes. Last year, exports fell 9 percent by volume, the first such drop in a decade. Many vintners are hanging by a thread.

"The industry is in crisis — anything less than that is avoiding reality," said Jeremy Oliver, an Australian winemaker and critic. "It is interesting that nobody really saw this coming."

The reversal of fortune is prompting tough questions about what went wrong, and stimulating efforts by the industry to reinvent itself. Some vintners say Australian wine needs an image makeover; others are shifting their sights to the relatively undeveloped Asian market.

Australians have been making wine almost since the first convict settlers arrived in 1788. With a few exceptions, local winemakers toiled in relative obscurity until the late 1980s, when some entrepreneurs and government officials spotted an opportunity in the growing demand for wine in Britain and the United States. Encouraged by tax incentives, investors planted vines and opened wineries at breakneck speed.

Australia took the British market by storm, surpassing Italy and France as the country's top seller in 2004. What many suppliers did not foresee was the extent to which their sales in Britain would be dominated by a few large supermarkets, which would use their influence to push down prices, especially as competition increased from newcomers like Chile, Argentina and South Africa.

About 85 percent of Australian wine sales in Britain are made through supermarkets. Though the volume of Australian wine sold to Britain has more than doubled over the last decade, the price per liter has fallen to 2.95 Australian dollars, or \$2.36, in the year that ended March 31, from 4.36 Australian dollars in 1999.

"Australia can't even bottle air and make money selling at that price," Mr. Oliver said. "It's not sustainable for Australia to be trying to produce the world's cheapest wine; we're totally unsuited to it."

Producers in several of Australia's major wine regions have seen irrigation costs soar in recent years because

of a prolonged drought. Australia's higher labor costs and its distance from major markets have also made it harder for the country to compete globally.

In the United States, where Australian wine imports have fallen 4 percent by volume and 25 percent by value from their peak in 2007, the industry's troubles are more complicated.

From the late 1990s, top-end Australian wines rode a wave of enthusiasm led by the influential critic Robert Parker, who extolled shiraz from South Australia. His high marks made those wines fly off shelves, with little extra marketing, said Chuck Hayward, owner of the Jug Shop in San Francisco, which specializes in Australian vintages.

But that wave soon turned into what Mr. Hayward described as "a perfect storm of laziness" in which no one — neither wine media nor importers nor the top United States sommeliers — felt the need to learn much about Australia besides South Australian shiraz. And wineries were making so much money peddling South Australian shiraz that they, too, failed to educate consumers about other regions or varieties.

Thus, at the upper end of the market, Australia became identified by "one grape and one region," Mr. Hayward said — a strategy doomed to fail when that variety inevitably fell from fashion.

At the bottom end of the market, some have blamed the runaway success of Yellow Tail — with its distinctive wallaby logo, and hoards of "critter label" imitators — for giving consumers the impression that Australian wine is a mass-market commodity. Others say it is glib to dismiss Yellow Tail, which is extremely successful in its niche, but they concede that the emphasis on low-cost, high-volume exports has damaged the rest of the sector.

"That generic reputation has created a problem for the country because partly we are dependent on heavy growth in the low end of the market," said Kym Anderson, a wine economist at the University of Adelaide. "Whereas there is a lot of very high-quality wine here that struggles to find markets in the U.S. because people aren't very familiar with those particular labels."

These troubles have been compounded by a recent rise in the exchange rate of the Australian dollar, which went to near parity against the United States dollar last year from about half that value in 2002, erasing profit margins on many wines.

While Australian wine sales at home grow about 4 percent each year, the industry's problems overseas have brought an era of downsizing. The Winemakers' Federation of Australia recently predicted that the industry would have to reduce the amount of wine it produced by as much as 20 percent to stay profitable, meaning many wineries would close or consolidate, vines would be ripped out and jobs would be lost.

"In the early long term, our vision for the Australian wine industry is a smaller industry at higher quality," said Lawrie Stanford, the manager of information and analysis with Wine Australia, the government body that helps direct Australia's overseas wine marketing. "We've done the volume growth, and we overdid it a bit — the industry is recognizing that. What we're doing now is pulling back a bit."

The biggest challenge there, according to the British wine writer Andrew Jefford, will be to convince consumers that Australia can offer more than just the "cheap and cheerful" wines they have grown

accustomed to seeing.

That will require new efforts to educate consumers about Australian wine regions and a push by winemakers to accentuate those differences, Mr. Jefford said.

Wine Australia says it will shift the marketing focus away from what it calls “brand champions” — recognizable labels that sell at rock-bottom prices — toward smaller producers that highlight the differences among regions and varieties. The result, officials hope, will be fewer Australian bottles in the bargain bin and more labels pitched at the \$20 price point.

In the Asian market, Australian brands are still novel and “don’t have the baggage” they have in Britain and the United States, according to Mr. Oliver, who recently introduced a Chinese-language book about Australian wine.

Wine exports to China have risen from 502,000 liters in 2000 to 19 million liters in the year to March 31. And the average price per liter in China was 4.23 Australian dollars last year, compared with 2.91 dollars in Britain and 3.22 dollars in the United States. In Japan and Singapore, the average price per liter was more than 5 Australian dollars.

Many winemakers are keeping these figures in mind as they move to reposition the industry.

“Our focus is on the longer term,” Mr. Stanford said. “There’s always going to be another growth phase. Where is it going to come from? Well, these things are hard to predict, but you can be pretty sure that a strong prospect for a new growth phase is going to come from China.”

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