# The Wine Glut: An analysis of the oversupply of wine in Australia and progress of the voluntary industry restructure

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## Summary

Over fifteen years, wine production in the Australian wine industry has significantly outstripped demand – with a boom in international demand and generous Government incentives leading to excessive vineyard plantings and wine production. In late 2009, key industry bodies declared that this situation had created a wine glut of such a scale that it was causing serious damage to the industry and announced the Wine Restructuring Action Agenda (the Agenda). The Agenda identified an urgent need to reduce wine inventories and production capacity in order to rebalance supply and demand.

Understanding the extent of the wine glut is important for decision makers, as the restructure has been relied upon by the Commonwealth Government as a reason for deferring reform to Australia’s alcohol taxation system. The Henry Review recommended that the current Wine Equalisation Tax (WET) be reformed and replaced with a volumetric tax rate, as a matter of urgency. This is because the WET ‘arrangements are inconsistent with targeting spillover costs’. Unlike other alcohol taxes, the WET is an ad valorem tax, which results in cheaper wines being taxed less, with no consideration given to the alcohol content of the product.

The primary focus of this paper is to analyse the extent of the wine glut in Australia and assess the progress of the current voluntary industry efforts to address the wine glut. As there is no one definition of a wine glut and no one key indicator to measure the extent of a wine glut, six key indicators have been identified to measure the extent of the Australian wine glut:

1. industry and stakeholder commentary - statements made by wine industry bodies and producers on the extent of wine glut;
2. changes in wine inventory levels against restructure targets - data on changes in wine inventories against the Agenda target of a reduction of 100 million cases;
3. changes in vineyard areas against restructure targets - data on changes in vineyard area against the Agenda reduction target of 20 per cent of bearing vineyards;
4. stock to forward sales ratios - the actual stock of wine available in a given year, against the actual domestic and exports sales in the following year;
5. projected stock to forward sales ratios - the actual stock of wine available in a given year, against the domestic and exports sales in the following year, when the sales data is not yet available; and
6. the market share of bulk wine - the total market share of bulk wine compared to bottled wine.

## Outcomes

Each of the six indicators were examined using available data from a range of sources including the Australian Bureau of Statistics (ABS) and the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

Following an assessment of all six indicators, it is concluded that, on balance, the wine industry has stabilised, suggesting that the wine glut is at an end. This is most apparent when examining the stock to forward sales ratios for 2010/11 (1.4), which is at its lowest since 1994/95 and is in line with the industry’s desired ratio of 1.36. Furthermore, these ratios are predicted to decline further in coming years.

## Recommendations

This finding has significant implications for decision makers, who can no longer use the wine glut as a reason to delay reforming Australia’s alcohol taxation system, namely the Wine Equalisation Tax (WET).

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