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International bulk wine insights

The *Grapegrower & Winemaker* recently caught up with Denys Hornabrook, the co-founder of VINEX, the bulk wine trading exchange to discuss its development and gain an update on the current market outlook.

Q: When launching VINEX, what was behind your thinking to develop a commodity-like exchange for the trade of bulk wine?

Denys Hornabrook: Well we took the view there was an opportunity to further advance and grow the sector. There had been little change in the way bulk wine parcels had been traded for decades, despite their having been really significant growth driven by commercial pressures giving rise to own-labels, virtual labels and the demand for in-market bottlings. The OIV reported they estimated the bulk wine trade now accounts for 38% of all wine produced, that's the equivalent of nearly 10 billion litres. Basically the opportunity we saw was to introduce technology to enable greater market connectivity between suppliers and buyers. In effect, we have digitised the bulk industry's conventional trading processes, introducing a new level of connectivity, objectivity, efficiency and real-time analysis of the industry.

Q: But, by trading wine through an exchange aren't you really just contributing to taking wine down a generic commodity route?

DH: No, we don't believe so. The exchange doesn't treat wine parcels as homogenous, in fact we've built a listing template that encompasses more than 4,200 variables a seller can use to differentiate and describe the quality of their wine and production certification, along with a sampling process that provides for an objective assessment, with supporting technical and composition analysis.

Importantly, there's the provision through the exchange for buyers to engage with producers to customise the final blend, really no different to how it's done through the conventional approach. Indeed, because all members have anonymity the assessment of a wine is more objective, and so we are arguably providing a mechanism for quality wines

AT A GLANCE

VINEX is a London-based, multi-lingual exchange that allows buyers and sellers to trade wine in bulk using different methods; auction, tender, fixed-price, swap offer and forward contract. Denys Hornabrook, a 24-year veteran of the wine industry joined with programmers and industry advisors to develop the web-based trading and reporting system, launched earlier this year.

to shine through.

Certainly we agree that generic and commercial wines are now more universal in style; that's already here and the assessment and trading of those through VINEX is easier for buyers. But, with an increasing number of FTAs buyers are now able to move more freely across markets to find and compare wines anyway.

Q: So what does the exchange provide that currently isn't available in the market?

DH: It comes down a greater ease of connectivity within and across markets, as well as the objectivity and traceability it provides. Basically it efficiently advances the process of sourcing, sampling, buying and supplying of bulk wines. Technology as we know is borderless, scalable and growing – it's everywhere and now very much part of our lives.

We launched VINEX in 6 languages with a mobile application all housed on a secure, high-speed platform.

Even in the traditional wine industry, commercial pressures are being applied such that we need to improve our service delivery standards, lead-times, reduce supply chain costs and continuously look for efficiency gains.

We can't escape that, and with the integration of technology and its advances we're able to remain responsive, competitive and relevant to buyers.

Q: You've been now been trading six months, what's been the industry's adoption of the exchange?

DH: Fortunately it's grown quite quickly, as the market has been receptive to us explaining the benefits and when demonstrated they see it's largely reflective of how the industry currently operates, just in a new format. We now have members from 32 countries using VINEX across all times zones, and pleasingly the calibre of industry organisations registering has been high. And, we've had wines offered from 10 different producing countries totalling more than 120 million litres. So, yes the adoption has been very encouraging. We're still in our introductory phase and needing to manage members' expectations, but there's an increasing number of transactions through the exchange each month. A highlight was three weeks ago when the exchange completed its first one million litre trade.

Q: The market news and price analysis you're publishing is comprehensive. Are all producers happy with VINEX providing such transparency to the industry?

DH: There's been some initial concerns about the ease of access and the level of detail. Arguably producers have contributed to the ambiguity around price for their advantage in the past and that's now going to be harder. Really though, any astute seller or buyer has always been able to make a fairly accurate assessment of the market. Now of course we live in a world rich with information from a myriad of near real-time sources. We're not publishing any information that's not available from other sources in the industry. What we are doing however, is making sure it's objective, credible and timely.

We are entering a really interesting phase where the pendulum is moving toward demand and applying price pressure. There's now an increasing likelihood there'll be a further tightening of global supply.

Q: You have recently been quoted as saying global prices are expected to rise over the next 12 months, with the precarious 2016 vintage threatening global supplies. What are the factors contributing to your view?

DH: We are entering a really interesting phase where the pendulum is moving toward demand and applying price pressure. There's now an increasing likelihood there'll be a further tightening of global supply. Look at the constraints on what was produced in 2016. South Africa has had its worst vintage in four years, Chile its worst in five and Argentina its worst in 10. But that's now being compounded by the US having average yields and large yield deficits throughout France and Italy, and especially Spain. Our VINEX Global Price Index which monitors the five major varieties produced around the world shows prices have already increased 21.5% since January. Sauvignon Blanc (heavily weighted by NZ) is the only variety that hasn't increased in price.

Q: What signs are you seeing of the market responding to this potential reduced supply?

DH: We've seen domestic and international buyer registrations increase to access the exchange and then sourcing listings being added to secure additional current vintage supply. Also, several

pre-harvest forward contracts have been traded with buyers wanting to hedge some of their 2017 requirement. So there's a growing sense of a shortage, and buyers' in-tune with the market are beginning to take early longer-term positions.

Q: What influences are currently affecting Australia's global competitiveness?

DH: Our cost base, which is largely within our control, but still too high. Every grape and production dollar must extract greater value without compromising quality for Australia to remain competitive. Unfortunately not within our control and proving to be a major factor is the falling value of the GBP against the AUD. By value, the UK remains the largest market for bulk wine imports, importing £459 million worth of bulk wine in 2015, the vast majority of which comes from Australia. In absolute terms the AUD is +26% vs same time last year, and more importantly relative to the USD (used by Chile) is +6% and EUR (used by South Africa) is +5%. This is generating some serious concern. The AUD needs to be more competitive. This means for the increasing volume of varietal wine universal in style, going under brands that are increasingly not region specific, Australia will struggle to be competitive through 2017, unless there's a quality difference, or if competing Southern Hemisphere countries have ongoing supply challenges, like in 2016.

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