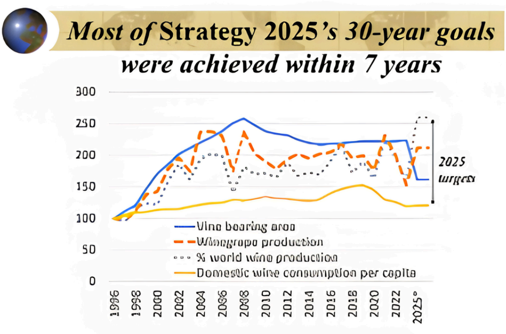
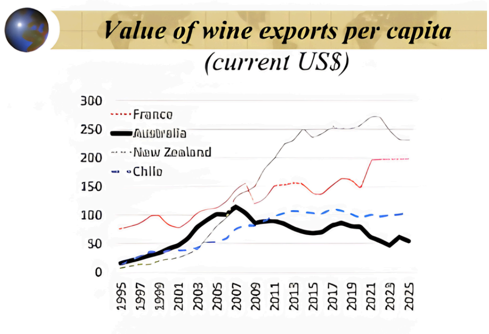
From Expansion to Consolidation: Policy Options for Rebalancing the Australian Wine Industry

Professor Kym Anderson, Wine Economics Research Centre, School of Economics, Adelaide University

Australia's wine industry is facing a prolonged structural imbalance driven by an excess supply of red wine, a fall in global demand, and shifting consumer preferences. The current crisis is not merely cyclical but reflects past excessive investments leading to rapid vineyard expansion, and ups and downs in export markets. A coordinated strategy focused on structural adjustment, quality upgrading, market diversification, and smarter levy design is required to restore profitability and long-term sustainability.

The roots of the current surplus can be traced to the industry's expansion phase during the 1990s and early 2000s. Strategy 2025 launched in 1996, favourable tax concessions, and long-term supply contracts encouraged large-scale vineyard investment, particularly in red varieties. High grape prices and generous long-term grower contracts created strong investment signals, led to the rapid expansion. By the mid-2000s, production and export targets had already been achieved well ahead of the Strategy 2025 schedule. Today, subdued global demand growth, changing consumer preferences (including lower red wine consumption), and intensified competition have exposed this imbalance.





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The industry now faces a huge oversupply of low-value red wine, low profitability for many growers, and increasing financial stress across segments of the value chain. Simply waiting for market recovery is unlikely to remove the imbalance very quickly. Without substantial structural adjustment, overproduction will keep prices suppressed and continue to weaken Australia's competitive positioning of its premium wines in global markets.

A priority for the industry is facilitating structural rationalisation. Persistently unprofitable growers, particularly those producing lower-quality, high-alcohol red winegrapes, should contemplate exiting. Temporary mothballing may simply delay necessary adjustment. Uprooting the least-profitable non-premium red vines and reallocating that vineyard land and water toward alternative crops is expensive but it may offer more sustainable long-term returns.

Second, production must be better aligned with evolving consumer demand. While there are opportunities to expand in white, rosé, and sparkling segments, any transition toward them should be made cautiously in case those segments also become over-supplied. The emphasis for those growers remaining should focus on premium production.

Third, there is a strong case for reforming the industry levy structure. Moving from a volume-based levy (per tonne) to a value-based levy (percentage of price) would insure against negative growth in investable funds for R&D and generic promotion. Raising levy rates is always a hard ask, but that too is needed if vignerons are to restore their competitiveness. More funds are required to strengthen domestic and international promotion efforts in the face of increasing competition in export markets and growing import penetration at home. Marketing strategies should modernise branding, packaging, and communication approaches, particularly to engage younger consumers whose preferences differ from previous generations.

Finally, sustained investment in research aimed at raising the quality across the value chain is essential. Improving grape and wine quality is only part of the solution; wineries must also effectively position and market their premium products if they are to secure price premiums. Stronger coordination between growers and wineries will be critical to ensure that quality improvements translate into improved profitability for all along the value chain.

References

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