

THE United Grower

The Newsletter of Wine Grape Growers Australia

May 2015

WGGA protecting your interests in times of change

Changes being brought about by the current difficult times mean growers have much to lose without a strong national voice to protect their interests.

We believe, that in the past five years, WGGA has enhanced growers' political impact at the national level and is poised to contribute significantly to the big industry issues.

On growers behalf, WGGA works to improve the market for winegrapes, provides unbiased information on the state of the industry, protects vineyards against exotic pests and diseases and makes sure the grower voice is heard when it comes to policies affecting grower businesses. We speak for growers in direct negotiations with the Winemakers' Federation of Australia, the Australian Grape and Wine Authority, the commonwealth government and other bodies both in and outside industry.

We have negotiated a significant change to the Wine Industry Code of Conduct in the past 12 months, to address the short timeframe available to resolve disputes occurring during vintage. For the 2015 harvest onwards, the timeframe has been extended from 14 days to 60 days – a big improvement for growers. Other Code changes are under discussion.

Through action this year, WGGA will deliver in 2015-16, a Strategic Plan/Business Case for implementing national viticulture industry biosecurity arrangements.

WGGA has extended its role in agricultural chemicals to improve responsible access to them for vineyard use. Lifting restrictions on the use of Phos Acid because of China's MRLs is hoped to be resolved in the second half of 2015. WGGA has taken up membership of an advisory committee to the commonwealth government to reduce red tape for accessing agrichemicals and improving access to overseas sourced products.

We have also gained the assistance of the national Office of the Small Business Commissioner, to convene a roundtable discussion in May this year on commercial practices between wine companies and winegrape growers. The discussion will identify ways to improve such practices so that growers and the industry as a whole

are better served. WGGA has long argued that some traditional commercial practices in the wine sector not only disfavour growers but also do a disservice to the industry as a whole by undermining the mechanisms that should keep the industry vibrant, responsive to consumer needs and matching supply with demand. These practices go the heart of a grower's bottom-line through the prices they receive or the costs they incur.

Wine tax, or in particular the Wine Equalisation Tax Rebate, has been tackled by the organisation in 2015. Important decisions requiring careful analysis and difficult discussions have occurred. Decisions are difficult in this area where there are winners and losers but we believe we have acted in the interest of the majority of growers and the industry as a whole.

Your Vineyard Your Voice **WGGA**
Wine Grape Growers Australia

Do you care about the future of winegrape growing?

With your support we:

- Improve market conditions for winegrapes
- Provide a national grower voice in industry debates
- Lobby the commonwealth government
- Facilitate industry biosecurity arrangements
- Provide services to help run your vineyard more effectively.

Join now! Visit www.wgga.com.au or phone 08 8133 4400

We attempt to build grower capacity through our organisation. Our Executive Committee this year continued to support the next generation of growers and has continued the trend towards a more youthful profile. WGGA conducted a grower seminar in November 2014 to highlight the positive role that innovation could play in a brighter future. We also assisted two member viticulturists to attend the 2014 Vinitech-Sifel exhibition in Bordeaux as VIP guests of the event organisers. Not only did Simon Berry and Sam Bowman benefit directly from this opportunity, they have also brought back a wealth of new knowledge about vineyard management technology to share with us all.

A modest investment in membership of WGGA for 2015-16 will assist us with this work. Please sign on.

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On Supply, Demand and Prices

Winegrape price determination in Australia is largely ad hoc and at the discretion of individual wine companies. In itself, this is not a bad thing but among all of the things that contribute to balancing supply and demand, the most fundamental element is price.

Therefore it comes under suspicion as a key factor in the failure of supply to match demand, a feature of the industry for so long. And it goes further, the fundamental nature of this element means that addressing it will yield the most transformative and enduring change in the Australian wine sector's economic health.

Two approaches are most frequently talked about for balancing supply with demand.

The first is growing demand. Granted, this is a solution. Moreover, it is absolutely essential. But it is not sufficient. By comparison to installing effective pricing mechanisms, it is a poorer solution. Poorer because it is short-term (until the others catch-up) and as such, on its own, a band-aid that soon loses its stick and peels away.

The second is improving quality. So how does this factor relate to the issue of price determination? Well, in an industry with discretionary pricing, the relationship between prices and quality is at best variable but in many cases, absent. It begs the logical question, if quality were as important as people say, why wouldn't it be regularly incentivised by price rewards? But it isn't, not regularly.

The common response at this stage is that if the current low winegrape prices are not an effective signal for removing vines to balance supply with demand – then what is? The answer follows.

If we examine just two determinants of price (there are others), it is useful to consider quality and supply and demand balances (supply greater than demand means price down, demand greater than supply means price up).

Everyone is familiar with the role of supply/demand in determining price but the lack of delineation between this and quality as a determinant causes us problems. Take for example the classification of fruit by grades. In our industry, grades are defined by price ranges. Just have a look at the recent Expert Review: A grade fruit, >A\$2,000/tonne; B grade fruit A\$1,501 – 1,999/tonne; and so on down to E/F grade fruit, <A\$300/tonne. Are these quality grades? This is the way they are perceived and treated. However, if they are quality, the industry is in trouble because the proportions of fruit in the lower 'grades' have increased in recent years. Poorer quality? Perhaps not. We are after all, continuing to punch above our weight in international wine competitions. The answer is more likely to be that the downward shift in 'grades' reflects the poorer supply/demand balance and therefore lower prices. Evidence again that pricing is about supply and demand balances, not about rewarding quality.

The real crime in an industry that praises the virtues of quality but rewards fruit based on the supply and demand balances, is that quality becomes non-transparent and is unaccountable in the buying and selling of fruit. Truth is, a lack of transparency means winegrape prices are open to manipulation by winegrape purchasers and this has the effect of not just severely blunting the incentives for quality but also undermining buyer/seller relationships.

Price is not an issue of fairness, decency or ethics. It's good business and the most fundamental determinant of balancing supply with demand.

It is notable that compared to the wine sector, most other agricultural industries in Australia have dealt with the issue of price determination. Many of the price determination mechanisms devised elsewhere deal directly with quality, some deal with issues like risk from spoilage and others the influence of global factors on Australian prices. All of these are relevant to Australian winegrapes. The trick is to understand the degree of relevance to getting the amount and nature of supply that's needed by wine processors and designing the mechanism that incentivises this.

It is important to note that price determination mechanisms will not ensure everyone gets a profitable price. Rather, price determination mechanisms, if they are the right ones, will mean the best operators and the most-needed fruit are retained in an adjustment process and the exit of the least needed, will be incentivised. That is, adjustment to the right amount, of the right type.

It can be argued winegrapes are different from other agricultural commodities. It is more complicated by dint of nuance, subjectivity and a high degree of differentiation. But this is not a reason for inaction. It just means the Australian wine sector has to be clever enough to design a system to suit its own set of circumstances.

Most people in the wine sector understand these issues (see the survey work reported in 'Growers and winemakers say objective measures need to improve', March 2013 United Grower) but the question has to be asked, where's the leadership? If the response is 'it's too hard', shame. If it is 'we have been doing business like this for ages and we are not going to change', double shame. Innovation is key and this is an area where innovative practices have simply not been broached at an industry level. The recourse to innovation in the wine sector has traditionally focused on science and marketing. How about economics? Keep in mind accounting is the science of recording how much money you've got while economics is the science of how monetary considerations motivate behaviour. Behaviour is what we are trying to address here.

See extended article on www.wgga.com.au



Your Vineyard Your Voice

What's the difference between the Californian and Australian wine industries?

Not a lot really

The commentary about the economics of current harvests in Australia and California are remarkably similar and reflect the similar nature of the two industries. Closer examination also points to increasing globalisation of commodity wine.

Like Australia, California has a broad divide between 'irrigated' (or warm) winegrowing districts and cooler-temperate districts. California's warm districts are the Central Valley while ours are the Riverland, Murray Valley and Riverina. Two-thirds of Australia's winegrape production come out of Australia's warm districts and a half of California's out of the Central Valley. Australia's warm winegrape production supplies commodity wine production, as does the Central Valley's.

The messages about the prospects for California's commodity winegrapes are very similar to those currently being heard from the Riverland, Murray Valley and Riverina. For all, it is 'ample supply and falling demand'. In both countries, higher price-point wines are travelling better, particularly with recovering economies in key markets.

Poor economic prospects for commodity winegrapes in both countries has led to current guidance from relevant service bodies that growers should consider alternatives; alternative crops, reducing inputs and mothballing, grubbing or even selling up.

The commonality of commodity wine circumstances in California and Australia are a hint of the globalising nature of the commodity wine business, a position which is confirmed by references in both locations, to the increased competition from low-cost competitors like Argentina, Chile, South Africa and Spain.

Moreover, there are warnings that the near future for commodity wine is deteriorating. Commodity wine trade is set to become more competitive. In the 10 years ended 2013, the volumes of bulk compared to bottled wine shipments by new world wine exporters shifted from roughly 30:70 to 50:50 – providing everyone with the opportunity to move commodity wine. However, Rabobank warns that bulk wine shipments are expected to slow as advances in the enabling shipping

technology are becoming fully exploited and US consumers are headed for the premium end as its economy recovers.

There are a few basic options available to improve the prospects of commodity wine. One is more proactive marketing of this segment, another is making ours better than theirs (enough said already in this edition of the United Grower), developing lower-cost business models or finally, exiting this segment of the market.

Returning to the theme of similarities between California and Australia, it is interesting to note that not everything is the same. Traditionally, the major US activity to bring supply and demand into balance has been supply adjustment while in Australia, the emphasis has been on growing demand. Moreover, California has shown great flexibility in removing vine areas while clearly, in Australia, vineyards are removed reluctantly.

Sounds like another economic research project to learn what we can about the difference between two industries that appear so similar.

Reviews in view

The extended period of economic difficulties in the wine sector, and the debate about how to turn this around, has bred a flood of reviews in 2015. More specifically; a Roundtable, and Industry Leader's Forum, an Inquiry and a Summit.

As highlighted in the March United Grower, the national Office of the Small Business Commissioner has responded to a WGGA request for industry dialogue on commercial practices between growers and wine companies. This is scheduled for May.

An Industry Leaders Forum is planned for July/August to consider consolidating the industry representative structure, with a view to greater industry unity, as well as identifying the priority industry issues for address.

In the meantime, a group of Senators have set up a Senate

Inquiry into the wine industry with a wide-ranging Terms of Reference spanning from winegrape grower profitability through to retailer power and influence. Submissions due 22 May 2015 and a report by November.

The Winegrape Growers Council of South Australia will again conduct a conference to provide information that will assist grower decision-making. 17 July 2015.

While these events seem to overlap, WGGA is confident they can be complementary and support each other. It is anticipated they will offer a comprehensive view of solutions to industry issues taken from a range of perspectives.

WGGA will be there to represent the grower view on national issues.

*The National Voice
For Australian
Winegrape Growers*

**2015/16
WGGA membership
commencing 1 July**

A WGGA membership category for everyone

GENERAL MEMBERSHIP

Open to all Australian winegrape growers or winemakers who grow grapes.

This is the only category with voting rights at WGGA general meetings and eligibility for positions on the Executive Committee. An excellent way to be intimately involved in grower policy and programs.

SA growers who pay the state Grower Industry Levy are not required to pay a membership subscription because a part of the levy pays for WGGA membership. Please register with us though so that we can distribute our newsletter to you and make exclusive offers to you.

AFFILIATE MEMBERSHIP

Open to all State and Regional winegrape grower and/or winemaker associations.

This category guarantees a personal visit to your region by a WGGA executive member, with the opportunity for your grower members to meet and discuss your local issues and concerns.

In 2015-16, WGGA is again extending General Membership to any member of an Affiliate association for no additional fee. They simply need to register with us.

ASSOCIATE MEMBERSHIP

Open to any person or entity with an interest in winegrape growing.

This category receives recognition of their support for growers in all WGGA communications, including a profile on the WGGA website and acknowledgement in our newsletter. A great opportunity to expose products and services to the Australian grape and wine community.

Service providers who would like to investigate other ways to reach growers might also check our sponsorship and advertising opportunities for 2015-16.

STUDENT MEMBERSHIP

Open to any student in a wine sector related course.

This category is a good option for students interested in grower networking or leadership, with the opportunity to also apply to be a part of the Decision Support Network.

Student members can also access our 'Members' Only' statistical information.

Visit the Membership section on our website at www.wgga.com.au for further details.

WGGA will be at WineTech2015

WGGA staff will be at the WISA WineTech Trade Show from 14-16 July 2015, at the Adelaide Showground in South Australia.

Come and see us in 'The Hub' – a designated area for visitors to come and speak to the national bodies on industry issues and organisational activities.

The Executive Director (Lawrie Stanford)

and Chair (Vic Patrick) will be available for one-on-one conversations with growers, and administrative staff will be present to answer your queries about membership, sponsorship opportunities and more.

The event is free and a great opportunity to view the latest industry products and services, with the program comprising a good number of grower related

presentations and exhibitors. Not to mention give-aways during the three days.

Keep an eye on our website for more information about times when Lawrie and Vic will be available for discussion as well as any further developments.

Visit the WineTech website for full details about the event (www.winetechnaustralia.com.au)

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