Australian Winegrower

Your Vineyard Your Voice

The Newsletter of Wine Grape Growers Australia May 2016

What's in a name?

Welcome to the new version of The United Grower. The modern Australian wine grape producer is much more than a grower. They must be a businessperson, a plant pathologist, a mechanic, a marketer, and often a water trader; as well as having an appreciation of the end product.

Everything we do in our vineyards is influenced by wine markets, either domestically or internationally. We succeed as growers when a consumer enjoys a glass or two of the wine made from our fruit, and, wants to buy another.

The new name The Australian Winegrower projects a professional description of the vital first step in producing fine Australian wine, and celebrate the skills and commitment that the finest growers rely on and continually demonstrate.

WELCOME TO THE CREASE

I must extend my personal thanks to the positive response from so many quarters since taking up the role of Executive Director. There seems a genuine desire to rebuild the Australian wine industry back to and beyond its former glory. This is heartening. There is no sugar-coating the fact that the wine industry in many of our regions across the country are facing unprecedented challenges, but we should remain optimistic that this innovative and resilient industry can succeed.

Thanks to both Lawrie Stanford and Vic Patrick for their service to WGGA during such trying times in the industry. Many challenges have been addressed during their tenure, and there is no doubting their commitment to the welfare of Australian wine growers.

CHANGE IN TEAM LINE-UPS

Both WGGA and WFA have had big changes and more are in the wind. In this issue you will see an update from Tony Battaglene about further work being done in this area. There is a strong case for change in the way that industry structures work.

It would be fair to say that the existing bodies were formed during boom times in the industry, and a leaner, more efficient approach is required if we are to deliver good value to growers, and the industry as a whole. It is helpful while looking forward at what can be done to help rebuild the fortunes of winegrowers, that we should reflect on how things went so pear-shaped in the first place.

PAST GLORIES

I clearly remember my role as a vineyard manager during the heyday of the latter part of last century, planting 40 ha lots each year before searching for a wine company that might be interested in contracting the fruit.

This was basically a formality then, for a vineyard that had a good reputation and during such buoyant times of high demand for wine grapes. The fruit prices were sound and it was easy to make solid profits; perhaps too easy. Everything was easy then. It was easy being a grower liaison officer for a wine company. Who wouldn't roll out a welcome mat to someone offering ten-year contracts for their fruit at great prices?

Marketing was easy, with global markets crying out for Australia's 'fruit forward' wines, and with many of Australia's most sought after brands being allocated to distributors, rather than sales managers needing to wear out shoe leather and banging on endless doors, trying to generate interest. Unfortunately many of us fell into the trap that this easy time was 'normal'.

How wrong we were.

As the storm clouds gathered, in the form of less favorable exchange rates, a global financial crisis, consolidation among the retail sector both domestically and internationally, margins for wine sales declined. This in turn flowed through to growers with lower fruit prices, and the profitability of both winemakers and growers declined.

As a primary producer, one of the few controls at your disposal is to manipulate output, so the downturn in price led many growers to try to increase yields in order to offset lower returns per tonne.

As grape prices continued to fall, the disparity between highest and lowest prices reduced, meaning that there was less quality premium on offer. In a purely business sense, the case for trying to grow 'exceptional' fruit, especially if that entailed limiting yields, made no sense at all. The greatest business return available to many growers was to produce the most fruit that they could, as long as the quality was acceptable to the buyer.

Long term contracts to purchase fruit became less common; replaced with an increasing tendency to 'spot purchase' fruit on an annual basis. Many growers, facing the prospect of either selling at unsustainable prices or seeing fruit left unsold, chose to take on more risk and make their own wine. For some, availability of rebate reduced the business risk in taking up this option. Some wine companies imposed production limits on the amount of fruit that could be delivered under a contract; some in the name of preserving quality, others primarily to control the amount of fruit delivered.

In removing a possible yield upside, and in the absence of quality – linked price premium, these yield caps become de-facto yield targets. Failing to achieve this cap meant that the maximum possible business return would be missed. This would typically be followed by an awkward conversation with the bank manager. There was strong incentive to grow at least this amount of fruit. Any surplus not accepted due to exceeding the cap, could be sold on the open market.

Many winemakers responded in similar fashion, with large processing facilities focusing on achieving a critical throughput to amortize the majority of fixed costs across the maximum amount of production. Thus, there has been a market for the high level of production that growers have been producing in an attempt to remain viable.

This model carries with it considerable risk, and will only work if the purchase price of the fruit is sufficiently low to guarantee a sale of the resulting wine. This practice has in turn preserved the production of 'fair-to-average quality' wine that is in excess of profitable demand levels, thus prolonging and exacerbating the supply and demand imbalance, and the resulting lack of profitability that has been affecting all within the industry.

Sadly, the collaboration and cooperative business dealings that characterized the working relationship between growers and winemakers during the boom years was replaced by a fight to preserve a margin within their own particular sector. Both growers and winemakers were concentrating more on retaining a margin of a dwindling overall return, rather than building value of the product as a whole. Trust and transparency of business relationships suffered as a result.

In summary, many growers and winemakers have reacted to the drop in wine and fruit value in a manner that has prevented a rapid recovery.

'STICKINESS' IN CHANGE TO SUPPLY AND DEMAND

There has been much discussion about the need for 'adjustment'; and whether it should be reduction in supply, boosting demand, or a mixture of both. There is much confusion about the 'failure' of winegrowers to leave the industry if they are not making money. It is often not well understood by some that wine grapes are a perennial plant, and that it is not possible to simply 'walk away' from a vineyard on a temporary basis. The phrase 'a little bit pregnant' comes to mind.

Growers are often able to offset vineyard losses with off-farm income. In many cases a spouse, or even both partners may work another job to effectively subsidise a loss-making vineyard business.

Hard-nosed economists muse that well-intentioned measures such as interest rate subsidies and other farming assistance, while fantastic at a personal level, can often encourage producers to continue in the industry when their long term sustainability is questionable, and hard-nosed logic would suggest that the best option is to exit.

There are many sticking points to adjustment to supply, and continued resistance at an individual enterprise level would mean that the net oversupply of wine grape production is maintained.

For many growers the prospect of selling out at such a low point in the market would mean cashing in their chips while still in the red; as in many cases selling the vineyard (if that is possible) may not cover current debts.

For many small to medium-sized producers, it is a matter of 'hanging in there', hoping for a turn-around in the fortunes of the industry as a whole so that they can finally leave without excessive debt, and with dignity.

POOR PRICE SIGNALS

The decision whether or not to choose to continue or to exit is made more complex with the announcement of the wine grape price being so late in the season. The timing of these announcements, as specified in the Wine Industry Code of Conduct, is December 15 for inland regions and January 15 for others. These dates of notification were finally settled after protracted negotiation, with the best of intent to provide growers with some security of knowing the price before harvest.

While the intent was for this date to be treated as the latest time at which prices would be known, it has been treated as the earliest date at which prices are known. This timing is too late for growers to make well-informed business decisions when they would have typically spent over two thirds of their annual production costs by this time.

The effect is that the late knowledge of price is leading many growers who might otherwise exit the industry being fully committed to growing grapes for that season. Many, operating perhaps with misplaced hope, committed to producing in the recent seasons hoping that higher water prices would lead, somehow, to increases in the value of wine grapes.

There was some precedent for this, with prices in the inland regions increasingly slightly during the millennium drought. In the most recent vintage, prices did not show widespread recovery, and therefore many growers committed to producing for another season in vain.

SIGNS OF CHANGE

Different business models from the common arrangement described above are emerging. Some wine companies effectively communicate with growers about production methods where growers can be confident of achieving a return.

'Value chain' type arrangements are becoming more common, where growers, wine makers, and often marketing companies combine and all share a margin and share the risk in a joint venture. This is markedly different from the traditional grape purchasing arrangement, in that all parties collaborate to evenly share risk and share profit.

FACING UP

At the time of writing this article, the Riverina Wine Grapes Marketing Board had written to its growers urging them to strongly consider their options for coming seasons, in light of recent discussions with local wine companies failing to offer any clear signs of optimism.

Riverland Wine, another regional industry body, has for some time been urging growers to 'know their numbers' and make decisions about their future with a strong business focus rather than basing future directions on emotional or lifestyle decisions.

THE ROLE OF PEAK BODIES

This brings us to the role of advocacy bodies. The combined impacts of a GFC, retailer consolidation, and a high Australian dollar are beyond the influence of industry advocacy bodies.

Andrew Weeks

There is an old saying about only concerning yourself with issues that you can change, and not concerning yourself with those that you can't. It would be arrogant for any advocacy body to assume that it could over-ride the influences of supply and demand imbalance in world wine markets and exchange rate pressure. These factors are not within WGGA's control.

What should be within the control of advocacy bodies is influence over the development of industry policy. The wine industry needs a clear voice that is identifiably speaking on behalf of and with the authority of the wine industry. In failing to do this, we have not only given governments an excuse not to act; we have presented them with the only real course being a 'brave' decision, in the *Yes, Minister* sense. It is clear that in policy as well as politics, "disunity is death".

Trying to achieve a consensus position in an industry sense has been made more unlikely given the *Lord of the Flies* scenario currently playing out; with the current extreme circumstances leading to an 'everyone for themselves' footing.

When businesses are profitable it is easy to exhibit stewardship, to deliver and expect trust from a business relationship; to share profit and to adopt a 'rising tide will float all boats' philosophy. It is much harder to try to do it during the most challenging times in recent memory.

It will be impossible for full recovery to profitability without an increase in 'whole of industry' focus around industry board tables and vineyards.

The current responsibilities for WGGA are grower advocacy, biosecurity (as signatories to the emergency pest and plant response deed), ensuring that grower priorities for research and development are understood, and acting for growers on the code of conduct and dispute resolution. That is the current focus, and it states on the WGGA website that it is the 'voice of the independent grower'.

THE HARD QUESTIONS

What roles should WGGA fulfill in future on behalf of the nation's winegrowers?

The wine community can no longer be simply divided into 'winemakers' and 'growers'. This industry is incredibly diverse and is changing.

There is a growing range of industry models currently in play. Many growers are taking to making their own wine, either in the search for greater margin, or in response to the loss of the security of a contract with a wine producer for the sale of the fruit. There is still considerable vineyard ownership among some of the larger wine producers.

Vineyard owners have a strong interest in biosecurity for the winegrowing industry. All affected parties need to have input, but and contribute to addressing challenges and solving problems.

Most of the challenges that the industry currently faces are common to both growers and winemakers. Failure to increase demand and to generate profits in wine markets will flow through wine companies and impact upon growers in the form of lower grape prices.

A zealous anti-alcohol lobby intent on treating all alcohol the same, and wishing to 'tax it out of existence' affects us all.

There has been general industry alignment recently in regard to tax policy, with most of the opinion being of the view that the current situation is not working.

Unfortunately, the differences between conflicting views are often publicised more than the points of agreement. Maintaining our focus on the similarities that unite us offers a way forward. The constant, public airing of differences within our industry has stymied progress toward recovery, and risks portraying the Australian wine community in a poor light in overseas markets.

THE WAY FORWARD

WGGA is committed to positive and constructive change. Important first steps are:

- My appointment as Executive Director;
- Joanne Andrew now in the role of independent Chair; and
- New Executive Committee members, all focused and committed to rebuilding profitability across the wine community.

There is also a strong commitment to engaging closely with state and regional bodies across the country, to see how the national grower body is currently seen, whether it is generating value for growers, to seek opinion in how the current roles and responsibilities are being fulfilled and it can be done so more effectively.

While it is early days, two common themes are emerging:

- It is important that the industry has the ability to speak with a strong, united voice at the national level; and
- It is vital that a national grower advocacy organisation exists that can speak on behalf of the nation's winegrowers.

These priorities may seem incompatible; on the one hand extolling the virtues of collaboration and on the other stressing the need for a strong grower voice when it is required. Meeting these two objectives should be possible and a realistic goal, and is part of the challenge of addressing the immediate needs of the wine community.

It is vital that the roles and responsibilities of WGGA as the national grower body are well understood and valued. It is essential that the focus of WGGA is directed where Australian winegrowers want it to.

However, the available funding for WGGA has been decreasing over recent years, and the present level of income is lower than the level of expenditure. The unavoidable outcome, if spending and income remains constant, is that WGGA will not exist after twelve to eighteen months at the most.

There is, of course, the possibility of a stay of execution by 'cutting the cloth', or limiting expense to match the available income. However, there MUST be a critical capacity that would be able to provide a base level of service to winegrowers.

There is little point in the organisation merely 'existing'; it must be achieving outcomes on behalf of contributors or it does not deserve to exist.

It is therefore a top priority for the national grower organisation to explore where it can find efficiencies in operation, how it might be able to increase the resources at its disposal, and how it can become more relevant and valuable to the industry as a whole. Failure to do so will mean that over six thousand winegrowers across the nation will be disenfranchised.

I look forward to working with you to ensure that this does not happen and that this important Australian industry can survive and thrive in future.

Andrew Weeks

Wine Grape Growers Australia executive director

WGGA Updates

BIOSECURITY

As mentioned above, biosecurity is one of the most important responsibilities that WGGA addresses on behalf of the wine industry. There have been two main projects under way, namely managing the biosecurity responsibilities on a daily basis, and finding a sustainable funding model to address these commitments on behalf of the nation's vineyard owners.

Funding for these two projects has previously been forthcoming from different industry groups across the nation, and was gratefully received. The daily management of biosecurity responsibilities is being managed by the AWRI. Before progressing further with finding a suitable long term funding model for biosecurity responsibilities, there will be a meeting of the different responsible bodies to make sure that the most cost-effective and efficient outcome can be achieved for Australian growers. Watch this space.

WGGA MEMBERSHIP UPDATE

WGGA will soon be advertising for membership renewals. It is vital that WGGA retains the support of winegrowers nationally for it to be able to work on your behalf. More information will be issued through the regular e-alerts and on the WGGA website.

PROMOSALONS TRIP TO FRANCE

As has been the case in recent years, Vititech-Sifel is again generously offering the chance for a WGGA member to travel to France and attend the annual international trade fair at Bordeaux.

This is a premier international trade show and focuses on exhibiting innovations in wine and horticulture industries, wine business, with a strong international focus. The scale and quality of the exhibition has to be seen to be believed, and it is a fantastic experience. Further details will be lodged on the WGGA website and through future communications.

WGGA Associate Members

WGGA proudly acknowledges its associate members:

- **AHA Viticulture**
- **Belvino Investments**
- **Broke Fordwich Wine Tourism Association**
- **Gaetjens Langley**
- **Lallemand Oenology**
- **Omnia Specialties Australia**
- **Performance Viticulture**
- **River Murray Training**
- **SCE Energy Solutions**
- **Vine Sight**
- **Vitibit**
- **Withnell and Co Solicitors**
- **Woodshield**

WGGA
Wine Grape Growers Australia