Australian Winegrower

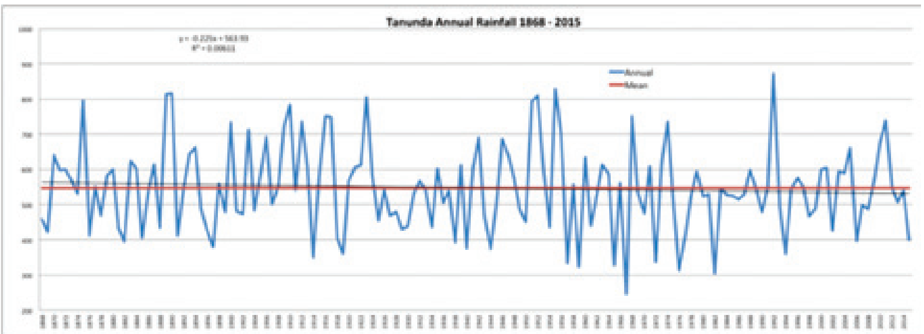
National framework for a strong national voice

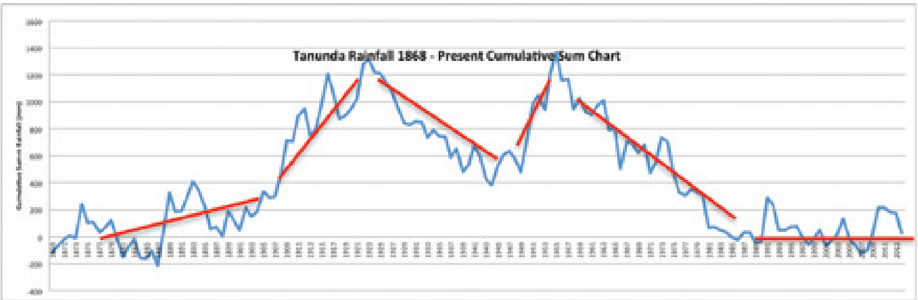
The Newsletter of Australian Vignerons

November 2016

It's Raining Again....

This edition of The Australian Winegrower is being formed following one of the wettest starts to the growing season since the 2010 / 2011 wet year. What a departure from earlier in the year at the AWITC, when I was raising concerns about water shortages for irrigators in the present season. Having said that, there are still some irrigators who despite having flooded properties are unable to access 100% or their allocation. That must be incredibly frustrating.





There are many stories about growers dealing with disease prevention as a result of the prolonged rain, with real challenges caused by flooded and waterlogged ground limiting vineyard access. According to reports that we have received, in most cases the rain has been seen as a positive, boosting soil moisture levels and providing assistance for leaching irrigation. Our thoughts are with those not only in the wine industry, but everywhere who have been adversely affected by inundation and flood damage.

Coping with the vagaries of climate is a major challenge with all types of farming in this country. Fluctuations in weather patterns are part of the landscape, and wide ranges in rainfall are part and parcel of growing grapes in Australia. Consider the following chart of rainfall at Tanunda in the Barossa Valley from the Bureau of Meteorology. The raw data shows that there have been fluctuations between wet and dry seasons since rainfall data was first recorded back in 1868.

The red line in the chart above shows the long-term mean annual rainfall, at 547mm. The driest year was 1967, by pure coincidence when I was born. I am not the biggest bloke going around, and my father has never tired of the line:

"In a drought year, you are lucky just to get your seed back". Cheers.

This data becomes more interesting looking at the cumulative sum chart, or subtracting the mean rainfall from each annual reading, and then taking the cumulative sum of the resulting number. This highlights differences around the mean, and in the case of rainfall shows trends between wet and dry cycles. See the "Cu-Sum" chart (above).

There are clear wetting and drying cycles over periods of approximately 30-year intervals, but with some variation. It is interesting that this variation and that wetting and drying cycles have been occurring for a very long time. It is worth remembering this when considering long-term climate influences. This country has had a variable climate for as long as records have been collected, and this variability is something that stakeholders in a primary industry must be prepared to deal with. So as some industry members most recently deal with flooding, it is certain that we will in future be dealing with water shortages and droughts. That's Australian farming.

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Vineyard Consultants

One of the topics covered in this edition of Grapegrower and Winemaker is vineyard consultancy. While the vast majority of consultants that operate in the wine industry are of high quality, I couldn't help thinking of some previous stories of bad consultants. Like the old commercials for Caltex, claiming that "oils ain't oils", careful choice is needed when selecting paid advice, to ensure that the result is worth the investment. Both examples are from many years ago, and names have not been provided for obvious reasons. They do not involve well – established and reputable consultants, which is an important point.

The first instance relates to a person I know employed as a crop scout. He had just started a new job, and early on he was sent to check out a patch with another scout who had been in the role for some years. By the time he had finished his pass through checking for diseases and pests, he returned to the vehicle to find the other guy sitting there twiddling his thumbs, impatiently waiting. The new bloke was given a bit of a bagging, and asked why he took so long. He explained that he went right through his half of the patch, checking thoroughly every few rows to make sure that he would not miss any serious problems. After hearing from the older scout that this was not necessary, he then explained that he had found some serious levels of scale in that part of the patch. The older guy suddenly looked worried. Despite being paid to regularly monitor that patch, he had never inspected that particular section before, and as a result he had missed a serious pest incursion. The grower had suffered some blemish and vigour problems as a result.

The second example relates to some growers who went to buy fertilizer from a chemical reseller, and in doing so showed the in-house agronomist the fertigation program that had been provided by a particular consultant. It was unlike anything that the company agronomist had ever seen for wine grape production, with large rates of nitrogen late in the season, and high rates of potassium of potassium. The agronomist knew that he has seen something similar years before, but couldn't remember where. After searching through some old notebooks, he found the original source of the nutrition program. It was a generic fertigation program for table grapes. The goal in table grape production is almost the opposite of wine grapes, with large berries of low acidity preferred. The consultant in question was not only offering a generic off the shelf nutrition program and charging for it; but was encouraging a result that would have been the antithesis of good wine production.

Both of these incidences are appalling examples where bad advice or poor service can lead to a poor outcome. It is very important, in particular where you are paying for advice or a service, that the provider is competent and accountable. There are many consultants and advisers working in the wine industry at present who are very good at what they do. It is important to have confidence in the professional people that you engage. Paying for sound advice is a wise investment. Paying for bad advice or bad service is something that no one can afford.

Update on Progress with Australian Vignerons

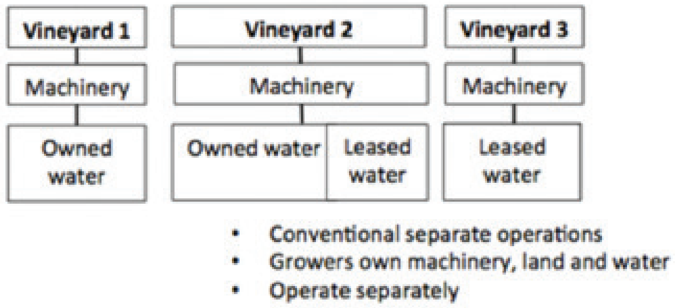
Following much planning and discussion with involved parties, the proposal to form Australian Vignerons and the changes to the WGGA Constitution to allow this to happen was presented at a special general meeting on the 8th September. As reported elsewhere in these pages, the meeting involved prolonged discussion about issues relating to the proposed changes, (and some issues that were less related), but culminated in a unanimous vote of the seventy nine members present in favour of proceeding with the changes. It is fair to say that there is some trepidation about changes proposed, with varying levels of support. The vote, while unanimous, was made in with some reservation in many cases. However, there seems to be general agreement that the proposed changes have merit.

One Member made the observation that the ideal situation would be to have direct election of the board of the national body from the grower base. He also suggested that we might be facing another vote in a few years' time, as the current option would be in need of improvement by then. While a direct election of board members might seem to be an "ideal" situation, it is perhaps not a feasible option for Australian producers at present. Direct election of an independent board is the way that the New Zealand Winegrowers' election system works. Unlike New Zealand, Australia has a more complex situation due to having state legislation to deal with as well as national considerations. The WGGA executive committee considered this option among many others during the strategic assessment process, and the model for Australian Vignerons that was presented at the special general meeting was chosen as the best option for the Australian Industry.

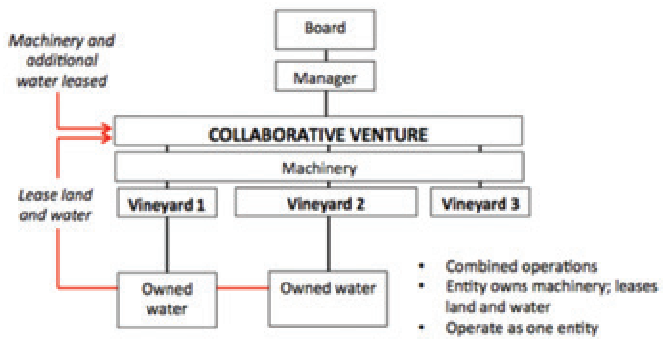
The next phase is to continue discussions with the prospective members, and come to an agreement about nomination and election of the independent skills – based board, and agreement about the proposed proportional voting model. By the time this report has been published, we should be well down the track with that process.

Alternative Industry Models

There has been considerable information circulated about "new industry models", and Jeff MacDonald from Collaborative Farming Australia spoke at the 2014 WGGA annual general meeting on the topic. There are different types of new models, such as where a company that previously were solely growers of fruit diversify in to winemaking; or other models where the corporate structure of a winegrowing business is changed. Some successful examples include collaborative framing arrangements, where a number of farmers combine their operations into one single large unit, and therefore gain efficiencies. An example how three separate vineyard businesses might combine under a collaborative model can be shown as follows:



Before transition to a collaborative entity:

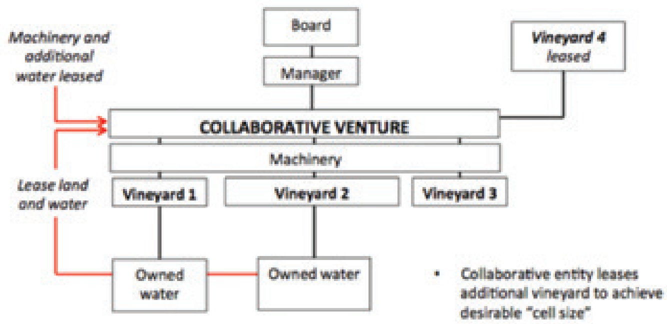


Following transition:

This concept has been adapted from broadacre farming, where collaborative models have been in use for some time. The driving concept is to structure a business to be as close as possible to an efficient "cell" size. A cell size is the size of an operation that will effectively utilize the main constraining operation and the associated machinery to its full potential. In the case of broadacre farming, the cell size is the maximum size that a harvester can operate to effectively and efficiently harvest the area under management. It is typical for farmers to have a large amount of capital tied up in farm machinery that is unused for most of the year. It therefore makes sense to maximize the area over which that machinery is used, without overcommitting and being unable to harvest the crop. A broadacre farming business would determine the ideal size of farm required to achieve this efficiency, and then either buy or lease additional area to achieve the desired result.

Older, unreliable farm machinery that is surplus to requirements can be sold, and new, core critical machinery will typically be leased. Land and water entitlements that are owned by individual members of the entity can be leased to the entity at a commercial rate. Importantly not all members need to work for the new collaborative entity. Those who do work for the new entity can be paid as employees for an agreed rate, and those who do not can obtain an income and have their time freed up for other things. Once the entity pays for cost, any remaining profit is distributed according to a shareholder agreement.

Vineyard businesses are more complex than broadacre farming operations, with additional factors to consider, not least is the fact that it is a perennial crop. There are other considerations such as different grape varieties, contracts with different wine companies, possible winemaking arrangements, geographical location, and water licenses and allocations. However, the area that might be effectively serviced by a harvester can still be used to set an ideal "cell" size. The logical progression for the combination of three vineyard businesses shown above to reach that ideal cell size would be to secure additional vineyard area.



Following expansion to achieve ideal cell size:

There are a number of obstacles to the successful change to a collaborative venture. Firstly, the operation of the business must be treated primarily as a business to generate income, rather than just a lifestyle. This means that every operation performed in the vineyard must be assessed on the ability to generate income and add value. Slashing a vineyard to "make it look tidy" may no longer be a consideration.

The concept of the primary focus being on operating a business rather than "owning land" is a departure for many, and may be difficult for many growers to deal with. Similarly, the decision-making involved in running a farm of any type in Australia and dealing with the harsh and variable climate is something that engenders pride, and some growers may be incapable of transitioning to a business where operational decisions being made by other people. This can especially be the case in family businesses, where traditional farming practices are challenged by new methods, or where there may be differences about management options.

That is one critical difference between the whole collaborative farming structure illustrated above, and a simpler deal where machinery is shared. The important difference is evident when a disease event threatens, and preventive sprays are needed. In a machinery sharing arrangement there will be arguments about which property gets protected prior to the weather event, and which one is exposed to greater risk and possible increased cost of post-infection fungicides. In the above collaborative arrangement the decision of which patches receive the preventive sprays are made on the basis of the best option for income of the entity as a whole.

There is another benefit of the collaborative farming arrangement in the ability to facilitate succession. It is becoming less common for growers' sons and daughters to decide to follow them into the wine industry, with the average age of Australian grape growers steadily increasing. A collaborative structure allows transfer of ownership of the business and allows growers to act as shareholders, transferring in or out of a wine growing business. It also allows growers wishing to exit the industry to cease operating a vineyard and effectively leave the industry yet still continue living in their home. Another possible benefit is that some entities have found that leasing machinery is revenue positive, as the balloon remaining at the conclusion of the lease is often lower than the resale value of machinery when it is changed over.

The option of collaborative farming may not be suitable for everyone, but it can have the potential to increase the resilience the efficiency and therefore the sustainability of businesses. It also has potential in succession planning, and help to facilitate those wishing to leave the industry a way to do so without having to sell the family house, and therefore not have somewhere else to live. Many of the considerations in taking up collaborative farming models are cultural rather than financial, but these are often the most important. Anyone interested in pursuing collaborative farming would be wise to seek an experienced finance expert familiar with the topic, or to speak to other growers and farmers who have undergone the transformation.

Joint Venture Arrangements

As previously mentioned, part of the reason for Australian Vignerons embracing a more "whole of industry" focus is that there is decreasing separation between the growing and making of wine. This has perhaps long been the case in the cool and temperate regions, where a vineyard owner is more likely to make their own wine and proudly promote their own brand. I have noticed in my travels that there appears to be a more "integrated" or "whole of industry" approach in these regions, where those making and growing wine feel and behave as business partners, and part of the same community. This "culture" for want of a better term is less prevalent in warm inland regions, where there has historically been more distinction between "growers" and "makers" of wine.

More growers are now becoming winemakers. Some are making the transition to try to access a greater margin, albeit most times at greater risk. Others feel that they have little choice, often as the result of failing to secure a reliable sale for their wine grapes.

A joint venture arrangement can often have the benefit of the entities growing the fruit, making the wine, and selling the wine all sharing some risk. Typically a deal will involve each venture partner declaring the cost of growing or processing for their part of the supply chain. These costs are covered first when the wine is sold, and then all the venture partners share in any remaining profit.

This is a clear departure form the more traditional arrangement where a grower would sell fruit to a winery, and be paid a market value for the fruit. Unless there is a robust method of ensuring that the fruit is purchased for a value that accurately reflects the value of the resulting wine, inaccurate market signals may be conveyed to the grower. Moreover, there is often perceived to be little incentive for the grower to be engaged in the wine outcome, in particular where there are large blends in question, or there is not an adequate reward for producing high value fruit.

Under the above joint venture arrangement there is a strong incentive for all parties to strive to produce the outcome that creates the greatest value for all. It also has the potential to enhance the export reputation of Australian wine when all parties are aligned and striving to produce the best fruit, and then the best wine that they can.

Other Business Relationships

Relationships between growers and wine companies have often been strained during recent hard times as the imbalance between supply and demand of wine and wine grapes has constrained margins. In a past life as a vineyard manager I often grew frustrated at demands from various grape purchasers to constrain yields, with the pursuit of quality wine the main reason. This was despite the fruit from the vineyard where I was employed continually achieving quality grades in the top 10% for the region. I felt that my performance as a grower was being constrained according to regional average, rather than judged on results that I had achieved. The end result was downward pressure on my ability to make a profit.

It is therefore encouraging to learn that there are wine companies that are willing to take a different approach with their growers. I am aware of a case where one wine company is happy for their growers to achieve slightly higher yields than the district average, in order to ensure that they have a chance of making money. There is a suspicion that many other vineyards in the region may have been low yielding due to a high incidence of Eutypa infection. This means that there is likely to be inconsistent distribution of fruit throughout the vineyard, and that ripening will be uneven. If patches are low yielding through uneven distribution of fruit, it is unlikely to be an outcome that produces the best wine result. If, however, vines are producing a moderate yield and all vines are consistently producing similar yields, there is more chance of even ripening and achieving a good wine outcome.

The key is balance. Vines that have a balance between crop load and vegetative growth have the best chance of producing a quality outcome. The yield results for the 2016 vintage are testament to this. Many regions produced yields close to or above the long-term average, but quality was uniformly praised as being good to exceptional.

Dare to be Different

Consistent with the whole of industry approach that led to the introduction of Australian Vignerons, we embrace the concept of breaking down barriers between the growing and making of wine. The wine community will only achieve its best if there are open, transparent and mutually beneficial business relationships between those growing the fruit and those making and selling wine.

It will be good to see more in the wine community engaging in different business relationships, in particular where there is sharing of risk and reward, and that reward is determined by the results of those who strive to be the best that they can. This approach encourages innovation, and is typical of those experimenting with new varieties, new clones, or matching varieties found in similar climates in overseas regions. Creating mystique and appeal around Australian wine can only help to raise demand, add value, and as the old saying goes, "the rising tide floats all boats".