

## **Executive Director's Report to Growers**

### **The Annual General Meeting of Members**

**Held at The Hackney Hotel, 95 Hackney Road, Hackney, South Australia**

**Thursday 8 November 2012 at 10.30am**

This occasion enables us to provide a progress report about your national representative organisation and Vic has done a good job in informing you of many issues we face.

Over the next 15 minutes, I will provide more detail from an operational point-of-view, as well as highlighting some key points of interest.

I will do this under the headings of our organisation's six strategic pillars:

- Advocacy
- Relationships
- Issue management
- Organisational capacity
- Communications
- and Governance.

### **ADVOCACY and RELATIONSHIPS**

Advocacy and relationships are a central activity for us. Clearly, WGGA's ability to influence our industry's future is directly linked with the quality of the relationships it has with people that matter. I will therefore deal with these two things together.

The past year has been fruitful for industry relations. Since WGGA raised the prospect of a Joint Policy Forum with a willing WFA some 18 months ago, the recent inaugural meeting of that forum has been a milestone in establishing unified thinking on industry policy-settings.

I believe the Joint Policy Forum is the first initiative of its kind to encourage unified policy setting by growers and winemakers.

Through this vehicle, representatives from both ends of the same industry sector will meet regularly to discuss and agree on key issues that bind us all. Hopefully, with the growth of trust, it will also deal with the issues that sometimes divide.

I note that, through the forum, I have met and worked closely with the new leadership of the WFA: its Chair, Tony D'Aloisio and Chief Executive, Paul Evans. It has been a positive experience and I welcome them both to industry advocacy.

It is appropriate at the same time to thank Stephen Strachan, the former Chief Executive, for his role in setting up the forum and his overall contribution to the industry during his long time at the helm of the WFA.

Looking back over the past 12 months, I am pleased to report that other significant cooperative activities with the WFA have included:

- Co-location of the national organisations in Industry House at the National Wine Centre in Adelaide;
- Collaboration on MRL negotiations;
- And a combined proposal to the Federal Minister for Agriculture for merging the Grape and Wine Research and Development Corporation with the Wine Australia Corporation.

It is well worth mentioning that all of these activities have not been in isolation from the two other national organisations, Wine Australia and the GWRDC. The input of these two organisations is acknowledged with thanks – particularly into the merger project where it would be easy for organisational self-interest to prevail.

And the co-location is a winner. It succeeds in what I call the “3-Cs” – communication, cooperation and collaboration.

Looking ahead, further organisational reform is in the air.

Talk about reform of the representative organisations started with an exploratory discussion prior to the Wine Industry Outlook Conference in Melbourne some weeks ago. In all quarters, the answer is clear on this issue although, curiously, with completely opposite views at times, depending on the quarter.

Discussion about representative organisational reform needs to happen and it is important that we join in.

Another significant and positive event in the past year has been the decision by the Riverland Winegrape Growers Association to re-engage with WGGA. They have taken up their seat on our Executive Committee to represent the interests of Riverland contributors to the SA Growers’ Fund by which they are members of WGCSA and WGGA.

During the past year we have continued to build our relationships with the government sector and I see this as an area for ongoing development. Regular contact has occurred with the Federal Minister for Agriculture, Fisheries and Forestry. Backed by the ground work of two years of rebuilding and policy development, WGGA is now set to extend its political influence through a wider set of political contacts.

## **ISSUE MANAGEMENT**

Under issue management, I want to cover four major topics:

- Biosecurity and vine health
- Market access for winegrapes
- Research and development; and
- Supply and demand

### **Biosecurity and vine health**

Biosecurity and vine health have been elevated in WGGA’s priorities to become a primary area for development.

Under the Emergency Plant Pest Response Deed, WGGA has responsibility for all of the wine sector's obligations. In keeping with this responsibility, we are a member of Plant Health Australia.

Biosecurity and vine health is a much wider issue than just exotic pests and diseases: we need to deal with endemic pests and diseases (principally phylloxera) as well as some germplasm issues.

The clear focus for WGGA at this time can be listed as:

- identifying the tasks and functions to be addressed,
- identifying and building the appropriate relationships, networks and committee structures to address the foregoing functions; and
- establishing the required funding.

Altogether, this makes up the sector's national biosecurity management arrangements.

Before moving onto market access, I would like to welcome today Dr Jo Luck from the CRC for Biosecurity. Jo has kindly agreed to speak to us at the conclusion of formalities on the economic case for investing in biosecurity.

### **Market access for winegrapes**

WGGA is working on a number of fronts to improve the access of winegrapes in the market place:

- We continue to promote good commercial practice through the Code of Conduct.
- We are active in the funding, and negotiations of, maximum phosphorous acid residue limits in two key markets where these do not exist and where, due to this, trade is constrained. An executive committee member, Simon Berry, is key to this activity, together with collaboration with WFA and Wine Australia negotiators.

WGGA sees profound merit in greater development of objective measurement of winegrape characteristics. We are committed to promoting objective and systemised measurement of winegrape characteristics that meet market demand in all value segments of finished wine.

The avenues to achieve this include scientific research; systems for compiling and quantifying measures; sampling protocols; and verified and validated instrumentation.

The benefits to growers will be the ability to:

- promote their product for profit
- defend their asking prices
- challenge a purchaser's assessment of fruit with evidence-based opinion; and
- establish a dialogue that locks in longer-term sustainability through better relations with off-takers.

### **Research and Development**

Protecting our research and developing funding has been another priority over the past year.

The sole national levy paid by winegrape growers is the Grapes Research Levy paid to the GWRDC for disbursement on research and development and on extension.

Understandably, growers are keenly interested in the outcomes of their investment.

This interest extends to the proposed arrangements in a merged GWRDC-Wine Australia organisation and -- together with the WFA -- WGGGA has been instrumental in representing growers' interest in having R&D funds quarantined for R&D purposes within the combined research-marketing organisation.

WGGGA congratulates the GWRDC on its new Five Year Plan and its four funding priorities in 2012-13. Importantly, these included biosecurity, adoption and objective measures.

### **Supply and demand**

Turning to supply and demand, it is evident that green shoots are appearing!

It is pleasing to acknowledge improved market demand for higher priced/lower volume wines; diminishing stock volumes; reduced vineyard areas; and higher fruit prices in 2012. It is also pleasing to feel again the good ol' feelings of yore after the gloom and anxiety of the past 5 to 7 years.

Nevertheless, a cautionary note is sounded by WGGGA which believes the positives need to firm, broaden and be extended over time before they can be rated the turn-around that benefits the broader industry. The reality is that many of the positives are about seasonal influences.

Some relief to supply pressures has been afforded by two lower yielding Australian seasons, a low US harvest in 2011 and a low European harvest in 2012.

Seasonal factors mean that, to a large degree, the productive capacity is still in place for Australia to produce more than it can sell profitably. Vines exist in the ground to produce a harvest of 1.9 million tonnes.

Careful scrutiny of vineyard statistics suggests that the national vineyard has diminished by around 9% from its peak. Some years ago, it was thought that 20% of the national vineyard had to go to achieve sustainable supply/demand balance. On current performances, we are less than half way to adjusting supply capacity to this level.

Equally concerning is the fact that earlier this year, the Australian Bureau of Agricultural and Resource Economics suggested that -- based on non-bearing vines in the ground -- bearing areas will *grow* over the next two years.

Even after the price improvements last year, the average winegrape grower failed to match costs of production in each of the past three years.

Yes, good things are happening on the demand front but results from this endeavour are more likely over the medium-term rather than the short-term. And of course, the punishing exchange rate may endure for some time.

WGGGA believes that generally better times are some years away. For each and every grower, careful thought needs to go into their decision to 'hold on' if equity in the business is severely reduced.

The question also needs to be asked – *what if the supply adjustment is as good as it gets?* Economies of scale in the processing sector create resistance to a smaller industry and processing over-capacity may continue. If so, prices may not improve a great deal for a number of years at least. *What then?* The answer will come from each grower business examining their business model to see if it equips them for a future that may look similar to now.

I cannot leave the topic of supply and demand without mentioning that good business decisions are based on good information. In recent years, we have not invested anywhere near enough money into maintaining the foundation datasets that underpin our ability to understand the sector's production and performance.

### **ORGANISATIONAL CAPACITY**

In reviewing organisational capacity, a constraining influence on WGGA's ability to represent winegrape growers nationally is the stark fact that a national contact database of winegrape growers does not, and has not ever, existed.

This poses a simple problem: *if you don't know who you are representing, how can you represent them?*

In the past year, with help from the Australian Bureau of Statistics and the Vineyard Survey, WGGA commissioned a statistical dataset on growers in Australia. WGGA is now in the position to think more strategically about its membership and funding arrangements.

From this data, WGGA can state, proudly I think, that its membership numbers around 3,500 growers: that's about half of the winegrape growers in Australia.

Despite this large membership base, WGGA is outspent by the WFA by six dollars for our every one dollar.

Put simply – growers are big in number, small in revenue and winemakers are smaller in number but higher in revenue. WGGA clearly faces challenges in harnessing representation funds.

Here's another insight. The vast majority of growers – about eight out of every 10 – operate vineyards of less than 25 hectares. When it comes to vineyards over 100 hectares, Australia has only 146 independent growers.

The point I want to make here is that while WFA has all the larger players in its membership, the biggest grower businesses have not traditionally aligned themselves with WGGA.

*Why not?*

Lots of reasons probably, but let's just take one simple one. Without that contact database I mentioned earlier, we don't know who they are – they have to be found and engaged with.

WGGA is working hard to find the larger-operation growers to engage them in our programs, to provide them with meaningful services and to generate income for your national organisation, ensuring our long term viability and capability to better service all sectors in the grower community – both big and small.

### **COMMUNICATIONS**

Over the past year, WGGA has continued to strengthen its already creditable communication capability. We have been successful in delivering our message in many ways:

- Through our website at [wgga.com.au](http://wgga.com.au) which continues to grow steadily in capability and content
- By producing the *United Grower* newsletter
- Sending out e-alerts of events and opportunities for growers
- And through media releases and regular commentary in the wine media.

We rely on -- and are greatly indebted to -- all the regional association offices who forward our material to their grower members. As an organisation without its own membership database, this remains our most effective way of reaching our constituents.

Clearly, having the ability to direct mail our members would be the superior option.

We desperately need a National Vineyard Database.

- Firstly, such a database would provide contact information that will empower the grower voice at the national level.
- Secondly, it is also the required foundation to an effective biosecurity response to disease threats.
- Finally, it is the vehicle by which the wine sector can effectively collect viticulture statistics.

Back in 2009, the wine sector decided it needed such a database and, sadly, not a lot has happened since. WGGGA will continue to advocate for it.

## **GOVERNANCE**

From a governance perspective, WGGGA is progressively building its professionalism.

Governance tends to be a background operation but it is taken seriously by the Executive Committee because of its fundamental importance. Actions progressed in the past year include:

- Taking an evidential approach to our strategizing.
- Building an improved contact database
- Implementing more professional communication systems
- Bringing our accounting in-house to improve control, problem-solving and accountability in our finances
- Preparation of a new Five Year Plan
- And updating the Constitution - which will be presented today.

A major initiative last year was the Decision Support Network (the WGGGA DSN). This has a cross-over with governance in that it impacts leadership succession.

The WGGGA DSN brings together a group of young viticulturists to provide input into the WGGGA Executive Committee.

Comprising graduates from the wine industry's Future Leaders Program together with any other young viticulturist who seeks to be involved in grower leadership, the DSN program fosters leadership skills and personal development while also providing a youthful perspective in WGGGA Executive Committee meetings.

The WGGGA DSN is in its early days. We are indebted to Mary Retallack, Colin Bell, Andrew Weeks and Adrian Hoffman for their pioneering work in establishing the group and wish them all the best in recruiting further members to the network.

## **THANK YOUS**

Before concluding, I want to take the opportunity to thank the contributions of a few key people.

Thanks to the Executive Committee, a committed band of volunteers who give their time in the interests of growers and the wider industry. Thanks to the large crew of project-by-project helpers who once again, give their time and expertise freely.

Our Chair, Mr Vic Patrick, is an icon of our industry with immense depth of understanding that provides a substantial underpinning to the organisation's foundations.

Thanks also to Kelly Bonser who has now been with us for sufficient time to call herself a veteran with experiences like the co-location under her belt.

Welcome and thanks to Nikki Zorzi who has joined us to perform the challenging tasks of managing our finances at the same time as injecting some vigour into our communications activities.

Thanks also to the enthusiastic and thoughtful input of Sandy Hathaway into the wide range of projects she is engaged to do.

### **CONCLUDING COMMENTS**

To wrap up, I'd like to quote Oliver Crawford, the winemaker at Devil's Lair in the Margaret River region, who was quoted in a recent article in the *Weekend Australian* newspaper as saying: *"Get the fruit right and the winemaking is easy"*.

This sums up our industry very well: – too often the contribution of the vineyard is discounted in promoting the wonderful product that we are involved in - wine.

I feel privileged to work for the ground floor artisans in the vineyard.

I feel privileged also because in the promotion of a product for which Australia has achieved global kudos, I work for that part of the operation that is definitively Australian – the vines that are rooted in Australian soil and provide an expression of Australia in true 'terroir' style.

There is work to be done to raise growers to be full equity partners in the wine sector.

The coming year represents another year to undertake the work to improve the profitability and sustainability of winegrowing businesses and to raise the status of this important part of the value chain.

A handwritten signature in black ink, appearing to read 'Lawrie Stanford'. The signature is fluid and cursive, with a large initial 'L' and 'S'.

Lawrie Stanford

Executive Director, Wine Grape Growers Australia

October 2012