

Vintage 2014 – low production and prices

At the time of writing in early February, the 2014 harvest was getting underway and conditions seemed to be conspiring against winegrape growers.

Desperately low warm inland indicator prices combined with low production have presented a double-hit for winegrape growers. The all-important outcome for profitability, dollar revenue per hectare, will plummet under the strain of these two outcomes. Notwithstanding the fact the emerging lower yields will logically induce prices higher than the current indicator prices, it is nevertheless highly unlikely in the current economic environment, that any price improvement will outweigh the downward impact on revenue from fewer tonnes.

Pre-harvest conditions were not at all ideal with mid-October frosts in some locations, a cool-to-cold fruit set period that reduced vine fruitfulness and January heat waves that further reduced production capacity through desiccation of berries and caused a number of bushfires near vineyard regions, raising concerns about the potential of smoke taint.

Australia's growers have learnt a lot about managing vineyards in warmer conditions over the last decade, particularly during the recent drought spell, and have been able to some extent to manage the impact

Growers question commercial practices in the industry

of this season's hot conditions. This is, at least, good news for quality. Nevertheless, the announcement of devastatingly low indicative prices for warm inland fruit, in mid-December 2013, would have led to some growers thinking twice about applying water, at a cost, to crops that would not return enough income to pay for the water. Moreover, low prices for some years have led some growers to reduce crop inputs, including fertiliser, meaning that in these cases, the vines will be less resilient in the heat.

In addition, as the harvest has commenced in some regions it has now become apparent that actual yields are well down on initial estimates. How much is still being discovered and it is still early days. Nevertheless, yield declines of 20% on expectation have been commonly reported to WGGGA. Poor fruit set was rated as the biggest influence but in a cumulative sense the successive heat waves do appear to be taking a toll and this effect may exceed that of the former by the end of vintage.

Notification of cooler-temperate indicator prices (required by the industry's Code of Conduct to be made in mid-January)

have not come to WGGGA's attention but, anecdotally, it does not seem that these prices have not suffered as much as warm inland prices.

The warm inland indicator prices represent a 'wine grape crisis' for these regions. The Murray Valley and Riverina in particular have been galvanised into action by concerns about poor commercial practices observed in their regions. The regional associations are also discussing with WGGGA a number of initiatives at the national level. These include advocating for adjustment packages, assessing the influence of the WET Rebate on winegrape prices, wine market development, reviewing the Code of Conduct and its effectiveness and improving supply and demand information.

Meanwhile, WGGGA's activities at a national level on addressing problems in the industry that impinge on price include initiating a review of the Australian Wine Industry Code of Conduct, promoting the concept of objective measurement systems for establishing winegrape prices, investigating the drivers of slow supply adjustment and agitating for improved terms of trade. While we cannot do much about heat waves, frosts and other seasonal events, we can work to improve the commercial operating environment for growers and reduce the "double-whammy" effect.



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WFA Expert Review: The Good, Bad and Ugly

The WFA action agenda, devised in response to their commissioned independent Expert Report and released in December 2013, has received a mixed reception from growers. This article sets out WGGA's response, based on the views of our members.

WGGA applauds the evidential approach taken by WFA to the important issue of lack of profitability in the industry. The Expert Report is insightful and WFA's stated intention to repeat topical analysis of this quality in the future is welcomed.

WGGA finds much in WFA's action agenda to agree with. The areas of agreement include the following.

- The commitment to the WGGA-WFA Joint Policy Forum for facilitating unified industry policy.
- Maintaining the current position on an ad valorem basis to wine, albeit that a long-term commitment to this position is not given.
- The concept of growing demand, as well as reducing supply, to achieve 'balance' in the sector.
- Support for an industry-owned National Vineyard Database and foundation data collections.
- An evidential approach to policy on wine and health.

Nevertheless, on the fundamental topic of supply and demand, the imbalance of which has done so much to undermine the position of Australian wine on world markets, WGGA believes there are some fundamental shortcomings in WFA's position.

WGGA asserts that growers, not just winemakers, are casualties of the current lack of profitability in the industry. This fact receives little recognition in the expert review and indeed, the Actions too often load growers with the burden of adjustment.

For example, the action agenda includes little that is substantial to deal with over-production. This is despite the Expert Report clearly identifying the major drivers of slow supply adjustment. WGGA believes these identified drivers should be more actively responded to in the action agenda.

The identified drivers of slow supply adjustment involve both winemakers and growers. Commensurate with this, both winemakers and growers need to bear the burden of this adjustment. In WGGA's view this is not reflected in the action agenda. A case in point is the WFA position on the WET Rebate (see below).

Nevertheless, WGGA supports the commitment made in the action agenda to commissioning research into some key factors (that were identified by WGGA in its submission to the Expert Review) that may assist more rapid adjustment in the national vineyard in times of over- and under-supply. The research topics include:

- ways to reduce the cost of vineyard turnover and removal,
- greater flexibility in vineyard management,
- technical priorities to support improved quality,
- alternate uses and markets for winegrapes.

WGGA also supports the importance of addressing under-demand for Australian wine. However, WGGA believes the action agenda fails to address demand for wine that is most in oversupply – C, D and E grade wine. There is no defined strategy for improving the market prospects for this category of product. Improving the market prospects of this fruit and wine may go beyond classic marketing to include product innovation, product development, alternative uses for fruit, packaging and so on.

Additional areas of concern include the following

- The WET Rebate.

WFA's action agenda, while not directly excluding growers from eligibility for the rebate if they convert their grapes to wine for sale, will nevertheless effectively do so by restricting Rebate access to packaged, labelled wine only.

WGGA believes that if the WET Rebate exists, growers should be able to access it.

Before making any changes, more evidence is needed to establish the case for such changes lest the cost of the disruption they will cause outweighs the benefit.

- Innovation

The proposed actions fail to address the potential of product innovation and development to recapture lost revenue. Not all loss of profitability is price degradation, some is product choice that can be addressed through product innovation as opposed to marketing.

- Market signals through objective measures

WFA rejected the opportunity to improve the market signals that guide market-based industries like the wine sector. Widespread adoption of objective measurement systems for winegrape payments could bring about a leap forward in commercial competitiveness by vastly improving market signals (see article elsewhere in this United Grower).

Finally a note of agreement on organisational reform to bring about aligned and coordinated advocacy from WGGA and WFA. WGGA's efforts to work with WFA on this over the last three years are a matter of record.

WGGA supports WFA's intent to continue considering this issue in its on-going work program.



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Urgent need for systems to qualify desired grape attributes

Great wine is made in the vineyard and grape growers deserve clear and specific definitions of what constitutes great grapes. This simple argument leads to the need for identifying and describing desired grape attributes for different wine styles.

Objective measurements will describe sought-after grapes that make sought-after wine and will result in payments that reward a grower's ability to meet optimal prescribed measures. WGGA sees this as a triple win – for growers, to confidently pursue fruit that will fetch optimum prices; for winemakers, to be offered grapes in close accordance to their preferences for specific wine styles and lower costs of production; and ultimately for consumers, through improved understanding by winemakers of what they value in the wine they drink.

Note that the idea here is not regulation – it is about stimulating and steering good business in the wine industry. Overregulation will damage a differentiated product like wine – a product that is constantly re-inventing itself to attract the consumer. But there's the rub – each new style has to be described so it can be supplied.

There is a general understanding in the industry that there needs to be measurement of wine and winegrape characteristics to describe how you get a thing as subjective as quality which something that is too ambiguous to be measured directly.

A survey of various wine industry stakeholders has shown a strong desire for such improved measurement systems to exist. In May 2012, The Australian Wine Research Institute, in collaboration with Wine Grape Growers Australia and the National Measurement Institute, collated survey responses from almost 300 grape sellers and grape buyers about the measurement of grape quality in the Australian wine industry. The report, released in September 2012, showed that 60 per cent of recipients believed that grape sampling procedures and measurement methods could be improved.

WGGA believes the wine industry urgently needs to implement such objective measurement systems, encouraging grapes that are 'fit for purpose' in terms that are clearly understood by grape growers and wine producers. Such systems will save expense and increase profitability for everyone in the Australian wine industry.

WGGA insists these changes need to be put into action as soon as possible. It is vital winemakers design meaningful indicators for what they want from grapes – which, in turn, reflects what a consumer wants from the wine they drink. Clear communication in this matter, on a product-by-product basis, will help produce more fruit suited to the wines selling in the marketplace, ultimately meaning greater uptake of wines, less waste and greater profitability for all in the industry.

However, there is presently reluctance from the Winemakers Federation of Australia to promote this idea – despite some of its members openly supporting the concept.

This is a mistake, as other significant international wine competitors have already identified the merits of objective winegrape measurements and are acting on them. For example, Gallo in California – a major winery has been using objective measures since 1990. Moreover, Gallo used much of the research funded in Australia by AWRI to develop a grape quality index for selecting or rejecting fruit prior to harvest.

Still, even Gallo hasn't yet taken the next step of using the index as a market signal to forge meaningful business relationships with growers. This is where Australia must act swiftly, to ensure a more valuable index is installed to improve fruit selection systems ahead of international competitors.

Fledgling efforts are being made to this end already. Rob Hunt, formerly of Boar's Rock in McLaren Vale, believes he has a set of objective measures that can work to benefit all stakeholders in the Australian wine industry. Implemented over three years before Rob left Boar's Rock, his system embraced a broad variety of measurable grape qualities, with different attributes

weighted according to the desired style the winemaker was seeking.

The measurement systems were clearly built into the grape purchasing contract, which increased confidence between the two parties, and ultimately led to improved quality. Rob reports that he saw an immediate change in grape growing and preparation for picking, with higher grape quality received in subsequent vintages. Rob asserts that it was clearly understood by the growers that they would make more money if they met the clearly defined and measured standards. He believes such a system needs to become an industry standard.

WGGA says the current system of ad-hoc, sometimes disputed classifications and payment structures for winegrapes is a hindrance to progress particularly in warm inland vineyard regions, the largest growing and production areas in our wine industry.

Creating a meaningful set of objective measurements for grapes from Australia's warm inland areas is within reach – and it can be a crucial tool in developing stronger contracts for fair trade and more secure pricing of winegrapes, as well as better quality fruit for winemakers that meets consumer expectations and preferences.

What is grape-growing worth?

The value of grapes (all uses) in 2012 was approximately \$1 billion – similar to sugarcane and about a third of fruit (all types of combined).

An estimate for the value of winegrapes in 2012 is \$880 million. This places winegrapes in about tenth place on a list of Australian crops by value.

A decade ago, in 2002, the value of winegrapes (unadjusted for inflation) was \$1.3 billion which would have rated it at sixth place on the 2012 list.

When converted to wine, the value of winegrapes translates to over \$4 billion in wine sales revenue.

Sources: Australian Bureau of Statistics, ABARES, WGGA estimates

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WGGA business at a glance...

WGGA activities

- With a new government installed in Canberra, WGGA is busy seeking appointments with the new **parliamentary members** as well as reacquainting with old. Discussions about the parlous state of warm inland winegrape prices is high on the agenda at this time.
- The first **Viticulture Biosecurity Industry Reference Group** is being established. The Industry Reference Group will assist in developing and overseeing the industry's winegrape biosecurity arrangements and policies by providing practical, grassroots perspectives on biosecurity matters to the WGGA and WFA and the National Viticulture Biosecurity Committee.
- **Vine germplasm** - WGGA is project managing a working group which will pull together a detailed plan for how the nation's germplasm resources can be sustainably managed in the future. Industry consultations are planned for the next few months and a stakeholder group will sign-off on the plan for approval by the WGGA and WFA executive committee and board respectively. Business plan writing is expected to occur in the first half of the year with the implementation phase hoped for in the second half and into early 2015.
- The merger is on. After the necessary bills were enacted on 13 December 2013, the Minister, The Hon Barnaby Joyce, stated that the new industry statutory body, the **Australian Grape and Wine Authority (AGWA)**, will commence on 1 July 2014. To ensure this happens, the chief officers and Chairs of the four national organisations are meeting regularly to deal with transition arrangements for the GWRDC and WAC going into the AGWA, the minister is seeking nominations from WGGA and WFA to appoint a selection committee for

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the Directors of the new organisation and the Minister is considering his appointment of a Chair in discussion with industry. Both the Chair and the Directors of AGWA will be appointed before the organisation's commencement, with all Directors appointed in a 'consultant' capacity prior to the date of commencement. The consultants will be engaged to appoint the AGWA chief executive officer and assist with preparations for establishing the Authority in readiness for the 1 July 2014 commencement date.

Publications

- Hard copies of the **Biosecurity Manual**, developed by Plant Health Australia with GWRDC funding, have been printed and will be circulated

initially through a regional roadshow program currently being organised. Contact us if you wish to know more. This is an on-farm manual designed to be thrown into the glove box of the ute to assist grape growers (wine, table and dried) to reduce the risk and/or respond to incursions (pests and diseases from outside Australia) or outbreaks (pests and diseases within Australia). Electronic copies of the manual will also be available for download at www.farmbiosecurity.com.au

- The **National Winegrape Grower Book** is also available through WGGA. If you are a WGGA member contact us today for your FREE copy of this statistical profile of winegrape growers in Australia. Non-members can purchase for \$15.

NEW on our website

- Members can view the latest **Australian Grape & Wine Statistics** via our website.
- Outcomes from the **Wine Industry Award** review came into effect in January and resulted in an amendment to Clause 27.2 (d) – most notably, the definition of 'vintage'. Link to SAWIA if you're on the WGGA site or go direct to SAWIA for more information (www.winesa.asn.au).
- **ED Blog** Perhaps you'd like to comment? The WGGA executive director has a few things to say about the benefits of objective measurements in sorting out supply and demand influences on winegrape price from quality rewards.
- **Smoke taint** WGGA, together with Mark Hamilton from Grope Hamilton Lawyers, have provided some guidance on how to approach concerns about smoke taint damage to fruit. Visit our website for a downloadable document.



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