

Winegrape price discontent – why so virulent now?

Seasons come and seasons go and complaints about fluctuating winegrape prices follow suit. However, concerns about winegrape prices in 2014 have little to do with the season per se but rather, are demonstrably an expression of inadequate structural underpinnings to the commercial arrangements between wine companies and growers that are embedded in the industry.

Improvement in winegrape prices in 2012 and 2013 were a lot to do with seasonal factors, in particular the overhang of lost production in the disastrous 2011 season.

In these two years, there is no doubt that hope provided by improved prices and messaging about positive signs in the industry, would have seduced those hoping for the long-awaited turn-around, into thinking that it had arrived.

Messages about positive signs in the industry abound and while they are true, they are way out of proportion in the context of a whole-of-industry recovery or turn-around. They include;

- a much more favourable AUD, but, this will take time to filter through to

whole-of-industry; and

- recovering economies in our key markets, but, there will need to be some re-educating about the value of Australian wine and getting consumers to trade up again (albeit that the value of Australian wine is a very real positive for the Australian industry).

The price collapse in 2014, now that the shortages from 2011 have unwound, confirms the seasonal basis to price improvements in 2012 and 2013 and suggests a structural underpinning to low prices in 2014.

This article suggests that the current low winegrape prices are the obvious, observable face of a more general problem – which is traditional but outdated commercial arrangements between wine companies and winegrape growers that form the structural underpinning to how business is done in the wine sector and which do not equip it to deal with today's marketplace.

If these problems are structural, why hasn't the concern been expressed all

along? The answer is that they have but they have been masked by circumstances.

The commercial relationships and practices that developed over the last 60 to 70 years could have been appropriate in the early part of this time period but their problematic nature has become evident in the latter part.

Nevertheless, even if commercial relationships were flawed from the beginning, there were influences that would have disguised them. The Australian wine sector had a technical boom in the mid-1900's (refrigeration, mechanical harvesting and so on) and moved into world best-practice for production capacity. Motivated, as much as anything else by the surge in supply from the technical boom, Australia then had a demand-boom when it broke into world markets in the early 1990's. The optimism generated in these booms would have meant any underlying commercial problems in the industry would have sat in the background.

Like all waves of innovation however, the rate of return in competitiveness from technical and demand innovation has

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diminished over time as competitors caught up.

When, as a consequence of diminishing returns to technical and demand innovation, growth ceased in the mid-2000's to 2010, continuing problems were tolerated for a while because there seemed to be other reasons to explain them, particularly the stronger AUD and the effects of the GFC that was centred in Australia's top two markets – the US and the UK.

There was a belief the industry would return to the ideal conditions of pre-2005-06 when these things sorted themselves.

In current time however, these problems

are unwinding and there's not much left to explain the problems that are still there.

The identifiable problems in the commercial arrangements between wine companies and growers now come into clear focus.

A phase of innovation in the commercial relationships between wine companies and winegrape growers is now required.

Wine is a complicated product and sophisticated commercial relationships are needed to underpin the market signals required for supply to meet demand across style, variety, region, occasion, price point, lifestyle, perception and so on.

Moreover, if quality improvements are to be the factor that allows the Australian wine sector to improve demand prospects, then there needs to be modern commercial arrangements that incentivise the innovation.

The traditional commercial arrangements developed more than 50 years ago are not up to it and are in need of innovation themselves. (See www.wgga.com.au for examples of practices that could change)

Agree or disagree?

Let us know your thoughts,
info@wgga.com.au

Price not the only market signal for assessing grapes

WINEGRAPE price alone is inadequate as a market signal for all that is sought from grapes purchased for winemaking.

The belief that price alone can sort it, confuses two important issues – supply and demand and the all-important issue of 'quality' (read: desirable winegrape attributes). Moreover, the race to the bottom on price undermines quality (as yields are boosted to maintain revenue per hectare) as well as trust in business relationships and ultimately hurts the reputation of the Australian wine industry.

WGGA believes there is another way and it begins with introducing winegrape assessments through objective measurements.

Creating an agreed system of how to accurately and fairly measure wine grapes is crucial if the Australian wine industry is to achieve the quality improvements that many price-setters believe will restore the competitiveness of Australian wine in overseas markets.

Restoring supply and demand balance for desired wine grapes is about correctly sending and receiving market signals – and a careful balance between science,

agriculture and economics is required to get the most suitable winegrapes and desirable prices.

A wine company member involved in introducing winegrape assessments using objective measurements, Rob Hunt, says "everyone involved in the Australian wine industry needs a broader set of indicators that reflect the realities of each vintage and market".

"Of course, prices will fluctuate like any commodity, but the price signals that set the contracts need to be fair and true."

Presently, the signals are muddled – especially at the crucial time when grapes are being evaluated prior to harvesting.

While it is encouraging that some winemakers and producers conduct tastings and tests of grapes in vineyards immediately before harvest, the measurement system is very arbitrary and open to loose interpretation.

A clearer set of attributes for measurement, clearly understood by both the buyers and sellers of grapes, needs to be implemented.

Such systems will set in place a transparent combination of objective measurements for each contract, so that both grape growers and wine producers can clearly stipulate their desired targets, and what they are willing to pay for each level of these standards.

In tandem with this, a more clearly defined classification of wine styles needs to exist, as required by winemakers and wine producers.

Robin Day, grapegrower, winemaker and consultant, argues that if Australian Wine Shows are able to clearly define acceptable wine styles, then wine producers should be able to do the same, in measurable terms.

"It's time – for the sake of grape growers – that winemakers identify the aggregate of structural and flavour attributes which enable groups of wines to be identified."

Clarity of explanation and objective measurement is the key to developing stronger lines of communication and understanding between grape growers, wine producers and – most importantly – the consumers of Australian wine.

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WGGA Report Card, 2013-14

THIS is the time of year when WGGA looks to prepare the Annual Operating Plan for the upcoming year and as part of the process, reflects on the achievements of the past 12 months.

Overall, a report card offered by an outside observer reads: "WGGA continues to mature and consolidate its position as a key industry player on behalf of growers. It has made significant headway this year on some key elements of its charter and solid progress in a number of other areas. Developing its own resources must be a top priority for the next 12 months."

Highlights of achievements, up to April 2014, follow. More detail is available from the WGGA website.

Biosecurity and vine health

This year has seen a major leap forward in addressing future biosecurity arrangements for the winegrape industry.

A National Winegrape Biosecurity Program Coordinator (NWBPC) was appointed in September 2013 and is expected to deliver a Biosecurity Strategic/Business Plan by the close of 2013-14.

WGGA has assisted Plant Health Australia (PHA) with developing a new Viticulture Industry Biosecurity Plan, consolidated the inter-governmental National Viticulture Biosecurity Committee and established a grassroots Viticulture Biosecurity Industry Reference Group.

WGGA has also been instrumental in initiating the preparation of a business case for managing the future of Australia's germplasm resources.

Market access for winegrapes

"Slow but steady" progress has continued on negotiations with Chinese authorities to establish the MRLs for Phos Acid. This initiative will free up trade with this market.

In addition WGGA has made several attempts to improve market signals for grapegrowers through objective measures for winegrape payments.

While continuing to advocate this position, WGGA also broadened the campaign to a wider range of reforms to winegrape prices traditional commercial practices between growers and wine companies.

Code of Conduct

WGGA has been driving policy and action in this area. It has gained the cooperation of the combined WFA-WGGA Code Management Committee to establish a credible reform program for the Code that will facilitate further protections and avenues of dispute for growers.

Knowledge and Capacity Development

WGGA has been a significant contributor to a research project that is likely to provide insights into the key drivers for adopting of technology.

The study will conclude in June 2014 and the results will follow. WGGA also continues to advocate and assist the Wine Australia Corporation in developing a business case for a Grape and Wine Database.

Policy Development and Advocacy

This has been an intense year for policy development and advocacy. WGGA has worked to improve the terms of growers' commercial relationships with

wine companies – through meetings with government representatives in Canberra, Code initiatives and a public campaign on reforming a range of traditional commercial practices in the industry.

A major exercise in the last year has been input into the WFA-commissioned Expert Review and WFA's Actions from that review. WGGA's input was significant in influencing the review action agenda to the benefit of growers.

The WGGA Wine Tax Policy has also been reviewed and updated. With some commonality but also differences to WFA's position on wine tax, WGGA's policy has been presented to industry and members of parliament and will strengthen its position if future lobbying is required when the federal government's response to the WFA proposals is made clear in the May budget.

National organisation relationships

Despite some differences and as yet uncompleted discussion with the WFA on some issues, a respectful dialogue with WFA continues to benefit growers and the industry as a whole. The two organisations have together facilitated the establishment of the AWGA, committed to reforms to the Code that will encourage greater uptake by wine companies, worked on a submission to the GWRDC for a national grape and wine database and is progressing negotiations on Phos Acid MRLs in China.

The Joint Policy Forum continues to be the focus of resolving national policy and is developing in its intended role of creating unified industry thinking on matters of importance.

A retailer's view ...

THIS newsletter has reported before on the presentation made to WGGA's AGM in November 2013, by Shane Tremble from Woolworth's Liquor Group. Here are some gems from that presentation.

Market intelligence

- The industry does not make best use of the retailers' data on consumption trends.
- Social media is excellent for

understanding consumer demand.

Wine trends

- Lower alcohol wines are popular.
- Wine style and taste have a greater influence than variety and region.

Consumers

- The emphasis of industry investment needs to be less in production and more in understanding consumers.

Value chains

- There needs to be more communication between growers, winemakers and retailers.
- One thing Brown Brothers does well is to have its growers talk to consumers in the Cellar Door – the linkages are good for both the grower and consumer as well as the host wine company.

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European insights on Australian wine

WGGA facilitated a position for a grower to attend SITEVI (international exhibition for wine, fruit, vegetable and olive growing), in Montpellier, France, December 2013, as a paid-for guest of the exhibition's organisers.

Colin Bell, from AHA Viticulture in WA, a recent Future Leader Program graduate, a member of WGGA's Decision Support Network and newly appointed WGGA Executive Committee member (November 2013), won the spot as a part of a selection process run by WGGA.

A detailed report of Colin's trip can be downloaded from the WGGA website and it provides some fascinating insights into the international market outlook for wine, new viticultural technologies on the horizon, characteristics of wine production, viticulture and vine propagation in France as well as industry structures and governance in a variety of countries.

Some highlights:

What the European wine industries think of Australia.

- It was seen that our industry's greatest weakness was that five producers own 80% of our production. Despite Wine Australia's efforts to educate the global market of our unique terroir, our monolithic approach to wine production is still not seen to offer much identity or authenticity.
- The opinion of the Europeans is that the Australian industry has the assets and production expertise, but seems to be lacking a fresh marketing perspective to steal back the UK white wine market.

Where the future demand will come from.

- Higher priced but "non-aggressive" white wines that can be relied upon for their consistency and marketed

to a female dominated market as representing "a holiday in a bottle".

- Fresh and low alcohol wines, particularly Rosé and Pinot Grigio.
- Alternative uses of Chardonnay – eg wines made in a Muscat style.
- Prosecco – as a "fruity, light, fresh, low alcohol" wine.

The prize winning viticultural technologies at the exhibition.

- Opti-Grape™ optimised sorting system for grape harvesting.
- EvaSprayViti – adjustable artificial vine that enables crop spraying performance and product losses into the environment to be assessed objectively.
- Polyjet – optimised spraying system that allows spraying to be adapted to the stage of the growing cycle, reduces waste and keeps fuel costs down.

Letter to the Editor

Dear Editor,

I noted the recent Murray Valley article in The Australian about the 'winegrape price crisis' and that you guys are talking about wine company commercial practices with growers that are outdated (the March United Grower). I couldn't help myself from saying something.

I'm out of it now, as per my last correspondence (thanks for putting it in the newsletter) but the things that happened to me when I was selling fruit still makes my blood boil.

It didn't ever seem fair that any price advice I received came late in the season after most of the costs of growing the crop had been spent. We always figured that most companies had their sales projections figured for the year ahead by June 30 each year. Why don't they tell us then, what the price is that they can pay?

That way, while we deal with the crop risk (weather, pests and diseases etc), they can deal with the sales risk – after all, it is their sales calculation.

Of course there were also the years that you didn't get the price until you arrived at the weighbridge or even later sometimes. So what are you going to do if you don't like it? Go somewhere else with gear spoiling in the bins? Besides, contracts often say you can't sell elsewhere. It's a bit lop-sided isn't it?

Quite often the company intending to buy your fruit would be in the vineyard telling you what 'grade' it was and how to improve it but at harvest time, all of that is out the window – the grade was assessed at the vineyard boundary or maybe a few steps in. Plenty of times I wasn't allowed to be with them while they made the assessment. Then the advice was 'all they would pay was \$x' – no talk about grade any more. Worse still, they'd make up a grade to suit the price they wanted to pay. THAT sort of thing was humiliating.

And then there's the third, a-third, a-third payment system that finishes in September. Why? Holding onto my payments for all those months, always seemed like borrowing my money to shore up their cash flow. And

I didn't ever get the impression that they paid me a premium for the pleasure of doing so! I notice that this provision is spelt out in the Code of Conduct. Why? Why isn't it the 'pay in thirty days' like I have to pay for my supplies?

I could go on.

I'm not surprised with the Murray Valley complaining about bad practice, the things I had experience of most often happened in the river districts. It seems that the attitude is that river production can be 'turned-on and turned-off' as needed. You turn on the tap and then wait until there's too much before you turn it off. We know from experience, that turning it off doesn't happen too quickly. I reckon this is a recipe for boom and bust. It encourages big ups and downs. It would be better to have measureable and transparent price setting rules across the industry so that the resulting production was more orderly and there wouldn't be the massive booms and busts like now.

Thanks for listening.
Gordon Lirdnet

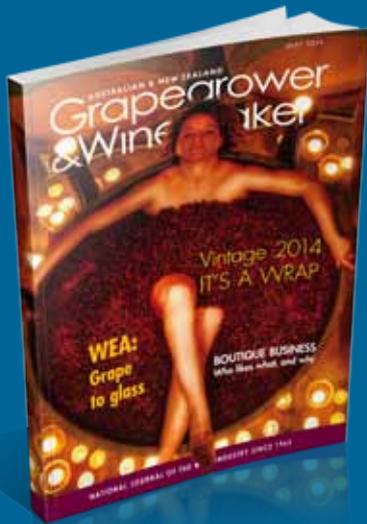
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Winetitles Pty Ltd ABN 57 109 570 336

630 Regency Road, Broadview
South Australia 5083
T +618 8369 9500
F +618 8369 9501
E info@winetitles.com.au
www.winebiz.com.au

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Inside the May 2014 issue of Grapegrower & Winemaker magazine with its many articles on vineyard management and research, just a few of the must-read news and grapegrowing items are:

- Vintage promises quality but not quantity
- Kiwis make wine even when the sun don't shine
- How Louisa Rose to such great heights
- Tasmania's king of contract winemaking
- Effect of cane girdling on Sauv Blanc inflorescence structures
- Mulch v Compost: What works best for your vineyard
- Sweet science, sweet outcome
- Resistance shock a world-first for industry
- Post-harvest is no time to go slow
- Tangential fan gets a real spray
- Pruning systems: A short history of a long practice
- Getting a grip on pruning this season
- There is still life, even after a killer frost hits

And in Winemaking, Sales and Marketing, and Business and Technology, are:

- The beauty of the boutique business
- New control for Brett in wine
- Quarter of our wines face Chinese ban
- German brothers turn to Germany for inspiration
- Getting the Glaetzer show on the road
- Chilling out in Australian wine's own Ice Age
- Winery Engineers Association 2014 conference
- How much do Off-Premise retailers vary across markets?
- Solar power: our wineries are hot to trot
- Training and education goes a long way today

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