



Don't let plans for Basin overshadow industry's restructure

VIC PATRICK
CHAIRMAN, WINE GRAPE GROWERS' AUSTRALIA

Since its release in early October, the Guide to the proposed Murray-Darling Basin Plan has been attracting its fair share of headlines and causing much concern for irrigators. Whilst these concerns are understandable, it is important that the Australian wine industry does not take its eyes off the ball and let the Basin Plan overshadow the industry's need to address the current over-supply of winegrapes. As the latest Vineyard Estimates report by the Australian Bureau of Statistics shows, the net vine removals that occurred throughout Australia between the 2009 and 2010 vintages was around 6750ha. Based on an estimate of the tonnages that would have been derived from the net number of hectares removed from warm inland versus coastal temperate districts, the majority was removed from the warm inland regions while the majority of the hectares left unharvested were in the coastal temperate districts - indicating a slow response to the industry's need to return to supply-demand balance in coastal temperate regions compared to warm-inland. As pointed out by Winemakers' Federation of Australia president Peter Schulz at the recent Wine Industry Outlook Conference in Melbourne, given an average yield of 1.8 million tonnes for 2011, the industry's over-supply could be as high as 90m cases of wine. While it remains an imperfect science to quantify an 'ideal' harvest size, it would be commonly acknowledged that 1.8 million tonnes would be around 300,000 tonnes, or 20,000 to 25,000 hectares too many for covering sales or managing inventory. The level of over-supply is made all the more possible by the fact that regions such as the Riverina, Riverland and Murray Valley have significantly higher water allocations this season for the first time in a number of years. Even though vines may not fully respond

to the increased water during the first 12 months, there is a risk that some growers, in light of the low prices on offer and their need to generate a certain level of income per hectare, will increase their yields. Therefore, there is potential for the 2011 crush to be higher than in recent years.

Clearly, the supply-demand imbalance still exists. Whilst it is an unpalatable message for WGGA to deliver to its national membership, all the evidence points to the fact that until supply and demand gets closer to balance, any improvements in the economics of the industry are unlikely.

Therefore, it is vital that wine companies give growers some indication of the prices they will be offering for the 2011 harvest as soon as possible. It is impossible for growers to make a sound business decision and assess whether it is viable for them to remain in the industry unless: a) they are guaranteed a home for their fruit, and b) that this home will pay enough to cover their costs of production or better. Unfortunately, this information is still largely unknown for a significant number of growers.

MURRAY-DARLING BASIN PLAN

With respect to the draft of the Murray-Darling Basin Plan, WGGA recognises that the Murray-Darling Basin is under stress. We also recognise that there have been over-allocations in the past. However, there is no point in entering into a blame game over who is responsible for those over-allocations. The simple fact is we need to correct that imbalance with a combination of water-saving and improved irrigation infrastructure. As part of the 2008 Federal Budget, the Australian Government announced it would make available \$12.9 billion over 10 years

for its *Water for the Future* program. Of this, \$5.8 billion was committed to upgrading irrigation infrastructure. It is apparent that this funding has not been delivered as fast as it could have been. Yet, from the point of view of the irrigation industry, it makes sense to understand how much water can be saved through the delivery of this funding prior to undertaking any water buybacks.

WGGA urges the Federal Government to speed up the delivery of funding to initiatives that improve irrigation infrastructure. We also seek clarification on the definition of 'critical human needs', i.e., does it simply include drinking water and domestic needs such as showering and washing, or does it also include water for external household use, such as watering gardens? In cities such as Adelaide and Melbourne, there are alternative water supplies to the River Murray that could and should be developed to reduce their dependence on the Murray, such as collecting storm water and building desalination plants. Once the definition of critical human needs is better defined and alternative water sources are explored, then it will be easier to see how much water is left in the Murray-Darling Basin for the irrigation industry.

NATIONAL VINEYARD DATABASE

Together with the wine industry restructure process, the implications of the impending Murray Darling Basin Plan underlines the need for an industry-owned national vineyard database. WGGA is supporting current initiatives to explore such an event as a matter of priority. A national vineyard database would give the wine industry greater control over its ability to identify and quantify vines in the ground and to analyse water requirements.



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what factors the MDBA was to take into account in drawing up its proposals and that he, as the Minister responsible for the process of accepting, modifying or rejecting the Plan.

As readers may know, on 25 October the Minister subsequently advised Parliament that he had received that legal advice, which stated that environmental, economic and social considerations are central to the Water Act and that the Basin Plan can appropriately take them all into account. Consistent with the appeal made in the WGGGA Media Release issued on 13 October (see www.wgga.com.au), WGGGA welcomes this advice and hopes it brings about a more balanced assessment of the impact of reductions in diversion limits.

There was a strong consensus among the roundtable group that the environment needed to have water returned to it. However, it insisted that they have a bigger say on the impacts of future reductions in diversions.

Another strong view at the meeting concerned the accountability of the Government in its management of water for the environment. While irrigators are under intense scrutiny over the use of their water allocations, the group stressed that it was also important that the Government effectively managed of the water held for, or returned to, the environment. Moreover, that this management was also scrutinised. The roundtable group was not convinced that there was sufficient accountability for environmental outcomes. If water is to be given back to the environment at a cost to the socio-economic welfare of irrigators, then the Government also needs to be accountable for managing that water effectively for the environment.

Minister Burke also said he would consider the groups' request to reinstate the spending on irrigation infrastructure upgrades that had been slowed or suspended pending the outcomes of the inquiry. This was deemed to be a necessary expression of faith the future of Murray Darling Basin irrigation and food production, in the face of a potential collapse in private irrigation investment in the current atmosphere of uncertainty.

The group expressed satisfaction with the performance of the MDBA chair's (Mike Taylor) handling of the Guide's release but at the same time, expressed concern about the adequacy of the research behind it.

Minister Burke has stated that his priorities for the Murray-Darling Basin are, in no particular order; a healthy river, strong production, and strong communities. WGGGA will be keen to see that in negotiating his way through parliament and the implementation of a Plan for the Basin, the minister is true to these priorities. Moreover, it is notable in this debate that although the Minister is called 'The Minister for Water' for short-hand purposes, his full portfolio is 'Sustainable

Population, Communities, Environment, and Water'. He is therefore, well positioned to meet WGGGA's expectation of bringing a balanced view to the future of the Basin. Of course, we too have a responsibility in the process. Overall, between the government and ourselves, as custodians of the Basin - as a food bowl, a supporter of communities and as an ecological unit in its own right - the balance which is sought is one that recognises that the health of the environment depends on the management of the Basin's natural resources by the people in it, at the same time as the people in the Basin depend on the health of the Basin.

In the meantime, the Guide to the proposed Basin Plan is just that - a guide to a draft to a plan - which is now in a pre-consultation phase. It is pleasing that towards the end of the pre-consultation phase, the MDBA announced that further research into the socio-economic impacts has been commissioned in response to the feedback so far. The question remaining is how this work fits into a March 2011 timeline for the Plan's release. Thus, there is considerable discussion yet before the Plan is bedded down. Equally, there is plenty of time for any concerns to be taken into account.

2nd ANNUAL GENERAL MEETING of WINE GRAPE GROWERS AUSTRALIA

**WEDNESDAY 24 NOVEMBER 2010
10.00AM**

**Barossa Weintal Resort
235 Murray Street, Tanunda**

For the purpose of:

- confirming previous General Meeting minutes
- considering financial and executive reports
- confirming and electing the Executive Committee
- appointing an Auditor
- any other business or presentations

RSVP

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Following the AGM, special guest Dr. Michael McCarthy, Principal Research Scientist - Viticulture, SARDI, will speak on 'Vine response and recovery from drought'



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2009-10 VINEYARD ESTIMATES RELEASED

The Australian Bureau of Statistics released the harvest 2010 edition of the Vineyard Survey, on 13 October. The publication includes statistics on the area and production of winegrapes broken down by winegrape variety and geographical area.

While in past years, the Vineyard Survey has been keenly anticipated to determine existing and potential supply for sale, the most anticipated results from the 2010 numbers concerned what they said about the needed adjustment process in the Australian wine sector.

The estimates show that the industry has made a solid start to the adjustment process, with just over 8000ha of vines removed by grubbing, grafting off or abandoned to die following the completion of 2009 harvest and prior to the 2010 harvest. In the same period, nearly 1500ha of new vines were either planted or grafted. This means there was a net removal of vines of approximately 6750ha from the national vineyard. Enhancing the view that this represents a solid start to the needed adjustment in supply/demand, the net removals are seven times the amount recorded in the previous year.

NOT A WGGA MEMBER?

Membership types available:

- **General** (independent winegrape growers and winemakers who grow grapes): \$0.50/tonne
- **Affiliate** (state or regional grape grower and/or winemaker associations): ≤50 grower members, \$1000/annum; >50 grower members, \$2000/annum
- **Associate** (any person with an interest in, but not a direct engagement in, winegrape growing): vineyard management entities, vineyard lessees, \$1/hectare; viticultural consultants, winegrape growing product and service providers, education institutions, \$250/annum
- **Student** (any student of viticulture, winemaking, wine marketing or wine business): \$25/annum

Next to the general benefits of advocacy and services, direct benefits include:

- Access to WGGA officers for influence on policy and programs or for advice
- Access to WGGA products and services at cheaper rates (e.g. Vinebiz)
- Delivery of electronic copies of WGGA newsletter
- Voting rights at General Meetings and able to be nominated for the Executive Committee (General Membership only).

Bear in mind that a strong national winegrape voice provides the advocacy and services that benefit all in the winegrape growing sector – your contribution can help to create a better working environment.

However, there were 13,120ha of winegrapes throughout the nation for which fruit was left on the vine or dropped on ground at harvest in 2010. By adding this figure to the number of net vine removals, we arrive at a figure just shy of 20,000ha, which were demonstrated to be in surplus from the 2010 harvest. Notably, this is the minimum number of hectares the industry has been saying for some time that has to be removed from production.

When we add the demonstrated surplus to the fact that some grapes were harvested at unsustainable prices and are therefore also in 'surplus', it supports the general industry view that what has to be removed is more than the bare 20,000ha.

The ABS Vineyard Survey showed that the industry processed 1.53 million tonnes of winegrapes in 2010, a decrease from the 1.73 million tonnes processed the previous year. The 2010 census figure from the Vineyard Survey confirmed the Winemaker Federation's earlier sample survey estimate for the harvest. WGGA's analysis of the Vineyard Survey numbers suggests that three quarters of the 9% reduction in the 2010 off-take compared with the previous vintage, was due to lower yields leaving only 25% of the reduced off-take being due to bearing areas removed. This suggests that unless vine removals continue, Australia's winegrape production has the potential to bounce back in 2011. With what has been a good lead-in season so far, this is of concern.

In 2009-10, the warm inland regions accounted for an estimated 70% of the tonnages removed from production. This share is 10 percentage points ahead of the warm inland region's traditional share of the nation's total crush, at a 60% share. This means the warm-inland regions have over-indexed in their share of vine removals. In addition, of the hectares of winegrape vines that were left unharvested or had fruit dropped, 70% of these were in coastal temperate regions. This figure is about 10 percentage points ahead of the traditional coastal temperate share of hectares. Therefore, the warm inland regions are ahead of their fair share of removals while the coastal temperate regions hold more than their share of areas in demonstrable surplus but being retained. Presumably the latter retained vines are being held while awaiting a recovery of balance that is ironically being delayed while they still exist.

It is fairly commonly understood that coastal temperate production is well over-supplied compared with warm inland production and there is an unfortunate consequence of the slower coastal temperate adjustment illustrated in the 2010 Vineyard Survey numbers. Coastal temperate production that is taken in preference to warm inland supply because of the low prices at which it is available (unsustainable for coastal temperate operators?) suppresses the prices for otherwise viable warm-inland supply, and with nowhere to go, the latter is being forced out of the market. Continued adjustment in this manner can be called the wrong kind of adjustment – condemning some coastal temperate production



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to inviability and viable warm-inland production to extinction. WGGA is also concerned that the proposed Basin Plan will amplify the unbalanced adjustment in warm inland areas versus that in coastal temperate districts with its greater impact on irrigated production.

In sum, while the industry can take comfort in the fact that the adjustment has started, it can't be complacent because based on the 2010 Vineyard Survey outcomes, the amount of removals yet to occur needs to be at least double which occurred in the last season. Moreover, a greater number of removals need to occur in coastal temperate regions.

It is incumbent on all operators in the industry to examine carefully the viability of all parts of their vineyard holdings. This of course includes winemaker-grown fruit. As we've done in the past, WGGA calls on wineries to share the burden of the adjustment process. Put simply, rather than selling vineyards identified as surplus to forward plans, the majors should remove them altogether.

More comprehensive analysis of the 2010 Vineyard Survey results has been posted on the WGGA website.

INQUIRY INTO THE WINEGRAPE MARKET AND PRICES IN NSW

The New South Wales Parliament's Standing Committee on State Development began an inquiry into the state's winegrape market and prices on 1 September.

That committee is inquiring into and will report on the factors affecting the winegrape market and prices. The terms of reference had a strong resonance with national interests:

- Price formation, including factors affecting supply and demand
- The use of voluntary codes of conduct and sale contracts
- The potential for collective bargaining and/or codes of conduct to contribute to an efficient market
- Whether there are any measures which could improve market signals which would be consistent with competition principles and law

Submissions closed on 5 October and public hearings were held on 13 and 14 October. At the time this issue of *The United Grower* went to print, no reports or government responses had been issued. WGGA made a submission to the inquiry which highlighted that the primary driver of the current unsustainable winegrape prices is oversupply. An important part of the solution is, therefore, to bring supply and demand back into balance.

WGGA also pointed out that regardless of whether the industry is in over-supply or not, unethical commercial behaviour can happen and measures need to be put in place to deal with such practices. While the Australian Wine Industry Code of Conduct is designed to eliminate these practices, the Code is currently largely ineffective given that it is not yet widely adopted by winemakers (only six

winemaking companies have signed up to the Code to date – four majors and two small companies). In a current industry review of the Code, the Winemakers' Federation of Australia has undertaken to promote the uptake of the Code among its membership. WGGA recommended to the inquiry that it monitors these efforts at the national level and that it be prepared to consider a mandatory Code in the event that adoption levels among winemakers remains low for a protracted period of time.

In the event that the voluntary Code fails and a mandatory Code is considered but rejected, WGGA highlighted that it would be possible for the NSW Government to legislate for winegrape contracts to contain the basic fundamentals of good commercial practice, which for winegrape growers are:

- a written contract,
- the statement of a price or a clear method for determining the price when revealed,
- terms of payment that are consistent with the industry standard of a third at the end of the month following the month of delivery; a third at the end of June; and a third at the end of September of the year that the first payment commenced.

A model for this type of legislation exists in the form of the South Australia Wine Grapes Industry Act 1991.

The fact remains that even with voluntary or mandatory codes, and even with legislation, unethical commercial arrangements can still occur. For example and within limits, there is nothing to stop a grower signing away whatever rights they choose when confronted with the hardships currently being experienced in the industry. Therefore, it is also important that growers are better equipped to negotiate contracts and handle disputes on an independent, one-on-one basis with winemakers. We therefore recommended that the NSW Government promote and resource knowledge and skill development among winegrape growers. Assisting in this process, as well as in decisions about adjustment that have been discussed elsewhere in this article, WGGA makes a contribution in the form of VineBiz. VineBiz enables growers to assess their vineyards' current financial performance and evaluate a range of operational scenarios for decision making about the future.

WGGA drew the Legislative Council Standing Committee's attention to the activities being undertaken by WGGA that support the matters of interest to it.

In this regard, five of the 10 critical grower issues that have been identified by WGGA for management, have a direct bearing on price formation and effective price signals:

- supply and demand balance
- knowledge and capacity development,
- Code of Conduct,
- National Vineyard Database
- tax



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WGGA also made the point that it is hamstrung by inadequate funding. WGGA attempts to provide a national winegrape grower voice and products and services on a budget that is between 2-6% the size of each of the other national wine sector organisations. In terms of membership, the mainstay of WGGA membership, and funding, is based in South Australia through a state government-administered, voluntary levy. Hence, we recommended the NSW Government support a state levy of grapegrowers to boost both local and national resources that can be employed to improve products and services to winegrape growers and to build grower business capacity for better outcomes in the Australian wine sector.

CODE OF CONDUCT REVIEW CONTINUES

WGGA and WFA continue to review the effectiveness and form of the Australian Wine Industry Code of Conduct. As related in the last newsletter, the WFA has undertaken to address a major stumbling block with the Code at the moment – that of failure in significant uptake by winemakers. To be commended for becoming signatories of the Code are Balnaves Vineyard Services of Coonawarra, Constellation Australia, the Foster's Group, Henry Holmes Wines in the Barossa Valley, Orlando Wines and Tyrrell's Vineyards in the Hunter. In contrast to the need for the WFA to encourage its members to take-up the tenets of the Code, it is notable that no such problem exists for WGGA - any general

member of the WGGA is automatically a signatory to the Code. At this point in time, the WFA is canvassing its members in an attempt to understand why they are not more widely embracing the Code. Further action in promoting sign-up, and in the review process in general, will await the outcomes of this canvassing.

CHANGES TO LABEL INTEGRITY PROGRAM

Recent amendments to the Australian Wine and Brandy Corporation Act 1980, has brought in changes to the regulatory framework of the Australian wine sector's Label Integrity Program (LIP), which is the principal regulatory mechanism through which the Australian wine sector's international reputation is protected. The most significant change ushered in by the amendments is that from 1 September 2010, the obligations of the LIP program now fall on the whole supply chain, from grape growers through to the consumer. That is, not just winemakers as it did before. Therefore, growers will be required to meet the legislative requirements of the LIP in the upcoming harvest. Under the amended LIP, winegrape growers now have record-keeping obligations that ensure the traceability of wine goods. The good news is that the records may not be complicated to many but the bad news is that there are penalties for non-compliance. The AWBC has put together and is distributing a guide to the LIP designed for growers. The guide can also be downloaded from the AWBC's website: www.wineaustralia.com

VineBiz – a powerful tool to help growers assess the financial health of their vineyard

WGGA's VineBiz Financial 'Ready Reckoner' provides winegrape growers with a financial analysis and management tool to assess their vineyard's current financial performance, and to evaluate a range of operational scenarios for the business's future.

Attendance at a VineBiz workshop provides grapegrowers with the opportunity to explore a range of management tools to help with decision making in vineyard management in response to current uncertainty in the industry.

The VineBiz Program comprises a range of vineyard business analysis tools that aim to enable winegrape growers to:

- Analyse their current business methods and models
- Compare their performance with

grapegrowers from a range of regions

- Assess opportunities to improve their financial performance
- Identify and assess alternative business models and options for the future.

The VineBiz Financial 'Ready Reckoner' includes topics that aim to improve a grower's understanding of the financial status of their business. The kit comprises a CD-ROM, which contains an Excel program and a support manual.

VineBiz workshops were recently held in the Barossa and Clare. Among the Barossa attendees was grapegrower Karl Schiller who recommended other growers take up the opportunity to attend a workshop.

"I had heard about VineBiz but didn't know a lot about how it could be used to plan for the future. I found it to be an easy

tool that can be used to capture business growth and health," says Karl.

Other comments from recent participants include:

"The VineBiz program brings together all aspects of business and financial management."

"I will use this program and work through some scenarios for the future."

"The VineBiz program can be used for tracking where our costs are and how we can influence the bottom line"

"The program will assist with costing different blocks in the vineyard."

"I will be able to talk to wineries from a business perspective, crunching numbers."

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COLIN MILLOTT

Vineyard Manager
(on behalf of
WGGA member
Mudgee Ridge Estates,
Mudgee, NSW)

How long have you been in the business of growing winegrapes?

Started in McLaren Vale in 1985 at Coriole winery; moved to Rosemount Estate in Langhorne Creek in 1992 and then became manager of Mudgee's Hill of Gold vineyard in 1996. Involved with vineyard management at Mudgee Ridge Estate since 2003.

Tell us a bit about Mudgee Ridge Estates

Mudgee Ridge Estate is owned by John and Helen Nicholas. The vineyard was planted in 1996-97 to Shiraz, Cabernet, Merlot and Chardonnay. It is located 6km south east of Mudgee, near the banks of the Cudgegong River. The altitude varies from 470-570m above sea level. In 1998, Sangiovese was planted along with Barbera. In total, there is 22ha planted. In 2010, we are grafting Tempranillo for a local winery. Soils are varied where the vineyard is planted on hills overlooking Mudgee. There is shale under red loams to quartz and granite rock, to loams over deep clay lower down.

What impact has the industry's current over-supply of winegrapes had on your vineyards and how they are managed?

Mudgee Ridge has been in the fortunate position of having consistently produced premium fruit due to its location, suitable soils and drainage. This combination of factors has been beneficial in wetter years. We have worked hard with our marketing and

have made inroads in selling smaller parcels of fruit to smaller wineries in the Hunter and Mudgee. However, over the last four years, prices for some fruit has dropped by more than 50%. There is no doubt the region has been hit hard by the over-supply as there were many hundreds of hectares planted in the late '90s and early 2000s that no longer have contracts. The wineries here, however, are always raising the bar and there is a current and widespread focus on producing high quality and premium fruit. When the dust settles, it will make us all stronger and we will build on our strengths. Mudgee has been producing fruit for 150 years and I believe we will still be making great wines in another 150 years.

What do you like to do in your spare time?

Sculpture using metal and wood, entertaining and traveling.

When did you last have a holiday and where did you go?

April/May 2010, New York city and Canadian and US west coast wine regions.

What would you say are the biggest issues to currently confront the Mudgee wine region?

Marketing our region and getting the message to consumers about how good our region, fruit, and our wines are. We are a premium winegrape growing region whose strength lies in its diversity.

If you weren't involved in the wine industry, what do you think you'd like to do?

Something where I don't have to worry about what the weather is doing tomorrow.

If you were to invite three people to dinner to brainstorm the future of the Australian wine industry, who would you ask and why?

Huon Hooke, because of his great understanding and passion for Australian wines and regions. Bob Oatley, because he is so successful in the wine industry and has a unique understanding of the business. His understanding of the marketplace, how to look after the people that service the industry and his input into how we move forward would be beneficial. I'd also try to invite some of those visionary, rule-making bureaucrats, get them inebriated and get them to abolish WET taxes, sales taxes, wholesale taxes and any other tax they keep coming up with to subdue smaller winemakers...and the right of a person to grow and make wine and sell it anywhere or anyway they want to.

Why do you feel it is important to be a member of WGGA?

So you can blame someone else in the industry when things aren't going the way you want! No, really, because they are an excellent lobby group and provide a great forum for learning, development and networking.



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