The United Grower

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The newsletter of Wine Grape Growers Australia

THE UNITED GROWER

is written and produced by

[w] winetitles

LEADING PUBLISHER TO THE WINE INDUSTRY

for the winegrape industry

Downy mildew wreaks devastation

Wet and humid conditions have resulted in many growers battling downy mildew this season.

While it is too early to assess the full effect of the disease on the 2011 harvest, it is evident that many vineyards have experienced some degree of damage, although the extent varies greatly from vineyard to vineyard.

To date, the impact of the disease has been greatest in warm inland areas due to its appearance there ahead of the coastal temperature regions. Furthermore, it appears control of the disease in contracted fruit appears to have been better managed than in uncontracted fruit - a clear indication that the cost of managing the disease is considerable and an outlay that those growers have difficulty justifying given the low returns in the industry.

Other factors inhibiting control of the disease have included the availability of chemicals, the washing of the chemicals from the vines through frequent rainfall, and strong canopy growth.

There were around 13,000ha of vines in which grapes were left unharvested last season. Depending on the state of these, it is possible that this unharvested fruit could act as a reserve for any lost tonnages.

Another factor will be the nature of the weather for the remainder of the season.

If more rain occurs, then the disease pressure will not only be greater but it could accelerate through multiple infections. Most growers are expecting wet and humid conditions to continue in January. In contrast, forecasts by the Bureau of Meteorology suggest there is a 60% chance or less of rainfall in south-east Australia exceeding the median for January to March.

Have you tried to call our office?

As noted elsewhere in this newsletter, WGGA's office is currently in the throes of finding a new office assistant. We regret any inconvenience caused to anyone who has contacted the office during this time, and your patience is appreciated while our new office assistant settles into the role. Your continued patience is sought. If you have trouble getting through please don't hesitate to send an email to info@wgga.com.au

WGGA

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Your WGGA executive committee

THOUGHTS FOR THIS ISSUE

VICTOR PATRICK (CHAIR)
victorpatrick@bigpond.com
Electorial zone: South Australia

(Voting member)

"Looking forward to significant winery uptake of the Australian Wine Industry Code of Conduct"

JUSTIN JARRETT (DEPUTY CHAIR)
jarrettswines@bigpond.com
Electorial zone: New South Wales/ Queensland

(Voting member)

"On top of all the pressures in the industry at the moment, the disease pressures this season tests all our abilities and hopes"

SIMON BERRY
berry2wine@dodo.com.au
Electorial zone: South Australia

(Voting member)

"A key issue at the moment is a lack of good, coordinated harvest potential assessment and market information"

MIKE FITZPATRICK
mikeandsandi@pettavel.com
Electorial zone: Greater Victoria/Tasmania

(Voting member)

"Why is it that more wineries won't become signatories to the Australian Wine Industry Code of Conduct"

BOB BELLATO
rvb4@bigpond.com
Electorial zone: New South Wales/Riverina

(Voting member)

"The growers wanted and needed the NSW Government inquiry into the wine grape market and prices and I believe that they will be happy with the outcome."

KERRY SMART
ksmart@westnet.com.au
Electorial zone: Greater Western Australia

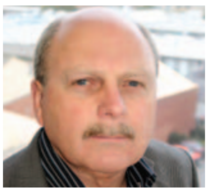
(Voting member)

"Australian grapegrowers and winemakers will thrive in a global wine market with the best varietals and clonal selections for selected sites"

DENNIS MILLS
mvw@murrayvalleywinegrapes.com.au
Electorial zone: Murray Valley

(Voting member)

"Wineries are displaying a complete lack of recognition of the grower plight in this difficult market – it is hard to understand how they can seek fruit in July and then let growers carry the expense and risk of growing and only then offer prices late in the season that don't cover the expense"



LAWRIE STANFORD (EXECUTIVE DIRECTOR)
lawrie.stanford@wgga.com.au

(Non-voting member)

"I continue to be enthused by the opportunities to improve winegrape growing fortunes and being challenged by how to do it"

An executive committe position for the electorol zone SA-Riverland is not occupied.

Facts:

The crush number is typically higher than the production number because of differences in the logistcis and methodology of the two surveys. The nearly 4.5% the difference in 2010 is at the top end of the discrepancy experienced in recent years. The winery crush number is traditionally accepted by industry as the truest reflection of the tonnages produced and crushed each year.

Seven percentage points ahead of second ranked - Chardonnay

Ten percentage points ahead of second ranked - Chardonnay

Six percentage points ahead of second ranked - Pinot Noir

Four percentage points ahead of second ranked - Shiraz

All other states have a roughly 50:50 share of 'large' and 'small' wineries

WRAA update

Three of the four bodies that released the Wine Restructuring Action Agenda in November 2009 have issued a report that comments on the industry's progress in redressing oversupply and outlines the next phase of initiatives designed to assist the industry's transition to balance.

The report was issued by Wine Grape Growers Australia, the Winemakers' Federation of Australia and Wine Australia (formerly the Australian Wine & Brandy Corporation) on 6 December. In short, the report states that although there are signs of adjustment in both vineyard area and wine stocks, this has not been sufficient to conclude that the oversupply has been addressed.

The report says that of concern is the fact that the smaller 2010 harvest was the biggest factor in the adjustment and, thus, there is potential for oversupply to rise again if harvest levels return to previous levels. While disease issues in the 2010-11 season may have a short-term impact on the national harvest, in the longer term the risk of high production levels remain. The report also says that the adjustment to does not address imbalances in the quality, varietal mix and cost efficiency of vineyard capacity and that some cooler regions still believe oversupply is primarily an issue for, and the responsibility of, the warmer regions.

The WRAA update refers to the increasing influence of businesses clearing surplus wine cheaply on global markets, "creating a false demand for fruit at unsustainable prices, undermining the image of Brand Australia, and delaying the adjustment process". Although this practice is not new, it has become more entrenched and its influence more substantial.

"In summary, despite clear market signals, adjustment is not proceeding at a sufficient pace," the report concludes in its assessment of the oversupply. "Larger and more commercially-focused businesses are generally well advanced, having taken steps to clear surplus inventory and assets, realign their supply chain, revise brand portfolios and shift their market and price-segment targets.

"However, a combination of unrealistic expectations, non-commercial motives and short-term opportunism continues to motivate many operators to resist change. Contributing factors include but are not limited to: the WET Rebate and/or off-farm income shielding otherwise unprofitable businesses; existing contracts causing complacency; barriers to exit (prohibitive costs, inability to recoup debt etc); a lack of alternative uses for land; demographic factors overriding business considerations; and a belief that oversupply is someone else's problem or that demand initiatives will solve it."

The report outlines a range of initiatives and related activities to support the industry's ongoing adjustment process. These include the following:

- an upgrade and expansion of WGGA's Vinebiz business support program to facilitate appropriate adjustment and build the capacity of growers to make independent judgments about (and promote) their produce to meet market requirements.
- creation of tools by WFA and WGGA to encourage and assist vineyard benchmarking.
- the development of a new biosecurity framework for the grape and wine sector by WGGA, WFA and AWBC
- the commissioning of research by WGGA and WFA to gain a better understanding of the impacts of proposed Murray Darling Basin reform and work to ensure due consideration is given to economic, social and environmental impacts and goals.
- the investigation by WFA, AWBC and WGGA into an alternative approach to collecting and disseminating data and information that more effectively meets the needs of wine businesses than the current ABS collections.
- a review of the industry's R&D priorities by WFA, AWBC and WGGA to better align them with the restructuring imperative.

The complete report can be found at: http://www.wfa.org.au/WRAA.aspx

Personnel changes at WGGA

Deb Boyd, who has been holding the WGGA office together for the last 10 months, has moved on. Deb came into the position on a 0.2 casual basis at a time of difficulty for WGGA and has been a lifeline for the organisation. Mark McKenzie has praised her efforts. Deb has many fans among those dealing with her and has gone about maintaining the office with determination and integrity. WGGA members thank her and wish her all the best.

Due to other commitments, Deb has been clear that she is not able to take up the opportunity that now exists to raise the office assistance function to a 0.5 position. She has, nevertheless, graciously (and patiently) stayed on while this new position is being filled. There will be further communications with members and the public when the recruitment process is completed to the point of occupancy.

A rotation system exists for the WGGA Executive Committee to ensure that in the changeover of positions in any one year, half the Committee stays on, to ensure continuity, while the other half is renewed, to provide for rejuvenation.

This rotation played out for the first time at the 2010 AGM. Staying on to complete their two-year terms were Vic Patrick (South Australia Zone), Bob Bellato (NSW/ Riverina Zone) and Kerry Smart (Western Australia Zone). The Murray Valley Zone also entered the second year of their term but with a change of personnel at the Murray Valley Winegrowers Inc (MVW) - Dennis Mills replaced Michael DePalma in both the position of MVW Chair and Michael's chair on the WGGA Executive. We acknowledge and thank Michael for his dedicated, thoughtful service at the national level for a good many years.

On completion of their designated terms, John Bastian was replaced by Simon Berry (South Australia Zone) while both Mike Fitzpatrick (Greater Victoria Zone) and Justin Jarrett (NSW/Queensland Zone) were re-nominated by their respective electoral zones. John Bastian is re-diverting his energies to the many other interests he has, including a new grower leadership position in the Clare Valley. We thank John for his massive depth of experience, his counsel and common-sense view of the world. The fourth Executive position that rotated in 2010 (South Australia/Riverland Zone) remains vacant with the withdrawal by the Riverland of representation on the WGGA Executive Committee.

NSW Government inquiry into the wine grape market and prices releases findings

The report of the NSW Government inquiry into the winegrape market and prices was released on 3 December 2010. The inquiry was urged by the Riverina Wine Grapes Marketing Board (WGMB) to look at the many problems facing growers and Brian Simpson, chief executive of WGMB, said that if adopted, the recommendations in the report would "provide a better business environment within the industry and more stability for growers". He added: "The Board's focus now will be to see that the recommendations are introduced for the benefit of all industry participants".

Eleven recommendations were made by the inquiry. They included recommendations on industry restructuring, analysis of winegrape colour, indicative price announcements, terms of payments, a wine industry code of conduct and collective bargaining by growers. The report and the Inquiry's recommendations are now with the NSW government for consideration. The NSW Government is required to respond to the recommendations within six months.

Most recommendations require action by the NSW Government but on the matter of restructuring, a recommendation advocates combined action by industry, Investment NSW and WGMB. Funding by these organisations is recommended for consultant input into business advice for grapegrowers in the Riverina district.

On the important matter of a wine industry code of conduct, the NSW Minister for Primary Industries is urged to pursue the introduction of a mandatory code of conduct through the Primary Industries Ministerial Council, the forum hosted by the national government to coordinate action by the range of Australian governments. WGGA advocated to the inquiry that winemakers should be given the opportunity to sign up in numbers to the existing voluntary Code. This was advocated in good faith to the commitment WFA has made through the combined grapegrower-winemaker Code Management Committee, to make the Code work by encouraging its members to become signatories. The inquiry recommendation of a mandatory code is nevertheless more in tune with the growing realisation that a significant number of winemaker signatories will not occur and that a mandatory code is more likely.

The continued failure of winemakers to sign up in any significant numbers to a code of good commercial practice with growers stands in stark contrast to the demands winemakers are increasingly making of growers to sign up to the WFA environmental code, EntWine, at cost to the grower, before contracts will be offered. Good practice in the treatment of the environment and of people in the value chain are both seen by WGGA to be important – but apparently not by the winemaking community.

One recommendation seeks an amendment to the WGMB Act that will require wineries to publish meaningful indicative prices for the forthcoming season by 30 June each year. If enacted, such an action would redress the disproportionate risk currently assumed by growers when committing to the cost of producing a crop without any indication of the rate of return that will be available at the end of the process – including the most manifest expression of this unfavourable trend – the increase in zero-minimum priced contracts.

The NSW Government Inquiry report can be located on-line at www.parliament.nsw.gov.au/statedevelopment

MIKE FITZPATRICK

Vineyard/s:

Geelong (180 acres), Irymple (30 acres), Wentworth (320 acres) (50% ownership)

Varieties grown:
Shiraz, Cabernet Sauvignon, Merlot, Pinot Noir, Cabernet Franc, Petit Verdot, Chardonnay, Riesling, Sauvignon Blanc, Semillon, Voignier

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

How do you view the over-supply issue?
It is absolutely critical to resolve it for the future of this industry

What's the best idea you've heard about how to deal with the oversupply?
Industry buyout of businesses wanting to exit.

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

Any comments about the current harvest?
Hope it's not as badly affected by the wet weather like the grain harvest.

What's the biggest economic or technical viticultural issue in your district?
Oversupply and low prices for grapes and wine

Why do you feel it is important to be a member of WGGA?
To help it become a strong, well-funded, united body to ensure the future of our grapegrowing and the wine sector.

New and renewed membership in the last quarter:

GENERAL MEMBERSHIP
Argyles Yarra Valley, Victoria
Lone Star Creek Vineyard, Victoria
Colbinabbin Estate, Victoria
Limerick Lane Pty Ltd, Victoria
Gentle Annie Vineyard, Victoria
Wellbush Vineyard, Victoria
C & J Pastro, NSW

AFFILIATE MEMBERSHIP
King Valley Vignerons

ASSOCIATE MEMBERSHIP
North East Valleys Wine Group

CORPORATE MEMBERSHIP
Retallack Viticulture Pty Ltd
Landmark, Renmark

WGGA welcomes all of these new members and thanks them for their support.

LIP record-keeping obligations on growers spelt out

Further to the article in the last *United Grower* on this topic, 'Changes to Label Integrity Program', the obligations on growers through the amended Label Integrity Program have been clarified by Wine Australia (formerly the Australian Wine & Brandy Corporation). A simplified version of Wine Australia's Label Integrity Program: Guide to Wine Grape Growers has been posted on www.wineaustralia.com and states that seven straight-forward items of information neededf to be recorded by winegrape growers for the grapes they sell. These are:

- Grower name and address
- Receiver name and address
- Date grapes supplied
- Tonnes supplied
- Vintage
- Variety
- Geographical Indication

Access to this information for auditing is important to the measures the Australian wine sector has in place to ensure the integrity of Australian wine and is important to protecting the livelihoods of all in the sector.

Research by WGGA suggests that required grower records for by far the majority of grape transactions will be covered by weighbridge documentation, with the possible exception of geographical indication (GI). On weighbridge documents, wineries may use their own codes or names for the geographical source of the grapes but it can be generally assumed that these will be linked to the 'GI' somewhere in the winery system and, thereby, covers off on this requirement. On this basis, the task for growers in most instances, in order to comply with the new LIP obligations, is a matter of 'keeping records' rather than 'making records'.

While it is believed that records for the majority of grape transactions will be catered for by weighbridge documentation, it is of course impossible to know what is happening for every winery and at every weighbridge. For this reason, growers are advised to:

- Get a copy of the Label Integrity Program: Guide to Wine Grape Growers from www.wineaustralia.com.
- Check that the weighbridge documentation includes the seven information items required for LIP records. Note that if the GI information is in doubt, write this on the winemaker and grower copy of the weighbridge documents.
- If, for any reason, the weighbridge documentation does not provide the information required for record-keeping, record the required details in whatever manner is convenient and give a copy to the winemaker within three days of the delivery having been made.
- Keep the records for 7 years.

WGGA believes that a common-sense approach to an issue like this, which serves the interests of all in the sector, is for all winemakers to ensure that weighbridge documentation covers off on the seven information items required to be kept as records. As stated, most do already and WGGA appeals to the remaining wineries to also do this.

WGGA also contends that the communication of these new obligations has not been ideal and a soft approach to enforcement is appropriate in the initial transition year. This is being investigated by WGGA.

AGM highlights

Summaries of the reports presented at WGGA's AGM held in the Barossa Valley on 24 November

Past-chairman Alan Newton

In spite of extremely difficult industry circumstances, WGGA has continued to enhance its status in the wine industry over the past year, while consolidating its capacity for effective delivery on its mission, to provide strong national representation and services for all Australian grapegrowers and their families.

WGGA has been able to maintain a high and consistent profile for growers within the media, in industry forums, in effectively representing growers in lobbying the national and state governments on their behalf and in the delivery of programs like the successful 'Vine Biz' management system, the Wine Industry Code of Conduct, and other service support to growers.

WGGA has been prominent in its participation along with WFA, AWBC and G&WRDC in the Wine Industry Restructuring Action Agenda (WRAA), in the National Organisational Structures (NOS) Review processes and in negotiating with the National and State governments on critical industry policy issues.

The credentials of WGGA were closely scrutinised through the Independent Inquiry into the SA Wine Grape Growers Fund established by the South Australian Government. The Inquiry vindicated WGGA's performance and the value extracted from expenditures of grower levies, and argued strongly for its continuation in its present role.

Agreement on a program of cooperation and collaboration initiatives was subsequently brokered between WGGA and the Wine Grape Council of South Australia (WGCSA) to set activities that will meet priorities agreed by SA growers, and provide benefit to them and fellow grapegrowers nationally.

Following a Special General Meeting in Adelaide on 3 December 2009, the membership agreed to amend WGGA's constitution to enable the election of a chair from within the executive committee in light of potential cost savings, notwithstanding the executive committee's preference for an independent chair.

Notwithstanding the range of activities WGGA has been able to set in train, our grapegrowers still face tough times in the years ahead. In these circumstances, growers will continue to rely on the support that a strong national body like WGGA can provide by working effectively on their behalf in national representation and service provision.

Present chair Vic Patrick

The continuing downturn in the wine sector, a strong Australian dollar and ongoing restrictions on river Murray water resulted in another challenging year for WGGA and its members.

Following the release of the report from the inquiry into the administration of the South Australian Grape Growers Industry Fund in which WGGA was vindicated on its performance and the value derived from expenditure of grower levy funds, a memorandum of understanding (MOU) was signed by WGGA and the Wine Grapes Council of SA on the 26 August 2010 which will operate for the remaining two periods of the current South Australian Grape Growers Industry Fund.

Regretfully, the Riverland Winegrape Growers Association resigned as a convening body of WGGA on 12 October 2009. WGGA encourages continuing dialogue to turn around this decision.

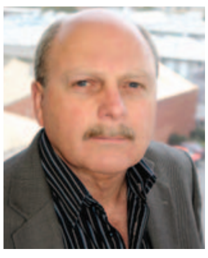
WGGA operates on a modest budget. In 2008-09, revenue was in the vicinity of $550k, derived from a combination of membership fees and levies of $290k and project fees of $260k. During 2009-10m income fell to approximately $250k. Project fees reduced to $50k and membership and levy contributions were a low $192k. WGGA is hopeful of an improved funding position in 2009-10 but not to the peak of 2008-09. The complexity and volatility of WGGA funding will be a priority area of reform going forward.

Expenses in 2009-10 were approximately $263k - a reduction of $100k on the previous year. One significant cost increase was incurred due to the introduction of the voluntary Australian Wine Industry Code of Conduct. WGGA's share of the Code administration cost in 2009-10 was $31k. Adoption of the Australian Wine Industry Code of Conduct has been disappointing. Only 6 wine companies representing 37% of the 2010 crush are signatories to the code. WGGA continues to strongly encourage the Winemakers' Federation of Australia to vigorously promote the Code to its membership and has resolved to support the voluntary code for a further 24 months. In the event that the Code does not attract significant winery participation, WGGA will pursue the development of a mandatory Code.

WGGA has assumed the leadership role in the biosecurity area on behalf of the entire Australian wine industry. WGGA, WFA and AWBC are developing a new biosecurity framework for the grape and wine sector. WGGA and WFA are also working to progress a new structure to replace the National Vine Health Steering Committee. This will be in the form of a new WGGA/WFA National Winegrape Biosecurity Committee to consider broader policy guidelines on biosecurity.

The release of the Murray Darling Basin Authority Guide to the proposed Basin Plan has caused significant anxiety to the irrigation community. WGGA, in conjunction with WFA and a number of irrigation industry organisations, will continue to monitor the situation and make submissions on behalf of the wine industry.

The challenges to maintain a financially sustainable industry will not be achieved by organisations working in isolation. It is imperative that all sections of the Australian wine sector work cohesively for the betterment of their members. I look forward to a continuing positive relationship with regional, state and national wine industry organisations to achieve common goals.



Executive director Lawrie Stanford

The 2009-10 financial year was dominated by the central issue of industry restructuring, in the face of chronic over-supply and a worsening export market environment. WGGA was actively engaged in assessing supply–demand research and the framing of the Wine Restructuring Action Agenda. As an organisation, we've remained committed to the restructuring -and successfully argued a grower perspective in messages delivered to the industry as a whole.

A positive outcome of the restructuring process was bringing together the leaders of the four main national organisations into the Industry Directions Council. Co-location, the means of administrative integration, is scheduled to occur in 2011 – pending final sign-off by the relevant organisations.

2009-10 also marked the reconvening of the Wine Industry Relations Committee – a partnership between our organisation and the Winemakers' Federation. A number of new winery-grower issues have arisen for committee consideration, including the standardising of colour measurement for fruit grading; minimum limits for 2,4-D and sodium chloride, and smoke taint residues or content – all of which are under ongoing consideration by the committee.

WGGA continued to develop a positive working relationship with the Federal Government and the Department of Agriculture, Fisheries and Forestry. We have had regular communications and briefings with the immediate past Federal Agriculture Minister, Tony Burke, along with his advisers and senior managers in his department.

During 2009-10, WGGA stepped up its consultation with the Australian Wine Research Institute on issues of importance, including the viticulture-wine quality connection; revised research-to-practice modules; and a joint application for Farm-Ready Climate Change funding. We have also received requests by WFA to support an increase in the winegrape R&D levy cap.

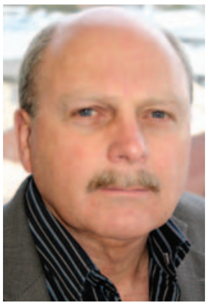
It is a difficult financial climate in which to contemplate matters of raised levies but at the very least, on-going consideration of this request will be contingent on grower representation in expenditure decision-making and the return from research to growers.

Our strategic plan for 2010-12 has identified six strategic priorities: effective issues management; policy development and advocacy; cultivating relationships; communication; membership and funding; corporate governance.

While it is difficult to contemplate how grower interests can be effectively represented without a national voice – there is a real threat to the existence of that voice. There are challenges in pulling together this national voice which include: inadequate funding resulting from an ad hoc system of voluntary levies and fees applied unfairly across Australia; difficult operating conditions and many winegrape growers burdened by high debt and low received prices; the reality that growers operate in a fragmented and widely dispersed industry, making it difficult and expensive to deliver programs and advice; the fact that growers produce a highly differentiated product with a wide range of locations, varietals, wine styles, market opportunities and government regulations; small sized operations on average and the consequent lack of market power and funding capacity; as farm-based enterprises, the dilution of investment in grapegrowing by the diversification of agricultural production activity.

It is every intention for WGGA to be here to stay and we will continue to deliver effective programs and services to the industry. But, working out a better funding model will be a key challenge for the organisation in the coming 12 months.

ED's editorial: Partnerships for profit



LAWRIE STANFORD
Executive director
Wine Grape Growers' Australia

The downy mildew outbreaks that have impacted on many of the nation's growers this season is yet another challenge in a long line of challenges with which they have had to battle in recent times.

The way in which 'the market' has impacted on growers has been devastating, particularly for irrigation communities who have been tested by eroding equity, mounting debt through water purchases, the loss of markets for basic and popular premium wines due to the strengthening Australian dollar and the global financial crisis, low and often unsustainable winegrape prices and uncertainty over their future access to water as a result of the Murray Darling Basin Plan. To now have to grapple with increasing costs as a result of the current disease pressure on top of everything else is a cruel twist of fate.

It is regrettable that growers are currently bearing the bulk of the industry's risk, shouldered largely by the warm inland growers, which is compounded by the increasing trend for wineries to issue late price announcements and $0 minimum contracts. As a result, all the risk of expenditure that is undertaken in growing a crop is assumed by growers without them knowing what their return will be.

The argument, of course, is that this is simply the reality of the current market conditions. There is some truth in this, but winemakers themselves will have to decide if there are ethical issues, and choices as well. Nevertheless, the fact that growers are carrying all the risk defies a degree of logic. Wine is a product that is highly dependent on vineyard managers whose role as partners in this process deserves greater recognition. Winemakers need to approach their commercial arrangements with growers as partnerships. At the same time, growers need to assert their partnership in the winemaking process through the way in which they promote their product to winemakers.

The latest WRAA statement (see story page 3) refers to the increasing influence of businesses that are clearing surplus wine cheaply on global markets, creating a false demand for fruit at unsustainable prices, undermining the image of Brand Australia.

This statement refers to the conduct of: winemakers, but applies to growers also - they continue to sell their fruit at unsustainable prices. Partnerships shlould be for profit,not loss.

WGGA's VineBiz Financial 'Ready Reckoner'

Using the 'Gross Margin and Profitability Sensitivity Analysis' tool

with MARY RETALLACK
from Retallack Viticulture
(www.viti.com.au)

With the recent release of the indicative regional winegrape prices for the 2011 vintage, growers are questioning the prices needed to cover their cost of production, or 'short run' costs, which includes both operating and overhead costs. Given the additional disease pressure that has been experienced in many regions this season, operating costs have escalated, most notably for the purchase and application of chemicals (which have been in short supply) to control downy and powdery mildew, and bunch rots. Some savings may have been made due to the lower requirement (and spot market price) for purchasing water, but it is unlikely this has been sufficient to offset the additional costs of crop protection and any subsequent crop loss.

The 'Gross Margin and Profitability Sensitivity Analysis' contained in WGGA's VineBiz Financial 'Ready Reckoner' can be used to give a quick snapshot of the price required to cover the cost of production. For example, if the operating cost is $4500/ha and the overhead cost is $2000/ha, the total cost of production is $6500/ha. These figures can be calculated from the 'Profit and Loss' or 'Income Statement', prepared at tax time.

By inserting operating cost ($/ha), overhead cost ($/ha), price ($/t) and yield (t/ha) into the sensitivity analysis, it will generate a range of break-even scenarios and a grapegrower can quickly identify the price needed ($/t) to generate an adequate return to cover both the operating and overhead costs for a particular management unit.

The sensitivity analysis compares the revenue generated for each yield (t/ha) and price ($/t) combination, less operating costs. The break-even points in the table are identified in the following coloured text:

- Red = the operating costs are not covered,
- Blue = the operating costs are covered but overhead costs are not fully covered, and
- Green = both operating and overhead costs (total cost of production) are covered, producing a positive return.

Given a total cost of production of $6500/ha, the yield is 20t/ha and $250/t is received for the grapes; this generates a possible return of $5000/ha. This is sufficient to cover the operating costs (those costs which directly contribute to the growing of the crop) of $4500/ha, but this only contributes $500/ha (in blue on the table) towards the overhead costs (the costs required to maintain the running of the business regardless of the area in production). In this scenario, there is still a shortfall of $1000/ha to cover the cost of production. Assuming the property is 20ha in size, this will result in a loss of $20K for the vineyard in that season.

On the other hand, if a grower receives $350/t for the same grapes, this generates a possible return of $7000/ha and this is sufficient to cover the total cost of production in this scenario with $500/t left over. This equates to a $10,000 return once the cost of production is covered on a 20ha property. Once all of the 'short run' bills are paid, this money could then be used to service debt, repay an overdraft, pay for owner's drawings or contribute to 'long run' costs such as the replacement of machinery or paying principal loan payments. In this scenario, the difference between a grower incurring a loss of $20K, or a return of $10K, is receiving an additional $100/t for the grapes.

These figures can be easily back worked.

If your production for a particular variety is capped at 20t/ha, divide the total cost of production ($6500/ha) by 20t/ha = $325/t is required to cover the cost of production (including picking and transport costs).

Growers should be mindful of putting their effort (and resources) into those management units that provide the best return and to grow fruit that is 'fit for purpose'. There is a range of services currently available that offer assistance in making long-term decisions about the running of wine growing business.

For more information about VineBiz, to register your interest to attend a workshop, to purchase a copy of the VineBiz Financial 'Ready Reckoner', or find out about assistance services, contact WGGA on (08) 8362 9802.

Advanced Data Input & Report -
Gross Margin & Profitability Sensitivity Analysis - Wine Grapes ($/ha)

Operating Cost ($/ha) $ 4,500 **Overhead Cost ($/ha)** $ 2,000

Price ($/t)	Yield (tonnes/ha) 10 t/ha	12 t/ha	14 t/ha	16 t/ha	18 t/ha	20 t/ha	22 t/ha
$ 50	$ (4,000)	$ (3,900)	$ (3,800)	$ (3,700)	$ (3,600)	$ (3,500)	$ (3,400)
$ 150	$ (3,000)	$ (2,700)	$ (2,400)	$ (2,100)	$ (1,800)	$ (1,500)	$ (1,200)
$ 250	$ (2,000)	$ (1,500)	$ (1,000)	$ (500)	$ -	$ 500	$ 1,000
$ 350	$ (1,000)	$ (300)	$ 400	$ 1,100	$ 1,800	$ 2,500	$ 3,200
$ 450	$ -	$ 900	$ 1,800	$ 2,700	$ 3,600	$ 4,500	$ 5,400
$ 550	$ 1,000	$ 2,100	$ 3,200	$ 4,300	$ 5,400	$ 6,500	$ 7,600
$ 650	$ 2,000	$ 3,300	$ 4,600	$ 5,900	$ 7,200	$ 8,500	$ 9,800
$ 750	$ 3,000	$ 4,500	$ 6,000	$ 7,500	$ 9,000	$ 10,500	$ 12,000
$ 850	$ 4,000	$ 5,700	$ 7,400	$ 9,100	$ 10,800	$ 12,500	$ 14,200
$ 950	$ 5,000	$ 6,900	$ 8,800	$ 10,700	$ 12,600	$ 14,500	$ 16,400