The United Grower

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The newsletter of Wine Grape Growers' Australia

Contents

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Industry update

Mark McKenzie
Executive Director
Wine Grape Growers' Australia

National Winegrape Outlook 2008-2012

Wine Grape Growers' Australia (WGGA) releases its annual update on supply and demand for winegrapes – the Australian Winegrape Outlook Paper 2008-2012 – in this edition of *Australian Viticulture*, and will be presenting the detailed analysis by production zone and major varieties, side by side with analysis of the major trends in the wine markets, at a series of grower seminars across Australia in June.

- The 2008-2012 Outlook Paper, which draws on data provided by ABARE and the 2007 National Wine Grape Utilisation Survey, places the industry in a more balanced overall supply/demand position as a result of the light 2007 vintage and decline in stocks. However, while the overall picture is more balanced – some imbalances between the inland and cooler climate production zones and among certain varieties are still evident. While cooler zones face continuing oversupply in the medium to longer-term, most cooler zone fruit is still expected to be taken up by processors to compensate for shortages of inland fruit over the forecast period. These sales will be at grape prices that reflect the end-market opportunity for inland fruit.
- While the Outlook forecasts are based on ABARE projections of 1.6MT in vintage 2008, 1.7MT in 2009 and 2MT in 2010, the Paper notes a significant caveat on water availability in the southern Murray-Darling Basin. If current water shortages prevail with low irrigation allocations, this is likely to delay the projected return to more normal yields.
- Nevertheless and, despite what many would see as bullish predictions, the stocks position in the industry sits at the lower end of the comfort zone and points to either a decline in overall sales (the last time that this

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Message from the Chairman

Alan Newton
Chairman, Wine Grape Growers' Australia

Making a tangible difference to grower success

The extremely hot seasonal conditions at the end of vintage in many areas of the country added to the significant problems besetting Australia's winegrape growers, most notably from continuing limited water, uncompromising markets and the spectre of increasing global warming. This made life more difficult for growers in managing their businesses and providing for their families as they battled to harvest their crop, manage heat stress spoilage rates, gain access to the processing sector and to deal with unsatisfactory prices and escalating costs.

For WGGA this highlights the need for us to remain focused on working closely with our grower constituents to ensure that we fully understand the range of issues and problems of concern to them and to assist them through improving the environment in which they do business via the representation, advocacy and other services we have been established to provide.

WGGA has commenced representations to the new Government to make sure that it appreciates the significant challenges faced by growers and provide support, particularly in their designated priority areas of water and adaptation to the realities of climate change. We continue to benefit from on-going Government funding to assist growers in managing for better business returns and in providing more focussed and timely market information. This funding will enable us to repeat last year's national market information and outlook seminars and gain direct input from growers. We look forward to your participation in these seminars to be held in key regional areas in June.

We also continue our strong program to push the interests and status of growers within the wine industry and broader community. A key element has been the communication of timely and accurate industry information and policy insights, while highlighting the need for wineries to recognise the unique and indispensable role that grapegrowers play within the wine industry with the respect, recognition, fair treatment and incentives and rewards necessary for growers to continue in the industry.

Working closely with winemakers to see where we can advance our joint interests is another priority. This has enabled the acceptance of the industry Code of Conduct and we are working with the Winemakers' Federation of Australia (WFA) on its introduction in coming months. We are also working with WFA to build more transparent, streamlined and economical industry structures that can deliver 'a better bang for the buck' for growers from the financial and other inputs they provide. This was the ultimate aim of the recently completed National Organisational Structures (NOS) Review, in which I participated on behalf of the grower sector. While you will read in this *United Grower* about some of our concerns over WFA's approach to the reorganisation of the wine industry's national structure, we remain committed to close collaboration with WFA on the many issues on which we agree.

We have moved to formalise closer industry relations through the establishment of a Joint Peak Council to deliberate on major, 'whole-of-industry' issues. The Council will provide the forum for the leadership of WGGA and WFA to meet regularly to pursue matters of common interest in a 'win-win' environment.

While the current situation demonstrates the important need for WGGA as a strong national body to look after grower interests, we are well aware that we must make a tangible difference to the level of success growers and their families are able to enjoy, we remain committed to delivering real progress for the grower sector. ■

Industry update

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occurred was in 1994-95, in the wake of a drought-affected vintage), and/or an increase in imports. By June 2007, the overall stocks-to-sales ratio fell from 2.0 years stocks at June 2006 to 1.5 years stocks at June 2007, well below historic comfort levels of 1.8 years.

- In summary, a continuing unsatisfied preference for inland grapes offset to a large extent by surplus of cool region fruit throughout the period. For whites the overall picture shows a more balanced supply, with early shortages of inland fruit reverting to a balanced position from 2010; and a broadly-balanced supply/demand position for cooler district whites throughout.
  (The full Outlook Paper contains the zone-by-zone and overall supply/demand picture for each major variety).
- Finally, grape planting levels also support the trend towards a more balanced overall supply/demand picture in the medium to longer-term, with net growth in bearing area at negligible levels. The ABS data shows just 4% of red plantings are yet to bear (broadly representing annual replacement levels) and white non-bearing plantings showing 8% – largely through increases in Sauvignon Blanc and Pinot Gris plantings. Despite this, given the projected return to more normal national yields towards the end of the forecast period; the impact of the strong A$ and increased international competition in wine markets; the slow improvement in grape prices; and the remaining uncertainties over the future supply of irrigation water in the southern Murray-Darling Basin, there is no signal for new plantings to recommence. Indeed, WGGA remains concerned over the real potential for a return to endemic oversupply in the cooler production zones should production in the inland regions rebound strongly – with the conclusion that Australia's vineyard area may be too large for our medium to long-term market opportunities and a reduction in vineyard area may be required to achieve a sustainable supply/demand balance.

WGGA SUPPORTS COMPENSATION FOR FRUIT NOT TAKEN

Vintage 2008 was almost over before it began in parts of South Australia and Victoria due to the sustained heatwave that occurred in March and resulted in a significantly compressed vintage.

Despite wineries doing everything they could to get all their contracted fruit processed, the challenge ultimately proved impossible with logjams at wineries all too common resulting in selected growers, particularly in the Clare Valley, McLaren Vale, and Langhorne Creek unable to get a delivery slot at wineries in time to save their fruit from being dessicated. The late-harvest reds, particularly Cabernet, were the varieties most affected by the heatwave and subsequent winery logjam. In the middle of the heatwave, reports from McLaren Vale and Langhorne Creek revealed some growers were losing 5% of their red grape volume per day. With some growers in South Australia and Victoria losing as much as half their unpicked red grape volume, it was only those growers fortunate to claim early delivery slots at their wineries who were able to avoid the worst effects of the heat.

WGGA is aware that some wineries have agreed to part-compensate growers whose fruit was ready to harvest but the wineries were simply unable to take. Others opted to invoke force majeure clauses in contracts, which allow the wineries to decline fruit in the event of circumstances beyond their control. While the former initiatives are to be applauded in the spirit of good commercial relations between grapegrowers and winemakers, WGGA has called on those wineries which invoked force majeure clauses to reconsider their decision, and consider some form of partial compensation instead.

WGGA is not calling on wineries to fully compensate growers for any fruit not taken due to the seasonal conditions. However, we do believe wineries should be prepared to accept some of the financial consequences that this year's difficult and unprecedented weather conditions caused – as the fruit was ready to be picked, but couldn't be accepted by the wineries and, therefore, the risk should have been shared.

Some wineries have indicated that a partial payment for any vintage 2008 fruit not taken is not possible but, as an alternative, WGGA has urged them to consider other offset measures, such as extending grower contracts for at least another year on the affected vines or lifting production intake caps where they exist for the next vintage.

WGGA strongly encourages growers who have had the force majeure clause in their contracts invoked to explore the compensation methods described here with their wineries.

WARNING FOR THE FUTURE

While the degree to which the 2008 vintage was very early and compressed in some parts of Australia may be exceptional, a trend is beginning to emerge that more rapid and compressed vintages like it are becoming more the norm than the exception and wineries will need to take this trend into consideration when planning for investment in infrastructure, particularly crushing and fermentation capacity.

Winemakers argue that they can't be expected to invest in such additional infrastructure given it is only used once a year and may not be required or fully utilised for every vintage. But with climate change predictions indicating that heatwave and other extreme weather events are likely to become more regular, greater investment in processing capacity will be needed if the wine industry is going to successfully manage even moderate crops under the conditions experienced this year.

Either the wineries have to make this investment or the role of subcontracted or third-party processing in the industry needs to be increased.

Given that many of the major wine companies are trying to limit the portion of their balance sheets attributed to winery infrastructure, it seems likely that the predicted increase in average temperatures and heatwaves and the impact they will have in compressing vintages will hasten the development of third-party processors in the Australian wine industry.

NOS REVIEW UPDATE

At a joint meeting in Victoria's Yarra Valley on 3 April, the Winemakers' Federation of Australia (WFA) presented a position paper to the WGGA board detailing WFA's support for the establishment of an industry-owned services body (ISB) to take on the majority of functions of both WFA and the Australian Wine and Brandy Corporation (AWBC), including environment, health, winery tourism, trade and market development.

While the paper endorses the recommendations of the NOS Review consultant, WGGA's own Position Paper on the NOS Review details three major prerequisites to achieving WGGA support for any industry-owned services body.

First, WGGA maintains that the business case for an industry-owned services body has not yet been made and further detailed investigation into the costs and benefits of such an entity needs to be conducted. The development of an ISB will be expensive, therefore a strong business case is essential to justify the cost. WGGA believes this investigation should be undertaken by the Council of Chairs – the taskforce made up of the four chairs of the national bodies (WGGA, WFA, AWBC and GWRDC) that has been overseeing the NOS Review to date.

Secondly, WGGA believes that the further investigation of an industry-owned services body must incorporate the role of R&D, as is the case with similar primary industry services bodies, such as Meat & Livestock Australia and Dairy Australia. While the NOS Review recommendations and WFA's resolution to proceed with an ISB suggest that R&D be considered for inclusion in an ISB in the future, WGGA believes R&D should be included in establishing the business case for any ISB from the outset. That would ensure the industry does not incur further costs in incorporating the GWRDC's activities into an ISB in the future (should the industry and Government give final approval), and to meet the overriding objective of the NOS Review to explore the streamlining of the industry's national structures. A 'partial' ISB as proposed by WFA will increase the number of bodies in the national industry structure, not decrease them – because the AWBC will remain as a statutory regulatory body.

Thirdly, WGGA is adamant that any ISB must formally recognise an acceptable level of equity for growers in its ownership and that WGGA must have a full partnership with WFA in the governance of an ISB on behalf of the grower sector. The current WFA proposal doesn't give any assurances that growers will be given any status as equity partners in its proposed ISB, or have any representation on its board.

The lack of acknowledgement that growers are indirect contributors to the AWBC (and by implication, any ISB) through the levies paid to the organisation by winemakers is a concern to WGGA. The 'Passback Principle' established since the 1970s has been a long accepted principle within the Commonwealth Government that accepts levies in primary industries paid on the value-added product of the industry contain an imbedded portion of those levies that is paid by the processor or manufacturer on behalf of the grower. In other words the grower is an 'indirect' contributor of levy funds. For example the levies traditionally paid by meat processors have had 30% recognised as the growers levy contribution through this passback principle. The fact that the AWBC's charter refers to its role as dealing with "grape products" and "products derived from grapes" and yet it is not formally acknowledged that grapegrowers are indirect levy payers in accordance with the passback principle is, in our opinion, simply a fault of history, and will be the topic of further discussions with the Corporation in coming months.

WGGA emphasises that winegrape growers can't reasonably expect to be acknowledged as having the same level of ownership as wineries in any new ISB. However, the acknowledgement by WFA and the wine production sector of an acceptable level of grower contribution, is required as an absolute prerequisite of WGGA support for any ISB.

WGGA AND WFA ENDORSE PEAK POLICY COUNCIL

While the WGGA and WFA are yet to agree on the need for, and structure of, an industry-owned services body, the two organisations have agreed to endorse the NOS Review recommendation to establish a joint Peak Policy Council to enable whole-of industry discussions on issues of common concern and the development of joint policy. It should be stressed that the Peak Policy Council will not be a new single national body representing winemakers and grapegrowers, which the WGGA doesn't endorse as this time, although we remain open to continuing discussions about such an organisation into the future.

The Peak Policy Council, which will meet twice a year, is a strong step in the right direction towards fostering better relations between grapegrowers and winemakers on issues of common interest such as the Code of Conduct and other areas of interaction between growers and wineries, as well as policies and program initiatives on issues such as the environment and water, tax, training and workforce development, and wine and health. The Peak Policy Council will comprise the chairs of WGGA and WFA, three WFA board members – one each from its three membership committees that represent small, medium and large wineries – and three WGGA board members. It's recommendations will be fed back to the boards of both bodies for ratification.

Currently, it is proposed that the chair and secretary would serve yearly terms but discussions between WGGA and WFA at their joint meeting on the 3 April suggested that a two-year-term might be more appropriate to give greater continuity in these roles.

WGGA and WFA have agreed that the Peak Policy Council will have the capacity to appoint any sub-committee it deems necessary to fulfil its functions – which may include the formation of a Committee to oversee the *Directions to 2025* Strategy and the *Taking Stock & Setting Directions for Wine Grape Growers Strategy*. What is not determined at the moment is the future of the current Wine Industry Relations Committee, the joint committee of WGGA and WFA, whose function may be superseded by the Peak Policy Council.

CODE OF CONDUCT IMPLEMENTATION GETTING CLOSER

WGGA and WFA have endorsed the administrative arrangements for the Code Of Conduct Code Administration Committee (CAC). The formation of the CAC is the last piece of the puzzle needed to be put into place before the Code can be formally launched. Endorsement of the CAC's structure clears the pathway for launch of the Code in plenty of time for the 2009 vintage, giving wineries ample opportunity to become signatories to the Code and any new contracts drawn up for 2009 vintage and beyond covered under its provisions.

As outlined in the last issue of *The United Grower*, the three members of the CAC will need to have appropriate commercial experience in contracts and supply arrangements, an ability to interpret legal documents and dispute resolution experience. While specific wine industry experience is not essential, it will certainly be desirable. The presiding member of the CAC will need to be an experienced chair of committees and preferably have previous membership of a tribunal or similar body.

WGGA and WFA have also agreed that the CAC has an independent secretariat which at a minimum would have legal secretary experience. It is proposed that a small fee will be applied to all disputes submitted to the secretariat as a partial offset of costs. The costs of running the CAC will be borne equally by WGGA and WFA with the budget for the next financial year set at $30,000 each.

With WGGA and WFA now agreed on the CAC's structure, the task to identify potential candidates for its membership can commence, with all members requiring endorsement from both parties. It is hoped that the CAC and secretariat will be in place by the end of June.

RATIONALISATION OF GWRDC SELECTION COMMITTEE

With the re-election of new board members to the Grape and Wine Research and Development Corporation due in August, WGGA and WFA have agreed to formally rationalise their representation on the selection committee which recommends the non-executive directors of the board to the Federal Minister for Agriculture. To date, this committee has been made up of up to six industry nominee members, with up to three each being nominated by WGGA and WFA, respectively, and a chair nominated by the Minister. WGGA and WFA have now agreed to streamline their representation of the selection panel down to two members only from each of the peak industry bodies.

VINE IMPROVEMENT AUTHORITY CLOSE TO GREEN LIGHT

A proposal to establish an Australian Vine Improvement Management Authority (AVIMA) to oversee national vine improvement activities is still to be formally agreed by WGGA. While the WGGA board has discussed the proposal, it is reserving its position until discussions are completed with some of the key regional vine improvement organisations – including the MIAVIA in the Riverina and VAMVIA in Victoria. This new Vine Improvement Management body was proposed by a Vine Improvement Future Directions Working Group instigated by the SA Wine Industry Council which met on two occasions last year to discuss the issue of national, State and regional vine improvement activities, coordination and performance.

As outlined in the Working Group's report, the AVIMA would be responsible for:

- establishing and monitoring standards, protocols, compliance and the provision of advice on policy and technical issues to industry and Government
- promoting the need for and benefits to the Australian wine industry from a technically rigorous national program.

Australia currently has a rather fractured vine improvement system between the various regional, State and national groups in Australia. All these groups are suffering financially due to the significant downturn in sales of planting material through which most of their income is derived. WGGA recognises that we can't afford to run the risk of being unable to respond quickly enough to a major biosecurity threat with sufficient high health planting material to begin the job of replanting our vineyard infrastructure – a risk that could potentially cost Australia its international market position, in a worst-case scenario. The proposal recognises that we must be able to protect our nuclear vine selection plantings and ensure that they are tested and certified for the highest possible health status. Moreover, growers need to be assured of the nomenclature of vine planting material, that is for example, if a variety is labelled as Chardonnay, the plantings are in fact Chardonnay.

As the Working Group noted in its recommendations, an AVIMA would "ensure the Australian wine industry is serviced by effective, efficient and technically sound national, State and regional vine improvement activities, coordination and performance". It would be supported by a Technical Working Group whose objectives would be to:

- review/assess relevant collections (from a phytosanitary perspective)
- update contemporary science, literature, status of pathogens
- and develop and advise on appropriate national vine improvement phytosanitary standards and protocols.

It has been suggested that the AVIMA would be funded by the activitation of the biosecurity levy imposed by the Commonwealth under the Plant Health Australia provisions. This levy is currently in existence but is zero-rated, meaning it is able to be raised in the event of a biosecurity event to help cover the industry's proportion of the costs to cope with it. While WFA has supported the formation of the AVIMA and the use of the biosecurity levy to fund it, WGGA would like further investigation of whether the biosecurity levy is the most appropriate mechanism for the industry to fund the activities of the AVIMA and what other options exist through the R&D levy or other funding sources. Although the establishment of an AVIMA is linked to biosecurity issues, such a body would also be tackling issues concerning the health status of vine planting material and its availability. Moreover, as vine improvement is a semi-commercial activity involving the nursery sector, the position of the nurseries on an AVIMA needs to be clarified – as under the biosecurity levy mechanism nurseries would not be contributing levy funds, despite the fact that their businesses directly prosper through the sale of vines and rootstocks sourced from vine improvement organisations' vine collections. ■

Andrew Weeks

Family
Married to Lara. We have two daughters – Pirrie (10) and Claire (7)

Education/training
After finishing year 12, I completed a Bachelor of Agricultural Science degree at the University of Adelaide.

History of industry employment
After graduation, I worked for C&M Willson at Langhorne Creek. I was then employed as a vineyard technician at Sunnycliff Producers (now Wingara Wine Group), and left to work for Angove's Wines in Renmark as the viticulture manager. I left to take up my current position for Jubilee Park Vineyards as vineyard manager in 1998.

Past and current industry involvement or memberships
Currently chairman of the Riverland Viticultural Technical Group; committee member of the Riverland Wine Grape Growers Association, and I have been a member of the Australian Society for Viticulture & Oenology for as long as I can remember working.

Tell us a bit about Jubilee Park Vineyards
It is a privately-owned vineyard that supplies winegrapes, most of which are grown under contract to several different winery customers. It is approximately 237ha in area, with some of that currently undergoing redevelopment. The majority is planted on own roots, it is all drip-irrigated, and irrigation is scheduled using capacitance-based soil moisture monitoring equipment. We aim to produce reliable quantities of high quality fruit as efficiently as possible.

What varieties do the company grow:
Shiraz, Cabernet Sauvignon, Merlot, Chardonnay, Colombard, Grenache, Viognier, Mataro, Verdelho, and Petit Verdot.

What do you like to do in your spare time?
When I'm not at work I try to spend as much time as possible with my family. Other than that, fishing or playing guitar.

When did you last have a holiday and where did you go?
Our last holiday was a short break, and we caught up with some friends at Melrose in South Australia's Flinders Ranges. We took the kids climbing Mount Remarkable.

What effect did the drought and water restrictions have in your vineyards during the past season?
Like most other growers we have had to spend considerable amounts of money on leasing in extra water to try to secure enough crop to allow a return. The worst problem I think is the uncertainty; not knowing in advance what your major limiting resource is going to be from one month to the next, or what it is going to cost is difficult enough. Add to that the problem that the final price we will get for our grapes is not certain until after harvest makes it nearly impossible to plan with any confidence.
We adopted a nil tolerance of weeds; we were fastidious with irrigation scheduling, and we altered our watering pattern to daily irrigations – generally shorter and shallower than in past years. We also started looking at more efficient machinery use in the vineyards in an attempt to reduce costs and partially offset the extra spending on water. We have also trialled sun-protection sprays (such as kaolin-based products) to reduce fruit damage. We used the reduced water as an opportunity to remove some areas of less productive, less sought-after varieties, and plan to redevelop with new clones of better varieties on drought-tolerant rootstocks.

Given that water restrictions are likely to be imposed for the coming growing season, what measures is Jubilee Park planning to limit their impact?
As above – leasing additional water, being efficient with what we have, and generally keeping an open mind about what we do; always looking for another measure to save water or boost returns with less inputs.

What's the best cost-saving idea you've implemented in your vineyards?
Changing to machinery with front-linkage capability and two-row machinery. We now do close to two-thirds the number of passes through the vineyard compared with 10 years ago.

What are your thoughts on the impending Code of Conduct and its likely impact on relations between growers and wineries?
I'm optimistic it will have a bridge-building effect, where we will all think on an 'industry' basis when doing business in future, rather than members of each sector only considering their own business. I feel strongly that the Australian wine industry needs to ditch the 'us and them' feelings that have blighted many of the business dealings in the past and move forward in a more unified manner.

What impact is the Code likely to have on Jubilee Park's operations?
It will probably serve as a guide to us and our customers more than anything. We have good relations with our wineries and it has been characterised in the past by openness and an ability for either party to say when we (or they) are unhappy. I can see it will give more peace of mind when signing up new contracts with a winery that is a signatory to the Code.

What's the best vineyard idea you've ever had while driving a tractor?
To watch where I am driving. After driving down a long row, going over a hill and discovering that the two-row sprayer I was driving could not get past a frost fan, I thought it would be a good idea to mark the ends of the rows where the passage of two-row machinery was impossible.

If you weren't a grapegrower, what do you think you'd like to do?
Be a rock guitarist. Unfortunately, as a guitarist I make a good vineyard manager. Failing that, be a lazy billionaire.

Since growing grapes, what is the biggest lesson you've learnt and why?
It is vital to retain a holistic focus. There is too much advice floating around that has a 'one-size-fits-all' approach. It is often easy to get distracted by a 'flavour of the month' issue (e.g., berry size) and lose focus on something else, such as canopy management or nutrition. When making decisions about vineyard practice, I try to do so based on the whole production process.

If you were to invite three people to dinner to brainstorm the future of the Australian wine industry, who would you ask and why?
There are too many industry icons to only consider three! Probably Philip Laffer, Peter Hayes and Brian Walsh. They all have a wealth of experience in the industry, and an international focus. The trio has collective knowledge of viticulture, winemaking and marketing across many regions in Australia and in other countries.

Why is it important to you to be a member of WGGA?
The nature of the industry is such that as a grower we spend most of our input costs prior to accurately knowing what the purchase price of that fruit will be. It is imperative that we have strong representation in order to make sure growers' interests are taken into consideration when industry decisions are made. This has never been more vital than now – many growers in the Riverland and Sunraysia regions are facing extreme financial stress at present. As a member of the Riverland group it is important to me that I give some input back to the industry, and try to do what I can to be constructive in the operation of the growers' groups for the benefit of grapegrowers and ultimately the industry as a whole. ■