



Message from the Chairman

Alan Newton
Chairman, Wine Grape Growers' Australia

Success in WGGGA National Seminar Series

During June we repeated the WGGGA National Seminar Series, piloted initially in 2007. The seminars were possible through funding support from the Australian Government through the Department of Agriculture, Fisheries and Forestry and the Grape and Wine Research and Development Corporation through its support in the production of the Wine Grape Outlook Paper. We thank them for that generous support.

The key aims of the seminars were to respond to grapegrower requests for more relevant market-driven information on the national supply, demand and overall market outlook. They also provide invaluable, extensive face-to-face discussion between growers and WGGGA on the critical issues facing growers and their families and the prospective strategies we can implement to address these.

The 2008 seminars were conducted at 15 centres across Western Australia, South Australia, New South Wales and Victoria and attracted more than 500 participants. Each seminar included presentations from me on the WGGGA role and strategies conducted on behalf of growers, an interactive presentation from Stuart McGrath-Kerr on the Wine Industry Outlook for the next five years, and a detailed examination of the implications for growers from the present and future market trends in domestic and export markets from WGGGA executive director Mark McKenzie.

Not surprisingly, water and climate change proved to be the outstanding issues of current concern to growers and where they desperately wanted Government to deliver some respite from their present extremely difficult financial circumstances. Other priority issues included support for the wine industry Code of Conduct and a keenness for its speedy implementation. A similar keenness was shown for the roll out of the financial performance 'ready reckoner' and other elements of the grower 'VineBiz' workshops and support material developed as part of the Capacity Building for Wine Grape Growers Project.

The growers who attended the seminar were pleased that the WGGGA had come to them to deliver independent information on the winegrape supply/demand position through the Australian Winegrape Outlook Paper.

Many growers raised the ongoing issue of vineyard viability brought about by increasing costs, the downward pressure on returns and the changing demands of wineries.

LABOUR AVAILABILITY AN ISSUE

Although not a universal concern, the availability of trained labour to primarily pick and prune was raised in Langhorne Creek and discussed in several other regions. To this end, WGGGA has supported the Federal Government's decision to allow Islander labour to enter the country on short-term, seasonal visas, as has been done in New Zealand. It is hoped that the pilot scheme will be successful in giving growers access to a labour force that can be trained and return year after year.

Other issues raised included concerns over the continued expansion in vineyards through MIS schemes, industry production levels and the decline in the growth in export markets.

We were disappointed to learn that winery attitudes towards growers was a recurring negative theme in many regions. Growers voiced concern over the accuracy of information from wineries about their needs as well as a lack of humility during negotiations, particularly around fruit prices.

From the WGGGA perspective, it is imperative that we engage closely with growers on this sort of basis to ensure that we fully understand the outlook and issues growers are grappling with, particularly in the extremely difficult circumstances they continue to face.

We need these locally-drawn insights and advice to fully equip us to effectively represent you and advocate on your behalf in national political and industry forums to fight for a better deal in addressing your major concerns.

We hope to repeat the series again next year and look forward to the chance to meet with you and get 'first hand' advice from a large number of growers nationally. In the meantime, we will pursue issues raised in the seminar discussions and other priority grower issues with Ministers and Government officials in coming months. ■



Industry update

Continued from page 1.

water or use expensive carry-over water on varieties that aren't going to get an economic return. Therefore, the stocks-to-sales position on Chardonnay could potentially correct itself in as little as two years – depending on what happens with the domestic and major export markets.

Meanwhile, little has been said by wineries to date about red varieties, other than that some wineries want to reduce their intake of Merlot and Cabernet, which is in contrast to the outlook identified in the 2008-2012 Australian Winegrape Outlook Paper which indicates that Cabernet appears to be heading back into balance. The WGGGA's view is that the industry is still a little short on its requirements for Cabernet for some classes of fruit, but it appears that some companies have gone long on their contracted fruit as a planned foil to the expected low vintage in 2008, but now find themselves with too many tonnes of contracted fruit to manage in 2009. Hence, the indications by some companies of non-renewal of contracts and, in the case of one of the major wineries, an invitation to negotiate the buyback of some contracts.

NEED FOR REVISED EXIT PACKAGE INTENSIFIES

While many growers are now giving serious consideration to exiting the industry, they are finding it increasingly difficult to do so with vineyard values on the decline, especially in the Riverland and Murray Valley where there is such uncertainty over the future of water supplies. The decision to leave the industry is compounded by the rules governing the Federal Government's exit package, which requires them to sell their vineyards before they can be eligible for the exit package. This position is made all the more frustrating by the slow response of some local Governments to allow the family home to be split from the vineyard under local planning laws, even though the Federal Government allows it under the exit package provisions.

The WGGGA has suggested to the Minister for Agriculture, Fisheries and Forestry Tony Burke that the Government consider repackaging the exit grant with the purchase of permanent water rights to provide growers who are struggling to maintain their businesses with a clear option to exit the industry if they see no likelihood of a viable future.

WGGGA has stressed to the Government that it is far better for the industry to work with Government in expediting the decisions by growers who are in difficult financial positions to leave the industry as quickly as possible, rather than allow them to be crunched by market forces until they become completely trapped by limited capacity to buy water, rapidly

growing debt levels and declining equity. In other words, it would be better to have a package available to growers to exit the industry early, rather than financially bleed to death.

VINEBIZ READY TO ROLL

The rollout of VineBiz, the financial 'ready reckoner' developed as part of WGGGA's Capacity Building for Winegrape Growers Project, is under way as part of the series of seminars being conducted around the country through the Grape and Wine Research and Development Corporation's drought-related project, *Water & Vine: Managing the Challenge*.

WGGGA acquired funding from the Department of Agriculture, Fisheries and Forestry to develop the vineyard financial management tool and conduct three pilot workshops enabling growers to identify the suitability of the tools and any necessary improvements to the 'ready reckoner' and its support materials. The feedback from these workshops is that VineBiz can play a very important role in allowing growers to assess their current and potential financial position over the next couple of years and decide whether they can viably remain in the industry, or consider retiring and possibly accessing an exit package.

VineBiz has been developed by Scholefield Robinson Horticultural Services over the past six months. It is a Microsoft Excel-based product, which will be available through WGGGA's website and through regional groups and associations who we hope will promote VineBiz through local user groups. WGGGA will also be briefing consultants, rural financial counselling services, financial institutions and accountants in the key winegrowing regions to inform those who give direct advice to growers on how to use the tools and how VineBiz can assist growers in assessing how their vineyards are performing financially – even down to a block-by-block analysis.

VineBiz has two modes, the first mode performs a basic financial analysis of a winegrape growing business. Growers input their costs and grape prices into the calculator which will then generate a gross margin for their vineyard business. This provides some fundamental information to growers to allow them to assess whether they are likely to remain viable under current and future economic circumstances.

The program also looks at alternative business models for vineyards and allows growers to assess the implications to their financial bottom line of, for example, replanting vines or not watering certain blocks, or purchasing additional water.

VineBiz is a powerful tool but is not difficult to use. However, for growers who aren't comfortable with their level of computer skills, their accountants could readily use it on their behalf, by simply inputting their production costs and revenue for each block or variety. All growers need to do is provide their accountants with most of the same figures that they already

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provide for them. Growers who use spray diaries would already have a lot of the information needed to input into the VineBiz calculator at hand.

WATER WOES

Not surprisingly, WGGA has been spending much of its time over recent months talking with the Federal Government and relevant Government agencies on water policy and the direction of the water buyback. One of WGGA's biggest concerns at the moment is that the Government's water buyback is not yet achieving its aim of returning reasonable volumes of water back for greater water security for irrigators and for environmental flows to improve the health of the river systems in the Murray-Darling Basin. At present, to make any difference to flow levels, the only licenses worth buying are high security entitlements, as many of the farmers with general security licenses haven't had any, or much water, for two or more years. Therefore, the retirement of general security water licenses will not have a significant impact until it rains again, and those farmers receive an allocation. WGGA has advised the Government that it may need to review its price to purchase high security licenses because, at the current price of up to \$2500/ML, there is likely to be a limit on the number of willing high-security licensed sellers when the temporary water price is currently around the \$600/ML. At that price, there's no major incentive for growers to sell their permanent allocation when they can earn as much over the next few years by hanging onto their allocation and selling temporary water each year.

However, unless the Government accelerates its buyback of water, the immediate implications are very serious for the Lower Murray and Lower Lakes where there is significant winegrape production and, on the quality and availability of water further up the Murray, given ongoing dry conditions. In the longer term, all irrigators will continue to suffer insecurity around their annual water allocations until the Basin's water allocation levels are reduced significantly.

The WGGA board is currently honing its water policy with the objective of reaching a common position on water with Winemakers' Federation of Australia (WFA) so that the industry as a whole is able to take a common view to Government. Currently, WGGA supports the need for an open and flexible system where water can be traded within the system to the highest value end-use and this view is supported by the fact that trade of water saved many Murray Valley and Riverland growers during the last year. WGGA remains concerned that the lack of certainty surrounding water security will continue to force some growers out of the industry and dramatically reshape the industry. This is why WGGA

favours a combination of an enhanced package from the Commonwealth that combines water buyback with the exit package, to meet the twin objectives of enhancing water security for growers who remain and allowing growers without a viable future to leave the industry with dignity and enough money to allow for a new start or retirement.

The water debate is an extremely complex issue but it is clear that given the amount of water in storage, there is no room for error. Whether we blame climate change or a one in 100-year drought, the reality is there is simply not enough water to allow growers to plan ahead. It is very likely that growers along the Murray are going to start future irrigation seasons with 0% of their allocation and have an unclear picture as to when they might get sufficient water to see them through the season each year. This means that increasingly it will only be those growers with the financial resources to buy water for carry-over into the next season who are likely to survive. So the overriding objective should be to allow growers to exit the irrigation industry with the maximum market price for their water, minimum impact of taxation, exit fees and other charges, and the ability to continue to live in their family home – should they choose to do so.

MIS IN THE NEWS AGAIN

There has been a lot of grower anger about the surge in plantings that WGGA told the Government would occur prior to the recent removal of the tax advantages for investors in non-forestry managed investment schemes (MIS). From 1 July, investors in these schemes will no longer be able to claim the significant upfront tax deductions previously available to them, meaning the ATO has effectively shut the door on the release of any new MIS products with Tax Office product rulings. The bulk of the surge in plantings has taken place in the Barossa Valley and parts of the Murray Valley, despite significant uncertainty over sustainable water supply and the end markets for the grapes.

WGGA has reiterated its MIS Policy – which is not anti-investment but objects to preferential taxation arrangements that allow MIS investors to get upfront tax deductions that make the deduction the primary driver for the investment as opposed to an assessment of the ability of that investment to return a profit to the investor over the longer term.

As we've said before, these schemes have the potential to skew winegrape supply and wine supply because investments in them are driven by taxation considerations instead of long-term profitable returns.

The Federal Assistant Treasurer Chris Bowen has announced a review of non-forestry managed investment schemes in the agriculture sector and has invited WGGA to make a submission.



It is likely that WGGGA and WFA will present a joint submission in line with the WGGGA's current concerns over the impact of ongoing 'tax driven' vineyard investments at a time of increasing concern that our national vineyard footprint is already too large for our ongoing wine market opportunities. The Government's ruling on tax relief in these schemes is currently being challenged in the courts by a number of MIS promoters which could potentially see the ATO ruling overturned. This judgement will be brought down by the Federal Court later this year. Should the Court rule against the ATO decision, WGGGA will ask Government to legislate to effectively maintain the current cessation of product rulings on vineyard MIS.

JOINT PEAK COUNCIL EXPEDITED

With the increasingly certain decline in the demand by the major wineries for bulk and cask wine material in line with both market demands and the industry's push to increase sales of higher value products, it seems inevitable that structural adjustment particularly in the Riverland and Murray Valley (the regions that have traditionally supplied the fruit for those markets) is going to occur. The natural conclusion from the recent announcements by the largest wineries is that we now have too many vines for the lower-end market which means that unless we come to grips with managing the potential over-supply there will continue to be significant downward pressure on grape prices with growers continuing to suffer a viability crunch.

With this in mind, WGGGA and WFA are pushing forward their formation of a joint peak policy-development council, with the first meeting of the body imminent. The first and major task of the council will be to review the industry's structural position and develop an all-of-industry policy that it can take to Government. This policy needs to show how we propose to work with Government to ensure any adjustments happen as quickly as possible, rather than leave it to the market to bring about such change which would be a much longer process and result in many more industry casualties.

The policy council will be made up of the chairs of WGGGA and WFA plus three nominees from each of the boards of both bodies.

INDUSTRIAL RELATIONS MATTERS

As part of the Federal Government's task of modernising industry awards through the Industrial Relations Commission, which means fewer awards, covering larger industry groupings, the National Farmers Federation is exploring with rural industry stakeholders the potential to

establish a Primary Industries Award to cover livestock, cropping and the horticulture sector – including viticulture.

Vineyard workers currently fall under a range of State and Federal awards. WGGGA believes a single award that covers the existing arrangements for overtime, casual pay rates, and other workplace arrangements without increasing the employment costs to vineyard owners is attractive. At this stage, WGGGA in association with the SA Wine Industry Association is exploring a separate option of a fall back award covering the wine industry, which can cater for the specific needs of the industry.

WGGGA has reserved its position on the Primary Industries Award proposal as it awaits clarification on how it would apply and what implications it might have on Australia's various wine-producing regions.

VINTAGE ESTIMATIONS – DELAYED RESPONSE

Although the larger-than-expected 2008 vintage is partly explained by the remarkable rebound in the cooler production zones from the drought and frost-affected 2007 vintage, it also demonstrates how the industry was unable to anticipate the number of growers in irrigated regions who purchased water in 2007. It was generally expected that growers in those regions would sell their water given it was likely they would not have enough to grow a viable commercial crop. Instead, a significant number of growers bought water instead, and it was reflected in larger-than-anticipated crops in the inland regions. WGGGA estimates that Murray Valley and Riverland growers spent at least \$75m leasing water in the last season – mostly financed with borrowings. Clearly, growers have also quickly adapted to having less water. What is still to be determined is whether the same amounts of water will be available to purchase in the 2008-09 season, and what affect the heavier debt levels will have on growers' ability to buy water again this year. A recent Wine Grape Council of SA survey has indicated that 50% of Riverland growers did not purchase any carry-over water, so it appears that a large proportion of growers will have a reduced capacity to produce commercially-viable crops in 2009. While some industry pundits are expecting similar crop levels next year to the last vintage, this data puts that in doubt, and raises the prospect that we could end up with the low vintage in 2009 that we first anticipated in 2008 – a case of delayed response. ■

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Robert (Bob) Bellato

Family

Married to Viviana; children – Nathan (20), Jonathon (17), and Nicholas (13).

Vineyard/s

I have two vineyards: one is 13ha and the other is 20ha. They are located next to each other at Beelbangera, 5km from Griffith's CBD.

Varieties grown

Chardonnay, Semillon, Shiraz, Cabernet Sauvignon and Merlot. Total production area is evenly split between reds and whites.

How long have you been growing winegrapes?

25 years.

Education/training

I completed Year 11, took up a four-year apprenticeship in refrigeration and then worked for a winery for two years before purchasing my first vineyard.

Past and current industry involvement or memberships

Director of the Wine Grapes Marketing Board since 1995 and deputy chairman since 2001.

Until recently, I was involved with WGGA and its predecessor, the Winegrape Growers Council of Australia. I intend to be involved with the WGGA again soon as a representative of Riverina growers.

What do you like to do in your spare time?

Go fishing or go to Canberra to spend time with my eldest son who is currently attending ANU studying Commerce.

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

I believe a holiday is very important in enabling focus on the farm. My last family holiday was in October 2003 and we went to Bangkok and Phuket for two weeks.

Has the drought or water restrictions affected your vineyard/s and, if so, how?

Yes, the drought has affected us even though we have irrigation. It has made us rethink about how and when we irrigate, even though we have drip irrigation and Enviroscan monitoring equipment to help manage our irrigation. We don't have access to water at the drop of a hat and with rainfall a non-event we need to make every drop count. Also, with winter rains being insufficient the vines are showing signs of stress and canopy growth will be affected. Drip irrigation has reduced our costs and time spent in the vineyard and allowed me to spend time doing other things, such as contract grape harvesting and getting involved in industry groups.

What are your thoughts on the impending Code of Conduct and its likely impact on relations between growers and wineries?

I think the Code will be a good thing and will be extremely beneficial to the industry if all wineries come on board and abide by its rules. I think we need a base-level guideline for all wineries and growers to work with as we need each other and, therefore, should be working together as an industry.

What's the best vineyard idea you've ever had while driving a tractor?

The best idea I've had but am yet to implement it is to sell up and retire along the coast somewhere and enjoy life while I'm still able.

Describe the outlook for the forthcoming vintage in the Riverina? e.g. water availability, grape prices, likely yields

At this point we only have a 40% allocation which would barely be enough to keep our vines alive unless we get lots of rain, which isn't going to happen here. However, if there are good rainfalls in our catchment areas our allocation may be increased; there is a good level of probability of allocations increasing. We had a reasonable yield last year so I would expect that crops from the next vintage (2009) will be down; it would be very unusual to have two good seasons in a row. Unfortunately, wineries in this area have started to talk down grape prices which I believe is too early as there are so many variables that control the Australian crop and we may end up with extremely low yields if we don't get rain.

If you weren't a grapegrower, what do you think you'd like to do?

If I wasn't growing grapes I am not sure what I would be doing but I would like to do something that pays well and doesn't require too much physical effort – the complete opposite of farming.

Since growing grapes, what is the biggest lesson you've learnt and why?

In farming there is something new to learn all the time with changes in winery demands and new clonal material and rootstocks that are better adapted to different areas. There seems to be more chemicals de-registered every year and as an industry we need to adapt and move on.

Mother nature sure keeps us on our toes with the drought and then, when we least expect it, we get a downpour and then we have to control unexpected diseases.

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

I'm not sure on this one but someone like Guy Darling would be able to shed some light on the industry as he has seen a lot of highs and lows. There is truth in the saying, "with age comes knowledge".

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

We need the WGGA as our voice to Governments or we may end up with other groups that pose to represent us but don't have growers' best interests at heart. I also believe that at a Federal level it is important to meet with WFA on a level playing field making us well-placed to achieve positive outcomes for the industry. ■

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