



# The United Grower

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*The newsletter of Wine Grape Growers' Australia*

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## WRAA not a two-way street

Mark McKenzie  
Executive Director  
Wine Grape Growers' Australia

**W**GGGA has called on the major wine companies to begin shouldering their share of the wine industry restructuring process following recent signs that vineyards around the country are being retired from production – almost solely at the instigation of the grapegrowing sector. Despite partnering the WRAA process with the winemaking sector through the Winemaker's Federation of Australia in the spirit of collaboration, WGGGA continues to be bitterly disappointed that the large wineries do not seem to be making any significant efforts to remove their own corporate vineyard plantings that they have deemed non-core to their future operations.

A notable exception is Angove's, which recently announced that it was decommissioning 200 hectares of its Nanya Vineyard in South Australia's Riverland. In the words of managing director John Angove: "The wine and grape industries have finally realised that serious rationalisation needs to be made for the longer-term sustainability of the wine industry in Australia. We have taken a small step in doing this ourselves

with the decommissioning of nearly 200 hectares of our Nanya Vineyard. Critical shortage of water for irrigation has also been a driving force for the reduction in size of the vineyard. This was a very costly and painful decision to make but on the upside allows our vineyard team to focus on growing superior fruit for our winemakers."

Meanwhile, in stark contrast the likes of Constellation and Foster's continue to have significant non-core vineyard assets on the market which should instead be written off and removed given the industry's current over-supply. These companies, too, significantly expanded their own vineyard holdings throughout the 1990s and to now expect independent growers to bare the lion's share of the restructuring pain is totally unreasonable.

At the same time, these larger wine companies are cutting contracts and continue to drive down grape prices which is going to have the effect of forcing a greater number of growers out of the industry than anticipated – many of them very good growers who will never be tempted to return.



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Therefore, as well as calling on the larger wine companies to review their own vineyard assets and remove any non-core plantings, WGGGA also asks that they swiftly identify the growers and vineyards they require as part of their future core business and contract them for a minimum of three years at price levels that at the very least meet their costs of production. This would give these growers some certainty about their future in the industry.

There is a strong case in favour of the larger wine companies removing their non-core vineyards and, wherever possible, putting a greater reliance on fruit from contracted growers. For a start, this is often the most cost-effective method of securing fruit. While some people would say this is fanciful, the reality is there are long-term benefits in the larger wine companies diversifying their grower base and not putting all their eggs in one basket. As recently stated by Mike Stone, chief executive of Murray Valley Winegrowers, if more and more growers are forced out of the industry, the day will come when wineries will be dealing with the greater bargaining power of fewer, but much larger, vineyard enterprises.

The members of the WGGGA board are becoming increasingly concerned that wine companies are using the industry's over-supply, as outlined in WRAA, as an excuse to push winegrape prices to unsustainable levels. There is also no doubt that there is exploitation of growers occurring that will allow wineries to refill their tanks this vintage with ultra-low priced fruit. Any expectation on behalf of the wineries that growers can continue to operate with prices at \$100-150/t for Chardonnay and reds at \$200-250/t is ridiculous as these prices are simply unsustainable. And, if this is what the wineries believe they need to pay for fruit because of the price points they are competing in on the international market, then there is a very grim future for the Australian winegrape sector. There's barely a grapegrower in Australia, either in cool or warm districts, other than those few who supply the super premium and ultra premium products or still have fixed-priced contracts, who are going anywhere near covering their costs of production this year, and for many growers this has been the case for two or three years or more.

Large wine companies, who have the futures of a very large number of growers in their hands, are yet to acknowledge their leading role in overheating the market during the many years they offered very high grape prices and gave contracts to many industry newcomers, including investment vineyards. Any acknowledgement is unlikely because their legal advisors have no doubt cautioned them against doing so to avoid any potential litigation. I was asked by a grower in Griffith last year why we aren't pushing for an apology from the wineries for the

state in which the industry currently finds itself. Not only is an apology highly unlikely, it won't change the hard fact that the industry must reduce its winegrape production footprint. WRAA is a cooperative initiative but we're not seeing what WGGGA believes is significant cooperation from the larger wineries in collectively driving the interests of the whole industry forward. Not only are we going to see the decimation of growers' livelihoods if the large wine companies continue down this path of pushing prices to totally unsustainable levels, we are running the very grave risk of a significant over-correction in winegrape supply, particularly in the inland regions where, in fact, the industry projections on which WRAA is based, showed supply and demand were essentially in balance.

## **DOES THE FEDERAL GOVERNMENT WANT AN AUSTRALIAN WINE INDUSTRY OR NOT?**

With the Federal Government expected to comment on the final report of the Henry Review of Australia's taxation system at the end of March, strong feedback is that the report has recommended that there be a single taxation platform for alcohol. More specifically, it has been suggested that the report favours a volumetric excise on wine as is currently the case with beer and spirits and probably at the packaged beer rate of \$41/L of alcohol.

The implications of scrapping the current ad valorem tax on wine in favour of a volumetric tax is that cask wine and commercial bottled wine in the popular premium market would be subject to a significantly higher tax than is currently the case. According to modelling by WFA, the introduction of a volumetric tax at a rate of \$41/L of alcohol would result in 95% of wine increasing in price, which would particularly impact the 39% of domestic wine sales that are in cask. Furthermore, WFA predicts that wine sales volumes overall would fall by 34%.

The loss of a third of wine sales would result in a significant amount of particularly inland fruit – the main source for the cask market – no longer having a home. This would see a flood of bulk wine onto the market that would result in a collapse of the domestic wine market. While the inland regions would be hardest hit by this collapse, no region would be immune because of the impact of this excess production on the market.

Regardless of any vineyard removals brought about by the WRAA process, WFA estimates that another 29,000 hectares of vineyard would become redundant with the introduction of a volumetric tax. This would be a double whammy for an industry trying to come to grips with a structural over-supply and would result in a cataclysmic collapse of the domestic market.



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**JOHN DEERE**

This begs the question, does the Government want an Australian wine industry or not, because without a viable domestic market, very few wineries are in a position to operate only in highly competitive export markets. The development of export markets depends on having as a backstop a profitable and sustainable domestic wine market, which a volumetric tax would decimate. The other hidden issue with volumetric tax is that, like the current volumetric excise on beer and spirits, it would be automatically indexed to any increases in Consumer Price Index (CPI), automatically increasing each year to take into account movements in the CPI. Once established, this automatic indexation of the wine tax would be very hard to change. WFA analysis also shows that the \$28+retail priced wines that would initially have less tax payable under a volumetric system, would lose all or most of that advantage in the space of three or four years.

WGGA and WFA continue to support the existing ad valorem tax on wine – a tax on the value of wine products – and the retention of the WET rebate. And, like WFA, WGGA will continue to lobby the Government ahead of the budget in May to ensure that it fully appreciates the highly negative impact that a volumetric tax would have on the industry.

We urge individual producers and particularly regional wine and grape associations to start lobbying their local parliamentarians and key government ministers as well as their shadows to prevent a change in the taxation arrangements on wine. The future of a very large proportion of the industry relies on us avoiding the introduction of a volumetric tax.

## NO WORD FROM GOVERNMENT ON PROPOSED INDUSTRY RESTRUCTURE PACKAGES

As foreshadowed in the last issue of *The United Grower*, WFA and WGGA have delivered their joint submission to the Minister for Agriculture Tony Burke which seeks an extension of the existing grant provisions in drought declared regions to all viticulture regions and an alteration to some of the eligibility criteria so that growers may stay on their properties provided they take the vineyards out of production. The latter proposal acknowledges the fact that there is currently no real market for vineyards so insisting that growers sell-up before obtaining the Farm Exit grant is unrealistic. WGGA would prefer that growers be allowed to consider alternative land use or sell their water in the case of the inland irrigated areas. The WGGA/WFA submission also argued that the EC Exit Package be extended to include wineries.

At press time, the Federal Government was yet to respond to our joint proposal.

## SCHEDULE FOR WRAA REGIONAL WORKSHOPS AS AT 26 FEBRUARY

Workshops have already been held in Kangarilla (SA), Mt. Barker (WA), Bunbury (WA), Tasmania, Pokolbin (NSW), Berri (SA) and Stanthorpe (QLD).

The content of these workshops will include the following:

- The national analysis that underpins the WRAA initiative
- The implications for regions
- Options for individual winemakers and grapegrowers
- Support tools available to winemakers and grapegrowers

Location	Date	GI Regions covered
Bendigo, Vic	Fri 16.4.10	Bendigo / Heathcote / Goulburn Valley / Pyrenees / Grampians / Macedon Ranges
Wangaratta, Vic	Tue 20.4.10	Alpine Valleys / Rutherglen / King Valley / Glenrowan / Beechworth / Upper Goulburn
Canberra, ACT/NSW	Thu 22.4.10	Canberra District / Tumbarumba / Orange / Southern Highlands / Hilltops / Gundagai / Cowra / Shoalhaven Coast
Mildura, Vic / NSW	Wed 28.4.10	Murray Darling / Swan Hill
Angaston, SA	Tue 4.5.10	Barossa Valley / Eden Valley / Clare Valley / Adelaide Plains / Southern Flinders
Penola or Naracoorte, SA	Thu 13.5.10	Coonawarra / Mt Benson / Padthaway / Robe / Wrattobully
Yarra Glen, Vic	Tue 18.5.10	Yarra Valley / Mornington Peninsula / Sunbury / Geelong / Strathbogie Ranges / Henty / Gippsland
Griffith, NSW	Thu 20.5.10	Riverina / Perricoota

For updates to this schedule and further information visit the Winemakers' Federation of Australia website: [wfa.org.au](http://wfa.org.au)



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## SUPPORT FOR GROWERS CLAIMING WET

There have been discussions in the media recently about growers claiming the WET rebate after having their surplus fruit made into wine and supplying it direct to retailers. In an article published in *The Weekly Times* online on 3 February, WFA chief executive Stephen Strachan said retailers were exploiting the wine-tax rebate system to the tune of \$50 million a year and called on the Federal Government to restrict it to genuine wine producers. The article also quoted Strachan as saying that retailers were undercutting genuine producers struggling to cope with surging imports and oversupply. "Retailers are predators and will do everything they possibly can to undermine Australian wine producers' brands," he was quoted. "Their behaviour is absolutely deplorable."

While WGGGA does not support rorting of the WET rebate, we reject any implication that growers producing so-called 'WET wine' are not entitled to do so. Growers who are having their grapes processed into wine to sell direct to retailers are engaging in a perfectly legal business practice and those that hold a producer's licence should be just as capable of claiming the WET rebate as any other wine producer. We also take issue with the suggestion that in claiming the WET rebate, the Government is propping up growers' businesses that would otherwise be unviable. We would argue that a very large percentage of Australia's 2000 or more wineries would be unviable without the WET rebate too. Our estimates are that more than 1000 wineries are almost solely reliant on the WET rebate for their survival.

That said, WGGGA acknowledges that when growers enter business arrangements with retailers or any other wine purchaser and effectively get paid nothing for their grapes but instead claim the WET rebate as an offset, they can distort the market by giving retailers access to very, very cheap wine. That distortion of the system simply perpetuates the unrealistic and unsustainable volume of discounted wine on the retail market and undermines winegrape and wine prices. Therefore, we call on growers who are involved in the direct sale of their processed wine to retailers to ensure that they obtain a realistic price for the bulk wine that they are supplying that reflects a sustainable price for the grapes. They're not doing themselves or the industry any favours by undercutting wine prices to rock bottom levels. In the short-term, it might make good business sense but in the longer term it simply perpetuates unsustainable levels of discount wine that keep downward pressure on grape prices.

We are also very mindful of the feedback from a number of growers who feel that they have been forced to enter into direct business relationships with retailers and sell their grapes for little or nothing simply to survive in light of having their

contracts cut by the larger wineries and grape prices being driven to unsustainably low levels. It does, therefore, seem somewhat hypocritical for some of the wine companies to complain about these practices undermining the market when they, in fact, are the very ones who have forced those growers to look beyond the traditional avenues of selling winegrapes to established producers. Wine companies can't have it both ways; they can't cut growers' contracts and slam grape prices and simply expect growers to sit back and do nothing about it.

Any suggestion that growers should stick to growing grapes and not be grape processors is nonsense. That would be tantamount to saying that groups such as Vintage Traders and North-East Valleys Wine Group should be excluded from participating in the wine market, and the wine market should be left solely to existing wine companies – a concept which we reject out of hand. Grapegrowers who have a producer's licence and convert their grapes to wine at either their own or contract processing facilities are engaging in an entirely legitimate business activity and are quite entitled to do so provided they abide by the rules of their producer's licenses and don't step outside the WET regulations. Growers should also bear in mind that large volumes of very cheap wine sales based on zero rated winegrape prices will pull down the district weighted averages (DWA), which will influence those wine companies that use DWAs as a starting point in setting winegrape prices for each vintage.

In its pre-budget submission to the Federal Government, WFA suggests tightening up the WET rebate provisions and confining eligibility to wine that is "legally packaged and labelled for sale to an end user in the Australian market". We would argue that growers processing their grapes into wine and selling it at a profit direct to retailers is a viable business proposition and we reject the suggestion that this market opportunity be locked up for existing wine producers only.

## ABS 2009 WINE AND GRAPE INDUSTRY SURVEY

As many growers would know, the Australian Bureau of Statistics recently released its 2009 Australian Wine & Grape Industry Survey which indicated that the industry crushed 1.7 million tonnes of grapes in the 2008-09 financial year, a decrease of 0.1 million tonnes (5.4%) on the previous financial year, while the area of vines bearing grapes fell to 157,000 hectares.

Although the survey shows a nominal fall in vineyard acreage, the true extent of this fall may not be apparent given the vineyard data was collected using a survey methodology and not a census as was done in previous years. For example, Murray Valley Winegrowers suggest around 2000ha have been removed from production in the region over the last 18 months, based on



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the organisation's latest survey of growers. Whilst some of these removals may have been picked up by the ABS survey, the depth of the survey data is not sufficient for this to be determined. In 2009-10, and in alternate years beyond that, the ABS will be conducting a vineyard census which will enable the industry to get a more accurate picture of the response to the current over-supply. In the meantime, the industry is probably better off relying on state and regional data for the area of vineyard plantings to gauge the progress of the industry restructure process than the latest ABS survey.

## 2010 VINTAGE LIKELY TO BE DOWN

Initial estimates of the 2009-10 vintage suggest there will be a very significant fall in the nation's crush – down to 1.3-1.4m tonnes, based on estimates available at press time, compared with 1.73m tonnes in 2008-09. Despite this fall, we are also aware that a significant volume of fruit may also be left on the vine or harvested to the ground, due largely to the collapse of the Chardonnay market. Across south-east Australia, there has been a 30% fall in Chardonnay yields due in part to seasonal variations and but also in response to a reduction in the amount of water and fertiliser inputs that growers have been applying to their vines.

The heatwave that affected much of south-east Australia in November has had significant effect on some varieties, particularly Cabernet and Merlot. While some districts are saying these varieties have produced smaller berries and fewer bunches, other areas have reported that flowering was affected in Cabernet in particular, and Merlot to a lesser extent.

On a positive note, Shiraz appears to have held up pretty well and quality is reportedly very good. The great disappointment, of course, is that despite the likely drop in production, we've seen no improvement in prices. Throughout Australia, prices have again fallen significantly, by 30-40% and up to 50%. Under normal supply and demand conditions, prices should show some improvement with a lighter vintage but the 2010 prices have obviously been impacted by the still very tough domestic and export market conditions. Clearly, a vast majority of the larger wine companies are still trying to radically reduce their grape intake and inventories.

Our prediction is that there will be quite significant areas of winegrapes retired out of the industry across many districts following this vintage. The feedback we've received from growers, particularly in inland regions but also from some cool and temperate regions, is that 2010 will be their final vintage, off the back of sliding prices – with many suffering their worst year financially in decades. Our original estimate of 6-8000ha of vines being retired throughout Australia in the current 12 months is starting to look conservative.

## WGGA CALL TO ARMS ON TAX

***The Rudd Government needs to decide if it really wants an Australian Wine Industry because a new volumetric tax on wine will decimate Australian winegrape growers!***

The Henry Review of the Australian Tax System has recommended a new volumetric tax on alcohol content for wine – meaning the Australian wine industry is once again facing the real and immediate threat of a huge hike in wine tax. A volumetric wine tax would kick the winegrape sector while it is down. The Government response on volumetric tax for wine may come as early as the May budget, so the industry must protest to the Government now.

A new volumetric tax on wine at the same excise rate as packaged beer would be catastrophic:

- A \$12 wine cask would retail for \$37; 95% of Australian wine would rise in price with only wines above \$27 per bottle paying less tax; domestic wine sales would fall 34%. Tax would continue to increase under CPI indexing – meaning most high priced wines will also become more highly taxed within 3 to 4 years.
- More than 1000 smaller wineries could be forced out of business, as the current WET Rebate would go, without any guarantee of a new tax rebate replacing it. Regional winery tourism would collapse.
- 7000 of the 12,000 estimated job losses would be in the vineyard sector with the greatest, but far from all the impact, in the inland regions of the Riverland, Murray Valley and Riverina.
- 29,000 additional hectares of vineyard would be made redundant. The combination of the current economic collapse and severe production adjustment in the Australian winegrape sector with a new volumetric tax could reduce Australia's national vineyard area from 160,000ha to as low as 91,000ha.
- The collapse of the inland production zones would also decimate Australian wine exports by as much as \$800 million as the feedstock regions for Australian brand champion wines collapse.

**WGGA calls on all growers to take the fight against a new volumetric tax direct to the Rudd Government as a matter of greatest urgency!**

Every regional grower and wine industry association is urged to write to the Prime Minister, Treasurer and Minister for Agriculture, Fisheries and Forestry calling on the Government not to change the current tax arrangements on wine. Agitate with your local Members, local councils and State Governments to also lobby the Prime Minister and Treasurer against a change to wine tax.

**Contact WGGA today to obtain a Government Contact List, Volumetric Wine Tax Impact Summary or the full WGGA Wine Taxation Submission.**

Call 08 8362 9802 or email [info@wgga.com.au](mailto:info@wgga.com.au)



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# SUMMARY OF THE NEW WINE INDUSTRY AWARD

- Ordinary Hours of Work, 6am to 6pm Monday to Friday and 8am to 6pm Saturday and Sunday; except for pre-harvest and harvest period from 1 November to 30 April when 5am to 6pm Monday to Saturday. Spread of hours by agreement between employer and employee.
- Piecework rate set at 20% above minimum wage level but no guarantee of final earnings level for piece-work employees.
- Skill allowances for leading hands engaged in Grade 5 Classification activities.
- Penalty rates of 125% for Saturday and 200% for Sunday, with penalty rate on public holidays of 250% with minimum four hours work.
- Shift work – Afternoon shift finishing after 6pm and before or at midnight; night shift finishing after midnight and before or at 8am. Shift workers receive allowance of 15%, but if employees works night shift only or remains on night shift for more than four consecutive weeks, or works more than two-thirds on night shift the allowance will be 30%. The wage rate for working Saturday shifts (between midnight Friday and midnight Saturday) is 150%.
- Overtime – 150% for the first 2 hrs and 200% thereafter for overtime on any day or shift; 200% anytime on Sunday; time off in lieu of paid overtime on an hour for hour basis, with time off in lieu to be taken within four weeks of accrual.
- Annual Leave Loading – 17.5%
- Transitional arrangements – where previous awards or other industrial instruments specified lower or higher payments the new rates will be phased in from the pre-existing rates from 1 July 2010 to 1 July 2013 in 20% annual increments with the full award rates to apply from 1 July 2014.
  - Minimum wage rates, including junior employees and those on training rates, piecework rates and any applicable industry allowances
  - Loadings and penalty rates including casual or part-time loading; Saturday, Sunday, public holiday or evening or other penalty; shift allowance.

**THE NEW WINE INDUSTRY AWARD CAME INTO FORCE ON 1 JANUARY BUT THE PRINCIPAL FINANCIAL COMPONENTS – WAGE RATES, PENALTY RATES, ETC – WON'T APPLY UNTIL 1 JULY AND WILL BE PHASED IN OVER A 5-YEAR PERIOD.**

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**JOHN DEERE**



**JOHN  
BASTIAN**

### Family

Wife Anne; children – Mark (24) and Sarah (20)

### Vineyard

43ha at the southern end of Clare Valley near Leasingham

### Varieties grown

Shiraz, Cabernet, Riesling, Tempranillo, Pinot Gris, Savagnin

### How long have you been growing winegrapes?

Since 1998

### Current industry representation or memberships

Member of the Clare Winegrape Growers Association; representative for Clare on Wine Grape Council of South Australia; representative for South Australia on the board of Wine Grape Growers' Australia.

### What do you like to do in your spare time?

Water skiing, planting trees – particularly around our vineyard and along the Riesling Trail.

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

We went to Europe last year. We mostly holidayed in Spain where we managed to visit Galicia, in the north-west of the country, from where Albarino originates. The climate here is greatly influenced by the Atlantic Ocean. Galicia is in the gulf stream and has the same rainfall as the UK but is 5°C warmer. The rainfall of approximately 1.5m provides some viticultural challenges! Grapes are

grown on trellises about 2m off the ground. Galicia has about 3000ha of vines and around 6000 growers, which means there's about half a hectare for every grower. But there are some quite large growers with 20-30ha; then there are others that would only have enough vines to cover a couple of tennis courts.

### Has the industry's current over-supply of winegrapes had any impact on your vineyard and how it is managed?

We've got around 10% of fruit that currently doesn't have a home. That's not good but it's better than some other growers. We have also diversified into some of the newer varieties, such as Pinot Gris, Savagnin and Tempranillo. We need to remove some Riesling and may not plant out that patch for some time until we get a clearer picture on where the industry is heading. Cost reduction is an obvious focus but it is important not to do that at the expense of quality – a tricky balance! We now supply four wineries and I think that diversification of customer base is also important at these times.

### What has been the general response to the joint statement by the four national wine industry organisations on the nation's over-supply from growers you've spoken with recently?

Most people have been supportive of it. Some people wanted to really debate the detail of the statement before it was released but our Clare committee was of the opinion that it was the big picture that was important, not the detail. It is not clear yet whether growers in Clare have exited the industry but there is evidence of vineyards that are untended. In the mid-north, quite a few grain farmers put in 5-10 acres of vines on their properties in the midst of the wine industry's boom. A lot of those are now looking untended. It is perhaps these sorts of growers that we might see dropping by the wayside. Clare

has also got a large number of small growers on traditional, small soldier settlers blocks – I'm not sure how they'll fair in the long run.

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

Robert Hill-Smith – Yalumba seems to be surviving all the upheaval in the industry quite well; theirs is a big company which doesn't seem to have made the same mistakes as the other big companies. Phil Reedman – former product development manager for wine for Tesco in the UK, who currently runs his own global wine consultancy business in Adelaide working with wineries in developing business strategies and products; he would provide a perspective of the international wine market. Mark Samaha – he's the fine wine manager for Dan Murphy's in WA/SA and would provide a retailer's perspective of the local wine market; his views would also be interesting given that Dan Murphy's deals with the high-volume end of the wine market as well as the more up-market end.

### As part of its key strategies for 2009-10, WGGA is aiming to extend its membership within the winegrape sector to 60% of the nation's grapegrowers by the end of the financial year. Why do you feel it is important to be a member of WGGA?

The wine industry has to have a national body. There's been a lot of debate lately about who should pay for such a body and who has the say in how it is run. But, putting all that aside, a body that represents the majority of growers in most regions throughout the nation will have a lot bigger impact in dealing with Governments than a body that merely represents a portion of the nation's growers from, say, a single region.



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# Stay on the cutting edge

Over the years viticulture has seen many changes, especially when it comes to labour. First we relied on manual labour, then we brought in the help of animals, and now machines – all in the name of saving time, money and achieving higher yields. While some activities may still require a human touch, many benefit significantly from mechanisation.

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<sup>^</sup> Rear axle width, flange to flange  
\* Engine horsepower (ISO) 97/68 EC Standards