



# The United Grower

April 2007

*The newsletter of Wine Grape Growers' Australia*

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## Introduction

**Mark McKenzie**  
Executive Director  
Wine Grape Growers' Australia

In this issue of *The United Grower* we bring you the good news that prices are significantly firming – but the bad news is that they have not yet come back to levels where growers can make a viable living. WGGGA's overriding concern is the impact the industry's current pricing operations are having on grower finances. Low prices plus the significantly reduced yields (due to frost and drought) represent less income this year, going into next.

WGGGA is actively addressing these concerns and in this issue of *The United Grower* we highlight some of the actions WGGGA is taking to assist growers to be constructive in an extremely difficult environment, especially with regard to economic and climate challenges.

In an effort to reduce the threat the nationwide drought is having on grower viability, WGGGA has partnered with other key industry leaders to form the National Drought Management Taskforce.

The taskforce has two key roles:

- it will ensure growers get the best possible technical information on how to manage their business with significantly reduced water levels
- it will establish a national model that provides greater understanding of future grape harvests. Read more in this issue.

*The United Grower* also talks about the serious structural problems the Taking Stock report spotlights. Driving our industry forward into a viable and sustainable future is at the forefront of WGGGA's mission. To do this we need a strong membership. In this issue our chairman, Alan Newton, calls on your support and emphasises the need and benefits of becoming a member of WGGGA.

As advocates for Australian winegrape-growers, WGGGA needs tangible support to achieve its goals on your behalf, so we urge you to support us through membership subscriptions. ■



## Message from the Chairman

**Alan Newton**  
**Chairman**  
**Wine Grape Growers' Australia**

### We are asking you to support WGGGA by opting to become a member in 2007.

**M**embership is open to all winegrape-growers in Australia and your support will ensure WGGGA is strong and adequately resourced to achieve its aim of driving a profitable and sustainable future for the Australian winegrape sector.

WGGGA's Executive Committee is only too aware of the current extraordinarily difficult financial circumstances confronting growers across the country. It is not an easy time to be asking you to provide funding for a new national industry organisation, but it is in such difficult times that the winegrape sector fully recognises the need for a strong national advocate to put the growers' views forward and communicate to the Government, wineries and other wine industry bodies the economic barriers facing growers.

WGGGA was formed out of the common view amongst growers that the winegrape sector wasn't being adequately represented at Government or industry levels, and certainly was not being included in the development of crucial wine industry policies and strategies.

The best example of this is that while growers continued to contribute millions of dollars a year in winegrape levies, no national growers' body existed to target these funds to where the sector saw they were best invested.

WGGGA has the capacity to make a real difference for growers and for the Australian winegrape sector as a whole by actively developing policies, strategies and programs that will deliver improved grower profitability and sustainability of their businesses, as well as providing better industry information and analysis to support grower decision-making. But we cannot do this without your membership.

To date the three inland regional bodies – the Riverina Wine Grapes Marketing Board, Murray Valley Winegrowers, and the Riverland Wine Grape Growers Association – have carried the can for the entire winegrape sector by paying for WGGGA services and programs on their own.

It is not fair or equitable that the cost of running WGGGA should continue to fall to inland growers alone. All Australian winegrape-growers, across every wine region, can do their bit to ensure the growers' views are heard at the national level by joining WGGGA and paying the voluntary annual subscription of 50 cents per tonne from their 2007 vintage fruit payments.

An information package on WGGGA containing a membership subscription authorisation form has been sent to every winegrape-grower in Australia. It also contains a flyer outlining some of WGGGA's achievements to date in representing the interests of growers nationally. However, there is a very long way to go to achieve the long-term sustainability for the sector required to deliver viable incomes and a secure future for grapegrowers. There is a very long list of national industry issues confronting growers but little can be achieved without your active support of WGGGA.

On behalf of WGGGA's Executive Committee and other winegrape-growers who have also joined WGGGA this year, I would like to thank you in advance for your support and membership subscription. ■



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## Industry update

**Mark McKenzie**

**Executive Director, Wine Grape Growers' Australia**

### Massive decline in vintage 2007 – but prices remain depressed

**W**GGGA has predicted a massive decline in 2007 vintage volume of 800,000 tonnes or a 40% fall on last year to a national crush of only 1.2 million tonnes. The revised production estimate was released after a WGGGA Executive Committee review of regional harvest reports and vineyard estimates, at its February Board meeting in Sydney. The predicted 1.2 million tonne vintage equates to a 400 million litre shortfall in the wine industry's annual wine production requirement, and will all but wipe off the 460 million litres in uncommitted wine stocks reported last year.

WGGGA predicts that current wine inventories will be exhausted in 2008, and that the scramble for grapes by wine companies in all regions as vintage progresses will see all fruit taken up by the end of the current vintage – albeit at still depressed prices for most fruit. Combined with the continuation of low grape prices in the major production regions the sharp fall in yields will only deepen the economic plight of thousands of winegrape-growers – some of whom are now experiencing a fifth year of unviable income levels.

WGGGA's Executive Committee has expressed alarm at the continuation of unviable prices for 2007 vintage winegrapes, despite the very short supply of fruit this year – particularly in the major inland regions of Riverina, Murray Valley and Riverland. There is clear evidence of market failure in the winegrape market, which has remained at depressed price levels despite growing evidence since late 2006 of a serious production shortfall this vintage. Winegrape prices have failed to fully reflect the change in 2007 vintage production position or the prospect of a severely drought effected 2008 harvest – meaning the majority of growers are still being paid at below the cost of

production. Bulk wine prices have improved, but winegrape prices have moved only marginally. The WGGGA Executive Committee has also expressed concern that spot market prices had shown a firming trend, but a number of the major wine companies had further reduced their contracted prices this year – in a sign that some wineries were continuing the 'rush to the bottom' or the continuation of the trade in heavily discounted, low margin-high volume wine trade seen in recent years, that continues to deliver unviable grape prices. It is apparent that many processors and wine companies are determined to extract another low price vintage out of growers to rebuild their business margins, instead of renegotiating grape and wine supply prices to reflect the short supply over this and next vintage.

WGGGA has called on wineries and processors to immediately lift grape prices to avoid a financial crisis in the winegrape sector – warning wine companies that the industry was facing an exodus of growers that will simply perpetuate the boom-bust cycle, and cost wineries far more in the long run, through loss of experienced vineyard operators and limitations on future supply of fruit needed to meet ongoing market requirements.

#### WGGGA Vintage 2007 Projections (February 2007):

Zone/Region	Tonnes
Riverland	350,000
Rest of South Australia	230,000
Murray Valley	300,000
Rest of Victoria	32,000
Riverina	210,000
Rest NSW	40,000
Western Australia	45,000
Queensland	4,000
Tasmania	1,000



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## National report says 'reshape industry'

Considering our current downturn, it is no surprise that the results of the *Taking Stock and Setting Directions for the Australian Wine Grape Industry* report recommend a major reshaping of the industry if growers are to remain in business in the longer term.

The report found significant economic and structural challenges facing Australia's 8000 winegrape-growers, brought on by a doubling of the national vineyard estate in the last decade; a misalignment of grape supply with demand; a predominance of small scale, higher cost vineyards; and the negative effects of a more globally competitive market on winegrape and wine prices eroding grower incomes and longer-term viability.

The report – designed to assess barriers to future grower viability and propose strategies to bolster the industry's resilience and long-term sustainability – follows six months of intensive consultation with growers across Australia and industry analysis during 2006.

Its over-riding theme is the rapid emergence of a far more competitive international market environment resulting from rapid growth in production in all New World-producing countries, which will dictate more moderate winegrape prices than over the last decade.

Linked with the growing consolidation of retailer market power across the world, the trends of downward price pressures on wine prices and the dominance of cheaper wine categories are becoming entrenched.

The report's other major findings include:

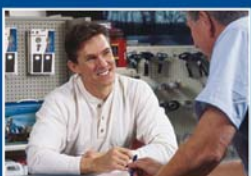
- the Australian winegrape sector will be reshaped, as many existing growers exit the industry
- growers must respond to mounting international market pressures by improving their economies of scale
- the industry must continue to invest in innovative viticulture to reduce vineyard costs
- information gaps must be filled and industry data improved to allow better business planning and commercial decision-making by growers

- growers will need to become more engaged in wine market development to ensure markets for their grapes continue to grow
- growers, winemakers and retailers need to better understand the real costs of production at all levels of the value chain to ensure viable returns for all sectors
- better business relations need to be developed between growers and wineries for industry sustainability
- response strategies to climate change must be developed
- the changing shape of the industry will bring new pressures in skills development and industry leadership that will need to be resolved
- the new national growers body – Wine Grape Growers' Australia – will need to be strongly supported by the industry to allow the new strategies and development programs to be implemented, and for the flow of independent industry and winegrape market analysis to growers.

## Wine industry Code Of Conduct hits a hurdle

After five years of discussion between grower organisations and the WFA, and at the very point of putting up the draft Australian Wine Industry Code Of Conduct for the joint approval of the WGGA Executive Committee and the Executive Council of the Winemakers Federation, the Code has struck a hurdle that threatens to derail its adoption. Originally proposed for launch for vintage 2007, a long and painstaking process of Code development, major rewriting and editing by the joint WGGA/WFA Wine Industry Relations Committee has seen its formal approval and adoption blow out – with a new target set for application for the 2008 vintage. Now, the Code appears to be unraveling, with WGGA proposing that Federal Minister for Primary Industry, Fisheries & Forestry, Peter McGuaran, call a joint meeting of industry leaders to try to solve the current impasse.

The problem lies with the major wineries and WFA insisting that the provisions of the Code under which wineries and processors will be bound to once they sign – should not apply to existing contracts. However,



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WGGA insists that for the Code to be worth anything, wineries should be required to bring their existing contracts in line with the Code provisions within six months of signing the Code. WFA has argued that it would be too expensive for wineries to amend existing contracts, but WGGA has pointed out that wineries are regularly providing growers with variations to contracts and if a signatory wine company is not prepared to phase in new clauses in contracts over six months, then it is questionable as to whether it is really committed to the Code and to its most basic tenet to “at a minimum, promote the Code”.

Were existing contracts to remain outside the provisions of the Code, this would mean a wine company could sign the Code, despite its existing contracts being flagrantly in breach of the Code provisions. In the same way, companies which have recently written new grape supply contracts for up to seven years, would be under no obligation to bring these in line with the Code until these contracts expire, and there is also doubt over whether rolling annual supply agreements would be covered by the Code – if its application were left open-ended. WGGA has told WFA that this is unacceptable to growers who will rightly doubt the commitment of wine companies to improving the trading relationships between them.

WGGA has also told WFA that the Code targets of 75% of annual purchased winegrape crush to be processed by Code signatories in the first vintage after its introduction, and 85% by year two, will have no chance of being met if existing contracts are exempt from the Code provisions. WGGA has proposed that the performance targets of the Code be ‘beefed up’ by including the number of wine companies and processors who have adopted the Code, as well as the total percentage of purchased fruit processed by Code signatories.

As well as arguing that existing contracts should be exempt, WFA is also insisting that the Code guideline for the minimum time period for advice of grape price prior to the commencement of harvest be reduced from the previously accepted standard of four week period, to only two weeks. WGGA has responded that this is

totally unacceptable – illustrated by the behaviour of some wineries in not announcing grape prices until immediately prior to the commencement of the 2007 vintage, which gave growers little or no time to find more viable markets for their fruit. WGGA believes that the industry needs to adopt longer advice timeframes on price and has called for a new standard for price advice to growers by the end of October, with price and volume advice no later than 4 weeks prior to harvest commencing. Fosters’ similarly timed advice of spot market prices for 2007 shows this can be done. Earlier price advice would reduce the incidence of exploitive pricing practices by some wineries and processors immediately prior to vintage – a burning issue for many growers in recent years.

WGGA is also seeking the inclusion in the Code of two provisions drawn from the mandatory Horticulture Code Of Conduct – a 14-day cooling-off period on contracts, linked to a requirement for wineries and processors to advise growers to seek independent legal advice on contracts or to sign a waiver rejecting that advice. Both these provisions will promote the fairness and transparency in trading relationships between growers and wineries that is at the heart of the Wine Industry Code.

WGGA has told WFA that the industry is at a critical juncture on the Wine Industry Code process. After five years of discussions on improving grower-winery relations, winegrape-growers’ patience with a voluntary code process will be exhausted if a significant wine sector commitment to the Code cannot be achieved and the Code implemented for the 2008 vintage. If the current disagreements over Code content cannot be rapidly resolved, the exploration of a voluntary code of conduct will be finished, and WGGA will seek a mandatory code.

## WGGA welcomes changes to MIS

**W**GGGA has publicly supported the Commonwealth Government’s decision to reduce the up-front tax deductions available to investors in non-forestry Managed Investment Schemes (MIS) in the agriculture sector from 1 July 2007.



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There have been serious concerns expressed by growers over the influence of MIS vineyards in the winegrape sector in recent years, with MIS vineyard plantings growing to 9.8% of the national vineyard estate or some 15,000 hectares in less than 10 years. Many growers feel that investor based plantings have played a significant part in overheating supply, and have secured long term supply contracts with wineries that have displaced many family run vineyards.

WGGA welcomed the Government's announcement, which it believes will reduce speculative, tax-driven plantings, and will reduce the activities of some investment promoters who have promoted investment vineyards with little likelihood of ever being profitable. Importantly, WGGA believes the changes to tax arrangement for MIS will not stop new investment in vineyards. WGGA is not anti-investment, or anti-MIS, but it believes the huge up-front deductions for MIS investors has meant that some schemes have been sold at exorbitant per hectare cost levels, with establishment and management costs at many times the average cost of establishing and running similar vineyards. Whenever the tax deduction becomes the most attractive part of the investment there is the real danger that the plantings will be made, whether or not there is a viable future market for the grapes it produces – skewing the supply- demand balance for winegrapes and wine. The tax change was welcomed as a good thing because investors will now have to decide to invest based on the capacity of the enterprise to return an operating profit over the longer term, not simply on short-term tax benefits.

## Drought taskforce

**W**GGA has partnered with other industry organisations to form the Drought Management Taskforce. Along with WFA, AWBC, GWRDC, all State wine industry associations representing winegrape-growers in South Australia, Victoria and NSW, Australia's top four wine companies – Fosters, Hardy's, Orlando, and McGuigan Simeon – and Federal Government representatives, we aim to assist the wine industry to respond to the drought and minimise its adverse impact on production.

The current drought is unprecedented and poses a significant challenge for the Australian wine industry.

The mission of the Taskforce is to collate relevant water and water-use information to assist the industry plan its way through production impacts of the drought. Data will be collected at regional and national levels so we know how much reliance there is on irrigation water and from where it is sourced. This data can then be used to model likely future grape harvests and provide growers with practical information on how best to manage their vines under a range of reduced water allocation scenarios.

WGGA will provide to industry the best possible information for making decisions about how they will manage their vineyards and yields leading into 2008 vintage.

## WGGA calling for subscriptions

**W**GGA has approached national wine companies asking for their assistance to collect grower membership subscriptions for 2007.

As there is no mechanism for collecting a voluntary industry subscription via the Federal winegrape levy system, WGGA is instead using State or regional-based statutory levy systems where these exist (Riverina, Murray Valley and South Australia). In all other zones WGGA is asking growers to sign an agreement form to have their voluntary membership subscriptions deducted from their grape payments by wineries and remitted to WGGA.

In the case of growers in the Riverina, Murray Valley and all regions of South Australia, wineries will be required to deduct the levy and remit it to the appropriate statutory authority. Under the levy arrangement in these zones, growers are able to write to the statutory authority to request the rebate of their subscriptions.

In the case of South Australia, the WGGA subscription will form one half of the new State growers' levy of \$1/t to apply from vintage 2007. The second 50¢/t will be raised to fund the operations of the new Wine Grape Council of South Australia, established to



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represent growers and implement industry development programs at the State level. In some regions (Clare and Barossa) new regional levies are being introduced, and the combined State and national subscription is included in these regional levies.

For growers in zones other than Riverina, Murray Valley and South Australia, WGGA is asking that wine companies assist by forwarding WGGA's membership package to their growers and deducting the 2007 voluntary subscription of 50¢/t from second grower fruit payments in June – after they complete the Membership Subscription Authorisation Form, approving the deduction. The timing of WGGA deduction aligns with the deduction of the Federal winegrape levy, and therefore will minimise any additional administrative burden.

### WGGA website

**W**GGGA will soon launch its own website. This will be a portal for all winegrape-growers, providing major industry information, policy information, WGGA's strategic plan, back copies of *The United Grower* and other essential grower information – plus links to key industry bodies. ■

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