



# The United Grower

December 2006

*The newsletter of Wine Grape Growers' Australia*

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## Introduction

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

**W**elcome to *The United Grower* – WGGA's bi-monthly newsletter. Since our last report, WGGA's Executive Committee has moved forward in several key areas of activity. From strengthening dialogue with the Australian Government to finalising foundation documents, there's plenty to read about in this issue of *The United Grower*.

Now that the *Taking Stock* report is in draft form, we have a greater insight into the over supply crisis and its real impact on the winegrape-grower sector. The report will form the basis of our ongoing talks with Government and guides our proposals for it to work with WGGA to support the industry. In this issue we update you on the framework of an industry adjustment package put to Government as well as a report by industry analyst and consultant, Ken Moore, on the national workshop held in August as part of the *Taking Stock* report research.

Also, WGGA Chairman Alan Newton talks about the importance of

research and development programs and how they could revitalise the industry. As it stands now the winegrape-grower sector does not currently have a policy position on R&D. WGGA strongly supports investment into innovations that will enable the industry to become more efficient and competitive, as well as give it a better understanding of market and consumer behaviour. This thinking will form the basis of a WGGA R&D policy.

We also report on other advancements made by the Executive Committee, including the development of a Code of Conduct and the signing off on WGGA's Constitution.

Now most of the basic work has been done to set up WGGA's organisational structure, we are in a better position to begin bringing growers together to create a cohesive national organisation that works together towards a more sustainable and profitable future. ■



## Message from the Chairman

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

**A**ustralian grapegrowers and others in the wine industry are currently engaged in a battle for survival in the face of difficult market circumstances.

In this context WGGGA is involved in a number of wide-ranging reviews of aspects of the present industry arrangements and operations on behalf of our grapegrowers. The aim here is to see what can be done to improve the outlook and situation of individual grapegrowers and their families, their communities, the wider industry and the nation as a whole.

In this respect, it is very important that we do not lose sight of industry innovation and what can be done to make present industry investments in research, its development and adoption, far more effective. Innovation has been one of the key drivers of past industry successes and will undoubtedly be of critical importance as we seek to reverse the current situation and to build a better future for grapegrowers and their families. The aim will be to ensure that Australian grapegrowers have continued access to the world's best innovative technologies so they can be at the cutting edge of global competition.

At the moment grapegrowers and winemakers contribute to the Grape and Wine Research and Development Corporation (GWRDC) through levy payments on grapes crushed at rates of \$2 per tonne from growers and \$5 a tonne from winemakers. With the Australian Government matching contributions this results in a total of around \$25 million per annum for investment in industry innovation.

WGGGA will be working closely with grapegrowers in coming weeks to develop and implement appropriate R&D policies to guide us into the future. In the first instance I, as WGGGA's Chair and Mark McKenzie, WGGGA's Executive Director, will be consulting with GWRDC, AWRI, other research agencies and institutions across the grapegrowing sector to make

sure that grapegrower views are fully taken into account in determining future priorities for viticulture research.

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There is also a need for improved dissemination of research results so that grapegrowers are fully apprised of cutting edge technological breakthroughs and the full range of enabling technologies.

At the recent meeting of the WGGGA Executive Committee, an expert committee was formed to advise on and develop a statement of R&D policies as a basis for discussion with grapegrowers. This will examine ways to ensure that grapegrowers are fully engaged in the determination of future viticulture research priorities, including through the re-institution of the Priorities Reference Group process. It will also look to the key elements which comprise the overall wine industry innovation system with a view to commenting on the adequacy of present arrangements, any perceived gaps and the ways in which the system may be enhanced.

The processes for involving grapegrowers in consultations about appropriate R&D priorities, communication about strategic plans for research, dissemination of research results and the scope for adoption by growers and appropriate reporting and accountability over performance of R&D investments will be of particular relevance.

The end result will be to make sure that winegrapegrowers are satisfied that the available funds for viticulture R&D are invested in the most appropriate manner. ■



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## WGGA framework for Government support

**Mark McKenzie**

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

**A** new package of measures to support the Australian winegrape sector is being discussed with the Federal Government. One of the key issues we have put to the Government is structural adjustment within the winegrape-growing industry. We are looking at ways in which we can support, or implement a framework, for those who wish (or need) to leave the industry, because their businesses are not currently viable or will remain viable into the future.

The second issue we have before the Government is how we can re-equip growers for what we are calling the "new era" on the other side of the current downturn. How can we prepare growers to operate in an industry that is going to be vastly different on the other side of the downturn, than it was before we had the current grape surplus crisis?

The *Taking Stock* report is already telling us that it will be a far more competitive international market environment for growers – so the way they manage their business practices, their winegrape marketing, and the relationships they develop with wineries/processors and others along the market chain, are all important for a viable future. That said, it is most unlikely that the Government will consider offering any substantial industry adjustment support before seeing what vintage 2007 brings and the final *Taking Stock and Setting Directions* report is tabled.

### Reducing supply

It would be premature to discuss with Government any intervention to rebalance supply before we see what the *Taking Stock* report has found. It is due to be released in December. Its recommendations will assist us to devise strategies and form the basis of our future dialogue with Government. On specific measures, to adapt the industry to its new operational environment.

Whichever way the *Taking Stock* report goes, it will take a well-argued case to convince Government to intervene by taking production out of play. It has stated that the ultimate responsibility for the management of supply and demand lies with industry itself, including growers.

At this stage, we don't have a strong feeling for the likely yield in 2007. The vintage will be frost affected and drought affected if the current dry conditions continue.

However, WGGA would consider looking again at programs such as, mothballing of vineyards should we find ourselves with another big vintage in 2007. If we again have a large vintage (against all the current predictions in the wake of the frosts) we may have no choice but to intervene in the supply chain to allow excess wine stocks to be worked down.

### Taking Stock report

One of WGGA's activities is a comprehensive 'Taking Stock' exercise to get a baseline view of where the industry presently stands and the underlying factors which have contributed to this position. The *Taking Stock* report gives us a very detailed situational analysis of the winegrape sector.

This will be followed by a 'Setting Directions' exercise which goes on to map out the appropriate actions for grapegrowers to take to improve industry circumstances.

Both activities are being conducted through an Australian Government, Department of Agriculture Fisheries and Forestry (DAFF) 'Partnership' program. It will complement another industry 'Directions' study being conducted by Winemakers' Federation of Australia and the Australian Wine and Brandy Corporation, with input from WGGA. This broader *Directions* strategy for the whole industry will identify new market opportunities for Australian wine.

The overall approach is to look at all the contributing factors to the present industry situation and all the



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options for overcoming the present adversity and for improving the lot of grapegrowers.

One of the main findings of the draft *Taking Stock* report is that it endorses the formation of WGGA, saying there is a real need for a strong national grower body, particularly to coordinate initiatives to drive the performance of the winegrape-growers' sector and collaborate with other players in the industry.

In addition, the *Taking Stock* report has found significant areas of hardship amongst growers. It shows there is a high number of growers who rely on spot markets and that the collapse of spot market prices over last two years has devastated many businesses.

It has found a majority of Australian vineyards have major structural issues. Most of these vineyards are not viable at the current winegrape price levels and the current vineyard production costs. So it means that changes will be required for winegrape-growers to win grape sales and make a profit in the future. Growers are going to have to compete more effectively to secure a sustainable future – even when supply and demand become more balanced.

WGGA believe the *Taking Stock* report will reinforce to Government that the winegrape-grower sector does have a serious and deepening financial problem that will only be effectively tackled if we can reduce supply and equip growers to really compete internationally into the future. The industry the major part to play but it is vital the Government facilitates the necessary changes in the industry to allow us to do this.

The *Taking Stock* report is currently being finalised and once completed we will enter the next stage of the project – *Setting Directions* – out of which industry strategies will evolve. A *Setting Directions* national workshop was convened in Adelaide on 9 November 2005.

## Wine Grape Council of South Australia

WGGA is pleased to see the Wine Grape Council of South Australia formally established. An important function from WGGA's point of view is that this new body has assumed the role of the WGGA electorate convenor in the northern and southern South Australia WGGA electorates. Two members of the new State

Council have been appointed to the WGGA Executive Committee. Sean Edwards from Kirribilly Viticulture has been appointed to the northern South Australia zone seat and Vic Patrick of Patrick Vineyards for the southern South Australia zone seat.

WGGA is pleased to see that there will be a single grower State body for South Australia and we look forward to working with the council on developing effective national policies and programs.

## Code of Conduct

Significant progress has been made in drafting the first Code of Conduct for the Australian wine industry. It has been a joint venture between WGGA and Winemakers' Federation of Australia through the joint Wine Industry Relations Committee, which formed an editorial panel to review the material supplied by the appointed Code of Conduct consultants. It is likely that the Wine Industry Code of Conduct will be in place for vintage 2007 to guide fair, open and transparent commercial dealings between wine companies and growers.

## Research and development

WGGA has formed an R&D Sub-Committee to be chaired by Chairman Alan Newton. The Sub-Committee has two tasks: the first is to develop R&D policy for the winegrape-grower sector. It will identify practical R&D objectives for the grower sector and advise methods on how to achieve them.

The second task is to set R&D priorities. Which projects would the winegrape sector like to see investment in first? The AWRI is looking to strengthen its engagement with the sector through the appointment of a WGGA nominee to its Board. Both WGGA and WFA need to determine which decisions are the best for the industry to drive Federal research and development activities. WGGA has been requested to provide specific sector input into the GWRDC's five-year plan.

## WGGA Constitution

WGGA's Constitution has now been signed off. Key points of this foundation document include the employment of the eight-zone electoral system. Membership will be voluntary and on an individual



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enterprise basis. The Executive Committee will operate as an interim board until the end of 2007 at which time it is expected the first elections from WGGA's grower membership will occur.

## Strategic plan

The Executive Committee has developed the framework for a WGGA strategic plan. The basis of this plan is recognition by growers, industry bodies, and Government that WGGA is the national body representing the Australian winegrape-grower sector.

WGGA's mission will be to develop and implement strategies and programs for the winegrape sector and whole of wine industry that drive grower sustainability by delivering economic benefits to the Australian winegrape sector and valued services to WGGA members.

WGGA has four key aims:

- 1 To set the sector's agenda and engage with growers
- 2 To drive the sector, and the whole of industry, strategies for growers' sustainability
- 3 To drive a cultural change in the wine industry by delivering effective industry relationships
- 4 To facilitate improved resources for growers by developing programs for the sector and valued services to members.

## Australian Wine Grape Growers' Directory

WGGA encourages participation in the new *Australian Wine Grape Growers' Directory* to enable a comprehensive database of growers and their plantings to be developed.

We were told at the June national industry summit that Government wants industry to 'help itself'. By registering vineyard details with the National Vineyard Database, and releasing the information to the new *Winetitles' Directory*, grapegrowers will be assisting with the supply of better information and statistics to their own industry – something industry bodies have been crying out for in recent years.

To list your vineyard free-of-charge visit [www.vineaccess.com](http://www.vineaccess.com) or contact Winetitles on (08) 8293 4666.

In addition to this *Directory*, WGGA continues to have discussions with the Australian Government on the establishment of a national vineyard database which WGGA strongly endorses.

We still have two key areas where we do not have enough reliable data. One is plantings and the other is wine stocks. Until we can get a bigger picture on how many grapes we produce and how much wine we hold in storage, it makes the task of managing supply and demand even more difficult.

A comprehensive vineyard database would offer other benefits, such as strengthen our data on environmental management practices, which an increasing number of overseas buyers are now calling for.

## National workshop

The national *Taking Stock* workshop held in Melbourne in August, attended by key industry personnel, revealed that the winegrape-grower sector is going through fundamental changes. This is primarily in regard to changing commercial relationships which are going to have enormous impact on how growers structure their businesses into the future.

The second major theme of the workshop was that the grape sector needs to focus more on developing relations with other people in the value chain, not just winemakers. Traditionally, growers rely on winemakers to tell them what types of grapes to grow and what quality they need. But the industry is changing and growers will need to build stronger relationships with retailers and consumers to help them make their business decisions.

WGGA's role will be to provide growers with an independent assessment of the market and advise them on future trends.

A third issue that came out of the workshop was the way we need to think about our export markets. There is a world-wide over supply of grapes and wine – it's not just an Australian phenomenon. We must be more competitive as growers and think about the global wine market if we are to remain competitive. ■



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## Taking Stock

**Ken Moore**  
**Industry analyst**  
**Kiri-ganai Research**

*National Workshop for Taking Stock of the Australian Wine Grape Industry held in Melbourne on 24 August.*

The workshop was part of the *Taking Stock and Setting Directions Project* which is an initiative under the Australian Government's Industry Partnership Program.

Forty people from all sectors of the industry participated. They included winegrape-growers, representatives from grower and wine industry organisations, winemakers, wine retailers, Australian Government and State Government departments, national industry organisations, the vine improvement sector, universities and bankers.

Woolworths, which is Australia's largest wine retailer and our three largest wine companies (Fosters' Group, Hardy Wine Company and Pernod Ricard) attended.

Mark McKenzie, Executive Director of Wine Grape Growers' Australia said it was the first time that all sectors of the Australian wine industry had been together in a forum to consider the situation and prospects for winegrape-growers. Maintaining this collaboration on industry issues will be important for Australia to continue to compete successfully in world markets.

The workshop considered major industry issues such as the impact of world and Australian grape and wine over supply on winegrape production, prices and incomes; the importance of all sectors of the wine industry's value chain working together; and the capacity of the winegrape sector for meeting the challenges ahead.

Some of the key messages from the workshop for the future of the industry were:

- Competition in the world wine market will be fierce in future and Australia will need to have a concerted and focussed marketing effort to defend existing markets and target new opportunities in both popular premium and fine wine markets.

- The world and Australian over supply of wine and grapes will continue to place pressure on prices for winemakers and grapegrowers.
- Even with some rebalancing of demand and supply, it is unlikely prices will return to the levels of the boom period of the late 1990s and early 2000s in the medium term. Grapegrowers will need to look for new ways to be profitable at lower grape prices and less secure grape supply contracts.
- Benchmarking Australia's cost of production and quality against international competitors to find ways of establishing competitive advantages will be vital for future prospects for the industry.
- Grapegrowers and wineries will need greater mutual understanding of their respective costs of production and prices to build better relationships as the structure of their businesses change (e.g. greater consolidation of both winemaking and grapegrowing).
- Mutual respect and understanding of the roles of the different sectors of the wine industry value chain will be critical for industry resilience as we compete with other countries for market share.
- The pace of change in world wine markets and supply chains will require a culture and strategies for continuous improvement in grapegrowing backed by strong R&D that achieves innovation in production and marketing.

The workshop, along with consultations with many industry representatives and a review of industry information, contributed to preparing a *Taking Stock* report on the Australia's winegrape industry. This will provide a foundation for *Setting Directions* for the industry's future – a process begun at another industry workshop on 9 November 2005 in Adelaide. ■



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