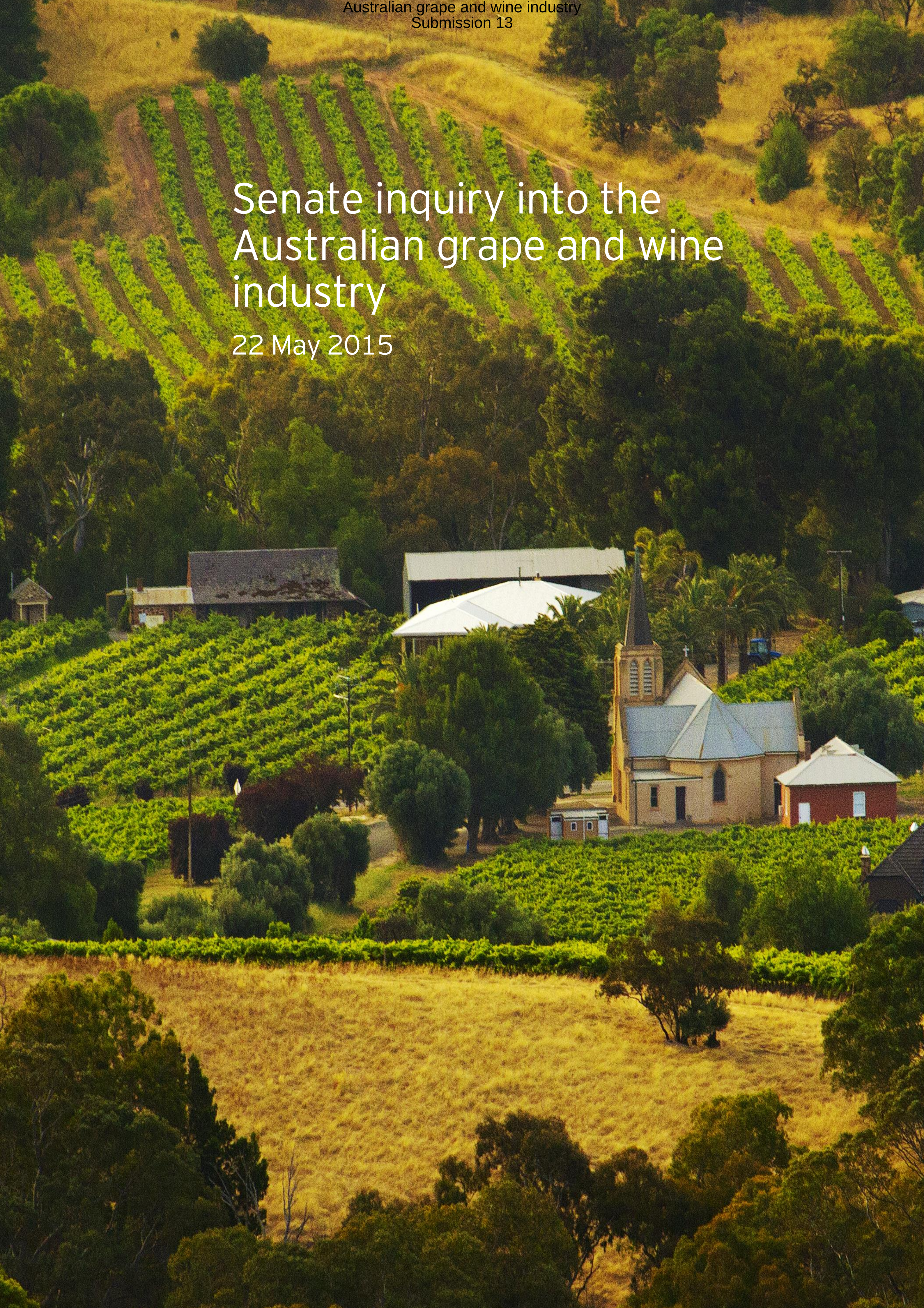
Senate inquiry into the Australian grape and wine industry

22 May 2015



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Introduction

"The purpose of my submission is to inform the Senate of the many changes that have occurred over the past fifty years in the grape and wine industry."

The purpose of my submission is to inform the Senate of the many changes that have occurred over the past fifty years in the grape and wine industry. In doing so, we need to examine the past history trends, and explore sustainable viable productivity for the future.

With Australia's high cost of production, location distances from markets, effective delivery times, increase productivity for improved economic of scale can only be justified on economic basis.

Greater accountability must be a higher priority than the past, with monitoring, reporting annually the progress that has occurred in the ever changing wine world environment.

With the high export level of the Australian production, greater consideration should be given to the fluctuation of currency and impact on sustainability.

For the simplicity of forwarding a submission, I will be referring to the inquiry terms of reference in the logical order of terms of reference submitted by the Senate.

I am willing to discuss my submission to the inquiry in depth at a mutually convenient location in Australia.

Yours faithfully

Leo Pech

Response to Terms of reference

The extent and nature of any market failure in the Australian grape and wine industry supply chain

Market failure can be measured by many factors, including history of the industry, economics, currency, wine quality, wine quantity, international value or quality, supply demand, industry influences and political understanding by public sector and politicians.

The history of the Australian Wine Industry has not enjoyed a large export market. From 1946 - 1986 wine exports averaged 4% of the Australian production in fact for nine years imports exceeded experts (Appendix B - Export data)

From 1986 – 1987 exports increased to 6.2% of production and increased each year to peak at 67% production. Today exports 61% with some companies reaching 90%.

To confirm the information at March 2015 total sales 1,168.5 million litres which included export of 711 million litres and domestic 457.5 million.

As a result of lower currency, the Australian dollar averaged for five years was below .40 cents to the British Pound, three years below .60 cents to the US dollar and seven years below 60 cents to the European Euro (Appendix B – Currency data).

The Australian wine industry enjoyed a profitable export market from that lower currency. The profitability reached a peak in April 2002, with the average price exported reaching $5.00 per litre.

Since the peak, the value per litre has fallen as a result of a higher Australian currency, lower quality (Appendix B – Wine quality) of wine available to a more commercial style. Export of lower quality wines, brands proliferation, loss of story and identity in a world of oversupply. Centaurus Partners page 21.

Today our exports value of wine is up from $1.82b to $1.856b or 3.9% with the average being $2.60 per litre. Bottled wine is up from $4.85 to $4.87 per litre, bulk wine down from .99 cents per litre to .97 cents per litre over the past twelve month period.

The concern is the figures of export bulk at 57.5% of volume exported at .97 cents per litre, being 35% of our total sales exported or 267 million litres sold at $1.00 per litre or less or23% of our total sales.

In August 1993 the Winemakers Federation of Australia at a meeting in Mildura, approached the Wine Grape Growers Council of Australia to support the concept of tax incentives for planting of vines over a four year period. This concept would assist in the availability of wine for the export market, and be in line with their 'plan' of strategy 2025 presented at a later date being 24 July 1996 at a conference held in Melbourne before an audience of over 450 people.

The vision was "By 2025 the Australian Wine Industry will achieve $4.5 billion in annual sales by being the world's most influential and profitable supplier of branded wines, pioneering wine as a universal first choice lifestyle beverage." (Appendix B – The Australian Wine Vision).

Six years earlier we had completed a "Vine Pull Scheme". The meeting delegates were pressurised in making a decision on the day, as they intended to approach the Government the next week, to introduce in the spring session of Parliament in Canberra.

The issue was debated heavily and after long intense discussions the meeting supported the proposition.

I opposed the concept strongly, but lost the debate believing the scheme was doomed to fail before it began, reasons being:

- The world had an oversupply of wine
- Consumption falling per head of population in world
- Full impact of floating the Australian dollar not year reach
- End of apartheid policy in South Africa
- UK had joined the common market, stronger relations with Europe
- Lower Australian currency would not always remain
- Full impact of deregulation not reached
- The concerns of the nuclear explosion of Chernobyl had already abated
- Exports had increased from the "vine pull" days in 1986
- Trade practises act not fully tested
- Increased international ownership of Australian wineries
- Oversupply would be greater than mid 1980's
- Vineyard expansion already occurring
- Communism failing in Europe
- Expanded European Economic Community (EEC)
- Increased taxation on wine in 1993

The four years agreed to by the growers was never put to the Government. This was confirmed by Senator Chapman and not part of the legislation.

In 1998 Management Investment Legislation was introduced and past for tax incentive management schemes including horticulture.

The tax incentive legislation continued to September 2004, eleven years however anyone who had made a financial commitment could complete their project.

This in some cases lasted fourteen years of tax incentives and then expecting the free market forces to be effective. The situation could be a lot worse had it not been for the draught of 2006-2008. This brought water restrictions along the irrigation regions and expansion came to a sudden halt including the Australian currency rising.

Today we can't talk about supply and demand or in or out of balance by the tonnes of grapes sold, as the price received is not economic to the growers. With respected comments by industry personnel it could be 70-84% of industry not economical.

It is not the importance of the magnitude of the issue but was the influences that resulted in an outcome like this, beyond comprehension.

The magnitude of error of judgement by industry leaders, with optimism above reality (Appendix B – Error of judgement).

The extent to which Federal and State legislative and regulatory regimes inhibit and support the production, processing, supply chain logistics and marketing of Australian wine

For Australians to have a greater understanding of the economics of supply and demand and evaluation of the industry up to date statistics on time are vital. The Australian Bureau of Statistics is no longer reporting.

A national registration of vineyards with surveillance annually would be the ultimate in completing the statistics with reporting annually to industry. There would be an initial cost of establishment but the benefits would outweigh the costs involved.

The Phylloxera Board of South Australia has already the information required for that State, and has the staff professional skills and experience to administer a national scheme.

Once the system was established, the annual costs of surveillance would be very affordable. For example, to survey the Riverland region (about 25% of the industry) in 2009 was at a cost of $170,000 dollars. With modern technology the same survey in 2015 was $25,000.

This would have been valuable information in 1993 when pressure was imposed on growers for a tax incentive scheme when already more vines were being planted to meet the needs of industry requirements (Appendix B – Production costs).

This information would also be of great value, in the event of an outbreak of an exotic disease.

History has already proven that the cost involved would be minimum compared to the cost of "error of judgement" without the information.

It is interesting to note that the first recommendation of the Senate inquiry in 2005 was to consult with Federal and State Government authorities and peak bodies with the view of establishing a register.

The cost of grape production has increased well beyond inflation, in particular the cost involved in producing a quality of grape above reality, compounded by reduced production per hectare to achieve that quality. Grapes are not grown in a closed environment but subject to the elements of nature.

Quality can be measured in the field, at the weighbridge or at a later date, by the winemaker. Factors that can affect quality include:

- Supply and demand
- Winery's own grapes are often high quality to reach their cost of production
- When quantity levels are reached for each grade further quantities are lower rated
- Wineries measure the profitability of each grower and if excessive profit is reached, lower quality is given
- Grapes not taken at optimism time
- Clones of variety not the desirable clone nominated by the winery
- Viticulture practices, soil management, vine management
- Trellising not the desired system or direction
- Grower in ability to communicate
- Economy of scale
- Grower actively involved in wine industry politics
- Contract statement

The profitability of wine grape growers and the steps industry participants have taken to enhance profitability

Great levels of activity have taken place to improve the profitability and sustainability of viticulture. In stating only one major activity over decades, the work of selection of better planting material commencing mid 1960s (clonal selection) virus index statics, development or registered source areas throughout South Australia. Introduction of new varieties, rootstocks and rootstocks source areas, development of skills in grafting vines, scion and stock compatibility quality improvement and test for draught and salt tolerance of vines. This assist in rapid conversion of grape varieties.

Industry conducts training in crop watch, irrigation monitoring, pruning, spraying systems, mechanical harvesting and field days.

If the economics allows and the willingness with incentives exists, the ability to reconstructive to further improvements is possible especially in the event of a phylloxera outbreak.

This is a vast improvement from the mid-1970s when I was the Chairman of a committee looking at "viticulture reconstruction" from a fortified industry to a table wine industry. The committee forward evidence seeking lower interest rates loans to the "Industry Assistance Commissioners" on Rural Reconstruction to Commissioners JG Crawford, R G Mouldon and E H Fisk.

Today the availability of the improved planting material has assisted greatly to the quality of planting material, grape quality over the last twenty five years. Today South Australian has 20% of vineyards on rootstocks more tolerant to monoculture issues and phylloxera.

The impact and application of the wine equalisation tax (WET) rebate on grape and wine industry supply chains

The economic history of grape growing in Australia has relied heavily on other alternative agricultural activities to remain viable such as horticulture, contract activities off farm income, sheep, cattle, dairying.

Today all agricultural activities have a larger economy of scale; therefore supportive income is not readily available.

The wine equalisation tax rebate gave growers their valuable added income for sustainability, evening the highs and lows.

Providing this scheme has limitations in rewards, it is vital for the sustainability of many growers and the continuation at a lower level is vital. If the scheme was discontinued, the Government of the day would have greater regional agricultural problem to solve.

The extent to which grape and wine industry representation at regional, state and national level effectively represents growers and winemakers with respect to equity in collection and distribution of levies

Most regional, state and national growers and winemakers organisations have their voluntary levies. Growers have always been short of funding for their operations. It limits their ability to lobby, conduct research projects, study tours, and attend meetings to be a more equal informer to Governments.

Until grower's voice is recognised at a more senior level, information from the wine industry will be out of balance. This is why we have the problems of today.

The work being undertaken by AGWA pertaining to levy collection information

The Australian Grape and Wine Authority (previously The Australian Wine and Brandy Corporation) collect information and data for its member levy payers, especially export information and added information on a cost basis. Much information is not available to growers who are not levy payers however if requesting information, the cost is prohibitive therefore growers are disadvantaged as a lack of information.

The power and influence of retailers of Australian wine in domestic and export markets

Since the introduction of the Trade Practices Act 1973 and the National Competition Policy and more recently Free Trade Arrangement great changes to the competitive forces now exist as never before.

With two powerful retailers, Coles and Woolworths distribute and sell up to 77% of all wine off premise (Centaurus Partners page 26 report) and Australian wine companies have their own import export companies. At present imported wine are at record high of 15.7%of domestic sales compared to Appendix A of previous years.

With large international owned wine companies, the same commitment to the Australian industry does not appear to exist.

If it is more profitable to produce wine in for example the United States, Europe, China, South America, South Africa, and New Zealand that will be the driving force with the international players.

With 57.5% of Australian wine exported in bulk, it has a damage effect to "Brand Australia" by a number of actors including exports of lower quality wines, brand proliferation, loss of story and identity (Centanurus Partners report page 21) apart from loss added value and employment.

The full impact of the Woolworths owning Cellarmasters winery and a large bottling mall, the full implication can only be measured in the years ahead.

The adequacy and effectiveness of market intelligence and pricing signals in assisting industry and business planning

It is extremely difficult for growers to gauge market intelligence or pricing signals as each winery regiments are different. Even different grades of quality from the same location of vines, have different outcome of quality by two companies.

There is little oversupply as most grapes are purchased at uneconomical prices or harvested free, no cost, no payment to the grower.

The optimism that the prices of grapes will increase as the currency lowers; the reality is that total value of export increased by 0.3% to $2.60 per litre. Bulk wine exported is 35% of production. The national utilisation and pricing survey is a valuable source of information from the South Australian Wine Grape Crush Survey.

The extent to which Australian grape and wine industry benefits regional communities both directly and indirectly through employment, tourism and other means.

Regional communities benefit greatly through the wine industry with employment, service industry, tourism, manufacturing, bottling, production of labels, transportation just to name a few.

Small growers and winemakers depend heavily on the wine and equalisation tax rebate for continued stability.

Any related matters

The vine pull of 1986 was a fine example of the Federal and several state governments acting in time with little cost in avoiding the present situation (Appendix B – 1986 Vine Pull). The industry was uneconomical, imports exceeded exports (Appendix B – Export data) for many years.

Australia floated its currency in 1983 resulting in a fall from $1.15 to $0.62 to the USD and still unable the export to eliminate the problems.

The impact can be measured by the impact of Barossa prices the following years (Appendix B – Grape Prices). A new unexpected interest in Southern hemisphere wines occurred after 26 April 1986 with the Chernobyl nuclear power station explosion, sending radioactivity over parts of Europe.

The radioactivity was spread over 400 times that of the Hiroshima bomb explosion, covering land masses in Belarus by 14.4%, Austria 10.3%, Ukraine 6.2%, Finland and Switzerland 3.4% and Sweden 2.7%. It tool until August 1986 for the world to realise the full implication of the disaster and the fear of the pollution remained in Europe for years.

The spread of radioactivity gave Australia wine industry a "kick start" to export with a clean and green image that lasted for years, but as time passes by and so has their clean green image disappeared.

The Australian wine industry has less than ten years to put the house in order, as Europe has a plan of controlled expansion, unlike Australia, pass through the Strasbourg Parliament.

Over fifteen years, well over 500,000 hectares of vines could be added in the appellation regions of Europe, equal to Australia, Chile and South Africa, hectares combined (Appendix B – Expansion in Europe) apart from expansion outside the appellation regions.

I support strongly an inspection service for soundness of wine for export (Appendix B – Wine Soundness). Inspection requirements have been on and off for many years. It is interesting to note that Canada has such a system for importation of wines, and Australia is successful in exporting to Canada.

I was fortunate to discuss the requirements with a Canadian representative at the International Conference of Vine and Wine in Bucharest, Romania in 2013 with the manager of the service.

(Appendix B – "Spin") is a fine example of "spin" and not much happens

Recommendations

"My second objective is to reduce the hardship of grape growers and find a long term solution to the present situation"

1. Eliminate the wine equalisation tax rebate from all imported wines.
2. Reduce the present rebate by 50% on bulk and bottled wines to be reviewed in three years.
3. Money from the reduced rebate to be reinvested in:
   a. National registration of vineyards and monitoring services;
   b. Export promotion, export projects, export grants on application subject to the industry accepting some form of regulation as the Australian wine industry is one of the most unregulated wine industries in the world to avoid a repeat of the present situation.
4. Increase research to improve quality of wine from inland regions as 85% of exports by volume are D.E.F wine quality.
5. Over 5-10 year period change from advolourm to volumetric tax, as wine is the cheapest form of alcohol. This would raise the image of wine a beneficial factor for all, including the area of gastronomy.
6. Re-introduce inspection of wine for soundness, for all exports, as an insurance of quality and an assurance for the purchaser, raising Australian wine image (Appendix 8 – Expansion in Europe).
7. Increase grower recognition at a national level.
8. Governments to monitor more closely statements made by industry leaders, as history reveals all statements are not in the best interest of the industry and economy.
9. If this Senate inquiry fails to deliver effective outcomes and actions, a Royal Commission is required, not only for the economic reasons, but the regional social implications reducing and containing suicide rates, before the perfect storm hits, as the resilience has been remarkable by the growers, but soon they will "crack" as they are vulnerable to manipulation.

Appendix A - CV

Leo Pech

Retired Viticulturist

Role

For two vintages prior to leaving school at the age of 14 years, I assisted the family full time in harvest operations on a forty hectare property, with the approval of the Minister of Education as a suitable persons were not available to drive the truck and tractor in my father's absence delivering grapes to the winery.

I retired at the age of 75 years.

Relevant industry experience

- Barossa Grape Growers Vine Selection Society (Chairman 11 years) and Life Member
- South Australian Wine Improvement Committee (Vice Chairman 7 years)
- Barossa Wine Grape Advisory Council (Chairman 8 years)
- South Australian Wine Grape Advisory Council
- Barossa & Light Rural Council Advisory Services Committee
- Barossa Wine Grape Committee (former Chairman)
- South Australian Farmers Federation Wine Grape Section (Chairman) and Life Member
- Wine Grape Grower Australia (former Chairman) Honorary Life Membership
- National Wine Health Steering Committee
- Geographical Indication Committee (Wine & Brandy Corporation)
- Wine Grape Industry Liaison Committee (inaugural Chairman for 2 years)
- Baron of Barossa since 1984
- Recipient of a Centenary Medal for service to the community

Appendix B – Supporting documentation

1. Export data

YEAR	Total Wine Exports (kl)	Total Wine Imports (kl)	Total Wine Exports ('000 $)	Export Value per litre (cents)	% of Wine Prodn. Exported (3-year moving av.)	% of Apparent Wine Consm. Imported (3-year moving av.)	Trade Volume Special-ization Index
1926-27	14010	407	1668	12	16.5	0.6	94.4
1927-28	17154	346	2124	12	15.8	0.5	96.0
1928-29	7914	347	1002	13	15.4	0.5	91.6
1929-30	9327	369	1112	11	13.3	0.4	92.8
1930-31	10039	70	1020	10	18.8	0.3	98.6
1931-32	15601	38	1818	12	20.8	0.1	99.5
1932-33	14069	67	1582	11	22.4	0.1	99.1
1933-34	13941	110	1606	12	21.2	0.2	98.4
1934-35	15432	129	1624	11	22.1	0.2	98.3
1935-36	16665	138	1870	11	21.9	0.2	98.4
1936-37	16583	156	2068	11	21.5	0.3	98.3
1937-38	17718	226	1890	11	23.0	0.3	97.5
1938-39	16862	187	1964	12	24.4	0.3	97.8
1939-40	16456	120	1916	12	21.3	0.2	98.6
1940-41	7537	29	1032	14	15.3	0.1	99.2
1941-42	6336	14	996	16	8.0	0.0	99.8
1942-43	3714	6	594	16	6.6	0.0	100.0
1943-44	5662	3	846	15	7.2	0.0	99.9
1944-45	7051	0	1190	17	8.2	0.0	100.0
1945-46	8112	2	1462	18	8.6	0.0	100.0
1946-47	12368	15	2364	19	8.3	0.0	99.8
1947-48	12221	86	2880	23	7.7	0.1	98.6
1948-49	8535	199	1988	23	6.0	0.1	95.4
1949-50	5009	120	1032	21	4.8	0.1	95.3
1950-51	5657	208	1270	23	3.9	0.2	92.8
1951-52	5275	363	1462	28	4.1	0.2	87.1
1952-53	5302	35	1528	29	4.0	0.1	98.7
1953-54	6340	184	1806	28	4.7	0.1	94.4
1954-55	5746	242	1634	28	5.1	0.2	91.9
1955-56	5471	221	1468	27	5.6	0.2	92.2
1956-57	7938	152	2264	29	5.2	0.2	96.2
1957-58	6771	223	1994	29	5.3	0.2	93.6
1958-59	7906	236	2304	29	6.4	0.2	94.2
1959-60	7904	273	2530	32	5.9	0.2	93.3
1960-61	8603	446	2606	30	5.3	0.3	90.1
1961-62	7582	373	2772	37	5.1	0.3	90.6
1962-63	7325	404	2742	37	4.8	0.3	89.5
1963-64	6966	534	2741	39	5.0	0.4	85.8
1964-65	9058	681	3521	39	5.1	0.4	86.0

YEAR	Total Wine Exports (kl)	Total Wine Imports (kl)	Total Wine Exports ('000 $)	Export Value per litre (cents)	% of Wine Prods. Exported (3-year moving av.)	% of Apparent Wine Consm. Imported (3-year moving av.)	Trade Volume Specialisation Index
1965-66	8897	663	3535	40	5.1	0.6	86.1
1966-67	8077	861	3169	39	4.8	0.6	80.7
1967-68	8366	1368	3153	38	4.0	0.7	71.8
1968-69	8260	2074	3395	41	3.2	0.8	59.6
1969-70	5886	1963	2913	49	2.7	0.9	50.2
1970-71	6563	2403	3581	55	2.5	0.9	46.4
1971-72	7957	2530	4245	53	2.6	1.0	51.7
1972-73	6244	3005	3220	52	2.7	1.2	35.0
1973-74	8466	4310	5641	67	2.4	1.4	32.5
1974-75	6546	5294	5343	82	2.1	1.7	10.6
1975-76	6132	6925	5500	90	1.6	1.9	-6.1
1976-77	4924	8088	5400	110	1.5	2.2	-24.4
1977-78	4629	7802	5400	117	1.4	2.3	-25.5
1978-79	5239	8481	6300	120	1.5	2.1	-23.6
1979-80	6087	6874	8400	138	1.7	2.0	-6.1
1980-81	7470	7492	11900	159	1.9	2.0	-0.1
1981-82	8401	8992	14000	167	2.2	2.2	-3.4
1982-83	7931	7334	13400	169	2.2	2.3	3.9
1983-84	8899	9646	16800	189	2.2	2.6	-4.0
1984-85	8698	13119	17400	200	2.3	2.9	-20.3
1985-86	10828	12794	20541	190	3.4	2.8	-8.3
1986-87	21323	7667	44620	209	6.2	2.6	47.1
1987-88	39135	8148	96157	246	7.9	2.1	65.5
1988-89	39044	9737	114521	293	8.7	2.3	60.1
1989-90	38120	10453	121248	318	9.9	2.4	57.0
1990-91	54156	8999	179588	332	13.1	2.4	71.5
1991-92	78679	8703	243526	310	17.6	2.3	80.1
1992-93	102832	7832	293157	285	20.3	2.0	85.8
1993-94	125464	8341	366574	292	22.2	2.5	87.5
1994-95	113663	14057	385704	339	21.1	3.0	78.0
1995-96	129671	20256	471576	364	22.4	3.4	73.0
1996-97	154375	13588	603274	391	24.6	na	83.8
1997-98					27.0		
1998-99					29.8	13	

a Data from 1853-54 to 1899-1900 based on UK imports of Australian wine in the following calendar year, taken from Laffer. Export volumes from 1997-98 are projections assuming Australian per capita wine consumption remains unchanged in the final four years of the 1990s, so that all the extra sales from the production in Table 2 are in export markets. Apparent wine consumption is defined simply as production plus imports minus exports. The trade volume specialisation index is exports minus imports as a percentage of exports plus imports.

Sources: AWF Statistical Report, 1996; Laffer (1949, pp.123-124); and ABS Cat. No. 1329.0, 1997.

64.5   13.0

2. Currency data

Yearly Average Rates

Choose the currencies to analyse

Compare Australian Dollar

Against US Dollar

Retrieve Data

Result of your query for AUD/USD

Year	Average Rate
1990	0.780686
1991	0.778719
1992	0.735213
1993	0.679905
1994	0.731612
1995	0.740727
1996	0.782833
1997	0.743682
1998	0.629116
1999	0.645484
2000	0.581223
2001	0.517943
2002	0.543050
2003	0.654801
2004	0.738399
2005	0.762474
2006	0.753467
2007	0.838635
2008	0.853159
2009	0.792116
2010	0.919691
2011	1.032853
2012	1.035937
2013	0.967915
2014	0.905149
2015	0.806034
Average	**0.767302**

Currency Converter

Market Rate

AUD USD

Rate: 0.7776 Rate: 1.2860

10000.00 = 7776.05

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AUD / USD

Alert me

Yearly Average Rates

Choose the currencies to analyse

Compare Australian Dollar

Against British Pound

Retrieve Data

Result of your query for AUD/GBP

Year	Average Rate
1990	0.439300
1991	0.441940
1992	0.417987
1993	0.453041
1994	0.477711
1995	0.469417
1996	0.501952
1997	0.454410
1998	0.379689
1999	0.399133
2000	0.383304
2001	0.359657
2002	0.362409
2003	0.400036
2004	0.401701
2005	0.419124
2006	0.409140
2007	0.418793
2008	0.458458
2009	0.504556
2010	0.594875
2011	0.644086
2012	0.653936
2013	0.619212
2014	0.549297
2015	0.532642
Average	**0.467145**

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Monthly Return Percentage
Monthly Average Rates
Yearly Average Rates

Yearly Average Rates

Choose the currencies to analyse

Compare Australian Dollar

Against Euro Retrieve Data

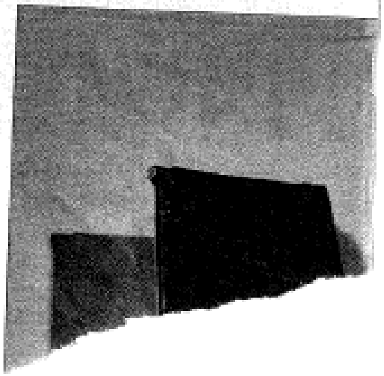
Result of your query for AUD/EUR

Year	Average Rate
1999	0.606437
2000	0.629077
2001	0.578315
2002	0.577173
2003	0.576827
2004	0.592086
2005	0.612498
2006	0.599964
2007	0.611651
2008	0.577476
2009	0.586162
2010	0.690333
2011	0.742066
2012	0.806041
2013	0.728778
2014	0.681423
2015	0.696601
Average	**0.639712**

3. Wine quality

Glass hal
our global

CHIEF BUSINESS REPORTER
CAMERON ENGLAND



AUSTRALIAN wine has been dumbed down and needs to regain its high-quality allure, Treasury Wine Estates boss David Dearie said yesterday.

Mr Dearie joined the push by industry luminaries such as Wolf Blass for the Australian Government and the industry generally to co-ordinate and fund the Australian wine brand overseas.

"The total Brand Australia is not performing as well should in internatio he said as he cent profit to $52.3 million.

"The reputation has changed and I don't think we're competing effectively enough against wines from Chile or wines from Argentina, or the French.

"I think, as an industry and government, we've got to start pulling together to tell the story of Brand Australia and encouraging people to come to Australia from a tourism point of view.

"What made Australia famous in the first place was great quality regional wines.

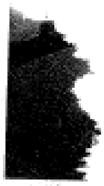
"Over the last 10 years or so we've dumbed that down a bit and become more of a commodity style wine in a lot of markets. We've got to get that quality message back ou

On the upside, Mr Dear the Asian market, where the owner of Penfolds and Wolf Blass wines posted its strongest growth results, would continue to boom.

"It's very clear that Asia is falling in love with quality wine brands, not just from Australia but from around the world," he said. "Australia is the second-largest wine country of origin going into China after France.

"If I look at the forecasts right now, China is consuming somewhere between 120 and 150 million cases.

"The conservative forecast in the next five years is that will double to around 250, and the more bullish forecasts say it



ALL

might even million cas really got emphasis gene al ar Mr De

per c 2012-13 financial year.

China and Hong Kong collectively grew volume by 24 per cent, and Japan by 31 per cent.

"But we haven't yet gone into places like India, Brazil, Russia, Mexico – all these new markets with an emerging middle class, with a lot of wealth, looking for premium wines," Mr Dearie said.

TWE had not yet pushed into these emerging markets because it did not have sufficient stocks of the wine it wanted to sell in those countries. It needed to have sufficient stocks to be able to supply wines for consumption

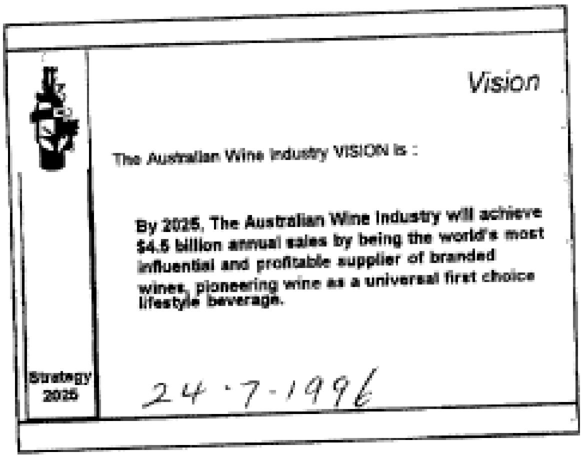
outpace supply, he said.

Treasury spent $55.8 million during the first half buying 591ha of vineyards, including two in the Barossa Valley and one in Eden Valley, and finalised the purchase of the Matua Marlborough New Zealand winery.

Yesterday it posted a net profit of $52.3 million, up from $40 million, on revenues of $850.7 million, down 1.4 per cent.

The number of cases sold fell 2.5 per cent to 16.5 million. TWE will pay a 6c dividend, 50 per cent franked. Its shares closed 8.2 per cent higher, up 40c at $5.30.

4. Australian Wine Industry Vision



6

Against that future context, the Australian wine industry has formulated its vision.

The vision is:

By 2025, the Australian Wine Industry will achieve 4.5 billion dollars in annual sales by being the world's most influential and profitable supplier of branded wines, pioneering wine as a universal first choice lifestyle beverage.

Resource Requirements:
Strategy 2025

	2026	Annual Change (%)
New Vineyard (hectares)	40 000	1.9
Additional Water (million litres)	70,000	0.9
New Wine Processing (million litres)	670	2.4
New Storage (million litres)	1,100	2.6
Additional Employment (FTE's)	10,500	2.0
Skills (person years)	25,000	-
Funding ($A million)	5,000	-

Strategy 2025

Melbourne July 24 1996

To achieve these growth scenarios the wine industry will have to mobilise substantial additional resources:

New vineyards of 40,000 hectares will be required representing an average annual planting rate of 1500ha which is well below recent planting rates. Dryland regions will attract a higher proportion of new plantings

- In management of existing vineyards there will need to be more emphasis on flavour, complexity and cost efficiency
- There will need to be substantial investment in redeveloping existing vineyards to meet market specifications, cost and environmental benchmarks

With respect to other resource requirements:

- Scope for efficiencies and reallocation means that water will not be a constraint on growth
- Substantial increase will be needed in red wine fermentation capacity
- Large increases in storage will be required to accommodate higher stock levels
- Additional employees of 10,500 plus a major investment in skills development will be required
- The biggest challenge will be to secure investment funding - a mix of new equity, and borrowings. Sources will be corporate retained earnings, private investors and the capital market.

Table 1: Production of Grapes (tonnes)				
r	Winemaking	Drying	Table & Other	Total
	661,282	212,870	45,456	919,608
	577,364	147,006	44,456	768,827
5	782,381	248,342	55,786	1,086,509
7	743,382	136,435	63,296	943,113
8	870,627	176,570	64,972	1,112,170
9	1,076,207	119,438	69,891	1,265,536
0	1,111,137	133,454	66,791	1,311,382
1	1,391,074	90,241	64,686	1,546,002
2	1,514,501	152,863	86,524	1,753,888
3	1,329,595	92,264	75,080	1,496,939
4	1,816,556	129,489	68,920	2,014,965

rce: ABS cat 1329.0, various years

oduction of winegrapes has increased by 180% since 1994, driven by export 350% in the same period.[3] This has been made possible by strong growth ;s, particularly in the late 1990s, peaking in 1998-99:

Table 2: Annual Plantings of Winegrapes (ha)					
'ear	Total (ha)	Year	Total (ha)	Year	Total (ha)
987	1957	1993	3371	1999	11646
988	1790	1994	6450	2000	6772
989	3036	1995	7613	2001	7367
990	2193	1996	8520	2002	6566
991	1807	1997	12035	2003	6338
992	2191	1998	16224	2004	5337

ource: WFA, Additional Information, 22 September 2005

he estimated 2005 crush is 1.924 million tonnes. This is 6% more than 2004. s are for a 2% drop to 1.879 million tonnes in 2006, then a 3% increase to lion tonnes in 2007.[4]

2004, 24% of grapes were sourced from wineries' own vineyards, and 76% ependent growers.[5] There are significant regional variations to this

itles, *The Australian and New Zealand Wine Industry Directory*, 2005, p. 8. ABARE, alian *Wine Grape Production Projections to 2006-07*, 2005, p. 13

proportion: for example, in 2001 in the Coonawarra region, only 15% of white and 24% of red grapes were sourced from independents.[6]

Wine making

2.9 The wine industry is extremely diverse, varying from small family companies to very large corporations. In 2004 there were 1,798 wineproducers (defined as companies selling wine commercially).[7] 364 winemaking businesses crushed 50 tonnes or more, at 410 locations.

2.10 There has been a long history of mergers and acquisitions by the major companies. The largest four companies (Hardy, Southcorp, McGuigan Simeon and Orlando Wyndham) account for about 50% of production. The largest twenty companies account for 80% of production.[8] Winemakers crushing more than 400 tonnes, though only about half the total winemakers, account for 98% of production.

2.11 Wine production increased by 71% from 1999-2000 to 2003-04. The dip in 2002-03 reflects the bad season in that year. The growth has been driven by modest growth in domestic demand and very strong growth in exports:

Table 3: Wine Production and Sales of Australian-Produced Wine ('000 L)

Year	Gross Wine Production	Domestic Sales	Exports	Total Disposals	Exports as % of Production	Exports as % of Disposals
1993-94	587,377	319,532	125,464	444,996	21.4%	28.2%
1994-95	502,796	313,357	113,663	427,020	22.6%	26.6%
1995-96	673,445	309,463	129,671	439,134	19.3%	29.5%
1996-97	617,379	333,591	154,393	487,984	25.0%	31.6%
1997-98	741,547	338,814	192,404	531,218	25.9%	36.2%
1998-99	851,143	348,349	216,149	564,498	25.4%	38.3%
1999-00	859,166	369,271	284,935	654,206	33.2%	43.6%
2000-01	1,076,538	384,847	338,289	723,136	31.4%	46.8%
2001-02	1,220,372	386,232	418,393	804,625	34.3%	52.0%
2002-03	1,085,985	402,479	518,642	921,121	47.7%	56.3%
2003-04	1,471,228	417,378	584,397	1,001,775	39.7%	58.3%

Source: ABS cat 1329.0, various years. Production by winemakers crushing more than 400 tonnes annually or with sales of more than 250,000 litres.

5 ABARE, *Australian Wine Grape Production Projections to 2006-07*, 2005, p. 37

6 Iain Fraser, 'The Role of Contracts in Wine Grape Supply Coordination: An Overview', *Agribusiness Review* Vol. 11, Paper 5 (2003)

7 Winetitles, *The Australian and New Zealand Wine Industry Directory*, 2005, p. 20

5. Error of judgement

AUSTRALIA'S wine industry is a "lazy" sector that has lost its innovative edge, South Australia's outgoing Thinker in Residence says.

Professor Goran Roos said the industry was one of a number at risk of global competition, along with printing, which had been protected from international competition until recently.

China and India were the likely sources of future competition based solely on the strength of numbers.

Recent studies found 27 per cent of Chinese and Indian firms were better managed than half of Australian firms – leaving this half at risk of collapse in the face of more capable overseas competition, Professor Roos said.

He said Australia's wine sector was in the firing line because it had failed to keep up the pace of reform and growth it set in the 1990s.

"They have all kinds of excuses because the world is difficult, there is a strong dollar, there is a glut," he said.

"But the rest of the world has taken notice and adopted the Australian innovations . . . France has adopted Australian technology, the Spanish are coming in and South African winemakers are competing on low price. "The industry has . . . squandered a lot of time."

Professor Roos will soon deliver his report to the State Government with 40 recommendations for improvement of South Australia's manufacturing sector, including setting up an automotive cluster to help companies work together.

The wine industry need not

collapse, he said, as "a near death experience is a good thing if you survive it".

Winemakers' Federation of Australia chief executive Stephen Strachan said Professor Roos' observations were "a bit naive". He admitted the industry engaged in overplanting in the 1990s on a "false expectation of market opportunities" and was suffering lower prices as a result.

Mr Strachan said Australian winemakers were continuing to innovate.

"Companies across Australia are developing new products and styles and there is a lot going on. The problem is it is not yet being displayed in the market, and it won't for another two or three years," he said.

"Even though there is an oversupply, there is still a lot of innovation. We are just not seeing that translate into the robust growth we saw in the 1990s. In time we will reap the benefits but it is going to take a while."

Meanwhile, in his assessment of manufacturing, Mr Roos said employees should be paid more to ensure the local industry survives "the perfect storm".

But he warned that there was doom in store for companies that "probably shouldn't be there" as they try to compete on price in a high-cost environment.

PAGE 33: Manufacturers face doom

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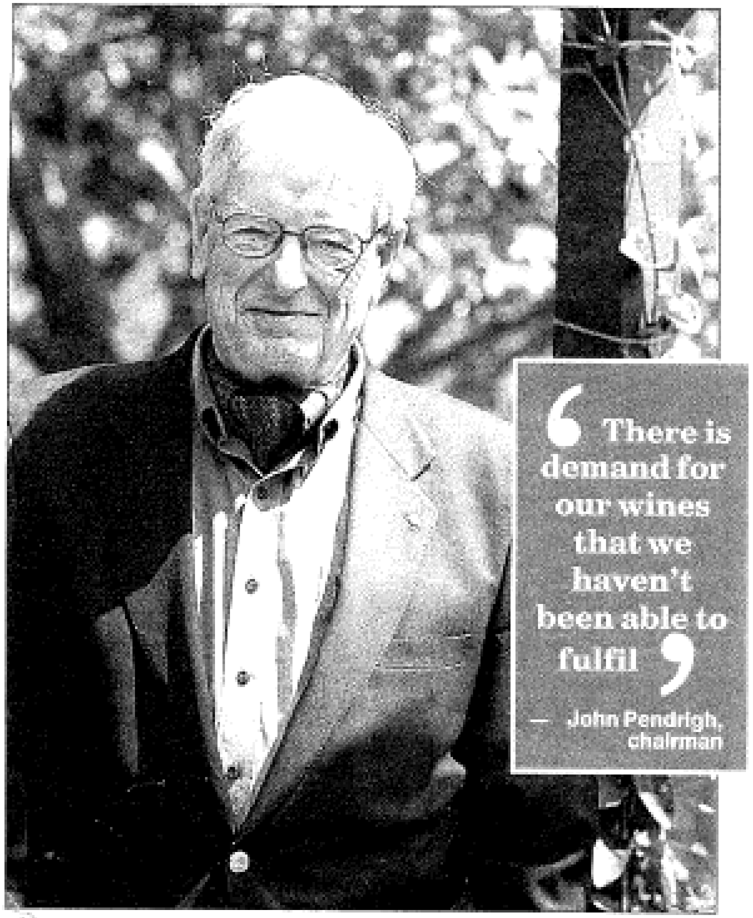
Business

Wine glut is 'nonsense'



"There is demand for our wines that we haven't been able to fulfil" — John Pendrigh, chairman

By BIANCA WORDLEY

DON'T mention wine gluts when speaking to BRL Hardy's chairman Mr John Pendrigh.

"I don't think we will ever meet demand despite all the nonsense of gluts," Mr Pendrigh said. "I am not saying there won't be some surplus from time to time in certain varieties particularly red wine.

"(But overall) there is demand for our wines that we haven't been able to fulfil.

"The industry can't move fast enough."

In fact, he believes when the Australian wine industry grows demand in new international markets, particularly Germany and the United States, then "the sky's the limit".

"Germany is the biggest wine importer in the world.

"It is the embryo of another United Kingdom." However, he said the US and German markets would be harder to break into than the UK but would offer strong returns for the local wine industry.

Mr Pendrigh, who was named by the Australian Institute of Company Directors as the 1999 South Australian director of the year, has been BRL chairman since 1992.

In the past six years he, in collaboration with BRL's managing director, Mr Stephen Millar, and the team at BRL, has seen the group grow tenfold.

It is a long way from his initial career in the shipping industry.

Now, instead of ensuring container terminals and depots are running smoothly, he is the client with a vested interest in shipping BRL wines to the world. Since he moved into the wine industry in 1981, on being appointed managing director of Berri Renmano, which merged with Thomas Hardy, he has been influential in establishing a host of industry initiatives.

One was helping to pull together an industry in which many members had been "competing against each other in what they were trying to achieve" to form the Wine Makers Federation – representing 90 per cent of the industry.

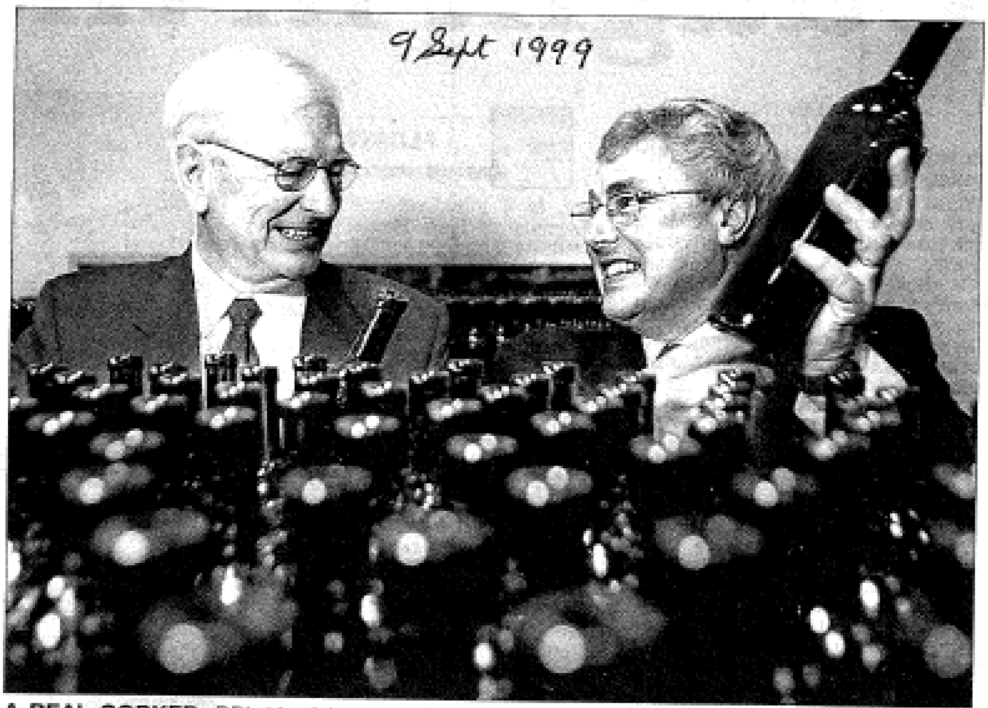
He said the future of the local wine industry was bright and it would get "bigger and better".

But why wine?

"I have always been interested in wine," he said. "When I decided to apply for the position of MD at Berri Renmano it was the best decision I've made.

"We have a really good team at BRL, it's a happy smiling office, they love it."

BRL HARDY ON TRACK FOR $45M RETURN



A REAL CORKER: BRL Hardy's managing director Stephen Millar, left, and chairman John Pendrigh at the company's new bottling plant at Reynella yesterday. Picture: DARREN SEILER

Winery tips vintage year

By BIANCA WORDLEY

WINE group BRL Hardy has reported another bottler interim profit – up 26.7 per cent to $21.1 million.

The South Australian company has forecast growth for the full year of over 20 per cent, driven by strong domestic and international sales.

Total revenue for the first six months to June 30 jumped 25 per cent to $244 million on the back of a 14 per cent rise in domestic sales and a 47 per cent surge in international sales.

BRL's managing director, Mr Stephen Millar, said the company's success was a result of "great staff, great marketing and great brands".

"This is a very satisfying result which confirms BRL Hardy's position as a major force in the international wine industry," he said yesterday.

Mr Millar said he was "comfortable" with analysts' forecasts of a full-year profit of up to $45 million, up from $38.6 million previously.

While the domestic market would continue to thrive, it was in the global wine markets that the "sky was the limit" for BRL.

In the half, shipments to the United Kingdom and mainland Europe rose 63 per cent and 98 per cent respectively.

Shipments to New Zealand were up 68 per cent.

The company secured a number of strategic distribution deals in the US and Canada.

"The international outlook for the second half is very favorable, with July and August export shipments both well ahead of last year and higher than industry growth rates," Mr Millar said.

Meanwhile, he said the company would be interested in raising its stake in New Zealand wine company, Nobilo Wines.

Directors declared a 1c rise in its fully franked interim dividend to 7c, payable on October 19. BRL's shares closed down 5c to $6.50 yesterday.

PRESIDENT ALLAYS OVERSUPPLY FEARS

POSITIVE: Brian Croser yesterday . . . "fantastic long-term potential". Picture: MARK CALLEJA

Wine industry future bubbling

By BIANCA WORDLEY

DESPITE mounting concerns of an impending oversupply of wine, the president of the Winemakers Federation of Australia, Mr Brian Croser, is adamant the future of the Australian wine industry is very bright.

Speaking at the Securities Institute of Australia lunch in Adelaide yesterday Mr Croser, who will retire as president this month, said the long-term potential of the wine industry was "fantastic".

"There is so much discussion of oversupply . . . but the demand side is very robust," he said. "Since 1986, exports of Australian wine have grown from $10.8 million to $1 billion in July, 1999, a growth which swallows a further 300,000 tonnes of premium grapes."

However, he said the question on everyone's mind was when, not if, there was going to be a wine industry bust.

"Overexcitement of plantings and a downward turn of the economic cycle – these are potential triggers of the collapse of wine and wine asset values," he said. "I can't predict the turn of the economic cycle or even if it will occur, as some speculate it won't.

"What I can say is that any future downturn in the Australian wine industry will be a mini blip."

As the executive chairman of Petaluma, Mr Croser said the demand for the company's "super and ultra premium brands and specialised distribution relationships should insulate it from the competitive effects to some extent".

Last month, Petaluma reported a $5.9 million profit on sales of $35.8 million.

3 1999

TOAST TO THE FUTURE: Mr Brian Croser, Winemakers F

*Australian wine exports rose from $10.8 million in 1986 to $1 billion in the past year. Now the industry predicts that after some adjustment, the $2 billion-a-year-target will be achieved more rapidly than the first $1 billion. Rural Editor **NIGEL AUSTIN** reports.*

PREPARE for a reshuffling of the deckchairs as the wine industry enters turbulent waters ahead. That is this week's warning from Winemakers Federation of Australia president Mr Brian Croser.

"But we're not on the Titanic; we're on the QE2," Mr Croser says.

He believes the turmoil will be relatively short-lived as Australia becomes the world's dominant wine exporter and wine becomes one of the nation's major export industries. But first the industry will have to weather a period of rapid change as the dramatic expansion of vineyards in the 1990s brings a flood of grapes on to the market and sharp price reductions for some varieties. Mr Croser says that while nobody can determine the exact outcome, he believes it is likely that a short-term grape glut and overproduction of wine will occur.

The industry downturn is expected to have a number of repercussions including financial losses for some newer, less established grape growers and wine producers.

Mr Croser also warns of a looming oversupply problem in boutique wine areas relying on selling wine for $20 a bottle – regions such as the Adelaide Hills, Yarra Valley and Margaret River have been overplanted for the size of the market for such wines.

"The big companies will have a feeding frenzy in those areas because the market for wines above $20 a bottle is tiny," he says. "Lots of people have expectations of selling hundreds of thousands of cases of wine for $20 a bottle, but they will eventually be forced to sell grapes to the big companies."

Mr Croser says the South-East is excluded from this scenario because of the heavy involvement of large wine producers and the production of wines in numerous categories. "But it would be terrible to send out a pessimistic message because, in 50 years, Australia will be the largest supplier of quality wine to the world market," he says. "This is just one of the cycles of the industry, with the overall trend towards very significant growth into the long term. Every grape that has been planted will be used usefully into the long-term future."

Mr Croser believes that in 20 years, people will laugh at how low expectations were in ...ing the wine industry's 2025 plan. But ...asises that the formula for success ...he sustained vigor, creativity and entrepreneurship of the Australian wine industry being maintained.

He also warns that the industry has a real marketing challenge, with anybody without a strong brand and only limited access to distribution liable to be hurt.

"Gluts are relative and it comes down to the price of grapes and the price of wine," he says. "If you reduce the price of grapes, you can reduce the price of wine and increase markets.

"The other factor is that no one can measure the amount of excess wine around the world. It is impossible to know whether another one tonne or 200,000 tonnes of grapes will lead to a surplus of grapes.

"We have had huge plantings, with the price of grapes too high for too long, which has induced a speculative round of plantings based on tax incentives. It should have been avoided, but it provides an opportunity in future on export markets."

Mr Croser predicts that the surplus of white wine grapes will not last for long and will be followed by a structural oversupply of red grapes and wine for some time.

He expects grapegrowers with lower-quality dual-purpose varieties will be the first to suffer, followed by overcropped and heavily irrigated inland varieties.

"The outcome will depend on the capacity of wine companies to market the extra wine," he says. "There is a slight worry that in 1997-98, exports by volume grew by 29 per cent, while they only rose by 14 per cent this year.

‘The market for wines above $20 a bottle is tiny’

"But the new financial year has kicked off with huge shipments in July which got us to the $1 billion mark."

Mr Croser says instinct tells him that the supply of white wine grapes may not be too far out of kilter with demand next year, because relatively few white vineyards have been planted in the past few years.

A number of other factors could also reduce the expansion of white wine grape supply next year, including frost, given the drought conditions, early bud-burst and a compensatory factor following large yields last harvest.

Mr Croser says that since Australia's last short-lived surplus in 1992, the industry has planted a further 30,000ha of red grapevines and 13,480ha of white grapevines.

The new plantings have increased red wine vineyards to 49,000ha and white wine vineyards to 40,500ha.

"The result is that the Australian wine industry is growing by 50,000 tonnes a year of which 30,000 tonnes are red grapes and 20,000 tonnes are white grapes," he says.

"So we have a big job ahead when you consider that our wine exports have already grown from $10.8 million in 1986 to $1 billion in the past year. That represents a 26 per cent annual growth in volume in 13 years and 36 per cent growth by value.

"Exports have soaked up another 300,000 tonnes of premium grapes in that time, while the domestic market has soaked up 100,000 tonnes. It means that by 2002, we will have to market another 240,000 tonnes.

"The industry will do it one way or another, but it will mean a big reduction in grape prices and significant changes in wine prices."

Mr Croser believes it will lead to new wine brands at lower price points with an increase of buyers-own brands.

"We will also see big adjustments in expectations for grape growers, wine producers and consumers," he says. "Fortunately, markets are still running pretty strongly, with the domestic market stronger than it's been for a long time with bottled sales up 10.3 per cent a year."

Mr Croser says the big wine companies view the situation as an adjustment back to the world of reality in terms of grape prices, rather than an oversupply.

"But anybody who doesn't have a strong brand and has only limited access to distribution will be hurt," he predicts.

Mr Croser believes the ramifications will include wine retailers reducing margins to wine producers, while wine companies need to spend more on marketing.

In the face of increased competition from overseas producers, Mr Croser believes Australia's export culture and cheap supply base will remain the industry's long-term competitive advantages.

LEADING viticulturist Mr Geoff Hardy warns new investors that some viticultural projects will need high grape prices just to keep afloat. "If grape prices fall by too much, some of those projects which are not well managed will struggle," he says.

It follows warnings from the Australian Securities and Investments Commission earlier this year that newcomers should be wary of investing in vineyards.

Mr Hardy says that anyone who is well established has done extremely well in the past few years and shouldn't have any problems. He believes prices for premium fruit will not fall much next year.

"I've been to lots of grower meetings in the past couple of months where the big companies were saying that most premium varieties should hold, apart from chardonnay and semillon, but prices will drop more in the warmer areas," he says.

The Advertiser

SA Business Journal

Wine crushers pressing the juice from growers, too

paul CLANCY

GRAPE growers were intrigued to read in *The Advertiser* last month that Hardy Wine Company group chief winemaker Peter Dawson believes winegrapes are still in over-supply.

Growers greeted with incredulity such an assessment by an executive of Australia's largest wine producer. The pessimistic to optimistic estimates of this year's national vintage by South Australian growers range from 900,000 tonnes to 1.1 million tonnes.

The bottom end of that range is the more realistic and compares with last year's 1.9 million tonnes.

Mr Dawson defended the low grape prices being offered this year on the grounds that "there's still too much fruit out there" and that "the fact that there's a spot market at all is indicative of an oversupply". However, this vintage has been wrecked by frost, drought and other natural causes and that fact has left growers wondering how many tonnes under one million does Hardy believe must be produced for the industry to be in balance.

Mr Dawson conceded that "there has been a firming of prices on the spot markets, but they're still significantly down on what we'd call fair market prices".

Of course, growers did not take seriously his declaration of a continuing over-supply. They saw it as an attempt to explain away low prices in an under-supply year.

Some may view the continued low prices, even when demand exceeds supply, as market failure.

More bluntly, some may view it as abuse of market power to manipulate prices in buyers' favour.

However, while there may be an element of that, the reality is far more serious. We are witnessing the truth of what faces the Australian wine industry: that the past five years of growth has been built on an unsustainable foundation.

While wine export sales have been growing, it has been at ever-decreasing prices.

A massive over-supply of fruit and resultant low grape prices has allowed winemakers to exploit lower market price points.

Growers are not critical of them for doing that but the prices paid for the grapes ($200 to $300 a tonne and lower) have been below the cost of production and therefore unsustainable.

Some of SA's oldest grape-growing families, running large and efficient vineyards, are receiving $2800 an acre return. That's below the cost of production.

They are being crushed.

The end price paid for wine dictates the price a winery is able to pay the grower for his fruit.

A large proportion of our wine export market is at the bottom end of the bottled-wine price points and in even cheaper bulk wine. Wineries in this market, and that is most of our largest producers, cannot afford to buy grapes at what Mr Dawson calls "fair market prices" because their wine is in low-price-point markets. Competing in a global marketplace is extremely difficult.

Drought, frost, rain and other natural factors have wrecked this vintage and will have severe impacts on the next. Grapes are in short supply and yet prices remain depressed.

This must surely be the bell that awakens the industry to the reality and severity of its five-year decline. We don't have to go back to growing more than two million tonnes of grapes in 2009.

Nature has provided a breathing space of two years for the industry to address its fundamental problems – too many grapes and too much of our wine market at unsustainably low prices.

We are victims of an industry's gross over-estimation of market opportunities for wine at sustainable price points.

The industry desperately needs to shake off the shackles of denial and find some decisive and visionary leadership.

❑ Barossa Valley winegrape grower Paul Clancy chairs the Wine Grape Council of SA.

BUSINESS NEWS

Wine industry crisis 'near breaking point'

By MEREDITH BOOTH

GRAPEGROWERS are bearing the brunt of risk and cost-cutting in the wine industry and are at breaking point, according to one 30-year winery industry veteran.

Davidson Viticultural Consulting Services managing director Di Davidson told a 160-strong industry audience in Adelaide yesterday there was a "distressing" lack of understanding from wine companies about producing the raw product.

Receivers were now on the sidelines and some well-established vineyards, worth between $60,000 and $90,000 a hectare three years ago, were selling at a heavy discount, Ms Davidson said.

"Some vineyards have sold for $25,000 a hectare in the last year," she said.

"I was in Western Australia last week and my feelings on what's happening with vineyard values were confirmed."

While some oversupply problems could be sourced to growers, "90 per cent of it has been encouraged by the industry and wine companies right up until two years ago", Ms Davidson said.

"Right now I look at people really struggling to break even and make a profit," she said, adding that many of these were growers who had wisely reinvested their profits from the 1990s boom.

"What I desperately want to see happen in the next two to three years is a real engagement," she said.

Ms Davidson's consultancy, which handles 6000ha of vineyards from small 5ha vignerons to 500ha properties, said wine companies should build long-term relationships with growers and share the risk to make the industry sustainable. "Our dairy industry has gone, our stone fruit industry and our dried fruit has gone.

"It's different for wine, but similar. We need the management quickly."

She spoke at a Committee for Economic Development of Australia (CEDA) event, with KPMG Global Wine Industry Group executive chairman and former Wolf Blass managing director Keith Smith, McWilliams Wines chief executive Kevin McLintock and Chain of Ponds Wines chief executive Chris Milner.

Mr McLintock was upbeat about Australian wine exporters, with growth to come from selling wine above £7 in UK restaurants and a rise in prices per litre generally.

Evans & Tate shares in trading halt

SHARES in Western Australian winemaker Evans & Tate were placed in a trading halt yesterday pending an announcement by the company to the market.

The value of Evans & Tate shares has halved over the past week, and dropped a further 9c or 22.5 per cent to 31c on Monday.

Sentiment has soured since reports about administrator KordaMentha assessing the company's financial health last week.

Chief executive Franklin Tate has confirmed that 333 Performance Management, a subsidiary of KordaMentha, was appointed on June 1 to help the winemaker improve its forecasting, planning and business efficiencies.

WINE SALES | 30-year target achieved in just 10

9.2.06

Now for the next decade

MEREDITH BOOTH

AFTER meeting a $4.5 billion annual sales target 20 years ahead of time, wine industry leaders met in Sydney yesterday to draw up a new 10-year "roadmap" for the sector.

A taskforce of 13 wine producers, growers and peak-body representatives expect to meet seven times this year to draft their "Directions for the Wine Sector" strategy due for adoption in April, 2007.

Booming export sales since 1995, when the industry's "2025 Vision" was adopted, hit $5.5 billion last year ahead of the planned 30-year $4.5 billion aim.

Australian Wine and Brandy Corporation chief executive Sam Tolley said the new-directions document would be a "reality check" on Australia's place in the global wine industry.

"It's not necessarily more detailed; it's just coming to grips more with a different set of circumstances ... in the next 10 years is more the time frame," Mr Tolley said.

Since 1995, global competition had risen, producers and retailers had consolidated and wine was in oversupply in some markets.

The new strategy would be released to a wider sphere of industry participants including retailers, exporters, government and allied industries.

"This is a strategy that we must get right," Mr Tolley said. "It's about ... how we can capitalise on our stengths and identify, as early as possible, the future opportunities by better understanding consumer trends at a global level."

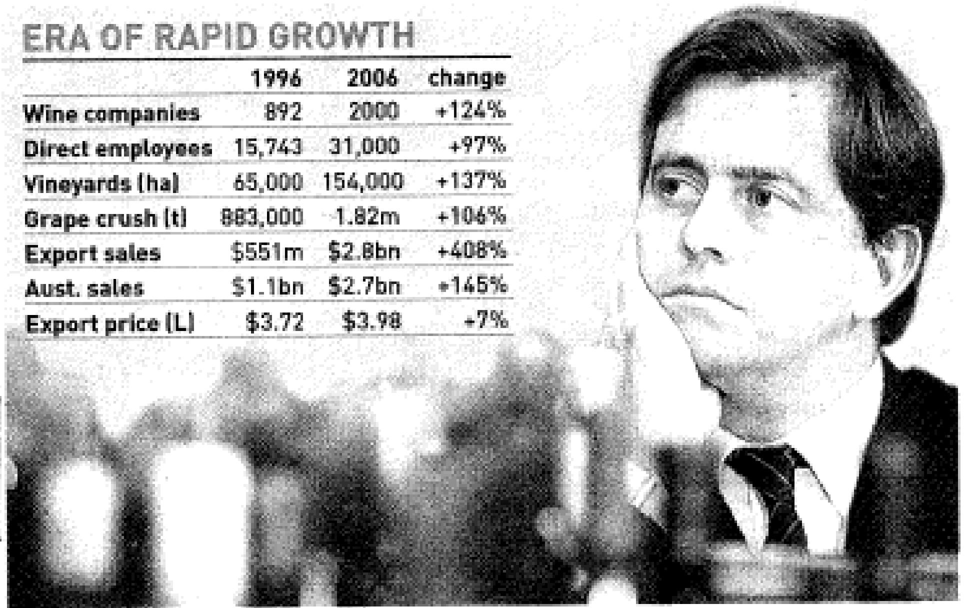
The strategy would sit alongside the AWBC's marketing to lift the profile of higher-end premium Australian wine in export markets, countering a fall in the average price-per-litre of wine exports.

Taskforce members include McWilliams Wines chief executive Kevin McLintock, Mr Tolley, Wine Grape Growers Australia acting chairman Michael DePalma, Grape and Wine Research and Development Corporation executive director Jim Fortune and Australian Research Council director Peter Hoj.

Producer members include Orlando Wyndham marketing and international director Stephen Couche, Foster's Wine Estates strategic planning manager Laura McLachlan, Hardy Wine Company managing director David Woods, Casella Wines international sales manager John Soutter and Tamar Ridge Wines director Andrew Pirie.

ERA OF RAPID GROWTH

	1996	2006	change
Wine companies	892	2000	+124%
Direct employees	15,743	31,000	+97%
Vineyards (ha)	65,000	154,000	+137%
Grape crush (t)	883,000	1.82m	+106%
Export sales	$551m	$2.8bn	+408%
Aust. sales	$1.1bn	$2.7bn	+145%
Export price (L)	$3.72	$3.98	+7%



ROADMAP TO SUCCESS: Sam Tolley ... This is a strategy that we must get right.

Floating the Aussie dollar was the most radical free market move in our country's history – Jessica Irvine

BIRTHDAYS are a good time to reflect. On December 12, it will be time to celebrate 30 years since the Hawke and Keating government floated the Australian dollar.

Before that, our dollar had always been pegged in value to another currency, first the British pound, then the US dollar, then a moving peg against a basket of currencies.

It seems hard to believe now, but a morning meeting was held between the governor of the Reserve Bank and the heads of Treasury, Finance and Prime Minister and Cabinet to decide the level of the dollar. The Reserve Bank would then use its foreign currency reserves to intervene in the market and influence the level of the Australia dollar.

But by 1983, amid recession and double-digit unemployment, the task was becoming more difficult. Large investment flows from overseas were making it hard for the Reserve to keep a lid on the currency.

Just months into the new Hawke government, it was crunch time. It fell to the party of workers to implement the most radical free market move in Australia's history.

Then prime minister Bob Hawke and treasurer Paul Keating have been bickering ever since about who should get the credit.

In his 1994 memoirs, Mr Hawke painted a picture of himself as champion of the float and of Mr Keating as an inexperienced treasurer, too heavily influenced by then treasury secretary John Stone, who was opposed to the move.

Not only would the float diminish the influence of the treasury secretary, Mr Stone legitimately feared that, if left to international forces, the Australian dollar could gain in value, worsening the economic downturn already underway.

In a meeting held on October 27, 1983, Mr Stone's view prevailed with the support of Mr Keating, and a decision to float the dollar was put off.

But by December 8, the last day of parliamentary sitting, it became clear the dollar had become unmanageable. Meetings were held late into the night. Mr Hawke recalls in his memoirs sending a message to Mr Keating at 1am: "We've just got to do it." Mr Keating has since fervently challenged Mr Hawke's account and cabinet documents released since show Mr Keating played a key role in pushing for the float.

Either way, the two men made history the following Monday when the dollar was set free for the first time, its value purely determined by market forces.

Interestingly, the floating dollar began life pretty much where it is now – in the low US90 cents.

It soon fell to US57 cents after Mr Keating's 1986 "banana republic" comment, before gaining to almost US90 cents again during 1988 Bicentennial tourist boom.

It reached a record low of US47.7 cents in April 2001. In the wake of the tech boom, Australia was seen as an "old economy" with little to recommend it. But fortune is fickle.

The September 2001 terrorist attacks, and the Iraq war that followed, weakened the US dollar, pushing up the Australian currency. The Chinese economic dragon began to stir, increasing demand for commodities and buoying Australia's economic fortunes. The dollar climbed back to the mid-US90 cents as rising interest rates increased our dollars' appeal to investors. Then the GFC struck.

Once again, the dollar was to act as an important shock-absorber, falling to the mid-US60s and cushioning exports. Since then, Australia has survived the GFC better than most, keeping interest rates here relatively high, increasing investor appetite for our dollar.

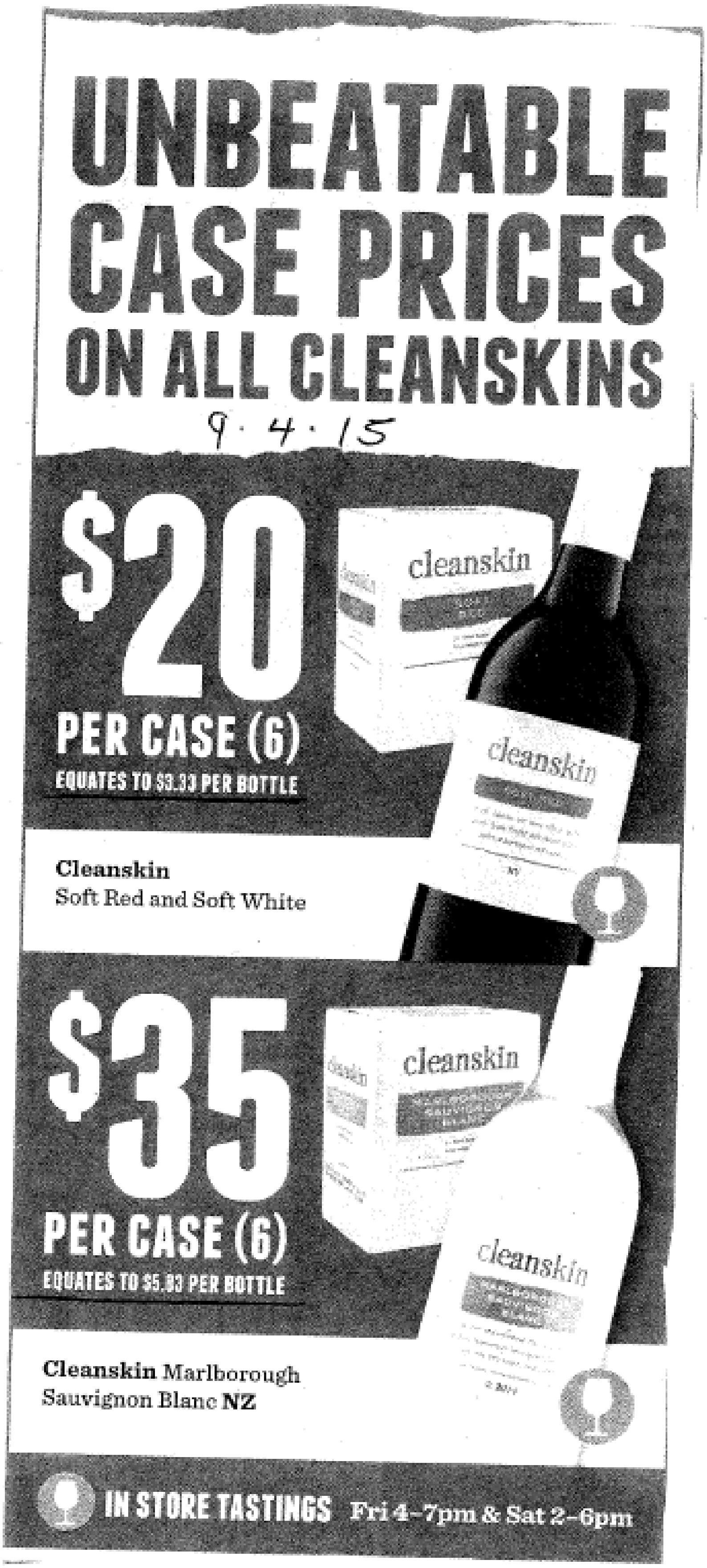
The Aussie dollar – once derided as the "pacific peso" – reached parity with the US dollar for the first time in July 2011, peaking at US110.8 cents.

Today, we're back where we began - hovering around US93 cents again.

Reserve Bank governor, Glenn Stevens will deliver his reflections on 30 years of a floating dollar tomorrow in speech to the Australian Business Economist's annual conference. There wouldn't be a person in the room who would seriously recommend turning back the clock to fix the exchange rate again.

If the high dollar continues to keep a handbrake on the Australian economy, there is only one way for the Reserve Bank to counter it: with lower interest rates.

So if you want to know where interest rates are heading, it still pays to keep an eye on the dollar.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ON ALL CLEANSKINS
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$20
PER CASE (6)
EQUATES TO $3.33 PER BOTTLE
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Cleanskin Marlborough
Sauvignon Blanc NZ
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BUSINESS NEWS

$20m now the benchmark for winemaking survival

By MEREDITH BOOTH

MID-SIZED wineries continued to face a "valley of death" in terms of profitability, an industry survey released yesterday says.

The Deloitte and Winemakers Federation of Australia 2004 annual financial benchmarking survey found almost half of the 76 wineries included in the surveyed reported a loss in 2003-04.

Deloitte wine industry group leader Stephen Harvey said wineries with a turnover of $10 million to $20 million entered a "valley of death".

That is, they were too big to take full advantage of niche markets but too small to keep up with the economies of scale of larger players.

These wineries averaged a loss before tax last financial year of 3.7 per cent of revenue compared with wineries with $20 million in turnover averaging pre-tax earnings of 10.3 per cent of revenue.

Listed companies' earnings were the most buoyant with pre-tax gross profits of 14.4 per cent of revenues last financial year.

Mr Harvey [illegible] listed companies managed [illegible] stronger earnings by cutting [illegible] administrative costs by 10 [illegible]

The [illegible] reducing staff were across [illegible] [illegible] turnover less [illegible] [illegible] wineries with [illegible] and more. "Wineries with greater than $20 million revenue and the large, listed wine companies enjoy a cost advantage over small and medium wineries in terms of grape cost, wine cost, overhead cost per litre and packaging costs," Mr Harvey said.

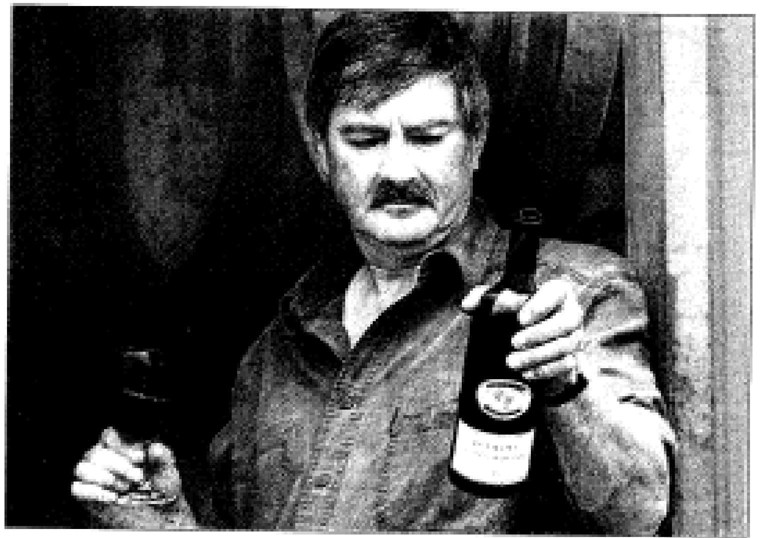
"They are also better placed in terms of distribution."

Small wineries with turnover less than $5 million reported average pre-tax earnings worth 6.3 per cent of revenue while $1 million to $5 million-turnover wineries generated a pre-tax profit worth 8 per cent of revenue, up from an average loss of 8 per cent in the previous year.

Mr Harvey said "a significant number" of wineries had made a loss in the previous two financial years which may "cause many wineries to pursue alternate strategies in order to return to acceptable profitability levels".

"Some wineries may choose to merge to achieve cost and distribution efficiencies while others may be forced to exit the market," Mr Harvey said.

[illegible] Stephen [illegible] Federation of [illegible] results reflected difficult [illegible] ditions for the wine industry. [illegible] said some wineries "difficult [illegible] re-examine [illegible] survive [illegible]



POWER BROKER: Acknowledgement for long-time champion of SA wine.

Croser cracks world's Top 50

SOUTH Australian premium winemaker Brian Croser has been named in the top 50 most powerful people in the global wine industry. Mr Croser is ranked 28 in British wine [illegible] Decanter for being the [illegible] ranked John Ca[illegible] Griffith-based Casella Wines premium [illegible] seized [illegible] cent of the U.S. [illegible] its Yell[illegible] [illegible]

The top ranking Australian on the list was Foster's Group chief executive Trevor O'Hoy at number 14. He is now overseeing the integration of Southcorp into group business. The most influential wine player was Constellation Brands' chief executive Richard Sands, head of the world's largest [illegible] business, Hardy Wine Company, [illegible] Most Powerful [illegible] in Reynella.

STEPHEN STRACHAN Bottler vintage but concerns remain

THE Australian wine industry has been on something of a roller-coaster ride over the past 15 years. First, an unprecedented boom period that lasted almost a decade: plantings expanded exponentially, exports escalated, times were very good indeed. Then followed the inevitable hangover.

As wine stocks poured in, grape prices fell, wine prices fell and the market got significantly tougher. This depression has now lasted about five years, but many pundits are speculating that it has finally ended, as modest increases in grape prices are now breeding renewed optimism in the sector.

Some wineries are also now daring to talk about price increases – for the first time in five years. So, has the wine industry turned the corner? Are happy days here again? Well, yes and no. Before prospective investors pop the cork, there is some sobering news to consider.

The downturn began because the driving principles behind our industry's massive transformation in the 1990s were rejected in favour of a fast or easy buck by many new entrants (and some existing industry players) who are now finding the going very tough.

Based on the market in which we operate, and the global demand for Australian wine, the Australian wine industry still has too many vineyards, too many brand owners and too many aspirants who were motivated to join the industry by rose-tinted lifestyle ambitions.

The future is uncertain for anyone whose actions are not underpinned by an unwavering desire to grow the Australian wine category on the basis of excellence in quality, backed by a sound business model.

However, for those brand owners who understand the importance of an uncompromising commitment to quality, the requirement for an effective marketing and distribution strategy, and the ultimate necessity of careful business planning, the outlook has certainly improved.

Similarly, for those grape growers who choose to be informed about the global industry in which they operate, who have an existing contract with a winery that has a good track record of performance, and who are also proactive in ensuring effective two-way communication between themselves and their winery customers, prospects are indeed brighter.

But for the rest, the outlook is unchanged. The temporary, drought-induced shortfall in the national crop over recent vintages has bred false hope of an improved situation for many businesses that are simply not sustainable. The reality is that the Australian wine industry has built sustainable business demand, from domestic and international markets, for roughly the equivalent of 1.5-1.6 million tonnes of grapes annually. Worryingly, current plantings have the capacity to produce more than 2 million tonnes every year.

It is through good fortune, not good management, that the crop will average around 1.5 million tonnes over 2007 and 2008 because of drought and other climatic factors. While this is easing the downward spiral of prices, it is breeding false optimism for some.

Those wineries which have put in the hard yards in building awareness around their brands, and those growers who are well-informed and ready to take their businesses forward sustainably have good reason to be optimistic. For many of the rest, the years ahead will be tough as any notion of optimism may, for the moment, be based on unrealistic expectations. Prospective investors, beware.

Stephen Strachan is the chief executive of the Winemakers' Federation of Australia.

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Today's top story

Winemakers losing money as China ignored
More than two-thirds of Australian wine is sold at a loss and the industry is failing to take full advantage of booming demand from China, according to the Winemakers' Federation of Australia (WFA). A new study commissioned by the WFA showed up to 70 per cent of current wine production was uneconomic, with the problem concentrated in low-grade commercial wine as a result of oversupply.

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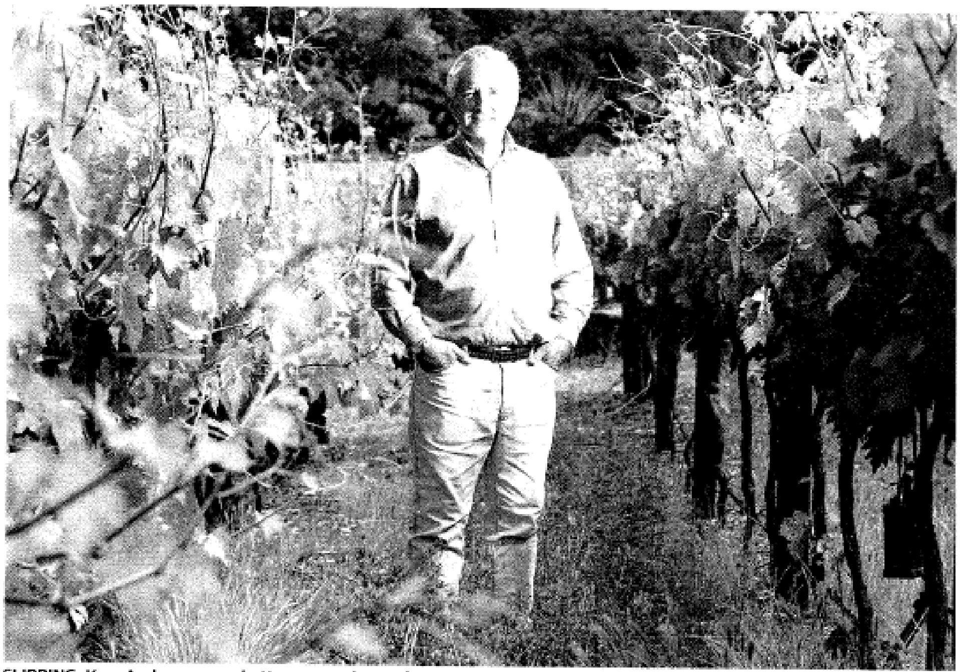

SLIPPING: Kym Anderson says better promotion and more wine research can halt the slide of Australia's wine industry.

penditure by European competitors," Prof Anderson writes. "In 2011-12, for example, Australia's expenditure on generic promotion was barely 0.7 cents per litre of wine produced.

"That same year, Bordeaux alone spent 3.3 cents per litre. The European Union supplements regional and national promotion expenditures of its member states, and during 2009-13 it provided 522 million Euros for wine promotion, the equivalent to 0.6 Australian cents per litre of EU wine produced.

"Moreover, despite the many misappropriations that have been uncovered, that EU promotion expenditure is to be raised to 1156 million Euros for the period 2014-18."

Australia by comparison spends less than $10 million per year on generic wine promotion. Prof Anderson said Australian wine was seen as "fantastic value for money" at the lower end, but that perception needed to be stretched to our higher price point wines.

Prof Anderson also points out that Australia is "hugely" under-investing in wine industry research, which has a good return on investment.

"The extent of R&D investment was modest relative to value added when compared with other industries, yet the number of research papers on viticulture and oenology generated per litre of wine produced was very high compared with other wine-producing countries," he writes.

"Studies have found that the portfolio of GWRDC (the former Grape and Wine Research and Development Corporation) research projects has yielded benefit/cost ratios ranging from 7:1 to more than 10 times that level." Prof Anderson said research was "low hanging but it takes a long time to deliver, that's the difficulty. Agriculture investment around the world is generally under-invested in, there's a 'free-rider' problem where people free ride on someone else spending the money then looking over the fence to see what they learnt."

Prof Anderson's book reports that profitability in the industry remains problematic.

"In 2014, 84 per cent of the industry's producers in Australia were not covering even their variable costs of production that year," he writes.

"That contrasts markedly with the situation in the United States, where for the past six years producers have had not only positive but relatively rosy financial results.

CONTINUED PAGE 72

BY THE BOOK

- Professor Kym Anderson's new book is *Growth and Cycles in Australia's Wine Industry*.
- It includes annual data that reveal the Australian wine sector's booms and contractions between 1843 and 2013.
- There have been five distinct cycles in the wine sector's history, with the recent production boom the longest.
- Prof Anderson says the sector needs to significantly increase overseas marketing to stave off the challenge from other "New World" wine producers.

6. 1986 Vine Pull

DEPARTMENT OF AGRICULTURE

GUIDELINES TO APPLICANTS FOR VINE-PULL ASSISTANCE 1986

Growers wishing to remove or reduce the total area of grape vines on their property may be eligible for "Vine-Pull" assistance.

1. Purpose
   A. To reduce the area planted to grapes vines.
   B. To assist growers who do not have the financial resources to continue as grapegrowers.

2. Eligibility
   Assistance is available to any grower who is primarily dependent on grape growing for his income. Priority will be given to growers not economically viable.

2.1 Assistance will be provided only if vines are removed after 1st January 1986 and before 30th May 1986, the latter date being subject to Commonwealth Government confirmation.

2.2 No assistance shall be provided for pulling vines on land which is zoned for other than agricultural purposes nor for pulling Vines planted after 31st May 1985.

2.3 Vines to be pulled must be inspected by an authorised officr before pulling begins.

3. Amount
   3.1 "Clear fell"-up to $3250 per Ha up to eight Ha. then $2000 for each additional Ha.
   3.2 "Partial Pull"-up to $2250 per Ha for vines over 4 years old, $900 per Ha. for vines 3 yers old, $600 per Ha for vines 2 years old,$300 per Ha for vines 1 year old.
   3.3 The amount of assistance may be reduced according to the condition of vines to be pulled.
   3.4 Maximum assistance for any one operating unit or ownership shall be $50,000

4. Terms
   Assistance will be in the form of a loan bearing interest at the rate of 20% p.a. and secured by a mortgage over all land owned by applicant/s. Repayment of principal and/or interest will not be required during the first five years after which time the loan will be converted to a grant provided the conditions of the mortgage have been met.

5. Conditions
   5.1 Land cleared with "Vine-Pull" assistance shall not be replanted to grape vines for a period of at least five years from the date of signing security documents.
   5.2 The total area planted to vines on land owned or controlled by applicants shall not be increased for a period of at least five years from the date of signing security documents.
   5.3 All property being the subject of this application or consequent security must be available for inspection by an authorised officer of the Minister of Agriculture at any time during the five years after the signing of security documents

6. CLOSING DATE 30th May 1986-subject to Commonwealth Government confirmation.

Celebrating 150 years in 1986

ENQUIRIES & APPLICAITON FORMS
Any Regional Office of the Department of Agriculture,or Rural Assistance Branch
25 Grenfell Street, ADELAIDE 5001
PHONE (08) 227-2622

7. Grape prices

B 7

Grape prices

BAROSSA

Grape		Prices												
Year		75	76	77	78	79	80	81	82	83	84	85	86	87
Cab Franc		-	-	-	-	-	-	-	-	-	-	-	-	522
Cab Sauv		282	282	305	280	280	280	310	350	390	440	460	350	455
Chardonnay		-	-	-	-	-	-	-	315	350	400	420	420	890
Chen Blanc		123	128	140	155	180	200	220	240	264	305	315	300	320
Fronti W		152	157	175	190	195	215	285	260	290	330	324	180	275
Grenache		134	134	150	150	150	150	150	155	165	180	190	190	206
Malbec		187	187	200	190	190	190	200	220	240	275	280	-	-
Mataro		134	134	134	150	150	150	150	155	165	185	190	190	195
Merlot			-	-	-	-	-	-	-	-	-	-	-	-
Muscadelle		186	191	200	200	200	215	230	250	275	310	320	300	345
Pinot Noir		-	-	-	-	-	-	-	-	-	-	-	-	-
Riesling		216	216	235	240	240	260	285	315	355	395	395	280	265
Sauv Blanc		216	216	235	230	230	250	275	300	340	390	400	-	850
Semillon		153	158	180	195	195	215	230	250	275	310	320	300	355
Shiraz		196	196	210	200	200	200	200	220	240	275	275	245	275
Traminer		-	-	-	-	-	-	-	315	355	395	400	350	275
Average														
CPI		15.30	15.30	13.20	12.30	7.90	9.10	10.00	9.70	11.20	10.10	3.90	6.80	9.10

Grape															
					Average										
Year	88	89	90	91	92	93	94	95	96	97	98	99	2000	2001	2002
Cab Franc		900	945	625	613	642	760	859	921	970	1116	1073			
Cab Sauv	835	1130	995	700	760	819	1035	1202	1342	1503	1707	1745			
Chardonnay	1450	1635	1060	675	737	828	1042	1194	1275	1274	1283	1116			
Chen Blanc	430	454	440	380	340	379	477	530	539	540	551	529			
Fronti W	305	370	310	180	237	372	472	545	515	556	573	538			
Grenache	280	360	325	300	261	291	548	654	736	846	1082	1057			
Malbec	-	-	630	-	568	615	762	905	990	1088	1247	1237			
Mataro	250	460	375	-	407	453	553	686	805	973	1075	1048			
Merlot	-	-	-	-	-	-	863	1068	1159	1305	1474	1566			
Muscadelle	495	645	475	350	330	366	-	490	498	492	528	524			
Pinot Noir	1420	1700	970	550	570	613	800	931	900	971	1013	988			
Riesling	445	560	465	380	326	368	477	590	582	590	663	657			
Sauv Blanc	1330	1450	800	400	471	513	741	846	859	933	959	893			
Semillon	600	780	640	395	416	527	737	857	910	960	1029	918			
Shiraz	586	795	755	525	669	812	1079	1337	1540	1817	2044	1919			
Traminer	425	410	390	380	-	368	462	535	527	538	605	589			
Average								894	974						
CPI	8.50	7.00	7.80	7.30	3.20	1.00	1.80								

8. Expansion in Europe

8

Harpers.co.uk

Mike Paul: is the new EU planting wine regime a missed opportunity or pragmatic compromise?

04 Mar 2014 | By Mike Paul

Given the space devoted recently to predictions relating to the future of the wine business I've been surprised at the lack of attention focused on the new EU vine planting regime which is due to come into effect at the end of 2015. From that date each member state with over 50,000 hectares under vine will be able to add 1% per year to its vineyard area.

At the risk of over-simplifying a very complex issue, this represents the end of some 40 years of constraints on planting, culminating in a serious grubbing up initiative which took over 150,000 hectares out of production between 2009 and 2012. This may have represented only 4% of the EU's vineyard area, but it was the equivalent of ripping out all the vineyards in Australia.

Hence the importance of this change which comes after years of bitter debate. At one point it looked as if all restrictions on planting would be removed: certainly the UK government was in favour of such a move. And the " free traders " arguments were highly compelling.

Outside the EU there are no constraints on planting and producers' skills in production and marketing determine their level of success. Thus abolishing restrictions would allow the EU to compete on the same terms as the rest of the world and go ahead producers would have a greater chance of realising their potential.

Protectionism inevitably benefits the inefficient and complacent, while restricting plantings helps producers to "pull up the drawbridge" and must represent therefore a barrier to progress and innovation.

So what are the arguments in favour of protectionism? Well on one level it is about protecting producers in classic regions. Clearly a dramatic increase in plantings in regions such as Rioja, Bordeaux and Burgundy would water down these regional brands. On a broader level, however, it is a way of tackling the problem of structural oversupply which has been a major factor in keeping prices and profits below levels which many consider unsustainable.

As a natural free trader I find myself in a dilemma in this debate. If we assume that a sensible goal for the EU wine industry would to be to improve the economics of wine production, given all the direct and indirect benefits that would flow from this, then I have my doubts that abolishing all planting restrictions would be beneficial in that regard. For a start, are the lessons from the New World, from a macro-economic point of view (as opposed to a business culture point of view) so compelling?

For example, in the 1990s the Australian wine industry became a role model for how to make relatively good returns by linking production and marketing more effectively than its competitors. However, over planting led to Australia moving from having a marginally scarce resource (arguably the perfect position) to a substantial surplus over a couple of years. This surplus was hugely damaging to margins and not just at the mainstream level; the premium tiers got caught up in the quicksand and the position of 'Brand Australia' has yet to fully recover.

While oversupply was not the only factor in this scenario it is interesting to speculate as to whether some constraints on planting in the 90s (however implausible in practice) might have been beneficial to the long term financial health of Australian producers.

Another thought is this. The range of wines on offer from the EU is not only staggeringly large but its expanding (despite the current planting regime). I would argue that a significant element of this range has little rationale from a consumer perspective. In other words there are many wines that could disappear without leaving a gap in the market. This hardly seems a solid foundation from which to expand, particularly if the expansion is a free-for-all. Perhaps we are simply not ready in terms of culture, orientation and structure for free trade?

Linked to this, I've heard it argued in favour of abolishing restrictions that surely no one would plant vines unless they have a sound business plan and a clear consumer proposition: our industry's history suggests this is a rather rash assumption.

Its arguable therefore that abolishing all constraints could actually lead to trading down by retailers and consumers by moving us closer to a position of 'infinite substitution'. We might in an overall sense simply be adding depth to the quicksand. Many argue strongly that what the wine industry badly needs is a good shake out and substantial consolidation yet, in the short term at least, a free-for-all could potentially lead to the exact opposite.

My view, therefore, is that on balance we should give a cautious welcome to the compromise that will be in place in less than two years. Allowing 1% extra plantings per year may not sound very much but, to put it in context, in France this figure implies 8,000 hectares per year. In four years this equates to an area the size of Champagne. Within 15 years (the length of the plan) well over 500,000 hectares could be added to the EU's vineyard area, equivalent to that of Australia, Chile and South Africa's hectarage combined.

I accept that the effect of the change will to a large extent depend on how each country decides to use its quota. Its possible that some may decide not to use their quotas at all (and they can not be bartered with other countries) but this seems an unlikely scenario. As an example, Champagne alone has plans to add 10,000 hectares.

Whatever one's view, however, this represents the dawn of a new era. In future the protectionists will be on the back foot which I feel is how it should be. And a lot can change in 15 years. Hopefully by 2030 there will have been some consolidation, while producers will have become of necessity more market oriented. But by then of course, given the likely effects of climate change, the questions around planting regulation will be even more complex than they are today.

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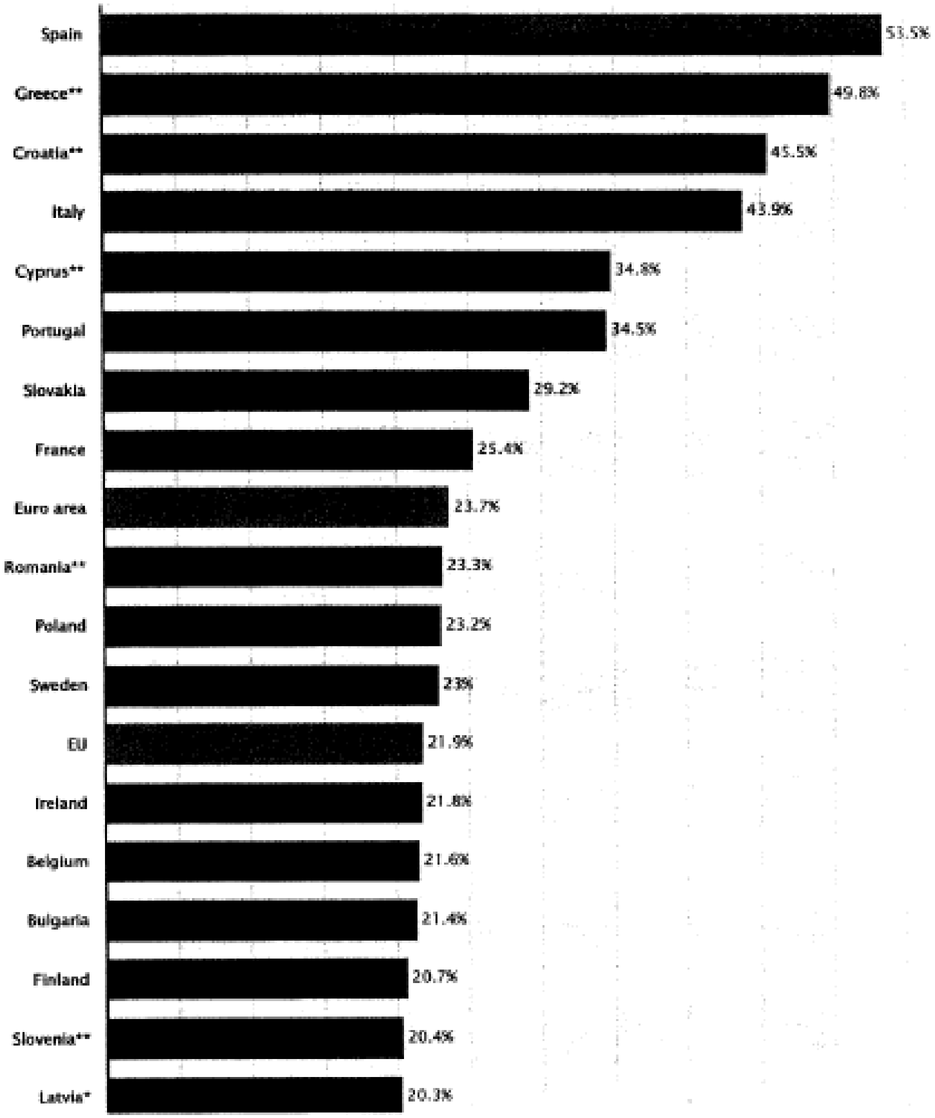

9. Wine Soundness

14-Feb-12

Mr Lawrie Stanford

Executive Director

Wine Grape Growers Australia

Dear Sir,

I am writing to W.G.G.A. over an important issue for disccusion at an executive meeting to be held in Adelaide tomorrow 15/02/2012.

I am concerned about the elimination of the "wine soundness"inpection service conducted by Wine Australia for about 25 years for wine being exported.

- The elimination will lower the standard of soundness with no bench marking of wine exported. This will result in lowering the image of Australian wines and possible reduced markets.

In 1985 the Federal Minister John Kerin had discussions with me on behalf of the growers about the future of the Australian Wine Board.

- Do we require a wine Board?
- What should the structure be?
- What would the growers' attituted be losing their position on the Board?
- How do we increase exports?
- How can our International wine image be improved?

With no agreement amongst the winemarkers, the large companies wanted to go alone, the small to middle companies supported the Board concept.

He stated the growers' attitude would have great influence.

In discussion we both agreed something needed to be done to the image and volume of the wine exported, as for many years we were importing more wine than we were exporting.

The soundness of the some wine exported affected our image and was a major factor.

Several meetings were held on this issue and finally he informed me the agreement was made with winemarkers to continue with the board with a new representation (no growers) and an inspection introduced for soundness of wine, as quality of wine was not achievable or measurable.

To this I agreed too on behalf of the growers of Australia.

The outcome of this major achievment came to be measured by the wine exported from 1986 onwards from 3.4% of production, to 67% of production some years ago, and today 63% of production.

Our peak export almost reached A$3billion and today A$1.9 billion.

What a remarkable turn around, and the role of the inspection service rendered to the industry and raising the image of Australian wine.

I am not taking a stand only because of the successful negotiation and one of the growers' achievements for the wine industry, but because it is vital to continue the service to maintian the standard and image of Australian wine exported.

It has been stated that 37 wines were rejected for the past year; however these 37 wines were rejected on the third inspection. The number of rejections on the first and second inspections, I have been informed could reach 200 wines. Wine Australia would be able to confirm this for you.

We the growers' are subjected to grape soundness assessments, so our exported must be subjected to soundness assessments for the sustainability of the industry.

If W.G.G.A. does not take a stand on this issue, future generations of grape growers will lament the judgement of the committees stand accordingly.

Please find records of exports imports of wine.

Yours Sincerely

Leo Pech

10. "Spin"

Robust strategy for SA wine industry

SPIN

The South Australian wine industry is joining forces with the State Government to strengthen its position as the nation's pre-eminent wine producer.

Agriculture Minister, Mr Paul Caica, and Co-Chair of the South Australian Wine Industry Council, Ms Louisa Rose, have released a five year strategy, "Wine: A Partnership 2010-2015".

Minister Caica says the plan is robust.

"The commitment by industry and government to work together will ensure the long-term success of one of South Australia's most iconic and culturally rich industries," he said.

"The plan identifies the key areas on which the S.A. wine industry will focus to strengthen its market position internationally, build on its competitive advantages and better understand consumer preferences and trends."

S.A.'s wine industry is second only to mining as a key contributor to the State's economy, generating more than $2.15-billion to the state in 2008-09 including close to $1.6-billion in overseas exports.

"Our wine producers are facing significant challenges, including drought and reduced water allocations, an oversupply of grapes, volatile market conditions resulting from the global economic crisis and change in consumer trends around the world," Mr Caica says.

"This new plan takes these challenges into account and identifies a number of objectives to safeguard the future of South Australia's wine industry.

"Sustained collaboration in a partnership such as this is vital if we are to overcome these issues."

The Wine Industry Council's, Ms Louisa Rose says the strategy will be important in strengthening the future of S.A.'s wine production.

"The continued support of and dialogue with the State Government is very important to the industry," Ms Rose said.

"The Partnership plan maps out clear objectives, strategies and timelines which will be actively addressed by Partnering Groups being formed by the Industry Council."

Objectives outlined in the plan include:

- Biosecurity - Enhancing the industry's competitive advantage in relation to sustainability and vineyard health.
- Branding - Achieving a higher value S.A. wine product.
- Consumers - Effectively meeting consumer preferences and understanding trends.
- Environment - Adopting more environmentally sustainable industry practices, and adopting an agreed wine industry water policy including options for recycling and reclamation of water.
- Health and Social responsibility - Supporting the responsible consumption of wine including engaging in public health initiatives and encouraging research into the production of lower alcohol wines.
- Human Capital - Having a reliable and trained workforce, and fostering industry leaders.
- Information - Sharing information and knowledge across the industry, and between the industry and government.
- Infrastructure - Maximising the use of existing infrastructure and identifying future needs.
- Land Access - Developing a strategy which identifies and assures future areas for primary production.
- Market - Developing domestic and international markets for Australian wine including industry/government collaboration to pursue market development programmes and address market access issues.
- Supply and Demand - Tackling the oversupply of wine grapes with targeted actions to support a demand/supply imbalance. Achieve a structurally sound and robust wine industry that can withstand future demand and supply challenges.
- Trade Barriers and Taxation - Advocating for the reduction or removal of trade barriers.
- Wine Tourism - Realising a diversity of wine tourism opportunities.

Ms Rose said the previous wine partnership with Government "produced some extremely valuable outcomes for us and the state as a whole and we look forward to achieving the goals identified in this latest plan."

The 2005-2010 plan delivered results such as the Wine Innovation Cluster, the SA Wine Industry Employment Strategy and significant research on consumer values and the carbon footprint of wine production.

Winemakers' Federation of Australia

Action 2: Hasten the Supply Correction

Hasten the correction to the supply base and improve margins throughout the value chain.

Outcome: Help reduce the oversupply of commercial grade grapes and the pricing distortion it creates throughout the industry

The analysis of the Expert Review estimates that up to 70% of total current production is uneconomic. This is spread across all regions and concentrated in C, D, E & F grade grapes[9]. This low profitability is being driven by a *"significant oversupply and under-demand in C and D grapes/wine"* which has a distorting impact on the pricing of other grades[10]. This oversupply is likely to continue even under the most optimistic projections of demand growth[11].

There is, however, some evidence that market forces are addressing this supply-demand imbalance. From a peak of 163,000 hectares in 2006-07, the national bearing area has since declined by approximately 8.7% or 14,140 hectares, with the early adjustment in warmer regions now being followed in cooler-temperate regions. Overall, however, the Review finds that without further action, the market correction will continue to be slow and restrict the profit potential of E and F grade production[12].

The reasons for the slow correction to supply in the face of low profitability are winemakers processing and providing a market for uneconomic grapes, significant sunk costs and few alternate land uses, human and emotional factors, the WET rebate and current banking practices[13].

WFA believes a number of steps can be taken to hasten the correction and bring supply into better balance with demand, reducing pricing distortions. Ultimately, however, economic forces will continue to be the primary driver to further adjustments in the market. Again, it will be up to individuals and companies to assess the situation and make proactive decisions in their best commercial interest.

Vineyard Profitability

➢ Action 2.1

WFA and WGGA will produce a regular review of vineyard profitability supported by a National Vineyard Database and an update of demand projections in key markets.

WFA urges all industry participants to consider the Review's analysis on vineyard profitability in their decision-making on cost structures, improving vineyard quality, consolidation, diversification or whether to exit the industry altogether. To maintain a focus on this issue, the analysis of vineyard profitability needs to be ongoing and complemented with a national register of vineyards, information on demand trends in key market segments and trend analysis of the industry's foundation data set.

WFA will also commit greater resources to communicating these critical facts across industry and among key stakeholders in the investment and banking community.

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[9] Please note that the definition of grades used in the report (all in Australian dollars)

- In terms of grape prices per tonne, A (above $2,000/tonne), B ($1,500.01 to $2,000), C ($600.01 to $1,500).
- D($300.01 to $600), E/F- less than $300
- In terms of domestic retail prices, A (>$30 per bottle), B ($15-30), C ($10-15), D ($7-10) and E/F (<$7)
- In terms of export FOB prices, A (>$10/litre), B ($7.50-9.99), C ($5-7.49), D ($2.50-4.99) and E/F (<$2.50)

See also exhibits 20 to 25 and discussion on pages 31 to 35

[10] See exhibit 2 & 26 and discussion on page 36

[11] Ibid.

[12] See discussion on pages 36 to 37

[13] Ibid.