

# Wine Grape Council SA

# Newsletter

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March 2008

## Message from the Hon Rory McEwen MP, Minister for Agriculture, Food & Fisheries

The establishment of the Wine Grape Growers Council of South Australia is an important step for South Australian growers.

The representation afforded by the WGCSA will provide a stronger grower voice and allow for greater organisation and collaboration for not only the regional bodies that comprise its membership but also with industry and government.

The establishment of a truly representative wine-grape growers' representative body is a timely development for growers in this State and I congratulate everyone involved in what must have been a difficult past 18 months.

Viticulture is a very important component of the South Australian economy and the WGCSA is now poised to play a key role in representing growers' interests through a single organisation. The ability to now deal with a single grower peak body is of great value to the Government.

Again, I congratulate all growers on their initiative in coming together to form a united voice and, notwithstanding the challenges currently faced, I wish you all a good vintage in 2008 and hope that better times are around the corner for everyone.

Hon Rory McEwen MP  
Minister for Agriculture, Food & Fisheries  
February 29, 2008



## WGCSA Purpose and Funding

The WGCSA is a "Council of Chiefs" of South Australian Wine Regions. Its charter is to provide South Australian grape-growers with a peak council and forum for the regional grower organisations to develop policies and strategies to ensure that viticulture remains an economically sustainable industry. The council will provide a single, united voice for grape-growers on commercial, agri-business, technical, viticultural and environmental matters in industry, government and other forums. WGCSA will achieve its goals through co-operative dialogue with and within all the wine industry's sectors and organisations.

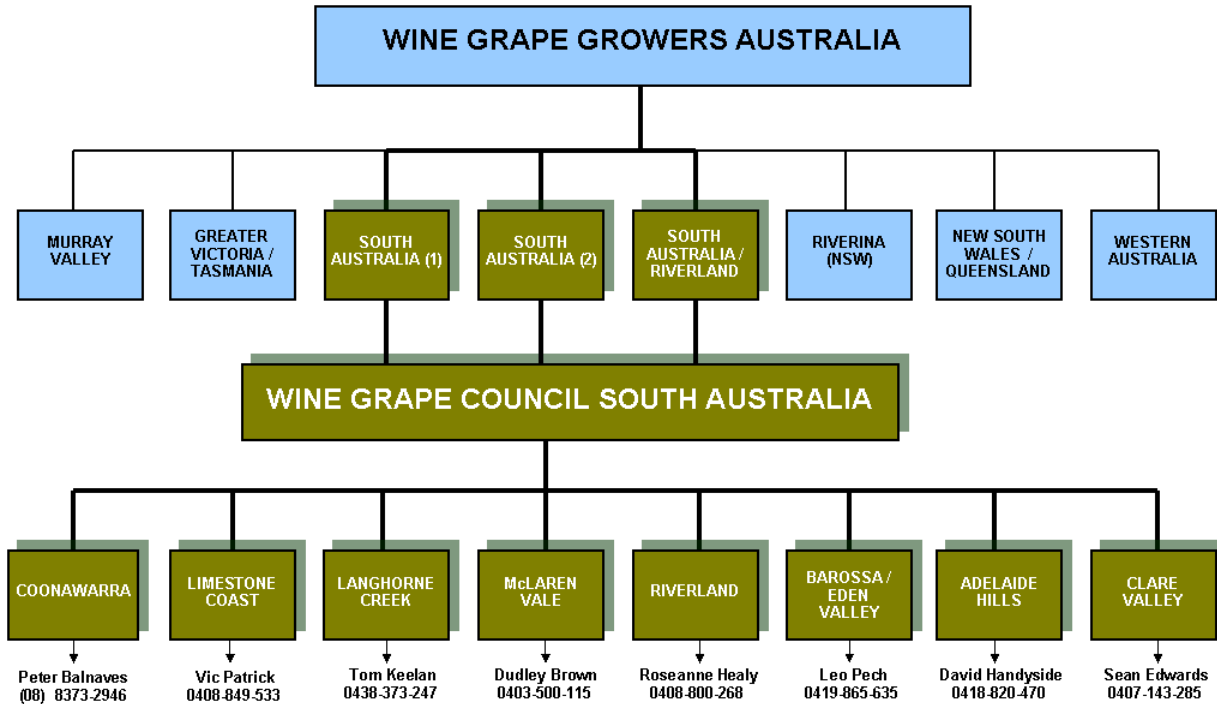
Some Industry cynics have commented that "the growers are very ambitious if they think they can be all things to all people". Council is ambitious for wine grape growers but it is NOT council's intention to be all things to all people. As expressed in the charter, the council will work to coordinate, support, facilitate and encourage grower groups to collaborate more effectively and to advocate more forcefully in matters of common concern or interest in state and federal forums of industry and government organisations. The council will be responsible for appointing the three South Australian delegates to the Wine Grape Growers Australia body (WGGA).

None of this can be achieved without funding.

Minister McEwen and the entire SA Cabinet has approved council's application for the Minister to collect grower contributions at the flat rate of \$1:00 per tonne for all tonnes grown in South Australia, other than those grown by wineries, with deductions to be made from June 30<sup>th</sup> payments for the next five years commencing this year. Growers who do not wish to be represented in state or federal matters may request a refund from the Minister at any time during the 12 months following the deduction.

Wineries will remit the contributions directly to the Minister to be held in trust in the Wine Industry Fund (WIF). Council must submit a five year strategic plan to the Minister, illustrating how the fund will be used to provide services and benefits to growers at the enterprise and industry levels. Quarterly progress reports against agreed milestones (outlined in the strategic plan) must be submitted to the minister to secure further grants from the WIF.

In a similar way the WGGA will submit plans and reports to the state council, illustrating how the federal body is working to assist wine grape growers to be more sustainable and more successful. Council will pay half of all contributions (50cents in every dollar) to the WGGA on a quarterly basis. The following organisation chart illustrates the relationship between the regional representatives of South Australian wine grape growers, the state council and the federal organisation.



### Strategic Plan

Well before Cabinet approved the application for funding through the PIFS Act, council representatives engaged the Adelaide based management consulting firm OZTRAIN to assist in preparing the first five year strategic plan for the WGCSA. Following is a brief summary of KEY RESULT AREAS (KRA's) agreed during that process. As with any such plan, it remains dynamic and will be reviewed regularly and revised to reflect changing circumstances and priorities. Initial focus will be on: -

#### LEADERSHIP

- The provision of effective and efficient governance
- Creation and consolidation of a clear identity for the WGCSA
- Establishing effective communication capabilities across state and national wine sectors
- Developing appropriate Policy aligned with grower values
- Encouraging innovation within the grower sector and encouraging learning

#### BUSINESS OUTCOMES FOR GROWERS

- Sourcing financial and non financial information and data to assist grower decision making
- Supporting and monitoring sector *compliance* standards
- Understanding and participating in environmental management matters
- Understanding and interpreting Industrial Relations matters

#### STAKEHOLDER ENGAGEMENT

- Advocating for and representing growers across the wine and grape industry
- Making appropriate representation to government and industry forums

- Working to support and empower growers at the local and regional levels
  - Facilitating the flow and exchange of information on state and national issues
  - Providing appropriate platforms to express grower concerns about multi regional issues
  - Raising consumer awareness of the relevance of wine grape growers in the supply chain
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## **Growers must tackle the national grape over-supply**

The single biggest factor impacting on the very viability of wine-grape production in Australia is our potential to over-supply the market by as much as 500,000 tonnes.

Until this massive problem is addressed and the potential over-supply removed from the marketplace, grape prices will remain low and the viability of many growers will be under constant pressure.

In a free market, such as that in which grape growers operate, grape prices are essentially determined by supply and demand.

While it is true that cyclic factors including drought, irrigation restrictions and climatic conditions have all combined to dramatically reduce the national wine grape harvest in 2007 and again this year, prices have not returned to truly sustainable levels. This is because wineries recognise that only natural factors have reduced the national vintage and that when more favourable conditions return, the industry will again be capable of growing more than 2 million tonnes of grapes – as it did in 2006.

Wineries have no cause to offer high prices on long-term contracts when they know that within a few years, the market will again be awash with an over-supply of grapes.

It is quite clear that the Australian wine industry only requires around 1.5 to 1.7 million tonnes to meet current demand and provide for modest growth. In fact, the required supply may even be lower if the industry rationalises and reduces its production of low value wines and makes efforts to move up price and quality points in export markets.

The over-supply is not a wine producers' problem – it is a grape growers' problem and only grape growers can solve it. There has to be a rationalisation of the national vineyard – its size and its structure.

Growers cannot sit on their hands and expect a miracle next year or the year after that. Grape prices will not rise by magic. They cannot expect someone else to solve their problem. It suits wineries to have an over-supply – it's simply about supply and demand and if there are more grapes available to the market than there is demand, prices will remain rooted where they are now. They may even fall lower.

Grape growers in all regions need to seriously assess their enterprises and make judgements about their viability. They need to ask themselves whether their businesses will be sustainable in the years ahead when inevitably costs will increase – fuel and water being two obvious inputs which will certainly rise – and there is little potential for higher grape prices with a surplus in the hundreds of thousands of tonnes range highly likely.

Growers also need to start making loud and clear noises about this massive over-supply problem, which has the capacity to keep the sector depressed for many years.

There is no easy solution to this problem – the industry just cannot expand to absorb an oversupply of that magnitude – 25 percent of its requirement.

Grave errors of judgement and wildly optimistic estimations of our ability to continue sharply upward sales growth trends in export markets resulted in a national vineyard of a magnitude way out of whack with reality. It is a bleak picture and despite the spin, which continues to flow with regularity from the wine production side of the industry, growers have some further tough years ahead.

WGCSA will undertake to make the critical need to restructure the national vineyard - and for individual growers to obtain the information necessary for them to assess their long term future in the industry – a “front and centre” topic on the industry's national agenda.

The over-supply and the high Australian dollar exchange rate combine to make the real state of the industry far worse than that which is generally acknowledged – and that dire state is currently being masked by drought induced low vintages.

## **“Just the facts ‘Mam...we need to know more”**

***You cannot manage what you cannot measure.*** It’s an old cliché but true. When it comes to grape-growing, growers cannot have too much information – about their enterprise and about the industry.

Grape growers are no different than any other primary producers in that they cannot expect to prosper by merely producing products and taking prices with a horizon of knowledge that ends at the farm gate. Growers must be armed with as much knowledge of their enterprise, their markets and the wider industry as they can.

One of the factors behind the very weak market position growers are in, is because of an historical lack of knowledge. Knowledge is power. That lack of knowledge has not necessarily been the fault of growers. In the past there has been no agency such as a State peak body like WGCSA to source, disseminate and analyse information on behalf of growers. WGCSA believes that one of its key tasks will be the provision of more information for growers.

Good statistics and information already abounds within the industry. The Australian Wine and Brandy Corporation and the Phylloxera and Grape Industry Board of SA are just two examples of agencies, which collect vital data, which can be sourced by WGCSA and distributed in a format, which will be useful for growers.

Other information such as data which will further assist growers to accurately track the cost of growing and provide the facts and figures needed to assess ongoing viability or assist in developing new strategies to increase profitability is a high priority for WGCSA.

Growers need to have information which will enable them to understand the relationship between the grapes on the vine, the price achieved and the product and price point which determine that price. Growers have to be more informed about where their grapes go – what labels their grapes supply and what the price of that label means in relation to the price paid for the grapes.

Growers have got to move from the weak market position of being price-takers to knowledgeable producers of a product they can track to the bottle shop shelf.

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## **WGCSA plays key role in SA Wine Industry Council**

The State Government established a SA Wine Industry Council (an advisory committee to Government) some years ago. SAWIC is chaired by the Minister for Primary Industry, Rory McEwen, and has representatives of wine industry organizations, suppliers, bureaucrats, individual winemakers and grape growers as its members.

The prime function of SAWIC is to provide the wine industry with a conduit to Government, to assist the industry and legislators to cut through red tape and to provide better pathways for the wine industry to operate within the SA economy. SAWIC meetings have facilitated a direct interaction between Government, winemakers and grape growers and have proved to be a most effective forum for resolving a range of issues of concern to the industry.

The Council has proved to be an effective way to alert Government on critical matters such as water, infrastructure, legislative impediments on the industry and generally bringing the industry and Government closer.

In the past, grape growers did not have a strong presence on SAWIC, however, there are now a significant number of growers on the Council and their interests are well represented by grower members including Jan Siemelink-Allen (Adelaide Hills), Paul Buttery (McLaren Vale), Chris Byrne (Riverland), Chris Schacht (SAFF Wine Grapes Section), Di Davidson (deputy chair), and Paul Clancy (Barossa Valley).

SAWIC’s Water Task Force is dominated by grape grower members.

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## **The Great (Water) Debate**

In years gone by the only water problem to cause concern for most wine grape growers in South Australia was whether or not there might be too much rain at the wrong time of the year. How circumstances have altered. The recent decision by the State Government to restrict the use of SA “mains” water used for irrigation purposes to 62% of the prior year’s use has meant that almost every single grape growing enterprise in the state has to be concerned about water.

Many in the community will cry “fair enough... water is a scarce resource... we are in a drought the like of which we have never experienced before in this country” etc. Wine grape growers will respond with examples of water use efficiency rarely matched, innovation in areas of moisture monitoring, pulse irrigation, reuse of waste water, sealing of water

transport systems and very significant on farm investments to make every drop count. The vast majority of “community” have no idea that all irrigators in South Australia who divert water from the Murray River account for just 7% of all water diverted from that river system. Those who have paid the very high price for SA Mains water for supplementary irrigation have never even had to have permits until very recently because their water use was regarded as insignificant in relation to the benefits produced for our regional centres and our State’s economy.

“But what about the drought” they cry; “what about the environment; what will we do when all the rivers run dry”? At times it seems we caused the drought and we brought on climate change. The fact that we have been and continue to be custodians of the environment and the fact that we can illustrate responsible water use not just in the last five minutes but over decades is irrelevant. Whether we like it or not we must roll up our sleeves and enter the debate or we will be cast aside while other interest groups determine policy for us.

This council will continue to build relationships and to work closely with government, industry, communities, environmentalists and any others who genuinely want to find equitable outcomes for all stakeholders. Without a doubt the problems of over allocation and interception are combining to wear down the Murray Darling Basin’s reserves to the point where it may never recover unless we make tough decisions and develop policy that will reverse the current trends. Compensation and recompense are matters that must be put on the table. Professor Mike Young who recently co-authored with Jim McColl a new report entitled: - *A FUTURE PROOFED BASIN* has provoked heated debate. He will be addressing the council in March to expand on the concept of irrigators and environmentalists being granted “shares in the basin”. Growers are resilient and resourceful by nature. It is appropriate that WGCSA becomes involved in the debates necessary to resolve the tensions between critical human needs, environmental needs and primary production. We must also be prepared to illustrate the vital importance of rural and regional communities to the overall social and economic welfare of South Australia.

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## **Building Partnerships**

The Wine Grape Council SA has been formed as a partnership between all South Australian Wine Regions. It was also formed in partnership with the federal growers’ body, WGGA. The move has been welcomed by the State Government as indicated in the message from the Minister and the South Australian Wine Industry Council, chaired by the Minister provides a regular forum for exchange of views and collaboration with Government and Industry on a wide range of topics. The partnerships don’t stop there though. As already indicated it is not this council’s intention to be “all things to all people”. Rather this council will seek to work with other industry and government organisations and agencies to develop policy and deliver benefits to members by leveraging off existing knowledge, information and expertise. Council has already commenced dialogue with the following organisations: -

### **PHYLLOXERA AND GRAPE INDUSTRY BOARD OF SA (PGIBSA)**

Council has signed an agreement with SAWIA and PIRSA to jointly fund the production of the South Australian Utilisation and Pricing survey

### **SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION (SAWIA)**

Council is well advanced in discussions with SAWIA, PIRSA and the Department of Premier and Cabinet with the intention of being a co-signatory, on behalf of South Australian Wine Grape Growers, to the proposed CLIMATE CHANGE SECTOR AGREEMENT for the Wine Industry. We have also had talks about agreeing to a “fee for service” arrangement in areas such as industrial relations, occupational health and safety and other matters where SAWIA has established expertise and where our organisations share common interests on behalf of our members.

### **SOUTH AUSTRALIAN FARMERS’ FEDERATION (SAFF)**

Many South Australian Grape Growers are still members of the SAFF Wine Grape Section and council plans to strengthen the relationship by entering into a similar arrangement as that being discussed with SAWIA. SAFF has expertise and can offer resource capabilities in such matters as natural resource management, gene technology, biosecurity, seasonal labour and advocacy to Government and industry.

### **AUSTRALIAN WINE AND BRANDY CORPORATION (AWBC)**

There is an abundance of industry information collected and collated by the AWBC much of which would be helpful to growers if they could readily access it. Council is engaging with AWBC to investigate opportunities to source, interpret and disseminate information to growers to assist with decision making and risk management. The corporation has already enquired whether growers will be interested in a new method of grape price reporting known as PRICE DISPERSION. If introduced, this form of grape price reporting will enable growers to access much more precise information about the competitiveness of the price paid for their fruit compared with other growers in the same region and or elsewhere. Council has invited Lawrie Stanford, Manager - Information and Analysis at the commission, to address the March meeting of Council about this topic and other ways council might be able to access more useful grower information from the commission’s WINEFACTS data ware house.

#### WINE GRAPE GROWERS AUSTRALIA (WGGA)

Wine Grape Council SA has nominated three members (of a total of eight) to represent South Australian growers on the WGGA. All SA growers are now financial members of the federal body through the PIFS Act. This is the first time all SA regional growers have been represented at the national level. The WGGA can now able to plan to grow and advocate on matters of national significance with confidence for the first time

#### PRIMARY INDUSTRIES AND RESOURCES SOUTH AUSTRALIA (PIRSA)

Besides facilitating the formation and funding of the council under the PIFS Act, the Grape and Wine section of PIRSA has created other opportunities for WGCSA to participate in various activities that previously growers would not have been included in. These include the Climate Change Sector Agreement mentioned above, and most recently, council has been invited to participate in the THINKER IN RESIDENCE programme as detailed below.

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### Thinking outside the square

The Food and Wine section of the department for Primary Industry (PIRSA) has provided very significant (and welcome) financial support and management guidance throughout the formation of the WGCSA. Council is very appreciative of that support and expects to continue to build the partnership albeit that council plans and expects to be more resource independent in the future. Most recently however, PIRSA Food and Wine management invited growers, via this council, to participate in the South Australian Government's THINKER IN RESIDENCE (TIR) programme. Council responded with enthusiasm as soon as we became aware who the new TIR is and his area of expertise.

He is Dr. Andrew Fearne, a world recognised leader in value chain management and consumer behaviour, especially in the United Kingdom agri-food industry. He has also worked in France, Ireland, Slovenia, Germany North America, the Middle East and South-East Asia. During the past twenty years he has been researching consumer requirements and expectations in a wide range of food supply chains in the United Kingdom, shedding light for farmers, processors and retailers on the changes needed to lift agribusiness performance in supply chains and the consumer food experiences in supermarkets into better value chains for stakeholders and better and safer eating experiences for consumers.

His early life on a family farm and his early career role as an economist with the national farmers' organisation in the UK were formative and influential stepping stones to an academic and consulting career which has been consistently transforming underperforming supply chains into value chains by focussing on consumer preferences. His research and facilitation activities have involved the strategic analysis of consumer behaviour and the co-ordination of agri-food supply chains with clients and research partners from around the world. These have included:

- ◆ major supermarket chains (Marks & Spencers, JS Sainsbury, Tesco, ASDA)
- ◆ a host of livestock, dairy, poultry, grains, fruit and vegetable companies and industry associations in the food production and processing sectors and
- ◆ a diverse range of non-government organisations (incl UK Soil Association, Countryside Agency, Kent Farmers Market, East of England Development Agency).

Dr. Fearne is Principal Research Fellow in supply chain management and consumer behaviour at Kent Business School, University of Kent, where he is Director of two research centres - the Centre for Supply Chain Research, focusing on vertical co-ordination in the food and construction sectors, and the Dunhumbly Academy of Consumer Research, focusing on the provision of consumer insight to farmers and small food producers. He has written more than 100 articles on industry values chains and related matters, and most recently co-authored a book: - *Re-governing markets: the rise of supermarkets and their effect on small scale producers*.

Representatives of the WGCSA expect to meet with Dr Fearne as early as April to inform him in relation to South Australian wine grape growers and their traditional view of themselves in the supply chain. The plan is then to begin preparing for a more focussed workshop session later in the year. Council also hopes to participate with producers and industry suppliers in a "whole of industry" examination of supply chain relationships and to jointly explore new or alternative mechanisms to transform our industry from an underperforming supply chain to a value chain that focuses on and strengthens the relationship between growers and consumers.