



Wine industry takes steps to address oversupply

A national initiative to confront the size, nature and impact of Australia's grape and wine oversupply began on November 10 with the release of a statement to industry and a detailed Wine Restructuring Action Agenda (WRAA).

Implementing that agenda has since begun, with region-specific supply data sent to 56 regional wine associations in early December (see page 2). Association presidents were invited to briefings /

teleconferences in Victoria, NSW, South Australia and West Australia to discuss the preparation, content and implications of the reports.

The industry statement, which was emailed to all 2300+ wineries and communicated directly or via industry associations to wine grape growers, stated clearly the need for the industry to restructure its supply base to both reduce capacity and change its product mix to focus on sales that earn viable margins.

The release of the statement was not undertaken as a media exercise, though it did generate some attention from both the mainstream and trade media. The statement was clearly aimed at the industry itself as an evidence-based call to action.

Response to date has been generally positive. There are clearly some who were concerned, and perhaps remain concerned, about the dangers of making such a frank and open assessment of the current situation – and these issues were considered during the months of discussions and analysis that preceded the statement's release.

However, the more common feedback has been that the oversupply is common knowledge and it is important for the industry to formally acknowledge this fact and embrace the challenge of dealing with it. As one winemaker noted: "The statement does not attempt to window dress the issues we face and is an honest assessment of where we are at".

Response from the financial community also has been favourable.

Investment analysts Citigroup released an industry update on the day of the statement's release, describing it as "a positive move by the industry" while noting that "resultant potential benefits will likely be longer term in nature".

Media coverage, while understandably highlighting the stark figures included in the statement, has largely presented the story as that of

an industry facing the reality of tough times and determined to do something about it.

The statement and action agenda were developed jointly by WFA, Wine Grape Growers' Australia, the Australian Wine and Brandy Corporation and the Grape and Wine Research and Development Corporation, with the knowledge and support of State wine industry associations and the Federal Government.

WFA's chief executive, Stephen Strachan, briefed Federal and State primary industry ministers at a meeting in Perth four days before the statement's release and the State associations have since briefed relevant authorities.

Continued Page 5.

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WET rebate supported

A reference to the WET rebate in the WRAA statement created some concern that WFA has changed its stance. To clarify our position we released the following statement.

"There is no suggestion WFA wants the WET rebate to be removed. We were instrumental in establishing it, believe it remains vital to our industry, and have argued strongly for its retention in our submissions and presentations to the Henry Review.

"The reference to the rebate in our industry statement relates to addressing some practices we believe are contrary to the spirit of the scheme and undermine its credibility. The two key areas are double counting of the rebate on blended wine and a retailer-driven strategy to engage grape growers to sell directly to retailers. The latter exacerbates the oversupply, undermines brands and gives even more power to retailers.

"We fear that if we do not work with government on these issues it may take action without us, which may bring about changes to the WET rebate system that we don't want to see."

WFA is aware that the ATO is examining the cost of the WET rebate, which increased 109% between 2005-06 and 2008-09. Production level changes do not support such an increase.



WRAA data for regions

Regional Supply Reference Data was sent to the regional associations for 56 of Australia's 64 GI regions in early December.

The eight smaller regions excluded had not been included in the Gaetjens Langley survey commissioned by WFA to provide the core data for the WRAA initiative. In these cases, more general information will be provided.

Data derived from a wine grape price dispersion study carried out this year by the Australian Wine and Brandy Corporation also was included. This was region-specific for 32 regions but more general for others.

The results of both surveys have been independently corroborated by industry consultants.

The objective of this data snapshot is to facilitate internal discussion about the region's current supply performance and stimulate consideration of alternative strategies to address the viability of vineyards in the region. Each report is considered commercial in confidence, to be used by each association as it considers appropriate.

Core information in each report includes:

- average vineyard operation cost for the region
- the quantity of C, D and E quality production considered uneconomic because production costs exceed estimated revenue
- supply issues affecting vineyard viability.

WRAA relied primarily on the Gaetjens Langley data for its conclusions, with the price dispersion data as a secondary source to reinforce the conclusion that the scale of uneconomic vineyard is substantial and its geographical scope is widespread. Further information about both surveys is included on these pages.

Vineyards need to exceed performance criteria

By Toby Langley, Director Gaetjens Langley

As part of the Wine Restructuring Action Agenda, Gaetjens Langley was asked to establish benchmarks for determining the areas of uneconomic vineyards in Australia. The process included analysis on a region-by-region basis of varieties planted, average holding size, direct operating costs per hectare (excluding additional water), long-term average yields per hectare, weighted average market value of the fruit, and wine grape quality.

The data was sourced from WFA, vineyard owners, managers and major wine grape buyers, and from our own intelligence gathered while selling vineyards throughout Australia. The resulting benchmarks are indicated in the metrics table below.

Grading fruit is a contentious issue. Every company does it differently, as it is a subjective process and invariably disputes arise. However, we believe the A to E classification is the simplest, most widely understood and best method for the analysis of vineyard economics.

For vineyards that cannot consistently exceed these performance criteria, whether on the basis of yield achieved, quality grading, cost per hectare to run or price received for the

fruit or wine, the immediate conclusion is that the vineyard is economically unsustainable.

The analysis confirmed a number of interesting trends, particularly just how low average yields are in many cool climate areas and the wide range in vineyard operating costs, dependent on region and management regime.

The key outcome of the analyses is that C and D grade fruit produced in cool climate

regions represents the majority of the uneconomic vineyards in Australia. We estimate these vineyards produce at least 300,000 tonnes of fruit each vintage at a real cost which exceeds the fruit's market value. There is nothing wrong with the fruit, but it is just too costly to produce.

Grading fruit is a contentious issue. Every company does it differently, as it is a subjective process and invariably disputes arise.

At this stage, we assume vineyards producing A and B grade fruit are economic due to the relative scarcity and value of this resource. However, if sales of speciality and super premium wine were to decline, an imbalance in demand and supply would also challenge the viability of some of these vineyards. Market forces are beginning to identify this issue if you use the location of vineyards being offered for sale as a proxy for Australia's demand-supply balance.

Wine Grape Grade	Indicative Yield (T / Ha)	Vineyard Cost / Ha	Direct Cost / Tonne	Wholesale Price FOB / Litre Packaged	Indicative Domestic Retail Price	Tonnes
A (Specialty)	5	\$9,500	\$9,500	>\$10	>\$25	180,850
B (Super Premium)	7	\$8,000	\$1,143	\$7.50 - \$9.99	\$15 - \$25	
C (Premium)	12	\$6,750	\$ 563	\$5.00 - \$7.50	\$8 - \$15	409,552
D (Popular Premium)	16	\$6,250	\$ 391	\$2.50 - \$4.99	\$5 - \$8	553,211
E (Basic)	25	\$5,750	\$ 230	<\$2.50	<\$5	652,116
Not classified, balancing item to 2008 crush total						35,794

1,831,523



Data identifies fruit without strong prospects in the marketplace

By Lawrie Stanford, Manager, Information and Analysis, Australian Wine and Brandy Corporation

The message delivered by the AWBC at a series of recent regional conferences is that both warm-inland and coastal-temperate production share the problem of oversupply, although for different reasons. The balance of supply and demand for classic cool climate production is harder to assess because of the smaller quantum in this sector and the high degree of specialisation of the product and market opportunity.

Warm-inland wine grape supply has for some time fallen short of the sales of wines traditionally made from them. However, these same products are currently being squeezed out of the marketplace. This is occurring through pressures on margins that have greater impact on lower-value end compared to higher value wines – some of the most obvious of these pressures being a strong Australian dollar, scheduled excise increases in the UK and general cost increases.

While wine that traditionally sources coastal-temperate fruit is not as adversely impacted by these financial pressures, production from this sector has been, is, and will continue to be, in the medium to long-term, well-ahead of the market opportunity.

This will be the case even if expectations of increased demand through economic recovery and marketing initiatives come to fruition. In sum, fewer warm-inland and coastal-temperate vineyards are needed given current market realities and future market possibilities.

Price dispersion data, collected and released for the first time this year by the AWBC, provide compelling indications that support the arguments. Data collected from warm-inland districts (covering around 85% of purchases from these districts) and from the rest of Australia (covering around 60% of purchases) indicate that purchase prices per tonne for something like a quarter of the warm-inland production did not meet costs for the combined purchases made out of 2008 and 2009. This reflects fruit without strong prospects in the marketplace. The proportion of fruit from the rest of Australia, for which prices per tonne did not meet costs, was 46%.

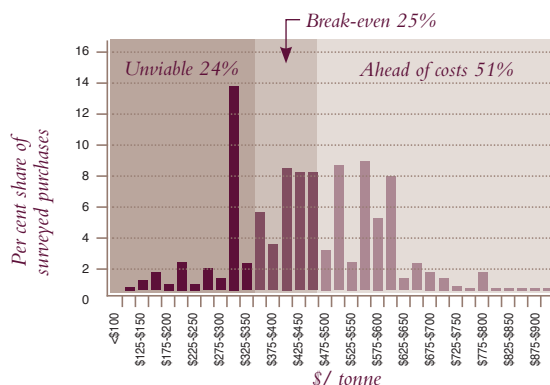
Price dispersion data identifies general areas in which a problem lies, where the illustrated case was warm-inland and cooler-climate regions (rest of Australia).

Of course, these examples contain averages that may or may not be relevant to any given operator in their respective districts. It is, therefore, the responsibility of every individual operator to do a similar exercise for their own business and to make sensible decisions about removing unsustainable production, if it exists.

The value of removing unsustainable vines from the industry is to pare back to a profitable and relevant supply base. Removing unsustainable production will allow Australian wine to fulfil its full and profitable potential by removing the yoke of oversupply and enabling the sector to trade on its intrinsic qualities rather than price alone.

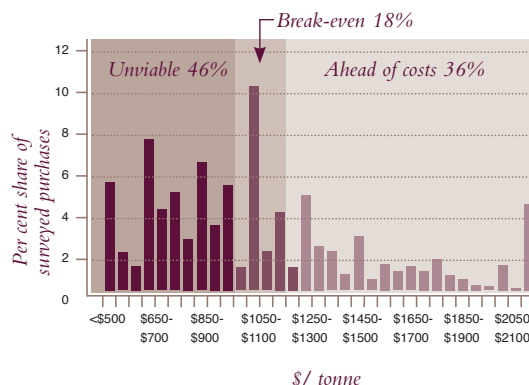
The maturing of vineyard area within some coastal and temperate areas, as well as improved clonal selections being made available to vineyard operators, also offers potential to grow higher quality fruit, provided the vineyard's site is suitable. The strengthening of Australia's regionally distinct and fine wine sectors will need to be supported by a supply base of high quality yet cost-efficient grape production.

Highlighting a combined outcome for 2008 and 2009, the price achieved for fruit in some warm inland vineyards did not meet or exceed estimated costs of production.



Sources: AWBC 2009 and 2008 Winegrape Purchases: Price Dispersion data (note the profile is a combined outcome for 2008 plus 2009). This analysis is based on an estimated 87% of warm-inland purchases in 2009 – slightly less in 2008. Cost of production is an AWBC estimate.

Figures from the previous two vintages also indicate that a relatively higher share of Australia's coastal-temperate production did not meet or exceed estimated costs of production.



Sources: AWBC 2009 and 2008 Winegrape Purchases: Price Dispersion data (note the profile is a combined outcome for 2008 plus 2009). This analysis is based on an estimated 60% of coastal-temperate and classic cool climate purchases in 2009 – slightly less in 2008. Cost of production is an AWBC estimate.

Nineteen companies completed the 2009 Winegrape Purchases: Price Dispersion Survey – Australia's top 10 wine grape purchasers and nine others selected to improve coverage in four key regions. More than 36,000 transactions were collected, providing price dispersion read-outs for 209 varieties-by-region. The full report can be accessed at www.wineaustralia.com/winefacts.



New prospectus to guide R&D priorities

The grape and wine sector's 2010/12 Research Prospectus was released in early December.

Entitled *Innovation driving sustainable success*, it is intended to inform investment decisions about research, development and extension and to help researchers and investors identify opportunities where they might partner on projects.

This is the second prospectus prepared under the auspices of the Strategic Directions Group (SDG), a joint initiative of WFA, Wine Grape Growers' Australia and the Grape and Wine Research and Development Corporation.

"Robust, practical research has never been more important to the sector than it is now," said WFA's Chief Executive, Stephen Strachan. "The prospectus identifies knowledge that needs to be generated, packaged for use then disseminated for commercial adoption.

"One of the core goals of the SDG is to set R&D priorities to maximise investment, avoid duplication and achieve the greatest potential returns."

Guided by the Federal Government's Rural, Research and Development Priorities, the prospectus identifies four key themes: consumer focus; integrated grape growing and wine making; environmental sustainability; and sector development. Within each theme a number of research opportunities are outlined.

The prospectus can be downloaded in PDF format from the WFA website at www.wfa.org.au/research_and_development.aspx. Hard copies are available from the GWRDC or WFA.

WFA meets with Henry Review for second time



WFA held a successful second meeting with the Henry Review team on 30 October and provided it with a detailed analysis of the costs and challenges of wine tax alternatives.

We discussed a range of issues, including introducing effective policies other than taxation to address alcohol abuse and the fact that wine is not the problem for alcohol abuse.

We took the opportunity to highlight the issues and challenges associated with implementing volumetric tax. Tax changes would be a double-whammy by hitting a different part of the wine sector to that experiencing the oversupply restructure. Also on the agenda were issues on Managed Investment Schemes deterrence and tightening known loopholes in the WET Rebate system.

The Henry Review will have a serious impact on taxation in the wine industry and is just one aspect of a much larger tax review agenda. WFA remains committed to negotiating the best outcome for the wine industry once the review's findings and recommendations are completed at the end of December.



Andrew Wilshire, WFA General Manager, Policy & Government Affairs

Preventative Health Report

The consumption of wine and associated social responsibility issues are still generating debate and it is likely alcohol tax will receive special attention in the Henry Review due, in part, to the referral of recommendations from the Preventative Health Taskforce which favours harm-based tax.

The release of the report at the start of September also shed light on the proposed new Preventative Health Agency. WFA believes the report takes a very narrow scope of health prevention, looking only at alcohol, obesity and tobacco. It emphasises a route through industry to solve problems rather than a route direct to the consumer.

Our concerns here are accountability, transparency and the narrowing of representation, particularly due to the fact that industry has been excluded from the agency advisory panel, effectively rendering government policy advice from mainstream to a narrower and less accessible group.

It is also worth noting that the report focuses on mature policy debates aimed at industry, in stark contrast to recent initiatives primarily targeting the consumer. The Agency Bill has come under Opposition pressure, and due to competing priorities was dropped from the Government schedule for this year.

Advertising Code Changes

Significant changes have been made to the Alcohol Beverages Advertising Code, which now includes provisions covering the naming and packaging of alcoholic beverages, as well as advertisements. The new code can be downloaded from the ABAC website at www.abac.org.au.

The Code was developed jointly by WFA, the Brewers Association of Australia and New Zealand, the Distilled Spirits Industry Council of Australia and the Advertising Federation of Australia. It is designed to ensure alcohol advertising neither conflicts with nor detracts from the need for responsibility and moderation in liquor merchandising and consumption, and which does not encourage consumption by underage persons.

MPs meet First Families

WFA facilitated an Australian First Families of Wine event at Parliament House in which the differences of wine to other alcohol beverages were highlighted. Over 120 parliamentarians and their advisers were in attendance on the night, providing an excellent opportunity to press home wine sector concerns on tax change just before the Henry Review reports.



Reform agenda looks beyond current problems

Comment: Stephen Strachan, WFA Chief Executive

The Wine Restructuring Action Agenda signals our sector's determination to deal with the debilitating effect of the oversupply. But what is next? How do we avoid the pain of restructure being repeated?

Long lead times in our sector and wine's agricultural base mean cyclical changes are unavoidable and we shouldn't get too stressed about their inevitable outcomes. But major structural problems ought to be preventable, or at very least much less severe.

Our challenge lies in trying to do three important things at once. We want to protect the fundamental strength of Australia's wine sector – the ability of individuals to make choices and be innovative, unfettered by unnecessary rules and bureaucracy. We want to protect and enhance what has been left to us by the generations of winemakers, vigneron, researchers and entrepreneurs who went before us. And we want to protect the natural assets that we have been left – the environment in which we choose to grow our grapes, and make and transport our wine.

To be blunt, how do we avoid the "white shoe brigade" phenomena in our sector while at the same time embracing true innovators? I believe one thing we can do is recognise that, for a host of reasons, the barriers to entry to our sector are way too low. Here are some simple observations.

The ability to sell an alcoholic product is a privilege, not a right.

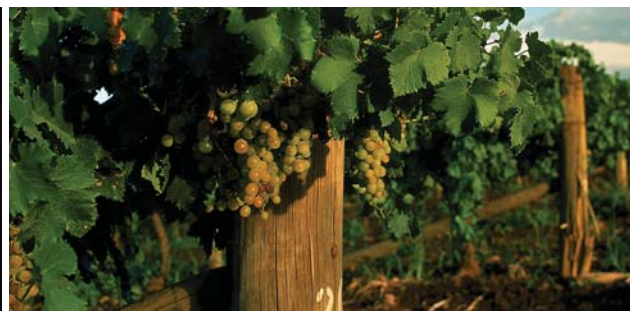
With it comes a responsibility to ensure that none of our practices encourage the misery that is alcohol abuse. And yet virtually anybody can hang up a shingle and sell wine. There are surprisingly few barriers, with producers' licenses easy to obtain, alcohol advertising and sponsorship only partially regulated and no constraints on the volume of alcohol sold in the marketplace. Ironically, most exporters will agree that two of the most heavily regulated markets in the world – Sweden and Canada – are also among the most profitable. Is there not a lesson in their restrictive practices for us?

Equally important is the fact that the Murray River is dying, yet grape growers, dairy farmers, rice growers and horticulturists cling to their precious water rights, all the while knowing that their collective activities are strangling the lifeblood of their existence and causing an environmental catastrophe along the way.

We are all masters at extracting value from each precious drop, but fail to acknowledge the value of the water itself – to the biodiversities and environments that it sustains.

Surely we have an obligation to restrict our use of these resources so that they may be truly sustainable. And if the free market leads to the orgy of agricultural development that we have witnessed along the Murray-Darling basin over the last couple of decades, than surely we should welcome initiatives that restrict that development. We have a chronic oversupply, yet MIS schemes and "WET Wine" initiatives continue to drive investments and resources towards these artificial incentives.

We have a tax system that encourages investment and an environment and communities that are calling for less. Surely it is time to reverse the order; to remove incentives and install barriers that protect profit maximisers from themselves and protect our environment and communities along the way.



From page 1 : Wine industry takes steps to address oversupply

In implementing the action agenda we will be working directly with the regional associations in all States.

The data and insights sent out in November will assist regions to consider what initiatives they can pursue to better align their grape and wine production to higher value market opportunities that reward regional differentiation as well as focus individual producers on the potential for improving efficiencies and quality performance.

This is about wine sector supply and production viability, not the quality of wine sold to consumers. There is legitimacy and value in every grade of grape that meets a market need – the issue is the cost level at which that fruit quality is economic and hence represents viability for producers.

None of the four national bodies will comment publicly on the region-specific data.

It will be up to each association to use the information as it sees fit, in consultation, if it wishes, with national or State associations.

As highlighted in the industry statement, briefings will be held in 14 regional centres early in 2010. It is intended that each session will cater for a number of neighbouring regions, not just the GI that hosts it. The final program is still being developed but will be publicised as soon as possible.



Australia seeks clarification on EC regulations

By Andreas Clark, Trade Manager, Australian Wine and Brandy Corporation

Legislative amendments required for Australia to meet its obligations under the new *Australia–European Community Agreement on Trade in Wine* have been deferred pending satisfactory resolution of a number of issues arising from the implementation of the new European Regulations on 1 August.

The Minister for Agriculture, Fisheries and Forestry introduced a Bill to amend the *Australian Wine and Brandy Corporation Act* and the *Trade Marks Act* into the House of Representatives in June but subsequently postponed debate after the AWBC raised a number of issues of concern.

The agreement provides a number of benefits to Australian producers and we are eager to see it enter into force as soon as possible. However, we believe it is important to get clarity and certainty immediately to ensure Australian exporters continue to enjoy unfettered access to our number one export market.

In particular, given that the low-alcohol segment represents a key emerging market opportunity, we have sought confirmation that Australian wines with a minimum of 4.5 alc/vol can continue to be marketed in the EC.

We have also requested that the rules for alcohol reduction using practices such as spinning cone or reverse osmosis be clarified. In particular, we have asked the EC to confirm our understanding that Australian wine producers are not subject to the arbitrary maximum limit of 2% alcohol reduction when using such practices, which is the current rule in Europe.

The new regulations also purport to restrict the use of a number of common Italian vine variety names, such as Sangiovese and Nebbiolo, for Italian wines only on the basis that they contain or evoke Italian Geographical Indications (GIs).

These are new claims by the Italians, which were never raised during the Wine Agreement negotiations when it was agreed that a number of other specific vine varieties that purport to contain or consist of an EC GI could continue to be used on Australian wine labels. Given the increasing interest in different varieties in Australia we are strongly resisting this move.

We have also separately questioned the new mandatory requirement for bottler details to appear on wine labels and sought confirmation that producers can use

alternative closures, such as crown seals, for sparkling wines.

The new agreement replaces the 1994 agreement of the same name which left unresolved a number of matters regarding the protection of GIs and traditional expressions

(TEs). It finalises these matters and updates the previous agreement in a number of key areas.

The 1994 agreement started the process of phasing out Australian use of EC GIs. In 1994 Australia committed to protect a number of EC so-called TEs but the terms were not agreed. The new agreement lists the TEs and conditions surrounding their use.

There are significant advantages to Australian producers and exporters in this new agreement because all Australian wine making techniques will now be accepted. There are much simpler requirements covering everything from labelling issues and blending rules to alcohol levels and the display of Australian awards.

In short, once the agreement is in place Australians will have to make fewer changes and concessions to sell their wine in the EC.

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After four years of

EntWine Australia, the wine industry's voluntary national environmental assurance scheme, is now a reality.



Minister Tony Burke (2nd from right) at the EntWine Australia launch with (L to R) Russell Johnstone (Pernod Ricard Pacific), Gioia Small (Foster's Group) and WFA's Stephen Strachan.

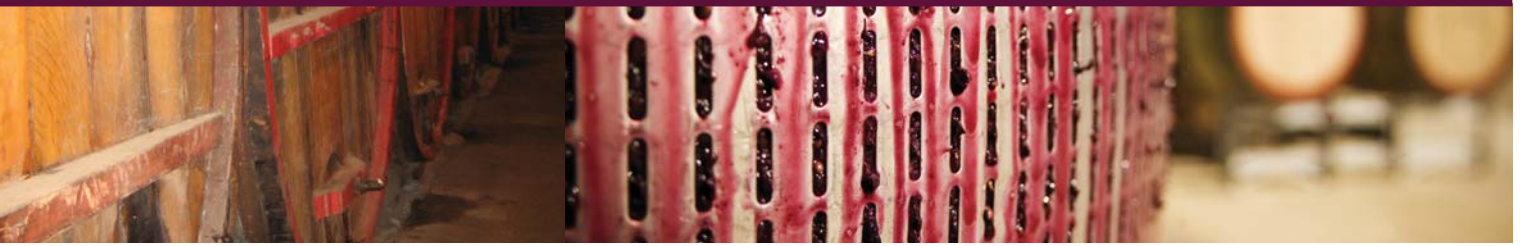
Russell Johnstone discusses Orlando Wines' support for EntWine Australia.

Through the developmental phases of EntWine Australia, including the Australian Wine Industry Stewardship scheme (AWIS) and our involvement with the earlier trials, Orlando Wines has been committed to the desired outcome, a national scheme that records and shows off our commitment to environmental sustainability.

While Orlando has been certified to the Environmental Management System ISO 14001 for our wineries since 1998 and for our vineyards since 2002, we have not been able easily to report to our customers our growers' existing commitment to environmental sustainability.

Our competitors, especially the New World wine producers, have been able to describe their environmental practices through an environmental assurance scheme; for New Zealand since 1997, California since 2001 and South Africa since 1998.

A common theme among these places is that they do not have the geographical and cultural diversity that we have to contend with when developing an Australian approach.



work EntWine Australia is ready for members

It was officially launched in Adelaide on 7 December by the Federal Minister for Agriculture, Fisheries and Forestry, The Hon Tony Burke, and the EntWine Australia website is now live at www.wfa.org.au/entwineaustralia

Wineries and grape growers can use the site to apply for membership and provide the required annual updates of their performance.

“This is a really important initiative that we believe should be well supported,” said WFA’s chief executive, Stephen Strachan.

“Less than a week before the launch the WFA Board enthusiastically supported a resolution that membership of EntWine Australia should be mandatory for all wine exports from Australia within five years and we will be working closely with the AWBC to make that a reality.”

Mr Strachan said the aim of WFA and the Wine Industry National Environment Committee had been to create a comprehensive but flexible system that would provide a single national trust mark that was nationally and internationally recognised and respected.

“We know that some companies and regions are well advanced in setting and meeting standards while others are just beginning,” he said. “For that reason we have developed a certification process that companies can use but will also recognise other approaches that meet our criteria. If companies exceed any of our criteria, so much the better.”

WFA’s certification scheme is based on the national Freshcare Environmental Code and includes requirements for improvements and the development of new initiatives in such areas as water and energy use.

EntWine Australia was developed in close consultation with industry. Pilot studies were supported by Foster’s, Orlando, McWilliam’s Wines, De Bortoli, Sittella Wines, Voyager Estate, Winemakers of Rutherglen and the Langhorne Creek Grapegrowers’ Association.

WFA also is working through the international alcoholic beverage trade association FIVS to ensure EntWine Australia is recognised internationally.

As certification can take some time, preliminary membership will be offered to companies that meet other requirements and are working towards certification. Preliminary members will be listed on the register.

For further information see the EntWine Australia website or email entwine@wfa.org.au

Focus now moves to planning for training and the important first audit

Hence the need for our scheme to be adaptable and we have achieved this through taking an approach based largely on behaviour rather than prescribed practices.

I don’t believe that our practices have lagged behind those countries; the challenge in developing EntWine Australia was to come up with a scheme that reflects and builds on our existing efforts ranging from the spray diaries that we all keep to meeting the requirements of our local bodies, such as catchment management authorities or natural resource management boards.

A key to the successful outcome for Orlando Wines was that we were able to take on board and develop an existing program that was developed for horticultural crops by Freshcare.

A series of workshops were held with growers to make sure that the documentation and training was appropriate for grapegrowers and winemakers.

Based on these workshops, the documentation has been aligned to grower and winemaker practice. An essential feature of the scheme that will make it solid, reliable and distinguished from others is that members will be subject to a third-party audit at the commencement of their involvement and then every three years.

Now that EntWine Australia has been launched, we at Orlando Wines have been working with our grower community to set up training and to prepare them for their first audit. This has largely gone well. There is Federal Government support for this part of joining up to the scheme in the form of Farm Ready grants for training.

There are service providers who are accredited with Farm Ready to provide the training and the challenge here was that once we’d identified a provider, we then sought to co-ordinate our interested growers to apply for the training and to time this so

that growers had a response in readiness to commit to the timing of the training, so just a word of advice, plan your training to take advantage of the opportunity for the financial support from government.

But mostly we got there and our growers are well on their way to being ready for audit. A great outcome!

Russell Johnstone is Environmental Sustainability Manager with Pernod Ricard Pacific and a member of the Wine Industry National Environment Committee.





10 tips for delivering great cellar door service

Robin Shaw, WFA's Director of Tourism & Member Services, provided her "10 cellar door service tips" in a recent article for WBM magazine. The response was so positive that we have reprinted an edited version here.

1. Cater to diverse visitor segments

For those who have heard me prattle on in workshops, I use the four people in a car scenario (one who's interested in wine and three who aren't). Given we live in a reputedly democratic society, the desires of the majority will eventually triumph – so the question is what are you, the cellar door, doing to appeal to the other three?

One of my favourite examples of catering to a range of needs is Meadowbank in Tasmania, where visitors can browse and sample carefully chosen local products, have a coffee or lunch, immerse themselves in the history of the Tasmanian wine industry through an innovative artistic tour, or genuinely learn more about evaluating wine and pairing it with food. It's a winning combination of culture, art, food and wine that appeals to a broad audience.

Another interesting (and provocative) observation was made recently by a South African colleague who visited a number of cellar doors as part of a regional wine tourism program. He found most experiences boring; yes, boring – uninteresting and uninspiring. When some of our wine regions have up to 100 cellar doors, is an observation like this really surprising? How "different" can a wine tasting experience really be?

2. Tell stories

We all know the ultimate goal is to sell more wine to more people more often, but we won't do it with a tired approach that lacks pizzazz and personality. Most visitors aren't interested in the intricate wine production details that fascinate fellow winemakers. They're actually interested in the people who make and present the wine and the stories they represent; they want to "live" the brand the way they imagine the vigneron do. So liven up the experience and let people in on your secrets and stories. Open up the conversation using the wine as a conduit, not the sole focus of your attention. It's a case of differentiate or die of mediocrity.

The other thing visitors are quite interested in is something we're all into – ourselves. Like most of us, their favourite topic of conversation is them, their family and their experiences. And yet in cellar doors across the country the ratio of questions asked that allow people access to their favourite subject is very low.

3. Ask questions

If you want to increase satisfaction and sales then simply go back to your childhood, when asking questions was natural – if repetitive and annoying to the adults around you. In sales speak it's simple: he who asks the questions controls the conversation, and therefore commands the outcome. In this case it equates to either a direct sale, a mailing list sign-up or an experience worthy of sharing with future visitors. If in doubt, ask.

4. Live up to the hype

Not meeting visitor expectations is another big mistake that can be readily avoided by paying attention to the things that impact directly on the visitor experience. Does your cellar door presentation and service offering match the promise made in the visitor guide?

Is that open fire roaring when it's 10 degrees outside and raining? Are you even open when you say you will be? This last one is a deal breaker and it occurs far more often than many realise. Of all the feedback I receive from disappointed visitors about their wine tourism experiences, the "closed" sign when the cellar door is advertised as being open is one of the most memorable – for all the wrong reasons.

5. Tell people where to go

When I presented at the Cape Wine Tourism Conference recently I asked the audience what they considered to be signage faux pas and the first response was: "I hate having to ask where the bathroom is located?" While it caused laughter, the issue is a serious one: do you really want the first interaction you have with your valued visitor to be, "Hi, welcome to Glorious Winery" – "yeah, where's the loo mate?"

And while we're there, make sure the amenities are presented with as much attention to detail as you devote to the wine you produce because it's often the first or last impression people will have.





The goal of most cellar door operators is to form an ongoing relationship with customers in the hope they will become advocates for their wine and increase their purchases over time. Your cellar door staff are the face of the brand and, as with most relationships in life, it really helps if you know the person you're having the relationship with.

6. Introduce yourself by name

Very few cellar door staff wear a name badge, and if they do most visitors won't notice it or use it unless they've been introduced first. It's so simple and makes the world of difference to the quality of the experience for your visitor. Try it: "Hello, my name's Robin, welcome to Glorious Wines. Have you visited us before?" There are two outstanding visits that spring readily to mind where this approach was used and the ensuing conversation was relaxed and engaging – and sales did follow.

7. Put some thought into signage

I know this is a vexed issue in most regions, and if you're on a secondary road miles from the main tourist route then sufficient directional signage to get visitors to your door can be a challenge. So let's not tackle that one. Instead, take a close look at the signage that welcomes people to your property. Do they know where to park? Can they easily locate the cellar door entrance? And a word of warning on warning signs: the tone of these sets the scene for your visitor so avoid negative messages like "Don't park on the lawn", "Don't feed our pet parrot" etc.

8. Have quality merchandising

Many cellar doors don't sell merchandise so they don't really think about the term very much. However, merchandising doesn't just refer to the products. It's about the way they're presented, and three dusty bottles on a shelf is an example of poor merchandising. Everything in a cellar door is there because it does one of two things: it makes visitors feel comfortable so they stay longer and purchase more, or it's a saleable product that's presented attractively so visitors can peruse it, get excited by it and purchase more.

Actually, good merchandising is far more involved than my flippant explanation but the objective is still the same.

9. Provide physical comfort

This one goes beyond the physical discomfort factors, which are sometimes quite subjective. Some people are quite happy to stand at a tall bar for hours and talk to you. Short people don't like it much though, nor do women in heels, and those other three in the car I referred to earlier can end up really peeved. Offer a range of seating options: stools at the bar, lounges, tables and chairs, hammocks on the veranda – whatever suits your brand, space and budget. Long entrances where the bar looks like the sacrificial altar at the end of a silent pilgrimage aren't a good look either. And yes, they exist. Consider other factors too: room temperature, location of staff on arrival, kids' area, music in the background, promotional messages and information, etc.

10. Provide emotional comfort

Most visitors can forgive a little physical discomfort if the experience is amazing. I haven't yet heard anyone complain about the cramped conditions at Rockford as people clamour over each other, apologising and laughing, to get to their next wine. Emotional comfort is quite another thing, and sometimes another deal breaker. Depending on their level of experience, cellar door staff can either come across as intimidating due to their exemplary knowledge of all things oenological, or condescending due to their personally perceived exemplary knowledge of all things oenological. And some staff are actually intimidated by their visitors' display of exemplary wine knowledge too, but that's another story.

Either way, the result can be less than desirable for visitors. If cellar door staff follow the golden rule of ascertaining visitor needs through questioning, this embarrassing situation can be avoided. And never make assumptions based on: a) what type of car they're driving; b) their accent; and c) how you assess their relationship.

Committee makes first report on grape supply dealings

The Code Administration Committee responsible for overseeing the Australian Wine Industry Code of Conduct has released its first annual report, covering the period 25 February (when the committee was appointed) to 30 June 2009.

No complaints of breaches of the Code were referred to the Committee during that period and only one dispute. This was successfully settled after an independent expert appointed by the parties under the Code made a determination.

As at 30 June the Code had three Signatories – Constellation Australia, Orlando Wines and Tyrrell's Vineyards – but they have since been joined by the Foster's Group and Balnaves Vineyard Services.

The report notes that the number of major companies involved is "encouraging" and urges WFA and Wine Grape Growers' Australia "to undertake further promotion among their members about the importance and benefits from participation".

The committee makes five operational recommendations that will now be considered by WFA and WGGA.

They cover informal early dispute resolution, time limits, notices to growers, retention of title, and disputes over downgrades and rejections at the weighbridge.

A formal, independent review of the Code will be conducted after the 2010 vintage

The committee comprises retired Federal Magistrate Bert Mowbray (presiding member), agribusiness consultant Ian Cox and lawyer James Omond. Its full report can be downloaded from the Code website at www.wineindustrycode.org.



Plan and website put new focus on vineyard biosecurity

Plant Health Australia (PHA) has reviewed and updated the *Viticulture Industry Biosecurity Plan*, which provides a blueprint for protecting the industry against exotic pests and diseases such as Glassy winged sharp shooter, Pierce's disease, Angular leaf scorch and Black Rot.

Originally released in 2006, the IBP was developed in partnership with WFA, Wine Grape Growers' Australia, the Australian Table Grape Association, the Australian Dried Fruit Association, and Federal and State governments. It supports the Emergency Plant Pest Response Deed (to which WFA is a signatory) by prioritising the highest risk exotic pests and identifying actions to reduce the likelihood or impact of any incursion.

The updated version incorporates the latest scientific research and pest intelligence to identify the highest risk pests to the industry. Copies can be downloaded from the PHA website at www.planthealthaustralia.com.au or the WFA site at www.wfa.org.au/industry_reports.aspx.

PHA and Animal Health Australia have also jointly developed a website with biosecurity planning information for plant and livestock producers at www.farmbiosecurity.com.au.

PHA's executive director Greg Fraser said many farmers and viticulturists underestimated the biosecurity and hygiene risks of simply having people moving on, off or around their property.

It was important for vineyard managers to:

- keep records of visitors and the origins of new plant materials to allow them to trace back if there is a disease, pest or weed incursion
- have good signs to inform and direct visitors
- ensure all staff members understand all biosecurity procedures and how to recognise and report diseases, pests and weeds.

Examples of risk assessment checklists and visitor registers can be found on the Farm Biosecurity website.



Industry News In Brief

Wine Job Dictionary released

The South Australian Wine Industry Association has developed a Job Dictionary, which sets out the requirements of 18 typical wine industry jobs. Copies can be downloaded in PDF format from the SAWIA website at www.winesa.asn.au

It is designed to help employers, employees, rehabilitation providers and doctors to better understand the physical demands of these jobs so they can: reduce workplace injuries; improve return to work outcomes when injuries do occur; and match the physical capability of employees with the duties to be performed.

Grape Wine Product Defined

A new definition of grape wine product became law in September. The change was introduced to ensure products that mimic ready-to-drink beverages are taxed at the same rate as spirit-based beverages.

Under the previous definition, certain flavours could be added to grape wine products, which meant wines could meet the definition of grape wine product when they included the flavour of an alcoholic beverage such as rum, brandy, bourbon or tequila.

Under the amended definition, no flavour of any alcoholic beverage (except wine), can be added at any time, whether the flavour is natural or artificial, or whether it contains alcohol or not.

Organic standards discussed

Moves towards organic standards are gaining traction on the international agenda. At their most recent meetings the World Wine Trade Group (WWTG), of which Australia is a member, agreed to explore a possible mutual acceptance framework and the OIV, at WFA's instigation, devoted considerable time to discussion about the need to define organic production.

A WWTG industry group is examining different standards in major markets and will present a scoping paper to the next meeting.

Mapping project gives us flexibility

WFA recently completed a project to map Australian Standard Geographical Classification (ASGC) SLA boundaries onto wine industry Geographical Indications (GI), which will give us much greater flexibility and accuracy in reporting at the regional level. We can now, for example, use census data and combine with GI data much more accurately.

We also know which SLAs are in each GI and for those SLAs that straddle GI borders what percentage of the SLAs are in each. In future we can also use different levels of the ASGC to report, for example, by local government area.

Measurement changes

The National Trade Measurement Regulations 2009 became law on 11 September 2009, but most will not come into effect until 1 July 2010 when they will be administered by the National Measurement Institute. The Regulations should be read in conjunction with the National Measurement Act 1960.

The changes have implications for wine bottlers as they allow for the use of either the average quantity system or the minimum fill system.

Viticulture safety guide

A Viticulture Industry Guide to Safety has been developed by Pro-Visual Publishing, with support from the Safety Institute of Australia. The wall chart covers key health and safety issues for viticulturists as well as tips on hygiene in the winemaking process.

The content includes forklift safety, manual handling, safe storage of flammable and combustible materials, and falls hazards. Copies can be ordered via the web at www.provisual.com.au or email to enquiries@provisual.com.au.



A reliable P&E register saves time and money

Agribusiness valuer Sam Paton provides some advice on making winery valuation less painful

When valuing any wine enterprise, a variety of information is required before inspections or field interviews take place. Generally this comprises statutory information (titles, rates notices, licences etc) planting details and yield history, production data and winery throughput, stock to sales ratios, market distribution and plant and equipment information, plus full financial documentation filed with the ATO.

A major recurring issue is the inaccuracy of, or the anomalies contained in, the Plant and Equipment (P&E) register. In such cases, considerable extra consulting time is required to reconcile a credible P&E register at significant greater cost to the client. In a recent valuation, for example, we “discovered” that a \$500K item of plant, purchased in late 2008, had not been included on the register. Of course, you may be able to be fully rebated via the WET rebate.

The P&E register is an essential piece of information for both accounting and valuation. In accounting, it is used to determine the depreciation schedule, providing a written down value (WDV) for the asset. A properly constructed P&E register also allows for more efficient due diligence by any prospective purchaser and allows the operating company to track items which are acquired or disposed of in any trading year.

In valuation practice, we are more concerned with identifying the true value of the asset on the register, as opposed to the recorded written down value. Nevertheless, if the register is inaccurate, the company may be unnecessarily penalised in terms of insufficient depreciation write-offs for taxation purposes, or overstated depreciation write-offs by comparison.

We may also be asked to provide an “auction realisable” value for the assets, which is the value for which the asset would most likely be bought or sold at auction.

In the current market for wine industry assets, the “auction realisable” value may be considerably less than the “in-use” value.

The inability of the current market to absorb large items at once on an auction realisable basis causes this differential.

We use a template, which is available from the WFA website for your use, covering the detail that is needed to accurately identify

the plant and equipment, and to value it accurately. This list includes the date of manufacture, the purchase date (which may be different if the assets are purchased second-hand), the purchase price, and the make, model and serial number of the asset, amongst other information.

The use of the workbook template should aid in your valuation and will ensure that you are capturing appropriate depreciation on your plant and equipment.

I will also make a quick comment about the contentious issue of land compensation. The expected future growth in public infrastructure projects throughout Australia will affect many wine industry operatives. Under the various Land Acquisition Acts throughout the Commonwealth, you are entitled to compensation under “Just Terms”, including professional valuation and legal advice, plus independent expert advice on any other matter that may arise from the acquisition (e.g. accountancy). Your first contact from an Acquiring Authority may be via what is called a *Notice of Intention to Acquire*. Reasonable professional costs will be reimbursed upon settlement by the Acquiring Authority.

Sam Paton and Associates, a WFA Network Partner, is a firm of Agribusiness Valuers and Agricultural Economists, with a major part of the practice involved in the valuation of wineries, vineyards and fully integrated wine businesses.

The P&E register is an essential piece of information for both accounting and valuation.

ATO provides WET clarifications

A common question the Australian Taxation Office receives is whether WET applies to sample tastings. The short answer is yes.

If WET has not already been applied, you must pay WET on wine that is given away, even to charity. For example, if you use wine for tastings or promotional purposes, or if you consume it yourself, then these situations are classified as assessable dealings and they attract WET.

Winemakers and wine sellers (wholesalers and some retailers) should be aware that the ATO this year released two new rulings on the WET to replace the previous single 2004 ruling (WETR 2004/1). While most key issues are unchanged, some have been expanded or clarified following industry feedback.

Ruling WETR 2009/1, *Wine equalisation tax: the operation of the wine equalisation tax system* clarifies what:

- constitutes indirect marketing
- is included in the taxable value for the purposes of working out the amount of wine tax payable.

WETR 2009/2, *Wine equalisation tax: the operation of the producer rebate for other than New Zealand participants* expands on information about the producer rebate and explains:

- what the ATO means by “manufacture” for the purposes of the wine producer rebate
- how this rebate applies to wine producers who blend wines to create a blended wine that is commercially distinct.

In a recent interpretative decision, (ATOID 2009/98 *Producer rebate: pooling of grapes from which wine is manufactured*) the ATO stated that an investor in a managed investment scheme is not the producer of wine and cannot claim the producer rebate where the investor’s grapes are pooled with those of other investors and the pooled grapes are manufactured into grape wine. Of course, you may be able to be fully rebated via the WET rebate.

Further information on any of these issues is available from the ATO website at www.ato.gov.au or by phoning 1300 137 290.



New award for employers

By Brian Smedley, Chief Executive, SA Wine Industry Association

In mid-2008 the Federal Government tasked the Australian Industrial Relations Commission (AIRC) to rationalise Australia's awards system by reducing around 3200 Federal and State-based awards to fewer than 130.

The AIRC implemented a four-stage process, with each stage looking at different groups of awards. Stages 2 and 3 have the most important implications for grape growers and wine producers.

Given the importance of this award modernisation process for the wine industry, WFA engaged the SA Wine Industry Association (SAWIA), which has extensive industrial relations expertise, as the national advocate.

SAWIA committed significant resources to this complex role, making numerous submissions and appearances before the AIRC to argue the wine industry's case.

The AIRC released the *Wine Industry Award 2010* in September 2009, replacing the *Federal Wine Industry AWU Award 1999* and various *Notional Agreements Preserving State Awards* (NAPSA's). On an overall basis, a positive and realistic outcome was achieved for the wine industry.

A dedicated *Wine Industry Award* was a huge win for wine industry employers, as otherwise we would be facing the dire consequences of potential coverage by two separate unrelated awards – with unsuitable terms and conditions, and significantly higher costs. Other improvements to the draft award included the insertion of favourable clauses and improvements ranging from the piecework clause to an expanded definition of ordinary hours for vineyard and cellar door workers.

By aligning the various terms and conditions applying across the wine states, the result has been terms and conditions with wide application.

This means that there will be both increases and decreases in monetary provisions, penalty rates, terms and conditions for many employers. Unfortunately, this "one size fits all" approach of the award modernisation process has not allowed all of the particular needs of our industry to be addressed.

The AIRC has now finalised the "transitional provisions" for Stage 3 awards, which will guide the move from current monetary provisions to new provisions over five years, commencing on 1 July 2010. SAWIA's submission has resulted in changes to deal with particular industry cost issues.

A final version of the *Wine Industry Award 2010* was released in early December 2009 and takes effect on 1 January 2010. Accordingly, employers will need to address the following questions:

- What are the current awards that the company is bound to observe?
- What new modern awards apply to the occupational groupings in my business?
- Which terms and conditions have been created or changed or ceased?
- What are the implications for employment documentation?
- What changes are required to my payroll system?
- What are the implementation issues?
- How will I manage the changes?
- When do the changes commence (including the transitional provisions)?

There is likely to be a modern award created for various forms of employment and awards are only part of the total terms and conditions of employment. Employers should be aware that their employment obligations are also set out in the *Fair Work Act (Cth)* 2009 for such things as the National Employment Standards, which also commence on 1 January 2010.

About the Federation

WFA is the peak national body for the Australian wine industry. Membership is open to all Australian wineries.

The Federation has senior staff specialising in:

- Government relations
- International and regulatory affairs
- Economics and policy
- Environment and natural resources
- Wine tourism
- Research and analysis
- Communications

WFA Network

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About Winescope

Winescope is produced three times a year and distributed in hard copy to all Australian wineries and other stakeholders.

It is the official newsletter of the Winemakers' Federation of Australia, but also includes stories from our partner organisations – notably the Australian Wine and Brandy Corporation – of specific interest to the wine industry.

To be added to our mailing list, please email wfa@wfa.org.au