

WINEMAKERS WORRIED ABOUT TAX REBATE RORTS

THE wine industry has called for a code of conduct to regulate the relationship between retailers and suppliers, and for action to end the rorting of tax rebates.

Industry revenues are down 14 per cent since 2007 due to a "perfect storm" of oversupply, declining export returns, and domestic margins under pressure from the two supermarket giants.

Launching an industry plan on Wednesday, Winemakers' Federation of Australia chief executive Paul Evans told *The Australian Financial Review* that the idea of a voluntary code of conduct was discussed with Coles and Woolworths.

"These are obviously sensitive issues," he said. "We've been pretty clear that [it is] about more fairness and transparency in the domestic marketplace . . . obviously other supplier groups have been looking at the same issues," he said.

Woolworths and Coles account for about 60 per cent of alcohol retailing under their Dan Murphy's, Woolworths Liquor, BWS, Liquorland and First Choice brands. That dominance is expected to increase as they plan to open 270 new stores between them

Call for restrictions: The Winemakers' Federation said it wants members to consider lobbying the federal government for restrictions on vertical integration that occurs as the retailers consolidate stores and brands, restrictions on the companies buying more capacity in the distribution and retail sectors of the market, including online markets, and implementing a mandatory code to regulate their interaction with winemakers.

The industry is also alarmed that the rebate on the wine equalisation tax paid on wholesale transactions is being rorted. Originally offered as a rebate for tax on sales of up to \$1.6 million, to support regional communities and maintain jobs and infrastructure in the wine growing regions, Mr Evans said the size of the rebate being paid was growing significantly, despite much lower growth in the industry.

"We feel there are a number of recipients, including virtual wineries and winemakers in New Zealand, who are in receipt of the rebate, which is not consistent with what we believe the original intent was," he said.

Tightening the payment of the rebate would put more money back on the table that the government could use to fund parts of the reform program, such as export marketing programs.

Victorian winery Crawford River sells its award winning Rieslings and Cabernet Sauvignons domestically and internationally. Owner and winemaker John Thomson said the report would kick off a much-needed discussion.

"Some of the things they are suggesting make perfect sense. I don't see this industry being able to exist the way it is at the moment."

Mr Thomson said the revised marketing approach, including a unified presence at overseas wine expos "makes sense", but promoting a "buy Australian first" mentality locally could prove more difficult.

He agreed that the WET tax could be "sharpened up" and said it was probably the most "do-able" of the recommendations. "It was introduced to help regional producers maintain profitability," he said. "We spend a lot of money locally, employ a lot of locals so [the rebate] is actually a worthwhile process if people aren't rorting the system."

Claire Stewart, 29th Aug 2013, *The Land*

Editor: The WFA call for a code of conduct is fair and reasonable and long overdue but until they have their own house in order (mandatory code between growers and wineries) it will take a long time before the government listens.

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BOARD ACTIVITIES REPORT



80th Anniversary Function: The Board, staff and close to 200 growers and their families enjoyed a lovely afternoon luncheon held 15th September at the Yoogali Club to celebrate the Board's history in the region. It provided growers an opportunity to relax and discuss industry issues in a social setting.



Social Media - the Board joins the party: The Board has recently opened its own Facebook page and Twitter account.

www.facebook/winegrapesmarketingboard and [RiverinaWGMB](https://twitter.com/RiverinaWGMB) (on Twitter). Growers already using these types of social media wishing to follow the Board are invited to follow us. Growers that wish to know more about it can contact the Board office to discuss. The Board is also soon to open its new-look website for the industry.

MIA Vine Improvement Society to benefit from Board donation: The Board in response to a funding request from the MIAVIS has provided funds of \$15,000 to assist in the ongoing operations of the organisation. The funding commitment will be matched dollar for dollar by the Riverina Winemakers Association. The work that MIAVIS does on behalf of the industry in maintaining quality, disease free rootstock material is important for all growers in this region. Without support funding the society may be forced to close its operations.

Meeting with the Minister for Primary Industries: The Board held a good meeting with the Minister Katrina Hodgkinson recently in Sydney. While she stated that her Government opposed further regulation in the region she is keen for the Board to explore the development of a Co-operative. The Minister also instructed the Small

Business Commissioner for NSW to meet with regional wineries to discuss why they are not signing up to the industry Code of Conduct.

The Board looks forward to holding regular and constructive meetings with the Minister in the future.

NSW Liquor Licencing Review: The Board provided a submission into the review advising that the increase in persons that are not associated in the industry (such as winegrape growers and winemakers) that are obtaining a licence through the State government was negatively impacting on the market conditions for legitimate operators. The wholesale/producers licence was designed for wineries and winegrape growers that made wine from purchased winegrapes or their own production and not persons that were not associated with the industry.

Outstanding Fees and Charges 2013: The Board is very mindful of the associated problems with seeking statutory fees and charges directly from growers in the event that the winery declines to deduct these on behalf of the Board. This years issues have lead to the Board developing a draft policy for 2014 in relation to timing of payments to Board, to ensure that growers have received the majority of their funds from the winery before pursuing these directly from the grower. This will be discussed at the Strategic Planning and 2014 Budget meeting in November.

Board to provide a Levy Return: The Board is again taking the financially responsible move of providing a return to growers on the statutory fees charged of \$1.50 per tonne. At this time it is hoped that this will occur in November 2013. To do so the Board will need to be in receipt of all the outstanding fees, so if you have not paid your account please do so.

HACCP Auditing: The development staff have almost completed the auditing of all growers registered under the Board's food safety system in region. This task takes weeks of effort, coordination and preparation. If you are yet to complete your audit for the year please contact the office to discuss this with one of the staff.

Weather Stations: The network of weather monitoring stations are now in place across the region. These stations are located in convenient locations around the region, provide growers with a snapshot of weather events to enable spray application planning. If you wish to receive these via facsimile, email or simply download from our website please give us a call to discuss.

RED HERRING WITH A BITTER TASTE

Recently one of the regions wineries provided to its growers an article from Mr Jim Moularadellis from Austwine Brokers in South Australia that foretold of likely declines in grape prices in 2014. A great tactic in how to sell bad news, get someone else to do it.

The Board has fielded many comments from growers in relation to this and it is worthy of a mention in this newsletter. It is also important to note that many growers we spoke to chose not to read it fully, however all growers should try and obtain a copy of the document as it does provide an insight into the industry, albeit a South Australian centric one. It is freely available here: www.austwine.net.au (click on the link titled Latest Report - 2013 Vintage Report)

The document is the latest report of many from the CEO of the company of his personal views of the industry. It should be acknowledged that the author of the document is Mr Jim Moularadellis (self titled) Chief Enthusiasm Officer of Austwine. He has been in the industry for many years and is respected and knowledgeable of the bulk wine market and the region within which he operates, i.e. the South Australian Riverland.

The main problem with this document is that it is a red herring. Of course if a winery can point to a document and say grape prices need to drop they can make it so; Such is the market power that they hold. Does this make it justified, absolutely not.

A few of the key messages in the document are:

1. Wineries purchased grapes at higher prices in 2013 (as they did in 2008 although a lot lower than what was paid in 2013) as they felt they could sell all the wine they could make. This is because wine inventories were being drawn down and bulk wine prices were moving upward and the market was somewhat more buoyant.
2. "it is not unreasonable to expect grape prices to fall next year" The analysis for this statement is based on Riverland price modelling.

The document while citing many statistics does not take into account many factors that exist in this region that are significantly different from the region in which it was written. These are notably the following.

1. District average prices in this region are low in comparison to the Riverland.
2. Riverina district yields are the lowest they have been for decades.

3. Lack of significant competition in this region.

The article refers to Riverland Chardonnay, Shiraz and Cabernet Sauvignon which in 2013 obtained an average price of \$291, \$396 & \$402 respectively. In the Riverina the prices were \$288, \$365 & \$386 for the same year.

While it could be argued that these prices are close to each other it could not be further from the truth in real dollar term returns for growers.

In the Riverland the practice of capping tonnes and restricting yields is virtually non-existent. To our knowledge it is not a normal practice of wineries to reduce intake by tampering with the vineyards as it is predominately about balanced vines which in turn produce a balanced crop. (It should be pointed out that the colour assessment of red winegrape varieties rarely occurs in the Riverland as it is known that it does not reliably translate to a quality end product)

In the Riverland standard pruning practice is to box hedge leaving at least 6-8 buds per cane, there is little evidence of manually cleaning these vines out as is undertaken in the Riverina.

Therefore with yields on average close to double those produced in the Riverina, eg 12 tonnes per acre is quite normal for red varieties (as advised to the Board by a SA Winery that grows its own winegrapes). The returns obtained by growers are greater than double those paid in this region.

Our office knows of one major winery that harvested an average in excess of 10 tonnes per acre of Chardonnay from its growers which equals a \$2,910 per acre return. The red returns (using the norm of 12 tonnes/acre) would be close to \$5,000 per acre (or \$12,350 per hectare).

Riverina growers average production has been limited by consecutive years of caps being placed on them and growers inability to fertilise vines adequately due to dwindling financial returns.

Talk of dwindling returns for the 2014 vintage is extremely disappointing and misleading when many growers are starting to have conversations with their banks to grow the 2014 crop. I encourage growers to raise these main differences with their wineries in any discussions they may have.

Importantly this region is in dire need of some active competition and purchasers that are signatories to the Wine Industry Code of Conduct.

CO-OPERATIVE FOR THE REGION? - YOUR INPUT NEEDED

Following a meeting with the Minister for Primary Industries Ms Katrina Hodgkinson MP in Sydney at which the Minister advised that for the betterment of growers in the region the Board needs to look at forming a Co-operative, the Board seeks grower feedback on the idea and the possible structure.

The Board did seek a reintroduction of statutory terms and conditions of payment to which the Minister advised that her government is looking to reduce regulation in the State by 40% and that another model would ideally service the industry better, eg Co-operative.

Background about co-operatives

Co-operatives are people centred organisations that are owned, controlled and used by their members. A co-operative's main purpose is to benefit its members.

The International Co-operative Alliance (ICA), an independent, non-government association that unites and represents co-operatives worldwide defines a co-operative as:

"...an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Their members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Co-operatives are different from other forms of incorporation because of their member ownership, democratic structure and the use of funds for mutual, rather than individual, benefit.

When a co-operative is formed it has its own legal identity separate from its members.

A co-operative can:

- **enter into and enforce contracts, including the ability to hold, acquire and deal with property**
- **sue or be sued**
- **continue regardless of changes to membership.**

Although there are benefits to be gained from incorporating as a co-operative, there are also obligations.

For example, directors have similar responsibilities to those of company directors, the co-operative must

maintain proper financial and membership records and registers, and decisions which have a significant impact on the co-operative must be approved by the members.

Things to be aware of:

The rules of the Co-operative

A co-operative's rules describe the way in which the group organises its activities. They must include certain matters required by the Act. Some of these are listed below:

- the name (which must include the word 'co-operative' and end with 'limited')
- the primary activity
- active membership provisions
- rights and liabilities of members
- number of and qualifications for directors
- meeting procedures.

The co-operative needs a disclosure statement

The disclosure statement ensures that prospective members know the nature and extent of their financial involvement or liability as a member of the co-operative. It outlines areas such as the:

- purpose and main activity of the co-operative
- members involvement in the co-operative
- projected profit and loss
- names of prospective members and directors
- who will act as an auditor
- registered office and mailing address, and any other matter relevant to the co-operative.

http://www.fairtrading.nsw.gov.au/ftw/Cooperatives_and_associations/About_cooperatives.page

The Minister and her advisors believe that if a co-operative was well constructed and supported in the region it could negotiate prices with wineries and terms and conditions of payment (items that the Board is now excluded from). It would need to be supported by a majority of growers.

Some growers have called for a Union to be formed to work for growers, such actions without trying out preferred methods may be considered extreme but are well worth thinking about for the future as all growers would agree a shift in the market power in the industry is definitely needed.



Spray Application: Doing it Better

**How can you get better spray coverage?
Do you know how to save on chemical costs?**

This GWRDC workshop will provide the latest information on:

- ▶ spray application best-practice
- ▶ new developments in spray technologies
- ▶ improvements in spray application.

We will also discuss current **regional spray application issues** and **new regulations** that affect your spray practices. The workshop will be delivered by Dr Andrew Landers, spray application specialist from Cornell University, USA.

The day will also include a **practical demonstration** of spray application assessment and how to improve spray penetration and deposition.

Spray application has a major impact on your vineyard and your business – doing it better means a better bottom line, more effective use of product and improved environmental practices.

Where:
NSW DPI, Farm
217 Murray Rd
Hanwood

When:
Thurs 3 Oct 2013
7:30am – 2:30pm

Breakfast and lunch will be provided.
The workshop is free for all grape and wine levy payers.

RSVP: By Friday 27 September 2013
kbartrop@wgmb.net.au

NEWS IN BRIEF

Proposed actions focus on improving future wine industry profitability and asset values

A proposed set of actions to help restore the profitability of Australian wine businesses and lift asset values was today released to the industry for feedback.

The Australian wine industry has been a success story in what Australia can achieve with globally competitive quality and export-led initiatives.

However in more recent times the industry has been doing it hard due to a number of factors on both the supply and demand side.

The Winemakers' Federation of Australia (WFA) has today distributed a set of actions to help improve industry settings aimed at assisting its members to restore profitability and asset values.

The WFA's actions are based on an expert review which it commissioned on the collective experience of its board and other industry organisations such as Wine Australia.

"This is the most significant body of work the industry has undertaken in many years and was made possible by the funding support of the Wolf Blass Foundation and the Grape and Wine Research and Development Corporation," WFA President Tony D'Aloisio said.

"The Federation's work on the Actions goes beyond the basics of yields, prices and patterns of demand, to look at the core question of whether our structures, processes and policy settings are appropriate to sustain individual and collective profitability in the long term.

"Unless we restore industry profitability and lift asset values to acceptable levels, the industry will not make the most of the opportunities it has and there could be continued adverse impacts on jobs and growth in regional Australia.

"Our aim is to help return industry profitability to a level comparable with global benchmarks."

There are 33 specific actions which are grouped under the summary seven headings as follows:

- Growing demand for Australian wine both

domestically and internationally

- Hastening the correction to the supply base
- Working with national wine retailers and the competition regulator on fairness, transparency and equity in the domestic wine market
- Reforming the wine equalisation tax rebate to support regional communities
- Monitoring the future of wine tax policy
- Promoting responsible consumption and an appropriate regulatory framework
- Securing the funding to support the recommended actions in partnership with industry and Government

"The proposed Actions cover the most pressing areas where we believe the greatest difference can be made," D'Aloisio said.

"A good example of where industry is already working together to make a difference is the Wine Australia *Savour Australia 2013* event in mid-September — It will be the biggest marketing initiative ever undertaken by the Australian wine industry and represents an example of how our sector needs to invest in the market opportunities and will be a precursor to further initiatives.



"The actions will now be subjected to wider review by our winemaker members and other stakeholders and in that way we can make sure we have them right.

"When we implement from about November 2013 we will know we have the support of the industry and can more

confidently represent the industry in discussions with Government and other stakeholders."

The Expert Review on the performance of the industry was undertaken over six months by independent economists Centaurus Partners and includes detailed analysis of demand, supply and market distortions.

The consultation period on the actions and expert review will run until Friday 18 October 2013.

NEWS IN BRIEF

Wine group sees 'enormous benefit' in irrigation funding

Riverland Wine says a \$265 million funding boost for irrigation industry improvements will benefit the whole region.

Federal Water Minister Mark Butler announced the details of the package in the Riverland on Friday, after 10 months of negotiations with stakeholders.

It includes \$240 million for irrigation infrastructure upgrades and \$25 million to improve the Loxton Research Centre.

Riverland Wine's executive officer Chris Byrne says local industry now needs to take the projects to the next level.

"It will be very much up to us now to go forward back to Government and wider industry partners with proposals that will enable the centre to realise much greater potential as a resource for the entire region, both in terms of providing services but also developing new knowledge and new capabilities," he said.

He says now that the funding has been locked in, it is up to industry to put forward strong business cases.

"I think if we all put our best foot forward and work together and recognise the enormous benefit that we have in terms of this \$265 million, we should be able to convert it three or four times that value, perhaps into a billion dollars worth of value for the region over the coming four or five or six years," he said.

<http://www.abc.net.au/news/2013-08-26/wine-group-sees-enormous-benefit-in-irrigation/4912406>

29th August 2013

Major step taken towards protecting Australian Vineyards - WGGA

Wine Grape Growers Australia (WGGA) has today taken a major step towards ensuring the future security of Australia's grapegrowing businesses by increasing the protection of Australian vineyards against biosecurity threats – from both outside of Australia as well as within. This cause has been given a major boost with the appointment of Rachel Barratt to the position of National Winegrape Biosecurity Program Coordinator.

Over the next 12 months Rachel will be responsible for initiating a number of important projects to secure a sound biosecurity management structure in the winegrape growing sector. In particular, she will be

setting up the industry's Winegrape Biosecurity Industry Reference Group to drive industry policy and strategy, working with other industries and government through agencies like the National Viticulture Biosecurity Committee and establishing long-term sustainable funding for the function.

WGGA Chairman and long-time winegrape grower, Mr Vic Patrick, noted that WGGA was the wine sector signatory to the Emergency Plant Pest Response Deed with the Commonwealth government and had now taken a lead role in progressing biosecurity on behalf of all grapegrowers in Australia, including winemakers with their own vineyards. He also noted that WGGA had made significant progress despite resource constraints. "We need the support of the whole sector to make this work – including from our research organisation, the GWRDC, which has identified biosecurity as a priority area in its latest five year plan", Mr Patrick said.

"It's a difficult time for growers," Mr Patrick added, "and the costs of a potential biosecurity event could be the final blow for many growers. You only have to look at the Papaya Fruit Fly outbreak in Queensland to see just how much a major pest or disease outbreak can cost an industry."

The direct costs to growers from the Papaya Fruit Fly experience in the mid-1990s is estimated to have been \$27-\$46 per hectare for each of up to twelve sprays a season and disinfestation of \$79-\$100 per tonne. The costs of disrupted markets were not calculated. Indirect costs through various agencies were up to \$55 million covering eradication and research to develop control measures. All up, the estimated cost could have been \$160 million.

"We want to make sure we never have an outbreak like that", Mr Patrick said, "through wise investment in prevention, strategy development and awareness activities."

The Executive Director of WGGA, Mr Lawrie Stanford, noted that "Rachel has a very strong background in program development and strategy, and as such, is well-positioned to establish our industry biosecurity arrangements. Rachel has been working as an independent consultant providing strategic and business development advice." 16th September 2013. *Wine Grape Growers Australia*

CHINA SNAPSHOT

China imported 141 million liters of bottled wines in the first half of 2013, representing a 21% increase over the same period of last year. Bottled wines led the main imports and the total value were worth USD\$704million, up 10%. From January to June, wines imported from Australia grew rapidly and reached 18 Million litres, boasting a year-on-year increase of 20%, and achieved a total value of USD\$122 million, up 36%.

Of all importing countries, Australia ranks second in terms of the total value as well as volume.

(Source: Global Trade Atlas)

As the e-commerce era continues to grow, online wine sales are booming. According to statistics, the total global online sales of wine have exceeded the

threshold of USD\$5billion and will continue to grow despite the fact that online wine sales only account for 5% of total wine sales at the moment. Considering more and more wines are going online, online wine purchase will be a new areas of growth in the foreseeable future.

According to Sootoo (www.sootoo.com) though online wine sales are moderately low in China at this stage, its huge potential will finally explode to flourish. Sootoo predicts China's annual sales volume of online wine purchases will break RMB10billion within three to five years. Although offline retailers have loyal customer bases and higher profits they have hit a bottleneck in expansion and their sales remain at a relatively low level. *(Source: winechina.com)*

80TH ANNIVERSARY CELEBRATION WELL ATTENDED

Close to 200 growers, families and friends gathered to celebrate the 80th Anniversary of the Board. The photo below is of current and past Board members and staff.

From left to right: Rod Gribble, James Codemo, Bruno Altin, Eric Berton, Tony Baggio, Kristy Bartrop, Sheree

Collins, Brian Simpson, Bruno Brombal (Chair), Jim Bugno, John Dal Broi, Lou Dal Nevo, Dino Zappacosta, Ray Pagano, Sam Catanzariti, Roy Stippo, Roger Hoare, Robert Bellato (Deputy Chair) and Paul Rossetto.



STRATEGIC PLANNING AND BUDGET MEETING

Please mark Thursday 21st November 2013 in your diaries to attend the Strategic Planning and Budget Setting meeting at the Yoogali Club commencing at 7:30pm. The Board will use the meeting to discuss

some policy matters and the formation of the co-operatives for the region. The meeting is also where the fees and charges amount per tonne is set for the following year.

WINE GRAPES MARKETING BOARD - proudly serving winegrape producers since 1933
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