

# Charting a Course for the Australian Wine Industry: Insights from New England Australia.

## Introduction

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For a period of almost thirty years the Australian wine industry experienced rapid growth and a concurrent expansion in productive capacity, buoyed by higher prices largely attributable to increased export demand. For example, from 1990-91 to 2007-08, production expanded from 346 million litres to 1.25 billion litres per annum, with export volume increasing from 57 million litres to a little over 714 million litres in the same time period (ABS 2009). This expansion saw a marked increase in the number of domestic wineries, from approximately 600 in 1990-91 to almost 1900 in 2004-05. It also witnessed a geographic dispersion of grape growing and wine production; with the Australian Bureau of Agricultural and Resource Economics (ABARE) recently listing no fewer than 86 wine producing regions (Jackson 2009).

However, lately the Australian wine industry has entered far less certain times. In a joint statement released in November 2009, key industry organisations argued that 20 per cent of bearing vines in Australia were surplus to industry requirements (WRAA, 2009). This equates to a surplus stockpile of 100 million cases set to double in two years if current production is maintained (Gent, 2010, p.2). Ostensibly the industry has been a victim of its own development and success, the consequences of which are oversupplies of both grapes and wine. Other factors cited as contributing to the present adverse market conditions included an increase in global competition, changing consumer preferences in major export markets, a loss of domestic market share to imported wines, increasing input costs (particularly for irrigation water) and a strong Australian currency (Jackson 2009; Gunning-Trant and Kwan 2010) The main conclusions of the joint industry report were that restructuring of the industry is necessary to reduce surplus production and to address issues of competitiveness and profitability (WRAA, 2009).

New England Australia is one of the industry's emerging wine regions, gaining Geographical Indicator (GI) status in March 2008. More recently a regional branding and marketing strategy has been initiated as a mechanism to continue the development of the viticultural, winemaking and wine tourism industries. Yet given the difficulties confronting the Australian wine industry generally, what does the future hold for the nascent New England Australia wine region and how is the experience of the region representative of industry-wide trends? It was with these questions in mind the New England branch of the Australian Agricultural and Resource Economics Society, together with the School of Business, Economics and Public Policy at the University of New England brought researchers and local industry leaders together in the form of a Wine Symposium, held 13 August 2010. The main aims of the Symposium were to discuss prospects

and opportunities for the local wine industries with the objective of identifying potential areas of collaboration. The papers introduced below were direct outcomes of the Symposium. Combined, the four papers canvass issues of relevance to individual producers as well as regionally and nationally.

The first paper, 'The Proposed Wine Restructuring Action Agenda and Alternative Policy Options for the Australian Wine Industry' by Bligh Grant, Jeff Gow and Brian Dollery, discusses the implications of the recommendations contained in the WRAA, and in particular the potential ramifications of a proposed vine-pull scheme. The authors argue that history, specifically the long run consequences of the 1985-87 vine-pull scheme, suggests the need for careful consideration of policy options when seeking solutions beyond market adjustment to contend with current industry problems.

The assistance and guidance provided by the NSW State Government has been critical to the successful development of the New England wine industry thus far. In 'State Government Assistance to the Local Wine Industry: New England Australia 2000 to 2010', Stuart Mounter and Peter Sniekers provide an account of the past, present and future roles of the State Government in facilitating the development of the region's fledgling industry, highlighting some of the potential opportunities and challenges that rest alongside pursuing a regional branding and marketing strategy.

The third contribution is a dialogue, 'From Grape Grower and Winemaker to Wine Tourism Operator: An Interview with Shaun Cassidy of Merilba Estate Wines, Kingstown'. Merilba Estate is located approximately 55 kilometers south-west of Armidale in northern NSW (see Figure 1). Shaun Cassidy is its Managing Director and Chair of the New England Australia Branding Strategy Committee. Bligh Grant questioned Shaun on a number of issues, including the transition of his business from grape growing and wine making to incorporate a cellar door facility, and the prospects and challenges for the New England Australia wine region.

The fourth paper, 'Niche-Marketing Organic Wines: Ethical Dilemmas and the Importance of Stewardship as the Foundation of Sustainable Business', is authored by Scott Wright with Bligh Grant. The Wright Robertson family enterprise, located 18 kilometres south of Glen Innes (see Figure 1), has been run as an organic wine producing business since 1999. In this paper, Scott openly discusses some of the difficulties of producing organic wines and his decision to dispense with organic certification, his experiences with producing and marketing niche wines, and the future direction for his family and business.

Since the Wine Symposium was held a follow up statement to the WRAA has been issued [6 December 2010]. The statement noted that although Australian Bureau of Statistics (ABS) data indicated there had been a net reduction in vineyard area, the downward adjustment stood at well below the recommended 20 per cent. Hence, the prospect of oversupply remains a real industry threat. The statement also suggested that rapid industry expansion has been the catalyst for an increase in the number of inefficient and/or inappropriate vineyard and wine operations, although this remains a point of contention.

Culpability for the current oversupply has industry opinion divided between increasing vineyard numbers in 'cool climate' regions versus excess production of bulk wines from 'warm inland' regions. Irrespective of the apportionment of blame, the end result has been downward pressure on both grape and wine prices, to the extent that the NSW Legislative Council Standing Committee on State Development held an Inquiry into Wine grape market and prices between August and December 2010. As noted in the Inquiry's *Report*, the decline in grape prices has been far from consistent across grape varieties and regions, with the 'warm inland' districts such as the Riverina and Murray Valley, which do not have 'a strong regional brand' most affected (Legislative Council, 2010, pp. x,16). In the same *Report*, Industry and Investment NSW argued that much of the disparity in prices, and in particular 'intra-varietal price variation' can be accounted for by differences in quality (Legislative Council, 2010, p.33).

These last two points raise some relevant questions. Firstly, what is a regional brand and what does it represent? *Prima facie*, developing a regional brand would appear to be a less than an arduous assignment; a wine region would simply be classified according to its topography, soil types, climate or location. However, representations following from these raw data descriptors are tenuous. Brand development is a complex and indeed political process, where the final product may be one that is contestable despite the need for industry players in a region to publically endorse the brand.

For example, the New England Australia wine region exhibits considerable diversity in its soil types, altitude and weather. What then, in this instance, should a regional branding strategy embody? Does the strength of the region lie in the diverse range of wines that can be produced or should a more artisan view of producing flagship wines be portrayed? Whatever approach is taken the industry needs to err on the side of caution. As discussed in Mounter and Sniekers, the experiences of other regions suggest that increasing brand value takes time and effort. Mistakes on the other hand can devalue a brand very quickly.

Secondly, is niche marketing an effective strategy in helping to mitigate adverse price effects? The heterogeneous nature of wine suggests that regional demand has some bearing on grape prices. But are consumers willing to pay a price premium for wines produced from superior quality grapes or differentiated by other 'desirable' attributes? Wright and Grant provide an interesting perspective on organic wine production and niche marketing. Scott Wright's personal experience with organic certification is that while it assists in facilitating market access it does not deliver higher per-bottle prices.

A common sentiment expressed in grower submissions to the Wine Grape Market and Prices Inquiry (Legislative Council 2010) was the feeling of disproportionate market power between wineries and growers, and of market dominance by major retailers in Australia. Indeed some participants argued for government intervention amid claims of market failure in the grape market, particularly in the Riverina district. While acknowledging that market power imbalances exist, the Standing Committee did not advocate government intervention, instead putting forward a series of recommendations to foster and assist with structural adjustments within the industry (Legislative Council 2010, pp.xiii-xiv). In Bligh Grant's interview, Shaun Cassidy tells of his encounters with market dominance and how they provided the impetus to change their business structure and move to an on-premise outlet.

Clearly the Australian wine industry is facing challenging times, burdened with an aggregate problem of oversupply. However, at the regional and individual business levels there are obvious disparities in the difficulties at hand and in the development and restructuring strategies to address them. For example, the New England Australia region, in undertaking a regional branding strategy, is still in its infancy in establishing its image. Other regions (e.g. Mudgee) have been quite successful in achieving this whereas others (such as the Riverina) have, up to this point, maintained regional anonymity. The intention of publishing these papers is to highlight some of the issues confronting grass roots producers and how they adapt their businesses in an environment of early regional development and economic uncertainty. It is hoped the papers provide useful insights for other regions and industry participants faced with similar circumstances.

**Figure 1**



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