Editorial
It appears that in our short existence we have upset at least one wine producer. Nothing serious just an email saying, “A number of the staff are not entirely impressed with the 'tone' of your comments regarding our company… therefore we are not interested in subscribing to your report.”

What should we do, chase the business? Beg forgiveness? Promise never to do anything that may upset this company again? I have known said company since its beginnings, watched its progress, listened to its directors and been impressed, tasted its wines- admired some, bagged others. I have presented its wines at tutored tastings and enjoyed its marketing.

All I can say is there are lots of things I do not like, starting with the important ones like terrorism and pending war, working down to the idiot statements many wineries put on their back labels, through to the possum (I think) that keeps defecating on my veranda. There are always things we don’t like, we just have to learn to live with them.

Tony Keys

1. Proudly Australian
The Press release from **Blue Pyrenees,** Avoca, Victoria makes much of the fact the company in now in Australian hands. The 185-hectare, 90,000 case a year estate has been sold by French drinks group, Remy-Cointreau, to two Sydney businessmen, John Ellis and Bill Anderson. No figure has been announced however $15m has been mentioned in press reports.

2. Chard-o-Clean
Reports are coming in from California about the development of wine-based disinfectants. Mark Daeschel is a professor of food science and technology at Oregon State University Apparently his research has led to wine killing E- coli and salmonella along with other nasty bacteria. White wine is better due to high levels of malic and tartaric acids. Add to this the alcohol content and it’s good night bugs. What a great use for some unloved Chardonnay!

3. Done good
The 2002 International Wine and Spirit Competition (IWSC) has selected **Wolf Blass Winery** as winner of the Robert Mondavi Winemaker of the Year Trophy, chosen from a short list of 10 wineries including Morton Estate in New Zealand, Dopff & Irion in Alsace, and Castello Vicchiomaggio in Italy. For the second year in a row Wolf Blass also collected The Schenker Australian Wine Producer of the Year Trophy. The 1998 Wolf Blass Platinum Label Shiraz picked up the Chris Hancock Trophy for Best Shiraz/Syrah in the World and the Wolf Blass Trophy for Best Australian Red Wine.

4. Aussie wine doing better than beer!
When Fosters announced their results back in August the news was widely published in the UK. Surprising as it may seem to some, the Australian beer and wine company has a fair number of UK shareholders. Most reports were, as you would expect - straight down the line. Others added a touch of colloquialism such as “Strewth, Foster’s finds world of wine tastier then beer” or used a picture to enforce the point such as Paul Hogan holding a glass of Foster’s beer. The Daily Star had a picture of a young lady clutching cans of export to her bosom and Foster’s emblazoned across the minuscule bikini she was wearing. This past week saw the AGM at which the President & CEO address to shareholders covered these points:

- Foster's global beer business consists of the Australian arm, Carlton and United Breweries and the international arm, Foster's Brewing International. Together these businesses delivered $592 million in EBITA for the year, a solid result.

- CUB's business comprises the Australian beer business, Australian Leisure and Hospitality (ALH) and Continental Spirits. Overall CUB achieved a 5.4% growth in EBITA to $560.6 million.

- In this environment (USA) Beringer achieved a healthy double-digit increase in volumes and revenue and increased market share. Within this, the Australian portfolio achieved volume growth of 27.1%

- Asia Pacific Trade also achieved double-digit volume and revenue growth. Volume growth of 25 per cent was a result of the strategy of focusing on the three core brands of Wolf Blass, Yellowglen, and Jamieson's Run.

- In the wine clubs business there were mixed results. While the Australian and New Zealand clubs achieved solid growth, International clubs clearly did not perform to expectations,

5. The good ship Southcorp………..in troubled waters?

Southcorp held its AGM in Adelaide on Thursday 31st October. By the end of the day's trading over $200 million had been wiped off the share value. Trading at close of play Thursday was $4.95, two weeks ago they were $5.75, a year ago over they were $7. The following statements are from the Chairman's address:

- Net profit after tax for the group but before the proceeds from divestments increased by 23.2% to $175.2 million.

- Volume growth increased 11.9% during the year with Southcorp now selling 22 million 9-litre cases of wine.

- 56% of the wine we produce is now sold in markets outside of Australasia, while 67% of revenues and 72% of earnings are contributed from export markets.

Mr. Allert continued with more good news: Sales volumes up 25.9% in the Americas, up 17.3% in the UK, but only 2.3% up in the Australian market.

Gearing is now 23.8% down from 40.6% a year ago and "cash flow is strong" said Mr. Allert

- "However," Mr. Allert continues, "our return on capital of 8.3% is still not at a satisfactory level and remains one of our major priorities."

Regarding the share price, Mr. Allert said it was disappointing but he had taken comfort that in recent weeks it had appeared to consolidate above $5.50, but unfortunately recently it had dropped below that point. It must have been very disappointing to wake up Friday morning and find it was below $5. Mr. Allert also declared a dividend of 22 cents per share, which should please Southcorp's largest shareholder Reline Investments Pty Ltd holding 139,948,924 or 18.92% of the company. Perhaps the turn came with the next statements.

- "There is no doubt that the competitive environment we face-not only here in Australia but also in our other key markets in the UK and US – is one of the toughest for many years"
- "Sales volumes to date have been softer then expected in the UK and Australia and we face the ongoing challenge to sell through our higher margin products."
- "Our performance over this period (Christmas) will obviously influence our half-year results."

Keith Lambert MD & CEO was up next and in a short space of time managed to include all of the following: "strong global brands" "recognised global brands" "top three brands" "these three brands are in the top 12" "premium price range" "Premium wine company" "core premium brands" "super premium category" "premium wine company status" "premium commercial range" "substantial premium wine company" "premium portfolio" Amongst the above were bits about reducing the number of stock keeping units by 550, working with customers to "convince them they can replace these products with other higher margin products" and

- “We still have some residual issues in terms of non-strategic or under-performing assets in the United States. Working out of these will not be easy and may not come without a one-off financial impact.”

On Thursday 31st October there were over 5.5 million trades sending the price below $5. On Friday morning (1st Nov) there were over 1.2 million trades and the price went up 2.42% to $5.07.

6. Ask, and ye shall be told

I had to ask (TK) I mean we, that is, the local investment club has shares in the company and we paid 59 cents each for them. It’s a great price I said it’s a great company “listen boys once they get sorted out the price will go through the roof.” It can be argued I know more about wine than shares. I have to declare a small financial interest via a local group in Reynolds Wines. The last time the shares were traded was mid October (around 21.5 ¢.) On the 30th John Chapman, the Company Secretary and I exchanged emails:

The securities were suspended from quotation at the request of the company "to enable the Company to complete the amended audited financial statements as announced on 14 October 2002"

It is now 28th and still suspended, would you like to comment?

Have you sorted out problems re financial statements and the Australian Tax Office (ATO)?

Do you have any comment re possible take-over of Reynolds wines?

Mr. Chapman’s reply

“The accounts of Reynolds were withdrawn because ATO had issued a summons to wind up the Company’s subsidiary C H Finance, and another entity that owed Reynolds money. The notice to ASX states this. The company strenuously opposed these assessments.

As you can imagine, this created a breach of covenant with Reynolds bankers, and undermined assumptions about the value of the company’s assets and liabilities.

Until the company can state its assets and liability values, without qualification, it is in the interest of shareholders for the company to remain unlisted.

I assure you that Directors are aware of shareholder concerns and they are leaving no stone unturned to resolve the position.

As soon as meaningful progress is made an announcement will be made to the market”

Mr. Chapman did not comment on a possible take-over rumour.

7. Gives him the “right Wine Centre”

Him being Andrew Vasiljuk from Crosswinds Vineyard in Tasmania.

UNWOODED – a suitable descriptor?

The phrases “Have you done up your shoelaces?” and “ I can’t get my shoelaces undone” would be familiar to any parent. The latter (un-done) implies that the former (done) has occurred.

So how do we get Unwooded Chardonnay?

Has somebody added wood to Chardonnay, and then removed it to get from the “done” to the “undone” state.

Perhaps a more semantically correct term such as “Non–Wooded “should be used to described those wine styles that are made without the benefit of oak.

Thanks Andrew – I hope the marketing gurus are taking notes.

8. The Big Guys

Allied Domecq has released its full year results. Pre-tax profits before one-off items were £480m, up 6%. Give or take the odd shekel that’s around A$1371 million. Turnover increased 16% to £3.33bn. Allied have a percentage of Banksia, (St Hallet, Tatachilla etc.) the remainder of which is owned by Lion Nathan and a stake in Peter Lehmann but most of all they have the Australian wine industry wondering if they will swoop on one of its prized assets. What will make many a marketing manager envious is their marketing budget is up 34% to £443m! Enough never being enough for the market the share price dipped 14 pence with the news.

Diageo has issued a warning to the market saying its targets for the full year looked "increasingly challenging." The news resulted in the share price losing 8%. Diageo wasn’t saying its profits would be down. That is, it was not issuing a profit warning. It was saying it’s a time of tough trading conditions therefore "Given world events and the more difficult world economic environment, current-year targets do look increasingly challenging,” as put by Paul Walsh, chief executive, at the annual shareholders meeting.

9. Nice thought………but

Towards the end of September Alexander Margaritoff, chief executive of Hawesko Holdings AG, one of the largest German wine importers, was touring Australia on a wine buying trip. Herr Margaritoff’s view is Australia should resist the temptation to flog large amounts of wine at the cheaper end but direct efforts into the higher priced segment. You may well have read this, it was widely reported in many newspapers.

Perhaps it made you smile? After all, a wine buyer advocating higher prices is a rare commodity. Picture the scene “try this Herr wine buyer, a fine example of Australian Villard Noir and only $99 a case FOB” says slick company salesperson. “How much” retorts Herr wine buyer in an amazed tone “ No, no it’s got to be worth $175 at the minimum!”

But is Germany a market that our smaller independent vineyards can look to for the sale of premium product?

According to the Australian Wine Export Council (AWEC), 84% of Australian wine exports are confined to five English-speaking markets, the UK, the US, Canada, Ireland and New Zealand. Germany, it appears is big on promise however at present only accounts for approximately 2% of exports.

Martina Klingbeil works for the Australian Wine Bureau in Germany .I asked her about pricing. “The German consumer is very price-oriented and price-sensitive, so 5-6 Euro is an acceptable price.” In Australian dollars that’s $8-10 retail (lets not get too involved with shipping, duty, tax etc). The point being, no matter how good the quality of Australian wines, the Germans, like most other nations, focus in at the economical end of the spectrum.

Paul Koks is BRL Hardy’s Trading Director for Mainland Europe and Scandinavia. Paul is the man at the pointy end, meeting buyers, trying to cut deals whilst reaming profitable for his company. His opinions are slightly different.

“The German market in general has been very tough. Consumers are not really picking up on Australian wines. Today we are still less than 1 % of the market share, and even this is very slowly declining. Even though many Australian wineries are concentrating their efforts on Germany, it has to be said that this market has not delivered what one might expect."

According to Paul, price plays a major role - over 70 % of all wine sold is at less then 3.99 Euro, meaning very low. On average, most Australian wines are fishing above this price point, and therefore we are not hitting the high volume numbers.

Paul believes that the German consumers and retail chain buyers are not discerning. Quality comes in second place after price. "This is reflected by the high increase in bulk Australian wine being imported and bottled locally. It has to hit price points of € 3.29 to 3.49" he said.

Paul ends by saying BRL Hardy is doing a good job and will clear 130,000 cases this year. They are looking to first build a platform, then grow the business.

Martina (from the AWB) is positive about the future. "Australia's overall market share is not very high (nearly 1.3 %) but it is steadily increasing. The general awareness is also growing for Australia as a wine producing country as well as a travel destination –this only creates positive images in the mind of the German consumer. It is considered a free, open-minded, happy, sunny, easy-going continent to which many people would like to travel. People having been to Australia are absolutely taken and love the wines. It might be also of interest for you to know that overall the New World has gained ground and increased its market share much to the distress of the old world, particularly France."

I understand Southcorp via the Lindemans brand has a major marketing promotion underway and Orlando is also putting effort into Germany. It all seems very different from Herr Margaritoff's advice. Interestingly The International Wine Investment Fund has an $8 million investment in Hawesko as well as a fair chunk of BRL Hardy.

10. How True

From Huon Hooke's column Sydney Morning Herald 22nd October "The proponents of this idea say the present ad valorem tax is a tax on quality. The flaw in that argument is to assume that all high-priced wine is high quality, which it's not."

The argument in the office sways back and forth, all are in agreement that the tax on wine is high. The heated debate comes from the various reasons put forward for changing it. One argument is cask and its health issues; the blue team says it encourages alcohol dependence and abuse. That's counteracted by the red team with yes it does but if it wasn't wine it would be another form of alcohol. Has no lesson been learnt from the disastrous attempt of prohibition in America 1920-1933? Ah say the blues many of the smaller wineries could go broke; the tax on their single bottles is just too much. Yeh say the reds and there's a lot of wine out there in these small wineries selling at $35 and above that's not worth $15 and tax has nothing to do with it.

And so it goes on, if you have a comment, that is a real stick it up them sort of comment we can publish, send it in.