

The Key Report 11th November 2002

1. Editorial

If you've been reading The Key Report over the past three weeks, you may have picked up on one or two points. The first being lack of advertising, yeah well, perhaps we're dumb or daft, but we prefer not to have the dilemma of toning down an article just because some wealthy wine company, bank or cork supplier is putting food on the table and shoes on the kids' feet. And if you wanted to read ads, I'm sure you'd know where to find them.

The other notable thing about The Key Report is that we don't normally do wine reviews. We're not writing for the consumer, but for members of the wine industry. But occasionally a wine comes our way that has a good story behind it, that's worth reviewing. (see article number 6 Savvy Sauvignon)

Some of us still believe in the freedom of the press, but with defamation laws being what they are, combined with the bullying tactics that some lawyers are prepared to indulge in, it's a wonder that anything interesting is printed nowadays. But we'll do our best to bring you real news about what's really happening, and we hope you will support us with a subscription and the occasional comment or contribution.

2. To wood or not to wood

Sally Marden from WA continues the oak & Chardonnay debate, begun last week by Andrew Vasiljuk from Crosswinds Vineyard in Tasmania.

Regarding 'Unwooded' as a descriptor for certain Chardonnays - while I agree with the semantics of his argument, I think he may have unwittingly put his finger on just what the winemakers are up to in some cases. I tasted several wines in the Perth and Mt Barker shows this year that were filed under the 'Unwooded Chardonnay' category, but obviously had not had quite enough of their original wood influence removed during the 'unwooding' process.

Perhaps we'd better not remove "Unwooded" from the wine lexicon just yet?

3. Constricting market – another 862 stores disappear in the UK

In the past week it has been announced that Tesco is acquiring 862 T&S stores in a deal worth £530m and plans to re-brand around 450 of them as Tesco Express over the next three to four years. The concern to the wine industry (Australian or otherwise) is one company holding that many licenses. If you already sell to Tesco, great, you now have a few hundred more outlets. If you previously sold wine direct to T&S you may well have just lost a customer. This will not stop with Tesco - both Sainsbury's and Marks & Spencer are said to be keen to expand into the convenience sector.

Oddbins, the UK high street chain of 230 plus stores, is cutting stocked lines from 1200 to 800. No doubt many will be Australian. This news was accompanied by "Richard Macadam has resigned from his position as managing director of Oddbins". His replacement is Gilles Le Besnerais of the Castel Group, who paid £57 million for the chain at the beginning of this year and may just be wanting to see a return on the investment. The Castel group are French; they own the Nicolas chain of wine stores in France and have several wine interests. They are unlikely to cut good selling Australian lines for nationalistic reasons but any line that is not turning over quickly may well be in danger.

4. You've got what? Oh, not Herpes, its what?Brettanomyces!?

As a lot of Australian winemakers are discovering, there's a nasty little yeasty beastly lurking around in someone else's winery called Brettanomyces. And if you've ever told a winemaker they've got Herpes, you'll know what it feels like to tell them their wine has Brett.

Apart from a couple of references, the news hasn't really hit the mainstream press as yet. The fear is that it's becoming the biggest winemaking issue after cork taint. The problem is though, the winemaker can't blame the supplier of cork or barrel – it's occurring in the winery. On the Show circuit, a number of wines have reputedly been marked down by judges who suspect a Brett infection.

Where does the Brett come from? No one really seems to know. All that is known is that the little buggers love living in barrels and they excrete a horrible smell which is detectable when there are enough of them.

Many winemakers are now taking remedial action for their wines in barrel. But for wine already released there's not a lot that can be done. It's a big sleeping issue and like herpes, can be managed but probably not eliminated.

The difference is, if you've got Herpes, not too many people are likely to find out. But if you've got Brettanomyces,.....

5. Not Label Drinkers

Like many in the wine business, we find the collector/investor mentality not in tune with ours – “Wine is for drinking.” It was good to read recently about the Lawson-Menzies Auction in Sydney on 21 and 22 October that included a fair amount of wine with damaged labels that were expected to sell 10/20% below those with mint labels.

6. Savvy Sauvignon?

Garry Crittenden asks the question “Around the world is there a white variety that is loved and loathed with the same passion as Sauvignon Blanc?” Good question Garry, we add how many people, including winemakers, around the world understand the variety? Enough of the philosophy since Dromana Estate was floated on the ASX and expanded Garry now finds he has four Sauvignon Blanc wines in the Portfolio. Recently TK tasted all four.

Why? I wondered why the heck would anybody bother producing four SB's! “Because the quality of fruit we are growing, the styles we are making and subsequently the way that wine drinkers have embraced these styles has left us little choice.” says Garry. On tasting the wines in fact drinking them over successive days, the man is right.

Four wines made from the same grape (predominately) in three price categories all doing a different job, all well made, all very enjoyable. How they stack up within their price sector I have no idea although the RRP's do not seem excessive. I also have no intension of boring you with tasting notes, the vegie truck colliding with a fruit stall type of wine writing not being my style.

The reason for this article is that I know it would be easier to blend and market just two, maybe even the one rather than bother with four. So well done Mr. Crittenden and the winemaking team but will you be able to keep it up, will market forces and dividends to shareholders not put the pressure into making one/two rather than four? We hope not.

The wines & RRP

Schinus 2002	\$15.00
Mornington Estate 2002	\$17.00
Yarra Valley Hills 2002	\$17.00
Dromana Estate 2002	\$20.00

7. Old World Wines Flooding in?

"Cheap wine imports could threaten the Mudgee wine industry if the rising trend continues." The opening sentence in an article by Diane Simmonds in The Mudgee Guardian 8th November. Well it grabs the attention. "Wholesalers are importing wines from Italy, France, Chile and other places because Australian wine prices have "gone through the roof."

The article continues:

"However, a Mudgee winemaker, Michael Slater, says elite wine producing areas like Mudgee have actually educated the Australian palate, and in doing so, have created a market that not only consumes more wine, but welcomes imports from other countries to explore different tastes and test their palate.

However, Mr. Slater is still alarmed at the high rise in cheap imported wines, saying they are a threat to the Australian industry."

We'll skip the rest - in our view it's a non-story. The amount of imported wine is minuscule. We don't think it's a threat to the Australian industry -we do think it's good to give people a wider choice of varieties and styles for interest, education and enjoyment.

8. In safe hands?

It's good to know the new owners of Goundrey are doing OK. For the three-month period ending 30th September 2002 Vincor has reported a 17.8% increase in net sales and a 59.8% increase in net income over the corresponding period the previous year. Net sales in the quarter were C\$108.2 million and net income was C\$11.2 million. That brings sales for the half-year to C\$209.3 million and net income C\$19.4 million.

Not such good news for Winex Corporation Pty Limited, (CEO/Director is Gordon Filmer of Seville, Victoria) which was placed into voluntary administration on 3 October 2002. Bernardi Martin has been appointed administrators. What went wrong for the export company that focused on the US? Our investigations are continuing.

9. Not long to vintage – is there really an oversupply?

In its annual report released towards the end of October, the Australian Wine and Brandy Corporation (AWBC) said the expected oversupply of grapes might be forestalled. In fact a shortage could be on the way as a major problem for the wine industry! Apparently new plantings dropped from 13,800 hectares in 1998 to 3,200 hectares in 2000.

At the Evans & Tate AGM, Franklin Tate covered the same point very succinctly saying the oversupply situation is sorting itself out. Mr. Tate pointed out the surplus came via grape growers who are growing substandard fruit. Those sorts are not welcome in the industry and would be encouraged to leave. Quality grape growers who really want to make a contribution to the wine industry are the ones to encourage and welcome. "Our industry should not have such a short-term focus and it has to get a lot better at speaking for itself and not allowing emotional rubbish to dictate our fortunes." said Mr. Tate.

In recent years, grape growers have seen just how low the wineries are prepared to go with pricing. Now the wheel has turned - the power has moved to the wineries and some pretty complex contracts are being drawn up. As one report recently put it * "Existing contracts are about five pages but some of the new ones are 30-40 pages, quite complex with yield restrictions and the terms are shorter. Growers will have to be a lot smarter in dealing with these agreements."

Michael De Palma is chairman of the Murray Valley Winegrape Growers Council. In a recent article* he was quoted as saying "it would help if all winery contracts had automatic dispute resolution mechanisms in place but they don't. An environment of fear has been created with

growers unwilling to rock the boat because they don't want to be blacklisted or branded a troublemaker. On matters of principle, growers must be willing to stand together."

*Sunraysia Daily 18th September

*Sunraysia Daily 28th September

How smooth will vintage 2003 be?

John Angove, Angoves Winery says "I believe that next vintage will be a difficult time for the inland regions, reflecting the bumper crops last year and the problems created by winemakers honouring contracts and taking in very much more than they really wanted or believed they could sell. So there is now a situation where the winemakers are still very well stocked and the availability of fruit has continued to grow. This will strain relationships."

10. The Search for Semillon - how far has the word spread?

William Echikson is the wine scribe for the European edition of The Wall Street Journal. Recently he turned his column over to readers' questions, one asked, "I bought some Keith Tulloch Semillon wine in the Hunter Valley last year, which is heavenly but not available in the UK. Can you recommend any Australian Semillon that I can buy in the UK"?

The letter came from the UK; London in fact. There are heaps of Semillons available in the UK. That week alone Amberley Estate 2000, Annie's Lane 2001, Cranswick Botrytis and Twin Wells 1997 had articles written about them. OK, so the guy only reads the Wall Street Journal, but I reckon at least 90% of UK retailers carry one or more lines of Australian Semillon. He must shop somewhere!

William Echikson replies, "I was intrigued by the question because I never imagined a 100% Semillon wine. In Bordeaux the Semillon grape is always mixed with Sauvignon and it's the sharp bracing Sauvignon that I prefer. Semillon allows wine to age, but it takes away its bite and often makes wine taste bland". William turns to a mate who has a store in Brussels, and recommends Grant Burge Zerk 2001 and Evans & Tate 1997. Unfortunately a shop in Brussels is not handy if you live in London so he provides the web addresses for both companies.

Its strange that a guy in London can't find Australian Sémillon without recourse to a European newspaper and stranger still that a wine writer is unfamiliar with Australian Semillon. What it does highlight is that we haven't quite conquered the entire world – yet.

11. Fingers in pies 'n things

"Mates drop in for a whine" is the lead into an article in The Australian 6th November. Its about the International Wine Investment Fund AGM.

"What with falling grape prices and all, it's not the best time to be in wine, but IWI has some damn fine investments." Then the list: "12.5% of BRL Hardy, 6.5% stake in German retailer Hawesko, a chunk of Rhone Valley producer Gabriel Meffre, 3.2 million shares in Foster's, a large stake in UK distributor Bibendum, a few shares in McGuigan, Southcorp, Cranswick and Groupe Laroche, a French Chablis maker." Then there are the less glamorous affiliations, such as the stake in Reynolds Wine, formerly Cabonne, which doesn't have the distinction of trading right at the moment.

The article continues: "That's life. You get the good with the bad. But what the minority unit-holders in IWI (who are not so matey with the directors of its single-responsible entity, Berren) are wondering about, is this mysterious \$7 million stake in National Vineyard Fund of Australia (NVF). Certainly, IWI could not be accused of being prolific in its disclosure in relation to the finer points of NVF.

All we know really is that it's unlisted and belongs to the family company of Berren director, Chris Day."

Who owns whom or what is owned by whom? Lots of the same fingers appear to be in half a dozen pies. The International Wine Investment Fund may have a stake in BRL but then BRL took a fair stake in Berren the management company that controls the fund. You may remember all the fuss that caused back in November 1999?

On the 7th November 2002, the IWI held its AGM reporting that investment revenue grew to \$11.64 million, an increase of 40% over 2000/2001. Total Reportable Profit - both income and capital - rose 11% to \$5.92 million.

Detailed investments mentioned were BRL Hardy "around 12.5%, the increased investment in Fosters' Group from \$5.59 million to \$15.37 million, increasing our international investments from \$1.3 million to \$32.14 million and investing more broadly across the wine industry - in retailers and wholesalers and also a vineyard nursery, \$12.6 million invested in Hawesko, \$7.1 million in Vintage Nurseries, \$2.7 million in Vinoceros, \$6.9 million in Bibendum, \$11 million in Gabriel Meffre."

"Domestically \$7.5 million was invested in Reynolds Wines and we increased our investment in Australian winegrape producer NVFA from \$5 million to \$7 million. "

The interesting part was continuing investment.

"The fall in the high prices paid in the past for wine companies has vindicated the Wine Fund's caution in investing at unsustainable prices. Many investment opportunities - including some large and at first sight attractive opportunities - have been declined by the Wine Fund because of our refusal to pay valuation multiples we considered excessive. We proceed warily when looking at all new investments."

12. Newsletters

Winery newsletters can be, er, well, um, lets not go there. Lets just say that if you want to read the one we think is best in Oz then get yourself a copy of Mentelle Notes from Cape Mentelle. If you disagree then send us one that you think is a quality read, and we'll give you our opinion.